

Annual report to Parliament

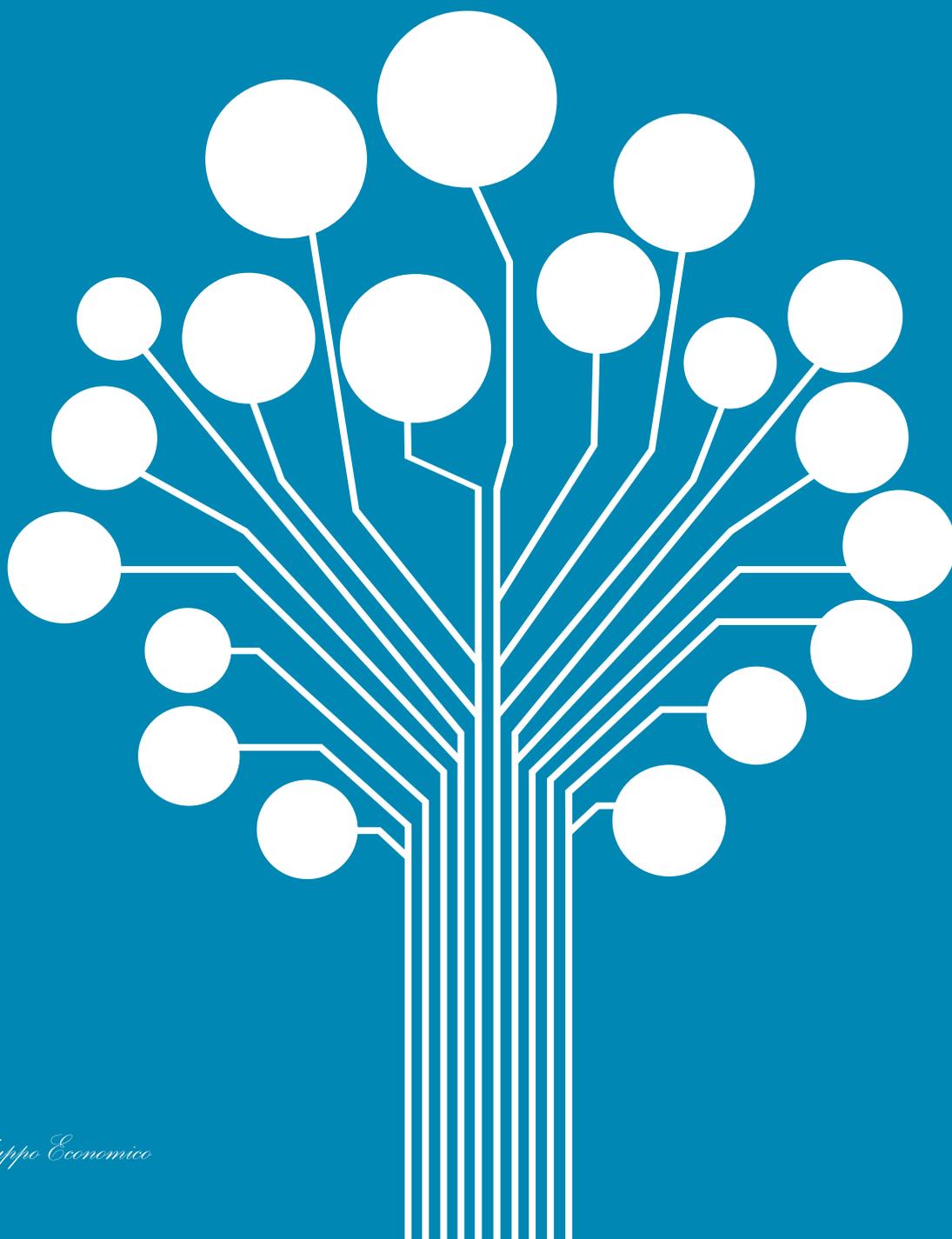
on the implementation and impact of legislation in support of

innovative startups and SMEs

Carlo Calenda

Italian Minister of Economic Development

2017 edition



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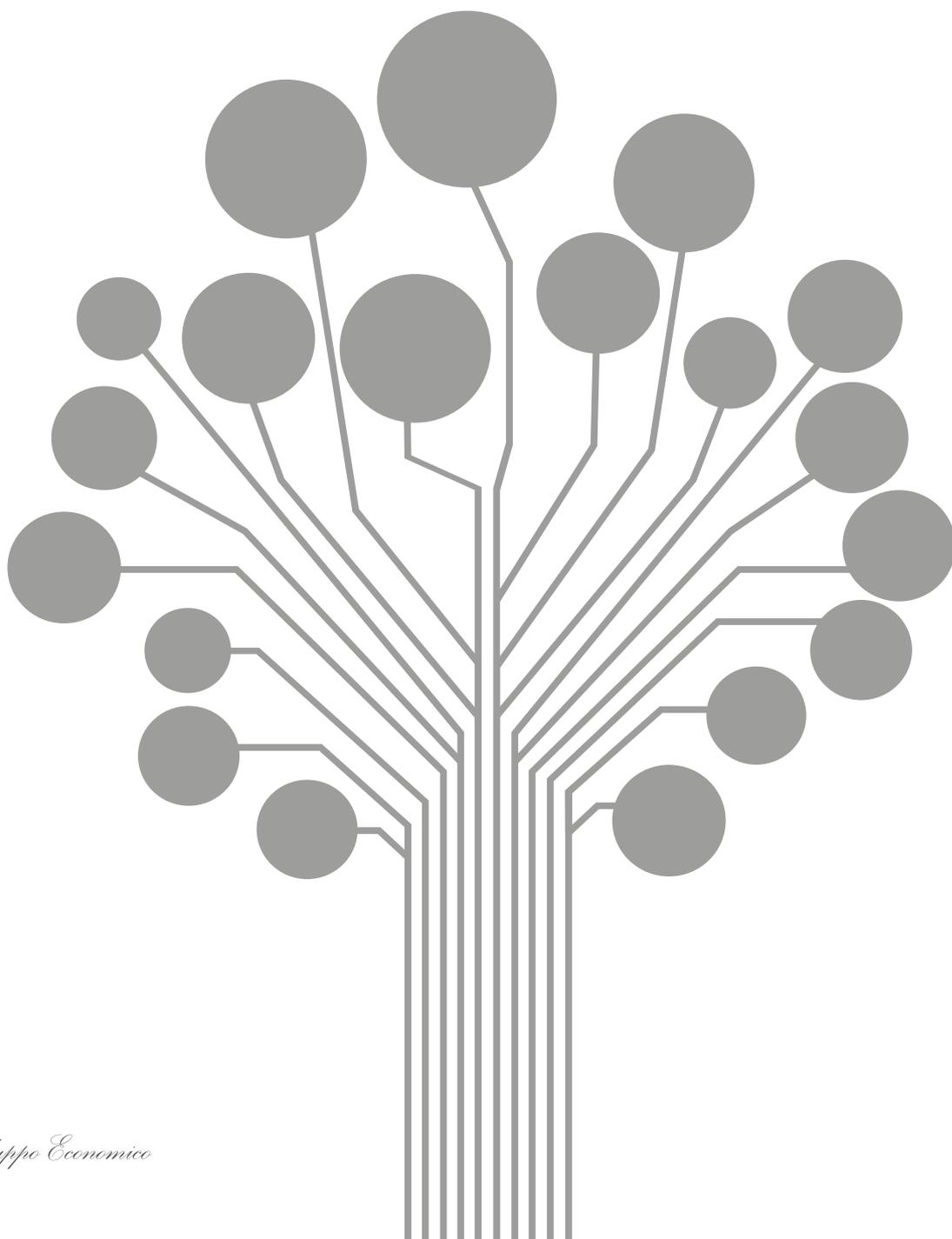
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Ministero dello Sviluppo Economico

ANNUAL REPORT TO PARLIAMENT

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FOREWORD

Technological progress is a phenomenon that has always been part of human evolution. Undeniably, it has increased its relevance in recent years, due to the social and economic impact it generates globally.

One of the main features characterising innovation in contemporary times is its acceleration. This could make it difficult to predict the effects and risks that may arise. We must steer this phenomenon so as not to exacerbate social polarisation, as has been the case with globalisation.

Our industrial policy approach, embodied by the National Plan "Enterprise 4.0", helps business tackle the challenges and seize the opportunities brought about by the Fourth Industrial Revolution, by creating an environment conducive to innovation. In this context, innovative startups and SMEs constitute an ever more strategic lever for the economic development of the country. Today, they represent one of the core axes of the Plan.

Since their introduction in the Italian legal system, innovative startups and SMEs have grown significantly, by doubling their number over the past two years. Today, they can no longer be considered as a niche, as they express over €2 billion of annual turnover, and employ about 50,000 people. Nonetheless, those figures, albeit growing, are still far from international benchmarks.

Supporting these businesses is worthy, because they are able to foster youth employment, and spur that very innovation-oriented investment necessary for the development of the national economy. Data shows that a prominent number of founders is under 35 years of age, and that startups' propensity to invest is about eight times higher than other Italian limited companies.

There is an issue on which a further effort is required: funding the development of these businesses through venture capital (VC). Although the national market is growing, it still appears modest in size compared to other European economies. According to the European Venture Capital Report (EVCR) 2016, VC collected by Italian companies increased from €98 million in 2015 to €162 million in 2016. In the same year, the VC market amounted to €611 million in Spain, Germany stood at around €2 billion, and France reached €2.7 billion: orders of magnitude that are clearly not comparable to Italy's – and the gap keeps widening.

In the light of these data, with the 2017 Budget Law we committed ourselves to stabilising and strengthening the major incentives already in place to encourage investments in innovative startups and SMEs: now they are among the strongest in Europe. Yet, if the Italian corporate VC (CVC) market does not accelerate its growth pace, there is a risk that many startups born in recent years are bound to curb their development path, or to pursue it abroad. This would be a serious loss of competitiveness for Italy, and we cannot afford it.

As a matter of fact, it is difficult to explain why the Italian CVC market does not show results in line with the weight of Italy's manufacturing base, which is the second largest in Europe, only after Germany. Now it is time for more



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established companies, especially those who were startups at more favourable times, to show stronger commitment towards innovative entrepreneurship, promoting inter-generational solidarity and embracing a strategic vision for the future.

Today, innovation remains a winning driver. By turning the results of scientific research into new and better products and services, it makes our country more competitive at international level in manufacturing, services, the energy sector, and the protection of the environment.

That is why innovation should be encouraged, and at the same time governed to prevent possible distortions. I am certain that only through investments in innovation and training better jobs will be created, a more sustainable society will be built, and our quality of life improved.

**The Minister of Economic Development
Carlo Calenda**



AUTHORS AND ACKNOWLEDGEMENTS

This Report is the result of a collective effort of the Directorate General for Industrial Policy, Competitiveness and Small and Medium Enterprises of the Italian Ministry of Economic Development, led by the Director General Stefano Firpo.

The main authors and editors of the report are Mattia Corbetta – who also liaised and coordinated activities with the other organisations involved – Roberto Volpe and Debora Camaione.

Information and figures used to prepare this report were provided by a wide range of institutions and offices.

InfoCamere, the IT company of the Italian Chambers of Commerce system, provided all the data from the Business Register – which is a primary source of information for this report.

Other statistical resources were provided by MedioCredito Centrale (for the section on the SME Guarantee Fund), Istat (tax incentives for investments in innovative startups) and Invitalia (Smart&Start Italia programme and Invitalia Ventures).

Also worthy of mention is the contribution on equity crowdfunding provided by the Observatory on Crowd Investing of the Polytechnic University of Milan .

Within the Italian Ministry of Economic Development, major support was provided by the Directorate General for the Market and Competition, Unit VI (“Business Register”), headed by Marco Maceroni, particularly for the sections relating to the new procedure for incorporation of innovative startups.

Unit VI of the Directorate General for Industrial Policy (“Policies for SMEs, the cooperative movement and innovative startups. Corporate social responsibility and international industrial cooperation”), headed by Maria Benedetta Francesconi, contributed to editing the final text.

The Italian Ministry of Economic Development can be notified of any errors or omissions found in this text by sending an email to the following address: startup@mise.gov.it.



SUMMARY

Now in its fourth edition, the Annual Report of the Italian Minister of Economic Development to the Parliament on the implementation and impact of the legislation in support of innovative startups and SMEs is the culmination of the monitoring and evaluation system managed by the Directorate General for Industrial Policy, Competitiveness and SMEs. The report is an ongoing means of assessment, designed to provide continuous feedback and to facilitate any amendments to the laws. It aims to fulfil the law-makers' specific objective to ensure transparency and accountability of policy-makers vis-à-vis citizens on the impact of public policies.

The report is divided into three chapters which analyse developments concerning innovative startups during the period examined, i.e. July 2016 – June 2017, from three different perspectives: regulations, demographics and performance. Data used for this report was extracted on 30 June 2017. With few exceptions, which are clearly indicated in the text (e.g. **paragraph 2.1.10**), data from the statement of accounts described in this report refers to 2016.

Chapter 1 describes the main regulatory changes that have affected the legislation over the last 12 months. In chronological order, the first change to regulations (Ministerial Decree of 28 October 2016) extended the scope of the new online and free procedure for drawing up the articles of association and statute of innovative startups: previously available only in the incorporation phase, it now applies to subsequent amendments of the founding acts as well (**paragraph 1.1**).

The 2017 Budget Law also introduced major changes, setting into legislation many of measures launched with the National Plan "Industria 4.0". Several of these measures, such as the fiscal incentives for equity investment (increased to 30% by the Budget Law), are available only to innovative startups and SMEs, while there is no such subjective limit on other measures, such as super- and hyper-depreciation, tax credit on R&D activities, and the Patent Box. Nonetheless, given that these measures are available to firms which invest heavily in innovation, startups and SMEs are their natural target audience. The Budget Law also provided for the refinancing of Smart&Start Italia – a programme of subsidised financing for startups – and introduced a new type of visa for non-EU citizens who intend to invest in strategic assets in Italy, including innovative startups (**paragraph 1.3**).

One of the developments in the legislation of the past year concerns regulations on certified incubators of innovative startups, which were revised by the Ministerial Decree of 22 December 2016 to ensure greater selectivity. Other developments relate to the renewal of the Italia Startup Visa and Italia Startup Hub programmes (2017 Decree on Migration Flows), and the refinancing of the CLab call for tender, published by the Italian Ministry of Education, Universities and Research (MIUR). The CLab project focuses on using teaching models based on the exchange of skills between students from different subject areas to encourage the creation of innovative startups within universities.



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Furthermore, Ministry Circular no. 3696/C clarified the scope and nature of the checks performed by the Chamber of Commerce on companies registered as innovative startups and SMEs in the dedicated special sections of the Business Register (**paragraph 1.6**).

Lastly, Decree-Law 50/2017 (so-called “2017 Mini Budget”) amended regulations on the Patent Box – i.e. a special taxation regime for income deriving from the use of intangibles linked to R&D activities – and specified the maximum duration of the incentives for innovative startups under Decree-Law 3/2015, which is five years from the incorporation date for all enterprises founded after the Italian Startup Act came into effect (**paragraph 1.7**).

Chapter 2 provides a detailed overview of the main statistics on innovative startups and SMEs. The chapter focuses primarily on the former, as they benefit from a longer-lasting policy that was introduced by Decree-Law 179/2012 and the empirical evidence on them is more robust.

A snapshot of the situation as at 30 June 2017 shows that 7,398 firms were registered in the special section of the Business Register dedicated to innovative startups – registration is a necessary condition to take advantage of the incentives foreseen by the policy. This is an increase of 1,455 enterprises compared with 30 June 2016 (+24.5%), with an average of 253 new registrations per month in the first half of 2017 (compared with a historical average of 172). A major “generational change” took place between 2016 and 2017: around 800 enterprises lost the age requirement to qualify as innovative startups and were gradually removed from the special section starting from 18 December 2016, as a result of the end of the so-called “temporary regime”, introduced by Decree-Law 179/2012 (art. 25, par. 3) to protect companies incorporated before the decree came into effect. Over the years, an increasing number of companies have been registered as innovative startups immediately after incorporation. On 30 June, there were 3,939 of these companies, clearly demonstrating how the policy is gradually taking root, also thanks to the aforementioned new online and free procedure for incorporation (**paragraph 2.1.1**).

In total, the number of firms that have ever been registered in the special section for startups of the Business Register – i.e. those currently registered and those that have left because they overcome the age limit or no longer satisfy other legal requirements to remain – amounts to 9,310. Analysis of their demographics shows that the closure rate remains generally very low: only 3.2% of the innovative register that were registered in the special section at some point in time have ceased to operate. More precisely, the two-year survival rate is around 95%, while the three-year rate falls to 90% (**paragraph 2.1.2**).

Considering the territorial distribution, 55.2% of startups are located in Northern Italy (30.4% in the North West and 24.8% in the North East), one quarter in Central Italy and one quarter in Southern Italy. The regions with the largest number of innovative startups are Lombardy, which is well ahead of the others with 1,695 firms (22.9% of the national total), Emilia-Romagna (810 enterprises, 10.9% of the national total), Lazio and Veneto. The leading provinces are Milan (the only one with over 1,000 startups), Rome, Turin and Naples. The highest percentage of innovative startups out of the limited companies total

population is in the Trentino-South Tyrol, Marche and Friuli-Venezia Giulia regions (**paragraph 2.1.3**).

Under a sectorial distribution perspective, 74.8% of startups operate in the services sector, particularly the ICT segment. Innovative startups in the manufacturing sector account for just under 20% of the total. However, this division is heavily influenced by the inherent rigidity of the Ateco classification system, which is often incapable of detecting with accuracy the innovative nature of the goods and services produced by startups (**paragraph 2.1.4**).

In terms of legal status, 82.7% of startups are incorporated as the Italian equivalent of limited liability companies (s.r.l.) due to the considerable subsidies offered to enterprises incorporated in this form by the Italian Startup Act (**paragraph 2.1.6**). The report then contains an in-depth analysis regarding the so called three alternative indicators of innovativeness: startups must comply by law with at least one of the parameters to obtain the special status. For example, one of the requirements is to allocate over 15% of annual expenditure to R&D activities, a characteristic declared by 4,694 enterprises (**paragraph 2.1.7**).

In terms of employment, innovative startups employ a workforce of 34,120 people, comprising 10,262 employees and 23,858 shareholders. This is not an entirely comprehensive view, since figures for self-employed workers are not available. Analysis of the typical demographics of individual shareholders shows that they are mainly men (almost 80%) with an average age of 43 years. The report also presents an unprecedented focus on the participation of young people and women as shareholders of innovative startups (**par 2.1.8**).

In total, individual shareholders hold stakes in 6,933 innovative startups, accounting for a total of €190 million subscribed capital and an average stake value for each individual of €7,599. There are also 3,288 corporate shareholders of innovative startups (other production firms and investment vehicles, as well as universities and associations), which hold stakes in 2,328 innovative startups (31.5% of the total), with a total capital subscribed of €147 million (**paragraph 2.1.9**).

Lastly, as it regards the economic performance of innovative startups, the aggregate turnover, calculated for the 4,717 firms that have filed their 2016 annual statement of accounts (63.7% of those registered as at 30 June 2017), amounts to €773 million. If we consider only the firms of this group that also filed a statement of accounts in 2015, we can see how the aggregate turnover has increased from around €332 million to more than €602 million (+81.3%) over two years. This growth is reflected in the considerable increase in the average turnover for startups, from €115,000 in 2015 to €208,000 in 2016.

For the first time this report provides a description of the growth path of innovative startups within its historical context, namely from registration in the special section of the Business Register all the way to the most recent fiscal year available, i.e. 2016.

Analysis of this data shows that the turnover of innovative startups tends to increase consistently, right from the first year of involvement in the policy.



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At the end of 2016 startups registered in 2013 and in 2014 had almost tripled their average turnover, and firms registered in 2015 had on average almost doubled their turnover by the end of their first year of operation.

Most innovative startups continue to record a turnover below €100,000, even several years after registration. However, a sizeable part of this group – around 20% – exceeds this threshold as early as their second statement of accounts. The number of innovative enterprises included in the higher sales volume size classes is therefore constantly on the rise. More than one third of the startups registered in the special section in 2013 now have an annual turnover of over €100,000, and this figure exceeds €500,000 for 10% of these startups.

Innovative startups with over €1 million in turnover in 2016 are also starting to account for a sizeable portion of the total. This is the case for approximately one in twenty of those registered in 2013 ([paragraph 2.1.10](#)).

Analysis of innovative SMEs ([paragraph 2.2](#)), which have been benefiting from dedicated section of the Business Register and a range of incentives since 2015 (Decree-Law 3/2015), shows that there were 565 firms of this kind as at 30 June 2017, almost three times more than the previous year.

Distribution across Italy shows greater concentration of innovative SMEs in Northern Italy (almost 60%), particularly in the Lombardy, Piedmont and Emilia-Romagna regions. The economic and financial metrics that these enterprises show that they have reached a more advanced degree of maturity than startups. Based on data from the 2016 statement of accounts (86% of the total), which was available at the time this report was written, the aggregate turnover recorded by innovative SMEs exceeds €1 billion (€1,316,887,551), the total workforce (9,313) is similar in size to the much larger group of startups, and the registered share capital is on average much higher.

Like startups, most innovative SMEs (62.7%) operate in the services sector. However, it is interesting to note that for innovative SMEs, the percentage of manufacturing firms is higher (one third) than for startups (one fifth).

After a targeted policy was introduced for startups, introducing similar incentives for innovative SMEs was the next logical step, as the innovative SME status and is the natural follow-up for enterprises that are no longer in the start-up phase but clearly continue to innovate in technological terms. Transferring from one special section to another is a simple and automatic process and, as at 30 June 2017, 211 innovative SMEs (37.3%) were recorded as having been registered as startups in the past ([paragraph 2.2.2](#)).

Chapter 3 provides a detailed report on performance of the incentives offered under the so-called Decree “Growth 2.0” and, in particular, those that provide for organised monitoring systems.

At the end of June 2017, precisely one year after it was introduced, the new online and free procedure for incorporation had been used by 740 enterprises, whilst 42.8% of the startups registered in the special section and incorporated in the first half of 2017 had chosen this incorporation procedure. This procedure is an alternative to incorporation through an official document and results in an estimated reduction of €2,000 in start-up costs per firm ([paragraph 3.1](#)).

Another important means of support for innovative startups and SMEs is free and direct access to the Public Guarantee Fund for SMEs (FGPMI), which secures up to 80% of the loan granted by credit institutions, for a total as high as €2.5 million. As at 30 June 2017, the Fund had secured 3,062 transactions with 1,784 innovative startups and 78 with 57 innovative SMEs, for a total of over €610 million in publicly secured loans and an average total of €242,030 for loans to startups and €318,168 to SMEs. The percentage of defaulted loans is very low, at just 0.9% for startups. This figure is significantly lower than the percentage recorded for newly incorporated traditional enterprises that obtain a loan secured by the Fund ([paragraph 3.3](#)).

Even before the improvement introduced by the 2017 Budget Law, the personal income tax deduction and the deduction from corporate taxable income for investments in the risk capital of startups offered a strong incentive to equity financing. The report examines the figures for the 2015 tax year, in which 2,491 subsidised investments made by individuals and 369 by corporations were recorded, for a total €82.3 million investment. A total 779 innovative startups received direct investments, as the incentive is also applicable for contributions through investment vehicles ([paragraph 3.4](#)).

There has also been an interesting development on the equity crowdfunding (EC) market in recent years: as at 30 June 2017, 109 campaigns had been initiated (59 in the last 12 months) with a 60% success rate and a total of €12.5 million collected through the 19 currently active platforms. The recent extension of the right of starting EC campaigns to all small and medium Italian enterprises, which was introduced by the 2017 Budget Law, will probably lead to further expansion of the market over the coming years ([paragraph 3.5](#)).

There has also been continuous growth in the Italia Startup Visa (ISV) programme, a preferential procedure for the granting of visas to those intending to set up a new and innovative startup in Italy. A total of 252 non-EU citizens applied for ISV, of whom 151 obtained the certificate of no impediment to the “startup visa” from the committee of experts concerned. The applicants came from 34 different countries, with China in the lead, followed by Russia, which was first in the ranking for the number of certificates of no impediment issued ([paragraph 3.7](#)).

The report also discusses the results of the Smart&Start Italia programme, the leading national funding programme for innovative startups, which has a total endowment of €266 million. Out of all the 1,393 applications that have been received since the programme was introduced in February 2015, 332 were approved, accounting for a total of €159 million committed capital. However, only a very small part of that sum – around €14 million (5% of the total funds available) – had effectively been paid out as at 30 June 2017, more than two years after launch ([paragraph 3.8](#)).

On the risk capital market front, on the date this report was written, 14 transactions had involved the Italia Venture I public fund, which earmarks €65 million for co-investment with private operators in the risk capital of innovative small and medium enterprises. Nine deals were concluded during the last twelve months, for a total of €22 million ([par 3.9](#)).



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Finally, it is important to point out that of the approximately 400 Italian firms that had access to European Union funding as part of the “SME Instrument” programme of Horizon 2020, 142 of these enterprises are (or were) innovative startups and SMEs. 106 innovative startups and 18 innovative SMEs received a grant totalling €50,000, to conduct feasibility studies for new business ideas (Phase 1), while a further 30 firms (12 of which had already been selected for Phase 1), which had already reached a more advanced stage of development, received zero-rate loans between €500,000 and €2.5 million (Phase 2) (**paragraph 3.10**).



A YEAR OF POLICIES FOR INNOVATIVE STARTUPS AND SMES: KEY DEVELOPMENTS

1

Table 1.a: Policy developments between 1 July 2016 and 30 June 2017

	MEASURE	DATE	SUBJECT
1	Decree of the Minister of Economic Development	28/10/2016	Changes to the articles of association for innovative startups created online as a limited liability company (s.r.l.)
2	Decree of the DG for Coordination, Promotion and Enhancement of Research of the Italian Ministry of Education, Universities and Research	29/11/2016	Notice for submission of Contamination Lab projects (PNR 2015-2020)
3	Law no. 232/2016 (2017 Budget Law)	11 December 2016	Art. 1, par. 8-13: extension of super-depreciation, introduction of hyper-depreciation - at 250% ("Industria 4.0")
			Art. 1, par. 15-16: raising of the R&D tax credit rate to 50% ("Industria 4.0")
			Art. 1, par. 66-68: raising the incentives for equity investment in innovative startups and SMEs to 30% ("Industria 4.0")
			Art. 1, par. 69: exemption from stamp duty and administrative fees for innovative startups upon incorporation
			Art. 1, par. 72: refunding of the Smart&Start Italia programme for 2017-2018
			Art. 1, par. 148: new investor visa (€500,000 in innovative startups)
4	Decree of the Minister of Economic Development	22/12/2016	Review of regulations on certified incubators
5	Decree of the President of The Council of Ministers (2017 Decree on Migration Flows)	13/02/2017	Determination of migration flows for non-EU citizens, including provisions for Italia Startup Visa and Hub
6	Circular no. 3696/C of the Italian Ministry of Economic Development	14/02/2017	Circular on checks carried out on registration of innovative startups and SMEs in the special section
7	Decree-law 50/2017 (so-called "2017 Mini Budget") (converted by Law 96/2017)	21/06/2017	Art. 56: Changes to the Italian Patent Box
			Art 57, par. 3, 3-ter: clarifications on the maximum length of applicability of the innovative startup regime



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1.1 NEW ONLINE PROCEDURE FOR INCORPORATION: EXTENSION TO SUBSEQUENT AMENDMENTS

The first measure issued during the reference period for this report fully implements the *new procedure for incorporation of innovative startups* in the form of limited liability companies. This procedure was originally introduced by art. 4, par. 10-bis of **Decree-law no. 3 of 24 January 2015** (so-called “Investment Compact”), converted with amendments, by Law no. 33 of 24 March 2015, and allows the founders of innovative startups to draft and amend the articles of association and statute on a dedicated online platform.

An important feature of this procedure is that it is free: aside from registration tax on the document and stamp duty, no specific costs linked to using this procedure are charged, offering a considerable saving for businesses. The previous edition of this report calculated that the average cost of incorporating innovative startups with a public deed, i.e. using the services of a notary public, amounts to around €2,000 per firm.

Clearly, there is very little if any intermediation in the new process: there is no need for a third party to verify the identity of the individuals signing the deed, as this is achieved through the use of an electronic signature.

Using standard articles of association and statute models makes the drafting process faster – saving a draft in the system is also possible – while ensuring legal certainty. Since the platform enables the entrepreneur to customise the articles of association and statute, the process implies a high degree of responsibility for founders, as they must take significant strategic decisions during the incorporation phase.

The editable XML electronic format of the deed is designed to ensure that it conforms to the standard model, while also enabling users to conduct a series of automated checks on the data, as well as enriching the Business Register with organised, up-to-date information.

Another feature of this procedure is that it is voluntary: startup founders are free to choose between the ordinary public deed procedure and the new procedure. If they choose the latter, they may decide whether to use the support services provided by the Chamber of Commerce pursuant to art. 25 of the Italian Digital Administration Code (“CAD”) or whether to proceed with incorporation in complete autonomy.

Although the **Decree of 17 February 2016** of the Minister of Economic Development already introduced regulations to govern this procedure to facilitate the start-up phase for innovative startups¹, a similar measure enacted on 28 October 2016 extended its use to apply to amendments to the articles of association and statute after constitution of the firm, thus fully implementing primary legislation.

1 [The Decree of the Director General for Markets, Competition, Consumers, Supervision and Technical Standards and the related Circular 3691/C of 1 July 2016](#) subsequently set 20 July 2016 as the introduction date of the new procedure.

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The subsequent **Directorial decree** of 4 May 2017 completed the process by setting 22 June 2017 as the date after which innovative startups incorporated online may also use the digital platform to amend their articles of association and statute.

A repository of regulatory sources, guidelines and forms relating to the new procedure for incorporation of innovative startups is available at the following link: <http://startup.infocamere.it/atst/help/>

The results of this new procedure for incorporation as at 30 June 2017 are outlined in **paragraph 3.1**.

1.2 THE NEW CLAB COMPETITION NOTICE

Various policy proposals that laid the groundwork for the regulatory framework on innovative startups as introduced in 2012 were included in a report called "**Restart, Italia!**", prepared by a task force of experts that was set up by the Minister of Economic Development. Among them, one in particular had a clear cultural objective: to promote entrepreneurship in universities.

With the phrase "*Contamination Lab*" (CLab), the report identified a new teaching method aiming to expose university students of either technical or humanities subjects to a stimulating environment, in which they could develop innovative business projects. The idea was to offer students from different disciplinary backgrounds the opportunity to work together, informally, in a shared physical space. The theory behind the initiative is that the resulting process of "cross-fertilisation" (rough translation of the Italian "contaminazione") can diversify and strengthen students' knowledge. At the same time, the process would stimulate that set of skills that is able to lead to the creation of innovative, knowledge-intensive enterprises. The exchange of know-how is a core element of the initiative: the objective is pursued by involving actors outside the academia, such as businesses, investors and business consultants.

The trial phase of this policy began with the publication of a competition notice by the Italian Ministry of Education, Universities and Research (MIUR) on 13 March 2013. The competition earmarked a budget of €1 million for the creation of four pilot CLabs at the universities in the Convergence regions identified in the 2007-2013 EU regional policy (Campania, Apulia, Calabria and Sicily). The four CLabs selected began this educational initiative in 2014, and completed it on 30 June 2016. The four projects publicly-funded were followed by a further four similar initiatives, self-funded by universities in other areas of the country. The **previous edition** of this report describes some of the main results achieved.

The **2015-2020 National Programme for Research**, published by the MIUR on 2 May 2016, stated the willingness to repeat this educational initiative.

The MIUR confirmed this intention in the competition notice published by Decree of the Director General for Coordination, Promotion and Enhancement



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of Research on 29 November 2016, earmarking a budget of €5 million from the Development and Cohesion Fund. The measure set a maximum 36-month duration for the projects, and a maximum grant of €300,000 per CLab. The available funds will be awarded on the basis of a ranking, to be prepared following assessment by a panel of experts, and distributed as follows: up to three fifths in Southern Italy and up to two fifths in Central-Northern Italy. It is also planned to set up a national network of Contamination Labs, to be allocated funding for €150,000 ([competition notice, Guidelines](#)).

The [Directorial Decree](#) of 15 June 2017 published the [list](#) of the 17 projects, selected from the applications submitted between 20 December 2016 and 15 February 2017. The new CLabs and the CLab Network began operating on 1 October 2017, and will complete this new cycle on 30 September 2020.

1.3 2017 BUDGET LAW: NATIONAL PLAN “INDUSTRIA 4.0” AND THE NEW INVESTOR VISA

Launched in September 2016 by the Minister of Economic Development and by the President of the Council of Ministers ([presentation](#)), [National Plan “Industria 4.0”](#) is the Italian Government’s new industrial policy to promote digitalisation and strengthen the competitiveness of Italian industry. It consists of a wide range of policies designed to attract productive investments. The focus of the various measures is innovation, which is seen as the primary mechanism for competitive development and economic growth of the country ([presentation booklet](#)).

In a view of achieving the highest degree of simplification, all the tax incentives offered by the Plan introduced by [Law no. 232 of 11 December 2016](#) (2017 Budget Law), are of an “automatic” nature: this means they are automatically applied when specific formal requirements are satisfied, without the need for any selective processes, thereby avoiding lengthy waiting times and bureaucracy.

A cornerstone of the Plan – undoubtedly the most important new policy development of the reference period – is the strengthening and stabilisation of *incentives to invest in the capital of innovative startups and SMEs*. Depending on the legal status of the investor, from 2017 these incentives will entitle the investor to a personal income tax deduction or a deduction from corporate taxable income, both of 30%.

The incentive has clearly been strengthened: the previous arrangement allowed a 19% personal income tax deduction and a 20% deduction from corporate taxable income, except for direct investments in startups with a social goal or cleantech, for which the rate of the incentive was significantly higher, up to 25% and 27% respectively².

² Art. 1, par. 66-68 of Law No 232 of 11 December 2016, introduced this change to the provisions which, in the regulations establishing incentives for innovative startups and SMEs – respectively [Decree-law no. 179 of 18 October 2012](#) (so-called “Decree “Growth 2.0”),

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The maximum incentivised investment is €1 million for investments made by individuals – the previous figure was €500,000 – and € 1.8 million for investments made by corporations. The incentive applies to both direct investments in the risk capital of enterprises and indirect investments through Collective Investment Undertakings (CIUs), asset management firms, and other companies that invest primarily in innovative startups and SMEs.

The 2017 Budget Law also corrected several critical issues preventing application of the incentive contained in the previous version of the regulation, which extended the incentive to innovative SMEs from 2015 onwards. This allowed the Directorate General for Industrial Policy, Competitiveness and SMEs of the Italian Ministry of Economic Development (hereinafter “MISE”) to start the process of notifying the European Commission to check compliance with European Union regulations on State aids to promote risk capital. The Commission has already approved the innovative startups measure, whilst the one for innovative SMEs is currently being examined. It is hoped that the inter-ministerial decree implementing both types of incentive will be passed within a few months of publication.

A second cornerstone of National Plan “Industria 4.0” is *super- and hyper-depreciation*: these measures introduce an increase of 40% and 150% respectively, in the book value of investments in new machinery, which increases the nominal purchase cost for calculation of depreciation. As purchase costs of capital goods are subject to depreciation over time, this mechanism leads to a considerable and long-lasting reduction in taxable income and consequently in lower taxation for firms that make productive investments.

The distinction between super- and hyper-depreciation is based on the assets to which the investment relates. Tangible assets and internet devices based on enabling technologies for the digital transformation of industrial processes, such as the Internet of Things, big data, cloud computing and augmented reality, entitle the company to hyper-depreciation (150% rate). Super-depreciation (40%) is applied for all other fixed goods. Firms are therefore provided with a considerable incentive to trigger digital transformation of their production and distribution processes.

Furthermore, in **Circular 4/E of 30 March 2017**, the Italian Revenue Agency and MISE provided important clarifications as regards the extension of the super-depreciation regulations³ and the introduction of hyper-depreciation.

A third crucial point of the Plan is **tax credit on research and development activities (R&D tax credit)**, which has been significantly increased by the 2017 Budget Law. Firms that increase their R&D costs in the period 2017-2020 will

converted with amendments by Law No 221 of 17 December 2012, and [Decree-law No 3 of 24 January 2015](#) (so-called “Investment Compact”), converted with amendments by Law No 33 of 24 March 2015 –, govern tax incentives for investments in equity – art. 29 and art. 4, par. 9, respectively.

3 Law no. 208 of 28 December 2015 (2016 Stability Law) introduced the super-depreciation regulations for purchases of “new capital goods” made before 31 December 2016. Article 1, paragraph 8, of the 2017 Budget Law extends super-depreciation for investments made before 31 December 2017 (or before 30 June 2018, if certain conditions are fulfilled).



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receive a tax credit of 50% on these incremental costs, up to a maximum of €20 million per annum.

The previous incentive was 25% for in-house investments, and 50% only in the case of investments in outsourcing or for personnel costs for highly qualified staff, while the maximum incentive was €5 million.

As stated previously, the current measure grants a standard benefit of 50%, regardless of the type of expenditure incurred by the firm. This measure can be applied to expenses for basic research, industrial research and trial development, including costs incurred for staff, research agreements with other entities, and industrial patent rights. Even if losses are made, firms may use the tax credit to cover a wide range of taxes and contributions.

An **explanatory brochure** on this incentive updated to the most recent developments was published in a revised form by the Directorate General for Industrial Policy, Competitiveness and SMEs of MISE on 29 May 2017.

Although the super- and hyper-depreciation and R&D tax credit of National Plan "Industria 4.0" – and also the Patent Box discussed further on in this report – are aimed at all Italian firms making these types of investments, without any particular restrictions, innovative startups and SMEs are bound to be a particularly receptive audience, given their inclination towards technological innovation, and, in most cases, their strong propensity to invest in R&D (see **paragraph 2.1.10** and **periodic reports on economic trends in innovative startups**).

Other provisions introduced by the 2017 Budget Law relating directly to innovative startups and SMEs are:

- art. 1, par. 69, which specified that the exemption from stamp duty and administrative fees referred to in art. 26, par. 8, of Decree-law no. 179 of 18 October 2012 (Decree "Growth 2.0"), converted with amendments by Law no. 221 of 17 December 2012, also applies to innovative startups incorporated using the new online procedure described above;
- art. 1, par. 72, which provides for the refinancing of the **Smart&Start Italia** programme for the two-year period 2017/2018 (see **paragraph 3.8**);
- art. 1, par. 148, which introduced a new type of two-year visa for non-EU citizens intending to make a major investment or donation in a strategic sector for the Italian economy and society. This category includes investments in the capital of innovative startups, which must exceed a minimum threshold of €500,000 for the visa to be issued, as opposed to €1 million for investments in other limited companies based in Italy.

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1.4 CERTIFIED INCUBATORS: THE MINISTERIAL DECREE OF 22 DECEMBER 2016

One of the main features of the Decree “Growth 2.0” is its holistic approach to the development of innovative startups. Many of the measures introduced do, in fact, focus on the relationships that this type of enterprise tends to have with universities, investors and traditional firms, in the multi-faceted and interdependent context often called the innovation “ecosystem”, which is becoming increasingly important in the knowledge economy. Incubators and accelerators are core elements of the innovation ecosystem, as companies sharing the objective of supporting the creation and growth of high-potential startups.

There are many facilities of this kind in Italy, both public and private. Some of these enterprises have a high international standing, as confirmed by the **UBI Global 2015** ranking, which placed various Italian incubators in top positions. However, objectively speaking, many of these enterprises that are referred to as startup incubators are not nearly attractive enough to foreign talent and capital, something that contributes to the impression of a disorganised and uncompetitive ecosystem.

The Decree “Growth 2.0” introduced the notion of *certified incubator*, with the objective of encouraging the recognition and valorisation of enterprises having a solid, proven experience in supporting the creation and development of high-potential innovative startups. The specific technical parameters to qualify for this category were referred to in a decree of the Minister of Economic Development.

The legal requirements to be considered a certified incubator include: possession of suitable premises and IT infrastructures, personnel skilled in management consultancy, solid working relationships with other innovators, and - as a central concept of the regulation - an established track record in the incubation of innovative startups (art. 25, par. 5, letters a-e, of Decree-law no. 179 of 18 October 2012, converted by Law no. 221 of 17 December 2012, hereinafter “**D.L. 179/2012**”).

The primary legislation also required (art. 25, par. 6 and 7) registration of certified incubators in the special section of the Business Register - a qualifying condition to receive certain incentives, principally preferential access to the SME Guarantee Fund - by submitting self-certification confirming that the requirements were met, in accordance with a procedure laid down by a decree of the Minister of Economic Development. The certification is then subject to compliance checks by the Chamber of Commerce and MISE, through the Directorate General for Industrial Policy, Competitiveness and SMEs.

