InvestEU Scoreboard[1]

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Second Framework Operation for SMEW RIDW Joint Equity Product – Digital and CCS Investments Sub-Product

Type of approval: Framework Operation

Type of Financial Intermediaries: Typically, private equity and venture capital funds established in EU27 and/or Iceland and Norway with strategies pursuing any of the Target Areas under the SMEW RIDW Joint Equity Product – Digital and CCS Investments Sub-Product.

Type of Final Recipients include projects, seed, start-ups, SMEs, Mid-Caps, co-investments may be included under this Framework Operation (as part of SMEs/Small Midcaps).

Country(-ies) of implementation of the operation: EU27 and/or Iceland and Norway

Short description of the financing or investment operation:

Framework Operation aimed at supporting the growth of cloud service providers; the emergence and growth of cybersecurity specialised intermediaries; IoT, 5G, quantum technologies and edge computing, as well as other fast-growing undertakings; nascent market of equity investments particularly in audio-visual entertainment area – film production and distribution, cinema, TV, radio and video streaming, video games and innovative formats, such as virtual reality experiences; Investment in Ed/tech.

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 6 of Annex II of the InvestEU Regulation:
the development, deployment and scaling-up of digital technologies and services, especially digital technologies and services, including media, online service platforms and secure digital communication, that contribute to the objectives of the Digital Europe Programme

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

Item 8 of Annex II of the InvestEU Regulation:
cultural and creative sectors, cultural heritage, media, the audio-visual sector, journalism and press

The following additionality considerations apply to the Framework Operation.

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

[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.

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

Europe remains an active source of fundamental research and development application, thanks to its high number of engineers. However, transitioning from research to market proves a very difficult step, mainly because of the reluctance of generalist investors to support highly technical projects.

Moreover, through Q3 2023, the European VC fundraising sits at half the level of 2022, with capital raised by first-time VC funds trending even below the general fundraising declines in VC.

This Framework Operation aims at directly addressing the financing gap in this sector by supporting (i) companies developing, scaling and deploying innovative digital technologies in the EU and (ii) first-time and emerging teams in fundraising capital.

In spite of the general importance of the CCS in Europe (on average 5.5% of Member State's value added, 6.2% of the workforce and 12% of the enterprises), it is not being addressed properly from an equity perspective. Certain Sub-Projects under this Framework Operation will play a key role in developing the equity market in the CCS and facilitating the access to equity finance by enterprises in these sectors.

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 both allowing first-time funds to materialize and 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 in support of the existing or novel funds. In this regard, the EIF's investment is often critical to a fund reaching its target size, thereby ensuring its successful launch.

Given the specificities of the CCS (unpredictability of revenues, difficult understanding of business models, lack of specialized financial intermediaries), the presence of the EIF in this sector, will trigger a positive catalytic effort, bringing in new private sectors into what some have started to dub as a new equity asset class.

Item (f) of Annex V A (2) to the InvestEU Regulation:
Support provided 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

Some particular geographies are still lagging behind in terms of access to Venture Capital in Europe (e.g., CEE, Southern Europe). Thanks to InvestEU, a particular attention will be put on fostering these markets, where major innovations can be sourced.

The following market failures are addressed by this Framework 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).

Quantum technologies have the power to shape future societies and disrupt entire industries. Despite a world-leading academic foundation in quantum technologies, European quantum companies consistently lag behind global peers. The European Union is home to 25% of all quantum companies worldwide, but accounts for less than 5% of global funding. Companies struggle to scale commercial operations due to a lack of knowledgeable investors or commercial partners.

In Europe, spending on information security and cybersecurity is expected to reach 71 billion euros by 2027, with an average annual growth rate of 10.9% from 2022 to 2027. However, while spending in the EU projects to grow substantially over the next 3 years, it remains significantly lower compared to that of North America even when total population size and Gross Domestic Product (GDP) are factored in. Generally speaking, EU cybersecurity companies tend to underperform against their international peers (e.g., fewer in number, raise less funding). Ensuring the effective targeting and funding of startups is, therefore, crucial to achieving the European Union’s digital policy objectives.

Despite the increase in AI and blockchain investments over recent years, the limited availability of venture capital funding and specialised investors remains a key issue in Europe, especially when compared to the US and China. The funding volume provided by the venture capital market to AI and blockchain SMEs is considerably smaller in the EU27 ($2.1 billion annually / €1.75 billion) than in the United States ($20 billion / €16 billion) and China ($5 billion - €4 billion). China and the United States also exhibit high average and median equity investments in AI and blockchain SMEs.

