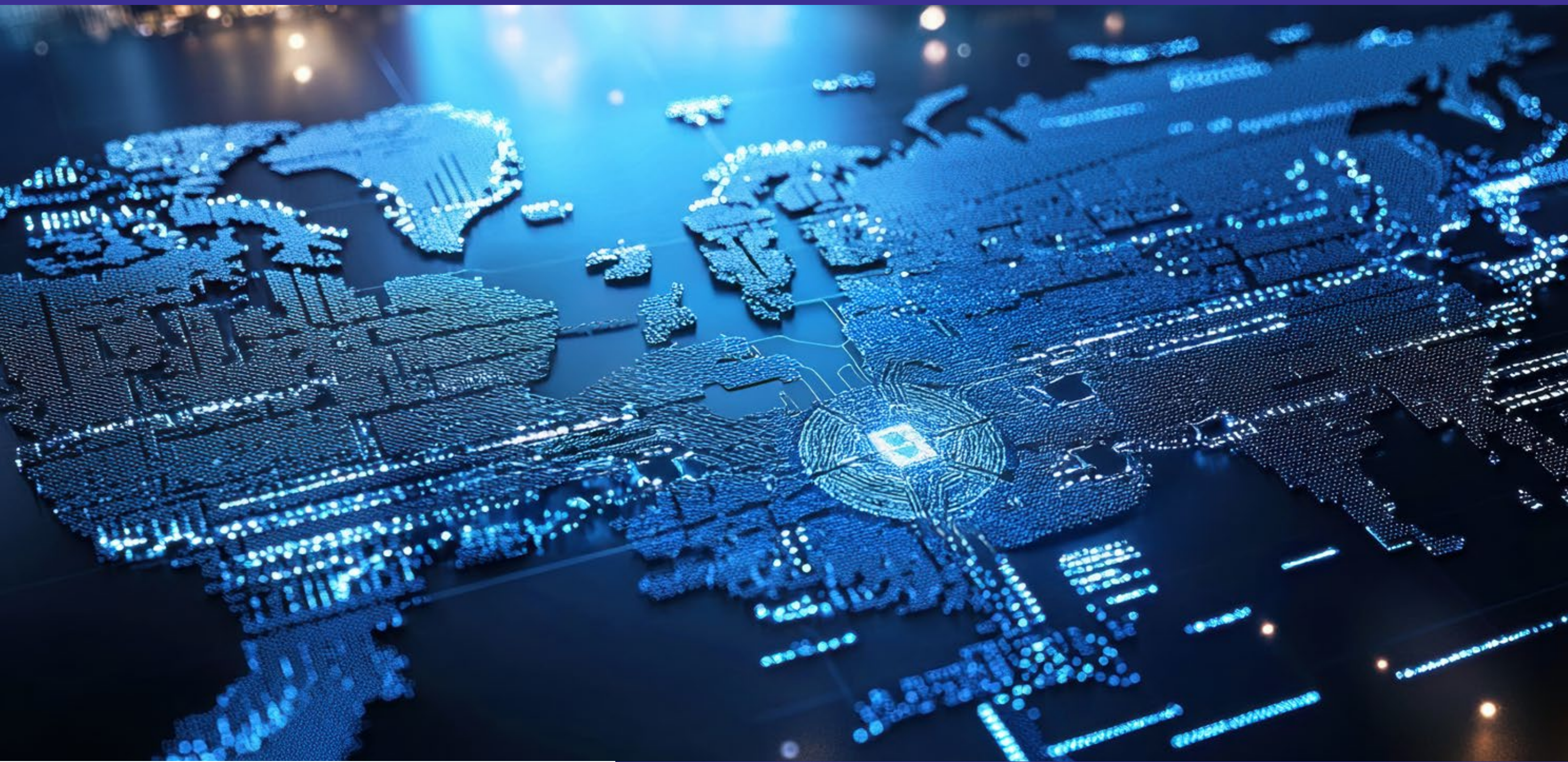
ESCP BUSINESS SCHOOL

IT ALL STARTS HERE

BERLIN I LONDON I MADRID I PARIS I TURIN I WARSAW



LIGHTS - Geopolitics

A systemic problem of economic national sovereignty : high incidence of stock market de-listing and irrelevance of small/medium enterprises listed on the Milan and other stock exchanges

