

EIB financing for Research, Development and Innovation

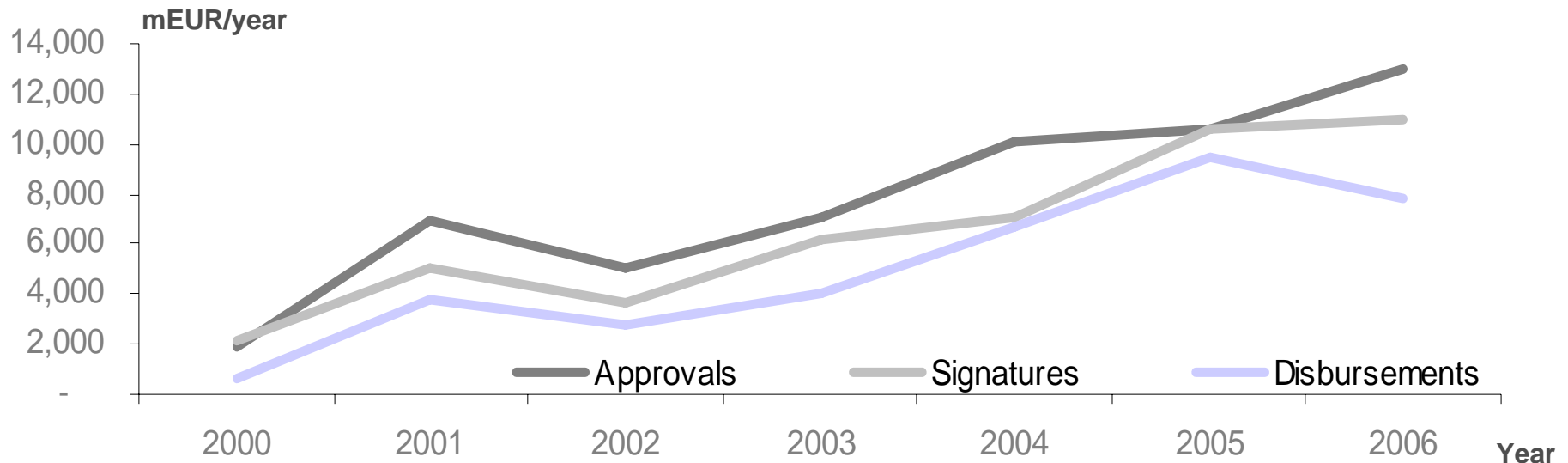
Spelplan Europa Stockholm

EIB Financing for RDI

1. RDI financing activity
2. The Risk Sharing Finance Facility (RSFF)
3. EIB Financing solutions under RSFF

RDI financing activity

Innovation 2010 Initiative – Track Record



- The EIB financing of i2i investment reached EUR 52bn since 2000, half of which in RDI.
- Financing of RDI (public and private sector combined) is the largest component, with 61% of signatures in 2006.
- EIB has developed a strong base in RDI since 2000 upon which to now develop more Value Added Products.
- EIB's i2i objective: finance up to EUR 50bn by 2010.

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The Risk Sharing Finance Facility (RSFF)

EU Support



European Council of December 2005

“The European Council invites the Commission in cooperation with the European Investment Bank to examine the possibility of strengthening their support for Research and Development by up to a maximum of €10 billion through a financing facility with risk-sharing components to foster additional investment in European research and development ..”

European Council of March 2006

“The European Council calls on the EIB to support innovation and to reinforce its action in R&D, through a risk sharing finance facility to be finalized as soon as possible”

The Risk Sharing Finance Facility

Principles and Rationale



Eligibility

- Commission: R&D
- EIB: R&D + I

Beneficiaries

- Large Corporates, Mid-caps, SMEs, turnaround situations, infrastructure SPVs, Universities and PPPs

EIB Products

- Corporate loans, project finance
- Risk sharing bank facilities, funds that meet the RSFF credit profile

Size of Loans

- Reduced to min. EUR 7.5m for direct loans/guarantees

EUR 10bn in Financing Capacity

The Risk Sharing Finance Facility

Eligibility categories



Fundamental research

Definition stage / feasibility studies

Industrial research

Pre-competitive development activity

Pilot and demonstration projects

Innovation

- Geographic Scope: EU 27 and Associated countries (Iceland, Liechtenstein, Norway, Switzerland, Israel, Turkey and Croatia)

The 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.
- An external rating is not required.

