Introduction to European Investment Fund

Supporting Technology driven SMEs through early-stage equity investment

Tbilisi, Georgia, September 2016

What is the EIF?

EUROPEAN INVESTMENT FUND

"We provide **risk financing** to stimulate **entrepreneurship and innovation** in Europe"

Making
finance more accessible and **helping** SMEs to **innovate and grow**

Offering
a large array of **targeted products to support SMES** ranging from venture capital to guarantees and microfinance to SMEs

Working
with financial intermediaries across the **EU-28 EFTA countries, candidate** & **potential candidate** countries

Supporting
the market in a countercyclical way

Our history

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"We have designed and implemented financial solutions for SMEs for **20 years** and so far supported more than **1.5 million SMEs**"

20 YEARS

1994
Founded and started by providing **guarantees** to financial intermediaries ;
in 1997 offer expands to **venture capital**

2000
EIB becomes majority shareholder and makes EIF the "SME risk finance specialist"

2004
EIF starts to manage the **first** SME focussed **fund-of-funds** on behalf of an EU Member State

2014
EIF's role strengthened with **increased capacity** allocated by its shareholders for the benefit of European SMEs

EIF shareholders
A unique public-private shareholding

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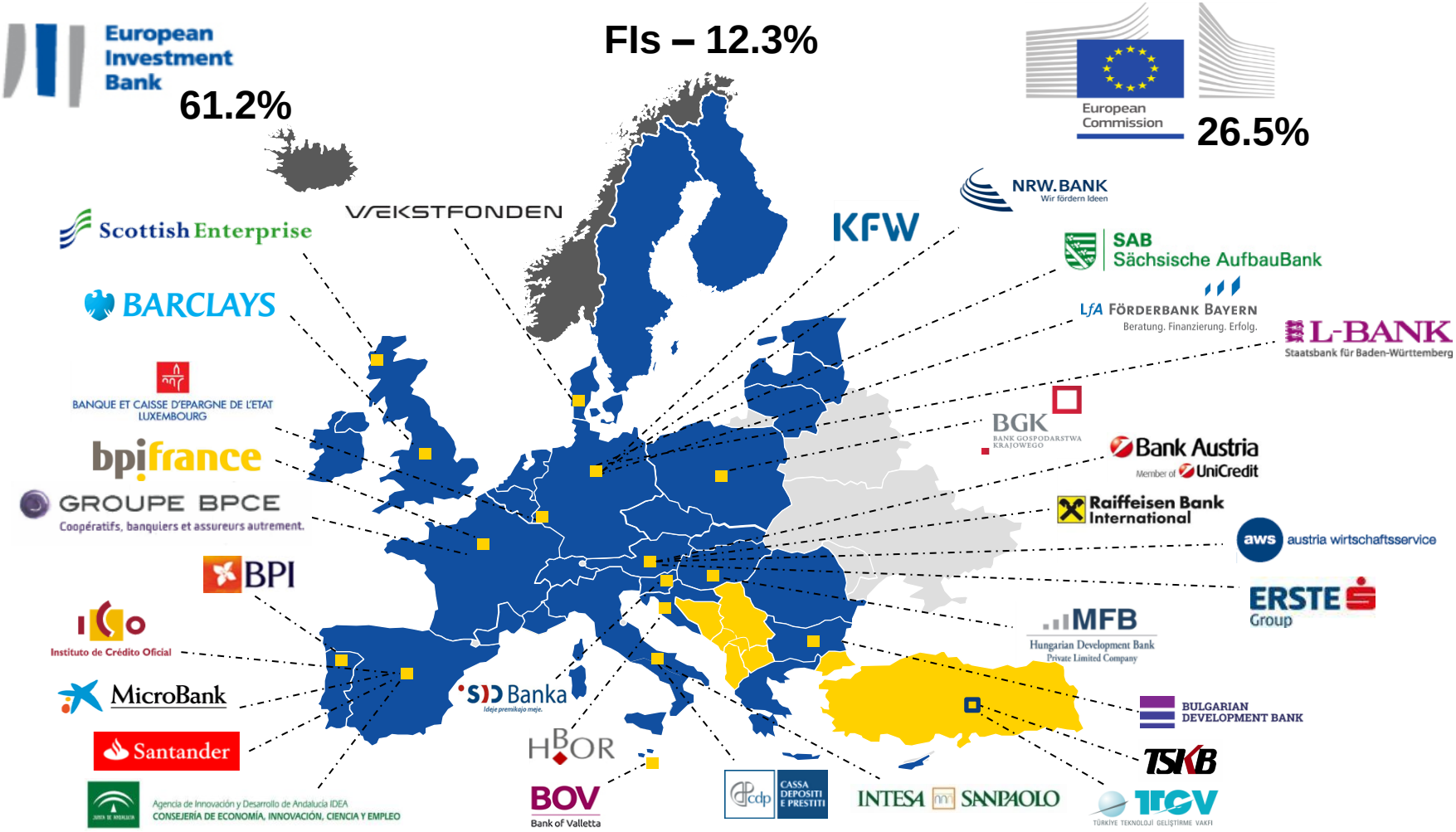

