

IFISE PROJECT – WP 5

**A QUESTIONNAIRE FOR THE ITALIAN
VENTURE CAPITAL AND PRIVATE EQUITY
PLAYERS**

OCTOBER 2001

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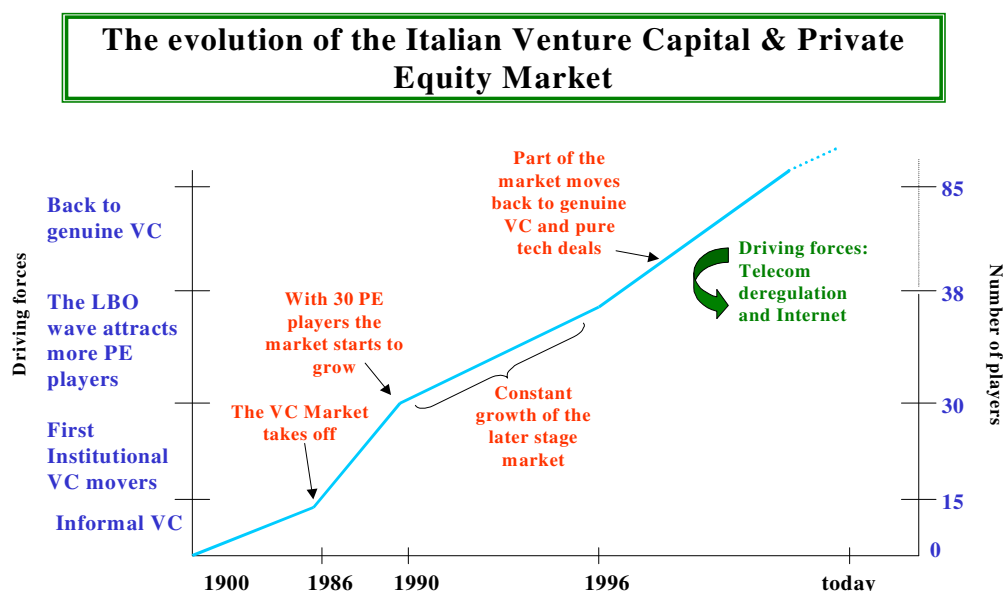
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THE ITALIAN VENTURE CAPITAL AND PRIVATE EQUITY INDUSTRY

1 HISTORY OF THE ITALIAN VENTURE CAPITAL AND EARLY STAGE INDUSTRY

The Italian venture capital market has overcome different waves of growth and specialization trends in the past 15 years. The market has notably been affected by the economic cycle and by some major facts that have influenced the whole economy as well.

Table 1: History of the Italian risk capital market



Source: A.I.F.I.

Table 1 shows how this evolution can be focused in specific periods. In particular, from 1900 till 1986 (almost a century) venture capital has been present in the country only in a form that we might call “Informal VC”. Important entrepreneurs contributed, by way of private investments, to the foundation of new companies. In the 70s though the capital needed to finance the growth of new and consolidated businesses was primarily coming from the bank system. Both the Capital Market and the risk capital were not broadly used by Italian entrepreneurs.

In 1986, year in which A.I.F.I. (Italian Venture Capital and Private Equity Association) was formed, 15 operators took off, starting to implement some pure venture capital investments. This first wave of Institutional risk capital players, decided to enter the Italian market also due to the great success that VC was having in the United States.

Italy, at that time, did not present the most favorable conditions for that kind of deals. As a consequence, those players had to go through a difficult period in which not all the investments had the expected success. In 1990 some 30 operators moved their focus on later stage investments, a much more fertile ground in Italy, where companies were more numerous and available.

From 1990 till 1996 the Italian market focused on private equity investments with a particular concentration on medium companies in need of development capital. The constant growth of this market really brought Italy into the European top 6 countries for later stage investments.

In 1998 the market has been influenced by two very important facts:

- the deregulation in the Telecom industry;
- the Internet.

