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EXECUTIVE SUMMARY OF THE THESIS

Listings and delistings on the Italian Stock Exchange: an analysis of strategies and their correlation with firm performance

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Introduction

The listing of a company on the stock exchange represents, in the capitalist world, the crowning of an entrepreneurial project. From a technical perspective, being listed gives investors the opportunity to buy or sell shares of a company in a faster, simpler, and cheaper way compared to trading a private firms' shares. However, beyond the mere technicality, becoming publicly listed introduces a discontinuity in the life of a company and a complete change of paradigm, since from that moment the equity value of the firm will be determined by the market's perception of its real value, which can often be biased. Furthermore, going public shifts incentives from trying to lower the taxable income to rather inflate profits in order to attract the interest of investors and increase the share price. Also the regulatory requirements to which the company is subject changes, as well as its internal organization and the governance mechanisms. It is therefore clear that being listed entails a radical change in the day-to-day business of a company, opening the path to new opportunities and at the same time exposing it to new threats. During the permanence of a firm in the markets of a stock exchange, it may happen that, due to a change in the market fundamentals or in the firm's strategy and performance, the advantages of being listed decrease below its direct and indirect costs. In this case, the company should evaluate the option of going private, thus delisting from the stock exchange. Even though going-private transactions (GPTs) have been less studied by researchers compared to going-public ones, their strategic implications are just as interesting. The interest in the topic has grown especially in the latest years, when the delisting of well-established companies was perceived as a warning sign. Existing studies on the topics of listing and delisting tend to focus mostly on the largest stock exchanges in terms of market capitalization (i.e., NYSE and LSE), even though the differences in national regulations, cultural aspects and economic context suggest that the results obtained in a country might differ compared to other geographical areas. The aim of this research is therefore to investigate the phenomena of listing and delisting on the Italian stock exchange from 2002 to 2021, in particular by analysing the strategies adopted by firms and their correlation with their operating and market performances.

1. Literature review

First of all, an extensive literature review has been performed with the aim of providing a thorough overview on the existing knowledge regarding listing and delisting practices and motivations.

As regards listing, the most common way to enter a stock exchange is through the traditional *Initial Public Offering (IPO)*, where newly issued shares are placed in the market among public investors. Nevertheless, other strategies can be adopted to become publicly traded: among the most interesting and popular ones figure the listing through *Special Purpose Acquisition Companies (SPACs)*, *spin-offs*, and *reverse takeovers*. SPACs are special financial vehicles created by renowned managers and/or professionals with great experience in Mergers and Acquisitions (M&As). The SPAC is then listed on a stock exchange with the aim of collecting capital, which is used to acquire a non-listed target company through a business combination, which becomes listed automatically. *Spin-offs* are the separation of a part of a company's business into a new company, and spin-offs of listed corporations are automatically listed as well. *Reverse takeovers,* instead, consist in the acquisition of a listed company by a non-listed one, which also becomes listed. Less frequent occurrences are the listing through *direct listing*, which occurs when the company is already widely owned and it simply joins the stock markets without any effect on the shareholding structure, and through *cross-listings,* in which a company listed on its domestic market chooses to list on another stock exchange.

As for the benefits sought by companies when going public, they can be grouped into four main macro-areas: financial, operational & marketing, organizational, and fiscal. Financial benefits are very well described by Pagano et al. [1], and they mainly relate to the fact that public firms can rely on additional ways to finance its growth and capital needs, as they can easily issue new shares in the market. This entails a greater bargaining power towards banks [2], which, combined with the fact that public companies can more easily re-balance their capital structure and leverage ratio, allows the latter to access debt financing at a lower cost. From the perspective of incumbent shareholders, going public gives them wider exit opportunities by increasing the liquidity of the stock. Operational & marketing benefits mainly derive from the higher visibility that being listed grants, which not only increases the prestige of the company and motivates managers and employees, but also strengthens the competitive position in a strategic market (i.e., through *cross-listing*) and reassures both suppliers and customers of the company's trustworthiness. Organizational gains are induced by the stricter monitoring mechanisms that listed companies are subject to, which force them to implement state-of-the-art practices. Fiscal incentives depend on the national regulatory frameworks of the single stock exchanges, and they usually come in the form of tax deductions.

