Institut de recherche MiddleNext

THE 2016 EUROPEAN SMALL AND MID CAP OUTLOOK

2016 edition

LA FINANCIERE DE L'ECHIQUIER

SUMMARY

PREFACE

European markets: undersize me!

If you enjoy walking in the hearts of European capitals, you could not have missed the impressive trend of standardization over the last 15 years that has totally transformed these landscapes.

Gap, Starbucks, Apple, Zara, McDonald's, H&M: whether you spend the weekend in Madrid, Rome, London or Berlin, you'll inevitably find these large global brands on your path. So what about the local brands that aroused your curiosity and gave you the feeling of being somewhere else? To find these local brands today you must head off the beaten path, far away from the city centres.

It would appear that the European stock markets have experienced a trend similar in all aspects: everything today in the European stock market ecosystem tends to be in favour of large market caps at the expense of small caps. In fact, there have never been so many large caps and the total market capitalization they represent has never been so high.

Large caps quite naturally benefit from the privileged position of those who pay for others: in an industry where fees are based on volumes, 7% of the largest capitalizations represent 80% of total market capitalization. It is therefore only normal that they receive all the attention they deserve. However, by focusing on them alone, and, above all, by continuing, to neglect small caps and further complicating their existence, the European market is gradually losing its vitality and force; and ultimately, its attractiveness.

Today, the risk that market inertia ends up weakening the entrepreneurial fabric is significant. Not only because the support of the stock market ecosystem with regards to the more recently listed companies is deteriorating but also because the economic environment is far from favourable for IPOs[1] , which in turn does not facilitate the process of reinvigorating the market.

In the first quarter of 2016, the number of IPOs in France thus stood at... zero, for companies valued over €200 million (compared to €900 million in the first quarter of 2015) whereas at the European level, IPO amounts were at their the lowest since the first quarter of 2013 (€3.5 billion compared to €16.4 billion[2]). Even if trends for the spring of 2016 are more positive, the prospects of a Brexit, concerns about China, uncertainties about the US elections and fluctuating oil prices are producing volatility preventing the emergence of clear direction which is necessary for change.

Hence the merit of this study to measure in a systematic manner the shrinking of this universe, describe the consequences and propose concrete solutions that are simple to implement. This would be a win-win situation for all parties, and first and foremost the saver: what sensible investor would want to ignore the best-performing market segment over the last 15 years, and the least volatile over the last three years?

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Chairman-Founder
La Financière de l'Echiquier

CAROLINE WEBER
General Manager
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1. *Initial public offering*.
2. « IPO Watch Europe Q1 2016 », PWC.

STUDY HIGHLIGHTS

1 Stock market and economic performances

- The net outperformance of small and mid caps over the last 15 years both at European and the national level, was confirmed
- The last three years have experienced an unprecedented trend where volatility levels for the small and mid cap segments versus large caps has been reversed
- The economic performances of small and mid caps coincide with overall stock market performances and have considerably outperformed the large-cap segment

2 European market structure

- The momentum generated by listing shares on the market is real for all segments
- The number of listed companies in Europe has stopped declining for the last two years
- Over a ten-year period, 20% to 25% of companies moved up to the next larger segment
- The upward flows existing between the four stock segments highlight the vital role of small caps in providing the foundations for the entire European ecosystem

3 A worrisome shrinking supply

- The market structure continues to favour large caps – a situation which contributes to both the ageing and decline in number of listed companies.
- The micro cap segment is continuing to contract, a disturbing sign for the vitality of the entire ecosystem
- The risk of a gradual decline in flows between market segments remains unchanged over the long-term in the absence of renewed momentum for IPOs in the micro/small cap segment.

INTRODUCTION

For the second consecutive year, the European Small and Mid Cap Outlook produced by the MiddleNext Research Institute and La Financière de l'Echiquier (LFDE) interprets the major trends of the European stock exchange ecosystem and analyses its dynamics and consequences.

The first study of this series[3], published last year offered **four major findings** for the 2000-2014 period:

1. Small and mid caps («Smids»), even when including their risk differential, achieved a **significant stock market and economic outperformance**, relative to large caps
2. Large caps – 7% of listed companies, though 80% of trading volume – constitute the economic engine driving the ecosystem
3. **The number of listed large caps is dependent on the momentum of the Smids segment:** 50% of today's large caps were Smids 15 years ago
4. **The number of small caps has been declining significantly** since 2007, constituting a long-term risk for the European stock market ecosystem

These four findings resulted in a first conclusion: the financial market represents a rather conventional system whose future depends on start-ups or in other words the momentum of the micro, small and mid cap segments. Interdependencies exist between each stakeholder, to the benefit of all.

The long-term future of the stock market system thus depends on the number of listed small and mid caps whereas the economic model of this ecosystem in the short-term depends on the number of listed large caps.

It is therefore essential that measures be taken to preserve the balance of these interdependent relationships.

The second study of this series updates and analyses stock market (I) and economic (II) performances for asset classes and also the European market structure for small and mid caps (III) with the aim of identifying the major challenges. It concludes by proposing lines of action for improvements.

3. Last year's full study may be consulted at the following websites www.lfde.com and www.middlenext.com

I. SMALL AND MID CAPS CONTINUE TO OUTPERFORM

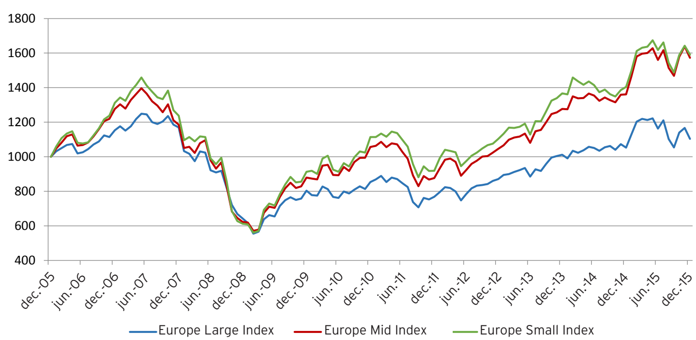
In 2015, small and mid caps confirmed their supremacy in terms of stock market performance over the last 10 years but not only: indeed, our study confirms that investor perception of risk is the same for the different market segments – a unique phenomenon, counter-intuitive in nature that has not been previously observed.

The analysis which follows provides an update of the comparison of stock market performances for the different small, mid and large[4] cap indexes over ten years (from 31 December 2005 to 31 December 2015) and three years (from 31 December 2012 to 31 December 2015). This comparison is based on the study of different European benchmarks and also available national benchmarks.

1. Small caps: consistently better performances... and today with less risk!

Analysis of comparative performances over 10 years

The following graph provides a picture of the comparative performances over 10 years[5] for STOXX Europe Large 200 (median capitalization of €24.2 billion), Europe Mid 200 (median capitalization of €6.2 billion) and the Europe Small 200 (median capitalization of €3 billion). This presentation does not show total returns, i.e. does not include reinvested dividends because we do not possess data over the ten-year period for all indexes used.



4. For the methodology used, refer to page 51 of this study.

5. Base 1000 at 31 December 2005.

Small, Mid, Large: comparative performances over 10 years

STOXX indexes	Reconciliation of the study's different market segments	Aggregate performance	Annualized performance	Volatility	Maximum drawdown
Indice Large Europe	Large	10 %	1 %	15 %	-56 %
Indice Mid Europe	Mid / Large	57 %	4,6 %	17 %	-59 %
Indice Small Europe	Mid	59 %	4,8 %	18 %	-62 %

Source : Bloomberg / La Financière de l'Échiquier

Our results are in line with those of last year: on the one hand, **the outperformance of the small/mid indexes was confirmed**; on the other hand, the level of risk, measured by volatility and maximum drawdown (the difference between the high and low points) remains unfavourable to these indexes. The performance gaps are nevertheless sufficiently large to be able to absorb this excess risk.

Analysis of comparative performances over 3 years

To assess the levels of performance between the different asset classes over three years, we have used MSCI indicators that provide four index levels in Europe (Large, Mid, Small and Micro – the latter introduced in 2012). We note however that the classification segments of the MSCI are different from our own[6]. We also note that these performances are presented on the basis of total return with dividends reinvested.

