Supporting Innovation in Israel

Tel Aviv, 7th June 2016
Welcome addresses:

**Dario Scannapieco**
Vice-President,
European Investment Bank (EIB)
Welcome addresses:

**Dan Catarivas**
Director, Foreign Trade Division,
Manufacturers Association of Israel
Overview of the EIB Group financing options

Nathalie Climence
Head of Division ‘Corporates’,
Neighbouring Countries Department, EIB
The EIB

EU’s policy-driven, long-term lending institution since 1958
Our shareholders are the 28 EU Member States

Larger multilateral lender in the world

- Financing approx. 450 projects a year in over 160 countries
- Headquartered in Luxembourg with 33 local offices
- Close to 3000 staff (financial specialists, engineers, economists, social and environmental standards specialists)

Largest supranational borrower in the world

- Raised € 62.4 billion from capital markets in 2015
- AAA rating
- Subscribed capital of € 243 billion
Outside the EU the EIB works under various mandates

- External lending mandate: Latin America and Asia
- External lending mandate: Neighbourhood and Partnership countries
- External lending mandate: Pre-accession countries
- Cotonou mandate: Africa, Caribbean & Pacific
- External lending mandate: Latin America and Asia
EIB outside the EU

90% of the lending is carried out within the EU...

...but as much as EUR 8bn is lent outside the EU each year.
Areas of activity outside the European Union

- Private sector development (including SMEs)
- Upgrading of socio-economic infrastructure in sectors such as transports, energy, water, IT, health and education
- Environmental sustainability and addressing the effects of climate change (renewable energy, energy efficiency and climate mitigation and adaptation projects). EIB was the world’s largest provider of climate finance in 2015
EIB Activities

**LENDING**
- Loans
- Guarantees and risk sharing schemes
- Equity participations

**BLENDING**
- Leveraging EU and Member States budget resources by combining EIB loans and EU grants or EU Member States’ contributions

**ADVISING**
- Strong in-house expertise
- Technical and financial advice
- Project preparation and assistance for PPPs

Acting as a catalyst to mobilise funds for long term development
Supporting the entire spectrum of private sector actors

- **SMEs + microfinance**
  - Microfinance credit lines to local banks
  - SME and Mid-cap credit lines to local banks
  - Equity investments mostly through investment funds
  - Portfolio guarantees provided by the EIB to local banks

- **Mid-cap enterprises**

- **Large corporates**

- **Special Purpose Vehicles**
  - Direct or intermediated loans
  - Guaranties
Funding Options

1. Direct loan to promoter
   - The EIB finances the local promoter directly up to 50% of the project cost.
   - EIB ➔ (Commercial) Bank(s) ➔ Local promoter/borrower

2. Loan intermediated by a bank
   - The EIB lends to a bank, which on-lends the funds to the promoter, passing on some of the EIB’s funding advantage.
   - EIB ➔ Commercial Bank(s) ➔ Local promoter/borrower

3. Guaranteed loan
   - The EIB lends the funds directly to the promoter and also signs a first-demand guarantee with a commercial bank or with a promoter’s group company.
   - EIB ➔ Guarantee ➔ Export Credit Agencies/Commercial Bank(s)/Promoter’s Group ➔ Local promoter/borrower
EIB Eligibility criteria

Loan size
• **Up to 50% (75% for renewable energy) of project costs** (including tangible and intangible assets) with a minimum EIB loan size of about EUR 10M or equivalent

Bankable & sustainable projects
• financially viable, with acceptable economic return and appropriate credit risk
• technically sound, compliant with the principles and standards adopted by the EIB in the **social and environmental** fields, and the EIB **procurement guidelines** (available on the EIB website)
• EIB will perform its financial due diligence and technical appraisal as a commercial bank

Excluded sectors
• Most sectors are eligible in principle, except manufacturing and distribution of arms, munitions and military equipment, tobacco manufacturing and distribution, gambling, detention infrastructure as well as sectors that are ethically compromised and considered to present a significant reputational risk.
The advantages of EIB financing

