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Borsa Italiana
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AN OPPORTUNITY TO STRENGTHEN THE EQUITY

Growth Shares

ASSOLOMBARDA

Growth Shares

Thanks

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Why *Growth Shares*

Growth Shares are designed to promote the growth of Italian companies, allowing them to raise additional resources while maintaining a stable control structure.

What are they?

Growth Shares are an innovative category of shares, which permit:

- the **entrepreneur** to implement important development projects without giving up control of the company
- the **market** to invest in companies with innovative medium/long term industrial projects, benefitting from higher dividends, with conversion into Ordinary Shares in the event of either loss of control by the party holding a control position or a mandatory takeover bid.

What purpose do they serve?

Growth Shares **promote** the **growth** and the **development** of Italian companies with low and medium capitalisation (especially for already-listed companies) uniting, on the one hand, the raising of new risk capital by way of the stock exchange and, on the other hand, the full exploitation of the "leader" role of the entrepreneur.

They **offer** the market an instrument for **investing** in medium/long term **industrial projects**, relying on the entrepreneur's "vision" and "business know-how."

Furthermore, *Growth Shares* **counterbalance** the **information mismatch** between the company and investors in cases where companies operate or develop projects in sectors that are innovative and/or have considerable discontinuity and have an entrepreneurial formula strongly based on the exploitation of intangible assets. In this way, they offer investors, **together with the entrepreneur, the possibility of maximising the value of the investment over time**.

Legal Context

The Company Law Reform of 2003 has significantly broadened the possibility of issuing shares with categories other than Ordinary Shares. This has allowed the formulation of administrative and patrimonial rights in line with market expectations, to create an innovative and attractive instrument.

Shares without voting rights, or with limited voting rights, cannot be issued in numbers greater than Ordinary Shares with full voting rights. *Growth Shares* do not require regulatory amendments.

Automatic conversion and other characteristics of *Growth Shares*

Growth Shares are designed to offer the market an easily understandable and acceptable tool which, by way of a clause in the articles of association, provides for automatic conversion to Ordinary Shares upon the occurrence of specific investor-protection circumstances.

Automatic conversion to Ordinary Shares

This takes place:

1. whenever the **party holding a controlling position** reduces its stake to 30% or less of the Issuer's Ordinary Shares;
2. if, for whatsoever reason, the conditions arise for a mandatory (and therefore legally required) takeover bid.

Following conversion to Ordinary Shares, the *Growth Shares* become subject to mandatory takeover bid.

Other Characteristics

- At the time of issuing the *Growth Shares*, the **Issuer** is directly controlled by a corporation holding more than 30% of its Ordinary Shares.
- No **voting rights** are assigned.
- A **proprietary lien** is granted consisting in a percentage increase (to be established at the time of issue) with regards to the dividend attributed to Ordinary Shares.
- For the issuing of Growth Shares the company is required to disactivate the "passivity rule".
- By law they may not exceed, together with any other shares having limited or no voting rights, 50 percent of the company's capital.

Strengths compared to Savings Shares

- ***Growth Shares* automatically convert to Ordinary Shares** whenever the party holding direct control reduces its stake to 30% or less of the Ordinary Shares or upon the occurrence of conditions for a mandatory takeover bid.
- The **preferential proprietary rights** are not proportional to the nominal value of the *Growth Shares*.
- The consequent growth of the Issuer will enable the shareholders, subscribers of *Growth Shares*, on the one hand, to benefit by the **higher value created** and, on the other, to enjoy full entitlement to the **control premium**.

Issuing *Growth Shares*

It is necessary to guarantee liquidity in the case of stock market listing.