Micro, Small, Mid, Large: comparative performances over 3 years

MSCI indexes	Reconciliation of the study's different market segments	Aggregate performance	Annualized performance	Volatility	Maximum drawdown
Europe Large Index	Large	**39 %**	**11,5 %**	13 %	-13 %
Europe Mid Index	Mid / Large	55 %	15,8 %	12 %	-11 %
Europe Small Index	Small / Mid	**75 %**	**20,6 %**	12 %	-8 %
Europe Micro Index	Micro / Small	63 %	17,6 %	10 %	-7 %

Source : Bloomberg / La Financière de l'Échiquier

6. The MSCI Micro Cap index includes companies with market capitalizations under €500 million even if this index remains basically coherent with our definitions, given an average/median capitalization of around €100 million. The Small Cap index includes companies with capitalization ranging from €500 to €5 billion, with an average/median capitalization of around €1 billion. As for the Mid and Large Cap indexes, they correspond to our definition of large caps (+€5 billion). For the characteristics of the different Large, Mid, Small, and Micro Cap segments readers are invited to refer to page 51 of this study.

The performance of indexes remains largely in favour of Small/Mid caps, with the latter once again reaching the highest step of the podium followed by Micro/Small Caps and finally the Mid/Large caps. It is also interesting to note that results for the MSCI segmentation are considerably better for the Mid Cap index compared to Large Caps.

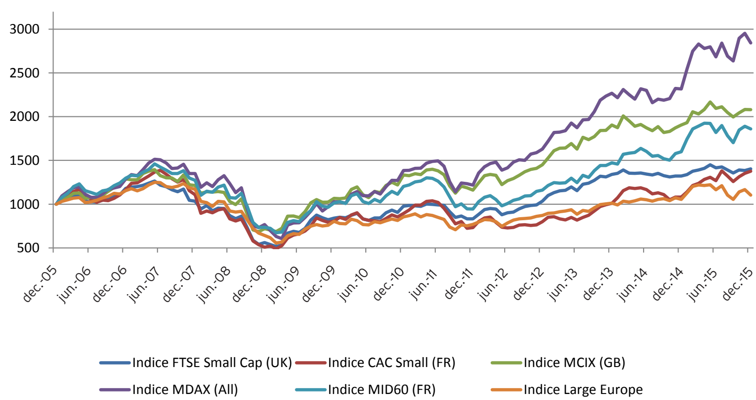
However, the most remarkable development is the **reversal in the level of volatility**: over this three-year period, large caps have represented the riskiest assets versus microcap s as the least volatile. This shift is visible both at the level of volatility and maximum drawdowns. **This phenomenon that goes against conventional financial market theories represents a unique trend over the last 15 years in Europe**.

These results are similar over the same period when using the STOXX indexes.

2. The national indexes: Germany takes the lead

Analysis of comparative performances over 10 years

We have looked at performances by country, focusing on the United Kingdom, Germany and France which account for 51% of European listed companies, all categories combined[7].



7. We have adopted local stock market indexes as our benchmarks: For mid caps, the CAC Mid in France, the MDAX in Germany and the MCIX in the UK (base 1000 on 31 December 2005), providing a comparable median capitalisation of around €3bn. For small caps,the CAC Small in France and the FTSE Small Cap for the United Kingdom, with median capitalizations of between €150 million and €300 million. Base 1000 at 31 December 2005.

10-year comparison of national vs. European indexes

Indices	Aggregate performance	Annualized performance	Volatility	Maximum drawdown
Europe Large	**10%**	**1%**	15%	-56%
German Mid	**184%**	**11%**	21%	-60%
UK Mid	**108%**	**7,6%**	17%	-51%
France Mid	**86%**	**6,4%**	18%	-54%
UK Small	40%	3,4%	17%	-59%
France Small	38%	3,2%	19%	-65%

Source : Bloomberg / La Financière de l'Échiquier

So what does this comparison reveal? Over the last 10 years, the structure of results remains comparable, with a **comfortable outperformance by the national small and mid cap indexes in relation to large caps** (STOXX Europe). German mid caps largely outperformed the other indexes whereas the small-cap indexes considerably underperform the mid cap indexes. To cite a few national indexes, CAC 40 (Large/France) has a performance of: -1.7%, DAX (Large/Germany) +98.6 % and the Footsie (Large/United Kingdom) +11.1 %. A universe for large caps where Germany represents an exception.

For the risk scales, the hierarchy remains conventional with lower volatility for the large cap index.

Analysis of comparative performances over 3 years

Let us now compare stock market performances over the last three years, using for our analysis the same national indexes. However in this case we do not have data on total return for all indexes, i.e. results include reinvested dividends.

3-year comparison of national vs. European indexes

Index	Aggregate performance	Annualized performance	Volatility	Maximum drawdown
Europe Large	**38 %**	**11,3 %**	13 %	-13 %
Germany Mid	**84 %**	**22,6 %**	14 %	-7 %
UK Mid	52 %	15,1 %	11 %	-7 %
France Mid	**71 %**	**19,6 %**	13 %	-10 %
UK Small	46 %	13,5 %	8 %	-6 %
France Small	**79 %**	**21,5 %**	13 %	-11 %

Source : Bloomberg / La Financière de l'Échiquier

The result of this comparison is clear: **performances remain largely in favour of small cap and mid cap indexes**, with the United Kingdom lagging behind.

The underperformance of the UK mid cap and small cap indexes in relation to their German and French equivalents was concentrated in 2015 with the significant weighting of listed companies in the commodities sectors adversely impacting these indexes. The significant number of delistings carried out since September 2015 by US investors in anticipation of the possibility of the Brexit provides an additional explanation for this trend.

With respect to the risk structure, we note the same alignment with equivalent or even lower, levels of volatility for mid and small cap indexes, which confirms our analysis at the European level. Levels for maximum drawdowns were also surprisingly lower.

It is worth considering these trends over time: the upcoming six-month periods will confirm the cyclical or structural nature of this trend.

3. The risk alignment: a cyclical phenomenon?

We have emphasized that **the level of volatility between the different indexes represents an unprecedented development in Europe.** How can this be explained? Three factors may be suggested:

- **The policy of «risk-free» rates** close to zero of the European Central Bank (ECB). Initiated in 2010, this policy coincided with the first signs of an alignment in the level of risks in Europe. Because «safety» was no longer considered profitable, it was no longer valued by the stock market, and risk premiums were aligned in consequence
- **The smallest exposure of small and mid caps to global economic turbulence**, particularly to emerging countries, with China at the top of the list. Chinese growth was perceived by markets, particularly in 2015, as a major stress factor, largely impacting the performance of the biggest large cap stocks
- **Activity of** Exchange-Traded Funds (ETF) that concerned primarily large caps. Listed ETFs represented 3.4% of assets under management in December 2015[8] and 9.3% of trading volume, or a turnover ratio of 1 for 3. By extrapolation, active management represents 96.6% of equities under management and 90.7% of trading volumes, or a ratio of less than 1. While we do not possess scientific data on this subject, we do know however that ETFs are largely concentrated in ultra-liquid assets and that in consequence small and mid cap stocks are not concerned by these products. According to a study[9] by Kepler Cheuvreux on large cap indexes, the correlation within the DJ STOXX 50 in 2015 reached a peak, exceeding the previous stress levels of 2008 and 2011. Furthermore, the higher the correlation of companies comprising

8. Source : *European Monthly ETF Market Review*, Deutsche Bank
9. Source : *Quant Trading Guide*, 2016

the index, the greater the drawdowns. It would accordingly appear that the increase in ETFs and assets under management, however marginal, causes greater volatility (by a factor of 3) and increases the potential drawdown rate – two key factors in the perception of risk.

Is this a temporary phenomenon or a new permanent situation? We will pay particular attention to the question over the coming years.

KEY FINDINGS

1. Confirmation of the net outperformance of small and mid caps over the last 15 years both at the pan-European and the national level.

2. A reversal in the volatility levels for Smids and large caps respectively, an unprecedented development

3. One of the reasons for this phenomenon: the weight of ETFs in the volatility of large caps

II. SMALL AND MID CAPS: STOCK MARKET PERFORMANCE = ECONOMIC PERFORMANCE?

After analyzing the stock market performance of small and mid caps, and demonstrating the net outperformance of small and mid caps over the 2005-2015 period, we will now analyze their economic behaviour and its possible link to their stock market performance.

1. An instructive sample

Monitoring the economic performances of European companies over 10 years – 2005 to 2015 – requires the construction of a sample of companies presenting similar business models that are constant over the period[10]. The table below offers you a snapshot of the universe of our study and the sample analysed.

