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 (DDF) Sub-Product

Type of approval: Framework Operation

Type of Financial Intermediaries: Diversified Debt Funds ("DDFs") established in Member States or OCTs of Member States with strategies pursuing debt and hybrid debt-equity funds Target Area under the SMEW RIDW Joint Equity Product, CMU Sub-Product.

Type of the final recipients: SMEs, Small Mid-Caps

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

Short description of the financing or investment operation:

Framework Operation for Sub-Projects to be entered into with financial intermediaries qualifying as **DDFs.**

The financial intermediary's strategy under each individual Sub-Project will target predominantly Senior Debt[2] investments, while it may also invest, directly or indirectly, in non-distressed contractually subordinated debt or hybrid-debt equity.

The financial intermediaries will aim at supporting specialised debt instruments enhancing access to finance for SMEs and Small Mid-Caps, in the form of loans, bonds, unitranche and asset-based finance. They target generalist financing, including some sustainable objectives (e.g. sustainable equipment/assets such as photovoltaic panels, electric or hydrogen mobility assets).

Public Statement

Eligible areas for the Framework 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 considerations apply to the Framework Operation.

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

Support through subordinated positions in relation to other public or private lenders or within the funding structure

A minority part of the underlying final recipients could benefit from the additionality described under this item, namely in the form of second-lien or subordinated debt or hybrid debt-equity financing. This

[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.

[2] Senior Debt means non-distressed non-contractually-subordinated debt, both secured or unsecured, in any legal form including but not limited to facilities in the form of loan, bond, unitranche or asset-based financing.

would be possible in some cases, when intermediaries aim to broaden the variety of investment opportunities, particularly in countries where the private credit market is underdeveloped.

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

The European private credit market emerged in response to the retrenchment of banks and other traditional lenders after the global financial crisis. Private credit funds target a market financing gap, which remains generally underserved by banks or public markets (e.g. leveraged loans or high yield bond market). DDFs provide businesses with a broader choice of debt financing options (tailor-made funding solutions), particularly for company growth and development, covering not exclusively the most developed private debt markets but adopting a local or pan-European approach also including less developed private debt regions.
The acceptance and market penetration of debt funds varies depending, inter alia, on the geography, banks' risk appetite, companies' receptiveness of alternative debt providers and the banks' client relationship. Furthermore, depending on the geography, the market sees a relatively high number of private credit players addressing larger transactions or the upper end of the market.
Funds targeting the lower end of the private credit market (focus on SMEs and small mid-caps), i.e. the type of intermediaries targeted under this Framework Operation, are still few and in need of support, including for fundraising.
While it remains difficult to estimate exactly the size of the potential market gap, it is fair to assume a strong demand of alternative sources of capital from EU SMEs and small mid-caps in the coming years and consequently a fundraising need for funds focused on SME and lower mid-market transactions.

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 allows the EIF to support investments in DDFs at a considerable scale, which otherwise it would not have been able to do considering the high inherent risk stemming from the underlying strategy of the financial intermediaries. By their nature, DDFs address a higher risk financing segment in the market, which tends to exceed banks' risk appetite, due to, inter alia, more flexibility in terms of loan structuring (longer tenors, collateral requirements, tailored asset-based financing, unsecured lending), ability to carry out bespoke assessments of companies' business plans and expected future cash flows (on top of past performance, which tends to be the main driver of bank lending), ability to (partially) complement loan assessments with data driven payment behaviour information (e.g. marketplace lenders).

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

The signalling effect to private market players of EIF's commitment into a diversified debt fund derives, from the market's recognition of the EIF's in-depth fund due diligence (including fund structural input). In the case of first-time strategies, the EIF's structuring input will be more outspoken and provide clear guidance for the entire set-up, while for more established managers, the EIF focuses on aligning existing provisions and structural elements to best market practice. The EIF's commitment is expected to be instrumental in diversifying and enlarging the intermediaries' investor base with new investors from geographies outside the Manager's country of residence.

