SCENT PADOVA
SCHOOL OF ENTREPRENEURSHIP

STARTUP INVESTORS MONITOR ITALY 2016

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Executive Summary

Considering the complexity of the technological and economic environments, the success of a startup is not determined only by its own abilities, but is the result of a great synergy between the company and the ecosystem in which it operates. In fact, during the different stages of its venture lifecycle, a startup needs the support of different kinds of partners to develop the necessary elements for its growth. Depending on the specific sector, a newco will needs different amount of money to start and expand its business. At the same time, according to the characteristics of the funding team, a strategic support will also be important as well as the development of a business network.

This report aims at studying the interactions between Italian startups and any kind of venture firms whose mission is to help innovative companies developing their business (i.e. venture capital funds, incubators/accelerators, angel investors' groups, ventures programs, government funding programs, associations, advisors etc.).

The research started from counting the number of agreements between startups and venture firms. Every startup appearing in a venture firm portfolio has been analyzed regardless of the year of foundation. From the data collection, it emerges that **83 venture firms were involved in 1,360 deals with 1,059 startups**. All the collected data are publicly available and were used to create a dataset.

Approximately 50% can be considered as venture capital firms, 32% can be classified as incubators-accelerators, 11% are represented by angel investor groups. More than 50% of the considered venture firms are based in Lombardy (almost exclusively in Milan) and about 37% were founded after 2012. Regarding the legal structure, 39% are incorporated as Joint Stock Company, 37% as Limited Liability Company and only 16% are classified as S.G.R. (i.e. *Società di Gestione del Risparmio*). The vast majority (i.e. 82%) invested in the startups in their portfolio and 39 firms manage at least one investment fund. In total, 58 investment funds were observed, accounting for a total of 2 billion EUR. More than 80% (863) of the 1,059 startups observed in at least one venture firms' portfolio, were involved in only one deal. It's important to notice that 563 startups are not in the special section of the Italian business register dedicated to innovative companies.

Padova, September 2016

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1. Introduction and methodology

This report aims at providing a picture of the already established relationships between startups and business supporting firms.

Every startup appearing in a venture firm portfolio has been analyzed regardless of the year of foundation.

The research considers every deal regardless of the year[1] in which they occurred. As a result this report gives to relevant stakeholders a comprehensive picture of the innovative startup investment phenomenon.

The research starts with the analysis of the number of venture firms and startups. For the analysis of the startup investments a sort of reverse-engineering approach was applied. Starting from a basic list of the Italian seed and venture capital investment firms, every portfolio was examined to create a dataset. On the startup side, we investigated the number of financing rounds to find out every other deal and co-investor firm.

Thanks to this iterative approach, new venture firms was added to the original list. Considering the deal as the unit for data acquisition, two databases were created: the first starts with every observed startup and includes all venture firms investing in the same startup. The second database starts with venture firms and includes all startups in the firm's portfolio.

Having found 83 venture firms, the analysis went further to investigate the profile of each one in depth. Every firm was classified in terms of the type of activity (incubator/ accelerator, business angel group, venture capital fund etc.). For every firm the year of foundation and the headquarters location were reported. The legal structures were classified, paying particular attention on the SGR firms (*Società di gestione del risparmio*). A clear distinction was made between companies that provide capital investments and other companies. The number of investment funds has been analyzed and the main sectors of interests for each investment firms.

After profiling the selected venture firms, the analysis was focused on their own portfolios, collecting the public available information about every startup involved in a valuation process. The number of startups and the number of deals were then examined. Considering the number of deals as a driver for the rating of a startup impact, this report provides decision makers a more accurate picture of the innovative startup phenomenon.

[1] *For a detailed description of the startup early stage investments per year, complete updated references are: "Venture Capital Monitor" and "Early stage in Italy" – AIFI, Associazione Italiana Private Equity e Venture Capital*

Definition of some terms used in this report

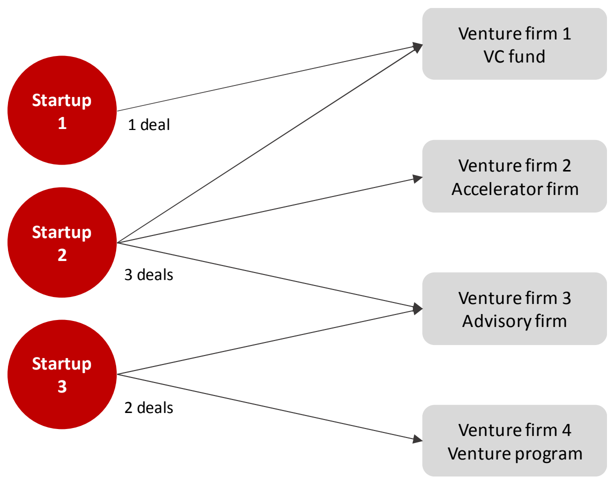
Considering the different stages in a venture lifecycle and the strategy, a startup has different options while looking for business support. In order to include every source of contribution in a single term, the expression "***venture firm***" is used in this report. Some examples are venture capital firms, incubators/accelerators, angel investor (groups), associations, government funding programs, advisory firms.

