

- ERDF
- EUR 22 million
- Equity
- SME
- Languedoc-Roussillon, France

... investing in young innovative companies with high-growth potential ...

SAS JEREMIE

Languedoc-Roussillon

Case Study



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The authors of this study are a consortium of three companies: t33 (lead), University of Strathclyde – EPRC and Spatial Foresight.

Abbreviations

EIF	European Investment Fund
ERDF	European Regional Development Fund
FIs	Financial Instruments
HF	Holding Fund
IPO	Initial Public Offering
JEREMIE	Joint European Resources for Micro to Medium Enterprises
MA	Managing Authority
OP	Operational Programme
SMEs	Small Medium Enterprises
VC	Venture Capital



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1 Summary

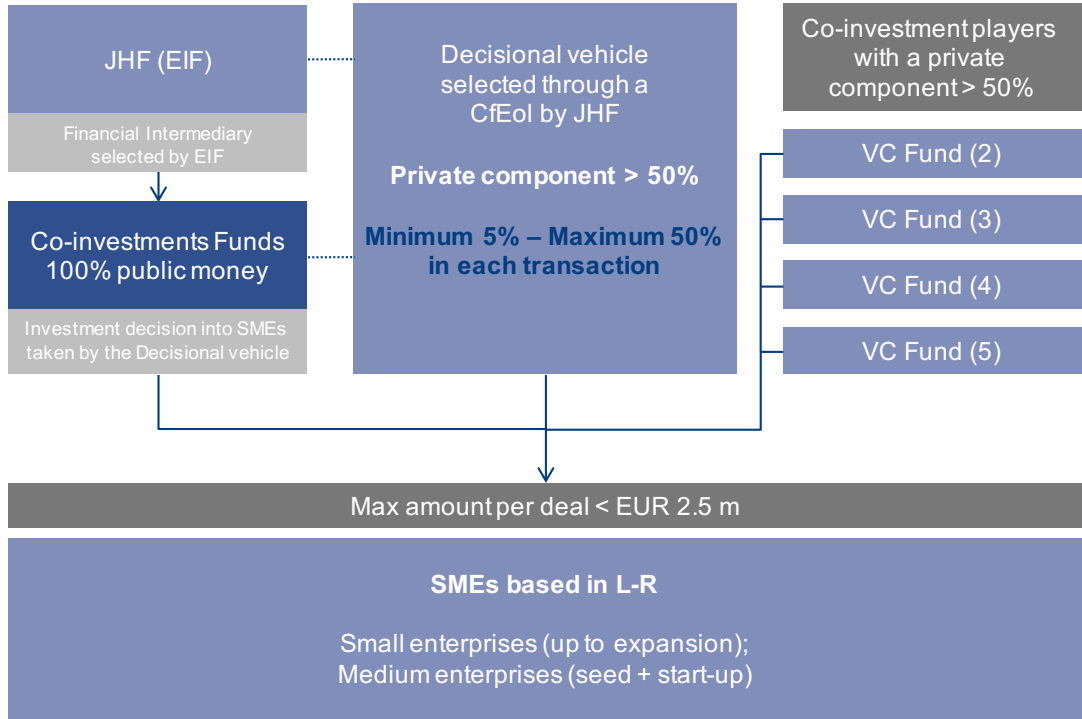
Managed by SORIDEC, SAS JEREMIE Languedoc-Roussillon is a co-investment venture capital vehicle which takes equity in technology-based SMEs active in different sectors inter alia, health, information technology, robotics and services for the environmental and manufacturing sectors.

The co-investment scheme ensured the involvement of a financial intermediary well-grounded in the region and with a long track-record in technology investing. The selection process of the financial intermediary was a milestone of the implementation process, since several candidatures also from outside the region, had been received from specialised financial intermediaries to manage the fund. Governance mechanisms and clear investment strategy ensured alignment of interests between the public and private investors while keeping focus on the most promising business initiatives. In addition, the establishment of broad eligibility criteria for target SMEs allowed sufficient diversification at the level of the portfolio.