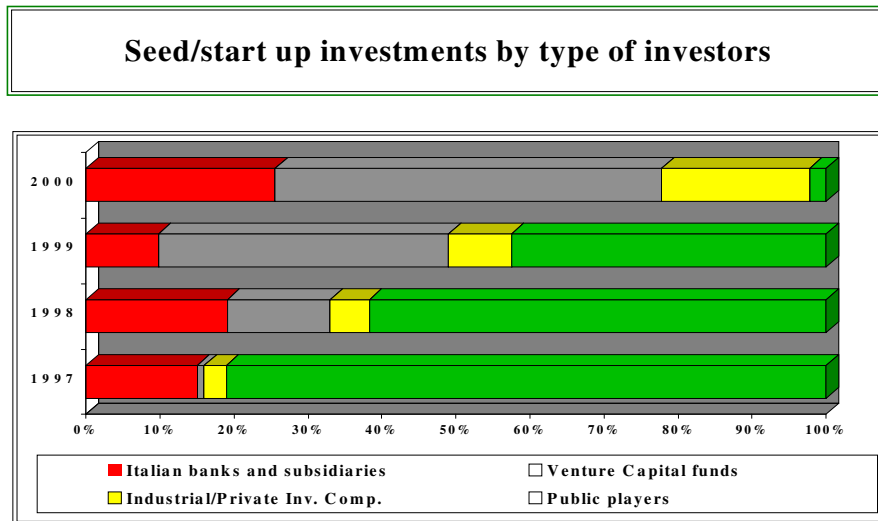
Both this events had the force to move part of the later stage players back into genuine venture capital investments and to establish the growth of brand new players. From 1996 till today there has been a 124% growth rate in the number of players which has passed from 38 to 85.

It is interesting to notice that the first semester 2001 data (see below) explain how this market today is young, in evolution and extremely dynamic.

1.1 THE EVOLUTION IN THE PLAYERS MATRIX

Besides the analysis carried out on the historical evolution of the market, it is necessary to fix the attention on the seed and start up segments that we might consider specific to genuine venture capital and, especially, to high tech deals.

Table 2: The evolution of the players matrix



A.I.F.I.

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Source: A.I.F.I.

As clearly shown in Table 2, it is possible to say that in the last five years, the players having an active role on the venture capital investments have changed a lot.

When in 1997 the market was not very much developed, those few start up deals were mainly carried out by public operators (public financial players or those linked to the cooperative system). As a matter of fact, the private sector considered it too risky and not attractive to invest in seed and start up investments. It is especially interesting to see how those players, that in other countries were the main actor in genuine venture capital – Venture Capital Funds – are almost completely absent in 1997.

As states above, in 1998 the telecommunication sector and the Internet brought in a new spur in venture capital deals, attracting capital, fund's managers and new players in the Italian market. The public players quota tends to diminish till it almost disappears in the

year 2000, while the Venture Capital Fund's stake of the market grows to absorb the greatest part of it.

In this context Italian Banks and their subsidiaries have an un-constant trend, capitalizing the best moments of the market almost following the example of the big advisory companies.

It is very important to highlight the growth of the private industrial players stake of the market. The growth, which is particularly sensitive in 2000, can be justified by both the advent of the privately owned incubators – often launched by important industrial groups ¹, that wanted to have an arm in the Internet – and of the first corporate venture capital players ².

What this trend means is that the Italian seed and start up market has gone through an incredible evolution that changed a lot the shapes of this industry. Today the market, even though still very young, is much more professional and aligned with the foreign experience.

1.2 THE MARKET IN 2000

The analysis of the Italian venture capital market, also for the year 2000, has been realised in collaboration with the Italian branch of *PriceWaterhouseCoopers – Transaction Services*.

2000 has been the fourth year in a row of great growth for the Italian venture capital and private equity industry, as the amount invested has overcome the 2,900 million Euro figure with an incredible growth rate of 66%. As a matter of fact, during the year about *Euro* 2,969 million were invested in 646 investments. In the mean time, the average unit value of transactions was *Euro* 4.6 million.

Such a consistent quantitative growth can be traced back to the remarkable increase of the operators' number in the last years (the AIFI full members have passed from 34 in 1996, to 85 at the end of '00), many of which have started operating during 1998.

Subdividing the investments undertaken in 2000 by stage, in terms of amount invested, the last year figures have been slightly changed, being the buy outs still the most consistent investment category undertaken, followed by expansion capital, but with the seed and start up very close to the expansion capital and a lot above replacement. If we consider the classification by number, the seed/start up figure is still first – if compared

¹ As for E-archimede (supported by HDP), Cirlab! (supported by Cir) and E-nutrix (supported by Merloni).

² As, for example, Enel Capital and Telecom Italia Lab.

with 1999, with 339 (153 in '99) investments corresponding to 244 new companies (130 in '99).

For what concerns the geographical distribution, 75% of investments (by number) were made in Italy and, the greatest part of them, were concentrated in the northern regions (73% of the total, against a 18% in the Centre and 9% in the South). The South of Italy is still loosing ground as in 1999 it attracted 14% of the investments, by number. It is particularly interesting to make a sort of parallel analysis between 3 important regions respectively representative of the North – Lombardia – of the Center – Emilia Romagna – and of the South – Sicily, for what concerns high tech deals (See Box 1).

