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

European Commission (DG RTD)

Ownership
Funding contribution agreement
Representatives appointment

EIC Fund
Board of Directors
Investment Committee

Third party service providers
Depository
Auditors
Administrator

Investment Advisor
EIB

EIF / EIB team for co-financing

EIF’s ecosystem
EIB’s ecosystem
Other NPB’s
Other EU VC
....

Beneficiaries (SME’s, ...)
EIC Fund: Governance

- 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

STEP-BY-STEP

- Submission of Proposals
- Remote Evaluation
- Ranking of Proposals
- Interview
- Grant Agreement

In case of blended finance option:
- Due Diligence
- Equity Investment
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.
• 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
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.
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