

A.I.F.I.

Italian Venture Capital and Private Equity Association

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*Accelerating, Connecting, Enabling
European forum on business incubation*

*The key to building successful
connections with VC*

Paris, 21st March 2002

Summary

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About A.I.F.I

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Venture Capital in Italy

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A.I.F.I. research activity

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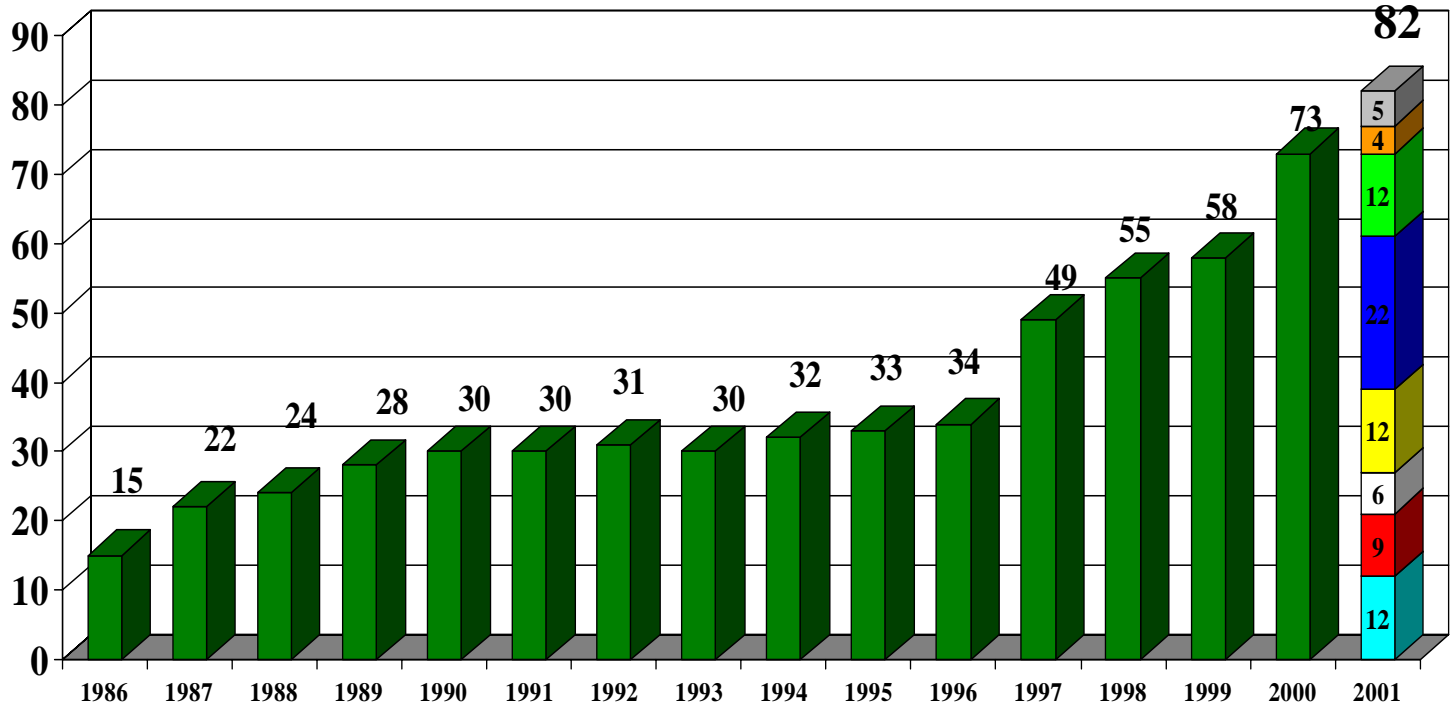
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About A.I.F.I.

A.I.F.I., Italian Private Equity and Venture Capital Association, was founded in May 1986, in order to promote, develop and institutionally represent, the venture capital and private equity industry in Italy.

A.I.F.I. Members



Italian Banks and subsidiaries

Italian closed-end funds

International Banks

Industrial/Private Inv. Comp.