Small and Medium-sized Enterprises (SMEs) key facts

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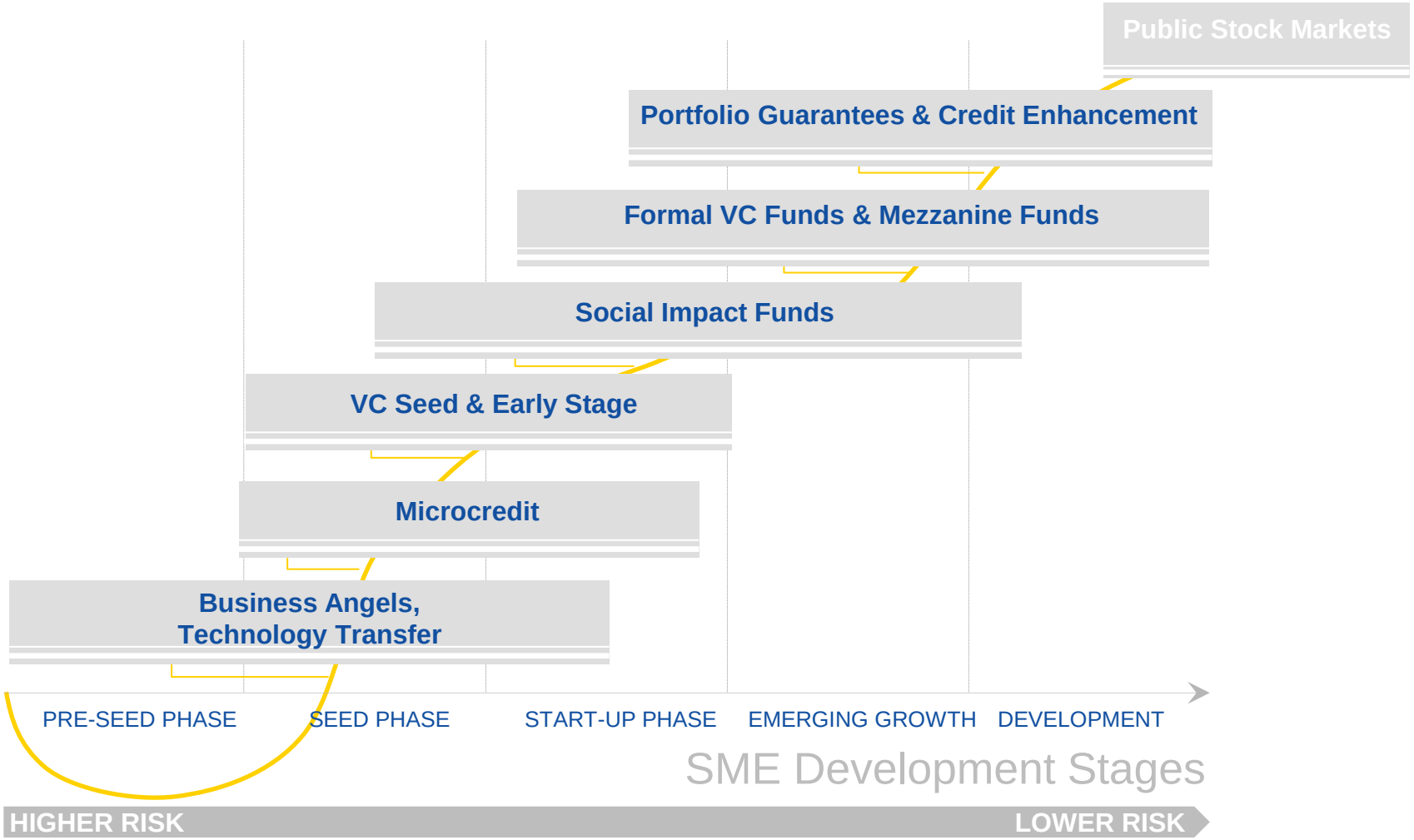
"SMEs are major contributors to economic **growth** and **job** creation in Europe"

99%	**20 million**	**EUR 3.4 trl**	**1 in 3 SMEs**
of businesses in Europe are **SMEs**	SMEs in Europe totalling **86 million jobs** which equal **66.5%** of all European jobs	**of SME contribution** to the GDP* of the EU-28	**failed to obtain** the financing they needed in 2015. This is where EIF steps in.

*source: Annual Report on European SMEs 2012/2013 - European Commission – 2012 figure

EIF helping businesses at every stage of their development



EIF Model

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- Simple and clear business mission
- Public Private Partnership
- Strong financial base
- Operate with a commercial approach
- Share risk
- Intermediation

European Private Equity & Venture Capital Market Considerations

European Private Equity & Venture Capital

Market Overview – 2Q 2015 (1/3)

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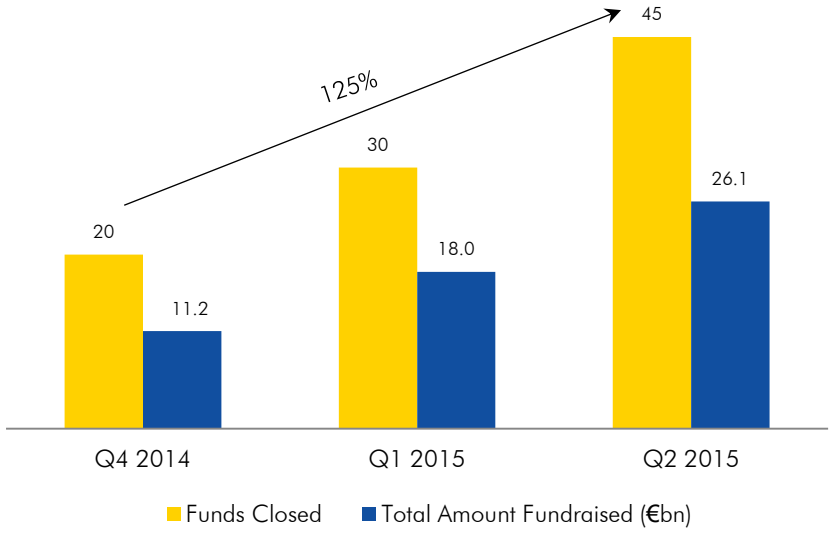
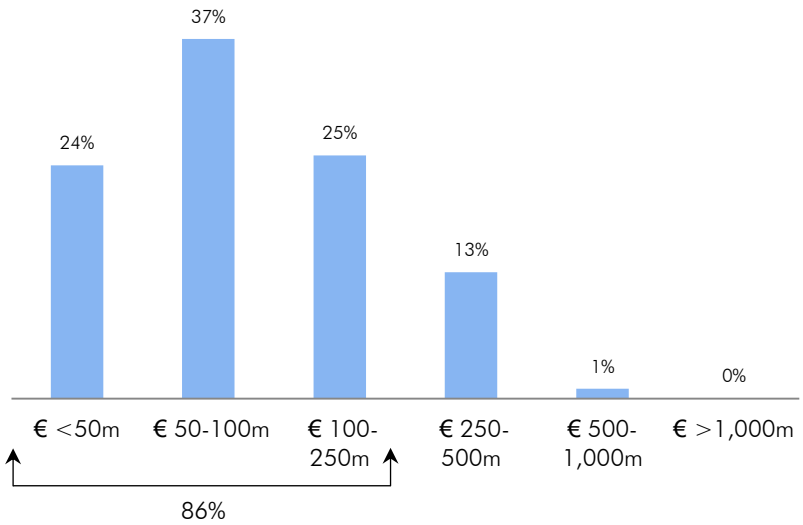
Europe Fundraising per Quarter:



Deal Size Distribution 2015:



- Between 2014 & 2015 **substantial increase in funding activity** with +125% for three quarters in terms of number of funds closed and a +133% **increase in the total amount of capital raised**
- 86% of all Private Equity deals in Europe range between **EUR 50m-250m**

Source: PE Breakdown 2015, Merrill Datasite

European Private Equity & Venture Capital

Market Overview – 2Q 2015 (2/3)

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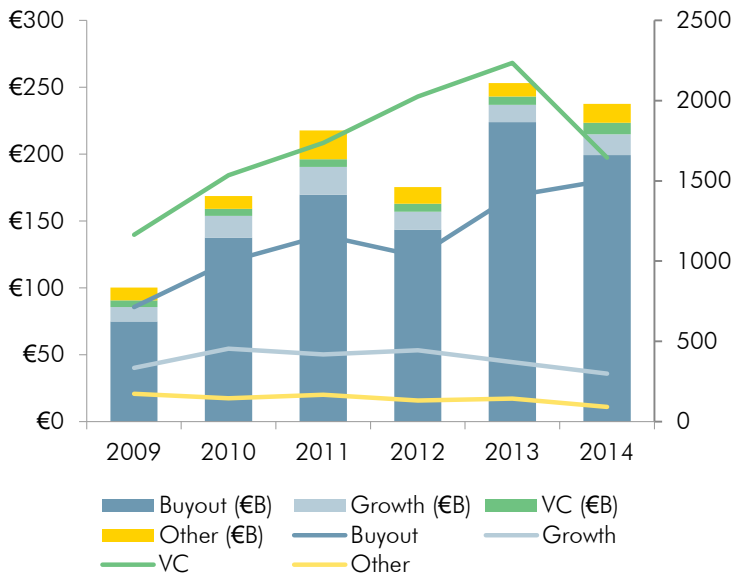
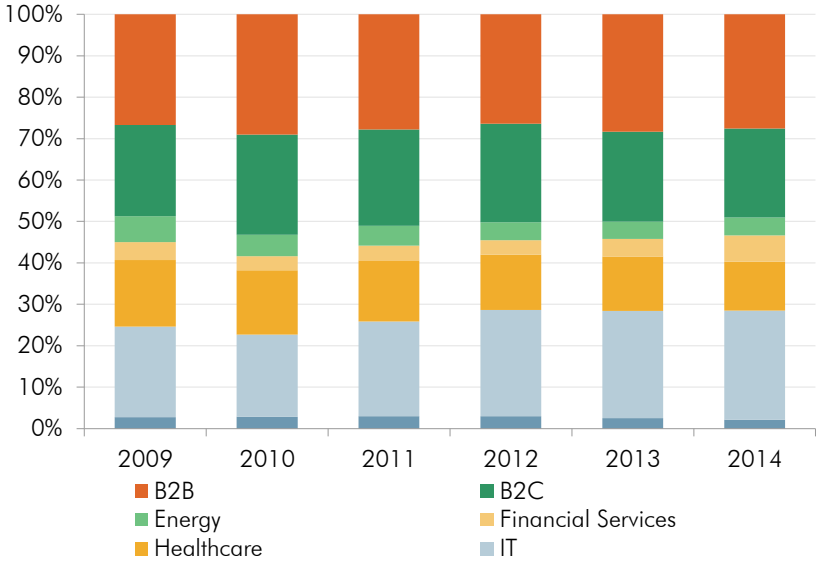
Europe Deal by Type:



Europe Deal by Sector:

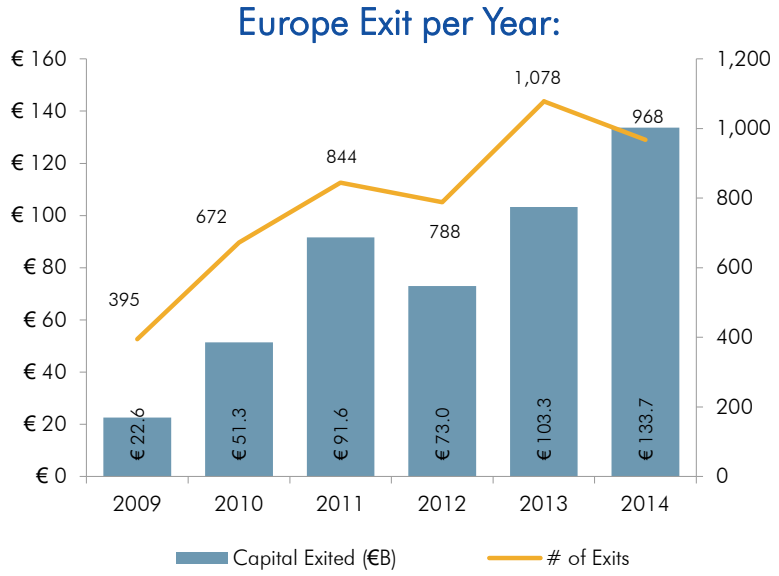


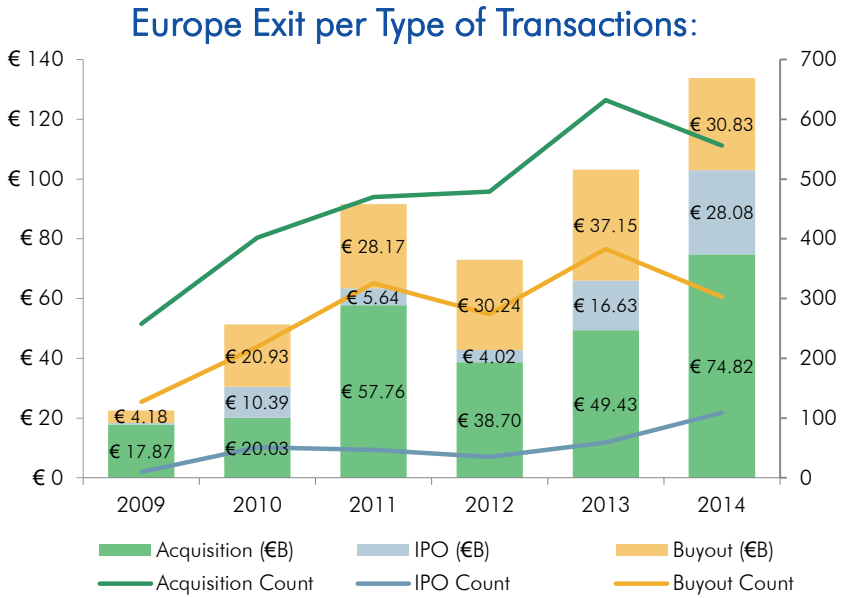
- VC activity in terms of **number of deals falls** but **capital invested spikes** reflecting increasing valuations and deal sizes in the European market.
- Deal flow by sector in Europe didn't change much year-over-year, though **IT continued to grow its share** of overall activity.

Source: PE Breakdown 2015, Merrill Datasite

European Private Equity & Venture Capital

Market Overview – 2Q 2015 (3/3)





- Over **EUR 133.7 billion** in **capital exited in 2014** due to the s**tronger public markets** on the continent and **high industrywide valuations** of underlying assets.

- **Both IPOs and corporate acquisitions** recorded strong years and accounted for a combined **€103 billion** in capital exited in 2014

Source: PE Breakdown 2015, Merrill Datasite

European VC Ecosystem is Maturing

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Talent

- Preferred career path
- Attracts high potentials / managers
- Next generation of founders

Experience

- 1st generation founders as mentors
- Execution infrastructure ready
- Excellence building blocks available

Capital

- Former entrepreneurs invest
- Business angels are everywhere
- Every good idea gets funded

Thinking Big

- Strong teams are ambitious
- Looking beyond building small
- Focus: big international opportunity

Exits

- Successful exits via M&A and IPOs
- Entrepreneurs reinvest in the ecosystem
- Powerful role models for young talent

Source: Holtzbrinck Ventures

Technology Talent

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TECHNOLOGY AND TALENT

Private equity has found itself in competition with the technology sector for junior talent. The asset class needs to make itself more appealing.

By *Hannah Langworth*

It is that time of year again when a new cohort of freshly-minted MBAs is unleashed on the business world.

Private equity has always been able to expect to add a good number of these new faces to their teams.

However, word from recruitment consultants working in the asset class on the year's round of junior hirings is that buyout firms are facing increased competition for the best MBAs from other sectors, particularly technology.

Confirmed figures are not yet available for this year's crop of MBAs, but the classes of 2014 at INSEAD, Harvard Business School and London Business School, all of which featured in top five positions in the *Financial Times* MBA rankings for 2015, demonstrated a pronounced taste for all things hi-tech.

The three schools saw 19 per cent, 17 per cent and 16 per cent respectively of their MBAs going into technology jobs, in each case a higher percentage than went into private equity roles, and in the case of INSEAD, a higher percentage than went into the finance sector as a whole.

Over the past few years there has been a reduction across the board at business schools in MBA interest in finance careers. London Business School, for instance, has seen the percentage of its MBA graduates going into the sector drop from 46 per cent in 2007 to 28 per cent.

INSEAD recently published a blog post aimed at its students on its website entitled "Do You Have What it Takes to Work in Private Equity?", in which the buyout world is described as a place where recruits can expect to "test every professional skill in their portfolio, prove that they make a difference and execute fast".

This is probably a fairly accurate, if very brief, summary of the "private equity experience", but it is also a good description of the kind of working environment promised by the likes of Google, Apple and Facebook.

Technology businesses have become experts at attracting the best and brightest, offering salaries, training and workplaces that more mundane financial institutions have failed to match. Companies like Google have invested heavily in recruitment and are now reaping the rewards.

19%

of INSEAD MBA graduates last year went into technology jobs

There is no doubt that private equity and all it can offer is still immensely attractive to many MBA graduates, and the relatively small scale of the industry means that it has never needed to haul in juniors in huge numbers.

But looking at these trends, private equity may have to get used to playing up what it can offer in direct comparison to technology recruiters if it wants to keep on attracting the very best talent in the future.

The promise of carry, it seems, just isn't enough anymore. Time to buy some ping pong tables, a couple of sleep pods and a few beanbags for the office.