The certification methods used while the **Ministerial Decree of 22 February 2013** was in force, that is until the end of 2016, had various critical issues that created both administrative complications and problems in effectively implementing the legislator’s will.

Firstly, the 2013 decree did not require that certified incubators offered primarily - i.e. as their main economic activity - services to support of the



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growth and development of new high-potential startups. This shortcoming allowed entry of companies only partially linked to the objectives pursued by the special regime.

Secondly, this decree did not specify whether or not the incubation activity had to be physical, i.e. in loco, as intended by the legislator. It is worth remembering that the primary objective of the special regime is to facilitate the recognition of regional centres with acknowledged expertise, thereby overcoming the fragmentation that is typical of the Italian innovation ecosystem. The absence of a specific provision in this sense encouraged companies providing only “virtual” support and consultancy services to startups to claim they were certified incubators. Furthermore, the term “virtual services” was frequently used to indicate activities which had little to do with incubation in a strict sense (e.g. business coaching, accounting), when not entirely irrelevant.

Several expressions used in the decree also caused an unintended ambiguity as to how it was interpreted, making it difficult for the administration to check whether the companies satisfied the requirements. One of these requirements concerned the possibility to meet the criteria by using pooling procedures (“avalimento”).

Lastly, the self-certification form previously put in place by the Ministerial Decree did not require any detailed information to be given on the incubated companies. This not only made it difficult to carry out administrative checks, but also to make an effective use of the information on incubation track records.

These critical issues were resolved by the Decree the Minister of Economic Development enacted on 22 December 2016. This regulation, which revised the technical parameters to qualify for the category of certified incubator, was the result of a drafting process involving the Directorate General for Industrial Policy, for the part relating to the Business Register, and the Technical Secretariat of the Minister, as well as consultation of the committees of two national associations representing the incubation sector: **PNICube**, the national association of university incubators, and **APSTI**, the association of science and technology parks. The main interventions were:

- introduction in the mission statement (“oggetto sociale”) of a principle of prevalence of innovative startup incubation activities. This was intended to encourage the creation of independent legal entities by companies for which incubation was not the predominant activity, but rather a secondary activity, perhaps performed by a company unit;
- explicit limitation of the scope of the regulation to physical incubation activities alone;
- refining of pooling procedures: under the revised decree, pooling may only be used by companies created as spin-offs of companies that were already recognised as incubators in the past;
- introduction of a criterion of preference for companies which have attracted innovative new talent from abroad through the Italia Startup Visa and Italia Startup Hub programmes (see **paragraph 3.7**), and have therefore contributed to the improvement of the national innovation ecosystem;

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- addition of a grid to the self-certification form, which makes it easier to check that the requirements are satisfied and provides interesting data for analysis which could also be used publicly, possibly for relational mapping of the ecosystem.

The revised parameters have applied since 22 December 2016. The decree also requires companies that were already registered when it came into effect to assess their own situation before the first annual confirmation of the requirements, which is required by law before 30 June every year, and therefore before mid-2017.

The text of the **Decree**, which was published in the Official Gazette (“Gazzetta Ufficiale”) on 20 January 2017, can be viewed on the MISE website. The self-certification **forms** and **guidelines** on how to submit them are published on the Chamber of Commerce portal startup.registroimprese.it.

1.5 ITALIA STARTUP VISA AND HUB: 2017 DECREE ON MIGRATION FLOWS

The Decree of the President of the Council of Ministers of 13 February 2017 (2017 Decree on Migration Flows) made provision for the temporary management of non-EU workers entering Italy for the year 2017 and thus renewed the legal basis of the Italia Startup Visa and Hub programmes. Specific indications are provided in the related **Circular** of the Italian Ministry of the Interior and the Italian Ministry of Labour and Social Policies.

Launched by the Italian Minister of Economic Development on 24 June 2014, the **Italia Startup Visa** programme introduced an entirely online, fast-track (it takes no more than 30 days to complete) and centralised **procedure** (the Ministry coordinates both the application assessments committee, which consists of representatives of national innovation ecosystem associations, and the administration process with the Questure (Central Police Offices) responsible for security checks and with diplomatic/consular missions) for the purposes of granting entry visas for non-EU self-employed workers who intend to launch an innovative startup in Italy, either individually or as part of a team.

The idea behind this programme is that the cross-fertilisation of skills generated by the meeting of business cultures from different countries is one of the keys to a successful innovation ecosystem and that qualified immigration is an opportunity for Italy’s socio-economic development, as it is for the main innovation hubs of the world.

On the basis of results of the first three years of operation of the programme, the Directorate General for Industrial Policy, Competitiveness and SMEs of MISE drafted a revised version of the programme **guidelines**, now also available in **English**, with the collaboration of the General Directorate for Promotion of the Economic System of the Italian Ministry of Foreign Affairs and International Cooperation, published on 19 May 2017. The purpose of the update is to codify certain procedural practices that emerged during the implementation of the



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programme, so as to give users clearer guidance on all stages of the application process.

The **Italia Startup Hub** programme was launched on 23 December 2014 and was based on the Italia Startup Visa model. This programme extended the fast-track procedure described above to non-EU nationals who already hold an Italian residence permit – for to pursue their studies, for example – and who intend to remain in Italy after their permits have expired, in order to launch an innovative startup. This allows them to convert their residence permit into a “permit for startup self-employment” without having to leave the country at any point in time. They will benefit from the same simplified procedures that apply to the granting of startup visas (**guidelines**).

Empirical evidence produced by these two programmes as at 30 June 2017 is described in **paragraph 3.7**.

1.6 CHECKS CARRIED OUT BY THE CHAMBERS OF COMMERCE, INDUSTRY, CRAFT AND AGRICULTURE (“CCIAAS”) ON INNOVATIVE STARTUPS AND SMES: CIRCULAR NO. 3696/C

MISE received numerous queries concerning the checks that the law (art. 25 of said Decree-law 179/2012, and art. 4 of Decree-law no. 3 of 24 January 2015, converted by Law no. 33 of 24 March 2015, hereinafter “**D.L. 3/2015**”) requires the offices of the Business Register to conduct, both when firms are registered in the special section dedicated to innovative startups and SMEs (prior checks) and while they maintain this special status (ongoing checks). The Directorate General for Markets, Competition, Consumers, Supervision and Technical Standards and the Directorate General for Industrial Policy, Competitiveness and SMEs therefore published a detailed document titled **Circular no. 3696/c** for the Chambers of Commerce, Industry, Craft and Agriculture (“CCIAAs”) on 14 February 2017.

Although they overlap in many places, there are also considerable differences between the compliance checks required for innovative startups and SMEs. For this reason, the two regimes are described separately in the circular.

Previous opinions on innovative startups and SMEs issued by MISE, which are available on a **dedicated page** of its institutional website, are cited in several places across the circular. The third section of the circular presents these opinions in summary tables as a schematic representation and also specifies the corresponding requirement stipulated under art. 25, par. 2 of D.L. 179/2012 and art. 4, par. 1, of D.L. 3/2015 for each opinion. The tables also briefly describe the types of checks that the above offices are required to perform.

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1.7 DECREE-LAW 50/2017 (THE SO-CALLED “2017 MINI BUDGET”)

Decree-law no. 50 of 24 April 2017 (the so-called “2017 Mini Budget”), converted by Law No.- 96 of 21 June 2017, impacts on a key element of National Plan “Industria 4.0” that has already been mentioned: the Italian *Patent Box*. This is an optional, special taxation regime which grants a 50% reduction in income tax for income deriving from direct or indirect use of intangible assets such as industrial patents, designs and industrial models, and know-how and software protected under copyright. In order to benefit for the incentive, the income must originate from intangible assets that are clearly linked to R&D activities (so-called nexus ratio). The incentive is usually granted after a preliminary assessment by the Italian Revenue Agency.

Art. 56 of the Decree amends and clarifies the scope of the special regime and brings Italian regulations in line with the OECD Guidelines in this regard. The provision concerns the applicability of the tax benefit to trademarks, which, as of the 2017 tax year, may only be considered if the income granting the right to the tax incentive is inextricably linked to other types of eligible intellectual property.. Provisions previously in effect will continue to apply until 30 June 2021 for firms that have opted to use the Italian Patent Box in the 2015 and 2016 tax years.

Art. 4, par. 11-ter, of D.L. 3/2015 *extended the application period of the regulations for innovative startups from four to five years*, as provided for by Section XI of D.L. 179/2012, and also altered the definition of startup contained in art. 25, par. 2, of the measure. Although this extension was clearly meant to cover not only the qualifying notion of innovative startup, but also the period of applicability of the related incentive regime (as confirmed by the subsequent paragraph 11-quater, which quantified the resulting costs), the legislator did not adapt the other provisions contained in D.L. 179/2012, which usually referred to a four years term.

To remove all doubt as to the interpretation of the correct period of application of the incentive regime, art. 57 of D.L. 50/2017 amended (paragraphs 3 and 3-ter) the other provisions of Section IX of D.L. 179/2012 where reference was still made to the previous time period of four years, by changing it to five.

Given that four years had passed on 18 December 2016 since the date when Law 221/2012, the conversion act of D.L. 179/2012, had come into effect, the alignment described above was urgently required to ensure that the correct time period was applied to the incentive regime for innovative startups on the verge of entering their fifth year of operation, as they had been incorporated after approval of the above-mentioned conversion law.

As is already clear from this regulation in D.L. 3/2015, firms incorporated before Law 221/2012 was passed were not affected by the extension in the time period described and therefore remained subject to the time limits indicated in art. 25, par. 3⁴.

4 The so-called “temporary regime”, which protects firms incorporated just before D.L. 179/2012 was passed, but that satisfy the requirements to be considered innovative startups, as discussed in [paragraph 2.1.1](#).



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2

This section will examine the key characteristics of innovative startups approximately five years after the dedicated policy was introduced. This chapter provides a snapshot of the situation as at 30 June 2017. The information presented is both quantitative and qualitative and allows a comprehensive overview of the situation. The various aspects examined include geographical distribution, distribution by production sector, by size in terms of workforce and sales volume, and by legal form, formation and closure dynamics, and financial performance.

Although this chapter focuses on innovative startups, as they are more numerous and benefit from a more established policy, it also includes a broad overview of innovative SMEs (see [para. 2.2](#)).

2.1 INNOVATIVE STARTUPS

The table below summarises several basic statistics, which are discussed in greater detail in the following pages.

Table 2.1.a: Annual trend in key indicators on innovative startups registered in the special section of the Business Register, 2015-2017⁵

INDICATORS	30/06/15	30/06/16	30/06/17
No. of startups	4,249	5,942 (+39.9%)	7,398 (+24.5%)
% of total limited companies⁷	0.28	0.38	0.46
No. of employees	4,891	9,042	10,262
No. of stakes (individuals)	16,861	23,045	29,651
Average turnover	€131,000*	€152,000*	€164,000
Total turnover	€349,192,469* (2,663 statements of accounts for 2014)	€585,211,807* (3,853 statements of accounts for 2015)	€773,170,993 (4,717 statements of accounts for 2016)
% fixed assets / assets	30.83%*	29.44%*	26.83%*

⁵ Financial data is calculated on the statement of accounts filed for the previous financial year. An asterisk (*) indicates that the figure refers to the universe of innovative startups registered as at 30 September of the year concerned (2015, 2016 and 2017).

⁶ Changes in the number of startups as compared with the previous year.

⁷ This figure refers to the total number of limited companies, including dormant companies. In paragraph 2.1.3, the share of innovative startups on the total number of firms shall be calculated only on companies that were operational at the reference date.



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INDICATORS	30/06/15	30/06/16	30/06/17
% profit-making startups / total	42.7%*	42.9%*	42.7%*
Added value of profit-making startups per € of turnover	€0.33*	€0.32*	€0.33*

Source: InfoCamere

2.1.1 TREND OF REGISTRATIONS

Art. 25, par. 8, of **D.L. 179/2012** required the Chambers of Commerce to introduce a special section of the Business Register for innovative startups, in which firms interested in accessing the dedicated policy must register by self-certification, to prove that they satisfy the requirements of paragraph 2 of the aforementioned article⁸. Firms that meet the requirements to be considered an innovative startup may therefore benefit from the incentives provided for by the regulation as soon as they are registered in the special section. The population of innovative startups examined in this chapter corresponds to those registered as at 30 June 2017.

On that date, there were 7,398 innovative startups in Italy. This marked a 24.5% increase compared to the value registered in June 2016, with 1,456 new innovative startups. There were 3,149 more firms than on 30 June 2015, resulting in a 74% increase. As will be seen in the following paragraph, this increase is due to a heavy influx of newly incorporated innovative startups over the last twelve months.

However, there was also a slight reversal of this trend in the reference period of this report. Around 800 firms lost their innovative startup status in the early months of 2017, as a result of the end of the so-called “temporary regime” provided for by art. 25, par. 3 D.L. 179/2012 to protect companies incorporated in the period immediately prior to the introduction of the policy. According to the Italian Revenue Agency’s **Circular 16/E** of 11 June 2014, companies incorporated between 20 October 2010 and 18 December 2012 were allowed

8 Pursuant to art. 25, par. 2, of Decree 179/2012, innovative startups are limited companies, which may also be cooperatives, whose shares or other financial instruments representing the share capital that are not listed on a regulated market or a multilateral trading system, and which fulfil the following conditions: i) are newly incorporated or were incorporated within the last five years (and in any case not before 18 December 2012); ii) are headquartered in Italy, or in another EU Member State or EEA Member State, provided they have a production unit or branch based in Italy; iii) have an annual turnover of under €5 million; iv) do not distribute and have not distributed profits; v) have as sole or predominant corporate purpose the development, production and marketing of innovative products or services with a high technological value; vi) are not the result of mergers, demergers or disposals of a company or company unit. In addition, the firm is classed as innovative if it satisfies at least one of the following three criteria: 1) an amount equal to at least 15% of the higher value between sales volume and annual costs is allocated to research and development; 2) at least 1/3 of the shareholders or collaborators “of any kind are PhD students, PhD graduates or researchers, or at least 2/3 of the workforce hold a master’s degree; 3) the firm is the owner, holder or licensee of a registered patent (industrial patent right) or of a registered original software.

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to remain in the special section of the Business Register until 18 December 2016. They were officially cancelled from the special section as of that date.

This massive exit of “mature” startups from the special regime must be given due consideration when interpreting the entire set of data contained in this chapter, if the characteristics of innovative startups and the trends affecting them are to be properly understood. The group of startups that left the special section in the early months of 2017 included a large number of firms that, being older, were more established and mature. Consequently, as would be expected, their turnover and workforce values are above average, which is why the effect of this exodus on the aggregate data is so strong.

The population of innovative startups examined in this report has therefore significantly different characteristics than the population of the years before. Firstly, these startups are much younger than in the past. 42% of the registered firms were incorporated in the last 18 months (1,171 in 2017 – for these firms the statement of accounts will obviously not be available until next year – and 1,941 in 2016). A further 1,810 were incorporated in 2015 (24.5%) and 1,497 in 2014 (20.2%). There are 979 mature startups, i.e. incorporated before 31 December 2013, which account for just 13.2% of the total.

The first six months of 2017 thus marked a “generational change” for innovative Italian startups, which are now the “children of the Italian Startup Act”: it is no longer possible for a firm incorporated before 18 December 2012, the date when the policy came into force, to register or remain in the special section. This Annual Report therefore provides an opportunity to observe the behaviour of firms that were classified as innovative startups right from their incorporation and which could continuously benefit from the incentives throughout the first five years of their life. A mass exodus of the kind described will not occur again because, as of 18 December 2017, the loss of the special status will no longer occur “in waves” (i.e. coinciding with fixed terms, such as that of 18 December 2016), but rather as a “continuous flow”, i.e. when each firm reaches its fifth year, which will lead to a more fluid and less “traumatic” change in generation from a statistical viewpoint.

As regards the date of registration in the special section – that, as explained above, is the date on which the firms become eligible for the benefits granted under the Italian Startup Act – statistics show that 1,519 startups (21%) were registered in the first half of 2017, 2,196 (30%) in 2016, 1,930 (26%) in 2015, 1,232 (17%) in 2014 and the remaining 521 (7%) before 2014.

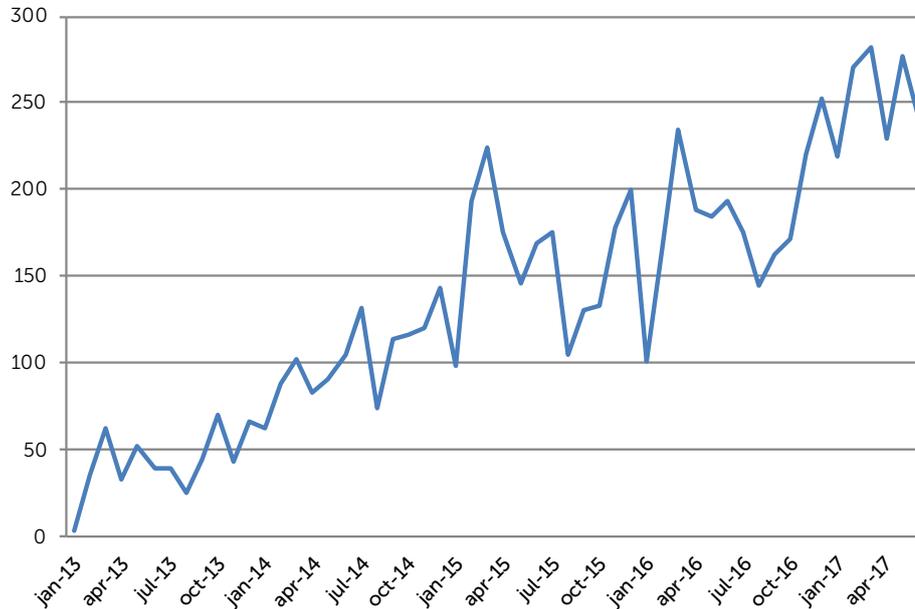
The number of registrations is experiencing a positive growth trend, a sign of how this policy is taking root in the Italian entrepreneurial fabric. This is clear from Figure 2.1.1, which shows monthly registrations of innovative startups in the special section of the Register. The average number of new registrations per month increased from 161 in 2015 to 183 in 2016 and reached 253 in the first six months of 2017. The absolute record was reached in March 2017, when 282 new startups were registered.



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Figure 2.1.1: Number of innovative startups registered in the special section by month, January 2013 – June 2017

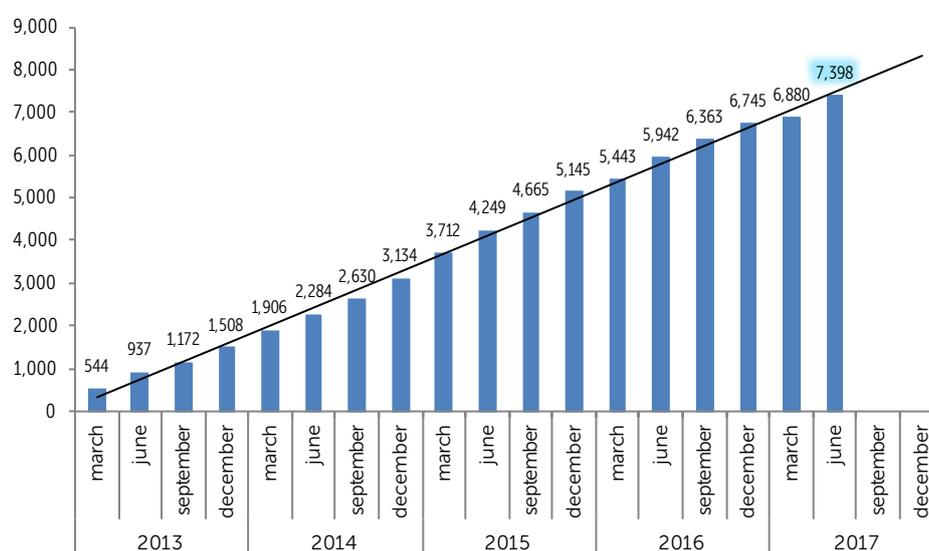


Source: Based on InfoCamere data

Observing the number of firms registered (Figure 2.1.2), it is even clearer that this phenomenon is constantly picking up pace, even though the number of startups leaving because they had reached the age limit resulted in a slowdown between December 2016 and March 2017, when most of the mature firms were removed. If this pace continues, there could be over 8,000 Italian innovative startups by the end of the year, a more than satisfactory result for a policy which, it must be remembered, is entirely voluntary.

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Figure 2.1.2 Total number of innovative startups at the end of each quarter (March 2013 – June 2017)



Source: based on InfoCamere data

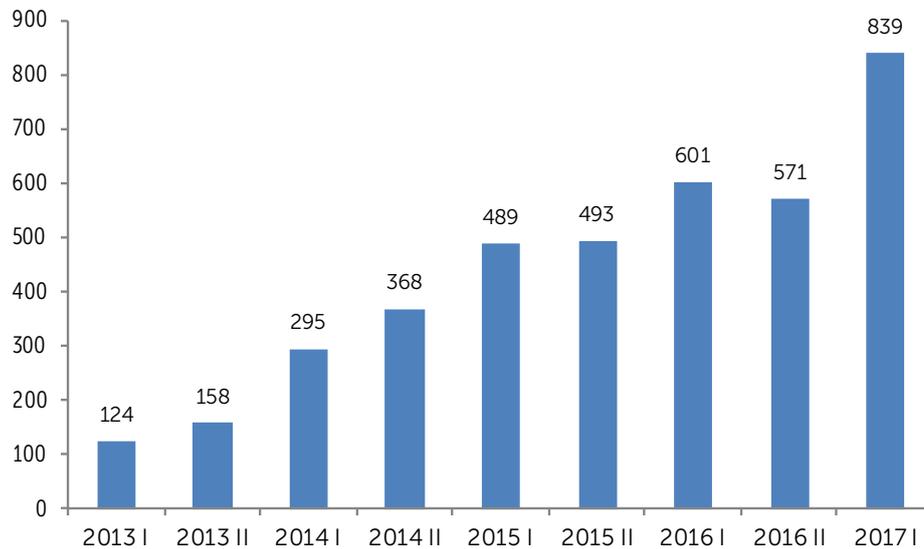
It is also interesting to note that over half of the startups registered in the special section (3,939, or 53.2%) were registered in the ordinary section and the special section of the Business Register at the same time, meaning they were recognised as innovative startups as soon as they were incorporated. The changes in this figure over time (Figure 2.1.3) confirm that the number of firms considered innovative startups as of their incorporation has increased considerably over time. This is also an indication of how the regulations are gradually taking root: an increasing number of new firms are aware of their innovative nature and decide to take advantage of the benefits that the Italian Startup Act offers them as soon as they are incorporated.



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Figure 2.1.3: Number of companies registered in the special section for innovative startups as soon as they are incorporated by half year periods (1st half of 2013 – 1st half of 2017)



Source: Based on InfoCamere data

In examining at an even deeper level how knowledge and awareness of this policy have spread, it is also interesting to analyse the firms that registered in the special section after they were incorporated.

Table 2.1.b shows a distribution of the firms that are currently registered, based on the time that has passed between registration in the ordinary section and registration in the special section. Over two thirds of the enterprises were registered in the special section within two months from incorporation, and over half at the same time as incorporation. The remaining third are distributed in a decreasing fashion as the time interval increases. It is also interesting to note that around 13% of the enterprises took more than one year to register as innovative startups, and several hundred took over two years to do so.

The average time interval⁹ between incorporation and registration in the special section of the Business Register is 125 days (around four months), 73 days less than the average interval recorded as at 30 June of last year.

⁹ This figure does not take into account the 150 enterprises that present invalid values. The incongruities are usually the result of technical reasons linked to the Business Register itself (such as transfer of the registered office of an enterprise to another Chamber of Commerce, Industry, Craft and Agriculture, "CCIAA").

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Table 2.1.b: Time interval between incorporation and registration in the special section

TIME INTERVAL BETWEEN INCORPORATION AND REGISTRATION IN THE SPECIAL SECTION	NUMBER OF STARTUPS	PERCENTAGE
zero	3,939	53.2%
from 1 to 60 days	1,029	13.9%
from 61 to 180 days	750	10.1%
from 181 days to 1 year	580	7.8%
between 1 year and 2 years	637	8.6%
over 2 years	310	4.2%
not valid	153	2.1%
TOTAL	7,398	

Source: InfoCamere

2.1.2 DEMOGRAPHIC TRENDS: FORMATION, CLOSURE AND SURVIVAL RATES

Formation and closure in the last 12 months (July 2016 – June 2017)

As said before, one of the conditions required by the regulations to access the incentives for innovative startups is registration in the special section of the Business Register, which was introduced by art. 25, par. 8, of D.L. 179/2012.

A whole range of factors may impact on whether a company maintains its innovative startup status, all with profoundly different implications. Firstly, the regulations stipulate a maximum five-year term of application for the innovative startup regime, starting from the date when the company is incorporated. After this period, the enterprise may be converted into an innovative SME, if it satisfies the legal requirements for this, or will lose any special status and remain registered in the ordinary section of the Business Register.

In addition to the end of the five-year term, a company may also lose its innovative startup status if it no longer satisfies even just one of the other cumulative requirements under D.L. 179/2012, art. 25, par. 2. Not meeting these requirements can mean exceeding €5 million in annual sales volume, being listed on a multilateral trading platform or distributing profits. All these conditions mean that the firm is too mature to be classified as a “startup”. However, if it still continues to hold innovative characteristics, it may subsequently obtain the status of innovative SME. In contrast, if it ceases to be technologically innovative – as indicated in the corporate purpose, or if it no longer fulfils the alternative innovativeness requirements indicated under art. 25, par. 2, lett. h) of said Decree-law (R&D expenditures, highly qualified personnel, IP) – it will leave both incentive regimes.



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It has also become increasingly common over the years for enterprises to abandon the special section ahead of time because they have ceased trading, either temporarily – non-operational enterprises cannot be registered in the special section – or permanently, in the case of liquidation or bankruptcy.

This paragraph starts by examining the trends in registrations to and exits from the special section over the last year. From this analysis, we can then introduce and measure enterprise demographics, i.e. the formation, closure and survival rates of innovative startups. The formation rate is given by the ratio between innovative startups incorporated between 1 July 2016 and 30 June 2017 and the total population registered as at 30 June 2016. Similarly, the closure rate measures the ratio between innovative startups that have ceased trading in the period concerned and the population at the start of this period.

To conclude, the final paragraph will focus on startups that have “survived”, i.e. all enterprises which, regardless of the period of time spent in the innovative startup special section, are still trading as at the date in question. For those no longer registered, a distinction is made between companies which have become innovative SMEs and those which have lost all special status and now only appear in the ordinary section of the Business Register.

Since its introduction in early 2013, a total 9,310 companies were registered at some point in the special section of the Business Register for innovative startups. This means that, in addition to the 7,398 registered as at 30 June 2017, almost 2,000 enterprises (or 25.8% of the current population) held the status of innovative startup for a certain period, but lost it before that date. As a result, almost five years after the policy was introduced, there is a statistically sizeable number of enterprises that fall under the category of “former startups”.

As observed in paragraph 2.1.1, the number of innovative startups increased considerably in the period under examination (1 July 2016 – 30 June 2017). A total of 2,681 enterprises entered the special section during this 12-month period (36% of the total number of currently registered firms), against 1,216 companies which left¹⁰ (20.5% of those registered as at 30 June 2016).

Despite the unprecedented growth in the number of new registrations, the positive balance between entries and exits (+1,456) is lower than the figure recorded in previous years, which was 2,018 in 2015 and 1,643 in 2014. The total number of startups registered increased by “only” 24.5% (against 64.5% between 2014 and 2015). This slowdown was obviously due to the growth of the number of companies considered – now more than double the figure at the end of 2014 (3,128) – but also to the sharp increase in the number of enterprises leaving the special section: this was 331 in the first six months of 2016, against just 267 for the whole of 2015 – whereas in the first half of 2017 this number amounts to several hundreds.

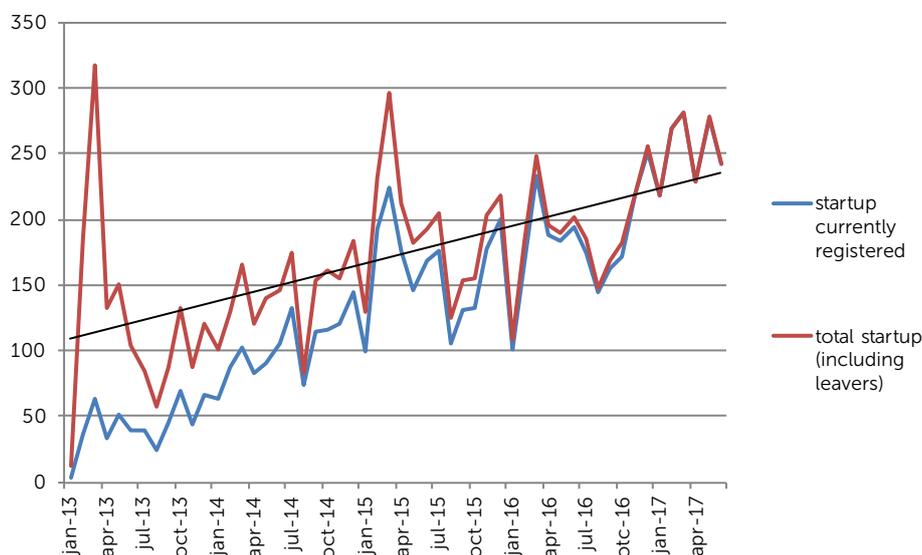
815 companies that lost this special status over the past year were incorporated before 18 December 2012, the final date for application of the temporary

¹⁰ It should be noted that there are 34 enterprises that belong to both categories, meaning that they both entered and left the special section in the last 12 months.

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regime discussed in the previous paragraph. 468 of these companies were incorporated in 2012, and a further 298 in 2013. As can be seen in Figure 2.1.4 below, which compares the monthly trends in registration in the special section among all startups that were registered at some point in that section (red line) and those currently registered – i.e. minus subsequent leavers (blue line, see Figure 2.1.1) –, a large part of the former innovative startups had access to this special status in the very first months after the policy was introduced.

Figure 2.1.4: Registrations in the special section by month, comparison between total startups and startups currently registered, January 2013 – June 2017



Source: Based on InfoCamere data

Analysis of the characteristics of the “former startups” suggests that the main reason for these enterprises having left the special section is that they no longer satisfy the requirements for registration in said section, which are established by art. 25, par. 3, of D.L. 179/2012. 929 of the recent leavers are still trading and a sizeable number of them (156 over the last 12 months) have subsequently opted to access the innovative SME regime¹¹. However, a significant number of enterprises (193) also ceased trading in the same period, often as a result of liquidation (98 cases) or official cancellation from the Business Register (67 cases). A further 86 are still trading, but are in the process of liquidation or bankruptcy.

Among the enterprises registered in the special section in the period concerned there are 1,225 firms incorporated in 2016, of which 328 in the first half of the year and 897 in the second half. There were 1,036 new registrations in the first half of 2017. Companies registered as startups in the last 12 months

¹¹ See [paragraph 2.2.2](#) for more details on this category of firms.



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but that were incorporated over a year and a half ago (before 2015) account for a considerable portion of the total, but this share has decreased over the years (416, or 15.5%). As observed in the previous paragraph, this confirms that innovative startups are increasingly opting for the special regime from the earliest stages of their activity.

As explained before, this year the special section is therefore characterised by the presence of a large number of new enterprises, as a result of the first real generational change since the policy was introduced. Despite this, there were 4,767 innovative startups, or two thirds of the total, registered in the special section at the end of June 2017 and that were already registered in this section 12 months previously, while there were 1,933 “new-borns”, i.e. registered and incorporated after 30 June 2016. This gives a formation rate of 32.5%.

In contrast, the closure rate remains extremely low, at 3.2%, similar to the percentage recorded in previous years. Although the policy has been in place now for over four and a half years, the number of former innovative startups that have ceased trading permanently is still relatively low, at 439 in total, less than 5% of all enterprises registered in the special section for innovative startups (4.7%). This aspect is examined in greater detail in the following paragraph (“The survival rate of innovative startups”).

In regional terms, although all areas of the country are recording a solidly positive balance between entries and exits, the trend is particularly marked for startups in Southern Italy. There were 619 new entries here, against 188 exits, resulting in a net positive balance (+431) close to the one recorded for North West Italy (+454), the area in which the vast majority of innovative startups are located (see paragraph 2.1.3). This is clearly the result of the relatively late adoption of the policy in Southern Italy, where registration of startups in the special section tends to occur later than for their counterparts in Northern and Central Italy.

Perhaps more surprising is the fact that the growth rate recorded in Southern Italy (31.3%) is almost 15 percentage points higher than in Central Italy (16.8%). The number of innovative startups registered in this part of the country (502 new entries, giving a net positive balance of +219) increased to a significantly lower extent than in other areas.

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Table 2.1.c: Summary: incoming and outgoing flows of innovative startups in the special section

		TOTALE
NUMBER OF STARTUPS AT 30 JUNE 2016		5,942
Registered between 1 July 2016 and 30 June 2017		2,681
of which:	incorporated after 30 June 2016	1,933
	incorporated before 30 June 2016	748
Removed from the special section between 1 July 2016 and 30 June 2017		1,216
of which:	ceased trading	193
	not trading, suspended, in liquidation/bankruptcy	93
	still trading	930
of which:	converted into innovative SMEs	156
	Registered in the ordinary section	774
NUMBER OF STARTUPS AT 30 JUNE 2017		7,398
Balance of registrations [(entries-exits)/initial number]		1,456 (+24.5%)
Formation rate		32.5%
Closure rate		3.2%

Source: InfoCamere

The survival rate of innovative startups

The survival rate recorded for innovative Italian startups is extremely high. This is confirmed by the low number of enterprises that have ceased trading out of all those registered, as discussed above. The analyses of enterprise demographics conducted by the National Institute for Statistics (Istat) on all Italian enterprises¹², indicate that around 80% of enterprises incorporated in 2014 were still trading the following year ("one-year survival rate"). For innovative startups, this percentage is 98.3% for 2014-2015 and 97.5% for 2015-2016.

However, compared with the figures recorded in previous editions of this Annual Report, and due to the increase in the total number of enterprises that have ceased trading, the survival rate has fallen overall. Although the two-year survival rate remains stable as a whole, at around 95% (95.3% for 2014-2016, 95.9% for 2015-2017), the number of closures among startups incorporated in 2013 or in previous years is no longer negligible, and stands at around 10%. More specifically, "only" 89.3% of the innovative startups incorporated in 2013 were still trading as at 30 June 2017 (Table 2.1.d).

12 National Institute for Statistics (Istat), "Enterprise demographics", 2010-2015, published on 24 August 2017.



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Table 2.1.d: Survival rate of innovative startups

YEAR OF INCORPORATION	SURVIVAL RATE BY YEAR					
	2012	2013	2014	2015	2016	2017 I
2011	100%	100.0%	98.5%	95.9%	92.8%	90.5%
2012	100%	99.8%	97.9%	95.3%	92.3%	90.1%
2013		100.0%	98.0%	95.2%	91.3%	89.3%
2014			99.8%	98.3%	95.3%	93.6%
2015				99.5%	97.5%	95.9%
2016					99.8%	99.2%
2017						99.8%

Source: Based on InfoCamere data

The 2016 edition of this Annual Report (paragraph 2.1.2, p. 49) offered several possible explanations for the high survival rate of enterprises currently or previously registered as innovative startups. These include:

- The slow go-to-market of many innovative Italian startups, as attested by the high number of enterprises registered with zero or extremely low turnover in the early years of trading (see paragraph 2.1.10); startups therefore frequently remain “suspended” for lengthy periods in an innovative product development phase before they obtain market feedback;
- The characteristics of certain incentive measures provided by the policy, including an exemption from Chamber of Commerce annual costs, extension of the period allowed for the reinstatement of share capital in the event of a loss, tax breaks for dummy companies or those operating at a loss, may favour the survival of some businesses, even those without a significant sales volume, thus extending the research and development phase;
- Compared to English-speaking countries – to which a large part of the statistics on the startup failure rate refers¹³ – barriers to entry may be higher in Italy, as a result of both regulatory (such as higher startup costs, at least before the new online and free startup procedure for incorporation was introduced) and cultural factors (a negative perception of failure).
- barriers to entry may be higher in Italy, as a result of both regulatory (such as higher startup costs, at least before the new online and free startup procedure for incorporation was introduced) and cultural factors (a negative perception of failure).

13 For an examination of the survival rate of “startups”, which refer to newly incorporated enterprises that are not necessarily technologically innovative, which also extends the focus to other OECD member countries, see F. Calvino, C. Criscuolo and C. Menon (2015), “Cross-country evidence on start-up dynamics”, OECD Science, Technology and Industry Working Papers, 2015/06, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5jrxtkb9mxtb-en>.

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2.1.3 GEOGRAPHICAL DISTRIBUTION

30 June 2017 shows that over half of innovative Italian startups (4,085 out of 7,398, or 55.2%) are located in Northern Italy, with 30.4% in the North West and 24.8% in the North East. Just over 20% of the startups are located in Central Italy (1,523, or 20.6%), and just under one quarter (1,790, or 24.2%) in Southern Italy (South and Islands).

Compared with the reference date used for the previous Annual Report (30 June 2016), a slightly higher percentage of startups (up from 22.9% to 24.2% of the total) are located in the Southern Italian regions. Precisely one quarter of the innovative startups registered in the first six months of 2017 are located in Southern Italy. In contrast, the percentage of innovative enterprises based in Central Italy has fallen (from 21.9% to 20.6%), while the percentage in the Northern Italian regions remains basically unchanged.

Table 2.1.e: Registered innovative startups by macro-area, numbers at the end of the year

AREA	31-12-2013		31-12-2014		31-12-2015		31-12-2016		30-06-2017	
	Number	%								
North West Italy	455	31%	981	31.4%	1,589	31%	2,078	30.8%	2,251	30.4%
North East Italy	413	28.1%	795	25.5%	1,266	24.7%	1,676	24.8%	1,834	24.8%
Central Italy	344	23.4%	677	21.7%	1,119	21.8%	1,442	21.4%	1,523	20.6%
Southern Italy	257	17.5%	668	21.4%	1,159	22.6%	1,552	23%	1,790	24.2%
TOTAL	1,469	100%	3,121	100%	5,133	100%	6,748	100%	7,398	100%

Source: InfoCamere



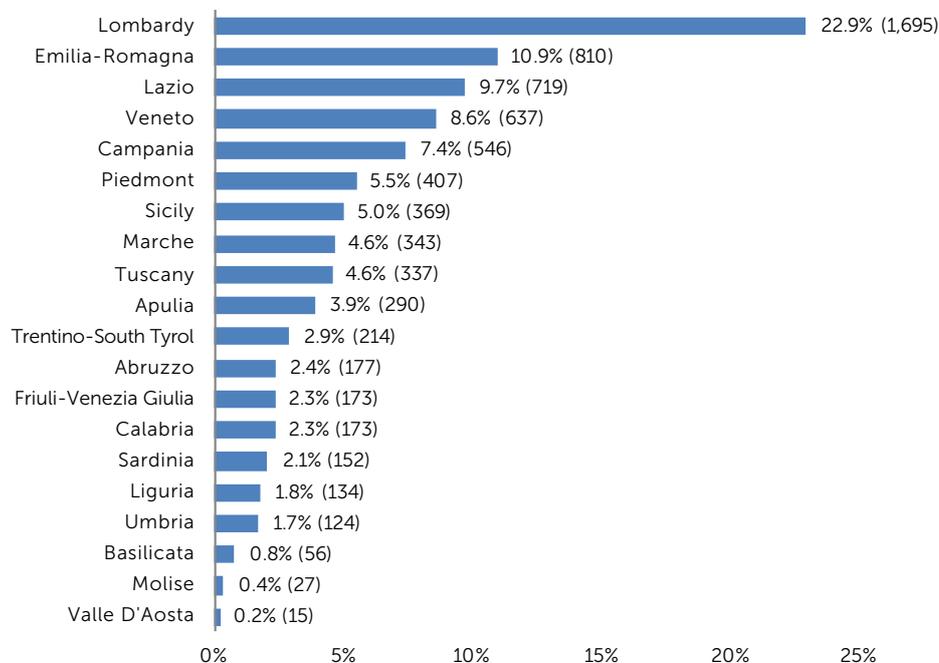
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Distribution by region

The Italian region with the highest number of innovative startups is still Lombardy, with 1,695 enterprises, or 22.9% of the national total. This is followed by Emilia-Romagna, in second place, like last year, with 810 enterprises (10.9%), then Lazio with 719 (9.7%), Veneto with 637 (8.6%) and Campania which, with 546 startups (7.4%), outstrips Piedmont and is first among the Southern Italian regions. Reasonable numbers were recorded in the Southern Italian regions of Sicily and Apulia, where the number of startups has also significantly risen with respect to twelve months ago.

Figure 2.1.5: Ranking of Italian regions by percentage of the national total of innovative startups



Source: InfoCamere

Overall, innovative startups account for 0.67% of limited companies trading¹⁴ in Italy, i.e. there are 67 startups for every 10,000 companies. However, it is important to remember that this percentage is calculated on a group that is physiologically much broader, without distinguishing between recently incorporated companies and others.

