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Rapporto 2013

Early Stage in Italia



VeMTM
VENTURE CAPITAL MONITOR

IBAN[®]
Associazione Italiana degli investitori Informali in Rete
Italian Business Angels Network Association

Bird & Bird

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ACKNOWLEDGEMENTS

This survey was made possible thanks to the collaboration between Venture Capital Monitor – VeM[®] active at the LIUC - Cattaneo University and IBAN - Italian Business Angel Network.

The team of the Venture Capital Monitor – VeM[®] would like to thank AIFI - Italian Private Equity and Venture Capital Association and Bird & Bird.

We would like furthermore to thank Alessia Muzio and Giovanni Fusaro, responsible of the Research Department of AIFI, for their valuable contribution.

INTRODUCTION

The survey in cooperation between the IBAN Association and the Venture Capital Monitor - VeM[®] reaches its second edition with the aim to continue developing an overall scenario of Italian Early Stage market, monitoring the seed and start-up capital investment activity.

The survey comes as the union of the individual surveys carried out by the Venture Capital Monitor - VeM[®] on institutional investment activity and the one built by IBAN concerning the universe of informal investments, both realized during 2012.

The Venture Capital Monitor - VeM[®] is an observatory born in 2008 at LIUC - Cattaneo University, in collaboration with AIFI, with the aim of developing a stable monitoring of the institutional Early Stage activity realized in our country.

IBAN, the Italian Association of Business Angels founded in 1999, develops and coordinates the activities of investment in risk capital in Italy and Europe by informal investors. IBAN is also responsible for encouraging the exchange of experiences between the B.A.N., promoting the recognition of business angels and their clubs as subjects of economic policy and, since 10 years, investigating on the operations made by angel investors.

With the merger of the two surveys, in continuity with the first edition, the 2012 report aims to increase the transparency of the Italian market of Early Stage, identifying the similarities and interactions existing between informal investment in venture capital and institutional ones. This objective is related to the belief that, although the two phenomena belong to different operational areas, their dynamics should be more interactive.

Considering the current economic situation, the synergies that would result from transactions realized together by both players could be an important stimulus to support the creation of new businesses.

As pointed out in the last edition, in addition, a further benefit may occur even on an aggregate market level. The universe of Italian Early Stage in 2012 has invested a total of 170 million euros (considering the investment of public matrix and follow-on investments in target already invested, both excluded from this survey); a significant increase compared to 2011, but still far from the levels of activity of the main European competitors (UK, Germany, France).

The following survey develops qualitative and quantitative topics. For a better comprehension of the results is however recommended to consult the methodology used by our team for the integration and standardization of individual databases.

METODOLOGY

The ultimate goal is to give an integrated and comprehensive overall view of the Early Stage sector in Italy, and to do so it is necessary to share some common methodological criteria, in order to make the information contained in the two separate databases homogeneous and comparable.

First of all, only “initial” investments made by both institutional investors and business angels classifiable as Early Stage’s operations (Seed Capital and Start-Up) were taken into account. Public operators that used private legal vehicles were also considered. As a consequence, “later stage” operations (expansion, buy out, replacement and turnaround) have been excluded from this survey.

The data gathered by VeM[®] were collected through the exclusive use of information available from public sources. We consider public sources all the means and tools that are used to voluntarily share information on investment activities. The data collected have also been double checked through:

- ✓ Comparison between the same sources and other sources of information (for example: balance sheets of target companies);
- ✓ Formal request for verification and integration of the collected data to the investors;
- ✓ Other requests directly forwarded to target companies.

The data gathered by the IBAN Association were collected with the use of an on-line survey on the web-site www.iban.it; these information were then integrated with mail exchanges between some Clubs of investors. The survey is composed of 62 questions divided in 3 parts: the first two sections refer to the qualitative and quantitative aspects of the investments and “disinvestments”; the last part focuses on some personal and operational features of business angels in Italy.

The IBAN Association sent the survey to 1420 recipients, divided into two categories: direct and indirect members that are part of associated Clubs and B.A.N.s (220 people), and thirds parties (single person, Investors’ Club, Organizations, Enterprises’ Incubator and Accelerator) identified by IBAN (1.200 people). In 2012 the data from this last category has been integrated thanks to the collaboration with Banca d'Italia (Bank of Italy). In this universe 262 people have answered the survey (137 people from the first category and 125 from the second one).

Both databases were then integrated with the use of the following criteria:

- ✓ Integration of the data and available information for each target company, not for each investor. According to this criteria, IBAN’s data, which were originally collected for each investor, have been elaborated;
- ✓ Identification of common operations and integration of public data made available by VeM[®] with the information collected by IBAN;
- ✓ Qualitative and quantitative evaluation of the results, using the following exclusion criteria: investments made in foreign countries, not representative economic sectors (real estate), operations with dimensions not appropriate for the Early Stage market or operations having incomplete or inadequate information (5 exclusions).

Concerning the legal characteristics of the investment transactions, information on corporate governance are derived exclusively from an analysis of the statutes of the companies.

THE EARLY STAGE FINANCING MARKET IN ITALY

During 2012, through the research we monitored an aggregate number of 125 targets invested, showing a decrease compared to the 163 target invested in 2011. In particular, the segment of VeM[®] counts 55 companies invested with an increase of 45% compared to 2011, while the segment IBAN has 70 targets, a decrease of 40% compared to 2011 (116 companies invested).

