



Università degli Studi di Firenze

Advanced Corporate Finance

Lorenzo Parrini

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Introduction

Course structure

Course structure

3 credits – 24 h – 6 lessons

1. Corporate finance
2. Corporate valuation
3. M&A deals
4. M&A private equity
5. IPOs
6. Case discussions

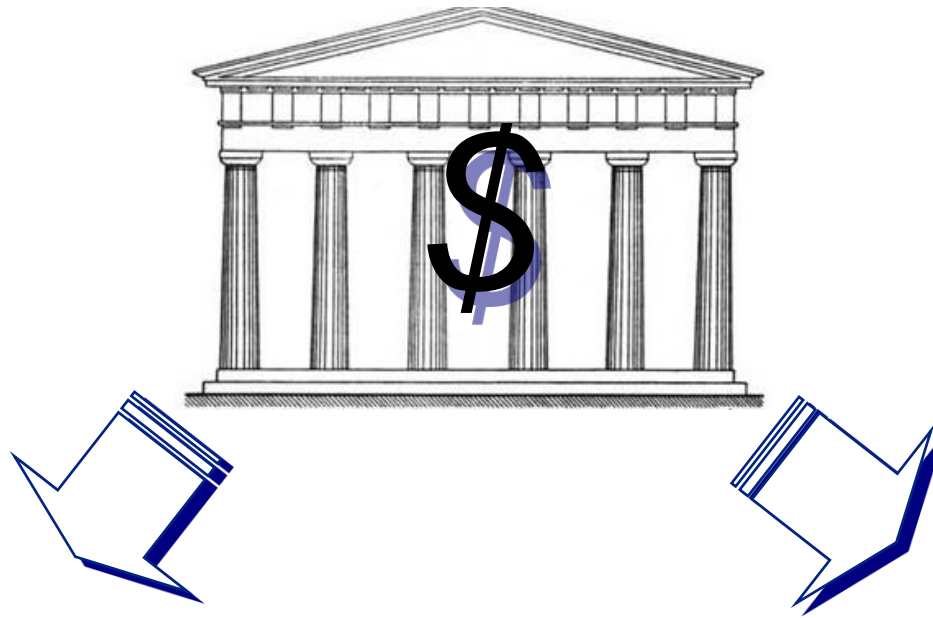
Lesson 5 IPO

Lesson 5 Summary

- 1 Introduction
- 2 Italian Stock Exchange
- 3 Requirements for listing
- 4 Listing Process

Introduction

Borsa Italiana S.p.A



The Stock Exchange is a preferred tool to raise funds and equity capital to invest in companies' growth

It's also the most profitable and the fastest way to privatize companies

Borsa Italiana S.p.A



Borsa Italiana S.p.A. is responsible for the organization and management of the Italian stock exchange. The Company, founded in 1997 following the privatization of the exchange, has been operational since January 2nd, 1998.

AIM

Borsa Italiana's primary objective is to ensure the development of its markets, maximising their liquidity, transparency and competitiveness while pursuing high levels of efficiency.

RESPONSABILITIES

- ❖ To oversee transaction activities;
- ❖ To define the rules and procedures for admission and listing on the market for issuing companies;
- ❖ To define the rules and procedures for admission;
- ❖ To supervise listed companies' disclosure.

Introduction

Borsa Italiana S.p.A – The Group



99,96%.

London Stock Exchange is the most international stock exchange located at the heart of the world's leading financial center.

- CC&G has the purpose of guaranteeing market integrity. Its presence eliminates the counterparty risk, becoming the guarantor of the final settlement of the contracts
- European provider of post-trading services and it's the Italian Central Securities Depository for all Italian financial instruments
- Commercial services with technological/informational, logistics and advisory contents addressed to companies and intermediaries



Organization, management and promotion of markets



Since 1° January 2010 merged in Borsa Italiana S.p.A.

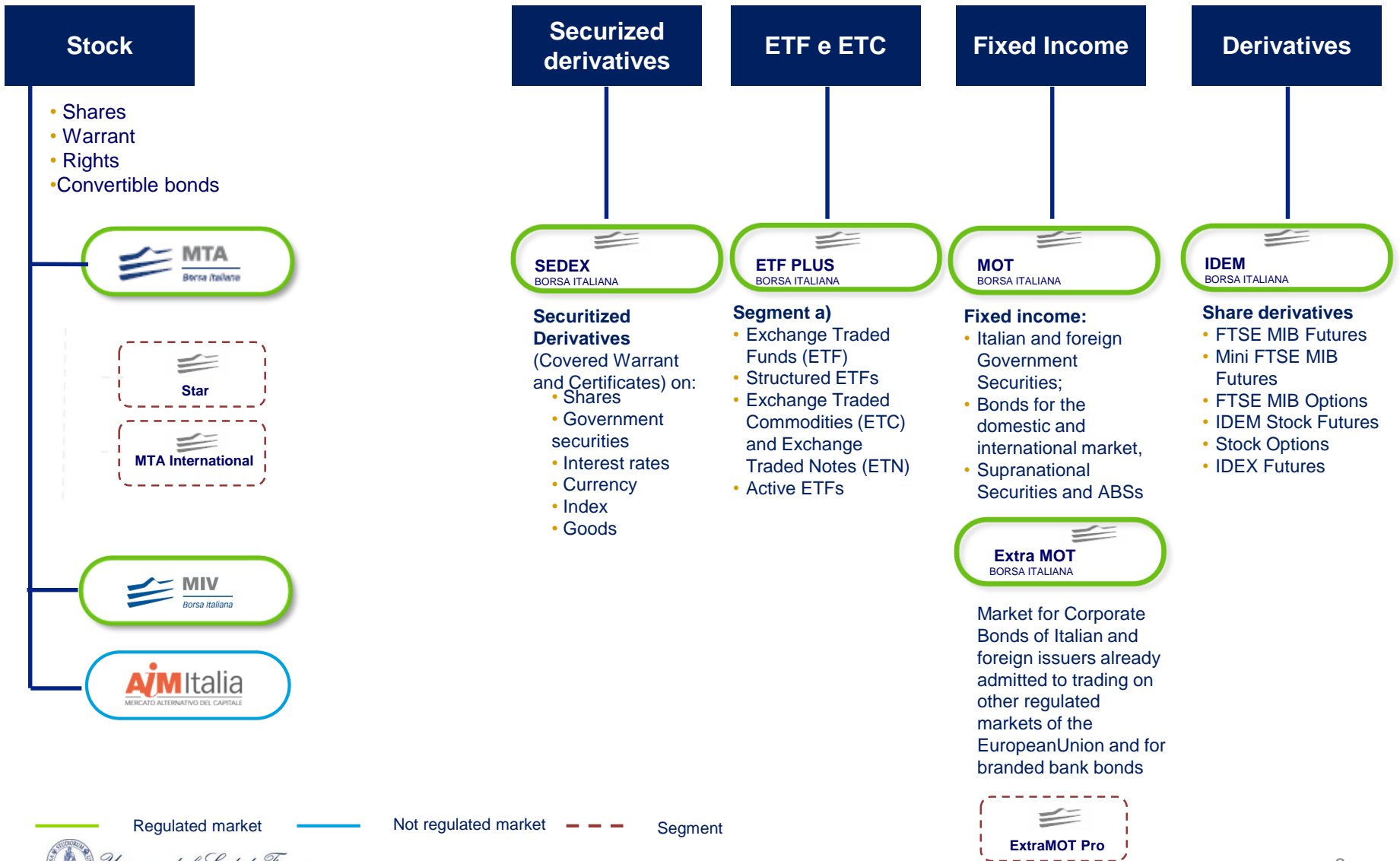
60,37%



It provides wholesale electronic trading of Italian government bonds and other types of fixed income securities