The implementation of the FI was particularly difficult in the set-up phase, given its innovative nature at regional/national level: with a view to find the right balance between market practice and EU regulations the drafting of the legal documentation and of the operating rules of the co-financing model took more time than expected.

At the end of June 2015, approximately EUR 10.5 million of Operational Programme (OP) contributions have been invested into 29 SMEs. In addition to this money channelled to SMEs by the selected financial intermediary, many private co-investors provided additional resources for an amount of more than EUR 31 million. Overall more private resources have been attracted than initially expected, thanks to the substantial involvement of business angels and venture capital (VC) firms from outside the region.

Enterprises in the portfolio, which are primarily young businesses, were systematically supported by the FI with advice and coaching, especially on management.





Name

SAS JEREMIE LR (Languedoc-Roussillon - France)

Funding source

ERDF

Type of FI

Equity

Financial size

At least¹ EUR 22 million (EUR 5.5 million ERDF + EUR 5.5 million Languedoc-Roussillon Region + at least EUR 11 million from the financial intermediary SORIDEC as well as from several private co-investors)

Absorption rate²

95% (as at end of June 2015)

EU leverage³

Expected leverage effect of ERDF funds: at least 4.

Leverage effect of ERDF funds, as at 30.06.2015: 7.9

Leverage of public resources

Expected leverage effect of ERDF funds and other public funds: at least 2

Leverage effect of ERDF funds and other public funds, as at 30.06.2015: 4

Re-investment rate

Too early

Thematic focus

Innovation, RTD, SME support

Type of final recipient

SMEs

Partners involved

EIF, French State, Languedoc-Roussillon Region, SORIDEC, private co-investors

Timing

2010 – 2015

Main results as at 30.06.15

29 investments in SMEs with a high development potential;
two investments exited via Initial Public Offerings (IPOs)

¹ In this co-financing model, there is a minimum commitment from the financial intermediary to provide funds which can be increased on a case-by-case basis. The total investment of as at June 2015 was EUR 41.5 million on the basis of EUR 5.25 million ERDF.

² This refers to the absorption rate of all OP allocations for this financial instrument. It corresponds to the volume of funds disbursed to final recipients divided by the total funds allocated to the instrument through the OP.

2 Objectives

Over the last twenty-five years, France's southern-most region underwent a remarkable transformation from a strongly rural economy to a service-based economy. The regional unemployment rate in 2006 was of the order of 13%, one of the highest in France.

SMEs and micro-enterprises play a crucial role in the regional economy. In 2007, 65% of 142,935 registered businesses had no paid employees and only 5% had more than ten. Only 0.1% (or 144 enterprises) had more than 200 employees, and only 0.02% (or 30 enterprises) had more than 500.

Given the importance of SMEs for the regional economy and their potential for growth, the OP Languedoc-Roussillon ERDF 2007-2013 set several strategic priorities to enhance innovation, growth and competitiveness in the regional economy. At a more operating level, the OP was set to improve access to finance for SMEs, in particular by making financial products available at different stages of business development. The OP also supported business start-ups, the implementation of innovation processes and, more generally, the growth and sustainability of regional businesses.

To partially address the difficulties regional SMEs had in accessing finance, the regional government decided to set up a EUR 30 million JEREMIE Holding Fund (HF), half of which financed with an ERDF contribution and the other half with Languedoc-Roussillon region's own resources.

In the view of the regional authorities, the shift towards FIs was aimed at attracting private investments and at maximising the impact of the public resources available. Moreover, in deciding to adopt FIs, regional authorities took into consideration also the potential advantage that repaid funds could be re-used in support of the regional economy beyond 2015.

