Smaller Italian Companies Turn to Bond Market

By Christopher Emsden

Italy's small and medium-size businesses are increasingly turning to the bond market, in a growing effort to pursue funding without relying on the country's embattled banks.

Caar SpA, a small supplier to the automotive and aerospace industries, became the latest Monday when it began selling a €3 million ($3.9 million) bond.

The company, which had revenue last year of €5 million, said the proceeds would be used to fund a push into international markets and allow it to double its work force.

Caar's five-year bond, which will pay a 6.5% interest rate, is notable because it is by far the smallest of a spate of so-called minibonds issued by Italian companies.

Almost €3 billion has already been raised by 10 companies since the Italian Stock Exchange in Milan set up a platform earlier this year, called ExtraMot Pro, that allows institutional investors to trade bonds issued by closely held companies without stock-market listings.

The flurry of bond sales follows the introduction of a law last year aimed at helping the country's many small and often family-owned companies survive the credit crunch.

The law, which allows companies to deduct the cost of servicing bond debt from their tax bill, was aimed at providing some relief to companies in a country where 90% of businesses are funded by bank loans, but where banks have increasingly tightened lending. Bank loans outstanding have fallen by €60 billion since late 2011, according to Italy's central bank.

"This is a pilot project, and we hope the message spreads," said Gerardo Murano, a banker at Turin-based consultancy ADB, which scouted Caar as a candidate and then advised on its bond sale. "We hope several thousand small and medium-size Italian companies will eventually follow suit, and early signs are that can happen, but organizing buyers is still time-consuming."

Actions by the European Central Bank have tamed sovereign borrowing costs for weaker southern European economies. But even the ECB acknowledges that its extraordinary efforts to support the banking system haven't trickled down to the small businesses that create jobs and stoke growth in the region.

As a result, policy makers across the continent are now openly exploring ways for the central bank to support smaller companies, perhaps by buying financial instruments linked to loans to small and medium-size businesses. Bank of Italy Governor Ignazio Visco last week urged firms to take matters into their own hands, putting up more of their own resources and seeking funds in capital markets.

"Caar is on the frontier of trying to change things," said Stefano Firpo, a senior Industry Ministry official who has been exploring ways to connect Italy's cash-starved businesses to international capital seeking higher returns.

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There are other moves afoot in Italy. Maurizio Sella, part of the family that owns Banca Sella, one of Italy's largest private-banking groups, has started Smartika SpA, an Internet-based "social lending system" that aims to conquer 1% of the personal-loan market.

"The financial crisis has raised twin questions of where to put your money, but also where to get it," Mr. Sella said. Smartika's members can choose the duration and risk profile of their loans, most of which go to peers who need to pay medical bills or consolidate more expensive credit-card debt, Mr. Sella said. The average borrowing cost is now 6.5%—far below what local banks are charging, and far above what Italian government bonds are offering to savers.

Larger-ticket corporate bonds are also proliferating. **Sogefi**, a car-parts maker, last week sold $140 million in 10-year bonds to two U.S. institutional investors who toured the company's factories, said a spokesman for CIR, Sogefi's owner.

Sol SpA, which makes medical and industrial gases, sold $35 million in bonds with maturities up to 12 years in another private U.S. placement last week.

The government reckons there are several thousand smaller Italian companies who could follow the path blazed by Caar.

What is ultimately needed are buyers, of course. Placements in the U.S. indicate that there are a lot of investors seeking destinations. Mr. Firpo says he is receiving signs of interest from Germany, where very low local sovereign-bond yields have made insurers keener to find higher-yielding investments to match the liabilities embedded in the policies they have sold.

Last week the Confindustria business lobby helped usher into existence the first new investment fund devoted entirely to the so-called minibonds.

But for now the venture—run by Finint and Banca Monte dei Paschi di Siena SpA—is designed as a closed fund to be wound down after seven years.

Italy's own asset-management industry, which manages €1.3 trillion, could also play a role if authorities tweak current regulations to allow funds to invest in relatively illiquid assets, according to industry lobby Assogestioni.

For now, the new ExtraMot Pro bond-trading platform is thriving.

Sisal, a gaming company that also offers payment service solutions, became the 10th name on that bourse last week after it issued €275 million in four-year bonds yielding 7.25%.

Caar, in its tiny way, will soon be No. 11. "Obviously any of the investors in the Caar bond could have just picked up the whole issue," said Mr. Murano of ADB "But that's not the point."

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