

Drawing up the Strategic Plan

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Preface

In order to provide issuers with increased flexibility during the procedure for admission to listing and with a view to streamlining documentation, Borsa Italiana has introduced the possibility for companies subject to listing to draw up the analysis which supports their strategic plan without using QMAT. Indeed, this analysis, which is focused on understanding the issuer's Business Model and identifying the relevant stakeholders and the reference sector, may be included in the strategic plan, implementing the formats used by the issuer and the information already available as part of the procedure for admission to listing.

This document aims to support issuers by proposing them an "integrated" index and a series of questions which may be useful to draw up their strategic plan (check-list).

Each company, which is aware of its position and of the competitive environment in which it operates, should consider the proposed index and contents as a guideline to draw up its strategic plan. In this way, the company can develop an optimal strategic plan allowing it to create value and face the financial market. To this end, some paragraphs and contents of this check-list may be omitted when drawing up the strategic plan, which, conversely, may include additional information other than that covered by this document.

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2. Company overview

2.1. Business strategic segmentation

- What are the company's Strategic Business Units¹?
- What are the other significant analysis lines: types of customers?
Distribution channels used by the company? Geographical areas in which the company operates?
The various product lines/services and/or brands sold?
- Are historical data on turnover and margins regarding the SBUs and the significant analysis lines available?

2.2. Business model, resources and distinctive skills

- What is the company's business model² for each SBU?
- What are the main activities of each stage of the business model?
- Which activities are managed internally and which are outsourced?
- What are the key success factors (KSFs) which enable the company to manage the stages of the business model with better results than its competitors?
- What company's resources and distinctive skills are used?

- Does the company significantly depend on a specific customer, supplier or distributor?

2.3. Focus - Distribution structure and customer base

- What is the company's distribution structure and how is its (direct/indirect) sales force comprised?
- What is the evolution of the distribution structure and the sales force for the past three years?
How are they expected to change in the next few years?
- What incentive system is adopted for the (direct and indirect) sales force?
- How is the company's customer base segmented?
- Are the historical evolution of customers, the average turnover for the past three years and the related churn rate available for each customer segment?
- What is the amount of advertising and promotion costs incurred by the company over the past three years?

1) Strategic Business Unit (SBU) means a unit of a company which is responsible for developing strategy in a specific area of business (SBA).

A SBU generally presents:

- strategies independent from other areas of activities of the company;
- specific cost structures;
- independent organisational entities and dedicated responsibilities.

2) Business model means the series of functions or processes required to conceive, generate and distribute the company's product/service to the end customer.

The business model varies in relation to each SBU, the company and the sector.

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2.4. Focus - R&D and innovation

- What were the company's main process/product innovations over the past few years?
- How has the company's R&D costs (both expensed and capitalised) evolved over the past three years?
- How has the number of the company's R&D employees changed over the past three years?
- What is the ratio between the company's turnover from new products and its total turnover for the past three years?

2.5. Evolution of the main historical results

- How has the financial performance for the past three years evolved at consolidated level and at SBU level? What are the causes behind the most significant annual changes?
- Have investments been made with a significant effect on the financial performance for the next few years?

2.6. Analysis of net financial position

- How is the company's net financial position (NFP) composed? How has it evolved over the past three years?
- How have the main financial sustainability ratios (NFP/EBITDA, interest coverage, etc.) of the company's indebtedness evolved?
- For each credit line, what is the amount granted and the amount drawn at the most recent date?
- For each loan, what is the original amount and the residual amount payable at the most recent date, broken down into short- and medium/long-term?
- What are the currency, due date, repayment scheme (e.g., bullet) and interest rate of each credit line and loan?

- What are the other relevant characteristics of each credit line and loan?
- Are there any cross default clauses with companies which are outside the listing scope?
- Which loans are subject to covenants? What are the contractual thresholds over the past three years and those for the next three years? What is the historical performance of covenants and what is their estimate for the years covered by the plan (pre-money assumption)?
- Do current loans provide for other restrictions on operations (e.g., limitations on dividend distribution or extraordinary transactions)?
- What is the amount of cash and cash equivalents that are not readily available (e.g., cash and cash equivalents securing liabilities)?