However, not every venture firm actually support a startup by making a real capital investment. For example, some firms should offer specific venture programs during which the selected startups would be able to access different kind of services (e.g. mentorship, operational support, business model tuning, strategic advisory, networking etc.). Therefore, the term "**deal**" will be used in this report to describe every single agreement between a startup and a venture firm which results in the presence of the startup in the venture firm portfolio.

As a result, this report provides a comprehensive picture of the **Italian venture firms activity**. More specific figures about every kind of venture firm could be obtained by simply filtering the collected data by firm type.

Figure 1.1 shows the methodology used for counting the number of deals. In the example *Startup 1* collaborated only with *Venture firm 1* resulting in only one deal. On the other hand, *Startup 2* was involved in 3 deals, appearing in 3 venture firm portfolios (a VC fund, an accelerator firm and an advisory firm). Finally, *Startup 3* was involved in 2 deals (with an advisory firm and within a venture program). In the example, the 6 agreements between startup and venture firms are considered as 6 different deals.

Figure 1.1 How deals are identified



2. Dataset description

Data sources

The research has considered only **public available information** i.e. every information disclosed by the analyzed venture firms and the startups in their portfolio. In order to check effective financial investments, public databases have been consulted.

Number of venture firms

In this report a total number of **83 venture firms** has been considered. In order to include a firm in the dataset, a previous check of its deals has been made. Thanks to this approach, every single agreement between startups and supporting firms has been considered. It must be noticed that in Italy there are 109 incubators/accelerators (38 are registered as “certified incubators”). The present work consider only incubators/ accelerators that provide financial and/or strategic support.

Startup involved in deals

One of the results of the Italian startup law (Decree-Law 179/2012, converted into the Law 221/2012) has been the creation of a special section in the Italian business register completely dedicated to innovative startups. The startup dataset considered in this report includes **5,145 firms registered up to December 31, 2015**.

In order to identify the startups taking part in at last one deal, the portfolio of every single venture firm has been analyzed in depth. As result **1,059 startups has been identified, that are in at least one venture firms portfolio.**

As reported in Figure 2.1, among the 1,059 selected startups, only 416 are registered in the special section of the business register dedicated to innovative startups. It follows that more than 60% of the startups mentioned are not included in the special section. This figure should be carefully investigated in order to assess the reasons for such a high percentage.

Figure 2.1 **Startups involved in deals and registered in the startup business register**

Number of deals

In this report the "*deal*" represents the driver for the data collection process. Using a deal as the unit of analysis allows to find every agreement between a startup and a venture firm. On the other hand, during its lifecycle a startup can collaborate with many venture firms (e.g. business angels, incubators/ accelerators, VCs), making the number of deals bigger than the number of companies. By analyzing every single venture firm portfolio, **1,360 deals** have been identified (i.e. among the 1,059 observed startups, the presence in a venture firm portfolio occurred 1,360 times).

1,360
deals

83
venture firms

1,059
startups involved in deals

3. Venture firms data

Venture firms classification

In this work, the concept of venture firm has been used in order to collect the data about every startup appearing in a venture portfolio. Every venture firm has been classified according to its most specific kind of activity.

More than 50% are venture capital firms having at least one fund used to finance startups in exchange for equity. Of these 34.9% are entirely private, 9.6% include some public governments and 6% are corporate VCs.

As regards incubators/accelerators, 22.9% are managed by private companies, 3.6% by universities and 6% are company incubators. **In total, 32.5% of the ventures firms can be classified as incubators/accelerators**. This kind of firms generally support startups in different ways, with mentoring, business plan consulting and/or financing. Sometimes, specific venture programs are organized to let companies taking a step forward, especially during their first period of life. This venture firms can also act as incubators at the same time, giving entrepreneurs a physical space where to work. As regards universities accelerators, they usually promote the technology transfer of research projects developed in the academic context, making easier the development of entrepreneurial skills among researchers. Some corporates (for example banks) also promote innovation in their operating sector, establishing ventures programs and competitions for the assignment of seed grants.