Introduction

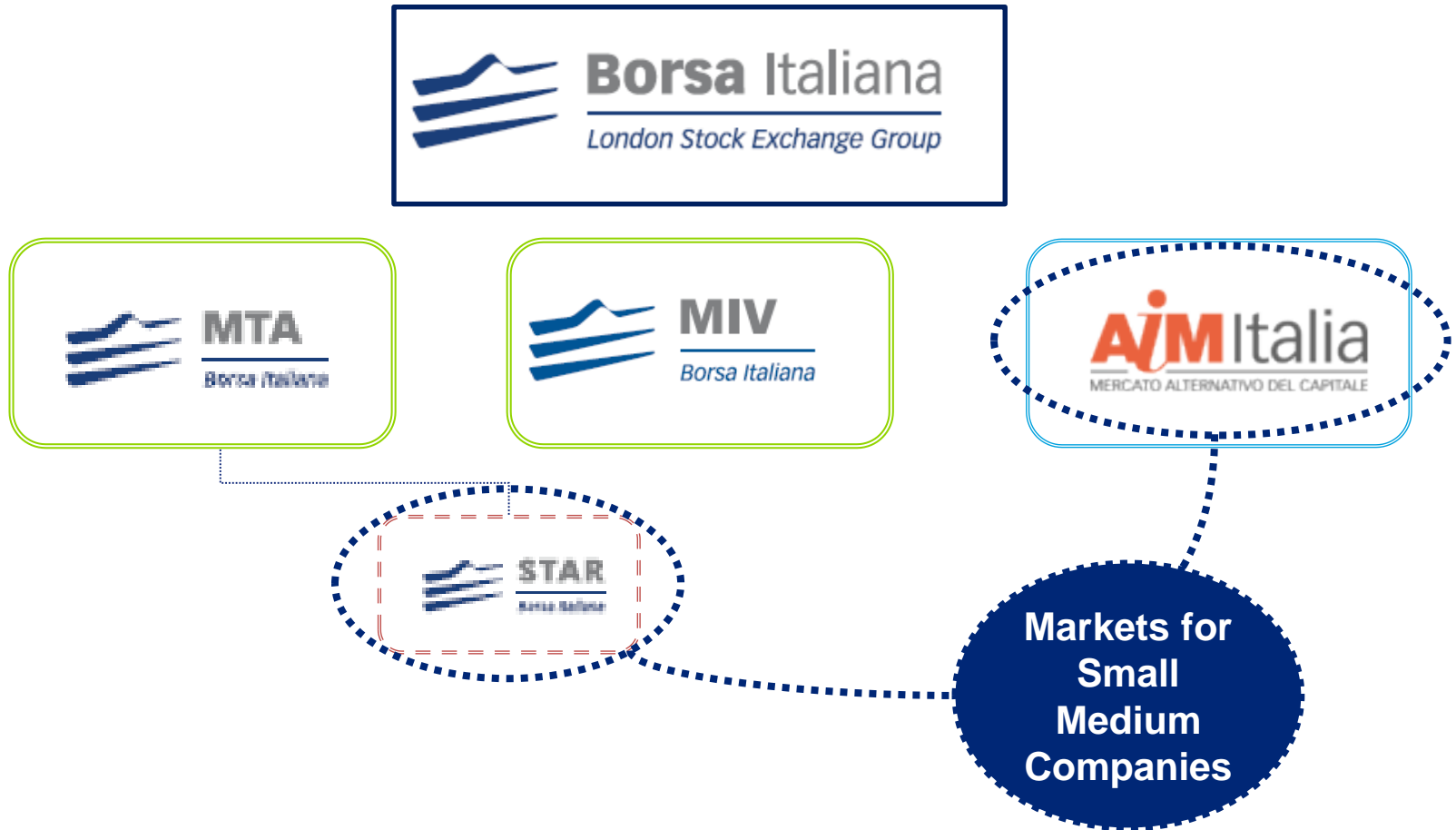
Borsa Italiana S.p.A – Markets



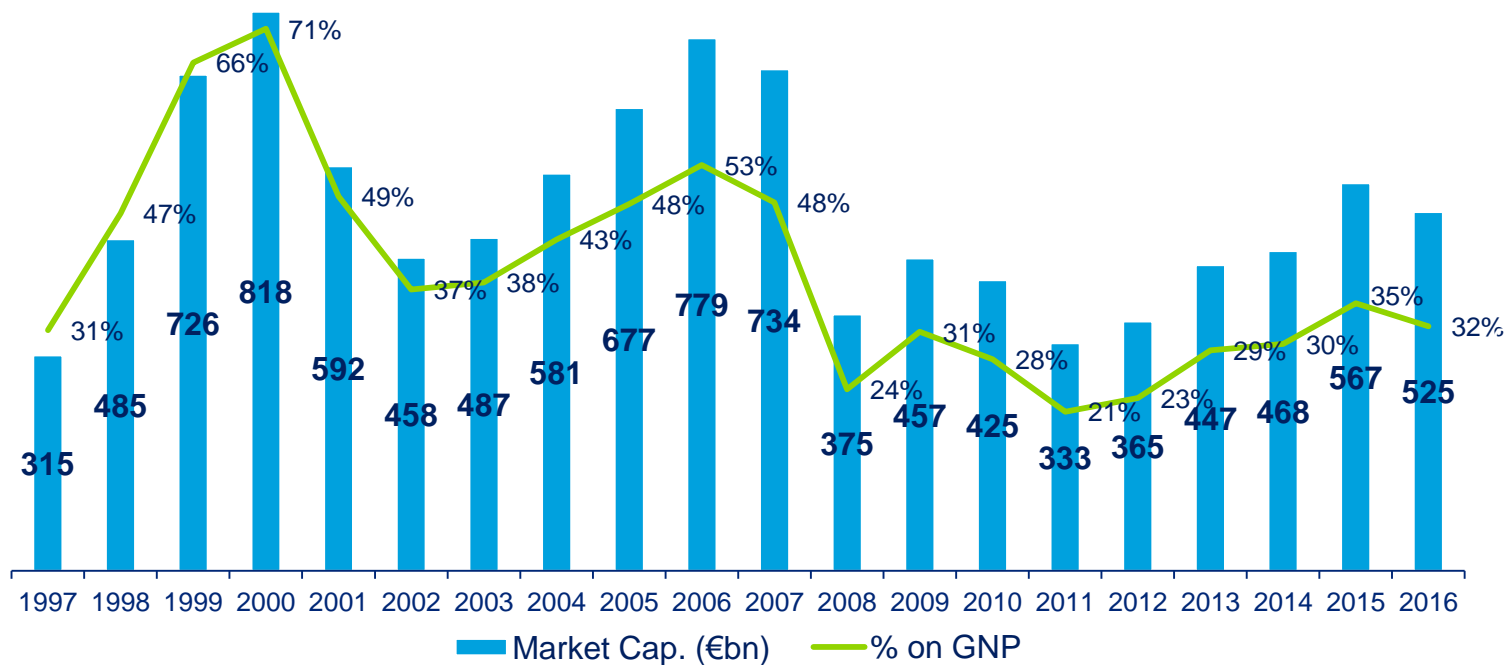
Introduction

Borsa Italiana S.p.A – Markets

The structure of Borsa Italiana's EQUITY MARKETS is the following



Market cap. 1997-2016



Lesson 2 Summary

1 Introduction

2 Italian Stock Exchange

● Stock Market

● Motivations and critical aspects

● Project Elite

3 Requirements for listing

4 Listing process

MTA - MERCATO TELEMATICO AZIONARIO

MTA is the Italian market for companies operating in traditional sectors with a high market share, positive track record and a business with real development possibilities

Segments:



Medium companies with market capitalization between 40 € millions and 1 € billion, with requirements of excellence (transparency, corporate governance and liquidity)

Classification (on the basis of some index):

Large

Medium

Small

Micro

Italian Stock Exchange

Stock market

MIV – MARKET FOR INVESTMENT VEHICLES

MIV is Borsa Italiana's regulated market created with the scope of providing capital, liquidity and visibility to investment vehicles with a clear strategic vision

- ✓ Units of closed end funds and real estate funds are traded



- ✓ Companies primarily engaged in real estate investments and/or leasing

- ✓ Companies whose exclusive corporate purpose is to invest in other companies

- ✓ Special Investment Vehicles, segment opened to professional investors only:
 - SPAC (Special purpose acquisition company)
 - Multi strategy funds

Italian Stock Exchange

Stock market

AIM ITALIA-MAC

AIM Italia - Mercato Alternativo del Capitale is characterized by its balanced regulatory approach, for a high visibility at international level and a flexible listing admission process, custom built for the financing needs of Italian SMEs in a global competitive context.

It's a multilateral system of exchanges with negotiations for professional investors and financial investors



The **NOMAD** is the adviser who supports the company during the admission phase and throughout its time on the market. The **NOMAD** is responsible towards Borsa Italiana for the check of the pertinence of the issuer for the admission on AIM Italia. After the admission the **NOMAD** assists and guides the issuer for all the commitments and responsibilities related to the listing.

Italian Stock Exchange

Stock market

Market Index

FTSE MIB

It's made of 40 Italian equities with the highest capitalization and liquidity and seeks to replicate the broad sector weights of the Italian stock market

FTSE Italia Mid Cap

It's made of the first 60 companies, after those of FTSE MIB, for capitalization and liquidity.

FTSE Italia Small Cap

It's made of all other shares except for those included in FTSE MIB and FTSE MIB Italia mid Cap.

FTSE Italia Micro Cap

It's made of all shares whose market capitalization is below the smaller of the FTSE MIB constituents which are not in the FTSE Italia All-Share Index because they fail to pass the liquidity screen

FTSE Italia all share

It's made of all constituents in the FTSE MIB, FTSE Italia Mid Cap and FTSE Italia Small Cap indices

FTSE Italia STAR

All shares listed in the STAR segment of MTA market are eligible for inclusion in the FTSE Italian STAR Index.

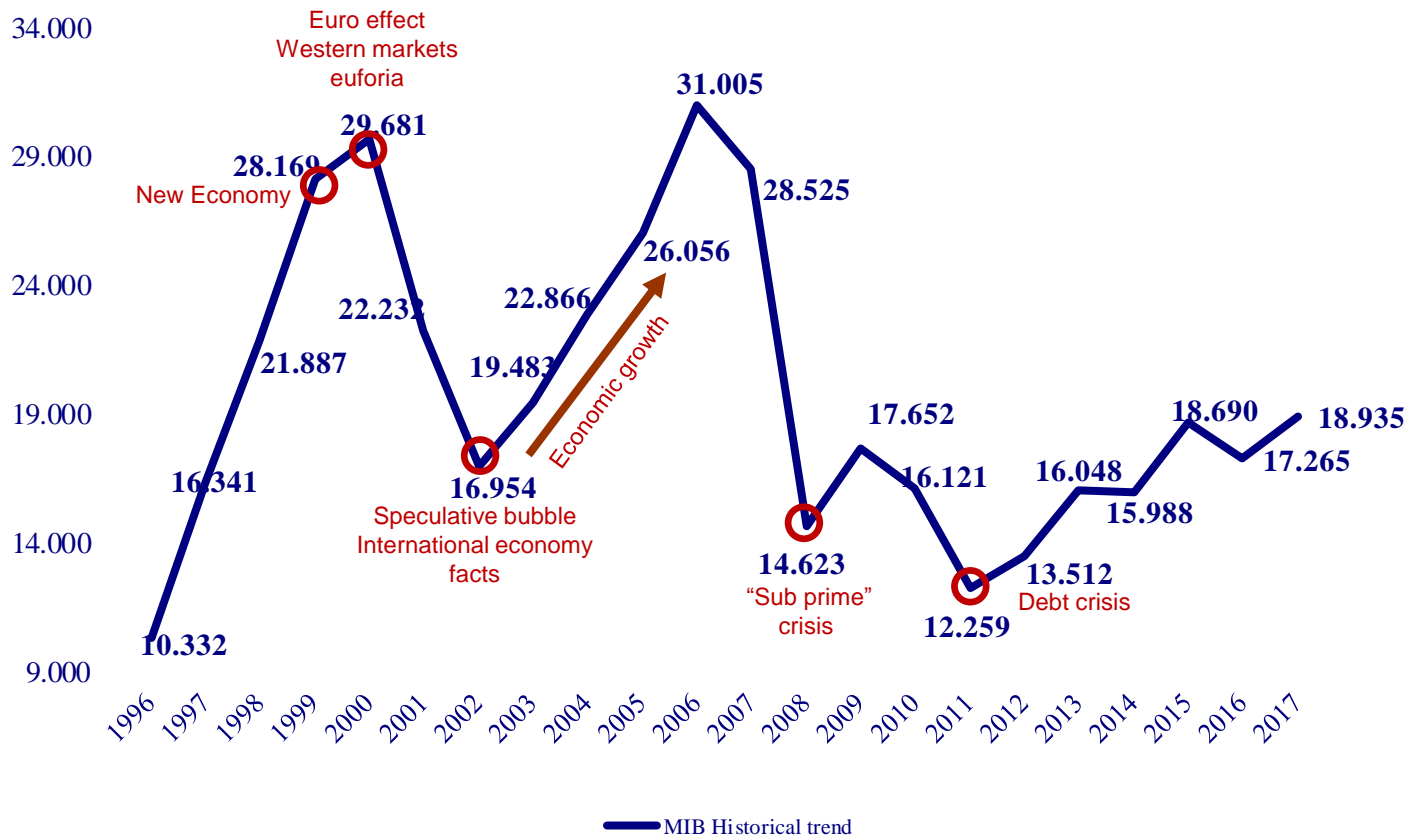
FTSE Italia AIM

All shares traded in the AIM Italia market are eligible for inclusion in the FTSE AIM Italia Index. Every share enters the basket in its second day of trading.

Italian Stock Exchange

Stock market

MIB historical trend 1996-2017*



* 2017 Data refer to 28 April 2017

Source: Borsa Italiana



Italian Stock Exchange

Stock market

Basic definition

Capitalization

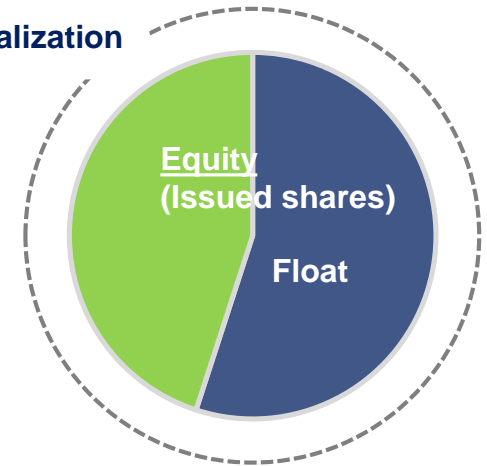
Value, at market price, of company's issued shares

Float

It represents the value of outstanding shares, that are available for trading by the public. Shares that aren't considered as outstanding shares are:

- ✓ Shares secured by shareholders' agreements
- ✓ Shares with limited portability (lock-up clauses) for more than 6 months.

