Alternative Finance for SMEs in Italy

1) mini-bond
2) crowdfunding
3) invoice trading
4) direct lending
5) ICOs & token offerings
6) private equity & venture capital
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Introduction

Supporting SMEs to access finance has been a priority in Italy during the last years in the policymakers’ agenda. According to the Annual Report on European SMEs published by the European Commission, in Italy 79% of employees (excluding financial companies) work in a small or medium-sized company, while the average value in the European Union is 67%. Italian SMEs contribute to 68% of the industrial value added, against an average in the EU equal to 57%. Italy hosts a number of small companies that excel in manufacturing sectors and significantly contribute to the domestic export. Local industrial districts are success stories of the Italian ‘know-how’ in mechanics, fashion, textile, food, metal working, machinery and equipment industries.

Nevertheless, the last edition of the Survey on the Access to Finance of Enterprises (SAFE) published by the European Commission highlights that in the European Union 68% of SMEs are optimistic about the opportunity to rely on finance provided by ‘traditional’ bank lending, while the percentage falls to 58% in Italy. Moreover, in Europe 23% of SME entrepreneurs think to have good chances to access capital provided by private equity investors, while in Italy the percentage is much lower (9%). The historical strong dependance of Italian SMEs from bank borrowing has been a problem for many companies during the global financial crisis, as many banks restricted the supply of capital to small enterprises.

Supporting SMEs to access complementary sources of finance, alternative to ‘traditional’ bank debt, is therefore a key objective to sustain the competitiveness of the Italian industrial activity, reduce the gap with other EU countries and attract foreign investments. This report, built on the data collected by the Entrepreneurship Finance & Innovation research group at Politecnico di Milano, depicts the market for SME alternative finance in Italy, as at June 2018. It is a comprehensive description of the ecosystem, that can be useful for foreign investors, as to learn about the opportunities to invest in Italian SMEs. We thank our partners for supporting the research as well as the market participants for providing data and sharing the best practices.
Executive summary

In this research, SMEs are defined according to the 2003/361/CE Recommendation issued by the European Commission: independent enterprises that employ fewer than 250 persons and either have an annual turnover that does not exceed € 50 million, or an annual balance sheet not exceeding € 43 million.

Within the alternative finance industry for SMEs, we consider six different markets, which are complementary to the ‘traditional’ source of bank debt:

1) mini-bonds, i.e. the issuance of bond securities and commercial papers;
2) crowdfunding, i.e. the collection of capital tapping the crowd through Internet portals, under different models (reward, lending, equity-based);
3) invoice trading, i.e. the selling of commercial invoices on the Internet through dedicated portals, in exchange for cash;
4) direct lending, i.e. borrowing from non-bank institutional investors (mostly credit funds and insurance companies);
5) Initial Coin Offerings (ICOs), i.e. the issuance of digital tokens on the Internet relying on the innovative blockchain technology;
6) private equity and venture capital, i.e. the provision of equity capital to SMEs and startup companies from business angels and professional investors.

The following Table summarizes the differences among the aforementioned markets, compared to bank loans.

<table>
<thead>
<tr>
<th>Type</th>
<th>Maturity</th>
<th>Typical investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank borrowing</td>
<td>Debt</td>
<td>Short, medium and long run</td>
</tr>
<tr>
<td>Mini-bond</td>
<td>Debt</td>
<td>Short and medium run</td>
</tr>
<tr>
<td>Crowdfunding</td>
<td>Reward, equity, debt</td>
<td>Depending on the type</td>
</tr>
<tr>
<td>Invoice trading</td>
<td>Invoice selling</td>
<td>Short run</td>
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<td>Direct lending</td>
<td>Debt</td>
<td>Medium run</td>
</tr>
<tr>
<td>ICOs &amp; token offerings</td>
<td>Digital tokens</td>
<td>Variable</td>
</tr>
<tr>
<td>Private equity &amp; venture capital</td>
<td>Equity</td>
<td>Long run</td>
</tr>
</tbody>
</table>

In the following we summarize the main findings of this research related to the different markets identified, in the Italian case.

**Mini-bonds**

The mini-bond industry started to rise in Italy in late 2012, when a series of changes in the relevant laws eased the opportunity for SMEs to place bond securities and commercial papers on the market. The regulation of bond issuance is the same for every limited liability company in Italy (SpA and Srl), but de facto only large companies and companies listed on the stock exchange had the opportunity to issue debt securities on the market, previously.

In Italy only professional investors are allowed to subscribe mini-bonds, and the latter cannot be offered to the general public of retail investors, even through crowdfunding portals.

Up to June 30th 2018, we report that 221 Italian SMEs issued mini-bonds (36 for the first time in 2018).
Executive summary

The total proceeds raised on the market have been equal to €3.5 billion, through 335 different emissions; in 2017 the total capital raised was €1.5 billion and in the first semester of 2018 the proceed size was €313 million.

The average coupon paid by Italian mini-bonds is equal to 5.3% and the average maturity is 4.9 years. The largest investors are closed-end private debt funds, banks, asset management companies, insurance companies (mostly from abroad).

We believe that the mini-bond market will continue to grow in Italy, as we find an increasing interest of entrepreneurs and investors.

Crowdfunding

Equity crowdfunding was introduced in Italy in 2013, as the country was one of the first in the world to approve ad-hoc regulations.

First reserved to startup innovative companies, then extended to innovative SMEs, equity crowdfunding is now open to all SMEs in Italy.

Equity crowdfunding platforms are authorized and supervised by the market authority (CONSOB).

Our database counts 214 startups and small companies that up to June 30th, 2018, took the opportunity to engage in an equity crowdfunding round on Italian platforms. Successful campaigns (134) raised as much as €33 million (with a relevant increase in the first half of 2018).

We expect a significant growth of the market for the future, with a good contribution of the new segment of real-estate crowdfunding and the recent opening of the market to all SMEs.

