

## The three pillars of Debt Management

### Expert's opinion

**The evolution of the Bank-Company-Advisor relation in complex scenarios**

by **Marco Badiali**

Co-Managing Partner & Head of Corporate Finance of Badiali Consulting - Staff Location Bernoni Grant Thornton

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### Overview

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by **Sante Maiolica**

Partner & CEO of Grant Thornton FAS

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### Focus on...

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by **Gabriele Felici**

Partner of Bernoni Grant Thornton

Starting from next semester, all companies - both those that already showed signs of crisis before the pandemic and those who started having difficulties following the lockdown - will have to deal with debt management and, particularly, with the payment of overdue debts. This implies the need to adopt a strategic approach and subsequently implement an economic and financial planning...

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### Tophic et Nunc

**The financial structure of SMEs from 2017 to date**

by **Sergio Montedoro** - Partner of Bernoni Grant Thornton

Financial debt is impacting again on the financial statements of SMEs: this is the trend that we have been seeing over the last 4 years. The slow decrease in the recourse to financial debt registered by Italian companies (and most evidently by SMEs) starting from 2011 has shown a net turnaround starting from 2016 (+0.6%) and confirmed an increasing trend, registering a growth by 1.7% in 2017 and 2.2% in 2018...

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## Overview

### Debt management as strategic lever to support recovery

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With the end of the longest lockdown phase in the last 70 years, the majority of Italian companies had the chance to begin working again, at least partially.

During the emergency period, most of the efforts made by the institutions obviously concerned public health and safety, “sacrificing”, in part, public and private economic and financial interests.

The Liquidity and Relaunch Decrees started to band-aid a series of critical issues thanks, above all, to the establishment of various types of moratoriums such as, firstly, fiscal and banking postponements. However, the technical timing of enforcement of some measures has proved to be longer than expected and, in some cases, not consistent with the timing needed to face the crisis.

What will happen now?

It is a widespread opinion, even among the highest international levels, that the real test-bed for companies will be in the second half of 2020, in the so-called “post-Covid” period, i.e. with the restarting of operating activities and, above all, with the end of the moratoriums that will inevitably worsen companies’ unbalanced cash flows and consequently weaken assets.

As usual, the time factor is a key element for implementing adequate financial policies. The ability to timely interact with banking and financial partners is fundamental for companies that want to overcome this period, anticipating the economic dynamics to be faced in markets that, since the crisis, have extremely changed. Consequently, companies will need to show banks and shareholders how they will face these dynamics, even using diverse financial instruments. Banks, if properly informed, could not avoid accompanying companies in this new challenge, aware that, after this moment, enormous opportunities will open up to the readies, soundest and most innovative players.

Here is when the debt advisor comes in. The debt advisor is the one who reconciles the needs of banking institutions with the new value propositions companies elaborate, justifying their requirements and demonstrating their validity.

Indeed, through the financing memorandum, the debt advisor concentrates contingency plan and business plan in one unique document, duly “translated” in a language that financial backers immediately understand, clearly illustrating how the cash flows the company will generate in the coming years of activity will remunerate debt and venture capital.

From tomorrow onwards, the far-sightedness of many companies shall be measured considering the time needed to implement those strategies compared to the time needed to issue a new Decree!



## Expert's opinion

### The evolution of the Bank-Company-Advisor relation in complex scenarios

by **Marco Badiali** - Co-Managing Partner & Head of Corporate Finance of Badiali Consulting - Staff Location Bernoni Grant Thornton

The recent Law Decree 23/2020, turned into Law 40/2020, and better known as Liquidity Decree, introduces some supporting measures to ease the access to bank credit in favour of companies in distress due to the Covid-19 outbreak.

Briefly, it provides for the possibility to access to “collateral” guarantees issued by the State through its entities (*Fondo PMI*<sup>1</sup> and *SACE*<sup>2</sup>) whose purpose is granting bank loans to companies affected by the pandemic emergency.

A “deadline” arises from the contents of the regulation, separating “businesses in distress” in two groups, namely:

- business distress existing prior to Covid-19 pandemic emergency, associated with an impairment of the debt positions towards banking system;
- business distress directly arising out of the pandemic-imposed lockdown.



As far as the first category is concerned, the regulation in point clarifies, also amplifying them, the cases in which the SMEs Fund (*Fondo PMI*) can intervene. It also provides clarifications on the issuance of guarantees, granting access to entities that were previously excluded, i.e. companies that upon requesting guarantees had exposures highlighted as “*inadempienze probabili*” (unlikely to pay, UTP) and or “*scadute o sconfinanti o deteriorate*” (past due).