ESCP Impact Paper No.2025-49-EN

Vittorio DE PEDYS
ESCP Business School

ESCP RESEARCH INSTITUTE OF MANAGEMENT (ERIM)

ESCP Impact Paper No.2025-49-EN

A systemic problem of economic national sovereignty : high incidence of stock market de-listing and irrelevance of small/medium enterprises listed on the Milan and other stock exchanges

Vittorio de Pedys*

ESCP Business School

Abstract

The Italian capital market suffers from insufficient institutional investment in SMEs, as UCITS investment funds prioritize liquid large-cap investments, facilitating undervalued de-listings by international private equity firms that transfer governance abroad. This phenomenon diminishes domestic industrial capacity although funds target economically excellent companies with strong fundamentals. This paper proposes a multifaceted approach to address this market inefficiency through the development of PIPE instruments that preserve Italian corporate governance; establishment of public-private strategic funds; expansion of Closed Funds and ELTIFs; incentivizing direct institutional investment; encouraging the listing of district/chain holding companies; revitalizing Individual Savings Plans; and implementing regulatory and tax reforms. These coordinated interventions aim to strengthen the domestic capital market, preserve Italy's economic sovereignty, and protect its entrepreneurial fabric which remains fundamental to national employment and growth, drawing inspiration from successful international precedents while promoting collaboration across the Italian financial ecosystem.

Keywords: delisting, deeply discounted equity value, PIR (ISP), listed SMEs (PMI), PE, PIPE

*Professor, ESCP Business School

A systemic problem of economic national sovereignty : high incidence of stock market de-listing and irrelevance of small/medium enterprises listed on the Milan and other stock exchanges

Introduction and Scope

This study analyzes two interconnected critical issues that affect Italian capital markets, and undermine the national economic sovereignty based on the fabric of Small and Medium Enterprises (SMEs): 1. the pervasive phenomenon of de-listing and 2. the systematic deep undervaluation of the stock market values of SMEs listed on the Milan stock exchange. Access to constructive equity capital is essential for the growth, aggregation and international competitiveness of Italian SMEs, which nevertheless suffer from a historical dependence on the banking channel, which is predominantly debt-oriented rather than equity-oriented. Domestic savings, while substantial, are allocated sub-optimally, with limited channeling to the domestic real economy, favoring liquid investments, often in foreign equity or in government bonds, to the detriment of support for domestic businesses.

The stock market, theoretically the main avenue for raising equity while maintaining governance, is ineffective for SMEs because of the low liquidity that physiologically characterizes companies with capitalization of less than 1 billion euros. This illiquidity makes them unattractive to most institutional investors, particularly to Undertakings for Collective Investment in Transferable Securities (UCITS) funds, which are constrained by compliance requirements heavily geared toward immediate asset liquidity. This scenario creates conditions for two concerning phenomena: first, the deep undervaluation of stock market valuations of many SMEs, despite solid fundamentals and growth prospects, making them unduly cheap and exposed ; and second, the increase in de-listing operations, frequently sponsored by international, mostly U.S.-based, private equity (PE) operators. The latter take advantage of low valuations to acquire excellent companies at a premium, which leads to a transfer of governance abroad, with potential negative impacts on domestic industrial capacity, innovation and employment.

Market analysis and structural issues

The Italian capital market shows a structural lag, characterized by a significantly lower market capitalization in relation to Gross domestic product (GDP) when compared with European partners such as France, Germany or Sweden, and even more so with the U.S. or Japan as shown in Figure 1. Besides this small quantitative size another featute is the low volume trading concentrated on blue chips, leaving small caps in a marginal condition.

