LISTING IN ITALY

An Overview

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Capital Markets, Banca Esperia

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Agenda

Italian Markets and Going Public

The Listing Process
Capital Markets

Primary Market
- Initial Public Offering (IPO)
- Underwriting
- Nomad on AIM Italia

Secondary Market
- Rights issues and convertible stock placement
- Private Placement
- Underwriting

Advisory to Listed Companies
- Tender offers and Delisting
- Investor relations programs
- Stock grant plans
- Fairness Opinions
- Market specialist on MTA, MAC, AIM Italia, MIV

Advisory, structuring and selling capacity for extraordinary finance deals for domestic and foreign clients
The Italian Stock Exchange: Markets and Segments

Source: Italian Stock Exchange
Segmentation of Equity Markets

Regulated Markets
- Market Investment Vehicles
  - Closed-end investment funds
  - Investment companies
  - Real estate investment companies
  - SIV
- MIV

MTA
- European-standard regulated market
- FTSE-MIB index companies selected by capitalization and liquidity criteria

MTA - STAR
- High quality and transparency standards
- Strict requirements in terms of information, transparency, corporate governance and liquidity
- 40 mn/€ < Capitalization < 1.000 mn/€

Non Regulated Markets (MTF)
- MTF
- Inspired by the British market model of LSE
- Simplified admission requirements
- [Institutional Investors]

SOURCE: Italian Stock Exchange
The Buy Side – Investors on the Italian Market

- A strong weight of retail investors accounts for market liquidity.
- Italian markets boast one of the highest rates of retail investors in Europe (26.6% in 2003 vs 8.5% France; 16.1% UK; 38.1% USA).
- By the end of 2011, 18%+ of Italian market cap is still owned by Italian families.

SOURCE: Italian Stock Exchange
### Some Data on Equity Markets

<table>
<thead>
<tr>
<th></th>
<th>Number of Listed Companies</th>
<th>Mkt Cap</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MTA - Main Market</td>
<td>STAR</td>
<td>Other</td>
</tr>
<tr>
<td><strong>Italian Stock Exchange</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990 (FY)</td>
<td>229</td>
<td>-</td>
<td>37</td>
</tr>
<tr>
<td>2000 (FY)</td>
<td>242</td>
<td></td>
<td>55</td>
</tr>
<tr>
<td>2010 (FY)</td>
<td>196</td>
<td>76</td>
<td>60</td>
</tr>
<tr>
<td>2016 (Oct)</td>
<td>239</td>
<td>71</td>
<td>78</td>
</tr>
<tr>
<td><strong>London Stock Exchange</strong></td>
<td>1,263</td>
<td>995</td>
<td>2,228</td>
</tr>
<tr>
<td><strong>Deutsche Boerse</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Euronext</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Bolsa de Madrid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** FESE Statistics; Italian and London Stock Exchange Facts and Figures and Monthly Reports. All data @ October 30, 2016 except where specified.
## Listing Requirements in Italy

<table>
<thead>
<tr>
<th>Requirement</th>
<th>MTA</th>
<th>STAR Segment</th>
<th>AIM Italia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Float</td>
<td>25%</td>
<td>35%</td>
<td>10%</td>
</tr>
<tr>
<td>Audited Fin. Statements</td>
<td>3</td>
<td>3</td>
<td>1 (if available)</td>
</tr>
<tr>
<td>Offer</td>
<td>Institutional / Retail</td>
<td>Institutional / Retail</td>
<td>[Institutional]</td>
</tr>
<tr>
<td>Market Cap (€)</td>
<td>Min € 40 mn</td>
<td>Min € 40 mn – Max 1 bn</td>
<td>No formal requirement</td>
</tr>
<tr>
<td>Corp. Governance - BoD (indep.)</td>
<td>Recommended</td>
<td>Mandatory</td>
<td>No formal requirement</td>
</tr>
<tr>
<td>Specialist</td>
<td>No formal requirement</td>
<td>Mandatory</td>
<td>Mandatory</td>
</tr>
<tr>
<td>Investor Relations</td>
<td>Recommended</td>
<td>Mandatory</td>
<td>No formal requirement</td>
</tr>
<tr>
<td>Website</td>
<td>Recommended</td>
<td>Mandatory</td>
<td>Mandatory</td>
</tr>
<tr>
<td>Main Advisor</td>
<td>Sponsor / Global coordinator</td>
<td>Sponsor / Global coordinator</td>
<td>Nomad</td>
</tr>
<tr>
<td>Price Sensitive Information</td>
<td>Mandatory</td>
<td>Mandatory</td>
<td>Mandatory</td>
</tr>
<tr>
<td>Tender Offer Rules</td>
<td>Mandatory (TUF)</td>
<td>Mandatory (TUF)</td>
<td>By-laws</td>
</tr>
<tr>
<td>Annual and Semi-Annual Reports</td>
<td>Mandatory</td>
<td>Mandatory</td>
<td>Mandatory</td>
</tr>
<tr>
<td>Quarterly Reports</td>
<td>I-III Q (unaudited)</td>
<td>I-III Q (unaudited) w/exceptions</td>
<td>No formal requirement</td>
</tr>
</tbody>
</table>
Listing Authorities in Italy

