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The Euronext Growth Milan Market: An Empirical Analysis of SME Listing Determinants and a Comparative Study with Non-Listed Firms

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ABSTRACT

This study analyzes the factors influencing the listing of small and medium-sized businesses (SMEs) on the Euronext Growth Milan (EGM) market, therefore offering a comparison with unlisted companies to help to pinpoint the elements influencing the choice to go on financial markets. The major goal of the study is to identify the factors motivating SMEs to go public, the benefits resulting from the IPO, and the important problems impeding the development. The research is divided out into many phases. First, the historical development of the capital market for SMEs in Italy is investigated with special focus on the change of AIM Italia into Euronext Growth Milan. The formal and significant criteria required for listing are then examined together with related expenses and operational consequences following list. Particularly underlined is the importance of tax benefits and regulatory concessions, which have helped EGM to be a competitive venue for SMEs seeking funding.

By means of empirical analysis, the study emphasizes how businesses listed on EGM typically exhibit more financial soundness, a higher inclination to innovate, and a more organized approach to corporate governance than unlisted businesses. Important key problems do, however, also surface: the high listing expenses and the necessity of preserving high degrees of openness and regulatory compliance. Post-listing management also calls for an analysis of corporate strategies and application of investor communication techniques.

The case study of Comal S.p.A., a company specialized in the construction of solar systems and listed on Euronext Growth Milan in 2020, provides a specific example of the influence of listing on corporate development to support this research. Emphasizing the company's financial performance in the period pre and post IPO, the study mostly compares Comal S.p.A. with unlisted competing

companies. After that, this first study is matched with the same financial indices as in the general study to enable us to spot any variations between listed and unlisted enterprises in terms of financial and economic performance.

Research findings have pragmatic ramifications for policy makers, investors, and business owners. Listing offers entrepreneurs a chance for expansion but calls for cautious preparation. The studies help investors to grasp the traits of businesses that enter controlled markets. At last, for legislators, the report emphasizes the importance of focused interventions to encourage SMEs' listings and raise the Italian financial market's competitiveness.

Though more work is required in incentive programs and post-listing company support systems, conclusions suggest that Euronext Growth Milan strategically helps Italian SMEs in access to financial markets. Future research can look at how listing affects long-term company performance and contrast the Italian model with other European platforms meant for SMEs.

INTRODUCTION

An IPO represents a crucial moment in the evolution and growth of a company. This event should be perceived not only as the achievement of an important goal, through the so-called ‘listing on the stock exchange’, but also as the beginning of a new phase of development. A change of this kind has several important advantages. These include improving the company's internal governance, the possibility for entrepreneurs to profit from part of their investment, the ability to attract new brilliant resources, strengthening the visibility and reputation of the brand among all stakeholders and facilitating the management of the delicate phases of the generational transition. But the main reason why a company, particularly a small or medium-sized enterprise (SME), should start the process of going public is to find another source of capital needed to support ambitious expansion plans.[1]

Companies have numerous options for raising financial resources, which fall mainly into two categories: ordinary and extraordinary sources of financing. The former include traditional tools such as self-financing, bank loans and raising capital from existing shareholders. The latter include less traditional and more creative ideas, including crowdsourcing, the use of private equity funds, issuing minibonds and, of course, listing on the stock exchange. The stage of development of the company, the structure of the balance sheet and the particular needs that motivate the search for liquidity influence the choice of the most suitable source of financing. In general, organizations with aggressive expansion ambitions have already reached a certain degree of structural maturity to be listed and financed by attracting additional external investors.[2]

Many Italian companies, especially SMEs, are undercapitalized, a situation that has been the focus of studies and debates at many financial conferences.

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[1] Borsa Italiana (2023). *Guide to IPOs in Italy*.

[2] OECD (2021). *SME and Entrepreneurship Policy in Italy*. OECD Publishing.

The Italian financial system has historically been dominated by bank credit, a phenomenon known as 'biocentrism'[3]. In fact, many SMEs have always seen banks as the only, or at least the main, source of financing.

This heavy dependence can be attributed to various factors, including (i) the widespread presence of banks throughout the territory, (ii) the underdevelopment of capital markets, especially when compared to Anglo-Saxon markets, (iii) an often-insufficient level of financial knowledge within companies, (iv) the tendency to favor short-term and apparently less costly solutions short-term and apparently less expensive solutions compared to more strategic ones and (v) the fear, on the part of entrepreneurs, of losing control of their companies.

In recent years, however, many of these factors have been radically transformed. The strong territorial presence of banks has diminished, also due to the consequences of the financial crises and the introduction of new regulations that have profoundly changed the relationship between credit institutions and businesses. In parallel, the Euronext Growth Milano (EGM, formerly AIM Italia) market, introduced in 2009 and inspired by AIM UK, has played a key role[4]. Designed to meet the needs of SMEs, this market has found a balance between access and control. Tax incentives, such as the Individual Savings Plans (PIR) introduced in 2017, and the tax credit to offset the costs of listing have further stimulated interest in this financing channel. The most recent statistics indicate the effectiveness of the IPO market: 33 new listings recorded in 2023, bringing the total number of listed companies to 203, compared to 77 in 2017. Total capitalization increased from 2.9 billion euros in 2017 to 8.2 billion euros in 2023[5].

Furthermore, the internal financial culture of Italian SMEs is changing radically. Two main elements have contributed to promoting this development: the start of significant generational transformation processes and increasing globalization. In addition, the development of professional consultant networks has made companies aware of the need to select adequate financing sources, overcoming the logic of evaluating only the cost of resources. Although short-term bank loans have lower expenses than risk capital, it has

[3] *Bank of Italy (2023). Financial Stability Report.*
[4] *Consob (2022). The Capital Markets in Italy: Evolution and Prospects.*
[5] Euronext (2023). *Euronext Growth Milan - Market Report*.

been shown that they are usually insufficient to achieve long-term development objectives[6].

The fear of losing control of the company through listing has also been reduced. After listing, entrepreneurs generally retain a majority shareholding of between 70 and 75 percent, while the rest of the capital is divided among a multitude of investors. The latter are generally not interested in exercising direct control over the company, but rather in supporting credible projects capable of generating value over time[7]. These returns can derive from both growth in the value of the stock on the market (‘growth stock’) and from the distribution of dividends (‘value stock’).

The Italian capital market is currently in a crucial phase of development, driven by the growing awareness among entrepreneurs of the opportunities offered by listing. This phenomenon is particularly important for SMEs, which form the backbone of the Italian economy and which, in recent years, have demonstrated an extraordinary ability to adapt to increasingly complex global contexts.[8]

Today, the realization that access to capital markets represents a valuable opportunity to find financial resources is spreading even among the smallest companies. The main discriminating factor is no longer the size of the company, but the solidity and credibility of the growth projects that are presented to the market. The development of the capital market is in fact a fundamental pillar of the country's economic progress and the current conditions are favorable for a further consolidation of this process.[9]

An IPO is not only a remarkable financial tool meant to generate money to promote creative ideas for small and medium-sized businesses (SMEs). It should be considered as a strategic lever that, if properly applied, can help the company to become more competitive over the medium and long terms, therefore greatly contributing to its valorization. Apart from a way to get financial resources, listing is a development tool that enables businesses to strengthen their financial, commercial, and contractual situation, so approaching the market with fresh vitality and energy.[10]

Originally called as Euronext Growth Milan (EGM), the AIM listing has changed significantly over the years, marked by improved efficiency, the establishment of specific

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[6] *Pagano, M., Panetta, F., Zingales, L. (1998). Why Do Companies Go Public? An Empirical Analysis. The Journal of Finance, 53(1), 27-64.*
[7] *Deloitte (2023).* SMEs and Capital Markets: IPOs in Italy.
[8] *Assonime (2023).* The Role of the Stock Exchange for the Growth of Italian SMEs.
[9] *European Commission (2022).* Capital Markets Union: Strengthening SME Access to Finance.
[10] *Zingales, L. (1995).* Insider Ownership and the Decision to Go Public. The Review of Economic Studies*, 62(3), 425-448.*

funds and a growth in the caliber of the listed firms. Increasingly, SMEs are showing a rising understanding of problems outside of profit like sustainability, open governance and ethical innovation. This cultural change catches a market targeted at rewarding businesses able to combine social responsibility with financial growth.

Our experience helping businesses negotiate the listing process and post-listing administration has made clear that the IPO (Initial Public Offering) is a potent tool for company acceleration. Apart from providing fresh funds, listing raises their profile and appeal for investors both inside and outside of the nation. The growing geographical dispersion of the companies listed on the EGM index has accentuated this phenomenon[11]. In addition to traditional areas such as Lombardy, Lazio and Veneto, enterprising companies have also developed in regions such as Campania, Sicily and Puglia. Furthermore, the Italian market has aroused the interest of foreign companies with considerable interests in France, Greece and Switzerland[12].

This geographical and sectoral expansion has been favored by constant awareness-raising and training activities aimed at Italian entrepreneurs. Through meetings and targeted initiatives, we have tried to explain the logic of equity capital markets (ECM), addressing in particular the main concerns that prevent many companies from considering listing as a strategic option. Among these, the fear of losing corporate control has historically been a major obstacle. However, the data clearly shows that, on average, families retain a controlling stake of around 70% of the capital post-listing. Furthermore, the information transparency requirements on EGMs are limited to the publication of the annual financial statements and the half-yearly report, making the process less onerous than required in the main regulated markets.

Another often-cited obstacle concerns the cost of listing[13]. This problem has been addressed with the introduction of the so-called ‘IPO Bonus’, a tax incentive established with the 2018 Budget Law. This measure provides a tax credit to cover the consultancy costs related to the listing. The IPO Bonus, renewed annually, has given rise to a virtuous circle that has stimulated a growing number of new listings. Between 2018 and 2023, the Euronext Growth Milan market welcomed 181 new IPOs, of which about 80% related to SMEs. This instrument has not only contributed to the growth of the capital market in

[11] Borsa Italiana (2022). *Analysis of the Geographical Distribution of Companies Listed on Euronext Growth Milan*.
[12] EY (2021). *Cross-Border IPOs: Trends and Market Opportunities in Europe*.
[13] EY (2022). *Italy’s IPO Market: Trends and Challenges*.

Italy but has also had positive effects on employment and GDP, bringing the Italian financial system closer to European averages.

Many entrepreneurs believe that listing on the stock exchange is a valid and alternative growth strategy that can fit harmoniously into generational turnover models. It allows for increased management autonomy, optimized managerial organization and a stronger governance structure for family businesses.

The companies that have decided to go public with our support understand the advantages of greater visibility at a national and global level, as well as the possibility of finding new sources of financing.

Many companies have taken the opportunity to examine their growth plans more closely, monitor their successes and increase their ability to connect with investors. Entrepreneurs have defined the stock exchange as a 'litmus test' to assess the validity of their management decisions and a tool for continuous development; they have seen it as an engine of transformation. Among the comments received: 'Listing was a learning experience that transformed our corporate vision'; 'The stock market offers us privileged access to high-level resources and expertise'; 'The stock market is a unique showcase for brand awareness'; and 'The stock market is the only turbo I know of for growth in this economy'.

About 2,000 Italian SMEs with sufficiently strong financial and economic characteristics to access Euronext Growth Milan have been identified by the Bank of Italy in recent research. The listing process is more accessible on this list because the entry and permanence criteria are less rigid than on the main market. The main advantages are the absence of a minimum capitalization requirement, a minimum free float set at 10% and the obligation to appoint only one independent director.

Thanks to the flood of new companies and the increased liquidity from Individual Savings Plans (ISP), the total capitalization of the EGM market has doubled in the last five years. Together with the sector diversification of listed companies, the caliber of committed investors has also increased.[14]

Looking to the future, it is essential to continue promoting quality development by supporting the entry into the market of excellent SMEs with solid foundations and sustainable development programs. This path can produce value not only for individual

[14] Mediobanca Securities (2023). *The Evolution of the EGM Market and the Role of Institutional Investors*.

companies, but also for the entire Italian economic system, thus favoring employment and national competitiveness.

With an emphasis on traditional industries such as manufacturing and finance, but also on creative sectors such as alternative medicine and sustainable technology, 2023 has reached an all-time high in terms of admissions to the EGM and is expected to show continuous expansion over the next three years.

Chapter I

The development of SME stock markets in Italy

1.1 The restricted market: the regulation of private trading (1977)

While considerable uncontrolled trading activity, known as the 'over the counter' (OTC) market, involved unlisted securities, the Italian financial scene until 1977 was mainly concentrated on the official stock exchange system. The lack of a sufficient regulatory framework in this context exposed issuers and investors to great risks, thus compromising the integrity of the system and allowing a general lack of guarantees through opaque methods.

Law No. 49 of 23 February 1977 created the Mercato Ristretto, a controlled market intended for the trading of financial products not admitted to official listing, in order to manage these important problems. The main objectives of the reform were to increase security and openness in trading and to provide small and medium-sized enterprises (SMEs) with access to the capital market.[15]

Important features of the restricted market included:

- *Simplified access requirements*: the publication of certified financial statements and the demonstration of the ability to generate income were sufficient for admission, thus reducing bureaucratic obstacles for SMEs.
- *Regulated trading:* transactions had to be carried out exclusively in cash and through authorized operators to ensure the fairness of transactions.
- *CONSOB supervision:* to ensure the fairness of transactions, these had to be carried out in cash only through authorized operators. As the supervisory authority, the National Commission for Companies and the Stock Exchange (CONSOB) oversaw market operations and established operational guidelines.

[15] Consob (1977). *Law No. 49/1977 - Creation of the Restricted Market and Regulation of Over-the-Counter Transactions*.

The Mercato Ristretto did not live up to expectations, with only 17 companies listed and two convertible bonds in 2001, the market showed limited interest in SMEs.

The Mercato Ristretto experience was, however, an important turning point in the development of Italian financial market regulations, helping to define a path of modernization and control and laying the foundations for the development of more complex instruments that respond to the needs of the SME market.[16]

1.2 The EXPANDI market

At the beginning of the 2000s, the Italian financial landscape clearly showed the need to develop more targeted tools to assist small businesses, the beating heart of the national economy. Many of these companies needed simplified access to financing as a link between conventional markets, which were sometimes too complicated or demanding.

From this need, on 11 November 2003, Borsa Italiana created the “Expandi Market”, intended to assist small businesses and companies wishing to progressively access the financial system. Inspired by the European markets dedicated to small caps, this project marks an evolution from the previous Restricted Market in terms of organization.[17]

Emphasizing the potential for expansion of companies and the entire financial system, the name EXPANDI, of Latin origin, implies the broadening of perspectives and opportunities.

The market offers numerous advantages: from financing business development projects to improving visibility and corporate image, to attracting specialized investors. For financial intermediaries, EXPANDI is an opportunity to expand the range of services offered, increasing competitiveness.

Main characteristics of the EXPANDI market:

- *Size requirements:* the market requires a minimum capitalization of 1 million euros, making the most of the opportunities offered by European directives. The minimum

[16] Consob (2001). *Report on the Evolution of the Mercato Ristretto and Opportunities for SMEs*.

[17] Borsa Italiana (2003). *Expandi Market Regulation*.

free float is set at 10 per cent of the share capital, with a minimum equivalent value of 750,000 euros.

- *Economic and financial requirements:* to enter the market, companies must publish at least two financial statements, the last of which must be certified by an auditing firm. Admission is subject to verification of positive economic and financial indicators for the last two financial years. In particular, companies must present positive consolidated and statutory results, a ratio of net financial indebtedness to EBITDA of less than 4 and a minimum net profit of 100,000 euros in the last financial year.
- *Disclosure requirements:* listed companies are required to comply with the disclosure standards on price-sensitive communications and financial reporting already in force for the other Borsa Italiana markets, except for quarterly communications.
- *The role of the Listing Partner:* The Listing Partner plays a crucial role in supporting companies during the listing process. It is responsible for the placement of shares, verification of selection criteria and due diligence activities. In addition, it signs the prospectus and provides Borsa Italiana with the necessary certifications, assuming a reputational responsibility towards the market.

The EXPANDI market is a concrete response to the recovery of the financial markets and the growing demand for innovative financial solutions for small businesses. To promote the initiative and favor market liquidity, Borsa Italiana has decided not to charge trading commissions on transactions relating to the EXPANDI market for the whole of 2004, thus facilitating companies' access to this new platform.[18]

Despite its limitations, the EXPANDI market represented an important innovation in the Italian financial market, especially for small businesses, and laid the foundations for a greater opening of the financial system to less structured but high potential subjects.

[18] Borsa Italiana (2004). *Expandi Market Regulation - Initial Evaluations on Market Success*.

1.3 Agreement between Borsa Italiana and Pro Mac for the development of the AIM Italia and MAC markets

On 8 August 2008 an agreement was announced between Borsa Italiana and Pro Mac, aimed at promoting and strengthening the markets dedicated to small and medium-sized Italian enterprises (SMEs). Among the projects planned was the introduction of AIM Italia, whose main objective was to establish a synergy between AIM Italia and the Mercato Alternativo del Capitale (Alternative Capital Market, MAC) so that, regardless of sector or size, companies could obtain flexible and customized solutions.[19]
The MAC would maintain its unique character in the project, retaining some important features that define its purpose and functioning:

- *Certified financial statements:* prepared in line with Italian accounting standards, to guarantee the accuracy and transparency of financial data.
- *Centrality of the Sponsor:* a fundamental figure who guides companies in the process of entering the market.
- *Restricted access:* the market is reserved exclusively for qualified traders, to limit investments to professional investors.
- *Negotiated auctions:* a means of ensuring stability and transparency in the buying and selling processes.
- *Simplified documentation:* the admission process uses documents written in Italian to help companies participate more easily.

The link between MAC and AIM Italia depends mainly on the potential of the companies listed on MAC that show a sufficient track record to access AIM Italia through a simplified process, so that companies can develop gradually, allowing them to become stronger and to address more challenging markets.
A further advantage is the integration with the London Stock Exchange Group, which increases Italy's influence on the European financial scene and creates new opportunities for interconnection with world markets.

[19] Borsa Italiana (2008). *AIM Italia & MAC: Consultation Document for the Development of SME Markets*.

1.4 AIM Italia: start of consultations with market operators - A strategic discussion for the launch of AIM

With the announcement of AIM Italia, a market designed to meet the particular needs of SMEs, Borsa Italiana has taken a decisive step towards a practical solution. On 11 August 2008, a phase of strategic consultation began with important market operators prior to the official launch, to create a regulatory model that was not only efficient but also suited to the unique characteristics of the Italian economic system.
Aim Italia was created with the aim of providing qualified access to new flows of risk capital for small and medium-sized Italian enterprises (SMEs), attracting, thanks to the agreement with the London Stock Exchange Group, investments not only from the Italian market but also from the British one.
Borsa Italiana has engaged trade associations, financial intermediaries, consultants and possible issuers to get comments and ideas on the framework and policies of the new market.
AIM Italia's regulatory system[20] is set up on several tiers:

- rules specifically for Nomads
- guidelines for issuers
- an operational handbook for market and trading players
- a manual of disciplinary procedures and appeals.

This modular approach will ensure an operational environment fit for the Italian situation while compliant with international standards. Starting the consultation for AIM Italia marks a significant first towards the building of a contemporary and inclusive financial market fit for Italian SMEs.

[20] Borsa Italiana (2008). *AIM Italia Regulation*.

1.5 Approval of regulations and introduction of the Nomad - A decisive step for the new market dedicated to SMEs

Approved by the Board of Directors of Borsa Italiana on 12 September 2008, the AIM Italia project enters a crucial phase, outlining the operational guidelines and thus introducing the important role of the Nominated Adviser (Nomad). With this authorization, SMEs will have easier access to financing and the opening and efficiency of negotiations will be promoted, thus bringing us closer to an efficient and modern market.

<u>Main characteristics of AIM Italia</u>

- *Classification and regulation:* AIM Italia is a multilateral trading facility (MTF) that follows the MiFID directive regarding classification and regulation. Although Italian law does not classify it as a regulated market, Borsa Italiana directly manages and controls it, thus guaranteeing its operation
- *Financial instruments:* the market is mainly made up of equity financial instruments, thus satisfying the capital requirements of SMEs.
- *Prospectus:* apart from the requirements of the Prospectus Directive, there is no need to present a formal prospectus. The admission process is characterized by simplicity and speed and is subject to a rigorous due diligence process by the appointed advisor (Nomad).
- *Documentation:* all official material must be in Italian; an English version will be available to facilitate contacts with foreign investors.
- *Continuous specialist:* issuers must maintain a specialized operator to guarantee the efficiency and liquidity of trading.
- *The role of the Nominated Adviser (Nomad):* the functioning and control of AIM Italia depends mainly on the Nomad. Each company on the list needs a Nomad to help it with important tasks related to the admission process and remaining on the market.

Evaluation and support: the Nomad guarantees the issuer's continuous regulatory compliance and evaluates its eligibility for admission.

Qualification and registration: Based on particular corporate financial expertise and a suitable organizational structure, Borsa Italiana assigns the Nomad qualification. Registered in a public register easily accessible, qualified nomads ensure professionalism and openness.

<u>Simplified approval process</u>

AIM Italia's admission process is meant to be streamlined and compliant with European norms. It consists in two primary phases:

1. The company must notify Borsa Italiana at least ten days before the official market launch a pre-admission notice.
2. Application for admission: a formal application coupled with the admission papers produced in compliance with European criteria must be filed at least three days before the intended admission date.

Openness and disclosure standards among others, AIM Italia distinguished itself with its strict disclosure policy meant to ensure utmost transparency to investors:

- Price-sensitive information: issuers have to swiftly, in line with Consob rules, provide all pertinent material to the market.
- Relevant corporate transactions: transactions above specified levels are deemed relevant, say 10% for general transactions and 5% for transactions involving connected parties.
- Significant shareholdings: changes in shareholdings more than three percent of the share capital must be revealed to the market.

Issuers must publish half-yearly reports in line with International Accounting Standards (IAS) together with annual financial statements. In addition, all company data must be freely accessible on the company's official website.

AIM Italia thus offers a strategic platform to help strengthen Italy's position on international markets, thus supporting national economic development.

1.6 A new opportunity for SMEs: entry into force of the AIM Italia Regulations and approval of the new structure of the regulated markets of Borsa Italiana

With the coming into force of the AIM Italia Regulations on 1 December 2008, the Italian financial scene has taken a new turn. At the same time, the rationalization of the regulated markets and the integration of the Expandi Market with the MTA have taken a further step towards a more modern, transparent and efficient structure.[21]

The Board of Directors of Borsa Italiana has indicated a series of legislative changes aimed at maximizing the overall listing offer and simplifying the architecture of the markets controlled and managed by Borsa Italiana. One of the main actions undertaken is the merger of the Expandi Market with the Mercato Telematico Azionario (MTA) which, after careful consideration with important market operators, aims to rationalize the entire management of the Borsa Italiana market.

New admissions to the Expandi Market are not accepted starting December 1, 2008. Already listed Expandi companies were automatically moved to the MTA in 2009.[22] This rationalization of the controlled markets framework shows Borsa Italiana's dedication to openness and efficiency, therefore enhancing Italy's profile on the international financial scene.

1.7 The Advisory Committee for the Development of Borsa Italiana Markets dedicated to SMEs is born - A new body to support AIM Italia and MAC

Supporting innovation and growth of the Italian economic scene, small and medium businesses (SMEs) become more and more vital. But their presence on the financial markets creates a challenge that calls for suitable instruments and the help of companies ready to change with the times. In 2010 the Advisory Board for AIM Italia and MAC was established to satisfy these demands. This strategic body seeks to enhance the listing offer for small and medium-sized Italian businesses, therefore supporting their expansion and

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[21] Borsa Italiana (2008). *Regulatory Changes for the Integration of Expandi with the MTA*.

[22] Borsa Italiana (2009). *Integration of Expandi into the MTA: Strategic Impacts and Evaluations*.

consolidation into the fabric of national economy. The Advisory Board stands for a deliberate activity meant to raise the national entrepreneurial fabric's contribution from the AIM Italia and MAC markets.

Comprising fifteen members selected from among the leaders of esteemed Italian trade associations and financial institutions, the Advisory Board is chaired by a well-known financial industry practitioner, therefore ensuring authoritative and cooperative leadership. The Board is in charge of creating strategies and proposals meant for the expansion of the AIM Italia and MAC markets and has the authority to Its main responsibilities consist in developing policies and concepts to make the markets devoted to SMEs more functioning, appealing, and competitive.

The Advisory Board's strategic goals are:

- Raise awareness of the AIM Italia and MAC markets so enhancing their appeal to both domestic and foreign investors.
- Make the Italian financial system more competitive by using creative ideas catered to the demands of a changing economic environment.
- Make access easier for Italian SMEs in order to boost their visibility on the financial markets and raise funds to aid in development.

The strategy will seek to combine the structural needs of companies with the creative ability of the financial sector thereby guaranteeing a balanced development path that satisfies the requirements of global markets. The activities of the Council will not only help Borsa Italiana to inspire innovative ideas but also help to unite the Italian entrepreneurial fabric, therefore supporting the economic growth and world competitiveness of the country.

1.8 AIM Italia - Alternative Capital Market - A new platform for SMEs is born

Officially starting on 26 January 2012, AIM Italia - Alternative Capital Market is a brand-new platform produced by the merging of AIM Italia and Mercato Alternativo del Capitale (MAC). Under the guidance of the SME Advisory Committee and Borsa Italiana, this project is the outcome of joint efforts aiming at rationalizing and simplifying the listing offer for small and medium-sized firms (SMEs).

The new framework guarantees a balance between the needs of issuing firms and investor protection, therefore improving on the past experience.

The major goals are:

- to simplify the listing procedure and offer regulatory certainty
- to promote the expansion and global orientation of Italian SMEs
- to combine the finest aspects of MAC and AIM Italia to offer a community of specialized professionals and access to a sizable pool of both domestic and global investors.

Technical characteristics of the market

The new market's design is creative and catered to investors' and SMEs' needs. The most crucial technological aspects consist in:

- Structure: under control and management by Borsa Italiana, a multilateral trading system.
- Listing process: quick and efficient; from application reception, an estimated 10 days pass.
- Liquidity support from a specialist trader.
- Accessibility: open to institutional and professional investors as well as retail secondary market players.

Admission requirements

Companies wishing to be listed on AIM Italia must meet the following criteria:

- No minimum capitalization is required.
- A minimum free float of 10%.
- Option to adopt Italian accounting standards or IFRS.
- Obligation to appoint a Nomad (Nominated Adviser), a financial intermediary registered with Borsa Italiana, to support the company throughout the listing process and in the post-IPO phase.

Documentation and requirements

Companies wishing to list on AIM Italia must submit:

- A certified financial statement.
- An admission document in accordance with the regulations of Borsa Italiana.
- After listing, obligations include:
- Publication of the annual financial statements and the half-yearly report.
- Compliance with regulations on price sensitive information.
- Use of a specialised operator to guarantee the liquidity of the security.

1 March 2012 marked the operational launch of the new market. Companies listed on AIM Italia were immediately subject to the new restrictions.

1.9 FTSE AIM Italia: the new index dedicated to SMEs - An important step for Italian SMEs

Effective tools to monitor and assist small and medium-sized enterprises (SMEs) in the market are absolutely vital in an economic context where they are the engine of innovation and development. On 2 July 2013, Borsa Italiana presented a new index dedicated to SMEs listed on FTSE AIM Italia.[23]

This index not only improves the visibility of the companies but also contributes to consolidating the position of AIM Italia as a reference platform for Italian SMEs, thus presenting a clearer image for investors and increasing the market's attractiveness. Thanks to a listing process characterized by operational simplicity, speed and legal criteria adapted to the needs of this entrepreneurial category, this new instrument reflects even more the respect of the strategic role of AIM Italia as a reference platform for SMEs.

The index increases the attractiveness of AIM Italia for companies seeking financing and for market operators, providing investors with a coherent and organized monitoring tool.

[23] FTSE AIM Italia (2013). *FTSE AIM Italia Index - Methodology and Calculation Rules*.

The FTSE AIM Italia index recorded an exceptional performance in the first half of 2013.[24] Thanks to a competitive trading environment and a solid regulatory structure, the 11.3% increase highlights AIM Italia's ability to attract the interest and trust of investors.