> **"The promise of carry, it seems, just isn't enough anymore. Time to buy some ping pong tables and beanbags for the office"**

Source: Real Deals

European Unicorns t-3

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Companies surpassing USD 1BN in valuation in that year

Source: Holtzbrinck Ventures

European Unicorns

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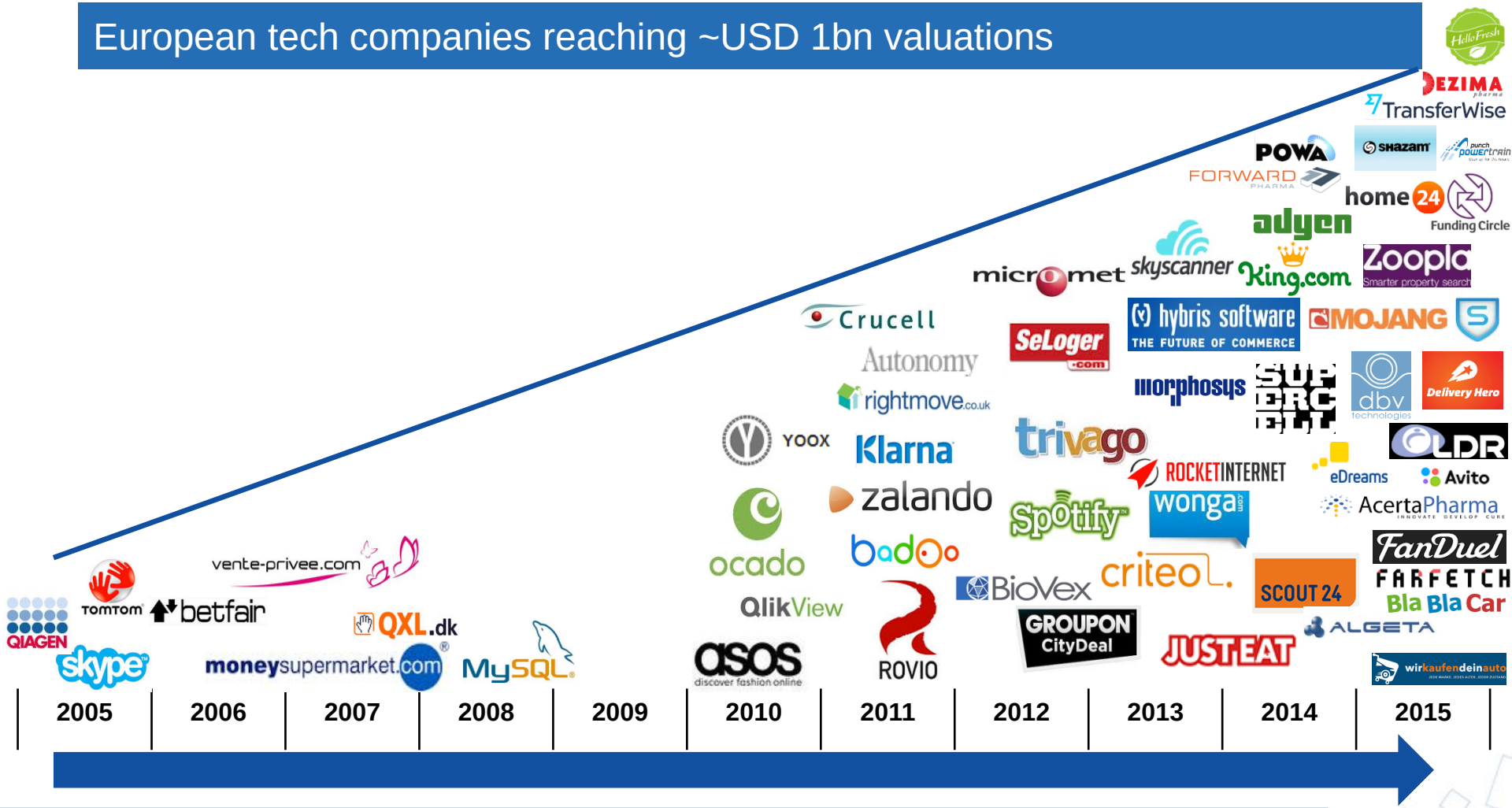
European tech companies reaching ~USD 1bn valuations



