



Department of Management
*Chair **Financial Reporting and Performance Measurement***

**Strategic Analysis and Quantitative Valuations for a Medium
Enterprise's IPO in Italy: the DBA Group Case**

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INTRODUCTION

As I heard about their recent IPO I contacted the Human Resources department telling them I was interested in analyzing their case for my Master's Thesis. They were happy to have the opportunity to have their story told by a LUISS student and thus, after a brief interview, I started working there in the Planning & Control department. During the 4 months, going from February until May, that I have been working as an intern for DBA Group, my tasks mainly consisted in the drawing of excel reports containing economic and financial descriptions of various projects on which I was working.

During my working experience, I took advantage of the opportunity to start acquiring information that were vital for the analysis. It is thanks to my manager and other executives that I have been able to get an overview of the firm and its businesses, how they operated and the geographical areas in which they operate.

The analysis I carried out has been performed on Excel for valuations' and financial statements' extracts. The company allowed me to analyze their documents and their financial statements from year 2013 until 2017. Projections concerning growth and risk prospects of the following years have been extracted from the analysis of the Nominated Adviser and Global Coordinator.

This thesis, starting from a brief outlook of IPOs since their very existence, aims at analyzing DBA Group's endogenous and exogenous environment considering its performance, its organizational structure, the competitive environment in which it operates, the medium-long term strategies and the use of the proceeds the company raised through IPO. It also considers the market in which DBA Group's shares are listed and defines the processes and the players that, a firm undertaking an IPO, must encompass in order to arrive to the final listing and beyond. All of which is considered with the goal to obtain an evaluation of the company's shares.

1. Brief Introduction on IPO and its markets in Italy

I. IPO typology: OPV, OPS, OPVS

IPO, standing for Initial Public Offering, is one of the methods through which a firm can raise capital by selling shares of its equity to its investors. Through direct participation in the IPO, an institutional investor is able to buy shares before they are available to the general public.

There are two types of pricings a company can use to sell its equity to the public: book building and fixed price, or a combination of both.

Under book building option, the underwriter carries out the valuation determining the shares' price range and buys, from the issuer, the shares to be sold to the market. Once the preliminary process has been performed, the actual bidding takes place. Here, the large investors and buyers bid on the quantity they are willing to buy given the price range limited by the floor and cap. The price range, defined by biddings' floor and cap, is known as the price band. Determining the price band is a vital step for a firm going public, as it allows the company to know how much money investors are willing to pay. While starting prices are driven by investors' demand, the book is opened and defined by aggregating information of the bid until the final closing of the former. The book is usually open for a fixed period of time, after which the underwriter sets a value for the securities by considering the aggregated demand. In this way, the final price is the weighted average of all the bids collected during the book building period. Although its adoption has consistently been rising over the past few years, this approach faces two main downsides. The first one is connected to the flaws in its process. Even though several amendments, aimed at widening the participants' number and changing the price estimation mechanism together with shares' allocation, have tried to rule this method, it still has some weaknesses that should be fixed. The first problem arises with the setting of initial prices before the bid, because the issuer has space to manipulate them in its favor. Within this process, the issuer is helped by the auditors, which tend to fix inflated prices and to hide negative data in the balance sheet in order to boost initial indicative prices. All of which comes along with potential investors, participating in the roadshow, who do not have complete information on the firm. Having indicative prices fixed, the actual bid takes place. Investors put their bids with a 20% up or down limit from the initial price; here, those willing to buy shares indicate the quantity and the price at which they want to buy the issuer's equity. Initially, investors could have placed their bets within an amount which

was not exceeding the 10% of the total shares. This amount has been reduced to 5% in order to limit the power of the single investor to influence the cut off price, but still, a group of institutional investors can still form a syndicate and buy their 5% stake at the pre-agreed price.

Recent book-built IPOs have shown how indicative prices tend to always result in the higher-end part of the price band. This effect then results in an even higher cut off price which is often driven by institutional investors. This process has a forward effect: from the time the offer price has been fixed to the trading debut, the P/E ratio has often turned out to be from 15 to 25 times higher. Prices thus tend to be very high until most of the institutional investors realize their gains, after which, small investors, the ones behind institutional ones, are left with an overpriced investment.

On the other hand, there's a risk connected to the lengthiness and complexity of this method. From initiation, the process is often completed within a one-year time frame. It is easily understandable that many things can happen during one year, from economic downturn to political instability to a deterioration of company's business which will drive company's value downward. It thus loses meaning to have a roadshow based on valuations computed a year ago during which such value may have been deteriorated. In the end, it is a very complex method which implies a certain degree of risk for part of the stakeholders and which still requires some work from regulators; inasmuch, the fixed price method is usually preferred.

Under the fixed price method, the issuer values its equity and defines a predetermined price at which its shares will be sold. With this method it often happens that shares are oversubscribed, meaning that the demand for shares is greater than their availability: the supply. Another downside of fixed price method is that it usually happens that, at the IPO, shares are undervalued because the issuer's price is often below the fair market price. This is because there is not a direct feedback between the number of shares and demand. What happens next is that, in the first few days of trading, there is a sharp rise in the shares' price and, as a result, there may be a loss of value for the company and its pre-IPO investors.

Besides the pricing methodologies, there are three main methods to sell the company's equity on the market: OPV, OPS, OPVS.

OPV – (Offerta Pubblica di Vendita) – it is a tool, used by the issuer, through which the firm is able to offer to investors a portion of its equity in the form of shares, with the purpose of enlarging and/or modifying its ownership structure. These shares are already-existing shares and are issued at predetermined prices and quantities; the money raised through their sale directly benefits the person who decided to dilute their position within the company, they are not meant for capital injection into the company. In this way, OPV is often used by stock holders to cash out their participation. In the

case in which the OPV has, as the ultimate objective, the one of listing company' shares on the stock market, we have an IPO.

Inasmuch, OPVs can take on different configurations depending upon the subject to which they are referred to. We thus have:

- public offerings – devoted to the general public
- institutional offerings – devoted to institutional investors only
- private placements – open to a limited number of selected investors

Only in the case in which shares are sold to retail investors the company is required to pre-emptively communicate to CONSOB a prospectus containing all the required information and to abide by the rules imposed by the “Testo Unico della Finanza”.

OPV are commonly used for privatization of portions of governmental companies. In these cases, the government usually desires to keep a majority stake in order to retain control over the newcomers and, at the same time, to alleviate public debt. A substantial example of privatization through OPV is represented by the one ENEL did in 1999, where the government started selling a major tranche of shares equal to 20% of the total equity. Due to the high international demand, coming from both retail and institutional investors, the shares' portion for sale had been augmented up to 30% for a total value of over € 16 billion.

When dealing with a single firm launching its OPV, the reasons may be many. One possibility is that the company is willing to retain control over the firm itself without giving out large tranches of ownership to a few investors. Or it may be because the firm's management is willing to endear itself to the government in order to start collaboration also through the sale of shares to local investors.

OPS – Offerta Pubblica di Sottoscrizione – is another form of raising capital for your company by selling newly-issued shares. This mean of increasing capital is often used in the case that the company is owned by a small number of investors and they are willing to go public by issuing shares that do not comprise voting rights. OPSs are usually preferred to OPVs because they directly benefit the cash flows of the firms, while in OPVs, the money raised goes to old investors' pockets. OPSs take place by subscribing a predetermined number of shares and/or obligations at a given price. By going for this option, the firm' shareholders agree to dilute their participation within the company as opposed to OPV.

OPVS – Offerta Pubblica di Vendita e Sottoscrizione - in this case we have a mix of the former approaches. Here we have a double but divergent effect on shares outstanding: on one side, shares of investors are diluted to create new shares to be sold on the stock market; on the other side investors

that were already owning a portion of the company have the opportunity to cash out their investments and receive some money.

II. IPOs and Financial Markets background

Going back in time, the earliest form of publicly issued shares of a company can be found during the Roman Republic. Over this period, the caste called “ordo publicanorum” had the opportunity to quickly gather large sums of money through the many activities they carried out for the Roman society, activities which made them gain contempt by the other castes. The “publicani” were generally part of the equestrian order since such type of activities were not considered to be well-suited for the senatorial members. Among the manifold activities they performed. From the Consuls, they received contracts for the direct collection of taxes on the behalf of the State. These taxes were mainly imposed on land, grazing, turned soil, wheat, cereals and on border’s tariffs. Now, it is because of the need to obtain these large and expensive contracts that the very initial IPOs took place. The need for large amounts of money pushed for the creation of joint stock companies (Societates) which paid out dividends to its shareholders and ended up by creating a new “aristocracy of money”. It has been proven that these first sales of Societas’ shares were conducted in a primitive form of over-the-counter market in the Forum. Shares fluctuated in value stimulating the activity of the first speculators. This initial and rudimentary concept of IPO lost most of its predominance with the end of the Roman Republic and the rise of the Empire.

With the end of the Roman Republic and Empire, the figure of the “publicani”, who had already lost great part of its relevance with the rise of the Empire, came to an end.

One of the first societies who had left a significant impact on the creation of a “stock exchange” was the Venetian Republic. Venetian money lenders were glad to share and spread the risks connected to their high-risk high-interest debts with other investors willing to take a stake in it; later on, they started buying debt issued by other governments and to sell this primitive form of bonds to the public. By 1300 they were the undisputed market leaders in governments’ debt issues trade; trade was not settled in a specific place, instead, these back-in-the-day brokers, used to carry with them slates with all the information regarding the issues.

Although the initial form of owning companies' shares dates back to the Roman Republic, the very first IPO, and thus the first publicly traded company, dates back to 1602 with the Dutch East India Company. Anyone living within the United Province could have bought a share of the company for a price of 3000 Guilders – 1500 \$ - and the original paid up capital was almost 4 million dollars. Back at the time the Dutch were at war with the Portuguese and the Spanish who were the primary importers of spices in Europe; here the need to sail the seas looking for Eastern commodities was born. The Dutch East India Company, also known as the VOC, launched its IPO in order to raise capital for their expensive naval expeditions towards India, mainly to exploit the spices market in the home country.

The VOC was one of the first Multi-National Corporations of the world and the first to have two different types of shareholders. There were the managing and the non-managing partners whose liability for the company was dependent upon the amount they invested in it; it was a form of a limited liability company. Investors who wanted to buy or cash out their investment had just to go to the port where six different chambers were responsible for gathering the start-up capital.

The Dutch East India Company faced a sharp increase in its market and political power thanks also to the operational diversification which included the colonization of different parts of Asia. This growth lasted until it reached its peak in 1669 where an astonishing market capitalization of over 7 trillion of nowadays dollars was achieved. The Dutch East India Company was so successful that it paid out 18% dividends for over a century.

VOC's monopoly in European countries lasted until 1800 with different ups and downs caused by different wars taking place throughout Europe.

The Dutch East India Company had a relevant impact in today's organizations. Their articulated and complex business model was very peculiar at the time and has led as an example for nowadays' businesses. Moreover, it has been the first to become a multinational corporation and the first to have an organizational structure similar to actual limited partnership companies.

Together with the Dutch also the English and the French started their voyages towards East India seeking for precious commodities to sell in the home countries. It is because of the riskiness of these boat trips that these government backed companies started selling their dividend-paying shares to individual investors; shares were issued on paper and sold in coffee shops and port chambers.

Although the first form of trading was born with the Dutch East India Company in 1602, the first stock exchange was settled in Antwerp, Belgium, over a century before. Ever after the stock

exchanges faced a steady growth over next two hundred years and, until XVII century, what was traded here was anything but the actual stock. In these early forms of trading spots what was traded was the government affairs, single-investors debt and businesses.

With the development of stocks' trade of India Companies, people started going crazy over the incredibly high returns they could have got from investing in them. This came along with the fact that nobody really knew the importance of these exchange places and the fact that there was absolutely no regulation. This factors combined led to the overnight birth of stock ventures which could quickly raise thousands of pounds for new ventures and, because of the inexistent regulation, it was impossible to spot legitimate from illegitimate companies. All of which finally led to the formation of a bubble that quickly burst and pushed the English government to banish trading stocks until 1825.

Despite the official ban to trade stock, the London Stock Exchange was born in 1801 but, because of the limits imposed, there was an extremely low level of exchange.

The creation of the New York Stock Exchange had been a boom because it started trading stock since the first day. Although it had been the most powerful stock exchange in the USA from the very beginning, the title of first Stock Exchange in the US goes to Philadelphia.

II.I Financial Markets and Main Financial Crisis of 20th Century

While 19th century has been the time period over which the stock exchange quickly developed on a global scale, it was with the 20th century that it reached an enormous potential and dimension. It is evident that during 1900 the USA more than doubled its predominance in the financial sector, the same cannot be said about the other world's markets.

During 1900 many different things happened, but there is actually a big lack of information about world's historical stock market data prior to 1970. The only country for which we have plenty of information is the United States. The main reasons why this happened is because of the long recovery time stock markets took in the post-World War II period.

While world's markets were reconstructing the damages of war, USA took the opportunity to absorb 47% of the weight of the overall world' stock market, generally showing greater returns as of compared to other countries. The driving factors leading US market towards dominance in weights

and returns are the enormous investments placed on physical and human capital, all of which fostered by technological leadership and sharp demand.

On the other hand, European countries like UK and Germany, threatened by the fall of the British Empire and the devastating consequences of war, faced an enormous shrink in their size and an extremely slow growth in the afterwards.

Only a few could have predicted all the enormous changes that took place from the early 20th century to 1970 like the Bretton Woods Agreement that took place in 1944 and which signed a remarkable revolution for many countries stock' and commodities' markets.

The Bretton Woods Agreement finds its chronological roots in the 30s, during the Great Depression. During this period, many countries willing to save or at least shield their falling economies from sharp recessions, found a solution in rising their national fences against foreign trade, banning foreign-currency holdings and devaluing their own currencies to aggressively compete for exports. Needless to say, this strategy resulted in each country's own tanking and a drastic plummet in living standards and employment.

This disruption of global monetary cooperation pushed the countries, which later on signed for the Bretton Woods Agreement and created the International Monetary Fund, to ideate a system ruled by a sovereign institution aimed at controlling and ensuring exchange rate stability and barriers elimination, in order to foster foreign trade. In 1944, with this idea in mind, the representatives of the 45 signing countries met in the town of Bretton Woods (USA) and agreed on the common economic policies to be sustained in order to avoid a repetition of Great Depression and WWII.

Just about a year later, in 1945, the International Monetary Fund was created by its 29 member states, and started operations in late 1947. The IMF's memberships started to increase during the 50s and the 60s, but they were extremely slowed down by the Cold War as all Soviet countries not allowed to join.

Before the Bretton Woods Agreement every country used to weight its currency against the value of gold and this is why it is said that they followed the gold standard. With the signing of the Agreement, Dollar started being the core against which to weight all the other currencies. Each member country had, from that point on, the ability to redeem its national currency for dollars instead of gold. This is because the United States held the 75% of the global supply of gold, no other state could have backed currency replacement with their own gold.

Dollar is now the substitute of gold and, as a consequence, demand for dollar started increasing enormously thus increasing the value of dollar with respect to other currencies. The problem, which

almost 30 years later made the Bretton Woods Agreement to crash, was that the value of the dollar should have been fixed relative to gold and the other currencies. The Agreement was in fact meant to fix exchange rates by policies of each country's central bank that could increase or decrease the money supply by buying up national currency in foreign markets or just print more money in the home market.

Alone, the B-W Agreement could have not worked, that is because member countries needed the IMF in case they needed a bail out for currency valuation. The IMF received a pre-agreed amount of national currencies and gold in the case of some countries' bail outs, in the sense that they would have received an amount limited by their own contributions.

The discrepancy between the fluctuations of dollar relative to other currencies and gold led to the end of the Bretton Woods Agreement in 1971. The US were facing a period of stagflation caused by the implementation of contractionary and expansionary policies which, in turn, caused inflation on the dollar and recession in job and commodity markets. Nixon launched a plan to counterbalance the effect of stagflation by deflating the dollar relative to gold. Starting from 1944, where one dollar was worth 1/35 of an ounce of gold, with Nixon's policies one dollar was then worth 1/38 of an ounce and then 1/42 of an ounce of gold. This plan did not work-out at all since people started to rush to Fort Knox in order to redeem gold for their devalued dollars. Without price control the gold quickly reached 120\$ per ounce in the free market, putting an end to the B W Agreement, and allowing exchange rates to float again.

The 70s has been a decade with tremendous shocks in global stock markets. The oil shocks that threatened global industries were actually smoothened by the ability of countries to adjust their exchange rates to increasing prices. Besides, the IMF faced a harsh time in trying to fix the tremendous oil's price increases by using its lending instruments. From the mid 70s on, the IMF set the objective of helping the poorest countries with additional financing through the Trust Fund. This was also linked to the impressive funding that commercial banks granted to oil importing countries at the cost of exchange rates that floated overtime and which caused a global debt crisis. What commercial banks did during this period, was to cash in deposits from oil exporters and use this money to lend billions to oil importing countries at variable interest rates. When interest rates skyrocketed worldwide in 1979, developing countries were heavily indebted, and tried to adjust inflation rates to counterbalance this increase. Interest-rates soaring had an opposite effect on commodities, which faced a huge slump in prices especially in developing countries, which launched expansionary policies and enhanced exchange rates to get further financing. When debt crisis exacerbated in 1982, IMF decided to take action by launching a long program of cooperation between creditor and debtor countries.

Towards the end of the 80s and the beginning of the 90s, the IMF's memberships increased considerably thanks to the fall of Berlin's wall and the break-up of the Soviet Union. This decade has been one of intense activity for the IMF as it found itself facing the challenge of restructuring the economies of the ex-Soviet countries, trying to take them back to free market.

Another challenge came up in 1997 with the Asian financial crisis that took place in the whole Eastern Asia and which pushed all affected countries to sought the help of the IMF.

During this last decade of 20th century, IMF worked in strict contact with World Bank in order to ensure debt burdens of poor countries to be sustainable. This is how the Initiative for Heavily Indebted Poor Countries was launched so that no poor or developing country would have faced a debt it was not able to handle.

The major problem the IMF had to face was in 2007 with the crash of the American mortgage market which led to the worst global financial crisis since Great Depression.

II.II Main differences between US and EU IPO markets

In spite of the United States, where IPO market is ruled by Securities and Exchange Commission, the European IPO market is regulated by a quite articulated network of institutions whose framework is articulated in order to carefully control initial public offerings. IPO in Europe is not handled by a single regulator, it is instead overseen by a bunch of national regulators acting under European directives on financial, economic and transparency requirements. The set of 3 main directives, composed by European Investment Services Directive, Prospectus Directive and the Transparency Directive, are meant to control and ensure the presence of fairly priced and non-fraud IPOs. Besides, the Committee of European Securities Regulators works on coordinating the effective implementation of directives and on the development of common rules to be followed by every member country.

II.III Listing Requirements

Listing requirements are nationally accepted standards that private companies must meet in order to be listed on the national stock exchange. These standards are set on a quantitative and qualitative basis and differ depending upon the IPO to be launched in the primary, secondary or new markets. These general rules apply both to European and United states stock market, as they are both driven by individual stock exchange's rules.

Primary markets – on the main markets, three common requirements must be met: accounting background of the firm, capitalization, floating capitalization. IPO entrants must submit financial statements for at least 3 years preceding the listing date. The minimum capitalization of the firm generally depends on the nationally accepted standards of each country, with the exemption of Turkey, Greece, Switzerland, Netherlands and Spain, for which requirements are set on the book value of equity. The highest three capitalization standards are for Paris, Stockholm and Borsa Italiana, with the lowest requiring a capitalization of at least € 15 millions (for Stockholm). Lowest requirement is the one of the London Stock Exchange with an amount of £ 700.000 (roughly € 800.000). Last but not least, the floating requirement defines the percentage amount of the firm's equity that must be sold to the public. The standard is set to be at least 25% of the total equity with the exception of Turkey, Netherlands and Spain, and with Euronext Amsterdam being the lowest with a 15% requirement out of the total stake.

Secondary markets – these markets are characterized by the lowest listing standards. Many of the national secondary, or parallel, markets do not even have a minimum capitalization requirement, with Paris having the highest with € 15 millions. Floating requirements are quite lower than the ones of the primary market, with a generally adopted 10% stake of the company. For the track records of the company, two years prior to IPO application are needed in order to ensure the company has at least 2 years of existence.

New markets – new markets were created mostly during the 90s, they were meant to address specific issues of newly created firms or organizations involved in the development of new product, processes or means of transport that operated in innovative sectors which required high

technological innovations. Basically, it was meant for new companies involved in all sorts of innovations in new or existing sectors and which needed new capital to operate effectively.

Listing requirements in new markets are usually not based on capitalization that, being the firm young and seeking capital, is normally low. Standards are instead set on governance and disclosure and require periodical audits on financial statements, but it is true that, in general, a minimum book value of equity to be issued to investors should total an amount comprised with one and five millions.

Floating requirement is set to be at least of 20% for the majority of markets, while for Nuovo Mercato in Italy is set to 30%.

Being an investment in the New Market quite risky considering the youth and the innovative sectors of the firms involved, a protection mechanism is set in order to protect shareholders from potential adverse selection that can take place during pre-IPO phase. This mechanism is known as Lock-up period, which is a period within which owners and managers owning larger stakes of the company are prohibited from selling their shares. Lock-in periods usually last from 6 months until two years depending upon the exchange's rules, and comprise 80 to 100% of the shares.

II.IV Borsa Italiana

Borsa Italiana is one of the largest, oldest and most liquid stock exchanges across Europe. It was born in 1998 from the privatization of stock exchanges and, since 2007, it is part of the London Stock Exchange Holding, holding 100% of Borsa Italiana S.p.A.

Borsa Italiana operates in 4 different markets: Stock market, ETP market, Bond market, market for Derivatives.

Italian Stock market is one of the Europe's most liquid markets and it is divided into 4 sub-markets comprising different types of firms:

MTA – Mercato Telematico Azionario – it is involved in the trading of high-end stocks, convertible bonds, call & put options and warrants. Within MTA there is a segment called STAR, dedicated to those firms who address specific requirement of excellence like liquidity, transparency and corporate governance.

AIM Italia – it is the Multilateral Trading Facility dedicated to small and medium enterprises who have sound growth objectives.

MIV – It is the market for the Investment Vehicles and it is regulated in order to offer liquidity, visibility and capital to investment vehicles.

Exchange Traded Products market is composed of ETFplus, the segment dedicated to the daily exchange of ETFs, ETCs, ETNs and open funds.

The Bond market and Fixed Income is divided into:

MOT – Mercato Telematico delle Obbligazioni – born in 1994, it is the only regulated Italian Bond market

ExtraMOT – it is the multilateral trading system for obligations, born to allow investors and operators to enlarge the scale of products available

ExtraMOT Pro – it is the professional segment of ExtraMOT, born to offer to SME a quick and easy access to capital markets

SeDex – born in 2004, it is the market for the Certificates and Covered Warrants trading (securitized Derivatives)

Derivatives' Market is divided into:

IDEM – one of the largest derivatives' markets in Europe, exchanging over 150.000 contracts every day, for a total value of € 3.4 billions daily

IDEX – energy derivatives market

AGREX – it is the market for wheat derivatives.

2. DBA Group

DBA Group is the parent of a group of companies located throughout Italy and Eastern Europe. Its areas of operations space between software platforms development, Project Management and Architecture & Engineering.

