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WHY DO ITALIAN COMPANIES GO PUBLIC? AN EMPIRICAL ANALYSIS OF THE PERIOD 2006-2016

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In collaborazione con

EQUITA

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FOREWORD

by EQUITA

2017 will be remembered as the year in which the Italian capital markets finally took a significant step toward becoming a reliable source of funding for Italian companies.

The volume of issues by Italian corporates in the debt and equity markets increased dramatically from 2016 to 2017, with more than €50 billion raised through almost 200 issues in 2017. This was more than three times the number of issues seen in 2007. Even more interestingly, half of these issues took place in markets dedicated to SMEs that were launched in the past 10 years, especially the AIM market of Borsa Italiana and the "minibond" market. While equity issues by larger companies in the regulated markets have been relatively stable over the past ten years, the smaller companies have been the major contributors to the growth of the markets. This indicates a clear cultural shift toward increasing openness to the capital markets and away from the traditional sources of financing.

We owe this progress to a number of factors. First, Italian companies have realized that it is wiser to have a more balanced capital structure and avoid relying excessively on the banking market, which showed itself to be relatively fragile and volatile during the financial crisis. Second, investors have learned to appreciate Italian companies, which have shown tremendous growth and resilience as well as good stock and debt performance over the years, as discussed in Bocconi's 2017[1] *research paper on the topic. Third, a few determined opinion makers, including Bocconi, Borsa Italiana, Confindustria, and Equita, have dedicated a significant amount of time and effort to analyzing and explaining the merits of companies accessing capital markets and establishing a productive dialogue with institutions. In fact, we at Equita are so committed to these topics that we promoted the listing of an SPAC and subsequently completed the listing of our firm on the AIM market in 2017. Finally, and most importantly, the Italian government has passed two fundamental pieces of tax legislation. One, issued at the end of 2016, aims to incentivize long-term retail investors via the highly successful PIR funds. The second, which was finalized in 2017, offers a tax credit on listing expenses for SMEs completing an IPO.*

All of these factors have contributed to a renewed focus on Italian capital markets as well as a new, positive tone with regard to companies that open up to external capital. The PIR funds raised more than €10 billion exceeding all expectations, and the liquidity and performance of listed Italian corporates improved dramatically. The markets are now ready to welcome many new, successful companies.

Within this context, we are delighted to celebrate the fifth year of our partnership with Università Bocconi, which is aimed at analyzing the Italian debt and equity markets as well as suggesting initiatives that could further improve them. We are particularly pleased that some of the initiatives that we have jointly proposed in the past have become a reality.

[1] Does Investing in Italian Capital Markets Pay? The Past Decade Perspective (January 2017).

As the markets have improved so significantly, we believed it would be useful to analyze what drives companies to undertake an IPO and to examine why some of them prefer to remain private. This is the focus of Bocconi's 2018 research paper, which we feel is particularly fitting at a time when some of the obstacles that have traditionally prevented companies from considering the equity markets, such as a lack of dedicated investors, have been effectively removed.

The paper offers a very interesting analysis, which shows that size, growth, and capital structure are some of the key factors driving Italian companies' decisions to go public. This means that smaller companies, which do not seem to require equity and are not growing very fast, do not approach the capital markets despite the clear scientific evidence that an IPO creates opportunities for companies to prosper and grow much faster than private companies.

This brings us directly to the core of what needs to be do be done to make it easier for companies to undertake an IPO. These factors have not yet been addressed in a satisfactory way by Italian or European institutions.

- *Italian listing rules must be simplified and improved: In our view, it is completely unreasonable that a company wishing to be listed on the STAR segment must publish a prospectus of at least 500 pages and spend more than six months on the project. The process is extremely burdensome in Italy. Therefore, we urge Consob and Borsa Italiana to a lesser extent, to simply the process and work to lower the costs associated with it.*

- *EU regulations must be revisited: There is no proportionality for the listing of a €200 million or a €2 billion company. Both have to comply with a number of rules, many of which arise from the Market Abuse Regulation and many of which are unreasonable. This is deeply felt among all European operators. Governments and regulators need to address this issue properly.*

- *Investment banks publishing research on SMEs must be protected and incentivized: The MIFID2 regulation dramatically affects the sector. In the absence of specific initiatives, smaller brokers covering smaller companies will disappear, as has been the case over the past 10 years. The removal of conflicts of interest of lending banks dealing with corporate finance clients (as in the UK as of January 2018); tax incentives for dedicated research efforts (similar to incentives for industrial R&D); and cancelation of the Tobin Tax, which negatively affects Italian investors and brokers, are all key for ensuring that the ecosystem of operators assisting SMEs can prosper and promote the Italian capital markets.*

We thank Bocconi University for its outstanding work during the first five years of our partnership, and for sharing the values and objectives of this project. We look forward to continuing our collective effort to analyze, promote, and improve the Italian capital markets.

CONTRIBUTING AUTHORS[1]

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[1] The authors would like to thank the officers of the companies included in the focus group for their participation. The interviews were carried out by the research team in October and November 2017. Responsibility for the contents of this report lies solely with the authors.

CONTENTS

1 INTRODUCTION

Well-developed equity capital markets are at the cornerstone of economic growth. They provide firms with the funds they need for investments. They allow investors to diversify and share risk. They enhance information transfer and processing by reducing information asymmetries among investors, and they discipline management, thereby mitigating agency conflicts with shareholders.

The bond between financing and growth is well established in the finance literature. Its presence is supported by numerous studies analyzing the link between capital markets and firm profitability, growth, funding, innovation, and internationalization. For example, in a study recently released by CONSOB, Giordano and Modena (2017) show that Italian firms that are listed on Borsa Italiana are more profitable, grow faster, and invest more than comparable private firms. More specifically, they compare 51 medium-sized listed companies with their non-listed peers (matched by industry and size) over the period 2002-2011. They find that listed firms: (i) report higher rates of growth in terms of revenues, investments, and employees; (ii) are more profitable; (iii) have better access to debt capital markets and bank loans, which allows them to invest more than non-listed firms whose investments are constrained by their cash-flow generation; and (iv) are more resilient in times of economic recession or financial crisis.

These results suggest that staying private is costly not only for companies, which then grow at a slower pace, but also for the economic growth of the country, as shown by Geranio and Appendini (2013). However, if we look at the development of the Italian equity capital market, we observe that Italian firms seem less likely to go public than their international peers. Table 1 compares the number of domestic listed firms (Panel a.) and their total market capitalization as a percentage of GDP (Panel b.) across countries. The comparison suggests that fewer Italian firms choose to go public than French or German firms, and that the stock-market capitalization of Italian firms as a percentage of GDP is the lowest among the countries considered. While this may be explained by the bank centrism of the Italian corporate-funding model, it is important to note that Italy lags far behind other European economies that also rely mostly on bank finance, such as Germany and Spain, where the market capitalizations of listed firms account for 49.5% and 57.2% of GDP, respectively. The corresponding figure for Italy is 27.6%. The gap is even larger when considering more market-oriented economies, such as the US, the UK, and France, where the market capitalizations of listed firms account for 147.3%, 83.5%, and 87.5% of GDP, respectively.

TABLE 1
Number (Panel a.) and market capitalization (as a % of GDP, Panel b.) of listed firms in major economies

Panel a.	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Italy	301	294	291	290	311	303	285	290	307	307
Spain	249	216	202	205	210	207	202	207	218	236
France	707	673	652	617	586	562	500	495	490	485
Germany	761	742	704	690	670	665	639	595	555	531
UK	2588	2415	2179	2105	1987	1879	1857	1858	1856	1804
US	5109	4666	4401	4279	4171	4102	4180	4369	4381	4331

Source: World Bank, MBRES Indici e Dati

Panel b.	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Italy	48.7%	21.8%	30.0%	25.2%	18.9%	23.2%	28.9%	27.3%	32.7%	27.6%
Spain	121.7%	58.0%	95.7%	81.8%	69.3%	74.5%	81.9%	72.2%	65.9%	57.2%
France	102.9%	50.4%	72.2%	72.2%	54.3%	67.4%	81.9%	73.2%	85.8%	87.5%
Germany	61.2%	29.6%	37.8%	41.8%	31.5%	41.9%	51.6%	44.8%	51.0%	49.5%
UK	125.6%	64.9%	116.8%	80.1%	71.6%	71.7%	88.9%	84.7%	84.9%	83.5%
US	137.6%	78.7%	104.6%	115.5%	100.8%	115.6%	143.9%	151.4%	138.9%	147.3%

Source: World Bank, MBRES Indici e Dati

The underdevelopment of Italian equity markets is rooted in the structure of the country's business environment, which is populated by small and micro family-owned firms, and reflects the corporate-funding preferences of these firms.

