# New Growth Markets for Small and Mid Cap Companies: The Launch of AIM Italy

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**Abstract:**

An essential prerequisite for the financial equilibrium of enterprises is efficiency in investment markets. The Italian economic context is largely characterised by SMEs, which thus play a key role in national growth. At present the Italian SMEs are facing major changes, which will probably redefine their role in the international economic scenario and in market globalisation. To address this challenge, the SMEs have to review their financial strategy and realise that they must share risks and growth with new investors in their equity. Although the emerging alternative investment markets, which are dedicated to small and mid cap companies, appear to address these new demands, there is a growing debate on: (a) the regulation and admission criteria for joining new growth markets; (b) the entities permitted to trade on them; and (c) the real competitive advantage that can be achieved through them. Using the methodological approach of descriptive statistics, this paper aims to answer the following research questions: (1) to what extent has the MAC permeated the SME business sector in Italy and, (2) based on the success of the UK AIM experience, what is the potential of AIM Italy. In order to answer the first research question, we analysed the principal indicators of structure and economic-financial performance for companies listed on the MAC. As regards the second question, we collected and analysed statistical data for the companies listed on the UK AIM. The main results that emerged are: (I) at national level there are significant differences between the principal indicators analysed; (II) independent of quantitative results, the degree of spread of the MAC and the development of AIM Italy will be determined by the role of the investors allowed to trade on these markets.

## 1. Introduction

The growth and development of SMEs is an issue of crucial importance at global level, not only from an economic point of view, but obviously also at a political and social level.

Since the Italian capitalist model is based principally on a fabric of small businesses, mostly family firms, the issue is particularly pertinent. In Italy, in effect, firms with less than 50 employees account for approximately 98% of the structure of the economic system, and 93% are run by families or people who are related or have close personal connections (AIdAF, & Bank of Italy, 2004).

At present, despite their size, these SMEs have to address the new challenges of growth imposed by the global market, and hence have to implement development strategies through which they can seek a competitive advantage that will enable them to survive in a system in continual evolution.

The intensification of competition, the drive for dimensional growth and the processes of generational succession that Italian enterprises are addressing entail major financial investments. In this now more complex scenario, the identification of new capital is clearly of vital significance. However, this need comes up against the difficulties that smaller firms encounter in collecting funds with a high degree of stability. They must, nevertheless, pay the utmost attention to the identification and selection of the financial resources and partners that are crucial for funding growth. Consequently, they must methodically plan and schedule the composition of their own and third-party resources, so as to avoid overburdening. Finance, understood in a broad sense, is thus one of the principal factors of success for the SMEs (Bencini, Mancaruso, & Mangiarotti, 2007).

An analysis of the channels through which to access capital for business development must comprise an appraisal of the characteristics of the context in which it operates. In Italy, in fact, the entrepreneurial culture appears to be still anchored to the traditional model of the businessman (Fazzi, 1982), marked by the closure of the ownership structure to any sharing of the entrepreneurial project with third parties.

The chronic shortage of resources in the form of venture capital frequently results in an excessive exposure of the SMEs to credit offered by the banks, the classic financiers of the Italian businesses, which renders them increasingly undercapitalised and highly indebted. In recent years, moreover, the bank credit sector has been struck by a major instability, in terms of both interest rates and the structure of the international system. The problem of sourcing capital appears difficult to solve, entailing as it does a significant cultural and professional change in the managerial class. In effect, whatever approaches are adopted in the enterprise to identify resources of an ongoing character, the opening of the capital structure and the recourse to new channels of funding cannot be separated from a review of the relations between ownership and corporate control.

Recently the limitations to the growth of the SMEs deriving from the difficulty of access to sources of funding, especially in the form of venture capital, have also been addressed by institutional intervention. In practice, this has taken the form of special provisions designed to foster the level of capitalisation of the enterprises and to discourage an excessive recourse to bank loans.

Moreover, new opportunities for sourcing equity funding and new capital markets specifically devoted to the SMEs are emerging, which represent the most appropriate alternative to sustain strategies of growth.

Particularly interesting in this respect are the initiatives of Italian Stock Exchange, which have materialised in the birth of the MAC (Alternative Capital Market) and of AIM Italy (Alternative Investment Market). Despite the interest and curiosity that these inspire, there are nevertheless doubts about the extent of permeation and the results they can potentially achieve.

From an empirical point of view, partly due to the only recent introduction, there are very few studies addressing an analysis of the results and prospects of the new alternative capital markets. In an awareness of the scarcity of reference sources in literature, the objective of this study is to illustrate, utilising descriptive statistic tools, the data on the results and the spread of the MAC and, based on the successful experience of the AIM UK, the prospects of the newly-launched AIM Italy.

## 2. New Financial Markets For The SMES

### 2.1 Literature review and conceptual framework

The structural liability of the SMEs is characterised by a low level of capitalisation and a major short-term debt exposure. On average, own capital represents approximately 29% of resources, while short-term liabilities account for 54%, within which the largest item consists of 43% of supply payables and 28% payables to banks (D'Amato, & Cacia, 2008).

Apropos the picture mapped out above, it is clear that the promotion of financial markets created specifically to respond to the demands of capitalisation of the SMEs is a phenomenon of the greatest interest. The funding of projects for development and growth tailored to the new conditions imposed by the global market demands a parallel evolution of the available resources. More specifically, a historic change in the capitalist system is called for; the passage from an excessive recourse to bank loans to the opening of the capital to a limited number of equity investors with whom the growth and the enterprise risk is shared.

