

**Alternative Capital Markets.
Small Companies Towards Quotation on the
Capital Market**

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Abstract

The best opportunity for SMEs to have access to capital

This paper is focused on the strategic integration of the entrepreneur's roles and expertise in order to reduce risks connected to the introduction of the rules provided for by the Revised International Capital Framework, also known as Basel II.

To that purpose, an opportunity is given to the entrepreneur in order to make use of the advantages offered by the Alternative Capital Market (MERCATO ALTERNATIVO DI CAPITALI or MAC) that permits to enlarge the capital endowment of enterprises, without limiting the entrepreneur's autonomy, and strengthen the financial structure in a simple and non too onerous way.

In order to seize these opportunities and, on the whole, to deal with changes, growth and innovation it is necessary to establish and promote a new corporate culture and MAC represents an opportunity. MAC is a multilateral negotiation system intended exclusively for professional operators and managed by Borsa Italiana, that has the power to decide admission, suspension and removing of financial instruments and operators from the market. In order to be able to deal with the challenge represented by more and more integrated markets, a new financial strategy becomes necessary. So far, borrowing was the instrument that SMEs have most often chosen, however in the light of "Basel II" rules the access to new credit lines could become more and more difficult. Italian companies rely overly on borrowed capital and multi-lending, while the optimization of wealth and financial structure would permit a reduction of average costs of capital and a better valuation by the economical system. MAC aids this kind of operations because it allows companies to be admitted to the market where the only operators are institutional ones and the rules to follow are less strict than those fixed for the companies quoted on the official list.

This paper aims at defining the peculiar characteristics and the simplifications offered by this market as compared to well-known markets of the Italian stock exchange, offering a few brief remarks on the international context and, in particular, on the AIM market of the London Stock Exchange.

Lastly, the paper will draw a sketch of four new companies listed on the MAC market as an example of the many potential companies that could easily be admitted to this innovative Italian financial reality.

Keywords

MAC (Alternative Capital Market)

capital market

Listing process

Financial business evaluation

JEL classification Numbers

G10

G15

G32

M13

1. Introduction

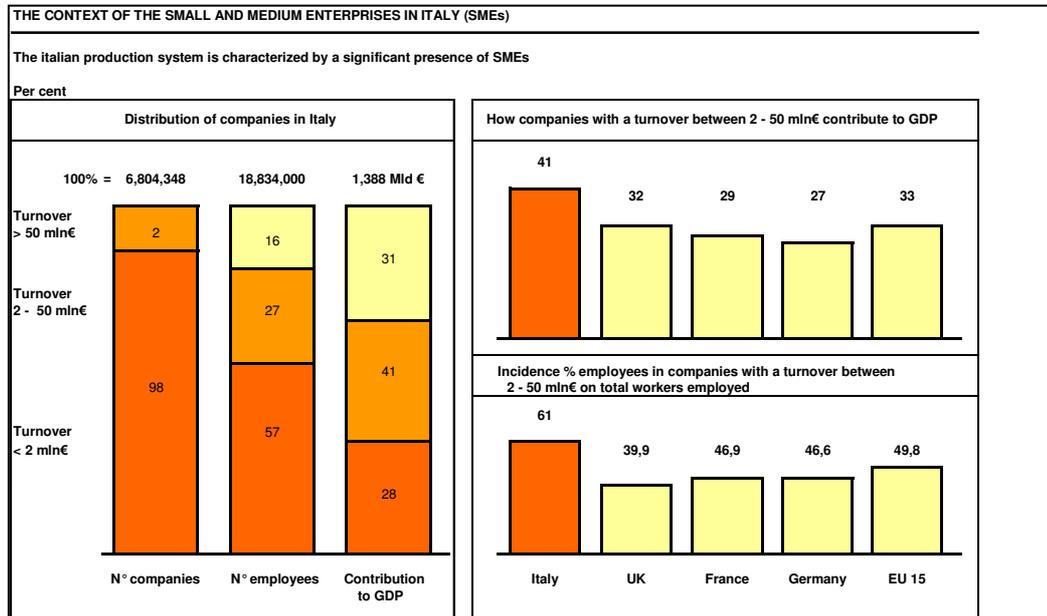
The context of Italian SMEs

The Italian production system consists mostly of SMEs located mainly in Lombardy, Veneto, Emilia Romagna, Piedmont and Tuscany, whose contribution to GDP is very high if compared to other European countries, with a rate of employed workers close to 62% of the entire working population; historically, Italian SMEs rely extensively (and sometimes exceedingly) on borrowing, as in some cases they finance long-term investments with short-medium term financing in contrast with a basic rule for maintaining financial balance.

So far, on a total of 7 million enterprises, more than 6,6 million are credited to have a turnover below 2 million €, while 350.000 enterprises have a turnover running from 2 to 50 million €.

In particular, if we adopt the rating proposed by the European Union, we should classify enterprises in the following way:

- **micro enterprises:** enterprises with less than 10 employee and a turnover below 2 mln €, or assets below 2 mln €;
- **small enterprises:** enterprises numbering 11 to 49 employees and a turnover between 2 mln and 10 mln €, or assets between 2 mln and 10 mln €;
- **medium enterprises:** enterprises numbering 11 to 49 employees and a turnover between 10 mln and 50 mln € or assets between 2 mln and 10 mln €



• Table 1

Not much more than 50 of these enterprises are listed on the regulated markets run by Borsa spa; there is therefore a great number of potential candidates for the exploitation of the opportunities

offered by financing channels represented by official markets. Recent studies have shown that 3,685 enterprises possess the prerequisites, being a sample of SMEs with important growth prospects, willing to maintain or strengthen their competitive position. This target takes on further relevance considering that the average liabilities structure shows that against 68 € of debt there are only 32 € of net capital.

Basel II introduces elements of discontinuity that must urge enterprises to equalize their financial structure. In fact, the rating attributed to enterprises by banking companies can imply a significant increase in the cost of debt for riskier and indebted companies, with lower ratings.

Instead, raising net capital against debt permits an easier and less onerous access to future financing.

The available options permitting SMEs to raise net capital opening it to third parties are: *Expandi* (a regulated market run by Borsa Spa) and Private Equity.

For generations of Italian entrepreneurs quoting their enterprises meant a public recognition of their entrepreneurial competence.

Until the 80's, Italian entrepreneurs considered the stock exchange as a financing channel aiming at replacing banking debt with venture capital, thus equalizing the financial position, given the high level of debt.

In the last years, circumstances seem to be different, considering the higher financial strength of Italian SMEs, even if one of the reasons most commonly produced by entrepreneurs who intend to have their firms listed is always the abatement of debts in favour of equity.

However, the access to capital markets through quotation on the stock exchange had recently a rapid development in Italy as well, reaching levels comparable to those of more advanced countries with a significant number of new admissions and a wide interest on the part of institutional and individual investors. Lately, admission to quotation became a possible and convenient project.

Stock exchange privatization, simpler admission procedures and stronger guarantees for investors, together with macro-economic factors such as globalization of financial markets, made it possible to obtain a remarkable quality improvement.

Strategic valuations linked to quotation

The decision to quote an enterprise represents a strategic choice with an impact on the entire business activity and offers a series of benefits but also a few disadvantages that need to be seriously considered. The admission to quotation means a series of new relationships among management and clients, suppliers, employees, banks and third economies.

A successful IPO depends on the corporate willingness to grow and on the concrete development perspectives, on the way of confronting the market, on the clarity of the relationship ownership/enterprise, on the presence of a skilled management and on the willingness to communicate in a transparent and incisive style. Therefore, the corporate competitive advantage on the reference market must be beforehand considered, measuring its future sustainability thanks to careful business plans and their potential benefits in terms of value creation and growth.

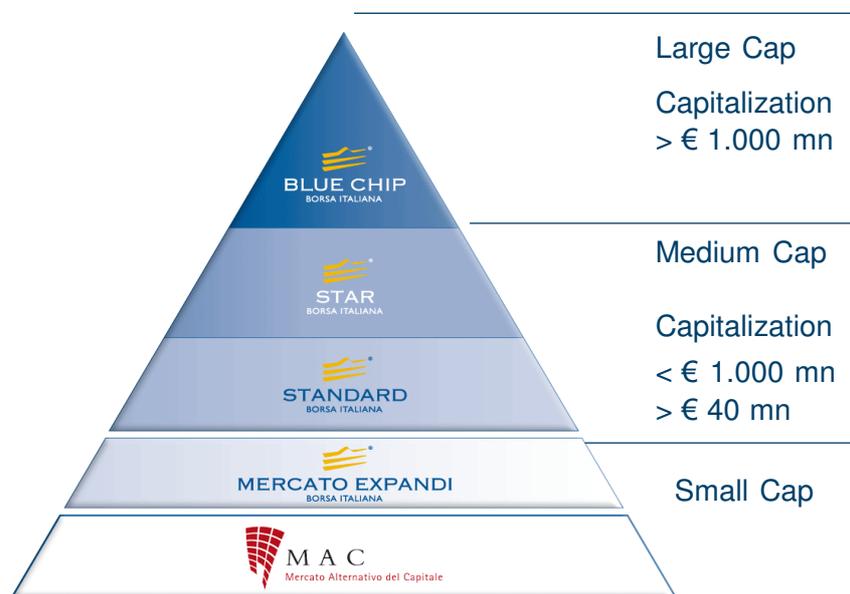
The admission to quotation allows the enterprise to access a new financing channel, helpful for strengthening the corporate financial structure. Through the capital inflow linked to the admission to quotation, an enterprise can finance strategical investments rapidly and with venture capital. From the point of view of the corporate image, being a listed company means prestige and renown, raising the credit standing as the company is subject to strict rules as regard quality of financial reporting and corporate governance.

Moreover, thanks to the standards imposing planning systems and strict and systematic controls, the company improves the quality of management systems, attracting investors interested in a company with a strong structure, not only from an economic perspective, but also as regards corporate procedures.

Besides, a listed company acquires visibility in the media and attracts qualified managers capable of assuming greater responsibilities, who are more and more frequently rewarded with stock option plans.

The first option when choosing a market is between an Italian or a foreign stock exchange. In fact, the choice of the market geographical location must depend on the area where the company intends to strengthen or consolidate its image and where its stronger economic interests are focused. Moreover, it is important to evaluate carefully the different opportunities offered in terms of size of the market, its ties with other stock markets, its potential specialization for size or sector characteristics, transparency and efficiency, costs of quotation, fiscal effects.

