



European Innovation Council (EIC) Investment Guidelines (Horizon Europe Compartment)

1 March 2022



DISCLAIMER

The present EIC Fund Investment Guidelines are conditional upon their approval by the EIC Fund Board following the authorization of the latter by the Commission representative in the General Meeting of the EIC Fund, as instructed by the European Commission.

Introduction – The role of EIC Accelerator

The EIC Accelerator is a breakthrough initiative of the European Union (EU) under the European Innovation Council (EIC). It aims to fill a persistent, critical financing gap in the European technology transfer market: despite the channeling of significant amounts of grant funding to research and innovation projects in Europe by EU and national schemes, very few operations subsequently manage to attract patient, private investments and reach the commercialization and scale-up stages. The EIC Accelerator aims at bridging this market failure, known as the “Valley of Death of European Innovation”, which significantly affects growth and jobs in Europe compared to its main competitors. The EIC Accelerator targets potential market-creating innovation presenting a too high level of risk for traditional public and private investors, whether based on breakthrough technologies originating from research (deep-tech) or disruptive thinking, but also on impactful incremental and social innovation. Beneficiaries are innovators, start-ups and SMEs, and small mid-caps, eager to bring their innovation to market deployment and to scale-up.

EIC Accelerator support consist of EIC blended finance, a mix of grant and investment. In the case of a small mid-cap, it consists only of an investment and on a co-investment basis. By providing funding beyond the limited remits of the grant mechanism and necessary to significantly diminish technological, market and financial risks, the EU intends to attract co- or alternate investors and thus give more impact to its financial support at grant stage.

The EIC, the EIC Accelerator and the EIC Fund are implemented under the operational lead of the European Innovation and SME Executive Agency (EISMEA), by delegation of the European Commission (EC). In accordance with the Horizon Europe legal base and subject to these guidelines, the EIC Fund is specifically tasked with:

- the overall due diligence of the proposed transactions for the potential investment component and the subsequent implementation of the investment component of the EIC blended finance awarded by the EC;
- raising awareness and interests among investors to leverage and crowd-in co- and alternate investments over the lifetime of the EIC Fund investment;
- the management and exit from the investment to the combined benefit of the beneficiary and of the EU interests.

The EIC Accelerator’s main guiding principles regarding the investment component of its blended finance are:

- **Focus on** financing growth prospects of break-through innovative businesses organized as single economic entities (i.e. only **SMEs and small mid-caps** are eligible under the EIC Accelerator, and not consortia, universities, etc.);
- Support selected companies and their projects **through financial structures that are inclusive** (crowd-in) **vis-à-vis private capital**. The investment component of the EIC blended finance aims to act as a catalyst to crowd in other investors both public and private. The EIC should

act as a catalyst in the capital market aiming at multiplying the EIC Fund investment with a factor of 3 to 5 (EIC Advisory Board, "[Position paper on Key Performance Indicators](#)").

- Apply a coherent investment approach with tailored terms to accommodate the versatile funding needs of the target companies, taking into account their underlying profiles.
- Create value through **connections with specialized mentors, ecosystems** and additional funding opportunities throughout the lifetime of the EIC investment;
- **Monitor investments and, in certain cases, support investee companies in subsequent rounds of capital increase if needed;** and seek **exits** from such investments where EIC's support is no more necessary to the success of the action or to maintain the interests of the EU;
- **Report** to the governing bodies of the EIC **on an investment portfolio** basis and adhere to the structures and instructions from these bodies, in line with EIC's policy objectives.

The present document only applies to the EIC Accelerator under Horizon Europe and may be amended from time to time in view of the evolution of the EIC programme.

Glossary, definitions and acronyms

The [European Innovation Council \(EIC\)](#) is part of Horizon Europe, the EU's key funding programme for research and innovation until 2027. The EIC supports breakthrough and disruptive innovation in Europe.

The [EIC Accelerator](#) is part of the EIC and provides blended finance (**grants and investments**) to individual start-ups and small companies to develop and scale up game changing innovations.

The [European Innovation Council and SMEs Executive Agency \(EISMEA\)](#) was established by the European Commission and implements the EIC and manages other EU programmes focusing on SME support, innovation and the single market.

EISMEA manages the evaluation and selection of proposals requesting EIC Accelerator support, implements the grant and ensures the coordination between grant and equity components.

The present **EIC Investment Guidelines** cover in full detail the investment conditions of the EIC.

The EIC works with **EIC Investment Partners** for management of the investment component of the EIC Accelerator blended finance.

During a transition phase in **2022**, the EIC Investment Partner will be **the EIC Fund**, which is a dedicated fund for investing in companies selected by the EIC Accelerator.

The EIC Fund is an alternative **investment** fund (AIF). In a first step, the European Commission is **the** sole investor of the EIC Fund. Later, it is envisaged that the EIB will take over this role under a mandate agreement.

