Supporting Innovation in Hungary

Budapest, 13th June 2016
Welcome addresses:

László Baranyay

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

Gábor Zupkó

Head of European Commission Representation in Hungary
Welcome addresses:

József Pálinkás

Dr. President,
National Research, Development and Innovation Office
Welcome addresses:

Mihály Patai

Dr. President,
Hungarian Banking Association
Overview of the EIB Group financing options

Flavia Palanza
Director,
Central and South Eastern Europe Department,
European Investment Bank (EIB)
Overview of the EIB Group financing options

*Flavia Palanza*

*Director,*

*Central and South Eastern Europe Department,*

*European Investment Bank (EIB)*
The EIB Group

Providing finance and expertise for sound and sustainable investment projects

EIB Group financing 2015

EIB in 2015: EUR 77.5bn

EIF in 2015: EUR 7bn

Record for the EIB Group: EUR 84.5bn

Leading developer of risk financing for innovative SMEs
# EIB at a Glance

## We are the world’s largest International Financial Institution

<table>
<thead>
<tr>
<th>1958</th>
<th>Shareholders</th>
<th>Source of funds</th>
<th>AAA-rated</th>
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<td>Established to support long-term investments primarily in the European Union. We have over 50 years’ experience in financing sustainable projects.</td>
<td>Owned by the 28 Member States of the European Union.</td>
<td>We raise long-term funds on the international capital markets and as a non-profit organisation we pass favourable borrowing conditions to our clients.</td>
<td>We’re triple-A rated by all major rating agencies and have a sizeable callable capital of €221bn.</td>
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Source: European Investment Bank
Locations

Our Luxembourg Headquarters are home to some 2,900 staff

Specialists
Among our staff we have bankers, engineers, sector economists, socio-environmental experts and lawyers.

Local offices
We have over 30 representative offices worldwide.
**EIB’s Activities**

We support some **450 projects** each year in over **160 countries**

<table>
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<th>Blending</th>
<th>Advising</th>
<th>Counter-cyclical role</th>
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<td>Vast majority of our financing is done through <strong>loans</strong> but we also offer guarantees, quasi-equity type instruments, etc.</td>
<td><strong>We blend EU with EIB funds to enhance our risk-taking capacity.</strong></td>
<td>Lack of finance is only one barrier to access to finance. We can advise on <strong>administrative and project management matters</strong> to help <strong>catalyse</strong> investments.</td>
<td>Addressing market needs by acting as a <strong>countercyclical</strong> investor in challenging economic times.</td>
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EIB lending breakdown in 2015

We focus on our key priorities:

- **ENVIRONMENT**
  - EUR 19.6bn

- **INFRASTRUCTURE**
  - EUR 18.9bn

- **INNOVATION**
  - EUR 18.7bn

- **SME**
  - EUR 29.2bn
EIB lending breakdown in 2015

We deliver impact where it’s needed:

**JOBS**
4.1m jobs in small businesses

**HEALTH**
9.8m people with access to improved health services

**EDUCATION**
1.5m students benefitting from EIB projects

**WATER**
21m people benefitting from safe drinking water

**TRANSPORT**
380m additional passengers

**ENERGY**
2.3m households powered by EIB projects

**URBAN**
3.2m people benefitting from urban upgrades

**DIGITAL**
15.3m people with new or upgraded connections
Types of EIB financing

- Direct Loans
  - (PPP) Project finance with direct project risk

- Intermediated Loans
  - Other financial instruments (in partnership with EC)

- Equity through Funds

- Borrower

- Banks
What is the EIF?

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

OBJECTIVE?
To support smart, sustainable and inclusive growth for the benefit of European SMEs.

HOW?
By offering a wide range of targeted products to support SMEs and midcaps, ranging from venture capital to guarantees and microfinance.

WHERE?
Working with financial intermediaries across the EU-28 and EFTA countries, candidate and potential candidate countries.
We are a value-driven institution with over 360 staff, committed to EU policy objectives and financial sustainability.
We work with a wide range of counterparts to support SMEs.
Investment Plan for Europe: context

The Investment Plan for Europe consists of three strands:

1. **Improved investment environment**: regulatory and structural reforms at EU and national levels for predictability, removing obstacles, aiming at a friendlier investment environment

2. **Making finance reach the real economy**: stepped-up technical assistance / advisory by establishing European Investment Advisory Hub (EIAH) in EIB and by EC facilitating a project directory

3. **Mobilising finance for investment**: The EFSI, via EIB, to better address the current shortage of (higher) risk-financing in EU

Aim: to mobilise at least €315 billion in investment across the EU
What is the European Fund for Strategic Investment (EFSI)

• Not a new legal entity, but a contractual arrangement between EC & EIB Group

• A EUR 21 billion guarantee instrument to the EIB group to leverage EUR 315 billion additional investment

• Essentially in support to riskier investment
EFSI-supported investment comes in addition to the EIB’s existing line of business.

- Without EFSI: "normal" activity
- With EFSI: "higher risk" activity
EIB EFSI ‘Products’

**SOURCES OF FUNDING**

- European Fund for Strategic Investments

**TYPICAL PRODUCTS OFFERED**

- Long-term senior debt for higher risk projects
- Subordinated loans
- Equity and quasi-equity

**FINAL RECIPIENTS AND TYPICAL PROJECTS**

- Transport infra
- Broadband infra
- Innovation
- Research
- SMEs
- Education
- Long-term investment funds
- Energy infra
- Energy Resource efficiency
- Renewable energy

The Fund serves as credit protection for new EIB activities.

