



European Investment Bank
Financing of European Research, Development and Innovation (RDI)

Risk Sharing Finance Facility (RSFF) : an innovative instrument set up by EC and EIB to finance Research, Development and Innovation

Marc D'hooge

Informationsveranstaltung FFG, October 13th, 2010, Vienna



This Presentation is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by the European Investment Bank (“EIB”). The terms and conditions are intended as an outline for discussion purposes only and made on an indicative basis. All figures set forth in this Presentation are subject to change, to a satisfactory due diligence and to all necessary internal approvals of EIB (in particular of its credit committees).

The information in this Presentation reflects the prevailing conditions and the view of EIB as of this date and are accordingly subject to change and based on carefully selected sources believed to be reliable. EIB has not independently verified this information and does not make any representation or will be liable that such information is accurate, valid, timely and complete.

This Presentation is provided without any liability whatsoever by EIB and shall not constitute any obligation of EIB to extend credit facilities to the Company or to carry out a due diligence review of the aspects relevant for the financing of the Project.

Neither this presentation nor any of its contents may be duplicated, published or used for any other purposes without the prior written consent of EIB.

European Investment Bank

European Investment Bank - Profile

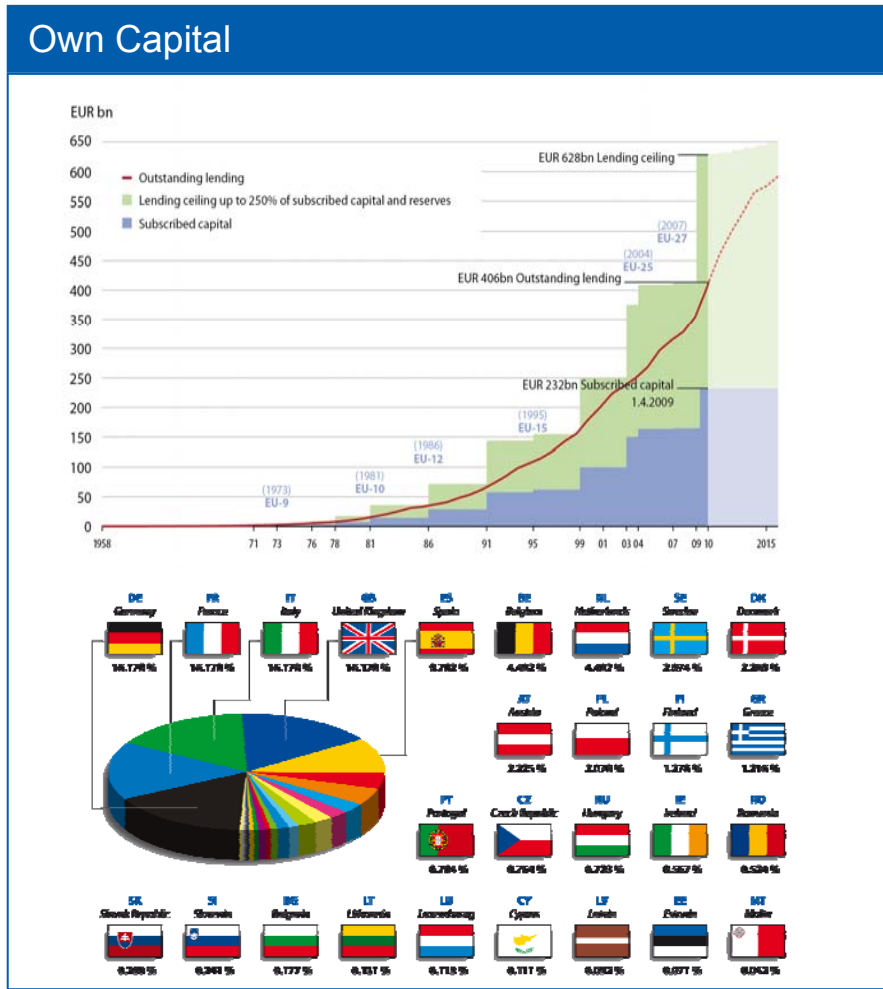
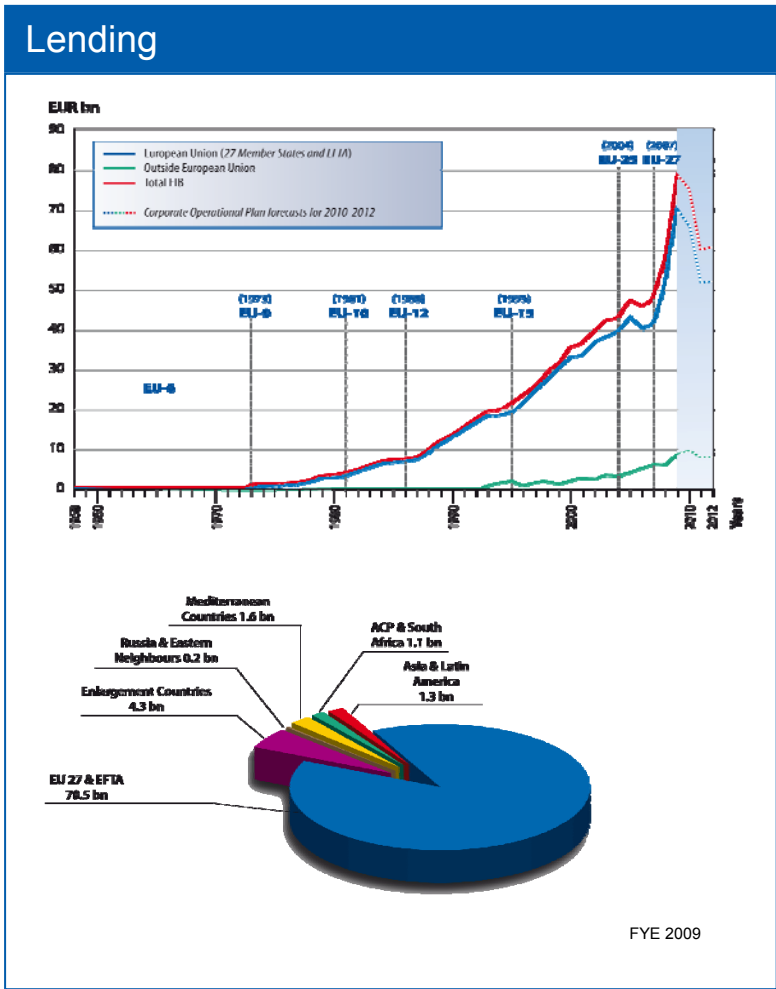


The European Investment Bank is the European Union's long-term financing institution. The Bank acts as an autonomous body set up to finance capital investments furthering European integration by promoting EU policies.

- ❖ EIB was created by the Treaty of Rome in 1958
- ❖ EIB is a **not-for-profit, policy driven** institution
- ❖ EIB is 100% owned by the 27 EU member states
- ❖ EIB has subscribed capital of EUR 232.4 bn as of 2009
- ❖ EIB is AAA/Aaa rated by Moody's, S&P and Fitch with stable outlook
- ❖ EIB funds itself on the capital markets: EUR 79.4 bn in 2009
- ❖ EIB signed loans amounting to EUR 79.1bn in 2009 (c.93% in EU)
- ❖ EIB is the largest multilateral financing institution
- ❖ EIB is the majority shareholder in the European Investment Fund



European Investment Bank Lending and Own Capital Figures (as of end-2009)





1. Within the European Union

- ❖ Cohesion and convergence
- ❖ Small and medium-sized enterprises (SMEs)
- ❖ Environmental sustainability
- ❖ Knowledge Economy
- ❖ Trans-European Networks (TENs)
- ❖ Sustainable, competitive and secure energy

2. Outside of the European Union

- ❖ Private sector development
- ❖ Infrastructure development
- ❖ Security of energy supply
- ❖ Environmental sustainability
- ❖ Support for EU presence in Asia and Latin America via Foreign Direct Investment (FDI)

3. Under EU Mandates

- ❖ Pre-accession
- ❖ European Neighborhood
- ❖ Development





General Policy Objective of the Renewed Lisbon Strategy (2008-10): “Transform EU into the world’s leading knowledge – based economy”



RDI gaps in Europe

- *Average corporate R&D spending as % of GDP in US & Japan is around 3%, in Europe it lags significantly at levels around 1.5%*
- *Innovative companies investing much in RDI (Capex + Opex) have more difficulties securing stable financing at acceptable rates*



Solution

EIB to fill the gap left by the commercial banks by providing tailor-made financing solutions to innovative European companies rated BBB- and below