Borsa Italiana is an international market, 50% of the trading volume on the Italian market is represented by orders from abroad and the foreign intermediaries directly operating on Borsa Italiana are around 40 (9 of them belong to the European top ten rating as regards trading volume). All the companies listed on Borsa Italiana and simultaneously on another foreign stock exchange (double listing) concentrate trading on Borsa Italiana.



• Table 2

Table 2 summarizes the present structure of Borsa Italiana, showing its segments on the basis of the capitalization of the listed companies.

- In the case of small enterprises – with returns around 100 million € - the market capable of enhancing them, during IPO and afterwards, is the **Mercato Expandi** .

- Medium enterprises - with returns between 100 million and 1 billion € - are better enhanced, during IPO and afterwards, by the segment **STAR** (the average turnover on **STAR** is around 200 million €).
- Large enterprises - with returns over 1 billion € - are better enhanced, during IPO and afterwards, by the segment **Blue Chip**.

Segment STAR, Segment Standard and Mercato Espandi, in particular, show the constant commitment of Borsa Italiana to enhance Italian medium and small companies in order to create a favourable context for their development.

Mercato Espandi is the most inexpensive market – on a European level – devoted to small companies. Moreover, it is the most liquid segment– on a European level – devoted to medium enterprises with a trading volume 30 % higher than that of the other foreign markets.

To be listed on Expandi it is enough to have a capitalization of 1 million € and a 10% floating funds, and to present two financial statements – the first one subject to audit. The company must prove to be in economic financial equilibrium in compliance with some financial indicators (the foremost indicator is the debt/GOM ratio, that should not exceed 4).

To be listed on **Segment STAR**, an enterprise must not be in a competitive critical positioning nor show a lack of consistency in its business plan, must be in economic financial equilibrium and autonomous on a managerial level, and must not be a Chinese box.

The capitalization required is between 40 and 1,000 million €. The enterprise must place on the market 35% of the capital, present a business plan and a description of the management control system, issue quarterly reports within 45 days before the end of the quarter, follow strictly the principles of corporate governance fixed by the self-regulation code of Borsa Italiana, motivate top managers with a performance-related remuneration, appoint an investor relator, provide for a specialist capable of assuring liquidity to the stock. The following table summarizes these prerequisites.

STAR Segment	
Floating funds	35% for new issuers
Specialist	Compulsory
Investor Relator	Compulsory
Statements	To be published in English as well and on the web site; quarterly reports to be published within 45 days
Research and road-shows	At least two researches published every year; at least two road-shows every year
Corporate Governance	Compliance with a self-regulation code

• Table 3

The following table shows the main characteristics of Espandi and Star markets and of MAC, the new alternative capital market that will be further carefully analyzed.

The table simply shows the differences among the three markets, underlining which is the most suitable market for the different entrepreneurial contexts.

REQUISITI	STAR	EXPANDI	MAC
Flottante	35%	10% (min. 750.000 €)	NO
Bilanci certificati	1 (3 pubblicati)	1 (2 pubblicati)	1
Capitalizzazione	> 40 Mil. €	>= 1 Mil. €	NO
CdA: amm.ri non Esecutivi e indipendenti	Obbligatorio	NO (SI consigliato)	NO
Comitato di controllo interno	Obbligatorio	NO (SI consigliato)	NO
Incentivazione Top Management	Obbligatorio	NO	NO
Investor Relator	Obbligatorio	NO (SI consigliato)	NO

REQUISITI	STAR	EXPANDI	MAC
Specialista	SI	NO (SI consigliato)	SI
Piano Industriale/QMAT	SI	NO (SI consigliato)	SI
Memorandum controllo di gestione	SI	SI	NO
Lock-up	Solo su MTAX	NO	NO
Track record ultimi 2 esercizi	NO	SI	NO
UN ultimo esercizio > 100.000 €	NO	SI	NO
Comunicazione “price sensitive”	Obbligatoria	Obbligatoria	SI (minima)
Reportistica finanziaria	IQ, IH, IIIQ, annuale	IQ, IH, IIIQ, annuale	IH, annuale

• Table 2

2. The quotation process

Preliminary phase:

The path towards quotation requires to draw up a business plan and a financing plan for a feasibility report of the operation in behalf of corporate shareholders.

The quotation project must be approved by the board of directors in order to convene an extraordinary meeting that will approve the operation.

The next step is the appointment of IPO consultants, among which the intermediary sponsor supporting the company before and after the IPO. The sponsor stands as a guarantor of the investment quality and opportunity.

The main aspects of an IPO are decided together with the sponsor:

- the level of investments to be financed after raising capital;
- any sale of equity stakes belonging to shareholders already present in the company's capital;
- total size of the offering and its structure between capital increase and share sale;
- division of the offering into tranches offered to professional/institutional investors.

When the main elements of an IPO are defined, the main preliminary documents must be prepared, in particular the memorandum prompted together with the sponsor. This document is a synthesis of the management control of the enterprise, its internal organizational structure, the different business units and the role of the internal auditing.

Then the legal and fiscal due diligence process can start and the reference document supporting the assessment can be prepared.

Then the application for quotation (Borsa Italiana) and the authorization request for the publication of the statement (Consob) can be presented.

Pre-marketing phase:

Such phase is marked by the analyst presentation in behalf of the analysts of the banks participating to the operation.

Then the following phases start:

- Preliminary contact phase with institutional investors;
- Analysis of the controls arising from pre-marketing phase;
- Definition of the architecture of the offering;
- Commission structure;
- Definition of the valorization range of the enterprise;
- Conclusion of the preliminary checks on the part of Consob and Borsa italiana;
- Admission to quotation by Borsa Italiana and permit by Consob to issue a prospectus;
- Financial communication.

Offering:

The offer implies the following compliances:

- Publication of a prospectus of the offering circular in English;
- Management roadshow and individual presentations (one-on-one meeting);
- Bookbuilding and public offering in Italy (IPO/POS);
- Fixing of the offering price;
- Settlement money/stocks;
- Trading.

When the decision to list a company is taken, it is expedient to plan adequately the different phases of the quotation process in order to deal suitably with the market requests and to satisfy expectations so as to obtain a more convenient price.

Quotation costs:

Underwriting costs vary according to the sale size and the sector in which the issuer operates. Legal costs as well depend on the size of the enterprise.

Managers must carefully consider forecasts of the expected corporate performances as forecasts are the basis for future reactions on the capital markets.

Quotation implies the fixing of a reference stock price which offers an objective valuation of the company, but does not fully reflect the management policies and corporate strategies as it is subject to continuous fluctuations.

Quotation means also a dilution of the control stake of the existing stakeholders.

The different costs are shown on the following table:

Underwriting costs	2% - 4% of the placement
Legal expenses	300.000 - 500.000 Euro
Advertising company	circa 50.000 Euro
Auditing firm	250.000 - 500.000 Euro
Road Show	50.000 - 100.000 Euro
Other costs (printing, etc.)	circa 50.000 Euro
Borsa Italiana Costs	75 € every 500.000 € of capitalization (minimum 10.000 Euro)
Consob Costs	2 ‰ of the public offering

The role of the advisor:

When the related competences are lacking and the company cannot count on a financial partner with adequate know-how to support the company in the quotation process, it is expedient to appoint an advisor, that is a skilled financial consultant whose task, during the preliminary phase, consists in developing a feasibility project. The involvement of an advisor, though it is not obligatory, is a suitable choice in order to aid and lead the operation.

The advisor partakes in the choices concerning the characteristics of the titles to be issued, the relationships with market's institutions, the drafting of the prospectus and the promotion of corporate image in the media and among analysts and financial intermediaries. The advisor must also evaluate the corporate reference value, that represents the first stance as regards the sale price, and value the basic price in the negotiations with the sponsor regarding the placement price.

The role of the sponsor:

Relying on the advisor's assistance, the entrepreneur must choose a sponsor, that is a financial intermediary who supports the company both in the quotation phase and in the first period on the market and, on the other side, acts as a guarantor for the overall investment quality.

During the preliminary phase, the sponsor must:

- report to Borsa Italiana all information regarding the issuer and declare that corporate forecasts have been determined following proper procedures;
- certify, on the basis of a control carried out by an auditing firm, that the enterprise uses adequate accounting and administrative procedures;
- guarantee that the management of the issuing company is aware of the obligations and responsibilities resulting from admission to quotation.

After the listing, the sponsor must engage in:

- publishing at least two financial reports every year and other financial analysis on the occasion of the main corporate events;
- organizing at least twice a year a meeting of the corporate management with the national financial community.

In order to choose the most suitable sponsor, on one side, it is necessary to take into account experience developed, knowledge of the financial markets and professional skills of the potential candidate, on the other hand it is important that the candidate is capable of a full involvement and willingness to cooperate in the post-listing phase as well. The selection of a sponsor must aim at identifying a real partner and an early involvement is therefore necessary, before the definition of the entire operation .

The choice of a global coordinator:

In medium enterprises, sponsors play generally the role of global coordinators and/or lead managers/co-managers, and often advisors as well. Otherwise, the entrepreneur must choose, with the sponsor's advice, a global coordinator, that is a banking company or another intermediary entrusted with the task of creating the underwriting syndicate imposing the presence of certain intermediaries, even though the choice is generally based on strong relationships consolidated thanks to previous issues.

The choice of an advertising company

As corporate identity and its acknowledgment among investors are key factors for a successful listing, it is advisable to involve in the process an advertising company, expert in handling relationships with the financial community so that the enterprise and its products or services can be efficaciously promoted on the market. For the choice of such a company the entrepreneur can count as well on the advisor's expertise.

The choice of a specialist

The rules of the Nuovo Mercato and segment STAR provide for the involvement of an operator, whose role can be played by the sponsor itself, with the task of supporting the title liquidity. It is an important factor both in order to support trading activity and to guarantee an efficient mechanism of price formation. The entrepreneur who intends to list an enterprise on the Nuovo Mercato or segment STAR must therefore identify a specialist.

Due diligence

After the appointment of the subjects responsible of supporting the quotation process, the due diligence process can start.

There is no standard definition, however the term due diligence generally means a series of activities and controls carried out by agents responsible of preparing and underwriting the prospectus with the purpose of ascertaining that all given information are truthful and no significant element is omitted. It is a complex process that can take a considerable period of time and much work on the part of the company's management. For this purpose a data room is generally set, that is a place where all economic, financial, legal and fiscal information are available in order to undertake a due diligence process and prepare the prospectus.