Figure 1: Number of targets

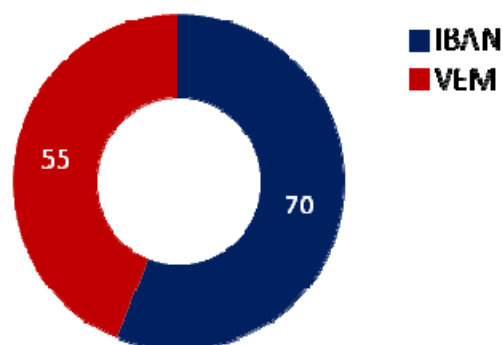
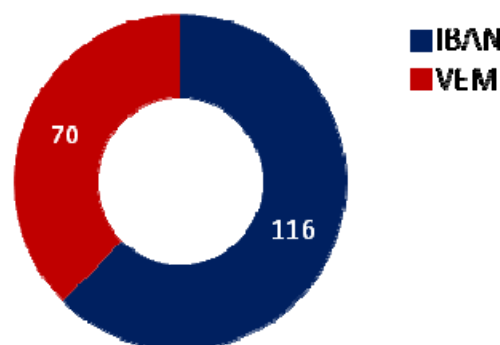


Figure 2: Number of investments

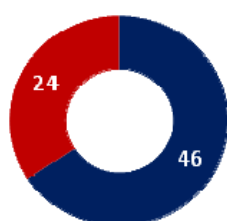


In terms of the total number of investments made, we monitored 186 deals, of which 70 are related to the funds and the rest to business angels. Comparing the data with 2011, the level of investment fell by 13%.

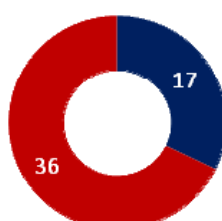
Considering the syndicated operations (simultaneous participation of two or more investors in the same target) the data do not show anything new; two-thirds of the IBAN deals are syndicated, even because of the increase of investment clubs, while on the side of the funds the investments represent a third of the market.

Figure 3: Syndicated operations

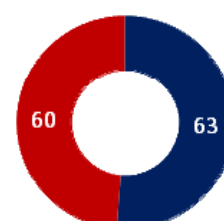
Business Angels



Venture capitalist



Early Stage

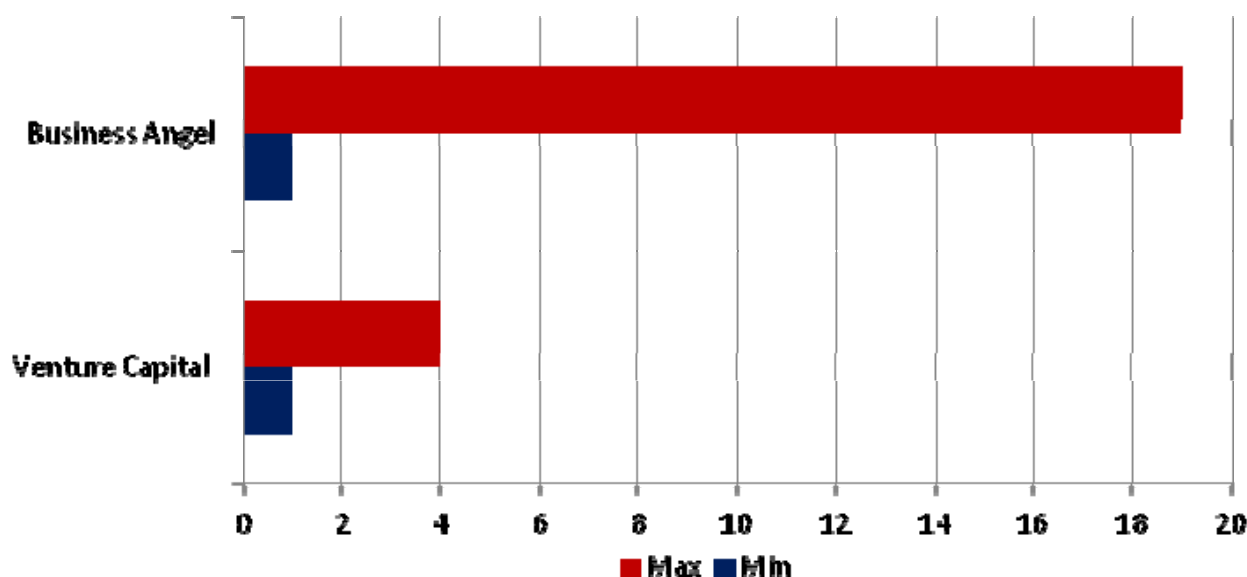


■ Syndicate ■ Non-Syndicate

The syndicated investments were characterized by the presence of an average of 3 operators.

In the VeM[®] field we can highlight that a maximum of 4 players have syndicated the same company. Focusing on the variability of co-investor in the IBAN field, the range of individual business angels reaches a peak of 19 different investors considering a club as a single subject, while also taking into account its individual members we would reach a number of 56 different investors.

