Rome Investment Forum 2019

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European new-issue loan volume
USA reflects the European allocation of US companies with cross-border transactions.
European High Yield Bond Volume

Includes fixed and floating rate notes.
European High Yield Bond Volume Geographic Diversification

**Year-to-date**

- **United Kingdom**: 17.5%
- **France**: 14.4%
- **Germany**: 11.4%
- **United States**: 9.0%
- **Netherlands**: 8.7%
- **Italy**: 8.4%
- **Ireland**: 5.7%
- **Spain**: 4.6%
- **Norway**: 2.9%
- **Switzerland**: 2.7%
- **Sweden**: 2.6%
- **Greece**: 2.2%
- **Luxembourg**: 1.6%
- **Serbia**: 1.5%
- **Other**: 7.0%

Observations: 147 deals with €70.89B equivalent volume

**Last three months**

- **United Kingdom**: 17.2%
- **France**: 12.9%
- **United States**: 10.8%
- **Germany**: 10.7%
- **Italy**: 8.7%
- **Ireland**: 7.6%
- **Spain**: 6.5%
- **Netherlands**: 5.9%
- **Greece**: 4.8%
- **Switzerland**: 3.8%
- **Norway**: 3.0%
- **China**: 1.3%
- **Portugal**: 1.2%
- **Czech Republic**: 0.9%
- **Other**: 4.8%

Observations: 63 deals with €32.07B of volume
Historical reasons for prevalence of bond issuance among Italian companies

**Syndicated Loans**
- A 26 per cent withholding tax rate (or the different rate provided for by applicable tax treaties) is applicable on interest paid by Italian residents to non-Italian residents. Payments to Italian residents are not subject to any withholding tax and no withholding tax applies on interest paid to and beneficially owned by Italian resident banks or Italian permanent establishments of foreign banks. The sub-participation of a loan is generally ‘transparent’ for Italian tax purposes and interest is subject to withholding tax as if it was paid directly to the participant.
- No withholding tax applies on interest paid on medium-term loans (i.e., loans having a duration longer than 18 months) advanced to Italian ‘enterprises’ by: banks established in the EU – including Italian banks or Italian permanent establishments of non-resident banks; insurance companies incorporated and authorised pursuant to laws enacted by EU Member States; foreign institutional investors (e.g., investment funds or investment companies) established in ‘white list’ countries (both EU Member States and non-EU countries) provided they are subject to regulatory supervision in the country in which they are established.

**High yield bonds**
- Italian private companies need not pay withholding tax on bond interest payments so long as the bonds are listed on a regulated exchange or a multilateral trading platform such as the EuroMTF or GEM.
- The withholding tax exemption is limited to payments to bondholders resident in “white list” countries (i.e., countries that allow a sufficient exchange of residency/tax information with the Italian state).
Historical reasons for prevalence of bond issuance among Italian companies (cont.)

**Syndicated Loans**
- Italian law classifies lending activity, even if not conducted in connection with the taking of deposits from the public, as a restricted one. As a result, any person performing lending activity on a professional basis in Italy must be an authorised bank or financial intermediary.
- As a result, options for foreign investors to gain exposure to Italian credits have traditionally been limited to participating in "fronting structures", whereby a licensed lender based in Italy (the "Italian Bank Lender of Record" or "IBLOR") lends to an Italian borrower, with foreign lenders participating in the financing by way of back-to-back loans under separate agreements with the IBLOR.

**High yield bonds**
- Marketing of corporate bonds issued by Italian companies is fully open to institutional investors (i.e., no licensing requirements apply).
More recent reasons for increased issuance of bonds by Italian companies

Italian Supreme Court' decision n. 12777 of 22 March 2019

• The Supreme Court held that full IBLOR arrangements breach Italian regulatory requirements because they de facto permit unlicensed lending entities to offer and make loans to Italian companies in breach of the Italian Banking Act.

• Market players have been discussing the legality of full pass through fronting structures and the implications on Italian lending structures. The decision has effectively rendered illegal the use of IBLOR fronting structures to support Italian lending transactions in the leveraged finance sector and more broadly in the Italian credit market.

• In light of the decision, market players are now actively considering alternative options for deals previously cast in fronting structures (usually in the range of EUR 150-300 million), such as bonds, securitization, private placement and unitranche lending (including a mix of bank loans/bonds underwritten by alternative lenders).
Benefits of high yield bonds for issuers

- Greater operating freedom under incurrence-style covenants.
- Longer tenor.
- Reporting on a quarterly basis with limited additional information rights for investors.
- Diversification of funding sources and established pool of liquidity for future capital-raising.
- Broad name recognition.
- Incremental lending capacity of relationship banks.
- Competitive pricing.
Average TLB Primary Spread and YTM

Rolling 3-Months

Based on the TLB spread at launch, the OID and EURIBOR floor (if any)
Cons of high yield bonds for issuers

- Call protection (if fixed-rate).
- Ratings are needed.
- Three years of audited financial statements are typically required.
- Prospectus must be prepared, with attendant due diligence and involvement of US lawyers and auditors.
- Overall, more complex and costly execution.
Recent trends in the Italian HY market

- In 2017, Wind Tre made history by issuing the largest ever FRN tranche (EUR 2.25 billion) as part of a multi-tranche EUR 7.2 billion (equivalent) jumbo bond issuance.
- On average more than high yield bond deals completed by Italian companies each year since 2016.
- In recent months, approximately half of the Italian high yield deals completed were sponsor-backed (such as Italmatch (Bain), Recordati (CVC), Doc Generici (ICG), Cirsa (Blackstone) and Forgital (Carlyle)).
- Over the last 12 months, FRNs constituted about ~60% of all high yield deals in Italy, which is noticeably higher than in the broader European market, where they remain a minority at roughly 20% of deals in the first half of 2019.
- The tendency to use FRNs in Italy relates to the fact that many comparable deals that would have been structured as loans in other jurisdictions, are executed as bonds in Italy due to Italian lending restrictions on foreign lenders discussed earlier.