According to the ninth census of businesses conducted by ISTAT in 2011, 99.5% of Italian firms have less than 50 employees and most companies do not employ more than five people. Moreover, these firms employ more than two-thirds of the entire workforce. Over 70% of firms are family-owned and have a highly concentrated ownership structure, with the largest shareholder controlling approximately 70% of the company, on average, and the top-three shareholders controlling more than 93%. This is reflected in the composition of corporate boards, where 56% of appointed directors are family members when the company is fully owned by the family, and 48% otherwise.

With respect to the corporate-funding preferences of Italian firms, Table 2 compares domestic firms' total debt to equity (in Panel a.) and the total credit provided by the banking sector to domestic, private, non-financial firms as a percentage of GDP (in Panel b.) across countries. The picture that emerges from this comparison is consistent with the underdevelopment of the Italian equity capital market. Indeed, firms in Italy are the least capitalized of the firms in the countries considered. On the other hand, bank finance in Italy does not support economic growth by filling firms' funding gaps to the same extent as in Spain and France, where firms are also thinly capitalized. This represents an obstacle to the growth of Italian firms and a drag on the economy.

TABLE 2
Corporate-funding preferences across major economies: total debt to equity ratio (Panel a.) and total credit provided by the banking sector to domestic, private, non-financial firms (as a % of GDP, Panel b.)

Panel a.	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Italy	69.5%	86.4%	85.0%	130.1%	146.1%	138.9%	123.8%	127.8%	119.0%	115.7%
Spain	119.9%	123.5%	119.5%	121.1%	120.5%	116.1%	113.1%	107.5%	104.7%	101.8%
France	-	82.3%	79.2%	73.8%	79.9%	85.9%	79.3%	86.0%	89.4%	90.3%
Germany	85.9%	121.3%	110.9%	94.2%	104.3%	93.2%	84.9%	82.7%	80.8%	81.9%
UK	-	-	-	-	-	-	-	-	-	-
US	54.2%	60.9%	67.1%	62.2%	61.8%	62.6%	58.2%	58.9%	57.5%	54.6%

Source: International Monetary Fund

Panel b.	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Italy	79.7%	82.2%	85.8%	91.3%	92.5%	91.7%	88.5%	86.7%	86.1%	83.9%
Spain	160.7%	164.8%	166.4%	164.5%	159.2%	148.0%	135.8%	124.7%	114.9%	107.6%
France	84.2%	88.1%	90.7%	91.5%	93.1%	93.0%	92.7%	91.1%	92.6%	94.6%
Germany	87.7%	87.9%	89.9%	85.9%	82.9%	81.8%	80.1%	77.6%	76.6%	76.3%
UK	101.1%	99.0%	105.9%	107.2%	101.4%	97.6%	93.5%	90.0%	89.7%	91.0%
US	56.6%	57.4%	52.9%	51.5%	49.3%	48.9%	48.4%	49.3%	51.0%	52.3%

Source: Bank of International Settlements

Given this context, this paper aims to analyze the determinants of the decision to go public or stay private on the basis of company interviews and an empirical study of the pre-IPO characteristics of firms that go public compared to those that do not. In particular, we are interested in identifying the factors that motivate Italian firms to go public or remain private.

This is not the first study to address this question. Amihud and Mendelson (1988) show that the liquidity of listed stocks induces firms to go public. Similarly, Zingales (1995), Mello and Parsons (1998), Stoughton and Zechner (1998), and Black and Gilson (1998) argue that decisions to go public are driven by the goal of helping shareholders who wish to sell their shares and exit the firm. According to Welch (1989), the fact that listed firms find it easier to access funding motivates the decision to go public. Finally, Jensen and Meckling (1976), Pagano and Roell (1998), Holmstrom and Tirole (1993), and Bolton and Von Thadden (1998) propose an alternative explanation grounded on the increased discipline that public ownership imposes on management.

In the Italian context, Pagano, Panetta, and Zingales (1998) study a sample of firms in the pre- and post-IPO stages. They show that Italian firms tend to go public in order to rebalance their capital structure rather than to finance growth. Our analysis departs from this study in two main respects. First, we undertook a set of one-on-one interviews with the managers of a focus group of firms, including both public and private firms to identify the set of motives that might affect the decision to go public or remain private. Second, we examine the decision to go public or stay private by comparing the pre-IPO characteristics of a sample of firms that have listed their shares on Borsa Italiana MTA with a set of comparable firms that have not. Our goal is to identify characteristics that explain why the set of arguments in favor of going public prevails over arguments in favor of staying private and vice versa.

The paper is structured as follows. The next section introduces a framework for the motives for going public and provides a detailed summary of our interviews undertaken in the focus group. In Section 3, we present our empirical analysis by first introducing the sample and then reporting the results of the quantitative analysis. Section 4 offers conclusions and policy recommendations based on our findings.

2 WHY DO COMPANIES GO PUBLIC?

The decision to go public or remain private reflects a trade-off between the benefits and costs of an IPO. Many concurrent factors contribute to this decision.

With the aim of identifying the most relevant factors that encourage or discourage Italian firms from going public, we conducted extensive one-on-one interviews with the executive managers of a number of firms. More specifically, we have formed a focus group consisting of 8 listed firms and their closest private competitors, and asked each of them to describe what they perceived to be the determinants of their public or private status. Each-one of the 16 firms in our focus group has been contacted separately. Two firms declined to answer our questions, and one firm asked to remain anonymous. The interviews were carried out from October through December 2017.

Our focus group includes firms operating in different sectors, including consumer goods and services, industrial products and services, and healthcare. Each listed firm was matched with the closest comparable firm that was still private even though it was eligible for an IPO. The objective was to form a qualitative sample that was broad enough to represent the productive economy as well as Italian areas of excellence while preserving comparability among listed and private companies. Table 3 describes our sample, and Table 4 reports the summary statistics for the listed and non-listed firms.

TABLE 3
Companies included in the focus group

Listed Firm	Market Segment	Sector	Year IPO	Mkt. Cap. (€ mil.)	Non-listed Comparable
Ferragamo	MTA	Consumer goods, Apparel	2011	3,754	Valentino
IVS	MTA	Consumer services, Commerce	2011	523	Argenta
Masi	AIM	Consumer goods, Food and beverages	2015	139	Antinori
Recordati	MTA	Healthcare	1984	7,797	Closed
IMA	STAR	Industrials, Products	1995	2,846	Closed
Cerved	MTA	Industrials, Services	2014	2,053	Teamsystem
Safilo	MTA	Consumer goods, Personal goods	2005	276	De Rigo
Piquadro	MTA	Consumer goods, Leather goods	2007	98	Undisclosed

Note: Market capitalization as of the end of November 2017.

TABLE 4
Summary statistics for listed and non-listed firms in the focus group (€ thous.)

	Listed Firms				Non-listed Comparables			
	Mean	Median	Min	Max	Mean	Median	Min	Max
Revenue	752,631	765,448	63,870	1,437,923	500,112	217,481	146,208	1,457,027
EBITDA	155,571	130,124	8,794	371,217	86,423	49,553	13,799	255,046
EBIT	95,521	67,594	(116,267)	327,423	47,145	9,384	(3,427)	206,582
Net Income	58,120	32,392	(142,101)	237,431	21,856	5,917	(75,771)	128,681
Net Fin. Debt	140,224	74,170	6,576	523,400	194,655	164,426	(47,700)	724,067

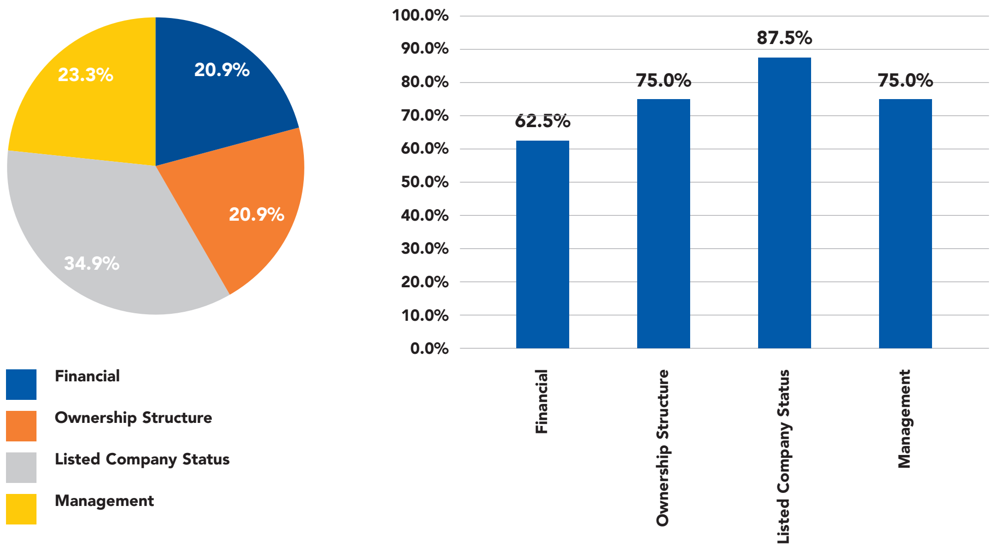
Note: Financial figures taken from most recent financial statements.

