In recent years, Italy has undertaken important initiatives to strengthen capital markets as a complementary source of finance. These include individual saving plans, the mini-bond market framework and the allowance for equity capital. Promoting a successful outcome of these initiatives and identification of any remaining impediments will greatly benefit from an empirical analysis of the corporate landscape and the current state of capital market development. Italy’s economic recovery and long-term viability relative to the European financial system should therefore be supported by a sound balance between traditional bank lending and corporate access to market-based sources of finance.

The European Commission’s Capital Markets Union (CMU) plan has the ambition to better connect financial savings with investments in the real sector. Importantly, it should improve the ability of all businesses access to different sources of market-based financing that can complement traditional bank lending.

Against this background, the Italian government submitted a request for support to the Structural Reform Support Service (SRSS) of the European Commission to undertake a comprehensive review of capital markets in Italy. The OECD was designated as implementing partner for the project. The areas the report identifies for reform will allow the authorities to remove impediments to capital market development with a view to supporting sustainable growth, job creation and corporate investment.

This report maps the corporate landscape, provides a detailed analysis of how Italian companies use public equity markets, corporate bond markets, market intermediaries and the functioning of secondary markets. It also provides an overview of both private equity and debt markets in Italy. Based on this mapping report, the next step will be to develop a diagnostic report addressing challenges, opportunities and recommendations on how to improve corporate access to market-based finance in Italy.

To prepare this report, the OECD Secretariat undertook substantive research and conducted two fact-finding missions to Italy. The Secretariat has greatly benefitted from consultations with representatives of relevant Italian authorities and a large number of market participants, academics and other experts. A detailed description of data sources and the methodology for data collection and analysis are provided in the Annex. The OECD Secretariat welcomes any comments and suggestions.

The report was prepared by a team led by Mats Isaksson, Head of Corporate Governance and Corporate Finance Division within the OECD Directorate for Financial and Enterprise Affairs, composed of Serdar Çelik, Adriana De La Cruz, Alejandra Medina, Yun Tang and Inga van den Bongard. This report was produced with the financial assistance of the European Commission via the Structural Reform Support Service.
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<th>Definition</th>
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<tr>
<td>CMU</td>
<td>Capital Markets Union</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IPO</td>
<td>initial public offering</td>
</tr>
<tr>
<td>M&amp;A</td>
<td>mergers and acquisitions</td>
</tr>
<tr>
<td>MSCI</td>
<td>Morgan Stanley Composite Index</td>
</tr>
<tr>
<td>MTF</td>
<td>multilateral trading facility</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>NPL</td>
<td>non-performing loan</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>research and development</td>
</tr>
<tr>
<td>REIT</td>
<td>real estate investment trust</td>
</tr>
<tr>
<td>ROE</td>
<td>return on equity</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and medium-sized enterprises</td>
</tr>
<tr>
<td>SPAC</td>
<td>Special purpose acquisition company</td>
</tr>
<tr>
<td>SPO</td>
<td>secondary public offering (follow-on offering)</td>
</tr>
<tr>
<td>SRSS</td>
<td>Structural Reform Support Service of the European Commission</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Italy has many vibrant and dynamic companies. Since 2009, the share of high-growth firms with a 3-year annualised sales growth above 10% has averaged around 18%, only 4 percentage points lower than the pre-crisis average makes Italy one of the large European economies with the highest proportion of high-growth firms. During the same period, however, the share of fading Italian firms reporting 3-year annualised sales growth below -10% has increased from 22% to 34%. This is significantly higher than in most other European economies.

Unlike other major European economies, Italy has also seen a surge in the share of companies reporting losses. In 2009, more than half of the firms reported losses. While this declined to 38% in 2015, it was still 21 percentage points higher than in Germany and 13 percentage points higher than in France. The large number of loss-making companies has dragged down the overall performance of the Italian business sector since 2007.

The differences between the Italian corporate sector and other large European economies have triggered a growing discussion about its underlying causes and potential consequences for future economic growth. Part of the discussion has focused on the corporate finance structures in Italy and ways to improve corporate access to market-based sources of finance.

This mapping report includes the following key findings:

- The modest growth in Italy is rooted in weak business sector productivity. Over the last two decades, both labour and multifactor productivity growth have been sluggish. This is partly linked to the disproportionate importance of small low-productivity companies. In countries like France and Germany, large firms with relatively high productivity account for the largest share of employment. But in Italy, the situation is the opposite, with low productivity micro-firms employing 46% of the business sector workforce. Large Italian firms have a labour productivity that is well in line with that of large firms in France and Germany, but only 20% of the Italian corporate sector workforce is employed in these large firms. In Germany and France around 40% of the workforce is employed in large firms. Hence, a shift in employment patterns towards larger companies seems to be one important means to address the Italian productivity and growth challenge.

- The European corporate sector was hit hard by the global financial crisis and the subsequent sovereign debt crisis. Since 2008, it has experienced a substantial decline in the return on equity (ROE – net income over total shareholders’ equity). Within Europe, there is also a persistent gap with respect to the return on equity between the Italian business sector and companies in other European countries. This gap in performance is in part responsible for the current under-capitalisation in the Italian business sector.

- In 2007, the leverage ratio (total financial debt over assets) in the Italian corporate sector jumped to 24%. Since then, it has decreased to 21%. But the corporate reliance on bank financing in Italy still remains well above the aggregated Euro Area level. Importantly, the Italian corporate sector is highly dependent on short-term financing, which includes short-term debt, trade credit and others current liabilities.
The capitalisation level of the Italian corporate sector is the lowest among large European economies. The low level of capitalisation combined with the deterioration in profitability during the crisis, exacerbated the debt repayment problem. As a result, Italy has seen an increase in the share of non-performing loans and a rising share of so-called non-viable zombie companies in the past years. It is worth noting that the concept of zombie companies is not necessarily related to smaller companies. A significant share of the zombie companies are actually large unlisted companies, which in 2015 accounted for 60% of the total equity capital sunk in zombie companies.

During the last two decades there has been a downward trend in non-financial companies’ use of initial public offerings (IPOs) to raise equity in advanced European economies. Italy is no exception to this trend. The average annual amount of capital raised through IPOs by Italian non-financial companies dropped by almost 80% from almost EUR 9.5 billion between 1995 and 2000 to EUR 2.1 billion during the period 2008 and 2017.

The downward IPO trend in Europe also includes smaller company IPOs. In Italy, however, the number of growth company IPOs has rebounded in the last four years when there were 60 non-financial growth company IPOs that together raised a total of almost EUR 1 billion in equity capital. This was partly a result of government initiatives to strengthen the role of stock market financing, including individual saving plans and the introduction of Special Purpose Acquisition Companies (SPACs). It is worth noting that only 1% of all equity capital raised through Italian IPOs between 2008-2017 went to high technology firms that typically are associated with a high degree of innovation, research and development. The share of equity capital raised by technology firms in People’s Republic of China (China) and United States was about 16% during the same period, and 27% in Japan.

Italian companies that are already listed on a stock exchange have also used public equity markets to raise capital via secondary public offerings (SPO or follow-on offering). The purpose may be to re-capitalise the firm or to finance a new investment or an acquisition. Since 2000, Italian companies have raised four times as much money through SPOs as they have raised through IPOs. As a matter of fact, since the 2008 financial crisis a record number of already listed Italian companies turned to the public equity market for capital. However, almost 65% of the money was absorbed by the financial sector – a significantly higher share than the global average.

With the exception of 2015, European non-financial companies have since 2012 raised on average over EUR 325 billion annually through corporate bond issuances. This is 1.5 time as much as the 2000-2008 period average. Corporate bonds have become an increasingly important source of finance also for Italian companies. In 2017, a total of 73 Italian companies, including 46 non-financial companies, issued a bond. However, the Italian share of total non-financial bond issues in Europe is around 8%, which is well below Italy’s share of European GDP.

In Italy, the overall corporate bond rating quality has declined more than five-notches since 2008. In other words, bonds issued by Italian companies were on average given a AA- rating in 2008, while they on average received a BBB- rating in 2017. This is just above the investment grade threshold. The average rating for Italian corporate bonds in 2017 was slightly below the emerging market average.
In 2012, legal changes were introduced to facilitate the access to bond financing for unlisted Italian SMEs. Following these changes, the so-called mini-bond market has shown a steady growth as the number of issues increased from 12 in 2013 to 116 in 2017. The cumulated proceeds between 2012 and 2017 was EUR 5.8 billion, of which 38% was raised in 2017. The average size of a mini-bond issue was EUR 19 million in 2017, which is very small compared to the typical issue size in the US and German private placement markets and close to half the value of the French average. In addition, the average maturity for small Italian mini-bond issues was just 3.6 years in 2017, which is well below the 7.7 year average maturity for all listed bonds.

In Italy, the use of private equity funds as a source of corporate finance is still relatively undeveloped. There is also a considerable gap between the amount of private equity capital that is raised in Italy and the total amount of investments undertaken by Italian private equity funds. While Italy represents about 11% of total EU GDP, fund capital raised by Italian private equity funds represents a modest 3.7% of the total amount of private equity funds raised in Europe during the last five years. Private equity investments in Italian companies however, amounted to 7.2% of the total private equity investments in Europe. This gap indicates some scope for further development of the Italian private equity industry.

At the overall private capital market level, private debt markets are still considerably smaller than those of private equity globally. However, during the last ten years private debt has increased faster than private equity. Since the 2014 changes in the Italian securitisation law that allowed alternative lending activities a private debt market has also developed in Italy. And during the last four years, a total of EUR 1.5 billion of private debt was provided to Italian companies by private capital funds. In 2017 alone, about EUR 612 million was lent in a total of 104 transactions. Importantly, the private debt market and the corporate bond market in Italy are two complementary pillars of the Italian non-bank lending market. In 2014 and 2015, almost 90% of all loans that were classified as private debt were in the form of corporate bond financing. This dropped to 63% in 2017. At the same time, the share of direct lending increased from 4% to 32%.

Italy has in recent years implemented key structural reforms that have contributed to a gradual economic recovery. However, to regain competitiveness and revive growth the Italian economy needs, among other things, to improve the business environment and boost corporate investments. With high levels of corporate debt and concerns about the misallocation of capital in the economy, Italy has a lot to gain from increased availability of complementary sources of finance. A well-functioning capital market can contribute to closing the productivity gap by providing businesses with the capital they need to challenge the status quo through re-structuring and forward looking investments. In particular, Italy can lift its productivity by improving the allocation of capital and access to long-term, market-based financing. Particularly by supporting companies to reach a critical size where they can contribute to innovation, productivity and net job creation.
PART I. THE ITALIAN CORPORATE SECTOR

In a market economy, the business sector typically accounts for the bulk of the production of goods and services, and employs most of the workforce. Business corporations are also the main source of investment in fixed capital as well as research and development. And to finance their activities and investments, corporations need capital. Depending on the needs of the company, this capital may come in different forms, for example with respect to maturity structure, the conditions for obtaining it and the rights that are granted to the capital providers. One of the key economic functions of capital markets is to make sure that the right kind of capital is provided in the right amounts to the right companies.

In order to understand the specific financing needs of corporations and any impediments to obtaining that financing it is therefore essential to first understand the characteristics of the business sector. Based on firm-level data and using several indicators, this part provides an overview of firm financing structure, demographics and size distribution in the Italian corporate sector. It also provides comparable analyses of firm performance and their viability. Its main focus is on structural issues within the corporate sector.

1.1. Overview of the Italian economy

The Italian economy has been deeply affected by the global financial crisis and the subsequent sovereign debt crisis in Europe and experienced its worst recession since 1960s. Thanks to structural reforms and accommodative monetary conditions, the Italian economy has been on a recovery path since 2014, with real GDP growth of 1.6% in 2017 (Figure 1, Panel A). Further increases in real GDP growth are expected in 2018 and 2019, albeit at a more moderate pace of 1.4% and 1.1%, respectively. Even though the recovery of the Italian economy strengthened in 2017, growth rates are still below those of most European countries. Over the last 15 years, average GDP growth was close to zero, while other European countries like Germany and France experienced average annual growth rates of 1.3% and 1.1%. In 2017, ten years after the financial crisis, Italy's real GDP per capita has not yet reached pre-crisis levels and was around 8% lower than in 2007 (Figure 1, Panel B).

Conditions in the labour market have improved, with headcount employment growing by 1.1% in 2017, reaching pre-crisis levels (Figure 1, Panel A). For both 2018 and 2019, employment growth is projected to be 0.7%. However, long-term and youth unemployment stay among the highest in the EU (European Commission, 2018).
PART I. THE ITALIAN CORPORATE SECTOR

Figure 1. GDP and employment growth in Italy and per capita GDP in selected European countries

A. GDP and employment growth in Italy

B. GDP per capita at constant prices (2017)

Note: GDP and employment values for 2018 and 2019 are estimations.
Source: OECD Economic Outlook 103 database, OECD National Accounts.

The slow recovery of growth in Italy is rooted in weak business sector productivity. Figure 2 shows that over the last two decades, both labour and multifactor productivity growth have been sluggish. After the sharp fall in 2008/2009 and a brief drop in 2012, multifactor productivity growth returned to a positive trend, but with both productivity measures generally fluctuating around zero. These weak productivity dynamics have been seen as a drag on economic growth hampering Italy’s competitiveness.

Figure 2. Italian labour and multifactor productivity, annual growth rates

Source: OECD Productivity Statistics.

Many explanations have been offered for Italy’s low productivity growth, including a misallocation of resources across firms, low innovation, scant use of information and communications technologies, poor corporate governance, public administration inefficiency and tax evasion.
(OECD, 2017). The amount of research and development (R&D) is generally seen as a strong indicator of an economy’s innovation capacity, which in turn contributes to productivity growth. Figure 3 provides an overview of gross expenditures on R&D in Italy and some European countries by source of financing. It shows that gross expenditure on R&D in Italy is 1.3% of GDP, which is relatively low compared to 3.3% in Sweden or 2.9% in Germany. Moreover, about two-thirds of total R&D expenditure comes from the business sector in these economies, while the Italian business sector only contributed around 50% in 2015.

Figure 3. R&D expenditure by source of financing in selected European countries (2015 or latest year available)

![Chart showing R&D expenditure by source of financing in selected European countries](chart)

Source: OECD Main Science and Technology Indicators Database.

Another key challenge for Italy is the high public debt level. Between 2007 and 2017, public debt to GDP went up 32 percentage points, reaching 132% by the end of 2017 (Figure 4). At the same time, debt-to-GDP ratios in other large European economies were significantly lower at 64% in Germany, 97% in France and 99% in Spain. For 2018 and 2019, debt-to-GDP ratio is forecasted to stabilize around 130% in Italy.

Business sector debt levels are also high in Italy. Panel A of Figure 5 shows that bank loans to non-financial firms amounted to almost 45% of GDP at the end of 2017. Even though the ratio has decreased over the last few years, it remains relatively high and is still 1.5 times higher than, for example, in Germany. However, further improvements in the Italian capital markets can support a further decrease in the corporate debt to GDP ratio.
In addition to high dependence on bank credit, there are also concerns about the rising misallocation of credit in the Italian economy. The ratio of non-performing loans (NPL) to total lending increased steadily until 2013 (Figure 5, Panel B). And although the stock of non-performing loans in the banking system has declined from its peak thanks to policies put in place (OECD, 2018), it is still high compared to other EU economies. This does not only decrease the resilience of banks, it also hampers the efficient re-allocation of capital in the economy and the ability of the banking sector to support investment growth. Growing out of the NPL overhang has the potential to raise economic growth and lift productivity in the economy (Mohadess, Raissi and Weber, 2017). As shown in Section 1.7 of this part, the share of non-viable (so-called zombie firms) has increased from 2.6% in 2005 to 5.3% in 2015. The large amount of resources sunk into these firms has supported the survival of low-productivity firms at the expense of investments in more productive ones.
Italy has implemented key structural reforms in recent years that have contributed to a gradual economic recovery. For 2018 and 2019, it is forecasted a decline in bad debt rates for non-financial corporations in Italy (ABI-Cerved, 2018). However, the Italian economy still lags behind other large European economies and reviving growth requires, among other things, improving business environment to boost corporate investments. With the high level of private sector debt and concerns about the misallocation of capital, Italy has a lot to gain from increased availability of complementary sources of finance. A well-functioning capital market can contribute to closing the productivity gap by providing businesses with the capital they need to challenge the status quo. In particular, Italy can lift its productivity by improving the allocation of capital and access to long-term, market-based financing. This is particularly important for growth-oriented companies, which are critical in contributing to innovation, productivity and net job creation and offer a window of opportunity to boost economic growth and development.

1.2. Business demographics

Small and medium-sized enterprises (SMEs) account for over 95% of the number of firms in the OECD area. Italy is no exception in this regard. However, there are wide differences among countries with respect to the role of SMEs in total employment and productivity levels as well as the distribution of SMEs among different sub-groups. Figure 6 classifies all companies in five EU countries into four groups based on the number of employees: micro (1 to 9 employees); small (10 to 49 employees); medium (50 to 249 employees); and large (over 249 employees).

The figure shows that in Italy, 95% of all non-financial firms in 2015 were micro firms, while small and medium-sized enterprises accounted for 4% and 0.5%, respectively. Only about 0.1% of the firms had more than 250 employees. While the proportion of micro-firms ranked at the very top-end, Italy has the lowest share of medium-sized firms (0.5%) among the five European countries shown in the figure, well below Finland (1.2%) or Germany (2.4%).

A noticeable feature of Italy is the high share of employment in micro-firms. In countries like France, Finland or Germany large firms account for the largest share of employment (ranging between 34% and 39%) among the different size classes. In Italy, the situation is the opposite, with micro-firms employing 46% of the business sector workforce. It is also clear from the figure that while micro-firms in general have the lowest level of labour productivity, it is particularly low in Italian micro-firms at EUR 30 thousand (in 2017 real terms) per person employed. Together with Spain, this is the lowest level among the five countries. Large Italian firms, however, had a labour productivity of EUR 73 thousand per person employed, which is well in line with the productivity of large firms in France, Finland and Germany. However, only 20% of the Italian workforce is employed in these large firms, while they employ around 40% of the workforce in Germany and France. The large share of employment in small firms with low productivity compared to employment in large firms with high productivity in Italy depresses productivity levels of the overall economy as seen by the blue vertical line in the figure. Hence, a shift in employment patterns towards larger companies seems to be one important means to address the Italian productivity challenge.
Figure 6. Labour productivity, share of workforce and share of the total number of companies by firm size (shown in parentheses), in 2015

Note: The blue vertical line presents the overall labour productivity. Labour productivity is defined as value added at factor costs divided by the number of persons employed, presented in thousands of dollars per person employed.