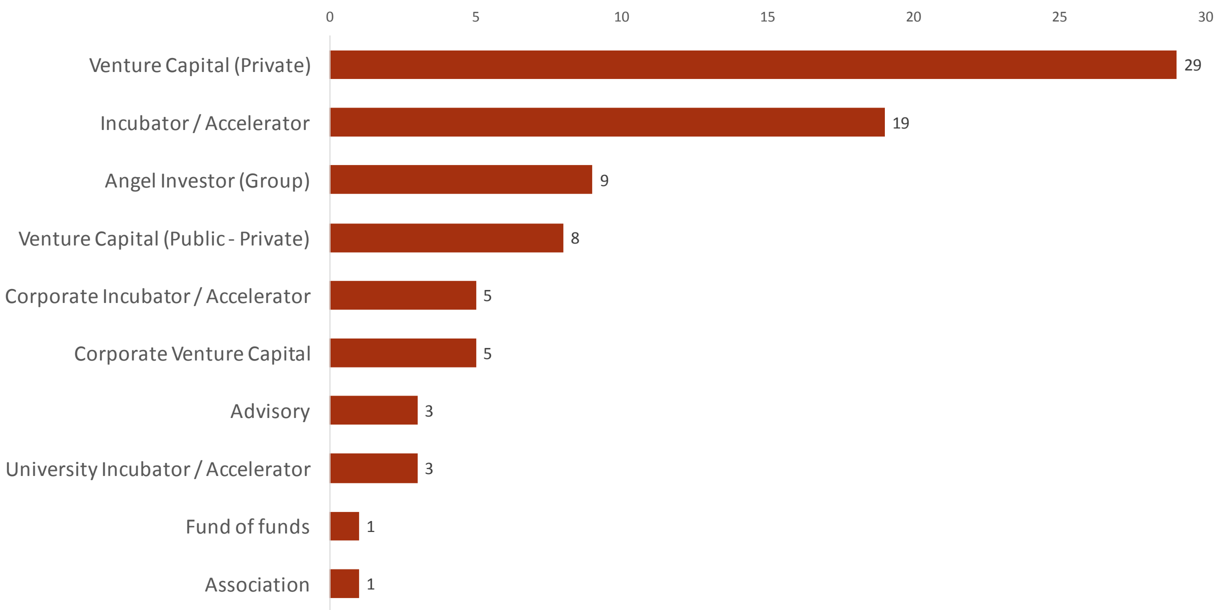
Especially for seed funding, an important financial source is represented by non institutional investors (i.e. business angels). In general, they can act as High Net Worth Individuals (HNWIs), selecting projects to invest on. These people can also create groups of investors to diversify financial risks. In this report, **nearly 11% of the ventures firms is represented by angel investor groups**.

For the sake of completeness, a few different venture players have been considered (an association, 4 advisory firms and a fund of funds). Even though they could not be directly involved in the startup financing process, they represent a selection filter.

Table 3.1 Investment firms classification

Type	Number of firms	Percentage
Venture Capital (Private)	29	34.9%
Venture Capital (Public - Private)	8	9.6%
Corporate Venture Capital	5	6.0%
Incubator / Accelerator	19	22.9%
University Incubator / Accelerator	3	3.6%
Corporate Incubator / Accelerator	5	6.0%
Angel Investor (Group)	9	10.8%
Association	1	1.2%
Fund of funds	1	1.2%
Advisory	3	3.6%
Total	**83**	**100.0%**