All public companies in our focus group were listed on Borsa Italiana. Company managers indicated that even though a broader and deeper investor base and the possibility for a better valuation may have supported the case for a listing abroad, they refrained from pursuing this option owing to the challenges. In particular, they mentioned the difficulties of gaining sufficient international recognition and supporting the liquidity of the stock, as well as the higher administrative and regulatory costs.

2.1 Motives driving or disheartening Italian firms to list: What do Italian companies say?

The motives that listed firms highlighted when asked about the drivers of their decision to go public can be placed into four main categories: financial, managerial, or they can rather be related to the ownership structure of the company or associated with the achievement of the status of listed company. These categories and the extent of their discussion in interviews are summarized in *Figure 1*. The bar chart reports the proportion of interviews in which each type of motive was cited, while the pie chart represents the frequency with which the different motive types were mentioned as a percentage of all company responses. The most frequently cited reasons for going public related to the achievement of listed status. They were raised in seven of the eight interviews and they accounted for approximately 35% of all replies. Motives for going public associated with the company's ownership structure or its management were cited in six interviews, and accounted for 20.9% and 23.3% of all company responses, respectively. Financial motives were mentioned in five interviews and accounted for 20.9% of all replies.

FIGURE 1
Motives for undertaking an IPO: percentage of interviews (bar chart) and overall frequency (pie chart)



Within each of these categories, we find an extensive set of specific motives that affect the decision to go public. In the listed company status category, four objectives were raised by company managers, as shown in *Figure 2*. The greater visibility and the perceived reliability associated with listed status were cited in five of seven interviews. Closely related was the objective of enhancing the financial culture across the company and certifying the firm's organizational structure, which were each mentioned once. The aim of reducing informational asymmetries with outsiders, thereby making the company and its management more transparent, was mentioned five times, while the objective of easing the use of stock as a currency for M&A was cited twice. On one occasion, company managers also indicated that the listed status helped attract and retain members of management owing to stock-option plans. More specifically, when motives associated with the listed status were cited, gains in terms of credibility and transparency were the most frequent objectives. Each accounted for 33.3% of the responses, which indicates that such motives are important drivers of decision to go public. Easier use of stock as currency for M&A activities was highlighted in 20.0% of responses, while the objectives of increasing the appeal of stock-option plans and improving the financial culture across the organization each contributed 6.7%.

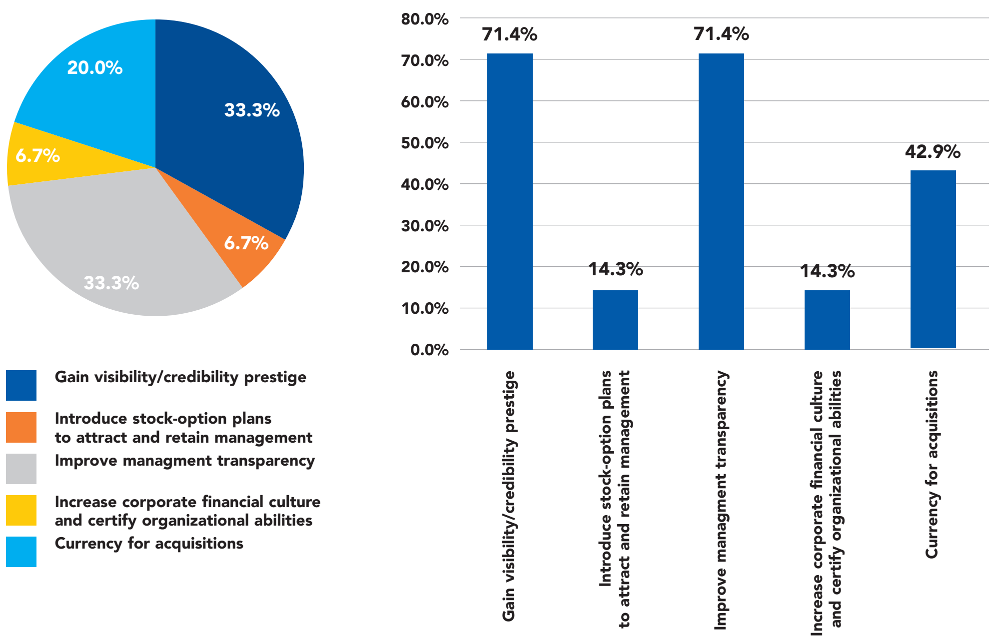


FIGURE 2
Motives for undertaking an IPO associated with listed-company status: percentage of interviews (bar chart) and overall frequency (pie chart)

Figure 3 breaks down managerial motives. These motives include improvements in terms of the transparency and rigor of planning and control processes (mentioned in five of six interviews); the strengthening of the company's bargaining power relative to customers and suppliers (three interviews); and the development of more efficient communication channels between the company and its stakeholders, including institutional channels (two interviews). More specifically, when managerial motives were cited, improving the rigor and transparency of management processes was the most common objective (50%), followed by strengthening the company's bargaining power relative to customers and suppliers (37.5%), and improving communication with stakeholders (22.2%).

FIGURE 3
Managerial motives for undertaking an IPO: percentage of interviews (bar chart) and overall frequency (pie chart)

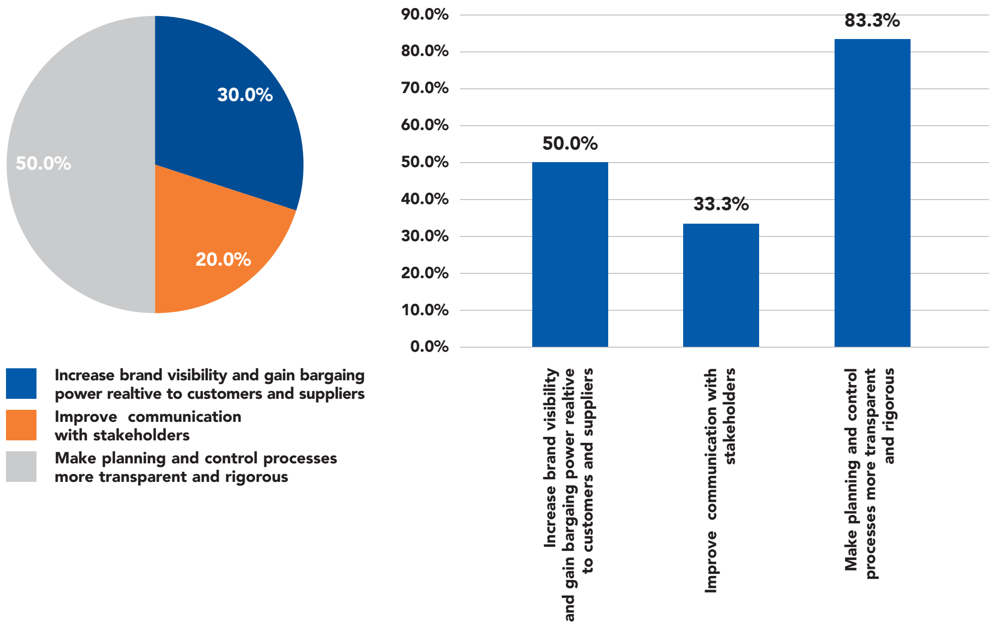


Figure 4 covers motives related to ownership structure. Objectives in this regard include the exit of financial sponsors (mentioned in four of six interviews), the sale of partial stakes by founders (four interviews), and a general rebalancing of the ownership structure (two interviews). More specifically, when motives associated with the ownership structure were cited, the exit of financial sponsors was the most frequent objective (reported in 44.5% of the cases), followed by the aim of providing founders with liquidity (33.3%) and other ownership-structure rebalancing objectives (22.2%).