Figure 4: Number of investors



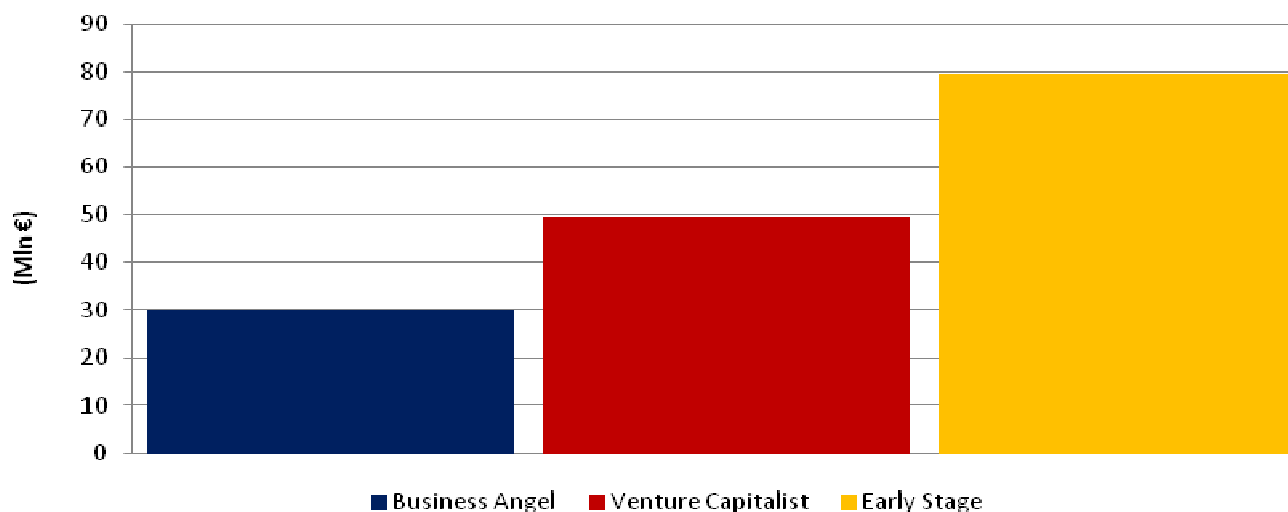
An important evidence, to highlight as the real news of 2012, is the growth of the interaction between venture capitalist and business angels; 14 operations are characterized by the presence of the two types of partners (11% of target). The figure therefore shows a turnaround, as in 2011 the deals in common between the two partners were 9. Of these 14 operations, 4 were made by Italian Angels for Growth - IAG, 2 are attributable to Club of investors, while the rest are characterized by the presence of business angels as a co-investor of an institutional operator.

The number of companies invested by both type of players is 24, if we take into account the targets already in the portfolio of an individual investor before 2012 and in whose the list of shareholders has seen the entry of additional funds or business angels.

✓ **Invested amount and acquired stake**

The total amount invested in the Early Stage market was about 80 million euros, excluding follow on investments and public operators. Despite the lower number of transactions realized, the data are almost equal to the 2011 values. Specifically, about 50 million euros are attributable to institutional investors, while IBAN has attracted investments of around €30 million euros.

Figure 5: Total invested amount



Focusing on the average amount invested by venture capitalist, we can highlight a decrease of it, from 1 million euros in 2011 to around 0,8 million euros in 2012. Considering the business angels, the amount invested has doubled (with a reduction of the operations), which in 2012 is on average equal to 360,000 euros per target. However, the IBAN field shows the push towards two type of investment at the antipodes: on one side are growing syndicated medium / large size investments, on the other side are growing the deal realized by a single angel with amounts invested under 100,000 euros. This testifies the propensity of the angels to operate individually or with structured clubs.

Overall, the world of Italian Early Stage expresses a median average amount invested equal to 650,000 euros.

In terms of acquired stake, we can underline a decreasing trend, from an average acquired stake of 40% in 2011 to a value of 30% in 2012. Talking about business angels, despite the growth in the average amount invested, the average value of the acquired stake remains constant to one-fifth of the target's capital.

Figure 6: Average amount invested

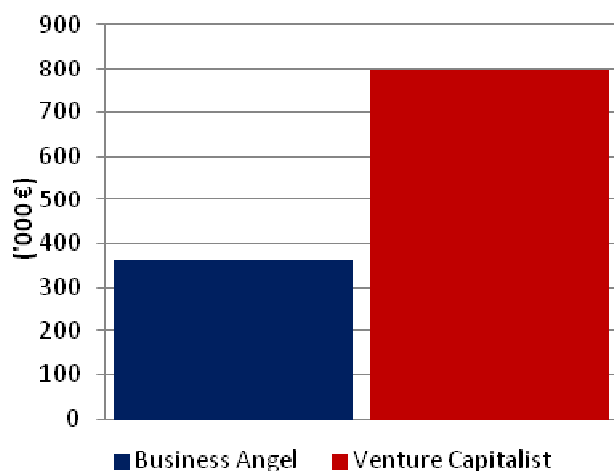
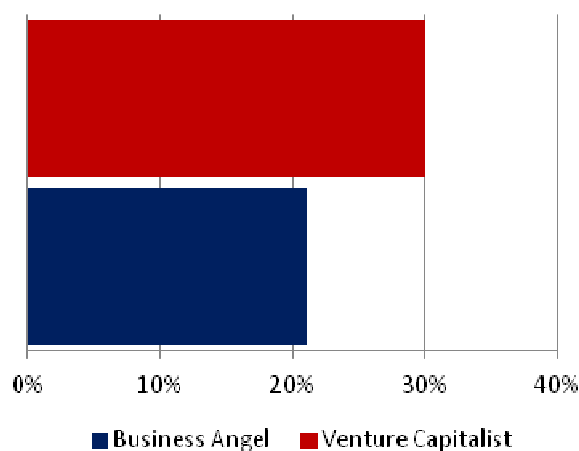


Figure 7: Acquired stake

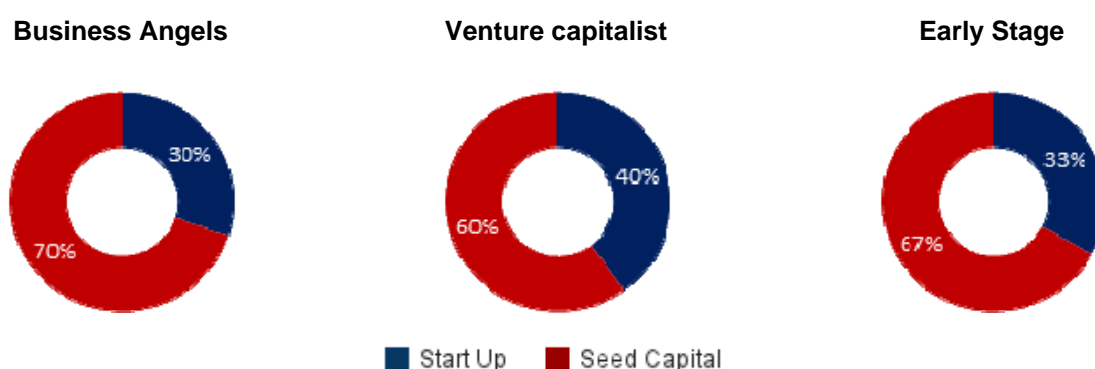


✓ Investment typology and deal origination

Regarding the type of investment, the Early Stage market is divided substantially between seed capital operations (67%) and start-up operations (33%). On an annual basis, the seed pointed out a further growth compared to the 60% in 2011.