As regards delisting practices, a distinction that is widely accepted in the literature is between involuntary and voluntary [3]. The former refers to cancellations that are imposed by the stock exchanges after a breach in the regulation, and it usually concerns firms in financial distress. In this cases, delisting might be imposed in order to safeguard both the reputation and the profitability of the stock exchange [4]. On the other hand, firms can voluntarily choose to abandon a stock exchange and become private, and they can do so in three main ways: through a takeover, a merger, or a voluntary request. Takeovers are the most adopted method in going-private transactions (GPTs), and they are carried out in the form of tender offers aimed at acquiring the floating capital in the market, thus taking the company private. Some of the most commonly cited types of takeovers are: *Leveraged Buy-Outs (LBOs)*, when the acquisition is funded by using debt as the main source of capital [5]; *Management Buy-Outs (MBOs)*, when the management team of the target company of or an external one gains a majority stake in the target company; *hostile* or *friendly takeovers*, according to the sentiment of the incumbent management board; *Buy-Out offer with Squeeze-Out,* when after a takeover the bidder company reaches an ownership threshold which grants it legal right to buy the remaining securities on the market at a fair price [6]. As for the motivations that can be found in the literature supporting the delisting decision, they can be grouped in three macro-categories as proposed by Djama et al. [3]: *traditional*, related to *agency costs,* and linked to the *financial structure*.

Traditional reasons promote delisting when costs of being listed are greater than the benefits cited above. Among the others it is worth mentioning direct costs, linked to registration fees and annual listing fees; indirect costs, like external auditing activities and expenses related to investor relations; opportunity costs, mainly linked to the market volatility and to the fact that a firm's value might decrease only due to a negative business cycle. *Agency costs* are incurred when a principal (i.e., shareholders) delegate decisional power to agents (i.e., managers) on their behalf [7]. This strand of literature argues that firms with a diffused capital ownership, which is the case of public firms, suffer from high agency costs due to the lack of control over the board of directors. A takeover from a limited number of investors allows to reunify ownership and control, thus applying a stricter monitoring over the management. Another disciplinary effect that can be achieved especially in LBOs is the reduction of free cash flows, defined by Jensen [8] as the cash flow that exceeds the amount required to fund all projects with expected return higher than the cost of capital. In companies generating large amount of free cash flows, managers are incentivised to invest them in projects that increase the firm size - due to higher prestige and power [9] - even if at an Internal Rate of Return lower than the return on capital required by shareholders. After a levered acquisition a large part of cash flows is used to repay interests on debt, therefore forcing the management to invest the remaining cash available in projects with the highest expected return for shareholders, thus realigning their interests to the ones of shareholders [10]. Finally, reasons linked to the *financial structure* argue that major tax savings can be achieved when a substantial amount of debt is used to finance the acquisition (i.e., in LBOs) thanks to the deductibility of interest payments on debt from the taxable income. Also, private companies can execute restructuring operations in a much simpler way thanks to their more concentrated ownership structure.

2. Literature gaps and research questions

The comprehensive review of the literature revealed that many studies thoroughly analysed the strategies that companies can follow in order to list or delist from a stock exchange, as well as the potential benefits that they can gain from such decisions. Nevertheless, the empirical evidence on the topics is strongly biased in favour of the most renowned stock exchanges, with the majority of studies focusing on the US ([10], [11]) and UK ([12]) markets, or aggregating exchanges at European level ([13], [14]), while smaller stock exchanges like Borsa Italiana have been quite neglected. Indeed, the existing literature on the Italian stock exchange is very limited and mostly focused on specific aspects of listing only ([15], [16]), thus lacking a comprehensive analysis. Furthermore, empirical results obtained by researchers in different countries were sometimes conflicting, showing significant differences across countries and thus suggesting that smaller stock exchanges might show interesting peculiarities. Therefore, the goal of this research is to thoroughly analyse the flow of companies entering and leaving the Italian stock exchange from 2002 to 2021 to better understand the reasons for Italian companies to enter and exit the stock markets, and the correlation that exists among the strategy adopted and their performance. The specific research questions that this thesis addresses can be summarised as follows:

RQ1: what are the main reasons that drive companies listed in the Italian Stock Exchange to become private?