An issue that returns cyclically to the fore in the debates on the Italian financial system is the tiny number of firms listed on the stock exchange and the very limited attraction that this exercises for the SMEs (Ferragina, Mancaruso, & Palmas, 2008). In Europe, on the other hand, recent years have witnessed an important flow of IPOs, even from firms of small and medium dimensions. Many of these did not take place on the traditional regulated markets but in multilateral trading facilities (MTF) belonging to the category of alternative trading systems, as an alternative site for the exchange of financial instruments already quoted on the regulated markets. In practice, these frequently emerge as autonomous circuits, co-ordinated by the same management company as the regulated markets. Unlike the latter, the rules concerning admission and trading, information transparency and market microstructure, are only to a minimum degree established by laws and regulations. This enables the management companies to simplify all the related compliance, to reduce the costs and consequently to attract even companies that would never have considered listing on the larger markets. Certain authors (Brett, 2003; Jeffrey, 2006) stress the fact that such companies cannot be considered as listed companies but rather as "quoted" or "traded", as they enjoy a slightly more relaxed regulatory regime than that imposed on fully listed companies.

The MTF have abandoned the criterion generally adopted by the regulated markets: in effect, the demand for minimum (suitability) requirements of capitalisation, profitability, years of business etc., has given way to the criterion of the opening of the company to the market (disclosure). On the basis of this, the companies are required to provide ample informative documentation to the market, especially in relation to price-sensitive communications (Tedde, 1998).

The listing of the SMEs is clearly linked to the possibility of achieving advantages and grasping tangible opportunities (D'Amato, & Cacia, 2008; Ferragina, Mancaruso, & Palmas, 2008). Among the most important of these are: internal growth through the funding of development projects, the rebalancing of the financial structure, the improvement of credit standing, external growth via the collection of resources, strengthening of the organisational structure and capacity for attracting qualified managers, enhancement of the corporate image, the transparency, reliability and visibility of the corporate worth, the liquidability of the investment and the facilitation of generational turnover for family firms.

The limitations related to listing are instead perceived with a varied intensity, in proportion to the propensity to change of the entrepreneurs themselves and the corporate culture. The negative aspects relate to: reduction in the control of the firm, the demand for a clear distinction between personal and corporate wealth, the need to strengthen the organisational structure, the greater commitments called for as regards the market and stakeholders, the increase in the information and transparency obligations and the initial costs for access and the costs of remaining on the market.

### 2.2 Research focus and questions

Up to a few years ago there was a widespread sensation that the financial markets were undergoing a major standardisation, driven by the process of globalisation of the world stock markets. Now, instead, it is believed that the economic and social specificity of the individual national contexts cannot be cancelled and has to be taken into consideration to design new financial markets that match the reality of the individual countries, with a view to global spread and expansion.

As a consequence the characteristics of the SMEs have to be borne in mind to design the mechanisms for the markets devoted to them. In effect, in view both of the volume of exchange and the float present on the market, their securities can feature high degrees of non-liquidity. To prevent the system being compromised, it has to be regulated bearing this in mind and seeking to contain the problem.

To meet these demands, in Italy two new capital markets dedicated to the SMEs have been launched: the MAC and AIM Italy.

In the wake of the successful experience of the AIM of the London Stock Exchange (although it actually differs from the latter in some substantial aspects), the management company of Italian Stock Exchange launched the MAC. Exchange on the alternative market began on 17 September 2007 to the great enthusiasm of the financial community. The MAC hinges on two main pivots (the second being that which substantially differentiates it from the AIM): simplified and deregulated admission procedure, combined with the fact that only institutional investors are allowed to trade on the market, thus safeguarding the small savers (Passeri, & Mazzi, 2009). The market was launched with very ambitious aims: to arrive at around thirty listings within the first year and to reach the goal of a thousand listed companies within the span of a few years (ProMac, 2007). This ambition however came up against the harsh reality of a period of severe crisis and a response from the companies and the entities qualified to trade on the market that fell decisively short of expectations. To date, in fact, only five companies are present on the MAC and the exchange appears to be in a phase of stalemate that it cannot get out of.

Moreover, the opening of another alternative market – AIM Italy – then materialised through the agreement for the merger of Italian Stock Exchange with the London Stock Exchange drawn up in the second half of 2008. The new group proposes to repeat the success of the London AIM in Italy, this time adhering to the AIM model practically to the letter, with the exception of several context and national regulation features.

This market appears to have the potential to attract a greater number of companies than the MAC, since retail investors too are allowed to trade, requiring in exchange the submission of more substantial informative documentation.

The idea of creating a single market by fusing the MAC model and that of the AIM having been shelved, numerous doubts then arose regarding the overlap and the viable co-existence of the two exchanges. These were overcome through the collaboration agreement between the promoters, drawn up with a view to fostering the growth of Italian firms submitting internationally attractive development projects through recourse to investments in venture capital. In substance, therefore, the two markets will maintain certain distinctive features, and will together provide the SMEs with an offer of capital that is structured, complementary and synergetic.

Within this framework, the present paper proposes to respond to two main research questions:

- Contrary to the claims of the promoters, the MAC has not yet achieved a satisfactory spread: what levels of performance have the five listed companies achieved?
- What are the expectations and prospects for the evolution of the new AIM Italy, considering the successful experience of AIM UK?

