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The entrepreneurial ecosystem of Italian Startups: the Manni Oil case

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Introduction

"The growth of a country's economy does not stem from economic factors alone. It depends on institutions, on citizens' trust in them, on shared values and hopes. The same factors determine a country's progress."

(Mario Draghi, speech to Senate, 17/02/2021)

The main objective of this paper is to understand how best to structure an optimal funding strategy for a Startup. To achieve this objective, it is necessary to understand the context in which the Startup operates. Not coincidentally, the term chosen in the title is "ecosystem". By definition, an ecosystem is a set of living organisms and non-living matter that interact in a given environment to form a self-sufficient system in dynamic equilibrium. The point of analysis on which I think it is extremely important to focus is precisely the term dynamic equilibrium. About country-system Italy, we have all too often heard words like public debt, zero growth, unemployment. And again, economic stagnation, judicial slowness, corruption. To put it like that, it would seem to be a picture where there is no way out. A nightmare of maladministration in which it is easier to bend to the limits of a system than to try to change it. I say that this is not the case. In this paper, we will focus on the living matter of the ecosystem. On that entrepreneurial world that continues to sacrifice itself day after day to assert its independence.

The focal decision that led me to undertake this project was based on my pre-graduate internship experience. Since 1 February 2021, I have had the opportunity to work for Blue Ocean Finance, a company specializing in 360° consultancy in the world of Innovative Startups and SMEs. The company's mission is to create a positive impact in the world of Italian entrepreneurship. This impact is guaranteed by achieving long-term financial sustainability. There are some fundamental aspects to consider obtaining the financial resources needed to grow. Some of them are technological changes, regulatory development, and market drivers. Blue Ocean Finance's entrepreneurial approach is based on proactive and ongoing advice, enabling its clients to grow, achieve their goals, and overcome their challenges. Small and medium-sized businesses are the beating heart of the Italian economy, and Blue Ocean Finance is constantly striving to ensure that Italian SMEs can generate new opportunities and achieve the dynamic balance we referred to earlier. What I have learned on the battlefield essentially lies in what is called 'entrepreneurship'.

This is one of the fundamental concepts for working in Blue Ocean Finance. Entrepreneurs who advise other entrepreneurs. That's what the company does. Eliminating the concept of consultancy paid based on working hours, implementing an internal policy that obliges everyone to become as entrepreneurial as possible, making consultants responsible through the logic of the Success Fee. The latter imposes that the company is paid only and exclusively on the achievement of the set objective. This implies that if for whatever reason, the application to participate in a public funding competition is rejected, the company will not see a single euro. This would mean wasting months and months of work. Accepting this logic is not easy but doing so allows you to understand what it means not to take anything for granted. It encourages you to put all of yourself into your work, always. Accepting this logic makes you realize how important it is not to procrastinate. 1 extra hour of work today can be worth more than all the other hours spent on the project tomorrow. Having this mentality forges you to always get the perfect result. To always arrive at the goal. The vision of the company is easily understood by any student who has carefully followed a course in Economics and Business Management or Business Strategy. The Blue Ocean Strategy requires companies to differentiate themselves so much that they must leave their comfort zone completely. This often allows you to reach unexplored spaces. Blue Ocean Finance is committed day after day to accompanying entrepreneurs who dare, innovate, and change the way they do business.

The aim of the paper is also to combine academic and work experience and to explore the dynamics of the Italian Startup world. In this way, it will be possible to understand the key points of an optimal funding strategy for a Startup. The reading of this document will provide a complete view of the tools needed to structure a financial growth plan. But not only that. What we aim to offer with this work is a document that prepares the reader, as best as possible, to become familiar with transversality. It is precisely the concept of transversality that plays a key role in the day-to-day life of those who work with these companies. The development of transversal competence is of crucial importance. In the world of structured finance, companies and financial institutions speak very different languages. And often, a large part of the problems related to corporate financing stems from this. Having a transversal mindset is what is needed to go into corporate financing in a multi-lateral way. At one time, the only forms of financing were Equity and Debt. Gradually things have changed. Understanding and merging the various forms of financing, which are much more complex than in the past, makes it possible to achieve a long-term financial balance. In addition, understanding the differences between them makes it possible to make this balance dynamic. Being fully aware of why things are done the way they are, why it is better to choose one form of financing over another, provides the company with a great deal. The most important? Freedom. Freedom to choose its destiny according to its own objectives. Freedom not to have to depend on anyone when it is not necessary. These are all things that the Italian entrepreneurial ecosystem sorely needs.

To be able to structure a Multi-source financing strategy, we will analyse in this paper the different sources of new finance available to Italian Startups. Before this analysis, however, an examination of the context of the research has been carried out. In this study we examine the Italian political and economic needs that gave rise to the concept of Startup; then we clarify the definition of Startup itself and the regime in which it operates; finally, we outline the benefits of being recognized as an Innovative Startup and the relative differences with Innovative SMEs. In the second paragraph of the first chapter, the first source of finance, Equity, is addressed. In particular, the different phases of a Startup are analysed from the moment it is a simple idea until the possibility of Exit arises. Subsequently, the paper focuses on the main actors of venture capital investments in Startups and defines their timing of the investment, the economic possibilities, and various other aspects. No less important is the part on the valuation of Startups, a key element of corporate finance and Equity investments. In the third section the world of Structured Debt is analysed and the different mindset a Startup has to deal with when applying for bank financing. For this reason, a minimal in-depth analysis is carried out on the variables taken into consideration by banks when evaluating them, followed by an in-depth analysis of the function of the State and the Central Guarantee Fund. In the fourth and fifth Paragraphs, the issues related to two extremely important sources in the world of Startups, Facilitated Finance and Tax Credits, are explored. The latter represent fundamental alternatives to more structured operations such as equity and debt. Finally, in the second chapter of the thesis, an in-depth analysis is carried out on Manni Oil, a Blue Ocean Finance's client, through which various financing operations such as equity and medium-long term debt investments have been conducted.

Chapter 1: How to structure a proper financial strategy for an Innovative Startup

Paragraph 1: Innovative Startups, requirements and benefits.

The need for innovation

The starting point for the analysis of Startup financing methods must be represented by the definition of the Startup itself. Moreover, to better understand the evolution of the concept of Startups in Italy, it is necessary to start from the legal basis that has contributed to giving law value to what previously seemed just another facet of the new American dream.

Since 2012, the legislator has adopted a series of industrial policies measures whose principal purpose has been to create and strengthen the Innovation Ecosystem. The first step in this direction is represented by the so-called Decreto Crescita 2.0 (D.L. 179/2012), which introduced the definition of Innovative Startup by providing an organic framework of facilities aimed to encourage its birth and development throughout their entire life cycle. With this new decree, Italy laid the foundations for a framework with the intention to allow Italian SMEs to grow. SMEs historically represent most of the nation's socio-economic pattern.

Inspired by the conclusions of the report "Restart Italy!" - elaborated by a task force of 12 experts appointed by the Minister of Economic Development - and by a wide public consultation, the articles 25-32 of Decree-Law 179/2012 can be considered the core of a real "Italian Startup Act ".

To let the reader better understand the need of innovation by the Italian government in 2012, hereafter the conclusion of the report:

"These innovators call for attention and resources. But first of all, they ask that politics and the Italian system align with the bet that they're doing.

They ask the institutions, the large companies, to banks, to universities, to families, to associations, to be willing to take risks with them.

The innovators have understood that it does not resolve nothing defending the positions acquired.

That the world is going in a direction in which there is no future without change.

In short, the Italian Innovators are asking the whole country to synchronize.

To tune in. To feel their own emotion.

To act on it.

Not tomorrow.

Now."

(Task Force on Italian Starups, 2012)

These words best represent the situation in which Italy found itself after the Financial Crisis of 2008 and the Sovereign Debt crisis of 2012. For this reason, the turning point represented by the Italian Startup Act incorporated the only hope for the recovery of an entire social class: that of small Italian entrepreneurs.

Article 25 of the decree introduces toward the Italian legal system a specific notion of 'new technological enterprise': the Innovative Startup. Following a completely new approach, a vast body of legislation (Art. 26 et seq.) has been drafted in favour of this type of enterprise, providing for new instruments and profitable measures affecting the entire life cycle of the company, from the Startup to the expansion and maturity phases.

Support for new innovative entrepreneurship is motivated by various industrial policy objectives. First and foremost, the Startup Act aims to promote a sustainable growth model: an effort that cannot disregard the development of an ecosystem (small and medium-sized enterprises, large corporations, specialized service providers such as incubators and accelerators, and the world of universities and research) driven by an entrepreneurial culture devoted to innovation.

Through economic growth and the creation of new opportunities for doing business, the legislator intends to encourage employment, especially among young people, and stimulate social mobility. Furthermore, a more dynamic and innovation-oriented business environment is assumed to be an essential component for attracting and retaining human and financial capital from all over the world in Italy.

The Startup Act, as understood in its original structure, has been affected over time by several regulatory updates. These updates have strengthened its overall structure without affecting its main points. Measures such as Decree-Law No. 3 of 24 January 2015, Law No. 232 of 11 December 2016 ("Legge di Bilancio 2017"), and Law No. 145 of 30 December 2018 ("Legge di Bilancio 2019") have refined, enhanced, and expanded the range of facilities provided.

These measures were not part of the original core of the policy on Innovative Startups. They have enriched the overall framework of measures in favour of innovative entrepreneurship: among these, the Industry 4.0 Plan and the launch of new funds for innovation and emerging technologies are noteworthy.

Definitions, disclosure regime and monitoring

The Italian Startup Act categorically refers to Innovative Startups to highlight that the measures are not intended at any newly established enterprise, but only at those with a significant and specifical technological innovation component.

Beyond this restriction, there is no sectoral limitation. As we will see in the analysis of the practical case, the possibility of setting up an Innovative Startup is guaranteed to entrepreneurs from the entire productive world, from manufacturing to digital, from commerce to agriculture, from product companies to service companies.

The definition of an innovative Startup is set out in Article 25, paragraph 2 of Law Decree 179/2012.

According to the law, the following companies are eligible for the incentives: corporations, including cooperatives, whose shares or quotas representing the share capital are not listed on a regulated market or a multilateral trading system, and which meet the following requirements:

- Are newly incorporated or have been incorporated for less than 5 years (sub-paragraph b).
- Have their head office in Italy, or another EU Member State, or States party to the Agreement on the European Economic Area, provided they have a production site or branch in Italy (sub-paragraph c).
- Have annual Revenues value of less than €5 million (sub-paragraph d).
- Do not and have to distribute profits (sub-paragraph e).
- They have as their exclusive or main corporate purpose the development, production, and marketing of innovative products or services with a high technological value (sub-paragraph f).
- have not been incorporated by merger, split-off, or spin-off of a company or branch of business (sub-paragraph g).

Finally, the innovative content of the enterprise is identified by the possession of at least one of the three following indicators (letter h):

1. 15% of the higher value between Revenues and annual Costs is attributable to research and development activities.
2. At least 1/3 of the total workforce is made up of PhDs or researchers, or at least 2/3 of the total workforce is made up of partners or collaborators in any capacity with a master's degree.
3. The company is the owner, depositary, or licensee of a registered patent (industrial patent) or the owner of an originally registered computer program.

A company meeting the above-mentioned requirements can obtain the status of Innovative Startup by registering in the special section of the Register of Enterprises (Article 25(8)).

Registration is free and voluntary and is done by electronically transmitting to the competent Chamber of Commerce a self-certification that the company meets the requirements (Article 25.9).

The benefits of the law are applicable to the Innovative Startup from the date of registration in the special section. They can be maintained, ceteris paribus, until the fifth year of activity calculated from the date of incorporation.

Innovative Startups registered in the special section of the Register of Enterprises are included in a specific list. In this way, they allow extensive monitoring by the local Chamber of Commerce to discourage opportunistic behaviour. The database is accessible free of charge in electronic format and is updated weekly.

Finally, it is important to underline that the Innovative Startup is required to confirm annually the possession of at least one of the three indicators of innovativeness mentioned above, under penalty of losing its special status (Art. 25, paragraph 15).

Benefits of becoming an Innovative Startup

In the following paragraph, we will analyse the benefits that the discipline provides by recognising the status of Innovative Startup. These support measures are regulated by Articles 26-31 of Decree-Law 179/2012 and are applicable for a maximum of 5 years from the date of incorporation of the company.

1. Digital and free incorporation (d.l. 3/2015, art. 4, par. 10)

   The Decree of the Minister of Economic Development of 17 February 2016 introduced the possibility for Innovative Startups to draw up articles of association and bylaws using a standard typed model, validating their content with a digital signature, according to Article 24 of the Digital Administration Code.

Users can set up their company entirely online, using the 'Atti Startup' platform created by the Chambers of Commerce system. Alternatively, constituent members can contact the AQI ("Assistenza Qualificata Imprese") office of their Chamber of Commerce, which by appointment offers free assistance to users at all stages of the registration process.

Under the Ministerial Decree of 28 October 2016, Startups established online with a standard model and digital signature may also use the same procedure for subsequent amendments to the founding documents.

The new method is only available to Startups established as limited liability companies (L.L.C. now on). It constitutes a profound innovation in the framework of Italian company law: the principle of establishing a company by notarial deed has been outdated. The main advantages for the user are:

a) Free of charge: there are no specific costs linked to the embodiment of the new company, net of the tax registration of the deed and stamp duty, with a sharp saving for entrepreneurs compared to the standard procedure with a public deed.
b) Simplification: the entire procedure is carried out online, on a dedicated platform, and recognition of the identity of the signatories of the deed is assured using a digital signature.
c) Personalization: In contrast to many other countries that allow companies to be established electronically, the memorandum and articles of association can be widely customized.
d) Voluntariness: those who aspire can always set up an L.L.C. with a standard public deed. Simultaneously (or subsequently) is possible to register it in the special section of the Register.

However, the Italian legislator has recently taken a step backward concerning this facility. In fact, on 29 March 2021, the “Consiglio di Stato” deposited a decision by which it declared that the incorporation of an Innovative Startup cannot take place online. The claim filed by the “Consiglio del Notariato” was thus upheld. In the opinion of the judges, the Ministry's decree of 17 February 2016, had no power to renew the law and was not able to affect the type of acts required to establish an Innovative Startup. In the judgment of the “Consiglio di Stato”, it is stated that the Mise decree "far from limiting itself to transposing the indications emanating from the legislator, went markedly further, ending up by placing itself in contrast with the primary source, in clear contrast with the principle of hierarchy of sources" (Sentenza n. 2643/2021, del 29.03.2021).

It is not clear, at this stage, whether there will be an amnesty for companies previously established online or whether the deed of incorporation will be declared null and void.

2. Exemption from chamber fees and stamp duties (d.l. 179/2012, art. 26, paragraph 8)

   Innovative Startups and certified incubators are exempt from the annual fee payable to the Chambers of Commerce and, as clarified by Circular 16/E issued by the I.R.S. ("Agenzia delle Entrate") on 11 June 2014, from the secretarial fees and stamp duty usually due for the formalities to be carried out at the Companies' Register.

3. Derogations from ordinary company law (Decree-Law 179/2012, Article 26(2), (3), (5) to (7))

   Innovative Startups established as limited liability companies are allowed:

   a) To create categories of shares with particular rights (e.g., it is possible to provide for categories of shares that do not grant voting rights or that grant them in an amount not proportional to the shareholding).
   b) Carry out transactions on its shares.
   c) Issue participatory financial instruments.
   d) Offering capital shares to the public.

   Many of these measures entail a radical change in the financial structure of the L.L.C., bringing it closer to that of the public limited company (P.LC.)

4. Extension of the deadline for covering losses (Decree-Law 179/2012, Article 26(1))

   If operating losses result in a reduction of the company's capital by more than one-third the deadline by which the loss must be reduced to less than one-third is postponed to the second subsequent financial year (instead of the first subsequent financial year). The aforementioned one goes in derogation from the Civil Code. Moreover, this applies also in the event of a capital reduction due to losses below the legal minimum. In this case, the shareholders' meeting, as an alternative to the immediate reduction of the capital and the simultaneous increase of the same to an amount not lower than the legal minimum, may resolve to postpone the decision to the end of the following financial year.

5. Derogation from the rules on shell companies and companies with systematic losses (Art. 26(4) of Decree-Law 179/2012)

Innovative Startups are not subject to the rules on shell companies and companies with systematic losses. Therefore, in case they earn "non-congruous" revenues or have a systematic tax loss, they are not subject to the tax penalties provided for the so-called shell companies. These last consists of the imputation of a minimum income and a minimum taxable base for IRAP purposes, the limited use of VAT credits, the application of the 10.5% IRES surcharge.

6. <u>Exemption from the requirement to obtain the stamp of conformity for the offsetting of VAT credits (d.l. 3/2015, art. 4, paragraph 11-novies)</u>

   The ordinary rules, which require compliance approval for the offsetting of VAT credits above €5,000 through the F24 form, may act as a disincentive for the use of horizontal offsetting (i.e., offsetting of taxes other than VAT). For this reason, the possible exemption from the visa requirement for the offsetting of VAT credits up to EUR 50,000 may bring Startups significant liquidity benefits.

7. <u>Tailor-made labour regulations (Legislative Decree 81/2015, Articles 21(3) and 23(2))</u>

   On the whole, Innovative Startups are subject to the discipline of fixed-term contracts provided for by Decree 81/2015, as amended by Decree-Law 87/2018.

   The Innovative Startup may therefore hire staff with fixed-term contracts of a maximum duration of 24 months. However, within the aforementioned time frame, contracts may also be of short duration and renewed several times, without the limits on the duration and number of extensions provided by the general rule (Article 21).

   Moreover, unlike other companies, Innovative Startups with more than five employees are not required to enter into a number of fixed-term contracts calculated concerning the number of active open-ended contracts (Article 23).

   According to Legislative Decree 81/2015, both of the aforementioned measures apply for a maximum of 4 years (and not 5, like the benefits under Decree-Law 179/2012), calculated from the date of incorporation of the Innovative Startup.

8. <u>Faculty to remunerate staff flexibly (d. l. 179/2012, art. 28)</u>

   Without prejudice to a minimum provided for by collective agreements, the parties may independently establish the fixed and variable components of remuneration, agreed, for example, based on the efficiency or profitability of the enterprise, the productivity of the worker or workgroup, or other performance objectives or parameters, including through instruments of participation in company capital (see next point).

Besides, collective agreements entered into by representative trade unions may define, also at decentralized levels, criteria for the determination of minimum wages specific to Innovative Startups, as well as ad hoc guidelines for the definition of the aforementioned variable part of the remuneration and, in general, for the adaptation of the rules of management of the employment relationship to the development needs of Innovative Startups.

9. <u>Remuneration through equity instruments (d.l. 179/2012, Art. 27)</u>

   Innovative Startups and certified incubators may remunerate their employees through equity instruments (such as stock options), and external service providers through work-for-equity schemes. Income from the award of such instruments does not contribute to the formation of taxable income, neither for tax nor for social security purposes.

10. <u>Tax incentives for equity investors (d.l. 179/2012, Art. 29)</u>

   The Italian Startup Act rewards investments in the venture capital of Innovative Startups, by natural and legal persons, with a considerable tax incentive.

   Its configuration, applicable for venture capital investments made as of 1 January 2017 (Budget Law 2017, art. 1, paragraph 66), provides for the following:

   - For individuals, a detraction from gross IRPEF tax of 30% to 50% of the amount invested, up to a maximum of EUR 1 million.
   - For companies, a deduction from their IRES taxable income equal to 30% of the amount invested, up to a maximum of EUR 1.8 million.

   The incentives, which can be exercised automatically in the tax return, apply both to direct investments in Innovative Startups and indirect investments through UCITS and other companies that invest primarily in Innovative Startups and SMEs. As of 2017, the incentive is conditional on maintaining a holding period in the Innovative Startup for a minimum of three years.

   In 2020, however, the rules governing incentives for investments in Innovative Startups saw a change in the rate for investments by individuals.

   The tax incentive, introduced by the “Decreto Rilancio”, is equal to 50% of the investment made in Innovative Startups (eligible investment up to a maximum of €100,000, for each tax period) within the thresholds set by the "De Minimis" regime Commission Regulation (EU) No 1407/2013 of 18 December 2013.

The procedures for accessing the benefit are regulated by the Inter-ministerial Decree of 28 December 2020. The measure is provided for by the "Decreto Rilancio" (Decree-Law 34/2020, Article 38, paragraphs 7 and 8).

11. Raising capital through equity crowdfunding campaigns (d.l. 179/2012, art. 30, paragraphs 1-5)

In 2013, Italy was the first country in the world to regulate the equity crowdfunding market.

In 2013, Italy was the first country globally to regulate the equity crowdfunding market, including through the creation of a special register of authorized online portals.

Initially envisaged for Innovative Startups only, equity crowdfunding was gradually extended first to innovative SMEs, UCITS, and corporations investing mainly in Innovative Startups and SMEs (2015) and then, with the 2017 Budget Law, to all Italian small and medium-sized enterprises. The instrument falls under the responsibility of Consob, the Financial Markets Supervisory Authority: implementing provisions are given in the Regulation on the raising of risk capital through online portals adopted by resolution no. 18592 of 26 June 2013, updated by resolution no. 20264 of 17 January 2018.

12. Facilitation of access to the SMEs Guarantee Fund (d.l. 179/2012, art. 30, paragraph 6)

Innovative Startups benefit from a simplified, chargeless, and direct intervention of the Guarantee Fund for Small and Medium Enterprises. The latter is a public capital fund that facilitates access to credit by granting guarantees on bank loans.

The guarantee covers up to 80% of the credit provided by the bank to Innovative Startups up to a maximum of EUR 2.5 million. This measure is one of the most helpful benefits for entrepreneurs.

The guarantee is provided in the following forms:

a) Automatic: The Fund does not carry out any evaluation of the Startup's balance sheet data, relying on the due diligence carried out by the credit institution in charge of the operation.
b) Priority: Applications from Innovative Startups or certified incubators are assessed more quickly than ordinary ones.
c) Free of charge: There are no costs for accessing the Fund.

Besides, the credit institution involved cannot request collateral, insurance, or bank guarantees on the part of the financing covered by the Fund.

13. ICE Agency: ad hoc services for the internationalization of Startups (d.l. 179/2012, art. 30, paragraph 7)

ICE Agency assists on regulatory, corporate, tax, real estate, contractual, and credit matters: Innovative Startups are entitled to a 30% discount on standard costs.

14. "Fail fast" (d.l. 179/2012, Art. 30, paras. 1-3)

In case of failure, Innovative Startups can count on faster and less burdensome procedures than ordinary ones to conclude their activities. Specifically, they are exclusively subject to the procedure for the settlement of over-indebtedness crises and liquidation of assets. The exemption, in particular, is from bankruptcy, composition with creditors, and compulsory administrative liquidation procedures.

Innovative Startups are therefore counted among the so-called 'non-bankrupt subjects, to allow them access to simplified procedures for the settlement of the crisis in continuity and to reduce the time for judicial liquidation, limiting the burdens associated with bankruptcy, including its stigmatization from a cultural point of view. Moreover, after 12 months from the opening of the liquidation process, access to data from the Chamber of Commerce concerning the shareholders and corporate bodies of the liquidation is allowed only to judicial and supervisory authorities.

15. Transformation into an Innovative SME (d.l. 3/2015, Art. 4, para. 1)

If successful, Innovative Startups that have become "mature" and continue to be characterized by a significant innovation component may transform themselves into innovative SMEs. In this way, the legislator (d.l. 3/2015) intended to extend its scope of intervention to all innovative enterprises, regardless of their level of maturity.

16. Smart&Start Italia

Established by the Decree of the Ministry of Economic Development of 24 September 2014, and open for applications since 16 February 2015, Smart&Start Italia is a subsidized finance facility managed by Invitalia (the national agency for investment attraction and business development) aimed at Innovative Startups located throughout Italy.50

The aforementioned, following the publication of the Circular of 16 December 2019, provides zero-interest financing to Innovative Startups to cover investment projects of between EUR 100 thousand and EUR 1.5 million, covering up to 80% of the expenditure incurred by the Startup, with an increase to 90% for companies with a female or youth majority. Besides, Innovative Startups based in southern Italy benefit from a non-repayable loan of 30% of the total amount granted.

This measure will be further detailed in the chapter on Subsidized Finance as it is one of the most alluring facilities for Innovative Startups.

17. Italia Startup Visa and Italia Startup Hub

    The Italia Startup Visa program has introduced a new simplified procedure for the provision of entry visas for self-employment to non-EU citizens. People who intend to move to our country to start an Innovative Startup and have a financial availability (personal or granted by third parties, e.g., certified incubators or investment funds) of not less than €50,000 are allowed to obtain the Visa.

    The procedure has the following simplification aspects: it closes in no more than 30 days from the sending of a complete application; it revolves around a committee of representatives of the innovation ecosystem, coordinated by the MISE; it takes place entirely online and is free of charge.

    The Italia Startup Hub program, on the other hand, has fully extended the applicability of the accelerated procedure described above also to non-EU citizens already in possession of a residence permit (obtained, for example, for study purposes), who intend to extend their stay in Italy to launch an Innovative Startup.

18. Investor Visa for Italy Programme

    The 2017 Budget Law introduced in the Consolidated Immigration Act a new type of entry visa for Italy dedicated to non-EU citizens who intend to invest significant sums in strategic assets for the Italian economy. This Visa lasts two years.