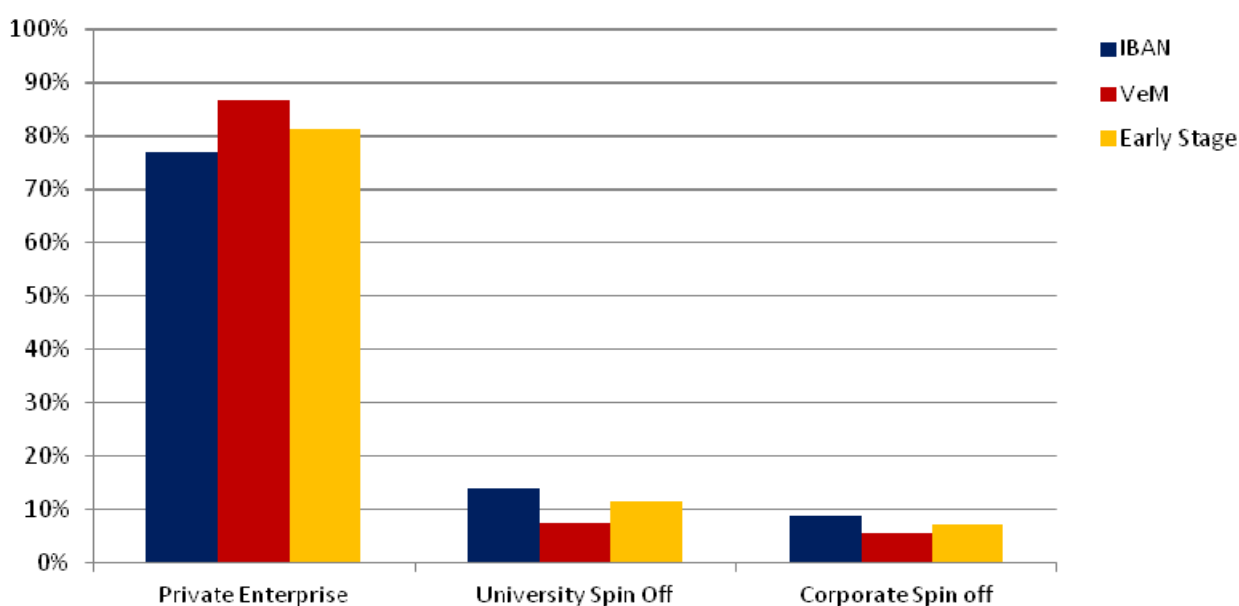
In detail, the increase was due to a greater propensity of institutional funds to carry out seed capital deals (the proof is the reduction of the average investments), while the universe of business angels stays steady at a breakdown 70/30.

Figure 8: Type of investment



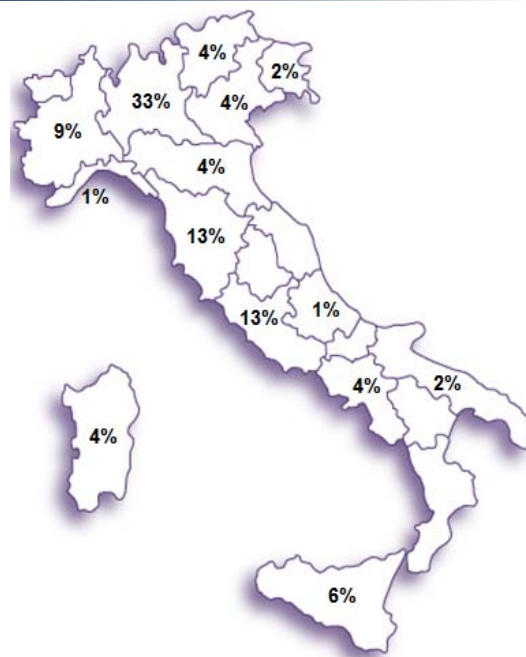
For what concerns the deal origination, private initiative is setting the pace with more than 80% of investment opportunities, attracting around it preferences from both funds and business angels, data that are substantially equal to the 2011. However, it is interesting to highlight that the angels approached, in a residual way as well as venture capital funds, the university spin-offs, which remain marginal and around 10% of the market.

Figure 9: Deal origination



✓ Geographical distribution

On the side of the geographical distribution, there are no particular trend reversals. Lombardia attracts more than the 33% of the market, while South of Italy represents about a fifth of the market. To be more precise, between the two worlds, in fact, we pointed out the following differences: the business angels activity is not prominent in the South, preferring to it regions they traditionally invest in, like Lombardia, Piemonte and Toscana. The activity of venture capitalist, on the other hand, seems to pay attention to the South of Italy more than the angels; indeed, in 2012, those regions represented about 35% of the investments made.