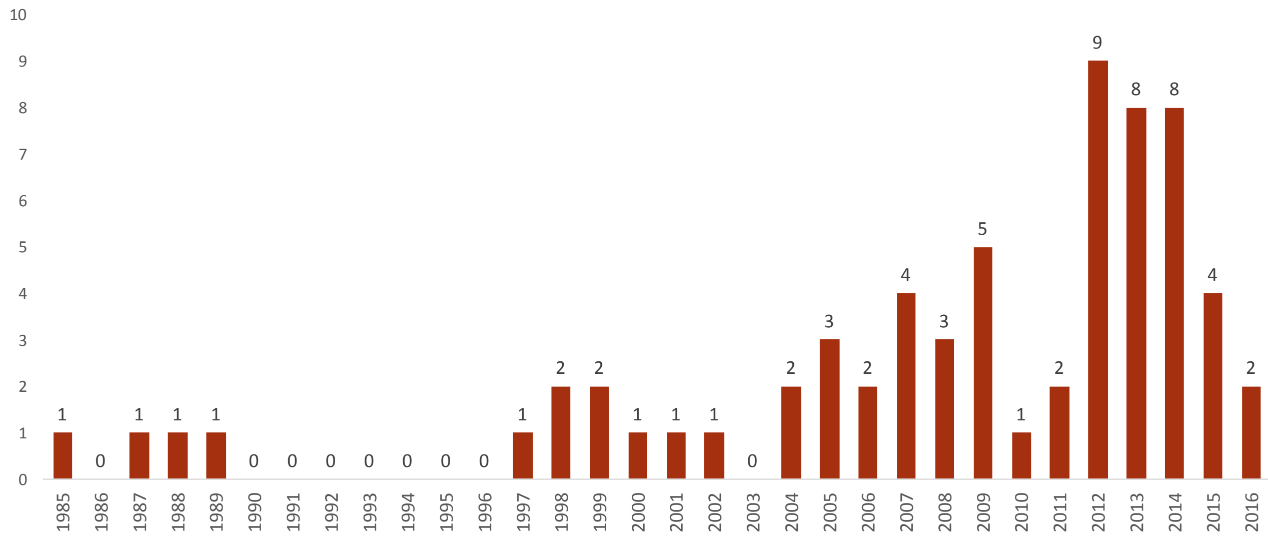
Figure 3.1 Venture firms classification



Year of foundation

For the selected venture firms, the available year of foundation has been considered. This information is available for 65 of the 83 considered venture firms. As represented in Figure 3.2, **an important increase in the number of firms can be observed starting from 2012**. This increase can be explained as one of the effects of the Italian startup law (active from December 2012). In fact, of the 65 available founding dates, 31 are after 2012. Even though in the last two years the momentum has significantly slowed down, it is important to notice that in 2016 two new firms have been established.

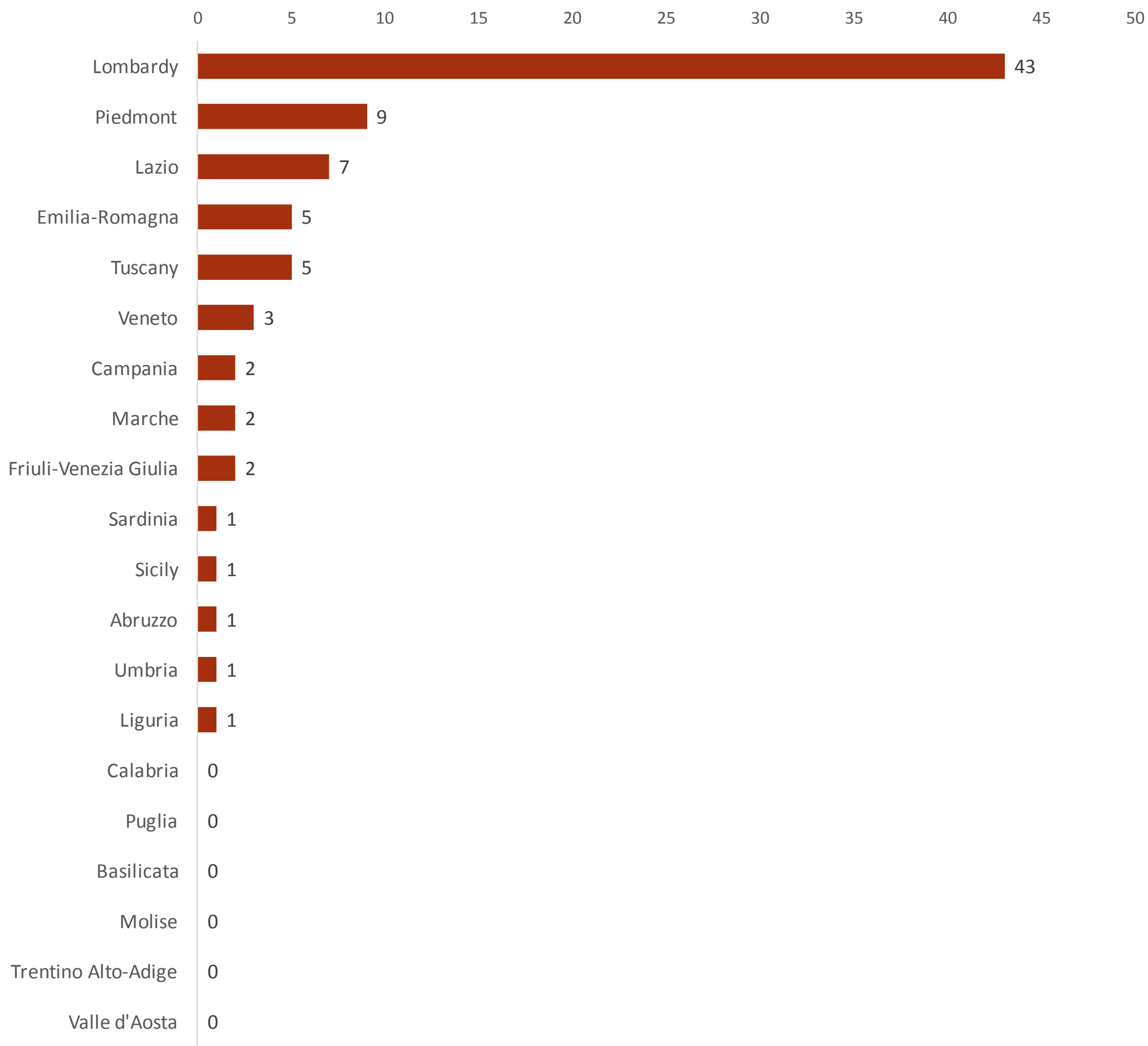
Figure 3.2 **Number of venture firms per year of foundation**