Source: Eurostat.
Using the same classification of company groups based on the number of employees, Table 1 provides a breakdown of the number of Italian companies by industries. The table shows that most companies are found in the wholesale and retail trade industry accounting for 26% of all companies. It also shows that this is the industry where micro-firms are active (25.8%) and where almost 20% of the small firms are active. Other important sectors for micro-firms are professional, scientific, and technical activities that accounted for the second largest share of the micro-enterprise population and construction with nearly 12% of all micro-firms being active in this industry. Importantly, manufacturing had a distinct distribution among small, medium, and large firms as each group accounted for more than 3 out of 10 firms within each size category.

Table 1. Breakdown of Italian companies by industries in 2015, as percentage of total number of companies

<table>
<thead>
<tr>
<th>Industry</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation and food service activities</td>
<td>7.1%</td>
<td>10.7%</td>
<td>3.6%</td>
<td>3.1%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>3.1%</td>
<td>5.0%</td>
<td>8.9%</td>
<td>12.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Arts, entertainment and recreation</td>
<td>1.5%</td>
<td>1.0%</td>
<td>0.8%</td>
<td>0.7%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Construction</td>
<td>11.9%</td>
<td>10.1%</td>
<td>4.9%</td>
<td>2.2%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Education</td>
<td>0.7%</td>
<td>0.9%</td>
<td>0.8%</td>
<td>0.1%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Electricity, gas, steam and air conditioning supply</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.5%</td>
<td>1.1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>2.3%</td>
<td>1.0%</td>
<td>2.2%</td>
<td>5.3%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Human health and social work activities</td>
<td>6.7%</td>
<td>2.8%</td>
<td>6.9%</td>
<td>6.9%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Information and communication</td>
<td>2.2%</td>
<td>2.9%</td>
<td>3.8%</td>
<td>4.5%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.8%</td>
<td>32.9%</td>
<td>39.2%</td>
<td>33.1%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>0.0%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Other service activities</td>
<td>4.8%</td>
<td>1.8%</td>
<td>1.4%</td>
<td>0.9%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>17.1%</td>
<td>4.0%</td>
<td>3.6%</td>
<td>3.7%</td>
<td>16.5%</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>5.7%</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.1%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>2.7%</td>
<td>6.0%</td>
<td>8.8%</td>
<td>9.2%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Water supply sewerage, waste management and remediation activities</td>
<td>0.2%</td>
<td>1.0%</td>
<td>2.2%</td>
<td>3.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Wholesale and retail trade repair of motor vehicles and motorcycles</td>
<td>25.8%</td>
<td>19.0%</td>
<td>12.0%</td>
<td>13.2%</td>
<td>25.5%</td>
</tr>
</tbody>
</table>

Source: Italian National Institute of Statistics (ISTAT).

Figure 7 presents labour productivity by firm size among some European countries for selected industries. Differences in productivity across size classes are particularly high in the manufacturing industry. While the productivity gap between micro and large firms is the largest in Italy and Spain, it is the lowest between mid-sized and large firms in Italy. In fact, with a labour productivity of EUR 75 thousand per person employed (not shown in Figure 7), manufacturing mid-sized firms in Italy ranked at the upper end of the spectrum of European mid-sized peers. This highlights a significant strength of the Italian mid-sized firms. However, mid-sized companies represent a very low share in the overall business sector. In other words, even though the productivity of mid-sized firms is relatively high, their number is too low to push up the economy-wide productivity level. This might be partly driven by the capital-intensive manufacturing process, creating barriers to entry or grow.

Productivity gaps between micro, small, mid-sized and large firms are less pronounced in the service industry, reflecting, for example, competitive advantages in niche markets. In the wholesale and retail trade industry, mid-sized and, to some extent, smaller firms outperform large firms among selected European economies. To a lesser extent, this, also applies to professional, scientific and technical activities.
1.3. Firm-level analysis and classifications

In order to analyse the business dynamics in Italy and selected peer countries, the following sections in this part of the report build on firm-level data obtained via ORBIS database. The analysis includes only non-financial companies and companies with more than 10 employees. The purpose of choosing a size threshold of 10 employees is twofold: first, data coverage typically increases with firm size which means that the coverage of smaller firms is less reliable and
hampers international comparability; and second, the focus of this report is on market-based financing and micro-firms are in general unlikely to tap capital markets.

The OECD-ORBIS Corporate Finance dataset includes financial and ownership information of non-financial companies between 2005 and 2015. To assess the representativeness of the data against the official statistics, Table 2 compares the coverage of the OECD-ORBIS Corporate Finance dataset and the Eurostat business statistics universe. While there are not wide differences in terms of distribution of firms among different size groups, in particular the OECD-ORBIS dataset’s small company coverage is relatively low as compared to the Eurostat universe.

Table 2. Comparison of the OECD-ORBIS Corporate Finance dataset and the Eurostat universe in 2015

<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Italy - Eurostat</strong></td>
<td>88.2%</td>
<td>10.1%</td>
<td>1.7%</td>
</tr>
<tr>
<td><strong>Italy - Orbis</strong></td>
<td>83.4%</td>
<td>13.6%</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>France - Eurostat</strong></td>
<td>83.5%</td>
<td>13.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td><strong>France - Orbis</strong></td>
<td>77.3%</td>
<td>17.3%</td>
<td>5.5%</td>
</tr>
<tr>
<td><strong>Germany - Eurostat</strong></td>
<td>83.6%</td>
<td>13.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>Germany - Orbis</strong></td>
<td>74.4%</td>
<td>20.4%</td>
<td>5.2%</td>
</tr>
<tr>
<td><strong>Spain - Eurostat</strong></td>
<td>86.1%</td>
<td>11.6%</td>
<td>2.3%</td>
</tr>
<tr>
<td><strong>Spain - Orbis</strong></td>
<td>83.6%</td>
<td>13.2%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

Source: OECD-ORBIS Corporate Finance dataset, Eurostat.

One potential weakness in analysing the investment and financing structure of the business sector in an economy is treating the whole non-financial corporate sector as one entity without taking into account differences with respect to key characteristics, such as size, listing status and industry. From a capital market perspective it may also be important to know if a company is part of a larger company group. The following company classification has been developed and used throughout Part I in order to better grasp specific features of the Italian and some other European economies’ corporate sectors. As illustrated in Table 3, non-financial companies are divided into four categories:

- **Category 1 - Listed companies:** This category includes on average about 210 non-financial listed corporations per year with median assets of around EUR 312 million. Listing status may have strong impact on a corporations’ financing conditions. Being listed on a stock exchange requires the implementation of certain transparency and disclosure standards as well as other corporate governance practices. This implies that the corporation has already passed a certain threshold in terms of its formal and institutional structure, which makes investors willing to provide funds and facilitates access to a wide range of financing options. The OECD Report to G20 (OECD, 2015), for example, finds a positive link between a company’s listing status and the issuance of corporate bonds. Hence, listed corporations do not only access to public equity markets, but they may also benefit from attractive conditions with respect to bank financing, private equity as well as public and private debt markets. As shown in Figure 8, listed
companies in 2015 accounted for 10% of employment of the total economy and generated 16% of aggregated sales.¹

- **Category 2 - Large unlisted companies**: This category includes on average about 2,960 large non-financials corporations with assets larger than EUR 89 (USD 100) million in 2017 real terms. Their median asset size was EUR 165 million on average. In contrast to publicly listed companies, less information is available for large unlisted companies which reduces available financing options or may result in financing conditions on less favourable terms. However, the companies in this category can generally be classified as professionally managed formal companies. In 2015, large unlisted companies share in total sales and employment was around 43% and 29% respectively.

- **Category 3 - Small and mid-sized companies part of a group**: This category includes all small and mid-sized enterprises controlled by a listed (Group 1) or a large unlisted corporation (Group 2). SMEs based in Italy but controlled by a non-Italian company or by an Italian financial company are also included this category. Group 3 contains on average 15,600 companies per year with median assets of EUR 4.8 million. Since the financial results of SMEs part of a group are consolidated into a parent company, unconsolidated accounts are used in the analysis to identify their own structure. In general, the information available for SMEs is relatively limited, but being part of a group can help subsidiaries access financing at better conditions compared to independent SMEs. One theoretical explanation for the existence of economic groups is that they provide a financing advantage in setting up new firms when the pledgeability of cash flows to outside financiers is limited (Almeida and Wolfenzon, 2006). By creating an internal capital market, an economic group can also improve the available financing options for group companies.

- **Category 4 - Independent small and mid-sized companies**: The last category includes all SMEs identified to be controlled by individuals and those with no ownership information available. For this group, only unconsolidated accounts are reported. The group of Independent SMEs is the largest in terms of number of companies (around 250,000 companies per year), but the smallest in terms of size (median assets around EUR 475,000). The information available is limited and unlike SMEs part of a group, Independent SMEs do not benefit from financing advantages related to a group structure. In 2015, they employed more than any other company group with 40% of the workforce being employed in this sector. However, they accounted for only 22% of the total sales.

¹ The category classification is based on different financial reports available for companies (consolidated and unconsolidated reports). Large companies in the universe commonly report consolidated financial statements as well as unconsolidated financial statements. For the listed and large unlisted non-financial company categories, consolidated accounts are considered, if available.
## Table 3. Company category classification of the Italian business sector

<table>
<thead>
<tr>
<th></th>
<th>Listed NFCs</th>
<th>Large unlisted NFCs</th>
<th>SMEs part of a group, NFCs</th>
<th>Independent SMEs, NFCs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of companies</td>
<td>Median Assets (Thousands EUR)</td>
<td>Number of companies</td>
<td>Median Assets (Thousands EUR)</td>
</tr>
<tr>
<td>2005</td>
<td>200</td>
<td>380 725</td>
<td>2 655</td>
<td>166 355</td>
</tr>
<tr>
<td>2006</td>
<td>217</td>
<td>383 812</td>
<td>2 825</td>
<td>167 719</td>
</tr>
<tr>
<td>2007</td>
<td>233</td>
<td>349 235</td>
<td>2 951</td>
<td>165 278</td>
</tr>
<tr>
<td>2008</td>
<td>228</td>
<td>319 321</td>
<td>3 166</td>
<td>163 944</td>
</tr>
<tr>
<td>2009</td>
<td>218</td>
<td>307 229</td>
<td>3 073</td>
<td>167 145</td>
</tr>
<tr>
<td>2010</td>
<td>213</td>
<td>298 690</td>
<td>3 169</td>
<td>164 821</td>
</tr>
<tr>
<td>2011</td>
<td>209</td>
<td>301 581</td>
<td>3 136</td>
<td>163 563</td>
</tr>
<tr>
<td>2012</td>
<td>201</td>
<td>310 565</td>
<td>2 999</td>
<td>163 930</td>
</tr>
<tr>
<td>2013</td>
<td>202</td>
<td>284 397</td>
<td>2 850</td>
<td>163 246</td>
</tr>
<tr>
<td>2014</td>
<td>210</td>
<td>252 108</td>
<td>2 889</td>
<td>165 238</td>
</tr>
<tr>
<td>2015</td>
<td>217</td>
<td>239 629</td>
<td>2 878</td>
<td>167 804</td>
</tr>
</tbody>
</table>

*Note: SMEs controlled by a parent with assets under EUR 89 (USD 100) million are not taken into account for the group analysis - however, they are included when studying the economy as a whole.*

*Source: OECD-ORBIS Corporate Finance dataset.*

## Figure 8. Sales and employment distribution by company categories in Italy

### A. Sales distribution

- **Listed companies**
- **Large unlisted companies**
- **Independent SMEs**

### B. Employment distribution

- **Listed companies**
- **Large unlisted companies**
- **Independent SMEs**

*Note: For each category, sales and employment numbers are presented as share of economy totals. Calculations for the total economy take into account the group structure of companies and avoid considering companies that are already consolidated in the accounts of domestic non-financial parent companies. The figure does not show the category **SMEs part of a group** as these companies are accounted for in the financial statements of their parent company. The categories in this figure are subsamples of the economy constructed for characterisation and comparison purposes and do not consider parent companies with less than EUR 89 (USD 100) million assets. As a result, they do not add up to 100%.*  
*Source: OECD-ORBIS Corporate Finance dataset.*
1.4. The persistent weakness in overall company performance

The Italian business sector has been hit hard by the global financial crisis and the subsequent sovereign debt crisis in Europe. The aggregate sales of the corporate sector dropped by more than 8% in 2009, when the economy experienced the largest fall in GDP since 1960s. After a two-year weak recovery period, aggregate sales growth turned negative again between 2012 and 2015. As demonstrated in Figure 9, aggregate return on equity (ROE – net income over total shareholders’ equity) has also fallen significantly since the global financial crisis. While the average ROE was 9% between 2005 and 2007, it was only 3% between 2011 and 2015.

Figure 9. Sales growth, performance and GDP growth in Italy

![Graph showing sales growth, performance and GDP growth in Italy](image)

Source: OECD-ORBIS Corporate Finance dataset and OECD Economic Outlook database.

Figure 10 shows that other European economies have also seen substantial declines in the ROEs of the business sector. In none of the five countries shown in the figure has ROE reached pre-crisis levels after 2008. However, the figure also shows that there is a persistent gap with respect to return levels between the Italian business sector and those of other European countries. For example, ROE for Italy was 5 to 7 percentage points below the ROEs for France, Germany and Spain in 2006 and 2007. In 2015, the gap between Italy and these three economies was again at 2-4 percentage points. This persistent gap in performance is in part responsible for the balance sheet imbalances in the Italian business sector.

One driving force behind this persistent gap has been the high share of loss making companies (negative net income) in the Italian business sector. Panel A of Figure 11 shows the percentage of Italian firms with negative net income in the total number of firms for the period between 2005 and 2015. In 2009, their share reached the highest level, with more than half of the firms reporting losses. Following several years of gradual recovery, the ratio fell to 38% of all companies in 2015.
Panel B shows the share of loss making companies in the four company categories. Both groups of SMEs exhibit a consistently higher ratio of companies reporting losses compared to the large companies. SMEs are generally more fragile to overcome strong slowdowns in demand compared to large firms during crisis periods. In 2009, the ratio within the SME groups reached a stunning 49% compared to 30% for the large unlisted companies group. It is important to note that the share of loss making firms has been quite similar between SMEs related to a group and independent SMEs. On this basis, the high degree of employment in the Italian SMEs may decrease overall resilience and increase the economy’s vulnerability with respect to temporary economic swings.

Unlike Italy, other major European economies have not seen a surge in the share of companies reporting losses in the post-crisis period (Figure 12). The exception is Spain, where the trend has been very similar to the Italian business sector though at a lower level. Taken together with the
overall decline in ROEs in Europe shown above, the divergence with respect to corporate sector profitability between Italy and other European economies have continued in the post-crisis period. Even higher number of companies made losses since 2007 in Italy, which dragged down the overall performance of the Italian business sector. At the same time, the decline in the ROEs for France, Germany and Spain was not driven by a jump in the number of loss making companies, instead an overall decline in the returns.

Figure 12. Share of loss making companies in Italy and selected European economies

![Graph showing the share of loss making companies in Italy and selected European economies from 2005 to 2015.](image)

Source: OECD-ORBIS Corporate Finance dataset.

Given the severity of the recession, it is not surprising to see that all industries shown in Figure 13 saw sharp increases in the share of companies reporting losses in 2009 compared to 2005. Again, the ratio fell significantly for all industries from 2009 to 2015. However, three industries, namely mining, agriculture and construction, had more loss-making companies in 2015 compared to 2005. At the same time, the biggest sector in terms of total sales, manufacturing, had less loss-making companies in 2015 even compared to ten years ago. This may be primarily due to the export-driven nature of the industry, which generates a significant portion of the total export revenues.

Figure 13. Share of Italian companies with negative net income (loss) by industry

![Graph showing the share of Italian companies with negative net income (loss) by industry from 2005 to 2015.](image)

Source: OECD-ORBIS Corporate Finance dataset.
1.5. Firm growth dynamics and high-growth companies

One way to look at firm growth dynamics in an economy is to analyse the distribution of companies among different growth clusters. Panel A of Figure 14 shows the growth distribution of Italian firms among six clusters based on three year annualised sales growth. In 2006 and 2007, more than half of the companies in the economy reported positive sales growth. In the two worst years with respect to aggregate sales growth following the crisis, 2009 and 2012, over 60% of the firms experienced negative sales growth. This proportion decreased gradually to 44% in 2015. One important observation from the figure is that the dispersion in sales growth distribution is high in Italy. While on average 30% of the companies reported exceedingly high positive annual sales growth (over 10%), 34% of the companies reported on average exceedingly high negative sales growth.

In a cross-country comparison, the pattern of distribution of sales growth among different growth clusters in Italy is more evident. As shown in Panel B, Germany, Sweden, and France have a significantly lower spread between high-growth and low-growth companies compared to Italy. Germany has the highest share of companies with sales growing in real terms between -10% and 10%. In other words, Germany actually has the lowest share of firms growing over 10% a year, but also the lowest share of firms with sales growing less than -10% a year. The case of the German business sector is exceptional, since the economy is mainly constituted of large and relatively mature companies that are more stable (OECD, 2017). Sweden also has a relatively low share of firms’ growing exceedingly fast or slow, with a majority of the firms having very stable but moderate sales growth. Growth in the Italian business sector, however, is driven by a small population of high-growth firms and hampered by a relatively large number of firms with high negative growth.

Figure 14. Sales growth distribution for Italian and selected European economies

Source: OECD-ORBIS Corporate Finance dataset.

Focusing on companies with high and low growth, Figure 15 defines two groups of companies: high-growth firms and fading firms. High-growth firms (HGFs) are defined as those companies
reporting three-year annualised sales growth over 10 per cent. Measuring growth over a 3-year period allows identifying companies with continuing growth rates and excluding temporary changes. Similarly, fading firms are defined as firms with 3-year annualised sales growth below minus 10 per cent.

Figure 15. Share of high-growth and fading firms in Italy

Figure 15 shows the share of HGFs and fading firms for Italy with the dots showing the difference between the two. The share of HGFs in the total number of firms was on average 22% during the period 2006-2008. Since 2009, the average share of HGFs has dropped by 4 percentage points to 18%. This drop was mainly driven by three years: 2009, 2013 and 2014. In other years, the ratio was quite close to the pre-crisis period average. At the same time, the share of fading firms has significantly increased from 22% of all firms before 2009 to 34% since then. In particular, in 2009 and 2010 their share reached almost 40% of all firms in the Italian business sector.