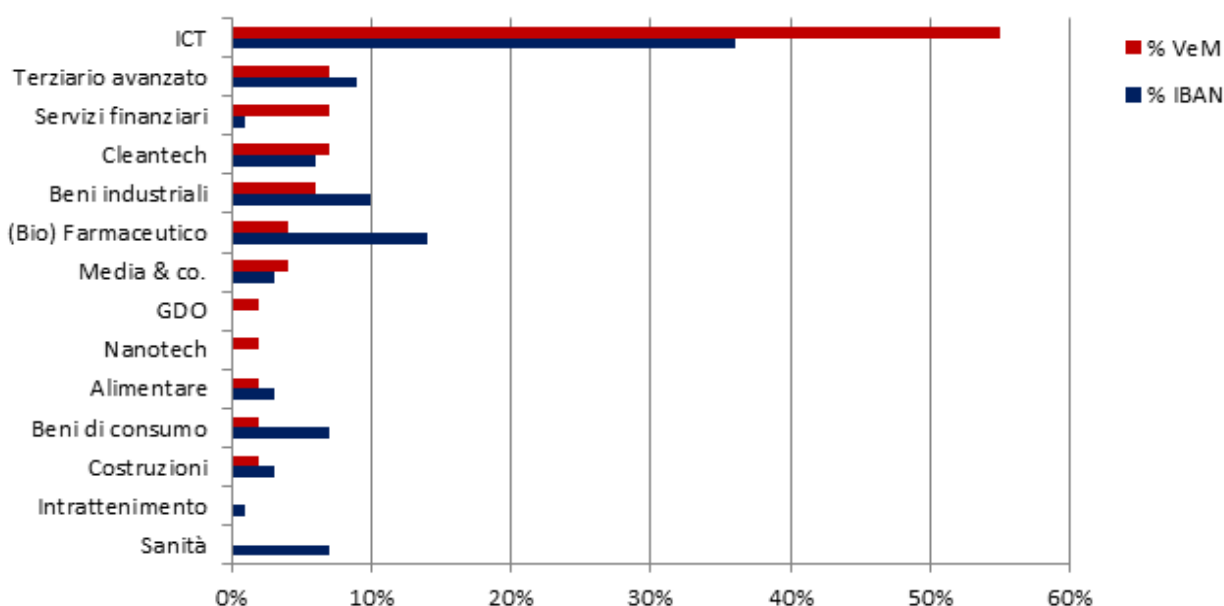


✓ Economic sectors

Considering the sector of investments, in 2012 the Italian Early Stage confirms its vocation for technology. Indeed, similar to 2011, the ICT sector is predominant, representing the 44% of the market (taking into account the venture capital funds, the stake is even more than the 50%). In detail, the operators preferred web and mobile applications. Following we have the pharmaceutical sector with a share of 10%, while the industrial and the “other professional and social services” sectors account each for the 8% of the sample.

Interesting to underline that the business angels went on to invest steadily in the pharmaceutical and biotech sectors; conversely, these sectors have not attracted institutional investors, especially because in these two sectors they have focused many of the write-off of the last few years.

Figure 10: Sectors distribution



✓ **Size of target companies**

Even in terms of targets size we can underline the basic stability of investments choices of business angels and the greater propensity of funds to shift to “smaller” operations. Concerning the VeM[®], in fact, the targets invested showed an average turnover of 1 million euros (1,5 million Euro in 2011) employing 7 employees. IBAN targets showed a turnover of about 100,000 euros and a workforce of 3 units (values at the investment year), pretty in line with the data from the previous year.

✓ **Vintage year**

In terms of vintage year, institutional investors and business angels showed similar data, as the target result to be newly set up by approximately 1 year. This reconfirms the "seed" approach of funds, as in the previous edition the target appeared to be made up on average from 2 years.

PROFILE OF THE INVESTMENT

Analysis and monitoring the main characteristics of the investments made in 2012 it is possible to draw the average profile of the investment.

Starting with a focus on investment, institutional funds spent an average of 800,000 euros for the acquisition of the 30% of the targets' capital (40% in 2011). Similarly, business angels acquired a minority stake in the company, equal to a 21% of it, with an average investment of 360,000 euros.

Lombardia reconfirms its main role in the Italian Early Stage: the targets are in fact mostly located in Milan and operate in sectors closely related to ICT (Web and mobile application).

The average size of the turnover of targets invested by informal investors remains almost constant if compared to 2011, while decreases for venture capitalists.

Talking about the type of investment, both the players focused on closing seed capital deals.

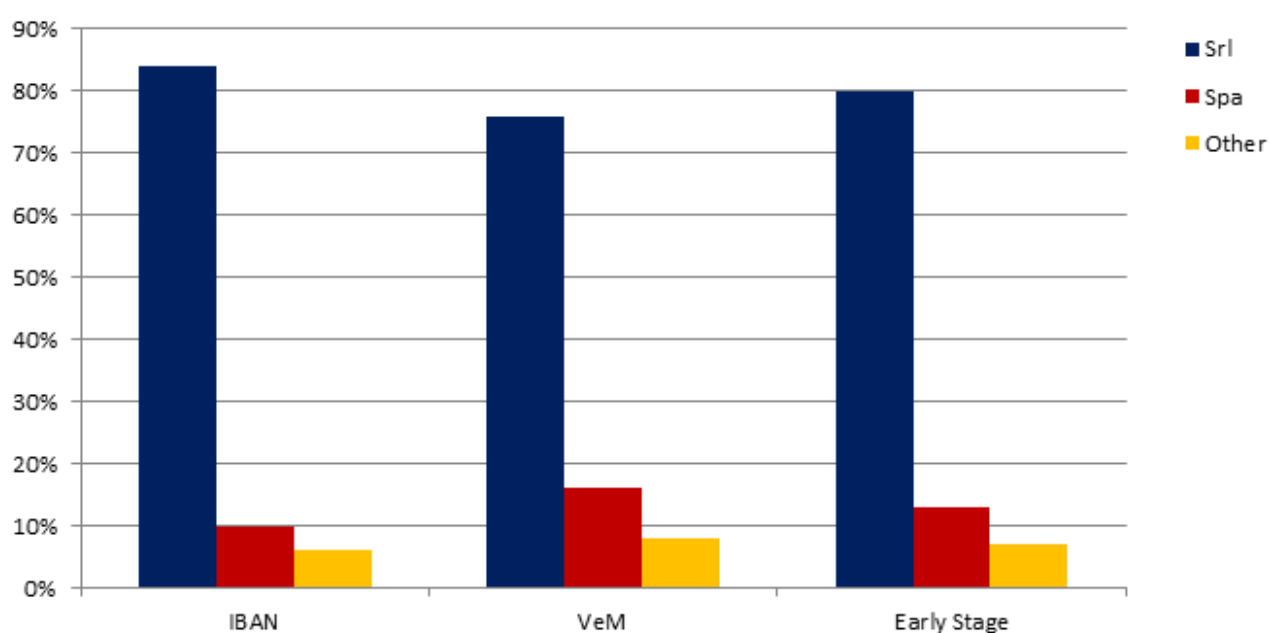
INVESTMENT'S PROFILE	IBAN	VeM [®]
Invested amount (€)	360.000	800.000
Acquired stake (%)	21%	30%
Vintage year (years)	1	1
Type of investment	Seed capital	Seed capital
Region	Lombardia	Lombardia
Province	Milano	Milano
Most attractive sector	ICT (Web App)	ICT (Web App)
Legal form	S.r.l.	S.r.l.
Income (€)	<100.000	1.000.000
Employees	3	7