The [European Investment Bank \(EIB\)](#) supports the EIC Fund **as Investment Advisor**.

An external alternative investment fund manager (AIFM, the "**EIC Fund Manager**") manages the EIC Fund. The EIC Fund Manager makes investment and divestment decisions on the companies selected by the EIC following a due diligence and these EIC Investment Guidelines. The EIC Fund Manager manages the EIC portfolio of invested companies.

For the purposes of the present EIC Investment Guidelines, a "**qualified investor**" is an investor that has the capacity to validate the market and technology prospects of the prospective investee company, and concludes the investment with market compliant terms and conditions. The qualified investor shall have full alignment of interest with the EIC Fund, and shall not have other motives driving the investment decision. Qualified investors may vary on case-by-case basis, and for each case, the qualification is subject to assessment by the EIC Fund.

Co-investors are investors investing alongside the EIC Fund. When investing direct equity, the EIC Fund will systematically seek co-investment from and syndication with other investors, at least on a matching basis 1:1 (and seeking a leverage effect of 1:3 throughout the investment horizon).

For the purposes of the present EIC Investment Guidelines, "**alternate investor**" means an investor that shows immediate interest in providing the full investment into EIC candidate companies.

The present Investment Guidelines apply to entities from Member States of the European Union and from **countries associated to Horizon Europe**¹.

'**Social innovation**' is the development and implementation of new ideas (products, services and models) to meet social needs and create new social relationships or collaborations.

AML: anti-money laundering

EC: European Commission

EIB: European Investment Bank

EIC: European Innovation Council

EISMEA: European Innovation Council and SMEs Executive Agency

IP: intellectual property

IPO: Initial Public Offering

KYC: know-your-customer (compliance checks)

MAC: Material Adverse Changes

NJC: non-compliant/non-cooperative jurisdictions

NPBIs: National Promotional Banks and Institutions

SAFE: simple agreement for future equity

SMEs: small and medium-sized enterprises

TFEU: Treaty on the Functioning of the European Union

TRL: technology readiness levels ([Horizon Europe Work Programme](#))

UBO: ultimate beneficial owner

VC: venture capital

WP: (EIC) WP is the European Innovation Council Work Programme. The EIC WP 2022 is [here](#).

¹ See the **Horizon Europe Programme Guide** for a complete list of these countries.

<p>1. EIC Accelerator: investment options, funding components and processes</p>	<p>The EIC Fund provides the investment components of the EIC blended finance awarded by the EC (in particular in equity or quasi-equity). For avoidance of doubt and as outlined further in this document, the final award of the investment component under the EIC blended finance is subject to overall due diligence by the EIC Fund and in accordance with these investment guidelines.</p> <p>Candidate companies will apply to the EIC Accelerator through public calls for proposals published by the EC. The EISMEA will collect and evaluate Accelerator proposals. The EC will then select those Accelerator actions to support with an indicative EIC blended finance amount, which may under conditions² consist of a grant only, or a grant first with potential subsequent investment, <u>or</u> and if so requested only an investment support.</p> <p>Following selection, the EISMEA will negotiate and sign a contract describing the action and providing already for the grant component of the awarded EIC blended finance, after an award decision is adopted by the Commission. In parallel, the EISMEA will channel actions selected to the EIC Fund to process the awarded indicative investment component (due diligence, market assessment and identification of co-investment or syndication opportunities, preparation of the possible term-sheet, approval by the EIC Fund, negotiation of the investment documentation, etc.).</p> <p>Once concluded, elements related to the investment will be attached to the Accelerator contract through an amendment, reflecting the agreed investment amount, instalments of the investment and related milestones or deliverables, and any agreed change to the action (activities, deliverables, milestones), in order to ensure its unicity and the consistent implementation and management of both support components. Other elements of the investment agreement, in particular terms and shareholders agreements, will be kept confidential by the EIC Fund.</p> <p>EIC Fund investment process:</p> <p>Proposals selected by the EC and awarded an investment component are channeled to the EIC Fund for an initial assessment. Following this initial assessment, the cases will be categorized in accordance with the various possible investment scenarios (“buckets”) [Step 1]. The EIB, in its role of Investment Advisor, will undertake financial due diligence (unless performed by co-investors, please refer to Investment Scenarios section under section 3.3). In parallel, KYC-compliance checks will be performed on the target companies. [Step 2]. The EIB, in its role of Investment Advisor, will discuss potential draft financing terms with the beneficiary and co-investors (if any), or advise the company in case of alternate</p>
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² See EIC Work Programme.

