

EVIDENCE OF THE ITALIAN SPECIAL PURPOSE ACQUISITION COMPANY

Patrizia Riva^{*}, Roberta Provasi^{**}

^{*} Corresponding author, Piemonte Orientale University, Italy

Contact details: Dipartimento di Studi per l'Economia e l'Impresa (DiSEI), Università del Piemonte Orientale, via Perrone, 18, 28100 Novara, Italy

^{**} Bicocca Milan University, Italy



Abstract

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In 1992 David Nussbaum with the support of the law firm Graubard Miller devised the formula of the specified purpose acquisition companies (SPAC): a financial vehicle that has the flexibility and functionality typical of the blank-check companies, which could provide investors with the right protections and guarantees in order to be a reliable instrument. The first SPAC officially debuted in 2003 through the Initial Public Offering (IPO) of Millstream Acquisition Corporation which then completed the merger with Nations Health in September 2004. In 2005 the first SPAC got listed in European Market and in 2011 the first SPAC joined in the Italian market.

The aim of this research is to investigate the features of the Italian SPACs System because it's becoming a large phenomenon in Italy. This new type of investment is able to fit the needs of small-medium Italian companies, to solve crisis difficulties, to find new finance to grow, to be a good instrument for opening up venture capital and institutional investors respecting the past business history and the safeguard of corporate control. The study, then, performs an analysis on the Italian SPACs by examining their target firms, stock performance before and after the business combination and the impact of the SPACs on SME corporate governance models. These results will be compared with those of other research developed by academic literature.

Keywords: Special Purpose Acquisition Company, Initial Public Offering, Business Combination, Promoters, Nominated Advisor, Corporate Governance, Italian SMEs

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1. INTRODUCTION

The official definition provided by the Securities Exchange Commission (SEC) explains how the blank-check companies are companies without a specific business strategy or purpose that indicated the desire to achieve a merger or acquisition with one or more companies, entities or other unspecified parties. The bad reputation revolving around this corporate model and the distrust of the more experienced investors were the result of the lack of a structured regulation for these companies for operating.

The blank-check companies operated, in particular, within the shared segment of the penny stocks or securities that, due to their small amount,

did not require a formal registration and could be exchanged over the counter or in markets where trading takes place outside the official stock exchange circuits.¹ Since the transactions took place in an unregulated manner, without formal admission of the securities and with prices created thanks to the meeting of supply and demand, the directors of the blank-check companies had to use fraudulent conduct to the detriment of the small investors who had insufficient skills to recognize the manipulation

¹ Penny Stock: definition contained in Rule 3a51-1 of the Securities Exchange Act of 1934. Companies must have an asset value of less than 5 million dollars and a face value of \$5 per share after an IPO to be within this segment.

of the listing price of shares according to “pump and dump” schemes.²

In order to stem this illicit conduct, in 1992 the SEC implemented the Securities Enforcement Remedies and Penny Stock Reform Act, a new regulation for all blank-check companies with the dimensional requirements provided by penny stocks. The placement of the shares of these companies was regulated by the Rule 419 (offering by blank-check companies), aimed at balancing, on one hand, the speculative objectives characteristic of these corporate instruments and on the other the essential protection of small investors.

Requirements to be met according to the provisions of Rule 419, concern: deposit of securities and proceeds in escrow or trust account; audited financial statements; prohibition of trading of the shares of the blank-check company; conditions for withdrawal and conditions for release of deposited securities and funds; a term of 18 months.

The birth of the SPAC is thus perfected precisely in this regulatory context with the need to create a financial vehicle that has the flexibility and functionality typical of the blank-check companies, which could provide investors with the right protections and guarantees in order to be a reliable instrument and free from the reputation of previous companies that were perhaps exempt from the stringent Rule 149.

All these characteristics were merged in 1992 in the new project of David Nussbaum (founder of the investment bank EarlyBirdCapital Inc.) and with the support of the law firm Graubard Miller, he devised the formula of the specified purpose acquisition companies. In particular, Nussbaum's goal was to voluntarily comply with some of the investor safeguards imposed by the SEC and the NASD with the same Rule 419, in order to receive the approval of the institution responsible for the supervision of stock markets and reassure a sceptical market after the abuses committed in the eighties with the previous instrument.

The guarantees for investors were realized starting from 2010 when further listing standards are foreseen:

- 90% (reaching 97-98% in some cases) of funds raised during the initial offer to the public must be tied to an unavailable trust;
- the SPAC must complete the business combination within 36 months and the value of the target company must be at least 80% of the value (net of deferred fees and taxes on interest accrued with the investment of the shares) of segregated funds in the trust;
- the business combination must be approved by the majority of the shareholders' meeting and the maximum limit of the dissenting parties able to influence the outcome cannot be less than 10% of the shares sold by IPO;
- shareholders who are against or abstain are entitled to redeem their shares for an amount equal to the pro rata value of the funds transferred to the trust.

² Sjostrom, W. K. (2008). The truth about reverse mergers. *Entrepreneurial Business Law Journal*. With “pump and dump schemes” a fraud typology is organised that consists of artificially increasing the price of a Small Cap share with the final objective of selling shares acquired at a good price at a higher price. A “speculative bubble” is created that tricks the investors.

The progressive increase in credibility on the market was obtained first with the consent of the NYSE Amex to the listing and then, in 2010, with the adoption of specific listing standards also accepted by the NASDAQ and the NYSE. The inventor Nussbaum together with his investment bank has led, during the nineties, to the establishment of 13 SPACs giving rise to a phenomenon that, despite suffering over time the backlashes of the market, is spreading unstoppably both in the economic landscape and in the European one.