Advisor of private equity funds

Advisor of venture capital funds

Regional focus players

Public players

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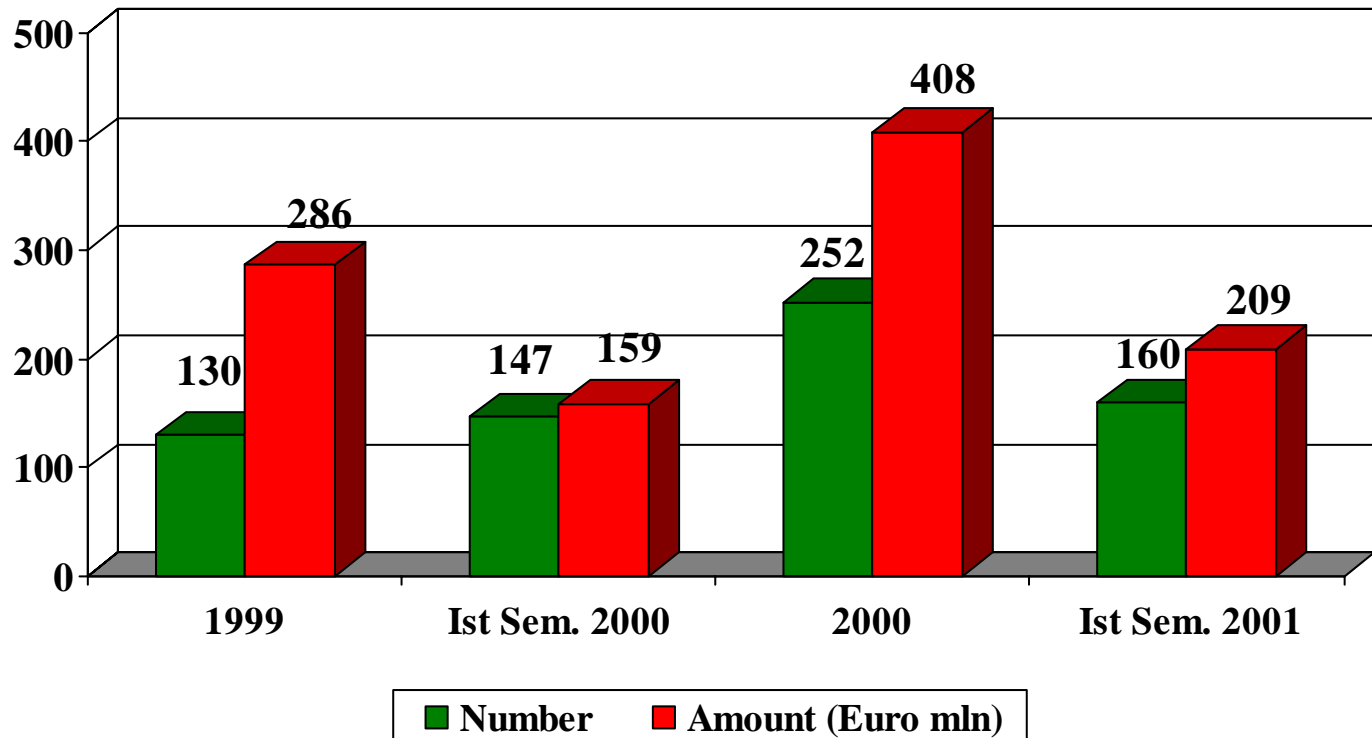
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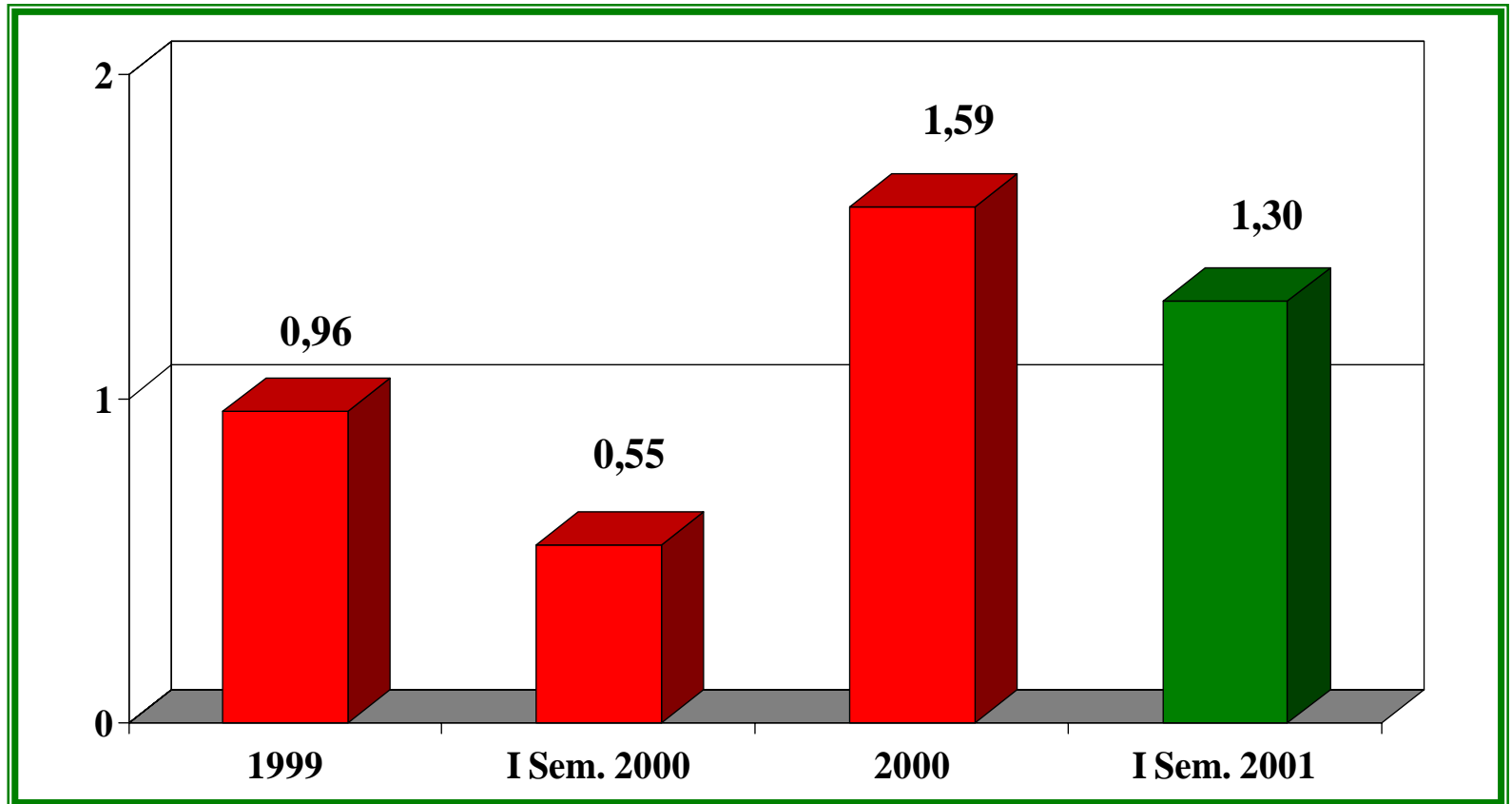
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Venture Capital in Italy

