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SME credit markets in Europe and the Italian case

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What is an SME?

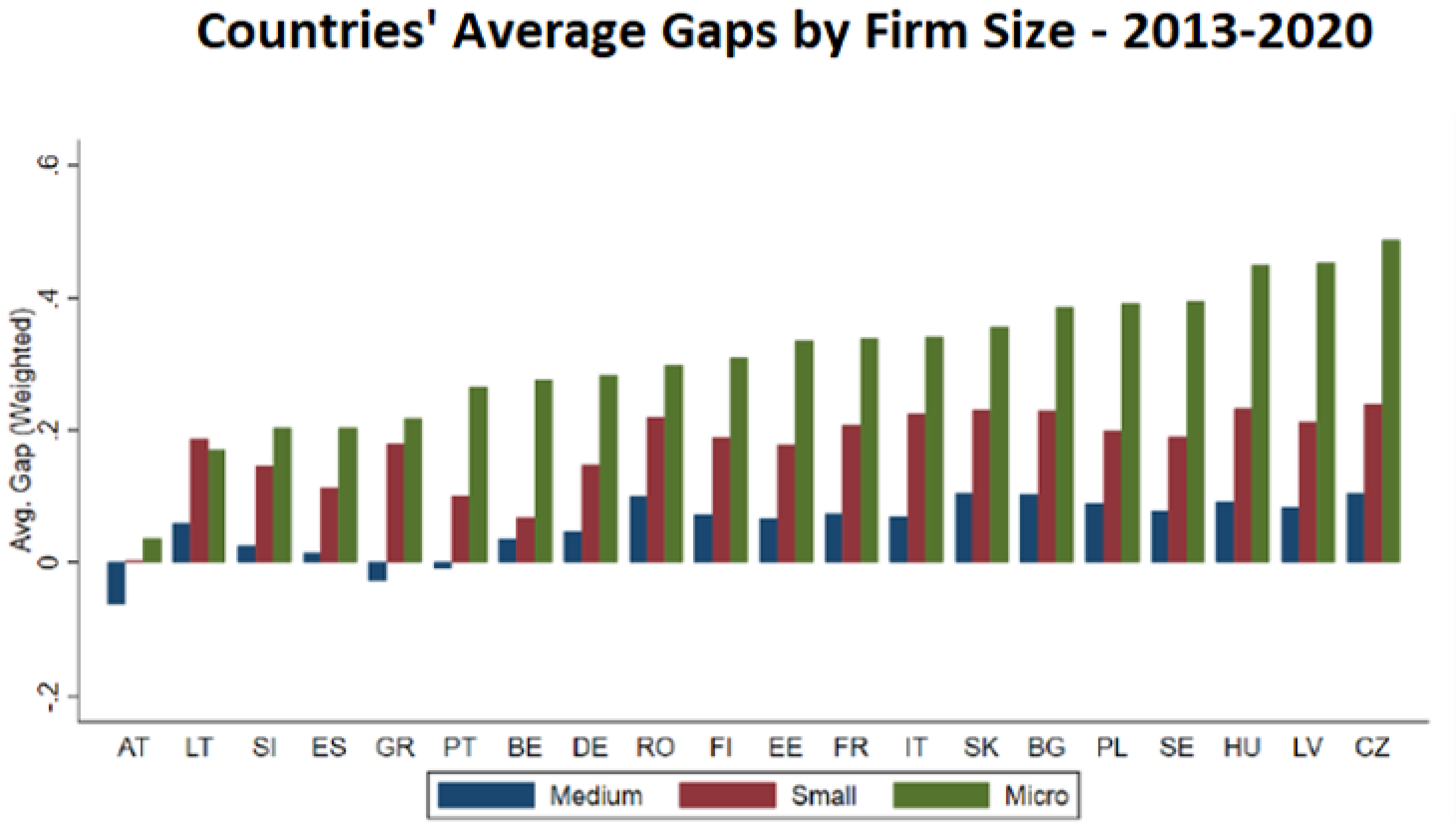
Small and medium-sized enterprises (SMEs) are defined in the EU recommendation 2003/361