1.10 Borsa Italiana appoints the new AIM Italia Advisory Board

On 2 March 2017, Borsa Italiana announced the members of the new AIM Italia Advisory Board, the market dedicated to small and medium enterprises (SMEs).

<u>Purpose and responsibilities of the Advisory Board</u>

The Advisory Board will have the task of guiding and directing strategic projects aimed at promoting the growth and effectiveness of the AIM Italia market. Its main objectives include:

- The formulation of proposals for regulatory changes.
- The promotion of strategies aimed at strengthening the role of AIM Italia as a reference platform for Italian SMEs.

Made up of investors, listed companies and industrial groups such as ABI, AIFI, Assogestioni, Assonime, Assosim and Confindustria, the Advisory Board reflects a meeting point between the needs of companies and those of investors.

The presence of institutional representatives and market professionals emphasises its strategic importance and its ability to combine different points of view from the financial scene.

1.11 AIM Italia becomes a growth market for SMEs: recognition for the SME market

In accordance with the European Commission's MiFID II directive, AIM Italia, the market aimed at small and medium enterprises (SMEs), obtained the qualification of SME

[24] FTSE AIM Italia (2013). *Performance and Volatility Analysis of FTSE AIM Italia*.

Growth Market on 3 January 2018. Designed to allow SMEs to access the capital market, this important recognition is part of the strategy to merge the European financial markets. The qualification involves a specific legislative framework aimed at supporting the growth of SMEs and increasing their ability to attract investment. Registration as an SME Growth Market confirms AIM Italia's position as a fundamental platform for helping Italian SMEs, thus supporting a targeted regulatory environment suitable for economic development.

The key advantages of SME Growth Markets are:

- *Future regulatory initiatives:* listed companies will benefit from more favourable and simplified rules compared to conventional regulated markets, having access to European laws designed specifically for growth markets.
- *Easier access to capital:* by improving financing opportunities for SMEs, the qualification will help make AIM Italia even more attractive to domestic and foreign investors.
- *Lower financing costs:* the new simplified regulatory structure will help control the financial and legal obligations of issuing companies, thus promoting their expansion and consolidation.

1.12 Borsa Italiana: the new AIM Italia segment is born - News for the SME market

Significant changes to the rules of AIM Italia, the market of Borsa Italiana dedicated to small and medium enterprises (SMEs) seeking funding to support and accelerate their expansion, come into force on 20 July 2020. Designed to meet the needs of a constantly evolving market, these changes aim to consolidate AIM Italia as a reference platform for SMEs, thus promoting their growth and supporting the growing number of companies that decide to list on this market.

The main changes made are:

- Introduction of a section for professional investors: created to serve start-ups, scale-ups and SMEs with slow access to the market, a new category has been built just for professional investors. This part enables businesses to progressively build the operational and organizational structures required for support of growth.

- Update of the Board of Arbitrators on withdrawal and takeover bids: the Board of Arbitrators now has greater powers and a clear, binding role in ruling on takeover bids on financial instruments traded on AIM Italia. This also gives the company more visibility before releasing a wider offering.

Companies registering on AIM Italia now have to name at least one independent director and one investor relations manager to boost openness and investor confidence by consolidating corporate governance and transparency. These criteria seek to guarantee constant, professional contact with investors as well as to assist better corporate governance following the finest market standards.

<u>Other changes</u>

New improvements to AIM Italia address:

- Nomad rules with more exact criteria for businesses supporting SMEs listed.
- Requirements for market admission with an eye toward warrant management, convertible bond issuing, and merger activities.
- A definition of "penny stock" and minimum capitalization rules help to guarantee that the traded securities are rather representative. The financial and economic difficulties brought about by the epidemic have underscored the need of giving SMEs access to other finance sources. In this regard, AIM Italia can be rather significant since it provides businesses with continuous, enabled access to the capital market.

The changes implemented to the AIM Italia guidelines provide more flexibility, openness, and more strong governance, thereby aiding Italian SMEs. Thanks to the professional investor sector and the tightening of regulatory conditions, AIM Italia is acknowledged as a benchmark for companies desiring to gradually and methodically reach the capital market. These projects not only satisfy present needs of SMEs but also future economic challenges, thereby enhancing the competitiveness of the Italian entrepreneurial fabric and helping the resilience of the national economic system.

1.13 The birth of Euronext Growth Milan

The Euronext Growth Milan market was created using a regulatory framework based on the rules and best practices of AIM UK, the London 'Junior Stock Market'. This model has been appropriately adjusted to fit the particular requirements of local businesses and the special features of the Italian regulatory environment, therefore offering a flexible yet strong framework to support small and medium-sized firms (SMEs) in their growth.
With around 164,000 SMEs divided into over 134,000 small businesses and almost 30,000 medium-sized companies, the Italian entrepreneurial landscape is quite diverse. In addition to these, there are the creative SMEs, registered in the special area of the Business Register, which will number 1,362 companies in 2023. This large ecosystem is a fundamental part of the Italian productive fabric and requires adequate technologies to meet the demands of the world market. Inspired by the English market but progressively adapted to local dynamics, the Italian model of Euronext Growth Milano was created to respond to the particular needs of these productive realities.[25]

The list has changed and been updated over the years in response to developments aimed at promoting its development. A significant example is the amendments made to the regulations in 2020. These interventions aimed to consolidate some existing market practices, guide new initiatives and introduce innovations consistent with the changing economic and financial context. Among the main changes made are:

1. *Introduction of a segment reserved for professional investors:* A segment dedicated exclusively to professional investors has been created in order to expand the opportunities for listing for a greater number of companies. This segment is particularly aimed at companies that wish to enter the market gradually, such as start-ups and scale-ups that have been marketing products or services for less than a year. These companies may not yet have all the strategic functions or processes in place for their business model, but they are seeking to increase their visibility among investors before proceeding with a full public offering (a so-called ‘just listing’). This gradual

[25] Euronext (2023). *Euronext Growth Market Regulations*.

strategy lets businesses progressively strengthen the operational and organizational systems required to effectively challenge the market[26].

2. *Update of the rules of the Takeover and Exchange Committee:* Growing in relevance, the Takeover and Exchange Committee currently plays a legally binding and decisive role in connection with public offers of financial instruments traded on Euronext Growth Milan. Strict criteria on the requirements for delisting from the EGM list helps to provide more openness and confidence in market operations by means of which this update offers. Furthermore, changed is the legislative clause pertaining to the Public Tender Offer (PTO), which listed firms must abide by in line with the new legislative rules.
3. *Consolidation of transparency and corporate governance measures:* More openness among firms listed on Euronext Growth Milan and improved corporate governance have been guaranteed by stricter criteria. Among the most important changes is the need that businesses name at least one independent director. From among candidates already authorized and confirmed by the Euronext Growth Consultancy, shareholders must choose this director. Companies also have to select an investor relations manager to serve as an internal point of reference for investors, therefore improving market relations and streamlining of communication.

These legislative measures are meant to make the Euronext Growth Milan market more appealing to businesses and investors, even while they preserve a mix between operational flexibility and regulatory rigor. The modifications carried out not only promote fresh listings but also help to create an environment in which businesses may flourish over time, therefore boosting investor confidence and the competitiveness of the Italian market on international scene.

The ongoing development of Euronext Growth Milano shows the adaptability to the changing needs of Italian SMEs and the provision of an appropriate surroundings for the global expansion and internationalization of businesses. By means of innovations including the segment dedicated to professional investors, the enhancement of regulations on governance and transparency and the vital role of the Probate Panel, the market is

[26] OECD (2021). *Scaling Up SMEs through Public Markets*.

progressively increasing its position as a reference platform for active and creative SMEs.[27]

[27] Euronext (2023). *Euronext Growth Milan - Market Overview*.

Chapter II

The listing process on Euronext Growth Milan

2.1 The sources of ordinary and extraordinary finance

IPO represents one of the strategic options available to solid, forward-looking companies to sustain their growth path[28]. Although it falls within the tools of extraordinary finance, it shares with ordinary finance the fundamental objective: to raise capital needed to finance development and innovation projects[29].

The main sources of ordinary finance can be classified into three categories[30]:

- *Bank financing*: traditional access to credit through banking institutions.
- *Self-financing:* the use of internally generated resources from business activity.
- *Capital increase:* the raising of financial resources from existing shareholders.
- Extraordinary sources of finance, on the other hand, include more innovative and flexible instruments[31].
- *Crowdfunding:* widespread fundraising, often conducted online, involving a large number of small investors.
- *Private equity:* the provision of capital by institutional investors or specialized funds.
- *IPO:* direct access to capital markets through the sale of shares.
- *Minibonds:* bonds issued by SMEs to finance development projects.
- Choosing IPO means embarking on a strategy based on venture capital, an option that shares many characteristics with private equity.[32] Both options have distinctive elements that make them particularly suitable for financing medium- to long-term growth projects.

[28] OECD (2022). *Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard*.
[29] European Commission (2021). *The Role of Capital Markets in SME Financing*.
[30] European Central Bank (2023). *Survey on Access to Finance for Enterprises (SAFE)*.
[31] Banca d'Italia (2023). *Alternative Financing for Italian SMEs: Trends and Perspectives*.
[32] Zingales, L. (1995). *Insider Ownership and the Decision to Go Public*. *The Review of Economic Studies*, 62(3), 425-448.

The main characteristics of venture capital are:

- *Medium- to long-term financing* allows projects that require a longer time horizon to be supported.
- *Absence of repayment deadlines:* the principal does not have to be repaid within defined terms.
- *Disinvestment through divestment:* exit is generally through the sale of shares to the market or third parties, with no direct impact on the enterprise.
- *Flexibility:* a source of capital adaptable to business needs.
- *Remuneration linked to business success:* investors earn through increasing the value of the enterprise.
- *Strategic support:* the investor provides managerial and financial expertise.

These aspects contrast venture capital with debt capital, such as banking capital, which is characterized by:

- *Variable term:* financing can be short, medium or long term.
- *Mandatory deadlines:* repayment is tied to specific deadlines, regardless of business performance.
- *Rigidity:* access to credit depends on the presence of collateral and the ability to generate cash flow.
- *Interest payments:* borrowing costs must be incurred regularly.
- *Limited assistance:* the bank's intervention is limited to financing, without strategic support.

In summary, venture capital is particularly suitable for financing medium- to long-term projects because of its flexibility and lack of repayment constraints.[33] In addition, disinvestment does not burden the company, as it is done through share sales. This structure allows the interests of the company and investors to be aligned, incentivizing long-term value creation.

[33] European Investment Bank (2021). *Venture Capital & Growth Financing for European SMEs*.

Is the listing suitable for all businesses?

Despite its benefits, listing is not a universal solution. Even in a relatively streamlined and accessible market such as Euronext Growth Milan, the listing process requires careful evaluation to prevent it from becoming critical for the company. Several factors must be considered to determine whether listing is an appropriate strategic choice:

- *Corporate status:* the maturity level of the company is a crucial element. The company must be at a stage of development that enables it to meet the challenges of the capital market.
- *Organizational requirements:* the business must be ready to apply major changes including modifying methods of reporting, budgeting and monitoring, applying corporate governance policies and certifying financial statements.
- *Transparency:* listing imposes disclosure obligations to investors and the market, including price-sensitive information and strategic choices.
- *Market and timing:* the IPO process requires a commitment of about 6-8 months, with continuous dialogue between management, advisors and investors.
- *Costs:* expenses for consultancy, structural adjustments and post-listing obligations must be sustainable for the enterprise.
- *Corporate control:* the average free float, which is around 23 percent at IPO, still allows companies, even family businesses, to maintain operational control.

The role of the Euronext Growth Advisor

The help given by the Euronext Growth Advisor is fundamental for the listing process. From planning to admission, this figure leads the business through all phases of the procedure and keeps its assistance even after listing. The Advisor guarantees that the business follows the transparency, governance, and reporting criteria of the market and helps in handling the obligations set by the Issuers' Regulations.

Successful listing ultimately rests on the company's capacity to sufficiently get ready for and deliberately manage the requirements and challenges of the capital market. While not every business is ready for this road, those who follow it will gain from major chances to fund their expansion and improve their competitive posture.

2.2 Main features of the Euronext Growth Milan market

Completed in April 2021, the acquisition of the Borsa Italiana Group by Euronext N.V. started a broad process of reorganizing and rebranding of the controlled markets.[34] One of the main changes involved the name of AIM Italia, which became Euronext Growth Milan (EGM) as of October 25, 2021. This market now represents the main channel for financing the growth of Italian SMEs, thanks to its ability to offer national and international visibility and to provide access to alternative sources of capital to bank credit.

In recent years, Euronext Growth Milan has assumed an increasingly central role in the Italian economic landscape, facilitating the raising of capital to support development and internationalization projects of companies at different stages of their life cycle. This market not only strengthens the competitive positioning of companies but also accelerates their ability to compete on a global scale. The growing interest from entrepreneurs has been stimulated by a combination of tax incentives, such as the IPO Bonus, and the many benefits of listing.

According to data from the Euronext SME Observatory curated by IR Top Consulting, 33 new companies chose to list on EGM in 2023[35], bringing the total to 203 companies, a +4975 percent increase from the 4 companies listed at the end of 2009. Total market capitalization also grew significantly from 2.9 billion euros as of December 31, 2016, to 8.3 billion euros by the end of 2023, marking a fourfold increase in value. Since its establishment in 2009, more than 300 companies have been admitted to the list (including transitions to regulated markets such as Euronext Milan and delisting transactions), raising a total of 5.9 billion euros.

Growth factors and tax incentives[36]

Targeting fiscal policies meant to enable SMEs' access to the market and promote the evolution of the Italian financial scene has made possible the expansion of Euronext Growth Milan (EGM). Among the most eminent projects are:

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[34] Euronext (2021). *Acquisition of Borsa Italiana: Strategic Implications and Market Evolution*.
[35] IR Top Consulting (2023). *Euronext Growth Milan SME Report*.
[36] Italian Ministry of Economy and Finance (2023). *Tax Policies Supporting SME Listings on Euronext Growth Milan*.

- *Individual Savings Plans (IEPs):* Launched in 2017, these instruments have increased private savings, therefore guiding resources to the stock market and raising the involvement of both retail and institutional investors.
- *Tax Credit for SME Listing Costs:* Originally launched in 2018 and running until 2024, this tax credit for SMEs Listing Costs compensates half of the expense's businesses pay for consultants required for the listing process. By this step, many companies have been able to drastically cut their initial costs, therefore allowing their admission to the stock market.
- *Alternative RIPs:* Introduced in 2020, they helped to further diversify investors' profiles, improving market liquidity and expanding investment opportunities.

Along with other modifications, these programs have significantly raised IPOs, increased financial market liquidity, and attracted more specialist investors. These actions taken collectively have set the stage for a future distinguished by increased listings and an increasing importance of EGM as the ideal platform for Italian SMEs wishing to expand and compete globally.

Classed in 2018 as a SME Growth Market, Euronext Growth Milan is a Multilateral Trading Facility (MTF) run and controlled under Borsa Italiana. With less strict criteria than controlled markets, the legislative framework takes a balanced approach meant to satisfy investors' needs as well as those of SMEs. Created in 2008 following the example of the London Stock Exchange's AIM, which has about 1,000 listed companies, EGM integrated the MAC - Mercato Alternativo del Capitale - in 2012 as part of a rationalization of Italian listings dedicated to Small & Mid Cap companies.
Today, EGM stands out for its representativeness of the Italian business fabric.[37] It welcomes companies from multiple economic sectors, with a focus on Made in Italy and innovation. 73 percent of the companies have a turnover of less than 10 million euros, while the majority do not exceed 50 million euros. It also represents the only unregulated market that can accommodate Innovative SMEs. The market is also highly dynamic on the secondary side, with frequent capital increase transactions, minibond issuance, and

[37] Borsa Italiana (2023). *Euronext Growth Milan: Market Profile & Key Data*.

M&A activity. The positive impacts on the national economy are evident: in 2023 EGM helped create 31,136 jobs (up 18 percent from 2021) and a turnover of 10.0 billion euros. Listing transactions on Euronext Growth Milan are mainly for:

- *Institutional investors*, including specialized funds, family offices, and private bankers.
- *Professional investors*, with medium-term time horizons.
- *Retail investors*, who can access the secondary market through banks or brokers.

Factors behind the success of Euronext Growth Milan include:

1. *Easier access for smaller companies*: SMEs with limited turnovers can access the market without the barriers typical of regulated markets.
2. *Less stringent requirements and simplified process*: compared to Euronext Milan, the timelines and admission requirements are faster and less onerous.
3. *Lower costs of staying*: regulatory flexibility allows companies to focus on business growth.
4. *Support from a network of specialized practitioners*: experienced consultants accompany companies at every stage of the IPO, ensuring optimal management of the process.
5. *Diversified investor base*: Specialized and foreign investors help to make the market more enticing.
6. *Reducing dependence on bank credit*: EGM offers SMEs a good alternative for traditional debt.
7. *Introduction of SPACs (Special Purpose Acquisition Companies)*: To acquire a functioning company between 18 and 24 months, dedicated corporate vehicles—which declare their financial instruments—raise money. SPACs give SMEs indirect market access by way of a more simplified strategy.

2.3 Advantages of listing on Euronext Growth Milan

Listing on Euronext Growth Milan (EGM) is a deliberate choice for SMEs trying to boost their competitiveness by means of access to reasonably priced finance resources supporting development goals, and growth.[38] This road allows companies to choose fresh inspiration, so launching a virtuous cycle that improves capitalization, market brand impression, global competitiveness, and capacity.

Apart from simple access to financial markets, this process provides many fundamental components necessary for the growth and survival of the company:

- *Financing growth*[39]

  Using ideas for innovation and development will help SMEs reach their company goals with the money acquired through listing. The obtained resources help companies to ensure more financial autonomy and enable them to compete more successfully both domestically and internationally, hence accelerating development projects.
- *Increase visibility and credibility*[40]

  Starting the stock market offers the business official regard for its value, so improving brand impression among suppliers, investors, and customers. Following EGM's openness and governance policies helps to build stakeholder confidence even further, therefore presenting the company as a strategic and dependable participant in the market.
- *Expanding the shareholder base*

  The entrance of competent investors helps organizations to diversify their shareholder base, therefore enabling them to adopt more ordered and growth-oriented governance frameworks. In terms of both knowledge and strategic possibilities, the participation of new shareholders can show extra worth.
- *Liquidating the investment*

  Listing gives existing owners a chance to profit from part of their ownership without giving up operational control of the business. Private equity funds and other investors

[38] Deloitte (2023). *The Impact of Stock Market Listing on SME Growth*.
[39] European Commission (2022). *Capital Markets Union and SME Financing: Opportunities and Challenges*.
[40] PWC (2022). *Brand Perception and Market Visibility: The Role of IPOs for SMEs*.

can take advantage of the stock exchange to divest in a structured way, while allowing the company to attract new capital.

- *Attracting qualified resources*

  The status of a listed company increases the company's attractiveness to talent and qualified professionals. With the prestige associated with listing, companies can motivate existing employees and attract high-level management figures, thereby strengthening their organizational structure.

Apart from the major advantages, listing on EGM gives SMEs several operational and strategic ones that support the consolidation of company success:

- *Strengthening of bargaining position*

  Listing is one calculated move for entering foreign markets. The money gathered can support projects for internationalization include creating new companies in unexplored markets, establishing joint ventures, or founding subsidiaries. Moreover, the exposure the listing provides promotes strategic alliances and attracts overseas investment.

- *International expansion*

  One strategic lever for breaking into overseas markets is listing. The funds collected can help internationalization initiatives such founding subsidiaries, forming joint ventures, or starting new businesses in untapped areas. Furthermore, the attention the listing offers draws foreign investors and helps strategic connections to be developed.

- *Internal organizational structuring*

  Companies getting ready for a listing must modify their internal processes to get more ordered, thereby improving operational efficiency and governance. By means of systems for financial performance, not only does everyday management benefit but also early identification of deviations from budget helps to increase management capacity to make decisions.

- *Facilitation of generational transitions*

  For family businesses ensuring stability and continuity and handling succession, listing is a helpful instrument. It also enables financial investors to arrange their way-out in a methodical and controlled fashion without sacrificing the soundness of the business.

- *Reducing dependence on bank credit*[41]

  By means of market-based venture capital sources, SMEs can drastically lower their vulnerability to bank debt. This not only reduces expenses but also increases financial flexibility, therefore lessening the company's sensitivity to possible credit constraints.
- *Increased industry interest*

  Being on the stock market attracts the attention of analysts, rivals, and partners as well as promotes interest in the target sector. This benefit shows in more visibility and the capacity to actively participate in acquisitions and expansion by outside lines, therefore enhancing one's competitive position.

For SMEs, Euronext Growth Milan gives a special chance to approach the stock market in a stepwise way. Following at least 18 months on EGM, businesses can enter the regulated Euronext Milan (EXM) market using the Fast Track route, therefore maximizing first efforts and raising awareness to a larger audience of investors. This methodical strategy enables businesses to familiarize themselves with the situation of a listed firm, therefore guaranteeing a seamless and well-organized transfer to the main market.

Five firms moved from Euronext Growth Milan to the main Euronext Milan market in 2023, therefore verifying the potency of this strategic tool for the development and success of SMEs.

Listing on Euronext Growth Milan turns out as a major strategic tool for Italian SMEs since it provides major operational and financial benefits. It helps to boost internal organization, strengthen competitiveness, raise market visibility, so helping businesses to effectively meet the demands of the global environment and grab fresh development possibilities.

[41] Banca d’Italia (2023). *Diversifying SME Financing: Reducing Bank Dependency in Italy*.

2.4 Preparation of the company during the pre-IPO phase

Approaching the path to listing on Euronext Growth Milan (EGM) for a SME implies going through a strategic makeover including the whole business structure. In line with investor expectations and market standards, access to the capital market calls for a significant transformation of the entrepreneurial vision, which must go from a typically familiar perspective to a model concentrated on the development of shareholder value. This change suggests using more open governance standards, more financial management rigors, and matching company procedures to internationally accepted best practices.[42]

Role of the financial advisor

The choice of the financial advisor, a pivotal figure charge of evaluating the marketability of the SMEs by means of a comprehensive preliminary assessment of the following elements, is the first most important stage in the pre-IPO process:

1. *Analysis of corporate and capital structure*: verification of the composition of share capital, share control, and financial strength.
2. *Benchmarking study*: comparison with similar companies, both sectorally and geographically, to identify competitive positions and areas for improvement.
3. *Assessment of listing requirements*: ascertaining the company's compliance with regulatory and statutory criteria for admission to EGM, including the sustainability of future development plans.

The financial advisor's main activities include conducting the feasibility study for the IPO and identifying the most suitable corporate scope for the listing. This step may include simplification of the corporate structure or reorganization of subsidiaries in order to provide more clarity to investors.

Once the advisor has verified the company's "quotability," the advisor proceeds with the selection of the Euronext Growth Advisor (EGA), a figure formerly known as the Nominated Adviser (NOMAD), who is responsible for providing ongoing support to the company during and after the listing.

The EGA is selected based on specific parameters, including:

[42] Borsa Italiana (2023). *Pre-IPO Guidelines for SMEs: Structuring and Market Readiness*.

- *Size of the offering*: the volume of capital to be raised.
- *Target investors*: diversification among institutional, retail, and professional investors.
- *Target sector*: the alignment of EGA with the specific needs of the company's industry sector.

In addition, the advisor prepares the company for discussions with key counterparts, such as banks, investors, and legal advisors, optimizing the preliminary phase to ensure the successful completion of the transaction.

<u>Preliminary analysis and internal evaluation</u>

Preliminary analysis[43] is a crucial time to assess the soundness of the enterprise and identify possible corrective actions. This analysis is developed on three basic pillars:

1. *Historical evaluation*: analysis of historical economic and financial data to measure management performance, identifying significant trends and results.
2. *Competitive positioning*: study of corporate identity and sources of competitive advantage over direct competitors, with the aim of understanding sector performance and monitoring possible risks.
3. *Future projections*: verification of the sustainability of growth plans in terms of resource allocation and revenue generation, with a focus on consistency between budget and strategic goals.

Based on this analysis, internal reorganization needs may emerge, which include:

- *Simplification of corporate structure*: consolidation of subsidiaries or divisions to improve transparency.
- *Adjustment of organizational procedures*: introduction of advanced systems for managing and monitoring business operations.

<u>Management control system</u>

Another central aspect in the pre-IPO phase is the implementation of an effective management control system[44] to monitor resource utilization and business performance

[43] European Securities and Markets Authority (2023). *Regulatory Due Diligence for SMEs Listing on Public Markets*.
[44] Deloitte (2023). *Financial Management and Internal Control for IPO-Ready Companies*.

on an ongoing basis. This system provides key data for evaluating results and the achievement of corporate objectives, generating useful information for management and investors.

The main elements of management control include:

- *Resource planning and allocation:* establishing a continuous process to optimize the allocation of corporate resources.
- *Financial reporting*: production of periodic reports that compare budget data with actual data and provide reliable projections.
- *Risk management*: identification of any critical issues and implementation of corrective measures to ensure business continuity.

The internal control system and accounting system assume a strategic role, providing a solid basis for transparency and dialogue with investors.

<u>Adjustment of corporate governance</u>

Corporate governance is one of the most relevant aspects of the pre-IPO phase, as it ensures transparent and stakeholder-oriented management. Although EGM does not require mandatory changes to corporate governance, it is highly recommended to adopt the best practices set forth in Euronext Milan's Corporate Governance Code.[45]

SMEs can opt for two main models:

1. *One-tier system:* a single board of directors with executive and supervisory powers.
2. *Dualistic system:* separation between a supervisory board, elected by the shareholders' meeting, and a management board.

Implementation of a robust governance system may include:

- *Independent directors*: figures unrelated to major shareholders who can provide impartial control over management.
- *Internal committees*: bodies dedicated to specific areas, such as risk control and compensation, to improve decision-making efficiency.

The amendments introduced by the Euronext Growth Milan Issuers' Regulations, in Notice No. 14177 of August 1, 2014, include additional recommendations, including

[45] OECD (2022). *Corporate Governance and Public Market Listings: Best Practices for SMEs*.

limiting overlap between board members of parent and subsidiary companies in order to avoid conflicts of interest.

2.5 Role of the financial advisor in the review and definition of the Business Plan

One of the key aspects in the run-up to the IPO is the review and definition of the Business Plan[46], an essential document that summarizes the company's strategies and planned actions to achieve its strategic objectives. The Business Plan, supported by the financial advisor, communicates to the market the ways in which the company intends to increase value for investors in the medium to long term, assuming a crucial role both in drafting the Admission Document and in structuring meetings with investors during the IPO phase.

The Business Plan represents a clear and detailed roadmap that spells out management's strategic intentions and the actions needed to achieve growth objectives. Its preparation, conducted with the support of the financial advisor, requires a time horizon spanning the period prior to the IPO and at least 24-36 months following the listing.

In line with the Guideline of Borsa Italiana, contained in the "Guide to the Business Plan," the business plan must present:

1. *Competitive strategies*: description of the company's positioning in the relevant industry, with a focus on competitive advantages and key value drivers.
2. *Strategic actions*: details of the activities and initiatives that will be implemented to achieve the stated goals.
3. *Expected results:* economic and financial projections consistent with planned actions, illustrating the expected evolution of business results.

The Business Plan must also meet three main purposes:

1. *Focus on value creation*: identifying opportunities for growth and development within a medium- to long-term vision.
2. *Management guide*: providing a framework for operational and strategic management.

[46] Borsa Italiana (2022). *Guide to the Business Plan for Listed Companies*.

3. *Financial market comparison tool*: ensure transparency and consistency in communication with investors and other stakeholders.

Borsa Italiana, through its regulations, defines minimum requirements that the Business Plan must meet to be considered adequate:

1. *Financial sustainability*
   - Operating cash flow must be sufficient to cover working capital absorption, ensuring business continuity.
   - Any recourse to debt or risk capital must be aimed specifically at growth investments, such as new acquisitions, expansions or strategic innovations.
2. *Consistency*
   - The strategic goals, action plan and financial and economic projections must be aligned with each other.
   - The assumptions underlying the plan must be logical and interconnected, reflecting a clear link between strategy and expected outcomes.
3. *Reliability*
   - Projections must be realistic, compatible with market conditions and the competitive environment, and comparable with the company's historical data.