Figure 16 shows the share of HGFs and fading firms by groups in the Italian business sector. In 2006, the share of HGFs was 37%, 40% and 27% for listed, unlisted large and SMEs part of a group companies, respectively. Although their share had started to decline for the group of large unlisted companies, more than one third of companies in this group showed high growth in 2007 and 2008. Post-crisis averages for these three groups were between 19% and 23%. The share of HGFs was the lowest for the independent SMEs group for the 2006-2008 period at around 21%. Since 2009, the two SMEs groups have shown a similar trend with respect to HGFs. The main difference between the two groups has been the higher share of fading firms for independent SMEs. The share of low performing fading firms was on average 7 percentage points higher for independent SMEs since 2009.
The country comparison in Figure 17 highlights some of the key differences between Italy and other European economies. Germany and Sweden, for example, both have a modest share of HGFs, but, at the same time, a small share of fading firms. Italy, however, while having a modestly higher share of HGFs compared to Germany and Sweden, has a significantly higher share of fading firms. The difference between the shares of HGFs and fading firms were never positive in Italy between 2013 and 2015.
Figure 17. Share of high-growth and fading firms in Italy and selected European economies

Source: OECD-ORBIS Corporate Finance dataset.

Figure 18 compares industries in Italy in terms of the share of HGFs in each industry. While having the highest share of HGFs in 2006, the construction industry was the only one with a lower ratio compared to 2009. The manufacturing industry, as a large company dominant industry, had one of the lowest ratios in 2015. The same is also true for the mining industry.

Figure 18. Share of high-growth firms by industry in Italy

Source: OECD-ORBIS Corporate Finance dataset.

A comparative analysis between HGFs firms and other firms is shown in Table 4. HGFs are identified based on their 3-year annualized sales growth in 2015 and then tracked back for three years to observe how their characteristics evolve over time. Non-HGFs are identified using a similar method but requiring them to have a 3-year annualized sales growth below 10%. Overall, almost 20% of all companies are classified as HGFs and the rest as non-HGFs. There are some distinct
differences between the two groups in terms of their financing structure, performance and sales growth during the 3 years preceding the year when they are identified to be HGFs. Table 4 compares the trends in several dimensions for both groups of firms.

First, firms that experienced high sales growth also experienced a simultaneous growth in their assets. HGFs’ assets grew by 37.8% over the three-year period. Second, HGFs support their rapid growth with a significant increase in equity capital with a 46% increase over the 3-year period. Third, despite an increase in the total stock of debt, as a result of stronger asset growth both long-term and short-term debt as a percentage of total assets declined. This is also in line with the overall deleveraging trend in the business sector. For non-HGFs, long-term and short-term debt ratios have also declined, but the main driver was a decline in the total stock of debt.

Fourth, profits that are measured using net income after taxes, have almost tripled for HGFs. At the same time, there has only been a 24% increase in profits that resulted in a disappointing ROE of 3.5% for non-HGFs. Also, possibly driven by a boost in profit, HGFs have seen a 1.3 percentage points increase in cash holdings compared to only 0.5% for non-HGFs. Overall, the comparison shown in Table 4 suggests that growth in the business sector has been largely driven by HGFs and there is a need for financing to support that growth.

Table 4. Key financial indicators for high growth firms and non-high growth firms in Italy (2015)

<table>
<thead>
<tr>
<th></th>
<th>High-growth firms</th>
<th>Non-high-growth firms</th>
<th>3-year change</th>
<th>3-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets (EUR B)</td>
<td>242  263  300  334</td>
<td>2,324  2,224  2,211  2,185</td>
<td>-6.0%</td>
<td></td>
</tr>
<tr>
<td>Debt (EUR B)</td>
<td>49    52    56    63</td>
<td>567    527    505    494</td>
<td>-12.9%</td>
<td></td>
</tr>
<tr>
<td>Equity (EUR B)</td>
<td>64    70    81    94</td>
<td>704    687    693    703</td>
<td>-0.2%</td>
<td></td>
</tr>
<tr>
<td>Sales (EUR B)</td>
<td>180   227   278   341</td>
<td>1,985   1,839   1,772   1,718</td>
<td>-13.4%</td>
<td></td>
</tr>
<tr>
<td>Profits (EUR B)</td>
<td>2     4     7     8</td>
<td>20     23     31     25</td>
<td>23.8%</td>
<td></td>
</tr>
<tr>
<td>Short-term debt</td>
<td>10.7% 10.4% 9.4% 9.3%</td>
<td>9.1%  8.9%  8.4%  8.2%</td>
<td>-0.9 points</td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>9.8%  9.3% 9.3% 9.4%</td>
<td>15.3% 14.8% 14.4% 14.4%</td>
<td>-0.8 points</td>
<td></td>
</tr>
<tr>
<td>Operating margin</td>
<td>2.6%  4.3% 4.6% 4.8%</td>
<td>4.7%  4.7%  4.6%  4.5%</td>
<td>-0.2 points</td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>51.8% 52.2% 52.0% 51.7%</td>
<td>41.5% 41.3% 40.9% 39.6%</td>
<td>-1.9 points</td>
<td></td>
</tr>
<tr>
<td>Return-on-equity</td>
<td>3.5%  5.6% 8.4% 8.9%</td>
<td>2.8%  3.3%  4.4%  3.5%</td>
<td>0.7 points</td>
<td></td>
</tr>
<tr>
<td>Cost of debt</td>
<td>6.0%  6.4% 6.6% 5.8%</td>
<td>6.6%  7.6%  6.4%  8.0%</td>
<td>1.4 points</td>
<td></td>
</tr>
<tr>
<td>Cash Ratio</td>
<td>6.1%  6.1% 6.7% 7.4%</td>
<td>6.2%  6.1%  6.7%  6.7%</td>
<td>0.5 points</td>
<td></td>
</tr>
</tbody>
</table>

Note: All ratios are calculated using aggregate numbers. The 3-year change for ratios is expressed as the difference between $\text{ratio}_{t} - \text{ratio}_{t-3}$. Short-term debt is defined as short-term financial liabilities including the portion of long-term debt due within one year as share of total assets. Long-term debt is defined as loans and financial obligations lasting over one year as share of total assets.

Source: OECD-ORBIS Corporate Finance dataset.

1.6. Corporate financing and capitalisation

Banks have historically played a dominant role in financing the Italian business sector. According to the European Commission (2017), bank loans to non-financial firms accounted for 43% of GDP by the end of 2017. Despite the gradual decline observed since 2011, when loans to non-financial companies reached over 55% of GDP, the reliance on bank debt in Italy is still well over the aggregated Euro Area level (38.7% in 2017).
Just as Italian corporations largely rely on bank debt, corporate lending represents a higher share of total bank assets compared to most other European economies. Panel A of Figure 19 shows total loans to companies as a share of GDP and as a share of total bank assets. Italy ranks at the highest end of the spectrum for both measures. France and Spain have similar levels of loans to companies as a share of GDP, but have a lower fraction of business loans of total bank assets.

Panel B of Figure 19 shows the leverage ratio (total financial debt over total assets) and the cost of debt. The cost of debt is estimated as interests paid over total financial debt. Leverage in the corporate sector jumped in 2007 reaching 24%. In the aftermath of the financial crisis, however, there has been a steady decrease in total bank lending to non-financial corporate sector in Italy (Figure 5 p.18). Since non-bank debt financing has not been large enough to replace bank lending, the aggregate leverage level for the Italian business sector has also been declining. Part of the decline in corporate leverage is explained by injections of equity between 2011 and 2016 (Banca de Italia, 2018). The cost of debt, in line with the global trend in declining interest rates, has also stayed low since 2009 compared to the previous period.

Figure 19. Loans to non-financial companies, leverage and cost of debt

A. Loans to non-financial companies as a share of GDP and as a share of banks’ assets in Europe, as of December 2017

B. Leverage and cost of debt for Italian non-financial companies

Source: OECD-ORBIS Corporate Finance dataset, ECB, IMF, Statistics Sweden, BIS.

Two of the factors that may influence a company’s access to different sources of finance are their listing status and their affiliation to a company group. Following the category classification established in Section 1.3, Figure 20 illustrates leverage levels, capitalisation and cost of debt for the different categories of companies. The figure is based on companies holding financial debt. Almost all categorised as large corporations reported financial debt in every year shown in the figure whereas the reporting was around 50% for SMEs.

Capitalisation level is calculated as total shareholders’ equity in relation to total assets. The figure shows how the capitalisation level of listed companies fell sharply under the impact of the global financial crisis in 2007 and 2008, mainly due to poor performance. The decline was 5 percentage
points, from 34% in 2005 to 29% in 2008. Since then, the level has returned to the pre-crisis period and is higher than those of the other three categories of companies. Large unlisted companies did not experience the 2007-2008 dip in capitalisation level that characterised listed companies and have also shown a steady increase since 2008.

There are also differences in the quantity, maturity and cost of debt between the listed and unlisted large companies. Leverage for listed companies was on average 33% compared to 20% for unlisted companies. In addition, listed companies also had more than twice the proportion of long-term debt and a higher cost of debt compared to large unlisted companies. The higher cost may be a result of their higher outstanding volume of debt and the higher share of more expensive long-term financing. Overall, listed companies have higher equity capital levels and use more long-term debt financing.

Figure 20. Debt, capitalisation and cost of debt for different categories of Italian companies

A. Listed companies
B. Large unlisted companies
C. SMEs part of a group
D. Independents SMEs

Note: Capitalisation level is defined as: Shareholders’ funds as a share of total assets. Debt levels are also presented as a share of total assets. Calculations include only companies that reported financial debt.

Source: OECD-ORBIS Corporate Finance dataset.
Panel C and D of Figure 20 compare the two categories of SMEs; those that are independent and those that belong to a company group. One important observation from the figure is that SMEs that are part of a group have lower leverage and are better capitalised compared to independent SMEs. Independent SMEs also have almost 5 percentage points higher short-term debt compared to SMEs that are related to a group. It seems that being part of an economic group enables SMEs to fund themselves with more equity and longer term debt.

It is worth noting that independent SMEs on average also have about 1 percentage point lower cost of debt compared to SMEs that are part of a group. A higher share of, in general more expensive, long-term debt may explain the observed higher cost of debt for SMEs part of a group. An alternative explanation may be that financing transactions within a company group can be motivated by other reasons, such as tax planning.

**Figure 21. Capitalisation, debt levels and cost of debt, cross-country comparison**

A. Capitalisation

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B. Leverage

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C. Current liabilities

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D. Cost of debt

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Source: OECD-ORBIS Corporate Finance dataset.
Both in 2005 and 2015, aggregate indebtedness levels in the Italian business sector were close to the European country averages shown in Figure 21. However, with respect to the financing structure and capitalisation the Italian business sector differs from other European economies in several ways. For example with respect to the level of capitalisation, the maturity of debt and the use of alternative sources of finance, like trade credit. Panel A shows the large differences in equity capital levels for Italian corporations compared to some other European economies. In all three years, the capitalisation level of corporate sector was the lowest in Italy. The low level of capitalisation combined with the deterioration in profitability during the crisis, exacerbated the debt repayment problem and has increased the gap between Italy and other euro-area countries (De Socio and Finaldi, 2016). In addition, lending is heterogeneous in Italy where lending has been growing only for safer firms in manufacturing and services, but decreasing sharply than in the past for riskier companies (Banca de Italia, 2018).

Moreover, the Italian business sector still has the highest dependence on short-term financing, which includes short-term debt, trade credit and others current liabilities. The dependence on short-term financing may prevent corporations from long-term planning and investments. It also makes companies vulnerable to changes in credit conditions, in particular when the changes are sudden and large.

The aggregate cost of debt financing has fallen to low levels in European markets since the financial crisis. Panel D in Figure 21 shows that, particularly in France and Germany, the cost of debt has decreased since 2009 and was in 2015 lower than the pre-crisis averages (2005). Also Italy shows a slight decrease since 2005 but at a considerably higher level than Germany and France. It is important to note that cumulated interests on past due debt are also included in interests paid, which may have been higher for Italy as a result of high levels of past due loans.

Figure 22 shows the cost of debt and debt to equity ratios for the four categories of companies in Italy and some European countries in 2005, 2009, and 2015. As seen in Panel A, Italian listed corporations have relatively high leverage and high cost of debt compared to its European peers. Large unlisted companies have slightly higher average leverage level and a low cost of debt compared to other European. This may seem counterintuitive, but it can be explained by the fact that large unlisted companies have the lowest level of more expensive long-term debt (not shown in the figure).

SMEs in Italy (Panels C and D) have in general a relatively low cost of debt and high debt-to-equity ratios in particular for independent SMEs. Nevertheless, half of that debt is short-term due to within one year. For example, SMEs that are part of a group in Sweden have low leverage levels compared to the same category of companies in Italy. However the share of long-term debt in the Swedish companies is almost two times higher. As long-term debt is more expensive and Italian SMEs have a substantially lower share of long-term debt, it is not a surprising that the cost of debt is lower for this category of companies in Italy.

Overall, unlisted Italian corporations (large unlisted companies and SMEs) show a significant gap with respect to the use of long-term market-based financing compared to those in other European economies. On the one hand, the capitalisation levels are significantly low relative to other economies. On the other hand, most of their debt financing has a maturity of less than one year and their levels of current liabilities are the highest compared to other countries.
1.7. “Zombie companies” and capital misallocation

The observed productivity slowdown over the past decade in many OECD economies has triggered a discussion about its underlying causes and potential consequences for future economic growth. Underperforming firms – that in a competitive market would have exited the market – remain alive, causing an increasing resource misallocation in the economy. The so-called zombie firms are defined as mature companies that are consistently incapable of covering their interest payments...
It is argued that the presence of such firms in the economy not only prevents new entrants, but also deprives their most promising industry peers of finance.

Italy, in particular, has seen an increase in the share of non-performing loans and a rising share of zombie companies in the past years. In addition to this poor performance of bank loans’ portfolios, the loose monetary policy introduced following the European Sovereign debt crisis has squeezed the profit margins and depressed earnings in the banking sector. Furthermore, a low rate environment increases the incentives of banks to expect that easy money will lead to recovery and improved prospects for their clients (White, 2012). As a result, banks have been reluctant to end corporate credit relationships that would increase their loss recognition. Banks’ forbearance has resulted in a significant amount of capital allocated to non-profitable companies and an increasing share of zombie firms in the economy (Adalet McGowan et al., 2017b).

Despite the deleveraging process in Italy since the crisis, the share of zombie firms in the economy was higher in 2015 than during the financial crisis and the equity capital sunk in these companies represents 7% of the total equity in the corporate sector. As illustrated in Figure 23, both the share of zombie companies and the equity capital sunk in these companies declined around one percentage point from 2013 to 2015.

**Figure 23. Zombie companies and equity capital allocation in Italy**

Source: OECD-ORBIS Corporate Finance dataset.

Importantly, zombie companies’ performance has not improved significantly in recent years. Figure 24 shows that their return on equity (ROE) has always been negative. While there was a substantial improvement in 2014, their return on equity in 2015 was again lower than it was during the pre-2011 period. Thus, while the performance of the zombie companies as a group may have improved slightly, it does still not allow them to cover their interests’ payments.

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2 Zombie companies’ definition here follows Adalet McGowan et al. (2017a). Zombie companies are defined as firms older than 10 years that during 3 consecutive years are not able to cover their interest payments with their operating income. The age restriction is imposed to differentiate between real zombie firms and young innovative firms.
Figure 24. Return on equity of zombie companies

Source: OECD-ORBIS Corporate Finance dataset.

Figure 25 plots the share of zombie companies for the four categories of companies defined in Section 1.3 and Figure 26 shows the share of the equity capital associated with these companies. The analysis reveals important differences between the four different categories of zombie companies. First, the listed companies’ category shows the highest share of zombies but a low share of equity capital that is sunk into them (1.8% average). This suggests that the listed zombie companies are small within the category. Second, the share of zombie companies within the large unlisted segment is the highest among the four categories and their share in total equity capital is 11.3% of the total capital of the group. This is not negligible since they accounted in 2015 for 60% of the total equity capital sunk in zombie companies in the economy (red line in Figure 26). These are large companies with many subsidiaries under their control, but are incapable of covering their interest payments.

Figure 25. Share of zombie companies within different categories of companies Italy (2005-2015)

Note: The share of zombie companies in the figure is calculated as the number of zombie companies identified every year over the total number of companies in that group.

Source: OECD-ORBIS Corporate Finance dataset.
Third, the two categories of SMEs show a significantly lower share of zombie corporations compared to the two large companies’ groups. SMEs that are part of a group have an average of 6.8% of zombie companies and a similar share of equity capital sunk in these firms. SMEs that are part of a group and failing to cover their interest payments were on the rise since the crisis until 2014 where almost 1 in every 10 companies was a zombie company. Fourth, the share of zombie companies among independent SMEs (3.7% on average) and the capital associated to these firms (5.6% on average) have been consistently lower compared to SMEs part of a group. A higher share of zombie companies among SMEs related to a group may be an indication that banks’ forbearance is more likely to happen when companies have a large parent backing them up. If this is the case, banks’ decision does not seem irrational since having an ultimate large parent in this context may serve as an implicit guarantee.

Figure 26. Share of capital sunk in zombie companies in Italy (2005-2015)

Note: The bars show the share of capital sunk in zombie companies within each group and the red line shows the share of capital sunk in large unlisted zombie companies as share of the total capital associated to zombie corporations in the economy.

Source: OECD-ORBIS Corporate Finance dataset.

The analysis in this report suggests that many zombie firms might not be “real” zombies since they may have a healthy non-zombie parent. The analysis also suggests that the concept of zombie companies is not necessarily a small company phenomenon since a significant share of zombie companies are also listed companies and large unlisted companies.

A forthcoming paper from the Bank of Italy (Rodano and Sette, 2018) uses a different approach to identify zombie companies. Instead of using a gross measure of operating profitability (EBIT), they use a net of capital amortization and depreciation measure of operating profitability (EBITDA) arguing that using EBIT penalises companies that have invested heavily in previous years and amortised that investment quickly. Their methodology reaches lower estimates for the share of capital trapped into zombie companies and the share of zombie companies in the Italian economy. The study also points out that the impact of zombie companies on healthy firms in the economy largely depends on the selected methodology to identify zombie firms.
High levels of leverage can significantly constrain a company’s investment capacity and growth. In particular, highly leveraged firms are more vulnerable to macroeconomic shocks and more susceptible to tightened credit conditions. High debt levels can affect corporate investment and growth in different ways, for example through increased debt service during deleveraging periods and declining capacity to obtain new loans due to balance sheet deterioration. Rollover risk also significantly increases in crisis periods especially for firms with a large portion of short-term loans (Kalemli-Ozcan et al., 2017).

