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The role of investment banks in the IPO process: the case of San Lorenzo yacht

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INDEX

INTRODUCTION

During the research we will analyze the role investment banks have when a company is going to be listed on the stock exchange through initial public offering. Different reasons lead a firm to enter on the stock market, from the economic advantages it could benefit after the process up to the higher reputation as a consequence of the listing. As we can understand in the next chapters we will focus on the shape of investment banks in supporting firms in all the operations, from the evaluation to the offering of shares to investors.

The majority of companies need the presence of the syndicate for exploiting the benefits arisen from the knowledge banks have of the industry on which the enterprise operates and the channel of distribution, with which banks aim to place the “product” to investors. It is important to highlight that the assessment of the value of the company affects the process of pricing and the successive sale. The investment bank activities involve the use of many instruments to provide the correct and most appealing value of shares, to attract many clients. These are some reasons for which investment banks play an important role in IPO.

The case study chosen for the research is that of San Lorenzo S.P.A. It is an Italian shipbuilding which headquarters located in La Spezia, specialized in the production of luxury and superyacht. What differentiates this firm from the other is the important level of customization and the politic of made to measure that have led the Italian company to become the third yacht manufacturer in the world.

San Lorenzo entered on the stock exchange in December 2019, after a long phase of ups and downs due to the financial crisis that hit Europe in the past years. The majority shareholder Massimo Perotti has ever been able to maintain the core business of the group and to enhance its brand, leading the company to obtain high turnovers. We focus on the steps the company has pursued on the listing process, concerning the investment banks activities. We will take into consideration the banks involved in IPO and which has been their role.

The reasons for which it has been chosen the argument of our research are related with the attraction of the subject. First of all, investment banks history presents many interesting features, from the origin of commercial activities to the separation with investment ones. Then the appeal of the entrepreneurial contest has inspired the work for understanding the linkages between the activities of financial institutions and the companies that approach the primary market. In detail the role of investment banks can be split down in many commitments that deserve attention. They are engaged in some operations from brokerage to mergers and acquisitions or advisory services. The assignment that has been considered the most pleasant to study is that related with the initial public offering. In this case banks cover many positions to support the company during and after the listing process. It is also interesting to understand how the issuer choose the syndicate, therefore the banks that follow all the operations.

The construction of the paper has been prepared with regard to the passion for the nautical sector. That's why San Lorenzo yacht has been chosen like case study. The issue has consisted in finding the connection between the topic of the thesis and the research of potential firms that operate in this sector. San Lorenzo is a worthwhile case because of the history that characterizes it, from the origin to the change of ownership up to the listing on the stock exchange. It is furthermore an important reality in the yacht building industry, because of the attention and the importance given to its clients. The philosophy of the company is unique and is reflected on the production of its yachts.

The objectives of the research consist of understanding the key functions of investment banks, with respect their core business, after introducing the origin of these financial institutions. As said before there are many operations on which they can approach, but the attention is focused in the initial public offering. It is fundamental to figure out how the syndicate is involved in the offering, by capturing for each step of IPO the value added provided by this actor.

We make a deepest analysis by focusing in the lecture of material such as book or financial journal found on the website. It is also be useful the use of paper and other material disclosed online.

In the first chapter we focus on the history of investment banks with respect the amendments made in the past decades. It is also reported the organization and the activities of these kind of financial institutions related with the different operations of finance, with a brief introduction of the IPO. Moreover, we will look for the corporate finance services, mergers and acquisitions and company restructuring, with respect the commitment of investment banks in these operations.

The next chapter represents the core of the research where we analyze all the phases of IPO process. We will note that there are different roles that a bank can cover, for which it is necessary to have a particular license. Each of them undertakes to support the company according to the function they are specialize for. Furthermore, the tasks change depending on the position of the bank. During IPO the company needs to evaluate and to create the demand for the "product", hence we will denote that financial institutions provide the great contribute to make this procedure thanks to the experience and the network they have created during years. As we can see later their reputation is important to win the competition and become part of the syndicate. The paper also aims to highlight the issues banks face during the pricing period. In this sense, we will reflect how the situation on the market changes if the price of placement is different from the offer price. More particularly we assess the underprice and overprice situation linked with the objective of banks to meet the interests of the actors. Finally, we focus on the case of San Lorenzo, by studying the history and the philosophy of its owner. Then it is faced the preparation of the company to become listed and which have been the investment banks that have supported the Italian shipbuilding during the initial public offering.

CHAPTER I: INVESTMENT BANKS

1.1 THE DEVELOPMENT OF THE STRUCTURE OF INVESTMENT BANKING

The activity of investment banking was born in the end-1800s, in that period financial institutions included in their operations both commercial activities and investment, advising tasks. In other terms, banks provided a series of services such as accepting deposits, making loans to privates and firms. At the same time, they behaved like financial intermediary in the process of corporate issues in the capital markets. Therefore, they played a role of broker between entities that issued shares, and investors. [1]

After the financial crisis of 1929, there was the need to face the problem of speculation, that characterised lots of banks. They were accused of being too speculative, because they run down in high risk investment with the hope of having a huge return.

This manoeuvring was considered speculative by the criticism and it weighted on the generation of the crisis. In 1933, in response to the Great Depression that have hit American banks, the government of United States, enacted the "Glass-Steagall act", whose name was taken by promotors which belonged to the congress. [2]

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[1] Haentjens.M., European banking and financial law, London-New York, 2015, p. 81.
[2] Forestieri.G., Corporate & investment banking, Milano, 2018, p. 26.

The law included many reforms to control the speculation. The Glass-Steagall act involved to separating commercial banks from investment banks. In this way the objective to pursue was to make a separation, to avoid that the failure of intermediary did not lead the commercial bank to bankruptcy.

The same bank could not perform these two activities, and when a financial intermediary was born, it had one year for choosing if specialize itself in commercial or investment activities. An exception was the possibility for commercial banks to underwrite government issued bonds. [3]

This law was the first step for the development of the structure of investment banks. They operated like intermediary between firms and investors. The value added of investment banks was the level of information, thereby the capability of banks to raise and to elaborate data related to those entities that issue shares and concerned the demand function, thanks to the network of relationships that are built among investors and firms.

Financial institutions use their reputation to obtain data, which are usefull for the evaluation in the issuing process. The assessment work has to pay attention to the needs of investors that give information to banks, and the needs of firms, because they want to maximize the price of shares. For this reason, investment banks play an important role on the stock market.

The central role of the investment bank in the information marketplace, led to the development of

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[3] Fleuriet.M., Investment Banking Explained, New York, 2008, p. 55 ss.

another function. They became to carry out activities of advisory, for operations of mergers and acquisitions or restructuring of a company. The core competence was based on the human resources of banks, both for the creation of the network of relationships, and for the development of the expertise of people who worked for them.

Since they were based on the primary market, this position led investment banks to have a progressive interest to the secondary market, because of the uniqueness of information given by them, and for the possibility to grant a range of services wider to issuer and investors. After the development of advisory's system, aimed to fundraising and for the optimization of the financial structure, and after the interest on acting on the secondary market, investment banks began to increase their competences.

Skills of banks for financial markets (primary and secondary), and the expertise on the process of the evaluation of the issuer, led financial institutions to expand their businesses to asset management. The leadership on the management and marketing of common funds brought investment banks to play an important role in private equity's activities like principal investors.

Once investment banks' tasks expanded, there was a change on the organization of the same institutions. As long as banks were specialized only on activities of advisory, the mayor resources that were needed were human skills and few financial resources. [4]Human capital was considered the "know how" used

[4] Morrison.A.D., Wilhelm.W.J jr., investment banking, New York, 2007, p. 4.

on business and the process to increase them, and accumulated expertise were too long and expensive. For this reason the organization of the bank, on advisory activities, was the partnership, where the value created by it was distributed among the members, whose know how was made available to the same financial institution.

When investment banks started to operate in the financial market, "money" became more important than human skills because this kind of business required the assumption of a high level of risk and strong financial capacity. The need of widespread financial resources, instead of human ones, led the change of the organization of banks from partnership to listed corporations.

The pressure of banking industry led United States' government to abolish the "Glass-Steagall Act". In 1999 it was emanated the "Gramm-Leach-Bliley Act" to eliminate the separation between commercial and investment banks. [5] With the new regulation, banks could create holding and they could exercise both activities with some limits.[6]

The introduction of the new law has had negative consequences for the investment banking, because the separation was a constraint for commercial banks, that could not practise activities such as underwriting, advisory, asset management ecc.

With the abolishment of these kinds of barriers, commercial institutions could use human skills, the networking, and resources of investment banks and

[5] Iannotta.G., Investment banking, Berlin, 2010 p. 6.
[6] Mclean.B., Nocera.J., All the devils are here, London-New York, 2010, p 150 ss.

they could participate to those operations that before belonged only to the second ones.

After the great recession of 2008, investment banks exit with a critical financial situation. The negative positions of some investment financial institutions against the major commercial banks, led to the first one to be less competitive. Another issue was related to rules concerning the capitalization of investment banks. More particular they were subject to an intervention of deregulation by the Securities and Exchange commission (SEC)

Moreover, Financial institutions which represented the elite of the sector of investment banks, were hit by the Lehman Bankruptcy; it was the greatest bankruptcy in the history of United States.

SEC responded to the situation of crisis, by abolishing the capitalization scheme of the major investment banks. In this way they were subject to the same control by SEC, but the manoeuvring gave greater freedom of movement.

Another operation developed for facing the critical situation of banks, was related to the implementation of Basilea II's scheme. This agreement aims to supervise the process of risk management of credit institutions, more particular of the larger investment banks.[7]

Basilea II gives some freedom to banks in the organization of internal structure, hence the adoption of the capital needed. In this way it is possible to evaluate the exposure of risks of investment banks

[7] Haentjens.M., European banking and financial law, London-New York, 2015.

and ensure the control exercised by securities and exchange commission.

The main element that led to the crisis was the weak financial structure of some investment banks, due to a high leverage.

Today, there are some instruments that could be used to find a new equilibrium within the organization of banks, they can organize themselves by following two business models. Firstly, financial boutique includes those categories of banks which concentrate their business on advisory and underwriting, and thereby they focus on investment banking in the strict sense.

This category is the result of the previous pattern of partnership, and it is the choice to preserve the organization model based on human skills, hence those competences acquired with the experience and that characterize assets of banks. [8]

Secondly, universal banks that includes larger financial institutions, which were born like retail banks, then they began to follow diversification strategy on the investment banking. Universal banks have been criticized before the crisis because of being the main cause of instability, but this model will be influenced by rules that have the aim to separate retail banking from financial activities that are riskier than the previous ones.

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[8] Raymond Brooks.M., Financial management: core concept, Oregon state university ,2019, p. 10.

1.2 ORGANIZATION AND PATTERN OF INVESTMENT BANKS

Investment banks operate like an intermediary between two actors, the issuer that sells to the other who invests and buys shares.

The background of this operation consists of raising as much information as possible of investors, in order to shape the process of pricing.

The organization of financial institutions, where the core function is to raise information, is based on two types of networks. External networks connect investment banks with issuers, competitors, and investors. The relationship between banks and issuers is structured with respect to the type of product, industry specialization, and geographic contest. Meanwhile, the linkage with investors is proportioned with respect to products, geographic contexts, and types of clients, more particular customers can be broken down in retail, institutional, and so on.

The network created with competitors is based on the business that banks have in common. The objective is to create an economic advantage to the other in order to incentive the counterpart to maintain the relationship with the bank. Nevertheless, this linkage is strengthened if there is adequate deal flow, with continued opportunities for investment; furthermore, the chance of business should be frequent. Another factor that characterizes this network is the cost assigned to banks if they do not respect commitments. In this way, financial institutions are bounded by the issuer, and they employ their best effort to close the deal.[9]

The market share of investment banks, which is important to improve their reputation, is less connected with a stable relationship with the customer. Banks obtain a fee not for the information they give because it is difficult for companies to evaluate the quality of the advice, but after the deal is closed. In this way, banks are not led to maintain a constant and continued relationship with the same firm. This brings out the phenomenon called "loose linkage", which implies banks to recover their costs after they are selected for a deal.

Internal networks refer to a group of persons within investment banks that manage one or more external relationships. They operate in the function of the needs of external networks.

Investment banks' organizations pursue to develop external networks by integrating internal resources. The key element is the shape of coverage bankers, they are responsible for the relationship with clients, for the strategical and financial advisory and they coordinate with the firm, the trend of product. They are organized in relation to the industry, where for each sector there is an officer that manages these operations.

Activities of coverage bankers arise from the development of competences and resources regarding products and clients, with respect to the industry on

[9] Forestieri.G., Corporate & investment banking, Milano, 2018, p. 30.

which the entity wants to focus and the geographical marketplace on which they act. [10]

More particularly, coverage bankers are split down into two categories. Firstly, coverage groups are specialized in a particular market sector and they work on different financial deals within their markets. They may cover a detailed geographical area, on which the market takes place.

Secondly, product groups are specialized in a range of products, in this area mergers and acquisitions and capital markets groups are the most important team within the coverage.

According to commitments that banks carry out, they are developed different kinds of synergies between coverage and product groups.

Now we make examples of two of the most important financial institutions, with respect to their organizations.