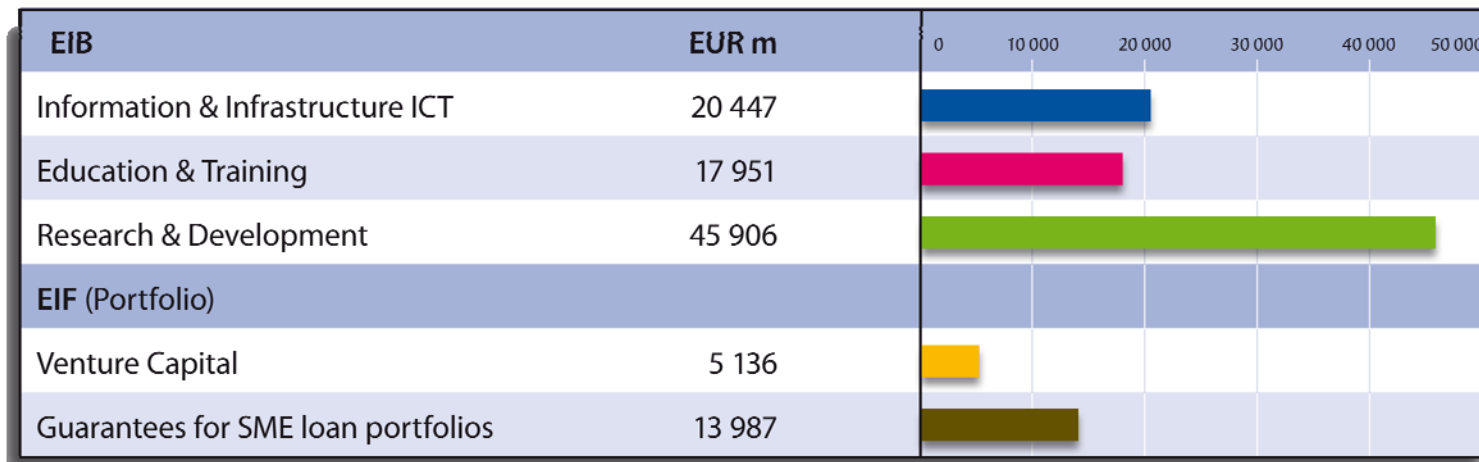


EIB and EC commit EUR 1bn each of provisioning capital to set up the “Risk Sharing Finance Facility”. The EUR 2bn capital is later levered up to EUR 10bn by EIB (see also slide 6)

EIB Group contribution to the Lisbon Agenda



- ❖ Loans signed: EUR 86.7bn since launch in 2000 for about 590 projects, of which about 50% private sector
- ❖ Venture Capital - assets under management: EUR 5.1bn
- ❖ Guarantees for SME loan - positions: EUR 14.0bn
- ❖ A competitive, innovative and knowledge-based European economy
- ❖ Until 2007, EIB was concentrating mainly on “investment grade” type of RDI projects, whereas EIF was always focusing on below investment grade corporates and SME (VC, SME loans guarantees, microfinance)
- ❖ Individual loans of EUR 17.1bn in EU in 2009 for:
 - ❖ Research, development
 - ❖ Education and training
 - ❖ Innovation and ICT infrastructure