    Among the eligible types is an investment of at least 500,000 euros in the capital of Innovative Startups. This is the lowest threshold of the four envisaged: the others are €2 million for investments in government securities, and €1 million respectively for acquisitions of shareholdings in incorporated companies operating in Italy and for philanthropic donations in specific fields (e.g., culture, education, and the environment).

The Innovative SME: the natural evolution of the Innovative Startup

The introduction in 2015 of the Innovative SME regime was the natural follow-up for all companies that, having passed the Startup phase, maintain an evident peculiarity of innovativeness in a technological sense. The definition of an innovative SME is given in Article 4(1) of Legislative Decree 3/2015. Small and medium-sized enterprises, within the meaning of European Commission Recommendation 361/2003, are identified as enterprises employing fewer than 250 people and whose annual turnover does not exceed EUR 50 million or whose balance sheet total assets do not exceed EUR 43 million. If they meet these requirements, they are eligible for these facilities:

- are constituted as corporations, including cooperatives (para. 1, first sentence)
- have their head office in Italy, or in another European Union Member State or States party to the Agreement on the European Economic Area, provided that they have a production site or branch in Italy (paragraph 1(a))
- they have the certification of their latest financial statements and any consolidated financial statements drawn up by an auditor or an auditing firm registered in the register of auditors (sub-paragraph b)
- their shares are not listed on a regulated market (section c)
- they are not already registered in the special section of the Companies' Register dedicated to Innovative Startups and certified incubators (sub-paragraph d)
- finally, the innovative content of the company is identified by the possession of at least two (and not one, as for Innovative Startups) of the following three criteria (sub-paragraph e):
    1) Expenditure on research, development, and innovation amounting to at least 3% of the greater cost and total value of production. The expenditure must be evident from the last approved balance sheet and must be described in the notes to the financial statements.
    2) Employment as employees or collaborators in any capacity, for a quota at least equal to 1/5 of the total workforce, of Ph.D. personnel or who are carrying out a research doctorate at an Italian or foreign university, or in possession of a university degree and who have carried out, for at least three years, certified research activities at public or private research institutes, in Italy or abroad, or, for a quota at least equal to 1/3 of the total workforce, of personnel in possession of a master's degree;
    3) Ownership of at least one industrial patent, relating to an industrial or biotechnological invention, to a topography of a semiconductor product or to a new plant variety, or

ownership of the rights relating to an original computer program registered with the special public register for computer programs, provided that such patent is directly related to the company's object and activity.

Innovative SMEs benefit from most of the facilities provided for Innovative Startups. Some of them are applicable without substantial differentiation between the two types:

3. Derogations from the ordinary corporate rules

4. Extension of the ordinary deadline for covering losses

9. Possibility to remunerate employees and collaborators with equity instruments

11. Possibility to raise capital through online equity crowdfunding campaigns

13. Support from ICE Agency

For some measures, although applicable to both types, special provisions are foreseen for Innovative SMEs:

2. Exemption from only the stamp duty usually due in correspondence with the filing of documents with the Chamber of Commerce, and not also from secretarial and annual chamber fees, as is the case for Innovative Startups.

10. Tax incentives for Equity investors, these investments apply in the same way as for Innovative Startups only if the company has made its first commercial sale less than 7 years ago.

12. The simplified intervention of the Guarantee Fund for SMEs contrary to the provisions for Innovative Startups, access to Guarantees for SMEs is not automatic but subject to an assessment of creditworthiness by the Fund. In particular, access to the guarantee is not permitted to companies in the lowest rating band of the five available.

Paragraph 2: Equity from Innovative Startups' point of view

Source of financing

Funding a Startup can be done in several ways. There are four resources used to fund a company with a development process underway. The most commonly used are Equity and Debt, forms of financing that intervene in the composition of Balance Sheet Liabilities to find new resources for the company. However, these two forms of financing are not always the best way to fund a fast-growing company such as a Startup. The other forms of financing, often ignored, concern access to forms of financing offered by the Government such as Facilitated Finance, national public tenders, the possibility of saving liquidity through Tax Credits.

The objective of this thesis is to provide the reader with a cross-sectional point of view to better understand which are the best sources to use in Startup financing.

The abovementioned analysis will be carried out to provide the means to understand how to structure a Multi-source financial plan that allows for an efficient financial strategy.

The 5 phases of Equity investments

The first source of funding we are going to analyse is Equity. Intended as Share Capital, it represents the capital contributed by shareholders to the company. The Equity Capital is also defined as risk capital: in case of default, the company will first have to settle all liabilities in order of priority and, subsequently, redistribute to the shareholders the capital initially paid for the remaining amount (if any).

Equity is a crucial financial instrument used by many Startups and SMEs to accelerate their growth through the entry of new capital. The main point is that Startup needs to grow. The very definition of Startup allows us to understand that the Startup phase is desirable only as a passage for the entrepreneur who wants to invest in his ideas. Equity investments allow us to analyse an important aspect of a Startup's business. We can highlight as many as 5 different phases in the life of a new venture. Understanding well which phase the company is in can allow us to structure an efficient funding strategy and evaluate both positive and negative aspects of each source.

The 5 different phases we can highlight are:

1. Idea phase
2. Startup phase

3. Growth phase
4. Expansion phase
5. Exit phase

A relevant concept in structuring an efficient financial strategy is that a Startup always starts by being an idea. The differences between the two Startups can be almost infinite. Some examples are Governance, corporate structure, legal form, core business, etc. But the only factor that all Startups in the world have in common is the idea. This assumption allows us to have a full understanding of how little is needed to make an entrepreneurial project fail. Often the structuring of financial strategies must be based only and simply on an idea and this, more than any financial evaluation, adds a lot of uncertainty to the results of the forecast. For this reason, having a complete picture of which is the best source to adopt, or what mix of them will allow the idea to become a business, is essential. The second phase is where the Startup is structured. The first steps concern the incorporation of the company, the creation of a business plan, and the identification of customers to whom to target their products or services. Many professionals invest in the Startup phase. Later we will analyse their characteristics. The third stage is when the company is well structured, make revenues, and has a team in place. At this stage, the company also has a solid product or service to offer in the market. The growth phase is represented by the achievement of the breakeven point and is the phase in which the first marginalities are obtained through the generation of Profits. The expansion phase, on the other hand, is usually represented by the desire to offer more products or services to increase Revenues. This can happen in the same market or new markets. More and more often we see in this phase also companies that want to internalize some processes of the supply chain in order to expand their presence in the market through M&A processes. The last phase concerns the so-called exit. The exit strategy is the strategy of selling one's shares in a Startup. It is ordinarily considered the goal of a Startup because it is the moment when both founders and investors can maximize their profits by collecting capital gains. The present refers to the monetization of the increased value of the company. There are 4 different ways or modalities to carry out an exit strategy, each of them responding to a different, and sometimes contrasting need:

1. Acquisition: Listed in the first place as it is the one taken into consideration most of the time, it involves the sale of the Startup to a large company that aims to make as much profit as possible from the targeted Startup.
2. Acquihires: The second exit strategy gets its name from the combination of two words, acquisition and hiring. It involves the "purchase" of the target company by an organization

primarily interested in human capital. The company that decides to do this is not interested in the product or service offered, but rather in the skills of the people within it. This involves the possibility the Startup could disappear or take a back seat as the team will be employed to run other services that the acquiring company owns or is developing. It's a technique that's very much in vogue among American Big Companies like Google, Facebook, or Twitter who buy companies mainly for the skills and abilities that the Team possesses, using them for their purposes and objectives.

3. M&A: According to this methodology, a large company decides to acquire the Startup through a merger process. This choice allows access to the know-how of the acquired company to provide the buyer the opportunity to develop internally a part of business that, without a well-defined collaboration, would be more complicated to develop externally and would therefore require more effort. In this scenario, we face two companies working together to achieve outstanding objectives and greater competitiveness in the market. A great example of this strategy is that between Facebook and Whatsapp, a winning solution for both in which you acquire skills and tools that grant to aim for faster growth.
4. IPO: The entry into a stock market puts the Startup in front of the decision to sell shares. The entry into a stock market is made through what is called IPO (Initial Public Offering). A decision that can be beneficial if the Startup has reached a good level of maturation and if the company continues to expand the business due to the capital of the shareholders who believe in the project. However, this is not always the best solution through reach capital and later on we will understand why.

Main Investors

Depending on which stage of life a Startup is in, we can have different investors. Within this thesis, we will proceed with the analysis of typical investors in Startups in a chronological order. To be able to analyse the pros and cons of each type, we will consider the following characteristics:

- Corporate constraints
- Financial capabilities
- Numerical enlargement of the Cap Table
- Business development capability
- Propensity to exit

Founders

The first investors within a Startup are the founders themselves. They can invest both through the contribution of money and time to devote to the project. One of the most important signals of trust when evaluating the Cap Table (i.e., composition of Capital Structure) of a company is to understand how much equity the founder has contributed. Funding from founders can be more or less significant, but it has two main advantages. The first is independence from the resources of other investors, which in the short to medium term can determine the success or failure of the company. The second is the reputational advantage created by having invested one's resources in the company. Assuming that we are faced with a bank requesting debt, a sign of enormous confidence in the project on the part of the founder is given by the fact that he has invested his savings in the business project.

Typically, when we have one founder, we don't have any Corporate constraints. Conversely, there may be when we have multiple founders. As mentioned above, the Financial resources can be more or less consistent but tend to be limited. There is no Numerical enlargement of the Cap Table because it is assumed that the company has just been established. With regard to the Capability to develop the business and the Propensity to exit, they are assumed in the same entrepreneurial project of the founder.

Friends&Family

"Unlike publicly held firms, small businesses in the Startup stage finance their operations with insiders' capital such as owners' equity, funds from family and friends. As the business grows, outsiders' sources of capital may become available."
(The evolution of financing structure in US startups, 2017, p. 19)

More and more often, when founders do not have high financial capacity, they have recourse to less conventional financing tools such as the so-called friends and family. In Italy, it is a very deep-rooted method of initial financing to ask Friends&Familiy for money on loan. The main advantage of this type of financing is often the low credit rating of the founder, compared to the alternative of borrowing money from the bank. Although it may seem risky, requesting money from Friends&Family can be another sign of confidence in the project on the part of the entrepreneur. Concerning the characteristics to be taken into account, they usually foresee few social constraints, can have a more or less widespread capacity for financial resources and do not usually involve a very significant enlargement of the social structure. They tend not to have the capacity for business development and have an ordinary propensity for exit aimed essentially at the repayment of the capital loaned. This category of investors is often identified in the United States as FFF, which stands for Friends, Family and Fools.

Business Angels

While FFFs usually have a direct relationship with the business founder, Business Angels tend to have a direct relationship with the business. They are investors who are betting on their own and other partners' abilities to make profitable investments both for themselves and for the selected Startups. They are managers, professionals and entrepreneurs conscious about risks inherent in high-potential investments and they know that the results will be seen in the medium-long term. Above all, they believe in the strength of the unique mix of skills, experience, and relationships of the group of partners to support young technology companies in their growth path. Business Angels include in their investment contracts some corporate constraints and have an investment size that can vary between a few tens of thousands of euros up to more than a million. As for the enlargement of the social structure, investments are often made by Business Angels associations. In Italy, the most famous are Italian Angels for Growth (IAG) and Italian Business Angels Network (IBAN). The investment can be supported by a single Business Angel or by several belonging to the network.

Incubators&Accelerators

According to the reference legislation (d.l. 179/2012, art. 25, paragraph 5), a certified incubator is a corporation, also constituted as a cooperative, resident in Italy, which offers services to support the birth and development of Innovative Startups and has the following requirements:

- it has facilities, including physical locations, adequate to accommodate Innovative Startups, such as spaces reserved to be able to install equipment for testing, verification, or research
- it has equipment suitable for the activity of Innovative Startups, such as ultra-wideband access systems to the internet, meeting rooms, machinery for testing, trials, or prototypes
- is administered or directed by persons of recognized competence in the field of business and innovation and has a permanent technical and managerial advisory structure at its disposal

- has regular collaborative relationships with universities, research hubs, public institutions, and financial partners that carry out activities and projects related to Innovative Startups
- has adequate and proven experience in supporting Innovative Startups

Incubators and Accelerators tend to carry several corporate constraints and have good financial capabilities. They don't involve much enlargement of the corporate structure since they usually invest as a single legal entity. This can change when the Incubator is backed by a Venture Capital fund. The possibility of investment by an Incubator often lures other investors to follow up on the financing. This "sponsorship" function often attracts many Business Angels to invest, who trust in the support offered by Incubators to Innovative Startups. They have solid business development skills and a highly variable propensity to exit. One of the most well-known Accelerators in Italy, probably the most prominent, is Luiss Enlabs. This accelerator is supported by LVenture Group, a venture capital fund listed on the MTA market.

Equity Crowdfunding

The Italian legislation on Equity Crowdfunding has undergone a process of strong simplification in recent years. simplification and strengthening. The 2017 Budget Law, better detailed by the subsequent D.L. 50/2017, extended the faculty to launch campaigns, previously reserved to Startups and Innovative SMEs, to all Italian SMEs. Legislative Decree 129/2017 then amended certain rules of the "Testo Unico della Finanza" (TUF), specifying the relevant notion of SME, extending the list of "de jure" managers to SGRs, SICAVs, and SICAFs, and requiring the portal manager to adhere to an indemnification system to protect investors or to take out professional liability insurance that provides equivalent protection to clients. Finally, the 2019 Budget Law (Law 145/2018) introduced the possibility for authorized equity crowdfunding portals to place bonds issued by SMEs "to professional investors and to particular categories of investors eventually identified by Consob (...) in a section of the portal different from the one where the venture capital raising takes place".

In October 2019, Consob published a new edition of the Regulation that makes explicit the rules for the offering of debt instruments by bidders and the possibility for crowdfunding portal operators to set up an "electronic bulletin board" to allow users to post expressions of interest for sale or purchase relating to instruments covered by campaigns that have already been completed.

The data of the Crowdinvesting Observatory of the School of Management of the Politecnico di Milano are now the point of reference in Italy for the sector. The annual report published in July

2019 highlights the continued growth of the market, thanks also to the Startups operations in the real estate sector. As of December 31, 2019, there were 39 portals registered in the register of operators maintained by Consob: 37 authorized by the same Commission and registered in the "ordinary section", and 2 operating by right based on current legislation and belonging to the "special section" of the Register, which banks and investment firms authorized following the prescribed notification to Consob can access ex lege. During 2019 the new authorizations granted were 9; the platforms that have published projects are 27, of which 21 have been active in the last 12 months. Despite the entry of new players, there has been a certain concentration of volumes in the leading platforms. The record for the number of projects published (98) belongs to Crowdfundme, followed by Mamacrowd (86) and Opstart (63), which are the most well-known crowdfunding platforms in Italy.

Funding through Equity Crowdfunding platforms consists of the possibility offered to anyone to invest in the Risk Capital of the Startup. The investment needs to be executed through the platform and subsequently, the investor earns the status of partner. There are several similarities with an actual IPO because the firm is referring to an undefined audience and it is obliged to a severe disclosure of information. All this involves an enormous enlargement of the social structure.

Venture Capital

To better define the concept of Venture Capital, the concept of Private Equity must be analysed in advance. Venture Capital represents a particular declination of the latter. Private Equity is defined as the activity of investment in the Risk Capital of unlisted companies, to enhance the value of the company is an investment for its disposal within a medium to long term period term.

In the broader sense of Private Equity, it is usual to identify the species of Venture Capital, in the sense that: "Venture Capital is not a different and distinct activity from Private Equity, but rather a particular Private Equity activity aimed at financing the company in the early stages of its life cycle. The activity of Venture Capital concentrates, therefore, on investments in the early stages of the entrepreneurial cycle that are particularly delicate and adventurous.

(Gervasoni, 2020)

The main characteristics highlighted by Venture Capital are as follows. They are used to impose many corporate constraints on the Startups in which they invest. They tend to have considerable extended financial capacities and do not involve a meaningful enlargement of the corporate structure. Nevertheless, the Venture Capital fund that decides to invest in a company usually covers

100% of the financing round. That may exclude the possibility of investment by other investors too. While it is not excluded that to be able to enter the social structure, the Venture Capital fund requires the company to reduce the number of partners already in the company. At this point in the writing, a reflection on the corporate structure is preliminary to a general understanding of the theme. The theme of the enlargement of the latter represents an increasingly important factor in the world of Equity. A greater number of partners in the company corresponds to a slower administrative and operational management. However, it may be a problem for Venture Capitalists, as for all other stakeholders in the company. The Startup, by definition, must be a flexible company. This characteristic needs to be reached by the Board of the company. In addition, the possibility of having many shareholders exponentially multiplies the variables to be considered in terms of the Capital Increase and may lead to a lack of unity of intent within the social structure.

Club Deal

Club Deals are investment syndicates of which High Net Worth Individuals are members. The latter are identified as individuals with considerable fortunes who are looking for investment opportunities in the market. For this reason, Club Deals are often administered by Private Bankers. In Wealth Management, it is frequent for large amounts of assets to be invested in listed securities such as stocks, bonds, or investment funds to achieve high returns. More and more often, part of these investment portfolios is placed in so-called "Alternative Investments" or "Illiquid Securities". Private Bankers in charge of the administration of the Club Deal select the investment in the Startup of interest and raise capital from High-Net-Worth Individuals. Subsequently, the investment vehicle (the so-called NewCo) is created. Within the vehicle, the investment shares of the respective investors are subscribed. In this way, only the NewCo invests in the share capital of the Startup. This ensures that there is no enlargement of the social structure beyond the single NewCo that enters, although the investors in the NewCo could be hundreds. There could be several corporate constraints. On the other hand, financial capabilities could be very high and substantial.

Private Equity

The definition of Private Equity given above emphasizes that the main function of Private Equity is to invest in unlisted companies. As mentioned earlier, Private Equity and Venture Capital have many aspects in common. Despite this, there are some differences. The main difference concerns the size of the investment. PE invests larger amounts in more structured companies than Startups.

Other meaningful differences between PE and VC are as follows. Venture Capital invests in companies to obtain a Capital Gain, which is substantially realized with the exit. This involves that Venture Capital investments are mainly executed by Capital Increases. As far as Private Equity is concerned, however, this is not the case. In most cases, PEs invest in companies by purchasing shares on the secondary market. For this reason, there is no Capital Increase. In this way, the "old" partners of the company have the possibility to make a total or partial exit from it. Thus, PEs are not interested in bringing new finance into the company. Another key difference is that PEs invests in companies that already have a marginality. They aim to enter to be able to increase that marginality. For this reason, PEs often enter using the multiples method of valuation. They intend to ensure that the exit multiple is higher than the entry multiple. Hence, PE often acts into the day-to-day operations of the firm, seeking to improve the efficiency of processes and improve margins to ensure that the exit multiple is higher. In addition, it is not uncommon for PEs to invest in minority stakes of companies.

Corporate Equity

As mentioned earlier, increasingly large companies are implementing acquisition processes aimed at Startups and SMEs. Therefore, these types of investments do not assume the characteristics of financial investments but of industrial transactions. The objectives with which they implement these investments are to obtain synergies from the acquisition of the target. Large firms acquire smaller ones to implement new skills within their commercial strategies or expand the business faster. Starting from scratch to develop a new front, especially in an economic scenario where the speed of development of technologies induces to quickly change the strategies themselves, and it is easier to acquire the know-how already developed by other companies.

Often the advantage of Startups lies in their small size and the speed of their internal processes, characteristics that allow them to penetrate a new-born and rapidly evolving market. Unlike large companies, Startups are often more successful in building a sales channel and a client portfolio. Large companies intervene when Startups have consolidated their position in a new market and represent a point of reference within a specific sector.

IPO

An Initial Public Offering (IPO) is a process by which a company offers shares to an undistinguished group of investors for the first time, to list on a stock exchange. The latter is a very long and complex process that requires the company to fulfil three different factors. First, the company's business must meet the formal and substantive requirements for listing. It typically involves strategically strengthening certain functional areas such as administration and/or finance. Besides, the company must have a concrete business plan to submit to investors, complete with forecasts, information systems, and reporting aimed at improving the efficiency of management control. In addition, an adaptation to the "best practices" inherent to the provisions of the TUF on Corporate Governance is foreseen. The main listing market for Italian SMEs is the AIM (Alternative Investment Market). AIM Italia is dedicated to dynamic and competitive SMEs looking for capital to finance growth thanks to a balanced regulatory approach designed for the needs of ambitious companies. AIM Italia offers a listing process tailored to the structure of small and medium-sized enterprises, based on the central figure of the Nomad, who follows the company during the admission phase and throughout its permanence on the market. Created in 2009, AIM Italia offers a simplified path to listing, compared to the MTA market, minimum access requirements, and obligations calibrated to SMEs. (Borsa Italiana, s.d.).

Valuation

In this sub-section, we will analyse the various evaluation methods for Startups. Before delving into the topic of Valuation, we will make some essential considerations regarding Equity Investments and related Capital Increases.

In terms of Equity Investment, the so-called Pre-Money Value of the company is of fundamental importance. Pre-Money Value means the value of the company before the Capital Increase. On the other hand, by Capital Increase, we define the amount of money required as financing by the investor during the Round. The sum of Pre-Money Value and Capital Increase constitutes the Post-Money Value of the company, i.e., the value of the company after the injection of new finance.

The basic assumption during a Capital Increase lies in the following proportion:

$$\text{Pre-Money Value} : \text{Share Capital BCI} = \text{Post-Money Value} : \text{Share Capital ACI}$$

In this case, BCI stands for “Before Capital Increase” and, on the contrary, ACI stands for “After Capital Increase”. By respecting the above proportionality, the balance between the initial valuation of the company made by the shareholders and the valuation of the investment made by the investor is guaranteed. However, during a Capital Increase, the amount paid by the investor is not fully accounted for as a Share Capital Increase. Therefore, the following formulas are introduced:

Post-Money Value = Pre-Money Value + Total Capital Increase

Share Capital Increase = Share Capital ACI – Share Capital BCI

Share Premium Reserve[1] = Total Capital Increase – Share Capital Increase

The function of the above formulas is to make the capital increase proportional to the existing Share Capital. For example, most of the Startups set up in the last 10 years have taken the form of an L.L.C. (limited liabilities company, i.e., "S.R.L."). Companies of this type are obliged to set it up with a capital of at least €10,000.00. To make the mechanism clear, we will continue with an example. Supposing that an investor wanted to make a Capital Increase of € 1,000,000.00 for 50% of the company, and the company was established by a sole shareholder with a capital of € 10,000.00, the assessments to be made would be as follows:

Total Capital Increase: € 1,000,000.00 for 50%

Post-Money Value: € 1,000,000.00 / 50% = € 2,000,000.00

Pre-Money Value: € 2,000,000.00 - € 1,000,000.00 = € 1,000,000.00

Share Capital BCI: € 10,000.00 ⇒

Share Capital ACI: (10,000.00 × 2,000,000.00) / 1,000,000.00 = € 20,000.00

Share Capital Increase = € 20,000.00 - € 10,000.00 = € 10,000.00

Share Premium Reserve = € 1,000,000.00 - € 10,000.00 = € 990,000.00

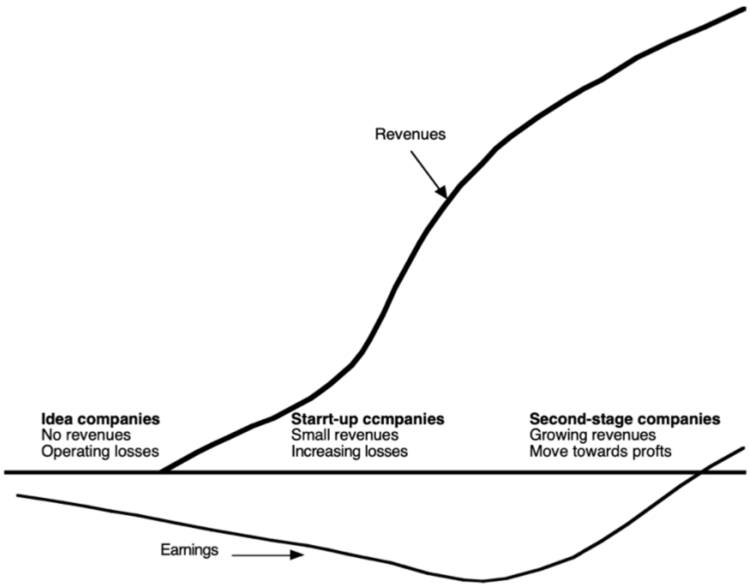
After having clarified the dynamics of a capital increase in Equity, we will go into the issues concerning the Pre-Money Value of the company. The starting point of this analysis is that there is no standard valuation method for a Startup. On the contrary, depending on the stage the company

[1] Share Premium Reserve in the meaning of "Riserva da Sovrapprezzo Azioni", Balance Sheet – Liabilities (A2)

is at, we can apply different valuation methods that each have their strengths and weaknesses. That said, it should be made clear that the only fair valuation of a Startup is when the agreement between the founder and the investor is reached. The following considerations on the various valuation methods may lose their realism in practice as they do not consider relational, environmental, or situational factors.

At this juncture, we can safely say that to best evaluate a Startup, the first crucial step is to identify the stage the Startup is in. Thanks to the following graph[2], the fundamental moment, which marks the subsequent reflections, is the identification of the Break-Even Point concerning when the company begins to generate profits.