The auditing firm

During the quotation process, the auditing firm is requested to play a key role. In fact, besides carrying out an audit, as established by the rules, the auditing firm is charged by the issuer and sponsor with the task of performing a series of other activities.

The main activities performed by the auditing firm are:

- budget analysis and release of a specific comfort letter on the budget forecasts (provided for by Borsa Italiana);

- analysis of the reporting and control procedures and release of a specific report on their suitability in offering promptly a complete picture of the situation;
 - analysis of the accuracy of the economic and financial information contained in the prospectus.
- During the entire quotation process, the auditing firm contributes as well to a complete and careful arrangement of financial documents and accounting data, from time to time necessary.

The role of Consob

Consob regulates the procedures for the solicitation of investors and therefore:

- specifies how to draw up and publish prospectuses;
- its goals are to promote transparency of the markets and to protect investors; for this purpose it regulates the disclosure obligations for the companies to be listed on the following themes:
 - extraordinary corporate actions, mergers and spin-off;
 - changes in the articles of incorporation, bond issue and interim dividends;
 - purchase and transfer of shares;
 - changes in the capital stock;
 - intercompany investments;
 - composition of social bodies;
 - operations aiming at issuing financial instruments by actors belonging to the group;
 - periodic information and other information about significant facts;
 - carries out on-site inspections in order to verify accuracy and thoroughness of financial statements.

For listed companies, Consob establishes the technical-accounting framework for the drawing up of corporate statements and group consolidated statements.

Draft of a prospectus

During the first phase of the quotation process the drawing up of the prospectus begins and continues in the course of the following phases as well. Usually this activity is carried out by legal and financial consultants. The prospectus must be published before the offering and issuing phase and must contain a description of the economic and financial situation, as well as the offer characteristics and other essential information about the issuing company. Such activity may sometimes imply some difficulties in collecting and processing data and it is therefore extremely important that the preliminary phase starts promptly. Thanks to this document, potential subscribers can be informed about the characteristics of the listing and the enterprise concerned, the underlying development project and corporate strategies.

Other activities

All activities suitable for preparing the company and corporate bodies to the system of rules typical of listed companies belong to this category. Some of them can be accomplished even after the listing, but an early arrangement is much more convenient, when the meeting assembles a small group of shareholders. These activities include: updating the articles of association; appointing a new board (and if needed a new executive committee); appointing committees provided for by the self-regulation code; approving potential stock option plans; adopting shareholders' meeting regulations.

Q-Mat

Simultaneously with the drawing up of the prospectus, the company provides for the arrangement of corporate economic forecasts (Business Plan) to be presented to Borsa Italiana. Top managers must also prepare a document (Q-MAT Quotation - Management Admission Test), to be presented to Borsa Italiana, in which corporate activity, strategies and market positioning are described and the quotation project is explained.

The document describes the main strategic business areas, the entrepreneurial model, the corporate organizational structure and financial data for each activity segment.

Such document is not required for the Espandi market.

3. Business valuation in the quotation process

On financial markets, the valuation of corporate assets express the need to assess the cash flows that the company will generate in order to be profitable for investors and therefore the favourite valuation methods are **DFC, the multiples method** and **EVA**.

In the present Italian context the favorite methods are certainly those based on the analytical valuation of corporate assets, such as methods based on corporate wealth and earnings or mixed methods used chiefly for evaluating companies that do not access to quotation.

In transactions of private equity and venture capital, the valuation process of a company concerns the probable exit value permitting to obtain a fixed IRR. The rate of internal return is generally set taking into account the required rate of return that an investor in a private equity or venture capital firm intends to obtain, known also as hurdle rate.

The use of valuation methods permits to establish the company's fair value, adding a discount which is called IPO discount. Such discount is established on the basis of information received by the banks responsible of the placement on the part of the institutional investors interested in underwriting.

The amount of IPO discount derives from a general valuation linked to various factors such as the capacity to generate future cash flows, corporate governance and management track record, competition level and trends on the stock market.

The preliminary valuation in the listing process aims at contributing to the pricing of the securities to be placed among investing public and is marked by the absence of any control premium as the quotation process does not provide for the company's transfer, but rather the access of new financing shareholders.

The leading methods used by the financial community are analysed below, with an appraisal of some implementation features.

The Economic Value Added is not originally a valuation method, but rather a performance indicator as other indexes such as ROI or ROE. Such index, in the logic of Value Based Management, attempts to assess the company's operating value, confronting the operating return with the average cost of invested capital.

In fact the implementation of this method implies many difficulties and therefore it is used as a secondary resort. Among the above-mentioned methods, the multiples method permits an easy comparison of trading on different international markets and it is the most commonly used method. It is a fast and simple measure, that does not require a corporate plan, but simply statistics on comparable companies, though companies, even with similar activities, are not always really comparable.

However, it is the first element of analysis for a first valuation of the company and it represents the so-called comparison method.

Discounted cash flow method (DCF)

Discounted cash flow (or DCF) method is considered as the most qualified approach by modern business theories correlating enterprise value to the capacity of producing cash flows capable of satisfying the investors' return expectations. However, it demands to foresee future investments expected by the enterprise.

According to the prevailing procedure, the value of corporate total equity is the algebraic sum of the following elements:

- present value of the net future cash flows (known as Enterprise Value), with a discount equal to the Weighted Average Cost of Capital or WACC; generally this estimate implies establishing the present value of expected cash flows over an explicit forecast period and a terminal value corresponding to the present value of cash flows succeeding the period of analytical forecast;
- net funded financial position, expressed according to market values;
- market value of prospective activities not pertaining to the typical operation or not considered for the purpose of estimated cash flows (surplus assets).¹

The formula expressing enterprise value is as follows:

$$\mathbf{E} = \sum_{t=1}^n \frac{\mathbf{OFCF}_t}{(1 + \mathbf{WACC})^t} + \mathbf{V}_f - \mathbf{D} - \mathbf{M} + \mathbf{SA}$$

In particular, Enterprise Value, included in the above mentioned formula, can be represented as follows:

$$\mathbf{EV} = \sum_{t=1}^n \frac{\mathbf{OFCF}_t}{(1 + \mathbf{WACC})^t} + \mathbf{V}_f$$

where:

E = Equity;

$OFCF_t$ = operating free cash flows expected in the forecast period;

$WACC$ = Weighted Average Cost of Capital;

n = number of years of explicit forecast;

V_f = terminal value, corresponding to the present value of cash flows relating to years $n+1$ onwards;

D = net financial position;

M = minorities;

SA = surplus assets.

The main methodological assumptions linked to DCF method are presented hereafter.

I. Operating Free Cash Flow (OFCF)

The expected cash flows are operational and therefore linked to the company's activity.

¹ Source: Claudio Guerini –Evaluation.it

$$\begin{aligned}
& \text{EBIT} \\
& - \text{taxes on operating earnings} \\
& = \text{net operating earnings} \\
& + \text{amortization} \\
& + \text{provision and other non-monetary items} \\
& +/- \text{negative/positive variation of working capital} \\
& - \text{investments in fixed capital (net of possible disinvestments)} \\
& = \text{Operating Free Cash Flow (OFCF)}
\end{aligned}$$

II. Weighted Average Cost Of Capital (WACC)

The discount rate for expected cash flows is represented by the Weighted Average Cost of Capital reflecting the company risk, both operational and financial. It is calculated according to the following formula:

$$WACC = K_d \times (1-T) \times \frac{D}{D + E} + K_e \times \frac{E}{D + E}$$

where:

$K_d \times (1-T)$ = cost of debt net of taxes;

K_e = cost of equity;

D = net financial position;

E = market value of firm equity.

Financial gearing is calculated on the basis of the present value of debt and equity; alternatively an objective optimal financial gearing (reachable in the medium term) can be used or an accurate valuation year by year.

The cost of debt, $K_d \times (1-T)$, is equal to the average cost of medium-long term debt, net of taxes.

The cost of equity, K_e , is equal to the return rate of risk-free activities, plus a specific risk premium calculated in reference to the so-called beta coefficient measuring the company systemic risk in connection with its return volatility compared to market volatility. Beta coefficient is assessed on the basis of the same standard expressed by peer listed companies and according to analysis relating to the specific reality to evaluate.

The calculation is expressed by the following formula:

Manca la formula

$$K_e = R_f + \text{beta} \times (R_m - R_f)$$

where:

R_f = risk-free return rate, equal to the return of risk-free activities and assessed on the basis of the return rate of short-medium dated government bonds;

β = systemic risk, taken as an average of a sample of peer companies;

$(R_m - R_f)$ = market risk premium, measured as a higher return required by investors who invest on the stock market compared to risk-free activities.

III. Calculating the terminal value (TV)

The terminal value is a synthesis datum representing present cash flow value as expected in the phase succeeding the forecast period. It is established on the basis of two main variables: operational cash flow of the first year following the period of analytical forecast and growth rate of this expected cash flow.

The terminal value is generally calculated according to two approaches, both counting numerous formulas (only the most used formula will be indicated):

- the first approach estimates the discount value according to the revenue formula

$$K_e = R_f + \beta \times (R_m - R_f)$$

the cash flow of year n (the last year in the projection period), plus the perpetuity growth rate “ g ”.

The value is discounted using the reference date of the valuation;

- the second, more empirical approach consists in multiplying an economic multiple (turnover, cash flow, EBITDA, EBIT, ect.), as expected for year n , by a value deriving from the comparison with the market, proposing the same logic underlying the multiples method. As in the previous case, the obtained value must be discounted according to the reference date of the valuation.

Afterwards, this paper will discuss more exhaustively the calculation mode of the last cash flow and of factor “ g ”, connected to the first approach (for that matter, it is the most commonly used method).

IV. Net financial position (D)

The net financial position of a company is calculated as a total of financial debts – both short and long-term debts – net of cash and financial activities easily liquidated.

When possible (for example, in the case of listed bonds), debts should be expressed at market value.

V. Other value components (surplus assets)

They include the total value of possible activities that belong to the company, but do not contribute to operational cash flows and must be considered separately.

Definition of a coherent beta

Measuring beta risk coefficient raises a series of concrete valuation problems especially for companies that are not listed because there are no univocal indexes determined by the market in order to establish the discount rate.

The analyst is often obliged to evaluate the risk of a company that does not have direct competitors for a comparison and therefore the search for companies with a similar risk profile is very limited.

It can be useful to consider a few factors such as the size of the company (higher coefficient for smaller societies), the competitive positioning in the reference sector (leader companies have beta coefficients lower than follower companies), the leverage standard (to a higher debt level corresponds a higher beta coefficient), growth prospects for the company.