³ This refers to the leverage of EU funds, in this case of ERDF. It is calculated as total funds available to final recipients divided by the amount of ERDF financing. In this co-financing model, there is a minimum commitment from the financial intermediary to provide funds which can be increased on a case-by-case basis. Taking into account the total investment of EUR 41.5 million on the basis of EUR 5.25 million ERDF Funds as at June 2015, the current EU leverage is 7.9.



The key objectives of the HF in Languedoc-Roussillon were:

- Financing innovation (start-ups)
- Financing SMEs with a high potential of development
- Facilitate a wide range of SMEs to access to finance
- Generate leverage
- Encourage move away from grant dependency

SAS JEREMIE LR was set up to support businesses with high-growth potential and is the subject of this case study.

3 Set up of the financial instrument

This section charts the journey of the FI from early concept, through setting up and implementation.

3.1 Preceding events

Languedoc-Roussillon started to develop a policy for FIs – as an alternative to grants - in 2004, with a focus on equity investments. In 2006, the key elements of JEREMIE were presented to the regional authorities in Montpellier, the capital city of the region.

Although not compulsory at that time, Languedoc–Roussillon conducted an assessment to identify market gaps to be potentially addressed by a number of FIs. Co-financed by DG REGIO, the study analysed the economic and policy context, as well as the supply and demand of finance for regional SMEs. Dated 2007, the final version of the report identified a series of market gaps in terms of funds for microenterprises and, more generally, SMEs in the region. Market failures included, inter alia, the lack of equity funding for enterprise creation (private equity investments were mainly focussing on investment for enterprise growth and development) as well as a lack of equity funding to support the creation of SMEs with strong growth potential. The study evidenced also the lack of access to credit in the set-up phase for both high-risk innovative SMEs as well as for generalist enterprises.

To partially address these market failures, the assessment recommended, inter alia, the creation of an equity FI to support financing of high-growth potential SMEs.

In 2008, Languedoc–Roussillon became the first European region to sign a funding agreement with the European Investment Fund (EIF) and the French State - acting as managing authority (MA) - to implement a JEREMIE HF.



By mid-2009, EIF set-up a local antenna in Montpellier, organising several meetings with potential financial intermediaries in the region with the objective to assess their potential appetite vis-à-vis the envisaged instruments. In parallel, in July 2009, a specific risk capital state aid regime, notified by the French Authorities, was approved by the European Commission. On the basis of this notification, EIF launched a call for expression of interest with the objective to selecting suitable managers able to implement a co-investment venture capital scheme at regional level. As an outcome of the proposals received, EIF carried out several due diligences (DDs) on the candidates. The results of the DDs, including a recommendation to enter into negotiations with one candidate, were discussed at the level of JEREMIE HF steering committee, composed by the representatives of the Region as well as of the French State.

In November 2010, upon signature of the agreements between the EIF and SORIDEC, the process of disbursement of funds to SMEs in Languedoc-Roussillon started.

3.2 Funding and partners

The main funding and partners are shown in the table below.

Role	Institution/entity
Managing Authority	Préfecture de la région Languedoc-Roussillon, Secrétariat général pour les affaires régionales (French State)
Funding Partners (public)	Languedoc-Roussillon region
Main private co-investors	SORIDEC, Melies, Sud Angels, other private co-investors such as banks or insurance companies
Holding Fund Manager	EIF
Manager	SORIDEC

SAS JEREMIE LR involves substantial participation from private co-investors. In particular, while the HF provides EUR 11 million, the manager of the co-investment vehicle committed to mobilise at least another EUR 11 million of private funds. This doubled the capacity of the instrument to EUR 22 million. In addition to SAS JEREMIE LR, other privately held co-investment operators provided additional resources for individual investments in the regional SMEs.



SORIDEC was selected by the HF to invest equity in Languedoc-Roussillon SMEs. SORIDEC is a regional management company that has been active in private equity for more than 20 years, facilitating SME access to equity financing and increasing investment in the region. It provides finance and support to founders of enterprises and entrepreneurs. Through its equity investments, SORIDEC generally takes minority shareholder in enterprises, which enables it to play an effective role as a partner over the investment period, generally from 4 to 7 years. SORIDEC provides SMEs with a stable shareholding structure as well as finance.