Box 1: High Tech deals, a comparison between the North, the Centre and the South of Italy (amounts in Euro/000)

Table 3: Sectoral distribution of the high tech deals in Lombardia, Emilia Romagna and Sicilia

	Emilia Romagna		Lombardia		Sicilia		Total	
	Num Inv.	Inv Am	Num Inv.	Inv Am	Num Inv.	Inv Am	Num Inv.	Inv Am
Biotech	-	-	4	11.155	-	-	4	11.155
Computer	2	6.800	48	90.107	-	-	50	96.907
Consumer	-	-	1	62	-	-	1	62
Electronics	-	-	1	4.180	-	-	1	4.180
Energy	-	-	1	2.500	-	-	1	2.500
Fin. Serv.	-	-	2	5.355	-	-	2	5.355
Ind. Autom.	-	-	1	2.000	-	-	1	2.000
Internet	3	1.512	39	78.942	-	-	42	80.454
Telecom. HD	3	7.124	3	62.490	-	-	6	69.614
Services	1	19	2	2.000	-	-	3	2.019
Telecom	21	10.420	21	101.509	3	5.611	45	117.540
Manuf.	-	-	1	258	-	-	1	258
Medical Eqp.	-	-	1	2.066	-	-	1	2.066
Other	-	-	6	20.937	-	-	6	20.937
Total	30	25.875	131	383.561	3	5.611	164	415.047

Source: A.I.F.I.

Table 4: Seed/Start up deals in Lombardia, Emilia Romagna and Sicilia

		Seed/Start up high tech
Emilia Romagna	Num Inv.	29
	Inv Am	20.875
Lombardia	Num Inv.	98
	Inv Am	208.363
Sicilia	Num Inv.	3
	Inv Am	5.611
Total Number		130
Total Amount		234.849

Source: A.I.F.I.

The tables above clearly indicate that Lombardia, one of the most industrialised regions of Europe, is much more ahead if compared with the other two regions. It is particularly depressing to notice how Sicily only has 3 investments in one of the most active sectors of the Italian high tech industry.

Emilia Romagna, even if it represents one of the most entrepreneurial Italian regions, is not too strong in the high tech sectors. Both the centre and the south of Italy need some kind of intervention to follow the “northern tractor”.

Regarding the sectorial distribution of investments, it is important to underline the even more surprising growth of the operations made on high tech firms. Even though the amount invested in the traditional sectors remained quite high (77%), the amount invested in high tech has known a sharp growth from the 11% of 1998 and the last year 18% to the 22,7% of 2000, reaching the 672 million *Euro* threshold (in 1999 this figure was equal to 325 million *Euro*). The amount invested in high tech has spotted a +100% if compared with the previous year. This was mainly due to a consolidation of the investors specialised in this business area, borne in 1998 and continuously expanding in 1999 and 2000. If we separately analyse the distribution of the amount invested in the high tech sectors it is possible to highlight a predominance of the *Telecommunications industry* (*Telecom hardware, carriers and Communication: 35%*), followed by *Computer (25%)* and the *Internet (17%)*. It is important to highlight that the Internet entered our statistics only in 1999 when it represented 14% of the total high tech investments.

Table 5: 2000 – Stage distribution of investments

	Amount (Euro Mln)	%	Number	%	Number of Com.	%
Seed	132	4.4%	87	13.5%	69	14.1%
Start-up	408	13.7%	252	39.0%	175	35.7%
Expansion	966	32.6%	235	36.4%	197	40.2%
Replacement	99	3.3%	19	2.9%	16	3.3%
Buy out	1.363	45.9%	53	8.2%	33	6.7%
Total	2.968	100.0%	646	100.0%	490	100.0%

Source: AIFI-PWC

Looking at the stage distribution of investments by classification of investors, the leaders of the start up category were the international investors, as well as in the buy out category. A better distribution could be found for the transaction of expansion

financing, where the largest section of the market can be attributed to the Italian banks and their subsidiaries, closely followed by the Italian closed-end funds.

1.3 A FOCUS ON SEED AND START UP INVESTMENTS

Seed and start up investments in Italy have started to represent a consistent investment category starting from 1998, year in which the Internet and the Telecommunication sectors started to attract also foreign capital.

If 1998 and 1999 were two years characterized by a sort of start up year for this part of the risk capital industry, 2000 really showed a boost into this kind of investment. In 2000 about 540 *Euro* million were invested into 339 investments, corresponding to 244 new companies. Most of this companies were high tech and, mainly concentrated in Telecom, computer and Internet.

