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Chair of
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**The IPO process: a case study on NTV (Nuovo Trasporto
Viaggiatori) Dual-Track process**

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Index

Introduction.....	3
First chapter: The IPO process.....	6
1.1 What is an IPO	6
1.2 Process and players involved	8
1.3 Valuation methods	14
1.4 Valuation process	19
1.5 Other methods to participate in the regulated market	23
1.6 Dual track-process.....	26
1.7 M&A exit strategy process.....	28
Second Chapter: Analysis of the Italian market and on advantages and limits of the IPO Process.....	31
2.1 Overview of the Italian market	31
2.2 MTA Market	34
2.3 AIM Market	39
2.4 Advantages of being a public company	42
2.5 Additional costs and formal requirements	46
2.6 Market abuse and special requirements for publicly traded entities	49
2.7 Consideration of the Italian Security Act.....	55
Third Chapter: NTV dual-track case study.....	59
3.1 Overview on NTV	59
3.2 Presentation of the European railway sector	60
3.3 NTV Nuovo Trasporto Viaggiatori Story	65
3.4 The Dual-Track process	69
3.5 NTV financial performance and some consideration on its valuation	72
3.6 Considerations on the operation.....	75
Conclusions.....	79
Bibliography	82
Summary.....	89

Introduction

In this elaborate, the initial public offer process will be analyzed under all its perspectives. The work aims to study all the relevant aspects strictly linked to the process. The thesis will show how companies facing solid growth in a market sector and which are well seen in that specific industry at a certain point of their life need more financial resources to invest in projects that grant them growth. During the first phase of the life of a company, debt financing is typically enough, but at a certain point, using excessive debt may result inefficient. This is because its cost would rise following the rise in the company's risk profile due to the growth of the debt in relation to company's equity. So, at a certain point, companies must take the IPO as a strategic decision to gain access to capital markets, particularly for equity financing. As will be discussed during the work, becoming a public company will expose the company to numerous advantages concerning funding, employment, and visibility, and new risks. The process is complex and involves multiple actors to cover all the practical and bureaucratic aspects. During the elaborate, particular emphasis will be given to the different possibilities that companies have in deciding to become listed, in particular on the methods that can be used with a focus on the dual-track process. The analysis will be centered on the Italian market. The work will be concluded after studying a dual-track process with the analysis of NTV case. The focus for the case will be on the whole process done by the company and then on their choice to avoid the listing process and sell the company remaining private.

During the first chapter, the primary focus will be on the IPO process, so there will be a detailed analysis of the process and its primary reasons. After a first introduction, the research will focus on the leading players needed by the process, such as the sponsor, the global coordinator, Borsa Italiana S.P.A., an audit firm, and financial consultants. Another critical factor is valuation. An extensive analysis is done concerning the processes followed to evaluate the company, from the pitch to the pricing and the typically used methods. During the thesis, the methods viewed are those suggested by Borsa Italiana SPA, the discounted free cash flow method, multiples, and the economic added value. The thesis continues with the study of a special IPO process which is the dual-track, characterized by its hybrid nature. It is, in fact, a combination between an

IPO and an M&A activity, and for this reason, it is important to understand which are its key advantages and its major disadvantages. And to have a clear view on the process it was relevant to analyze how an M&A activity was structured in order to understand how these two processes can be performed together and what are the key risk linked with the performance of a dual-track. At the end of the chapter, other approaches to participate in the public market are described and valued, such as the SPAC and direct listing emphasizing the primary advantages and limits of these methods.

In the second chapter, the elaborate analyze in-depth the structure of the Italian security market with a focus on the equity market. The objective is to give a clear vision of the possibilities that companies wishing to go public can follow. To ensure that, the MTA market, with a special analysis for the STAR segment and the AIM market, are analyzed, with their positive and negative features. The most important requirements to participate these different market are stated, with an analysis based on the ratio behind these laws. Following these themes, the elaborate focus on the IPO process, highlighting the benefits that a company can gain by getting listed. Some of these benefits are, gaining access to the capital market, decreasing its cost of financing, and improving its public image. At the same time, it was important to analyze all the problems or negative aspects that companies can expect from the procedure, such as an increase in its cost due to the formalities required by the market, or an increase in the complexity of the decision-making process. Because the IPO market is particularly regulated, it was important to analyze the Market abuse regulation and to treat some of the most important requirements to which companies must comply in order to be listed and to not incur abuse situations. To conclude the Chapter some considerations are done on the Italian Security Act, the focus is on the technological improvement of nowadays and on the stringent communication requirements asked by the regulator to companies. These are viewed both for the MTA market which has clearly some stricter requirements and on the AIM market that has a softer regulation, but still has an important impact on the life of the company.

In the third chapter, the NTV case is presented. To understand its business model, its sector, and its mission, the railway sector is studied. In fact, the European railway sector, and in particular the Italian one has strong relevance for the case. So the elaborate focus on the railway sector changes in the last two decades, to understand

the context in which the company operates and what are the factors that contributed to the excellent results obtained. To understand the process that NTV faced is important to have a deep knowledge of what happened to the company in the years precedent to the Dual-track process, so the growth of the company is taken into account and all the principal events are described and discussed. Particular attention is given to the process characterized by a short timing and an excellent valuation, which was probably unreachable without the dual-track process. To conclude the thesis, some considerations on NTV are given. In particular on the reasons behind the choice of this process, the different views on their owners for the acceptance of the offer, and the reasons behind the final decision to sell the entire company to GIP fund.

First chapter: The IPO process

1.1 What is an IPO

The term IPO refers to an initial public offer. Initial means that a company that has been typically private until that point sells its shares on the public market for the first time. The operation results in the sale of the company's shares through the public market. It is an important and challenging step in the life of a company. One of the most challenging aspects of an IPO is the determination of the correct price. The main reason it's so complex can be found in the concept of asymmetric information.¹ In all cases, investors have less information on the company that is being sold compared to the seller. Therefore, there is a high risk for an investor to overpay. This type of operation can be performed primarily in two ways, selling pre-existing shares to the public (OPV, Offerta Pubblica di Vendita) or through the issue of new shares (OPS, Offerta Pubblica di Sottoscrizione). Another possible choice that a company may undertake would be using a mix of the previous methods.

A similar operation can be performed even without the consequence of being public. Companies can decide to perform an OPV or an OPS in a private placement (with a limited number of selected buyers) or directed to institutional investors. In these two cases, the company will not need to comply with all the strict rules of transparency aimed at consumer protection due to the expertise of the subject involved. The key to considering an IPO is that the marketed shares must be offered at least majorly to the public market. The initial public offer and, more in general, the choice to become public can be defined as a strategic operation. Borsa Italiana SPA determined well what are the main advantages that companies can expect from being public. At the same time how much care and attention must be given to the whole process because it can be an important opportunity for the growth and the success of the company, but at the same time, it comes with risks such as the damage that an unsuccessful IPO can create to the enterprise.² The IPO process can be done for many reasons. As said before, it can be considered a strategic decision. The range of positive effects is broad,

¹ (M., 2018)

² (Borsa Italiana SPA, 2001)

and the whole process can be tailored around the company's needs. Some of the most common objectives are:

- Access to the capital market: companies can finance themselves more efficiently and with a broader range of instruments that grant them the possibility to reduce their WACC (weighted average cost of capital)
- Improve public image, thanks to the whole process, when companies go public, they are subject to the high media attention that grants them more visibility and interest from the public.
- When a company goes public, its shares are continuously valued on the market in a real-time continuative process, which grants a real-time value of the company and that the shares are more liquid. The presence of a continuative valuation gives significant advantages in terms of M&A activities. In addition, the liquidity of its shares allows them to be used as a means of payment for a broad range of operations.
- Stock options plans are commonly used in public companies as a corporate governance instrument to improve the remuneration policy. It links a part of the remuneration (the amount given in stocks) to specific objectives.
- In particular, the (OPV, Offerta Pubblica di Vendita) immediately allow shareholders to disinvest part of their stake, either to diversify their investment or realize the gain.

Clearly, through the IPO process, the company becomes public. For this reason, a set of rules contained in the Italian securities act (Italian Security Act, Testo Unico Finanziario) or the Civil Code depending on the market chosen, applies. The rationale behind a more rigid regulation is that retail investors can easily acquire shares of a public company. Therefore, the legislator must ensure that investors are protected and well informed on the product they will receive. The objective is reached thanks to precise regulation and supervisory authorities such as CONSOB that ensure compliance with the law. Some of the disadvantages deriving from the company's nature after the IPO process are the additional requirements for these companies. To introduce them briefly, some of the other conditions may be due to corporate governance, where companies have to respect some minimum standards that ensure

good communication between the committees. Transparency is another crucial requirement that needs essential efforts from the company and the management. In addition, the public nature of a company will expose the same to market fluctuation, which is another risk that has to be managed.

1.2 Process and players involved

To be listed, companies must respect the rules contained in the regulation issued by Borsa Italiana (Regolamento dei mercati organizzati e gestiti da borsa italiana SPA)³ This section will focus on the requirements and actors involved in the quotation process on the MTA (Mercato Telematico Azionario) and AIM (Alternative Investment Market).

MTA is more structured than the AIM market and has more strict requirements, it typically attracts larger companies. To give an insight into the conditions and the rules that will be discussed deeply later in the work, it can be said that companies must follow, Art.2.2.1 (requisiti delle azioni) defines which are the legal requirements of shares to be negotiated on the market. The ratio is to verify that the shares can be traded fairly and efficiently. To allow it, the market capitalization must be at least equal to 40 million euros. Borsa Italiana can admit trading shares with a lower market cap, but only if Borsa Italiana considers that a smaller capitalization will be enough. If a company is already admitted to other multilateral negotiation systems, the prerequisite of 40 million will be calculated from an average that considers the last three months. Borsa Italiana SPA requires a sufficient distribution of at least 25% shares divided to institutional investors and retail investors. To enter the STAR segment is necessary to have at least 35% of stock float. Companies interested in access the stock market also need to follow the rules of art. 2.2.2 (requisiti degli emittenti azionari), which states the required documentation. Typically, only the companies that have published and deposited three balance sheets, with at least the last one audited by a statutory auditor gave an unqualified audit opinion. Borsa Italiana SPA also requires

³ (Borsa Italiana SPA, 2001)

some minimum standards in terms of governance and systems of control. These must be sufficient to provide an accurate and adequate overview of the company's economic and financial condition. Following this scope, the company redacts the Memorandum, approved by the board of directors. It describes the components of the system, subjects who are in charge, and information that will be produced by the company and disclosed. The Memorandum must contain essential key performance indicators and key risk indicators, financial information elaborated by the company in line with the dimension and the business complexity of the same, and information on the industrial plan, budget, and objectives. The ultimate control is done directly by Borsa Italiana, which must assess that the entity can generate profit and that at the same time, there are no obstacles to the maximization of economic and financial results, such as a possible situation of conflicts of interest does. To understand better the process is vital to give an overview of the players involved.

- Borsa Italiana SPA is a critical figure in all the processes, starting with the definition of the regulatory framework to the whole listing period. It has three principal structures which are involved in the entire process. It has a marketing function, a legal function, and a control function on the information that companies must deliver to the market and on the companies' activities to ensure transparency and investor protection from unlawful behaviors.
- Consob is the Italian supervision authority for the markets. Its activity ensures that companies act respecting the law. The supervision is directed to companies and the information that companies must deliver to investors. They must be complete, truthful, and sufficient to give a valuation on the investment. Consob is accountable for the authorization to the publication of the prospectus, which is the document that contains all the information required to be listed (in the case of an IPO)
- Monte titoli grants centralized management of shares. All the companies which intend to get listed must adhere to the system.
- The sponsor is a mandatory figure, the issuer chooses it, and there is a close collaboration during the whole process. Typically, a financial intermediary acts as a guarantor for the market and Borsa Italiana SPA, ensuring that the issuer has all the requirements for the quotation. In addition, for at least one year after

the listing, he is obliged to publish financial analysis reports and some short analyses for events of particular importance for the company. Finally, it's also mandatory for the sponsor to have at least two meetings with the company's management during the year and with the national and international financial community.

- Global coordinator: typically, it is a function covered by the sponsor. His activity begins with analyzing the whole operation that should be positive if the company has all the suitable characteristics to proceed with the IPO process. It works in close collaboration with the advisors. The Global sponsor is also continually in communication with both Borsa Italiana SPA and Consob. Given their coordination activity, they assist the whole operation, from the underwriting agreements to the after-market, where price stabilization is a key objective.
- Financial consultants cooperate with the enterprise to the first realization of a feasibility study and on the redaction of a preliminary valuation of the firm. They also help the company in preparing the business plan and the prospectus.

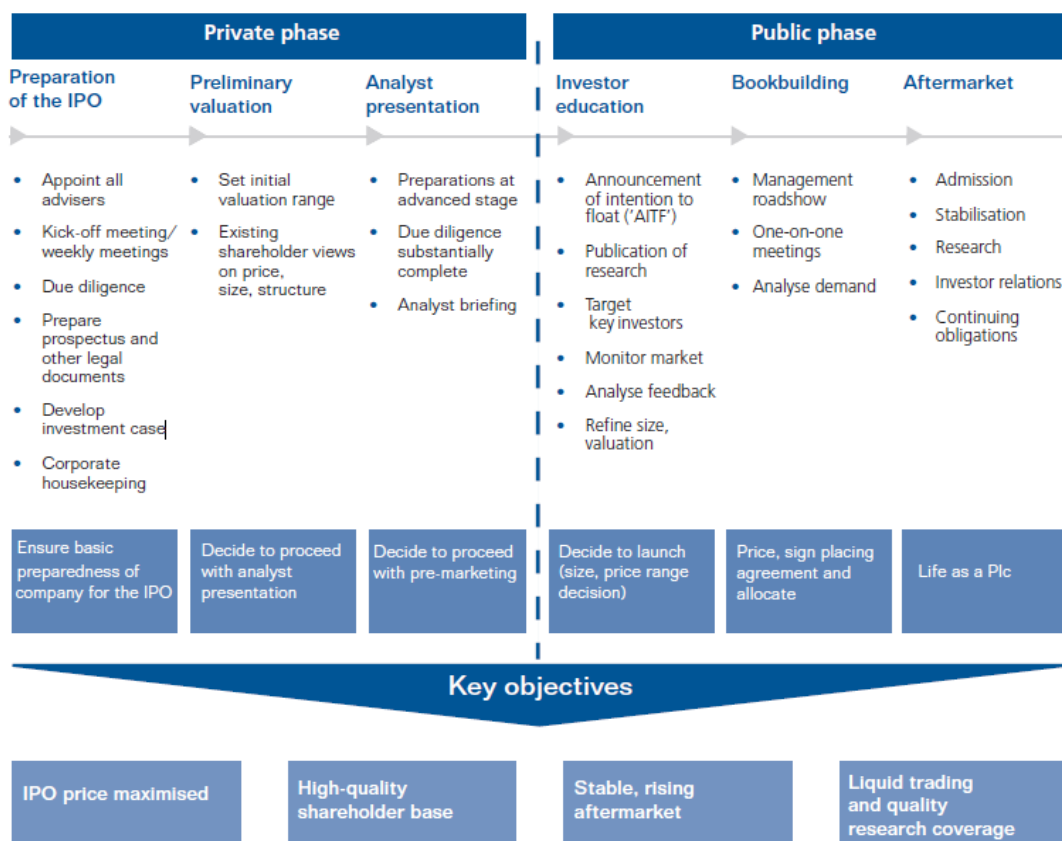
⁴

- Auditing Firm: they must assess the truthiness of the balance sheets of the company and of others relevant documents. It is necessary for the release of the "comfort letter" relative to the prospectus. ⁵
- Legal advisors: They may be appointed by the company or by the global coordinator. Some of their duties are to advise the company on statutory adjustments, help in the redaction of the prospectus, cooperate with the company in drafting the underwriting contract, and release a legal opinion.
- Communication consultants: they cover a vital role in the marketing phase. The company needs to communicate effectively with the market to clarify the company's values, products, and strengths. They also have the role of "education" for the company that may not be an expert in investor relations.
- Tax advisor: Should help the company with a tax optimization strategy

⁴ (Borsa Italiana SPA, 2001)

⁵ (Borsa Italiana SPA, 2001)

These previously listed are the most common advisors during the process. But is important to understand that companies are different from one another. Differences can be found in their business model, organization models, or firm complexity. For these reasons is common to find other advisors in some specific areas that might not be strictly required by the process but that are required by the company's specific needs. For example, companies may need some specialized consultancies on corporate governance or internal control systems. These needs are justified by all the mandatory requirements for listed companies to ensure transparency in all the procedures and avoid possible conflict of interest. An IPO can certainly be defined as a complex operation. As such, it requires a significant amount of time that can range between 4 and 6 months on average. An initial public offer is made in a highly regulated market, and for this reason, it requires close attention to details to avoid problems of any kind.



6

⁶ (London Stock exchange Group, 2010)

As already wrote, an IPO is a strategic decision and for this reason, the primary point is an analysis of the advantages that this operation would bring. This analysis is typically done starting from the firm's industrial plan to link the company's financial needs with the necessity of going public. Once the Board of directors decides that the operation would bring to the company advantages, a second step is the feasibility study. The objective is to evaluate preventively if the company's characteristics are in line with those required to go public. This study is then presented together with the presentation of the project of going public, presented by the Board of directors. Depending on the nature of the operation, if there is a capital increase or not, the decision to start formally all the procedures to go public are taken in the extraordinary shareholder's meeting (reinforced majority) or the shareholder's meeting if there is no increase in capital. Immediately after the vote, in case of a positive result, advisors are appointed (Sponsor, legal advisor, auditors, etc.) and they will follow the company during the whole process. Another key moment is the meeting between the management and all the advisors together. During the meeting, responsibilities are divided between the participants, and the program of the principal activities is arranged together with the timing. Later there is a financial and legal due diligence activity, in which the sponsor, in concert with the other advisor, must verify the financial, economic, and legal situation of the company to assess the feasibility of the quotation and a first economic valuation to estimate what will be the price of the offer. During this phase, people who are in charge start to work on the prospectus. The prospectus is the official document with the function of investment solicitation. The sponsor does the redaction (following the schemes required by Consob) in close cooperation with the advisors. The prospectus contains all the information that emerged during the due diligence phase. This document aims to include all the information about the company and the structure of the offer. It contains all the economic and financial data and its performance, the description about its positioning in respect to competitors, information on the management and objectives and strategies. Other factors analyzed in deep are employees, suppliers, clients, creditors, and all the contracts. Information about solicitation and financial instruments are also given. The document final version must be deposited to Consob to give permission (nulla osta) for publication. Within two months from the presentation of the request, following the model reported in

“istruzioni al regolamento” Borsa italiana gives notice about the admission or rejection to the company together with Consob. The decision is given in a public way through a notice. The notice has a validity of 6 months, and it's subordinated to the deposit of the prospectus at Consob. In this next phase, there is the publication and distribution of the search report on the company's shares, which is distributed to analysts. The objective is to communicate the share's investment case and create momentum during the pre-marketing phase because it includes all the information that analysts need to evaluate the company. It contains a detailed description of the company's business, a presentation of the offer structure, and the methods used to evaluate the company. The constitution of the underwriting placement syndicate is done by the coordinator that generally covers the role of sponsor too. It creates a consortium with other banks intending to obtain a declaration of interest from institutions and brokers. The procedure will help to decide the final number of shares that should be issued and their allocation between investors. Analysts of the consortium will later meet in informal meetings with potential investors to present the company and distribute the search paper. The possibility to meet investors and hear their doubts, questions, and opinions about the offer will help reach a narrower price interval. Another activity which is done to increase the interest in the company is the roadshow. Top managers of the company participate in series of meetings in the biggest financial centers where they present the company to potential investors. This activity requires a lot of effort from the management both in terms of energy and time. Still, it allows meeting institutional investors in one-to-one meets. It demonstrates the company's capacity and desire to maintain good and regular relations with the financial community, positively influencing the potential offer price. Bookbuilding is the activity that gives institutional investors the chance to order the book runner the number of shares they want to buy and the price of their offer. This mechanism gives the possibility to determine the highest price at which the shares can be sold to an institutional investor to reach the objectives of the company in terms of price and shares offered. The determination of the price typically is done in two phases. The first one is the shareholder's meeting that approves the capital increase and fixes the price in a range that should be large enough to contain market fluctuations. Then, following the result of the bookbuilding process, the board of directors may fix the price or determine the

maximum price in the case of a public offer where the price is not fixed. The sale to the public is done later. Shares are given to the consortium, which will offer them to the large public for not less than two days. Within five days from the OPV, it's mandatory to pay and deposit the share to Monte Titoli. During the first day of negotiation, the shares will reach the market price, which will give an important signal about the interest of the market operators in respect of the company. For a predetermined period, the consortium can intervene on the financial market to stabilize the price of the company's shares. If agreed at the moment of the offer also with a greenshoe mechanism. Greenshoe is a special type of option offered to the consortium by one or more shareholders. This gives them the right to purchase a pre-agreed number of shares at the price of the offer within a certain period that is typically 30 days after the shares are traded. The option grants the possibility to enlarge the offer in case of strong demand, and it is used to stabilize the price of shares in the aftermarket. It could be used even in the opposite way, so if the demand for those shares is too low, thank the option the consortium has the right to buy the shares, and this will give them the possibility to sustain the price of the shares.⁷

1.3 Valuation methods

To perform an initial public offer is fundamental to evaluate the company. Both for owners and investors, the valuation of the enterprise is highly relevant and will positively influence the decision where to invest or not in the initiative. During the valuation of a company, many aspects must be analyzed. Most of them are uncertain because of their future nature. Future cash flows are often used to understand the financial result of a company and the profit that it will be able to generate. This will be used as a critical assumption to give a correct valuation. Still, their future nature makes assumptions necessary to perform the process. Different methods can be used to evaluate a company. Although there aren't perfect methods, some of them may be better for a single company for its intrinsic characteristics. Due to the uncertainty on

⁷ "Commonly agreed by a sponsoring member firm as part of the stabilisation and underwriting arrangements for an introduction to admission to trading, as well as for further new issues of shares." Rules of the London Stock exchange, effective date 1 July 2019

the assumption necessary to perform the valuation, it is crucial to use different methods to assess the correctness of the analysis and that the method chosen is suitable for the company. Many valuation methods exist. Some of them are very similar and may be modified from the most famous and used ones, such as the Discounted cash flow method, while others are different. The literature shows how majorly three different ways are preferred and primarily used in the valuation of an IPO⁸. The methods are:

- DCF (Discounted Cash Flow)
- Multiples
- Eva (Economic Added Value)

The most famous and used one is the DCF method, and residual use is given to the EVA method⁹. Borsa Italiana S.P.A. also explains These methods in the document “Listing Guides.”¹⁰

DCF (Discounted Cash Flow)

The reason for the prevalent use of this method is that it is recognized as one of the most precise to attach the company’s value to the actual capacity to remunerate its shareholders. The model evaluates the enterprise value of the firm.