- Management of Listing Procedures
- Info diffusion (“Avvisi di Borsa”)
- Organisation and Regulation of Markets
- Surveillance on price sensitive information (trading halts)

GUARANTEE OF MARKET QUALITY
(private company)

- Authorisation of Public Offers (Prospectus)
- Surveillance on transparency of corporate info
- Surveillance against insider trading and price manipulation
- Ruling of Tender Offers

PROTECTION OF INDIVIDUAL INVESTORS
(state authority)

Assesses whether the situation of the issuer makes admission contrary to the interest of investors, with respect to:
- Balance of financial structure
- Competitive position
- Consistency of business plan

Guarantees correct behaviour by securities market participants
Ensures disclosure of complete and accurate information to the investing public by listed companies
### Why Do Companies Go Public?

<table>
<thead>
<tr>
<th>COMPANY PERSPECTIVE</th>
<th>CONTROLLING SHAREHOLDER PERSPECTIVE</th>
</tr>
</thead>
</table>
| • Diversification of financial sources  
• Opportunity to settle M&A transactions in stock  
• Enhanced visibility and standing (i.t.o. relationships w suppliers/clients, institutions)  
• Opportunity to launch stock option plans and incentive systems to attract qualified management  
• Better financing conditions/rating  
• Administrative and bureaucracy costs  
• Volatility of pricing  
• Incorrect value diffusion | • Diversification of risk  
• Marketability  
• Independent evaluation  
• [Tax issues]  
• Volatility of pricing  
• Risk of losing control |

- A strategic decision
- A growth story
- A discontinuity
- A cost
Strategic issues and financial markets opportunities are different according to the life cycle stage the company is at.

Choosing When & Where to Float

Value Created (ml€)

- **INTERNAL DEVELOPMENT**
  - Start-up
  - Very small dimensions
  - Family/founder-owned

- **PRIVATE EQUITY**
  - Potential up-side
  - Know-how / management skills
  - Limited dimensions

- **IPO ON MAIN MARKET**
  - Consolidated business
  - Larger dimensions
  - Value creation (M&A, stock options, etc)

- **IPO ON AIM**
  - Opportunity of partial exit
  - New liquidity to finance development projects
  - Lighter requirements
Primary Market

ISSUER
- Official request to go public
- Prospects memorandum request for approval

LISTING VENUE
- Stock Exchange Operator
- Regulated Market
- Multilateral Trading Facility

MARKET SURVEILLANCE AUTHORITY

INTERMEDIARIES
- Intermediary 1
  - Gamma Bank
- Intermediary 2
  - Delta Brokerage Company
- Intermediary 3
  - Epsilon Bank
- Intermediary 4
  - Private Bankers’ Network
- Intermediary 5
  - Internet Bank
- Intermediary 6
  - Retail Bank

INVESTORS
- Institutional Investor 1
  - Alpha Fund managed by Beta Asset Mgmt Co.
- Institutional Investor 2
  - Insurance Company
- Institutional Investor 3
  - Investment Holding
- Institutional Investor Sir X
- Institutional Investor Sir Y