Table 6: 1996/2000 – Seed and start up investments evolution

	Amount (Euro Mln)	Number	Number of Com.
1996	46	56	n.a.
1997	73	93	89
1998	147	94	83
1999	147	153	130
2000	540	339	244
Total	953	735	546

Table 7 clearly shows the destination of seed and start up capital by industry. As shown below, the Internet surely represent a leading sector, together with the pure telecom sector.

If we consider that the Internet and Telecom together make almost a double figure, if compared with the 1999's invested amount, we can clearly identify a real boost into seed and start up investments in the year 2000.

The same kind of observations can be made over those sectors that are not affected by a positive venture capital attraction. The medical sector, in particular, is very depressed, both in terms of amount invested and in terms of number of investments. Together with the medical equipment sector, Biotech companies are not very much characterised by an abundant venture capital intervention.

Table 7: 2000 – Seed and start up investments sectoral distribution

	Amount <i>(Euro Mln)</i>	Number
Agriculture	1.5	4
Biotech	11.1	5
Chemical	2.1	3
Computer	67.7	61
Construction	0.52	1
Consumer goods	37.7	10
Energy	2.6	1
Financial Services	29.7	20
Industrial products	0.66	3
Internet	108.1	73
Telecom HW	31.7	12
Telecommunication	138.0	76
Services	69.6	37
Manufact.	0.28	2
Medical Eqp.	15.4	11
Other	23.1	20
Total	539.7	339

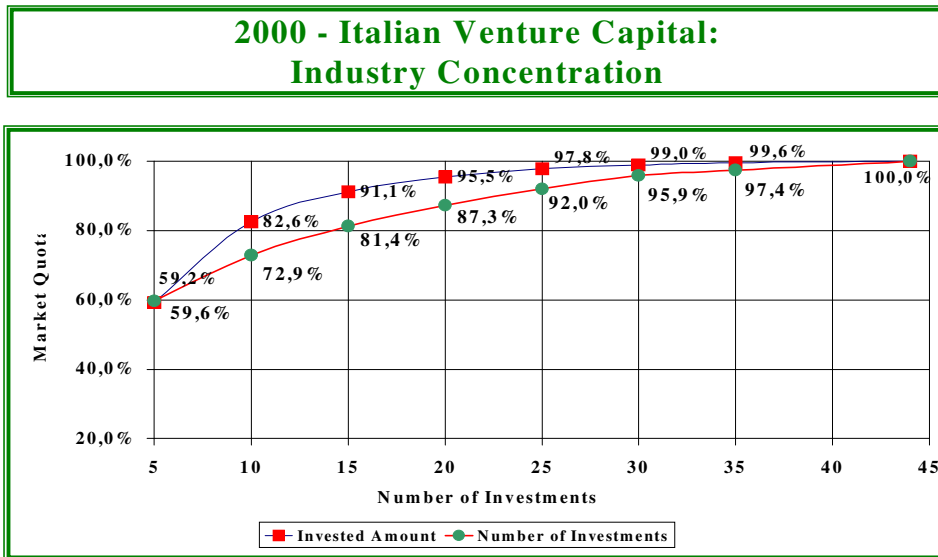
What this may mean, is that this new venture capital era has still a long way to go. We can consider it a real start up phase in the Italian risk capital scenario.

An other important data that it is necessary to be kept in mind, to better define this evolution, is the concentration index in the venture capital industry (venture capital is the sum of seed and start up investments).

Taking into consideration the concentration index, the first five players, in terms of invested amount, of the market aggregate the 59.2% of the entire market shares, while if we consider the first 6 operators, they make the 66,2% of the market (Table 8). What this means is that only a few operators make the biggest part of the market, concentrating those competences that are strictly connected with this kind of operations.

Surely this is not a very positive data, cause what it means is that the market is not spreading to affect other funds, reducing the development capacity of the entire market.

Table 8: 2000 – The Venture Capital Concentration Index



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In terms of number of investments, the data are not too different. 87.3% of the market is taken by the first 20 players.

1.4 THE MARKET IN THE FIRST HALF OF 2001

The exceptional growth trends that have affected the Italian risk capital market in 2000, have badly been arrested in the first semester of 2001. The traditional analysis made by A.I.F.I. (Italian Private Equity and Venture Capital Association), in co-operation with PricewaterhouseCoopers – Transaction Services, shows that from the 1st of January till the 30th of June of this year the institutional investors active in Italy have made investments for an amount equal to 674 *Euro* million, distributed over 295 operations, and on 256 companies. If compared with the first semester of 2000 this means that the invested amount is lower of 49%, while the operations made appear to be constant (+2%).