RQ2: which is the correlation between listing and delisting strategies and the firms' market and operating performances?

RQ3: do companies enter and exit the stock exchange opportunistically to the detriment of external investors?

3. Dataset creation methodology

Due to the lack of an existing database on the topic, it has been necessary to create an ex-novo database that would include the record of all the companies that have entered or exited the Milan stock exchange in the last 20 years (2002-2021). Between 2002 and 2021, using data provided by Borsa Italiana, 784 transactions were recorded, of which 448 were newly listed companies and 336 were firms that abandoned the Italian stock exchange. For each company were recorded the company name, its tax code, and ISIN code as primary identifiers, as well as the market where it was listed (the regulated one, EXM (ex MTA), or the non-regulated one for small and medium enterprises EGM (ex AIM Italia) and the date of the operation. It was also collected the sector of belonging and, only for listed firms, the total value of the offer and the overall market capitalization. Each transaction was then labelled according to the strategy used. Listings from 2002 to 2012 were the following:

- IPO (379): 138 on EXM, 241 on EGM.
- Spin-off (17): 16 on EXM, 1 on EGM.
- Direct listing (10): 6 on EXM, 4 on EGM.
- Reverse Merger (21): 19 on EXM, 2 on EGM.
- Business combination (21): 6 on EXM, 15 on EGM.

As regards delistings, they have been classified according to the following schema, which was inspired by the literature review and then tailored to the Italian landscape:

- Termination of activity (47): 40 on EXM, 7 on EGM.
- Lack of requirements (29): 10 on EXM, 19 on EGM.
- M&A by external actor (100): 87 on EXM, 13 on EGM.
- Infra-group merger (49): 46 on EXM, 3 on EGM.
- SPAC delisting after business combination (22): 5 on EXM, 17 on EGM.
- Initiated by incumbent shareholders (89): 80 on EXM, 9 on EGM.

Also, data regarding the operating and market performances of the firms in the sample were recorded for the last ten years, from 2012 to 2021. It must be noted that SPACs before the business combination have been excluded from the analysis as they are not operating. The indicators chosen to measure operating performances are revenues, EBITDA, and net profit, thanks to their ability to capture, respectively, the ability of the company to sell its products, to generate profits from its core activities, and from the overall activities. When available, these performance indicators have been collected for six years, ranging from three years before the operation to two years after it, in order to capture potential trends. Financial firms have been treated separately due to the different accounting standards, recording as a measure of turnover net interest margin for banks and gross premium for insurance companies, while net profit before taxes as a measure of profitability. The datapoints were collected using a combination of AIDA, Thomson Reuters, "Calepino dell' azionista" by Mediobanca, and IPO prospectuses. As regards market performances, the yields up to three years after the listing and three years before the delisting were recorded. The average daily value from 2009 to 2021 of the market index MIB was also recorded, in order to calculate differential yields with respect to the market. Datapoints of the punctual prices have been extracted using Factset and Refinitiv Eikon.

4. Empirical analyses and results

First, an analysis of the overall number of companies listed on the markets of Borsa Italiana from 2002 to 2012, as well as of the flow of companies that entered or abandoned its stock exchanges, was conducted with the aim of capturing the general trends that are shaping the Italian market. The record 407 companies listed on Borsa Italiana at the end of 2021 hid a bittersweet truth: it was mostly nourished by a strong growth of the unregulated market EGM, while the main market EXM experienced a constant decline since 2007. This trend towards smaller firms is confirmed by the fact that, in the 2002-2021 period, a total capitalization of €148,4 billion was brought into the markets of Borsa Italiana, against a loss of €179,3 billion due to delisted companies, resulting in a net loss of almost €31 billion. Also, the overall market capitalization at the end of 2021 (€768,8 billion) was still lower than the one at the end of 2007 (€778,5 billion). A comparison with the main European stock exchanges (UK, France, Germany) revealed a common impoverishing of the main markets, with the only exception of France. Then, the analysis of the performances for listed and delisted companies was restricted to the last ten years, from 2012 to 2021.

