



Access2EIC - NCPs

Webinar EIC Accelerator Equity and Due Diligence Process

Key aspects on the EIC equity operations

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Agenda

- State of play of the EIC Fund
- Overall process
- Preliminary operating activity

State of play of the EIC Fund

EIC Fund: preliminary steps

- 29/11/2019
 - ✓ Commission Decision on the **8th amendment of the Delegation Agreement between the EU, the EIB and the EIF** in respect of the Financial Instruments under Horizon 2020, **inserting the EIC Fund** into Annex E of the Delegation Agreement.
- January 2020
 - ✓ **First draft of the legal documentation** Annexed to the Commission Decision approving the establishment of the EIC Fund
 - ❑ **Articles of Association (Articles)**
 - ❑ **Private Placement Memorandum (PPM)**
 - ❑ **Advisory Agreement (AA)**

EIC Fund establishment

- January 2020- May 2020
 - ✓ Discussions and consolidation of the legal documentation for the establishment of the EIC Fund within the Commission Services and with the EIB
 - ✓ Preparatory works for the selection of fund administrator, the auditor and the insurer
- 15/06/2020
 - ✓ C(2020)4001/F1 Commission Decision on the establishment of the EIC Fund
- **22/06/2020**
 - ✓ **EIC Fund established**

EIC Fund: next steps

- July 2020
 - ✓ First meeting of the Board of Directors
 - ✓ First investment operations proposals submitted to the Investment Committee
- Summer 2020
 - ✓ First investments decisions by the Board of Directors