The investment category that has attracted greatly the operators attention is the expansion capital (51% of the total invested amount) followed by seed and start up operations (31%), with the buy outs that, on the contrary of the expectations, only attract 12% of the total invested amount. In terms of invested amount, in fact, expansion capital was equal to 345 *Euro* million, seed and start up 209 *Euro* million, and buy out “only” 83. If we observe the number of investments, start ups were more numerous (160), followed by expansion (115) and buy out (12).

High-tech investments, have been 47% of the total financed companies in terms of invested amount. On the contrary in the first semester 2000 the amount invested in high tech was only equal to 18% of total investments, while, in terms of number it was equal to 45%. This growth of the high tech investments appears to be in net contrast with the sector trend as a all. What this may mean is that in the first six months of 2001 there have been numerous follow up investments over deals closed in 2000. Secondly, the opposite trend of pure venture capital deals indicates that this segment of the market has an independent solid structure, made of extremely qualified operators.

An other interesting data to highlight is the progressive fall of the write offs. The closing of companies financed with venture capital has reduced of a percentage equal to 30%. This should be interpreted as a very positive sign, especially for what concerns the percentage success of the technological companies.

In conclusion, the most consequences of the above exposed analysis is that to a slow down of the entire market, corresponds an important consolidation of the high tech investments. Surely, this first stop of the Italian venture capital market is perfectly aligned with what is happening in the rest of Europe and with what had happened in the USA starting from the last quarter of 2000.

Even if the venture capital market appears to be highly cyclical, it is not foreseeable a growth in the second semester. The year 2001 will be a recessive year also for venture capital.

2 INTRODUCTION: METHODOLOGY AND CRITERIA OF THE RESEARCH

The research carried out by A.I.F.I. in the period June – September 2001 had a double purpose: first, to interview some venture capitalists, actually operating in Italy; second to analyse the most important problems that venture capitalist generally engage during their activity.

The sample is composed by venture capitalist that invest principally in start up with focus on high tech sectors. It is made up by 21 investors³ that represent 80% of the market in terms of amount invested and 70% in terms of the number of operations during 2000.

A simple questionnaire (see Annex 1) was used in order to conduct the research. The questionnaire has been filled on the basis of the response given by the most important venture capitalist in order to examine some key points considered remarkable for the survey.

Second step, data has been pooled and processed in order to define the most relevant figures of the current venture capital market in Italy.

The questionnaire has been structured in sections made up by qualitative questions: the first part analyse the problems connected with the institutional and normative system in Italy, to have a better understanding of venture capitalists perceptions on the Italian financial context, with a particular focus on the high tech start ups.

The second part tries to point out the most important problems in the Italian institutional context that led to obstacle the investments in start up high tech.

Finally, the last section has been structured in order to identify the possible solutions for the creation of a favourable institutional context that can help venture capitalists to invest in start up high tech.

³ The target of the research is represented by these companies: 3i, Accenture, Alice Ventures, Apax partners, BPCI e-business, Cirlab, Enel Capital, Fintech, Iban, Iritech, Livolsi, Mycube, NHS, Pino venture, Private Equity partners, Quadrivio, Sofipa, Speed Egg, Speed Ventures, Web Equity, One To One.

2.1 THE INSTITUTIONAL CONTEXT

The first part of the questionnaire tries to underline the venture capitalists perceptions of Institutional context.

In particular it's interesting to notice that 61% of venture capitalists felt not completely satisfied of the actual institutional context; the remaining 38% is equally divided between a total satisfaction (19%) and a total un-satisfaction (19%).

Table 9: Valuation of the institutional context

	%
Completely satisfied	0,0%
Satisfied	19,0%
Not completely satisfied	61,9%
Unsatisfied	19,0%
No opinion	0,0%

Though venture capitalist are not totally satisfied of the institutional context , there isn't a total un-satisfaction especially for what concern high tech investments.

The Italian venture capital and private equity market, started in 1986, is still too young and although it is in line with institutional changes and with the different input provided by the enterprise market , there are a lot of problems that must be solved.

Nowadays, there the number of investors is increasing and the market is becoming more specialised; all these variables contribute to make the Italian market closer to the other European countries in terms of competitiveness.

There is the necessity to have a more simple institutional context that pay attention to the venture capitalists requirements, in particular for seed and start up operations.

Today a great contribution has been given to the Italian system by a better normative context, by the evolution of the entrepreneurial environment, more favourable for the risk capital and also by the Italian stock exchange that launched in 1999 the Nuovo Mercato and in 2001 the Star segment.