The Risk Sharing Finance Facility

Key Sectors

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

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EIB financing solutions under RSFF

Key counterpart groups



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 Banks

- **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.

NEW PRODUCT DEVELOPMENTS

- **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).

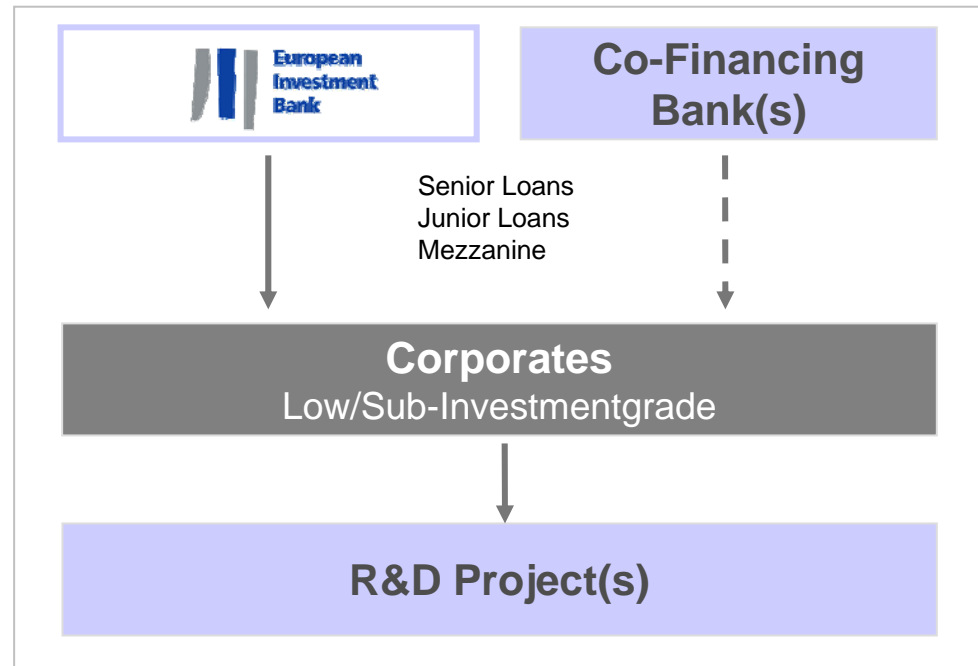
III. Risk Sharing with Universities

- **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.

IV. R&D and Infrastructure Consortia

EIB financing solutions under RSFF

Corporate Finance (contd.)



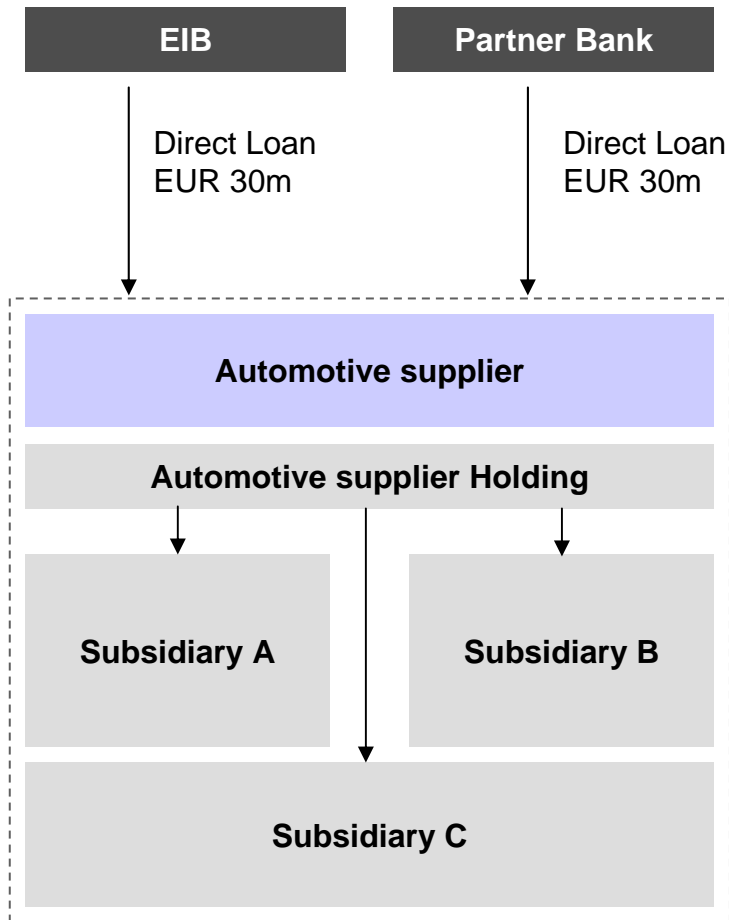
- EIB co-financing with commercial banks in individual corporate/project finance transactions is possible for low/sub-investment grade corporates and SPVs (project finance).
- In general, the role of the EIB can range from a senior loan provider to a mezzanine investor (see next slide).
- The maximum loan from EIB depends on the definition of eligible costs (max. 50% can be financed) and the due diligence results.

