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"VALUE CREATION THROUGH PRIVATE EQUITY OPERATION AND INITIAL PUBLIC OFFERING (IPO): THE EUROGROUP LAMINATIONS CASE"

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Introduction

Over the last twenty years, a formidable new influence has emerged in the realm of Corporate Finance: the ascendance of private capital as a significant asset category for investors and a pivotal reservoir of debt and equity financing for enterprises. Just to provide a reference of the growth magnitude of this phenomenon, the capital raised and invested in privately held companies surged from under $500 billion in 2000 to exceeding $7.2 trillion by the close of 2020 (Financial Times, 2022). In this evolving landscape, the remarkable expansion of Private Equity has driven the ascent of private capital, emerging as a potent and significant option for corporate financing in lieu of traditional banking channels and public capital markets, notably serving as an external equity source for global corporations. One of the purposes of this work is to understand how Private Equity firms create value while working with target companies. We will deepen the main value levers exploited by Private Equity funds during their investments and examine the impact of these operations on target companies, both in terms of performance and governance.

In addition, looking at the internal segmentation of Private Equity sector, Growth Equity is witnessing escalating competition among "traditional" Private Equity firms, and Venture Capital entities.

Growth Equity refers to investments made in established companies that are seeking capital to fuel expansion, scale operations, or pursue strategic initiatives. Unlike venture capital, which typically targets early-stage startups, growth capital is injected into companies that have demonstrated profitability and sustainable business models but require additional funding to accelerate growth. The aim of Growth Capital is to support companies in reaching their next phase of growth and maximizing their market potential while providing investors with attractive returns on their investment. Growth Equity hasn't historically been delineated as a separate category within Private Equity sector. Its exploration in the Corporate Finance literature has been relatively limited, as it was previously uncommon and occasionally conflated with Venture Capital due to some shared characteristics. However, the magnitude of Growth Equity, also called Expansion Capital, has more than doubled since the conclusion of 2016, reaching nearly $920 billion by the end of March 2021. So, this work will try to provide some insights on this relatively new Private Equity operation, looking at the current literature and analyzing a real case of a company involved in a Growth Equity operation.

Of course, the potential return of Private Equity investments is often higher than traditional investments made on a public market. Nevertheless, even if it is possible to compute a

theoretical return during the investment, it important to highlight that the actual return gained by Private Equity investors strongly depends on the exit strategy chosen to divest their holdings. We will explore the main way-out strategy pursued by Private Equity investors, focusing mainly on the Initial Public Offering.

An Initial Public Offering (IPO) marks a significant milestone in the life of a company, representing its transition from a private entity to a publicly traded corporation. During an IPO, a company offers shares of its stock to the public for the first time, providing an opportunity for investors to become partial owners. This process not only raises capital for the company but also enhances its visibility and liquidity in the financial markets. IPOs are often accompanied by extensive regulatory requirements and meticulous planning to ensure compliance with securities laws and market standards. As companies embark on the journey of going public, they must navigate various considerations, including pricing strategies, underwriting agreements, and investor relations. IPOs have historically been pivotal events that shape the trajectory of companies and influence market dynamics, making them a focal point of attention for investors, entrepreneurs, and financial analysts alike.
IPOs backed by Private Equity funds have garnered particular attention in the financial landscape. These IPOs represent the exit strategy for Private Equity investors, allowing them to monetize their investments and realize returns on their capital. Companies backed by Private Equity often undergo strategic transformations and operational enhancements before going public, aimed at maximizing their valuation and attractiveness to public market investors. And this is a key point since the fund’s return are directly linked with market valuation when the IPO is chosen as exit strategy. In other words, the Private Equity fund's journey involves navigating market risk until it has completely divested its position in the invested company. Furthermore, the divestment process itself carries inherent market risk. The private equity fund must carefully assess market conditions and investor appetite to determine the optimal timing and pricing for the exit. An IPO, for instance, requires favorable market conditions and investor demand for the company's shares to achieve the desired valuation.

The entrance of a Private Equity and the listing on a public market are two important milestones for companies. In this work we will also analyze a real case, that combines these scenarios. So, we will present the Eurogroup Laminations case, a company headquartered in Baranzate, close to Milan. Renowned as a worldwide frontrunner, the firm specializes in the design, production, and distribution of motor cores, encompassing stators and rotors, which are integral components

used in electric motors and generators. Diving into the company's operations, its business model is organized into two primary segments: Electric Vehicles and Industrial.
The case is very interesting and functional to this work, since involves a Growth Equity operation from 2020 and the listing on a public market on 2023, with the support of a Growth Equity firm.

Therefore, the work is organized as follows. The first chapter will delve into Private Equity operations, presenting an overview of the sector, and displaying the different types of operation, with their linked features. The focus will be mostly on Growth Equity operations.
The second chapter will analyze the Initial Public Offering, a common exit strategy chosen by Private Equity investments in order to liquidate their position. After a general overview of pros, cons and structure of the listing process, the chapter will deeply analyze listings backed by Private Equity firms, understanding their characteristics and performance.
The third chapter will combine together the information explained in the previous chapters, tackling the analysis of the Eurogroup Laminations S.p.A case. The chapter will analyze the Growth Equity operation that has involved the company, and the subsequent listing on Euronext Milan market.
The last section will report the main conclusion gauged from this work, reporting the main results obtained and some considerations on the tackled topics.

1. Private Equity operations: an overview

1.1 Sector definition, dynamics, and segmentation

The starting point to describe the Private Equity sector could be the following definition: "Private Equity is the provision of capital and management expertise given to companies to create value and, consequently, generate big capital gains after the deal" (Caselli & Negri, 2021). Indeed, Private Equity (hereinafter PE) is an asset class that could be considered as an alternative source of financing to financial markets and banks. It works through operations with a finite lifetime (Farah & Sönmezer, 2022), which aim at providing the target firms with complementary skills and experience essentially to obtain a good result. A PE fund will typically invest in private firms or in public companies that are going to be delisted ("going private"). Hence, the investment in PE suffers of lack of liquidity and it is difficult to compute the value of a PE portfolio before the ending life of the fund, point at which the fund will adopt a way-out strategy that will show the real value of portfolio companies. It goes without saying that these investments are typically riskier than traditional investments carried out on public markets, where there is less information asymmetry between buy side and sell side and the investment liquidity is relatively high.

As it can be seen from Figure 1, the structure of PE funds involves two main actors: Limited Partners (LP) and General Partner (GP). Limited Partners are the investors, namely who provides capital, as pension funds, foundations, insurance companies, banks, or high-net-worth-individuals.

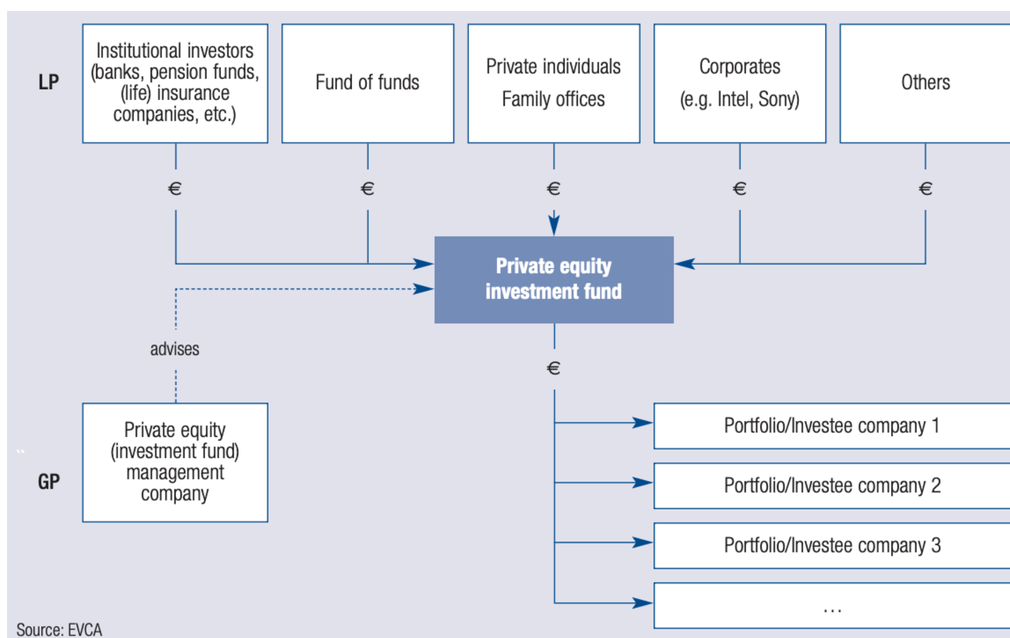

Figure 1: the structure of a Private Equity Fund *(EVCA, 2007)*

On the other hand, General Partner is a professional firm, who is responsible for managing the fund and choosing the right investment to obtain a capital gain. It is interesting to observe that Limited Partners may not have a say in the choice of the investment made by the General Partner (Kaplan & Strömberg, Leveraged buyouts and private equity, 2009).

PE funds operate as a sort of financial intermediary, obtaining capital from Limited Partners and investing it in portfolio companies (Metrick & Yasuda, 2011). General Partner will receive a compensation for their asset management work, which can be split in two main components: the management fee and the carried interest, also called “carry” (Iannotta, 2010).

The management fee refers to a given percentage of the committed capital, typically around 2%, that the General Partner will receive every year from Limited Partners for investment, portfolio management, and administrative services. Moving to the carried interest, it is a fee grounded on the performance of the fund, calculated as a percentage of the proceeds obtained, typically around 20%. Note that there could be some minimum thresholds to be reached before General Partner get this sum of money. For example, the carry will be distributed only once the fund has at least covered the committed capital, or even once the Limited Partners have received a predetermined rate of return, called hurdle return or priority return (Iannotta, 2010).

Let’s now analyze the measurement method of the fund’s return: the most used method to determine the private equity fund return are the Internal Rate of Return (IRR) and the Multiple on Invested Capital (MoIC), both measured gross and net of PE fees.

IRR is a discount rate that makes the Net Present Value of a series of investments zero. It is not an absolute measure, but it is a percentage yield. Note that this indicator provides the actual measurement only at the end of the fund lifetime; if the IRR is measured during the investment period, it is realized partially.

MoIC (Harris, Jenkinson, & Kaplan, 2014) is a more intuitive way to measure return of a private equity because Multiple of Invested Capital (hereinafter MoIC) shows clearly how much money an investor made with respect to his initial investment. This multiple is basically the ratio between the distribution obtained by Limited Partners and invested capital provided.

IRR is particularly useful to plot a common trend of the returns generated by a Private Equity fund during its lifetime. Once plotted on a graph, the returns resemble a “J”, thus the name “J-Curve”. We can observe it on Figure 2: the fund does not obtain positive results just after the initial investment, or in the short term, because returns are not high enough to overcome fees. In addition, even if the investors have implemented the right operational strategy, it takes time to see the actual results. As soon as the operational enhancement fully starts working, we can

see that the dotted line goes upwards quite fast, meaning that the fund will start getting proceeds (Crystal Capital Partners, 2020).

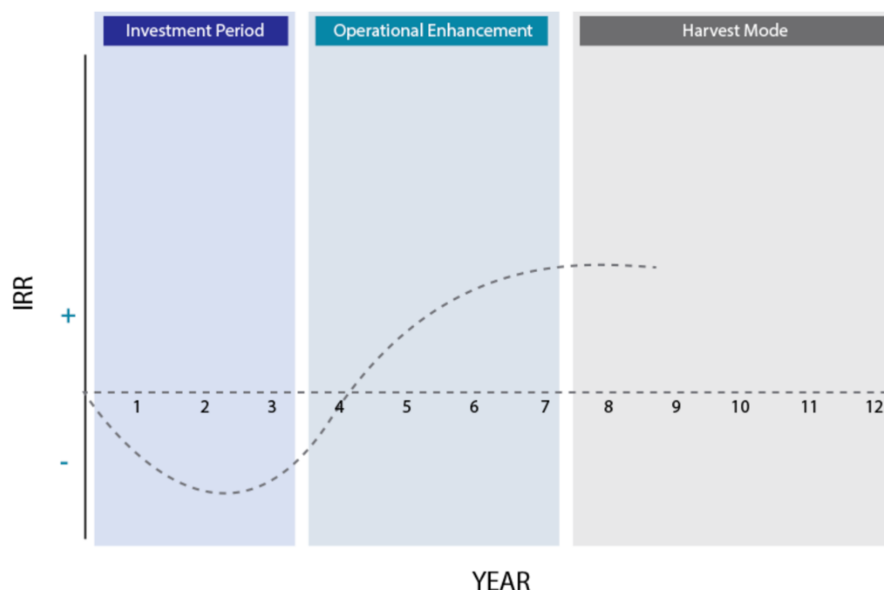

Figure 2: the J-Curve (Crystal Capital Partners, 2020)

Lastly, to try to define a standard segmentation of the PE sector is not easy: the academic literature provides a lot of opinions and schools of thought, that sometimes are controversial, or overlap themselves.

Nevertheless, PE sector can be split in three main areas of activities: Buy-Out, Venture Capital, and Growth Equity, also called Growth Capital or Expansion Capital. Note that in this work, we will not consider Turnaround within the PE sector.

In the following paragraphs our attention will move towards a deeper understanding of different types of investment, addressing the most useful value levers to be exploited to foster value creation activities, and finally how investors exit from their positions, namely, how to get the return built over the investment lifecycle.

1.2 Purpose of Private Equity operations

The purpose of PE operations is to invest in and acquire ownership stakes in privately held companies with the goal of improving their performance, increasing their value, and ultimately generating a good return on investment. Hence, the maximization of the return and value creation are two concepts that must work together to pursue a successful investment strategy and provide proceeds to investors. Remember that a private equity fund has a finite lifetime and will exit from its position at a certain point of time: the strategies and levers to create value in a relatively short time must be very clear.

So, in order to have a clear view of PE investments dynamics, we have to find out how to create value from such operations, and how they affect the acquired company in terms of governance and performance. PE investors can rely on some value levers, that help them manage all the deal's phases and will provide information and insights on the potential results of PE managers work.

1.2.1 Value creation through value levers

Value creation refers to all the activities aimed at enhancing the growth, efficiency, profitability, and sustainability of a company. PE funds must be aware about the mechanisms and instruments available to create value in their portfolio companies after initial investment.

On this matter, a private equity fund must choose very carefully the best target firm to acquire, in order to pursue the most efficient value creation strategy and match the investors' expectations.

Though, there are no standard schemes to create value in the PE context: every operation is different. The literature provides several alternatives; an intuitive set of value levers is the following one: financial engineering, governance engineering, and operational engineering (Gompers, Kaplan, & Mukharlyamov, What do private equity firms say they do?, 2016). Note that these levers aren't mutually exclusive, investors can use them together.

Let's start from Financial Engineering, which refers to all the actions linked to the several components of the financial dynamics of the company analysed. The main goal of this value lever is to optimize the capital structure of the acquired firm, that is to say to reduce the cost of capital (Lerner, Sorensen, & Strömberg, What drives private equity activity and success globally, 2009). Capital structure is probably the most important factor to consider while dealing with financial engineering; there are two main schools of thought: trade-off theory (Graham & Harvey, 2001) and market timing view (Axelson, Jenkinson, Strömberg, & Weisbach, 2013). The former compares the benefits of increasing debt, that is to say to exploit interests' deductibility, with the drawbacks of the financial distress. The second one focuses on the macroeconomic environment in a particular moment, meaning that PE investors need to consider debt market conditions to decide the right capital structure of a firm.

Another key component of financial engineering is the target valuation: as we have already seen in the paragraph before, PE firms rely mostly on IRR and MoIC to evaluate the overall attractiveness of a deal. Furthermore, the starting point of an investment valuation is typically a set of management forecast: the latter are almost always too optimistic, so they should be discounted in order to provide investors with a more realistic and conservative scenario.

Usually, while analysing the potential cash flows from investment, PE firms choose a forecast horizon of five years, at the end of which a terminal value will be calculated.
Financial engineering sometimes overlaps governance engineering, especially in the case of the incentives given to management of portfolio companies.
Moving to Governance Engineering, it pays particular attention to the composition of the boards of directors and to the monitoring of the choices of portfolio companies' top management. It will be deepened in the following subparagraph.
Last but not least, Operational Engineering can be identified as the operating choices and actions that a private equity firm implements while managing its portfolio companies to add value, thus increasing the investment return (Kaplan & Strömberg, Leveraged buyouts and private equity, 2009). It should be underlined that operational engineering is tied with the industry in which the portfolio companies work. For this reason, nowadays private equity firms are more and more specializing themselves on few sectors, understanding deeply the markets of reference. In this respect, it is not uncommon that private equity firms hire professionals with a stronger operating background on a particular industry than a "general" financial background. PE investors are now more aware of the features of the firms in which they want to invest: using a famous similarity used in the academic literature we can consider the business as a horse, and the management as a jockey (Kaplan, Sensoy, & Strömberg, Should investors bet on the jockey or the horse? Evidence from the evolution of firms from early business plans to public companies, 2009), which one should the PE firm bet on? It seems that investors tend to focus more on the business model as core starting point than on the management team, which obviously is considered in any case; note that it is easier to renovate a weak management team, instead of relaunching a bad business model. Hence, the deal sourcing and selection phase has become very demanding, requiring a lot of resources to screen all the potential targets, and choosing the best one (Gompers, Kaplan, & Mukharlyamov, What do private equity firms say they do?, 2016).
Knowing the definition of financial, governance, and operating engineering, and recalling that they can be implemented simultaneously, we can start identifying some actions and trends that foster value creation. The most common sources of value creation in PE deals are increasing revenue, reducing costs, redefine the strategy and the action plan accordingly, improving the corporate governance and incentives measurement. These manoeuvres are the "traditional" key points of a successful value creation strategy, and they are quite general; they are a sort of output of a more detailed and tailored value creation strategy. It must be clarified that there are many types of value creation levers, that are becoming fundamental today to get the highest possible

return. Now, the questions are: which are these new levers? How to identify them? What is the best way and moment to implement them?

In the context of PE, it is essential to draft a value creation plan: from the data collected by KPMG (2022), it is clear that a shift in the value creation is happening. PE investors are planning their value creation strategy even before the closing of the deal. This result matches what have been found by Gompers, et al. (2016) regarding the deal sourcing and selection: the more aware and informed the investor before choosing the deal, the higher the potential return. For instance, in a public-to-private transaction, a PE firm could exploit opportunities which come from the no more required compliance of the acquired company with some public market regulation or requirements. However, if there is not a limpid value creation strategy, a PE investor can even lose competitiveness during the bidding process: the company founders are not looking only to the investment itself, but they are also concerned about the fact of finding the best strategy for the life of the firm, delivering a sustainable value creation (KPMG, 2022). What has just been pointed out matches with the Best Owner principle (Koller, Goedhart, & Wessels, 2020): different owners can reach different results in terms of value creation. Today, a sound and attractive business, even though is fundamental, is not enough to maximize the potential results of a firm: an owner that is able to implement the best available strategy to improve the firm's value creation is needed. Note that there is not an ideal best owner, due to the different circumstances that a firm could face now and in the future: in other words, the best owner is the one that can extract the highest value from a firm in a particular moment.

Obviously, even the acquired firm is interested in obtaining a good result thanks to PE activities. Hence, companies that are going to work together with PE investors are surely seeking for financial resources, but they also look for the best owner among different investors.

Moving back our focus on the value levers, beside the most typical ones, some new sources of value are arising this doesn't mean that they will substitute the traditional sources of value, but they will enhance them, increasing the competitiveness of investors in the bidding process, and expanding the potential return. The topics that are more involved in this shift are technology development and Environmental, Social, and Governance (i.e., ESG) topics.

PE firms are increasingly investing in technology since digital transformation and data analytics are nowadays important problems to be tackled in investment operations. Tech-driven levers will drive business transformation and create additional value.

The pervasiveness of technology within firms' business models triggers a mandatory focus from PE firms, that must be aligned with the current macro-economic and business developments: who doesn't consider these factors during the investment process won't have access to many opportunities.