¹⁴ In this Annual Report, the percentage of innovative startups is calculated on the total number of limited companies trading as at 30 June 2017. Since innovative startups are, by definition, operational limited companies – as they would lose their special section status if they were not – excluding companies that have ceased trading, this provides a more accurate estimate of the actual percentage of these companies out of the total operating in Italy. In contrast, the [quarterly monitoring reports](#) published by MISE, InfoCamere and UnionCamere calculate the percentage of innovative startups out of the total number of limited companies registered in the Business Register, which was 0.46% as at 30 June 2017.

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The highest percentage of innovative startups is in the North East (0.87%), particularly in Trentino-South Tyrol, the region with the highest percentage overall (1.34%), and in Friuli-Venezia Giulia. The North West is close behind (0.7%), with Lombardy and the Piedmont ranking highest in the macro-area. Central Italy, with 0.54%, is home to both the region with the second highest national percentage, the Marche, and the two regions ranked lowest, Lazio and Tuscany. The percentage of startups is slightly higher in the regions of Southern Italy (0.59%), primarily due to the high percentage recorded in Calabria and Basilicata. The table below shows the percentage of startups by region (Table 2.1.f).

Table 2.1.f: Percentage of innovative startups out of the total number of trading limited companies, by region and by macro-area

REGIONE	INNOVATIVE STARTUPS	TRADING LIMITED COMPANIES	PERCENTAGE	#
Trentino-South Tyrol	214	15,938	1.34%	1
Marche	343	28,824	1.19%	2
Friuli-Venezia Giulia	173	17,492	0.99%	3
Emilia-Romagna	808	86,107	0.94%	4
Valle D'Aosta	15	1,628	0.92%	5
Umbria	124	14,758	0.84%	6
Calabria	173	22,261	0.78%	7
Basilicata	56	7,563	0.74%	8
Piedmont	407	57,084	0.71%	9
Lombardy	1,693	240,055	0.71%	10
Veneto	636	91,443	0.70%	11
Sardinia	152	22,140	0.69%	12
Sicily	352	52,169	0.67%	13
Abruzzo	177	26,482	0.67%	14
Liguria	134	21,868	0.61%	15
Molise	27	4,746	0.57%	16
Campania	546	105,648	0.52%	17
Apulia	306	59,689	0.51%	18
Tuscany	336	74,954	0.45%	19
Lazio	719	161,522	0.45%	20
Total North West Italy	2,249	320,635	0.70%	
Total North East Italy	1,831	210,980	0.87%	
Total Central Italy	1,522	280,058	0.54%	
Total Southern Italy	1,789	300,698	0.59%	
Total Italy	7,398	1,112,371	0.67%	

Source: InfoCamere



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Figure 2.1.6: Mapping of Italian regions by number of innovative startups

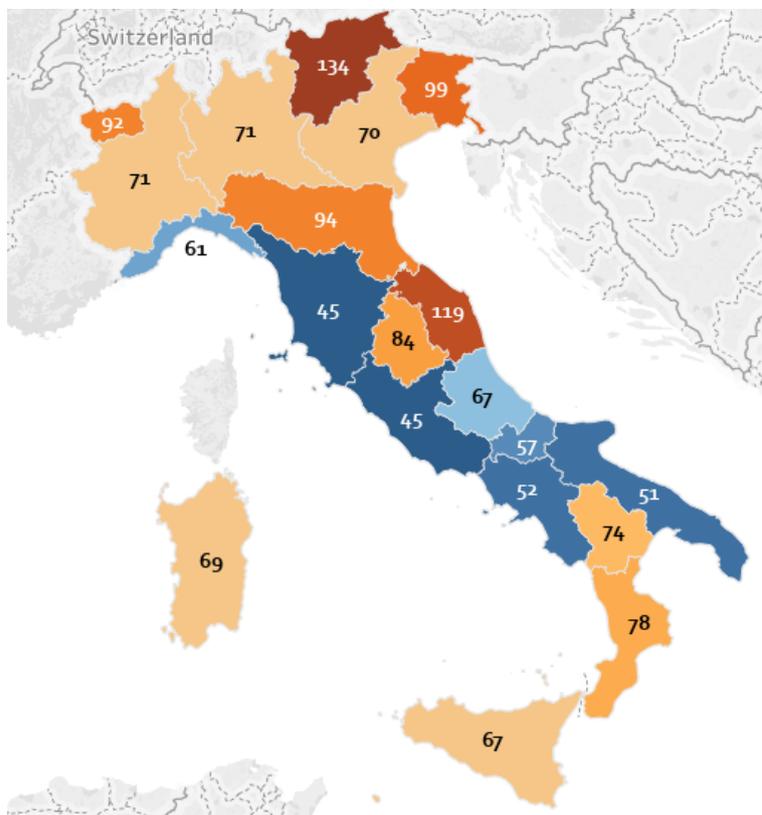


Key: Shades of green: provinces with a lower number of startups than the national average; shades of yellow/red: provinces with a higher number of startups than the national average.

Source: based on InfoCamere data (software used: Tableau Public 10.3)

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Figure 2.1.7: Mapping of Italian regions by percentage of innovative startups out of the total number of limited companies (number per 10,000 limited companies)



Key: Shades of blue: startup percentage lower than the national average (0.67%); shades of orange: startup percentage higher than the national average

Source: based on InfoCamere data (software used: Tableau Public 10.3)

Distribution by province

In greater detail, distribution by province¹⁵ shows that all of 1,162 startups, or 15.7% of the national total, are located in the metropolitan area of Milan, almost twice the number located in Rome (625, or 8.4%), and over four times the number in the third city in the ranking, Turin (285, or 3.9%).

In 19 Italian provinces there are over 100 innovative startups registered in the special section. A large part of these provinces are in Northern Italy. The provinces of Central Italy are Rome, Florence and Ancona, whilst those of Southern Italy are Naples, Bari, Salerno and Palermo.

There are also seven startups with registered offices in other EU countries - mostly in London - with a branch office in Italy, as permitted under D.L. 179/2012.

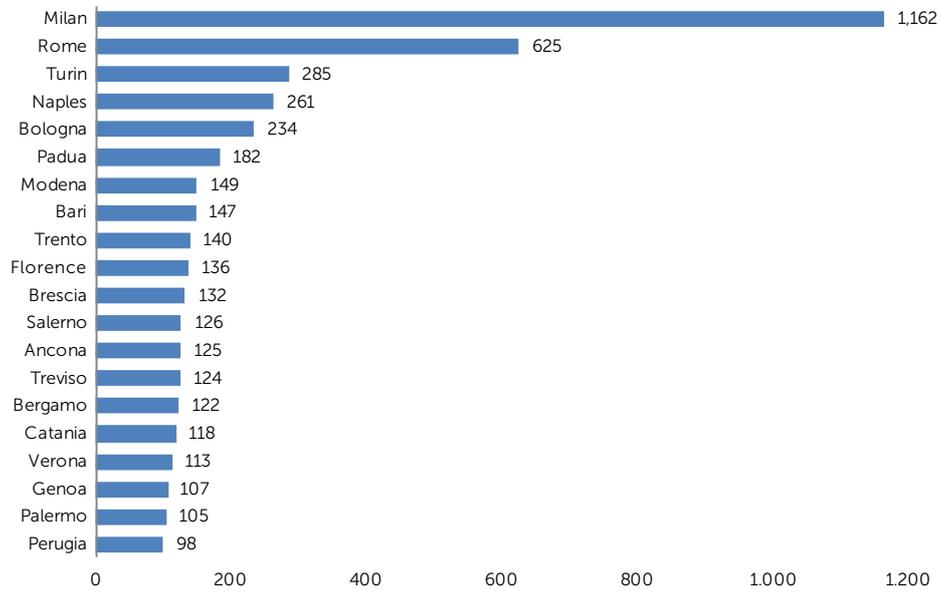
¹⁵ Figures on distribution by province provided by the Chambers of Commerce system do not include two provincial authorities that existed as at 30 June 2017: South Sardinia (incorporated into the province of Cagliari) and Barletta-Andria-Trani (incorporated into the province of Bari).



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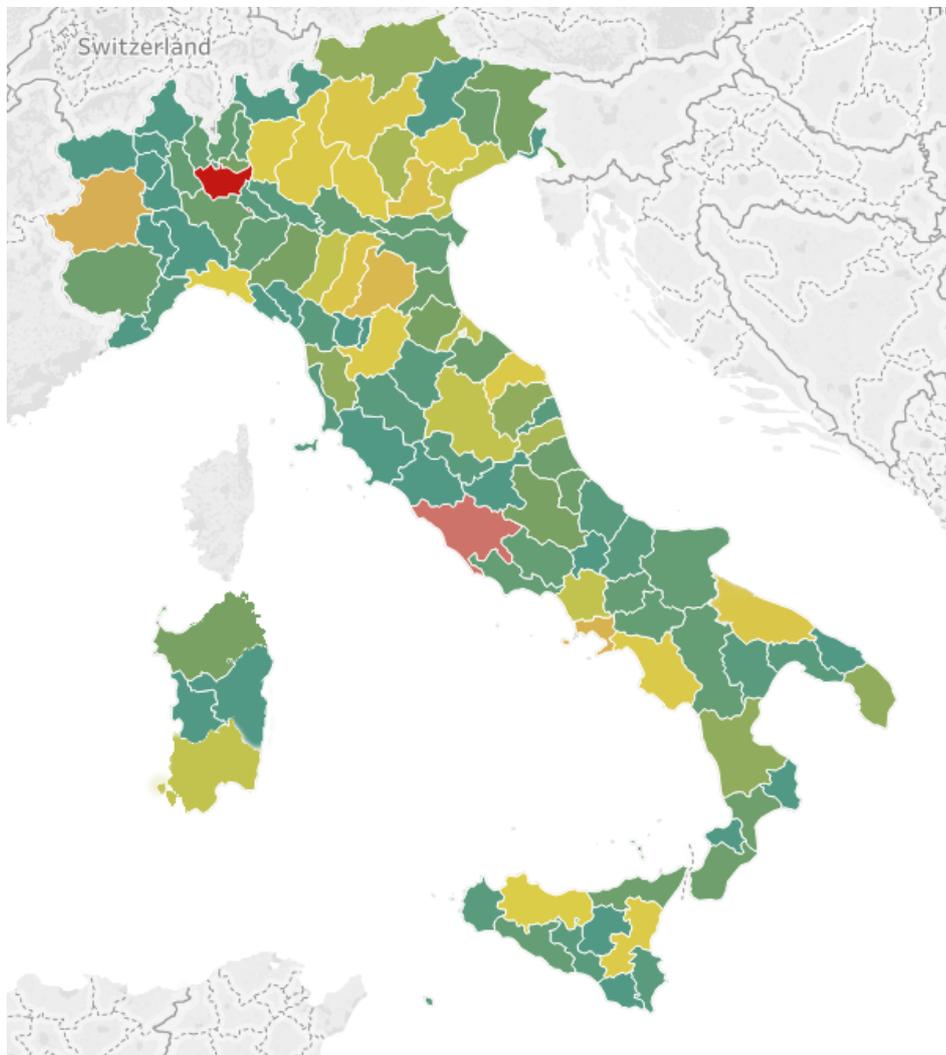
Figure 2.1.8: Ranking of the top 20 Italian provinces by number of innovative startups



Source: Based on InfoCamere data

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Figure 2.1.9: Mapping of Italian provinces by number of innovative startups



Key: shades of green: provinces with under 100 registered startups; shades of yellow/red: provinces with over 100 registered startups

Source: based on InfoCamere data (software used: Tableau Public 10.3)

Compared with a national average of 0.67%, the rate of innovative startups out of the total number of limited companies currently trading vary greatly from province to province.

The two provinces with the highest percentage of startups are Ascoli Piceno and Trieste, where innovative startups account for 1.88% of all currently trading limited companies. The province of Prato is at the opposite end of the ranking, with just 9 startups out of 6,700 currently trading companies, or just 0.13%.

Figure 2.1.9 shows a heavy concentration of provinces with a high percentage of startups in North East Italy, where three out of the first five in the ranking – Trieste, Trento and Rimini – are located. In addition to provinces in the Marche



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region and Ascoli Piceno, Central Italy has two provinces in the top 10: Ancona (in 4th place) and Macerata (in 6th place). There are also several provinces in Southern Italy with a high percentage of innovative startups: in one case, L'Aquila, this is over 1% (1.04%, in 8th place). Catanzaro (0.97%), Reggio Calabria (0.91%) and Cagliari (0.89%) are also among the top 20 (Table 2.1.g).

One particularly significant statistic was found for Milan, where almost 1% of the around 120,000 limited companies currently trading in the city and in the surrounding metropolitan area are registered in the special section for startups, which is well above the national average, placing it tenth in the national ranking. Lower percentages were recorded in the other large Italian provinces, excluding Bologna (7th in the ranking). The figures for Rome (0.47%, 71st in the ranking) and Naples (0.45%, 72nd in the ranking) stand out.

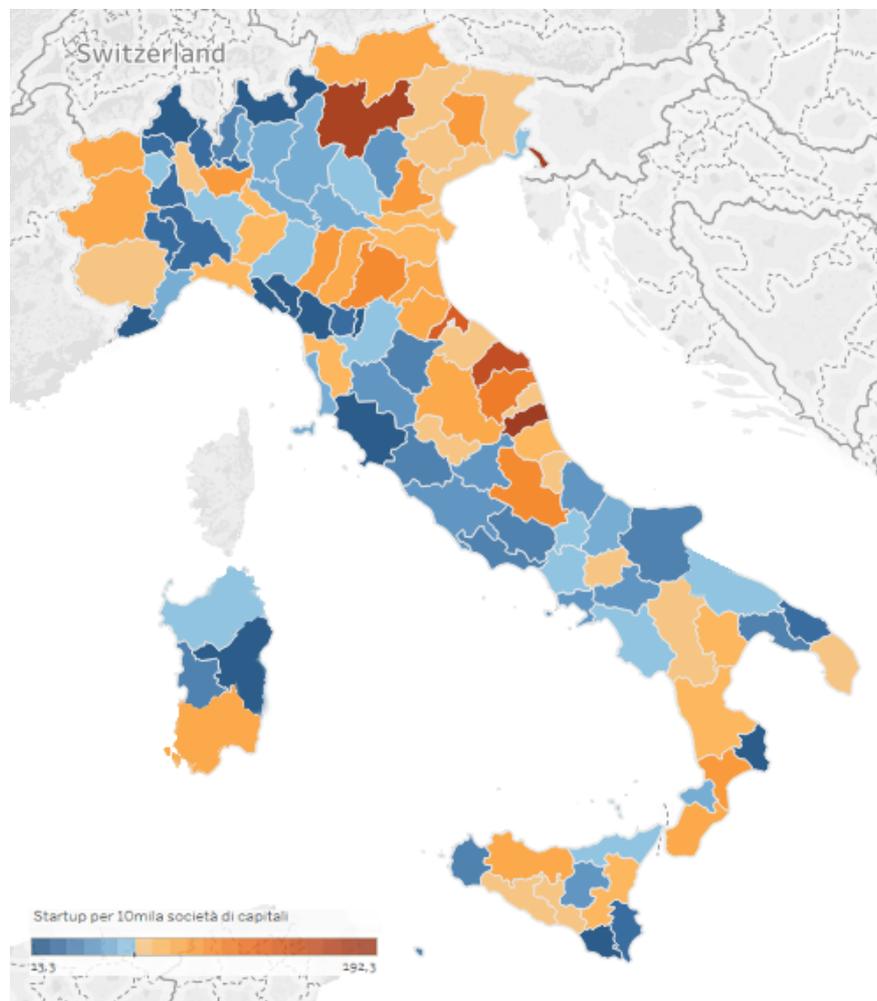
Table 2.1.g: Percentage of innovative startups out of the entire universe of currently trading limited companies: top 20 provinces

	PROVINCE	NO. INNOVATIVE STARTUPS	NO. TRADING LIMITED COMPANIES	#
1	Ascoli Piceno	81	4,305	1.88%
2	Trieste	58	3,092	1.88%
3	Trento	140	7,976	1.76%
4	Ancona	125	8,014	1.56%
5	Rimini	89	6,424	1.39%
6	Macerata	65	5,827	1.12%
7	Bologna	233	21,207	1.10%
8	L'Aquila	52	4,982	1.04%
9	Pordenone	44	4,506	0.98%
10	Milan	1,160	119,931	0.97%
11	Catanzaro	45	4,653	0.97%
12	Padua	181	18,939	0.96%
13	Reggio Emilia	94	10,026	0.94%
14	Bolzano	74	7,962	0.93%
15	Aosta	15	1,628	0.92%
16	Reggio Calabria	45	4,929	0.91%
17	Modena	149	16,532	0.90%
18	Turin	285	32,022	0.89%
19	Cagliari	91	10,270	0.89%
20	Perugia	98	11,172	0.88%

Fonte: InfoCamere

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Figure 2.1.10: Mapping of Italian provinces by percentage of innovative startups out of the total number of limited companies



Key: blue: startup percentage lower than the national average (0.67%); orange: startup percentage higher than the national average

Source: based on InfoCamere data (software used: Tableau Public 10.3)

Distribution by municipality

Going into further detail, analysis at municipal level shows that six Italian cities are home to more than 100 innovative startups: Milan, Rome, Turin, Naples, Bologna and Padua. Only the Municipality of Milan has over 1,000 startups (1,028). There is at least one innovative enterprise in 1,414 Italian municipalities – out of a total of about 8,000.

Around 30% of Italian startups are located in the country's major cities (those with over 500,000 inhabitants) and most are based in municipalities with over 100,000 inhabitants (Figure 2.1.11). However, it is also interesting to note the percentage of enterprises in small and medium sized cities: almost

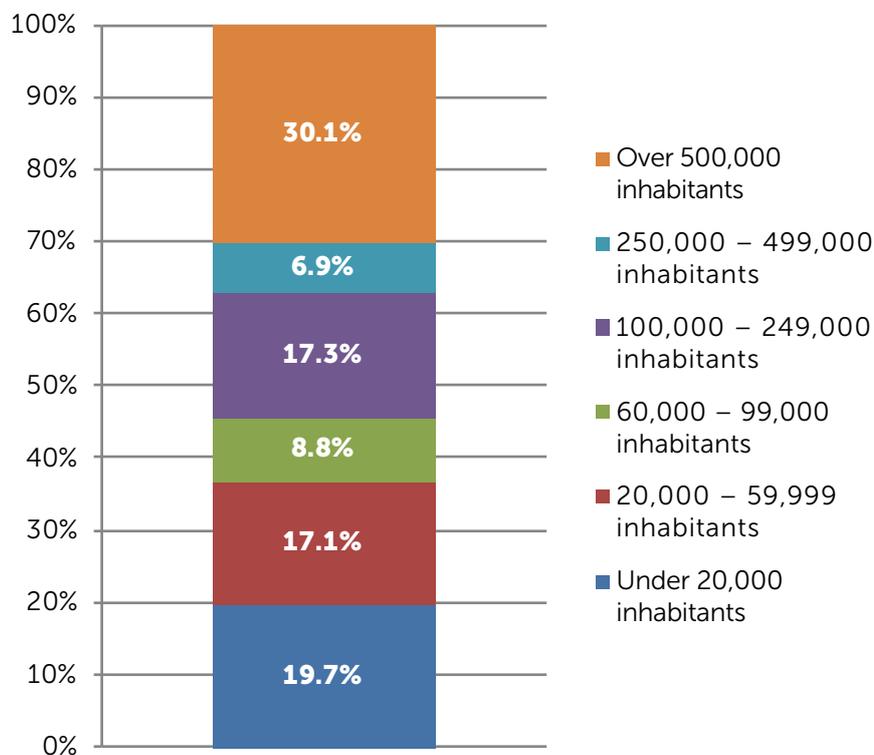


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20% of Italian innovative startups are located in municipalities with less than 20,000 inhabitants, and a further 17% in those with between 20,000 and 60,000 inhabitants. These two categories include several university, such as Rovereto (Trento, 48 startups), Rende (Cosenza, 41 startups), and the even smaller Fisciano (Salerno, 16 startups) and Camerino (Macerata, 12 startups). It is immediately clear that there are also “clusters” in provincial areas where certified incubators are based, such as Jesi (Ancona, 27 startups) and Roncade (Treviso, 16 startups).

Figure 2.1.11: Distribution of innovative startups by municipality, divided by demographic class (art. 156 TUEL [Local Entity Laws Consolidation Act])



Source: Based on InfoCamere and Istat (2017) data

The data confirms that innovative startups are now widely present in almost all areas of the country. The most highly populated Italian municipality with no innovative startups – Marano di Napoli, with 60,000 inhabitants – is not even among top 100 municipalities by population. Most Italian municipalities with over 20,000 inhabitants but no innovative startups are located in Central and Southern Italy (e.g. Bagheria, Modica, Terracina and Gravina in Puglia) and near large cities (e.g. Nichelino, Torre Annunziata, Ladispoli, Ciampino and San Giuliano Milanese).

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2.1.4 DISTRIBUTION BY SECTOR

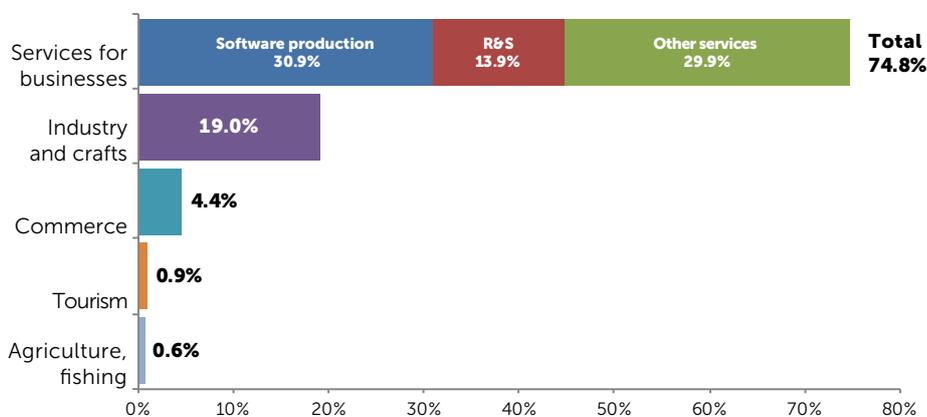
Analysis of the distribution by sector (Figure 2.1.12) based on the **Ateco 2007** classification shows that the majority of innovative startups (5,531, or 74.8%) operates in the services for business sector. The most prominent activities are ICT services (activity section "J", performed by 42.9 % of startups), including the sub-categories "Computer programming, consultancy and related activities" (Ateco "J 62": 30.9%) and "Data processing, hosting and related activities; web portals" (Ateco "J 63": 8.9%). A considerable percentage of innovative startups are categorised under "Research and experimental development on natural sciences and engineering" ("M 72": 13.9%).

19% of innovative startups operate in the industry and crafts sectors. The most common Ateco manufacturing codes listed are "Manufacture of general-purpose machinery" ("C 28": 3.6%), "Manufacture of electronic components and optical equipment" ("C 26": 3.4%), "Manufacture of electrical equipment" ("C 27": 2%).

Commerce accounts for just 4.4% of the total, while tourism and the primary sector (agriculture/fishing) account for just over 1% (0.9% and 0.3% respectively).

The percentage of innovative startups out of the national total of limited companies currently operating in the research and experimental development on natural sciences and engineering sector is 26.2%. This means that one in four Italian enterprises with Ateco code "J 63 –Research and experimental development on natural sciences and engineering" is an innovative startup. This percentage is particularly high in the software production sector, where 8.6% of all enterprises with Ateco code "J 62" is an innovative startup. Both values appear to be particularly significant when compared with the total percentage of innovative startups out of all limited companies (both trading and inactive), which stands at 0.4%.

Figure 2.1.12: Innovative startups in the main sectors of the economy



Source: Based on InfoCamere data



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Several remarks on these figures must be made here, in view of the intrinsic limitations of the Ateco classification system. This classification is not always precise and entirely explanatory in describing the products and services supplied by innovative startups. A prime example of this in the case of manufacturing startups is that the code that indicates “production of computers” (“C 26”) is also used for electronic components and even optical equipment.

The goods and services produced by startups are innovative by definition, but a system as inevitably inflexible as the Ateco classification is incapable of acknowledging this quality. This problem is particularly evident in sectors such as the Internet of Things, which includes hardware and software. Startups operating in this sector, although relatively similar to each other, may be classified in both the manufacturing macro-sector and the services macro-sector, depending on whether the hardware or software is classified as the main product. More generally speaking, as the importance of services in manufacturing (the process whereby a product is no longer supplied or sold on its own, but in combination with a service) continues to increase, the division between the services sector and the manufacturing sector fades.

MISE introduced the **#ItalyFrontiers** platform in October 2015, in collaboration with the Chambers of Commerce system, to improve recognition of the business models adopted by startups. This platform accompanies the Ateco codes with a second sector classification comprising self-descriptive tags, i.e. key words selected by the enterprise itself to describe the principal features of its activity more precisely.

2.1.5 STARTUPS WITH A SOCIAL GOAL AND CLEANTECH STARTUPS

The definition of innovative startup given by Decree-law 179/2012 (art. 25, par. 2) does not set any limitations on business sector as the main aim of the measure is to promote technological innovation in all production sectors.

The only prescribed differentiation in the definition covers innovative startups with a “social goal” (SIAVS). According to art. 25, par. 4, SIAVS must satisfy the same requirements as other innovative startups, and operate in certain specific sectors that art. 2, par. 1, of **Legislative Decree 155/2006** (“*Rules on social enterprise*”, revised by the recent reform of the Voluntary Sector) considers to have significant social value¹⁶.

The status of SIAVS is granted according to the procedures laid down in MISE **Circular 3677/C**, which requires the submission of self-certification accompanied by a “**Social Impact Report**”, which must be revised at each annual representation confirming the requirements pursuant to Decree-law 179/2012, art. 25, par. 15. The “Social Impact Report” describes the expected

¹⁶ The sectors identified in said measure are: social service, healthcare services, education and training, protection of the environment and ecosystems; cultural heritage; social tourism; university and post-university education; research and delivery of cultural services; extra-curricular training to help improve school attendance and encourage academic success; instrumental services for social ventures provided by bodies, of which at least 70% constitute organisations that perform a social venture.

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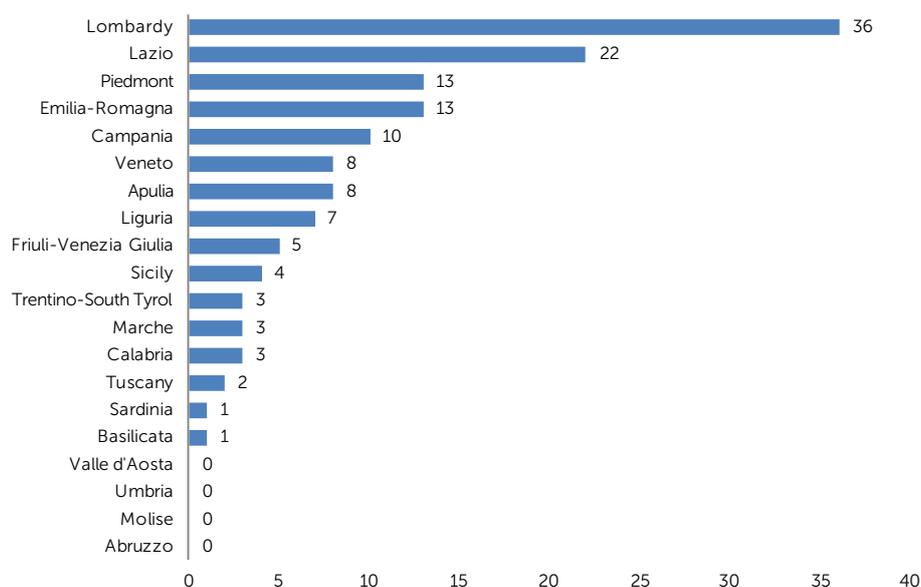
impact for newly incorporated enterprises or those which have yet to file their first statement of accounts, and also the impact produced by enterprises that have already filed their first statement of accounts.

Up until the 2016 tax year, investors in SIAVS were granted an increased tax incentive on the amount invested. This was a deduction of 25% for individuals and 27% for corporations, compared with the standard rates of 19% and 25% (see [paragraph 3.4](#) of this report). The 2017 Budget Law increased this rate to 30% for all innovative startups, including SIAVS. The incentive is therefore now applied at the same rate, without distinctions.

There were 139 innovative startups registered as SIAVS as at 30 June 2017, 46 more than last year.

40% are located in North West Italy and 36 are in Lombardy (22 in Milan). Lazio is next, with 22 (21 in Rome), followed by Emilia-Romagna, Piedmont (13 each) and Campania (10). Four regions have no SIAVS (Abruzzo, Molise, Umbria and Valle d'Aosta).

Figure 2.1.13: Ranking of Italian regions by number of SIAVS



Source: Based on InfoCamere data

Almost 90% of SIAVS operate in the services macro-sector, particularly research and development (18%), education (13.7%) and healthcare and social services (12.9%). The total turnover of the 102 startups "with a social goal" that have already filed a statement of accounts is €8,471,173.

There are 65 SIAVS with at least one employee and as many as 55 (84.6%) of them have between zero and four employees, while seven (10.8%) have between five and nine employees and only three have over 10 employees. The total number of employees is 174 people.



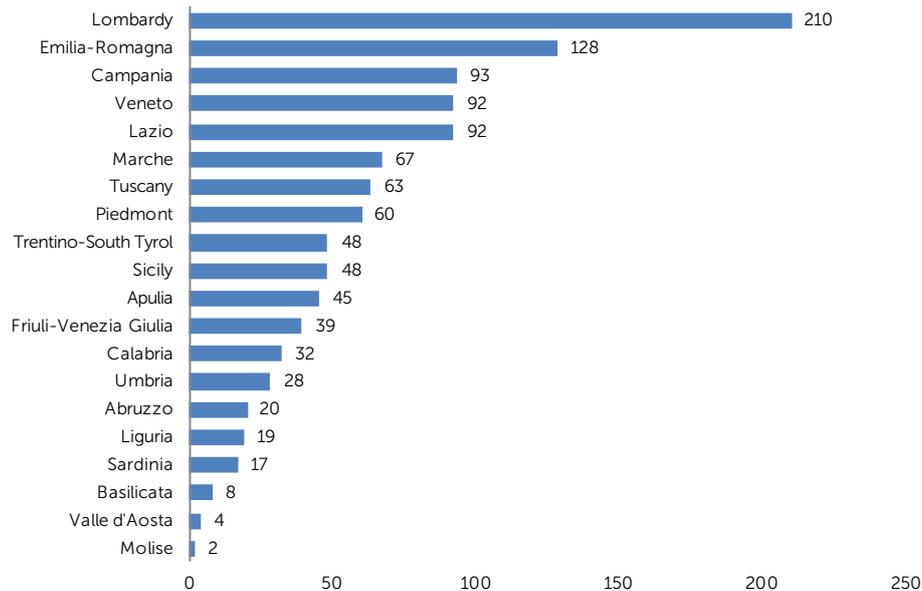
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Another type of innovative startup entitled to the same incentives described for SIAVS up until 2016 was enterprises that develop and market innovative products or services with high technological value in the energy industry (cleantech enterprises). This category covers enterprises with a primary and secondary Ateco code on the list defined by the **decree** passed on 30 January 2014 by the Minister of the Economy and Finance, jointly with MISE.

As at 30 June 2017, there were 1,115 cleantech enterprises, up by 495 compared with the same date the previous year. Most of these enterprises are located in the regions of North East Italy (307, or 27.5%) and Lombardy is once again in the lead, with 210 enterprises. Emilia-Romagna is next, with 128, followed by Campania, with 93 (see Figure 2.1.14). At metropolitan city level, Milan is first (108, 92 in the provincial capital), followed by Rome (75) and Naples (43). Rovereto (Trento) presents an interesting case among municipalities that are not provincial capitals, being ranked seventh with 17 cleantech startups.

Figure 2.1.14: Ranking of Italian regions by number of cleantech startups



Source: Based on InfoCamere data

The 2016 turnover of these enterprises (data available for 68.8%) exceeded €120 million, an average of around €156,550 each. The 428 cleantech startups with at least one employee employ a total workforce of 1,270 people (an average of 3 employees each). The overwhelming majority of cleantech innovative startups (87.8%) have as main Ateco code "M 72: Research and experimental development on natural sciences and engineering".

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2.1.6 LEGAL FORM

Most innovative startups have chosen to be incorporated under the status of "s.r.l." (the Italian equivalent of a limited liability company). At the end of June 2017, 6,130 startups registered in the special section (82.7%) opted for this legal form, and as many as 1,897 of these startups were incorporated over the course of the last year (see Figure 2.1.15). Although s.r.l. was already by far the most commonly used company form for innovative Italian startups, introduction of the new online procedure for incorporation of innovative startups (see chap. 3.1), which only this legal form is eligible for, unquestionably increased this preference even further.

In contrast, introduction of the new procedure for incorporation led to a gradual decrease in use of the simplified s.r.l. (s.r.l.s.). However, there are still a considerable number of innovative startups incorporated in this form, 1,000 to be precise (13.5% of the total, against 14.8% one year ago). There are also 60 "s.r.l. a socio unico" (single-member s.r.l.) and "s.r.l. a capitale ridotto" (reduced capital s.r.l.) and six limited consortium companies (s.c.a.r.l.).

The remaining startups, accounting for less than 5% of the total, are cooperatives (130, or 1.8%) and "società per azioni" (s.p.a.), the Italian equivalent to a British plc (65 enterprises, or 0.9%). There are also five companies incorporated according to the laws of another State¹⁷ – all with their head office in the UK and a production site or branch in Italy – and two Societates Europaeae.

Table 2.1.g: Legal form of innovative startups

LEGAL FORM	NUMBER OF STARTUPS	PERCENTAGE
S.r.l.	6,130	82.9%
Simplified s.r.l.	1,000	13.5%
Cooperatives	130	1.8%
"Società per azioni" (s.p.a.), equivalent to a British plc	65	0.9%
Single-member limited liability company	60	0.8%
Limited liability consortium company	6	0.1%
Company incorporated under the laws of another State	5	0.1%
Societas Europaea	2	0.03%
TOTAL	7,398	100%

Fonte: InfoCamere

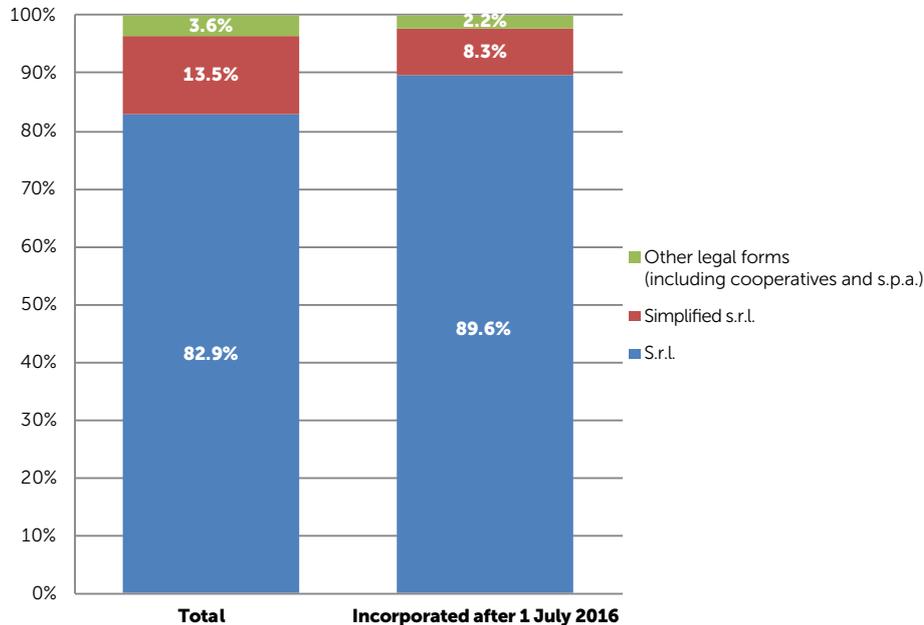
¹⁷ The amendments introduced by Decree-law 3/2015 allowed the regulations on innovative startups to be applied to companies resident in one of the EU Member States or in members of the European Economic Area agreement, provided that they have a production site or branch in Italy, and also meet the other requirements provided for in art. 25, par. 2, of Decree-law 179/2012.



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Figure 2.1.15: Percentage distribution of innovative startups by legal form, in total and incorporated as of 1 July 2016



Source: Based on InfoCamere data

2.1.7 INNOVATIVENESS REQUIREMENTS SELECTED

In order to be classified as an innovative startup, a company must not only meet all the requirements set out under art. 25, par.2, letters b) to g) of Decree-law 179/2012, but also possess at least one of the three additional objective characteristics designed to specifically categorise the type of innovation that the company offers. These requirements are listed under art. 25, par. 2, letter h):

1. a minimum of 15% of expenditure in R&D, on the difference between cost and total turnover;
2. one third of the workforce made up of PhD holders, PhD students or researchers, or alternatively two thirds consisting of employees with a master's degree or equivalent;
3. the firm is the owner, holder or licensee of a patent or the owner of a registered original computer program, provided that it relates directly to the company's corporate purpose.

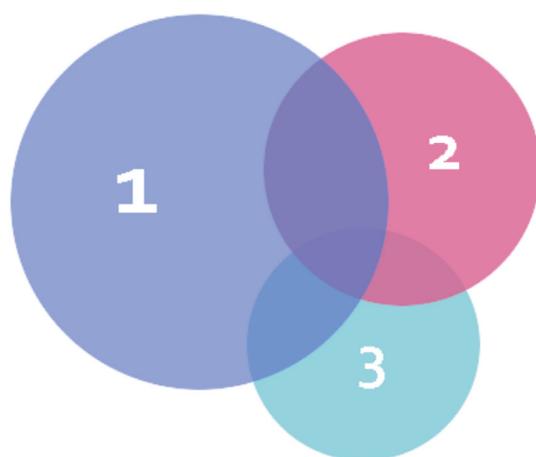
The first requirement of a minimum of 15% of expenditure in R&D is fulfilled by almost two thirds of the innovative startups currently registered (4,694 startups, or 64.1%). In contrast, just over one in four opted to fulfil the requirement of a qualified workforce (2,031, or 27.8%), and less than 20% declared to be in possession of intellectual property rights (1,366, or 18.7%).

As these figures suggest, a significant number of startups (618, around 8.5% of the total) fulfils more than one innovativeness requirement, even though

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it is not obligatory to declare that, and no incentive exists for companies that choose to do so. As shown in Figure 2.1.16 below, 3.5% of startups declared that they satisfied the 1st and 2nd requirements, 1.9% the 1st and 3rd requirements and 1% the 2nd and 3rd requirements. In addition, 155 of these innovative startups (2.1% of the total) declared that they meet all innovativeness requirements.

Figure 2.1.16: Innovativeness requirements selected by the startups



Key:

- Only 1st requirement (R&D): 4,146 startups
- Only 2nd requirement (qualified personnel): 1,551 startups
- Only 3rd requirement (IP): 1,003 startups
- ■ 1st and 2nd requirement: 255 startups
- ■ 1st and 3rd requirement: 138 startups
- ■ 2nd and 3rd requirement: 80 startups
- ■ ■ All requirements: 155 startups

Source: based on InfoCamere data (applet used: Chow, Rodgers 2005)

At the regional level, distribution of the requirements by macro-area basically retraces the distribution seen for the universe of startups. However, a large percentage of enterprises declaring that they meet all the innovativeness requirements are located in Southern Italy, totalling 74, or 47.7% of the national total with this distinctive trait.

The figures on the economic activity sectors show that startups in the 'Industry and Crafts' macro-sector tend to more commonly declare to be in possession of a form of intellectual property. Manufacturing enterprises account for 35.4% of the total number of startups with patents, even though the figure for this sector out of the universe of innovative startups is around 19%.



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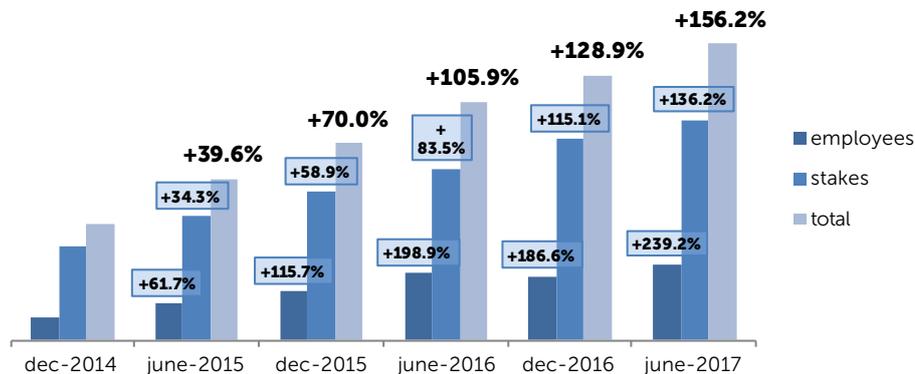
2.1.8 WORKFORCE: EMPLOYEES AND SHAREHOLDERS

Innovative startups employ a total workforce of 34,120 people, comprising 10,262 employees and 23,858 shareholders. There has been an increase of 2,033 people (6.3%) compared with the 32,087 people employed as at 30 June 2016.