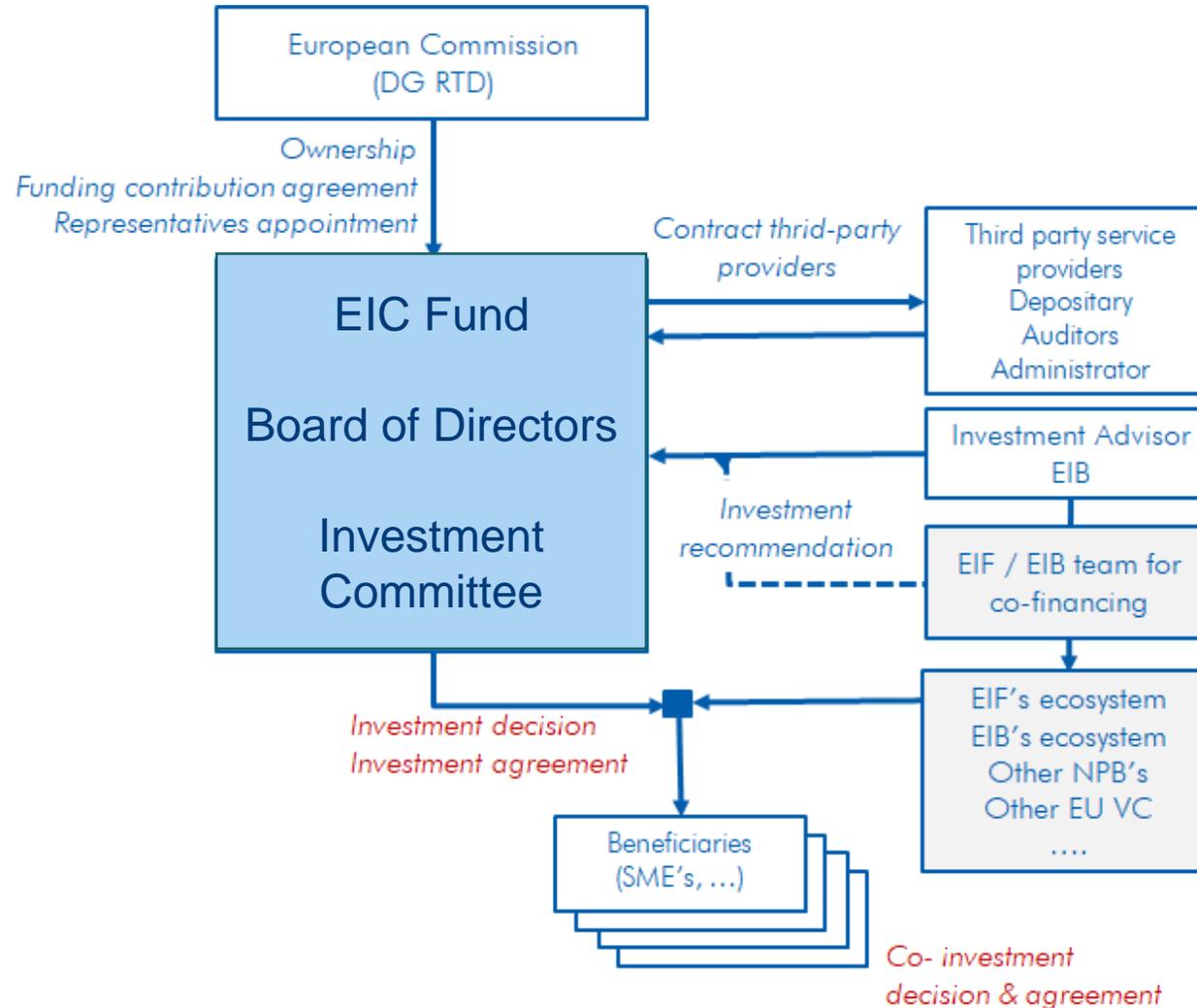
EIC Fund: current portfolio

- 102 projects
- Average size
 - ✓ Grant €1.9 million
 - ✓ Equity €3.9 million
- Total proposed investment
 - ✓ €399.4 million

Overall process

EIC Fund: Governance

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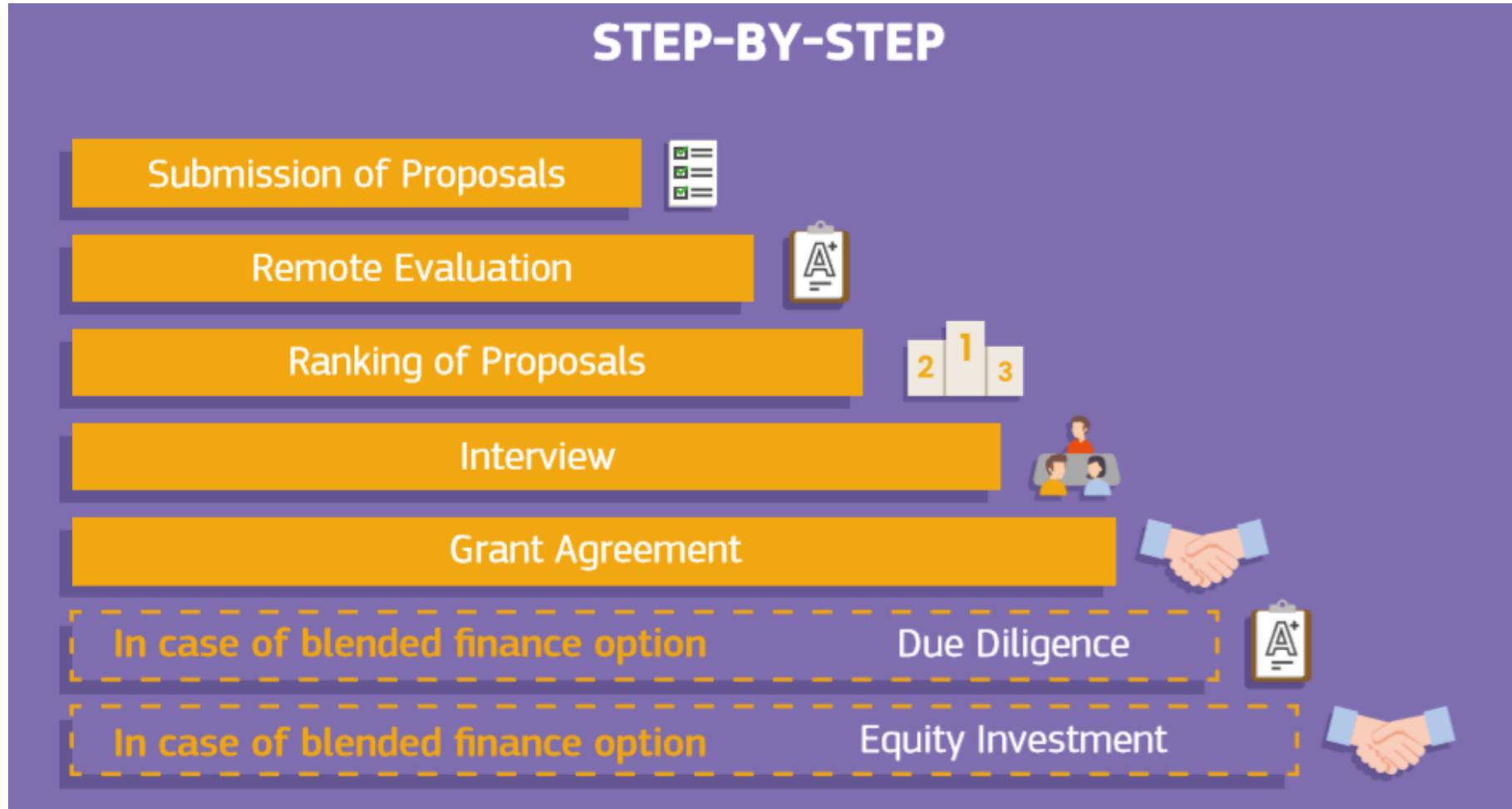


