Introduction to European Investment Fund
Supporting Technology driven SMEs through early-stage equity investment

Tbilisi, Georgia, September 2016
What is the EIF?

“\[\textbf{We provide risk financing to stimulate entrepreneurship and innovation in Europe}\]”

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

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

61.2%

FIs – 12.3%

26.5%
Small and Medium-sized Enterprises (SMEs) key facts

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

<table>
<thead>
<tr>
<th>99%</th>
<th>20 million</th>
<th>EUR 3.4 trl</th>
<th>1 in 3 SMEs</th>
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<td>of businesses in Europe are <strong>SMEs</strong></td>
<td>SMEs in Europe totalling <strong>86 million jobs</strong> which equal <strong>66.5%</strong> of all European jobs</td>
<td>of SME <strong>contribution</strong> to the GDP* of the EU-28</td>
<td><strong>failed to obtain</strong> the financing they needed in 2015. This is where EIF steps in.</td>
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EIF helping businesses at every stage of their development

SME Development Stages

PRE-SEED PHASE  SEED PHASE  START-UP PHASE  EMERGING GROWTH  DEVELOPMENT

HIGHER RISK  LOWER RISK

- Business Angels, Technology Transfer
- Microcredit
- VC Seed & Early Stage
- Social Impact Funds
- Formal VC Funds & Mezzanine Funds
- Portfolio Guarantees & Credit Enhancement
- Public Stock Markets

PRE-SEED PHASE
EIF Model

- 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
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
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
Over EUR 133.7 billion in capital exited in 2014 due to the stronger 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

**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

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

**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

Source: Holtzbrinck Ventures
Technology Talent

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.

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 and beanbags for the office.

Source: Real Deals
European Unicorns t-3

Companies surpassing USD 1BN in valuation in that year

Source: Holtzbrinck Ventures
European Unicorns

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!

Performance Index - Rebased to 100 on 31.12.10

LMM Funds
VC Funds
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%
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

Head of Equity Investments

Technology & Innovation
- Venture Capital & Impact Investing
- Business Angels & Tech Transfer

Lower Mid-Market
- LMM Western Europe
- LMM Northern, Eastern & Southern
- LMM Services Unit

Front Office Business Support

Mandate Mgt

GS&M

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

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

(tot al headcount ca. 400)

- Risk management
- Legal and compliance
- Fund administration
- Accounting, financing and reporting
Investment Process
EIF’s Investment Process

First Screening
- Understand concept
  Based on preliminary questionnaire / concept note

Second Screening
- Investment readiness
  Physical meeting (typically in Luxembourg), opportunity to articulate investment opportunity, understand EIF

Due Diligence
- Stress testing and verification
  EIF team conducts on site visits (min. 2 days). May, or may not lead to term sheet

Board Approval
- Legal documentation
  After EIF BoD approval, legal docs drafted on behalf of Manager. EIF review Importance of legal counsel
The Key Step: Due Diligence

- 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

- Team/Track-Record
- Market Opportunity
- Fund Parameters

Strategy
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

• **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