The term 'employee' means anyone under a subordinate employment agreement with the company, including part-time and seasonal workers. The statistics available do not allow this calculation to take account of self-employed personnel, such as workers on consultancy contracts.

There are 3,150 innovative startups with at least one employee, with an average of 3.3 employees per enterprise and a median of two. Consequently, this means that around half the startups with employees employ one or two workers. The workforce of innovative startups has increased by 1,220 people (13.5%) compared with 30 June 2016.

Figure 2.1.17: Growth in number of employees and shareholders of innovative startups compared with the end of 2014, figures by half year



Source: Based on InfoCamere data

The figures in the special section of the Business Register allow for a detailed analysis of the structure of the shareholder bodies of the 6,933 innovative startups with individuals as shareholders, and in particular of the shareholder profiles, such as their gender and age. Startups have an average of 3.6 shareholders each, which is significantly higher than the number recorded for the total limited companies (2.54).

Table 2.1.i below confirms the predomination of men among startup shareholders, as 79.6% are men and just over 20.4% are women. Women hold majority shares in around 15% of the startups and 100% of the shares in around one third of these cases.

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Table 2.1.i: Focus on stakes held by women in the share capital of innovative startups

STAKES HELD BY WOMEN IN INNOVATIVE STARTUPS	#	%
Startups with at least one female shareholder	2,909	39.9%
Startups in which women hold the majority of shares (50%+1)	1,050	14.4%
Startups with more female than male shareholders (50%+1)	685	9.9%
Startups with only female shareholders (100%)	359	4.9%
Average female shareholders per startup	0.71 per startup	
Average male shareholders per startup	2.89 per startup	
Average shareholders per startup	3.59 per startup	

Source: Based on InfoCamere data

The average age of shareholders is 43 years and 11 months. Just over one quarter are under 35 years' old, two thirds between 35 and 54 years' old and the remaining one quarter over 54 years' old.

Shareholders' age is in inverse proportion to the average value of the shares they hold, with the split occurring at around 45 years of age: the younger shareholders hold a higher number of stakes, but the value of these stakes is proportionately lower if the over-45s are taken into account. This trend intensifies in both directions, in an almost linear fashion, the further it moves from the threshold of 45 years of age. In fact, although the under-45s account for 56.8% of the shareholders, they only hold 41.3% of the share value. This gap is even wider if the under-35s are also considered, who account for 26.2% of the shareholders, but hold less than 16% of the share value. Conversely, the average share value increases with age.

Table 2.1.l: Distribution of stakes in the share capital of innovative startups by age bracket

AGE BRACKET	INDIVIDUAL SHAREHOLDERS	%	SHARE VALUE HELD	% (FOR SHARES OF INDIVIDUAL SHAREHOLDERS)	AVERAGE SHARE VALUE HELD (IN €)
18-24	744	2.8%	2,924,310	1.5%	4,016.9
25-34	6,130	23.4%	27,360,655	14.3%	4,573.1
35-44	8,016	30.6%	48,881,695	25.5%	6,279.8
45-54	6,590	25.2%	59,904,070	31.3%	9,396.7
55-64	3,145	12.0%	32,423,060	16.9%	10,599.2
65+	1,570	6.0%	20,148,034	10.5%	13,316.6

Source: Based on InfoCamere data



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However, the figures for young stakeholders of innovative startups are significant: a total 1,412 innovative startups (19.4%) have a majority of shareholders (i.e. over 50%) who are under 35 years of age; moreover, young people hold a majority stake in 1,734 startups (23.8%). Almost all of them are in the 25-34 years age sub-bracket; the percentages decrease considerably for the under-25s, at 1.4% and 2.1% respectively.

According to periodic surveys conducted by InfoCamere, which calculates the presence of under-35 shareholders in Italian enterprises by weighting the shares and the corporate office held, there are 1,569 enterprises with more young shareholders, accounting for 21.2% of the total. This percentage is around three times higher than for limited companies (6.7% have more young shareholders). 2,621 companies have at least one young shareholder, accounting for 35.5% of the total, compared to 12.8% for limited companies. Innovative startups therefore have a much higher presence of young shareholders – at times predominant - than the total limited companies.

Statistics on non-Italian nationals show that there are 203 startups with predominantly foreign shareholders, or 2.8% of the total, a lower percentage than for foreign limited companies (4.5%). 935 innovative startups have at least one foreign shareholder, 12.6% of the total, which is a higher percentage than that of limited companies with foreign shareholders (10.7%).

2.1.9 STAKES IN SHARE CAPITAL

Key data

This paragraph examines the stakes in the share capital of innovative startups registered in the special section of the Business Register as at 30 June 2017. The purpose of this analysis is to learn more about the ownership structure of Italian startups, which is formed on the basis of the share in risk capital held by each individual shareholder.

It is important to emphasise that for innovative startups, the concept of “ownership” does not always correspond to “control” of the company, which refers to the shareholder’s effective decision-making power. If these enterprises are incorporated as an s.r.l., Decree-law 179/2012 allows them to have shares with no voting rights or that are attached to an amount that is not proportionate to the stake effectively held (art. 26, par. 2). This new regulation therefore marked the first step towards overcoming (later generalised through subsequent measures) the established principle of “one share one vote”, whereby the shareholder’s power of administration and control was strictly proportionate to the risk that they assumed in the enterprise by investing capital in the company shares.

A basic distinction is made here between two categories of shareholders: “individuals”, who hold stakes in the enterprise in their own name and not as part of a company or association, and “legal entities”, meaning any other body with a legal capacity that can acquire shares in company capital directly, thereby becoming a corporate shareholder.

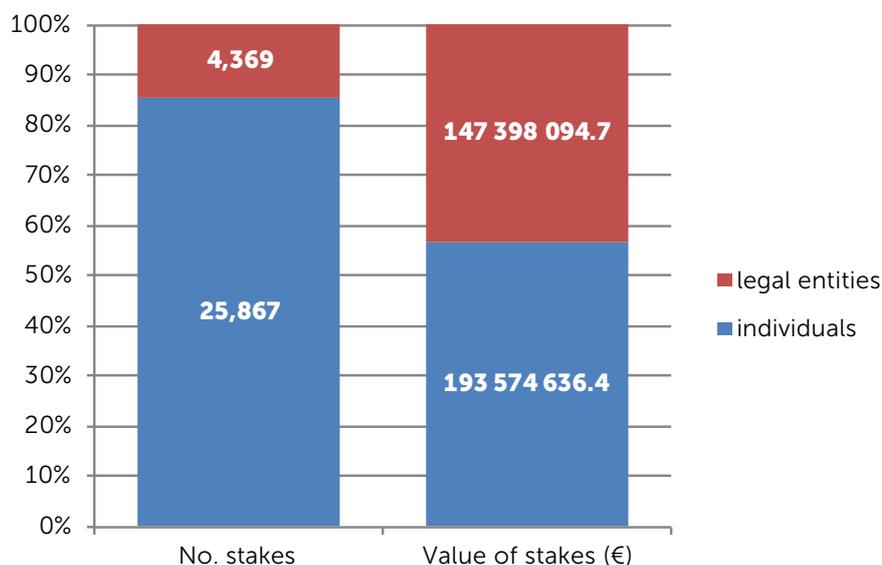
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Although it is often impossible to classify them precisely, corporate shareholders of innovative startups tend to be production companies or financial bodies, sometimes used as “investment vehicles” by third parties. Legal entities also include other organisations that in some cases hold stakes in innovative startups, such as non-profit associations, foundations, universities or research bodies.

At the date of the survey, there were 23,858 individuals and 3,288 legal entities holding at least one stake or share in an Italian innovative startup, for a total of 30,236 stakes (25,867 by individuals, 4,369 by legal entities). As will be seen below, there are also numerous cases in which the same person or company holds stakes in more than one innovative startup.

The total value of these stakes is €340,972,731, of which €190 million was paid by individuals (56.8%), and €147 million by legal entities (43.2%). Italian or foreign legal entities therefore hold over 40% of the risk capital of Italian innovative startups, even though they account for just under 15% of total shareholders (see Figure 2.1.18).

Figure 2.1.18: Number and value of stakes held by individuals and legal entities in Italian innovative startups



Source: Based on InfoCamere data

This imbalance is particularly evident in the average value of the stake as well, since innovative startups have, on average, 3.5 individual shareholders and only 0.4 corporate shareholders, but the average value of the stake for each individual is € 7,599, compared with the €33,737 recorded per legal entity on average.

There are no significant differences in terms of gender of the individuals holding the stakes, either in terms of the average value of the shares (although this is higher for men) or the percentage in share capital. However, taking into account the higher number of male shareholders discussed in the previous



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paragraph, on the whole, men hold shares for a par value that is five times higher than the value held by women.

Table 2.1.m: Individual shareholders: stakes held by men and women in the share capital of innovative startups

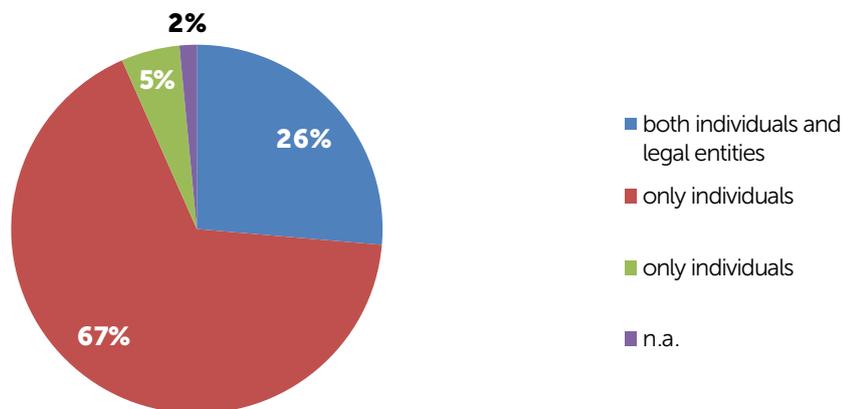
STAKE OF WOMEN IN THE SHARE CAPITAL OF INNOVATIVE STARTUPS	#	%
Average stake held by women (%)	23.77%	
Average stake held by men (%)	23.80%	
Average value of stake held by women	€6,517.6	
Average value of stake held by men	€7,782.8	
Aggregate value of stake held by women	€32,802,856.2	17.1%
Aggregate value of stake held by men	€158,838,967.4	82.9%

Source: InfoCamere

The role of legal entities

Legal entities own capital in 2,328 innovative startups, 31.5% of the total, together with other individuals in most cases (1,951). There are 377 startups (around 5%) in which the stakes are held exclusively by legal entities, against 4,959 (two thirds of the total) that only have individual shareholders (see Figure 2.1.19). Overall, there are 581 innovative startups (just under 8% of the total) with a numerical majority of corporate shareholders.

Figure 2.1.19: Distribution of innovative startups by type of shareholder



Source: Based on InfoCamere data

Moving on from the number of corporate shareholders to the “weight” of their stakes, i.e. the proportion of risk capital they hold in the enterprise, there are 980 startups (13.2%) with a majority stake in the share capital is held by another

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company (or entity). In addition to the 377 cases of exclusive ownership, there are a further 397 cases of a stake exceeding two thirds of the capital. There are also numerous cases (1,284) in which legal entities hold only a minority share in the startup, plus 60 enterprises in which a 50% stake each is held by individuals and legal entities.

The innovative startups with corporate shareholders are located primarily in Northern Italy, in both absolute and relative terms. In the regions of North West Italy, a macro-area which includes Lombardy, the main hub for Italian startups, just under 40% have at least one corporate shareholder and almost 20% have a majority corporate shareholder. Although the values for North East and Central Italy are similar (although there is a higher percentage of corporate shareholders in the North), this is not the case in Southern Italy, where over three quarters of the startups have only individual shareholders (Table 2.1.n).

Table 2.1.n: Distribution of innovative startups by stake held by individuals and legal entities: distribution across Italy (macro-area)

STAKES	NORTH WEST ITALY		NORTH EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY		TOTAL	
	only individuals	1,385	61.9%	1,204	66.3%	1,027	68.9%	1,343	77.1%	4,959
majority individuals	431	19.3%	335	18.4%	271	18.2%	251	14.4%	1,288	17.7%
majority legal entities	273	12.2%	179	9.9%	116	7.8%	95	5.5%	663	9.1%
only legal entities	149	6.7%	99	5.4%	77	5.2%	52	3.0%	377	5.2%
TOTAL (ONLY VALID VALUES)	2,238	100%	1,817	100%	1,491	100%	1,741	100%	7,287	100%

Source: InfoCamere



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The presence of legal entities also varies widely in terms of the total capital subscribed to the enterprise in which they hold stakes. Almost all startups with capital under €10,000 have exclusively or primarily individual shareholders. The role of legal entities increases visibly as the value of the capital subscribed to increases. The majority of the startups with capital exceeding €1 million are owned primarily or exclusively by corporate shareholders (Table 2.1.o).

Table 2.1.o: Distribution of innovative startups by stake held by individuals and legal entities: share capital class

STAKES	UP TO €10,000		FROM €10,000 TO €100,000		FROM €100,000 TO €1 MILLION		OVER €1 MILLION		TOTAL	
	Count	%	Count	%	Count	%	Count	%	Count	%
only individuals	1,554	89.7%	3,178	64.1%	216	39.6%	11	22.4%	4,959	68.1%
majority individuals	107	6.2%	1,039	20.9%	129	23.7%	13	26.5%	1,288	17.7%
majority legal entities	34	2.0%	469	9.5%	146	26.8%	14	28.6%	663	9.1%
only legal entities	37	2.1%	275	5.5%	54	9.9%	11	22.4%	377	5.2%
TOTAL (ONLY VALID VALUES)	1,732	100%	4,961	100%	545	100%	49	100%	7,287	100%

Fonte: InfoCamere

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A similar trend can also be seen in the annual turnover of the innovative startups in which the stakes are held. Although this figure is not yet available for more than 2,600 startups, most of which were either incorporated recently or extremely recently, the data is sufficient to confirm that the presence of legal entities is negligible for startups that have not started selling their product or service on the market yet and tends to increase in the higher turnover brackets (Table 2.1.p).

Table 2.1.p: Distribution of innovative startups by stake held by individuals and legal entities: annual turnover class

STAKES	UNDER €100,000		FROM €100,000 TO €500,000		OVER €500,000		NOT AVAILABLE		GRAND TOTAL	
	Count	%	Count	%	Count	%	Count	%	Count	%
only individuals	2,221	68.4%	585	54.9%	161	48.3%	1,992	75.5%	4,959	68.1%
majority individuals	638	19.6%	252	23.6%	67	20.1%	331	12.5%	1,288	17.7%
majority legal entities	251	7.7%	151	14.2%	67	20.1%	194	7.4%	663	9.1%
only legal entities	139	4.3%	78	7.3%	38	11.4%	122	4.6%	377	5.2%
TOTAL	3,249	100%	1,066	100%	333	100%	2,639	100%	7,287	100%

Source: InfoCamere



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Most legal entities involved in innovative startups are shareholders as soon as the enterprise begins trading. In over half the cases, they are present from incorporation onwards and within the first six months in another 13% of cases. There are a considerable number of legal entities that become shareholders at a later stage, with 7.9% entering between 6 and 12 months from incorporation, 13.4% in the second year and 10.1% in subsequent years. This is consistent with the above-mentioned figure, as it confirms that the stake held by legal entities increases as the startups grow, as the higher turnover would also suggest. By comparison, individual shareholders are present from incorporation in two thirds of cases.

Examining this aspect in greater detail, it is interesting to note that 442 legal entities (13.4% of the total) have stakes in more than one innovative startup. This proportion is greater than the figure found for multiple stakes held by individuals (1,511, or 6.3%).

16 companies hold stakes in more than 10 startups. This group includes venture funds, incubators and “club deals”, as well as several universities and regional holding companies. The main legal entities in terms of the amount of the stake held in startups (the maximum recorded is €10 million) also include numerous companies of a different type to these categories, which have sometimes only subscribed capital to one or two enterprises.

The legal entities holding stakes or shares in innovative startups are mainly “s.r.l.”s, the Italian equivalent of a limited liability company, a category which also includes other similar types of company (simplified s.r.l., consortium companies and cooperatives). This category accounts for over two thirds of the companies involved (2,247, or 68.4%), and a similar percentage of capital subscribed (€ 98.9 million, or 67.1%).

12% of shareholders are “società per azioni” (s.p.a.), equivalent to a British plc, but this category holds over 22% of the total capital subscribed, as the average stake held is much higher than for other companies (over €43,000). A further 6% are companies not limited by shares and cooperatives, generally with small stakes. The numerous entities present (legal firms, trusts, foundations and associations) also include 45 universities and research centres.

The stake held in capital by legal entities from other EU and non-EU countries is also high. In particular, 276 non-Italian companies hold shares in an innovative startup, accounting for 8.4% of the total legal entities involved, worth a total €9.1 million of subscribed capital (Table 2.1.q). By comparison, there are just 896 (3.8%) non-Italian (in terms of nationality or residence) individual shareholders with stakes in Italian innovative startups.

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Table 2.1.q: Legal entities holding stakes in the capital of innovative startups, classified by legal form

LEGAL FORM	NO. LEGAL ENTITIES	% LEGAL ENTITIES	NO. STAKES	SUM OF STAKES (€)	% TOT. STAKE	AVERAGE STAKE (€)
s.r.l.	2,247	68.4%	2,854	98,877,499.78	67.1%	34,645.23
s.p.a.	421	12.8%	758	32,789,838.97	22.2%	43,258.36
Companies not limited by shares	151	4.6%	168	2,596,683.04	1.8%	15,456.45
Cooperatives	61	1.9%	65	1,181,136.99	0.8%	18,171.34
Universities and research centres	45	1.4%	122	216,049.54	0.1%	1,770.90
Non-Italian companies	276	8.4%	310	9,151,756.10	6.2%	29,521.79
Other	86	2.6%	92	2,585,130.29	1.8%	28,099.24
TOTAL	3,287	100%	4,369	147,398,094.71	100%	33,737.26

Source: InfoCamere

Focus: majority and minority shareholders

To supplement this analysis, we will now examine a distinctive trait of the corporate structure of innovative startups, namely that the large majority of shareholders hold only a small share in the capital, not only in percentage terms, but also often in terms of the total amount paid.

As many as 38.2% of shareholders hold stakes or shares that account for less than 10% of the subscribed capital. A further 32.1% of shareholders hold less than one third of the total. As can be seen from Table 2.1.r, the value is similar for individuals and legal entities, with the latter tending to settle at slightly higher levels of stakes. For example, there are a proportionately higher number of stakes of a value under 2.5% of the share capital for individuals (24.2%, against 14.8% for legal entities).

Overall, just 19.3% of the over 30,000 shareholders of innovative startups (5,545 individuals and legal entities) hold an absolute majority of the company capital.



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Table 2.1.r: Distribution of innovative startup shareholders by percentage stake in capital

PERCENTAGE STAKE	INDIVIDUALS	LEGAL ENTITIES	TOTAL
under 2.5%	24.2%	14.8%	22.8%
between 2.5% and 5%	5.3%	7.0%	5.6%
between 5% and 10%	9.2%	13.3%	9.8%
between 10% and 33.3%	31.4%	35.6%	32.0%
between 33.3% and 49.9%	10.7%	9.4%	10.5%
50%	5.8%	2.9%	5.4%
between 50% and 66.6%	3.3%	4.9%	3.6%
between 66.6% and 90%	3.2%	4.2%	3.3%
between 90% and 99.9%	2.0%	2.4%	2.0%
100%	3.5%	4.8%	3.7%
not valid	1.4%	0.6%	1.3%
TOTAL	100%	100%	100%

Source: InfoCamere

legal entities are systematically higher. While individuals tend more frequently to hold shares under €1,000, there is a particular concentration of legal entities holding shares over €5,000 and particularly over €15,000 (Table 2.1.s).

Table 2.1.s: Distribution of innovative startup shareholders by amount of the stake in capital, size classes

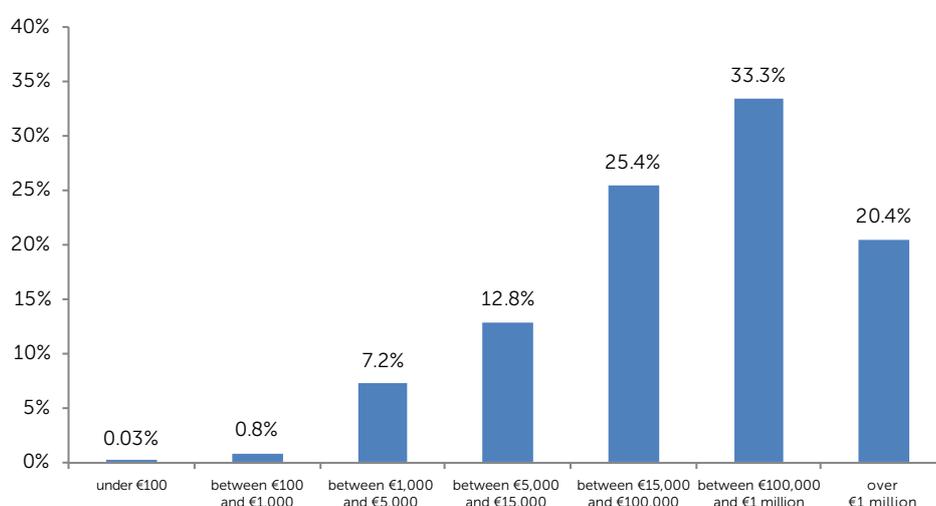
AMOUNT OF STAKE	INDIVIDUALS	LEGAL ENTITIES	TOTAL
under €100	15.4%	6.1%	14.1%
between €100 and €1,000	23.7%	18.2%	22.9%
between €1,000 and €5,000	33.1%	33.8%	33.2%
between €5,000 and €15,000	18.2%	21.1%	18.6%
between €15,000 and €100,000	7.3%	15.2%	8.4%
between €100,000 and €1 million	1.0%	5.0%	1.5%
over €1 million	0.0%	0.3%	0.1%
not valid	1.3%	0.1%	1.1%
TOTAL	100%	100%	100%

Source: Based on InfoCamere data

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Despite their large number, small stakes account for a minimal part of the over €340 million invested in Italian innovative startups. Stakes of a par value under €1,000, which represent more than one third of the total in numerical terms, amount to just €2.5 million when combined, a minimal percentage of the subscribed capital. Conversely, the 10% of stakes of over €15,000 each represent over three quarters of the risk capital (Figure 2.1.20).

Figure 2.1.20: Distribution of innovative startup capital by size classes of the stakes



Source: Based on InfoCamere data

2.1.10 TURNOVER: 2016 STATEMENT OF ACCOUNTS AND GROWTH DYNAMICS

This paragraph examines the economic performance of innovative startups from a dual perspective. The first is static in nature, and will look at the turnover recorded in the most recent fiscal year (2016). The second is dynamic, and will analyse a series of past turnover figures in order to track the growth of innovative startups from the moment they are registered in the special section.

For the first part of the analysis, at time of drafting this report data on 2016 statements of accounts was available for 4,717 innovative startups, 63.7% of the total registered as at 30 June 2017.

The large number of companies registered over the last year (see [par 2.1.2](#)) has evidently had a significant impact on the analysis. This has not only affected quantity, as the most recently incorporated enterprises have yet to file their statement of accounts, but also quality, as it is fair to assume that the production metrics of many new enterprises are still minimal, if not null. Furthermore, as has already been mentioned several times in this report (see [paragraph 2.1.1](#) and [paragraph 2.1.2](#) in particular), many of the more mature enterprises, with a higher sales volume, have left the special section in the past year.



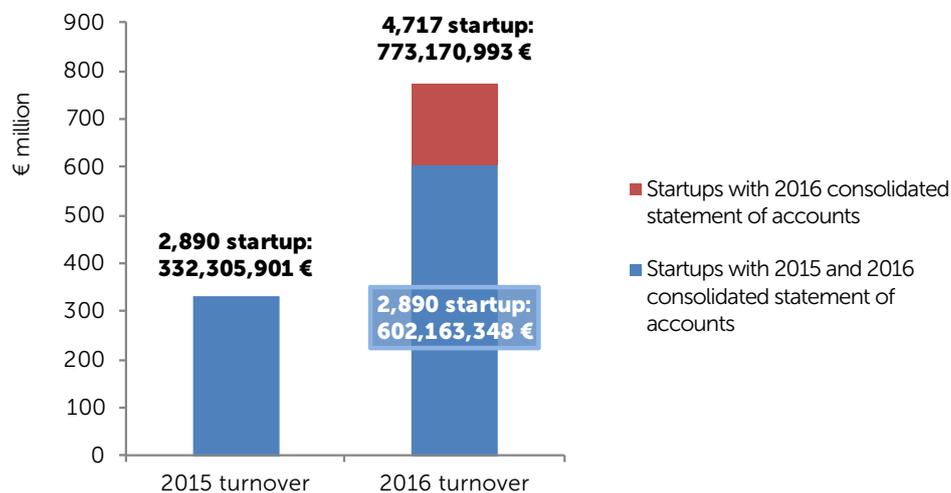
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Overall, the 4,717 innovative startups that registered in mid-2017, and for which this value is available, produced goods and services worth a total €773,170,993 in 2016.

This is a significant increase compared with the figures recorded in previous years. By only taking account of the 4,717 startups for which financial data are also available for the 2015 fiscal year, we can see that these enterprises totalled an aggregate turnover of around €332 million, compared with over €600 million in 2016, thereby achieving a percentage growth of 81.3%.

Figure 2.1.21: Aggregate turnover of innovative startups: Comparison between 2015 and 2016



Source: Based on InfoCamere data

For this reason, the significant increase in the number of innovative startups concerned by the policy only accounts in small part for the significant growth in the aggregate turnover recorded between 2015 and 2016. As it can be seen from Figure 2.2.21, this increase is primarily the result of the growth in the average turnover of the startups already registered. This now totals €208,361, almost €100,000 higher than the figure recorded by the same enterprises at the end of 2015 (€114,985).

Incidentally, the increase in average sales volume of innovative startups more than compensated for the reduction in aggregate turnover recorded in the early months of 2017 as a result of the several hundred startups that left the special section after having reached "maturity". Their total sales volume was all of €200 million, over a third of the aggregate value recorded by the almost 6,000 startups that were registered in mid-2016.

As was found in the previous edition of this report, the median sales volume remains very low, since half of the innovative startups registered as at 30 June 2017 had a sales volume under €30,000 in 2016. This confirms that the special section

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primarily contains enterprises in the embryonic stage of development, which are often still not on the market, and is naturally subject to an ongoing turnover process, both in terms of entries (dozens of new enterprises are registered every week, mostly newly incorporated ones) and exits (as the best performers are bound to lose the legal requirements for remaining sooner or later).

It is clear from these figures that, when combined with those on workforce that were discussed in [paragraph 2.1.8](#), a large part of innovative startups are still “micro-enterprises” to all intents and purposes. Table 2.1.t shows that 70% of the companies registered had a sales volume under €100,000 in 2016. More specifically, around one in four of these companies declared a sales volume under €1,000, and 693 declared zero.

In contrast, the 30% of startups that are over the €100,000 threshold account for more than 90% of the total sales volume of the universe. The class of enterprises between €100,000 and €500,000 is important both in terms of the number of startups included and in terms of the values recorded, as it accounts for just under one quarter of the enterprises registered in the special section, but one third of the aggregate turnover.

7% of the enterprises currently registered had a sales volume exceeding €500,000 in 2016 and 139 of these (2.9% of the total) exceeding €1 million. When taken together, these categories produced the lion’s share (59.6%) of the total turnover of the universe in question.

Table 2.1.t: Distribution of innovative startups registered as at 30 June 2017 by turnover class, 2016 statements of accounts

TURNOVER CLASS 2016	NO. OF STARTUPS	% ENTERPRISES WITH STATEMENT OF ACCOUNTS	TOTAL TURNOVER	% OF TOTAL TURNOVER
under €100,000	3,297	69.9%	€70,729,154	9.1%
between €100,000 and €500,000	1,085	23.0%	€241,992,179	31.3%
between €500,000 and €1 million	195	4.1%	€135,108,404	17.5%
over €1 million	139	2.9%	€325,341,256	42.1%
TOTAL WITH STATEMENT OF ACCOUNTS	4,717	63.8%	€773,170,993	100.0%

Source: InfoCamere

Growth of innovative startups

As state above, this section will examine the growth of innovative startups during the years that they were “exposed” to the associated policy.



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The fact that the innovative startup status is temporary means that a broader perspective than the one adopted so far needs to be considered, one that marks out the development of enterprises that are no longer in the special section, whether this is because they have ceased to trade or they continue to operate but no longer satisfy the legal requirements to remain.

This latter case encompasses a wide range of options. These startups may now have become “mature” (having overcome the five-year limit, recorded more than €5 million in annual sales volume, listed on a multilateral trading platform, in which case they are eligible for access to the innovative SME regime), they may have distributed profits, or may no longer satisfy the innovativeness requirements.

To give a clearer idea of the order of magnitude of this “extended” universe, it helps to remember that the aggregate turnover of enterprises that were at one time registered in the special section of innovative startups before 30 June 2017 and for which the 2016 statement of accounts is available (a total 6,262, around 67% of companies registered now or previously) is somewhere around €1.3 billion. For the most part, this figure can be attributed to the innovative startups currently registered (the €773 million mentioned above), but the around €580 million recorded for enterprises that have left the special section also plays an important role.

It is interesting to note that only 27 of the 9,300 enterprises that were registered in the special section at some point during the period from when the section was introduced in February 2013 to 30 June 2017 achieved a sales volume of more than €5 million in 2016. However, this small group recorded €230 million in aggregate turnover.

For the sake of clarity, analysis of the growth of innovative startups is divided by year of registration in the special section. We will then be able to mark out the entire growth of the innovative startups registered in 2013, 2014 and 2015 over a timespan of four, three and two fiscal years, respectively.

2013-2016

1,477 companies obtained innovative startup status in 2013¹⁸.

As can be seen from Figure 2.1.22, the large majority of startups registered in 2013 had an extremely low sales volume (under € 100,000) in their first year of trading. However, just over 20% of the total had already achieved higher values, exceeding €1 million in several dozen cases.

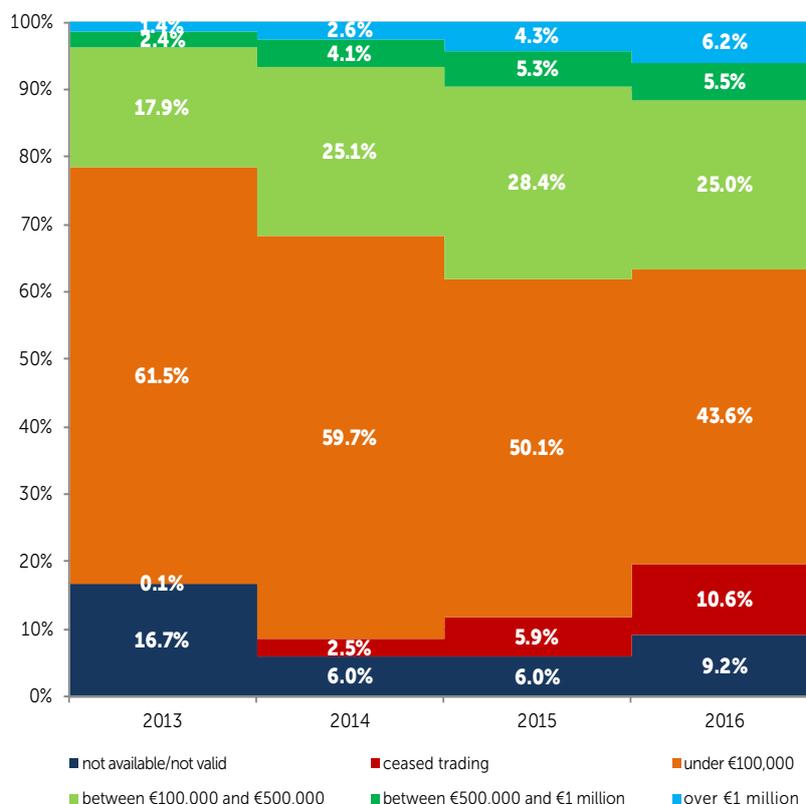
Growth of the startups over the years is confirmed by the increase in values for the highest turnover categories. The class of enterprises with sales volume under €100,000 is still the largest class, relatively speaking, but visibly reduces after the second and third year of registration in the special section.

¹⁸ This category also includes startups registered in the special section in the last few days of December 2012, the first month when it was possible to register a company as an innovative startup.

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At the end of 2016, more than one in three of the innovative startups registered four years previously (36.4%) declared a sales volume exceeding €100,000, and more than one in ten over €500,000. However, a practically identical proportion of enterprises (10.6%) had definitively ceased trading before that date.

Figure 2.1.22: Turnover of innovative startups registered in 2013, years 2013-2016: distribution by class



Source: Based on InfoCamere data

During the years of registration, the aggregate turnover of these enterprises increased by over one and a half times (+178.7%), from €143 million at the end of 2013 to over €380 million at the end of 2016. Minus the missing values and startups that have ceased trading, the average turnover per enterprise almost triples, from just over €110,000 in 2013 to over €320,000 in 2016 (Table 2.1.u).



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Table 2.1.u: Aggregate growth in the turnover of innovative startups registered in 2013, recorded in the period 2013-2016

	2013 STATEMENTS OF ACCOUNTS	2014 STATEMENTS OF ACCOUNTS	2015 STATEMENTS OF ACCOUNTS	2016 STATEMENTS OF ACCOUNTS
Total turnover	€142,972,426	€222,898,995	€318,650,672	€384,237,370
No. enterprises with statement of accounts	1,229	1,351	1,302	1,185
Average turnover	€116,332	€164,988	€244,739	€324,251
Annual change in total turnover	-	+55.9%	+43%	+20.6%
Average annual growth				+39.8%
Total growth				+178.7%
Crescita totale				+178,7%

Source: InfoCamere

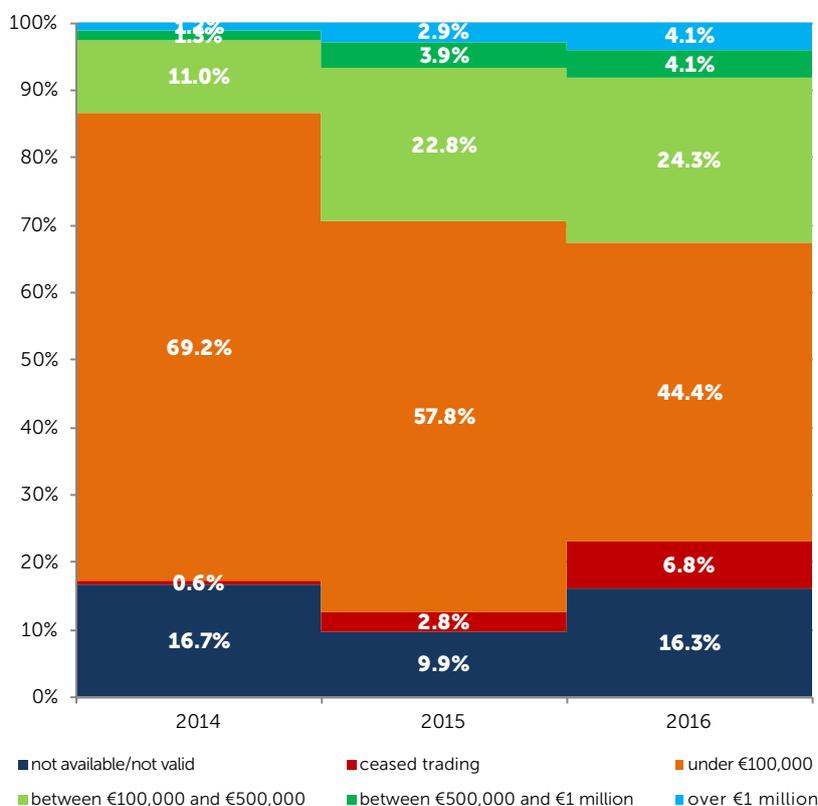
2014-2016

1,714 companies obtained innovative startup status in 2014.

The dynamics are basically the same as for startups that registered in the previous year. The group of enterprises with sales volume under €100,000 is still the largest class, relatively speaking, in all of the three years examined. However, the relative weight of this class reduces visibly over the years as a result of the increase in the categories with the highest sales volume, which is already considerable in the first year of registration and in the category comprising enterprises that have ceased trading (Figure 2.1.23).

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Figure 2.1.23: Dynamics in the turnover of innovative startups registered in 2014, years 2014-2016: distribution by class



Source: Based on InfoCamere data

During the three years of participation in the policy, the total turnover of these enterprises almost tripled, increasing from €118 million to €346 million. The growth trend, both as a whole and by year, is even clearer than for companies that registered in the previous year, as they started with a higher turnover on average. More often than in other cases, the enterprises with access to the special regime in the first year of the policy had already been trading for some time and had more consolidated financial metrics (Table 2.1.v).

Table 2.1.v: Aggregate growth in the turnover of innovative startups registered in 2014, recorded in the period 2014-2016

	2014 STATEMENTS OF ACCOUNTS	2015 STATEMENTS OF ACCOUNTS	2016 STATEMENTS OF ACCOUNTS
Total turnover	€118,246,057	€264,561,910	€346,357,217
No. enterprises with statement of accounts	1,418	1,497	1,319



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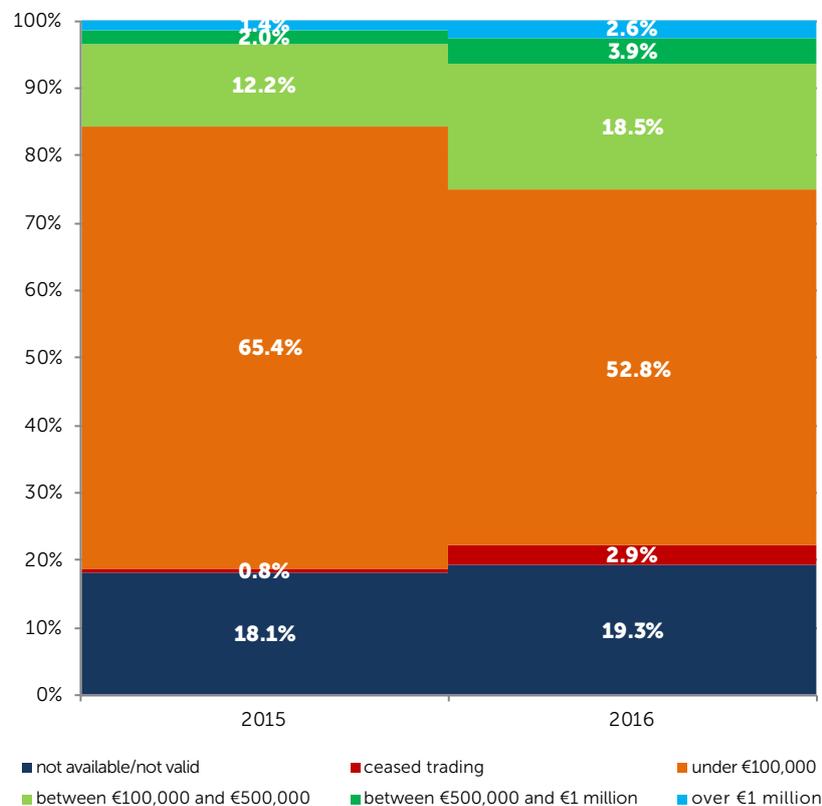
	2014 STATEMENTS OF ACCOUNTS	2015 STATEMENTS OF ACCOUNTS	2016 STATEMENTS OF ACCOUNTS
Average turnover	€83,389	€176,728	€262,591
Annual change in total turnover	-	+123.7%	+30.9%
Average annual growth			+77.3%
Total growth			+214.9%

Source: InfoCamere

2015-2016

The 2,307 companies registered in 2015 repeat the pattern seen for the other categories, but over a shorter period of time (Figure 2.1.24).

Figure 2.1.24: Turnover of innovative startups registered in 2015, years 2015-2016: distribution by class



Source: Based on InfoCamere data

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Both average and aggregate turnover basically doubled at the end of 2016, when over one quarter of the companies in question recorded turnover exceeding €100,000 (Table 2.1.z).