The main factors determining whether an enterprise is an SME are

1. **staff headcount**
2. either **turnover** or **balance sheet total**

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

The debt financing of the SME at European level – A snapshot of financing gap



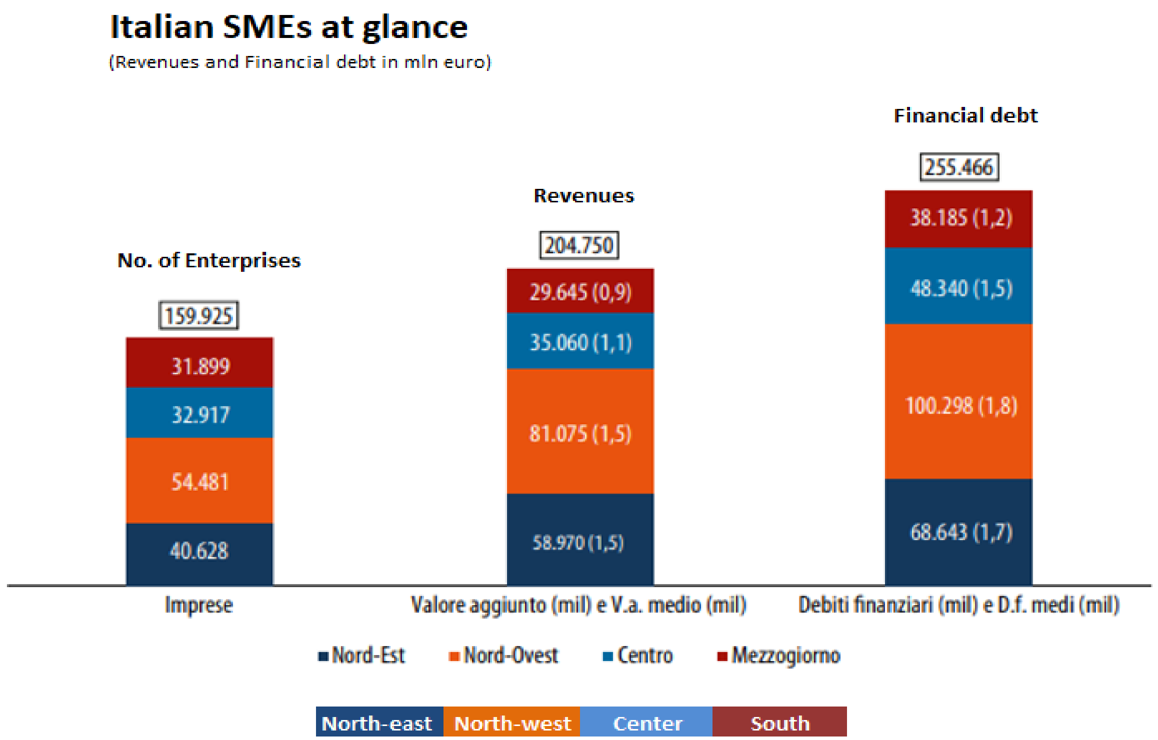
Source: Schuman Centre for Advanced Studies, The SME Finance Gap in The European Union, 2023