Lending-based crowdfunding contributed to provide €60 million to Italian SMEs. Excluding micro-business, we estimate that about 250 companies obtained credit through a social lending platform. This market is expected to grow in the future, as well.

Reward-based crowdfunding platforms in Italy were not able to conquer a significant market share, as domestic entrepreneurs willing to raise money in exchange for a reward (gifts or products or access to services) find more traction on US platforms like Kickstarter and Indiegogo. We estimate that up to June 30th, 2018, €7 million have been raised by Italian SMEs through reward-based crowdfunding.

Invoice trading

Invoice trading is one of the most fast-growing alternative finance market in Italy, as the average time to pay commercial invoices is larger compared to other EU countries. Up to the first half of 2018, €612 million have been raised.

We estimate that more than 900 Italian SMEs used Internet platforms to sell invoices and raise cash.

We think that the market is now interesting for large institutional investors like insurance companies, pension funds and foreign credit funds, and it will continue to grow at an interesting pace.

Direct lending

Different from other EU countries, direct lending is still under-developed in Italy, due to regulation uncertainty, which has been solved only recently.

Just a few SMEs, up to June 2018, succeeded in borrowing from non-banking institutions (mainly private debt funds). We estimate €20 million collected up to now.

The opportunities for the future are relevant, even if we think that most resources will be targeted to finance leveraged buy-outs and syndicated loans.

ICOs & token offerings

The raising interest for cryptocurrencies and blockchain technologies in 2017 and in 2018 pushed the market for Initial Coin Offerings (ICOs) where entrepreneurial teams and companies raise finance on the Internet in exchange for digital tokens, built on the blockchain technology, and thus bypassing any intermediation of payment institutions and Internet portals.
Executive summary

ICO tokens allow contributors to access services or products, or discounts, or simply to be part of a community. Theoretically they could also provide an investment opportunity, but this is not allowed from the current rules. Yet ICO tokens are often traded on digital markets, and therefore the boundaries between tokens and financial securities is difficult to be defined.

The potential of the technology is interesting, but at the moment it is limited by the lack of a legal framework. Not by chance, many Italian SMEs and startup teams that raised through an ICO often established a vehicle in a foreign jurisdiction.

We found 16 successful ICOs that up to the first half of 2018 have been promoted by teams where the majority of the members were Italian, raising more than $150 million. Roughly, about half of the proceeds have been channeled to already existing SMEs.

**Private equity & venture capital**

In the past considered as the only alternative finance opportunity for SMEs, private equity (PE) and venture capital (VC) target startups and SMEs with an outstanding growth potential. The investments is aimed at obtaining a capital gain when in the future the equity investment will be sold, or the company listed on the stock exchange through an IPO.

In Italy the market for private equity and venture capital has been historically underdeveloped, and at the moment there are no signals of a recovery.

Our statistics are derived from AIFI (the Italian association of investors in private equity, venture capital and private debt). From 2008 to 2018 (1H) private equity and venture capital mobilized €970 million in the early stage phase and €6.5 billion in the expansion capital. If we limit our attention to 2017 and 2018 (1H) the flow is equal to €229 million on early stage money (with 213 deals) and €568 million in expansion money (with 69 investee companies).

We do not expect a relevant growth of the market in the future. We underline that the government announced a program in 2019 to allocate relevant resources for the VC industry, aimed at seed, startup and ‘scale-up’ investments.

Being the listing on a stock market one of the possible exit for VC and PE investments, in this research we highlight the role of the AIM Italia exchange, classified as an unregulated SME Growth Market under the MiFID rules. As at June 30th 2018, 102 Italian companies were listed on the exchange, collecting €32 billion at the IPO and €126 million in seasoned right issues. The market experienced a significant growth in trading activity in 2017, thank to the PIR reform that introduced tax exemptions for investors.

**Figure 0.1**

The flow of money to Italian SMEs from the alternative finance industry, in the last decade and in the last 18 months.

(*) = estimates
(**) = only early stage and expansion capital
(***) = excluding SPACs
Executive summary

The market in a nutshell
Despite the flows of money attributed to the different segments of the alternative finance industry for Italian SMEs cannot be easily aggregated, due to different typologies and maturities of the investments, it is interesting to compare in Figure 0.1 the relative contribution of each market.

If we consider the last decade, after the turmoil of the global financial crisis, we can see that private equity and venture capital represented the main source of cash, while in the last 18 months the advent of new opportunities allowed mini-bonds and invoice trading to represent the most relevant opportunities.

This research highlights that the market for SME alternative finance is deeply changing. The persistent gap with other comparable EU economies demonstrates that there is a relevant growth opportunity for the future and new players are welcome to enter in the market.

We estimate that up to now ‘only’ 1,800 Italian SMEs took the opportunity to raise money from alternative channels (representing 1% of the potential number of candidate SMEs, neglecting micro-business). Therefore it is important to share information, learn from best practices and provide opportunities to understand the potential of the innovative sources of finance. Both domestic retail investors and institutional investors (from Italy and abroad) should consider the opportunity of these new asset classes, in order to diversify investments and seek for interesting returns.
1. Mini-bonds

Mini-bonds in Italy are defined as bonds and commercial papers issued by SMEs and subscribed by professional investors.

Changes in the relevant laws approved by the Parliament starting from 2012 (Law Decree n. 83/2012 “Decreto Sviluppo”, Law Decree n. 179/2012 “Decreto Sviluppo-bis”, Law Decree n. 145/2013 “Destinazione Italia”, Law Decree n. 91/2014 “Decreto Competitività”) allowed unlisted SMEs to easily access this market and take the opportunity to raise debt through the issuance of securities, avoiding costs, tax disadvantages and provisions that previously discouraged such choice.

Italian SMEs issuing mini-bonds are typically assisted by professional consultants in the business planning phase and arrangers in the placing phase, which is reserved to professional investors only. Retail investors cannot access these markets, and at the moment mini-bonds cannot be offered in crowdfunding campaigns in Italy.