Enterprise value = Market value of Equity + Debt – Cash

The idea behind the model is to estimate the market value of equity, which would be the price to own the unlevered company, using all the cash to pay its debt. Thus, the first step required to proceed with the valuation is the estimation of free cash flow.

Free cash flow = Ebit \times (1- t_c) + Depreciation – Capital Expenditures – Increases in Net Working Capital

It is essential to understand that all the cash flow, which will indirectly give the company’s valuation, is future cash flow. For this reason, it must be considered during the valuation process. This concept is known as the time value of money¹¹” it is only possible to compare or combine values at the same point in time” due to this aspect,

⁸ (Rubino, 2021)

⁹ (Rubino, 2021)

¹⁰ (Borsa Italiana SPA, 2014)

¹¹ (Jonathan Berk)

all the cash flow generated in the future must be discounted to the present. The formula used to do so in the following:

$$EV = \sum_{t=1}^n \frac{OFCF_t}{(1+WACC)^t} + V_f^{12}$$

WACC stands for Weighted Average Cost of Capital, which is the average cost of capital that a firm must pay to all its investors, both equity holders and debt holders. The computation of this value is straightforward.

$$WACC = \text{cost of debt} \times \frac{\text{Debt}}{\text{Equity} + \text{Debt}} + \text{cost of equity} \times \frac{\text{Equity}}{\text{Equity} + \text{Debt}}^{13}$$

The challenging aspect of this formula is usually estimating the Cost of Equity, also called K_e . While often the cost of debt is known and sure, the cost of equity must be estimated, and it contains all the uncertainty linked with the estimation process. The estimation of K_e can be done following:

$$K_e = r_f + \beta \times (r_m - r_f)$$

r_m indicates the return on the market, and r_f indicates the return of an instrument without any risk. Even if all the instruments have some risks, typically, governments bonds are considered risk-free instruments. Of course, not all of them, but for example, in Europe, German bonds are used to calculate r_f because they are considered free from the risk of default. While β can be computed for listed companies following a straightforward regression model and adjusting it, the computation for a private company is more challenging. Therefore, it will be necessary to follow a Top-down approach in the calculation of the β . To follow the process successfully is essential to:

1. *“Identify the business or businesses that make up the firm, assets or project.”*¹⁴
2. *“Estimate the unlevered beta(s) for the Business or businesses that the firm is involved in”*¹⁵
3. It should be taken an unlevered weighted average of the betas
4. It should be calculated the leverage for the firm

¹² (Borsa Italiana SPA, 2014)

¹³ (Borsa Italiana SPA, 2014)

¹⁴ (Damodaran)

¹⁵ (Damodaran)

5. Only at this stage, it should be calculated the leveraged beta for the firm

V_f refers to the terminal value of the company. To explain it better, it can be defined as the sum of all the cash flow that the company will produce since a determinate moment that is when the valuation is done. This is because a company has, ideally, an infinite lifetime. The valuation should consider that the company might generate cash flow for an indefinite amount of time. And another critical characteristic is that companies, if well managed, have high growth potential. Even if, as stated, companies have ample possibilities to grow, when analysts are called to provide a valuation of it, the forecasting period will go beyond five years rarely. The reason is that even if the company may be expected to grow for a more extended period, uncertainty becomes too much, and it is assumed that the company will continue to have its long-term growth rate. Because the long-term growth rate is considered to be constant and for an indefinite amount of time is an excellent rule to choose a rate that doesn't exceed inflation because it can't be assumed that a company will always beat and perform better than the market,

$$V_f = \frac{\frac{OFCF_n \times (1+g)}{WACC-g}}{(1+WACC)^n}$$

Multiples

The starting point of an IPO valuation can be found in the comparison of the company's operative and financial performance, which is going public with other ones that are already public and that operate in the same sector.¹⁶ Multiples are a type of relative valuation in which the value of an asset or, in the specific case of a company, is valued compared to similar ones. These types of valuation suffer from "price anomalies" which are temporary fluctuations of the price in respect to the company's intrinsic value. But differently from intrinsic valuation methods, it's easier to apply this method to both public and private companies. Multiples are ratios where at the numerator market prices can be found, while there are the drivers to price formation¹⁷ at the denominator. Due to the necessary comparability between companies during the use of multiples, it is fundamental to have similarity in terms of business profile, in

¹⁶ (Organismo Italiano di Valutazione, 2018)

¹⁷ (Organismo Italiano di Valutazione, 18 Maggio 2017)

the sector where they work, in the type of business in which they are involved. But it is also relevant if they provide clients products or services, their distribution channels, their geography, and financial profile. For the application of multiples, they must be comparable in terms of size, profitability, growth potentials, and credit profile. During the multiple evaluations is important to define two different categories of multiples. Enterprise value multiples are those that assess the enterprise value of a company, so their denominator employs a financial statistic that flows to both debt and equity holders, while Equity value multiples calculate the market value of equity, and to do so, the denominator must be a financial statistic that flows only to equity holders, such as net income. The choice of the correct multiple is probably the most challenging thing, and the reason is that like also in the other valuation methods, there is not a suitable choice or a choice that is always better. It intensely depends on the characteristics of the company. During this kind of valuation, more multiples are used, and the selection of them must be made in a way where all the multiples together can bring some added value that may be the clarification of some values that taken alone may result unclear or the addition of some information that is fundamental for the valuation. Generally, companies going through the IPO process in this phase follow the indication of their Global Coordinator and the one received by equity analysts, to select the best multiples that give a consistent view of the company's value. Some examples of equity value multiples and Enterprise Value multiples can be found in the table below.

Sector	Multiple Used
Cyclical Manufacturing	P/E
Growth Firms	PEG ratio
Infrastructure	EV/EBITDA
Financial Services	Price/ Book equity
Retailing	Revenues multiples

Economic added value EVA

This method is used residually to evaluate companies going public. Still, it has some exciting features that make it an important tool that can be used to confirm values

found with the precedent methods or to evaluate companies from a different perspective. Eva is a methodology that links the company's performance with value maximization for its shareholders. The process assumes that the company creates value when profits are superior to the cost of capital used to generate those profits.¹⁸

$$EVA = \text{Nopat} - (\text{WACC} \times \text{CE})$$

Where Nopat stands for Net Operating Profit After Tax, WACC stands for the weighted average cost of capital, and CE stands for capital employed. From the annual EVA value it is possible to determine MA (Market Value Added) by computing the present value for all the future values. The relationship between the Enterprise value for the company and the MVA is defined by the formula below.

$$EV = C + \sum_{t=1}^{\infty} \frac{EVA_t}{(1+WACC)^t} \quad 19$$

$$EV = CE + MVA$$

MVA (Market Value Added) is defined as the present value of all future EVA²⁰. The significant advantages of this method are that: "it is the only measure of performance to be directly linked to the company's market value" and "it is the factor that determines the premium (or discount) in the market valuation of the company's shares."²¹

1.4 Valuation process

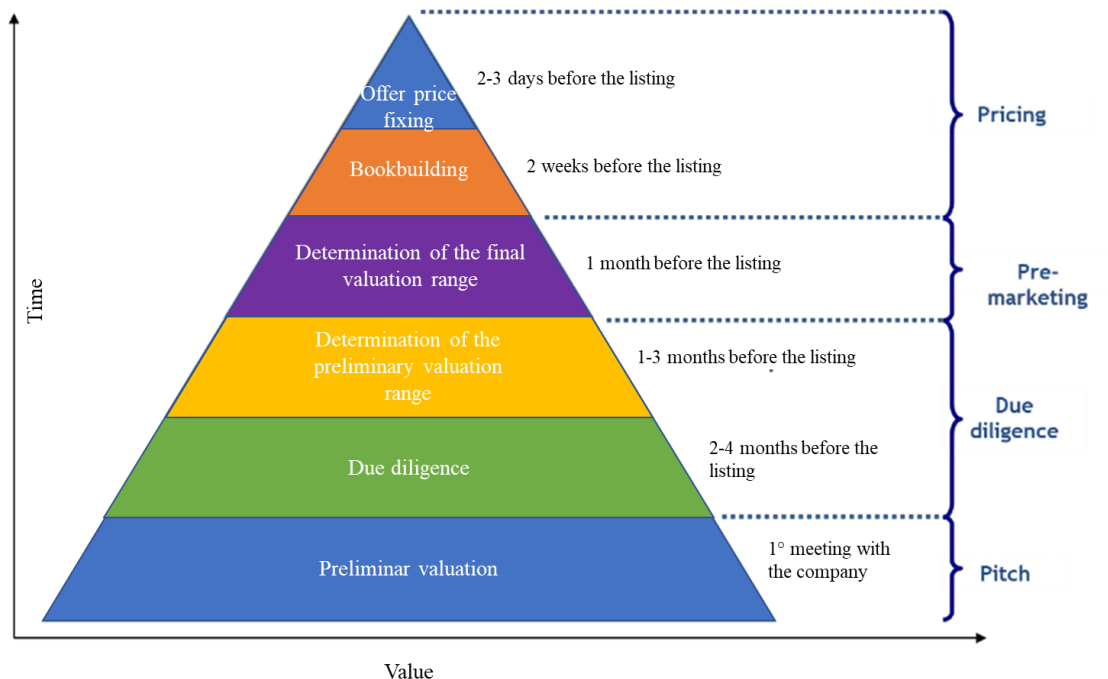
The valuation process is not straightforward but is divided into four different phases. The objective of the process is to decrease the range of price, which at the beginning is large through additional analysis and information which the company can receive from external parties and can add, deepening its analysis.

¹⁸ (Borsa Italiana SPA, 2014)

¹⁹ (Borsa Italiana SPA, 2014)

²⁰ (Vulpiani, 2014)

²¹ (Vulpiani, 2014)



22

1) Pitch:

The Pitch is when the company chooses between one or more intermediaries that will follow the same during the whole process. In this phase, Investments banks present their offer to be appointed as global coordinators. In this first phase, banks typically show a preliminary valuation. Due to the early stage of the process and the scarcity of information, this is the less accurate valuation. In this phase, the enterprise should give more importance to the actual capability of the financial intermediary in respect of the valuation.

2) Due Diligence:

Following the Pitch, the company and the investment bank begin the due diligence process on all the information material that the company makes available. Thanks to this process, the bank will deeply understand the business model of its client's business model and be able to evaluate their industrial plan. The Bank will also have to broaden its analysis on the reference market to value the project's sustainability. However, the assumption at the base of it is reasonable. At the end of this activity, the financial intermediary generally presents the first hypothesis of valuation defined as "pre-

²² (Organismo Italiano di Valutazione, 18 Maggio 2017)

money (range of preliminary valuation)” In this phase, the financial advisor, in concert with the underwriting bank, begins to describe the “equity story” which will be presented to the investor to give the company in the best way possible.

3) Pre-marketing:

During this phase, there is a so-called “analyst presentation” in which the company is presented to the financial analyst of the underwriting committee, aiming to prepare and publish their research on the company. The participants have distributed a document describing the “investment case,” which contains a detailed analysis. Generally, before the study is published, the Global coordinator hears the opinion of institutional investors to have the first feedback on the Equity story and the company’s valuation. Researches are published one month after the analyst presentation. These will be used during the roadshow and to refine the valuation process thanks to the integration of new information such as valuations done by independent analysts. Now that the investment bank knows what price institutional investors are disposed to pay, following shareholders and financial advisors can define the price range of the offer. The idea is to choose a minimum price that can attract investor.

In contrast, the maximum price should be fixed listening to the expectations of the majority shareholder and following the range expressed by the investor before the pre-marketing phase. The difference between the maximum price and the minimum should be around 20/25%. There are no advantages to choose a narrower range because it will give less freedom to the company to adapt the offer to market fluctuations. At the same time, a broader scope will provide investors the idea that the company has not a clear view of its value, leaving too much uncertainty.

4) Bookbuilding and pricing:

The core marketing activity is done during the roadshow, which typically lasts two weeks. The company’s top management meets investors interested to acquire equity on a one-to-one basis or in groups. This phase is crucial. Even if financial analysts of the consortium have already educated investors, they will take their final decision only after these meetings.

One of the most used methods to price and finalize the offering is the bookbuilding method. After those meetings, investors will express their interest in a certain amount of shares at a single price or different amounts depending on the cost of the shares registered in the institutional book. During this phase, called bookbuilding, the price considers not only the fundamental financial characteristics of the company but also all the others elements that may influence the price less significantly, such as market condition, organizational structure, sustainability, etc. At the end of the bookbuilding phase, the underwriting banks, together with financial advisors and the management team, will decide the final price considering the company's objectives in terms of allocation between institutional investors and retail investors. This technique reduces the risks linked with the whole process, in fact, companies have the possibility to test the demand through the advanced gathering of indications of interest. So that the final decision on prices and allocation will depend on the responses received during the premarketing phase ²³.

Auction method: the method can be performed primarily in two different ways. It works as a classic auction in which interested investors can bid for a certain amount of shares at a certain price. But the result can be slightly different from the classic auction process. In the case of a single-price auction, bidders won't pay necessarily what they bid for, but all the winning bidders will pay the lowest price of the bids accepted regardless of what they bid. This type of auction is the most used during the IPO process.²⁴In the case of a discriminatory auction, the situation is completely different, because the process is the same, so investors will propose the number of shares that they are interested in at a predetermined price, but differently from the method explained before they will pay the amount for which the bid. In both types of auction neither the company nor the underwrites can choose the stock's price. "both the price and the winning investors result from the mechanism itself: the auction process is very perfunctory."²⁵

Fixed price offering: in this type of offer, the firm autonomously decides a certain amount of shares to be offered to the market at a predetermined price. Any interested

²³ (M., 2018)

²⁴ (M., 2018)

²⁵ (M., 2018)

investor must communicate to his bank the number of shares that he is interested in. If the demand of shares exceeds the number of shares offered it will be determined a pro-rata allocation percentage. This method is actually riskier than the ones described above. The reason is that this type of offer has a scarce consideration of the demand and for this reason tended to result in a high level of underpricing.²⁶ The reason for the underpricing is due to the fact that when the demand is lower than the supply for the pro-rata mechanism there is the generation of inflated orders

1.5 Other methods to participate in the regulated market

Performing an IPO is probably the more common and known method to participate in the market. At the same time is the most structured way, but it is not the unique one. Another interesting instrument that is gaining importance in the last years is SPAC (special purpose acquisition vehicle). Their use began in the US. The system typically works with the constitution of a S.P.A. sponsored by investors or managers. The company receives the needed capital, and after these activities, it goes public and uses its liquidity to buy shares of a not listed S.P.A. With the other company, the operation that is done is called a reverse merger²⁷ because the integration between the two companies is done under the SPAC, which is typically smaller. Being already listed, the choice grants immediate access to the capital market. A SPAC can be defined as a vehicle to perform, in most cases only one acquisition. Clearly, funds which the company receives from investors must be used only for the operation defined by the sponsors at the beginning. Funds received don't formally form a separate heritage because the limits to the use of those funds are defined by investors in "statutory agreements," which are not opposable to third parties. The board of directors of the SPAC research for the right company where to invest in a specific sector which is typically identified in the admission document (prospectus or admission document depending on the market chose for the listing). The shareholder meeting must approve the operation, and the whole process must be concluded in a defined timeframe, generally between 18 and 24 months. If the company is not able to find a target

²⁶ (M., 2018)

²⁷ (Biasi, 2018)

company, the SPAC will be liquidated, and investor funds will be returned. The reasons behind the use of this specific instrument can't be found only in the efficiency that the same can grant. One of the main objectives is the reduction of some important risks. One of the primary risks that a company meets during the listing process is to be forced to interrupt it. In this unfortunate case, the problem is not only linked to costs but also to the fact that if the process is suspended, institutional investors won't trust the listing process of the company for some years. Without institutional investors, the process probability of success is significantly lower. Other advantages granted by this method can be found in confidentiality. The IPO process is long, and during its phases, a lot of information about the company must be delivered to the market, such as all the price-sensitive information. During the initial public offer, the company must present its industrial plans to the market, which can be seen as a disadvantage for the company, which will directly inform its competitors of its next moves. Under this perspective, the listing process through a SPAC grants greater flexibility, negotiations are private, and the interruption of the process can be done multiples times without any problem. The process grants complete confidentiality for nearly all its phases. Another advantage can be found in the structure that is simpler in respect to an SGR that could be seen as an alternative to perform a similar operation, but the constitution of it needs more time and investors have no decisional power, while in the SPAC, they can vote. Last but of great importance is the pricing process. As shown before, during the IPO, the company's pricing is a complex activity characterized by asymmetric information²⁸. This means that the company decides when to get listed, and they will choose the best moment to do it, its managers will know what the true value of the company is and all the details of it, while investors will have less information about it and anyway won't know the company and its characteristics in deep how managers do. In the listing, through a SPAC, the price is the result of a negotiation between two parties that will reach an agreement about the price of the company that is going to be acquired. In Italy, this instrument has been accessible only to professional investors for mainly two reasons. From a more practical perspective, to participate in this kind of operation, a significant amount of capital is required. From a technical perspective, it may be difficult for retail investors to identify which are the key risks of the

²⁸ (Biasi, 2018)

operation. From a juridical perspective is less clear²⁹. In fact, these operations require the redaction of the prospectus or the document of admission, depending on which market the company will be listed. Information required for a SPAC is extensive and comprehensive of all the information needed to be listed. This applies during the life of the SPAC and the execution of the relevant operation. The structure of it is created around the guarantees offered to its investors. As said before, these companies have a limited life, normally around 24/36 months, extendible only if a potential target for the relevant operation is found. Another important and typical guarantee is given by the fact that the funds received by investors are kept in a separate and escrow account, and all the expenses borne by the administration of the company are covered by promoting partners. This last aspect may create some possible conflicts of interest. The reason behind this is that clearly, to limit these expenses, there might be an interest in closing the operation faster accepting a target company that may be sub-optimal. The guarantee for this can be found in the mechanism that requires promoting partners to present the target company and the operation to the shareholder's meeting, where they won't have the right to vote. On this occasion, investors can vote, and to those who vote against the operation the right to recede is granted.

Direct listing

Direct listing could be considered another different way to get listed without recurring to the most known and standardized IPO process. It is interesting to see how Borsa Italiana allows this process in Italy and leaves substantial freedom to the issuers. In Italy, this instrument has been used majorly by banks and minorly by corporates for the issue of bonds. The mechanism is relatively simple, there is a direct emission of shares in the market, which would be available to retail investors. There is freedom in the organization of the process regarding both the price of the offer and on the distribution. The procedure is cheaper than a traditional IPO process. The guarantees to investors would be present, in fact for this kind of operation the TUIF at art 94 states that the company is accountable for the redaction of the prospectus, and there is no responsibility for the placement³⁰. Even though this procedure is allowed, as stated

²⁹ (Biasi, 2018)

³⁰ Decreto legislativo 24 febbraio 1998, n. 58

before, it has never been used for private company shares. Probably because shares are more complex than bonds. In addition, bonds are generally rated indirectly by analysts, while for shares, the risk is higher and a deep due diligence activity is necessary. Other possible problems to this type of listing can be the absence of an investment bank that serves the role of “deep pocket” with the resource needed to satisfy patrimonial damages in case of litigation. Another important limit is the absence of a sponsor, and its key advantages, which is the absence of all the processes, is also its major weakness, in fact, investors may not trust the company or may see the due diligence done as insufficient.