In short, they shall be UTPs or past due originating from the Covid-19 pandemic emergency. “Doubtful debts” that were Non Performing Exposures (NPE) – as at 29 February 2020 – are excluded, as well as the so-called “distressed” companies - at 31 December 2019 - being classified among distressed businesses as per the EC Regulation.

<sup>1</sup> SMEs Fund.

<sup>2</sup> SACE is the Italian State-owned company operating in the financial and insurance sector and specialised in particular in credit insurance.



In compliance with Commission Regulation (EU) No. 651/2014 an ‘undertaking in difficulty’ means:

- an srl that has been in existence for at least three years and whose accumulated losses exceeding reserves are more than half of its subscribed share capital;
- an snc or sas whose losses exceed half of own funds (in this case too, they has to be in existence for three years);
- a company subject to collective insolvency proceedings or that fulfils the criteria for being placed in collective insolvency proceedings. (including SMEs to which domestic law provisions on the so-called “over-indebtedness” refer);
- a company that in the past two years had the debt/net equity ratio greater than 7,5 and the EBITDA/interest coverage ratio below 1,0.

In order to keep going concern situations, although with some operational disruptions determined by the virus outbreak, the Liquidity Decree also provides for a kind of “suspension” of the going concern for FYs 2019 and 2020 for those “healthy” companies that, in the lack of Covid-19, would have faced no issues.

The going concern principle is not undermined, but there is an attempt to isolate the Covid-19 phenomenon as an element that might compromise its maintenance.

The existence of going concern conditions prior to the Covid-19 outbreak will thus have to be associated to the “foreseeable” existence of post Covid-19 going concern.

*Therefore, the simplification introduced concerning the “freezing” of this principle will imply the need to pay higher attention - and with more difficulties if compared with the past - to the business prospective analysis. It will indeed be necessary not only to highlight and isolate the effects the pandemic emergency has caused and will cause in 2020 on the business performance as well as on the economic and financial balances of the company, but also to have the skills to organise the company to relaunch after the crisis.*

The difficulty to define the reference scenario in which the company will have to compete will be another complex issue. A scenario that surely will be different from the one existing prior to Covid-19. In our opinion, this exception to the traditional valuation standards is not a guarantee, for the various players involved in the decision-making process needed to grant a loan, of not incurring in other types of problems. Additionally, for the entrepreneur it does not represent an alternative to the rightful decision-making process that has to be developed in order to have access to back credit.

It is evident that risks such as the misuse of credit and the complicity in the misuse of credit, as well as changes in the composition of the company’s liabilities further to the access to loans backed up by the SMEs Fund or SACE (credit positions that become “preferential”) or even material risks of incurring in far more serious offences (e.g. bankruptcy or complicity in this offence) are not superseded by the provision of “freezing” the going concern.



Covid-19 and the State support measures to face the companies' liquidity crisis the lockdown brought with it, do not modify the reference scenario that should have been already characterised by proper funding strategies. Our opinion is that the facilitating measures granted (state guarantee on bank financing) and the suspension of the "going concern" assumption (referred to the peculiarities of the intra-Covid period) do not represent a simplification in making decisions on financing.

On the contrary, the discontinuity we will record in the market and in the companies' post-lockdown competitive environment already requires entrepreneurs to have an innovative approach to its own analysis and decision-making process aimed at requesting new finance or at debt restructuring.

A path that leads to the identification of the correct financing (or re-financing) instrument only at the end of the process that includes analysing the company's current situation, formulating medium/long-term goals, stating the financial request and verifying viability.

Analysis of the company situation	Formulation of goals	Needs detection	Viability
Economic and Financial Position Check Up	Business Strategy Analysis	Financial Needs Analysis	Business & Financial Planning
Crisis Stage Analysis	Business Risk Analysis	-	Sensitivity Analysis

