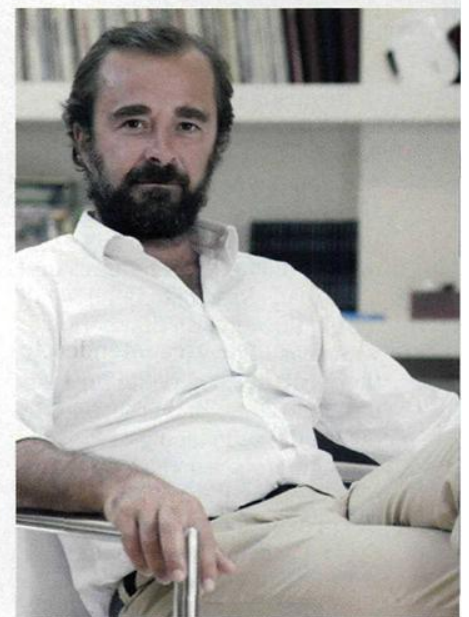
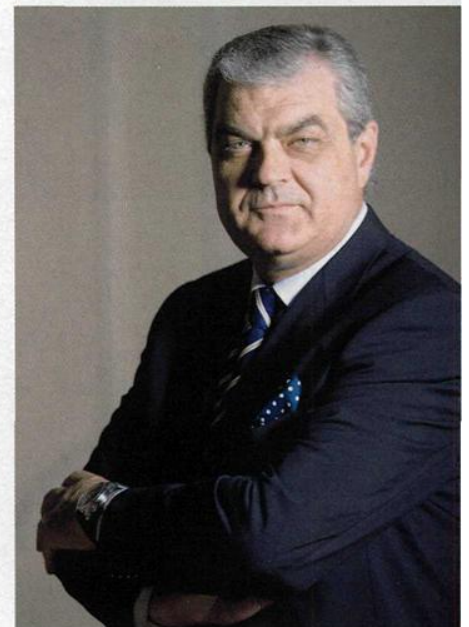


# Start-Ups, entering a new trend

A recent Government **decree** could give venture capital and early stage investments a **boost** providing some key conditions: **tax relief** in the first four years, cash as a benchmark of the **tax rate**, more relaxed contractual requirements for the teams, and an overall **decriminalization** of company fiscal bankruptcies, if fraud is not proven. The market **discounted** a new trend in the first half but more **deals** are now in the pipeline...

by Marcello Conti

**W**ith the entry into force of the Development Decree last October, a successful realization of the strongly-held aspirations of the Minister Corrado Passera, a new phase was opened for venture capital, both in terms of seed money and, above all, of early stage investment. The decree enacted by Mario Monti's government indeed included all the recommendations of the report which Passera had commissioned from a task force of venture capital operators last spring, coordinated by Alessandro Fusacchia, the Minister's advisor. "The team studied a series of requests which then became the starting point of the Development Decree," explained Andrea Di Camillo, a 42-year-old member of the task force and founder of Boox, a business accelerator with more than 12 ongoing investments and managing partner of Principia Funds. These requests were used as the basis for the drafting of the Decree's most technical points aimed at facilitating the entry of new entrepreneur investors. In particular, the provisions concerned with tax relief for start-ups over their first four years of business, the calculation of direct taxation on the balance sheet by reference to cash and not the date falling due and more relaxed contractual requirements for those forming the managerial team were all enacted as parts of the Decree.

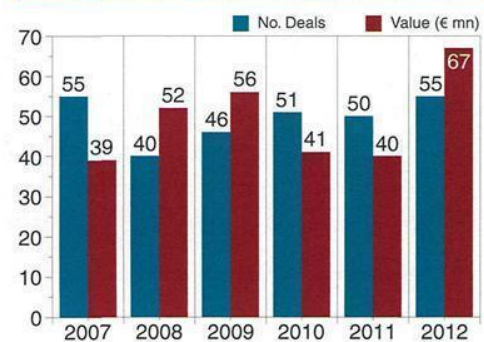



 ▸ VENTURE CAPITAL

perience, giving the entrepreneur/director the chance to cut his business teeth" explained Di Camillo. With Principia he manages a portfolio of € 90 mn divided into two closed trusts, Principia Fund and Principia II, concentrating investments on business innovation systems and digital.