Capitalization



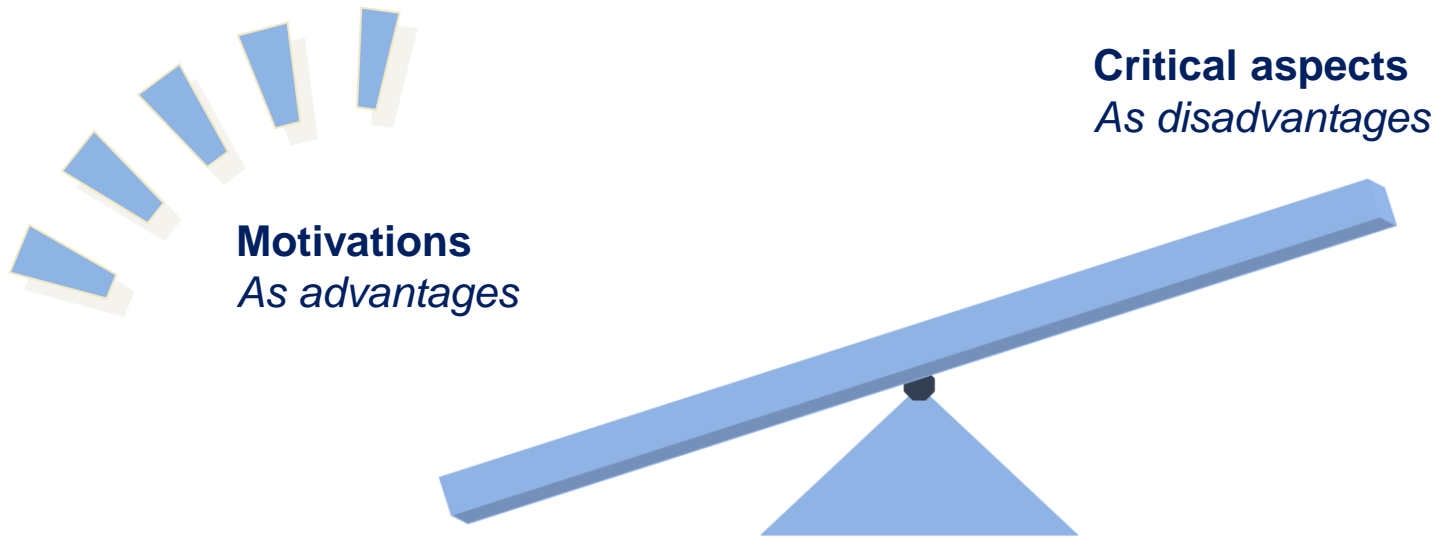
Parameters used for identifying equities for index composition are: **CAPITALIZATION** and **LIQUIDITY**

They depend on value negotiated, days of trade, Turnover Velocity of floating shares

For equities included in FTSE MIB index usually it's required a minimum level of turnover velocity of floating shares of 30%. (Turnover Velocity = (Market value of last 6 months x 2) / Capitalization of floating shares)

Motivations and critical aspects

The choice of listing must be part of a complex strategy aimed at valuing advantages and disadvantages, or, better still: motivations and critical aspects



Motivations and critical aspects

MOTIVATIONS

Fund raising to finance growth and development

- ✓ Raised funds are employed for financing internal (market share) or external (M&A) growth
- ✓ On the other hand, in a first moment there is a negative impact in operating income due to more current costs, timing effect of listing process, window dressing accounting results pre IPO.

Increasing brand knowledge and awareness

- ✓ Stakeholders see in listing a strengthening of company's quality and stability
- ✓ Surveys show that listing helps companies in attracting qualified employees and new financiers, new partnerships and collaborations with other companies and with suppliers and clients

Settlement of old shareholders

- ✓ IPO allows shareholders to settle part of the entirety of their investment both at the *Public Offer for Sell* moment and in a second moment, placing shares on the secondary market

Improvement of corporate organization

- ✓ The organizational change related to IPO always involves the governance and the strategic and planning functions, like so internal control systems
- ✓ Even if changes are expensive they allow to improve communication with external subjects, create a better image, coordinate the structure, control the performance, motivate internal structure

Improve financial structure

- ✓ Access to more financial sources at better financial conditions.

Motivations individuated thanks to a research of Borsa Italiana, in relation to IPO (Initial Public Offering) between 1995 and 2002

CRITICAL ASPECTS

Capital Dilution

- ✓ Worry of losing company's control and possibility to limit decisional freedom
- ✓ Transparency and disclosure commitments (fear of disclosing «sensitive» information to competitors that could impact on company's operative results)

Company valuation

- ✓ The market couldn't correctly value the company
- ✓ Fear that the value of the company could be influenced by short term dynamics
- ✓ However these criticalities can be overcome if the entrepreneur is able to present the complexity of sector/market dynamics to investors so that they can correctly consider all the variables
- ✓ In the long term the equity market is able to give valuations based on company's fundamentals

Corporate re-organization

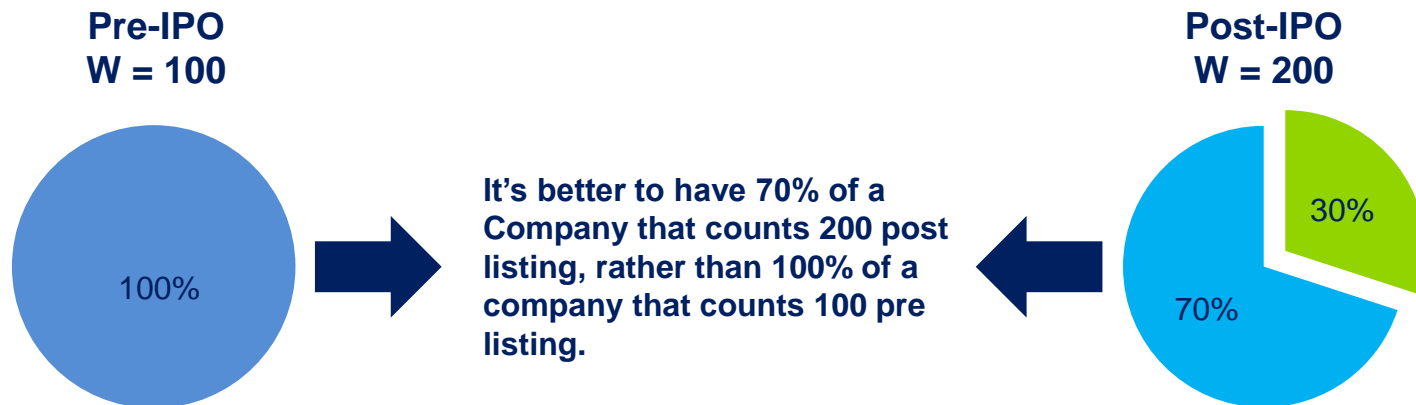
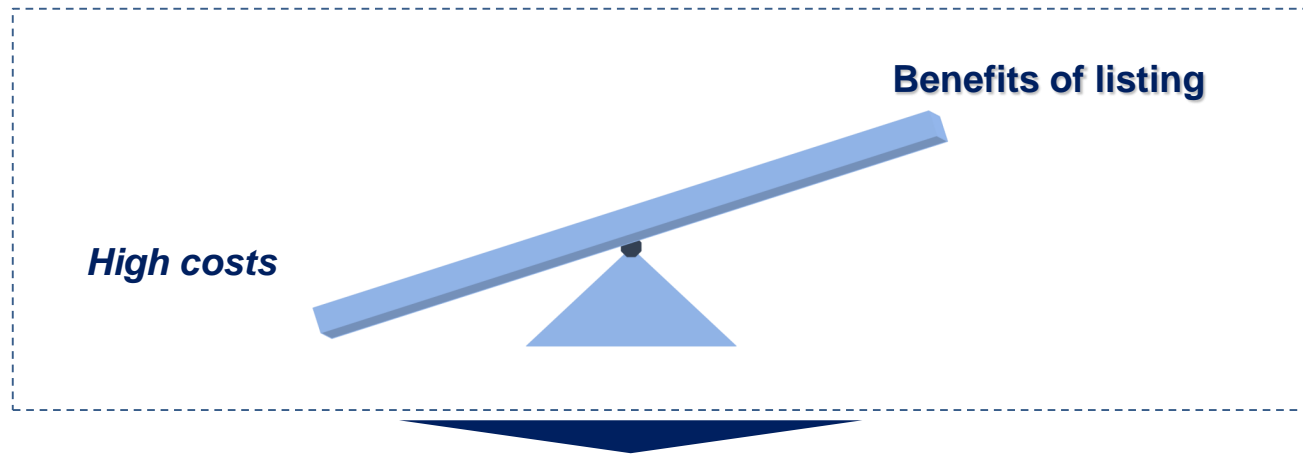
- ✓ The adaptation/implementation of communication, governance, planning and management control systems creates the highest difficulties: new approach towards external players, new competencies required for the new structure, difficulties in managing new working procedures
- ✓ However these difficulties are balanced by the improvement of the company's organization

Costs

- ✓ High listing costs
- ✓ However these costs could be considered as investments more than costs, related to the fact that corporate re-organization and brand image create value in the long term

Motivations and critical aspects

All critical aspects can be even opportunities and there are mechanisms to solve criticisms



ELITE is a single platform of integrated services promoted by the partnership between MEF and Borsa Italiana.

It's a platform that provides the industrial, financial and organizational skills needed to deal with the challenges of international markets. It's aimed to Italy's leading companies, offering a three-phase program to help them map out their route to success

Get Ready

Get Fit

Get Value

The first phase of the ELITE program stimulates change, using an innovative approach, that involves business people, successful managers and experts.

In this phase, all the advices and guidelines learned during the Get Ready phase are put into practice. Companies complete a self-assessment test to identify areas for improvement. The aim in completing the training is to receive the **ELITE Certificate**, awarded to outstanding companies that are ready to optimize their full value potential.

The ELITE Certificate provides access to a select international community of investors, professionals and businesses composed by:

- ✓ private equity and institutional investors,
- ✓ banking system,
- ✓ entrepreneurs and managers of listed companies,
- ✓ Borsa Italiana enterprise professionals

Requirements:

- ✓ Active participation in the training program made of 4 modulus

Requirements

- ✓ *Regular updating of the company profile*
- ✓ *Publication of interim report*
- ✓ *Publication of notes to the interim and annual financial statements*
- ✓ *Drafting of an annual budget and industrial plan*
- ✓ *Implementation of an appropriate management control system*
- ✓ *Definition of an appropriate governance model*
- ✓ *Auditing of accounts by an audit company.*

Requirements:

- ✓ *Keeping of requirements mentioned in other phases*

Summary

- 1 Introduction
- 3 Italian Stock Exchange
- 3 Requirements for listing
 - Regulatory Context
 - Deal structure
 - Formal and substantial requirements
 - Admission requirements
 - Permanence requirements
- 4 Listing Process

Requirements for listing

Regulatory context

Main regulatory items related to companies' listing process

General principles

European
legislation

- ✓ Directive 2003/71/CE of European Parliament and Council

National
legislation

- ✓ Lex 24 Febbraio 1998 n. 58 (TUF) and subsequent changes

Detailed discipline

Regulation
rules

- ✓ Consob regulations n. 11971/1999 and subsequent changes
(*Issuer Legislation*)

Auto Reg.