As shown in Table 1, the first SPAC officially debuted in 2003 through the Initial Public Offering (IPO) of Millstream Acquisition Corporation (with a restricted capital of \$ 24 million) which then completed the merger with Nations Health in September 2004.

Table 1. Number of SPACs and their size per annum in the US market

Year	No. of SPACs listed	Average IPO size (mln)	Share capital (mln)
2018	28	\$ 241.1	\$ 6...752
2017	34	\$ 294.7	\$ 10...048
2016	13	\$ 269.2	\$ 3...499
2015	20	\$ 195.1	\$ 3...902
2014	12	\$ 145.8	\$ 1...750
2013	10	\$ 144.7	\$ 1...447
2012	9	\$ 54.5	\$ 491
2011	16	\$ 69.4	\$ 1...110
2010	7	\$ 71.8	\$ 503
2009	1	\$ 36.0	\$ 36
2008	17	\$ 226.0	\$ 3...842
2007	66	\$ 183.2	\$ 12...093
2006	37	\$ 91.5	\$ 3...384
2005	28	\$ 75.5	\$ 2...133
2004	12	\$ 40.4	\$ 485
2003	1	\$ 24.2	\$ 24
Total	311	\$ 165.5	\$ 51...480

Source: www.spacanalytics.com, updated to 16 August 2018.

Commencing from the following year, the rate of diffusion accelerated sharply, registering the listing of 12 new SPACs. In 2007, the SPAC accounted for 25% of all IPOs in the United States with 66 new operating instruments and capital collected of approximately \$ 12 billion. In 2008, however, there was a sudden collapse with the listing of just 17 SPACs followed in 2009 by a setback with only one new instrument. This negative trend is not due to a loss of credibility or interest in the vehicle but rather to the global financial market crisis. In May 2010, the IPO of the SPAC 57th Street Acquisition Company began a new wave of investments both in the US market and in the still bitter European and Asian markets. The proof that the SPACs remain an attractive tool for companies that fail to bear the costs of a traditional IPO or cannot resort to other forms of financing, is demonstrated by the increase in the number of SPACs listed in 2015 (when the collection was almost \$ 4 billion) and even more so in 2017 with 34 SPACs for a value of \$ 10 billion. The good spread of the SPACs in the market is also confirmed by the data for the current year in which, IPOs of 28 vehicles were detected in August. The comparison shows a difference due to the fact that in Europe the SPAC appeared relatively late with the first listing of 2005 with International Metal Enterprises Inc. listed on the AIM in London.

From the analysis of Table 2 it can also be noted that the European SPACs tend to conduct IPOs with capital greater than those of the US and that they prefer multiple acquisitions of a smaller size than a single major transaction, as for the U.S. SPACs.

The EU SPACs are also more flexible and able to achieve the objective of finalizing an M&A (merger & acquisition) operation in a short time thanks to much lighter regulation compared to the stringent standards imposed by the United States securities markets.

Mergers and acquisitions play a role in corporate governance because, while there are both internal controls such as independent boards and effective executive incentive compensation plans, and external checks, such as legal protection for minority stockholders and monitoring of the firm by the rating agency and accountants (Cox, 2006).

The European SPACs do not have significant obligations regarding the minimum value of the target company to be acquired, the amount of funds to be allocated and bound in the escrow account, the number and value of the transactions carried out or the shareholders' vote of approval.

Table 2. 19 Sample of European SPAC IPOs, 2005-2011

SPAC	Date of PO	Gross income (mln)
Cross-Shore Acquisition Corp.	April 2006	\$ 112
Energy XXI Gulf Coast Inc.	October 2005	\$ 300
European CleanTech 1 SE	October 2010	\$ 159.3
Germany 1 Acquisition Ltd.	July 2008	\$ 396.4
Helikos SE	February 2010	\$ 277.3
Horizon Acquisition Company PLC	February 2010	\$ 667.2
International Metal Enterprises Inc.	October 2005	\$ 201
India Hospitality Corp.	August 2006	\$ 103
Infinity Bio-Energy Ltd.	May 2006	\$ 516
IRF European Finance Inv. Ltd	November 2005	\$ 275
Italy 1 Investment S.A	January 2011	\$ 150
Justice Holding Ltd.	February 2011	\$ 1...440.2
Liberty Acquisition Holdings Co.	February 2008	\$ 877.6
Pan-European Hotel Acquisition Co.	July 2007	\$ 139
Platinum Diversified Mining Corp.	March 2006	\$ 79.5
Titanium Asset Management Corp.	June 2007	\$ 120
Vallar PLC	June 2011	\$ 1...128.5
Vallares PLC	June 2011	\$ 2...177.5
Viceroy Acquisition Corp.	July 2006	\$ 180
		\$ 489.4
	Value	\$ 275

Source: Ignatyeva, E., Rauch, C., & Wahrenburg, M. (2013). *Analysing European SPACs*. *Journal of Private Equity*, 17.

Furthermore it is noted that, while the SPACs under US law prefer the search for target companies belonging to the national market; in Europe the listing of the vehicle on a specific market belonging to the Union does not directly imply that the SPAC is established according to the law of the country in which the market operates nor that the search for the business combination target will have a listing status. Usually, the managers of European SPACs

prefer to choose the listing market with reference to regulation and tax legislation. The AIM market in London is chosen even if it is restricted because it is the one with the lowest entry requirements. The practice of setting up SPACs in low-tax countries (tax heavens) is also widespread.

2. LITERATURE REVIEW

The largest number of papers is focused on U.S. SPACs and only a few analyse European and Italian SPACs.