Universe at 31/12/2015	***Micro***	***Small***	***Mid***	***Large***	**Total**
No. of stocks	2634	1415	776	459	**5284**
as a %	50%	27%	15%	9%	100%
aggregate capitalisation (€m)	119 604	590 263	1 786 839	10 166 624	12 663 330
as a %	0,9%	4,7%	14,1%	80,3%	100%
Sample in 2005	***Micro***	***Small***	***Mid***	***Large***	**Total**
No. of stocks	892	595	326	211	**2025**
as a % of the panel	44%	29%	16%	10%	100%
aggregate capitalisation (€m)	49 459	252 044	731 606	4 674 712	5 707 821
as a %	0,9%	4,4%	12,8%	81,9%	100%
Sample in 2015	***Micro***	***Small***	***Mid***	***Large***	**Total**
No. of stocks	789	569	376	290	**2 025**
as a % of the panel	39%	28%	19%	14%	100%
aggregate capitalisation (€m)	42 580	245 394	906 004	7 271 605	8 465 582
as a %	0,5%	2,9%	10,7%	85,9%	100%
Change in the number of the stocks	-103	-26	+50	+79	0
as a %	-12%	-4%	+15%	+37%	0%
% of panel vs. universe in 2015	***Micro***	***Small***	***Mid***	***Large***	**Total**
In number of stocks	30%	40%	48%	63%	35%
As a % of capitalisation	36%	42%	51%	72%	65%

Source : Capital IQ / La Financière de l'Échiquier

10. To build this panel, we started with a base of European companies listed at the end of 2015 with a market capitalization of more than €5 million (5,284 companies) Only 2,025 companies out of our initial base of 5,284 companies were eligible for the period.

The change in this sample at constant scope over 10 years clearly highlights the existence of the **phenomenon of communicating vessels** between the different market segments. It also shows **the micro and small cap segment contracting in favour of the mid and large cap segment**, with the latter displaying growth in the number of stock of nearly 40%.

2. Economic performances of the sample (2005-2015)

Let us now look at he two main figures for this selection of 2,025 companies in two ways:

- first **by aggregating the figures**, by treating the entire sample as one single company, in order to measure the total economic impacts, as shown below in table 1.

Table 1 - Aggregated economic data (€bn)

Aggregated	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sales	5611,3	5998,0	6462,8	5723,5	6426,3	7091,2	7477,9	7259,1	7427,0	7548,9
Change	10,0%	6,9%	7,7%	-11,4%	12,3%	10,3%	5,5%	-2,9%	2,3%	1,6%
Underlying EBIT[11]	642,4	706,0	702,0	553,1	688,7	778,0	737,4	680,8	684,0	628,1
Margin	11,4%	11,8%	10,9%	9,7%	10,7%	11,0%	9,9%	9,4%	9,2%	8,3%
Capitalisation	6611,1	7049,7	4069,6	5340,9	6204,8	5620,1	6334,7	7462,9	7746,7	8465,6
Gearing	50,4%	52,3%	64,2%	60,7%	49,6%	51,5%	52,0%	49,4%	49,8%	51,6%
Capex as % of sales	-7,2%	-7,2%	-7,4%	-7,4%	-6,5%	-6,4%	-6,6%	-6,5%	-6,5%	-6,6%
EV / Sales	1,41	1,42	0,90	1,24	1,22	1,04	1,10	1,28	1,29	1,39
EV/EBIT	12,34	12,06	8,31	12,81	11,41	9,52	11,11	13,60	14,05	16,75
P/BV	2,53	2,52	1,48	1,86	1,86	1,62	1,77	2,06	2,07	2,13

Source : Capital IQ / La Financière de l'Échiquier

- **and then by using the dataset median** as a means of testing the trends based on a more fine-tuned approach (table 2).

Table 2 - Economic data median (€m)

Median - M€	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Sales	238,3	264,0	270,7	251,9	269,9	304,2	316,3	310,7	320,9	350,1
Change	11,1%	9,0%	3,8%	-5,9%	8,6%	7,1%	4,7%	-0,5%	3,6%	7,3%
Underlying	18,7	22,4	19,6	11,9	17,2	18,8	17,7	17,9	20,0	22,1
Margin	7,9%	8,5%	7,2%	4,7%	6,4%	6,2%	5,6%	5,8%	6,2%	6,3%
Capitalisation	261,7	246,6	118,1	166,7	210,2	169,4	188,0	254,2	262,2	302,7
Gearing	20,8%	24,8%	30,6%	24,6%	19,9%	21,7%	20,7%	19,3%	19,3%	19,2%
Capex as % of sales	-3,8%	-3,8%	-3,8%	-2,9%	-2,7%	-3,0%	-2,9%	-2,8%	-2,9%	-3,0%
EV / Sales	1,32	1,15	0,65	0,90	0,97	0,78	0,87	1,06	1,04	1,11
EV/EBIT	12,87	11,11	7,14	9,99	10,91	9,16	10,21	12,68	12,20	12,95
P/BV	2,38	2,05	0,99	1,36	1,54	1,20	1,35	1,67	1,61	1,79

Source : Capital IQ / La Financière de l'Échiquier

11. EBIT (Earnings before Interest and Tax) in this study is used as an equivalent of the French income statement aggregate referred to as current operating income résultat opérationnel courant or ROC.

What conclusions does this data offer?

- **The boom, bust, and recovery cycle** followed on its normal course until 2011. In 2012, there was an abrupt reversal in growth with a strong recession in 2013 (based on aggregated and median data). 2014 and 2015 inaugurated a return to growth though with significant disparities between the two indicators: aggregate data showed weak gains and a slowing pace whereas median data displayed robust and accelerating growth. Statistically, this disparity reflects the relatively strong growth of the smaller companies.

- **The change in the level of the operating margin** and in consequence the level of **EBIT** is in contrast much more moderate: on an aggregate basis, margins are declining and the volume of operating profit in 2015 is at the lowest level or our historic reference period (despite a 47% increase in aggregate volume and a 70% increase in median volume). The collapse of oil and gas sector stocks clearly had a significant impact on this aggregated data. However, pressure was also particularly visible with a median operating profit of €22 million in 2015, i.e. in line with the level of 2007!

- **The level of capitalization** in contrast reached a peak, pushing EV/EBIT multiples to the roof, both for aggregate and median data. Multiples for the structures (EV/Sales and P/BV) remained below the peaks of 2006/2007 though at the higher level of period covered by the study, even though the levels for growth and margin are not the same as 10 years ago.

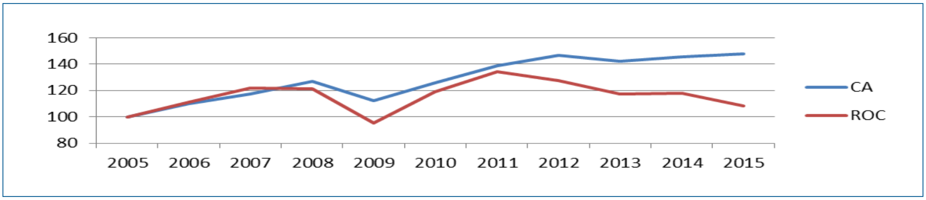
3. Economic performance = stock market performance

The analysis of stock market performances in Europe demonstrated in the first part of our study that the performances of mid cap indexes significantly outperform indexes for large caps. Is this outperformance also reflected at the economic level? To analyse economic performance, and because we have homogenized our dataset, we have selected as indicator of reference sales rather than market capitalization, while retaining the same data ranges.

In order to obtain a simpler and more legible comparison, we limited the number of economic indicators used. For each of the four segments[12], we used sales and operating profit, recalculated from a base of 100 in 2004 while selecting market capitalization as the performance indicator.

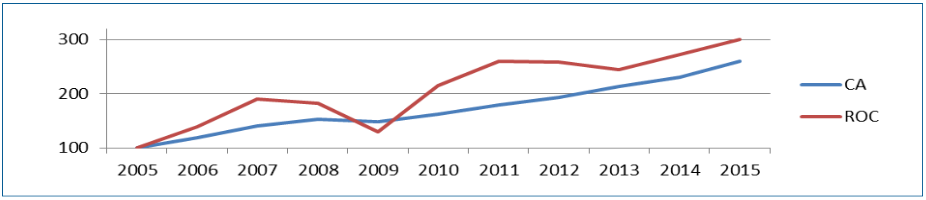
12. The principle used to build the segments was just as simple: we used sales volume for 2005 to create the four segments with the number of companies remaining constant over the period studied (2005/2015).