1.6 Dual track-process

A dual-track process can be defined as a special exit strategy, that takes the form of an IPO and an M&A process for at least a part of the procedure. It can be performed in numerous ways. A choice can be the performance of the two processes only during their early phase. In this case, the management of the company in concert with the owners decides what is the most suitable exit strategy in the early stage. Another choice may be the complete performance of both the procedures, to decide only at the end which one is the best to undertake. It can be seen as a conflictual choice because the aim of the two procedures is in some way conflictual. An M&A exit is used to reach generally different objectives. An M&A exit is suitable for owners who intend to leave the company and disinvest in a faster way is compared to the IPO and the participation is often entirely sold. The IPO is generally used by shareholders as a way to raise capital that will serve the company during its growth and to disinvest which can be an objective realized in a longer range of time. The IPO is more efficient for shareholders when their idea is to not disinvest completely their shares but to maintain their stake inside the company. Also, directors may prefer this hypothesis, the reason is that they are interested in maintaining their role in the company that will become public to administrate it in a more independent way.³¹ Still, even if these exit strategies are different both in terms of execution and objective apparently, they can be used

³¹ (Previti)

together and they effectively create some true benefits for the company using them. The dual-track process offer to companies undergoing the whole process the possibility to have an alternative in the case in which the IPO performs poorly, it also protects the company in case of high market volatility³². As seen the initial public offer process takes time, and during it, market conditions may change and the environment could become unfavorable for the company and in general for the issue of new shares. The choice of the two processes guarantees a more competitive environment (when performing the M&A negotiations) for the company, and the possibility till the end to choose the one that grants the most favorable output for it. These advantages however come with costs. The use of two procedures requires extra work and more time because even if there are some important synergies, mainly in the area of due diligence which is quite similar between the two processes there are many additional tasks that need to be performed and the organization of these two exit strategies are different both in term of timing and subjects involved. The correct timing is probably one of the most challenging aspects, in fact during the M&A procedure information is given to buyers only after early steps. Confidentiality is a key requirement for the procedure to ensure the best outcome from it, while the IPO is based on the divulgation of information to the market, comprehending the industrial plan of the company. During an M&A transaction, some of the potential buyers may be strategic ones who know the market in which the company operates, and is not rare that some potential buyers are competitors of the company, so it is fundamental for the company to release information to them only after the assessment of a true interest in the company, and not for general interest that may be guided by the desire to acquire sensitive, or anyway additional information. The choice of an investment bank is relevant for both the procedures and a good choice could be to engage only one advisor who should be in charge of both the procedure. The reason behind this is to ensure that the advisor will not have a situation of conflict of interest knowing that he will lead the operation independently from the exit strategy chosen. In this way is possible to receive the best advice for the company and to choose the best process. This choice comes with some negative features, the expertise required to perform an M&A process is different from the one required for an IPO, so to avoid problems of conflict of interest and expertise

³² (Dual-track exit considerations, s.d.)

companies will tend to choose the same investment bank, but will choose to consolidate their set of legal and financial advisors. Dual-track processes can find their execution in two different ways. It can be a private process, in which the company stops the IPO process before it becomes public so that the acquirer can realize the acquisition or it can be public, in this case, the acquisition is done just after the listing process.³³ In conclusion, the dual-track offers positive features and more guarantees of success of the whole operation. But still, companies need to assess if their management can follow both the procedures and to guide the company during the whole period, and in addition, they must know that the benefits come with a significant increase in costs and a more complex and long procedure.

1.7 M&A exit strategy process

It is important to understand the M&A exit process described above. The understanding of it is a key requirement to better understand the functioning and the complexity which are linked with a dual-track process. Companies willing to perform this more complex operation need to follow partly or integrally an M&A exit strategy from a seller perspective. There are many considerations to be done before entering into this process. Companies must analyze what is the correct timing to begin it (and this is even more difficult in the context of a contemporary IPO procedure), the number of buyers that would be interested to acquire it. It is also relevant who are the buyers because in the case of strategic buyers the advantage to sell the company to an acquirer that would benefit from synergies and that may be willing to pay more for that reason is offset by the risk that their participation is linked to the desire to acquire competitive information on the target. Another consideration that should be done by the company is linked to the type of process to be used, and this depends also on the disruption that the process would bring on the company, so on the length that can be tolerated by the company without incurring in severe damages due to the “distraction” of the management. The process is difficult and requires great focus from the company to reach the main objective that is the maximization of its value. To do it, companies

³³ (Previti)

must create a competitive environment, so the presence of more potential buyers is considered an advantage thanks to the competition. Buyers must be well selected to create price tension and to not lose credibility among the buyers that are considered more suitable from the company. In case of a bidding process, the information must be clear, a timeline must be well defined and all the buyers must have access to the same information. The company should also limit the disruption that the process will inevitably bring, and must be careful in the divulgation of sensitive information. This information must be presented to potential buyers also in a second phase to be secure that the buyers have a true interest in the company. There are different types of sale process options. All of the processes that will be briefly discussed are different for complexity and the number of buyers involved. The seller should consider based on their unique condition and needs what is the most appropriate process to be followed.

The most simple process is called the “Negotiated Process”, which involves the participation of only one selected buyer. The process can be defined as “one step” because the price is negotiated and agreed upon shortly after the due diligence process. Some advantages of this process derive from its simplicity. The choice to be focused on a single buyer guarantees high confidentiality among the market and its competitors and the execution tends to be faster if compared with the other methods. But the presence of only one buyer limits the bargaining power of the seller once the process is underway and the lack of competition goes at the advantage of the buyer in the price determination.

The “controlled auction” benefits from the participation in the process of broader but still very focused buyers. The process has mainly two phases. During the first one buyers will receive only some general information about the seller in a document called “Extended Teaser” and they will have to make an indicative bid based on this partial information received. In the second phase which will be accessible only by those buyers who have been selected by the seller in the first phase, potential buyers will enter the due diligence phase, where they will have the possibility to get access to detailed information about the seller to be able to define the price that they are willing to propose for the acquisition of the company through the final bid. This process creates high competition, and the presence of more buyers increases the possibility to have reached the right one. It must be appointed that the process is long and can require

one month more of the “Negotiated Process”, being then more disruptive for the company. Some buyers may also not be interested in participating in an auction.

“Broad auction” is very similar to the process defined previously, the main characteristic is that buyers are not selected by the seller. All the potential interested buyers can participate. Confidentiality problems are partially managed thanks to the two phases process explained before, but are still very present due to a large number of potential participants. This option grants the highest competition possible but is extremely demanding in terms of resources for the company. It requires on average two weeks more than a “Controlled Auction” and the duration of it and the time that management needs to dedicate to it increase the risk of disruption for the business object of sale.

An option that has some features of an auction and some other of a negotiated process is the “Non-auction Auction”. The process begins following discussions with some identified buyers, which are not told they are in a competitive process. The auction nature of the process will be disclosed to buyers in the second bid phase. And from that moment the process works in the same way as a controlled auction. Some advantages are that bids received during the first phase are more accurate, because the buyers have no reason to increase them to ensure their participation in the second round, and the absence of competition could encourage the participation of a broader number of buyers. Some drawbacks of this procedure are that there could be a loss of competitive tension at least in the initial phase, and some buyers may require as a pre-requisite exclusivity to continue the process. In addition, there is an increase in the complexity of the procedure due to the need to synchronize different buyers who follow the procedure independently in respect to each other.

Second Chapter: Analysis of the Italian market and on advantages and limits of the IPO Process

2.1 Overview of the Italian market

The market for public companies finds its origin at the beginning of the XIX century, in Milan as an association between bankers, but during the last 30 years, the market followed a period of deep transformation. Probably one of the moments that signed the passage to what can be defined as the modern market was the law 2/1/1991 n.1 which entered in force January 1, 1992. Following that law, the “Consiglio di Borsa” was founded with the aim to represent all the components of the market and to unify negotiation across the Italian market. The law also changed the idea behind Borsa, to a virtual reunion of the operators who are allowed to negotiate. The “Consiglio di Borsa” was in charge to complete the transformation process of the stock exchange. The complete passage from the “shouted negotiation” to the telematic one ended in 1994, and later the process of dematerialization continued. At the end of it, the exchange of stocks and more in general of financial assets were simplified to accounting operations while before they were based on the true exchange of the asset through its physical property. Together with this modernization process, the growth of the Italian stock exchange was archived thanks to the State, privatizations were indeed relevant to favor the increase in market capitalization. These privatizations had two primary goals for the legislator, they gave important resources to the state, and at the same time gave the Italian market huge liquidity that made it one of the most important in Europe. To complete the privatization process, and to follow international standards regarding the stock exchange, the last but important action to undertake was the transformation of the “Consiglio di Borsa” which was a public authority in a private entity. So, a new S.P.A. was born, Borsa Italiana, which developed market regulation granting liquidity, transparency, and competition. During its first 10 years of activity, 1998-2008 Borsa italiana, from a single company became a diversified group, comprehending “cassa di Compensazione & Garanzia”, “Monte Titoli”, “Servizio Titoli” ed “MTS”. Thanks to this structure the Group of Borsa Italiana was able to increase the exchange industry to levels never reached before. In only 10 years, 236 companies were listed. At the end of 2007 more than 300 companies were listed, and

the market capitalization reached 48% of the Italian PIL. During 2007 The acquisition of Borsa Italiana S.P.A done by the London stock exchange was the end and at the same time, the beginning of a new era. The integration of these markets granted important growth opportunities. The complementarity of the services offered by the previously separated entities and their client's portfolios created an interesting opportunity to create the most important European market and with an important role globally. Unfortunately, 2007 signed the beginning of one of the worst financial crises ever happened. Since 2009 Borsa Italiana put great effort to consolidate and develop the market, to increase communication between the market and its participants. Borsa Italiana is now entering a new phase of its history, the London stock exchange Group reached an agreement to sell Borsa Italiana to Euronext, which is a holding company under Dutch law. To finalize the acquisition CDP Equity (Cassa Depositi e Prestiti) will acquire, contextually to the acquisition of Borsa Italiana, equity in Euronext. The percentage acquired by CDP Equity will be equivalent to the one owned by the French CDP. The new situation will grant a strong Italian presence in a European context. Italy will have a strategic role, with relevant functions in terms of technology, business, and support.

Market segmentation

“Market system” is in perpetual evolution to respond constantly to the needs of the market.³⁴ Borsa Italiana provided public companies different possibilities thanks to the existence of different markets. There were three main segments for companies that decided to go public.

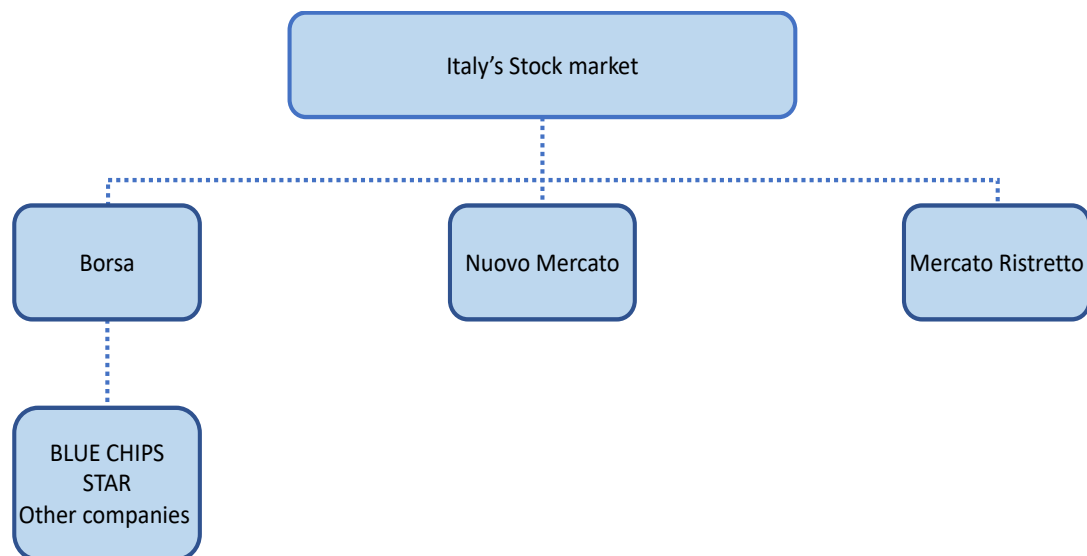
Borsa: is a market dedicated to companies that operate in consolidated markets, and is divided in,

- BLUE CHIPS: for companies with a capitalization of more than 800 million
- STAR (which is a specific segment for companies that satisfy high requirements), is a special market for companies that provide to investors high liquidity and transparency.
- The ordinary segment of Borsa (other companies)

³⁴ (Borsa Italiana SPA, 2001)

NUOVO MERCATO: was a specific market for companies with high growth potential. Typically, these companies operated in markets characterized by high innovation in terms of technologies, or products. Companies that participated in this market were typically managed by their founder and were searching for partnerships to develop fastly, or were companies that were already listed to increase their domestic equity base.

MERCATO RISTRETTO: was a specific market for those companies which operate in traditional markets with consolidated positions in the markets to which they belong. These companies presented some good financial and economical results. But these companies were not willing to participate in the previously defined categories. In this market, companies were able to find a very different environment if compared to Borsa and “NUOVO MERCATO”, was in fact characterized by fewer requirements and the admission procedures were easier and agile ³⁵



The previously stated market segmentation was current till 3 march 2008 ³⁶when Borsa Italiana decided to unify Borsa Segment with the Nuovo market, to increase the rationality and efficiency of the market. The companies that were listed in the Nuovo Mercato were divided into the 3 remaining segments, blue chips, star, standard. But

³⁵ (ASSONEBB Associazione Nazionale Enciclopedia della Banca e della Borsa, 2021)

³⁶ (Borsa Italiana SPA, 2008)

to not miss the important sector of companies with high growth potential that was served by MERCATO RISTRETTO in 2009 AIM Italia became the market segment more suitable for these companies.³⁷

2.2MTA Market

MTA (Mercato Telematico Azionario) is an order-driven market, in which the negotiation of financial instruments is done through an auction mechanism. When demand and offer meet the instrument is sold.³⁸ The MTA markets allow the negotiation of any quantitative of shares, convertible bonds, options, warrants, and shares of closed funds. Is possible to define three main segments, Blue chips, STAR, and Standard. Is also possible to divide companies also for capitalization and liquidity. Probably the most know indexes, with a benchmark function for the Italian market are:

- FTSE MIB, “The index will consist of the 40 most liquid and capitalized stocks listed on the MTA and MIV markets of Borsa Italiana. Foreign shares (i.e. shares of companies not incorporated in Italy) are eligible for inclusion.”³⁹ These are typically well-known companies with good past performance and a good governance system. The characteristics of these companies are attractive for investors, and participation in the index gives important visibility to these enterprises.
- FTSE Italia Mid Cap Index is composed of the first 60 shares ranked by company full market capitalization, which are not included in the FTSE MIB. For this index, foreign shares are excluded.
- FTSE Italia Small Cap Index captures the performance of all the other small shares which are excluded by the precedents index. To participate, companies must match liquidity and free float requirements. Foreign shares are excluded from the index.
- FTSE Italia All-Shares Index is composed of the participants of all the precedent indexes, it can serve as a benchmark of the Italian market thank to

³⁸ (Borsa Italiana SPA, s.d.)

³⁹ (LSEG Business, 2020)

its composition which includes companies of different dimensions and different sectors.

MTA market is well structured and to participate companies must be eligible. Requirements needed are defined by “Regolamento dei Mercati Organizzati e Gestiti da Borsa Italiana SPA.”

Art 2.2.1 (requisiti delle azioni) states what are the legal requirements for shares to be listed in the MTA market. Paragraph a) states the minimum capitalization needed, clearly it can be estimated for private companies, while for companies listed on another market, the average market capitalization for the previous 3 months is considered. The minimum capitalization is 40 million, this requirement is needed to ensure sufficient liquidity to investors, together with the one of paragraph b) that sets minimum dissemination of shares. The percentage of equity that must be distributed as “free float” is 25%, this percentage is considered distributed partly to institutional investors and to retail investors. Shares with the exception of those of popular banks or cooperatives authorized for insurance activity cannot be issued without voting rights in the ordinary shareholders’ meeting.

Art 2.2.2 (requisiti degli emittenti di azioni) states what are the conditions that must be met by the issuer. A key requirement for the issuer is having at least 3 financial statements published and filed with at least the last one audited with an unqualified opinion. The auditor must be authorized following D.L 27 January 2010. Companies born from extraordinary transactions or that changed substantially their structure during the last financial year, in addition to the previous requirements must redact a Pro-forma income statement for at least its last fiscal year. Another requirement is the redaction of a Pro-forma balance sheet that should reflect the condition of the company for the preceding fiscal year and other interim Pro-forma documents. To ensure that the documentation is appropriate so that financial information can be considered fair, these documents must be audited by an auditor or an audit firm, with sufficient knowledge of the subject. Companies willing to be listed also need to follow paragraph 6 or art 2.2.2 to enforce a governance system that can provide efficient financial and economic information to those who are in charge of them inside the company. The governance system must be able to monitor the principal Key performance indicator

and the major risk at which the company is exposed. Depending on the dimension and the complexity of the company's business, adequate financial data must be elaborated. The industrial plan must be updated periodically together with the budget. To gather together all this information, the issuer redacts the Memorandum, which must be approved by its management. The document defines the governance system, control system, those who are accountable for the documentation, key performance indicators, identification of risks. Another obligation of the issuer which is fundamental for the listing and necessary to avoid the abuse of funds raised to continue the activity of a company in financial distress is the ability of the same to generate profits with its activity. Borsa Italiana in fact has the duty to verify that the company can generate profit and to verify the presence of any possible conflict of interest in its corporate governance structure. If the company received a rating in the 12 months before the demand for the listing process, these ratings or any updated must be communicated to Borsa Italiana, and they will be published in the communication containing the date when negotiations will begin.

STAR Segment

Companies that want to be listed in the STAR segment must demonstrate superior requirements. The reason is that this segment contains companies that demonstrate to have greater standards in terms of communication with investors, liquidity of their shares, and corporate governance. The first additional requirement to participate the STAR segment can be found in art 2.2.1 of “Regolamento dei Mercati Organizzati e Gestiti da Borsa Italiana SPA“ It states that the “free float” must be at least 35%, part of this can be offered to the market with the green shoe option but not more than 10%. The free float cannot comprehend controlling shareholdings, shareholdings limited by shareholders agreements and those subject to “lock-up” clause, in the computation of the percentages shareholding of more than 5% of the company are excluded. Differently, the shareholding of institutional investors⁴⁰ is calculated as part of the needed percentage of 35% at the condition that the shareholding is not exceeding 10% of the equity of the company and is not a controlling shareholding.⁴¹ Art 2.2.3 defines

⁴⁰ (Borsa Italiana SPA, 19 July 2021)

⁴¹ (Borsa Italiana SPA, 26 April 2021)

all the additional requirements needed to obtain the STAR qualification. One of the necessary characteristics is market capitalization. It must not exceed 800 million this segment is designed for small, to mid companies. To obtain and maintain the STAR qualification, the issuer must provide to the public additional interim information, the minimum amount of information required is defined by the Italian Security Act in the art. 154-ter. It states that the company must provide investors information about the patrimonial condition of the company and its economic results, and information relative to important transactions, stating their effect on the financial condition of the company.⁴² To maintain the STAR qualification companies must publish all the information on their website, in the deadline required, in fact in the 18 months before there should not be any certified violation linked with the informative obligations. In addition, companies must have their financial statements audited with a positive outcome, and neither the company nor its subsidiaries should be exposed to insolvency procedures. It is apparent that one of the pillars to obtain this qualification is transparency and communication with investors, for this reason, it must be chosen an investor relator who is responsible for the communication with investors. Other key requirements to participate in this segment are corporate governance requirements. To ensure high standards, Borsa Italiana follows partly the Code of Corporate Governance, major attention is given to the composition of the corporate bodies. Of primary importance is art. 2, which states that all the members must have the necessary knowledge and the professional requirements needed to carry on their activity. The composition must also grant diversity in terms of competencies, a good balance between executive and non-executive members, and a significant number of members must be independent. Diversity is not linked only to competencies but also to the gender of the members, nationality, and in general their background to ensure better guidance of the company and the reach of its primary objectives. The composition of the control committee is crucial, it must be independent, and its member must be knowledgeable to perform their duties. The structure required by Borsa Italiana is not strict. Freedom is left to the company to choose what is the more suitable solution in the specific case. Even if the structure is free all functions must be performed. Companies can choose to create different committees with proactive and consultative

⁴² (Italian Securities Act)

functions for the functions such as control committee, remuneration committee, and nomination committee, or the function of one or more committees can be unified under the administrative body, but only if certain conditions are met. Independent members must be at least half of the total members, and the administration body must dedicate enough time during its sessions to perform the functions of the unified committees. The remuneration committee serves a main role for companies intending to participate in the STAR segment. Compensation for top management and executive directors must be divided into a fixed part and a variable part. This is extremely important to link the activity of the top management to the major objectives of the company. To gather the best effect from this compensation policy is fundamental to link the variable part to long term result. This will solve some of the major risks, that see compensation linked to short-term results that may be reached by the management to receive their bonuses damaging the long-term performance of the company. For non-executive directors the situation is different, their salary should be linked to their competency and their effective amount of work. In this case, the variable part can be avoided, or at least reduced to a small part of their compensation. The last important corporate governance requirement is the risk committee. It must support the administration body in its decision process. A different actor for issuers who intend to participate in the STAR segment is the Specialist. The specialist performs fundamental activities for the company. Art 2.3.5 paragraph a) of “ Regolamento dei Mercati Organizzati e Gestiti da Borsa Italiana SPA.” states that the Specialist must “Perform continuatively on the market buy and sell orders with prices that are not too far from a predetermined percentage established by Borsa Italiana for a minimum quantity which is fixed and can be found in the same instruction. To continuously display on the market buy and sell orders at prices that do not differ from each other by a percentage higher than that established in the instructions provided by Borsa Italiana for a daily quantity fixed in the same instructions”⁴³. The article defines also the other responsibility of the Specialist such as the production made directly by him or by third parties of at least two researches as defined by EU delegated regulation 2017/565 in art 36. Paragraph 1 “For the purposes of Article 37 investment research shall be research or other information recommending or suggesting an investment strategy, explicitly or

⁴³ (Borsa Italiana SPA, 26 april 2021)

implicitly, concerning one or several financial instruments or the issuers of financial instruments, including any opinion as to the present or future value or price of such instruments, intended for distribution channels or for the public, and in relation to which the following conditions are met”⁴⁴. The specialist must also arrange and participate at least twice a year, meetings between the management of the company and institutional investors. All these requirements come with more effort for the company that has to respect them, but the advantages deriving from the participation in this segment are apparent. Companies will have more visibility, and investors, both institutional and retail will be incentivized to invest in these companies knowing that they must respect stricter rules. The idea of the STAR segment is to have a segment of companies that set up and maintain the highest standards in corporate governance granting an efficient decision-making process, high-quality internal control, and liquidity of its shares.

