



# *We're the European Investment Fund*

*ESCALAR - Scaling up funds to support EU scale-ups*

---

# *Introducing ESCALAR*

---

*A significant number of high growth European scale-ups have been acquired or forced to seek funding outside of the EU, due to the lack of suitable financing options within the EU.*

*ESCALAR is a pilot programme of EIF and the European Commission aiming to alleviate this market failure and strengthen the financing ecosystem for scale-ups in the EU.*

*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/escalar](http://www.eif.org/escalar)*

# ESCALAR: key features

A €300m pilot backed the European Commission using resources from the European Fund for Strategic Investments (EFSI)

Up to

€100m

*tickets for late stage  
venture and growth  
funds*

Potential for  
enhanced

investor  
returns

*through unique equity  
structuring*

Substantial,  
fully delegated

investment  
fire power

*for existing &  
new funds*

# Target funds and investments

ESCALAR is targeting late stage venture and growth investors



## Strategy

Focus on  
investments into  
EU scale-ups

## Experience

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

## Origination

Ability to reach EU  
scale-ups



## Type

SMEs & small Mid-caps  
and  
scale-ups\*  
established or operating in  
the EU

## 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

\*According to the ESCALAR call definition

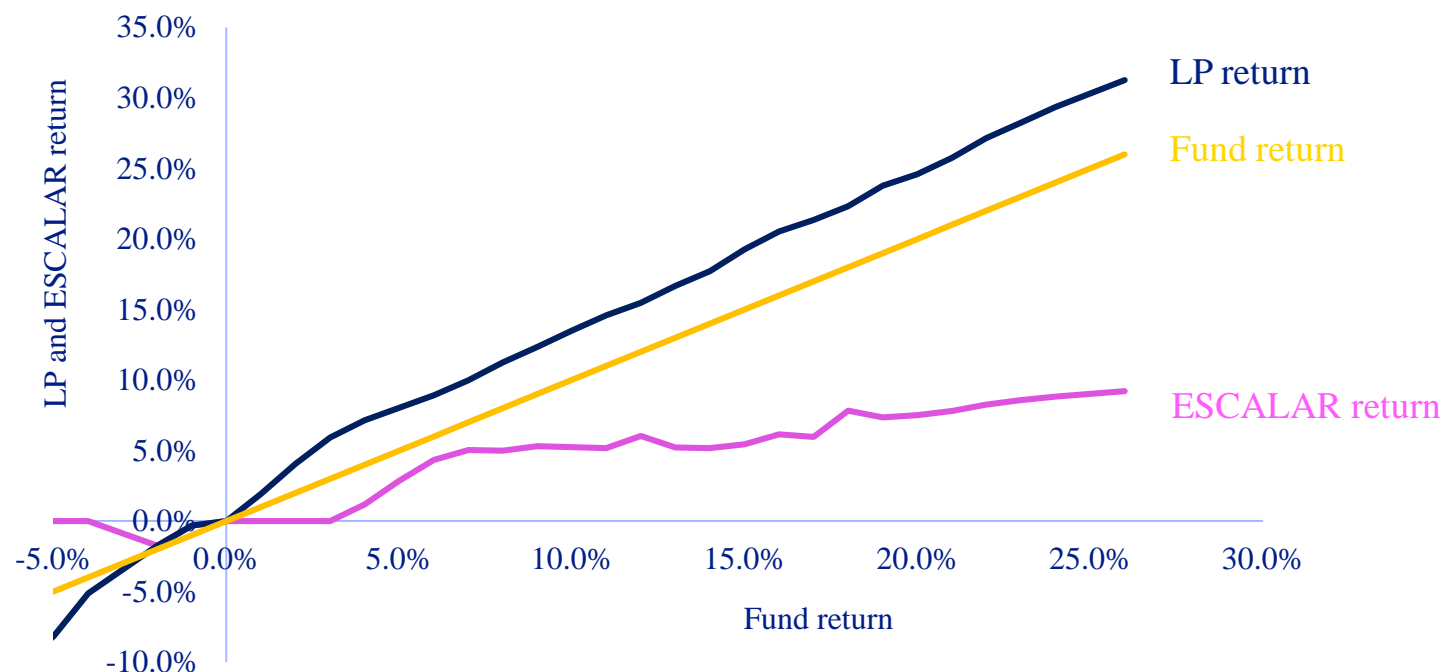
# Enhanced GP and LP upside potential

ESCALAR's unique equity structuring foregoes participation in the full return, enhancing returns for other investors

## ESCALAR equity structure

- 2 investment options available
  - Main Fund (Option 1)
  - Side Fund (Option 2)
- Other investors receive the first investment returns in priority to ESCALAR
- ESCALAR receives a fixed return and a small share of “upside”
- Return of capital pro rata to all investors except in certain pre-agreed downside scenarios where ESCALAR has priority

## Increased investment returns in all scenarios where the fund return is positive



Indicative scenario based on the following assumptions: TVPI of 1.8x at the end of the fund's life, investor preferred return of 4%, ESCALAR deferred return of 4%. Calculations derived from EIF internally developed model.