Goldman Sachs represents one of the most representative models of the structure of investment banking. It is positioned and it is specialized only on investment banking activities. Its structure is simple because its organization is split down in line with the activities of investment banking. [11]

More complicated is the structure of Citygroup, which is a universal bank where investment banking activities coexist with commercial ones, which are further articulated. Within the corporate center, we

[10] Morrison.A.D., Wilhelm.W.J jr., investment banking, New York, 2007, p. 50 ss.

[11] Goldman Sachs, Form 10-k, 2016, available on https://www.goldmansachs.com/investor-relations/financials/current/10k/2016-10-k.pdf

can find the activity of corporate lending, alongside these of underwriting and advisory. [12] This maneuver has been done in order to spread the corporate service offer to financial assistance.

An element that connects the structure of a bank with the activity it does is related to the revenues earned by the financial institution. Incomes yielded by investment banks are mainly the result of fees, arising from underwriting, trading, and investment management's activities. They are subject to the volatility of financial contest, therefore both primary and secondary markets, and the ongoing of the economy and interest rates.

1.3 PRIMARY ACTIVITIES AND AREAS OF OPERATING

1.3.1 investment banking and IPO

Now we are going to introduce the core argument of the project, which will be better explained in the next chapter because the role of investment banking in the IPO process is the main business of this kind of financial institution.

Every company which is unlisted offers to investors equity opportunities by giving the possibility to buy its shares and taking ownership of the firm or becoming a minority shareholder.

There are two types of investors: the promoter and financial/strategic investors, the difference among

[12] The Economic group, Europe's other debt, in Riv. The Economist, October 26 2013, p. 5 ss.

them is related to financial objectives. Promoters are those investors that have the aim to take the control of the company and bring the firm to increase its worth. Financial investors look at the business opportunity, they choose projects that ensure a high return on investment. They are opportunistic entities that prefer to invest through “the private window”, nevertheless it does not give the opportunity to enter and exit any time into the company’s equity capital.[13] Furthermore, in the private process, it is difficult to validate the price of shares, because it depends on the trend of the market and it has to be adjusted from time to time through complex valuation methods.

Many companies decide to become listed on the stock market, and the common procedure to do this operation is through the initial public offering (IPO).[14]

IPO is an offer where issuers propose their shares, to investors that may be institutional or individual and it ends with the listing on the stock market. It is complex maneuvering and it involves lots of time, usually from six to twelve months. It brings advantages to the firm, which may be both direct and indirect.[15] When a company makes IPO it creates a new opportunity of ownership, this chance can be called as “market window”.

One of the advantages, why a company should be listed on the stock market is the improvement of the

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[13] Draho.J., The IPO decision, Chelteman, 2004, p. 12 ss.
[14] Gregoriou.G.N., Initial Public Offerings (IPO): An International Perspective, Oxford, 2011, p.115 ss.
[15] Brau.J.C., Fawcett.S.E., Initial Public offering: An analysis of Theory and Practice, Journal of Finance. 2006, p.9 ss.

management of the financial structure. With the listing process, firms pursue new risk capital and better condition of the cost of capital.[16]

The “market window” gives the opportunity for existing investors such as private equity firms, venture capitalists to disinvest. They are at the end of the “journey” because they have contributed to the improvement of the firm by financial and managerial efforts, in order to increase the value of the enterprise’s shares.

Becoming listed companies enhances the capacity of the firm to finance the external growth because shares are the mean through which operations of acquisition can be made. Furthermore, companies within the stock market benefit from a better reputation and imagine than private companies, because of the presence of institutional investors and from the process of selection of the firm, which involves a sensitive and moderate evaluation. [17]

There are also indirect advantages, arises from the fact that firms enter the primary market. The presence of the stock market requires criteria of governance that the company must apply, such as hiring an independent administrator. Moreover, enterprises must satisfy organizational and managerial standards imposed by the stock market’s rules.[18]

IPO brings also unfavorable conditions to firms. The decisional process becomes more compound than

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[16] Forestieri.G., Corporate & investment banking, Milano, 2018, p. 231.

[17] Bochner.S.E., Avina.J.C., Cheng.C.Y., Guide to the Initial Public Offering, Minnesota, 2016, p.5 ss.
[18] Tauli.T., High-profit IPO strategies: Finding Breakout IPOs for investors and Traders, New Jersey, 2012, p.15.

before, because of the rules for avoiding conflicts of interest or to protect minorities. Another disadvantage is related to the huge costs of compliance and the pressure to the firm by the market because it must maintain a certain level of performance during years.[19]

It is possible that initial public offerings and merger and acquisitions operations coexist until a certain stage of development. This is the case of the "dual-track", where a company is contemporaneous selling shares through initial public offering and through the sale of a number of shares to private investors. [20]

This maneuvering has the aim to maximize the value of the enterprise, by creating competition during the phase of evaluation and pricing of shares. In this way, the "dual-track" leads advantages to exist shareholders of the company because the competition may lead to an improvement in the value of the firm. The two processes can be carried out until the negotiation phase, hence in the pre-marketing stage in IPO and in the bidding step in the case of mergers and acquisitions.

The timing is strategic on the process of IPO, firms decide to enter the stock market when they are enough mature for it. Financial aspects are also important, related to the decision of whether to raise capital and how much funds are needed.

Investment banking plays an important role in the initial public offering, in the phase of determination

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[19] Lowry.M., Michaely.R., Volkova.E., Initial Public Offering: A Synthesis of the literature and directions for future research., 2017, p. 6 ss.

[20] Aktas.N., Andreas.C., Ozdakak.A., The interplay of IPO and MeA markets: The many ways one affects the other, 2017, p. 7 ss.

of structure, timing, and marketing strategy. The main difficulty in the IPO process is related to pricing operations. Firms need the shape of financial institutions because they raise information about the demand so that they could fix the best price and satisfy the needs of both issuers and investors. After the placement of shares, the market may fix higher price respect that on which they have been issued. This is the case of underpricing, where investors benefit from the low price they have paid while issuers have left money on the table. Contrary, if the price of the market is lower than that relative to the placement, it is the case of overpricing.[21]

The decision during the pricing phase is very difficult because it has consequences on the reputation of the bank which operates like an advisor.[22]

The shape of investment banking aims to face the problem of incomplete information owned by issuers, in order to make the firm attractive to investors and to set the price of shares coherent with that fixed by the market at a later time.[23]

In IPO it is necessary to distinguish two kinds of offerings. The primary offering is the case of selling new shares by the issuer, moreover, when firms sell existing shares, we are in the scenario of secondary offerings. Since the initial public offering is a way to get cash from owners of the firm, it usually is a

[21] Beatty.R., Ritter.J., Investment banking, reputation and the underpricing of initial public offering, journ. financ. econ. 1986, p. 213 ss.
[22] Forestieri.G., Corporate & investment banking, Milano, 2018, p. 231.
[23] Baron.D., A model of the demand for investment banking advising and distribution services for new issues, journ. finance. 1982, p. 955 ss.

combination of primary and secondary offerings, where on one hand part of new shares are issued, and on the other hand, they are sold shares of existing shareholders.

It refers to a public offering, whether focused on all investors, nevertheless if the offering is only addressed to institutional investors such as pension funds, banks, insurance companies; it is a private offering.

Every offering can be domestic or international, according to where the shares are offered. It is important to note that the distinction between these two categories is not related to the market on which shares are sold. The common structure includes a domestic public offering and an international private offering because few national issuers are able to pay compliance costs of retail foreign offerings.

Another point to highlight is related to the market on which firms prefer to be listed. For a company, it is more convenient to be listed on the domestic market, because it is less expensive and easier than a foreign one. It may be better being listed on the market of another country if the firm has no credibility on the home contest, or if it is a small enterprise. It is also possible that a firm operates abroad and its competitors are listed on that market.

Investment banks play a crucial role in initial public offerings because they provide advices to issuers, fix the price of shares according to information raised by them, based on the experience of the members of financial institutions, their capability, and the network they have built.[24] Moreover, they may assume the risk to sell shares issued by the firm through the firm commitment agreement.[25]

1.3.2 advisory services in operations of mergers and acquisitions

With the term mergers and acquisitions, we are addressed to operations where the acquiring firm, takes the control of one or more target companies. The transaction involves the leading company to control the target trough different modalities.[26] Firstly, it can acquire the whole securities of the target, or it can buy the majority stake, becoming the main stakeholder of the company. Another possibility for a leading company is to become a minority stakeholder but with the power of scrutiny. In this case, they are possible two alternatives, where MeA object is the shares of the target company or directly the enterprise.

Another important factor is related to the consequences that arise from the operation of mergers and acquisitions. Target companies can be integrated into acquiring firms, in this case, the first ones lose their juridical form, and they become part of the buyer. Contrary targets can continue to be separated from the acquirer, despite it exercises the control over them, this involves maintaining a juridical position. It

[24] Daxhammer.R.J., Resch.A., Schacht.O., Initial Public Offering-an inside view., Munchen, 2017, p.19 ss.
[25] Iannotta.G., Investment banking, Berlin, 2010, p.45.

[26] Forestieri.G., Corporate & investment banking, Milano, 2018, p. 85.

is also possible that the integration of two firms, as the result of mergers and acquisitions operations, leads to the creation of a third company.

All MeA process involves different modalities of acquisitions, from the cash payment to the shares exchange. These operations include private transactions between the buyer and shareholders of the target company; or market operations, where the acquisition of target shares is done through public offers.

The reasons why mergers and acquisitions operations take place are connected with the greater value the firm has after the integration process than the sum of the single value of firms if they were separated. Therefore the increase of firm value is linked to synergies between original enterprises, from an operational point of view like the exploitation of economies of scale and scope, or financial, where the company after the fusion may have a lower cost of capital.[27] MeA may lead to the enhancement of managerial structure of the target in order to improve its performance, by also differentiating its activities, so that the firm can purchase assets beyond its core activities, to reduce the risk of income volatility.[28]

The transaction taken into account in this chapter is part of an enterprise strategy which has the aim to increase its external growth. Investment banks' businesses include advisory services in the operation of MeA.

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[27] Dallocchio.M., Lucchini.G., Scarpelli.M., Mergers and acquisitions, Egea, 2015, p. 7.

[28] Petit.B., Ferris.K., Valuation for mergers and Acquisitions, Upper saddle River, 2013, p. 6 ss.

They provide internal information about the "status" of the firm, with respect to its management and its risk exposure. Then banks evaluate the position of enterprises, that the leading firm desires to acquire, and their assets. Furthermore, financial institutions assess the hypothesis of corporate restructuring of the acquiring firm from a financial, fiscal, and managerial point of view, in order to define the best conditions to negotiate the deal.[29]

After the deal is closed, firms enter into the realization process where it is necessary to define the structure of the operation and the definition of the modalities on which firms will be integrated with each other. Investment banks play an important role in providing advisory, which remains with underwriting activities, the core business of this kind of financial institution. Both the acquirer firm and the target can hire investment banks, if the operation is complex, it is possible to require more than one financial institution by each part. Banks provide a book to firms, in order to win the mandate, that contains information about their experiences on past transactions, related to the same industry on which the enterprise operates.

It is also discussed the fee arrangement, which includes both retainer and success fees, and they depend on the deal size. The success fee is linked with the realization of the deal and the conclusion of operations of the transaction. Investment banks can

[29] Hunter.W., Jagtiani.J., an analysis of advisor choice, fees and effort in mergers and acquisitions, journ. financ. econ. 12(1), 2013.

obtain different commitments depending on the side of the operation on which they stay.[30]

The buy-side refers to enterprises that buy securities for money purposes or because investment fund, like pension and hedge funds, shows interest in investing in that firm. Therefore, the buyer may include these investment shapes in MeA operations. Sell size is the other face of the financial markets, that sells existing or new shares to the acquirer.

This last one shows the purpose of firms, to market shares to raise money. Investment banks are the main actors, that provide advisory services and help companies to sell securities to investors. Firstly, banks prepare an analysis to evaluate the worth of the company, by assessing the value of its shares and by trying to make the firm more attractive. Then they prepare all the marketing instruments in order to capture the interest of investors.[31]

Buy-size is composed of corporations that have the financial capacity to invest in securities of firms. Here financial institutions provide advices about the structure of operations, the modality on which it can be concluded and they evaluate the worth of the firm which is selling. Banks usually prefer to support sell size, because they can negotiate a higher success fee. This is due to the decision of the firm to peddle its securities, and this increases the chance of success by

[30]Dallocchio.M., Lucchini.G., Scarpelli.M., Mergers and acquisitions, Egea, 2015, p. 19 ss.
[31] Rosembaum.j., Pearl.j., Investment Banking: Valuation, Leverage Buyouts and Merger & acquisitions, New Jersey, 2013, p.257 ss.

investment banks, that pulls the target to sell, in order to obtain the fee. [32]

As said before, a company may choose to re-orient itself, by redesign its borders and change its business environment. This operation is called corporate restructuring, it is taken into account before doing operations of mergers and acquisitions, in order to improve the internal structure of the leading company and enhance its strategic focus.[33] It involves a disinvestment process, where a company divests company branches or single assets. It is done, to face the problem of diversification, where managers tend to optimize their position instead create value for shareholders. It also involves an inefficient resource allocation of the firm, which generate decreasing performance.[34] Another problem linked with diversification is connected with information asymmetry between managers and investors.