Other investors join in on a project basis.

Continuously under development and adopted to market needs. Also, increased capacity through EIF.
EFSI eligible counterparts

- Corporates of all sizes
- Utilities
- Public sector entities
- SMEs (<250 employees) or MidCaps (<3,000 employees)
- National Promotional Banks (NPBs) or commercial banks for intermediation
- Dedicated investment platforms possible
European Fund for Strategic Investment in 2015

Approved and/or signed projects

- 42 Projects

Total financing under EFSI

- EUR 5.7bn

Mobilising total investment of

- EUR 1.8bn
- EUR 25bn

EIB

84 Operations

- EUR 1.8bn
- EUR 25bn

EIF
EIB lending in Hungary

Outstanding exposure: ca. EUR 11 billion or 10% of GDP
Some flagship projects in Hungary

- R&D of the Hungarian Academy of Sciences (two loans) EUR 280m
- Debrecen Pharma R&D EUR 100m
- Knorr-Bremse R&D EUR 56.4m
- Dunaujvaros Paper Recycling EUR 78.3m
- Daimler greenfield automotive plant EUR 400m

- Financing of fundamental research
- R&D for new active pharmaceutical Ingredients, innovative drug compounds and new generic drugs
- R&D on brake systems for rail and commercial vehicles and construction of a technical centre
- Construction and operation of a new 350 kt p.a. production line for containerboard
- Capital expenditures related to the construction of a car manufacturing plant in Hungary (Kecskemét) for the production of MercedesType A- and B-Class Family
EIF’s Exposure in Hungary

“Notable success stories exist both in Guarantees, Equity and Microfinance and we are open and ready for more to come…”

- First EIF operation in Hungary: 2006
- 7 financial partners and guarantee providers
- 2 supported Private Equity funds investing in Hungarian SMEs

Guarantees, Equity & Microfinance transactions in Hungary
Objectives and Opportunities of the InnovFin Programme

Julia Taddei
Seconded National Expert, DG Research & Innovation, European Commission

Nitan Pathak
Business Development, European Investment Fund (EIF)

Marc D’hooge
InnovFin Programme Manager, EIB

Laura Busato
Advisor, Innovation Finance Advisory, EIB
InnovFin: A Quantum Leap

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

EU and EIB Group Contributions

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<th>Innovfin</th>
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<tr>
<td>Loans</td>
<td>1.20</td>
<td>3.00</td>
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Loans, Guarantees and Equity

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<tr>
<td>Loans</td>
<td>1.4</td>
<td>18.5</td>
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<tr>
<td>Guarantees</td>
<td>11.3</td>
<td></td>
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<tr>
<td>Equity</td>
<td>0.5</td>
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# InnovFin Product Overview

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InnovFin SME Guarantee

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

- Up to 50% loss coverage (Principal + Interest 90D)
- Full Delegation to Financial Intermediaries
- Automatic Coverage/Inclusion 2-3 yr period

- Attractive Guarantee Terms
- Favourable Capital Treatment
- Guarantee and Counter-Guarantee

Innovative SMEs and Small Mid-Caps

50% guarantee rate
Key Guarantee Terms

Direct Guarantees

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

Counter - Guarantees

- Amount: up to EUR 7.5m (EUR or LCY)
- Maturity: up to 10 years
- Loans, credit lines, bonds, leases
- Tangible & Intangible Assets
- Working Capital
- Business Transfers
- Purpose

Final Beneficiaries

Transactions
(senior debt only)
Guarantee Fee

Financial Intermediaries are required to transfer the Financial Benefit to SMEs & Small Mid-caps
Transfer of Benefit (indicative example)

Without InnovFin
Financing at 4%

- Cost of Risk: 1.5%
- Margin: 1.5%
- Fixed Costs: 0.5%
- Funding Costs: 0.5%

Total = 4%

With InnovFin
Financing at 3.5%

- Cost of Risk: 1.5%
- Margin: 1.5%
- Fixed Costs: 0.5%
- Funding Costs: 0.5%

Total = 3%

Reduction of Cost of Risk with InnovFin

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

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Eligibility
InnovFin Product Overview

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

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

Large Caps
- **InnovFin** Large Projects

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

Advisory
- **InnovFin** Advisory

- SMEs and small Mid-Caps < 500 Employees
- Intermediated SME/Mid-Cap Financing

- Mid-Caps < 3,000 Employees
- Intermediated and/or direct Corporate lending

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

- SPV, Mid-Caps and Large Caps
- Project Finance and/or Direct Corporate Lending

- Public and Private Sector Promoters
- Financial Advisory
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

    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

30. Planon (2016)
    EUR 20m Mezzanine loan
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
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**

- **Large Caps**
  - **InnovFin Large Projects**

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

- **Advisory**
  - **InnovFin Advisory**
  - Public and Private Sector Promoters
  - Financial Advisory

- **direct products**
- **indirect products**
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
InnovFin Product Overview

- **SMEs**
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- **direct products**
- **indirect products**
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
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- **SMEs and small Mid-Caps** < 500 Employees
- **Intermediated SME/Mid-Cap Financing**

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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
# 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
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

Matching the needs of growth companies

Klaus Röhrig
Owner, MAM Group

Csaba Novák
CFO, MAM-Hungária
Case Study

Financing cutting-edge life sciences industries

Gábor Gulácsi
CFO, Gedeon Richter
Case Studies

Question & Answer session
Concluding remarks

Alain Nadeau
Head of the EIB Budapest office