	<p>investors. The EIC Fund will examine the due diligence together with the structuring proposal from the EIB [Step 3]. The EIC Fund will decide on financing operations [Step 4], which will either approve (sometimes with conditions), including the amount and terms, or reject the operation [Step 5]. Provided that the EIC Fund has approved the investment, the EIB, in its role of Investment Advisor, will guide the work of the lawyers for each specific transaction leading to legal documents, which will be signed by the EIC Fund. [Step 6]. The EIC Fund will do the monitoring, milestone disbursements, reporting and exit [Step 7].</p> <p>It shall be highlighted that all decisions related to the investments have to be in accordance with these investment guidelines set, and shall be made by the EIC Fund.</p>
<p>2. Scope</p>	<p>Policy targets: Whilst open to innovation in all areas presenting high technological or market or financial risks, the EIC Accelerator may also focus part of its support, on capital-intensive strategic technologies in policy priority areas, including Health, Green Deal (e.g. clean energy, climate action, future mobility) and Digital Transformation, advanced engineering, life sciences and space.</p>
<p>2.1 Type of innovations</p>	<p>The EIC Accelerator will support different types of innovation, in particular those based on deep-tech or radical thinking, but also social innovation.</p> <p>For the purpose of the present guidelines, "deep-tech" refers to a technology based on cutting-edge scientific advances and discoveries. It is characterised by the need to stay at the technological forefront by constant interaction with new ideas and results from the lab. Deep tech is distinct from 'high tech,' which tends to refer only to R&D intensity.</p>
<p>2.2 Target company - development stage</p>	<p>Pre-Seed, Seed and Early-stage SMEs, and small mid-caps</p> <p>Eligible applicants under EIC Accelerators are for-profit SMEs, including start-ups and early-stage companies, and small mid-caps, from any sector, and typically with a strong intellectual property component.</p> <p>EIC Accelerator support aims to address high-risk projects that are not yet sufficiently attractive for investors, also considering the scale of investment required, with the aim to de-risk such projects and catalyse private investment throughout the lifetime of the EIC investment; thanks to the leverage provided by the EIC blended finance.</p>
<p>2.3 Geographical scope and European technological sovereignty</p>	<p>Eligible companies must be established and operating in the EU Member States or Associated countries to Horizon Europe.</p> <p>When negotiating and implementing investments decided by the Commission, the EIC Fund will ensure that supported companies keep most of their value, including their IP, in the EU or in Associated</p>

	<p>Countries, in order to contribute to their economic growth and job creation.</p> <p>Having regard to its public policy role, the EIC Fund will also take into account the EU initiatives to create a Capital Markets Union, including an attractive landscape for the financing of companies in the European Union that ensures a very high level of protection, effectiveness and easiness of operation,</p> <p>Accordingly, in case of potential investments in companies that have set up or plan to set up financial holding vehicles outside of the territory of the EU Member States or Associated countries to Horizon Europe, the Fund will determine whether such structuring can be accepted in light of the conditions above in previous paragraphs under this section 2.3, with a view to ensure compliance with Article 155 (2) and (3) of Regulation (EU, Euratom) 2018/1046 (Financial Regulation of the EU).</p>
<p>2.4 Exclusion</p>	<p>In addition to the exclusion laid down in the EU Financial Regulation including Article 136 (Exclusion criteria and decisions on exclusions) and other applicable legislation in particular the restrictive measures adopted on the basis of Article 215 TFEU, the EIC Accelerator shall not invest in economic sectors that are considered incompatible with the ethical and social basis of the Horizon Europe mission. Such restrictions are summarised in the Horizon Europe Regulation including Article 19 (Ethical principles). Companies benefitting from the EIC support shall not engage into these sectors</p>
<p>3. Investment guidelines</p>	<p>The EIC Accelerator supports innovators and entrepreneurs. Starting at the earliest at TRL 5 down to TRL9, the support aims at bringing their innovation to market deployment and scale-up.</p> <p>Adding to a grant component for TRL 5 to 8 activities, representing up to 70% of these activities' costs, the investment component may be tailored and take different forms. It may consist of convertible instruments (i.e. loans/bonds/notes and other similar instruments such as participation rights and SAFE), a combination of such quasi-equity instruments and direct equity, or direct equity, initially covering seed-stage up to growth equity rounds - to support the innovator along its journey from concept to scale up, evolving and increasing as stages of maturity and TRLs are achieved (milestones).</p> <p>Without prejudice to possible follow-on investment and the provisions of the Work Programme, which may provide for a higher amount in specific cases, the awarded initial investment component will range between EUR 0.5 and EUR 15.0 million.</p>
<p>3.1 Leveraging co and alternate investments</p>	<p>The EIC Accelerator focusses on innovators and entrepreneurs, and complements the Single Union financial instrument (InvestEU), which is investor and financial intermediary driven. It aims at directly de-risking selected operations in order to better bridge these two worlds and</p>