## 3. Data and Methodology

### 3.1 Data sources and selection of variables

As already stated, this paper consists of two research questions; in attempting to reply to these we will exploit two different series of data and methodological approaches.

As regards the first question addressing analysis of the degree of spread and the results achieved by the MAC, the balance sheets of all the companies listed on the market at 30 April 2009 were analysed.

**Table 1: Companies listed on the MAC as at 30 April 2009**

| | Tessitura Pontelambro | Raffaele Caruso | Area Impianti | S.E.I. Servizi Energetici Integrati | Centro Servizi Metalli CSM |
|---|---|---|---|---|---|
| **Business sector** | Textiles Fashion Accessories | Textiles Fashion Accessories | Public utility (ecological systems) | Energy production and distribution | Minerals Metallurgy Petroleum |
| **Date of admission** | 18 Jul 2007 | 08 Sep 2007 | 06 Dec 2007 | 20 Mar 2008 | 22 Dec 2008 |
| **Start of trading** | 17 Sep 2007 | 12 Oct 2007 | 14 Dec 2007 | 04 Apr 2008 | 02 Jan 2009 |

The above table shows that the company Centro Servizi Metalli was admitted to the market at the start of the current financial year, and hence we have decided to exclude it from the analysis since it does not yet feature data that allow a verification of the levels of performance achieved following the listing.

Our dataset is therefore composed of the complete financial statement data of the other four quoted companies, more specifically of the annual balance sheets for the 2005, 2006, 2007 and 2008 financial years (the latter not yet available for all in definitive format) and the six-monthly statements as at 30 June 2007, necessary for the presentation of the listing prospectuses. The data were collected from the mandatory documents published on the MAC website and integrated with those present in the AIDA database[1] . Consequently we are dealing with homogeneous, highly comparable data.

The variables were selected on the basis of how representative they were for describing the equity, economic and financial values and the levels of performance.

**Table 2: Factsheet variables**

| Name | Tessitura Pontelambro | Raffaele Caruso | Area Impianti | S.E.I. | CSM |
|---|---|---|---|---|---|
| **Offer price (Euro)** | 4.00 | 15.50 | 40.00 | 2.20 | 4.10 |
| **Funding (millions of Euro)** | 6.00 | 8.53 | 5.76 | 11.00 | 7.71 |
| **Capitalisation first day of listing** | 14.96 | 34.41 | 45.76 | 63.14 | 28.21 |
| **Float – no. of shares (% of share capital)** | 1,500,000 (40.11%) | 550,000 (24.77%) | 144,000 (12.59%) | 5,000,000 (17.42%) | 1,880,000 (27.33%) |
| **Number of investors** | 16 | 18 | 7 | 6 | 12 |
| **Share capital** | 1,870,000 | 2,220,000 | 1,144,000 | 28,700,000 | 688,000 |
| **Minimum trading lot** | 7,500 | 875 | 750 | 6,250 | 3,000 |
| **Last trade price** | 4.30 | 18.50 | 23.00 | 1.60 | 3.80 |
| **Last trade date** | 15 Jan 2009 | 30 Mar 2009 | 22 May 2009 | 17 Apr 2009 | 3 Apr 2009 |
| **Quantity exchanged** | 30,000 | 3,500 | 750 | 12,500 | 6,000 |

[1] The AIDA Database contains the historic series of complete balance sheets for approximately 540,000 companies operating in Italy

**Table 3: Variables and ratios examined in the first part of the analysis**

| |
|---|
| Revenues (millions of Euro) |
| Ebitda |
| Ebitda margin (ebitda/sales) |
| Ebit |
| Ebit margin |
| Net profit (loss) |
| Shareholders' equity |
| Net financial position |
| Level of debt |
| ROI (ebit/net invested capital) |
| ROS (ebit/turnover) |
| ROE (net profits/own capital) |

Instead, as regards the second research question, regarding the expectations and prospects of development for the newly-launched AIM Italy, we have referred to the statistical data available for the firms listed on the AIM UK. We are interested above all in analysing the degree of spread achieved by the London alternative market, so as to understand what expectations we can place in its Italian sister and make comparisons in the future, once the latter is fully operative.

### 3.2 Research methodology

We are aware of the fact that the data available for the analysis are still scant, and possibly as yet not very significant since they relate to a brief timeframe, given that the introduction of the alternative capital markets is very recent. Nevertheless we are interested in investigating whether, in this brief time, there have been positive or negative shocks in the trends of the variables analysed. To this end, we shall represent the trends, the deviations and the distribution of the same. To do so, we shall use tools of descriptive statistics, such as, mainly the means and the medians. These position indices enable us to analyse the distribution of the data and establish the first relations between them.

As regards the analysis of the statistics available for the spread of AIM UK, this will enable us to establish a benchmark for future measurements and to analyse the results achieved over the last fifteen years since the launch of the London alternative market.

## 4. Empirical Findings

### 4.1 MAC Results

As explained above, to answer the first research question a descriptive statistics analysis was carried out on the companies listed on the MAC, apart from the last one admitted.