Leverage and capitalisation levels are two sides of the same coin. And as a consequence, well capitalised companies, in other words companies with low leverage levels, are more resilient with respect to macroeconomic shocks and tightened credit conditions. In addition to the buffer that equity capital provides during difficult times, it is in “normal times” also well-suited to support forward looking long-term investments that include research, development and innovation with uncertain outcomes. It is also suitable for investments in intangible assets with no well-defined collateral, which is often required as condition for traditional loans.

There are two main sources of equity capital: direct injections from shareholders and the company’s own earnings. One way shareholders can provide equity capital is to buy shares in a public equity offering. When a company is first introduced and listed on a stock exchange, the process is called initial public offering (IPO). When an already publicly listed company again turns to the equity market to raise additional capital, this process is called secondary public offering (SPO or follow-on offering). Given the developments in the capital markets over the last decades, these offering methods do not necessarily mean a public offer with a prospectus. They can also be conducted through a private placement where shares are only issued to current owners or a selected group of institutional investors without a prospectus.

This part of the report provides an overview of how and to what extent Italian companies have used public equity markets through IPOs and SPOs as a source of equity finance during the last two decades. It also discusses developments with respect to growth companies and the newly established Special Purpose Acquisition Companies (SPAC). It provides a summary of the corporate ownership structure, including the level of institutional ownership, the degree of ownership concentration, and control in individual companies for Italy and selected other European countries. The part ends with a discussion on the role of intermediaries in the Italian primary public equity market. The discussion is based on the OECD Capital Market Series dataset described in the Annex.

2.1. Trends in initial public offerings

Figure 27 shows the annual number of Italian companies that have listed between 1995 and 2017 together with the total amount of equity capital they raised. It shows that Italian IPO activity reached its highest levels in 1999 and 2000, with a total of 75 companies raising EUR 42 billion. Ever since, the amount of equity raised by Italian companies has been on average EUR 2.7 billion per year. The distribution over time, however, is somewhat uneven and the two periods - 2006-2007 and
2014–2015 – accounted for the bulk of total amount raised since the early 2000s with more than 50 listings and an average of EUR 10 billion in proceeds in each period. The 2008/2009 global financial crisis and the 2012 European sovereign crisis periods saw very weak IPO activity. In 2017, there were 22 IPOs raising a total amount of EUR 3.9 billion.

Figure 27. Initial public offerings (IPOs) by Italian companies

Note: This figure excludes Special Purpose Acquisition Companies (SPACs) which are treated separately in section 2.2 of this report.
Source: OECD Capital Market Series dataset, see Annex for details.

Figure 28 displays the sectoral distribution of IPO proceeds during three distinct periods. It shows that the Italian financial sector has not dominated the IPO activity and its share has remained constant over the three periods, with 14% of the total IPO proceeds. Instead, it is the utilities and the consumer goods and services sectors that have dominated the scene.

It is also worth noting that only 1% of all equity capital raised through Italian IPOs between 2008 and 2017 went to high technology firms, which includes the technology, healthcare pharmaceuticals and biotechnology sectors. These are the sectors that typically are associated with a high degree of innovation, research and development.
There has been a downward trend in non-financial company IPOs in the United States and advanced European economies over the last two decades. This has been coupled with an increase in the total amount of equity capital raised by Asian non-financial companies after the 2008 financial crisis, which has changed the global distribution of IPO proceeds towards Asian economies (OECD, 2017). As seen from Figure 29, none of the six European countries shown were exceptions to this trend. In Italy, the average annual proceeds from IPOs by non-financial companies dropped from almost EUR 8 billion between 1995 and 2000 to EUR 1.8 billion during the period 2008 to 2017. France and Germany have seen the largest relative declines. During the period 2008-2017, total proceeds from IPOs were on average just 17% of what they were in the period 1995-2000 for both countries.

The previous figures provided in this part illustrate the use of public equity financing based on the nationality of the company. Figure 30 instead, focuses on the nationality of the markets where
Italian companies raise equity through an IPO. Overall, 8% of the total non-financial company IPO proceeds between 1995 and 2017 were raised on foreign markets and 27 Italian companies were listed on foreign exchanges. In 2011, the company Prada raised EUR 1.8 billion in Hong Kong, which made it the biggest IPO of an Italian company on a stock exchange other than Borsa Italiana. Another major IPO took place in the United States in 2015 with a total amount of EUR 885 million.

**Figure 30. IPOs by non-financial Italian companies in domestic and foreign markets**

![IPOs by non-financial Italian companies in domestic and foreign markets](image)

*Source: OECD Capital Market Series dataset, see Annex for details.*

As discussed above, the long-term and patient character of equity capital allows companies to finance their forward-looking investments with uncertain outcomes in tangible as well as intangible assets. This may be particularly important for growth companies that in order to challenge older established companies need to invest in research, human resources and innovation. However, the average annual number of growth companies that made an IPO and the share of growth company proceeds as a portion of all non-financial company IPO proceeds have declined globally since 2000.

**Figure 31 provides a comparison between IPOs made by non-financial growth companies in Italy, some other European countries, the United States and Japan.** In the European Union area, there has been in the last 20 years a decline in the number of non-financial IPOs smaller than EUR 89 (USD 100) million. During the period 1997-2000 there were on average 393 such small IPOs. This fell to 222 during the period 2001-2007 and further to 139 during the period 2008-2017. In addition, the annual average proceeds of European non-financial growth companies in the first period were 2.7 times and 5.4 times higher than in the second and third periods, respectively.

This European trend has also been observed in the United States. In Italy, however, at least in terms of number of companies, growth company IPOs rebounded in the last four years. There were 60 non-financial growth company IPOs raising EUR 900 (USD 1 000) million. During the same period, the amount growth companies raised in Italy was one fifth of what they raised in Japan and 9% in the United States.
Figure 31. IPOs by non-financial growth companies

**Sources:** OECD Capital Market Series dataset, see Annex for details.

No. of companies by size and country.
2.2. The listing of special purpose acquisition companies

In 2010, Italy introduced an alternative way of listing by the use of a Special Purpose Acquisition Company (SPAC). A SPAC is a company that raises cash through an IPO without having any operations or physical assets. Its sole purpose and “asset” as a listed shell company is rather a business plan aiming to find and acquire an existing unlisted company. The acquired company will then automatically become listed through a merger with the SPAC. There is generally a rule or a market practice that limits the maximum time within which the SPAC has to find and merge with a target company, typically 24 months. Once a target company is found, the business combination (merger) is subject to the approval of investors. If the business combination is not completed within the agreed maximum time, the SPAC needs to return the funds to the investors.

Participating in a SPAC IPO gives all investors the option to access investment opportunities that typically are open only to sophisticated investors in the private equity market. Since the shares of the SPAC from day one are traded on an exchange, they are also liquid as opposed to capital that is committed to a private equity fund.

The main reasons for companies to choose a listing via SPAC are that the process is less burdensome and faster compared to a traditional IPO, since the regulatory procedures and documentation needed to list a SPAC are relatively limited. A SPAC listing also allows companies to reduce pricing uncertainties of a public listing by negotiating ex-ante all the terms and conditions with the managers of the SPAC. Like private equity firms, the business model of SPACs relies on the reputation and expertise of the founding managers who also own shares in the SPAC and are remunerated through various combinations of warrants and fees.

While the business models of SPACs and private equity firms have commonalities, there are also differences with respect to how they choose their target companies, their investment horizons and their exit strategies. The main goal of a SPAC is to find an attractive unlisted company that is willing to be listed on an exchange immediately. Private equity funds, on the other hand, typically keep the acquired company private in their portfolios for a number of years before they exit the investment. Listing the portfolio company through a traditional IPO is only one of the alternatives for private equity exit. Others include selling it to another private equity fund or to strategic investors and to write-off in case of a failure.

In the United States, SPACs were introduced already in 1990 and prior to the financial crisis they were a common feature of the equity capital markets. After the 2008 financial crisis however, the use of SPACs declined to very low levels until 2017, which saw a surge both in terms of the number of SPAC listings and the amount of equity that they raised. In 2017 there were 34 SPAC listings in the US raising EUR 11.2 (USD 9.9) billion. A similar development was also seen in the UK, where 15 SPACs listed in 2017 raising EUR 2.5 (USD 2.15) billion.

As illustrated in Figure 32, the first Italian SPACs were listed on the alternative markets of the Borsa Italiana in 2011. An important condition for making SPAC listings possible was the establishment of alternative markets, such as AIM Italia and the market for investment vehicles (MIV) that allowed the listing of shell companies. Between 2011 and 2016 a total of 11 SPACs were listed: 3 on MIV, 7 on AIM and 1 was set up as a private company. As of June 2018, 10 out of those 11 companies had completed a merger. The remaining one is still active and continuing its search for a target company. As a result, 10 previously unlisted companies became listed; five on MTA (one of the regulated segments of Borsa Italiana) and five on AIM Italia (see Table 5).
Similar to the developments in the United States and the United Kingdom, there was a surge in SPAC listings in 2017 in Italy as well. A total of 10 new shell-companies were listed and two closed funds were set up to promote SPACs. As of June 2018, three out of these 12 SPACs have completed business combinations, of which one was listed on MTA and the remaining two on AIM.

![Figure 32. Special purpose acquisition companies in Italy](image)

Source: BeBeez Italia, SPACs websites, Thomson Reuters.

It has been suggested that the recent increase in growth company IPOs and SPAC listings has been stimulated by the introduction of the individual saving plan (PIR -“Piani Individuali di Risparmio”) reform in 2016. As part of the reform, the Italian Government has established a new tax incentive to encourage savers to finance small and mid-sized Italian companies (Panetta, 2018). Retail investors resident in Italy can invest EUR 30,000 a year up to EUR 150,000 over a five-year period in PRI investment products exempt from the 26% income tax if they hold their investments for five years. The PRI products can be created by mutual funds, life insurance companies or security deposit accounts. These products have to invest at least 70% of the assets in financial instruments issued by companies established in Italy or foreign companies from the European Union or European Economic Area permanently established in Italy. In addition, at least 21% of the assets have to be invested in Italian companies not included in the main equity index (FTSE MIB). It has been claimed that this new regime had created a demand for smaller and mid-sized listed companies. As of end 2017, PIR investment products raised EUR 10.9 billion (according to Assogestioni) and it is projected that their total amount could reach EUR 50 billion by 2021.
### Table 5. Special purpose acquisition companies in Italy

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<th>Target acquisition</th>
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<td>Private</td>
<td>52.0</td>
<td>Italian Wine Brands spa</td>
<td>AIM</td>
</tr>
<tr>
<td>5</td>
<td>GreenItaly 1</td>
<td>December-14</td>
<td>AIM</td>
<td>35.0</td>
<td>Zephyro spa (ex Prima Vera)</td>
<td>AIM</td>
</tr>
<tr>
<td>6</td>
<td>Space</td>
<td>December-14</td>
<td>MIV</td>
<td>130.0</td>
<td>Fila spa</td>
<td>MTA</td>
</tr>
<tr>
<td>7</td>
<td>Space 2</td>
<td>July-15</td>
<td>MIV</td>
<td>155.2</td>
<td>Avio spa</td>
<td>MTA</td>
</tr>
<tr>
<td>8</td>
<td>Capital for Progress 1</td>
<td>September-15</td>
<td>AIM</td>
<td>51.0</td>
<td>GPI</td>
<td>AIM</td>
</tr>
<tr>
<td>9</td>
<td>Glenalta Food</td>
<td>November-15</td>
<td>AIM</td>
<td>80.0</td>
<td>Gruppo Orsero (Orsero)</td>
<td>AIM</td>
</tr>
<tr>
<td>10</td>
<td>Industrial Stars of Italy 2</td>
<td>May-16</td>
<td>AIM</td>
<td>50.5</td>
<td>SIT group</td>
<td>AIM</td>
</tr>
<tr>
<td>11</td>
<td>Innova Italy 1</td>
<td>October-16</td>
<td>AIM</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>IPO Club</td>
<td>January-17</td>
<td>Closed-end fund</td>
<td>120.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Crescita</td>
<td>March-17</td>
<td>AIM</td>
<td>130.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Space 3</td>
<td>April-17</td>
<td>MIV</td>
<td>152.9</td>
<td>Aquafil</td>
<td>MTA</td>
</tr>
<tr>
<td>15</td>
<td>Ipo Challenger 1</td>
<td>June-17</td>
<td>Private</td>
<td>20.0</td>
<td>PharmaNutra</td>
<td>AIM</td>
</tr>
<tr>
<td>16</td>
<td>Glenalta</td>
<td>July-17</td>
<td>AIM</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Sprint Italy</td>
<td>July-17</td>
<td>AIM</td>
<td>150.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Capital for Progress 2</td>
<td>August-17</td>
<td>AIM</td>
<td>65.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>EPS</td>
<td>August-17</td>
<td>AIM</td>
<td>150.0</td>
<td>ICF Group (May 2018)</td>
<td>AIM</td>
</tr>
<tr>
<td>20</td>
<td>Industrial Stars of Italy 3</td>
<td>October-17</td>
<td>AIM</td>
<td>150.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Spactiv</td>
<td>October-17</td>
<td>AIM</td>
<td>90.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>IdeaMi</td>
<td>December-17</td>
<td>AIM</td>
<td>250.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Space 4</td>
<td>December-17</td>
<td>MIV</td>
<td>497.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>ALP.I</td>
<td>January-18</td>
<td>AIM</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Spaxs</td>
<td>January-18</td>
<td>AIM</td>
<td>600.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>VALU (Gabelli value for Italy)</td>
<td>April-18</td>
<td>AIM</td>
<td>130.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BeBeez Italia, SPACs websites, Thomson Reuters.

#### 2.3. Trends in secondary public offerings

As explained above, companies that are already listed on a stock exchange can also use public equity markets to raise equity capital via a so-called secondary public offering (SPO or follow-on offering). SPOs can be made several years after the IPO in order to, for example, re-capitalise the firm or finance a new investment or an acquisition. It is important to note again that in today's capital markets an SPO does not necessarily mean a shares offering to the public with a prospectus. Rather, it is often conducted through a private placement where shares are only issued to current owners or a selected group of institutional investors without a prospectus.

Figure 33 shows the number of Italian companies that made secondary offerings and the total amount of equity raised over the period 2000-2017. Since 2000, Italian companies have raised four times as much money through SPOs as they have raised through IPOs. It is worth noting that in the wake of the 2008 financial crisis, a record number of Italian listed companies in 2009 turned to the public equity market to raise a total EUR 14.4 (USD 20.6) billion through secondary offerings.
Figure 33. Secondary public offerings (SPOs) by Italian companies

Source: OECD Capital Market Series dataset, see Annex for details.

With respect to the use of SPOs by different business sectors, the financial sector represented around 25% of all Italian SPO proceeds between 2000 and 2007. This was close to the financial sector’s portion of SPO proceeds worldwide. However, since the 2008 financial crisis, the financial sector has absorbed 65% of all money that has been raised through SPOs in Italy (Figure 34). This is significantly more than the global increase in financial sector SPOs during the post-crisis era. Worldwide, between 2008 and 2017, the financial sector captured only about 35% of all SPO proceeds. The dominant role played by the financial sector in the SPO market reflects the considerable efforts that have been made in Italy since the global financial crisis to re-capitalise the banking sector.

Figure 34. Breakdown of all SPOs by Italian companies by industry, proceeds

Source: OECD Capital Market Series dataset, see Annex for details.
The only non-financial sector that maintained a material market share with respect to SPOs since 2008 was utilities, whose share dropped from 23% to 17%. Despite losing half of its share, the industrials was the third largest sector.

The declining share of non-financial sector in the global SPO proceeds in the post-crisis era does not mean that the absolute amount of equity raised by them has also declined. Indeed, the annual average amount of equity raised by non-financial companies through SPOs increased by almost 40% in this period compared to the 2000-2007 period and reached EUR 333 (USD 427) billion. As shown in Figure 35, the picture in Europe was somewhat different. While some European countries such as Germany, Spain, and Sweden followed the global trend, this has not been the case for France, the United Kingdom, and Italy. The decline was most severe for the Italian non-financial sector as the absolute amount they raised, in real terms, almost halved. This may be explained by a crowding out effect from the surge of financial sector SPOs in the post-crisis era.

**Figure 35. SPOs by non-financial companies from Italy and selected European countries**

![Figure 35](image)

*Source: OECD Capital Market Series dataset, see Annex for details.*

### 2.4. Delistings by Italian companies

There can be several reasons why a company delists from a stock exchange, including voluntary delistings, mergers, acquisitions, bankruptcy, and failure in meeting the listing criteria. In some cases, a company can delist from one stock exchange but remain listed on one or several other exchanges or alternative trading venues.

As discussed above, there has been a decline in the number of IPOs in the OECD economies since 2000. And as the number of delistings has been higher than new listings, the net effect has been a decline in the number of listed companies from almost 30 000 companies in 2000 to about 20 500 companies in 2016. This development has been particularly prominent in the United States, where the number of companies listed on the stock market declined by 50% from almost 8 000 to 4 000. In Europe also many stock markets, including France and Germany, have lost an important number of listed companies.

Figure 36 shows listings and delistings in the Italian stock market. In total, since 1995, there were 375 new listings and 497 delistings. As a result, the total number of companies in all markets of
the Italian stock exchange has declined by 122 companies. As illustrated by the red line, there were only seven years over a 23-year period when net listings were positive. Importantly, three of those seven years were in the last four years.

Figure 36. Listed and delisted Italian companies, 1995-2017

Source: OECD Capital Market Series dataset, see Annex for details.

2.5. Investors and ownership structure in the Italian public equity market

In the first four sections of this part, the use of public equity markets by Italian companies has been analysed, including their use of initial and secondary offerings, the industry distribution of companies, the use by growth companies of public equity markets, and the extent to which companies have chosen to delist from the stock market. In order to provide a complete picture of Italian public equity market, it is also important to understand the investor landscape and the ownership structure at the company level.

Table 6 shows the distribution of share ownership among different categories of owners in Italy and selected countries based on their share in the total market capitalisation of each market. Among the four categories illustrated in the table, institutional investors were the largest category of owners in all markets except China, where the government was the largest owner. In both the United States and the United Kingdom, institutional owners are by far the largest category of owners holding on average 68% and 60% of the total capital, respectively. In Canada, 48% of the equity capital was also in the hands of institutional investors. They hold between one-third and one-fourth of the capital in the European markets, with Sweden ranking top at 38%. In Italy, institutional investors on average hold 7 percentage points lower stakes in listed companies compared to the global average, but almost the same level to the European average.