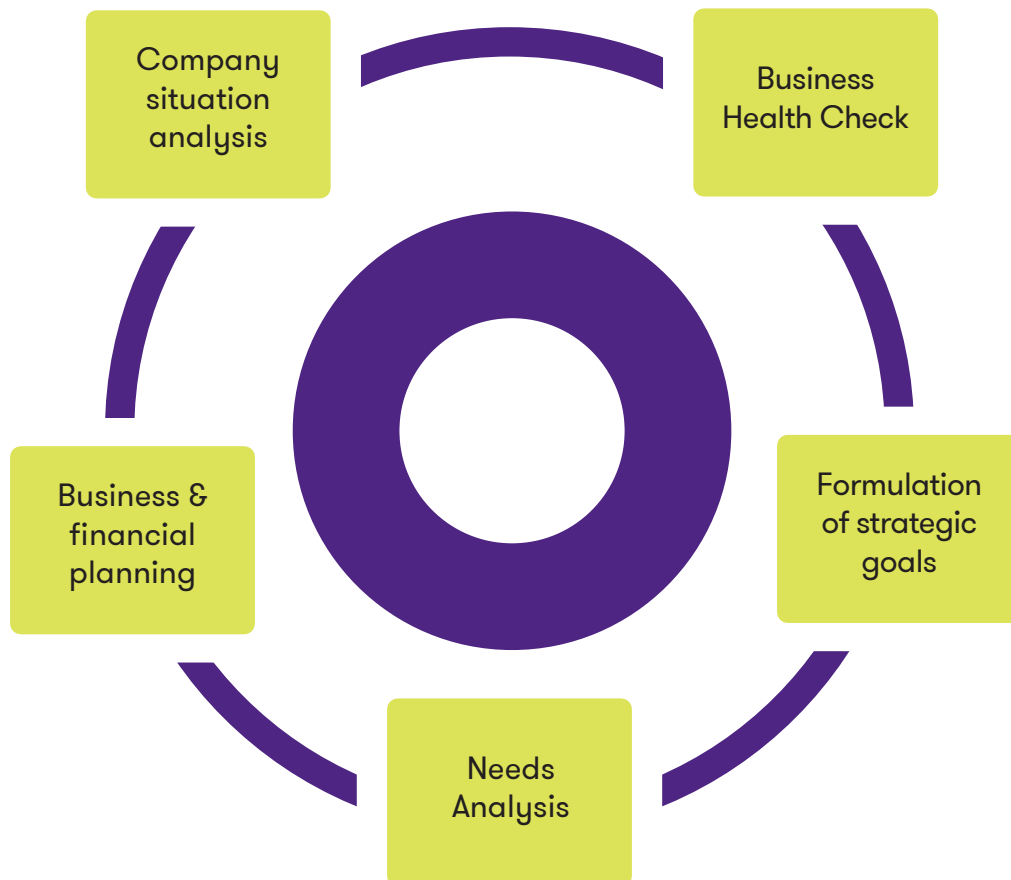
The debt advisor's aim is to support companies along their strategic management path. This path, starting from the analysis of the company's current situation, enables crisis management with a view to relaunch and, consequently, with a view to feasibility and utility of the financing the bank should grant. Leaving the idea to redesign a medium-long term vision now, to fully concentrate on short-term needs can lead the company in a state of total passivity, in a condition of strategic dullness that may be lethal, bearing its effects even after the actual emergency period.

The proposed model, on the contrary, allows to bond together the concepts of going concern and crisis management on a diverse and primary level: i.e. strategy. This way, we no longer discuss about "going concern" but about a Business Continuity Management System, nor we discuss about "crisis management" but about Crisis Management System, precisely in order to highlight the need to develop a holistic approach to entrepreneurial risk as the apex of a pyramid of skills that fits into the decision-making phase.



In practice, this is to state the priority of strategy compared to operations and, at the same time, to acknowledge that the bond existing between the two levels of decision and action is not linear, but circular.

The approach to “continuity” and to the “emergency” management becomes part of the strategy, not only preventively but proactively, influencing how medium/long-term goals - to be preserve in the implementation phase - shall be set.





The unique key to circularly liaise strategy and operational activities in a continuum of decisions and actions is to manage knowledge and its dynamics, the so-called “Knowledge Dynamics Management”. It is clear to many that the worst contingency our Country had to face in this pandemic emergency refers to skills, at all levels, from politics to entrepreneurship, to each single individual who is a member of a bewildered and puzzled community.

This is the new scenario that accompanies the debt advisor’s activity, on the assumption to tie in one unique system the often too separated bank-advisor-company trinomial, thus allowing to finally overcome individual behavioural logics, focused on trying to have own personal interests prevail, which are often identifiable in:

- the organisation of the system of guarantees, the pricing of the operation and the choice of the financial instrument – by the bank;
- the myopic financial procurement - by the company;
- the closing of the deal – by the advisor.

This logic has now to be considered as outdated.

The role of the debt advisor is nowadays even more strategic than in the past, as it aims first of all to assist the company with its real financial health-check, to discuss with the management in devising medium-long-term strategies, in finding the best financial instrument to reach the goals set, to assess the economic and financial viability of the request submitted to the bank.