The following table shows average beta coefficients for a few sectors, supposing an average sector leverage standard and distinguishing leader and follower companies.

Beta

Sector	Leader	Follower
Energy - oil - gas	0.6	0.8
Food industry	0.7	0.8
Pharmaceutics and biotechnologies	0.6/2.0	1.0/2.5
Transports	1.1	1.3
Media	1.1	1.3
Banks	1.1	1.5
Investment goods (cyclical)	1.2	1.4
Car industry and parts production	1.3	1.5

2

III. Time horizon

Theoretically, an explicit time horizon should match the Competitive Advantage Period; the last forecast year should be therefore the moment when the company loses differential benefits in terms of competitive advantage and its results come into line with those of competitors.

In the valuation practice, the time horizon, generally comprised between 6 and 10 years, varies according to the activity sector and in specific contexts it can be extended. A factor affecting the length of the time horizon is the business cycle duration and the phase met by the sector to whom the company belongs. There are other cases in which the time horizon can be extended, for example when the company sustains high investments that will produce returns on a longer time horizon or when the activity is linked to a long-term licence (for instance, a motorway concession).

Longer horizons are sometimes used for start-up companies, supposing that they will reach a stable economic financial situation only after a longer period as compared to companies that are already active in the same sector.

On the contrary, the use of shorter time horizons is rare; however, in the case of companies operating in sectors with hardly predictable future trends, it is possible to consider a shorter time horizon.

VI. Terminal value

A more detailed analysis is necessary in order to establish the terminal value, as it weighs on the valuation of the Enterprise Value and it requires a careful assessment of the elements contributing to its extent. The perpetuity growth rate “g” and the cash flow of the final year in the projection period are established with great care (with particular reference to the hypotheses at the base of turnover, operating margins and investment in fixed and circulating capital). The analyses of the single aspects are connected and therefore it is important to define coherently each of them.

The underlying premise is the assumption that in most industrial sectors it is difficult to succeed in sustaining a turnover growth for an indefinite period.

It is apparently much more realistic to assume that, after a possible quick-paced growth in the first years, on a medium and long term markets and, thereby, companies can enter a maturity phase with

² Source: Ashwath Damodaran

growth rates close to zero, if not negative. Further confirmation of this hypothesis is provided both by low-tech sectors, where decline is a physiological process, and high-tech sectors, where a rapid demand saturation and the launching of alternative technologies can be assumed.

Market multiples method

The multiples method is a comparative method. Valuations found the assessment of the economic capital of an enterprise on data inferred from the market; in other words, the assessment of the value of a company is attributed to the market on the base of valuations attributed to similar and homogeneous comparable companies. Vice-versa, because of deficiency or total lack of market data, absolute valuations based on models and formulas are founded on different grounds (for example, the average projection return, trends of financial flows, equity solidity).³

Historically, the role assigned to comparative valuations is auxiliary to absolute valuations. Therefore, the multiples method is applied as an instrument for an approximate first valuation of the company and it plays a role of comparison and control, as well as of confirmation, of the results obtained with absolute valuations. For a long time there has been consensus on the idea that absolute valuations are the “key method” while comparative valuations are control methods. Comparative method based on multiples have therefore to confirm absolute valuations based on classic valuation methodologies; if this confirmation is lacking, the absolute valuation has to be reviewed.

Therefore, while absolute methods can offer an overall valuation of the company, comparative methods are considered limited, as they are based on opinions taken from the market and so, because of their variability as well, cannot express well-founded opinions in a certain moment.

The point of view has changed radically in the last few years, and multiples became significantly relevant for a series of reasons:

- a significant price increase on the stock market in the last decade, with a consequent gap between accounting values and stock prices;
- a growing importance of intangibles and serious difficulties in their analytic valuation;
- a strong development of stock markets and buyouts and mergers as well.
- absolute valuations more and more often refer to expected cash flows - even on a long term, therefore difficult to determine and forecast;
- finally, in general terms the use of multiples seems a softer, less demanding and expensive method.

In conclusion, the use of multiples in a company valuation has gained a position which is at least equal, if not predominant, compared to that of absolute methods.

Therefore they are no more confined in a subordinate position, being used as a mere control of absolute methods.

In a company valuation multiples can be used according to two different approaches:

- comparing peer companies;
- comparing peer transactions.

In the first case, multiples can be used with reference to a sample of listed companies comparable to the company which is object of valuation (and therefore to the prices derivable from stock market values); in the second case, to the trading prices, generally concerning control parcels of shares, of comparable firms.

Depending on the chosen approach, the multiples method equalizes the economic capital of the firm under valuation:

- to the result obtained multiplying a market multiple and a value expressing the economic capital of the firm under valuation (comparable companies analysis);
- to the prices expressed by the market when the majority parcels of share are traded or mergers of similar firms occur (comparable transactions analysis).

³ Source: Alessio Iannucci

- Often both approaches are used jointly for evaluating the company value. This paper will focus mainly on the first approach, as it is the most commonly used in business valuation.
- As above specified, according to the comparable companies analysis, multiples are used referring to a sample of listed comparable companies (and therefore to the prices derivable from stock market values). The assumption at the base of the valuation method is that the firm value can be established analysing the performances expressed by market regulated trading.

According to this approach, the multiples method is based on the following formula:

$$(W / K)_t = (P / K)_s$$

Where

$(W / K)_t$ is the multiple determined using as a numerator the economic value of the company (W_t) and as a denominator a figure (K_t) expressing the company value (net earnings, cash flow, turnover, ect...);

$(P / K)_s$ is the market multiple of a sample of comparable companies determined using as a numerator the companies market price (P_s) and as a denominator the company value (K_s). From this formula it is possible to derive:

$$W_t = (P / K)_s \times K_t$$

It is important to note that the above mentioned formula refers to equity side multiples (P/K)_s (capital multiples, most commonly used), where the numerator is the share price. With asset side multiples, the multiple is expressed as (EV/K)_s, where the numerator is the enterprise value (EV), or the sum of the market value of assets and liabilities; in those cases the value of the economic capital (W_t) is calculated with the following formula: $W_t = (EV / K)_s \times K_t - D_t$.

The use of this formula therefore implies:

- 1) a valuation of market price/ K_s ratio, where K_s is a figure chosen for the valuation of companies similar for quantitative and qualitative features to the company under valuation;
- 2) a value to be attributed to K_t .

As regard the valuation mentioned at point 1, it is necessary to clarify that a correct specification of the value to be attributed to the multiple depends largely on the choice of a representative sample of similar companies and on the definition of K_s as the most appropriate figure for the valuation.

From a methodologic point of view, the use of multiples occurs according to the following phases:

- choice of comparable companies;
- choice of multiples;
- choice of reliable data and final processing

As regards the choice of comparable companies, it is expedient to stress that the comparability must

be necessarily considered with a certain approximation, as two companies cannot be considered identical. The valuation is built on the base of a sample of comparable companies taking into account a series of qualitative and quantitative features.

Qualitative features	Quantitative features
Belonging to the same sector or same business area	Size in term of:
Competitive in the business sector	- turnover
• location	- net equity
• choice of governance models	- invested capital
• development prospects	- number of employees
• phase in the company life-cycle	• performance in terms of
	- ROE
	- ROI
	- ROS

Having established the sample of comparable companies, the choice must focus on the multiple/s to be used. The available multiples can be distinguished into two categories, depending on the numerator that is used:

- “equity side” multiples, the numerator is the stock exchange capitalization or the price of the single stock;
- “asset side” multiples, the numerator is the investment in gross assets that can be expressed, in a simpler way, as the sum of capital value plus debts, net of liquidity. The English term commonly used is enterprise value (EV).

Calculating a company's capitalization

A company's capitalization is found multiplying the stock price by the total number of outstanding shares.

Calculating the enterprise value (EV)

The enterprise value (EV) is calculated in two ways:

- for indebted companies, EV is calculated as Market Capitalization plus Net Debt .
- for non-indebted companies, EV is calculated as Market Capitalization minus Net Liquidity.

The enterprise value (EV) must be therefore equal to the market value of borrowed capital and total equity. For example, if a company has a capital stock divided into 20,000 shares, whose listing is € 2 and the last financial statement shows a net debt of € 20,000, EV is calculated according to the following formula: $EV = (20.000 \times 2 + 20.000) = € 60.000$. Multiples are then distinguished according to values used as denominators, generally representing performance figures (net earnings, EBIT, EBITDA, turnover or revenues) but also accounting values (for example, book value).

The following table offers a scheme of the most commonly used multiples.

“Equity side” multiples			“Asset side” multiples		
<u>P</u> E	<u>Price</u> Earning	<u>Prezzo</u> <u>dell'azione</u> Utile netto per azione	<u>EV</u> EBIT	<u>Enterprise</u> <u>value</u> Operative Income	<u>Market listing</u> <u>+ Debt</u> Earnings before Interests and Taxes
<u>P</u> CF	<u>Price</u> Cash Flow	<u>Prezzo</u> <u>dell'azione</u> Flussi finanziari	<u>EV</u> EBIT DA	<u>Enterprise</u> <u>value</u> Gross operating margin	<u>Market listing</u> <u>+ Debt</u> Earnings before interests, taxes, depreciation and amortization.
<u>P</u> BV	<u>Price</u> Book value	<u>Prezzo</u> <u>dell'azione</u> Patrimonio netto contabile	<u>EV</u> S	<u>Enterprise</u> <u>value</u> Sales	<u>Market listing</u> <u>+ Debt</u> Turnover
<u>P</u> S	<u>Price</u> Sales	<u>Prezzo</u> <u>dell'azione</u> Fatturato			

Selecting reliable data

A key factor in using multiples is the availability of reliable data banks where usefeful data for the company valuation can be found. Moreover it is particularly important to revise gross data expressed by multiples and corporate performances. For example, in the case of P/E multiple, not always E represents the net operating income; in fact it has to be adjusted in order to eliminate extraordinary or non-recurrent components, or more generally to adjust budget policies that are not coherent with corporate profitability. Broadly speaking, in order to pass from gross multiples to adjusted multiples, corrective measures must be taken regarding both the numerator and the denominator: the terms used are *adjusted* multiples and *clean* multiples.

In the light of the remarks so far set forward, the value of the firm's economic capital is calculated as follows:

with “equity side” multiples (P/E, P/BV, P/CF, P/S, ect...):

$$W_t = (P / K)_s \times K_t$$

with “asset side” multiples (EV/EBIT, EV/EBITDA, EV/S, ect...),

$$W_t = (EV / K)_s \times K_t - D_t$$

A synthetic explanation of the principal multiples used is supplied below. It must be noted that price multiples are most commonly used by investors and permit to see quickly how the market evaluates a company and which value is attributed to it in a given moment. In fact, they have the merit to include any market trend and operators' perception.