Geographical area

Considering the geographical distribution of the venture firms in Italy there is one major area attractive for investment firms. As presented in Figure 3.3, **more than 50% of the venture firms are based in Lombardy** and 40 out of 43 firms are located in the Milan area. The second highest density area in term of venture firms is Piedmont (9 firms), followed by Lazio (7 firms), Emilia Romagna (5 firms), Tuscany (5 firms) and Veneto (3 firms). Considering the geographical distribution of the startups registered in the special section of the business register, it can be noticed a clear correlation. Out of the 5,145 startups, 1,126 are based in Lombardy.

Figure 3.3 **Venture firms geographical distribution**



Investment sectors

Venture firms invest in innovative and emerging sectors with high growth potential. From the firms' portfolios it emerges that every firm invests in high technologies and in the digital field but with different focuses. Table 3.2 shows some of the sectors venture firms explicitly declare to be interested in. For the sector analysis, none of the existing classification criteria has been adopted. In fact, considering the disruptive technologies in which startups are involved, their activities would be mostly classified as generic ICT, not giving a precise information about their real sector of interest. For example, 3 firms declare to be active in agri-tech, 2 in blockchain, 4 in digital marketing communication, 6 in e-commerce, 9 in energy/clean-tech, 5 in fashion, 6 in fin-tech, 5 in food-tech, 16 in healthcare, 2 in impact investing, 6 in the internet of things, 2 in made in Italy products, 4 in retails, 5 in robotics/mechatronics, 3 in software as a service, 2 in sharing economy, 3 in travel-tech.

Even though quite every firm is interested in a wide range of sectors, there are some firms which are focused in only one area. In fact, there are 2 firms operating in healthcare only, 3 in fin-tech, 1 in impact investing, 1 in agri-tech and 1 exclusively in the "Made in Italy".