EIB Financing solutions under RSFF

Corporate Finance example



Term loan to a family owned automotive supplier company to support its turnaround and innovation strategy with some 5000 staff:



- **Total Lending Volume: EUR 60m**
Direct SFF: EUR 30m
Intermediated Tranche via house bank: EUR 30m
- **Credit Rating: Ba1**
- **Key Features of the SFF Tranche:**
 1. Senior Unsecured Loan: 7y
 2. Backended Repayment Profile
 3. Pari Passu, Negative Pledge, X-Default, MAC, Financial Covenants
 4. Restriction on Distributions, Limitation on Disposals, Limitation on loan/guarantees
- **4.5 Months from Appraisal Mission to Disbursement**

EIB financing solutions under RSFF

Risk Sharing with Banks



Support for Small and Medium sized Enterprises: A strategic objective of the EIB

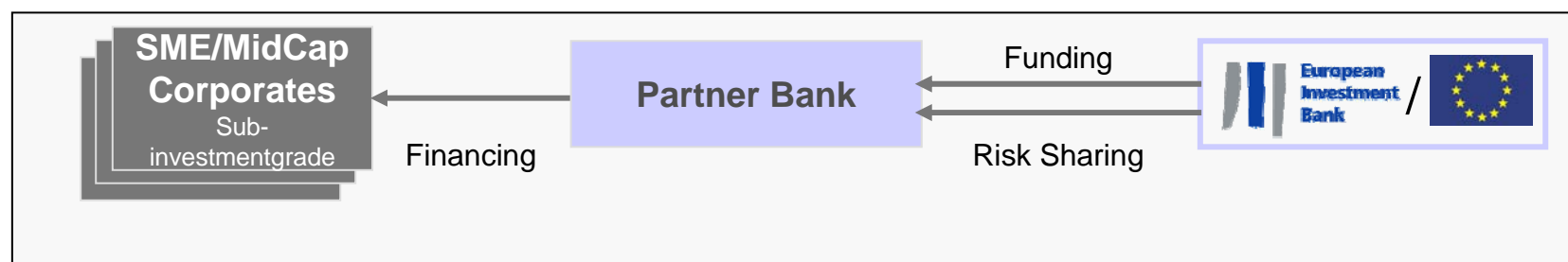
A network of more than 150 bank partners across EU and Associated Countries

Expertise in key RDI sectors and activities

Close to EUR 6bn of finance to more than 30.000 SMEs in 2006

EIB financing solutions under RSFF

Risk Sharing with Banks – The Risk Sharing Credit Facility

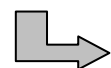


Managed delegation



Selection of partners performing project evaluation, transaction implementation;
EIB focus on quality of partners' credit process and eligibility verification

Profile



Sub-projects : small/medium sized RDI investments;
Promoters : SMEs (< 250 staff), Mid Caps (< 3.000 staff);
Individual allocations : EUR 20.000 – 12.5M (25M)