It has set an outstandingly clear mission: “To apply creativity, intelligence and the flexibility of made in Italy in the offering and development of Architecture & Engineering, Program Project and Asset Management, Process Automation and Information & Communication Technology services, in the infrastructure and network sector, in order to ensure the clients’ goals achievement and to place ourselves as market Leaders in the provision of high added value products and services”; its vision reflects how working mindset is set: “We take care of technological innovation, of telematics and of digital future applied to infrastructures’ lifecycle in order to increment productivity and to enhance our clients’, and their target markets’, Projects efficiency and safety”.

DBA has clear plans for its future and knows the pattern to follow in order to reach its growth and expansionary objectives. First of all, its Board of Directors, knew it needed a capital injection in order to start the expansionary pattern headed to the “Silk Route”, so what they did was to sell a portion of their equity on the Italian Stock market for small and medium enterprises AIM, with a process called IPO.

It officially launched its IPO on December 2017.

I. Description of firm’s history

DBA Group has recently celebrated its 25 years of existence. Born in 1991, it started out as an office of Engineering and Architecture from the ideas of the four brothers Francesco, Stefano, Raffaele and Daniele De Bettin with the name of “De Bettin e Associati”. Just two years later, in 1993, the office transforms into an Engineering company under the name of DBA Progetti SpA, and DBA Group was born.

In 1998 the internationalization begins with a joint venture involving numerous EU and non-EU countries like Spain, Turkey, Portugal, Morocco, Greece, Mexico and Romania. Together with the internationalization process, DBA Group sought the opportunities to explore new markets and, as such, a new subsidiary operating in the ICT sector was created in 2005. With the name of DBA Lab SpA, its main objective was the support to the engineering operations. One year later, with the goal to strategically diversify its operational scope, the Board of Directors created DBA Proekt OOO, whose headquarters are located in Saint Petersburg.

In 2011, in order to consolidate the numerous subsidiaries, DBA Group Srl is created and, in order to foster growth and spread out part of shareholders’ risks, a new strategic partner was invited to the Board, the Fondo Italiano di Investimento SGR SpA.

Thanks to the various projects related to technical and technological innovation, and thanks to a sound growth and expansionary project, DBA Group gets selected among the 30 Italian firms taking part to Borsa Italiana's ELITE project. ELITE is an international integrated-services platform created to support a selected group of companies aiming to grow internationally. Through an articulated three-step process, ELITE helps these companies in the development of needs-tailored networks, in capital raising for growth and helps internationalization through an organizational and cultural transition. Two years later, in 2014, DBA Group is awarded with the certificate "ELITE" and finishes the training process for SME's growth and support.

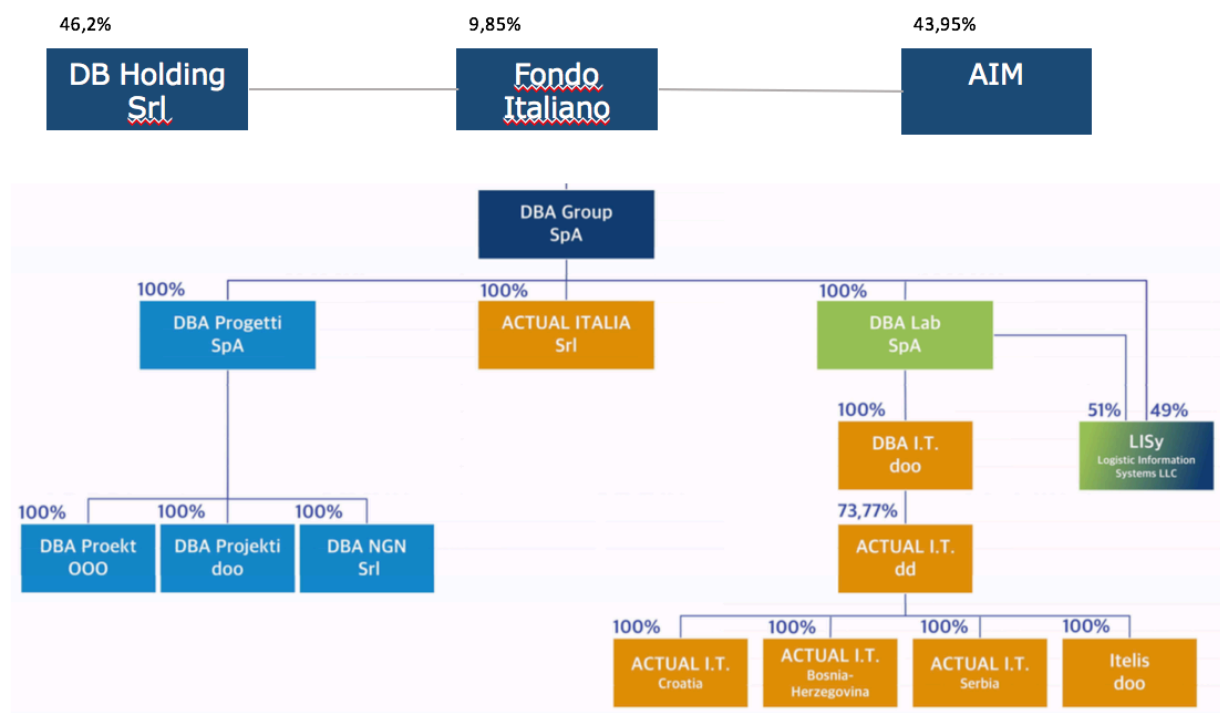
Between 2015 and 2017, DBA Group acquires Actual IT and ITTELIS, two Slovenian company operating in the software development sector, with the aim of strengthening its position in the east European region and of acquiring the know how in the management of ERP and SAP systems.

Finally, on December 2017 DBA Group launches its initial public offer on AIM, selling its stock at a price per share of 4€, issuing € 20 millions worth of shares. With its listing, DBA group' shareholders wanted to liquidate part of their holdings, especially the large position of Fondo Italiano di Investimento.

II. Firm's organizational structure

DBA Group, composed of three operating companies, as of today, is owned by the DB Holding S.r.l. for 46,2% of total equity, Fondo Italiano di Investimento for 9,85% and by the market which altogether owns 43,95% of DBA Group's total shares. This is the ownership situation after the public listing but, before the IPO, ownership was split between DB Holding and Fondo Italiano who held respectively 67,2% and 32,8% of company's equity.

The three operating companies are DBA Progetti, DBA Lab and ACTUAL, each of them is controlled by the Board of Directors and are owned by the 2 main shareholders above said together with the market. Each one of these firms, in turn, controls a number of subsidiaries located throughout Eastern Europe, in a typical hierarchical structure.



Source: DBA Group

DBA Progetti S.p.A. is an Architecture, Engineering and Project Management company involved in the development of technical, professional and management services tailor-made for the creation and management of infrastructures.

Since 2006, DBA Progetti operates in Russia through its subsidiary DBA Proekt OOO and it started working in Montenegro in 2014, through DBA Projekti. In 2012 the Group fosters its presence in the Italian market for electrical installations, fire-fighting systems and ventilation mechanisms for road and railroad infrastructures by acquiring the company IGM Engineering Srl, located in Genova. Thanks to this strategic penetration in such said markets through IGM Engineering acquisition, DBA Group conglomerates the know how acquired from IGM to the Transport & Logistic sector.

While DBA Progetti is involved in the delivering of services mainly applied for Architectural and Engineering projects, DBA Lab is strictly involved in the development of software platforms for Infrastructure management, Process Automation and Asset and Lifecycle management. Moreover, it delivers audit services in Information and Communication Technologies sector by offering its support to specific-projects development.

Through DBA Lab, the Group has been able to reach one of the objectives set for the after listing, which was the acquisition of the remaining part of ACTUAL I.T. shares, the only subsidiary not totally owned. As of August 9th 2018, a final agreement on the buyout of the remaining 26,23% of minor shareholders' stake has been reached. The compensation for such equity holders has been set

to € 2,776,000, with an additional price adjustment of 200,000 €, to be paid July 15th 2019. 2,200,000 € will be paid at the operation closing, while the remaining sum will be paid by means of 12 constant instalments starting on October 31st 2018.

This operation has been defined as strategic by the Group's President Francesco De Bettin, who said that this augmented control will result in an immediate increase in the Group's value, in a simplification of the operational management and a shortening of the Group's control chain.

By acquiring the first tranche of ACTUAL in 2015, DBA Group started consolidating its presence in the sector of IT support in Maritime, Supply Chain, Oil&NonOil and ERP SAP sectors. Thanks to the increased synergy and know how gained, in 2016 ACTUAL Italia is born, a step which will led to the acquisition of ITELIS, a Slovenian IT company specialized in SAP technologies for small and medium enterprises.

III. Operations: sectors, markets, positioning

DBA Group operates through its 12 offices in Italy and 10 offices abroad, undertaking projects on a global scale such as Romania, Bulgaria, Albania, Greece, Turkey, Georgia, Armenia, Spain, Portugal, Morocco, Liberia, Angola and Mexico. While Italy is the main markets in which DBA operates, with annual revenues for 2017 amounting to 29 millions € (69%), the Balkans together with Russia and the Caucasus are areas of increasing interest for the group, which totaled 27% (11 mil €) and 4% (1,9 mil €) respectively on 2017's total revenues.

The strategic areas in which the group operates are 3: Architecture & Engineering, Project & Lifecycle Management, Information and Communications Technology. Each of these strategic areas is formed by a number of different services that the company offers and which exploit different markets across Italy and East EU.

As you can see in the picture below, for each strategic area and for each geographical region we have the respective total of earnings for 2017.

Thanks to its many subsidiaries, DBA Group operates within 6 different markets: Retail & Rebuilding, Telco & Media, Transport & Logistics, Oil & Gas, Energy, Industrial.

Retail & Rebuilding – this sector has been exploited for more than 25 years by the Group, it accounts for more than 15% of Group's total revenues amounting to € 6,1 millions. The market is subdivided into three branches:

1. **ARCHITECTURE & MASTERPLAN** – involved in the delivery of services for design of structural and engineering planning for buildings. Its main clients are the City Life residential park in Milan; the Venice Port Authority for the auditorium, car parking and hotel; the Sokar tower in Baku, Azerbaijan, and the Business tower in Tatarstan, Russia.
2. **REAL ESTATE** – involved in the restructuring and restyling of buildings; its main clients are UNICREDIT in Milan, BNL in Venice for headquarters' restructuring, Vodafone in Rome and ENEL's offices restructuring.
3. **RETAIL** – this branch is busy in the restyling of offices and buildings throughout Italy; DBA's main clients are MPS, BNL for which DBA fostered the renovation of more than 300 offices, COIN and VODAFONE with restyling of sales points and the construction of a new McDonald's.

Telco & Media – this is the sector of telecommunications and media communications; DBA Group, besides from providing technical and technological support, is involved in the development and construction of many networks. This is the sector which accounts for the largest part of revenues, amounting to 42% - about 18 millions € - of total sales.

Telco & Media is, in turn, divided into two main categories:

1. **IT INFRASTRUCTURE** - The largest clients in the construction of data centers, networks, data farms and disaster recoveries are WIND, TIM, BNL and ETRA.
2. **TELECOMMUNICATIONS** – the key tasks DBA performs in the telecommunication sector are the implementation of mobile network platforms for Vodafone, Telecom, H3G and wind; while for the network infrastructure implementation and the optic-fiber network realization, the Group works for Fastweb, Metroweb and Huawei.

Transport & Logistics – DBA operates in this sector by offering technical and technological know-how for the management and control of transport's infrastructures like ports and highways. They do so by developing innovative software solutions that work as a single platform through which the people in charge control every aspect of transport. This sector accounts for 6,5 million € for 2017's revenues, reaching 15% of the total.

T&L operates on the development of softwares for the physical control of transport infrastructures; the biggest projects DBA undertook for highway management are the ones for ANAS and SPEA in

Italy, with the development of plants along roads and tunnels, the development of a control platform and toll system for the Great Ring Road in Moscow, the creation of a managing software for the “Leonardo da Vinci” airport in Rome. While these large projects turned out to be successful because of the specificity with which they were created, the software for the management of the players of ports has been a boom of applications for many different players across Italy and East Europe. In fact, “PORT-LINE” has been adopted by 3 Italian ports and the ports of Koper, Ploce and Baku. The characteristic of this software is that it is composed of many different modules that are selected by each port authority depending upon their specific needs.

Oil & Gas – the sector is involved in the oil storage and the network of gas stations. It brought to DBA almost 8 million € in 2017 and it is considered one of the sectors that will face a sharp increase in demand in the coming years.

The sector has 2 branches within which DBA operates, the first one is the renewing and restyling of gas stations, and the other is the implementation of GL+ software for gas stations’ management.

1. **RETAIL OIL** – within the retail sector the Group has worked on the development of 75 newly designed gas stations, and on the renewing of over 6000 already-existing stations. It has worked together with ENI, API, TotalErg and Autogrill.
2. **GL+ SUPPORTED** – on this sector’ side, DBA Lab has developed a software which is able to connect all the digital mechanisms of a gas station by improving speed and safety. GL+ serves more than 350 gas stations between Bosnia, Serbia, Slovenia and Croatia.

Energy – in this market, DBA Group operates in the building and infrastructure management, in the measurement, analysis, optimization and prediction of energy consumption. It is the smallest market within which the company operates, it accounts for only 0,6% of total revenues; its two branches are:

1. **POWER & ENERGY** – mainly active in Italy with the creation of electrical power substations, underground power cables and cold ironing electrical plants.
2. **ENERGY EFFICIENCY** – also this branch is active in Italy only, the main jobs they perform are energy audits and the measurement & monitoring of energy consumption.

Industrial – the industrial sector, accounting for 3,9 million € - 9% of total sales – is a small market for the Group in which they operate mainly as services providers for external companies. They operate with maintenance services for data centers, information systems and servers, besides, they also carry out partnerships and foster technological outsourcing for other firms.

The products through which the Group has been able to exploit some of these markets had been all developed by DBA Lab and its subsidiaries. These products are all software platforms and, altogether, form a great portion of the group's intangible assets. The software platforms are 5:

- **DBA PROJECT +** is a modular software platform whose aim is the monitoring of Technological Assets' lifecycle and functional control of projects with relative orders, all of which can be managed via multichannel, either by mobiles or web portals.
- **POSIC** is a safety management system that operates on 3 levels. The first level is the Business Process Management, which translates the safety-handling processes into IT procedures aligned with ruling norms. The second level is the Document Management System, applied for the gathering and storage of data for a more fluent content sharing. The last one is the Content Management System, applied for the automatic production of documents and certifications.
- **PORT LINE** is a software platform which enables all the port operators to communicate via a single device. It allows the port authorities to better control the shipments arriving to the port by cutting costs and timing through a more efficient management of all the players connected through the software.
- **GL+** aimed at the control of gas stations through a single platform which is able to connect all the different devices of any gas station.
- **DSS-LINE** is another software platform for port activities management. Specifically, this software has been designed for Bari and Cagliari, in order to offer them a ICT solution that can enable an efficient flow of different means of transport and people working in ports.

IV. DBA Group' Strategies

DBA Group plans on consolidating its position for Architectural, Engineering, Project & Asset management services both in the home and in the host countries in which it operates. This objective has the concurrently purpose of offering services to support the maintenance and usage management

of infrastructures, thanks also to the creation of software platforms customized for processes automation.

This dual purpose serves the Group to strengthen its positioning as “partners” to its clients, in a way to ensure a more consistent flow of revenues by mixing non recurrent sales (the ones coming from one-shot projects) and recurrent revenues (more than one year, like for software’ maintenance).

In order to score the goals the group set itself, the management team identified some key strategic actions to undertake.

1. First of all, the increment and stabilization of endogenous growth in key markets by offering already-existing and new clients up-selling services and products, all within the 3 strategic areas.
2. The fostering of exogenous growth through acquisitions of target-firms that offer services relative to DBA’s strategic areas
3. Homogenization of services’ supply in Italian and Balkans’ markets
4. Development and implementation of DSS-Line software
5. Stepping up with innovation projects that are directly funded by UE like the Connecting Europe Facility as well as financial applications to support products and services.

To this operational actions to undertake in order to follow the strategic plan, a series of strategic internal decisions will affect the organic structure of the Group. This actions are the reorganizations of operating structures, the integration of the subsidiary Actual IT d.d. and the enforcement of a more stringent management structure of the group.

IV.I Post-IPO Internal Strategies

In order to fulfill the growth path the Board has set, the use of proceeds will be distributed among 4 different subjects:

15% will serve to enrich the management team;

15% will be spent in R&D - 4 new projects in Italy for Enel X for Smart Mobility, Italtel, Open Fiber and Asmara Project for Miur

20% in the internationalization process by consolidating Group’s presence in Iran through local partnerships and in Azerbaijan through auditing, analysis, planning and construction

50% will serve for the strategic acquisitions of small strategic competitors and others to foster DBA's presence in the new silk route.

IV.II Plans for the future: “The New Silk Route”

Back in 2013, Chinese president Xi Jinping launched the “Belt and Road initiative”, an economic stimulating plan to build a new silk route by creating new infrastructures for transport and logistics. The original silk route had been started by Han dynasty, about 2 centuries A.D., and its objective was the creation of a link between the Roman and the Chinese empires.

Now, almost 2000 years after, a new project has been launched for which more than 1 trillion \$ have been provided, more than 65 countries are taking play in this big plan which will result in the creation of 200,000 new jobs. Even though the new silk route twists along 3 pathways that are the soil, the sea and the Pole, the most consistent way of transport remains the sea.

The new silk route is meant to connect all the most important and strategic commercial and distribution hubs of the Eurasia' supply chain. The soil pathway will go, through highways, from the Pacific Ocean to the North Sea, more precisely, it will start from Xi'an and go all the way to Lanzhou (northern China), going towards Urumqi and passing by Khorgos, at the frontier with Kazakhstan. From Khorgos, it will head towards South-West, in central Asia, touching Iran, Iraq, Syria and arriving to the Bosphorus. From Istanbul, the new silk route will cross the Balkans and deviate north through Germany until the final stop in Rotterdam. A last link will connect Rotterdam to Venice, two of the main sea-transportation hubs. This will not be a single road connecting all the dots, it will instead be a deep network of infrastructures like highways and railroads that will allow an efficient flow of goods long the supply chain.

The maritime route will start from Quanzhou, close to the island of Taiwan, and will then continue along the most important Chinese slipways (from Hong Kong to Canton) touching the isle of Hainan and heading towards the strait of Malacca, Singapore and Kuala Lumpur, arriving in Sri Lanka and stopping in Calcutta. From India, the silk route will arrive in Europe by passing by Kenya and through the Red Sea and Suez Canal to finally arrive in the Mediterranean Sea with ending slipway of Atene and stopping in Venice.

Together with this new incredible commercial pathway that China is fostering, there are about 500 billions \$ that many more countries like Russia, India, Iran and Indonesia are willing to invest in such a great infrastructures' complex that has the potential to bring about a new import/export horizon.

It is with these huge capital investments that DBA Group is seeking its fortune. The December's IPO was functional in raising the money needed to invest in strategic acquisitions to pursue this path. It is thanks to the Slovenian subsidiaries ACTUAL and Itelis that DBA Group has been able to score some of its first tries in the development of a port software for Baku's port in Azerbaijan, and a software platform for the management of the Great Ring road in Moscow. PORT-LINE (as mentioned above) is a software suite that can integrate all the processes carried out inside the port, it enables a quick convergence of all the activities translated in a digital outlook, resulting in a sharp cut of processing times from 72 to 6 hours. Besides, it is able to ease the commercial flows to and from Russia, Turkey, Georgia, Kazakhstan, Caspian and Black Sea. Plus, by installing a module of the PORT-LINE suite, it will be possible to connect all the Eurasian players with a single digital window.

V. Firm's pre-IPO Capital Structure

During the three years preceding DBA' stock listing on AIM market, the Group has pursued a campaign to acquire 3 strategic partners, besides it has fostered numerous projects which required additional financing. In this section we will see how DBA managed to carry out its operational and expansionary path through the use of Debt and Equity.

V.I Debt vs Equity in Perfect Capital Markets

Perfect capital markets are defined by 3 main conditions:

- . All traders have equal information regarding securities' prices, and none of them can affect their prices; no brokerage and transaction fees, no taxes that friction the market
- . Investors are considered rational
- . Financing options does not alter project's outcome – as if there was a single financing instrument

The capital structure of a firm is the weight that debt and equity together with other sources of financing are outstanding. Typically, a company finances its operations or its growth through equity or through a combination of debt and equity. There is no optimal capital structure that can be generalized for each and every company, the decision depends on a great number of factors for which their risk must be assessed in order to define which way is more convenient to pursue.

In a perfect market, when a firm decides to finance a project with equity, it leaves the possible investors with the decision to undertake such investment or go elsewhere. This decision depends on the risk/reward tradeoff he is willing to take; the risks will affect both the cost and the potential cash flows of the project. In order to evaluate the cost of financing (the cost of equity) the risk-free interest rate must firstly be taken into account. - The risk-free interest rate is equal to the yield an investor could obtain by investing in a AAA government bond; when investors buy assets, they face returns that they expect to gain over a time period. Risk is seen as the factor causing differences between the actual and the expected returns, top quality government bonds usually have equal expected and actual returns, hence are considered risk-free. – In the second place, an investor will focus on the assessment connected to the factor-specific risks that characterize the project, and will demand such percentage of risk as a risk premium he wants to have in order to invest in the project. Once the cost of equity has been settled, the definition of possible scenarios with relative outcomes will be drawn in order to define the expected cash flow that the project is expected to generate within the set timeframe. Said cash flows will then be discounted with the cost of capital composed of the market risk premium and the risk-free interest rate. When a firm finances its operations with equity only, its equity is called Unlevered Equity.

When, instead, a firm decides to raise funds via a combination of equity and debt, it is said to be Levered Equity. In this situation, debt holders are said to have seniority over stockholders, which means that the firm's creditors will be the first even in the case of company's default. The cost of owning debt instead will be composed by the interest rate at which the debt has been underwritten which will comprise the risks of the underlying project. So what is best between the two? Two Professors, in the second part of 20th century, went against the common beliefs and argued that, in perfect capital markets with no asymmetries, no taxes, and no default's costs, the value of the company does not depend on its capital structure. The principle constituting their theorem was that, the firm's total cash flow is still equal to the value of project's cash flow, and that equity cash flow together with debt cash flow must amount to the project's cash flow because of the Law of One Price. Until their theorem, researchers believed that the value of levered equity would have exceeded the value of unlevered equity. The pitfall to this reasoning was that they believed they could discount the

unlevered and levered equity at the same cost of capital, not taking into consideration that the presence of leverage increased the overall risk of the project.

V.II Debt vs Equity in Real Markets

In the real world there are a number of factors which lead to imperfect capital markets.

One of the first issues is the problem of asymmetric information, which means that investors do not have all the same information regarding securities. Asymmetric information in capital markets translates into two main asymmetries: Adverse Selection and Moral Hazard.

Adverse selection occurs in the period before a contract has been approved. What happens is that the lender does not know with certainty what and how the borrower is going to manage the money with conscience.

Moral hazard arises instead once the borrower has received the money, since the borrower might tend to make riskier decisions because of the limited responsibility with regards to the financing. With increases in the interest rates, there is an increased possibility of the borrower to undertake projects with higher risk levels pushed by the hope of higher returns.

By supposing that the lender has decided to diversify its investment in a few different firms, and bearing in mind that because of asymmetric information the latter will demand higher risk premiums to cover himself from the risk of bad behaviors, even though the firm was a “good” firm.