2.3 AIM Market

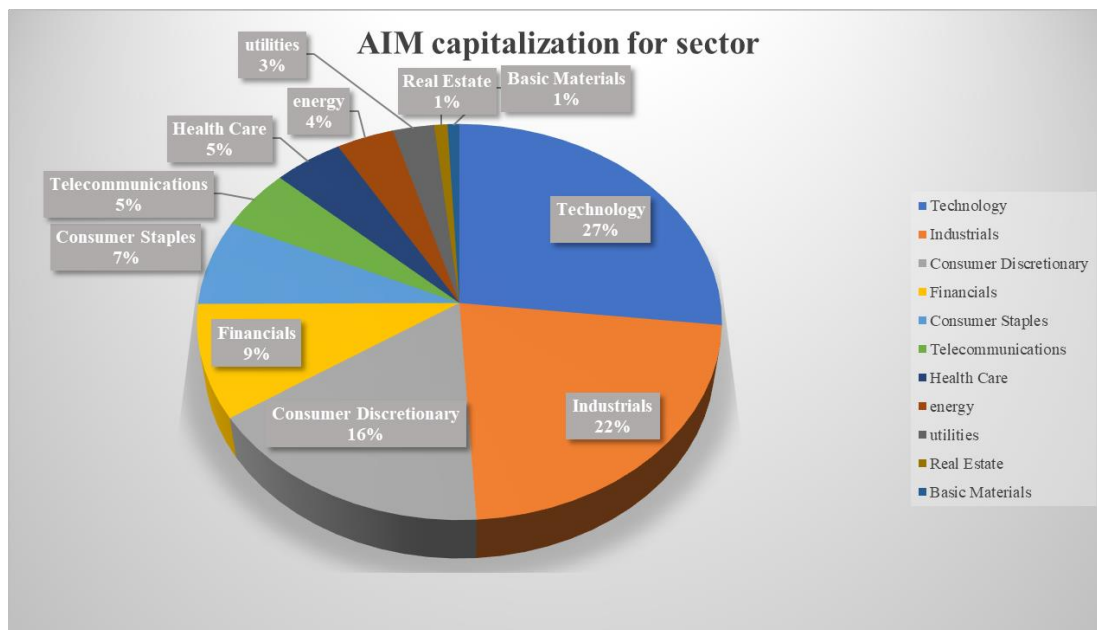
AIM market is relatively new and finds its origin in 2009. It is a particular market that serves small and medium enterprises during their growth. This market aims to help companies grow in a simplified environment if compared to the MTA market. The AIM market is a multilateral negotiation system and as such issuers must respect all the rules for issuers of financial instruments both at the national and European levels. The clear advantage is that companies that are not listed can find participation in this market easier, thanks to less formal requirements. And companies can also choose to perform their IPO gradually, this can be the best option for companies that don't have the urge to raise funds. The issuer can choose to participate in the Professional segment, which is a specific segment of the AIM market and implies that investors are professionals. In this case, the Legislator requires fewer formalities thanks to the fact that investors are experts and don't need to be “protected” such as for retail investors. Helpful and necessary during the whole procedure is the NOMAD (nominated advisor), each issuer must work in close collaboration with a NOMAD that must be authorized by Borsa Italiana. This role support and assist the company since the

⁴⁴ (European Commission, 2016)

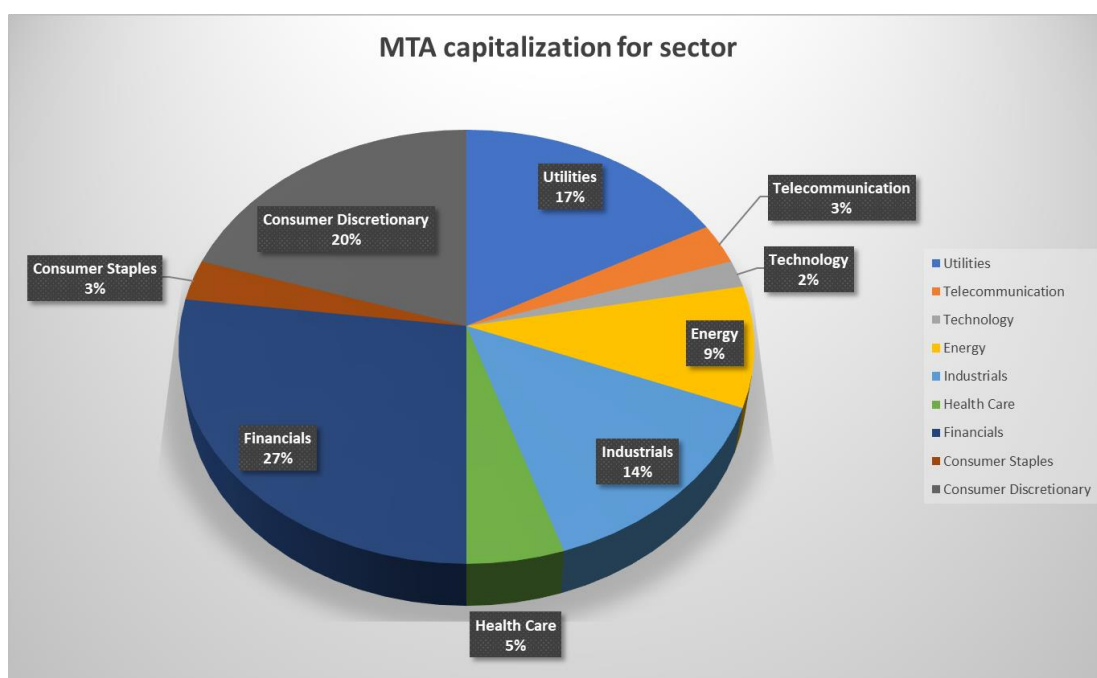
demand for admission to its permanency in the AIM market. He is responsible for the company in respect to Borsa Italiana and he must communicate to them all the changes in company structure or in the financial condition of the company.⁴⁵ To be admitted companies must present an admission document that contains all the information required by “AIM Italia Regolamento Emittenti”⁴⁶. To be admitted the documents required are the demand for admission, the payments of fees to AIM Italia, the declaration of the Nominated Advisor, and the admission document. To be listed companies must have at least one (if available) financial statement certified by an auditor, while there is not a formal requirement in terms of capitalization, is required to have a minimum amount of “free float” that should be divided between at least 5 institutional investors and for a minimum percentage of at least 10%. In addition, participants must also provide to investors a half-year report containing a balance sheet, income statement, and financial statement, with data that can be compared with the others of the precedent periods. The issuer must provide to the investor also its financial statement not later than 6 months after the end of the fiscal year. The company is free to choose the most suitable accounting method for its financial statement so that they can choose to adopt IAS/IFRS structure or they can choose to follow Italian accounting principles. Because this market is specific for small and medium companies with high growth potential, even in terms of corporate governance there is not a formal structure required. An interesting benchmark for this market is the FTSE AIM Italia Index. It is composed of all the shares which are listed in the AIM market. Differently from all the other previously listed, dual-class shares and foreign shares are also eligible for inclusion. Comparing the market capitalization of AIM and MTA can summarize well some of the main differences between these two markets.

⁴⁵ (Borsa Italiana SPA, 16 September 2020)

⁴⁶ (Borsa Italiana SPA, 16 September 2020)



47



48

There is a strong difference in the capitalization of the two markets. While for the MTA market a strong share is attributable to companies operating in the financial sector (27%) and technology companies' weight on the total market capitalization is

⁴⁷ (Borsa Italiana SPA, july 2021)

⁴⁸ (Borsa Italiana SPA, JULY 2021)

relatively low (2%) for the AIM market the situation is quite the opposite. Technology companies represent 27% of the total capitalization. These data actually are in line with the reasoning done before. The AIM market is specifically designed for companies that are small or medium and that have strong growth potential, and the technology sector is surely one of the sectors with the higher growth potential. Clearly in this case growth potential is not the only reason for this particular market capitalization. Another reason can be found in thinking about the AIM market as a temporary market. From the first IPO in 2009 to September 2019, 173 companies got listed, raising more than 3,8 billion. Another interesting factor that highlights the desire for the growth of the issuer in this market is the fact that more than 96% of the capital raised was issued as an equity increase. Many companies during these years got delisted from the market, the primary reason in which the 27% of the delisting incurred was the passage to MTA market, while M&A operation and business combinations such as SPAC accounted for more than 48% of all the delisting. From these results, it is apparent that most of the companies which were listed were able to reach strong growth and visibility from the market. ⁴⁹The AIM market was in fact the first market to receive the qualification of SME Growth Market by the European Commission

2.4 Advantages of being a public company

Defining all the advantages of being a public entity is difficult. Many of the benefits obtainable from the quotation are qualitative and for that reason attaching them a quantifiable value is impossible in the short term and difficult even in the long term. When companies get listed, they gain great prestige from their participation to the stock exchange. They receive great attention from all the investment community and publicity by mass media. These aspects are difficult to quantify quantitatively, but surely improve the image of the company with respect to all its stakeholders. This is possible thanks to the consideration that is given to the stock market, nowadays to get access to this market companies must respect as seen before strict rules. Transparency, financial solidity, and good corporate governance are all aspects needed to get access

⁴⁹ (POLITECNICO MILANO 1864 SCHOOL OF MANAGEMENT, october 2019)

to it. Many interlocutors, majorly international give great importance to these characteristics and small and medium companies can gain indirectly but thanks to their listing process important opportunities.

Thanks to the new image that companies gain, they become more attractive also for employees, increasing importantly their opportunity to attract and find good managers and they will be capable of retaining and finding more easily employees for their expansion. The possibility in addition to pay its employees with stock represents an attractive and in many cases less expensive option for the company.

Another major advantage of the quotation process is clearly represented by the financial resource that the company can attract becoming public. In fact, the IPO process can be considered a strategic choice for the company, and one of the main drivers is the need to finance its growth plans. There are major benefits from getting listed, primary importance should be given to the access to the capital market that leaves the company the opportunity to finance itself with risk capital, obtained by external investors, and grants also the possibility to finance itself through debt capital obtainable from both banks and investors. Access to more sources of financing gives more flexibility to the company that can choose how to finance itself. Some indirect externalities derive from this aspect, companies with more sources of financing will be able to reduce their WACC, because competition between the sources of financing will play a positive effect on their cost of debt. Banks will typically decrease the interest required to grant financing. Competition and the possibility to choose between a broader range of sources of financing are not the only reason why the WACC decreases. In some cases the increase in equity capital will change the rating of the company, this happens mainly when the company uses too much leverage. In these cases, the reduction of the leverage can increase the financial solidity of the company. Leverage is a key aspect of a company's corporate finance. Debt when used well grants a faster growth of the company and improves the financial result of it, also thanks to tax shield provided by passive interests. At the same time, a too high amount of debt can become too risky for the company, and the advantage given by the tax shield can be offset by the "cost of distress". In fact, the more closely related risk for companies who use a high amount of debt is not being able to repay it. Distress is a very expensive condition both for the company and for all its stakeholders, so there is a close

correlation between this risk and the return on investment asked by the debtholder and shareholders of the company.

The listing process can have as a result a dilutive effect on the ownership structure of the company. This is given by the issue of new shares, that grant the entry of new shareholders. A larger number of shareholders is appreciable following standards present in the national and international market⁵⁰ since it also limits problems linked with the “entrepreneurial succession” that embody many risks, in terms of the ability of the new management and in terms of tension than are very common in companies in which the ownership structure is really concentrated and often belongs to a unique family. A more diluted ownership structure ensure also more independence for the management. But even if it can be a desirable feature, is an aspect that deserves attention. It must be analyzed by the owners of the company, majorly in the case, they intend to maintain controlling participation.

All the transparency and the information requirement for listed companies should be considered not only as negatives externalities for companies that want to be listed, because if on one hand is true that to comply companies spend time and resources on the other hand the redaction of these documents grants better management of the company. All the information which are given to the market are useful also for the company that will have always an updated view on its financial and industrial condition granting more efficient management.

The listing also serves a role of valuation for the company. Managers and owners of the company can always know if the decision taken is appreciated by the “market” and what is the value of the company. Obviously, the market value of the company can be subject to speculation or can be far from the fair value of the company in the short term, but typically in the long term the market should reflect the fair value of the company’s “efficient market hypothesis”. Knowing the value of the company in “real-time” can help also with M&A transactions, both if the company acts as acquirer or target. In the vest of target the greater visibility given by the listing and a “sure price” helps in considering the company an interesting target to be acquired. Whenever the company act in the vest of acquirer, the access to the capital market and the possibility

⁵⁰ (Biscaro, 1999)

to know the value of the company grant access to different transactions such as acquisition financed by equity and debt or more structured and aggressive transactions such as LBO where the acquisition is done using mainly debt (of different types) and equity in small part (typically 30%). The idea is that the market giving a valuation of the company makes it easier to receive financing and to use also its own shares to perform the acquisition.

Shares of a public company thanks to their nature become more liquid. While in the case of a private company selling its shares is challenging and requires efforts in order to find the right buyer, public companies' shares are easier to be sold. All the required due diligence and research on the potential buyer that would be needed in a private transaction happens in a very efficient way thanks to the stock market. All the necessary information is already disclosed and buyers and sellers can operate transactions in a very easy and efficient way thanks to the multilateral functioning of the market. This feature increases the value of shares of public companies thanks to the benefits given by liquidity that gives important possibilities to its shareholders. They can monetize their participation in an easier way and they can diversify their position directly by disinvesting in the company and acquiring other assets or indirectly having the company raising capital to finalize the acquisition of other companies.⁵¹

IPO serves not only directly to the company, in many cases, but it can also be seen as an exit strategy for its shareholders. Actually, for different reasons it can be considered a privileged exit strategy, thanks to the value and the importance that companies acquire following the whole process. The fact that companies receive an in-depth valuation during the process and when listed is also helpful for shareholders who intend to disinvest from it. During the IPO, shareholders can choose to predilect disinvestment to growth, or they can choose an intermediate path. When the necessity is to disinvest, totally or partially, the company during its listing process won't sell to the public only new shares but will sell also pre-existing shares of the shareholders whose intent is the disinvest.

An advantage not directly linked with the feature of being public but more with the nature of the process is linked with the valuation that the market gives to certain

⁵¹ (Marco Pagano, 17 December 2002)

sectors. In this case, the IPO can serve mainly to take advantage of periods in which certain types of companies are being overvalued by the market. Following this idea, managers and owners will be motivated to perform an IPO when the market “overvalue” the sector in which the company will be classified once it is listed. A good ratio to consider might be the market-to-book value. Whenever the ratio is greater than one, it means that the market is valuing the company more than the value that can be directly attached to the company’s assets. The valuation must be anyway be done deeply, because a high market-to-book value may also need that the high valuation done by investors is linked to the growth potential of the industry in which the company operates.

2.5 Additional costs and formal requirements

Being a public company can grant important benefits. But as seen the procedure is expensive and the law requirements are particularly stringent also after the IPO process. It is necessary then to complete the analysis to consider also the negative aspects of the IPO procedure and of being a public company. The most apparent negative effect is the costs of the procedure. Even if the fees required by Borsa Italiana may seem low if compared with the benefits that are linked with the procedure, they are probably the smaller part of the total expenses.

	Fee for every 1.000.000 € of capitalisation	Cap	Floor
			MTA :
			Capitalisation \leq €1bn : €35.000
			Capitalisation \geq €1bn : €100.000
			AIM Italia :
			capitalisation \leq €20m : €15.000
			Capitalisation \geq €20m : €25.000
New Companies	€ 180.00	€ 500.000	

52

The problem with the costs of the procedure is not attributable, if not partially to these fees. The major cost is linked to all the professional figures that companies need to

⁵² (Borsa Italiana SPA, 2021)

hire. As seen before there are numerous consultants that must be hired by the company to reach all the standards needed by the public market. The major expenses are done in the early phase of the process, when is fundamental to set up the company for the public market and this means in term of its internal process, of transparency, external and internal communication, and control systems. But also the remuneration required by those who cover the activity of the Global coordinator, or in the case of the AIM market for the Nominated Advisor and more in general for all the roles and activities that need to be performed is relevant. Still, the company will have during its permanency in the public market expenses linked to its public nature. Many obligations will continue, such as the obligation to have the balance sheet audited, or the obligation to provide information to investors (to the market). So before entering the process is a good rule to verify all the expenses, the one that has a unique nature (in the process or in the moment of listing) and those that can be considered recurrent.

Great importance should also be given to the resource which is not economical but is still needed during the whole process. IPO are complex operations and require effort from all the management of the company. Activities are time-consuming and require control from the board of directors. For this reason, some authors provide a theory that links the underperformance of IPO with the distraction of the management.⁵³ During the process, many things change in the organizational structure of the company, and the board of directors needs to supervise all the changes. However, the process as seen is long and generally takes more than one year. So the Board of Directors in some cases cannot manage the company with the required attention and supervise the process of going public at the same time and often the management of the company can have some downturns. The gravity is linked majorly to the fact that companies in these phases receive funds that should finance their growth, so bad management of those is a serious issue for companies. In addition, companies typically hire new directors to fit in the standards required by the public market, and the knowledge of the sector is often not enough to be helpful immediately, so new directors need to understand and learn before they can be help taking sound decisions for the company. Together with all the previous changes in many cases the CEO (which in the case of

⁵³ (D.B. Audretsch, 2010)

small and medium business is often also the owner) step back to leave the floor to a more expert manager that will lead the company from that moment. All these changes in a delicate moment as this can lead to problems in the administration of the business of the company, so primary importance should be given to the administration of their core activities and the necessary actions should be taken to reduce these problems. The suggestion to minimize the “initial distraction” of the directors seem counterintuitive, it should be discouraged the assumption of directors working on other boards and with other roles (that, on one hand, would provide expertise and professionalism) because their activities would only distract more the board, but the board should be staffed with people who have been through an initial public offer.⁵⁴ It seems that previous experience is particularly valuable to reduce agency costs and to conduct the process most efficiently. Some other negative aspects of being a public entity must be researched in their participation in the market. Being listed means that the value of the company changes daily and this exposes to new risks that need to be managed. The valuation of the company will be very dependent on short-term results. Investors will follow the communication released by the company for example its EPS, and more in general the trimestral results, and will decide whether to buy or to sell their shares. For these reasons, the price will be exposed to fluctuations that don't reflect the intrinsic value of the company but instead the temporary sentiment of the market.

Another risk correlated to this aspect regards the ownership structure. Companies need to pay attention to it to avoid risks related to hostile takeovers. In fact, when investors acquire large stakes of equity, is important to assess what are the risks related and how companies can prevent and react to this dangerous situation. A takeover can be friendly and in most cases, it represents an occasion to grow and to expand the business of a company typically thanks to synergies that can be generated by the combination of them. Hostile takeovers instead are dangerous, due to their nature due diligence is approximatively, quite always the management will be changed once the acquisition is finished, so it represents a threat that must be considered.

Loss of confidentiality represents another challenge for companies willing to become public. Disclosure rules for the stock exchange obligate company to unveil information

⁵⁴ (D.B. Audretsch, 2010)

that may be crucial for their activity, an example of sensitive information that must be disclosed are those linked with Research and developments projects or future marketing strategies⁵⁵. S.Campbell was the first to link confidentiality as a key issue for the company's decision of going public, he defined it as a deterrent.⁵⁶ For this reason, companies working in the high-tech sector are less likely to go public, because their innovative nature imposes large activity of R&D and the advantage of going public can be offset by their loss of confidentiality.

The adverse selection represents another key issue for companies going public. Investors are less informed than the issuer about the true value of the company. This asymmetry of information is reflected by the price that investors are willing to pay for a company that is going public. Companies when listed inevitably hold more risks than a company that has a strong record of performance in the public market. It is possible to speak of an IPO discount that is very common, in order to deal with the greater risk linked with a new issuer, but also justified by the necessity of the company to attract institutional investors and to secure for its investors and for possible future capital raise, strong performance on their stock price after the initial public offer. This problem as highlighted by Chemmanur and Fulghieri (1995), this adverse selection cost is a more serious obstacle to the listing of young and small companies, which have a little track of record and low visibility, than for old and large companies. So in the presence of adverse selection, the probability of going public should be positively correlated with the age and/or the size of a company.⁵⁷

2.6Market abuse and special requirements for publicly traded entities

Companies when listed can reach a multitude of investors, that can buy part of their equity. So it is fundamental to protect investors. For this reason, the Legislator decided to base all the regulations for listed companies on communication and transparency. Communication can be distinguished in

⁵⁵ (Marco Pagano, 17 December 2002)

⁵⁶ (Campbell, December 1979)

⁵⁷ (Marco Pagano, 17 December 2002)

- Periodical: where the object of it is ordinary operations with pre-established cadences, comprehensive of the annual financial report and the half-year financial report, the financial statement (and the consolidated one when required), the management report, and the certification of the management in charge of the redaction of accounting documents of the company
- Continuos: that is comprehensive of all the facts that if known by the market may influence the price of the financial instrument. And to this theme is strongly linked the discipline of market abuse and of “insider information”
- Extraordinary: that is specific for facts that are extraordinary for the company, and some good examples could be merge, acquisition divisions and other operations of these kinds.