Table 2.1.z: Aggregate growth in the turnover of innovative startups registered in 2015, recorded in the period 2015-2016

	2015 STATEMENTS OF ACCOUNTS	2016 STATEMENTS OF ACCOUNTS
Total turnover	€194,552,033	€380,860,784
No. enterprises with statement of accounts	1,871	1,794
Average turnover	€103,983	€212,297
Annual change in total turnover		+95.8%

Source: InfoCamere

Growth flows: graph

The analysis of the growth dynamics of innovative startups is supplemented by the flow diagrams presented below this paragraph (Figures 2.1.25, 2.1.26, 2.1.27), which indicate the flows from one size class to another year by year. As before, this representation is also grouped by year of registration.

It is clear from the analysis in the previous paragraph that most innovative startups, particularly those with annual turnover under €100,000, tend to remain in the same turnover size class at the end of the following year as well.

However, the diagram also shows that a considerable percentage of startups in this turnover size class (between 16% and 18% of the total) move into the higher category as early as the following year. As a result, the “€100,000 to €500,000” class becomes increasingly larger. However, there is also a small flow of enterprises that move in the opposite direction every year, as their sales volume falls below €100,000.

It is equally clear that flows between the lowest class and the one immediately above it tend to abate slightly over the years. Innovative startups that record a sales volume under €100,000 for several years in a row are therefore less likely to exceed that threshold in the future.

The flows also clearly show that the innovative startups that tend to stop trading are usually those that have been unable to sell their products or services on the market for several years in a row. In almost all cases, startups that have stopped trading recorded turnover under €100,000 in the year before they ceased trading. This phenomenon is particularly evident in the 2013 and 2014 registration flows. As the figures above also clearly show, there are very few cases of enterprises that cease trading before the end of the second year (no more than 3% of the total population).



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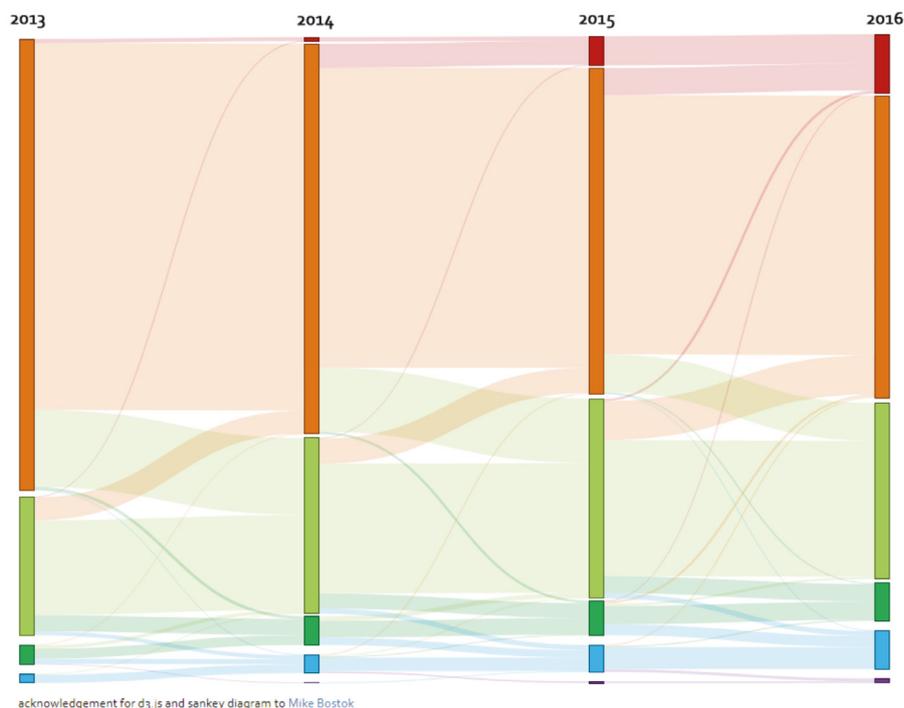
There is therefore gradual growth over the years in the number of innovative enterprises included in the higher turnover size classes. More specifically, in the period 2013-2016, around 30% of startups that were previously in the lowest turnover size class exceeded the €100,000 threshold. This figure is 25% for the period 2014-2016. Similarly, around one in four of the startups that registered in 2013 and in the class between €100,000 and €500,000 had exceeded this threshold at the end of the first year. In many cases (45%), they had gone on to join the ranks of the so-called "millionaire" startups.

As we saw previously, innovative startups with annual turnover of over €1 million are also beginning to represent a sizeable portion of the total, around one in twenty for those registered in 2013. In many cases, these are firms that enjoyed market success from their very first year of activity. However, the diagram also shows that around two thirds of the millionaire innovative startups did not exceed turnover of over €500,000 at the end of 2013. This means that these companies at least doubled their sales volume over the last three years.

Despite this rapid growth, almost all the millionaire startups achieved this status gradually, moving from one turnover size class to the next over the space of several years. Generally speaking, there are very few cases of "sudden leaps" in category and the diagram clearly shows that only a small number of enterprises with a sales volume under €100,000 are able to pass the €500,000 mark the following year.

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Figure 2.1.25: Growth flows of innovative startups registered in 2013, recorded during the period 2013-2016¹⁹.



Key:

- enterprise had ceased trading in the year examined
- turnover under €100,000
- turnover between €100,000 and €500,000
- turnover between €500,000 and €1 million
- turnover between €1 million and €5 million
- turnover over €5 million

Source: Based on InfoCamere data

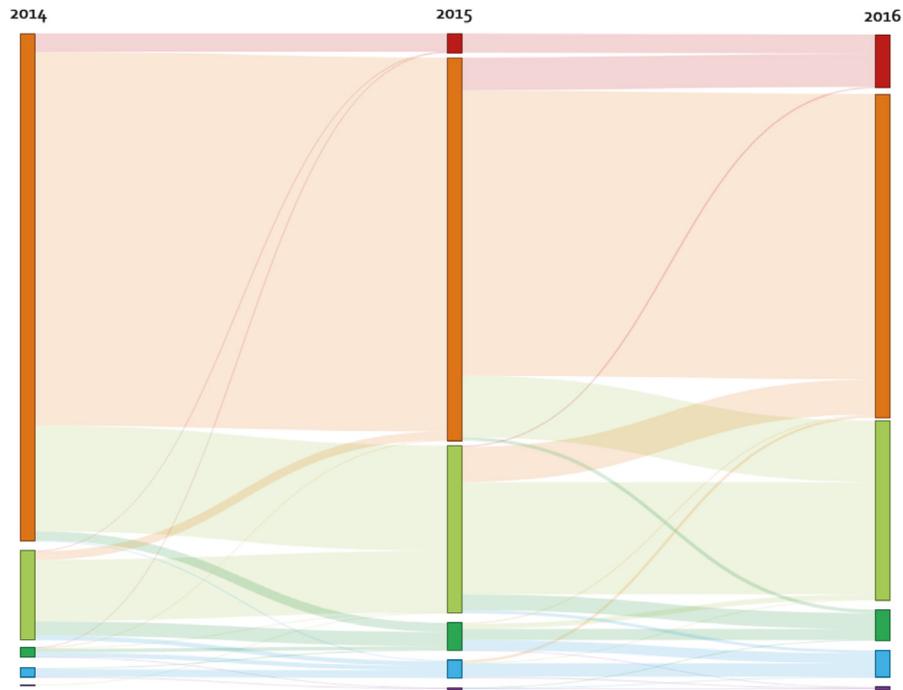
¹⁹ This diagram and those that follow take account of flows for enterprises that provided valid turnover figures in all the years examined.



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Figure 2.1.26: Growth flows of innovative startups registered in 2014, recorded during the period 2014-2016.



acknowledgement for d3.js and sankey diagram to Mike Bostok

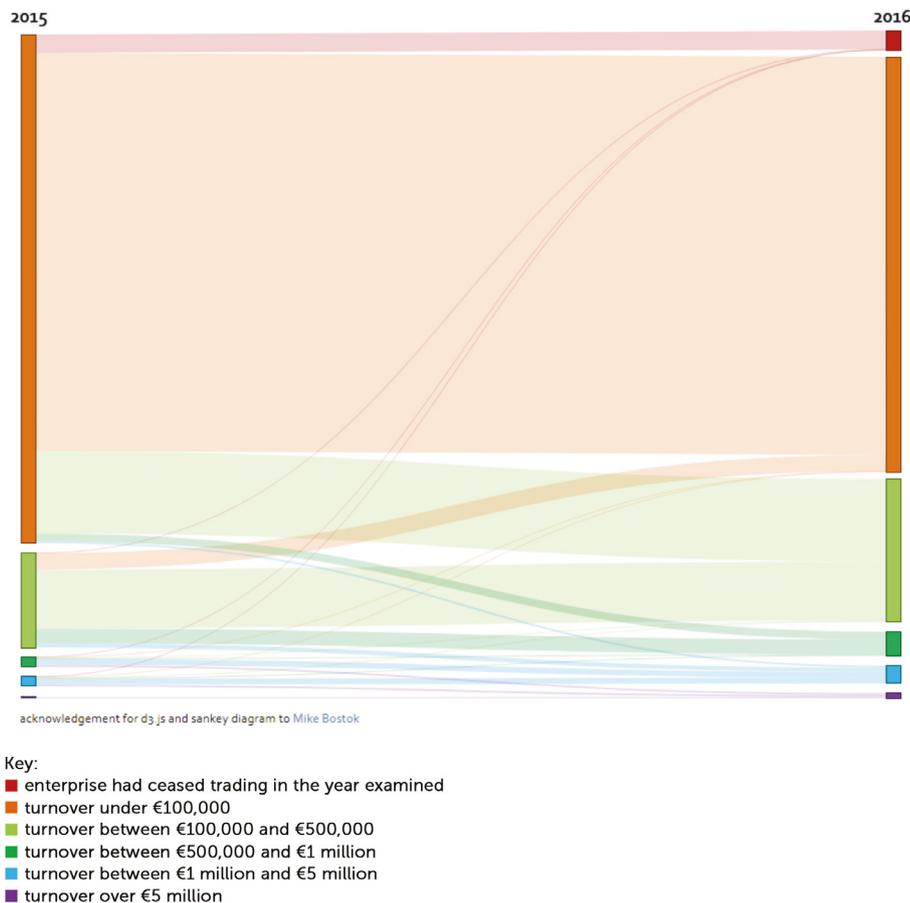
Key:

- enterprise had ceased trading in the year examined
- turnover under €100,000
- turnover between €100,000 and €500,000
- turnover between €500,000 and €1 million
- turnover between €1 million and €5 million
- turnover over €5 million

Source: Based on InfoCamere data

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Figure 2.1.27: Growth flows of innovative startups registered in 2015, recorded during the period 2015-2016.



Source: Based on InfoCamere data

Periodic monitoring of other financial metrics

More in-depth analysis of the 2016 financial metrics is provided in the quarterly reports prepared jointly by MISE with the Chambers of Commerce system (InfoCamere and UnionCamere). The 2016 statements of accounts were examined for the first time in the third quarterly report of 2017.

This publication reveals several specific characteristics of Italian innovative startups which clearly set them apart from other limited companies. One example is the percentage of fixed assets to net asset value, which has so far remained regularly above 25%, up to eight times higher than the percentage for Italian limited companies as a whole. This figure confirms that innovative startups tend to execute much higher investments, particularly in intangible assets, than other enterprises.

The higher percentage of startups registering losses (57%) than those returning a profit is also an innate factor of recently incorporated, high technology enterprises with business models that are still not fully validated by the market.



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However, startups returning a profit record much higher profitability indicators than the average for other limited companies, and produce a higher value added (33 cents per euro of production, against 22 cents for other enterprises).

The most recent version of the quarterly report monitoring economic trends of startups is available for consultation on the page "**Annual report and periodic reports**" in the innovative startups section of the MISE website.

2.2 INNOVATIVE SMES

Decree-law no. 3 of 24 January 2015, converted by Law no. 33 of 24 March 2015 (hereinafter "**D.L. 3/2015**"), introduced a new incentive regime for so-called "innovative SMEs". All the main support measures already provided for innovative startups are also available to this new special status, but there are several differences in the access requirements²⁰. The major differences relate to the five-year term established for startups, which does not exist for SMEs, the obligation of auditing the statement of accounts and the amount of annual turnover, a maximum of €5 million for startups, but €50 million for innovative SMEs, which corresponds to the maximum value compatible with the EU definition of small and medium-sized enterprises.

This "expansion" is the result of a logical sequence, whereby innovative startups and innovative SMEs represent two stages of development of a policy process designed not only to assist the startup phase, but also to accelerate establishment and growth of enterprises with a strong technological component after the first two years.

20 Pursuant to art. 4, par. 1, of D.L.3/2015, innovative SMEs are Small and Medium-sized Enterprises according to European Commission Recommendation 361/2003, i.e. enterprises that employ fewer than 250 persons, have an annual sales volume not exceeding €50 million or a total statement of accounts not exceeding €43 million and that are incorporated as limited companies and meet the following requirements:

- a. have their main place of business in Italy, or in another EU Member State or in members of the European Economic Area agreement, provided that they have a production site or branch in Italy;
- b. have the audit of their most recent statement of accounts and of any consolidated statement of accounts prepared by a statutory auditor or an auditing firm on the register of statutory auditors;
- c. their shares are not listed on a regulated market;
- d. are not registered in the special section of the Business Register for innovative startups and certified startup incubators;
- e. The enterprise is classed as innovative if it satisfies at least two of the following three criteria:
 - i. at least 3% of the higher value between sales volume and annual costs is allocated to research and development;
 - ii. at least one fifth of the total workforce is formed of employees and collaborators "of any kind" who are PhD graduates or who are currently studying for a PhD at an Italian or foreign university, or university graduates who have performed, for at least three years, certified research activities at public or private research institutes, in Italy or abroad; or at least one third of the total workforce formed of employees with a master's degree;
 - iii. be the owner, holder or licensee of at least one industrial patent, or the owner of an original computer program registered in the special public computer programs register (SIAE), provided said intellectual property right relates directly to the enterprise's corporate purpose and activities.

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Based on the encouraging empirical evidence produced by the regulations on innovative startups introducing innovative SMEs into the legal system was the logical and natural development of an industrial policy that aims to promote the innovation and sustainable growth of the entire Italian industry by encouraging technological innovation.

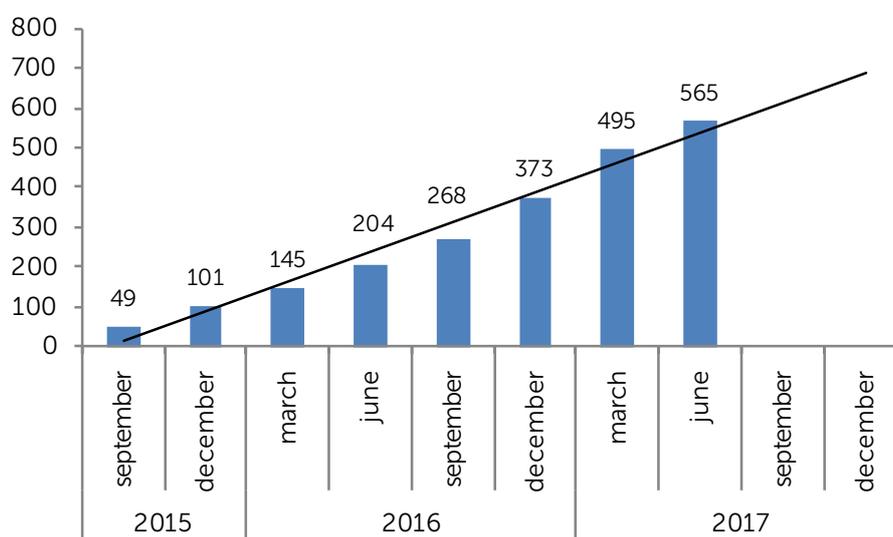
2.2.1 MAIN FEATURES

Numerosity

Business Register. This is almost three times the number (+177%) registered when the last Annual Report was published; as a matter of fact, one year ago 204 innovative SMEs were registered.

As can be seen in Figure 2.2.1 below, between the last quarter of 2016 and the first quarter of 2017, there was a considerable increase in the number of innovative SMEs registered. This is primarily the result of the numerous enterprises entering this section that had previously been registered as innovative startups (see [paragraph "2.2.2 – Innovative startups converted into innovative SMEs"](#) below).

Figure 2.2.1: Total number of innovative SMEs at the end of each quarter (September 2015 – June 2017)



Source: Based on InfoCamere data

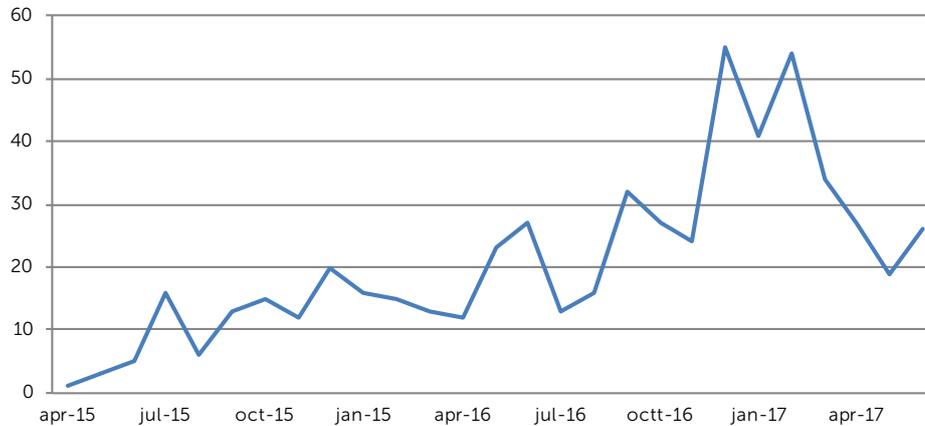
It is clear from the entries into the special section shown by month (Figure 2.2.2) that there was a peak in new registrations precisely when innovative startups incorporated before 18 December 2012 left the section between December 2016 and the early months of 2017, as the so-called temporary period discussed in [paragraph 2.1.1](#) had elapsed for them. At the end of this period, the number of registrations per month returned to levels similar to those recorded in the second half of 2016.



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Figure 2.2.2: Number of innovative SMEs registered in the special section by month, June 2015 – June 2017



Source: Based on InfoCamere data

Distribution across Italy

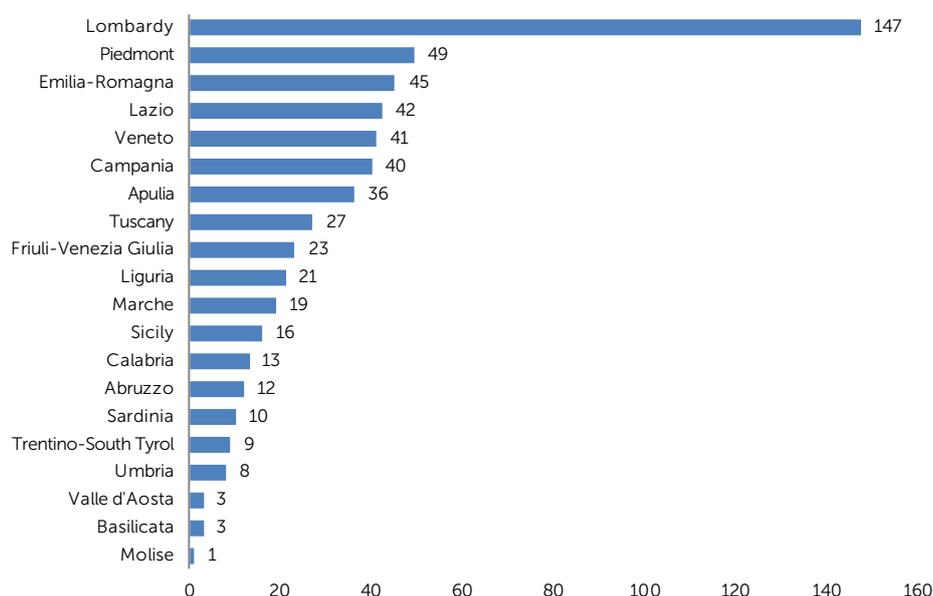
As is the case for innovative startups, the majority of innovative SMEs (59.8%) are located in the northern regions of Italy, with 220 (38.9%) in the North West and 118 (20.9%) in the North East. There are 131 innovative SMEs in Southern Italy, almost one quarter of the national total (23.2%) and just 96 (17%) registered in Central Italy.

With registration of the first innovative SME in the Molise region this year, there is now at least one innovative SME in every Italian region (Figure 2.2.3). Lombardy has a strong lead, with more than one quarter of all the enterprises registered nationwide, followed far behind by Piedmont (49, or 8.7%), Emilia-Romagna (45, or 8%), Lazio (42, or 7.4%) and Veneto (41, or 7.3%). The two Southern Italian regions of Campania and Apulia are just behind the first five.

In greater detail, the Municipality of Milan alone has 90 innovative SMEs, which increases to 98 if the entire metropolitan area is considered. Turin comes in second (41, 29 of which are located in the provincial capital itself), followed by Rome (34), Naples (22) and Genoa (18). At least one innovative SME is present in a total of 246 Italian municipalities.

2 INNOVATIVE STARTUPS AND SMES: OVERVIEW AS AT 30 JUNE 2017

Figure 2.2.3: Number of innovative SMEs in each Italian region



Source: based on InfoCamere data

Register information and size classes

Unlike innovative startups, as the definition of innovative SME does not place any limits on the length of time they have been incorporated, this special section of the Register also includes companies that were incorporated many years ago. The “oldest” innovative SME began trading over 90 years ago, in 1926. There are a further five enterprises that have been trading since the 1960s and 1970s and 19 since before 1990.

The majority of innovative SMEs began trading²¹ more recently. Over one half has been trading since 2010 and there is a large concentration of enterprises that began trading between 2010 and 2012 (40.7%). The enterprises in this group are generally former innovative startups, particularly those that have lost this status after exceeding the time limit. It is interesting to note that almost 15% of innovative SMEs began trading after 2013, which would mean could still potentially hold the status of startup (Figure 2.2.4).

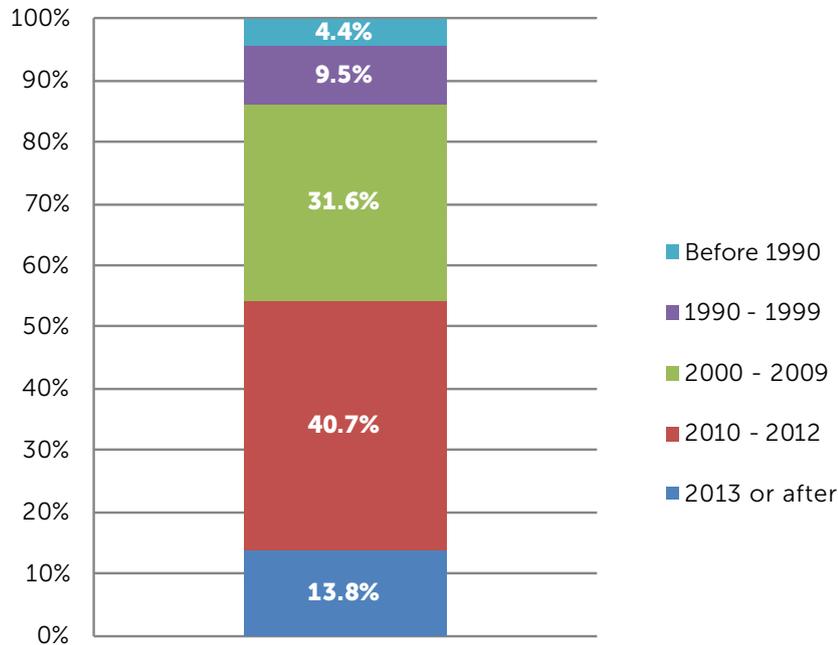
21 In contrast with the procedure used for innovative startups, the date used in this report to calculate the age of innovative SMEs is the date when the company effectively began trading, and not the incorporation date. A considerable number of innovative SMEs were, in fact, incorporated before 19 February 1996, the date in which the Italian Business Register – created under Law No 580 of 29 December 1993, and governed by DPR No 581 of 7 December 1995 – was introduced. Enterprises incorporated before 19 February 1996 were therefore registered in the Business Register from that date onwards. Using the date as of which the enterprises began trading is then a more accurate indicator of its age.



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Figure 2.2.4: Year when innovative SMEs began trading, distribution by classes



Source: Based on InfoCamere data

Another structural difference between innovative startups and SMEs is their turnover. By law, this cannot exceed €5 million for innovative startups, whereas the maximum for innovative SMEs is €50 million, according to the European definition²².

The total turnover for the 490 innovative SMEs that have already filed their 2016 statement of accounts (86% of the total registered as at 30 June 2017) amounts to over €1 billion (€ 1,316,887,551). Distribution by size class shows that almost 30% of enterprises recorded total turnover of between €100,000 and €500,000, while 16.9% fall under the €500,000 to €1 million class. Just over 11% recorded total turnover of between €1 and 2 million, one sixth (16.5%) between €2 and €5 million and around 12% over €5 million.

22 See note 20.

2 INNOVATIVE STARTUPS AND SMES: OVERVIEW AS AT 30 JUNE 2017

Table 2.2.a: Distribution of innovative SMEs by turnover, 2016 statements of accounts

TURNOVER	NO. INNOVATIVE SMES	%
0-100,000	69	14.1%
100-500,000	143	29.2%
500,000 - 1 million	83	16.9%
1 - 2 million	55	11.2%
2 - 5 million	81	16.5%
5 - 10 million	22	4.5%
over 10 million	37	7.6%
GRAND TOTAL	490	100%

Source: Based on InfoCamere data

A total of 496 (87.8%) innovative SMEs employ workers which, as for innovative startups, are defined as anyone under a subordinate employment agreement with the company, including part-time and seasonal workers (excluding consultants). The total workforce amounts to 9,313 people, an average of 18.8 employees per enterprise. This average is 3.3 for innovative startups. Although they are less than one tenth the number of startups, the size of the workforce employed by innovative SMEs is similar in size to that much larger group. Distribution by number of employees shows that 56% of innovative SMEs have less than nine employees (32% less than four, 24% between five and nine), 20% have between 10 and 19 employees, 14% between 20 and 49 and 10% have 50 or above.

Table 2.2.b: Distribution of innovative SMEs by number of employees

NO. EMPLOYEES	NO. INNOVATIVE SMES	%
0 - 4	158	31.9%
5 - 9	119	24.0%
10 - 19	98	19.8%
20 - 49	71	14.3%
50 - 249	50	10.1%
GRAND TOTAL	496	100%

Source: Based on InfoCamere data

In addition to 9,313 employees, there are 2,674 shareholders, bringing the total workforce of innovative SMEs to 11,987 people. There are a total of 496 innovative SMEs that have at least one individual shareholder, with an average



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of 10.8 shareholders each. This is much higher than the value noted for innovative startups (3.6, see [paragraph 2.1.8](#)). Around one in 10 innovative SMEs have corporate shareholders only.

With an average age of 49 years and two months, shareholders of innovative SMEs are slightly older (slightly more than five years) than startup shareholders. The majority of shareholders (58.8%) is over 45 years of age, while under-35s account for 10.3% of the total. The shareholders of innovative SMEs are primarily men (81.6%), but in contrast to what was found for innovative startups, the average value of stakes held by women is higher (€71,980, against €43,140 for men). This is partly the result of the presence of several extremely large stakes.

Overall, there is a smaller percentage of innovative SMEs than innovative startups that are predominantly made up of female shareholders (10.5%) and particularly younger shareholders, since the majority of shares is held by under-35s in only 6% of cases, against 19.4% for innovative startups.

The role of corporate shareholders is also significant. There are a large number of them (746) and there are corporate shareholders in more than one in two innovative SMEs (57.3%). Distribution of shares between individuals and legal entities would appear to be reversed compared with startups, as almost 60% of the capital is controlled by legal entities (with an average stake of up to €202,000) and only 40% by individuals, with an average value of over four times lower (€48,442). The various corporate shareholders of innovative SMEs, such as other enterprises, credit institutes, venture capital funds and other investment vehicles, as well as public entities, particularly universities, include a large number of non-Italian companies (10% of the total).

All in all, the risk capital subscribed to by the shareholders of innovative SMEs totals almost €270 million. Almost two thirds of the enterprises registered have a share capital of €100,00 or less, while around 30% (169) have risk capital between €10,000 and €50,000. However, there are also a significant number of enterprises with much higher capital, including 51 with over €1 million subscribed capital and another 159 with between €100,000 and €1 million. As we saw above for turnover and workforce, the figure on capital size class confirms that innovative SMEs are, on average, more mature than startups, with more consolidated economic and financial metrics.

Legal form

Like startups, innovative SMEs are incorporated primarily as an "s.r.l.", the Italian equivalent of a limited liability company. 422 enterprises, almost three quarters of the total, chose this legal form, marking an increase of almost 10 percentage points compared with the previous year (74.7%, against 65.7%). There are also 27 single-member s.r.l. and three simplified s.r.l. The increase clearly comes as the result of the influx into the special section of enterprises that started life as innovative startups, which are usually formed as s.r.l. The percentage is lower for "s.p.a." enterprises, equivalent to a British plc. This legal form, which was chosen only by a small minority of startups, was selected by 100 innovative SMEs (plus five single-member s.p.a.), accounting for less than 20% of the total.

2 INNOVATIVE STARTUPS AND SMES: OVERVIEW AS AT 30 JUNE 2017

Percentages of other legal forms are minimal. There are only six cooperatives, for example.

Innovativeness requirements

As discussed in paragraph 2.2, to be registered as an innovative SME, D.L. 3/2015 requires the enterprise to satisfy, in addition to the conditions established by art. 4, par. 1, letters a) to d) of the decree, two of the three alternative “innovativeness” requirements listed in letter e) of the same paragraph. These requirements are virtually the same as those provided for innovative startups, with the difference being that startups only need to declare that they satisfy one of the three requirements and that the thresholds to fulfil these requirements are lower for innovative SMEs. In greater detail:

1. the volume of research, development and innovation expenditure must be at least 3% (against 15% for startups) of the difference between total cost and total turnover;
2. at least one fifth of the total workforce (one third for startups) must comprise PhD graduates, PhD students or researchers, or at least one third of the workforce (two thirds for startups) must have a master’s degree;
3. the enterprise must be the owner, holder or licensee of at least one industrial patent, or the owner of an original computer program (the same as for innovative startups).

498 innovative SMEs (88.1%) declared that they satisfy the first requirement on research and development expenditure 407 (72%) the requirement on qualified workforce and 379 (67.1%) the requirement on intellectual property. As for startups, the most common combination of these requirements is the first and second (184 cases), but 159 enterprises (28.1%) declared that they satisfy all three requirements.

Business sector

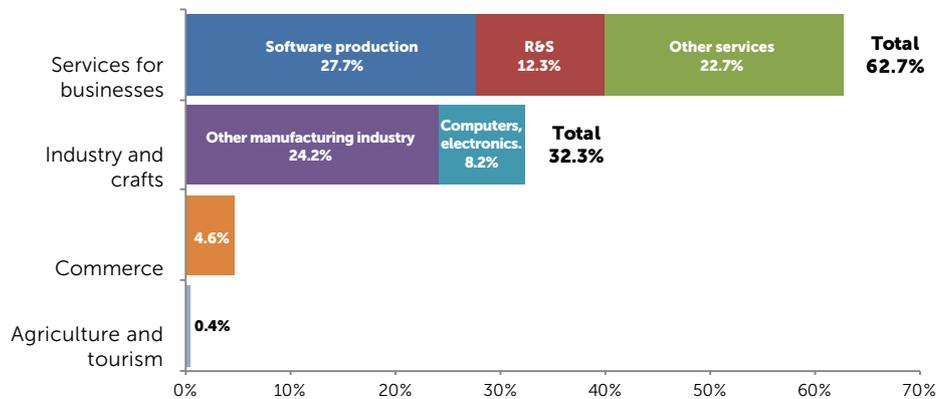
Innovative SMEs are concentrated primarily in the sector of services for business (62.7%). As for startups, Ateco code “J 62”, which refers to software production, is particularly common and is attributed to 156 of these innovative SMEs (27.7%). There is also a large percentage of enterprises with Ateco code “M 72: Research and experimental development on natural sciences and engineering” (69, or 12.3%). However, there is a higher number of innovative SMEs in the manufacturing sector compared with innovative startups, with 32.3% of the companies registered in the special section in this sector. The remainder are in commerce (4.6%) and other sectors.



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Figure 2.2.5: Innovative SMEs in the main sectors of the economy



Source: Based on InfoCamere data

2.2.2 INNOVATIVE STARTUPS CONVERTED INTO INNOVATIVE SMES

A **comparison** between the access requirements for the innovative startup and innovative SME regimes clearly shows that the latter is the natural development of the former for enterprises that continue to innovate, even though they have progressed beyond the startup phase.

A simple and automatic conversion mechanism has been introduced to ensure enterprises continue to receive the compatible incentives of the two regimes in full. Startups that have completed their fifth year since incorporation, record €5 million in annual turnover, distribute profits, or are listed on a multilateral trading platform, and satisfy all the requirements of art. 4, par. 1, of D.L. 3/2015, may transfer consecutively to the innovative SME incentive regime. To do so, the enterprise simply submits a dedicated company form (Code 070: "Startup: transfer to the special section as an innovative SME") to request their removal from the startup section and simultaneous registration in the special section of the Business Register for innovative SMEs.

The 565 innovative SMEs registered as at 30 June 2017 include 211 (37.3%) that were registered as innovative startups in the past.

It is clear from analysis of the year of incorporation of these enterprises that the main reason for leaving the innovative startup regime is because they had reached the end of the temporary regime stipulated by art. 25, par. 3, of D.L. 179/2012, as already discussed in paragraph 2.1.1.

2 INNOVATIVE STARTUPS AND SMES: OVERVIEW AS AT 30 JUNE 2017

Table 2.2.c: Distribution of startups converted to innovative SMEs by year of incorporation

YEAR OF INCORPORATION	NUMBER
2008	2
2009	29
2010	46 (of which 15 after 20 October)
2011	54
2012	76
2013	1
2014	2
2015	1
	211

Source: InfoCamere

With four exceptions, all the former startups were incorporated before 18 December 2012, the date when D.L. 179/2012 was converted into law.

Specifically, the number increases as this cut-off date approaches. The most heavily represented group, with as many as 145 enterprises, is the one most recently covered by the temporary regime, i.e. enterprises incorporated between 20 October 2010 and 18 December 2012. These enterprises enjoyed the status of innovative startup for up to four years after the conversion law was passed, namely until 18 December 2016.

It would therefore appear that a considerable number of the around 800 startups leaving after that date took advantage of the simplified transition mechanism described above. This is confirmed by the fact that the last date for the over 120 enterprises to appear in the innovative startup special section is the watershed date that has been mentioned on numerous occasions in this report or the period immediately afterwards, i.e. the early months of 2017.

The geographical distribution of former startup innovative SMEs is similar to the one found for the innovative startups currently registered. The percentage of enterprises in Northern Italy is even higher and accounts for almost two thirds of this group (64%), with 40.3% located in the North West (and 28.4% in Lombardy). The percentage of these enterprises in Central Italy (18.5%) is almost identical to the one for Southern Italy (17.5%).

There are several significant, although not major, differences in the figures for sector distribution. The percentage in the manufacturing sector is higher than the total for startups (28%), and services (64%) play a limited, but nonetheless prominent, role. The prevailing legal form of an s.r.l. (the Italian equivalent of a limited liability company) is present in 83% of cases, very similar to the percentage found for the innovative startups currently registered. However, there is a much higher proportion (10%) of s.p.a. (equivalent to a British plc), which is much less frequent for the innovative startups currently registered (see [paragraph 2.1.6](#)).



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One major difference, however, can be seen in annual turnover, which is €681,373 for ex-startups converted to SMEs, with a median value of €225,000. Overall, the 211 former startups now registered in the special section of innovative SMEs have turnover of €143.8 million, around one fifth of the total sales volume of the innovative startups currently registered.

There is also a significant difference in workforce, with an average of 6.9 people per ex-startup (against 3.3 for currently registered startups), with a median value of 4. These enterprises have a total workforce of 1,458 people, one of which employs a total of 139.



INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

3

As the information sources and survey methods currently stand, not all the measures introduced by D.L. 179/2012 for innovative startups enable a quantitative measurement of performance. As such, the analysis below does not include the following instruments:

- non-applicability of the regulations on dummy companies and loss-making companies (art.26, par. 4, D.L. 179/2012);
- facilities to offset losses (art.26, par. 1, D.L. 179/2012);
- the VAT credit threshold, above which there is a duty to affix a “compliance visa” for compensation is raised from €15,000 to €50,000 (art.4, par. 11 novies, D.L. 3/2015);
- flexibility in use of fixed term contracts (art.28, D.L. 179/2012);
- possibility of paying staff and external collaborators with equity bonus plans, which are only taxed on capital gains (art.27, D.L. 179/2012);
- exemption from the regulations on insolvency, and application of the law on over-indebtedness crisis management, applicable to fail-fast companies (art.31, D.L. 179/2012).

With the exception of the above, all the other measures for innovative startups have produced quantitatively measurable data. The results of these findings are described in the paragraphs below.

3.1 REDUCTION IN STARTUP COSTS AND THE NEW ONLINE PROCEDURE FOR INCORPORATION

Once registered in the special section of the Business Register, innovative startups and certified incubators “...are exempted from paying the stamp duty and administrative fees owed in accordance with obligations concerning registration in the Business Register, and also from paying the annual fee owed to the Chambers of Commerce” (art. 26, par. 8, of D.L. 179/2012). The 2017 Budget Law (art. 1, par. 69), which amended art. 26, par. 8, further clarified that the exemption also applies to all innovative startups incorporated online using the standard model and electronic signature (see below).

Italian Revenue Agency’s **Circular 16/E** of 11 June 2014 stated that the exemption from paying administrative fees was meant in its broadest possible meaning and the exemption from paying stamp duty relates to all instruments issued by the startup and certified incubator, even after registration in the Business Register. This exemption regime “is subject to the upholding of the requirements laid down by the law for acquisition of the innovative startup status”.

The above-mentioned advantages result in significant savings for companies in the startup phase. Based on the estimates given in a **previous edition** of



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this Annual Report (Section 3.1, page 78) and considering the average size of an innovative startup and the average number of documents filed each year with the Chamber of Commerce, these savings can be quantified at €525 per company for the first year of registration, and €435 for the next four years.

Secondly, as already mentioned in **Chapter 1**, from 20 July 2016, the founders of innovative startups in the form of an s.r.l. can use the new online procedure for incorporation, in which a standard model of the Articles of Association (AOA) and the Statute can be filled out, electronically signed and submitted online to the local Chamber of Commerce. This procedure may be used without relying on a private professional consultant, thereby eliminating associated fees. Alternatively, it is still possible to incorporate this type of company through a notarised public deed.

A sample survey conducted by MISE for the **2016 Annual Report** estimates that an entrepreneur choosing to incorporate an innovative startup using the new online procedure can save around €2,000, leaving aside substantial differences from area to area. The average outlay per incorporation (€2,011 nationally) is, in fact, higher in North West Italy (€2,176 on average), in line with the national average in the North East (€2,009) and below the national average in Central Italy (€1,810) and Southern Italy (€1,964). It is important to emphasise that this expenditure figure also varies depending on the complexity of the incorporation procedure and, all other conditions being equal, includes the professional consultant's fee, which is discretionary. The incorporation costs found in the sample therefore vary widely, from a minimum of €1,000 or just over, to a maximum close to or over €3,000.

The online incorporation procedure

Key data

As at 30 June 2017, 740 innovative startups in the form of an s.r.l. had used the new online procedure for incorporation with electronic signature and standard model (see **paragraph 1.1**). Of these, 36 are still at the registration stage, while the remaining 704 are new companies that have officially been incorporated.

89 companies chose to use the new procedure at the Chamber of Commerce offices in their province, with the assistance of the Business Register clerk. In this case, registration in the special section takes place at the same time as registration in the Business Register.

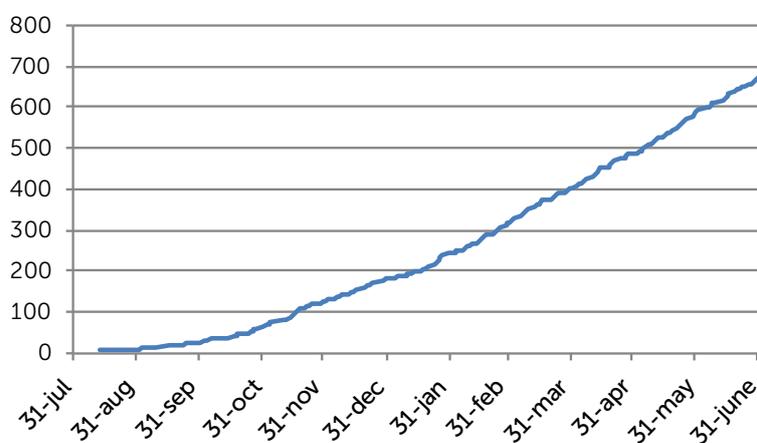
The other 615 used the new online procedure entirely independently. As at the date in question, the process for checking the requirements for registration in the special section was still under way for 31 companies. These firms are officially incorporated, but are provisionally registered only in the ordinary section of the Business Register.