Capitalisation/GDP ratios in several European countries

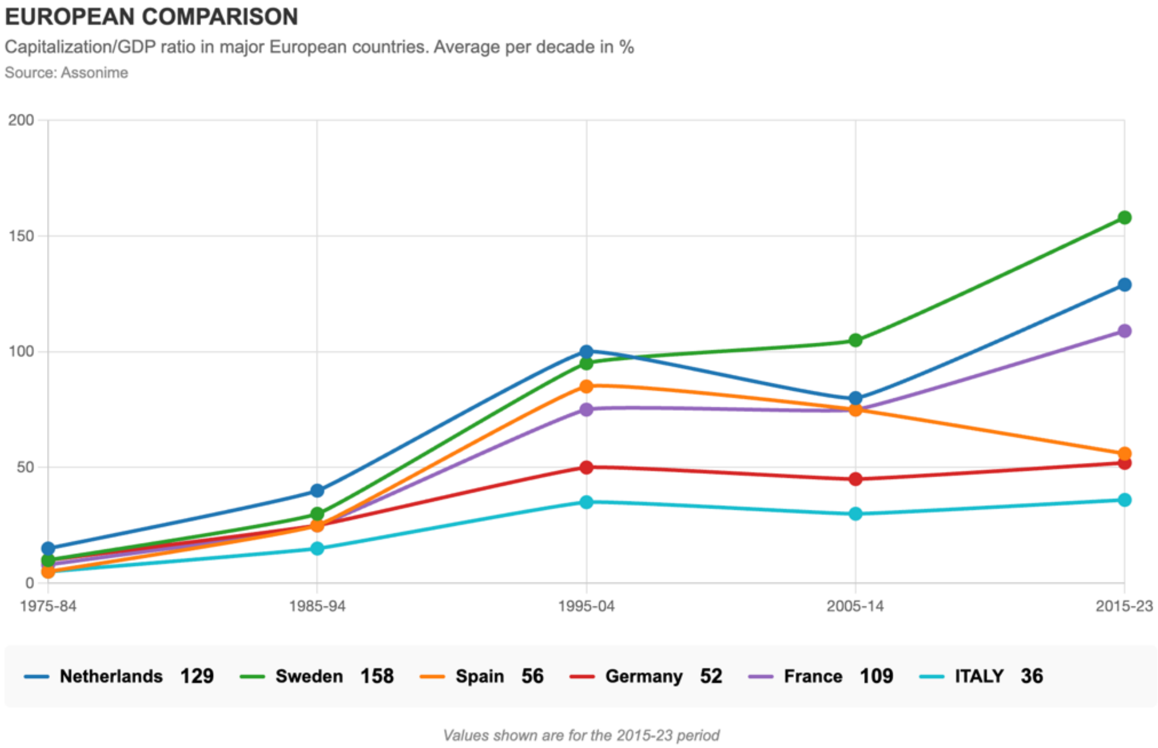


Figure 1: Italy shows the lowest market capitalization-to-GDP ratio (36%) among major European countries, significantly below The Netherlands (158%), Sweden (129%), and France (109%). Source : Assonime 2021

Moreover, only 7% (Caselli 2024) of the capital of FTSE MIB (Italy's main stock market index comprising the 40 largest listed companies by market capitalization) companies is held by domestic investors, highlighting a critical dependence on international investors. The problems specific to the Small Cap segment are manifold. There is a shortage of specialized domestic institutional investors: smaller funds (<€100 Mln) struggle to achieve scale and attractiveness, while larger funds (>€300 Mln) tend to avoid investing in less liquid companies so as not to excessively affect the free float. The interpretative practice of the European Securities and Markets Authority (ESMA) regulations on asset liquidity by internal fund risk managers is often overly restrictive toward securities listed on Growth markets, such as European Growth Milan (EGM) at EuroNext, which are assimilated as illiquid despite regulatory clarifications to the contrary. This is compounded by the significant costs associated with listing and maintaining public status A comparative analysis of stock market fundamentals shows that Italian small caps, despite having similar Price/Earnings (P/E) multiples and less debt than large caps, discount lower valuations on other indicators (Price/Cash Flow, Dividend Yield) and underperform compared to global peers. The EGM segment, while designed as a potential "nursery," suffers from the transition of top companies to higher listings and a high rate of de-listing, making its aggregate performance less attractive.

