

InvestEU Scoreboard

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Expansion (the "Fund")

Type of approval: Individual financing or investment operation

Name of Financial Intermediary: Expansion

Country(-ies) of implementation of the operation: The Fund is expected to have a predominant focus on EU27 companies, with focus in France, Germany and the Nordics, including Norway. A small portion is expected to be dedicated to the UK and Switzerland.

Short description of the financing or investment operation: The Fund will focus primarily on launchers, satellites, in-orbit service, space data, technological enablers, decarbonised aviation, vertical take-off and landing aircrafts ("VTOL"), as well as drones in accordance with InvestEU policy and limitations.

The Fund is expected to lead investments in the early stages of the companies and the partners will take a strong involvement in the start-ups' strategic committees.

Public Statement

Eligible area for the Operation in accordance with Annex II to the InvestEU Regulation:

- **Item 14 of Annex II of the InvestEU Regulation:**

Space, in particular in relation to the development of the space sector in line with the objectives of the Space Strategy for Europe:

(a) to maximise the benefits for the Union society and economy;

(b) to foster the competitiveness of space systems and technologies, addressing in particular vulnerability of supply chains;

(c) to underpin space entrepreneurship, including downstream development;

(d) to foster Union's autonomy for safe and secure access to space, including dual use aspects.

The Fund will address a highly underserved New Space vertical in Europe. European deeptech investments, including Space, are substantially more capital intensive, requiring longer time to mature to exit than generalist technology investments. Hence, the private investments in this sector remain scarce, in particular at early stages, with only a few European specialised VC funds active in this vertical.

There is a need to support specialised teams focused in Space investments. EIF's commitment in the fund will be instrumental to support the Fund to reach the minimum fund size, as well as attract additional investors and catalyse the fundraising towards the target fund size, in particular given the difficult fundraising environment.

Space sector financing provided by private sectors is minimal in Europe and the fundraising environment in this sector remains very challenging with only few specialised investors in the markets. The Fund's team is credible with strong deeptech understanding, technical knowledge and reputation, and is expected to have a positive effect on the entire ecosystem.

The area of space technology is a strategic sector for Europe, being a significant source of spin-off technologies, knowledge and externalities with enormous positive impacts in a variety of areas, including

but not limited to the climate, telecommunications, ground-based systems resilience, disaster management and recovery, weather prediction and emissions and pollution management, to name a few. However, Europe still lacks sufficient investments, as a matter of fact it is estimated that, only in the upstream space segments, Europe needs at least €38.4 billion of private intramural investment in R&D over the next decade to address the current gap versus international competitors, and to reverse the trend of declining market share. To this end, Expansion will provide investments in strategic areas such as launchers, satellites, in-orbit services, space data and decarbonised aviation: these are all significant contributors to some of the most pressing issues of our time, and these issues are heavily represented among the policy objectives of the European Commission, and InvestEU. In order to face the existing investment (pre-)commercialisation gap space companies require specific financial mechanisms accommodating the specifics and uptake of emerging upstream space segments – higher risk, slower returns and longer required runways. Expansion will provide essential capital to EU early-stage companies. Many of these portfolio companies will contribute enabling technologies to these critical policy areas, and will therefore, in turn, enable other developments which will have a deep, lasting and essential contribution to critical industries ranging from climate protection and adaptation to the digital transition.