As a result, as at the date in question, there were 673 innovative startups that had already been incorporated and officially recognised as such (89 incorporated in the Chamber of Commerce and 584 entirely online).

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

Figure 3.1.1 below shows that there was a sustained increase in the number of registrations in the special section using the new procedure. The highest number of registrations took place in May 2017 (103), followed by March with 87, and June with 85. A full 269 innovative startups registered in the special section between April and June 2017, a quickening in pace compared with the previous quarter, when 224 enterprises were incorporated online. Compared with 31 December 2016, when there were a total of 180 startups incorporated online, this figure is now close to 500 (493)

Figure 3.1.1: Trend in innovative startups registered using the new procedure, July 2016 - June 2017



Source: Based on InfoCamere data

If we take the enterprises registered in the special section of the Business Register for innovative startups between April and June 2017, only including those incorporated during the same period²³, innovative startups that used the new online procedure for incorporation account for 44.8% of the total (241 out of 538), a marked increase over the 39% recorded in the previous quarter. The new procedure for incorporation was used by 42.8% of the startups that were registered and began operating in the first half of 2017.

Distribution across Italy

With the exception of the Valle d'Aosta region, at least one firm was incorporated online in all Italian regions. Lombardy ranks in first place for use of the electronic procedure, with 151 new startups created, or 22.4% of all online incorporations in Italy. In second and third place are Veneto, with 100 enterprises (14.9%), and

²³ Others may have actually have been founded previously, as the innovative startup status is also available to enterprises that are not newly incorporated, provided that they were incorporated no more than five years earlier (and not before 19 December 2012 in any case) and that they satisfy the other requirements of [D.L. 179/2012](#), art.25, par. 2. Furthermore, as a result of the conformity checks carried out by individual Chambers of Commerce, several startups that were incorporated entirely online obtained registration in the special section after incorporation.



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Lazio, with 75 (11.1%). The other regions where the new procedure was heavily used are Emilia-Romagna (48 startups), Sicily (46), Campania and Apulia (34). In contrast, the new procedure is still underused in several regions that have a significant number of new innovative startups, such as the Piedmont (17 incorporated online out of the 407 registered).

At provincial level, Milan is in the lead for innovative startups incorporated using the new method, with 97 cases (14.4% of total online incorporations in Italy). Rome is in second place, with 68, and Padua in third place with 32. The provinces of Verona and Treviso complete the top five. Innovative startups were incorporated in a total of 90 provinces. However, certain provinces are under-represented, including several large ones: in Turin, which is in third place in Italy in terms of the number of innovative startups (285), only four startups were created online, and Naples (in 4th place), Modena (in 7th place) and Florence (in 10th place), which had only nine, four and two online incorporations respectively.

If we look at the rate of adoption of the new procedure out of the total startups created, it is interesting to note that the new procedure was used by 100% of the startups incorporated over the last three months in 16 small provinces. Verona stands out among the larger provinces, with an adoption rate of 78.6% in the last quarter, followed by Bari (60%). Rome (54%) is slightly above the national average and Milan (43.5%) is slightly below it. The opposite trend was found in Turin and Naples, where only just over 10% of newly incorporated startups chose the new procedure, and also in Modena and Florence, where it was never used in the last quarter.

Table 3.1.a: Geographical distribution of innovative startups registered with the new procedure

REGION	NO. OF STARTUPS	%
Lombardy	151	22.4%
Veneto	100	14.9%
Lazio	75	11.1%
Emilia-Romagna	48	7.1%
Sicily	46	6.8%
Campania	34	5.1%
Apulia	34	5.1%
Marche	30	4.5%
Tuscany	25	3.7%
Trentino-South Tyrol	19	2.8%
Calabria	18	2.7%
Friuli-Venezia Giulia	18	2.7%
Piedmont	17	2.5%
Liguria	16	2.4%

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

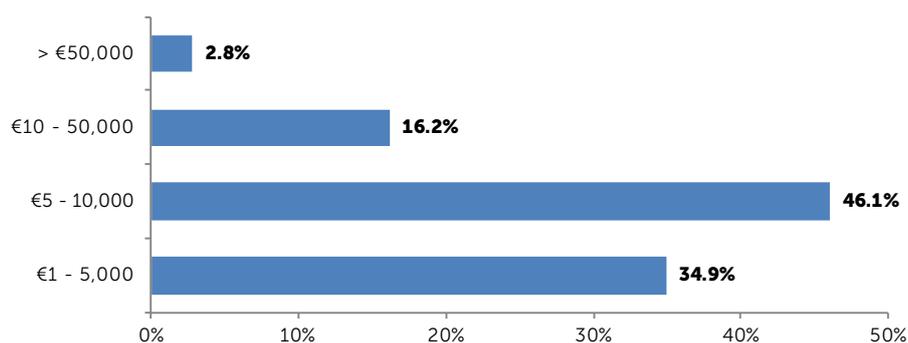
REGION	NO. OF STARTUPS	%
Sardinia	13	1.9%
Abruzzo	11	1.6%
Basilicata	7	1.0%
Umbria	7	1.0%
Molise	4	0.6%
TOTAL	673	

Source: InfoCamere

Share capital class and business sector

Over 80% of new innovative startups incorporated by electronic signature have initial subscribed share capital below the €10,000 normally required for limited liability companies in Italy, as allowed by recent changes in the law. In particular, almost half the companies created online (310, or 46.1%) have share capital between €5,000 and €10,000. A further 225 (34.9%) are in the €1 to €5,000 bracket. The number of enterprises with share capital over €10,000 is increasing constantly: as at the date in question, 109 startups (16.2%) recorded share capital between €10,000 and €50,000, and 19 (2.8%) exceeded this threshold too.

Figure 3.1.2: Subscribed share capital of innovative startups incorporated using the new procedure



Source: Based on InfoCamere data

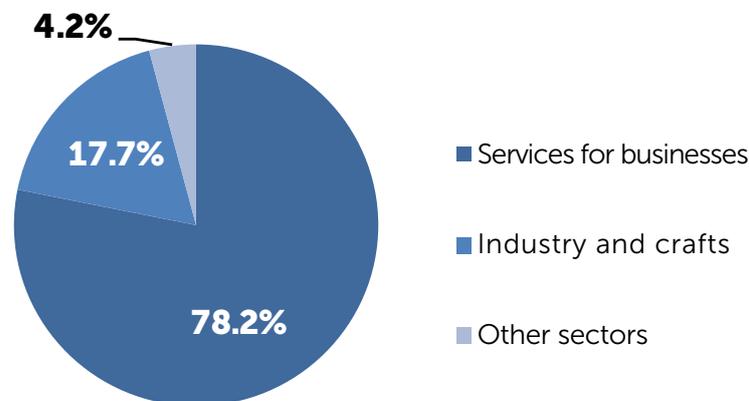
More than three out of four innovative startups incorporated online operate in the macro-sector of services for business (526, or 78.2%), above the already high percentage registered for innovative startups as a whole (74.8%). In particular, 256 have Ateco code J 62, i.e. "software production and IT consultancy". There are 119 newly incorporated enterprises (17.7%) operating in the manufacturing sector, of which: 30 have Ateco code C 26, "Manufacture of electronic components and optical equipment". Trade, agriculture and tourism account for a minimal portion (around 4%).



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Figure 3.1.3: Business sector of innovative startups incorporated using the new procedure



Source: Based on InfoCamere data

Over half (416, or 61.8%) of the innovative startups incorporated using the new procedure indicated planned R&D expenditure above the minimum threshold as an innovativeness requirement (see [par. 2.1.7](#)), while 225 (33.4%) chose the criterion on workforce academic qualifications. A further 51 opted for the intellectual property requirement (7.6%, a significantly lower proportion than the average recorded for all startups). In conclusion, 13 startups declared that they satisfy more than one requirement: Three satisfy the first and the second, one satisfies the second and the third, three satisfy the second and the third and six satisfy all the requirements.

3.2 TAX CREDIT FOR THE HIRING OF HIGHLY QUALIFIED STAFF (CIPAQ): FIGURES ON 2014 HIRINGS

What is CIPAQ

The tax credit for the hiring of highly qualified staff ("CIPAQ") is a tax incentive granted for the 2012, 2013 and 2014 tax years, equivalent to 35% of the cost that a company incurs when hiring staff with a PhD, or master's degree in technical/scientific disciplines, if employed in basic research, industrial research or experimental development.

This incentive was introduced by article 24 of [Decree-Law 83/2012 "Urgent measures for economic growth in Italy"](#), and is governed by the [Decree of the Minister of Economic Development](#), passed in agreement with the Ministry of the Economy and Finance on 23 October 2013. It is applied to the costs sustained in the first year after the hiring date and cover a maximum of €200,000 per firm (*de minimis* system)²⁴.

²⁴ European Commission Regulation (EU) No 1407/2013 provides for a maximum of €200,000 of aid per company over a three-year period.

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

The incentive was available to all recipients of business income, irrespective of legal form, and covered only permanent contracts, including contracts that had been converted from fixed term contracts. The total payroll costs incurred by the company were considered for the purposes of calculating the incentive: gross pay before tax, mandatory contributions and allowances for children and family members. There were several limitations on use of the incentive. The employment relationship associated with the incentive had to be maintained for at least two years and the overall number of employees of the beneficiary company had to increase over the same period.

In addition to a general financial provision, CIPAQ also provided for a specific allowance of €2 million for innovative startups and certified incubators for appointing staff, in accordance with art. 27-bis of D.L. 179/2012. However, innovative startups and certified incubators were also allowed to apply for the general provision.

Another special provision was included for startups and incubators, which were also entitled to deduct the company cost for hirings on permanent apprenticeship contracts. There was also a simplified procedure put in place for claims submissions and those submitted using this method were assessed as a priority.

Due to the specific conditions governing use of the incentive, the 2014 figures on hiring with the CIPAQ incentive only became available in the early months of 2017. This report therefore examines the figures for the last year of application of this measure²⁵, which was subsequently absorbed into the broader **R&D tax credit** (CIR&S) previously discussed in Chapter 1.

2014 figures

For staff appointed during 2014, after a preliminary assessment, which excluded two companies from the incentive, the Italian Ministry of Economic Development (MISE) granted credit to 46 innovative startups, and reported the information to the Italian Revenue Agency. 29 of these companies are located in the regions of Northern Italy, with 12 in the North West and as many as 17 in the North East (nine in Emilia-Romagna), 14 in Central Italy and the remaining three in Southern Italy (Sicily).

Under the incentive, 67 highly qualified staff members were hired, giving an average of 1.5 per enterprise. The total credit applied for amounted to €886,000 (Table 3.2.a), approximately €19,300 per enterprise and €13,200 per employee. The average cost incurred by each beneficiary company for each staff member hired in 2014 was therefore around €37,800, which decreases by approximately €25,000 per capita after application of the incentive.

Detailed data on the characteristics of the staff hired with CIPAQ is available for 63 cases. 52 people employed through CIPAQ (82.5%) are men, and 11 are

25 [The 2015 Annual Report](#) examined hirings for 2012 (paragraph 3.2), while the [2016 edition](#) examined those for 2013 (paragraph 4.2).



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women. Their average age is 35.6 years, ranging between 25 for the youngest and 61 for the oldest. When the employment relationship began, 22 of them were 30 years old or under. All CIPAQ beneficiaries had a technical master's degree and 35 of them had engineering degrees (11 with a specialisation in IT engineering and in electronic engineering respectively). There were also nine people with a PhD.

Table 3.2.a: Tax credit for highly qualified staff granted to innovative startups for hirings in 2014: distribution by territorial macro-area

MACRO-AREA	NO. OF ENTERPRISES	NO. OF EMPLOYEES HIRED	TOTAL CREDIT
North West Italy	12	18	€280,298
North East Italy	17	20	€208,015
Central Italy	14	22	€303,436
Southern Italy	3	7	€94,429
ITALY	46	67	€886,178

Source: Italian Ministry of Economic Development (MISE)

3.3 FREE AND DIRECT ACCESS TO THE SME GUARANTEE FUND

Decree-law 179/2012 stipulated free, simplified and direct access for innovative startups and certified incubators to the **Public Guarantee Fund for SMEs** (FGPMI), a government fund that facilitates access to credit by granting guarantees on bank loans (enacting the **Ministerial Decree of 26 April 2013; user guide**).

Specifically, the guarantee covers up to 80% of a loan provided by a credit institution to an innovative startup or certified incubator, up to a maximum of €2.5 million. Unlike the ordinary procedure, this guarantee is granted free of charge and on the basis of a more simplified assessment that benefits from a priority channel with respect to other procedures. MedioCredito Centrale, the Fund's managing body, does not carry out any additional credit rating assessments other than the one already executed by the bank, and the applications for guarantees concerning this type of enterprise are prioritised in assessment and submission to the Management Committee. Although collateral securities, insurance coverage or bank guarantees cannot be applied for on the part already covered by the Fund, credit institutions may request a personal guarantee from the entrepreneur on the entire amount of the loan.

The application methods for innovative SMEs are similar to those described above, with a few specific differences, which are described in **paragraph 3.3.3**.

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

3.3.1 INNOVATIVE STARTUPS

Number and status of funding transactions

The first transaction with an innovative startup was approved by the SME Guarantee Fund in September 2013. Since then and up until 30 June 2017, the Fund has authorised 3,062 transactions originating from 1,784 innovative startups: 620 enterprises applied to use the SME Guarantee Fund for more than one transaction. Authorised funding totals €741,096,621 (average of €242,030).

However, if this analysis is to be complete, it must be noted that not all the transactions authorised by the Fund actually resulted in a loan. The credit institution or lender maintains discretionary power over completion of the transaction, even after the Fund has authorised it. The actual state of progress of the transactions needs to be examined in order to obtain the precise amount of the loans granted to innovative startups with use of the SME Guarantee Fund.

As at the date of the survey, 512 transactions (16.7% of the total) had not subsequently been concluded, either because the bank had refused the loan or the enterprise had decided not to apply for it. In a further 307 cases (10%), the SME Guarantee Fund agreed to the loan, but the bank and the enterprise are still in the process of completing the agreement. Three options apply to the remaining 2,243 cases (73.3%):

- the loan was granted and is currently in regular repayment. This applies to 1,964 cases (64.1% of the total), for a total amount of €445,444,702;
- the loan has already been fully repaid by the enterprise. This applies to 252 cases (8.2%), for a total of €24,098,500. These are almost always short-term loans (245, or 97.2%) of less than 18 months in duration;
- the loan has already been granted, but the enterprise was unable to repay it within the agreed times. These are therefore defaulted loans, which is why the guarantee needed to be activated. Only 0.9% of the transactions (27 cases) fall under this category and the loans involved total €7,535,000.

Accordingly, against a total €740 million in authorised loans, the total amount effectively used is €477,078,202, or 64.4% of the entire capital potentially covered by the guarantee. A total of 1,432 innovative startups were involved in these transactions, or 80.3% of those receiving the Fund's authorisation. This includes 416 enterprises that received more than one loan.



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Table 3.3.a: SME Guarantee Fund transactions made to innovative startups

STATUS OF TRANSACTIONS	TRANSACTIONS	% OF TOTAL	AMOUNT FUNDED	% OF TOTAL	AMOUNT GUARANTEED	% OF TOTAL
Reached maturity date without activation of the guarantee	252	8.2%	24,098,500	3.3%	18,412,000	3.2%
In regular repayment	1,964	64.1%	445,444,702	60.1%	347,339,604	59.9%
Request to activate guarantee	27	0.9%	7,535,000	1.0%	6,022,400	1.0%
Still to be completed	307	10.0%	86,092,254	11.6%	68,207,803	11.8%
Not completed	512	16.7%	177,926,165	24.0%	139,640,832	24.1%
TOTAL	3,062	100%	741,096,621	100%	579,622,640	100%

LOANS PAID OUT	2,243	73.3%	477,078,202	64.4%	371,774,004	64.1%
LOANS NOT PAID OUT	819	26.7%	264,018,419	35.6%	207,848,635	35.9%

Source: MedioCredito Centrale

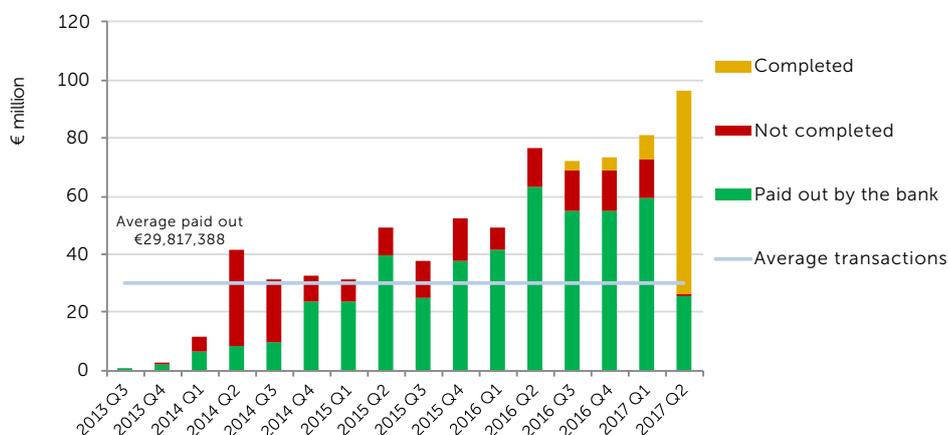
Trend over time of the operations

Over the last calendar year, innovative startups have received new bank loans totalling almost €200 million (€195,122,803), out of the total of more than €323 million authorised by the Fund in about four years.

In the second quarter of 2017 alone, new loans totalling almost €60 million were granted and 403 transactions were approved by the Fund in the same period, giving loans potentially amounting to almost €100 million (€96,074,336). As at 30 June, a full 260 of these operations, for a total of around €70 million, were still being completed. Figure 3.3.1 shows that the percentage of transactions per quarter that were not completed is equal to just under 20% of the amounts initially authorised. It is therefore reasonable to assume that the amount paid out on approved transactions in the second quarter of 2017 will be well over €60 million.

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

Figure 3.3.1: Transactions authorised by the SME Guarantee Fund per quarter, amount funded (millions of €)



Source: based on InfoCamere and MedioCredito Centrale data

Direct financing and financing with counter guarantee, duration, average amount

A full analysis of the impact of this measure requires a conceptual distinction between the guarantees granted directly on the loan from the bank, and transactions executed with a counter guarantee, that is by involving another lender or another guarantee fund. The total of 3,062 transactions includes 311 approved by the Fund with a counter guarantee (10.2%), 102 of which occurred in the last calendar year. A total of 209 transactions with a counter guarantee were successfully completed.

The average duration of authorised financing is 55.4 months. This drops to 53.6 months when only considering the transactions that resulted in an actual loan. The percentage of short-term financing (under 18 months in duration) is also high, at 25.4% (777 cases). This increases to 27.2% for loans effectively paid out (609).

As was mentioned above, the average amount of financing approved by the Fund totals over €240,000 (€ 242,030). However, this figure is heavily influenced by the presence of numerous large-scale transactions that were not successfully completed (the average value of uncompleted transactions is €347,512). The average amount is just over €210,000 (€ 212,696) if only completed loans are considered. It should also be noted that the average amount for transactions with a counter guarantee (€117,480, which falls to €112,719 for loans paid out) is considerably lower than the average found for transactions carried out directly by the credit institutions (€256,111 authorised, €222,969 completed).



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Defaulted loan rate

As the use and lifetime of the measure increases, several indicators are bound to become more significant and therefore allow for more detailed analysis. One aspect that calls for medium- and long-term monitoring is the defaulted loan rate²⁶ (Table 3.3.b). However, it is important to note that, almost four years after the first transaction for an innovative startup, this indicator is still much lower than the figure for other recently incorporated limited companies (0.9%, against 8.3%)²⁷.

Table 3.3.b: Defaulted loan rate, comparison between innovative startups and other new enterprises that have obtained a guarantee from the SME Guarantee Fund

	TRANSACTIONS	AMOUNT FUNDED	AMOUNT GUARANTEED
Innovative startups	0.9%	1.0%	1.0%
Total startups (Companies that have been trading for no more than three years)	8.3%	11.7%	9.1%
Total SME Guarantee Fund (limited companies)	5.3%	6.3%	4.5%

Source: Mediocredito Centrale

Distribution across Italy

There are clear imbalances between different areas of the country in terms of access to the SME Guarantee Fund by innovative startups. Table 3.3.c shows that performance varies considerably from region to region. This imbalance cannot only be attributed to the absolute number of innovative startups per region, as there are also significant area differences between the enterprises registered in the special section of the Business Register and those of them that made use of the instrument (see Figure 3.3.2).

The top four regions with the highest total amount financing also hold the first four positions for the number of transactions initiated. The average values are particularly interesting in the cases of Lombardy which, despite an extremely high number of transactions (over twice the number of the next region in the ranking, Emilia-Romagna), is also in 3rd place in terms of the average amount of the loan, and Abruzzo, where the average amount of financing is by far the highest nationwide, even though it is in the bottom part of the regional ranking for the number of transactions (14th out of 20).

26 The defaulted rate is the ratio between the number of transactions that have moved to defaulted status and the total transactions approved during the observation period. Only limited companies were taken into account for the purpose of this analysis.

27 The average time of transition to the defaulted status, as recorded by the SME Guarantee Fund during its history, is 3.5 years.

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

The opposite is true for Campania, which is in 8th place for number of transactions, but has the lowest average value of financing out of all the regions, with the exception of Valle d'Aosta. Tuscany is currently the only Italian region where access to the Fund is permitted exclusively with a counter guarantee. The average level of financing is therefore comparatively low (€165,199, 15th out of 20) and a large share of transactions made using the procedure at national level (79 out of 311, including 58 with a positive outcome) took place in this region.

Table 3.3.c: regional distribution of financing transactions made to innovative startups

REGION	TOTAL AMOUNT (A)	# (A)	TRANSACTIONS (B)	# (B)	AVERAGE (B:A)	# (B:A)
Lombardy	153,151,223	1	588	1	260,461	4
Emilia-Romagna	59,403,313	2	292	2	203,436	8
Veneto	45,195,339	3	233	3	193,971	10
Piedmont	31,716,971	4	190	4	166,931	14
Marche	31,505,325	5	106	9	297,220	2
Trentino-South Tyrol	24,589,000	6	117	7	210,162	7
Friuli-Venezia Giulia	23,571,640	7	121	6	194,807	9
Abruzzo	19,500,510	8	42	14	464,298	1
Lazio	17,401,583	9	125	5	139,213	18
Campania	15,377,500	10	116	8	132,565	19
Tuscany	9,581,570	11	58	10	165,199	15
Liguria	9,135,000	12	51	12	179,118	12
Sicily	8,583,500	13	58	11	147,991	17
Apulia	7,933,000	14	45	13	176,289	13
Umbria	7,372,782	15	40	15	184,320	11
Sardinia	6,787,400	16	28	16	242,407	6
Basilicata	2,850,000	17	10	18	285,000	3
Calabria	2,152,545	18	14	17	153,753	16
Molise	750,000	19	3	20	250,000	5
Valle D'Aosta	520,000	20	6	19	86,667	20
ITALY	477,078,202		2,243		212,696	

Source: Mediocredito Centrale



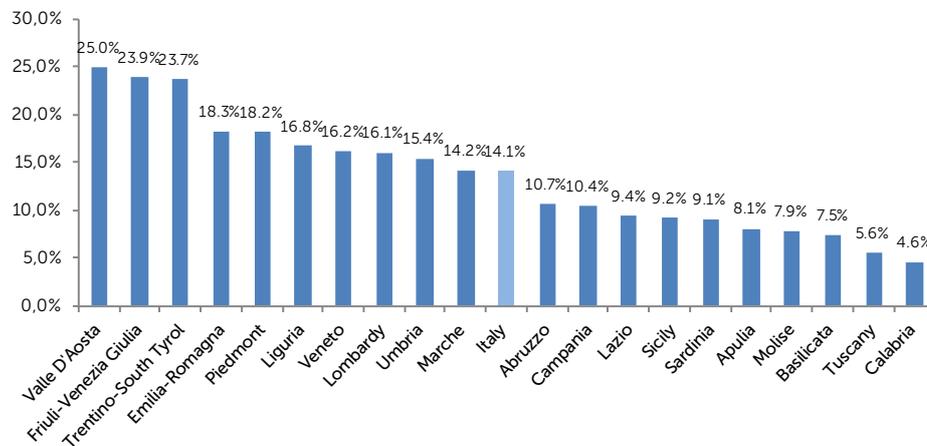
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As it appears clear from Table 3.3.c, the differences in access to the Fund are not simply the result of the different number of innovative startups located in an area. In some regions, the incentive has been used by an extremely high percentage of enterprises compared to the national average. There is a clear North-South divide in access to credit. The regions of Northern Italy are all above the national average, while those in Central and Southern Italy are either close to it or well below it.

The success stories are the Valle d'Aosta, Trentino-South Tyrol and Friuli-Venezia Giulia, where the percentage of startups which have accessed the SME Guarantee Fund is extremely high; in these three regions, the ratio between the innovative startups receiving financing through the Fund and the total number of enterprises that were never registered in the special section of the Business Register is almost 25%. The opposite is true for Tuscany which, despite ranking high in number of innovative startups (in 9th place as at 30 June 2017), lies at the bottom of this ranking. Another case in point is Calabria, where only nine of the almost 200 innovative startups currently or previously registered in the special section have obtained financing through the SME Guarantee Fund.

Figure 3.3.2: Percentage of startups with access to the SME Guarantee Fund by region²⁸



Source: Our calculations using InfoCamere and MedioCredito Centrale data

Distribution of financing by bank type

Distribution by bank type shows that the top five banking groups for size (type A) prevail and account for over 60% of the transactions and an even higher share of the total financing paid out. It is also interesting to note that a sizeable

²⁸ The ratio is calculated by dividing the number of innovative startups receiving financing transactions assisted by the SME Guarantee Fund per region by the number of enterprises that had been registered for at least one week in the special section of the Business Register before 30 June 2017.

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percentage (just under 20%) of the transactions involved minor banks²⁹ (E), often small local banks.

Table 3.3.d: distribution of loans paid out by bank type

BANK TYPE	TRANSACTIONS WITH ISU	% OF TOTAL	AMOUNT OF FINANCING PAID OUT	% OF TOTAL
A	1,361	60.7%	309,484,436	64.9%
B	274	12.2%	54,132,600	11.3%
D	168	7.5%	31,944,250	6.7%
E	438	19.5%	80,966,915	17.0%
ND	2	0.1%	550,000	0.1%
TOTAL	2,243	100%	477,078,202	100%

Source: Mediocredito Centrale

3.3.2 CERTIFIED INCUBATORS

Eight certified incubators had received a loan mediated by the SME Guarantee Fund as at 30 June 2017, in a total of 14 transactions. All financing is being paid off regularly, except for one, which is still in the process of completion. Incubators tend to apply for medium/long-term financing, with only three transactions that were less than 18 months in duration.

Table 3.3.e: SME Guarantee Fund transactions made to certified incubators

STATUS OF TRANSACTIONS	TRANSACTIONS	% OF TOTAL	AMOUNT FUNDED	% OF TOTAL	AMOUNT GUARANTEED	% OF TOTAL
Reached maturity date without activation of the guarantee	-	0.0%	0	0.0%	0	0.0%
In regular repayment	13	92.9%	12,340,000	98.3%	9,522,000	98.4%

²⁹ A=Top five large banking groups; B=Other large banks or members of large banking groups; D=Small; E=Minor. C (Branches of foreign banks) are not included. See "Banks" item in the [Glossary](#) published by the Banca D'Italia.



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STATUS OF TRANSACTIONS	TRANSACTIONS	% OF TOTAL	AMOUNT FUNDED	% OF TOTAL	AMOUNT GUARANTEED	% OF TOTAL
Request to activate guarantee	0	0.0%	0	0.0%	0	0.0%
To be completed	1	7.1%	200,000	1.7%	160,000	1.6%
Not completed	0	0.0%	0	0.0%	0	0.0%
TOTAL	14	100%	12,540,000	100%	9,682,000	100%

Source: Mediocredito Centrale

3.3.3 INNOVATIVE SMES

The **Ministerial Decree** of 23 March 2016 enacted a provision of the so-called Investment Compact Decree-law (D.L. 3/2015) by considerably extending capacity to access the Fund through the “simplified” procedure described in **paragraph 3.3.1**, whereby the Fund does not carry out any additional credit rating assessments other than the one already executed by the credit institution.

Generally speaking, the simplified procedure can only be used for financial transactions that satisfy the other requirements and fall under the “Category 1” rating section based on the scoring models used by the Fund. The Ministerial Decree of 23 March 2016 (**guide**) also allows access to the SME Guarantee Fund using the simplified procedure for innovative SMEs that fall under the “Category 2” rating section. Although this is a slightly different procedure than for innovative startups, which all have access through the simplified procedure, a common point between the two sets of regulations is that the guarantee provided by the Fund is free.

Simplified access to the Fund for innovative SMEs became fully operational at the end of June 2016. One year later (30 June 2017), 101 authorised transactions had been made to this category, totalling just over €32 million and involving 71 companies in all. These transactions were not completed in four cases and the agreement between the enterprise and the credit institution was still being completed in another 19 cases.

So far, 78 transactions mediated by the SME Guarantee Fund (77.2% of the total) have given rise to credit being granted to 57 innovative SMEs. It should also be noted that 20 innovative SMEs received more than one loan.

Two transactions have already reached the maturity date without activation of the guarantee and there are currently no defaulted loans. The total amount paid out is €25,789,956 (see Table 3.3.f)

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

Table 3.3.f: SME Guarantee Fund transactions made to innovative SMEs

STATUS OF TRANSACTIONS	TRANSACTIONS	% OF TOTAL	AMOUNT FUNDED	% OF TOTAL	AMOUNT GUARANTEED	% OF TOTAL
Reached maturity date without activation of the guarantee	2	2.0%	200,000	0.6%	120,000	0.5%
In regular repayment	76	75.2%	25,589,956	79.6%	19,716,565	80.3%
Request to activate guarantee	0	0.0%	0	0.0%	0	0.0%
Still to be completed	19	18.8%	5,575,000	17.3%	4,151,800	16.9%
Not completed	4	4.0%	770,000	2.4%	576,000	2.3%
TOTAL	101	100%	32,134,956	100%	24,564,365	100%

LOANS PAID OUT	78	77.2%	25,789,956	80.2%	19,836,565	80.8%
LOANS NOT PAID OUT	23	22.8%	6,345,000	19.8%	4,727,800	19.2%

Source: Mediocredito Centrale

The average value of the transactions approved by the Fund is €318,168, with an average duration of 45.3 months. The average value of transactions that have already resulted in a loan is €330,640, with an average duration of 42.8 months.

It should also be noted that 32 transactions approved by the Fund (31.7%) relate to loans under 18 months in duration, two of which have already reached maturity and 25 are in regular repayment.

As regards distribution across Italy, in 18 out of 20 regions, at least one loan was finalised for an innovative SME assisted by the Fund. Emilia-Romagna is the region where this instrument is most widely used, with 19 transactions and a total of around €9.5 million paid out. In Lombardy, which dominates the ranking for innovative startups, to date there have been 10 transactions of a relatively small size for a total value of just under €2.5 million, even lower than the €3.3 million recorded in Apulia.



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Table 3.3.g: regional distribution of financing transactions made to innovative SMEs

REGION	TOTAL AMOUNT (A)	# (A)	TRANSACTIONS (B)	# (B)
Emilia-Romagna	9,483,000	1	19	1
Apulia	3,350,000	2	8	3
Lombardy	2,427,516	3	10	2
Lazio	2,154,000	4	5	6
Marche	2,055,000	5	6	5
Campania	1,543,440	6	7	4
Liguria	1,450,000	7	4	7
Veneto	1,140,000	8	4	8
Sardinia	730,000	9	1	13
Friuli-Venezia Giulia	247,000	10	2	10
Valle D'Aosta	220,000	11	3	9
Abruzzo	200,000	12	1	14
Umbria	185,000	13	2	11
Basilicata	180,000	14	1	15
Sicily	140,000	15	2	12
Piedmont	100,000	16	1	16
Tuscany	100,000	17	1	17
Trentino-South Tyrol	85,000	18	1	18
ITALY	25,789,956		78	

Source: Mediocredito Centrale

3.4 TAX INCENTIVES FOR INVESTMENTS IN INNOVATIVE STARTUPS: 2015 DATA

Tax incentives for investment in innovative startups are a cornerstone of the government strategy to support the Italian venture capital market. Before the new elements were introduced by the 2017 Budget Law (see [paragraph 1.3](#)), the tax incentives consisted of a 19% personal income tax deduction for investments by individuals and a 20% corporate income tax deduction for legal entities. The incentive was higher for investments in innovative startups “with a social goal” and cleantech enterprises (see [paragraph 2.1.5](#)), with a 25% personal income tax deduction and a 27% deduction on corporate taxable income. A single rate of 30% has now been introduced, which will take effect from 2017 onwards.

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

Under the previous system, which was governed by the ministerial decrees of 30 January 2014 (2013-2015 tax years) and of 17 February 2016 (2016 tax year), the maximum investment to which the incentive was applicable was €500,000 for individuals (now €1 million) and €1.8 million for legal entities (unchanged). The incentive applies to both direct investments in the risk capital of enterprises and indirect investments through Collective Investment Undertakings (CIUs), venture capital funds and other companies that invest primarily in innovative startups and SMEs. Another condition to be able to make use of the incentive required that the stake in the innovative startup be maintained for at least two years (now three).

Since the incentives are applied on filing annual tax returns, the data reported in this paragraph refers to investments made in the 2015 tax year and declared in 2016 (data from the 2016 tax returns will become available over the coming months), so the measure as originally conceived still applies.

Overview

Overall, in the 2015 tax year a total of 2,703 individuals and limited companies (1,030 more than in 2014) invested over €82 million in innovative startups, directly or indirectly.

If investments by both individuals and limited companies are considered, a total of 779 innovative startups received a direct incentivised investment. There are 109 enterprises in which both types of taxpayer invested.

Overall, if we sum together the personal income tax deduction applied for investments by individuals, and the effective tax benefit from the deduction applied for corporate income tax by legal entities, the direct weight of the measure on public finance in 2015 can be estimated in around €11.6 million.

Table 3.4.a provides a summary of the most salient data discussed in the rest of this paragraph, and shows the growth trend of this measure in the last year surveyed.

Table 3.4.a: Total investments and startups recipient of investments by both individuals and companies, evolution between 2014 and 2015

	2014	2015	VARIAZIONE
No. investors (individuals and limited companies)	1,673	2,703	+61.6%
No. of target startups: individuals (<i>direct inv.</i>)	515	666	+29.3%
No. of target startups: legal entities (<i>direct inv.</i>)	187	222	+18.7%
Target startups receiving incentivised investments from both individuals and legal entities	92	109	+18.5%
NO. TARGET STARTUPS	610	779	+27.7%



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	2014	2015	VARIAZIONE
Total investments by individuals	€32.8 million	> €48.3 million	+47%
Total investments by companies	€17.5 million	€34 million	+94%
Total incentivised investments	€50.3 million	€82.3 million	+64%
Total deduction by individuals	€6.6 million	€9.7 million	+47%
Total corporate income tax deduction by legal entities (estimate) [tot. deduction * 27,5%]	€1 million	€1.9 million	+90%
TOTAL INCENTIVE (ESTIMATE)	€7.6 MILLION	€11.6 MILLION	+52.6%

Fonte: Elaborazioni su dati Agenzia delle Entrate

Data on investments made by individuals in 2015

Key data

The data from the tax returns for the 2015 tax year, as provided by the Italian Revenue Agency through the **2016 Single Tax Return Form – individuals (compilation instructions)**, shows that 666 innovative startups (151 more than in 2014) received at least one incentivised investment in risk capital from one or more individuals in that year, for a total of 2,110 single direct investments. There were also 381 so-called “indirect” investments in 116 investment vehicles (28 more than in 2014), i.e. CIUs and other legal entities that invest primarily in innovative startups.

Consequently, there were 2,491 direct and indirect single investments for which the incentive was applied in 2015. The total amount invested, which can be calculated on the basis of 95.5% of the tax returns received³⁰, is €48,315,330, which is much higher than the amount declared for 2014 (around €32.8 million). Given the total number of investments, the average amount is €20,318, with a median of precisely 6,000. The value of individual investments ranges from a minimum of €1 to a maximum of €500,000, the same as the maximum amount to which the tax benefit is applicable³¹.

Distribution by size class of single investments shows that 65% of these investments are under or equal to €10,000, with almost all between €1,000

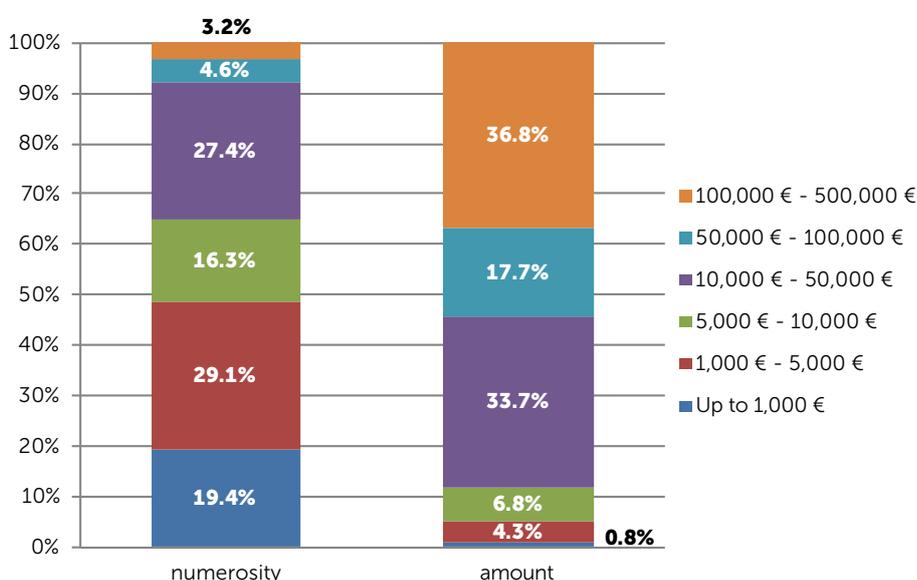
30 It is not possible to calculate the exact amount of investments executed indirectly through general partnerships or limited partnerships (108 cases), or through companies that have opted for fiscal transparency pursuant to art. 116 of the Income Tax Laws Consolidation Act (five cases). As established in the Single Tax Returns Form compilation instructions, the taxpayer is not required to indicate the amount of the investment on their own tax returns in these cases and simply indicates the total deduction due, which also depends on the investor's percentage stake in the vehicle company.

31 According to legislation in force until 11 December 2016, each individual could apply the deduction provided for by law to their own investments in innovative startups for up to a maximum of €500,000. Consequently, if investments were made by the same taxpayer that exceeded this threshold, the total amount to which the deduction applies would not correspond to the total invested. When used throughout the paragraph, the term “investments” means the total to which the deduction is applicable.

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and €5,000, and only 7.8% are over €50,000. Despite the small number of investments over €50,000, they account for 54.4% of the total sum to which the incentive is applicable, whereas those under €5,000 account for just 5%. It is clear from Figure 3.4.1 that although there is a large number of minor investments, they only represent a very small part of the incentivised amount, which is formed primarily of medium and large-scale transactions.

Figure 3.4.1: Distribution by size class of single incentivised investments in innovative startups: individuals (number and amount)



Source: Based on Italian Revenue Agency data

The beneficiaries of the investments

The 666 startups that received an incentivised investment directly obtained a total of €39,021,360, with an average value of €18,502.31 per investment, a median of €5,000 and a first and third quartile of €1,687 and €16,100 respectively.

A large number of enterprises (321) received more than one single investment, with an average of 3.17 investments per startup. This average value is heavily influenced by a limited number of companies (around twenty) which, presumably as part of equity crowdfunding campaigns (see [paragraph 3.5](#)), have received dozens, or in certain cases hundreds, of incentivised investments. A single startup received 320 contributions in 2015, totalling €443,000 altogether.

The investments made to intermediaries totalled €9,293,962 and just over €34,000 on average per single contribution. Like startups, many intermediaries (59) also received more than one investment, with an average of 3.28 investments each.



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Investments in innovative startups with a “social goal” (SIAVS), or those which develop and market innovative products or services with a high technological value in the energy field (“cleantech”), for which the deduction was higher during that tax period (25%, against the standard 19%), account for 6.2% of the total invested, with a value of almost €3 million (€2,977,565,00). There are 161 investments in this category, of which 149 were direct and 12 through an intermediary. The average investment is slightly lower than the investment recorded for the entire universe (€18,494).

In terms of the distribution across Italy, a full three quarters of the total amount invested was invested directly in innovative startups in Northern Italy (and around 50% in the North West) and the remaining 25% was divided between enterprises in Central and Southern Italy. This is similar to the trend that can be seen in the number of startups that received the investments. It is also clear that startups in the northern regions of the country tend to receive not only a higher number of investments, but also higher amounts, on average, per single contribution. Table 3.4.b shows the detailed distribution of these variables by region and macro-area.