A key structural issue is the low contribution of domestic institutional investors (UCITS funds, pension funds, insurance companies, individual saving funds). For example, Italian pension funds, while managing growing assets, allocate only a negligible share to domestic equity, about 4% in 2023, excluding government bonds (Intermonte 2024), favoring bonds and foreign investments, unlike in Sweden (50%) or the UK. Figure 2 shows the breakdown of the assets of Italian pension funds between domestic and foreign assets.

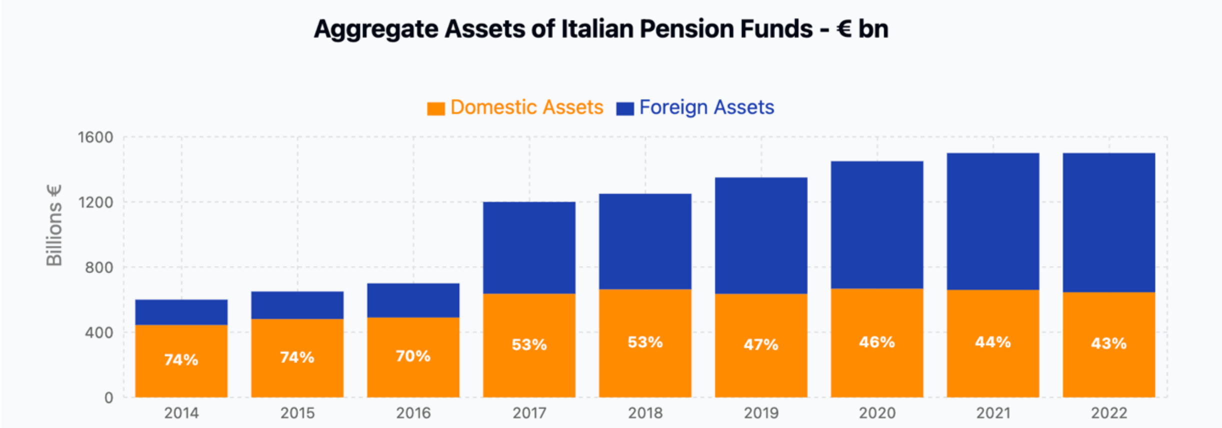


Figure 2: Italian pension funds show declining domestic asset allocation from 74% in 2014 to 43% in 2022, while total assets under management grew from €600bn to €1,500bn. Source : Caselli 2024

Similarly, Italian insurance companies invest only 2.5% in equities, compared to a European average of 14%, with a strong concentration on government bonds. This tendency to allocate domestic savings reduces available capital for Italian companies, especially SMEs, making the system vulnerable and dependent on foreign capital. Virtuous models such as Sweden's, which has strong retail and domestic pension fund involvement, and recent British reforms, which have enhanced ISAs, and pension reform, point to possible directions to reverse this trend.

The phenomenon of de-listing: dimensions and Implications

De-listing represents a significant outflow for the Italian capital market and economic sovereignty. The phenomenon is not limited to isolated cases, but has taken on systemic dimensions, leading to the loss of national control over numerous major brands and companies in strategic sectors (food, luxury, mechanics, automotive, telecommunications, etc.). Historical analysis shows an extremely modest net positive balance between listings and de-listings in recent decades, with a worrying acceleration of de-listings in the most recent years as shown in figure 3 below; de-listings were around €40Bn in 2022, over €11Bn in 2023, €28Bn in the first six months of 2024.