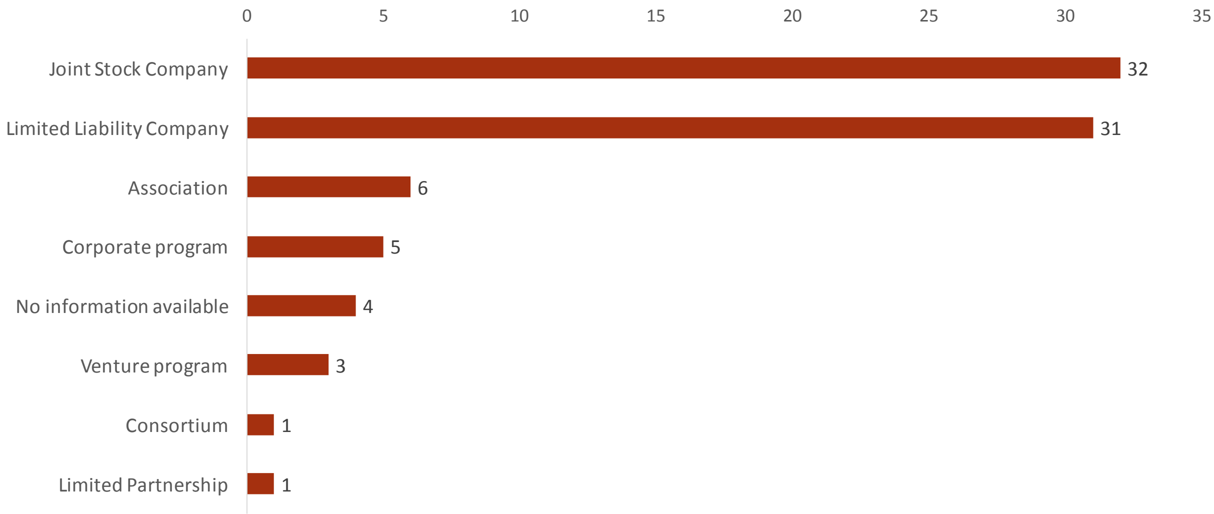
Table 3.2 Investment sectors

Sector of interest	Number of firms	Sector of interest	Number of firms
agri-tech	3	industrial	6
art	1	insurance tech	1
artificial intelligence	2	internet	5
b2b tech	1	internet of things	6
big data	2	made in Italy	2
blockchain	2	manufacturing	2
cosmetics	1	marketplaces	1
culture	1	media	4
design	3	mobile	7
digital	19	mobile gaming	1
digital fabrication	1	mobility	1
digital marketing comm.	4	music	1
domotics	2	new materials	1
e-commerce	6	productivity	1
education	2	retail	4
electronics	2	robotics / mechatronics	5
energy and clean-tech	9	SaaS	3
enterprise software	1	service company	1
fashion	5	sharing economy	2
fin-tech	6	software	3
food-tech	5	technology	23
fund of funds	2	travel-tech	3
healthcare	16	virtual / augmented reality	1
impact investing	2	web services	3

Legal structure

Among the selected firms, about **39% are incorporated as Joint Stock Company and 37% as Limited Liability Company**. Other firms act as association (7%), corporate programs (6%), ventures programs (4%) and consortia (1%).

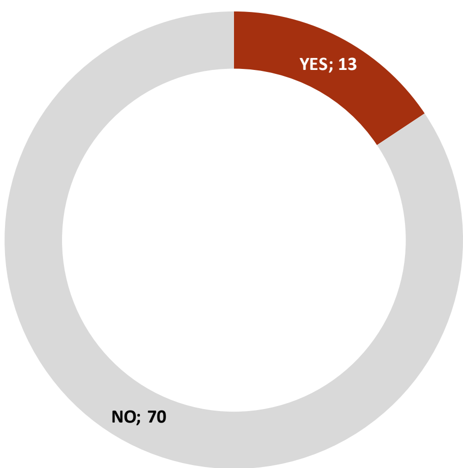
Figure 3.4 Venture firms legal structure



Number of SGR firms

Among the considered venture firms only **13 (i.e. 16%) are classified as S.G.R.** (i.e. *Società di Gestione del Risparmio*). This kind of firms have been allowed by *Banca d'Italia* to establish and/or manage mutual funds and provide financial advisory.

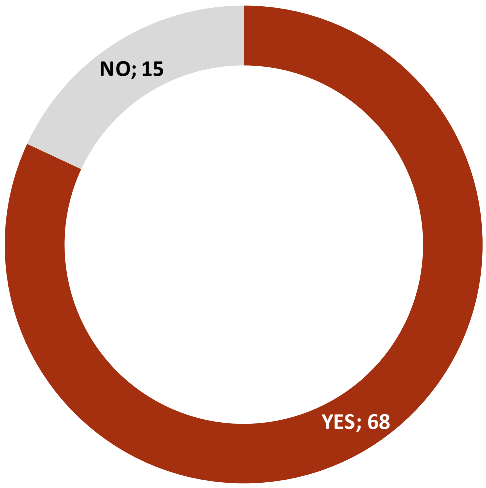
Figure 3.5 Number of SGR venture firms



Actual capital investment

Among the venture firms, **almost all (82%) made a capital investment in the startups**. The financial support occurs mainly in the forms of capital in exchange for equity, grants or valuable venture services. Only 15 venture firms don't appear in any financial deal. This kind of firms typically support companies by helping them structuring their seed project, providing mentorship and strategic support. As regards financing, they can scout investors firms, generally having access to a wide business network.