The SPAC, as the name suggests, is created with the only purpose to find a privately-held firm and merge with it. In this way, after the transaction, the target firm became listed and can use the cash to boost growth or to repay debt. Founders of these particular companies are typically managers with experience in the private equity industry, corporate finance or are expert in management, restructuring, valuation or in specific industries in which the single SPAC is interested. Once they created the company they have typically from 18 to 24 months to complete the business combination with a potential target. If they do not find the suitable target within the agreed period of time, the company is liquidated and almost all proceeds raised through IPO are distributed pro-rata to shareholders. In case of liquidation of SPAC founders are not compensated for their work and so they do not receive any money. Many studies are focused on investigating the features of the different periods of the SPACs' life. According to Lewellen (2009); Cumming, Hass, and Schweizer (2014) the cycle life SPACs must be segmented by 4 stages. The first called "No Target" which last from the IPO date until the day when the target company is announced. After the individuation of the target company by managers, the SPAC enters in the "Target Found" phase, which ends on the day of the shareholders meeting. In this day, shareholders are called to vote on the approval of the business combination between the target company and the SPAC. The result of the vote decides which phase follow. If the business combination is approved, the SPAC enter in the "Acquisition Completed" stage. On the other hand, if the result of the vote is negative, SPAC returns in the "No Target" or "Acquisition Withdrawn" phase, depending on the time available. In fact, only if there is enough time to led managers to find another target company, a new "No Target" period occurs. The SPAC is created with the only purpose to acquire a private firm and, through a reverse merger, make the latter being listed in the public market. A regard the reverse merger Floros and Sapp (2011) highlight that "reverse merger have become a popular way for a firm to go to public in recent years while avoiding the delays and expenses of the traditional IPO process" (p. 854). They identify five major advantages of reverse mergers over IPOs: 1) avoiding the stock exchange regulation process for being listed (which can be lengthy); 2) lower direct and indirect costs (such as underpricing); 3) stocks are traded immediately after the merger (avoiding the risk from worsening market condition); 4) firm's managers focus more on operations (and not on road shows); 5) owners maintain a higher stake in the resulting public company.

In literature some studies are also present exploring the different type of promoters, founders and sponsors. Promoters are a group of people promoting the foundation of the company by underwriting company equity. They are usually individuals but can also be legal persons, such as law firms, consulting firms, investment banks or holding companies. As regards the sponsors the study of Berger (2008) found out that “sponsors tend to have demonstrated a track record of success and a proprietary edge, which gives to investors confidence that they can source and execute a value-creating transaction” (p. 72). The experience of promoters is fundamental for the SPAC initial public offering because it’s the only valuable assets on which public investors can rely on. In the listing prospectus, in fact, it’s clearly stated which is the past experience of each promoter and who they are. Lakicevic, Shachmurove, and Vulnovic (2014) found that on average, SPACs are founded by 5.91 individuals and they are on average 50.59 years old at the time of filing.

Investors of a SPAC can be a hedge fund, private equity funds, investment bank, family offices, high net worth individuals (HNWI) and companies. Individuals can invest in SPACs through funds as well, which in turn buy shares of a SPAC in the open market. Investing in SPAC is a very interesting opportunity because gives a potentially high return with a limited downside scenario. Thus, as Lewellen (2002) wrote, “investors essentially own a riskless zero-coupon bond with an option on future acquisition” (p. 6). Managers instead are those individuals that sit in the board of directors and manage the company. The role of management for a lot of studies is very relevant. Jog and Sun (2007) wrote: “if the managers are able to find a suitable target firm for the SPAC and complete the business combination they can receive a high return. Despite they lose their investments” (p. 8). This practice is known as “skin in the game” because managers risk their own money in the “game” of investing in the company. If managers do not risk their own capital in the SPAC they could have the incentive not to fully commit their time in searching for the optimal target company for the merger. The management team is the most important asset that a SPAC have when approaching the market in an IPO. Investors can only rely on experience. Networks and competence of managers when deciding whether to invest or not. The listing prospectus of a SPAC contains all important information about every single manager: their education, past experience, important role covered, particular companies in which they worked connected to industry focus of their SPAC and other relevant information of their life career. In this way, investors can have an idea of the appropriateness of managers to run a SPAC. However, this is only a qualitative method to evaluate the overall quality of management. Kim (2009) tried to individuate a quantitative method to evaluate the skills of managers. He used the phenomenon of underpricing, typically prices of new stocks rise. The literature (Murray, 2011) states that the underpricing phenomenon could be the result of asymmetric information between the company and its investors. Firms have incentives to provide all information to investors in the IPO process because underpricing is costly for them (companies sell their shares at a lower price). Kim’s intuition is the following: in

traditional IPOs, the phenomenon of underpricing can be used to infer the quality of companies but, when a SOAc get listed, it has no assets and no history behind it. Thus in the case of a SPAC, only the quality of management team can explain the phenomenon of underpricing, This implies that in SPACs, the underpricing experienced in the first day of trading can be a proxy for the quantitative valuation of the quality of management. This finding is important because it explains that the market can value also non-quantitative characteristics of a stock.

Other studies are referred to the differences and similarities between SPAC and Initial Public Offering (IPO). For example Jenkinson and Sousa (2009) individuated six characteristics of SPACs over traditional IPO: 1) a small group of senior management raise capital in advance and then search for a target; 2) indirect way for small investors to get into a hedge fund type investment; 3) since a SPAC do not have any history, articulated or specific business plan a part of the declaration that proceeds raised will be used for an acquisition in 18/24 months, the listing process is easier and quicker; 4) more transparent listing prospectus; 5) explicit statements about their conflict of interests; 6) approval by shareholders and at least 70/80% of them need to approve otherwise the company is liquidated. This last is probably the more distinguishing characteristics of a SPAC with respect to an IPO. Thus, as Boyer and Baigent (2008) suggested, SPAC can be the solution for going public in periods when the IPO market may not be especially robust. For all similarities and difference between the two investments vehicles, Ignatyeva, Rauch, and Wahrenburg (2013) consider a SPAC as a “one-time liquid” private equity fund.