Borsa Italiana regulations stipulate that the Business Plan must cover at least the current and two subsequent fiscal years. However, in certain contexts, such as those characterized by strong seasonality or in the case of business units (SBUs) undergoing startup, turnaround or restructuring, it is appropriate:

- *Extend the period of analysis*: present projections spanning a longer time frame, showing the effects of long-term strategic choices.
- *Detail the first-year budget*: provide quarterly or, where necessary, monthly detail of the first year of the Business Plan. This approach allows Borsa Italiana and other actors involved in the IPO process to compare forecast data with the company's actual results over homogeneous periods.

When drafting the Business Plan, it is essential to comply with some additional criteria, defined by the guidelines of the Italian Stock Exchange:

1. *Homogeneity*

   Forecast data should be presented in reclassified form, according to uniform standards that make the information easily comparable with historical data and future budgets. The goal is to ensure that the market can interpret the information clearly and transparently.

2. *Sector Specificity*

   In highly competitive industries or industries with specific dynamics, the Business Plan should include details of external factors (emerging markets, regulatory changes) that could affect the company's strategy.

3. *Focus on seasonal or restructuring businesses*

   For companies characterized by strong cyclicality or operating in industries under restructuring, granular projections need to be presented to allow an accurate assessment of plan sustainability.

The Business Plan plays a central role in the IPO phase because it is the basis for two key elements:

1. *Preparation of the Admission Document*

   This document collects all the information required for admission to listing on EGM, including business strategy and financial projections.

2. *Structuring meetings with investors*

   During the roadshow, the Business Plan becomes the main communication tool between the company and potential investors. It must therefore be clear, transparent, and able to convey management's credibility.

2.6 Activities, timing and costs of the IPO process

The process of Initial Public Offering (IPO) on Euronext Growth Milan (EGM) represents a structured and articulated path, which requires careful planning of each stage and coordination among multiple stakeholders. The formalization of the IPO takes place through a series of key steps, including the establishment of the corporate bodies, the

Board of Directors' resolution on the listing project, and the final approval by the Shareholders' Meeting. This stage marks the formalization of the process and establishes the timelines and operational responsibilities of all the actors involved.[47]

The main activities at this stage include[48]:

- The appointment of the financial advisor, who coordinates the entire process.
- The identification of possible changes to corporate governance.
- The definition of the business plan and capital requirements.
- The choice of the structure of the transaction, which may include an Open Offer for Sale (OPV) or an Open Offer for Subscription (OPS).

The different stages of the IPO process can be divided into an indicative time frame as follows:

1. *About 8 months before the listing*
    - Appointment of financial advisor and preliminary verification of IPO requirements.
    - Identification and appointment of necessary consultants (EGA, law firm, tax firm, auditing firm, and communication consultants).
    - Preliminary assessment of the company, confirmation of strategic objectives of the business plan, and analysis of capital requirements.
    - Construction of the Equity Story, or the central message that communicates to investors the value of the company and its growth prospects.
2. *About 6 months before*
    - Euronext Growth Advisor (EGA) selection.
    - Initiation of the due diligence process, which includes verification of corporate compliance, economic and financial data, and the governance system.
    - Any changes to the corporate governance system and management control system.
3. *About 3-2 months before*
    - Finalization of due diligence and preparation of Information Memorandum and Admission Document.

[47] Borsa Italiana (2023). *Guide to IPOs on Euronext Growth Milan: Process and Requirements*.
[48] EY (2023). *IPO Readiness: Key Steps and Best Practices for SMEs*.

- Sharing of initial price assessments and drafting of Investor Presentation for investor meetings.
- Initiating the communication strategy to increase the visibility of the Equity Story through the media.

4. *6 weeks before*
   - Conclusion of due diligence and determination of the company's fair value.
   - Organization of roadshows and one-on-one meetings with potential investors.
   - Initiation of book-building, managed by the Global Coordinator, to collect and rank orders from institutional investors.
   - Submission of the pre-admission notice to Borsa Italiana, indicating the price range or final price of the financial instruments.
5. *1 week before*
   - Sending the application for admission, containing the formal resolution of the listing project.
   - Publication of the Admission Document on the company's website.
   - Conclusion of the placement, pricing, and distribution of the offer to investors.

One of the biggest obstacles perceived by Italian SMEs in the IPO process is costs, which can be divided into two main categories: fixed costs and variable costs.[49]

<u>Fixed costs</u>

Fixed costs are independent of the outcome of the transaction and include all advice and activities required to support the company during the listing process. The main cost items include:

- *Consulting*: one-time expenses for the work of the financial advisor, legal and tax firm, auditing firm, and financial communication consultants.
- *EGA activities*: fixed fees for pre and post IPO support.
- *Specialist and Borsa Italiana*: costs of maintaining the status of a listed company, including periodic fees required by Borsa Italiana.

[49] Banca d'Italia (2023). *SME Financial Constraints and the Costs of Going Public*.

Variable costs

Variable costs are related to the placement of securities and are defined as a percentage of the actual capital raised. These include:

- *Fees and commissions* related to equity placement.
- *Costs* for listing on Euronext Growth Milan.
- *Expenses* related to book-building and roadshow organization.

Although initial costs may be high, they represent a strategic investment that provides permanent access to capital markets, offering opportunities to raise additional resources through subsequent capital increases or bond issues.[50]

ACTORS	ACTIVITIES	COST TYPE
FINANCIAL ADVISOR Independent subject specialized on Capital Markets	IPO feasibility study Mentoring the entrepreneur throughout the entire listing process	Fixed
EURONEXT GROWTH ADVISOR Financial institution guaranteeing the IPO transaction	Due Diligence (financial and business) and Admission Document	Fixed
GLOBAL COORDINATOR	Placement	Variable
AUDITING FIRM Person registered in the Consob Special Register	Judgment on the corporate balance sheet and Comfort Letter	Fixed
COMMUNICATION COMPANY AND IR Subject specialized in managing relationships with Institutional Investors	Regulated financial disclosure Investor Relations Advisory	Fixed
LAW AND TAX FIRM	Legal and Tax Due Diligence	Fixed
ITALIAN STOCK EXCHANGE & STOCK MOUNT	Listing Fee	Fixed

Source: Personal Elaboration

According to a survey conducted by the Euronext SME Observatory[51], the main critical issues perceived by Italian SMEs during the IPO process include costs (41 percent) and changes to corporate governance (41 percent). However, once the IPO was completed, 98 percent of respondents indicated costs as higher than initially expected, mainly due to the complexity of the activities required in the pre-filing and post-filing phases.

[50] European Commission (2021). *SME Financing and Capital Market Access in the EU*.
[51] IR Top Consulting (2023). *Survey on SME IPO Challenges and Market Readiness*.

Despite these difficulties, 91 percent of entrepreneurs and CEOs considered the introduction of tax breaks on costs incurred in the IPO phase to be an effective tool to incentivize the listing of Italian SMEs. In this context, measures such as the Tax Credit introduced with the 2018 Budget Law (Law No. 205 of December 27, 2017) have proven to be crucial in making the listing process more affordable.

2.7 Parties involved in the listing process

The process of listing on Euronext Growth Milan (EGM) involves an articulated team of professional figures, each with specific tasks and technical skills essential to ensure the success of the operation. The selection and coordination of these individuals, led by the financial advisor, are critical to planning and implementing each stage of the IPO, ensuring compliance with regulations and the achievement of the company's strategic objectives.

<u>Financial advisor</u>

The financial advisor is the first entity the company selects on the path to listing. This is a professional or firm specializing in capital markets (Equity Capital Markets), which plays a crucial role in the overall organization and management of the IPO. The main responsibilities of the financial advisor include:

- *Feasibility study*: assessment of the "quotability" of the enterprise and preliminary analysis of all organizational, financial and strategic aspects.
- *Structuring of the transaction*: definition of the type of offer (Public Subscription Offer - OPS, Public Sale Offer - OPV or combination of both - OPVS).
- *Coordination of the IPO team*: selection and supervision of stakeholders, such as EGA, legal and tax advisors, auditing firms, and communications advisors.
- *Business plan preparation support*: assistance in drafting a detailed document consistent with listing strategies.

- *Preparation for investor meetings*: construction and enhancement of the Equity Story, the central message that illustrates to investors the value of the company and its growth prospects.

<u>Euronext Growth Advisor (EGA)</u>

The Euronext Growth Advisor (EGA)[52], formerly known as NOMAD, is a mandatory figure for companies wishing to list on EGM. The EGA is appointed after a careful selection process, based on strict criteria defined by Borsa Italiana.

According to the Euronext Growth Milan Issuer Regulations, the EGA must:

1. *Be a bank, community investment firm or auditing firm that meets the following requirements*:
- Incorporation as a corporation with a board of directors and board of auditors.
- Presence of key executives with proven experience in corporate finance operations and in-depth knowledge of market regulations.
- Adequate internal controls and compliance procedures.
2. *Have documented experience*:
- At least two years in corporate finance.
- A significant number of relevant transactions, proving the quality of advice offered.
3. *Submit its financial statements* to the opinion of an auditing firm registered with the Ministry of Economy and Finance.
4. *Perform due diligence on the issuer*, assessing its appropriateness for admission to EGM and issuing a formal statement to Borsa Italiana.

The EGA may take on additional roles during the IPO process:

- *Global Coordinator*: a figure responsible for placing securities, managing book-building, setting the offering price, and stabilizing the post-listing price.
- *Specialist*: mandatory according to the Issuer Regulations, ensures the liquidity of the stock through market making activities and is in charge of analytical stock hedging.

[52] Borsa Italiana (2023). *Euronext Growth Advisors: Admission and Responsibilities*.

Legal and tax advisors

Legal and tax advisors play an essential role in the preparation and implementation phase of the IPO, providing assistance on regulatory, contractual and tax issues:

Legal advisors:

- They support the EGA in legal due diligence.
- They analyze the corporate governance structure and capital operations.
- They provide legal opinions and assist in drafting contracts and necessary documents.

Tax consultants:

- They assess the tax impacts of IPO and placement operations.
- They work with the EGA to ensure fiscal compliance of operations.

Auditing company

The auditing firm[53], which is mandatory under the Euronext Growth Milan Issuers' Regulations, must be registered in the register maintained by the Ministry of Economy and Finance.

Its main responsibilities include:

- *Review of historical financial information*: verification of the company's financial statements to ensure their accuracy and transparency.
- *Drafting of comfort letter*: certification of the veracity of the economic and financial data included in the Admission Document.
- *Due diligence support*: in-depth evaluation of company data to ensure compliance with market regulations.

Investor Relations and Financial Communication Advisor

The *Investor Relations advisor*[54] is critical to the enhancement of economic capital and the success of the IPO transaction. This figure is responsible for:

[53] European Securities and Markets Authority (ESMA) (2023). *Financial Audits and Transparency Standards in IPOs*.

[54] IR Top Consulting (2023). *Investor Relations Strategies for Listed SMEs*.

- Build and communicate the company's Equity Story, promoting the brand in the capital market.
- Organize the roadshow and meetings with investors, both in one-on-one format and through press conferences.
- Optimize the company's visibility to the financial community and the media.
- Manage relationships with institutional investors, creating an ongoing and transparent dialogue.

<u>Team coordination</u>

The success of the IPO process depends on the ability to create a cohesive and qualified team[55], coordinated by the financial advisor and the EGA. From the legal and tax consultants to the auditing company, everyone engaged must show demonstrated stock market knowledge and particular talents to handle every phase of the journey. This combined approach guarantees not only a good IPO but also a smooth adjustment to the new listed business status.

2.8 Price formation in the listing process

A company's valuation during the Euronext Growth Milan (EGM) listing process is the outcome of a thorough and ongoing analysis generated through a disciplined process of conversation with investors that considers several elements.[56] Along with general securities market conditions, the placement price must represent the company's fundamentals, balance the demands and interests of ownership and investors, and dynamically change to market valuations for similar companies. There are various phases to this complicated process, each one helping to determine the final value of the issuer.

[55] Borsa Italiana (2023). *Managing an IPO: Team Coordination and Best Practices*.
[56] CFA Institute (2023). *Equity Valuation Methods for IPO Pricing*.

Stages of pricing[57]

1. *IPO Feasibility Study*

   The initial valuation of the company takes place during the IPO Feasibility Study, prepared by the financial advisor. At this preliminary stage, knowledge of the company is still limited, and the estimated value is based on a financial analysis conducted using methodologies typical of equity capital markets (ECM). This preliminary estimate introduces the first technical tools useful in forming the final price and is a key starting point for the process.

2. *Due Diligence*

   Next, the Due Diligence phase allows the preliminary assessment to be refined through a detailed analysis of the business model, financial performance, competitive environment, and business plan. This analysis aims to verify:

   - The strategic consistency of the business plan with corporate objectives and market trends.
   - The sustainability and reasonableness of key assumptions underlying future projections.

   During this phase, independent analysts prepare pre-IPO Equity Research, which provides an objective assessment of the company.

3. *Pre-marketing*

   During Pre-marketing, the company engages with investors to gather useful feedback to further refine the valuation. This phase culminates in the definition of a price range, which is included in the Pre-Admission Notice sent to Borsa Italiana.

4. *Bookbuilding*

   The Bookbuilding phase represents the time when supply and demand meet. Institutional investors notify the Global Coordinator of the desired number of securities and the proposed price, enabling the construction of the IPO Book. The latter is continuously updated until the Offer Price is determined, according to the open price mechanism. This final price represents the result of the interactions between the parties involved and reflects market conditions.

[57] PWC (2023). *Market Conditions and IPO Pricing: A Global Perspective*.

Evaluation methodologies

Financial analysts mainly use two methodologies[58] to determine the fair value of the company during the pre-IPO stage:

1. *Market Multiples*

Main method based on comparison with comparable listed companies in terms of business, market positioning, and industry.

The most commonly used multiples are:

- EV/EBITDA: ratio of enterprise value to EBITDA.
- P/E: ratio of price to earnings per share.

2. *Discounted Cash Flow (DCF)*

Verification method that is based on discounting future cash flows to Weighted Average Cost of Capital (WACC), also considering a sensitivity analysis to assess the impact of key variables.

This method is particularly useful for companies with long-term growth prospects and requires accurate estimation of future projections.

Timing and expected growth

The determination of the placement price also depends on the timing of the IPO[59], which must be consistent with the expected results of the Business Plan. Investors focus their attention on:

- *Current year performance*: results should confirm initial projections, reducing perceived risk.
- *Estimates for the coming year*: as we approach the end of the current year, the importance of future projections grows, especially in terms of visibility and reliability.
- *Growth trend*: for companies with high prospects, it is essential that quarterly and half-yearly data confirm the estimated trend.

[58] Borsa Italiana (2023). *IPO Valuation Models on Euronext Growth Milan*.
[59] European Investment Bank (2022). *Timing and Market Readiness for SME IPOs*.

First Listing Discount (IPO Discount)

At IPO, investors generally receive an *initial listing discount (IPO Discount)*[60], which reduces the price relative to fair value to compensate for perceived risks and incentivize participation. The discount depends on key variables, including:

1. *Deviation between forward-looking data and historical results*: The smaller the deviation, the lower the perceived risk and thus the liquidity premium demanded by investors.
2. *Free float share*: A higher free float share reduces the liquidity premium, improving the perceived stability of the stock.
3. *Number of shareholders*: A large composition of the free float promotes greater liquidity of the stock and reduces the required premium.
4. *Supply Size*: Supply size is directly related to the liquidity and stability of the security in the market.
5. *Secondary market liquidity:* More liquid secondary markets reduce the perceived risk and premium demanded by investors.
6. *Management perception*: Management credibility is critical to reducing uncertainty about "outcome delivery" and thus perceived risk.
7. *Propensity for transparency*: The company's ability to provide timely and accurate information positively influences investor confidence.

[60] London Stock Exchange (2023). *IPO Discounts and Market Liquidity: A Comparative Study*.

Chapter III

The Formal and Substantive Requirements in the pre and post listing

3.1 Requirements for the IPO of SMEs

Admission to list on Euronext Growth Milan (EGM) calls for adherence to particular criteria that, although less strict than in controlled markets, provide openness and disclosure for investors.[61] These criteria address many important areas including documentation, corporation structure, financial statement certification, free float, and governance obligations. Because of its adaptability, the EGM market lets SMEs progressively enter capital markets while keeping high degree of compliance.

<u>Main requirements for admission</u>

1. *Minimum free float and investor participation*
   According to MiFID Directive 2014/65/EU, the business must guarantee a minimum free float of 10 percent of the share capital, which is to be kept by at least five institutional investors. This criterion seeks to guarantee enough stock liquidity and a harmonic process of price development during the placement.[62]
2. *Certification of financial statements*
   The financial statements must be validated by an auditing company licensed under the Ministry of Economy and Finance.[63] Especially critical is preparation in line with International Financial Reporting Standards (IFRs), since it increases the comparability and openness of financial data, therefore appealing the company to institutional investors.
3. *Admission Document*
   Under the direction of the Euronext Growth Advisor (EGA), the company has to draft an admission document. The business, management, shareholders, financial and economic facts of the corporation are thoroughly covered in this paper. Except in rare

[61] Borsa Italiana (2023). *Euronext Growth Milan Admission Rules & SME Listing Guidelines*.
[62] European Securities and Markets Authority (ESMA) (2023). *MiFID II and SME Market Access: Implementation and Compliance*.
[63] Deloitte (2023). *SME IPO Auditing and Financial Disclosure Standards*.

situations that call for the adoption of European legislation, the Admission Document is more simplified and tailored to the EGM market than the Prospectus demanded for regulated markets.

4. *Appointment of the Euronext Growth Advisor (EGA)*

   Important participants in the listing process and follow-up include the EGA. It guarantees adherence to the EGM Issuer Regulations' legal criteria and offers continuous help. The EGA checks the company's entrance eligibility and arranges the production of the necessary papers.[64]

5. *Independent director*

   The corporation must name at least one independent director who meets the TUF's criteria specified in Article 148(3).[65] The independent director helps to raise the caliber of decision-making by guaranteeing more openness and safeguarding of all the interests of every stakeholder.

6. *Investor Relations Manager and website*

   An Investor Relations Manager is required appointment since they oversee investor interactions and provide open and constant communication. The business must have a website as well, which provides all pertinent data including:

   - Description of the company's business and governance system.
   - Composition of administrative and supervisory bodies.
   - Audited financial statements, semi-annual reports, and press releases.
   - Admission Document and EGA information.
   - Updated information on significant shareholders.

<u>Governance requirements and organizational responsibilities</u>

The transition to a listed company entails increased responsibilities for directors to adopt appropriate governance practices to ensure transparency and protect the interests of all stakeholders.[66] This includes:

- Different ownership and management guarantee that strategic decisions benefit all the shareholders.

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[64] Borsa Italiana (2023). *Euronext Growth Advisors: Role and Responsibilities in IPOs*.
[65] Consob Regulation No. 11971/1999. *Italian Financial Markets Transparency Requirements for Independent Directors*.
[66] OECD (2023). *Corporate Governance for SMEs Entering Public Markets*.

- Following policies of governance that advance operational effectiveness and openness.
- To prevent conflicts of interest, the ban forbids the overlapping of the operational proxies of parent company executive directors with those of subsidiaries already listed.

<u>Additional documentation and verification</u>

Apart from the minimum criteria, extra paperwork could be needed to prove the company's eligibility for inclusion.[67] The EGA is quite important for supervising this material, which could comprise:

- Historical and forecast economic and financial data.
- Analysis of business model and growth strategies.
- Verification of the sustainability of financial projections.

The combination of formal requirements, appropriate governance and transparency enables SMEs to approach the listing process in a structured manner, ensuring effective communication with investors and the success of the capital market transaction.

3.2 The Professional Segment

Introduced following the amendment of the Issuers' Regulations effective July 20, 2020, the Professional Segment[68] of the Euronext Growth Milan market is particularly designed to meet the needs of a growing number of companies, including innovative SMEs, start-ups, and scale-ups, eager to progressively approach the capital market. Designed only for professional investors, this segment offers a strategic chance for businesses seeking a progressive approach to the listing process, progressively adjusting to the necessary operational and legal frameworks.

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[67] European Investment Bank (2023). *Due Diligence in SME Public Offerings: Risk and Compliance Factors*.
[68] Borsa Italiana (2020). *Professional Segment Market Rules and Issuer Compliance Guide*.

Professional Segment Goals

The Professional Segment is created to satisfy the demands of businesses with particular needs, such:

- *Gradual Market Access:* Companies who want to create the required structures over time to interact with investors and follow market rules will have gradual market access.
- *Start-up and scale-up:* Companies who have begun selling goods or services less than a year ago or who have not yet activated important strategic activities and systems expected in their company model.
- *Increased visibility:* Businesses who want to be more visible and well-known among the financial community prior to a real market offer (just listing).
- *Waiting for favorable conditions:* Firms that choose to postpone bidding until more opportune times, waiting for general market conditions to improve.
- While not always needing to raise money right now, this section gives businesses the chance to increase their awareness and build a relationship with investors.

Float requirements and share distribution

Companies classified as Professional Segment members must follow some specific guidelines[69] for minimum free float[70] and share distribution, specifically:

- *Minimum free float of 10%:* Investors must hold at least 10% of the share capital. If the shares are distributed among at least five independent investors—who have to be neither employees of the firm or group nor linked parties—this criteria is deemed satisfied. Furthermore, absent from these investors could be institutional or professional character.
- *Intermediate thresholds:* Should the free float be less than 10% but more than 2% or the requisite number of investors not be attained, Borsa Italiana may acknowledge the issuer to be trading but order immediate suspension until all the necessary requirements are satisfied.
- *Withdrawal from trading:* Should the minimum free float not be changed within two years of admission, Borsa Italiana will order the shares to be taken out of trade.

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[69] OECD (2023). *Equity Market Development: SMEs and Alternative Capital Access Strategies*.
[70] London School of Economics (2022). *Liquidity and Price Discovery in SME Stock Markets: The Role of Free Float Requirements*.

Operational simplifications and negotiation arrangements[71]

The Professional Segment is also characterized by several simplifications in operating and negotiation methods aimed at making market entry more accessible for participating firms. Among the main features:

- *Absence of the requirement for a Specialist:* In contrast to the main market, there is no requirement for a specialist responsible for the liquidity of the security.
- *Single daily auction:* Trading takes place through a single daily auction, ensuring simplified transaction management.
- *Minimum trading lot:* The minimum value for each transaction is set at 5,000 euros, encouraging a more flexible approach for investors.

An opportunity for growth and visibility

For businesses who want to start to position themselves in the market, boost their visibility and build contacts with investors but do not have an immediate need to seek money, the Professional Segment offers a great possibility. By allowing businesses to progressively fit the dynamics of the capital market, this phased method lays a strong basis for next public releases or float expansions. Furthermore, the simplification of policies and working practices guarantees better accessibility for SMEs, thereby providing a sustainable route for listing.

3.3 Substantive requirements at the IPO stage: the strategic plan and the Equity Story

For a firm, the choice to start a listing process marks a strategic turning point intimately related to the definition of a sustainable development project in the medium to long term. This route calls for rigorous preparation and the capacity to persuade investors of its worth. Attracting the market's attention depends on clearly developing a plan that reflects the company model and development possibilities. A crucial element of this

[71] PWC (2023). *Market Liquidity and the Role of Professional Investors in SME Listings*.

communication is the Equity Story, which summarizes the company's value, strategy, and distinguishing factors.

The Equity Story represents the heart of the IPO project.[72] It integrates the company's track record, financial performance, and growth prospects, presenting investors with a clear and credible picture of investment opportunities. Its effectiveness depends on consistency between the company's historical value and future expectations, as well as management's ability to clearly convey its strategic vision.

A well-constructed Equity Story[73] encapsulates the key strategic, organizational, and financial characteristics of the company, emphasizing the key drivers that determine its success. It not only facilitates investors' decision-making process but also provides an opportunity for the company to deepen and critically assess its competitive positioning, strengths and weaknesses, and market opportunities.

Among the substantive requirements for a successful IPO, as also recommended by Borsa Italiana[74], are:

- *A successful track record*, demonstrating the company's ability to generate stable and growing results.
- *A clear and understandable strategy*, expressed in the business plan, outlining the goals and the actions needed to achieve them.[75]
- *Development potential*, with an orientation toward the creation of shareholder value.
- *Membership in an industry with good growth prospects*, lending credibility to the project.
- *Strong competitive positioning,* or, ideally, market leadership.
- *Management autonomy* to ensure quick and effective decisions.
- *Balanced financial structure*, ensuring sustainability and ability to cope with any risks.
- *Transparency in financial communication*, which is essential for building trust with investors.

[72] CFA Institute (2022). *Building a Successful Equity Story for IPOs*.
[73] McKinsey & Co. (2023). *Building a Strong Equity Story: What Investors Look for in IPOs*.
[74] Borsa Italiana (2023). *SME IPO Guidelines: Equity Story, Strategic Planning & Market Expectations*.
[75] PWC (2023). *Investor Expectations in SME IPO Business Plans: Key Factors for Market Success*

- *Credibility of management,* an essential element in attracting the interest of institutional investors.
- *An effective managerial organization* that supports the achievement of business objectives.
- *Internationalization orientation* to expand the target market.
- *Ability to innovate,* representing a competitive advantage.
- *Verification of these substantive requirements*, supplemented with a detailed strategic analysis, enables investors' confidence to be boosted, increasing the likelihood of a successful IPO.

3.4 Post listing formal requirements

With the completion of the IPO, the company assumes its new status as a listed company, which entails several ongoing fulfillments necessary to maintain a presence in the market. One of the key requirements is the maintenance of a Specialist, an intermediary responsible for ensuring the liquidity of the stock through market making activities. This person undertakes to continuously display buy and sell proposals, ensuring a contained spread, as defined by Borsa Italiana's Regulation of Dealers and Trading.[76]
Post-listing obligations include:

1. *Publication of Equity Research.*
   The Specialist must produce or commission at least two pieces of equity research per year when annual and semi-annual financial statements are approved. This research must be written to high standards and timely published to promote transparency and support investor decisions.[77]
2. *Preparation and publication of financial statements*
   Financial statements must be prepared in accordance with Italian GAAP, International Financial Reporting Standards (IFRS) or U.S. GAAP, and published within six

[76] Borsa Italiana (2023). *Post-IPO Compliance and Market Obligations on Euronext Growth Milan*.
[77] CFA Institute (2023). *The Importance of Research Coverage for Newly Listed SMEs*.

months after the end of the financial year. This documentation is an essential obligation to ensure continuity of information to the market.[78]

3. *Half-yearly reports*

   Companies are required to publish a half-yearly report within three months after the end of the accounting period. This report must include the income statement, balance sheet and cash flow statement, with comparable figures to the corresponding period of the previous year.

4. *Price-sensitive Disclosures*

   Insider and price-sensitive information must be disclosed in a timely manner in accordance with the Market Abuse Regulation (MAR) and the EGM Issuers Regulation.[79] These disclosures concern significant transactions, related party transactions, reverse take-overs, and material changes in the business.

5. *Procedures for transactions with related parties*

   Companies must adopt specific procedures to govern transactions with parties capable of significantly influencing the company's business. Defined under the EGM Issuers' Regulations and Consob Resolution No. 17221/2010, these processes must guarantee openness and substantive and procedural justice.

Comprehensive information reports help to record the management of related party transactions, both significant and minor in relevance. Periodically evaluating the success of these policies is the responsibility of the Board of Directors; any changes are adopted with the independent directors' prior opinion.

Following these post-listing rules strictly helps the business to keep a transparent and steady presence in the market and preserve a relationship of confidence with investors.

3.5 Equity Research in the Listing Process

An essential instrument for the IPO process, equity research acts as an information link between the issuing business and investors. Based on a thorough study of the business

[78] EY (2023). *Financial Reporting Obligations for SMEs post-IPO*.
[79] European Securities and Markets Authority (ESMA) (2023). *Market Abuse Regulation (MAR) Compliance Guide for SMEs*.

model, the target market, and the contents of the Information Memorandum, this analytical paper created by independent specialists outlines the financial and development possibilities of the company. This instrument helps investors to evaluate the worth of the company so guiding their choice to buy the stock following list-off or join the IPO.