Figure 1: The Early Stages of the Life Cycle



In this sub-section, we will focus on analysing the best valuation methods within the seed and Early-Stage phases. Ideally, we can identify the seed stage as the stage in which no revenues are yet produced by the company. Instead, as Early Stage, we can identify that stage in which, although there are Revenues, the EBITDA of the company is still negative.

For this reason, we can identify 4 different methods for valuation of Startups in those stages of life cycle:

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[2] *Damodaran Aswath*, Valuing Young, Startup and Growth Companies: Estimation Issues and Valuation Challenges.

- Risk Factor Summation Method
- Scorecard Method
- Venture Capital Method
- First Chicago Method

Risk Factor Summation Method

This method was first used by Ohio Tech Angles and is one of the ways in which the Pre-Money Value of a Startup can be calculated. It is described as follows:

"Reflecting the premise that the higher the number of risk factors, then the higher the overall risk, this method forces investors to think about the various types of risks which a particular venture must manage in order to achieve a lucrative exit. Of course, the largest is always 'management risk' which demands the most consideration and investors feel is the most overarching risk in any venture. While this method certainly considers the level of management risk it also prompts the user to assess other risk types" including management, stage of the business, legislation/political risk, manufacturing risk, sales and marketing risk, funding/capital raising risk, competition risk, technology risk, litigation risk, international risk, reputation risk, potential lucrative exit. "
As the description of this method suggests, the Risk Factor Summation Model is based first and foremost on the identification of a cluster of comparables. Subsequently, the median value of the comparables is identified as the starting value. Hence, this method aims to adjust that value to achieve an efficient valuation. The RFS method adjusts the target value by considering a range of 12 risk factors. Each factor is then rated on a scale ranging from -2 to 2:

Risk Factor Coefficient	Pre-Money Valuation Adjustment
2	+ $ 500.000
1	+ $250.000
0	-
-1	- $250.000
-2	- $500.000

The risk factors to be considered for the implementation of the RFS method are the following:

1. Competition risk: Corresponds to the risk for the actions that may be taken by competitors and that may have a negative impact on economic activity. For example, product scalability, the risk of fast entry of competitors into the market served, innovation risk, the risk of competitors serving customers first or charging better prices, the risk of competitors entering into agreements with suppliers, and, finally, the risk of foreign competition.
2. Management risk: This coincides with the risk that management may make bad decisions that negatively affect the overall interests of shareholders. In this sense, it is essential to observe the development of talent within teams, motivation, and the possibility of retaining the best managers in the long term.
3. Legislation/Politic risk: This is the risk associated with harmful or beneficial legislation and harmful or beneficial policy changes. Examples include taxation of the product or service, stricter regulations, stricter labour regulations, and general macroeconomic risks.
4. Sales and Marketing risk: This risk includes potential losses and strategic failures of the marketing and sales team. This risk is closely linked to the management risk.
5. Technology risk: Technology risk contains the potential technological failures that can destroy the Startup business idea. Startups, especially technology Startups, face strong competition and potentially rapid product obsolescence.
6. Exit Value Risk: Assesses the exit opportunities for the investor. The first component of this risk to be assessed is the industry sector of the Startup. The risk increases if the sector is considered unattractive by investors. The second aspect that the expert must consider is the willingness of the founders to sell part of their shares in order to attract new investors, especially those who intend to have a majority stake. The risk increases if the founders are more reluctant to sell further capital.
7. Manufacturing/Supply Chain risk: Corresponds to risks affecting the product manufacturing process or service formulation. Within this category, the assessor must look at the individual components of the product [design, packaging, and any technical limitations].
8. Stage of the business: Expresses the status quo of the Startup and assesses how risky it is to continue with the business idea. The risk will be evaluated positively if the business concept aims at satisfying a market niche, if it is well planned and if, in the

long run, it can be easily developed. At this stage, if the proof of concept has already been tested and judged positively and if customers have already started to use the product or service, the risk decreases and can be positively assessed.

9. Reputation risk: This risk may be mainly related to customer feedback. Thus, customers may, after having started to use the product, report operational errors. Finally, the Reputational risk may be related not to the business idea but to the Startup as a whole.
10. Litigation risk: This refers to the risk that the Startup will face lawsuits.
11. International risk: Corresponds to the risk arising from international commercial transactions.
12. Funding/Capital raising risk: Expresses the risk related to the Startup's ability to raise the capital it needs.

Although it may seem a simple evaluation method to use, it remains one of the most effective around. As mentioned above, there is no standard methodology for the Pre-Money valuation of a Startup. However, the implementation of different valuation methods allows us to obtain an optimal valuation range for the target.

Scorecard Method

The Payne Scorecard Method[3] was described by Bill Payne in an article in 2001 and then revised in 2011. The method was developed for small Startups in the seed stage with a Pre-Money value (before business angel investment) between \$1 and \$2.5 million.

In his method, Payne lists seven qualitative factors of strategic importance to the company's ability to survive and eventually turn into a profitable enterprise. Each of these factors is weighted according to its relative importance in ranking the company's valuation. The sum of the factor values must add up to 100%. When the weight of one or more factors is reduced/increased, the remaining factors must be adjusted so that the total is equal to 100%.

[3] Payne, Bill. "Scorecard valuation methodology." Establishing the Valuation of Prerevenue, Startup Companies. Dostępny pod adresem: http://docplayer. net/14290190-Scorecard-valuation-methodologyestablishing-the-valuation-of-pre-revenue-Startup-companies-by-billpayne. html (2011).

This method compares the target company to typical angel-funded Startup ventures and adjusts the average valuation of recently funded companies in the region to establish a Pre-Money Valuation of the target. Such comparisons can only be made for companies at the same stage of development, in this case, for pre-revenue Startup ventures.

The first step in using the Scorecard Method is to determine the average Pre-Money valuation of pre-revenue companies in the region and business sector of the target company. Pre-money valuation varies with the economy and with the competitive environment for Startup ventures within a region. In most regions, the Pre-Money valuation does not vary significantly from one business sector to another. The next step in determining the Pre-Money valuation of pre-revenue companies using the Scorecard Method is to compare the target company to your perception of similar deals done in your region, considering the following factors:

- 0–30% Strength of the Management Team
- 0–25% Size of the Opportunity
- 0–15% Product/Technology
- 0–10% Competitive Environment
- 0–10% Marketing/Sales Channels/Partnerships
- 0–5% Need for Additional Investment
- 0–5% Other

To provide an example, assume a company with an average product and technology (100% of norm), a strong team (125% of norm), and a large market opportunity (150% of norm). The company can get to positive cash flow with a single angel round of investment (100% of norm). Looking at the strength of the competition in the market, the target is weaker (75% of norm) but early customer feedback on the product is excellent (Other = 100%). The company needs some additional work on building sales channels and partnerships (80% of the norm). Using these data, we can complete the following calculation:

Comparison Factor	**Range**	**Target Company**	**Factor**
Strength of Entrepreneur and Team	30% max	125%	0.375
Size of the Opportunity	25% max	150%	0.375
Product/Technology	15% max	100%	0.150
Competitive Environment	10% max	75%	0.075

Marketing/Sales/Partnerships	10% max	80%	0.080
Need for Additional Investment	5% max	100%	0.050
Other factors (great early customer feedback)	5% max	100%	0.050
Sum			**1.075**

Multiplying the Sum of Factors (1.075) times the average Pre-Money valuation of $2.0 million (for example); we arrive at a Pre-Money valuation for the target company of $2.15 million. The question one might wonder is how the weight of each variable can be calculated. Payne has drawn up a worksheet that makes this possible. This worksheet is included in the appendix of this paragraph.

Venture Capital Method

This is the preeminent valuation method and is based on discounting the Terminal Value. According to this method, the intention is to forecast the Terminal Value of the Startup in the exit year.

The venture capital method is widely used in practice. As first described by Sahlman and Scherlis[4] of Harvard Business School in 1987:

"The model estimates the Post-Money valuation of a company and the percentage of equity that an investor might want to invest in a new round of financing in order to achieve his or her payback goals considering various risk factors."

The VC estimates the Post-Money valuation of a company as the value of the exiting company discounted at a discount rate representing the Target Return of the Venture Capital up to the date of the Exit. In detail, the evaluation is carried out through three basic steps well delineated in the paper by Montano, Gervasio and Pulcini[5]:

- The first step is assessing the expected cash flows (Damodaran, 2009). The time horizon is from two to five years. Generally, the time horizon coincides with the moment when the venture capitalist considers selling or making the Startup public (Sammut, 2012). The future projection of cash flows is based on a single scenario that one considers more realistic (Goldman, 2008).

[4] Sahlman, William A., and Daniel R Scherlis. A Method For Valuing High-Risk, Long-Term Investments: The "Venture Capital Method". Harvard Business School Background Note 288-006, July 1987. (Revised October 2009.)

[5] Montani, D., Gervasio, D., & Pulcini, A. (2020). Startup Company Valuation: The State of Art and Future Trends.

The value at the end of the time horizon (Terminal Value) is assessed, with an equity side approach, by multiplying expected cash flows with the equity multiple (e.g., P/E), which is defined based on market prices given to comparable companies.

- The terminal value as determined is discounted by a very high discount rate (Bhagat, 2014) that represents the rate of return requested by the venture capitalist to get the net present value (NPV).
- In the end, in return for equity invested, the venture capitalists get an equity share (Pepis et al., 2018). To establish it, the company's post-money value must be calculated, and it is equal to the sum of the NPV Pre-Money and investment amount given by the venture capitalist (Visconti, 2020)

$$\text{NPV Post-Money} = \text{NPV Pre-Money} + \text{Investment Amount } (I_{0,VC})$$

The equity share that must be given to the Venture Capitalist is determined by dividing the capital increase with the Post-Money value (Damodaran, 2009). In summary, the venture capitalist that invests I0, VC wants in return shares with a value of (at least):

$$I_{0,VC} / \text{NPV Post-Money}$$

The formula showing the pre-money value is the following (Keeley et al., 1996):

$$Net\ Present\ Value\ (NPV)\ pre\text{-}money = \frac{P_{T,VC}}{\prod_{t=1}^{T}(1+R_{t,VC})} - \sum_{t=1}^{T} \frac{I_{t,VC}}{\prod_{\tau=1}^{t}(1+R_{\tau,VC})} - I_{0,VC}$$

Where:

$P_{T,VC}$ = Venture Capitalist's estimate of company value at T

$I_{t,VC}$ = Venture Capitalist's estimate of additional investment required at time t

$R_{t,VC}$ = Venture Capitalist's one-year discount rate to discount from t to t-1

$I_{0,VC}$ = Net Present Value of initial investment

The VCM is a commonly used method to assess a Startup's value, especially in the pre-revenue stage (Payne, 2011a). However, the VCM also has limits. One of the most important is the discount rate used (Goldenberg & Goldenberg, 2009). Some authors outlined that it is not correct to incorporate the default risk of the company into a high rate determined in an arbitrary way (Steffens

& Douglas, 2007). Moreover, incorporating default risk in the discount rate means considering the first as constant over time, during the entire company life cycle, but this assumption is an unrealistic assumption (Damodaran, 2009). Another VCM limit is the inability to consider many scenarios. It should be noted that there are also some ―modified‖ venture capital methods (Babiarz, 2016), but they are not well-known and little used.

The First Chicago Method

The first fund that used this method was the Chicago corporation, from which the name come from. This model mixes elements of the Expected Results Approach and the Market-oriented Approach (Hashemi, 2015). The First Chicago method (FCM) could be considered as an evolution of the VCM, from which it diverges by using an inferior discount rate and the Terminal Value is replaced by the Net Present Value of investment calculated as the average of the Startup's value in different scenarios (Majercakova & Mittelman, 2018). The peculiarity of the FCM lies in considering three possible scenarios (Achleitner & Lutz, 2005): The so-called "best guess", i.e., the most likely situation (generally, an intermediate case), the best scenario and the worst scenario. A probability of occurrence is assigned to every scenario that is subjective (Steffens & Douglas, 2007). However, the FCM considers different scenarios, assesses the probability of occurrence for each one, and it calculates the Net Present Value of expected cash flows weighted by probability, using a lower discount rate than that used by the VCM. In analytical terms, a Startup's value, for each scenario, is composed of two elements. The first element is the Net Present Value of the company when it will be sold, and the second element is the Present Value of cash flows until the moment of planned divestment (Babiarz, 2016):

$$PV_i = \sum_{t=1}^{h} \frac{CF_t^i}{(1+r)^t} + \frac{TV_i}{(1+r)^h} \rightarrow PV = \sum_{i=1}^{3} p_i \, PV_i$$

Where:

i = scenario index

h = time to exit

PV = present value

CF = cash flows in period t

TV = terminal value

The method is developed in three phases:

- In the beginning, it is necessary to define the three scenarios, preparing a financial forecast for each one. Generally, the optimistic scenario provides for high sales growth, the intermediate scenario includes what the forecaster expects, and the worst scenario considers default by the company.
- In the second phase, the cost of divestiture in each scenario is calculated using market multiples (comparable transactions selected considering the following factors: type of business, geographical location, and the phase of the company life cycle). It is the terminal value at the moment of divestment.
- In the end, there is a determination of the Startup's value. It is equal to the sum of the net present value of each scenario (the terminal value plus expected cash flows until the moment of planned divestment) weighted by the probability that each scenario occurs (Hashemi, 2015).

In contrast with the VCM, the FCM has the merit of considering more scenarios, allowing more prudent and realistic valuations. An additional advantage of this method is the identification of some specific risks associated with Startups. However, the FCM also has limits. It does not consider potential changes in the situation, and it is most suitable for Startups that already generate revenue (Demyanova, 2018).

Paragraph 3: Debt financing for Startups

The change of mindset

Equity and Debt are the most used forms of funding. The different nature of these two forms of financing, however, imposes different mindsets. In terms of Equity, the most valuable variables are profitability, marginality, and the business of the Startup. Furthermore, in terms of Capital Increase, other very important variables for investors are the composition of the Team and other aspects of a more aleatory nature. We can affirm with a fair degree of certainty that Equity side operations live by sentiments of both the parties involved. Although a high degree of technical, economic, and legal competencies is often required, Equity investments can be compared to a real gamble. And like all bets, in the end, the emotional component rules. On the other hand, Debt mechanisms are much more mechanical than Equity financing. What needs to be demonstrated during a Capital Increase is that the team is bright, and the investment will lead to a scale-up with large profit margins. Instead, when dealing with the bank, the Startup must exhibit its solidity and creditworthiness. The only crucial variable considered by the bank is whether the company will be able to punctually repay its debt.

What banks look at

In this sub-section, we will try to provide a general overview of what variables a bank takes into consideration before funding a Startup. The issues addressed in this section would require further in-depth analysis of Risk Management, which, however, are far removed from the aim of this paper. For this reason, the discussion will be very concise and will allow the reader to obtain a viewpoint, albeit a reduced one of the functioning of bank financing.

The discipline of credit is constantly changing. Following the 2008 Financial Crisis, banking regulations on the prudential capital to be held have been tightened. In response to the fragility of the financial system following the collapse of Lehman Brothers, a set of rules known as Basel III was introduced in 2011. The regulator's purpose, in that case, was to create a regulatory framework that would improve not only the resistance of the system but also its resiliency. The new measure sought to strengthen the banks' ability to absorb shocks arising from financial and economic stress. The crucial aspects of banking that the regulator sought to improve with the implementation of Basel III were the following: adequate capitalization, prudent risk management and prudent liquidity management.

It is precisely the understanding of what *adequate capitalization* means that is crucial and is reflected in issues of interest to us such as the financing of Startups. Before proceeding, it is necessary to clarify what the core business of the bank is. For this reason, we will refer to the definition of the Banca d'Italia:

"In the Italian legal system, banking activity is defined as the joint exercise of the activity of collecting savings from the public and the activity of granting credit (Article 10 of the Consolidated Banking Act, Legislative Decree No 385 of 1 September 1993, as subsequently amended and supplemented). (...) The main economic function performed by the bank is to transfer financial resources (i.e., money) from those who have them to those who lack them, acting as a counterparty for each of them. This function, known as intermediation, is exercised by collecting funds from savers and granting loans to businesses and households for their investment and consumption needs. (...) The intermediation activity carried out by banks takes place through the so-called "maturity transformation". The bank collects resources in the form of deposits from the public, which are typically repayable "on-demand", i.e., at the depositor's request, and transforms them into usually less liquid financial assets, such as loans, which usually have a maturity of more than one year. Since not all depositors withdraw their funds at the same time, the bank can use part of the funding to finance even longer-term assets, such as business loans and household mortgages, and allows savers to make payments or withdrawals of resources at any time." (Banca d'Italia)

In order to carry out its activities in the best possible way, the Bank, in compliance with the regulations introduced by Basel, must necessarily reserve a certain amount of capital to be able to grant loans. Specifically, the term "regulatory capital" refers to the amount of money that the bank is required to hold against its Risk Weighted Assets, generally represented by loans. The higher amount of capital held internally by the bank provides more stability to the financial system while reducing profitability for the bank. In fact, a higher percentage of capital held requires a decrease in the amount of capital that the bank can invest profitably. In consideration of these issues, Basel III left the total capital requirement for banks unchanged at 8%.

Therefore, for the same loan requirement, two companies with different creditworthiness oblige the bank to hold a different amount of capital. Naturally, the bank will grant the financing to the company with the best creditworthiness in order to be able to reserve as least capital as possible. For this reason, one can relate to the financing of Startups by stating that the better the Startup the bank lends money to, the more the bank can deploy its capital not as prudential capital but as assets. The next logical step is to understand on what basis the bank decides which Startup to fund. The three main variables that determine the Expected Loss on a firm's funding are Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

The 3 drivers of Bank funding

The Probability of Default represents the risk associated with the counterparty requesting the financing. In other words, it is the company's rating. Exposure At Default represents the bank's residual exposure at the time of default. Loss Given Default, on the other hand, represents the percentage of the bank's loss in the event of default. The multiplication of these three variables allows the bank to calculate the Expected Loss on the funding provided. That said, to structure an effective funding strategy, the Startup must ensure a high rating to lower the PD, choose a form of funding that allows the bank to have a lower EAD, and provide sufficient guarantees to lower the LGD.

The PD of a company, as we have said, represents its rating. But what determines this rating? The rating is composed of:

- Qualitative Rating
- Quantitative Rating
- Behavioural Rating

The Qualitative Rating is represented by various factors such as the composition of the management of the Startup, the history of the company, and other subjective variables. The Quantitative Rating, on the other hand, is characterized by elements deriving from Financial Statement Analysis such as financial ratios, margins, and profitability, cash flow analysis, etc. The Behavioural Rating, instead, is constituted by analyses deriving from databases such as the "Centrale Rischi" by Banca d'Italia or CRIF and past prejudicial events. One of the aspects worth emphasizing in this paragraph is the consideration with which the bank assesses these three types of ratings. Generally, the Qualitative Rating weighs only 5%[6] in the bank's assessment. The remaining 95% is divided between Quantitative and Behavioural Ratings in varying percentages that change from bank to bank. This helps us to fully understand the differences between Debt or

[6] Cerved, "Guida su come ti valutano le Banche"

Equity financing. In terms of Equity investment, the Qualitative Rating is likely to be crucial for the success of the transaction. The same cannot be said for bank financing.

As regards EAD, the variable that most influences bank exposure is the so-called technical form of financing. The three basic types are:

- Self-liquidating risks
- Revocable risks
- Maturity risks

Self-liquidating risks consist of those loans granted to customers who intend to mobilize trade receivables from third parties, not yet due, of which the intermediary itself becomes the assignee, i.e., the buyer. Some examples are advances on invoices, factoring, and reverse factoring. Maturity risks, on the other hand, include loans that have a clearly defined contractual maturity, such as mortgages, leasing transactions, and personal loans. Revocable risks, on the other hand, consist of those loans with an undefined maturity, such as current accounts and overdrafts. Bearing in mind that often the main objective of the Startup is to obtain liquidity, one of the crucial aspects of choosing the funding is to decide on the right technical form. For example, if an entrepreneur is in urgent need of liquidity and has a lot of accounts receivables, a bank loan may not be the soundest decision. This is because due to the technical nature of the financing, an overdraft is riskier for the bank than other financing such as factoring or invoice advances. Opting for an overdraft would increase the bank's EAD and result in either a higher cost of debt for the Startup or even rejection of funding by the bank.

Finally, we will analyse the function of guarantees within bank financing. LGD is calculated as a complement to 1 of the Recovery Rate. This suggests that the loss once a default has occurred depends on how much the bank can recover through debt collection procedures. Thus, the amount of LGD can only be known with certainty after these procedures. However, when assessing creditworthiness, a statistically based estimate of the amount of LGD is made. This estimate is significantly affected by the presence of any collateral attached to the loan. Different types of collateral may allow the applicant to obtain a higher or lower LGD. There are different types of collateral such as pledges on movable property or mortgages on immovable property or personal guarantees such as sureties. In the next sub-section, we will analyse one of the main advantages dedicated to Innovative Startups in terms of guarantees: The Central Guarantee Fund.

The State acts as guarantor

The Guarantee Fund is a measure implemented by the Italian State to support small and medium-sized enterprises in order to facilitate their access to credit. The Fund allows companies, subject to certain specific requirements, to benefit from a State guarantee for the funding they need. It provides for the granting of a public guarantee which stands alongside (and in some cases completely replaces) the actual guarantees presented by the enterprises themselves. The Ministry of Economic Development specifies that the Fund's guarantee is a facility, also financed by European resources, which can only be activated against loans granted by banks, leasing companies, and other financial intermediaries. Except for loans of up to € 30.000, for which there is a cap on rates and commissions, the Guarantee Fund does not intervene directly in the relationship between bank and customer. Interest rates, repayment conditions, and other details are left to the parties to negotiate. It is also important to specify that no collateral, insurance, or bank guarantees can be obtained on the part guaranteed by the Fund. Also, using the Guarantee Fund as a support tool, the Government wanted to introduce innovations to facilitate access to fast-growing enterprises such as Innovative Startups, innovative SMEs, and certified incubators. For all these entities wishing to apply for bank financing, there is the possibility of activating the Guarantee Fund coverage free of charge and according to a highly simplified procedure. The Fund's guarantee for these entities covers 80% of the loan and can amount to up to € 2.5 million per company. With the appearance of the Coronavirus emergency, the Government saw the need to issue new decrees and regulations to contain the economic impact of the pandemic.

With Decree-Law no. 18/2020, known as the "Cura Italia" decree, important changes were introduced regarding the Guarantee Fund for SMEs. The maximum amount guaranteed for each individual company has been increased from the previous € 2.5 million to € 5 million. In addition, operations aimed at repaying loans granted by the same bank or banking group have become eligible. Moreover, the duration of the guarantee has been extended on loans already guaranteed and subject to suspension of instalments or only of the capital share by the lending banks, and the payment of fees for failure to complete financial transactions submitted since the date of entry into force of the decree has been cancelled. As of today, loans to natural persons engaged in business, arts, or professions whose business activity has been damaged by the Covid-19 emergency (loans of less than 18 months up to €3,000 in amount) are eligible for the guarantee, free of charge and without assessment. The duration of the Fund's guarantee is automatically extended for SMEs that agree with the bank to suspend payments subject to the moratorium.

The “Decreto Agosto” also played its part in 2020. Decree No. 104/2020, in addition to introducing new financing for the Guarantee Fund for SMEs, also provides for the expansion of eligible companies. Access to the Guarantee Fund has been expanded with the August Decree also to companies that have been admitted to the procedure of arrangement with business continuity, have entered into debt restructuring agreements, or have submitted a debt restructuring plan, provided that, at the date of application, their exposures are not classified as impaired, are not in arrears and the lender, based on an analysis of the debtor's financial situation, can reasonably assume that the exposure will be repaid in full when due. Despite this expansion, companies with impaired loans classified as "non-performing" continue to be excluded. The August Decree also establishes the basis for calculating the company size for access to the SME Guarantee Fund. A limit of 499 employees has been set for access to financing, determined based on the work units per year recorded during the year 2019. As regards the final beneficiaries of the Fund, the August Decree also revises the provisions of letter "m" of the Liquidity Decree, which included those entitled to 100% coverage, among others, insurance agents, insurance subagents, and brokers as mentioned above. The August Decree also broadens the scope to include "natural persons engaged in activities listed in section K of the ATECO code". This means that all credit operators, agents in Financial Activities, and Collaborators will be able to access the Central Guarantee Fund and micro-financing with a 100% State Guarantee.

In addition to the above-mentioned decrees, an important innovation came with the 2021 Budget Law, with which the Government decided to expand support for Italian companies by re-funding the SME Guarantee Fund. The funding amounts to:

- € 500 million for the annuity 2022
- € 1 billion for the year 2023
- € 1.5 billion for 2024
- € 1 billion for the year 2025
- € 500 million for annuity 2026

Implementation of the Central Guarantee Fund

Data on the implementation of the Central Guarantee Fund by Medio Credito Centrale are reported below.