Finally, some research referred to the likelihood of a SPAC acquisition. Kolb and Tykova (2016) tried to understand what are factors that influence the choice of a firm to enter in a public market through a SPAC rather than with a traditional IPO analysing 127 U.S. SPAC during the period 2003-2015. Their results are aligned with the literature: SPAC acquisitions are possible alternative solutions to IPOs for getting listed in public markets for firms with lower growth opportunity, more debt or in difficult periods when traditional IPOs are not feasible.

3. THE SPACS IN THE ITALIAN LEGAL SYSTEM

The SPACs have become part of the Italian market rather late compared to the US experience. In Italy the listing of SPACs was initially only permitted on the multilateral trading system AIM but starting from 2010 trading is also allowed on the MIV market.³

This market, organized and managed by Borsa Italiana was created with the aim of offering capital liquidity and visibility to investment vehicles with a clear strategic vision. The Italian market is divided into four categories: closed-end funds, investment companies, real estate investment companies (for real estate investment and/or leasing activities) and SIV.

The CONSOB with resolution No. 17302 dated 04/05/2010 approved the changes to the Market

³ MIV: Investment Vehicles Market

Regulations prepared by Borsa Italiana on 13/04/2010, which entered into force on 24 May 2010 and which consist of the creation of new admission requirements and disclosure obligations in the MIV market. The new Regulation introduced on the MIV market, a new professional segment not accessible to retail investors aimed at investment vehicles characterized by the absence of diversification. So SPAC obtained the opportunity to enter the market as Special Investment Vehicles (SIV).

Article 1.3 of the regulation defines the SIV as “a company whose investment policy does not provide for a sufficient level of diversification and whose exclusive corporate purpose provides for the predominant investment in a company or activity as well as the related instrumental activities. It also indicates those companies whose investment policy is characterized in terms of particular complexity”. It is clear then that access to the SIV segment is subject to a series of conditions that the SPACs are also called to satisfy. The main ones are:

- duration of the company with statutory provisions not exceeding 36 months;
- compliance with specific disclosure requirements regarding the investment policy which must be clear and detailed regularly disclosed and updated;
- establishment of a restricted fund in which to deposit the capital raised during the IPO and on subsequent capital increases;
- adoption application and maintenance of every reasonable measure to identify conflicts of interest that may arise from investment activity;
- preparation of adequate information on the professional reputation and experience of the management team.

In Italy, a summary of the updated data is proposed in Table 3 which states that in Italy 1 Investment SA was the first SPAC under Luxembourg law, listed in 2011 on the MIV segment of Piazza Affari while the first Italian SPAC was MadeInItaly 1 with a capital of € 50 million which then integrated SeSa SpA in 2013. The data reported some numerical indicators the Italian SPACs collected about € 3.7 billion, realized € 980 million of investments in companies currently listed, still have € 2.7 billion to invest and of that more than € 300 million are already for the recently announced business combination.

In particular starting from the first listing: there are 29 investment vehicles established with the aim of concluding an acquisition or merger transaction to allow the target company to be listed on the Stock Exchange and with the exception of one closed fund (IPO Club) and 2 pre-booking companies (IPO Challenger and IPO Challenger 1), 26 are traditional SPACs.

Although the Investment Vehicles market offers new opportunities for the listing of the SPACs the favourite market is still the unregulated market AIM Italia. The reasons why AIM Italia is preferred are:

- regulatory flexibility for SMEs able to guarantee a simplified listing process (admission to the market in 10 days with shorter times compared to other markets);
- the centrality of the Nomad (Nominated Advisory) a consultant who accompanies the company during the admission phase and

throughout its stay on the market supports it in compliance with the listing status ensuring high disclosure transparency for investors and strong credibility;

- simplified access requirements: no minimum or maximum size of the company in terms of capitalization or specific economic-financial indicators is envisaged;

- the speed and costs contained. The presentation of an Admission Document is not required, it is not necessary to present an Information Prospectus as in regulated markets, due diligence is not required either by Borsa Italiana or by CONSOB.

Table 3. SPAC in the Italian market

SPAC	Date of PO	Capital (mln)	Target company
Italy Investments	January 2011	€ 150	IVS
Made in Italy	June 2011	€ 50	SeSa
Industrial Stars of Italy	July 2013	€ 50	Lu-Ve
Space	December 2014	€ 130	Fila
GreenItaly 1	Deember014	€ 35	Zephyro (ex Prima Vera)
Space 2	July 2015	€ 155.15	Avio
Capital for Progress 1	September 2015	€ 51	GPI
Glenalta Food	November 2015	€ 80	GF Group
Industrial Stars of Italy 2	May 2016	€ 50.50	SIT Group
Innova Italy 1	October 2016	€ 100	Fine Foods & Pharmaceuticals
Crescita	March 2017	€ 130	Cellular Italia
Space 3	April 2017	€ 15285	Aquafile
Glenalta	July 2017	€ 100	Gruppo CFT
Sprint Italy	July 2017	€ 150	n/a
EPS	August 2017	€ 150	Industrie Chimiche Forestali
Capital for Progress 2	August 2017	€ 65	ABK Group Industrie Ceramiche
Industrial Stars of Italy 3	October 2017	€ 150	n/a
Spactiv	October 2017	€ 90	n/a
IdeaMi	December 2017	€ 250	n/a
Space 4	December 2017	€ 500	Guala Closures
Spaxs	January 2018	€ 600	Banca Interprovinciale
ALP.I	February 2018	€ 100	n/a
VEI 1	February 2018	€ 100	n/a
Life Care Capital	March 2018	€ 140	n/a
Gabelli Value for Italy	April 2018	€ 110	n/a
Archimede	May 2018	€ 47	Net Insurance

Source: Uprated BeBeez Report in March 2018 and manually integrated up to August 2018.