PUBLIC OFFER SYNDICATE

INSTITUTIONAL PLACEMENT SYNDICATE
## Players Involved in the Listing Process

<table>
<thead>
<tr>
<th>Role</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer</strong></td>
<td>The company applying for flotation</td>
</tr>
<tr>
<td><strong>Advisor</strong></td>
<td>(Optional) Assists the company in the listing process (i.e. performing an independent evaluation, helping selecting the Sponsor and Global Coordinator)</td>
</tr>
<tr>
<td><strong>Sponsor/Nomad</strong></td>
<td>Mandatory by Italian Exchange Regulations. Appointed by the company for the management of listing procedures. Assumes reputational risk of deal and delivers assurances on the quality of the issuer. Must be independent from issuer (i.t.o. financing and shareholding)</td>
</tr>
<tr>
<td><strong>Global Co-ordinator</strong></td>
<td>Co-ordinates and organises the Offer. Lead arranger of the underwriting syndicate for the Global Offer</td>
</tr>
<tr>
<td><strong>Specialist</strong></td>
<td>Broker in charge of market making on the listed securities to grant liquidity. Mandatory on STAR and AIM markets</td>
</tr>
<tr>
<td><strong>Auditors</strong></td>
<td>Review of Issuer’s financial statements. Give assurance (comfort letters) on financial information contained in the Prospectus and Business Plan</td>
</tr>
<tr>
<td><strong>Legal Counsels</strong></td>
<td>Assist the company and banks in legal issues of offer</td>
</tr>
<tr>
<td><strong>PR Company</strong></td>
<td>Plans communication and advertising campaign, manages relations with press</td>
</tr>
<tr>
<td><strong>Italian Exchange</strong></td>
<td>Manages and regulates stock markets. Gives/denies admission to listing/trading of securities, and performs trading halts</td>
</tr>
<tr>
<td><strong>CONSOB</strong></td>
<td>Gives authorisation for publishing of Prospectus</td>
</tr>
<tr>
<td><strong>Montetitoli</strong></td>
<td>Manages electronic settlement of dematerialised securities</td>
</tr>
</tbody>
</table>
Information to the Market

Prospectus

- For professional and retail investors
- Actual financials and data (historical)
- Drawn by issuer and approved by Consob

Equity Research

- For professional investors only
- Forward-looking statements, financials and estimates
- Drawn by syndicate banks
Pricing

The valuation of the investment bank that aims at the Global Coordinator role is necessarily based on a limited knowledge of company. (First encounter – *preliminary valuation*)

The process is built up through widely recognized evaluation methods, e.g. DCF and market multiples. The output is a *valuation range*.

After a comprehensive analysis of the business plan and the company’s opportunities, the *range* is defined more accurately, working out *fair value*.

Before carrying out the offer, the Global Coordinator meets with a selected number of institutional investors (*pilot fishing*) and presents the equity story. During the meetings the first feedback is obtained.

The range contained in the Prospectus is usually not mandatory, whereas it represents an official and public valuation. It considers the current market situation on the offering day.

One of the most common Italian market practices is the publication of the *Maximum Price*. It is most frequently fixed at the upper edge of the offering range.

The *final price* is calculated upon quality and number of orders collected during the bookbuilding phase.
**Steps and Timing of Listing Process**

### 4/6 Months Before Offer

**Planning**
- Reason for IPO
- Choice of Market
- Appointment of Advisor
- Appointment of Sponsor and Global Coordinator
- Appointment of Legal Advisors
- Preliminary company evaluation
- Preliminary timetable and plan of activities

**Preparation**
- Due diligence
- Draft of documents (Business Plan, QMAT, Prospectus)
- Shareholders’ Meeting
- Communication/Adv. Plan
- Definition of offer size and structure
- Contact with potential syndicate members
- Application for flotation with It. Exchange and CONSOB

### 2 Months Before Offer

**Marketing**
- Definition of syndicate structure
- Communication campaign
- Diffusion of equity research

**Offer**
- Admission to listing
- CONSOB authorisation and diffusion of Prospectus
- Bookbuilding
- Pricing
- Greymarket
- Offering period
- Allotment
- Settlement

### 1/2 Weeks Before Offer

**After the Offer**
- Greenshoe
- Market making activity (specialist)
- Investor relations

**Start of trading**

**Average length of the Listing Process is 4-6 months**
A company seeking listing must deliver appropriate information and communication to the financial community (Financial Analysts and Investors) both before and after the Offer in order to secure success of placement and pricing process.
Key Substantial Aspects of Offer

Key drivers in planning an offer are:

- (Financial) need of the company and shareholders
- General Market conditions
- Estimated potential demand for the security
- Degree of liquidity

Combination of the above factors is crucial for the success of the IPO.
### Key Substantial Aspects of Offer (cont.d)