Source: Holtzbrinck Ventures, EIF

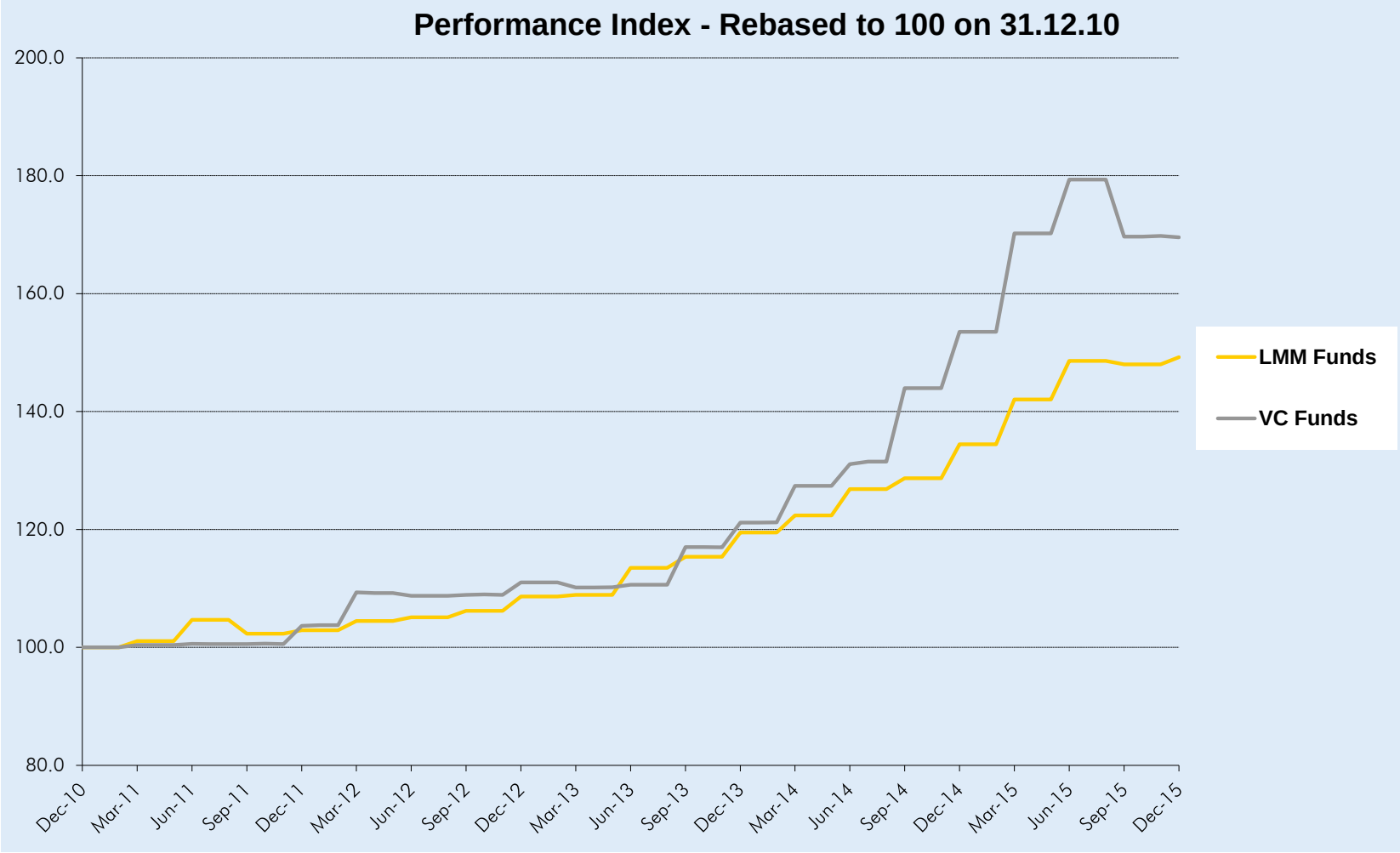
The rise & fall of the unicorns

- **Dropbox -20%**
- **Snapchat -25%**
- **Square -20% - -40%**
- **Zenefits -50%**
- **MongoDB -50%**

But not all is bad: Uber, The Honest Co., AirBnB, SpaceX, etc.

Source: Fortune (re. Fidelity), Economist, Sunstone, EIF

It's going North!



EIF's VC portfolio (1/2)

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Double digit net fund IRRs for vintages 2007 and beyond

Top 10: 33% - 66% — **Median = 46%**

Top 20: 23% - 66% — **Median = 32%**

Top 30: 16% - 66% — **Median = 27%**

EIF's VC portfolio (2/2)

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European VC investing can be done profitably

- **Attractive single and double digit net IRRs on some of our VC FoFs mandates**
- **Provisioning for carried interest on some of them**

VC model broken?

Distributions/capital calls ratio in 2014 & 2015 in EIF portfolio **above 1**

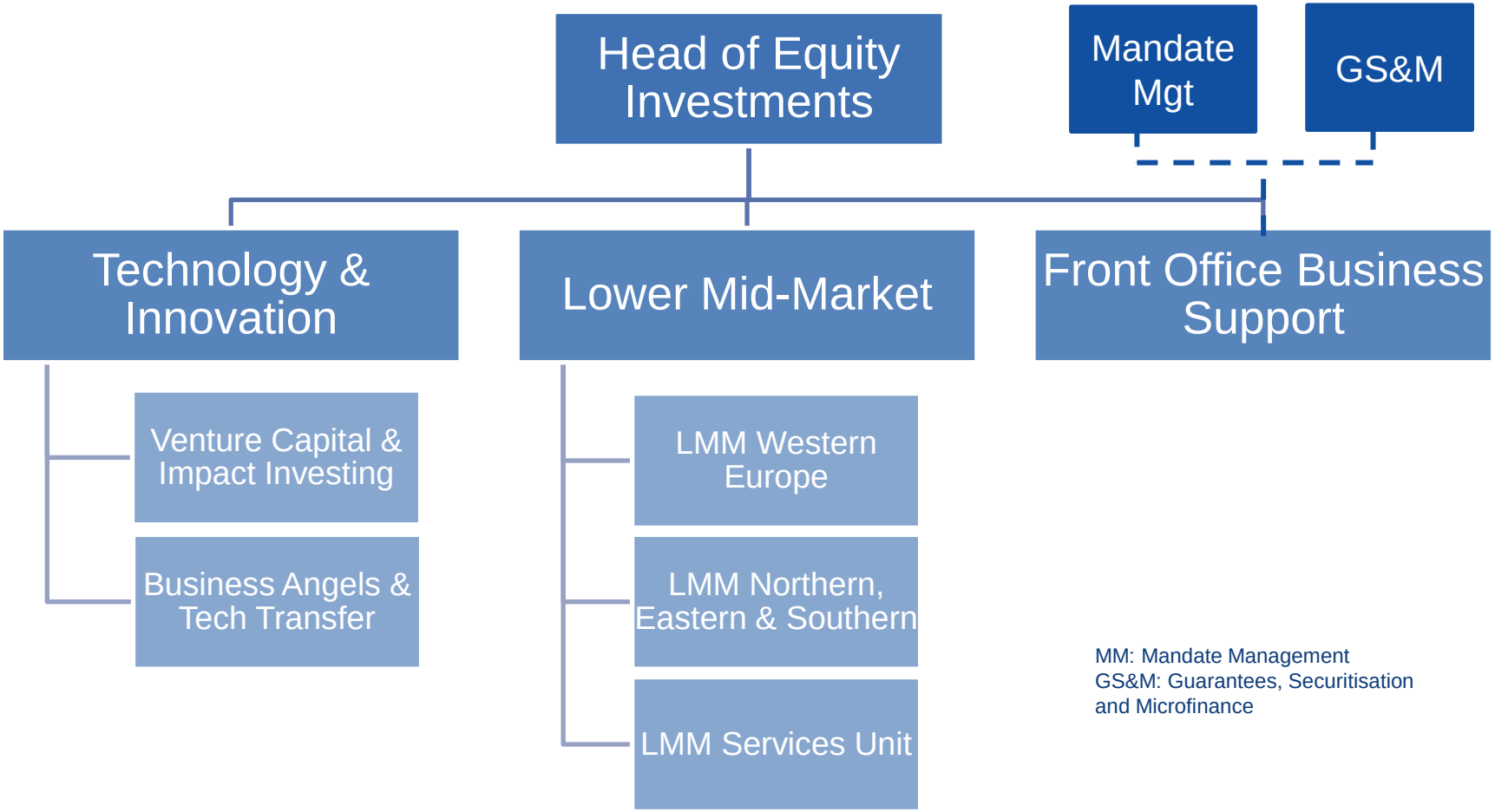
(corrected for drastically increased commitment volumes over the last years)