Listings and de-listings on Milan Stock exchange since 1995

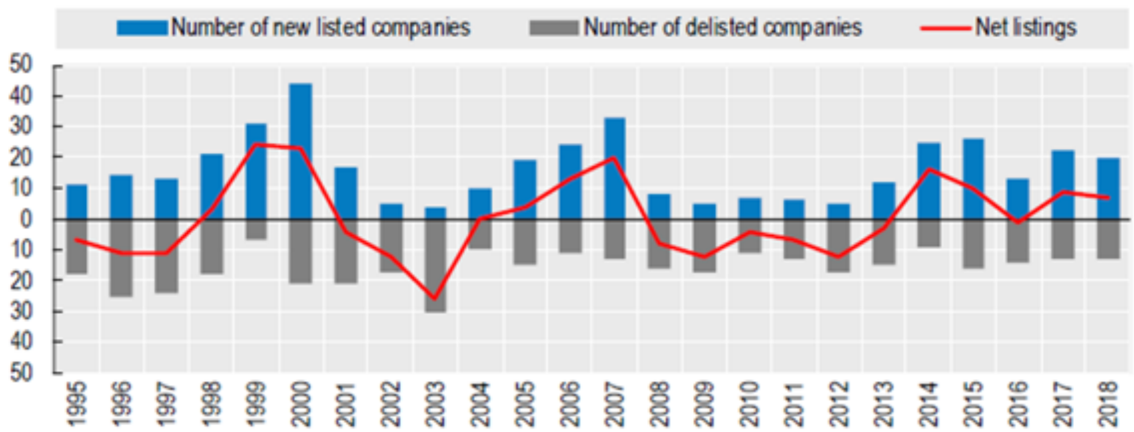


Figure 3: Net listings on Italian stock exchanges show volatile patterns with peaks in 1999-2000 and 2007, followed by periods of net delistings, highlighting the structural challenges in maintaining market depth. Source : MEF Libro verde

Although de-listing is a global phenomenon, the gradual depletion of the Italian market is particularly alarming. Specific research carried out by the author has shown that, in the period 1995-2024, as many as 42% (Picco 2021) of takeover bids (Offerte Pubbliche d'Acquisto or OPAs) aimed at de-listing involved a transfer of control to foreign entities, mostly from outside Europe. This figure confirms the vulnerability of Italian listed companies, often industrial high performers, which become acquisition targets due to low valuations and the scarcity of patient domestic investors. The reasons behind de-listings are varied (divestment of the business, loss of requirements, mergers, acquisitions by Special Purrpose Acquisition Companies or SPACs), but a significant share (clusters "Prey" and "Repented") can be traced to external acquisitions or voluntary withdrawals by parent companies, often facilitated by stock market undervaluation. External acquisitions, particularly by foreign industrial groups or international PE funds, are frequently characterized by significant takeover premiums: on average +28.9% on the main list, +42.4% on EGMs (Picco 2021), reflecting the intrinsic value and perceived potential in these companies, value that the domestic market fails to express or sustain. This process not only reduces the list, but also transfers decision-making centers, innovative potential, and future wealth oit of national hands.

Undervaluation of securities and issues with ISPs (PIR).

Parallel to de-listing, and sometimes as a cause of it, there is a marked undervaluation of the values of listed SMEs. This phenomenon has worsened since the second half of 2022, with a dramatic divergence between the positive performance of Large and Mid-Cap indices (FTSE MIB, FTSE Mid Cap) and the stagnant or negative performance of Small Cap indices (FTSE Small Cap, EGM). Mid and Small Caps trade at multiples (e.g., forward P/E) significantly lower than historical averages and values found in private transactions (Private Equity auctions), indicating a systematic undervaluation by the public market.