In most jurisdictions there is no requirement to disclose shareholdings below a certain size. There may also be different disclosure requirements for different categories of shareholders, in particular for institutional investors. These undisclosed holdings are categorised in the table as “others, inc. retail”, some of which are most certainly held by institutional investors. As a consequence, the numbers for institutional ownership presented in the table should be considered as the minimum numbers.
Table 6. Average ownership weighted by total market capitalisation, by different categories of investors for selected countries, as of end 2017

<table>
<thead>
<tr>
<th></th>
<th>Corporate</th>
<th>Government</th>
<th>Strategic Individual</th>
<th>Institution</th>
<th>Others, inc. retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>10.5%</td>
<td>11.7%</td>
<td>14.9%</td>
<td>27.8%</td>
<td>35.1%</td>
</tr>
<tr>
<td>Finland</td>
<td>5.3%</td>
<td>14.6%</td>
<td>8.7%</td>
<td>34.4%</td>
<td>37.0%</td>
</tr>
<tr>
<td>France</td>
<td>16.4%</td>
<td>7.8%</td>
<td>10.8%</td>
<td>28.3%</td>
<td>36.7%</td>
</tr>
<tr>
<td>Germany</td>
<td>16.1%</td>
<td>7.1%</td>
<td>7.6%</td>
<td>29.6%</td>
<td>39.5%</td>
</tr>
<tr>
<td>Norway</td>
<td>6.9%</td>
<td>34.7%</td>
<td>7.9%</td>
<td>23.8%</td>
<td>26.7%</td>
</tr>
<tr>
<td>Spain</td>
<td>13.2%</td>
<td>6.3%</td>
<td>13.4%</td>
<td>24.6%</td>
<td>42.5%</td>
</tr>
<tr>
<td>Sweden</td>
<td>13.4%</td>
<td>6.7%</td>
<td>11.0%</td>
<td>38.4%</td>
<td>30.5%</td>
</tr>
<tr>
<td>Canada*</td>
<td>7.7%</td>
<td>3.7%</td>
<td>2.1%</td>
<td>48.4%</td>
<td>38.1%</td>
</tr>
<tr>
<td>China*</td>
<td>12.5%</td>
<td>35.3%</td>
<td>12.7%</td>
<td>9.0%</td>
<td>30.5%</td>
</tr>
<tr>
<td>Japan*</td>
<td>20.2%</td>
<td>6.9%</td>
<td>2.5%</td>
<td>28.5%</td>
<td>41.9%</td>
</tr>
<tr>
<td>United Kingdom*</td>
<td>6.6%</td>
<td>6.3%</td>
<td>1.7%</td>
<td>60.2%</td>
<td>25.2%</td>
</tr>
<tr>
<td>United States*</td>
<td>1.5%</td>
<td>1.5%</td>
<td>3.3%</td>
<td>67.5%</td>
<td>26.1%</td>
</tr>
</tbody>
</table>

Notes: * For Canada (83%), China (31%), Japan (52%), the United Kingdom (79%) and the United States (51%) the universe includes only the top 100 largest companies in terms of market capitalisation. The numbers in the brackets represent the share of the top 100 companies over the total market capitalisation for each country. For the remaining markets all listed companies are covered.

Source: OECD Capital Market Series dataset, FactSet, see Annex for details.

The second largest category of owners in Italy is the "strategic individual", which typically includes physical persons owning more than 5% of the capital. This type of direct ownership, together with corporations’ ownership, is more prevalent in European markets compared to countries with a common law legal system, such as the United States and the United Kingdom. Government ownership in the Italian listed companies sector is also important, albeit not as much as in China and Norway.

Table 7, together with Table 6 above, reveals a key feature of the ownership of listed corporates in Europe. In order to examine the ownership structure of large and small listed corporations respectively, the table below shows the average portion of the capital held by different categories of owners in each market in the companies above and below the median size in terms of market capitalisation. The data shows that in all markets, the average share of institutional ownership in large listed companies was significantly higher than their ownership in smaller companies. This is also true for government ownership in most markets. At the same time, the average share of the corporate and strategic individual categories was notably higher in smaller companies. In Italy, for example, 28% of all shares in large listed companies were held by institutional investors as of end-2017, while the same ratio for smaller listed companies was below 10%. However, corporations’ average share of ownership in small companies was more than twice as large as their holdings in the larger companies. The government ownership in Italy was almost exclusively concentrated in the large listed companies.
Table 7. Average ownership by investor categories in small and large companies in selected European economies, as of end 2017

<table>
<thead>
<tr>
<th></th>
<th>Corporate</th>
<th>Government</th>
<th>Individual</th>
<th>Institution</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Above Median</td>
<td>Below Median</td>
<td>Above Median</td>
<td>Below Median</td>
<td>Above Median</td>
</tr>
<tr>
<td>Italy</td>
<td>10.3%</td>
<td>25.2%</td>
<td>12.1%</td>
<td>1.4%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Finland</td>
<td>5.1%</td>
<td>11.8%</td>
<td>14.9%</td>
<td>0.8%</td>
<td>8.5%</td>
</tr>
<tr>
<td>France</td>
<td>16.2%</td>
<td>33.0%</td>
<td>7.9%</td>
<td>2.0%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Germany</td>
<td>16.1%</td>
<td>27.1%</td>
<td>7.1%</td>
<td>9.0%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Norway</td>
<td>7.5%</td>
<td>13.7%</td>
<td>35.4%</td>
<td>1.1%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Spain</td>
<td>13.0%</td>
<td>27.6%</td>
<td>6.4%</td>
<td>2.5%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Sweden</td>
<td>13.4%</td>
<td>14.7%</td>
<td>6.8%</td>
<td>2.0%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Notes: Small (large) companies refer to those firms with market capitalisation below (above) the median market capitalisation in each market.
Source: OECD Capital Market Series dataset, FactSet, see Annex for details.

It is commonly claimed that investors prefer to invest greater in their home country equity markets – a phenomenon known as home bias in equity markets. This may be particularly true for individual shareholders, who usually have too small investments to warrant the cost of investing abroad and monitoring their investments. With respect to institutional investors, however, the home bias should be less of an issue as they have the capacity and scale to invest in foreign markets. In European markets shown in Figure 37, institutional investors hold on average around 30% of the capital, with the exception of Sweden. Sweden also differs from other countries with respect to the share of foreign institutional investors in the domestic market. While in Sweden almost half of all institutional ownership is attributed to foreign institutions, this ratio is between 72% to 92% in other countries. Put differently, for example, only 11% of all institutional ownership was held by domestic institutions in Italy as of end 2017.

Figure 37. Domestic and foreign institutional ownership in Italy and selected European countries, as of end 2017

Note: Ownership values represent capital market weighted averages.
Source: OECD Capital Market Series dataset, FactSet, see Annex for details.
Another important use of ownership information is related to the development of corporate governance rules and practices, including related party transactions and takeovers. In this respect, it is particularly important to understand the degree of concentration and control by individual shareholders at the company level. Table 8 shows the average holdings of the largest shareholders in the listed corporate sector in each of the European markets. Italian companies display the most concentrated ownership with the largest, three largest and five largest shareholders holding an average of 38%, 50%, and 54% of the capital, respectively. However, the differences between the concentration level of the Italian listed corporate sector and France, Germany, and Spain are not significant. Indeed, when looking at the 20 and 50 largest shareholders Spain exhibits a higher concentration level than Italy.

Table 8. Ownership concentration at company level in Italy and selected European countries, as of end 2017, (capital share)

<table>
<thead>
<tr>
<th></th>
<th>Largest 1</th>
<th>Largest 3</th>
<th>Largest 5</th>
<th>Largest 20</th>
<th>Largest 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>38%</td>
<td>50%</td>
<td>54%</td>
<td>60%</td>
<td>61%</td>
</tr>
<tr>
<td>Finland</td>
<td>17%</td>
<td>28%</td>
<td>34%</td>
<td>48%</td>
<td>53%</td>
</tr>
<tr>
<td>France</td>
<td>35%</td>
<td>48%</td>
<td>52%</td>
<td>58%</td>
<td>60%</td>
</tr>
<tr>
<td>Germany</td>
<td>35%</td>
<td>46%</td>
<td>50%</td>
<td>56%</td>
<td>58%</td>
</tr>
<tr>
<td>Norway</td>
<td>24%</td>
<td>36%</td>
<td>41%</td>
<td>54%</td>
<td>56%</td>
</tr>
<tr>
<td>Spain</td>
<td>34%</td>
<td>46%</td>
<td>51%</td>
<td>60%</td>
<td>62%</td>
</tr>
<tr>
<td>Sweden</td>
<td>20%</td>
<td>35%</td>
<td>42%</td>
<td>56%</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: OECD Capital Market Series dataset, FactSet, see Annex for details.

2.6. Borsa Italiana

The marketplace for public equity financing is the stock market, where the stock exchange as the main actor plays a significant role in matching companies that need access to external equity financing and investors that are willing to supply capital into those companies. Over the last few decades, the stock exchange industry has experienced important structural changes. While most stock exchanges in advanced capital markets were established as membership organisations or government institutions, today most of them have been transformed into privately owned for-profit corporations and have their shares listed and traded on their own exchanges (OECD, 2016).

Table 9. Key dates and developments for the Borsa Italiana

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>Privatisation of the exchange into a joint stock company: Borsa Italiana Spa</td>
</tr>
<tr>
<td></td>
<td>Creation of the &quot;Nuovo Mercato&quot; alternative market, dedicated to high growth technology oriented firms</td>
</tr>
<tr>
<td>2003</td>
<td>Creation of the &quot;Mercato Expansi&quot; alternative market, dedicated to SMEs</td>
</tr>
<tr>
<td>2005</td>
<td>Creation of the &quot;Blue Chip Segment&quot; in the MTA, dedicated for companies with capitalisation: &gt; EUR 1 billion</td>
</tr>
<tr>
<td></td>
<td>Merge of the &quot;Nuovo Mercato&quot; and MTA</td>
</tr>
<tr>
<td>2007</td>
<td><strong>Merger of Borsa Italiana Spa and London Stock Exchange Group (LSEG)</strong></td>
</tr>
<tr>
<td></td>
<td>Creation of the &quot;Mercato Alternativo del Capitale&quot; (MAC) alternative market, dedicated to SMEs</td>
</tr>
<tr>
<td>2009</td>
<td>Merger of &quot;Mercato Expansi&quot; and MTA</td>
</tr>
<tr>
<td></td>
<td>Extinction of the &quot;Blue Chip Segment&quot;</td>
</tr>
<tr>
<td>2012</td>
<td>Merger of MAC and AIM markets, creation of AIM Italia</td>
</tr>
</tbody>
</table>

Source: Borsa Italiana website.
The Italian stock market has not been exempt from this transformation process. Since 1990, there have been several key developments with respect to the structure of the secondary equity market in Italy. First, ten stock exchanges existed until 1996 were closed to unify the trading at national level. In 1999, the exchange was transformed into a joint stock company and privatised. That same year, a new market for high-technology companies, the Nuovo Mercato, was launched. A major development since then was the merger of Borsa Italiana with the London Stock Exchange Group in 2007.

Today, Borsa Italiana is split into four different markets: Mercato Telematico Azionario (MTA), and Alternative Investment Market (AIM Italia) where companies are listed; and Market for Investment Vehicles (MIV) and the Partnership Equity Markets where financial vehicles are listed. As of end 2017, there were 241 listed companies on MTA and 95 on AIM Italia. The MTA market is split into two segments, the Standard listing segment and the Star segment, which requires the adoption of some additional corporate governance standards and is only open to companies that have less than EUR 1 billion market capitalisation. The eligibility criteria and key continuous obligations for the segments of the MTA market and AIM Italia are presented in Table 10.

Table 10. Eligibility criteria and key continuous obligations for different markets of Borsa Italiana

<table>
<thead>
<tr>
<th>ELIGIBILITY CRITERIA</th>
<th>MTA</th>
<th>AIM Italia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>STANDARD</td>
<td>STAR</td>
</tr>
<tr>
<td>Free float</td>
<td>25%</td>
<td>35%</td>
</tr>
<tr>
<td>Audited fin. statements</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>GAAP</td>
<td>International</td>
<td>International</td>
</tr>
<tr>
<td>Investors</td>
<td>Institutional / Retail</td>
<td>Institutional / Retail</td>
</tr>
<tr>
<td>Other documents</td>
<td>Prospectus / MIS / Business Plan / QMAT</td>
<td>Prospectus / MIS / Business Plan / QMAT</td>
</tr>
<tr>
<td>Market cap (€)</td>
<td>Min EUR 40M</td>
<td>Min EUR 40M – Max EUR 1B</td>
</tr>
<tr>
<td>BOD (no. independent directors)</td>
<td>Recommended (CG Code)</td>
<td>Mandatory (Rules)</td>
</tr>
<tr>
<td>Internal audit committee</td>
<td>Recommended (CG Code)</td>
<td>Mandatory</td>
</tr>
<tr>
<td>Remuneration committee</td>
<td>Recommended (CG Code)</td>
<td>Mandatory</td>
</tr>
<tr>
<td>Incentives to the top management</td>
<td>Recommended (CG Code)</td>
<td>Mandatory (performance-related remuneration)</td>
</tr>
<tr>
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KEY CONTINUOUS OBLIGATIONS

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Number of listed companies, Dec 2017: 167 companies, 74 companies, 95 companies

Source: Borsa Italiana website.
Throughout the last two decades, there have also been significant changes in the market structure within the Borsa Italiana itself. One way to look at these changes is to follow the creation of new market segments and the number of new listings in these market segments. Figure 38 shows the total number of IPOs in each market of the Borsa Italiana since 1995. The regulated markets, in general traditional stock markets, are shown in blue and the unregulated/alternative markets are shown in grey. From 2004 onwards, there has been a marked shift in IPO activity from regulated to unregulated markets. Over the period 1995-2004, 113 IPOs were conducted on the regulated markets of the Borsa Italiana and 45 on the alternative markets. Since 2005, however, 72 IPOs took place on regulated markets, whereas 117 IPOs went to the alternative markets. Particularly in the last four years, when the IPO activity has been relatively strong in Italy, almost 60% of all listings took place on the alternative AIM market.

**Figure 38. Distribution of IPOs among the different markets of Borsa Italiana**

Source: OECD Capital Market Series dataset, see Annex for details.
2.7. Intermediaries in the Italian primary equity market

The key intermediation function in the primary equity markets is served by underwriters, who support the issuance of a company’s shares to the public. The underwriting services are mainly provided by investment banks and consist of origination, distribution, risk bearing, and certification. Underwriter investment banks also advise the IPO firm on the timing and pricing of the offering; and help the firm prepare the required documentation including public prospectus.

Figure 39 shows the share of the top 100 investment banks in the equity markets with respect to the total underwriting volume for both IPO and SPO transactions in Europe and Italy, before and after 2008. A striking development shown in the figure is that the Euro Area banks substantially decreased their share in the European primary public equity markets in the post-crisis period. At the same time, banks from the United States and the United Kingdom increased their market share by three and four percentage points, respectively. Panel B of the figure shows a similar development in Italy, where the share of domestic investment banks in public equity transactions declined by 14 percentage points. However, the share of banks from the United States almost remained the same at 37%. Interestingly, the share of banks from other Euro Area countries was modest in both periods.

Panel C of Figure 13 focuses on small offerings in Italy that were below EUR 89 (USD 100) million in real terms. It is not surprising to see that domestic banks play a bigger role in small company offerings compared to their role in the whole market. Despite a slight decline in the second period, more than half of the small public equity transactions have been underwritten by Italian banks since 2000. The big shift has been from non-Italian Euro Area banks to US banks, which increased their market share by 18 percentage points.

Note: For the panel “Italy small offering”, only equity deals of less than 100 USD millions are considered.
Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.
Figure 40 presents the share of Italian banks in the domestic equity market underwriting activity since 2000. The downward trend with respect to Italian banks’ market share is more visible on a yearly basis compared to the figure above which shows the aggregate level. Since 2011, their market share started to decline and was at the lowest level in 2017.

Figure 40. Share of Italian banks in the domestic equity underwriting activity

Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.
Corporate debt comes in many different forms with respect to their use and conditions, such as maturity, interest and requirements for collateral. Ordinary bank loans, for example, are often used as short-term working capital, while corporate bonds typically have a longer maturity and can be issued for a defined project. In addition to the long-term maturity structure, the absence or relatively low level of collateral requirements gives corporate bond financing a special role as a source of financing compared to other loans.

Corporate bonds can be issued to the general public or to a select group of investors through private placements. Private placements are typically used for smaller bond offerings. They require less burdensome reporting and registration procedures; and do not require mandatory credit rating. However, in some advanced markets privately placed corporate bonds are often rated and issued to a large number of qualified investors.

The first section of this part focuses on public and private issues that are underwritten by an investment bank. Underwriters play an advisory role in helping the company to prepare the necessary documentation and pricing the bond issue. They also serve as an intermediary between the company and their network of prospective investors. These underwritten bonds account for a great share of all corporate bonds in terms of total proceeds and are reported in commercial databases, the financial press, and various studies. The second section takes a closer look at the mini-bond market in Italy based on a new dataset of all Italian mini-bonds issued since 2013. The part ends with a short overview of underwriting activity in the Italian corporate bond market.

3.1. Trends in corporate bond issuance

Starting from 2004, corporate bonds have become an increasingly important source of finance for both financial and non-financial Italian companies. Figure 41 shows that the annual amount of funds raised through corporate bond issuance was on average EUR 74 billion between 2004 and 2014. This was almost three times the pre-2004 period average. After a large drop in 2015 and 2016, the total amount increased to EUR 71 billion in 2017. This increase was mainly driven by non-financial companies, which accounted for almost half of all proceeds. The number of individual companies that issued bonds in 2017 was the largest since 2000. In total, 73 Italian companies, including 46 non-financial companies, issued a bond in 2017. While the absolute amount of money raised was higher in the years 2008 and 2012, the number of individual companies that issued bonds was significantly lower. This indicates that during the early years of the global financial crisis and sovereign debt crisis in Europe, the corporate bond market was mainly open to larger issuers by a smaller number of companies.
Globally, the dramatic change in non-financial companies’ use of corporate bond market took place in 2009. Following a significant reduction in bank lending to non-financial companies in the aftermath of the global financial crisis, more companies turned to the bond market to raise funds. Globally, non-financial companies raised on average EUR 752 (USD 850) billion annually up to 2008. This increased to EUR 1.2 (USD 1.7) trillion in 2009 and to EUR 1.8 (USD 2) trillion in 2016 and 2017. As shown in Figure 42, the trend has been upward in all regions. In Europe, the annual average amount was EUR 206 (USD 240) billion between 2000 and 2008, and increased to EUR 305 (USD 390) billion after 2009. However, since the increase in some other markets, particularly China and the United States, has been higher compared to Europe, the share of European companies in global corporate bond proceeds dropped from 29% in 2008 to 20% in 2017.