FIGURE 4
Motives for undertaking an IPO associated with ownership structure: percentage of interviews (bar chart) and overall frequency (pie chart)

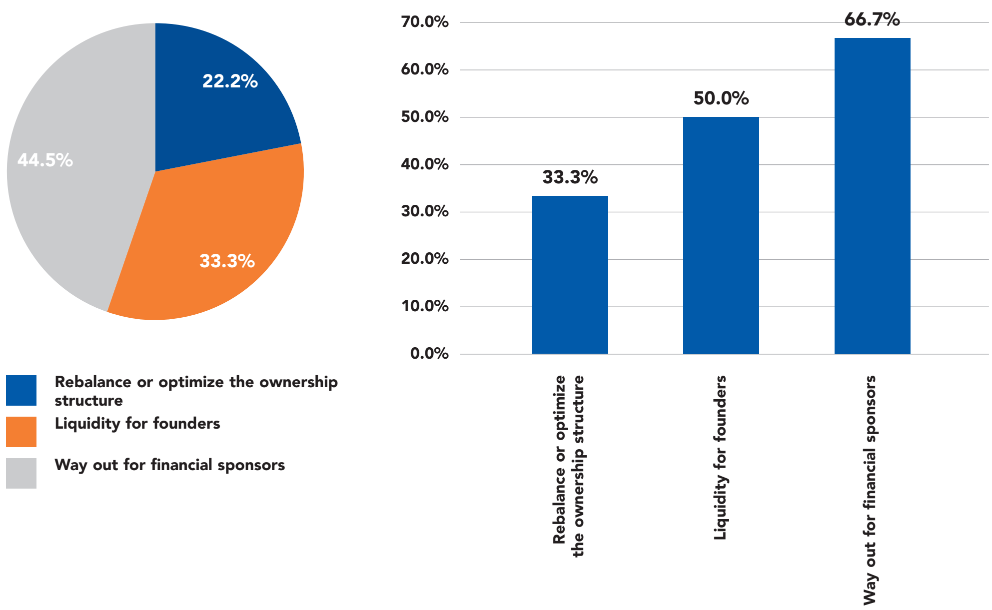


Figure 5 breaks down financial motives, which include the need to fund external growth through mergers and acquisitions (mentioned in four of five interviews), the need to rebalance and optimize the capital structure of the company (three interviews), and the need to fund medium- to long-term investment projects (two interviews). More specifically, when financial motives were cited, funding external growth was the most frequent objective (reported in 44.5% of the cases), followed by rebalancing or optimizing the capital structure (33.3%), and funding medium- to long-term projects (22.2%).

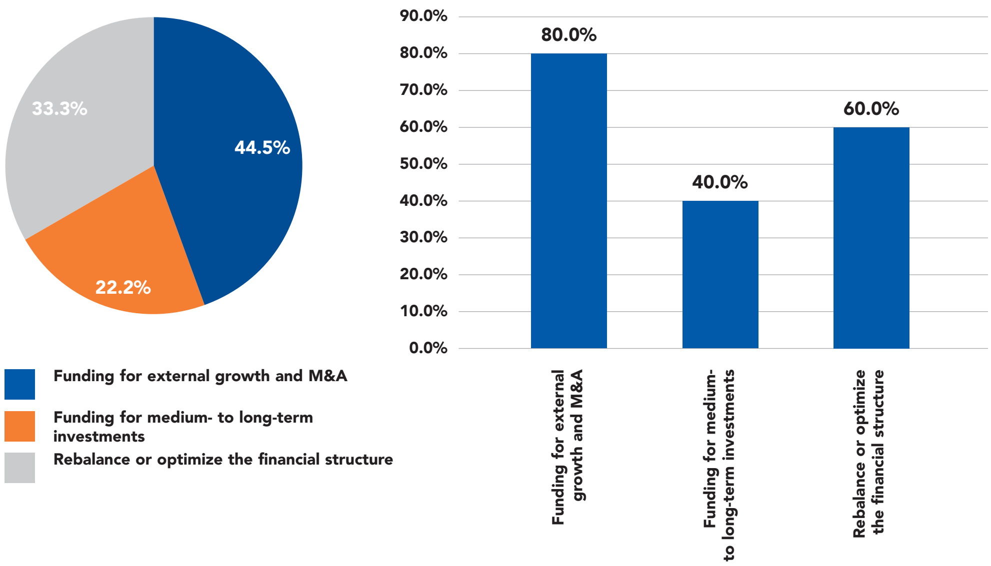
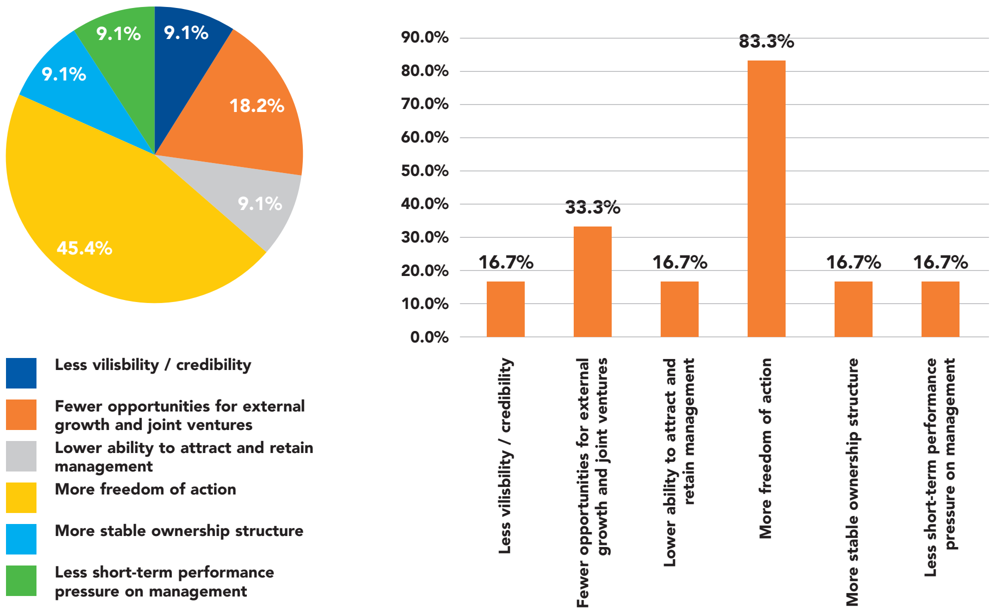


FIGURE 5
Financial motives for undertaking an IPO: percentage of interviews (bar chart) and overall frequency (pie chart)

The listed companies noted that they were able to achieve several of their initial objectives by going public. In particular, in an ex-post assessment of their experience as a listed company, they reported improved visibility, credibility, and prestige. They also highlighted increased rigor and transparency in their management processes, and an improved ability to grow through M&A and joint-venture activities. In addition, these companies were able to reorganize their ownership structures by letting financial sponsors exit.