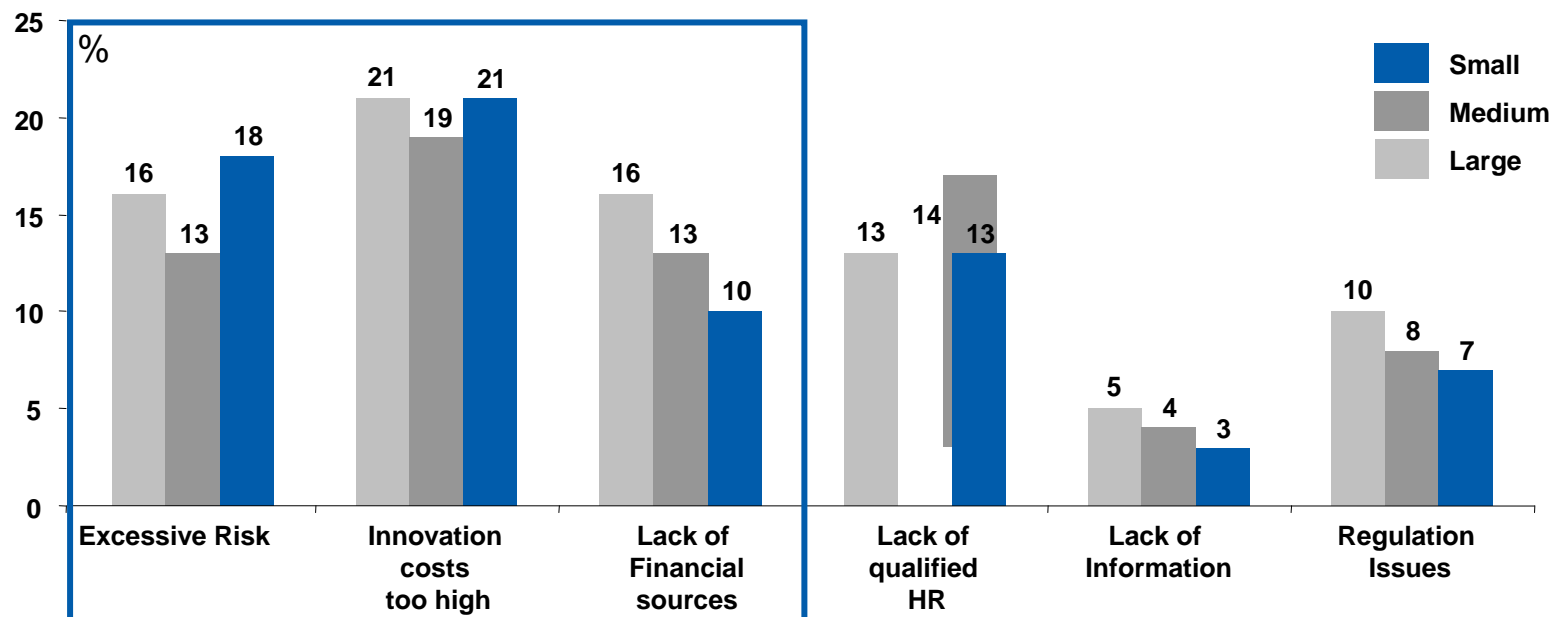




FINANCING INNOVATION IN EUROPE – CONSTRAINTS

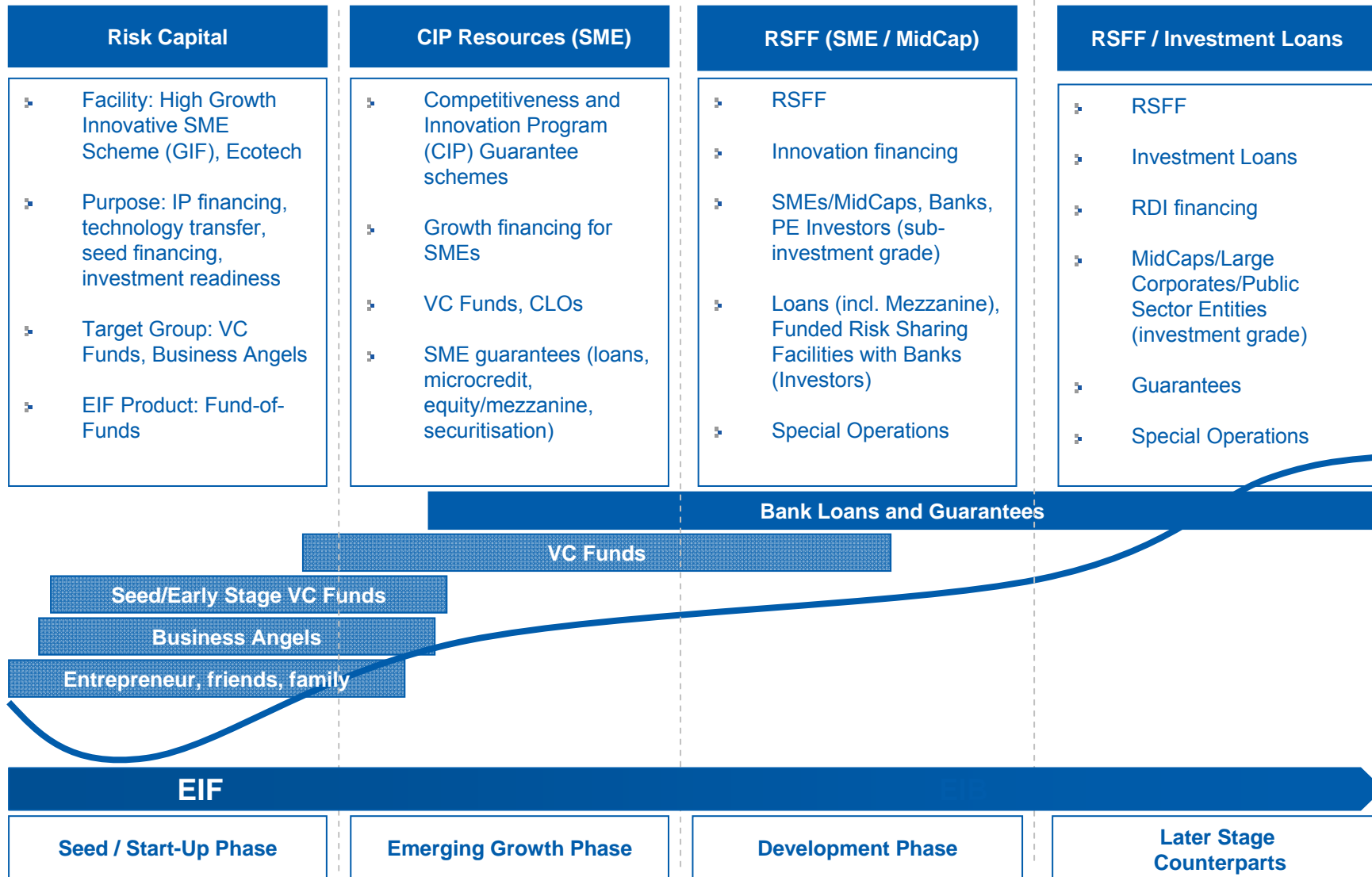


Proportion of EU enterprises that regarded selected hampering factors as highly important



- Appropriate financial resources, excessive risk and high innovation costs are the most critical limiting factors quoted by EU corporations. The provision of EIB risk sharing financing aims to address the 3 key obstacles.
- This is mainly due to the nature of RDI: intangible assets, unproven markets, highly complex products and technologies, and high risks.
- Asymmetric Information: Commercial capital providers have difficulties to evaluate the RDI risks and hence to provide sufficient appropriate financing.

EIB GROUP : EIB/EIF product range





EIB Group's Tools to Support SMEs

Two complementary sets of instruments



EIB

Loans & Guarantees

- High volume possible
- Risk profile commensurate with a debt instrument and relatively simple structures
- Customized to end recipient needs
- EIB focusing on demonstrable transfer of benefit to final beneficiary
- Risk-sharing is being developed

EIF

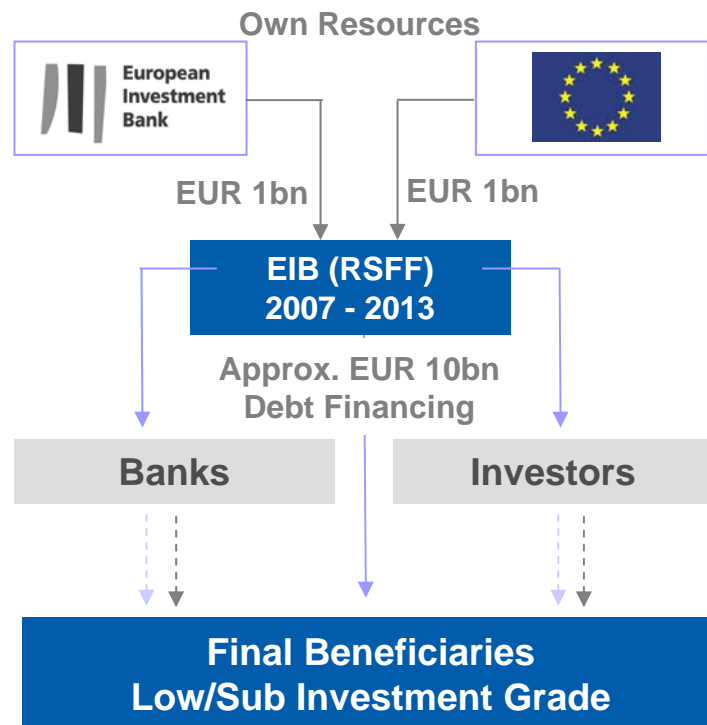
Portfolio guarantees, equity & quasi- equity

- Small volumes
- High risk profile and bespoke structures
- Customized to intermediary needs
- EIF impact focused on additional capacity in market

(EUR bn)	2004	2005	2006	2007	2008	2009
Signed Loans (EIB)	4.6	3.9	6.2	5.2	8.1	12.7
Portfolio guarantees (EIF) *	1.5	1.7	2.0	1.4	2.1	2.3
Equity funds (EIF) *	0.35	0.47	0.69	0.52	0.41	0.7

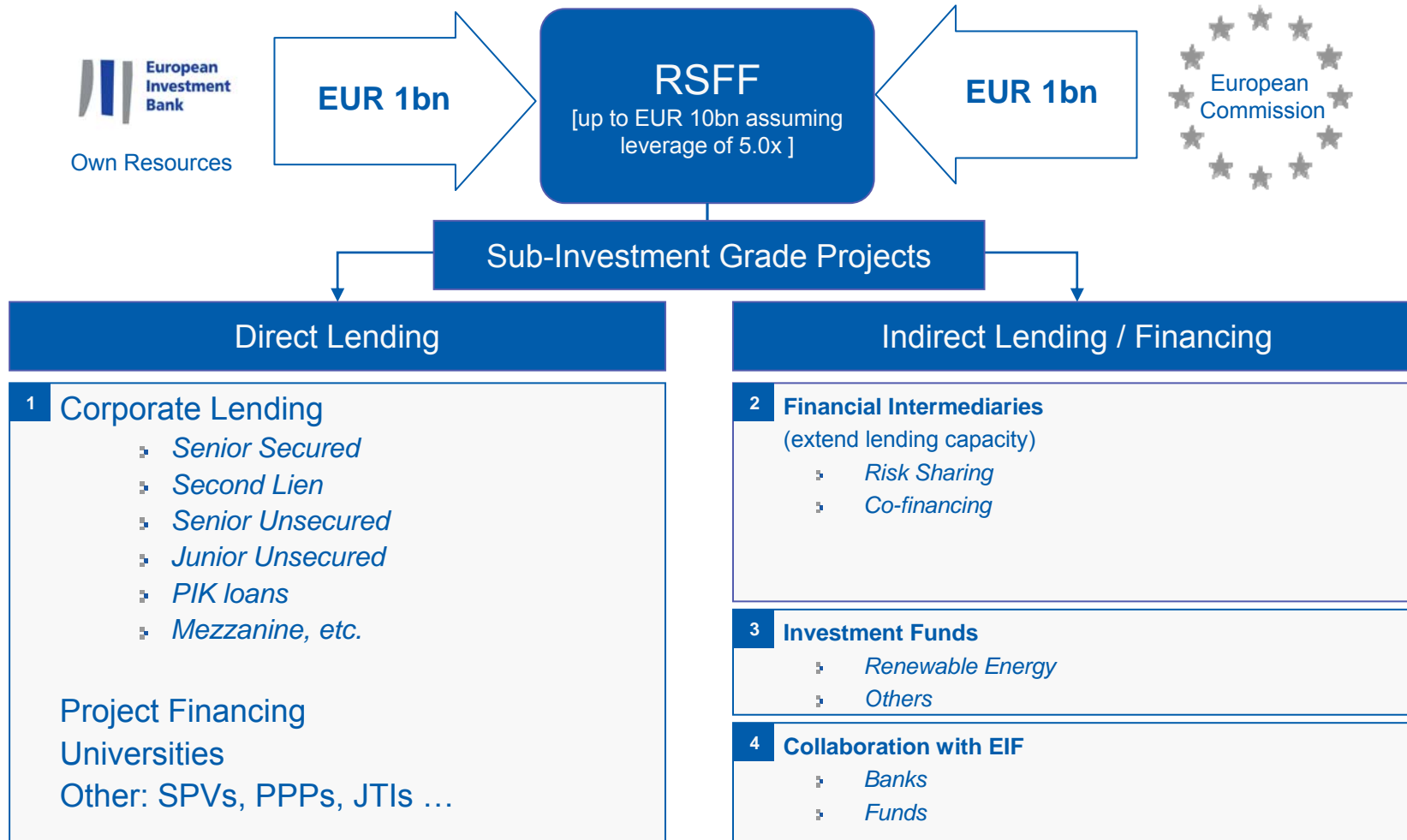
* Not taking into account leverage, which is about 6 to 8 times for VC and up to 20 times for CIP

Direct RDI Financing Products Risk Sharing Finance Facility (RSFF)



- EIB RSFF funds complement other sources of debt capital available for low/sub investment grade RDI intensive corporates
- EIB RSFF funds are highly attractive for potential beneficiaries because of:
 1. Highly attractive terms & conditions (AAA rating and non-for-profit pricing)
 2. Long maturities of up to 10 years or more
 3. Direct EIB participation of up to EUR 300m per transaction (depending on rating)
 4. Strong technology/industry expertise
 5. EIB does not sell assets on the secondary market (buy and hold strategy)
 6. No cross selling (just long-term lender)
 7. Signalling Effect: EIB as a quality stamp
 8. Debt and Mezzanine Debt Product

Risk Sharing Finance Facility – Set-up





Risk Sharing Finance Facility - Risk Categories



Moody's	S&P and Fitch
...	...
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
Ba1	BB+
Ba2	BB
Ba3	BB-
B1	B+
B2	B
B3	B-

- ❖ RSFF is a debt based instrument, not a grant
- ❖ Financing does not involve a subsidy element
- ❖ The facility does not concern risk capital such as venture capital



- ❖ RSFF concerns companies or projects mature enough to demonstrate capacity to repay debt on the basis of a credible business plan.
- ❖ EIB carries out own loan grading, an external rating is not required.