In addition, referring to risk mitigation, cyber security is being considered an important resource in order to preserve value creation: many firms are investing on it.
Shifting to ESG, it is another topic that is spreading like wildfire in business dynamics. Due to the increased awareness of stakeholders, PE firms are integrating ESG factors into their activities both as a source of value creation and risk reduction (Zaccone & Pedrini, 2020).
The implementation of ESG factors on financial indexes and rating has led to a greater flow of capital towards activities that pay particular attention to sustainability and other related concerns. Due to the lack of a conventional standard and regulation on non-financial disclosure, it is not so easy for PE firms to find relevant information on non-financial performance of potential target firms. The Corporate Sustainability Reporting Directive (i.e., CSRD) could be a useful instrument to allow a more efficient and comparable non-financial disclosure. In addition, a growing number of firms have already adopted standards provided by Global Reporting Initiatives and guidelines provided by Task Force on Climate-related Disclosure, thus fostering comparability of non-financial information. This could help PE firms dealing with these factors in the context of deal analysis and drafting of value creation planning.

1.2.2 Impact on performance and governance of the target

To address the impact on governance of firms acquired by PE funds, it is essential to recall the concept of governance engineering. The latter refers to all the decision taken, and actions implemented in order to understand whether the incumbent management is weak or not and to foster the alignment of incentives between managers and stakeholders (Gompers, Kaplan, & Mukharlyamov, What do private equity firms say they do?, 2016), leading to a sustainable performance improvement. Basically, we are dealing with the typical concern of the agency theory: the relationship between a principal, the ownership of the firm, and an agent, namely the company's management. So, one of the main aims of governance engineering is to develop control devices and to adapt incentives mechanisms to make sure that the management team use firm's resources coherently with ownership's strategy and interests (Wright, Amess, Weir, & Girma, 2009). In other words, the aim is to reduce agency costs.
Especially in the context of PE activities, it is essential to avoid moral hazard from management which can adversely affect the firm's performance: there is a link between governance and firm's results. PE firms can fulfil some lacks and weaknesses, improving the governance system and providing distinctive capabilities to develop a sustainable competitive advantage.
To analyse the work of the firm's governance mechanisms (structure and processes), we must focus on the Board of Directors: it is the main governing body of a company, and it can strongly influence the management choices of a firm. Once the deal is made, PE could pervasively enter

the governance system of the acquired firm, changing the composition of the Board and influencing its decisions. Indeed, PE firms are actively involved in the governance of the portfolio companies (Wright Robbie, 1998). Typically, the board composition is smaller than in public firms, often with less than ten members. In particular, the board will comprise representatives of the PE firm, independent directors, and industry experts that can provide useful knowledge to set the strategic path and implementing the action plan. In addition, this board composition allows an easier and leaner decision-making process, together with an improved information flow (Masulis & Thomas, 2009). Due to the intrinsic characteristics of a PE investment, the board will be more focused on operational concerns than on compliance, setting specialized internal reporting requirements as a monitoring instrument to check the management work. Remember that, in some circumstances, capital calls are made after the company has reached a particular milestone, so it is very important to have a clear and understandable performance track record.

Another important factor to consider is the attitude of PE investors towards the management of portfolio companies, that is to say deciding whether change or not the incumbent management team, how to monitor it, and last but not least how to deal with the incentive scheme, a crucial factor to align the interests of the management with the firm's value creation (Gompers, Kaplan, & Mukharlyamov, What do private equity firms say they do?, 2016). As we said before, different PE investors have different investment strategies, so there will be situations in which the management is recruited by the PE firms, and situations in which PE investors bet on the existing management team.

We can distinguish between investments in majority stakes, and investment in minority stakes, as some authors have reported differences in terms of both governance and performance: generally speaking, the effects of PE operations are larger for minority investments (Battistin, Bortoluzzi, & Buttignon, Minority and majority private equity investments: firm performance and governance, 2017). In the latter case, in most circumstances PE investors rely on the incumbent management instead of substituting it. Quite the opposite is the case of majority investments, where PE investors recruit their own senior management, and changing drastically the composition of the board of directors. Again, the management is a crucial factor to deal with; for instance, think about management turnover in a family firm, in which the management is probably linked with the company's deepest roots: substituting the Chief Executive Officer or some chairpersons could make the firm lose its unique skills, and worse the governance system due to an increase in moral hazard and, in turn, agency costs.

Lastly, it is desirable a realignment of managerial incentives, e.g., linking the variable compensation of managers with the firm's performance. Specifically, PE firms often give

management equity stakes, so that managers bear the risk of a performance worsening. The result is that the management team has the interest of obtaining a sustainable improvement; remember that PE is an illiquid investment, so managers are discouraged in manipulating the short-term performance (Kaplan, Sensoy, & Strömberg, Should investors bet on the jockey or the horse? Evidence from the evolution of firms from early business plans to public companies, 2009).

Talking about performance, in most cases PE investments are linked with an outperformance of acquired firms with respect to their benchmarks which haven't faced a PE operation.
Besides the financial resources provided by PE investors, target firms can obtain a strong improvement in terms of strategy and efficiency: specifically, Private Equity firms can let target companies access to new strategic suppliers, stakeholders, customers, or even new markets that firm could not have been penetrated alone. All these actions, once implemented, could lead to an enhanced business model, supporting value adding activities (Salerno, 2018).
In other cases, the way of work of PE firms does not consist of introducing new profitable activities, or improving existing ones; rather, the focus will be on the divestment of laggard operations and business units, in order to increase efficiency (Davis, et al., 2014).
Obviously, the results obtained by a sound PE investment are verifiable from a financial and economic point of view; the focus is on the following key indicators: EBITDA, revenues, and the number of employees. Many authors confirm that PE firms foster the growth of target firms, thanks to a higher EBITDA and higher revenues, thus "unlocking" value. This trend is consistent with the results obtained by some PE backed firms in the Italian market, which has shown a steadily higher revenue percentage compound annual growth rate (hereafter CAGR), around +4%, with respect to private Italian companies of similar size.
The same effect is verified on EBITDA CAGR, and here the gap between PE backed companies and benchmarks firms is around 10%; the gap was constant over time for both EBITDA and revenues despite a general slight decrease of performance in the last years.
Looking at the employment data, PE backed firms has shown a positive employment CAGR, around 5%. It is verifiable also an improvement in the profitability by employment index, measured as EBITDA/employees.
Moreover, the combined effect of a less intense use of financial debt and an increased capital expenditure, i.e., CAPEX (PwC, 2020), let us confirm that PE firms have a positive effect on the growth of target firms, improving their profitability and their capital structure.

Once understood the dynamics of the PE sector and how it affects the firms that involve such investors in their business, our attention shifts to an insight of the main types of PE operations, following the segmentation mentioned in the first paragraph. So, in the following paragraphs we are going to analyse Buy-Out, Venture Capital, and Growth Equity.

1.3 Buy-Out

A Buy-Out is type of PE operation that involves the acquisition of a controlling interest in a target firm, leading to a change of the control framework. Buy-Out is the most widespread type of PE operations and tend to involve both private and public companies: in the latter case, we refer to public-to-private or going-private transactions.

Buy-Out can take various forms and occurs in different contexts, but the primary purpose is to change the ownership structure of the entity being acquired, with the aim of implementing internal improvements that yield a return from the investment made to acquire the company.

Differently from Growth Equity and Venture Capital operations, Buy-Out involve companies that are further along in their lifecycle, characterized by a more established business.

Nevertheless, despite the maturity of the target there could be still the need of substantial restructuring to achieve return goals set by PE investors; hence, PE mangers' skills and experience are crucial.

This operation can be carried out in different ways; indeed, we can distinguish between several types of Buy-Out: let's start from the most common, namely the Leveraged Buy-Out (hereinafter LBO). When we look at the literature related to the PE sector, a good portion of it is linked with such operation. LBOs are characterized by the acquisition of a company using mainly outside debt financing, namely through bonds or loans, and a small portion of equity. The investment is carried out through a new company created ad hoc for the transaction, i.e., a Newco, which will obviously show the equity needed to establish it, and, more important, the funds obtained from the lenders to buy the target. Hence, PE firm will acquire the target through the Newco, and then merge by incorporation the two companies to conclude the operation. This operation implies that the assets of the acquired company are used as collateral to get funds from banks and financial institutions and repay them subsequently. The main opportunity provided by this type of operation is to allow companies to make larger acquisitions without having to commit a huge amount of capital. However, there are many risks in pursuing an LBO, which mostly come from the debt itself: for instance, if the acquiring firm issues bonds against the assets of the acquired firms, and the leverage ratio is too high, those bonds may be assigned a junk bond ratio, triggering a high effective interest rate (Hurduzeu & Popescu, 2015).

It should be highlighted that banks are very careful in the financing of such operations, since the outstanding debt will be reimbursed only if growth is actually realized: if the cash flows generated by the acquired company are not enough to cover ongoing debt repayments, there is a high risk of default. However, the debt level plays an essential role, as indirect monitoring instrument: debt helps in reducing agency costs of free cash flow (Jensen, 1986).
If a company can generate a substantial free cash flow, the management has more discretion on how to allocate it. In turn, there is less control on management decisions, that could not be perfectly aligned with the objective of increase the shareholder value. Under this circumstance, an increase in debt level permits to better monitor management job, avoiding waste of money and allocation of resources on projects which don't create or even destroys value.
To wrap up, it is important to understand that LBOs involve a significant financial leverage, being riskier than other PE acquisition strategy. In turn, this strategy requires a careful financial analysis, due diligence, and solid value creation plan to be successful.

Besides LBOs, we can identify other types of Buy-Out: note that the sponsor of a Buy-Out need not necessarily be only a PE firm; indeed, most Buy-Out include a management team in the transaction. Hence, Buy-Out can be classified as follows, depending on the sponsor of the operation (Renneboog & Simons, 2005): management buy-out (i.e., MBO), management buy-in (i.e., MBI), and institutional buy-out (i.e., IBO).
The MBO, by definition, is a management lead transaction: the incumbent management of a company set the takeover of the firm, usually supported by a PE firm.
Conversely, in a MBI there is an outside management team that acquire the company; note that, although these two types of operations might seem similar, they are quite different. The main point to be considered is the information available to the buyer: an incumbent management team will surely have access to more information than an outsider buyer. On the other side, an outsider management team identify the target on the ground of possible future improvements and current inefficiencies of the incumbent management, typically triggering a hostile takeover with the aim of removing under-performing management (Robbie & Wright, 1995).
In the case in which the acquisition is made by both an incumbent and outsider management, PE professional define this operation as buy-in-management buyout, i.e., BIMBO.
Moreover, when the acquirers are solely institutional investors, e.g., pension funds, sovereign wealth funds, or PE firms, we refer to this type operations as Institutional Buy-Out, also called Bought Deals or Finance Purchases.

Buy-Out represents the majority of PE operation, but we are seeing more and more in the market the rise of Venture Capital and Growth Equity operations. The following paragraphs will analyse these operations to complete the overview of the PE sector.

1.4 Venture Capital

Quite often the concept of PE is mixed with the concept of Venture Capital, or sometimes the two concepts overlap themselves. Some authors think that Venture Capital (hereinafter VC) is a sort of "spin-off" of Private Equity activities, while other thinks that it is a completely different sector. So, there are many schools of thought, but it must be noted that there are some common dynamics, and some important differences, which will be explained hereafter.

VC operations focus on early-stage companies, e.g., start-ups, that has the potential to grow very rapidly. Note that this high-growth potential is compensated by a high level of risk: this is the main challenge faced by VC investments.

The following phrase synthetizes the main dynamic of a VC operation: "the challenge is to earn a consistently superior return on investments in inherently risky business ventures" (Zider, 1998).

So, Venture Capitalists allow the realization of a business idea, providing the capital needed. Now the question is: why entrepreneurs should turn to Venture Capitalists to obtain funding to launch their ideas? Sometimes they do not have alternatives to obtain money since banks will typically finance only businesses which have hard asset to cover the debt: many start-ups have few hard assets, which are often highly specialised or non-re-deployable. VC investors bring target firms to a more mature phase in which "traditional" source of funding are appropriate: once reached this stage, the investors will exit to focus his attention on other early-stage opportunities.

To be successful, a Venture Capitalist should focus his attention on secure market niches, which are clearly showing a dramatic growth pattern and with no low-cost funding opportunities available (Wright Robbie, 1998).

We can fragment VC investments on the ground of the life cycle stage of the target company involved. There are pre-seed investment, the earliest stage of Venture Capital funding, namely operations that involve firms which are starting to put in practice a business idea. This is surely very risky, since there is a high likelihood of failure or, in other words, no guarantee of success. Seed investments are a step forward, so a business plan has been already drafted, and there should be a minimum viable product or service that the target firm is going to launch on the market as its value proposition. In this case the strategy is set, together with goals and objective,

and even financials expectations. Finally, late-stage investments represent the border between VC and other PE operations. The target company has already started its growth path, so the investors' aim is to fuel further expansion, leading to an enhancement of business operations, fostering market penetration and value creation; obviously, late-stage investors are more risk averse.

Each phase of investment carries its own level of risk and potential for return, attracting different types of investors with varying investment strategies and expectations.

One can say that late-stage investments are quite similar to Growth Capital investments but note that here investors do not have a reliable track record of past performance: the target company has just started to grow.

It is evident that the risk beard by Venture Capitalists is quite high: how can they protect themselves?

First of all, as in every PE operation, a carefully valuation must be carried out before undertaking the deal: here the investors will face a big problem, namely the lack of data and a reliable performance track record. Remember that sometimes we are dealing with a business idea, maybe the company doesn't even exist.

For instance, an analyst can use more valuation methods combined together to value a start-up: Discounted Cash Flow (i.e., DCF) with long term growth, DCF with multiple, Scorecard Method, Checklist Method and Venture Capital Method (Equidam, 2020). The final valuation of the target should be computed as the weighted average of the above mentioned methods. The DCFs methods are the most widespread in the Corporate Finance world, while the last three are closer to early-stage companies.

Besides a careful valuation, Venture Capitalists could set some protection clauses. This type of operation is often characterized by a multistage contract, namely the investment is split into several tranches of funds depending on the target performance; this may allow the investor to have a stronger influence over the management. This investment approach could be considered more useful than a merely governance tool, indeed it allows the study of the target potential through a sequence of investment (Lerner & Nanda, Venture capital's role in financing innovation: What we know and how much we still need to learn, 2020).

Investors should seek for both downside protection and opportunities for further money injection if the target company proves to have a sound and sustainable performance.

On the other hand, one of the problems faced by a VC backed firm is the fact that the investor, pushing for a high return, may influence the management style of the firm. Typically, when we deal with VC, start-up firms are involved: they are founded on innovative ideas, that sometimes do not fit so much the investors' perspective. Nevertheless, it is clear that the potential huge

return comes from these innovative ideas, but sometimes the target may lose its creative control as the investors demands fast returns.

Talking about the main differences between Buy-Out and Venture Capital investments, the former tends to prefer more consolidated firms, with a lower risk profile but still with a high potential for success. Furthermore, a Venture Capitalist often acquire a minority stake of the target firm, different from a typical LBO transaction, in which the investor typically acquires a control stake.

1.5 Growth Equity

Nowadays, the segmentation of the Private Equity sector includes Buy-Out, Venture Capital, and Growth Equity (hereinafter GE). Nevertheless, it is not so easy to precisely define GE, also called Growth Capital or Expansion Capital, since there is no clear and standard definition of these operations: just as starting point, we can consider Growth Equity as something in between Venture Capital and Buy-Out operations (Pearce & Tong, 2022). GE has not always been considered as a distinct form of PE capital. Indeed, Growth Capital is not so deepened among the literature on PE since it used to be uncommon, and sometimes it is confused with Venture Capital, since there are some features in common that could mislead the reader. Paper and articles focus their attention mostly on Buy-Out and VC operations; it is rare to find an empirical study or even a literature review that focuses its attention on GE operations, comparing them with Buy-Out and VC operations. For instance, Bain & Company has included GE as a separate asset class within its report on PE only since 2014, and so did other private capital data providers after 2019 (Lattanzio, Litov, Megginson, & Munteanu, 2023). Despite the lack of evidence in the literature of these operations, GE has grown considerably in the last ten years, together with VC. GE fund-raising almost quadrupled from 2012 to 2021, following the same trend of VC and Buy-Out funds (Bain & Company, 2023), but it we look at the growth from 2000 until 2022 the surge is much more evident: GE funds asset under management (i.e., AUM) rose from $25 billion in 2000 to almost $1.22 trillion during 2022. Besides these information, there’s an interesting point to highlight: almost half of GE AUM ($525 billion) are located in Asia (McKinsey, 2023), while the remaining part is split between Europe ($109 billion), North America ($484 billion), and the Rest of the word ($91 billion). This fund allocation is common with VC, that shows almost the same distribution, while most of Buy-Out operations are concentrated in North America. The reason behind this trend could be probably the fact that Asia’s emerging markets, like China, are less likely to accept highly leveraged operations in which there is a change of control due to a majority stake acquisition. On the contrary, Asian

entrepreneurs tend to look for friendly equity partnerships. Indeed, as we will see later on in the paragraph, GE could be considered as the perfect substitute for an IPO, since the firm involved can boost its growth thanks to Expansion Capital, while the entrepreneur can still retain control over the company (Lattanzio, Litov, Megginson, & Munteanu, 2023).
GE has grown silently during the last twenty years, without being deeply analysed by journalists and researchers, though such operations are becoming more frequent within the PE sector.

It's important to define this type of investment, providing insights about it. First, there are no substantial differences regarding the legal organization: GE funds are structure in the same way as Buy-Out and VC funds, operating through a limited partnership with a finite lifetime. The key point to stress out is the target of such investments; in particular, GE operations involve growing companies that have already reached a consolidated position in the market. Typically, these firms are looking for funds to expand or enhance their business model, without changing substantially their control framework; indeed, GE operations are typically characterized by the acquisition of minority stakes by investors.
Companies that seek for Expansion Capital are more mature than company backed by VC funds; in other words, they are not companies in the start-up phase, but still, they have one thing in common with them: they show potential high growth rates, but don't have enough fund to achieve it. For instance, the target company may not have enough funds to easily enter a new market, or to conclude a very demanding acquisition (Garland, 2013). Therefore, GE investments scope is to speed up the application of an expansion plan, driving the growth of the company accordingly. A firm may look for GE investors in order to expand its market share, its customer base, or even to acquire unique strategic assets before competitors.
Commonly, the target is a high growth company that shows a long-term sustainable business model, aligned with macro trends and displaying sound market opportunities (Marubeni Growth Capital, 2023). We can identify high growth companies on the ground of some financials, e.g., positive EBITDA or expected to be so within 12-18 months, substantial organic revenue growth, typically more than 10% but even more than 20% in some circumstances, and a lightly leveraged structure (Auerbach & Slotsky, 2019). In addition, it must have a transparent and reliable history of results, which confirm the likelihood of further potential returns thanks to the additional funds provided by investors. Here we can identify the differences between other PE operations: for instance, VC deals could be grounded on speculative assumptions about the available market for a product and future funding requirements, since there's no track record available to investors. GE investors rely on past performance to choose their target; nevertheless, even if the target shows a positive cash flow generation, it is often insufficient to

support a high level of leverage, which is conversely very common in Buy-Out transactions. The latter involve firms showing a much longer positive performance history. Again, we can observe how Expansion Capital is positioned between the more widespread PE operations, namely VC and Buy-Out (Veronis, 2023).

The main benefit for the target company involved in a GE operation is to progress further than without the additional capital provided by investors, potentially outperforming competitors. In addition, this source of finding is usually cheaper than traditional debt and loans, even though we need to remember that an addition injection of capital will determine equity dilution. Anyway, the equity dilution effect is partially countered by the not-incurred cash flow issues due to the hypothetical debt repayments required if the target company had increased leverage (Connection Capital LLP, 2023) instead of seeking for growth capital. Instead, cash flows are used to fuel operations and growth initiatives.

With respect to the performance of GE backed companies, revenue growth is much higher than the one of the companies involved in buyout transactions; the same happens for the EBITDA growth rate. Nevertheless, the EBITDA growth rate could show a J-curve trend, the same we have seen in the previous paragraphs talking about PE returns. In particular, we need to remember that companies suitable for a GE operation are self-funded and tend to invest heavily to pursue revenue growth, even before taking one's capital. Hence, it is not uncommon to observe barely positive EBITDA on target companies just after the GE investment. Furthermore, due to this trend on EBITDA, which can be a misleading measure of performance if not read properly, investment valuations for this type of operation are typically carried out using multiples on revenues, differently from buyout transactions (Auerbach & Slotsky, 2019).

Looking at the pooled horizon net IRR of global GE funds, depending on the time horizon we can observe a range that goes from 39% (3 years horizon) and 19% (10 years horizon), always outpacing Buy-Out funds, and even Early-stage Venture Capital funds if we focus only on a 3 years' time horizon (Bain & Company, 2022). These results are very significative, as they show the huge potential of GE operations.

