

InvestEU Scoreboard¹

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation, SMEW RIDW Joint Equity Product – Enabling Sectors Sub-Product (Life Science)

Type of approval: Framework Operation

Type of Financial Intermediaries: primarily venture capital funds established in EU27 with strategies pursuing Life Sciences under the SMEW RIDW Joint Equity Product – Enabling Sectors Sub-Product (Life Sciences).

Type of Final recipients include projects, seed, start-up, SMEs, Mid-Caps

Country(-ies) of implementation of the operation: Via this Framework Operation, the EIF expects to be able to achieve a significant geographical coverage across EU Member States.

Short description of the financing or investment operation:

Framework Operation for Sub-Projects to be entered into with financial intermediaries under the Enabling Sectors Sub-Product (Life Sciences).

This Framework Operation, via its Sub-Projects, will be addressing some of Europe's most pressing health-related problems, contributing to improve people's wellbeing, strengthen European healthcare systems (clearly overwhelmed during the COVID-19 crisis), optimise their efficiency, and foster the development of innovative and affordable medicinal products and medical devices (75% of the current known diseases do not have any treatment). The Sub-Projects under this Framework Operation will play an instrumental role in favouring investments in R&D and bringing new solutions to the market dedicated to address the need for more effective and affordable medicines, development of preventive measures, increase remote monitoring and telehealth, support the digital transformation of the health care systems, as well as develop digital tools and services that will improve access to healthcare.

Public Statement

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

- **Item 5 of Annex II of the InvestEU Regulation:**
research, development and innovation
- **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 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.

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.

This framework will be supporting equity investments in both early and expansion stages, which will in turn allow the funds to promote equity or quasi-equity investments at the level of each underlying investment, which is an essential element in supporting early stage life science and healthcare companies.

The operations will be addressing in particular a number of market gaps in life science, as well as wider underserved niche of TT and early staged focused start-ups across various European countries (such as Spain, Belgium, Italy, Ireland, Germany, France).

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

Support to operations that carry a higher risk profile than the risk generally accepted by the implementing partner's own standard activities or support to implementing partners in exceeding own capacity to support such operations

The use of the InvestEU guarantee will allow the EIF to invest for the first time (and at a larger scale) in a number of Sub-Projects that otherwise would not have been able to support the risk exposure, the specialised and technical nature of the targeted sectorial strategies, generally with lower private capital appetite and fertile ground than other areas.

EIF will be able to offer more beneficial investment terms for specialised fund manager that favour this asset class (e.g. possibility to intensify intervention in TT investments and teams established in geographies which don't have intense LP base).

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 from the InvestEU Fund

EIF is expected to play often the role of cornerstone investor, thus playing a catalytic effect on institutional investors in support of the existing or novel funds.

Europe's life sciences sector is maturing and has made significant progress in attracting capital. However, raising more capital will be essential to (i) support more innovation in this space (Europe is severely lagging behind the US and Asia in terms of patenting, resulting in a lot of innovation being left on the shelves) and (ii) grow and scale European Life Sciences champions without relying on foreign investors (which often entails a departure from the EU).

Invigorating larger fund sizes and preparing a more fertile ground for funds eventually targeting to list their portfolio companies to public stock markets will be instrumental under this operation.

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

Whilst life science investments are increasingly growing in Europe, the fundraising environment for the vast majority of these funds remain very challenging and volatile. There is notably still a significant number of EU regions/ EU Member States severely lacking sufficient LP and GP base due to 1) small size of the country hindering the deal sourcing and preventing to forecast meaningful and diversified deal flow attractive to GPs and LPs, 2) a very thin layer of tech, research and innovation in the economy (where GDP investment in RDI lower than 3%) makes the ecosystem unappealing for companies to establish, cooperate, build strategic alliances, 3) the level of the geopolitical maturity of some countries, which do not offer fertile ground for the fund industry and 4) countries generating a level of technology push not satisfied with the commensurate volumes of necessary finance to test, pilot, produce and commercialise such technologies. This operation will be addressing some of these burning and pressing market deficiencies contributing to a more balanced and diversified life science fund landscape.

The following market failures are addressed by the operation:

Item (a) of Annex V A (1) to the InvestEU Regulation:

Have the nature of a public good for which the operator or company cannot capture sufficient financial benefits (such as education and skills, healthcare and accessibility, security and defence, and infrastructure available at no or negligible cost).