**Table 4: Representation of balance sheet data**

| Name | | Tessitura Pontelambro | Raffaele Caruso | Area Impianti | S.E.I |
|---|---|---|---|---|---|
| Revenues Million Euro | 31/12/2005 | 11.8 | 38.5 | 21.6 | 15.9 |
| | 30/06/2006 | 6.1 | 20.4 | - | - |
| | 31/12/2006 | 13.5 | 44.1 | 35.3 | 29.0 |
| | 30/06/2007 | 7.5 | 26.0 | - | 15.9 |
| | 31/12/2007 | 14.5 | 54.0 | 34.8 | 34.5 |
| | 31/12/2008 | 11.6 | 60.6 | 23.7 | 32.3 |
| Ebitda Million Euro | 31/12/2005 | 1.4 | 3.4 | 3.8 | 1.4 |
| | 30/06/2006 | 1.2 | 2.8 | - | - |
| | 31/12/2006 | 2.9 | 3.2 | 4.8 | 4.64 |
| | 30/06/2007 | 1.6 | 3.5 | | 2.2 |
| | 31/12/2007 | 2.9 | 5.6 | 5.4 | 4.74 |
| | 31/12/2008 | 2.2 | 6.3 | 1.5 | 0.18 |
| Ebitda margin (ebitda/sales) | 31/12/2005 | 12% | 9% | 17% | 9% |
| | 30/06/2006 | 20% | 14% | - | - |
| | 31/12/2006 | 21% | 7% | 13% | 16% |
| | 30/06/2007 | 21% | 13% | - | 14% |
| | 31/12/2007 | 20% | 10% | 16% | 14% |
| | 31/12/2008 | 19% | 10% | 6% | 0.6% |
| Ebit Million Euro | 31/12/2005 | 0.8 | 2.6 | 3.6 | -0.2 |
| | 30/06/2006 | 0.8 | 2.4 | - | - |
| | 31/12/2006 | 2.2 | 2.8 | 4.4 | 2.57 |
| | 30/06/2007 | 1.2 | 3.3 | - | 1.1 |
| | 31/12/2007 | 2.2 | 4.9 | 5.3 | 2.98 |
| | 31/12/2008 | 1.3 | 4.9 | - | -3.6 |

| | | | | | |
|---|---|---|---|---|---|
| **Ebit margin (ebit/sales)** | **31/12/2005** | 7% | 7% | 16% | -1% |
| | **30/06/2006** | 13% | 12% | - | - |
| | **31/12/2006** | 16% | 6% | 12% | 9% |
| | **30/06/2007** | 16% | 13% | - | 7% |
| | **31/12/2007** | 15% | 9% | 15% | 9% |
| | **31/12/2008** | 11% | 8% | - | - |
| **Net profit (loss) Million Euro** | **31/12/2005** | -0.51 | 0.76 | 2.38 | 1.89 |
| | **30/06/2006** | 0.65 | 1.2 | - | - |
| | **31/12/2006** | 1.48 | 1.0 | 2.27 | 0.18 |
| | **30/06/2007** | 0.62 | 1.7 | - | 0.16 |
| | **31/12/2007** | 1.39 | 2.08 | 3.12 | 0.04 |
| | **31/12/2008** | 0.931 | 2.5 | 0.39 | -3.5 |
| **Shareholders' equity** | **31/12/2005** | 3.21 | 4.91 | 4.64 | 25.92 |
| | **31/12/2006** | 4.70 | 5.74 | 6.92 | 26.10 |
| | **31/12/2007** | 8.21 | 9.40 | 14.90 | 26.15 |
| **Net financial position** | **31/12/2005** | n.d. | 7.6 | -8.4 | 34 |
| | **31/12/2006** | 0.28 | 6.8 | -7.8 | 52.6 |
| | **31/12/2007** | -3.7 | 2.8 | -11.3 | 69.8 |
| | **31/12/2007** | 1.14 | -2.8 | 60.01% | - |
| | **31/12/2008** | 1.13 | - | 49.67% | - |
| | **31/12/2007** | 48% | - | 13% | 3.10% |
| | **31/12/2008** | 20% | - | 5% | - |
| **ROS Ebit/Turnover** | **31/12/2005** | 6.94% | 6.84% | 16.71% | -1.23% |
| | **31/12/2006** | 16.45% | 6.76% | 12.55% | 8.50% |
| | **31/12/2007** | 14.97% | 9.07% | 13.66% | 9.11% |
| | **31/12/2008** | 11.00% | 8.08% | 14.09% | -11.14% |
| **ROE Net profits/own capital** | **31/12/2005** | -15.84% | 15.45% | 51.26% | 7.31% |
| | **31/12/2006** | 31.50% | 17.78% | 32.90% | 0.69% |
| | **31/12/2007** | 16.96% | 22.14% | 20.93% | 0.16% |
| | **31/12/2008** | 12.00% | - | 25.90% | - |

After this, the raw data presented in the preceding table were processed to obtain the trend, deviation and distribution values of the variables. More specifically, we have highlighted the means and medians as initial indicators of the relation between the data.