The existence of the Nuovo Mercato and also of the new Star segment constitutes a further incentive for institutional investors hold interest in particular category of issuers. Then the progressive segmentation of the stock market, allows a smoother meeting point between supply and demand, makes listing more attractive for enterprise and, in the same way, facilitate the way out for venture capitalist that have invested in their growth through contribution of financial and managerial resources.

The Government pays more attention to private equity and venture capital market, promoting tax and legal reforms and changing Investment instruments rules.

A lot of importance is given to the Research Centre activity as the most relevant player in developing innovative firms.

2.2 THE MAIN BARRIERS OF THE INSTITUTIONAL SYSTEM

By the analysis of the most important problems referring to the Italian institutional context, that make the Italian venture capital market more difficult to develop, Bureaucratic barriers are considered as the biggest obstacle to the enterprise creation.

Bureaucracy is considered by 57,1% of venture capitalists as the biggest problem in the same way as the absence of fiscal incentives (42,9%).

The fiscal barriers (23,8%) seems to be another relevant discouraging matter for the development of the start up activity.

Only 9,5% of the venture capitalists interviewed have not found particular problems during their activity.

Table 10: The main barriers to a more flexible and satisfactory financial environment

	%
Fiscal barriers	23,8%
Bureaucratic barriers	57,1%
Political barriers	0,0%
Absence of specific incentives	42,9%
None of the above	9,5%

Focusing the analysis on the burocratical problems, that enterprises and specially venture capitalists had to face during their activities, it is necessary to underline that, during last years, a lot of progresses in terms of simplification of the burocratical practices has been made.

As a matter of fact, the number of the authorisation and registration procedures needed for the enterprise creation, has been simplified, decreasing from 11 to 6 for the individual enterprise and from 21 to 11 for the commercial enterprise.

Although progresses has been made, as said before, Italy is behindhand in comparison with the other industrial European country.

Following these considerations it is necessary to reduce and to simplify the “Company Laws”, especially those referring to the enterprise early stage.

In this way the new enterprise will be able to use resources, in particular during the first stage, for the structural development rather than in legal and accounting expenses. The great number of bureaucratic procedures that enterprises are obliged to undergo in order to establish a new company has contributed to create a perceivable distance of the institutional investors from the market.

It seems to be necessary to simplify the burocratical procedures but, above all, it is necessary to stimulate more collaboration and communication between investors and entrepreneurs.

Referring to cultural problems, entrepreneurs and sometimes also investors must be informed about laws and procedures required for starting an enterprise.

It's to be expected that, in future, specific fiscal incentives should be granted to enterprise and to investors.

These simple solutions would represent a big support to the system development, and to the entrepreneurs creation.

In particular, a more favourable fiscal context and a simplification in accounting procedures would reduce risks and would facilitate investors in starting a new activity, in particular venture capitalists that invest in enterprise based on new technology.

2.3 THE ITALIAN NORMATIVE AND INSTITUTIONAL CONTEXT WITH FOCUS ON HIGH TECH SECTORS

The high tech sector is undergoing a period of consolidation and reorganisation, after several new regulation reforms, introduced over the recent years.

Nowadays the market includes a composite universe of players many of which are specialised in high technology sectors.

Although legal and fiscal reforms have been made, 55% of venture capitalists thinks that the normative context is not totally favourable to high tech investments, 40% thinks that it is unfavourable and only 5% considers the system completely satisfactory.

Table 11: The perception of the Italian financial scenario concerning high tech investments

	%
Completely favourable	0,0%
favourable	5,0%
Not completely favourable	55,0%
Unfavourable	40,0%
No opinion	0,0%

There are many different reasons that can explain the delay of the institutional context in Italy, some cultural as the small capital amount committed by enterprises in research and development activities and the absence of dialog between university, venture capital and enterprises; another institutional problem is due to the absence of public incentives and of a public Incubation system.

These problems have been discussed in details in the following paragraph.

2.4 THE MOST IMPORTANT PROBLEMS THAT OBSTACLE HIGH TECH INVESTMENTS

The most important problems that venture capitalist face in the day by day activity has been analysed in the second section of the questionnaire.

This analysis is focused on seed and start up investments in the high tech sectors.

The absence of dialog between venture capitalist, enterprises and university represent for 52,4% of venture capitalists the most important difficulty that prevent the development of the high tech investments in Italy.

Relevance, is given by the interviewed to the absence of public incentives (4,9%), to the inadequacy of a public Incubation system (19%) and to the lack of specific knowledge of the investors in order to value high tech investments potentiality. Finally the high risk connected to the high tech early stage investments, is considered by 4,8% of investors as a problem.

It is important to point out that 14,3% of the venture capitalist interviewed have not faced problems during their activity.