The team is multidisciplinary and experienced, enabling SORIDEC to intervene in numerous regional business sectors with particular emphasis on the quality of the management team and sectors with significant development potential. The team manages a number of VC vehicles, with about EUR 60 million under management and an active portfolio of more than 30 regional enterprises.

The team carefully manages each element of the investment process including origination, deal flow management, due diligence analysis, transaction execution, value creation and exit strategy implementation. This process requires a management team with complementary skills and relevant expertise, ranging from networking skills to in-to-depth knowledge of the industry, from scientific expertise to operational experience, from technical know-how to strategy setting skills, including negotiating skills.

The table below provides an overview of ERDF and regional resources allocated to SAS JEREMIE LR. As at June 2015, EUR 10.5 million of OP contributions had been invested in SMEs and another EUR 31.0 million by the private co-investors, for a total of approximately EUR 41.5 million.

Funding sources Situation as at 30.06.2015	EUR
ERDF	5.25 million
Public	
- national	
- regional	5.25 million
- local	
Private	31.0 million



3.3 Implementation

The table below provides the time line of the major implementation steps of the FI in Languedoc-Roussillon.

Year / date	Action taken
2006	Introduction of JEREMIE initiative in Languedoc-Roussillon (Montpellier)
2007	Completion of the gap analysis for Languedoc-Roussillon
2008	Funding Agreement negotiations
October 2008	Official signing of the funding agreement between the State, the region and EIF
2009	Launch of the call for expression of interest for the first instrument under JEREMIE in Languedoc-Roussillon (seed) loans instrument
2009	Launch of the call for expression of interest for the co-investment instrument (second instrument under JEREMIE in Languedoc-Roussillon)
2010	Launch of the call for expression of interest for the guarantee-investment instrument (third instrument under JEREMIE in Languedoc-Roussillon)
2010	Signature of the operational agreement between EIF and SORIDEC (equity co-investment manager)
2010	First investment into an SME of LR under the financial instrument
End 2015 (expected to be active beyond 2015)	End of Investment period of SAS JEREMIE LR

In the case of JEREMIE Languedoc-Roussillon the implementation structure includes an HF that does not invest directly in the individual entrepreneurial projects, but allocates resources to three instruments, among which to SAS JEREMIE LR. The selected fund manager, SORIDEC, carries out equity investments into regional SMEs using the resource allocated to SAS JEREMIE LR systematically co-investing, on a deal-by-deal basis, with other funds of private origin.

3.4 Governance

For JEREMIE in Languedoc-Roussillon, EIF acts as the manager of the HF. EIF's activities connected to the implementation of the investment strategy of the HF are supervised by a Steering Committee, composed of one representative of the French State and one of the Languedoc-Roussillon Region. EIF plays a proposing role at the Steering Committee, while the French State and the LR region jointly take responsibility for the decisions.

The table below shows an indicative distribution of the key tasks as well as the governance structure of the HF.

Role	Key tasks
Managing Authority	<ul style="list-style-type: none">• Provides strategic input on the investment strategy of the HF and the action plan to support SMEs• Creates the JEREMIE Steering Committee and appoints its members• Provides regular reporting to EC on JEREMIE activities
Steering Committee of the HF	<ul style="list-style-type: none">• Verifies and follows-up the investment policy carried out by the HF• Monitors HF performance
Holding Fund Manager (EIF)	<ul style="list-style-type: none">• Contributes to the investment policy of the HF in strong co-operation with MA• Identifies and proposes the selected financial intermediaries to implement the financial instruments• Structures, launches and administers financial products• Follow-up, control and reporting

The steering committee is also responsible for checking on the progress of investment strategy of the HF agreed in the funding agreement.