**Table 5: Growth rates, means and medians of the variables analysed.**

| Name | | Tessitura Pontelambro | Raffaele Caruso | Area Impianti | S.E.I | *MEANS* | *MEDIAN* | *ST. DEV.* |
|---|---|---|---|---|---|---|---|---|
| **Revenues Million Euro** | **31/12/2006** | 14.41% | 14.55% | 63.43% | 82.39% | 43.69% | 38.99% | 0.346126 |
| | **31/12/2007** | 7.41% | 22.45% | -1.42% | 18.97% | 11.85% | 13.19% | 0.109347 |
| | **31/12/2008** | -20.00% | 12.22% | -31.90% | -6.38% | -11.51% | -13.19% | 0.189496 |
| **Ebitda Million Euro** | **31/12/2006** | 107.14% | -5.88% | 26.32% | 231.43% | 89.75% | 66.73% | 1.05743 |
| | **31/12/2007** | 0.00% | 75.00% | 12.50% | 2.16% | 22.41% | 7.33% | 0.354795 |
| | **31/12/2008** | -24.14% | 12.50% | -72.22% | -96.20% | -45.02% | -48.18% | 0.486629 |
| **Ebitda margin (ebitda/sales)** | **31/12/2006** | 75.00% | -22.22% | -23.53% | 77.78% | 26.76% | 26.39% | 0.573242 |
| | **31/12/2007** | -4.76% | 42.86% | 23.08% | -12.50% | 12.17% | 9.16% | 0.25534 |
| | **31/12/2008** | -5.00% | 0.00% | -62.50% | -95.71% | -40.80% | -33.75% | 0.46306 |
| **Ebit Million Euro** | **31/12/2006** | 168.29% | 7.69% | 22.22% | -1385.00% | -296.70% | 14.96% | 7.291505 |
| | **31/12/2007** | - | 75.00% | 20.45% | 15.95% | 27.85% | 18.20% | 0.326342 |
| | **31/12/2008** | -40.91% | - | - | -220.81% | - | - | - |
| **Ebit margin (ebit/sales)** | **31/12/2006** | 130.24% | -14.29% | -25.00% | -850.00% | -189.76% | -19.64% | 4.458163 |
| | **31/12/2007** | -6.25% | 50.00% | 25.00% | 0.00% | 17.19% | 12.50% | 0.257062 |
| | **31/12/2008** | -26.67% | -11.11% | -100.00% | -100.00% | -59.44% | -63.33% | 0.472582 |
| **Net profit (loss) Million Euro** | **31/12/2006** | -390.20% | 34.21% | -4.62% | -90.48% | -112.77% | -47.55% | 1.921471 |
| | **31/12/2007** | -6.08% | 103.92% | 37.44% | -77.78% | 14.38% | 15.68% | 0.76292 |
| | **31/12/2008** | -33.02% | 20.19% | -87.50% | -8850.00% | -2237.58% | -60.26% | 44.08498 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Shareholders' equity** | **31/12/2006** | 46.42% | 16.90% | 49.14% | 0.69% | 28.29% | 31.66% | 0.234833 |
| | **31/12/2007** | 74.68% | 63.76% | 115.32% | 0.19% | 63.49% | 69.22% | 0.47673 |
| **Net financial position** | **31/12/2006** | - | -10.53% | -7.14% | 54.71% | - | - | - |
| | **31/12/2007** | -1421.43% | -58.82% | 44.87% | 32.70% | -350.67% | -13.06% | 7.153376 |
| | **31/12/2008** | -56.76% | - | - | - | -89.19% | - | 0.216216 |
| **ROI ebit/net invested capital** | **31/12/2006** | - | - | - | - | - | - | - |
| | **31/12/2007** | - | - | - | -11.43% | - | - | - |
| | **31/12/2008** | -58.33% | - | -62.28% | - | - | - | - |
| **ROS Ebit/Turnover** | **31/12/2006** | 137.03% | -1.17% | -24.90% | -791.06% | -170.02% | -13.03% | 4.201346 |
| | **31/12/2007** | -9.00% | 34.17% | 8.84% | 7.18% | 10.30% | 8.01% | 0.178335 |
| | **31/12/2008** | -26.52% | -10.92% | 3.15% | -222.28% | -64.14% | -18.72% | 1.061212 |
| **ROE Net profits/own capital** | **31/12/2006** | -298.86% | 15.08% | -35.82% | -90.56% | -102.54% | -63.19% | 1.378079 |
| | **31/12/2007** | -46.16% | 24.52% | -36.38% | -76.81% | -33.71% | -41.27% | 0.424689 |
| | **31/12/2008** | -29.25% | -100.00% | 23.75% | -100.00% | -51.37% | -64.62% | 0.60171 |

From the above representations, we can derive the following considerations:

- In the first place, the turnovers are the aspect featuring the most varied trends over the course of time. The 2007 financial year shows mean positive increases of 11.85%, while in 2008, the first fully operational year after listing, there is a drop in the results of 11.51%. Moreover, if we look at the 2006 financial year, the mean increase in revenues is over 30% greater than that achieved in 2007. This means that in the period prior to listing the companies obtained results that were on average better than those post-listing which, in 2008, actually proved to be steeply on the decline. There may be two main reasons for this: the first relates to the efforts and the consequent positive results obtained in the pre-listing period, which clearly enabled the firms in question to present themselves on the market with values that were attractive to investors; the second refers instead to the period of crisis that the markets are going through, and which has struck the entire financial system.
- As regards the economic results, these parallel to an extent the trend revealed by the revenue. In fact, for the mean Ebitda we can observe an accelerated growth trend in 2006 (+89.75%), a growth in 2007 (+22.41%) and a drop in 2008 (-45.02%). The Ebit and Ebit margin series is instead particularly influenced by the negative outlier value of S.E.I, while for Raffaele Caruso and Area Impianti they tend almost to coincide. This would indicate a low incidence of structural costs on annual costs, or the elevated use of third-party structures, both for subcontracting and as sources of finance (leasing)
- As regards the net profit (loss), this features positive mean values, but rates of decrease can be observed among the various firms, with the exception of 2007, which was fairly high for S.E.I. The only company to maintain a decidedly positive trend was Raffaele Caruso.
- From an initial analysis (some data are in fact missing) the structural margins and the degree of debt are at satisfactory levels, with the exception of Area Impianti, which registers a fairly high level of debt (50-60%).
- The ROI and ROS reveal good mean results, while the average return on equity (ROE) is modest for Tessitura Pontelambro and S.E.I., satisfactory for Raffaele Caruso and very good for Area Impianti, although diminishing over time even for the latter.