Investors can steer the high-growth path of the target firm, supporting the growth process and gaining high returns, bearing a lower volatility with respect to a Venture Capital investment, which has much more likelihood of failure.

Of course, it must be highlighted that such an investment does not provide only the funds to pursue the expansion strategy; instead, as PE investors are specializing themselves more and more on operational engineering, a GE operation will provide strong business insights, knowledge, and even network opportunities. This could make the target company more

competitive, thanks to unique opportunities available, creating new business partnerships and widening the customer base.
GE managers focus on few markets to find the best candidate available to conclude the deal: they look for industries that are growing rapidly, such as business services, healthcare, and technology. Furthermore, companies that accept GE are often owned and managed by founders and have never received any institutional equity investment. So, these companies are in a quite stable position, and do not necessary need outside investors' capital to grow. Fund's managers must carry out a proactive deal sourcing: their value proposition is very important to convince the target in concluding the deal (Veronis, 2023).
To summarize, the strategic advice provided by specialized PE investors in general, but even more so in Expansion Capital operations, is a fundamental asset to make these operations successful. Growth Equity investors have to deliver active post-investment value adding capabilities. As we have already seen, investors that are specialized on a specific industry could create more value from the target, and this is what founders are increasingly looking for before accepting a PE operation.

As it has been said before, this type of operation is characterized by the acquisition of a minority stake rather than a majority stock ownership, and this is a very significant point. In this type of operation, we will not see drastic restructuring efforts that Buy-Out operations are typically known for. GE firms don't want to change the control system of the target firm, since it should already work efficiently; hence, investors don't need to overtake the incumbent management. For example, in the context of family firms, PE firms may have a stronger impact through a minority investment, aimed at complementing the firm's management skills rather than substituting them. In this way, the firm is provided with support for exploiting successful growth opportunities (Battistin, Bortoluzzi, & Buttignon, Minority and majority private equity investments: firm performance and governance, 2017), maintaining its core skills and governance system. Investors will strive to create a cooperative relation with incumbent management, also because this operation has typically a long-term horizon, sometimes longer than a traditional PE operation.
Obviously, the minority stake investment does not imply that the investor has no influence over the target company, which is however relevant, but for sure it is different from a Buy-Out transaction for instance: indeed, the investment is unlevered or uses a small amount of debt. In turn, Growth Equity operations could be carried out even if the market debt market are inaccessible or particularly turbulent.

So, in these circumstances the investors will try to form true partnerships with the ownership and the management of the firm, thus creating a sense of shared ownership and having an active involvement in the action plan implementation to pursue value creation (Marubeni Growth Capital, 2023).

Of course, investors are concerned about some problems regarding the minority stock ownership since it is even more illiquid than a typical PE investment.
In turn, investors will strive to obtain minority protections and control mechanisms during exit (Pearce & Tong, 2022). An example could be preferred equity shares, that guarantee a fixed annual dividend rate to the investor and even a preference amount ranking ahead of the other shareholders for events like a control sale. Furthermore, this type of shares could be converted to ordinary shared at a pre-determined conversion rate, favourable to the investor obviously, when some share capital events happen.
Moving on to the exit strategy, the investors are not entitled to decide at will the moment of sale due to the lack of control. Hence, Growth Equity investors must define contractually a clear exit mechanism or protection rights; usually, tag along is a common clause adopted in such situations, so the minority shareholder has the right to sell its shares to a third-party acquirer who is buying a majority stake. Even put options are used as an investors' protection mechanism: in this way they have the right, but not the obligation, to sell their shares at a certain value.
In the case in which the controlling shareholders exploit a drag along clause while selling their shared, the minority investor usually asks for a minimum return amount, determined on the ground of a MOIC, as protection for the downside.
Generally, Growth Equity operations entails a lock up period for both the majority and minority shareholder, to avoid moral hazard and hostile moves from both sides.
Equity dilution is another problem that Growth Equity investors may have to tackle, and which will be countered by pre-emption rights, namely the veto right over new share issuance or the participation on a pro rata basis to a new share issuance.

As we have seen this type of operation may lead to plenty of opportunities, but even threats due to the lack of control. Indeed, the profitability could be very high, tough there are still some risks if the operation is not carried out properly using the right strategy and asking for necessary minority rights.
To conclude, Growth Equity operations could be considered as slightly different than other Private Equity operations, which sometimes are carried out in a hostile, but the final objective

is the same: the goal is to create value, increasing the firm's performance and exiting at a higher multiple than the one paid initially. Talking about the exit strategy, investors will exit from a Growth Equity operation once the acquired company has reached some predetermined milestones (Connection Capital LLP, 2023). Sometimes, as we will see in the analysis of the Eurogroup Laminations Case, investors will partially exit from the acquired stake, retaining some participation in order to continue their work with less influence, but still having an important role in the expansion of the firm.

1.6 Exit/Way out strategy

As we have seen from PE sector dynamics, PE investments have a finite lifetime; hence, it is necessary to identify the right way-out strategy and pursue it in the right moment to maximize exit returns. The exit strategy consists in the ending of the investment and liquidation of the holdings to achieve cash in the value created through the PE operation and to return limited partners' investments or to redeploy the capital to new ventures. Such a decision depends on multiple factors, including the company's performance, growth prospects, market conditions, sector dynamics, and the preferences of the PE firms and its investors.

PE backed companies must consider that the exit may not occur at the best conditions available for the entrepreneur. Indeed, sometimes funds organize exit for their own reasons, which could be pressure from their own shareholders or owing to legislation.

Hence, a target has to know very well the fund with which is working or is going to work; on the other side, the fund must have a clear future exit strategy, even before the investment is made. This decision can greatly affect the final return of the investment.

Nowadays, the disruptive technological changes have increased the criticisms faced by PE firms while dealing with exit strategy. In particular, it is more difficult for both buyers and sellers to address clearly the potential sources of value and the risks coming from the current market trends, due to a particularly changing environment. Successful sellers have to revise constantly their strategy during the holding period to not be overwhelmed by the disruptive economic and financial macro-environment, risking losing the high gains that characterize PE operations.

Nevertheless, investors can tackle these problems following three good practices that can provide useful insights for an excellent exit (Green, Hayes, Seghers, & Zaets, 2018). First, investors should perform a readiness scan before the exit. The assessment process should start 18 months before the exit and should be updated a year after the start. This timing allows the management to identify potential weaknesses, tackle them and steer the performance toward a positive trajectory. For instance, some topics of discussion could be whether the type of exit

chosen initially is still the best choice available, or whether the company is able to maintain and extend its value creation activities after the exit.
In this regard, the second good practice that should be followed is the focus of the management team on pursuing long term value creation, without considering only immediate return: buyers will enter the negotiation only if they believe that they will be able to add value in the future holding period, even with mediocre returns in the short term. In a way, sellers should leave some value creation actions on the table, so the buyers can implement them after the investment.
The third best practice refers to the management preparation to address potential problems and give forthright answers to buyers' difficult questions: in other words, sellers must be transparent. This approach alleviates the buyer's responsibilities since they are promptly informed about issues and potential solutions and affects positively the company valuation.

Once understood how to carry out successfully an exit strategy, the focus moves on the strategy choice. There are several exit strategies available to investors, the most common are the following ones: Initial Public Offering (i.e., IPO, which will be deepened in the following chapter), selling to a strategic buyer, and secondary buyout.
Typically, the most common exit strategies are the IPO and the selling to a strategic buyer (Kaplan & Strömberg, Leveraged buyouts and private equity, 2009).
The Initial Public Offering (IPO) is the process of making a company public namely, to list the stocks of a private company on a public stock exchange. The term "Initial" means that the stocks are sold publicly for the first time since the birth of the firm.
This type of exit strategy has gained prominence due to its potential to provide liquidity, facilitate the realization of gains, and offer the investors an opportunity to exit their positions at higher valuations. In this circumstance, the role of Investment Bankers is very important.
Note that, in the case of a public-to-private Leveraged-Buyout, if the company is sold again publicly on the market, we call this exit strategy Secondary Initial Public Offering (i.e., SIPO); target firms that reobtain the public status are called reverse LBO (Renneboog & Simons, 2005).
However, the IPO structure and process will be deepened in the next chapter.

Trade sale is another form of exit strategy, which means that the seller undertakes a M&A transaction involving a strategic buyer. This is often the fastest exit method, especially if the buyer operates in the same sector of the target, and target skills and assets are complementary with the buyer's strategy. Furthermore, there are less compliance topics to deal with, with respect to exit the investment through an IPO, and there are less counterparties involved: this will make the exit process faster.

In addition, the target bargaining power and the matching with the potential buyer could lead to a higher valuation. Note that buyers can exploit synergies from the integration between its business and the target one. However, there are some drawbacks: the buyer could obtain material information about the company strategy and fundamental assets without concluding the transaction. Note that if the buyer is a competitor, or even a client, it is very important to select carefully the information that are going to be made available during the data room. Another problem to be tackled is that the management team of the target could be reluctant to undertake such a transaction, because of the fear of being replaced by the buyer's management team.

Another alternative is the sale to another PE firm instead of a strategic buyer: in this case we are referring to Secondary Buyout (i.e., SBO). Sometimes, this type of exit strategy is considered as a panic sale. Indeed, these transactions take place when investors want to exit as quickly as possible from the participation in the target, due to financial or macroeconomics factors that are jeopardizing the potential returns, or due to the lack of funds to maintain a strong growth path. So, the investor is no longer able to guarantee a sound contribute, while the target could lose the plenty of expansion opportunities. The new investor should bring the target until it can be sold publicly o to a strategic buyer, providing skills and assets to allow a further development of the acquired firm. It should be highlighted that the initial investor can still keep a stake in the target in order to get some benefits from the future expansion.

Generally speaking, investors' choice among different exit options is made on the ground of debt and equity market conditions. When there is a rise in equity market, investors will tend to move towards an IPO as preferred exit strategy. Conversely, when there is cheap debt available, combined with large capital reserves of Private Equity firms, investors are more prone to go for an SBO (Axelson, Jenkinson, Strömberg, & Weisbach, 2013).

2. The Initial Public Offering: process, costs, and opportunities

As we have seen in the previous chapter, PE operations are characterized by a finite lifetime investment, where Initial Public Offering (hereinafter IPO) is often considered as one of the most suitable exit strategies. In the following paragraphs, we will analyse specifically such operations, trying to understand to what opportunities and drawbacks companies involved are exposed. Once analysed IPO phases and dynamics, the focus will move to PE backed IPOs, namely listings supported by Private Equity firms, trying to understand whether there are differences or not with respect to IPOs carried out without the intervention of PE firms.

2.1 Reasons, opportunities, and costs of an IPO

To bring a company on a public market is a process that is difficult for most companies to navigate alone. Indeed, it involves many professionals and requires a substantial effort from every side. There are many opportunities that comes from an IPO, but also costs and potential difficulties, that should be carefully evaluated by firms. The term "Initial" suggests that, through an IPO, companies are showing themselves for the first time on a public stock exchange: so, which are the reasons that lead companies toward this decision? Which costs and opportunities are linked with it?

In the context of this study, one of the main reasons to go for an IPO is to let PE investors cash out their investment through a successful exit strategy. However, besides the PE exit strategy as reason to consider the IPO choice, we must not forget that the IPO may be a huge opportunity for PE backed companies in order to obtain further funds to boost their expansion. Hence, to became public allows private companies an easier access to additional capital, thus meeting the need for an addition funding. Note that, despite all the IPO costs that will be analysed in a while, it is often cheaper to became public with respect to raise capital through bank loans or looking for another private investor in order to conclude a trade sale. In addition, there are cases in which companies want to raise more capital after the IPO; to do so they do a so called Secondary Public Offering, namely they offer new shares to the market.

Another significant opportunity that comes from an IPO is to obtain acquisition currency, namely liquid stocks that can be used to pay for acquisitions in wholly or partially stock financed transactions. Once the shares are available on the market, many types of deals may be concluded with a stock payment, hence using stocks as currency. Obviously, a seller will accept a payment in stocks only if the latter are a liquid investment, and there is a daily public valuation available. In other words, the fact of being listed on the market increase the likelihood of acquiring other business thanks to this further payment option which could lead to a higher

bargaining power during the drawing of the deal contract. In addition, the liquidity of public shares can increase the commitment of management, which could be fostered with a variable compensation composed by an employee share scheme grounded on performance. In this way, it is possible to reduce agency costs, and to attract and retain key talents that are relevant for maintaining, and possibly enhancing, company performance.
A successful IPO could even improve the reputation of the company, increasing the brand awareness and widening the numbers of potential stakeholders that may interact with the company for any reason (PwC, 2011). In this regard, note that it's easier to sell a huge number of shares to several investor than to a singular investor as in a trade sale or a secondary buy-out. A single buyer may have more bargaining power and will demand a higher rate of return, while multiple buyers operating on the stock market cannot ask for particularly favourable conditions; they will simply buy the shares in the market if the daily price meets them (Chemmanur & Fulghieri, 1999).

It's important to highlight that we should not think to an IPO as an evergreen strategy; indeed, such operation is not always convenient, depending on many factors such as timing, market conditions and sectors dynamics. In particular, the timing plays a substantial role: companies go public when the so called "IPO window" is open, namely when equity markets are rising, and valuations are at or above long-term averages. Companies pay attention to market trends to address the best moment to go public; successful offerings may confirm predictions made by other companies interested in going public: indeed, it not so uncommon to see clustered offerings (Draho & Gourd, 2019).
In this regard, it must be pointed out that insiders have an information advantage with respect to the market. Investors are not able to precisely value a firm when the latter is still private: in other words, they may overvalue or undervalue the firm. Insiders always try to exploit this information asymmetry, trying to go quickly for an IPO when the firm is overvalued in order to get a higher return (Lucas & McDonald, 1990). Hence, if the firm is undervalued by the market, it is likely that the firm will decide to postpone its public offering. From the investment perspective, announcements regarding some financials of the analysed firm will contribute to a more coherent valuation process. After the information release the price could rise, meaning that the firm was undervalued by the market, or it could fall, showing that the firm was overvalued.
From this reasoning, it is clear the importance of the timing of the issue both from the buy side and the sell side: the firm issuing the shares may lose important returns that are fundamental

for its growth, while investors may be misled by the market trends, buying shares whose value will drop in a while.

Besides the advantages of the IPO and the factors that can influence it, firm must consider even the costs that arise from a public offering. The framework proposed by PwC (2017) helps deepening this topic: during the decision process, a firm must consider the cost of going public, and the cost of being public (PwC, 2017).
The costs of going public are linked with the execution of the IPO process and they could be divided into offering costs and incremental organizational costs. The former are directly attributable to the offering; to provide some examples, they include registration costs, external audit costs, legal costs and underwriter costs, that typically makes up the largest part of IPO costs by far. Instead, incremental organizational costs are non-recurring expenditures that are grounded on the complexity and size of the transaction. They generally include costs related to the legal entity restructuring before the IPO, costs due to the valuation reports, and additional audit costs.
It is not easy to precisely define a standard costs list applicable to every offering, because firm are not required to disclose completely these costs, and every offering is different. For instance, a firm may be more structured than another firm to face the offering, hence it will bear less incremental organization cost. It is clear that the bigger the firm, the higher the costs of going public.
On the other hand, the costs of being public are associated with all the actions implemented in order to enable the firms to operate as a public company. In particular, a public firm will face one-time organizational costs to update the company infrastructure. For instance, being public may require a governance improvement, hence there will be higher expenditures to recruit a new board of directors and implement, in turn, a new executive compensation plan.
Furthermore, it must be noted that a public firm must comply with many disclosure requirements, meaning that it will face more costs due to the increased creation of information to be made available on the market. In this case, older firms suffer less this type of cost than early-stage companies, thanks to their more consolidated performance track record: they have more predictable financials, so investor can more easily determine a consistent enterprise value (Chemmanur & Fulghieri, 1999). In this regard, since investors awareness has increased constantly over time, beside the mandatory market requirements, a firm that is preparing itself for an IPO may choose to provide additional voluntary information, such as a non-financial disclosure report, in order to attract more investors once it has become public.

Beside one-time organizational costs, there are recurring incremental costs like incremental auditing fees, accounting advice fees, and incremental internal staffing costs.
It's important to highlight that, unlike bank financing, many costs of listing are incurred only once, but they provide permanent access to the equity financing channel.

It is clear that an IPO could bring a lot of benefits, but at the same time it requires a huge effort, both in terms of costs and management effort since the company must deal simultaneously with the going public process and its day-by-day activity. In this regard, external advisors and especially PE investors have a substantial role, supporting the firm along this path: we will see in few paragraphs the characteristics of IPOs supported by Private Equity firms.
To conclude, before deciding whether or not to go public, companies must evaluate carefully all the potential scenarios that could arise, considering all the possible advantages and disadvantages. Now that the IPO concept is clear, it is intriguing to understand how such operation is carried out. In the following paragraph we will analyse how the multiple parties involved in a listing work together to make a company public for the first time.

2.2 IPO structuring and process

Before explaining the IPO process, it is important to remember that every listing is different, as we have seen with PE operations, depending on who is dealing with it and on the final scope of the offering. Note that a firm may go for an IPO supported by some PE investors instead of going alone, even though there will be always some professionals involved in such process. The dynamics linked with the IPO backed by PE firms will be explained in the paragraph 3.5.

With that said, the IPO process is generally composed of three distinct macro phases: the IPO preparation, the IPO execution, and the being public phase or post IPO phase (PwC, 2022).
The IPO preparation starts with the choice of the market. The strategy pursued by the company while carrying out the offering is strongly grounded on the market chosen for the listing. Every market presents several regulations and requirements to comply with. There will surely be requirements linked with disclosure, like the structure of the financial statements, but there could be also some recommendations linked with other documents that may be considered material from stakeholders. For example, Borsa Italiana provides some guidelines that display the best practices that a firm may adopt during the listing on the Italian stock exchange. For instance, it provides guidelines on the drafting of the strategic plan, providing a common structure, that allow an easier understanding of the information disclosed and even their comparability. In the case of the strategic plan guidelines, it is interesting to note that the

adoption of the principles proposed by Borsa Italiana is not mandatory; instead, the guide is considered as a strong recommendation. Its final aim, as it is clearly stated at the end of the document, is to support the listing process, addressing the issuers, outside consultants, auditing firms, and all other parties involved in the process (Borsa Italiana, 2014).

Obviously, there are many other mandatory requirements to comply with in the Italian market, as in every public market. Incorporating the obligatory public company disclosures into the current procedures in order to adhere to listing regulations will consequently affect the workload of the finance department, occasionally necessitating the recruitment of additional staff. Hence, the choice of the market affects most of the company actions to be undertaken in the following phases of the IPO process. One may think that a company will certainly choose to list on the national market where it carries out its activities, but this is not always true. Indeed, a thorough market analysis may show that the most suitable market for the listing is a foreign one.

Once the market is chosen, the company should start a readiness assessment, namely a phase in which the company analyses the determinants that could affect the IPO execution. Since it is quite easy to underestimate the effort needed to make a company public, it is important to understand where the company currently is with respect to what the market requires. As we have seen in the previous paragraph, the cost that arise from an IPO may be very demanding. So, the final aim of the readiness assessment is to verify whether the company actually fits for the listing process, identifying the most critical areas to be enhanced prior to listing and trying to forecast the costs of the IPO process. Note that a comprehensive assessment requires a thorough evaluation of all areas of the organization.

Once the preparation is concluded, it is time for the IPO execution phase. Since we are going to deal with the Eurogroup Laminations listing in the following chapter, hereinafter we will explore the execution phases of the Italian stock exchange called Euronext Milan.

The first step is the setting up of a team to manage the listing process; the firm has to select and hire many professionals, like lawyers, advisors, auditors, a global coordinator and a listing agent. Note that the latter is specific for listings on the Euronext Milan market. In particular, the listing agent is the financial intermediary that assists the company throughout the process, ensuring the quality, accuracy, completeness of the information provided by the issuers, the orderly and correct conduct of the process (Borsa Italiana, 2023). The global coordinator is another key figure in the process: it is the investment bank that coordinates every aspect of the listing process, including placement. The team set-up together with the preparation phase will take roughly from 2 to 5 months (Borsa Italiana, 2023).