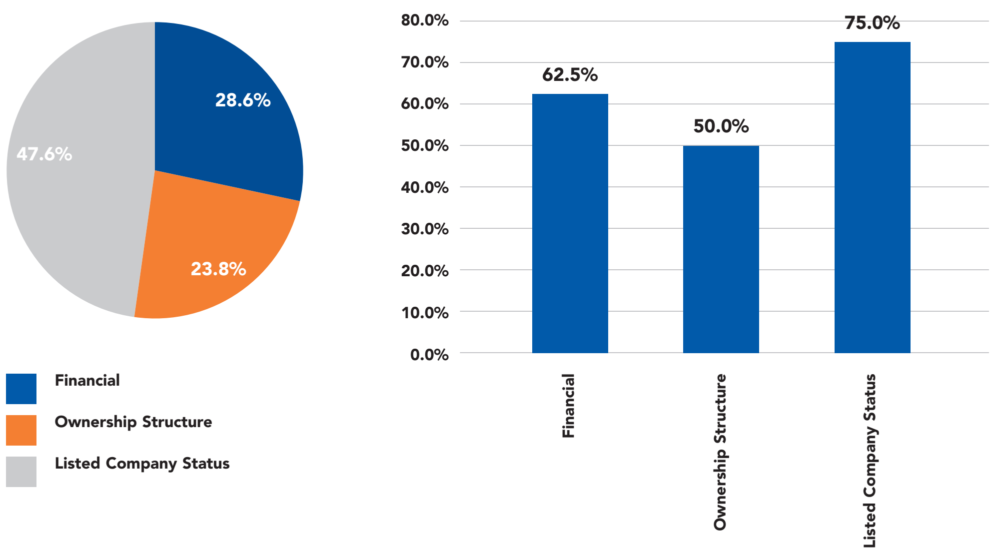
Notably, the private companies we studied did not perceive listed status as an advantage for their competitors. Although these firms recognized that they might not have the visibility enjoyed by their listed competitors, the same opportunities for external growth, or the same ability to attract and retain management, they made several arguments in support of their private status, as shown in *Figure 6*. In particular, they pointed out that staying clear of market scrutiny provided them with more freedom of action compared to their listed competitors. This freedom included the ability to embark on more innovative projects, more flexibility in redesigning their business models, more stable ownership structures, and less short-term pressure on management to perform.

FIGURE 6
Pros and cons of being private rather than public: percentage of interviews (bar chart) and overall frequency (pie chart)



More specifically, what are the factors that kept the private companies we studied from going public? The motives that the private firms discussed can be classified into three main categories: financial or they can rather be related to the ownership structure of the company or associated with the status of listed company. The reasons for remaining private that emerged from our interviews of non-listed firms are summarized in *Figure 7*. The bar chart reports the proportion of the interviews in which each type of motive was cited, while the pie chart represents the frequency with which it was mentioned as a percentage of all responses. The most frequently cited reasons for not going public had to do with the drawbacks of listed status, which were brought up in six of the eight interviews and accounted for approximately 47.6% of all replies. Financial motives were mentioned in five interviews and accounted for 28.6% of all replies, while motives associated with the company's ownership structure were cited in four interviews and accounted for 23.8% of all responses.

FIGURE 7
Motives for remaining private: percentage of interviews (bar chart) and overall frequency (pie chart)



Each of these categories includes an extensive set of specific motives that together determine the company's preference for remaining private. In relation to listed status, four different explanations were provided by company managers, as reported in *Figure 8*. The concern that market short-termism would not adequately value (or incentivize) managerial focus on long-term objectives was cited in three of six interviews. The same was true for the argument that the benefits of a public listing would be entirely offset by the illiquidity of stocks due to the small market capitalization. The desire to avoid high levels of disclosure while restructuring the business model, and the costs associated with the listing process and investor relations were both mentioned twice. More specifically, when drawbacks associated with the listed status were cited, market short-termism and scarce stock liquidity were frequent explanations, each accounting for 20% of the responses. Then, the ability to restructure the business model without the scrutiny of the market and the ability to avoid the costs associated with the listing process and investor relations contributed 30% each.

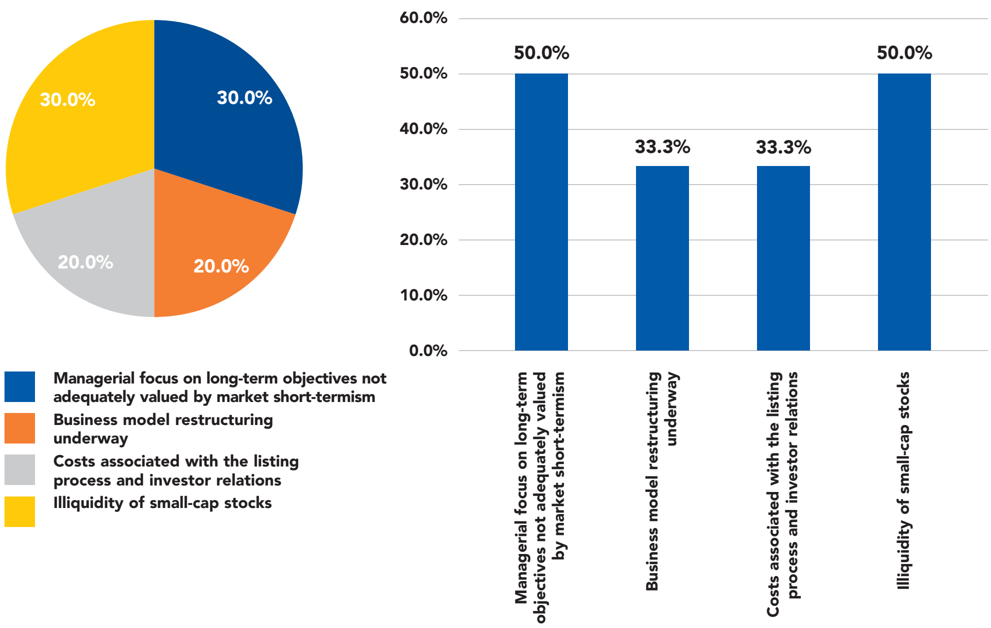


FIGURE 8
Motives for remaining private associated with listed status: percentage of interviews (bar chart) and overall frequency (pie chart)

Figure 9 breaks down the financial motives for remaining private, include keeping the financial structure of the company sound and balanced (mentioned in three of five interviews); the presence of a financial sponsor to support growth (two interviews), and unfavorable market conditions that did not guarantee adequate valuation of the company's assets (one interview). More specifically, when financial motives were cited, comfort with the current financial structure was the argument most frequently used to explain the decision to remain private (reported in 50.0% of the cases), followed by the availability of alternative sources of funding growth, such as a financial sponsor (33.3%), and unfavorable valuations due to adverse market conditions (16.7%).

FIGURE 9
Financial motives for remaining private: percentage of interviews (bar chart) and overall frequency (pie chart)

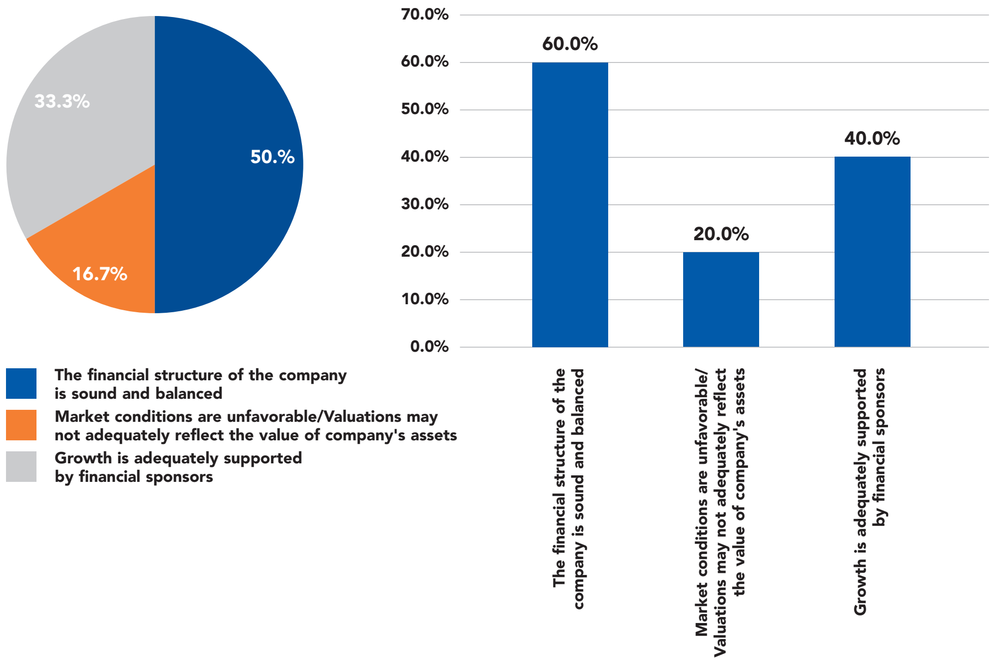
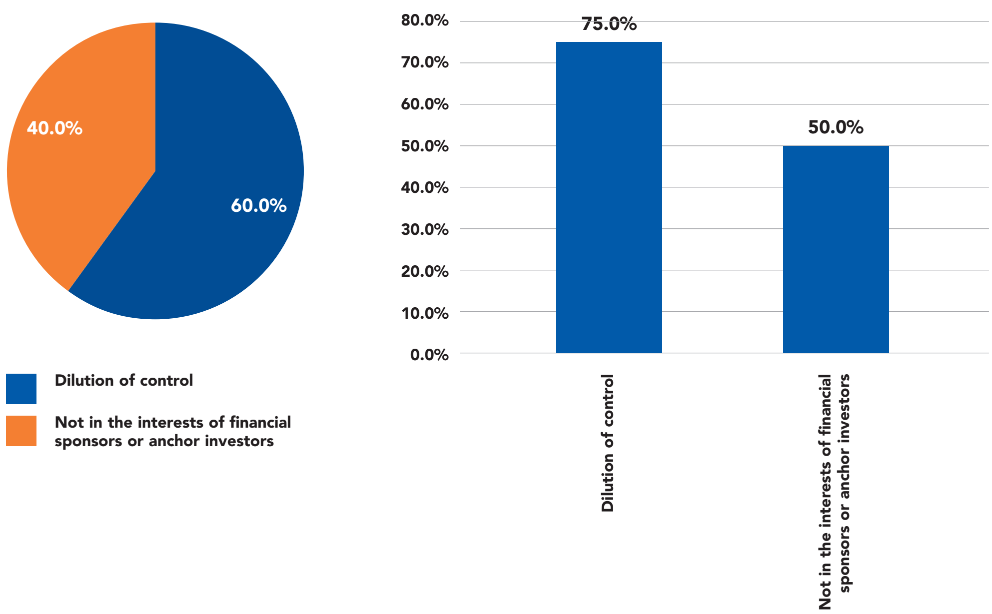


