



# InnovFin

## EU Finance for Innovators

**Past Experience and Future Strategy**

**Thomas C. Barrett**

**European Investment Bank**

# Introduction to the European Investment Bank



| EIB Ratings | Long-term | Outlook |
|-------------|-----------|---------|
| Moody's     | Aaa       | Stable  |
| S&P         | AAA       | Stable  |
| Fitch       | AAA       | Stable  |

(as of September 2014)

- Created with the Treaty of Rome in 1958
- Owned by 28 EU Member States
- EU's policy-driven, long-term lending institution
- Self-sustaining, non-profit maximizing institution
- Sizeable capital of €242 billion
- Largest Multilateral Development Bank by assets (€525bn in 2014)
- Largest Multilateral Development Bank by annual lending (€67bn target 2014)
- Largest supranational borrower on the capital markets (€70bn target 2014)
- Highest credit rating, 0% risk-weighted and the only supranational bank with direct access to a central bank liquidity (ECB)
- Projects in over 160 countries
- EIB is the parent company of the European Investment Fund (EIF)

## EIB Activities

### LENDING

- Loans
- Guarantees
- Equity participations

### BLENDING

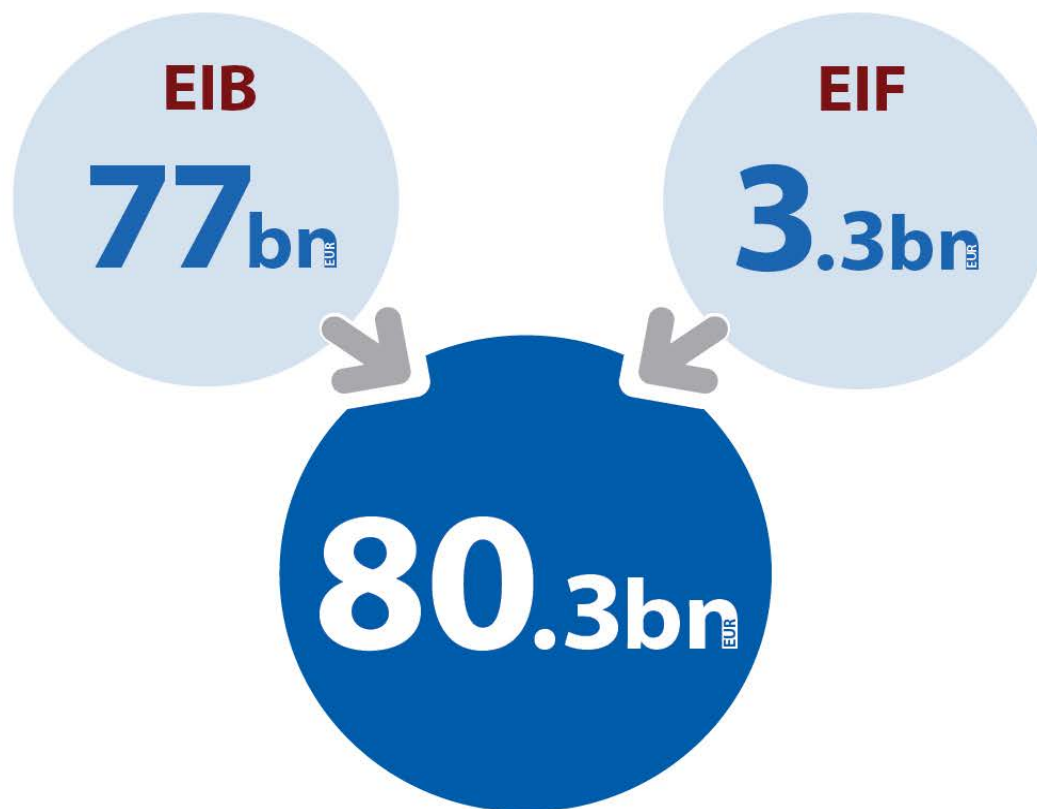
- Combining EIB loans and EU grants
- Leveraging EU and Member States budget resources

### ADVISING

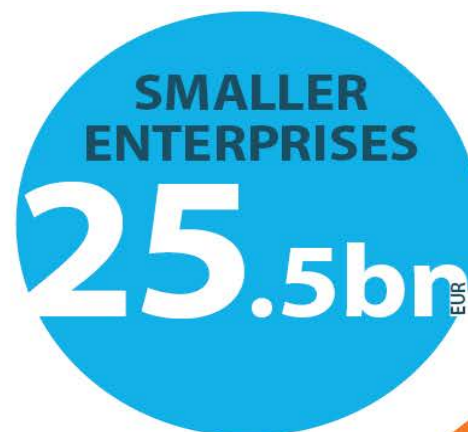
- Strong in-house expertise
- Technical and financial advice
- Technical assistance initiatives