	<p>crowd-in investors. For that purpose, the EIC Accelerator is designed to fulfil the role of initial or first risk-taker, where needed.</p> <p>When investing direct equity, hence for this section excluding the investments in form of quasi-equity instruments, the EIC Fund will <u>systematically</u> seek co-investment from and syndication with other investors, at least on a matching basis 1:1 (and seeking a leverage effect of 1:3 throughout the investment horizon), and even alternate investors. It will aim to crowd-in significant and fit-for-purpose additional or alternate funding needed to successfully develop an innovation, deploy it to the market and scale-up, whilst ensuring its sustainability.</p> <p>In addition to enhancing the impact of the Union support and contributing to stimulate the overall European investment ecosystem, bridging with and crowding-in qualified investors at the earliest stage is essential for the success of the investee companies and their innovation. More than funding only, “qualified investors” can add critical value to a company: they also have the knowledge, the expertise, the teams and the networks of contacts needed to help investee companies reinforce their teams and business strategies, and achieve a successful commercialisation and scale up in the specific verticals, in accordance with their high-growth potential and ambition.</p> <p>Depending on the starting stage of the operation and its nature, investors may include Business Angels, Venture Capital funds, Impact investment funds, Family offices, Venture debt funds, National Promotional Banks and Institutions (NPBIs) or corporate venture arms.</p>
<p>3.2 Investment principles</p>	<p>The EIC Fund’s investment (in particular equity or quasi-equity) will range between EUR 0.5 million and EUR 15.0 million per company, without prejudice to the provisions of the Work Programme, which may provide for a higher amount in specific cases.</p> <p>Where it provides equity or quasi-equity, the EIC Fund will target minority ownership stakes (aiming in general at stakes between 10% and 20%), and up to a blocking minority in cases identified by the EC as falling under an essential area for the EU. It will avoid in principle situations of majority stakes and control. However, where circumstances and the protection of EU financial interests calls to hold majority stakes, the EIC Fund will strive to fall back to a minority stake subject to the said interests.</p> <p>In the case of investment in tranches, the EIC Fund will take a position on the entire amount considered for funding. Such total investment amount may be lower or higher³ than the one awarded by the EC during the selection process run by the EISMEA. The EIC Fund will decide on the overall investment package for the company and have the right to recommend to the EC to revise or even reject the investment that it has initially awarded (see below point 3.2).</p>

³ Subject to the terms of the Commission selection decision.

	<p>The timing and conditions for investment in tranches (upon achievement of predefined milestones) will be negotiated with the company, agreed and managed by the EIC Fund, under the operational coordination of the EISMEA as long as the grant component of the EIC blended finance is in force.</p> <p>For the purposes of these guidelines, milestones will be meaningful achievements in the development of the innovative project of a company, reflecting maturity stages and TRLs achieved, including co-investment leveraged. The EIC Accelerator support will finance the activities of the company as long as relevant milestones are achieved, except where the expected market deployment, especially in the EU, cannot realistically be met.</p> <p>The terms to be negotiated by the EIC Fund would seek to ensure sufficient incentives of the founders/employees while applying market terms to attract private investors. Equally, they would seek to ensure investor friendly terms to attract potential private capital. While the EIC Accelerator may potentially disrupt the investment ecosystem by enhancing risk-taking attitude among investors, it remains of the utmost importance that it does not create market distortion in filling the financing gap for its high-risk targets.</p> <p>The EC may award follow-on investment on an <i>ad hoc</i> basis (outside any EIC call for proposals) and at any stage to those operations that were initially awarded either:</p> <ul style="list-style-type: none"> - an investment component together with a grant component, - or a “grant first” support, <p>subject to budgetary availability, review by independent experts and advice of the EIC Board (see below under Follow-on investments).</p> <p>A material breach of the EIC Accelerator contract related to the grant component shall prevent the EIC Fund to further invest in a company and eventually lead to early exit, and vice-versa.</p>
<p>3.3 Investment & co-investment scenarios</p>	<p>From the onset and during the lifetime of the EIC investment, and subject to non-disclosure obligations, the EIC Fund will connect the potential investee company to the EIC Accelerator investor community ecosystem, to leverage co-investment opportunities.</p> <p>Beneficiaries are also entitled to and even encouraged to seek on their side for co-investors, building on the EIC Accelerator support.</p> <p>If the company and the EIC Fund consent to the proposed co-investment opportunity, financial and commercial due diligence and negotiations may then be performed jointly and in agreement with the potential co-investor(s), however under control of the Fund to ensure sufficient due diligence and implementation of required conditions to be included in the investment documentation.</p>