Through this approach, it will be possible to create mutual trust among the three players of the process and ease the application procedures and decision-making process, consequently determining the issuance of financing that will enable to create an aggregate value that is the sum of the value achieved by each single player involved.







## Focus on...

### Debt management, looking for possible solutions in the post Covid-19 period

by **Gabriele Felici** - Partner of Bernoni Grant Thornton

*Starting from next semester, all companies – both those that already showed signs of crisis before the pandemic and those who started having difficulties following the lockdown – will have to deal with debt management and, particularly, with the payment of overdue debts. This implies the need to adopt a strategic approach and subsequently implement an economic and financial planning, as well as the need to search for, evaluate and select the most appropriate technical, financial and regulatory instruments to deal with this difficult challenge in the best way possible, especially in such a deteriorated situation. In this context, the role of advisors in creating a dialogue with the market and with financial intermediaries is more than ever crucial for a company.*

The pandemic emergency due to the spread of Covid-19 virus has caused serious economic and social effects at a global level, so that it is considered as one of the most serious economic shocks of the period after World War II.

Moreover, in many countries, including Italy, it has affected a situation that was already exhausted and had not yet recovered completely from the recessions of 2008-2009 and 2012-2013.

In this difficult, sudden and unexpected situation, the Government has introduced measures to ensure the going concern of companies, especially after the suspension of production activities (in particular, under Law Decree no. 23/2020, so-called *Liquidità Decree*); among the main actions taken, there are those providing financial support (moratoriums on bank loans, suspension of payments, guarantees to access credit and loans), those concerning the corporate and civil code regulation (reduction of share capital, preparation of financial statements and shareholders' loans to companies), and those concerning the corporate crisis regulation (deferral of the coming into force of the corporate crisis and insolvency code, extension of terms for the conclusion of compositions with creditors and of restructuring agreements and the stoppage of bankruptcy petitions).

Actions taken so far are aimed to specifically face this extreme emergency situation; however, despite the emergency, it is important to keep an overall and, most of all, a prospective and peripheral vision, as it is necessary to grant aids to let businesses recover strength and to lead companies in crisis through insolvency procedures that do not paralyse resources.

In such a context, instruments currently available are restructuring agreements and approved recovery plans (the latter could be a new way to access emergency liquidity), which could assume different characteristics, more consistent with the current situation; they presume an underlying relation with financial intermediaries and, based on the indications of the Bank of Italy and A.B.I. (Italian Bank Association), their virtuous application cannot be excluded.





Given this specific need to implement alternative measures that are really supporting for businesses and that have a holistic approach, despite the temporary situation, I believe that it is necessary to:

- identify the financial needs of each company in difficulty and propose different possible solutions;
- provide responsible lending, ensure the continuance of operating activities and a proper protection for the system and the proportion of the intervention;
- avoid leading companies in difficulty due to the lockdown exclusively to an insolvency procedure, but rather to prefer a plain micro-procedure that prevents creditors from taking executive actions (either individual or collective) for a short period, though without preventing debtors from paying their debts, in order to avoid bringing the circuit of financial and commercial<sup>3</sup> loans to a standstill.

In particular, while banks cannot act against defaulting companies up to 30 September 2020, following the moratorium under art. 56 of Law Decree no. 18/2020 (so-called *Cura Italia*), starting from 1<sup>st</sup> July, creditors will have some possibilities to potentially attack those companies that have not settled their outstanding debts. Therefore, it is clear that in semester 2, 2020, payment deadlines, which have only been postponed and suspended, will have to be dealt with and managed, implementing a strategy that, starting from a careful viability analysis, allows the identification of the most appropriate instruments among those available.

In this directions, some operating solutions seem to emerge, either from further and proper law provisions, or from the recent conversion of Law Decree no. 23/2020, so-called *Liquidità Decree*, into Law no. 40 dated 5 June 2020 (Official Gazette no. 143 dated 6 June 2020).

Among the many amendments and integrations introduced during the conversion, the most relevant ones concern (i) the self-declaration to speed up the issue of loans by the State and (ii) the possibility to proceed with the early voluntary arrangement with creditors also following an approved recovery plan.

New article 1-bis, added to the law decree after its conversion, has introduced the obligation to present a self-declaration in case of new loan applications guaranteed by SACE (Italian State-owned company operating in the financial and insurance sector and specialised in particular in credit insurance) and *Fondo PMI* (guarantee provision for SMEs), through which the owner or the legal representative of the applying company states, under their responsibility, that:

- the business activity was limited or interrupted due to the Covid-19 pandemic emergency or due to the effects deriving from the prevention and containment measures related to the emergency and that the company operated based on a going concern before the emergency;
- the business information provided upon request of the financial intermediary is true and complete;
- anti-mafia laws are complied with.