Another key factor characterizing imperfect markets is the risk of default of the borrower. Even though there are financial instruments that back the investment with collaterals, the lender in most cases does not fully recover the money lent.

Even though the previously discussed factors negatively affect the capital markets, the big imperfection is taxes. Every company must pay taxes on every euro of income they get and, since taxes are deducted after the interest expense has been paid, interest to be paid reduce the amount of taxes the firm must pay.

By considering two situations in which the firm uses leverage and does not uses leverage we can see how the leveraged firm had a lower net income.

$$\text{EBIT(Lev)} = \text{EBIT(Unl)} = x; \text{ TAX} = t (\%)$$

Interest Expense(L) = i		Interest Expense(U) = 0
Income before Tax(L) = x-i	IBT(L) < IBT(U)	Income before Tax(U) = x
Taxes(L) = t*(x-i)	T(L) < T(U)	Taxes(U) = t*x
Net Income (L) = (x-i)-T(L)	NI (L) < NI (U)	Net Income (U) = x – T(U)

Debt obligation eroded the levered firm's net income and thus reduced the income available to equity holders but, on the other side, the Total cash flow available to all investors was higher given the income available to shareholders plus the interest paid to debt holders.

Even though it sounds odd, the firm which uses leverage has a greater value since it is dependent upon the total amount of financing it can raise, either by debt or equity holders. The differential amount between the cash flow available to shareholders of the Levered firm and the Unlevered one is the Interest Tax Shield, which is the additional amount a firm would have spent in taxes if it did not use debt.

V.III DBA's Debt and Equity Structure in the three years before IPO

In order to assess the strength and stability of DBA Group's capital structure, I am going to use Leverage ratios which can give precious insights about the health of company's debt and equity with respect to owners and lenders. Leverage ratios are divided between Capital structure and Coverage ratios.

The most relevant leverage ratios are 3:

1. **Equity ratio** - given by Shareholders' Equity/Total capital employed
2. **Debt ratio** - which is equal to Total Debt/Total capital employed
3. **Debt/Equity ratio**

The main coverage ratios are 4:

1. **Debt service coverage ratio** – Operating Income/Total Debt service
2. **Cash coverage ratio** – Total cash/ Total interest expense
3. **Asset coverage ratio** - ((Total assets- Intangible assets)-(Current Liabilities-Short Term debt))/Total debt obligations

The following are the key financial figures extracted from the Group's consolidated balance sheet and reclassified with the aim of simplifying the capital structure's analysis.

	2017	2016	2015	2014
Assets:	49.530.167,00	30.283.736,00	32.147.660,00	24.650.818,40
Subscribed Unpaid Capital	-	-	-	-
Fixed Assets:	13.106.462,00	8.509.091,00	8.101.685,00	5.127.750,00
Intangible	9.125.592,00	4.746.142,00	5.474.393,00	4.336.068,00
Property Plant & Equipment	3.259.388,00	2.395.321,00	2.313.081,00	196.783,00
Financial Assets	721.482,00	1.367.628,00	314.211,00	594.899,00
Current Assets	35.655.421,00	21.372.704,00	23.818.261,00	19.089.068,40
Inventory	911.514,00	1.456.239,00	1.153.990,00	1.337.333,00
Credits Receivable	21.723.599,00	15.745.426,00	18.904.169,00	15.529.889,40
Financial Assets	-	-	-	-
Cash & Equivalents	13.020.308,00	4.171.039,00	3.760.102,00	2.221.846,00
Advanced Payments & Accrued Incomes	768.284,00	401.941,00	227.714,00	434.000,00

Equity:	26.145.602,06	13.386.922,00	12.547.596,73	10.969.658,54
Shareholders' Capital	3.195.876,00	2.445.876,00	2.445.876,00	1.942.956,00
Reserves	19.356.520,06	6.919.670,00	6.943.451,73	5.673.819,00
Profit (Loss)	769.493,00	1.241.025,00	489.675,00	1.868.551,00
Minority Interests	1.319.375,00	1.013.571,00	1.056.190,00	-
Provisions for Risks	23.475,00	447.962,00	393.519,00	298.668,75
Severance fund	1.480.863,00	1.318.818,00	1.218.885,00	1.185.663,79

Debt:	23.384.566,05	16.896.815,22	19.600.061,94	13.681.162,79
Obligations	-	-	-	-
Short & Long Term Debt	11.348.462,21	4.911.197,02	8.667.208,90	5.136.378,23
Accounts Payable	6.868.813,23	6.887.781,53	6.064.665,83	4.495.643,25
Due to Subsidiaries	7.000,00	8.921,31	7.920,83	-
Tax Liabilities	1.417.136,62	1.629.757,69	1.688.393,08	2.194.075,87
Social Security Payables	1.091.841,05	1.201.691,71	1.158.047,36	855.106,98
Others	2.080.045,93	1.834.663,96	1.859.048,94	827.958,47
Accruals	571.267,00	422.802,00	154.777,00	172.000,00

Source: DBA Group

Capital structure Ratios				
	2017	2016	2015	2014
Equity Ratio	0,53	0,44	0,39	0,45
Debt Ratio	0,47	0,56	0,61	0,55
D/E	0,89	1,26	1,56	1,25

Source: DBA Group

Equity ratio: this figures highlight in what portion the firm's total assets are financed by its owners and, on the contrary, shows how much the management team decided to leverage the company.

Generally speaking, a high equity ratio is a good indicator, it shows to potential investors that the company is probably a good investment because of the high percentage of shareholders that are already investing in the company. It also shows to potential money lenders that the company is not a high-risk investment and that lending it money can be sustainable.

In DBA Group's case shows solid shareholders' capital financing, reaching the majority in 2017. It has always been about 40% of company's assets except for 2015. In 2015, in facts, the firm launched the acquisition of 77% of Actual IT and decided to finance this operation with the use of leverage. It obtained almost 3,5 million € from BNL, Intesa San Paolo, Unicredit and Cassa di Risparmio del Veneto. The average equity ratio for the years from 2014 to 2017 are satisfying considering the acquisitions carried out within such period and during the years before.

Debt ratio: similarly to equity ratio, debt ratio measures by what weight the company is financed with debt. In other words, it tells you what percentage of the company is owned by its creditors. Debt financing is usually more expensive than equity financing because of the interest payments and instalments, but a proportionate percentage of leverage can be beneficial for the business, allowing it to quickly gather funds for operations or expansions. A debt ratio of around 0,5 is considered to be acceptable and less risky since company's assets are twice as much as debt. DBA group had a higher debt ratio only in 2015 when it underwrote financing for its expansion in Slovenia.

Debt to Equity ratio: it shows the proportion of leverage the company is using, which tells us by what means the firm is raising capital by means of creditors or investors. If the ratio is 1 it means that lenders and investors own an equal part of the company. Usually, a lower D/E ratio indicates a safer and more stable business since highly leveraged company might be insolvent in case of economic downturns. In the case of DBA Group, D/E ratios for 2014-15-16 are high, but this is due to the fact that in the years before the IPO the company was owned for the majority stake by the DB Holding, controlled by De Bettin brothers and by Fondo Italiano d'Investimento. It is clear that given such a moderate shareholders' number the management board had to fall back to debt to finance its business.

The following are some figures extracted from DBA Group's financial statements and consolidated by PwC:

Key Figures for Coverage Ratios				
	2017	2016	2015	2014
Operating Income	2.106.141,00	2.905.471,29	2.452.533,52	2.460.798,88
Interest Expense & Principal	171.419,30	231.266,56	279.488,99	40.529,60
Debt Service	171.419,30	231.266,56	279.488,99	40.529,60
Total Assets	49.530.167,00	30.283.736,00	32.147.660,00	24.650.818,40
Cash	13.020.308,00	4.171.039,00	3.760.102,00	2.221.846,00
Intangible Assets	9.125.592,00	3.570.076,54	5.474.392,91	4.336.068,35
Current Liabilities	11.464.836,84	11.562.816,20	10.778.076,04	8.372.784,56
ST Debt	6.462.822,23	1.992.086,81	4.772.874,24	4.538.878,23
Total Debt Obligations	22.813.299,05	16.474.013,37	19.445.285,30	15.165.495,33

Source: DBA Group

Coverage Ratios				
	2017	2016	2015	2014
Debt-Service Coverage Ratio	12,29	12,56	8,78	60,72
Cash Coverage Ratio	75,96	18,04	13,45	54,82
Asset Coverage Ratio	1,55	1,04	1,06	1,09

Source: DBA Group

Debt-Service Coverage Ratio: it is a financial measure which tells the potential investors and creditors about the ability of the firm to repay its total debt service, composed of interest expenses on debts and principal amounts, with the firm's operating income. It is important to have a healthy debt service cover ratio for fund raising, because creditors want to know how much cash the firm is able to produce but also how much debt the company currently has, in order to assess the risk of not getting their money back.

In DBA Group's case, DSCR is very good because it is always more than one. In 2014 the company could have re-paid all its interests and principal amounts for 60 times by using the cash generated by operations. It was sharply reduced in the following years because of the acquisitions undertaken since 2015 and which implied a greater use of debt. Inasmuch, DSCR is sustainable during the all timeframe considered.

Cash Coverage Ratio: it is a conservative way of measuring the firm's ability to pay its interest expense by only using the cash it has. As we can see, the index shows the company is in a very healthy position from a creditor's standpoint, since it could pay out its interests, using cash, for more than 20

times. 2017's CCR has been particularly high due to the selloff of part of the inventory the collection of some receivables and because of the cash ins from the sale of DBA stocks.

Asset Coverage Ratio: it gauges the firm's ability to pay its liabilities by selling its assets. It is a measure of risk for investors and money lenders, it tells them whether the company could pay off its debt obligations in case of economic downturns or in case that the company has declining profits by selling their assets. Generally speaking, an ACR of 1 or more is considered healthy, but it largely depends on the industry. In DBA Group's case, we see an increase in 2017 of almost 0,5 points, this is due to the increase in receivables, cash and also because of the acquisition of Slovenian competitor ITELIS, which increased the overall Intangible and Tangible assets of the group.

V.IV DBA's Intangible Assets

DBA Group's intangible assets have always composed the largest portion of DBA's overall assets. As we can see from previous extracts of the Group's financial statements, intangible assets are always greater or equal to half of the total assets. This is due to the many acquisition that DBA has pursued over the last 10 years, which created goodwill, and also to the fact that the Group's business is deeply entrenched into software applications, and as such, all the products developed are intangible assets for the company.

Below, an extract from DBA Group's Balance Sheet with respect to Intangible Assets:

Intangible Assets			
	2017	2016	2015
Formation Expenses	11.684,9	8.151,6	18.578,2
Research & Development Costs	-	144.428,1	278.856,2
Industrial Patent Rights and Intellectual Property Usage	1.202.682,8	113.440,4	91.204,2
Concessions, Licenses, Trademarks and similar rights	26.784,9	171.997,5	13.029,0
Goodwill/Consolidation Difference	3.517.863,2	3.570.076,5	4.068.314,6
Assets under construction and Accounts	2.649.004,0	65.114,0	11.618,0
Others	1.717.572,6	672.933,4	992.792,8
TOTAL	9.125.592,3	4.746.141,5	5.474.392,9

Source: DBA Group

The following are the investments with relative proportions in Intangible assets from 2017 to 2015 (2017 – First Semester - June 30th):

Investments in Intangible Assets						
	2017	%	2016	%	2015	%
Formation Expenses	4.000,0	0,3%	4.000,0	1,0%	13.000,0	6,2%
Research & Development Costs	-	0,0%	10.000,0	2,6%	-	0,0%
Industrial Patent Rights and Intellectual Property Usage	976.000,0	64,6%	89.000,0	22,8%	96.000,0	45,7%
Concessions, Licenses, Trademarks and similar rights	-	0,0%	179.000,0	45,9%	-	0,0%
Assets under construction and Accounts	531.000,0	35,1%	53.000,0	13,6%	12.000,0	5,7%
Others	-	0,0%	55.000,0	14,1%	89.000,0	42,4%
TOTAL	1.511.000,0	100%	390.000,0	100%	210.000,0	100%

Source: DBA Group

As we can see from prospect's extracts, DBA has carried out an increasing amount of investments in intangible assets over these 3 years.

At the end of the first semester of 2017, DBA invested 1 million and a half in "Industrial Patents and Intellectual Property Rights Usage" for 976.000€, brought forwards by Actual Italia for Mose (Venice) automation and control software, and for "Assets under construction" amounting to 531.000€ carried out by DBA Lab for R&D of projects relative to infrastructure management softwares.

At the end of 2016, DBA had carried out investments for 390.000 € in intangibles of which, the largest part, was due to "Concessions, licenses, trademarks and similar", for ERP SAP system and for new software acquisitions.

In 2015, investments in intangibles amounted to 210.000€ of which, the largest portion was allocated for Patent rights permissions to carry out daily business in ICT sector.

Goodwill – goodwill usually arises in the process of acquisition of a company. When buying a competitor, for example, goodwill represents the difference in value between the market value that the acquirer pays and the book value of the underlying company's net assets. This difference in value cannot be justified by the presence of some assets, but it can indicate the presence of a strong brand or an outstandingly skilled labor force. Let's say that we are acquiring a competitor company whose overall assets are worth 50k €, its total liabilities are worth 10k€ with resulting net assets of 40k€. Now, you decide to close the deal for 70k even though you know the company's net assets are worth only 40k€; this extra 30k€ you are spending to buy out your competitor are going to be recorded in your balance sheet as goodwill, under intangible assets.

Until 2001, goodwill was depreciated over the years resulting in a decrement of the firm's earnings, but, from 2001 on, goodwill does not affect the company's profits unless there is an impairment of its value. Impairment tests take place on a regular basis and are aimed at verifying that the identified goodwill is not greater than its fair value and, if that is the case, goodwill must be written off, resulting as an impairment expense in the income statement.

V.V Fondo Italiano di Investimento

Fondo Italiano d'Investimento is an asset management company born in 2010, divided in private equity and venture capital and owned for 43% by Cassa Depositi e Prestiti, Intesa San Paolo, MPS and some minor investors. Launched by the initiative of MEF the Italian Ministry of Economy and Finance, it was aimed for supporting the growth and development paths of small and medium enterprises.

In 2011 Fondo Italiano launches its 10th operation in the private equity sector through the acquisition of 32,8% of DBA Group' stock, with the objective of strengthening the Group's position in the foreign market and to foster its internationalization plan. In December 2017, 6 years after such said participation in group's equity, Fondo Italiano sold about 8.000.000 shares to the market, reducing its participation to 9,85%. Together with FIdI, also DB Holding, controlled by De Bettin brothers, reduced its equity ownership from 67,2% to 46,2%, leaving the remaining 43,95% stake to AIM market for capital raising purposes.

VI Brief pre-IPO Financial Statement Analysis

The following are extracts from the consolidated financial statements from 2012 to 2017, the statements have been prepared by PwC.

This is the vertical analysis of the key indicators of the Group's consolidated Income Statement. For each year, the base on which the proportion has been calculated on is Sales:

Income Statements key Margins												
	2017	%	2016	%	2015	%	2014	%	2013	%	2012	%
Sales	42.253.681	100,0%	40.951.068	100,0%	39.371.937	100,0%	23.603.857	100,0%	19.875.062	100,0%	19.369.205	100,0%
Operating Costs	40.591.704	96,1%	35.650.294	87,1%	35.313.592	89,7%	10.635.095	45,1%	10.072.320	50,7%	9.288.995	48,0%
EBITDA	1.661.977	3,9%	5.300.774	12,9%	4.058.345	10,3%	12.968.762	54,9%	9.802.742	49,3%	10.080.210	52,0%
Profits	1.009.494	2,4%	1.463.441	3,6%	682.489	1,7%	149.071	0,6%	-465.360	-2,3%	154.216	0,8%

Source: DBA Group

The following is the horizontal analysis on the key indicators of the Group's consolidated Income statement; in this case, the base working as pivot for each year's proportion is the year 2012:

Income Statement key Margins						
	2017	2016	2015	2014	2013	2012
Sales	42.253.681,0	40.951.068,0	39.371.937,0	23.603.857,0	19.875.062,0	19.369.205,0
% Increase	218,1%	211,4%	203,3%	121,9%	102,6%	100,0%
Operating Costs	40.591.704,0	35.650.294,0	35.313.592,0	10.635.095,0	10.072.320,0	9.288.995,0
% Increase	437,0%	383,8%	380,2%	114,5%	108,4%	100,0%
EBITDA	1.661.977,0	5.300.774,0	4.058.345,0	12.968.762,0	9.802.742,0	10.080.210,0
% Increase	16,5%	52,6%	40,3%	128,7%	97,2%	100,0%
Profits	1.009.494,0	1.463.441,0	682.489,0	149.071,0	-465.360,0	154.216,0
% Increase	654,6%	949,0%	442,6%	96,7%	-301,8%	100,0%

Source: DBA Group

As we can see from the two tables containing the vertical & horizontal analysis of income statements' figures, Sales has continuously been growing from 2012 until now, year after year. Sales growth has been very high during 2014 and 2015 with jumps quite irregular from one another, the astonishing 103% increase from 2012 (or 82% from 2014) is attributable to the acquisition, and to the consequent consolidation, of Slovenian competitor ACTUAL IT.

As well as sales, operating costs have more than quadrupled from 2012. This particular increase is due to the agglomeration of infra-group's costs because of the many acquisitions; in relative terms, we can see how operating costs have increased from being about the 50% of sales to reaching up the

96% in 2017. 2017's operational costs have been outstandingly high because of the high costs and fees attributable to the many parties involved in the listing process of DBA' stock in the market.

In contingency with the increase in operating costs, EBITDA margin, the first indicator of a company's ability to generate cash through operations because of the absence of non-cash items in its calculation, showed diminishing marginal returns, touching the 3,9% of total sales in 2017.

For what regards profits, they have all shown positive increases for all years but 2013 and 2014. In 2013, the loss at year end is attributable to the payment of high interests for accounts payable to suppliers and of financial interests to banks. Similarly, 2014's low profit margins are the result of high borrowing costs incurred during previous periods that were due in 2014. The same would have resulted for the consecutive years if only the group did not acquire some key companies which enlarged the sales volume and allowed for greater expenses.

The following is a reclassification of the Group's cash flows computed via the indirect method for the 3 years preceding the IPO, data have been extracted from the reclassified balance sheets and income statements (Source: DBA Group):

Cash Flow's Key Figures			
	2017	2016	2015
Cash Flow from Operations:			
Net Profit	1.009.493	1.463.441	682.490
Taxes	906.420	1.270.105	940.564
Financial Interests/(Incomes)	190.227	171.926	232.914
(Dividends)	0	0	0
Capital (Gains)/Losses	0	0	0
Amortizations	2.372.799	1.793.049	1.699.386
Provisions, write-downs, others	856.779	798.928	1.748.952
Decrease/(Increase) - Inventory, Receivables, Accrued incomes	(4.445.576)	2.958.842	(780.235)
Increase/(Decrease) - Payables, Deferred Incomes	(212.365)	630.332	429.383
Others	(3.015.104)	(1.954.060)	341.015
CF from Operations	(2.337.327)	7.132.563	5.294.469
Cash Flow from Investment:			
(Investments)/Disinvestments in Tangible Assets	(1.643.775)	(758.349)	(1.838.010)
(Investments)/Disinvestments in Intangible Assets	(4.375.386)	(390.204)	(209.851)
(Investments)/Disinvestments in Financial Assets	(331.902)	(1.053.061)	(64.615)
(Investments)/Disinvestments in Other Financial Assets	0	0	0
(Acquisitions of business units)	(711.111)	0	(5.638.759)
Sale of business units	0	0	0
CF from Investment	(7.062.174)	(2.201.614)	(7.751.235)
Cash Flow From Financial Activities:			
Increase/(Decrease) in Short Term Debt	4.479.276	(2.370.555)	(1.210.240)
New Credit Lines Opening/(Closing)	1.728.432	(1.385.456)	3.138.399
Proceeds from Issue of new Stock	12.000.000		2.100.000
(Dividends paid)	0	(764.000)	0
Others	41.064	0	0
CF from Financing Activities	18.248.772	(4.520.011)	4.028.159
Net Increase/(Decrease) of Cash Available	8.849.271	410.938	1.571.393
Cash & Cash Equivalents at Beginning of period	4.171.040	3.760.102	2.188.709
Cash & Cash Equivalents at End of period	13.020.311	4.171.040	3.760.102

The cash flow from operations shows a sound ability that the company has in generating cash from its daily business, this is true for all years except 2017 in which it was negative. In 2017, in facts, we can see how the management board decided to decrease a substantial stake of accounts payables due to suppliers, to use about a million of funds and to pay off great portions of taxes that were due from previous periods. Besides, the group registered an outstanding amount of short term accounts receivable that are still to be collected.

The cash flow from investing activities showed the negative figures during all years, meaning cash outflows to support the expansionary route to internationalize. Among the 3 years, 2015 and 2017 showed the highest investments. We can see how the operation has been financed through the use of financial leverage for the majority, with a net increase in the opening of credit lines and loans with banks for an amount of over 3 millions. These 3 millions are also one of the reasons why the management team scored an incredibly high decrease of short term debt in 2016 (CF from Financing). In any case the company financed ACTUAL acquisition and the acquisition of new technical appliances for operations with the sale of a portion of its equity for 2.100.000 €.

2016 has been the year where DBA Group repaid most of its creditors and investors. This has been a strategic move for them as they saw the opportunity to boost some of the key financials during the year before IPO by reducing the overall amount of debt and by paying out dividends to shareholders for almost 800.000€.

Finally, going back to 2017, we see how it pursued a solid acquisition strategy of softwares and platforms that are essential to its core business and that resulted in almost 4,500k € of investment. In the overall, even though 2017 has been the year with the greatest cash outflows because of a mix of variables concerning the operating part and because of an investing strategy more aggressive than conservative, the company showed the highest level of cash generated ever. This fact is attributable to the IPO, which is clearly visible in the 12.000.000 € raised by the sale of new stock, and by the use of leverage equal to a third of money raised via IPO.

3. Why shall a company list its shares in the public market?

I. IPO: Pros and Cons

The IPO – the mechanism allowing companies, and their private equity holders, to sell their stock on the public market for the first time. In this sense, IPOs work not only for capital raising for company's growth, but also to allow private equity holders to dilute their position or to sell-off their stocks from the initial amount invested. There are two main "pros" of going public: increased liquidity and more efficient access to financing. The main issue connected to the shareholders' advantage of being able to diversify their investments is that this process gradually decreases and dissipate control. This lack of agglomerated possessorship in the hands of few equity holders leads to a lower degree of control and supervision over management's decision. This can potentially lead to a price lowering that reflects the decreased ability to monitor company's trend.

Besides the previously said pros and cons, the key advantages of going public are others. Being the company' stocks available on the free market, and being the firm' strategies, decisions, results all available to investors for evaluations, there is a better alignment of the company's value to the real one, which is reflected by investors preference towards this or that company that, in turn, will drive shares' price up or down in an efficient market.

The fact that the company, after the IPO, is continuously on the radar of investors will push the management team to act at the best of their possibility and this will be true also for the firm's corporate governance in order to reach and satisfy the standards set by the market.

Thanks to the stock-market penetration, the company is now able to diversify and spread its risk because of the access to new forms of financing. Being the capital contributed by private owners, debt and publicly issued shares uncorrelated, the overall risk is spread out and diversified.

