

The “intangibles” as success factor of companies belonging to the STAR segment of Borsa Italiana: propensity for transparent communication, quality of corporate governance and relevance of the system of relations with stakeholders

One of the success factors of the STAR segment (Segmento Titoli con Alti Requisiti – high requirement securities segment) of Borsa Italiana is represented by the wealth of “intangible resources” that can be associated with the companies listed on the segment, companies that stand out on the market for their compliance with the most advanced transparent reporting rules, for the overall quality of corporate governance and for their recognised capacity to establish trust-based relations with the main stakeholders, first and foremost the financial analysts and international investors. In addition to these essential factors, their superior capacity to attract talent and motivate people and their heightened capacity to access credit also contribute to distinguishing STAR companies and further enhancing company value.

These are the findings of the research project “The Value of the Intangibles of the STAR Segment”, presented today in Milan. Sponsored by Borsa Italiana, the research was carried out by Summit, a consulting company specialising in the management of intellectual capital and corporate culture change processes, with the collaboration of AIAF, the Italian Association of Financial Analysts.

The analysis was carried out through two surveys, one directed at companies belonging to the STAR segment and the other at analysts enrolled in AIAF.

On the whole the research findings highlight the contribution that listing on the STAR segment can also give to development of the intellectual capital of listed companies, in the *human, structural and relational capital* components.

These are the main results emerging from the first survey:

- Listing on the STAR segment has increased the value of the company. This is stated by 93% of the companies that transferred to STAR after listing (companies that “became STAR”) and 100% of the companies that listed directly on the segment (companies that were “born” STAR).

- Listing on the STAR segment helps to improve relations with financial analysts, according to 54% of the companies that became STAR after listing and 50% of those “born” STAR. This opinion refers to both the quantity and quality of the researches produced.

- The STAR “brand” has helped improve access to credit for 54% of the companies that became STAR and 60% of those launched on STAR.

The research also highlights how on average listing also improves the companies’ possibility of contact with financial institutions.

- Investor relations improve. Only 18% of the companies that became STAR claim that their capacity to attract and retain new investors has not changed, against 7% that claim said capacity to have improved considerably and 75% that deem it better than before.

- 68% of the companies that became STAR and 80% of the “born” STAR companies deem their capacity to attract qualified personnel to be “very satisfactory”. On average this capacity tends to improve after the listing process as well as in relation to transfer to the STAR segment. A further

intangible effect of listing on the STAR segment is the increased satisfaction and motivation of managers and collaborators.

- 93% of companies that became STAR and 100% of the "born" STAR companies deem relations with customers and suppliers to be satisfactory, also on account of listing.

- Media relations improve, thanks to listing on STAR: 60% of "born" STAR companies claim to be satisfied with their relations with the media both in terms of quality and frequency of coverage. The percentage drops to 36% for the companies that entered the segment after listing and that had benefited from increased recognition at the time of listing.

- 75 % of the companies that became STAR and 70% of the "born" STAR companies express a positive opinion on the impact experienced on their own operating efficiency, in terms of both timeliness and precision in the production of reports.

- 50% of the companies that became STAR and 80% of the "born" STAR companies have expressed a positive opinion on inclusion in the segment with regard to their organisational structure, with specific reference to the Administration and Finance division. Inclusion in STAR also leads to an improvement in internal controls and corporate governance.

- 61% of the companies that became STAR and 70% of the "born" STAR companies are satisfied with their capacity to communicate with the market and an improvement in this capacity is also acknowledged.

- According to the listed companies, membership of the STAR segment has helped improve the market culture within the company: 100% of the "born" STAR companies and 64% of the others. The internal image has also been positively affected with an improvement noted by 100% of the "born" STAR companies and 58% of the companies that transferred to STAR.

The findings of the second survey, aimed at highlighting the opinions and perceptions of financial analysts, show that the intangible aspect believed to be of greater importance is relational capital, represented by the opportunities for contact that said analysts have with the companies and from which they can draw the information forming the basis of their reports.

The following characteristics of the STAR companies are highlighted as distinctive and particularly appreciable:

- Publication of the quarterly report within 45 days of quarter end and disclosure of information in both Italian and English are rated particularly highly (over 80% of those surveyed believe these aspects to be "prestigious" or "very prestigious").

- Analysts believe the minimum free-float requirement for STAR companies (35%) to be very important: 70% of those surveyed believe it to be "prestigious" or "very prestigious".

- According to financial analysts the market appreciates the presence of a corporate governance structure that allows the company not to be identified with a type of governance that is too closely linked to the relatedness logic. The presence of a minimum number of independent directors and of internal control, appointment and remuneration committees meets this requirement.

- The requirement relating to the presence of forms of incentive for top management is considered interesting, while apparently not deemed essential, as this is now common practice for most listed companies, whatever the stock exchange segment to which they belong.

- The majority of analysts agree that companies listed on the STAR segment feature a higher level of transparency and more accessible information compared to other listed companies of similar size and characteristics.

- 77% of analysts believe that the image and reputation of a listed company improve with transfer to the STAR segment.

To conclude, 73% of the analysts surveyed believe that membership of the STAR segment helps increase a company's value.

At the end of 2001, its debut year, STAR, the high requirement securities segment of Borsa Italiana, totalled 37 listed companies and a capitalisation of 8.2 billion euro: today it totals 77 companies and capitalisation is equal to 25.7 billion euro (+105% and + 225% respectively). Over the same period, the All Stars index representing all of the segment's securities has risen by 95%.

STAR ranks stably as the most liquid market in Europe for companies with capitalisation up to 1 billion euro. In 2001 the daily average trading turnover on each security was approximately 450,000 euro while in 2006 it rose to 1.6 million euro (+250%). In the same period the average turnover velocity of the entire segment (i.e. the ratio between trading turnover and average capitalisation) almost doubled rising from the 76% of 2001 to the 130% of 2006.

The industrial performances of the STAR securities also record constant progress: the aggregate figures for the growth rates in sales in the last three years (2003-2006) have in fact recorded a 54% increase, equal to an average annual compound rate of 11%. In the same period the GOM rose by 82%, equal to an average annual compound rate of 16%.

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