Subsequently, there is the due diligence, namely all the activities linked with the acquisition of information necessary to prepare the documentation required legally to issue shares on the

market, like the prospectus and the working capital statement. Once all the material are ready to be displayed, the premarketing activity starts. In this phase the firm develops its equity story, that must be coherent with the current situation of the firm and display a realistic development scenario; it should focus on three main topics: identification of the addressable market and its specific opportunities, presentation of the business and its growing margins, and displaying most important financials with realistic and sustainable projections (PwC, 2022). Note that this is an important reference for investor to formulate their expectations about the company. After the drafting of the equity story, the company is presented for the first time to analysts and to some selected investors. Due diligence and pre-marketing phase last roughly 2-3 months.
Then, there a period of two months in which the firm requests the authorization for the listing to Borsa Italiana, and for the prospectus to Consob.
Finally, the last phase of the IPO execution is the placement of company shares on stock exchange. This step includes roadshows and investor presentations, that may even occur abroad for institutional placement, and the book-building to collect orders, determine the price and allocate the shares among interested investors (Borsa Italiana, 2023). During the execution phase, a business area that should not be underestimated is project management: the tasks to be carried out are multiples and remember that the firm must continue its day-by-day activity. A sound project management could help optimizing the effort provided by existing employees. External resources can be hired to execute day-to-day tasks or perform specialized functions to alleviate this burden. In addition, as competitors and other market stakeholders progress during the process, it is difficult to be aware of all the factors that could influence the IPO. A strong Project Management Office (PMO), in turn, is a fundamental resource for a successful listing: it should establish a plan, monitor progress, and manage the potential risks arising from the multitude of tasks to be carried out during the process (PwC, 2015).
Once the listing is concluded, the firm is finally public, and have to deal with the post-IPO phase. This conclusion may seem obvious, but it is not. Indeed, from now on the company has to operate as a public company, trying to achieve the milestones displayed to analysts and investors during the pre-marketing phase or preferably slightly exceed them. For this reason, it is very important for the company to establish a transparent and coherent set of KPIs, that should provide a complete picture on the value driver of the business to all stakeholders. In addition, investor relations become an important area of the company to be supervised. A public company that has just listed on a stock exchange has to manage the new public investors which have bought shares during the IPO. Furthermore, equity analysts must be updated periodically on the objective’s achievement, confirming the reliability of the expectations expressed initially (PwC, 2022).

To conclude, the decision to go public on the stock market is a strategic move that has an impact on all aspects of regular management and interactions with stakeholders. The results of this process are influenced not only by the business's features and potential but also by the effort invested in enhancing managerial systems in the period leading up to the listing. This enhancement is crucial for the company to effectively handle all significant aspects of its relationship with the market once it is publicly traded. In the next paragraph we will analyse how investors value a company, displaying the pricing mechanism of the stocks when the latter are sold for the first time on a public stock exchange.

2.3 Valuation and pricing mechanism

In the previous paragraph we have seen all the steps of an IPO, but we didn’t highlight the importance of the valuation and the price-setting mechanism. It is true that company has many aspects to deal with during the listing process, but the price is still the key variable of any offering. The company preparing for the IPO has to decide carefully its price range, that should adhere to investors’ expectations, or at least be close to them. Obviously, the price is grounded on the valuation of the company; hence, we need to deepen this topic first. Corporate Finance literature provides several valuation methods, but in this paragraph, we will mainly focus on the valuation guidelines provided by Borsa Italiana. Again, as we have seen in the previous paragraph, these guidelines are not mandatory, but could be considered as a strong recommendation, or in other words a best practice.

Figure 3 displays the steps that compose a valuation aimed at a stock exchange listing.
As we can observe, the valuation steps go hand in hand with the phases of listing seen in the previous paragraph. As long as the company goes closer to the going public phase, it will get a more precise valuation: the more reference parameters become visible, the more realistic the valuation is.
During the pitch phase, the company choses the intermediary that will help carrying out the listing. The investment banks that candidate for being the global coordinator during the listing send a proposal to the company, which generally includes a preliminary valuation of the company being quoted.

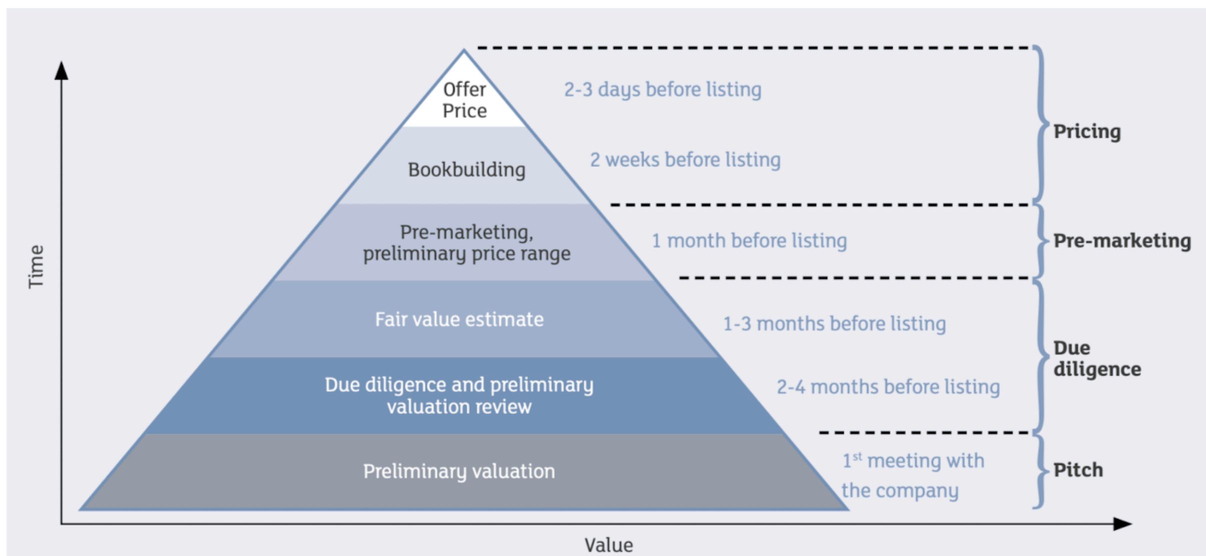

Figure 3: The value pyramid (Borsa Italiana, 2014)

It is clear that, during the pitch phase, the valuation could not reflect completely the value of the firm, as it does not consider the business plan and the results of the due diligence.
It is interesting to highlight that a company may be misled in choosing the intermediator on the ground of a higher valuation. This bias could lead to mediocre listing results; instead, the company should focus on the quality and on the reputation of the intermediary chosen as global coordinator.

Once the intermediary is chosen, the due diligence starts and in turn the analysis of the business plan is carried out. In this way, the valuator can understand the business in detail, laying the foundations for the preparation of the Valuation Document. The latter is an integral part of the listing application to be submitted to Borsa Italiana. Among its contents, there are two documents sections that are fundamental for the valuation and pricing process: equity story and consideration on the valuation (Borsa Italiana, 2014). As we have seen in the previous paragraph, the equity story determines the attractiveness of a firm for potential stakeholders. Furthermore, it represents a useful tool for screening and refinement of the first valuation's results. The section called "Considerations on the Valuation", by definition, refers to the results obtained using different valuation methods on a particular company. In particular, Borsa Italiana guidelines suggest using market multiples method, Discounted Cash Flow Method (hereinafter DCF), and a sensitivity analysis to complete the valuation. Note that the method adopted should lead to the most realistic valuation with respect to the company characteristics, market, and sector of reference. In this connection, talking about the multiple method, there could be some problems about the sample of comparable companies. Deciding which companies could be considered as "comparable" is a critical point, since it may influence a lot the final result of the

valuation process. Comparable companies must be chosen carefully, analysing financials and the sector of reference, verifying the matching with the company that is carrying out the listing. The DCF method is the other major component of valuation for an IPO on the ground of Borsa Italiana guidelines; nevertheless, valuation through DCF must be supported by a precise explanation on the hypothesis formulated while making projections on operating cash flows (e.g., the reasoning behind growth rate to calculate the terminal value).

Finally, the Valuation document should be completed with a sensitivity analysis, that is typically formulated on DCF valuation results. The most common variables of reference for this analysis are the Weighted Average Cost of Capital (hereinafter, WACC) and the perpetual growth rate used to compute the terminal value. As for the DCF method, to provide a strong and significant analysis, the scenario formulated must be grounded on realistic and clear hypothesis at the basis of the variables used. Note that the sensitivity analysis could be extended to the multiple method as well (Borsa Italiana, 2014).

After the due diligence and the drafting of the valuation document, there is the pre-marketing phase: here the investment bank conducts a survey among institutional investors, resulting in the establishment of a preliminary price range. Note that investors are influenced even by the current market situation and by the preliminary independent valuations, calculated by analysts that do not have access to the forecasted data contained in the business plan. The result of the survey is the pre-requisite for the issuing company to meet the selling stakeholders and define the indicative price range and the maximum price.

So, at this point the issuing firm enters the pricing phase: thanks to the marketing activity, i.e., roadshows, the issuing firm receives declarations of interest to buy from institutional investors. Remember that one of the most crucial elements in an IPO is the price, and information plays a vital role in determining it. Although the general belief is that roadshows are conducted only to provide potential investors with information about the issuers, the final aim is quite the opposite: during the roadshow, the firm and its investment bank gather information from potential investors, eventually confirming it through the book-building process (Iannotta, 2010).

It is important to specify that once the "real" pricing phase is reached, there are many information available to the public, meaning that the price proposed by institutional investors is grounded even on soft elements like corporate governance and management system. However, the determination of the offer price takes into account both the requested number of shares and the price deemed acceptable by institutional investors.

In general, the ultimate price is set to efficiently distribute the shares among institutional and retail investors, adhering to priorities set by both the company and the investment bank. This

approach intentionally leaves a portion of the demand unmet, aiming to stimulate interest and bolster buying activity to support the stock's performance in the secondary market (Borsa Italiana, 2014).

Besides Borsa Italiana Valuation Guidelines, Roosenboom (2012) displays an intuitive scheme on the valuation process during an IPO. In particular, the study shows that, in addition to multiples valuation and DCF, the dividend discount model and economic value-added valuation should also be considered. All these techniques share similarities in terms of bias, and valuation accuracy (Roosenboom, 2012). So, as we can observe in figure 4, after the fair value estimation underwriters apply a deliberate price discount in order to get the preliminary offer price. It is interesting to note that underwriters with a strong reputation may apply a lower discount thanks to their IPO track record and market share. After investors meeting, the price is updated on the ground of investors' feedback, leading to the final offer price. The first day market price is commonly influenced by a phenomenon called underpricing, which will be analysed in the following subparagraph.

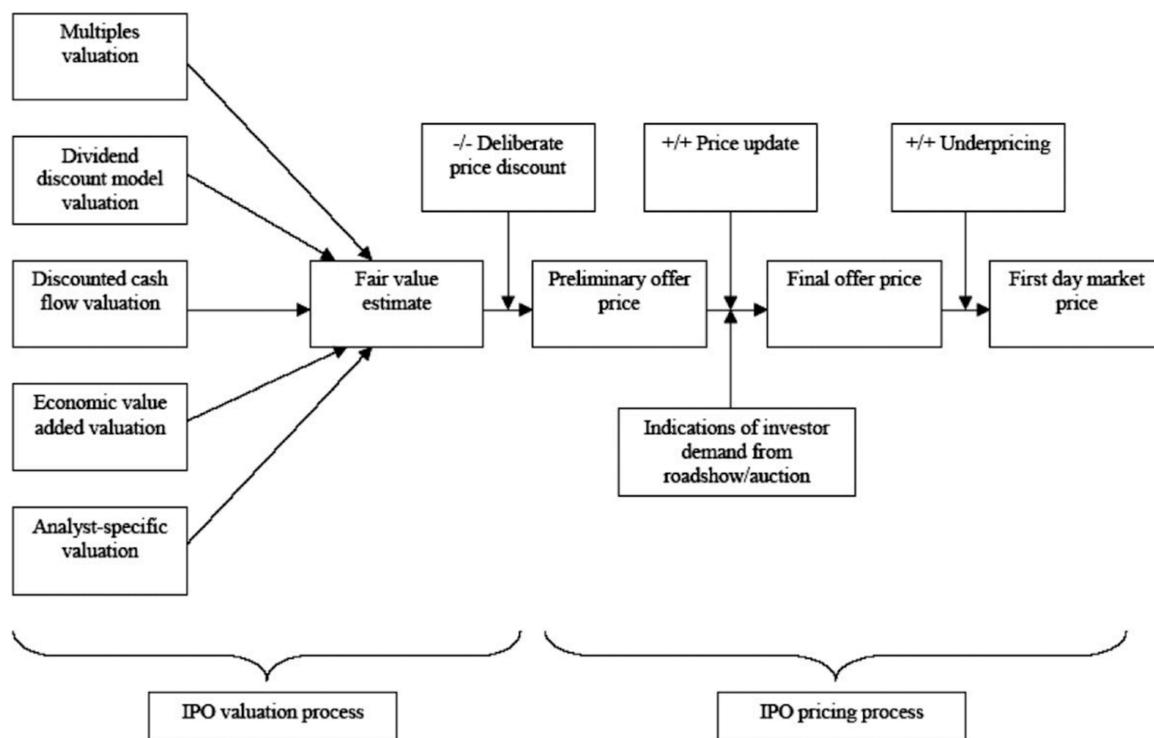

Figure 4: IPO pricing and valuation process (Roosenboom, 2012)

2.3.1 Underpricing

Underpricing refers to the situation where the issue price of a company's stock is lower than the stock's market price at the end of the first day of trading. In other words, the shares of the issuing

company are priced at a level below what investors are willing to pay once the stock begins trading on the secondary market. Hence, underpricing often leads to initial investors experiencing immediate capital gains as the market price rises rapidly after the IPO. On the contrary, from the point of view of the issuing firm, a part of capital that could have been raised through the listing is "left on the table"; the firm could have raised the same amount of capital bearing a lower share dilution effect.
Underpricing is a common phenomenon in the context of IPO, and can occur for various reasons, including to generate excitement and demand for the new stocks, attract more investors, and ensure a successful market debut for the issuing company. Being more precise, we can identify three primary reasons for the consistent average initial return observed: intentional underpricing in the premarket, mispricing in the early aftermarket resulting from trading activity, and underwriter-initiated price stabilization in the early aftermarket (Reber & Vencappa, 2016).

The first point is probably the most common contributor towards persistent average initial return primary, and it results from information asymmetry about IPO value among premarket participants. In particular, deliberate underpricing serves as a costly and challenging-to-replicate signal. In this context, firm insiders employ it to convey positive information about firm value to external investors. Note that the underpricing observed in an IPO arises due to imbalances in information among the principal entities involved, specifically the issuing firm, the underwriter, and the investors participating in the IPO. The rationale behind underpricing is contingent on which of these entities possesses a greater amount of information than the others. Thus, presuming that the underwriter holds the highest level of information, it might employ underpricing as a strategy to promote the IPO to investors, aiming to achieve complete subscription (Bergström, Nilsson, & Wahlberg, 2006).
The second possible reason of underpricing is grounded on the fact that IPOs are priced at their intrinsic value before the market opens. The initial returns are then associated with trading activity in the early aftermarket, attributing it to factors like overoptimistic investors and their valuations.
Lastly, some authors credit the positive average initial return to underwriter price support. This support causes a censorship of the return distribution, creating a misleading perception of a consistent average initial return. It has been observed that underwriters stabilize aftermarket prices near the offer price, leading to a scarcity of overpriced IPO stocks (Reber & Vencappa, 2016).

It is interesting to note how the work of underwriters does not finish immediately after the listing: they typically help to stabilize the price of the listed company. Underwrites carry out several price-support activities, among which there is the greenshoe option (Aggarwal, 2003), which will be analyzed in the following subparagraph.

2.3.2 Greenshoe option

The Green Shoe option, also known as an overallotment option, is a provision that allows underwriters to issue additional shares beyond the originally planned offering size in an IPO. So, to support stabilization initiatives, the investment bank sells more shares than initially offered, often exceeding by around 15%. The bank achieves overallotment by borrowing shares through stock lending, essentially establishing a short position, namely selling shares it doesn't own. Typically, the issuer grants the investment bank an option to buy shares either from the issuer directly or from selling shareholders within the subsequent 30 days. This option enables the underwriters to meet excess demand in the market. If the demand for the IPO shares is higher than anticipated and the stock trades above the offering price, the underwriters can exercise the Green Shoe option to purchase more shares from the issuer at the offering price.

Note that the investment bank is obligated to return these shares, yet retaining a call option on them. Hence, there are two potential outcomes that could arise (Iannotta, 2010). If the price decreases, the investment bank purchases shares in the market with the aim of mitigating or reversing the decline. Conversely, in the case of a price increase, the investment bank opts to exercise the Green Shoe, covering its short position at no additional cost. Towards the conclusion of the stabilization period, the investment bank returns the borrowed shares without exercising the Green Shoe option. So, this mechanism provides flexibility in responding to market conditions and helps stabilize the stock price by increasing the supply if there is strong demand.

To conclude, valuation and pricing are two fundamental phases of the IPO process, that surely affect the future of the company being sold on the market, and influence even the proceeds of investors willing to exit their position. In these circumstances, considering all the consequences of an IPO, it is important to understand what the role of PE firm in such operations is, trying to understand what contribution they provide, and more important if they are able to boost IPO results or not. In this regard, in the next paragraph we are going to do an analysis of PE backed IPOs.

2.4 IPO backed by PE firms

Since now we are aware about most of the elements that compose, and can influence, the first listing of a company on a public stock exchange, we can deepen the analysis made so far, distinguishing between PE backed IPOs, and the "Naked" IPOs, where the company involved in the listing is not supported by a PE firm. We have already seen how a PE firm affect a company way before the listing decision, through operational, financial, and governance engineering. Hence, now we are going to move the focus on the role and of PE firms during, and even after, the first public offer of a company.

As it has been displayed, the IPO is one of the most common exit strategies chosen by PE investors to liquidate their holdings. It is important to highlight that PE investors, choosing the listing as divestment strategy, in most cases do not fully exit from their position immediately. Indeed, PE firms are often tied to a lockup period after the IPO, namely they cannot sell the shares immediately after the listing. The duration of this period varies between 90 and 180 days. This strategy is typically imposed by underwriters in order to prevent insiders from flooding the market with a substantial volume of shares upon the company's public debut, to greater reason if the PE investor owns a majority stake. A strong selling activity made by a PE investor just after the IPO may adversely affect the stock price. Hence, the lockup period is considered as a precautionary measure aimed to avoid potential initial decreases in the stock's value: the PE presence among firms' shareholders after the IPO is considered as a signal of quality, thus increasing investors assurance and stabilizing stocks price. Note that PE firms are therefore exposed to all the fluctuations and risks that come with playing the market during the lockup period duration.

So, the lockup period holds significant importance, especially in mitigating information asymmetry concerning the quality of a firm. By retaining a portion of stocks, the selling investor signals a commitment to abstain from rapid divestment before any potential decline in stock prices occurs. Note that the lockup may be very demanding in term of costs, but it is important to provide a clear signal to investors: this type of mechanism provide a sort of implicit confirmation of what is written in the prospectus in terms of firms actual quality and future performance (Arthurs, Busenitz, Hoskisson, & Johnson, 2009). Note that there could be cases in which prospectus may be misleading and unrealistic, triggering the typical problem explained by agency theory. Investors who are not new to listings pay attention to these details, and consider them while deciding where, and when, to put their money. Besides the lockup period, PE investors could decide to voluntarily keep a stake in the firm, to support its growth: this is an even stronger quality signal for investor, more than a longer lockup period. In any case, the

key point to consider is the fact that management expertise, operational efficiencies and financial practises which characterize the work of private equity companies will be maintained for a period after the listing. The sustained engagement of PE enables more vigilant oversight, minimizing information gaps and potential conflicts with other stakeholders. This could result in enhanced operational performance and, contingent on initial valuations, superior aftermarket performance as well (Levis, 2011).

So, it is clear that just the presence of a PE firm among shareholders of the listed company triggers significant differences in terms of level of assurance perceived from investors. Note that, in the context of target scouting activity, opting for an optimal location and sector, while essential, does not assure a straightforward victory in terms of investment proceeds. Similar to any stock-picking approach, the challenge faced by PE investors lies in comprehending the distinctive elements that propel companies toward market success. The superiority attributed to PE-backed IPOs is related strongly to the high level of experience and expertise in the process of extensive research and scouting conducted way before the IPO was considered, enhancing the likelihood of a successful investment decision and even a successful listing. This is a significant factor considered by investors during their decision process, especially when the shares analysed are traded on the public market for the first time.