Such provisions apply also to self-employed subjects carrying out a professional activity, also as an association.



The regulation limits the liability of the institution that issues loans: once they receive the self-declaration, banks will only have to comply with the fulfilments provided under the anti-money laundering regulation, while they do not have to carry out further investigations besides a formal verification of the declared assertions.

The introduction of this self-declaration in lieu of affidavit should simplify and speed up bank inspections, accelerating the issue of loans.

Some believe<sup>4</sup> that this instrument (self-declaration of the health status of the company) could be further enhanced in case of actions to support the going concern, providing the possibility to register it within the Companies' Register, together with a declaration of the board of statutory auditors – if any – or of an independent professional (meeting the requirements under art. 67 of Bankruptcy Law) confirming that indicated information is true and that, subsequently, injunctions against the company cannot be temporarily enforced any more.

Such a provision, in fact, could represent a useful support in terms of relations with financial intermediaries and would have a limited cost for the company and for the whole sector by acting on a system that is already available and by easing the burden for courts. This could offer a safeguard that is proportioned to the actual crisis-facing needs determined by the effects of the pandemic, disarming the most aggressive creditors.

New para- 5-bis, on the other hand, authorises those companies that obtain, by 31 December 2021, access to an early voluntary arrangement with creditors or to a restructuring agreement under art. 182, para. 7 of Bankruptcy Law, to file, within the terms already established by the judge, a waiver of the procedure, stating that an approved recovery plan has been prepared and published in the Companies' Register, and filing the documents relevant to the publication. Once verified the correctness and regularity of the documentation, the court declares the stoppage of the appeal filed pursuant to art. 161, para. 6, or art. 182-bis, para. 7 of Bankruptcy Law.

Lastly, para. 5-ter excludes the applicability of para. 10 of art. 161 of Bankruptcy Law for the applications for arrangement with creditors filed up to 31 December 2020. Since the provisions under this article do not apply, even in case of a pending bankruptcy petition of a company applying for an early voluntary arrangement with creditors, the judge could grant a term for the filing of the application between 60 and 120 days (extendable by further 60 days).

Therefore, based on such provisions, there is the possibility to apply for the early voluntary arrangement with creditors for companies in crisis that could exploit the benefits of the arrangement with creditors without recurring to such instrument, so this solution will allow obtain more time to avoid the risk of bankruptcy<sup>5</sup>.



The debtor can suspend payments and survive by preparing a recovery plan under the supervision of the court and of the receiver, with the obligation to provide regular financial information.

This solution, in fact, meets some proposals made by corporate crisis law experts, though excluding the possibility to save companies in crisis through fully out-of-court procedures.

It is a middle way, as companies will have to turn to courts, which will assess if the company is in crisis but without assessing if the crisis depends on the Covid-19 pandemic.

Companies that will choose this way will certainly be supervised by the receiver appointed by the court and will have to provide periodic documentation to inform on the actions taken to recover and to prove that no fraudulent activities have been carried out towards creditors.

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<sup>3</sup> Fabiani M., *Dalla crisi all'emergenza: strumenti e proposte anti-Covid al servizio della continuità d'impresa*, Introduzione, Centro Studi Diritto della Crisi e dell'Insolvenza, page 7.

<sup>4</sup> Abriani N. e Rinaldi P., *Continuità aziendale, autodichiarazione sullo stato di salute dell'impresa*, *Il Sole 24 Ore*, June 3, 2020.

<sup>5</sup> Pollio M., *Concordato in bianco per imprese in crisi*, *Italia Oggi*, May 26, 2020.





## TopHic et Nunc

### The financial structure of SMEs from 2017 to date

by **Sergio Montedoro** - Partner of Bernoni Grant Thornton

Financial debt is impacting again on the financial statements of SMEs: this is the trend that we have been seeing over the last 4 years. The slow decrease in the recourse to financial debt registered by Italian companies (and most evidently by SMEs) starting from 2011 has shown a net turnaround starting from 2016 (+0.6%) and confirmed an increasing trend, registering a growth by 1.7% in 2017 and 2.2% in 2018.

Even if relevant, financial debt for SMEs is now more sustainable: at the same time, they have implemented firm actions for the strengthening of equity capital for years and that have led to an increase in self-financing to a rate higher than 8% per year.