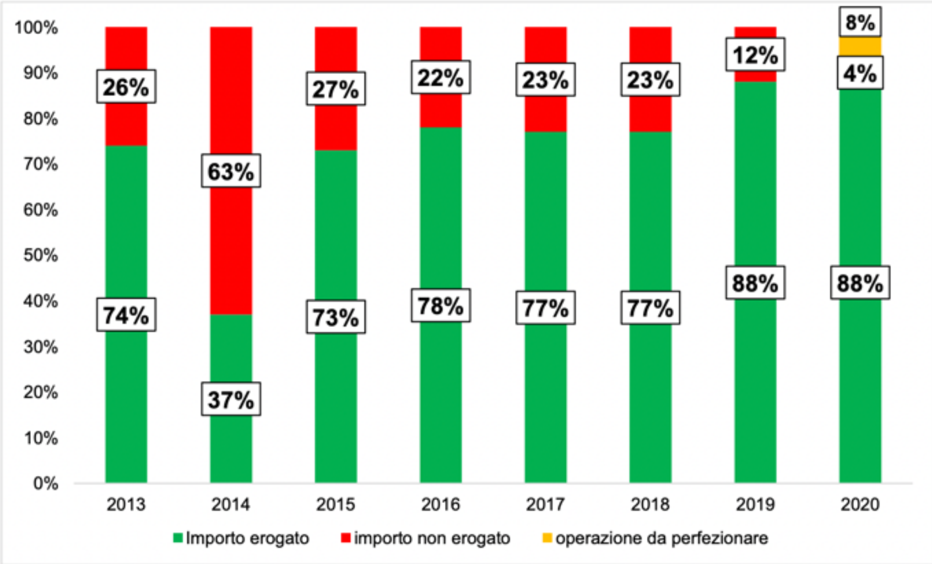
As of Q4 2020, the Fund has managed a total of 11.183 transactions. The total amount of funding potentially mobilized exceeds €2 billion (€2.078.875.127). A total of 9.488 operations were authorized by the Fund and resulted in the granting of funding, for a total of € 1.589.403.479 disbursed. Innovative Startups that have obtained bank loans through the intervention of the Guarantee Fund are 5.183. Some of them have received more than one loan (therefore the total number of operations that resulted in the granting of a loan is significantly higher). Overall, the average amount per transaction disbursed is € 185.896, down from the previous quarter (around € 191 thousand). The following is an overview of transactions in favour of Innovative Startups:

Tabella 1 - Operazioni del FGPMI in favore delle startup innovative (in euro)						
Status operazioni	Operazioni	% su tot	Importo finanziato (€)	% su tot	Importo garantito (€)	% su tot
Prestiti estinti senza attivazione della garanzia	1.889	16,9%	256.941.505	12,4%	200.317.906	12%
In regolare ammortamento	7.076	63,3%	1.203.427.035	57,9%	972.448.437	58,4%
Ancora da perfezionare	322	2,9%	77.257.062	3,7%	65.976.885	4%
Non perfezionate	1.373	12,3%	412.214.586	19,8%	323.797.046	19,5%
Crediti in sofferenza	523	4,7%	129.034.939	6,2%	101.317.931	6,1%
Totale	11.183	100,0%	2.078.875.127	100,0%	1.663.858.205	100,0%
Prestiti erogati[1]	9.488	84,9%	1.589.403.479	76,5%	1.274.084.274	76,5%

Fonte: elaborazioni su dati Mediocredito Centrale

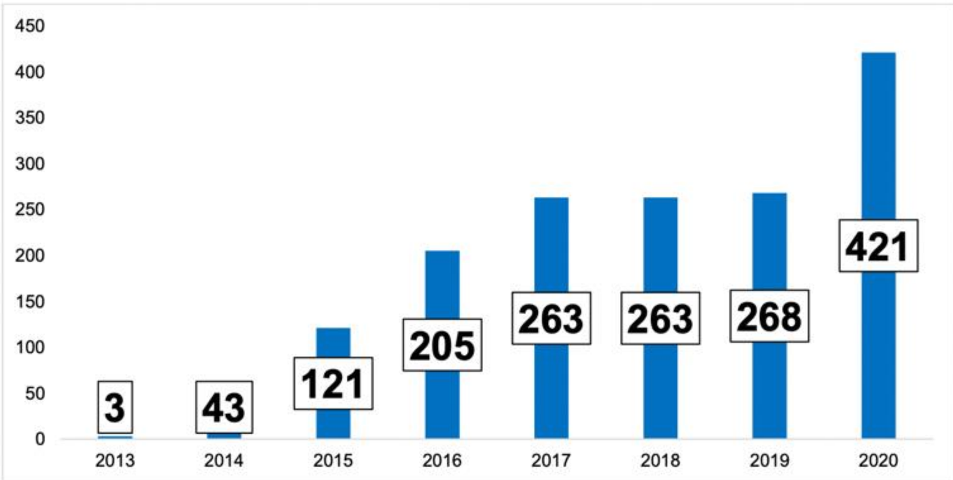
Since the last survey (30 September 2020) Innovative Startups have received new bank loans amounting to € 162.080.427, in line with the previous survey (about € 156 million). At the same time, the number of Startups receiving loans guaranteed by the Fund grew by 574. In Q4 2020, the FGPMI managed 1.172 transactions towards Innovative Startups. The total amount of funding potentially deployed in the last quarter is 163 million (€ 163.572.969). Most of this amount (€ 93.701.221, or 57.2%) has already been paid out, while about the remaining part (€ 69.871.748) the agreement between the bank and the Innovative Startup is still being finalized or the transaction has not been perfected. Aggregating the status of operations by year and amount financed (Figures 1 and 2), one can appreciate more clearly the growing trend in the use of the instrument, which has now stabilized after a major expansion between 2014 and 2017. At the end of 2019, the value of authorized funding was slightly down on the results of the previous two years. In 2020, however, the metrics indicate a clear increase in value compared to previous years.

Figura 1 – Finanziamenti FGPMI per stato delle operazioni



Fonte: elaborazioni su dati Mediocredito Centrale (I dati del 2020 si riferiscono ai primi tre trimestri)

Figura 2 - Finanziamenti verso startup innovative garantiti dal FGPMI per anno (milioni di euro)



Fonte: elaborazioni su dati Mediocredito Centrale

Paragraph 4: Subsidised finance

General overview

Facilitated or subsidised finance is commonly understood as the set of financial and fiscal instruments that the legislator provides to businesses to enable their growth and development. This factor represents a crucial aspect of national industrial policy and one of the most important incentives for the entrepreneurial ecosystem. A State can use subsidized finance to characterize its economic planning by providing different types of intervention. In fact, the most used subsidised finance instruments are the following:

- Non-repayable grants
- Interest-free loans or Soft loans
- Tax reliefs
- Credit Guarantees

The non-repayable grant is probably the best-known form of subsidized finance. It refers to a monetary contribution that is in no way subject to a repayment obligation. It is generally structured in the form of a percentage contribution, regarding the total amount of eligible expenditure specified in the call for proposals. On the other hand, a soft loan is a form of a loan with a variable duration. It can be granted by a public lender, as well as by a bank or both if there is a partnership scheme. Its interest rate is far below market rates. Therefore, subsidized loans are close to zero interest. The incentive is precisely the difference between this rate and the market rate. Another type of contribution is tax relief. In most cases, this takes the form of a tax credit. This term refers to a claim against the I.R.S, which can be used as an offset through the F24 when paying taxes due. In conclusion, a credit guarantee is a form of aid that allows companies to be more reliable in bank financing as described in the previous paragraph. In practical terms, the purpose of subsidized finance is to assist a company in the steps necessary to obtain certain facilities. These facilities can be designed at different levels. At the European level, ample subsidized finance instruments are available in Brussels that can be used directly by companies operating in one of the Member States. Likewise, at the National level, the Italian government issues decrees, laws, and regulations of various kinds to encourage economic and financial support for individual enterprises. Moreover, at the Regional level, many regions implement policies to help small and medium-sized enterprises, using regional aid laws, to guarantee support and move towards widespread economic growth. Nevertheless, at the local level, Chambers of Commerce in the province use different tools and prepare public tenders for companies in the area. The aim is to help companies operating in sectors considered key to the provincial economic structure.

Financing opportunities at European Level

European funds are an important tool to support local authorities in their development and innovation processes, so it is essential to understand from the outset that there are two types: direct and indirect funds.

Direct funds

Directly managed European funds are so-called because they are provided directly by the European Commission to the final beneficiaries, through its General Directorates or Executive Agencies. These funds are organized by the EC into thematic programs and cover both internal EU policies, such as the environment, energy, health, research, and innovation, and external policies, such as cooperation programs and support for the development of third countries. The funding programs are managed by the relevant General Directorates through the periodic publication of calls for proposals in the Official Journal of the EU and are then further disseminated by information centers in the individual Member States. Regarding the implementation of the thematic programs, the different EC General Directorates use two types of award procedures: grant and call for tenders. Grants consist of non-repayable contributions by the European Commission to final beneficiaries. They are selected according to calls for proposals published in the Official Journal of the EU or on the websites of the different DGs responsible. The grant may either finance a specific action, i.e., a project contributing to the implementation of one of the EU's sectoral policies or finance the functioning of an organization pursuing an aim of general European interest. The projects selected must have a high innovative value and European added value, i.e., the solutions envisaged to achieve the objectives must be valid for several EU member states. Calls for tender are invitations to tender for goods or services that are provided to the EU to ensure the functioning of the European institutions or the implementation of European programs. Services may include studies, technical assistance, training, consultancy, and advertising services. While grants are co-financed to varying degrees by the EC, in the case of tenders the selection criterion is value for money.

Indirect funds

Indirectly managed European funds, or structural funds, concern the EU's regional policy, i.e., all actions through which the EU promotes cohesion and seeks to reduce economic and social disparities between European regions. In this case, a direct relationship is created between regional and national institutions and the beneficiaries. This means that the financial resources from the EU budget are transferred from the EC to the Member States, as are all the allocation and ex-post verification procedures. The management of the Structural Funds is thus shared in the sense that guidelines for the actions of the funds are drawn up at the European level, while their implementation is managed by the relevant national or regional authorities in each Member State, which defines the Operational Programs and then selects and monitors the projects. The Structural Funds are divided into:

- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- Cohesion Fund (CF)
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)

European Regional Development Fund (ERDF)

Particularly interesting for our analysis is an understanding of how the ERDF works. To let the reader having this full comprehension, we present below the functioning of the European Regional Development Fund in the words of the European Community itself:

"The European Regional Development Fund (ERDF) is one of the main financial instruments of EU cohesion policy. Its aim is to help even out the disparities between the different levels of development of European regions and to reduce the backwardness of less favored regions, paying particular attention to regions with severe and permanent natural or demographic handicaps, such as the northernmost regions, island regions, cross-border and mountain regions."[7]

The normative references of this instrument are:

- Articles 174 to 178 of the Treaty on the Functioning of the European Union (TFEU).
- Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development, and the European Maritime and Fisheries Fund, and repealing Council Regulation (EC) No 1083/2006.

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[7] Kołodziejski, Marek. "Note sintetiche sull'Unione europea". Dicembre 2020

- Regulation (EU) No 1301/2013 of the European Parliament and of the Council,
- of 17 December 2013 on the European Regional Development Fund and specific provisions concerning the Investment for growth and jobs occupation and repealing Regulation (EU) No 1301/2013.
- Employment objective and repealing Regulation (EC) No 1080/2006.

Article 176 TFEU stipulates that the ERDF is intended to help correct the main regional imbalances in the European Union. This objective shall be pursued by supporting the development and structural adjustment of regions whose development is lagging and the conversion of declining industrial regions.

The ERDF has two main objectives for the period 2014-2020, namely:

- Investment for growth and job occupation - aimed at strengthening the labor market and regional economies.
- European Territorial Cooperation - aimed at strengthening cross-border, transnational, and interregional cooperation within the Union.

The resources allocated to the first objective will be divided between three different categories of regions:

1. the most developed regions, with a GDP per capita of more than 90 % of the EU average
2. transition regions, with a GDP per capita between 75 % and 90 % of the EU average
3. less developed regions, with a GDP per capita of less than 75 % of the EU average

The ERDF also supports sustainable urban development. At least 5 % of the ERDF of the ERDF allocation for each Member State must be allocated to integrated action in favor of sustainable urban development to tackle economic, environmental, climate demographic, and social problems affecting urban areas. The details of the allocation and future use of ERDF funds shall be laid down in the partnership agreements. These strategic documents are prepared by each Member State with the participation of the social and regional partners. The ERDF, by contributing to the Europe 2020 strategy for smart, sustainable, and inclusive growth, shall be focused on the priorities specified in that strategy. The main priority lines are the following:

a. research and innovation
b. information and communication technologies (ICT)
c. small and medium-sized enterprises (SMEs)
d. promotion of a low-carbon economy

Depending on the category to which the region receiving support belongs, the degree of concentration on these priorities varies. More developed regions must devote at least 80 % of their ERDF resources to at least two of these priorities and at least 20 % to promoting a low-carbon economy; transition regions must devote at least 60 % of their ERDF resources to at least two of these priorities and at least 15 % to promoting a low-carbon economy; less developed regions must devote at least 50 % of their ERDF resources to at least two of these priorities and at least 12 % to promoting a low-carbon economy. In May 2018, the European Commission presented proposals for regulations for the EU cohesion policy for the post-2020 period. They include a regulation on the ERDF and the Cohesion Fund and a regulation with specific provisions for the "European territorial cooperation" objective (Interreg).

These proposals maintain the two current ERDF objectives: "Investment for jobs and growth" and "European territorial cooperation". They also maintain the thematic concentration with two main priorities supporting innovation, the digital economy, and SMEs through a smart specialization strategy (SO1); and a circular, greener, low-carbon economy (SO2). The European Commission has also presented a list of activities that are not eligible for ERDF support, including direct aid to large enterprises, airport infrastructure (except in the outermost regions), and certain waste management operations (e.g., landfills). In July 2020, the European Council reached an agreement on the EU's long-term budget for the period 2021-2027. According to its position, during the 2021-2027 programming period, approximately € 200.36 billion will be allocated to the ERDF (including € 7.93 billion to European territorial cooperation and € 1.93 billion in special allocations for the outermost regions). In March 2019, the European Parliament approved its position at first reading on the European Commission's proposals.

How Italy distributes resources

In Italy, EU structural funds are distributed through so-called Operational Plans. The Operational Programs (OPs) are documents that set out, by sectors and territories, the strategic priorities that the Member State has expressed in the Partnership Agreement. Divided into National Operational Programs (NOPs) and Regional Operational Programs (ROPs), they benefit from the resources of one or more Structural Funds, outlining specific objectives within priority axes, on a multiannual basis. The entity responsible for the OP is defined as the Managing Authority and can be either directly a Member State or other public or private bodies designated by the Member State. In Italy, the 2014-2020 Community Programming foresees the implementation of 75 Operational Programs co-financed by the 4 European Structural and Investment Funds: European Regional Development

Fund (ERDF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and Maritime and Fisheries Fund (EMFF).

National Operational Programs (NOPs) are managed at the national level and cover the whole territory. Each of them focuses on a thematic aspect of relevance for the country, corresponding to one or more of the objectives defined at the EU level for the use of Structural Funds. The themes identified by the Italian NOPs for the 2014-2020 programming period are infrastructure, culture, legality, enterprises, research, urban policies, governance, social inclusion, youth, employment, schools, rural development, and fisheries.

The Regional Operational Programs (ROPs) are owned by a local authority (Region or Autonomous Province), are single-fund and multi-fund (e.g., ROP Puglia ESF-ESR), and concern the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the European Agricultural Fund for Rural Development (EAFRD), depending on the types of funds made available to the Regions.

The European Commission approved on 23 June 2015 and subsequently amended on 24 November 2015, the 2014-2020 National Operational Program (NOP) for Enterprise and Competitiveness, which intervenes with a total budget of around € 2.3 billion to strengthen businesses in the Southern Italy, as a key element of Italian industrial policy in a logic of territorial rebalancing and South-Centre-North convergence. The Program intends to increase investment in key sectors in the less developed regions (Basilicata, Calabria, Campania, Puglia, Sicily) and in those in transition (Abruzzo, Molise, Sardinia), contributing to the objective of increasing the relative weight of the manufacturing sector on European GDP from 15.6% in 2011 to 20% by 2020 and thus supporting a lasting development process of the country's entire entrepreneurial system.

Following the revision of the financial allocations of the 2014-2020 structural funds, defined at the end of June 2016, the EU Commission assigned additional ERDF and ESF resources to Italy, resulting in the reprogramming of the Operational Programs concerned.

With decision C (2017) 8390 of 7/12/2017, the European Commission approved the reprogramming of the NOP Enterprise and Competitiveness 2014-2020, determining a significant increase in the endowment, amounting to 665.1 million euro of European Regional Development Fund (ERDF) resources, and the extension of the territorial area of the program to the Centre-North.

By decision C (2018) 9116 of 19/12/2018, the European Commission approved a second reprogramming of the NOP Enterprise and Competitiveness 2014-2020 by which €220 million were transferred to the NOP SME Initiative 2014-2020.

By decision C (2020) 1093 of 20/02/2020, the Commission approved a third reprogramming of the NOP Enterprise and Competitiveness, modifying the distribution of resources between the various axes.

The Commission's implementing decision of 6 October 2020 amending implementing decision C (2015) 4444 approved the reprogramming proposal aimed at channeling resources from the Program in favor of measures to counter the health and economic crisis generated by Covid-19. The reprogramming has an impact on the overall Program budget, which increases from € 3.058 billion to € 3.337 billion. The innovative strength of the NOP for Enterprise and Competitiveness, in line with the priorities of the Europe 2020 Strategy for smart, sustainable, and inclusive growth, lies therefore in the combination of facilities in response to the needs of businesses and infrastructure interventions to improve their positioning.

The Program aims to foster economic growth and strengthen the presence of Italian companies in the global production context, particularly small and medium-sized enterprises, by organizing interventions around four thematic objectives:

- Axis I - OT 1 - strengthening research, technological development, and innovation
- Axis II - OT 2 - improving access to and use of ICT, as well as the use and quality of the same
- Axis III - OT 3 - promoting the competitiveness of small and medium-sized enterprises
- Axis IV - OT 4 - supporting the transition to a low-carbon economy in all sectors

OT 1 – Innovation

In close connection with the application areas identified in S3 (Intelligent and sustainable industry, energy and environment; Health, food, quality of life; Digital Agenda, Smart Communities, Intelligent mobility systems; Tourism, cultural heritage and creative industry; Aerospace and defense), the Axis envisages the implementation of instruments at the national level that guarantees equal access and treatment to all potential beneficiaries that take the form of actions of proven effectiveness for R&D projects (including collaborative projects) and the subsequent industrialization of research results.

OT 2 – Ultra-Wideband and Digital Growth

In line with the Italian ultra-broadband strategy, the Axis envisages passive infrastructural interventions on ultra-broadband (≥100 Mbps), possibly integrated with active infrastructural pilot interventions (electronic components for the physical lighting of the fiber). Aimed exclusively at areas of industrial relevance/high business density in areas included in clusters B, C, and D (areas of the national territory with an increasing market failure, where operators may become interested in investing in 100 Mbps networks only thanks to the stimulus provided by public intervention) with a fiber depth level (arrival point of the fiber), if the technical-economic and market conditions allow it, preferably of the FTTB/FTTH type (fiber to the building; fiber to the house, the fiber connection reaches the individual dwelling unit).

<u>OT 3 – SMEs Competitiveness</u>

It promotes competitive repositioning processes of the southern production system, by exploiting unexpressed potential, through a series of interventions. These interventions are aimed to have immediate operability and relevant impact to contrast the negative trend on factories' productivity. The broader development of the innovation strategy is also in connection with the actions financed under Axis I. The interventions will be implemented by giving priority to the use of known national operational tools with proven effectiveness.

<u>OT 4 – Energy Efficiency</u>

In connection with the interventions foreseen in Axis I, II, and III of the NOP, support is foreseen for interventions: for the implementation of smart grids with priority on the distribution network and on the transmission network; for the creation of storage systems; for achieving greater levels of energy efficiency within companies; for raising the level of environmental protection in production structures and cycles; for the creation of high-efficiency cogeneration plants aimed at self-consumption.

<u>The "De Minimis" Regulation</u>

To provide the reader with a complete picture of the rules on subsidized finance, an attempt has been made to clarify the origin of the funds used to finance enterprises. As can be clearly understood, the third axis of the National Operational Plan (NOP) plays a key role in the field of Startup financing. Clarifying the regulatory framework for subsidized finance is a key step in understanding the drivers behind subsidized finance. However, in order to provide the reader with a complete picture, it is necessary to delve into what is known as the State Aid rules.

State Aid law is generally the common term for the treaty prohibition of Member States to provide subsidies to undertakings that threaten to distort competition in the European Union. The exact definition of State aid can be found in Article 107(1) of the Treaty on the Functioning of the European Union (TFEU), consolidated version, most recently amended by Article 2 of the Lisbon Treaty of 13 December 2007 and ratified by Law No 130 of 2 August 2008, which entered into force on 1 December 2009. According to this provision, save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favoring certain undertakings or the production of certain goods shall, in so far as it affects trade between the Member States, be incompatible with the internal market.

In this respect, the De Minimis Regulation was established. It is a regulation aimed at regulating competition between companies and the fair distribution of EU aid. In addition, it allows national authorities to manage smaller amounts of public funding to companies without notifying them directly to the EU.

"The so-called "De Minimis" is a legal framework defined by the European Union according to which aid granted to the same company, added together, must not exceed a certain limit for each sector of activity over a three-year period. The purpose of the "De Minimis" regulation, therefore, is to allow states to support certain sectors of activity or businesses by granting small amounts of aid without having to wait for authorization from the Commission, simplifying and speeding up procedures. In order to deal with the emergency caused by the Covid-19 epidemic, however, the European Commission has adopted a number of measures which, under Article 107 of the EU Treaty, allow the Member States to derogate from the ordinary rules on State Aid."[8]

The De Minimis roof corresponds to € 200,000.00 for all companies and is calculated based on the last three fiscal years of the company. The reference period of three years should be assessed on a rolling basis, in the sense that, in the total amount of De Minimis aid granted in the last three fiscal years of the company. According to the principles underlying De Minimis aid, moreover, it should be considered to be granted at the moment the legal right to receive the aid is conferred on the undertaking under the applicable national legal regime. Member States are required to record and compile all the information regarding the application of this Regulation. This includes all

[8] Geria, Francesco. Regime "De Minimis": le novità sul regime degli aiuti di stato, LaborTre Studio Associato

information necessary to establish that the conditions of this Regulation have complied with. Track records regarding the De Minimis aid scheme shall be maintained for 10 fiscal years from the date on which the last aid was granted under such scheme. Article 52 of Law No 234 of 24 December 2012 provides for the establishment of the National Register of State Aid managed by the Ministry of Economic Development, to which public or private entities granting or managing State aid shall transmit the relevant information, to ensure compliance with the prohibitions on cumulation and with the transparency and publicity obligations provided for by European and national legislation in this field. To cope with the Covid-19 outbreak, the European Commission has also adopted measures which, under Article 107 of the EU Treaty, allow Member States to derogate from the ordinary state aid rules. The Temporary Framework foresees the possibility of cumulating the facilities from Covid-19 with other ordinary facilities as well as with other temporary facilities.

In detail, according to section 3.1 of Communication 2020/C 91, State aid is considered compatible with the internal market if it meets, inter alia, the following conditions:

1. they do not exceed €800,000 (per undertaking, before any taxes or other charges)
2. they are granted to companies that were not already in difficulty on 31 December 2019
3. by way of derogation from the previous point, are granted to micro or small enterprises that were already in difficulty on 31 December 2019, provided that they are not the subject of bankruptcy proceedings, insolvency proceedings under national law and have not received rescue or restructuring aid
4. are granted no later than 30 June 2021

It follows that the State aid measures introduced by the legislator to support the economy in the current emergency of the Covid-19, are to be considered compatible with the internal market according to Article 107(3)(b) of the Treaty on the Functioning of the European Union. In particular, the De Minimis is calculated based on the facilitation obtained from the public notice in terms of soft loan or non-repayable fund.

Smart&Start

Once the legal framework on subsidized finance and the difference between EU structural funds and state aid policy has been clarified, it is possible to analyze which is the best instrument for financing Startups in Italy. Smart&Start is a zero-interest public funding call. It is open to all Italian Innovative Startups regularly registered with a chamber of commerce. In addition, Startups from the convergence regions (Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia, and

Sicily) can obtain 30% of the non-repayable funding. Smart&Start finances 80% of the cost plan of a project submitted by the Startup. The amounts foreseen for such projects can vary between € 100,000.00 and € 1,500,000.00. There are two payment methods for this financing:

- Restoration of Cash based on State of Progress of the Project (SPP)
- Advance payment of invoices

The planned duration of the project is 24 months with the possibility of a 6-month extension for a maximum total of 30 months. There are two different ways of reporting for funding. The first is the possibility of submitting already paid SPP invoices. It is also possible to submit 30% of the unpaid SPP as long as the paid invoices are submitted to the next SPP. The second way is to receive the disbursed amounts in an ABI escrow account. The amounts are disbursed after the submission of the unpaid invoices. The choice of reporting method is crucial for the company as it is maintained throughout the project period. The expenditure categories foreseen for Smart&Start are the following:

- tangible assets such as plant, machinery, and technological or technical-scientific equipment, brand new, provided that they are consistent and functional with the business activity
- intangible assets necessary for the activity covered by the facilitated initiative, such as patents, trademarks and licenses, certifications, know-how, and technical knowledge, even if not patented, related to the production and management needs of the company
- services functional to the implementation of the business plan, directly related to the production needs of the enterprise (design, development, customization and testing of IT architectural solutions and technological production systems, specialized technological consultancy, services provided by business incubators and accelerators, and those relating to marketing and web-marketing, costs related to cooperation with research bodies to implement the business plan)
- employees and collaborators in any capacity meeting the requirements set out in Article 25(2)(h)(2) of Decree-Law No. 179/2012, to the extent that they are functionally employed in the implementation of the business plan

Within the limit of 20% of the aforesaid expenses, an amount to cover the working capital requirements associated with the incurring of expenses for raw materials, services necessary for the carrying out of the company's activities (including hosting and housing services), and the use of third-party assets is also eligible for aid. Business plans concerning the production of goods and the provision of services are eligible for aid if they have at least one of the following characteristics:

- significant technological and innovative content, namely
- development of products, services, or solutions in the field of the digital economy, artificial intelligence, blockchain, and the internet of things (IoT)
- economic exploitation of the results of the public and private research system (spin-off from research).