Last but not least, being listed in a public stock market gives the company a sort of reputation and recognition which can turn out to be functional both with potential future money lenders and with suppliers and others.

On the drawbacks side we have, first of all, the phenomenon of underpricing. Underpricing is a disadvantage of almost every IPO, and consists in the difference between the opening and closing price on the first day of negotiation.

Another drawback that comes along with the increased liquidity is the loss of control for the first owners.

The Greenshoe option is another factor that can offset the shareholders' benefits. It is one of the rights of the Board of directors and consists in the possibility to increase the number of shares outstanding in order to control the price fluctuation and maintain it on a certain level.

With the public listing of company' stock there is a subsequent duty to maintain a transparent communication and disclosure of fundamental news regarding the company, its results and its strategy.

Last but not least, an initial public offering brings in a bunch of new and high costs that must be incurred. These costs tend also to increase overtime when the company enlarges, the main costs connected to the IPO are auditing costs, issuing costs, financial fees, underwriter fees.

II. Costs Involved in an IPO

The magnitude of listing one companies' stocks in the market can vary substantially from one another depending on factors like offerings, organization, structure and size. The main type of costs that a firm incurs before and after an IPO are of different nature. There are direct costs which are linked to underwriters, accounting auditors, financial advisors and so on; there are long term costs will be incurred because of the reporting and disclosure requirements of financial information and the need to put in place a reorganization of the firm's organization.

The cost structure of an IPO can be divided into 2 main classes which consequently fall into other 2 classes. The first two macro cost classes are divided into the costs of Going Public and the costs of Being Public, each one of the classes has Single-shot Costs and Incremental Costs.

GOING PUBLIC: going public brings along a set of high costs that derive from the services of many different players and from the requirements that the firm must meet.

Single-Shot costs: these costs arise in the period before the IPO and are expensed as incurred and zeroed out against IPO proceeds. These costs include a 5% to 7% fees on gross proceeds as discount for the underwriter; fees concerning accounting, printing fees connected with creating the registration document and legal fees; Road show costs are very high as they involve the presence of company's management team in various cities of the country to present their firm.

Incremental Costs: Additional audit, periodic monitoring and reviewing costs, accounting advisory to respect legal requirements. There are Tax and legal organ reorganization costs, valuation reports and new articles of incorporation drafting.

BEING PUBLIC: the following are the costs deriving from the firm's presence in the stock markets.

Single-Shot Costs: these costs are connected to the need of restructuring the company by modifying key aspects and making it a public company. These costs include the ones of setting and putting in place a new financial system; the costs of documenting internal costs, the ones for a new board of directors and for a new compensation plan.

Incremental Costs: these costs, besides being incremental, are also recurring. They include the external auditing fees for accounting and legal purposes and all the staffing costs connected to the organizational restructuring.

Dealing with the incremental costs of pre and post IPO that are directly connected to new stock issuing should be deducted from equity as stated in the International Accounting Standards article 32.11 – financial Instruments; IAS 39; IAS9. Instead, costs related to the listing of shares and that are not incremental should be expensed straightforwardly in the Comprehensive statement of profit or loss.

A more delicate issue arises when we have costs that are of a mixed nature. When a costs arises because of both stock issuance and listing, it should be allocated on the rationale of their functions; when, instead, there is not a clear distinction about the expense's functionality, it is reasonable to split the allocation by weighting the proportion of issued and listed shares. Likewise, all the fees that directly arise from auditing, underwriting, legal, accountant and other fees related to professional services used, are probably related to both natures. In such case, these costs should be allocated on an equal-weight base between listing and issuing of stock.

III. Risk Analysis

When a company decides to list its stock in the market for the first time it agrees to pay a certain percentage fee to the selected underwriter. The fee that the company pays to the underwriter can be seen as a sort of insurance against IPO poor performance since the underwriter agrees to take on part of the issuer's risks. The risk that the underwriter carries on behalf of the issuer is the risk connected with buying up the issuer's shares. This buyout is imposed on all shares and each share is paid for a price which is lower than the offering price by an amount defined as a fee and agreed by the two parties, the difference between offering price and the price paid by the underwriter is known as the

underwriting spread, and constitutes a potential profit for the underwriter. Now, bearing in mind that historical data of the last 20 years showed that about only 30% of IPOs had closing prices in the first day that were lower or equal to the offering price, thus implying that the first day of trading showed higher prices than the initial one. Apparently, underwriters use the information they collect during the book-building phase to underprice the IPO and consequently reducing their risk-position because of potential losses.

Besides underpricing, underwriters use another instrument to limit their exposure, this instrument is the greenshoe or over-allotment option. This particular type of option grants the underwriter the right to issue 15% more stock of the original stake at the offer price. So what the underwriter does is to allocate the total number of shares and options in the market at the offering price in a way that it is expected to sell the total allotment and to short-sell the 15% greenshoe stake. Now, if the IPO proves to perform successfully, the underwriter covers its short position by exercising the option; if the IPO performs poorly, the underwriter repurchases the greenshoe allotment to cover from cover the short position and to support the price.

In the case of DBA Group, the company agreed on an overallotment option which was exercised in January by the Global Coordinator for a total amount of 714.000 shares owned by DB Holding and sold for offering price of 4€.

The investment in DBA Group' shares and warrants must be considered as an allotment for an expert investor because of the higher average risk connected to this business profile.

Risks connected to trading in AIM: the market for small and medium enterprises on which shares and warrants have been listed is a market that involves small businesses with high growth potential to which a greater risk level is connected with respect to higher capitalization markets. Companies listed on this market constitute only a limited pool of firms, factor that brings about a number of connected risks like the limited guarantee about future cash flows generated by the business, its liquidity and its success within the relative markets and, besides, Consob and Borsa Italiana did not verify and approved di Admission Document. AIM Italy is not a regulated market and thus the companies listed in this market do not have to respect the requirements that greater-capitalization companies have to guarantee in larger markets, with particular regards to the corporate governance.

Risks connected to limited market liquidity and to price volatility of financial instruments: issuer's financial instruments are not listed on a regulated financial market and, even if they are traded in AIM Italy on a continuous basis, it is not possible to guarantee a liquid market for such said financial instruments. Thus, liquidity shortages may arise independently from the firm's operational

trends because of a mismatch between the shares' sale and a buying counterparts, with consequent price fluctuations. Price fluctuations arise from a number of factors that are not under direct control of the issuer. The difference between issuing price and over-time price might result from: market liquidity, discrepancies between firm's effective and results forecasted by investors, changes in analysts' recommendations and or simply changes in macroeconomic factors.

Risks connected to the non-competitiveness of the issuer: DBA Group is controlled by DB Holding and Fondo Italiano d'Investimento and is, as such, non-competitive. In the case of integral private placement, DB Holding will keep a participation and will take on the whole position of the warrants. Inasmuch, DB Holding will have a key role in the meetings' deliberations.

Risks connected to Warrants and to Convertible Shares: warrants are given on a free basis to investors in ordinary shares, on a ratio of one every 3 shares and to DBA's employees reaching a maximum number of 300.000 warrants. Warrant underwriters will have the possibility to switch their convertible shares into warrants on a one-to-one ratio. All the warrants' and convertible shares' owners can liquidate their position in the market; both financial instruments might lack of the sufficient liquidity because of the absence of adequate counterparts.

Risks connected to the stabilization activities: the Global Coordinator, from the first day of trading until the following 30 days, has the ability to stabilize a market price greater than the one that the market would otherwise produce. There is no assurance that this activity will produce the expected outcome or that it will be stopped.

Risks connected to temporary commitments of shares' inalienability: there is the possibility that, at the end of the pre-agreed lock-up period, the sale of issuer' shares might cause fluctuations in the trading price.

Risks connected to Price Adjustment Share: it has been settle to convert a total number of shares of 10.000.000 in this way:

- FII' shares will be converted in PAS on a one-to-one basis by multiplying the total equity holdings by 1.500.000
- DB Holding' share will be converted in PAS under the difference of 1.500.000 and the number of PA of FII.

PAS represent a mechanism that allows the issuer to cover its position with a potential economic benefit for DB Holding and FII in the case group's EBITD does not reach a predetermined level. In the case of failing to reach the profitability goal at December 31st 2018, FII will not have the ability to use its PAS to benefit from it. Besides, PAS grants to its owners voting right, in this sense, PAS will not be traded or exchanged on AIM.

Risk connected to the effective number of common stock that have been issued and listed: in the case that demand for common stock in the second tranche of trading will exceed the total amount of 4.950.000, shares will be allocated under the allotment criterion.

IV. Considerations to take before going public

There are a great number of considerations to take before deciding to go public, these considerations space between areas of different nature.

The issues concerned with accounting for the IPO involve the auditing of financial statements which must respect the standards set by the regulator. AIM market is quite soft on the rules to be respected by firms listing their stocks since they are all small and medium sized enterprises but, in any case, company's financial statements must be consolidated for the group and by respecting the IAS. IAS require particular attention with regards to the measurement of statements' figures and to the recognition of each figure to be classified under the right account. For what concerns recognition rules, the provisions set by the "Codice Civile" and the fiscal regime are the legislations in force. Besides, key accounting considerations are the key metrics to be respected and valuations. All these accounting norms that must be respected are ruled by the IAS and, in particular, in Italy the main issues arising from the alignment from Italian GAAP to IAS and IFRS are:

- **Balance Sheet:** IAS 16,38,37,19,32 regarding Property, Plant & Equipment, Intangible Assets, Restructuring funds, Employee benefits; IFRS 3 for businesses aggregation.
- **Income Statement:** IAS 18, 1, 36, 39 regarding criterion for revenues recognition, extraordinary incomes, losses in value, impairment and financial instruments; IFRS 2 stock options.

Another key consideration is the right choice between advisors, underwriters and analysts which will have a profound impact during the IPO process and on the strategic decisions and implementations about corporate governance, committees' board, management team, corporate documents, due diligence and much more.

Even though the above discussed factors must be accounted for when deciding to list your company's equity in a public market, one of the most challenging problems that arises is the corporate governance restructuring that constitutes a powerful signal for potential investors. Corporate governance is the mix of practices, rules and procedure that set out the "behavior" of the company, it involves and is aimed for a right balancing of all the different interests of the many company's stakeholders. A key factor in corporate governance is the need for increased internal control that aids in the restructuring of legal, fiscal and accounting procedure. Besides, being under the eye of public investors, a company must enforce a balanced compensation structure for the management team. Compensation package should be lower than prior IPO but should be fair enough to promote maximum effort by top managers and should seek the avoidance of the Principal-Agent problem in order to signal investors that businesses are being conducted under everybody's best interests. In this sense DBA decided to devolve part of the acquired funds to the enlarging of the management base and decided to recruit independent members of the BoD.

IV.I SWOT analysis on DBA's businesses

SWOT analysis is an assessment practice that is useful in the evaluation of 4 key areas in which the firm is best or worst at, and which are the opportunities and threats that surround the company. It is a helpful tool because it allows to obtain a picture of the company both from an internal and an external standpoint.

Strengths are the variables that give the firm a competitive advantage over competitors. Weaknesses, on the other side, are the factors that give the firm a disadvantage relative to its competitors. Opportunities and threats are external or internal inputs that can be exploited or avoided and that can turn a positive or negative output.

DBA' STRENGTHS: the firm has 3 main strengths, the first is the amount of cash generated through operations in combination with a solid balance sheet which prompts it towards exogenous growth. The second is that DBA has the competitive advantage of being the only firm in the market that is able to offer a 360 degrees' service combining all the three business units in which it is involved. The third one is a very expert and skilled labor force of professionals.

DBA's WEAKNESSES: first of all the company needs to strengthen its management team to support growth strategies. On the other hand, the firm is very limited in size to be competitive on a global

scale; and last but not least, there is only a relative small number of managers that can be an asset for the firm.

DBA's OPPORTUNITIES: opportunities are represented by the expansion that the firm is planning in the Eurasian route and by the growing business needs for high-technology services in the home country.

DBA's THREATS: within a number of projects there is the risk of smaller competitors willing to acquire market shares; external growth strategies may have different risks attached.

By looking at the SWOT analysis, it is important to take a look at the competitive environment.

IV.II DBA's Competitive Environment

DBA Group operates in 3 main business units: Project management, Engineering and Architecture, ICT-Software. "DBA is the only player in Italy able to offer the synergic combination of the above mentioned services for the entire lifecycle of an infrastructure" (CFO SIM Analyst).

Total IT investments in Italy have outreached 24 Billions € in 2017 and we can see that the overall branch had an interesting 2.8% over 2014 in compounded average growth rate. Specifically, the most interesting niches are and will be cloud computing and Software development services.

Table 3 – DBA Group, Italian digital enabler investments

Domestic Digital Enabler, € bn	2014	2015	2016	2017	CAGR
Customer journey	2.8	3.2	3.6	4.0	12.3
Cybersecurity	1.1	1.2	1.2	1.3	6.1
Internet of Things	1.4	1.5	1.9	2.3	17.5
Big Data - Advanced Analytics	0.6	0.6	0.7	0.9	15.1
Total	5.9	6.4	7.5	8.5	12.8

Source: CFO SIM Equity Research – Initiation of Coverage DBA Group S.p.A.

We can see a very optimistic scenario for future growth in the ICT sector, especially abroad some key geographical areas may turn out to be profitable for the group. These areas are East Europe, Asia and Middle East.

For what concerns the project management and engineering units of the group, Italian expenditure on overall engineering services has reached 2.4 billions in 2017, more than a 30% increase from 2015. There is scarce homogeneity in the market for engineering and architecture service, besides, the architecture one has shown rarely sound growth figures through external paths, more exploited have been the internal ones by consolidating and capitalizing core professionals. In terms of turnover DBA places 11th in the national boundaries.

The industry:

The two main drivers of the engineering and architecture sectors are globalization and technology. Firms operating on a global scale face an increasingly high need to be supported by engineering companies that have the skill to apply a global approach to their operations present in countries with different cultural approaches. Technology consists in the tools through which issues can be overcome in the architecture and engineering processes.

Technology is one of the industries that shows great advancement trends and for which DBA has already in place many applications for its exploitation. More specifically, the 4 branches in which DBA has an already existing position are the numerical simulation software, Internet of things, C-ITS and Artificial intelligence. The Numerical simulation systems are computational processes run by machines designed for business production management. Internet-of-Things is one of the revolutions that is becoming a more solid reality day after day, DBA has already in place and is conducting R&D for some projects related to infrastructures. C-ITS is the smart mobility systems that are becoming increasingly popular in big cities, DBA is focusing on Intelligent Transport Systems for vehicle to vehicle to infrastructure which will impact cargo transportation. Artificial intelligence is connected to big data and data mining for detailed automated analysis.

The companies on which to compare DBA Group show all a consolidated trend towards R&D outsourcing and focus on internal know-how for their client-tailored services. The main industries in which they work are the automotive, railways, ports, telecommunications and energy.

The competitive outlook: the market in which the group competes are dominated by a customer base with a logical approach to service-provider selection. In this sense, being the market characterized by low or inexistent suppliers' and substitutes' power, low barriers and low capital requirements, clients tend to choose among those firms with the most recognizable record. Consequently, the greatest force present in this arena is the buyers' power, which require high technical and professional expertise.

The following is a graph of the Porter Five Forces for DBA Group -



Source: EnVent Research

The competitive environment is dominated by a few larger companies and by many smaller firms with shorter track records but with aggressive pricing. There are no niche-specific competitors for DBA and, even though it is hard to make a comparison being the market so fragmented and characterized by high diversity level, the group is actually the 9th engineering company in Italy.

The engineering market is dominated by the larger players who are able to conduct R&D, can sustain outsourcing and have a stronger know-how. These firms are also the ones that are able to compete in foreign markets and can increase their turnovers to better consolidate and align with their expansionary strategies in the home and foreign markets.

DBA's Business Model:

The group is a pure service company which operates in consulting and software platforms development aimed at clients' issues resolution in the technical, technological and ICT areas for the entire assets' lifecycle management. Generally speaking the two macro goals the group is trying to reach are support and service solutions for infrastructures.

Through its three business units, DBA Group provides high added value services to customers that have specific needs for their infrastructure management by applying a three-factor effect: the R&D

activities, the synergy deriving from design and implementation of ICT services and the convergence of the services from the 3 business units.

Information Communication Technology:

This business unit, operated mainly by ACTUAL IT provides services primarily in the Operation stage of asset's lifecycle. Their key tasks are the installation, launch, maintenance or the outsourcing of software suites for operation and maintenance of infrastructure management. This type of business generates revenues for a number of years, in facts, besides initial price for the software suite, this business units generates revenues on a recurrent basis both for telematics platforms, for the maintenance, and for service efficiency. This is the area that creates the largest value for DBA, as the firm holds the data center through which the machines work.

The four suites that make this unit the most profitable are the ones mentioned in chapter 2: DSS-Line; Gaso-Line; Business-Line and Port-Line.

Project Management: this business unit takes the place during the “Build” stage of assets’ lifecycle, the key activities involved are the drawing of the schedule and managing of activities. This business unit, in combination with the engineering one, functions as support to maintenance and development of physical assets. Revenues generated are on a continued base, in the sense that they generate continuous streams of incomes during the Build phase. One important advantage of this branch is that it supplies continuously its services to infrastructure networks of single companies.

Architecture and Engineering: this unit is involved in the “Design” phase of the lifecycle; what is done year is a feasibility analysis of the assets, the idea generation and optimization studies. This branch works also for safety coordination in construction, task that is carried out often in collaboration with the Project Management Office.

4. Company's Valuation

All the steps that precede the day of listing are aimed at determining the most feasible and correct price to give to the stock of the issuing firm. From the initial raw valuations carried out by underwriters, who are trying to seek to be nominated as leading underwriter, with limited data, to the final valuations of nominate adviser, financial advisors and global coordinators that are improved

step by step from the due diligence process to the Pre-marketing and pricing activities that give a final idea of what the price ought to be by considering the cross-effort of internal valuation and investors' demand. Internal valuation is a key element in order to assess the right price of the firm' stock, because it considers its factors of risk, its profitability, its strategy and its capital structure. It is for this reason, as I stressed out in the "Pre-IPO, Phases and Processes" chapter, that the Industrial Plan works as a fundamental tool to understand company's profitability, long term strategy and potential sources of risk and opportunities, because it gives a detailed idea of the issuer's direction towards future routes.

The valuation approaches to use for the value determination of a company vary greatly according to many factors that characterize the firm. Having cleared this, generally, the most common valuation methods that advisors apply to value the company for an IPO are 2: Discounted Cash Flow Method and the Method of Comparable Valuation Multiples. Unfortunately, the market multiples approach results to be hard to apply to DBA group, this is because the size of its comparable companies are very different, as we are talking about firms whose revenues space between 400 millions and over 2/3 billions and whose capital structures are very different, and that the lack of close competitors and of business combinations relatable to DBA Group makes the comparison less accurate. Inasmuch, I am going to use the DCF method and the Adjusted Present Value method.

I. Discounted Free Cash Flow Valuation Model

This model is very helpful because it determines the value of the firm to all investors, both equity and debt holders. In order to evaluate company's value, we follow the formula:

$$\text{Enterprise Value (EV)} = \text{Market Value of Equity (E)} + \text{Debt (D)} - \text{Cash (C)}$$

This can be seen as the cost of acquiring the whole firm's equity by paying off its debt and taking its cash, hence as if the issuer was unlevered. Advantages of this method are the fact that it is quite easy to use since there is no need to forecast dividends, changes in debt structure and shares repurchase.

In a very similar way to how equity is calculated by computing the net present value of all dividend payouts, to estimate the company's enterprise value EV, we calculate the net present value of the firm's Free Cash Flow, which is the money available to pay all investors. First of all we have to calculate Free Cash Flow considering the projected growth for the next years' FCFs.

$$\text{FCF} = \text{EBIT} * (1 - \text{Tax rate}) + \text{Depreciation} - \text{CapEx} - \text{Increase in NWC}$$

Here, it is possible to look at net investments, difference between capital expenditure and depreciation, as the investments that the firm needs to sustain in order to support its growth. Thus, if we consider the free cash flow as,

$$\text{FCF} = \text{EBIT} * (1 - \text{Tax rate}) - \text{Net Investments} - \text{Increase in NWC}$$

The free cash flow gives us an idea of the cash the company creates before payments to creditors and investors. Now, in order to calculate the present value of firm's free cash flows we must discount them at today. In order to do so it is necessary to use the Weighted Average Cost of Capital, it is a discount rate which considers not only the cost of equity, but compounds together also the cost of debt financing. Given that cost of debt is lower than the cost of equity because of the lower risk connected to debt financing, we will have in general a WACC rate lower than the E rate. In the case the firm was unlevered, r_{wacc} would have been equal to r_E .

Before we can calculate r_{wacc} , we need first to compute r_E and r_D .

- **The cost of Equity** – in order to estimate the cost of equity I am going to use the **Capital Asset Pricing Model**. The CAPM is a very helpful tool in determining investments with similar risks and, bearing in mind that the cost of capital of an investment is the best expected return that you can find between investments with similar risks, by using CAPM and plugging in DBA's variables we can determine its cost of equity capital. The cost of capital is equal to the expected return of other assets that have a similar systematic risk, the Beta. It is the same thing but seen either from the perspective of an investor buying a company's equity and pretending the return he would otherwise get from an investment with equal risk, and the cost that the firm seeking equity financing will pay in return.

CAPM:

$$r_E = r_f + \beta * (E(R_{mkt}) - r_f)$$

Where r_f is the risk free return is the return an investor would get from investing in an asset with almost-zero risk, Treasury Bills' returns are used as proxies for the risk-free rate. Beta, as said earlier, is the measure of systematic risk surrounding the investment. It is calculated with regression analysis by calculating the slope of the regression line composed of the risk-adjusted returns of the market or index portfolio. Market return, $E(R_{mkt})$, is the annual return of the major

indexes and it is used to calculate the Market Risk premium, the difference between Market expected return and the risk-free rate. Market Risk Premium is the slope of the Security Market Line and describes the relationship between Treasury or Government yields and the market portfolio returns. It represents the theoretical compensation investors require for bearing the risk of the investment.

In our DBA case, we have: the **risk-free** rate at 1,6% on 10-year Government bonds (source EnVent Research – Bloomberg); Market Return = 14% (Source EnVent Research – Bloomberg); **Market Risk Premium** = 12,4%; **Beta** = 1,1 (Source EnVent Research – Bloomberg).

CAPM	
r_f	1,6%
β	1,1
$E(R_{mkt})$	14%
r_E	15%

Source: DBA Group

We have now determined the equity cost of capital for DBA Group.

- **The Debt Cost of Capital** – debt cost of capital is composed of the total interest payments that the firm must pay on to its creditors. Debt cost of capital can be estimated in the same way as the equity cost of capital by using the CAPM but with the exception of the use of Debt Betas. It is quite difficult though to use debt betas as companies' debts are infrequently traded between investors. Another way to estimate the debt cost of capital would be to use the internal rate of returns to estimate the yields to maturity of investors as proxies, but it would be quite as complicated. The most practical way in this example is to estimate debt cost of capital by computing an average of historical rates. We have **$r_D = 2,5\%$** .