The EIB is **NOT** lending taxpayers' money

# EIB Group Lending in 2014

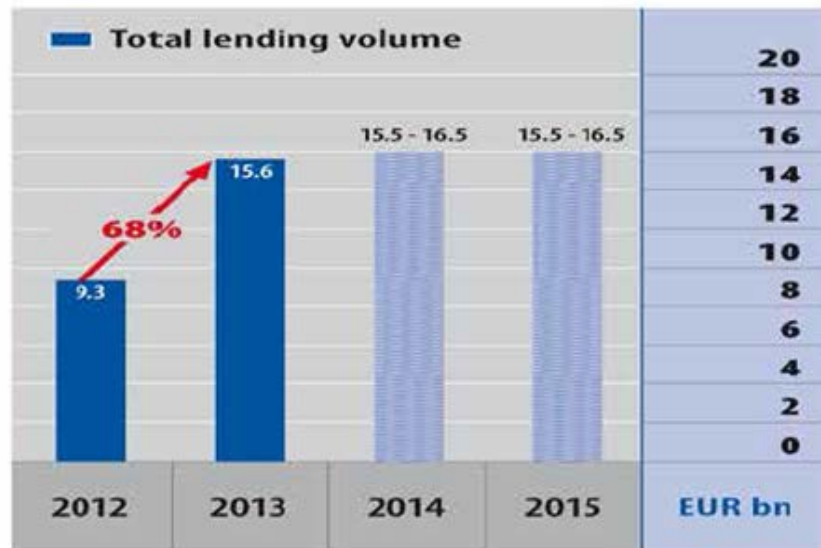


# EIB Group Lending Priorities





# EIB Lending to the Knowledge Economy



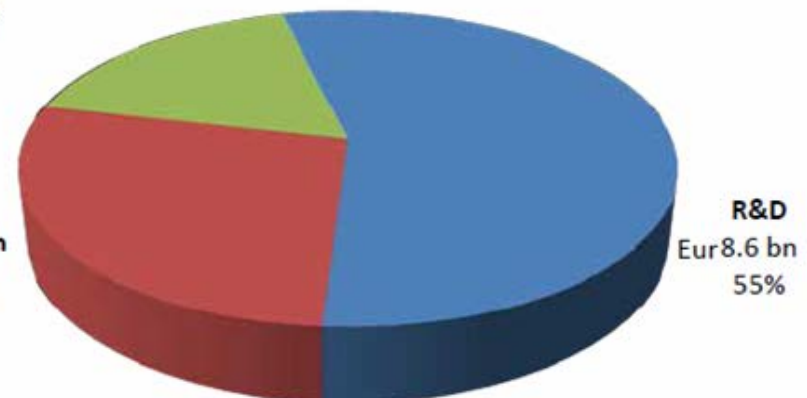
**139 bn since 2000**

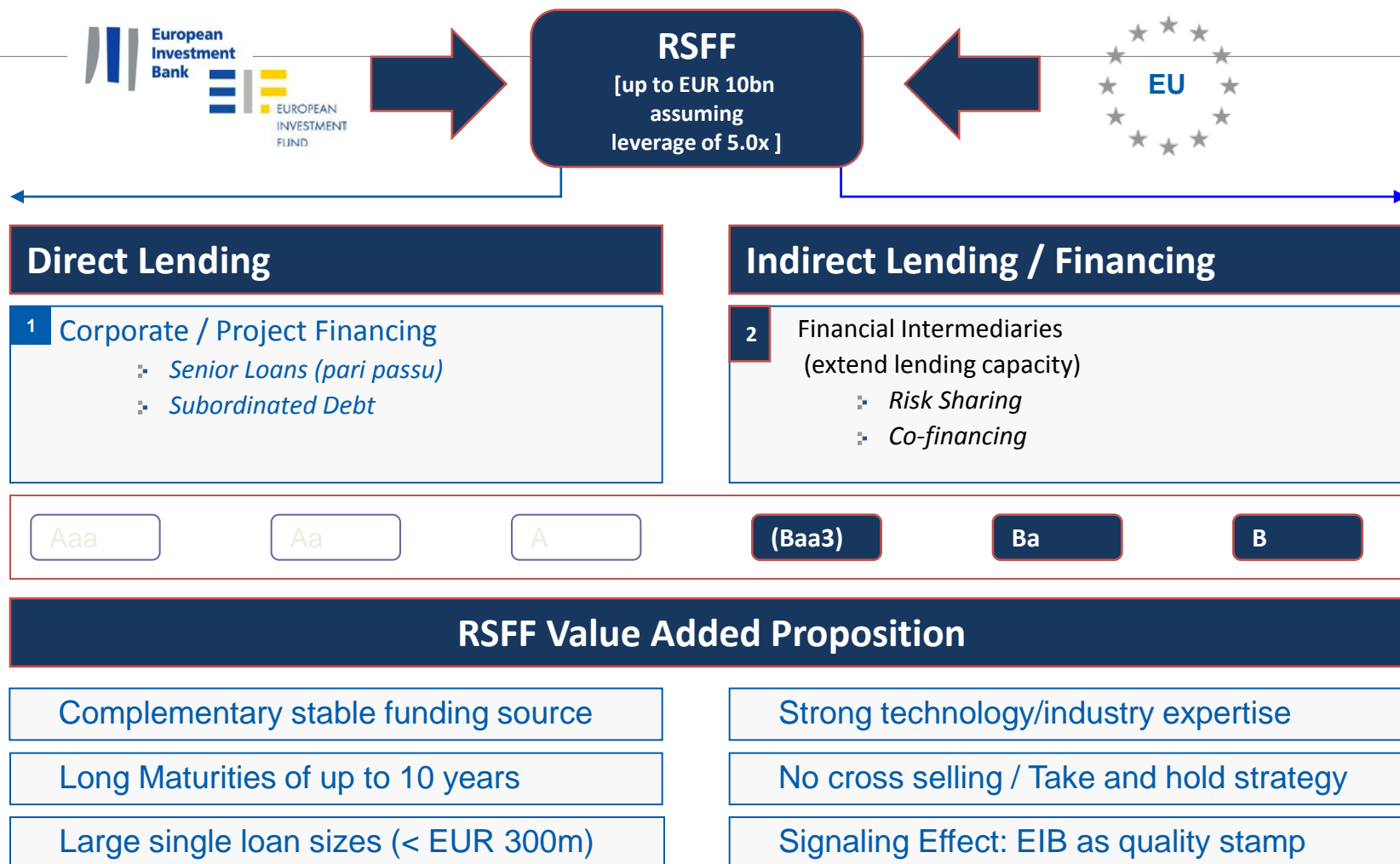