Figure 10 breaks down motives related to ownership structure. These include concerns about dilution of control (mentioned in three of four interviews), and financial sponsors' or anchor investors' aversion to or lack of interest in going public (mentioned twice). More specifically, when motives associated with the ownership structure were cited, avoiding dilution of control was the argument most often used to explain the decision to remain private (reported in 60.0% of the cases), followed by a lack of interest among current financial partners (40.0%).

FIGURE 10
Motives for remaining private associated with ownership structure: percentage of interviews (bar chart) and overall frequency (pie chart)



3 WEIGHING THE BENEFITS AND COSTS OF AN IPO: WHICH SET OF ARGUMENTS PREVAILS?

In this section, we empirically analyze the decision to go public or remain private by comparing the pre-IPO characteristics of firms that have listed their shares on Borsa Italiana MTA with the characteristics of a set of comparable firms that remained private. Our goal is to identify characteristics that drive the decision to go public or stay private. In particular, we want to identify which pre-IPO firm characteristics can explain why arguments in favor of an IPO may eventually prevail over those against an IPO, and vice-versa. We conduct our analysis in two steps. First, we look at pre-IPO differences among firms that then went public and those that did not. Second, we test the ability of a broad set of pre-IPO firm characteristics to explain the decision to undertake an IPO.

3.1 Data

We formed our sample by collecting data on all IPOs on Borsa Italiana MTA from January 2008 to December 2017.[2] We excluded IPOs by financial firms (e.g., Investimenti e Sviluppo Meditteraneo, Anima Holding, Finecobank, Banca Sistema, Banca Farmafactoring, Dobank) and the IPO of Poste Italiane.[3] Our final sample comprised 22 IPOs. In most cases (11), the IPO involved both newly issued shares and shares sold by shareholders (OPSV). Only new shares (OPS) were offered in three cases, while only existent shares (OPV) were offered in eight cases. *Table 5* covers the top-10 IPOs in our sample.

TABLE 5
Top-10 IPOs

Rank	Company	IPO Date	Type	Amount € mil.
1	Enel Green Power	29/10/2010	OPV	2466.3
2	Massimo Zanetti Beverage Group	03/06/2015	OPSV	875.27
3	Inwit	22/06/2015	OPV	875.27
4	Enav	26/07/2016	OPV	833.58
5	Moncler	16/12/2013	OPV	783.56
6	Cerved Information Solutions	24/06/2014	OPSV	489.54
7	Ovs	02/03/2015	OPSV	445.64
8	Salvatore Ferragamo	29/06/2011	OPV	378.92
9	Fincantieri	03/07/2014	OPSV	356.63
10	Rai Way	19/11/2014	OPV	280.25

Table 6 provides descriptive statistics on the IPOs included in the sample. Panel a. sheds light on their size and annual volumes. The total value of shares offered in the sample period exceeded of €9 billion. The IPOs ranged in size from €33 million in the case of Openjobmetis to €2.46 billion for Enel Green Power, with an average of €414.22 million. More than two-thirds of our observations occurred in

[2] Our sample period is constrained by the fact that we do not have financial data for the companies in our sample prior to 2007.

[3] The IPO of Poste Italiane is excluded from our sample because of the lack of a non-listed comparable.

the post-2012 period. The most IPOs were recorded in 2015. Panel b. shows the nature of the shares issued and the investors to whom they were offered. The IPOs in our sample involved existing shares sold by current shareholders more often than newly issued shares. Moreover, most of these shares were allocated to institutional, rather than retail, investors. In the case of OPSVs, the number of new shares issued exceeded the number of shares sold by existing shareholders only in the IPOs of Fincantieri, OVS, Massimo Zanetti Beverages Group, Openjobmetis, and Indel B. Regardless of the IPO type, less than one in five shares went to retail investors, on average (see Panel c.). No shares were allocated to retail investors in the IPOs of Banzai (now ePrice), Technogym, Unieuro, or Indel B.

TABLE 6
Sample summary statistics: IPO firms

Panel a.

Year	IPOs	Value Total € mil.	Value Average € mil.	Value Median € mil.	Value Std. Dev. € mil.	Value Min. € mil.	Value Max. € mil.
2008	1	56.15	56.15	56.15		56.15	56.15
2009	1	120.31	120.31	120.31		120.31	120.31
2010	2	2503.60	1251.80	1251.80	1717.56	37.30	2466.30
2011	1	378.92	378.92	378.92		378.92	378.92
2012	1	173.91	173.91	173.91		173.91	173.91
2013	2	1052.65	526.32	526.32	363.79	269.09	783.56
2014	3	1126.42	375.47	356.63	105.91	280.25	489.54
2015	6	2352.72	392.12	257.59	404.25	33.00	875.27
2016	3	1235.46	411.82	215.00	365.53	186.88	833.58
2017	2	112.72	56.36	56.36	27.66	36.80	75.92
Total	**22**	**9112.86**	**414.22**	**242.04**	**541.39**	**33.00**	**2466.3**

Panel b.

Year	IPOs	Value Total € mil.	OPS	OPV	Retail	Instit.	Other
2008	1	56.15	100%	-	20.6%	79.4%	-
2009	1	120.31	22.3%	77.7%	8.1%	91.7%	0.2%
2010	2	2503.60	0.5%	99.5%	36.4%	19.0%	44.6%
2011	1	378.92	-	100%	7.9%	92.1%	-
2012	1	173.91	35.7%	64.3%	10.6%	89.4%	-
2013	2	1052.65	2.6%	97.4%	8.8%	91.2%	0.0%
2014	3	1126.42	51.5%	48.5%	32.1%	67.2%	0.7%
2015	6	2352.72	22.6%	77.4%	7.1%	61.5%	0.0%
2016	3	1235.46	17.4%	82.6%	5.9%	93.9%	0.2%
2017	2	112.72	20.4%	79.6%	-	100%	-
Tot €mil	22	9112.86	1534.82	6837.97	1673.93	5570.08	1128.82
Avg €mil	22	414.22	109.63	359.89	98.47	253.19	125.42
Med €mil	22	242.04	55.06	111.91	29.99	171.18	0.71
StDv €mil	22	541.39	123.93	583.15	219.61	246.58	371.69
Min €mil	22	33.00	11.60	5.63	2.67	30.05	0.17
Max €mil	22	2466.3	356.70	2466.30	904.80	794.97	1116.60

Note: Others includes current shareholders, employees, and others.

Panel c.

	Total (44)	No IPO (22)	IPO (22)	OPSV (11)	OPS (8)	OPV (3)
% Retail	-	-	16.0%	17.0%	13.8%	20.1%
% Institutional	-	-	81.4%	76.6%	83.8%	93.1%

We complemented the data on IPOs from Borsa Italiana with data on company financials in the year prior to the IPO from AIDA. More specifically, we computed a set of variables to capture the pre-IPO characteristics that might be related to the decision to go public, as summarized in *Table 7*.