Since SPAC is the preferred choice for smaller companies with limited resources it could lead one to think that the presence on the market of companies that are not worthy of the listed status, “low-skilled” B-series companies will be favoured.

This conclusion seems coherent and appropriate if contextualized in the US economic

landscape where large companies are much more widespread than in Italy. The Italian landscape is by its historical nature, a system characterized by micro-enterprises and to attribute them a negative qualification only based on their turnover seems to be unfair. The most significant benefits that companies derive from listing through the SPAC are cost savings. Admission to the market involves lower costs as these have already been borne by the vehicle even before reaching the agreement, using the capital paid by the promoters for listing expenses.

A further advantage to the use of SPACs lies in the protection granted to the listed company in terms of reputation. Thanks to the SPAC the company within which the business combination will take place remains protected until the moment when the business combination transaction is concluded given that only at that point its identity will be made public. In addition, a starting point for reflection is provided, at least with reference to the Italian legal system by the Ministerial Decree of 23 April 2018 which establishes the application rules for the facilitation of the listing of SMEs introduced by the Budget Law 2018. The law provides for a tax credit to be used in compensation valid up to 50% of the consulting costs incurred for listing to a maximum ceiling of € 500 thousand and applicable to SMEs that support the aforementioned costs in order to obtain admission to a market listing by 2020. The decision to opt for a SPAC also depends on the concept of market volatility. The volatility of the markets often generates disquiet of the investors but this does not occur for the SPACs that possessing exclusively bound liquidity and not exposed to the fluctuations of the shares supply sufficient guarantees to the possible investors.

Time is another factor to consider in order to understand whether it is better to proceed to a traditional IPO or through SPAC. It is good to specify that the advantage of the listing process through a SPAC is faster than a traditional corporate IPO.

Finally, it has been studied that the listing through SPAC is preferred by companies with limited financial resources and means unsuitable to support the listing process with the traditional listing. These companies present themselves with lower profitability low profits and a very high market-to-book ratio. The riskiness of these companies is greater as their capacity in terms of available equity is lower than the value that the market attributes to corporate assets.

Among the disadvantages that could discourage a small company to resort to the SPAC can be highlighted on the one hand the need for approval by the management team of the Business Combination and on the other the lack of transparency complained by investors.

For the first aspect, the success of the listing is subject to the positive resolution by the capital subscribers who, after having assessed the characteristics of the Business Combination, are sufficiently sure of the validity of the transaction. The risk consists following a negative opinion of not being able to realize neither the business combination, nor therefore the listing of the company.

The second disincentive to use the SPACs refers to the fact that they do not have to offer investors anything but a restricted liquidity account the

commitment to pursue the search for a target company with certain requirements and the competence of a group of experienced and skilled managers.

These certainties do not compensate for skepticism due to the lack of historical elements and data on which investors can base their decisions.

In fact, they cannot yet support their decision to subscribe for securities the knowledge of the sector in which the SPAC will operate through the target to be identified, its geographical area of activity and the economic data that characterize it and of a series of other key information.

4. THE LIFE CYCLE OF ITALIAN SPACS

The Italian SPACs' life cycle is also divided into four phases: 1) Constitution; 2) IPO; 3) Identification of the target company and preparation of the business combination after having announced the results of the research to the market; 4) Completion of the business combination or liquidation of the vehicle.

4.1. First phase: Constitution of the instrument

The life cycle of SPAC begins with its constitution that takes place thanks to an initial capital injection by the founders of the vehicle, sponsors or promoters.

The promoters have the fundamental task of representing the management team in the period prior to the IPO and of strategically managing all the operations aimed at implementing the business combination. During the incorporation phase, the sponsors hold all the ordinary shares of the vehicle and do not receive any compensation except for a reimbursement of expenses for the activities carried out. Since the constitution, it must be clear is that the vehicle activity is limited and subject to compliance with deadlines: the operation must be resolved in a period of 24 months with the possibility of an extension up to 36 months, which implies, however, the approval of shareholders through the preparation of a letter of intent.

4.2. Second phase: Company IPO and listing

The second phase is represented by the IPO organized by the SPAC to launch on the capital market and to negotiate its shares in order to collect sufficient capital from the financial investors to carry out the business combination.

The IPO or Initial Public Offering consists of the proposal to the public of investors to underwrite newly issued shares of a company that started the listing process with the concurrent decision to provide for a capital increase. Shareholders of non-listed companies commonly consider an initial public offering (IPO) as the "silver bullet" for raising new capital and a way to change ownership structure. The important role of IPOs for practitioners led to extensive academic research on IPOs although IPOs are one of the most studied topics in corporate finance (Oehler, Herberger, Horn & Schalkowski, 2017). At the time of the IPO, it should be noted that the SPAC has no operation or assets except for the capital conferred by the founding sponsors and not even any previous operational history. In the Italian context, as already

underlined the organization of the Stock Exchange listing is made easy streamlined and secure thanks to the presence of Nomad a central figure for AIM Italia and must be admitted by Borsa Italiana and registered in a special register. The nature of this figure is varied but it is mandatory that it is a capital company well known by the market and with adequate credibility. It may be a business bank as well as an intermediary with specific activities in the corporate governance sector. According to the stock exchange regulation, the Nominated Advisor will accompany the company throughout the period of stay on the market. The Nomad will be joined by another intermediary the Global Coordinator Broker, who is responsible for supporting the company in the placement phase of the securities and guiding it in the choice of the issue price and the most effective trading strategy. During the IPO the SPAC issues Units or combinations consisting of an ordinary share and one or more Warrants. Shortly after the market listing date, the Units are split into their two components and both Ordinary Shares and Warrants will be traded separately on the market. Immediately after the IPO, almost all proceeds are transferred to a guarantee account administered by a bank or trust. In the first generation, SPAC the percentage of deposit in the fund is around 80-90% while for new vehicles it may also be also 100% with the objective to provide ever-increasing guarantees to investors and increase confidence.