To avoid conflict of interests, the HF manager cannot be responsible for the direct implementation of any specific instrument under the HF, which in turn is carried out by the selected financial intermediary. When selecting financial intermediaries, the HF is committed to respect fundamental principles, such as equal treatment, non-discrimination, confidentiality and transparency. To ensure the respect of these principles, the HF manager launches calls for expression of interest, carries out due diligence on the proposals received, structures, negotiates and monitors the operations with the selected financial intermediaries.

Following the launch of the call for expression of interest, the HF received several candidatures also from venture capital operators outside the region, demonstrating that the call was well designed and potentially attractive for specialised market players. As a result of the selection process, SORIDEC was retained as the fund manager of the co-investment vehicle SAS JEREMIE LR.

The fund manager is fully responsible for the investment decisions into SMEs, must prevent any conflict of interest and has to ensure that investments are made on a profit-driven commercial basis. The agreement imposes that the fund manager has to systematically co-invest its own resources into each investment, to avoid any possibility of 'cherry picking'.

At the level of the fund manager, an investment committee is responsible for taking the investment/divestment decisions. The investment committee is supported by an advisory board (which provides non-binding opinions) composed of several entrepreneurs involved in regional, national or foreign enterprises. The co-investment instrument is expected to have a duration of 10 year.

4 Strategy

This section discusses the main aspects of the investment strategy and the types of projects that have been generated.

4.1 Investment strategy

SAS JEREMIE LR's strategy aimed at building a diversified portfolio of approximately 25-30 companies targeting investments in generalist business as well as in innovative companies with strong technological component. The fund manager adopted a balanced approach targeting from seed to expansion capital, which contributed to a faster deployment of the instrument. The majority of the portfolio companies are technology based companies active in the information technology and health sectors.

From a broader perspective, the Languedoc-Roussillon region, with the support of ERDF, set up incubators to offer technical support such as labs and IT to SMEs with high growth potential. This is part of the overall strategy to support SMEs and promote growth in the regional economy.

4.2 State aid

Back in 2009, the co-investment vehicle concept was neither foreseen by the various EC regulations nor by the Guidelines on State Aid to promote Risk Capital investments ("GSARC"). As the co-investment vehicle concept was regarded as one of the most relevant ways to implement a VC product at regional level (at least in France), French Authorities submitted to DG COMP a first draft of a State Aid Regime entailing the use of a co-investment vehicle. Following extensive rounds of negotiations, DG COMP gave its approval on 14 July 2009 (see Commission Decision N 629-2007). The call for expression of interest related to the co-investment scheme of Languedoc-Roussillon takes into account the elements included in the Commission Decision.

4.3 Financial products and terms

The co-investment instrument aims at taking equity stakes in SMEs with a high development potential, up to EUR 2.5 million per enterprise over a period of 12 months. It was agreed that the co-investment vehicle would systematically co-invest on a pari passu basis with other VCs or Business Angels active in the region.



For each transaction, SAS JEREMIE LR was allowed to finance up to 50% of the overall amount invested into an SME in a single round: in reality, it acquired equity stakes in the region of 5% to 40%. The rest of the monies was provided by other funds (of private origin) managed by SORIDEC for at least 5% (as set in the call for expression of interest) and by other investors.

Being an equity instrument, the timing for payback of the investment is longer compared with debt instruments. Since inception, the only resources that have been returned to SAS JEREMIE LR are the proceeds of two (rather successful) exits of portfolio companies.

On a more general level, it is also important to note that although SAS JEREMIE LR focuses on equity investment, the range of products offered under the HF includes also seed loans and guarantees, in order to cover the financing needs of regional enterprises over different stages of their development.

4.4 Final recipients targeted

All operations took the form of equity or quasi-equity investments in companies. As June 2015, almost the entire amount of the co-investment fund has been invested in eligible SMEs, established in Languedoc-Roussillon and complying with the EU SME definition.