The disinvestment process is positively seen by the literature, because of creating value for both companies: targets and leading ones. The common procedure of corporate restructuring is connected with the disinvestment of minority stakes, through public offers or private negotiation.[35] Moreover, the main modalities of disinvestment are two. The spin-off is the process where the leading company transfer shares of the target firm to its shareholders, in a proportional way. Shareholders benefit from this

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[32] Berk.J., De Marzo.P., Corporate Finance, New York, 2016, p.971 ss.

[33] Gaughan.P.A., Mergers, Acquisitions, And Corporate Restructurings, New Jersey, 2016, p.21 ss.

[34] Wininger.J., Rujana.J., Everybody wins in divestitures, Bain e Company, 2017.

[35] Petit.J., Positioning for growth: Carve outs and spin offs, UBS investment bank, 2004, p. 3.

operation in terms of securities distribution, because they own shares of the leading and the target company.

As a consequence, they have to leave part of the shares they owned in the leading company; in this way, the owner "neutralizes" these shares and reduce its capital. Spin-off allows the shareholder to yield income from both target and leading companies, and it allows the owner to focus on the strategic objectives of the corporation.[36]

On the other hand, carve out include operations of divesting controlling firms or branches of them, to another company; nevertheless, it can include the sale of equities of the target to third actors. This procedure has aimed to give more visibility to certain areas of business or to incentive the creation of joint ventures.[37]

In the process of corporate restructuring, investment banks prepare an analysis of the feasibility of the disinvestment, the structure of the deal and they identify potential buyers for the company. They make evaluation and due diligence in order to proceed with the negotiation and close the deal with investors.[38] The key role of the financial institution is to find the other party, and they may work closely with other professionals such as legal advisors or accountants, in

[36] Bruner.R., Applied Mergers and Acquisitions, New York, 2004, p. 123 ss.
[37] Frank.K., Harden.J.., Corporate Restructurings: A Comparison of Equity Carve outs and Spin off, Journal of Busines Finance and Accounting, 2001, p. 503 ss.
[38] Dallocchio.M, Lucchini.G., Scarpelli.M., Mergers and acquisitions, Egea, 2015, p. 239 ss.

order to face the legal, tax, and financial problems relating to corporate restructuring.

Investment banks offer complete advisory services and capital market solutions to clients, supported by a deep knowledge of the major industry characteristics. They benefit from sector experts and strong relationships with the major business firms with which they focus on high customer satisfaction and they have the capability to find the best solutions that fit the need of companies.

1.3.3 corporate advisory services in business projects and financial restructuring

Investment banking activities cover a wide range of corporate advisory services, in different sectors of the economy.

Banks usually support companies on their present and future businesses, by providing financial and strategic advisory services. In detail, investment banks provide entry strategy advices for those companies that want to start a new business or when they wish to enter in new market. It involves raising information about the type of product, the needs of potential customers to better fit their expectations, the market on which that product can create new business opportunities, and the pricing strategy.

Financial institutions assess the structure of the company to build an adequate entry strategy plan. Before implementing the strategy, investment banks need to carry out surveys about the commercial and financial viability of the project. More detailed, firms need to have an adequate level of technology, which should not be subject to obsolescence, and their financial resources should be in line with the economic burden required by the new business plan. Banks are fundamental in this phase because they own in-depth information about the market and data on each sector.

After the initial phase, companies define corporate plan, hence long terms business strategy, to implement the initial project and to achieve budgeted objectives. Investment banks are strategic advisors because provide a series of information related to the positioning of the company on the market or linked with the best product policy to be adopted. They also study the most suitable diversification strategy firms may adopt, by making deep analysis about competitors, their product, and other parameters.

Another factor which should be taken into account is the business alliances.[39] They are linked with the strategic relationships between companies to strengthen their economic and financial structure. It is an important area where investment banks operate because they support the transaction by identifying the best partner to create synergies for creating advantages to anyone. Usually, if a bank represents a client, it does not do the same with other companies, because of creating a conflict of interest.

A corporation may decide to make investments in one country, across other countries. This maneuvering is called cross border investments, where the leading company invests into owned or controlled companies situated in foreign countries. In providing a complete

[39] Subramanyam,P., Investment Banking: An Odissey in High Finance, New York, 2009, p.164.

advisory service, investment banks need to prepare a detailed evaluation of the regulatory and financial issues to find the optimum size of the investment.

Nowadays companies are facing even more with the problem of the financial crisis. This issue creates the need to find as many instruments as possible to enhance methods to fight the crisis and retain the same economic value of the enterprise.

Operations of financial restructuring have become the common way to overcome the crisis, in the relationship between firms and banks. It has an important weight in the balance sheet of the bank, which has to minimize the negative effects of the restructuring process of the firm.[40]

The causes of the crisis are linked with the economic recession that hit countries, which has led to the financial instability of enterprises. It is also related to the duration of the crisis, bringing firms to be incapable to repay the debt to banks. The process of financial restructuring is complicated, it includes two ways of proceeding.

Firstly, the market solution shows the possibility for parties, hence the borrower and creditor, to find an agreement, to delate the payment of the debt or to reduce the amount of it. This operation can be made through the stand-alone restructuring, to recover the firm and maintain the original control of the same. If there are not the conditions to make the operation of standing alone because of the gravity of the insolvency, it will be necessary to sell majority shares

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[40] Forestieri.G., Corporate & investment banking, Milano, 2018, p. 107 ss.

of the company to third parties which take the control of the firm.

The market solution is unlikely to be adopted in case of the critical financial condition of the firm, and the high debt against the banks. In this case, a judicial solution is expected, where the company declares insolvency. Moreover, if the conditions of the firm are disastrous, it will proceed with the liquidation. In case the tribunal considers that the company can be recovered, operations of restructuring are implemented by preserving the "original conditions" of the company.

The process of restructuring includes the implementation of two kinds of plans, to retain a good economic status of the company. An Industrial plan is related to the process of setting strategic operations to enhance the trend of operational cash flows and the repositioning of the company against the business risk.

In many cases, it is necessary to implement industrial reorganization by making structural change, such as reducing the organic of the firm to improve its economic efficiency. Often it is considered the possibility to make a disinvestment process, because it allows shareholders to gain money, from the sale of securities. On the other hand, a financial plan is designed to identify the best instruments for revising the cost of capital and the level of financial risk of the company. Industrial and financial aspects must be in line with each other so that the restructuring process can lead to the complete recovery of the status of the firm.[41]

Now we are going to analyze the role of investment banks in the process of financial restructuring of the company, concerning the object of the operation. Debt restructuring refers to the reconstruction of the balance sheet of the company about the borrowing obligations of the same. In this case, financial managers tend to optimize the cost of capital, by increasing the efficiency of borrowing and reducing financing costs.[42]

During years, investment banks have developed patterns of advisory services in this field, that have had great results in terms of restructuring operation efficiency. Banks need to understand the current financial position of the firm, including its current debt and costs incurred. Then it evaluates the business model to formulate a viability plan for the company. Once it has been made, the advisor proceeds to draw the debt restructuring scheme. Here the banker uses its expertise and knowledge to set the best conditions of liability and cost reduction for its client. Then investment bank represents the client in the negotiation with lenders, by presenting the project of restructuring formulated before. In most cases the plan involves selling assets or shares of the company to raise financial resources, in addition to this, they are needed external sources because the firm is unlikely to be capable to produce internal funds.

[41] Tutino.M., Ranciaro.V., innovation in financial restructuring: Focus on signals, processes and tools, Virtus interpress, 2020, p.72 ss.
[42] Iannotta.G., Investment banking, Berlin, 2010, p. 178.

Investment banker activity consists of providing advisory services to raise funds to meet the need of the borrower.[43]

Contrary to the first maneuvering, equity restructuring involves the reorganization of the share capital or the reserves in the balance sheet of the enterprise. In other words, shareholders' funds change after the rearrangement of financial resources. Companies that want to reorganize their shares capital are often listed on the stock exchange. In the process of equity restructuring, investment bankers usually operate in the area of shares buy-back as a merchant banker. They manage the offer of the company and play an important role in the pricing process, by assisting firms with regard to the method to be adopted during buy-back operation. If it is underpriced, the offer is not successful; contrary if it was overpriced, it may be dangerous for shareholders that remain after buy back phase. A merchant bank is a key player, not only during the buy-back process but also when provides advices during the equity restructuring, trough companies' acts and other statutory provisions.

CHAPTER II: THE ROLE OF INVESTMENT BANKS IN IPOs

2.1 THE CHOICE OF THE SYNDICATE

As said in the previous chapter, investment banks are the key players during the listing process of a

[43] Subramanyam.P., Investment Banking: An Odissey in High Finance, New York, 2009. p 171.

company on the primary market. Their effort consists of supporting the issuer before, during, and after the placement of shares, and preparing the material which is necessary to attract investors and to make “the product” more appetible.

From a company’s point of view, it has to choose the most qualified candidates for the role of lead underwriter. Before starting the process of the initial public offering, the issuer holds a competition phase among investment banks, called “beauty contest”.[44]

The objective of the firm is to select one or a group of banks, which have the best credentials and the lowest fees. An unsuccessful selection may generate negative consequences for the enterprise because a wrong underwriter may not raise an adequate demand for shares and delays the process of acquisition. This approach affects the economic development of the firm negatively.[45]

The Beauty contest is not only the procedure in which investment banks are selected, but in this “arena” the terms are negotiated, that will characterize the mandate of the same banks. Before speaking about the way to choose a correct group of financial institutions, it is too important to classify them.

The first category includes those kinds of banks that support the company in the negotiation of the terms of the listing documents with the stock exchange; they are called a sponsor. Adding to this shape, there is the global coordinator, which may be accompanied

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[44] Bangsundd.L., IPO Valuation and Investment bank reputation: Evidence from a beauty contest, Journal of Applied Finance, 2014, p.1.

[45] Espinasse.P., IPO banks: Pitch, Selection and Mandate, UK, 2014, p. 3.

by the sponsor. The global coordinator manages all aspects of the IPO, from the valuation of the company to the documentation and marketing activities.

The final category is represented by the bookrunners that may operate simultaneously with the sponsor and/or global coordinator. Their tasks involve marketing activities and offering shares to investors. Bookrunners can be broken down in: "active and passive ones". [46]Active bookrunners participate and control all the phases of the initial public offering, while passive actors participate indirectly and they cover a less responsible role than the first category. For this reason, they receive a lower fee. Each of these categories requires a license for practicing their tasks.[47]

Firms can decide to hire other "actors" like sub-underwriter, lead managers, co-lead managers in a second moment for the choice of the investment bank.

During the beauty contest, each financial institution draws up a presentation where evaluates the equity of the company which aims to be listed and identifies the potential price at which shares may be issued.[48]

The stage where investment banks try to estimate the price of shares represents the initial process of price discussion that will be faced during the IPO.

Candidates are evaluated for their experience, track record, and competitiveness with respect to their capabilities to assess the value of equity and the knowledge of the market. Moreover, it is evaluated

[46] Ivi p.5.

[47] Iannotta.G., Investment banking, Berlin, 2010, p. 62.

[48] Carter.R., Manaster.S., Initial Public Offerings and Underwriter Reputation, Journal of Finance, 1990, p.1045.

the reputation of the bank, by analyzing the behavior of financial institutions in previous transactions, more particularly concerning with those operations ended successfully.

Potential lead underwriters, in the other side use, the beauty contest for showing their competences by distinguishing from other investment banks, and they exploit the price discussion for ensuring the issuer on the success of the transaction. It is important to note that, depending on the bank's reputation, a financial institution may be more favorable than others in the beauty contest.

The reputation or prestige of banks is measured in terms of market share. The more the market share, the more the reputation of the bank. More prestigious banks make many revisions and adjustments to the price during the book building, because of lots of information they have. This lead to fix an accurate and sensible price range. [49]

This is why high prestige underwriters cover an advantaged position with respect to low prestige underwriters during the competition for assuming the mandate. The evaluation investment banks made, against the equity of the firm, represents an approximation, because the value of shares may change during the mandate, this is also caused by the cyclicity of the market. In this sense, some conditions can be agreed between the issuer and the bank at the outset, but the final price of shares should be fixed in a later stage, after the process of due diligence.[50]

[49] Ivi p.1055 ss.
[50] Espinasse.P., IPO banks: Pitch, Selection and Mandate, UK, 2014, p.7.

One of the elements that are considered by the firm during the choice of the bank is the independence and the capacity of the financial institution to provide unbiased and impartial advices. This is achieved if no conflicts of interest exist between firms and the investment bank. If a bank already operates as an advisor for an institutional investor and it is presented an opportunity to work for a firm which starts the IPO process to be listed on the stock exchange; the bank would be attempted to provide the most conservative advise during the pricing phase to the company to benefit the institutional client.

Many features are taken into account in the evaluation of the investment bank. An advisor should provide continuously value-added services during the life of an IPO, by defining the structure of the operation and achieve the best offer price, in order to satisfy the shareholders' objectives. Another key element is the timing. Financial institutions should expect the best momentum to proceed with the transaction. Regarding the pricing, banks should maximize the shareholder value, but they cannot fix too high price related with the actual value of the shares, because this may damage the reputation of the financial institution against investors.