The Development Decree for the encouragement of new start-ups has been introduced at a time when there has been an acceleration of early stage investment. Over the first six months of this year the number of operations were as many as those closing over the whole of 2011, while the value of investments amounted to € 67 mn, 80% of the figure for the whole of last year. Looking at the situation in periods of six months, the growth can be seen even more clearly: the number of operations in this year has doubled with a 67% increase in the value of investments. According to operators this offer-

### Early stage investment trend



Source: Aifi as of 1H of each year

Riccardo Donadon (above), the founder of H-farm and one of the authors of the Start Up report for the Ministry of Development. "H-umus was our 7th exit. Over 7 years we have invested € 13 mn in 34 start ups," Donadon noted, the most active Italian seed money financier.

Andrea Di Camillo (left), a 42-year-old member of the task force and founder of Boox, a business accelerator with more than 12 ongoing investments. "The team studied a series of requests which then became the starting point of the Development Decree," he explained.

Gabriele Cappellini (left above), CEO of Fondo Italiano d'Investimento, put money into 360 Capital fund, exploiting the benefits offered by the Development Decree on venture capital.

They are measures intended to encourage the entry of specialized seed capital investment funds followed by fund of funds, seeking to reduce the high risk of start-up failure. As a consequence, one of the Decree's key provisions is the decriminalization of company fiscal bankruptcies. The directors, direct man-

agers or managers of investment funds are indeed, responsible for balance sheets which, given that they are start-ups, could well be negative, having used up the entire capital. "In the absence of intent or fraud, it is necessary to decriminalize the involvement of the director because in many cases bankruptcy is a first ex-

vescent market is attributable to a series of historical returns on the operations set up, making it possible to establish a track record, a pre-condition to opening the market to institutional investors. Above all, online advertising and digital are the two sectors where buy-ups have produced the most significant numbers recently. Particularly noteworthy were the cases of Viamente and Humus. Viamente was launched in February 2011 by Boox with Digital Investment, an English VC investment fund, with advisory provided by Dpixel, a business incubator run by Gianluca Dettori. The investment was € 300,000, of which € 50,000 was subscribed to by Boox. The project entailed the promotion of the research into software to optimize logistic routes carried out by Antonio Perini, an engineer with a degree from the Milan Polytechnic. With total investment of little more than € 300,000, in just over a year Viamente attracted the attention of an American company, a leader in the field of logistics software services. It initially purchased Viamente's API (Application Programming Interface – indicating a series of procedures

**“The small numbers of investment operations by venture capital funds in Italy is due to the low level of institutional awareness and the absence of market players with an established track record”**

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### VC investments in Italy in 2012 1H

Target company	Lead investor/advisor	Quarter
Stereomood	Innogest Sgr	1
Mopapp	CRIF	1
Docebo	Principia Sgr	1
Neodata	Principia Sgr	1
6Sicuro	Principia Sgr	1
Agroils Technologie	X Capital	1
G&life	Friulia Sgr	1
Aster	Filas	2
Remocean	Imi Fondi chiusi Sgr	2
Sedicidodici	Italian Angels for Growth	2
Chiarezza.it	Blackfin Capital Partners	2
Spiller	Gradiente Sgr	2
Moneyfarm	Annapurna Ventures	2
Beintoo	Innogest Sgr	2
2Music	Idooo	2
Pixope	Idooo	2

