

## Italy: Reasons to take AIM

With a dearth of public and private investment sources, a growing number of small to medium-sized companies in Italy are considering a listing on AIM or its rivals as a way of raising capital. *Anthony Indaimo* and *Ben Simpson* review the options.

Despite the challenging economic climate in Italy, well-managed, high-growth Italian companies are now considering raising capital on the London Stock Exchange's Alternative Investment Market (AIM) as a serious financing option.

Launched in 1995, for high-growth companies, AIM now has more than 1,200 companies listed with a total aggregate market capital of approximately £55bn. More than £20bn in funds has been raised, which is impressive by any standard.

In the past few years, a growing number of non-UK companies have also raised funds on AIM. More than 140 overseas companies are listed on the secondary market of the LSE, a number that has more than doubled in the last 12 months.

So far, three Italian-based companies, Norman 95, **Teleunit** and Telit have listed on AIM and it is expected that an increasing number of Italian companies will also move to AIM.

AIM now has credible European competitors in the form of Alternext and the Irish Enterprise Exchange (IEX). However, these two cannot match AIM in terms of its established investor base and coverage by analysts. AIM now attracts top-tier investors such as UBS, Goldman Sachs, JP Morgan, the Royal Bank of Scotland and the like, and is likely to continue to be the market of choice for growing European small and medium-sized enterprises (SMEs) for the foreseeable future.

Alternext covers France, Belgium, the Netherlands and Portugal and, like AIM, is targeting small and mid-cap companies. Since its launch on 17 May, 2005, six companies have joined the market. The admission requirements are more onerous than those for AIM. Alternext also lacks the tax breaks that AIM offers to some investors, although the French Government is reviewing this.

IEX has seen nine companies list on it since its launch on 12 April, 2005. The admission criteria include a minimum market cap of 5m; like AIM, it does not require a trading record.

Italian entrepreneurs and companies should also consider NASDAQ. About 7,000 companies are listed on NASDAQ, a scale unmatched by its European rivals. It does, however, have far more onerous listing requirements and disclosure obligations than, for example, AIM. This greatly adds to costs and the general administrative burden on the board. The requirements of Sarbanes-Oxley are another disincentive for companies to obtain a US listing.

Joe Capra, a director of Newport Partners, a corporate finance boutique specialised in bringing both UK private and public equity to Italian companies, is a fan of AIM.

"As Newport Partners, we are looking to bring up to five Italian companies to AIM in the next year," he says. "Most of these companies are high-growth and extremely international, with more than 80% of their income derived overseas.

"Italy has the highest concentration of SMEs in Europe," he continues. "There are many dynamic SMEs with less than 50m (£33m) in revenues that do not attract the attention of venture capital funds (as there are no 'real' venture capital funds that invest in Italian companies) or they are too small for traditional private equity funds.

"Many of these dynamic SMEs require capital to fund acquisitions or further develop their products. Many have proven products and simply require the capital to develop and expand their international marketing and distribution structure.

"In addition, there are a limited amount of small-cap funds that invest on the Italian Stock Exchange."

And Capra concludes: "Due to a lack of both public and private equity for these high-growth Italian SMEs, we believe a credible solution for fund-raising is provided by AIM, due to the depth of London-based institutional investors that specialise in analysing small-cap opportunities from all over the world."

### **Why go to AIM?**

The reasons members give for joining AIM include:

- to provide access to capital for growth;
- to create a market for their shares;
- to obtain an objective market value;
- to encourage employee commitment;
- to increase their ability to make acquisitions;
- and to create a heightened public profile.

AIM can also provide an exit for venture capital investors looking to realise their stakes in investee companies. While the venture capital industry in Italy is still developing, there are a number of venture capital-backed companies which have benefited from the management and financial discipline instilled by venture capital funds. A number are also now looking at AIM as a viable alternative to a trade sale or a listing on the Italian Stock Exchange.

The attraction for international investors in these types of AIM companies is that they generally have good corporate governance, strength and depth in management, good financial performance and a compelling story.

### **Key features of AIM**

Some of the significant features of AIM are that it:

- is a highly respected international market and attracts significant institutional investment;
- has a flexible regulatory regime, specifically designed for fast-growth companies;
- does not require a company to have a minimum market capitalisation;
- has no requirement for a company to issue a minimum number of shares to the public;
- does not require a company to demonstrate a prior trading record before listing;
- and does not require a company to obtain shareholder approval for the vast majority of transactions.

### **AIM advisers**

When a company is seeking an AIM listing it must appoint a nominated adviser (nomad). One of the principal duties of the nomad is to confirm to the Stock Exchange that the company is appropriate to be listed on AIM and has complied with the requirements of the AIM rules. The nomad will therefore carry out due diligence on the company and its directors to assess whether or not they would sponsor the company and to ascertain whether the company is suitable for a listing.

A company will also need to retain a broker. Many nomads will be able to act as broker in addition to the role of adviser. An Italian company raising funds on AIM is not required to have both an Italian and an English broker.

Other advisers who will be involved in an AIM admission are: lawyers to the company; reporting accountants; lawyers to the nomad; public relations advisers; printers; and registrars, who will administer the register of members.

As always, choosing the right team of experienced advisers and getting them involved early on in the planning process is key to ensuring the smooth running of the transaction.

### **Listing costs**

The total average fees on an AIM admission depend on the nature of the company coming to the market, which affects the nature and level of due diligence needed. As an indication however, the base level for admission costs would normally be about 8%-12% of funds raised.

The level of fees on an AIM admission depends on a variety of factors. It is, however, important to be upfront about fees and also understand the reasons why an AIM float is being considered. At the end of the day, an entrepreneur has to decide whether the AIM fees are an acceptable cost of capital.

AIM is certainly not the right option for all companies. In the case of Italy with its preponderance of family-owned companies, it is important for the family shareholder to use the funds raised to invest in the growth of the business rather than seek a partial exit. Shareholders may also be reluctant to be tied in post admission, whereas investors will want to see a commitment by the existing owners to future growth.

The three Italian companies that have joined AIM so far have had mixed fortunes. As at June 2005, only Teleunit's shares were trading above their admission price. However, this is not a purely Italian phenomenon given the vast number of non-Italian companies that have found themselves in a similar position.

Given the recent launch of other European secondary stock exchanges, it will be interesting to see whether AIM will continue to be the stock exchange of choice for certain companies. But for Italian companies and their advisers, in the short term at least, AIM provides a possible alternative corporate finance solution.

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