Investment banks try to balance the interests of both parties, because of the possibility to work for them in the future, for another mandate. Finally, the candidate should guarantee the flow of information, hence the communication between the firm and the bank should be frequent and direct.

Now we analyze in detail the process of beauty contest, which is the most efficient way to select lead banks. Firms send a detailed questionnaire to banks that should answer through a written, oral presentation, or both. This creates a competition between banks that should provide a structured answer and prepare a valid argumentation. The number of banks invited to the beauty contest depends from transaction to transaction, usually, it is not higher than fifteen candidates. They can be required to answer in written form and then prepare an oral presentation. Contrary banks can be directly invited to attend the oral presentation. The structure of the "beauty" is decided by the company, according to its experience. If the shareholder has already selected a bank or a group of banks before, it is more convenient for him/her to invite the candidate for the oral test.

Participants need to have adequate time to prepare the presentation, they usually have a minimum of two weeks for submitting the material and solving the doubts they have. Formally firms invite the candidate through a short email, where banks are suggested to give a presentation. It is not necessary to indicate the role financial institutions are specialized for, such as a sponsor, global coordinator, or bookrunner, because it is postponed at the end of the selection. At the beginning of the process, investment banks are required to sign a confidential agreement, where certain clauses are indicated. The candidates, by signing this document, undertake to not diffuse confidential information given by the issuers. In the agreement, they are specified which are the confidential information and the duration on which the obligation remains in force.

As introduced before, the object of the questionnaire is concerned with the evaluation of the equity value and the estimation of the price of shares.

Furthermore, companies make questions to candidates about current and forecast market conditions. This maneuvering is done in order to understand if it is a bear or bull market and to obtain a vision about the trend of the same. In addition to this forecast, banks have to predict the progress of the equity of the company within a certain industry sector connected with the region on which the firm operates. Another question that may be asked is referred with which investor investment banks suggest finding the optimal structure for the company in order to be listed on the stock exchange. Therefore, banks are asked to position the company, and it represents an opportunity for the issuer to identify at early-stage potential investors.

It is possible that shareholders have not chosen the listing location and they ask investment banks to provide advices about which is the best platform and market on which the company should be listed.

As soon as shareholders have a clear view of the banks they want to design, they do not communicate with investment banks immediately. Before doing this, the issuer agrees with the chosen banks the conditions about the structure of IPO. Then the candidates selected by the company receive the terms for the agreement. They should include the base offer size, which is useful for the bank so that it can compute an approximate fee.

The issuer has to communicate the structure of the syndicate, which is the group of banks that are engaged to support the company during the listing process.[51] More particular they should be indicated the role of each bank, hence if it is sponsor, global coordinator, bookrunner, or lead manager, with their respective underwriting amounts.

Each kind of investment bank has been communicated the fee in terms of percentage and the relative expenses attributed to financial institutions related to the IPO process. It is important to define all of these conditions during the term sheet, which is a detailed phase where appointments are finalized. Each bank is required to physically sign the term sheet, to highlight the acceptance of terms and conditions associated with IPO. [52]

Once all the banks have sent their term sheet, they begin the mandate and their roles can be conveyed.

It is also important to emphasize that fees and expenses are conditions that should be agreed upon initially. On one hand, they may be fixed, therefore they are the amount paid to sponsor, global coordinator, bookrunner, or other categories. On the other hand, fees can be expressed like lump sun, hence they are percentage from the sale and allocations of shares, aimed at investment banks. Nowadays the commissions are in terms of a lump sum, and are negotiated initially, in order to encourage banks to achieve the objectives of the company and not their own business.

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[51] Corwin.S.A., Shultz.P., The Role of IPO Underwriting Syndacate: Pricing, Information Production, and Underwriter Competition, Journal of Finance, 2005, p.448 ss.

[52] Espinasse.P., IPO banks: Pitch, Selection and Mandate, UK, 2014, p. 88.

2.2 TRADITIONAL EVALUATION METHODS

Valuation methods are the instrument with which investment banks estimate the value of the firm's equity, concerning the information given by the issuer. This process is made during the beauty contest, therefore before the due diligence. It is the way banks demonstrate their capacities and competency. [53]

The lead manager called also underwriter, uses different methods for assessing the value of the shares of the firm. The common approaches they follow are concerned with the estimation of the present value of operating cash flows or by using multiple approaches of comparable companies. [54]

The object of the assessment may be the value of the company, hence the value of the firm as a whole including the net financial position of the firm, therefore the net debt of the same. The other possibility is to estimate only the equity value of the company, in this case, it is not taken into consideration the net debt.[55] Now we are going to explain the first category of assessment, related to the present value of operating cash flow. It includes the Discounted Cash Flow approach, which is based on the present value of cash flows generated by the

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[53] Bangsundd.L, IPO Valuation and Investment bank reputation: Evidence from a beauty contest, Journal of Applied Finance, 2014, p.2.

[54] Guatri.L., Il giudizio integrato di valutazione, Milano, 2000, p.7.

[55] Carlotti.M., Tecniche di private equity, Milano, 2012, p.128.

company during years. The operation is carried out by considering cash flows that the firm can produce for a certain period, by using elements given by the enterprise based on its business plan. Adding to this it is necessary to consider the successive periods, where the bank has no data and it has to estimate what is the output that the company will be able to generate from that period of time to twenty, thirty years. It is impossible to have infinity estimation of cash flows because of the inaccuracy of the measure, then it is better to simplify the procedure.

It is assumed that the firm at the end of the period considered in the business plan can generate normalized cash flows, used to compute the terminal value.[56] With this term we refer to the value the enterprise will have at the end of the period taken into account, assuming that it can generate infinity cash flows. It is assumed to grow at a constant rate "g", it is computed as constant growing perpetuity. This approach can be used for calculating both company value and equity value, but with some differences. In the case of the computation of company value, the bank should use free cash flows from operation, which are cash flows available to the company. If the investment bank would assess the equity value, it should use free cash flows to equity, including the interest paid and the debt repayment together with dividend or share capital increase. The next step is to choose the appropriate rate to discount free cash flows and it must reflect the return shareholders believe acceptable considering the risk.[57] For this

[56] Ivi p.130.
[57] Damodaran.A., Manuale di valutazione finanziaria, Milano, 2002, p.83.

reason, if banks have to calculate the company value they actualize free cash flow by using the weighted average cost of capital. This maneuvering is done because this is the rate that defines the expectation of investment return.

By contrast in the case of computing the equity value, it should be used the cost of equity as an actualization rate. In this case, it is considered the risk free rate, which is summed to beta. This latter is the specific risk of the company based on the capital asset pricing model. It is linked to the sensitivity of the company performance against the trend of the entire market. The sum of these components is multiplied for the market risk premium, which is given by the difference between the expected return on a market portfolio and the risk free.

The estimation of cash flows is made in relation to the nature of operations carried out by the company, they usually consist of a period from five to ten years, equivalent to the life of the economic cycle. In practice, the duration of the expectations ends when cash flows become constant or they begin to grow in a constant way. When financial institutions use this method, they must pay attention to some issues, for example, cash flows used must be in line with the discount rate. Both must be expressed in the same currencies. Another factor that must be taken into account is connected with the situation in which the growth rate is equal to zero. The variability of the value depends on the parameters selected for the assessment. Finally, the risk premium should be aligned with the company’s specialization and its stage of development. Beta is chosen with respect to the average of the sector or considering the specific risk of the company.

One variant of the discounted cash flows' approach is called adjusted present value. It is likely to be used in two cases, when the financial structure of the company changes during the period of evaluation, or during the same period when it is expected many losses. Underwriters make an estimation of the unlevered value of the company by discounting free cash flows with a rate computed with an unlevered beta. Then it is computed the tax benefit from a given level of debt financing. In conclusion, banks evaluate the effect of borrowing the amount when the probability of bankruptcy occurs. This method is useful in situations where tax implication affects the outcome of the company.[58]

Another method for computing the company or equity value is concerned with the multiple approaches. It can be used simultaneously with the discounted cash flow or separately. It is split down into two categories, hence multiples of comparable companies or multiples of comparable transactions. Underwriters use the first method which allows them to determine the value of the equity or that of the company as a whole like a multiple of economic, financial measures of the same firm. They try to estimate the value with respect to the multiple, which is a sort of benchmark, useful to estimate a range of values.[59]

[58] Forestieri.G., Corporate & investment banking, Milano, 2018, p.220 ss.

[59] Guatri.L., Bini.M., La Valutazione delle aziende, Milano, 2002, p. 9 ss.

The common economic measures are EBITDA, EBIT, and EPS (earning per shares) where each of them is linked with equity or company value. Banks should choose comparable companies, therefore entities with similar business and strategic positioning of the target one, which is the object of the evaluation. The more the company operates in a ramified and specific sector, the more difficult is the research of comparable firms. The common features analyzed by the financial institution are related to the sector on which the firm operates, the geographic area where it focuses its business, its financial structure, and so on. The selection of the multiples that should be used during the evaluation and their time horizon is fundamental.

Once investment banks select multiples, they usually make an average or a median of them, and then they multiply this amount for the economic measure of the target company in order to find its company or equity value. The measure is identified with respect to the kind of business of the target company, more often it is used EBIT or EBITDA by the financial institution.[60]

It is important to note that this approach is used by considering the same metric, therefore the equal financial measure.

Multiple method is simple to use, but different issues need to be considered. The information obtained from the financial statement is not ever the homolog representation of the economic value of the firm. There may be a needed adjustment because the items

[60] Carlotti.M., Tecniche di private equity, Milano, 2012, p.141.

included within the economic measure may be not homogenous. The firms chosen should be as similar as possible to the target and the value which results from the assessment should be closed to that of the company taken to account.

Contrary to these difficulties, which the financial institution faces, the multiple approach presents some advantages. It is simply to be computed and it allows us to provide concrete elements of evaluation.[61] Furthermore, it reflects the trend of the market and involves underwriters to refining their feeling with the company value.

2.3 THE ROLE OF INVESTMENT BANKS IN IPOs: THE LISTING PROCESS ON THE PRIMARY MARKET

2.3.1 the preparation phase of the company and IPO execution

The initial public offering is an elaborate process that requires a lot of time.

Before explaining the different stages which characterize the initial public offering, it is necessary to introduce the role of the syndicate. As said in the first paragraph, it is composed of all the banks, which have different functions and support the company in the offer of shares to investors. The syndicate is a pyramidal structure. At the top, there is the global coordinator which is the fundamental player of all operations and organizes the activities of the investment banks inside the syndicate. This last one

[61] Guatri.L., Bini.M., I Moltiplicatori nella valutazione delle aziende, Milano, 2002.

usually is composed of three branches. Primarily we find the managing group. It manages the syndicate and organizes the operations needed for the offering and pricing process.

It is made up of global coordinators, bookrunners, and lead-managers. They assume the risk to sale shares of the firm, therefore they cover the role of the underwriter. Then, the non-managing underwriter is another branch of banks that aim to place shares after finding investors, capturing their interest, and raising all information necessary to generate the offer. The number of shares placed by this group is decided by the managing group.

Finally selling banks aim to place the "product" but they do not assume the risk to the sale, hence they do not guarantee the allocation of company shares. As we can deduct, the first two groups assume the guarantee, hence if a part of shares is unsold, investment banks must buy them. Then they undertake to place the remaining. This is done to avoid that the issuer had shares which are unsold and to avoid a bad reputation linked with an unsuccessful offer. The last one, sales shares but don't provide a guarantee.[62]

The long time required for the IPO process is due to the difficulty of aligning the different steps which form the operation of listing. More particularly, the preparation of the company requires time and effort, because it involves many juridical-legal aspects also about organizational patterns of the company. The

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[62] Jenkinson.T., Howard.J., The economics of IPO stabilization, syndacates and naked shorts, 2007, p.616 ss.

phase of the preparation of a company leads it to spend time, from nine to twelve months.

In this phase the firm should decide the number of shares it would issue, connected with the company structure after the listing process, and the price it expects by the offer. The issuer has to select advisors, that can include investment banks. They provide legal, financial advisory services and support the firm during the initial public offering. The preparation of the company ends with the business plan analysis and the kick of meeting. It represents the step on which the operation is launched, which means that the company is prepared for entering in the IPO process. Here the management of the company and advisors, both coordinated by investment banks, which have been selected like global coordinator before, identify the financial plan, the duration of operations and the responsibilities of each member of the team.

The preparation of IPO is the successive step, where the prospectus is made, and the related due diligence begins. The prospectus is a document that contains all the information about the company and the shares it is going to issue.[63] In detail, it contains data about the risk that may affect the performance of the company in the future, the strategic positioning and competitive advantages of the firm and the strategy to achieve its objectives.[64] It reflects the business of the firm and represents a marketing instrument for retail investors. A simplified version of prospectus is called “offering circular”, and it is provided to institutional investors.

[63] Khurshed.A., Initial Public Offerings: The Mechanism and performance of IPOs, Hampshire, 2011, p.119.
[64] Iannotta.G., Investment banking, Berlin, 2010, p. 53.