Under this Framework we have two layers of deficiencies, the first relates to the difficulties VC and PE GPs to face when fundraising the necessary levels of financing to deploy their strategies; they are exposed to technical uncertainty, long-term to achieve meaningful returns, not enough tech-savvy investors available or not sufficient scientists equipped with the financial acumen. The second layer related to the companies in this sector, which are exposed to very challenging strategies i.e. scientific insecure backdrops, legal and regulatory constraints, patent filling, dependency of external providers at times not available within reach, lack of financing and complexity in the application process for grants and financial schemes. This is the audience we will be targeting under this Framework.

Item (b) of Annex V A (1) to the InvestEU Regulation:

Externalities which the operator or company generally fails to internalise, such as R&D investment, energy efficiency, climate or environmental protection.

Expected final recipients of the portfolio funds backed under this Framework generally rely on a number of factors to some extent outside the remit of their control, or their capacities. There is a high amount of working capital required to be able to run operations and oftentimes these companies do not have the financial capacity to run interlay the research and require external providers. A capital injection from a VC fund allows them breathing space and the necessary means to operationalise their business plan.

Item (c) of Annex V A (1) to the InvestEU Regulation:

Information asymmetries, in particular in 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.

Life Sciences and more broadly the healthcare industry as a whole is by nature linked to high technological and viability uncertainty for researchers, companies, and patients. This typically adds to the long term for products and services to reach the final trial phases exacerbated by FDA or EM regulatory approvals, patent registration and therefore reach commercial and financial viability.

Although there has been an improvement in risk capital investments in life sciences for the past 5-15 years – the volumes available are far from desired particularly for tech transfer (where ventures rely mostly on IP/intangible assets) and the scale-up segment (where US is clearly ahead of EU, hence European gestated companies depart from Europe at that stage). PE firms willing (and incentivised) to take the challenges and complexities of pre-revenue stages can offer an attractive source of capital and operational experience to meet those needs at the point of a drug being ready for approval by the FDA or EM. Therefore, public intervention, at all levels is critical to ensure that the full business chain becomes organically sustainable, and in the long run, less dependable on public funding.

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.

The investment will be in the form of equity, which in turn will allow the funds to promote equity and quasi-equity investments at the level of each underlying company, therefore investing in new companies and start-ups in a sector that so far has been characterised by a fragmented and sparse investor landscape and limited capital availability.

Depending on the stage and experience of the Financial Intermediary’s manager, the EIF generally provides technical advice, inter alia, on reporting, specific thematic (e.g. ESG) incorporation into the investment process, growth and innovation in the green transition, eligibility criteria, portfolio diversification and risk parameters, team structure, etc.

The scale of financing expected to be made available by the financial intermediaries to final recipients (i.e. leverage) is estimated on average 7x, based on the identifiable pipeline of Sub-Projects, in accordance with the “InvestEU Leverage and Multiplier Calculation Methodology” as approved by the InvestEU Steering Board.

With respect to the benefit generated by the operation for the final recipients, it is worth highlighting in particular the following key features:

- flexibility of draw-downs
- financing in local currency within the EU
- contribution to diversification and stability of financial recipient’s financing
- increase availability of equity financing
- the transfer of experience, know-how and network by the financial intermediary to portfolio companies.

According to a report by the EIB Advisory Hub, the life sciences ecosystem is currently characterised by a situation where the nature and scale of funding requirements exceeds the capacity of specialist funds and/or investors, leading to material funding gaps. However, within this context there has been a change in funding trends in the sector over the last few years as outlined earlier, and the interviews conducted indicate that these positive market developments appear likely to continue going forward.

The Sub-Projects under this Framework Operation will therefore play an instrumental role in offering patient capital at scale to hundreds of portfolio companies in the form of fund investment or co-investment opportunities in tech transfer, early stages and scale-up financing also by providing funds with novel and tailored platforms to give more firepower (via ESCALAR mechanism) or via IPO fund initiative to GPs, contributing to the development of this ecosystem.

Pillar 3 - Market failure or sub-optimal investment situation addressed by the financing or investment operation (Excellent)

Pillar 4 - Financial and technical contribution by the Implementing Partner (Excellent)

Pillar 5 - Impact of the financing or investment operation (Very Good)

Pillar 7 - Complementary indicators²

Key characteristics	Expected as of time of submission	Comments
Leverage Effect (at target fund size)	Indicative average c. 7x	Preliminary estimation, subject to achievement of target fund size of underlying Sub-Projects
Multiplier Effect (at target fund size)	Indicative average c. 18x	

² 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.

Expected amount of investment mobilized	Indicatively 11x of EIF investment expected to be mobilized at the level of the final recipients of the Sub-Projects	
SMEW specific Indicators		
number of enterprises supported (expected)	Indicatively between 180 and 230	Preliminary estimation
Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission	Majority SMEs	
RIDW specific indicators		
Number of enterprises carrying out research and innovation projects		Not known at the stage of submission

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.