In order to identify further differences between PE backed IPOs and Naked IPOs, we do not need to look at the mere IPO process, meant as the list of operations that lead to the listing. Rather, it is useful to look at the magnitude and the performance of the listings.

In terms of performance, in a narrow sense, data from figure 5 indicates that IPOs supported by private equity firms have demonstrated superior performance compared to "conventional" IPOs, exhibiting an outperformance by as much as 5,2% in the 12 months following the listing, particularly evident during phases of market consolidation. Consequently, it can be inferred that PE-backed IPOs generally excel relative to their non-backed counterparts during periods characterized by market stability and consolidation. Conversely, these PE-backed IPOs may experience underperformance during market downturns, primarily attributable to concentration risk (Allianz, 2021).

Figure 5: Average 12-month returns for PE-backed vs. naked IPOs in % *(Allianz, 2021)*

However, it is interesting to observe also the size of the deal in the performance analysis of PE backed listing. Table 1 shows that the scale of the deal, and even the sector on which the target company operates, plays a pivotal role. Although IPOs typically generate annual returns of approximately 6% to 7% regardless of their size, discernible variations emerge between PE backed and non-backed IPOs concerning size-adjusted returns. Notably, PE backed listings exhibit a competitive edge in the sector of small-cap ventures (between USD 50mn and 500mn), boasting an excess return of nearly 8% over non-backed IPOs. Conversely, within the mid-cap sector (between USD 500mn and 2000mn), PE-backed IPOs appear to underperform, with non-backed IPOs yielding a roughly 2% excess return.

	PE-backed IPOs		Naked IPOs	
	Small	Mid	Small	Mid
Basic Materials	20.7	-1.8	9.8	3.4
Consumer cyclicals	10.7	1.8	6.9	6.0
Consumer non-cyclicals	19.3	12.8	5.7	8.8
Energy	19.8	-5.4	11.4	2.4
Financials	19.6	-7.9	5.4	7.8
Healthcare	27.4	14.5	14.7	35.5
Industrials	11.7	14.9	5.1	6.6
Real estate	24.1	-1.5	-0.1	-9.3
Technology	14.6	12.9	3.9	4.3
Utilities	-17.7	14.9	8.6	3.0
Total	**15.8**	**4.3**	**7.1**	**6.2**

Table 1: 12-month returns of PE-backed IPOs vs. naked IPOs in percentage points (Allianz, 2021)

Upon a more granular examination of sectoral performance, it becomes evident that PE-backed firms notably outshine non-backed IPOs in the technology, consumer non-cyclicals, real estate, and small-cap financials: sectors that also encompass the highest IPO volumes (Allianz, 2021).

Another interesting result regarding PE backed IPOs refers to underpricing. In particular, first day percentage returns are significantly lower than for naked IPOs; furthermore, if we want to look inside PE sector, VC backed IPOs show a higher return of a first day of trading, yet performing better than Naked IPOs. The lower underpricing of PE-backed IPOs could be explained by the combined effect of a lower risk level perceived by investors, a more aggressive pricing, and PE firms' reputation. The better performance of PE-backed IPOs is determined by a higher level of information available to investors prior to the listing, triggering a more substantial share allocations to institutional investors once the listing is complete. These institutional investors are motivated to receive share allocations in future private equity-backed IPOs, potentially leading them to sustain the stock price for an extended duration compared to non-private-equity-backed IPOs.
In the context of support provided by PE, it is probable that investors will hold more aligned opinions regarding the genuine value of the issuing firm. The lower information asymmetry may result in a reduced bias of positive retail investors participating in the IPO, indicating that private equity backed IPOs could undergo adjustments in price at a later stage than naked IPOs (Bergström, Nilsson, & Wahlberg, 2006). This leads to the conclusion that PE backed IPOs perform better in the short period, however they show an underperformance in the long period, especially when PE investors exit fully their position in the company. In any case, even looking and the long run performance, PE backed IPOs perform better than Naked IPOs.

To summarize, PE-backed IPOs at the time of flotation are larger in terms of market capitalization, total assets, sales profitability, maintain higher levels of debt, and are less underpriced than other IPOs. PE-backed listings demonstrate higher profitability and efficiency both on absolute terms and when adjusted for industry factors within the same timeframe with respect to Naked IPOs. Hence, one might posit that investors are taken aback by the significant decrease in debt and robust operating performance, characterized by profit margin and asset turnover improvements, in the three years following flotation. The relatively enhanced long-term performance of PE-backed IPOs correlates positively with the proportion of equity retained by the PE investor and the degree of leverage shortly after the flotation. In addition, looking inside the PE sector, PE backed IPOs generally perform better than VC backed IPOs (Levis, 2011). However, it is clear that PE and VC have different target, as we have already seen in the previous chapter; so, the results obtained from an IPO has to be analysed considering all the differences in terms of target and type of investment. For example, an IPO derived from

a Growth Equity operation will have a larger size than a VC-backed IPO that could even involve a start-up that has reached a market position in which it can be listed on a public market.

So, the outperformance of PE backed IPOs is confirmed from many authors, attributing such results mainly to PE investors experience. Besides the size and the sector of the listed company, an important factor to consider is the timing for taking the company public. The listing is carried out with the awareness that any potential failure will harm the reputation of the PE firms and the success of future operations. This drives PE investors, again, to carefully select the companies to support and assign the appropriate value (Gompers, Grandstanding in the venture capital industry, 1999).

This paragraph concludes the first part of the work, aimed at providing an overview of the Private Equity sector, focusing on Growth Equity activities, and of the dynamics of an Initial Public Offer, deepening PE backed IPOs. So, what has been explained so fare is a functional prelude for the following chapter, where we will go through the Euogroup Laminations case from an empirical point of view, observing an interesting example of how a Growth Equity operation could lead to consistent results, with a consequent IPO as exit strategy chosen by investors.

3. Empirical analysis: the Eurogroup Laminations case

In this chapter we will tackle a real example of how PE firms work, how they bring companies towards the IPO phase and what support they can provide even after the listing. The company that is going to be analysed is Eurogroup Laminations S.p.A.

The chapter is organized as follows: the first paragraph will display a firm overview, providing insights about its story, core activities and sector of reference. The second part will be related to the GE operation carried out by the PE fund Tikehau Capital, showing the difference between the pre and post entry of the fund in terms of value and performance. The third section will analyse the IPO path, trying to understand the reason behind such decision and the results obtained from it. Finally, the last part will provide some projections, in order to understand what the possible future scenarios of the company developments and financial results are.

3.1 Eurogroup Laminations: history and overview

Eurogroup Laminations (hereinafter "EGLA", or "the Group") is an Italian company situated in Baranzate, near Milan. The Group stands as a global leader in crafting, manufacturing, and disseminating motor cores (consisting of stators and rotors) utilized in electric motors and generators.

Deepening company's activities, its business operations are structured into two key segments:

1. Electric Vehicles (hereinafter EV) & Automotive, dedicated to the design and production of motor cores for electric motors employed in electric vehicle traction, as well as a diverse range of non-traction automotive applications;
2. Industrial, specializing in the creation of products applicable in various sectors, including industrial applications, home automation, HVAC equipment, wind energy, logistics, and pumps. Additionally, the Group maintains vertical integration in the development and production of blanking dies and die-casting molds, essential components employed in the manufacturing of its own products, which are also supplied to external entities.

The company, initially named Eurotranciatura S.p.A., was born in 1967, and was located in Baranzate (Milan). The firm originated as a manufacturer and distributor of blanked electrical steel laminations used in electric motors and generators. In 1987 the merger of Eurotranciatura, Alcast, and Corrada resulted in the establishment of EuroGroup Laminations, which now operates across multiple European countries.

Towards the 21st century, EGLA broadened its scope of activities and evolved into a global partner serving companies and industries across the globe.

In particular, 2016 marks the start of the era of the energy transition for the group, which became a worldwide frontrunner in manufacturing stators and rotors for electric vehicles, the Group achieved global market leadership. Simultaneously, Euro Group Asia Limited was founded in Hong Kong in the same year, eventually acquiring a portion of Euro Misi Laminations Jiaxing Co. Ltd. The Automotive segment witnessed remarkable outcomes, driven by the growing popularity of electric vehicles.

In July 2020, EGLA entered a partnership with Tikehau Capital, a pan-European asset manager and investment group. Marking the inaugural Italian transaction for the Energy Transition Fund, this agreement empowered the company to strengthen its global leadership in the electric vehicle (EV) sector.

In February 2023, a significant milestone was achieved as the Group entered the stock exchange. This move has fortified the company in anticipation of upcoming challenges and future growth. We will strongly deep these last two milestones during the chapter.

Figure 7 reports clearly the several milestones achieved by the company since its birth. Again, we can observe that 2016 is the point of departure of an exponential development of firm operations and profitability.

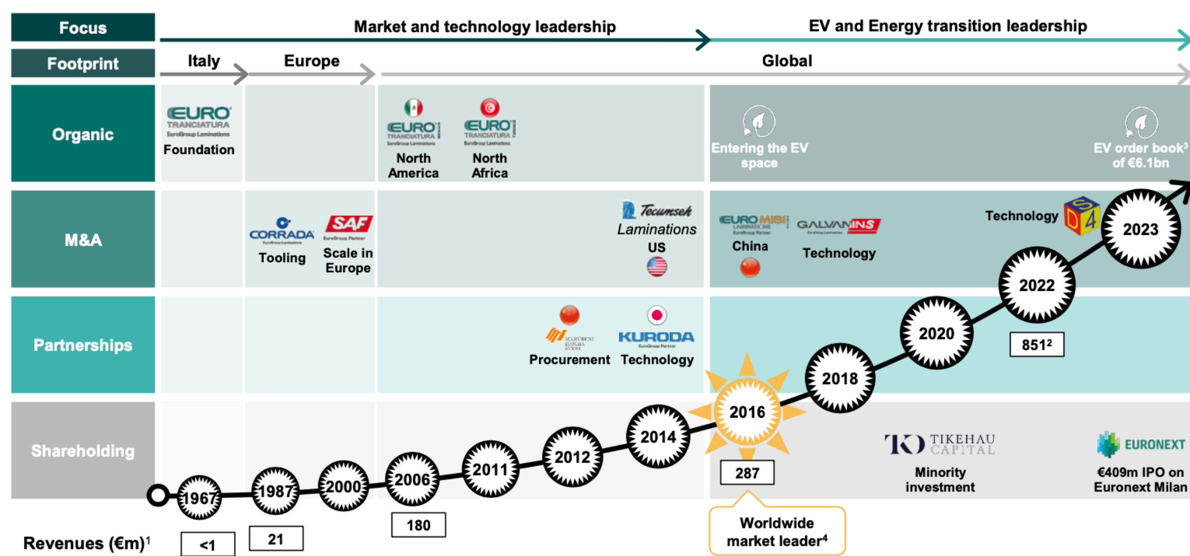

Figure 6: Timeline of Eurogroup Laminations milestones *(EuroGroup Laminations S.p.A., 2023)*

The energy transition wave has led the firm towards the electric vehicle sector. The company has become an important player thanks to its supply: as we can see in Figure 7, the company

produces rotors and stators, that represent roughly the 15-20% of the overall cost of an electric motor.

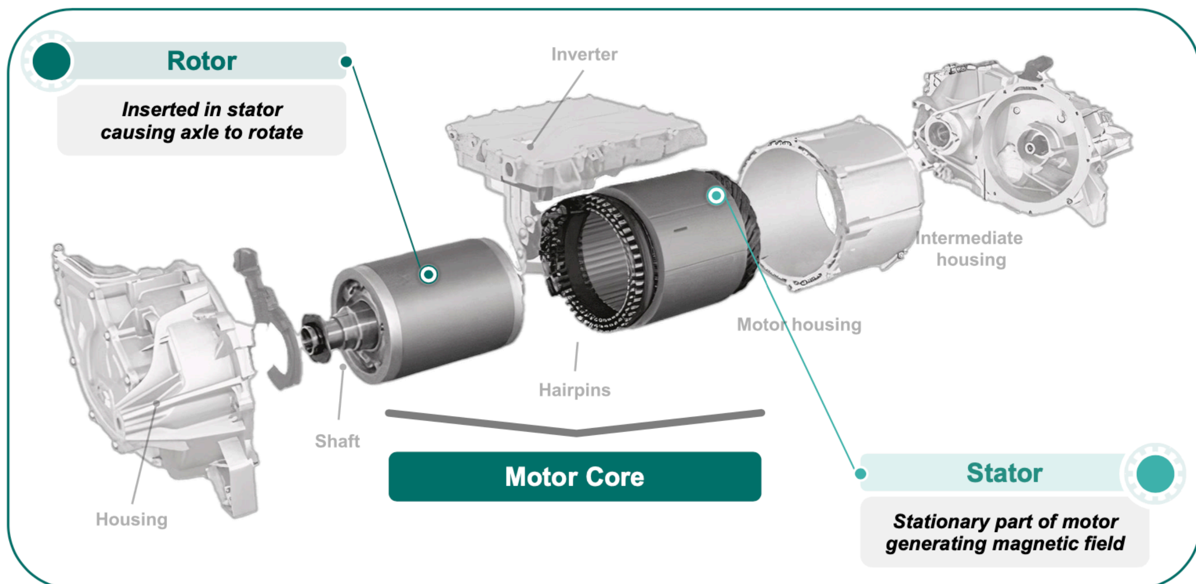

Figure 7: core product of Eurogroup Laminations for the EV sector *(EuroGroup Laminations S.p.A., 2023)*

So, besides becoming a global leader in the development and production of electric motor core, the firm maintains a divers business model, catering to fast growing ending markets.

Focusing on the EV sector, it is interesting to observe the order book the EGLA to better understand the magnitude of growth. As we can see from Figure 8, the EV order book has drastically increased from 2019. As of October 2023, the EV orders amount measures 6,4 bn of Euros, quadrupling compared to 2019. In addition, the orders pipeline amounts 4,1 bn Euros, considering the quotes issued with potential new orders.

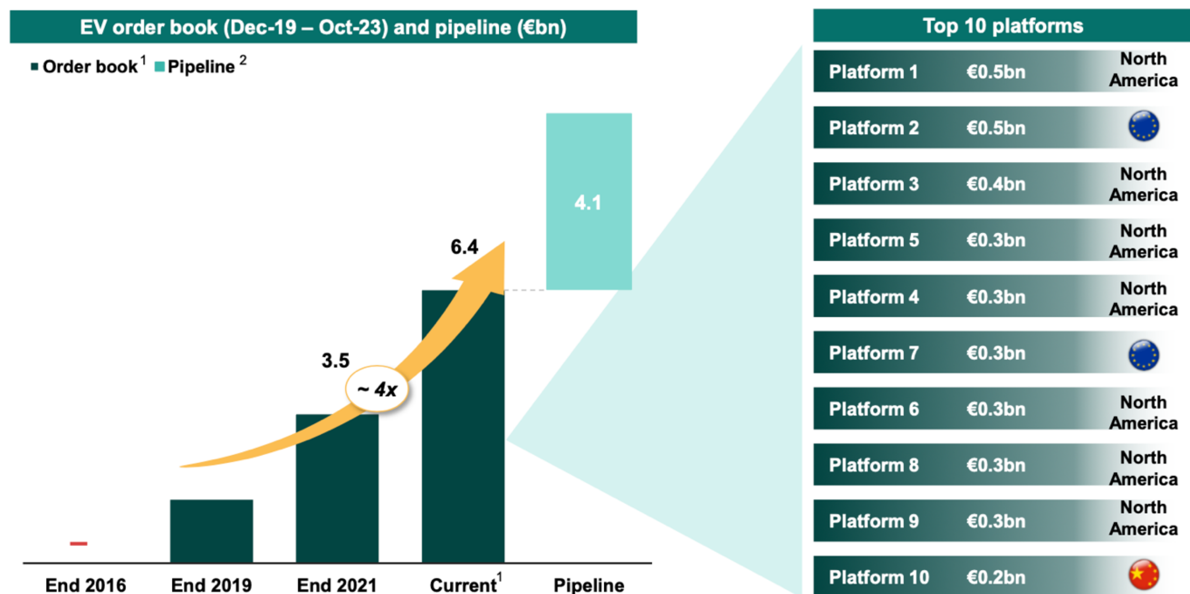

Figure 8: Eurogroup Laminations EV orderbook *(EuroGroup Laminations S.p.A., 2023)*

The several competences and strengths of EGLA are distributed among the subsidiaries; here follow the list of the companies that compose the Group, with a brief description:

- Eurotrinciatura, proficient in the production of interlocked and rotated assemblies, as well as loose laminations (with an external diameter of up to 600 mm), catering to diverse applications in rotating electrical machines. These applications span various industries, encompassing automotive, white goods, power tools, generators, wind generators, speed reducers, geared motors, hermetic motors, domestic appliances, pumps, and ventilation systems;
- Euroslot, with expertise in blanking and notching, our company serves as a dependable ally for global manufacturers of large-sized electric motors and generators;
- Alcast, established in 1980, this aluminium foundry specializes in rotor die casting and the production of components for electric motors. Situated in Melzo, the facility operates within a covered area spanning 8,000 square meters;
- Corrada, established in 1933, has become a prominent worldwide authority in crafting carbide and steel progressive lamination dies for electrical machines, available in both interlocked and loose configurations;
- Euroslot Tools, specialized in the creation and manufacturing of compound single-notching dies tailored for stamping electrical steel laminations, catering to high volumes of up to 1300 mm;
- Saf, which holds significance as a crucial provider of slit coil to EuroGroup entities;

- Eurotrinciatura Mexico, which has established itself as a notable benchmark for numerous major motor manufacturers and stands out as a leader in the North American production of electrical steel laminations. The production capabilities encompass high-speed presses with a capacity ranging from 125 to 600 tons, operating progressive dies to manufacture loose laminations and interlocked stacks;
- Eurotrinciatura USA LLC, that possesses a variety of high-speed presses with capacities ranging from 160 to 600 tons, an annealing capacity of 15,000 lbs. per hour, rotor bluing furnaces, laser welding and cutting capabilities, rotor die casting, in-house slitting, machining, and die servicing;
- Eurotrinciatura Tunisie was created with a primary focus on manufacturing electrical steel laminations to cater to the leading electric motor producers in North Africa;
- Euro Misi Lamination Jiaxing Co. Ltd. stands as a collaborative venture between EuroGroup S.p.A. and Marubeni Itochu Steel Inc., dedicated to providing cutting-edge technologies for the manufacturing of rotor and stator laminations, cores, and assemblies for electric motors to customers in China;
- Kuroda, which is specialized in producing electrical steel laminations for electric motors and generators and has inaugurated a manufacturing facility in the United States.

Before moving our attention to the Growth Equity operation carried out by Tikehau Capital, we could use the S.W.O.T. to recap, and complete, the overview of EGLA. With the support of the information shared by the Equity Research drafted by Kepler Cheuvreux (2023), we will analyse the strengths, weaknesses, opportunities and threats that could be faced by EGLA.
So, the main strength of EGLA is a unique technological edge in stators and rotors (motor core components); thanks to this, the firm rapidly reached a market share of over 50% on the EV & Automotive sector in Europe and North Africa. The supply of the firm is fostered by a diverse customer base and well-established relationships with them, with a 100% customer retention rate.
The company operates 12 plants worldwide, with seven located in northern Italy and the remaining five situated abroad. The company’s global coverage enables to provide localized services to its customers in each region, following a "local-for-local" approach, while simultaneously minimizing logistical expenses and risks associated with transportation. Last but not least, the management team is efficiently organized, boasting extensive experience across various regions. Key executives have an average tenure within the group of 15 years and include the founder and Chairman Sergio Iori, CEO Marco Arduini, and CFO Isidoro Guardalà.

Let’s now move to the weaknesses of the company. The most evident is very significant, since it is directly link with the financial structure and potential performance of the company. Company future strategy is linked with high capital requirement, but with limited cash flow generation in the near term. This is due to the fact that the company is enhancing its capacity to accommodate anticipated future growth, with a particular focus on the EV & Automotive sector, where the most of capital expenditures (hereinafter CAPEX) will be allocated. Considering that working capital intensity will remain high, cash flow generation will probably be modest for 3-4 years. Furthermore, even though the company is increasing the revenue size attributed to EV and Automotive sector, it is still susceptible to the cyclical fluctuations in the Industrial segment, which accounts for most of its revenue.
It is evident that the company has shown strong and positive results during the last years; nevertheless, the company needs more constant result in order to consolidate its performance track record.