P/E, price/earnings

It is a valuation ratio of a company's share price compared to its net earnings. In other words, it suggests how many years are necessary for a monetary recovery of the price in case the stock is able of assuring a theoretically perpetual flow of annual net earnings equal to those considered when the calculation is made.

This multiple is certainly the most commonly used in a company valuation, considering that it is comparatively easy to be calculated and immediately readable as it simply relies price and earnings. It must be noted that one of the main limits of P/E ratio is the fact that the denominator is a figure – net earnings – that can be widely influenced by corporate budget policies; therefore, in some cases, it is necessary to adjust it, for example eliminating the extraordinary components. As an alternative, when reliable data are lacking, an average of net earnings referred to preceding business years can be used (from 3 to 5 esercizi). It is expedient to stress that in the habitual practise a reference P/E figure does not exist as it depends on which sector it is analysed. Generally, for growth sectors the P/E ratio assumes higher values as compared to more mature sectors. In any case, P/E figures showing high gaps in respect to P/E ratios of the reference sector could denote an underestimation or overestimation of the company under valuation.

Price/Cash flow

It is a valuation ratio of a company's share price compared to its cash flows. This multiple is particularly useful in order to go over one of the main limits of P/E ratio, that is the fact that the net earnings depends on corporate budget policies. Companies implementing accelerated depreciation policies obtain lower earnings compared to the companies with opposite depreciaton policies. Moreover, different national legislations can require different obligations as regards the presentation of financial statements with a possibile impact on earnings, making it difficult to compare companies from different countries. The P/CF ratio is generally used for evaluating industrial companies with significant tangibile fixed assets and therefore with high depreciation figures affecting the income statement without a corresponding monetary outflow.

Price to book value ratio

It is a valuation ratio used to compare a stock's market value to the equity. It express the market valuation of the company's equity. It is used to evaluate: a) recently founded companies whose P/E ratio is not yet available; b) companies operating in financial, banking and insuring sectors, that is in all those contexts where assets are particularly relevant. This multiple permits a theoretical comparison between stock market value and company's equity. It must be noted that figures above 1 indicate that the company produces value (for example, companies with high profitability), while figures below 1 can mean that the stock is undervaluated as it shows that the stock market capitalization is below the amount of net equity, without considering income prospects.

EV/EBIT and EV/EBITDA

These multiples aim at ignoring distorting effects of budget policies (with the exception of EBIT), fiscal policies and financial structures.

4. The Birth of Mac

The **Alternative Capital Market** (MAC), organized and managed by Borsa Italiana, as already mentioned in the introduction, is a market intended for **small enterprises** that have the form of public company and intend to have access to venture capital markets through a simplified procedure.

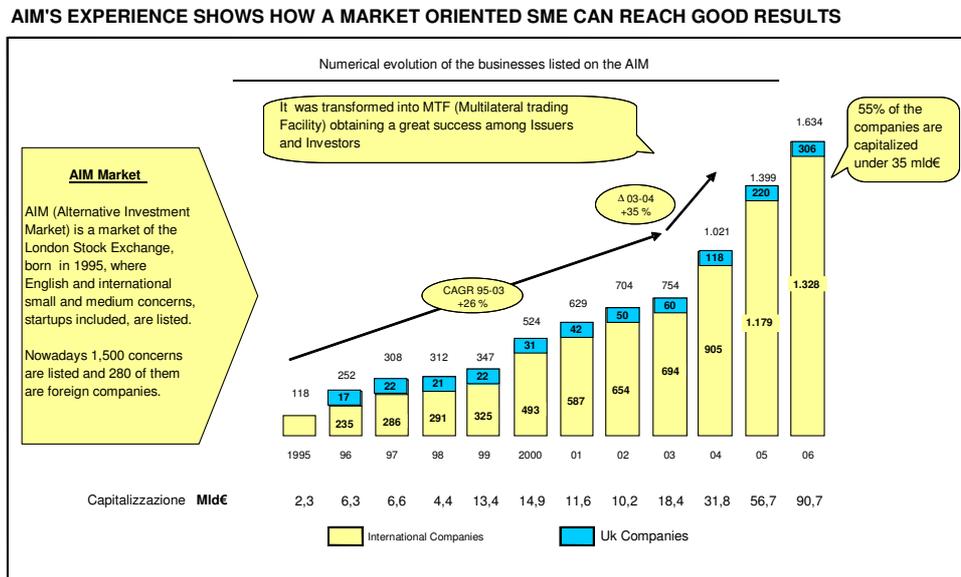
The investment in traded stocks on MAC is reserved to individuals capable of autonomous valuations on the investment risk and therefore exclusively to **Professional Investors**. In fact, it is a system of organized trading, that was presented on December 4, 2006 and became operative at the beginning of 2007.

It was promoted by a Committee formed by exponents of the economic and financial community and Borsa Italiana.

It aims at creating a new channel capable of strengthening SMEs' wealth accelerating the growth of the Italian productive structure and enhancing innovation.

MAC is based on simple admission requisites and strong ties with reference banks in the area where the enterprises are located.⁴

MAC's model is the successful experience of London Alternative Investment Market (AIM) where 1,600 companies are listed today.



• Table 3

Unlike AIM, MAC is intended only for professional investors, ideal partners for SMEs, provided with the necessary expertise for well-aware investment choices.

Minor markets for SMEs: the AIM experience and MAC launching

The recent launching of MAC repeats, in a lapse of a few years, the consolidated experiences of minor official markets devoted to SMEs listing.

Moreover, it is a part of a wider strategy of gradual enlargement of the services offered by Borsa Italiana.

Among the mentioned experiences, that of AIM seems from many points of view closest to the Italian project and deserves a few opening remarks, especially considering the integration progress between Borsa Italiana and London EM.⁵

AIM was specifically conceived in order to meet the needs of SMEs aiming at approaching the venture capital market, but lacking the necessary requirements to be listed on the Main Markets.

⁴ Source: Mercato Alternativo dei Capitali – Borsa Italiana

⁵ Source: London Exchange Market

A company aiming at being quoted on AIM needs consultants such as NOMADs (acronym of nominated adviser) and a broker, as well as legal, financial and marketing consultants. A Nomad and a broker are compulsory both in order to be admitted and to remain on AIM.

NOMADS and BROKERS

Nomads are consulting firms assessing the enterprise qualification to be admitted to AIM. Therefore, the key controllers of the market quality are Nomads and not the London Stock Exchange. In fact, the Nomad (together with other consultants) carries out various exhaustive controls before reaching any decision regarding the enterprise qualification. Moreover, the Nomad is liable for signing the qualification pronouncement. Currently, Nomad firms are 84.

They are registered on the Register of Nominated Advisers, a fundamental requirement to be ranked as Nomad, and they are predominantly investment, corporate finance arm of small and mid cap specialists, accountancy firms and corporate finance boutiques.

In order to be admitted to the Register of Nominated Advisers it is necessary to fulfill the Nominated Adviser Eligibility Criteria: among the requirements, the would-be Nomad must have previously acted on at least three relevant transactions as appointed principal corporate finance advisor, and employ at least four full-time qualified executives. The Nominated Adviser Eligibility Criteria fix some specific responsibilities for the Nomad.

The nominated adviser should oversee the due diligence process carried out by other consultants. Financial and legal due diligence is undertaken by appropriate professional business and legal consultants and provides for a supervisory control and screening of past financial experiences of the enterprise and of its executives' expertise, of the financial situation, of the executives's statements as regards prospects and future strategies. Moreover, if the company operates in a specific sector, a specialist third party report may be required to support statements and strategies that the company intends to include in the admission document.

To be quoted on AIM the enterprise needs a BROKER, a role that in 95% of the cases is performed by the Nomad itself. The broker is a securities house, member of the London Stock Exchange, and performs an important role connecting buyers and sellers of the company stocks.

An applicant company needs at least two legal firms – one for the applicant company and another for the Nomad and the broker. If the company is Italian, a local legal consultant is required for the due diligence and assessment procedure. As regards AIM flotation, the main responsibilities of legal consultants are to:

- advise the company regarding the legal aspects and requirements for the flotation procedure;
- undertake legal due diligence on the company, examine material contracts, recruitment agreements and any litigation.
- advise the company on the drafting of the admission document;
- negotiate the terms, the guarantees of the placement or the preliminary agreement with the company, the executives, the Nomad and the broker;
- prepare board minutes, reference terms, declaration of responsibilities.

THE ADMISSION DOCUMENT

An applicant company must publish an admission document containing key information on its activities, investments, corporate governance policies, risk factors, financial information and a statutory or general section, with details on the capital.

In addition to specific content requirements, Aim Rules enforce a general duty of disclosure, requiring the company to ensure that the document contains any information permitting investors to be fully informed about the enterprise.

Applicant companies must respect AIM Rules and after their admission must respect continuing requirements imposed by AIM Rules.

PLACING OR INTRODUCTION ADMISSION

The solicitors to the issues prepare a draft placing agreement or, where no funds are being raised, an introduction document containing:

- warranties by the company and its executives on the accuracy of the admission document;
- an indemnity from the company to the Nomad and broker in relation to liabilities arising out of the admission;
- fees, commissions and expenses to be paid by the company to the Nomad and broker;
- obligations imposed on the company to consult the Nomad before engaging in transactions in the context of the placing or admission to trading on AIM.

An Italian company is subject to the same eligibility requirements as British companies. It must ensure that announcements required under AIM Rules are announced simultaneously on all markets; it must publish annual audited accounts in accordance with UK or US GAAP or International Accounting Standards.

The company, besides being subject to the continuing obligations under AIM Rules, is required to ensure: legal UK requirements regarding securities offer; restrictions on financial promotions as imposed by FSMA (Financial Services Markets Act 2000) and compliance with securities laws of the country where the foreign company is incorporated.

Requirements for the admission to MAC and advantage for the companies

MAC allows the companies to be admitted on the market where the only operators are institutional investors and the rules to follow are less strict as compared to those provided for companies listed on the official stock market.