Although the mandate given to the SORIDEC allowed investments in a broad range of enterprises and sectors, the fund targeted mainly young innovative companies with high-growth potential, especially in the information technology and health sectors.

Initial investments were targeted at approximately EUR 100k for first round investments and up to approximately EUR 500k for subsequent rounds investments, with an investment cap set at EUR 2.5m as a maximum investment into an SME over a 12 month period.

In general, investments focused on SMEs with strong potential for growth. At the level of the SME, the team leading the various portfolio companies were highly motivated, with a clear commercial strategy as well as a multi-field experience. Before considering the investment, SORIDEC would make sure that that SMEs



targeted present a significant diversification compared with competitors and that they implement a strategy for intellectual property. Particular attention was given to the consistency of the business-plan as well as the coherence between the purposes and the assets to achieve the purposes.

The fund manager is very well established in the region, which enables promotion of the FI through its information network. In this respect, SORDIDEC has access to a sizeable regional network, which provides a considerable contribution to the origination of several business opportunities. Since inception, the team of SORDIDEC endeavoured to develop a proprietary deal-flow by sourcing it from the main regional universities, from the regional incubators, from the regional engineering high schools and from an important number of economic development agencies spread across the region.

4.5 Project types

Investment is in technology-based SMEs covering different sectors, including health, information technology, robotics and services for the environmental and manufacturing sectors.

4.6 Changes in Strategy

Over the life of the instrument, there has been no change in the strategy with the exception of the increase of the maximum amount to be invested into an SME over a period of 12 months. This modification was carried out in accordance with the regulatory framework allowing investment into SMEs up to EUR 2.5m (from EUR 1.5m initially), until 31 December 2015 (and not 2013).



5 Achievements

5.1 Output

- At the end of June 2015, approximately EUR 10.5 million of Operational Programme (OP) contributions have been invested into 29 SMEs. In addition to this money channelled to SMEs by the selected financial intermediary, many private co-investors provided additional resources for an amount of more than EUR 31 million. Overall more private resources have been attracted than initially expected, thanks to the substantial involvement of business angels and venture capital (VC) firms from outside the region.
- After MEDTECH (see box below), in 2014 AWOX – specialised in smart home connected objects - completed its IPO on the regulated market of NYSE Euronext in Paris.
- The building-up of the SAS JEREMIE LR portfolio contributed to the achievement of the objectives of the JEREMIE initiative in LR, these being (i) supporting Languedoc-Roussillon based SMEs, in particular during the early stages of their development - be they innovative or generalist businesses (financing SMEs with a high potential of development), (ii) enabling access to complementary funding through co-investment (generating leverage), and (iii) carrying-out commercially viable investments into eligible SMEs, thus contributing to the revolving nature of the HF (encouraging move away from grant dependency).
- In accepting this challenge, the retained manager (SORIDEC) took advantage to further gain knowledge and experience with a view to align its operational and governance processes to market standards. In that respect, EIF played an important role in assisting SORIDEC in this process by providing advice on market practice.
- The Languedoc-Roussillon region provides a barometer on its website, including a regular update of the main results of the FI.



Investment in the company MEDTECH

At the end of 2012, Bertin Nahum, CEO and founder of Medtech based in Montpellier, specialising in medical robotics, was ranked fourth by a Canadian magazine just after the most revolutionary entrepreneur Steve Jobs, Mark Zuckerberg and James Cameron. To date, more than 1,100 brain surgery interventions have been carried out thanks to 21 Rosa Brain™ robots - this is name of the sophisticated technology developed by MEDTECH - which are now an indispensable component of the equipment of several medical centres in Europe, North America, Russia, China and Saudi Arabia.

Created in 2002, the company was backed by four venture capital investment funds, one of which SAS JEREMIE LR, managed by SORIDEC. Having raised EUR 20 million in 2013, following an IPO on the NYSE Euronext in Paris, Medtech is now approaching 73 million capitalisation.