With respect to Edtech, technology solutions and shift to interactive and diverse learning models are re-shaping the education sector, facilitating the up-skilling and re-skilling of the workforce. Investing in the supply of relevant edtech technologies will transform the effectiveness, efficiency, availability and affordability of learning and involve, inter alia, virtual collaboration and knowledge sharing enabling effective distance learning, connectivity and community building, augmented reality for interactive simulations, AI adaptive course delivery, and interactive classroom tools. In 2022, all the core Edtech markets (Europe, US, India, China) dropped in VC funding compared to 2021 levels with a sharp fall in deal number and funding. Europe demonstrated the most resilience, but still funding dropped by 28% and more resources are needed to close the VC investment gap against the US.

The risks inherent in the development of these technologies and associated new business models make it challenging for SMEs to assemble the necessary financial resources to develop these products to the point where they are deployable and commercially viable.

Greater diversity and availability of cultural and creative sector activities have characteristics of the public good. While the European CCS industry is characterised by a large number of highly innovative and creative companies with a high growth potential, the CCS sector suffers from difficulties raising the necessary financing. CCS ventures lack the financial strength to compete on a European and global level. At the same time, European investors remain largely unaware of the potential of these companies. They often associate investments in such ventures with high risks due uncertainty of success in audiovisual productions and to assets being mainly intangible in character.

According to the EC study “Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the cultural and creative sectors”[2], it has been estimated that an equity gap exists in the Creative and Cultural Sectors in the range of €400- €650 million/year. Equity finance is needed to boost the CCS sectors (in particular in the audiovisual sector) in Europe, which would make them able to create quality work

[2] Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the cultural and creative sectors - Publications Office of the EU (europa.eu)

for the international market with higher quality products. European companies need to have access to the financial means to become more autonomous and exploit the intellectual property of the content they produce.

Sub-Projects under this framework help to bridge the gap between the positive societal value of the technologies and the commercial risks inherent in their development, by overcoming obstacles to investment and catalysing private money. These obstacles relate to the difficulty venture capital fund managers have in fundraising, often as a consequence of the structural uncertainties inherent in the fields they are targeting.

These uncertainties include technological and feasibility risk, risks associated to the commercialization, scaling and industrialization of new technologies, uncertain legal frameworks as ethical and regulatory environments evolve (particularly for AI, Quantum Computing and Distributed Ledger Technologies), intellectual property protection and the complexity of associated grant financing and other forms of support.

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.

Sub-projects under this Framework Operation will support investments that strengthen the EU's competitiveness, digital independence and strategic autonomy, with a focus on data, communication technologies, services and products that facilitate digital transition and address societal challenges as well as cultural and creative sectors.

By supporting financial intermediaries in these key areas, actions under this Framework Operation will enable qualified and experienced investors in all these areas to identify, finance and support new and growing SMEs, and through their investments, relationships and reputations, signal their confidence in these ventures and the entrepreneurs building them. The presence of experienced and qualified investors in the shareholding of SMEs reduces the information gap for more generalist investors to participate, drawing in additional funding sources and accelerating the development of these critical sectors.

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 technologies targeted by Sub-Projects are often novel and emerging, and investors associate a high level of risk to such investments. Many technologies developed in areas such as artificial intelligence, quantum technologies and distributed ledger technologies will take time, effort and patient capital to bring to market. This, combined with the early stage of investment, requires investors that accept longer repayment periods and higher levels of risk.

For the Creative and Cultural Sectors, there are a number of market failures and barriers in CCS businesses accessing finance, namely information failures (lack of specialised knowledge, uniqueness and the 'prototype' nature of each project or product, assets that are intangible and difficult to value), investment risks (lack of track record, lack of clear exits and potential for return, assets that are not easily transferrable, strong unique human capital investment component related to the creator of the products).

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 **(Very Good)**

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

Pillar 7 - Complementary indicators

Key characteristics	**Expected as of time of submission**	**Comments**
Leverage Effect (at target fund size)	Indicative average c.5x	Preliminary estimation
Multiplier Effect (at target fund size)	Indicative average c.12x	
Expected amount of investment mobilized	Indicatively 7x	
Estimated number of targeted final recipients	Indicatively between 50 and 70	
SMEW specific Indicators		
number of enterprises supported (expected)	Indicatively between 50 and 70	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	Majority SMEs	]

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.