- ✓ Regulations of equity markets managed by Borsa Italiana S.p.A. and instructions

Requirements for listing

Regulatory context

Institutional players involved



Manages organized markets



**Independent administrative authority:
*Protection of investors, efficiency,
transparency and development of
Italian stake market, surveillance and
control on Italian markets***

Admission to negotiation

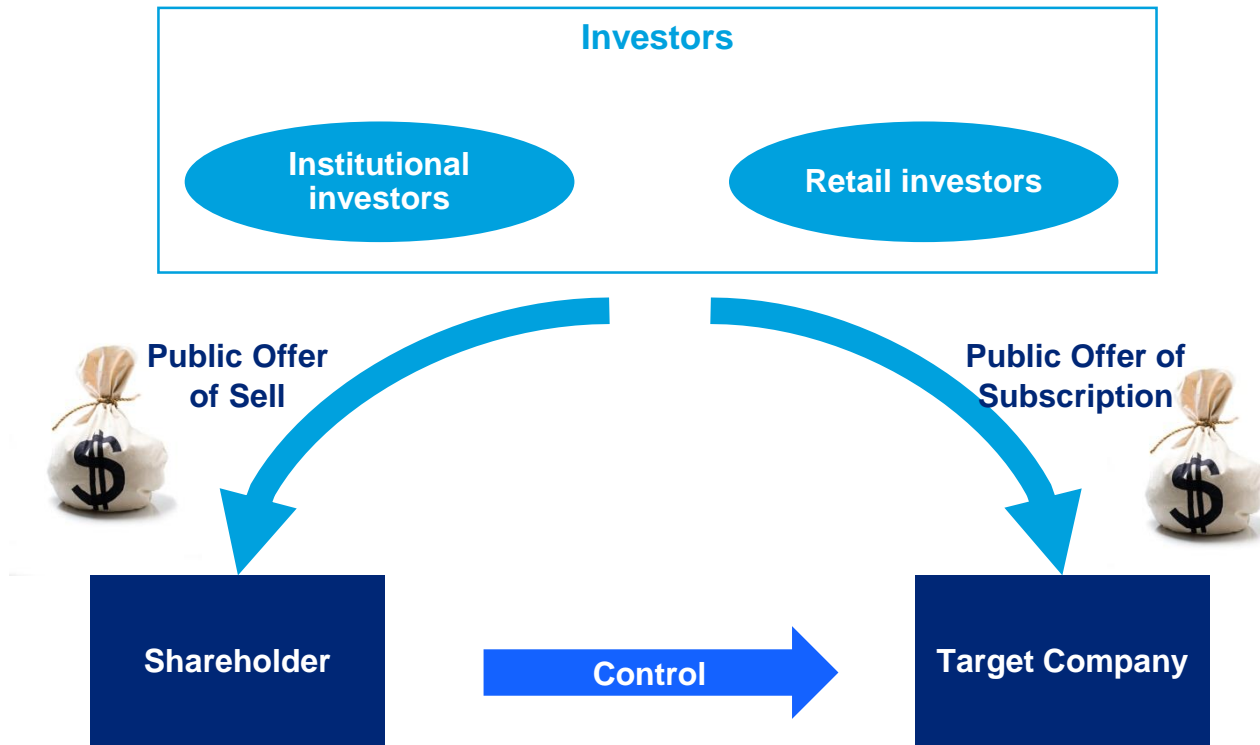
- ✓ Provision admission
- ✓ Start provision negotiations

Investment solicitation

- ✓ License to prospectus

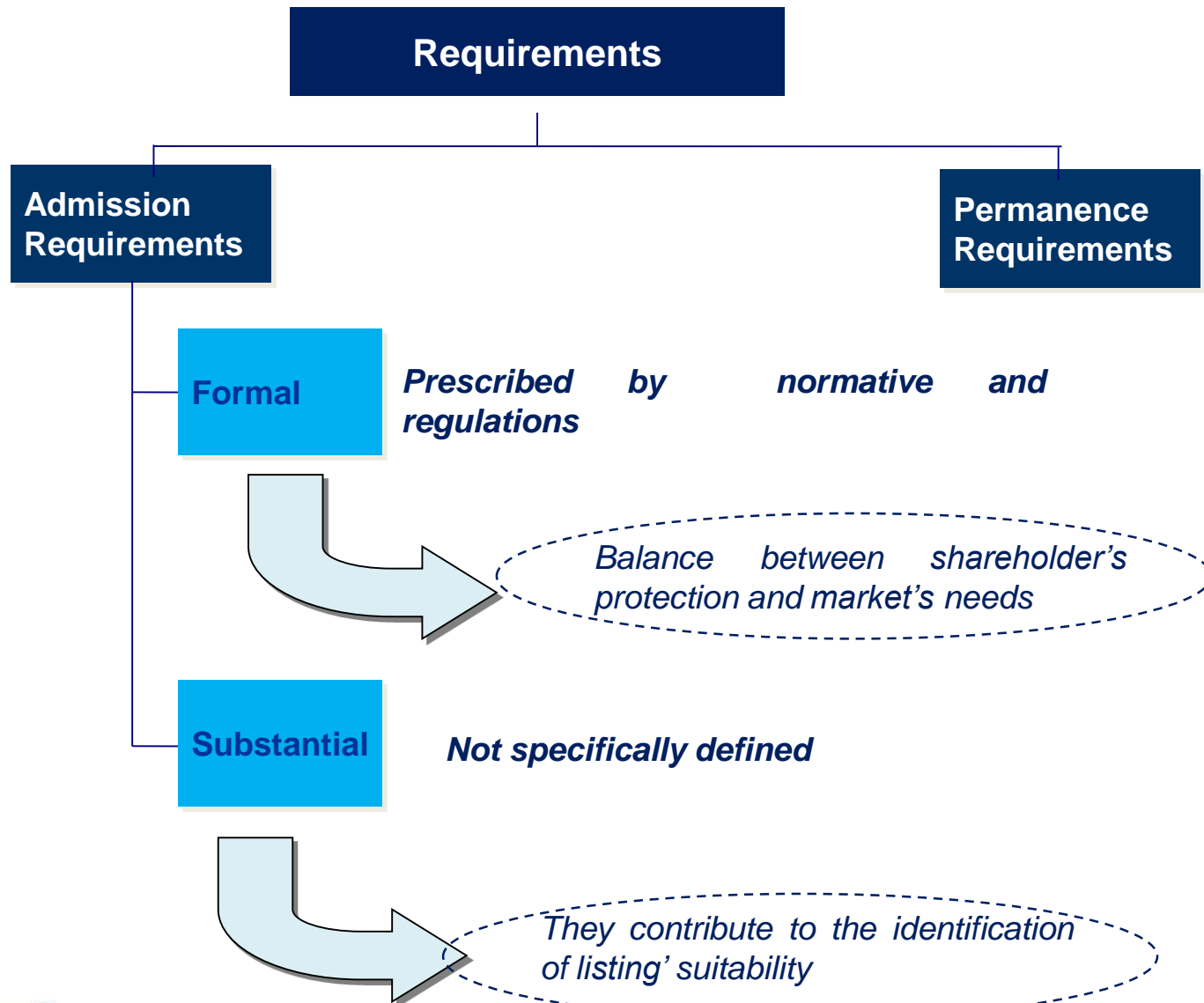
Requirements for listing

Deal structure



Requirements for listing

Formal and substantial requirements



Requirements for listing

Admission requirements

	MTA	Star segment	AIM-MAC	MIV
Free float	25%	35%	10%	25%-35%
Audited balance sheet	3	3	1 (if present)	3 (if present)
Offer	Institutional and retail	Institutional and retail	Institutional and retail (only after IPO)	Institutional and retail
Prospectus	Yes	Yes	No (admission document)	Yes
Industrial Plan/QMAT	Yes	Yes	No	
Management control Memorandum	Yes	Yes	No	Yes
Market cpa.	> 40 €mn	40 €mn - 1 €bn	No	40 €mn(23 €mn closed funds investing in securities)
BoD: Not executive and independent managers	Recommended	Mandatory	No	Recommended for SIV and closed funds. Mandatory for IC and REIC
Internal control committee	Recommended	Mandatory	No	
Top Management Incentive	Recommended	Mandatory	No	
Investor Relator	Recommended	Mandatory	No	
Web Site	Recommended	Mandatory	No	
Main advisors	Recommended	Mandatory	Mandatory	
Accounting standards	Sponsor/ Global coordinator	Sponsor/ Global coordinator	Nomad	Sponsor/ Global coordinator

Requirements for listing

Admission requirements

Business and growth perspectives

- ✓ Track record of growth results
- ✓ Value creation for future shareholders, that is the capability to create an adequate return on investment
- ✓ Consolidated competitive position
- ✓ Real growth perspectives
- ✓ Ambitious, but also feasible and sustainable, development program
- ✓ Adequate cash flow level
- ✓ Reliability in the achievement of declared budget/plan

Requirements for listing

Admission requirements

Organization and governance

- ✓ Presence of a specific strategic and organizational structure:
 - ✓ **management:** leadership qualities, industrial vision, creativity, perseverance and wisdom;
 - ✓ **product/service:** distinctive features (brand, particular technological content, low possibility of replacement, etc.) that can determine the affirmation of a success business;
 - ✓ **market:** possibly characterized by high development potential and significant growth rates.
- ✓ Presence of a formal organizational structure;
- ✓ Adequate corporate governance model, with a structured separation of power between BoD and Shareholders and an efficient system of mandates (in the Star segment is mandatory, for others is just recommended)
- ✓ Behavior and external communication transparency

Requirements for listing

Admission requirements

Changes in management philosophy

- ✓ A company that wants to manage an IPO must review/update its management philosophy (that's important in particular for SMEs)

Management philosophy PRE-IPO

- ✓ Personal and corporate capital are an unique entity
- ✓ Patrimonial assets are company's wealth
- ✓ Self-financing as main source (debt costs too much)
- ✓ Entrepreneurial intuition for growth strategies
- ✓ Low management relevance
- ✓ Undervaluation of corporate boards
- ✓ External communication as a threat
- ✓ No employee's remuneration system

Management philosophy POST-IPO

- ✓ Company's capital is separated by shareholder's capital
- ✓ Value is connected to growth perspectives
- ✓ Financial leverage as value creation
- ✓ Structure and organization are functional for value creation
- ✓ Fundamental role of entrepreneur but within a defined organized structure. Managers as growth opportunity
- ✓ BoD and Shareholder's meeting have a defined role
- ✓ Transparency and communication as growth opportunity
- ✓ Employee's remuneration system as development strategy

Requirements for listing

Permanence requirements

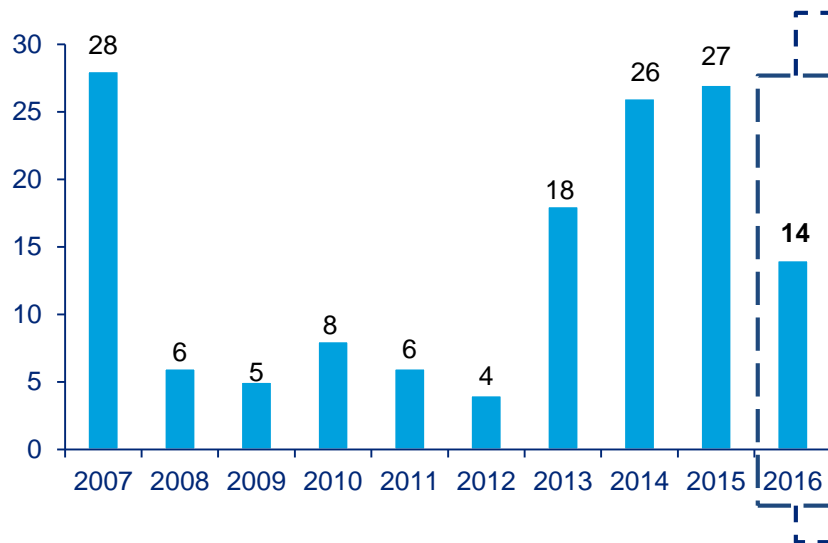
The permanence in stock markets requires the respect of the following requirements

	MTA	Star segment	AIM-MAC	MIV
Quarterly data	Quarterly results	Quarterly results	No	
Biannual data	Yes	Yes	Yes	
Annual balance sheet	Yes	Yes	Yes	
Price-sensitive communication	Yes	Yes	Yes	
OPA	TUF	TUF	OPA statute	
Nomad	N/A	N/A	Continuative presence	
Specialist	No	Mandatory	Mandatory	only for closed funds
Permanent Floating shares	No	0,2	No	

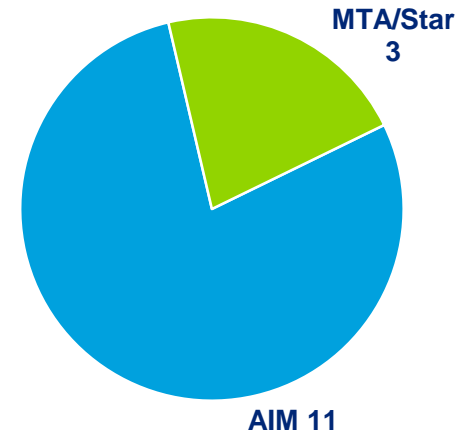
Requirements for listing

Permanence requirements

Historical Trend IPO 2007-2016*



Breakdown IPO markets 2016



* As of 19/05/2017, 7 IPOs in 2017 (3 MTA/Star and 4 AIM).