This situation is exacerbated by the contraction of global and specific liquidity in the Italian market, with volumes traded on Mid and Small Caps down 20-30% from 10-year averages. Table 1 below aptly describes the stagnant situation on the Milan exchange in terms of listed securities and market caps, and the decrease in volume turnover.

Recent figures for listed stocks, capitalization, liquidity, Milan stock exchange

Indicator	2007	2012	2017	2022	2023
Listed companies at year-end (Euronext Milan Domestic main list)	259	249	237	220	226
Euronext Milan Domestic market capitalisation (€ billions)	722.24	364.42	633.88	614.96	753.85
Stock-market capitalisation / GDP (Italian companies, 31 Dec)	48.0%	22.5%	37.5%	33.3%	39.4%
FTSE Italia MIB Historical index (31 Dec)	28525	13512	20035	22276	27496
Average daily turnover in share trading (€ millions)	6248	2000	2477	2212	2274
Share of FTSE MIB constituents in annual trading turnover	88.5%	92.7%	87.7%	89.9%	n.a.

Table 1: Source Intermonte 2024

A key factor in this dynamic has been redemption flows from ordinary Individual Savings Plans (PIRs). Launched in 2017 with the aim of channeling savings to SMEs, PIRs had a promising start, but redemptions stalled after 2018. At the end of the five-year period required to obtain the tax benefits, large redemptions appeared to the tune of about €3.45Bn between H2 2022 and 2023 (Intermonte 2024), which were not balanced by new subscriptions. These forced sales, while having negligible impact on large PIR funds given the low initial exposure to small caps, significantly depressed the stock prices of the SMEs involved, regardless of their fundamentals.

Analysis of the allocation of ordinary PIRs reveals their very limited effectiveness in fulfilling their desired gaol, i.e. supporting SMEs: at the end of 2023, only 3.9% of assets were invested in Small Cap, that is just 0.4% above the regulatory minimum, and only 8 percent of their free float was held by PIRs (Intermonte 2024) . The concentration of the PIR market in a few large asset managers also makes active management of significant positions in illiquid securities problematic. The PIR Alternatives funds, launched in 2020 with more stringent constraints toward SMEs, not only raised limited resources but focused mainly on unlisted assets, not contributing to solving the liquidity and valuation problem of the SME listed on the stock market.

Operational proposals: demand-side actions

To counter the described phenomena and revitalize the listed SME market, it is necessary to act on the demand side of capital as a priority, stimulating the interest and investment capacity of qualified domestic players. The following lines of action are proposed:

Actively promote the Private Investment in Public Equity (PIPE) scheme, transferring typical private equity skills (in-depth analysis, strategic support, medium- to long-term horizon) to investments in listed public companies. This approach, freed from the liquidity constraints of open-end funds, makes it possible to support the growth of SMEs with patient capital, without necessarily targeting de-listing and thus preserving Italian governance. Vehicles such as specialized closed-end funds, investment holding companies, and European Long Term Investment Funds (ELTIFs), especially small size ones, <100 Mln € are suitable instruments to implement PIPE strategies and should be incentivized.

It is crucial to give full support and rapid implementation to the Fondo Nazionale Strategico (SNSF), a public-private partnership initiative (with Cassa depositi e Prestiti, Ministero dell' Economia e Finanze, Borsa Italiana) designed as a fund of funds to catalyze investments in closed-end funds dedicated to Italian listed SMEs (outside FTSE MIB). The initial public investment (€350 Mln) aims to mobilize significant private capital (target >€1 Mln), creating an ecosystem of specialized managers. The implementation of mechanisms that foster a multiplier effect and rotation of public capital to new initiatives like gradual redemption of public shares as the Net Asset Value (NAV) of the underlying funds increases, are suggested in this research. As a complement, the creation of open-ended PIR funds of funds, managed by specialized operators, could be considered to broaden the investor base.