From a geographical perspective, it can be noticed that financial debt of SMEs amounts to slightly more than 60% of net capital in North-East (61.5%) and Nord-West (63.9%), while it is equal to 82% in central Italy. These levels are very different compared to those observed up to less than ten years ago, when the values of financial leverage showed a net prevalence of debt over equity.

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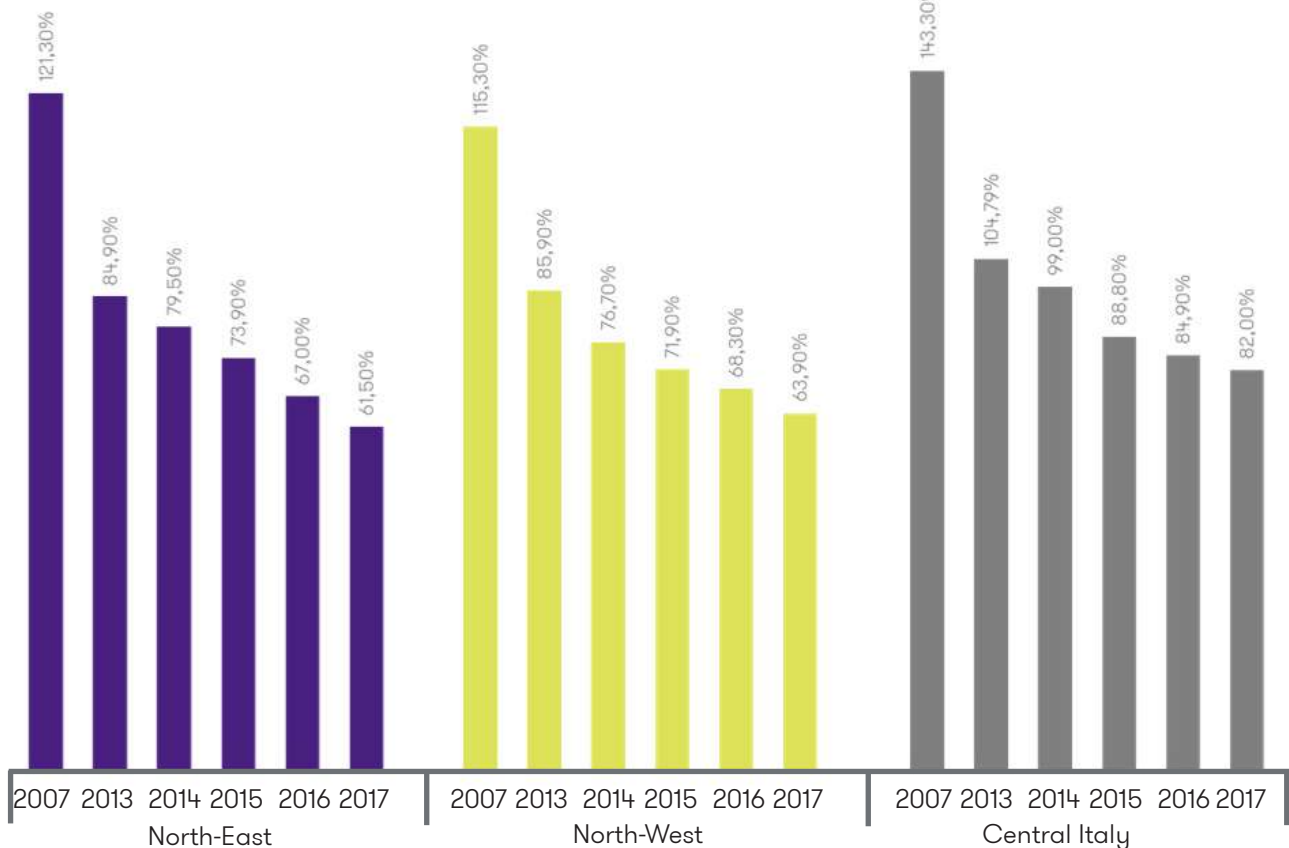
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Abstract from Rapporto PMI Centro-Nord 2019 – Confindustria Cerved



A similar trend has been registered by SMEs in Southern Italy, whose recourse to financial debt, though slightly decreasing, shows a higher dependence of Southern manufacturing companies on bank credit (financial debt is equal to 85.9% of net capital). This is in line with the different industrial structure of SMEs in Southern Italy compared to other Italian regions.

In fact, the higher concentration of SMEs in the services, construction and agriculture industries in Southern Italy compared to other regions and a lower concentration of SMEs in the industrial sector justifies the lower value added compared to SMEs in Central and Northern Italy.