Source: Borsa Italiana

Summary

- 1 Introduction
- 2 Italian Stock Exchange
- 3 Requirements for listing
- 4 Listing process
 - Actors involved
 - Process overview
 - Process overview – Preparatory phase
 - Process overview – DD and required documents
 - Process overview – Executive phase
 - From IPO to negotiation
 - Costs

Listing process

Actors involved

FINANCIAL ADVISOR	▶	<i>Coordination of the listing process</i>
SPONSOR <i>(not present on AIM Italia)</i>	▶	<i>Guarantee and offer placement</i>
GLOBAL COORDINATOR <i>(usually is the same Sponsor)</i>	▶	<i>Management of listing process executive phase</i>
AUDIT COMPANY	▶	<i>Listing prospectus and check of budget and accounting systems</i>
LEGAL ADVISOR	▶	<i>Due Diligence, Prospectus, Corporate Governance advisory</i>
COMMUNICATION COMPANY	▶	<i>Presentations to financial markets</i>
SPECIALIST <i>(mandatory on STAR and AIM Italia-MAC)</i>	▶	<i>He assures stock liquidity</i>
NOMAD <i>(only AIM Italia)</i>	▶	<i>Guarantor of issuer adequacy, he supports the Company during the admission phase and throughout its time on the market</i>



Listing process

Actors involved

Financial Advisor

Advisory assistance and coordination of all players involved



- Support for the preparatory activities to IPO;
- Preliminary definition of deal's guidelines and feasibility analysis;
- Assistance to the Company in the choice of Global Coordinator and other advisors and assistance in the negotiation of their mandate;
- Assistance to the Company in the processing of the Industrial Plan;
- Preliminary valuation of the Company, that will be the starting point for the definition of the offer price;
- Starting of preliminary contacts with Borsa Italiana for the first presentation of the "investment case" and management of subsequent relationships
- Assistance in the elaboration of the Prospectus and other required documents;
- Assistance in every phase of the listing process and coordination of all players involved.

Sponsor

- Financial mediator (required by Borsa Italiana regulation) that assists the issuer during the admission and listing process, **sponsoring it towards the financial community**
- It's the guarantee of the investment quality and opportunity
- ***For the following year after IPO it has to publish company's financial reports two times a year, short analysis in occasion of company's main events and to organize meetings between management and financial community***

Sponsor's main responsibilities

- ✓ *Completeness of issuer's information*
- ✓ *Issuer's knowledge of all the commitments related to listing*
- ✓ *Presence of an efficient system of management and control*
- ✓ *Reasonability of after-IPO forecasts*
- ✓ *Execution of listing process pursuant to international best practices*

Global Coordinator

- **Subject responsible for shares settlement on the market** (sometimes it coincides with the sponsor)

Global coordinator's main tasks

- ✓ *Preliminary valuation (to let decide shareholders about the process itself)*
- ✓ *Management of relationships between the issuer company, Borsa Italiana and Consob*
- ✓ *Creation and direction of Placement Consortium and management of banks and institutions that realize: marketing activities, sell of settled shares and the eventual underwriting of not settled shares*
- ✓ *Assistance in the preparation of the informative document*
- ✓ *Pre-marketing activity for stocks*
- ✓ *Roadshow and book-building organization*
- ✓ *Offer price definition (in agreement with the financial advisor and the issuer)*
- ✓ *Stocks control and stabilization during first month of negotiation*

Listing process

Actors involved

Audit Company

- During the IPO process the audit company has to do **some activities different that its common services and activities**

- ✓ *Apart from financial documents audit, the Audit Company:*
 - *takes part in due Diligence activities*
 - *takes part in the drawing of the Prospectus*

Legal Advisor

- Support to all legal, contractual and regulatory aspects related to IPO process

- ✓ *Legal support in the preparatory phase (contingent adaptations of the organizational/legal structure)*
- ✓ *It takes part in the Due Diligence activities*
- ✓ *It takes part in the preliminary activity, managing relationships with Borsa Italiana and Consob and assisting the issuer in relation to informative commitments*
- ✓ *It analyzes all fiscal aspects of the deal, thanks to its staff that usually is specialized in fiscal matters related to IPO process*

Listing process

Actors involved

Communication Company

- It manages all the activities addressed to give to the issuer enough **visibility on the market** before and immediately after IPO

Pre - IPO activities

- ✓ *Management of meetings to understand Company's peculiarities to communicate to the market with the purpose of increasing company's appeal*
- ✓ *Increase financial visibility*
- ✓ *Support for informative fulfillments (mandatory financial announcements and relationships with Consob for the approval of information to give to the press during the roadshow*
- ✓ *Advertising campaign (contingent)*
- ✓ *Organization of roadshow and other presentations*

Post - IPO activities

- ✓ *After IPO communication (press releases and press conferences, presentations and one-to-one meetings with analysts and journalists)*

Specialist

- Intermediate subject with the function of **market maker**. It has the task of supporting shares' liquidity on the market (acquisition of shares when the market sells and vice versa)

- ✓ *Mandatory for companies listed on STAR and AIM-MAC segments*

NOMAD (Nominated Adviser)

- **Subject responsible towards Borsa Italiana for the valuation of issuer's adequacy for the admission at AIM Italia - MAC segment**
- It has to assist the issuer not only in the admission phase but for **all his permanence** on the market
- It's nominated by Borsa Italiana, that registers the nominated adviser on a public register published on Borsa Italiana website

NOMAD main activities

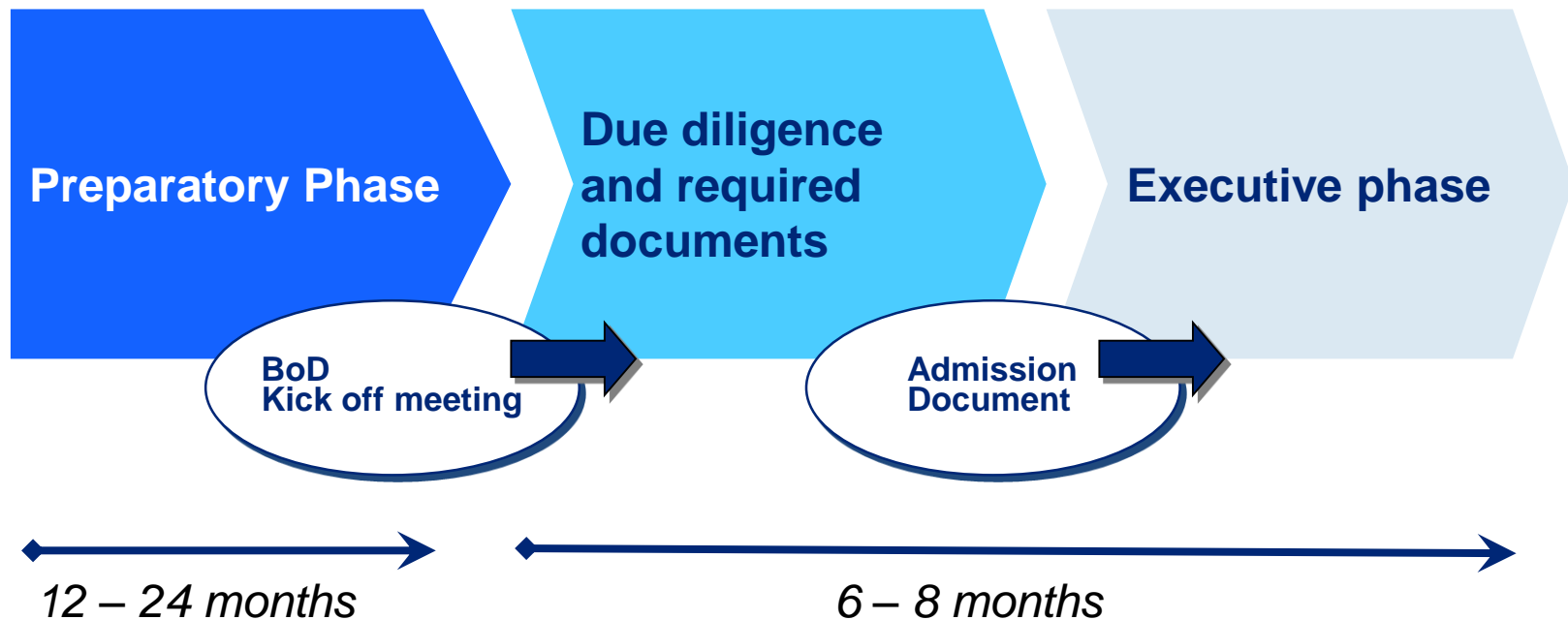
- ✓ *It's involved in the preparation/control of Due Diligence procedures*
- ✓ *It assures that issuers are able to keep requirements ongoing*
- ✓ *It acts like a «filter» to avoid that inappropriate candidates are admitted*
- ✓ *It assures a right information towards the company and the market*
- ✓ *It must be independent and avoid every form of conflict of interest*



The attribution of NOMAD status is based on objective and qualitative criteria, necessary for granting market reputation and independence. These criteria are useful for verifying that the NOMAD has the required experience and capabilities in terms of Corporate Finance, and also the correct organizational structure.

Listing process

Process overview



Reported time line is just an indicative period. It's difficult to give a fix period, in particular for the preparatory phase that is influenced by company's peculiarities and specific conditions. Timeline, usually is shorter for listing on AIM Italia-MAC market due to the easy admission process.



Preparatory Phase

- ✿ Adaptions and adjustments:
 - ✿ organizational features
 - ✿ legal aspects
 - ✿ accounting aspects
 - ✿ corporate and financial policies
- ✿ Business Plan preparation
- ✿ Adaptions to Management Control System

For all these aspects Borsa Italiana has issued some **Listing Guides**, that are useful tools for issuers, financial institutions, auditors, advisors and any other subject involved in the listing process.

Management control
System Guide

Strategic Plan Guide

Valuation Guide

This phase is characterized by follow-up meetings between the Company and the financial advisor, that culminate with the definition of the Feasibility Study



Adjustments

Organizational adjustments

Changes in operating systems: **Governance systems** (re-definition of mandates and introduction of the Independent manager). **Organizational structure** (reinforcement of the present structure or a complete re-definition). **Strategic planning strategy** (improvement of existing systems thanks to the formalization of planning procedures)

Legal adjustments

Possible changes: **Removal of clauses** that limit the free floating of shares and/or clauses that give privileges on shares' remuneration conditions; **Shares splitting or grouping** for the purpose of adapting the nominal value to market needs; **Changes in ownership structure**; subscription to **Self-discipline Codex**

Accounting adjustments

Audit commitment for last 3 balance sheets and Balance sheets must be re-expressed on the basis of **IAS/IFRS** accounting principles (not required for AIM-MAC).

Corporate and financial policies

Analysis and re-definition of: **Investment policies** in a long term perspective and in relation to new financial sources; **Financing policies** (ex: short term debt reduction and adoption of different solutions with planning cash flow); **Income policies** (ex.: maximizing available income for and adequate market valuation)



Business Plan

Document that shows management strategic lines related to company's competitive strategy, actions required to achieve strategic aims, the evolution of key value drivers and expected results.