The entire panel



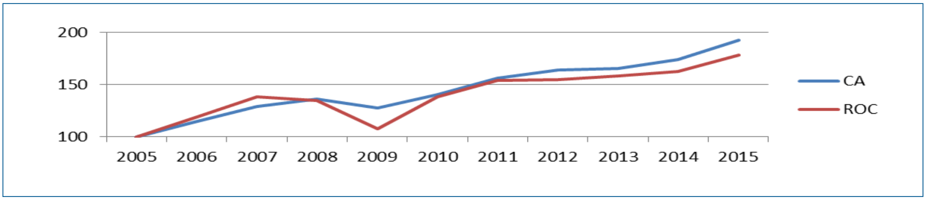
Sales volume has stagnated since 2012. The trend for aggregate operating profit has virtually declined to its 2005 level with a base of 100. We will see further the full impact of large caps which drag these two indicators down.

The micro cap segment



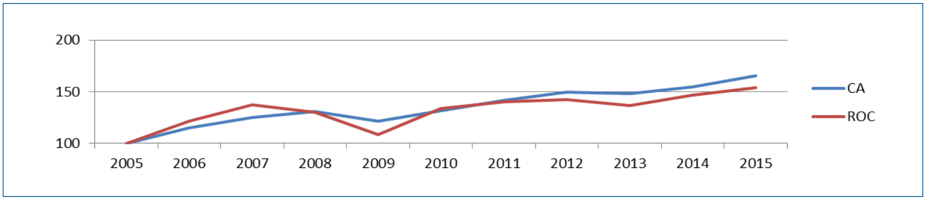
The level of activity and operating profit for the micro cap segment highlights the strong momentum of this asset class. The performance indicators ended 2015 at a level between 280 and 300, or up threefold in 10 years.

The small cap segment



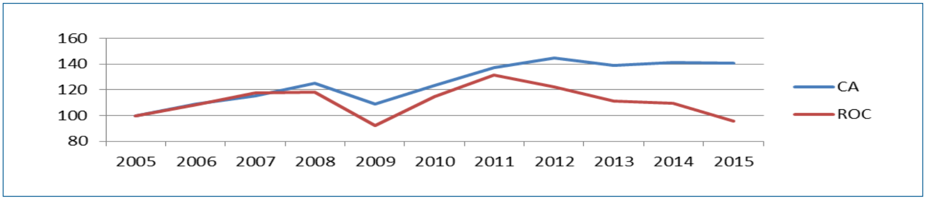
As with micro caps, the small caps display remarkable performances with indexes nearly doubling over 10 years and demonstrating good resilience during periods of stress (2009 and 2013).

The mid cap segment

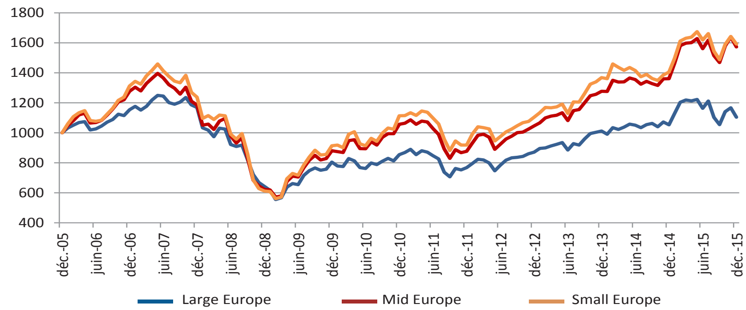


The size of companies increased by another notch: the curves have flattened though trends remained excellent over the period for this mid cap sub-panel.

The large cap segment



For European large caps, the index for activity started to stagnate in 2012, while the operating profit index collapsed, falling in 2015 to the level of 2005. This consolidated graph however masks very diverse situations, while explaining the differences and mixed stock market performances between large caps and the other market segments.



The graph for the performance of small, mid and large cap indexes is presented above.

The figures speak for themselves: **The hierarchy of economic performances remains consistent with the stock market performances**. The small and mid cap segments display more robust economic momentum. Whereas the four market segments are relatively homogeneous at the end of 2005, their differences in economic growth result in a very different configuration 10 years later.

Let us analyse them one by one.

2005	2015			
Micro	Micro	Small	Mid	Large
884	**662**	214	7	1
	75%	24%	1%	0%
Small	Micro	Small	Mid	Large
612	37	411	160	4
	6%	67%	26%	1%
Mid	Micro	Small	Mid	Large
320	4	16	**237**	63
	1%	5%	74%	20%

The percentage of companies that moved up to the next segment is sizeable: approximately 20% to 25%. This highlights **the importance of the number of listed companies** and in consequence **the necessity of maintaining a substantial base of micro and small caps** to ensure growth in the number of mid and large caps, so essential for the entire ecosystem. To illustrate this in another way: if one compares the financial market with a company, small caps are the equivalent of products in the R&D stage whereas mid and large caps represent mature products ensuring the company's sales and profitability.

This growth phenomenon also concerns large caps as the following table illustrates, by showing a breakdown of the large-cap segment by levels for sales in 2005 and 2015.

Changes in the number of large caps segmented by sales volume

	Large	3/5€bn	5/10€bn	10/20€bn	+20€bn
31/12/**2005**	**208**	0	93	57	58
31/12/**2015**	**208**	12	41	66	**89**

At constant scope, growth for companies with more than €5 billion in sales in 2005 is clear: the attrition of the base of this segment (€5 billion/€10 billion range) is substantial, in favour of the higher segments. **In 10 years, the number of companies with more than €20 billion in sales increase 53%** within our panel.

These figures highlight two points:

- **Momentum produced by listing shares on the market applies equally to large groups**
- **Stock-picking is fundamental for small and mid caps**

We note that large cap indexes underperform whereas the some of these large caps show remarkable momentum. The weight of certain stocks in large cap indexes crushes the performances of the most dynamic companies, highlighting the strategic importance of stock-picking in the large cap universe as well.

A comparison of 2005 and 2015 EBIT presents a clear contrast between certain sectors like energy (BP, Royal Dutch, ENI, Total, etc), telecommunications (Vodafone, Orange, Telecom Italia, Telefonica, etc), pharmaceuticals (AstraZeneca for example) or retailers (Carrefour SA), with other companies such as Roche Holding, Bayer, LVMH or Air Liquide, creating both wealth and value.

KEY FINDINGS

1. **The economic performances of small and mid caps coincide with the overall stock market performances** and considerably outperform the large cap segments

2. **Listing shares on the market produces** real momentum for all segments

3. Over a ten-year period, **20% to 25% of companies have move up to the next larger segment**

4. The dynamic of upward flows between the four stock segments highlights **the vital role of small caps** in providing the foundations for the entire European ecosystem

III. EUROPEAN MARKET STRUCTURE: A FIXATION ON LARGE CAPS!

Last year's study highlighted striking gap between the number of small and mid caps and their weight in terms of market capitalization, as well as the dynamic of the entire structure in favour of large caps. This represents a «natural» tendency given that large caps finance the financial industry whose revenue is based on volumes – 1,000 companies generate 95% of the sector's revenue. However this movement is also destructive over the long-term as the small and mid caps are the ones that feed the ecosystem. Making it more difficult for seedlings to emerge with the risk that the path from small caps to large caps could contribute to inertia in our universe and multiply the negative consequences for the attractiveness and strength of the financial industry in Europe.

How has this trend, visible since 2007, evolved in 2015?

1. European market snapshot: 1 January 2014 vs 1 January 2016[13]

01/01/2014	**Micro**	**Small**	**Mid**	**Large**	**Total**
In number of stocks	2 744	1 279	683	384	5 090
As a %	53,9%	25,1%	13,4%	**7,5%**	100%
Aggregate capitalisation (€m)	122 964	542 951	1 573 120	8 634 249	10 873 283
As a %	**1,1%**	5,0%	14,5%	**79,4%**	100%
In number of stocks	**Micro**	**Small**	**Mid**	**Large**	**Total**
UK	29%	28%	27%	23%	28%
Germany	15%	10%	10%	12%	13%
France	12%	12%	10%	16%	12%
Sub-total	56%	50%	47%	52%	53%
Other countries	44%	50%	53%	48%	47%

Source : Capital IQ / La Financière de l'Échiquier

01/01/2016	**Micro**	**Small**	**Mid**	**Large**	**Total**
In number of stocks	2634	1415	776	459	5284
As a %	49,8%	26,8%	14,7%	8,7%	100%
Aggregate capitalisation (€m)	119 604	590 263	1 786 839	10 166 624	12 663 330
As a %	0,9%	4,7%	14,1%	80,3%	100%
In number of stocks	**Micro**	**Small**	**Mid**	**Large**	**Total**
UK	27%	30%	27%	24%	28%
Germany	12%	10%	10%	12%	11%
France	13%	11%	10%	15%	12%
Sub-total	53%	51%	47%	51%	51%
Other countries	47%	49%	53%	49%	49%

Source : Capital IQ / La Financière de l'Échiquier

13. We have created a minimal threshold of €5m to remain as comprehensive as possible. Lastly, we have referred to the company's head office address to establish its country of origin – the market where it is listed is more of a tactical choice on the part of a company.