**Table 6: Distribution of post-listing dividends**

| | | Tessitura Pontelambro | Raffaele Caruso | Area Impianti | S.E.I. |
|---|---|---|---|---|---|
| **Distribution of dividends** | 31/12/2007 | 0.32 per share | 0.40 per share | 0.80 per share | Profits to reserve |
| | 31/12/2008 | Profits to reserve | 0.40 per share | - | Balance sheet to be approved |

The above table summarises the volume of dividends distributed, which prove fairly exiguous, where not actually absent because allocated to reserves.

### 4.2 AIM Italy Expectations

As regards the description of the statistics available for the spread of the AIM UK, this enables us to establish a benchmark for future measurements and to analyse the results achieved in the almost fifteen years since the launch of the London alternative market.

From an initial analysis, it is clear that here we are dealing with a fairly interesting picture and with a level of spread that the institutions hope that AIM Italy will be able to approach.

**Table 7: AIM primary market (AIM market statistics, 2009)**

| | Number of companies | | | Market Value (£/m) | Number of admissions | | | Money raised (£/m) |
|---|---|---|---|---|---|---|---|---|
| | UK | International | Total | | UK | International | Total | Total |
| **19/06/1995** | 10 | 0 | 10 | 82.2 | | | | |
| **1995** | 118 | 3 | 121 | 2,382.4 | 120 | 3 | 123 | 94.8 |
| **1996** | 235 | 17 | 252 | 5,298.5 | 131 | 14 | 145 | 816.4 |
| **1997** | 286 | 22 | 308 | 5,655.1 | 100 | 7 | 107 | 694.3 |
| **1998** | 291 | 21 | 312 | 4,437.9 | 68 | 7 | 75 | 557.6 |
| **1999** | 325 | 22 | 347 | 13,468.5 | 96 | 6 | 102 | 933.5 |
| **2000** | 493 | 31 | 524 | 14,935.2 | 265 | 12 | 277 | 3,073.8 |
| **2001** | 587 | 42 | 629 | 11,607.2 | 162 | 15 | 177 | 1,128.4 |
| **2002** | 654 | 50 | 704 | 10,252.3 | 147 | 13 | 160 | 975.8 |
| **2003** | 694 | 60 | 754 | 18,358.5 | 146 | 16 | 162 | 2,095.2 |
| **2004** | 905 | 116 | 1,021 | 31,753.4 | 294 | 61 | 355 | 4,656.1 |
| **2005** | 1,179 | 220 | 1,1399 | 56,618.5 | 399 | 120 | 519 | 8,942.4 |
| **2006** | 1,330 | 304 | 1,634 | 90,666.4 | 338 | 124 | 462 | 15,678.1 |
| **2007** | 1,347 | 347 | 1,694 | 97,561.0 | 197 | 87 | 284 | 16,183.9 |
| **2008** | 1,233 | 317 | 1,550 | 37,731.9 | 87 | 27 | 114 | 4,312.0 |
| **2009 to Apr** | 1,167 | 288 | 1,455 | 43,335.7 | 6 | 1 | 7 | 671.3 |
| **Launch to date** | | | | | **2,556** | **513** | **3,069** | **60,813.7** |

As at 30 April 2009, there are 1,455 companies listed on the AIM UK, including 288 international enterprises. Clearly a high degree of spread has been achieved in fourteen years of activity (since June 1995). The alternative market of the London Stock Exchange in fact represents the main world market dedicated specifically to the SMEs and the leading one in Europe in terms of the number of listed companies.

The historic series of the annual admissions indicates results that fluctuate from a minimum of 75 new listings in 1998 to a maximum of 519 in 2005. Over the last two years, as a result of the economic crisis, the number of listed companies has dropped by about 200, taking place through delisting.

It is interesting to observe that on the first day the market opened there were already 10 companies present, rising to 121 at the end of the first year. These figures, compared to those of the MAC, immediately underscore a different approach and response on the part of the actors present in the two markets.

The market value of the companies listed on the AIM UK is at present around 38 £m.

As regards the money raised on the market, in 1995 95 £m was collected, followed by a peak of over 16,000 in 2007. From 1995 up to the present over 60,000 £m has been raised.