Now given that we know r_E and r_D and given that DBA tax rate (IRES) is equal to 24% and that the company wants to hold a target capital structure **$D/(D+E) = 30\%$** , we can calculate the WACC rate. Recalling from consolidated balance sheet that Equity value for 2017 was 24,6 millions, by implementing the formula $D/(D+E)=30\%$ we get:

Capital Structure	
D/(D+E)=	0,30
E=	24,60
D=	10,54

Source: DBA Group

The formula for WACC calculation is the following:

$$r_{WACC} = (1 - \text{Tax}) * r_D * (D/(EV)) + r_E * (E/(EV))$$

WACC RATE	
Tax	24,0%
D	10,54
E	24,60
EV	35,14
r _D	2,5%
r _E	15,5%
r_{WACC}	11,4%

Source: DBA Group

Now that we have calculated the overall rate at which we will discount future free cash flows, we can proceed with the Discounted Cash flow valuation. But before, going on, it is necessary to explicitly state the long term growth of the firm, in order to calculate the Termination Value and value it as a perpetuity over the life of the company, and the Long term margin on EBITA figure. Long term growth has been estimated to be 3%, EBITA margin 14%.

The remaining data has all been extracted from company's actual and expected results and financial data.

Terminal value has been calculated as:

$$TV = (FCF_{L-T} * (1 + g_{L-T})) / (r_{WACC} - g_{L-T})$$

and then discounted. As you can see from the following extract, I calculated the overall value of DBA Group's Equity starting from its expected Free Cash Flows. The valuation is overoptimistic as,

if prices would follow the Discounted Cash Flow method, DBA' stock price would be 5,73€, opposed to the current price per share of 3,56€ and to the issuing price of 4€ per share.

DBA Group's DCF Valuation					
	2017	2018 (Exp.)	2019 (Exp.)	2020 (Exp.)	L-T
EBITDA	4,8	6,9	8,4	9,4	9,4
EBITA	3	4,9	6,1	6,9	8,2
Margin	6,9%	10,0%	11,6%	12,1%	14,0%
Taxes	-0,9	-1,3	-1,7	-1,9	-2,3
NOPAT	2,1	3,6	4,4	5	5,9
Depreciation & Amortization		2	2,3	2,5	1,2
Provisions		0,1	0,1	0,1	0,1
CFFO		5,7	6,8	7,6	7,2
Less Increase in NWC		-1,6	-0,4	-0,1	-0,3
Less CapEx		-4,6	-1,2	-1,2	-1,2
FCF		-0,5	5,2	6,3	5,7
Discounted FCF:					
rwacc	0,114				
L-T Growth	0,03				
Termination Value					69,89
Discounted FCF		-0,48	4,67	5,08	56,32
Enterprise Value (Sum)	65,59				
Net cash (2017)	1,7				
Minority Interests	-1,32				
Equity Value	65,97				
Shares Outstanding	11.500.000				
Price per Share	5,7364033				
Current Share Price	3,56				
Opening price	4				
Premium on Current price per share	62%				
Premium on Opening price per shar	70%				

Source: DBA Group

DBA Group's DCF MULTIPLES		
	2017	2018 (Exp.)
Revenues	42,6	50,3
EBITDA	4,8	6,9
EBIT	2,4	4,1
NOPAT	2,1	3,57
EV	65,59	
EV/Revenues	1,54	1,30
EV/EBITDA	13,66	9,51
EV/EBITA	27,33	16,00
P/E	31,23	18,37

Source: DBA Group

II. Adjusted Present Value Method

This is an alternative method which implies 2 separate valuations to compute the final value of the levered firm. In order to apply it we need first to calculate the value of the firm's free cash flows as if they were unlevered, and secondly we will compute the present value of the **Interest Tax Shield**.

Adjusted Present Value:

$$V_L = V_U + PV(ITS)$$

now, in order to calculate the unlevered value of the firm's free cash flows, we cannot use the WACC rate as calculated earlier, but we need the Unlevered cost of Capital r_u .

In order to calculate the unlevered cost of capital I am going to use the CAPM by using the unlevered beta β_u . Beta unlevered is equal to 0,9 (Bloomberg – EnVent Research).

Unlevered Cost of Capital:

$$R_u = r_f + \beta_u * (E(R_{mkt}) - r_f)$$

CAPM	
r_f	1,6%
β_u	0,9
$E(R_{mkt})$	14%
r_u	12,76%

Source: DBA Group

Once computed R_u , we need to use it to discount the firm's free cash flow as if it was an all-equity financed firm, resulting in V_U .

Once the unlevered value of the firm has been calculated, we will need to compute the present value of the interest tax shield.

Finally, by summing up the present values of unlevered free cash flows and of Interest Tax shield we will obtain the total value of DBA Group.

Unlevered value of DBA:

DBA's Unlevered Value					
	2017	2018 (Exp.)	2019 (Exp.)	2020 (Exp.)	L-T
EBITDA	4,8	6,9	8,4	9,4	9,4
D&A	-2	-2,3	-2,5	-1,2	0
EBIT	2,8	4,6	5,9	8,2	9,4
Income tax	-0,8	-1,2	-1,6	-2,3	-2,6
Unlevered Net Income	2,0	3,4	4,3	5,9	6,8
Depreciation	2	2,3	2,5	1,2	0
CapEx	-4,6	-1,2	-1,2	-1,2	0
Change in NWC	-1,6	-0,4	-0,1	-0,3	0
Free Cash Flow	-2,2	4,1	5,5	5,6	6,8
APV:					
Ru	12,76%				
L-T Growth	0,03				
Terminal Value	57,808				
Actualized FCF with TV		3,59	4,84	49,90	
Vu =	58,33				

Source: DBA Group

Present Value of DBA Tax Shield:

Present Value of DBA's Interest Tax Shield					
	2017	2018 (Exp.)	2019 (Exp.)	2020 (Exp.)	L-T
Interest Expense	0,5	0,3	0,2	0,2	0,2
ITS = Interest Expense * Tax Rate * RD					
ITS	0,15	0,08	0,06	0,06	0,06
TV				11,014493	
RD	2,50%				
Present Values		0,07944	0,05437825	10,536172	
PV of ITS	10,669992				

Source: DBA Group

Finally, we compute the final sum between the actualized figures of the unlevered enterprise value and the value of the Company's Interest tax shield:

DBA Group's APV Valuation	
Vu =	58,33
PV of ITS =	10,67
APV =	69,00

Source: DBA Group

As we can see, the two methods give quite similar results.

5. Requirements and Contractual players taking part in DBA Group's IPO

Italian financial markets are regulated and overseen by the “Commissione Nazionale per le Società e la Borsa”, CONSOB, created in 1974. It is an autonomous administrative authority whose activities are aimed at ensuring protection for investors, markets' transparency, markets' efficiency and to Italian financial markets' development. The activity of supervision is carried out in collaboration with the Bank of Italy and, in general, its range of activities is under the “Sistema Europeo di Vigilanza Finanziaria” (SEVIF). For what concerns IPOs, it is involved in the supervision of financial statements' disclosure, it has the authority to authorize or not information prospects of companies both before the public offerings and after.

I. Requirements to be met

A company, in order to list its shares in the public market, especially if it is the first time, hence implying an IPO, must respect and fulfill certain requirements that vary in nature.

Substantial Requirements: these type of requirements are oriented to attract the interest and the focus of investors on your company. Substantial requirements aim at having a deep drive for value creation, objective that must be reached through a clear strategy which must be closely reported within the Industrial Plan. Besides, the company should have a good competitive positioning in terms of market share, customer base and of the competitive advantage over the arena of competitors; it should have a well-balanced financial structure, in order to show potential investors that your company is not sinking in debt but it is headed towards a growth horizon, demonstrated also through solid margins. Besides, it should be clear to investors that the firm is controlled by a good management team and that there is a sound organizational structure that fosters managers to act in autonomy.

Formal Requirements: they depend on the market or the segment to which our company refers to. They concern requirements relative financial statements' certifications, to the governance, capitalization, free float etc.

More specifically, AIM market, which is the market for SMEs, is the one which has the lowest requirements because of the type of firms it deals with. During the early stages of the IPO, in terms of free float, it requires companies to have a minimum of 10% of total shares to be floating. It must have at least one certified balance sheet, which means that the company must prove at least one year of existence. The offering type is for institutional investors only, implying that no small retail investors can participate in trading and this can, and usually does, imply a lower level of liquidity. Usually for STAR and MTA segments, the documents to be presented are the information prospectus, the Industrial Plan, SCG and QMAT, within AIM segment the only document required is the Admission Document, which contains a series of relevant information about firm's margins, organizational structures, Board of Directors, type of shares, risks, operations, controlling and non-controlling interests etc. While for MTA and STAR segments the following requirements are mandatory and/or recommended, for AIM market these are non-mandatory. These non-mandatory requirements are the market capitalization, board's members, internal control committee, management board incentives and the presence of an investor relator. Besides, the issuing company must have a primary advisor, that in this case is the NomAd (Nominated Advisor) and a company's web site.

When dealing with the formal requirements that must be fulfilled during the Post listing, we face mainly requirements that deal with information disclosure. The company, in AIM segment are not required to present trimestral data, instead, they are required to disclose six-monthly financial data and yearly balance sheet. Besides, the firm is required to have a specialist that follows closely the operational and financial trends of the company and which analyses price sensitive variables.

Industrial Plan Requirements: there are three minimum requirements that the industrial plan must meet: Financial Sustainability, Coherence, Reliability.

The **Financial Sustainability** of an Industrial Plan must be considered in relative terms with respect to quality and quantity of the sources of capital that the firm has access to and is willing to use to put its strategy in action. In order to do so, it should be preferable that the cash flows generated by company's operations covered at least working capital needs and net investments deriving from maintenance and/or substitution of operating assets. On the other side, debt source of financing and risk capital acquired from IPO should be used only for growth-target investments. In this sense the industrial plan should be drawn and quantified during the pre-money phase.

Another factor that must be considered is the financing's availability; it should be set that debt financing sources must be feasible under the debt capacity of the issuer and its risk assessment.

The **Coherence** is related to the endogenous environment involved by the plan, and takes into account all those factors like carried-out strategies, action plans, hypothesis and financial forecasts. Coherence requirement is the synergy that these factors must reflect as if they were all taking place homogeneously. Strategic choice must be reflected by what is put in practice in reality which, in turn, must be backed by projections; thus, the industrial plan is considered coherent if there exist links between strategic wills, action plan & hypothesis and the financial data on which hypothesis are grounded.

Another coherence requirement regards the Action Plan that must be consistent with proposed actions' compatibility, their timing and the resources the firm has to put these intentions in practice.

Reliability, an Industrial Plan can be considered reliable if it is drawn upon inputs that are realistic and justifiable, and if expected outcomes are sufficiently feasible. The hypothesis on which the Plan grounds on must be verified with respect to some necessary conditions.

First, Plan's contents must be in line with the competitive arena in which the firm operates, especially with regards to demand and customer needs' trends, the expected changes in the supply chain and with suppliers' relations and the competitors' advantages. On the other hand, critical issues should be benchmarked against the historical track records of the company, more precisely, track records should be analyzed with respect to actual results and the results that had been forecasted for that period. Furthermore, there should be a sufficiently clear prospect regarding forecasted results, which means that expected data should be aligned at the maximum level to what is the probability of such outcomes. Those companies who base their expectations on potential new clients or potential new products' breakthroughs will have a low level of reliability. Lastly, the development of medium term financial projections should be accompanied by a sensitivity analysis with different scenarios and a what if analysis.

All the aforementioned requirements will be assessed during the Due Diligence process which will be discussed in the next chapter.

II. Disclosure Requirements

The main disclosure requirements that a firm must respect when deciding to go public, besides the fundamental financial metrics and balance sheets, is the Admission Document. The Admission

Document is required, in opposition to the prospectus, for firms undertaking an IPO on AIM who are raising capital for less than 5 millions of are selling their stock to institutional investors only, it is a document containing less info than the prospectus but still has substantial details about the company. The Admission documents encompasses the key characteristics of the company, outlining a description of the firm from the parties that carry out the key tasks of administration and control, to the type of businesses the firm operates into to the risks connected to the many aspects of the endogenous and exogenous environment. In particular, the document begins by listing and explaining the people in charge with the supervision and auditing of the firm and of the documents, the risks are subsequently taken under analysis. The risk description is very broad, it revises risks connected to the advisor and to the analysts and the risks connected to future strategies and operations. Once these broader firm's aspects are analyzed, the factors of risk linked to the IPO and to the financial instruments that are issued by the company are described.

The document then follows on by describing how activities are handled and by whom, by describing the organizational structure and the composition of the Board of Directors.

Deepening into the "Statuto" of DBA, which rules some of the procedure of the Board, shareholders, management team and their duties, there is Article 15 which rules the duties in matter of transparency requirements. This article, ruling AIM market, provides that every shareholder, in the case that its overall stock number reaches, as a result of buying or selling, goes up or under the limit of the significant shares' stake concerning voting rights, must communicate the change to the Board within prescribed time.

III. IPO Structure

General IPO Mechanism:

All the IPOs regarding large firms and thus larger public offerings are handled by a number of underwriters, in the case of smaller offerings there is just one. The lead underwriter is that firm, usually a bank, that is in charge for the preparation and outcome of the deal. The lead underwriter together with the other underwriters compose the syndicate, who is responsible for the marketing of the company's offering and helps it in fulfilling the great number of filings and requirements. For big-size companies, it is mandatory to present a document, called registration document (Documento d'Ammissione), containing all the main financial, corporate, strategic and organizational information

of the firm. This document is then sent to the commission in charge for verifying the information and, in the meanwhile, a portion of this document is sent to investors before the IPO.

Once the verification of transparency and disclosure has been passed, the company is settled to be eligible for the sale of its shares in the market. Once the approval has been received, the company must draw a final prospectus in which the important information regarding the IPO are contained. This document is drawn up only once the valuation by underwriters and analysts have carried out their valuation on the company. Valuations are usually computed either with the Discounted Cash flow method or with the method of Comparable firms/IPOs. Only when valuation is over, the final prospectus can be drawn to contain the total number of shares to be issued together with the offering price.

Once the aforementioned step are over, the analysts try to estimate the potential demand from the market, the roadshow begins. During roadshow, senior managers and underwriters travel around the country to promote and advertise their company and explaining their business. During roadshows what happens is that customers, which usually are large or institutional investors, manifest and quantify their willingness to purchase the company shares to underwriters. Even though these wills are nonbinding, the underwriter gathers the aggregate demand and adjusts the issuing price to the expected demand. This process is very common and is called book building.

When dealing with small capitalization companies, the IPO process is slightly different.

It begins with preparation activities before the firm is listed, it is due to the company to take care of this part of the process, in facts it must select the Nominated Adviser and the team of consultants and advisers, it must start the due diligence under the supervision of the Nomad with whom, during the same period, it must draw up the equity story and define an investors relation strategy. Once the preliminary procedures have been carried out, within 12 weeks more or less, it must verify the issues that may arise during the due diligence process (which is still active), it must draw the Admission Document and share the initial valuations of the analysts. 6 weeks prior IPO, due diligence process should be terminated together with all the documents necessary for the listing. The road show starts and, as the top management travels the country, it must communicate the IPO date (about 10 days before). 1 week before IPO, the admission documents must be presented to investors together with the listing requests.

DBA's IPO:

DBA's IPO, listed on AIM has been structured in two separate offers. The first offer, which constitutes the initial public offering, saw the allotment of 3.000.000 new shares at an offering price of 4€ per share, with the objective of raising capital of 12.000.000 million €.

The secondary offer consisted in 2.000.000 existing shares that were owned by Fondo Italiano d'Investimento as agreed on previous contracts, in order to give the FII the ability to cash in part of its position within the group. It received 8.000.000 million € and reduce its overall stake from 32.8% to 9.9%.

New shareholders obtained, for every 3 common stocks purchased, a free warrant. A warrant is very similar to an option, it gives its holder the right but not the obligation to buy an underlying security, in this case DBA's equity shares, at a given quantity, price and future time. The difference between an option and a warrant is that options are instruments of the belonging stock exchange, while warrants are equity instruments of an issuing company. All warrants have predetermined expiry date and prices, DBA's warrants are going to expire in January 2019 and have a strike price, the predefined price, of 10% more than the offering price for each period.

Besides, roughly two months after the IPO, DBA gave a free allotment of 300.000 free warrants to its employee, with a ratio of 1-to-1 per common stock. In the end, DBA has 2.216.000 warrants outstanding.

A form of protection for new shareholders was introduced with the IPO, a EBITDA target to be reached was set at 6 million €, with a floor of 4.8, for 2018. In the case that this threshold is not met, DB Holding will cancel the totality of Price Adjustment Shares amounting to 1.500.000 shares, otherwise the total PAS will be exercised and converted into common shares if 2018's EBITDA \geq 6 million €.

More specifically, from the "Statuto" of the company, DBA Price Adjustment Shares will be converted into ordinary shares carrying voting and dividends rights with some exceptions. They cannot be transferred until/only if the 6M€-EBITDA threshold is met; they will be converted into common shares with a 1-to-1 ratio, until 1.500.000 shares are converted, by following the formula: **$1.500.000 * (2018 \text{ Actual Growth} / 2018 \text{ Target Growth})$** .

Besides, a greenshoe overallotment option was also introduced. The greenshoe is an option which allows the issuer of shares in an IPO to increase the offering' size to better respond to demand. This option is typically provided by a firm' shareholders who decide, within 30 days after IPO, to increase the total number of shares outstanding by decreasing their participation in the company and sell it into the market. The exercise of this option is usually not implemented by the issuing firm, but by the underwriter who uses the overallotment mechanism to short-sell the total number of options into the market and cover its position. In the case that, during IPO and in the consecutive days, demand for company' stock exceeds supply, and thus price jumps above the offering one, the underwriter can sell the greenshoe options to cover their short position deriving from the overallotment. In DBA case, the greenshoe options were exercised in January by the global coordinator (underwriter) for a total amount of 714.000 common shares at the offering price of 4€, liquidating a portion of the DB Holding's position.

In the overall, IPO after completion faced the sale of 5.714.000 common shares equal to 43,9% of total equity resulting in a capital increase of almost 23 million €.

IV. Contractual players who took part in DBA Group's IPO

During DBA pre-IPO phases, there are a number of professionals who took part in the preparation of the company before the IPO. Besides legal and accounting advisors' tasks, which have been delegated to PwC, an auditing company operating in different sectors, 3 main players took on the 3 fundamental roles in the pre and post IPO stages. These are:

1. **EnVent Capital Markets as NOMinated ADvisor** – the Nomad is the key players that connects all the dots among and between all the other parties, it communicates with legal consultants, financial advisors, auditing firms and investor relations firms. The nominated adviser is usually a commercial bank, a financial intermediary or a company who operates within the corporate finance sector. It must respect and comply to the criteria and rules set by Borsa Italiana in order to be a NomAd. Specifically, the Nomad must comply to the Ruling of the Issuer set by Borsa Italiana, besides, every advisor must nominate a person in charge to communicate with Borsa Italiana and must operate under the best professionalism and diligence as possible. Its activities are aimed at supporting the issuer in the phases before and after the IPO. It oversees the due diligence process in order to certificate the appropriateness

of the issuer's admission to AIM Italy. It accompanies the issuer in the delicate process of listing, managing the relationships with all the other advisors involved in the IPO and, more importantly, it ensures that the issuing firm is operating under the provisions set by "Regolamento Emittenti" of Borsa Italiana, paying particular attention to the Admission Document. Once the company has been voted eligible for the listing, its tasks consist in the continuous support and help in compliance with AIM ruling for the firm's entire presence on AIM.

More generally, the Nominated Adviser makes sure that the market works at its best by ensuring that issuing firms comply with the best practices and responsibilities.

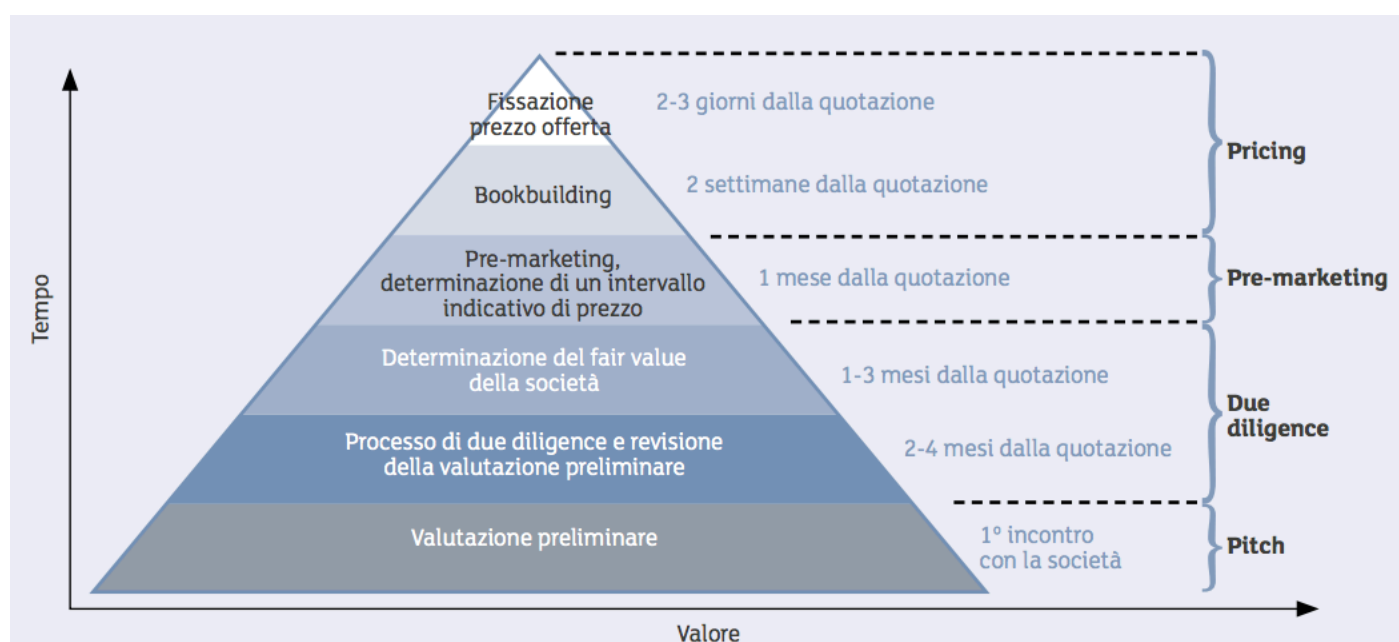
2. **CFO Sim as the Global Coordinator** – in DBA IPO, CFO Sim acted as the underwriter of the firm's shares. Its main activities consist in the buy-out of the total common shares that are going to be listed in the public market and takes on the role of broker of the financial instruments to be issued. More specifically it must set out the meetings' agenda with investors to whom it must present the company data and outline the stocks' details and features. It must set out the road show process during which it takes care of the marketing and promotion of the firm to potential investors. Besides, together with the NomAd and the financial advisor, it defines the reliability of the valuation. Finally, it takes care of the book building activities by gathering investors demands and in the end it defines the offering price of firm's stocks.
3. **Ambromobiliare as the Financial Advisor** – in order to ensure a successful IPO, it is preferable to hire a financial advisor to accompany the company within the entire process. It works as a sort of "alter ego" of the entrepreneur (or shareholders) when it comes to deal with all the external players within the listing phases. Before the process starts, the financial advisor plays a key role in the beginning of the revolution in firm's structure that is needed to prepare the company to the IPO. Specifically, it implements the system of Planning and Control for internal management and external reporting and ensures that it works efficiently. It helps and assists the company within the drawing up of the Industrial Plan and thus in the definition of potential weaknesses that may derive from the reorganizations. Finally, it helps in the definition of a gross value of the company in order to give them a benchmark tool against which the management can orient in the initial and subsequent phases until the final shares' issuing has been done.