Now that we are aware of the main strengths and weaknesses of the company, we could move to the basket of opportunities that EGLA could get.
First, the firm can strongly exploit the expertise built over its 55 years of history, consolidating its position as supplier to OEMs. As we have already highlighted, the company currently has a market share of 50% with respect to the stators and rotor market in North America and Europe. In this regard, the company could use its expertise to capitalize on the growing demand for e-mobility solutions across various industries. Moreover, it could expand its market position in Asia, particularly in China, where it currently has relatively low market penetration. During 2022, revenues from Asia accounted for 6%, while EMEA weight was 58%. So, even though there is still room for a strong increase in EMEA revenues, Asia may become however an important source of future expansion, thus representing a huge opportunity to focus on. EGLA has understood this key point and has, in turn, hired a Chinese manager, who could potentially enhance the company's ability to respond more effectively to local requirements among competitive market dynamics.
Besides the geographic location of the company, is we look and its intrinsic activities, it is clear that the development phase and the infrastructure needed to carry out the production is very demanding both in term of operational and economic effort. Indeed, we have seen that one of the criticalities of these activities is that they are strongly capital intensive. So, many firms in the market face a common dilemma: make or buy? Most of the firm choose for the second way, because a constant in-house development and production is too demanding, even considering the speed of current innovation in the EV sector. With that said, EGLA should surf this wave,

capturing the growing trend of outsourcing activities. To offer a more and more complete value proposition, the firm should even explore strategic mergers and partnerships to drive growth. In this way the company may consolidate its market position, and even look for geographic expansion.

To conclude the S.W.O.T. analysis, we miss only the threats that EGLA could face. In particular, the most evident threat refers to the procurement of raw material: since the EV sector will grow drastically during next years, in the future the company may face a shortage of electrical steel, leading to eventual production capacity constraints. Further, besides a potential shortage, even the price fluctuations may adversely affect the firm's profitability; the firm should carefully select its suppliers and draft and action plan considering the price fluctuations and shortage risk. This may be quite difficult in a market on which the competition is rising in leap and bounds. The expanding scope of electrification across various sectors, especially in electric motors, may invite new competitors, and existing ones, notably Chinese firms, could intensify their efforts. Consequently, an evolving competitive environment poses potential risks and there could be event the risk of not being able to sustain the current technological advantage of the firm.
In conclusion, looking again at the EV & Automotive sector, the degree of customer concentration is significantly high. Automotive OEMs are recognized for their inclination to negotiate lower prices with suppliers or exert pressure to increase volumes. Although EuroGroup's capacity to deliver unique products and solutions could mitigate the impact of price pressures, its heavy reliance on a few key customers exposes it to potential margin risks should these clients become more assertive. Additionally, there's a risk of revenue loss if any of these customers were to switch to alternative suppliers (Kepler Cheuvreux, 2023).

Once understood the main characteristics of the company, its story, and its sector dynamics, we can deep the analysis on the two most important milestones achieved by the company, namely, the Growth Equity operation which has involved Tikehau Capital, and lastly the IPO.

3.2 2020: Growth equity operation

To start the analysis of the Growth Equity operation which has involved EGLA, it is important to address the PE firm, and relative fund, that have carried out the investment, and supported the firm over the investment lifetime.

3.2.1 The Tikehau Capital's acquisition: purpose and features

The PE firm involved on this operation is Tikehau Capital, a global group specialized in alternative asset management, overseeing €42 billion in assets as of September 30, 2023. With expertise spanning private debt, real assets, private equity, and capital markets strategies, as well as multi-asset solutions and special situations, Tikehau Capital boasts a distinctive business model. The company maintains a robust balance sheet and enjoys privileged access to global transaction opportunities. It has a proven track record of supporting high-quality companies and executives. Deeply embedded in the real economy, Tikehau Capital offers customized and innovative alternative financing solutions to its supported companies, aiming to create enduring value for investors while making a positive societal impact. With significant equity capital of €3.1 billion as of June 30, 2023, the Group invests alongside its investor-clients across its various strategies. Managed by its leadership team and prominent institutional partners, Tikehau Capital embodies a strong entrepreneurial spirit, reflected in its 757 employees across 15 offices in Europe, Asia, and North America as of September 30, 2023.

Before the entry of Tikehau Capital in the shareholder structure, the company was undergoing a phase of robust growth characterized by a 13% revenues CAGR over the previous 3 years. In addition, the Group has initiated the establishment of 5 facilities on different continents, making cumulative investments of approximately 150 million Euros and it has secured a cumulative order value exceeding 1.6 billion to be fulfilled by 2025.

On 6th July of 2020, Euro Group Laminations entered into a binding agreement with Tikehau Capital for the acquisition of a 30% minority stake. The transaction, concluded after an extensive selection process, has involved a capital increase to support growth and further expansion in the Electric Vehicle (EV) segment both in Italy and abroad. The closing was completed in September 2020.

The investment was made mainly through the T2 Energy Transition Fund, launched by TotalEnergies and Tikehau Capital in 2018. The fund's investments focus on companies within three pivotal sectors of the energy transition:

- clean energy production: this involves leveraging solutions to broaden the energy mix and supporting projects dedicated to generating energy from non-carbon sources;
- low-carbon mobility: investments target the expansion of infrastructure to accommodate electric vehicles, the growth of manufacturers and service providers specializing in low-carbon mobility, and advancements in utilizing natural gas for transportation, as a substitute for diesel and marine fuel;

- advancements in energy efficiency, storage, and digitalization: the fund prioritizes research and implementation of solutions aimed at enhancing energy storage capabilities, minimizing energy consumption in buildings and businesses, and driving digital innovations in energy management.

However, T2 Energy Transition Fund has been legally represented by Tikehau Investment Management S.A.S. (French simplified stock company, i.e., société par actions simplifiée) a management company empowered to manage the investments held by all funds managed by it with full management autonomy and organizational independence and wholly owned by Tikehau Capital. Indeed, Tikehau Investment Management S.A.S. as acted in the name and on behalf of the T2 Energy Transition Fund, in its capacity as relevant management company.
Moreover, the Grow Equity operation carried out by Tikehau Capital has involved two more entities:

- T2 Eltif Energy Transition Fund, a French professional specialized fund, (fonds professionnel spécialisé (FPS)) represented by its management company, Tikehau Investment Management S.A.S.;
- Delorean Partecipazioni S.p.A., an Italian joint stock company (società per azioni), mostly owned by Tikehau Investment Management S.A.S. in the name and on behalf of T2 Energy Transition Fund.

Tikehau Capital has become a part of the Group by purchasing a 30% minority stake. The agreement included a provision for augmenting the share capital to facilitate expansion and additional growth in the electric mobility sector both domestically in Italy and internationally.
In particular, on September 1, 2020, EGLA's extraordinary shareholders' meeting resolved to increase the share capital for cash on a non-divisible basis by a maximum amount of €40,000,000.00 (of which €1,611,940.00 as share capital and €38,388,060.00 as share premium) by issuing 1,611,940 new Class B Shares without par value. Following the subscription of such capital increase the Issuer's share capital increased from €4,500,000 to €6,111,940.

The operation characteristics match with the features explained in the first chapter with respect to Growth Equity operations. EGLA could be considered as a perfect candidate for such operation: it has a consolidated market position, and it is seeking for funding to expand or refine their business model, while maintaining a substantial degree of control over their operational framework. Indeed, Tikehau Capital has acquired a minority stake, thus supporting EGLA

management in deciding which strategic path is the most valuable, without changing substantially its control framework.

In addition, the firm has shown interesting growth rates in the past, consolidating its performance track record, and this is one of the key points of Growth Equity operations: the potential growth of the target company. EGLA emerges as a beacon of high-growth potential, fortified by a sustainable long-term business model meticulously aligned with prevailing macroeconomic trends. Within this strategic framework, EGLA not only capitalizes on existing market dynamics but also anticipates and adapts to future shifts, thereby unlocking robust opportunities for sustained growth and market leadership. Operating in the EV sector, EGLA can exploit many growth opportunities, deriving by the electric transition and by its differentiation in term of competences. Indeed, the Growth Equity operation has further strengthened the Group to seize the opportunities presented by major automotive brands in electric mobility. Furthermore, the pandemic context has provided an additional impetus towards "green" mobility. However, such market shows also very uncertain, due to the disruptive changes that may happen in the future.

In any case, in the following paragraphs we will see how the presence of GE in the shareholders structure has speeded up the implementation of the expansion strategy set by the firm, with the aim of boosting company's growth. Tikehau Capital has played a significant role to broaden the Group market presence, expanding its customer base, and securing distinctive strategic assets ahead of competitors.

In light of the Growth Equity operation introduced, a thorough performance analysis is fundamental to gauge its impact and effectiveness within the company's strategic framework.

3.2.2 Performance analysis and valuation

Hereinafter we will tackle the performance analysis and subsequent valuation of EGLA, in order to understand whether the Grow Equity operation carried out by Tikehau Capital has led to the significant results that are commonly mentioned by the literature related to Growth Equity.

It should be noted that since the company has gone public on March 2023, it has released its financial data publicly only from 2019.

For the sake of this analysis, the consolidated financial statements have been used as point of departure, starting from the data provided by the Eikon database and integrating them with data available from corporate documents and Borsa Italiana database.

Then, the financial statements have been revised in order to make them more functional for the analysis.

Note that in the following tables you will not see the 2023 values, since at the moment of the analysis actual values are still not available. Nevertheless, the 30% owned by Tikehau Capital has been liquidated in February 2023; hence, actual data available on databases has provided strong insights on the results of the Growth Equity operation.

We will start the analysis from Table 2, which displays the consolidated balance sheet of EGLA from the year 2019 to the year 2022.

The company has maintained a high level of financial leverage over the years, with the net debt/EBITDA ratio reaching 6.3x by the end of 2019 and 7.8x by the end of 2020. However, there was a notable improvement to 2.8x by the end of 2021, a trend that continued through the end of 2022, primarily due to significant EBITDA growth in both years, which counteracted cash flow absorption. In this context, the acquisition of the minority stake by Tikehau, with the injection of €40 million through a capital increase played a significant role in reducing the company’s net financial position. With the €250 million capital increase associated with the IPO, which has involved the issue 45 million new shares at a price of €5.5, it is likely that we will observe a further improvement in the net debt/EBITDA ratio once the actual data of 2023 will be published publicly.

Then, considering the ratio between working capital and revenues, it has surged to almost 17% of revenues, marking a notable increase from 14% in 2021, primarily driven by higher inventory levels. This uptick in inventories can be attributed to several factors: firstly, the rise in safety stocks; secondly, the increase in inventories linked to the continuous and substantial rise in current workloads, expected to persist over the coming quarters; and thirdly, the escalating proportion of electrical steel acquisitions in Asia, involving larger quantities per delivery.

BALANCE SHEET				
		PE holding period		
€ thousands	2019	2020	2021	2022
Total funds invested: uses				
Account receivables and other similar assets	80.042	73.091	123.427	197.963
Inventory	127.874	132.746	219.948	335.733
Account payables and similar liabilities	-103.050	-136.583	-254.003	-329.292
Trade working capital	**104.866**	**69.254**	**89.372**	**204.404**
Other current assets/(liabilities)	-5.911	-11.738	-21.303	-16.150
Operating working capital	**98.955**	**57.516**	**68.069**	**188.254**
Operating fixed assets	114.337	161.189	209.940	264.439
Other noncurrent assets/(liabilities)	4.183	13.051	9.815	14.774
Operating fixed capital	**118.520**	**174.240**	**219.755**	**279.213**
Invested capital (excluding goodwill and similar assets)	**217.475**	**231.756**	**287.824**	**467.467**
Goodwill and similar assets net of deferred taxes	0	0	0	0
Invested capital	**217.475**	**231.756**	**287.824**	**467.467**
Investments	11.305	12.015	0	0
Non-current financial assets	9.901	12.883	17.797	5.931
Other surplus assets/(liabilities)	0	0	0	0
Surplus assets/(liabilities)	**21.206**	**24.898**	**17.797**	**5.931**
Total funds invested	**238.681**	**256.654**	**305.621**	**473.398**
Total funds invested: sources				
Cash and cash equivalents	44.839	107.655	137.662	116.503
Short-term debt	117.045	89.945	105.303	149.471
Long-term debt	98.493	170.408	190.653	244.805
Net financial position (NFP)	**170.699**	**152.698**	**158.294**	**277.773**
Postretirement benefit liabilities	0	0	0	0
Other nonoperating provision	0	0	0	0
Debt equivalents	**0**	**0**	**0**	**0**
NFP and debt equivalents	**170.699**	**152.698**	**158.294**	**277.773**
Noncontrolling interests	4.798	6.307	19.772	32.120
Shareholders' equity	**63.184**	**97.649**	**127.555**	**163.505**
Total funds invested	**238.681**	**256.654**	**305.621**	**473.398**

Table 2: Balance Sheet of Eurogroup Laminations - Source: Eikon and personal elaboration

We continue the analysis looking at Table 3, which displays the consolidated income statement of EGLA from the year 2019 to the year 2022.

The Group's main source of revenue stems from the sales of rotors, spare parts, and tooling. Revenue recognition occurs when control over a product shifts to a customer, which usually happens upon delivery of the goods in accordance with the standard incoterms outlined in the contracts. The revenue is quantified at the transaction price, determined by the consideration the Group anticipates receiving in exchange for delivering the promised goods or services to the customer, excluding any sales incentives, rebates, or discounts.

INCOME STATEMENT				
€ thousands		**PE holding period**		
Field name	2019	2020	2021	2022
Revenues form contracts with customers	352.074	373.290	556.904	851.112
Other income	2.008	2.650	7.664	19.048
Increase in assets due to inernal constructions	0	0	0	0
Total revenues	**354.082**	**375.940**	**564.568**	**870.160**
Raw materials, ancillaries, consumables and goods	-211.129	-223.932	-351.737	-576.657
Change in inventories	2.297	-4.137	10.628	37.345
Consumptions	**-208.832**	**-228.069**	**-341.109**	**-539.312**
Primary contribution margin	**145.250**	**147.871**	**223.459**	**330.848**
Service costs	-45.914	-48.848	-67.669	-94.156
Personnel costs	-69.584	-73.590	-91.832	-109.088
Cost for right of use	-729	-847	-572	-1.460
Other charges	-1.938	-5.107	-7.316	-21.655
EBITDA	**27.085**	**19.479**	**56.070**	**104.489**
Depreciation	-17.147	-17.949	-22.841	-25.544
EBITA	**9.938**	**1.530**	**33.229**	**78.945**
Amortization	-419	-364	-428	-547
EBIT	**9.519**	**1.166**	**32.801**	**78.398**
Financial income	48	91	68	68
Financial charges	-4.449	-5.824	-6.013	-14.618
Other financial income/(loss)	-1.124	-195	2.817	-230
Income before taxes	**3.994**	**-4.762**	**29.673**	**63.618**
Income taxes	26	7.084	-8.982	-19.840
Net income	**4.020**	**2.322**	**20.691**	**43.778**
Net income to noncontrolling interests	360	122	1.939	4.491
Net group income	**3.660**	**2.200**	**18.752**	**39.287**

Table 3: Income Statement of Eurogroup Laminations - Source: Eikon and personal elaboration

We can observe a strong increase in revenues, especially from 2020 to 2021, when Tikehau Capital entered EGLA's shareholders structure. In particular, the higher revenues increase is evident: while we have an increase of only 6% from 2019 to 2020, we can observe an increase of 49% from 2020 to 2021. The revenues growth was even higher from 2021 to 2022, with an increase of more than 50%. The result of these increases as a whole has determined a CAGR 19-22 of 34%, a sensational result which confirms that the strategy pursued by the Group was profitable, and the contribute of the Growth Equity has been substantial.

Nevertheless, we can observe even an increase in the cost of raw materials due to the rising sales volumes, elevated raw material prices influenced by the global scarcity of strategic materials like electrical steel, and an escalation in procuring raw materials at higher costs from Chinese suppliers instead of Russian business partners.

Moving to the Free Cash Flow statement, displayed by Table 4, we can observe the other side of the coin. The robust expansion anticipated in the near term is poised to exert a detrimental influence on cash flow generation, primarily attributable to substantial capital expenditure requirements (i.e., CAPEX) and the absorption of working capital. The acceleration in growth

trajectory necessitates significant investment in infrastructure, technology, and operational resources, thereby exerting pressure on available cash reserves. Additionally, the expansionary activities and increased operational demands tend to tie up working capital, leading to a temporary strain on liquidity and cash flow dynamics. As the company pursues its growth objectives, careful management of cash flow becomes imperative to mitigate the adverse effects of high capex and working capital absorption on overall financial stability and operational sustainability.

FREE CASH FLOW STATEMENT			
	PE holding period		
€ thousands	2020	2021	2022
NOPAT	**875**	**24.601**	**58.799**
Depreciation and amortization	18.313	23.269	26.091
Gross cash flow	**19.188**	**47.870**	**84.890**
Operating working capital change*	35.612	-20.118	-115.032
Other operating current assets and liabilities change	5.827	9.565	-5.153
Net capital expenditures	-65.165	-72.020	-80.590
Other noncurrent assets change	-8.868	3.236	-4.959
*Goodwill and similar assets change	0	0	0
Gross investment	**-32.594**	**-79.337**	**-205.734**
Free cash flow	**-13.407**	**-31.467**	**-120.845**
Financial income	91	68	68
Other financial income/(loss)	-195	2.817	-230
Surplus asset/(liabilities) change	-3.692	7.101	11.866
Nonoperating taxes	7.376	-782	-241
Nonoperating cash flow	**3.580**	**9.204**	**11.464**
Cash flow available to investors	**-9.827**	**-22.263**	**-109.381**
Financial charges	-5.824	-6.013	-14.618
Short-term debt change	-27.100	15.358	44.168
Long-term debt change	71.915	20.245	54.152
Debt equivalents change	0	0	0
Cash flow to debtholders	**38.991**	**29.590**	**83.702**
Noncontrolling interest change	1.387	11.526	7.857
Equity change	32.265	11.154	-3.337
Cash flow to equityholders	**33.652**	**22.680**	**4.520**
Excess cash change*	**62.816**	**30.007**	**-21.159**
* Including current financial activities	62.816	30.007	-21.159

Table 4: Free Cash Flow Statement of Eurogroup Laminations - Source: Eikon and personal elaboration

In particular, as we have seen before, the working capital has increased since 2020, hence leading to a decrease of the net cash flow from operating activities. Indeed, the latter follows a decreasing trend, mostly determined by the working capital change, especially in 2022.

Moving to the net cash flow from investing activities, the trend is coherent with the strategy pursued by EGLA and its business model. In turn, negative cash flow deriving from CAPEX has strongly increased from 2020. The Group has been able to maintain a positive net change in cash until 2022, when the firm has destroyed liquidity. However, during 2022 the company

has strongly increased its indebtedness to counter the effect of CAPEX and net cash flow from operating activities.

Table 5 provides a comprehensive overview of the segment growth within the company's business segments over the period from 2019 to 2022. The Consolidated Segment Revenue, including both external and intersegment revenue, experienced significant growth, with a compound annual growth rate (CAGR) of 34,21% during this period. This growth was primarily driven by the EV and Automotive segment, which exhibited a CAGR of 41,51%, outpacing the Industrial segment's growth rate of 30,51%.

Moreover, the EBITDA increased substantially, with a CAGR of 57,98%, indicating improved operational efficiency and profitability across both segments. The EV and Automotive segment contributed significantly to the EBITDA growth, with a CAGR of 62,94%, while the Industrial segment also demonstrated robust performance, achieving a CAGR of 54,85%.

Overall, the data underscores the dynamic nature of the company's business lines, with the EV and Automotive segment driving substantial revenue and asset growth, while the Industrial segment also making significant contributions to the company's financial performance.