Nahum, who retains nearly 30% stake in Medtech, has the ambition to make his company a world leader. After Rosa Brain™, the product range will be extended to the spine, with Rosa Spine, the R&D phase of which was launched in 2011 and its commercialisation is foreseen for the coming months. With less than ten highly specialised American players, the robotic surgery sector is growing rapidly world wide: the market potential for both Rosa devices is estimated at EUR 2.5 billion.



Investment in the company NOSIBAY

Nosibay SAS, based in Montpellier France, was founded in 2004 by Laurent Taton with a capital of EUR 325 000. The company specialises in Information and Communication Technologies (ICT) and has developed a complete range of internet applications for advertisers and distributors. Customers are from France, Italy, Spain and UK, with recent contacts also in the USA, Canada and Latin America. Over 5 million internet users have already installed Nosibay's application on their devices. Consequently, turnover rose from EUR 780 000 in 2012 to EUR 1.7 million in 2013.

Since December 2013, Nosibay has been supported by SORIDEC and SAS JEREMIE LR which invested about EUR 400 000 in the company; the other investors are represented by a private person and a company (Financière de la Ramade). The majority of the shares of the company are owned by its founders and employees.

SORIDEC decided to support the Research and Development activities of the company and boost international development. With the new funds, products and services have been improved and new markets, such as America, explored. The support by the FI increased the credibility of the company and enlarged the network of partners, especially in research and development.

In the absence of bank finance and considering also the small size of the company the recourse to a regional investor was the only way to finance this company. In addition to the financial investment, SORIDEC provided intangible support such as advice on management and recruitment as well as access to a network of potential commercial partners. The dilution of capital with external owners and consequent loss of control of the ownership was a disadvantage for the founders but they considered this to be balanced by the advantage of funds to secure the development of the company.

6 Lessons learned

6.1 Main success factors

The context included a big pool of young innovative companies, set-up in the French region of Languedoc-Roussillon providing a good quality deal-flow. The local potential would not have been enough to ensure success of the financial instrument (FI) if not supported by appropriate implementation choices. The selection of SORIDEC as the manager of the co-investment scheme ensured the involvement of a financial intermediary well-grounded in the region and with a long track-record in technology investing. The selection process of the financial intermediary was a milestone of the implementation process, since several candidatures, also from outside the region, had been received from specialised financial intermediaries to manage the fund.

Governance mechanisms and clear investment strategy ensured alignment of interests between the public and private investors while keeping focus on the most promising business initiatives. In addition, the establishment of broad eligibility criteria for target SMEs allowed sufficient diversification at the level of the portfolio.

The success of the FI can be related to both the favourable context and the well-designed implementation choices, allowing independence of the fund manager's investment decisions. The implementation of the FI was particularly difficult in the set-up phase, given its innovative nature at regional/national level: with a view to find the right balance between market practice and EU regulations the drafting of the legal documentation and of the operating rules of the co-financing model took more time than expected.

Technically, this scheme could be replicated in other EU Member States that have similar young, innovative enterprises.



6.2 Main challenges

Implementation of the FI was difficult in the set up phase, particularly given its innovative nature at regional / national level. The right interpretation of the legal framework and the elaboration of the ensuing operating rules took time to be finalised. Also the balance between the requirements of the VC industry practices and the requirements of EU regulations was particularly time-consuming. However, once the initial conditions were set, the management activities were comparable to other similar equity funds, as were the costs.

Establishment of the funding threshold for any individual project at just EUR 2.5 million acted as a limiting factor. Three interesting projects that could have benefited from the FI's support had to be abandoned because they required more finance.

6.3 Outlook

It is expected that the co-investment vehicle will extend its investment activities beyond 2015, with returned funds used for additional new investments.

As far as the next programming period is concerned, as at June 2015, upon completion of the ex-ante assessment required by Article 37 of the CPR⁴, regional authorities are considering a second edition of the holding fund, potentially allocating more funds with a view to better address regional market failures.

⁴ Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013



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