EIC Fund: Governance

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- EIC Fund Board of Directors
 - Manages the EIC Fund
 - Composed of 5 members
- EIC Fund Investment Committee
 - Makes proposals to the Board regarding investments/divestments
 - Composed of 7 independent experts / 1 Commission official from DG R&I
- Investment Advisor (EIB)
 - Among others, assists the Board and IC in execution of investments:
 - ✓ Identifies appropriate financing structure
 - ✓ Negotiates investment terms, matchmaking with co-investors
 - ✓ Closes the final investment agreement

EIC Accelerator: Selection process



Due diligence



- Performed by the EIC Fund supported by the EIB as advisor
- Goal: define tailor-made investment fitting company and project needs
- Starts with a questionnaire sent by the EIB to the beneficiary
- The questionnaire is customized according to the information already provided by the beneficiary in the proposal

Due diligence



- Focused on:
 - KYC: statutes, by-laws, financial reports, ownership structure
 - General information: organization chart, available previous DDs, VC contacted, consultants of the company...
 - Financials: business plan, P&L, balance sheet, cash flows, CAPEX, working capital
 - Ownership, management and corporate governance
 - Intellectual Property: strategy, ownership, licensing agreements, freedom to operate...
 - Legal Issues/ Litigation: authorizations to operate, ongoing litigations, breaches...

Preliminary operating activity

- 1st cut-off (19 October 2019): 35 proposals, EUR 128.1m potential investment:
 - ✓ 100% contacted by the EIB advisory team
 - ✓ 100% Due Diligence Questionnaires sent
 - ✓ Term sheets already drafted and ready to be sent to EIC Fund (some of them have been already preliminarily agreed with the target companies)
- 2nd cut-off (8 January 2020): 21 proposals, EUR 96.9m potential investment:
 - ✓ 100% contacted by the EIB advisory team
 - ✓ Due Diligence Questionnaires sent
- 3rd cut-off (20 March 2020 - COVID & non Covid): 46 proposals (Eur 174.4m potential investment)

Match-making co-investors to crowd-in



- A community of trusted VCs and investors
- The company will be presented to VCs that may express the interest to invest
- The company will have a final say
- Investors could replace the EIC Fund, co-invest alongside the EIC Fund or provide mentoring

Preliminary operating activity

Investment/co-investment scenarios

Bucket 1: **no market interest** - EIC Fund, with the help of EIB, will:

- Perform due diligence on the potential investee
- Structure its investments (using equity or quasi-equity instruments)
- Look for external mentoring

Bucket 2: **no immediate** but potential future market interest – same as bucket 1,

- Except if the potential co-investor is willing to perform the due diligence
- EIB could advise on potential future co-investment opportunities
- Potential co-investors may secure a future investment priority by providing mentoring

Investment/co-investment scenarios

Bucket 3: immediate but partial market interest – EIC Fund, with the help of EIB, will invest but will

- **Rely on the due-diligence performed by the potential co-investors.**
- Negotiate the terms with potential co-investors
- Advise the company on exiting co-investment opportunities

Bucket 4: immediate market interest – in principle no investment by EIC Fund, which will