1	Engineering/Automotive
2	Energy
3	ICT
4	Life Science
5	RDI Infrastructures

Rationale for Selection

- ❖ Scope of Sector
- ❖ EU Policy Dimension
- ❖ Key RDI Trends
- ❖ Strong EIB Track Record in the industry
- ❖ RSFF Implementation Strategy

Product Development

Sector Know-How

Long Term Financing



Fundamental research

Definition stage / feasibility studies

Industrial research

Pre-competitive development activity

Pilot and demonstration projects

Innovation

- Geographic Scope: EU 27 and FP7 Associated countries (Switzerland, Israel, Norway, Iceland, Lichtenstein, Turkey, Croatia, FYROM, Serbia, Albania, Montenegro, Bosnia & Herzegovina, Faroe Islands)



I. Corporate / Project Finance

- **Targeted beneficiaries:** Mid-sized and large corporations (low/sub-investment grade),
- **Product Ideas:** RSFF loans and guarantees (Structured individual corporate loans - senior/junior debt, mezzanine),
- **EIB value added:** Lower Financing Cost, increase of debt capacity (in case of subordination), project risk sharing.

II. Risk Sharing with Universities

Targeted beneficiaries: Universities, research institutes, science parks,
Product Idea: RSFF loans and guarantees; Royalty fund,
EIB value added: Increased access to financing for universities; facilitates partnerships and PPPs; monetize royalty streams of research results (e.g. patents).

NEW PRODUCT DEVELOPMENTS

Targeted beneficiaries: Joint Technology Initiatives (JTIs), European Technology Platforms (ETPs), Multi country Research Infrastructures (ESFRI),
Product Ideas: PPPs, SPVs and RSFF/ERCF loans and guarantees for R&D programmes,
EIB value added: facilitate both public and private sector financing of Research Infrastructure through conventional as well as structured finance.

III. R&D and Infrastructure Consortia

Targeted beneficiaries: SMEs & Mid Caps (low / sub-investment grade),
Product Ideas: RSFF loans and guarantees, Risk Sharing Global Authorisations,
EIB value added: Beneficiaries: risk sharing, higher debt capacity, lower financing cost; Banks: risk sharing, capital relief, customers cross selling.

IV. Risk Sharing with Banks

European Investment Bank Financing Concept under RSFF – Definition of “Eligible Project Costs”

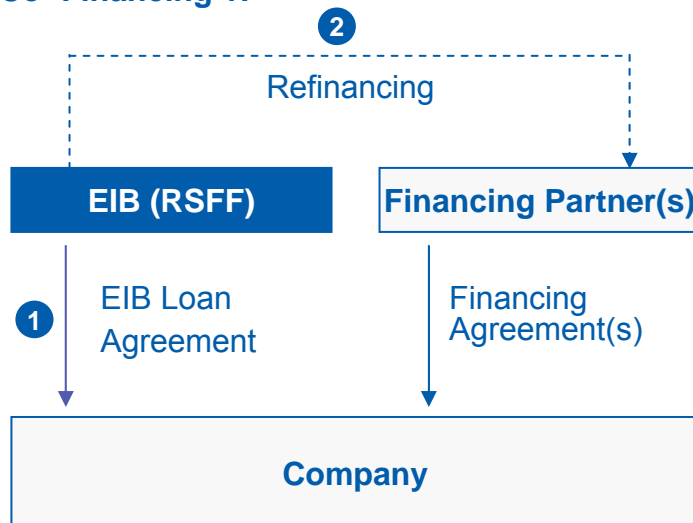


EIB Loan min EUR 7.5m – max EUR 300m			
↓			
Company			
Eligible Costs	2010	2011	2012
R&D Salaries	€25m	€27m	€30m
R&D Capex	€35m	€40m	€45m
R&D Opex, etc.	€5m	€7m	€8m
Total Annual	€65m	€74m	€83m
↓			
Total Project	€222m		
1 Min EIB Loan	€7.5m		
2 Max EIB Loan	€111 m (50%)		

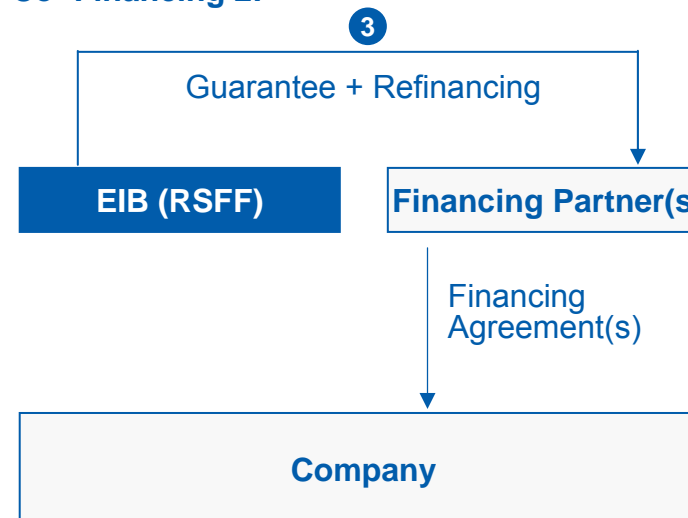
- “The Project” is an internal EIB definition of Capex/Opex expenses over 3-5 years falling within RSFF eligibility criteria. From a credit perspective, it could be defined as a “Borrowing base” of which up to 50% could be financed by EIB proceeds.
- RSFF eligible project cost include: project capital expenditures in tangible and intangible assets, research staff cost, incremental WC needs, prototype development, demonstration plants, and other forms of innovation expenditure.
- If all project costs presented by the company are deemed “eligible” (to be confirmed during the due diligence meeting) and thus included in the project definition, EIB will be able to provide a facility with a maximum amount equal to the lowest of:
 - 50% of project costs, i.e. EUR 28.5m, and
 - the applicable rating limits;
 - The remainder of the project costs is to be covered though other financings or through operating cash flows



Co- Financing 1:



Co- Financing 2:

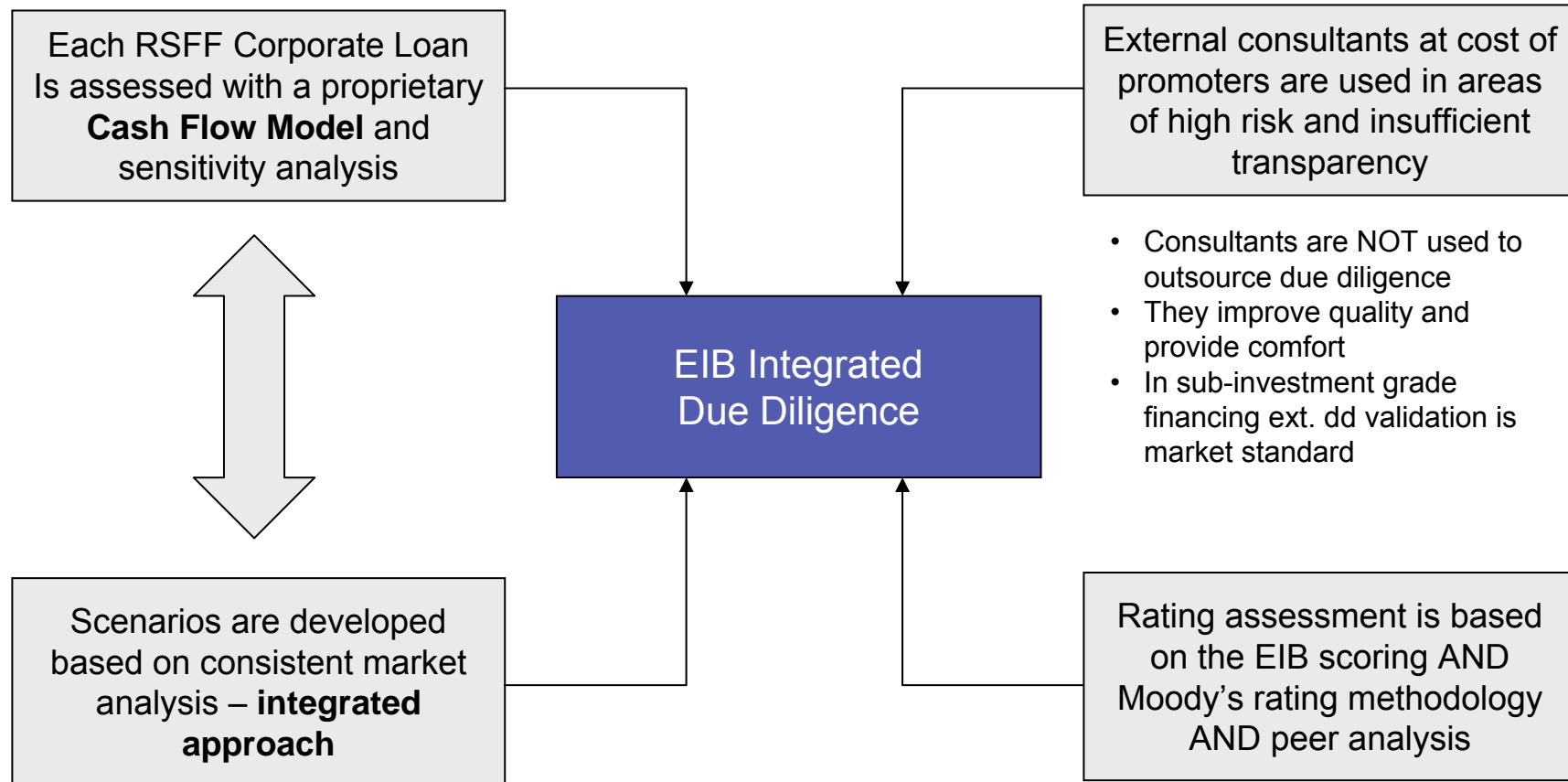


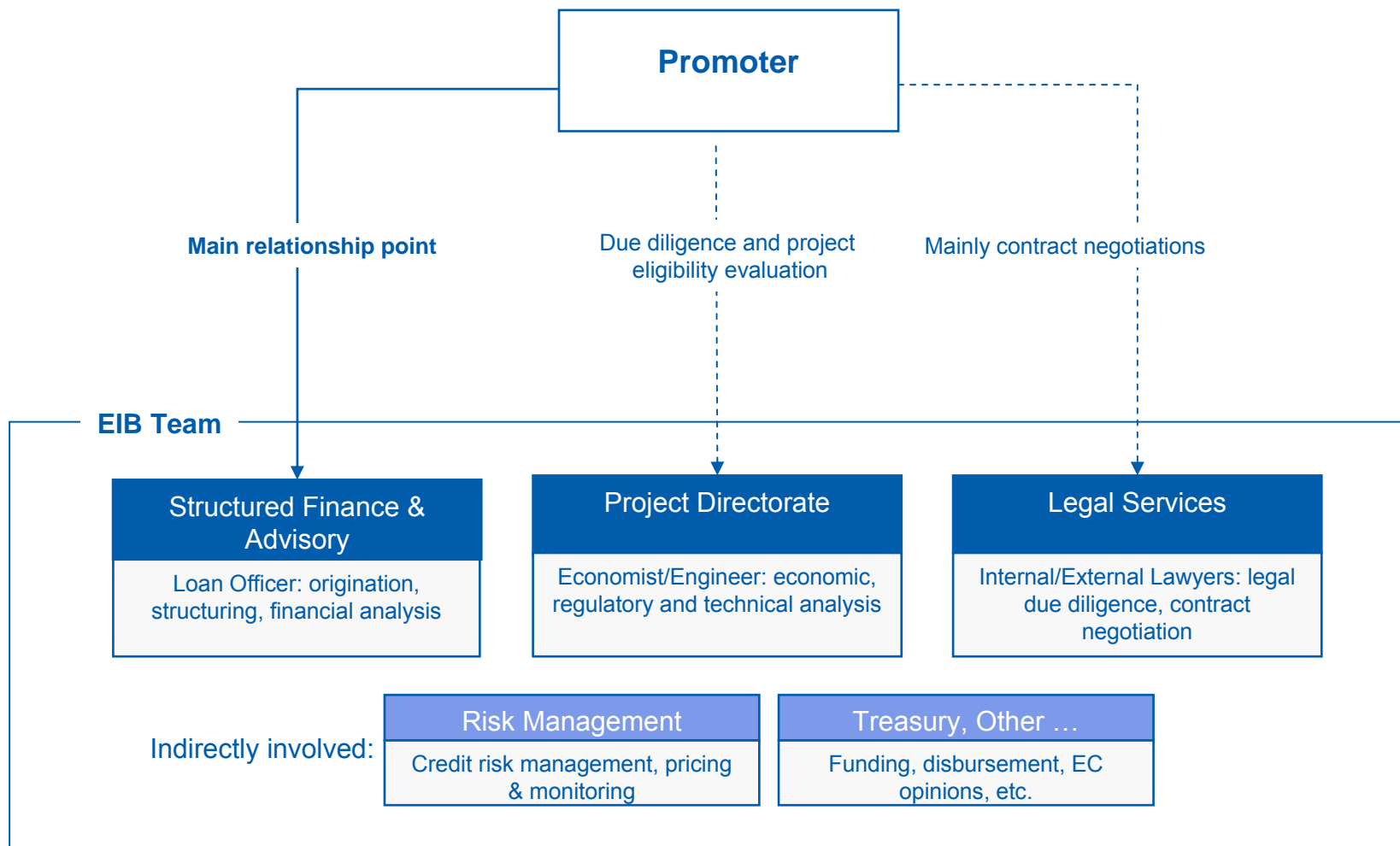
Bilateral Lending:

- EIB can either act as sole financier or participate in transactions usually through an EIB direct loan agreement. EIB typically prefers to co-finance with other financing partners (e.g. commercial banks, investors)
- In the case of co-financing EIB can provide a loan in parallel to the financing partners directly with the final beneficiary (with key contractual terms aligned) OR...
- ...can provide a guarantee to the financing partners and thereby share the credit risk and enable capital relief. The guarantee can also be complemented by EIB funding (in order to generate additional Financial Value Added)
- EIB financing contracts are normally in line with market standards (protective clauses, covenants, etc.) but will always be structured according to the needs of the borrower.

Syndicated Lending:

- EIB can participate in syndicates, though some limiting factors can apply (i.e. EIB cannot extend funding to HoldCos in acquisition structures, only to OpCos; EIB still needs a side agreement that the company will execute the defined project, etc.)