2.7. Focus - Commercial and financial risk management

- What is the company's hedging strategy with respect to currency, interest rate, raw materials risks, etc.?
- Should the exposure to foreign currency be significant, what was the amount of the turnover, operating costs, net financial indebtedness and, where available, net cash flows in the main currencies other than the euro in which the company has operated, for the past two years?
- What is the foreign currency amount hedged, if any?
- What are the (total) fair value and the (total) notional amount of the derivatives in place at the most recent date?
- Are there any speculative derivatives in the portfolio? Do derivative contracts provide for activation/extinguishing barriers or multipliers?
- What is the amount of bad debts in the past three years?

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- What is the amount of the most recently overdue trade receivables (more than 60, 90 and 120 days) and doubtful receivables?
- Have receivables been factored without recourse over the past three years? What are the related costs?

3. Reference market and competition

3.1. Size, segmentation and historical evolution

- In which sector does the company operate and what is its size?
 - In which segments can this sector be divided?
- In which segments does the company operate through its SBUs?
- For each segment in which the company operates, what was the evolution of demand over the past three years?

3.2. Trends, development drivers and outlook

- What are the main current business trends in the company's reference market?
- For each segment in which the company operates, what is the expected trend in demand for the next three years?
- What are the main drivers of the expected evolution of demand?

3.3. Customers' characteristics and buying process analysis

- What are the main customer groups of the business segments in which the company operates?
- Which are the customer groups of the company and which are not?

- What are the characteristics of each customer group? How do these groups differ in terms of number, purchased volume, growth prospects and profitability?
- How does the buying process work? Who are the decision-makers for B2B customers?
- What are the buying factors, i.e., the key factors which influence the purchases of each customer group?

3.4. Main competitors

- Who are the main competitors in the business segments in which the company operates?
- What's their positioning with respect to sales offer and business model?
- What are the weaknesses and the strengths of the main competitors?
- Which strategies have been pursued by the main competitors over the past few years?
- What was their financial performance?

3.5. Market shares and their evolution

- Are the market shares of the main competitors available for comparison with the market share of the company for each relevant segment?
- How have market shares changed over the past three years? Which players gained/lost market shares and why?

3.6. Company's strategic positioning compared to its main competitors

- What is the positioning of the company and its main competitors with respect to the buying factors of each business segment in which the company operates?
- How do competitors manage the main KSFs within each reference segment? What are the main differences with respect to the company?

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- What is the positioning of the company's products/services in terms of price compared to the main competitors?
- What are the main differences with respect to (inherent and perceived) quality?

4. Strategy pursued and strategic aims

4.1. Corporate competitive strategy

- What were the key strategic decisions that led to the company's positioning at corporate level?
- Which business segments did the company penetrate in the past three years through its SBUs? Which business segments did it leave? And why?

4.2. Competitive strategy of each SBU

- What were the key strategic decisions that led to the company's positioning with respect to each SBU?
- Have the pricing strategies applied to the company's main products/services changed over years?
- Have the types of customers, the distribution channels, the reference geographical areas or the portfolio of products/services sold changed over the past three years?

4.3. Competitive advantages and opportunity for a strategic renewal

- What are the company's competitive advantages on its main competitors?
- Does the company apply a premium price compared to its competitors? Is the impact of production costs below the sector average?
- Does the company's growth potential exceed that of the reference market?

- Has the analysis of the threats/opportunities arising from the competitive environment in which the company operates and the comparison of its weaknesses and strengths against those of its main competitors revealed the need or the opportunity to renew/improve the strategy currently in place?

4.4. Strategic aims at corporate level

- What are the key strategic initiatives planned for the next three years which will determine the company's positioning at corporate level?
- What are the main levers that management intends to use to increase the value of the company?
- Will new business segments be penetrated? Which business segments are expected to be abandoned? And why?

4.5. Strategic aims at SBU level

- What are the key strategic initiatives for the next three years which will determine the company's positioning at SBU level?
- Are the pricing strategies applied to the company's main products/services expected to change?
- Will there be cost containment strategies?
- Will new types of customers be included in the customer base? Will new distribution channels be used? Which new geographical areas will be penetrated? Which new products/services will be launched?
- Will the structure of the company's business model change? Will some activities be insourced/outsourced?