Companies who intend to be listed on the MAC are required to carry out an audit, approve the half-yearly reports within 90 days after the half-year closing, maintain the relationship with the sponsor for at least three years after the date of admission to trading and communicate promptly relevant operations.⁶

The MAC market is open exclusively to institutional and professional investors (not to small investors) which are the most suitable for enhancing medium-long term corporate projects and, thanks to their expertise, do not need special forms of protection (for example, a prospectus). MAC does not require radical internal changes and reorganizations in the corporate information and management systems, and aims at the safeguard of the entrepreneur's decision-making autonomy. It is a window open to Italian and foreign professional investors allowing a better corporate visibility and stronger relationships with the usual financial interlocutors of the area. It allows to raise capital endowment without affecting governance and organizational structure and it enhances medium-long term investment projects.⁷

PRO MAC

⁶ Source: Mercato Alternativo del Capitale

⁷ Source: Article by Fabio Bianchi – PMI n.6/2007

PRO MAC is the society created on December 23, 2006 to promote the development and information concerning MAC among enterprises and investors. Seventeen banks and securities firms and seven institutions participate to PRO MAC capital. Among the shareholders there are securities firms, institutions like ABI (Association of Italian Banks), the Italian Association of Family Firms, Assonimine, Assosim, Borsa Italiana, Infocamere, the Institute for the Industrial Promotio (IPI) and the main Italian banks.

BanK and Securities Firms

Banca Akros –BPM ABI Group

Banca Antonveneta AIDAF

Banca CARIGE Assosim

Banca CR Firenze Borsa Italiana

Banca Finnat Confindustria

Banca Popolare dell’Emilia Romagna InfoCamere

Banco Popolare di Verona e Novara IPI

Banca Popolare di Vicenza

Banca Sella

BNL

Capitalia

Centrobanca – Gruppo UBI

CentroSIM

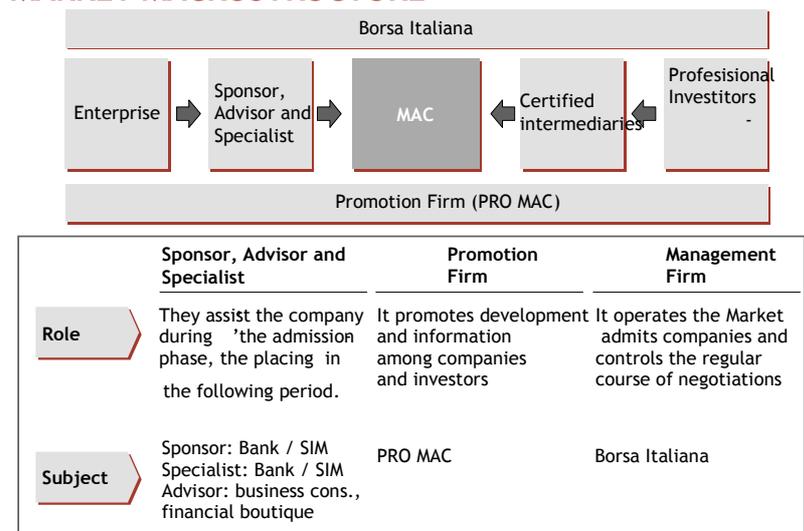
CREDEM

Intesa Sanpaolo

MPS

Unicredit

MARKET MACROSTRUCTURE



• Table 4

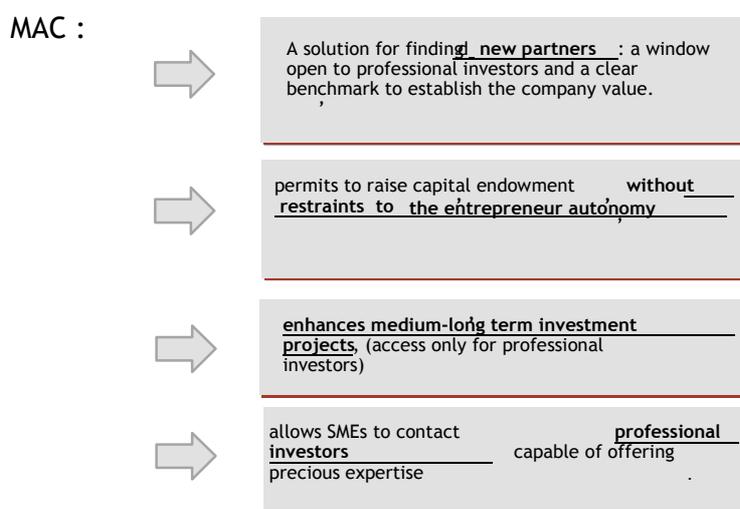
The admission procedure is simple and not very onerous, and in order to achieve it quickly the company can turn to one of the authorized banks (Sponsor) active in its area which will assist the company after the admission as well. The procedure requires at most six weeks after the first contact with the Sponsor bank.

So far SMEs aspiring to open their capital could choose between two solutions:

- quotation on a regulated stock market in order to obtain the greatest visibility when placing stocks among investors;
- selling a significant capital share to private equity funds in order to deal with an important phase of transition, with an institutional investor as a partner.

On the contrary, MAC offers a new solution for companies who intend to share growth targets and company risk with a limited number of investors.

A NEW TAILOR-MADE SOLUTION FOR SMALL AND MEDIUM ENTERPRISES



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• Table 5

Disclosure obligations for the company

When a company is admitted to the MAC, its management acquires a stronger prominence in the financial community, making it necessary to communicate relevant facts regarding corporate management and business trend, as regards development strategies announced to the market as well.

MAC rules impose specific obligations towards the market and the investors. Companies must:

- publish an annual financial statement certified by an auditing firm and, whereas it is drawn up, a consolidated statement;
- publish a half-year report within 90 days after the half-year closing;
- update each year the information sheet presented with the admission application.

Companies must also communicate:

- yearly, the situation of any program of stock purchase;
- engagements taken as regards operations on own stocks and the possibility of tender offers open to shareholders;
- on the occasion of the statement and half-year report approval, the number of participants to the capital stock;
- resignations or appointments of members of management or control boards or of other key officers ;
- any change in the company capital;

- asset transfers and take-overs, and capital transactions, when they are significant;
- bond issues or other securities issues, when they are significant;
- access to or exit from a business sector, if it is significant for the company;
- the dates of company meetings summoned to decide mergers, splits or capital increases;
- managements events that can affect the stock price (price sensitive information);
- any breaking off of the relations with the Sponsor and the Specialist and the appointment of a new Sponsor or Specialist;
- any negative judgement of the auditing firm or any declaration of inability to express a positive judgement on the periodic accounting reports;
- in time, all necessary information to allow investors to exercise their rights.

	Documents	Disclosure	
For the admission to trading	<ul style="list-style-type: none"> • Statement certified by an auditing firm on the Cohsob register • Half-year report (only if 9 months lapsed after the date of approval of the statement) 	<ul style="list-style-type: none"> • Development strategic lines/ management prospects 	Documents and information must be transmitted to Borsa Italiana, to be published on the Borsa Italiana and MAC sites
After the admission to trading	<ul style="list-style-type: none"> • Statement* certified by an audit firm • Non certified half-year report 	<ul style="list-style-type: none"> • Periodic information: <ul style="list-style-type: none"> – Communications regarding the meetings • Information on specific events: <ul style="list-style-type: none"> – Resignations and appointments of executives – Asset tranferts or take-overs – Mergers/splitts – Capital transactions – Bond issue – Operation on own stocks – Access to or exit from a business sector 	

• Table 6

To be admitted to the MAC, the company must:

- be free to transfer stocks, dematerialized and centralized in Monte Titoli;
- have an auditor's certificate for the last financial statement;
- prove that the members of the board of directors possess the honor requisites provided for by the Finance Act.

The main actors participating to the quotation process are

Sponsor and Specialist;

Intermediaries qualified for the MAC

Professional investors

Sponsor

The Sponsor is the bank or securities firm chosen by the applicant company and assisting it in preparing the admission application and in drawing up the information sheet. To be admitted to the MAC, the

company must be accompanied by the Sponsor. The task must cover a period of at least three years from the beginning of trading of the shares on the market. After the admission to the MAC, the Sponsor assists the issuing company in fulfilling the disclosure requirements provided for by MAC rules. The name of the Sponsor is cited in all corporate communications to the Market in the three years following the admission to trading.

The Specialist

The Specialist is the bank or investment firm who has the task of presenting the company to professional investors. The Specialist organizes the private placing and, after the admission, supports the company in enhancing its development project among professional investors.

In the trading phase on the market, the Specialist operates as trader and aids the meeting of demand and supply and price formation displaying purchase and selling quotes against predefined minimum amounts. Its independent dedicated structure of analysts produce periodic reports on the listed company and put them at the disposal of professional investors who require them. The company that is admitted to the MAC must always be accompanied by a Specialist: if the Specialist's support fails, the company must appoint a new one, otherwise it will be suspended from trading and excluded from the market.

Qualified intermediaries

The qualified intermediaries can be banks or investment firms (national, EU o extra EU), stockbroker and Poste Italiane (Italian Postal Service). They are authorized to offer the service of securities dealing on their own behalf and in behalf of others. They collect dealing proposals of professional investors and transmit them on the MAC.

Professional investors

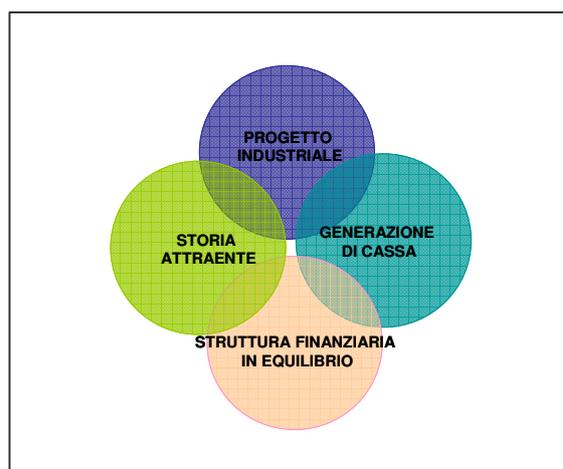
Professional investors are the sole subjects authorized to invest on the MAC. Only investors that belong to the following categories can subscribe and deal MAC securities:

- credit institutions, investment firms, collective investment bodies, insurance companies, pension funds;
- large companies;
- national and regional governments.

Other investors cannot individually advance trading proposals on the stocks traded on the MAC. The investment on the market is allowed only through a individually managed service offered by an authorized intermediary.

Private investors interested to the profitability offered by the development of small companies, in order to evaluate quality and convenience of the proposed investment focus on four main areas:

- An **INDUSTRIAL PROJECT** on a three/five-years time horizon;
- An **ATTRACTIVE HISTORY**;
- **ECONOMIC FINANCIAL EQUILIBRIUM**;
- Generation of positive and remunerative **CASH FLOWS**.



