"THE ITALIAN CORPORATE BOND MARKET: WHAT IS HAPPENING TO THE CAPITAL STRUCTURE OF ITALIAN NON-FINANCIAL COMPANIES?"

BAFFI CAREFIN - CENTRE FOR APPLIED RESEARCH ON INTERNATIONAL MARKETS, BANKING, FINANCE AND REGULATION OF BOCCONI UNIVERSITY PRESENTS ITS POSITION PAPER – *IN COLLABORATION WITH EQUITA* – THAT STUDIES WHAT DRIVES THE CHOICE OF ITALIAN NON-FINANCIAL COMPANIES TO ISSUE A BOND OVER TRADITIONAL BANK LENDING

Milan, 13th February 2019

Equita and Bocconi University are celebrating the sixth anniversary of their partnership aimed at encouraging the debate on structural elements, development factors and possible solutions for the growth of capital markets of Italian companies. The revamp of capital markets is key for Italy and each year, at their annual event, Equita and Bocconi University present a research on selected topic of interest.

This year the research focuses on what drives the choice of Italian non-financial companies to issue a bond instead of relying on traditional bank lending. The paper compares several issuers and non-issuers and various issue types in order to shed light on what factors may foster or hinder the ongoing corporate disintermediation process.

This sixth position paper, drafted by the BAFFI Carefin - Centre for Applied Research on International Markets, Banking, Finance and Regulation of Bocconi University and in collaboration with Equita, was presented today during the event *"The Italian corporate bond market: what is happening to the capital structure of Italian non-financial companies?"* at Bocconi University.

Institutional and keynote speakers including Ignazio Visco, Governor of Bank of Italy, Gianmario Verona, Dean of Bocconi University, Andrea Vismara, CEO of Equita Group, Alessandro Profumo, CEO of Leonardo, Claudio Costamagna, Chairman of CC & Soci, Paola Leocani, Partner and Head of DCM Simmons & Simmons, Mauro Moretti, Founder and Managing Partner at Three Hills Capital Partners, Paolo Pendenza, Head of Private Debt of Equita Group, and Francesco Perilli, Chairman of Equita Group, gave their views during the event.

The paper, presented by the Dean of International Affairs and BAFFI CAREFIN Research Center of Bocconi University, Stefano Caselli, and the Antin IP Associate Professor of Infrastructure Finance and BAFFI CAREFIN Research Center of Bocconi University, Stefano Gatti, discusses both the state of the Italian debt capital market and funding options available for Italian corporates as well as the considerations behind the companies' decision to issue bonds. The first section focuses on solutions adopted by the Italian companies to finance their activities, highlighting recent trends of disintermediation of the traditional banking channel and diversification of funding sources. The second section of the research paper presents an empirical analysis on what drives non-financial companies to issue a bond for the first time and the determinants of the pricing of that bond at launch.

The findings that emerge from the analysis of the corporate bond market for Italian companies indicate that this market, although seen as a residual resource in the past, has become more attractive to a larger pool of companies. This reflects an increased corporate understanding of the importance of developing alternative financing options and the danger of relying excessively on bank lending.

The gradual transition from bank funding to disintermediated, market-based alternatives represents a very welcome development in corporate funding options for Italian companies. But compared to other more developed non-domestic markets, these findings suggest that Italy is catching up to the practices of other countries. It is important to highlight that Italian companies were historically almost exclusively reliant on conventional bank credit. This had always been an anomaly compared to other countries where companies have access to more diversified bank and market funding sources.

Overall, results do paint a picture of an evolving market, caught in the tension between new forces driving the demand and supply of debt capital: on the demand side, the need to fill the corporate funding gap resulting from the retreat by banks from lending and the willingness of companies to diversify their funding sources; on the supply side, the reduction of bank credit in response to higher capital requirements is offset by more appetite from yield-seeking investors.

The analysis also shows that company size and quality of the business can be an obstacle to debt market funding as the Italian debt capital market is accessible only to companies with the highest credit rating and therefore not suitable to completely fill the corporate funding gap caused by the retreat in bank lending.

Based on these findings, policy needs to focus on promoting the development of a larger and stronger domestically focused investor base that ensures that SMEs are also able to take full advantage of a more diversified range of debt financing options.

Following the presentation of the paper and the speech of Ignazio Visco, Governor of the Bank of Italy, Marco Clerici, Co-Head of the Investment Banking of Equita, presented the Equita's third Observatory on Capital Markets in Italy. The observatory analysed the key development trends on equity and debt capital markets in 2018, with a focus on impact on investors and financial intermediaries following the introduction of new regulation like MiFID II that affected capital markets.

Francesco Perilli, Chairman of Equita Group, commented: *"This year's position paper, focused on debt capital markets, highlights how Italian non-financial companies are moving toward market-based alternatives compared to the past, despite access to these funding sources remains difficult for SMEs. It is necessary to encourage new initiatives aimed at promoting the development of capital markets also for those smaller companies".*

Andrea Vismara, Chief Executive Officer of Equita Group, commented: *"It is undoubtedly true that the financial crisis has finally put an end to the almost monopolistic primacy of the banking system as a source of corporate financing for Italian companies. As the Bank of Italy has often pointed out, this is an anomaly of our country: we believe that over time the monopoly of the banking system has led a financial weakness in our enterprises, an issue that has not been satisfactorily tackled yet. Therefore, the fact that companies are increasingly turning to capital markets to raise capital must be truly welcomed".*

* * *

Close to Media	Finelk	Università Bocconi
Ufficio Stampa Equita	Ufficio Stampa Equita	Ufficio stampa Bocconi
adriana.liguori@closetomedia.it	equita@finelk.eu	tomaso.eridani@unibocconi.it

Equita is an independent investment bank, reference partner for Italian companies and institutional investors, with 45 years of experience. The business model is clear and focused: Sales & Trading on equities, bonds and derivatives for domestic and international institutional customers is combined with a high profile Investment Banking platform dedicated to advisory to companies and financial institutions. Proprietary Trading, with market making activities and advice on valuation of financial instruments, and Alternative Asset Management, providing traditional portfolio management on concentrated positions along with innovative private debt and private equity portfolio management, such as the special acquisition vehicle (SPAC), complete the range of specialized and synergic services offered. Moreover, all business lines are continuously supported by a Research team recognized for its excellence. Independent advice and deep knowledge of capital markets grant Equita credibility among domestic and international institutional investors, ensuring a unique positioning in the Italian market, with a focus on mid & small caps.