	<p>Following an initial assessment implying some level of due diligence, including KYC compliance checks (led by the EIC Fund), and market consultation (led by the Investment Advisor), a transactions' categorisation will be done into the 4 "buckets" presented below.</p> <p>This classification will not be static, as cases may be moved from one bucket to the other as the due diligence process evolves, based on its findings, or on the initiation of co-investment interest - resulting inter-alia from the de-risking operated by the EIC Accelerator support, or at later stage as the project evolves and milestones are reached.</p>
<p>3.3.1 Bucket 0: No Go</p>	<p>Bucket 0 will include cases for which initial assessment or due diligence, <u>at any stage</u>, reports substantial negative issues preventing any investment.</p> <p>Compared to the evaluation process run by EISMEA, the EIC Fund's due diligence is by definition a more in depth examination of an operation. Whilst its purpose is not to re-evaluate the proposal or question the opportunity of the EIC Accelerator support awarded by the EC but to implement its investment component, findings may lead to question the legality or the rationale of the operation.</p> <p>Negative issues include but are not limited to: fraud, misrepresentation, refusal or failure to submit requested information, manifest error of appreciation by the EC, substantial negative changes of circumstances (Material Adverse Changes - MAC) as compared to those existing at the time of the initial EC award, reputational risk for the EU, and other findings affecting the financial interests of the Union. For example:</p> <ul style="list-style-type: none"> - The innovation does not show the expected solid, long-lasting competitive advantage and impact on the basis of which the operation was selected. - The team has changed since the evaluation and does not anymore gather the strong skills, capabilities and motivation needed to get the company off the ground and scale-up. - Other examples of MAC (Material Adverse Changes) have occurred since the initial assessment of the company undertaken by EISMEA, including major changes in management, changes in control, use of bad leaver provisions, serious litigation situations, including among shareholders, or loss of major suppliers or clients or partners on which the company is heavily dependent. - The cap table evidences strong misalignment of existing shareholder's interest vis-a-vis the company, lack of sufficient incentive for founders and key team, etc. - The beneficiary refuses or is unable to provide information on an existing investor/shareholder and their ultimate beneficial owner(s), in relation to a possible reputational risk for the EU.

	<ul style="list-style-type: none"> - An existing shareholder and/or its ultimate beneficial owner (UBO) falls under the cases of exclusion from Union support in accordance with the EU Financial regulation - Financial data and documentation submitted at proposal stage contradicts company's books. - Alleged IP is not directly owned by or accessible to the company or is the subject of litigation <p>Where no remedies are possible, the EIC Fund will recommend to the EC to reject the investment, a decision that may lead the EC to reconvene a jury of external independent experts to reevaluate the proposal, condition its grant only support, but also terminate or even cancel the already concluded EIC Accelerator contract depending on the case.</p>
<p>3.3.2 Bucket 1: companies non-investment ready yet</p>	<p>Bucket 1 will include cases that are not investor ready for regular investors yet, due to remaining very high risk despite the awarded EIC Accelerator support.</p> <p>This lack of traction may result from various shortcomings, such as the very early stage of the underlying technology, a too long planned time to market, a too small market compared to the investment needed, the low readiness of the company to absorb additional equity in terms of its team or cap table, etc.</p> <p>Three types of cases are envisaged – they do not constitute an exhaustive list of possible cases and are not mutually exclusive:</p> <ol style="list-style-type: none"> 1. The EC has awarded the support on the condition that it acquires a blocking minority, as the operation falls within an essential area of EU interest (in accordance with the Council Decision on the Horizon Europe Specific Programme⁴). <p>The EIC Fund will perform due diligence on the potential investee company and will proceed in principle with the awarded investment using quasi-equity or a combination of quasi-equity and equity⁵. It will include an adequate package of support measures to address shortcomings to a sufficiently high degree.</p>

⁴ See footnote 24 of the Council decision on the Horizon Europe Specific Programme, p. 69):

“As a principle, the EIC Fund is not expected to hold more than a minority of voting rights in companies supported. In exceptional cases, the EIC Fund may secure the acquisition of a blocking minority to protect European interests in essential areas, e.g. cyber security.”

⁵ Without prejudice to the necessary flexibility required in each case, the EIC Fund may offer to make its investment in at least two tranches in Bucket 1 cases, besides the possibility to provide a single tranche in the form of a convertible instrument

1. In the first tranche, it would invest upon signature the maximum of either i) 50% of the estimated EIC Fund investment, or ii) the unfunded cash needs of the company over a period of generally up to 18 months in the form of a convertible loan to be converted at the next qualified round. Consequently, and generally speaking, such convertible loan will have a maturity of generally 18 months, interest rates of 8% (8% fixed interest, accruing and capitalized at prepayment or upon conversion) and standard discount rates depending on the