Figure 3.6 **Number of venture firms actually investing money**

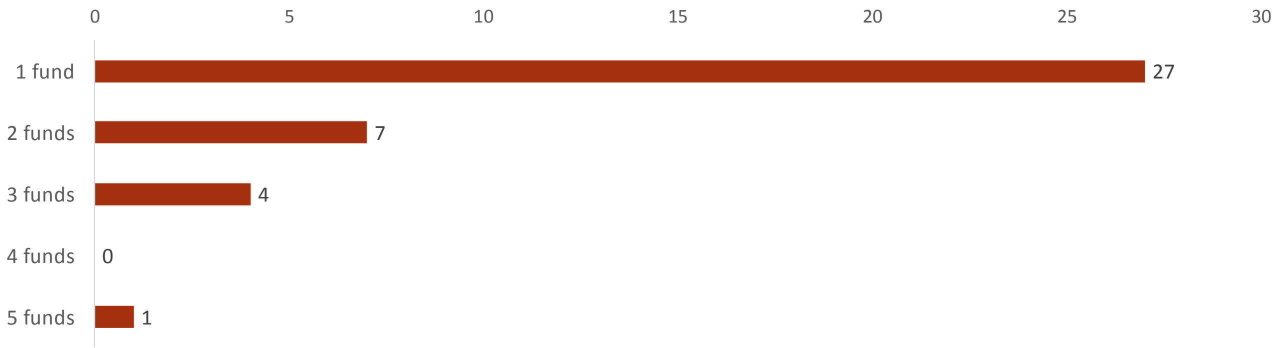


Number of investment funds

Among the 68 venture firms actually investing capital, only **39 manage one or more investment fund**. As shown in Figure 3.7, most of them (27) have only one fund, 7 firms manage 2 funds, 4 firms have 3 funds and only one firm manages 5 funds. Therefore, there are **58 funds** which can provide financial support to startups.

The total financial value of the 58 observed funds is equal to more than **2 billion EUR** (2,063,300,000 EUR).

Figure 3.7 Number of funds per venture firm



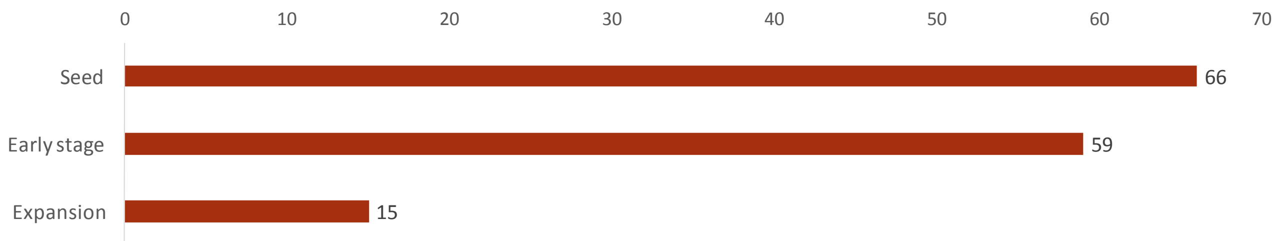
Ventures lifecycle

Considering the venture lifecycle and depending on the **stage** in which it is, a startup need different kind of financial supports to grow and succeed. Almost every firm which make capital investments are active in the seed stage (66) and in the early stage (59). On the other side, only 15 support a company also during the expansion stage, as shown in Figure 3.8.

Venture firms don't always disclose the **amount of money** they actually invest. On average, startups in the seed stage can usually rise 10,000-25,000 EUR by earning a grant or taking part in a ventures program. They can rise between 100,000 and 250,000 EUR from angel investors and up to 3 million EUR from VCs.

As regards the **exit stage**, the time passed since the first investment, the company valuation and the Return On Investments (ROI), at present, our data are not sufficient for a detailed analysis.

Figure 3.8 Number of firms investing in different venture lifecycle stages



4. Deals description

Number of deals per startup

Since a startup can be involved in more than one deal during its venture lifecycle, the simple analysis of every venture firms' portfolio is not enough to clearly understand the investment process. For every startup appearing in at last one portfolio, every agreement with other venture firms has been checked. Thanks to this approach, **1,360 deals have been observed, involving 1,059 startups**. The maximum number of deals a single startup had is 5.