**68%** volume increase

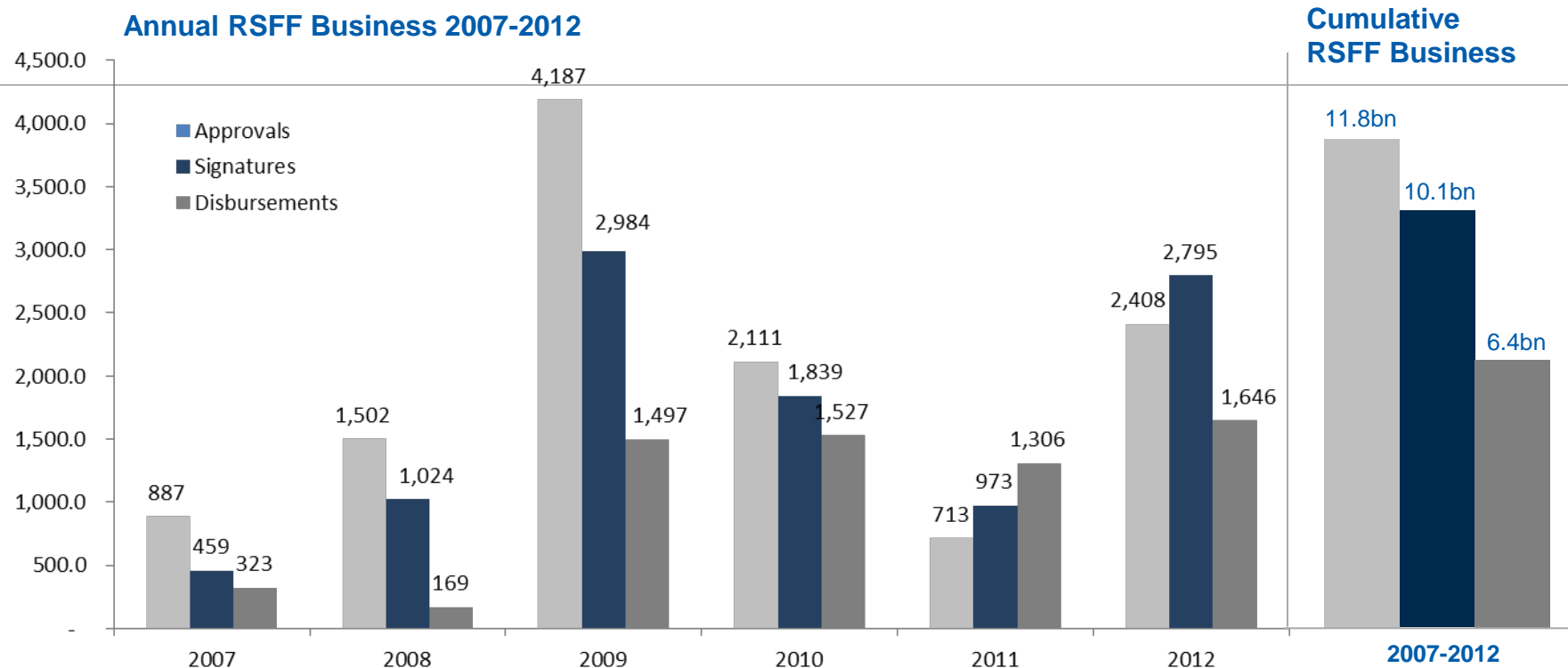
**Innovative financial instruments**

**Education & Training**  
Eur 2.7 bn  
17%

**Innovation**  
Eur 4.3 bn  
28%





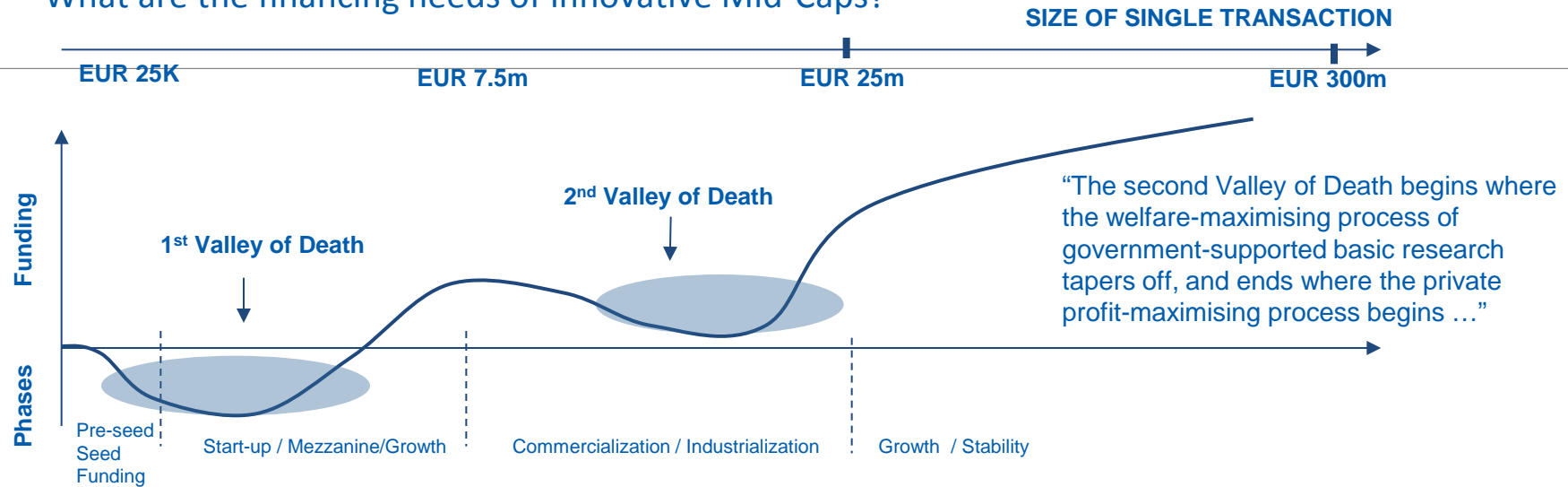


- The RSFF business evolution has proven to be anti-cyclical and rather volatile. The overall target of EUR 10bn in