6. PRE-IPO, Phases and Processes

All the steps that take place before and during an Initial Public Offering are all aimed towards a single but fundamental process, the company valuation. It is of absolute importance to obtain a valuation that is as close as possible to the real value of the firm, because the valuation will, indirectly, have an impact on the success or failure of the IPO because of the influence it has on the pricing of company's stocks. This is why the global coordinator together with the nominated advisor work closely during all the stages by evaluating and analyzing all company's aspects like business model, positioning and competitive advantages, financial data and management system.

The valuation process should be performed by looking at the many aspects of the firm, especially in IPOs, it is a continuous process of analysis and testing which starts well before the players have the complete information regarding the firm (Pitch) and reaches the final point where stock is actually sold to investors. Basically, the valuation process gets more and more accurate as the phases of the IPO take place, it is an important factor during due diligence and should be aimed at assessing in a particularly accurate manner the Industrial Plan and the Value creation strategies of the firm. Once the fair value has been assessed, valuation should take into account the data that has been gathered during the pre-marketing phase, where the coordinator has the opportunity to meet potential investors and get an estimate of expected demand and stock's liquidity. Finally, this last information acquired on the field help the analysts to define and quantify an IPO discount whose objective is the increase in the demand for firm's shares.

Following the Value Pyramid created by Borsa Italiana it is possible to have a clear image of how the process works:



Source: Borsa Italiana, Guida alla Valutazione

We have a preliminary valuation undertaken during the Pitch; a secondary valuation during Due Diligence; the definition of price range and of maximum price during Pre-Marketing and the final step: Pricing. It is important to bear in mind that this 4 step process has as the final aim the one of reducing the price range step by step until arriving to the final price.

- I. **Pitch:** during this very initial step, the company picks which intermediary it is going to be accompanied by during the entire listing process. Now, commercial or investment banks present a formal proposal to become the global coordinators of the company, this proposal contains a very rough valuation of the underlying firm. The valuation is proposed within a period that precedes the selection by 4 to 5 months. It has the lowest level of accuracy being it lacking of fundamental information that the bank is going to acquire only once it become coordinator and is able to analyze due diligence results.

The choice among the various banks should be independent from the valuation which has very little meaning before due diligence, it should instead focus on the quality of the intermediary.

- II. **Due Diligence:** the overriding objective of the due diligence process is the utmost elimination of asymmetric information between parties. This is achieved through an in-depth study of firm's operations and governance, the highest level reachable of coherence between actual and expected economic and financial information.

Once the objective of risk identification and assessment, and strengths and weaknesses of the firm together with the reduction of the risks connected with debt and business risks have been pointed out, some other key aspects must be held in considerations. First things first, due diligence is not a mere accounting or financial audit on firm's balance sheets. Legal auditing takes care of a more general scope of interests and turns out a standard report containing the information. On the other hand, due diligence has a very narrow target and takes care only of the acquirer's (or vendor's) interest; the scope of the analysis is then reduced into a very deepened report. So how is this narrow analysis carried out?

The due diligence process, carried out by the underwriter in concomitance with the other attorneys and advisors, is divided into 5 steps once the objective has been defined: **1.** Planning; **2.** Auditing procedures and activities execution; **3.** Track records and financial statements' forecasts analysis, focus on cash flows; **4.** Identification of Key Performance Indicators (KPI); **5.** Activities' summary and drawing up of final document.

At the beginning of these steps, the leading underwriter starts due diligence with the information disclosed by the issuing firm; at the end of this analysis, the bank will have a clear understanding of the firm's business and will be able to define a precise outlook of the issuer's Industrial Plan. The industrial plan is a vital document for the due diligence process since it allows to understand future prospects of the underlying company, both in terms of coherence among organizational-strategic tendency and market trends, and in terms of sustainability and effectiveness of the hypothesis on which the plan grounds. More specifically, the analysis that the underwriter carries out on the Industrial Plan is based on 3 prerequisites.

The first one is the Financial Sustainability, it focuses on the cash flows generated by the group and is aimed at assessing whether the firm is able to sustain its operation with riskless sources of financing and if whether financial dynamics are capable of supporting the strategic decisions of the group. Cash flows analysis is focused on the cash generated by operation and cash absorbed by investments. In this sense underwriters find it useful to evaluate how capital needs change with respect to sales forecasts and to supply chain movements overtime.

The second prerequisite is the coherence, and it is analyzed both from an internal and from an external point of view. Due diligence process assesses whether the strategy put in place, action plan, hypothesis, strategic intentions and forecasts are aligned with each other. On the exogenous side of the analysis, the underwriter checks if the action plan is feasible from a financial stand.

The third prerequisite is the reliability. It is analyzed in terms of the competitive environment, track records, visibility and to the sensitivity.

Besides, due diligence team also speaks with firm's clients, suppliers, retailers and local authorities to get an external outlook and be able to identify potential pitfalls from the exogenous environment. Throughout the steps, the financial adviser and the equity underwriter start to draw up the equity story as they continue to gather information. During due diligence process, an early marketing activity is carried out in order to probe and get an idea of initial demand deriving from the equity story. At the end of the process, the underwriter presents to the issuer a first valuation, called pre-money valuation. It is called pre-money because it does not take into account the effect of IPO-Discount and the pre-marketing activity.

Equity Story: equity story is one of the leading factors for a successful IPO, it creates a vision of the company while defining the reasons why an investor should buy your company' shares and it is important for underwriters to assess the marketability and attractiveness of the firm's equity to investors. The fundamentals that make the equity story of a company appealing to investors must contain a description of 5 main areas. The first area is the exogenous environment of the firm, the market. Since a company that is going public has far less information available to the public with respect to an already-listed company, it is of vital importance that the equity story demonstrates how the company's management is headed towards a solid growth potential by following the right growth trajectories of the markets in which it operates. More precisely, investors want to know the size, the stage of the market and how the business model works, in other words equity story must show that your business is connected to market trends. The second area is how the management is planning on taking advantage of growth drivers given the advantage it has over competitors. Third area is the company strategy for expansions, investors want to know how the company is planning on growing its business in home and foreign markets by expanding through endogenous or exogenous sources, respectively by means of organic growth or through mergers and acquisitions. Financial forecasts is the fourth area of inspection. Investors want to know how your company positions itself against comparable ones, to assess whether their money could be better invested elsewhere. They look at key performance indicators describing the company's capital structure and how the operations perform from the sales and customers stand point. The last point is the management team, investors want to know how managers behave in terms of risk taking and of performance, they want to understand if, by investing their money in the company, management will behave in a way to limit the shareholders' value creation.

- III. Pre-Marketing:** during the pre-marketing phase the nominated adviser organize a meeting, called the analyst presentation, with all the analysts to present them the issuer in order to have them to subsequently disclose researches and analysis that have been carried out. During the analyst presentation, analysts receive a report containing the investment case. The analyst presentation has a fundamental role in the preparation process before listing, it allows analysts to get a closer look to the issuers which will then be reflected by reports that the underwriter will disclose to investors in order to acknowledge them about the firm's equity story. Before the report disclosure to investors, the global coordinator is in

charge of leading an investigation with institutional investors regarding the attractiveness of issuer's equity story and thus receiving an initial feedback.

Once this step is over, the investor-education process begins, process carried out by underwriter's attorneys and global coordinator's sales force. During meetings with investors, analysts gather information and feedbacks about investors' interests towards the firm's shares.

Only when the feedbacks regarding the firm's attractiveness are analyzed the underwriter and global coordinator can face the issuing firm and define the pre-money price range and the maximum price. The price range is defined by setting the minimum price as floor limit and the maximum price, as a ceiling price, is identified by taking care of valuation expectations of leading shareholders. The range usually has a differential of about 20/25% between cap and floor price, and will serve as starting for the next and final stage, the bookbuilding and pricing.

IV. Bookbuilding & Pricing: it is during this phase that the actual marketing campaign begins.

In facts, top-management team and global coordinator organize a trip around the country to present the company to institutional investors (because of the sale on AIM) in the largest financial centers. This marketing trip is called roadshow and works as an advertising campaign to promote the company. During the roadshow, the management and global coordinator attorneys fix meetings with groups of single investors that are willing to subscribe some equity shares; it is a crucial step of the process because, although investors have already been informed about the company's equity story, it is with this meeting that they are able to get in touch with the management team and take a final decision. In essence, it is in the ability of the management team to "sell" their equity story that depends the final decision of the investors, and it is because of the importance that their selling skill has that the global coordinator together with the nomad train the executives on the best ways to conduct these meetings.

Finally, investors that are truly interested in buying shares send their wills to the digital institutional book that gathers all the orders, their wills contain the quantity of the issuer's shares they want to buy together with the price at which they are willing to buy. The price implies not only the fundamentals of the firm but also some "soft" elements that affect the former like management team, corporate governance, operational risks, market trends and so on.

The final price of the offering is settled by the underwriter in concomitance with the financial advisors and the shareholders. Price definition takes into account the number of shares demanded and the prices that investors are willing to pay, and it considers also the investors' strategy in investing. Besides, final price is defined by satisfying all the investors with a correspondent allocation of share but leaving a certain number of shares out of the trading in order to fuel the exchange in the aftermarket. Very often offering price happens to be lower than the one that has been estimated, it is usually artificially lowered in order to have investors' demand to realign it to its intrinsic value. What actually happens is that closing prices at the end of the first day are substantially higher than initial prices.

Underpricing: in general, IPO underwriters fix the offering price a bit lower in order that the stock shows positive returns after the first day of trading. From underpricing the two stakeholders who are benefitted the most are the underwriter/s and early investors. Underwriters, as seen in the above chapters, through underpricing, are able to mitigate most of the risk arising from the equity instruments they bought from the issuer by hedging on price differences. Early investors are instead able to potentially gain high returns by acquiring the underpriced stocks. On the other side investors that already had a position within the firm have to bear this cost because they are selling for a lower price. So why should already-present shareholders stand underpricing. The problem is not because of the power of underwriters since the market in which they operate is actually very competitive, and evidence shows that early entrants trying to penetrate the market with lower prices have not reached a successful objective, the answer is probably to find in information asymmetries.

For what concerns DBA Group, first day closing showed a slight increase in price that is possible to notice from this graph:

Underpricing is considered a market divergence from the hypothesis of efficient markets because of the quite large discrepancy between underpricing and the premium offered for other stocks.

In order to measure DBA underpricing it is useful to gauge it by using initial returns. European average initial returns during the last 2 decades have shown an average return of about 10 to 20% on the first days of trading. In order to calculate the initial return of DBA's IPO we need to find the difference between the closing price and the offering

initial price. Initial returns can be calculated as **Raw Initial Returns**. These returns are obtained by fractioning the difference between Equilibrium Price (EP) and the final Offering Price (OP) over the offering price. U is a gauge for underpricing.

$$U = (EP - OP) / OP$$

Source: Gresse, C., Gajewski, J-F., 2006. A Survey of the European IPO Market. *ECMI Paper*, pp.27

The issue with this calculation is that equilibrium price may be difficult to obtain if the stock we are examining is traded in a low liquidity market, as for the case of DBA Group. In these cases, instead of using the closing price of the first day, EP can be derived from closing prices of the following days (up to 1 week). Given the presence of institutional investors only, I consider the price of the second day of trading as our equilibrium price. Obtained from Borsa Italiana, the price of DBA stock on December 15th was 4,056€ per share, knowing that DBA's offering price was 4€ per share we get a raw return on the first day of trading of: +1,4%

DBA Group's Raw Initial Return		
EP	€	4,056
OP	€	4,000
U		1,40%

Source: Gresse, C., Gajewski, J-F., 2006. A Survey of the European IPO Market. *ECMI Paper*, pp.27

Under the efficient market hypothesis, the raw return should have been zero and that its risk would equal the risk of the market. In this case we calculate **Adjusted Initial Return** with the following formula:

$$U_{adj.} = ((EP - OP) / OP) - ((I_1 - I_0) / I_0)$$

We have I₁ and I₀ relatively as the closing prices of the market index on the IPO day and on the day before.

DBA Group's Adjusted Initial Returns		
EP	€	4,056
OP	€	4,000
I ₁	€	9.468,93
I ₀	€	9.485,89
U Adj.		1,58%

Source: Gresse, C., Gajewski, J-F., 2006. A Survey of the European IPO Market. *ECMI Paper*, pp. 28

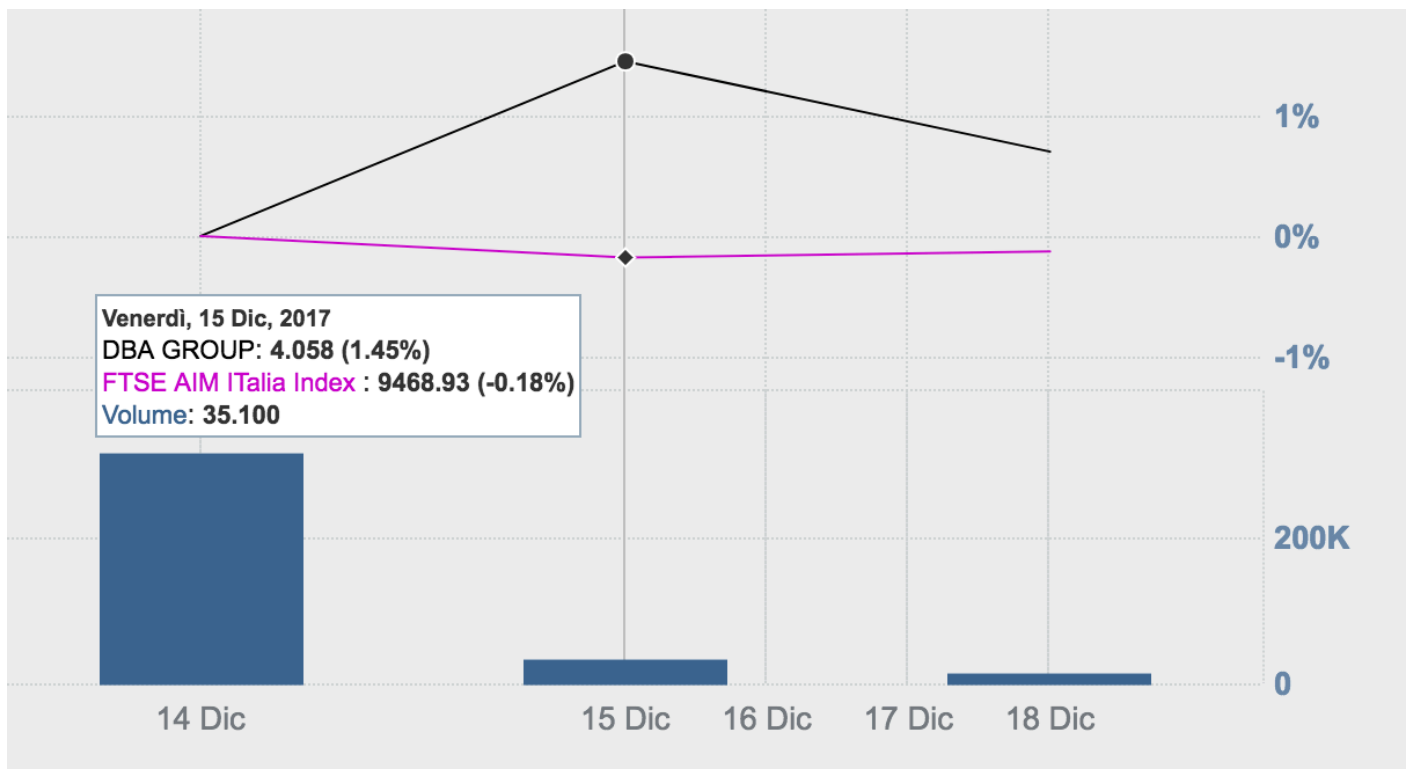
We can also calculate the initial return adjusted for systematic risk by using beta. I have extracted beta from the information prospectus of DBA's Nominated Adviser who calculated it for the valuation of the company.

$$U_s = ((EP - OP) / OP) - \beta((I_1 - I_0) / I_0)$$

DBA's Risk Adjusted Return		
EP	€	4,06
OP	€	4,00
I ₁	€	9.468,93
I ₀	€	9.485,89
β		1,1
U _s		1,597%

Source: Gresse, C., Gajewski, J-F., 2006. A Survey of the European IPO Market. *ECMI Paper*, pp.28

Given the 3 different calculation methods to measure underpricing of DBA's IPO we obtain 3 values that are quite close to each other. On average, DBA's underpricing was gauged to be about 1,526% which is much lower than the average European IPO underpricing of the last 20 years that has remained still at about 10 to 20%. This large discrepancy is in most part due to the low liquidity levels of AIM market in general and to the low cumulative volumes of trading for DBA' stock in the first days.



Source: Borsa Italiana

Lock-up Period: it is a contractual restriction that prevents any already-existent shareholder from selling its equity stake in the market for a period that generally goes from 90 to 180 days. It is a mechanism that is set out within contracts that are signed in the period before or at the beginning of the IPO, and it is aimed at ensuring that market is not oversupplied with shares of the company, thing that could cause the price to drastically drop. It is in fact common for stock's prices to drop dramatically when lock-up period is over. It is not uncommon that private equity holders are not allowed to sell their stake even after the lock-up period ends because they may possess information that would make the stocks' sale insider trading. It is a clause that the market imposes to private equity holders and to the company itself by preventing it from issuing extra shares right after the initial offer. In the case of DBA Group, the lock-up period prevented DB Holding and Fondo Italiano d'Investimento to sell shares that were exceeding from the pre agreed amount, FII was allowed to sell extra shares in the aftermarket in the second tranche of selling.

BLACK OUT PERIOD: right after the disclosure of relevant information regarding financial, operational and organizational information regarding the firm the black-out

period provides all the employees and investors from changing their retirement plans or investment for the subsequent 3 to a maximum of 60 days. DBA Group settled a 30-day black-out period during which no relevant subject was allowed to make substantial changes concerning legal or fiscal changes that regarded the group.

7. POST-IPO

As a newly listed company there are a large number of requirements and duties that you have to meet, being public implies a much stricter control because of the continuous scrutiny of investors' eyes.

I. The Life of a Listed Company

A listed company has a number of duties and rules that concern information disclosure, corporate governance and investors' communication that it must attain in order to maintain solid price trends and avoiding risky fluctuations.

Information requirements are set by Borsa Italiana and Consob, and constitute the overall mix of requirements the company must meet in order to keep their position in the public market.

The main requirements regard price-sensitive communication concerning important events or extraordinary operations, the disclosure of financial statements and of 6 and 3 months' reports, information regarding the rights entrenched in the financial instruments issued and the publication of information concerning changes in corporate structures and/or ownership structure.

Besides, the "Codice di Autodisciplina" disposed by Borsa Italiana provides some guiding elements concerning the organizational structure of the company. Its ultimate objective is the value maximization of all the shareholders in a long term range and it can lead to an increased efficiency in the organization's mechanism that can benefit other stakeholders. The main scope of its implementation is the regulation of the management board, the control of strategic directions and the monitoring of company's health in order to guarantee shareholders' protection.

The presence of the **Specialist** is provided by the Rulings of Borsa Italiana and it is instructed by the listed company, its responsibilities space between the control of the liquidity of company's stock in the market to the maintenance of the institutional book. Liquidity is managed by a

continuous offering of sell or buy deals on a daily basis at a frequency and volume defined by Borsa Italiana. One of the key tasks that the Specialist has to perform is the update of information between the company and the financial markets. It does so by disclosing at least 2 financial analyses per year which must contain forecasts and benchmarks between actual results and results that were forecasted for previous exercises. Besides, it must disclose brief analysis in concomitance of trimestral disclosure of key events regarding the company and the set-up of at least 2 meetings per year between management team and investors.

Another fundamental figure that is present in the life of a company once it has been publicly listed is the **Investor Relator**. It is fundamental because a clear and transparent communication about good results can boost stocks' prices and/or can alleviate possible underestimates or excessive price fluctuations. In this sense, investor relator is in charge of organizing meetings with investors and of handling media and analysts' relations. There are a number of tools that the investor relator can use in order to fulfill its tasks, like media and news publication of important information, periodic meeting with investors, web sites, relationships with brokers and analysts and so on.

II. DBA Group's Investments and Strategies Implementation after receiving IPO proceeds

As we have previously seen, news concerning operations, strategies and investments can have a profound impact on the price of a company' stock, in this sense, DBA Group has been very active since the IPO. DBA Group had already established its long term plans well before the IPO. IPO was the instrument through which it could reach its ambitious goals. The overriding goal is the international expansion with specific targets in East Europe, the Balkans and Asia but, in order to do so it planned the strategic acquisitions and partnerships with competitors in those areas in order to support and foster its expansion within the ICT sector. The vehicle through which it wants to achieve the objectives is an increased management base and, more specifically, the attraction of experienced managers that can work as an asset for the group.

Deepening into the use of IPO proceeds and net profit realized through operations, the Board of Directors decided to allocate the available proceeds in this way:

15% will be dedicated to **Research & Development**. For a group with such entrenched roots into technological development it is fundamental to devote part of the total stake in researching and/or supporting new technologies. The funds will be used to develop Telematic Services for supply chain management, for Retail oil and for the Decision Support System.

15% allocated to **Management Group Reinforcement**. Considering the needs that will arise from the sharp growth and expansion perspectives, the company decided to dedicate part of the proceeds to the strengthening of the management team.

50% dedicated to **Acquisitions**. The group is willing to acquire a number of relatively small but fundamental competitors that will reinforce DBA presence in the home as well as in the foreign markets, with particular attention to the Balkans' area. The acquisitions' strategy has the ultimate objective the one of boosting internationalization and creating synergies among new and existing subsidiaries.

20% allocated to **Internationalization**. The company decided to devote a consistent part of the proceeding in the development of foreign markets especially those of the Balkan area and central Asia, in order to consolidate its Engineering and ICT presence in those markets.

Going deeper in detail regarding operations the group is undertaking, on December 2017, the group was selected by the State of Azerbaijan to perform an auditing service on the national network for optic fiber. This has been regarded as a strategic operation by the Board, as the Ministry of the country could open the doors to the realization of the entire optic fiber network as having control over the company engaged in the development of such network.

On January 2018 DBA group will put in action its Port Line software for the infrastructure management in the port of Baku. The software developed by the group is in line with the objective of Baku's authorities to develop an up-to-date e-platform for its plans to increase trade of goods.

During the same month, the Group was also engaged to carry the designing of the Gronda di Ponente road in Genova.

On February 2018 DBA, in partnership with a conglomerate of other firms, was awarded by the MIUR with the commitment to create a digital prototype for the Smart City Program. DBA will provide ICT services and will be financed by Banca del Mezzogiorno for a total of 1,8 million € of which 1,1 are borrowed for 10 years at a 0,25% six-month cost.

In April 2018 the BoD has signed a binding agreement with SJS Engineering Srl for the acquisition of 51% of the latter for a total amount of 3,1 million €. This acquiree has international customers located in East Europe and Middle East. The acquisition process is still under due diligence.

III. DBA's Financial statements – a comparison between Actual and Expected Figures

In this section I am going to show the actual performance, together with the consolidated financial and cash position of the group for the three years 2015-2016-2017. For the following three years, 2018-2019-2020 I have used the metrics and assumptions that the Nominated Adviser of DBA has used in the calculations of the group's value in June 2018. The rationale behind the use of their analysis is that there is no further information available on the company since December 31st 2017, as it has not still been disclosed.

