

## Minibond market. More than 1,000 Italian SMEs would be in the position to issue bonds for an aggregate amount in excess of Euro 13bn

Milan, 23rd February 2023 - There is a **considerable investment potential for private placements of bond issued by Italian SMEs**, according to Cerved Rating Agency. In its annual review of the “mini-bond” market, the Agency anticipated that more than 1,000 SMEs would be in the position to issue bonds for an aggregate amount in excess of Euro 13bn without a significant deterioration of their financial structure. In a funding market dominated by bank offering (banks count for 65% of the total funding to Italian corporates), so called mini-bonds could ensure either (i) to SMEs’ CFOs an additional/alternative funding tool and (ii) to bond investors a new investment tool into the credit risk of smaller, private companies. Moreover, Cerved Rating Agency found a significant minibond issuable potential also for the so-called mini-green bond. Starting from the shortlist of 1000+ ideal issuers previously identified and filtering out for transitional and enabling sectors, the **mini-green bond potential market** would consist of more than **500** companies with solid fundamentals that could issue up to **6.7 bn Eur** mini-bond nominal value on aggregate basis.

### The minibond potential

In order to quantify the potential of the minibond market in Italy, the Agency ran a screening activity aimed to identify a so called “ideal minibond issuer”, a shortlist of non-financial corporates characterised by a solid credit risk profile that could issue a minibond without compromising their financial stability.

The screening process can be summarised in a series of sequential steps: the initial sample used in the selection process is the portfolio consisting of almost 19k non-financial entities having an outstanding rating issued by Cerved Rating Agency, the Italian rating agency specialised in assessing the creditworthiness and ESG performances of firms and operating in the European regulatory landscape. The sample is sufficiently representative of the Italian economy in terms of sectors, geographical distribution, size, legal form and financial structure. Minibonds are debt securities typically issued by small and medium companies: consistently, only non-financial companies with revenues between €5M and €500M have been selected. The following step was to apply stringent financial criteria, based on benchmark analysis and the analysts’ know-how, aimed at identifying several companies with strong financial profiles that may guarantee a minibond issuance without compromising a sound financial equilibrium. The full list of criteria used for the selection of eligible companies are exposed in the table below:

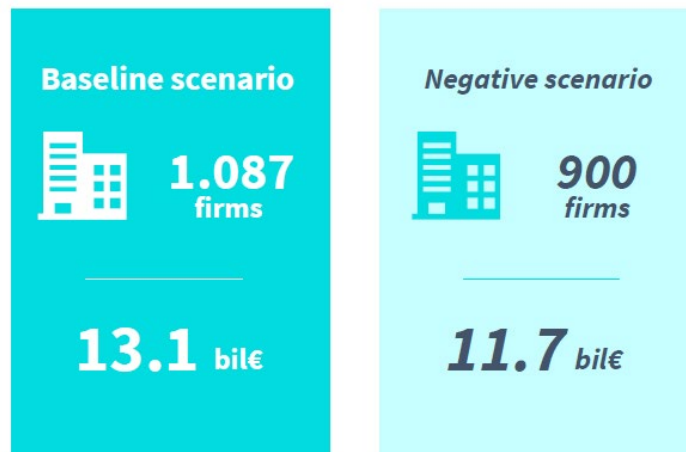
**Exhibit 1 – Screening criteria for the selection of the target issuer**

Screening criteria
2023 Projected Rating IG (minimum rating B1.2)
Revenue between 5 and 500 million Euro
CAGR Revenue over last 3 years > 10%
Avg. EBITDA margin over last 3 years > 10%
Avg. EBIT interest coverage over last 3 years > 3x
Avg. NFD/Equity over last 3 years ≤ 2x
Avg. NFD/EBITDA over last 3 years < 4x

