InvestEU ESCALAR
Supporting Scale-Ups
Introducing ESCALAR
Strengthening the financing ecosystem for scale-ups in Europe

The market
A significant number of high growth European scale-ups have been acquired or forced to seek funding overseas, due to the lack of suitable financing options within Europe.

The opportunity
ESCALAR is a dedicated mechanism aimed at alleviating this market failure and strengthening the financing ecosystem for scale-ups in Europe.

Our expertise
The EIF has over 25 years of experience in equity investments and therefore makes for a knowledgeable partner for this initiative. We are committed to developing this space for scale-up funds to access what they need in order to support and grow Europe’s best and brightest.
InvestEU ESCALAR mechanism
key features
Supporting scale-up financing across the Europe

**Tickets up to**

€100m

**Potential for enhanced Investor returns**
through unique equity structuring

• Managers can follow “winners” for longer
• Reduced reliance on syndication of investment rounds

• Supporting fundraising and timely fund closing
• ESCALAR structure can enhance returns and help attract investors

**InvestEU-focused Investment firepower**
For existing and new funds

• Selection based on the EIF’s proven due diligence and quality assessments
• Fully delegated investment decision making
Target funds and investments

ESCALAR is targeting late stage venture and growth investors

**Target fund managers**

**Strategy**
Focus on investments scale-ups in the EU and Other Participating Countries*

**Experience**
Proven investment track record and can manage the increased risk from ESCALAR investment

**Origination**
Ability to reach scale-ups

**Target portfolio companies**

**Type**
SMEs & Mid-caps** and scale-ups*** established and operating in the EU and Other Participating Countries

**Business stage**
Established product or service and generating revenues

**Finance purpose**
Increase production capacity, market or product development, additional working capital, total or partial acquisitions

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*Please refer to Annex II to the Call for the list of Other Participating Countries

**Depending on Target Area ***According to the ESCALAR call definition
Tailored to suit a variety of sectors

As part of the wider InvestEU offering, ESCALAR has been designed to work with the below four Thematic Strategies

**Climate & environmental solutions**
- Boost support for R&D, upscaling & commercialisation of solutions that contribute to the EU Green Deal
  - Mobility & transport
  - Energy & built environment
  - Industrial decarbonisation & environmental sustainability
  - Agriculture & natural resources
  - Blue Economy
  - Debt funds & hybrid debt-equity funds
  - Growth and expansion funds

**Capital Markets Union**
- Promote the European capital market, provide diversification of sources of financing & strengthen solvency of enterprises
  - Debt funds & hybrid debt-equity funds
  - Growth and expansion funds

**Enabling sectors**
- Support crucial sectors which can sustain the Europe as an independent and autonomous economy
  - Life science & health
  - Space
  - Defence
  - Industrial technologies
  - Semiconductor technologies & chips

**Digital & CCS**
- Strengthen the competitiveness, digital independence and strategic autonomy
  - Artificial Intelligence
  - Blockchain and DLT
  - Cybersecurity
  - Quantum computing
  - Creative & cultural sector (new technologies and digital transition)
  - Education tech
Main Requirements of ESCALAR

Two key principles shall be followed by Funds with whom the EIF enters into an investment with under the ESCALAR mechanism.

1. **Minimum Eligible Allocation**

   Funds are required to invest the higher of:
   - at least twice the amount drawn down from EIF (capped at 80% of aggregated investment amounts)
   - 50% of their aggregate invested amounts

   … in companies that are:
   - Established & operating within the EU27 or in Other Participating Countries*; and
   - SMEs, Small Mid-Caps, spin-outs/-offs, or Large Mid-caps
     (Large Mid-caps are not eligible under the CMU product)

2. **Minimum Target Allocation**

   Funds will be required to invest at least twice the amount drawn down from the EIF in Scale-Ups operating in the Target Areas agreed with the EIF.

*Please refer to Annex II to the Call for the list of Other Participating Countries*
Main Requirements – an example
A fund receives an ESCALAR investment of €30M from InvestEU under the Digital & CCS Thematic Strategy

Investment under InvestEU ESCALAR in a €100m Scale-up focused fund

From the InvestEU Equity: Digital & CCS Target Area

- €30M
- €70M

Other Investors

Minimum Investment in Digital & CCS Target Areas

- €60M
- €40M

Any Other Investments

Meaning that At least €60M (2 x €30M) must be invested in Scale-ups active in Digital & CCS Target Areas, as per the InvestEU Minimum Target Allocation requirements.
How to Apply
Interested in the ESCALAR mechanism? Here are your next steps

How to apply under the ESCALAR Call

1. Access the Call for Expression of Interest documentation for a more in-depth look – including information document and FAQ
2. Prepare your Application
3. Use our new online application tool to submit your formal expression of interest

Apply before 31st January 2024!
This presentation is for information purposes only and should be read in conjunction with the detailed call for expression of interest documentation available at www.eif.org
Option 1: Main Fund structure
A dedicated class of shares for ESCALAR in the main fund

- **LPs**
  - Commitments
    - Min. 50%
  - LP Distributions
    - LP return of net paid in capital
    - Initial return
    - Residual proceeds

- **GP**
  - ESCALAR shares

- **EIF**
  - Max EIF commitment
    - 50%, €100m
  - ESCALAR Distributions
    - Return of net paid in capital
    - Initial return
    - Residual proceeds

- **Investments**
- **Proceeds**
- **Portfoliocompanies**

*LP shares, GP shares, carry shares, etc. and may include EIF other resources*
Option 2: Side Fund structure
A dedicated class of shares for ESCALAR in a side fund

ESCALAR terms and conditions

- **MF shares**
  - Min Commitment: 50%
  - MF return of net paid in capital
  - Initial return
  - Residual proceeds