Segments - Business Line By Statement Item					
		PE holding period			
Field Name	2019	2020	2021	2022	CAGR 19-22
Consolidated Segment Revenue - External & Intersegment	352.074	373.290	556.904	851.112	34,21%
EV and Automotive	112.204	147.580	195.596	317.932	41,51%
Industrial	239.870	225.710	361.308	533.180	30,51%
Earnings before Interest, Taxes, Depreciation & Amortization (EBITDA)	26.193	18.372	59.769	103.269	57,98%
EV and Automotive	9.804,0	7.538,0	20.610	42.413	62,94%
Industrial	16.389	10.834	39.159	60.856	54,85%
Total Non-Current Assets	147.426	209.387	252.669	295.529	26,09%
EV and Automotive	42.067	97.404	88.790	130.084	45,69%
Industrial	72.270	63.785	121.150	134.355	22,96%
Unallocated	33.089	48.198	42.729	31.090	-2,06%

Segments - Geographic Line By Statement Item					
		PE holding period			
Field Name	2019	2020	2021	2022	CAGR 19-22
ASIA (exc.China)				5,00	-
China	473,0	10.823	27.698	44.541	354,95%
EMEA (exc.Italy)	10.569	8.742,0	19.340	13.222	7,75%
Italy	200.796	209.807	303.000	487.954	34,44%
Mexico	85.544	100.743	140.669	203.499	33,49%
United States	54.692	43.175	66.197	101.891	23,05%
International Sales	151.278	163.483	253.904	363.158	33,90%
Consolidated Segment Revenue - External & Intersegment	352.074	373.290	556.904	851.112	34,21%

Table 5: Segment Analysis of Eurogroup Laminations - Source: Eikon and personal elaboration

The surge in revenues within the Industrial segment stemmed from several factors: firstly, a rise in sales prices due to increased raw materials costs; secondly, an uptick in sales volumes; however, this was partially mitigated by a decrease attributable to Euro Group Laminations

Russia. The escalation in revenues within the EV & Automotive sector can be attributed to heightened business activity in 2022, driven by the growing demand for EV traction products, buoyed by favourable regulatory conditions globally, and an increase in sales prices reflecting higher raw material costs.

Table 6 displays some KPIs which are useful to resume the performance analysis explained so far. Beginning with profitability metrics, there was a significant improvement in return on equity (ROE), reaching 27.0% in 2022 from 5.8% in 2019, indicating enhanced efficiency in generating profits relative to shareholders' equity. Return on Invested Capital (ROIC) with and without goodwill experienced notable growth, reflecting the company's ability to generate returns from its invested capital. EBITA margins and EBITDA margins also saw a steady increase, indicating improved operational efficiency and profitability over the period.

The growth aspect of the firm is evident in the substantial increase in revenue and EBITDA, albeit with fluctuations in the growth rates. The growth in revenue and EBITDA underscores the company's expansion and increasing operational performance over the years. The CAGR and even the absolute growth ratios are inflated due to the wide variation registered by EBITA, EBITDA, and net group income, yet they display the drastically improvement gained by EGLA.

Financial health metrics reflect fluctuations in leverage and coverage ratios. The leverage ratios, including NFP/EBITDA, NFP/Equity, Debt/EBITDA, and Debt/Equity, indicate varying levels of debt relative to the firm's financial resources. The coverage ratios, such as EBITDA/Interest and EBITA/Interest, demonstrate the firm's ability to cover its interest expenses from its operating earnings. However, the negative free cash flow (FCF) to net financial position (NFP) indicates that the firm's cash flow from operations is insufficient to cover its financial obligations, potentially raising concerns about its liquidity position.

PERFORMANCE ANALYSIS					
		PE holding period			
Profitability	**2019**	**2020**	**2021**	**2022**	
ROE*	5,8%	2,7%	16,7%	27,0%	
ROIC with goodwill*	-	0,4%	9,5%	15,6%	
Pretax ROIC with goodwill*	4,4%	0,5%	12,6%	20,8%	
EBITA/Revenues	2,7%	0,3%	5,8%	9,0%	
Revenues/Invested capital*	162,8%	167,4%	217,3%	230,4%	
ROIC without goodwill*	0,0%	0,4%	9,5%	15,6%	
Pretax ROIC without goodwill*	4,4%	0,5%	12,6%	20,8%	
EBITA/Revenues	2,7%	0,3%	5,8%	9,0%	
Revenues/Invested capital without goodwill*	162,8%	167,4%	217,3%	230,4%	
EBITDA margin	7,6%	5,2%	9,9%	12,0%	
Cash conversion rate (FCF/EBITDA)	-	-68,83%	-56,12%	-115,65%	
Fixed assets/revenues	33,5%	38,9%	34,9%	28,7%	
Trade working capital*/revenues	29,6%	23,2%	14,0%	16,9%	
Trade working capital in days (on revenues):	107	83	51	61	
- Account receivables*	81	73	63	66	
- Inventory*	130	125	112	115	
- Account payables*	-105	-115	-125	-121	
**Using average invested capital (except from the first year)*					
Growth	**2019**	**2020**	**2021**	**2022**	**CAGR 19-22**
Revenue		6,2%	50,2%	54,1%	34,9%
EBITDA		-28,1%	187,8%	86,4%	131,6%
EBITA		-87,8%	2713,1%	139,0%	101,9%
Net group income		-39,9%	752,4%	109,5%	120,6%
Invested capital with goodwill		6,6%	24,2%	62,4%	29,1%
Invested capital without goodwill		6,6%	24,2%	62,4%	29,1%
Financial Health	**2019**	**2020**	**2021**	**2022**	
Leverage:					
NFP/EBITDA	6,3	7,8	2,8	2,7	
NFP/Equity	2,5	1,5	1,1	1,4	
Debt/EBITDA	8,0	13,4	5,3	3,8	
Debt/Equity	1,9	0,4	0,1	0,8	
Coverage:					
EBITDA/Interest	6	3	9	7	
EBITA/Interest	2	0	5	5	
FCF/NFP (*)		-8,8%	-19,9%	-43,5%	

(*) Due to negative FCF

Table 6: Performance Analysis of Eurogroup Laminations - Source: Eikon and personal elaboration

In summary, while the firm demonstrates strong profitability and growth potential, there are notable fluctuations in financial health metrics, highlighting the importance of effective financial management and strategic decision-making to maintain stability and capitalize on growth opportunities.

With respect to the result of the fund involved in the GE operation, it has been quite difficult to reach a coherent result, since there were no public clues of the enterprise value at the moment of entrance of the Tikehau Capital. So, the amount of the capital increase was considered as the consideration transferred paid by the fund, and then the full enterprise value was computed (called also “EV”) on the ground on that value plus the Net Financial Position (i.e., NFP), as if the 100% company had been bought by the fund.

Looking only at the proceeds obtained by the fund at the end of the investment, it is difficult to compute very sharply the total amount obtained from the IPO, chosen as exit strategy. In particular, to determine the Enterprise Value at the IPO, we considered the Net Revenues of the IPO stated by Borsa Italiana official website and divided them for the free float post-IPO, obtaining the enterprise value as if the company had been sold totally to public investors. This was made in order to compare in a simpler way the entrance EV with respect to the exit EV, and relative multiples.

Table 7 presents the calculations carried out to determine the results obtained by Tikehau Capital thanks to the Growth Capital operation. As we have already seen, the fund has acquired a 30% minority stake in 2020, and then exit partially the position in 2023 through the IPO. So, in this case we will analyse data from 2020 to 2023.
The EV/EBITDA ratio, indicative of the company's valuation relative to its earnings, exhibited a significant decrease from 14,7x to 9,5x during the period analysed. One may say that the exit multiple is quite low, and this could be a misleading conclusion regarding transaction results. Indeed, if we analyse the composition of the multiple, we will get clearer insights about the transaction value. In particular, EBITDA has drastically increased during the PE presence, from €19.479 thousand in 2020 to €118.675 thousand in 2023, together with the Enterprise Value. The latter has increased from 286.031 thousand to 1.123.743 thousand. So, the EBITDA increase is higher with respect to the surge of the Enterprise Value, thus leading to a less evident effect on the transaction multiple.

PE Result					
€ thousands		**2020**	**2021**	**2022**	**2023**
EBITDA		19.479	56.070	104.489	118.675
EV/EBITDA	14,7x				9,5x
Equity value	133.333				845.970
Net Financial Position	152.698				277.773
Enterprise value	286.031				1.123.743
IRR to EV	**40,8%**				
MoIC	**3,9x**				

Table 7: actual results of the Growth Equity operation - Source: IPO prospectus, Borsa Italiana Database, Eikon Database and personal data elaboration

In any case, it is evident the performance improvement brought by the actions implemented by Tikehau Capital. The strong company expertise has been boosted by the experience of the fund in the management of the value levers analysed in the first part of this work, namely operational, financial and governance engineering.

Indeed, the EV surged significantly reflecting the substantial growth thanks to the value-added action implemented during the Growth Equity operations. The calculation led to a realized internal rate of return (IRR) of 40,8%, underscoring the profitability and attractiveness of the investment. Furthermore, the multiple on invested capital (MoIC) stood at 3,9x, indicating a significant return on the initial investment made after the Growth Equity operation. Collectively, these metrics demonstrate the robust financial performance, strong valuation, and promising investment prospects associated with the Growth Equity operation over the analyzed period.

Table 8 outlines the key value creation levers of the Growth Equity operation and their impact on the company's financial performance. In particular, we can easily observe the difference the performance snapshot on the entrance and exit moment of Tikehau Capital.

Value Creation Levers				
€ thousands	**Entry**	**Exit**	**Change**	
Revenue	373.290	1.099.353	726.063	194,5%
EBITDA	19.479	118.675	99.196	509,2%
% Margin	*5,2%*	*10,8%*	*5,6%*	106,9%
Transaction Multiple	14,7x	9,5x	(5,2x)	(35,5%)
Transaction Value	286.031	1.123.743	837.711	292,9%
Net Financial Position	152.698	277.773	125.075	81,9%
Sponsor Equity	**133.333**	**845.970**	**712.636**	**534,5%**
Value Creation Build				
Starting Equity Value	**133.333**	*%*		
(+) EBITDA Growth	1.456.598	*204,4%*		
(−) Multiple Expansion	(618.886)	*(86,8%)*		
(−) Net Financial Position	(125.075)	*(18%)*		
Total Value Creation	712.636	*100%*		
Ending Equity Value	**845.970**			

Table 8: Value Creation Levers of the Growth Equity transaction - Source: IPO prospectus, Borsa Italiana Database, Eikon Database and personal data elaboration

The value creation is very clear if we look at the data displayed: revenue increased substantially from €373.290 thousand at entry to €1.099.353 thousand at exit, marking a remarkable growth of 194,5%. EBITDA surged from €19.479 thousand to €118.675 thousand, indicating a significant increase of 509,2%. The percentage margin also improved from 5,2% to 10,8%, reflecting enhanced operating profitability.

Despite the decrease of the transaction multiple, the equity value experienced substantial growth, rising from €286.031 thousand to €1.123.743 thousand, showcasing a significant increase of 292,9%.

So, the starting equity value stood at €133.333 thousand, EBITDA growth contributed €1.456.598 thousand, while the negative multiple expansion and increased Net Financial Position have eroded value for, respectively, 618.886 thousand and 125.075 thousand.
Combining the elements mentioned above, they lead to a total value creation amounted to €712.636 thousand. Hence, ending equity value reached €845.970 thousand, reflecting the culmination of the value creation process.
In summary, the significant increase in ending equity value indicates successful value creation and a positive return on investment for the equity sponsor. The growth equity operation has demonstrated substantial improvements in revenue, EBITDA, transaction value, and equity value. Despite the decrease in the transaction multiple, the overall value creation and financial performance signify a successful investment strategy and operational execution.
Nevertheless, it is worth noting that through the Initial Public Offering (IPO), the value attainable by PE investors becomes subject to the valuation of shares in the open market, thereby rendering it inherently challenging to precisely estimate the value at the IPO stage. The IPO process introduces a level of market uncertainty as the valuation of shares is contingent upon various factors including market sentiment, investor demand, and prevailing economic conditions. While PE investors may undertake meticulous valuation exercises prior to the IPO, the ultimate price realized for shares can fluctuate based on market perceptions and external factors beyond their control. This inherent unpredictability underscores the dynamic nature of public markets and highlights the importance of strategic timing and investor relations in maximizing value realization during the IPO phase.

In conclusion, the previous paragraphs have delved into the intricacies the growth equity operation which has involved EGLA, illuminating the strategic actions and financial dynamics that underpin such ventures. From the infusion of capital to the strategic guidance, the journey of growth equity investment is one marked by foresight, resilience, and unwavering commitment to unlocking value. As we transition to the next chapter of EGLA's story, we embark on the Initial Public Offering (IPO). Here, we will explore the pivotal moment when the Group has become public, navigating the complexities of the capital markets, and seizing the opportunity to scale their operations to new heights.

3.3 2023: the Initial Public Offering

On January 19, 2023, EGLA declared its intention to initiate the listing of its common shares on Euronext Milan, a regulated market operated and overseen by Borsa Italiana S.p.A.

The attainment of the requisite free float for the Listing has been facilitated through a private placement, exclusively targeting qualified investors within Europe and other jurisdictions, along with foreign institutional investors outside the United States. The Offering was envisioned to encompass issuance of newly created ordinary shares amounting to a maximum of Euro 250 million through a Capital Increase, with the exclusion of pre-emptive rights, and the sale of existing ordinary shares by shareholders such as Euro Management Services S.p.A. and Tikehau Capital, represented by Delorean Partecipazioni S.p.A. alongside Tikehau Capital investment funds T2 Eltif Energy Transition Fund and T2 Energy Transition Fund. The anticipated free float was poised to surpass the minimum requirement mandated by Borsa Italiana.

Talking about the market chosen by the Group, Euronext Milan is a segment of the Italian stock market specifically designed to accommodate medium-sized and large enterprises seeking access to public capital markets. It provides a platform for companies to raise funds and increase their visibility among investors. Companies listed on Euronext Milan often represent various sectors, including technology, healthcare, consumer goods, and services.
The objective of Euronext Milan is to support the expansion of dynamic companies by offering them the opportunity to access equity financing. By listing on this segment, companies can enhance their profile, improve liquidity for existing shareholders, and potentially attract new investors interested in growth-oriented enterprises.
Overall, Euronext Milan serves as a vital platform within the Italian stock market ecosystem, facilitating the growth and development of promising enterprises and contributing to the vibrancy of the broader economy.

The listing has enabled the Group to acquire the status of a listed company, thereby enhancing its visibility in the reference market and improving access to the capital market to support growth and development objectives. Additionally, it has allowed for potential acquisitions to be made through the payment of consideration in listed shares. The IPO served the purpose of distributing Ordinary Shares and listing them on Euronext Milan, in line with EGLA's goal of continuing its growth trajectory by expanding production capacity and strengthening its capital structure. The Company used the proceeds it received from the Offer to implement its strategy, focusing on expanding its production capacity (including the establishment of new production sites), developing new technologies, strengthening its capital structure, and further expanding its geographic footprint.

3.3.1 IPO structure and pricing

First of all, let's identify the main actors involved in the listing. J.P. Morgan, BNP PARIBAS, Intesa Sanpaolo (Divisione IMI CIB), and UniCredit have been appointed as joint global coordinators and joint bookrunners, collectively known as the "Joint Global Coordinators and Joint Bookrunners", while Rothschild & Co serves as the Financial Advisor. UniCredit served as the Listing Agent, and Kepler Cheuvreux has been designated as the Specialist for the Listing process. Latham & Watkins assumed the role of legal advisor for the Company, while Linklaters fulfilled the legal advisory role for the Joint Global Coordinators and Joint Bookrunners. Additionally, Close to Media has operated as the communication advisor.

With regard to the pricing, on January 31, 2023, EGLA established the IPO price range at €5.00 to €6.00 per ordinary share, indicating a market capitalization ranging from €861 million to €983 million, post the capital increase. The Offering size was anticipated to fall within the range of €416 million to €448 million, involving the placement of new ordinary shares for a maximum of approximately €250 million and the sale of existing ordinary shares by current shareholders. This calculation considered the full exercise of the Over-allotment Option. After the completion of the Offering, assuming the full exercise of the Over-allotment Option, the free float ranged between 45.6% and 48.3% of the Company's share capital.

Together with the communication of the price range, the Group has disclosed some material information related to the IPO structure. In particular, the offering has comprised a maximum of 50,000,000 newly issued Shares offered by the Company for an aggregate sum of approximately €250 million resulting from a capital increase with the exclusion of preemptive rights and a minimum of 25,555,612 existing shares and up to 26,214,420 existing shares contingent upon the final offer price offered for sale by existing shareholders. Moreover, the selling shareholders granted J.P. Morgan, acting as stabilization manager, on behalf of the Joint Global Coordinators and Joint Bookrunners, an option to acquire up to 7,555,561 additional Shares at the minimum, representing approximately 10% of the total number of offered shared (i.e., the over-allotment option).

The ultimate offer price was established by the Company and the Selling Shareholders after consulting with the Joint Global Coordinators and Joint Bookrunners, subsequent to a bookbuilding process. This determination took into consideration prevailing market conditions, along with a qualitative and quantitative evaluation of the demand for the Shares, as well as other pertinent factors.

Moreover, the Company, the selling shareholders, and specific directors and key executives of the Company has provided lock-up commitments to the advantage of the Joint Global Coordinators and Joint Bookrunners, concerning their individual stakes in the Group. These commitments were effective for a duration of 6 months subsequent to the conclusion of the Offering.

Finally, the offering price for the Shares was established at €5.5 per share. Looking at the data displayed by Borsa Italiana, the gross proceeds from the Offering were €393 million, encompassing an estimated €250 million capital. Considering the offer price, the Company's market capitalization at the commencement of trading was approximately €922 million.
During the offering phase, institutional investors displayed robust interest, indicative of a diverse geographic outreach, which culminated in an oversubscribed book of demand, surpassing its initial capacity multiple times over. The firm became officially a public company on 10 February 2023.
Note that through the IPO, EGLA became a member of the Euronext Tech Leaders segment, inaugurated by Euronext in June 2022, leveraging its extensive network of collaborators (Borsa Italiana S.p.A., 2023). In particular, the Euronext Tech Leaders initiative encompasses various provisions, including the establishment of a segment housing more than one hundred European enterprises listed on Euronext markets, an index comprising stocks from this segment, a suite of services facilitating visibility and promotion of Euronext Tech Leaders companies to global investors, enhanced trading conditions, the formation of a Tech Leaders community featuring a C-level Club integration, and the inauguration of the Euronext Tech Leaders Campus, envisioned as the annual gathering point for European Tech companies. Presently, 112 companies constitute the Euronext Tech Leaders segment, boasting an aggregate market capitalization surpassing €915 billion, spanning three principal sectors: Healthtech, General Tech, and Cleantech. The Euronext Tech Leaders initiative supplements Euronext's existing Tech portfolio, inclusive of an ecosystem comprising over 750 Tech enterprises listed on Euronext markets, alongside a broad investor base equipped to finance diverse growth trajectories for Tech enterprises. This initiative is an important opportunity for EGLA, and it could help pursuing the milestones set before the IPO, boosting company growth.

The detailed presentation of the IPO provides a comprehensive overview of the offering process, shedding light on the strategic decisions and financial considerations involved in bringing the company to public markets. It is important to highlight that Tikehau Capital has divested partially its position through the IPO, thus remaining exposed to market risk for the

shares that are part of the lock-up agreement required to facilitate the IPO and for the stake that the fund has decided not to sell, which amount to 7,92% of total EGLA shares. So, after the IPO and during the lock-up period, the fund was, and is currently vulnerable to fluctuations in the market value of these shares, which has been influenced by various factors such as economic conditions, industry trends, and investor sentiment. Hence, although the IPO provides an avenue for liquidity, the fund has navigated market volatility until the lock-up period expiration. In conclusion, understanding the intricacies of the listing lays the groundwork for evaluating the market's response post-listing. Subsequently, we will delve into an analysis of the market's reaction to the company's debut on the stock exchange, examining key indicators and investor sentiment in the aftermath of the listing.

3.3.2 Market reaction post IPO

In this paragraph we will tackle the post-IPO phase of EGLA. As we have seen in the previous chapter, the IPO outcome may appear to be straightforward; instead, many criticalities can emerge during this phase, and the company has to deal with them. In addition, the company now works as a publicly traded entity, striving to meet or even surpass the milestones presented to analysts and investors during the pre-marketing phase. We will first analyse the main decisions taken by EGLA to support its share price, and then we will have a look to the price trend from the first day of trading until now.

A week after the first day of trading, EGLA announced that J.P. Morgan SE had engaged in stabilisation activities, pertaining to the offering of the securities detailed below in table 9 and 10. The first table displays a general scheme on the stabilisation activities, while the second one provides a more detailed view of the transactions carried out by J.P. Morgan SE in order to stabilise the share price.