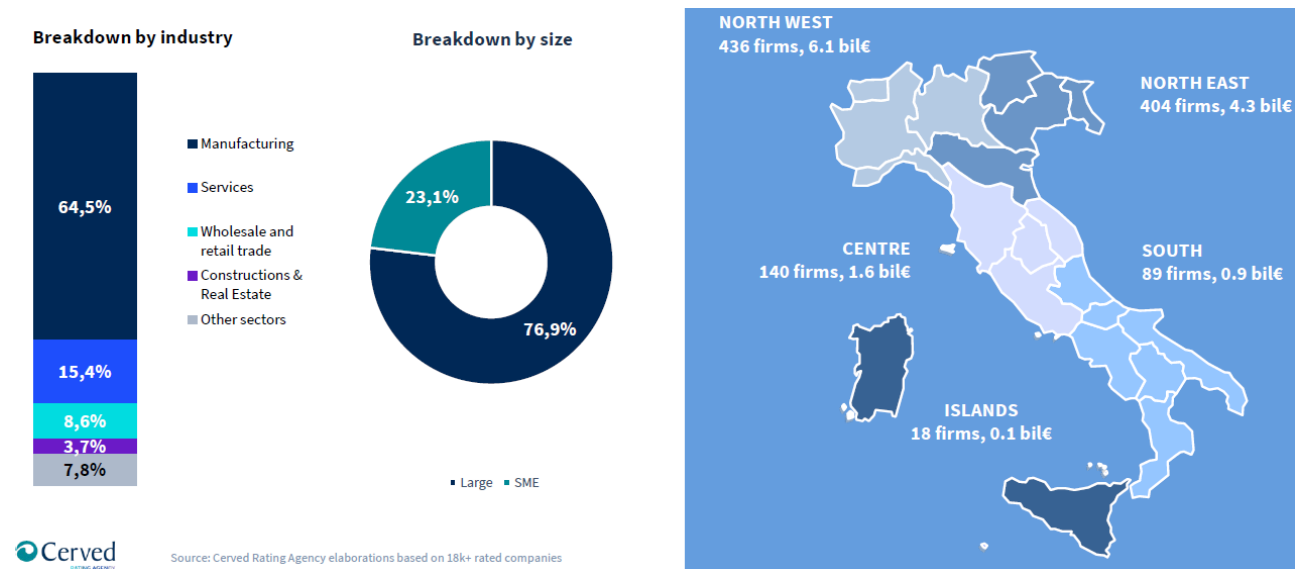
Applying the filters to the initial sample, a shortlist of **1,087** companies comes out, 77% of which located in the North of Italy. Assuming an issuable amount equal to the last available EBITDA for each eligible corporate, the full minibond potential has been estimated to be **13.1 bn Eur**.

At this point, the Agency ran a sensitivity analysis, applying a negative scenario<sup>1</sup> characterised by a significant recession for Italy in 2023, growing inflation and tighter monetary conditions: even in this unlikely case, the number of eligible corporates would decrease to **900**, highlighting a particularly resilient sample of corporates, and a potential of **11.7 bn Eur** minibond issuance.

**Exhibit 2 – Number of firms and potential minibond issuance for baseline and negative scenario**



**Exhibit 3 - Minibond potential– breakdown by sector, size and geographical area in the baseline scenario**



As the industry breakdown shows, there is a significant concentration of potential minibond issuance coming from manufacturing corporates (64,5%), followed by services (15%) and retailers (8,6%). In terms of size of the

<sup>1</sup> Scenarios, criteria and estimates based on Cerved Rating Agency Credit Outlook 2023.

issuing corporates, 76,9% of the full potential would be related to Large<sup>2</sup> corporates (50-500M Eur Revenues); nevertheless, a relevant amount would also be attributable to smaller companies.

### The minigreen bond potential

In the recent years, the sustainability focus has embraced also the minibond market that is becoming an important additional source to sustain SMEs competitiveness enhancing the green transition. In order to estimate the potential market for mini-green bond, the Agency started from the shortlist of 1,087 companies previously identified and subsequently applied an ESG screening, based on the company sector. More specifically in this section, the focus shifted to those corporates that could be affected by the EU taxonomy as operating in transitional and enabling sectors. The EU Technical Expert Group used emissions data to identify NACE macro-sectors with the highest impacts on climate change; therefore, corporates operating in these NACE sectors have been considered as eligible for mini-green bond issuance. These activities can substantially contribute to climate change mitigation by reducing greenhouse gas emissions or enhancing greenhouse gas removals (previous TEG reports labelled these activities as “greening of”) and could be subject to significant investments’ needs to meet environmental performance thresholds in line with the industry’s best technology.