- **ESCALAR shares**
  - MF return of net paid in capital
  - Initial return
  - Residual proceeds

- **Commitment**
  - LPs
  - Main fund
  - Side Fund
  - GP

- **Fund Distributions**
  - Pursuant to MF contractual documentation

- **Side Fund Distributions**
  - MF return of net paid in capital
  - Initial return
  - Residual proceeds

- **ESCALAR Distributions**
  - Return of net paid in capital
  - Initial Return
  - Residual proceeds

- **Fund Distributions**
  - Pursuant to MF contractual documentation

- **Scale-ups**
  - Other investee companies

- **Max EIF commitment**: 50%, €100m

- **Min Commitment**: 50%
### Initial return

[Minimum 3%] IRR to be calculated pro rata temporis on the:

i. ESCALAR Shares Net Paid-In for ESCALAR Option 1 and 2,

ii. the LP Net Paid-In in case of ESCALAR Option 1 or the Main Fund Shares (of the side fund) Net Paid-in in case of ESCALAR Option 2.

### Trigger event

Means the event that has occurred from the moment that the ratio of NAV to ESCALAR Shares Net paid-in drops below 1.5x.

### Drawdowns

Pro rata

### Management fees

None

### Carried interest

ESCALAR shares are not subject to Carried Interest, however, any proceeds that flow from the ESCALAR waterfall to the LPs of the fund (in Option 1) or to the main fund (in Option 2) are subject to the overall waterfall agreed between the GP and LPs and contribute to achieving the hurdle and Carried Interest thresholds.
**ESCALAR commercial terms**

2/2

| Maximum Investment in a single Funding Round | The maximum invested amount by the Fund in a single funding round of a Final Recipient shall not exceed the portfolio diversification limits established in the legal documentation of the ESCALAR Financial Intermediary, to such effect that the share of any such investment funded indirectly by the ESCALAR Shares shall not exceed EUR 50 million (or equivalent). Notwithstanding the preceding sentence, in cases in which ESCALAR Shares are being subscribed by other Third Party Benchmark Investors, in addition to the EIF ESCALAR Investment, for an amount representing 15% or more of the aggregate commitments subscribed in ESCALAR Shares of the relevant ESCALAR Financial Intermediary, then this limitation shall not apply |
| Minimum Investment Allocation Requirements | The ESCALAR Financial Intermediary shall comply with the Minimum Eligible Allocation and the Minimum Target Allocation requirements. |
Waterfall

Main characteristics

1. Fund waterfall will follow what is indicated in the LPA (traditional waterfall with hurdle + carry).

2. Specific allocation of cashflows to LPs and ESCALAR.

3. Objectives of the ESCALAR waterfall:
   - Provide ESCALAR and other LPs with a fixed return
   - Potential upside participation for ESCALAR (less than pro rata) if the fund outperforms
   - Downside protection for ESCALAR in case the fund underperforms

Enhance both GPs and LPs returns while providing additional equity resources for Scale-ups
ESCALAR Payments Waterfall

ESCALAR Limited Partners invest in a separate class of shares, with a modified payments waterfall.

Where the fund performs positively

- ESCALAR shareholders and other LPs receive reflows pro-rata to their invested amounts until the initial return has been paid.
- The remaining proceeds are distributed, with non-ESCALAR limited partners receiving a greater share, reducing the ESCALAR share of the upside.

Where the fund performs poorly

- Defined as a situation in which the ESCALAR Net Paid in is less than 1.5 times the fund NAV
- ESCALAR shareholders receive reflows until their capital has been reimbursed, followed by other limited partners

ESCALAR terms and conditions

EIF will provide to applying Fund Managers a financial model, developed with the support of the EIB Advisory Services under InvestEU Advisory Hub, to project the impact of an ESCALAR investment into the Fund.
### Waterfall

**Main Fund structure**

<table>
<thead>
<tr>
<th>Prior to trigger event</th>
<th>Capital repayment</th>
<th>Initial return [Min 3% IRR]</th>
<th>Remaining proceeds (incl. hurdle + carry)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LPs</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>ESCALAR</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

- **Pro rata Split in a pre-agreed proportion (in favour of LPs)**

<table>
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<tr>
<th>Following trigger event</th>
<th>Preferred capital repayment</th>
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</thead>
<tbody>
<tr>
<td><strong>LPs</strong></td>
<td>x</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>ESCALAR</strong></td>
<td>✓</td>
<td>x</td>
<td>✓</td>
<td>✓</td>
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- **Preferred capital repayment**
- **Capital repayment**
- **Initial return [Min 3% IRR]**
- **Remaining proceeds (incl. hurdle + carry)**

- **Split in a pre-agreed proportion (in favour of LPs)**

<table>
<thead>
<tr>
<th>ESCALAR only</th>
<th>LPs only</th>
<th>Pro rata</th>
<th>Split in a pre-agreed proportion (in favour of LPs)</th>
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## Waterfall

### Side Fund structure

<table>
<thead>
<tr>
<th>Prior to trigger event</th>
<th>Main Fund shares</th>
<th>ESCALAR</th>
<th>Capital repayment</th>
<th>Initial return [Min 3% IRR]</th>
<th>Remaining proceeds (incl. hurdle + carry)</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

|                          |                  |         | ✓                 | ✓                           | ✓                                        |

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<td></td>
<td>x</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

|                          |                  |         | ✓                           | x                 | ✓                           | ✓                                        |

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<tr>
<th></th>
<th>ESCALAR only</th>
<th>MF shares only</th>
<th>Pro rata</th>
<th>Split in a pre-agreed proportion (in favour of MF)</th>
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Returns under ESCALAR
(illustrative)