Equity Research in the pre-IPO stage

Equity research[80] is a major preparatory tool during the pre-IPO period since:

- Supports IPO feasibility assessment through historical and prospective analysis of financial data and competitive environment.
- It helps define corporate value and placement price, providing potential investors with a technical tool to evaluate the investment.
- Stimulates interest from institutional and retail investors, supporting capital raising.[81]

The informational content of equity research provides a clear understanding of the company's business, often presenting numerical projections and analysis that have no place in other official issuer documents. Consob, in a study of the Italian Small Cap market, highlighted how the publication of equity research has significant informational value for the market, reducing information asymmetries and increasing transparency, especially for smaller companies.

Equity Research in the post-IPO phase

After listing, equity research continues to play a crucial role, as:

- *Enhances the company* as an investment opportunity, improving its image among institutional and retail investors.
- *It promotes stock liquidity*, increasing market interest and reducing volatility.
- *Supports additional capital raising operations,* such as capital increases or bond issues.

A study conducted by IR Top Consulting and CONSOB found that limited coverage is a disincentive for investing in Small-Mid Cap in 83 percent of cases. In addition, 87 percent of institutional investors surveyed indicated that quality coverage is a key element in increasing confidence in listed companies.

[80] University of Cambridge (2022). *Financial Market Transparency and the Role of Equity Research in SME IPOs*.
[81] London Stock Exchange (2023). *The Role of Equity Research in SME IPO Success*.

The main purposes of equity research include:

1. *Generate liquidity* for securities by improving the price formation process.
2. *Provide a better understanding of the Equity Story*, supporting investors in the evaluation process.
3. *Attract institutional and retail investors,* both domestic and international.
4. *Encourage the channeling of liquidity* from PIRs (Individual Savings Plans) to listed SMEs.
5. *Increase international visibility* by expanding the information set available to the market.

According to a survey conducted by IR Top Consulting, 41 percent of institutional investors see the development of independent research as a key element in improving the EGM market, alongside interventions to create dedicated funds (65 percent) and tax incentives for SMEs (59 percent).

Since the amendment to the Euronext Growth Milan Issuers' Regulations, Borsa Italiana has introduced a requirement for the Specialist to ensure the production of at least two annual equity research[82], one on the publication of annual financial statements and the other of half-yearly reports.[83] This measure aims to improve transparency and provide consistent coverage, stimulating investor confidence.

Market practices require that such research be written both at the IPO stage and afterwards, with the aim of generating a consensus (average of analysts' estimates) on the company's value and prospects. However, the independence of the practitioners involved is crucial to ensure the credibility of the process.

Conflict of interest management regulations

With the introduction of *MiFID II* (Directive 2014/65/EU) and *Delegated Regulation EU/2017/565*, stricter rules have been established to prevent conflicts of interest in financial intermediaries that produce equity research. While not prohibiting the ability of an investment firm to prepare such analyses, the new provisions require:

- The establishment of strict procedures to identify and manage conflicts of interest.

[82] Borsa Italiana (2023). *Mandatory Equity Research for SMEs Post-IPO: Implementation and Best Practices*.
[83] IR Top Consulting (2023). *The Impact of Equity Research on SME Market Visibility and Investor Trust*.

- Transparency to investors, ensuring that research is conducted according to high standards of independence and impartiality.

This legislation, aimed at protecting investors and improving the quality of information, has led some investment firms to limit the production of equity research to avoid potential violations.

3.6 Substantial Post Listing Requirements: Investor Relations and Security Visibility

With the launch of the listing, the continuous discussion between management and the financial community becomes a crucial aspect in the management of a listed company. The quality of investor relations[84] directly affects the price of issued financial instruments and, consequently, the value of the company. The strategically structured Investor Relations activity assumes a decisive role in this area, promoting an effective exchange of information between the company and the financial market, with the aim of gaining investors' consent and consolidating the company's reputation.

<u>Company Visibility and Financial Communication</u>

After the IPO, one of the essential elements for the success of a listed company is its visibility in the capital market.[85] This is achieved through effective institutional and financial communication, which is integrated with traditional corporate communication of a commercial nature. Such communication must follow national and international best practices, ensuring transparency and consistency in the relationship with stakeholders.

Post-listing communication activities are characterized by:

- *Information transparency*, aimed at ensuring a continuous and complete flow of financial and strategic information to investors.
- *Integration with* the company's *internal communications*, to align messages delivered to the market with those aimed at internal staff and other stakeholders.

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[84] CFA Institute (2023). *Best Practices in Investor Relations for Newly Listed Companies*.

[85] Borsa Italiana (2023). *Investor Communication Strategies for SMEs post-IPO*.

- *Support from specialized advisors* who provide technical and strategic expertise in managing investor relations.
- *Brand and Title Enhancement*
- Listing also represents an opportunity to enhance the corporate brand and the issued stock.[86] This goal requires a broader disclosure that goes beyond traditional economic and financial data and includes qualitative and intangible aspects, such as:
- *Organizational capital*, which reflects the efficiency and adaptability of business processes.
- *Intellectual capital*, represented by skills, innovation and the ability to generate value through ideas and knowledge.
- *Relational capital*, which highlights the strength of relationships with customers, suppliers, partners and investors.
- *Investor relations activities* not only support the company's positioning as an investment opportunity but also enable the company's intrinsic value to be aligned with market expectations, creating trust and interest from institutional and retail investors.

Role of Investor Relations[87]

Through appropriate investor relations activities, the company is able to:

- Position yourself as a reliable and strategic investment opportunity by clearly communicating your goals and value.
- Promote *accurate* market *valuation* of the stock, reducing the risk of undervaluation.
- Ensure *continuity of information* that promotes stability and growth in the value of the stock over time.
- Strengthen *investor confidence* through transparent and consistent communication.
- Post-IPO Investor Relations management, therefore, becomes a key activity to consolidate the success of the IPO, improve the liquidity of the stock, and attract new capital, laying the foundation for sustainable and sustained growth in the capital market

[86] PWC (2023). *Corporate Branding Strategies for Publicly Listed SMEs*.
[87] Harvard Business Review (2023). *How Investor Relations Can Drive Long-Term Value for Publicly Listed SMEs*.

Chapter IV

Incentives for the listing of SMEs

4.1 The equity gap in Italy and the qualms about listing

The stock markets managed by Borsa Italiana represent a strategic opportunity for companies, regardless of their size, to access financial resources functional to the acceleration of corporate growth processes.[88] They also allow for the diversification of financing sources and favor the attraction of investors, both domestic and international. In addition to being an effective tool for raising capital, listing on the stock exchange significantly contributes to the improvement of the company's profile, the increase of the company's visibility in the reference market and the motivation of management, stimulating greater participation in the company's economic results.
Since its establishment, *Euronext Growth Milan*[89] (formerly known as AIM Italy) has positioned itself as the preferred platform for Italian small and medium-sized enterprises (SMEs) characterized by high growth potential. This market is distinguished by its role in supporting companies during the different stages of the business life cycle, facilitating expansion, competitive consolidation and internationalization of activities.

Euronext Growth Milan's (EGM) growth has been fueled by targeted fiscal interventions.[90] Some of the most notable policies include:

1. *Individual Savings Plans (IEPs)* first unveiled in 2017, which promoted wide investor involvement and private savings.
2. *Tax Credit on SME listing costs* (referred to as "IPO Bonus"), introduced in 2018 and extended until December 31, 2024, this offers 50 percent coverage of the consultancy fees needed for the listing process, therefore lowering the cost of the procedure.
3. *Alternative RIPs,* started in 2020, therefore extending the investment base and increasing general market liquidity.

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[88] Borsa Italiana (2023). *Equity Market Access for SMEs: Strategic Opportunities & Challenges*.
[89] Euronext Growth Milan (2023). *Market Performance and SME Access to Equity Finance*.
[90] Ministry of Economy and Finance (2023). *Analysis of SME Growth through Tax Incentives and Market Reforms*.

These initiatives have caused a notable rise in the number of Initial Public Offering (IPO) transactions, market liquidity, and interest from institutional and private investors, therefore inspiring hopes for future expansion in the number of listings in the next years. One of the key issues facing the Italian financial system, the equity gap that is, lack of venture capital investment is adequately addressed by the Euronext Growth Milan listing. One expression of the larger funding gap a situation in which businesses are unable to acquire the means required to maintain their course of development is this gap.[91]
Recent statistics show that venture capital including venture capital, private equity firms, business angels and equity crowdfunding accounts for less than 1% of funding for Italian SMEs.[92] This figure ranks Italy among the European Union members most likely to increase their usage of alternative funding sources.
Many Italian SMEs still have worries and reservations about the IPO process even if there are several benefits connected with trading on the stock market. The primary barrier, according to a 2017 poll by the Euronext SME Observatory of IR Top Consulting, is listing expenses.[93] These consist of:

- *Fixed costs*: fees for financial advice, legal and tax due diligence, financial communication, and market admission fees.
- *Variable costs*: costs related to the placement of securities in the market, the amount of which depends on the size of the transaction.

Tax Credit provided a concrete response to this critical issue, covering 50 percent of the consulting costs incurred in the listing process. Originally proposed by the 2018 Budget Law, the advantage has been a main weapon in lowering financial obstacles for SMEs' stock market entrance.
Over the five-year period 2017–2023, the Italian market has seen a notable change with the combination of PIR and the Tax Credit, proving the possibilities of both policies to assist SMEs development and enable more diversification of funding sources.[94]

[91] OECD (2023). *Closing the SME Equity Gap in Europe: Policy Recommendations and Market Reforms*.
[92] Italian Private Equity, Venture Capital, and Private Debt Association (AIFI) (2023). *Annual Report on Private Equity and Venture Capital in Italy*.
[93] IR Top Consulting (2023). *The Cost of Going Public: Challenges and Incentives for Italian SMEs*.
[94] Consob (2023). *Market Evolution and SME Financing Strategies in Italy*.

4.2 Introduction of the Tax Credit: The Budget Law 2018

Aimed at SMEs, the 2018 Budget Law[95] (Law No. 205 of December 27, 2017) brought a significant financial incentive: the financial Credit equal to 50 percent of the consultancy expenses paid for listing on the stock exchange. Previously starting with the implementation of Individual Savings Plans (PIRs) in the 2017 Budget Law (Law No. 232 of December 11, 2016), this policy is part of initiatives to help the capitalization and strengthening of businesses. Originally focused on bank credit, the whole package of efforts known as "Finance for Growth," favors access to the capital market and supports their development route, therefore diversifying the sources of funding for Italian businesses.

PIRs have had a major effect on the Italian financial system, which has resulted in a large flow of resources to the secondary market. But in order to reduce the possibility of speculative events or financial bubbles brought on by the rising demand for PIR-related financial instruments, it has been imperative to boost supply, hence attracting new SMEs onto the stock market.

Impacts of RIPs and the Tax Credit

The adoption of Individual Savings Plans (PIR) and the Tax Credit marked a turning point for the Italian financial system, helping to greatly close the structural difference with other advanced European countries such Germany and France. While in Italy it is somewhat constant at 30 percent, in these nations the ratio of equity market capitalization to GDP stands at 50 percent and 85 percent correspondingly. This number emphasizes the need of more action targeted at raising the efficiency and competitiveness of the home finance industry.[96]

Between 2018 and 2023, the Tax Credit was out to be among the most successful instruments for encouraging Italian SMEs to list themselves.[97] The simplicity of the access mechanism and its immediate comprehensibility facilitated their entry into the stock market. According to the *Euronext SME Observatory* curated by IR Top Consulting,

[95] Law No. 205 of December 27, 2017. *Official Gazette of the Republic of Italy: Budget Law 2018*.
[96] Bank of Italy (2023). *Impact Assessment of Tax Credits and Individual Savings Plans on SME Listings*.
[97] European Commission (2023). *EU Capital Markets and SME Growth: The Role of Fiscal Incentives*.

181 IPOs were made on *Euronext Growth Milan* during the period under review, with SMEs accounting for about 80 percent of the total transactions.

PIR-CDI Combined Effects Analysis (2017-2023)

The combined effect of the *RIP* and *Tax Credit* measures over the five-year period 2017-2023 has produced significant results:

1. *Increase in the number of listed companies*: The number of companies increased by 135 percent, from 77 as of December 31, 2016 to 181 as of December 31, 2023. This increase has led to greater sectoral and spatial heterogeneity.
2. *Increase in total capitalization*: Capitalization tripled from 2.9 billion euros in 2016 to 8.2 billion euros as of December 31, 2021 (+183%).
3. *Turnover growth*: In 2023, the total turnover of the 181 listed companies as of Dec. 31 was 10 billion, compared with 3.5 billion recorded in 2015 for companies listed as of Dec. 31, 2016.

These results reflect a significant improvement in all key parameters of the *Euronext Growth Milan* market, including liquidity, number of players, quality of listed companies, and investor diversification. This market primarily targets institutional investors, family offices, private bankers, and professional investors with a medium-term time horizon. Retail investors in the secondary market can also access it by means of buy and sell orders placed to banks or other financial intermediaries.

4.3 The Tax Credit for Listing Costs: A Strategic Support for SMEs

A tax credit equal to 50 percent of consultation fees paid for IPOs is a key provision the 2018 Budget Law brought to help Italian SMEs in the listing process. Originally effective until December 31, 2020[98], the rule allocated 80 million euros overall during the three-year period 2019– 2021 with a maximum limit of 500,000 euros per enterprise. Part of the "Finance for Growth" policy, this incentive is part of a package of measures meant to

[98] Law No. 178 of December 30, 2020. *Official Gazette of the Republic of Italy: Budget Law 2021*.

help businesses access alternative funding, enhance the environment for profitable investment and capitalization of businesses.

Aimed at Italian SMEs, defined by the European Union, the initiative targets those who satisfy specific criteria: between 10 and 250 workers (ULA), an annual turnover between 2 and 50 million euros or an annual balance sheet total between 2 and 43 million euro. Any relationships of corporate control or connection ought to be taken into account while computing these criteria. The proposal covers both controlled and free European markets, therefore greatly increasing SMEs' chances to access various listing sites.
Designed to increase SMEs' access to the stock market, the main tool unveiled is the Tax Credit on 50 percent of consulting expenses paid for IPOs. By greatly lowering the fixed expenses related to the listing procedure, this approach helped SMEs get closer to another funding source instead of conventional bank credit lines.[99] This was meant to encourage a more creative and open development path for Italian businesses.
Fixed IPO costs, to which the tax advantage fits, cover all operations needed to evaluate the viability of the deal and assist the business during the listing process.[100] These include:

- *IPO feasibility study*: preliminary analysis to verify the sustainability and viability of the listing.
- *Financial consulting*: strategic and operational support for IPO planning and implementation.
- *Due diligence*: thorough verification of the company's financial, legal and tax information.
- *Preparation of the Admission Document*: preparation by the Euronext Growth Advisor of the documents required for admission to the market.

Variable costs associated with placing securities on the market, such as underwriting fees and costs associated with determining the offering price, are not included in the incentives. This distinction reflects the desire to focus the tax benefit on the initial stages of the process, which are considered crucial in bringing SMEs closer to listing and reducing barriers to entry.

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[99] Euronext Growth Milan (2023). *SME Capitalization Strategies and Fiscal Incentives*.
[100] PWC (2023). *SME IPO Feasibility: Fixed vs. Variable Costs and Financial Planning*.

With the introduction of the Tax Credit, the government has strengthened the ability of Italian SMEs to compete internationally, encouraging greater diversification of financing sources and contributing to the development of a more dynamic and accessible stock market. This measure has laid the foundation for a more robust economic system capable of seizing the opportunities offered by global financial markets.

Budget Law 2021 (Law Dec. 30, 2020, No. 178, Art. 1, Paragraph 230) extended the measure until Dec. 31, 2021, allocating an additional 30 million euros, maintaining the original conditions.

Subsequently, with the Budget Law 2022 (Law No. 234, Art. 1, paragraph 46, Dec. 30, 2021), the extension was extended to Dec. 31, 2022, but with some significant changes: the total allocation was reduced to 5 million euros and the maximum reimbursable limit for each company was lowered to 200,000 euros, while maintaining coverage of 50 percent of the costs incurred.

In 2023, the Budget Law (Law Dec. 29, 2022, No. 197, Art. 1, Paragraph 395) extended the measure again to Dec. 31 of the same year, reintroducing the original conditions, with a maximum reimbursable limit of 500,000 euros per company and coverage equal to 50 percent of consulting expenses. The measure was applicable to SMEs that initiated the listing procedure on regulated markets or multilateral trading systems within the European Union or the European Economic Area, provided they obtained admission.

With Decree-Law No. 215 of December 30, 2023 ("DL Proroghe"), which was converted into law on February 23, 2024 (Law No. 18), the measure was further extended to December 31, 2024. The conditions remained unchanged from the previous year: the tax credit covers 50 percent of consulting expenses, up to a maximum of 500,000 euros per company. However, it is required that the quotations take place by 2024 and that the eligible costs are incurred by December 31 of the same year.

Since its introduction, the Tax Credit[101] has been a particularly effective form of incentive due to its ease of implementation and immediate comprehensibility. According to IR Top Consulting's Euronext SME Observatory, this measure has had a significant impact on new listings, with a total utilization of the measure by SMEs of about 50 million euros, contributing to more than 120 IPOs in the 2018-2022 period, of which about 80 percent related to SMEs.

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[101] IR Top Consulting (2023). *The Impact of the Tax Credit on SME Listings in Italy (2018-2023).*

The boost provided by the Tax Credit has not only incentivized new listings but has also helped strengthen financial culture and the adoption of alternative finance instruments in the Italian business fabric. Looking ahead, it is crucial that measures such as the CDI be further strengthened and made structural, to support the competitiveness of Italian SMEs in capital markets.

This tax credit is thus an effective tool to stimulate SMEs' entry into the stock market, incentivizing diversification of financing sources and promoting sustainable and competitive growth in the national and international economic landscape. Successive extensions of the measure confirm its strategic relevance in enhancing the fabric of Italian businesses.

4.4 The potential benefits of RIPs and tax incentives on the Financial System

The Italian financial sector gains much from the application of tax incentives and Individual Savings Plans (PIRs), from multiple different angles. Here are the main ones:

1. *Strengthening the economy and increasing GDP*: The availability of new capital, resulting from SMEs' access to listing on the stock exchange, can generate a major impact on economic growth. This process is bound to stimulate job creation, thus contributing to the expansion of the country's Gross Domestic Product.[102]
2. *Promoting the culture of listing and long-term investment:* The opening of the stock market to new SMEs promotes the spread of the mentality associated with the equity capital market among Italian entrepreneurs. At the same time, it increases awareness among savers of the importance of medium- to long-term investment, consolidating the relationship between the stock market and sustainable economic development.[103]
3. *Primary and secondary market revitalization:* RIPs and tax benefits encourage demand for new IPOs, expanding the range of investment opportunities. A more efficient stock market can provide a concrete alternative to bank credit for SMEs. Investor interest will turn both to the primary market, with the subscription of new

[102] OECD (2023). *Tax Incentives and GDP Growth: Empirical Evidence from European Economies*.
[103] London School of Economics (2023). *The Role of Equity Culture in Economic Development*.

IPOs and capital increases, and to the secondary market, where increased free float will improve the liquidity of listed MID/SMALL caps.

4. *Increased Interest from Institutional Investors in* MID/SMALL Caps Capital from RIPs, designed to support MID/SMALL Caps, can increase the attractiveness of a market segment that has traditionally been less popular than MIB companies. Following the example of other international markets, the expansion of the local subscriber base is spurring the creation of PIR Compliant funds, capable of attracting additional institutional investors.
5. *Expansion of retail participation on Euronext Growth Milan:* The tax break offered by RIPs, combined with specific incentives for innovative SMEs, can attract a growing number of retail and professional investors to the Euronext Growth Milan market, increasing investor diversification.
6. *Increasing Liquidity and Reducing the Gap between Performance and Fundamentals:* Compliant PIR funds, which do not have long-term lock-up constraints on securities, will encourage greater liquidity of MID/SMALL Caps. This will increase trading volumes and transaction values, helping to reduce the mismatch between stock performance and company fundamentals.[104]
7. *Attracting long-term investors:* Interest in the Small-Mid Cap segment could bring in new long-term investors, such as pension funds, provident funds, and insurance companies, broadening the profile of players operating in the Italian stock market.[105]
8. *Greater attractiveness to foreign institutional investors:* An improvement in the liquidity of Italian MID/SMALL Caps, supported by RIPs and tax incentives, can stimulate renewed interest from foreign investors, strengthening Italy's role in global financial markets.

[104] CFA Institute (2023). *Liquidity and Valuation in SME Markets: Best Practices for Institutional Investors*.
[105] European Central Bank (2023). *Institutional Investment Trends in European SME Markets*.

4.5 Future Perspectives and the Need for IPO Education

To support sustainable capital market growth, it is crucial to incentivize the entry of SMEs with solid fundamentals and a sustainable growth-oriented vision into the stock market.[106] These companies, excellent in their competitive environment, can generate significant value for the country, fostering the creation of new jobs and strengthening the national economic fabric.

In this context, IPO education plays a key role.[107] Spreading an equity culture among entrepreneurs requires specialized practitioners who can:

- Assess the feasibility of IPOs by analyzing the readiness of companies and their potential.
- Determine the sustainability of the listing process, identifying risks and opportunities.
- Provide ongoing support throughout the market access journey, from strategic planning to implementation.

At the same time, it is essential to maintain continuous monitoring of market developments to adapt support strategies and optimize incentives to promote the use of the capital market as a growth lever. This integrated approach can foster not only greater participation in the stock market, but also an improvement in the skills and competitiveness of Italian SMEs.

[106] Consob (2023). *Developing an Equity Culture: Education and Awareness for SME Listings*.
[107] McKinsey & Co. (2023). *Bridging the IPO Knowledge Gap: Strategies for SME Market Growth*.

Chapter V

Analysis of the Euronext Growth Milan market

5.1 Historical Analysis and Market Evolution

The Euronext Growth Milan[108] (EGM) market, previously known as AIM Italia, is the main segment of the Italian Stock Exchange dedicated to small and medium-sized enterprises (SMEs) with growth prospects. Since its establishment in 2009[109], the market has expanded significantly in terms of the number of listed companies, overall capitalization and capital raised in IPOs.[110] Historical analysis shows constant growth, with a significant acceleration starting in 2016, supported by the introduction of tax incentives and a progressive increase in the awareness of Italian companies regarding the opportunities offered by the capital market.

As of 31 December 2016, the number of companies listed on AIM Italia stood at 77, with a total capitalization of 2.9 billion euros. In the following years, the market benefited from the combined effect of Individual Savings Plans (ISP) and the introduction of the Tax Credit on IPO costs (IPO Bonus), instruments that favored an increase in new admissions and a strengthening of the segment. At the end of 2021, the number of listed companies had reached 174, with a capitalization of 11.5 billion euros, marking a growth of 126% in terms of companies and 296% in terms of capitalization compared to 2016.

2021 was a record year for the market, with 44 new IPOs, the highest number of admissions ever recorded in a single year.[111] Total funding amounted to 837 million euros, 90% of which was through a capital increase (OPS). The average floatation at the IPO was 24%, with an average capitalization of the companies of 47 million euros. This trend confirmed a growing propensity of Italian SMEs to be listed on the stock exchange, in response to the need to diversify funding sources and reduce dependence on bank credit.

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[108] Borsa Italiana (2023). *Euronext Growth Milan: A Decade of SME Market Evolution*.
[109] Italian Stock Exchange (2023). *Market Evolution of SME Equity Platforms in Italy (2009-2023)*.
[110] Euronext (2023). *SME Capital Markets: Growth Trends and IPO Statistics*.
[111] IR Top Consulting (2022). *Italian SME IPO Report: Record Listings and Market Trends in 2021*.

In 2022, despite the unfavorable macroeconomic context characterized by rising interest rates and the volatility of global markets, Euronext Growth Milan maintained a positive trend, closing the year with 190 listed companies and a capitalization of 10.6 billion euros. During the year, 26 new IPOs were registered, with a total collection of 899 million euros, confirming the strategic role of the market for the financing of Italian SMEs. Compared to the previous year, the average collection per operation decreased, reaching 7.5 million euros, while the average capitalization fell to 33.7 million euros.

In 2023, the market continued its growth trend, albeit with a slight slowdown due to the persistence of uncertain global economic conditions.[112] The number of listed companies reached 203, with an aggregate capitalization of 8.2 billion euros. During the year, 33 new IPOs were carried out, with a total collection of 205 million euros, a clear reduction compared to the volumes recorded in the previous two years. The average float was 23.8%, while the average capitalization of the newly admitted companies was 31.2 million euros. The sectoral concentration of new listings saw a prevalence of the industrial sector, with 39% of IPOs, followed by the services sector with 24% and technology with 12%.

An analysis of the trend in IPOs in recent years highlights a correlation between the volume of new listings and the evolution of the regulatory framework.[113] The IPO Bonus, introduced in 2018 and subsequently extended until 2027, has been a key incentive for SMEs, covering up to 50% of the consultancy costs incurred for the listing, with a ceiling of 500,000 euros per company. In the five-year period 2018-2022, the measure favored over 120 IPOs, with a total use of the measure equal to 50 million euros. The positive impact of this incentive is evident in the number of admissions recorded between 2019 and 2021, while the subsequent slowdown can be attributed to a more challenging economic environment and increasing competition with other forms of financing.[114]

In terms of capital raising, from 2009 to 2023, Euronext Growth Milan enabled Italian SMEs to raise a total of €5.9 billion in IPOs. This figure includes both capital increase transactions and public offerings, with a significant prevalence of the former. The evolution of the market has also led to an increase in the number of trans listings, i.e. the transition of companies from EGM to the main market. As of 31 December 2023, 28

[112] Consob (2024). *Market Stability and SME Financing: The 2023 EGM Performance Review*.
[113] Italian Ministry of Economy and Finance (2023). *Regulatory Changes and Their Impact on Italian SME Listings*.
[114] Italian Ministry of Economy and Finance (2023). *Tax Incentives and SME IPO Activity in Italy: A Policy Impact Study*.

companies listed on EGM had completed the trans listing to Euronext Milan and the STAR segment, with an aggregate capitalization of €7.3 billion at the time of the transition.
The market kept growing in 2024, with 210 listed businesses and 8.1-billion-euro total capitalization.
With 21 IPOs generating 171 million euros, there was a time of consolidation unlike the heights attained in 2021.

By means of historical research of Euronext Growth Milan, the growing relevance of this alternative to conventional channels for financing Italian SMEs is validated. Regulating incentives, capitalization increase, and sectoral base expansion have helped the market to unite itself as a point of reference for Italian businesses aiming for expansion and globalization.

5.2 Current Market Structure

As of 31 December 2024, the 210 listed firms in the Euronext Growth Milan (EGM) market had a combined value of 8.1 billion euros.[115] Offering a substitute for bank loans and supporting the expansion and internationalization process of businesses, the segment is acknowledged as the main channel of access to finance for small and medium-sized firms (SMEs) in Italy.
Examining the present market structure reveals certain important features defining its profile: sector composition, distribution of market capitalization, and relative company size and free float weight.[116]

<u>Number of Listed Companies and Market Capitalization</u>

From 2009 to 2024, the count of companies listed on Euronext Growth Milan rose considerably.[117] In 2021, the market had 174 listed companies, with a total capitalization of 11.5 billion euros. In 2022, the number of companies had risen to 190, while

[115] Euronext Growth Milan (2024). *Annual Market Statistics and Capitalization Trends*.
[116] IR Top Consulting (2024). *Market Composition and SME Sectoral Performance on EGM*.
[117] European Commission (2024). *State of SME Equity Financing in Europe: An Overview of Growth Markets*.

capitalization had fallen to 10.6 billion euros, due to an adverse macroeconomic environment and the reduction in valuation multiples. In 2023, there was a further increase in the number of listed companies to 203, although capitalization fell to 8.2 billion euros, reflecting the decline in the average value of the admitted companies.

The year 2024 confirms a more moderate growth trend, with 21 new IPOs, bringing the total number of companies to 210, with an average capitalization of €40.6 million and a median capitalization of €19.4 million.

An analysis of the listing operations shows a significant volume of capital raised: €6.1 billion raised through IPOs, of which €5.2 billion (84.4%) through public subscription offers (PSOs) and €0.9 billion through public offers for sale (POS).

