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Co-investment Instrument under the JEREMIE Initiative in Languedoc-Roussillon (FR)

Valletta, 25 January 2016



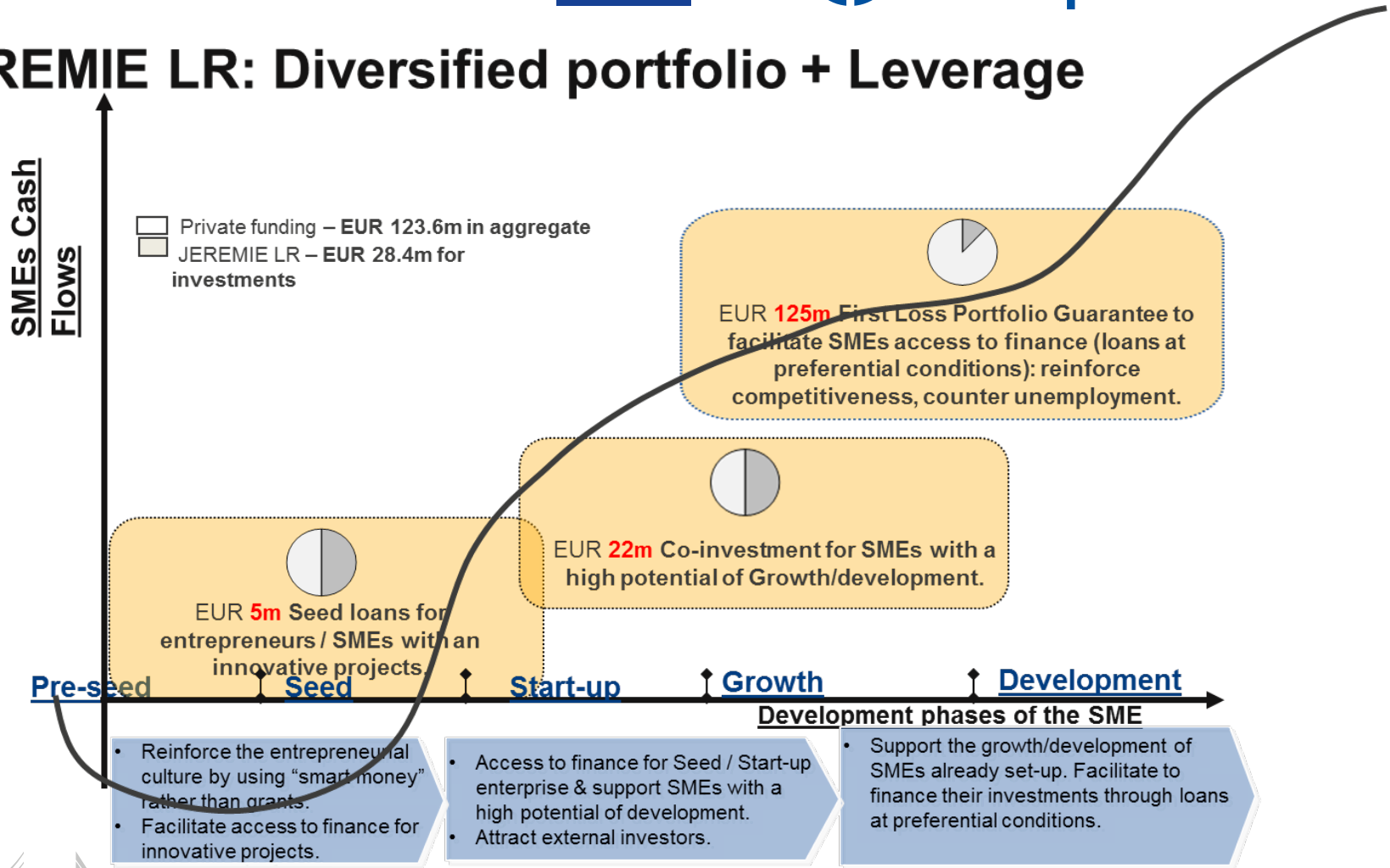


- **Key figures:**
- *2.7m inhabitants*
- *GDP/inhab. : € 23,500*
- *220,000 SMEs*

- **Specific feature of LR under ex ante:**
- *Particular tech capability of local enterprises.*
- *Density of researchers higher than France average, most relevant growth of R&D expense in France in past years*



JEREMIE LR: Diversified portfolio + Leverage





Europe (ERDF)
EUR 15m

Region:
EUR 15m



JEREMIE Holding Fund (JHF) : EUR 30m in aggregate EIF
HF manager



Seed loans Instrument:

EUR 2.5m
Leverage of 2
i.e.
EUR 5m for LR's SMEs



Co-investment Instrument:

EUR 11m
Leverage of 2
i.e.
EUR 22m for LR's SMEs



Guarantee Instrument:

EUR 14.9m
Leverage of 8.4
i.e.
EUR 125m for LR's SMEs



i.e. a TARGET of EUR 152m for LR's SMEs





Co-investment instrument



Financial Intermediary selected by EIF.