Such data are significant if we consider two further economic indicators, i.e. turnover and value added. In 2016, SMEs in Central and Northern Italy registered, alone, an overall turnover of 750 billion euros, a value added of slightly more than 180 billion, and financial debt equal to 190 billion.



Particularly, North-Western area reaches the most relevant economic dimensions: SMEs alone in this area produced over twice the turnover of Central Italy (equal to approx. 161 billion euros, an added value of 39 billion and debt equal to 43 billion). Though their relevant economic dimension with respect to the total Italian SMEs, SMEs in Southern Italy contribute for 18.5% on total SMEs and produce only 15% of turnover and value added, but the percentage of their financial debt is almost the same.

Lombardy is the first Italian region in terms of SMEs turnover (257 billion), value added (61 billion) and financial debt (64 billion), confirming the trends explained so far.

Also, with reference to the specific category of “Innovative SMEs” in Italy, 2018 figures seem to confirm and even enrich the situation described so far.

	Revenue			Value added			Financial liabilities		
	Small	Medium	SMEs	Small	Medium	SMEs	Small	Medium	SMEs
<b>Italy</b>	<b>418.944</b>	<b>466.574</b>	<b>885.922</b>	<b>110.946</b>	<b>110.510</b>	<b>212.551</b>	<b>93.303</b>	<b>126.764</b>	<b>223.181</b>
<b>North-East</b>	<b>112.278</b>	<b>136.690</b>	<b>249.104</b>	<b>27.986</b>	<b>31.443</b>	<b>59.459</b>	<b>24.686</b>	<b>35.503</b>	<b>60.226</b>
Emilia Romagna	43.463	54.597	98.136	10.591	11.693	22.300	9.452	14.206	23.678
Friuli Venezia Giulia	8.505	9.866	18.366	2.239	2.598	4.835	1.894	2.707	4.600
Trentino Alto Adige	10.292	12.522	22.851	2.808	3.059	5.876	4.206	4.803	9.024
Veneto	50.016	59.700	109.747	12.348	14.093	26.448	9.133	13.780	22.921
<b>North-West</b>	<b>148.169</b>	<b>190.012</b>	<b>338.565</b>	<b>36.989</b>	<b>45.693</b>	<b>82.774</b>	<b>34.235</b>	<b>51.446</b>	<b>85.788</b>
Liguria	8.132	7.936	16.054	2.136	2.082	4.215	2.466	2.868	5.329
Lombardia	110.180	146.415	257.041	26.970	34.245	61.318	24.935	39.340	64.399
Piemonte	29.141	34.864	63.984	7.650	9.118	16.762	6.443	9.061	15.499
Valle d'Aosta	720	774	1.494	234	248	482	389	169	558
<b>Central Italy</b>	<b>82.847</b>	<b>78.656</b>	<b>161.461</b>	<b>19.678</b>	<b>18.927</b>	<b>38.595</b>	<b>19.937</b>	<b>23.125</b>	<b>43.049</b>
Lazio	34.484	33.230	67.646	8.015	8.279	16.277	9.053	10.905	19.935
Marche	11.960	11.633	23.636	2.967	2.786	5.764	2.539	2.856	5.406
Toscana	31.347	28.560	59.923	7.437	6.700	14.142	7.034	7.634	14.672
Umbria	5.061	5.228	10.264	1.260	1.160	2.415	1.310	1.732	3.034

Abstract from *Rapporto PMI Centro-Nord 2019* - Confindustria Cerved



As highlighted in the latest *Osservatorio PMI innovative – ottobre 2019*<sup>6</sup> (observatory on innovative SMEs) report, drawn up in collaboration with Bernoni Grant Thornton and the University of Pisa, the phenomenon of self-financing is particularly evident in companies with a turnover equal to or higher than 1 million euros. Within the sample of analysed companies, in fact, approximately 23.90% shows even an excess in liquidity compared to financial debt. An interesting datum was observed with regard to SMEs with a turnover higher than 15 million euros, which show a higher – or even prevailing – use of financial leverage, with a net gap compared to the lower turnover category.

A further element that has certainly favoured the financial viability of SMEs is the cost of debt, which is at minimum levels thanks to the loose policy of the European Central Bank. SMEs have continued benefitting from low interest rates that have led to increasing investment, financed by a balanced presence of resources generated internally and through the recourse to debt from third parties.