For investors the most attractive company goes on the market to support development projects capable of producing competitive advantage. Therefore, investors will privilege capital increase operations as opposed to selling operations.

The market will trust a company able to show through its history a successful growth, both in terms of turnover and profitability.

Investors will be attracted by the capacity of generating cash flows and will focus on gross operating margin as a percentage of the turnover in relation with the reference sector.

If the company uses cash flows to pay back its debt, it will be harder to find investors.

A company with a net financial debt ratio and a high gross operating margin is not attractive for investors.

5. The process to be admitted to MAC

The procedure to be admitted to the market is easy, fast and inexpensive: costs amount to 50.000 euro (without capital placing fees), independently of the size of the placing.⁸

The process implies five steps for a total length of about six weeks.



• Table 7

The contact with the Sponsor

The first step consists in making contact with the reference local bank. If the bank is not included in the list of MAC Sponsors, the company can turn to one of the Sponsor banks operating in the region (the list of Sponsors is published on the website www.mercatoalternativocapitale.it).

The Sponsor has the task of explaining how the Market operates and its rules, and supporting the company in preparing the documents necessary for the admission. The Sponsor will assist the company after the admission as well, supporting it for at least three years in the fulfilment of the disclosure requirements. In addition to the Sponsor, the company can decide to be supported by an Advisor, comprised in the list prompted by PRO MAC. This role can be played by a finance house, a business or legal firm, a private equity fund or a financial boutique.

⁸ Source: Rivista PMI -6/2007- Ipsoa Editore

The Advisor, together with the Sponsor, supports the entrepreneur in his financial choices. This support can be particularly useful for smaller companies, geographically peripheral. Preparing the application requires approximately three weeks.

Meeting the Specialist

The Sponsor introduces the Specialist, who will take care of organizing the placing. In this phase, it is important to transfer completely the business plan to the Specialist.

The Specialist connects the company with professional investors who operate in the area and inside the reference economic sector and communicates development strategy and business plan. In about two weeks, the Specialist sounds out a professional investors' panel in order to evaluate the level of interest the company can raise.

At the end of the survey, the Specialist, in agreement with the Sponsor and the company, organizes the placing.

The admission application

The company must make application to Borsa Italiana to be admitted to trading on the MAC.

The application, signed by the Sponsor, contains:

- the application for admission to the market;
- the acceptance of MAC rules (for example, the disclosure requirements);
- the declaration that the shares are centralized at Monte Titoli;
- the presentation of the Sponsor;
- the last financial statement and the auditors' certificate issued by firm included in the Consob register of auditing firms;
- the documents proving that the members of the board of directors possess the honor requisites.

Through the admission application, the company can also declare the obligations, not required by MAC rules, that it intends to assume towards investors, in particular:

- to offer the possibility of tender offer in case of a changed corporate control;
- to communicate the methods of price determination.

In addition to the admission application, the company must submit to Borsa Italiana and to the Market an Information Sheet containing synthetic information regarding the company, its activity, results and development prospects.

Within ten working days and after verifying the formal completeness of the documentation, Borsa Italiana deliberates the admission to trading. Trading begins at the end of the private placing.

Private placing

When admitted to the Market, the company can start the private placing organized by the Specialist. The placing is preceded by introduction meetings (road shows) during which the company, supported by the Specialist, can present its development projects and business plan.

In order to aid decisions, investors are supplied with a report regarding the company and the reference sector, drawn up by independent analysts.

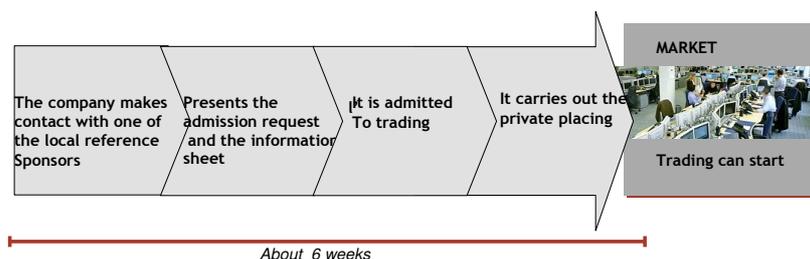
On the basis of the company characteristics, its economic results, its business plan and other elements emerged during the road show, the Specialist evaluates the placing price and attributes the capital to professional investors.

To join MAC and carry out a capital increase reserved to professional investors, a prospectus for public tendere and listing is not required. The minimum subscription amount is for 50,000 €, but the company can fix a higher amount.⁹

The different steps are summarised in the following table.

⁹ Source: Stefano Salvadeo, Renato Montedoro - Amministrazione & Finanza - Ipsa Editore, n. 3, 02/2008

THE ADMISSION PROCEDURE TO THE MAC IS FAST AND SIMPLE



- The Sponsor is the local reference bank of the company
- The Sponsor connects the company and the Specialist
- The information necessary to have access to the Market can be found on the financial statement
- L Borsa Italiana deliberates the admission through a simplified procedure
- The placing is carried out by the Specialist
- The entrepreneur can choose his partners among the investors who have shown interest

• Table 8

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6. HOW MAC OPERATES

Buying and selling stocks

Shares of SMEs admitted to trading and placed among professional investors are traded in minimum lots or its multiples. When the company is admitted to the Market, the minimum lot is equal to the number of stocks corresponding to 50,000 €.

Periodically Borsa Italiana establishes the number of stocks representing the minimum lot. In order to arrange purchase and sale proposals, investors must make contact with an intermediary who has the task of verifying their professionalism and transmit the orders to the Market. Trading on the MAC takes place in two different and complementary moments: an auction and an off-auction session.

Auction session

In the auction session, carried out at least each Friday for an hour, authorized intermediaries enter the investors' orders. At the end of the trading session, the Market establishes a single auction price able to satisfy the greatest number of entered orders, as it normally happens on stock markets.

Contracts shall be concluded if there is an automatic matching of buy orders having prices equal to or higher than the auction price with sell orders having prices equal to or lower than such price in accordance with the price and time priorities of the individual orders and until the quantities available are exhausted.

Off-auction session

The determination of an official price per each share traded on the MAC is guaranteed by a Specialist, even if the entered orders do not determine the meeting of demand and supply.

In each auction the intermediary operating as a Specialist undertakes to display a trading proposal – purchase or sale – for quantities not inferior to the minimum lot. The Specialist has also the task of producing, thanks to the work of independent analysts, a half-year report on corporate results and business trend that will be available for concerned investors.

Outside the auction session, Specialists can aid the meeting of demand and supply on MAC stocks offering information and complete contracts at the agreed price. Specialists must inform Borsa Italiana about the contracts concluded outside the auction. Rules regarding the minimum trading lot and the identity of the admitted investors are applied on off-auction contracts as well.

The off-auction session shall allow specialists to enter their quotations into the information system for dissemination to the market.

2. Contracts shall be concluded outside the trading system and considered to have been concluded on the MAC market if they fulfil the requirements specified in Article 31 and if they are notified by the specialist to Borsa Italiana complete with the information specified in Article 43. The notification shall be made to Borsa Italiana without delay.

3. The seller and the buyer shall be responsible for entering contracts into the settlement procedures on the day on which they are concluded.

Dealing structure		Telematic auction	Off-auction trading
<ul style="list-style-type: none"> To aid concluding contracts, two trading methods are provided for: <ul style="list-style-type: none"> – Telematic auction – Off-auction The weekly reference price includes contracts concluded both in the auction session and off-auction For each stock admitted to the Market a single Specialist exists 	<p>Timing</p> <p>Orders entered</p> <p>Orders visibility</p> <p>Conclusion of the contract</p>	<ul style="list-style-type: none"> At least weekly, on fridays Intermediaries enter orders directly on the market. The Specialist must enter proposals equal to the minimum lot, spread max 15% The trading book is visible for all intermediaries Contracts are concluded on the Market at the auction price 	<ul style="list-style-type: none"> Daily The intermediary expresses his interest to the Specialist who collects orders The investor is informed only of the indicative bid/ask price of the Specialist The contract is concluded outside the market at the agreed price

• Table 9

Official price

The weekly price for each security on the MAC is calculated on the basis of the concluded contracts both in the auction session and off-auction. Data on trading and prices are published and updated on the internet site www.mercatoalternativocapitale.it.

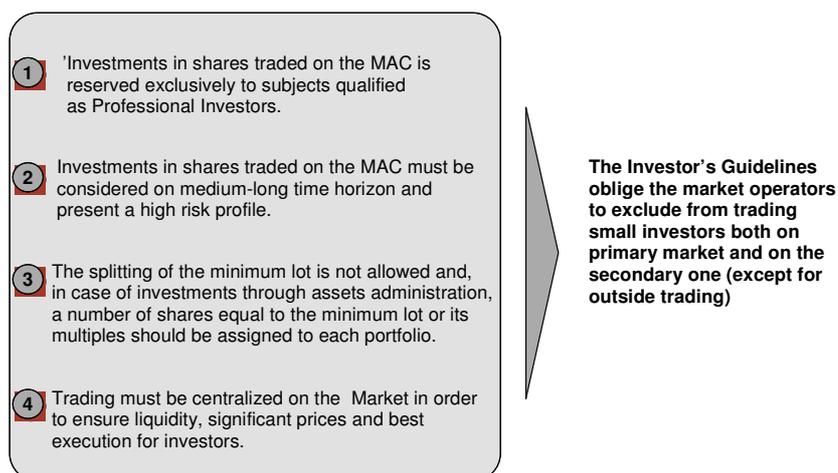
Investor's Guidelines

Market operators are duty-bound to respect the Investor's Guidelines worked out and updated by Borsa Italiana and PRO MAC. Market operators undertake to exclude small investors, both on the primary

market and on the secondary one, and contribute to establish a code of conduct for MAC members. Sponsors, Specialists and intermediaries operating on the MAC undertake as well:

- to inform the investor about the operation risks;
- to inform the investor on the medium-long time horizon of the investment;
- not to fraction the minimum lot.

GUIDELINES FOR INVESTING ON THE MAC



•Table 10

7. COMPANIES LISTED ON THE MAC

Raffaele Caruso SpA

The company, located in Soragna (Parma), operating in the men's clothing industry with a production of elegant, formal items of clothing, decided to enter on the stock market to support its development project bound to consolidate its market position in the luxury sector.