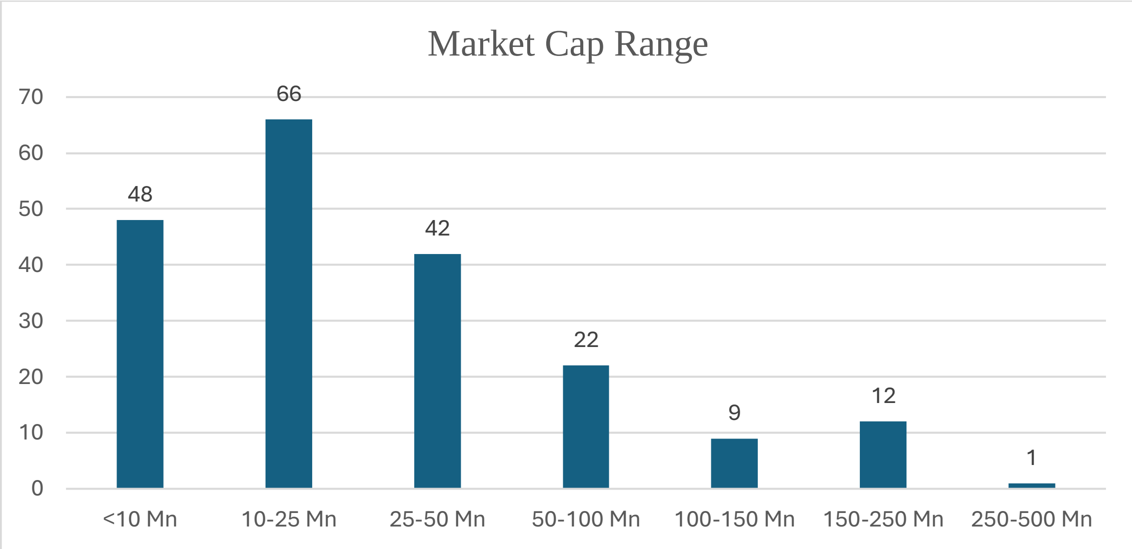
The average float in IPOs stands at 29.9%, a value that guarantees a good level of liquidity for institutional and retail investors.

Source: Personal Elaboration

Size of Listed Companies and Distribution of Capitalization

The Euronext Growth Milan market is characterized by a strong presence of SMEs with limited capitalization.[118] As of 31 December 2024, the distribution by capitalization range shows that the majority of companies have a capitalization of less than 50 million euros, in line with the market's mission to support companies in the development phase.

[118] Borsa Italiana (2023). *Small and Mid-Cap Equity Markets in Italy: Structure and Trends*.



Source: Personal Elaboration

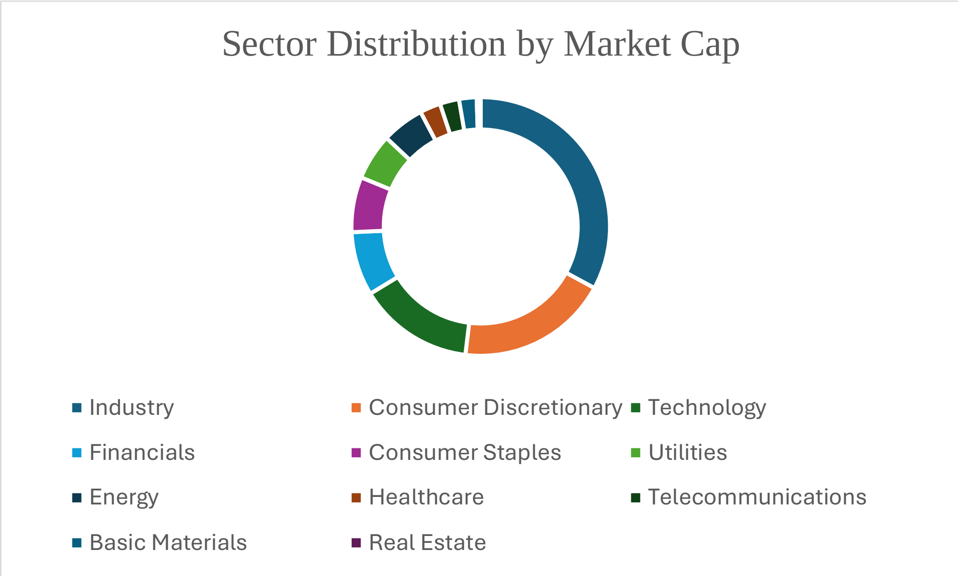
The segmentation highlights:

- 48 companies with a capitalization of less than 10 million euros
- 66 companies with a capitalization of between 10 and 25 million euros
- 42 companies with a capitalization of between 25 and 50 million euros
- 22 companies with a capitalization of between 50 and 100 million euros
- 9 companies with a capitalization of between 100 and 150 million euros
- 12 companies between 150 and 250 million euros
- 1 company with a capitalization of more than 250 million euros.

This distribution highlights how the market is mainly made up of small and medium-sized companies, with a marginal presence of companies with a capitalization of more than 150 million euros.

Main Sectors Represented

From a sectorial point of view, Euronext Growth Milan shows a strong concentration in sectors with high growth potential, including industry, technology and services.



Source: Personal Elaboration

As of 31 December 2024, the sectorial distribution of listed companies shows the following incidences on the total market capitalization:

- Industry: 32.9%
- Consumer Discretionary: 19.0%
- Technology: 14.4%
- Financials: 8.0%
- Consumer Staples: 6.9%
- Utilities: 5.8%
- Energy: 5.3%
- Healthcare: 2.6%
- Telecommunications: 2.4%
- Basic Materials: 2.2%
- Real Estate: 0.5%.

Industry is confirmed as the leading sector, with a total capitalization that represents almost a third of the total market value. This is followed by the Consumer Discretionary sector, which includes companies operating in the fashion, luxury and entertainment sectors. The technology sector, which represents 14.4% of the market, continues to be one of the most attractive areas for investors, supported by the growth of innovation and digitalization in Italian SMEs.

In terms of capital raised in the most recent IPOs, the industrial sector recorded the highest volume, with 67.5 million euros raised in 2024, equal to 39% of the total. This is followed by the services sector with 66.7 million euros (39%), technology with 13.2 million euros (8%), and energy with 10.4 million euros (6%).

An analysis of the sector specialization of IPOs confirms that technology and industrial companies attract the highest volume of investments, while more traditional sectors, such as real estate, maintain a marginal weight in the market.

5.3 Geographical Market Analysis

The analysis of the geographical distribution of companies listed on Euronext Growth Milan (EGM) highlights the concentration of IPOs in a few key regions, with a predominance of areas in Northern Italy, particularly Lombardy, but with significant growth also in Southern Italy, supported by public initiatives and dedicated investment funds.

The geographical presence of listed companies reflects the economic and industrial specialization of the different Italian regions[119], with a greater concentration of companies in the manufacturing, technology and service sectors in the northern regions, while the South shows more recent growth, supported by tax incentives and economic development programs.

Territorial Distribution of Listed Companies

An analysis of regional composition highlights a clear predominance of Lombardy[120], which as of 31 December 2024 was home to 39% of companies listed on EGM[121], followed by Emilia-Romagna, Lazio and Tuscany, each with a share of around 9%. In

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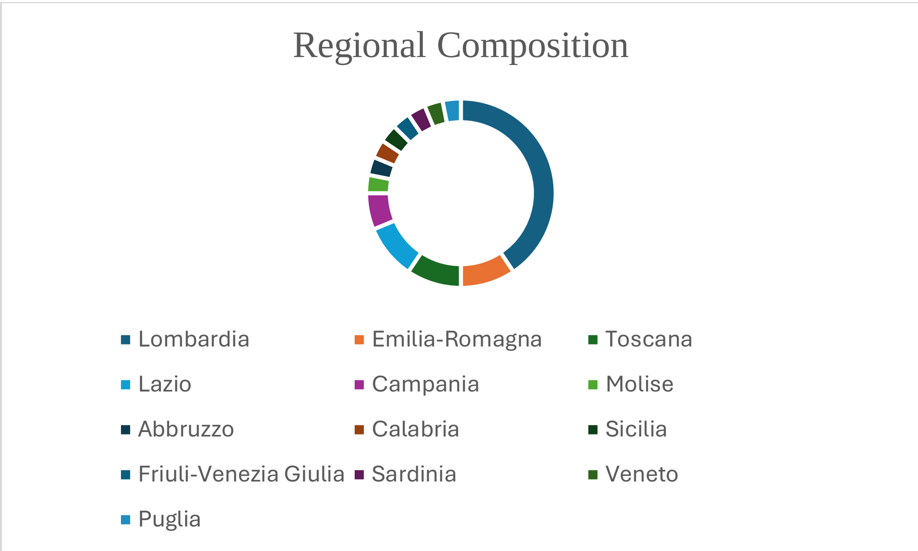
[119] Bank of Italy (2023). *Regional Economic Development and SME Listings in Italy*.
[120] Lombardy Regional Chamber of Commerce (2024). *Lombardy as Italy's Financial Hub: The Role of SMEs and Capital Markets*.
[121] Milan Chamber of Commerce (2024). *Lombardy's Dominance in SME Capital Markets: A Sectoral Study*.

2023, the market recorded IPOs from 13 Italian regions, signaling a progressive territorial diversification of the companies that choose to list.

In previous years, Lombardy has always maintained a dominant position. In 2022, the region accounted for 46% of IPOs, while in 2021 the figure stood at 41%, confirming Milan's role as the main financial center for accessing the capital market.

In 2024, IPOs were distributed among the different Italian regions as follows:



Source: Personal Elaboration

- Lombardia: 39%
- Emilia-Romagna: 9%
- Toscana: 9%
- Lazio: 9%
- Campania: 6%
- Molise: 3%
- Abruzzo: 3%
- Calabria: 3%
- Sicilia: 3%
- Friuli-Venezia Giulia: 3%
- Sardinia: 3%
- Veneto: 3%
- Puglia: 3%.

This distribution confirms a growing interest in listing from the Centre-South regions as well, although Lombardy continues to represent the main financial and industrial center of the country.

<u>The Role of Southern Italy and Public Support</u>

In recent years, Southern Italy has seen a significant growth in its presence on Euronext Growth Milan.[122] As of 31 December 2024, Southern Italy has 30 listed companies, equal to 14% of the total, with a total capitalization of 1.6 billion euros, representing 20% of the total market capitalization.

In 2024, the South contributed 6 new IPOs, equal to 29% of the national total, raising a total of 94.3 million euros, equal to 55% of the total raised that year. The most significant IPOs involved companies from Campania, Sicily, Sardinia and Puglia, demonstrating a greater opening of the capital market to southern companies.

The expansion of IPOs in Southern Italy has been favored by public support instruments, including the ‘Cresci al Sud’ Fund, managed by Invitalia, which in 2024 participated in 2 out of 3 eligible IPOs. The fund has made it possible to finance key operations for companies such as Cogefeed, Mare Engineering Group, Misitano & Stracuzzi, Next Geosolutions Europe, Novamarine and Predict, contributing to the access of southern SMEs to the capital market.

The companies in Southern Italy that have chosen to be listed on EGM have specific characteristics in terms of size and financial performance. An analysis of the average profile of these companies shows:

- Average capitalization: 54 million euros
- Average revenues: 56 million euros
- EBITDA margin: 23%
- Net financial position (NFP): 6.8 million euros.

From a sectoral point of view, Southern Italy shows a predominance of companies in the technology sector, with 27% of IPOs relating to companies operating in Technology Services and Health Technology, followed by the industrial and services sectors.

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[122] Invitalia (2024). *Public Support for Southern Italy’s SMEs and Market Access Strategies*.

Focus on Lombardy and other key regions

Lombardy continues to be the financial heart of Euronext Growth Milan, thanks to the concentration of highly structured companies and an ecosystem favorable to access to capital. As of 31 December 2024, Lombardy-based companies represent 39% of IPOs, raising 37% of the total capital raised during the year.

Lombardy also maintained a predominant position in the previous two years. In 2022, 46% of IPOs were carried out by Lombardy-based companies, while in 2021 the percentage was 41%. The main Lombardy operations in 2023 involved companies active in the technology, industrial and financial sectors, which are confirmed as the most attractive sectors for investors.

In addition to Lombardy, Emilia-Romagna and Tuscany also recorded a good number of IPOs. In 2024, Emilia-Romagna accounted for 9% of IPOs, with a total amount raised equal to 22% of the total, while Tuscany saw an incidence of 9% in terms of number of companies, with a total amount raised equal to 13% of the total.

An analysis of the geographical distribution of Euronext Growth Milan shows a gradual diversification, with an increasing number of companies from Central and Southern Italy. The positive trend of southern IPOs has been favored by public support instruments, including the 'Cresci al Sud' Fund and the action of Invitalia, which have incentivized access to the capital market for SMEs in Southern Italy.

Lombardy maintains its dominant position, thanks to a highly developed financial ecosystem and the presence of institutional investors. However, the growing number of transactions in other Italian regions indicates a progressive maturation of the market, which is transforming into a more inclusive platform, representative of the entire Italian production system.

5.4 Performance Analysis and Comparison with Other Indices

Analyzing the performance of Euronext Growth Milan (EGM) compared to other indices on the Italian stock market provides an essential perspective for evaluating the effectiveness and attractiveness of the segment for small and medium enterprises (SMEs).[123] One can find the growth trends and the degree of volatility of the SMEs by contrasting the performance of the EGM with the regulated market and with reference indices like the FTSE Italia Growth, the FTSE MIB, the FTSE Italia STAR and the FTSE Italia Small Cap.

Over time, the EGM has demonstrated greater resilience than other market segments, despite presenting high volatility due to the nature of listed companies, which are often characterized by low capitalization and limited trading liquidity.

Performance of the FTSE Italia Growth and Comparison with the Main Indices

The FTSE Italia Growth, the benchmark index for companies listed on EGM, recorded a performance of -11% in 2023, in a market environment characterized by general volatility and unfavorable macroeconomic conditions, such as rising interest rates and geopolitical instability.[124]

However, compared to other Italian indexes, the EGM performed in line with the market, showing greater stability compared to other segments more exposed to volatility. In 2023, the FTSE Italia Small Cap recorded a growth of +2%, the FTSE Italia STAR closed the year with an increase of +3%, the FTSE Italia MID Cap marked an increase of +13%, while the FTSE MIB, driven by large caps, achieved a growth of +28%.

In previous years, the performance of the FTSE Italia Growth had shown a more volatile trend. In 2022, the index had fallen by 19% but outperformed the FTSE Italia STAR (-28%) and the FTSE Italia MID Cap (-21%), showing less exposure to the stock market slowdown than the larger-cap segments.

The trend in performance shows how the EGM market is strongly correlated to macroeconomic conditions and the economic cycle[125], with a high sensitivity to risk factors, but with significant growth potential in the long term.

[123] Borsa Italiana (2024). *EGM vs. FTSE Indices: A Comparative Analysis of SME Market Trends*.
[124] CFA Institute (2024). *Volatility and Risk in SME Equity Markets: Insights from Italy*.
[125] European Central Bank (2024). *Macroeconomic Indicators and SME Market Sensitivity in Europe*.

5.5 Comparison with Euronext Milan and the Regulated Market

Another key element of the analysis is the comparison between Euronext Growth Milan and the main market Euronext Milan.[126] In recent years, EGM has shown more sustained growth in terms of the number of listed companies, while the regulated market has stabilized, with a limited number of new IPOs and an increase in delisting.

In 2023, the number of companies listed on Euronext Milan was 225, remaining substantially stable compared to 2022, when there were 224, but sharply down compared to 2018, when the main list had 240 companies. In comparison, the number of companies on EGM increased from 77 in 2016 to 210 in 2024, demonstrating sustained growth and greater attractiveness for Italian SMEs.

A key indicator of the dynamism of the EGM market is the number of trans listings, i.e. the transition of companies from the EGM segment to the main market. With an overall capitalization at the time of the transfer of 7.3 billion euros, 28 firms completed the trans listing on Euronext Milan and on the STAR sector between 2009 and 2023. This number validates EGM's function as a means of accessing the regulated market, therefore enabling businesses to advance to sectors with more liquidity and exposure among institutional investors.

The quantity of IPOs on EGM and Euronext Milan clearly differs from one another as seen by their progression.[127] EGM noted 33 fresh IPOs in 2023; on Euronext Milan, only 5 new listings—two of which were trans listings from EGM. This validates how Italian businesses now mostly rely on the market set aside for SMEs to generate cash.

5.6 Impact of Government Incentive Measures

Euronext Growth Milan's evolution has been much aided by tax incentive schemes.[128] For SMEs, one of the key measures for listing help has been the 2018 announced IPO Bonus, which runs until 2027. Up to a maximum of 500,000 euros per firm, the incentive lets

[126] Euronext (2024). *Transitioning from EGM to Euronext Milan: Market Integration and Growth Strategies*.
[127] Consob (2024). *SME IPO Trends: A Regulatory and Market Analysis of EGM vs. Euronext Milan*.
[128] Italian Ministry of Finance (2024). *The Impact of the IPO Bonus on SME Market Growth in Italy*.

businesses gain from a tax credit equal to half of the consulting fees paid for the listing.

With a total utilization of the measure equal to 50 million euros, the IPO Bonus has benefitted over 120 IPOs in the five-year period 2018–2022. The measure clearly shows its good effects in the high rise in IPOs recorded between 2019 and 2021, with a peak of 44 transactions in 2021, followed by a slowing down in 2022 and 2023 due to the worsening macroeconomic conditions.

The recent Milleproroghe 2024 Decree confirmed the Government's intention to maintain the incentive[129], with the aim of supporting new listings and promoting the growth of the Italian capital market. The stability of the incentive in the coming years could contribute to a further increase in the number of IPOs and greater diversification of listed companies.[130]

<u>Future Outlook for the Euronext Growth Milan Market</u>

Looking ahead, the Euronext Growth Milan market will continue to play a central role in the financing of Italian SMEs, but will face some key challenges and opportunities:

1. *Evolution of Regulations and Tax Incentives*

   The IPO Bonus has been instrumental in supporting the growth of the market. Its extension until 2027 is a positive element, but it will be essential to monitor the actual effectiveness of the incentive and its impact on the number of new listings. A possible extension of tax breaks could further favour the market and attract new companies.
2. *Increased Liquidity and Greater Involvement of Institutional Investors*

   One of the main critical issues of EGM remains the liquidity of the securities, which is often lower than the standards of regulated markets. The introduction of instruments to encourage the presence of institutional investors and market makers could help improve liquidity and make the segment more attractive to professional investors.
3. *Increase in the Number of Translistings to the Regulated Market*

   The transition from the EGM segment to Euronext Milan and the STAR segment represents a growth path for many SMEs. The number of 28 translistings recorded

[129] Official Gazette of the Republic of Italy (2024). *Decree Milleproroghe: Extension of SME IPO Incentives*.
[130] European Investment Bank (2024). *Fiscal Incentives for Capital Market Development in the EU*.

from 2009 to 2023 demonstrates that the market plays a preparatory role for the transition to regulated platforms. Strengthening this process could further consolidate the function of EGM within the Italian financial system.

4. *Sectoral Diversification and Greater Opening to Southern Italy*
   Though industry and technology still dominate, new sectors including the green economy, healthcare, and digital innovation have promise for development. Moreover, the rise in IPOs in Southern Italy can help to promote more uniformity in the geographical distribution of the market, therefore boosting the economic growth of less represented areas.
5. Internationalization of the Market and Adoption of ESG Standards
   One other development engine can be the EGM market's incorporation of ESG (Environmental, Social and Governance) elements. Investors have shown more interest in companies with strong sustainability criteria recently. Stricter ESG criteria could help the market to be more appealing and match it with international best standards.

Reaching a great degree of maturity, the Euronext Growth Milan market is now a benchmark for funding Italian SMEs. While the geographical and sectoral distribution demonstrates a growing diversification, historical study has revealed a notable increase in the number of listed businesses and in capitalization.
EGM remains a means of capital access for businesses with great development potential[131] even if recent years' volatility calls for change. EGM is now the primary conduit for IPOs in Italy, according to a comparison with Euronext Milan, therefore strengthening its function as a preparation market for businesses hoping to enter the regulated area.
Improving liquidity, raising the participation of institutional investors, and strengthening tax incentives will present difficulties going ahead.[132] Should these criteria be satisfied, EGM will be allowed to keep growing, therefore supporting the national economic fabric and helping the Italian capital market to thrive.

[131] London School of Economics (2024). *Alternative Capital Raising Mechanisms: The Role of SME Growth Markets*.
[132] OECD (2024). *Strengthening SME Market Participation through Policy and Liquidity Support Measures*.

Chapter VI

The choice of listing vs. non-listing

6.1 Literature review

It is usually necessary to specifically address the listing option when there is a need for expansion, a desire for rapid growth or the need to finance new investment initiatives.

Consequently, the company will be able to raise money on the stock markets but will also have to comply with legal and disclosure standards. Therefore, using the IPO process to increase capital investment and overcome financial constraints could be one of the reasons why companies want to go public (Welch, 1989[133]). Indeed, stock markets offer the advantage of raising money without the need for financial intermediaries such as banks or venture capitalists when there are not enough internally generated cash flows to finance investment projects. Stock market entry has the disadvantage of disclosing sensitive information that could damage a company's ability to compete[134], but it also allows money to be raised at a lower cost than private equity. It is conceivable that a company could use the loan financing to finance new ventures. However, the company will inevitably have to raise venture capital to expand if it exceeds a certain degree of leverage, loses access to the credit capital market and does not have sufficient self-financing. The issue may become more attractive simply because of the rising cost of debt capital. However, the company chooses to forego potentially profitable investments by choosing not to go public (Giordano and Modena, 2017[135]).

According to an empirical study by Pagano, Panetta and Zingales (1998)[136] examining the reasons behind initial public offerings (IPOs) on a sample of Italian companies, the decision to go public is influenced by the ex-ante characteristics of the company and the

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[133] Welch, I. (1989). *Seasoned Offerings, Imitation Costs, and the Underpricing of Initial Public Offerings*. The Journal of Finance.
[134] Maksimovic, V., & Pichler, P. (2001). *Technological Innovation and Initial Public Offerings*. Review of Financial Studies.
[135] Giordano, F., & Modena, M. (2017). *Corporate Financing Decisions: A Comparative Analysis between Private and Public Firms*. Journal of Corporate Finance.
[136] Pagano, M., Panetta, F., & Zingales, L. (1998). *Why Do Companies Go Public? An Empirical Analysis*. The Journal of Finance.

ex-post outcomes of the decision. Furthermore, they argue that the main reason why companies decide to go public is to balance their capital structure. According to their findings, the size of a company and, more specifically, the ratio of market value to book value in the industry increase the likelihood that it will go public. For this reason, IPOs are positively influenced by the stock market value of companies in the same sector.[137] As equity capital contributes to the issuance of new shares, companies reduce their leverage. It goes without saying that, under normal circumstances, leverage decreases more in the year of the IPO the higher the percentage of equity capital released in the offering (Baker and Wurgler, 2002). On the one hand, the funds obtained could be used to permanently reduce leverage and rebalance the capital structure of companies.

The deleveraging with the IPO, however, is not permanent (in line with the hierarchy theory), as companies can access other financing channels with a more stable position after the IPO.[138] This is because equity markets may be only one of the sources that companies turn to when other sources are unavailable or too expensive.

According to empirical data, companies typically issue equity capital to finance a series of alternative projects spread over a considerable period rather than a single investment.[139] This suggests that, unlike debt, equity capital can be used to finance a variety of projects (W. Kim and M. S. Weisbach, 2008[140]). According to the results of the analysis, money earned through an IPO is more likely to be used for research and development investments than internally generated funds. This result seems to support the idea that financing quality investment opportunities is a key factor in the decision to go public.

Likewise, entrepreneurs can facilitate the purchase of their company at a better price than they would have received from a direct sale by opting for the public capital market.

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[137] Baker, M., & Wurgler, J. (2002). *Market Timing and Capital Structure*. The Journal of Finance.
[138] Myers, S. C., & Majluf, N. S. (1984). *Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have*. Journal of Financial Economics.
[139] Denis, D. J. (2004). *Entrepreneurial Finance: An Overview of the Issues and Evidence*. Journal of Corporate Finance.
[140] Kim, W., & Weisbach, M. S. (2008). *Motivations for Public Equity Offerings: Evidence from Private and Public Companies*. Review of Financial Studies.

On the contrary, through the IPO, entrepreneurs often regain influence over venture capitalists and the companies they finance (Black and Gilson, 1998[141]). Therefore, the risk of losing control of the company is one of the most crucial factors limiting and prohibiting the listing of even large companies. Family businesses define corporate governance in Italy, as in most of Europe. According to some studies, the owner-founder of the company may be reluctant to go public because he fears losing control and the associated private benefits (Barca, 1994[142]). Italian companies tend to have a high concentration of ownership, and even the largest ones are often run by a single person, family or pyramid group. According to the recent study by Benniga, Helmantel and Sarig (2003)[143], the entrepreneur always must decide whether to keep the ownership private or to cede it to a series of outside investors. There is a trade-off between the private benefits of control (which the entrepreneur gets when the company is private) and the valuations that outside investors are willing to pay, which the entrepreneur gets when the company is public. The entrepreneur will decide to keep the secret as long as his gains do not outweigh the benefits of external valuations. The listing choices also change over time due to fluctuations in these valuations based on the state of the market and the company's prospects.

It is also crucial to bear in mind that investors generally do not know the actual value of the assets of listed companies as well as managers and owners. The average quality of companies trying to raise money on the stock market is adversely affected by this imbalance, which consequently affects the price at which shares can be sold (Leland and Pyle, 1977[144]). Compared to larger and more established companies, this unfavorable selection cost is a significant obstacle, especially for the listing of young and small companies that are characterized by a weak track record and poor visibility. The whole decision may require internal organization and administration, which small companies may not always be able to provide. According to Chemmanur and Fulghieri (1995)[145],

[141] Black, B., & Gilson, R. (1998). *Venture Capital and the Structure of Capital Markets: Banks Versus Stock Markets*. Journal of Financial Economics.
[142] Barca, F. (1994). *Corporate Governance in Italy: Reform and Evolution*. OECD Economic Studies.
[143] Benniga, S., Helmantel, M., & Sarig, O. (2003). *Corporate Financial Policy and Entrepreneurial Control*. Journal of Financial Economics.
[144] Leland, H. E., & Pyle, D. H. (1977). *Informational Asymmetries, Financial Structure, and Financial Intermediation*. The Journal of Finance.
[145] Chemmanur, T. J., & Fulghieri, P. (1995). *Investment Bank Reputation, Information Production, and Financial Intermediation*. Journal of Financial Economics.

small independent firms struggle to attract the attention of investors, which results in significant adverse selection costs when selling shares on the public market. On the other hand, subsidiaries of a group can benefit from the reputation of the parent company. These factors seem to be important when deciding whether to go public, along with the possibility of greater visibility of tax authorities and more complicated administrative rules. However, further studies indicate that the lower valuation of corporate assets, particularly in countries such as Italy where investor protection is lacking, may make it less attractive to raise money on public markets (Burkart et al., 2003[146]). Indeed, the problems of representation between internal and external shareholders are exacerbated by the absence of investor protection.

The choice to issue shares is certainly influenced by several factors, one of which is the theories on the company's life cycle. It is often common knowledge that in the early stages of their existence, companies struggle to raise funds on the public capital market due to fixed costs and difficulties with disclosure. Consequently, they turn to venture capitalists or informal investors. As the company matures, it will mark the end of its life cycle (and financial growth), at which point it will be able to further diversify its sources of funding by resorting to increasingly sophisticated financial instruments and turning to the capital and stock market through an initial public offering (IPO). According to Chemmanur and Fulghieri (1995), IPOs facilitate a wider distribution of ownership. This is because, during the pre-IPO phase, the portfolios of outside investors are not diversified, which makes them less willing to pay a high price like public market investors. Although the literature predicts that companies will grow after an IPO, according to several articles this is not always accompanied by an improvement in the company's profitability. Companies seem to announce their intention to go public when their sales growth cycle is at its peak. According to empirical research, new companies that go public usually outperform their competitors in the long run, despite showing gains in growth and profitability.

Although it is commonly accepted that a company's decision to go public is linked to a normal stage in its development cycle, many other considerations come into play.