TABLE 7
Variable descriptions: Pre-IPO firm characteristics

Category	Variable	Description
Size	Empl	Number of employees
	Ta	Total assets
Growth	Age	Years since foundation
	GrEmpl	CAGR of number of employees (three years)
	GrTa	CAGR of assets (three years)
Profitability	Margin	EBIT/sales
	Roa	EBIT/total assets
	Roe	Net income/shareholders' equity
Capital Structure and Credit Capacity	Leverage	(Loans + long-term debt)/total assets
	Cf	Cash flow/total assets
	Tfa	Tangible fixed assets/total assets
	Cur	Current ratio
	Icr	Interest coverage ratio
Capital Intensity	Wc	Working capital/total assets
	Capex	(Change in tangible fixed assets + D&A expenses) /total assets
Ownership Structure	BlockOwn	Dummy variable (shareholder recorded holding more than 50%, directly or indirectly)

Notes: Growth variables' CAGRs are generally computed over a three-year period, although they are sometimes computed over two years (10 observations) or one year (5 observations) depending on data availability. Ownership data for IPO firms is point-in-time, while it is as of 31/12/2016 data for non-IPO firms.

We then matched each IPO firm with its closest IPO-eligible firm that did not go public based on firm industry and size in the year prior to the IPO. More specifically, of all firms for which financial data was available on AIDA, we classified only those firms fitting at least one of the following criteria as IPO eligible: operating revenue in excess of €100 million, total assets in excess of €200 million, or more than 1,000 employees. These are the same criteria that AIDA applies to identify "Very Large Companies." They are more restrictive than those applied, for example, by Geranio and Appendini (2013), who treat all firms with at least €50 million in revenue or at least 150 employees as IPO eligible. We then matched each IPO firm in our sample with its closets comparable from all IPO-eligible firms belonging to the same peer group that did not go public. We did so based on revenue in the year prior to the IPO. The peer groups are defined according to AIDA's industry and size classification criteria. *Table 8* presents the results of our matching.

TABLE 8
Matched sample: IPO firms and IPO-eligible private firms

IPO Firm	Peer Group (Very Large Companies)	Closest IPO-eligible firm
Molmed	Research and experimental development in the natural sciences and engineering	Biogen
Yoox	Retail sales via mail order or the internet	Cem
Tesmec	Machining	Proma
Salvatore Ferragamo	Manufacture of footwear	Tod's*
Brunello Cuccinelli	Manufacture of knitted and crocheted apparel	Missoni
Moleskine	Other manufacturing	Giorgio Fedon & Figli**
Moncler	Leasing of intellectual property and similar products, except copyrighted works	Dolce & Gabbana Trademarks
Cerved Information Solutions	Activities associated with collection agencies and credit bureaus	Teamsystem
Fincantieri	Building of ships and floating structures	C.R.N.
Rai Way	Electrical installation	Otis Servizi
Banzai (ePRICE)	Retail sales via mail order or the internet	Monclick
Ovs	Other retail sales in non-specialized stores	La Rinascente
Massimo Zanetti Beverage Group	Head-office activities	Gruppo Illy
Aeroporto Guglielmo Marconi di Bologna	Service activities associated with air transportation	Società Azionaria Gestione Aeroporto di Torino
Openjobmetis	Temporary employment agency activities	Umana
Technogym	Manufacture of sports goods	Tecnica Group
Coima Res	Buying and selling of own real estate	Reale Immobili
Enav	Service activities associated with air transportation	S.E.A.
Unieuro	Wholesale of electrical home appliances	Comet
Indel B	Manufacture of electric home appliances	Bonferraro

Note: * We match Salvatore Ferragamo with Tod's, which is also listed, for the lack of financial data on closely comparable private firms within the industry-size peer group of Salvatore Ferragamo. **At the time of Moleskine's IPO on MTA, Giorgio Fedon & Figli was still private. It was not listed on AIM until the following year.

3.2 How do firms that undertake an IPO compare with IPO-eligible firms that do not go public?

In a first attempt to link pre-IPO firm characteristics with the decision to go public, we compare firms that undertook an IPO (IPO firms) with IPO-eligible firms that did not go public. *Table 9* reports the mean values of a broad set of company characteristics. The areas in which IPO firms depart significantly from IPO-eligible firms that did not go public are highlighted. On average, IPO firms are larger than their non-IPO counterparts, especially in terms of the number of employees. However, they are generally also younger firms still in their growth phase (number of employees) and operating under a more leveraged capital structure. These findings are consistent with the rationale that the decision to go public is driven by the need to fund growth and to rebalance the firm's capital structure. When we take a closer look at the different types of IPOs, we observe that this result holds whenever the IPO involves newly issued shares (OPSV and OPS), but not when it only involves the sale of existing shares (OPV). In the latter case, the IPO serves as a way out for existing shareholders and does not affect the firm's finances. In fact, OPVs seem to be common among firms that have not yet reached their mature stage, as they have high growth but no profitability.

TABLE 9
IPO firms and IPO-eligible firms that did not go public: financial statistics (averages)

Financials	**Total (44)**	**No IPO (22)**	**IPO (22)**	**OPSV (11)**	**OPS (8)**	**OPV (3)**
Empl	1,996.58	869.52	3,072.41*	4,506.45**	2,206.25***	124.00
Ta (€ million)	787.00	392.00	1,180.00	844.00	1,990.00**	262.0
Age	21.09	26.68	15.50**	19.09	13.12*	8.67
GrEmpl	12.4%	-1.0%	26.6%*	12.1%***	9.8%**	158%***
GrTa	10.1%	6.7%	13.7%	6.8%	2.4%	17.5%
Margin	5.5%	10.3%	0.6%	15.1%	17.8%	-9.9%***
Roa	6.2%	7.8%	4.6%	8.3%	8.8%	-19.9%***
Roe	10.2%	10.6%	9.8%	16.2%	19.3%	-3.9%*
Leverage	21.5%	16.2%	26.9%*	37.0%***	16.5%	17.6%
Cf	7.5%	9.2%	5.8%	7.0%	11.9%	-14.7%***
Tfa	19.9%	22.2%	17.6%	9.6%	24.9%	27.9%
Cur	1.75	1.35	2.22	1.16	1.11	8.33***
Icr	50.83	97.27	6.62**	4.76	10.84	-0.05
Wc	14.3%	16.0%	12.57%	21.7%	6.2%	-3.9%
Capex	-5.1%	-3.6%	-6.9%	-7.4%	-6.8%	-5.8%

*, **, and *** indicate that the mean for IPO firms, or a specific type of IPO firms, is different from the mean computed across non-IPO firms at the 10%, 5%, and 1% levels of statistical significance, respectively.

Control rights are deeply embedded in decisions to go public or to stay private. *Table 10* breaks down our sample in terms of ownership structure. In this respect, we classify firms according to the Bureau Van Dijk independence index, which is based on the direct and indirect ownership stakes of a firm's largest blockholder. The majority of firms in our sample were controlled by a single large blockholder with direct ownership of more than 50% of the shares. This characteristic was even more pronounced for IPO-eligible firms that did not go public. This finding is consistent with the rationale that firms may decide to stay private because the current shareholders do not wish to lose control over the company.