RSFF loan commitments was achieved one year before the end of the program.
- Based on the business pipeline for 2013, the EIB assumes that RSFF will reach its capacity limits some time during 2013.

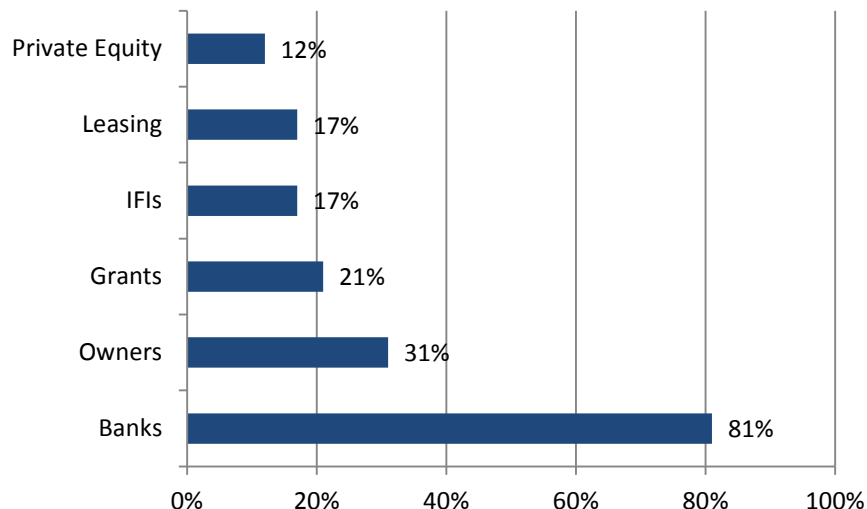


## RSFF Mid-Cap Strategy

What are the financing needs of innovative Mid-Caps?