4.3. Third phase: Exploration of the market to find an operating target company

Following the conclusion of the IPO, the third phase consists of the research on the market of an operating company, not yet listed and with high development potential with which the realization of a business combination is profitable. This is a very intense exploratory phase for the SPAC, which uses all the managerial and technical skills is able to find both from inside and outside, using consultants and experts with transversal skills.

The research phase of the target company is fundamental and requires time and energy and for

these reasons, although it should start on the date following IPO listing, in reality, SPAC is active with this aim already in the phase of being established.

The identification of the goal of the business integration also includes the requirements that the company must meet and there are two categories:

1. SPACs that adopt a generic line without setting particular limitations and characteristics regarding the company with which to integrate;
2. SPACs that adopt a precise line regarding the investment sector and the geographical area desired for the company with which to integrate.

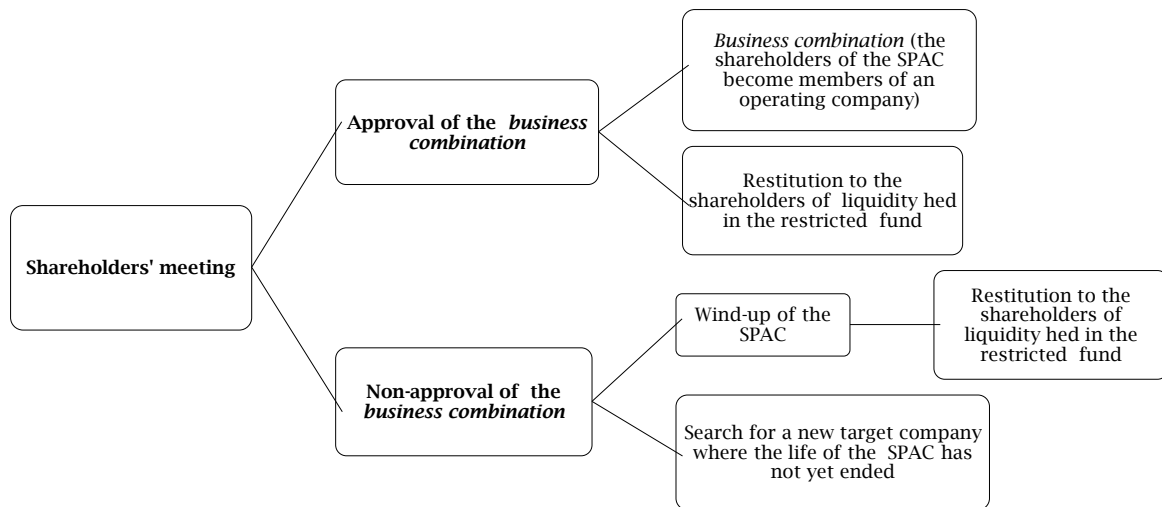
The SPAC may not specify which industrial sector it is aimed at in its prospectus. It is instead obliged to provide the shareholders' clarifications on the general characteristics of the target company, the evaluation criteria that will be followed to evaluate the acquisition, at the growth stage wanted is the ideal market value of the company and the motivations for integration.

The business combination constitutes for the SPAC the riskiest moment since it is at that moment that the shareholder investor takes the decision to approve the final transaction and become a shareholder in the post-transactional operating company, or if the investor withdraws his investment, redeem shares and obtain liquidity previously bound as compensation.

4.4. Fourth phase: Completion of the transaction or corporate liquidation

The last step before the conclusion of the activity of SPAC consists of the realization of the business combination. Preparation for the merger or acquisition operation starts from the end of the evaluation phase leading to the identification of the target company and is subject to approval by a shareholders' meeting. The outcome of the research of the target company and its communication to the financial market can generate in the meeting two different scenarios: a) approval of the business combination; b) rejection of the business combination proposal.

Figure 1. Life cycle of SPAC after a shareholders' meetings



In case of a positive decision, it will be necessary to formalize the juridical aspects that will lead to the preparation of new Bylaws and new governance of the newly formed company and highlight the economic and financial impact that will be generated with the conclusion of the negotiation.

For the purpose of approval compliance with two conditions is required: 1) the economic and financial value of the company; 2) the shareholders' vote.

It is envisaged, in particular, that the company to be acquired can guarantee a fair value or a market value of assets that reaches at least 80% of the capital held by SPAC in order to avoid that an abundant part of the bound capital fund remains unused.

If this threshold is reached the business combination will assume the adjective 'qualified' and will exhaust the life cycle of the SPAC. The remaining shares available in the escrow account will be released and used as liquid assets for the performance of the new entity's operating activity.

The practice requires that the majority of members are favourable to the business combination and that the percentage of dissenting members is rather limited - about 20%. In the event of disagreement by shareholders in their approval, it is their prerogative to exercise, as stated in the right of withdrawal, which guarantees the immediate liquidation of the shareholding held in proportion to the amount of proceeds deposited in the escrow account. In any case, the shareholders have reimbursed the part relating to the ordinary shares subscribed and may independently choose how to behave with regard to the warrants held that may be exercised or sold on the market.