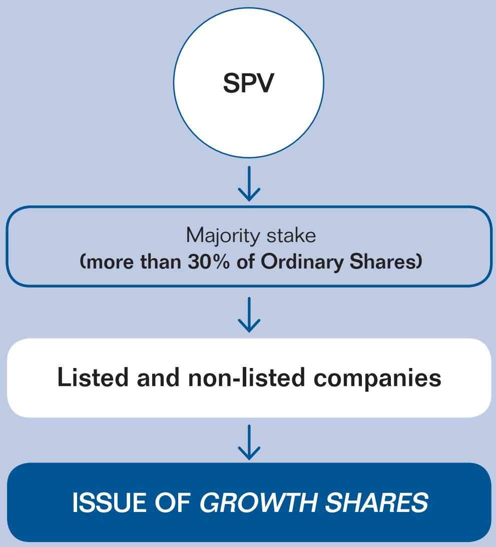
Who can issue them

- **Non-listed companies that intend to remain as such** (even with private equity participation)
- **Companies that are about to be listed** (even with a simultaneous issue of ordinary shares)
- **Listed companies.**

The importance of liquidity

The existence of an adequate free float of *Growth Shares* is a requisite for a successful acceptance by the stock market. To this end, it is strongly recommended (although not compulsory) that the *Growth Shares* represent at least 25 per cent of total capital after their issuance.

ISSUE PROCESS



AN EXAMPLE OF *GROWTH SHARES*

"Alfa" company:

- not listed
- 100% controlled by the entrepreneur
- financial leverage used.

€ million

Assets		Liabilities and shareholders' equity	
Assets	100	Equity	50
		Financial debt	50
Total	**100**	**Total**	**100**

$$\frac{D}{E}^{*} = 1$$

* D/E is the ratio between Debts and Equity

Step 1- Listing

The entrepreneur issues 49 million Ordinary Shares at EUR 1, reducing his controlling interest to just over 50 percent, and raises additional debts totalling EUR 49 million, maintaining a D/E ratio of 1.

€ million

Assets		Liabilities and shareholders' equity	
Assets	198	Equity	99
		Financial debt	99
Total	**198**	**Total**	**198**

$$\frac{D}{E} = 1$$

Thanks to the listing, the assets increased, also using added debt made available by the use of financial leverage.

Step 2 - *Growth Shares*

The entrepreneur, faced with important development projects, raises EUR 99 million by issuing *Growth Shares* and has access to a further EUR 99 of debt, maintaining the D/E=1 ratio.

€ million

Assets		Liabilities and shareholders' equity	
Assets	**396**	Equity (of which 99 is *Growth Shares*)	**198**
		Financial debt (of which 99 is added)	**198**
Total	**396**	**Total**	**396**

Growth Shares

After EUR 98 million from the listing, **a further EUR 198 million for development**.

BEFORE *GROWTH SHARES*

€ million

Assets		Liabilities and shareholders' equity	
Assets	198	Equity	99
		Financial debt	99
Total	**198**	**Total**	**198**

AFTER *GROWTH SHARES*

€ million

Assets		Liabilities and shareholders' equity	
Assets	396	Equity (of which **99** are *Growth Shares*)	198
		Financial debt (of which **99** is added)	198
Total	**396**	**Total**	**396**

In conclusion

With the entrepreneur maintaining a little more than 50 per cent control, the **"Alfa" company**:

- doubles its financial resources* issuing Ordinary Shares to the maximum allowed
- quadruples its financial resources* issuing *Growth Shares* to the maximum allowed.

*Including financial debt

Conclusions

Italy has an abundance of **small and medium-sized companies** which, operating in a **global context** where they are forced to contend with larger competitors, have a need to **invest, grow and develop**.

There are still only a small number of Italian businesses, particularly those that are family-controlled, which choose to go public as a means of financing growth, rather than use bank loans. This is partly due to the desire to maintain control of the company, which instead would be lost if the **controlling person**, to obtain adeguate resource, places a non-minority stake on the market.

The *Growth Shares* offer a tool which, on the one hand, makes it possible to **raise adequate financial resource**s, enhancing the continuity of the company's control structure and industrial project and, on the other, allows the subscribing shareholders to take advantage of both the consequent growth in the Issuer's business and the preferential proprietary rights, whilst at the same time maintaining **full entitlement to the control premium**.

Actually, the *Growth Shares*, through the automatic conversion mechanism, acquire full voting rights at the moment when this becomes relevant, namely following the loss of control by the party holding a control position at the time of issue.

Thus, they can provide **an effective means of supporting the development and growth** of Italian companies

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