Mini-bonds can be listed or not (Borsa Italiana established a specific market for mini-bonds, open to professional investors only, the ExtraMOT PRO1), can be eventually secured by a pledge on properties or inventories. Issuers may ask for a rating, which is typically issued by authorized rating agencies specialized in the domestic market (Cerved, Crif, modefinance).

Our database lists 335 mini-bond issues carried out by Italian SMEs up to June 2018, excluding financial companies. The total proceeds are equal to € 3.5 billion (see Figure 1.1). Therefore, the average size of a single issuance is equal to € 10.4 million.

The market has been constantly growing, especially in the second half of 2017 (with 79 issues, totalling € 900 million). In the first half of 2018 we see a relevant number of deals (53) with a decrease in the collection of money (€ 313 million).

Table 1.1 reports basis statistics about the sample. The average annual coupon is equal to 5.3%, while the average maturity is 4.9 years.

Figure 1.1
Mini-bonds issued by Italian SMEs: number of securities and total proceeds (€ million)

1 See www.borsaitaliana.it/pro-link/home.en.htm
The majority of the securities (54.3%) are bullet-type (i.e. they pay back the principal at maturity) while the remainder are amortizing. Most of the mini-bonds are not listed on an exchange (only 9.9% of them are traded). The official rating is not common, as well (only 18.9%). The presence of a pledge is more frequent: 25.7% of Italian mini-bonds issues by SMEs are secured.

<table>
<thead>
<tr>
<th>Year</th>
<th>Average coupon</th>
<th>Average maturity (years)</th>
<th>% bullet vs. amortizing</th>
<th>% listed on an exchange</th>
<th>% with rating</th>
<th>% secured</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>6.64%</td>
<td>4.0</td>
<td>62.5%</td>
<td>25.0%</td>
<td>25.0%</td>
<td>25.0%</td>
</tr>
<tr>
<td>2014</td>
<td>5.37%</td>
<td>7.2</td>
<td>44.2%</td>
<td>2.7%</td>
<td>32.6%</td>
<td>11.6%</td>
</tr>
<tr>
<td>2015</td>
<td>4.56%</td>
<td>3.4</td>
<td>71.8%</td>
<td>7.7%</td>
<td>15.4%</td>
<td>18.0%</td>
</tr>
<tr>
<td>2016</td>
<td>4.88%</td>
<td>5.4</td>
<td>48.2%</td>
<td>4.9%</td>
<td>23.5%</td>
<td>35.8%</td>
</tr>
<tr>
<td>2017</td>
<td>4.91%</td>
<td>4.3</td>
<td>52.3%</td>
<td>11.7%</td>
<td>15.3%</td>
<td>33.3%</td>
</tr>
<tr>
<td>2018 (1H)</td>
<td>5.55%</td>
<td>5.2</td>
<td>47.2%</td>
<td>5.7%</td>
<td>4.9%</td>
<td>30.2%</td>
</tr>
<tr>
<td>Total</td>
<td>5.30%</td>
<td>4.9</td>
<td>54.3%</td>
<td>9.9%</td>
<td>18.9%</td>
<td>25.7%</td>
</tr>
</tbody>
</table>

Table 1.1
Basis statistics about the mini-bond market in Italy. Only securities issued by SMEs are considered.

The issues of mini-bonds have been carried out by 221 different SMEs (many of them issued different securities in different moments). In the first half of 2018, we highlight that 36 SMEs went on the market for the first time, this highlighting the growing interest of entrepreneurs and investors.

Among the 221 issuers, 49 companies (22% of the sample) exhibited revenues lower than €2 million, while 28% of them report revenues comprised between €2 million and €10 million. Companies with revenues between €10 million and €25 million represent 25% of the sample and finally 22% of the sample is made up by SMEs displaying revenues between €25 million and €50 million.

The business activity is quite heterogeneous, but the majority of issuers (38%) belong to the manufacturing cluster.

Lombardy is the leading region of incorporation (29% of the total sample) followed by Veneto (14%) and Trentino-Alto Adige (10%).

Interestingly, mini-bonds issued by Italian SMEs have been used to create asset-backed securities in a couple of deals, as to access credit-enhancement programmes from the European Investment Bank, and potentially attract foreign investors. In 2014 and 2016 a group of small utilities managing the supply of water in the Veneto region have been involved in a securitization deal, total amount €227 million (‘hydro-bond’). In December 2017 ten SMEs joining the ELITE programme offered by the Italian Exchange issued mini-bonds for a total amount of €122 million (‘ELITE basket bond’) subscribed by a newco, that created tranches of ABSs placed on the market.

Public institutions like regional funds and Confidi (local consortia of entrepreneurs providing guarantees on credit) as well as the Fondo di Garanzia financed by the national Government sometimes provide a guarantee on the mini-bonds, as to reduce the issuers’ cost of capital and the risk for investors.

The survey conducted each year by the Observatory on Mini-Bonds of Politecnico di Milano highlights that SME entrepreneurs decide to issue mini-bonds in order to (i) experiment a new channel of fundraising, to practice in the relationship with professional investors and gain new competences in finance, often missing in SMEs, (ii) obtain visibility and a kind of ‘certification’ effect on the market, (iii) increase the diversification of funding channels, reducing the contractual power of banks, (iv) increase the duration of the liabilities and the opportunity to access capital for the medium-long run. Moreover, the issue of a mini-bond is sometimes considered as a first step of ‘training’ towards more sophisticated deals, like private equity and listing on a stock exchange, which - contrary to a bond issuance - involve changes in the ownership structure of the company.

Remarkably, at the moment the number of defaults among the issuers of mini-bonds in Italy is considerably low: only 5 cases have been registered in the last 4 years.
**Baia Silvella SpA**  
Location: Salò (BS)  
Activity: Management of touristic services (camping, resorts) in 5 Italian regions and in Croatia  
Revenues (2017): € 30 million  
Mini-bond issued in 2018, maturity 5.5 years, amount € 10 million, coupon 5%, amortizing.