CORPORATE STATUS AND CORPORATE GOVERNANCE

✓ Legal form

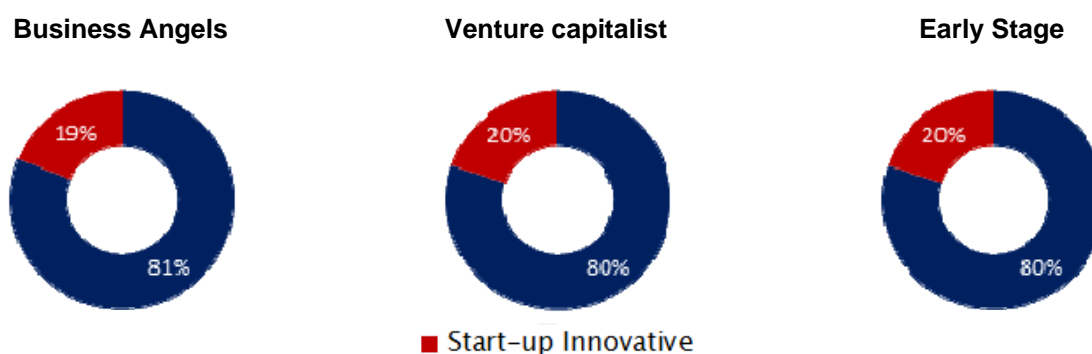
As far as the legal form of the target companies is concerned, it appears that, like in 2011, the Srl is the most utilized form - both for business angels and institutional investors – representing the 77% of the sample; the Spa remains residual (10%), especially with respect to investments made by business angels (2%). We have also registered an increase in investments through foreign companies (10% of the total, while in 2011 they represented the 2%). In particular, the business angels transactions realized through foreign vehicles represent the 12% while if we consider the deals involving venture capital funds, the percentage is equal to the 8%.

Figure 11: Legal form



In addition, we should underline that in a significant percentage of cases (20%), investments were made in companies included in the group of “innovative start-up”, recently introduced by law no. 221/2012. Precisely, business angels made 11 investments in innovative start-up (19%), while venture capital investments funds 10 (20%). These data are of undoubted interest and demonstrate that the introduction in our system of the innovative start-up type received a positive response from the investors, especially if we consider that the tax incentives provided by the law are not in force yet.

Figure 12: Innovative start up



✓ **Corporate governance**

With respect to the corporate governance of the target companies, the most commonly used provisions are those related to the possibility for the investors to appoint one or more members of the Board of Directors (47%) and to exercise a veto right over decisions relating to certain matters, both in the General Shareholders' Meeting (37%) and in the Board of Directors (38%). Such provisions are found more frequently in the by-laws of the targets object of investment by venture capitalist, than in the targets of informal investors.

More rare are the right to appoint a member of the Board of auditors (24%) and the right to receive periodic information about the financial position of the targets (7%).

With regard to transfer of shares limitation, from the by-laws examined, the pre-emption right appears to be the most utilized instrument (67%). In particular, with reference to business angels transactions, pre-emption rights provisions are present in the 80% of the by-laws, while the percentage is equal to the 52% for venture capital funds.

The prohibition to transfer the shares held by the operational shareholders for a certain period of time (so called lock-up) is provided in the 28% of cases. However, the percentages vary significantly between the investments made by business angels and those made by venture capital funds, amounting to 10.5% for the angels and 48% for the venture capitalist.

The right of co-sale (so called tag along), which gives the investor the right to participate in the sale in the event that other shareholders decide to sell their shares to a third party, is present in the 32% of the by-laws. Also in this case the percentages vary significantly between investment realized by business angels (17%) and those carried out by institutional investors (50%).