TABLE 10
IPO firms and IPO-eligible firms that did not go public: ownership structure (averages)

Blockholders	**Total (44)**	**No IPO (22)**	**IPO (22)**	**OPSV (11)**	**OPS (8)**	**OPV (3)**
All < 25%	5	1	4	1	1	2
	(11.4%)	(4.5%)	(18.2%)	(9.1%)	(12.5%)	(66.6%)
None > 50%	9	3	6	4	1	1
	(20.5%)	(13.6%)	(27.3%)	(36.4%)	(12.5%)	(33.3%)
Indirect > 50%	1	1				
	(2.3%)	(4.5%)				
Direct > 50%	29	17	12	6	6	
	(65.9%)	(77.3%)	(54.55%)	(54.5%)	(75.0%)	

3.3 What factors affect a firm's decision to go public or remain private?

The analysis in Section 3.2 shows that IPO firms differ significantly from IPO-eligible firms that do not go public along several dimensions. A natural question is whether the decision to go public or remain private is rooted in these pre-IPO characteristics. In order to explore this question, we model the decision to go public or remain private as a dichotomous variable that takes a value of 1 for companies that went public the following year and 0 otherwise. We then link the decision to our proposed determinants using a logit model that demonstrates how differences in pre-IPO characteristics affect the likelihood of realizing an IPO. *Table 11* shows the results of this analysis under different alternative model specifications focusing on a specific group of variables capturing: firm size (I), growth (II), profitability (III), capital structure (IV), investment needs (V), and ownership structure (VI). Model VII includes all of these variables. Again, consistent with the rationale that the decision to go public is driven by the need to fund growth and to rebalance the capital structure of the firm, the estimations confirm that a greater likelihood of undertaking an IPO is associated with larger size, faster growth (in the number of employees), and greater leverage. More specifically, a one-standard deviation increase in a firm size, growth, or leverage increases its probability of embarking on an IPO by approximately 15%, 34%, and 14%, respectively.

TABLE 11
Logit model estimation: (log scale) odds coefficients and t-stats (in parenthesis)

	I	II	III	IV	V	VI	VII
Empl (log)	-0.03						
	(-0.18)						
Ta (log)	**0.42***						0.17
	(1.64)						(0.41)
Age		-0.04					-0.05
		(-1.31)					(-1.40)
GrEmpl		**11.96*****					**12.79****
		(2.58)					(2.18)
GrTa		1.24					
		(1.00)					
Margin			0.32				-1.55
			(0.30)				(-0.75)
Roa			-6.58				-9.89
			(-1.09)				(-0.90)
Roe			1.43				1.28
			(0.92)				(0.44)
Leverage				**2.89***			**5.48***
				(1.74)			(1.74)
Cf				-3.29			10.81
				(-0.97)			(0.89)
Tfa				-0.75			
				(-0.53)			
Wc					-0.25		
					(-0.02)		
Capex					-2.12		
					(-0.73)		
BlockOwn						-0.28	1.53
						(-0.37)	(1.04)
Const	**-8.02***	0.03	0.24	-0.22	-0.32	0.22	-5.49
	-(1.75)	(0.04)	(0.62)	(-0.38)	(-0.70)	(0.33)	(-0.69)

*, **, and *** indicate that the coefficients are different from 0 at the 10%, 5%, and 1% levels of statistical significance, respectively.

To gain some more insight into the rationale driving the decision to go public, we look at the subsample of IPO firms. We link the proportion of new shares issued relative to existing shares sold to our proposed determinants by means of a linear regression model that shows how differences in pre-IPO characteristics drive the choice of OPS or OPV. *Table 12* reports the result of this analysis. Columns I and II look at the proportion of new shares issued versus existing shares sold. The fraction of the offering involving new shares is larger when the firm needs financing to grow. Pre-IPO growth in the number of employees is positively associated with the amount of newly issued shares offered and negatively associated with the number of shares sold by existing shareholders.

TABLE 12
Linear regression model estimation: coefficients and t-stats (in parenthesis)

	I % New	II % Sold	III % Retail	IV % Inst.
Empl (log)				
Ta (log)	0.02	0.06	**0.10****	-0.06
	(0.25)	(1.05)	(2.73)	(-0.90)
Age	0.01	**-0.01***	**0.01****	-0.01
	(1.66)	(2.16)	(2.27)	(-0.81)
GrEmpl	**0.31****	**-0.23***	0.05	0.07
	(2.47)	(-2.12)	(0.71)	(0.60)
GrTa	-	-	-	-
Margin	-0.44	-0.12	-0.32	-0.45
	(-1.08)	(-0.35)	(-1.36)	(-1.20)
Roa	2.87	-0.36	0.45	2.20
	(0.81)	(-0.12)	(0.22)	(0.67)
Roe	-0.89	-0.67	0.07	-0.41
	(-0.95)	(0.89)	(0.14)	(-0.51)
Leverage	0.66	-0.82	0.35	-0.04
	(0.96)	(-1.39)	(0.86)	(-0.06)
Cf	-0.59	1.14	0.40	1.41
	(-0.25)	(0.57)	(0.29)	(0.65)
Tfa				
Wc				
Capex				
BlockOwn	0.01	-0.12	-0.03	-0.07
	(0.05)	(-0.86)	(-0.32)	(-0.45)
Const	-0.47	-0.12	**-2.22****	1.82
	(0.33)	(-0.10)	(-2.65)	(1.36)

*, **, and *** indicate that the coefficients are different from 0 at 10%, 5%, and 1% levels of statistical significance., respectively.

We also study the pre-IPO characteristics that drive the decision to target either retail or institutional investors in the IPO. Columns III and IV of *Table 12* examine the fractions of the offering allocated to retail and institutional shareholders. Consistent with the argument that market short-termism may be a concern for smaller firms, we find that firm size and firm age are positively associated with the proportion of the offering focused on retail shareholders. Not surprisingly, these are often firms with strong, widely recognized brands or government-owned companies that are being privatized.

4 CONCLUSIONS AND RECOMMENDATIONS

When weighing the pros and the cons of an IPO, firms are well aware that achieving their goals depends on meeting investors' expectations. Only companies that fully meet investors' requirements can reap the benefits of going public. All others will only bear the costs. Investors focus on:

- The growth potential of the market and the company.
- The strength of the firm's competitive positioning (e.g., market share, barriers to entry, business model): Investors want to invest in companies with sustainable and strong business propositions.
- Management's track record: A trusted management team is highly regarded by investors, as it can guide the company through additional growth and deliver future upside for shareholders.
- A solid financial position: Investors closely monitor a company's capital structure as well as the use of proceeds when an IPO takes place. Investors do not want IPO proceeds used to merely repay outstanding debt. Moreover, the use of proceeds needs to be consistent with the company's strategy.
- An attractive valuation: Given the private nature of a company that is going public, investors require a discount of 20-25% compared to the fair valuation of the shares (the "IPO discount").
- A high level of visibility and disclosure: Investors want to be able to monitor the fundamentals of their own investments.
- Liquidity: The number of shares listed and traded on the stock exchange has to be high enough to make transactions easy and not excessively volatile, thereby allowing investors to manage the risk-reward profile of their investments.
- Corporate governance: Investors appreciate companies with transparent and balanced systems of corporate governance because such systems protect their rights as shareholders.

Consistent with this view, our study shows that firms go public when their pre-IPO characteristics are such that the arguments in favor of an IPO prevail over the arguments against it. Indeed, as for now, we find that only larger firms access the market. For them the arguments against going public are milder, since the cost of complying with market regulation and meeting investor demands are smaller. On the contrary, going public by means of an IPO represents the peak of their growth process and an occasion to gain visibility and recognition of their standing or allow some of the shareholders to liquidate their investments.

For smaller firms that need funds to support their high rates of growth or reduce their leverage, going public would represent instead a necessary step towards reaching an optimal size and creating value for shareholders. However, in our analysis we show that only few of them eventually gain access to market funding given the drawbacks of market scrutiny and the cost of meeting investor expectations. Some will instead opt for the AIM market, where listing requirements are less stringent, but liquidity is scarce, and the investor base is limited. In fact, of the €2.25 billion in shares issued on the AIM market since 2009, more than €2 billion were newly issued shares, reflecting the demand among medium- and small-sized firms for equity capital as well as the fact that the funding gap restrains their growth.

We suggest that the listing process should be simplified, and the regulatory and administrative costs associated with a public listing should be reduced to allow more medium-sized companies to access deeper equity and more efficient capital markets, such as the MTA. Moreover, we point to the need to improve the liquidity of the AIM as crucial for unleashing the growth potential of smaller firms and eventually enhancing the growth of the Italian economy.

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Notes

Notes

The key question of this edition of the paper is why italian companies decide to go public or, conversely, why they decide to stay away from capital markets. We try to answer these questions with two different methodological approaches. On one side, we carry out an extensive number of interviews with listed and private companies making up a focus group, so to collect first-hand indications regarding our key question and to corroborate the results of the second part of the analysis. On the other side, we set up an empirical analysis over the period 2006-2016 that studies the pre-IPO characteristics of firms that go public compared to those that do not. In particular, we are interested in identifying the factors that motivate Italian firms to either go public or remain private. Our findings show that firms go public when their pre-IPO characteristics are such that the arguments in favor of an IPO prevail over the arguments against it.