In addition to these, art 115 of Italian Security Act⁵⁸ defines disclosure obligations with respect to CONSOB. This authority can act in two primary ways: they can ask for additional information from issuers, to the subjects which control them or to the controlled companies or they can act with preliminary activities (attività istruttorie) such as the request of information from the management or for example from the auditors. In both these methods of action is clear that the aim of this activity is to “monitor the accuracy of the information provided to the public”⁵⁹

Transparency is the other principle of the legislation regarding listed companies. These rules were introduced with the modification of the “Regolamento Emittenti” to comply with the EU directive 2013/50 (transparency) with the D.Lgs. n. 25/2016 that imposed stricter rules with the objective of increasing transparency. One of the requirement asked to companies are information relative to ownership structure, so that each year companies must redact a relation on their governance and the ownership structure so that the market can have a clear vision on who controls the company. Art 120 of the Italian Security Act defines the rules for communication in terms of relevant participation stating that when there is the acquisition of a stake of 3% or 5% in SME the owner must communicate it immediately to CONSOB. Another aspect that deserves attention is cross-holding, the Legislator for listed companies denies the

⁵⁸ (Italian Securities Act)

⁵⁹ (Sottoriva, 4 giugno 2020)

possibility to own more than 3 or 5% in the case of SME of a company if also the other company participates in the previous one. The rule is not applicable only in the case that one of the two companies controls the other.⁶⁰ With regards to shareholders agreements, the Italian Security Act derogates the discipline to art 2341-bis and 2341-ter of the Civil Code where is possible to find the definition of shareholders agreements as any agreements between shareholders with object regarding the right to vote or the limitation of the transferability of the shares or that have as aim or result the exercise of a dominant influence. Another discipline born with the scope of preventing the extraction of benefits linked with the control of a company is the discipline of related parties' transactions. Key relevance in the discipline is given to independent directors, who must give a positive opinion on the transaction, both on the necessity for the company to perform that transaction and on the convenience and the correctness of the characteristics of the operation.

Primary relevance can be found in the last discipline that is going to be analyzed which is the Market Abuse Regulation. In fact, there are many ways in which companies, or to be more clear people with relevant positions in the company or with roles that grant access to sensitive information can take advantage of the market. The crime can assume different forms and can be pursued in different ways. Still, the common factor of these types of crime is that they are done using information (privileged and price-sensitive) to gain profit to the detriment of the market. The Legislator felt the need to regulate these aspects to ensure less abuse, in the context of growing markets and more accessibility to information thanks to the improvement of technology. These factors should be considered positive for numerous reasons, but they increase the risks linked with the abuse of sensitive information since they receive greater exposure and the community is larger. For these reasons, the EU commission issued Regulation (UE) N. 596/2014 also called Market Abuse Regulation.⁶¹ The text focuses on the treatment

⁶⁰ (Sottoriva, 4 giugno 2020)

⁶¹ REGULATION (EU) No 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 16 April 2014

on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC

of privileged information and on how companies should deal with them to avoid abuses.

Art. 7 of the MAR in paragraph a) defines the concept of “inside information:” information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments”. The treatment of this sensitive information is subject to strict regulation and in particular to art. 17 of MAR. The article states that the issuer “shall inform the public as soon as possible of insider information which directly concerns that issuer”. But this is not enough, in fact, the issuer must also ensure that the information given to the market is complete and easily accessible. The discipline however is subject to some exceptions. In paragraph 4 the delay discipline is explained. Under the responsibility of the issuer is possible to delay disclosure of insider information if they meet certain conditions.

1. So if the immediate disclosure may prejudice the legitimate interest of the issuer
2. The delay is not likely to mislead the public
3. The issuer can ensure the confidentiality of that information.

Only if all these conditions are met is possible to delay information release.

In addition to this regulation other forms of protection are offered to shareholders. The board of directors has a primary role in the direction of the company and the ordinary business is run by the administration body, for this reason, the legislator felt the necessity to establish a mechanism that grants investors protection regarding the action of the board of directors. Art 2393⁶² of C.C offers this protection, and in particular, for listed companies, the amount of “ownership” required to activate the procedure is 2,5%. The action’s name is “azione di responsabilità” and can end with the substitution of the administrators of the company if certain conditions are met. In many cases is difficult to grant effective protection to minority shareholders and the unique way to

⁶² (Brocardi, s.d.)

respect their right is giving them the possibility to leave the company. Is important to give the possibility to sell their position at market price for example when companies enter or exit from a “group perimeter” ⁶³. The reason is that participating in a group can modify the company in numerous ways, so the investment for shareholders can become very different from what was initially.

Another institute that is extremely relevant for shareholder protection and can act as a disincentive for those who want to acquire control of a company acquiring a relevant stake in it is the mandatory OPA (mandatory tender offer) as regulated in art. 106 of the Italian Security act. It consists of the obligation for the acquirer to launch a mandatory tender offer when he acquires participation higher than certain thresholds. The percentage is different for Small and medium enterprises for which the amount is equal to 30% of the total voting rights, while for larger companies the threshold is equal to 25%. Companies can choose to change these thresholds in their article of association, but the percentage must range between 25 and 40%. The justifications for this institute are mainly 3:

- 1) When an acquirer begins to acquire shares of the company, shareholders of the company need to decide whether to sell or not their participation, without this institute they should understand what will the others investors do. Because if the acquirer reaches control of the company there is the possibility that their shares will be less valuable.
- 2) A second reason is given by the fact that the acquirer is typically strongly motivated to pay a premium to acquire shares that would grant him the control of the company with no further motivation to acquire all the others. The result would be that a part of the shareholders would receive a premium to sell their shares while the others could be forced to sell their participation at a discount. This is clearly against the principle of parity in shareholders’ treatment. ⁶⁴ In fact in art 92 of the Italian security act, it is stated that ” Listed issuers and listed issuers with Italy as their home Member State shall guarantee the same

⁶³ Art 2497-quater C.C

⁶⁴ Court of justice UE, 15 october 2009, C-101/08, Audilux SA and others c. Groupe Bruxelles Lambers SA (GBL) and others and Berstelmann AG

treatment and with identical terms and conditions to all holders of the listed financial instruments.”

- 3) The last ratio would be to grant the possibility to shareholders to disinvest in case of a change in control. The reason why this right should be granted can be found in the fact that if the company ownership was dispersed the new acquirer may have less respect for the rights of minority shareholders, and on the other hand, a change in the control of the company creates a different perspective of it, because the company will be administrated practically by its owner.⁶⁵

It is interesting to analyze the mandatory tender offer institute together with the concept of acting in concert. The definition of this concept is given in art 2 of the directive on takeover bids⁶⁶ “ ‘persons acting in concert’ shall mean natural or legal persons who cooperate with the offeror or the offeree company on the basis of an agreement, either express or tacit, either oral or written, aimed either at acquiring control of the offeree company or at frustrating the successful outcome of a bid” The directive thanks to this inclusive definition of the concept of acting in concert increase the range of application of the mandatory tender offer. In this way also if the acquisition of a block holding is not done directly by one “person” when thanks to any sort of agreements this implies the gaining of control powers the acquirers are obligated to launch a mandatory tender offer to give the possibility to shareholders to leave the company in case they are against the change on control of the company. It is important to understand that cooperation between shareholders is not considered acting in concert in any case. In fact, in case the cooperation is done in order to ensure good corporate governance for the company and greater participation of shareholders in the administration of the same, so-called “shareholder activism” without seeking control of the company the concept of acting in concert does not apply. The involvement of shareholders in the management of companies is in fact seen as a positive feature and is in line with the EU and international trends and goals.⁶⁷

⁶⁵ (Fornasani, 2017)

⁶⁶ (European Parliament and the Council, 21 april 2004)

⁶⁷ (Ginevri, 2017)

2.7 Consideration of the Italian Security Act

Markets change fast, technologies play a key role in their evolution. Evolution comes always with positive features and challenges, that need to be faced. One of the most disruptive elements present on the markets today is represented by HFT (high-frequency trading) which embodies the use of hardware and software to place a high number of orders in the market. It is pacific that the use of technology does not bring prejudice to the other participants to the markets “slow traders”, but still there are some risks linked with HFT that need to be managed. For them, the discipline of market abuse and inside trading may not be enough. The legislator posed great attention to these traders in the directive 2014/65/UE (MIFID 2) basically in art. 17 it is stated that these operators need to adopt additional control systems to limit the risk that these technologies are used for activities that configure market abuse. And art. 48 regulates a more practical issue, it is called “circuit breaker” and ensures that HFT doesn’t compromise the correct functioning of the regulated market (limiting the number of transactions that can be performed on the market). Another aspect that merits attention and that has primary relevance on the Italian Security Act is “disclosure”. It has been seen how many information companies willing to participate and who participate in the market must disclose. But the amount of information that needs to be delivered to the market, and the way it must be presented to investors is a reason for discussion. The argument is not easy, increasing the amount of information that must be revealed, does not bring automatically an advantage to the market and investors. In the Italian Security Act the legislator had to set rules that grant an equilibrium between the time and the resource needed and spent by the company to comply with the disclosure obligation and the information which are useful and needed by investors. It is really difficult to grant it, and the reasons are multiple. One risk of excessive information available on the market is known as “information overload”⁶⁸. The concept is that an exaggerated amount of information can distract investors from the most important ones and can create an environment of uncertainty. In addition, the analysis of a multitude of information requires time, which as a result would mean an increase in costs necessary to comply with due diligence requirements and increased difficulty for

⁶⁸ P.O. Mulbert, *Angelerschutz und Finanzmarktregulierung-Grundlagen*, in ZHR, 2013, 187 s.

investors to distinguish relevant information from those which are unnecessary. Another interesting theme regards the language and the technicality of information disclosed. It is always difficult to choose the correct level for two reasons. The disclosure of information, if done in plain language, avoiding excessive technicalities may result useful for retail investors, for the ones who do not have the knowledge to understand technical documents and analysis. But at the same time, this appears a limitation for those who have that knowledge, for professional investors those information may not appear sufficient to conduct appropriate due diligence. A possible solution seems to require companies to provide distinct flows of information, but that could result in particularly onerous for the company, and in addition, there would be confusion among investors on the source of information to choose. And anyway there would be the possibility of contrasting information due to the different language used and the presence of different details between documents provided, and this would create difficulties for investors. The solution provided by the legislator is in some way in the middle, for some documents as the Prospectus the introduction of the “nota di sintesi” provides key information about the investment in the language in which the document is redacted and using plain language. The idea to provide information for retail investors was however questioned. The US doctrine speaks about the “conventional myth” of the informed investors⁶⁹ explaining that is usual that investors do not read and in many cases cannot understand the financial information they read. Even if the legislator seems to follow the logic previously stated. From art 94 paragraph 10 of the Italian Security Act is evident that the document previously mentioned (nota di sintesi) serves only as an introductive document with not enough information to be used to decide to invest or not in an initiative. This aspect is counterintuitive because how stated before this document is prepared essentially to provide retail investors the key information of the process and generally is the only document that will be read by them, both for lack of knowledge and time. Also, the use of international standards IAS/IFRS for example seems to go against the trend. In fact, financial statements tend to be more complex following international standards, and the use of fair value is clearly more difficult to understand. In these case is clear

⁶⁹ H.Kripke The myth of informed layman, in 28 Bus. Law.,1973, 631 ss.). Cfr. K. Firtel (nt.68), 863 ss.; T.M.J. Mollers-E. Kernchen (nt

that the legislator prefers to provide information in the best way possible (the use of these standards ensure that the balance sheet and in general the financial statements reflects in the best way possible the true value of the assets of the company) than to make them comprehensible for retail investors. In reality, disclosure serves its purpose somehow indirectly in this case, institutional investors will be able to evaluate the condition of the company in a better way thanks to the use of these standards and they will be able to protect retail investors indirectly through their analysis or directly if the institutional investors serve as a fund accessible for retail investors. Italian Security Act regulation is extremely relevant for the MTA market and in general for the MTF market. But there is a certain amount of freedom left to the administrator of such markets. The AIM market previously exposed need some consideration. As stated before the market is meant for companies that are small or medium characterized by strong growth potential. The AIM market has no formal requirements in terms of capitalization. Market capitalization is generally not determinant for companies to choose the market to be listed in. In fact, the star segment for example allows companies with a capitalization ranging from 40 million to 1 billion granting also SMEs to participate in it. For this reason, the difference must be found under other terms. The choice for companies must follow different reasoning. This market was borne with the idea of facilitating access to capital markets for smaller companies, providing simpler procedures and requirements. This aspect anyway is difficult to be regulated, because the Legislator must find the correct equilibrium in the requirements asked and in the investor protection. In addition to keeping the AIM market competitive and desired for companies must have serious simplification, because with an excessive regulation companies would have to comply with strict rules but without the benefits given by the participation to the MTA market which is well known and attracts the majority of the public capital. As stated before the Italian Security Act does not apply automatically to this market, because its application is for the regulated MTA market. But to find a good equilibrium the most important aspects are still required for small and medium enterprises participating in the market. For example, the discipline of the OPA seen before is not directly applicable from the Italian Security Act, but to grants, the advantages deriving from this discipline the “regolamento AIM” under art. 6-bis requires that each issuer must adopt and maintain

adequate corporate governance standards.⁷⁰ So the OPA regulation is integrated into the company statute. The discipline of transparency linked with relevant participation are also applicable for the AIM market, but art 120 paragraph 4-bis of the Italian Security Act is not applicable. The Market abuse discipline applies to companies listed in this market. Researches demonstrate that the majority of the participants in the AIM market also added the “meccanismo del voto di lista” that is not directly applicable for this market but only for the MTA. In conclusion, it can be said that the AIM market can be considered a successful market, both for the high participation of companies and for the results obtained by them. At the same time, it must be highlighted that many companies choose after a certain amount of time passed in the AIM market to get listed in the MTA market, which grants more visibility and gives access to a larger pole of investors.

⁷⁰ (Annunziata, 2020)

Third Chapter: NTV dual-track case study

3.1 Overview on NTV

Italo's experience began in 2006 as a startup born to take advantage of the liberalization of the Italian railway sector. It can be defined as an Italian experience since the founders of the company are all Italian entrepreneurs as for all its technicians. The founders of the company are in fact Luca di Montezemolo, Diego della Valle, Gianni Punzo e Giuseppe Sciarrone. In the Italian market as in the European one, the railway sector has always been a monopolist market in which a public company, totally owned by the State operates without competitors. For this reason, there was much doubt on the possibility that a private company could compete with such an established reality as Ferrovie dello Stato (Fds).

28 April 2012 was a fundamental date for the company, that left its phase of start-up to begin its operations. Starting from only 5 railway routes, the company was able to grow and to serve its clients with 10 different routes in mid-2013 and as of today, the company provides services across 59 railway stations of 35 different cities.

The key event that made possible this success story is the liberalization of Italian passenger rail services that was introduced in 2003 to reflect European Union guidelines. Still, even after the liberalization of the market, it was challenging for Italo to access it. Participating in a market that was a monopoly present always greater difficulties, given by the structure of it, the establishment of the company who acted like a monopolist, and in this case also for the strong relationship between FS and Rete Ferroviaria Italiana. In fact "l'Autorità Garante della Concorrenza e del Mercato" (AGCM) in 2008 stated in respect to competition with a particular focus on the railway sector that "also in the railway sector, the ownership structure and the organizational structure of the group FS (Ferrovie dello Stato), under the competition profile represents a critical element, majorly in the imminent prospect of opening up to passengers transport to competition and the entrance of new train operators in the HSR (high-speed rail service). The changes that have taken place in recent years in the organizational structure of the FS group are certainly important and in line with the European Community guidelines on the liberalization of the sector. However, the

corporate separation between RFI (Rete Ferroviaria Italiana) and Trenitalia alone does not appear to be sufficient.”

Italo’s Mission

Italo’s mission is to offer to travelers of high-speed railways services that are safe, reliable, and technologically at the forefront. To do so one of the three pillars of Italy's culture is hospitality. Italo put great effort to ensure that its services are oriented to client satisfaction. For hospitality, the company means courtesy, information, competency, and style.⁷¹ Safety is another pillar of the offer provided by Italo. To ensure it all Italo trains are equipped with a semi-automatic external defibrillator (AED). Since June 2017 Polfer’s agents are on board to carry out a prevention and assistance service. And last but of primary importance also company’s train offers optimal safety. In case of impact, the safety of passengers is guaranteed by the sizing criteria of the body structure and energy absorbers that are integrally in line with the requirements of the European Community legislation in term “passive safety”. Quality is another key word for Italy’s offer, passengers can experience their journey in maximum comfort that to their high-quality offer, in terms of food, entertainment, and services.

3.2 Presentation of the European railway sector

The Italian railway sector always presented some critical factors. At the beginning of the 80s, the sector was strongly monopolized. Ferrovie dello Stato (FS) acted as the monopolist of the sector both for the supply of the railway service, both for the demand on numerous assets.⁷² But this actor was inefficient in its activity, as often happens in totally public companies. For this reason, the Italian Government was decided to reform the sector even before it became mandatory under European Union Law. The first action taken by the Government was then to separate the main activities of FS, dividing it into two different companies where one has as core business the rail service, while the other was responsible for infrastructures. The separation between the two

⁷¹NTV (Italo) <https://italospa.italotreno.it/investor-relations/index.html>

⁷² (International Transport Forum, 2016)

entities was not enough and in 1998 these two companies were separated vertically. “The passenger service was given to Trenitalia, while the management of the railway’s lines was assigned to the infrastructure manager Rete Ferroviaria Italiana (RFI)” FS, know known as Ferrovie dello Stato Italiane (FSI) was however the owner of both these companies and itself was state-owned. The Government had to achieve different objectives to solve the problems linked with this sector, they had to increase labor productivity and revenues, they had to optimize non-strategic assets and they had to create a significant increase in rail traffic. All the results were achieved except for the increase in rail traffic. In fact, the reduction of cost and the increase in passengers fees were the elements that truly brought the financial and economical equilibrium of the company. But the major weakness of the sector that was the stagnating growth of the market remained. In Italy Law, 388/2000, was in force from 2001 so before the liberalization of the sector became mandatory under the European Law, but still, the internal market continued to suffer and there was a great limitation to competition. The liberalization initially interested the sector only for international transportation in which newcomers could count on a market share of about 30% ⁷³ In the following table is possible to appreciate the performance of European railway companies.

	Supply 2010 in Train-kilometre (Million) (a)	Change since 1995	Traffic 2010 in Passenger-kilometre (Billion) (b)	Change since 1995
SNCF (France)	395.9	28.6 %	84.9	53.4 %
DB (Germany)	674.9	5.4 %	77.2	27.6 %
FS (Italy)	265.9	3.8 %	43.3	-1.2 %
ATOC (UK)	507.4	36.3 %	53.3	77.7 %
RENFE (Spain)	156.5	29.2 %	21.0	37.0 %
SBB (Swiss)	136.0	50.5 %	16.9	44.0 %

74

It is evident that also with respect to the other European markets the Italian one presents some critical issues. Even if it must be stated that the growth for all the principal European markets was quite small, in Italy in more than fifteen years there

⁷³ (International Transport Forum, 2016)

⁷⁴ (International Transport Forum, 2016)

was a decrease in the demand for railway transportation. So all the reforms taken by the Italian Government until this point served only to limit the criticalities and to open the road for newcomers. As will be shown later the entrance of NTV, so the transformation of the market from a monopoly to an oligopoly was the only possible solution to increase the performance of the whole sector.

