InvestEU Scoreboard[1]

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation, SMEW RIDW Joint Equity Product – CMU Sub-Product

Type of approval: Framework Operation

Type of Financial Intermediaries: Typically private equity funds or hybrid-debt funds established in Member States or OCTs of Member States with strategies pursuing Target Areas under the SMEW RIDW Joint Equity Product, CMU Sub-Product.

Type of Final Recipients: SMEs, Small Mid-Caps

Country(-ies) of implementation of the operation: EU27

Short description of the financing or investment operation:

Framework Operation supporting investments into

- **Growth and expansion funds** that provide equity and quasi equity financing and support the continued growth of companies, including in order to finance increased production capacity, to finance market or product development, to provide additional working capital or to be used for a (total or partial) acquisition, in any case with a view to further grow the business.
- **Debt and hybrid debt-equity funds** that provide private credit support tailored to the needs of enterprises in the form of bespoke senior financing, subordinated, unitranche and mezzanine/ hybrid debt-equity financing solutions.

Public Statement

Eligible areas for the operation in accordance with Annex II to the InvestEU Regulation:

Item 7 of Annex II of the InvestEU Regulation:

Financial support to entities employing up to 499 employees, with a particular focus on SMEs, and small mid-cap companies

The following additionality items considerations apply to the Framework Operation.

Item (b) of Annex V A (2) to the InvestEU Regulation:

Support through equity and quasi-equity or through debt with long tenors, pricing, collateral requirements or other conditions not sufficiently available on the market or from other public sources

According to a gap analysis for small and medium-sized enterprises financing in the European Union published by the European Investment Bank and the European Commission in December 2019, financing gaps (for debt or equity financing) remain high, despite the provision of support from national or EU centrally managed instruments during the 2014-2020 programming period. Specifically for debt financing, it was concluded that the structural difficulties or deficiencies of some banking markets (i.e. when the 'debt financing gap to GDP ratio' and/or when the percentage of viable but unsuccessful SMEs is/are particular higher than in other countries) indicate a role for financial instruments that would help SMEs' access to finance at large, i.e. SMEs in all industrial sectors, from all sizes, and/or with all maturities and presenting all types of projects in terms of risk. This may be of relevance in countries where NPLs

[1] This Scoreboard of indicators reflects the information presented to the InvestEU Investment Committee (IC) for its decision on the use of the EU guarantee for this operation. Therefore, the document does not take into account possible developments that could have occurred after this decision.

are particularly high and/or where the provision of collateral by SMEs in view of receiving debt financing is particularly challenging.

As for equity financing, it was concluded that funding via EU centrally implemented financial engineering instruments would be a key resource to set up such equity financing schemes. Its capacity to finance projects with higher risk profiles, to attract other public and private resources to generate leverage and incentivise the sharing of risks among actors with various risk appetites, and to focus on the most relevant market failures on a given territory (in terms of SMEs' sizes, risks or industrial sectors for instance), make it a very useful resource in the set-up of equity instruments.

The equity financing gaps, in absolute terms, have been assessed as being larger than the debt financing gaps. While the larger debt financing gap is in Italy with EUR 25bn, seven Member States have an equity financing gap larger than EUR 25bn (France with EUR 146bn, Greece with EUR 100bn, Germany with EUR 98bn, Sweden with EUR 97bn, Belgium with EUR 68bn, the Netherlands with EUR 41bn, and Denmark with EUR 26bn). Some smaller economies (Hungary and Bulgaria for instance) have equity financing gaps below EUR 1bn in absolute terms, yet they significantly fall short of European PE/GDP average. As a result the bigger markets needs to be supported on supply side, and in smaller countries, PE market's need to be built and developed to level up with the size of the respective economies to stimulate further growth.

The above demonstrates the existence of financing gaps in the VC/PE ecosystem, and in particular of funding opportunities that would help European companies at their growth and expansion stage to continue their evolution to become larger consolidated (lower-) midmarket players.