After declining significantly between 2007 and 2013 (-20%), **the number of listed European companies has risen in the last two years** (from 5,090 to 5,284). This was a good surprise as the weak level of M&A activity raised concerns about the possibility of a new decline.

Nevertheless, this trend favoured primarily large caps; **There has never been such a large number of large caps listed on the European market, and total market capitalization has never been so high.**

The structure of the European market is approaching that of year 2000 with micro caps accounting for only 1% whereas large caps represent more than 80% of total European market capitalization (82.4% in 2000 versus 77.6% in 2007).

As for the **geographical breakdown of the market**, trends have varied according to country:

- The UK has maintained its market share

- Germany lost 2 points in market share (in number of companies) in favour of other European countries, though its weight remained stable as a percentage of European market capitalization (-0.3% to 13%)

- France also maintained its market share thanks to micro caps though lost ground in other segments. It has also remained stable as a percentage of European market capitalization (14.4%)

2. What observations can be drawn from the listings/delistings in 2014 and 2015?

The first key information accordingly concerns the net increase in the number of European listed companies, with 194 companies added in two years – the first time this has occurred since 2007.

Let us now take a more detailed look at newly listed companies, delisted companies and the net change. Where were these companies listed? And in what market segment? What market segments accounted for the delistings?

Number of companies listed at 31/12/2013	5 090
Companies delisted in 2014 and 2015	-493
Companies listed in 2014 and 2015	682
Adjustment +/- of the €5 million market cap threshold[14]	5
Number of companies listed at 31/12/2015	5 284
Balance 2014/2015	194

Source : Capital IQ / La Financière de l'Échiquier

The 682 companies listed in the period break down as follows:

2014/2015 listings	**Micro**	**Small**	**Mid**	**Large**	**Total**
In number of stocks	382	192	92	16	682
As a %	56%	28%	13%	2%	100%
Aggregate capitalisation (€m)	16 643	80 414	183 941	147 491	428 489
As a %	4%	19%	43%	34%	100%
In number of stocks	**Micro**	**Small**	**Mid**	**Large**	**Total**
UK	21%	33%	29%	13%	26%
Germany	6%	6%	8%	19%	6%
France	13%	3%	9%	6%	9%
Sub-total	40%	42%	46%	38%	41%
Other countries	60%	58%	54%	63%	59%

Source : Capital IQ / La Financière de l'Échiquier

Breakdown of the 493 companies that were delisted in 2014 or 2015:

2014/2015 delistings	**Micro**	**Small**	**Mid**	**Large**	**Total**
In number of stocks	350	99	33	11	493
As a %	71%	20%	7%	2%	100%
Aggregate capitalisation (€m)	13 620	43 462	65 334	102 281	224 696
As a %	6%	19%	29%	46%	100%
In number of stocks	**Micro**	**Small**	**Mid**	**Large**	**Total**
UK	29%	26%	30%	27%	28%
Germany	22%	13%	3%	27%	19%
France	7%	12%	6%	9%	8%
Sub-total	58%	52%	39%	64%	55%
Other countries	42%	48%	61%	36%	45%

Source : Capital IQ / La Financière de l'Échiquier

14. The adjustment for companies at the €5 million level represents only a balance. In reality, nearly 200 companies dropped below the €5 million threshold between 2013 and 2015 whereas 205 took the contrary direction.

The net balance for listings, after subtracting delistings, increased by transfers between segments:

Change in the number of companies between 2013 and 2015	**Micro**	**Small**	**Mid**	**Large**	**Total**
Delistings	-350	-99	-33	-11	-493
Listings	382	192	92	16	682
Net changes from transfers between segments [15]	**-142**	**43**	**34**	**70**	**5**
Net balance	**-110**	**136**	**93**	**75**	**194**
Net balance by country	**Micro**	**Small**	**Mid**	**Large**	**Total**
UK	-82	56	30	19	23
Germany	-83	10	8	10	-55
France	12	13	6	7	38
Sub-total	**-153**	**79**	**44**	**36**	**6**
Other countries	43	57	49	39	188

Source : Capital IQ / La Financière de l'Échiquier

What can one deduce based on the data of these tables?

These figures offer us **3 major findings:**

- **93% of new large caps originated from the small and mid cap segments,** once again highlighting the importance of these segments to the growth of the European market. We also note that this observation is specific to Europe: in France for example all companies of the CAC40 represent historic existing companies in contrast to the United States *"where only a small fraction of the 100 largest market capitalizations existed 50 years ago"*[16]

- **The micro cap segment continues to be adversely affected by a negative balance** of 110 companies increasing the decline in the number of listed micro caps from the peak in 2007 of 708 companies. While this segment of course depends exclusively on first time IPOs and represents a genuine reserve of potential acquisitions, nevertheless, the persistence of a negative trend after several years of market gains confirms that this trend has become structural

- **The net change for the three large countries that continue to represent 50% of the European market is nil** (+6 stocks): other European countries account for 97% of the increase in the number of listed companies

2014/2015 accordingly highlights a positive net change (listings-delistings) for the first time since 2007, which is clearly a good sign. Germany registered a decline, whereas France and the United Kingdom maintained their market shares, whereas the rest of Europe accounted for 97% of new listings.

15. These changes reflect companies that are still listed though have changed segment (for example small to mid or mid to small) or risen above or below the market capitalization of €5 million.

16. *Economie du Bien commun*, Jean Tirole, Presses universitaires de France (PUF), 2016.

3 – An ageing market: a cyclical or structural phenomena?

We think that the 2013/2014 rebound is unlikely to offset the trend we have witnessed since 2007 and which, like an age pyramid, highlights the «ageing» of listed European companies.

01/01/2000	Micro	Small	Mid	Large	Total
No. of stocks	1407	1093	461	291	3252
As a %	43,3%	33,6%	14,2%	8,9%	100%
Aggregate capitalisation (€m)	78 626	448 754	1 042 605	7 356 404	8 926 390
As a %	0,9%	5,0%	11,7%	82,4%	100%

01/01/2007	Micro	Small	Mid	Large	Total
No. of stocks	3 342	1 627	726	406	6 101
As a %	54,8%	26,7%	11,9%	6,7%	100%
Aggregate capitalisation (€m)	154 414	671 605	1 667 832	8 617 629	11 111 479
As a %	1,4%	6,0%	15,0%	77,6%	100%

01/01/2014	Micro	Small	Mid	Large	Total
No. of stocks	2 744	1 279	683	384	5 090
As a %	53,9%	25,1%	13,4%	7,5%	100%
Aggregate capitalisation (€m)	122 964	542 951	1 573 120	8 634 249	10 873 283
As a %	1,1%	5,0%	14,5%	79,4%	100%

01/01/2016	Micro	Small	Mid	Large	Total
No. of stocks	2634	1415	776	459	5284
As a %	49,8%	26,8%	14,7%	8,7%	100%
Aggregate capitalisation (€m)	119 604	590 263	1 786 839	10 166 624	12 663 330
As a %	0,9%	4,7%	14,1%	80,3%	100%

Source : Capital IQ / La Financière de l'Échiquier

This may be attributed to several reasons.

Listed companies exceeded in 2015 the 2007 peak in terms of market capitalization and the largest number of large cap companies ever reached. This included 459 companies with market capitalization exceeding €5 billion and **an aggregate market capitalization of more than €10 trillion**. In 15 years, the market capitalization of European companies has increased 42%, driven primarily by the strength of the micro/small/mid cap segments that in turn fuelled the growth of the large cap segment.

Listed companies have continued to age since 2007 – a phenomenon reflected both by the growth of the mid and large cap segments that have reached a peak (in number and aggregate capitalization) fuelled by transfers from one segment to another, whereas the performance of indexes has remained robust over the last two years.

In the end, the micro cap segment which depends exclusively on IPOs, is continuing to contract due to a larger number of delistings whether linked to M&A activity or the companies' growth resulting in their transfer to the small cap segment. **This segment has been contracting for the last eight years, reaching a «low» in 2007 in number of stock and aggregate capitalization.**

The small cap segment rebounded from the low of 2014, benefiting an inflow of IPOs and transfers from the micro cap segment. It nevertheless remains under the peak of 2007 in both number and market capitalization.