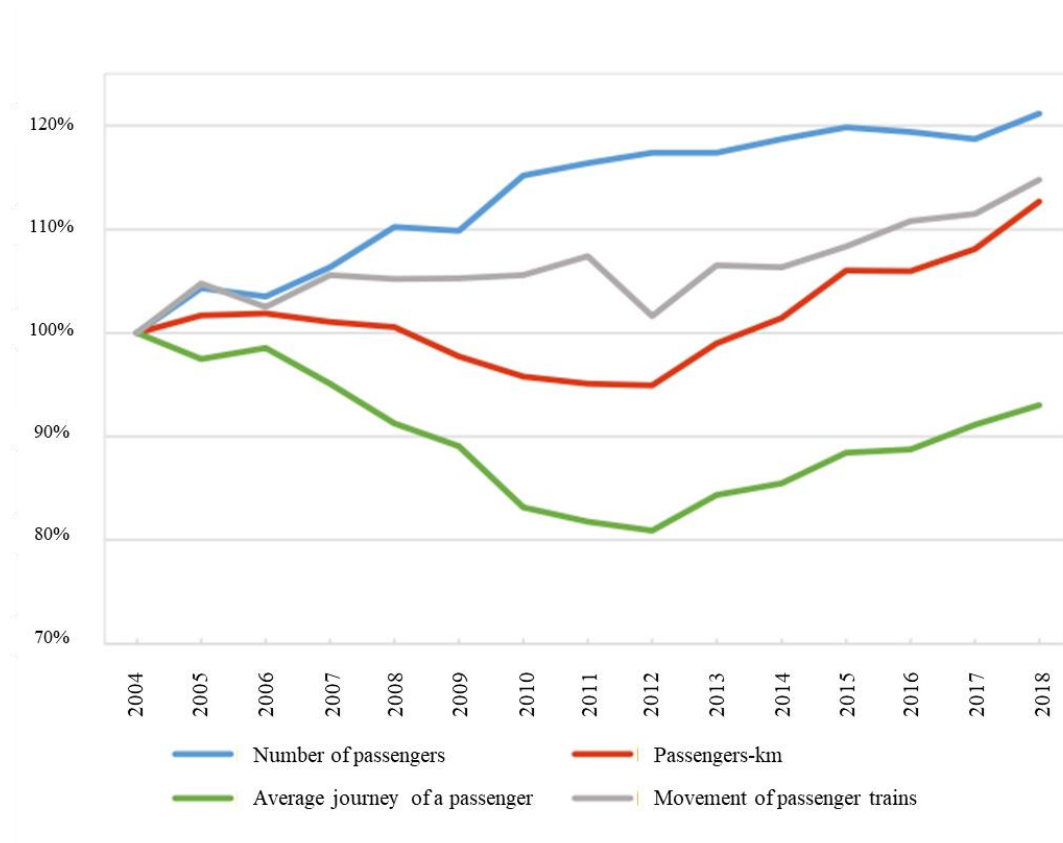
Unfortunately, the railway sector is characterized by some high barriers to entry. For this reason, it took more than ten years before the first competitor (NTV) was able to begin its operation since the liberalization of the market operated by the Italian government. The industry presents important sunk costs, these can be associated with the construction of the infrastructure, railways are in fact geographically specific, and moreover, it does not have a secondary market, because it has a minimal scrap value. For this reason, one of the biggest obstacles to the entrance of a competitor in the Italian market is surely the difficulty in gaining access to existing infrastructures, which is network infrastructure, terminals depots, retail areas, and all the facilities needed. In addition to these barriers, newcomers will have to overcome some major challenges. “Network operation of both freight and passenger service exhibit economies of scale. Efficient entry would have to be at a large scale, there may be only a few companies with the managerial skill and bravado to attempt such entry”⁷⁵ The other risk that needs to be considered is that when entering a market in which a large monopolist operates, he will have easier access to the capital market and will be stronger both in terms of resources, network, and solidity. This exposes the newcomer to the risk of predation that seems to be a rational strategy for the incumbent. Even if these aggressive strategies in the Italian case are not permitted by the Legislator that is trying to increase competition in the market, there are many ways in which the incumbent could treat the newcomer. An example may be to “fill all the main paths on profitable routes to make sure there are no gaps in the market”.⁷⁶ NTV when entering the Italian market had to overcome also intangible barriers to entry such as economies of experience, brand loyalty and they had to enter into a risky “fight” in which

⁷⁵ (Nash, 1992)

⁷⁶ (Nash, 1992)

Trenitalia was clearly advantaged by its size, the strong relationship with FSI, and its consolidated presence on the market.

NTV is a successful story, The company was able to overcome all the challenging obstacles present in the sector, and was able to acquire a significant market share of more than 20% in less than 4 years of operations. As anticipated the true turning point for the railway sector was the introduction of competition. Thanks to this transformation, the market could benefit from an increase in the supply of passenger transportation, a decrease in the fees charged to clients, a more differentiated offer in terms of services, and new railways connections.

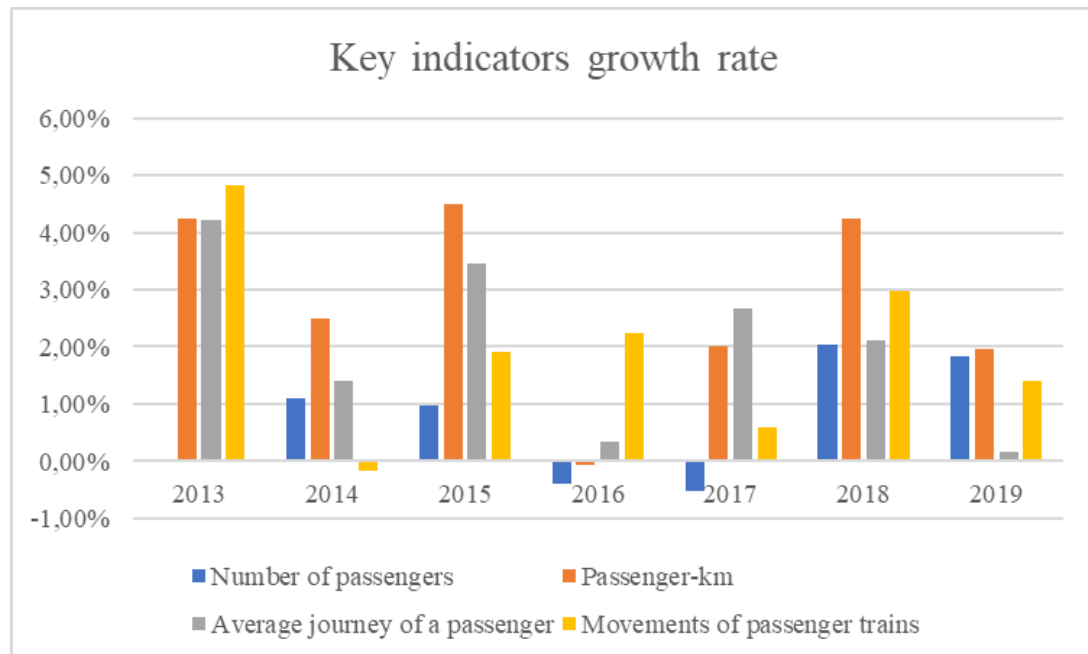


77

From the figure above is possible to better understand what happened to the railway sector since the transformation of the market from a monopoly to an oligopoly. From 2004 there was a decrease in all the fundamental statistics, Passengers-km remained quite steady until 2008 to decrease to its lower point in 2012, while the average km for

⁷⁷ (Autorità di Regolazione dei Trasporti, 24 July 2020)

a passenger was decreasing since 2004. The figure above demonstrates how the increase in the offer of trains does not express directly in an improvement for the sector.



78

From the data analyzed it is apparent how the new configuration of the market changed the stagnant situation that preceded the access of NTV to this sector. It must be stated that in the period between 2010 and 2012 the number of passengers was the only positive data with an increase of 1,9%, but the supply of movements of passengers trains as well as the average km for a passenger was declining. But from the period between 2012 and 2019, the railway sector achieved some very good results. The total growth of the passengers increased by more than 5% which can seem a little result but not if compared with the decrease that the sector had from 1995 to 2010. Even more positive is the increase in the supply of train transportation that saw trains movements rise from around 300 thousand per year to more than 350 thousand. Also very interesting is the growth of the average journey of a passenger which saw an increase of more than 15% which is justified by an increase in the connection offered as well as an increase in the supply of the railway passenger transportation options. The last

⁷⁸ Personal rielaboration of Istat Data (Dataset: Rilevazione del Trasporto Ferroviario)

but determinant data is the passenger-km, which saw the highest rise of more than 21%.

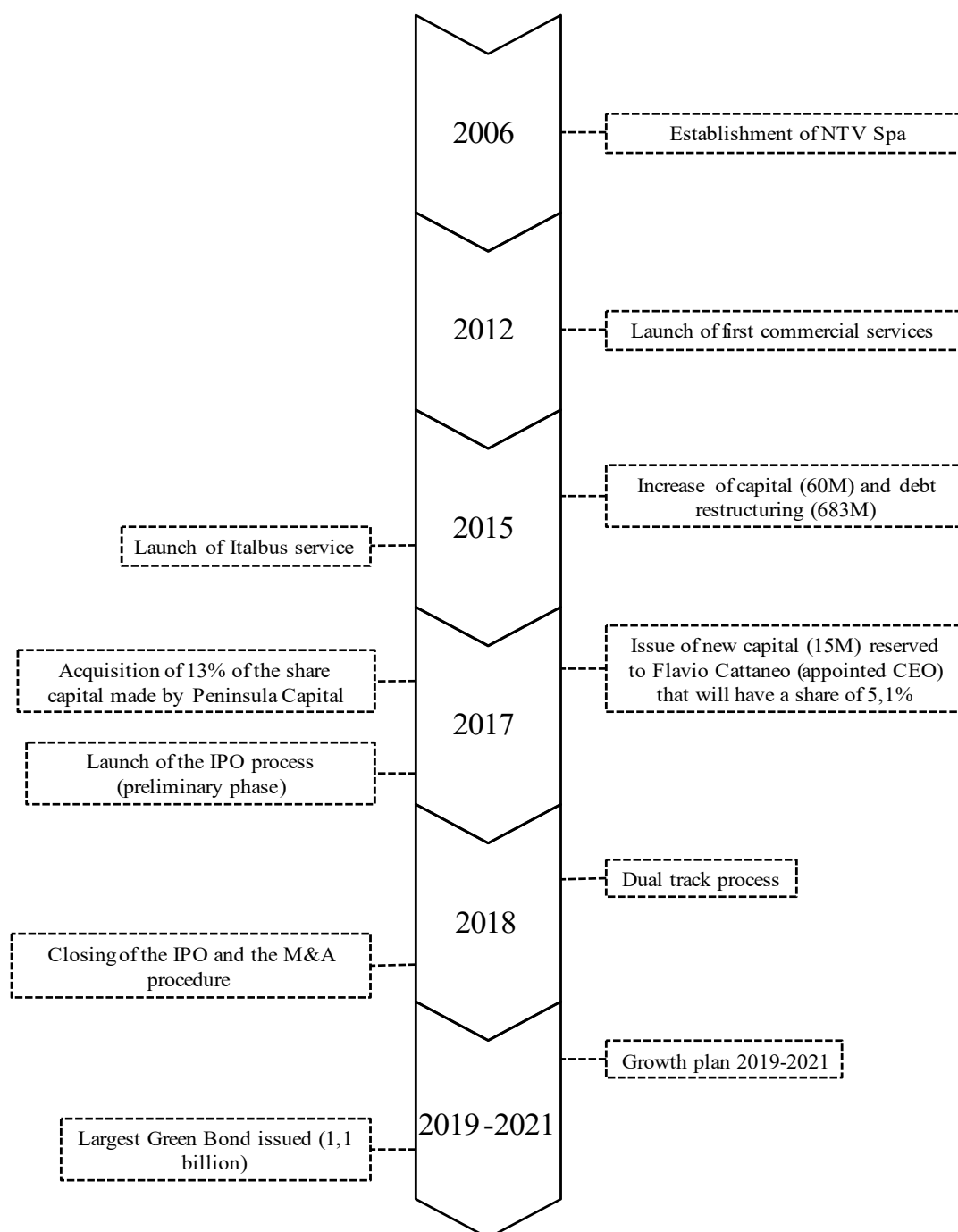
The expansion of Italo was possible also thanks to a particular factor that characterized the Italian market in the last years. The competition between air transportation and railway saw a significant shifting in passenger's preferences in favor of HSR (high-speed rail). This aspect is interesting for multiple reasons, air transportation gained passengers from 2009 to 2011. The turning point was the entrance of Italo in the railway market. Since 2011, air transportation had lost an average of 40% of its passengers in traits such as Milan-Naples, Turin-Rome, and Turin-Naples. The greater loss of passengers was linked to the trait Rome-Milan, where air transportation lost in less than 6 years almost 50% of its clients. It is evident that competition in the railway sector brought broad advantages to the whole sector, in fact, the shifting of passenger preferences was in favor not only of Italo but also of Trenitalia. At the same time, one of the keys to the success of the company is linked to this aspect. Entering in a market that is a monopoly is complex, but the possibilities to increase the demand for railways passengers transportation gave an important advantage to Italo that could increase its market shares not only by attracting clients already served by Trenitalia, but also attracting new clients in a context of growing demand for the service offered.

3.3 NTV Nuovo Trasporto Viaggiatori Story

Italo was founded in 2006 by Luca Cordero di Montezemolo, Diego Della Valle, Gianni Punzo e Giuseppe Sciarrone, together with Intesa Sanpaolo, Generali Financial Holdings e Alberto Bombassei. On the 9 of October, the company issued new shares so that the French railway operator Sncf acquired a minority stake of 20% in the capital of Italo. The presence of Sncf into the company had surely a great impact on the success of the company, which could take advantage of the experience of the French operator, that thanks to its know-how could help the company to access the sector, and to create the best organizational structure possible. The total amount invested was near to one billion that covered all the expenses linked with the acquisition of new trains, the construction of the maintenance plan in Nola, and all the set-up costs. The company needed almost six years to pass from the start-up phase to

the operational one. This time was used by Italo to finalize its investment, gain experience and knowledge on the market, and prepare the network and the infrastructure to start the operation in the best way possible. The decision to approach the beginning of the operation after a long preparation seems actually the best choice for a company accessing this market. As stated before the access on the railway transportation sector must be done on large scale to be effective and for this reason, is extremely complex and requires intensive work from management ⁷⁹ The true operational phase of the company begun the 28 April 2012 with the first train which left the Naples Railway station at 7 a.m. Since then Italo was considered a Case Study for the railway sector in Europe, due to its capacity to enter the market with no public funds or help, so as a totally private company.

⁷⁹ (Nash, 1992)



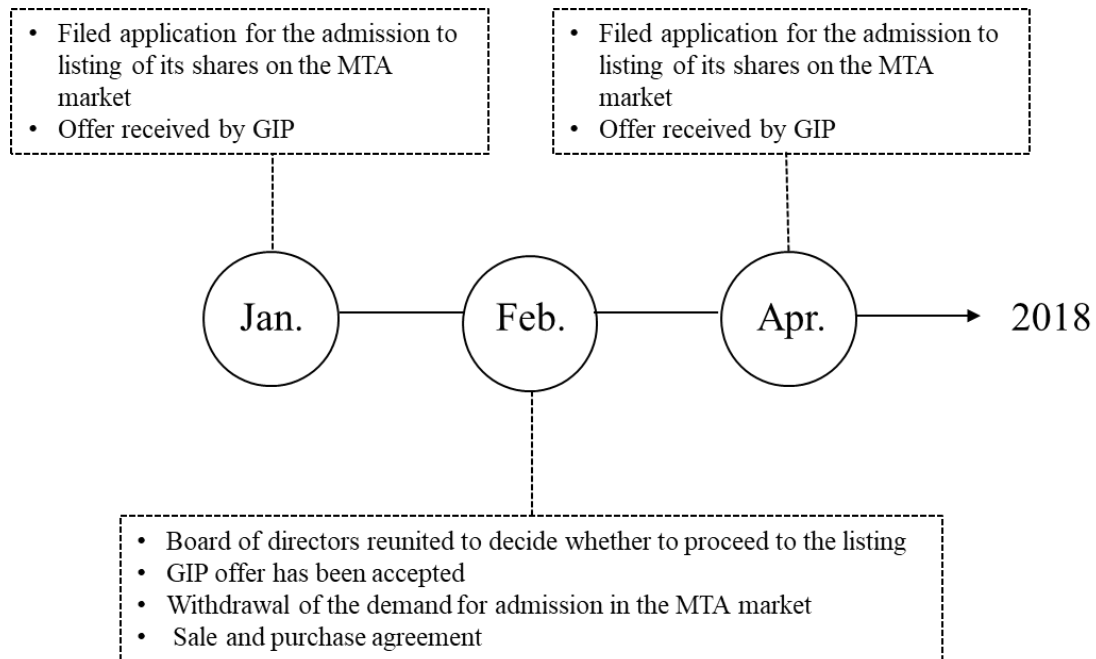
Since its establishment, the company's main focus has been the increase of its offer through more connections and services. Growth is characterized by a high level of expenses, in this specific case, the major costs were linked to the acquisition of new trains and the consequent expansion of the connection in more railway stations. For this need, the company in 2015 issued a capital increase for 60 million that was granted in option to shareholders. The operation which granted access to Flavio Cattaneo diluted the shareholding of SNFC and of Giuseppe Sciarrone who did not participate in the capital increase. After this operation, the company restructured its debt that was 683 million. The operation gave the company the resource needed to grow, rescheduling the debt repayment in 2028 for the 70% of it and in 2031 for the remaining amount.⁸⁰ 2015 Was an important year for the company since it launched also Italobus. Italbus is a road transportation service which was developed by the company to increase connections with different cities which were not served by its trains.⁸¹ 2017 signed the entrance in the ownership of Peninsula Capital, a newborn fund with the objective to acquire shares of strategic companies operating in southern Europe. The fund acquired a 13% stake becoming one of the major investors of the company. To grant access to Peninsula Capital the precedent shareholders sold them a part of their shares.⁸² At the end of 2017, an important decision has been taken by the board of directors, they decided to begin the IPO process with the listing expected to be in 2018.

⁸⁰ (Italo SPA, 2015)

⁸¹ (Italo SPA, 2015)

⁸² (Italo SPA, 2017)

3.4 The Dual-Track process



While the numbers of the company will be discussed later on, the process that they followed since the announcement of the IPO is interesting. January 23 was an important date for Italo, its board of directors requested the demand for admission of its shares on the MTA market to Borsa Italiana S.P.A. and communicate to the market that they had already deposited to Consob the “nota di sintesi and the information on financial securities”. So that all the documents presented compose the Prospectus. To ensure the minimum diffusion of its shares Italo decided to reserve part of the offer to institutional investors from Italy, to institutional investors outside of the United States following Regulation S of the United States Securities Act of 1933 and to qualified institutional buyers as defined by rule 144 A of the Securities act.⁸³ The company decided to sell between 35 to 40% of the equity of the company and the shares that will be sold are the ones owned by the principal shareholders of the company. It was also planned the use of the Greenshoe option for a number of shares that must not exceed the 15% of the options subject of the offer. The operation was programmed for the month of February provided that the market was favorable. The company

⁸³ (Italo SPA, 2018)

however announced the 5 of February the reception of an Offer from General Infrastructure Partners III fund (GIP) that is an infrastructure equity fund with a portfolio of more than 40 billion under management in 2018. The Offeror considered an equity value of 1,9 billion and the offer includes: The Offer includes:

- a. the possibility for its recipients to reinvest up to a maximum of 25% of the proceeds deriving from the sale on the same terms applying to the purchase envisaged by GIP. This possibility to reinvest can be exercised by one or more recipients of the Offer, without prejudice to the maximum limit of 25%, meaning that, upon completion of the reinvestment, GIP shall hold at least a 75% shareholding in the Company;
- b. the granting of a put option for the sale of the entire reinvestment, to be exercised, as per 50% of the reinvestment, after the third year and, as per the remaining 50%, after the fifth year, on terms and conditions to be previously agreed;
- c. the wish that the incumbent Chairman (Mr. Luca Cordero di Montezemolo) and CEO (Mr. Flavio Cattaneo) retain their managing role in ITALO;
- d. the willingness to consider, upon completion of the potential purchase, an incentive plan to the benefits of executives and employees.

84

The offer was subject to the approval of the European Competition Authority and on the agreement of mutually satisfactory contractual obligations. The Offer deadline was only two days later, on the 7 of February. On the day of the offer deadline, the company announced that they have accepted the offer and that they will proceed the day after to retire the demand for admission deposited to Consob and the demand for the admission of shares deposited to Borsa Italiana SPA. The offer was 1,940 billion, in addition to the price of the offer it was considered that the company would have distributed dividends for an amount equal to 30 million as decided in January by the board of directors. The acquirer also agreed to pay the expenses linked with the listing process

⁸⁴ (Italo SPA, 2018)

with a maximum cost of 10 million, bringing the valuation of the company to 1,980 billion. On the 11 of February NTV and GIP signed the sale and purchase agreement. The agreements were finalized on the 26 of April 2018, during this date a limited number of the selling shareholders through their holding companies: DP Holding Uno S.r.l., MDP Holding Tre S.r.l., Partind Tre s.r.l., MAIS S.p.A., PIII S.à r.l. e Nuova Fourb S.r.l reinvested 150 million in the acquirer's Vehicle company GIP Neptune S.P.A through a capital increase maintaining a stake of 7,74% into the company.

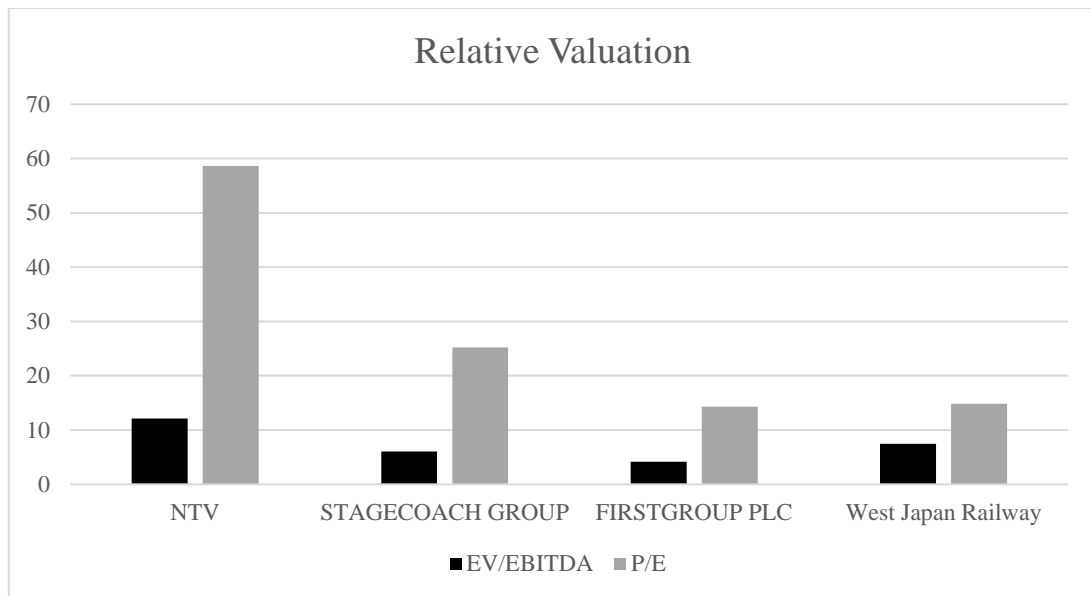
NTV's experience is very interesting, they have begun the IPO process, they followed it for a significant amount of time, to interrupt the process in no time after they received the offer. In fact, the company had already requested the publication of the prospectus to Consob and the admission of its security to Borsa Italiana. This case fully represents a dual-track IPO. Even if the company had never announced the participation in this kind of process the evidence is clear, in fact, the offer they received was binding on the acquirer and its deadline was really close to the date of receipt. This is clear evidence that an M&A process between NTV and GIP was going on for much more time since they had the time to engage in communications with the buyer, perform the due diligence and reach an agreement. In this case is possible to speak of a private dual-track process, because the company was acquired before becoming a public entity. This choice was probably linked to the nature of the offer received by GIP which aimed at the acquisition of 100% of its equity. What is most important to understand from this case is the reasons because NTV shareholders found more attractive the offer received by GIP funds when compared with the IPO process. As seen before the objectives that companies search when beginning the listing process are broad. To understand the major reasons that motivated this decision is essential to understand deeply the company also from a financial perspective. Since these are strategic choices, is fundamental to understand the financial condition of the company, the growth that the company had and is expected to have in the future, its industrial plan, and certain consideration should be done on its shareholders in order to understand what are their needs.