Via the Sub-Projects under this Framework Operation, EIF will have the opportunity to mobilise InvestEU to increasing the availability of capital towards funds focusing on the growth and expansion segment, funds providing alternative form of financing including hybrid debt equity strategies contributing to the establishment of the necessary investor infrastructure pre and around IPOs currently lacking in Europe.

Item (e) of Annex V A (2) to the InvestEU Regulation:
Support that catalyses or crowds in additional private or public financing and is complementary to other private and commercial sources, in particular from traditionally risk-averse investor classes or institutional investors, as a result of the signalling effect of the support provided under the InvestEU Fund

Also, the application of the ESCALAR mechanism under certain Sub-Projects, may encourage further crowding-in of institutional investors to invest in funds supporting scale-ups.

Item (f) of Annex V A (2) to the InvestEU Regulation:
Support through financial products not available or not offered to a sufficient level in the targeted countries or regions due to missing, underdeveloped or incomplete markets

c.1/3 of the Sub-Projects are expected to target those countries qualifying as MEICs[2], where the financing to be provided will offer potential solutions to the trade-off between the stability and predictability found in more developed countries and the growth potential that the MEICs can offer.
Furthermore, looking at the European Private Equity market statistics for 2021, number and amount of investments in growth stage in CEE, Southern Europe and the Nordics lag behind European average.

The following market failures are addressed by the Framework Operation, as per Annex V of the InvestEU Regulation:

[2] Moderate and Emerging Innovator Countries

Item (c) of Annex V A (1) to the InvestEU Regulation:
Information asymmetries, in particular in the case of SMEs and small mid-cap companies, including higher risk levels related to early stage firms, firms with mainly intangible assets or insufficient collateral, or firms focusing on higher risk activities

The Sub-Projects will aim to improve visibility of companies to other investors, notably by facilitating partnerships or collaboration with the wider ecosystem, including entities at a European, national or regional level, thereby reducing information asymmetries through enhanced visibility of the companies, and a signalling effect through the investment itself.
With regards to those Sub Projects classified as "Hybrid debt equity fund", most of them target situations where bank financing is not readily available due to the higher risk profile of the transactions or inability to provide collateral to loans, making them ineligible for bank financing.

Item (d) of Annex V A (1) to the InvestEU Regulation:
Cross-border infrastructure projects and related services or funds that invest on a cross-border basis to address the fragmentation of the internal market and to enhance coordination within the internal market

Under this Framework Operation, EIF will target funds with investment strategies supporting the internationalization of final recipients, or fostering the already existent cross-border activities of the final recipients in different Member States. As can be observed on the pipeline, more than half of the transactions have a multi country focus; in addition, those national focused funds aim, on most occasions, to internationalise the final recipients they invest in in order to further grow the companies.

Item (e) of Annex V A (1) to the InvestEU Regulation:
Exposure to higher levels of risks in certain sectors, countries or regions beyond levels that private financial actors are able or willing to accept, including where the investment would not have been undertaken or would not have been undertaken to the same extent because of its novelty or because of risks associated with innovation or unproven technology

By supporting the financial intermediaries under these Sub-Projects, EIF aims at contributing to the diversification of sources of financing for EU businesses beyond bank-type finance, supporting investments in innovation and technological developments, and supporting the growth of the companies. It will also provide alternative financing to support, for instance, shareholding reorganisation or growth capital for those already lower mid-market businesses and late stage or expansion technology companies. It can be tailored, in the case of selective loan funds or hybrid debt equity, to meet the specific financing requirements of these companies.

From a geographical perspective, in certain regions such as CEE, Portugal and the Baltics financing is still scarce when compared to the local company financing needs (Investments as % of GDP in these countries are in the lower end of the spectrum – below 0.04%, well below the European average of 0.189%). The number of local players is limited and the pan-EU managers only invest sporadically in the regions in flagship transactions. In Spain and Italy, the PE market has developed more, especially in the upper end of the lower mid-market, but is still lagging with regards to the economy size when compare against more developed EU market.