- **Low financing cost** due to EIB’s AAA funding advantage and its not-for-profit nature
- **Long maturities**, in line with the economic life of the project
- Financing package complementing the offer of commercial banks, enabling the **diversification of funding sources**
- **Preferred Creditor Status** as a supra-national lending institution
- Possibility of **blending**: combination of EIB financing with EU grants and advisory programmes
- **EIB sector and product expertise** acquired over 50 years of activity in and outside of Europe
- **Signalling effect**: certification of a project's quality
- Acts as a **catalyst** in mobilising other financiers
Financing for water desalination

- **Hadera**
  EUR 145 million with a maturity of 23 years

- **Sorek**
  EUR 142 million with a maturity of 24 years

- **Mekorot Ashdod**
  EUR 120 million with a maturity of 25 years
Ashalim Solar Thermal Power Plant

- 121 MW thermosolar power plant in the Negev Desert
- Reduced greenhouse emissions in comparison with a conventional power plant
- First application in Israel of an innovative technology
- Long term loan – EUR 150 million with a maturity of 23 years
Objectives and Opportunities of the InnovFin Programme

Jean-David Malo
Head of Unit, DG Research & Innovation, European Commission

Nitan Pathak,
Business Development, European Investment Fund (EIF)

Marc D’hooge
InnovFin Programme Manager, EIB

Shiva Dustdar
Head of Innovation Finance Advisory Division, EIB
InnovFin: A Quantum Leap

InnovFin builds on the success of RSFF but will be much larger and broader.

EU and EIB Group Contributions

Loans, Guarantees and Equity
## InnovFin Product Overview

### SMEs
- **InnovFin SME Guarantee**
- **InnovFin SME Venture Capital**

SMEs and small Mid-Caps < 500 Employees

Intermediated SME/Mid-Cap Financing

### Midcaps
- **InnovFin MidCap Guarantee**
- **InnovFin MidCap Growth Finance**

Mid-Caps < 3,000 Employees

Intermediated and/or direct Corporate lending

### Large Caps
- **InnovFin Large Projects**
- **Direct Corporate Lending**

Large Caps Typically > 3,000 Employees

### Thematic Finance
- **InnovFin Energy Demo Projects**
- **InnovFin Infectious Diseases**

SPV, Mid-Caps and Large Caps

Project Finance and/or Direct Corporate Lending

### Advisory
- **InnovFin Advisory**

Public and Private Sector Promoters

Financial Advisory
InnovFin Product Overview

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InnovFin SME Guarantee

This guarantee instrument covers the risk related to losses of a portfolio.

- **50% guarantee rate**
- **Financial Intermediary**
- **Up to 50% loss coverage (Principal + Interest 90D)**
- **Full Delegation to Financial Intermediaries**
- **Automatic Coverage/Inclusion 2-3 yr period**
- **Innovative SMEs and Small Mid-Caps**
- **Attractive Guarantee Terms**
- **Favourable Capital Treatment**
- **Guarantee and Counter-Guarantee**

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InnovFin SME Guarantee (Innovative SMEs and Small Mid-Caps) is a financial instrument designed to cover losses related to portfolios of new loans and leases. It offers a 50% guarantee rate and includes coverage for up to 50% of the loss (principal + interest within 90 days). Full delegation is given to financial intermediaries, with automatic coverage and inclusion within a 2-3 year period. This instrument is specifically aimed at innovative SMEs and small mid-caps, providing attractive guarantee terms and favourable capital treatment.
Key Guarantee Terms

Direct Guarantees
- SMEs
- Small Mid-caps
- Innovative
- EU 28 & H2020 Associated Countries

Transactions (senior debt only)
- Loans, credit lines, bonds, leases
- Maturity: up to 10 years
- Amount: up to EUR 7.5m (EUR or LCY)

Counter - Guarantees
- Tangible & Intangible Assets
- Working Capital
- Business Transfers

Purpose

Final Beneficiaries

Innovative SMEs
EU 28 & H2020 Associated Countries
Guarantee Fee

- Financial Intermediaries are required to transfer the Financial Benefit to SMEs & Small Mid-caps