- ❖ Policy papers and research studies identify two troughs in the supply of capital to innovative SMEs and mid-caps. The **first Valley of Death**, whose existence is attributed to a lack of early stage risk capital for start-ups, is currently addressed by the EIB Group via the EIF products (Seed, TT, VC).
- ❖ The focus of this presentation is the **second Valley of Death**, which inhibits innovation's transition from technical and economic feasibility to commercial production. The occurrence of the second Valley of Death at the intersection of these two stages in the innovation sequence is due to the dearth of financing available to RDI projects during the post-creation venture capital stage. This results in businesses being financially ill-equipped for the creation of new value chains, upscaling, demonstrations, testing and co-developing with end-users.

**Sources of Funding for Mid-Caps  
by Importance in 2011 (PWC)**

**Average Ticket Sizes of Mid-Caps seeking debt financing**

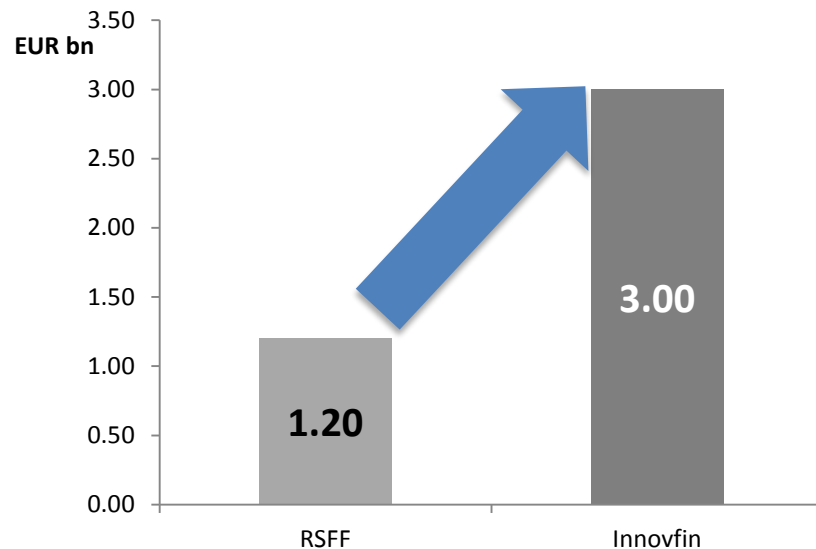
| Copmany Size | Average Ticket Size | Min      | Median    | Max        |
|--------------|---------------------|----------|-----------|------------|
| 250-499      | EUR 11.0m           | EUR 0.4m | EUR 2.0m  | EUR 50.0m  |
| 500-999      | EUR 52.5m           | EUR 0.5m | EUR 25.0m | EUR 225.0m |
| 1000-2999    | EUR 63.7m           | EUR 5.0m | EUR 10.8m | EUR 300.0m |
| All Mid-Caps | EUR 40.9m           | EUR 0.4m | EUR 10.0m | EUR 300.0m |

- ❖ Banks are by far the most widely used source of debt funding (see chart beside).
- ❖ The loans that are currently available by commercial banks are primarily short-term loans.
- ❖ Basel II/III requires high capital charges for large tickets and long tenors explaining partly the shortfall in the availability of long-term loans for many Mid-Caps.
- ❖ 50% of Mid-Caps are unsatisfied with the security and guarantee requirements as well as the tenor of financing options currently available.
- ❖ The majority of Mid-Caps feel that the availability of financing targeted specifically at RDI had worsened in the recent months.
- ❖ **For mid-sized and larger mid-caps, 75% of surveyed companies will be seeking up to EUR 30.0m and 40.4m of debt financing respectively. The average annual loan size for all mid-caps that expect to raise funds is EUR 40.1m.**