Business plans can also be implemented in collaboration with research organizations, business incubators and accelerators, and Digital Innovation Hubs. Invitalia S.p.A. is the managing entity of the project and is entrusted with the technical and administrative tasks relating to the processing of applications, the granting and disbursement of benefits, and the performance of monitoring, inspections, and controls. The assessment of business plans is carried out based on the following evaluation criteria, detailed in Circular No. 439196 of 16 December 2019:

- adequacy of the technical, organizational, and management skills required by the business activity
- innovative nature of the idea underlying the business plan, concerning the introduction of a new product and/or service, or new organizational or production solutions
- economic and financial sustainability of the initiative, also considering the prospects of the reference market to which the proposing company addresses its offer, or the potential new market identified
- technological and operational feasibility of the business plan

Paragraph 5: Tax Credit

General overview

As mentioned in the previous paragraph, a subset of subsidized finance instruments are tax reliefs. This instrument can be defined as a tax claim against the State provided certain conditions are met. The particularity of tax credits lies in the fact that they are payable by any company, not only by Innovative Startups. However, they represent a considerable advantage for the latter since the activities carried out by them are often consistent with the constraints imposed by law among the activities eligible for the credit. In this respect, we can highlight the presence of different types of the tax credit. Nevertheless, it could be useful to consider the ones of most prominent interest for Startups, thoroughly aware that this analysis cannot be considered exhaustive with respect to all existing solutions. However, in consideration of the mean purpose of this paper, i.e., Startup financing, theoretical and practical background on different types of the tax credit will be provided. It should also be worth noting that tax credits do not fall precisely into the category of corporate financing. This is because the enterprise is not the beneficiary of any Cash In, but rather of a "financial saving". The typical functioning of the tax credit is that of the so-called compensation. For this reason, when the firm is in the position to claim a tax credit from the State, it is possible to offset the payment of taxes and obtain a financial advantage. This offsetting is done by entering the tax credit in F24, the tax payment form for businesses. The tax credit to be offset must be indicated in the column "credit amounts", indicating the amount of the credit used, the period, and the tax code to which the credit refers. There are three main reasons why we include tax credits in the design of an optimal funding strategy for Startups:

- Consistent activities
- Quick turnaround
- Significant amount

Firstly, as already mentioned, the activities carried out by Innovative Startups often fall within the scope of activities eligible for tax credits. A prime example is the Research and Development Tax Credits. One of the requirements for being elected as an Innovative Startup is the precise "production, and marketing of innovative products or services with a high technological value". And in this sense, the marketing of innovative activities fits perfectly with the performance of R&D activities.

Another aspect that should always be considered when structuring an optimal financing strategy is time. The time factor is extremely important in the procurement of financial resources. The time needed to obtain funding from a tender such as Smart&Start ranges from 4 to 6 months. For tax credit, on the other hand, it usually takes no more than one month to obtain the green light for compensation. This is because Tax Credits work employing a self-declaration of the company countersigned by a legal auditor. The auditor only has to certify the existence of the costs incurred by the company and the correct accounting. The truthfulness of the certified costs is the sole responsibility of the Startup. For this reason, obtaining credit is a much less time-consuming procedure than other financing procedures.

Finally, the amount associated with the different tax credits can be very attractive to Startups, especially those at an early stage. This is because a company can also obtain several tax credits and add them to those already obtained. Each tax credit has its specific functioning and its specific rate, but the combination of several tax credits can provide the company with significant cash flow savings. In addition, the benefit obtained from the tax credit is recognized in item A5 of the Income Statement - Other Income and Revenues. The "cost-saving" resulting from the tax credit is then included as an actual Revenue. This also provides the company with a rating advantage and improved balance sheet ratios. However, that's not all. Such Revenues are also not taxed for IRES purposes. So, if the company has a profit at the end of the year, it will not pay any tax on this revenue.

Once we have analysed the main benefits obtained through tax credits, we will focus on understanding which types most are used by Startups. These Tax Credits are the R&D, Training 4.0, and Capital Goods.

Research&Development

The R&D tax credit is a measure that has been active since 2015 and has been revised by successive Budget Laws. It supports companies in investing in industrial research and experimental development, aimed at product innovation to ensure the competitiveness of manufacturing companies. Law No. 190 of 23 December 2014 (the so-called 2015 Stability Law) introduced this facility, in the form of a tax credit that can only be used for offsetting purposes, in favour of companies making investments in research and development activities. The tax credit is (potentially) available to all companies, regardless of their legal status, economic sector, accounting system, size, and income determination method for tax purposes. These companies must invest in research and development, starting from the tax period following the one in progress on 31/12/2014 and up to the one in progress on 31/12/2020 (years 2015-2020). A prerequisite for the application of this tax credit is to understand the definition of research and development activities. To this end, we refer to the same source used by the Ministry of Economic Development.

"R&D and experimental development include creative and systematic work undertaken to increase the stock of knowledge, including that relating to humanity, culture, and society, and to devise new applications of available knowledge. Some common features identify R&D activities, even if they are carried out by different performers. R&D activities may be aimed at achieving specific or general objectives. R&D is always oriented towards discoveries, based on original concepts (and their interpretation) or hypotheses. Their outcome is highly uncertain (or at least the amount of time and resources needed to achieve it), they are planned and budgeted (even if carried out or budgeted by individuals), and they are aimed at producing results that could be freely transferred or traded in a market. For an activity to be R&D, it must fulfil 5 fundamental criteria:

- *new*
- *creative*
- *uncertain*
- *systematic*
- *transferable or reproducible*

All five criteria must be met, at least in principle, whenever R&D is undertaken on a continuous or occasional basis. (...) The term R&D covers three types of activities: basic research, applied research, and experimental development. Basic research is experimental or theoretical work undertaken primarily to acquire new knowledge about the foundations of observable phenomena and facts, with no particular application or use in view. Applied research is an original investigation undertaken to acquire new knowledge. However, it is primarily directed towards a specific and practical aim or objective. Experimental development is systematic work, based on knowledge gained from research and practical experience and the production of additional knowledge, aimed at creating new products or processes or improving existing products or processes."[9]

The following research and development activities are eligible for the tax credit:

[9] OECD (2015), *Frascati Manual 2015: Guidelines for Collecting and Reporting Data on Research and Experimental Development*, The Measurement of Scientific, Technological and Innovation Activities, OECD Publishing, Paris

- experimental or theoretical work carried out, the main purpose of which is to acquire new knowledge about the foundations of phenomena and observable facts, without any direct commercial application or use being envisaged
- planned research or critical investigation aimed at the acquisition of new knowledge for use in developing new products, processes, or services or in improving existing products, processes or services or in creating components of complex systems, necessary for industrial research, excluding prototypes as follows
- acquiring, combining, structuring, and using existing scientific, technological, and business knowledge and skills to produce plans, designs, or drawings for new, altered or improved products, processes, or services; this may also include other activities for the conceptual definition, planning and documentation of new products, processes, and services; These activities may include the preparation of drafts, drawings, plans and other documentation, including feasibility studies, provided they are not intended for commercial use; production of commercially usable prototypes and pilot projects for technological or commercial experiments, where the prototype is necessarily the final commercial product and its manufacturing cost is too high to use it solely for demonstration and validation purposes;
- production and testing of products, processes, and services, provided they are not used or transformed for industrial applications or commercial purposes.

To calculate the tax credit, eligible costs are those pertaining, according to Article 109 of the Consolidated Income Tax Act, to the tax period of reference, which are directly linked to the performance of eligible research and development activities, such as:

- costs relating to personnel, regardless of their qualification:
  - ➢ employees of the company, employed in research and development activities, with the exclusion of personnel with administrative, accounting, and commercial duties
  - ➢ collaborating with the company, employed in research and development activities, including members of the professions, provided that they work in the company's facilities
- the depreciation of the costs of acquisition or use of laboratory instruments and equipment, within the limits of the amount resulting from the application of the coefficients established by the Ministerial Decree of 31/12/88, concerning the extent and period of use for the research and development activity and any case with a unit cost of not less than € 2,000.00 net of VAT

- expenses relating to research contracts entered into with universities, research bodies, and similar bodies, as well as with other companies, including Innovative Startups, other than those that directly or indirectly control the company, are controlled by it or are controlled by the same company that controls the company (so-called "extra-muros" research)
- costs relating to industrial patents relating to an industrial or biotechnological invention, a topography of a semiconductor product, or a new plant variety, including those acquired from external sources.

The costs as determined above are eligible either about investments made during the period of validity of the benefit, even if the relevant research activities were started earlier and irrespective of their accounting treatment and, therefore, of whether they are capitalized.

Methods of determination

As we will see below, there are different ways to calculate the R&D tax credit. The different methods correspond to the regulatory changes compared to the ordinary 2015 rules. We will see how the rate of calculation is different from year to year concerning the various items of eligible costs.

- **2015 – 2016**

As regards the two-year period 2015 - 2016, i.e., the first two years of adoption of the R&D tax credit rules, there is a differentiation in the rates relating to the various items of expenditure. Indeed, as regards personnel costs and research contracts entered with universities, research centres, etc., the rate is 50%. On the other hand, for depreciation of instruments and equipment and so-called technical expertise and industrial property rights, the rate is 25%. The maximum cumulation concerning the 2015/16 R&D Tax Credit is EUR 5 million. In addition, it should be specified that the basis of calculation for this credit is calculated with the criterion of the "total incremental expenditure" (art. 5 paragraph 2 DM 27/5/2015) i.e. "positive difference between the total amount of expenses for investments in research and development activities [...] incurred in the tax period concerning which it is intended to benefit from the facilitation and the annual average of the same expenses made in the three tax periods preceding the one in progress on 31 December 2015". Thus, the observation period for calculating the arithmetic average is fixed and corresponds to the three tax periods preceding the first period of application of the relief (the three years 2012-2013-2014 for entities with a tax period coinciding with the solar year); for companies set up after 2012, the average is calculated from the date of incorporation.

- **2017 – 2018**

The 2017 Budget Law has introduced important changes regarding the amount of the R&D tax credit. The 2017 tax credit is eligible for benefits both for personnel and for investments and purchases of capital goods, and non-residents are also included among the beneficiaries. With the Budget Law, the benefits granted to companies investing in R&D programs have increased: the tax credit for the two years 17/18 increases from €5 million to €20 million maximum per year, and the percentage will rise to 50% for all types of investment that companies will adopt for programs aimed at implementing R&D. The minimum expenditure threshold to qualify for the credit amounts to €30,000, a full five times higher than under the 2016 research and development tax credit rules. For the application of the credit, the incremental criterion remains valid also for these two years.

- **2019**

Law No. 160/2019 (the so-called Budget Law 2020) has completely reformed the regulations by decreeing, with effect from the tax period following the one in progress as of 31 December 2019, the early termination of the rules previously in force under Article 3 of Decree-Law No. 145/2013, one year before the deadline extended to the tax period in progress as of 31 December 2020 by Law No. 232/2016 (Budget Law 2017). In the quantification of the R&D tax credit accrued in the 2019 period, the following changes relating to the new calculation methods are applicable exclusively, for the first and only year. In particular:

- reduction of the maximum amount of the benefit attributable to each company from €20 million
- modulation of the intensity of the benefit according to the type of eligible expenses (from 50% to 25%)
- inclusion among eligible expenses of the cost of materials needed to carry out laboratory activities or to build prototypes or pilot plants for research and experimental development
- introduction of a new calculation method

The first change concerns the halving of the maximum limit of the tax credit available to each company in the 2019 tax year to €10 million. Instead, the differentiation with respect to the various expenditure categories varies as follows:

Typologies of expenditure	**Rate of relief**
a) Expenditure by employees with a salaried employment relationship, including those on fixed-term contracts, directly employed in R&D activities	**50%**
a-bis) Expenditure of personnel in a self-employed or other non-subordinate capacity directly employed in R&D activities	**25%**
b) depreciation of laboratory instruments and equipment	**25%**
c) expenses for extra muros research contracts with universities, research organisations and similar bodies, Innovative Startups and Innovative SMEs (except for companies in the same group)	**50%**
c-bis) expenses for extra muros research contracts with other companies (except companies in the same group)	**25%**
d) technical expertise and industrial property rights	**25%**
d-bis) materials, supplies, other similar products directly used in R&D activities	**25%**

- **2020 - 2021**

Law No. 160/2019 introduced, for the 2020 tax period ("for the tax period following the one in progress on 31 December 2019"), a tax credit for investments in research and development, green transition, technological innovation 4.0, and other innovative activities, according to the detailed rules set out in the implementing Ministerial Decree of 26 May 2020 of the Ministry of Economic Development (MISE). For the current two-year period, there has been a significant amendment to the R&D tax credit discipline. In this regard, new types of credit have been included, such as those in 'Technological Innovation', 'Aesthetic Conception and Design', 'Technological Innovation for the Ecological Transition or Digital Innovation 4.0'. The legislator has increased the number of cases through which access to benefits can be gained, de facto segmenting the difference between Research and Development and Innovation. Below is the definition of Innovation adopted by the MISE:

"An innovation is a new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to

potential users (product) or put into one by the unit. (...) Product innovation: is a new or improved good or service that differs significantly from the company's previous goods or services and has been introduced to the market. (...) Innovations result from knowledge-based activities involving the practical application of existing or newly developed information and knowledge. (...) Innovation activities encompass all development, financial and commercial activities undertaken by an enterprise that have as their objective the innovation of the enterprise."[10]

Another significant difference introduced by the Budget Law lies in the enforceability of the credit offset. Previously, the tax credit could only be offset in one installment. From 2020, on the other hand, it will be possible to offset the credit in three annual installments of the same amount. Therefore, the company using the tax credit will have a financial advantage in the three financial years following the year in which the credit accrues. Another aspect to highlight is the removal of the concept of incremental expenditure. As of 2020, the percentage eligible for aid will be based exclusively on the total base, and not on the difference between the base and the average of the three-year reference period 2013-2015.

In this regard, the new rates for the two years are shown in the table below.

Typologies of Tax Credit	**Budget Law 2020**	**Budget Law 2021**	**Yearly fees**
R&D	12% (MAX 3Mln)	20% (MAX 4Mln)	3
Technological Innovation	6% (MAX 1,5Mln)	10% (MAX 2Mln)	-
Aesthetic Conception and Design	6% (MAX 1,5Mln)	10% (MAX 2Mln)	-
Technological Innovation for the Ecological Transition or Digital Innovation 4.0	10% (MAX 1,5Mln)	15% (MAX 2Mln)	-

[10] OECD/Eurostat (2018), *Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation, 4th Edition*, The Measurement of Scientific, Technological and Innovation Activities, OECD Publishing, Paris/Eurostat, Luxembourg.

Training 4.0

The “Training 4.0” tax credit is a facility aimed at supporting companies in the process of technological and digital transformation by creating or consolidating skills in the enabling technologies needed to implement the so-called 4.0 paradigm. The following are eligible for the Training 4.0 tax credit - established by the Budget Law 2018 (art. 1, paragraphs 46 to 56, law no. 205/2017), amended by the 2020 Budget law (law 160/2019, art. 1, paragraphs 210-217) and, most recently, extended (until the tax period in progress as at 31December 2022) and strengthened by Budget Law 2021 (Law 178/2020, Article 1, paragraph 1064 letter l)) - all companies resident in the territory of the State, including permanent establishments organizations of non-resident entities. The tax credit is granted at a rate of:

- 50% of eligible expenses and up to an annual limit of €300,000 for micro and small enterprises
- 40% of eligible expenses up to an annual ceiling of €250,000 for medium-sized enterprises
- 30% of eligible expenses up to an annual ceiling of €250,000 for large enterprises.

The measure of the tax credit is increased for all enterprises, without prejudice to the annual maximum limits, to 60% if the recipients of the eligible training fall within the categories of disadvantaged or very disadvantaged employees, as defined by the Decree of the Minister of Labor and Social Policy of 17 October 2017. The following expenses are eligible for the tax credit:

- personnel costs related to trainers for the hours they participate in the training
- operating costs related to trainers and trainees directly linked to the training project, such as travel expenses, materials, and supplies directly related to the project, depreciation of tools and equipment to the extent that they are used exclusively for the training project. Accommodation costs are excluded, except for minimum accommodation costs necessary for participants who are disabled workers
- costs of consultancy services related to the training project
- personnel costs related to trainees and indirect overheads (administration, rent, overheads) for the hours during which the trainees attended the training.

Any expenses relating to employees ordinarily employed in one of the business areas identified in Annex A to Law No 205 of 2017 and participating as teachers or tutors in eligible training activities are also eligible. Training activities should cover sales and marketing, IT, production techniques and technology. Main Training 4.0 topics are:

- big data and data analysis
- cloud and fog computing
- cyber security
- simulation and cyber-physical systems
- rapid prototyping
- visualization systems, virtual reality (VR) and augmented reality (AR)
- advanced and collaborative robotics
- human-machine interface
- additive manufacturing (or three-dimensional printing)
- internet of things and machines
- digital integration of business processes

The training activities can be carried out internally by employees; if they are carried out by persons external to the firm, only activities commissioned from persons accredited to carry out training activities financed by the Region or Autonomous Province in which the firm has its registered office or operational headquarters; public or private universities or structures linked to them; persons accredited by the interprofessional funds under Commission Regulation (EC) No 68/01 of 12 January 2001; persons in possession of a quality certification following the Uni En ISO 9001:2000 sector EA 37 standard. The tax credit must be indicated in the tax return relating to the tax period in which the expenses were incurred and in those relating to subsequent tax periods until its use is completed. The credit can be used, exclusively by offsetting, starting from the tax period following that in which the eligible expenses were incurred, by submitting the F24 form through the telematic services made available by the I.R.S. To be eligible for the tax credit, the actual incurring of the eligible expenses must be certified - to be attached to the financial statements - by the auditing firm. Companies that are not subject to statutory auditing must nevertheless avail themselves of the services of a statutory auditor or auditing firm. Companies with audited financial statements are excluded from the certification requirement. Expenditure incurred to comply with the obligation to certify the accounts of companies that are not subject to statutory auditing is eligible for a direct increase in the tax credit, up to a limit of €5,000. Companies benefiting from the tax credit are also required to draw up and keep:

- a report illustrating the organizational methods and contents of the training activities carried out
- any other accounting and administrative documentation suitable to demonstrate the correct application of the benefit, also concerning the respect of the limits and conditions set by the relevant Community rules
- the records of the training activities signed by the trainees and teachers or by the external trainer

Capital Goods

Another key facility granted by the state is the tax credit for capital goods. It is intended to support and incentivize companies that invest in new tangible and intangible capital goods functional to the technological and digital transformation of production processes. For investments in technologically advanced tangible capital goods (Law No 232 of 11 December 2016 - formerly Hyper Amortization), a tax credit is recognized to the extent of:

- 40% of the cost for the portion of investments up to € 2.5 million
- 20% of the cost for the part of the investment above €2.5 million and up to a total eligible cost limit of €10 million.

For investments in intangible capital goods functional to the 4.0 transformation processes (Law No. 232 of 11 December 2016, as supplemented by Article 1, paragraph 32, of Law No. 205 of 27 December 2017 - former Hyper Amortization) tax credit is recognized to the extent of:

- 15% of the cost within the maximum limit of eligible costs equal to 700,000. Expenses for services incurred through cloud computing solutions are also considered eligible for the share attributable on an accrual basis.

For investments in other tangible capital goods (formerly Super Depreciation), other than those included in the credit dedicated to technologically advanced assets, a tax credit is granted at the rate of:

- 6% up to a maximum limit of € 2 millions of eligible costs.

The tax credit can only be used by offsetting in five equal yearly fees, reduced to three for investments in intangible assets, starting from the year following the implementation of the assets. This tax credit can be cumulated with other concessions concerning the same costs up to the maximum limit of the cost incurred. The credit applies to investments made from 1 January 2020 until 31 December 2020, or until 30 June 2021, provided that by 2020 the relevant order has been accepted by the seller and that advance payments of at least 20% of the acquisition cost have been made. For technologically advanced and intangible assets, companies are required to produce a simple technical appraisal issued by an engineer or an industrial expert registered in the respective professional registers, or a certificate of conformity issued by an accredited certification body. This document should demonstrate that the assets have technical characteristics such as including them in the eligible assets. Assets in consideration need to interconnect with the company's production management system or supply network. For goods whose unit purchase cost does not exceed €300,000, a declaration made by the legal representative is sufficient.

Chapter 2: the Manni Oil case

Paragraph 6: Manni Oil

Innovative Startup in agricultural sector

After analyzing the theoretical framework for structuring an optimal funding strategy for an Innovative Startup, the focus of our analysis will be on a case study that will allow us to put the dynamics of a Startup into a real context. The company we are going to analyze will closely concern a very particular client for Blue Ocean Finance. The client in question is Manni Oil. The particularity of this company lies in the fact that it is an Innovative Startup in the agricultural sector. As can be seen from the analysis carried out for the "2020 Annual Report" on the status of implementation and impact of policies to support Innovative Startups and SMEs conducted by the Ministry of Economic Development, a very low percentage of Innovative Startups are recognized within the agricultural sector. Thanks to data processing from the Chambers of Commerce, the MISE has shown that out of the total number of Innovative Startups in Italy at the end of 2020, 10,893 to be precise, only 79 operate in the agriculture sector. This number represents only 0.8% of the total. Suffice it to say that of the approximately ten thousand Innovative Startups present in Italy today, 74.4% operate within the services sector. In particular, the largest share of all Italian Innovative Startups is in the ICT Services sector, with 47.4% of the total. More specifically, the subcategories "Software production and IT consultancy" (ATECO Code "J 62": 35.6%) and "Information activities and services", ("J 63": 9.2%) reflect the strong need for innovative components necessary to be recognized as Innovative Startups. The following table[11] provides the reader with a specification of the current sectoral distribution of Innovative Startups in Italy:

Sector of Economic Activity	# of Innovative Startups	% of Innovative Startups
Agriculture	**79**	**0,8%**
Industry and Handicraft	**1.787**	**16,5%**
Supply of electricity, gas, steam, and air conditioning	83	0,8%

[11] Report to Parliament on the status of implementation and impact of policies to support Innovative Startups and SMEs, Ministry of Economic Development, 2020

Water supply; sewerage, waste management and remediation activities	36	0,3%
Constructions	97	0,9%
Wholesale and Retail Trade	**370**	**3,5%**
Services	**8.112**	**74,4%**
Information and communication services	5.165	47,4%
Professional, scientific, and technical activities	2.546	23,4%
Education	102	0,9%
Health and social care	74	0,7%
Artistic, sporting, entertainment activities	56	0,5%
Accommodation and food service activities	59	0,5%
Transport and storage	30	0,3%
Financial and insurance assets	22	0,2%
Real estate activities	23	0,2%
Other	35	0,3%
Tourism	299	2,8%
Non defined	30	0,3%
Total	**10.893**	**100%**

In light of these latest data, it may be clear to us how complicated it can be to characterize an enterprise with the distinctive feature of innovativeness. Doing so in a production context belonging to the primary sector increases the difficulties considerably. The peculiarity of this company has made it an example for all Innovative Startups in the agri-food sector and, therefore, a company of extreme interest for the academic purposes of this paper.

The history of Manni Oil

Manni Oil is the owner of 11 registered trademarks including MANNI®, Per Me®, and Per Mio Figlio®, and The Oil of Life®. Since 2001, Armando Manni has successfully created an international brand of excellence that has become synonymous with quality and luxury with his certified Organic, Kosher and Toscano PGI (Protected Geographical Indication) Extra Virgin Olive. The exceptional quality of his oil is recognized by the international press and the world's top chefs, who call it the best and healthiest extra virgin olive oil on the global market. Manni Oil's high reputational positioning is in itself a key asset for the current business, capable of spreading trust among new stakeholders as well. Furthermore, for the "The Perfect Oil 4.0" project, innovative knowledge and skills were developed internally and externally, such as the use of artificial intelligence in production processes and in general the entire implementation of the new circular economy production process. The dryer of olive pomace, first and foremost, is the result of an innovative internal research and development process, and its patenting of the entire production platform is desirable. Finally, of particular importance are the research agreements signed with the University of Florence, specifically with the Neurofarba Department for the use of olive pomace as a quality raw material in external production processes.