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<td>Small Mid-Cap 0.80% p.a.</td>
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50% Guarantee from EIF

Innovative SMEs / Small Mid-caps
Transfer of Benefit (indicative example)

Without InnovFin
Financing at 4%

Cost of Risk
Margin
Fixed Costs
Funding Costs

With InnovFin
Financing at 3.5%

Total = 4%

Cost of Risk with InnovFin
Reduction of Cost of Risk
0.5%

Total = 3%

Cost of the guarantee: 0.5% (or 0.8% for small midcap)

50% of financing
50% of financing
**InnovFin SME Venture Capital – key features**

- **TT, VC and BA Funds and co-investment Funds focusing on companies in Early Stage**
- **Focus on Horizon 2020 objectives (e.g. ICT, life sciences, clean energy, technology)**
- **Enterprises in pre-seed, seed, start up phases (seed & A rounds included)**
- **Pari-passu, at least 30%* investment from private investors**
- **Investment size up to EUR 30m up to 50%** of total commitments (CATALYTIC)
- **First 4 transactions signed as of February 2016. Open Call for Expression of Interest until 30/09/2020**

* 10% in the case of BA Co-investment Funds

** Up to 70% in the case of BA Co-investment Funds, subject to conditions.
InnovFin SME Venture Capital – EIF’s assessment

**Investment readiness**

- **Team and Track Record (WHO)**
  - Adequate skill-set
  - Track-record
  - Cohesion /stability/succession
  - Carry split
  - Team commitment
  - Governance structure: independence/ conflict of interests
  - Reputation (referencing)

- **Market Opportunity (WHY)**
  - Deal flow/pipeline
  - Competition

- **Investment Strategy (HOW)**
  - Focus, deal flow and pipeline
  - Value creation / Unique Selling Point
  - Coherence with the market opportunity, the team and the fund parameters

- **Fund Parameters (WHAT)**
  - Fund model: fund size / diversification / reserve policy / investment pace
  - Terms and Conditions
  - Management company budget
  - Legal structure / compliance

**Fit with the mandate**

- **Value creation**
  - for beneficiaries
- **Catalytic role**
  - no crowding out
- **Multi-country focus**
- **Internationalisation of final beneficiaries**

Eligibility
InnovFin Product Overview
How does the MidCap Guarantee work?

- 50% loss coverage for new mid-cap loans of up to EUR 50m not covered under InnovFin SME Guarantee
- Can be complemented with EIB funding (global loan)
- Pari-passu sharing of risk and pricing
- Full delegation to financial intermediaries
- Favourable capital treatment
How does MidCap Growth Finance work?

- Direct long term debt and mezzanine finance: EUR 7.5m – EUR 25m
- Loans can be structured as economic equity (silent participation)
- For innovative Mid-Caps and SMEs (eligible counterparty concept)
- EIB can finance up to 50% of all investments over 3 years
- Streamlined EIB approval process
MGF transactions signed to date

1. EVS (2013)
   EUR 12m
   Senior term loan

   EUR 25m
   Senior term loan

3. Rovio (2014)
   EUR 25m
   Senior term loan

   EUR 20m
   Mezzanine loan

5. Pharmathen (2014)
   EUR 25m
   Senior term loan

   EUR 25m
   Senior term loan

7. Pramac (2014)
   EUR 8m
   Senior term loan

8. Maier (2014)
   EUR 7.5m
   Senior term loan

   EUR 12m
   Subordinated loan

    EUR 14m
    Senior term loan

11. Marangoni (2014)
    EUR 10m
    Senior term loan

    EUR 25m
    Quasi-Equity

    EUR 10m
    Senior term loan

    EUR 12m
    Senior term loan

    EUR 15m
    Quasi-Equity

    EUR 10m
    Senior term loan

    EUR 12m
    Quasi-Equity

    EUR 10m
    Quasi-Equity

    EUR 25m
    Senior term loan

    EUR 25m
    Quasi-Equity

    EUR 25m
    Senior term loan

    EUR 25m
    Senior term loan

    EUR 25m
    Quasi-Equity

24. eVision (2016)
    EUR 13.5m
    Quasi-Equity

25. MAM (2016)
    EUR 25m
    Senior term loan

26. NEWICON (2016)
    EUR 8m
    Quasi-Equity

27. Archos (2016)
    EUR 12m
    Quasi-Equity

    EUR 15m
    Senior term loan

29. Creta Farms (2016)
    EUR 15m
    Quasi-Equity

Signature pipeline for Q1 2016: Creta Farms (2016)
EUR 15m
Quasi-Equity
Advantages