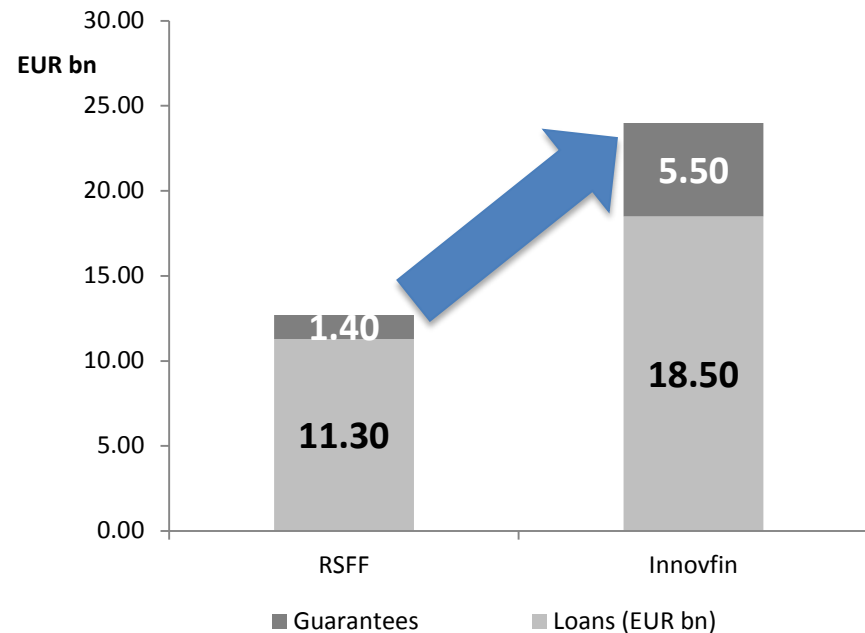
# InnovFin: A Quantum Leap

InnovFin builds on the success of RSFF but will be much larger and broader.

## EU and EIB Group Contributions



## Loans and guarantees



# InnovFin Product Overview



| SMEs                                       | Mid-Caps   | Large Caps                                   | Advisory                    |
|--|--|--|-----------------------------|
| <b>InnovFin</b><br>SME Guarantee           | <b>InnovFin</b><br>MidCap Guarantee              | <b>InnovFin</b><br>Large Projects            | <b>InnovFin</b><br>Advisory |
| <b>InnovFin</b><br>SME Venture Capital     | <b>InnovFin</b><br>MidCap Growth Finance         |  |                             |
| SMEs and small Mid-Caps<br>< 500 Employees | Mid-Caps<br>< 3,000 Employees                    | Large Caps<br>Typically > 3,000<br>Employees |                             |
| Intermediated<br>SME/Mid-Cap Financing     | Intermediated and/or<br>direct Corporate lending | Direct Corporate Lending                     |                             |

direct products

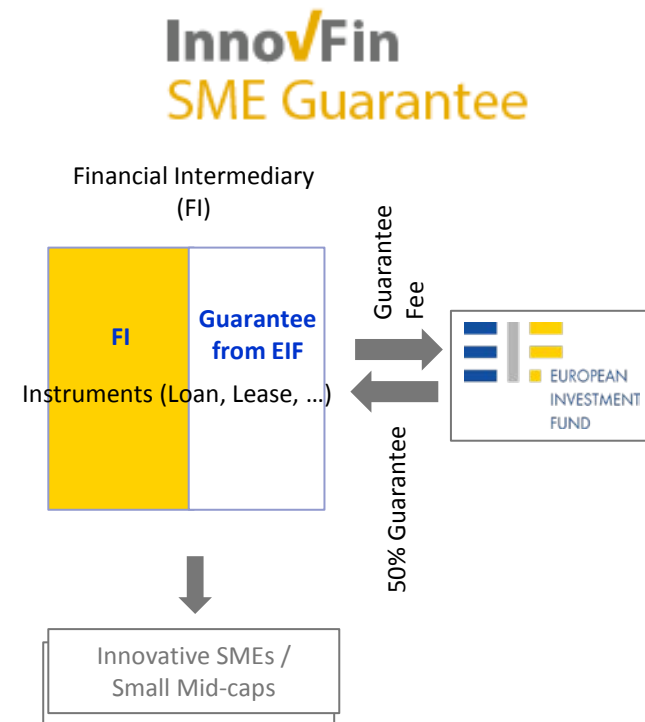
indirect products

# InnovFin SME Guarantee

**This guarantee instrument covers the risk related to losses of a portfolio**

## Key Points:

- Coverage up to 50% of the losses resulting from a financing of innovative SMEs or Small Mid-caps
- Reduction of the credit risk, as well as regulatory capital relief
- Financial Intermediaries transfer the benefit of the guarantee to the final beneficiaries
- Financial Intermediaries are selected on a “first come, first processed” basis



# What Transactions can be supported?

**Tangible &  
Intangible  
Assets**

**Working  
Capital**

**Business  
Transfers**

- **Debt instruments: loans, credit lines, leases and bonds**
- Loan amount: min **EUR 25k** - max **EUR 7.5 m (only senior debt)**
- Loan maturity: min **1 year** - max **10 years**
- Currency: **EUR and local currency**
- Max portfolio: EUR 400m per intermediary, EUR 1bn per intermediary group