Manni Oil's entrepreneurial project began in the early 2000s as a result of the passion of its founder, Armando Manni, for the agri-food sector. The company's main purpose was to create a superior quality oil that would maintain its beneficial properties for much longer than other extra virgin oils. The extra virgin olive oil market has always had several critical issues. As we will see later, these criticalities have formed the basis of Manni Oil's entrepreneurial project. The main criticalities are represented by the biochemical characteristics of the oil. Often, at the moment of consumption by the final customer, the characteristics of extra virginity are not maintained by the oil for various factors. In this way, the consumer is not guaranteed the use of a quality extra virgin oil that maintains all the beneficial properties of this typically Italian product. Moreover, this low quality at the time of consumption leads to a decrease in the active antioxidant principles present in a respectable oil. In addition, oil production often involves a high quantity of waste within its production cycle, which is difficult to biodegrade.

In 2001, Armando Manni brought Manni olive oil to the market, produced as part of a scientific research project with the University of Florence, using a proprietary method called “Live Oil”. Through collaboration with the University and the National Research Council (CNR). Manni extra virgin olive oil is the only oil in the world that can keep its extra virgin quality and flavor intact for three years, as opposed to a market that can only maintain the oil's qualities for a few months. Manni Oil is not only outstanding in terms of taste and longevity, but it also offers incomparable health benefits. It can boast of having the highest levels of antioxidants (phenols) on the market.

Manni Oil immediately became the best and most expensive oil available on the world market, and the undisputed leader in haute cuisine and luxury gourmet. In the years that followed, Armando Manni launched a series of other entrepreneurial projects linked to the luxury and agri-food sectors, further proof of the union created by the Manni Oil project. In 2009 he opened Casa MANNI, a small luxury hotel in Rome, which won numerous awards including the 101 Best Hotel in the world and the Andrew Harper Award, gaining a leading position in the international niche market. In 2013 he became a minority partner of COQUIS “Ateneo della Cucina Italiana”. In 2014 he founded KELLER & MANNI Chocolate in the USA, with leading American chef Thomas Keller, and opened the K+M chocolate factory in California where they produce some of the best and most expensive chocolate in the US and UK markets, gaining a leading position in the industry.

The Target Market

The nutraceutical market, the name of which derives from the combination of the words "nutrition" and "pharmaceuticals", encompasses all those food products that perform a dual function, nutritional and beneficial, for the benefit of the consumer's health. This market revolves around different types of products, namely vitamins, supplements, functional foods, and drinks. Manni Oil's pomace flour enters this market as the main ingredient for food supplements and functional foods due to the natural high presence of polyphenolic compounds with antioxidant and anti-radical activity.

In Italy, the market has grown by 4.3% in one year to €3.3 billion[12], yet the importance of the nutraceutical sector extends far beyond national borders. The global market is worth € 412 billion[13] at a CAGR of 7.5%, while the US market alone is growing at a CAGR of 5.3% between 2016 and

[12] Federsalus, *“Rapporto Censis sul valore sociale dell’integratore alimentare”*, Industria Nutraceutica Italiana
[13] Research and Markets, Nutraceutical Market Size, Share & Trends Analysis Report By Product (Dietary Supplements, Functional Foods, Functional Beverages), By Region, And Segment Forecasts, 2020 - 2027

2024, with 2019 sales of almost $80 billion. The United States is the leading international exporting and importing country. Italy, as the ninth-largest exporting country, is holding back further export expansion due to high domestic demand numbers, being the largest market in Europe.

The excellent growth prospects for functional foods and dietary supplements are supported by a new consumer attitude towards their health and well-being. According to a 2019 international report, '2019 Nutraceuticals Market Assessment', many individuals are looking for healthy alternatives to include in their diets, particularly recognizing a desire to find innovative foods and beverages that can meet their body's nutritional needs while enjoying good health.

According to recent research, in Italy in 2019, more than 32 million Italians over the age of 18 took a supplement or nutraceutical as part of their breakfast. Italy's per capita consumption of 2.5 packs per year and an average expenditure of €41 means that Italy is recognized as having the highest expenditure on nutraceuticals and similar products in Europe.

The nutraceutical sector is characterized by the concentration of large, predominantly chemical industries with high market penetration and know-how. Nevertheless, Manni Oil will occupy a niche in the market, with a natural product with unique characteristics. The barriers to entry lie in the high level of know-how required to take over the sector, with particular reference to the technological assets that companies need to operate in it; Manni Oil has the necessary knowledge and skills, as well as innovative technological equipment, including the dryer that will be patented in the future.

The Perfect Oil project

Until 2018, however, the company operated with a limited production of an average of 2,000 liters per year, which was completely exposed to the annual fluctuations resulting from the course of the agricultural years. That year, though, there was a turning point. In 2018, Manni Oil officially became a client of Blue Ocean Finance, and the 'The Perfect Oil' project was undertaken. For this reason, in the same year "Manni Oil Società Agricola S.r.l." is founded and registered as an Innovative Startup in the special section of the Register of Companies. Thus, it acquired the previous existing company. It was at this point that the Innovative Startup began to refer to oil techniques to produce IGP Tuscan extra virgin olive oil, guaranteeing a high content of polyphenols known for their antioxidant properties. The Perfect Oil project consists of the construction of an integrated extra virgin oil production platform. The innovative and fully technological mill allows Manni Oil's production to be fully coherent with the concept of Circular Economy. The production of this "perfect" oil using the 4.0 Mill allows the oil to stay well above the limits set by the European Food Safety Authority (EFSA). The latter states that oil can only have a significant level of antioxidants when it contains 5 grams of hydroxytyrosol in 20 grams of oil. With these characteristics, it can be stated that the oil has an antioxidant function and reduces the risk of coronary heart disease. The University of Florence demonstrated that the oil produced by Manni Oil, already before the construction of the oil mill, holds 30% more than enough to be considered High in Antioxidants. The main features of the 4.0 Mill are as follows:

- 70/100 % more polyphenols than the world's best oils
- Stable extra virginity guaranteed by the Smart Cap patented together with the University of Florence
- Beneficial contribution to the consumer's health
- Zero pollution and environmental/social cost
- New revenue lines deriving from the up-cycling of production waste

The main innovation in Manni Oil's production process comes from the use of the so-called up-cycle system. Thanks to the new mill, all the waste from oil production is reused to create new lines of business for the company. To better understand the company's core business, we will explain the production process in more detail below.

The Circular Production Cycle

Generally speaking, olive production has a sufficiently low yield of transformation. Without going into arguments of slight interest for the economic aspect of this document, the average yield of 100 kilograms of olives is about 13/15 %. This means that pressing 100 kg of olives produces about 15 liters of oil. To have a comparison, just imagine that from 100 kg of grapes, is possible to obtain about 75 liters of wine. A sufficiently large difference. The remaining 85% of common oil production is waste matter. This waste is essentially made up of two components:

- Pulp, the matter remaining after a substance such as fish or castor oil seeds has been pressed to extract the oil or juice
- Olive’s bone, the interior hard part of olives that usually constitutes the waste

Within a common oil production cycle, these two waste products would have to be disposed of at a relatively high cost. The yield of 100 kg of olives is approximately 13 liters of oil and 87 kilograms of waste products. Thanks to the 4.0 Mill, however, the uses of pulp and olive kernels are different. Manni Oil is able to create a paste through a process of drying and micronizing the olive pulp. The term micronization (or micro-milling) refers to a particular milling technique in which the size of the fragments obtained is of the order of magnitude of a micrometer. By drying this product, water is obtained which Manni Oil readily re-uses to irrigate its fields and exploit the biodynamic nature of the water coming from the olives. In this way, respecting the principles of circular economy to perfection, the cost of disposing of the first waste product is completely amortized and the first alternative revenue line to the sale of the oil is created. As far as olive bones (or kernels) are concerned, their reinvestment is generally more compliant as they lack any nutritional properties. Nevertheless, Manni Oil has intention to sell its waste kernels to industries producing fuel for pellet stoves. Although for many people this name is completely unknown, it is good to know that olives' bones pellets are one of those biofuels that are becoming increasingly popular in Italy as a valid alternative to traditional solutions, and this is due to several specific factors. When we talk about olives' kernels pellets, we mean a type of solution that is increasingly common in both residential and industrial heating due to its excellent calorific power (6000 Kcal/Kg) and low post-combustion residues (about 1%). Even if we only consider the fact that olives' bones pellets are a biofuel obtained from olive processing waste, it is already possible to appreciate the first great characteristic of this product, namely the fact that it is completely eco-sustainable and renewable. Olives' bones pellets also have a low moisture content (less than 10% on average), which makes them extremely resistant to mold attack and not very likely to absorb moisture from the surrounding environment. For this reason, this type of fuel is becoming increasingly popular in Italy. As it is essentially a waste product, its cost is not very high and yet it has excellent biofuel characteristics. Olive pits are also sold by Manni Oil to cosmetic companies to produce face scrubs. In this way, a second alternative revenue stream to the sale of oil has been created. Manni Oil, in doing so, manages not only to cut the disposal costs of oil production but to create revenues from products that were previously waste.

Oil Product lines

Until 2018, Manni Oil had only and exclusively two product lines.

- “Per Me”: 315.45 mg/L of hydroxytyrosol and its derivatives per serving of 20 grams of MANNI: 6.8 mg

- “Per Mio Figlio”: 291.76 mg/L of hydroxytyrosol and its derivatives per serving of 20 grams of MANNI: 6.3 mg

These two oil lines have been awarded the '5 Gocce Bibenda' award for three consecutive years, a certification of excellence for quality oils. The annual production amounts to 2,000 liters and takes place on the farm in Seggiano, Grosseto. The production amounts to 20,000 bottles of 0.1 liters (3.4 ounces) sold at € 19 each (the cost per liter is € 190). The Tuscan extra virgin olive oil on sale since 2001 has raised the global quality standard. The first line "Per Me" has a more robust taste, in contrast to the second line "Per Mio Figlio" which is more suitable for light condiments. With the introduction of the 4.0 Mill and "The Perfect Oil" technique, a new oil production line will be introduced.

- “The Oil of Life”: 250 ml (8.45 oz) bottled oil with unique quality characteristics but at a lower price. Full production will be around 40,000 liters per year. Its biochemical characteristics will be guaranteed not only thanks to the patent on the cap, SmartCap, which does not allow air to escape and hermetically seals the bottle but also by the patent, already used for previous production lines, of a bottle made of a reflective material that filters the passage of light by 99%, guaranteeing a very high level of quality and maintaining all the beneficial properties of the oil and a high level of polyphenols for much longer than the competition.

In addition to the production of oil in the lines of "Per Me" & "Per Mio Figlio" sold at € 190/liter and "The Oil of Life" at € 49.50/liter, there will be olive flour sold to the nutraceutical industry as a food supplement and organic flour to produce functional bakery-type foods.

Olive flour represents a basic product of the innovative process implemented by Manni Oil, thanks to the peculiar characteristics that make it unique and not comparable to similar polyphenolic substances on the current market. Olive flour can be used in various commercial solutions, both as a food supplement and as a raw material to produce baked goods such as pasta, bread, biscuits, crackers, etc. The antioxidant and antiatherogenic characteristics of olive flour remain in the final products, thanks to the number of polyphenols in them and the technologies implemented in the production process that do not alter their balance. Manni Oil, therefore, addresses a B2B market with a natural, Organic Toscano PGI product, whose beneficial characteristics are accredited and certified by the University of Florence. By purchasing Manni Oil's olive flour, companies reduce the risk and difficulty of the process of finding healthy, natural raw materials with certified characteristics, highlighting the value of the products distributed. Olive flour is a versatile product that meets the needs of companies producing functional foods and food supplements. These companies will be able to distribute to their market a product that can be used daily, guaranteeing the achievement of nutritional and beneficial objectives, which alternatively would have to be met with entirely chemical and/or industrial substances with reduced bioavailability. Nutraceutical companies, in fact, by purchasing Manni Oil's olive pomace, will be able to reduce the quantity of product used, since, at equal volume, pomace exerts more beneficial effects on humans than alternative chemical substances. The explanation for this is given by the assimilation capacity of the human body; olive flour, being a natural product, is easily assimilated. In particular, Manni Oil's olive flour fulfils several functions, i.e., it enhances the antioxidant and anti-atherogenic action and benefits the human cardiovascular and digestive systems, thanks to the unaltered percentage of polyphenols and dietary fiber it contains.

Financial Analysis 2019 – 2020[14]

Income Statement	2019	2020*
Revenues	**106.721 €**	**219.234 €**
Variation of finished/semifin. Products	- €	- €
Other revenues	456.539 €	2.655.410 €
Total Revenues	**563.260 €**	**2.874.644 €**
Raw Materials Costs	244.455 €	83.985 €
SG&A Costs	577.308 €	2.891.479 €
Changes in inventory of Raw materials	- 274.027 €	- 286.407 €

[14] Source: Cerved
* Provisional Balance Sheet/Income Statement

Value Added	**15.524 €**	**185.587 €**
Wages and Salaries	12.132 €	65.581 €
Gross Operating Profit	**3.392 €**	**119.736 €**
D&A Investments	- €	- €
Other Costs	- 873 €	- 3.410 €
EBIT	**2.519 €**	**116.326 €**
Interests	- 1.276 €	- 22.523
EBT	**1.243 €**	**93.808 €**
Tax	- 338 €	- €
Net Profit	**905 €**	**93.808 €**
EBITDA	**2.519 €**	**116.326 €**
EBITDA Margin	0%	4%

Balance Sheet - Assets	**2019**	**2020***
Long Term Assets	**1.650.257 €**	**4.338.721 €**
Intangible Assets	121.435 €	123.436 €
Tangible Assets	1.528.822 €	4.215.285 €
Financial Assets	- €	- €
Short Term Assets	**762.625 €**	**1.457.650 €**
Inventory	274.027 €	560.434 €

Accounts Receivable	169.407 €	663.440 €
Other Accounts	2.947 €	41.313 €
Cash & Cash Equivalent	316.244 €	192.079 €

Balance Sheet - Liabilities	**2019**	**2020***
Equity	**1.951.903 €**	**3.410.798 €**
Shareholders' Equity	1.558.824 €	1.911.765 €
Share Premium Reserve	391.174 €	638.235 €
Other reserves	905 €	860.798 €
Long Term Liabilities	**300.000 €**	**2.231.740 €**
Banks Long Term Debt	300.000 €	1.830.000 €
Other Debtholders	- €	401.740 €
Short Term Liabilities	**161.979 €**	**153.832 €**
Banks Short Term Debt	- €	- €
Account Payables	161.946 €	130.537 €
Other Short Term Debt	33 €	23.295 €

Ratios	**2019**	**2020***	**Industry average**
ROE	0,05%	3%	2,85%
ROI	0,1%	2	2,38

ROS	2,36	4	4,47
Interest/Revenues	0,01	0,10	1,46
Bank Debt/S.T. Assets	0,39	1,27	N.D.
Debt Ratio	0,15	0,65	1,47
E/D	6,5	1,86	1,12
Interest / GOP	0,00%	0,19%	N.D.
Current Ratio	4,71	9,48	1,19
Acid Test	3,02	5,83	0,72
DSO	3,88	1,89	111,92
DPO	72,30	15,94	146,9

Total assets in the balance sheet as of 31 December 2020 amounted to € 5,796,371, a significant increase of 140.30% compared to the previous year. On the same date, the balance sheet assets showed a working capital of € 1.456 million (+91%) and fixed assets rose to € 4,339 thousand (+163%). On the liabilities side, shareholders' equity amounted to €3,411,000 (+74%) and total debt exposure to €2,386,000 (+417%), of which short-term debts accounted for only 6.5%.

The profit and loss account shows that the company had a turnover of € 219 thousand in 2020. It closed with a positive Net Profit generated during the year under review of more than € 90 thousand. The debt ratio shows a good debt situation with sufficient company autonomy.

At the same time, financial expenses accounted for an insignificant proportion of turnover (10%). Short-term debts accounted for 5.36% of the turnover, a clear improvement compared to the previous year. The ratio of operating profit to turnover increased from +0.85% in 2019 to +42.78% in 2020. The return on equity (ROE) ratio showed a clear improvement (+0.05% in 2019 and +3% in 2020), much in line with the average values for the sector.

Paragraph 7: Company's financing operations

Once we have analysed the history of the company and its core business, we can get to the heart of Manni Oil's financial structure. In this paragraph, we will analyse the specific financing operations of the company since the date of its registration as an Innovative Startup, with a particular focus on its legal status as an agricultural limited liability company. We are going to analyse the specificity of the financing requested, and the various "sources" of new finance used by Manni Oil to receive these resources.

Benefits

Before analysing the various operations conducted by Manni Oil over the last two years, we will try to clarify two fundamental aspects. These aspects are the benefits obtained by the company both as an agricultural company and as an Innovative Startup. The main facilities that Manni Oil benefits are:

- As an agricultural company, greatly reduced taxation on profits and up to 70% ISMEA guarantee on bank financing
- As an Innovative Startup, tax incentives for investors of 30% deduction for individuals or 30% deduction for corporations
- As an Innovative Startup, access to flexible share management
- As an Innovative Startup, access to zero-interest financing guaranteed by Smart&Start

Briefly analysing the ordinary discipline of the agricultural company, we can better understand the regulatory framework through which Manni Oil obtains a tax relief on the company's profits.

The procedures for applying the favourable regime for agricultural companies were dictated by Ministerial Decree No 213/07. The facilitated regime provides for the determination of income according to the cadastral criterion, which applies to partnerships ("s.n.c." and "s.a.s.") or L.L.C.., and cooperative societies, which qualify as agricultural companies. Companies meeting the following requirements qualify as agricultural companies:

- They have as their object the exclusive pursuit of the activities referred to in Article 2135 of the Civil Code (farming, forestry, animal husbandry, and related activities)
- They contain the words "agricultural company" in the company name (in the case of partnerships) or company name (in the case of limited companies)

The option for the facilitated regime provided for by Law 296/06 allows the determination of the income of agricultural activities, as provided for by Article 32 of Presidential Decree 917/86, in an amount equal to the agrarian income (Cadastral Criterion), instead of according to the ordinary criteria for determining business income (analytically). The scheme in question was introduced to encourage individual farmers to switch to a corporate form, by maintaining for companies that qualify as 'agricultural companies' a special system for determining income, which is the natural taxation system only for individuals, simple companies, and non-commercial entities (Circular No. 50/E/2010 of the I.R.S). The regime of taxation on a cadastral basis is optional. To exercise the option, the provisions of Presidential Decree no. 442/97 apply, insofar as they are compatible. In particular, the determination of income according to the cadastral rules is carried out through an option to be communicated in the first annual VAT return to be submitted after the choice has been made.

On the other hand, concerning the benefits that Manni Oil has access to as an Innovative Startup, we would like to mention with particular interest the flexible company rules (point no. 3, page no. 6 of the document), the tax incentives for equity investors (point no. 10, page 8) and the Smart&Start zero-interest loan (point no. 16, page 10).

Financing operations

The main financial operations undertaken by Manni Oil in the last two years are as follows:

- Capital Increase at the end of 2019 for a total of € 1.95M
- Bank loan for the financing of Mill 4.0 for a total of € 1.4M
- Capital Increase at the beginning of 2020 for a total of € 600K by way of Follow-On by the shareholders
- Bank financing at the end of 2020 for a total of € 540K
- Adjudication of the Smart&Start tender for a value of approximately € 800K
- Capital Increase at the beginning of 2021 for a total of € 1.2M with the entry of two new shareholders

Capital Increase 2019

The first transaction we will analyse concerns the first capital increase conducted since the foundation of Manni Oil Società Agricola S.r.l. The actual amount of this first capital increase was € 950,000. In this operation, it was foreseen the entry of 3 more partners than the sole director and founder of the company, Armando Manni. The initial composition of the Cap Table sees Armando Manni as the sole shareholder with a share capital of € 1,000,000.

The investment operation provided for the division into different types of shares. This possibility is made possible by the flexible company regulations already mentioned above. This tends to be an extremely useful tool when new shareholders are expected to join as investors only. By applying different types of shares, it becomes possible to differentiate the voting rights of the shares and to regulate the related property rights. Very often, Startups are established by a single investor partner who becomes the sole director of the company. In this case, it is very common to see a division of shares in investment agreements that allows the sole director to hold shares with higher voting rights by giving investors share types with higher capital rights. In this way, the sole director is able to ensure a high degree of decision-making autonomy in relation to the company's core business and protect himself from disagreements with the other shareholders, who receive a greater share of the profits.

The Pre Money valuation of the company was € 1.7 M. Consequently, the Post Money valuation is made by adding the related € 950k capital increase to the Pre Money valuation, resulting in a total valuation of € 2,650,000. The contribution of new finance has been divided as follows:

- Armando Manni, with a follow up on of € 200k
- KDSGAP L.L.C., with an investment of € 350k
- Due Emme Investimenti, with an investment of € 300k
- Duncan Niederauer, Former CEO of the New York Stock Exchange, and current chairman of Venezia Calcio, newly promoted to Serie A, with an investment of € 100k

Using the formula set out earlier in the paper, it is possible to quickly calculate how much the share capital amounts to after the capital increase.

Pre-Money Value : Share Capital BCI = Post-Money Value : Share Capital ACI

Thus, thanks to the proportion it is possible to calculate that the Share Capital after the capital increase amounts to € 1,558,823.33 with a difference of about € 559k compared to the share capital before the operation. In this way, it is also extremely simple to calculate the value of the investment to be attributed to Share Premium Reserve as the difference between the € 950k and the capital increase. The Share Premium Reserve will therefore amount to € 391,176.47. Overall, the ownership share sold by Armando Manni in this transaction will be 28.3%.

Bank Loan 2019

The second operation we are going to analyse is the financing for the construction of the Mill 4.0. The financing operation carried out in December 2019 provides for the subscription of a mortgage loan with verification of the State of Progress of Works. The amount of the financing is € 1,400,000.00. The Construction Loan with Work Progress Verification is a medium-long term mortgage loan for companies and is requested for the construction/renovation of a building complex or a building to be used for carrying out an economic or professional activity or as a home. The loan is secured by a mortgage on the property to be built/restructured. The borrower will repay the loan by periodic instalments including:

- interest over the period scheduled for completion of the work
- principal and interest during the ordinary amortization period.

The loan is disbursed in instalments. The final public act of disbursement and receipt determines the beginning of the amortization period. The maximum duration within which the works are to be completed is contractually determined within the maximum limit of 36 months. The operation in question has a planned duration of 15 years, i.e., 180 months. In addition, a pre-amortisation of 24 months is envisaged.

Capital Increase 2020

Then, at the beginning of 2020, there was a further investment by the existing shareholders. The amount of this Capital Increase was € 600,000.00 by way of follow-on. The Pre Money valuation of the company, in this case, coincides with the Post Money valuation used in the previous financing operation.

- Pre Money = € 2.650.000,00
- Post Money = Pre Money + Capital Increase = € 2.650.000,00 + € 600.000,00

In this case, the division of the investment and the relative shares of the share capital contributed are as follows:

- Armando Manni, with an investment of € 100k
- KDSGAP L.L.C., with an investment of € 300k
- Due Emme Investimenti, with an investment of € 150k
- Duncan Niederauer, with an investment of € 50k

Thanks to this Follow-on, the company's share capital increased from € 1,558,823.53 to € 1,911,764.61. Consequently, the share premium reserve increased by € 247,058.82. Therefore, there has been a reshuffling of the company's Cap Table:

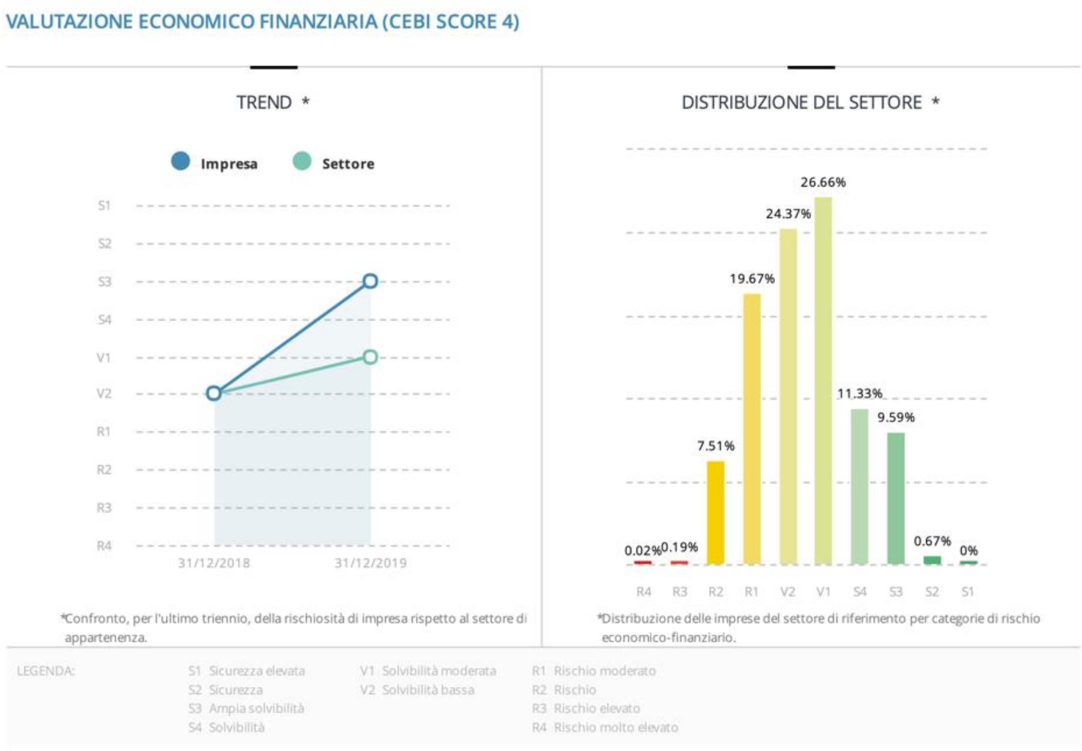
- The share sold by Armando Manni in this transaction amounts to 15.38%. Therefore, his share in the company decreases from 71.70% in 2019 to 61.54% in 2020.
- KDSGAP L.L.C., on the other hand, contributing 50% of the investment, sees his share increase from 13.21% to 20%.
- Due Emme Investimenti, by contributing € 150,000.00 instead, increases from the previous 11.32% to 13.85%.
- The last partner, Duncan Niederauer, saw his investment increase from 3.27% to 4.62%.