**Figure 41. Corporate bond issuance by Italian companies**

![Graph showing corporate bond issuance by Italian companies](image)

*Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.*

**Figure 42. Global corporate bond issuance by non-financial companies**

![Graph showing global corporate bond issuance by non-financial companies](image)

*Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.*
Companies from the United Kingdom, France and the Netherlands have traditionally been the largest users of corporate bond markets, raising on average 64% of all proceeds in Europe. They are followed by companies from Germany (9.5%) and Luxembourg (6.2%). The share of Italian non-financial companies in Europe remained almost stable with almost 6% in the two periods. With the exception of 2015, companies in Europe raised on average EUR 325 billion annually since 2012. This is almost 1.5 times the pre-crisis average.

**Figure 43. Corporate bond issuance by non-financial European companies**

Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

As shown in Figure 44, one notable difference between the corporate bond markets in Europe and those in the United States and Japan is the dominance of financial sector companies. This difference is particularly marked since the financial crisis when non-financial companies have accounted for about 60% of all corporate bonds issues in the US but only around 30% in Europe. In Italy, the ratio of non-financial company proceeds to total proceeds has for most of the period been below the European average. Mainly due to the decline in overall financial company proceeds, the portion of non-financial companies has increased since 2014 and reached 48% in 2017.
Globally, the increase in non-financial company bond issuance has been coupled with a decline in the industry concentration of companies that issue bonds. For example, the share of the top two industries declined by 12% percentage points in Italy between the 2000-2007 period to the 2008-2017 period. The decline was 10 percentage points for Europe and 3 percentage points for global issuance. While the relative importance of the energy sector has increased substantially, the utilities and telecom sectors remained the two largest issuers in Italy in both periods. Another important feature of the Italian corporate bond market is that the share of companies in high technology industries, which includes technology, healthcare, pharmaceuticals, and biotechnology, has been very low. Despite an increase from 2% to 4% in the post-2008 period, their share remained below the 7% European average and 15% of global average.
3.2. Corporate bond rating quality and average maturities

The availability and the level of credit rating have a significant impact on both the cost and amount of corporate bond issued (Tang, 2009; Pattani et al. 2011). Figure 46 displays the OECD corporate bond rating quality index for Italy, and some other countries and regions since 2000. The index is constructed by assigning the value 1 to the lowest credit quality rating and 21 to the highest credit quality rating. The annual average rating quality has declined in all geographical areas since 2009. The decline for the United States is 2.7 points and for Europe 3.9 points. Italy has seen the largest decline with more than 5 points, from 17.6 in 2008 to 12.5 in 2017. In other words, on average, bonds issued by Italian companies were given a AA- rating in 2008, while they were given a BBB-rating in 2017, which is just above the investment grade threshold. It should also be noted that the index for Italy was slightly below the emerging market average in 2017.

One additional observation from the figure is that the decline in overall corporate bond rating quality in the United States, Japan and emerging markets started immediately after the global financial crisis, while the decline in Italy and Europe was associated with the sovereign debt crisis of 2011 in Europe.

![Figure 46. Corporate bond rating index](image)

**Notes:** There are eleven non-investment grade categories: five from C, C to CCC+; and six from B, B- to BB+. There are ten investment grade categories: three from B, BBB- to BBB+; and seven from A, A- to AAA. This index is weighted as one for C, two for CC and rising to twenty one for AAA. A fall in the index indicates declining quality. Index is based on value weighted annual averages.

**Source:** OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

The deterioration in Italy and Europe is not only a result of more non-investment grade (so-called high yield) corporate bonds issuance. It is also explained by the decline in the rating of bonds issued within the investment grade category. Figure 47 illustrates the distribution of corporate bond issuance among rating categories as a percentage of total volume since 2000. Both in Italy and Europe there has been a significant increase in non-investment grade bonds. From representing only 1% of the total value of corporate bonds by non-financial companies in Italy in 2007, non-investment grade bonds amounted to 39% of all money raised by the use of corporate bonds in 2017. The increase for Europe during the same period was from 2% to 17%. However, 50% of the issuance volume in Europe in 2017 was associated with A-grade investment bonds, while the share of A-grade investment bonds in Italy was only 13%.
The average maturities for corporate bonds issued by non-financial companies vary widely among different countries and regions. Table 11 reveals that the average maturity for bonds issued by non-financial companies in Italy was lower than the European average, Japan and the US in 2017. This was not the case in the pre-crisis period. In 2008 for example, the average maturity was 11 years in Italy and the US, and 8.4 and 9.8 in Europe and Japan, respectively. Since the global financial crisis, the average maturities for issuers from the US and Europe excluding Italy have increased, but decreased for Italian issuers.

It should be noted however, that the average maturity of commercial bank loans to non-financial companies is estimated to be 4.2 years for developed economies and 2.8 years for emerging economies, which is still shorter than the maturities for corporate bonds shown in Table 11 (Group of Thirty, 2013).

Table 11. Average maturities for corporate bonds by non-financial companies, years

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Note: Average maturities are expressed in number of years and represent simple averages.
Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.
3.3. Private placement markets and the Italian “Mini-bond” market

While no uniform definition exists, private placements are generally defined as debt sales to a selected group of investors, without the formality of a wider auction and without the obligation to issue a prospectus. Target investors are mainly institutional investors that are able to assess the borrower’s creditworthiness. The transaction usually takes the format of a bond or a loan and involves the participation of one or more financial intermediaries acting as arranger, but not as underwriter of the debt. Compared to public debt offers, private placements are characterized by lower issuing costs, since they are less subject to transparency obligations. The negotiation with only a handful of investors also allows a greater flexibility when it comes to establishing the bond covenants and adjusting the terms of the bond to the needs of the company. However, privately placed bonds are usually associated with low levels of liquidity.

Major private placement markets

Finding its roots in the Anglo-American market, private placement markets as a funding pool have also become increasingly relevant in continental Europe. The German Schuldschein market reached an issue volume of EUR 25 billion and the French Euro-PP market grew to EUR 4.5 billion in 2016. Volumes on the US private placement market are considerably higher at EUR 47 billion in 2016 (European Commission, 2017).

| Table 12. Major private placement markets in 2016 |
|-----------------|-----------------|-----------------|
| **Type**        | US-PP market    | German Schuldschein market | Euro-PP market |
| Typical years to maturity | Bond | Loan | Bond or loan |
| Mean EUR M      | 9-15            | 3-5             | 6-8             |
| Median EUR M    | 242             | 214             | 66              |
| Deal size       | 181             | 122             | 36              |
| No. Issuances   | ~200            | ~120            | 68              |
| Issuance volume | EUR B           | 47              | 25              |
| No. of issuer   | EUR B           | 47              | 25              |
| Issuers’ revenues | EUR 5B         | 24%             | 14%             |
| EUR 150M-1B     | 27%             | 41%             | 44%             |
| EUR 1-5B        | 36%             | 32%             | 6%              |
| > EUR 5B        | 13%             | 14%             | 9%              |
| Issuer listing status | Listed | 33%             | 37%             |
| Unlisted        | 67%             | 63%             | 73%             |
| Investor landscape | Mainly institutional investors | Commercial, state-owned and saving banks; institutional investors are less important | Institutional investors like insurance companies and pension funds |

Source: European Commission (2017)

A comparison of the markets’ main characteristics reveals significant differences in terms of types of instruments, maturity, target company size, and investor landscape. The US private placement market is the largest and most established one. Compared to European private placements, US
The Italian “Mini-bond” market

In Italy, the government has taken important steps to support alternative funding instruments, in particular targeting small and mid-sized firms. In 2012, legal changes were introduced facilitating the access to bond financing for unlisted Italian SMEs (Decree 83/2012). By removing size restrictions set forth by Italian law and reducing the tax cost of bond issuances, the decree aims at reducing obstacles hampering the development of an Italian debt market for unlisted SMEs. The legal changes led to the introduction of so-called “mini-bonds”, which can be issued by companies with more than 10 employees and an annual turnover and/or assets in excess of EUR 2 million. Micro-enterprises and banks are not allowed to issue mini-bonds.

The Italian Civil Code requires that the total maximum amount of corporate bond issuance of a company should not exceed twice the company’s equity capital (share capital and reserves). Since the 2012 changes, this limit does not apply to bonds that are traded on a regulated market or a multilateral trading facility (MTF). However, mini-bonds can only be held by professional investors (institutional investors or qualified individual investors). In response to this new regulatory framework, Borsa Italiana introduced the ExtraMOT PRO segment in 2013, dedicated to listing of bonds whose trading is permitted to professional investors only.

There is no common agreed definition to identify mini-bonds. Epic, an investment company in Italy, for example, provides regular data on mini-bond market activity based on a list of bonds that are traded on the Borsa Italiana. However, there are also mini-bonds that are listed on other European markets or not listed at all. An observatory established under the Milan Politecnico University also publishes annually a list of mini-bonds based on their own definition, which excludes bonds that are above Euro 500 million in size and listed on a regulated market.

Considering the broad definitions applied to identify mini-bonds, there is also a discussion whether the Italian mini-bond market can be classified as a private placement market. On the one hand, it carries some common features of the private placement markets, since the bonds are targeted only to professional investors and subject to limited transparency requirements. On the other hand, most of the bonds are admitted to trading on a MTF and some of them issue information sheets publicly. Anecdotal evidence also suggests that at least some mini-bonds involve a negotiation between the issuer and the investors on the terms of the issue. These deviations from the common features of private placement markets are also often seen in other markets. For example, an important portion of the bonds issued in the French Private Placement market are also listed on regulated markets or MTFs that require a certain level of public disclosure.
To grasp the overall trend in the Italian mini-bond market and the main characteristics of issues and issuers, we have created a dataset based on the information provided by the Milan Politecnico University covering the period between 2013 and 2017. Prior to any exclusion, the dataset covers 455 bonds that are traded on Borsa Italiana, on MTFs, or not traded at all. In order to focus on what can be considered as private placements and to avoid double counting, bonds that were underwritten by investment banks were excluded (49 bonds). After also excluding bonds issued by the financial sector (57 bonds), bonds that were not possible to match with the information in commercial databases (17) and one bond with proceeds over EUR 500 million, the final dataset covers 331 non-financial mini-bonds.

Since its inception in 2012, the mini-bond market in Italy has shown a steady growth. As seen in Figure 48, the annual number of issues increased from 12 in 2013 to 116 in 2017. The cumulated proceeds in the same period were EUR 5.8 billion, of which 38% was raised in 2017. As a comparison, the total proceeds raised in the public corporate bond market by non-financial companies were EUR 103 billion during the same period. In the first year of the mini-bond market, the average size of an issue was EUR 34 million, which was almost half of the average issue size in the French Euro-PP market and below 1/6 of US and German private placement markets average. In the following three years, the average issue size dropped significantly to EUR 16 million, coupled with the increase in number of new bond issues. In 2017, the average size of mini-bond issues was EUR 19 (USD 21) million.

![Figure 48. Mini-bonds issued by Italian non-financial companies](source)

The industry distribution of mini-bonds reveals a different picture compared to the public bonds issued by Italian non-financial companies. Figure 49 shows that industrials dominated the market in terms of issuance volume and received 37% of all funds raised over the five year period 2013-2017. In the public bond market, the three largest sectors were the utilities, telecom and energy, of which only the utilities sector was notably present in the mini-bond market. The share of the technology sector was also high in the mini-bond market in 2013, but has significantly declined from the mini-bond market in recent years. This has also been the case in the public bond market, where the technology sector accounts for a very small share of the total issuance volume. Together with the small average issue size, the dominance of the industrials sector indicates that the Italian mini-bond market has been increasingly used by mid-sized manufacturing companies.
The difference in average maturity for large and small Italian mini-bond issues by non-financial companies has increased over time. In 2013 the average maturity for large issues was less than one year longer than the average maturities for small issues. In 2017, however, the difference has been widened to 2.5 years, with an average maturity for small issues of just 3.6 years. This was also significantly below the average for all public bonds for the same year (7.7 years).

**Figure 50. Average maturities for mini-bonds, large versus small issues**

*Note: Large (small) issues are defined as issues above (below) the median size.*

*Source: Bloomberg, FactSet, Milan Politecnico University, Thomson Reuters, OECD calculations.*
3.4. Intermediaries in the Italian corporate bond market

In the corporate bond market, companies typically pay an investment bank that will underwrite and manage the offering of the bond to the public or to a selected group of professional investors. Underwriters mainly assume responsibilities with respect to helping issuers in preparing the necessary documentation for the issue, structuring the issue with respect to potential investor demands and pricing the issue. The reputation of the underwriter is often seen as an implicit certification of the quality of the bond, which may be of particular importance for smaller companies that are less known to investors (OECD, 2015).

Figure 51 shows the share of the top 100 investment banks in the corporate bond markets with respect to the total underwriting volume in Europe and Italy before and after 2008. The share of banks headquartered in the Euro Area was quite stable between the two periods. At the same time, banks from the United Kingdom increased their market share by 3 percentage points and banks from the United States decreased their market share by almost 7 percentage points. Unlike the developments in the Euro Area as a whole, Panel B of the figure shows that in Italy the share of domestic investment banks in corporate bond transactions declined by 5 percentage points. At the same time, the share of banks from the Euro Area excluding Italy increased by 13 percentage points, while the Italian market share of banks from the United States declined by the same amount.

Figure 51. Market share in corporate bond underwriting of top 100 banks in the European and Italian market

Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.

Figure 52 presents the share of Italian banks in the domestic corporate bond market underwriting activity since 2000. While the use of corporate bond market by Italian companies has increased considerably since 2004, the corporate bond market share of Italian banks has remained quite stable at around 28%.
Figure 52. Share of Italian banks in the domestic corporate bond underwriting activity

Source: OECD Capital Market Series dataset, Thomson Reuters, see Annex for details.
PART IV. THE ITALIAN PRIVATE EQUITY MARKET

In recent decades, capital markets have seen an increased presence of traditional institutional investors, such as pension funds and insurance companies. But there is also a growing presence of various private pools of equity providers, such as private equity funds, venture capital funds, and private placement vehicles. Since these private pools of capital represent a variety of business models and investment strategies, there is no single definition that distinguishes them from the more traditional institutional investors. Moreover, labels like private equity funds, venture capital funds, and private placement vehicles are not themselves well defined and distinctions between different private pools of capital with respect to their legal structure, business model, and investment strategies are often floating. Some private equity funds, for example, invest in unlisted companies, while others include listed companies in their portfolios. Some operate as unlisted limited liability companies, while others are publicly listed companies.

This variety of business models and the lack of clear definitions of different types of private pools of capital make it difficult to collect comparable and reliable data. Most datasets, including the ones that are used in this report, rely on how firms choose to label themselves. As a consequence, venture capital funds are classified as a subcategory of private equity funds.

This part starts with a broad overview of private equity activity in Italy and compares it with European country aggregates. It is followed by a presentation of more detailed data with respect to the three main stages that are typically associated with private equity fund investments, namely fundraising, investment and divestment. The issues addressed in the analysis include the sources of private equity funding, industry distribution of private equity investments and the most common private equity exit strategies.

4.1. Overview of the private equity activity in Italy

There are three main stages of private equity investments. The first stage is referred to as fundraising where a private equity firm raises funds from institutional investors, banks, wealthy individuals and others. Funds will be closed to new investors after having raised the target amount of capital. Funds raised are recorded normally in the country of the private equity firm. The second stage is investment where a private equity firm uses the raised funds to invest in a company. These transactions are recorded according to the location of the investee company. As described above, private equity funds have a definite investment horizon, which means that they need to exit all their investments in a given time, usually less than 10 years, and liquidate the fund. There are different exit strategies, including buyback by managers or owners, sale in public offerings, repayment of preference shares/loans, sale to another private equity firm or financial institutions, and write-off. The exit operation constitutes the third stage and called as divestment, which is recorded at investment cost.

In Italy, the use of private equity funds as a source of corporate finance is still relatively undeveloped. Figure 53 shows the amount of private equity capital raised, the total amount of private equity investments and total divestment in Italy since 2017. These numbers are compared with EU aggregate numbers. Panel A shows the gap between the amount of private equity capital...
that is raised in Italy and the total amount of investments undertaken by Italian private equity funds. During the last five years, domestic capital from domestic sources was on average EUR 2.4 (USD 3) billion, while total investments by Italian private equity firms was more than 50% higher at EUR 3.9 (USD 4.6) billion. Considering that almost all funds raised by Italian private equity firms during the last five years were invested in domestic companies, the fundraising gap may become an even greater constraint on investment in Italian firms in the future.

To provide a comparative picture, Panel B shows private equity activity in Italy relative to Europe. While Italy represents about 11% of total EU GDP, fund capital raised by Italian private equity funds represents a modest 3.7% of the total amount of private equity funds raised in Europe during the last five years. Private equity investments in Italian companies however, amounted to 7.2% of the total private equity investments in Europe.

The relatively low share of Italian private equity activity in Europe and the gap between private equity capital raised in Italy on the one hand, and the total amount of private equity investments in Italy on the other hand, point towards a potential to further develop the Italian private equity market. As discussed in the following sections, private equity investments in some other large economies in Europe have been either less reliant on foreign funds or received significantly higher investment from abroad.

**Figure 53. Private equity activity in Italy**

A. Italy  
B. Italy relative to Europe

Source: Invest Europe / EDC.

### 4.2. Private equity investors and fundraising trends

It is important to keep in mind that the total amount of assets under management by private equity funds does not necessarily represent the amount of capital that they have invested in companies. During the fundraising period, private equity firms obtain capital commitments from their investors. The actual money, however, is typically received only when an investment is being made. Indeed, out of EUR 2.7 (USD 3) trillion in assets held by private equity funds in 2017, more than one third was in the form of uninvested capital, which is funds committed by investors but not yet invested by the fund (Preqin, 2018). Bearing in mind the large amount of uninvested capital, assets held by
European private equity funds grew quite dramatically up to the global financial crisis as a result of strong fundraising activity. As seen from Figure 54, fundraising by private equity firms has successively increased since the dramatic drop in 2009, but remain below the peak levels in 2007 and 2008. In 2017, funds raised in Europe exceeded EUR 90 billion for the first time since 2009.

Figure 54 also shows the funds raised by European and Italian private equity firms based on the origin of the investors that provide the capital. “Domestic” refers to capital committed by local investors and “Non-domestic Europe” refers to capital committed by investors from other European countries. There is also a category called “Unclassified”, where the origin of the capital providers is not known because their nationality was not disclosed by the private equity firm. Excluding the unclassified category, Panel A shows that between 60% and 70% of all funds committed in 2007 and 2008 came from European capital providers. This increased to almost 90% in the two following years, but has since then fallen back to slightly under the pre-crisis levels.