**Guarantee Fee:**  
**SME**  
**0.50% p.a.**

**Guarantee Fee:**  
**Small Mid-Cap**  
**0.80% p.a.**



- **Two Products for Innovative Mid-Caps**

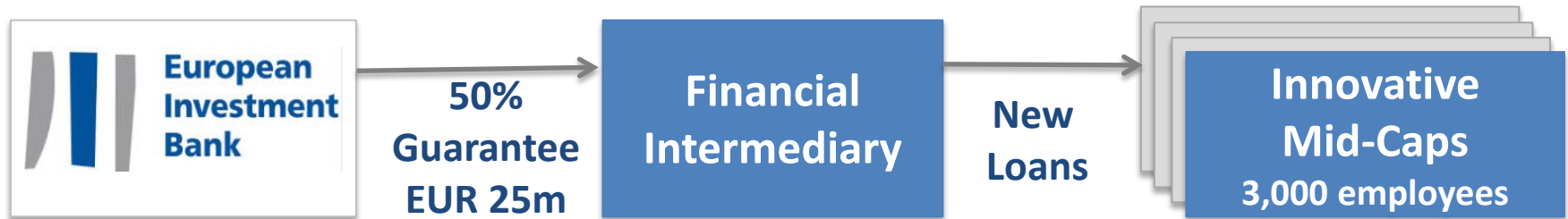
1. **Indirect Financing (Risk Sharing) for Senior Loans: Mid-Cap Guarantee**



2. **Direct Growth Financing (Mezzanine): Mid-Cap Growth Finance**



- **How does MCG work?**



- 50% loss coverage for new mid-cap loans of up to EUR 50m not covered under InnovFin SME Guarantee
- Can be complemented with EIB funding (global loan)
- Pari-passu sharing of risk and pricing
- Full delegation to financial intermediaries
- Favourable capital treatment, English law

# Eligibility Criteria

**InnovFin**  
MidCap Growth Finance



## Step 1 Is your company a mid-cap?

*A mid-cap is a company which, at the time of the application, employs less than 3,000 full-time employees on a consolidated basis.*



## Step 2 Is your company a innovative or fast growing?

*A mid-cap company shall be eligible for GFI financing if it meets at least one of the following two conditions:*

- A. *The company is a “**fast growing enterprise**” measured by employment or turnover. Annualized growth in sales or full-time employees should be greater than 10% a year over the last three years, or*
- B. *The company is an “**R&D or innovation-driven enterprise**”, if it meets at least one of the following conditions:*
  - 1) *R&D to Sales ratio is equal or higher than 5% for the last fiscal year, or*
  - 2) *The company undertakes to spend at least 80% of the loan amount on research, development and innovation activities over the next 36 months, or*
  - 3) *The company has been awarded grants, loans or guarantees from the European R&D or innovation support schemes (e.g. FP7, Horizon 2020) or regional or national support schemes over the last 36 months, or*
  - 4) *The company won an innovation prize over the last 24 months, or*
  - 5) *The company registered more than one patent over the last 24 months, or*
  - 6) *The company received cash investment from an innovation-driven VC, or*
  - 7) *The company is registered in a science, technology, or innovation park, or technology cluster or incubator, in each case, for activities related to RDI, or*
  - 8) *The company has benefited from tax credit related to innovation or investment in R&D in the last 24 months*

- **How does InnovFin Large Projects work?**



- Senior debt (pari-passu with other senior lenders)
- Eligible project required. EIB can only finance 50% of R&D and innovation investments
- Comprehensive due diligence including project due diligence
- EIB standard documentation under English or Luxembourgish law