**Boni SpA**  
Location: Ivrea (TO)  
Activity: Integrated facility management  
Revenues (2017): € 42.5 million  
First commercial paper issued in 2015. Afterwards the company engaged in five more issues.

**Cristiano di Thiene SpA**  
Location: Thiene (VI)  
Activity: Clothing (licensee of the Aeronautica Militare and Frecce Tricolori brands)  
Revenues (2017): € 33.7 million  
Two mini-bonds issued in 2016 and 2017 (total amount € 1.1 million)

**GS Industry SpA**  
Location: Galliera Veneta (PD)  
Activity: Design and engineering of automated systems for stores, logistics and inventory management  
Revenues (2017): € 18.6 million  
Mini-bond issued in 2018, listed on ExtraMOT PRO, maturity 3.5 years, amount € 3 million
2. Crowdfunding

Crowdfunding may be defined as the collection of money tapping the crowd of Internet users, through dedicated portals.

There are four main models of crowdfunding:

- donation-based crowdfunding, i.e. the collection of money with no particular reward, typical of charity, cultural projects, sport, philanthropic aims; this model is not considered in this report, because it is not typical of business projects;
- reward-based crowdfunding, i.e. the collection of money in exchange for a valuable reward, that can be a particular product or a service, or a discount on purchasing; this model is similar to e-commerce;
- equity crowdfunding, i.e. pledgers provide equity capital and become shareholders of the company managing the project;
- lending crowdfunding, i.e. the proponents borrow money from the crowd and commit to pay back the principal plus an interest.

**Reward-based crowdfunding**

A number of business projects from Italy raised money on the most important reward-based crowdfunding platforms in the world (Kickstarter and Indiegogo). We may cite: the MUtable 2.0, a modular game table for children, that raised €1 million from 2,639 pledgers; Goliath, a small ‘intelligent’ milling machine engineered by Springa Srl, an academic spin-off company that raised another €1 million.

Domestic platforms up to now brought a little contribution to the collection of finance for Italian SME businesses.

We estimate the total collection of money on domestic and foreign platforms to be equal to €7 million and we do not expect significant changes in the future.

**Equity crowdfunding**

Equity crowdfunding has been introduced in Italy by Law Decree n. 179/2012 (‘Decreto Sviluppo-bis’). The regulation requires that campaigns must be published on Internet platforms authorized and supervised by the market authority (CONSOB).

Initially, only ‘innovative startup companies’ and then also ‘innovative SMEs’ were allowed to collect money through equity crowdfunding. In 2017 the market has been opened to all SMEs.

According to European and domestic regulation, the maximum amount that can be collected in an equity crowdfunding campaign during one year is equal now to €8 million. In order to be successfully closed, an investment round must be subscribed for at least 5% of the total amount by ‘professional’ or ‘serial’ investors (venture capital funds, banks, business angels, foundations, incubators). The threshold may be reduced at 3% for SMEs with certified accounts. Wayout provisions, or tag-along clauses, are required in the statutes of the issuing company.

As at October 31, 2018, 30 Internet portals had been authorized by CONSOB to operate in Italy (see Table 2.1). Yet many of these platforms did not publish any campaign, and despite the relevant number of players, only a few of them bring a relevant contribution to the market.

\[\text{\textsuperscript{1}}\text{ In Italy, according to the law, companies may qualify as ‘innovative startups’ and ‘innovative SMEs’ if they comply with a number of requirements. See: http://startup.registroimprese.it/ison/home}\]
Table 2.1

<table>
<thead>
<tr>
<th>Web site</th>
<th>Managind company</th>
<th>Authorization year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unicaseed.it</td>
<td>Unica SIM</td>
<td>2013</td>
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<tr>
<td>Starup.it</td>
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<td>Actioncrowd.it</td>
<td>Action crowd Srl</td>
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<td>200crowd.com</td>
<td>The Ing Project Srl</td>
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<td>Nextequity.it</td>
<td>Next equity crowdfunding marche Srl</td>
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<tr>
<td>House4crowd.com</td>
<td>4Crowd SpA</td>
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</tr>
</tbody>
</table>

Figure 2.1
Flow of equity crowdfunding campaigns on Italian authorized platforms, by year
Crowdfunding

Section 2

Three platforms listed in Table 2.1 (Walliance, Concreteinvesting and House4crowd) are specifically targeted to investments in the real estate business.

As at June 30th, 2018, our database comprises 231 equity crowdfunding campaigns published on Italian platforms, all carried out by SMEs. The total amount of equity capital raised by the successful campaigns (134) is equal to € 33.3 million.

Figure 2.1 highlights the flow of successful and unsuccessful campaigns. Interestingly, the success rate has been increasing in the last couple of years (excluding ongoing campaigns it is equal to 67%), as the industry is learning about the determinants of the fundraising success. The number of campaigns jumped in the first half of 2018.

On average, the target amount of money to be raised is equal to € 218,368 (median value € 133,450), in exchange for 13.5% of the equity capital.

In 85 cases (representing 37% of the sample) only common stock was offered to pledgers, while in 26 cases (11%) only non-voting stock was offered. The majority of the offers (110, equal to 48%) are made up by cases in which both non-voting stock and voting stock (the latter typically reserved to larger contributions) were allocated. In the remaining cases we see the offering of stock with restricted-voting rights or with different dividend rights.

The database comprises 214 issuing SMEs, as some of them engaged in one or more follow-up campaigns. The sample is made up by:
- 181 ‘innovative startups’ (84.6% of the sample);
- 18 ‘innovative SMEs’ (8.4%);
- 11 other SMEs (5.1%);
- 4 vehicles investing in innovative startups (allowed by the regulation to engage in a crowdfunding campaign).

Issuers are mainly located in Lombardy (37%), in Lazio (12%) and Piedmont (7%). The most represented business areas, given the dominant status of innovative startup, are: ICT (31%), social networks and sharing economy (16%), professional services (11%). For the same reason, we find that the issuers’ age is on average lower than 3 years and that a minority of the companies exhibit a positive profit before the crowdfunding campaign.