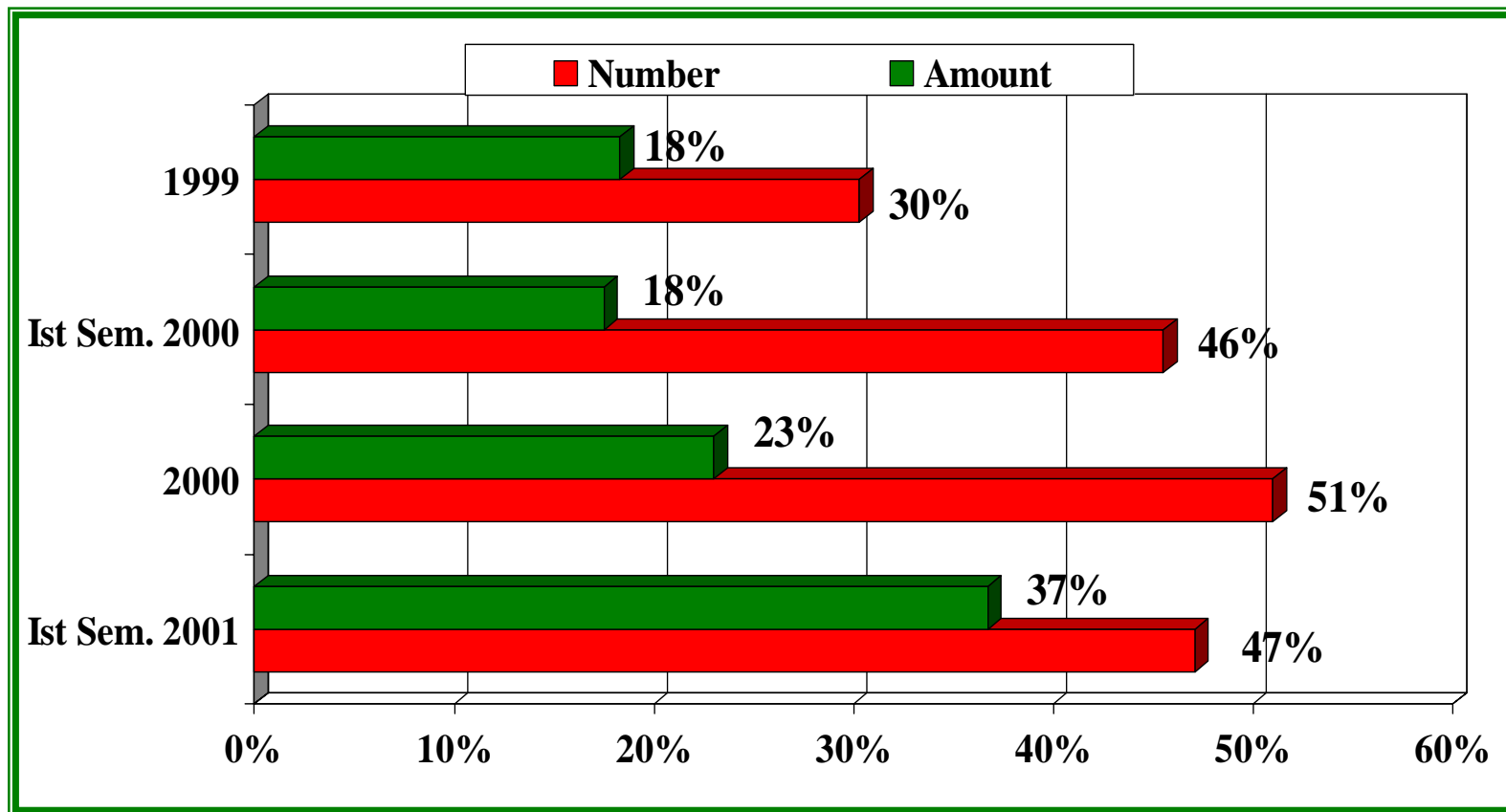
Start up investments by number and amount