Table 12: The main barriers to favour the development of high tech Investment market

	%
Absence of a useful dialog between finance, enterprise and research centres	52,4%
Absence of a structured public incubation system	19,0%
Absence of internal competencies to evaluate high tech investments	9,5%
High risk perception	4,8%
Absence of public incentives specifically destined to lower risk perception	42,9%
None of the above	14,3%

This fact testifies that important progresses have been done, during last years, in the venture capital and private equity market.

The first problem mentioned by venture capitalists, as said previously, is the absence of dialog between venture capitalist, enterprises and university.

This absence of dialog has created a “gap” of knowledge between financial institution and university.

Nowadays the Government is trying to give more attention to scientific research in order to create more entrepreneurship, but this big problem of communication, seems to be a great impediment. Due to the fact that Venture capitalists and Researcher have different objectives to perform (i.e. economic returns, for Venture capitalist and academic results for researchers) they find it difficult to communicate and to co-ordinate their activities and this create a problem of business ideas valuation.

The previous normative and institutional system has not facilitated the researcher mobility from the university to the enterprise and vice versa, and this situation has contributed to increase this gap during the time.

It is important to underline that both researchers and professor that want to create an enterprise, using their technological skills, would be strongly discouraged from bureaucratic fulfilment.

In Italy, the uncertainty of the attribution of the scientific discovery property represents a big obstacle to set up a new business.

Patents in Italy are too much expensive, in terms of bureaucratic fulfilment and; secondly the distance between financial system and university makes it more difficult to raise money to invest in new business ideas.

Concerning the absence of public incentives, venture capitalists interviewed, underlined that this problem is important especially in the seed and start up investments, where the risk is sometimes too high.

Referring to the absence of public support, venture capitalists have underlined that this problem is relevant especially for seed and start up investments. It would be helpful that the public sector may promote innovative enterprises, using money in order to develop investments in depressed areas as, for example, the South Italy.

Public incentives may also be used in co-investment with private players to promote small venture capital funds, with regional focus, that invest in start up.

The public players presence would allow venture capital to reduce risks connected to the stage of investments.

Concerning public financial instruments, in Italy there is a lack of public non-profit incubators financed by regional and government funds, promoting entrepreneurship in depressed areas, with an high rate of unemployment.

It would be a public responsibility to promote such an instrument to support venture capitalist in identifying and assessing investments.

Nevertheless, public sector is going to play a more active role trying to focus on investments targeted to the high t tech sectors and start up stage, generally not considered by private sector due to an high default risk.

Risk and investment assessment activity involves the presence of professional team made up by researchers and investors.

Investments in new and technology based firms must be carried out by a pool of financial institutions (Venture Capital Funds) and by a informal business angels network and incubators.

2.5 SPECIFIC POLICIES FOR HIGH TECH INVESTMENTS

Most of the interviewed investors (90%) share the idea that there are some policies to be adopted in order to support investments in the high tech sectors in Italy.

All the operators interviewed agree that the reform of the bankruptcy and Company Law is an issue of great interest and importance for the whole private equity and venture capital industry.

Problems linked to the bankruptcy and Company Law are the first priority needing a quick solution.

As a matter of fact, an enterprise bankrupt involves in a lot of legal procedures that constitute an obstacle for the new economy development.

In particular this problem is relevant for start up venture capital investing, that are the most risky financing stage in venture capital activity.

Another very important issued highlighted by most of the investors is bounded to civil board liability.

Start up companies generally needs small amount of capital in order to allow the new entrepreneur to set up a new business and to acquire the majority stake of the company. Generally, venture capital investors need to get a relevant role in the board of directors to control the performance and contribute to the most relevant strategic choices of the enterprise.

There are some solutions, promoted by venture capitalist during the interviews, to promote start up high tech investments.

The creation of small venture capital funds, reserved to institutional investors, and predestined to invest in high technology enterprises and university spin off.

Small venture capital funds may be one also of the possible solution to promote close end funds in Italy and to encourage technological Innovation.

At the same time another important vehicle is going to be introduced as the Fund of Fund.

The Fund of Fund is also a co-Investment Fund with a geographical specialisation that invest in specific sectors.

The target of the Fund of Fund investments are Fund promoted by universities, research centres, private consortium and venture capitalist.

2.6 THE BUSINESS IDEA SELECTION PROCESS

One of the most important problems of the high tech start up activity is linked with the valuation of the business idea.

Referring to the sectoral investments distribution, there is a concentration in sectors as Telecom, Internet Related rather than biotechnology and others.

The problem concerning the business idea valuation is very complex and difficult, especially if we consider that the analysis is referring to young enterprise or to technological innovation (very often they are only simple business ideas).