The creation of prospectus is anticipated by the process of due diligence. The business due diligence is made to analyze the feasibility of the business plan, where it is assessed the market conditions, the economic and financial structure of the company, the organization of management and so on.[65]

Legal due diligence instead, is carried out by the company and investment banks, to prepare the content of the prospectus. A correct representation of the structure of the prospectus allows to avoid a lawsuit made by institutional authorities. Once the prospectus is prepared, the company moves toward the "filing". It is related to the ending phase of the preparation of IPO, where the demand for listing and the relative documentation is deposited on the stock exchange.

After presenting the demand, the entity that manages the stock exchange assesses the document and in case of a positive response, it confirms the admission of the issuer on the market. The filing ends up with the publication of the prospectus by the entity which has analyzed the documents. This maneuvering leads the company to enter into the executive phase. The analysts of investment banks, who manage the offer prepare a report, that includes many considerations that explain why investors should buy shares of the company. In other words, this document is made by the syndicate for presenting the company and attracting investors. It is called equity story and represents the first marketing instrument in the operation of the initial public offering. The Equity

[65] Carlotti.M., Tecniche di private equity, Milano, 2012, p.250 ss.

story is the base for investors so that they could assess the value of the company, and also it represents the first step for operations of pricing. It is important to note that investment banks do not provide any other report until the after closing period. Then the report is published and the IPO is officially communicated.

The executive phase is a mix of operations carried out by the syndicate, that has different purposes. On one hand, they seek to promote the offer and to evaluate the demand for shares. On other hand, banks aim to enhance the assessment of the company in order to fix the best price and to maximize shareholders' goals. The moment on which banks examine the demand for shares is known as pre-marketing. It is involved in the placement activity of investment banks where they use all information the company has given.

Adding to this, banks rely on their networks, their knowledge of the market, and their relationships with investors, in order to select those that it is likely to be interested in buying the "product".[66]

During this phase financial institutions, try to find the best investors that fit with the demand, and they begin to stimulate the offer. In this sense, they contact potential buyers so that banks of the syndicate could capture their interest.

After the pre-marketing stage, a range of shares price is set, based on the previous valuations carried out by the banks of the syndicate. Then this value should reflect more or less that set by financial institutions during the phase of the assessment of the company.

[66] Corwin.S.A., Shultz.P., The Role of IPO Underwriting Syndacate: Pricing, Information Production, and Underwriter Competition, Journal of Finance, 2005, p.455.

Once the price range is fixed, the issuer enters the marketing phase with the roadshow. It takes just a couple of weeks. The management of the company and investment banks organize a meeting with potential investors, that have shown interest for the acquisition of shares before. They are invited to participate in this event, where the company is presented. More particularly they have highlighted the history of the issuers and its vision concerned to its future objectives. Investors may require some information during this meeting, or they may ask some demands in private.

Roadshow represents a window of opportunity for the company to be known, and to communicate with investors, that could find in the company a good chance of investment. Alongside the roadshow, the book-building completes the executive phase of the initial public offering.[67]These two elements are crucial for the determination of price of shares. An estimation of the company value is known, because it is provided by banks during the beauty contest. [68] With the term book-building we mean the process of creation of a book, where the global coordinator raises all the interest manifestation of investors.

The roadshow is the scenario at which potential investors show their interest for the transaction. It is captured and classified for different levels of price.

This book is important to create the demand function, which will be the starting point for defining the

[67] Cornelli.F., Goldreich.D., Book building and strategic allocation, Journal of Finance, 2001, p 2337 ss.
[68] Dalle Vedove.F., Giudici.G., Randone.P.A., The Evolution of Initial Public Offering In Italy, Milano 2005, p.20.

maximum price to launch the offer on the market and for the final price of shares issuing.[69]

The global coordinator is responsible for the book-building and undertakes to collect the interest showed by ranking them for different price levels.

The classification is made through three categories. First of all, the strike bid includes those investors that undertake to buy a certain number of shares whatever the price at which they are offered.

In this way it is difficult for the global coordinator to understand the sensitivity of the demand to price change. Limit bid is the category of investors that are willing to buy a certain number of shares at a certain price. It provides a good measure to assess the behavior of the demand.[70] In the end, step bid refers to those who show interest in different quantities for different levels of price. In this sense, it is easier to figure out how investors react to the price change.

The global coordinator compares the curve of the offer, which is fixed, with that of the demand that is inelastic, because for high prices the demand for shares is low. The syndicate privileges the category of investors, during the allocations of shares, that is helpful on the definition of the price, through their manifestation of interest. Being part of a strike bid instead of a limit bid can make the difference in the treatment during the transaction.

The book-building is a way for investment banks, to raise information about investors through their non-

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[69] Jagannathan.R., Sherman.A.E., Reforming the book building process for IPO, Journal of Applied Corporate Finance, 2005, p. 67.

[70] Cornelli.F., Goldreich.D., Book Building and Strategic Allocation, Journal of Finance, 2001, p.2337 ss.

binding offers. It allows bookrunners to solicit orders from the buyer so that the syndicate could have all the data needed for setting the price of shares.

2.3.2 the pricing process and the scenario on the aftermarket

One of the problems, which also represents the key variable during the IPO process is related to the price of shares. The pricing involves the collection of such information, raised since the beginning of the IPO.[71] In fact, the price that the bookrunner will fix, is the result of different steps starting from the initial valuation of the company during the beauty contest, to the roadshow. Here the firm has been presented to investors to attract their interest. Moreover, book-building has been the last instrument used to understand the willingness to pay of buyers.

The obstacle that investment banks have to face is connected with the fact that there should be a trade-off between the interest of investors to pay a low price, and that of the issuer to sell shares at a high value. The global coordinator must have the capability to meet the need of shareholders because they are current clients and a successful IPO allows to increase its reputation. From another point of view, the syndicate should pay attention to the interest of investors, that can play the same role and continue to be clients in successive transactions.

For this reason, the global coordinator has to balance the weight of both parties and to find the correct

[71] Iannotta.G., Investment banking, Berlin, 2010, p.81.

combination in order to set the price. The realization of a “balanced” price is strengthened by the fact that investors have some information about the value of the equity firm. On one hand, when a company approaches the market, potential banks make an evaluation of the firm value. The result will be a price range, that may create uncertainty. Investors have two kinds of information.

Hard information is those concerning the characteristics of the issuer and its competitors, which are objectives and public, therefore everyone has the access to them. Soft data are connected with the market demand, investors know his demand for shares of a certain company and his influence on the market.[72] It is important to note that book-building is a maneuvering for investment banks to understand the willingness to pay of buyers, but these last ones may be interested to depress the price of shares that will purchase at a later time. IPO’s pricing should be addressed on the underpricing approach, for rewarding those investors that have participated in the listing process, instead of waiting for the beginning of secondary market negotiations.[73]

As said during the research, the price of shares is the result of different operations of evaluation. A first range is fixed when the prospectus is released. There is a difference between that interval and the final offer price in percentage. It is due to the different level of information used.[74]

[72] Ivi p.82.
[73] Forestieri.G., Corporate & investment banking, Milano, 2018, p.252.

[74] Ritter.J., Weich.J.(2002), A review of IPO activity, Pricing and allocations, Working Paper n. 02-01, p.12 ss.

When an initial assessment is made, investment banks use public data, known everywhere. In the final offer, underwriters benefit from what they have raised during the book-building and from the presentation of the company to investors.[75] They update the price during the initial public offering process, with details that become available at later stage respect the initial assessment of the firm value.[76]

Another factor that should be taken into account refers to underwriters, which consider the market return of the previous three months when adjusting the price of shares that will be offered to investors. The market return is irrespective of the data of revelation of the price range. This strengthens the theory for which in the initial formulation of the price, during the creation of prospectus, it is not incorporated all the available information.[77] There are different modalities used by underwriters.

Primarily they can rely on the fixed price approach. Here the price of shares if fixed, with respect to the value, estimated initially by using the best estimation. If the actual value is higher than expected, investors will buy all shares. Contrary if it is less than that estimated, they will not buy overpriced shares, because they incur losses. In a fixed price structure, investors may suggest the investment bank of

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[75] Aggarwal.R., Prabhala.N.R., Puri.M.(2002), Institutional allocation in initial public offerings: empirical evidence, Working Paper n.9070, p.23.
[76] Lawrence.M., Spindt.A., How Investment bankers determine the offer price and allocation of new issues, Journal of Financial Economics, 1989, p. 343 ss.
[77] Lowry.M., Schwert.G.W.(2001), Biases in IPO pricing, Working Paper. n 8586, p.15 ss.

breaking even at an offer price which provides them the guarantee not to incur a loss at a second moment.

Another price setting mechanism is the auction, which is used in some countries within Europe. It is split down into two mechanisms. The uniform price consists of pricing the securities at a market clearing level, therefore the highest price at which investors are willing to pay for decreasing offers. All winning bidders will pay the same price.

In the discriminatory price, bidders pay different amounts, related with the offer made by investors. It is necessary to remember that this approach is based on transparent rules.

For both systems, “underpricing” is the common result when the price is set.[78] This is explained by the intent of investment banks to create an equilibrium between the needs of the parties, nevertheless it finds other theories.

There may exist asymmetric information during the IPO, which leads to underpricing, about the relationship between the parties. If the company is more informed than the investor, its strategy may consist of fixing a lower price than the market believes the shares worth. In this way the issuer leaves money on the table with the aim to recover the sacrifice post IPO, in future issuing activity. Hence the strategy of the company is linked with the activity after the ending of the listing process.[79]

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[78] Brau.J.C., Fawcett.S.E., Initial Public offering: An analysis of Theory and Practice, Journal of Finance. 2006, p.15 ss.

[79] Allen.F., Faulhaber.G., Signalling by underpricing in the IPO market, Journal of Financial Economics, 1989, p.303 ss.

If investors are more informed than the firm in the knowledge of the market demand for shares, for example, the issuer faces a problem of placement. This is due to the fact that the enterprise does not know the price that potential investors are willing to pay, therefore the demand is unknown. Usually, investors are different informed.

A higher price of shares may lead investors to fear in a winner's curse or a negative cascade. In the first case, investors may suppose the price of shares is higher than that they expect, hence the problem is related to paying more with respect to the actual value of the company.[80] This is why the issuer should set a low price to not lose potential investors that fear receiving overpriced shares.

In the negative cascade, investors tend to judge the interest of the others. They are willing to acquire shares only when they believe the offering is hot.[81] Even on this occasion issuers should make a low price to avoid complete failure, because if an investor feels the price is too high, he leaves the transaction. It leads to a cascade effect, where the others follow the same behavior of that, just take into consideration.

The last tool which can be applied is the book-building approach. Underwriters raise information about investors, made at the same time with the roadshow, where the company is presented to them.

According to the interest of potential acquirers, the investment bank can collect consensus for the

[80] Michaley.R., Shaw.W.H., the pricing of initial public offering: tests of adverse selection and signaling theories, 1994, p.279 ss.

[81] Derrien.F., Womack.K.L., Auctions vs Book building and the control of underpricing in hot IPO markets. Review of financial studies, 2003, p.31 ss.

company's shares. Investors know that showing a high interest to underwriters, lead to fix a high price, in this way they would have something in return, because of manifesting an important degree to buy. Banks should offer a combination of shares and underpricing when investors show high interest to pay in order to obtain a great trade-off.[82] Book-building is helpful for the underwriter to induce investors to reveal their "true" manifestation of interest, which gives to the issuer the information to adjust the price of the offer.

As a reward, investors receive large allocations of underpriced shares. This is why this method is more used than the fixed price approach, where it is not possible to obtain information from investors before pricing and there is no flexibility in shares allocation. Auction is the tool that is less used because of unstable, furthermore, there may be different bidders causing some difficulties in pricing.[83]

These operations should bring out a sufficient underpricing in order to reward those investors that assume the risk of IPO, instead of participating directly in the secondary market. Shares that have been issued should not present such volatility, otherwise, the perception of the risk, connected with the "product", is high. The pricing process does not end with the listing of the company into the stock exchange. In facts there may be necessary to adjust the price of shares on the aftermarket. It refers to the

[82] Benveniste.L., Spindt.P., How investment bankers determine the offer price and allocation of new issues, Journal of Financial Economics, 1989, p.213 ss.
[83] Kandel.S., Sarig.O., Wohl.A., The demand for stock: An analysis of IPO auctions, review of financial studies, 1999, p.227.

successive period of negotiations. The shape of the global coordinator assumes an important role here, from the equity research activities to the market making.

In the first situation, the syndicate has several analyst coverages that observe the stock of the company. In this way the issuer can obtain benefits from this element, in order to analyze the trend of shares on the aftermarket.

The global coordinator also operates as a market maker, by buying and selling for its own account shares. [84]In other words, it buys at the offer price and it sells at the price at which shares are traded on the primary market, its profit arises from the spread between the two.[85]

On the aftermarket, there are different operations, made for adjusting the price of shares with the aim to stabilize them and reduce their volatility. Among these operations we can mention two cases.

First of all, with the term overallotment, we refer to the commitment of the global coordinator to place a number of shares to investors, that exceed the public offer. Usually, it is related to the fifteen percent more with respect to the initial allocation. In this way investors receive more shares than that agreed at a lower price. At the same, time the global coordinator has the right to borrow shares in excess, to place them

[84] Iannotta.G., Investment banking, Berlin, 2010, p 63.