VC in Italy - Average invested amount (Euro mln)



VC in Italy - % of amount and number of investments in the *high tech* companies



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Incubation research activity

A.I.F.I., is interested to follow the development of the risk capital market and the evolutionary trends of the Italian incubation system, in order to identificate collaboration possibilities in term of:

- ✓ **Quality deal flow selection;**
- ✓ **Technological audit support**

In order to draw a complete picture of the Italian context, the following research activities has been recently carried on:

- ✓ **1st research on private incubators → published in April 2001**
- ✓ **2nd research on public and private incubators → in progress**
- ✓ **Annual Survey on the Italian VC market → in progress**

Some introductive issues

- ✓ **The incubation system already exists in Italy, but it is in continuous evolution**
- ✓ **Today in Italy we can observe two different models of incubation systems, differentiated by the player promoting the activity:**
 - 1. the private (profit oriented) incubation system;**
 - 2 the public (non profit oriented) incubation system.**
- ✓ **The two systems are in search of sound and regular links with the VC world, but this collaboration shows some difficulties**

Private incubation model: the research evidence

We already mapped the private incubation activity in Italy for the year 2000 with the following results:

- a. 15 relevant players on the market born in the period ranging from 1999 and 2000;**
- b. the core business was to support internet related companies and TLC;**
- c. investments were made mostly in high growth potential projects, in order to bring them to floatation in 2/3 years;**
- d. they provided either financial support (equity stakes) and consultancy support (legal, marketing, strategic, etc.);**
- e. some of them have been financed by VC funds.**

Private incubation model: the shifting

But this kind of private model was bound to change...