Taxpayers and deductions granted

2,371 individuals declared an incentivised investment in an innovative startup in 2015, up by 963 compared to the 1,408 who did so in 2014. The average investment per taxpayer is €20,377.62. The same person made more than one investment in 95 cases, either directly (24 cases) or through an intermediary.

As stated above, although it is not possible to calculate the total amount of incentivised investments for the entire universe being examined, the figure on the personal income tax deduction claimed on filing annual tax returns is available in all cases. This deduction is calculated for direct investments by applying the incentive rate (19% or 25%) to each contribution executed in the tax period. The method of calculation used for indirect investments depends on the type of vehicle used³².

Overall, individual taxpayers claimed a personal income tax deduction on investments totalling €9,700,961, over €3 million higher than the total deductions claimed in 2014. The average deduction per taxpayer is €4,091.51, but the average is €3,895.40 if single investments are considered.

Around €7.5 million were deducted for direct investments in innovative startups. The same figure for indirect investments is just over €2.1 million. These sums include contributions given to SIAVS or cleantech enterprises, which total around €840,000 altogether.

³² For the 2015 tax year the provisions applied are those of the [Decree](#) of the Italian Minister of the Economy and Finance, in agreement with the Minister of Economic Development, passed on 30 January 2014.

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Table 3.4.b: Incentivised investments made by individuals in 2015 (only direct investments³³): region and macro-area

REGION	STARTUPS	SINGLE INVESTMENTS	% STARTUPS IN WHICH INVESTMENT WAS MADE	% SINGLE INVESTMENTS	SUM INVESTED (€)	% SUM	AVERAGE INVESTMENT PER STARTUP (€)
Lombardy	208	690	31.2%	32.7%	17,183,854.00	43.5%	82,614.68
Emilia-Romagna	76	167	11.4%	7.9%	3,684,399.00	9.3%	48,478.93
Piedmont	52	147	7.8%	7.0%	2,061,134.00	5.2%	39,637.19
Lazio	49	83	7.4%	3.9%	1,848,015.00	4.7%	37,714.59
Veneto	44	110	6.6%	5.2%	4,457,762.00	11.3%	101,312.77
Tuscany	43	174	6.5%	8.2%	3,198,450.00	8.1%	74,382.56
Campania	28	50	4.2%	2.4%	706,870.00	1.8%	25,245.36
Sicily	25	50	3.8%	2.4%	1,009,375.00	2.6%	40,375.00
Marche	24	67	3.6%	3.2%	903,164.00	2.3%	37,631.83
Trentino-South Tyrol	24	44	3.6%	2.1%	749,275.00	1.9%	31,219.79
Apulia	17	35	2.6%	1.7%	705,553.00	1.8%	41,503.12
Friuli-Venezia Giulia	16	343	2.4%	16.3%	755,798.00	1.9%	47,237.38
Calabria	14	35	2.1%	1.7%	384,416.00	1.0%	27,458.29
Sardinia	12	24	1.8%	1.1%	373,275.00	0.9%	31,106.25
Liguria	9	23	1.4%	1.1%	708,167.00	1.8%	78,685.22
Abruzzo	8	28	1.2%	1.3%	330,750.00	0.8%	41,343.75
Umbria	7	20	1.1%	0.9%	191,261.00	0.5%	27,323.00
Molise	5	12	0.8%	0.6%	210,054.00	0.5%	42,010.80
Basilicata	4	7	0.6%	0.3%	59,596.00	0.2%	14,899.00
Valle d'Aosta	1	1	0.2%	0.0%	200.00	0.0%	200.00
TOTAL	666	2,110	100.0%	100.0%	39,521,368.00	100.0%	59,341.39

³³ The table does not include indirect investments, for which data on regional distribution is not available. The percentages and the averages are calculated on total direct investments in innovative startups in the area concerned.



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MACRO-AREA	STARTUPS	SINGLE INVESTMENTS	% STARTUPS IN WHICH INVESTMENT WAS MADE	% SINGLE INVESTMENTS	SUM INVESTED (€)	% SUM	AVERAGE INVESTMENT PER STARTUP (€)
North West Italy	270	861	40.5%	40.8%	19,953,355.00	50.5%	73,901.31
North East Italy	160	664	24.0%	31.5%	9,647,234.00	24.4%	60,295.21
Central Italy	123	344	18.5%	16.3%	6,140,890.00	15.5%	49,925.93
Southern Italy	113	241	17.0%	11.4%	3,779,889.00	9.6%	33,450.35
TOTAL	666	2,110	100.0%	100.0%	39,521,368.00	100.0%	59,341.39

Source: Based on Italian Revenue Agency data

Data on investments made by legal entities in 2015

Key data

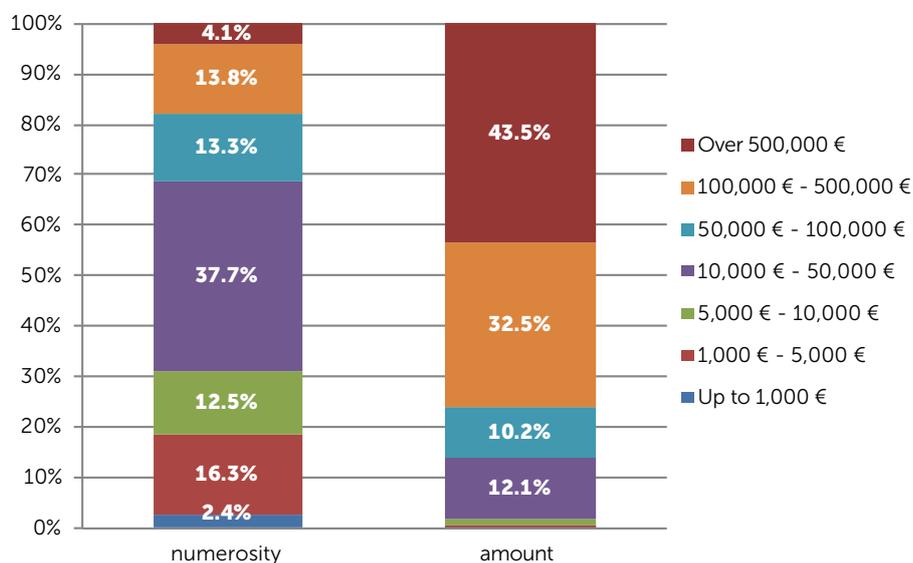
The data from tax returns for the 2015 tax year on limited companies, taken from the **2016 Single Tax Returns Form – limited companies (compilation instructions)**, shows that other legal entities invested directly or indirectly in the risk capital of 222 innovative startups (35 more than in 2014). Investments were also made in 38 investment vehicles, five more than the previous year.

Incentivised investments in innovative startups made by limited companies totalled almost €34 million (€33,980,624), distributed across 369 single investments. This is almost double the amount invested in 2014 (€17.5 million). The average amount investment is €92,088.41 and the median is €25,000. It is immediately clear that investments in innovative startups by legal entities are generally much higher than investments made by individuals.

The highest single investment is € 1.8 million, coinciding precisely with the maximum incentivised amount, and the lowest is €143. Over 40% of the investments is within the €10,000 to €50,000 range and a large portion (over 30%) exceeds this threshold, by a large amount in many cases (almost 5% of the investments are over €500,000). Figure 3.4.2 clearly shows that a large part of the total incentivised amount comes from transactions involving higher sums, as single investments over €100,000 form almost three quarters of the figure.

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Figure 3.4.2: Distribution by size class of single incentivised investments in innovative startups: legal entities (number and amount)



Source: Based on Italian Revenue Agency data

The beneficiaries of the investments

Limited companies made 297 single investments in startups, totalling €29 million, and 72 through intermediaries, totalling €5 million.

Direct investments in innovative startups amount to just over €97,669.22 per transaction on average, which is considerably higher than the figure mentioned before for individuals. The average for indirect investments is slightly lower (€69,067.58).

48 innovative startups and 13 intermediaries received more than one incentivised investment from limited companies. In contrast with the figure for individuals, the average number of investments per target startup is generally low (never more than six per enterprise and an average of 1.3). The average incentivised investment per individual enterprise is €130,665.58.

There were also 27 cases (24 direct and three indirect investments) in which the investment was made in an innovative startup with a "social goal" (SIAVS) or a cleantech enterprise, for which the standard deduction applied in the 2015 tax year was increased from 20% to 27%. Limited companies invested a total of €1.7 million in these categories of startup.

As was found for individuals, there is also a significant imbalance in the distribution of the startups receiving the incentivised investments across Italy. Table 3.4.c shows an imbalance towards companies in North West Italy, particularly Lombardy, where the large majority of the startups receiving incentivised investments is located and where the sum invested is by far the highest. Southern Italy is far behind, with only 18 beneficiary startups and investments totalling €2.5 million. For one region in Southern Italy, Calabria, no transactions were made by limited companies.



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Taxpayers and deductions granted

A total of 332 limited companies declared to have made incentivised investments in innovative startups in 2015 (76 more than the 256 in 2014), with an average investment per taxpayer of €102,351.28. The same company made more than one investment in 26 cases, either directly (five cases) or through an investment vehicle.

The deduction from corporate taxable income claimed by limited companies in 2015 totalled €6,914,643, which is just under €21,000 per taxpayer (and €19,000 per investment). As for personal income tax deductions claimed by individuals, the total amount of corporate taxable income deductions is much higher than the amount claimed the previous year (€3.6 million).

In greater detail, deductions totalling €5.9 million were granted for direct investments and just over €1 million for indirect investments. The total deduction applied per investments in innovative startups with a “social goal” or cleantech enterprises is around €500,000, a 27% increase.

Given that the corporate taxable income rate for all enterprises was 27.5% in 2015, the actual tax benefit from deduction for investments in innovative startups can be estimated at around €1.9 million, an average of over €5,700 per taxpayer. The average tax benefit for each investor is around €1,800 higher than the figure estimated for the previous year (€3,900).

Table 3.4.c: Incentivised investments made by limited companies in 2015 by location of the target innovative startups (only direct investments): region and macro-area

REGION	STARTUPS	SINGLE INVESTMENTS	% STARTUPS IN WHICH INVESTMENT WAS MADE	% SINGLE INVESTMENTS	SUM INVESTED (€)	% SUM	AVERAGE INVESTMENT PER STARTUP (€)
Lombardy	77	119	34.7%	40.1%	12,299,324.00	42.4%	159,731.48
Emilia-Romagna	24	27	10.8%	9.1%	2,450,999.00	8.4%	102,124.96
Lazio	20	22	9.0%	7.4%	2,623,704.00	9.0%	131,185.20
Piedmont	15	17	6.8%	5.7%	1,231,496.00	4.2%	82,099.73
Veneto	15	17	6.8%	5.7%	831,972.00	2.9%	55,464.80
Tuscany	13	22	5.9%	7.4%	1,070,539.00	3.7%	82,349.15
Trentino-South Tyrol	12	12	5.4%	4.0%	2,642,314.00	9.1%	220,192.83
Marche	9	10	4.1%	3.4%	137,861.00	0.5%	15,317.89
Friuli-Venezia Giulia	8	10	3.6%	3.4%	1,453,090.00	5.0%	181,636.25

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REGION	STARTUPS	SINGLE INVESTMENTS	% STARTUPS IN WHICH INVESTMENT WAS MADE	% SINGLE INVESTMENTS	SUM INVESTED (€)	% SUM	AVERAGE INVESTMENT PER STARTUP (€)
Campania	7	10	3.2%	3.4%	547,775.00	1.9%	78,253.57
Liguria	7	9	3.2%	3.0%	1,581,577.00	5.5%	225,939.57
Sicily	5	6	2.3%	2.0%	543,802.00	1.9%	108,760.40
Umbria	3	3	1.4%	1.0%	152,000.00	0.5%	50,666.67
Sardinia	2	3	0.9%	1.0%	53,280.00	0.2%	26,640.00
Abruzzo	1	2	0.5%	0.7%	33,000.00	0.1%	33,000.00
Basilicata	1	2	0.5%	0.7%	50,000.00	0.2%	50,000.00
Molise	1	3	0.5%	1.0%	130,400.00	0.4%	130,400.00
Apulia	1	2	0.5%	0.7%	1,100,000.00	3.8%	1,100,000.00
Valle D'Aosta	1	1	0.5%	0.3%	74,625.00	0.3%	74,625.00
Total	222	297	100.0%	100.0%	29,007,758.00	100.0%	130,665.58
TOTAL	666	2,110	100.0%	100.0%	39,521,368.00	100.0%	59,341.39

MACRO-AREA	STARTUPS	SINGLE INVESTMENTS	% STARTUPS IN WHICH INVESTMENT WAS MADE	% SINGLE INVESTMENTS	SUM INVESTED (€)	% SUM	AVERAGE INVESTMENT PER STARTUP (€)
North West Italy	100	146	45.0%	49.2%	15,187,022.00	52.4%	104,020.70
North East Italy	59	66	26.6%	22.2%	7,378,375.00	25.4%	111,793.56
Central Italy	45	57	20.3%	19.2%	3,984,104.00	13.7%	69,896.56
Southern Italy	18	28	8.1%	9.4%	2,458,257.00	8.5%	87,794.89
TOTAL	222	297	100.0%	100.0%	29,007,758.00	100.0%	130,665.58

Source: Based on Italian Revenue Agency data

3.5 EQUITY CROWDFUNDING

Italian laws on equity crowdfunding have been radically simplified and improved in the past three years. The most recent measure was the extension of the legal power for these campaigns to be initiated not only for innovative startups and innovative SMEs, but for all Italian SMEs. The measure was introduced by the 2017 Budget Law, but has yet to be transposed into the Consob - the National



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Commission for Companies and the Stock Exchange regulations. Another encouragement to use this form of funding is the increase of the tax incentive rate to 30% for anyone investing in the risk capital of innovative startups and innovative SMEs.

The **2nd Report on Crowdfunding**, published on 12 July 2017 by the Observatory on Crowd Investing of the Polytechnic University of Milan shows that there has been significant market growth over the last twelve months, with funding totalling €6.8 million (+123% compared with the total funds collected as at 30 June 2016). These are still low amounts compared with other EU countries, but imminent extension of the market to all SMEs lays the foundations for a further improvement in the industry for Italy.

3.5.1 THE MARKET AS AT 30 JUNE 2017

Since implementing regulations by Consob **regulations** were approved on 26 June 2013, the Milan Polytechnic Observatory has published an equity crowdfunding dashboard on its website. This tool is of vital importance in raising awareness and providing information about this investment instrument. This chapter, produced with the valuable assistance of Prof. Giancarlo Giudici, is based on the findings of this dashboard.

As at 30 June 2017, there were 19 portals registered on the Consob **register** (Table 3.5.a). 18 of these portals had been authorised by the Commission and were listed in the “ordinary section”, while one portal was operating under the current laws and was placed in the “special section” of the Register, which by law is open to banks and licensed investment firms after making the necessary communication to Consob. This is the same number as the previous year, as several platforms had ceased operating (Equitystartup.it, Symbid Italia and Startzai), and three new operators were registered (**Clubdealonline** and **Europacrowd**). As at 30 June 2017, 15 platforms had published projects; 12 of these projects have been initiated in the last 12 months. Figure 3.5.1 details the number of campaigns initiated by each platform and the record for the number of projects published (24) is held by **Starsup**, followed by **Crowdfundme** (19) and **Mamacrowd** (12).

Table 3.5.a: List of authorised portals

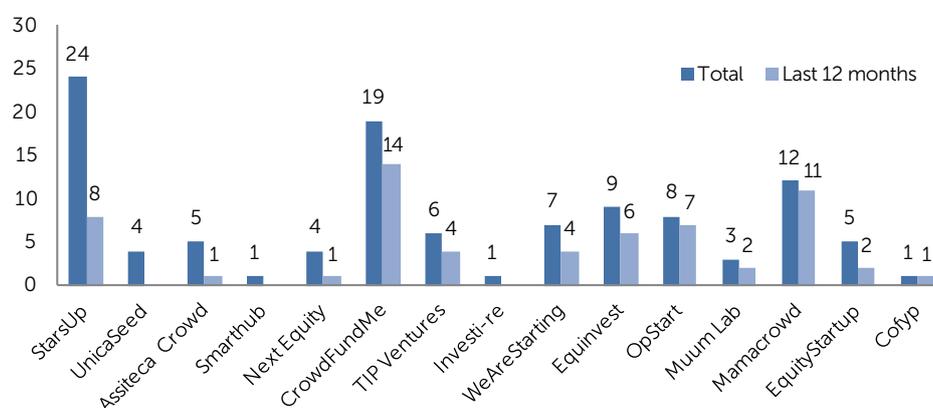
WEBSITE	OPERATOR COMPANY	AUTHORISATION DATE
Unicaseed.it	Unica SIM	<i>Special section</i>
Starsup.it	Starsup s.r.l.	18/10/2013
Assitecacrowd.com	Action crowd s.r.l.	26/02/2014
Equity.tip.ventures	The Ing Project s.r.l.	18/06/2014
Nextequity.it	Next equity crowdfunding marche s.r.l.	16/07/2014
Crowdfundme.it	Crowdfundme s.r.l.	30/07/2014
Muumlab.com	Muum lab s.r.l.	06/08/2014

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WEBSITE	OPERATOR COMPANY	AUTHORISATION DATE
Mamacrowd.com	Siamosoci s.r.l.	06/08/2014
Fundera.it	Fundera s.r.l.	10/09/2014
Ecomill.it	Ecomill s.r.l.	29/10/2014
Wearestarting.it	Wearestarting s.r.l.	16/12/2014
Equinvest.it	Equinvest s.r.l.	14/01/2015
Investi-re.it	Baldi Finance SpA	28/01/2015
Crowd4capital.it	Roma Venture Consulting s.r.l.	08/10/2015
Opstart.it	Opstart s.r.l.	11/11/2015
Cofyp.com	Cofyp s.r.l.	14/04/2016
Clubdealonline.com	Clubdeal s.r.l.	08/03/2017
Walliance.eu	Walliance s.r.l.	30/03/2017
Europacrowd.it	Europa HD s.r.l.	07/06/2017

Source: Crowd Investing Observatory (Milan Polytechnic)

Figure 3.5.1: Number of campaigns submitted by authorised equity crowdfunding portals in Italy as at 30 June 2017: total values and flows over the last 12 months



Source: Crowd Investing Observatory (Milan Polytechnic)

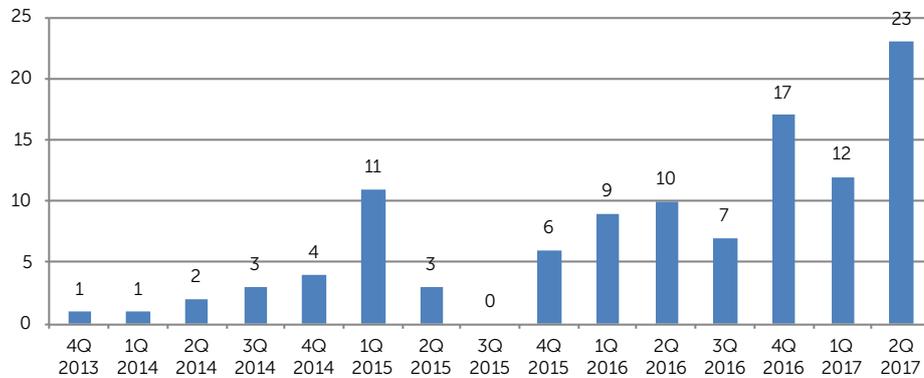
Figure 3.5.2 shows the continual growth of the market in recent months, with no fewer than 35 campaigns published during the first quarter of 2017.



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Figure 3.5.2: Time-scale of equity crowdfunding campaigns on authorised portals, by quarter

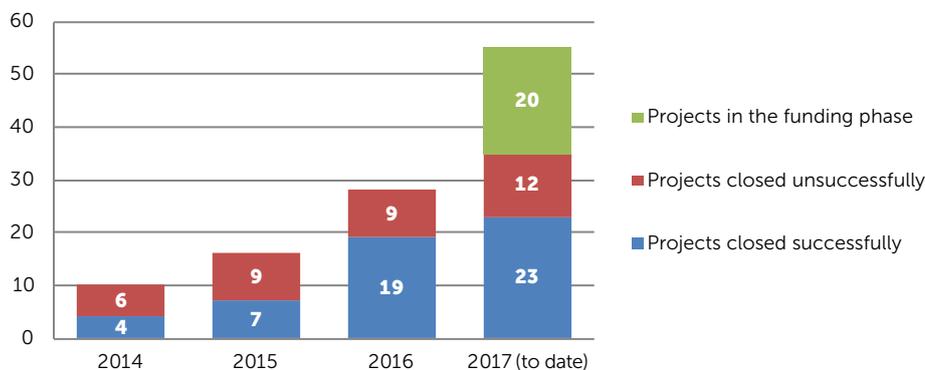


Source: Crowd Investing Observatory (Milan Polytechnic)

According to data collected by Milan Polytechnic, as at 30 June 2017, 109 offers had been published (60 more than on the same date in the previous year). Precisely 100 were initiated by innovative startups, seven by innovative SMEs and two by investment vehicles in innovative startup and SMEs.

53 campaigns were successfully closed, 36 were unsuccessful, and 20 were still ongoing on the date indicated, including seven that had collected the minimum fund amount indicated as the target (Figure 3.5.3). The success rate of closed campaigns has increased considerably compared with the previous year (60%, against 50% for 2016), in line with developments in other European countries.

Figure 3.5.3: Time-scale of equity crowdfunding campaigns in Italy by closing date



Source: Crowd Investing Observatory (Milan Polytechnic)

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

Table 3.5.b shows a comparison of the statistics on the 109 campaigns published with reference to their “funding target”, as defined in the documents made available to users of the portal³⁴.

To all intents and purposes, fund collection is considered to be an increase in capital, which means it must be compatible with the resolution to increase share capital. The standard practice of a large number of platforms is to approve a share capital increase with exclusion of the option right for existing shareholders, creating an “indivisible” and a “divisible” portion. Each enterprise may set a minimum threshold, whereby any amount of capital that is collected online and lies below this threshold is ineffective (the indivisible portion), and a maximum funding threshold (to cover up to the divisible portion). In certain transactions, generally those involving the aforementioned other investors, the share capital was considered to be entirely divisible, so the campaign was closed successfully, even when only low amounts were collected. In contrast, there were also several campaigns with an entirely indivisible share capital increase, in which the amount collected had to be identical to the initial target amount for the campaign to be successful.

The average amount of capital requested was €246,158, 20% lower than the previous period and well below the maximum allowed of €5 million. The minimum value was €45,000, and the maximum was €1,000,227. There was a progressive reduction in the target value compared with previous years. This may be the result of a market alignment to maximise the probability of the funding campaigns being successful.

Table 3.5.b: Funding target for equity crowdfunding campaigns

YEAR	AVERAGE VALUE	MEDIAN VALUE	MINIMUM VALUE	MAXIMUM VALUE
2014	€284,745	€250,000	€99,200	€636,000
2015	€421,201	€325,000	€80,000	€1,000,227
2016	€209,551	€149,980	€50,000	€720,000
2017 (first six months)	€178,081	€140,000	€45,000	€990,000
TOTAL	€246,158	€162,000	€45,000	€1,000,227

Source: Crowd Investing Observatory (Milan Polytechnic)

The average share of risk capital offered (Table 3.5.c) is 17.7% (also down on the 22.4% recorded on 30 June last year), with a minimum of 0.2% and a maximum of 99%. In 60 campaigns out of 109, only subscription to ordinary

³⁴ In the case of discrepancies between the information published on the website and in the other documents provided, the reference value is the one contained in the information document which outlines the terms and conditions of the offer in full. It should be noted that the offer documents have not been approved by the Consob and may therefore have different layouts and conflicting data in some cases.



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shares of capital was offered, while in 11 cases only shares without voting rights were available. In another 32 cases, the offer concerned shares of both types, depending on the amount invested.

Table 3.5.c: Share of risk capital offered

YEAR	AVERAGE VALUE	MEDIAN VALUE	MINIMUM VALUE	MAXIMUM VALUE
2014	27.0%	20.0%	5.1%	86.7%
2015	19.5%	16.7%	5.0%	45.4%
2016	18.2%	11.0%	1.7%	43.8%
2017 (first six months)	10.4%	9.1%	0.2%	99.0%
TOTAL	17.7%	12.7%	0.2%	99.0%

Source: Crowd Investing Observatory (Milan Polytechnic)

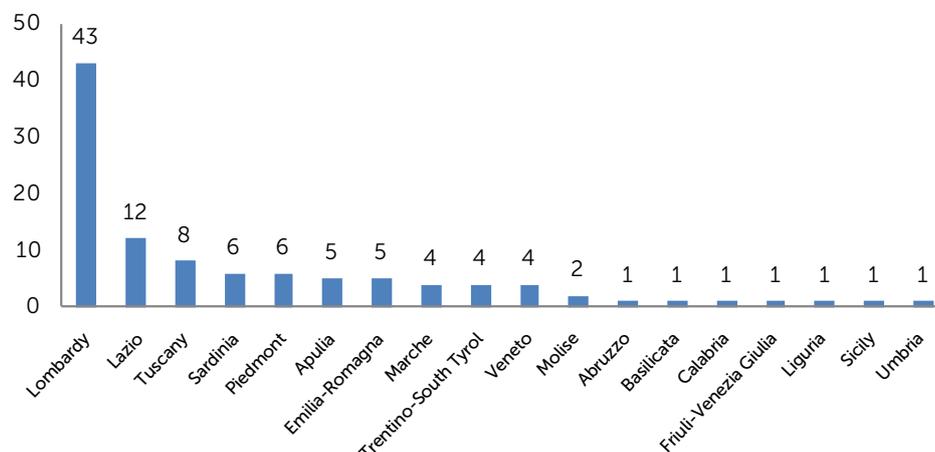
As at 30 June 2017, the total capital collected since the portals began operating amounted to €12,417,323. This is more than double the figure found on 30 June 2016 (around €5.6 million).

In terms of the distribution across Italy (Figure 3.5.4), the majority of the 106 enterprises³⁵ that launched equity crowdfunding campaigns are located in Lombardy (40.6%), followed by Lazio (11.3%) and Tuscany (7.5%). The most heavily represented business sectors (Figure 3.5.5) are apps and sharing economy (26.4%), ICT (23.6%) and professional services (13.2%). As these are very young businesses (as many as 42 are in their first year of operation), a large number of them have a low sales volume (the median value is around €36,000) and the majority had not posted any profits on their statement of accounts at the time of the campaign. The figures for average sales volume (€114,065) and median sales volume (€35,964) confirm that most companies are still in the startup phase, with financial metrics that are yet to be consolidated, and only a minority recorded a profit. Table 3.5.d provides an overview of basic statistics on the 106 enterprises.

³⁵ As at 30 June 2017, the difference between the number of campaigns launched (109) and the number of promoters (106) is the result of one enterprise (Cynny SpA) that launched three successive offers on three separate platforms and another enterprise (Nano Srl) that launched two successive offers on the same portal.

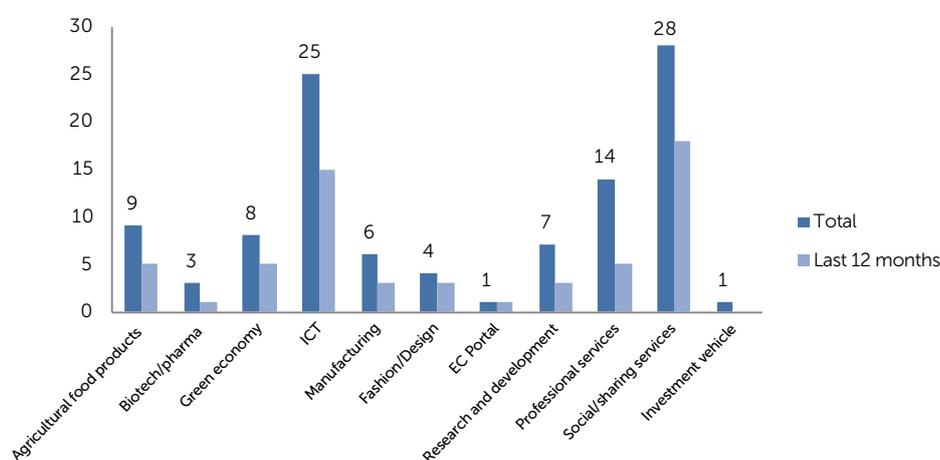
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Figure 3.5.4: Distribution by region of enterprises launching equity crowdfunding campaigns



Source: Crowd Investing Observatory (Milan Polytechnic)

Figure 3.5.5: Distribution by sector of economic activity of enterprises launching equity crowdfunding campaigns



Source: Crowd Investing Observatory (Milan Polytechnic)

Table 3.5.d: Statistics on the 106 enterprises that launched equity crowdfunding campaigns

	AVERAGE VALUE	MEDIAN VALUE	MINIMUM VALUE	MAXIMUM VALUE
Pre-offer shareholders' equity (€)	146,891	27,267	-104,216	4,710,840
Years of operation	1.97	1	0	22



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	AVERAGE VALUE	MEDIAN VALUE	MINIMUM VALUE	MAXIMUM VALUE
Sales volume according to most recent statement of accounts available (€)	114,065	35,964	0	850,906
Net profit according to most recent statement of accounts available (€)	-45,604	-3,676	2,313,842	321,581
Number of pre-offer shareholders	7	3	1	79

Source: Crowd Investing Observatory (Milan Polytechnic)

The campaign objectives declared by the majority of enterprises were aimed at developing marketing initiatives (56%), followed by investments in R&D or innovation (42%) and development of an IT platform or app (41%). Business expansion was cited as a decisive factor for 30% of the campaigns, while for 22% this was geographical expansion and the hiring of staff.

3.5.2 INVESTOR CHARACTERISTICS

The 2017 report published by the Milan Polytechnic Observatory provides an unprecedented analysis of Italian equity crowdfunding investors, conducted on a sample group of 1,068 individuals who contributed to 33 campaigns. This analysis reveals that the average age of investors is 43, slightly lower than last year, and that 85% of investors are men. 96 invested in more than one campaign and 11 in five or more campaigns.

Over 20% of the investors who are individuals reside in Lombardy. The next region is Marche, with 13%, followed by Sardinia, with 9.5%. Relatively under-represented are a few large regions with a significant number of innovative startups, such as Lazio (80 investors), Emilia-Romagna (72) and Campania (22).

The surveyed investors also included 128 legal entities, including banks and insurance companies (six cases), certified incubators and professional investors in closed venture capital and private equity funds. The Consob enacting regulations require a minimum 5% of the capital offered in each campaign to be subscribed by so-called "professional investors" with the aim of protecting "non-professional investors". Despite this, the most heavily represented categories of legal entities are consultancy and service firms (58), financial holding companies (nine) and real estate companies (eight), which are most likely used as vehicles to manage the stakes. 16 manufacturing companies were also included in the survey, which may be looking to diversify their investments in innovative startups, partly with the purpose of open innovation.

The average amount subscribed to for the campaigns examined that were successfully closed was €5,995. 43% of the subscriptions (47% by individuals

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

and 9% by legal entities) are under or equal to €500. Another set of subscriptions (39% of the total, or 38% by individuals and 41% by legal entities) are between €501 and €5,000. These are preceded by the higher subscriptions, which come more frequently from legal entities and professional investors, including individuals such as business angels. In this respect, it should be noted that the sample includes six subscriptions by individuals with an individual amount of €100,000 or more.

3.6 ITALIAN TRADE AGENCY INTERNATIONALISATION SERVICES

As provided for in article 30, paragraphs 7 and 8 of Decree-law 179/2012, the Italian Trade Agency (ITA "Agenzia ICE" in Italian) offers a wide range of services to facilitate the international expansion of the Italian innovative startup ecosystem. The Agency's Office for Industrial Technology, Energy & Environment provides these assistance and support services to innovative startups and SMEs.

More specifically, the regulations provide as follows:

"7. The Italian recipients of the ITA Agency's services for the promotion of Italian enterprises abroad and their internationalisation, as referred to in article 14, paragraph 18, of Decree-law no. 98 of 6 July 2011, converted with amendments by Law no. 111 of 15 July 2011, as amended, and by the "Italy Desk" referred to in article 35 of this decree, also include the innovative startups referred to in article 25, paragraph 2. The Agency provides these companies with regulatory, corporate, fiscal, real estate, contractual and credit advice. The Agency also identifies the main trade fairs and international trade shows that are free for innovative startups, while taking into account the relevance of their business to the subject of the event. The Agency organises events to match potential investors with innovative startups in the early stage capital and growth capital phases.

8. ITA will perform the above services with the human, instrumental and financial resources provided for under current legislation".

Decree-law 3/2015 (art. 4, par. 9) has extended the provision to innovative SMEs.

Under the aforementioned regulations, innovative startups and SMEs can request a special Service Card that entitles them to a 30% discount on the cost of the Agency's services. The most frequently requested services involve assistance in the search for local professional consultants and business partners.

In addition to the above services, during the period concerning this Report, the Agency either organised or helped to organise a number of events aimed at promoting innovative startups and matching them with domestic and international investors.

These include the third ItaliaRestartsUp event, which was held on 25 and 26 October, in collaboration with the SMAU Milan Innovation Fair for the second



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year running. The event was specially designed to attract foreign investments in innovative Italian startups and was attended by 93 startups, 27 incubators/accelerators and 44 foreign investors from 20 different countries. The event was open to all startups that fulfilled the following requirements: a) one product already developed, b) financing already obtained, amounting to at least €100,000, c) have an expansion plan in place for at least €500,000.

In addition to various seminars, startups were also able to pitch their own idea in brief individual pitching sessions, then take part in B2B meetings with the foreign investors selected by ITA. A total of 750 B2B meetings were arranged.

Another initiative held in collaboration with SMAU was the second edition of ItaliaRestartsUp in Berlin (14-16 June 2017): This event was attended by 50 selected Italian startups, which each had their own stand. They were given the opportunity to meet with representatives of the local innovation ecosystem and to take part in various sector panels on Industry 4.0, Fashion&Design, Fintech and Creative Industries. On 16 June, the Italian startups that attended were taken on a tour to visit influential incubators, accelerators and large corporations in the German capital.

The Agency also helped to organise Forum ICT Sardinia (Cagliari, 6-7 October 2016), which was held as part of Sinnova, the event showcasing Sardinian innovation, sponsored by Sardegna Ricerche. The Agency arranged B2B meetings between selected international investors hailing from 20 different countries and 70 Sardinian ICT companies, around one third of which were innovative startups.

ITA has also organised and facilitated the participation of Italian innovative startups in various international trade fairs, including:

- Italian Startups Meet Borsa Istanbul Private Market (13 October 2016): 10 Italian startups were offered the chance to meet a group of Turkish investors selected by ITA's Istanbul office.
- Slush 2016 (Helsinki, 30 November – 1 December): in collaboration with the Italian Embassy, an Italian delegation was sent to Slush Helsinki for the first time. This delegation comprised 25 startups, which were provided with a 30-m² stand (called Punto Italia) to be used in rotation to pitch their ideas to the investors present.
- Innovfest Unbound Singapore 2017 (2-5 May 2017). 14 innovative startups and innovative SMEs made up the Italian delegation. The enterprises were provided with an exhibition space in which to present their business ideas to an audience of venture capitalists and representatives of large companies, mainly from South-East Asia. Three startups also participated in the pitch competition organised by the main sponsors of the event. Fringe events included two days of visits to research centres, accelerators and multinationals and workshops on the local innovation ecosystem.
- Pioneers 2017 (Vienna, 1-2 June 2017): 12 Italian startups, which were selected by the Pioneers organisers from a list provided by ITA, participated free of charge and had use of a small stand at the event in Vienna. Two of the

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participants were ranked in the top 50 and were given the chance to make a presentation pitch on the main stage.

Two support initiatives that were launched in previous years also continued:

- ITA-Assocamere Estero Convention: under this scouting and training project for innovative startups, from November 2016 to April 2017, 20 enterprises were offered the following services:
 - detailed market analysis (identification of competitors, analysis of local legislation, etc.);
 - creation of a database of contacts interested in the startups' products and/or services;
 - delegations of startups abroad, with participation in trade show or networking events and follow-up meetings.

The closing event of the Convention was held on 8 May 2017 during Rome Startup Week.

- Innovation Desks: these desks were introduced at the end of 2014 and are currently present at the ITA offices in Los Angeles, London, Singapore and Mumbai. The Moscow office, also responsible for Armenia and Belarus, was added in March 2017. The desks are staffed by local experts with specific knowledge to assist the innovative enterprises and research centres, provide support in sourcing investment funds, business angels and other financial and industrial backers interested in investing in Italian startups.

3.7 ITALIA STARTUP VISA AND HUB

Italia Startup Visa: an overview

MISE launched the Italia Startup Visa (ISV, italiastartupvisa.mise.gov.it) programme on 24 June 2014. ISV introduces a new online, centralised, fast-track and free **visa application procedure** for non-EU self-employed workers who intend to launch an innovative startup in Italy, either individually or as part of a team.

The innovations brought forward by Italia Startup Visa as compared to the ordinary visa application procedure for self-employed workers are summarised below:

- the process is entirely online: applicants send their documents by ordinary e-mail, to the address italiastartupvisa@mise.gov.it;
- The procedure for the issue of the certificate of no impediment ("nulla osta") for the visa is fully centralised: MISE, represented by the Directorate General for Industrial Policy, Competitiveness and SMEs, handles all communications with the authorities involved (central police offices, diplomatic-consular missions, and the central visa office of Ministry of Foreign Affairs) and also acts as the single point of contact for visa applicants;



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- it is a fast procedure, with the certificate of no impediment usually being issued within 30 days from the date on which the application is officially submitted;
- submitting an application is entirely free of charge;
- the procedure can be completed entirely in English: the application forms, programme guidelines and customer care services, as well as the website, have all been translated into English.

As at 30 June 2017, 252 applications³⁶ had been received. 151 (59.9%) of these applications were approved and the startup visa certificate of no impediment issued, 78 (31%) were unsuccessful and the procedure was abandoned before the assessment phase in 10 cases³⁷. The procedure is still ongoing in a further 13 cases, either because the applicants have yet to submit further documentation (six cases) or because the Italia Startup Visa&Hub Technical Committee has not yet reached a final decision (seven cases).

The Committee is chaired by the Ministry's Director General for Industrial Policy and is formed of the presidents (or their representatives) of the following five key organisations of the Italian innovation ecosystem: **PNICube** for university incubators, **IBAN** for business angels, **AIFI** for venture capital funds, **APSTI** for Science and Technology Parks, **Netval** for technology transfer offices.

The main reason for rejection of applications was the lack of innovativeness of the project proposed (30 cases) or that, although the business model described was innovative, it was not sufficiently solid or credible (22 cases).

16 of the 151 recipients of the certificate of no impediment ("nulla osta") informed the Ministry that they had decided not to relocate to Italy. There are therefore 135 startup visa holders.

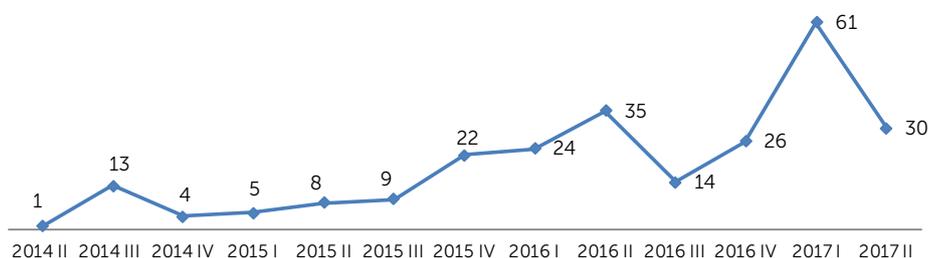
91 startup visa applications were received in the first six months of 2017. By comparison, 99 were received in 2016 as a whole (44 in 2015, 18 in 2014). 131 applications were received in the period 30 June 2016-30 June 2017, which is a sizeable increase on the 90 received in the previous twelve months (+46%). A record number of 61 applications were received in the first quarter of 2017 (see Figure 3.7.1).

³⁶ 13 applicants who were not granted an initial assessment or were unable to collect the startup visa from the diplomatic-consular mission within their remit resubmitted the application many months later. This is why the number of applications (252) is higher than the number of applicants (239).

³⁷ The Italia Startup Visa programme [Guidelines](#) establish that a procedure is considered abandoned when the visa applicant does not respond to a request for further application documentation within 60 days.

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Figure 3.7.1: Trend in Italia Startup Visa programme applications



Source: Secretariat of the Italia Startup Visa Committee (MISE)

Most applications (224) were submitted directly, whereas 28 were made through a **certified startup incubator**, as follows: 23 with **H-Farm** (Roncade, Treviso), three with the Pordenone **Technology Park**, one with Working Capital (Rome) and one with **t2i** (Rovigo office).