	<p>In such cases, operating as a major investor, the EIC Fund will ensure a board member seat in the target companies. External mentoring will be sought.</p> <p>2. The innovation has the potential to have a high impact by addressing a societal need or an EU priority, in particular in the case of strategic⁶ technologies.</p> <p>The EIC Fund may decide to proceed as in case 1 using quasi-equity or a combination of quasi-equity and equity. It will include an adequate package of support measures to address shortcomings to a sufficiently high degree.</p> <p>In such cases, operating as a major investor, the EIC Fund will ensure a board member seat in the target companies. External mentoring will be sought.</p> <p>3. In all other cases, the EIC Fund may either invest with quasi-equity or a combination of quasi-equity and equity on EIC Fund own standard terms (see footnote 5 above), or propose to the EC to revert to an uncapped⁷ “grant first” support to cover up to 70% of total eligible costs of the pre-TRL9 activities, and recommend milestones that once reached, may attract co-investors and hence trigger the investment component initially awarded by the EC.</p>
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length of its maturity (20% discount for 18 months maturity). The valuation to be taken into account if no round is achieved by maturity will in general be the post-money valuation resulting from the last round into the company or a lower amount if conditions have materially changed since the last investment round. The EIC Fund may, on a case-by-case basis, decide to introduce a cap for the conversion of the EIC Fund convertible loan at the next round. In case the convertible loan reaches its maturity without occurrence of a qualified round sufficient to convert the full amount, the EIC Fund will engage with the founders and other investors on a way forward. In addition, the EIC Fund may advise on potential co-investment opportunities for the subsequent round.

2. In the second tranche, it would invest in an equity round in principle the remaining estimated investment subject to the co-investment by private investors of an amount fully matching the totality of the EIC Fund investment, including the convertible loan provided by the EIC Fund in the first tranche. The EIC Fund Board may require that such private investors co-investing with the EIC Fund are qualified investors – with the purpose of both valuing the company on market terms and providing it with subsequent crucial support for a successful market entry and scale-up. The EIC Fund Investment Committee may also decide on a minimum size of the round for the EIC Fund to invest its second tranche – considering the financing needs estimated by it for the company to successfully reach the market and scale up, based on the outcome of the due diligence and the Investment Advisor’s recommendation.

⁶ Strategic technologies are in particular those related to the EIC Accelerator Challenges in the EIC Work Programme, defined as critical technologies and technology roadmaps in the action plan on synergies between civil, defence and space industries of 22.02.2021 (COM(2021) 70 final), as well as in accordance with the update of the 2020 New Industrial Strategy (COM(2021) 350 final).

⁷ Where initially requested by the beneficiary, “grant first” support (like “grant only”) for pre-TRL 9 activities cannot exceed EUR 2.5 m (See Article 48 of Horizon Europe Regulation). In the case of a full blended finance request, the “grant component” may exceed that ceiling where duly justified.

<p>3.3.3 Bucket 2: Co-investment opportunities identified</p>	<p>Bucket 2 will include cases where potential investors show immediate interest in co-investing into EIC selected companies.</p> <p>The EIC Fund will seek that the equity investment is at least matched by these other potential qualified investors (i.e. which will cover at least 50% of the round), having an objective of 1:3 leverage for the full EIC investment cycle. To this end, the EIC Fund may rely on financial, commercial and technology due-diligence performed by them and may seek alignment to their terms.</p> <p>Where the awarded EIC support is conditioned to the acquisition of a blocking minority by the EIC Fund, and in order to align interests, they may opt to substitute direct blocking minority by a shareholder agreement⁸ providing for similar guarantees regarding EU interests.</p> <p>On behalf of the EIC Fund, the Investment Advisor will negotiate the terms with potential co-investors, including possible mentoring tasks.</p>
<p>3.3.4 Alternate investment opportunities</p>	<p>Bucket 3 will include cases where potential investors show immediate interest in providing the full investment into EIC candidate companies</p> <p>The EIC Fund could nevertheless decide to co-invest, in particular to secure a blocking minority where the EU interests cannot be otherwise protected or in the case of strategic technologies.</p> <p>The EIC Fund may also reserve part of or the initially awarded investment as a possible follow-on investment.</p>
<p>3.4 Compliance and Due diligence</p>	<p>Compliance and some due diligence checks will be performed by the EIC Fund based on standard compliance rules⁹, related among others to KYC (Know Your Customer), anti-money laundering (AML), anti-terrorism</p>

⁸ The EIC Fund will agree with other shareholders on modalities to safeguard EU interest as an alternative to take a blocking minority on their own.

⁹ The EIC Fund shall apply EU rules, policies and procedures, addressing the requirements in respect of money laundering, terrorism financing, tax avoidance, tax fraud and tax evasion that are contained in Article 155(2)(a) of the Financial Regulation.

Such rules also reflects the prohibition to enter into new or renewed operations with entities incorporated or established in jurisdictions:

- listed under the relevant Union policy on non-cooperative jurisdictions; such as the list of non-cooperative jurisdictions (as amended from time to time) for tax purposes issued by the Council (OJ C 438, 19.12.2017, p. 5);
- or that are identified as high-risk third countries pursuant to Article 9(2) of Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (OJ L 141, 5.6.2015, p. 73), as may be amended;
- or that do not effectively comply with Union or internationally agreed tax standards on transparency and exchange of information, as well as the possibility to derogate from this requirement when the action is physically implemented in one of those jurisdictions, contained in Article 155(2)(b) of the Financial Regulation.

