

## InvestEU Scoreboard<sup>1</sup>

### Presentation of the financing or investment operation:

**Implementing Partner:** European Investment Fund (EIF)

**Name of the Operation:** Framework Operation for the SMEW RIDW Joint Equity Product – CMU Sub-Product/Others

**Type of approval:** Framework Operation

**Type of Financial Intermediaries:** Financial Intermediaries established in EU27 with strategies pursuing any of the 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:** The core focus of the Framework Operation is the EU and Sub-Projects are expected to target final recipients across several Member States. In certain Sub-Projects, the strategy of the financial intermediaries may also entail investments in non-EU countries.

### 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 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 provided 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 recent EIF survey results<sup>2</sup>, the most important factors explaining the European financing gap at the scale-up stage compared to the US, relate to: (i) smaller European VC industry & shorter track record of VC players; (ii) underdeveloped IPO market; (iii) underdeveloped entrepreneurial ecosystem centred around scale-ups; (iv) lower average fund sizes due to insufficient funding from large institutional

<sup>1</sup> 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.

<sup>2</sup> [EIF's website](#)

investor; (v) fewer large late-stage VC funds in Europe; (vi) limited awareness about the importance of scale-ups in Europe; (vii) underdeveloped market for venture debt, (viii) lack of cross-over funds.

The above therefore points to the lack of an environment, and in particular of financing opportunities, that help enterprises to grow further beyond the start-up stage and enables successful high-growth companies to stay in Europe.

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/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.*

EIF's commitment is expected to be instrumental in diversifying and enlarging the intermediaries' investor base with new investors for new market sector and/or geographies. In particular, EIF is expected to play often the role of cornerstone investor, thus playing a catalytic effect on institutional investors by providing a seal of approval and strong structuring input, therefore playing instrumental role in the fund formation or achieving target sizes enabling the optimal deployment of the fund strategy.

**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.*

EIF's commitment will help provide financing to funds targeting developing segment of the private equity market such as selective loan funds, hybrid debt equity funds and growth equity funds.

In CEE, Greece, Portugal, the Balkan and the Baltics, financing is still scarce when compared to the local company financing needs. The number of local players is limited and the pan-EU managers only invest sporadically in the region in flagship transactions.

In Spain and Italy, the PE market has developed, especially in the upper end of the lower mid-market but is still lagging with regards to the economy size when compared against more developed EU market.

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 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. Most transactions are expected to 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%)<sup>3</sup>. The number of local players is limited and the pan-EU managers only invest sporadically in the regions in flagship transactions.

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.

EIF's commitment is expected to be in several cases instrumental for the fund to materialize and to further attract quality institutional investors, particularly with respect to funds operating in CEE.

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.

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<sup>3</sup> Source: Invest Europe: [invest-europe-activity-data-report-2021.pdf](https://invest-europe.eu/activity-data-report-2021.pdf)

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 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<sup>4</sup>

Key characteristics	Expected as of time of submission	Comments
Leverage Effect (at target fund size)	Indicative in the range of 5x-9x	Preliminary estimation, subject to achievement of target fund size of underlying Sub-Projects
Multiplier Effect (at target fund size)	Indicative in the range of 11x-14x	
Expected amount of investment mobilized	Indicatively 10x of EIF investment expected to be mobilized at the level of final recipients of the Sub-Projects	
<b>SMEW specific Indicators</b>		
number of enterprises supported (expected)	Indicatively 200	Estimation based on identifiable pipeline
Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission	Indicatively, majority SMEs	
<b>RIDW specific indicators</b>		
Number of enterprises carrying out research and innovation projects	N/A	

<sup>4</sup> 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.

**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.