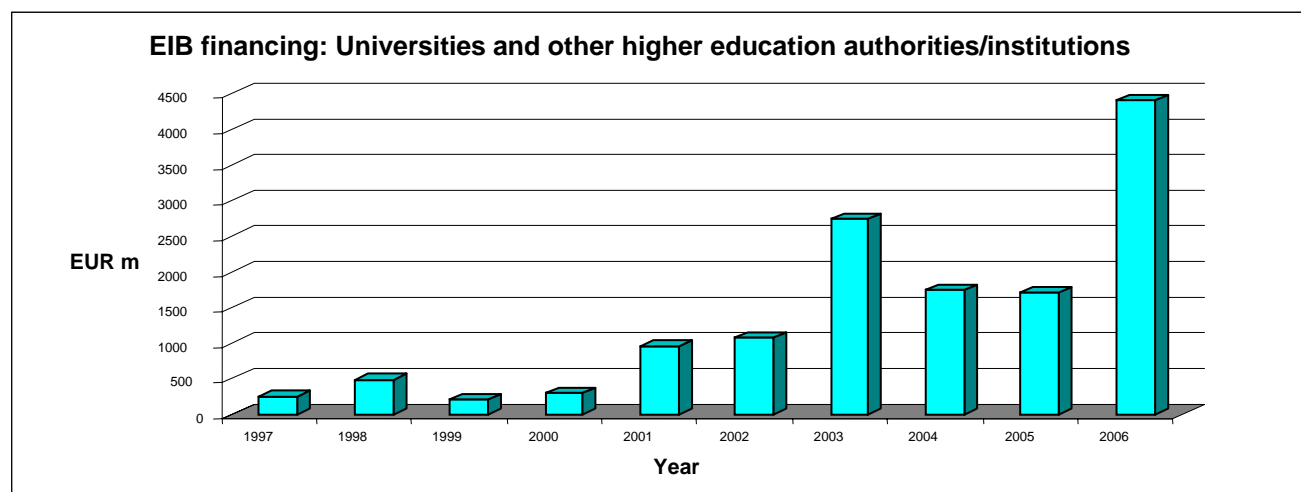
RSFF Contribution



EIB Risk Sharing typically on the basis of a guarantee, can involve refinancing
of an intermediary or of co-financing with the intermediary

EIB financing solutions under RSFF

Risk Sharing with Universities



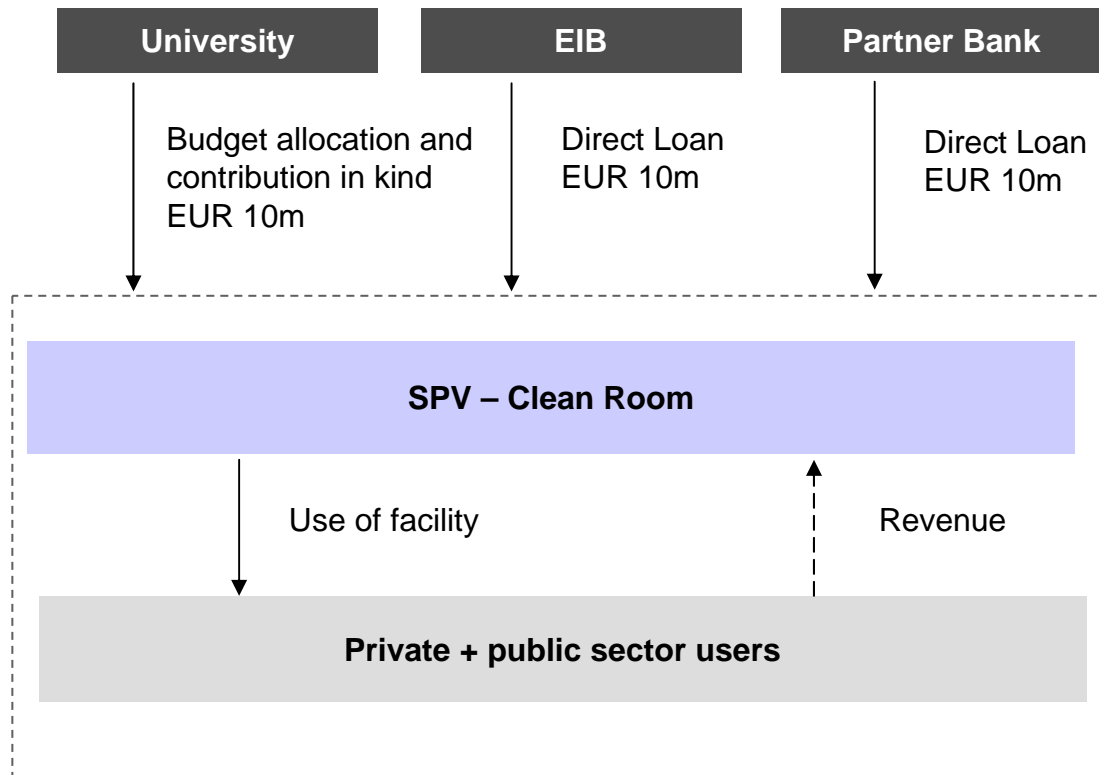
- Direct and indirect lending to universities (Charitable Foundations and other public sector entities; banks),
- PPPs and SPVs in which universities are partners in collaboration.