3.5 NTV financial performance and some consideration on its valuation

NTV company had to overcome some difficult challenges to become the company that is today. The entrance into the sector was hard and for more than four years the company generated losses. Probably the most difficult year for the company was 2014. During this year the company faced severe financial distress, with 668 million debts that the company had to pay during 2015. During this year, the company still had losses from its activity equal to more than 55 million. In this context, some important actions were made to grant a future for the company. The debt was restructured, giving to the company a healthy repayment schedule, and at the same time, Italo's costs were optimized. After all these difficulties, Italo was able to increase its revenues at an incredible speed, 17% for 2015 and 2016 and 25% during 2017 reaching 455 million in revenues. At the same time, its cost of goods sold decreased from 99% of its revenues in 2014 to 69% during 2017. All these factors allowed the company to generate 32.7 million in profit in 2016 and 33.7 million in 2017. In December 2017 four new trains entered Italo's Fleet. Italo growth was far from an ending, it is apparent from its industrial plan that foresees an increase of other eight trains to be acquired in the following three years. The company in fact in 2017 entered into a contract with Alstom for the acquisition of 12 trains (four delivered in 2017) for an investment of 365.8 million

It is clear that the company announced the IPO process in a favorable moment of its life, with important growth records and a competitive industrial plan. So the company had all the opportunities to extract a strong valuation from the IPO process. But to have an insight into the valuation that GIP gave to Italo's equity, it can be significant to analyze what value is given to some comparable companies.

The railway sector is a particular sector characterized by existent infrastructure and the geography of the nations in which the operators work. For these reasons is very difficult to find some companies with a high degree of comparability. To do so, only some of the railway companies can be taken in the exam. For this analysis



Performing a relative valuation in the sector is complex because most of the companies operating in railway passengers transportation are not listed, and for this reason, is complex to evaluate the true value of these companies, and another important reason is that this sector is characterized as stated before by some intrinsic characteristics of the nations in which companies operate. To overcome these difficulties, the companies chosen as comparables are:

- StageCoach Group: that is a United Kingdom-based transport company. The company operates in the Bus and rail segment offering for the first one national and international connections, while for the second one its operation are totally focused on the UK
- FirstGroup is a transport operator in the United Kingdom and North America that operates through segments such as First Bus and First Rail. First Rail operates Avanti, Great Western Railway (GWR), South Western Railway (SWR), and TransPennine Express (TPE) franchises and open access service First Hull Trains
- West Japan Railway Company is mainly engaged in the provision of passenger railway transportation services. The transportation segment provides also ferry

and bus transportation services. The company is also engaged in the real estate segment as well as in the operation of shopping centers.

From the description of these companies, it is clear that none of them are perfect comparables. These companies organize their business in different ways and offer different services. All of them as Italo offer also Bus services, but the segment chosen by Italo for its bus service is different in respect to all of these competitors. While Italo offers a complementary service for its core business which is rail passenger transportation, most of these companies offer bus transportation as an independent activity. Another important difference can be found in the location in which these services are offered, in fact, while those who have their main activity in Europe, under a certain perspective have similar possibilities to grow and gain from the liberalization of the European railways market, those who operate outside will benefit from this event. So these for sure cannot be considered perfect comparables, so it is important to analyze these data and to make some considerations. For the relative valuation, EV/EBITDA was one of the indicators under exam. The reason for this choice is that the railway sector is characterized by high investments in “fixed assets” that will have a significant impact on the result of the company. So to cut out the effect of depreciation, this might be the best indicator from an asset side perspective. The result obtained shows that Italo Ev value is 17,1x its EBITDA, significantly higher than its comparables which have an average of 5.9x. Another relevant ratio under exam is P/E. In this case, it is apparent how NTV is, even more, an outlier, with a P/E of 58.7x. The average for these other companies operating in the sector is 18,1x.

These numbers can clearly help in stating a possible valuation for NTV, but some important considerations must be done. In fact, as stated before none of these other companies can be considered a perfect comparable, so it is important to state some unique characteristics of Italo that justify a higher valuation. The company is experiencing strong growth, and it operates in the European market, where an important growth opportunity is expected in the following years. The strong growth of the EBITDA in the past year could be clearly expected also for 2018, thanks to the addition to its fleet of other 4 trains that will have a significant impact on the whole 2018 exercise (while they have only a partial effect on 2017), and on the entrance of other 4 trains during 2018. If we consider the EBITDA of 2018, it is equal to 200

million. We know that at the moment of the valuation this information was not known, but is possible to assume that the company had some fair projection of what their financials would be in the following year based on the investment they made, following this information the Ratio EV/ EBITDA would have been of 12,1x, making it higher than the other but of a more reasonable amount.

3.6 Considerations on the operation

It is apparent from the financial analysis that the company since its establishment had strong growth records. Clearly, in the beginning, NTV had to overcome important challenges and had to face difficult periods also in terms of liquidity, in fact before 2015 the company was not able to generate profits. Only in 2016 after an important cut in its cost the company was finally able to generate profit.

The Dual track process needs some special considerations. An Ipo would have allowed NTV to remain formally Italian, while in this case through the sale to GIP the company is now owned by the US fund. At the same time, the IPO process would have changed the structure of the company signing the passage to a mature public company. But for the first point, it is evident that the railway is a fixed asset that cannot be moved, so that company's operation will still be in Italy. This period is extremely important for the railway sector, the process of EU rail market liberalization is now at a turning point, with the fourth railway package approved by the European Parliament and Commission in December 2016 and the Member States that have to embed its mandates and provisions into their national legislation⁸⁵. For this reason, companies in the sector such as NTV will face extraordinary chances to grow thanks to its possible expansion throughout all of Europe. Still, it will be a difficult challenge since it will have to compete with competitors which are larger and stronger than Trenitalia such as Eurostar (a passenger railway operator that performs its activities through France, Belgium, and the United Kingdom). To plan and to successfully acquire a stake in the European market of railway passengers, Italo will need important financing to increase its fleet. So probably this was the core motivation for the choice of going public. The possibility to increase its operation all along Europe is extremely appealing since the

⁸⁵ (McKinsey & Company , july 2019)

market is estimated to be around 10 billion as of today, and is expected to reach 25 billion within 2025 when all the planned infrastructures will be realized.⁸⁶ So it can be considered that the company aims to reach different objectives from an initial public offer. The company is probably interested in improving its image, increasing its ability to retain and attract employees, and indirectly to all the benefits which are granted by the process, but only secondary. In this case, it can be assumed that the most important reasons that justified company behavior were the need to access the capital market, and the intention of some major investors to realize their gain on the investment. Access to the capital market had primary importance in the choice of applying to the IPO process, as shown the company used high leverage to finance its growth, and with the perspectives of a European market, debt financing would not be sustainable to finance its long-term growth. So in order to reduce their WACC, diversify their source of financing and sustain the growth the IPO process was surely an optimal option. At the same time, when the company announced the procedure, they communicate the intention to participate in the public market without a capital increase. In fact, the shares that would have been traded publicly would have been sold by the shareholders of the company. From this choice is possible to state that the company had the necessity to participate in the capital market in order to be financed, but this need was less linked to the short-term than it was in the long-term, and it reveals the desire for at least some shareholders to monetize their investment. NTV's ownership was divided into the choice to complete the IPO or to sell the company to GIP, in particular Diego Della Valle, following his declaration on the operation was one of the owners that firmly stand for the initial public offer process⁸⁷. The M&A option was clearly preferred by financing shareholders such as Intesa San Paolo and Generali group since their objective was the maximization of their return. They are in fact financial institution and their aim was finalized to obtain a positive return from their investing activity. Following all these considerations in this case the valuation of the company takes primary importance. In the context of two valuations that might be considered equals clearly it is possible to discuss the advantages and disadvantages of the two possible choices, in this case even if it is still possible to discuss some benefits deriving

⁸⁶ (Lenzi, 11 February 2018)

⁸⁷ (Francesco, 2018)

from one process respect to the other valuation had important relevance. In fact, the offer received by the GIP fund was very generous. It in fact considers a company equity valuation near to two billion, considering the fact that the fund will take all the debts of the company after the acquisition. The valuation is clearly subjective and is based on assumptions that the buyers need to make in order to make a decision. As shown before, the price paid by GIP was high for the sector, but still, the company had unique characteristics that made it an excellent investment opportunity, with high growth potential in the European market and in the Italian national market.

One last important issue, in this case, is strongly linked with the process itself. The company in fact after the request for the publication of the prospectus with CONSOB, and the admission of its securities with Borsa Italiana, withdrew its application and announced the transfer of the entire company's share capital to a private bidder. The choice taken by NTV is clearly legit, in fact, companies can decide whether to withdraw their application until the sale begins. The withdrawal can be done in two different ways, it can be done passively, so simply not following the IPO process and waiting for the expiration of the validity of the documentation or it can be done actively, giving communication to CONSOB and Borsa Italiana. The theme is interesting, in Europe the withdrawal from the process is not considered and hence is not mentioned in any EU Law. It must be stated that the choice of following a Dual-Track process is in many cases unknown for the market. Companies can follow the M&A process in complete confidentiality with the selected buyers, also for this reason is difficult to consider it as an economically relevant process for the market. The existence of it is known only in the residual case in which the company withdraws from the IPO process to follow the M&A one. However, the freedom left to companies in the final decision to get listed is correct since from the announcement and the request for the admission of its securities to Borsa Italiana, and the request of authorization to publish the prospectus to the actual listing the timing is long. For this reason, there is a lot of uncertainty linked to the market condition that may unexpectedly change. This freedom also encourages companies to follow a dual-track process. In fact companies, thanks to the withdrawal possibility can always choose until the end of it to proceed with the listing or sell itself to a buyer before the process. In this case, so the trade-off of the choice is linked primarily to the complexity of a dual-track process and the

additional charges due to the double process. But the advantages as shown by the case are multiple. In this case, GIP was a strategical acquirer who intended to enter the European railway sector. The valuation of a company is extremely subjective and depends on multiple elements, in this case, the presence of a strategical buyer with a deep knowledge of the market was certainly an advantage. In fact, in addition to the valuation that can be given to Italo in terms of growth potential both for its revenue and for its margins, the presence of a strategic buyer allows also optimizations to “add value through revenue optimization, ancillary revenues, asset utilization, operational and business development”⁸⁸ which are all added value for the buyers that can accept the payment of a higher price for the company knowing that with its knowledge it will have the possibility to extract extra value also through synergies both of cost and of revenues.

⁸⁸ (Global Infrastructure Partners, February 2018)

Conclusions

During the elaborate, all the processes, since the decision to become public, to the actual listing have been analyzed. From a regulatory point of view, it has been seen how the IPO process is complex and requires the participation of numerous entities, from the company to Borsa Italiana and Consob. In addition to all the other mandatory, or necessary professionals that must work during the whole process. The Italian market presents some limits, these are mainly imposed by the European legislation in many cases, because the main regulatory act, the Italian Security Act which regulates the whole market is strictly linked to EU Law. Some of the main problems come from the core discipline of transparency and with the disclosure of information to the investor, but as seen those are themes extremely complex, and is difficult to create an environment that suits for all considering the diversity of investors that participate to the market. Borsa Italiana with the actual segmentation of the market, in particular with the AIM segment, created a better environment for SMEs characterized by strong growth, but that are still small and not ready to participate in the MTA market. Analyzing the IPO benefits and limits, it is apparent that is not possible to generalize, for all the companies the situation is different. The benefits granted in many cases are greater than drawbacks, but one of the key characteristics that a company must have to take advantage of its listing is the need for financial resources, both in terms of equity or debt. In fact, all the benefits linked to the possibility to attract more employers, to increase the public image of the company (both for its clients and both for its commercial relationship), to easily participate in M&A transactions, are directly or indirectly linked to the necessity of new capital to grow. Also because the process is expensive, and the life of a listed company is complex. Public companies operate in a highly regulated environment, and the permanency on the market is linked to the capacity of the company to fulfill its obligations. So that the trade-off must always be done considering all the benefits, but also all the extra cost, and the complexity linked to being public. The valuation is another interesting theme, there is not a unique method, and for this reason, an exact valuation does not exist. Valuations only try to link the company to a determined value, and so also a good one is still the best guess on the possible price of a company in a determined moment. For this reason, valuation

should always be considered, but always considering this aspect. To give a complete view of the IPO process, a special case has been studied. The Dual-Track IPO, this process combines the advantages of the IPO and of an M&A transaction. Frequently it allows to extrapolate the best value for the company, and even if the objective of the company may be more oriented on one of the two results obtainable by this process, the performance of both of them gives significant advantages to the company that can choose to perform either one until the end of the IPO process. It has been shown that following a Dual-track can be expensive, in terms of resources and in terms of time, but in a very wide range of cases, it can be the best choice to reduce risks and to perform the best operation for the company and its shareholders. Italo can be taken as a perfectly suitable example for this strategy. The company was born to take advantage of the liberalization of the Italian railway passenger market. After 5 years of operations, the company reached great financial results, both in terms of revenues and margins. In 2017 the future of the sector was near to a change, with the fourth railway package approved by the European Parliament and Commission in December 2016. This aspect requires attention as is one of the justifications behind the process followed. When it was clear that the company would have in a near future the possibility to expand its operation all across Europe, the first need of the company was to ensure financing. In fact for the sector, an expansion of this entity needs important capital, because the industry is characterized by high investments, even if these investments are not linked to the infrastructure (that is not being built by NTV), the business model of Italo requires the acquisition of trains which are expensive. This together with the desire to exit that was manifested by most of the owners of the company can be seen as the main reasons to enter in a Dual-track process. After all these evaluations, the company finally decided to get listed. To reach this objective NTV prepared and filed all the documents required to Borsa Italiana SPA and to Consob SPA. So it was clear that the company was preparing itself for the IPO process. What happened, in reality, was that the company contemporary to this process, was engaging communication with at least (but is possible that the potential acquirers were more than one) potential acquirer. So for an initial phase, the company run these two different process together. This strategy ensured NTV an increase in its available options, in fact, thanks to two possible exit strategies, the company would have been

able to reach its objectives, with two different timing and with substantial differences after the choice of one of the two methods. For this reason, this granted the company a higher probability of success. In the specific case in fact the IPO would indeed have made the company public, in the specific case ensuring the exit of a percentage between 25% and the 40% of the actual owners. But after the listing, the company would have been ready to organize a capital increase or to access a broader range of debt instruments (available only for listed companies) so for this reason, the operation would have been perfectly in line with the objective stated before. But the closure of an M&A transaction ensured a faster exit to the company's shareholders and the acquirer, thanks to its dimension, is able to ensure to the company the capital required to finance its growth. So the final decision of the company can be considered positive both for the majority of its shareholder and for the company itself. It is interesting to understand how the valuation could have influenced this process. It is hard to state what would have been the valuation that Italo could reach during the IPO because the company interrupted the process in a phase in which there was not a clear valuation. What can be said is that for sure while for the market it was unknown that Italo was negotiating with a potential buyer, the buyer knew that the company was following the process to become public. So at least indirectly the valuation given by the GIP fund was influenced by the bargaining power that NTV had thanks to its alternative. The valuation received by the company was in fact of 1.98 billion, which was high if compared with the valuation attached to some comparable companies, but Italo had some special characteristics that had to be considered in order to find a fair valuation. The company could in fact be considered a model in Europe as the first private company to enter this sector and to acquire a significant market share. In addition, the growth opportunity linked to the possibility to enter the European railway market had to be evaluated.

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Summary

1)The IPO process

The IPO is an initial public offer. It means that a company, for the first time, sells its shares on the public market. This type of operation can be performed in two primary ways: an OPV (Offerta Pubblica di Vendita) where pre-existing shares are sold to the public or OPS (Offerta pubblica di Sottoscrizione), which consist in the sale of newly issued shares. Companies becoming public are exposed to a broad range of advantages. Still, at the same time, they become subject to strict rules contained in the Italian security Act or to additional rules of the Civil Code, depending on the market in which their shares are issued. To be listed, companies must also respect additional rules issued by Borsa Italiana S.P.A. Some stricter rules are applied in the MTA market because it is more structured than the AIM one. Some of the key requirements regard shares characteristics, ensuring liquidity, and admitting only companies with a market capitalization higher than 40 million and a free float of at least 25%. Also, the necessary documentation is stated by “Regolamento dei mercati organizzati e gestiti da Borsa Italiana S.P.A.” Companies must have at least three balance sheets deposited and at least one audited with an unqualified audit opinion. These rules also require companies to respect minimum standards for their corporate governance and in internal control systems. The Memorandum is another document required, and it must contain all the key performance indicators of the company and all the key risk indicators. Performing an IPO is complex, and the participation of many actors is needed. Borsa Italiana SPA is a key figure in the process. Its primary functions are marketing, legal, and control. Consob is the Italian supervisory authority for the market. It ensures that companies follow the law. It also ensures that the information given to investors is truthful and sufficient to perform a knowledgeable investment. Consob is also accountable for the authorization to the publication of the prospectus. Monte titoli grants centralized management of shares. The sponsor, who typically acts also as the global coordinator, acts as a guarantor for Borsa Italiana SPA and the market, ensuring that the issuer has all the requirements for the quotation. When they also act as Global coordinators, they follow the company for all the processes in close communication with the other actors, from the beginning to the aftermarket. Financial

consultants cooperate with the company to realize a feasibility study and redaction a preliminary valuation of the firm, helping prepare the prospectus and the business plan. Other key figures in the process are the audit firm that must assess the truthfulness of the relevant documents, legal advisors that must follow the company in the process and give advice on statutory adjustments, and tax advisors. Depending on its intrinsic characteristics and condition, it may need some additional actors to perform the IPO. It depends, in fact, on the needs of the company. The choice to become public is strategical. For this reason, the analysis starts from the needs of the company and a feasibility study. The process starts formally with the shareholder's meeting, and immediately after that, advisors are appointed. After advisors begin to perform the financial and legal due diligence, people in charge begin to work on the prospectus, which is the official document with the function of investment solicitation. It contains information about the offer, financial data of the company, information on the management on the key risk to which the company is subject and its position toward competitors, as well as its objectives and strategy. Later after analysts receive the search report that will be used to analyze the company, one of the most important phases begins. The roadshow is in fact relevant. It consists of meetings done by the key managers of the company with institutional investors. In these meetings, the directors will present the company, and at the same time, will demonstrate their will to keep good relations with the financial community. A critical aspect of the whole transition to the public market is valuation. This theme is fundamental for owners and investors. But it must be stated that valuing a company is very difficult, and results obtained by this process may be different. For this reason, multiple methods are used. The discounted cash flow is the most famous and used one. It uses the discounted free cash flow produced by the company's operation and the terminal value to give the company a proper Enterprise value. Debt will be subtracted, and cash will be added to find the equity value. Another useful method is relative valuation that uses multiples to assess the value of the company. These ratios are computed for comparable companies, and the results obtained are used to benchmark the company's ratios to a possible valuation. A residual method is called EVA (economic added value). Its use is interesting because it is the only measure of performance directly linked to its market value. The process assumes that the company creates value when profits are superior

to the cost of capital used to generate those profits. In an IPO, the valuation process is not straightforward. It is divided into more phases. The initial one is called pitch. Investment banks generally present their offer to be appointed global coordinators, and they give a preliminary valuation which is only indicative because of the lack of information. After there is deep due diligence, in which the bank understands the company's business model in-depth and analyzes its industrial plan. In the end, the financial institutions typically present a "pre-money valuation" (in a certain range of price). During the pre-marketing phase, the company is presented to financial analysts of the underwriting committee. The researches will be used to refine the valuation process thanks to different opinions and additional information. At the end of the phase, shareholders have an idea of the price institutional investors are willing to pay and can choose the price range of the offer. The price range should be approximately 20/25% to have the possibility to reach market movements and to give investors the idea that the company has a clear valuation in mind. At the end of the process, the company can choose different methods to finalize the offering. The most used is the book-building; investors express their interest in a certain number of shares at a certain price or different amounts depending on the price. The company will finally decide the price of the offer to reach its objectives in terms of allocation between institutional investors and retail investors. The auction method can be considered an alternative. It can be discriminatory, in which every participant pays what they bid for, or a single-price auction, in which all the winning bidders will pay the lowest price accepted by the company. The riskiest method is the single-price auction. In this case, the company unilaterally decides the price of the offer. Companies can also choose different ways to become listed. One of the most common alternatives is the use of a SPAC (special purpose acquisition vehicle). The functioning is based on the constitution of a SPA that will receive the needed capital from investors. After receiving capital, it goes public and uses its liquidity to acquire another not already listed company. The operation performed is called reverse merger because the integration is done under the SPAC, which is typically smaller than the acquired company. Some of the benefits regard the fact that it ensures more confidentiality during the process. This instrument is only available for professional investors. The reason is linked to the high capital required to enter these transactions and the ability of a retail investor to understand

risks embedded in the operation. Another alternative can be direct listing. In fact, Borsa Italiana leaves great freedom to issuers. The mechanism is simple; there is a direct emission of shares in the market. In reality, the use of this instrument is minimal. It has been used for bonds but never for shares of private companies. Some reasons may be the absence of an investment bank serving the role of “deep pocket,” the absence of the sponsor, and the nature of more complex shares to evaluate regarding debt (bonds). A special case of initial public offer is known as Dual-track. The dual-track process is a special case in which a company chooses to follow two different paths to reach its objectives. The combination between an M&A exit strategy and an IPO is in fact called a dual-track strategy. Even if the objectives resulting from these two procedures are different in some cases the combination of these can grant important advantages to companies. In fact, this possibility allows the company to follow both roads, deciding at the end or at a certain point what of the two grants the best outcomes. It can be stated that the presence of a double procedure doesn't necessarily affect the valuation of the IPO, because M&A negotiations are typically confidential, but it affects the valuation of the company for a possible acquirer because it creates a competitive environment in which the company retains more bargaining power. In addition, a dual-track process decreases risks linked with the listing, in fact, the process is long and market condition can change unexpectedly and the possibility to conclude the process with an M&A activity could be the desired output in this specific situation. It is clear that the dual-track process grants important advantages but is fundamental to assess if the company is able to comply with the increased complexity of this strategy. To perform the dual-track extra resources are needed because the company must follow the procedure effectively to reach the desired result. These two processes indeed have important synergies, but they are characterized by different timings. Companies must so consider if they have the required resource and ability to follow this strategy. To better understand the complexity of a dual-track procedure, is important to explain an M&A process. Companies must consider a significant number of factors before their decision. The presence of strategic buyers, the timing, the condition of the company (to avoid the process being disruptive), and all the characteristic of the company must be analyzed. With all these information in mind, the company must choose the process which is most in line with its objective and

characteristics. There are many ways to perform negotiation. Companies can choose from the simplest which is a negotiated process, in which negotiations are performed only with a selected buyer to what. This ensures confidentiality, speed, and also less complexity in the process, but at the same time, the lack of competition in the process can be seen as a disadvantage that would see bargaining power shifting to the acquirer (in the case of a dual-track process the situation is different in fact competition is given by the alternative process). Another choice may be the performance of a controlled or broad auction, in which, in the first case a small number of selected buyers participate or in the second one a broad number of buyers. In these cases, there is a dual step process, with a first-round of indicative offer that if accepted by the seller will give access to the second phase characterized by a deeper due diligence and the possibility to submit binding offers. The last possibility is a hybrid process called auction non-auction in which the first phase is performed as multiples negotiated process, and only in a second moment buyers know that they are participating in an auction. The processes described are increasingly complex, so companies must choose wisely the most suitable one especially if this must be combined with the IPO process.