[85] Chen.H., Ritter.J., The seven percent solution, Journal of finance, 2000, p.1105 ss.

to other investors at the public offer price.[86] The greenshoe is the consequence of the overallotment, hence the global coordinator or bookrunner, has to give back the shares borrowed. It is an option that the newly listed company grants to the syndicate, where it can buy new shares, issued by the listing company at the price of placement, and it must not exceed the fifteen percent of the global offer price. In this case, it is necessary to make two hypotheses.

In a successful IPO, the price of shares on the secondary market is higher than the price of placement. It is an underpriced situation. If the syndicate borrows shares, so that it can place them to other investors, then the global coordinator can exercise the greenshoe to close its position. In this way it yields the gross spread arises from the difference between the global offer price of shares sold to investors and the price of placement paid to the listed company after issuing new shares. In this situation, the syndicate adjusts the price in the short term, by controlling their level.

The price of shares in the secondary market may be higher than that of placement. [87] In case that the global coordinator has exercised the overallotment option, it may face a problem with closing its borrowing position. If the bank holds the greenshoe, the result will be negative, because it sells shares at a lower price than the acquiring one; furthermore, the offer was large with the issue that the price is weak.

[86]Jenkinson.T., Jones.H., The economics of IPO Stabilization, Syndacates and Naked Shorts, Oxford University, 2006, p.5 ss.
[87] Forestieri.G., Corporate & investment banking, Milano, 2018, p.254.

For this reason, the global coordinator should operate in other directions. The indicative solution consists of buying shares directly on the secondary market because of obtaining a unit margin, due to the difference between the placement price and the market price.

By doing this, the syndicate reduces the offer before the overallotment to face the weakness of the price and adjust it.

Finally, there may be a need to reduce the pressure of the offer during the period post-placement. Adding to this, the stakeholders within the company may decide to disinvest, generating a disequilibrium about the quantity and the price of shares sold. The lock-up clause is the instrument to face these contingencies. It is expected in the prospectus and forbids stakeholders to sell shares for six months after the IPO ending.[88]

CHAPTER III: THE CASE OF SAN LORENZO YACHT

3.1 HISTORY AND MISSION OF SAN LORENZO S.P.A

In the previous chapters, we have studied the investment banking activities. In detail, we have analyzed the role of the syndicate in relation to the objective of a company to become listed on the stock exchange, through the initial public offering.

[88] Espinasse.P., IPO: A global guide, Hong Kong,2014, p. 233 ss.

There are many issues that a company has to face, from the evaluation of its value, passing for the pursue of investors, until the pricing phase. In each of these steps, investment banks play an important role, by raising information and using their networks, combined with the knowledge of the market, to obtain the most successful result for the firm.

In the last few years, there have been many companies that have been listed on the primary market. A recent operation, done with success in December 2019 sees the case of San Lorenzo Yacht.

San Lorenzo S.P.A is Italian shipbuilding which operates in the sector of luxury yacht and superyacht. It was founded in 1958 by Gianfranco Cecchi and Giuliano Pecchia, with headquarters located in a country near Florence.[89] In 1972 Giovanni Jannetti took over San Lorenzo S.P.A and opened a shipyard in Viareggio. This last one is the heart of Italian nautical history and it is aimed at the production of yachts until thirty meters. In 1985 the company launched the first fiberglass hull boat, entering into the superyacht industry after soon. The center of production of the firm has been moved to La Spezia, that also remains the main headquarter nowadays. In 2005 Massimo Perotti has become the executive chairman of San Lorenzo Yachts and he established another center of production located in Massa.[90]

It is important to highlight that Jannetti has changed the mentality of the company, which has persisted nowadays. Starting from the need of the client, he has

[89]https://en.wikipedia.org/wiki/Sanlorenzo_S.p.a consulted on 24/08/2020
[90]https://www.sanlorenzoyacht.com/it/azienda/azienda.asp consulted on 24/08/2020

focused on the customization of the product by taking care of all details. The core of the company consists of building limited numbers of made to measure yachts. San Lorenzo has built an average of fifty boats every year in the last sixty years.

The philosophy has been centralized on the customization, where the boat must reflect the lifestyle, the taste, and the character of the shipowner.

The realization of the product is made by giving particular attention to each phase with the presence of a designer that supports the client and provides advisory services so that this latter could feel rilieved.

Comfort and navigability, are the result of research and development operations during years, that have led to modernize the line and to strengthen the brand of the enterprise.[91] Each San Lorenzo Yacht is unique and it fits the personal desire of people which are supported in all the phases during the construction, from the choice of materials to the delivery of the product.

During the last year, Jannetti has cooperated with Perotti, by transferring his know-how, so that the company could continue to produce luxury yacht with his vision, by following the philosophy of customization and uniqueness of the product.[92]

Since 2005, with the new entrance, and the change of ownership, they were introduced new objectives, balancing the core business of the company with a

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[91]Publicomm.srl, Platform architecture and design, 2018, magazine available on https://www.platformarchitecture.it/it/massimo-perotti-cantieri-navali-san-lorenzo-upstream/

[92]https://www.sanlorenzoyacht.com/it/filosofia/filosofia.asp consulted on 25/08/2020

view to the future. Perotti wanted to maintain a low number of units produced, with high quality, but he aimed to exploit new markets, from an Italian and European, to American and Asian contest.

New adjustments have been made in the range of products produced by the company. They were introduced new models with different characteristics compared to the previous ones, in terms of design and dimension. In detail, San Lorenzo entered the world of the superyacht, by launching new steel boats, characterized by modern design and technologies that have renewed the lines of the company.

Another element that has revolutionized the models of San Lorenzo, though and executed by Massimo Perotti, is related to the use and the functions of the yacht. In other terms, the entrepreneur has realized a new line, that is built to have less performance, in terms of speed, and more comfort. In common words, he has aimed to produce not only planning boats but also displacement ones.

This was done by enlarging the living space within the boat so that the client could take more pleasure in the interior of the same. Nevertheless, in these kinds of yachts the structure change, to move a quantity of water, which is equal to its displacement.

With the new ownership, they have been enhanced the performance and the dimension of the yards. In four years, employees have increased from forty thousand to two hundred thousand, with more than six hundred indirect operators that cooperate with the firm, around the world.

Furthermore, under the control of Massimo Perotti, it has been increased revenues from forty to two hundred million euros and this has contributed the company to win the award for innovation in 2011, given by the president of the republic.

Nowadays San Lorenzo Yacht offers a different range of boats, classified in relation to their dimension. On one hand, we find yachts from twenty-four to thirty-eight meters in composite material which include planning and semi-displacement boats.

Secondly, there are superyachts in aluminum and steel, with dimension from forty to eighty meters. This line is the only of San Lorenzo that presents the terrace opened to the sea. Finally, the news of the company is related to the launch of sport utility yachts in 2018, which include boats from thirteen to twenty-four meters. They are designed to attract a heterogeneous and young public.

3.2 THE PERIOD OF CRISIS AND THE CHANGE OF ROUTE

During the years San Lorenzo Yachts has strengthened its brand in Italy and over the world, through its products and the philosophy of customization made to measure, that continues to characterize it. From a financial point of view, the Italian shipbuilding has ever been a solid company, with a consolidated financial structure.

The situation is changed after the great recession in 2008, which has hit the economics of many countries. The consequences for the Italian nautical industry was critical, where the internal demand for luxury and superyacht decreased dramatically.

The nautical sector influenced the Italian PIL for an amount of four percent before the crisis, with their center of business placed between Italy, Europe, and America. As a consequence of the fallen of this kind of market in our country, the revenues declined by fifty percent, with respect to the situation before the great recession.[93]

Nowadays many Italian companies focus the majority of yacht sales abroad, more particularly in America for the forty percent, and the remaining between Europe and Asia. Only seven percent is aimed at the domestic market.[94] In front of this situation, Massimo Perotti, which bought San Lorenzo in 2005, needed for liquidity in order to support the growth of the company, that had to faces the economic recession. That is why he chose for pursuing investors that provided financial support to the company. This led the stipulation of the agreement between San Lorenzo and "Fondo Italiano". The fund of private equity acquired seventeen percent of company shares for fifteen million euros and provided an increase in capital of thirty million.

It bought a minority share with the aim to support the internal growth of the company, through new structure and production facilities and by enhancing the existing ones. At the same time, financial resources provided by the fund could be used to promote external growth, by acquiring other brands

[93] Latina quotidiano.it, Nautica, settore in crisi profonda: dal 2009 -59% di fatturato e -88% di produzione, 2014 available on https://www.latinaquotidiano.it/nautica-settore-in-crisi-profonda-dal-2009-59-di-fatturato-e-88-di-produzione/.

[94]https://www.startingfinance.com/approfondimenti/settore-nautico-italiano/, consulted on 01/09/2020

and smaller companies, in order to consolidate the position of the yacht company on the market. "Fondo Italiano" passed from seventeen to twenty percent of San Lorenzo shares within a couple of years.[95]

This was the first move made by the majority shareholder, to raise liquidity so that the company could overcome the difficult situation that the nautical industry was facing.

In 2013 Perotti made another operation, in order to further increase the equity of the company. He created two joint ventures with a Chinese company called Sundiro.[96] This latter engages in the logistic business and it also has a license provided by Honda to produce motorcycles. Furthermore, it operates in the real estate development and property management.

The first deal consisted of a Chinese joint venture where the Asiatic company was the majority shareholder, with the objective of producing boats from ten to twenty meters in China. The agreement between the companies involved the creation of a "product" by using the design of San Lorenzo and the final result had to have the Chinese brand.

In this sense, the Italian nautical giant, provided its know-how to Sundiro Holding, in order to support the realization of customized boats of medium dimension that could attract these areas of the market.

On the other hand, it was realized an Italian joint venture, where the Chinese group acquired twenty-three percent of San Lorenzo shares, becoming the

[95] http://www.privateequitymonitor.it/attach/comunicato_stampa_fii_sanlorenzo_1.pdf, consulted on 01/09/2020
[96] https://bebeez.it/2013/09/20/i-cinesi-di-sundiro-holding-entrano-nei-cantieri-degli-yacht-sanlorenzo/, consulted on 01/09/2020

minority shareholder. In this way, they provided an increase in capital of thirty million euros and enabled the Italian company to sell yachts from twenty to sixty meters in the Chinese market.

It was a strategic maneuver made by the Italian entrepreneur for financial purposes. Nevertheless, this led to expanding the vision and the objectives of the Italian yacht building to the Asiatic continent.[97]

At a later time, the nautical industry began to grow by allowing the Italian yards to survive. In our case, San Lorenzo exploited new areas, where the demand for the luxury yacht was increasing as in America, China and, Arabian countries. In 2017 U-Cina and "Confindustria Nautica" registered an increase of ten percent in the nautical sector. This was a sign of recovery for the major enterprises.

With the hope of a faster recovery, San Lorenzo aimed part of their revenues to make investments in order to modernize and to adjust the range of boats it produced, maintaining the vision of customized made to measure yacht.

This led to obtain a turnover of three thousand millions in 2017. As a consequence of the signal of growth and the good reputation that the firm had, Perotti in 2018 bought shares that had been acquired by "Fondo Italiano" a few years before. In the same year, the Italian entrepreneur also repurchased the percentage of shares that have sold to Sundiro holding in 2013. The Chinese company was facing a financial crisis in these years, furthermore, the new ownership

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[97]La Stampa, Il Mare, 2019 available on https://www.lastampa.it/mare/2019/01/11/news/mi-sono-ripreso-le-quote-di-sanlorenzo-in-mano-ai-cinesi-per-crescere-ancora-1.33670164.

was not interesting in the production and diversification of luxury yachts. This was an incentive for Perotti, that was convinced to make this operation.[98] In this way San Lorenzo became an S.P.A with a unique shareholder that holds all the control of the company.

According to what we have just said, to be more precise, Perotti created the Holding Happy life S.R.L, composed by the Italian entrepreneur and his sons, that controls the ninety percent of San Lorenzo.

The remaining is owned by the managers of the company with the hope to improve their position.

After introducing the company and displaying which are its vision and its financial structure, now we are going to expose the major patterns that have led the company to be listed on the stock exchange.

3.3 THE DECISION TO BECOME A LISTED COMPANY AND THE ROAD IN A NEW REALITY

After the period of crisis, San Lorenzo has been able to seek new unexplored markets and to invest a great number of resources so that it could recover in the least time.

In 2018, the Italian company settled as the third yacht manufacturer in the world with a turnover of three hundred eighty million euros. As we can note, the positive results led the company to be one of the most

[98] The Medi telegraph: shipping & intermodal transport, 2019, available on https://www.themeditelegraph.com/it/shipping/shipyard-and-offshore/2019/01/09/news/addio-ai-cinesi-perotti-si-riprende-i-cantieri-navali-sanlorenzo-1.38071601?refresh_ce.

important realities in the nautical environment, in Europe and abroad. This inspired the owner to expand its vision and to enhance the objective of the company, by thinking big.