In addition, the research and development carried out by the companies at the frontier of space technologies will have applicability in a number of other areas, which have yet to be discovered. Such areas might include new knowledge of in-orbit efficiencies in industrial processes or new ways to leverage observable earth phenomena from space. The creation of such knowledge has been a significant externality in a number of scientific endeavours, as evidenced from the number of technologies attributable to organisations such as CERN or NASA. Expansion is deeply embedded in the tech and aerospace sectors in France, the Nordics and more broadly across Europe. This, combined with the experience of founding partners in the aerospace sector and across the deep-tech and investment sectors positions the team well in terms of dealflow and identification of promising relevant investment opportunities in the European ecosystem. As such, Expansion can be viewed as an ideal vehicle through which to identify and generate visibility for promising European start-ups in space technology. Although in recent years, a positive trend in risk capital investments in the early stage in the deep tech sector can be observed, studies such as *Financing the Deep Tech Revolution: How investors assess risks in Key Enabling Technologies (KETs)* (eib.org) show that the volumes of risk finance available in Europe are far from satisfying the technological demand and offer. A particularly steep gap exists also in tech transfer (where ventures rely mostly on IP/intangible assets) and the scale-up segment (where the US is clearly ahead of the EU, hence European gestated companies depart from Europe at that stage). Indeed, research shows that EU startups and small businesses need access to more and smarter funds, especially in TRL 6 to 8 range due to the financial gap in the (pre-) commercialisation stages from both public funds and private investments. In general, these companies face several market failures in the EU upstream space activities, including but not limited to: fragmentation of the EU market and legal frameworks, deficiencies in the investments dynamics in Europe due to high risk aversion of investors, high bureaucratic and administrative barriers.

VC/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 when they are undergoing operability tests and adapted to EU industrial and commercial standardisation. 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.

Deeptech investments, including Space, are substantially more capital intensive, requiring longer time to mature to exit than generalist ICT investments. From 2019 the European expenditure on intramural

R&D has declined, losing market share to international competitors (from 29% to 2023% in 2021). As such, the private investments in this sector remain scarce, in particular at early stages, with only a few European specialised VC funds active in this vertical especially because: (1) private investors in Europe exhibit high risk aversion, and (2) they often lack the necessary technical knowledge to assess the strength of space projects and companies. Moreover, analysis of government spending reveals a glaring discrepancy between Europe and international competitors. Therefore, public intervention, as mentioned in the ESA report - Investing recovery and resilience funds in space projects is critical to the technological sovereignty, recovery and resilience of the EU.

The investment will be in the form of equity, which will in turn allow the Fund to promote equity or quasi-equity investments at the level of each underlying investment, therefore investing in new space startups and companies in a segment that has attracted very limited venture capital in Europe due to the highly technical and capital-intensive nature of the investments. The investment will support the fast-growing new space companies in Europe, thus improving the competitiveness of the European space industry and enhance the space-critical capabilities that are necessary for developing new disruptive technologies with spill overs in multiple sectors ensuring Europe's autonomy.

Following economic and political instability due to the war in Ukraine, an increase of interest rates and a general downturn of valuation of listed companies, institutional investors have been decreasing their appetite for illiquid assets, which in turn has had an effect on the fundraising capability of venture capital funds. The scale of financing expected to be made available by the financial intermediary to final recipients (i.e. leverage) is estimated at c. 5-6x, 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 in particular the following key features: (i) the provision of equity financing; (ii) the longer holding period (within up to 12 years term of the fund, including extensions); (iii) the contribution to the diversification of funding sources for final recipients; (iv) the financing in local currencies; and (v) the transfer of experience, know-how and network by the financial intermediary to portfolio companies.

In terms of impact on the ecosystem, EIF is expected to contribute by providing an anchor investment to a one of the few credible emerging team in Europe with a specific focus on Space technologies. Such commitment, alongside with a broad geographical focus of the Fund, which includes France, The Nordics and opportunistically rest of Europe is expected to well complement current offering of risk capital to space tech companies in Europe.

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 indicators

Operation-specific indicators, estimated based on the "InvestEU Leverage and Multiplier Effect Calculation Methodology" as approved by the InvestEU Steering Board

- (a.1) Leverage effect: Indicatively between 5-6x.
- (a.2) Multiplier effect: Indicatively 14x.

ESG aspects

The Manager has included SDGs in its investment framework, and has identified three SDGs that are deemed more relevant to their activities: Decent Work and Economic Growth, Industry, Innovation and Infrastructure and Climate Action.