	<p>financing, tax-avoidance, non-compliant/non-cooperative jurisdictions (NCJ) and sanctions.</p> <p>Compliance and KYC checks will be performed prior to the initial investment¹⁰, as well as prior to possible follow on investments. They will be extended to shareholder and their ultimate beneficial owners (UBO).</p> <p>Non-compliance issues could also be linked to political or integrity aspects creating a high reputational risk for the EU as assessed by the EIC Fund on a case-by-case basis, and that may hence recommend to the Commission to terminate or even cancel its support (see Bucket 0).</p> <p>The breach of any of these obligations and at any stage may lead to the interruption or cessation of the EIC Accelerator support in all its components, and even its cancellation.</p> <p>The financial and commercial due diligence process will focus on the following aspects related to the detailed risk assessment of the potential investment:</p> <ul style="list-style-type: none"> - Governance and quality of the company's management - Capital structure and financial planning - Business strategy - Competition - Market assessment - Value creation - Legal form and jurisdictions <p>Additional technology due diligence may be required on a case-by-case basis in addition to the systematic technology due diligence to be performed in the context of the initial assessment. Whilst technology is assessed prior to the EC award decision, it may need to be complemented by a more in depth and "investor angle" due diligence, in order to have a more complete view of the operation as well as to investigate any concerns that may have been raised in the initial due diligence concerning misrepresentation or manifest error in respect to the technology and market prospects.</p> <p>The EIC Fund may call for different options in this regard, including when appropriate, by EIC Programme Managers or technology expertise in national innovation agencies.</p>
<p>3.5 Valuation methods</p>	<p>The use of equity or quasi-equity instruments may require discussions on valuation and possible equity stakes in the potential investee companies. In general, the EIC Fund will align its valuation for the purposes of equity investment to the valuation set by the market (i.e. by the private qualified investors co-investing alongside them).</p> <p>Valuation methods vary depending on the business models, markets and sectors, technology and other intangible aspects to consider. For ease of reference, some methods commonly used by investors are listed below:</p>

¹⁰ A compliance KYC self-certification may be collected together with the full accelerator proposal. However, it will not be considered during the evaluation, only by the EIC Fund where the proposal is retained by the Commission.

	<ul style="list-style-type: none"> - <u>Multiples of Earnings:</u> For a start-up, it is usually considered a Times Revenue Method (sometimes it could be applied on an expected value). This formula calculates a business’s maximum worth by assigning a multiplier to its current revenue. Multiplier benchmarks vary according to industry, economic climate, and other factors. - <u>Fair Market Value:</u> it reaches the value of a company by comparing it either to similar businesses that have sold previously or to a peer group of comparable companies listed on the stock markets. - <u>Book Value:</u> It takes into consideration the value of the business’s equity by taking into account the market value of the assets (not the accounting value in the financial statements), intangible assets (goodwill created at the time of the valuation) minus total liabilities (eventually adjusted if there is a relevant swing in the cost of debt). - <u>Price of recent investment:</u> takes account of the valuation used in a recent previous investment in the company, then estimates the current valuation based on the value creation from that reference point. - <u>Discounted Cash Flow:</u> it values a business based on its projected cash flow discounted by a factor (usually the average cost of capital). The result is present value. It is more often applied to companies in growth or mature stage as cash flow generation is needed. - <u>Other asset-Based methods, such as</u> among several other asset-based approaches there is the “liquidation value”. <p>The above-mentioned methods are market references for valuation purposes and tools for companies in their negotiations with potential investors. Such negotiations are often time consuming and interfered by intangible factors such as bargaining power, which will significantly influence the valuation.</p>
<p>3.6 Possible forms of investment, in particular equity or equity-type investments</p>	<p>There are different types of instruments an emerging business may use to finance its growth. The financial instruments used by the EIC Fund will take, in priority, the form of equity or quasi-equity investments.</p> <p>Standard equity and quasi-equity instruments are summarized as follows:</p> <ul style="list-style-type: none"> - <u>Common shares:</u> represent an ownership interest in a corporation, including an interest in earnings and dividends. They may be voting or non-voting and may be divided into classes with special voting privileges assigned to each class. In the VC market, founders and management team usually hold common shares.