This rebound however is not sufficient to stem at this stage the narrowing pyramid base (micro/small) witnessed this since 2007 and which will invariably have an impact on the top of the pyramid (mid/large) in time;

4 – Summary and forecasts

The number of European listed companies over the last two years has started to stem the decline experienced since 2007. This stabilization is of course welcome even if **the decline in the micro cap segment has been continuing since 2014**, in number of stocks as in market capitalization. At the end of December 2015, this segment registered a decline of more than 20% in relation to 2007.

The mid and large cap segments continue to receive a boost from the strong growth in the micro/small cap segments in the 2000s. Because the inertia is very strong, this mechanism is expected to persist over the coming years. Listed micro/small caps over the last 10-15 years will continue to produce a pipeline of growth success stories over the coming years and growth in the number of mid and large caps. **The risk of a gradual reduction in this flow remains intact** over the long-term as long as there is not a resumption in the flow of IPOs in the micro and small cap segments.

The good news however is that this phenomenon is expected to have a positive impact on financial market trading volume. Indeed, the increase in market capitalizations is accompanied by growth in trading volume and in consequence fees for brokerage firms. This development has been masked by declining brokerage rates between 2010 and 2010, though it would seem that since 2010, the trend has largely stabilized. We note that the a solid intermediation industry is indispensable for the efficiency of the European economy.

KEY FINDINGS

1. The decline in the number of European listed companies that began in 2007 has **started to subside**
2. **The market structure continues to favour large caps** – a situation which contributes to both the ageing and decline in number of listed companies
3. **The microcap segment is continuing to contract,** a disturbing sign for the vitality of the entire ecosystem
4. **The risk of the gradual decline in flows between market segments remains unchanged over the long-term** as long as there is not a more significant resumption in the trend for IPOs in the micro/small cap segment

COUNTRY FOCUS

FRANCE: BEWARE OF EROSION OF MICRO CAPS

Stock market performance: Small caps take the prize

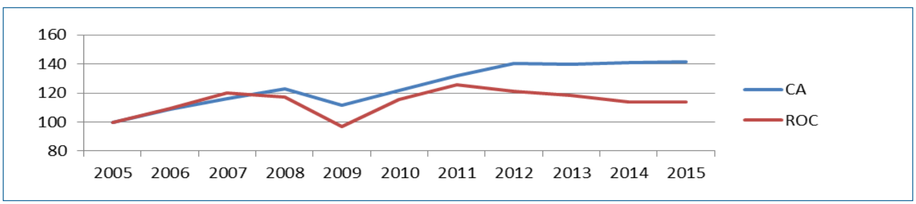
France - stock market performances for the different market segments

3 year indexes	Performance	Annualized performance	Volatility	Maximum drawdown
Europe Large	38 %	11,3 %	13 %	-13 %
France Large	41 %	12 %	15 %	-12 %
France Mid	69 %	19,2 %	13 %	-11 %
Europe Small	79 %	21,5 %	13 %	-11 %

As elsewhere in Europe, small and mid cap indexes in France have displayed a substantial reduction in the level of risks (volatility and maximum drawdown) The other noteworthy development of the last three years[17] has been the performance of small caps, outperforming mid caps. This configuration which is rather rare is linked to a catch up trend for small caps. Over a five-year period, these two segments have delivered comparable performances

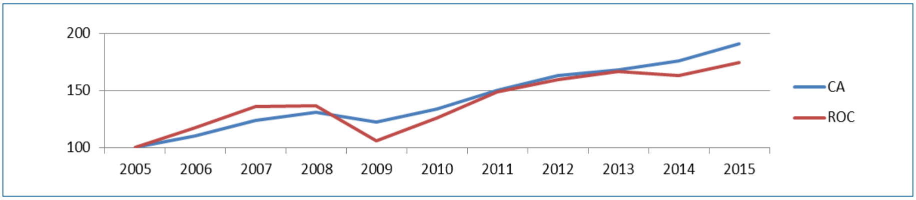
Economic performance: large caps hold their ground

France – all segments

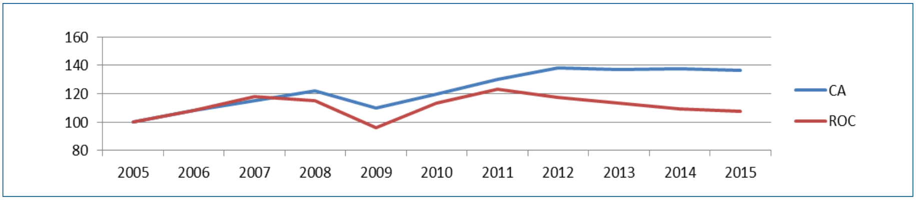


17. At 31 december 2015.

France - Small



France - Large



The behaviour of French stocks is overall identical with those of other European companies. One may nevertheless note the greater resilience of French large caps which reflects the marginal stock market outperformance of the CAC 40 in relation to the Large Europe index.

The French market structure: an ageing market of listed companies

France - structure and European market share

31/12/2015	*Micro*	*Small*	*Mid*	*Large*	Total
In number of stocks	2634	1415	776	459	5284
As a %	49,8%	26,8%	14,7%	8,7%	100%
Aggregate capitalisation (€m)	119 604	590 263	1 786 839	10 166 624	12 663 330
As a %	0,9%	4,7%	14,1%	80,3%	100%
France					
In number of stocks	13%	11%	10%	15%	12%
Weighting (% capitalisation)	13%	11%	10%	15%	14%
France: 2014/15 listings (delistings)	12	13	6	7	38

France retains its rank and maintained a positive net balance in all market segments in 2014-2015 in terms of new listings and delistings. In contrast, the number of companies compared to the 2007 peak declined nearly 13%, with a 20% decline for micro cap stocks alone.

UNITED KINGDOM: AN UNDERPERFORMING MARKET

Stock market performance : the rise of Small and Mid caps

UK - stock market performances for the different market segments

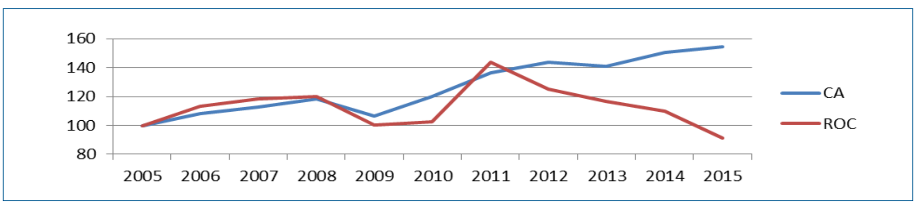
3 years indexes	Performance	Annualized performance	Volatility	Maximum drawdown
Large Europe	38 %	11,3 %	13 %	-13 %
UK Large	18 %	5,7 %	12 %	-12 %
UK Mid	43 %	12,8 %	11 %	-9 %
UK Small	58 %	16,5 %	9 %	-10 %

In the United Kingdom, as elsewhere in Europe, one notes a significant decrease in the level of risks (volatility and maximum drawdown) in the small and mid cap indexes. The other noteworthy development of the last three years is the performance of small caps that considerably outperformed the mid cap segment. This configuration is observed over a five-year period but not over a ten-year period.

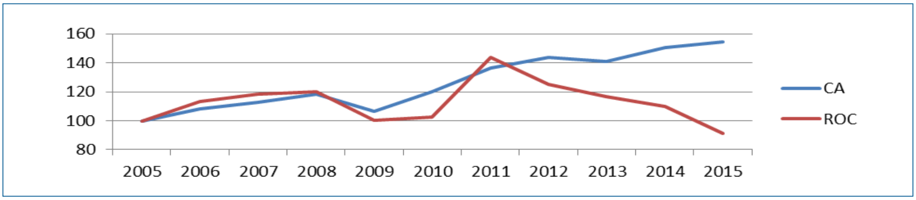
The UK indexes have been underperforming since the summer of 2015 compared to French or German indexes. As indicated on page 13, this may in part reflect fears about the Brexit referendum and its potential impact on the currency and British purchasing power.

Economic performance: large caps in freefall

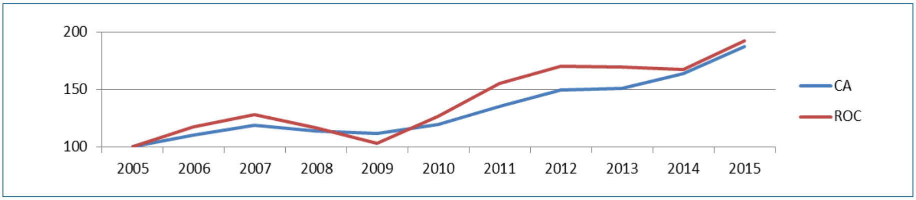
UK – all companies



UK - Small



UK - Large



The economic performances of British companies reflect the Small/Mid/Large cap hierarchy though with large caps delivering the worst performance in Europe. The reasons for this trend are in large part linked to the weight of the companies of the energy, telecommunications and commodity sectors within the large cap panel.