[146] Burkart, M., Gromb, D., & Panunzi, F. (2003). *Family Firms*. Journal of Finance.

According to numerous surveys, it is just as important to establish a stock market as a means of acquiring companies as it is to enhance one's reputation.

However, the fact that the number of initial public offerings (IPOs) varies considerably over time implies that the choice to go public is, at least in part, influenced by market changes and different investment options. According to Ritter and Welch (2002)[147], companies that decide to go public do so in response to favorable market conditions, but only after a specific stage in their life cycle. Similarly, Baker and Wurgler (2002) show that companies want to issue shares when they are overvalued, because market timing is one of the determining factors in share issues. In this context, Lucas and McDonald (1990) create an asymmetric information model in which firms delay issuing shares if they believe they are undervalued. Entrepreneurs postpone initial public offerings (IPOs) until the market offers favorable prices. Other theories that do not include asymmetric information describe how entrepreneurs decide to go public based on their internal viewpoint and the company's potential. This follows from the argument that entrepreneurs will gradually change their offer if the valuation of the company on public markets changes. Numerous studies highlight the importance of how changing external conditions over time influence a company's valuation (as measured by its returns) and how these factors influence a company's final decision to go public. According to Pastor and Veronesi (2003)[148], waves of initial public offerings (IPOs) align with peaks in stock market returns and companies prefer to go public when there is a significant degree of uncertainty about their future profitability. Ljungqvist and Boehmer's (2004) examination of a group of German companies consistently shows that companies typically announce their preparations for an initial public offering (IPO) following an increase in share price volatility in their industry.

The general pattern of the volume of IPOs is the main focus of the currently available material on the timing of IPOs. According to several empirical studies, determinants of changes in the number of initial public offerings (IPOs) are changes in firms' demand for external financing, higher industry profitability, share prices, the value of control rights

[147] Ritter, J. R., & Welch, I. (2002). *A Review of IPO Activity, Pricing, and Allocations*. The Journal of Finance.
[148] Pastor, L., & Veronesi, P. (2003). *Stock Valuation and Learning about Profitability*. Journal of Finance.

and investor confidence (Lowry, 2003; Cook and Kieschnick, 2003)[149]. Companies are more likely to successfully execute an initial public offering (IPO) when macroeconomic conditions are more favorable, as measured by the consumer confidence index, and the market is optimistic, seizing opportunities. These 'window opportunities' are times when companies are motivated to issue additional shares because the market overestimates the company's growth potential in a particular sector. To reduce the cost of the initial undervaluation and increase the probability of a successful offering, many companies choose to list when share prices are generally higher. According to this view, managers are typically motivated to demonstrate, and occasionally even manipulate, book values in order to improve a company's position prior to the public offering and thus encourage positive valuations (Teoh et al., 1998). Investors rely on the information in offer prospectuses because there is not much information available on issuing companies prior to listing. In fact, a decline in a company's performance that seems to last over time often coincides with the listing.

According to Ritter (1991)[150], underperformance occurs in the three years following the initial public offering (IPO). This can be attributed to bad luck, an overly optimistic investor base or an inaccurate assessment of the company's risk profile.

Other articles have focused on the role of information as the main driver of the 'hot market' phenomenon, which refers to periods in which the monthly rates of return of newly listed companies are exceptionally high, leading to a significant increase in the number of initial public offerings (IPOs). Alti (2005) creates a model based on the idea that a greater number of IPOs is triggered by the information produced by the valuation of companies that are the first to seek a stock market listing, as it makes it easier to value the companies that follow. On the other hand, many IPOs has an unclear impact on the attractiveness of going public. While a large volume may suggest a 'hot' market worth exploiting, it may also increase listing costs because underwriters may provide less attractive terms.

[149] Lowry, M. (2003). *Why Does IPO Volume Fluctuate So Much?* Journal of Financial Economics.
[150] Loughran, T., & Ritter, J. R. The *New Issues Puzzle*. Journal of Finance.

Furthermore, it is generally accepted that as a period of high emissions continues, the caliber of companies that go public tends to decrease (Ritter and Welch, 2002).

A topic that is still debated in the literature is whether a 'private company' has more room for maneuver than a listed company through so-called earnings management practices, which refer to the ability of managers to exploit their margins of discretion to influence external parties, communicate positive profits, sustain the performance of previous years and attempt to meet analysts' expectations. According to several studies, managers of listed companies use their margins of maneuver to avoid acknowledging even minor losses, because they have little discretion and cannot hide large losses. The quality of earnings can be distorted by several potential factors offered by the capital market. Although empirical research indicates that companies that use the market to raise funds during initial public offerings (IPOs) generally engage in more manipulative practices, private companies may also benefit from certain earnings management strategies because they will be less scrutinized and have fewer disclosure requirements regarding their work and related company performance. The requirement for public companies to disclose compelling financial information to the public in terms of performance and expectations, on the other hand, may be one reason for this evidence.

Since there are many internal and external elements that could influence companies, it is therefore very difficult to understand the real reasons. From an empirical point of view, the picture that emerges from primary research is characterized by a high degree of international fragmentation, since what matters are the structural characteristics of the stock market itself, which are crucial for the expansion and innovation of major economies, as well as the level of market development. However, the economic literature has often mainly examined the factors that influence a company's decision to go public, without specifically examining the reverse problem of why a company chooses to remain private. This is typically caused by the inaccessibility and difficulty of finding information on companies that wish to remain private.

6.2 Reasons for listing

The best option for a company to obtain the money it needs to take advantage of favorable development and investment prospects and to be able to meet the criteria mentioned above is an initial public offering, or IPO. For this reason, a company must carefully assess the ramifications and consequences before proceeding with the listing process. This choice must be made considering every aspect of the company's operations, management, stage of development and future prospects. Starting from the reasons and consequences already demonstrated, it is crucial to determine the benefits of a company entering the capital market as well as the potential costs and risks.

As mentioned above, there are several reasons and objectives behind a company's decision to go public, and the process is so complex that no model can adequately account for all the associated costs and benefits, and it is rarely possible to combine them into a single unifying theory. Numerous studies and research have evaluated these consequences. Accordingly, Figure 2 shows a table illustrating the predictions of the main models. One of the main advantages of the IPO process is that it can be used to satisfy the company's need for additional funds. Lenders and shareholders can turn part of their ownership into cash, as it also makes the market for the company's shares more liquid. The most obvious benefits are undoubtedly quantitative, but the inclusion also suggests qualitative benefits, so called because they have an indirect impact on the financial/equity and economic structure.

Here is a brief explanation of the main advantages of an IPO:
Diversification and growth financing sources: the possibility of raising venture capital is one of the main factors behind a company's decision to go public. In this way, the company can reduce its dependence on bank financing and self-financing, while increasing its flexibility and freedom of maneuver by diversifying, at least in part, its sources of capital. Although its extent varies according to economic cycles, leading to 'forced' or 'stunted' expansion, the latter is usually the source most sought after by entrepreneurs.

As the size and cost of loans vary according to the cyclical nature of the economic phase, debt capital is also particularly vulnerable to this phenomenon. Consequently, venture capital allows the company to improve its financial structure and compensate for this fluctuation without affecting its continuity, making it more stable and well organized. It is reasonable to believe that the listing advantage can also take advantage of the timing of the offering and rebalance the capital structure of the company (Zingales et al., 1998[151]). Through new infusions of venture capital, the opportunity to consolidate the financial structure may result in an improvement of the debt-to-equity ratio, which ultimately reduces bankruptcy costs for companies with over-indebted structures whose collapse costs reduce the value of companies.

Enhancing the company's image: a company's reputation is greatly enhanced by increased visibility, which makes the listing a source of significant prestige. The company conveys information about its value and prospects when it demonstrates that it passes the numerous financial analysis and evaluation processes. Because of the increased transparency of the information required and the increased financial communication activity, organizations are effectively obliged to make their objectives clear and the results of their management evident. For all stakeholders of the company, this amounts to a kind of publicity. Every stakeholder, including customers, suppliers, domestic and foreign partners and financial institutions, understands that a stronger corporate reputation translates into a stronger contract. Since lenders and suppliers usually place a high value on a company's transparency[152], certification of financial statements and the presence of organizations with a preference for controlling listed companies, this enables an improvement in the company's creditworthiness towards them. In addition, listing allows the company to expand its network of business contacts by sending periodic financial communications to maintain the company's reputation. This increases the possibility of joint ventures, agreements with distributors and suppliers and new business concepts. Companies must comply with specific disclosure requirements to access and maintain their status as a listed company. The proper functioning of the market as a whole depends on demands for greater transparency of information, a certain level of disclosure and a

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[151] Zingales, L. (1998). *Survival of the Fittest or the Fattest? Exit and Financing in the Trucking Industry*. Journal of Finance.
[152] Diamond, D. W. (1991). *Debt Maturity Structure and Liquidity Risk*. Quarterly Journal of Economics.

clearer presentation of corporate strategies and financial communications. These demands also help to ensure that internal and external stakeholders are adequately protected. Although these reasons may be seen by the entrepreneur as an obstacle to listing, they can actually create an opportunity for the company, as the process can be seen as a means to 'certify' the superior quality of the company. Better contractual conditions are beneficial for companies in this situation and greater openness is a key step, particularly for companies aiming to reach global markets.

Extension of the ownership structure: in small and medium-sized enterprises, the owner and the entrepreneur are often the same person, with ownership concentrated in the hands of a single person or family. On the other hand, listing on the stock exchange increases the ownership structure. Entrepreneurial succession', which occurs in family businesses or businesses centered on a single owner, may be easier to transfer across generations as a result of this expansion. This makes it possible to reorganize ownership without depriving the family in question of control, perhaps by favoring the retention of their majority share without requiring their participation in management.

Improving the professionalism and leadership of management: The effects on the professionalism of management are just as significant, as it needs to relate to the capital market and be accountable for its actions to shareholders other than its original shareholders.[153] A company improves its reputation and increases its status. This can help to attract competent experts willing to join the management of the newly listed company to enhance its reputation. At the same time, the market for managers becomes competitive as their remuneration is determined by their skills and the company's performance. By using stock option plans to reward the most deserving managers and employees, listed companies will be able to relate them to long-term company performance and balance the sometimes-conflicting interests of ownership and control1.

Improved management control procedures: more effective and sophisticated management and control systems are the result of the different information requirements associated

[153] Kaplan, S. N., & Strömberg, P. (2003). *Financial Contracting Theory Meets the Real World: An Empirical Analysis of Venture Capital Contracts*. Review of Economic Studies.

with listing and the admission of new shareholders, especially institutional investors. Audit techniques are beneficial to management.

Audit methods that prioritize the collection of high-quality data and information are all beneficial to management. Over time, a virtuous circle is established that can ensure continuous performance improvement. Furthermore, as Jensen and Meckling's (1976)[154] thesis demonstrated, capital and debt monitoring and control are two of the most important activities. Therefore, by facilitating and reducing the cost of these procedures, listing should reduce the incentives for opportunistic behavior.

Better conditions for access to debt: listing requires companies to disclose information and be transparent, which reduces the occurrence of information asymmetries.[155] This provides companies with a wider range of access points to the capital market at more favorable prices. In fact, listing improves the company's credit status and prestige, which reduces bank financing costs. A better bargaining position with banks and brokers is ensured by improving the company's risk profile and reputation, which sends several signals that the company is reliable and of superior quality. Therefore, listing is particularly advantageous for companies with high interest rates. Consequently, they will benefit from listing, with the aim of taking advantage of the possibility of obtaining financing on more favorable terms. In these situations, companies should only temporarily show indebtedness at the time of listing due to the inflow of capital raised through the issuance of new shares (Wurgler, 2002[156]); in subsequent years, they should expand their recourse to debt (Stefano Paleari, 2008). Some of the many advantages may be more applicable to small or medium-sized enterprises than to larger ones. Firstly, the lower cost of capital, which is attributed to the fact that large companies generally have lower financing rates. Likewise, it is reasonable to assume that a large company has fewer problems with the amounts of money raised needed for expansion prospects, as well as with diversification of sources, while enjoying the benefits of management control protocols, prestige and expert management.

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[154] Jensen, M. C., & Meckling, W. H. (1976). *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*. Journal of Financial Economics.
[155] Brav, A. (2009). *Access to Capital, Capital Structure, and the Funding of the Firm*. Journal of Finance.
[156] Wurgler, J. (2002). *Financial Markets and the Allocation of Capital*. Journal of Financial Economics.

Before starting this complex procedure, it is important to carefully consider the disadvantages of this strategic decision in addition to its benefits.

M&A practices: listing can also take place to pay for acquisitions of other companies with a similar profile, to achieve economies of scale through acquisition that make the company more competitive.[157] This strategy is particularly relevant for small and medium-sized Italian companies compared to international competitors. In this way they can accelerate growth and access bank debt or other financial instruments more easily. Another advantage of listing is the possibility of using one's own shares as part of the consideration, thus reducing cash outlay and facilitating coordination between new shareholders and the acquired company.

Before starting this complex procedure, it is important to carefully consider the disadvantages of this strategic decision in addition to its benefits.

6.3 Reasons for remaining private

Below is a list of some of the major disadvantages and expenses:

- Loss of control: it is assumed that a company will suffer a gradual loss of control and dilution of ownership if it chooses to use the issuance of shares to the investing public as a means of obtaining capital.
- The issuance of securities with limited voting rights allows the company to protect itself, but this may lead to a decrease in the value of the securities. As a result, the ownership structure changes, and the majority shareholders are redefined. According to Zingales (1995)[158], transfers of power are twice as common in the three years following the IPO than in comparable private companies.
- The controlling shareholder can change its private benefits of control (control rights) and cash flow rights (profit-sharing rights) through listing. To take advantage of the

[157] Andrade, G., Mitchell, M., & Stafford, E. (2001). *New Evidence and Perspectives on Mergers*. Journal of Economic Perspectives.
[158] Zingales, L. (1995). *Insider Ownership and the Decision to Go Public*. The Review of Economic Studies.

resulting private benefits, he will usually choose to transfer the profit-sharing rights to a dispersed shareholder, while retaining the control rights. Moreover, since the consent of many shareholders is required to make strategic decisions, this increased fragmentation of ownership may pose a challenge to standard corporate governance. However, an overly broad shareholder structure without decision-making power may allow for a hostile takeover attempt.[159] According to an empirical study, managers often make decisions that are more oriented towards generating considerable success in the short term but are detrimental when examined over a longer period of time, because they are motivated by the need to appease new shareholders.

The economic literature identifies agency conflicts as a further disadvantage, along with adverse selection costs. The conflict arises from management's41 pursuit of growth and reputation goals, which often conflict and disagree with shareholder goals. In private companies, the traditional agency costs that are part of the ownership-control relationship are not so important. In fact, more concentrated ownership allows shareholders to directly control the behavior of managers, thus resolving agency conflicts. Because of the free-riding problem, shareholders of listed companies with scattered shares are less likely to disagree with the manager's decisions, allowing the manager to exercise more discretion. Because of the closer ties between the individuals who exercise control and those who own the ownership rights, unlisted companies can therefore rely on more widespread instruments to regulate management conduct. However, listed companies will have to pay agency fees to keep an eye on things and offer appropriate incentives to reduce managerial laxity and any opportunistic behavior on the part of the manager, such as tunnelling. As stated earlier, knowledge asymmetries and adverse selection make conflict resolution difficult; therefore, corporate governance control tools serve as both internal and external methods of discipline.

Agency issues aside, it could be argued that investors do not fully know the true value of a company.[160] The average quality of companies considering listing for the first time suffers from this asymmetry of information, which can lead to an undervaluation of their

[159] Gompers, P., Ishii, J., & Metrick, A. (2003). *Corporate Governance and Equity Prices*. Quarterly Journal of Economics.
[160] Akerlof, G. A. (1970). *The Market for Lemons: Quality Uncertainty and the Market Mechanism*. Quarterly Journal of Economics.

securities and impact the price at which their shares are offered (Leland and Pyle, 1977). According to Chemmanur and Fulghieri (1995), the listing of young and small companies, which have less visibility and experience than large and established companies, can be particularly hampered by adverse selection costs.

According to Pagano, Panetta and Zingales (1998)[161], the probability of a company going public is positively related to its size when adverse selection is present.

Transparency obligations and loss of confidentiality

Transparency, even before competitive advantage, is seen as a significant risk to secrecy.[162] As mentioned above, a company that intends to go public must comply with a number of obligations and deadlines aimed at ensuring a high and transparent level of transparency, from which it was exempt during the private phase. In fact, a company must provide this information both when it first lists itself on the market and on a regular basis to maintain its listed position. Regulations governing the disclosure of information on the stock market oblige companies to disclose information whose confidentiality may be essential to their ability to compete. Compared to companies that choose to remain private, corporations are also subject to close inspection by tax authorities, which reduces their scope for tax avoidance and evasion (Zingales et al., 1998). According to empirical data, compromising confidentiality may actually discourage attempts to obtain financing from the stock market and reduce the likelihood of a company being listed on the stock exchange, particularly for those with more sensitive information and higher levels of competition (Campbell, 1979; Yosha, 1995)[163].

Listing costs

In addition to the underpricing of shares, which we will discuss later, the listing process entails substantial expenses that the company must incur during the initial listing phase and then again through ongoing charges.[164] The costs associated with the reorganization of the company's operations and the costs associated with admission to the stock exchange

[161] Pagano, M., Panetta, F., & Zingales, L. (1998). *Why Do Companies Go Public? An Empirical Analysis*. The Journal of Finance.
[162] Yosha, O. (1995). *Information Disclosure Costs and the Choice of Financing Source*. Journal of Financial Intermediation.
[163] Campbell, T. S. (1979). *Optimal Investment Financing Decisions and the Value of Confidentiality*. Journal of Financial Economics.
[164] Ritter, J. R. (1991). *The Long-Run Performance of Initial Public Offerings*. The Journal of Finance.

are the two subclasses of initial costs, which are distinguished by the fact that they are one-time expenses for market entry. The reorganization of different business functions to meet the needs and complexity of a listed company falls into the first category. Depending on the specific circumstances of each company, these expenses will vary in weight. Subscription fees, registration fees, audits, consulting fees, certification and distribution of accounting information, stock exchange fees and other expenses are all part of the second class, which is related to listing. Small companies are disproportionately affected by these costs because many of them do not increase in line with the size of the IPO. It is estimated that 5% of the total value of the offering is spent on the IPO of a medium-sized Italian company and on securities placement fees.19. In contrast, all activities necessary to ensure that the securities remain on the market are defined as recurring costs. These include the costs of managing shareholder relations, the annual audit and certification of the financial statements, as well as the additional costs necessary to fulfil disclosure requirements and publish the financial statements in connection with extraordinary events. In addition, the company must disclose all information on the composition of the shareholder structure and unusual transactions. In addition to changing the internal and external ties of the control group, listing also makes management more complex in terms of the market and external environment. Significant forces, time and resources have to be deployed, which entails costs both for the first phase and for each phase after listing.

Since listing can have a positive or negative impact on a company's future, it can be concluded that it is not a simple process. All aspects of the company may become more open and efficient because of the increased duties and benefits of listing. However, the company must also take into account the potentially important factors that listing may entail, which may change depending on the specifics of the company in question.

Chapter 7

Analysis of the Comal S.p.A. Case

Introduction

Access to financial markets is one of the main development techniques used by small and medium-sized enterprises (SMEs) as it enables them to acquire the necessary money to grow their firm and raise its competitiveness. This chapter aims to investigate the case of Comal S.p.A., a creative SMEs operating in the renewable energy industry, which issued their IPO on Euronext Growth Milan (formerly AIM Italia) in December 2020.

This research tries to answer, "What are the main factors that drive a company to go public?" Using the case study of Comal, investigated will be the reasons directing the company to list on the stock exchange, the opportunities given by the IPO, and the consequences of this activity on corporate performance.

The aim of the investigation

The research of this chapter is to assess how the public market listing has impacted the financial stability and growth of Comal S.p.A., thereby highlighting the main elements directing the company to choose an IPO. Examining the pre-IPO situation and focusing particularly on significant performance and financial data prior to the listing would therefore help the research to be structured into two main sections. Post-IPO scenario study to evaluate how listing influences revenue growth, financial stability, and profitability. Other SMEs considering a similar path would benefit from knowing if and to what extent access to financial markets has enabled Comal to develop and consolidate competitively.

7.1 Profile of Comal S.p.A.

History and Business Model

Inspired by Comal S.p.A., Montalto di Castro (VT) started to innovate and help to define a sustainable energy future. Since then, the business has developed more than forty solar facilities in Italy and South Africa, with combined 600 MW of energy capacity.

Having been the first to build 63 MW in grid parity, a historic achievement in maximizing the integration of renewable energy into the electricity grid, the firm stands out for its capacity to innovate and forecast market trends.

Italy is the center of the company's activities; a strong basis reinforced by acknowledged engineering and management competence helps Comal to position worldwide expansion as a clear strategic goal.

1. Comal's company approach is divided into two primary spheres:
   Implementation and administration of solar facilities for industrial and commercial clients under EPC-M (Engineering, Procurement, Construction & administration).
2. Maintenance and Services for Energy Plants: support and optimization of photovoltaic and electrical power plants performance.

With a consistent increase in income and a growing client base, the firm has witnessed continuous development in its activities in the years preceding its listing, thereby strengthening its position as one of the main players in the national level in the sector.

Competitive Positioning

Comal works in a field marked by businesses working in many sub-segments encompassing several phases of the value chain in solar plant installation. Comal distinguishes itself for the following competitive aspects thanks to its several years of expertise and creative approach:

- Among the first businesses in Italy providing EPC-M and O&M services for solar installations in grid parity was Comal. It has had around 600 MW of electricity capacity constructed since 2008.

- Acting as a one-point of contact for customers, the firm offers tailored engineering solutions with fast implementation timelines and comprehensive value chain management.
- By means of investments in research and development, Comal has created its own Tracker, therefore enhanced the energy efficiency of plants and used obtained data to maximize operations and maintenance.
- Knowledge and Management Team: The firm has been able to quickly adjust and strengthen its position thanks to the experience of the managerial team even amid industry crises.
- Obstacles to Entry: The company's technical expertise, ongoing R&D spending, and industry-proven track record help to provide a competitive edge.

Strategy and Objectives

Comal wants to improve its market competitiveness by means of a development plan anchored on the following pillars:

- Technological innovation: creation of fresh ideas for solar trackers, improvement of hardware and software elements to maximize energy economy. The business is also funding hydro methane generation, a new energy source derived from hydrogen and CO_2.
- Strategic markets for renewable energy, worldwide development with the creation of new commercial offices in the Middle East and North Africa,
- Development of specialist Expertise: improvement of design and manufacturing capacity by means of the hiring of specialist technical professionals thereby strengthening the organizational structure.
- Internalizing solar plant component manufacture will help to improve profitability by lowering dependency on outside vendors and hence enhance infrastructure.

The IPO of Comal on Euronext Growth Milan

The choice to go public is a component of a larger company growth plan meant to generate funds for support of new technology investments and increase manufacturing capacity.

With an initial market value of around €23 million and a 34.78% free float, the first share offering let Comal raise €8 million.

Access to new institutional and retail investors; better visibility and reputation in the market; lower financing costs compared to conventional debt financing; strengthening of international expansion possibilities; decision to access Euronext Growth Milan gave several benefits for the company.

Future Developments and Expansion Plans

Comal is concentrated on always increasing its technological capacity and operational scope. The firm intends to improve its digital monitoring systems and make investments in the construction of next-generation solar plants to raise operational effectiveness. Comal has a great chance for development in the next years given the rising worldwide need for renewable energy sources and the Green Deal initiatives of the European Union.

Using its knowledge and strong market position to guarantee long-term projects, the firm also wants to deepen its relationships with institutional investors. With an eye on Latin America and Southeast Asia, areas with great potential for solar energy growth, the expansion into new global markets remains a strategic focus of importance.

By means of ongoing innovation and strategic expansion, Comal is positioned to confirm its leadership in the renewable energy market, therefore using its IPO as a steppingstone for more sustainable development.

7.2 Analysis pre-IPO

Revenues from Sales and Services

The whole income the business makes from the sales of its goods and services is its turnover. It is among the main markers for assessing the solidity and expansion of the company model.

Analysis of the values (2014-2019)

- The turnover pattern is erratic; 2016 shows notable increase and a new peak in 2018-2019.
- Following a fall between 2014 and 2015 (-30.3%), in 2016 there was an exponential rise (+338.9%). But in 2017 there was a 51.6% decline; then, in 2018 (+197.5%), it recovered; and in 2019 (+11.3%), it grew some more.

Revenues exhibit an initial phase of instability that is characteristic of growing businesses. While the fall in 2017 could arise from a decrease in demand or operational problems, the significant increase in 2016 points to the acquisition of new consumers or entrance into new markets. Greater stability and business consolidation in the recovery in 2018–2019 point to the company's gradual maturity seen in light of the listing.

Profit (Loss)

After deducting all running, financial, and tax expenses from earnings, the net profit shows the company's economic performance. A positive score denotes profitability; a negative value points to losses.

$$Profit\ (Loss) = Total\ Revenues - Total\ Costs$$

Analysis of the values (2014-2019)

- Early years saw consistent net profit growth; nonetheless, until 2017, it had quite modest values.

- 2018 had a significant rise (+774.7%), compared to the year before; 2019 confirmed further gain (+61.5%).

Originally rather poor, Comal S.p.A.'s margins stayed low until 2017. Profits stayed low as well. Most likely in preparation for listing, the spike in 2018–2019 points to more efficient cost control and improved operational performance. This good trend indicates the long-term viability of the company concept.

Total Assets

Including tangible (plant, machinery) and intangible (patents, licenses), total assets show the company's full economic resources. Rising assets might suggest to purchases or investments in manufacturing growth.

$$Total\ Assets = Equity + Liabilities$$

Analysis of the values (2014-2019)

- From approximately 8.8 million in 2014 to over 19.5 million in 2019, total assets are steadily rising.
- Reflecting strategic investments, notable rises in 2016 (+47.7%), 2018 (+17.9%), and 2019 (+34.2%).

The expansion of assets points to Comal S.p.A. having raised its assets to enable the company's expansion most likely by means of new infrastructure, machines, or acquisitions. The more obvious rise in 2019 might be connected to pre-IPO financial strengthening, therefore enhancing the company's appeal to investors.

This study points to notable expansion and a time of consolidation before listing, implying a plan meant to stabilize income, boost profitability and improve the assets of the business. We may continue the investigation if you like to include more indices.

Liquidity Ratio

The liquidity ratio gauges the company's capacity, using its liquid assets, to satisfy its short-term financial needs. A value higher than one shows that the business has enough resources to pay off its present debts.

$$Liquidity\ Ratio = \frac{Current\ Assets - Inventories}{Payables\ due\ to\ within\ 12\ months}$$

Analysis of the values (2014-2019)

- Starting from 1.22 in 2014, the ratio shows notable swings: it peaks at 2.48 in 2015, falls to 1.54 in 2016, then rises once more to 2.15 in 2017.
- After 2017, there is a steady drop to 0.61 in 2019, a worrisome indicator of a deteriorating liquidity.

Until 2018, the firm appeared to have good liquidity; nevertheless, the sharp drop in 2019 points to more short-term debt, maybe to finance pre-IPO purchases. This might have raised financial risk and changed investors' impression of the company's soundness.

Current Ratio

The current ratio is another liquidity indicator determining the company's ability to pay current debt with current assets comprising inventory and receivables.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Analysis of the values (2014-2019)

The trajectory resembles that of liquidity:

- The ratio rose until 2015 (2.67) but dropped to 1.04 in 2019 following a fall in 2016 and subsequently recovery in 2017-2018 (2.28 and 2.13).
- The company's expected use of cash currently on hand to service debt or fund projects is indicated by the substantial drop in 2019, therefore lowering its capacity

to react swiftly to transient needs. This points to continually mounting financial strain.

Debt/Equity Ratio

This ratio evaluates the company's degree of debt relative to its equity. A high value shows more reliance on debt to support activities.

$$Debt/Equity\ Ratio = \frac{Total\ Debt}{Shareholder's\ Funds}$$

Analysis of the values (2014-2019)

- From 2015 to 2017, the value was somewhat constant between 1.39 and 1.44; thereafter, it dropped in 2018 (1.09), indicating decreasing use of debt.
- But in 2019 the ratio climbed to 1.43, implying more financial leverage.

