

Privatisations *and the stock market*

In the course of 2000, the Government continued to place controlling and ownership interests held by the public sector in important Italian industrial and financial companies. This activity concerned both companies already previously listed on the Borsa Italiana markets, and newly-listed companies.

THE SIZE OF OPERATIONS

Considering only the privatisations relating to shareholdings in listed companies and the operations carried out simultaneously with a company's admission to listing - hence excluding the privatisations that do not directly affect the consistency of the official list - in 2000 total funds raised (table 8) amounted to 7,304 million euro (this figure includes the operations carried out through public offering with simultaneous private placement and the sale of a quota of Aeroporti di Roma which took place through direct negotiations, in order to create the company's control shareholding).

- Funds raised are less than was recorded during the previous four years, characterised by the divestment of important quotas held by the public sector in large companies such as ENI, Telecom Italia and ENEL. In particular, during 1999 total funds raised rose to record

TABLE 8 - PRIVATISATIONS IN 1999 AND 2000

Seller	Company	Date	Value (millions of euro)	% Share capital	Operation ⁽¹⁾
Fondazione Monte dei Paschi di Siena	Banca Monte dei Paschi di Siena	Jun 1999	1 632.9 ⁽²⁾	19.7%	OPVS + PP
Comune di Roma	ACEA	Jul 1999	934.0	49.0%	OPV + PP
Comune di Como	ACSM	Oct 1999	17.9	25.0%	OPV + PP
IRI	Autostrade	Oct 1999	2 451.6	30.0%	direct assignment
Min. Tesoro	ENEL	Nov 1999	16 549.8	31.7% ⁽³⁾	OPV + PP
IRI	Autostrade	Dec 1999	4 185.9	52.4% ⁽⁴⁾	OPV + PP
Total 1999			25 772.1		
IRI	Finmeccanica	May 2000	5 505.0	43.7%	OPV + PP
IRI	Aeroporti di Roma	Jun 2000	1 326.8	51.2%	direct assignment
Miscellaneous ⁽⁴⁾	Aeroporto di Firenze	Jul 2000	16.8 ⁽²⁾	22.9%	OPVS + PP
Ente Cassa di Risparmio di Firenze	Cassa di Risparmio di Firenze	Jul 2000	301.0	25.0%	OPV + PP
Comune di Torino	AEM Torino	Nov 2000	111.9 ⁽²⁾	18.0%	OPVS + PP
Comune di Como	ACSM (II tranche)	Nov 2000	42.4	24.0%	OPV + PP
Total 2000			7 303.9		

(1) OPV = Public Offer for Sale; OPVS = Public Offer for Sale and Subscription; PP = Private Placement.

(2) Only on sale from existing shareholders

(3) Bonus share excluded

(4) Quota of Chambre of Commerce of Florence, municipalities of Florence and Prato, region of Tuscany and provincial administration of Florence

levels, amounting to almost 26 billion euro. In 1998 the total figure amounted to 10,319 million euro and in 1997 to 18,478 million euro.

- Excluding the private placement with the Consorzio Leonardo of the majority shareholding in Aeroporti di Roma, the incidence of privatisations on total resources

In 2000, 46% of resources raised by the listed companies through the market derived from privatisation operations, essentially in line with the values recorded for the previous two years

raised by the listed companies through the market was 46.0%. This value, albeit slightly below, is in line with the values for 1999 and 1998, respectively equal to 49.1% and 48.8%. The Finmeccanica operation (raising 5,505 million euro, including the exercise of the green shoe option) represented 92.1% of funds raised during the year through public offerings. The remaining 7.9% is divided between 4 operations, three of which brought new companies to the market (Aeroporto di Firenze, Cassa di Risparmio di Firenze and AEM Torino), while as regards ACSM - a company listed at the end of 1999 - with the placement of the second tranche the municipality of Como, initially holder of 75.0% of total capital, was able to drop to a controlling interest of 51.0%.

- Although relating to placements of limited dimensions, the Initial Public Offerings (IPOs) of privatised companies were given a good reception by the market: over 174,000 investors requested the AEM Torino shares, 84,000 the Cassa di Risparmio di Firenze shares and 25,000 the Aeroporto di Firenze shares. Considering the overall number of shares requested, the oversubscription levels were respectively 5.5, 1.8 and 7.6. As regards the offerings of already listed companies, approximately 1,150,000 investors requested Finmeccanica shares and just under 14,000 the ACSM shares.
- Despite the not particularly favourable year as regards the trend in prices, the companies newly-listed following privatisation performed better than the market (+5.4% the MIBTEL variation in 2000) and the overall average of the other IPOs (+2.1% the average variation between the end-of-year price and the placement price). Aeroporto di Firenze achieved the best performance of all the IPOs carried out during the year (+103.9%); results were positive also for AEM Torino and Cassa di Risparmio di Firenze, respectively equal to +19.8% and +9.6%.

CHARACTERISTICS OF THE OPERATIONS

The new companies listed following privatisations in the course of 2000 had a good reception from the market and achieved positive price performances

In the course of 2000 the distinguishing features of previous years' privatisation operations were confirmed, as regards both the technical methods of implementation and the participation of the various categories of investors in the placements carried out.