The structure of the UK market : still a driving force in Europe

UK - structure and market share

31/12/2015	Micro	Small	Mid	Large	Total
In number of stocks	2634	1415	776	459	5284
As a %	49,8%	26,8%	14,7%	8,7%	100%
Aggregate capitalisation (€m)	119 604	590 263	1 786 839	10 166 624	12 663 330
As a %	0,9%	4,7%	14,1%	80,3%	100%
UK					
In number of stocks	27%	30%	27%	24%	28%
Weighting (% capitalisation)	29%	29%	26%	24%	25%
UK : 2014/15 listings (delistings)	-82	56	30	19	23

The United Kingdom's weight in Europe has decreased since the early 2000's when it occupied a ultra-dominant position with a market share of nearly 38%. These market shares were captured by other European countries, though keeping in mind that the market shares of France and Germany over all remained unchanged. This is no cause for concern however given the United Kingdom's strong financial market culture and dynamism which remains a motor for Europe.

GERMANY: THE EUROPEAN ECOSYSTEM'S POWERHOUSE

Stockmarket performance: 20/20 for German mid caps

Germany - stock market performances for the different market segments

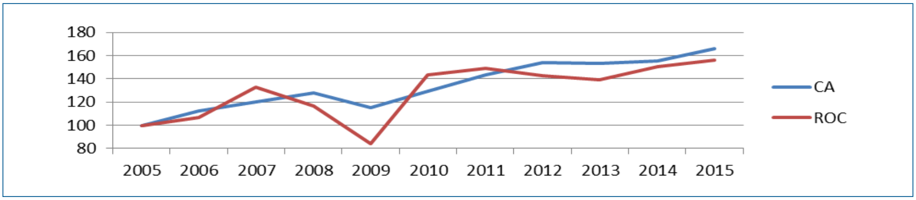
3 years indexes	Performance	Annualized performance	Volatility	Maximum drawdown
Europe Large	38 %	11,3 %	13 %	-13 %
Germany Large	41 %	12,2 %	16 %	-19 %
Germany Mid	84 %	22,6 %	14 %	-7 %
Germany Small	37 %	11,1 %	13 %	-16 %

The performance of the European market over the last three years was largely driven by the German small and mid cap indexes whereas the German mid-cap index considerably outperformed all markets. The large/small cap configuration that – with small caps apparently performing less well than their European counterparts – is not unusual and merely reflects the particular situation of small-cap indexes: i.e. the inflow of newly listed companies versus the outflow of success stories moving up to the mid cap segments.

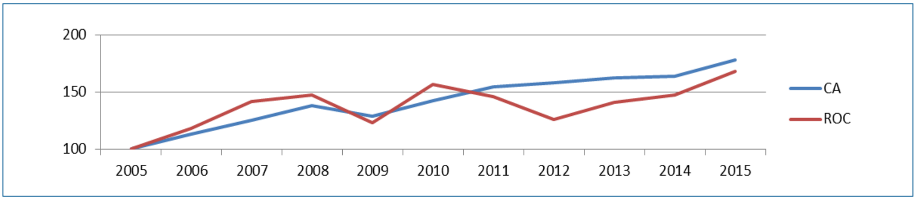
We however note once again the level of risks of the mid and small cap indexes that are lower than the German large cap index.

Economic performance: mid cap momentum at the expense of small caps

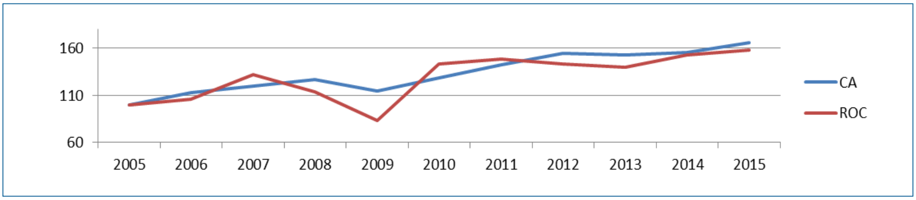
Germany - all companies



Germany - Small



Germany - Large



The German results are surprising : despite an overall economic performance clearly outperforming the European level, small caps ultimately perform less well than French or UK small caps whereas the large caps display a performance profile that is very different from their European counterparts.

The structure of the German market - a shrinking pool of micro caps

Germany - structure and European market share

31/12/2015	Micro	Small	Mid	Large	Total
In number of stocks	2634	1415	776	459	5284
As a %	49,8%	26,8%	14,7%	8,7%	100%
Aggregate capitalisation (€m)	119 604	590 263	1 786 839	10 166 624	12 663 330
As a %	0,9%	4,7%	14,1%	80,3%	100%
Germany					
In number of stocks	12%	10%	10%	12%	11%
Weighting (% capitalisation)	13%	9%	10%	14%	13%
Germany: 2014/15 listings (delistings)	-83	10	8	10	-55

The significant decline in the number of microcaps reflects activity largely in line with other segments. Germany retains its market share in Europe in terms of aggregate market capitalization, though is adversely affected by the decline in the number of stocks (with a negative net change in 2014 and 2015).

ITALY: MARKET PROSPECTS LOOKING BRIGHTER

Stock market performance: looking better, but...

Italy- stock market performances for the different market segments

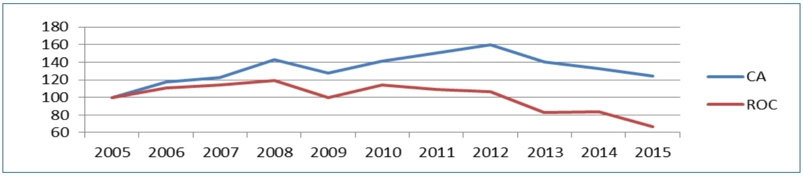
3 years indexes	Performance	Annualized performance	Volatility	Maximum drawdown
Europe Large	38 %	11,3 %	13 %	-13 %
Italy Large	41 %	12,1 %	19 %	-12 %
Italy Mid	52 %	14,9 %	22 %	-20 %
Italy Small	37 %	11,1 %	13 %	-16 %

The performance of the Italian stock market has improved over the last three years following a significant underperformance between 2009 and 2012. For comparison, the country's large-cap index increased 21% over five years (compared to 50% for the European large-cap index) and 41% over three years (compared to 38% for the European large-cap index).

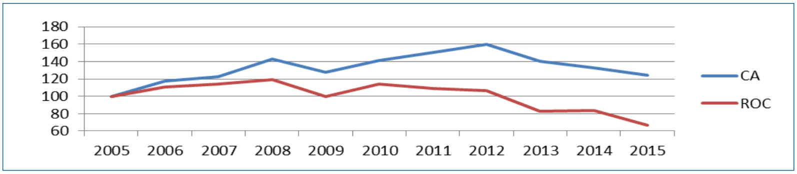
Italy's risk profile nevertheless remained higher than those of other countries in Europe, particularly for the mid-cap index with a gap in terms of volatility and maximum drawdown in relation to the other European mid-cap indexes.

Market performance: trends and observations

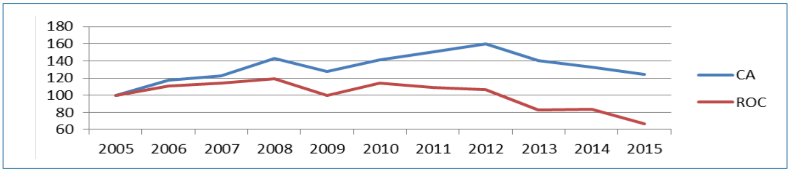
Italy – All segments



Italy – Small



Italy – Large



We possess data for only eight Italian large listed companies 10 years ago. For that reason, the findings offered are partial. Nevertheless, they have the merit of providing an indication of trends for a market made up of mature companies operating in declining sectors.

The economic performances of small caps, based on data from forty companies are more relevant. Comparative trends between large and small cap segments follow totally different paths.