# Facilitate Access to RDI Finance

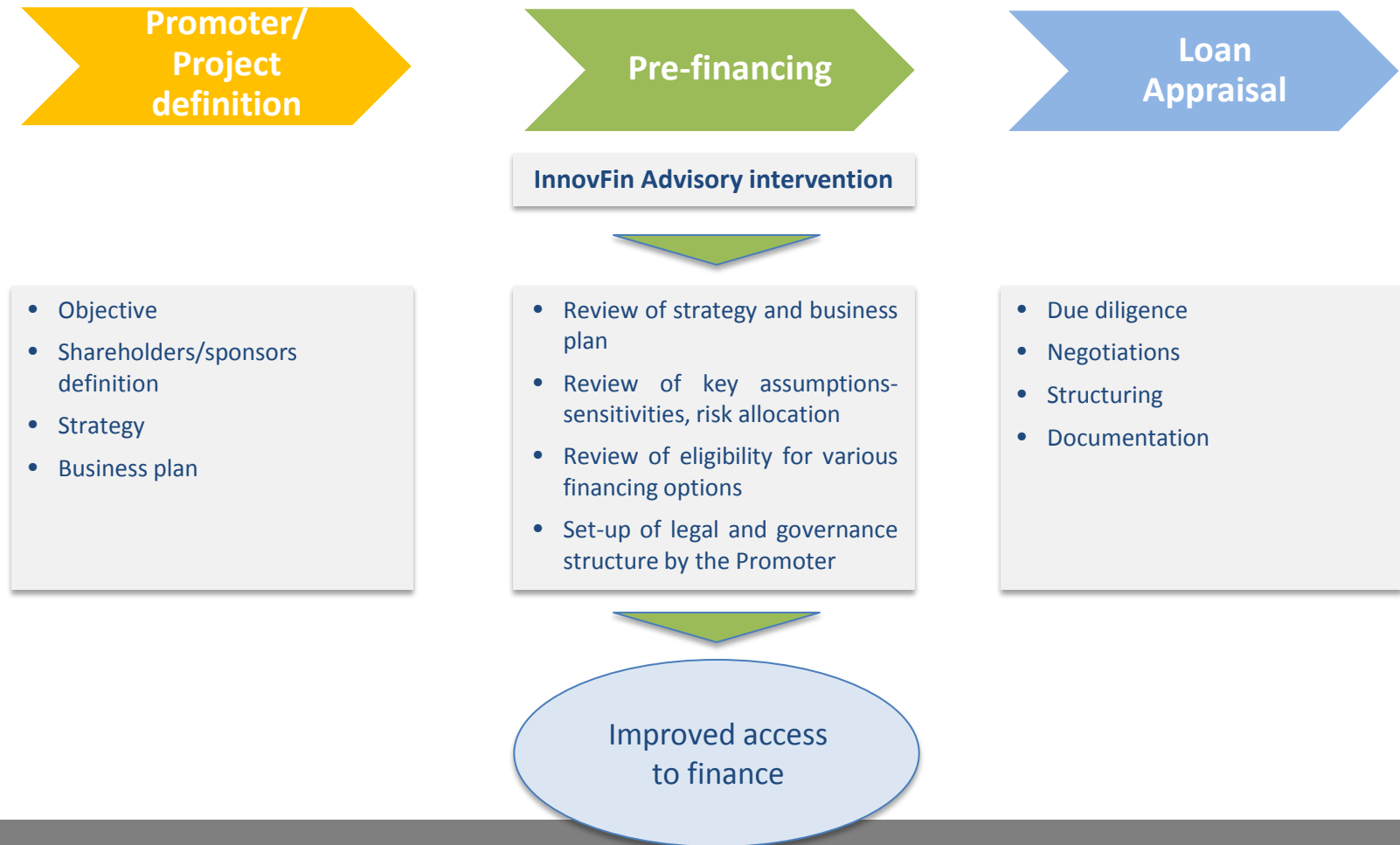
## Project advisory work

- Improve the bankability and investment readiness of large, complex R&I projects
- Advise specific public-private consortia, R&I driven companies (midcaps or larger), Joint Technology Initiatives, PPPs, R&I clusters, EC and MS

## Horizontal activities

- Improve framework conditions for access to finance (web-based portal, criteria notes)
- Prepare studies to improve effectiveness of H2020 FI to address specific sectors/R&I projects needs
- Develop “business case” for new financing mechanisms to support specific R&I policy objectives

# When do we intervene?





## Examples of Projects

- **Global Tuberculosis Vaccine Partnership** – assessing, together with the European Commission (DG RTD), European pharma industry, TBVI, AERAS and the Gates Foundation the possibility of developing a more effective program for financing a portfolio of TB vaccines.
- **Fuel Cells and Hydrogen Joint Undertaking** – advising the FCH JU, the German and UK Coalition members on the bankability of hydrogen infrastructure roll-out.
- **Financing options for unique pan-European Research Infrastructure** – study to assess financing instruments and structures for Research Infrastructure.
- **Development of new financing mechanisms for prioritising Global Health R&D** – study to evaluate new trends and opportunities to finance Global Health R&D.
- **Methodology for quantifying risks and prioritising investment in the SET (Strategic Energy Technologies) plan** – establishing a risk assessment framework for the different SET projects.
- **Web application for Innovative SMEs and Mid-Caps** – launch of user friendly application (improved communication) to Improve access to risk finance for SMEs and Mid-Caps.

## Contact Details

**Thomas C. Barrett**

Director and Chief Representative  
European Investment Bank  
Minister of the European Union Delegation to the United States  
Washington, D.C.

[t.barrett@eib.org](mailto:t.barrett@eib.org)



**Christoph Kuhn**

Head of Division

InnovFin  
EU Finance for Innovators

Phone: (+352) 4379 87324  
Fax: (+352) 4379 57324  
email: [c.kuhn@eib.org](mailto:c.kuhn@eib.org)

European Investment Bank  
100, boulevard Konrad Adenauer  
L-2950 Luxembourg



**Shiva Dustdar**

Head of Unit

InnovFin Advisory

Phone: (+352) 4379 87316  
Fax: (+352) 4379 57316  
email: [s.dustdar@eib.org](mailto:s.dustdar@eib.org)

European Investment Bank  
100, boulevard Konrad Adenauer  
L-2950 Luxembourg



**Rémi CHARRIER**

Head of Institutional Business Development  
Mandate Management Department  
Phone: (+352) 2485-81376  
email: [r.charrier@eif.org](mailto:r.charrier@eif.org)