Venture capitalists generally base their analysis on prospective cash flow and on the enterprise capacity to generate return on investment.

Concerning the investment selection process, technological Audit is carried on for 62% by a local Team, for 48% by specialised consultants, while the remaining 29% by “head office”.

Table 14: Tecnological Audit

	%
Local Team	62%
Specialised consultants	48%
Head office	29%

In Italy there is a lack of professional assessment skills to evaluate business ideas, especially in some sectors, for three main reasons:

1. lack of specific know how in emerging sectors;
2. risk aversion;
3. market cultural problems.

Technological assessment of an innovation needs either financial and managerial skills and also a feasibility analysis ex ante and in itinere.

In Italy, the shortage of ad hoc structures for Technological Audit represents a barrier for entrepreneurship creation.

In more developed markets this role is played by specialised venture capitalists or incubators making the first project screening, offering a series of business projects already evaluated by a technological point of view.

2.7 INVESTMENT AREAS

Talking about the investment localisation, from the research it appears that the greatest part of the investment opportunity is concentrated in the north of Italy.

81% of investments opportunities came from Lombardy, followed by 38,1% from Emilia Romagna while only 9.5% of investments comes from Sicily.

There are not particular reasons for the investments lack in some areas and in particular in the South of Italy.

The shortage of investments is mainly due to the low physical presence of operators in those areas and to the lack of significant and interesting investment opportunities from the South. The reason is probably connected to the shortage of Research Centre that promote entrepreneurship culture and to the presence of infra-structural barriers.

Most of venture capitalists have behind little and circumscribed structures in the Lombardy, only few of them and mainly those of foreign printing, have also offices located in other regions of Italy.

The investments monitoring is becoming more difficult due to the lack of the effective presence of operators in some areas; for these reasons they generally prefer to invest where they have their steady offices or in place easily reachable.

The essence of a market is, in fact, determined by the existence of different actors that determine request and offer. The reasons of the low development of venture capital in

Italy, and in particular in the South, are different but the lack of interaction between capital request and offer is surely one of the principal. If the theory that “in the out coming markets is the offer that creates the request”, in Italy the projects offer is unable to find capital offer and, in the same way, the capital offer is only turned to those sectors or those markets that are not considered less developed and anti-economics.

This typical “vicious circle”, as already mentioned above, of coming out markets is braked when some operators begin to move and to focalise their attention towards new markets. In general the investors prefer to invest in foreign countries in developed markets not only because the have fixed offices but also because, in this way, they receive more security on the investment and a greatest return on image on the market.

Finally, 90% of interviewed have not invested in enterprise that have received public financing. Not great importance is given to this fact, because it is not considered as a

CONCLUSIONS

The Italian Private Equity and Venture Capital market has seen a big change and a tremendous evolution in the past years. This industry is very young if compared with the most developed anglo-saxon countries. It is only 15 years that risk capital is Institutionally traded in Italy. In this period there have been many different waves that have especially concerned the pure venture capital investments.

Italy is one of those countries where SMEs represent the real strength of the economy. This justifies the great success that private equity has known, having a great availability of ‘raw material’ to work on.

Unfortunately, till today, there has not been any Research Centre, or University, that has created that special environment to fertilize an area and produce many high tech start ups, as it happened in the United States with the Stanford University, or in Israel with the Weizman Institute. Some moves are starting right in these late years, also due to the hard work of the Institutions somehow linked with entrepreneurship, technology and venture capital. It is now a fact that institutional venture capital might really represent a driving force into entrepreneurship and technological development.

What is sure is that the venture capital market in Italy is highly dynamic and continuously growing, especially for what concerns seed and start up deals. Till 5 years ago seed capital was just an American word to define a very strange way to build up a business. Today, it is a reality.

It also sure, though, that Italy seems to be cut into two different parts. The Northern regions that are a lot further then the Central regions and the South. This fact opens up an important issue about what are the most appropriate measures to take, in order to bring some new business and especially technology to the southern cities.

An other important observation is that the terrible shock that affected the Stock Exchanges and several economies with the Internet ‘bubble’, has not affected the very young venture capital market in Italy. High tech investments are still growing fast, becoming a consolidated part of the risk capital business. This means that the industry has took off. It just remains to build up a specialty and a focus on some driving sector, even though everything seems to push towards Telecommunication.

The advent of the first huge corporate venture capital players is a confirmation of this trend. Giants of our economy, such as Telecom Italia and ENEL have moved great resources into venture capital focusing on high tech start ups.

Certainly a lot is there to do to consolidate this part of the economy and to enlarge and spread the benefits that it brings to enterprise creation.