The structure of the Italian market: moving towards stability

Italy - structure and European market share

31/12/2015	Micro	Small	Mid	Large	Total
In number of stocks	2634	1415	776	459	5284
As a %	49,8%	26,8%	14,7%	8,7%	100%
Aggregate capitalisation (€m)	119 604	590 263	1 786 839	10 166 624	12 663 330
As a %	0,9%	4,7%	14,1%	80,3%	100%
Italy					
In number of stocks	6%	5%	7%	4%	6%
Weighting (% capitalisation)	6%	5%	8%	4%	4%
2014/15 listings (delistings)	10	6	11	3	30

In 2014 and 2015, 30 companies were added to the local market.

The Italian market share in consequence remained stable over the 2013-2015 period.

THE OTHER EUROPEAN COUNTRIES

Spain: promising green shoots

31/12/2015	Micro	Small	Mid	Large	Total
In number of stocks	2634	1415	776	459	5284
As a %	49,8%	26,8%	14,7%	8,7%	100%
Aggregate capitalisation (€m)	119 604	590 263	1 786 839	10 166 624	12 663 330
As a %	0,9%	4,7%	14,1%	80,3%	100%
Spain					
In number of stocks	3%	3%	4%	5%	3%
Weighting (% capitalisation)	3%	3%	4%	5%	5%
Net balance2014/15	16	0	3	2	21

Spain stands out by the excellent momentum of its micro cap segment that grew 20% in number of stocks and 60% in aggregate capitalization.

Belgique : les *Mid* en tête

31/12/2015	Micro	Small	Mid	Large	Total
In number of stocks	2634	1415	776	459	5284
As a %	49,8%	26,8%	14,7%	8,7%	100%
Aggregate capitalisation (€m)	119 604	590 263	1 786 839	10 166 624	12 663 330
As a %	0,9%	4,7%	14,1%	80,3%	100%
Belgium					
In number of stocks	2%	3%	4%	5%	3%
Weighting (% capitalisation)	2%	3%	4%	5%	5%
Net balance2014/15	-1	-1	12	3	13

Belgium displayed a net increase in mid caps over 2013-2015, contributing to growth in its market share in market capitalization from 3.5% to 5%. IPOs were carried out in the small cap segment: increases in market capitalization led to transfers between the two segments, and a net increase of 12 new mid caps between 2013 and 2014.

CONCLUSIONS AND PROPOSALS

The 2016 European small and mid cap overview confirms overall the trends highlighted in last year's study, with the addition of several new striking points.

- **The continuing domination of small and mid caps in terms of economic and stock market performances** with, in addition, an alignment in risk levels (volatility/ maximum drawdown) which a priori represents a historical precedent
- **The historic peak of European listed large caps in number of stock and volume**. Profiting from the continuing inflow from the mid cap segment, itself supplied by IPOs in the early 2000s, it in consequence surpassed the last peak of 2007
- **The haemorrhaging in the number of listed companies** has been stemmed with a marginal rebound after 7 years of decline, with the exception of the micro cap segment, the fertile seedbed for the ecosystem, is continuing to subside

The market is in consequence continuing its ageing process. This is characterized in the short-term by an increased percentage of mid and large caps and the contraction of the micro and small cap segments setting the stage in the long-term for a contraction of the overall market if these trends persist.

The mechanism of communicating vessels between the different segments, based on the principle of ascending flows which guarantees the market's equilibrium and future, depends on the amplitude of the base comprised of smaller cap stocks. **The economic growth of micro, small and mid-cap stocks contribute to the overall market's renewal**. The larger the base, the greater the number of entrepreneurial success stories. In light of these statistics, estimates for their number is promising: at the scale of our sample, this would concern 20% to 25% of the companies within a 10-year time frame. Today however this principle is being severely tested.

However, the stakes are high. **The pyramid structure of the financial market in terms of number of listed stocks must be maintained to ensure a renewal of market leaders**. The large caps guarantee the global attractiveness of the financial market, finance the infrastructure and contribute to the efficient operations of the market. Accordingly, the very large caps account for 7% of the total, 80% of market capitalization but also and above all 85% to 90% of trading volume. The leaders create wealth which benefits all market stakeholders. Brokerage companies, for example, provide essential services to companies to raise capital and to asset management companies to manage the savings of individuals.

Understanding these mechanisms is essential for developing a favourable environment for this European dynamic. The apparent tendency of the regulator to partition flows by segment has already had negative consequences: in time, it creates a risk of depleting resources that are already low for financial analysis allocated to the most neglected segments, namely the micro and small caps. Continuing to cover these small and mid caps and IPOs is nevertheless essential to the long-term renewal of the richest segment of large caps.

This data also would appear to show that **listing shares on the market provides a growth accelerator to growth** for companies, facilitating **mergers and acquisitions** if one considers the number of companies that delist their shares. The demands imposed in terms of transparency, governance and financial discipline are often highlighted as good reasons not to be listed, but are in reality, necessary requirements for progress, especially for smaller companies. These requirements lay the solid foundations for sound long-term development. It is crucial to attract these entrepreneurs. At the same time, all stakeholders at the European level need to consider every conceivable measure to reduce the overall listing costs without diminishing the transparency that is essential for investors.

A few concrete suggestions– already proposed in last year's study – for creating a positive environment over the long-term for small and mid caps:

- **Stabilizing regulations** streamlining the burdens and requirements imposed on small and mid caps by recognizing their specific nature, and requiring an annual contract with a brokerage firm for companies without analyst coverage.

- Measuring upstream the impact of a regulation on the economic models of the parties concerned

- **Create more favourable conditions for going public**, by streamlining regulatory requirements for the IPO phase

- **More systematically encourage the flow of European savings into micro and small cap asset classes**, either by developing a specific pan-European regulatory and tax framework for micro and small cap funds or easing constraints imposed on insurance companies on the use of such assets
- **Create a long-term European retirement savings vehicle** subject to harmonized taxation conditions to promote savings in small and mid cap stocks
- For asset management companies, **create investment funds better adapted to the liquidity profile of these securities and the complexity of their universes**. For example introduce different liquidity clauses to allow for long-term investments as with non-listed vehicle
- **Create an incentive comparable to the research tax credit at the European level** for brokerage firms allocating research analysts to cover the universe of small and mid caps

APPENDIX: METHODOLOGY & TYPOLOGY

For information, the classification of the different segments, large, mid, small, micro caps

- **The segmentation** by market capitalization used in this study was as follows:

between €5m and €150m	between €150m and €1,000m	between €1,000m and €5,000m	> €5 000m
Micro Cap	Small Cap	Mid Cap	Large Cap

- **The indexes** operate on the basis of three indicators for the classification of companies: size (market capitalization) trading volume and the turnover ratio (volume/free float)
  For classifying these indexes we have used the median capitalization.

STOXX indexes

Small Cap index	Mid Cap index	Large Cap index
€3,000 million	€6,200 million	€24,200 million

MSCI indexes

Micro Cap index	Small Cap index	Mid Cap index	Large Cap index
€100 million	€1,000 million	€6,400 million	€10,800 million

Methodology & construction of the sample

Monitoring the economic performances of European companies over 10 years – 2006 to 2015 – required the construction of a sample of companies presenting similar business models that are constant over the period.

To build this panel, we selected a base of European companies listed at the end of 2015 with a market capitalization of more than €5 million (5,284 companies) We first eliminated companies with business models considered incompatible, i.e. primarily «financial» models (banks, insurance companies, real estate companies, asset managers, etc. or 1,356 companies), companies whose shares have not been traded continuously over the last 10 years (listed after 31 December 2005, or 1,380 companies), though also all companies for which the data available over the period studied was insufficient (or 524 companies). The sample we created on that basis for this analysis included 2025 companies.

This study was produced by La Financière de 'Echiquier and the MiddleNext Research Institute

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About La Financière de l'Echiquier – www.lfde.en

Created in 1991, La Financière de l'Echiquier is one of France's leading independent asset management companies with €8 billion in assets under management and a team of 104 employees. LFDE is wholly-owned by its management and employees. Its business: managing savings and financial investments for retail customers, wealth management advisors and institutional customers.

About MiddleNext Research Institutewww.middlenext.com

MiddleNext is the independent French association representing listed SMEs and midcaps. MiddleNext was founded in 1987 and represents and defends the interests of small and mid caps, assists listed companies through its training institute and contributes to the development of knowledge about mid caps through its research institute.

MiddleNext co-chairs the Smaller Issuers Committee of European Issuers, the leading European association promoting the interests of companies listed on stock exchanges. European Issuers is present in 15 countries and represents over 9,200 listed companies with market capitalisation of some €8,500 billion. The president of of MiddleNext is Guillaume Robin and its General Manager is Caroline Weber. It is headed by a Board comprising 12 directors of listed companies. It is financed by directors of mid cap companies.