AIM of Business Plan

- ✿ It's useful for **Management**: because it represents entrepreneurial vision
- ✿ It's useful for **BoD members**: for the strategic approach and company's control
- ✿ It helps the **Company** in the collection of human and financial sources, necessary for the realization of the Action Plan



Since 2003 Borsa Italiana has issued **Strategic Plan Guide**:

- Guidelines for drawing up the document
- Financial Plan standard scheme
- Plan fundamental requirements (those provided in the regulation plus another additional one)



Management Control System

Borsa Italiana regulation requires the presence of a structured and integrated Management Control System, for information and processes, used by management to support planning and control activities.



AIM of Management Control System

- ✿ *Fundamental support to pursue Company's strategic objectives*
- ✿ *Fundamental support to elaborate and communicate information to the Market*

Management Control System Requirements

Formalization

- ✓ Procedures
- ✓ Reporting
- ✓ Corrective actions

Frequency and rapidity

- ✓ Integration with informative tools
- ✓ Development capability

Published information

- ✓ BoD and CEO
- ✓ Board of statutory auditors
- ✓ Internal control committee
- ✓ CFO
- ✓ CAO
- ✓ Program and control

Structured Reporting

- ✓ Responsibility centers
- ✓ Corporate processes
- ✓ Strategic projects
- ✓ Kind products/services
- ✓ Clients
- ✓ Distribution network
- ✓ Geographical areas



Management Control System

MCS Objectives

- ✓ **Correct scenarios definition** to support strategic decisions and forecasts
- ✓ **Coherence between strategy and action** and accordance between corporate organization and corporate strategy
- ✓ Correct and complete corporate communication addressed to external subjects on the basis of times and procedures required by current regulation and financial market
- ✓ **Correct valuation of current performances** in relation to historical trend and budget forecast
- ✓ Possibility to **promptly decide** necessary corrective actions in relation to forecast plans (through regular and frequent measurements of company performances)



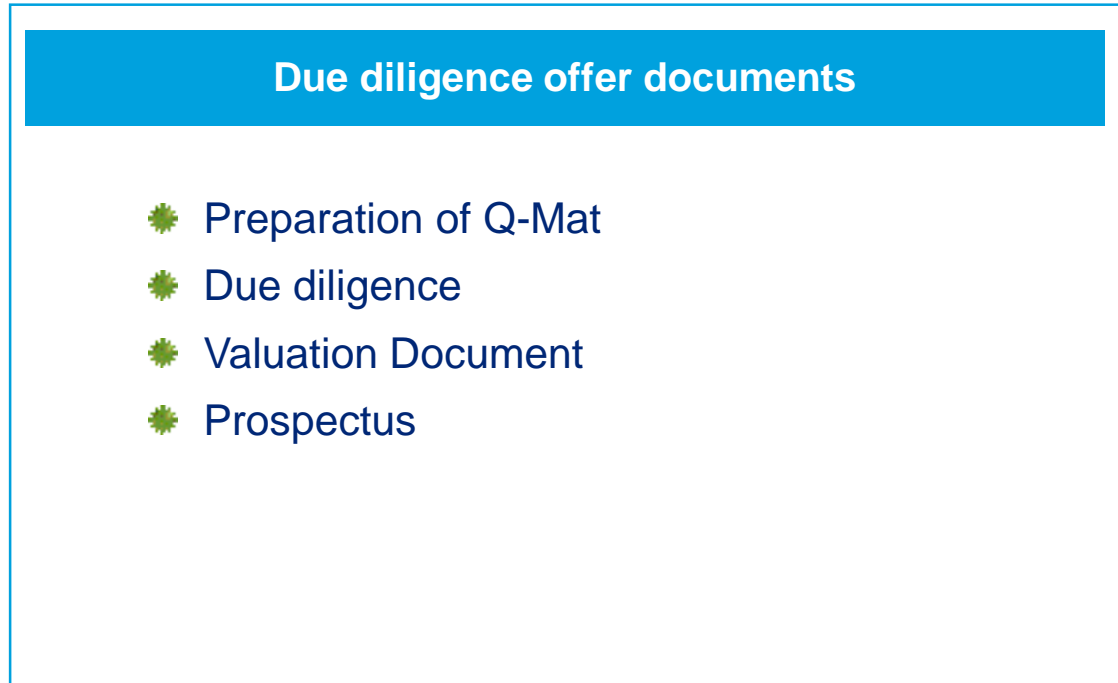
..Steps to the following phase..



Board of Directors

- ✿ Presentation of preliminary studies
- ✿ Approval:
 - ✓ Request of listing admission
 - ✓ Ordinary Board Meeting, or in case of capital increase, Extraordinary Board Meeting
 - ✓ Advisors designation

Kick Off Meeting



Process overview – DD and required documents

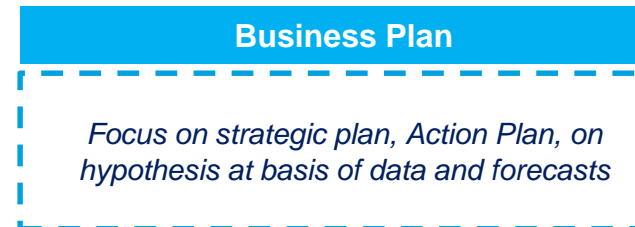


Q MAT

It's a document that must be presented by listing companies to Borsa Italiana with the documents required for forwarding the admission request.

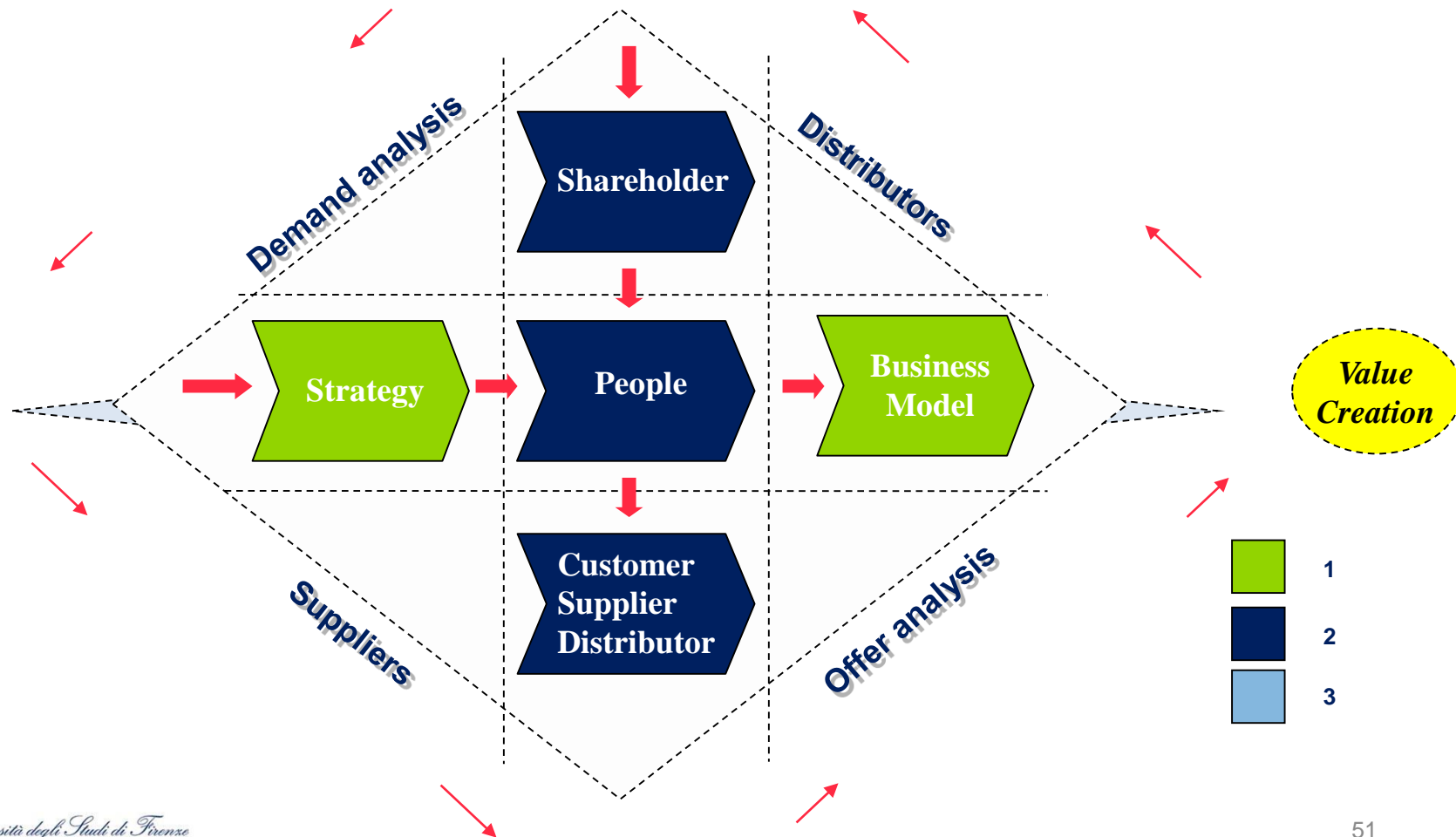
- ✱ QMAT contains information about issuing company in relation to Business Model, significant stakeholders, and competitive context.
- ✱ It allows to improve the communication between different players of the listing process (Borsa, Sponsor, issuer company)
- ✱ It completes the Financial Plan in relation to the correct presentation of company's situation

Information reported on Q MAT must be consistent with data reported on other documents predisposed for the admission, in particular for those reported on Business Plan





Q MAT





Process overview – DD and required documents

DUE DILIGENCE

Analytical cognitive analysis made by listing company, to examine, organize and disclose information to all players involved

It's realized by site visits and interviews with entrepreneur and management and even through the institution of a data room

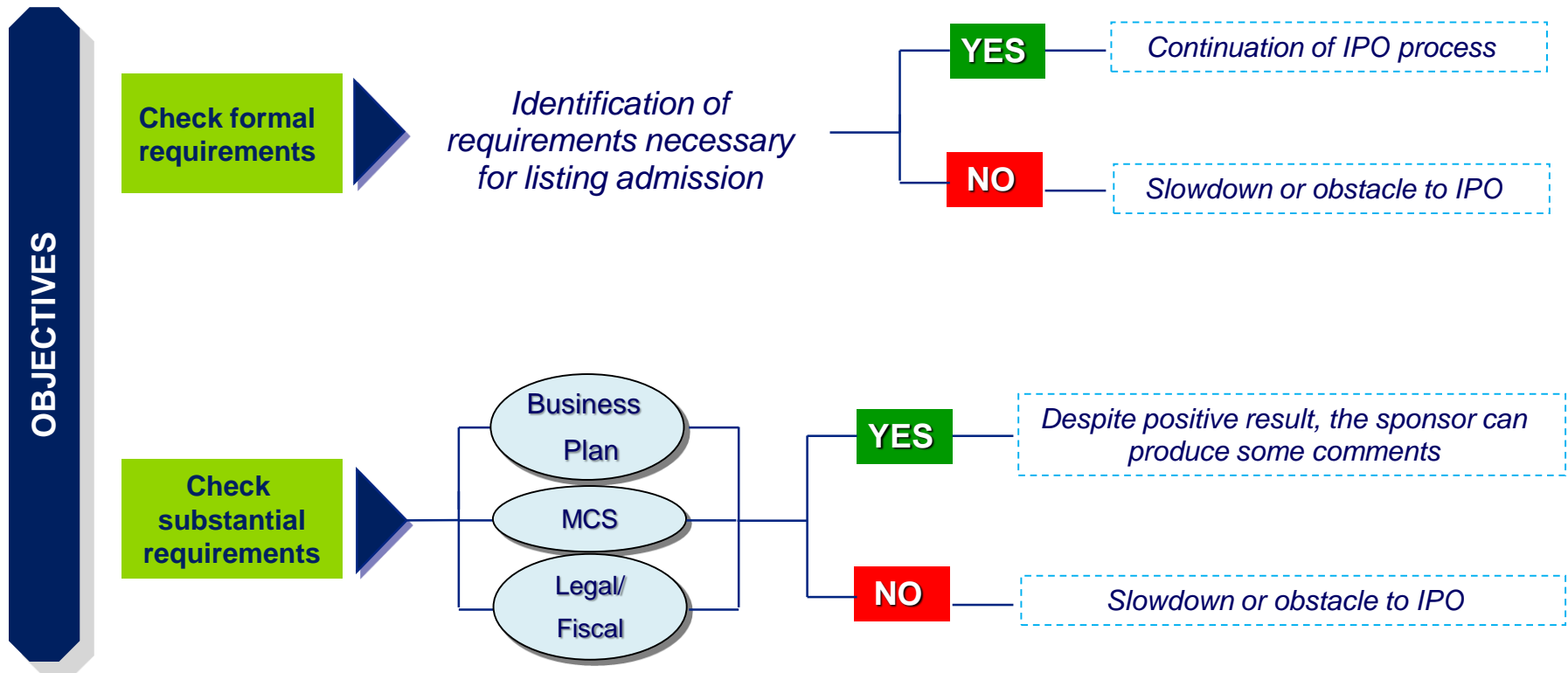
Main critical areas

- ✿ Financial Due diligence
- ✿ Accounting Due diligence
- ✿ Legal Due diligence
- ✿ Tax Due diligence