Given the recent development of the industry, it is early to analyze the return for investors. A number of issuing SMEs engaged in a follow-up round of equity crowdfunding, in almost all cases at increasing multiples. We register only three exits, as at October 2018: one write-off, one company filing to go public on the stock exchange and one company that completed a real estate project and paid back investors.

**Lending-based crowdfunding (social lending)**

As in other countries, in Italy lending-based platforms provide financial support to both consumers and businesses. In this report we focus only on the second segment of the market.

The development of lending crowdfunding (or ‘social lending’) for SMEs is quite recent in Italy and virtually the market did not exist up to 2016.

As at June 2018, five platforms were operating (see Table 2.2).

<table>
<thead>
<tr>
<th>Web site</th>
<th>Managing company</th>
<th>Qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td>BorsadelCredito.it</td>
<td>Business Innovation Lab SpA / Mo.Net SpA / Art SGR SpA</td>
<td>Payment institute / Asset management company (SGR)</td>
</tr>
<tr>
<td>Housers.com/it</td>
<td>Housers Global Properties PFP, SL / Lemon Way SA</td>
<td>Agent of payment institute</td>
</tr>
<tr>
<td>It.october.com</td>
<td>Lendix Italia srl / Lendix SA</td>
<td>Agent of payment institute</td>
</tr>
<tr>
<td>Prestacap.com</td>
<td>iBondis Limited</td>
<td>Financial institution</td>
</tr>
<tr>
<td>Thesociallender.it</td>
<td>The Social Lender Srl / Lemon Way SA</td>
<td>Agent of payment institute</td>
</tr>
</tbody>
</table>

Table 2.2
Lending-based crowdfunding platforms operating in Italy with SMEs as at June 30th, 2018.

* This number does not consider 8 campaigns published on the portal Clubdealonline.com, which is open only to selected investors, paying an annual fee.
Among the platforms listed in Table 2.2, Housers is specialized in lending to real estate projects. It is a Spanish portal open also to Italian investors and borrowers. Borsadelcredito.it is an Italian-based platform, the first to operate from 2016. Capital is collected from both web users and institutional investors, through a credit fund (Colombo).

October (formerly Lendix) is a French platform, operating in Italy from 2017. The platform, backed by institutional funds, commits to invest into at least 51% of each loan, offering the opportunity to retail Internet savers to cover the remaining fraction of the loan.

Prestacap and The Social Lender are the most recent entrants in the market, and therefore their figures are still not significant.

The annual return gross of taxes paid back to investors, declared by the platforms, is around 5%.

Figure 2.2 reports the flow of funding to SMEs granted by the platforms abovementioned. We think that the market will continue to grow in the future, thank to capital provided by institutional investors to the platforms; the size of the market in Italy is now large enough to attract insurance companies, pension funds, international credit funds.
### Box 2.1

Cases of Italian SMEs raising capital through crowdfunding platforms

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Location</th>
<th>Year Established</th>
<th>Business Activity</th>
<th>Platform</th>
<th>Capital Raised</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ariostea MHS Srl</strong></td>
<td>Brescia (BS)</td>
<td>2011</td>
<td>Manufacturing of bulk material handling systems</td>
<td>October</td>
<td>€ 750,000 (loan)</td>
</tr>
<tr>
<td><strong>Glass to power Srl</strong></td>
<td>Rovereto (TN)</td>
<td>2016</td>
<td>Innovative technology to obtain electricity power from transparent glass</td>
<td>Crowdfundme.it</td>
<td>€ 2.4 million (equity) in two different rounds</td>
</tr>
<tr>
<td><strong>Green Energy Storage Srl</strong></td>
<td>Trento (TN)</td>
<td>2015</td>
<td>Eco-friendly energy storage systems, based on rhubarb extracts</td>
<td>Mamacrowd.com</td>
<td>€ 1 million (equity)</td>
</tr>
<tr>
<td><strong>MacDue Srl</strong></td>
<td>Villasanta (MB)</td>
<td>1980</td>
<td>Toys and games</td>
<td>Borsaldecredito.it</td>
<td>€ 250,000 (loan)</td>
</tr>
<tr>
<td><strong>Soisy SpA</strong></td>
<td>Milan (MI)</td>
<td>2015</td>
<td>P2P lending portal</td>
<td>200Crowd.com</td>
<td>€ 1.25 million (equity)</td>
</tr>
<tr>
<td><strong>Winelivery Srl</strong></td>
<td>Sondrio (SO)</td>
<td>2015</td>
<td>E-commerce (wine, beer and beverage) with instant delivery in 5 Italian cities</td>
<td>Crowdfundme.it</td>
<td>€ 550,000 (equity) in two different rounds (the third one is ongoing)</td>
</tr>
<tr>
<td><strong>Wynwood 9 Italia Srl</strong></td>
<td>Vicenza (VI)</td>
<td>2018</td>
<td>Real estate project, to be developed in Miami, USA</td>
<td>Walliance.eu</td>
<td>€ 1.41 million (equity)</td>
</tr>
</tbody>
</table>
3. Invoice trading

Invoice trading platforms allow SMEs to sell their commercial invoices to professional investors, obtaining an advance payment, with recourse (pro solvendo) or without recourse (pro soluto).

In Italy, according to the European Payment Report 2018 published by Intrum Justitia, payments of B2B invoices are made on average after 56 days from the invoice, while in Germany the mean value is 24 days and in the UK the mean value is 27 days. Therefore, the need for Italian SMEs to rely on financial partners to manage the invoicing cycle and optimize the working capital is relevant.

Invoice trading platforms collect submissions of invoices from suppliers, assess about the counterparty risk and organize the assignment. In some cases platforms manage auctions or marketplaces, joined by selected professional investors. In other cases they directly buy the invoice, submitting an offer to the creditor. They can also take agreements with large companies, that may offer the invoice trading service to their suppliers through an automated process (supply chain finance).

The return for investors is determined by the difference between the price paid for the invoice and the amount obtained at the end from the debtor. If there is no recourse, the insolvency risk is a challenge for the investor.