The Italia Startup Visa programme allows business teams to submit joint applications. A total of 44 of these application types were received, as follows: 28 from a two-person team, eight from a three-person team and eight from a four-person team. This means that 111 startup visa applicants (46.4% of all applicants) formed part of a business team³⁸. 32 of the 44 team applications were successful.

Lastly, 55 applicants³⁹ submitted visa applications in relation to the grouping together of innovative startups that had already been incorporated, mainly by Italian nationals. Provided that the conditions laid down by general self-employment legislation are met, non-EU citizens who join existing startups by contributing capital and business know-how may also obtain the visa (see page 22 of the programme **Guidelines** for more details). 48 of these applications were received from Chinese citizens, and 24 were approved. In the remaining 184 cases, the business plan submitted to the Italia Startup Visa & Hub Committee entailed the formation of a brand-new innovative startup in Italy.

The applicants

162 are men (67.8%) and 77 are women (32.2%). The average age of the applicants is 36.5 years. At the time the application was submitted, the youngest applicant was 20 and the oldest was 65.

120 applicants declared to have entrepreneurial experience, while a slight majority (126) declared to have previously been subordinate employees. The most heavily represented business sectors are engineering, IT (particularly

³⁸ The list also includes a two-person business team for which one of the applicants applied for the Italia Startup Hub programme.

³⁹ One application for grouping together with one or more already existing startups was submitted (and rejected) twice.



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software development) and telecommunications, marketing, management and consultancy. Furthermore, some applicants are serial startup founders.

96 applicants (40.2%) hold a Bachelor's degree or equivalent and a further 66 hold the equivalent of an Italian master's degree. There are a further 36 applicants with a postgraduate degree, of which: 10 have a PhD and 26 hold other types of post-university qualifications, including 20 Master's degrees in Business Administration (MBA). There are therefore 198 university graduates (82.8% of total applicants). In the remaining cases, the visa applicant usually holds a high-school diploma or a professional training certificate.

If only successful applicants are considered, 52.3% (79 out of 151) hold the equivalent of an Italian master's degree or higher, and 91.4% of the applicants granted the certificate of no impediment ("nulla osta") for the Italia Startup Visa (138) hold a university degree.

The most popular fields of study are IT, management and business administration, marketing, design and engineering which, with 47 applications, is the most heavily represented.

Countries of origin

The visa applicants come from 34 countries. Excluding the unsuccessful applications, there are 24 countries with at least one successful Startup Visa applicant.

Compared with the data in the last edition of this report, China now tops the list in number of applicants. There has been a rapid increase in the number of applications from Chinese citizens, particularly in the first six months of 2017, when 60 were submitted (25.1% of the total). 25 were successful (approval rate of 41.7%).

Russia, which was by far the most heavily represented country last year, dropped to second place in number of applications (54, or 22.6%), but is still the country with the highest number of applicants receiving the certificate of no impediment ("nulla osta") and of applications approved (47, with an approval rate of 68.5%).

The USA and Pakistan are in joint third place, with 21 applications each, 17 certificates of no impediment ("nulla osta") issued for the USA and 5 for Pakistan. Ukraine is immediately behind with 17 applications, 16 of which were approved. The last country in double figures is Iran, with 10 applications and eight visas granted. Out of the other countries, only India and Brazil have more than four applications (with nine and five applications respectively).

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Table 3.7.a: Country of origin of Italia Startup Visa applicants

COUNTRY OF ORIGIN	NUMBER OF APPLICANTS	APPLICATIONS APPROVED
China	60	25
Russia	54	47
United States	21	17
Pakistan	21	5
Ukraine	17	16
Iran	10	8
India	9	3
Brazil	5	4
Japan	4	4
Indonesia	3	3
South Africa	3	3
Afghanistan	3	0
Australia	2	2
Moldavia	2	2
Turkey	2	2
Argentina	2	1
South Korea	2	1
Egypt	2	1
Malaysia	2	0
Armenia	1	1
Canada	1	1
Israel	1	1
Nepal	1	1
New Zealand	1	1
Taiwan	1	1
Thailand	1	1
Ecuador	1	0
Philippines	1	0
Hong Kong	1	0
Comoros	1	0
Kosovo	1	0
Lebanon	1	0
Nigeria	1	0
Uzbekistan	1	0
TOTAL	239	151

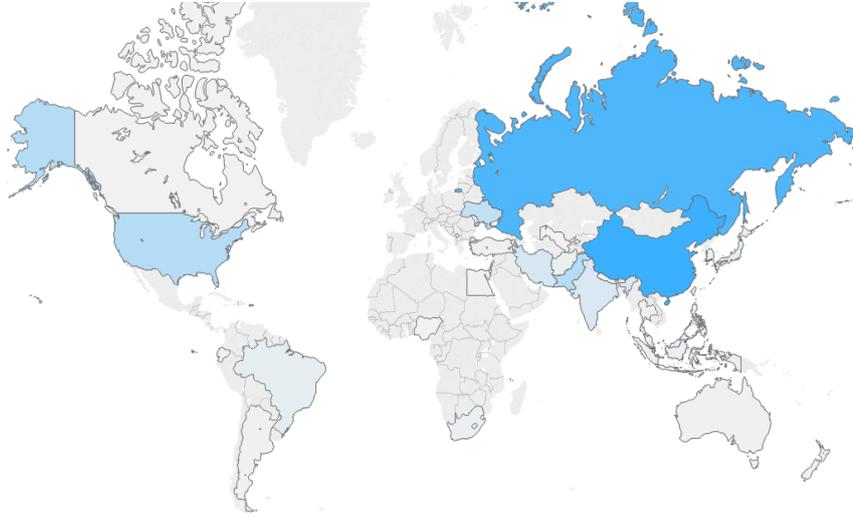
Source: Secretariat of the Italia Startup Visa Committee (MISE)



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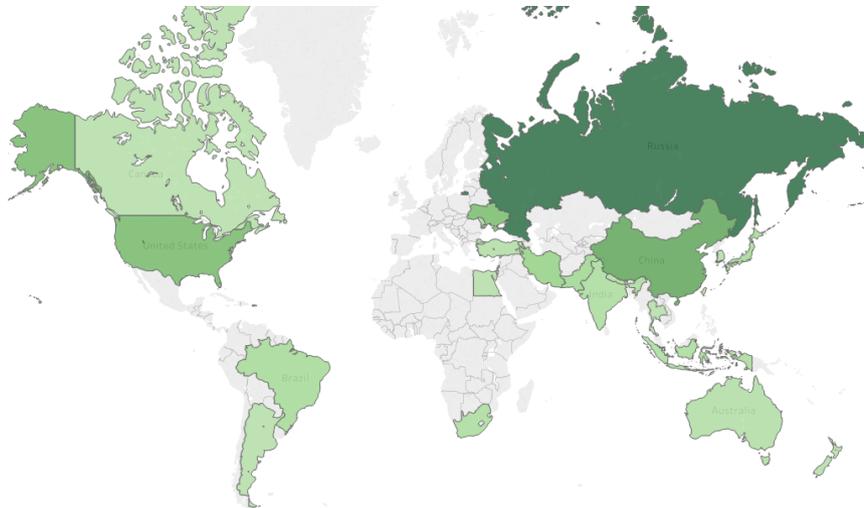
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Figure 3.7.2: Mapping of applications received



Source: Secretariat of the Italia Startup Visa Committee (MISE)

Figure 3.7.3: Mapping of approved applications



Source: Secretariat of the Italia Startup Visa Committee (MISE)

Intended destination

The 135 holders of the certificate of no impediment (“nulla osta”) to the Italia Startup Visa stated that they intend to locate to the places indicated in the tables below (3.7.b and 3.7.c).

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Table 3.7.b: Destination province of Italia Startup Visa holders

PROVINCE	#
Milan	33
Rome	18
Treviso	11
Varese	10
Savona	7
Verona	5
Biella, Brescia, Como, Trieste	4
Bergamo, Pordenone, Trento, Turin	3
Bari, Fermo, Florence, Lucca, Novara, Padua, Pescara	2
Bologna, Cosenza, Cuneo, Forli-Cesena, Massa-Carrara, Rovigo, Salerno, Siena, Vicenza	1

Source: Secretariat of the Italia Startup Visa Committee (MISE)

Table 3.7.c: Destination region of Italia Startup Visa holders

REGION	#
Lombardy	54
Veneto	20
Lazio	18
Piedmont	10
Friuli-Venezia Giulia, Liguria	7
Tuscany	6
Trentino-South Tyrol	3
Abruzzo, Emilia-Romagna, Marche, Apulia	2
Calabria, Campania	1

Source: Secretariat of the Italia Startup Visa Committee (MISE)

Startups created

As at 30 June 2017, there were at least 18 innovative startups registered in the special section of the Business Register of the brand-new enterprises formed by startup visa holders (**Appsonda s.r.l.**, **Audaces Europe s.r.l.**, **Finalrentals Group s.r.l.**, **DCS s.r.l.**, **Generma s.r.l.**, **Genuine Education Network s.r.l.**, **Fueguia s.r.l.**, **Gymbag s.r.l.**, **Indexcode s.r.l.**; **Italio s.r.l.**; **ItQui s.r.l.**; **Jetware s.r.l.**, **LabQuattrocento s.r.l.**, **Per Vigore s.r.l.**, **Recyclinnova s.r.l.**; **Routes software s.r.l.**; **SCdB s.r.l.**; **Size4Me s.r.l.**).



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10 existing innovative startups registered the entry of a non-EU shareholder holding a startup visa (**Artemest s.r.l.**; **Lookcast s.r.l.**; **Connexun s.r.l.**; **WalletSaver s.r.l.**; **Portrait Eyewear s.r.l.**; **Warda s.r.l.**; **Argumented Commerce s.r.l.**; **Nuwa Technologies s.r.l.s.**; **Pubcoder s.r.l.**; **Travel Appeal s.r.l.**). Other cases are currently in the development phase and are being monitored constantly.

Italia Startup Hub

With the launch of the Italia Startup Hub programme on 23 December 2014, the Italia Startup Visa fast-track procedure also became applicable to non-EU citizens who already hold a regular residence permit and want to convert it into a “permit for startup self-employment” in order to remain in Italy and to initiate an innovative enterprise. The relative guidelines (in **Italian** and in **English**) and the **application forms** are available at italiastartuphub.mise.gov.it.

As at 30 June 2017, six applications had been received, two from South Korea, two from Iran, one from the USA and one from Malaysia. All of these were successful, and led to the conversion of the previously held residence permit into a permit for startup self-employment. Two startups were formed as a result: **Recyclinnova s.r.l.s.** and **Armnet s.r.l.**

Table 3.7.d Destination region and province of Italia Startup Hub holders

PROVINCE	#
Milan	3
Sassari Verbano-Cusio-Ossola Cosenza	1

REGION	#
Lombardy	3
Sardinia Piedmont Calabria	1

Source: Secretariat of the Italia Startup Visa Committee (MISE)

3.8 SMART&START ITALIA

As provided for in the **Decree** of the Italian Minister of Economic Development of 24 September 2014 and the related **Circular** no. 68032 of 10 December 2014, **Smart&Start Italia**, a special subsidised finance programme for innovative startups based anywhere in Italy, has been open for applications since 16 February 2015. The programme is managed by **Invitalia**, Italy’s National agency for inward investment promotion and enterprise development.

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The above-mentioned Ministerial Decree and subsequent measures assigned an overall budget of €266 million to this instrument. €90 million of this figure was allocated under the 2017 Budget Law. The table below presents an overview of the sources of funding. See the programme website for more details.

Table 3.8.a: Smart&Start Italia funds

SOURCE OF FUNDING	AMOUNT
FUNDS RELEASED FROM THE PON SIL 2000-2006 PROGRAMME	€26,404,796.27
Residual funds from FCS Cratere AQ Smart&Start	€9,907,747.90
Sustainable growth fund	€90,000,000.00
PON I&C 2014-2020 less developed regions programme	€33,400,000.00
PON I&C 2014-2020 transition regions programme	€12,100,000.00
2017 Budget Law – 2017 allocation	€47,500,000.00
2017 Budget Law – 2018 allocation	€47,500,000.00
TOTAL	€266,812,544.17

Source: Invitalia

Summing up, the funding allocated is specifically assigned to innovative startup projects that possess one or more of the following three characteristics:

- high technology projects;
- projects concerning the digital economy;
- projects inclined towards the promotion of research.

The planned expenditure on the projects must be between €100,000 and €1.5 million. The types of expenditure that can be funded are:

- **capital goods**, such as plant and machinery and technological equipment; hardware and software; patents, licenses, know-how; specialist technological consultancy;
- **operating costs**: subordinate employees and collaborators; licenses and industrial property rights; acceleration services; leasing fees; interest on outside loans; depreciation on technical and scientific investments to which the incentives are not applicable.

The funding consists of a zero-rate loan for 70% of the total investment. The percentage covered by the special-rate loan can be as high as 80% if the shareholder body is mostly made up of women or of individuals under the age of 36, or Italian PhD holders repatriating from abroad.

If the innovative startups receiving funding are located in Basilicata, Calabria, Campania, Apulia and Sicily – the so-called “less developed regions” according to the European Cohesion Policy – or, following the **Ministerial Decree** of 9



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August 2016, in Abruzzo, Molise and Sardinia – so-called “transition regions” – 20% of the loan is granted as a non-repayable contribution.

The measure also applies to individuals undertaking to launch an innovative startup. Entrepreneurs who are approved for the incentives have up to 60 days from the date of receipt of the approval notice to officially incorporate their company and register it in the special section of the Business Register for innovative startups.

Applications from innovative startups that undertake to fund at least 30% of the investment plan with capital from qualified investors, pursuant to article 100 of Legislative Decree 58/1998 (Finance Laws Consolidation Act)⁴⁰, are given priority assessment.

The procedure for accessing the incentive is available entirely online and the application process takes no longer than 60 days.

Once all documentation required to enter the agreement has been acquired, further checks provided for by anti-Mafia laws will be conducted, which take a further 30 days, together with a criminal background check. The contract may be signed once these checks have been completed.

The subsidised loan is paid on request of the beneficiary, who must submit proof of the expenses (and the payment receipts signed by suppliers on the payments received), which constitute the stages of the work (*stati di avanzamento lavori*, “SAL”), totalling at least 20% of the total investment.

Regardless of progress in the investment programme, an initial advance payment for investment expenses may be requested for which a SAL is not required, for an amount not exceeding 40% of the subsidised loan granted, after presenting an appropriate bank guarantee or insurance policy. No advance payments shall be provided for operating costs.

The loans are paid within 60 days of the request being submitted.

The investments must be made with 24 months from signing the loan contract, unless an extension has been requested. The Agency will grant a maximum extension of six months for justified requests and depending on the time limits set for the funding used.

There is also an alternative procedure designed to assist with the initial investment phase, which takes into account the need for startups to directly sustain the costs arising from initiation of the investment plan, at least in the early stages. MISE, Invitalia and the Italian Banking Association (ABI) signed a **Convention** on 28 April 2015 which enables the beneficiary companies to apply for funding even on the basis of outstanding invoices, through an restricted account⁴¹.

40 A list of the parties defined as “qualified investors” is available in the [FAQ](#) section of the Smart&Start Italia website (“1.1 Who are the “qualified investors” referred to in art. 8, par. 2, letter b) of the Ministerial Decree of 24 September 2014?”).

41 The [Directorial Decree](#) of 20 July 2015 of the Directorate General for Incentives to companies of MISE regulated the provision of incentives related to the investment programme and the mode of operation of the restricted account created to handle these invoices.

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The term “restricted account” means a current bank account into which the beneficiary enterprise pays only the part of the purchase price of the assets that is not covered by Smart&Start Italia⁴². The remaining part is paid directly by Invitalia, after the appropriate checks have been carried out. This mechanism allows suppliers to be paid quickly, with a more limited direct financial outlay for the enterprise.

As at 30 June 2017, 20 credit institutions had signed the convention. Use of this instrument, which was initially not well known, is gradually gaining ground with beneficiary companies (see the paragraph “applications for payment”).

In addition to funding, startups formed less than 12 months ago can also benefit from technical and operational coaching services. The services offered by Invitalia, which can also be delivered in the form of webinars, relate to specific areas of the startup phase, such as relations with risk capital investors, creating and publicising the business model, staff management, project management and protection of intellectual property.

State of the programme as at 30 June 2017

Applications received

1,393 applications for funding were received from 16 February 2015 to 30 June 2017. The most active regions were Campania and Lombardy, which submitted 16% and 13% of the applications respectively.

52% of the applications were submitted to support development of existing innovative startups, which means that almost one in every two applications came from people who had not yet initiated their enterprise.

Around €785.7 million in funding was requested, and distribution across Italy is shown in Table 3.8.b below.

42 Use of the restricted account for expenses that can be funded by Smart&Start Italia is only permitted for capital goods expenditure and not for operating costs.



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Table 3.8.b: Applications submitted by region

	AREA OF COUNTRY	APPLICATIONS SUBMITTED	NATIONAL PERCENTAGE	AMOUNT REQUESTED	NATIONAL PERCENTAGE	
Central Italy-Northern Italy	Emilia-Romagna	68	5%	€42,306,188.27	5%	
	Friuli-Venezia Giulia	28	2%	€18,086,049.29	2%	
	Lazio	124	9%	€63,966,387.49	8%	
	Liguria	16	1%	€5,200,832.57	1%	
	Lombardy	187	13%	€111,739,389.54	14%	
	Marche	46	3%	€20,839,060.39	3%	
	Piedmont	64	5%	€34,648,577.19	4%	
	Tuscany	41	3%	€21,249,567.42	3%	
	Trentino-South Tyrol	10	1%	€5,321,589.63	1%	
	Umbria	14	1%	€9,265,446.00	1%	
	Veneto	105	8%	€53,883,813.96	7%	
		TOTAL CENTRAL ITALY-NORTHERN ITALY	703	50.5%	€386,506,901.75	49%
Southern Italy	Abruzzo	112	8%	€73,657,080.07	9%	
	Basilicata	25	2%	€14,793,541.90	2%	
	Calabria	51	4%	€27,735,635.33	4%	
	Campania	238	16%	€134,244,353.84	17%	
	Molise	10	1%	€7,842,945.98	1%	
	Apulia	84	6%	€52,007,600.15	7%	
	Sardinia	40	3%	€19,759,773.80	3%	
	Sicily	130	9%	€69,144,129.43	9%	
		TOTAL SOUTHERN ITALY	690	49.5%	€399,185,060.49	51%
		TOTAL ITALY	1,393		€785,691,962.24	

Source: Invitalia

Applications were submitted by 4,164 individuals (meaning members of the shareholder body) for the following areas of investment:

- high technology: 442
- digital economy: 835
- research promotion: 116

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

Approved applications

As at 30 June 2017, a total of 1,350 applications had been examined, of which 332 (24.6%) were approved (see Table 3.8.c).

Table 3.8.c: Progress of applications as at 30 June 2017

STATUS OF APPLICATION	TOTAL
Applications accepted	332
Applications rejected	926
Pending assessment	43
Discontinued/lapsed	92
TOTAL	1,393

Source: Invitalia

The 332 approved applications entail a total expenditure for the startups of over €320 million, of which: €160.6 million in investments, plus €160 million in operating costs. The total portion of this sum effectively covered by the incentives is €159.1 million, of which €81.6 million solely for investment expenses (€ 75.6 million covers operating costs and €1.9 million coaching services). On average, the enterprises admitted to the programme intend to make a total investment of around €484,000 each.

93 applications were approved in the period examined by this Annual Report (1 July 2016 to 30 June 2017), which correspond to incentives totalling €41.4 million.

Of the €159.1 million outlaid, €143.1 million was granted in the form of subsidised loans, while the remaining €16 million was given as non-repayable contributions, paid to innovative startups in Southern Italy, for which a 20% share of the loan is not subject to repayment.



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Table 3.8.d: Applications approved, by region

	AREA OF COUNTRY	APPROVED APPLICATIONS	APPROVAL RATE	APPROVED SUBSIDISED LOANS	NATIONAL PERCENTAGE	
Central Italy-Northern Italy	Emilia-Romagna	15	22%	€7,083,120.98	4.5%	
	Friuli-Venezia Giulia	12	43%	€6,655,662.01	4.2%	
	Lazio	33	27%	€12,291,582.12	7.7%	
	Liguria	5	31%	€2,058,566.49	1.3%	
	Lombardy	49	26%	€22,607,629.63	14.2%	
	Marche	8	17%	€2,309,851.00	1.5%	
	Piedmont	19	30%	€6,996,344.70	4.4%	
	Tuscany	13	32%	€5,458,400.63	3.4%	
	Trentino-South Tyrol	2	20%	€1,287,365.22	0.8%	
	Umbria	3	21%	€1,028,892.34	0.6%	
	Veneto	28	27%	€14,270,184.09	9.0%	
		TOTAL CENTRAL ITALY-NORTHERN ITALY	187	26.6%	€82,047,599.21	51.6%
Southern Italy	Abruzzo	26	23%	€15,271,968.52	9.6%	
	Basilicata	7	28%	€4,348,087.04	2.7%	
	Calabria	5	10%	€2,110,845.03	1.3%	
	Campania	57	24%	€28,924,250.97	18.2%	
	Molise	1	10%	€181,257.59	0.1%	
	Apulia	15	18%	€9,785,053.47	6.1%	
	Sardinia	12	30%	€5,283,985.02	3.3%	
	Sicily	22	17%	€11,194,263.59	7.0%	
		TOTAL SOUTHERN ITALY	145	21%	€77,099,711.23	48.4%
		TOTAL ITALY	332	23.8%	€159,147,310.44	

Source: Invitalia

The 332 innovative startups that received funding have activated investment plans in the following three areas:

- high technology: €77 million
- digital economy: €59.7 million
- promotion of research: €23.9 million

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

The applications received and approved by production sector are shown in the table below (Table 3.8.e). The most highly represented sectors are e-commerce, energy and environment, and social networks. There are also several sectors (aerospace, life sciences, cloud computing) with higher than average approval rates.

Table 3.8.e: Applications by production sector

SECTOR	NO. APPLICATIONS	APPROVED APPLICATIONS	APPROVAL RATE	APPROVED AMOUNT
Aerospace	17	11	65%	€5,953,439.40
Energy and Environment	174	33	19%	€19,188,159.07
Industrial automation	61	20	33%	€10,965,621.21
Organic agricultural food	63	12	19%	€6,699,520.88
Cloud computing	98	31	32%	€15,157,309.37
E-commerce	277	42	15%	€15,090,331.47
E-government	9	1	11%	€212,100.00
Infrastructures and safety	28	9	32%	€4,298,794.70
Internet of things	122	35	29%	€16,887,645.67
Life Sciences	82	32	39%	€14,137,198.23
Innovative materials	97	23	24%	€13,595,328.81
Nanotech	7	2	29%	€1,954,267.53
Smart cities	66	20	30%	€9,341,124.75
Social networks	123	22	18%	€7,612,903.41
Telecommunications	46	13	28%	€6,645,369.58
Transport	38	14	37%	€6,090,929.76

Source: *Invitalia*

Examining the characteristics of the shareholders involved in the programme shows that most are between 36 and 50 years' old (45%). There is also a high percentage of under-36s (30%).

Women make up 17% of the shareholder body and this rises to 34% for the under-36s.

In terms of employment, around one third of shareholders were formerly subordinate employees.

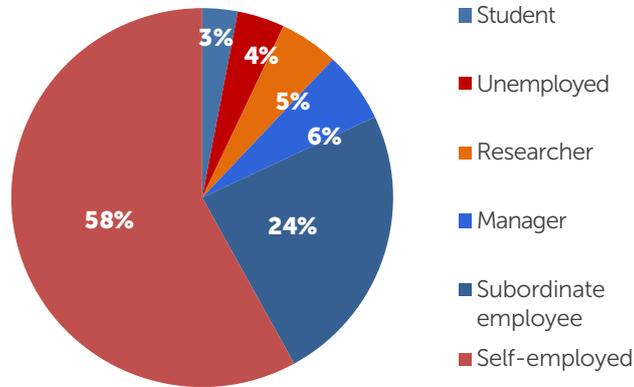
56% of shareholders hold a university degree and 11% hold a PhD.



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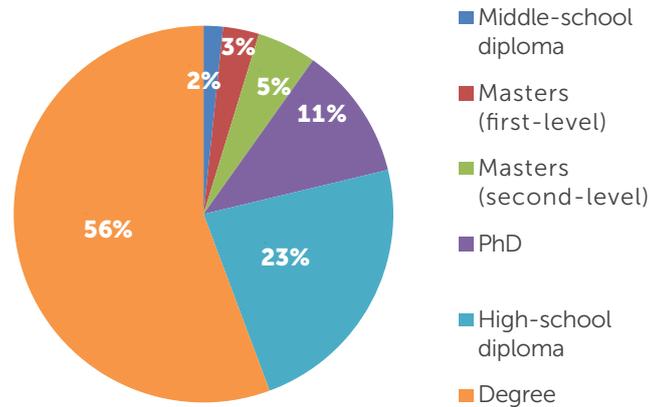
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Figure 3.8.1: Previous employment situation of shareholders



Source: Invitalia

Figure 3.8.2: Shareholders' education



Source: Invitalia

Funds paid out

As at 30 June 2017, a total of 244 loan contracts had been drawn up (around 30 between January and June 2017). However, there were 237 companies with an actual loan contract at the reference date, as participation in the programme had been revoked in seven cases. In three of these cases, this was due to the company pulling out while formal irregularities were to blame in a further three cases and for one case it was the result of a liquidation procedure having been initiated.

The deviation between this number and the 322 approved applications is due to the time-frame set for entering into the contract. Companies have 90 days after their application has been accepted to demonstrate that they have been incorporated and registered as innovative startups. Subsequent checks relating to anti-Mafia regulations defer signing of the contract for a further 30 days.

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

As at 30 June 2017, a total 181 startups had started reporting expenditure already incurred and for which at least one loan instalment had been paid. Of these startups, in 124 cases payment related to investment expenditure, and operating costs in 57 cases.

The amount paid out totals €14,618,472.53, of which: €11,318,961.83 for investment expenditure and €3,299,510.70 for operating costs. Almost the entire amount (over 95%) was paid out between 30 June 2016 and 30 June 2017.

As it seems, this is just a small portion of the total subsidised loans approved at that date (only around 9.2% of the around €159 million indicated above).

This may primarily be the result of difficulties encountered by the startups in finding the necessary funds to pay the costs that would be subsequently be reimbursed. There are only a few cases (12 out of 124) in which the startups selected had used the alternative method of submitting unpaid invoices through the restricted account.

It should also be considered that the startups must already have incurred at least 20% of the admitted subsidised investment expenditure and operating costs in order to submit the application for payment. The fact that there is no legal deadline by which investment expenditure and operating costs incurred must be reported after the contract is drawn up, may also contribute to generating lengthier payment times, as the figure examined suggests. However, the startups must complete their expenditure plan within 24 months of signing the contract, unless extensions are granted, so it is reasonable to assume that there will be a sudden rise in payouts as this deadline approaches for a significant number of startups.

It is important to bear in mind here that a single final SAL can be submitted in the investment account and one in the operating costs account, so many enterprises may have opted for this strategy and postponed the request for reimbursement of the entire amount for as long as possible.

The innovative startups reimburse the loan through a repayment plan that begins 12 months after receiving the last portion of the subsidy. No beneficiary company had received the entire subsidised loan on the date on which this Annual Report was prepared. It is therefore still not possible to describe the state of health of the loans at this time (repayments in progress, completed, any insolvency).

3.9 INVITALIA VENTURES – ITALIA VENTURE I FUND

Italia Venture I, formed on 29 September 2015, is the alternative reserved and closed fund of **Invitalia Ventures**, the asset management firm (SGR) controlled by Invitalia. The aim of the Fund is to use its assets to support risk capital investments in SMEs with high growth potential, facilitating their capitalisation and expansion over the medium to long term.



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Specifically, the Fund can only invest in SMEs, as defined in Annex 1 to **Regulation (EC) no. 651/2014**, including the innovative startups covered by this Report.

The initial fund-raising phase, which closed on 18 November 2015, saw a subscription by Invitalia SpA of €50 million, earmarked by MISE. Meeting this first subscription objective is what enabled Fondo Italia Venture I to launch its own investment business.

The Fund has also planned further closing dates, until 29 September 2017, in order to reach a maximum of €100 million. As at 30 June 2017, after entering into the share capital of Cisco System International, Metec Industrial Materials and Fondazione di Sardegna (€5 million each), the Fund totalled €65 million.

As stated in its **Prospectus**, the Fund only operates in the form of co-investment with private independent operators, up to a maximum of 70% of each investment round, with a contribution of between €500,000 and €1.5 million. The Fund and the private independent investors (selected by the asset management firm through a transparent, open procedure) co-invest in the risk capital of the target companies under the same conditions.

The Invitalia Ventures investments committee carries out a preliminary assessment of each investment or disinvestment transaction, and of every subsequent major intervention on the current investments. The opinion of this committee is advisory and not binding, but it is mandatory.

Direct investments may relate to:

- shares, holdings or certificates representing the risk capital of a company;
- bonds issued by the company and/or other forms of financial backing, which are usually associated with rights for conversion into shares or stakes in the capital of the financed company;
- other participatory financial instruments with conversion rights;
- other instruments or securities that allow acquisition of the financial instruments referred to above;
- other debt instruments.

The Fund's main strategic objective is to invest in Italy, although it is allowed to assign part of the funds to initiatives led by Italian business owners abroad that have a positive impact on national production. The sectors of interest are high-growth areas such as ICT, logistics, mechatronics, biotech, health, clean energy and green tech, government and public administration, social impact and sustainability, food, fashion, lifestyle and fintech.

Invitalia Ventures has created an **Investor Network** that the main Italian and international VC operators have joined. As at 30 June 2017, the Investor Network had over 150 operators, with total assets under management of around €20 billion, 5,000 financed startups and 650 exits completed.

In parallel, the initial collaboration agreements with leading Italian research centres were drawn up to allow ongoing access to new, high quality investment proposals.

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

Investment operations subscribed

As at 30 June 2017, the Italia Venture I Fund had subscribed to **14** investment operations.

Five operations were closed in the period examined by the last Annual Report (**D-Eye s.r.l.**, **Sardex S.p.A.**, **Tensive s.r.l.**, **Zehus s.r.l.**, **Echolight S.p.A.**).

The nine operations closed as of 1 July 2016, involving a total of €22.1 million (including the co-investment by third parties), are shown in Table 3.9.a below.

Table 3.9.a: Financing operations subscribed by the Italia Venture I Fund (30 June 2016 – 30 June 2017)

COMPANY	INNOVATIVE STARTUP/SME	INVESTMENT DATE	CO-INVESTORS	TOTAL INVESTMENT
3ND s.r.l. (Vino75) Manages the Saas VINO75 platform, which aims to disintermediate the distribution and marketing chain of Italian SMEs in the agricultural food sector.	<i>Innovative SME from 21/12/2015, former innovative startup</i>	08 November 2016	SICI SGR, current shareholders	€1.5 million
Remoria VR s.r.l. Manufactures innovative input devices for virtual reality.	<i>Innovative startup from 22/07/2016</i>	20 December 2016	Lventure Group, others	€700,000
40South Energy Italia s.r.l. Has patented a technology that converts waves into electricity.	<i>Innovative startup from 07/06/2017</i>	22 December 2016	Enel Green Power	€2.25 million (convertible loan)
Empatica s.r.l. Has developed a medical device that can detect an imminent epileptic fit, allowing immediate intervention.	<i>Innovative startup from 18/09/2014</i>	23 December 2016	Innogest SGR, Endeavor Catalyst, Bill Moore Family Office	€4.6 million
Pedius s.r.l. Provides telephone access for the hard of hearing through the use of voice synthesis and voice recognition technologies.	<i>Innovative startup with "a social goal" from 14/03/2014</i>	29 December 2016	Principia SGR, Tim Ventures	€1.438 million
2045 Tech s.r.l. (Floome) Manufactures a breathalyser (Floome) that measures the blood alcohol level and sends the data to an app, which then provides immediate feedback to the users.	<i>Innovative startup from 31/03/2014</i>	29 December 2016	AXA Strategic Ventures	€1 million



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COMPANY	INNOVATIVE STARTUP/SME	INVESTMENT DATE	CO-INVESTORS	TOTAL INVESTMENT
Mindesk s.r.l. Develops a collaborative platform for CAD in VR, which makes real time modelling and editing of projects accessible.	<i>Innovative startup from 19/02/2015</i>	29 December 2016	Primomiglio SGR, A11 Venture	€670,000
Greenbone Ortho s.r.l. Has developed a medical device for bone implants created using natural materials, like wood, with regenerative properties.	<i>Innovative startup from 11/11/2014</i>	13 June 2017	Helsinn Investment Fund (lead), Innogest SGR, Italian Angels for Growth, other private shareholders	€8.425 million
Codemotion s.r.l. A "hub" that connects developers/programmers with companies and promotes coding.		26 June 2017	LVenture Group, Primomiglio SGR	€1.5 million

Source: Invitalia Ventures SGR

3.10 SME INSTRUMENT HORIZON 2020: PERFORMANCE OF ITALIAN INNOVATIVE STARTUPS AND SMES

How it works

SME Instrument Horizon 2020, a cornerstone of the European Union's 2014-2020 growth and development strategies, aims to support the creation and expansion of highly innovative enterprises, through projects with high growth potential. The scheme, which has a total endowment of almost €3 billion (€437.5 million for 2017), holds four calls annually in 13 areas (such as open innovation, aerospace, biotechnologies and climate) and is divided into three phases:

Phase 1 "Idea to concept" (feasibility study, six months): this initial phase involves a grant of €50,000 which is awarded to all winners in a single payment. The objective is to evaluate the technical feasibility and market potential of innovative business ideas and support the company in development of its feasibility studies and business plan. The enterprises are given three days of technical support from an expert consultant on development of their business model, organisation and sourcing of potential collaborations and partnerships. The assessment phase lasts two months and the grant is paid within four months of the call being closed.

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

Phase 2 "Concept to Market-Maturity" (access to the market and R&D, one to two years): during this phase, the Commission may grant co-financing in the form of a grant of up to 70% of the investment plans needed for the company to develop and test its proposed innovation. The value of the financing ranges between €500,000 and €2.5 million (€5 million for projects in the health sector). In this phase, the enterprises develop a new product, process or service that is competitive on the global market, through activities such as the creation of prototypes and models, industrial designs, audits on performance, testing, and demonstration and validation of models for replication on the market. The assessment phase lasts four months and the grant is paid within eight months.

The company awarded the financing is also offered 12 focused coaching days during this phase, taking the total potential days to 15. The enterprises are given three days of technical support from an expert consultant on development of their business model, organisation and sourcing of potential collaborations and partnerships.

Phase 3 "Prepare for Market Launch" (marketing): There is no direct financial contribution from the EU in this third phase, which targets the enterprises that have already been selected for the previous phases. This stage consists of extensive support in marketing the innovative products and services through networking, training, coaching and mentoring initiatives and access to private risk finance.

The enterprises can apply for Phase 1 or alternatively apply to subsequent phases if their proposals or business models are at an advanced stage.

Performance of Italian innovative startups and innovative SMEs

From June 2014, when the first SME Instrument call had closed, to the end of June 2017, a total of 398 Italian enterprises were selected for Phase 1 and 94 for Phase 2, making 455 enterprises in all, as 37 enterprises were selected for both Phase 1 and Phase 2. Considering only the calls held during the period examined by this Annual Report (30 June 2016 - 30 June 2017), there were 118 enterprises awarded the financing for Phase 1 and 27 for Phase 2.

142 of these enterprises were registered as innovative startups and innovative SMEs (31% of the Italian enterprises selected). As mentioned previously, the enterprises selected in Phase 1 received €50,000 each, while those selected in Phase 2 received funding of a variable amount, up to €2.8 million, with an average of around €1.4 million and a total of over €43 million.

Over the last 12 months (30 June 2016 – 30 June 2017), 45 innovative startups and SMEs were awarded one of the four calls for Phase 1, accounting for 38% of the winning Italian enterprises. A further 10 were selected for one of the three calls for Phase 2 (just over one third of the Italian enterprises selected). A total of €11.5 million was paid out (over €9 million for Phase 2 alone).

More specifically, 94 innovative startups and seven innovative SMEs were awarded financing as part of Phase 1, plus a further seven enterprises registered as innovative startups before being selected. Several of these enterprises



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obtained special status after selection, of which five became startups and a full 11 became innovative SMEs.

In Phase 2, which is exclusively for enterprises at a more advanced stage of development, there were still a considerable number of innovative startups (19 in total). Four of the successful enterprises were innovative SMEs and a further seven entered this special section at a later date.

The considerable number of enterprises that became innovative SMEs after being selected for the SME Instrument is most likely the result of the relatively recent introduction of the policy, which only took off when many of the SME Instrument calls had already closed. There were 22 calls in which at least one innovative SME was successful, and as many as 12 of these took place in 2014 and 2015, when this new incentive policy had yet to be introduced or had only been in place for several months.

There are also 12 innovative startups and innovative SMEs that were successful in both phases⁴³. This situation therefore reflects the natural, logical follow-through of the various stages of the SME Instrument, which initially aims to support the definition of a business concept, to then fund the subsequent development and market launch phases (Table 3.10.a).

Table 3.10.a: Innovative startups and innovative SMEs awarded under the SME Instrument (Horizon 2020), status at time of selection

STATUS	PHASE 1 OF SME INSTRUMENT	
	PHASE 1	PHASE 2
Registered as an innovative startup at time of selection	94	19
Not registered as an innovative startup at time of selection (= registered in the past or subsequently)	12	0
TOTALE STARTUP INNOVATIVE	106	19
Registered as an innovative SME at time of selection	7	4
Registered as an innovative SME after selection	11	7
TOTAL INNOVATIVE SMES	18	11
SELECTED FOR PHASE 1 AND PHASE 2	12	
TOTAL WINNERS	142	

Source: European Commission (EASME), InfoCamere

⁴³ Of these enterprises, 10 were innovative startups and one was an innovative SME at the time of both selections, while another became an innovative SME only after being awarded under Phase 2.

3 INCENTIVES FOR INNOVATIVE STARTUPS: WHICH PERFORMANCE INDICATORS?

A full three years have passed since the first call, and the status of many enterprises has changed in the meantime, particularly because they have reached the end of the period in which they can remain in the special section for innovative startups.

As at 30 June 2017, there were 87 enterprises that were still registered as startups. Eighteen had left one or other of the special sections (two left because they had ceased trading) and a further 18 became innovative SMEs, having reached a more mature stage of their business activities. Consequently, the number of companies awarded under the instrument and that are now innovative SMEs increases to 41, or 7.2% of the companies registered in this special section at the reference date for this report.

The characteristics of the innovative startups and innovative SMEs selected

The geographical distribution of the winning enterprises roughly corresponds to the distribution of the innovative startup and SME population, with around 60% located in Northern Italy, with Central Italy ahead of Southern Italy (Table 3.10.b). Lombardy is once again in the lead (34 winning enterprises, or 24.5% of the total), followed by Emilia-Romagna (22), Lazio (14) and Piedmont (13). A total of 21 winning enterprises are located in Milan (14.8%), followed by Turin with 12, and Rome with 10.

Table 3.10.b: Innovative startups and innovative SMEs awarded under the SME Instrument (Horizon 2020): distribution across Italy

MACRO-AREA	WINNING ENTERPRISES	%
North West Italy	51	36.4%
North East Italy	36	25.2%
Central Italy	31	21.7%
Southern Italy	24	16.8%
GRAND TOTAL	142	

Source: European Commission (EASME), InfoCamere

Statistics on the sector of economic activity of the winning enterprises contrast slightly with those on innovative startups and SMEs as a whole, as there is a higher percentage of Ateco codes relating to industry and manufacturing, which represent over one third of this group (51 out of 152, or 35.9%). In the services for business macro-sector, which includes the remaining companies (with one exception, classified as "Commerce"), the most frequent areas of activity (35 each) are those identified by codes M 72, "Research and experimental development on natural sciences and engineering", and J 62 "Software production and IT consulting". Code C 26 ("Manufacture of electronic components and optical



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equipment”) is the most frequent for manufacturing innovative startups and SMEs (16 cases).

The winning innovative startups and innovative SMEs for which 2016 statements of accounts are available produced goods or services worth a total of €118 million. The sales volume of these enterprises varies greatly, with 50 enterprises under €100,000, but 20 exceeding €1 million, at times by a large margin.

Overall, as at 30 June 2017, the 89 winning innovative startups and SMEs with at least one subordinate employee had a total workforce of 945 people, giving an average of 10.6 each. There are also three enterprises with more than 50 employees apiece, and a further 11 with more than 20 employees.

A further indicator of the diversity of the various enterprises is their age, particularly the innovative SMEs, as nine began trading before the 1990s and three actually started in the 1980s. However, the large majority of the winning enterprises is much younger, with over half (56.3%) incorporated after 2013, which means they are still eligible for the status of innovative startup.

INVITALIA

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