Source: VeM

available to the programmer). After having used it satisfactorily for a number of months, it decided to buy the company to gain entry into market segments where it did not already have a presence. “The offer made was \$ 4.5 mn cash for the purchase of 100%. At the end of the due diligence period, the offer was converted into a final contract,” Di Camillo explained, obviously satisfied by an investment with a cash in 15x the original amount. In the case of H-umus, which had developed Nuxie, an entirely Ipad-based software platform designed for use by sales departments and created in 2008 by a group of designers and software engineers lead by Fabio Carraro, the purchaser, Team System, bought 85% of the share capital for about € 4 mn. The initial investment by H-farm, which had supported the start-up and retained a holding of 5%, had been € 400,000. In this case the cash-in had been 10x the initial investment, satisfying the expectations of Riccardo Donadon, the founder of H-farm and one of the authors of the Start Up report for the

Ministry of Development. “Humus was our 7th exit. Over 7 years we have invested € 13 mn in 34 start ups,” Donadon noted, the most active Italian seed money financier.

There was a further signal of optimism and confidence in this segment in October with the entry of the Fondo Italiano d'Investimenti (FII), run by **Gabriele Cappellini**, into the fund 360 Capital 2011, exploiting the benefits offered by the Development Decree. FII's investment allowed 360 Capital, whose fund-raising target was € 100 mn for early stage investment in innovative internet, ICT, cleantech and medtech companies, to announce a first closing of € 60 mn. The fund is managed by 360 Capital Partners, set up in 2005 by Fausto Boni. Boni, who previously worked with McKinsey and who effectively started the Italian VC market 15 years ago with success stories like Yoox and Mutuonline, to his credit, denies that special agreements were reached to facilitate FII's entry, pointing out the existence of institutional partners

• L O M B A R D •

## Venture capital's key numbers

- \* In 2011, there were 161 participated target companies in Italy with interests owned by venture capitalists in 45 cases and by business angels in 116. The overall number of transactions amounted to 213, of which 64 in the field of venture capital and the remaining 149 in that of business angels.
- \* The early stage market recorded total investments of approximately € 71.2 mn. More in detail, € 50 mn were attributable to institutional investors while € 21.1 mn were attributable to business angels. The amount each institutional investor had invested in the target company was on average € 1.0 mn, while the average figure for business angels was € 183,000.
- \* Seed capital transactions made up 60% of the market while the rest were start-ups. Funds showed a greater propensity to invest in start-ups (53%), while business angels preferred using seed capital in 70% of cases.
- \* The ICT world attracted 31% of investors' preference. More in detail, web and mobile application initiatives distinguished themselves and represented 15% of the market. The industrial goods compartment accounted for 13% while the medical and health compartment followed with 10%.
- \* Among capital protection mechanisms, the most widely used instrument was the pre-emption right, which can be encountered in 54% of the articles of association of companies chaired by funds and 32% of those with angel investments. In fact, in venture capital there is greater recourse to the liquidation priority clause which is used in 55% of cases. The most prevalent exit clauses in the articles of association of participated companies were tag-along and drag-along rights, both preferred by the majority of venture capital funds who demand the inclusion of such clauses in the articles of association.

*The source of this data is the 2012 report prepared by Jonathan Donadonibus and Tomaso Marzotto Caotorta on behalf of Venture Capital Monitor, Italian Business Angels Network Association and the law firm Bird&Bird.*

of the caliber of BEI, the French Caisse de depots, Intesa Sanpaolo, Caixa portuguesa and Italian and foreign family offices.

He concluded: "We want to contribute to the creation of such a track record through this investment." In December,



“Fondo Italiano d'Investimento is a minority shareholder and wants to remain so,” Cappellini explained. He believes that the small numbers of investment operations by venture capital funds in Italy is due to the low level of institutional awareness and the absence of market players with a reasonably successful and established track record.

FII made a second move into venture capital, putting € 15 mn into Sofinnova Capital VII, a € 240 mn fund focused on bio-sciences. Sofinnova is one of the smartest venture capital initiatives in Europe with an abundance of success stories in its track record, like Novus-pharma, Creabilis Therapeutics and Eos. **L**