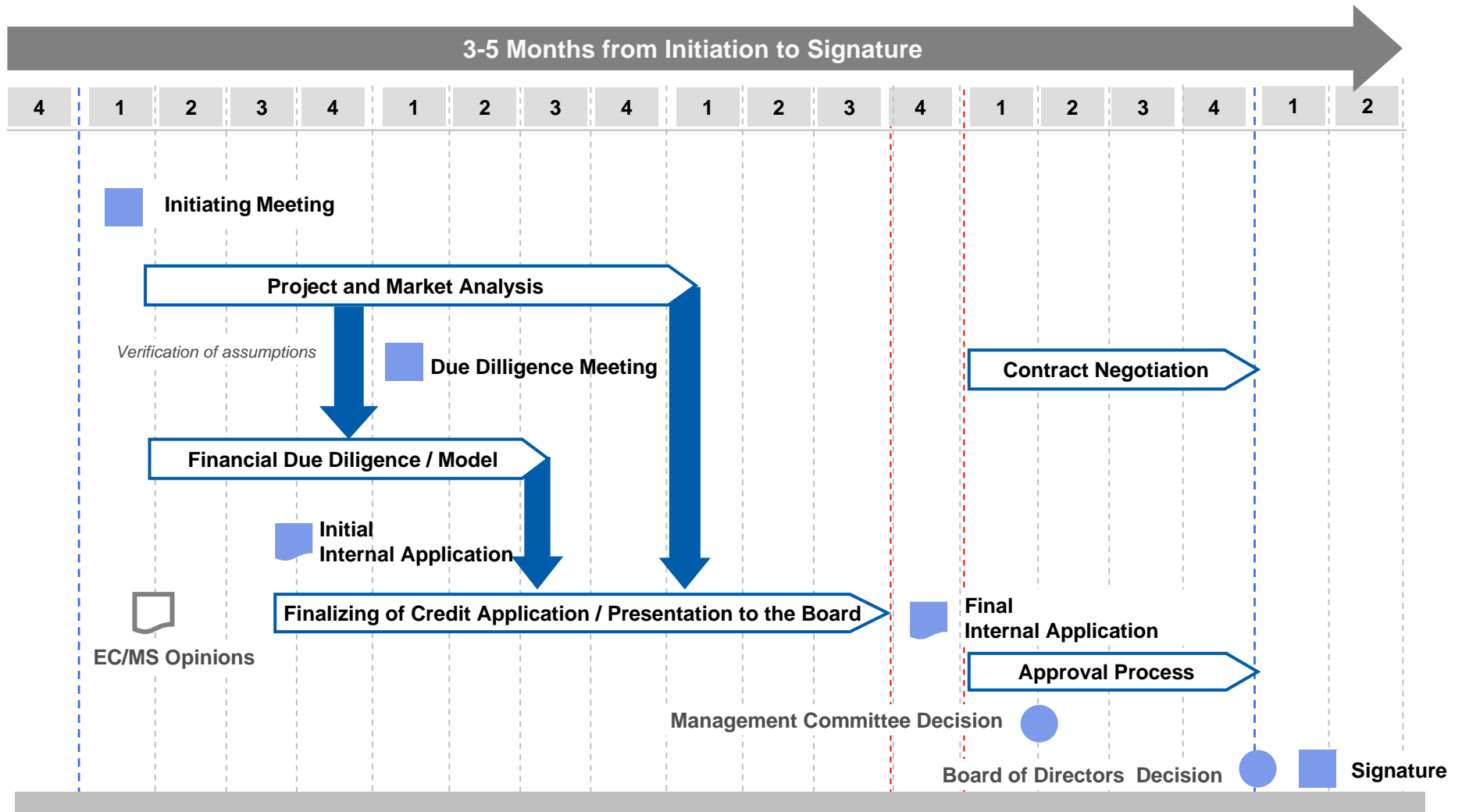
The EIB project cycle



EIB project cycle



Direct RSFF Financing Appraisal Procedure / EIB Project Cycle



Legend:

Process



Meeting:



Document / Important:

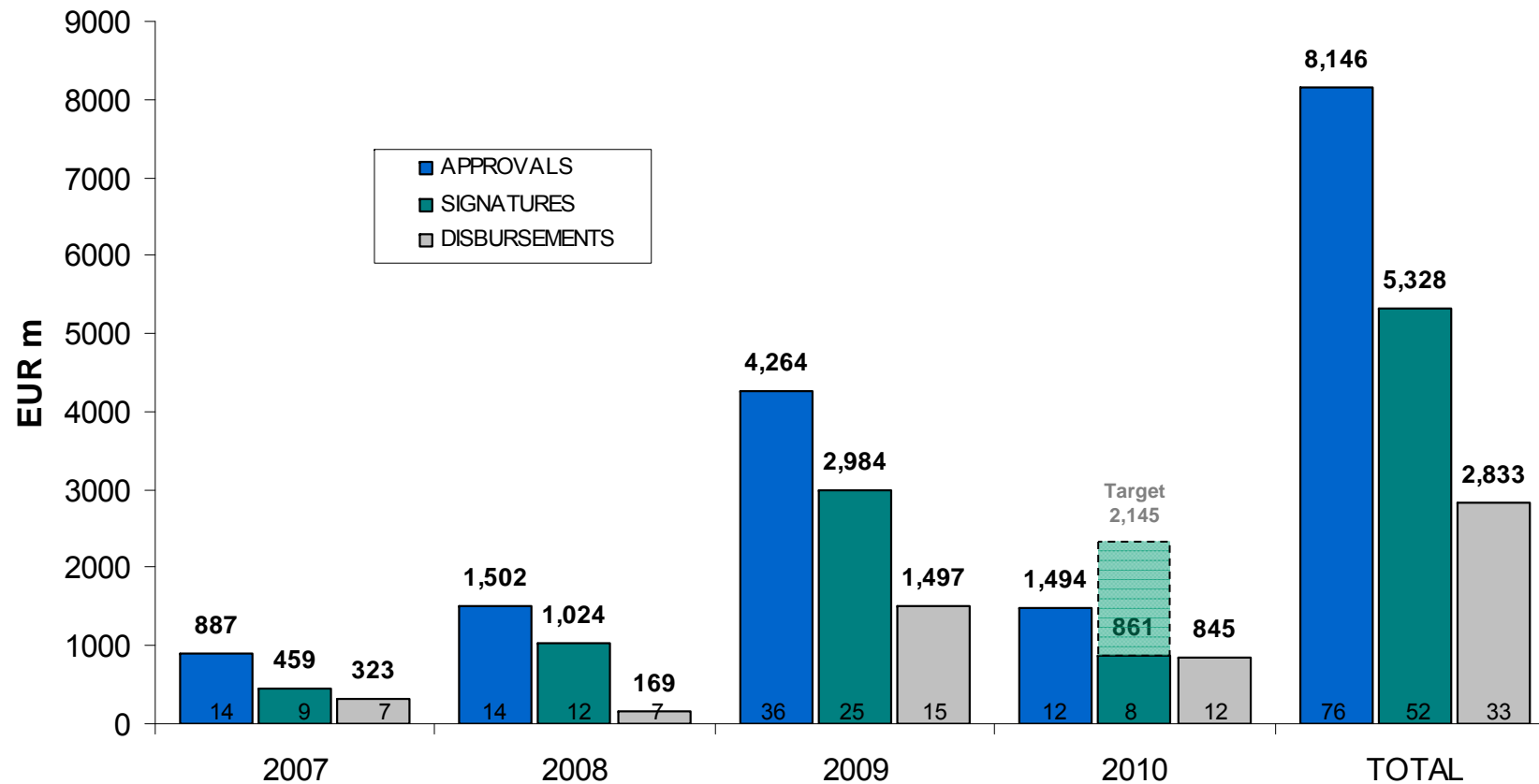


Decision:





Risk Sharing Finance Facility Results 2007 – To Date



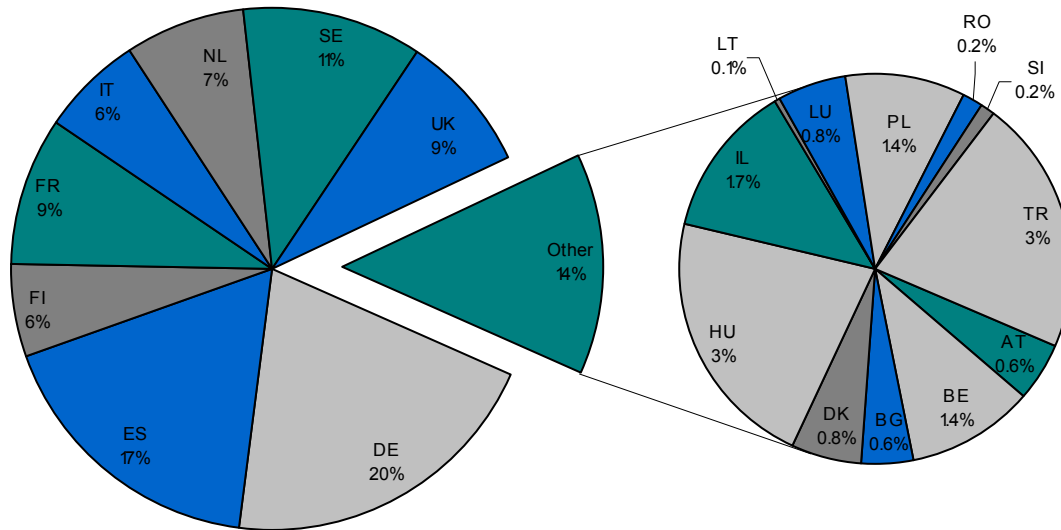
RSFF Loan amount (in EURm) and number of RSFF Operations Approved/Signed/Disbursed

2010 RSFF Signature Target: EUR 2,145m (37% achieved to date)

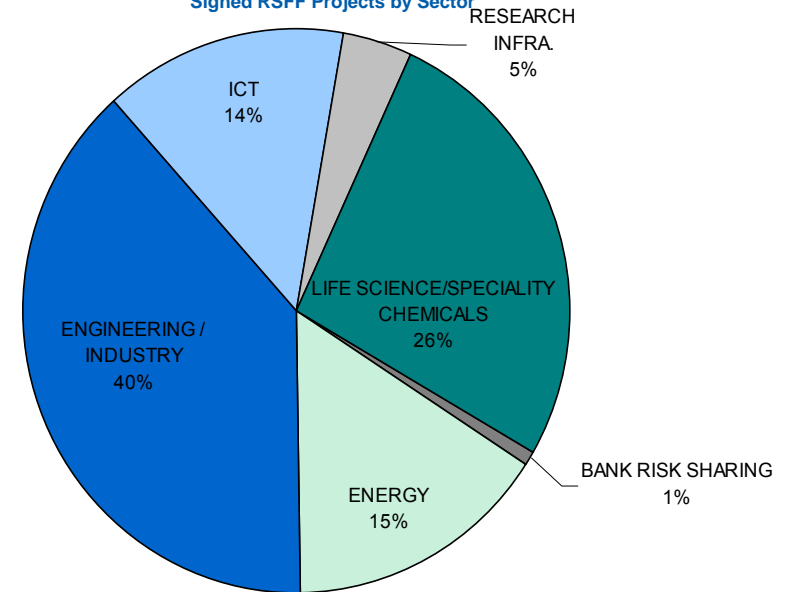
RSFF Signatures to end September 2010 Breakdown by Sector and Country



