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Spotlight

In a moment marked by a due mourning for the victims of the pandemic, followed by uncertainty, and with shadows clouding the immediate and medium-term future, Spotlight will focus today on a subject that illustrates the imagination, flexibility and resilience that characterises Italian manufacturing and the service sector, and the financial industry that supports them. Thus, our “Minibond” focus will follow some preliminary reflections on the link between the health emergency and economy and finance. Starting from Italy, Mapping Covid-19 contagion risks shows remarkable similarities with the map of GVC (Global Value Chain), supporting the hypothesis that the latter has played a role in the transmission of the virus. Further research is needed to verify if sectors like textiles, footware, machine tools that are located in northern Italy – the heart of “Factory Europe” and where the stroke and the spread of the virus has been severe - have been affected by higher contagion than other industries because they involve more interpersonal contacts, more SMEs, and a less “capital intensive” production.

While global financial markets have ridden on the roller coaster of volatility, Italy and all major countries have announced and taken their first steps to cope with the reduction of economic activities. Lately, it has become increasingly clear that the COVID-19 pandemic represents a huge shock to the European and global economy. The containment health measures - which each country is now taking, after Far East and Italy as forerunners and the World Health Organization’s alarm - tie with the "buffer" measures of national governments and European institutions to curb the economic and GCV (Global Chain Value) haemorrhage. The Italian rescue plan (“Cura Italia”) is allocating 25 billion euros in 2020 to boost the NHS, and help citizens and businesses, leveraging €340 in funding. FeBAF's members – such as ABI and ANIA, representing banks and insurance companies- have thickened measures and initiatives to meet the difficulties of businesses and population.

In a "wartime" battle to save economy, and national announcements worldwide of unprecedented levels of spending, states with low Public Debt/GDP ratio enjoy a wider room of manoeuvre. In Italy and Europe, and regardless of the necessary amount of resources, the need for a coordinated and bold initiative of authorities, aimed at curbing the epidemic and increasing investments to support and relaunch health systems, local communities and businesses is blatant. "Andrà tutto bene" ("it will be fine) is the current motto in the Belpaese: it's a race against the clock. Italy is determined and capable to win it thanks to a stout and healthy manufacture, a supportive financial industry and policy choices that seem to go in the right direction. EU has to prove it too.

Minibond focus

As investors have looked for new ways of allocating their resources, and small and medium sized Italian firms have sought new avenues for funding their needs for finance, minibonds (bonds with nominal values of less than €50 million) have increasingly provided an answer. According to a report presented on 25 February 2020 by the school of management at Milan's Politecnico university, 183 firms issued minibonds last year, against 145 in 2018 and 127 in 2017. Moreover, minibonds have widened their appeal to potential issuers, with 129 of the firms which tapped the market in 2019 being debutants, up from 101 the preceding year. Not surprisingly, most interest has been shown by joint stock companies (127 last year against 100 in 2018), although limited liability companies have increasingly plumped for minibond finance, with 52 issuers last year against 42 in 2018 and 20 in 2017. Up to now, interest from cooperatives has been small: four last year, three in 2018 and two in 2017.

Sixth in an annual series, the Politecnico's 78-page report provides a wealth of information about this market. Legislative aims that minibonds should be taken up by SMEs as a means of finance seem to have hit their target. The report shows that one half of issuers in 2019 had turnover of less than €25 million, with 23 being under €2 million. Given Italy's rich and varied industrial fabric, it is unsurprising that 81 of last year's issuers were classified as manufacturers. Although much smaller
than manufacturing, another important sector in 2019 was the hospitality industry which made 17 minibond issues and about which the report provides details. Behind the jump from three such issues in 2018, and only two in 2017, was the Pluri Bond Turismo Veneto Spiagge which brought together 15 seaside tourism businesses in the Veneto region. Backed by trade bodies and four guarantee consortiums, they issued minibonds with 12-month maturity and offering a 2% yield for a total of €4.8 million. The firms had been affected by the bank credit squeeze and the minibonds allowed them finance at a cost of 3.5 per cent, which included the cost of the guarantees.

The Pluri Bond Turismo Veneto Spiagge explains why the number of issuing firms in the Veneto region jumped to 40 last year from 18 in 2018 and 14 in 2017. But north-eastern Italy is particularly vibrant in many sectors of manufacturing, as well as in services. Indeed, the Trentino region that neighbours the Veneto to the north was the source of minibond issues by 25 firms last year (7 in 2018 and 13 in 2017). In fact, nine firms in the Trentino were beneficiaries of the Trentino Minibond initiative of the Fondo Strategico del Trentino Alto Adige which aimed at helping market access for firms with turnover from €5 million to €15 million. The bond raised €10.2 million with issues ranging from €0.5 million to €1.6 million, the beneficiaries including a wooden pallet-maker, a manufacturer of ice cream and a firm producing cardiological diagnostics. Even so, Lombardy remains the Italian powerhouse, as the figures in the report from Milan's Politecnico university confirm, the region being the home of 41 issuing firms of minibonds last year. The figure was 35 in 2018 and 30 the year before. An encouraging sign for economists and regional development experts was the continuing growth in the number of firms issuing minibonds in the south of Italy, always a part of the country that has lagged behind in terms of economic and industrial wellbeing. There were 25 last year, against 19 in 2018 and 16 in 2017.

That minibond means “mini” was underlined by the fact that 45% of the issues last year had nominal values of less than €2 million while the nominal values of a further 23% of issues were in the range between €2 million and €5 million. With 18% in the range €5 to €10 million, that left only one issue in seven being of bonds with a nominal of between €10 and €50 million. The average value in 2019 was €7.44 million in the first half of the year and €4.68 million in the second half. Just over two-thirds of the minibonds issued last year were not listed on any market and, according to the report, 86 per cent of issues were not accompanied by ratings. The Politecnico noted that, given regulatory requirements, this continued a trend for issuing firms and their advisers to decide against market-listing. However, changes to rules regarding individual savings plans and the launching of a specialist exchange segment may help reverse the trend.

In its wide-ranging study of what has happened in Italy's minibond market, of who has been involved in various ways and of which firms have benefited from issues, the Politecnico also examined the administrative requirements that issuers must satisfy in order to sell issues to institutional investors, and well as the typical costs incurred. These might include legal and notarial fees, acquisition of an ISIN code, consultancy and arrangers' fees, audit, custody and settlement services, and the management of an internet site for investor relations.

Much has changed since last year. But researchers at the “Minibond Observatory” noted that they were not optimistic about minibond growth at the beginning of 2019. Yet, and against expectations, the number of issuers, the number of issues and the capital raised all increased during last year. When writing their report, they stated that “there are various signs that lead us to think that 2020 will be a year of further growth for the sector.” Although great uncertainty has come to cloud the future since the report was written, hopefully the researchers will find more than a few silver linings when they present their report in 2021.

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