Additional proposed measures include: extending the "bonus IPO" tax credit to include costs incurred in M&A; business combinations that increase the size of listed companies; introducing a tax credit for independent research expenses on SMEs to fill the information gap; supporting with tax or regulatory breaks cornerstone investors who take significant stakes (>5%) in IPOs or PIPEs; and evaluating the establishment of national or local PE funds focused on recapitalization transactions (debt-for-equity swaps) for SMEs. Important is also a moral suasion action on large institutional investors (banks, insurance companies, pension funds) so that they allocate a share, albeit minimal but significant, of their portfolios to direct or indirect investments, through dedicated funds, in Italian listed SMEs, overcoming the exclusive delegation to international advisors focused on Large Cap.

Operational proposals: interventions from the supply side, tax regulation and on the relaunch of ISPs (PIR).

On the supply side, it is necessary to incentivize the market entry of adequately sized companies and promote consolidation processes. The goal is to encourage the listing of holding companies that group multiple SMEs belonging to strategic supply chains or industrial districts, overcoming dimensional size limitations. Spin-offs of innovative business units from established family groups should also be encouraged. Incentives, such as the extended IPO bonus, should reward the creation of larger consolidated entities. The European definition of SMEs and the applicability of related benefits should be revised, considering "look-through" approaches for holdings that consolidate various SMEs. A facilitated tax redemption mechanism for the value of listed shareholdings (including those derived from business combinations) could be introduced, with sliding rates inversely proportional to the holding period, to encourage entrepreneurs to remain invested in the long term.

From a regulatory and fiscal perspective, it would be strategic to make the Initial public offering (IPO) bonus structural, extending it to consolidations and including support for post-listing costs. A strategic reflection on the taxation of capital gains and dividends from investments in listed SMEs is appropriate, evaluating possible reductions or differentiations (e.g., linked to the holding period) to make equity investment more competitive compared to other asset classes like government bonds. It could be useful to reintroduce a targeted form of ACE (Aid to Economic Growth) to specifically incentivize the capitalization of listed SMEs. Another suggestion is to revise the regulations on innovative SMEs to fiscally facilitate the creation of newcos from listed spin-offs and the attraction of third-party capital. For family holdings investing in PIPE vehicles dedicated to SMEs, a tax suspension regime on contributions and the application of the PEX (Participation Exemption) regime on distributed proceeds could be considered. Finally, the granting of preferential tax regimes for wealthy new residents could be linked to specific investments in Italian listed SMEs or dedicated funds.

Regarding PIRs (Individual Savings Plans), a decisive relaunch is necessary. We propose the the creation of new PIRs, ordinary or alternatives is proposed with a minimum investment requirement in listed SMEs significantly higher than the current 3.5% and entirely focused on the listed market. The constraint of the uniqueness of the PIR per individual subscriber should be eliminated. To encourage long-term holding and mitigate the "expiration" effect of the 5 year tax-grace period, continuous tax benefits could be introduced for example annual deductibility of a portion of the investment after the fifth year, or tax credits on any capital losses. The possibility of direct investment in SME shares with tax benefits like PIRs should also be promoted if maintained for an extended period (e.g., >5 years), following the model of British ISAs and Swedish ISKs.

A strategic vision and conclusions

Alongside specific measures, like the ones described in this research, a long-term strategic vision is necessary. It is proposed to position Borsa Italiana, within the Euronext group, to become the European reference hub for the listing and trading of SMEs, leveraging its numerical leadership in the Growth segment and the strength of the small and medium Italian industrial fabric. This would require promotional action at governmental and institutional levels.