DUE DILIGENCE

Due Diligence allows to verify formal and substantial requirements necessary for listing on Stock Exchange.





VALUATION DOCUMENT

Valuation assumes high importance in the listing process for the following aspects :



- ✿ Referential basis for subsequent pricing
- ✿ Definition of listing company image towards financial community and all other stakeholders
- ✿ Operation success

This phase led to the drafting of Valuation Document



In order to valuation related to IPO process most used valuation methods are :

Discounted Cash Flow (DCF)

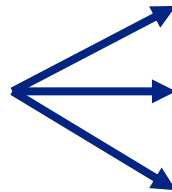
Multiples method



VALUATION DOCUMENT

Valuation Document

*Disclosed to
Borsa Italiana*



- ✓ It shows and resumes the valuation process
- ✓ It gives a detailed indication of main achieved results
- ✓ It gives indications related to the range of values in which identifying the offer price



For listing on AIM Italia – MAC a formal valuation document is not required



Process overview – DD and required documents

PROSPECTUS

It's the official document for public savings solicitation. It's drawn up on the basis of due diligence results, so that it discloses all information related to the company and the offer structure, necessary for investors to value the economic and financial situation



It's aimed at allowing investors to reach a grounded judgment on company's economic and financial situation, on the evolution of issuer's activity and on financial tools and related rights

Prospectus new scheme (ex Directive on Prospectus)

Synthesis Note	Registration Document	Informative note on financial tools
<ul style="list-style-type: none"> ▪ Offer features ▪ Issuer's information ▪ Information about managers, directors, auditors and other employees ▪ Main economic and financial data ▪ Issuer's risk factors and financial tools <p><i>No reference scheme</i></p>	<ul style="list-style-type: none"> ▪ Detailed information about synthesis note contents <p><i>Existing reference scheme</i></p>	<ul style="list-style-type: none"> ▪ Detailed information about the offer and related shares <p><i>Existing reference scheme</i></p>



PROSPECTUS - Criticisms

**Ownership structure
before and after placement**



Owners' remuneration?
Company's financial reinforcement?

Nature of issuer's activity



Do such specific risk factors exist in issuer's activity to affect company's profitability? (start-up, sector..)

Company valuation



Is the valuation influenced by *market timing* factor?



Borsa Italiana Filings

Documents for Borsa Italiana, to show for listing admission (*for listing on AIM Italia – MAC required documents are substantially less*)

✓ A copy of approving deliberation related to listing admission

✓ A copy of company statute

✓ Prospectus

✓ A copy of informative documents addressed to institutional investors (t.s. *offering circular*)

✓ Memorandum about Management Control System

✓ Managers and directors' *curriculum vitae*

✓ A copy of balance sheets required by the specific listing market (*)

✓ Economic-financial budget of ongoing FY and economic-financial plans for the following two years

✓ Valuation Document

✓ Q MAT

✓ Issuer statement for specifying the nature and solidity of relationships with sponsor

✓ Company governance comparison with recommendations by Borsa Italiana

✓ Module related to informative spokesperson and his substitute

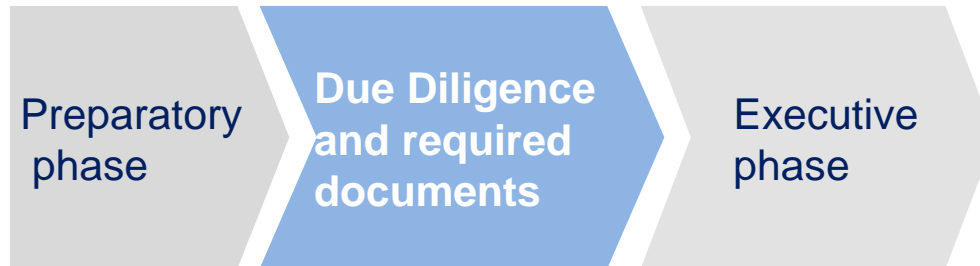
✓ Signed copy of «Network Information System» subscription contract

✓ Issuer's declaration that shares are freely transferable and that will be available for entitled person at Monte Titoli S.p.A

(*) If last balance sheet refers to more than 9 months before the date of listing admission request, it's required even infra-annual economic and financial situation (even consolidated)



..Steps to the following phase..



- ✿ During the whole phase
 - ✓ Meeting with Borsa S.p.A. and Consob
 - ✓ Borsa S.p.A. visits the Company
- ✿ Extraordinary Shareholders Meeting approval



Timetable is shorter, for AIM Italia-MAC because of simplified procedures and lower documentation required.



Marketing activities



From offer sending to the start of negotiations



MARKETING ACTIVITIES

Constitution of Placement Consortium

- ✓ The Global Coordinator constitutes the Placement Consortium
- ✓ Its primary task is to collect requests of shares from private and institutional investors
- ✓ Consortium's participants are: Banks, Brokerage Companies and Investment Companies
- ✓ Its aims are: guarantee the global success of the operation, guarantee tranches balanced distribution on different markets, guarantee a solid presence of institutional investors, the coordination of marketing and sell activities

Analyst presentations

- ✓ Global coordinator and issuer define the Equity Story
- ✓ Presentations of Equity Story to Consortium analyst/banks. After presentation (2-3 weeks) analysts publish pre IPO equity researches about the company
- ✓ Equity story contents: referred market, company's growth potential, company's competitive placement, business model description, historical financial data (last 3years), strategy, short description of the IPO operation

Pre marketing activities

- ✓ Distribution of analysts' researches to investors
- ✓ Black out Period (ban of every promotion activity) since research publication until 40 days after the offer closing
- ✓ Consob Nulla Osta for Prospectus publication
- ✓ Pre-marketing is aimed at: understanding market's perception about the company, identifying main questions/doubts, defining a short list of target investors and scheduling one-to-one meetings during roadshow, collect feedbacks and identifying a first price range.

Roadshow

- ✓ Activity to increase financial community's interest in the target company
- ✓ It takes place through meetings in major national and international stock exchanges where issuer management and global coordinator present the IPO opportunity to institutional investors, analyst, specialized press
- ✓ Involved players, main financial data and growth projects are presented
- ✓ Possibility to manage one-to-one meetings with relevant investors



BOOK BUILDING

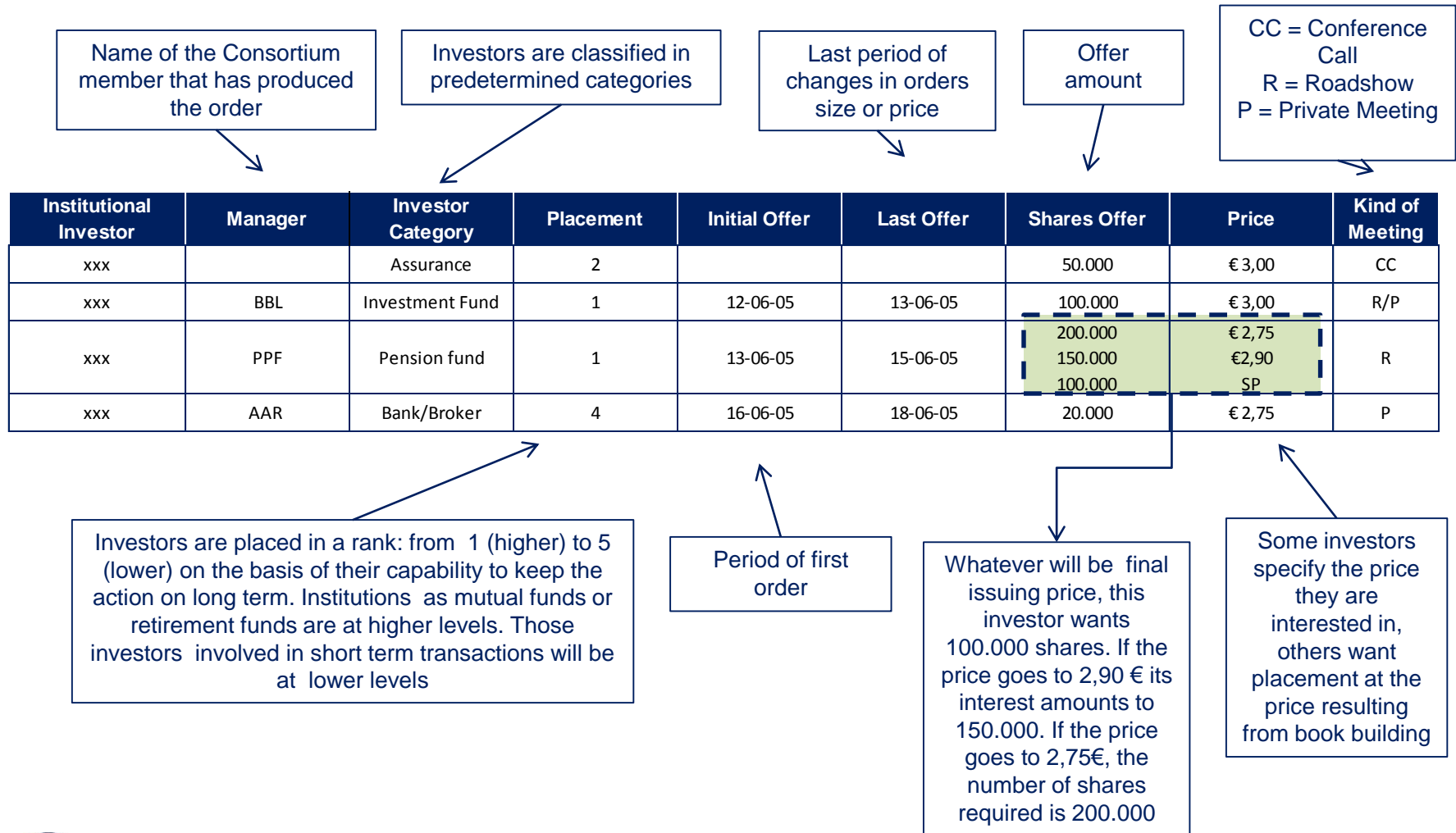
After roadshow another important phase takes place

Book Building

- ✿ Potential institutional investors communicate to book runner (usually the same of global coordinator) share's amount that they would acquire and the price that they would pay
- ✿ The acquisition proposals are registered or continuously updated thanks to a **specific book**
- ✿ Bookbuilding aims:
 - ✿ In case of **fixed price**: collection of purchase orders referring to interest manifestations in terms of amount of share to subscribe
 - ✿ In case of **open price**: collection of purchase orders in terms of amount of purchasable shares and payable price, considering the not-binding price range determined during the marketing phase, represents the starting point for the offer price and amount.



