

THE VENTURE BACKED IPOs MARKET¹

¹ The analysis has been realised in collaboration with Ernst & Young Corporate Finance.

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INTRODUCTION

The contribution given by the private equity investors to the listing of new enterprises on the official markets, represents a relevant stake of the main financial markets. In particular, the number and the percentage of the so called “venture backed IPOs” have reached a great importance in those markets structured and organized to facilitate the listing of high growth SMEs, which represent the best target for private equity investors.

As a matter of fact, in the period between 1989 and 1998, the venture backed companies listed on the US stock markets were approximately 1,400. For what concerns the main European Stock Exchanges for small and medium enterprises, at the beginning of 1999, 25% of the entire number of companies listed on the Alternative Investment Market (AIM) was represented by venture backed companies. The same figure increases to 44% if we consider the average of the markets participating to the Euro.NM network².

For what concerns the Italian Stock Exchange, at the end of 1998, the number of venture backed companies listed was 31, representing the 14% of the total 223 enterprises listed on the market. However, in order to have comparable data, the analysis of the Italian venture backed IPOs market must be based on the small caps “niche”³ of the main market and, starting from the next months, it will be possible to realize a more specific analysis based on data taken from the *Nuovo Mercato* – specialized in small and medium high growth enterprises – as it will start operating from next June.

It is necessary to point out an other important remark. A real flow of venture backed companies, can be registered in Italy, only starting from the year 1995. In the previous years, this phenomenon has been characterized by a very few and isolated cases. This is the reason why the analysis, only covers the time period from January 1995 to the 31st of December 1998.

This was probably due, firstly, to the fact that in the previous years the venture capital industry was too young and, secondly, to the fact that for a long period (1990 -1994) the Italian market was not presenting attractive conditions for the floatation of enterprises in terms of economic trend and procedures requested to go public. Since 1995, the growth of the market, the

² The Euro.NM network is composed by the French, German, Dutch, Belgian and Italian Stock Exchanges for high growth SMEs.

³ The definition of the small caps “niche” here adopted, corresponds to the Bloomberg Small Caps Index parameters which are: market capitalization below 500 millions *Euro*; minimum average traded shares equal to 10,000. In addition to the sample, Aeroporti di Roma and Bulgari have also been considered, because participated by private equity investors.

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simplification of the listing procedures and the tax benefits brought by the so called “Legge Tremonti”⁴, stimulated a growing number of companies to take this fundamental step.

In the period analyzed, 36 Small Caps companies were listed on the Italian Stock Exchange. Seventeen can be considered as venture backed IPOs representing the 47% of the total Small Caps companies listed on the Italian Stock Exchange. The total value of Small Caps offers on the Italian Stock Exchange was *Euro* 2,091 millions, of which the part represented by the venture backed IPOs was *Euro* 1,148 millions, equal to 55% of the total. This figure confirms that the venture backed IPOs have played an important role in the niche of the small and medium size companies.

The average value of venture backed IPOs was around *Euro* 67.5 millions, against an average value of the overall 36 Small Caps IPOs of *Euro* 58 millions.

1995-1998: Venture backed and Small Caps IPOs

Years	Total amount offered (<i>Euro</i> mln)			Number of listed companies		
	Small Caps IPOs	Venture Backed IPOs	VB/Small Caps %	Small Caps IPOs	Venture Backed IPOs	VB/Small Caps %
1995	319	264	83%	8	6	75%
1996	289	254	88%	7	5	71%
1997	538	386	72%	8	3	38%
1998	945	243	26%	13	3	23%
Total	2.091	1.147	55%	36	17	47%

Source: data processed by Ernst Young Corporate Finance

In terms of market capitalization, at the end of March 1999, the sample of venture backed IPOs, had a percentage impact on the Bloomberg Small Cap Index equal to 32.54% and a market capitalization equal to 5,912 millions *Euro*. Consequently, the influence, also in terms of capitalization of the venture backed IPOs within the Italian Small Caps niche, can be considered relevant.

⁴ Legislative Decree (D.L.) n° 357, 10th of June, 1994. In particular this law established that for the companies listed in the period 1995-1997, with a market capitalisation inferior to 260 millions *Euro*, the IRPEG tax could be lowered from 36% to 20%.

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1995-1998 Venture backed IPOs

Company	Date of offering	Offer value (Euro Mln)	Market capit.* (Euro Mln)	Weight on BISCI**
Ima S.p.A.	Jun. '95	19.6	227.3	3.34%
Brembo S.p.A	Jul. '95	58.4	534.1	7.22%
Bulgari S.p.A.	Jul. '95	88.8	1,638.1	Not included
Stayer S.p.A.	Jul. '95	33.0	13.9	0.22%
Crespi S.p.A.	Oct. '95	29.4	97.1	1.37%
Carraro S.p.A.	Dec. '95	34.9	184.7	2.88%
Esaote S.p.A.	Jun. '96	38.2	92.3	1.21%
Ricchetti Ceramiche S.p.A.	Sep. '96	43.4	80.7	1.31%
Zucchini S.p.A.	Nov. '96	33.1	112.6	1.30%
Interpump Group S.p.A.	Dec. '96	103.3	334.4	3.56%
Irce S.p.A.	Dec. '96	36.2	107.1	1.45%
Aeroporti di Roma S.p.A.	Jul. '97	306.8	1,748.2	Not included
CSP International S.p.A.	Jul. '97	64.0	111.4	1.46%
Sadi S.p.A.	Nov. '97	15.5	20.0	0.22%
Lazio S.p.A.	Apr. '98	51.6	302.7	2.60%
Castelgarden S.p.A.	May '98	98.6	131.4	1.69%
Gruppo Buffetti S.p.A.	Jun. '98	93.0	175.5	2.71%
Total		1,147.8	5,911.7	32.54%

* At 31/3/1999.

** Bloomberg Italian Small Caps Index.

Source: data processed by Ernst Young Corporate Finance

In the near future, it is likely that the number of venture backed IPOs will further increase, for two main reasons: the larger number of closed-end funds operating on the Italian market and the growing number of transactions carried out. Moreover, the birth of the new market focused on high growth SMEs (“Nuovo Mercato”), aiming to facilitate the listing of companies participated by the venture capital investors, should contribute to an additional increase of the venture backed IPOs.