Based on a survey carried out by the EIF's Research and Market Analysis one of the main challenges identified by private credit funds relates to fundraising among private investors in the SME and small mid-cap space. These challenges include the (lack of) involvement of private investors (such as corporate investors, pension funds or insurance companies), cultural aversion towards alternative lending in general, complexity stemming from jurisdiction-specific bankruptcy rules or regulatory framework. Public entity involvement has been mentioned as important factor, in order to improve the fundraising capacity.

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

Financial intermediaries are expected to:
(i) adopt a local or pan-European approach also including less developed private debt regions and
(ii) address a variety of financing requirements – not addressed to a sufficient level in the relevant country – depending, inter alia, on the private credit infrastructure, the market's receptiveness of alternative players and local banks' market penetration. According to the above mentioned survey carried out by the EIF's Research and Market Analysis, reasons companies choose private credit financing over bank debt include (i) certainty and speed of execution, (ii) higher risk levels (leverage) than banks are willing to support, (iii) stable relationship with lenders' expectation to hold to maturity, (iv) longer investment horizon than banks are willing to support, (v) diversification of financing sources, (vi) rejection of bank loan application, (vii) banks were not approached due to fear of rejection. The survey highlights that 40-60% of portfolio companies invested by private credit funds would not have been able to get bank financing.

The following market failures are addressed by the Framework Operation:

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.

Financial Intermediaries target to offer tailor-made funding solutions via, inter alia longer tenors, flexible collateral requirements and/or flexible repayment options. Therefore, Sub-Projects aim at providing an alternative source of business financing, often complementing traditional bank finance, and contributing to increase access to finance and diversification of funding opportunities. As mentioned, DDFs target a market segment under-served by banks due to, inter alia banks' risk considerations, availability of collateral, long-term financing options, flexible repayment schedules, etc.

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.

DDFs are expected (i) to adopt a local or pan-European approach also including less developed private debt regions and (ii) to address a variety of financing requirements – not addressed to a sufficient level in the relevant country – depending, inter alia, on the private credit infrastructure, the market's receptiveness of alternative players and local banks' market penetration. By their nature, DDFs address a higher risk financing segment in the market, which tends to exceed banks' risk appetite, due to inter alia, longer tenors, flexible collateral requirements, tailored asset-based financing, tailor-made loan analysis and due diligence approach, unsecured lending and/or origination via marketplace lenders.

The investments will typically be in the form of equity or quasi equity-type of commitment into diversified debt funds, which in turn will allow the DDFs to provide businesses with a broader choice of debt financing options (tailor-made funding solutions), particularly for company growth and development.

The scale of financing expected to be made available by the financial intermediaries to final recipients (i.e. leverage) is expected to be indicatively c. 18x, in accordance with the "InvestEU Leverage and Multiplier Effect Calculation Methodology" as approved by the InvestEU Steering Board.

With respect to the benefits generated by the operation for the final recipients, it is worth highlighting that DDFs provide businesses with a broader choice of debt financing options (tailor-made funding solutions), particularly for company growth and development, covering not exclusively the most developed private debt markets but adopting a local or pan-European approach also including less developed private debt regions.

With respect to the impact of EIF's support via InvestEU on the ecosystem, this will be achieved primarily via: (i) Supporting financial intermediaries who are venturing for the first time into this market segment, thus effectively providing them with the necessary tools and capital to fulfill market demand; (ii) Supporting more established financial intermediaries that may require a lower intensity of support, yet their presence in the respective market is necessary to continue guaranteeing an alternative sources of financing to small business, to complement traditional banking channels; (iii) supporting established intermediaries that are pursuing new investment strategies in particular in the field of sustainable finance.

This approach will ensure continuity to the EIF's objective of nurturing the private credit ecosystem at pan-European scale, by supporting the creation of the necessary infrastructure.

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**
Leverage Effect (at target fund sizes)	On average c. 18x	Preliminary estimation, subject to achievement of target fund sizes under the Sub-Projects
Multiplier Effect (at target fund sizes)	On average c. 26x	
Expected amount of investment mobilized	Indicatively 8x of EIF investment expected to be mobilized at the level of final recipients of the Sub-Projects	
SMEW specific Indicators		

[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.

number of enterprises supported (expected)	Indicatively > 1000	Preliminary estimation
Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission	The indicative allocation to SMEs and small mid-caps would be estimated to amount to c. two thirds of the portfolio	
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.