**Table 8: AIM trading (AIM market statistics, 2009)**

| | Turnover value (£/m) | Number of bargains | Shares traded (m) | Average daily value (£/m) | Average daily number of bargains | Average daily shares traded (m) |
|---|---|---|---|---|---|---|
| **1995** | 270.2 | 29,009 | 544.3 | 2.0 | 212 | 4.0 |
| **1996** | 1,944.2 | 187,975 | 5,529.1 | 7.7 | 746 | 21.9 |
| **1997** | 2,415.3 | 217,426 | 6,443.0 | 9.6 | 863 | 25.6 |
| **1998** | 1,948.2 | 225,494 | 6,921.4 | 7.7 | 895 | 27.5 |
| **1999** | 5,397.5 | 845,556 | 21,258.5 | 21.4 | 3,355 | 84,4 |
| **2000** | 13,605.3 | 2,013,584 | 39,510.3 | 54.0 | 7,990 | 156.8 |
| **2001** | 4,854.8 | 706,582 | 28,166.6 | 19,2 | 2,793 | 113.3 |
| **2002** | 3,517.6 | 449,876 | 24,791.8 | 14.0 | 1,785 | 98.4 |
| **2003** | 6,615.8 | 823,948 | 56,662.3 | 26.1 | 3,257 | 227.9 |
| **2004** | 18,125.9 | 1,675,955 | 97,325.9 | 71,4 | 6,598 | 383.2 |
| **2005** | 42,158.2 | 2,241,323 | 108,265.5 | 167.3 | 8,894 | 429.6 |
| **2006** | 58,002.8 | 3,525,356 | 138,510.4 | 230.2 | 13,990 | 549.6 |
| **2007** | 75,031.5 | 4,164,422 | 153,861.0 | 296.6 | 16,460 | 608.1 |
| **2008** | 49,246.2 | 3,970,481 | 134,858.7 | 193.9 | 15,632 | 530.9 |
| **2009 to Apr** | 7,421.3 | 1,138,975 | 45,471.6 | 89.4 | 13,723 | 547.9 |
| **Launch to date** | **290,555.0** | **22,215,962** | **869,120.3** | **82.9** | **6,342** | **248.1** |

It is also interesting to analyse AIM trading. As regards the number of shares exchanged, globally over 800,000 stocks have been traded, with an annual peak of 153,861 in 2007, with a number of total tradings that now amounts to over 21,000,000 (4,164,422 in 2007) and a daily average expressed in value of over 80 £m.

### 5. Discussion and Contributions

From the analysis of the data there emerges a fairly clear picture of the low degree of spread and the results achieved by the MAC, especially when compared with the success story of AIM UK. The dealers trust that the launch of the new AIM Italy may replicate or at least come close to the diffusion and performance levels achieved by its UK sister.

The partial failure of the MAC can be attributed to its structure and to certain inherent limitations. More specifically, discussion has focused on the regulations, on the admission criteria and on the entities qualified to trade on the market, and the following aspects emerged as the culprits: the lack of liquidity of the system, the restriction to institutional investors of the authorisation to trade stocks, the doubts regarding the behaviour of the banks (which tend to protect their reputation), the lack of clarity of the governance tools and the transparency of the market. The aspects listed above, seen with hindsight as acting as a brake, were at the time designed by the promoters of the market in an attempt to primarily protect the small savers and to leave greater margins of freedom to the firms in their relations with fairly reliable professional investors.

Unlike the MAC, AIM Italy has instead been conceived utilising practically the same criteria as the analogous British market, from which it differs only in a few non-substantial aspects, which nevertheless underscore the different historic-institutional scope and the different level of maturity of the two national systems. The most interesting aspects of the AIM that diverge from the MAC are the following: the possibility for retail investors to deal on the market, the possibility of listing for start-ups without a business history behind them, the requirement for a model of corporate governance, and the requirement to employ the supportive services of a broker.

Naturally, we have to bear in mind the fact that the Italian and English financial cultures have to be placed within contexts of reference that are extremely different: in Britain, many companies are already projected towards the aim of listing even in the start-up phase, while Italian capitalism is of an intrinsically personal and family character, and the entrepreneurs tend to be suspicious about third parties entering the capital of their companies. The success of the AIM will therefore be linked to the capacity of these entities to change mentality and to enhance their financial culture. More specifically, it will be fundamental to attract even small investors and stimulate their propensity to equity investments, to make the processes of corporate governance more transparent and formalised, to enhance information procedures about the market and the companies, to get international investors involved and to propose entrepreneurial and business plans featuring a high level of attraction.

An expansion of the entities admitted to trade is undoubtedly desirable precisely because the SME market is potentially very interesting, also considering the data of the principal trends of private equity and venture capital in Italy (Bank of Italy, 2009).

In effect, in the course of the last recorded three-year period (2005-2007) the Italian private equity and venture capital market has undergone a process of growth in terms both of the number of transactions and of the amount invested. The latter proved, on average, to amount to around 3.7 billion Euro for each year, while the number of transactions levelled out at a mean value of little under 300, involving approximately 250 different firms each year. At the level of stock, as at 31 December 2007, the cost value of the portfolio of private equity and venture capital dealers amounted to 12.6 billion Euro, representing approximately 1.7 per cent of the added value of non-financial companies: these resources are invested in 1,120 companies. Moreover, if we consider the funds available for investment, excluding pan-European funds, the resources of the captive investors and the regional public dealers, the value of the overall amount managed rises to over 18.5 billion.

In the period under consideration the majority of the capital was invested in buy-out transactions, which on average attracted each year little under 75 per cent of the total capital invested in the entire market, following by expansion deals (21 per cent), replacement operations (4 per cent) and finally seed and start-up initiatives (1 per cent).

Instead, if we look at the distribution of the number of investments by type, the expansion initiatives are in the lead with little under 120 operations per year, involving on average 105 different firms. These are followed by the buy-out operations (87 for a total of 68 companies), seed and start up (69 initiatives involving 56 firms) and replacement operations (18 in total, affecting 16 businesses).

Other initiatives, such as turnaround operations in firms under restructuring, are still in the development phase in Italy; in this segment a growing interest can be detected, also following the regulatory changes implemented by the bankruptcy law and designed to favour the relaunch of businesses in crisis.