Cerved Rating Agency’s green subset of companies was thus selected including **the following sectors and activities:**

Construction	Agriculture, forestry and fishing
Transporting and storage	Sewerage, waste management and remediation activities
Information and communication	Textile and clothing
Real Estate	Electricity, gas, steam and air conditioning supply
Automotive	Equipment
Chemicals	Rubber and plastic
Metallurgy	Other manufacturing *

\*excluding fuel, food&beverage, pharmaceuticals, paper and packaging

Source: Cerved Rating Agency

Applying these additional filters, a subset of 537 corporates potentially eligible for mini-green bond issuances is obtained. Assuming an issuable amount equal to the last available EBITDA for each eligible corporate, the full mini-green bond potential has been estimated to be **6.7 bn Eur**. Moreover, in the context of a negative scenario characterised by a significant recession for Italy in 2023, higher inflation and tighter monetary conditions, the number of corporates eligible would decrease to **440**, evidencing again a particularly resilient sample of corporates, and a potential of **6.1 bn** Eur minibond issuance. The breakdown for industry, size and geographical area depicts a scheme where the most represented cluster of corporates operates in the sustainable manufacturing sectors (71,9%), followed by the Green building and construction industry (7,3%) and is located in the North of Italy.

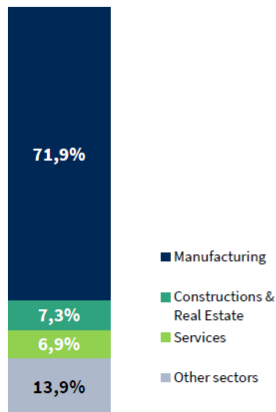
#### Exhibit 4 - Number of firms and potential mini-green bond issuance for baseline and negative scenario

<sup>2</sup> Size definition as of European Commission Recommendation 2003/36.

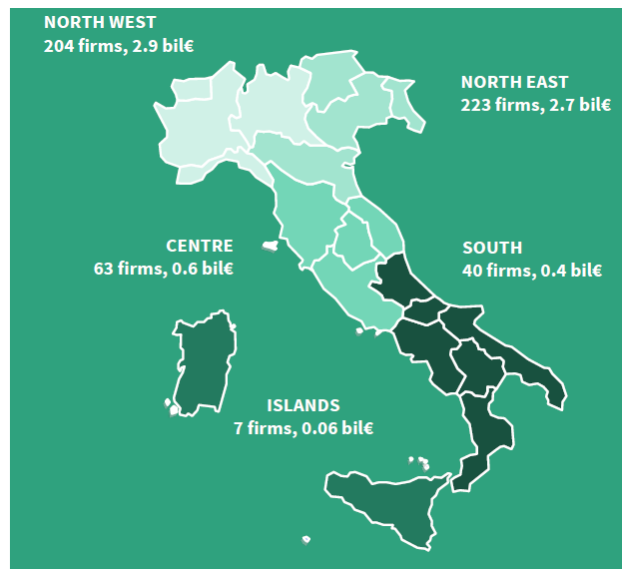
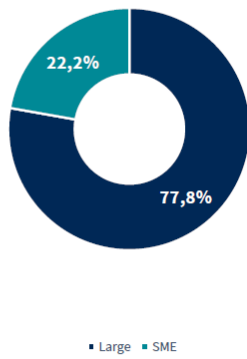


**Exhibit 5 - Mini-green bond potential – breakdown by sector, size and geographical area in the baseline scenario**

**Breakdown by industry**



**Breakdown by size**





### **Cerved Rating Agency**

Cerved Rating Agency is the Italian rating agency specialized in assessing the creditworthiness of Italian non-financial corporates and debt securities. In addition, the Agency issues ratings on the sustainability of corporates, financial institutions and insurance companies, applying innovative assessment techniques based on a proprietary methodology, developed in line with international best practices.

### **Cerved**

Cerved helps businesses, banks and other institutions protect themselves from risk and grow sustainably. With a unique wealth of data and a data-driven approach, Cerved provides services and digital platforms to manage risks and to foster growth, including advisory solutions. Through Cerved Credit Management Group, it helps the Italian economy dispose of non-performing loans, while **Cerved Rating Agency** offers creditworthiness assessments of companies and their debt instruments. In September 2021, Cerved Group Spa joined the ION Group, one of the largest international fintech operators, following a public takeover offer on Cerved's shares. For more information about Cerved, visit [www.cerved.com](http://www.cerved.com)

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