	<ul style="list-style-type: none"> - Preferred shares: represent a hybrid in the sense that it is an equity interest with debt-type features such as seniority at dividend payments and liquidation proceeds. VC funds usually hold preferred shares. - Convertible instruments: like convertible loans/bonds/notes, participation rights, SAFEs etc. that have a convertibility feature attached to a debt instrument that is attractive to the issuing company, since they are aimed to postpone dilution until the company's next equity funding round. They offer flexibility to investors allowing them to shift the risks and rewards of their investment to some point in the future after the initial investment. - Other equity-type instruments appropriate to achieve the objectives of the EIC Accelerator.
<p>3.7 Investment Implementation</p>	<p>The EIC Fund will proceed in a timely manner with the execution of the investment. This includes, among others, the identification of the most appropriate financing structure (based among others on the investee's needs, development stage, investment plan, jurisdiction and sector specificities), the investment terms negotiations, the availability of third party financing from other sources and the closing of the final legal documents (including the investment agreement), including the provision to EISMEA of all information needed for the adoption/amendment of the Single Award Decision by the Commission. The EIC Fund will contract with and finance the investee companies.</p>
<p>3.8 Management of investments</p>	<p>The EIC Fund will manage individual investments. This includes monitoring and acting on milestone funding, financing events (conversions, top-ups, etc.), write-downs and restructurings, exits, etc.</p> <p>Roles such as representative or observer on boards of investee companies will be performed by qualified EIC Fund's representatives appointed for this purpose, or through use of independent experts as appointed and coordinated by the EIC Fund. Such details will be discussed on a case-by-case basis during the due diligence and investment process and included in the legal documents to be signed.</p>
<p>3.9 Mentors</p>	<p>The EIC will put the company, with its consent, in contact with its network of mentors, which could also be potential investors, in order to provide advice and recommendations for the business development of the company and for any potential corporate actions.</p> <p>In some cases such as those under "Bucket 1", mandatory mentoring may be required as a condition to the investment.</p>
<p>3.10 Follow-on investments and investments</p>	<p>The Commission may award follow-on investment on an <i>ad hoc</i> basis (outside any EIC call for proposals) to companies that were awarded an investment component, with the aim to catalyse additional investors in subsequent rounds on a matching basis; or award an investment to</p>

<p>following a grant-first</p>	<p>companies that were awarded “grant first” support, subject to budget availability and review by independent experts (in the case of grant-first) and advice of the EIC Fund.</p> <p>Where following an EIC Call for proposals the EC awards an additional investment to a Horizon 2020 EIC Pilot operation, the latter is transferred under the Horizon Europe compartment.</p>
<p>3.11 Duration of the investment and exit strategy</p>	<p>The EIC Fund will invest patient capital, with a long average perspective on return on the investment (7-10 years) with a maximum of 15 years in general. The levels of returns sought will be assessed on a case-by-case basis. The EIC Fund’s main objective is “impact investment” rather than maximizing return on the investment, while of course a positive return is always planned at the time of investment as well as compliance with general market terms.</p> <p>The exit strategy for each company is to be set on a case-by-case basis given the specificities of each business plan, industry, expected holding period as well as the development of the companies compared to the initial milestones set. Exit routes may include IPOs, management buy-outs, secondary sales or liquidations.</p>
<p>3.12 Anticipated termination of investment</p>	<p>In addition to “Bucket 0”, other cases may lead the EIC Fund to interrupt and even terminate the investment.</p> <p>The eligibility of the investee company, including any possible fraud, misrepresentation and non-compliance, will be checked at each tranche disbursement by the EIC Fund as well as the EISMEA in a coordinated manner. Ineligibility may lead the EC to terminate the contract and hence stop any further investment from the EIC Fund and exit from the company. Where fraud is detected, the EC may even cancel the EIC Accelerator support and recover all amounts paid, in addition to additional sanctions provided for by the EU Financial Regulation.</p> <p>The investment documentations concluded by the EIC Fund will contain protection clauses for the EIC Fund in case of, for example, material breach/fraud, or non-compliance, including with the sanctions regime, whereby the company will have to fully reimburse/cash settle the EIC support received. Regarding the equity component, those remedial measures shall include, but shall not be limited to, the disposal of EIC's interest in the investing scheme via a secondary sales transaction.</p>
<p>4. Intellectual Property management and European Union interests</p>	<p>EIC Accelerator operations will be exempted from Horizon Europe obligations on Intellectual property except:</p> <ul style="list-style-type: none"> - if no investment component is awarded; - or if no investment agreement is concluded; - or if the operation is terminated by anticipation during the lifetime of the grant component.

	<p>Within applicable national legislation, the investee and co-investors will be given maximum autonomy regarding IP management, to the best interests of the deployment of the innovation and the companies' development, in order to attract further investments to scale-up and to allow for an effective exit strategy for the EIC Fund.</p> <p>Yet, and in particular but not only in the cases where interests of the Union are at stake and the EIC Fund acquires a blocking minority, they will seek to secure European ownership of IP and of the company wherever it makes sense for its development. The same guiding principle will apply for EIC Fund's exit from investees.</p>
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