The investments will be in the form of equity into debt, hybrid debt-equity, growth and expansion funds, which in turn will allow the funds to provide businesses with a broader choice of financing options, particularly in support of company growth, international development and the development of the EU IPO ecosystem.

The InvestEU guarantee on EIF's investments coupled with valuable structuring input based on best market practice provided systematically by EIF, will enable the targeted intermediaries to reach a minimum viable fund size, and/or to catalyse the interest of institutional investors. The scale of financing expected to be made available by the financial intermediaries to final recipients (i.e. leverage) is indicatively on average 6x, in accordance with the "InvestEU Leverage and Multiplier Effect Calculation Methodology" as approved by the InvestEU Steering Board. This Framework Operation targets funds investing in growth and expansion, as well as debt and hybrid-debt-equity funds, thereby improving access to finance for SMEs, across all EU27 geographies. This is achieved through a diversification of sources of financing for EU businesses beyond bank-type finance. These funds are particularly targeted at supporting SMEs at the growth stage, to support their ability to scale up as their business models, strategies, products and/or services are proven and develop traction in the marketplace, and to promote EU global competitiveness. The financing of SMEs through the CMU Sub-Product aims to make companies more visible to other investors, notably by facilitating partnerships or collaboration with the wider ecosystem, including entities and European, national or regional level. With respect to the benefits generated by the Framework Operation for the final recipients, it is worth highlighting in particular the following key features: (i) Sculpted repayments* (ii) Longer grace periods* (iii) Longer maturity* (iv) Flexibility of draw-downs (v) Financing in local currency within the EU (vi) Contribution to diversification and stability of final recipient's funding (vii) Availability of non-banking alternative debt and/or equity financing (viii) Lower Collateral requirements* (ix) The transfer of experience, know-how and network by the financial intermediary to portfolio companies, therefore helping their internal & external growth and internationalization * relates to hybrid-debt equity and selective loan funds With respect to the impact of the EIF's support via InvestEU on the ecosystem, the Sub-Projects part of the indicative identifiable pipeline are expected to support mainly emerging or established intermediaries and to equip them with the necessary capital base to ensure availability of risk capital to growth companies across Europe. To be noted the focus on internationalization of portfolio companies, a trait largely shared across almost all operations supported under the CMU initiative. Lastly, the use of the ESCALAR mechanism it is considered of innovative nature.
Pillar 3 - Market failure or sub-optimal investment situation addressed by the financing or investment operation **(Good)**
Pillar 4 - Financial and technical contribution by the Implementing Partner **(Very Good)**
Pillar 5 - Impact of the financing or investment operation **(Excellent)**
Pillar 7 - Complementary indicators[3]

Key characteristics	Expected as of time of submission	Comments

[3] The InvestEU methodology is used in order to calculate figures presented in this document Such figures are of indicative nature only and presented at the level of the Framework Operation.

Leverage Effect (at target fund size)	Indicative average of 6x	Preliminary estimation, subject to achievement of target fund size of underlying Sub-Projects
Multiplier Effect (at target fund size)	Indicative average of c. 15x	
Expected amount of investment mobilized	Indicatively 11x of EIF investment expected to be mobilized at the level of final recipients of the Sub-Projects	
SMEW specific Indicators		
number of enterprises supported (expected)	Indicatively 250	Estimation based on identifiable pipeline
Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission		Not known at this stage of submission
RIDW specific indicators		
Number of enterprises carrying out research and innovation projects	N/A	

ESG aspects

Within the due diligence process, EIF assesses the financial intermediaries' environmental, climate and social risk management procedures and the capacity to screen, assess and manage environmental, climate and social risks associated with its business activity, including the presence of an Environmental and Social Management System (ESMS), by means of an "ESG" questionnaire.