At the aggregate level, around 60% of the total funds raised in Europe came from regional sources in both the pre- and post-global financial crisis periods. On average during the period, Italy exhibits a similar level of regional capital providers, but the annual fluctuations with respect to the origin of capital providers to Italian private equity firms is much greater. In Italy, the share of funds raised from domestic investors reached 95% in 2010 and was as low as 30% in 2014. Between 2016 and 2017, funds raised grew by 28% to EUR 2.6 billion, of which 80% came from Italian investors.

As discussed above, it is quite difficult to get comparable data on private equity, including the origin and identity of the capital providers. For example, according to Panel B of Figure 54, Italian private equity firms raised a record level of EUR 4 billion in 2013, of which almost 90% was committed by unclassified investors. A closer look at the data, however, reveals that the unclassified category includes a large fundraising activity by CDP Equity, which is a state-controlled institution in Italy. Therefore, the dataset classifies a state-controlled institution’s equity investments in the corporate sector also as private equity.
Figure 55 shows the fundraising activity in Italy and selected European countries during the last five years based on the nationality of the investors that commit the capital. One caveat to the figure is that the unclassified category, which was significant in Italy in this period, has been excluded. While private equity firms in Italy, France, Germany and Spain all receive around 60% of the funds from domestic investors, there are some significant differences with respect to non-European investors. In Spain and Germany, less than 5% of the committed capital came from non-European investors, while they provided around 10% of committed capital in Italy. In Norway and Sweden, two relatively smaller markets, the share of non-domestic investors both from Europe and other regions was the highest. In particular, Sweden attracts almost half of the funds raised from non-European countries.

**Figure 55. Private equity fundraising in Italy and selected European countries by origin of investors (2013-2017)**

![Graph showing fundraising activity in Italy and selected European countries](image)

Source: Invest Europe / EDC.

Figure 56 presents the capital contributions from different categories of investors in private equity firms in Italy, in selected European countries, and at European aggregate level since 2007 during two periods. The Figure shows that pension funds accounted for the largest share of committed capital in Europe during both periods and increased from 24.5% during 2007-2011 to 29.3% during 2012-2017. During the period 2012-2017, they were followed by funds of funds and individual investors. In Italy, more than 40% of the total funds raised by Italian private equity firms were attributed to pension funds, the highest share among European countries. Funds of funds together with the public sector and sovereign were also important investors in Italy accounting for 14.2% and 18.5%, respectively. In France, Germany and Spain the participation of pension funds in the private equity markets has been low compared to the European averages as only around 10% of the funds were provided by pension funds. Interestingly, the share of individual investors was around 20% in France and Germany.
4.3. Investments by private equity funds

Globally, assets under management by private equity funds are estimated to be almost EUR 2.7 (USD 3) trillion as of June 2017. As explained above, more than one third of this amount was in the form of uninvested capital – uncalled commitments by the investors in the funds (Preqin 2018). This means that the remaining EUR 1.8 (USD 2) trillion can be considered as the total investments by private equity funds globally. However, this sum also includes investments in other asset classes, such as funds of funds. Taking this into account, a rough estimate indicates that their investments in companies amounted to around EUR 1.3 (USD 1.5) trillion. To put this number into perspective, it is less than 2% of the total market capitalisation of the global stock markets today and around 5% of the total assets under management by pension funds.

Figure 57 shows the total amount of private equity investments in Europe in absolute terms and as a percentage of GDP. Despite an increase by almost 35% in 2017, the amount is still well below the pre-crisis levels. After a sharp drop to EUR 29 billion in 2009, the total annual investments fluctuated around EUR 49 billion between 2010 and 2016. As a percentage of GDP, total private equity investments in Europe were 0.44% in 2017, which was close to half of what it was in the United States (Preqin, 2018).
Figure 57. Private equity investments in Europe

![Graph showing private equity investments in Europe](image)

Source: Invest Europe / EDC.

Figure 58 compares the private equity investment trends in Italy and selected European countries. In Italy, the total private equity investments reached EUR 6 billion in 2008, before dropping to EUR 2.3 billion in 2009, where it on average remained until 2015. Driven by a few large transactions, the total investment volume almost doubled in 2016 before returning to around EUR 3.7 billion in 2017. The number of companies that was invested in is not shown in the Figure, but remained relatively stable between 2007 and 2017 ranging between 209 in 2017 and 291 companies in 2007.

Figure 58 also shows private equity investments in Italian companies compared to total private equity investments in Europe. Apart from 2008, 2009, and 2016, Italian investments ranged between 4% to 7% of all European investments. The peak year was 2016 at 11.4%, which is close to the Italian economy’s share in Europe’s GDP. But over the last decade, private equity investments in Italy have only been half of Italy’s share of European GDP.

Figure 58. Private equity investments in Italy and selected European countries, 2007-2017

![Graph showing private equity investments in Italy and selected European countries](image)

Source: Invest Europe / EDC.
Together with Figure 58 above, Figure 59 provides a comparable picture of private equity investments in Europe. During the last 5 years, Italy had the lowest private equity investments to GDP ratio. In fact, in 2017 total investment in Italy was only half of the European average. For example, France, whose GDP is 34% higher than the GDP of Italy, has on average seen three times higher investment in domestic companies by private equity firms compared to Italy (Figure 58). As a result, its investment to GDP ratio has always been significantly higher than in Italy (Figure 59, Panel A). Germany has also seen strong absolute volumes in terms of private equity investments, but since its economy is larger, the total investments as a percentage of GDP was relatively modest compared to France.

Panel B of Figure 59 shows the relative importance of different types of private equity investments. Buyouts —the dominant type globally— represent more than two-thirds of the total investments in all countries and at the aggregate European level. By using extensive leverage, funds specialized in buyouts acquire large or controlling shares of companies in order to restructure them and improve their performance. Growth investments, where funds typically acquire small non-controlling stakes in companies that need capital to expand their business, ranked second after the buyout deals. The third type of investment shown in the figure is the venture capital, which provides financing to companies that are in early stages of development, including start-ups. While investment by venture capital funds has usually been a large element of the private equity industry in Sweden, France, and Norway, it has been almost absent in Italy.

**Figure 59. Private equity investments in Italy and selected European countries**

A. Investments as % of GDP, 2013-2017 average  
B. Investments distribution, 2013-2017 average

![Diagram showing investments as % of GDP](image)

![Diagram showing investments distribution](image)

*Source: Invest Europe / EDC.*

With respect to the industry distribution, two industries - namely consumer goods and services; and business products and services - account for more than 45% of the total private equity investments in Europe (Figure 60). This is also the case in all individual countries with the exception of Norway, where the energy sector accounts for one fourth of the total investment. Technology companies, including communications, computers and biotechnology, accounted for 31.6% of all private equity investments in Europe without large differences among countries. The exceptions were, on the one hand Germany, with 37.8% and on the other hand Italy where technology companies received only 20% of all private equity investments. One other observation from the
figure is that, together with Sweden, the share of investments that went to the financial sector was highest in Italy at around 11% of total investment.

**Figure 60. Private equity investments by industry, 2013-2017**

Note: Others category includes Agriculture, Construction, Real estate, Transportation and others. Source: Invest Europe / EDC.

Overall, European companies received most of their private equity financing from domestic private equity firms (Figure 61). In fact, on average 70% of private equity investments in Europe and across individual countries have been provided by domestic funds. In France –the second largest European market in terms of the number of private equity firms– local funds have provided 90% of total investments. Italy used to receive 30% of investment from foreign funds between 2007 and 2011 but in 2012 – after the European sovereign debt crisis – investments by foreign private equity investors dropped to 18%. However, since 2012, the share of foreign funds has increased, resulting in an average of 36% during the period 2012-2017.

**Figure 61. Private equity investment by domestic and foreign funds, 2007-2017**

Source: Invest Europe / EDC
In Italy, local private equity firms invest mostly in Italian companies and their investments are geographically highly concentrated. As shown in Figure 62, around 98% of annual investment flows has gone into domestic companies and the share of investment abroad dropped after the crisis. This observed home bias in Italy is high compared to other European countries. In addition, private equity investment has been highly concentrated in the northern region of the country both in terms of number of transactions and volumes. This is very similar to the mini-bond market, for example, addressed in Part III. At the same time, the southern part of the country along with the islands has received only 2% to 3% of the total private equity funding.

Figure 62. Geographical distribution of private equity investments

A. Number of transactions

B. Volume

Source: AIFI.

As discussed above, “buyout funds” is by far the largest category of private equity funds in Europe and in Italy. Figure 63 shows the size distribution of deals (investments) undertaken by these buyout funds. The deals are classified according to three categories: “large and mega deals” that are above EUR 150 million, “mid-sized deals” that are between EUR 15 and 150 million; and “small-sized deals” that are under EUR 15 million. In Europe as a whole, large deals account for less than 5% of the number of investments, but more than 40% of the total investment value. Mid-sized deals represent around 30% of the number of deals and 45% of the value. While small-sized deals unsurprisingly represent the lions’ share in terms of the number of deals (66%), the money invested is just 10% of the total value of European buyout deals. France stands out both in terms of number and volume of small deals. More than 80% of the buyout deals were concentrated in small transactions and their share in total volume was twice the Europe average.
4.4. Divestments and exit strategies

Private equity funds do not have a short-term investment horizon, but a limited one. Their business model typically includes divesting their portfolio companies in five to six years after their initial investment and liquidating the whole fund in ten years after fundraising is closed. Divestment activity is usually timed to take advantage of any positive stock market trends, as the return on investment depends on the exit values of investee companies. And as shown in Figure 64, divestment activity in Italy decreased significantly during the years following the 2008 financial crisis.

After exceeding EUR 46 billion in 2014, the total divestment volume in Europe has been around EUR 43 billion during the last three years. One reason behind the slowdown in recent years has been the increase in average period funds hold on to an investment. Before the 2008 financial crisis, the median holding period for investee companies was less than four years globally, but in recent years it has increased to over 5 years (Preqin 2018). Italy recorded the lowest level of divestment in 2010 and afterwards it followed a divestment activity that is fairly similar to the aggregate European development. Both in Europe and in Italy, the divestment volume in 2017 was very close to the 2007 amounts.

One form of exit strategy that is often associated with private equity firms is a listing of the investee company on a stock exchange. As illustrated in Figure 64, however, exit through a public offering has in recent years represented less than 10% of all European divestments. The portion of Italian exits using the public stock market has been equally low.
Instead, the most common divestment strategy in Europe has been sales to another private equity firm and sales to trade buyers. Figure 65 shows that sales to trade buyers, which refer to sales of all shares held in a company to a trade buyer that is often a company operating in the same industry as the portfolio company, accounted for 29% of the total value divested since 2007. Sales to another private equity fund represented 26% of divestments in the first period and 24% in the second. Partly also driven by the longer holding periods, write-offs have substantially declined in most European markets including Italy. With the exception of Germany and Norway, the value of divestment through public offerings improved during the second period, which was also coupled with an increasing number of companies listed on the stock markets as private equity exits. In Italy, public offering exits went from representing 9% of the divestment value during the first period to 21% of the value during the second period. The increase in SPACs transactions may partly explain the increase in the value being disinvested via public offerings as private equity portfolio companies represent an attractive target for a business combination with a SPAC.
In the wake of the 2008 financial crisis, direct lending by private debt funds has increased in importance as a source of corporate finance. With interest rates at historic lows and banks constrained by the tightened regulatory capital requirements, private debt funds have become attractive for both investors that are searching for yield and companies that seek alternatives to bank lending. Compared to corporate bonds, private debt is typically not traded in any organised market and is consequently considered as an illiquid asset class. Compared to traditional bank lending, it has a relatively longer maturity.

The availability of data on private markets is limited. Most transactions involve a small number of participants, who usually do not publicly disclose information on their investment activities and portfolios. Moreover, an important portion of private debt investment is provided by funds whose main activity is private equity. In some markets, private debt transactions also involve corporate bonds, which makes it difficult to distinguish the pure private borrowing part from bonds that are issued either to the market or as private placements. With these caveats in mind, a conservative estimate of developments with respect to direct private lending can still be obtained by tracking loans that are provided by private capital funds.

The first section of this part focuses on the evolution of the private debt fund industry during the last decade. The second section, discusses developments in the Italian private debt market.

5.1. Global trends in private debt markets and direct lending

One way to analyse trends in private debt markets is to look at the asset allocation of private capital funds, irrespective of whether or not the fund is classified as a private debt fund. Figure 66 shows that assets under management by private capital funds have increased from EUR 1.7 trillion in 2008 to EUR 4.4 trillion as of mid-2017. Out of this EUR 4.4 trillion, 13% (EUR 566 billion) was in the form of private debt. At the overall private capital market level, private debt allocation is still considerably smaller than that of private equity. However, during the last ten years, private debt placements have increased faster than both private equity and real estate. This has meant that its relative share as an asset class has also increased slightly compared to private equity and real estate.

Within the private debt category, there is a broad array of different types of investments. This includes direct lending, distressed debt, and mezzanine financing, which are the most common forms worldwide. Direct lending is a form of non-bank corporate lending, often targeting small and mid-sized companies that have difficulties in obtaining traditional bank financing. Nonetheless, it is not restricted to SME lending and covers a broad range of activities, with different loan sizes and levels of seniority in the capital structure. Distressed debt investments focus on purchasing existing discounted positions of companies either in or close to bankruptcy. It carries a high-risk and high-return investment profile. Mezzanine financing is a hybrid of equity and debt funding, which is structured as debt – typically not secured by assets – or as preferred stock and is only senior to equity capital. Returns are usually in the form of interest (periodic cash payments or added to the principle balance). Returns can also be in the form of equity granted by the conversion of warrants...
or features in the case of default. Mezzanine financing is mainly used in relation to a private equity injection, providing financing for a leveraged buyout transaction.

![Figure 66. Assets under management by private capital funds by asset class](image)

In terms of fundraising, private capital funds raised a record EUR 95 billion in 2017 for private debt allocations (Figure 67, Panel A). Nearly two-thirds of this amount was raised by North American funds, 31% by European and about 7% by funds from Asia and the rest of the world. Since 2008, there have been no substantial changes with respect to the relative importance of different regions. However, there has been a shift among different forms of investment across regions (Figure 67, Panel B). While, for a long time, private debt markets were mainly dominated by mezzanine and distressed debt financing, recently the trend has been towards direct lending. In 2017, fundraising for direct lending was EUR 48 billion, which amounts to 51% of the total funds raised. This is more than twice the portion that went to direct lending in the previous years. Overall, direct lending has been the largest investment form in terms of amount raised and also the fastest growing one over the last few years.

Despite the growth in private debt fundraising in recent years, the capital providers mainly considered it as part of their private equity allocations. For example, according to a study by Preqin (2018), 57% of capital providers made their investments in private debt funds indirectly through their allocations to private equity funds. Only 14 direct capital allocations to private debt funds.
Although the relative importance of different regions with respect to total private debt fundraising has not changed significantly, the picture is somewhat different when considering only direct lending. As seen in Figure 68, total funds raised for direct lending to European companies surpassed the funds targeting direct lending in North America in 2015 and has remained relatively high. In 2017, fundraising dedicated to European markets was EUR 19 billion, accounting for 40% of total funds raised.
This is in stark contrast to ten years ago, when the European direct-lending market was almost non-existent. Since then, changes in market conditions and the regulatory framework for banks have created opportunities for funds and institutional investors to expand their activities in the private corporate loan market. As a result, direct-lending by private capital funds has emerged as a rapidly growing asset class and stepped into a territory traditionally dominated by banks. Despite similarities, anecdotal evidence suggests that lending by private debt funds differs significantly from that by banks. In cases where banks are hesitant to provide the funding, private debt funds step in to fill the gap. For example, when bank credit (for the purpose of buying back shares held by a private-equity firm) was denied to an Italian ferry company, it turned to a direct-lending fund. Also a British sandwich company raised capital from a private debt fund, knowing that banks would deny the loan request given its existing leverage structure (see Economist, 2015, 2018).

In general, lending by private debt funds covers a broad spectrum of activities, ranging from loans to small and mid-sized companies firms to loans in large denominations, with debt provided at different levels of seniority in the capital structure. This is partly linked to the fact that private debt funds are not subject to regulatory capital requirements and, thus, can serve companies with higher leverage. They may also offer greater flexibility, for example, in terms of covenants, mandatory prepayments and a higher speed of execution. A shorter credit decision process is a key advantage for (growth) companies wishing to expand their operations quickly or staying competitive in an M&A process. In addition, the shortening of financial intermediation from lender to the company may reduce the transaction costs. These advantages, however, often come with higher interest rates.

Private equity transactions do not only make use of mezzanine financing. Also the growth of direct private lending has been closely linked to private equity transactions. Figure 69 presents the purposes of the direct lending transactions in the UK and the rest of Europe. It reveals that the majority of loans is related to leveraged buy-out transactions and bolt-on mergers and acquisitions (acquisitions by private equity investee companies), followed by dividend recapitalisations, refinancing and growth capital. As a result, almost two-thirds of all private lending in the UK and Europe were linked to a private equity transaction in 2017.

**Figure 69. Direct lending transactions purposes in the UK and the rest of Europe (2017)**

<table>
<thead>
<tr>
<th>Purpose</th>
<th>UK</th>
<th>Rest of Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>LBO</td>
<td>44%</td>
<td>52%</td>
</tr>
<tr>
<td>Bolt-on M&amp;A</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>Dividend recap</td>
<td>9%</td>
<td>5%</td>
</tr>
<tr>
<td>Refinancing</td>
<td>21%</td>
<td>19%</td>
</tr>
<tr>
<td>Growth capital</td>
<td>6%</td>
<td>10%</td>
</tr>
</tbody>
</table>

*Source: Deloitte Alternative Lender Deal Tracker Spring 2018.*

*Note: The distribution refers to transactions completed over the last 12 months.*
5.2. Private debt in Italy

In Italy, corporate lending by banks has been deeply affected by the global financial crisis and the subsequent sovereign debt crisis. Bank loans to the non-financial corporate sector dropped by 10 percentage points from 55% of GDP to 45% between 2011 and 2017 (see Part I). Several measures have been introduced to help reducing the effects of this credit tightening, including the introduction of the mini-bond market addressed in Part III and the development of the private debt market.