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5. Action Plan

5.1. Actions, timetable and responsible managers

- What are the main business, operational and industrial actions that will be taken to pursue strategic aims?
- What is the related timetable?
- Have the responsible managers for each action been identified?
- Is there an incentive remuneration system for managers according to the pursuit of each action?

5.2. Economic and financial impact of actions

- Has the economic and financial impact of each action been estimated with respect to revenues and related costs?
- Have the impacts of each action been estimated with respect to working capital?

5.3. Investments and related financing

- What are the main investments necessary to pursue each action?
- What is their amount and the years will they affect?
- What resources will the company use in order to finance these capital expenditures: current liquidity, cash flows from operations, unused credit lines or new loans?

5.4. Organisational impact

- Will the implementation of new actions affect the management structure? Will there be significant changes in the company's workforce?
- What is the company's progress with regard to the identification of the human resources needed to pursue each action?

5.5. Conditions and constraints affecting implementation

- Have any conditions/constraints been identified such to significantly affect the feasibility of each action?
- Do the specific actions comply with the current regulatory framework?

6. Assumptions and forecast results

6.1. Economic model

- What model is used by the company to make the assumptions underlying financial forecasts at both corporate and SBU level?
- Are there different models depending on the SBU?
- What are the Key Performance Indicators (KPIs) on which the company's model is based?
- Does the strategic plan include the evolution of these KPIs over the past three years and for the next three years?

6.2. Assumptions underlying the financial forecasts

- Does the strategic plan clearly set out the reasons for the evolution of the main KPIs on which the company's financial model is based?
- What are the underlying assumptions for the main macroeconomic indicators (inflation rate, exchange rates, etc.)?
- What are the assumptions underlying the development of revenues regarding each SBU and any other relevant analysis lines (customer groups, distribution channels, geographical areas, product/services lines and/or brands)?

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- What are the assumptions underlying the (fixed and variable) direct costs of each SBU and of any other relevant analysis lines?
- What are the assumptions underlying indirect costs, financial interests and taxation?
- What are the assumptions underlying investments and divestments for each SBU and any other relevant analysis lines?
- What are the assumptions underlying the evolution of working capital, financial structure and hedging of the financing requirements, if any, generated by the pursuit of the Action Plan?
- Are the assumptions set out in the strategic plan consistent with the strategic aims, the Action Plan and the competitive trends of the company's reference industry?
- Are there significant inconsistencies (e.g., with respect to margins) compared with historical data?
Can these inconsistencies be justified?

6.3. Forecast results compared with historical data

- Have the forecast results for the next three years been compared with the same final figures for the past three years? Were they reclassified consistently?
- Are the accounting principles applied in line with those applied to the most recently audited financial statements?
- Are the consolidated profit and loss account, balance sheet and cash flow statement complete and have been reclassified on a financial basis?
- Have any significant changes in balance sheet and profit and loss account items been adequately explained?

6.4. Analysis lines of the operating results

- Does the strategic plan include both historical and forecast data related to the turnover and margins of each SBU?
- Are the data related to expected investments and, where relevant, the change in working capital been provided for each SBU?
- Is the same information available also as regards other significant analysis lines (customer groups, distribution channels, geographical areas, product/services lines and/or brands)?

6.5. Sensitivity analysis

- What are the main qualitative and quantitative variables that can have a considerable effect on the generation of company's value?
- What is the level of risk that can be associated with the main variables (outside and inside the strategic plan)?
- Have best- and worst-case scenarios been considered based on the changes in the main KPIs on which the company's economic model is based?
- Has a sensitivity analysis been conducted on the most significant external sector variables, including the analysis of risks?
- Has a vulnerability analysis been conducted of the main actions to pursue the strategic plan, considering the relevant conditions and constraints affecting their implementation?
- What are the effects of these analyses on the company's main financial results?

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6.6. Key aspects to be highlighted

- Does the strategic plan include recent acquisitions or those covered by a letter of intent?
- With respect to these acquisitions, are historical data for the past three years available and as detailed as the company's financial results?
- Have potential synergies been estimated in detail with respect to both revenues and costs?
- Is the company's business considerably exposed to seasonality effects?
- Does the strategic plan include upside elements which are not covered by the current assumptions?

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