As at June 20th, 2018, in Italy 6 invoice trading platforms were active: Cashinvoice, Credimi, CashMe, Crowdcity, Fifty, Workinvoice (the first player entered in the market in 2015). Table 3.1 describes the characteristics of the players.

<table>
<thead>
<tr>
<th>Website</th>
<th>Managing company</th>
<th>Qualifications</th>
<th>Trading mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>CashInvoice.it</td>
<td>Hub21 Srl</td>
<td>-</td>
<td>Marketplace</td>
</tr>
<tr>
<td>CashMe.it</td>
<td>CashMe Srl (Finservice Group)</td>
<td>-</td>
<td>Auction</td>
</tr>
<tr>
<td>Credimi.com</td>
<td>Credimi SpA</td>
<td>Supervised financial company</td>
<td>Direct purchase</td>
</tr>
<tr>
<td>Crowdcity.it</td>
<td>CrowCity SpA</td>
<td>Credit broker</td>
<td>Marketplace</td>
</tr>
<tr>
<td>FiftyFinance.com</td>
<td>Fifty Srl</td>
<td>Credit broker</td>
<td>Supply chain finance</td>
</tr>
<tr>
<td>WorkInvoice.it</td>
<td>WorkInvoice Srl</td>
<td>-</td>
<td>Auction</td>
</tr>
</tbody>
</table>

Credimi is a financial company supervised by the Bank of Italy; the platform directly purchases the invoices and uses them to create asset-backed securities subscribed by institutional investors (asset management companies, credit funds, insurance groups). Fiftyfinance is a partnership promoted by Groupama and an Italian IT company, Tesisquare; it offers supply chain finance services to large companies, whose suppliers can sell their invoices through the platform.

The other platforms organize marketplaces and auctions where investors compete and bid for the invoices.

Figure 3.1 summarizes the volume of invoices traded on the platforms. The cumulated amount for the industry is equal to € 612 million, of which € 493 million collected in the last 12 months. It is important to note that the duration of the investments in invoice trading is very short, because the payment of invoices occur in maximum 2-3 months usually. Therefore the same amount of resources rotate more times during one year.

We see that this segment of the alternative finance market is one of the most fast-growing at the moment, and will attract SMEs and investors also in the future.
Italian SMEs find support from invoice trading platforms, whenever banks are not available to offer credit, because the company already reached the maximum threshold acceptable by the bank, or because the company exits from an insolvency. We estimate that about 900 SMEs experimented invoice trading platforms as at June 2018.

According to our interviews, sometimes SMEs find that the alternative to sell the invoice on the Internet is less costly than the fee charged by banks. Moreover SMEs claim to receive faster feedbacks and more efficient services from the platforms, compared to banks.

**Figure 3.1**
Total volume of invoices sold on the Italian invoice trading platforms, as at June 2018 (values in € million)

**Box 3.1**
Cases of Italian SMEs adopting invoice trading solutions

*Beltrami Felice Srl*
Location: Piedimulera (VB)
SME, established in 1985
Business activity: production of funnel filters for coffee machines
Platform: Workinvoice

*Sarinox Srl*
Location: Basiano (MI)
SME, established in 2016
Business activity: stainless steel transformation of sheets and coils
Platform: CrowdCity

*Workmec SpA*
Location: Busnago (MB)
SME, established in 1990
Business activity: manufacturing of filter cages for industrial plants
Platform: CashMe
4. Direct lending

The market for direct lending is quite new to the Italian ecosystem of alternative finance, as for many years lending money to businesses has been *de facto* a monopoly of the banking system. Only in 2014 a new regulation introduced the opportunity for insurance companies, securitization vehicles, domestic and foreign Alternative Investment Funds to provide debt capital to private companies. The detailed operating rules have been later specified by the Law Decree n. 18/2016, two years later.

Credit funds willing to lend to Italian SMEs must notify their intention to the Bank of Italy and demonstrate adequate organizational structures and risk management practices.

In Italy, direct lending deals are not publicly available, so we rely on the information disclosed by investors. As at June 30th 2018, we collected a database of 25 loans, granted by the following players, directly or bought by banks: Antares AZ I, Emisys, Green Arrow Capital SGR (that acquired Quadrivio Capital SGR), Hedge Invest SGR, Idinvest, Pricoa, Muzinich, RiverRock, Tikehau (one of the most active, with 8 deals). The total amount of borrowing is equal to € 311 million (including both large and small companies). In a number of cases the loans are targeted to finance leveraged buy-outs, in syndication with other investors.

Yet, the number of SMEs involved in direct lending deals is very low. In Table 4.1 we report a couple of cases.

<table>
<thead>
<tr>
<th>Company</th>
<th>Lender</th>
<th>Loan size</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcea SpA</td>
<td>Hedge Invest SGR (HI Crescitalia PMI Fund)</td>
<td>€ 2 million</td>
<td>Maturity 2023, amortizing, senior</td>
</tr>
<tr>
<td>United Brands Company SpA</td>
<td>Hedge Invest SGR (HI Crescitalia PMI Fund)</td>
<td>€ 3 million</td>
<td>Maturity 2022, amortizing, senior</td>
</tr>
</tbody>
</table>

Building on our estimations, we conjecture that up to June 2018 Italian SMEs raised as much as € 20 million through direct lending.

The growth potential for the future is relevant, and several new credit funds are ready to raise resources on the market and select potential targets: Dea Private Debt, HIG Whitehorse, Main Capital Fund I, Quaestio Private Markets Funds European Private Debt, Springgrowth SGR (acquired in 2018 by Muzinich).
5. ICOs & token offerings

The Fintech revolution is challenging financial markets. The blockchain technology first allowed the advent of cryptocurrencies (Bitcoin, Ripple, Ether...) and then the introduction of Initial Coin Offerings (ICOs). In an ICO, digital tokens, built on a distributed ledger technology, are offered on the Internet to pledgers, committing to finance a project. The model is very similar to crowdfunding, but (i) there is no need to rely on traditional payment institutions like banks and credit cards, since the blockchain technology offers an immutable and safe way to register transactions, (ii) there is no need to host the project on a platform. The result is a complete disintermediation of the traditional finance circuits, this representing both an interesting opportunity for SMEs, and a challenge for regulators.