Financial Instruments:	
Issuer	EuroGroup Laminations S.p.A.
Financial Instrument	Ordinary shares (ISIN: IT0005527616)
Offer Size	71,369,507 ordinary shares excluding the Over-allotment Option
Total aggregate amount of ordinary shares purchased	4,167,091
Stabilisation Manager	J.P. Morgan SE

Table 9: scheme on the IPO stabilisation activities *(EuroGroup Laminations S.p.A., 2023)*

Execution Date	Aggregate number of ordinary shares purchased	Number of transactions	Price Range (Euro)	Trading Venue
10 February 2023	1,045,791	284	5.5000 - 5.5000	Borsa Italiana – EXM
13 February 2023	82,564	9	5.5000 - 5.5000	Borsa Italiana – EXM
14 February 2023	1,141,244	635	5.4250 - 5.5000	Borsa Italiana – EXM
15 February 2023	164,927	146	5.4640 - 5.5000	Borsa Italiana – EXM
16 February 2023	239,642	320	5.4760 - 5.5000	Borsa Italiana – EXM
17 February 2023	103,924	195	5.4380 - 5.5000	Borsa Italiana – EXM
20 February 2023	101,875	134	5.3600 - 5.4680	Borsa Italiana – EXM
21 February 2023	107,421	110	5.2600 - 5.3500	Borsa Italiana – EXM
22 February 2023	287,619	380	5.1800 - 5.3500	Borsa Italiana – EXM
23 February 2023	318,456	340	5.1700 - 5.3400	Borsa Italiana – EXM
24 February 2023	56,073	55	5.2000 - 5.2200	Borsa Italiana – EXM
27 February 2023	140,556	201	5.2500 - 5.5000	Borsa Italiana – EXM
28 February 2023	86,038	76	5.4700 - 5.5000	Borsa Italiana – EXM
1 March 2023	38,542	69	5.5000 - 5.5000	Borsa Italiana – EXM
2 March 2023	48,911	25	5.5000 - 5.5000	Borsa Italiana – EXM
8 March 2023	119,107	89	5.4800 - 5.5000	Borsa Italiana – EXM
9 March 2023	83,254	149	5.5000 - 5.5000	Borsa Italiana – EXM
10 March 2023	1,147	5	5.4700 - 5.4700	Borsa Italiana – EXM

Table 10: transaction carried out by J.P. Morgan SE to stabilise share price *(EuroGroup Laminations S.p.A., 2023)*

In addition, on 10 March 2023, the Group issued a notification stating that J.P. Morgan SE, in its capacity as the stabilisation manager for the offer, also acting on behalf of the joint global coordinators and joint bookrunners, had reported the partial execution of the over-allotment option provided by the selling shareholders. Specifically, 2,969,860 ordinary shares out of the maximum of 7,136,951 ordinary shares lent for the Over-allotment Option were exercised, resulting in the return of 4,167,091 ordinary shares to the selling shareholders. The purchase price for the ordinary shares subject to the Over-allotment Option was set at Euro 5.5 per ordinary share, for a total of Euro 16,334,230. Subsequent to the exercise of the Over-allotment Option, the Offer encompassed a total of 74,339,367 ordinary shares, with a total consideration of Euro €409 million.

As we have seen in the previous chapter, stabilization activities are common occurrences during IPOs, aimed at maintaining the stability of the market and managing fluctuations in share prices. They are conducted by designated entities known as stabilizing managers to mitigate potential volatility in the initial trading period following the listing.

In this regard, it is interesting to analyse the price trend of EGLA shares, in order to understand the market sentiment after the IPO, and the potential outlook for future price trend.
Figure 9 displays the price trend of EGLA shares from the first day of trading until February 2024, so we have a clear view of the price fluctuations during the first year of public trading.

Figure 9: Price trend of EGLA shares from the IPO moment until February 2024 - Source: Teleborsa

During the first weeks of trading the price was quite stable, market segment was not changed with respect to the quality of EGLA shares and potential performance of the company over 2023. After a slightly decrease in March 2023, the shares value started to surge from April 2023, reaching a price peak of €6,6 per share, with a notable 20% growth. Nevertheless, starting from summer 2023 the share price started to decline steadily. The stock which was placed just under 12 months ago at €5.5, has fallen below the €3 threshold, resulting in a significant -46% decrease in the stock's value since its initial placement. This price performance is quite weird if we think to the company performance explained in previous paragraphs. However, past track records past do not guarantee the same future performance. A past surge in revenues and profits does not necessarily imply that it will continue with the same intensity in the future, and this is what happened to EGLA performance during 2023. In particular, the company has not shown the same growth rates of the fiscal years previous to the IPO, especially 2021 and 2022.
The stock market seems to have struggled to come to terms with the absence of the double-digit growth rates that characterized the company in the years before its Initial Public Offering (IPO). Growth has been the defining feature of the company during the last years as a private company and has strongly contributed to the foundations of investor expectations.

Looking at the 9 months 2023 results released by EGLA, the company reported revenues of €644.2 million, representing a slight decrease of 1.1% compared to the same period in 2022 when revenues stood at €651.1 million. The revenues decline is attributable to the Industrial segment, which has registered a 35% decrease with respect to the proceed registered during 2022. In this regard, it is worth pointing out that the CEO of the Industrial Business Unit has been replaced. Kepler, the brokerage firm that shepherded the group onto the stock market (the stock specialist), had anticipated revenues surpassing the billion-dollar mark by the end of the year as of March 2023. However, these expectations were gradually scaled back over the course of the months (Milano Finanza, 2024).
Despite this marginal decline in revenue, the company witnessed positive growth in its EBITDA, which surged to €82.4 million, marking a notable 7% increase from €77.0 million reported in 9 months results of 2022. Similarly, the EBIT also experienced a modest uptick, reaching €59.1 million compared to €58.1 million in the same period last year, reflecting a 1.7% improvement. These figures indicate that while the company faced challenges in revenue generation, it managed to enhance its operational efficiency and profitability during the first three quarters of the fiscal year. Nevertheless, the current growth rate of both revenues and EBITDA are much different from the growth rate registered during previous years. If we look at the financial statements displayed in previous paragraphs, we can clearly observe the difference on the growth trends. For instance, during 2022 the company has registered €851.112 thousand revenues, with a sensational increase of 53% with respect to 2021. As of today, revenues estimate for 2023 are closed to 2022 values, and this is probably not enough for investors, who were used to much higher growth rate, triggering a massive selling activity on market, thus leading to a steadily price drop as we can see in the graph.

This situation could serve as a catalyst for a fresh start for EGLA, contingent upon the stock witnessing a resurgence in revenue growth this year, a factor that was entirely lacking in 2023. However, following this substantial decline in the stock market compared to its listing price, the EGLA management team has delivered a strong message to the market. Some EGLA Executives has purchased approximately 250.000 shares of the group, valued at around €750.000 thousand euros in total considering the share price in that moment. The CEO of EGLA, Marco Arduini, has declared that the motivation behind this move stemmed from the belief that the current stock price fails to reflect the company's true intrinsic value, influenced by global dynamics rather than its core fundamentals (Milano Finanza, 2024).

It is curious to observe that the presence of Tikehau Capital in the shareholders structure after the IPO has not contributed so much to containing the price drop of EGLA shares. The presence of Growth Equity was considered as a quality signal during the pre-IPO phase and during the first days of trade, but then investors have probably focused more on financials while adjusting their expectations on the company value. It should also be noted that Tikehau Capital has not divested completely its position yet; so, it is still vulnerable to share price fluctuations, which can adversely affect the final return on the investment made in 2020. As long as the fund does not sell all its shares, it will not be possible to determine the real return from the investment obtained by the Growth Equity fund.

The market reaction following an IPO can offer insights into investor sentiment and initial perceptions of the newly public company. Looking ahead, the future valuation and potential results achievable by EGLA will largely depend on its ability to execute strategic initiatives, sustain revenue growth, and adapt to evolving market conditions, exploiting the support of Tikehau Capital. These factors will ultimately determine its long-term success and investor confidence in the company's trajectory.

3.4 Future developments and potential results of the company

As the company makes its debut on the public market, attention turns to its future developments and prospective results. Understanding the potential trajectory of valuation and performance is crucial for investors and stakeholders alike. Analysing the factors that may influence the company's growth, profitability, and market positioning in the coming quarters provides valuable insights into its long-term viability and investment potential. In this paragraph, we will explore the anticipated avenues for the achievable trends for the company following its listing on the public market.

In order to comprehensively forecast the company's potential results, a detailed examination of the company's strategic direction, including its expansion plans, and market positioning, is integral to understanding its growth trajectory. Furthermore, an evaluation of market trends associated with the company's sector provided valuable context for assessing its competitive landscape and potential challenges and opportunities. This multifaceted approach ensures a comprehensive understanding of the factors influencing the company's valuation and anticipated performance in the market.

Currently, EGLA seeks to capitalize on its core competencies, including its leadership in motor core production, competitive advantages derived from innovative technology, processes, and

scale, and a clear growth trajectory. In particular, the management team aims to expand its global footprint by potentially establishing additional manufacturing facilities in key markets like the US and China, while also venturing into new territories such as Turkey and India. Concurrently, it seeks to leverage the growing market share of Chinese and Japanese OEMs, recognizing significant potential within local OEM networks alongside existing relationships with Western counterparts. Furthermore, the company plans to drive growth within the commercial vehicle segment, capitalizing on the nascent stage of E-Mobility adoption in this sector. Exploring emerging trends, the company eyes opportunities in motor core production outsourcing by industrial players and prospects in non-traction areas amid the transition to electric actuators. Finally, it is keen to evaluate options for mergers, acquisitions, and strategic partnerships to fortify its market position and foster further expansion initiatives (Kepler Cheuvreux, 2023).

In this regard, on September 28, 2023, EGLA started a share repurchase programme, after the authorization granted by the Shareholders' Meeting convened on July 20, 2023. As of February 5, 2024, consequent to the aforementioned share repurchase activities, EGLA possesses a total of 2,810,482 ordinary treasury shares, constituting 1.676% of the company's overall share capital.

The firm has clearly stated the purpose of such buyback: it intends to engage in extraordinary corporate and financial operations, which may include, among various possibilities, acquisitions, mergers, capital restructuring, exchanges, financing agreements, or other pertinent transactions that may require the transfer or disposition of treasury shares. Additionally, the company seeks to meet obligations arising from existing or prospective stock option plans, stock grant plans, or other incentive schemes, designed for the benefit of representatives, employees, or collaborators of the company or its subsidiaries. Furthermore, the firm aims to enhance stock liquidity to facilitate orderly trading activities and mitigate price fluctuations that deviate from prevailing market dynamics.

Talking about acquisitions, on October 9, 2023, EGLA successfully concluded the acquisition of 100% ownership of DS4 S.p.A., a company situated in Pedrengo within the Bergamo province, specialized in tailoring software and hardware solutions customized for industrial automation applications. The transaction's value amounted to €16.5 million, which was entirely settled in cash using internal funds. DS4 reported revenues of €7.9 million and an EBITDA of €2.5 million in 2022, with an order backlog amounting to €18.4 million as of July 2023. The existing management team of DS4 will continue to lead the company, driving forward the significant growth trajectory it has initiated. This growth trajectory will be further propelled by strategic coordination and operational synergies facilitated by the Group.

In addition to the acquisition of DS4, on January 12, 2024, EGLA inaugurated a new production plant for the EV market in Mexico. This strategic move entails a substantial investment of approximately €50 million. Following the initial investment for electric vehicle (EV) segment production in 2016, during which the plant embraced industry 4.0 standards, sustained growth in the e-mobility sector prompted the Group to embark on an additional site development initiative. Approximately 10,000 square meters dedicated to the EV & Automotive segment are now integrated with the existing 21,000 square meters, resulting in a 43% expansion of the covered area. The new facilities epitomize innovation and sustainability, with a keen emphasis on decarbonization, circular economy principles, and educational endeavours, leveraging the Group's extensive experience as a market leader. The expansion of the production site in Mexico signifies a pivotal advancement in EGLA's growth trajectory, aiming to double installed production capacity for the EV segment and fortify its market leadership position. The new facility enriches the firm's global manufacturing network, which comprises 13 plants, including seven in Italy and six abroad: two in Mexico and China, one in the United States, and one in Tunisia. It is poised to play a central role in fulfilling the Group's robust order book for the EV & Automotive segment.

To conclude, we can analyse figure 10, which provide a snapshot of the current EV order book portfolio of EGLA. In particular, we can observe significant developments from the moment of the IPO. For a matter of clarification, all the numbers related to the order book are referred to the period 2023-2028 in terms of expected values.

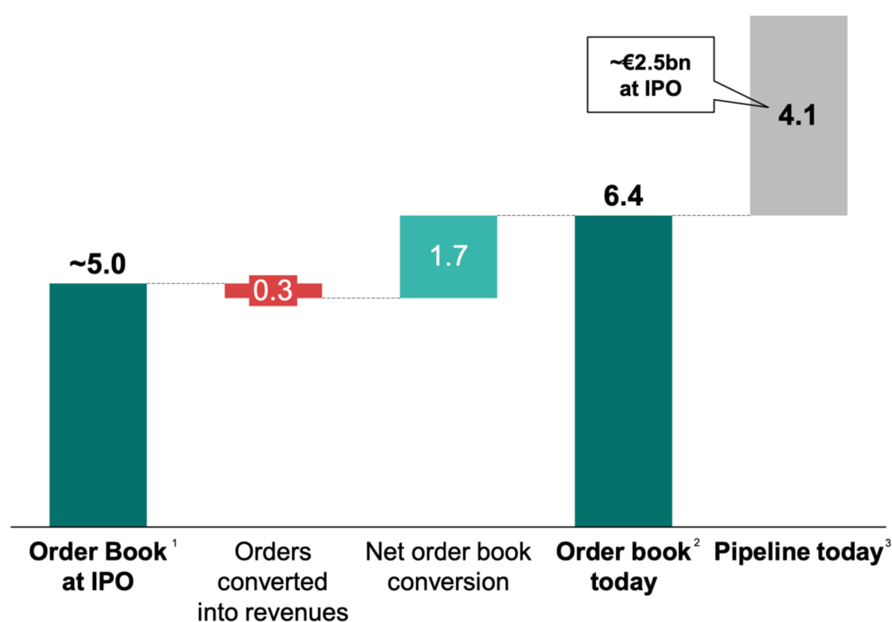

Figure 10: EV order book and pipeline (€bn) *(EuroGroup Laminations S.p.A., 2023)*

The order book witnessed a substantial uptick, buoyed by the conversion of approximately €750 million, representing a notable achievement facilitated by the conversion of pipeline commitments into firm orders. This enhancement in the order book reflects a strategic pivot towards a more diversified client base spanning various geography. Noteworthy is the inclusion of a new European Tier 1 and a new Chinese OEM partner, underscoring the company's expanding global footprint and its ability to secure partnerships across diverse markets. Moreover, the evolving composition of the order book manifests an encouraging trend towards enhanced diversification, evident in the engagement with nearly 20 customers, encompassing both OEMs and Tier1 suppliers, a marked increase from the previous count of approximately 15 at the time of the Initial Public Offering. Furthermore, the company now services over 35 platforms, reflecting an expanded scope compared to the initial offering stage, where the portfolio comprised fewer than 30 platforms. This progression signifies the company's strategic evolution towards broader market penetration and underscores its commitment to serving a more expansive client base across various operational domains.

However, the fluctuations in valuation metrics underscore the inherent uncertainties and complexities associated with forecasting enterprise value, particularly in the context of evolving market dynamics and growth trajectories. Indeed, Eurogroup Laminations has to constantly consider such factors, as the development of the Battery Electric Vehicle sector is marked by considerable uncertainty due to evolving consumer preferences, regulatory changes, technological advancements, and market competition.

Conclusions

The purpose of this work was to understand how Private Equity and Initial Public Offering operation can unlock value creation of companies that carry out such operations. Starting from Private Equity, it is evident the magnitude increases registered by the latter, driving the ascendance of private capital as a significant asset category for investors and a pivotal reservoir of debt and equity financing for enterprises. In this regard, it is important to stress the fact that Growth Equity has played a fundamental role in the surge of Private Equity activities even if, historically, Growth Equity has not been distinctly categorized within the Private Equity sector. Its examination in Corporate Finance literature has been somewhat restricted, given its previous rarity and occasional confusion with Venture Capital owing to shared traits. Nevertheless, the scale of Growth Equity, also referred to as Growth Capital, has surged significantly since late 2016, nearly doubling to approximately $920 billion by March 2021.

Therefore, we have explored the different Private Equity operations, namely Buy-Out, Venture Capital and we have focused mostly on Growth Equity. Through the literature review, it has been clarified the potential of Growth Equity, understanding its main features and difference with respect to Venture Capital. The target company for Growth Equity operations is a high-growth company with a sustainable long-term business model that aligns with macro trends and demonstrates promising market opportunities. The primary advantage for the target company engaged in a Growth Equity operation is to advance beyond what would have been achievable without the supplementary capital from investors, potentially surpassing competitors. Investors have the opportunity to guide the high-growth trajectory of the target firm, facilitating its expansion and reaping substantial returns. The intrinsic features of these operations and of the target companies involved entail a reduced level of volatility compared to Venture Capital investments, which carry a higher risk of failure.

The growth boosting derived from Growth Equity operation has been verified from an empirical point of view through the analysis of Eurogroup Laminations S.p.A.

Analyzing the financial statements of the firm, we have clearly displayed the sensational results obtained by the company during the Growth Equity holding period. Obviously, the analysis has been carried out considering the company business model and the reference market.

Eurogroup Laminations has set its expansion trajectory even before the funds entrance, and the latter has contributed to foster the company growth and performance. In other words, the company was ready to be supported by private investors, with a clear value creation plan.

In this way, Tikehau Capital has been able to make a thorough analysis of the company even before the deal finalization, identifying the best way to exploit value levers during the

investment period. This aligns to what the literature indicated us with respect to deal sourcing: investors who are well-informed and proactive before selecting a deal stand to potentially yield higher returns.

Moving to the end of the investment, the exit strategy chosen by the company and by the fund was the Initial Public Offering. Therefore, before analyzing the EGLA's listing, we have deepened the listing process, analyzing the opportunities that such operation offers, but even the costs that a firm has to face to go public. We have observed that taking a company public is a complex process that many companies find challenging to navigate independently. It entails the involvement of numerous professionals and demands significant effort from all parties involved. In addition, within the scope of this work, one of the primary motivations for pursuing an IPO is to enable PE investors to realize returns through a successful exit strategy. Nevertheless, beyond serving as an avenue for PE exit strategies, it's important to recognize that an IPO presents a significant opportunity for PE-backed firms to secure additional funds to fuel their growth initiatives. Consequently, going public provides private companies with easier access to supplementary capital, addressing their requirement for additional funding. Note that in the case of a PE backed IPO, the fund's return is directly linked with market valuation when the IPO is carried out. In addition, if the fund subscribes a lock-up agreement, it will have to deal with the market risk even after the first day of trade. In EGLA's case, this dynamic has been very evident; not only did the fund sign a lock-up agreement, but it also voluntarily held a share of its stake, to support the company also after the listing. Despite the growth registered during the previous years, the financials released by EGLA with respect to 2023 have shown a slowdown in growth. In turn, investors' expectations were not coherent with the actual company performance in 2023, thus leading to a massive selling activity with a consequent drop of the market capitalization. It is important to note that, however, EGLA is not going through a bad situation; indeed, is has a huge order book for the next years, but the market has focused more on its growth rate to determine its valuation.
This shows us the fact that, even if a company presents sound financials and a sustainable long-term growth projection, it could still not be enough for the market, which requires more immediate and evident performance.
To conclude, EGLA is now facing a stasis period in terms of growth, but it has already set a clear expansion plan, that will probably show all its potential in the medium term, thus pulling the valuation up, overtaking the current market situation. The support of Tikehau Capital has provided a strong boost to the company growth, and this is evident both from the financial

performance and from strategic decisions and actions implemented during the investment period.

The IPO has been a sound opportunity to get the funds to keep the growth path, consolidating and expanding company's market position. Despite some criticalities deriving from market reactions, the company has all the instruments to rise in the future.

This work has provided a comprehensive examination of growth equity operations, particularly focusing on its dynamics and on the choice of IPO as exit strategy. Through an exploration of various theoretical frameworks, empirical evidence, and industry insights, this study has shed light on the significance of Growth Equity in the Private Equity sector and its evolving role in Corporate Finance. By specifically delving into the dynamics of IPOs as an exit route for growth equity-backed companies, this research has underscored the strategic considerations, challenges, and potential benefits associated with this pathway. Moving forward, as the landscape of Private Equity and capital markets continues to evolve, understanding the interplay between growth equity operations and IPO strategies will remain crucial for investors, entrepreneurs, and industry stakeholders alike.

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