- Advise the company on the investment opportunities
- Further connect the company with the investor communities ecosystem

First cut-off: early experiences

- 35 proposals (October 2019). Cases:
 - ✓ No presence of external investors already among shareholders;
 - ✓ The EIC Fund is to invest alone (due to the high risk involved or in which the investment amount is very low);
 - ✓ The targets were already in contact with potential investors interested in co-investing alongside with the EIC Fund.
- 10-15 operations recommendations to be ready for the Investment Committee right after the EIC Fund incorporation, split into two types of operations:
 - ✓ Equity-type through convertible notes
 - ✓ Equity co-investments, mainly with other external investors

First cut-off: early experiences

- Initial issues in the context of the interactions between the company and either the Executive Agency (grant agreement preparation) or the EIB team (DD questionnaires).
- The pandemic crisis is impacting some companies' investment plans.
 - ✓ In light of the above some companies show different business plans to be further assessed.

Issues raised: grant with consent

1. Companies having applied for grant-with-consent which were selected for blended finance and indicated afterwards that did not wish the equity-type investment.
 - ✓ Following exchanges with the companies, their perception has turned positive towards the equity-type investment in all cases: opportunity to accelerate their growth with founder's friendly, patient EIC Fund investment.
 - ✓ Convertible instruments needed further explanation.

Issues raised: Brexit

2. Brexit implications: UK companies moving most of their value and future facilities and activities to a company established in the territory of a Member State in order to keep the Single Market as their home market (*)
 - ✓ The line taken: if the company moves most of its main value to the EU entity, such entity can qualify for the blended finance.
 - ✓ “Main value” to be defined on a case-by-case basis, but at least main activity, IP, key personnel, future facilities and the future group growth.

(*) As of 1 February 2020, UK proposals are eligible for grant support but not for equity support.

Conditions imposed: example

- Transfer the business critical assets, including all the IP, to the EU company: the related costs including taxes would be covered by the current shareholders or would be deducted to the equity valuation;
- Relocate the headquarters to the EU: the EU company would coordinate all the future Group activities;
- Transform the UK company in a SPV of the current investors without any business critical asset;
- Run a substantial part of the operations from the EU company;
- Relocate a substantial part of the management team and key people to the EU as well as the Board of Directors;
- Incorporate eventual future subsidiaries under the EU company, which would be an operating holding company;
- Receive the potential EIC equity investment in the EU company: all the relevant documents (e.g. investment agreement, shareholders' agreement) would be set with the EU company;
- Perform the next equity rounds in the EU company

Issues raised: non-EU investors (I)

3. Company that had already contacted US VC and been asked to relocate to the US as a condition for the investment
 - ✓ The company unsuccessfully tried to raise funds in Europe turning then to the US VC market, not successfully yet neither (at the time of the interview).
 - ✓ In the middle of the EIC process, a US VC fund showed interest in covering part of their equity needs.
 - ✓ The US VC fund asked the company to relocate to the US together with most of its value (mainly the IP) and their activities.
 - ✓ Following exchanges with the company, they confirmed staying in Europe.

Turning the tables

- ✓ The company had already a subsidiary in the US. The company will keep the subsidiary as the US market is key.
- ✓ Entry of the US VC in subsequent rounds with a minority stake in the US subsidiary possible, as long as there is no obligation to relocate main value to the US.
- ✓ The company informed about Business Acceleration Services and EIB-EIF VC funds opportunities for future rounds.
- ✓ The EIC Fund investment unlocking other EU investors (family offices in this particular case) interested in co-investing alongside the EIC Fund via a convertible instrument.

Issues raised: non-EU investors (II)

4. Company that had already raised funding and had a holding in the US
 - ✓ The EU 'operating' company is a 100% of the US holding, with HQ in the EU
 - ✓ The EU 'operating' company owns the IP. Jobs in Europe.
 - ✓ Main concern: upside going to the US holding
 - ✓ Potential solutions:
 - A. Venture debt operation combining a loan agreement with the EU subsidiary and a warrant agreement with the US holding. More costly.
 - B. Direct equity in the holding.
 - ✓ Solution B is feasible as long as the holding company is just a funding arm, while the operational company, its activities and value, its operational growth and job creation are based in the EU.

Thank you