ACTUAL KEY PERFORMANCE INDICATORS			
	2015	2016	2017
Revenues	40,2	41,4	42,6
Operating Costs	-35,6	-36,7	-37,8
EBITDA	4,6	4,7	4,8
EBIT	2	2,9	2,4
EBT	1,6	2,7	1,9
Taxes	-0,9	-1,3	-0,9
NOPAT	0,7	1,4	1

Source: EnVent Research and DBA Group data

EXPECTED KEY PERFORMANCE INDICATORS			
	2018 (Exp.)	2019 (Exp.)	2020 (Exp.)
Revenues	49,3	52,9	56,9
Operating Costs	-42,3	-44,5	-47,5
EBITDA	7,0	8,4	9,4
EBIT	4,1	5	5,8
EBT	3,8	4,8	5,6
Taxes	-1,3	-1,7	-1,9
NOPAT	2,5	3,1	3,7

Source: EnVent Research and DBA Group data

Growth drivers are considered strong, as a result of the consideration of the competition in the markets in which DBA operates, and considering also the cumulated average growth rates of the past exercises, it is reasonable to believe the company will face a 5 to 10% growth perspective. Besides, the binding contract that the group signed in April, regarding the acquisition of 51% of SJS Srl have already been factored inside the Revenues of 2018 in consolidation. The company strategy focuses on outsourcing technologies inherent to telematics offerings and thus shifting the business model towards a different combination of revenue sources with a substantial focus on the sale of products involving recurrent revenue streams like maintenance. In specific terms, ICT sector will be the

leading market to follow in terms of growth, while the Engineering will probably hold its position as principal revenue generator for the group.

Together with SJS' revenues, also the cost connected to the acquiree's employees as been considered inside the operating costs of 2018. Furthermore, 2018's operating costs consider also the write-down of current receivables for 0,5 % of the total. The largest impact on profitability is placed in operating costs, and with a relatively low operating leverage, group's profitability will be positively influenced by a different combination of revenue streams focused on higher margins and to the implication of the external-market strategy, characterized by higher prices.

Deepening into the sales mix of the group by considering the projected services the group is expected to deliver within the short term, we can identify the main drivers for each business unit:

Project Management – the sales drivers the DBA has planned to take advantage of are based on the exploitation of its know-how for grater implementation of optic-fiber in Italy and in foreign markets; the development of Telecommunication sector to acquire new customers and the consolidation of already-present clients with focus on optic-fiber system development. Profitability drivers remain in Italy with a constant but consistent growth. If the company will be able to put its internationalization strategies in action, sales revenues and profits are expected to grow substantially.

Engineering & Architecture – the group is willing to exploit the sales opportunities in segments that are considered near to the ones the company is already serving; it is also planning new services for energy services and technology provision. Besides, plan considers the consolidation of existing clients and the gain of new ones within the areas of East Europe and Asia. Dealing with how profitability will be impacted, the board focuses on the increase of technological solutions together with the expected increase in prices due to favorable macroeconomic trends and the exploitation of foreign countries' opportunities.

Information Communication Technology – within this business unit, the Group expects to consolidate its clients and to foster the sale of its Port Community System in the African and Latin American region, focuses on development and distribution of new technological solutions for machine learning and the Internet of Things.

All along, DBA Group's taxes amount to 24% for the corporate tax (IRES) and 3,9% for the local tax (IRAP).

The following are the actual and projected data regarding the financial position of the group:

ACTUAL DBA GROUP'S CONSOLIDATED BALANCE SHEET			
	2015	2016	2017
Work in Progress	0,8	1,0	0,9
Inventory	0,3	0,5	0,0
Trade Receivable	17,7	14,1	19,1
Trade Payable	(6,1)	(6,9)	(6,9)
Other (Liabilities)	(3,4)	(3,2)	(1,8)
NWC	9,3	5,5	11,3
Intangibles	1,4	1,2	5,6
Goodwill	4,1	3,6	3,5
PP&E	2,3	2,4	3,3
Equity investment & Financial Assets	0,3	1,4	0,7
Non-Current Assets	8,1	8,6	13,1
Provisions	(1,7)	(1,8)	(1,5)
Net Invested Capital	15,7	12,3	22,9
Loans	7,8	4,1	10,3
Other financial debts	0,8	0,8	1,0
Cash & Equivalents	(3,8)	(4,2)	(13,0)
Net Debt (Cash)	4,8	0,7	(1,7)
Equity	10,9	11,6	24,6
Sources of Financing	15,7	12,3	22,9

Source: EnVent Research and DBA Group data

EXPECTED DBA GROUP'S CONSOLIDATED BALANCE SHEET			
	2018 (Exp.)	2019 (Exp.)	2020 (Exp.)
Work in Progress	1,0	1,1	1,2
Inventory	0,0	0,0	0,0
Trade Receivable	21,4	22,1	22,8
Trade Payable	(7,5)	(7,9)	(8,4)
Other (Liabilities)	(2,0)	(2,1)	(2,3)
NWC	12,9	13,2	13,3
Intangibles	5,5	5,3	4,8
Goodwill	5,8	4,6	3,5
PP&E	2,8	2,1	1,2
Equity investment & Financial Assets	0,7	0,7	0,7
Non-Current Assets	14,8	12,7	10,2
Provisions	(1,7)	(1,7)	(1,8)
Net Invested Capital	26,0	24,2	21,7
Loans	8,4	6,8	5,1
Other financial debts	1,0	1,0	1,0
Cash & Equivalents	(10,6)	(13,9)	(18,4)
Net Debt (Cash)	(1,2)	(6,1)	(12,3)
Equity	27,2	30,3	34,0
Sources of Financing	26,00	24,20	21,70

Source: EnVent Research and DBA Group data

Working capital is quite high even though it is consistent with the historical records, trade working capital is substantial but in line of the average. This is because the company operates with many national and regional entities whose budgets are defined monthly and/or annually, as a result, the total days of sale outstanding total, on average, more than 4 months, causing the NWC to be higher.

Intangibles are flat-lined as a consequence of the factoring of 2017's SJS' acquisition and the capitalization of part of Research & Development infra-group costs.

Part of these capitalized costs are reflected by the goodwill amortization which is almost flat and constant at a rate varying between 20-25%.

Cash and cash equivalents faced a sharp rise in 2017 because of the 12 million € proceeds from IPO. Besides from being used in 2018 and 2019 for strategy implementation, the total cash is expected to increase because of the increased profitability and EBITDA margin.

The operating Net Invested Capital composed of the sum between the difference of current assets and non-interest-bearing current liabilities summed to non-current assets and non-balance sheet items increases within the first years after the 2 acquisitions of 2017 and 2018 but gradually decreases thereafter because of depreciation and amortization of Goodwill, intangibles and tangible assets.

Objective of the group is the gradual diminishment of debt undertaking which, together with an expected increase in market capitalization linked to the projects DBA is and will undertake which will drive equity of the group to rise.

The following are the consolidated cash flows of the group: (Source: EnVent Research and DBA Group data)

ACTUAL DBA GROUP's CONSOLIDATED CASH FLOW STATEMENT			
	2015	2016	2017
EBIT	2,0	2,9	2,4
Taxes	(0,9)	(1,3)	(0,9)
D&A	2,6	1,8	2,4
Provisions	0,3	0,2	(0,3)
CF From OPERATIONS	4,0	3,6	3,6
Trade Working Capital	(1,3)	3,9	(4,3)
CapEx	(7,6)	(1,2)	(6,0)
Other Assets and Liabilities	1,1	(0,2)	(1,4)
FREE CASH FLOW	(3,8)	6,1	(8,1)
IPO Cost	0,0	0,0	(0,3)
Interest	(0,2)	(0,2)	(0,2)
Shareholdings' Depreciation	(0,2)	0,0	0,0
Equity investments	0,1	(1,1)	0,6
IPO cash ins	2,1	0,0	12,0
CapEx IPO Cost	0,0	0,0	(1,6)
Dividends	0,0	(0,8)	0,0
Adjustments from Consolidation Min. Int.	0,9	0,0	0,0
NET CASH FLOW	(1,1)	4,0	2,4
Net cash (debt) Beginning	(3,8)	(4,9)	(0,7)
Net cash (debt) End	(4,8)	(0,7)	1,7
Change in Net Cash (Debt)	(1,0)	4,2	2,4

Source: EnVent Research and DBA Group data

EXPECTED DBA GROUP's CONSOLIDATED CASH FLOW STATEMENT			
	2018 (Exp.)	2019 (Exp.)	2020 (Exp.)
EBIT	4,1	5,0	5,8
Taxes	(1,3)	(1,7)	(1,9)
D&A	2,8	3,4	3,7
Provisions	0,1	0,1	0,1
CF From OPERATIONS	5,7	6,8	7,7
Trade Working Capital	(1,8)	(0,5)	(0,3)
CapEx	(4,6)	(1,2)	(1,2)
Other Assets and Liabilities	0,2	0,1	0,2
FREE CASH FLOW	(0,5)	5,2	6,4
IPO Cost	0,0	0,0	0,0
Interest	(0,3)	(0,2)	(0,2)
Shareholdings' Depreciation	0,0	0,0	0,0
Equity investments	0,0	0,0	0,0
IPO cash ins	0,0	0,0	0,0
CapEx IPO Cost	0,0	0,0	0,0
Dividends	0,0	0,0	0,0
Adjustments from Consolidation Min. Int.	0,0	0,0	0,0
NET CASH FLOW	(0,8)	5,0	6,2
Net cash (debt) Beginning	(1,7)	1,2	6,1
Net cash (debt) End	1,2	6,1	12,3
Change in Net Cash (Debt)	(0,5)	4,9	6,2

The Free Cash Flow scheme has been followed. The formula for its calculation is quite easy as it implies the difference between revenues and operating costs & taxes (operating cash flow) and the investment necessary in operating capital. Its structure is helpful for the analysis of DBA, as it shows the firm's ability to generate cash once the requirements for investments and maintenance of operations have been met, and it is very helpful in the computation of many valuation techniques. Expected Free Cash Flows are good except for 2018. This might seem a bad signal but, considering 2017' and 2018's capital expenditures incurred for R&D and for the strategic acquisitions, it is quite good.

Also Net cash flow shows a healthy liquidity position of the company, this is due to the fact that the company decided to go for a low-risk profile when getting debt-financing and hence having relatively low financial interests due. Besides from the 12 millions IPO cash in, there are no further capital financing from equity. Also, as a policy of the company for the medium term, dividends will not be paid out, as all retained earnings will be reinvested inside and outside the company for strategic expansion.

The following ratios have been calculated on actual and expected results and consider the operating side of the firm together with its debt and equity financing and the returns:

ACTUAL RATIOS			
	2015	2016	2017
Trade Working Capital/Revenues	32%	21%	31%
Net Working Capital/Revenues	23%	14%	27%
Net Debt/EBITDA	110%	20%	-
Net Debt/Equity	40%	10%	-
CFFO/EBITDA	86%	76%	76%
FCF/EBITDA	-	131%	-
ROE	6%	13%	4%
ROS	5%	7%	6%
ROIC	11%	20%	9%

Source: EnVent Research and DBA Group data

EXPECTED RATIOS			
	2018 (Exp.)	2019 (Exp.)	2020 (Exp.)
Trade Working Capital/Revenues	30%	29%	28%
Net Working Capital/Revenues	26%	25%	24%
Net Debt/EBITDA	-	-	-
Net Debt/Equity	-	-	-
CFFO/EBITDA	83%	81%	81%
FCF/EBITDA	-6%	63%	67%
ROE	9%	10%	11%
ROS	8%	9%	10%
ROIC	14%	18%	23%

Source: EnVent Research and DBA Group data

From the ratio analysis regarding the operations of DBA Group we can see a stiff trend both for the trade working capital over sales and for the net working capital over sales. This ratios are helpful to understand how much the company's sales amount to with respect to its short term operational obligations. As being the Trade working capital the largest component of the total net working capital, the two ratios are very close except for 2015.

Net Debt to EBITDA and Net Debt to Equity ratios are helpful in measuring at which degree the company used financial leverage and, more specifically, it tells you by how many times EBITDA, which is the first proxy to firm's ability to generate cash from operations, and equity can cover Net Debt if they all became due immediately. With the exception of 2015 and 2016 when company had net debt, the subsequent year faced a positive financial position with net cash holdings at the end of each period.

The CFFO and FCF ratios over EBITDA are financial indicators helpful in understanding by what percentage EBITDA influences the two cash flows. While we have an always positive and pretty constant CFFO ratio, indicator of a solid cash generation from operating activities, the FCF ratio might imply some problems because of its negative sign during years 2015-2017. Actually the negativity is linked to heavy investment undertaken during those years, together with the capitalization of some R&D costs.

The Return on Equity ratio is a profitability indicator that measures the profitability deriving from the capital invested by shareholders. It is calculated by dividing the net profit of shareholders' capital and multiplying it to get a percentage amount. We can see a sound growth for the prospected years that show how the money invested by shareholders should yield a 9-11% return.

Return on Sales is used to gauge the firm's operational efficiency. It is calculated by dividing operating profit over total sales, its growth from 2017 on shows a situation of potential growth for

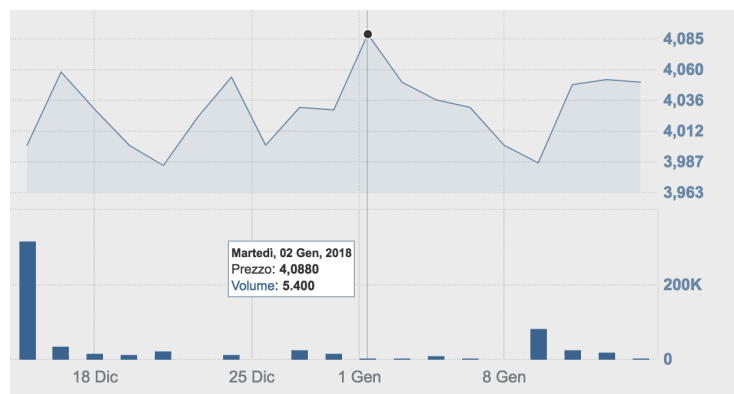
the company and should imply a more effective profitability of DBA's operations, factor supported by its operational strategy to shift the business model towards recurrent revenue-generating activities that boost profitability.

The Return on Invested Capital is also a profitability ratio and measures the percentage return deriving from each euro of investment an investor is expected to gain by acquiring the firm's financial instruments, in this case ordinary shares and warrants. Its formula is derived from the ratio of the difference between net income and dividends over the sum of total capital, debt and equity. Also here we can see a very positive situation for investors that are expected to earn increasing percentages in return for their investments.

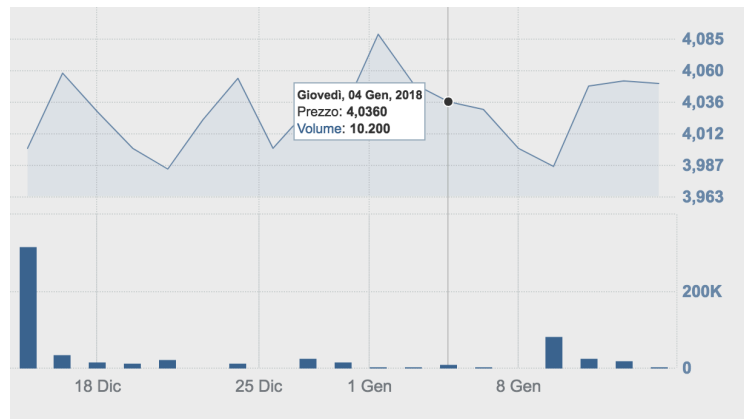
IV. Trends in Prices and Quantities of DBA Group' stock

Bearing in mind the fact that AIM market is a financial market characterized by a low level of liquidity, and considering that it is not even a year that DBA Group is present in this market, there is not a positive correlation between demand and the price of DBA stock. From the data and graph analysis on the demand for DBA group stock and its price, it is evident that sometimes high trading volumes boost the price and that other times demand shrinks the price.

Going back to the issue of an almost null correlation between demand and price we can see the following extracts support the fact that, even though trading has been high during 2, 3 to 6 days in a row, price was still dropping. The following example will support this sentence.



Source: Borsa Italiana

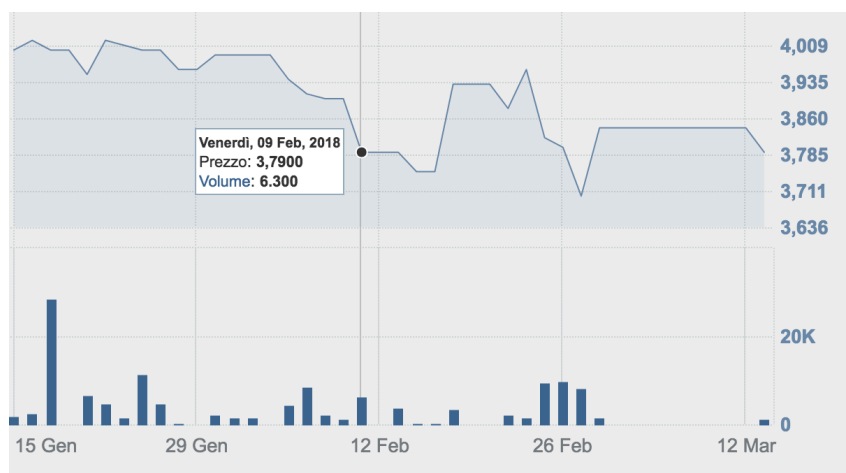


Source: Borsa Italiana

It is clear that price remains still when there is no trade at all but, an increase in demand would makes us think to an increase, even if slight, in the price, being the market being poorly liquid. Evidence instead shows that there is no correlation between increased demand and rising prices, in these examples prices fell.



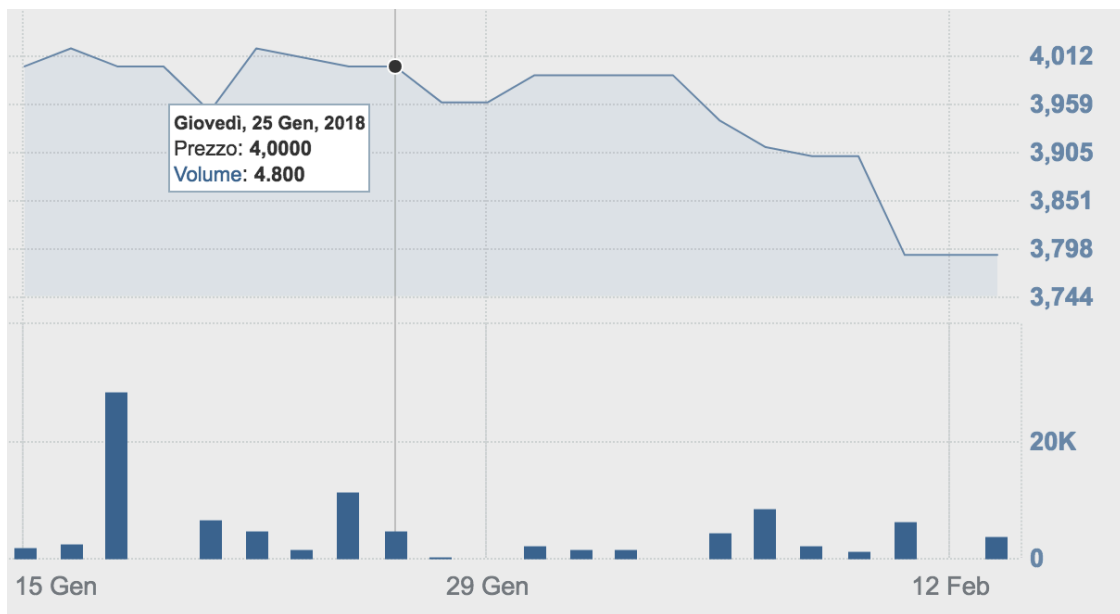
Source: Borsa Italiana



Source: Borsa Italiana

Not even the news concerning DBA had an impact that could show a positive correlation about good or bad news and prices. Not even when Forbes published an article (<https://www.forbes.com/sites/wadeshepard/2018/01/25/technologically-supercharged-ports-are-defining-the-new-silk-road/#7b02419470d2>) about the new technology that will dominate Ports' management, making clear reference to DBA Group and having one of the group's managers speaking for Forbes, the price was positively affected.