1. Internet crisis:

- the majority of players decided to focus the activity to other sectors than internet/TLC and to differentiate the composition of “portfolio” companies;

2. Stock exchanges crisis:

- increased difficulties in the exit way for divestments;
- increased difficulties in finding external sources of capital;



Change in **sectoral orientation** and in the **private incubator business model**

Private incubation model: the shifting (cont')

In the same time, on the Demand Side:

- 1. due to the “redirection” process, the new attention towards new technologies requires more specific competencies and a longer “time to market” (i.e. longer period to acquire the ability to incubate);**
- 2. decrease of deal flow**

Private incubation “NEW” model

1. Some of them stopped their activity (a minority);
2. Some moved towards a **Consultancy model**: the internal competences gained in start up support activities turned the incubator to a consultancy oriented model;
3. Some other turned to the **Investment model**: incubators with amount of money to invest started to play a role as **Venture Capitalist**

Public incubation model: methodology and goals

In order to gain a full picture on the incubation activity market, a research on public incubation system has been carried on:

- data referring to the period: October 2001- March 2002;**
- sample: we observed a sample made up of public incubators divided as follows:**
 - 1. BIC: Business Innovation Centres;**
 - 2. PST incubators: entities related to Scientific and Technological Parks;**
 - 3. University incubators.**
- goals: 1. map a picture of the Italian public market;**
 - 2. investigate their operative role in seed fostering;**
 - 3. find the possible collaboration areas with VC's in further support of "incubator backed" companies.**

Public incubation model: key player 1 Business Innovation Centres (BIC)

- ✓ **BIC is the most relevant category in Italy, the majority of them were created starting from 1996**
- ✓ **BIC are local players run by public actors, non profit oriented, with entrepreneurial management principles**
- ✓ **The main mission is the economic regional development**
- ✓ **The measures used to manage this mission are:**
 - 1. innovative enterprise creation support;**
 - 2. innovation of existing SME's.**
- ✓ **They are not sectoral/industry specialized**

Public incubation model: key player 2

PST Incubators

- ✓ **They incubate enterprises directly coming from their research laboratories**
- ✓ **They differentiate from BIC in the technology transfer activity they carry on**
- ✓ **They are more focused on sectors/technologies**
- ✓ **Very often the incubation activity is not formalized, even if, starting from the recent past, most of PST are trying to build in house stable incubator structures in order to promote a regular technology transfer activity**

Public incubation model: key player 3

University incubators

- ✓ **They represent a very new phenomenon in Italy and they are few**
- ✓ **They Born in technical oriented universities (“*politecnici*”)**
- ✓ **They have started their activities without enough money;**

... but now ...

Some of them are launching VC funds in order to support their operativeness

Public incubation model: preliminary findings

- ✓ **There are 57 players distributed on the whole national territory**
- ✓ **13 of them aren't active so, the statistical sample is composed by 44 "active incubators"**
- ✓ **Their institutional goals are:**
 - 1. To support underdeveloped areas;**
 - 2. To promote innovative start up.**
- ✓ **24 incubators (54%) are situated in the North of Italy, 6 (14%) in the Centre and 14 (32%) in the South**
- ✓ **Their main activity seems to be the enterprise culture's promotion**
- ✓ **Sectoral/industry specialization seems not to be present for the BIC**
- ✓ **PST and Universities are mainly focused on technology and innovative start-up**

Incubators and VC's: what kind of collaboration?

**The public incubation system believes in the importance
of an effective collaboration**

... but ...

**Relevant relationships are built only with banks and
public institutions (credit with low interest rates), while
relationship with VC's are very poor**

And what about VC attitude?

**Most VC are looking for new deal flow opportunities
and technical audit support**

... but ...

**It is very difficult for them to see public incubators as a
deal flow opportunity,**

**Almost always, support measures and instruments are
considered as “out of the market”,**

**Almost always, incubator backed companies are not
seen as competitive entities (even if they are!!!)**

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Probably, if we want create established relations between public incubator and VC:

- ✓ **we must correct the system and not create a new one,**
- ✓ **we must favour the contacts between them,**
- ✓ **we must support the use of the same “language” and technical instruments**

... but...

**are we sure that public incubation system and private
A.I.F.I. venture capital market “belong to the same
family”???**

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