Reducing debt in 2018 might have been a calculated decision meant to increase financial stability before listing. But the rise in 2019 might indicate a fresh turn to outside money, maybe to help with IPO preparation or expansion.

Leverage

The leverage ratio shows the percentage between total assets and equity capital, therefore revealing the degree of debt the business is running to support its operations.

$$Leverage = \frac{Total\ Assets}{Shareholder's\ Funds}$$

Analysis of the values (2014-2019)

The value ranges from 5.66 to 9.66; its high falls in 2016 (8.30) and 2019 (9.66).

The rise in leverage in 2019 would suggest more debt being used to boost operations before listing, hence raising financial risk.

Cost of Debt

Debt's cost indicates the weight of outside finance.

$$Cost\ of\ debt = \frac{Financial\ charges}{Short\ term\ bank\ debt + long\ term\ bank\ debt\ (beyond\ 12\ months)} \times (-100)$$

Analysis of the values (2014-2019)

- Debt's cost varied greatly; it peaked in 2016 (10.86%) then settled between 3% and 5%.

Unfavorable loan terms might have contributed to the 2016 high debt level. The latter drop points to improved funding conditions or a change in the financial structure.

Solvency Ratio

Indicating financial strength, this ratio shows how well the corporation can pay its overall liabilities with its own capital.

$$Solvency\ Ratio = \frac{Shareholder's\ Funds}{Total\ Assets} \times 100$$

Analysis of the values (2014-2019)

- Between 12% and 17% the percentage was constant until 2018; in 2019 it dropped to 10.35%.

A declining solvency ratio suggests that the percentage of equity capital with respect to total assets is declining, therefore indicating a rise in financial risk most likely connected with the utilization of pre-IPO financing.

Conclusions on the Financial Indicators

The study points to an era of debt-funded expansion marked by declining liquidity in 2019. In 2018, Comal S.p.A. shown indications of financial strengthening; later, it raised its financial leverage, indicating a more aggressive development plan. The corporation could have taken more chances in expectation of the IPO based on the drop in solvency and rise in debt in 2019.

Profitability Analysis

EBITDA

Before considering financial expenses, taxes, and amortization/depreciation, EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) gauges the company's operating profitability. It's a good gauge of how well core operations might turn a profit.

$$EBITDA = Total\ Revenue - Operating\ Costs\ (excluding\ amortization\ and\ interest)$$

Analysis of the values (2014-2019)

- After declining between 2014 and 2015 (-21.5%), the value increased dramatically in 2016 (+54.1%) then fell precipitously in 2017 (-47.8%).
- Beginning in 2018, EBITDA increased rapidly until it amounted to about 2.2 million in 2019 (+60.5% over 2018).

Early year EBITDA volatility shows a certain instability in operational management. The positive trend since 2018, however, points to an increase in operational revenue generation capacity, which is essential for drawing pre-IPO investors.

ROS

ROS (Return on Sales) indicates the operational effectiveness of the business, therefore indicating which percentage of revenues results in operating profit.

$$ROS = \frac{Operating\ Margin}{Total\ Revenues} \times 100$$

Analysis of values (2014-2019)

- Starting high in 2014-2015 (17.65% and 18.90%), ROS declines sharply from 2016 onward to approach a minimum in 2018 (5.34%).
- 2019 shows a slight recovery (7.77%).

The drop in ROS suggests that the company has seen operational costs rise or margins drop even with revenue growth. Though the value stays below pre-2016 levels, the recovery in 2019 points to more efficiency.

<u>ROA</u>

ROA (Return on Assets) determines a company's profitability in relation to its overall capital expenditure.

$$ROA = \frac{Operating\ Margin}{Total\ Assets} \times 100$$

Analysis of the values (2014-2019)

- With an initial peak in 2014 (9.26%), a drop in 2017 (3.53%), and a robust comeback in 2019 (9.55%), the ROA exhibits a fluctuating trend.

The improvement in 2018–2019 points to a rise in the efficiency of producing earnings from existing assets following a fall most likely resulting from investments in growth or higher costs.

<u>ROE</u>

ROE (Return on Equity) calculates the equity capital's profitability by assessing the returned value for the shareholders.

$$ROE = \frac{Profit(Loss)}{Shareholder's\ Funds} \times 100$$

Analysis of the values (2014-2019)

- Between 1.78% and 3.02%, the figures between 2014 and 2017 are somewhat low; nevertheless, in 2018 there is an amazing rise to 20.91%, then a further surge to 35.44% in 2019.

Comal S.p.A. appeals significantly more to investors since the unexpected rise in ROE points to a significant development in firm profitability. This could result from more efficient financial leverage or more general operational efficiency.

<u>ROI</u>

ROI (Return on Investment) evaluates how profitable company-made investments are.

$$ROI = \frac{Operating\ Margin}{Shareholder's\ Funds} \times 100$$

Analysis of the values (2014-2019)

- In 2016 (26.23%) the ROI is really high; yet it declines sharply in 2017 (10.74%), then increases once more in 2018 (24.58%).

The variations in ROI imply that the company has gone through different levels of investment effectiveness. The encouraging indication of improved management of production assets is the rebound in 2018.

<u>Conclusions on Profitability Ratios</u>

Since 2018, Comal S.p.A. has exhibited notable increase in profitability; clearly, EBITDA, ROA, and ROE have improved. But the lower ROS and the volatility of ROI point to times when the business struggled to keep steady operating margins.

For investors especially, the rise in ROE in 2018–2019 indicates better equity capital management. The rise in profitability fits a plan of financial strengthening before the IPO.

7.3 Analysis of the financial and income performance of Comal S.p.A. in the period pre-IPO

Six years before its 2020 stock market offering, Comal S.p.A. had a time of notable expansion and financial consolidation. The study of the indicators reveals a continuous change of the business marked by an increase in turnover, more profitability and a change in its financial structure.

<u>Growth and volatility of revenues</u>

With notable differences between 2014 and 2019, the trend in turnover displayed non-linear development. Revenues fell in 2017 (-51.6%), then recovered in the two-year period 2018-2019 (+197.5% and +11.3%). Following a robust increase in 2016 (+338.9% compared to 2015). Market conditions, cyclicality of demand, and firm development policies might help to explain this variation.

Simultaneously, the EBITDA showed a similar pattern, showing a notable increase in 2016 and a drop in 2017, thereby indicating a brief trouble controlling running expenses. But beginning in 2018, the business raised operational efficiency, which clearly shows stability before to listing in 2019 with EBITDA exceeding 2.2 million euros.

<u>Declining margins and recovery of profitability</u>

Through a ROS (Return on Sales) consistently declining from 2014 (17.65%) to 2018 (5.34%), the study of profitability reveals a tendency of declining margins in the pre-IPO era before a modest comeback in 2019 (7.77%). This implies that growing expenses or more sector-wide competition has compressed operating margins even with income rise. But the ROA (Return on Assets) and ROE (Return on Equity) clearly demonstrate a reversal of trend:

- Indicating a more efficient use of the current resources, ROA, which measures the profitability of business assets, fell to a low in 2017 (3.53%) then quadrupled by 2019 (9.55%).
- On the other hand, the ROE saw an incredible increase in 2018 (20.91%) and peaked in 2019 at 35.44% thereby demonstrating a good return on equity and a growth in investor confidence.

This trend implies that the business has enhanced its operational and financial leverage to maximize the return on its investments, therefore improving its financial management.

<u>Evolution of financial structure and debt</u>

Financial strength research reveals more aggressive debt utilization in the last years before the IPO. Up until 2018, the liquidity indicators—the Liquidity Ratio and the Current Ratio—were very consistent with values over 2; then, in 2019 they dropped (Liquidity Ratio = 0.61; Current Ratio = 1.04).

This implies that before listing, the corporation gave some of its liquidity to support strategic projects, therefore raising short-term risk.

Measuring the link between debt and equity, the debt/equity ratio stayed about 1.4, however it dropped momentarily in 2018 (1.09). But the rise in the leverage ratio in 2019 (9.66) attests to more access to outside capital, most likely to boost growth and improve the market posture.

Notwithstanding this, the cost of debt dropped in 2019 (3.17%), indicating that the business had better financing terms and, so, a good indication of its financial market position.

<u>Risk stabilization and preparation for listing</u>

From 2014 (17.66%) to 2019 (10.35%), the Solvency Ratio—which gauges the company's capacity to pay its liabilities—showcases a slow drop. This shows that Comal S.P.A. has become more indebted in order to maintain development, therefore lowering the percentage of equity in respect to overall assets.

Nevertheless, the firm has mitigated this higher risk with better profitability and investment management; this is seen by the significant growth in ROE and the recovery in ROI in 2018 (24.58%). These signs imply that Comal S.P.A. has aggressively strengthened its financial structure and maximized return on investment to get ready for listing.

<u>Conclusion: an aggressive financial strategy for growth</u>

Examining Comal S.P.A.'s pre-IPO period's metrics generally reveals a notable change in the business:

1. Strong increase in EBITDA and turnover indicates more operational consistency.
2. Although margins are declining, generally profitability is rebounding; in 2018–2019, ROE and ROA are rising very dramatically.
3. More debt and less liquidity indicate a forceful attitude to pre-IPO investments.
4. Equipped for listing with an eye on debt control and equity return.

Adopting an expansion plan funded by more debt, Comal S.p.A. sacrificed short-term liquidity to maximize development and enhance equity return. Although raising the degree of financial leverage risk, these components most likely made the firm more appealing to investors during the IPO.

According to the study, the IPO was a calculated move to combine development and acquire fresh capital to enable further expansion.

7.4 Analysis post-IPO

<u>Revenues from Sales and Services</u>

Analysis of the values (2020-2023):

- Comal noted 20.93 million euros in income in 2020, the first year following listing, a sum somewhat lower than in 2019 (-7.3%), indicating a settling-in phase.

- Reaching 37.23 million euros, sales rose by 77.8% over last year, implying notable post-IPO expansion.
- Growth kept on in 2022, rising by 62.7% to €60.57 million, therefore indicating a change in corporate activity.
- Sales dropped somewhat in 2023 to €58.52 million (-3.4%), suggesting a likely slowing down or stability of development.

The listing helped the company since it showed a significant rise in income between 2021 and 2022, which is evidence of market expansion and higher manufacturing capacity. But the drop in 2023 points to either Comal might have had economic or competitive challenges or acquired a degree of maturity in its field.

Confirming the solidity of the company would depend mostly on its capacity to keep a healthy trend in the next years.

<u>Profit (Loss)</u>

Analysis of the values (2020-2023):

- 2020: Post-IPO profitability showed improvement as net profit rose to 1.43 million euros, almost double that of 2019.
- 2021: Though turnover has increased, profit—1.07 million euros, -24.7%—is somewhat declining, implying a rise in running or growth expenditures.
- 2022: Strong profit expansion to 2.90 million euros (+169%), indicating improved corporate management efficiency.
- 2023: Reaching 3.68 million euros (+26.9%), net profit is increasing, therefore confirming the good trend.

Following IPO, Comal S.p.A. has exhibited a notable rise in profitability; growth in 2022–2023 is also rather evident.

Either operating expenses or growth investments could be the reason of the 2021 decrease. For investors, the company's ability to convert income growth into more profitability has been overall favorable.

Total Assets

Value analysis (2020-2023):

- 2020: Sign of post-IPO increase, total assets have virtually doubled from 19.47 million to 39.68 million euros (+103.7%).
- 2021: Growing at 35.2% to 53.62 million euros, which indicates fresh business investments.
- 2022: Clearly indicating corporate growth, assets increase sharply by 61.7%, surpassing 86.7 million euros.
- 2023: Total assets show an amazing rise to 225.76 million euros (+160%), far above past years.

The remarkable rise in post-IPO assets points to a strong business expansion policy most likely resulting from investments in new infrastructure, acquisitions, or production capacity enhancement. The leap in 2023 points to an acceleration in expansion methods most likely funded by debt or outside funding. The way profitability develops in the next years will help to verify the sustainability of this growth.

General conclusion on General Indicators

Comal S.p.A. has exhibited notable increase in terms of assets, profitability, and turnover following IPO. The primary trends underlined are:

- +180% increase in turnover between 2020 and 2022; then, there is a minor drop in 2023.
- Growth in net profit; a brief decline in 2021 balanced by a robust rise in 2022–2023.
- Extraordinary asset expansion (+470% between 2020 and 2023), a symptom of an aggressive development approach.

Although the company shows a very great capacity for expansion, its management of debt, liquidity, and expenses will determine its long-term stability of growth. 2023 is a pivotal year to evaluate if the rise in assets would result in financial hazards or sustainable development.

To gain an even more accurate picture, if you would want, we can now examine the financial and profitability metrics post-IPO.

Liquidity Ratio

Analysis of the values (2020-2023):

- Starting low in 2020 (0.70) the ratio keeps declining in the next years to reach 0.35 in 2023. Comal thus has just 35 cents of liquid assets for every euro of short-term liabilities in 2023.
- The company's capacity to pay off short-term debt is steadily declining, so it is having growing liquidity issues. This points to financial pressure that can call for calculated intervention to prevent solvency issues.

Current Ratio

Analysis of the values (2020-2023):

- Remains steady at about 1.4 in 2020–2022, indicating still balanced management.
- In 2023 it decreases to 1.09, almost reaching the crucial level of 1, below which the business will struggle to keep its present obligations.

Reflecting a higher financial stress, the worsening of the Current Ratio reveals that Comal is rapidly losing its capacity to cover its liabilities with its available assets.

Debt/Equity Ratio

Analysis of the values (2020-2023):

- The value is modest in 2020 (0.54), then rises steadily to 1.92 in 2023, indicating a significant debt to equity ratio change.

The company’s greatly raised financial leverage indicates that it depends more on debt to support expansion. Should this not be matched by a sufficient rise in profitability, over time financial risk may rise.

Leverage Ratio

Analysis of the values (2020-2023):

- The ratio indicates a notable rise in debt relative to equity as it increases fast from 3.47 in 2020 to 11.81 in 2023.

A high Leverage Ratio raises financial risk by indicating that the company is financing most of its expansion with outside cash.

Cost of Debt

Analysis of the values (2020-2023):

- Following a modest rise between 2020 and 2022, debt stabilizes in 2023 at 5.36%.

The rising debt cost in 2022 points to the corporation presumably acquiring fresh financing at less favorable rates, most likely due to the higher financial vulnerability.

Solvency Ratio

Value analysis (2020-2023):

- The value is continually declining; from 28.85% in 2020 to just 8.46% in 2023.

This pattern shows a rising financial risk as the share of stock declines gradually in relation to firm assets. Should a steady increase in profitability not balance this, the company may become increasingly susceptible to financial problems.

Conclusions on Financial Indicators

Comal S.p.A.'s post-IPO financial study shows a significant expansion driven mostly by debt, thereby raising risk.

Rising demand on short-term resources is indicated by declining the Liquidity Ratio (0.35 in 2023) and the Current Ratio (1.09 in 2023). Rising dependency on outside finance is shown by the Debt/ Equity Ratio (1.92 in 2023) and the Leverage Ratio (11.81 in 2023).

Lower coverage of liabilities with equity capital shown by the Solvency Ratio (8.46% in 2023), hence raising financial risk.
These figures imply that Comal's financial strength has been reduced since it has funded its expansion mostly with debt. The company's capacity to keep sufficient profitability in the next years will determine the sustainability of this approach.

Profitability Ratios analysis

<u>EBITDA</u>

Value analysis (2020-2023):

- Suggesting a phase of post-IPO consolidation, the valuation stays steady between 2020 (3.05 million euros) and 2021 (3.01 million euros).
- EBITDA doubles in 2022 to 6.16 million euros (+104%), indicating a notable rise in running profitability.
- With EBITDA reaching 9.23 million euros (+50%), 2023 validates the good trend.

After a stabilizing phase in 2020–2021, the company significantly increased its operating profitability in 2022–2023, showing higher efficiency and potential to produce larger margins.

<u>ROS</u>

Analysis of the values (2020-2023):

- The ROS is equivalent to 11.85% in 2020; yet it declines significantly in 2021 (5.43%), indicating rising running expenses.
- Rising to 8.31% in 2022, it surpasses pre-IPO levels with 12.92%, therefore exhibiting stronger margin management in 2023.

Following a challenging year 2021, the business recovered and raised its operational effectiveness. Suggesting that Comal has established a more profitable management style, the number for 2023 shows the best level of operating margin in the post-IPO period.

ROA

Analysis of the values (2020-2023)

- The ROA declines in 2021 (3.87%) following a positive value in 2020 (6.29%), therefore indicating a rise in assets not yet completely used.
- It rises to 5.89% in 2022 and then declines to 3.39% in 2023, suggesting that asset development has not entirely reflected into profitability.

Although the corporation has extremely fast raised its assets, the profitability these assets create is declining. This can suggest that the corporation must maximize the utilization of the acquired resources or that the investments are taking more time to start producing.

ROE

Analysis of the values (2020-2023):

- ROE is positive in 2020 (12.50%), but declines in 2021 (8.61%), in accordance with the declining profits.
- Signing a strong return for investors, in 2022 it rises to 18.81% and in 2023 it falls somewhat to 19.27%.

For investors, the rise in ROE in 2022–2023 is encouraging since it shows Comal has been able to optimize profits in line with the equity capital put in. But the drop in ROA points to debt financing greater expansion than asset efficiency has been able to support.

ROI

Analysis of the values (2020-2023):

- Starting well in 2020 (14.11%), the value declines sharply in 2021 (7.89%), indicating a slowing down in investment efficiency.
- Rising to 12.44% in 2022, it steadied at 11.45% in 2023, indicating a reduced efficiency of invested capital when compared to the early years following IPO.

Though it has not yet reached the beginning levels of 2020, the corporation has raised the investment efficiency compared to 2021. This could be the result of invested capital expanding rapidly, which takes more time to show steady profits.

<u>Conclusions on Profitability Ratios</u>

With EBITDA and ROS rising recently, the research reveals an increase in operating profitability. On the company's general profitability, there are some indicators of strain though.

Greater efficiency shown by an increase in EBITDA (+203% between 2020 and 2023). Recovering in ROS (12.92% in 2023), this indicates a margin expansion. Positive for investors, ROE (19.27%) in 2023 increases. Drop in ROA (3.39% in 2023), suggesting that asset expansion is not yet maximized. Lowering of ROI relative to 2020 indicates that investment efficiency still must be developed.

Comal S.p.A. has raised its operating profitability generally; yet the increasing reliance on debt and the declining asset efficiency point to the need of stronger financial control. 2024 will be vital to observe whether the business can sustain its expansion without endangering its financial viability.

7.5 Analysis of the financial and income performance of Comal S.p.A. in the period post-IPO

Following a phase of notable expansion marked by a high increase in turnover, profit growth, and business asset increase, Comal S.p.A. listed on the stock exchange to underline certain concerns about the sustainability of its expansion, the corporation has also started using debt, cut its liquidity, and lower the profitability of invested assets.

From 20.93 million euros in 2020 to 60.57 million in 2022 +/- 189%, Comal S.p.A. noted a notable rise in turnover in the post-IPO era. This shows how well the business may grow its market and strengthen its place in the industry. But in 2023 turnover dropped somewhat (-3.4%), implying a possible stabilizing following year of explosive expansion.

Simultaneously, EBITDA rose significantly from 3.05 million euros in 2020 to 9.23 million in 2023 (+203%), therefore indicating a rise in operational efficiency and the capacity to make income from the main company.

Operating profitability improving, but with some difficulties

Profitability research reveals a varying tendency with an initial decline in margins in 2021 followed by a robust comeback in the two-year period 2022-2023: Measuring the operating margin, the ROS (Return on Sales) dropped from 11.85% in 2020 to 5.43% in 2021, then climbed once again to 12.92% in 2023, so indicating a rebound in the capacity to earn a profit from revenues. Rising from 12.50% in 2020 to 19.27% in 2023, ROE (Return on Equity) showed similar trajectory, indicating better shareholder returns.

Some signs, nevertheless, point to a less entirely sustainable development of the business: From 6.29% in 2020 to 3.39% in 2023, ROA (Return on Assets), which gauges the profitability of assets, dropped indicating that the investments made did not show instant gains. Suggesting less effective use of invested money, the ROI (Return on Investment) dropped from 2020 levels (14.11%) and stabilized in 2023 at 11.45%.

These numbers show that, although the company's operating profitability has increased, the efficiency with which its assets create profits is declining, which would cause long-term investor concern.

Strong increase in assets and greater use of debt

The amazing rise in firm assets—from 39.68 million euros in 2020 to 225.76 million in 2023 (+470%) has been among the most important aspects of the post-IPO era. This rise points to an aggressive expansion plan most likely connected to new profitable investments and acquisitions.

But as the following shows, this expansion was funded mostly with debt:

- Rising reliance on outside finance, the debt/equity ratio—which gauges the degree of debt in respect to equity—rose from 0.54 in 2020 to 1.92 in 2023. Rising from 3.47 in 2020 to 11.81 in 2023, the Leverage Ratio has almost quadrupled, suggesting that debt financing of a sizable fraction of the company's assets. From 28.85% in 2020 to 8.46% in 2023, the Solvency Ratio—which gauges the company's capacity to pay its debts with its own capital—has dropped, therefore underscoring a rise in financial risk.

Comal's financial vulnerability has been raised since it has decided to fund its expansion mostly with debt rather than equity.

Deteriorating liquidity and increased financial risk

From 0.70 in 2020 to 0.35 in 2023 the Liquidity Ratio shows that the company has fewer and less liquid resources available to pay for temporary debt. From 1.42 in 2020 to 1.09 in 2023, the current ratio—which measures the capacity to pay liabilities with current assets—dropped, approaching the vital level of 1.0, beyond which Comal could find it difficult to meet her immediate obligations.

Concurrent with this rise in debt is its cost: Due presumably to the growing amount of indebtedness, the cost of debt has climbed from 4.01% in 2020 to 6.51% in 2022, then stabilized at 5.36% in 2023.

These numbers show that Comal is under more financial strain since less liquidity is accessible and debt is rising. Should this trend persist, it would pose a challenge for steady development.

Conclusions: debt-fueled growth, but with increasing financial risks

Although the Financial and Profitability Ratios post-IPO suggest a Comal S.p.A. in rapid expansion, the study reveals a rising degree of financial risk:

- Turnover increases significantly (+189% between 2020 and 2022), somewhat contracts in 2023.
- Operating profitability (EBITDA and ROS rise in 2023) should improve.
- Rising ROE is an indication for investors, good.
- Strong rise in debt (+470% of assets, but with Debt/Equity Ratio at 1.92 in 2023).
- Liquidity Ratio at 0.35 in 2023 is degrading.

- Indicating a less effective use of assets, declining ROA and ROI Comal S.p.A. has less financial strength overall since it has funded its expansion with debt.

2024 will be a pivotal year to evaluate if the business will be able to keep expanding without sacrificing financial viability.
Comal will have to keep control over its debt, enhance its cash management, and make sure that asset development results in a commensurate rise in profitability going ahead.

7.6 Analysis of Pre-IPO Strategy and Objectives vs. Post-IPO Results

Based on four basic pillars—technical innovation, development into emerging markets, acquisition of specialized capabilities, and improvement of manufacturing facilities—Comal S.p.A., before its first public offering (IPO), presented a strategic development plan. The degree to which the company's pre-IPO aims have been met is evaluated by a comparison of their actual results seen post-IPO.

Technological Innovation
Comal's pre-IPO plan had as its main goals the improvement of technological capabilities, especially in the optimization of Trackers (both software and hardware), the production of hydro methane as part of the energy transition, and the expansion into Operations & Maintenance (O&M) and revamping services for current photovoltaic plants. The company also sought to internalize the manufacturing of important solar plant components, lower installation costs by means of co-engineering solutions, and improve monitoring systems using SCADA software.
Comal had a notable rise in EBITDA following IPO, climbing 203% between 2020 and 2023 to represent better operational efficiency and upgraded technological capacity. The business effectively grew into O&M and revamping services, which helped to increase operational profitability. Comal did not, however, pursue hydro methane generation as neither official news releases nor financial data justify the emergence of such projects.

Investing in SCADA software has been recorded, which fits a growing capacity to create income with PV plant management systems.
Comal has mainly fulfilled its goals for technological innovation, especially in terms of operational efficiency and profitability enhancement. The lack of hydro methane generation, however, implies that not every technological objective has been achieved.

Development of New Markets

Expanding into emerging markets was another important goal, especially by means of business offices in the Middle East and North Africa (MENA), license acquisition for the building of company-owned plants, strategic alliance formation for the expansion of the home photovoltaic sector, and small-scale wind farm investment up to 1 MW.
Notwithstanding these aspirations, there is no clear proof of development within the MENA area since no formal declarations or notable income changes point to a deliberate internationalization approach. Comal has, however, shown a significant rise in income—189% between 2020 and 2022—suggesting either an expansion inside its current market or more activity in industrial facility building. Moreover, the corporation has not followed its projected path into the wind power industry as no investments or data support such programs.
Although Comal's revenues have grown, the lack of a clear presence in new geographical areas and the unmet expectations for wind energy investments suggest that the aim of market development remains only partially achieved.

Acquisition of Specialized Skills

Comal sought to improve its operational capability by hiring specialized technical experts such engineers, sales managers, and project managers, so strengthening its team.
An increase in Return on Equity (ROE) from 12.50% in 2020 to 19.27% in 2023 points to improved management efficiency, maybe resulting from the hiring of qualified people after IPO. The exact count of new technical employees is unknown, so it is challenging to evaluate the direct influence of workforce increase on performance enhancements.

Although financial data show a rise in operational efficiency, the lack of comprehensive hiring data limits the capacity to verify complete accomplishment of this goal.

Strengthening of Production Facilities

Comal intended to build a new steel processing manufacturing complex to improve its production capacity and internalize the manufacturing of important components for solar systems before IPO.

Reflecting significant investment in manufacturing facilities and equipment, post-IPO statistics shows a 470% rise in total assets between 2020 and 2023. The growth in EBITDA to €9.23 million in 2023, which shows that Comal has effectively used its manufacturing investments to increase profitability, shows even more the resulting improvement in production efficiency. These results demonstrate that the goal of enhancing manufacturing facilities has been satisfactorily reached.

General Assessment: Pre-IPO Objectives vs. Post-IPO Outcomes

As shown by its better financial performance and higher operational efficiency, Comal has effectively realized important goals for technical innovation and the internalization of production. The corporation has found it difficult to enter new markets, nevertheless, without any hard data about access to the MENA area or the wind energy industry. Likewise, even if managerial efficiency has increased, the lack of clear statistics on workforce growth makes it challenging to evaluate the whole success of human capital goals.

Conclusion

Comal has given internal development top priority after IPO, which has resulted in notable asset increase mostly financed by debt. Future success of the company will rely on its capacity to maintain this growth while guaranteeing the profitability of its expenditures. Although the company has made impressive progress in manufacturing efficiency and technological innovation, its attempts at global development and diversification into other energy areas have not been as successful.

Dependency on debt to support development raises a possible danger since the company's capacity to create enough cash flows to meet its liabilities will determine future financial stability. Furthermore, the inadequate implementation of intended geographic expansion and entrance into renewable energy markets points to Comal maybe having to change its strategic orientation. Together with a better investment plan in alternative energy sources, a more methodical approach to internationalization could assist the business improve its market situation.

Comal has to concentrate on reconciling financial sensibility with expansion aspirations going forward. Maintaining a competitive edge in the solar energy sector, maximizing capital allocation, and enhancing cost efficiency will all help to guarantee long-term sustainability. The company's capacity to carry out a rigorous plan in these spheres will finally decide its long-term viability and industry resilience.

Comal's pre-IPO study reveals faster but erratic growth, a financial structure indicating indicators of stress in 2019, and a need for money to maintain growing. The decision to go public may have been determined by:

1. The need to stabilize growth and reduce financial volatility.
2. The need to rebalance the financial structure and improve liquidity.
3. The desire to reduce dependence on bank credit.
4. The opportunity to attract investors thanks to a rapidly growing ROE.

The IPO could therefore have been a strategic choice to consolidate growth and ensure greater financial solidity in the long term.