Signed RSFF Projects by Country



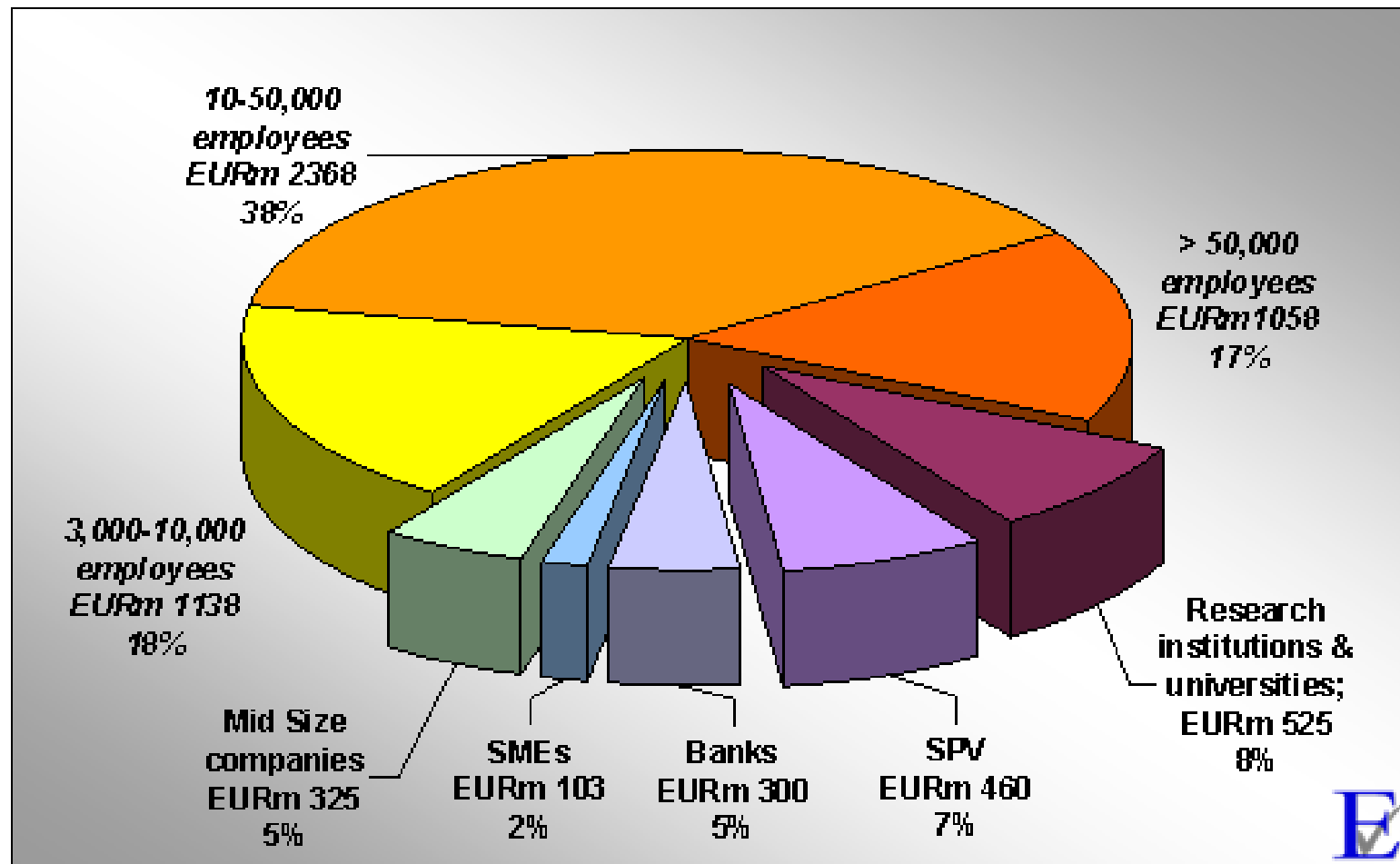
Signed RSFF Projects by Sector

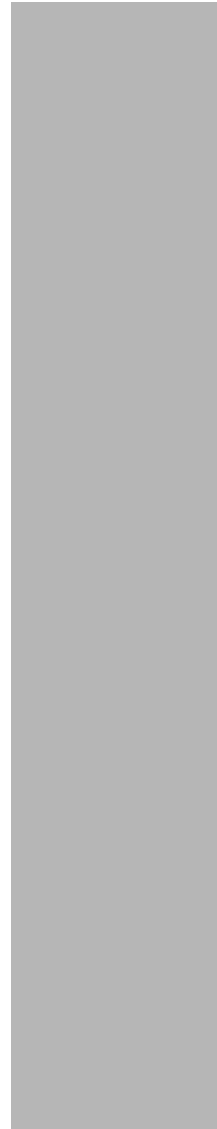


- Main sectors financed so far :life science engineering industry and renewable energy technologies.
- By end September 2010 operations signed in 20 countries.



RSFF - Effectiveness Target group distribution





**Financial Tools for SMEs
/ Entrepreneurship in
Europe**

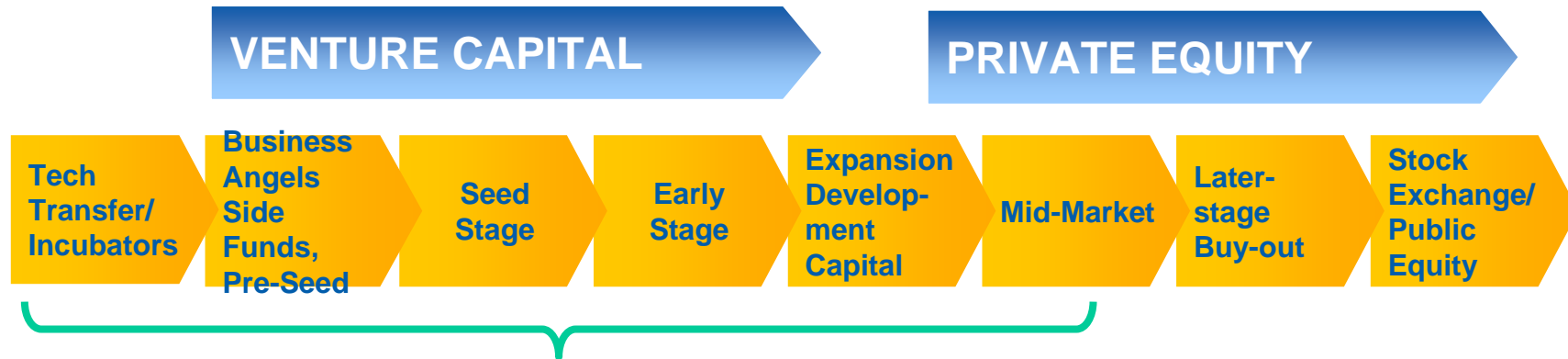




- Support to SMEs: one of the top priorities of European Investment Bank Group
- EU's specialised institution for SME risk financing
- 3 x AAA
- Geographical focus: EU 27, EFTA, Candidate Countries
- Acting indirectly through banks and funds
- Authorised capital: **€3bn**
- EIB: main shareholder (**63.6%**)
- European Community represented by the EC (**27.4%**)
- **31 public and private financial institutions from 17 countries (9%)**



Dual Objective of Meeting EU Policy Goals & Generating a Satisfactory Return on Equity