Increasing appetite for European VC funds + oversubscribed funds

Equity Investment Organisation

Equity Investment

Organisation chart



MM: Mandate Management
GS&M: Guarantees, Securitisation and Microfinance

Equity portfolio

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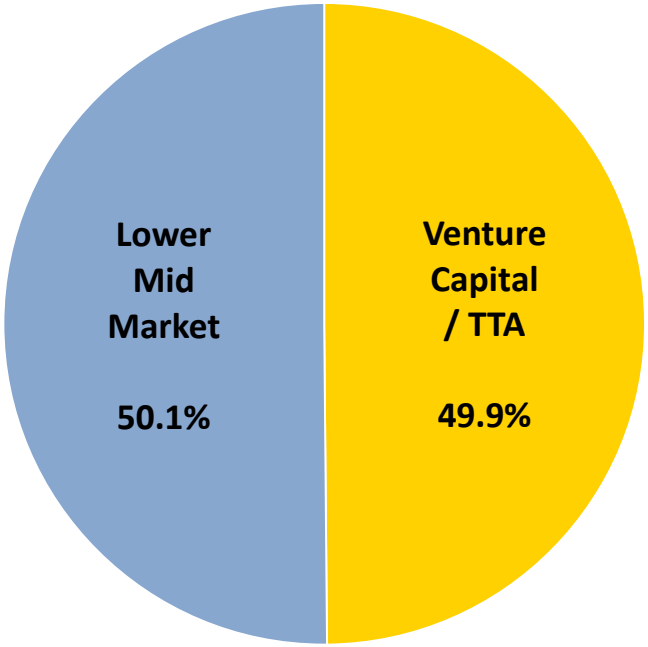
Benefiting from a **well-diversified** portfolio

220 LMM funds

EUR 5.3bn committed
(EUR 2.8bn disbursed, EUR 1.3bn repaid, EUR 1.4bn net paid-out)

EUR 32.2bn total fund sizes

> 1,500 companies



286 VC/TTA funds

EUR 5.3bn committed
(EUR 3.0bn disbursed, EUR 1.0bn repaid, EUR 1.9bn net paid-out)

EUR 21.9bn total fund sizes

> 3,000 companies

Figures as of 31.12.2014

Equity Investment Team

Multi disciplinary team with substantial combined experience

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Diverse and multi-disciplinary

- **Ca. 60 investment professionals** with focus on the Private Equity and Venture Capital market across Europe
- **Specialist knowledge** of specific technology segments including Digital Life, Health & Wellbeing, Industrial, Resource Efficiency
- **Mix of financial, industrial and technology backgrounds**: investment banking, corporate finance and audit, management consulting, pharma/biotech, mobile, telecom, semiconductor industries
- **Truly multi-cultural ,10+ nationalities:** Luxembourg, German, French, Belgian, Finnish, Italian, Spanish, British, Polish
- **13+ languages:** English, German, French, Dutch, Luxemburgish, Russian, Portuguese, Spanish, Italian, Finnish, Swedish, Hindi, and Polish

Supported by EIF's full institutional capacity (total headcount ca. 400)

- Risk management
- Legal and compliance
- Fund administration
- Accounting, financing and reporting

Investment Process

EIF's Investment Process

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First Screening	Second Screening	Due Diligence	Board Approval
Understand concept	**Investment readiness**	**Stress testing and verification**	**Legal documentation**
Based on preliminary questionnaire / concept note	Physical meeting (typically in Luxembourg), opportunity to articulate investment opportunity, understand EIF	EIF team conducts on site visits (min. 2 days). May, or may not lead to term sheet	After EIF BoD approval, legal docs drafted on behalf of Manager. EIF review Importance of legal counsel