Information disclosed in an ICO has not been previously approved nor audited by any third party or market authority. Pledgers rely on a very limited set of data published in a ‘white paper’.

The offered digital tokens grant access to alternative opportunities:
1) being part of a community, with no particular tangible benefit;
2) obtaining a product, or a service (e.g. a software, a videogame, access to a cloud facility), similarly to reward-based crowdfunding (utility tokens);
3) a financial return (e.g. sharing the project’s profits); indeed, the blockchain technology allows to replicate, through the development of ‘smart contracts’, usual governance mechanisms adopted by venture capital and private equity, i.e. drag along and tag along clauses, buybacks, carried interest programs, escrow accounts. This latter case is usually tackled by market supervisors, because it infringes the regulation of financial investments.

ICO tokens are often traded on electronic platforms, in the aftermarket, this rising concerns about their potential function as an investment, in any way. Yet, at the moment,
there is no specific regulation at work for ICOs either in the European Union or in Italy. This is the reason why in many cases Italian SMEs involved in an ICO opted for setting up a vehicle in Switzerland or in other countries.

Notwithstanding the lack of any protection for contributors, the worldwide market for ICOs literally boomed in 2017 and 2018 (see Figure 5.1). According to our research, in 2016 only 34 ICOs took place around the world, raising less than $ 200 million, while in 2017 we listed 897 token offerings, collecting more than $ 6 billion. In the first half of 2018, we found 854 ICOs, raising more than $ 12 billion.

We would like to mention the TaTaTu project, a new entertainment platform created by the Italian movie producer Andrea Iervolino, who raised $ 575 million in June 2018. Another Italian, Simone Giacomelli, is one of the co-founders of the SingularityNet ICO, a project for a platform of services related to artificial intelligence, that in 60 seconds only was able to raise $ 36 million.

In order to estimate the flow of money collected by Italian SMEs, we must acknowledge that in many cases ICO promoters do not belong to an established company. Therefore, at first glance, we selected from our global database ICOs where at least 50% of the proponent team is made up by Italians, or where the main beneficiary of the money raised is (or will be) a company belonging to a group headquartered in Italy. Table 5.1 reports the list of the 16 successful ICOs complying with the requirements above.

The project that raised more money is Eidoo (more than $ 27 million) aimed at opening a platform to manage cryptocurrency services. Thrive follows with $ 26 million: it is a marketing project targeting businesses willing to optimize investments in advertising. Friendz ($ 18 million raised) allows Internet users to collect cash rewards in exchange for advertisements.

One of the most interesting projects is the Parkingo.io ICO, launched in June 2018 by ParkinGO International SA, a company located in Switzerland. The objective of the ICO was to collect between $ 2 million and $ 12 million (the amount effectively collected was not disclosed). ParkinGO is an Italian SME established in 1995, managing parking and car sharing services around airports and harbours. ICO contributors have been allotted digital tokens useful to obtain prioritary access to parking, discounts, gadgets.
6. Private equity & venture capital

Private equity (PE) investments are aimed at selecting unlisted companies with a steady growth potential, subscribing equity capital, contributing actively to the creation of new value with the provision of advisory and managerial skills, and obtaining a capital gain in the medium-long run.

Venture capital (VC) are private equity investments targeted to high tech and fast growing entrepreneurial projects in the seed and startup phase.

In order to analyze the market for private equity and venture capital in Italy we rely on the periodic surveys published by AIFI, the Italian Association of Private Equity, Venture Capital and Private Debt[^1].

Figure 6.1 describes the flow of total investments in PE and VC, from 2008 to the first half of 2018, as well as the number of deals and investee companies. With the exception of 2016, due to a few mega-deals, the statistics are stable; in the last five years the average annual number of deals is equal to 330, while the average number of investee companies is 260.

The businesses that obtained more funds are: ICT, industrial goods, health & life sciences. Figure 6.2 focuses on the segments of the market that we deem to be more interesting for SMEs: early stage capital and expansion capital.

Referring to early stage investments, we see a growth in the number of deals and in the amount invested, starting from 2015. In 2017 we find 133 deals and investments for €133 million. In the first half of 2018 the data report 96 deals and €96 million invested.

On the contrary, expansion investments show a less favorable trend. In 2017 we see ‘only’ 45 deals (amount invested €338 million) and in the first semester of 2018 24 deals (€230 million invested).

While the segment of early stage investing received attention from Italian policymakers (with the introduction of ‘innovative startups’, the regulation of equity crowdfunding investments).

[^1]: www.aifi.it/en
and tax incentives for equity investments), the expansion segment should be now the target of future public policies to sustain the growth of promising SMEs.

The statistics published by AIFI show that the most frequent exit option in Italy is the trade sale to a corporation (40% of the cases) or to another financial investor (20%). In 8% of the cases the company is listed through an IPO while in another 18% of the situations the entrepreneurs buy back the shares through a management buy-out. Write-offs occur in 15% of the sample, mostly due to the effects of the global financial crisis, but if we consider only the last two years the percentage is 6%.

Always according to AIFI, the average IRR of PE and VC investments on a 5 year-basis has been varying between 12.5% and 19.7%.

As compared to the situation in other EU countries, PE and VC investments in Italy are considerably low. Data collected by Invest Europe\(^2\) show that in Italy the ratio between annual PE and VC investments and the GDP is equal to 0.22%, about half of the value registered in Germany, France and Spain, and one third of the value for the UK.

If we focus on venture capital or growth capital only, the gap is even more relevant.
In Italy, alongside professional investors, business angels (BAs) are also active in supporting startups and SMEs providing equity capital and mentoring services. The most important BA associations are the Italian Business Angels Network (IBAN) and Italian Angels for Growth (IAG).