EIF INVESTMENT FOCUS



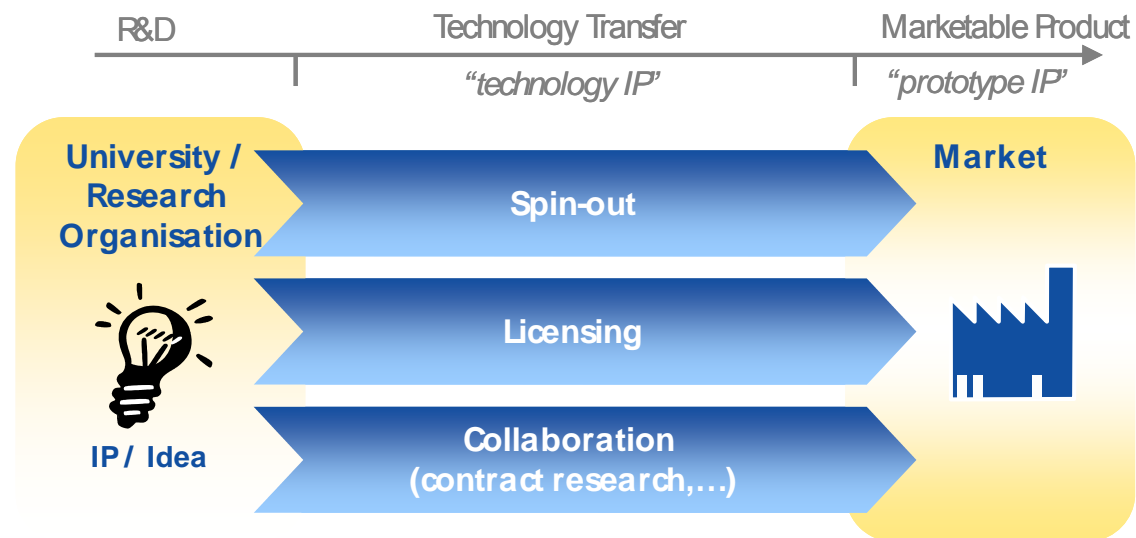
- Outstanding equity portfolio of **€3.5bn** in >350 funds at 31.12.09
- Target market segments are venture capital/private equity
- Core activity in venture with commitment to growth and lower mid-market
 - Focus on cutting edge technology in venture portfolio
 - First mover in Europe's emerging markets and new market segments (cleantech)



EIF Technology Transfer - Converting Research into Products for the Market



- ❖ Technology transfer can be defined as “ the process of converting scientific findings from research organisations into useful products by the commercial sector through three main different ways:
 - ❖ Creation of new companies; and/or
 - ❖ Collaboration between universities, research organisations and industry; and/or
 - ❖ Licensing.”
- ❖ EIF’s current Technology Transfer operations are investments in early stage technology oriented ‘funds’ often set-up in cooperation with leading European universities or research organisation





EIF Selected Tech Transfer Operations throughout Europe



Chalmers Innovation

- SEK 110 m (target 250 m)
- Signature July 2008
- Managed by Chalmers Innovation, aiming at companies from the University and created by Chalmers Innovation

UMIP Premier Fund

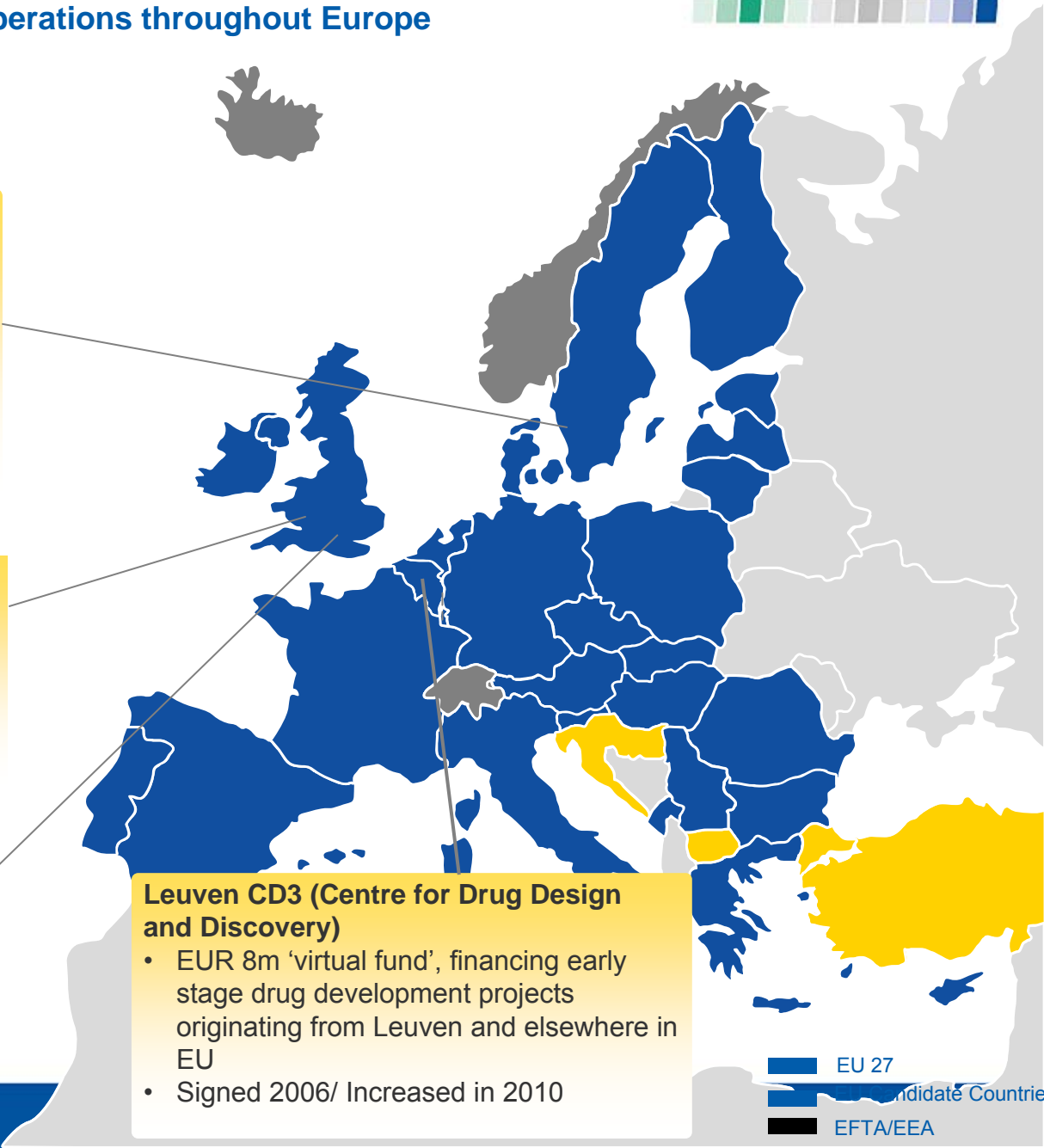
- GBP 32m fund
- Signed April 2008
- Fund, managed by MTI, invests in university spin-outs originating from the University of Manchester

IP venture fund UK

- GBP 32m fund
- Signed September 2006
- Fund invests 25% of all financing rounds of IP group spinouts, originating from 10 UK universities.

Leuven CD3 (Centre for Drug Design and Discovery)

- EUR 8m 'virtual fund', financing early stage drug development projects originating from Leuven and elsewhere in EU
- Signed 2006/ Increased in 2010



■ EU 27
■ Candidate Countries
■ EFTA/EEA



- Outstanding commitments of **EUR 14.0bn** in > 200 operations across Europe at 31.08.10
- Transactions broadly split between “mandate” and “own risk” activity
 - Mandate – backed by the EC (e.g. CIP) and/or other parties (regions, States) (e.g. Jeremie)
 - Provides guarantees/counter-guarantees as part of the expected losses for portfolios of SME or microcredit loans or leases to local financial institutions
 - Provides a tool for SMEs which would not normally have access to finance
 - High leverage effect of EIF capped guarantees
 - Boosts productivity, competitiveness and innovation capacity
 - Own risk – backed by EIF own capital
 - To credit enhance securitised SME loans or leases portfolios for capital market transactions, or
 - To provide own risk credit insurance for similar portfolios to financial institutions on a bilateral basis
 - EIF achieves added value by facilitating SME credit risk transfer from financial institutions to the capital market – provides capital relief of FIs and increases their lending capacity to SMES



➤ *Joint European REsources for Micro to medium Enterprises (JEREMIE)*

➤ Joint initiative of the EU (DG Regio & EIB Group); combines resources from European Regional Development Fund, National Public Authorities

➤ Currently: Greece (€ 250m), Romania (€ 100m), Latvia (€ 92m), Lithuania (€ 209m), Languedoc Roussillon (€ 30m), Campania (€ 90m), Slovakia (€ 121m), Cyprus (€ 20m), Bulgaria (€ 200m), Malta (€ 10m) - total: > **€1bn**

JEREMIE Products

	Start-up	Early stage	Expansion
Equity		Venture Capital	
Debt	Micro Finance/ Funded Risk-Sharing products		
	Portfolio Guarantee		
Quasi-Equity	Participating Loans		
Other instruments	Technology Transfer Funding		



Marc D'hooge
RSFF Programme Manager



Phone: (+352) 4379 87211
Fax: (+352) 4379 67292
email: dhooge@eib.org

European Investment Bank
100, boulevard Konrad Adenauer
L-2950 Luxembourg