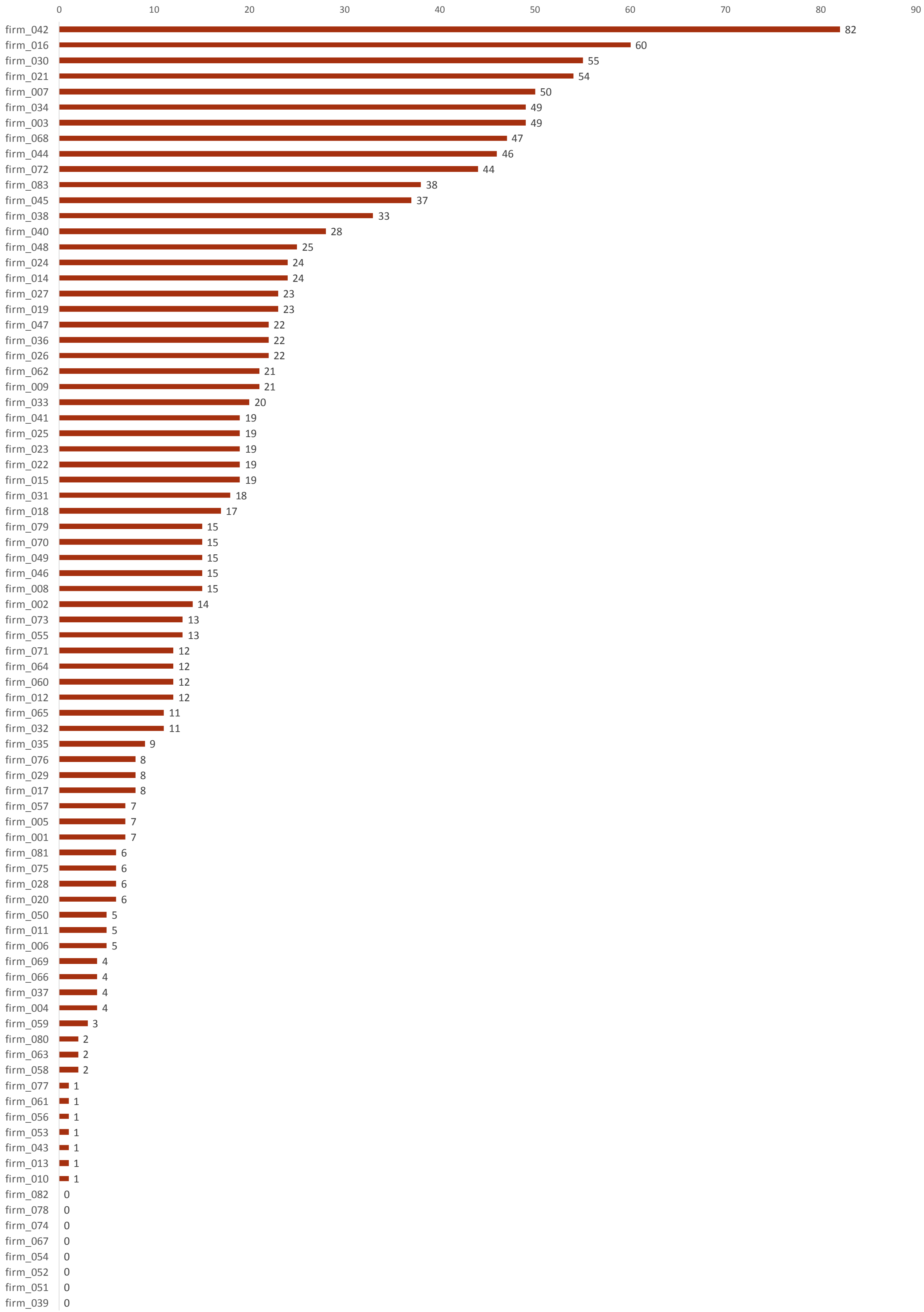
As previously shown in Figure 2.1, of the 1,059 startups which closed at last one deal, only 416 are registered in the startup special section of the Italian business register. As shown in Figure 4.1 most startups (863) had only one deal, 120 were involved in 2 deals, 53 in 3 deals, 17 in 4 deals and only 6 startups took part in 5 deals. From the distribution it is evident that the 643 startup not registered in the special section had almost only one deal (87%). The reason of this phenomenon deserves further analysis.

Figure 4.1 Number of deals per startup

Startups in venture portfolio

By investigating the portfolio of every venture firm, it was possible to create a dataset of the startups they had an agreement with. In Figure 4.2 every venture firm is univocally identified by an ID code. The numbers in the figure refer to the number of startups in the venture firm portfolio.

Figure 4.2 Number of startups every venture firm had a deal with



Conclusions

The results of this research want to be the starting point for a deeper analysis of the startup investment process. At the moment, the work has focused on the collection of the data about the business deals, the venture firms and the startups involved.

2,063,300,000	EUR managed by all investment funds
1,360	Deals
1,059	Startups in at least one venture firm portfolio
863	Startups involved in only one deal
120	Startups involved in two deals
83	Venture firms
66	Venture firms active in seed-stage investments
58	Investment funds
53	Startups involved in three deals
49	Venture firms founded after 2012
43	Venture firms in Lombardy
42	Venture capital firms
32	Joint Stock Companies
31	Limited Liability Companies
27	Incubators/accelerators
17	Startups involved in four deals
13	S.G.R Companies
9	Angel investor groups
6	Startups involved in five deals

Appendix

The School of Entrepreneurship (SCENT)

The School of Entrepreneurship (SCENT) was established in January 2014 with the mission to study and promote entrepreneurship and innovation. In order to reach his goal, SCENT dynamically operates at three different levels:

- Producing new knowledge on innovative startups and early stage entrepreneurship
- Developing education programs in technology-based and innovative entrepreneurship
- Creating a community to share entrepreneurial expertise

SCENT is active in research with The Global Entrepreneurship Monitor (GEM) Italy, the Italian Startup Monitor, the Startup Investors Monitor Italy, the Innovation and entrepreneurial ecosystems analysis.

SCENT is active in education with the SCENT Ventures Program a focused training course for the development of entrepreneurial skills.

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