Equity role in
EU innovative projects

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RIGA
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WHAT IS EQUITY AND WHY DO WE NEED IT?

Venture capital raised. Data: Invest Europe, NVCA / Pitchbook. (1) EU does not include HR, CY, MT, SI, SK.
THE CHALLENGE IN EUROPE: A FINANCING GAP COUPLED WITH A FRAGMENTED INNOVATION ECOSYSTEM

"EU start-ups have a harder time raising funding from VCs than their US counterparts..."

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**Venture financing in the US**

2010–Q4’18

- Capital invested (US$)
- # of deals closed
- Angel/Seed
- Early VC
- Later VC

**Venture financing in Europe**

2010–Q4’18

- Capital invested (US$)
- # of deals closed
- Angel/Seed
- Early VC
- Later VC

As a result...

Europe has fewer scale-ups in new innovation markets

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>USA</td>
<td>64% (2015: 67%)</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>3% (2015: 3%)*</td>
<td></td>
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<tr>
<td>Asia</td>
<td>31% (2015: 28%)</td>
<td></td>
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</tbody>
</table>
WHAT'S HOLDING BACK EUROPEAN INNOVATION?

- Lack of breakthrough and disruptive innovations that create new markets
- Financing gap between R&D grants and private investment for scaling up innovative start-ups
- Many national & local ecosystems, but fragmented at European level

Innovation Performance

Innovation Funding

Innovation Ecosystem
EU PRIORITY TOPICS FOR INVESTMENT

- Nanotechnologies: 7%
- Eco-innovation and raw materials: 9%
- Engineering and technology: 12%
- Construction & transport networks: 14%
- ICT: 22%
- Health: 21%
- Energy: 15%
- Eco-innovation and raw materials: 9%
Fast go-to-market of an industry-driven, innovative concept to grow and scale-up

**GRANT-ONLY, BOTTOM-UP**

Consortia of 3-5 from 3 EU / AC — *mandatory industry involvement*

Up to €3 million

**NEXT CUT-OFFS**

19 February 2020, 09 June 2020, 27 October 2020
<table>
<thead>
<tr>
<th><strong>InvestEU</strong></th>
<th><strong>Accelerator</strong></th>
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<tbody>
<tr>
<td><strong>Topics default</strong></td>
<td><strong>Open topics</strong></td>
</tr>
<tr>
<td>1. Research, development and innovation</td>
<td></td>
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<tr>
<td>2. Development of energy sector</td>
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<tr>
<td>3. Development of transport infrastructure</td>
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<tr>
<td>4. Support to SMEs</td>
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<tr>
<td>5. Development and deployment of ICT</td>
<td></td>
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<tr>
<td>6. Environment and resource efficiency</td>
<td></td>
</tr>
<tr>
<td>7. Human capital, culture and health</td>
<td></td>
</tr>
<tr>
<td><strong>Project duration</strong></td>
<td>Unlimited</td>
</tr>
<tr>
<td><strong>Funding rate</strong></td>
<td>50%</td>
</tr>
<tr>
<td><strong>Novelty</strong></td>
<td>One of evaluation factors</td>
</tr>
<tr>
<td><strong>Stage of development</strong></td>
<td>Any</td>
</tr>
<tr>
<td><strong>Subcontracts</strong></td>
<td>+</td>
</tr>
<tr>
<td><strong>Nr. of beneficiaries</strong></td>
<td>Single or investment platform</td>
</tr>
<tr>
<td><strong>Applicant characteristic</strong></td>
<td>Public or private entity</td>
</tr>
<tr>
<td><strong>Funding</strong></td>
<td>Normally 50+ M, but for innovative projects can be down to 7-10 M</td>
</tr>
<tr>
<td><strong>Type of funding</strong></td>
<td>Loan or loan guarantee</td>
</tr>
<tr>
<td><strong>Evaluation process</strong></td>
<td>Remote, visit and investment committee in Luxembourg</td>
</tr>
<tr>
<td><strong>Duration until commercialization</strong></td>
<td>No specific requirements</td>
</tr>
</tbody>
</table>
ACCELERATOR BLENDED FINANCE

Due diligence will focus mainly on evaluating compliance and risk level as well as:

- Confirming the investment amount and structure
- Estimation of the total financial effort
- Defining equity “tranches” and key milestones
- Passive role in the daily management of the company

Exit strategy: if consent of the company is received, the SPV will actively seek private investors to buy the EC shares
EIC FUND INVESTMENT CRITERIA

INVESTMENT FOCUS:

- GEOGRAPHY: EU countries + participating countries
- STAGE: mainly pre-seed, seed and early stage
- SECTOR: in line with EC policy, high technology component expected
- High-risk innovations not yet ready to be fully taken up the market
- Quasi equity or equity
- Convertibles converting at terms of externally priced rounds led by third party investors
- Minority equity investments sought with preferred rights

PORTFOLIO MODEL ASSUMPTIONS (PILOT PHASE):

- 20–40 portfolio companies in total
- INVESTMENT PACE: depending on EC blended finance Call & evaluation process
- TICKET RANGE: EUR 0.5m to EUR 5m per company, higher amounts possible (tranches)
- Substantial follow-on reserves, allowing EIC Fund to double down on best investees
- Circa 70% failure rate - number of companies written-off
- HOLDING PERIOD: 7–10 years
Defined combining 4 objectives:

- Avoid counterproductive founders dilution
- Let space for private players
- Do not create market distortion (no “free money” to founders)
- Ensure the sustainability of the vehicle

Convertible debt type instruments:

- Standardized with jurisdiction specific adjustments, as applicable
- Automatic conversion on next round, maturity or other events (change of control)
- Valuation discount on conversion in line with market practice
- Interest capitalized and due on conversion/maturity

Equity investments:

- Typically seeking preferred rights
  unless not required by a third-party lead investor
- Market conform terms:
  - liquidation preference
  - drag along/tag along rights
  - control and consent rights
- Assignment of the IP by the founders
- Seeking stakes between 10% and 30%
  (on aggregate incl. follow-on rounds)
- Buy-back / earn out options considered on a case-by-case basis
EIC FUND

TYPICAL DIVESTMENT ROUTES

- IPOs, Trade Sale
- Management Buy-Out
- Liquidation
- Sale to a New Investor
- Redemption Rights to Founders/Company
- Repayment
MARIJA
PLOTNIECE

VIAA Apvērnis 2020 NKP vecākā eksperte
Inovācijas MVU, piekluve riska finansējumam

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