<table>
<thead>
<tr>
<th>VALUE AND SIZE OF OFFER</th>
<th>NEW /EXISTING SHARES</th>
<th>INSTITUTIONAL/ PUBLIC OFFER</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Investors’ preference goes to largest offers, because of security’s expected greater liquidity and minor volatility.</td>
<td>• Investors’ preferences go to a substantial % of capital increase: new share capital provides financing to future development, thus increasing opportunities for value creation.</td>
<td>• Number and quality (i.t.o. size, reputation etc) of institutional investors (open-end funds, banks, insurance companies etc.) both domestic and foreign, add to the trading stability of the listed security. In fact, such investors generally have a medium-term investment perspective.</td>
</tr>
<tr>
<td>• As a consequence, dismissal of shareholding is easier.</td>
<td>• For a successful IPO, it is crucial to define and communicate a clear, credible strategy (use of proceeds).</td>
<td>• Number of retail investors in turn influences short-term liquidity.</td>
</tr>
<tr>
<td>• Size of free float is also important for liquidity. When the majority of share capital is floating, the company becomes a potential target for takeovers, thus adding to security’s appeal.</td>
<td>• Excluding offers of State-owned companies, capital increases prevail.</td>
<td>• Balance between the two sides of the offers accounts for IPO success and subsequent price stability and growth.</td>
</tr>
<tr>
<td>• IPO as a way out for institutional investors (private-equity backed IPOs).</td>
<td>• IPO proceeds provide financing of development projects (R&amp;D/ new products, new plants, M&amp;A).</td>
<td></td>
</tr>
</tbody>
</table>
Pricing Techniques - Bookbuilding

• Bookbuilding is a pricing technique allowing the definition of the most suitable price for investors.

• IPO final price is not determined in advance by the company. Potential institutional investors place orders with the IPO bookrunner indicating amounts of shares and prices. According to order flow, the final price and amount of shares allotted is determined.

• Bookbuilding is made up of three phases.

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRE-MARKETING (preliminary eval.)</td>
<td>Indicative price range</td>
</tr>
<tr>
<td>MARKETING (orders from institutional inv.)</td>
<td>Maximum price</td>
</tr>
<tr>
<td>PUBLIC OFFER &amp; ALLOTMENT</td>
<td>Final price</td>
</tr>
</tbody>
</table>
INDICATIVE PRICE RANGE

• Italian Stock Exchange Rules require the Sponsor to provide a preliminary evaluation document, stating a price range determined according to (at least) the following evaluation methods:
  – DCF (Discounted Cash Flow)
  – Market Multiples (Comparable Companies Analysis)

• Such price range will then be checked against preliminary non-binding orders from institutional investors during pre-marketing meetings.

• An indicative price range is stated in the Prospectus as well.
MARKETING OF IPO AND DETERMINATION OF MAXIMUM PRICE

• The Prospectus is published and **investor presentations** are held in the main financial centres, both on a one-to-one basis and as road shows/press conferences. The Global Coordinator and bookrunner(s) invite their institutional clients to state the amount of shares and price levels they would buy.

• According to such information, the Global Coordinator and bookrunner(s) build a **book**, stating the names of potential purchasers, requested amounts of shares and offered prices. The book is constantly updated.

• At the end of marketing, a final **maximum price** is decided, which will be binding for the Offer.
DETERMINATION OF IPO PRICE AND ALLOTMENT

- The Public Offer period starts. At the end of it, the final **IPO price** is determined.

- At the end of the Public Offer period, the Global Coordinator and Syndicate members allot shares to both institutional and retail investors:
  - Public Offer - in case demand exceeds offer (oversubscription), allotment of shares is done *in proportion*;
  - Institutional Offer - allotment of shares is *discretionary* on the Global Coordinator and bookrunner(s), who select the most reliable investors;
  - **Claw-Back** is the option to switch allotments to the tranche where the utmost demand is shown.
Here follows a scheme representing bookbuilding process.

Actual Final Price is usually lower than theoretic price in order to foster demand from investors in the first days of trading.
Final allotment of shares is crucial and the Global Coordinator and Bookrunner(s) take into account a variety of factors.

**PURPOSES**
- Provide a balanced distribution between retail and institutional investors, according to their respective demand
- Ensure high quality and reputation of new investors
- Grant a balanced geographic distribution of investors

**CRITERIA**
- Types of investors and investment policy
- Knowledge of industry and comparable companies already in their portfolio
- Timing and size of orders

The Issuer and pre-IPO shareholders must be granted full transparency on the bookbuilding and allotment process.
Overallotment and Greenshoe

**OVERALLOTMENT**

When requests from investors exceed offer, the Global Coordinator allots a greater number of shares (generally up to 15%) at IPO than the amount initially offered (overallotment).

**STOCK LENDING**

Such shares are generally lent from a pre-IPO shareholder of the Issuer (stock lending).

**GREENSHOE OPTION**

The lending shareholder gives the Global Coordinator an option (Greenshoe) to purchase the fixed amount of shares at the IPO price within a fixed time limit (30 days) from start of trading.

**STABILISATION**

During such period, the Global Coordinator performs stabilisation (i.e. buys back shares allotted in excess in case market price falls below IPO price) and gives shares back to the lending shareholder either by purchasing them on the market or exercising the Greenshoe option.