2) Analysis of the Italian market and on advantages and limits of the IPO process

The Italian exchange market has a long history. During the years, it was subject to deep changes both in terms of structure and market segmentation. One of the most significant was the complete passage from shouted negotiation to the telematic one, which ended in 1994. Borsa Italiana S.P.A took the place of the council of Borsa in 1998, and since then, it has been responsible for developing the market and ensure transparency, liquidity, and competition. Another important transformation happened with the acquisition made by the London Stock exchange in 2007 to create one of the biggest European markets. Unfortunately, the period was characterized by one of the most severe crises ever known. As of today, the London stock exchange is in agreement with Euronext (a dutch holding company) to sell Borsa Italiana. All the transformations that the Italian exchange market had are not only in its structure but also in market segmentation. Borsa was characterized by different segments with Blue chips, Star, and the ordinary segment. In addition, there were two other markets named NUOVO MERCATO for companies with high growth potential and MERCATO RISTRETTO for those operating in traditional markets and with consolidated

positions, which were not interested in participating in the “official market.” Since 3 March 2008, to increase the rationality and the efficiency of the market, Borsa Italiana decided to unify its segments. So with the new market segmentation, Borsa was divided into blue chips, star, and standard. But to sustain growing companies, a new segment was developed, the AIM market. The MTA market is the more regulated one and is suitable for more structured companies. Borsa Italiana SPA states the requirements needed in its document “Regolamento dei Mercati Organizzati e Gestiti da Borsa Italiana” in particular art 2.2.1 states the requirements that shares must have to become traded, so there is a minimum capitalization limit that is 40 million and a minimum free float that must be of at least 25%. Art 2.2.2 states the requirement that issuers must meet. A key requirement is the presence of at least 3 financial statements deposited with at least one audited to ensure the correctness of the data. In case three financial statements are not available, or the company was subject to important changes in the previous year, to be admitted, the company must redact a Pro-Forma balance sheet and income statement. And must provide some interim Pro-forma documents. All of the precedents must be audited by an eligible auditor following D.L. 27 January 2010. The article also states the requirements for corporate governance that the company must adopt to be efficient. Also, the industrial plan is evaluated, and to collect all the information required, the company must redact the Memorandum, which contains all the information regarding corporate governance, systems of control, key performance indicators, and the identification of risks. A special segment is the STAR. In addition to all the formal requirements stated in precedence, companies must demonstrate greater standards to participate in it. For these “special companies,” the free float must be at least 35% to ensure more liquidity. They must provide additional interim information, at least those defined by the Italian Security Act in art. 154-ter. To ensure that companies participating in this segment respect the highest standards, also in terms of corporate governance Borsa Italiana partly follows the Code of Corporate Governance, in particular for board composition. Participants are free to choose the more suitable structure in terms of committees. Still, all the key functions must be performed properly, such as the remuneration committee and the risk committee. In terms of actors, the STAR market requires the company to work with an investor relator responsible for all the information on the company disclosed to

investors and the Specialist who is a key figure. The specialist must ensure the liquidity of the company's shares and arrange and participate at least twice a year in meetings between the company's management and institutional investors. The AIM market is, instead, relatively young. It was founded in 2009. It serves SMEs during their growth. Companies can participate in this market more easily following less formal requirements. In this segment, the IPO can be done gradually, and companies can also choose to participate in the professional segment where retail investors won't trade their shares. Thanks to the possibility of offering their shares only to professional investors, the formal requirements are less because they need less protection because of their knowledge. The NOMAD is a key figure in this market. He follows the company during the whole procedure and also after its listing. Its role is to support and assist its client. To participate in the AIM market, companies must redact the admission document, pay fees to AIM Italia, and select a Nominated Advisor. Companies must also provide at least one balance sheet audited if available while there is no formal requirement in terms of capitalization. A 10% minimum free float must be ensured, and the company must provide half-year financial reports. If given the freedom to the participants to the AIM market to choose the accounting method more suitable, they can choose to adopt IAS/IFRS or follow Italian Accounting Principles. This market can be considered successful and serve its scope extremely well. In only ten years, more than 173 companies got listed, raising 3,8 billion, of which more than the 96% was issued as a capital increase (this denotes the desire for growth that characterized the market). The theme of delisting from this market is interesting. What could be said is that three out of four companies get delisted due to M&A activity, business combination, or the direct passage to the MTA market. There are different reasons behind the choice to become public. The IPO grants qualitative and quantitative benefits to the company. Evaluating the advantages under a qualitative perspective is extremely complex, both short-term and long-term, but some general positive effects can be stated. One of the primary reasons that push companies to become public is access to the capital market. With the listing, a broad range of instruments become accessible. Companies can obtain capital through the emission of new shares (equity) or the issue of new debt in ways that were more difficult before they transitioned to the public market. The assortment of sources allows the company

to choose wisely and typically reduce its WACC, making it more competitive in the market. Being listing also improves the image of the company making it easier to attract employees and managers. The dilutive effect of the IPO process has a double effect. The owners will see their ownership diluted, but at the same time, the entrance of new shareholders grants more independence in the company's management of the company, and is appreciated following international standards. More dispersed ownership also limits the problems linked with the entrepreneurial succession critical for the Italian market. Listed companies' shares are traded and for this reason, the market attaches value to these in "real-time," this grants the management the opportunity to know exactly how their guidance is affecting the value of the company and gives them the freedom to participate in a broad number of transactions. Having an "accepted" value for the company is extremely useful when engaging in M&A transaction because both, if the company acts as a target or acquirer its shares, can be used to finance the deal (non-taxable event) and the access to capital market grants easier possibilities to obtain the resource needed for the transaction. The choice of becoming public brings many advantages also for the shareholders of the company. The IPO can be seen as a privileged exit strategy. Also the owners are not intentioned to exit from the company, being listed transforms their ownership into a more liquid asset thanks to the possibility to sell the shares of a listed company easily. Reaching all these benefits is not effortless and being listed also comes with potential disadvantages. One of the most impacting and less evident is probably linked with the "initial distraction" of the management. In fact, the procedure is long and complex, and the management may have difficulties in following contemporarily the IPO process and the core business of the company. The procedure is also expensive and comes with some risks linked with the loss of confidentiality, exposure to market volatility, and ownership structure that must always be analyzed to reduce the risk of hostile takeovers. The adverse selection also characterized the process because investors are less informed than the issuer and this is reflected in the price that they are willing to pay to acquire the company's shares. The exchange market is extremely relevant since a high number of actors participate in it. Some of them are professional investors, but most of them are retail investors. For this reason, the legislator felt the necessity to "protect them" imposing special requirements for publicly traded entities. The whole

discipline is centered on transparency and communication to investors. There are different types of mandatory communication, that can be distinguished by their frequency, which can be periodical, continuous, or extraordinary. Transparency requirements were also added to the Regolamento Emittenti, to comply with the EU directive 2013/50. It is in fact mandatory for the company to redact a relation on their governance and on the ownership structure. And it also includes rules on the communication that investors, when reaching certain thresholds must give to Consob. Another key for listed companies is Market Abuse Regulation. The discipline regulates the theme of insider information. The importance of this discipline is linked to the value linked with this information that are price sensitive. Even if there are some exceptions, the core concept of the discipline, is that privileged information must be disclosed to the market immediately and in an effective way if the diffusion of these information forms no prejudice to the legitimate interest of the issuer. The mandatory tender offer is another fundamental discipline for publicly traded companies. This is triggered when an investor acquires a relevant stake in a public company. The stake is 25% in the case of a large enterprise, and 30% in SMEs. The discipline imposes the launch of a mandatory tender offer which is an offer directed to all the shareholders of the company to acquire their shares at a determined price. The ratio behind this is to grant equality in the treatment of all the shareholders of the company and to offer to all the possibility to leave the company in case of a change in control.

Markets changes quickly, and law requirements must change to grant efficiency in a fast-moving context. One theme that is still discussed is disclosure. In fact, this aspect requires some consideration. It must be stated that an increase in disclosure obligations does not directly bring an advantage to the market and to its participants. In fact, an increase in the number of information can create an uncertain environment for investors. At the same time, is crucial to understand how this information should be delivered. In fact, the language used is a critical issue. The use of plain language and the avoidance of technicality can help retail investors in the analysis of the information. At the same time, this would be an important disadvantage for professional investor that would find this simplified information insufficient to properly evaluate a company. And the use of two different channels of communication which may seem like a reasonable proposal can create important problems. From one point it would

increase the resource needed by companies to comply with their disclosure obligation, while for investors, these could create important problems in the case of contrasting information between different documents, linked with the different language used and the presence of different details and technicalities. However, the legislator at this point seems more interested in providing information according to the best standards (than to simplify them). The use in fact of IAS/IFRS standards in the redaction of the balance sheet seems to confirm the trend. In fact, for retail investors with no knowledge on the matter understanding financial statements redacted following international standard is more challenging, an example can be the use of fair value.

3)NTV dual-track case study

Nuovo Trasporto Viaggiatori (Italo) can be defined as an Italian experience. The company since its inception in 2006 reached astonishing results, and it can be taken as a case study for the European market, considering that it was the first private company to successfully participate in the previously monopolistic railway sector. Italo's story is closely linked with the regulatory changes that characterized the European market since 2003 and the Italian one since 2001. For this reason, to understand its story is fundamental to have an overview of the European market. In Europe, the railway market has always been a monopoly, in which state-owned companies operated. The need for a reform was felt by the European legislator in 2003 with the DIRECTIVE 2001/12/EC, known as the first railway package directive. Through this directive, the market was beginning a path of fundamental changes with the aim to increase competition both in national and international railway routes. In Italy, the problem was also more severe compared to Europe. The monopolist operating in Italy was Ferrovie dello Stato, which was a State-owned company in charge of the supply of the passenger service and for the demand of numerous assets. As often happens, this public company was extremely inefficient. To contrast this problem the State separated vertically this company creating Trenitalia (responsible for passenger transportation) and Rete Ferroviaria Italiana (responsible for the infrastructure), which however continued to be under the control of Ferrovie dello Stato. Another action taken was the revision and the reduction of all the costs of these companies that were extremely inefficient. All the changes done by the Legislator resulted insufficient to truly improve the sector and the management of the public monopolist. The turning point

was Law 388/200 which entered into force in 2001. The great change was that for the first time a private operator could access the railway market in competition with the State-owned company Trenitalia. In the years following the reform, competition did not increase in the internal market and only some international routes saw the access of newcomers. In the period between 1995 and 2010, the Italian market saw a decrease in traffic (passenger-km) of 1,2%, a sign that the market was still inefficient. It can be said that all the actions that were taken by the Italian Legislator till this point served only to create an environment that could allow also if with some criticalities (still linked with the ownership structure of Ferrovie dello Stato) competition on the market. The start of true competition in Italy was signed by the beginning of Italo's operation in 2012. The reasons why Italo took more than 6 years since its establishment and 11 years since the liberalization of the market are multiple. The railway market is particularly challenging, it is characterized by some important barriers to entry. The industry presents high sunk costs, and the access to infrastructure is a complex theme, because as previously stated the infrastructure is owned by FSI. A key reason for this delayed entry can be found in the nature of the service, in fact, to be effective the entrance in the railway market has to be done at large scale, to ensure economies of scale and of network. The market changed deeply since the entrance of Italo, the stagnating growth that characterized it terminated, and in less than 7 years the supply and the demand for passenger transportation grew respectively 5% and 16,6%. Followed by the average journey for the passenger that saw a rise of the 15%.

Italo since its foundation was subject to many changes, in its service, operations, and structure. Italo was founded by experienced entrepreneurs such as Luca Cordero di Montezemolo, Diego Della Valle, Gianni Punzo e Giuseppe Sciarrone, Alberto Bombassei together with leading Italian financial institutions as Intesa Sanpaolo and Generali Financial Holdings. The total amount invested was of almost one billion, necessary to acquire new trains, and to set up the infrastructure needed. Till 2015 the growth of the company had been financed through debt and new investments of the founders of the company comprehending the entrance of Flavio Cattaneo. Until this point, all the investments done into the company were structured as capital increases. 2017 signed a turning point for the company, in fact, the entrance of Peninsula Capital (a strategic buyer) was granted by the shareholders of the company selling 13% of the

ownership of it. At the same time, the company at the end of the year announced its intention to begin the IPO process. On 23 January 2018, the company announced to the market that all the documents composing the prospectus were deposited and that the company had requested authorization for the publication of the prospectus and for the admission of their shares on the MTA market. Its intention to go public seemed clear with the operation expected in February, the deal structure planned by the company was to sell a percentage of shares equal to 35/40% of the total, granting the use of the Greenshoe option. However, there was an unexpected change in the plan of the company, On 5 February 2018, the company communicated to the market the receipts of an offer made by GIP (General Infrastructure Partners III fund). The offeror proposed the acquisition of 100% of the company's equity valued at 1,9 billion, leaving the possibility to the selling shareholders to reinvest up to 25% of the proceeds deriving from the sale at the same condition of the purchase envisaged by GIP. The offer was accepted by Italo's shareholders, on 7 February 2018. The operation which was subject to the European Competition Authority was finalized on 26 April 2018 at a value of 1,98 billion, with the reinvestment of a limited number of shareholders through their holdings for a total amount of 150 million as a capital increase.

To understand the choices of the company is fundamental to analyze what were company's needs and what objectives guided shareholders during the process. In fact, as stated the IPO is a strategical decision. Since the beginning of its activity, Italo has experienced strong growth in revenues. As often in companies in their early stage, Italo reached its breaking point only at its fourth year of activity. But its growth was substantial, in fact since 2016 the company has begun to generate profit. Its revenues continued to grow in the range of 17/25% per year, while its cogs decreased to 69% allowing the improvements of its margins. It must be stated that from its industrial plan it is clear that the company will continue to grow in the following year, with 365 million to be invested to increase its fleet. To truly understand the company's growth opportunity is important to understand that the European railway market is going through important changes and with the fourth railway package approved by the European Council, the market will be transformed allowing true competition across Europe. For this reason, the company has optimal prospects for its future thanks to this important opportunity. Having regard of all these information is interesting to value

the company following a relative valuation, to give an insight of the possible value of the company, and to understand if the choice done by the company's shareholders was mostly linked to the valuation or if it had strategic reasons. To do so, 3 competitors with a certain degree of comparability have been selected, StageCoach group, FirstGroup PLC, and West Japan Railway. The first one presented shows the higher degree of comparability based both on the service offered and on its location, but is still useful to evaluate relatively the other companies also to state the value that could be attached to the opportunity to expand the activities of these companies through Europe. The valuation was done both from an asset perspective using the EV/EBITDA, and from an equity side using P/E. The result obtained shows how Italo was acquired at an EV/EBITDA of 17,1x, while its comparables had an average of 5.9x. Also analyzing the P/E it is apparent that the valuation given to Italo was higher when compared to the others with a considered P/E equal to 58,7x while the average was 18,1x. StageCoach which could be defined as the closest comparable had an EV/EBITDA ratio that was closer to the one obtained by Italo (24x). To understand these data is important to state that Italo was growing at faster rate with respect to these companies, and it could be useful to analyze the EV/EBITDA that the company would reach in 2018, this is clearly an information that was not available at the moment of the valuation done by GIP, but is possible to assume that Italo, following its industrial plan had an estimation on this value. Considering this information, the multiple obtained in the following year would be 12,1x, which would be closer to the average obtained by the industry, and it would take into account the faster growth that the company would provide to its investor. It should always be considered that the value obtained by the forecast is uncertain and should be adjusted to take this into account (this would motivate the lower multiple in respect to his closest competitor). Anyway, the dual-track process followed by the company needs some special considerations. Thanks to this strategic choice the company was open to two different outcomes. With the performance of an IPO, the company would have become public, and it would have been formally Italian, but considering the market in which it operates, its activities will still be attached to the Italian market. However, being a public company would have allowed its shareholders to retain a higher percentage of ownership and at the same time access to the capital market. Financing was in fact one of the two priorities in this

operation. The opportunity to expand its activity throughout Europe is incredibly valuable considering that the market is estimated to be around 10 billion as of today and is expected to reach 25 billion within 2025. But the process will be challenging, Italo will have to face more competition, both in terms of the number of competitors and dimensions such as Eurostar which operates through France, Belgium, and the United Kingdom. To be able to perform this growth the company will need important resources. In 2018 in fact the company used a high amount of debt to finance its expansion, but in the view of a major expansion in all Europe, the company's needs will not be met using only debt. So becoming a public entity would grant additional resources to finance its plan and to reduce and diversify its financing sources, allowing also to reduce the wacc thanks to competition between sources. Considering this need, another important element appears from shareholder's actions. Since 2017, the entrance of new investors and the action of the owners appeared oriented to a divesture. In fact, the entrance of Peninsula Capital was done without a capital increase. Moreover, also the IPO planned would have been performed selling pre-existing shares. So, it can be stated that one of shareholder's primary aims for the dual-track process was an exit strategy. Considering these two aspects the choice made become clearer. The IPO which is typically seen as a privileged exit strategy has some drawbacks, the divesture of a high percentage of ownership cannot be done integrally and in a short time. Because with the listing the company would be exposed to market fluctuation and the price of its shares would be reached following the laws of supply and demand. So that high sale volume would damage the share's price of the company (and in addition, lock-up clauses are included in these transactions to avoid this problem). For this reason, an M&A exit could be considered more effective to reach this objective. Financial institutions also had a relevant stake inside the company, and these actors are typically interested in maximizing their profit and in reducing their risk so that the offer received by GIP was clearly the best option for them. For the second key reason that justified the dual-track process, it can be said that the resources were needed in the near future, in the view of an expansion through Europe, so there was not an immediate necessity. It is true that the listing would have allowed the company to finance itself directly from the market. But at the same time, the dimensions of the GIP fund, and its financial resource are more than sufficient to

finance Italo's growth plan. In this case, the dual-track procedure played a key role, allowing the company to choose shortly before listing the most suitable process. In this case, there are major reasons in favor of the sale of the company instead of the listing, the advantages brought are for its shareholders and for the company itself. This process is interesting, withdrawal is not mentioned under European law. Freedom is left to companies to choose the best strategy. The choice is fair, in fact, the IPO process is long, and market conditions can change unexpectedly, so it is correct to give companies the opportunity to withdraw. The withdrawal can be done directly (by giving communication to Consob and Borsa Italiana) or indirectly waiting for the expiration of authorizations. It is difficult to assess whether a company should follow a dual-track process or directly choose one of the two. It depends on company's characteristics, needs, and conditions. Clearly following this process grants more bargaining power for the seller/issuer thanks to the existence of an alternative that is credible and desirable. But the trade-off is clearly linked to the resources needed to perform a double procedure which should be intended in terms of financial resources but also time. The management will in fact need to follow both the processes in the best way to ensure the success of the procedure and the expected outcomes.