In this sense, Perotti in 2019 expressed to bring San Lorenzo yacht to be listed on "Borsa Italiana" for the ending of the year. The offer launched by Holding happy life consisted of issuing new shares to obtain an increase of capital. Therefore, the Italian owner remains the majority shareholder of San Lorenzo Yacht nowadays, by offering to the public the thirty-five percent of new shares, including the option of greenshoe. After this introduction, we focus on the path the company undertook, during the stock market listing.

With the IPO, the objective was to raise resources so that the company could further develop, by pursuing both internal and external growth.[99] Moreover, this maneuver enabled it to exploit new markets and to create an unlevered financial structure. These were the basis for preparing the company. Here the shareholder had a clear idea of which goals had to be pursued with the listing process, and which should be the financial structure of the company after the IPO. Another step the company faced was related to the choice of banks and the selection of the syndicate.

In this sense, it was important the realization of the beauty contest, where many banks participated, to assess the value of the company.

[99] Il Sole 24 ore, gli yacht di lusso San Lorenzo in Borsa per azzerare il debito e crescere negli USA,2019, available on https://www.ilsole24ore.com/art/gli-yacht-lusso-sanlorenzo-borsa-azzerare-debito-e-crescere-usa-ACKtUG2

During the preparation of the company, San Lorenzo chose the advisors that should support the company in all the phases of operations. The staff included Alantra and Lazard like financial advisors. They are global investment banks that play an important role in providing advisory services to mid-large companies, during operations of MeA, equity restructuring, corporate broking, and so on.[100]

Adding to these, legal advisors were necessary to manage all the "sensitive issues" of the documentation and to make the due diligence in order to prepare the prospectus. The actors selected to cover this role were Musumeci, Altara, Desana, and Latham & Watkins. They are Italian and international legal advisories that have assisted the issuer.

San Lorenzo consequently was ready to enter the initial public offering where all operations and each member of the syndicate were picked. The responsible for these tasks were the global coordinators and joint bookrunners. They were composed on UniCredit Corporate, Bofa Merril Lynch and IMI bank. This latter is part of the Intesa San Paolo group and also covered the role of sponsor.[101] After the due diligence had been made by legal and financial advisors, the prospectus was prepared.

The document was split down into many paragraphs. The introduction was made by IMI bank, where they

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[100]https://www.alantra.com/what-we-do/investment-banking/, consulted on 02/09/2020

[101] La Stampa, San Lorenzo, la nautica dei superyacht approda in borsa, 2019, available on https://www.lastampa.it/economia/2019/09/23/news/sanlorenzo-la-nautica-dei-superyacht-approda-in-borsa-1.37500944?refresh_ce

were highlighted the addressees. In fact the offer of San Lorenzo shares was aimed at retail investors located in Italy and foreign institutional ones, with respect to the Regulation S of the United States Securities Act of 1933.[102]

According to this regulation, some countries could not participate in the IPO, unless they had an authorization given by competent authorities. The countries under consideration were Australia, Japan, and Canada, whose investors could not become part of those that received the offer. The first part of the prospectus included elements of risk connected with the issuer. In this way, the document suggested investors pay attention to these features, to understand which were the risks that affected the business of the company, object of the transaction.

In detail, the major issues were connected with the economic conditions of potential clients in a period of crisis. If an economic recession hit countries, a customer might not close the deal, aimed to buy the luxury product. Another factor in a macroeconomic contest was related to the instability of the European economic-politic contest, which might damage the production capacity and the achievement of the objectives of San Lorenzo S.P.A.

The prospectus also considered those troubles related to a microeconomic contest, therefore those risks linked with the inability of the company to achieve its objectives. In this paragraph, investors were warned that investments made by San Lorenzo, in research

[102]https://venturebeat.com/wp-content/uploads/2010/05/sa33.pdf, consulted on 02/09/2020.

and development or the expansion of new products might have not satisfied the budgeted goals. This could be due to different reasons, from the delay of launching a product, to the consolidation of competitors. Adding to this, the firm could not be able to satisfy the needs of its clients, by not interpreting their desires, or by not guaranteeing an adequate modernization of its lines in terms of technology and design.

All these difficulties could lead to decreasing revenues and potential losses for investors. During this section, the company also described the risks connected with the financial structure and the governance, so that those who looked for the document had a clear idea of what it invested for.

Then it was described the relationship between San Lorenzo and its legal advisors and with investment banks of the syndicate. More particularly the personal data processing and the responsibility of third parties about the information given by the company.

The prospectus included also a brief explanation of the firm history, its goals, and the philosophy of customization, that characterized it during years.

An important concept incorporated into the statement consisted of terms and conditions relative to the public offer. First of all, the offer began on the twenty sevenths of November until the fifth of December 2019. In case of extension, it had to be indicated on San Lorenzo website. Global coordinators furthermore had the right to exercise the option of overallotment and greenshoe. It consisted of borrowing ten percent more of the shares placed during the offer.

They could exercise this option within thirty days from the beginning of the negotiation on the stock exchange.

The document also provided modalities of the payment and the method used to set the price. Concerning to this latter, the company could decide the price of shares, after the adjustment made by global coordinators. The syndicate could assess the change of price in relation to the trend of the market and the interest of different investors. Therefore, the modality applied for fixing the price was related to the mechanism of the open price book-building.

The Italian company presented the prospectus on twenty September 2019, where Consob started the assessment of the document, in function to its commitment according to the European rules. The responsible authority approved the prospectus because it satisfied the standards of coherence, completeness, and comprehensibility required by European regulation 2017/1129.

The approval and release of the prospectus moved San Lorenzo Yacht in the executive phase, by disclosing all information about the offer. In this sense, it involved eleven thousand shares for an approximation of thirty-two percent. This amount was split down into two subsets where four thousand shares arose from an increase of capital. The remaining part had been placed by holding happy life, therefore they were shares owned by the Perotti group.

The issuer gave the possibility to global coordinators to purchase an additional one thousand shares equal to ten percent of the maximum amount of the offer.[103]

The pre-marketing gave good results for the Italian shipbuilding raising interest for the majority by international investors. Here investment banking reputation played an important function, through which many potential buyers were attracted by the offer. All information collected by the syndicate was useful in order to generate the demand function so that the price range could be set. So, the value of company shares estimated by the banks of the syndicate was between four hundred eighty million and five hundred seventy million euros. This interval is equivalent to a minimum price of sixteen euro per share to a maximum of nineteen euro. It corresponded to a capitalization, resulting from the increase of the capital, between five hundred fifty million and six hundred fifty six million euros.[104]

The roadshow showed the interest of international investors from the beginning. The United States "players" were attracted particularly from the appeal of the Italian brand, regarding the luxury yachts it produced and the value the company gave to its clients.[105] Nevertheless, the majority of investors who

[103] https://www.sanlorenzoyacht.com/uk/ipo-old/ipo-sanlorenzo-consob-approva-il-prospetto-informativo-.asp?dealer=sanlorenzoamericas, consulted on 02/09/2020

[104] Il sole 24 ore,San Loreno pronta per la Borsa. Definito il prezzo dell'IPO,2019, available on https://www.ilsole24ore.com/art/sanlorenzo-pronta-la-borsa-definito-prezzo-dell-ipo-ACiTMQ1

[105]La Stampa, Economia,2019, available on https://www.lastampa.it/economia/2019/11/29/news/perotti-sanlorenzo-all-assalto-degli-usa-con-stabilimenti-in-loco-1.38031980.

participated in the presentation of the company were prevalently foreigner.

All these operations were useful to create the book and set the price of shares, where global coordinators raised the interest of the potential investors and create the demand for the object of the transaction. In this way, the initial range fixed by the syndicate was adjusted and the offer of shares ended successfully with the beginning of the negotiation on the stock exchange expected for the tenth of December at a price of sixteen euro per share.[106]

As said before the manifestation of investors was strong, which required an amount of two hundred ninety million euro of shares at the price of offer.[107]

After San Lorenzo became listed on "Borsa Italiana", it was necessary to make stabilization operations of company shares. Merril Linch was the subject responsible for this adjustment and it disclosed the exercise of the option of overallotment made by IMI bank, UniCredit corporate and Bofa securities, because of being global coordinators.

Investment banks closed their borrowed position on January 2020, with the "greenshoe", where the placement involved the thirty-two percent of San Lorenzo share capital equal to eleven thousand shares.[108]

[106] Il sole 24 ore, IPO in discesa per San Lorenzo, prezzo a 16 euro, 2019, available on https://www.ilsole24ore.com/art/ipo-discesa-sanlorenzo-prezzo-16-euro-AC5xpk3

[107]https://www.sanlorenzoyacht.com/uploads/filepub/1597-Com_Conclusa_successo.pdf

[108]https://www.sanlorenzoyacht.com/uploads/filepub/1594-Esercizio-opzione-greenshoe-IT.pdf consulted on 04/09/2020

In the first period after the beginning of the negotiation, the price of shares has been closed to that of placement, with small intervals. The “flat” position of the company on the primary market, may be due to different reasons.

Firstly, the difficult situation presented in the geopolitical environment has produced critical conditions on the major financial markets. Brexit and the increasing tariffs in different countries have generated uncertainty. Other reasons for the neutral performance of the firm could be related to the objectives of San Lorenzo, in particular of the ownership.

According to this, the primary objective of the Italian entrepreneur has been concerned with raising financial resources to pay off all the debts, arose from past activities.

With this maneuvering, the company could be able to close its borrowing position and to have new resources for financing new future investments. All these factors combined between each other explain why the price of shares has not been increased rapidly in the first period after the listing.

Once concluded the IPO and after entering on “Borsa Italiana”, San Lorenzo has disclosed its new objectives for the future in order to pursue incremental growth. Among them, it has expressed the intention of enlarging the range of clients, therefore the production of yachts aimed at a greater number of customers than before. From an operating point of view, the company would develop the charter activity. This means that the firm manages those yachts have been sold before, that are rented to third parties. In this way, the client obtains revenues from the use of the luxury product, where a part is aimed at the Italian shipbuilding. San Lorenzo has thought to educate new equipment that has been employed during the charter, in its academy.

Finally, the financial structure of the company has remained solid, but the pillars for growing have been based on leasing financing.[109]

After entering the primary market and concluding the offer to the public, the situation for the company has changed in terms of the structure of the ownership. Massimo Perotti is the majority shareholder concerning the Holding happy life S.R.L, which owns the sixty-two percent of shares.

The remaining has been aimed at investors after IPO concluded, the most important are J.P Morgan asset management holdings that have the six percent of shares and Intesa San Paolo with two percent.[110]

As we can see, the majority shareholder remains holding happy life driven by Massimo Perotti.

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[109] Press Mare Italia, San Lorenzo: quali risultati in borsa, quali prospettive, available on https://www.pressmare.it/it/comunicazione/press-mare/2020-01-13/sanlorenzo-borsa-risultati-prospettive-24860

[110]https://www.sanlorenzoyacht.com/uk/investors/share-capital-and-shareholders.asp consulted on 07/09/2020.

CHAPTER IV: CONCLUSIONS

4.1 THE NEW FIGURE OF INVESTMENT BANKING NOWADAYS

We arrive to make the conclusions of the research, proposed in the followed pages.

As it is possible to note on the reading of the text, the objective to pursue is to make clear which role investment banks play during IPO, through which a company aims to be listed on the primary market. More particularly it is chosen to focus the attention to each phase of the initial public offering, analyzing the functions of investment banks which compose the syndicate.

To this end it is followed a direction based on the introduction of the investment bank figure with its organization and functions, passing through their commitments during the IPO, associated with their specific role. Finally, it is explained the case of San Lorenzo yacht in order to shed light on the goals that the company has pursued when enters on the primary market and the support that financial institutions have provided to make it possible.

Since the beginning, it is possible to observe that investment banks were born by including both commercial and investment operations in their activities. Throughout the years this pattern changes because of European regulation that has modified the structure of these types of banks by separating the shape that makes deposits or takes loans and so on to that which behave like financial intermediary or provide advisory services to firms.[111]

With the development of its structure investment banks rely on their core to obtain data from both demand and offer, through their network and their relationships with the parties. Successful operations have led banks to increase their reputation therefore a high market share. What differentiates one bank to another is the internal network, hence the union of people within the financial institutions which manage all the external relationships. In this respect coverage bankers are responsible which connect the internal system of financial institutions with the external world. It is obvious that human skills represent the key element through which investment banks built their root.[112]

As we can see the core trade linked with investment bank tasks is related to the initial public offering. Here the company offers the possibility to private or public investors to acquire its share by making an offer, to enter the stock exchange. The syndicate covers an important role because of the need of the issuer to maximize the value of its shares and facing asymmetric information about many elements that could constraint the formulation of the offer. These limits are referred to the lack of data about the market,

[111] Haentjens.M., European banking and financial law, London-New York, 2015, p.81.

[112] Raymond Brooks.M., Financial management: core concept, Oregon state university, 2019, p.10.

the industry on which the firm works, or the willingness to pay of potential acquirers.

In practice the shape of investment banks helps to overcome the issue faced by the company of making a wrong value of the "product", avoiding that investors lose their interest. The research highlights how the figure of these financial institutions is affected by both parties. They have to balance the interests of the "players" to meet the needs of the sellers and buyers. This is due to the fact that banks do not focus their business with the same clients but change over time. Each operation on which they participate represents the way to increase their reputation and to find new clients.