- Regarding the breakdowns of the combined offering, preference was given to retail investors, who were reserved on average 55.6% of shares. In the case of operations initiated by IRI and by the Treasury, the percentage was even higher (77.2% for the Finmeccanica operation). Considering the total resources raised, 74.4% was reserved for the general public, 2.0% for employees and the remaining 23.6% for institutional investors.
- In three of the five operations carried out in 2000, provision was made for forms of incentive in favour of private investors. In two cases the bonus share technique was used: an option in favour of retail investors whereby subscribers are assigned a certain number

of bonus shares, on the condition that the shares acquired through Public offers for sale are held in portfolio for a set period, usually one year (in the case of Finmeccanica, one bonus share was offered for every ten as regards the general public and eleven for every hundred as regards employees, in the case of Cassa di Risparmio di Firenze, one bonus share for every twenty). In the case of AEM Torino, on the other hand, a 10% discount was granted on the placement price, for employees only.

- As with previous placements relating to municipalized utilities (AEM Milano in 1998, ACEA and ACSM in 1999), again in the case of the AEM di Torino IPO, a quota of the offering (in this case equal to 14.8% of total shares placed) was reserved for the town's residents and the local authorities in the province of Turin.
- The pricing methods of the securities being offered, in keeping with the now established practice in Italy, provided for the open price technique, based on which the placement price is set at the end of the public offering. In the case of the Aeroporto di Firenze offering, prior to the start of the public offering, a "closed" price range had been established within the scope of which the placement price was to be set, while in the remaining cases only a maximum price had been defined.
- In 4 of the 5 operations carried out in 2000, the issuing companies granted the global coordinators an option to acquire at the placement price, within 30 days of the close of the offering period, an additional quantity of shares (the so-called "green shoe" option). As a percentage of the combined offering amount, the quantity of shares concerned with such option was equal to 15.0% for AEM Torino, Aeroporto di Firenze and Finmeccanica, 7.7% for Cassa di Risparmio di Firenze. The ACSM offering - as occurred during the first tranche placed in 1999 - did not provide for any green shoe. In the case of Finmeccanica this option was not completely exercised (11.2% of the global offer).

STOCK MARKET AND THE PUBLIC SECTOR

The process of privatising major companies has made a substantial contribution to the development of the Italian financial market: the stock market has grown in terms of both number of companies listed and turnover; the process to reorganise the rules of the markets has continued; the financial culture of investors has become even stronger.

An indicator for measuring the extent of this process and the most important moments in which it was produced concerns the percentage of ownership of the listed companies held by the public sector.

The ownership structure appearing from the relevant analysis gives a picture that has been changing considerably during recent years. Half-way through the nineties the percentage of ownership held by the public sector - intended as the State, local authorities and bank foundations - exceeded 30% of the entire Stock Exchange capitalisation. The largest drop was recorded in 1997 as a result of privatisation operations on already listed companies. Preference has been given to the method of placement with the public (it is enough to

From 1996 to 2000 public sector ownership of total Stock Exchange capitalisation fell by half and comparison at international level indicates possibilities for further reduction

consider the size of the ENI III and Telecom Public offers for sale), but private forms of placement were also used (SEAT, Telecom for the control shareholding quota). At the end of 1997 the State and local authorities were holding approximately 12% of the total Stock Exchange capitalisation, while 3% was held by bank foundations. The process continued in 1998: following operations such as ENI IV, the presence of the public sector on total capitalisation continued to decrease and the quota held by the State and local authorities fell to below 10%. However, in 1999 a turnabout was recorded and at the end of 2000 we are still above the 1998 low. The basic discriminating factor has been the implementation of operations which, alongside privatisation, have also led to companies in which the controlling interest was still in the hands of the public sector being admitted to Stock Exchange listing. The most notable case was ENEL. Moreover, there are more and more privatisation operations concerning companies held by local authorities: for example ACEA and ACSM (belonging respectively to the municipalities of Rome and Como) in 1999 and Aeroporto di Firenze and AEM Torino in 2000. The quota as regards the local authorities has thus risen to approximately 1.1% of total capitalisation.

The decade thus closed with the ownership of listed companies held by the public sector amounting to approximately 15% of the total, two thirds of which belonging to the State and local authorities and the remainder to the bank foundations.



The beneficial effects of the privatisations were felt in various directions. There was a substantial rise in the number of companies listed and in overall capitalisation. At the same time the retail investor's direct access to the stock market increased: in parallel to the decline in the role of the State, households expanded their ownership of listed companies. The large

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size and prominence of the privatised companies facilitated the process of placement with the public; there was, however, a high demand for shares also with regard to smaller companies and those with a more local character, as in the case of the municipalized corporations.

Despite the substantial privatisation process, there nevertheless remains much to be done. We only need to consider how in the other industrialised countries the quota held by the public sector of total Stock Exchange capitalisation is systematically less than in Italy. The survey of the ownership structure promoted in 1999 by the International Federation of Stock Exchanges (FIBV) shows values that are not too different to Italy as regards France (10.0%) but are substantially lower for Germany and Spain (1.9%) as well as for the Anglo-Saxon countries (1.4% in Great Britain and 0.7% in the United States).