With respect to the private debt market, one important step has been the 2014 changes in the Italian securitisation law that allowed alternative lending activities (Decree 91/2014). However, the new regulation was not fully clear on the conditions for foreign investors to lend to Italian companies. This was clarified in the 2016, in the Law Decree 18/2016, which regulates the conditions under which both Italian and European alternative investment funds (AIFs) are allowed to lend directly to Italian companies. Besides lending to companies directly, funds are also allowed to acquire existing loans, including non-performing (BeBeez, 2016). In December 2016, the Bank of Italy issued implementing rules specifying conditions under which authorised EU AIFs may directly lend to Italian companies. While facilitating direct lending by AIFs, the provision of private debt is subject to certain restrictions. For example, transactions to a single client are restricted to 10% of the fund’s total assets and leverage ratios of funds marketed to retail investors are not allowed to exceed 130% and for funds marketed to professional investors the maximum leverage ratio is 150%.

![Figure 70. Private debt fundraising in Italy](source: Aifi)

According to a survey that Aifi, the Italian Association of Private Equity, Venture Capital and Private Debt carried out together with Deloitte, there were 24 private capital funds targeting the Italian debt market between 2014 and 2017 – either by fundraising, investing or both. Between 2014 and 2017, they raised on average EUR 396 million for private debt market allocations. Figure 70 reveals that 2016 saw the highest amount with EUR 580 million. Interestingly, in 2016, for example, the majority of the capital provided came from banks (27%), institutional funds of funds (24%), insurance
companies (22%), and individual investors and family offices (12%). It is also important to note that much of the fundraising by institutional funds of funds can be attributed to the decision of Fondo Italiano di Investimento (FII), the investment arm of the Italian Government, to establish a private debt fund of funds. The fund’s objective is to invest in private debt funds with investment strategies dedicated to the development of Italian SMEs. With respect to the number of funds, there were between 4 to 9 funds active in each year.

In terms of actual lending, a total of EUR 1.5 billion of private debt was provided to Italian companies by private capital funds over the last four years (Figure 71). In 2017 alone, about EUR 612 million was lent in a total of 104 transactions. This represents an annual compound growth rate of 50% over the period. In terms of size, the average loan amounted to EUR 9.3 million in 2017, with the majority of loans (60%) being less than EUR 5 million. In term of the origin of the funds, two-thirds were Italian, while the rest was foreign in 2017.

![Figure 71. Total private debt investments in Italy and number of deals](image)

Parallel to the growing number and value of private loans, the number of unique companies to receive these loans has also shown a strong increase (Figure 72). Starting with 25 borrowers in 2014, the number of companies receiving private debt financing grew to 82 in 2017, of which 25% were private equity backed. It is important to note that the data in this figure are not fully comparable with the data provided in Figure 69 above on direct lending purposes in Europe. One interpretation is that at least 25% of the companies that received a private loan in Italy last year were also the subject of a private equity investment. Since private equity firms use extensive leverage in their transactions, they have also been affected by credit tightening of the banking sector since the financial crisis. It seems that private debt has emerged as one of the alternative sources of finance for private equity firms in a period of declining bank loans.
Figure 72. Number of target companies and percentage of private equity backed targets in Italy

Source: AIFI

Figure 73 shows the distribution of private loans by industry and company size. In terms of target industry (Panel A), the business production and service sector accounted for the largest portion of received loans (35%), followed by the food and beverage (14%) and the communications, computer and electronics (ICT) sector (13%). In terms of company size (Panel B), in 60% of the cases, private debt funds were invested in SMEs (companies with less than 250 employees), and in 40% of the cases, loans were given to large companies (companies with more than 249 employees). Interestingly, the distribution of deals by company size is skewed both to the upper and lower end of the scale. Within the large companies sector, most loans were provided to companies with more than 1000 employees, while within the SME category, 75% of the loans went to companies with less than 100 employees.

The distinction between public corporate bonds, private placements and private lending transactions is not always clear cut. In particular, in economies with specialised bond markets for smaller companies many transactions in private markets may fall into the definition of private placements of bonds. In Part III, the evolution of the mini-bond market in Italy was discussed, including the difficulties to find common characteristics of bonds that were reported as mini-bonds.

Figure 74 reveals that the private debt market and corporate bond market in Italy are two complementary pillars of the Italian non-bank lending market. In 2014 and 2015, almost 90% of all loans that are classified as private debt by AIFI were in the form of corporate bond financing. This dropped to 63% in 2017. Importantly, while between 2014 and 2015, the share of direct lending equalled to only 4%, it has increased to 32% in 2017. This indicates that a larger share of the Italian private debt market is in the form of vanilla direct lending compared to corporate bonds.
Figure 73. Distribution of investments (number) by target industry and by company size in Italy in 2017

Panel A: Distribution of investments by target industry
- Business production and service: 35%
- Manufacturing - food and beverage: 25%
- ICT: 6%
- Construction: 7%
- Energy and environment: 13%
- Rest: 14%

Panel B: Distribution of investments by target companies' employees
- 0-19: 12%
- 20-99: 21%
- 100-199: 11%
- 200-249: 8%
- 250-499: 5%
- 500-999: 10%
- >1,000: 33%

Source: Aifi

Figure 74. Distribution of transactions by type of instrument in Italy

2014-2015
- Bonds: 89%
- Loans: 7%
- Hybrid instruments: 4%

2017
- Bonds: 63%
- Loans: 32%
- Hybrid instruments: 5%

Source: Aifi
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ANNEX – METHODOLOGY FOR DATA COLLECTION AND CLASSIFICATION

A. Non-financial corporation data

The information presented in Part I is mostly based on the OECD-ORBIS Corporate Finance database. The extract of information presented in Part I includes financial statement and ownership information of non-financial companies between 2005 and 2015.

Company categories construction

Part I shows the following four non-financial firm categories: Category 1 “Listed companies”, Category 2 “Large unlisted companies”, Category 3 “Small and mid-sized companies part of a group”, and Category 4 “Independent small and mid-sized companies”. The construction of the company categories is based on the ownership, industry, legal information and financial information tables.

The procedure starts by identifying all listed companies and unlisted companies with assets over USD 100 million assets in the entire ORBIS universe. Non-financial listed companies are classified immediately as Category 1 and large unlisted non-financial companies as Category 2. For these groups the consolidated financial statements will be used if available.

The next step identifies the countries of interest and uses their ownership-country-year tables. ORBIS provides many records of owners at different points in time from different sources. Two criteria are used to clean the ownership information and to be left out with only one record for each firm-year observation: the largest owner is kept and the latest information is prioritized. The largest owner can be either the global ultimate owner at 50%, the global ultimate owner at 25%, or the largest direct owner with over 25% holdings. Once the sample has a unique firm-year record, owners are classified as corporations or natural persons.

Using the ownership records generated in the previous step, the routine starts by identifying the subsidiaries of the listed and large unlisted companies. Three types of companies are identified: 1) domestic subsidiaries with a local parent, 2) domestic subsidiaries with a foreign parent, and 3) companies controlled by a person. Some companies classified as subsidiaries in this step were already identified as large unlisted companies at the beginning. In these cases, the subsidiary is already consolidated and the company is not used to avoid duplications. The domestic subsidiaries with a local parent in Category 1 or 2 and with foreign parents Category 1 or 2 are classified as Category 3. Please note that this category includes the non-financial domestic subsidiaries of financial domestic parent and foreign parents as these parents are excluded for not meeting the industry requirement or because they are not incorporated in the domestic market under analysis. The companies where the largest owner is a person (over 25% ownership) are classified as Category 4.

Economy wide calculations take into account the ownership structure of companies and avoid considering companies that are already consolidated in the accounts of domestic non-financial parent companies. Thus, economy wide calculations include companies from Category 1, Category 2, Category 4, companies without ownership information, and companies from Category 3 that had a foreign parent or a financial domestic parent.

Financial information cleaning

The company category classification described in the previous section also incorporates different types of financial reporting (consolidated and unconsolidated reports). Large companies in the universe commonly report consolidated financial statements as well as unconsolidated financial statements. For the listed and large unlisted non-financial company categories, consolidated accounts are considered, if available. For the remaining categories unconsolidated financial statements are used.
The raw financial dataset contains several firm-year observations when a company has multiple consolidation codes or it reports for different purposes. To construct a panel with a unique firm-year observation the following steps are followed:

1. Financial companies are excluded.
2. The fiscal year will correspond to the previous calendar year of the closing date whenever the closing date of the financial statement is before June 30th.
3. Financial statements covering a 12 months period are used, preferably.
4. When multiple observations within the same year exist, the accounts with closing dates closer to year-end are preferred to accounts with older closing dates.
5. Published annual reports are preferred to local registry filings. Local Registry filings are preferred to unknown filing types.
6. Accounts using IFRS are preferred to those using GAAP, while GAAP are preferred to those using unknown accounting practice.
7. For companies with multiple consolidation codes the following criteria applies: for companies that present consolidated financial statements C1 is preferred when both C1 and C2 exist; for companies presenting unconsolidated statements the observation from annual reports are preferred over others.
8. Financial information is adjusted by annual CPI changes and information is reported in 2017 constant million USD.
9. Companies with at least one observation showing negative assets or negative fixed assets are dropped from the sample.
10. Companies with less or equal than 10 employees are also dropped from the sample.
11. Financial statement information is winsorized at 1% both tails within companies’ categories.

**Industry classification**

The OECD-ORBIS Corporate Finance uses the SIC industry classification.

<table>
<thead>
<tr>
<th>Standard Industrial Classification (SIC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry and Fishing</td>
</tr>
<tr>
<td>Mining</td>
</tr>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>Manufacturing</td>
</tr>
<tr>
<td>Transportation, Communications, Electric, Gas and Sanitary service</td>
</tr>
<tr>
<td>Wholesale Trade</td>
</tr>
<tr>
<td>Retail Trade</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Public Administration</td>
</tr>
</tbody>
</table>

**B. Public equity data**

The dataset is based on transaction and/or firm-level data gathered from several financial databases, such as Thomson Reuters Eikon, Thomson Reuters Datastream, FactSet and Bloomberg.

Considerable resources have been committed to ensure the consistency and quality of the dataset. Different data sources were checked against each other and whenever necessary, the information has also been controlled against original sources, including regulator, stock exchange and company websites and financial statements.
Country coverage and classification

The dataset includes information about all initial public offerings (IPO) and secondary public offerings (SPO or follow-on offering) by financial and non-financial companies for 6 European economies. Additionally it includes for comparison purposes Japan, the United States and the European Union. For the 6 European economies it currently amounts to 5 553 IPOs for the period from January 1995 to December 2017, and 14 835 SPOs for the period January 1995 to December 2017.

All public equity listings following an IPO, including the first time listings in an exchange other than the primary exchange, are classified as a SPO. If a company is listed in more than one exchange within 180 days those transactions are consolidated under one IPO.

The country breakdown is carried out based on the domicile country of the issuer. In the dataset, country of issue classification is also made based on the stock exchange location of the issuer.

It is possible that a company becomes listed in more than one country when going public. The financial databases record a dual listing as multiple transactions for each country where the company is listed. However, there is also a significant number of cases where dual listings are reported as one transaction only based on the primary market of the listing. For this reason, the country breakdown based on the stock exchange is currently carried out based on the primary market of the issuer. Going forward, the objective is to allocate proceeds from an IPO to respective markets where the issue is listed at the same time.

Currency conversion and inflation adjustment

The IPO and SPO data, and related financial statement data such as total assets before offering, are collected on a deal basis via commercial database in current USD values. The information is aggregated at the annual frequency and in some tables presented at the year-industry level. The series are inflation-adjusted or deflated by using the Consumer Price Index (CPI). The issuance amounts in this report are presented in 2017 USD adjusted by US CPI.

Industry classification

Initial public offering and secondary offerings statistics are presented in this report using Thomson Reuters Business Classification (TRBC). The economic sectors used in the analysis are the followings:

<table>
<thead>
<tr>
<th>Thomson Reuters Economic Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Materials</td>
</tr>
<tr>
<td>Cyclical Consumer Goods / Services</td>
</tr>
<tr>
<td>Energy</td>
</tr>
<tr>
<td>Financial</td>
</tr>
<tr>
<td>Healthcare</td>
</tr>
<tr>
<td>Industrials</td>
</tr>
<tr>
<td>Non-Cyclical Consumer Goods / Services</td>
</tr>
<tr>
<td>Technology</td>
</tr>
<tr>
<td>Telecommunications Services</td>
</tr>
<tr>
<td>Utilities</td>
</tr>
</tbody>
</table>
Exclusion criteria

With the aim of excluding IPOs and SPOs by trusts, funds and special purpose acquisition companies the following industry categories are excluded:

- Financial companies that conduct trust, fiduciary and custody activities
- Asset management companies such as health and welfare funds, pension funds and their third-party administration as well as other financial vehicles
- Companies that are open-end investment funds
- Companies that are other financial vehicles
- Companies that are grant-making foundations
- Asset management companies that deal with trusts, estates and agency accounts
- Special Purpose Acquisition Companies (SPACs)
- Closed-end funds
- Listings on an over-the-counter (OTC) market
- Security types classified as “units” and “trust” are excluded
- Real Estate Investment Trusts are excluded
- Transactions with missing or zero proceeds are excluded

C. Investment banking data

The investment banking data uses as the main source of information the Thomson Reuters League Tables. Each table offers information about the top 100 investment banks in the selected region, their ranking in the table, total gross proceeds allocated to that bank, the market share for each bank and the number of deals in which the bank was involved during the selected period of time. For this report, the information is collected for the following six regions/markets of activity: Euro Area, Euro Area excluding Italy, United Kingdom, United States, Rest of the World and Italy.

Inclusion criteria

The information is collected for Bonds (including High Yield, Investment Grades, and Emerging Markets) and Equity (including Initial Public Offerings and Secondary Public Offerings). Information is retrieved on an annual basis from 2000 to 2017. Each table provides information for the top 100 investment banks involved in underwriting each of the above mentioned securities. The allocation method chosen is equal to each bookrunner, which means that if there is a USD 1 billion loan and 2 bookrunners on the deal they will get USD 500 million each.

Identification of the banks’ country and region

A full list containing each unique bank in the sample is created to identify its country of origin. The list of unique bank names contains 6,459 banks worldwide. Their nation of origin is assigned based on the location of the headquarters. Sources of information such as FactSet, Thomson Reuters, Bloomberg and banks websites/annual reports are used to identify banks’ origin nation.

D. Ownership data

The main source of information is FactSet Ownership database. This dataset covers companies with a market capitalisation of more than USD 50 million and accounts for all positions equal to or larger than 0.1% of the issued shares. Data are collected as of end of 2017 in current USD, thus neither currency nor inflation adjustment is needed.

To complement the information with additional market information Thomson Reuters is also used. For each of the following 7 economies (Italy, Finland, France, Germany, Norway, Spain and Sweden), the information
presented in Part II corresponds to all listed companies in those markets. For the reference markets used (Canada, China, Japan, United Kingdom and United States), the ownership information presented in Part II refers to the 100 largest companies by market capitalisation as of the end of 2017.

In a second step, the information for the reported owners as of the end of 2017 is collected for each company. Some companies can have up to 5,000 records in the list of owners. Each record contains the name of the institution, the percentage of outstanding shares owned, the investor type classification, the origin country of the investor, the ultimate parent name, among others. Each owner record is re-classified into the following investor class: Corporate, Government, Individual, Institutional and Others. When the ultimate parent was recognised to be a Government, the investor record is by default classified as Government. For example, public pension funds that are regulated under public sector law are classified as government and sovereign wealth funds are also included in that same category (OECD, 2015).

**E. Corporate bond data**

Primary corporate bond market data are based on original OECD calculations using data obtained from Thomson Reuters Eikon New Issues Database, an international deal-level database on new issues of corporate bonds. The database provides a detailed set of information for each corporate bond issue, including the identity, nationality and sector of the issuer; the type, interest rate structure, maturity date and rating category of the bond, the amount of and use of proceeds obtained from the issue. The database covers observations in the period from January 2000 to December 2017. From this initial set, the deals that were registered but were not consummated, sukuk bonds, convertible bonds, preferred shares and bonds with an original maturity less than 1 year or an issue size less than USD 1 million are excluded.

Given that a significant portion of bonds are issued internationally, it is not possible to assign such issues to a certain country of issue. For this reason, the country breakdown was carried out based on the domicile country of the issuer. Issuance amounts are presented in 2017 USD adjusted by US CPI. The industry classification used for Corporate Bonds is the same as the one used for public equity (see section B of this annex).

**Rating data**

For each bond that has rating information in the corporate bond dataset, developed based on data from Thomson Reuters and Bloomberg, a value of 1 to the lowest credit quality rating (C) and 21 to the highest credit quality rating (AAA for S&P and Fitch and Aaa for Moody’s) is assigned. There are eleven non-investment grade categories: five from C, C to CCC+; and six from B, B- to BB+. There are ten investment grade categories: three from B, BBB- to BBB+; and seven from A, A- to AAA. This index is weighted as one for C, two for CC and rising to twenty one for AAA. A fall in the index indicates declining quality.

**F. Private Equity data**

The main source of information for the private equity data is Invest Europe. The information provided by Europe is made up of firms managing investment vehicles or pools of capital (Funds) and investing primarily equity capital in enterprises not quoted on a stock market. Firms are included in the analysis, as long as at least one of the funds they manage qualifies to the inclusion conditions; however, only the activity of the qualifying funds is taken into consideration.

The countries included when referring to Europe statistics are: Austria, Baltic countries (Estonia, Latvia, Lithuania), Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Other CEE (Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia, Slovenia, Slovakia), Poland, Portugal, Romania, Spain, Sweden, Switzerland, Ukraine, United Kingdom.
The fundraising activities are classified according to the country of the fund country that corresponds to the location of the advisory team. The amount reported under investments includes equity, quasi-equity, mezzanine, unsecured debt and secured debt. Secured debts amounts within all investments packages are removed, unless the debt originates from private equity funds. Investment activities are recorded according to the location of the portfolio company. Divestment amounts are recorded at cost (i.e. the total amount divested is equal to the total amount invested previously). Private equity statistics are collected in current Euros. Amounts are then expressed in USD using annual average USD/EUR exchange rates. After expressing all series in current USD they are adjusted by using US CPI to express them in constant 2017 USD.

The categories of private equity entities that are excluded from the Invest Europe Universe are: Fund of Funds, Hedge Funds, Real Estate, Project Financing/ Infrastructure, Secondary Funds, Distress Debt, Venture Credit, Participative Loans, Incubators, Accelerators, Business Angels, Holding companies.

G. Private Debt data

The main source of information for the private debt data in Italy is the Italian Private Equity; Venture Capital and Private Debt Association (AIFI). Private debt statistics are collected in current Euros. Amounts are then expressed in USD using annual average USD/EUR exchange rates. After expressing all series in current USD they are adjusted by using US CPI to express them in constant 2017 USD. The main source for information on international private debt data is Preqin.
www.oecd.org/corporate/capital-markets