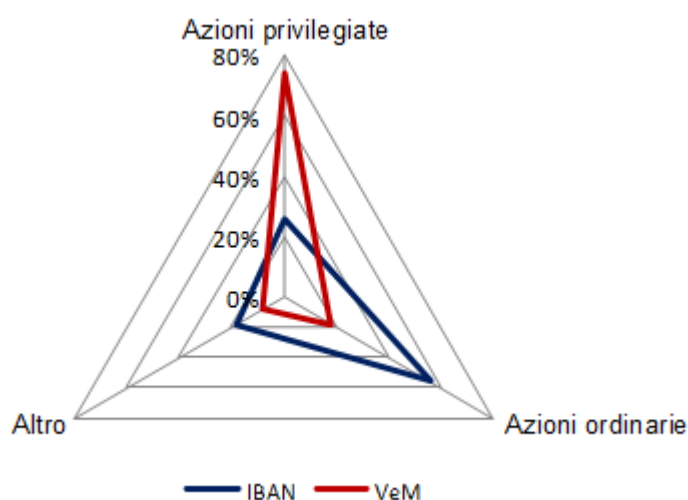
The drag along provisions - giving the right to force the other shareholders to sell their shares to a buyer identified by the investor - are found in the 37% of the examined by-laws. In particular, these provisions are found in 21% of the investments made by business angels and in 56% of the investments of venture capital funds.

Finally, the provisions giving the investor a priority in the distribution of profits (so called liquidation preference) are present in 25% of investments analyzed; these clauses, however, are neglected by informal investors (1.7%) while the percentage increases significantly in the investment of venture capital funds (52%).

Type of acquired stake – Early Stage

Type	Number	%
Preferred shares / shares with special rights	52	49%
Ordinary shares / shares with no special rights	41	38%
Others	14	13%
TOTAL	107	100%

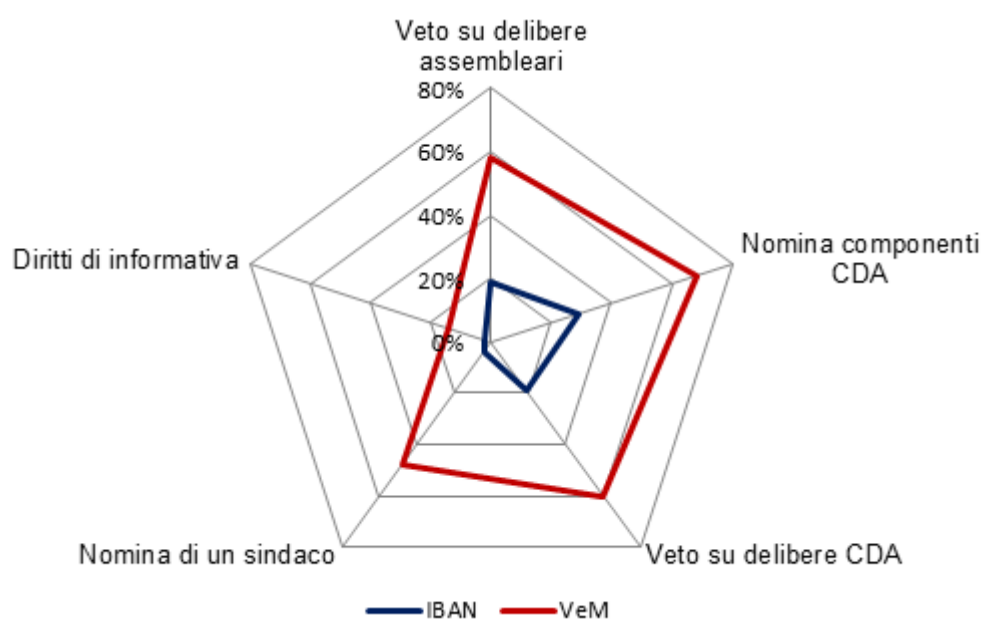
Figure 13: Type of acquired stake



Main rights in *corporate governance* – Early Stage

Type	Number	%
Right of veto over certain shareholders' resolutions	40	37%
Right to appoint one or more members of the Board	51	47%
Right of veto over certain resolutions of Board of directors	41	38%
Right to appoint an auditor	26	24%
Right of information	8	7%

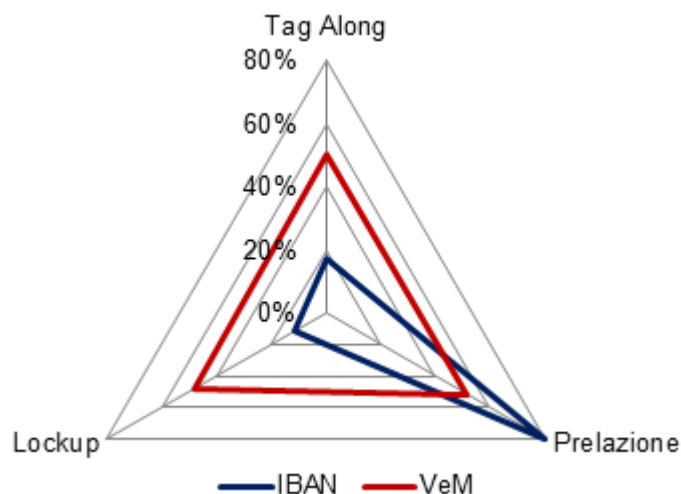
Figure 14: Main rights in *corporate governance*