No crowding out. Complementary finance to house banks

EIB signaling effect to attract other banks & investors (quality stamp)

Long-term lending at attractive terms (no subsidised)

Growth finance without dilution of shareholders
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- InnovFin Infectious Diseases

Advisory
- InnovFin Advisory

Direct products
- Mid-Caps < 3,000 Employees
- Intermediated SME/Mid-Cap Financing

Indirect products
- Large Caps Typically > 3,000 Employees
- Direct Corporate Lending

Public and Private Sector Promoters
- Financial Advisory
How does InnovFin Large Projects work?

- Senior debt (pari-passu with other senior lenders)
- Eligible project required. EIB finances up to 50% of R&D and innovation investments
- Comprehensive due diligence including project due diligence (technical, financial, economic)
- EIB standard documentation
## Advantages

- **Long term loans at attractive terms (pari-passu)**
- **Signaling effect and quality stamp (technical expertise)**
- **Co-financing with house-banks preferred**
- **No cross selling & hold to maturity strategy**
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### Advisory
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  - Public and Private Sector Promoters
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### Direct Products
- SMEs
- Midcaps
- Large Caps
- Thematic Finance

### Indirect Products
- SME Guarantee
- Venture Capital
- MidCap Guarantee
- MidCap Growth Finance
- Large Projects
- Energy Demo Projects
- Infectious Diseases
- Advisory
Which projects can be supported?

- Pre-commercial stage; technology needs to be scalable

- Loan: EUR 7.5m – EUR 75m; EUR and local currency; maturity of max 15 years; EIB finances up to 50% of project costs.

- Comprehensive due diligence including project due diligence (technical, financial, economic)

- EIB standard documentation
# InnovFin Product Overview

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**direct products**  **indirect products**
Which projects can be supported?

- Projects which have passed pre-clinical stage and for which clinical validation is needed for further development

- Loan: EUR 7.5m – EUR 75m; EUR and local currency; Loan maturity of max 7 years; EIB finances up to 50% of project costs.

- Broad range of products - standard debt instruments (i.e. senior, subordinated, and mezzanine) to risk sharing instruments (RSL) with forgiveness options

- Comprehensive due diligence, including project due diligence (technical, financial, economic)

- EIB standard documentation
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- **Advisory**
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  - Financial Advisory

**Direct products**

**Indirect products**
Innovation Finance Advisory- What do we do?

Enable maximum access to finance for innovative projects

Projects Advisory
- Improve bankability/investment readiness
- Enable earlier/faster access to finance
- Light Project Advisory

Horizontal Activities
- Improve framework conditions for financing
- Develop “business case” for new financing mechanisms in RDI sectors
- Prepare studies on increasing effectiveness of financial instruments to address specific sector/RDI policy objectives

- Circular Economy (CE)
- Key Enabling Technologies (KETs)
- Infectious Diseases Financing Facility (IDFF)
- Bio-economy
- RTOs/EARTO

Synergies between Projects Advisory and Horizontal Activities

- Arctic Arc
- Fuel Cells and Hydrogen Joint Undertaking (H2M)
- Philips Health Continuum
Visit www.eib.org/innovfin
Objectives and Opportunities of the InnovFin Programme

Question & Answer session
Case Study

**Financing innovative SMEs in Israel**

Noga Shiloach,
VP, Products and Solutions, LeumiTech
Case Study

*Financing the needs of larger innovative industries*

Michael Hazzan,
Senior VP, Corporate Finance, ICL
Case Studies

Question & Answer session
Concluding remarks

Ze’ev Lavie,

Director, International Trade Relations Division,
Federation of Israeli Chambers of Commerce