At the same time, companies that participate in initial public offering choose the better combinations of investment banks in order to best satisfy their objectives.[113]

The project shows that investment banks could be involved in other operations in the financial market. In merger and acquisition for example, companies take the control of other branches or firms as a whole.[114] Here the financial institution provides advisory services and supports the firm also in the phase of corporate restructuring. This role has been achieved during the years when their activities expanded. Banks assess the structure of the firm that has to be acquired and provide information to the

[113] Bangsundd.L, IPO Valuation and Investment bank reputation: Evidence from a beauty contest, journal of applied finance, 2014, p.1.

[114] Iannotta.G., Investment banking, Berlin,2010, p.45.

acquirer in order to reach the deal with the best conditions.

As just said, they evaluate the possibility to perform a corporate restructuring to lead the company to achieve an advantage position against the target from a financial, fiscal, and economic point of view.[115]

The range of advisory services provided is wide. Investment banks also assist companies when are launching a new business, by suggesting the optimal structure necessary to enter a new market, the feasibility of the business plan rather than the possibility to build synergies with other companies to take advantage of this.[116]

All these aspects help us to understand the different subset belonging to the "financial world" on which investment banks are involved. It has been focused on the core business of them which continues to be the most important.

4.2 THE VALUE ADDED PROVIDED AND THE ISSUES FACED IN IPOs

It is clear that the syndicate is chosen for supporting the issuer during the offering of shares to the public for entering the primary market.

The modalities used for assessing the value of the firm, reflect the capabilities of banks to make the deepest analysis of the environment on which the

[115] Hunter.W., Jagtiani.J., an analysis of advisor choice, fees and effort in mergers and acquisitions, review of financial economics 12(1), 2013.
[116]Subramanyam.P., Investment Banking: An Odissey in High Finance, New York, 2009. p.164.

issuer operates.[117] Moreover, they benefit from the knowledge of the industry and the ability to positioning the company on the market.

Banks use two methods for assessing the company, with respect to consider the firm or the equity value.

Underwriters usually rely on the estimation of the present value of operating cash flows that a company generates overtime or the multiple approach of comparable companies.[118] After the deepest analysis, it results that they could be used at the same time or separately considering the advantages and issues that both approaches present.

During the thesis, it is identified the steps that bring the company on the listing process. According to its position, each bank of the syndicate plays an important role. It is important to split down them into the appropriate categories to understand the part they play.

During the preparation of the IPO, the sponsor is the figure that helps the company to define the listing conditions with the primary market authorities.[119] Even here the reputation and the experience of the bank are fundamental to give the right support to the issuer. This is why every detail should be planned correctly so that the company could present the right documentation to be accepted by authorities.

[117] Bangsundd.L, IPO Valuation and Investment bank reputation: Evidence from a beauty contest, journal of applied finance, 2014, p.2.

[118] Guatri.L., Il giudizio integrato di valutazione, Milano, 2000, p.7.

[119] Espinasse.P., IPO banks: Pitch,Selection and Mandate, UK, 2014, p.5.

The most important element of the syndicate is represented by the global coordinator. The value that this component provides to the company is concerned with the ability to manage all the initial public offering.

It is clear that the global coordinator undertakes to organize all the operations of the team and to assess the value of company shares. The investment banks raise all information about potential investors when the company is presented, and they create a book for setting the initial price. From this point of view, the global coordinator relies on their network to meet who are interested to buy the product, then he depicts the demand, which is useful to have all the element to fix the price of placement.[120]

As we can understand the company was not able to capture the manifestation of interest alone. Investment banks provide the correct balance between the value proposition of the firm's product and the amount the acquirers are willing to pay.

According to this, the syndicate is able to raise all the data to set the correct price of company shares, that should be aligned with its actual value.

To do this the global coordinator has to face many issues. At the heart of the research, we could figure out that a strategic move in initial public offering consists of placing shares at a lower price than that of the offer on the market. In other words, an underpricing approach is preferred rather than overpricing one.

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[120] Jagannathan.R., Sherman.A.E., Reforming the book building process for IPO, journal of applied corporate finance, 2005, p.67.

In fact, from the bank point of view, it is better to fix a low price of placement.[121]

With this maneuver, the company leaves money on the table intending to recover its position on the secondary market.[122] Moreover, the investment bank increases its reputation because of setting a price that attracts investors and satisfies the need of the issuer.

It is important to highlight that the global coordinator joined with the bookrunner start from the initial value range to set the price of shares. Then it is adjusted according to the information raised during the roadshow and book-building.[123]

It appears that during the pricing phase, investment banks have to take into consideration many features in order to obtain the maximum result. They may assume the risk in case there are unsold shares. In this way they provide the guarantee to sell the remaining to new investors.

The role investment banks cover is critical, because they should be able to find who are willing to buy and consequently to place the product.

The service they provide to the issuers does not end on the stock exchange, but it is extended to the aftermarket. It happens that the price of shares needs to be adjusted after they are placed.

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[121] Forestieri.G., Corporate e investment banking, Milano, 2018, p.252.

[122] Allen.F, Faulhaber.G, Signalling by underpricing in the IPO market,j ournal of financial economics, 1989, p.303 ss.

[123] Lawrence.M, Spindt.A, How Investment bankers determine the offer price and allocation of new issues, journal of financial economics, 1989. P. 343 ss.

It thereby involves a process of stabilization.[124] Even here the figure of the syndicate is required where it could borrow the amount in excess given to the investor and then closes its position by exercising the greenshoe option. [125] The result is different according to the differences in shares price before and after the placement.

As a consequence, investment banking involves the management of the initial public offering, from the preparation of the firm to the operations of stabilization after the company becomes listed. The pyramidal structure of the syndicate enables the leading actors to have the means for supporting the issuer in all the phases. That's why all the banks have a particular role in the process, followed by a certain level of importance. It is clear that the global coordinator stays at the top and he has more responsibility than the other components.

4.3 THE NAUTICAL INDUSTRY ENTERS THE PRIMARY MARKET

In the final part of our research, we choose to deal with the case of San Lorenzo yacht.

It is an important reality whose philosophy distinguishes the company from the others that produce yachts.[126]

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[124] Chen.H, Ritter.J, The seven percent solution, Journal of finance, 2000, p.1105 ss.

[125]Jenkinson.T., Jones.H., The economics of IPO Stabilization, Syndacates and Naked Shorts, Oxford University, 2006, p.5 ss.

[126]https://www.sanlorenzoyacht.com/it/filosofia/filosofia.asp

The Italian shipbuilding became listed on the "Borsa Italiana" in December 2019. This case helps us to understand which has been the role of investment banks in practice.

During the analysis of the company, it has been explained the path it has to follow to enter the market. It appears that after a period of crisis, the company has reacted by maintaining the same mentality but changing the geography of the market. The Italian entrepreneur Massimo Perotti has been able to exploit new sectors and to make the right investment in order to modernize the line of his products.

The company has used the initial public offering to increase the capital and to pursue further growth, both internal and external. What has been resulted from the paper is that this plan has been possible after reducing the debt. The major objective of San Lorenzo has been to reset the debt with the capital obtained from the initial public offering, in order to pursue new resources for future investments.[127]

During the study, they are outlined which are the investment banks that have supported San Lorenzo during the initial public offering. In this way, we have tried to understand how these institutions behave.

The value of San Lorenzo shares has been estimated on a range between sixteen to nineteen euros per share.[128] The final price at which shares have been

[127] Press Mare Italia, San Lorenzo: quali risultati in borsa, quali prospettive, available on https://www.pressmare.it/it/comunicazione/press-mare/2020-01-13/sanlorenzo-borsa-risultati-prospettive-24860

[128] Il sole 24 ore, San Loreno pronta per la Borsa. Definito il prezzo dell'IPO,2019, available on https://www.ilsole24ore.com/art/sanlorenzo-pronta-la-borsa-definito-prezzo-dell-ipo-ACiTMQ1

placed is sixteen euro. This confirms the theory for which it is better to adopt an underpricing approach with the aim to obtain a better position on the secondary market. in this way both the issuer and the bank obtain advantages from this maneuvering.

The result of the IPO has also shown that it was necessary to stabilize the price after the placement of shares. In fact, investment banks of the syndicate have borrowed the ten percent of shares placed to investors, and their position was closed in January 2020.[129] It is interesting to figure out how the process has been ending and the successive regulatory position adopted by the global coordinator by exercising the greenshoe option

Another relevant element during the lecture has been the prevalence of foreign investors that participated in the roadshow. This is in line with the change of the center of gravity of the nautical economy from Italy to America and Asia.[130] The move of focusing on foreign markets has been thought by Perotti after the period of crisis in order to recover the finance of the company and to find new growth opportunities.

Finally, the intent of the Italian entrepreneur consists of maintaining the majority of company shares, by leaving the remaining to investors and management of San Lorenzo. According to the history of the company, it is suggestive in the fact that it has ever been owned from Perotti since 2005 despite he has relied on other entities to raise resources so that the company could face the financial crisis.

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[129] https://www.sanlorenzoyacht.com/uploads/filepub/1594-Esercizio-opzione-greenshoe-IT.pdf
[130] https://www.sanlorenzoyacht.com/uk/investors/share-capital-and-shareholders.asp

The study of San Lorenzo presents an anecdote related to the "flat position" of shares after the company becomes listed.

The trend of the price has ever been stable, with low volatility. This is likely to be due to the influence of the European market to the Italian one.

The GDP of the country also might affect the ongoing of the primary and secondary markets. If it increased it could lead to a better position of the company concerning the profit yielded and the greater value of the firm.[131]

The inflation due to the difficult situation faced by the country has led to negative consequences on the secondary market by creating uncertainty. The monetary policy adopted by the government has had a distorting effect on the price of shares.

It is also important to highlight the impact of Covid-19 on the market, affecting the performance of the company. It generates the risk of decreasing turnover caused by the fallen of the demand. This has had consequences on the financial market with an impact on shares price.[132] Banks thereby have opted for an expansionistic monetary policy in order to recover the path of economic growth in the medium-long term.[133]

All these factors have affected the trend of shares price of San Lorenzo that aims to further develop its brand through the research of new resources to

[131] https://www.performancetrading.it/Documents/PGTeoria/Teo_Influenza.htm consulted on 08/09/2020

[132] https://www.soldionline.it/notizie/azioni-italia/borsa-italiana-commento-giornata-28-gennaio-2020 consulted on 08/09/2020

[133] https://www.soldionline.it/notizie/azioni-italia/borsa-italiana-commento-giornata-31-gennaio-2020 consulted on 08/09/2020

enhance the products offered by the Italian shipbuilding.

4.4 FINAL REFLECTIONS ABOUT THE ROLE OF INVESTMENT BANKS

According to what has been said about the figure of investment banking we can conclude with the role that these institutions have, also with respect to future expectations.

In the last few years, the operations connected with the financial sector have been increased, especially mergers and acquisitions, and those connected with the initial public offering. The shape of the bank has ever been representative because of the high value added that the financial institution can provide to companies.

Firms need the presence of the credit entity because of the higher experience they have with respect to the knowledge of the industry on which companies operate. This is accompanied by the numerous transactions that ended up successfully thanks to the support provided by investment banks.

It leads banks to pursue increasing market share and consequently a high reputation that allows them to be classified at a great level on the ranking. In other words, everyday companies want to acquire others business units rather than corporate enterprises, or they need to raise capital by entering the stock exchange through the initial public offering.

Investment banks have the linkages and the resources to achieve these requirements.[134]

It is a business where they have spent years so that they could build a network of relationships with buyers and sellers, where the objective has ever been to create value to the client for which they work.[135]

In the investment banking industry, many financial institutions continue to focus their core business on brokering activities or financial services advisory even though the increasing competition. The enlargement of the number of investment banks in the last years has led to a diminishing market share.

The point is that the demand for investment banking services remains strong.[136] Financial institutions should innovate themselves through the change of vision, modifying their business model despite maintaining their core operations.

Firstly, the banks could understand who it wants to be, then they should focus the attention to a particular segment of market, choosing the industry and the geographic space on which they would operate. With many actors, the route might be to do strategic alliances, creating an intermediate holding company that manages all the banks of the group.

Secondly, according to challenges investment banks face, they should find a way to increase their competitiveness. A strategic move could be to acquire digital technologies.

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[134] https://www.mergersandinquisitions.com/future-of-investment-banking-2015/ consulted on 09/09/2020.
[135] https://investmentbank.com consulted on 09/09/2020.
[136] https://www.ey.com/Publication/vwLUAssets/EY-capital-markets-building-the-investment-bank-of-the-future/$File/ey-capital-markets-building-the-investment-bank-of-the-future.pdf consulted on 09/09/2020.

By doing this, banks reduce costs and optimize the resources, serving the customers in a homogenous way. They allow banks to better analyzing intellectual and financial data, increasing transparency. Furthermore, the presence of an online platform may replace the figure of investment banks enhancing the relationships with customers.[137]

Whereas, finally, the importance of the role of investment banking has increased during the years providing high quality services to companies. In particular, in relation to their core business, investment banks support the firm during the initial public offering by preparing the issuer to enter the primary market.

[137]https://www.intellectsoft.net/blog/digital-transformation-in-banking/ consulted on 09/09/2020.

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