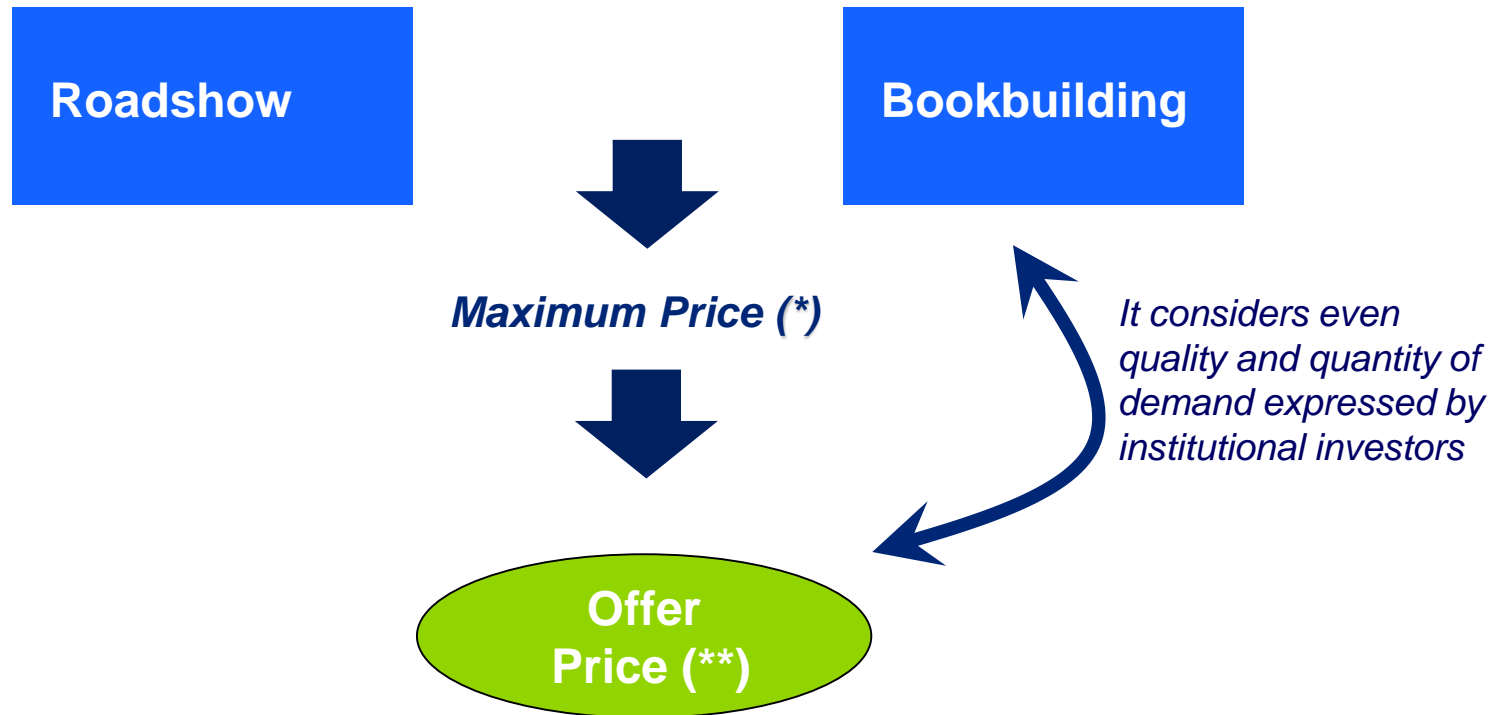
BOOK BUILDING – AN EXAMPLE





PRICING (1/3)

In general the finale price is determined in order to allocate shares to institutional and retail investors, keeping dissatisfied a part of demand (to support shares in aftermarket)



(*) Disclosed before the beginning of the offer period

(**) Disclosed at the end of the offer period



PRICING (2/3)

Pricing process is the result of a complex procedure made of analysis and verifies:

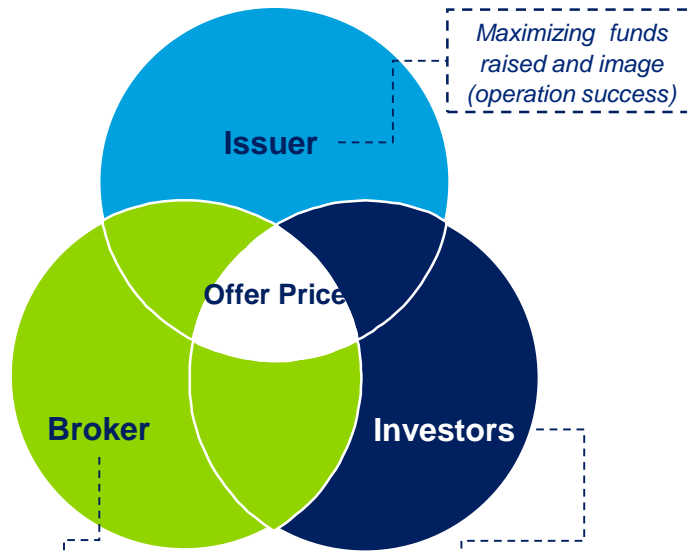




PRICING (3/3)

Interests contrast

Pricing process is characterized by a strong interests contrast between counterparts



Underpricing event

Usually the first day of listing the price is statistically higher than the offer price

**UNDERPRICING
EVENT**

General explanations:

- ✓ Create a trusty mood in initial investors (even for possible future capital expansions)

Maximizing funds raising (avoiding under-subscriptions)



Initial Public Offering (IPO) is the moment when investors can effectively acquire issuer's shares in order to create float necessary for listing

Different IPO

- ✓ Public Offer for Sell
- ✓ Public Offer for Subscription
- ✓ Public Offer for Sell and Subscription

IPO Beneficiary

- ✓ Institutional Investors
- ✓ Public in general
- ✓ Defined subjects (Employees, Family..)
- ✓ All mention subjects

Public Offer for Sell

Public placement of existing shares, that are sold by current shareholders

+

Public Offer for Subscription

Public placement of new issued shares through capital expansion (if current shareholders don't exercise option rights)

=

Public Offer for Sell and Subscription

Combined action

Listing process

From IPO to Negotiation



Lock up clause

IPO can provide for a **lock up clause** (or lock-in clause): before listing current shareholders commit themselves not to sell their shares for a defined stretch of time after the listing admission

- It gives a strong trust signal
- It makes share's price stable

Shares assignment

The following step, at the end of subscription period and after shares collection, is **shares assignment**

- In case of institutional assignment: Global Coordinator discretionary choice
- In case of Public Offer: distribution criteria are indicated in the Prospectus to assure neutrality

Results

Results are disclosed at the end of the offer

- They are disclosed to Consob and published within 5 days after the subscription period
- Results are disclosed to Borsa Italiana within the «stock exchange day» after the Offer closing

Official Price

During first day of negotiation it arises share's **official price**

Stabilization

In 30 days since the definition of the official price the Placement Consortium can perform activities of **share's stabilization**.

Greenshoe

Share's stabilization can be realized through the **Greenshoe option**.
(often more frequent)

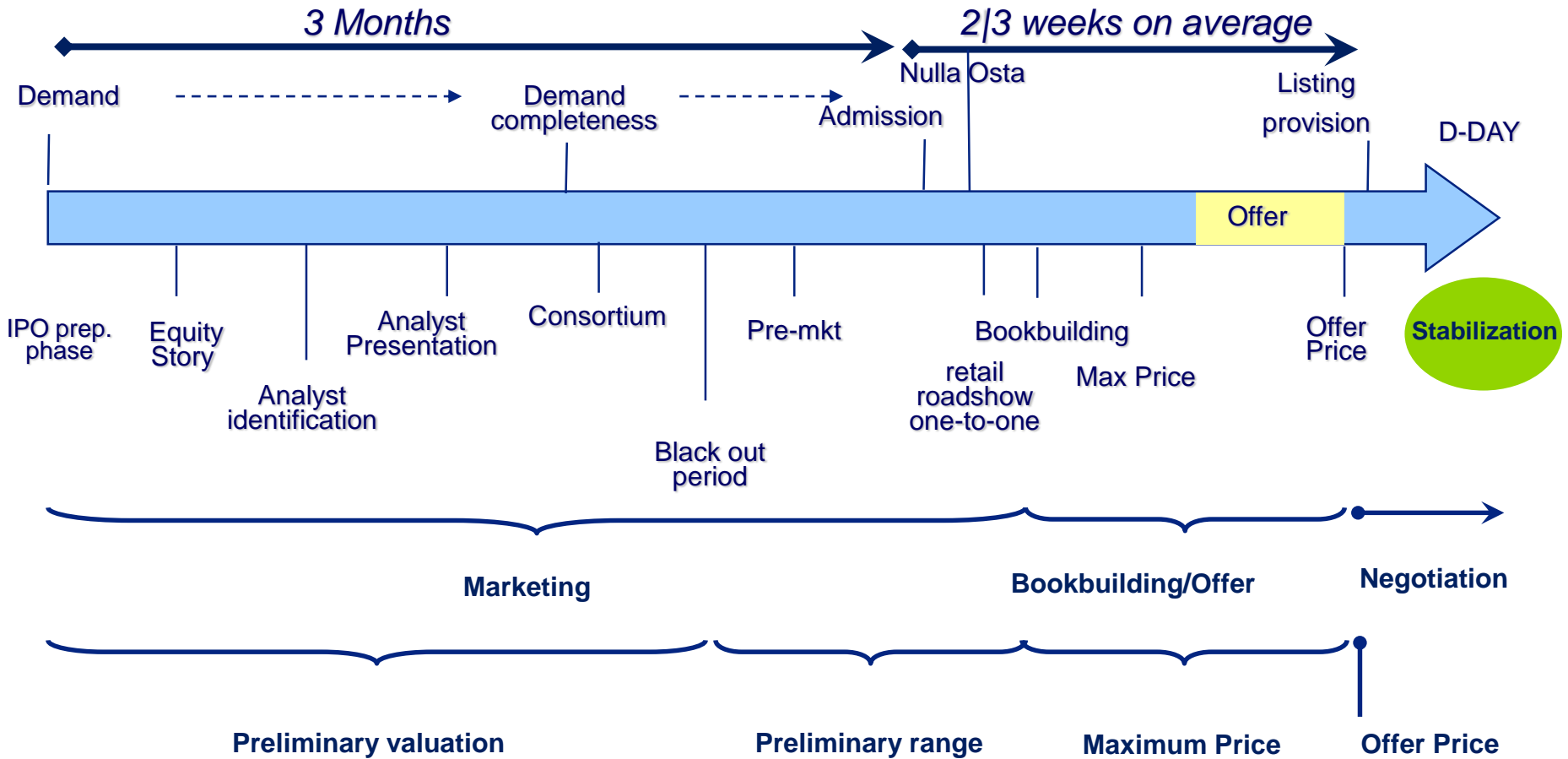
- Through this clause the Global coordinator reserves the right to acquire an additional shares amount, to put in the equity market in case of high demand or price tension

Listing process

From IPO to Negotiation



TIME TABLE



Listing process

Costs