In conclusion, the de-listing and devaluation of listed SMEs represent a serious systemic problem that weakens the productive base and national economic sovereignty. It is imperative to reverse this trend, supporting the growth of Italian companies and reducing their systematic acquisition by foreign operators, primarily non-European. This requires an efficient, liquid domestic capital market capable of attracting national savings in a stable manner. The numerous proposals formulated in this study, ranging from interventions on demand and supply to regulatory, fiscal, and PIR relaunch measures, aim to create a more favorable ecosystem. Inspiration should come from countries that have already developed virtuous capital markets (Sweden, UK, etc.), based on a clear perception of the market's social role, an incentivizing regulatory and fiscal framework, strong attention to complementary pension schemes oriented toward domestic equity, and a significant presence of national investors. Addressing current critical issues requires a joint and coordinated effort from all stakeholders in the financial community – public institutions, regulators, intermediaries, fund managers, companies, and investors – based on awareness of the urgency and the willingness to implement effective solutions, market-oriented but supported by a stable and forward-looking regulatory framework. The protection and enhancement of Italian SMEs through a functioning capital market is not just an economic issue but a strategic priority for the country's future.

Appendices

Excel file “Studio ITAIM”, created by dott.ssa Isabella Corno, Univ. Bocconi

File “DELISTINGS”, created by dott. Luca Magliano, Electa Ventures

Excel file “Lista acquisizioni estere”, created by the Author

Borsa Italiana, “Società revocate nel periodo gennaio 1995- 2024” vd.link : Revoche 12 2023 - Borsa Italiana oppure file “Revoche”, Borsa Italiana

Excel file “Pmi eccellenti quotate”, created by the Author.

References

Assonime. (2021, May 19). Proposta Assonime di un piano per la ricapitalizzazione delle PMI italiane [Policy Note]. Rome: Assonime.

Borri, N., & Di Giorgio, G. (2024). European equity markets, SMEs and the growth challenge. *Rivista Bancaria*, 1-2, 2024.

Borri, N., Di Giorgio, G., & Gaudenti, F. (Eds.). (2024). *European equity markets, SMEs and the growth challenge*. Rome: Casmef Luiss University with Event Group.

Camera dei Deputati & Senato della Repubblica, Servizi Studi. (2023, February 2). *Interventi a sostegno della competitività dei mercati dei capitali* [Dossier 94/2]. Rome: Parliamentary Services.

Caselli, S., & Gatti, S. (2023). Capital markets: Perspectives over the last decade. Milan: EGEA.

Caselli, S., Gatti, S., & Zava, M. (2024, June). *Gli investitori nel mercato azionario italiano: evoluzione o involuzione?* Working Paper: Università Bocconi, Milan.

Intermonte & Politecnico di Milano. (2022, March). *Sliding doors*, 6° Quaderno di Ricerca. Milan: Intermonte Partners.

Intermonte & Politecnico di Milano. (2024, February). *La presenza di fondi di investimento nel mercato azionario di Borsa Italiana*, 7° Quaderno di Ricerca. Milan: Intermonte Partners.

Ministry of Economy and Finance, Treasury Department. (n.d.). *Libro Verde su "La competitività dei mercati finanziari italiani a supporto della crescita"*. Retrieved from https://www.dt.mef.gov.it

OECD. (2020). Capital Market Review of Italy 2020: Creating Growth Opportunities for Italian Companies and Savers (OECD Capital Market Series). Paris: OECD Publishing.

Picco, F., Ponziani, V., Trovatore, G., & Ventoruzzo, M. (2021). Le OPA in Italia dal 2007 al 2019 - Evidenze empiriche e spunti di discussione. *Consob Discussion Paper*, 9.

Acknowledgments

The opinions expressed in this study and the evaluations formulated are exclusively attributable to the author; nevertheless, they are also the result of numerous discussions conducted with several leading experts in the sector, whom I wish to formally thank here for the valuable insights provided and the precious contribution of expertise and passion for the topic. Worth mentioning, as particularly interesting and ground-breaking, are the views of Dr. Simone Strocchi, founder and CEO of Electa Ventures, who relentlesssly pioneers tools and suggestions along the lines expressed above.