Limitations on transfer of shares – Early Stage

Type	Number	%
Tag Along	35	32%
Pre-emption	72	67%
Lockup	30	28%

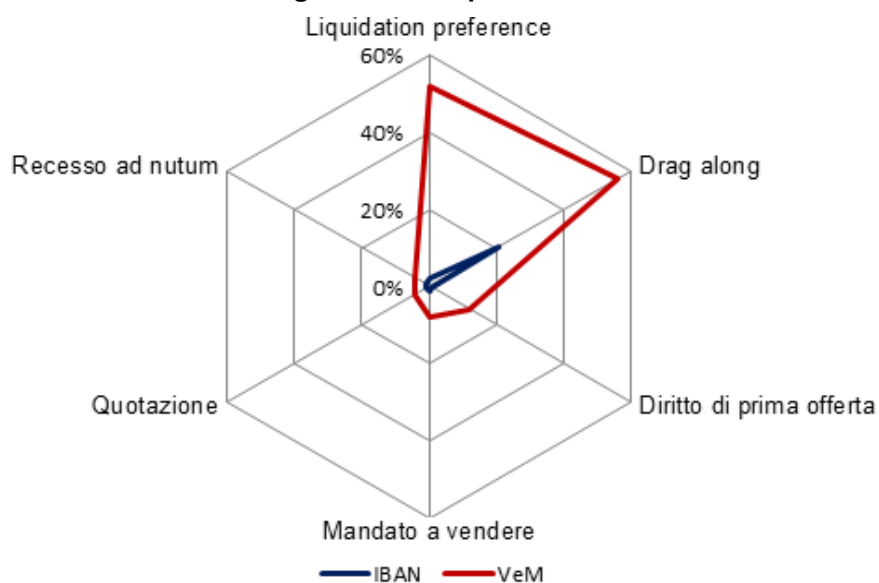
Figure 15: Limitations on transfer of shares



Discipline of exit – Early Stage

Type	Number	%
Liquidation preference	27	25%
Drag Along	40	37%
Right of first offer	6	5%
Mandate to sell	4	3%
Quotation	2	1,8%
Recess ad nutum	2	1,8%

Figure 16: Discipline of exit



CONCLUSIONS

The second edition of the survey, that comes from the cooperation between VeM[®] and IBAN seems, on an annual basis, to bring with it a deep change in the relationship between informal investors / institutional funds, sign of how vibrant and tumultuous is the segment of Italian Early Stage in recent years.

A positive signal is given by the greater cooperation between venture capitalists and business angels, element of change that until last year was only desirable. This increased cooperation between the two universes of investment, by respecting the individual characteristics of each subject, was able to give greater push to the entire market of Early Stages.

Talking about the *modus operandi*, business angels are gradually becoming more and more similar to the "big brothers" of Venture Capital, from bigger amount invested that allows better economies of scale by reducing the cost / opportunity of the individual deal. This happened also thanks to the creation of numerous clubs of investors with whose you can put in place more structured investments.

Venture capital funds during 2012 approached the world of the seed capital, that until now has always been a prerogative of most business angels. The proof is mainly the growth of new business in which there are both categories of investors, even in the follow-on deals who saw the entry in the subsidiary of one of the them.

We have not comforting signals if we analyze the total amount invested in the entire sector of Italian Early Stage: the market has maintained stable its size, with a total amount invested of about 80 million euros; the number is still so small in comparison with more developed markets of countries like Germany, France and UK.

The 2012 survey does not confirm the statements of 2011, about the closeness of business angels to the world of corporate spin-offs, whose incidence has always been marginal for venture capital funds, and that in 2012 became small even for the angels. Investment preferences partly moved to the university spin-off, that despite this, continue to represent approximately the 10% of the entire market of Early Stage.

AIFI – Italian Private Equity and Venture Capital Association



AIFI - Italian Private Equity and Venture Capital Association, was established in May 1986 with the purpose to promote, develop and institutionally represent the activity of private equity and venture capital in Italy. AIFI is made up of financial institutions which permanently and professionally make investments in risk capital through the acquisition, management and disposal of equity shares, mainly in unlisted companies, with an active involvement in the development of the portfolio companies. For further information: www.aifi.it.

Italian Business Angels Network – IBAN



IBAN - Italian Business Angel Network, is a non-profit organization officially recognized and with legal personality; was established on 15 March 1999 as a result of the Project "DG Enterprise and Industry" sponsored by the European Commission. The Association coordinates and develops the investment activity in risk capital of small companies realized by informal investors (Anglo-Saxon term 'Business Angels'). Within the national context is a point of reference for private investors, for national networks (BAN) and the Club of Investors, while at European level the guidelines are drawn by BAE (Business Angels Europe) and is the founder of EBAN, the European Association of the circuits of business angels. for further information: www.iban.it

Bird & Bird



Bird & Bird is an international law firm founded in London in 1846 with 25 offices worldwide and more than 1,000 lawyers. The firm is particularly active in the venture capital sector, providing advice to hi-tech and biotech companies as well as institutional funds and other investors in financing transactions and, more in general, in the context of corporate and commercial law, with particular focus on issues relating to intellectual property protection. Bird & Bird also assists companies and institutions in the judicial and extrajudicial field on matters of bank law, finance and insurance, real estate, labor law, antitrust, privacy & data protection, bankruptcy law and tax law. Bird & Bird has been in Italy for 10 years with offices in Milan and Rome, and more than 120 lawyers. For further information: www.twobirds.com.

Venture Capital Monitor - VeM[®]



The Venture Capital Monitor - VeM[®] active at the LIUC - Cattaneo University was set up from the consideration that, in Italy, in the risk capital investment market, the venture capital segment has experienced in recent years a remarkable development, both in terms of offer and demand. The VeM[®]'s objective is therefore to contribute to the transparency and efficiency of the market, through the collection, elaboration and analysis of a structured set of detailed information relating to venture capital operations realized in Italy, either through the institutional research activities that are possible due to the collaboration and interaction with other market players. For further information: www.venturecapitalmonitor.it.

LIUC – Cattaneo University



Established in 1991 from the initiative of the Union of Industrialists of the Province of Varese, with the aim of offering its students a learning experience that combines academic rigor with professional relevance. A setting that can be found in both university courses (Economics, Law and Engineering) and master's degrees and training courses offered to businesses and the professional world. Among the strengths of the university, there are the international vocation (with courses in English and various opportunities for Erasmus and international exchange) and the placement (the average waiting time to enter the world of work is about 3 months). The LIUC has also numerous research centers, laboratories and observatories. Among the master's degrees, is activated the one in Merchant Banking, specifically set up to meet the growing demand of professionals expressed by investment banks, Private Equity and Venture Capital companies and Asset Management Company. For further information: www.liuc.it

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