With regard to the determination of the liquidation due to shareholders opposed to the transaction, it is appropriate to refer to the Code and Article 2437-to which states that "the liquidation value of shares listed on regulated markets is determined by referring to the arithmetical average of closing prices in the six months prior to publication or receipt of the notice convening the shareholders' meeting whose resolutions legitimize the withdrawal".

The peculiar characteristic of the transaction is the creation of a qualified business combination whose accounting discipline is contained in IFRS 3, as revised in 2008. To be able to apply the provisions contained in the standard it is essential to verify if the transaction can be qualified or not as a business combination by applying the definition reported in the IFRS for which there is a business combination only if "the assets acquired and the liabilities assumed constitute a business activity".

The standard defines business combinations as the combination of two distinct entities into a single new company called to prepare the financial statements. The buyer, in order for the assumption for the aggregation to exist, must obtain control of the acquired entity.

The experiences of the European and above all Italian SPACs attest to the propensity to favour the search for minority participation rather than a totalitarian acquisition. With regard to this conduct, the transaction concluded by a SPAC consists of a reverse acquisition in which the result will be the birth of a new company in which the shareholders of the target company will have the majority of the

shares and not the promoters of the SPAC. In reverse acquisitions "the entity issuing the securities (the legal acquirer) is identified as the acquired for accounting purposes" and "the entity of which the interests are acquired (the legal acquiree) must be the buyer for accounting purposes".

Initially, since the typical transaction carried out between the SPAC and its target showed some similarities with the reverse acquisition process governed by IFRS 3, it was considered appropriate to apply this principle by analogy. In this regard, the IASB intervened, clarifying that the acquiring company does not issue any type of consideration at the basis of the reverse acquisition.

Specifically, the accounting acquirer SPAC issues its ordinary shares for the shareholders of the purchaser and the consideration is represented by the difference between the fair value of the shares of SPAC at the time of the merger and their fair value before the transaction. This difference is configured as a share-based payment or payment based on shares for the cost of the service received from the target company by the SPAC for listing on the market. This payment must be charged to the Income Statement as a financial charge according to the provisions contained in IFRS 2.

5. CONCLUSION

In Italy, the potential of the SPAC is yet to be discovered since it is a modality of investing the capital that arrived in the national context later than the large number of blank-check companies that already populated the American market in the 1980s. The 2018 edition of the IRTop Aim Italia Observatory is 5 years old. Compared to 2014, the market has tripled in terms of companies (from 36 in 2014 to 108 in 2018); the average size in terms of capitalization grew + 67% from 2014 (from 27 to 45 million); the average size of the companies also increased in terms of revenues: from 28 to 43 million euro; the sectoral diversification increased with the listing of industrial companies and the strengthening of technology (compared to a prevalence of Green and initial Digital Media).

Finally, the number of SPACs listed in the five-year period also made a decisive leap forward (22 in total). The number of institutional investors has increased over the years (from 63 in 2014 to 101 in 2018), in particular, the share of investment held by foreign companies grew (from 39% to 52%). There have also been significant improvements on the governance front: companies with independent directors have gone from 86% to 97%; liquidity improved significantly (number of days trading from 65% to 81%), and the coverage of the securities also doubled from 30% to 59%.

Thus, data on Italian target firms of SPAC are in line with the international literature. In fact, on average they increased revenues, total assets and long-term debt in the years following the business combination.

The more than satisfactory results achieved so far, promise that over time the assignment to a SPAC will be more and more frequent and that an increasing number of companies with the desire to improve and with a good positioning will have the opportunity to be listed on the stock exchange. The backbone mechanism of the SPAC has gained market

confidence and in the future these vehicles, which may have spread too quickly and with too much albeit positive vehemence, two major changes are expected and hoped for. The former has the aim of reducing the perception of the instrument as a mere liquidity parking, preferred by investors more interested in short-term returns thanks to the negotiation of the Units and the exercise of the right of withdrawal rather than the business combination; to return to it its nature as a ferryman to the promising PMI market.

Secondly, it is necessary to promote the focus of the SPAC on specific sectors and abandon the generalist logic that has so far distinguished them. The specialization helps the raising of capital, promotes the success of the operation and allows the streamlining of the selection process of the target operating company. The demonstration of this progressive and necessary specialization already comes from vehicles listed in the first part of 2018. The SPAC Archimede is the first company operating in the insurance sector with the aim of giving life to an innovative operator for the damaged branch and protection in the Italian market. Still, Life Care Capital is aimed at excellence in the field of medical devices or health care, rehabilitation facilities, transport services, logistics or packaging of the drugs. Finally, SPAXS, promoted by Corrado Passera and Andrea Clamer, raised € 600 million, making it the largest SPAC in Europe. On August 8th, the business combination transaction was approved with Interprovincial Bank and a new operator, Illimity, was born, with a distinctly innovative vocation which, among other things, will focus its attention on Italian SMEs with good industrial prospects but with a non-optimal financial structure, a non-existent or low credit rating or a need for reorganization.

To have a more complete view of the phenomenon in Italy it is necessary to evaluate which companies are suitable for integration. Although in our country there are many SMEs not yet mature enough to be attractive for those SPAC whose collection of capital collected on the market is huge, "a quick analysis conducted among small and medium-sized companies in Italy has identified at least 200 companies in the country with an equity value of between 80 and 150 million, an EBITDA margin of over 15% and very low debt" to testify that there are many opportunities to choose from. If the focus of the SPACs were directed towards family-owned companies, the conditions could be created for the resolution of those moments of crisis affecting companies in which the need for new liquidity to finance growth adds a strong shareholding that would never give up strategic management and the willingness to become independent of the use of bank debt.