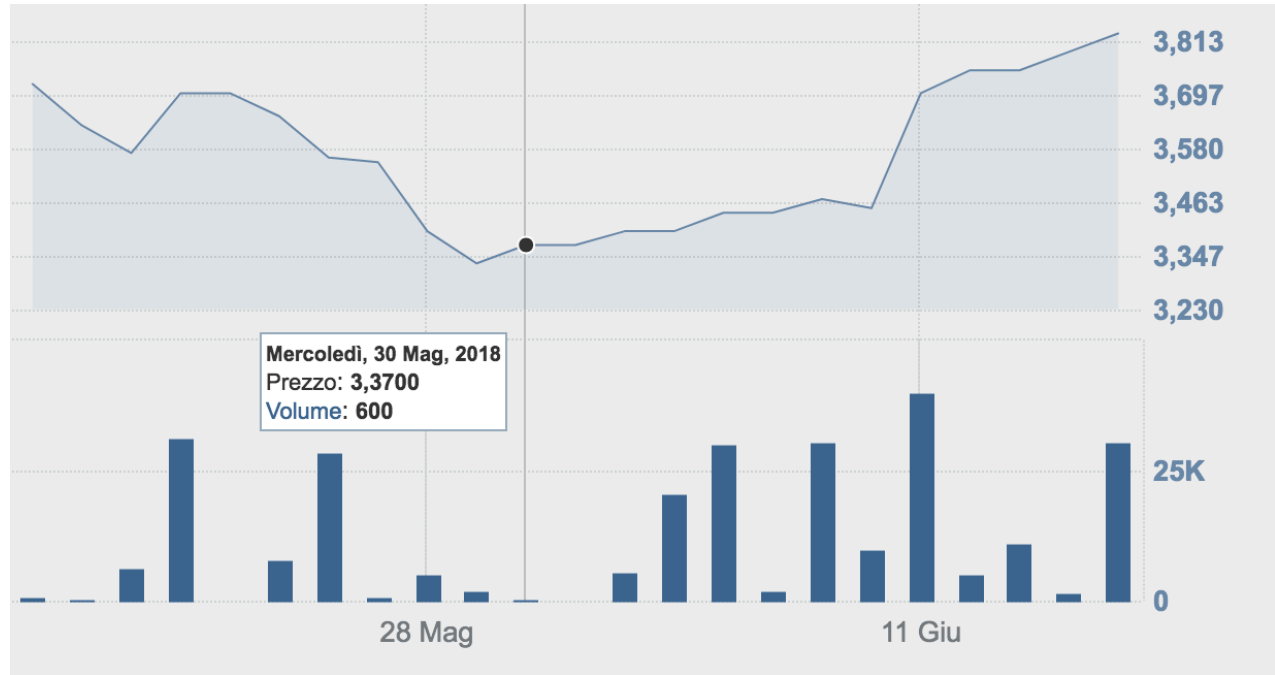
Article was published on January 25th 2018, the following was the situation on AIM, an increase in sales volumes and a fall in prices thereafter:



Source: Borsa Italiana

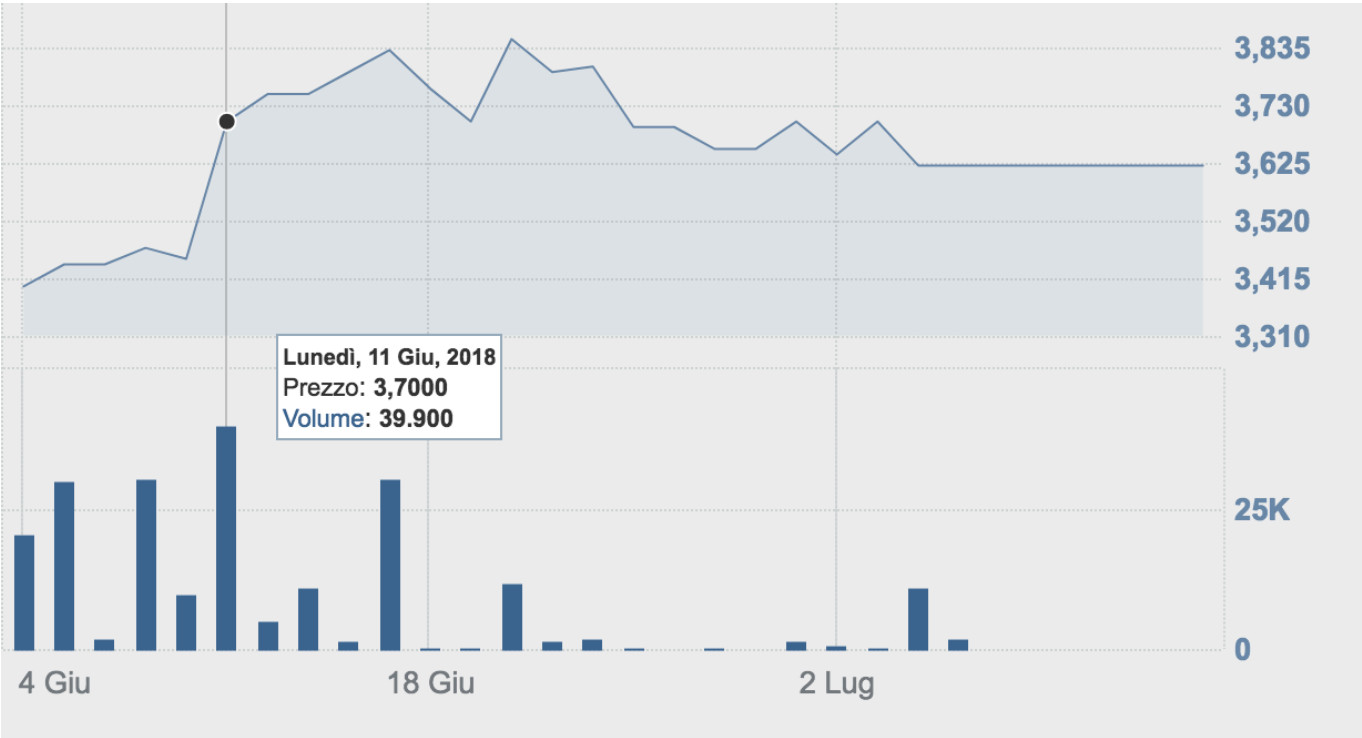
The only basic form of positive correlation is linked to the transparency of the firm. Most of the times that the Group and its advisors disclosed information concerning acquisitions or the signing of contracts involving millions of revenues, DBA' stock showed a positive performance for the following days.

Disclosed 30-day share price expectations from NomAd on may 30th:



Source: Borsa Italiana

13 million € contract with ITALTEL on June 11th:



Source: Borsa Italiana

8. Conclusion

The analysis that has been carried out throughout this paper shows some solid figures for DBA Group. The company is in fact surfing the trend of technological development that will more than likely change some of the processes and businesses that exist nowadays. The internet of things alongside with the development of software platforms that can manage and control infrastructures more efficiently are on a route of increased investment for many countries that DBA is targeting. Considering its consolidated position in many of this areas and its research and development efforts, I believe the firm is on the right track of future growth.

Considering the competitive outlook of the industry in which DBA operates, we have seen that the firm enjoys a sound position considering that the largest power is on the hands of customers that have the ability to pick among different firms who differentiate their services mainly through best-quality efforts. And bearing in mind that DBA is involved in this process of serving its new and existing customers with its best efforts in order to maintain its position I believe that the company could be considered solid from this standpoint. Moreover, the company holds a well-diversified customer's portfolio between its operational areas, factor that makes its revenues quite safe in case of downturns or decreased demand in certain business units.

The accurate description of the Industrial Plan is also a sound signal for a potential investor. The company's medium and long term strategies show the potential of growth that DBA has for the incoming future. The exploitation of the Balkans' and central Asia's routes, forming the new Silk way, may have a profound impact on the growth of the company, given the multi-billion investments that are and will be allocated in this area. The company has in fact already started its acquisition campaign towards East Europe. And thanks to this expansion efforts, DBA is already on the track for this opportunities with the Great Ring Road in Moscow and Baku's and Azerbaijan's ports. Besides, DBA is one of the few players of the sector that is able to offer a complete range of services through its 3 business units.

If I were an institutional investor able to buy DBA stocks on its IPO day, I would have seen a slight decrease in the price of the stock if compared to this moment. But the decrease in price does not reflect the intrinsic value of the company. From the valuation we have seen how the actual value of DBA should be reflected by substantially higher prices than the ones that we are seeing now. This underpricing is not directly linked to the intrinsic characteristics of the firm but, how we have seen, it is with great probability due to the factors that define the AIM market. Low liquidity and high price

volatility are the factors that are contributing to the low prices we are seeing. But considering the company's strategy, its performance and its capital structure I believe that the firm will face an increase in prices within the medium term.

Another factor to consider is that small capitalization companies tend to outperform large capitalization companies. It is still not clear the reason for this but the exponential growth opportunities that small cap stocks have if compared to large cap ones are certainly a factor. It is also true that small cap stocks have a higher risk of default and are thus expected to yield higher returns for investors (risk premiums). These theories have been developed by Fama and French more than 20 years ago, but they have been contrasted by more modern hypothesis regarding the harshness of explaining the factors that make small cap companies to outperform large cap ones, and the impossibility to identify the reasons for the premiums makes it impossible to determine whether they are going to last in the medium-long term.

So considering the risk that is connected to buy companies with small capitalizations and especially on AIM market I would buy DBA stock because of its intrinsic long term market potential, and the potential to see great returns in the future, especially if buying the company's shares now when prices are quite low. This would hold only if I had a well-diversified portfolio that would allow me to carry on a little bit more risk deriving from DBA's stocks.

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SUMMARY

On December 2017, while I was reading a newspaper, an article concerning DBA Group casually crossed my eyes. The article was talking about this service engineering company based in Treviso that was preparing to launch its IPO on AIM market in the incoming days.

Knowing that I would have been doing my internship in a few months, I decided to give it a try and send an email to the Human Resources department of DBA Group, asking them if there was any internship position open because I wanted to tell their story, and the story of their initial listing in the Italian financial market, in my Master's Thesis. Luckily the response came in quickly. They told me that they would have been happy to have their story told by a LUISS' student and that there was a position for which I had to undertake a brief interview.

Finally, on February 2018, my experience at DBA Group begins; I have been working in Treviso for four months, until May, in the Planning and Control Department.

I believe that the department in which I was in was perfect for the goal of writing my thesis, it allowed me to acquire a good knowledge of how DBA Group's business works. My main tasks were the drawing of Excel reports and analysis about various projects that their software-development subsidiaries were undertaking. Basically I had to ease the understanding of costs, revenue mixes, depreciations and distributions of their products by summarizing them in Excel. One of the projects that my manager assigned to me was the convergence of a dozen of different projects they were already undertaking in order to present an extract of the elaborated data to their investors in Milan.

My thesis has the aim to retrace the history of IPOs to arrive to nowadays financial markets. The overriding goal is the one of analyzing DBA company from every angle of its operations and capital structure, from its very beginning to its IPO on AIM on December 2017. Thanks to the support of the company's managers I have been able to acquire important insights and data about the endogenous and exogenous environment in which the firm operates, from its strengths and weaknesses to the competitive arena. Thanks to their support I have been able to compute two quantitative valuations that I used to compare to DBA Group's trading prices in Borsa Italiana.

The ultimate aspect aims at deciding whether I, as a hypothetical investor, would buy the company stocks by considering the complete analysis regarding DBA Group.

The IPO, standing for Initial Public Offering, is an effective method that companies have to raise capital for their strategic needs instead of using debt capital. IPO nowadays can be executed following three ways: OPV, OPS, OPVS.

- Offerta Pubblica di Vendita – is the way firms increase their capital by selling shares of its equity by offering to investors already-existent stocks with the ultimate goal of enlarging or modifying the underlying ownership structure. Under this methodology, shares are issued at predetermined prices and quantities, and their sale works as a way for previous investors to liquidate their position within the company. There are three configurations that OPVs can take depending on the individuals to which the sale is devoted to: public offerings for the general public; institutional offerings for institutional investors only; private placements for a closed number of investors.

OPVs are commonly used for the privatization of portions of governmental companies; one of the largest OPVs of the last decades is the one of ENEL where, the Italian Government, sold a tranche equal to 30% of ENEL's total stake for a total value of 16 billion €.

- Offerta Pubblica di Sottoscrizione - is another form of raising capital for a company by selling newly-issued shares. It is a common way that firms have to increase the capital by means of shares' subscription to the general public. The main reason why OPSs are preferred to OPVs is that the money raised benefits the company's cash flow, while OPVs' money benefits the investors who cashed out their position.
- Offerta Pubblica di Vendita e Sottoscrizione – it is a mix of the other two methods. Their joint effect works on different directions, on one side shares of investors are diluted to create new shares to be sold on the stock market; on the other side already-existent investors have the opportunity to cash out their investments and receive some money.

IPOs have a very long background through ancient and modern history. Although the first form of IPO dates back to the Roman Republic with very primitive forms of joint-stock companies, the first documented IPO in history is the one of the Dutch East India Company in 1602. In order to obtain a coverage from their risky maritime expeditions towards India they started buying and selling shares of the company in the local port, where six chambers were available for the trading of the stock. What is astonishing is the incredible value that the VOC had if compared to nowadays money, it would in fact be worth over \$7 trillions (more than Apple and Amazon together).

Ever since the trade of VOC' stock, the financial markets started to slowly develop on a global scale acquiring strong potential during 19th and 20th centuries; being characterized by low regulations and

wars, trade was very risky and was then banned in some European countries during 19th century. Thanks to this prohibition and the 2 World Wars, the USA stock market acquired absolute dominance on a global scale throughout 19th century.

Being able to trade shares all over the world, the financial markets are quite homogeneous but differ on some requirements and regulations, imposed by every country, that each company must attain in order to trade or to list its shares.

In particular, the market in which DBA Group listed its shares is AIM Italia. It is the market dedicated to small and medium enterprises that have large growth potentials. It is a market open for institutional investors only and it is characterized by the lowest levels of regulations, high consequential risks and low liquidity levels.

DBA Group has recently celebrated its 25 years of existence. Born in 1991, it started out as an office of Engineering and Architecture from the ideas of the four brothers Francesco, Stefano, Raffaele and Daniele De Bettin with the name of “De Bettin e Associati”. Just two years later, in 1993, the office transforms into an Engineering company under the name of DBA Progetti SpA, and DBA Group was born. In 1998, through numerous joint ventures and acquisitions the company starts its internationalization process until arriving in 2005, where the management team realizes the opportunity to blend its design and engineering services to the Information and Communication Technology ones: DBA Lab SpA is born.

During the last decade, DBA Group acquired and/or created 10 new subsidiaries in order to have a greater degree of control over the foreign territories it operates in. In order to have a greater flexibility and dynamism in the management process of this large structure of subsidiaries, the board of Directors implemented a hierarchical structure that starts from the headquarters, DBA Group. Under the control of the Head, there are the three divisions involved in the three different sectors in which it operates. Each division, in turn, control a number of subsidiaries divided between Italy and eastern Europe, these division are respectively: DBA Progetti SpA; ACTUAL ITALIA Srl; DBA Lab SpA. DBA Group, the head of the group, is controlled by DB Holding, the holding of the De Bettin brothers for a total ownership share of 46,2%, by Fondo Italiano d’Investimento, who reduced its ownership to 9,85% for IPO’s purpose and by the market who controls a free float of 43.95%.

Thanks to its 3 different divisions which are Architecture & Engineering, Project & Lifecycle Management and Information and Communications Technology, DBA Group is able to service 6 different markets on a global scale. These markets are:

- Retail and Rebuilding – accounts for 15% of the group's total revenues and it is sub-divided into 3 different branches. The first branch is Architecture & Masterplan, which is involved in the delivery of services for design of structural and engineering planning for buildings. The second one is Real Estate, involved in the restructuring and restyling of buildings. And the third one is Retail, busy in the restyling of offices and buildings throughout Italy.
- Telco & Media - this is the sector of telecommunications and media communications; DBA Group, besides from providing technical and technological support, is involved in the development and construction of many networks; it is the sector which brings to the group the largest portion of revenues for a total of 42%. This market is divided into IT Infrastructure and Telecommunications. The key tasks DBA performs in the telecommunication sector are the implementation of mobile network platforms for Vodafone, Telecom, H3G and wind; while for the network infrastructure implementation and the optic-fiber network realization, the Group works for Fastweb, Metroweb and Huawei
- Transport & Logistics - DBA operates in this sector by offering technical and technological know-how for the management and control of transport's infrastructures like ports and highways. They do so by developing innovative software solutions that work as a single platform through which the people in charge control every aspect of transport. It amounts to 15% of total revenues. This sector's main involvement is entrenched in the development of software suites for the management of infrastructure like ports and highways.
- Oil & Gas - the sector is involved in the oil storage and the network of gas stations. It brought to DBA almost 8 million € in 2017 and it is considered one of the sectors that will face a sharp increase in demand in the coming years. It operates within 2 branches: Retail Oil and GL + Supported. Retail oil concerns the design and development of gas stations, while GL + is software platform developed by DBA Lab for the connection of digital mechanism of gas stations.
- Energy - in this market, DBA Group operates in the building and infrastructure management, in the measurement, analysis, optimization and prediction of energy consumption. It is the smallest market within which the company operates, it accounts for only 0,6% of total revenues; its two branches are: Power & Energy and Energy Efficiency. They are adopted for the creation and audits of electrical power substations.
- Industrial - the industrial sector, accounting for 3,9 million € - 9% of total sales – is a small market for the Group in which they operate mainly as services providers for external companies. They operate with maintenance services for data centers, information systems and

servers, besides, they also carry out partnerships and foster technological outsourcing for other firms.

The company has developed 5 software suites that it uses to serve some of its branches and markets, these products are: DBA Project + for the monitoring of Technological Assets' lifecycle and functional control of projects with relative orders; POSIC which is a safety management system; PORT LINE software platform which enables all the port operators to communicate via a single device. It allows the port authorities to better control the shipments arriving to the port by cutting costs and timing through a more efficient management of all the players connected; GL+ for the control of gas stations through a single platform; DSS-LINE which is another software platform for port activities management.

DBA Group' strategic imprinting is focused on the consolidation and future expansion of its position in Italy and especially in the Balkans' and Central Asia's areas, to exploit the opportunities offered by the "New Silk Route". This objective has the concurrently purpose of offering services to support the maintenance and usage management of infrastructures, thanks also to the creation of software platforms customized for processes automation. This double aim works as a tool to reinforce the firm's position as partners of their clients. Among others, the management team set 5 main objectives that it wants to reach within the medium term and that will be sustained by the proceeds from the IPO. These objectives are the stabilization of endogenous growth in the key markets, the fostering of exogenous growth through external paths, the homogenization of services, development of DSS-Line and the step-up with innovative projects.

I have analyzed the strength and solidity of the company's capital structure by using 6 different ratios evaluating the use of leverage and the ability to cover their debt. All the leverage ratios (Equity Ratio, Debt Ratio, Debt to Equity Ratio) show a sound position of the group and reflect the company's intent to progressively reduce its use of leverage. Also the coverage ratios (Debt-Service Coverage Ratio, Cash Coverage Ratio, Asset Coverage Ratio), which are aimed at gauging and ensuring the firm's ability to pay off its debt obligations by means of different sources of capital, show the very sound position in which the group operates, the low degree of risk connected to its debt sources is reflected by the cost of debt that we will see later on.

Changing the capital structure in order to reduce the leverage and its related costs is one of the advantages that going public offers to whoever is willing to undertake this long and costly process.

The main issue connected to the shareholders' advantage of being able to diversify their investments is that this process gradually decreases and dissipates control. This lack of agglomerated possession in the hands of few equity holders leads to a lower degree of control and supervision over management's decision. This can potentially lead to a price lowering that reflects the decreased ability to monitor company's trend. Besides there is the advantage of the potential spread of capital risks thanks to the increased ownership in the firm and a clearer transparency between the firm and the public. The pitfalls of IPOs are for sure the increased controls by government agencies, stricter requirements and a particular phenomenon called underpricing that can arise after the stock listing. Besides, going public involves high costs for the issuing firm. There are single-shot costs and incremental costs that characterize both the phases before the IPO and once the company is public.

The risks connected to the company derive mainly to the specificities of the market in which the company is trading, and they are connected to potential investors who put their money in the firm. Most of the risks that the firm has are covered by the underwriting firm, who agrees to take on these risks in exchange for a premium and which in turn is able to mitigate through the use of some practices and instruments like short-selling.

Before deciding to list its shares in the public market, a firm (and/or the analysts) should conduct an analysis about whether the company's structure will be able to sustain the IPO and if the IPO makes sense from a practical standpoint.

In the DBA case, the IPO makes sense because as the analysis on the Porter's Five Forces has revealed, there are not many threats by potential entrants, suppliers or competitors, the fundamental power in negotiating prices and defining demand is on the hands of clients who base their decision mainly on track records. On the other hand, the company is able to sustain the IPO, it has a clear vision of where it is headed and of the opportunities that it can exploit. SWOT analysis has revealed that the company has solid strengths being one of the few players of the industry that is able to offer a 360-degree service to its customers but, on the weaknesses side, it needs to spend some efforts and capital in the reinforcement of the management team to better control its subsidiaries and the opportunities linked to the eastern market.

The solidity of the firm comes also from the business model that characterizes its services and its products. The revenue mix that makes the company profitable is a combination of both one-shot and

recurrent revenues that derive from sale of services and recurrent maintenance and audits that DBA performs to the largest portion of its customer base.

Having analyzed the firm's competitive environment, its SWOT, its profitability and its business model I proceeded by analyzing DBA's balance sheets for the 4 years before IPO, in order to assess the total value of the company.

I started from the evaluation of company's cost of equity and debt capital. I used the Capital Asset Pricing Model and the Weighted Average Cost of Capital in order to assess respectively the cost of equity and debt + equity. These measures consider also the risks connected to each capital source.

Once the costs of capital have been defined, I drew the free cash flow in order to assess the value of the company by discounting it with the WACC rate by using the Discounted Cash Flow method. The second method I used is the Adjusted Present Value method, which consists in the definition of the unlevered cost of capital of the firm, as if it was only equity financed, and then by computing the value of the Interest Tax Shield. Both the two addends were discounted to present value by using respectively the unlevered cost of capital and the cost of debt.

The two valuation methods resulted in close values, valuating the firm to approximately 67 million €, giving rise to a subsequent valuation of about 5,5 € per share (out of the 11.500.000 shares outstanding).

The valuation task is usually carried out by the nominated advisor or by the global coordinator and it usually starts well before the selection of the advisors and continues during all the IPO steps until the last days before IPO.

There are 4 steps that the firm and its advisors must encompass before the IPO day, these are:

- The Pitch - during this very initial step, the company picks which intermediary it is going to be accompanied by during the entire listing process.
- Due Diligence - the overriding objective of the due diligence process is the utmost elimination of asymmetric information between parties. This is achieved through an in-depth study of firm's operations and governance, the highest level reachable of coherence between actual and expected economic and financial information.
- Pre-Marketing - during the pre-marketing phase the nominated adviser organize a meeting, called the analyst presentation, with all the analysts to present them the issuer in order to have them to subsequently disclose researches and analysis that have been carried out. During the analyst presentation, analysts receive a report containing the investment case. It is a fundamental step for the firm in order to understand the potential demand that interested

investors manifest towards its stock. It contributes to the final formulation of the opening price.

- Bookbuilding & Pricing - it is during this phase that the actual marketing campaign begins. In fact, top-management team and global coordinator organize a trip around the country to present the company to institutional investors (because of the sale on AIM) in the largest financial centers. This marketing trip is called roadshow and works as an advertising campaign to promote the company. At the end of the roadshow, the firm and its advisors draw up the final price to be offered on IPO day.

All the processes that characterize the listing of a company have the final purpose of defining an accurate price for the company's equity, by comparing the firm's potentials, strategies, performances and valuations to the demand from investors, analysts are able to define a correct price for company's stock.

Although this process aims at defining a correct price, what usually happens is that there is an underpricing of the former. In general IPO underwriters fix the offering price a bit lower in order that the stock shows positive returns after the first day of trading. From underpricing the two stakeholders who are benefitted the most are the underwriter/s and early investors. Underwriters, through underpricing, are able to mitigate most of the risk arising from the equity instruments they bought from the issuer by hedging on price differences.

Once the shares of the company are finally listed on the public market, a series of requirements start to be asked to the issuing firm in order to ensure that a correct behavior is held by the executives.

In AIM market these requirements are very basic and are defined by CONSOB, their aim is mostly the protection of investors by demanding a high degree of transparency.

Now that the firm has acquired its capital injections from the sale of its shares, it is now able to start to put in practice the plans and strategies it had previously thought. Going deeper into the use of the proceeds of the IPO, the Board of Directors of DBA Group decided to allocate them between 4 different areas. 15% will be dedicated to Research & Development, for a group with such entrenched roots into technological development it is fundamental to devote part of the total stake in researching and/or supporting new technologies. 15% allocated to Management Group Reinforcement. Considering the needs that will arise from the sharp growth and expansion perspectives, the company decided to dedicate part of the proceeds to the strengthening of the management team. 50% dedicated to Acquisitions. The group is willing to acquire a number of relatively small but fundamental competitors that will reinforce DBA presence in the home as well as in the foreign markets, with particular attention to the Balkans' area. The lasting 20% allocated to Internationalization. The

company decided to devote a consistent part of the proceeding in the development of foreign markets especially those of the Balkan area and central Asia, in order to consolidate its Engineering and ICT presence in those markets.

Since the IPO, prices of DBA stock faced a slight increase during the first month of trading, pushed by the hype of investors and by the underpricing that characterized the listing. But after the initial period, price started heading down reaching a minimum of around 3,4€ per share. The following months showed ups and downs that do not find correlation neither to demand shifts nor to disclosure of positive information concerning the company. Even though in a very conservative way, the only factor that positively affected prices was the increased transparency related to the disclosure of company's positive performance. In the end, considering the low liquidity level and the high degree of volatility that characterize AIM Italia, and bearing in mind that it is only 9 months that company's stock is available in the public market, I believe that the company is performing well and has the potential to grow and show solid returns in the long run.

Now, going back to the question that this thesis aims at answering "would I, as an investor, buy DBA Group shares?", considering the sound position that the company faces both from an internal and an external point of view, and taking into account the potential of the pathway the company is headed to, if I was an investor with a well-diversified portfolio which would allow me to carry on a little bit more risk for the sake of higher returns, I would buy DBA Group stock.