European HY market

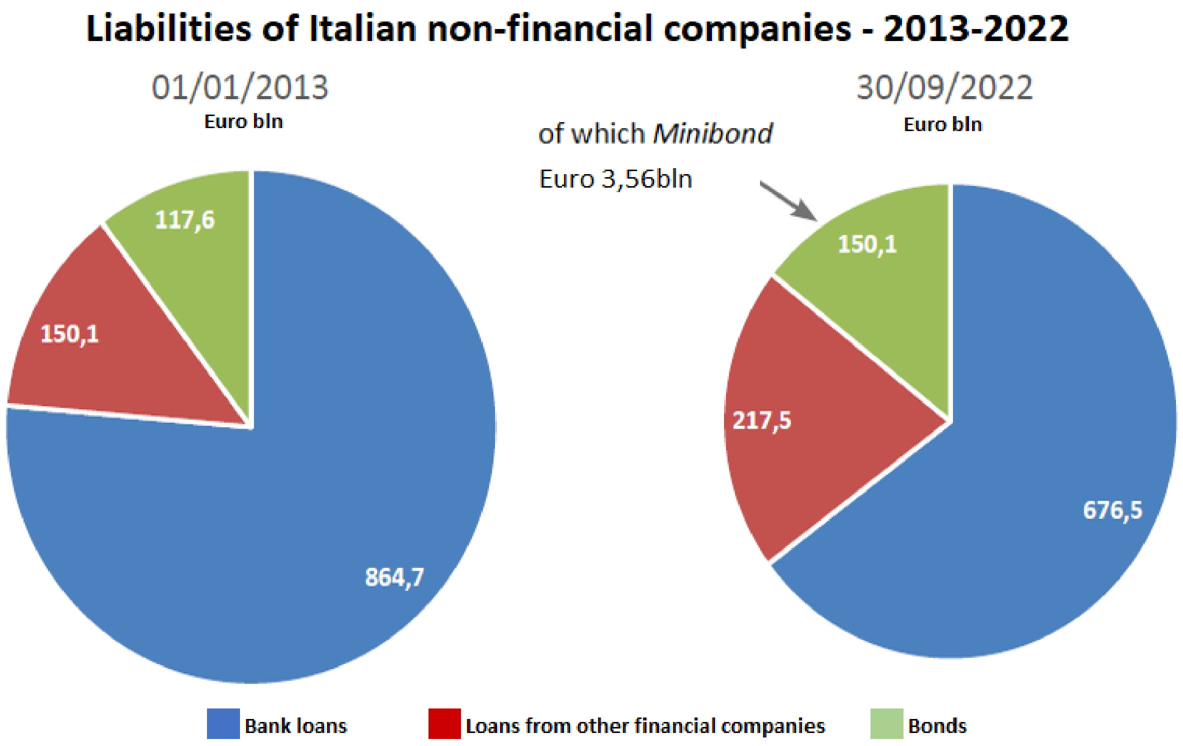
European High Yield

- 49% are non-listed issuers
- 40% have market cap above EUR 1.000mln
- **11% (35 issuers) are SMEs with market cap below EUR 1.000mln**

Italian SME at glance



Source: Confindustria, RAPPORTO REGIONALE PMI 2022



Source: Politecnico Milano 1863 School of Management, 9th Italian Report on Minibond, 2023

The *Minibond* market in Italy – Main features of the market, 2013-2022

- The issuer is a corporation or cooperative with limited liability resident in Italy. It is not a financial issuer
- Issues are characterized by a nominal value of less than € 50 million, with an average maturity of 4.2yrs and an average yield of 4.51%
- The securities are not listed on a "regulated market" open to retail investors. The securities may be listed on Multilateral Trading Facilities (MTFs) open to professional investors. Min tradable amt. 100.000 euro
- Total amount placed in 2013-2022 amounting to € 3.56bln, with a total of 663 issuers
- Issuer rating is present in only 14% of the issues
- Guarantees on bond repayment present in 68% of issues
- Green bond and SLB issues at EUR 305mln (18% of total outstanding)

Source: Politecnico Milano 1863 School of Management, 9th Italian Report on Minibond, 2023

European experiences on SME fixed income markets

United Kingdom

- Order book for Retail Bonds (ORB) managed by LSE
- 53 bonds listed issued by 48 issuers
- Min tradable amt. 100 GBP; Max 10.000 GBP

Germany

- Markets dedicated to SME debt securities in the different financial centres
- *Bondm,* past experience of not regulated market opened in 2010 also dedicated to minibonds
- A total of € 589 million raised from 23 issues by 18 SMEs
- Market for *Schuldscheindarlehen*, total volume of new issue € 31 billion, with 140 transactions recorded

France

- *Euronext, Euronext Growth and Euronext Access* are the markets dedicated to SME bond issues
- At the end of 2022, 228 bonds were listed on the dedicated lists of Euronext Paris similar to minibonds
- Eligible professional and retail investors admitted
- All issuers must have audited financial statements. SMEs must obtain a rating from an agency authorised by ESMA.

Spain

- *Mercado Alternativo de Renta Fija (Marf*), unregulated debt securities market dedicated to SMEs
- Only for professional investors, with a minimum denomination of € 100,000
- Can be issued by public limited companies and limited liability companies

Source: Politecnico Milano 1863 School of Management, 9th Italian Report on Minibond, 2023

A comparison with the *Corporate Bond Italia* of Mid & Small cap listed companies

Mid & Small cap listed companies

FTSE Italia Small cap index

- 98 listed companies
- Average market capitalisation: EUR 131mln
- Average headcounts: 1.000
- Average annual revenues: EUR 343mln
- Less than 300 employees: 40% of total companies
- 10 issuers over 98 on the bond market
- Average bond amount EUR 163mln per issuer

FTSE Italia Mid cap index

- 60 listed companies
- Average market capitalisation: EUR 1.741mln
- Average headcounts: 5.000
- Average annual revenues: EUR 2.036mln
- Less than 300 employees: 5% of total companies
- 19 issuers over 60 on the bond market
- Average bond amount EUR 1.5mln per issuer

Source: Borsa Italiana, 2023

Primary Market activity for the period 2013-2022 – ***Main features of issues***

- ***Italian small&mid corporates***: all listed
- ***Issue amount:*** in the range of €100-300m, with an average of €165m per issue
- ***Ranking in the capital structure:*** all instruments placed as *"Senior unsecured"*
- ***Rating***: all issues placed as *"Unrated"*
- ***Issue maturity:*** in the range of 5 to 7 years
- ***Min tradable amount***: EUR 1.000
- ***Target market:*** Institutional, Professional and Retail investors

Source: Equita SIM, 2023

Conclusions

The current situation in the credit market

- Worsening lending conditions – « end of easy money »
- Uncertainty about the refinancing capacity of weaker companies

Alternative solutions outside the banking system?

The « real » SMEs who access the traditional debt capital market today have some alternatives:

- Private debt market
- Government support and additional types of state and non-state guarantees
- Potential development of new instruments for corporate bond issues (e.g. Basket bonds in the italian market)

Thank you