The described dynamics have certainly allowed SMEs to start a path characterized by a new solidity which, however, due to the latest events that have affected Italy and the global economy, risks to be strained by the social and economic dynamics that will presumably have effects starting from 2020 and in the following years.

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<sup>6</sup> The Report was edited by the team of the *Osservatorio PMI Innovative* (Observatory on Innovative SMEs), established at the University of Pisa in collaboration with Bernoni Grant Thornton. More information here: <https://www.openinnovativepmi.it/en/osservatorio/>

**Facing Covid-19  
with our  
Clever Desk**







## The current situation of SMEs in the emergency situation

Currently, while the health situation related to the spread of Covid-19 is slowly but constantly improving, the same cannot be said for the economic situation of the Country. This is particularly true for SMEs, which are the foundation of the Italian entrepreneurial system, and which have suffered significant drops in turnover in the last months of the year, with a subsequent prejudice to their financial structure. Outlooks for semester 2, unfortunately, show new difficulties for companies, which will deal with many fulfilments and payments during the recovery of their production activity. At the moment, the tax and financial moratorium has granted a break to entrepreneurs, but at the end of the summer, new problems deriving from the difficulty in collecting the liquidity necessary to deal with obligations will likely lead to even irreversible crisis situations.

A crucial role is therefore assumed by those instruments introduced by the Government through the many regulatory provisions, aiming to support the financial stability of SMEs. In order to prevent the lacking liquidity from impacting on the leverage of companies, the *Rilancio Decree* (Law Decree dated 19 May 2020, no. 34) – under art. 26 – introduced a concession to incentivize the recapitalization of companies, to strengthen the capital of medium-sized enterprises. In fact, those companies affected by the emergency situation, whose turnover ranges from 5 to 50 million euros per year, can obtain benefits for both the shareholders – who deal with recapitalization – and for the company itself. Therefore, a tax credit equal to 20% of paid-up capital is provided to subscribers and a further tax credit equal to 50% of losses registered in financial statements 2020 – if exceeding 10% of shareholders' equity – is provided to the company. Moreover, the regulation provides for these companies the institution of a fund for SMEs (*Fondo Patrimonio PMI*) for the subscription of newly-issued bonds.

The legislator also introduced – with particular regard to innovative start-ups – through art. 42 of the *Rilancio decree* (Law Decree dated 19 May 2020, no. 34) a “fund for technology transfer” (*Fondo per il trasferimento tecnologico*) for companies operating in Italy having assets equal to 500 million euros in 2020. This financing aims to enhance and exploit the outcome of research. It also aims to incentivize the collaboration between public and private entities for the realization of innovation projects also through the indirect participation of the Ministry for Economic Development in the risk and debt capital of companies.

With regard to loans granted to SMEs to support liquidity and the going concern, the *Liquidità Decree* (Law Decree dated 8 April 2020, no. 23) has provided for the concession of guarantees at concessional terms for loans granted by credit institutes.



In particular, the decree conversion law (Law dated 5 June 2020, no. 40) has strengthened this provision by extending the potential beneficiaries and by increasing the maximum guarantee percentage. With regard to loans of lower amount, the maximum guaranteed amount is 30 thousand euros, the terms for repayment are extended up to 10 years and favourable interest rates are provided.

Lastly, it must be pointed out that there is the possibility for SMEs and start-ups to recapitalize the business through crowdfunding, i.e. an online collection of capital through the use of proper platforms authorized by Consob (Italian National Commission for companies and for the stock exchange) and entered in a proper register. In 2012, Italy was the first country in the world to regularize this procedure, in order to incentivize innovation and technological development. Now, this practice has been extended to all SMEs (Budget Law 2017) and, moreover, for a few months (Budget Law 2019) interested companies have had the possibility to offer investors not only shares or stock of their capital (so-called equity crowdfunding) but also securities (debt crowdfunding). In fact, the introduction of crowdfunding led to the regularization of a very interesting “innovative” finance instrument through which companies can collect funding from a potentially very high number of subjects – i.e. the “crowd” – and do it online, thus offering companies new channels for capital collection, besides traditional business finance instruments. The market of crowdfunding, where Italy is a leading country, is registering a very high growth rate and important development scenarios are expected in the future, as confirmed by the results of quarter 1, 2020, where the record amount of 24 million euros was collected for 34 different companies.

TopHic has been edited by the professionals of the Italian member firms of Grant Thornton International Ltd.  
For any request for further details about the information provided herein or more generally about any related subject, please contact [redazione@it.gt.com](mailto:redazione@it.gt.com). A Grant Thornton professional will be glad to deepen what discussed in the newsletter.

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