We believe that Italy needs a ‘revolution’ in the VC and PE industry, that should mobilize much more resources. The first reform should target productive investments, as to increase the attractiveness of Italy as an industrial hub. The introduction of ELTIFs (European Long Term Investment Funds, targeted specifically at investing in SME securities) could be the opportunity to boost the industry.

Italian SMEs and the Stock Exchange

The listing on a stock exchange is one of the exit option for private equity and venture investments.

Following the example of the Alternative Investment Market in London, the Italian Exchange in 2009 opened the AIM Italia market, which is classified as an unregulated SME Growth Market.

AIM Italia allows SMEs to access the stock exchange with less tight and less costly requirements, compared to the regulated main board. The listing company has to appoint a NomAd (Nominated Advisor), who is responsible towards the Exchange to ensure that the listing requirements and regulation are met.

Table 6.1 shows the number of listed companies at the end of each year, the equity capital collected by listed companies at the IPO and in seasoned offerings. Since in the last three years a relevant number of SPACs went public on AIM Italia, we show also the value of IPO proceeds from primary shares excluding them. SPACs are shell companies that raise money in order to finance subsequent acquisitions of unlisted companies, to be taken public after a reverse-takeover.

<table>
<thead>
<tr>
<th>Year</th>
<th>Listed companies (#)</th>
<th>Equity capital collected in seasoned offerings (€ million)</th>
<th>Equity capital collected at the IPO (€ million)</th>
<th>Equity capital collected at the IPO (€ million) excluding SPACs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>5</td>
<td>-</td>
<td>31.51</td>
<td>31.51</td>
</tr>
<tr>
<td>2010</td>
<td>11</td>
<td>-</td>
<td>20.30</td>
<td>20.30</td>
</tr>
<tr>
<td>2011</td>
<td>14</td>
<td>-</td>
<td>58.56</td>
<td>8.56</td>
</tr>
<tr>
<td>2012</td>
<td>18</td>
<td>2.00</td>
<td>9.10</td>
<td>9.10</td>
</tr>
<tr>
<td>2013</td>
<td>36</td>
<td>8.40</td>
<td>159.78</td>
<td>74.78</td>
</tr>
<tr>
<td>2014</td>
<td>57</td>
<td>15.20</td>
<td>186.30</td>
<td>186.30</td>
</tr>
<tr>
<td>2015</td>
<td>74</td>
<td>5.00</td>
<td>241.40</td>
<td>121.40</td>
</tr>
<tr>
<td>2016</td>
<td>77</td>
<td>73.90</td>
<td>202.30</td>
<td>51.80</td>
</tr>
<tr>
<td>2017</td>
<td>95</td>
<td>11.80</td>
<td>1,212.40</td>
<td>129.40</td>
</tr>
<tr>
<td>2018 (1H)</td>
<td>102</td>
<td>9.60</td>
<td>1,134.20</td>
<td>37.20</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>125.90</td>
<td>3,255.85</td>
<td>670.35</td>
</tr>
</tbody>
</table>

In ten years, the AIM Italia market attracted 102 companies to the flotation, raising more than € 3.3 billion at the IPO and in follow-up equity rounds.

In 2017 the market prices and liquidity greatly benefited from the introduction of PIR (‘piani individuali di risparmio’), a mechanism of tax exemption for small retail investors, subject to some conditions (see Box 5.1).

In Italy from 2018 tax reliefs are granted to SMEs going public on a stock exchange, equal to 50% of the costs incurred for the IPO, up to € 500,000.
The 2017 Budget Law introduced in Italy the opportunity of PIR (Piani Individuali di Risparmio). A PIR is an investment program, similar to the UK Individual Saving Accounts, that is exempted from any taxation on profits and capital gains. Italian retail investors may apply to a PIR program investing no more than € 30,000 each year, up to a maximum threshold of € 150,000. Invested assets cannot be sold for a period of 5 years and no less than 70% of the amount must be allocated into securities issued by Italian or European companies; within this fraction, at least 30% (so, 21% of the total) must be allocated into securities of companies that are not listed in the FTSE MIB index (the main blue chips index). The PIR reform significantly contributed to the growth of the asset management industry in 2017; because of the aforementioned limit in the investments, a large flow of money was invested in the mid-cap, small-cap and AIM Italia segments of the equity exchanges, with a relevant growth in the prices and liquidity. At the moment, no particular effects have been observed on unlisted SMEs.
The School of Management, Politecnico di Milano

The School of Management was established formally in 2003 and groups together MIP (the Graduate School of Business founded in 1979) and DIG (the Department of Management Engineering – Dipartimento di Ingegneria Gestionale), established in 1990, bringing together all research and education operations in the field of management. The School of Management today includes a broad range of research initiatives and teaching activities, with over 4,900 students enrolled in degree programmes. The School of Management delivers an end-to-end portfolio of services in research, education and high level consultancy within the field of management, economics, and industrial engineering. The School deliberately offers an end-to-end portfolio of programmes, addressing, on the one hand, the needs of Politecnico di Milano, whose mission, as a state-owned university, is to offer academic and research education including BSc and MSc, mostly pre-experience, and the PhD Programme; and, on the other hand, to respond to the requests of the corporate world, with its demand for specialised, post-graduate and post-experience education including MBAs, Specialised Masters, Executive and Corporate Education. The mission of the School of Management is to create and share knowledge at the intersection between engineering, management and economics, with the ultimate goal of educating responsible future leaders in both private and public sectors. We are continuously at the forefront of intellectual knowledge, and our research will always address new topics and trends, so that our community is able to follow the direction taken in reasoning and debate, and access information about the latest know-how and technologies. We strongly believe that independent and intellectually free research is the key to our educational ability. We also believe that to accomplish this mission we need continuous contact and intensive exchange with the real world, primarily with companies and public bodies.

Internet: www.som.polimi.it/en
Research group and partners

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Partners

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– INNEXTA Consorzio Camerale per il Credito e la Finanza