EIB Financing solutions under RSFF

University Finance Example – Project Financing



University investing EUR 30m in clean room technology and seeking partial debt financing to leverage budget allocation :



- **Total Debt Financing: EUR 20m**
- **Credit Rating of SPV: Ba3**
- **Senior secured loan: 10 years**
- **Structured Finance with cash flow finance underpinned by minimum level of utilisation contract**
- **Limited recourse to University**

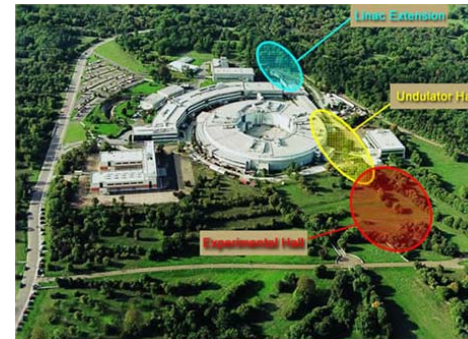
EIB financing solutions under RSFF

R&D and Research Infrastructure Consortia

**Large Hadron Collider
CERN, Geneva**



**Free Electron Laser
Trieste**



**Nano-technology R&D centre of IMEC
Leuven**



**Laboratory infrastructure of EMBL
Heidelberg**



EIB financing solutions under RSFF

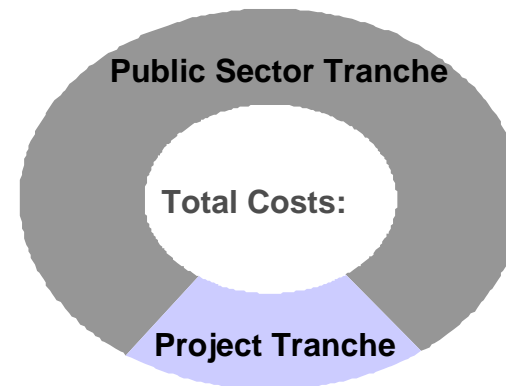
R&D and Research Infrastructure Consortia (contd.)

Public Sector Tranche:
Facility to finance peak & bridge
financing requirements
faced by committed partner
countries

- The repayment of the public sector tranche is made through budgetary commitments of partner countries over the long term (5-30 yrs)
- **Key Advantages:**
 1. Meet peak & bridge financing requirements;
 2. Provide contingency cover for cost overruns;
 3. Can finance eligible operating costs & associated infrastructure

ERCF... The ESFRI RSFF Capital Facility

Project Specific Tranche:
Finance individual projects
including associated facilities
With limited recourse to
committed partner countries



EIB Financing of Science Parks

Science park operations so far approved by the EIB since 2000

- Eight projects : 1.7 bn EUR investments, close to 800 M EUR loans
- Individual loan size : mostly 30-100 M EUR
- Loan Term : mostly 12-20 years
- Loan structure : bank intermediated or guaranteed
- Operation scope :
 - Modernisation and extension of existing science parks: Helsinki Science Park (Finland, 2003), Finnish Science Parks (2003), San Raffaele (Italy, 2005), Goteborg (2005), Technopoles Tunisie (Tunisia, 2005)
 - Construction : Heidelberg Bioscience Infrastructure (Germany, 2001), Turku Biotechnology (Finland, 2002), Phoenix West Dortmund (2004);



EIB Financing of European Research Infrastructures



Added value of EIB involvement

- Financing flexibility: provide debt financing adapted to project implementation and the borrower's repayment capacity
- Improved financing conditions; advantage of EIB's AAA based funding is passed on to the borrower in order to reduce overall project cost
- Increased access to financing: additional supply of loans/guarantees from EIB; joint financial products with Commission (RSFF, leveraging FP7 funds) and through co-financing with financial markets
- Risk sharing: share financial risks with promoters and consequently reduce their risk adjusted cost of capital
- Signalling Effects: Due to the Bank's reputation for its prudent lending policy and its strong market/technology know-how, the EIB provides learning/signalling effects for other Banks

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