The Key Step: Due Diligence

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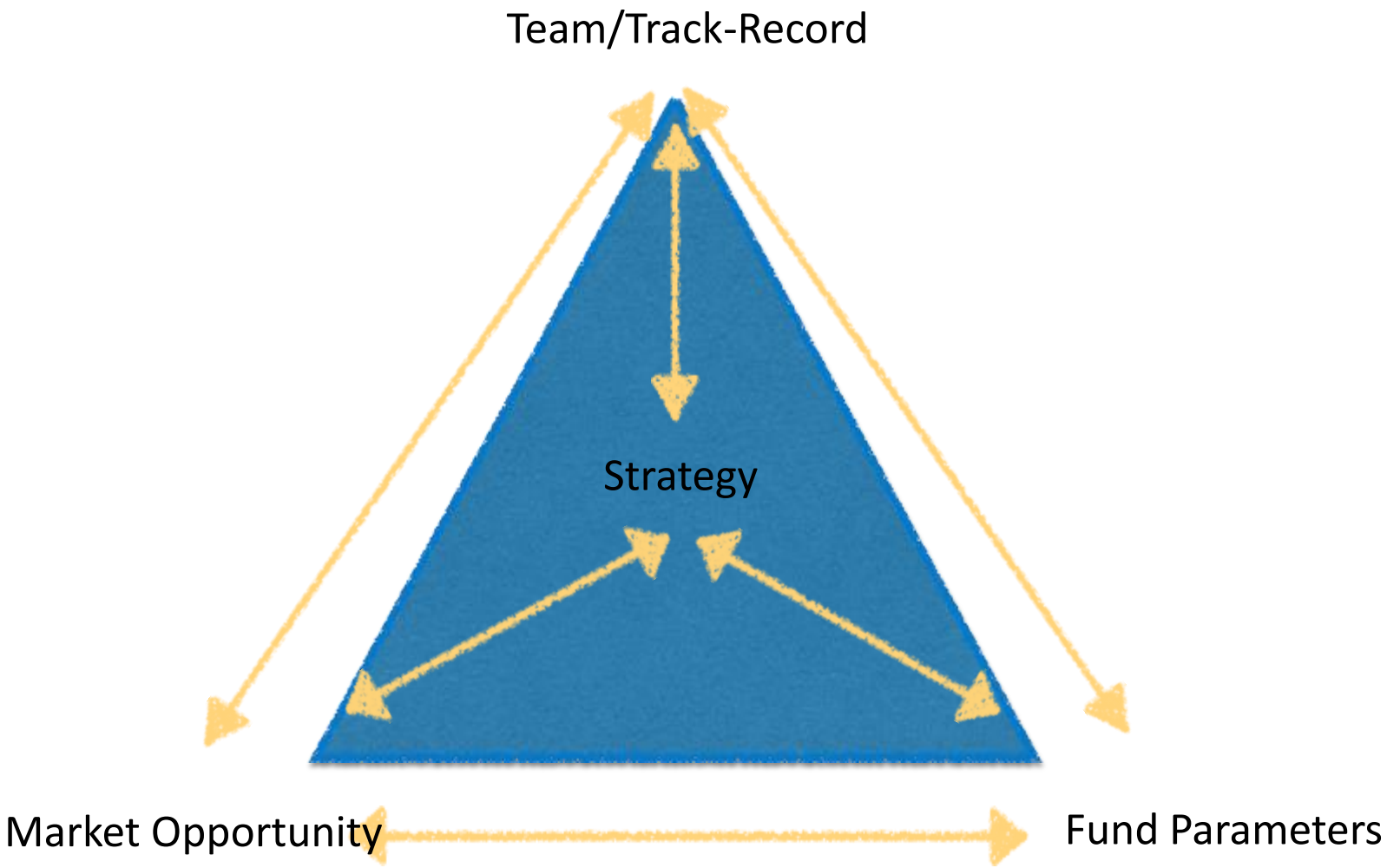
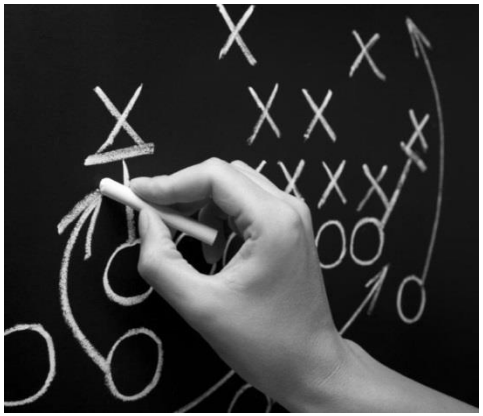
First Screening → Second Screening → **Due Diligence** → Board Approval

Team	Market	Investment strategy	Track Record
Potential Investors	Sponsor(s)	Investment Process	Deal Flow
Governance	Management co.	Economics	Remuneration / incentives

The «Magic Triangle» of due diligence



1. Strategy



- **What:**
  - Focus of investment program
  - Drivers of value creation

- **How:**
  - Team's past experience and skillset
  - Compare with other market players
  - Market opportunity and competition
  - Deal-flow analysis
  - Sustainability
  - Fit with policy objectives
  - …

2. Track Record

- **What:**
  - Assessment of past performance

- **How:**
  - Relevance
  - Attribution to the team
  - Prospects of current portfolio
  - Value creation
  - Crisis Management
  - Benchmarking against peers
  - …

3. Team

- **What:**
  - Assessment of team potential

- **How:**
  - Background of team members
  - Complementarity / completeness of skillset
  - Stability / Turnover
  - Alignment of Interests and incentives
  - Succession issues
  - Reputation
  - …

4. The Market

- **What:**
  - Analysis of market opportunity

- **How:**
  - Macro-economic trends
  - Regulatory environment
  - Market deal-flow
  - Competition
  - Ranking
  - …

5. Fund Terms and Conditions

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- **What:**
  - Structuring
  - Economic terms
  - Investor protection

- **How:**
  - Legal negotiations!

Contact

Nitan Pathak
Institutional Business Development
pathak@eif.org

European Investment Fund
37B avenue J.F. Kennedy
L-2968 Luxembourg
www.eif.org