7.7 Criteria for choosing competitor companies

By means of a comparative analysis, this study seeks to pinpoint the factors behind Comal S.p.A.'s public disclosure decision, therefore separating its route from that of other businesses in the same industry that have opted to remain private. This required choosing a sample of businesses similar to Comal using strict, methodologically sound criteria that would provide a relevant comparison free from interpretative bias.

Using the AIDA - Orbis database, which lets companies be selected according on particular economic-financial, demographic, and sectoral criteria, competing companies were chosen. The selection of selection variables was driven by the necessity to include organizations that had similar structural and operational traits with Comal in the period 2014–2019, but which, at the same time, displayed some significant variations in terms of strategic and financial choices. This allows one to confirm if the choice to become public was based on financial and economic circumstances or on distinct development requirements absent in rivals who stayed behind private.

Key selection variables

The selection was guided by four fundamental economic and financial variables, considered significant indicators of company structure and performance:

1. *Total Assets*: Companies whose total assets between 2014 and 2019 fell within the min-max range noted by Comal were included to guarantee a comparison with companies of a like scale.
2. *EBITDA* (Earnings Before Interest, Taxes, Depreciation and Amortization): The necessity to assess the operational profitability of the chosen enterprises drives the choice to include EBITDA, thereby removing distorting effects connected with finance charges and amortization rules. The sample limited enterprises with EBITDA values between the lowest and highest recorded by Comal in the reference period, therefore guaranteeing comparability in terms of operational margin generating capacity.
3. *Revenues from Sales and Services:* Considered as a crucial gauge of organizations' competitiveness and expansion in the reference industry was revenue. Again, businesses with a level of income within the range recorded by Comal were chosen, therefore avoiding comparison with businesses of a quite different scale.
4. *Year of Foundation:* The sample included only of enterprises started in the same period as Comal to remove those with too different growth routes and stages of development. This criteria guarantees a more uniform research by avoiding comparison with recently founded start-ups or historically consolidated businesses.

Sectoral and methodological criteria

The sample of enterprises was chosen using Comal's ATECO code, containing just businesses running in the renewable energy and solar systems sector, therefore guaranteeing consistency from an industrial point of view. This criterion allowed one to remove businesses running in non-comparable sectors, such hydropower, wind or biomass, whose business models and competitive dynamics have somewhat different traits.

Methodologically, the period 2014–2019 was chosen to assess the pre-IPO performance of the chosen companies in order to investigate the financial and operational policies followed prior to Comal's announcement of the listing. This observation period enables us to confirm whether Comal's development and economic-financial performance deviated from those of its rivals even prior to the listing, so pointing out important elements that would have supported the choice to turn to the capital market.

Companies with anomalies, that is, those with negative profits for several consecutive years, companies with very low levels of assets, or companies with revenues far higher than those of Comal were finally excluded to ensure the statistical relevance of the analysis. This enabled us to get a sample of very similar businesses, therefore avoiding interpretative biases resulting from the existence of companies not reflecting the competitive environment of reference.

Adoption of strict and methodologically sound selection criteria enables us to describe a sample of businesses with traits similar to Comal that have made distinct strategic decisions on terms of funding and development. This comparison helps us to ascertain whether the desire to access new resources for strategic investments, financial constraints, or a need for faster growth determined the stock market listing or if these criteria were absent in the rivals who chose not to list themselves. Therefore, the examination of the gathered data will enable one to confirm if Comal's listing constituted a competitive advantage over firms that stayed private and to pinpoint the primary factors influencing this strategic decision.

7.8 Comparison between Comal S.p.A. and Unlisted Companies in the Pre-2019 Period: Analysis of Strategic and Financial Differences

By means of a comparison analysis between Comal and the companies opting not to go public in the period 2014–2019, we can find the primary variations in terms of profitability, financial structure, and growth. Appreciating the function of the IPO as a finance and growth instrument depends on knowing why Comal chose a listing while other such companies decided to stay quiet.

<u>General Indicators - Growth Dynamics and Company Structure</u>

Comal's turnover research reveals that, in comparison to its unlisted rivals, Comal has experienced a far more fast and erratic development. Comal's turnover in 2014 was far lower than that of the firms who have opted not to go public, but over time it has shown exponential rise. With a 391% increase from 4.6 million euros in 2014 to 22.6 million in 2019, the change exceeds that of its rivals, whose turnover just rose by 54% during the same period.

This unequal growth points to Comal using a more aggressive expansion plan based on outside funding, whereas unlisted enterprises have over time chosen a more cautious and sustainable approach.

Examination of total assets validates this trend. While those of its rivals have grown by just 31%, Comal's overall assets have more than doubled in six years (+121%). The notable rise in assets might have called for more funding, which is why Comal turned to IPO to help with this growth.

Furthermore, implying more uncertainty in Comal's results than in its rivals is the trend in net profit. Originally showing large losses (more than one million euros in 2014), the unlisted companies later recovered and continued to develop steadily and gradually. Comal, on the other hand, kept somewhat low profits until 2017; then, in 2018 (+774.8%) and 2019 (+61.4%), she showed a boom. This pattern might have made the company more appealing to investors, which would encourage it to go public in order to control result volatility and consolidate development.

Financial Indicators – Financial Structure and Debt Sustainability

Among the key distinctions between Comal and unlisted corporations is liquidity management. With generally higher Liquidity Ratio and Current Ratio numbers, the data reveals that Comal kept better liquidity indicators than its rivals until 2018. But Comal's liquidity declined significantly in 2019; the Liquidity Ratio dropped to 0.61, suggesting possible problems with working capital management. Conversely, unlisted enterprises show a more consistent situation with a Liquidity Ratio ranging from 1.18 in 2014 to 1.73 in 2019 devoid of significant downturns.

This difference is very important: Comal's choice to go public would have been influenced by a decline in liquidity as access to the capital market would have helped it to rebalance its financial structure, therefore enhancing the coverage of current liabilities.

Another important factor worries debt. While Comal's debt/equity ratio stayed somewhat constant between 1.1 and 1.4, that of its rivals changed significantly from 3.42 in 2014 to 0.97 in 2019. This implies that whereas Comal has had a more stable level of indebtedness over time, without using aggressive deleveraging techniques, the unlisted companies have steadily cut their dependence on debt.

Another striking difference is the leverage ratio. While the index for unlisted companies shows a slowdown, Comal notes a notable rise in 2019 (from 6.86 to 9.66), indicating more financial vulnerability. Given the stock market would have given Comal the chance to raise money without adding further bank debt, this could have been another incentive for the listing.

Profitability Ratios – Profitability and Value Creation

Although with a contraction in operating margins, the study of profitability metrics reveals a picture in which Comal stands out for a far higher growth in EBITDA and ROE than its rivals.

With Comal's ROS (Return on Sales) showing a notable decline from 18.9% in 2015 to 7.77% in 2019, indicating a drop in profitability on sales, most likely resulting from an increase in operating expenses with respect to the growth in turnover. Conversely, unlisted companies keep a more consistent and contained ROS between 3.65% and 5.95%, indicating more focus on the sustainability of their profitability.

The most obvious difference is found in the ROE or return on equity. Comal notes an amazing rise, from 1.78% in 2014 to 35.44% in 2019, while the rivals exhibit an erratic but essentially consistent trajectory. This number shows a great development of value for shareholders, which makes the company very appealing to the market and may have been a major influence on the choice to go public.

At last, EBITDA grew far more quickly for Comal—from €972,856 in 2014 to 2.2 million in 2019—while rivals stayed at more modest levels (1.1 million in 2019). This implies that Comal had more chances for development and larger operating margins, which would help to explain the necessity to get outside money to support fresh projects.

7.9 Comparison between Comal A. and Unlisted Companies in the Post-2019 Period: Analysis of Strategic and Financial Differences

By means of a comparative analysis between Comal S.p.A. and the companies that opted not to go public in the 2020–2023 timeframe, we may investigate the consequences of going public on corporate development and identify the factors guiding some companies to remain private. Emphasizing growth trends, financial solidity and profitability, the comparison highlights whether listing would have been a competitive advantage for Comal or if unlisted companies kept a more consistent financial structure.

<u>General Indicators - Growth and Asset Structure</u>

Turnover research reveals that Comal and unlisted enterprises differ clearly. From 20.9 million euros in 2020 to 58.5 million euros in 2023, Comal experienced far more noticeable growth, an overall rise of 179.8%. With a growth rate of 163%, unlisted enterprises displayed a slower development from 11.9 million euros in 2020 to 31.4 million euros in 2023. While both groups saw a notable rise in turnover, Comal's development was more rapid, implying that the IPO has essentially let the company scale its operations faster.

From a capital point of view, Comal's Total Assets showed an amazing rise from 39.7 million euros in 2020 to 225.7 million euros in 2023, therefore increasing 468%.

Conversely, unlisted companies grew 141% from 15.3 million euros in 2020 to 37 million euros in 2023, therefore raising their assets. This discrepancy shows how Comal was able to finance a more aggressive expansion thanks to the money raised with the offering, whereas unlisted enterprises maintained a more sensible growth, with an increase in total assets proportionate to the turnover.

Comal shown a clearer rise in net profitability than unlisted rivals. Rising 157%, net profit went from 1.43 million euros in 2020 to 3.68 million euros in 2023. Unlisted enterprises rose their profit from 139,531 euros in 2020 to 1.12 million euros in 2023, a 705% rise. Still, Comal's profits have an absolute value much higher, implying more corporate capacity to create profitability on a more extensive level.

Financial Indicators – Financial Structure and Debt Sustainability

According to the liquidity indicator analysis, Comal and the unlisted companies differ clearly. Already declining in 2019, Comal's Liquidity Ratio keeps worsening from 0.70 in 2020 to 0.35 in 2023, indicating growing problems controlling operational liquidity. Conversely, unlisted corporations keep more consistent values; their Liquidity Ratio ranges from 1.43 to 1.59, suggesting more sensible liquid resource management.

Another like pattern is seen in the current ratio. While unlisted companies keep higher valuations, with an average of 1.80 in the post-IPO period, Comal forecasts a continuous drop from 1.42 in 2020 to 1.09 in 2023. This suggests that although unlisted companies have taken a more balanced strategy ensuring a better capacity to cover current liabilities, Comal might have chosen business expansion over short-term financial soundness.

One other important differentiator is debt levels. Comal's Debt/ Equity Ratio shows a clear increase from 0.54 in 2020 to 1.92 in 2023, therefore stressing the growing use of debt to help development. Conversely, unlisted enterprises have a more erratic path; but their debt/equity ratio is dropping from 0.96 in 2020 to 0.68 in 2023. This implies that unlisted enterprises have kept a more cautious attitude to capital management, therefore avoiding too reliance on debt.

Confirming this tendency is the leverage index. While unlisted companies show a drop in the index from 6.69 in 2020 to 5.05 in 2023 Comal shows a progressive increase from 3.47 in 2020 to 11.81 in 2023. This suggests that Comal has funded its development more aggressively, hence increasing its degree of debt, while unlisted enterprises have chosen a more sustainable growth route.

Profitability Ratios – Profitability and Value Creation

The profitability research shows different patterns for Comal and unlisted companies. Comal had a more notable EBITDA (profit before interest, taxes, depreciation and amortization) growth from 3.04 million euros in 2020 to 9.23 million euros in 2023, rising 203%, whereas unlisted companies saw an increase in EBITDA of 212% although with lower absolute values.

For Comal, the Return on Sales (ROS) exhibits higher volatility; it swings from 11.85% in 2020 to 5.43% in 2021 then climbs once again to 12.92% in 2023. Conversely, unlisted enterprises have a more consistent ROS, varying between 4.64% and 6.78%, indicating stronger operational management continuity.

Comal's ROE, which indicates more profitability for shareholders, shows a rise from 12.5% in 2020 to 19.27% in 2023. Reaching a peak of 19.89% in 2022 and then declining to 14.54% in 2023, unlisted enterprises show more limited increase in ROE.

Comparing Comal with unlisted corporations reveals a very obvious strategic difference. Comal has opted for a more aggressive development route, funding growth via additional debt and capital market access. Conversely, unlisted companies have kept more steady financial stability by keeping a more slow and sustainable growth, hence lowering their reliance on debt.

With a worsening of its liquidity indicators and a notable rise in debt, the IPO let Comal fast expand its company but also exposed it to more financial danger.

7.10 Evaluation of Comal S.p.A.'s IPO: A Winning Strategic Choice?

Growth and company size

The fact that Comal developed far quicker than unlisted enterprises stand among the clearest aspects of the study. Comal's turnover rose by 179.8% in the year 2020–2023;

unlisted enterprises showed growth of 163%. The true disparity, nevertheless, is shown in Total Assets, where Comal noted a 468% increase against 141% for unlisted enterprises.

Comal's production and operating capability grew dramatically after the IPO let it raise outside money to support big expansions. This let the business quickly increase its asset base and grab market possibilities ahead of its privately owned rivals.

Still, such fast development comes with hazards. The abrupt rise in total assets points to a strong capital consumption, which would have resulted in more complicated financial resource management and higher financial leverage. Moreover, the minor decline in turnover in 2023 (-3.4%) could suggest that the company is in a consolidation phase in which the sustainability of the business model must be closely assessed following a phase of explosive development.

From the standpoint of dimensional growth, thus, the listing obviously gave Comal a competitive edge that would enable it to clearly surpass unlisted competitors in terms of asset development and investment possibilities.

Financial Stability and Risk Management

While the IPO allowed Comal to grow more quickly, it also exposed the company to a deterioration of its financial solidity and liquidity management.

Signifying a possible financial imbalance, Comal's Liquidity Ratio and Current Ratio are in steady declining from 0.70 and 1.42 in 2020 to 0.35 and 1.09 in 2023 correspondingly. Conversely, unlisted corporations kept more consistent values, with an average Liquidity Ratio above 1.4 and a Current Ratio always above 1.7, therefore indicating a wiser use of liquid resources.

Examining debt helps to confirm this discrepancy. While unlisted companies showed the reverse pattern, lowering their indebtedness to 0.68 in 2023, Comal's Debt/ Equity Ratio rose from 0.54 in 2020 to 1.92 in 2023. Comparably, Comal's Leverage Ratio rose to 11.81 while unlisted companies dropped to 5.05, implying a more cautious approach to capital management.

Regarding financial strength, Comal thus gained less from the listing than private rivals. Along with growth, financial leverage has increased, and liquidity has declined, therefore exposing the business more to risk. Should the market slow down, Comal would be more exposed than rivals that have kept a more stable financial balance.

Operating Profitability and Value Creation

Another factor where the IPO has had opposite implications for Comal is profitability. From 3.04 million euros in 2020 to 9.23 million in 2023, the company noted a 203% growth in EBITDA, or earnings before interest, taxes, depreciation and amortization. Though with smaller absolute revenues, unlisted companies saw a similar rise (+212%).

Comal's Return on Sales (ROS), however, displayed more volatility, rising once more to 12.92% in 2023 from 11.85% in 2020 and then down to 5.43% in 2021. Conversely, unlisted firms kept a steadier ROS, varying between 4.64% and 6.78%. This implies that Comal saw periods of increased volatility in its performance even if it showed more clear increase in operating profits.

Comal's ROE (Return on Equity) rose from 12.5% in 2020 to 19.27% in 2023, so indicating growing shareholder profitability. Unlisted enterprises peaked in 2022 (19.89%), then dropped value in 2023 (14.54%). This implies that, although with more volatility, the decision to become public has essentially let Comal create more value for shareholders in the long run.

With a value declining from 6.29% in 2020 to 3.39% in 2023, the ROA (Return on Assets) on the other hand demonstrates a lesser efficiency in the use of assets for Comal. Conversely, unlisted enterprises kept a steadier ROA; completing 2023 with a value of 5.32%, This implies that Comal has not been able to maximize assets despite their increase as compared to its rivals.

7.11 Verification of the Hypotheses on the Comal S.p.A. Listing

Clearly outperforming unlisted firms in terms of turnover, assets and shareholder value creation, the comparative research demonstrates Comal has benefited greatly from listing in terms of expansion in size and access to finance to expand its operations.

These benefits have, however, been accompanied by a rise in financial risk, a clear decline in liquidity indicators and an elevation in debt level. Comal has had more contact to bank finance and more complicated working capital management than unlisted enterprises, which have maintained more steady development and a better financial balance.
Long term, the decision to go public will show to be a winning one if the business succeeds to stabilize its financial structure and enhance its management of liquid assets. Comal might find itself in a more precarious position than its unlisted rivals, though, if the debt level keeps rising without enough supervision.
The IPO thus offers a strategic possibility, but success will rely on the company's capacity to over time sustainably control its debt and expansion.

Initially examined assuming four key motivations—to stabilize growth and lower financial volatility, rebalance the financial structure and increase liquidity, reduce reliance on bank borrowing and attract investors thanks to a fast-rising ROE—Comal's choice to go public was evaluated. By means of a comparison of the pre-IPO (2014–2019) and post-IPO (2020–2023) data, we may confirm or disproved these predictions based on the real outcomes.

<u>Need to stabilize growth and reduce financial volatility: Confirmed</u>
Comal's revenue trajectory was somewhat erratic before the IPO, with years of robust growth mixed with times of recession. For instance, turnover jumped 339.1% in 2016 and dropped 51.6% in 2017. Strong volatility marked the company's development, most likely related to the sector's cyclical character and its reliance on certain orders.
Following the listing, turnover growth settled down. Though it stayed high, the expansion was more progressive and steadier: +77.8% in 2021, +62.7% in 2022, until a minor fall in 2023 (-3.4%). This implies that the IPO has let Comal broaden its client base, boost manufacturing capacity, and lessen reliance on transient swings, thereby guiding development more than in the pre-IPO years.
Examination of the Total Asset validates this tendency. While following the listing was much more marked (+468% in just four years), the rise in assets was more gradual (+121% in six years). This implies that the IPO gave Comal the tools she needed to

increase her operational capability, therefore reducing the financial volatility of the past years.

The listing was motivated by the necessity to steady growth, and post-IPO data shows that Comal has certainly lowered the volatility of its expansion.

Need to rebalance the financial structure and improve liquidity: Disproved

The listing had as one of its main goals enhanced liquidity and financial stability. Post-IPO data, however, reveal a declining liquidity management that runs counter to the first theory.

Already in severe decrease in 2019, the Liquidity Ratio was 0.61, indicating problems covering short-term liabilities. Following a listing, the issue got worse rather than better: the value dropped to 0.35 in 2023, indicating a catastrophic level of inadequate liquidity to satisfy immediate needs.

Rising from 1.04 in 2019 to 1.09 in 2023, the current ratio likewise showed the same pattern. This suggests that Comal anticipated growing pressure on current liabilities rather than being able to restore its financial equilibrium following listing.

Examination of the debt-to-equity ratio validates the worsening of the financial situation. While after the listing the ratio of debt to equity rose to 1.92 in 2023, throughout the pre-IPO era it remained rather steady between 1.09 and 1.44. This implies that whilst raising debt, the IPO was utilized to support more aggressive expansion rather than to rebalance the financial structure.

It was disproved the theory that the IPO would strengthen liquidity and financial structure. Comal used the money acquired to grow, not to improve its short-term financial situation.

Desire to reduce dependence on bank credit: Disproved

Reducing reliance on bank finance was another presumed aim for the IPO. But the data reveals that Comal relied more on loans than on lowering exposure to bank borrowing.

From 9.66 in 2019 to 11.81 in 2023, the leverage ratio—which represents the general degree of debt—also rose noticeably. This implies that instead of depending less on the listing to lower its reliance on loans, Comal used debt, and the funds obtained in the IPO to support expansion.

It turned out that the listing would not help to lower reliance on bank credit. Conversely, Comal started depending even more on debt following the IPO.

Opportunity to attract investors thanks to a strong growth in ROE: Confirmed

Comal's Return on Equity (ROE) had demonstrated a notable rise from 1.78% in 2014 to 35.44% in 2019 before the IPO. This made the company more appealing to investors since it implied that the IPO might be a chance to aggregate shareholder value.

Rising from 12.5% in 2020 to 19.27% in 2023, the ROE settled at a high level following the listing. Though the valuation is less than the 2019 peak, it still exceeds the average for unlisted companies, therefore attesting to Comal's ability to provide a good return for investors following the IPO.

Comal is a desirable investment for the stock market since the company's operating margins have been able to rise thanks to the increase in EBITDA (+319%) and turnover growth.

It turned out that the strong ROE would draw investors to the IPO. Comal kept a decent degree of profitability for the shareholders, which verified that the listing boosted investor trust.

CONCLUSIONS

This study aimed to investigate the factors influencing the listing of small and medium-sized businesses (SMEs) on the Euronext Growth Milan (EGM) market and to compare them with unlisted companies in order to grasp the reasons, advantages, and important concerns related with joining a controlled market. As EGM becomes more and more important as a financing source for Italian SMEs, it is imperative to investigate the traits of the companies that decide to list as well as a study of the effects of listing in terms of company structure and financial performance.

<u>Summary of main results</u>

The analysis conducted exposes important data on the elements influencing the choice of listing on EGM. Compared to unlisted companies, companies who choose to enter this market typically have a stronger financial structure, a more growth orientation, and a more inclination for innovation. Moreover, a unique quality of listed businesses is the acceptance of modern corporate governance policies including independent directors and the application of more strict financial reporting methods.

Among the several benefits of listing are improved market visibility, more diversity of funding sources, and more capacity to draw institutional investors. Furthermore, listing on the EGM helps businesses to acquire part of the funds required to sustain long-term development goals and promotes generational change. But it also comes with major expenses connected to the transparency and compliance requirements following the IPO as well as to the preceding phases.

One of the most important issues noted is the listing expenses, which could be a challenge for small businesses with tighter budgets. Moreover, the listing process might force a structural transformation in corporate management by means of increasingly strict guidelines concerning financial disclosure, strategic planning, and investor relations management.

Another aspect that surfaced was the comparison between listed and unregistered businesses. While the latter depend more on bank financing, therefore exposing themselves to more strict limitations in the growth periods, the former show better access to risk capital and a higher capacity to respond to market dynamics.

Practical Implications and Contribution of Research

For many stakeholders in the economic system, this research has substantial implications. The choice to list on the EGM should be considered by entrepreneurs not only as a finance source but also as a growth plan needing enough preparation and organizational change. The results reveal that listed companies typically exhibit more openness and financial stability for investors, qualities that can help to lower risk perception and enable more wise investment decisions. At last, for policy makers, the study emphasizes the need of more sharp incentive measures to assist SMEs in the listing process and to increase more general access to financial markets.

One of the main issues is about the function of public policies and financial institutions. Reducing obstacles to entrance and growing the number of listed firms might depend much on support through tax advantages, technical assistance programs, and incentives for openness. Moreover, better communication between businesses and investors can help to reduce apparent risks and enable a proper assessment of investment possibilities.

Future Prospects

Based on the findings, future studies could concentrate on a different investigation of the financial performance of companies after listing, analyzing indications of profitability, growth in share value and the capacity to draw fresh investments in the medium-long term. To find which instrument best balances development with financial sustainability, another avenue of research could be to compare SMEs that decide to list on EGM with those that choose alternative kinds of finance, such private equity and venture capital.

Additional studies could look at how macroeconomic and regulatory elements affect businesses' inclination to go public, therefore evaluating the impact of fiscal and legal policies in many various geographical settings. Furthermore, the creation of prediction models grounded on artificial intelligence and big data could offer creative instruments to assist in the listing decisions of SMEs.

In the end, the Euronext Growth Milan market is a necessary instrument for the expansion of Italian SMEs since it provides a good substitute for bank financing and helps to create a more active financial environment. Still, given the expenses and operational difficulties involved, the listing choice has great weight. In this regard, the function of institutions and regulatory authorities will be crucial in enhancing and grouping the appeal of EGM as a development platform for the fabric of Italian entrepreneurship.

APPENDIX

COMAL S.P.A														
Year	**Revenues from Sales and Services**	**Profit (Loss)**	**Total Asset**	**Liquidity Ratio**	**Current Ratio**	**Debt/Equity Ratio**	**Leverage**	**Cost of Debit**	**Solvency Ratio**	**EBITDA**	**ROS**	**ROA**	**ROE**	**ROI**
2014	€ 4.614.626	€ 27.664	€ 8.813.898	1,22	1,32	N-A	5,66	N-A	17,66	€ 972.856	17,65	9,26	1,78	N-A
2015	€ 3.218.511	€ 30.268	€ 9.133.589	2,48	2,67	1,44	5,76	3,99	17,37	€ 763.964	18,9	6,7	1,91	15,76
2016	€ 14.133.351	€ 36.750	€ 13.480.001	1,54	1,62	1,39	8,3	10,86	12,04	€ 1.177.034	7,12	7,54	2,26	26,23
2017	€ 6.839.736	€ 50.592	€ 12.307.571	2,15	2,28	1,42	7,35	4,65	13,6	€ 613.624	6,21	3,53	3,02	10,74
2018	€ 20.351.247	€ 442.466	€ 14.516.547	2,04	2,13	1,09	6,86	5,32	14,58	€ 1.376.392	5,34	7,49	20,91	24,58
2019	€ 22.648.926	€ 714.229	€ 19.476.058	0,61	1,04	1,43	9,66	3,17	10,35	€ 2.210.036	7,77	9,55	35,44	N-A
2020	€ 20.933.120	€ 1.431.355	€ 39.681.703	0,7	1,42	0,54	3,47	4,01	28,85	€ 3.048.676	11,85	6,29	12,5	14,11
2021	€ 37.228.280	€ 1.078.026	€ 53.618.566	0,69	1,43	0,71	4,28	4,93	23,36	€ 3.012.252	5,43	3,87	8,61	7,88
2022	€ 60.569.858	€ 2.901.283	€ 86.710.855	0,64	1,36	0,89	5,62	6,51	17,79	€ 6.160.098	8,31	5,88	18,81	12,44
2023	€ 58.515.751	€ 3.682.388	€ 225.760.457	0,35	1,09	1,92	11,81	5,36	8,46	€ 9.236.180	12,92	3,39	19,27	11,45

Source: Personal Elaboration

COMPARABLE COMPANIES														
Year	**Revenues from Sales and Services**	**Profit (Loss)**	**Total Assets**	**Liquidity Ratio**	**Current Ratio**	**Debt/Equity Ratio**	**Leverage**	**Cost of Debt**	**Solvency Ratio**	**EBITDA**	**ROS**	**ROA**	**ROE**	**ROI**
2014	€ 7.798.779	€ (1.175.257)	€ 9.964.936	1,18	1,45	3,42	8,83	5,95	20,13	€ 163.443	3,65	1,9	14,32	8,49
2015	€ 9.906.327	€ 1.456.500	€ 11.271.993	1,16	1,39	0,37	4,84	5,5	20,57	€ 810.028	5,56	5,48	18,29	9,01
2016	€ 9.926.528	€ 218.978	€ 12.148.420	1,16	1,39	2,19	9,58	4,66	21,49	€ 783.464	4,44	3,88	13,21	7,08
2017	€ 10.895.036	€ 31.321	€ 12.138.071	1,2	1,39	4,95	17,09	4,79	20,75	€ 771.920	4,79	-0,17	14,35	9,2
2018	€ 11.426.963	€ 273.043	€ 12.546.520	1,31	1,53	2,79	11,24	4,24	21,52	€ 893.999	5,95	1,2	16,83	9,74
2019	€ 12.018.515	€ 489.452	€ 13.045.240	1,73	1,51	0,97	5,33	4,44	22,99	€ 1.116.500	4,29	3,11	6,47	8,72
2020	€ 11.952.087	€ 139.531	€ 15.338.857	1,53	1,76	0,96	6,69	3,3	26,46	€ 912.442	4,64	-0,92	6,32	9,61
2021	€ 16.107.685	€ 691.947	€ 19.426.117	1,43	1,71	1,28	11,88	4,27	24,02	€ 1.483.973	5,53	4,29	13,76	8,58
2022	€ 22.247.038	€ 1.737.440	€ 29.028.632	1,59	1,88	1,13	7,28	5,51	25,89	€ 2.613.306	6,78	5,89	19,89	10,21
2023	€ 31.451.190	€ 1.126.006	€ 37.010.940	1,56	1,88	0,68	5,05	8,02	26,98	€ 2.853.732	5,94	5,32	14,54	12,46

Source: Personal Elaboration

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