Raffaele Caruso S.p.A. was supported by Banca Popolare dell'Emilia Romagna S.c. as Sponsor, Centrosim S.p.A. as Specialista, and Studio Baldi as Advisor.

The offer was completed with 550,000 shares placed by the issuer at the fixed offer price of 15,15 euro per share, 220,000 of which (equal to 40% of the offer) coming from a capital increase – equivalent to 3,41 million € – and 330,000 shares sold by the partner Asia S.p.A. (a Caruso Brothers holding that fulfils the task of running and coordinating the different business activities), equivalent to 5,115 million €.

According to MAC rules the company, together with the admission application, presented only the last approved audited statement.

In the press release of August 27th 2007, the chairman Alberto Caruso explained the choice to enter on the MAC as a step towards "*realizing the development project undertaken in the interest of the company and its shareholders*".

It is worthwhile to note that with the introduction of "Basel 2" – as often mentioned – companies have to respect strict capital restraints to have access to institutional credit. From this point of view, increasing capitalization can only improve the assigned rating, making the banking credit more accessible and offering more favorable terms.

The key economic data are summarised in the following table:

	31/12/2006	31/12/2005
Net revenues	44.100.729	38.461.485
Added value	17.145.034	15.584.225
Gross operating margin	3.247.436	3.054.898
Operating result	2.719.463	2.506.409
Ordinary result	2.770.541	2.426.858
Gross operating result	2.654.633	2.128.088
Net result	1.020.604	760.256

It must be noted that, against a turnover growth of 14,6%, the gross operating margin increases of only 6,3% and the operating result of 8,5%. A sore point is the net financial position, negative for 6,7 million € against a net equity equal to 5,7 million €; later, in June 2007, it advanced slightly to 5,3 million € thanks to the accounting adjustments due to the partial proportional split.

Besides data up to December 31th, half-year 2006 and 2007 reports show economic results connected to a series of governance operations and development of business policies that generated significantly improved operating result and net result.

All these data confirmed the choice of a quotation on the MAC with stronger guarantees for investors.

The following table show the main statement items of above mentioned half-year reports:

	30/06/2007	30/06/2006
Net revenues	26.024.171	20.392.212
Added value	10.964.994	9.385.730
Gross operating result	3.499.110	2.816.726
Operating result	3.269.945	2.421.901
Ordinary result	3.386.019	2.391.036
Gross operating result	3.257.612	2.328.811
Net result	1.740.506	1.159.421

With the placing on the market, Raffaele Caruso S.p.A. attained, above all, the interests of shareholders (at least, the historical ones) who collect about 5 million € and the company interests that can count on 3 million € to “strengthen his brand”, without opening its capital to small unaware investors or private equity funds that would claim an active role in the company management.

Among the institutional investors, Cape Live S.p.A may be cited, who adhered to the IPO/SPO with 3,5 million € for a total capital share of 10,2% after the integral placing.

Tessitura Pontelambro S.P.A.

A company founded in Como in 1981, Tessitura Pontelambro S.p.A. specializes in the production of natural fabrics such as linen and cotton. The woven fabrics are intended for the clothing industry, with a special reference to high-end segments, shirtmakers and ready-to-wear.

Tessitura Pontelambro S.p.A. was the first company to apply for the new market for small and medium companies. Borsa Italiana communicated on July 18th 2007, the admission to trading on the MAC of the ordinary shares Tessitura Pontelambro. Trading started on September 17th 2007.

The company can count on skilled human resources and an expertise acquired through a long collaboration with its clients, offering customised and innovative fabrics.

In 2007 the turnover reached 20 million € with an EBITDA of 20% and a net return equal to 3,2 million €. The average staff amounts to 112 employees.

Strong points

The company’s key elements that permitted to have access to the capital market can be summarized as follows:

- Strong and consolidated relationships with high-end clients
- A privileged competitive positioning (quality and services)
- Continuous innovation
- State-of-the-art machinery and equipment
- Turnover growth with adequate returns
- Constant growth of average prices
- Excellent level of services:
 - *hardly any delivery delay*
 - *lead time between order and delivery, equal to 3-4 weeks for plain-colored fabrics, 8-10 weeks for print fabrics*
 - *possibility of following the order in each production phase*
 - Well-established industrial culture and credibility
 - Maximum reserve and exclusivity for clients

The company gave Centrobanca Spa a three-year mandate as Sponsor and Specialist for being quoted on the MAC. The company, a subsidiary of Investimenti e Sviluppo Spa, generated in 2006 a turnover of 13 million € (with a 9% increase compared to the previous year) and an Ebitda of 20%. Financial statements are audited by Mazars & Guerard Spa. The different actors involved in this operation, in particular Investimenti e Sviluppo Advisory Srl, already included in the list of advisors of the MAC, and

Centrobanca Spa, aimed at seizing this new opportunity for small and medium companies that intend to finance development processes.

The following tables show a few economic data relevant for the quotation.

Reclassified profit and loss statement

Key economic data (in thousand Euro) are summarized in the following table:

	31/12/2006	31/12/2005
Net revenues	12.858	11.790
Gross operating margin	2.438	1.517
Operating result	1.735	827
Gross result	2.110	22
Net result	1.491	-510

From these data a few basic information regarding the company may be inferred.

Return growth of 9% in 2006 chiefly due to:

- growing productive power
- new clients
- stronger confidence in the new shareholders

Improvement of EBITDA margin from 13% in 2005 to 19% in 2006 thanks to:

- particular products with high margins
- better product mix
- continuous rationalization of the productive process

Significant EBIT increase in two years due to:

- amortization supported by production increase

Moreover, the key statement items of the half-years reports show a clear improvement of operating margins, as a result of strategies and business policies implemented in 2007.

	30/06/2007	30/06/2006
Net revenues	7.475	6.049
Gross operating margin	1.566	1.222
Operating result	1.214	843
Gross result	1.160	786
Net result	615	653

Development plans

The company has as well presented an industrial business plan that was object of a careful analysis and permitted a more accurate company valuation in terms of quotation.

The development plans presented inside the business plan fixed the following goals¹⁰:

- to optimize the business potential among existing clients
- the acquisition of new clients among important European and American fashion operators (through a business unit devoted exclusively to the United States with a showroom in New York)
- industrial investments in new machinery for the plant located in Erba
- new looms and warpers
- continuous innovation of products
- acquisition of 10 new machines for a 20% increase of the productive capacity

INVESTMENTS	2007	2008	2009
Immaterial fixed assets	50	0	0
Tangible fixed assets	1.269	652	600
Total	1.319	652	1.200

Area Impianti SpA

Area Impianti SpA is a company who projects and realizes turnkey installations in the field of environmental protection for industries, especially fumes cleaning for waste incineration lines and industrial plants.

The group is controlled and managed by the company promoters.

The company was admitted to the MAC on December 6th 2007 accompanied by Banca di Risparmio di Padova e Rovigo as a Sponsor and Banca IMI as a Specialist.

Key economic data (in thousand Euro) are summarized in the following table:

	31/12/2007	31/12/2006
Net revenues	34.479	35.308
Operating result	4.990	4.660
Gross result	5.230	4.759
Net result	3.119	2.278

S.E.I. SpA

The company was founded in 1999 in order to develop district heating in the municipality of Settimo Torinese.

SEI supplies energetic integrated energy services in its area of competence using natural gas, warm/overheated water, electric energy. In 2008 its activity is progressing and the engineering sector shows a growing activity.

The company was admitted to the MAC on March 20th 2008.

In the quotation process its Sponsor was MPS Capital Services Banca per le Imprese S.p.A.

Key economic data (in thousand Euro) are summarized in the following table:

¹⁰ Source: Investimenti e sviluppo Spa

	31/12/2006	31/12/2005
Net revenues	35.308	21.660
Operating results	4.661	3.666
Gross operating result	4.760	3.715
Net result	2.279	2.382

8. CONCLUSIONS

The choice to have access to the MAC permits to gain significant advantages in terms of costs, length of time of the quotation process as well as opportunities that can be significant for similar companies too.

MAC rules – thanks to the presence of professional investors, the certainty that shares can be traded and the involvement of local banks, able to guarantee a pervasive search of investors interested to the quotation –, represent elements that should aid the development of the initiative.

In particular, the specific relationships that the quotation process permits to create allow the applicant company to reach a concrete visibility on the market.

In fact, the advantages obtained by the first listed companies represent an example and a motivating force for other companies.

The most important advantages can be summarized in seven points:

- a fast quotation process – from the decision to the admission in a few months
- “green light” on the stock market within 10 days
- simple procedures – application form of 16 pages
- moderate costs
- high-level bookbuilding [Rothschild, Monte Paschi, 3L Investments (London)]
- stronger visibility on the market
- liquidity: trading during the week

Moreover, MAC represents as well an interesting challenge for the private equity world as it could be an interesting window for searching investments or as a way out of them.

Today, also the chambers of Commerce are supporting companies with contributions¹¹ in order to start a virtuous path towards growth and have access to the MAC; this choice represents a tangible symptom that also institutional bodies share the willingness to make stronger and more sustainable the development plans for SMEs

So far new companies are undertaking the quotation process on the MAC such as Airon, a company active in tourism, real estate and consulting services. The advisor will be Banca Mb, that will take care of the realization of the business plan 2008-2010, while Mazars has a mandate for the auditing.

¹¹ See Camera di Commercio Firenze

Another applicant company is Trafomec, a company producing transformers. The company manufactures also electric and electronic components and is supported in the IPO process by Methorios Capital, while on the industrial side is supported by Deloitte&Touche¹².

It must be noted that Massucco group, a company located in Turin, operating in the field of metal press work and steel millwork, has chosen Intesa Sanpaolo as a Sponsor and is going to place on the list reserved to institutional investors 40% of its capital, till now firmly in the hands of the Massucco family.

In 2008 Chimica Fedeli will enter on the MAC. Its turnover amounts at 65 million € and its sponsor should be Bper. The company operates in the main Italian ports and has two plant sites in the Pisa area for stockpiling and processing chemical products.

It must be noted that the access to this market leads companies towards a new role in the social context thanks to the support of financial consultants and investment banks capable of sustaining corporate growth and innovation.

All this will lead companies to plan growth strategies in terms of size, innovation and internazionalization with the purpose of managing the growing competitive pressure, improving internal governance, adjusting and enhancing the financial structure and raising the managerial skills especially in family firms.

The professional class as well must conform to market changes and be able to fully support companies and to play different roles in every stage, connecting companies with the banking and financial world.

¹² Source: Milano e Finanza