The elevated recourse to buy-out operations, aimed at replacement of the shareholding structure, often in favour of managers who run the business, is partially bound up with the structural features of the Italian SMEs and their life cycle: increasingly often, in fact, these companies find themselves tackling delicate processes of generational turnover.[2] However, in terms of both amount and number, the incidence of buy-outs is not typical solely of the Italian market, but can also be observed in other countries such as Germany and France, given the similar features of the European business fabric as a whole.

Investment activities by class of investors indicates that, in the three-year period 2005-2007, the highest average value of investments can be attributed to the pan-European funds (over 2 billion Euro distributed over around 30 investments), followed by SGR and country funds which involved on average an amount little under 1 billion Euro, extending over around 120 investments. Instead, the activity of the bank operators, the regional and public investors and that of early-stage specialised funds proves to be more restrained, with a global amount invested each year of approximately 500, 45 and 20 million Euro respectively. This evidence shows how the pan-European funds tend to concentrate their investments on a small number of large-scale transactions (large and mega deals), while the other dealers tend to transact a large number of smaller deals.

As a whole, over recent years the market has registered an increase of the mean unitary amount of the investment for each transaction, which rose in 2007 to 14 million Euro from the 12.8 million of 2006. Nevertheless, the figure from normal or ordinary transactions, that is net of the large and mega deals performed in the course of the year, actually fell to a quota of 7 million Euro in 2007, as compared to the 8.5 million of 2006.

With specific reference to the large-scale operations, in the course of the last three years a total of thirteen companies were involved in equity investments for amounts of over 150 million Euro. These investments globally attracted resources of 4.4 billion Euro, corresponding to 40% of the overall amount invested in the years under consideration, recording a slight trend towards growth.

The average size of the target companies nevertheless reveals that the majority of the transactions are focused on enterprises of medium-small size. In fact, in the three-year period considered, the firms with less than 250 employees were the subject of 76% of the operations: the majority of the dealers evidently focus their investments on companies with the features characteristic of the Italian industrial fabric.

[2] On this argument, see R. Passeri, "Valutazioni imprenditoriali sulla successione imprenditoriale nell'impresa familiare", Florentia University Press, 2007.

The breakdown of the number of investment operations by class of turnover of the target companies confirms that, over the three-year period, the firms of small and medium dimensions (with a turnover of less than 50 million Euro) were the main target for the investments of the dealers active in Italy, accounting for an average quota of 70 per cent of the overall number of transactions.

Analysing in greater detail the dimensions of the companies involved in the transactions, the segment that appears to arouse little interest in Italy is that of dealers devoting themselves to firms which – albeit already in existence – are characterised by "critical" turnover thresholds which place their existence at risk in the absence of an impetus to growth and a financial partner to support them. These are firms with turnovers of between 2 and 10 million Euro who are not appetising to either pure venture capital dealers nor to private equity dealers, who are attracted by more mature targets.

Finally, as regards the geographical distribution of the investments over the country, there continues to be a marked imbalance, so that over the three-year period the Northern regions have attracted 87 per cent of the invested capital and account for 75 per cent of the firms involved in the investments, while the central area has notched up 11 per cent of the total capital and 18 per cent of the number of firms. The South is lagging dramatically behind, with just 2 per cent of the total investment, corresponding to 7 per cent of the number of firms involved. Nonetheless, the dynamic of the investments suggests an increase in attention on the part of the dealers to the enterprises located in the Centre of the country, while the transactions performed in the Southern regions have remained practically unchanged.

To sum up, despite the limitations mentioned above, it emerges clearly from this brief interpretative-qualitative analysis that in Italy there is space for a potentially lively market for the SMEs, where untied dealers, even foreign, can make significant investments. The MAC has not as yet succeeded in representing such a market, and it is to be hoped that the new AIM may instead maintain the good prospects behind its launch, also in view of the UK success.

At a theoretical level, this means that it will be necessary to review the regulation of the MAC and update that of the AIM to render the market more efficient and more appetising both for investors and for the firms themselves.

It is also to be hoped that the businessmen, the investors, the banks and all the entities involved in the new markets can make a quality leap in terms of their financial culture, so as to instil a greater dynamism in the system of exchange and allow interesting projects to receive the funding necessary for development.

As we stated above, we are aware that the data available for the analysis are not numerous, especially because they relate to a brief timeframe, in view of the recent introduction of the alternative capital markets. Consequently we propose that in future studies the dataset be expanded and that the results and the levels of performance of the companies listed on the alternative markets be compared with those of analogous non-listed companies.

## 6. Conclusions

This study analyses the new markets for the SMEs that are emerging in the Italian context. It takes its cue from a number of considerations regarding the business and financial culture of the country in question and the challenges that the firms find themselves tackling with a view to development. To successfully address these challenges, the SMEs have to redefine their financial strategies and the entrepreneurs have to grasp the need to open up the share capital to third parties in the role of contributors to equity.

In the wake of the success of the British AIM, Italian Stock Exchange has launched two new alternative capital markets which together make up a structured, complementary and synergetic offer of instruments for the capitalisation of the SMEs.

We have used descriptive statistic tools to analysis the level of spread and the results achieved by the MAC as well as the potential of the nascent AIM Italy.

The results have confirmed the partial failure of the former and have underscored the expectations vested in the latter. Nevertheless, beyond the empirical results, what also emerges is that discussion should be focused on the regulation and the criteria for admission to the markets, on the entities qualified to trade and on the real competitive advantages that can be obtained through listing.

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