4.1. Performances of newly listed firms

As regards listing, the sample of transactions in the 2012-2021 period is strongly unbalanced towards IPOs, with 86,7% of all transactions, while the other four categories have therefore very little statistical relevance in the Italian market. Therefore, performances have been analysed by using other criteria, like the subdivision by quartiles based on the turnover in the year of listing/delisting.

Operating performances do not show particular discontinuities linked to the listing: firms in both EXM and EGM markets showed growing revenues in the three years before going public (on average 14,4% and 58% CAGR, respectively), and the trend continues with a similar behaviour in the two years after going public (on average 14,7% in EXM and 29,5% in EGM). EBITDA also increases progressively before and after listing, while EBITDA margin tends to grow for companies in the main market (reaching an average 19,1% after two years) and to decrease for companies in the non-regulated one (with a 10,6% after two years). net profit instead tended to rise significantly in the year of listing and in the following one, in particular for companies in the main market EXM. Financial firms (banks or insurance companies) also experience an increasing trend in interest margins and gross premia before and right after going public (with an impressive average growth of 50,5% in the year of listing and 35,5% the year after), and profits before taxes improve considerably after joining Borsa Italiana. More interesting results are shown by market performances, as listing proved to create average positive wealth gains for shareholders (Figure 1). Indeed, companies in both markets showed a significant increase in their share price compared to the offer price (on average +31,7% in EXM and +20% in EGM after three years). Differential yields are lower than absolute ones, but still positive.

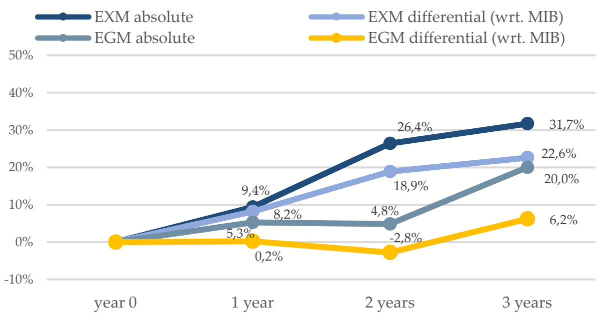

Figure 1: mean absolute and differential yield, by market

Nevertheless, by deepening the level of analysis, it was possible to notice that the positive returns are actually generated by large companies with market capitalization above the median values (+44,5% after three years), while the half of the companies with lower capitalization generated slightly negative yields (-3,4% after three years). Also, by segmenting performances by market and by year of listing, the highest yields appear to be driven by companies listed on EXM, especially from 2014 to 2016, and by those listed on EGM only in 2018.

4.2. Performances of delisted firms

As for listings, also delistings have been analysed in the 2012-2021 time frame. However, a slight adjustment to the classification presented in chapter 3 was required to obtain homogeneous clusters for which it is worth to carry out a performance analysis. In particular, "termination of activity" and "lack of requirements" clusters are often interconnected, as companies that do not comply with the requirements of Borsa Italiana in most cases encountered financial difficulties, and they have been merged. Also, delistings of SPACs upon a business combination have been excluded from the analysis, as they start operating after acquiring the target company. The resulting four homogeneous clusters are the following ones:

"Defeated": composed of the 48 companies that were delisted due to "termination of activity" (26) or due to "lack of requirements" (22), thus corresponding to involuntary delistings. As can be expected, these firms performed very poorly according to all operating performances indicators, with a constant deterioration in the three years preceding the forced delisting. Similarly, market yields registered average drops of -53,2% in EXM and -69,2% in EGM in the last three years.

"Preys": it includes the 50 companies delisted upon a merger or an acquisition by an external actor, in 90% through a tender offer.
As regards operating performances, median revenues increased in the three years before delisting by 33%, from €260,2 to €346,4 million, in EXM, and by 119,4% in EXM, from €19,1 to €41,9 million. EBITDA margin and net profit increased in both markets as well, suggesting that bidders are in general interested in acquiring healthy companies with strong growth opportunities and able to improve their performances. Performances have also been analysed by segmenting according to the nature of the bidder, dividing into industrial groups (Italian listed groups, Italian non-listed groups, foreign groups), and financial investors (PE funds). The analysis revealed that industrial groups were more interested in growth opportunities and sound operating performance (EBITDA) rather than a solid net profit, probably hoping to improve it thanks to post-merger synergies, financial investors acquired fast growing firms with sound levels of net profit as well.
Average market performances were extremely satisfactory in both markets, mostly due to the large premia offered to complete the takeover. Average yields in the 12 months preceding the delisting reached 50% in EXM and 46,4% in EGM. The largest premia were offered by foreign groups and financial investors, which both paid a price around 83% higher than one three years before.