Bank Loan 2020

In 2020, a second deal was conducted that changed the company's capital structure. This debt financing was granted in August 2020. It provides for the financing of an amount of € 540,000.00 with a maturity of 72 months and 12 months of pre-amortization. This loan, maturing in 2026, was granted at an interest rate of 2.40%, thus further underlining the economic and financial stability of the company.

In this regard, we are going to analyse one of the sources most frequently used by Italian banks in terms of assessing corporate solvency during financing operations. Cerved is the largest information provider in Italy and one of the leading rating agencies in Europe. It supports companies, banks, institutions, and individuals to protect themselves from risk and grow sustainably. By implementing data analytics, Cerved provides clients with services, consulting, and digital platforms to manage risk and support data-driven growth.

In addition to the analysis of the company's balance sheet and the Financial Plan, the company's Cerved are often examined during the bank valuation. As far as Manni Oil is concerned, the indices that guarantee high reliability are the "Cebi Score 4" and the "Solvency Analysis". In both of these indicators, Manni Oil's Cerved rating has very good results. The first index shows the distribution of companies in the sector in relation to the categories of economic and financial risks. For Manni Oil, the trend is higher than that of the sector in 2019. The second one shows a sector solvency level of S3, which indicates ample financial solvency with only 9.59% of Italian agricultural companies having this situation.



Smart&Start 2020

As an Innovative Startup, Manni Oil was also successful in winning the Smart&Start call for funding. As already mentioned, this is one of the zero-title funding opportunities offered by

Invitalia and, in my humble opinion, the best accessible source of funding dedicated to Innovative Startups. Since this facility is available only once in the lifetime of the company, the choice of when to apply is crucial. For Manni Oil, this moment has arrived in the second half of 2020. In fact, in October 2020, the Smart&Start contract was signed, thanks to which Manni Oil had access to zero-interest financing on a total spending plan of €809,366.40.

The main expenditure incurred by Manni Oil is related to tangible fixed assets. This is due to the farm-like nature of the company and the related expenditure on machinery to implement the circular production process. The other expenses relate mainly to the expenses for the patenting of the Smart Cap and the Manni Oil Anti-Reflective Bottle, marketing expenses to expand the business, and related personnel costs. Funding to support the company's working capital was also accessed and is available up to a maximum of 20% of the total expenditure plan. The tangible assets identified as necessary for the production process of pomace, as well as of kernels, are the drying chambers and the micronization machinery. The following machines are foreseen for up-cycling: machinery necessary for the up-cycling process of production waste (pomace and kernel), which will be patented; automatic bagging machine to be purchased.

The processing of the products will be carried out using innovative drying rooms designed and built in-house to meet specific quality standards. The dryer, using artificial intelligence, provides for the monitoring of the active principles of the material, thermal, humidity, and handling controls. The chambers that make up the machine are also built using the most innovative production techniques and tools. This drying process is followed by the micronization process, the machinery for which is purchased from third parties. This is followed by the automatic bagging of the powders.

Through this operation, the company confirms its circular economy choices. These technologies are the result of internal and external studies and experiments carried out in collaboration with institutional partners and accredited companies. Intangible investments include contractual relationships with the University to proceed with the completion of works. In addition, an assessment is underway with the University on the possibility of launching further research projects in the future and possibly identifying additional revenue lines. An agronomic technician will be hired to ensure that the various production processes are carried out correctly so that the resulting product is exactly equal to the results of the research. Finally, there are marketing costs for the implementation of the go-to-market strategy, both online and offline. Finally, operating costs refer to the purchase of consumables that will be part of Manni Oil's production process.

Capital Increase 2021

At the beginning of 2021, a new financing operation was initiated, with two new partners joining the company. The capital increase amounted to € 1,200,000.00 and provided for the investment of these new financial resources in the following way:

- Machinery and equipment for € 372,960.00
- Research and Development and Smart Cap for € 30,000.00
- Raw materials for € 472,040.00 for the benefit of the pressing and sale of the 2020 product.
- Marketing for € 165,000.00
- SG&A for € 160,000.00

The injection of new equity finance saw the company structure change further, both in terms of the number of shareholders and their respective shares. The respective investments are shown below:

- Armando Manni invested a further € 20,000.00 in order to maintain a majority shareholding in the company
- Even during this capital increase, partner KDSGAP L.L.C. was the largest investor with an amount of € 430,000.00
- Due Emme Investimenti, on the other hand, invested € 200,000.00 and
- Duncan Niederauer invested € 100,000.00
- The first of the new partners entering Manni Oil, whom we will call Sedim S.r.l., entered with an investment of € 250,000.00
- The last investor, Anthony Guerrerio, invested € 200,000.00

The Pre Money valuation made by the company this time was € 5,300,000.00, influenced by the award of Smart&Start and the increased structuring of the company. This led to a Post Money of € 6,500,000.00. The share capital increase amounted to € 432,852.39 and the related share premium reserve to € 767,147.61. In conclusion, the company's current Cap Table following the capital increase is as follows:

Partners	Nominal Share Capital	Quota
Armando Manni	€ 1.183.684,79	50,49%
KDSGAP L.L.C.	€ 537.458,38	22,92%
Due Emme Investimenti	€ 336.847,95	14,37%
Duncan Niederauer	€ 124.306,33	5,30%
Sedim	€ 90.177,58	3,85%
Anthony Guerrerio	€ 72.142,06	3,08%
Total	**€ 2.344.617,09**	**100%**

Paragraph 8: Manni Oil’s Development Prospects

Exit or Internal Growth?

In the previous paragraph, we had the opportunity to go into the specifics of Manni Oil's financing operations. Numerous operations, if we consider that registration in the special section of the companies registers only took place in 2018. The possibility of obtaining guarantees, the possibility of subdividing the company's share packages into categories of shares, and the innovativeness of the business project are key factors in the development of a financial strategy. However, in order to be able to structure an optimal financing strategy, one of the critical success factors lies in the clarity with which one sees the future of the company. For this reason, in this section, we will try to focus on Manni Oil's possible future strategies.

The company's vision is currently based on two types of solutions. The adoption of one of the two aims will depend on several factors, which often go beyond mere financial planning. The two main alternatives are either Exit or Internal Growth. Obviously, as far as the former is concerned, taking the Exit route is never an easy matter for any entrepreneur. Although there are companies founded solely and exclusively for that objective, Exit often clashes with extra-economic or behavioural finance factors. However, the conditions under which it makes sense to exit also depend on the economic entity interested in the acquisition. As this is a scientific and academic paper, we will limit ourselves to highlighting how any M&A process cannot be limited to the definition of "transaction" and reduce to that sense what many define as an art rather than a science. Clearly, there are economic and financial factors behind any Exit, but more often than an economist would like to admit, the key implications of such transactions depend on situational and/or emotional factors.

The internal growth process of a company deserves a different consideration. At the heart of any company classified as a Startup is the hope of being able to implement the right virtuous cycle of costs and revenues to achieve Scale-up. There is no single definition of Scale-up, but the following is the most appropriate one for this paper.

"A Scale-up is an innovative company that has already developed its product or service, has defined its business model (scalable and repeatable), operates on the market, and has certain successful characteristics that allow it to aspire to international growth in terms of market, business,

organization, and turnover. From a financial point of view, the aim of the Scale-up and its growth is also to repay its investors, through a form of exit."[15]

Nevertheless, there are also some variables generally considered useful in understanding whether a Startup can become a Scale-up such as:

- Strong market traction, i.e., evident, quantifiable market demand for that product or service,
- 1-10 million € turnover
- At least 1 million users (only in B2C)
- Strong growth trend (min. 20% YoY)
- 20% of turnover from foreign market

Although by the very nature of Manni Oil's business some of these variables may not be a point of reference (see B2C customer numbers), a company making such investments and already enjoying a high-level sales network has every chance of becoming a Scale-up.

Manni Oil enjoys a high reputation in the marketplace for building strong relationships with loyal customers. This approach, which has already proved successful in the B2C market, is also being proposed in the B2B market. The new business relationships will be characterized by an equal relationship and the desire to create a flexible supply chain that can facilitate the business objectives of the counterparts. Manni Oil recognizes that customer satisfaction is an essential element of the business, so efforts will be directed towards building a direct and synergistic relationship. The traction channels used are naturally generated by word of mouth from customers; for this reason, Manni Oil does not need onerous marketing campaigns aimed at the public, but rather to find suitable customers with whom to establish profitable and long-lasting business relationships.

In this respect, the possibility of expanding its production cycle and the volumes offered to the market of a high-quality oil seems the most attractive option for a company that invests heavily in innovation and growth. One of the most popular scenarios for Manni Oil's business is the construction of a new industrial Mill in Sicily or California to increase production. The Mill will be financed by reinvested earnings or by bank long-term debt.

However, the financial and strategic planning of a company is often overwhelmed by unpredictable events. In the first quarter of 2020, an unreliable event occurred, the Covid-19 pandemic, which will have a dramatic impact on all national and international economic systems. The high risk of contagion has pushed several national governments, including Italy, to impose significant

[15] "Cos'è lo Scale-up e quali sono le sue caratteristiche", 08/11/2018, startupbusiness.it, https://www.startupbusiness.it/cose-la-scaleup/88836/

restrictions on economic and social activities. The lockdown operation in Italy began on 9th March 2020, when almost all sectors were blocked, except for agriculture and the food supply chain, which was deemed to be of national interest. Among the halted economic sectors, there was the construction activity; therefore, the construction of the oil Mill 4.0, owned by Manni Oil, was also suspended. From 4th May 2020, certain economic blockages previously planned were removed and consequently, the construction of the mill was reactivated. For this reason, the following financial forecast will consider the launch of "The Perfect Oil" from the financial year 2021 and the achievement of maximum production capacity in 2024. In addition, the production of the new Olive Powder line and the strengthening of the market position with the "Per Me & Per Mio Figlio" oil line is expected. Manni Oil through the implementation of the "The Perfect Oil 4.0" project is no longer targeting a market composed only of final consumers and/or restaurateurs. This productive project integrates them in the set of industrial players to which the new product line will be dedicated. The olive flour offered to nutraceutical companies is a high-quality product, whose properties are certified by the University of Florence. Nevertheless, it is a product with Toscano PGI organic certification, which means it is far removed from substitute products that, given their industrial and non-organic matrix, and even though they may contain the same number of polyphenols, are not comparable. The selling price, which is set according to the company's production goals, is the result of a process of high innovation in the sector and, at the same time, in balance with the costs of substitute products. By using olive flour in their supply chain, industries will guarantee consumers products with high bioavailability, ensuring their antioxidant benefits, useful in preventing the development of certain aging and cardiovascular diseases. Thanks to this project, Manni Oil helps the entire entrepreneurial ecosystem both as a Startup and as an agricultural company. It shows which is the way to implement a successful entrepreneurial project that has zero impact on nature. Not only that, it demonstrates on a national and international level that it is possible to revolutionize the industry and pursue not only profit-related business goals but also a responsible investment. Manni Oil is a clear example of Italian excellence in the world, both in terms of entrepreneurship and sustainability.

Conclusion

Within the report, we were able to obtain a well-defined overview of what the context is in the world of Italian Startups. To sum up, we can define what is called a Multi-source Funding strategy.

1. Know yourself

The first step in structuring an optimal funding strategy is to know yourself. As we have seen, there are plenty of facilities for companies, whether they are Innovative Startups or not. Being aware of the regulatory environment in which you operate is of primary importance. Often, the most insignificant details can lead to totally wrong assumptions. Knowing your own does not change the destination you want to reach. Rather, it changes the route you want to take to get there. To make the idea clearer, I will benefit from a simple but very useful metaphor. We will cover the fundamental aspects of structuring a Multi-source Financing strategy as if it were a journey. If a person has to get to Milan, he knows he has to head north. He enters the destination on Google Maps and sets off. Same thing for a business. When defining the business plan, it is very clear what the destination of the company is. Of course, there are many ways to get to Milan. But that's something that comes later. Knowing your company is like knowing your means of transport. If it's a vehicle with a low engine capacity, then I can't take the motorway. And this will necessarily delay my arrival in Milan. If it's a high-capacity vehicle, then I can take the motorway. The speed of travel can be well represented by the marginality and the numbers that the company can make. The higher the speed, the sooner I will arrive in Milan. The higher the numbers, the sooner I can get to the target. But there are many factors to take into account. Speed limits, weather conditions, whether I'm traveling on two wheels or four. All details that can slow me down. And in the business world, in the long run, they can also lead to the failure of a company. So, knowing your business is crucial to choosing the best path to take. Another key factor is knowing whether you are traveling alone or accompanied. This can make a difference, for example, when it comes to financing. A sole director and founder applying for a bank credit line for his or her business are worthwhile. It is not uncommon for banks to require personal guarantees from directors of one-man companies, even if they are L.L.C.'s. If there are two founders, this can make the difference between a yes and a no. This, especially in times of economic contingency, can mean the end or continuation of entrepreneurial activity.

2. The Prevention is better than the cure

Therefore, before any Financial Plan can be structured, decisions need to be made on topics that often seem second nature. They are not. Some key points even deserve attention before the company is created. Understanding whether you have the qualities to be recognized as an Innovative Startup is crucial. Not only that but if you do, your funding strategy should be expanded to include all the facilities available to this category of enterprises. As in the case of Manni Oil, we have seen how knowledge of business regulations makes all the difference to the implementation of a business plan. Once it is clear whether one can be an Innovative Startup, then the focus shifts to factors such as Corporate Governance, the Deed of Incorporation, and Tax planning. As in the case of Manni Oil, we have seen how knowledge of business regulations makes all the difference to the implementation of a business plan. Once it is clear whether one can be an Innovative Startup, then the focus shifts to factors such as corporate governance, articles of association, and tax planning. All these aspects need to be strategically decided in advance. And the more meticulously we can decide on our preferences in this regard, the smoother our path will be. Before going to Milan, I would make sure that the tyres are okay, that there is oil in the car and that I have the spare tyre in the boot. Then you can start thinking about the best operations for obtaining financing.

3. Which money, How much money and Why I need that money?

Then comes the time to make decisions that may prove crucial in the long run. First of all, three things. Which money, how much money, and why I need that money. As we all know, deciding which financial well to draw from is crucial. Obtaining capital through Equity is different from obtaining it through Debt. Getting it from Debt is very different from getting it through Subsidised Finance. For example, we have seen that with Smart&Start, the best financing opportunity in the world of Italian Startups, you can get up to 90% financing on your investment plan. Fantastic. But the majority of calls like Smart&Start are cash reset, so you have to spend the money before you get the reset. Does the company have enough cash to support the investments? And does it have enough De Minimis ceiling to receive the benefits? All these variables have to be meticulously weighed. Another example. Resto al Sud" call for tenders. The operation is similar to Smart&Start and it is a measure that finances 100% of eligible expenses. 50% non-repayable and 50% through guaranteed bank financing. This call is only available to companies operating in the so-called contingency regions (Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia, Sicily, and the earthquake crater areas of central Italy such as Lazio, Marche, Umbria). This may sound like a fantastic opportunity. And it is. But it must be weighed up carefully. Accessing a loan of this kind obliges the company to invest all the funds in these regions for the entire duration of the loan. This can clash with the planning of any internationalization process of the company and slow down its growth. Or, if the company's objective is to internationalize and it requests access to Smart&Start, which is available only once in the company's lifetime, this could be a mistake. There are special calls for proposals such as the one offered by Simest for the internationalization of Italian SMEs. So, we can see that you have a clear idea of how to finance yourself and why financing yourself is essential. And not only that, being able to work out in advance how much money to apply for is vital. Being clear about the use of proceeds can help us to make the right decision in terms of financing. Asking for too much money could lead to too much liquidity and a cash surplus that I would not know how to spend. And this is certainly an undesirable scenario in terms of opportunity cost. A far worse scenario is asking for too little money. Requiring an equity investment and offering part of the business owners on the market to be able to invest and then not being able to make that investment may lead me to have sold my shares unnecessarily. To follow the metaphor that has accompanied us since the beginning of these conclusions, these three points can be equated to three fundamental moments of the journey. Asking which form of financing to choose can mean what kind of journey to take. To get to Milan, I would avoid going through the Apennines. Wondering how much money to ask for as funding is a bit like getting petrol. I'm sure I'll get to Milan with a lot of fuel, but I could have saved some and still got there. Or if I put in too little, there's the risk of having to stop to refuel again. And in the end, why do I need that full tank of petrol? Do I want to go faster? Do I want to get there earlier?

4. Timing

The last factor to be considered in structuring an optimal Multi-source Financing strategy is time. The time in which liquidity can be obtained is a factor on which the success or failure of an entrepreneurial project may depend. Moreover, the time variable is probably the most random of all. It is certainly the variable most affected by factors exogenous to the company. When structuring a Multi-source strategy, it should always be borne in mind that the different sources from which capital is received have very different time frames. For example, applying for a Smart&Start loan can take up to 6-8 months. Do I have enough liquidity to keep my business running for 6 to 8 months? If the answer is no, perhaps a bank loan may be more appropriate for my strategy. Obtaining bank financing can take up to half the time. Even if I am an Innovative Startup, the

Central Guarantee Fund has a short, fast, and free application process. This can shorten the time even further. Or, if there is the possibility of obtaining a Tax Credit since it is essentially on self-certification, it can take only a month to re-secure that liquidity that I would have had to pay to the State. In today's world, there are also ultra-fast measures such as Crowdlending, which takes even less time to get your funding. On the other hand, initiating other processes such as Equity Crowdfunding or Equity investments can lead to very different and/or indefinite timeframes. The similarity here is like asking how many kilometres away there will be a new petrol station.

Making financing decisions is not easy and requires an all-round set of skills. The same skills that I have found in Blue Ocean Finance. What I feel I can say with certainty is that the discipline of corporate financing is constantly changing. Year after year there are new methodologies and new possibilities. The very nature of financing is intrinsically linked to predicting the future, a much-debated topic in the world of corporate finance. The events of recent years, with the black swan of the pandemic crisis, have provided a totally new perspective. And perhaps it has called the concept of financial forecasting into question a little. What is certain is that through study, through personal preparation and through creativity, whatever the future throws at us, a solution can be found. The skill lies in knowing how to react to incidents along the way. Doing so in a short time and in the best possible way. The shortest distance between two points will always be a straight line. But a straight line may not be the soundest way to get from one to another.

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Abstract

Intro

The main objective of this paper is to understand how best to structure an optimal funding strategy for a Startup. To achieve this objective, it is necessary to understand the context in which the Startup operates. Not coincidentally, the term chosen in the title is "ecosystem". By definition, an ecosystem is a set of living organisms and non-living matter that interact in a given environment to form a self-sufficient system in dynamic equilibrium. The point of analysis on which I think it is extremely important to focus is precisely the term dynamic equilibrium. About country-system Italy, we have all too often heard words like public debt, zero growth, unemployment. And again, economic stagnation, judicial slowness, corruption. To put it like that, it would seem to be a picture where there is no way out. A nightmare of maladministration in which it is easier to bend to the limits of a system than to try to change it. I say that this is not the case. In this paper, we will focus on the living matter of the ecosystem. On that entrepreneurial world that continues to sacrifice itself day after day to assert its independence.

To be able to structure a Multi-source financing strategy, we will analyse in this paper the different sources of new finance available to Italian Startups. Before this analysis, however, an examination of the context of the research has been carried out. In this study we examine the Italian political and economic needs that gave rise to the concept of Startup; then we clarify the definition of Startup itself and the regime in which it operates; finally, we outline the benefits of being recognized as an Innovative Startup and the relative differences with Innovative SMEs. In the second paragraph of the first chapter, the first source of finance, Equity, is addressed. In particular, the different phases of a Startup are analysed from the moment it is a simple idea until the possibility of Exit arises. Subsequently, the paper focuses on the main actors of venture capital investments in Startups and defines their timing of the investment, the economic possibilities, and various other aspects. No less important is the part on the valuation of Startups, a key element of corporate finance and Equity investments. In the third section the world of Structured Debt is analysed and the different mindset a Startup has to deal with when applying for bank financing. For this reason, a minimal in-depth analysis is carried out on the variables taken into consideration by banks when evaluating them, followed by an in-depth analysis of the function of the State and the Central Guarantee Fund. In the fourth and fifth Paragraphs, the issues related to two extremely important sources in the world of Startups, Facilitated Finance and Tax Credits, are explored. The latter represent fundamental alternatives to more structured operations such as equity and debt. Finally, in the second chapter of the thesis, an in-depth analysis is carried out on Manni Oil, a Blue Ocean Finance’s client, through

which various financing operations such as equity and medium-long term debt investments have been conducted.

Paragraph 1: Innovative Startups, requirements and benefits.

The starting point for the analysis of Startup financing methods must be represented by the definition of the Startup itself. Moreover, to better understand the evolution of the concept of Startups in Italy, it is necessary to start from the legal basis that has contributed to giving law value to what previously seemed just another facet of the new American dream.

Since 2012, the legislator has adopted a series of industrial policies measures whose principal purpose has been to create and strengthen the Innovation Ecosystem. The first step in this direction is represented by the so-called Decreto Crescita 2.0 (D.L. 179/2012), which introduced the definition of Innovative Startup by providing an organic framework of facilities aimed to encourage its birth and development throughout their entire life cycle. With this new decree, Italy laid the foundations for a framework with the intention to allow Italian SMEs to grow. SMEs historically represent most of the nation's socio-economic pattern.

The Italian Startup Act categorically refers to Innovative Startups to highlight that the measures are not intended at any newly established enterprise, but only at those with a significant and specifical technological innovation component.

The definition of an innovative Startup is set out in Article 25, paragraph 2 of Law Decree 179/2012.

According to the law, the following companies are eligible for the incentives: corporations, including cooperatives, whose shares or quotas representing the share capital are not listed on a regulated market or a multilateral trading system, and which meet the following requirements:

- Are newly incorporated or have been incorporated for less than 5 years (sub-paragraph b).
- Have their head office in Italy, or another EU Member State, or States party to the Agreement on the European Economic Area, provided they have a production site or branch in Italy (sub-paragraph c).
- Have annual Revenues value of less than €5 million (sub-paragraph d).
- Do not and have to distribute profits (sub-paragraph e).
- They have as their exclusive or main corporate purpose the development, production, and marketing of innovative products or services with a high technological value (sub-paragraph f).

- have not been incorporated by merger, split-off, or spin-off of a company or branch of business (sub-paragraph g).

Finally, the innovative content of the enterprise is identified by the possession of at least one of the three following indicators (letter h):

1. 15% of the higher value between Revenues and annual Costs is attributable to research and development activities.
2. At least 1/3 of the total workforce is made up of PhDs or researchers, or at least 2/3 of the total workforce is made up of partners or collaborators in any capacity with a master's degree.
3. The company is the owner, depositary, or licensee of a registered patent (industrial patent) or the owner of an originally registered computer program.

Among the many benefits available to companies recognized as Innovative Startups, those that deserve particular mention for this paper are the following:

- Derogations from ordinary company law
- Tax incentives for equity investors
- Facilitation of access to the SMEs Guarantee Fund
- Smart&Start Italia

In particular, as we will see in the chapter on the business case, these benefits granted to Innovative Startups aim at allowing companies to have a rapid growth and guarantee a scalability of the business. For example, the flexible company law granted to Startups in the form of limited liability companies (S.R.L.) allows them to use the instruments of public limited companies, such as the creation of share classes, transactions on their own shares, issuing equity instruments, or offering shares to the public. Another key element is the provision of tax advantages to equity investors in Innovative Startups. For individuals, a detraction from gross IRPEF tax of 30% to 50% of the amount invested, up to a maximum of EUR 1 million. For companies, a deduction from their IRES taxable income equal to 30% of the amount invested, up to a maximum of EUR 1.8 million. Moreover, the possibility to access the SMEs Guarantee Fund represent one of the most important measures granted to Startups in terms of Bank financing operations. Last but not least, the chance to apply for Smart&Start, the interest-free financing offered by Invitalia S.p.A. to Innovative Startups.

Paragraph 2: Equity from Innovative Startups' point of view

Funding a Startup can be done in several ways. There are four resources used to fund a company with a development process underway. The most commonly used are Equity and Debt, forms of financing that intervene in the composition of Balance Sheet Liabilities to find new resources for the company. However, these two forms of financing are not always the best way to fund a fast-growing company such as a Startup. The other forms of financing, often ignored, concern access to forms of financing offered by the Government such as Facilitated Finance, national public tenders, or the possibility of saving liquidity through Tax Credits.