JHF (EIF)

Decisional vehicle selected through a CfEol by JHF
100% ERDF money

Co-investment players with a private component > 50%

- VC Fund(2)
- VC Fund(3)
- VC Fund(4)
- VC Fund(5)

Investment decision into SMEs taken by the Decisional vehicle

Max amount per deal < EUR 2.5 m

SMEs
Small enterprises (up to expansion);
Medium enterprises (seed + start-up)





Co-investment instrument – features

- **Fund size:** EUR 11 m (matched at least on 50/50 basis by private investors)
- **Term of the fund:** 10 years. Investment period until 31Dec2015 (ERDF cut-off);
- **Investments:**
 - vehicle can only co-invest with private investors, at least on 50/50 basis, on “pari passu” terms;
 - Max EUR 2.5m per SME per annum (second rounds possible as needed);
 - Range of 5% - 50% in each investee SME.
- **Target investees:**
 - Cross-sector SMEs. Special attention on innovative and technology SMEs;
- **Active management:** equity is ‘smart money’, fund manager required to manage actively portfolio companies (seats in boards, day-to-day presence etc.)
- **Returns:** JHF to receive all return from investments (dividends, capital gains), up to paid-in capital + ‘hurdle’ rate (5%); thereafter carried interest split 80/20;
- **State Aid:** National State Aid Scheme.