Otherwise family owner-managers in Italy have tended to avoid having to depend upon equity when investing on a large scale and the capital constraints of family firms have often restricted their internal growth; on the other hand these very capital constraints could stimulate external growth as firms have come together in strategic alliance or equity collaboration (Bruno, 1999; Napoli, 2018). The SPAC can be the ideal instrument for opening up venture capital and institutional investors, respecting the past business history and corporate control that wants to be maintained.

The impacts of the SPAC operations on corporate governance are also significant, especially when preparing a company for listing on AIM Italia. Although there is no "standard" formula or regulatory tax, the listing on AIM requires the construction of robust, transparent and balanced governance with respect to the interests of all shareholders. Contrary to what is required for the MTA (Mercato Telematico Azionario - Screen-based stock market), where the principles of "corporate governance" are inspired by the Corporate Governance Code for listed companies, the AIM Italia regulatory system does not provide for any corporate governance requirement, thus Issuer, as well as the Nomad have to care about the adoption of appropriate rules. Corporate governance is of great importance in the context of a listing process with AIM Italia

The Nomad (which must be chosen by the Issuer among those who are registered in a special register at the Italian Stock Exchange) is a central figure for AIM Italia having the task of assessing the appropriateness of the company for the purposes of admission to the market, of supporting it, maintaining an adequate profile of information transparency to investors and stimulating the company's attention to compliance with the rules deriving from being listed on AIM Italia, maximizing its benefits. carrying out its activities, Nomad must verify and evaluate the adequacy and effectiveness of the management body in its entirety, having regard to the needs of the market and the company. For these purposes, Nomad may request the Issuer to strengthen its "governance" and it is therefore desirable that starting from the preparation phase of the listing, the Issuer with its advisors will begin to reflect on these aspects. In particular, and referring to a joint-stock company with a traditional model Nomads, even if not required by any law, usually request that the board of directors of the Issuer is composed of executive and non-executive directors, thus allowing provision of the decision-making process with skills also outside the company as well as a value-added contribution in the context of board resolutions. A specific category of non-executive directors is constituted by the so-called "Independent directors", directors who do not maintain, nor have recently maintained, even indirectly, with the Issuer or with parties connected to it, economic or personal relationships that could condition their independent judgment.

Independent directors have fewer potential conflicts of interest and can provide greater integrity and offer impartial judgement on the work of managers thus reducing costs which in turn would prove beneficial to performance, however the existing evidence on the linkage between board independence and performance is somewhat mixed (Scafarto, Ricci, Della Corte & De Luca, 2017).

The identification of independent directors is a very delicate aspect: on the one hand, in fact, it is appropriate to choose people with proven competence and authority, as this is particularly appreciated by investors and shareholders in general (who thus see their rights better guaranteed), on the other hand, it is, however, necessary and opportune that the qualification of independent directors is held by trusted people, with whom the other directors, especially the delegates, can work in synergy and with maximum profit.

In addition to the presence of one or more independent directors of the Nomad, the practice provides for inclusion in the Bylaws of the Issuer of the so-called "List vote": this institution, through the use of lists among their competitors, allows minority shareholders to appoint one or more representatives on the board of directors.

Correct "corporate governance" will also concern any subsidiary of the Issuer: in this case, the Nomads are in fact requiring for a structure that guarantees the administrative bodies of the subsidiaries the necessary managerial autonomy, so that the interests of all members are preserved. For these purposes, it is customary to limit as far as possible any overlaps between the members of the boards of the Issuer and the subsidiaries, providing for autonomous parties (by way of example, the managing director of the subsidiary is usually a person who does not have any duties, not even management, in the Issuer).

In addition, other measures may be assessed (such as the establishment of an internal control committee made up exclusively of independent directors), so as to further reduce the risk that the interests of minority shareholders are not adequately protected. As part of a listing on AIM Italia, procedures must also be adopted to ensure the transparency and substantial and formal correctness of the transactions with the so-called "Related parties" and those are individuals, physical and/or legal, that are able to exert influence on a company listed on the stock exchange.

Lastly, the control bodies must also be given due consideration in the conception of the most correct "corporate governance". Again referring to a joint stock company with a traditional model, the auditing company must be chosen carefully and must be such as to guarantee high standards of quality and professionalism.

With regard to the composition of the board of statutory auditors, without prejudice to the provisions of the law on incompatibility and independence, it is appropriate to include persons with proven competence. In this case, too, the Nomads may request and suggest that the appointment of the statutory auditors should take place through the use of "list voting", so as to guarantee the minority shareholders of the appointment of a representative on the board of statutory auditors. In conclusion, it can be said that there is no standard "corporate governance" formula for companies that intend to be listed on AIM Italia. The Issuer, with the help of its advisors, and constantly dealing with the Nomad, will have to find the most suitable solution considering the peculiarities of its business and the need to maximize the efficiency and effectiveness of company management, bearing in mind that the financial market generally appreciates Issuers who adopt corporate governance procedures and systems aligned with best practices.

In any case, "corporate governance" must be tailored: each company must develop its own model taking into account both the economic context in which it operates, and its corporate mission, as well as special organizational needs connected to the type of activity carried out and to its social structure (Nerantzidis, Filos & Lazarides, 2012).

The Issuer is therefore called upon to reflect, carefully and with due notice, on these issues, comparing itself with its trusted advisors, who will have the task of agreeing with the Nomad the governance solutions, which better meet the needs of the market and those of the Issuer, its shareholders and directors, not forgetting that the "corporate governance" must and can be structured in the specific interest of the listing operation and of all the parties involved.

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