The first source of funding we are going to analyse is Equity. Intended as Share Capital, it represents the capital contributed by shareholders to the company. The Equity Capital is also defined as risk capital: in case of default, the company will first have to settle all liabilities in order of priority and, subsequently, redistribute to the shareholders the capital initially paid for the remaining amount (if any).

Equity is a crucial financial instrument used by many Startups and SMEs to accelerate their growth through the entry of new capital. The main point is that Startup needs to grow. The very definition of Startup allows us to understand that the Startup phase is desirable only as a passage for the entrepreneur who wants to invest in his ideas. Equity investments allow us to analyse an important aspect of a Startup's business. We can highlight as many as 5 different phases in the life of a new venture. Understanding well which phase the company is in can allow us to structure an efficient funding strategy and evaluate both positive and negative aspects of each source.

The 5 different phases we can highlight are:

1. Idea phase
2. Startup phase
3. Growth phase
4. Expansion phase
5. Exit phase

Depending on which stage of life a Startup is in, we can have different investors. Within this thesis, we will proceed with the analysis of typical investors in Startups in a chronological order.

Founders

The first investors within a Startup are the founders themselves. They can invest both through the contribution of money and time to devote to the project. Typically, when we have one founder, we don't have any Corporate constraints. Conversely, there may be when we have multiple founders.

Friends&Family

More and more often, when founders do not have high financial capacity, they have recourse to less conventional financing tools such as the so-called friends and family. The main advantage of this type of financing is often the low credit rating of the founder, compared to the alternative of borrowing money from the bank.

Business Angels

While FFFs usually have a direct relationship with the business founder, Business Angels tend to have a direct relationship with the business. They are investors who are betting on their own and other partners' abilities to make profitable investments both for themselves and for the selected Startups. They are managers, professionals and entrepreneurs conscious about risks inherent in high-potential investments and they know that the results will be seen in the medium-long term.

Incubators&Accelerators

According to the reference legislation (d.l. 179/2012, art. 25, paragraph 5), a certified incubator is a corporation, also constituted as a cooperative, resident in Italy, which offers services to support the birth and development of Innovative Startups and has the following requirements:

- it has facilities, including physical locations, adequate to accommodate Innovative Startups, such as spaces reserved to be able to install equipment for testing, verification, or research
- it has equipment suitable for the activity of Innovative Startups, such as ultra-wideband access systems to the internet, meeting rooms, machinery for testing, trials, or prototypes
- is administered or directed by persons of recognized competence in the field of business and innovation and has a permanent technical and managerial advisory structure at its disposal
- has regular collaborative relationships with universities, research hubs, public institutions, and financial partners that carry out activities and projects related to Innovative Startups
- has adequate and proven experience in supporting Innovative Startups

Equity Crowdfunding

The Italian legislation on Equity Crowdfunding has undergone a process of strong simplification in recent years. simplification and strengthening. The 2017 Budget Law, better detailed by the subsequent D.L. 50/2017, extended the faculty to launch campaigns, previously reserved to Startups and Innovative SMEs, to all Italian SMEs. Funding through Equity Crowdfunding platforms consists of the possibility offered to anyone to invest in the Risk Capital of the Startup.

Venture Capital

Venture Capital is not a different and distinct activity from Private Equity, but rather a particular Private Equity activity aimed at financing the company in the early stages of its life cycle. The activity of Venture Capital concentrates, therefore, on investments in the early stages of the entrepreneurial cycle that are particularly delicate and adventurous. The main characteristics highlighted by Venture Capital are as follows. They are used to impose many corporate constraints on the Startups in which they invest. They tend to have considerable extended financial capacities and do not involve a meaningful enlargement of the corporate structure. Nevertheless, the Venture Capital fund that decides to invest in a company usually covers 100% of the financing round. That may exclude the possibility of investment by other investors too.

Club Deal

Club Deals are investment syndicates of which High Net Worth Individuals are members. The latter are identified as individuals with considerable fortunes who are looking for investment opportunities in the market. For this reason, Club Deals are often administered by Private Bankers. In Wealth Management, it is frequent for large amounts of assets to be invested in listed securities such as stocks, bonds, or investment funds to achieve high returns. More and more often, part of these investment portfolios is placed in so-called "Alternative Investments" or "Illiquid Securities".

Private Equity

Private Equity and Venture Capital have many aspects in common. Despite this, there are some differences. The main difference concerns the size of the investment. PE invests larger amounts in more structured companies than Startups. Other meaningful differences between PE and VC are as follows. Venture Capital invests in companies to obtain a Capital Gain, which is substantially realized with the exit. This involves that Venture Capital investments are mainly executed by Capital Increases. As far as Private Equity is concerned, however, this is not the case. In most cases, PEs invest in companies by purchasing shares on the secondary market. For this reason, there is no Capital Increase. In this way, the "old" partners of the company have the possibility to make a total or partial exit from it. Thus, PEs are not interested in bringing new finance into the company. Another key difference is that PEs invests in companies that already have a marginality. They aim to enter to be able to increase that marginality. For this reason, PEs often enter using the multiples method of valuation. They intend to ensure that the exit multiple is higher than the entry multiple. Hence, PE often acts into the day-to-day operations of the firm, seeking to improve the efficiency of processes and improve margins to ensure that the exit multiple is higher. In addition, it is not uncommon for PEs to invest in minority stakes of companies.

Corporate Equity

Increasingly large companies are implementing acquisition processes aimed at Startups and SMEs. Therefore, these types of investments do not assume the characteristics of financial investments but of industrial transactions. The objectives with which they implement these investments are to obtain synergies from the acquisition of the target. Large firms acquire smaller ones to implement new skills within their commercial strategies or expand the business faster. Starting from scratch to develop a new front, especially in an economic scenario where the speed of development of technologies induces to quickly change the strategies themselves, and it is easier to acquire the know-how already developed by other companies.

IPO

An Initial Public Offering (IPO) is a process by which a company offers shares to an undistinguished group of investors for the first time, to list on a stock exchange. The latter is a very long and complex process that requires the company to fulfil three different factors. First, the company's business must meet the formal and substantive requirements for listing. It typically involves strategically strengthening certain functional areas such as administration and/or finance. Besides, the company must have a concrete business plan to submit to investors, complete with forecasts, information systems, and reporting aimed at improving the efficiency of management control. In addition, an adaptation to the "best practices" inherent to the provisions of the TUF on Corporate Governance is foreseen.

In terms of Equity Investment, the so-called Pre-Money Value of the company is of fundamental importance. The basic assumption during a Capital Increase lies in the following proportion:

Pre-Money Value : Share Capital BCI = Post-Money Value : Share Capital ACI

In this case, BCI stands for "Before Capital Increase" and, on the contrary, ACI stands for "After Capital Increase". Then, the following formulas are introduced:

Post-Money Value = Pre-Money Value + Total Capital Increase

Share Capital Increase = Share Capital ACI – Share Capital BCI

Share Premium Reserve[16] = Total Capital Increase – Share Capital Increase

After having clarified the dynamics of a capital increase in Equity, we will go into the issues concerning the Pre-Money Value of the company. The starting point of this analysis is that there is no standard valuation method for a Startup. On the contrary, depending on the stage the company

[16] Share Premium Reserve in the meaning of "Riserva da Sovrapprezzo Azioni", Balance Sheet – Liabilities (A2)

is at, we can apply different valuation methods that each have their strengths and weaknesses. That said, it should be made clear that the only fair valuation of a Startup is when the agreement between the founder and the investor is reached. We will focus on analysing the best valuation methods within the seed and Early-Stage phases. Ideally, we can identify the seed stage as the stage in which no revenues are yet produced by the company. Instead, as Early Stage, we can identify that stage in which, although there are Revenues, the EBITDA of the company is still negative. We can identify 4 different methods for valuation of Startups in those stages of life cycle:

- Risk Factor Summation Method
- Scorecard Method
- Venture Capital Method
- First Chicago Method

Paragraph 3: Debt financing for Startups

Equity and Debt are the most used forms of funding. The different nature of these two forms of financing, however, imposes different mindsets. We can affirm with a fair degree of certainty that Equity side operations live by sentiments of both the parties involved. On the other hand, Debt mechanisms are much more mechanical than Equity financing. The only crucial variable considered by the bank is whether the company will be able to punctually repay its debt.

In order to carry out its activities in the best possible way, the Bank, in compliance with the regulations introduced by Basel, must necessarily reserve a certain amount of capital to be able to grant loans. Specifically, the term "regulatory capital" refers to the amount of money that the bank is required to hold against its Risk Weighted Assets, generally represented by loans. The higher amount of capital held internally by the bank provides more stability to the financial system while reducing profitability for the bank. In fact, a higher percentage of capital held requires a decrease in the amount of capital that the bank can invest profitably. In consideration of these issues, Basel III left the total capital requirement for banks unchanged at 8%. Therefore, for the same loan requirement, two companies with different creditworthiness oblige the bank to hold a different amount of capital. Naturally, the bank will grant the financing to the company with the best creditworthiness in order to be able to reserve as least capital as possible. For this reason, one can relate to the financing of Startups by stating that the better the Startup the bank lends money to, the more the bank can deploy its capital not as prudential capital but as assets. The next logical step is to understand on what basis the bank decides which Startup to fund. The three main variables that determine the Expected Loss on a firm’s funding are Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

The Probability of Default represents the risk associated with the counterparty requesting the financing. In other words, it is the company's rating. Exposure At Default represents the bank's residual exposure at the time of default. Loss Given Default, on the other hand, represents the percentage of the bank's loss in the event of default. The multiplication of these three variables allows the bank to calculate the Expected Loss on the funding provided. That said, to structure an effective funding strategy, the Startup must ensure a high rating to lower the PD, choose a form of funding that allows the bank to have a lower EAD, and provide sufficient guarantees to lower the LGD. There are different types of collateral such as pledges on movable property or mortgages on immovable property or personal guarantees such as sureties. In the next sub-section, we will analyse one of the main advantages dedicated to Innovative Startups in terms of guarantees: The Central Guarantee Fund.

The Guarantee Fund is a measure implemented by the Italian State to support small and medium-sized enterprises in order to facilitate their access to credit. The Fund allows companies, subject to certain specific requirements, to benefit from a State guarantee for the funding they need. It provides for the granting of a public guarantee which stands alongside (and in some cases completely replaces) the actual guarantees presented by the enterprises themselves. Also, using the Guarantee Fund as a support tool, the Government wanted to introduce innovations to facilitate access to fast-growing enterprises such as Innovative Startups, innovative SMEs, and certified incubators. For all these entities wishing to apply for bank financing, there is the possibility of activating the Guarantee Fund coverage free of charge and according to a highly simplified procedure. The Fund's guarantee for these entities covers 80% of the loan and can amount to up to € 2.5 million per company. With the appearance of the Coronavirus emergency, the Government saw the need to issue new decrees and regulations to contain the economic impact of the pandemic.

Paragraph 4: Subsidised finance

Facilitated or subsidised finance is commonly understood as the set of financial and fiscal instruments that the legislator provides to businesses to enable their growth and development. This factor represents a crucial aspect of national industrial policy and one of the most important incentives for the entrepreneurial ecosystem. A State can use subsidized finance to characterize its economic planning by providing different types of intervention. In fact, the most used subsidised finance instruments are the following:

- Non-repayable grants
- Interest-free loans or Soft loans
- Tax reliefs
- Credit Guarantees

The non-repayable grant is probably the best-known form of subsidized finance. It refers to a monetary contribution that is in no way subject to a repayment obligation. It is generally structured in the form of a percentage contribution, regarding the total amount of eligible expenditure specified in the call for proposals. On the other hand, a soft loan is a form of a loan with a variable duration. It can be granted by a public lender, as well as by a bank or both if there is a partnership scheme. Its interest rate is far below market rates. Therefore, subsidized loans are close to zero interest. The incentive is precisely the difference between this rate and the market rate. Another type of contribution is tax relief. In most cases, this takes the form of a tax credit. This term refers to a claim against the I.R.S, which can be used as an offset through the F24 when paying taxes due. In conclusion, a credit guarantee is a form of aid that allows companies to be more reliable in bank financing as described in the previous paragraph. In practical terms, the purpose of subsidized finance is to assist a company in the steps necessary to obtain certain facilities.

Smart&Start is a zero-interest public funding call. It is open to all Italian Innovative Startups regularly registered with a chamber of commerce. In addition, Startups from the convergence regions (Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia, and Sicily) can obtain 30% of the non-repayable funding. Smart&Start finances 80% of the cost plan of a project submitted by the Startup. The amounts foreseen for such projects can vary between € 100,000.00 and € 1,500,000.00. The planned duration of the project is 24 months with the possibility of a 6-month extension for a maximum total of 30 months.

The expenditure categories foreseen for Smart&Start are the following:

- tangible assets
- intangible assets
- services functional to the implementation of the business plan
- employees and collaborators

Business plans concerning the production of goods and the provision of services are eligible for aid if they have at least one of the following characteristics:

- significant technological and innovative content, namely

- development of products, services, or solutions in the field of the digital economy, artificial intelligence, blockchain, and the internet of things (IoT)
- economic exploitation of the results of the public and private research system (spin-off from research).

Paragraph 5: Tax Credit

This instrument can be defined as a tax claim against the State provided certain conditions are met. The particularity of tax credits lies in the fact that they are payable by any company, not only by Innovative Startups. However, they represent a considerable advantage for the latter since the activities carried out by them are often consistent with the constraints imposed by law among the activities eligible for the credit. In this respect, we can highlight the presence of different types of the tax credit. Nevertheless, it could be useful to consider the ones of most prominent interest for Startups, thoroughly aware that this analysis cannot be considered exhaustive with respect to all existing solutions. However, in consideration of the mean purpose of this paper, i.e., Startup financing, theoretical and practical background on different types of the tax credit will be provided. It should also be worth noting that tax credits do not fall precisely into the category of corporate financing. This is because the enterprise is not the beneficiary of any Cash In, but rather of a "financial saving". The typical functioning of the tax credit is that of the so-called compensation. For this reason, when the firm is in the position to claim a tax credit from the State, it is possible to offset the payment of taxes and obtain a financial advantage. This offsetting is done by entering the tax credit in F24, the tax payment form for businesses. There are three main reasons why we include tax credits in the design of an optimal funding strategy for Startups:

- Consistent activities
- Quick turnaround
- Significant amount

Paragraph 6: Manni Oil

Manni Oil is the owner of 11 registered trademarks including MANNI®, Per Me®, and Per Mio Figlio®. Since 2001, Armando Manni has successfully created an international brand of excellence that has become synonymous with quality and luxury with his organically certified and Toscano IGP Extra Virgin Olive Oil. The exceptional quality of his oil is recognized by the international press and the world's top chefs, who call it the best and healthiest extra virgin olive oil on the global market. Manni Oil's high reputational positioning is in itself a key asset for the current business, capable of spreading trust among new stakeholders as well. Furthermore, for the "The Perfect Oil

4.0" project, innovative knowledge and skills were developed internally and externally, such as the use of artificial intelligence in production processes and in general the entire implementation of the new circular economy production process.

Until 2018, however, the company operated with a limited production of an average of 2,000 liters per year, which was completely exposed to the annual fluctuations resulting from the course of the agricultural years. That year, though, there was a turning point. In 2018, Manni Oil officially became a client of Blue Ocean Finance, and the 'The Perfect Oil' project was undertaken. For this reason, in the same year "Manni Oil Società Agricola S.r.l." is founded and registered as an Innovative Startup in the special section of the Register of Companies. Thus, it acquired the previous existing company. It was at this point that the Innovative Startup began to refer to oil techniques to produce IGP Tuscan extra virgin olive oil, guaranteeing a high content of polyphenols known for their antioxidant properties. The Perfect Oil project consists of the construction of an integrated extra virgin oil production platform. The innovative and fully technological mill allows Manni Oil's production to be fully coherent with the concept of Circular Economy.

Paragraph 7: Company's financing operations

Before analysing the various operations conducted by Manni Oil over the last two years, we will try to clarify two fundamental aspects. These aspects are the benefits obtained by the company both as an agricultural company and as an Innovative Startup. The main facilities that Manni Oil benefits are:

- As an agricultural company, greatly reduced taxation on profits and up to 70% ISMEA guarantee on bank financing
- As an Innovative Startup, tax incentives for investors of 30% deduction for individuals or 30% deduction for corporations
- As an Innovative Startup, access to flexible share management
- As an Innovative Startup, access to zero-interest financing guaranteed by Smart&Start

The main financial operations undertaken by Manni Oil in the last two years are as follows:

- Capital Increase at the end of 2019 for a total of € 1.95M
- Bank loan for the financing of Mill 4.0 for a total of € 1.4M
- Capital Increase at the beginning of 2020 for a total of € 600K by way of Follow-On by the shareholders
- Bank financing at the end of 2020 for a total of € 540K
- Adjudication of the Smart&Start tender for a value of approximately € 800K

- Capital Increase at the beginning of 2021 for a total of € 1.2M with the entry of two new shareholders

Paragraph 8: Manni Oil’s Development Prospects

The company's vision is currently based on two types of solutions. The adoption of one of the two aims will depend on several factors, which often go beyond mere financial planning. The two main alternatives are either Exit or Internal Growth. Manni Oil enjoys a high reputation in the marketplace for building strong relationships with loyal customers. This approach, which has already proved successful in the B2C market, is also being proposed in the B2B market. The new business relationships will be characterized by an equal relationship and the desire to create a flexible supply chain that can facilitate the business objectives of the counterparts. Manni Oil recognizes that customer satisfaction is an essential element of the business, so efforts will be directed towards building a direct and synergistic relationship. The traction channels used are naturally generated by word of mouth from customers; for this reason, Manni Oil does not need onerous marketing campaigns aimed at the public, but rather to find suitable customers with whom to establish profitable and long-lasting business relationships. In this respect, the possibility of expanding its production cycle and the volumes offered to the market of a high-quality oil seems the most attractive option for a company that invests heavily in innovation and growth. One of the most popular scenarios for Manni Oil's business is the construction of a new industrial Mill in Sicily or California to increase production. The Mill will be financed by reinvested earnings or by bank long-term debt.

Conclusion

Within the report, we were able to obtain a well-defined overview of what the context is in the world of Italian Startups. To sum up, we can define what is called a Multi-source Funding strategy.

1. Know yourself

The first step in structuring an optimal funding strategy is to know yourself. As we have seen, there are plenty of facilities for companies, whether they are Innovative Startups or not. Being aware of the regulatory environment in which you operate is of primary importance. Often, the most insignificant details can lead to totally wrong assumptions. Knowing your own does not change the destination you want to reach. Rather, it changes the route you want to take to get there. To make the idea clearer, I will benefit from a simple but very useful metaphor. We will cover the fundamental aspects of structuring a Multi-source Financing strategy as if it were a journey. If a person has to get to Milan, he knows he has to head north. He enters the destination on Google

Maps and sets off. Same thing for a business. When defining the business plan, it is very clear what the destination of the company is. Of course, there are many ways to get to Milan. But that's something that comes later. Knowing your company is like knowing your means of transport. If it's a vehicle with a low engine capacity, then I can't take the motorway. And this will necessarily delay my arrival in Milan. If it's a high-capacity vehicle, then I can take the motorway. The speed of travel can be well represented by the marginality and the numbers that the company can make. The higher the speed, the sooner I will arrive in Milan. The higher the numbers, the sooner I can get to the target. But there are many factors to take into account. Speed limits, weather conditions, whether I'm traveling on two wheels or four. All details that can slow me down. And in the business world, in the long run, they can also lead to the failure of a company. So, knowing your business is crucial to choosing the best path to take. Another key factor is knowing whether you are traveling alone or accompanied. This can make a difference, for example, when it comes to financing. A sole director and founder applying for a bank credit line for his or her business are worthwhile. It is not uncommon for banks to require personal guarantees from directors of one-man companies, even if they are L.L.C.'s. If there are two founders, this can make the difference between a yes and a no. This, especially in times of economic contingency, can mean the end or continuation of entrepreneurial activity.

2. The Prevention is better than the cure

Therefore, before any Financial Plan can be structured, decisions need to be made on topics that often seem second nature. They are not. Some key points even deserve attention before the company is created. Understanding whether you have the qualities to be recognized as an Innovative Startup is crucial. Not only that but if you do, your funding strategy should be expanded to include all the facilities available to this category of enterprises. As in the case of Manni Oil, we have seen how knowledge of business regulations makes all the difference to the implementation of a business plan. Once it is clear whether one can be an Innovative Startup, then the focus shifts to factors such as Corporate Governance, the Deed of Incorporation, and Tax planning. As in the case of Manni Oil, we have seen how knowledge of business regulations makes all the difference to the implementation of a business plan. Once it is clear whether one can be an Innovative Startup, then the focus shifts to factors such as corporate governance, articles of association, and tax planning. All these aspects need to be strategically decided in advance. And the more meticulously we can decide on our preferences in this regard, the smoother our path will be. Before going to Milan, I would make sure that the tyres are okay, that there is oil in the car and that I have the spare tyre in the boot. Then you can start thinking about the best operations for obtaining financing.

3. Which money, How much money and Why I need that money?

Then comes the time to make decisions that may prove crucial in the long run. First of all, three things. Which money, how much money, and why I need that money. As we all know, deciding which financial well to draw from is crucial. Obtaining capital through Equity is different from obtaining it through Debt. Getting it from Debt is very different from getting it through Subsidised Finance. For example, we have seen that with Smart&Start, the best financing opportunity in the world of Italian Startups, you can get up to 90% financing on your investment plan. Fantastic. But the majority of calls like Smart&Start are cash reset, so you have to spend the money before you get the reset. Does the company have enough cash to support the investments? And does it have enough De Minimis ceiling to receive the benefits? All these variables have to be meticulously weighed. Another example. Resto al Sud" call for tenders. The operation is similar to Smart&Start and it is a measure that finances 100% of eligible expenses. 50% non-repayable and 50% through guaranteed bank financing. This call is only available to companies operating in the so-called contingency regions (Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia, Sicily, and the earthquake crater areas of central Italy such as Lazio, Marche, Umbria). This may sound like a fantastic opportunity. And it is. But it must be weighed up carefully. Accessing a loan of this kind obliges the company to invest all the funds in these regions for the entire duration of the loan. This can clash with the planning of any internationalization process of the company and slow down its growth. Or, if the company's objective is to internationalize and it requests access to Smart&Start, which is available only once in the company's lifetime, this could be a mistake. There are special calls for proposals such as the one offered by Simest for the internationalization of Italian SMEs. So, we can see that you have a clear idea of how to finance yourself and why financing yourself is essential. And not only that, being able to work out in advance how much money to apply for is vital. Being clear about the use of proceeds can help us to make the right decision in terms of financing. Asking for too much money could lead to too much liquidity and a cash surplus that I would not know how to spend. And this is certainly an undesirable scenario in terms of opportunity cost. A far worse scenario is asking for too little money. Requiring an equity investment and offering part of the business owners on the market to be able to invest and then not being able to make that investment may lead me to have sold my shares unnecessarily. To follow the metaphor that has accompanied us since the beginning of these conclusions, these three points can be equated to three fundamental moments of the journey. Asking which form of financing to choose can mean what kind of journey to take. To get to Milan, I would avoid going through the Apennines. Wondering how much money to ask for as funding is a bit like getting petrol. I'm sure I'll get to Milan with a lot of fuel, but I could have saved some and still got there. Or if I put in too little, there's the risk of having to stop to refuel again. And in the end, why do I need that full tank of petrol? Do I want to go faster? Do I want to get there earlier?

4. Timing

The last factor to be considered in structuring an optimal Multi-source Financing strategy is time. The time in which liquidity can be obtained is a factor on which the success or failure of an entrepreneurial project may depend. Moreover, the time variable is probably the most random of all. It is certainly the variable most affected by factors exogenous to the company. When structuring a Multi-source strategy, it should always be borne in mind that the different sources from which capital is received have very different time frames. For example, applying for a Smart&Start loan can take up to 6-8 months. Do I have enough liquidity to keep my business running for 6 to 8 months? If the answer is no, perhaps a bank loan may be more appropriate for my strategy. Obtaining bank financing can take up to half the time. Even if I am an Innovative Startup, the Central Guarantee Fund has a short, fast, and free application process. This can shorten the time even further. Or, if there is the possibility of obtaining a Tax Credit since it is essentially on self-certification, it can take only a month to re-secure that liquidity that I would have had to pay to the State. In today's world, there are also ultra-fast measures such as Crowdlending, which takes even less time to get your funding. On the other hand, initiating other processes such as Equity Crowdfunding or Equity investments can lead to very different and/or indefinite timeframes. The similarity here is like asking how many kilometres away there will be a new petrol station.

Making financing decisions is not easy and requires an all-round set of skills. The same skills that I have found in Blue Ocean Finance. What I feel I can say with certainty is that the discipline of corporate financing is constantly changing. Year after year there are new methodologies and new possibilities. The very nature of financing is intrinsically linked to predicting the future, a much-debated topic in the world of corporate finance. The events of recent years, with the black swan of the pandemic crisis, have provided a totally new perspective. And perhaps it has called the concept of financial forecasting into question a little. What is certain is that through study, through personal preparation and through creativity, whatever the future throws at us, a solution can be found. The skill lies in knowing how to react to incidents along the way. Doing so in a short time and in the best possible way. The shortest distance between two points will always be a straight line. But a straight line may not be the soundest way to get from one to another.