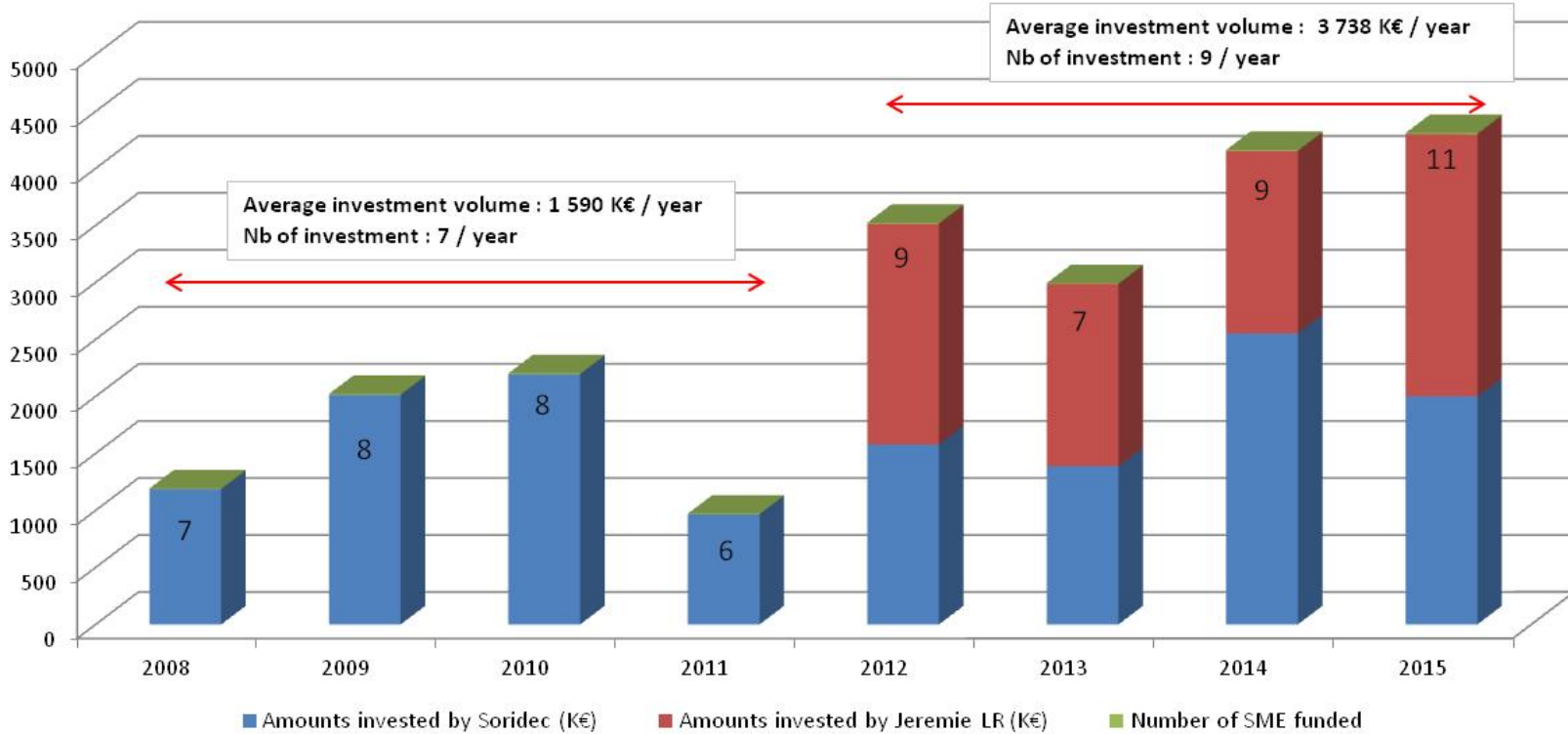
Co-investment instrument - governance



- Investment and divestment decisions taken independently by the selected team of fund managers, within the frame of agreed investment strategy

- EIF having approval/veto rights in key matters such as:
 - Changes in composition of the fund manager team, departures etc.
 - Investments and divestments made when fund manager team is incomplete ('key man event')
 - Changes in / departures from investment strategy
 - Conflicts of interest

- Usual audit and other controls typical of ERDF funds apply (irregularities, etc.)



Co-investment instrument: real additionality vs the past



Results?



As at October 2015

Seed loan instrument

- SMEs financed: 93
- Total amount: **EUR 4,661,000**
- First reimbursement to the JHF of **EUR 800,000** – reallocated to the instrument.

Guarantee instrument

- SMEs financed: 1,235
- Total amount: **EUR 124,400,000** – Direct leverage : 8.4x

Co-investment instrument

- SMEs (co-)financed: 31
- Amount from JEREMIE : EUR 10,643,000
- Total amount (with private co-investors): **EUR 45,772,000** (against target of EUR 22m) – Direct leverage: 4.1x
- Two companies were exited via IPO (Medtech & Awox) – success for a regional scheme

TOTAL:  **1,359 SMEs financed, for a total amount of EUR 174,833,000**





Medtech : Success-story

Company specialised in Surgical Robotics

BEFORE INVESTMENT (2012)

AFTER INVESTMENT (until now)

Specialised in Neurosurgical



Extend to spine Surgery (huge market)

Staff around **15 employees**



Staff around **40 employees**

Sales in **France and USA**



Sales **all around the world**

Renting Small offices



Built new building

Performed a **seed round**



Raised EUR 20m - Listed on Euronext (EUR **65m market cap**)

EUR 1.9m turnover



EUR 20 m turnover expected in 2016



From a small start-up to a promising mid-sized enterprise !





Results at Holding Fund level (including equity instrument):

Meet SMEs' financing needs

- ☐ Strengthen the financial chain financing SMEs ----->

- ✓ 1 359 SMEs
- ✓ EUR 174.8m

Leverage

- ☐ Financing more SMEs with less public resources ----->
- ☐ Attract private money into LR Region ----->

- ✓ Leverage > 5.7 x

Alignment of interest

- ☐ Both Public and Private financial involvement ----->

- ✓ Many applications received (18)
- ✓ Risk is shared between Public - Private

Revolving concept & flexibility

- ☐ Entailing further SMEs to be financed ----->

- ✓ Money already paid back to the Holding Fund
- ✓ Treasury management

Benefit pass onto SMEs

- ☐ Clear advantage passed, prompting SMEs into investing ----->

- ✓ Interest Rate reduction,
- ✓ Collateral requirements reduction,
- ✓ Strengthen the Capital of SMEs

Knowledge transfer

- ☐ EIF – MA – FI



Key lessons to bear in mind for equity products:

Ex-ante analysis key for success

- Assessing the needs and features of SMEs is paramount
- Access to finance and related gaps are particularly relevant
- Investment strategy to reflect the analysis

Diversified approach via a fund of funds

- Diversification of risk: risk implied in equity is mitigated by debt products
- Stabilisation of cash flow: returns from equity are long term and difficult to schedule
- Need to increase the SMEs outreach: equity focuses on quality, not quantity
- Need for multiple approach to SMEs based on different needs and stages
- Seek critical mass and economies of scale (avoid scattering effect)

Choice of the right fund manager

- Quality of selected fund manager key for success. Importance of selection, negotiation of terms, monitoring of activities cannot be overstated
- Selected fund manager must also be perceived as reliable by the market
- Investment and divestment decisions must be taken independently by the fund manager – for real, not only on paper!





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Thank you for your attention !