"Restructuring": in this cluster are present 23 cases of "Infra-group mergers", thus mergers among companies of the same listed group that are aimed at simplifying and restructuring the shareholding structure of the latter. The reason for delisting derives from strategic choices made at group level and is not necessarily strictly related to the performance of the target company. Operating performances slightly decreased, and market yields are in line with the MIB index.

"Regretful": composed of 43 companies**,** this is an extremely interesting cluster because the going private operation has been strategically chosen by the incumbent shareholders and managers of the company. In 63% of the cases (27) this happened after being listed for more than 10 years. The peculiar characteristic common to firms in this cluster is the sudden drop in net profit the year before being delisted, trend that is confirmed also when segmenting according to the technique used (voluntary request, merger with a non-listed company, voluntary takeover bid, mandatory takeover bid), with the only exception of mandatory tender offers. For 15 firms that survived after the takeover it was also possible to analyse performances after being delisted. Surprisingly, they showed on average an increase in revenues already in the year of delisting (+9%), which proceeded also after one and two years. Also EBITDA, EBITDA margin and net profit showed great improvements after delisting, with the latter registering the highest increase both in mean (+61,6%) and median terms (+113%). These results provide partial support to the hypothesis that some companies might delist due to opportunistic reasons in order not to share future profits with public investors. Market performances ranged around an average 12% for companies in EXM, while companies in the EGM market lost around half of their market value in the three years before going private. When looking at the technique used, companies delisted through voluntary request were the worst performing ones, while those delisted through voluntary tender offers showed a double-digit yield in the year before delisting, mostly due to the premia offered to shareholders. A final analysis on the overall return for investors revealed that "Preys" were the only firms providing positive annualized returns in both EXM and EGM markets.

5. Conclusions

This thesis investigated the phenomena of listings and delistings on the markets of Borsa Italiana, with a particular focus on the correlation between the listing or delisting decision by a firm and the operating and market performances of the latter. With respect to the research questions that were intended to be answered, this researched highlighted some interesting facts. Despite reaching a record 407 firms listed on the Italian stock markets, Borsa Italiana is experiencing a mutation in the profile of its markets, much more oriented towards smaller capitalized firms. This trend is confirmed by the net loss of capitalization of around €31 billion from 2002 to 2021, and it is common to the other major European stock exchanges, partly due to the high liquidity accessible by companies and Private Equity funds in contexts of low interest rates.

Then, listing and delisting strategies were analysed, as well as their correlation with firm performance. The most adopted strategy to go public was by far through IPO (86,7% of all transactions). In most cases they showed consistent growth in turnover and margins before going public, which maintained the same trend even after the listing. As far as market performances are concerned, an average positive absolute return is observed over the ten-year period for both markets. As regards delisting, a classification tailored to the Italian landscape has been developed, with "M&A by external actors" and "initiated by incumbent shareholder" being the most common cases. By slightly modifying this classification, four homogeneous clusters have been obtained, on which performance analyses were performed. "Defeated" companies, in most cases suffering financial distress, showed very disappointing operating and market performances. "Preys" were delisted upon a merger or an acquisition by an external actor (50), in 90% through a tender offer. They were characterized by satisfactory balance sheet ratios and, especially in the year before delisting, generated discrete returns for investors. "Restructuring" companies were reabsorbed into other listed companies of the same group, and generated modest performances and market yields. "Regretful" companies were delisted by initiative of incumbent shareholders. They experienced significant drops in the net profit the year before delisting, while most indicators improved significantly in the two years after delisting. Thus, it cannot be denied that, in some cases, delisting is an opportunistic manoeuvre aimed at withdrawing shares at "cheap" prices, knowing that performances will improve in the short term. However, listing should be seen as an event that generates long-term opportunities: many healthy companies raise precious capital for nourishing their growth by going public, generating employment, innovation, and great returns for their investors.

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