# Additional GP investment fire power

ESCALAR provides investment scale with full delegation

---

## Increased investment fire power for new and existing funds

Up to €100m ESCALAR commitments

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

---

## Significant resources for new funds with large scale fundraising potential

max 50% of total fund size

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

---

## Investment freedom given to funds who pass the EIF's rigorous selection process

- Selection based on the EIF's proven due diligence and quality assessments
- Fully delegated investment decision making

---

# *ESCALAR*

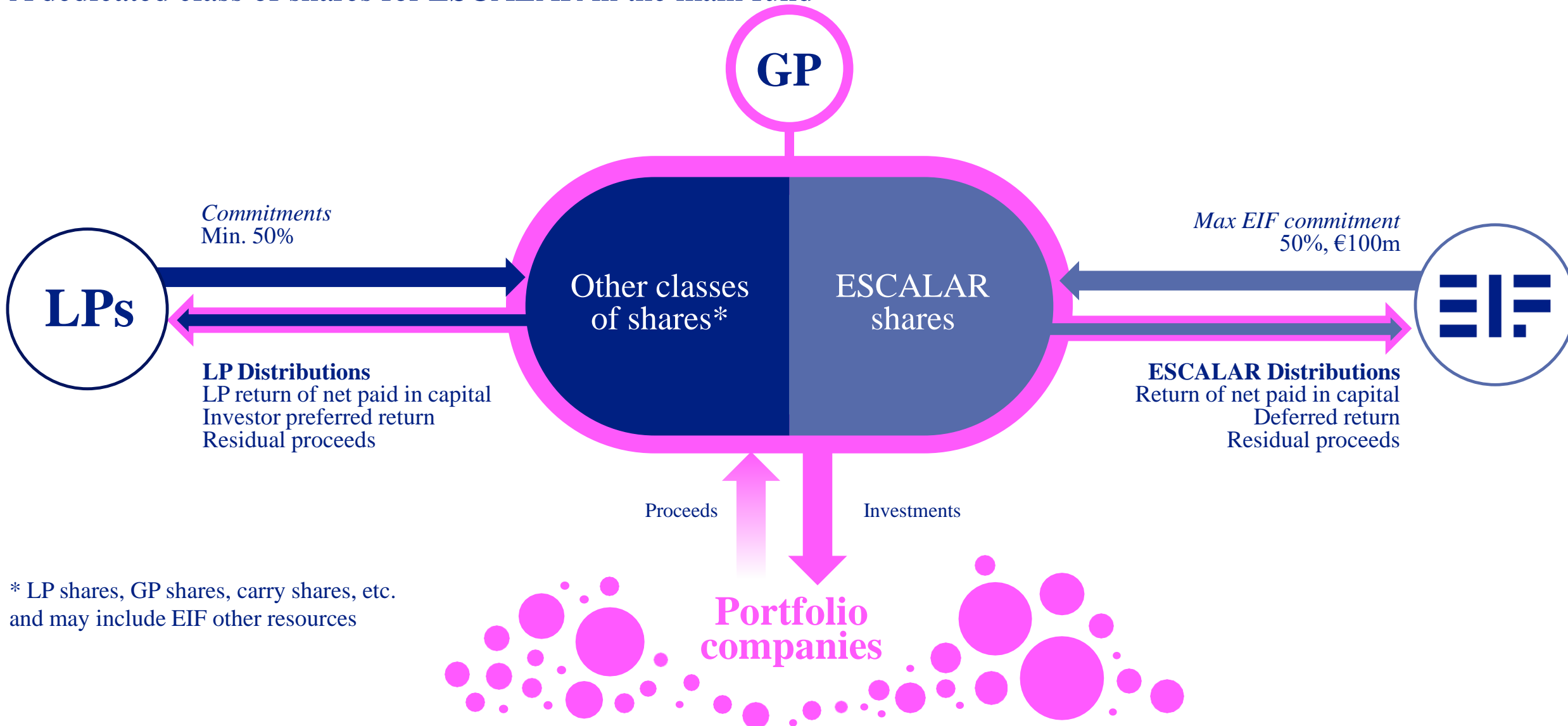
## *terms and conditions*

- 
- 1. Fund structuring options*
  - 2. Investment guidelines*
  - 3. Waterfall*
  - 4. Fund selection criteria - value added criteria*
  - 5. Fund selection criteria - qualitative assessment metrics*
  - 6. Application process*

*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/escalar](http://www.eif.org/escalar)*

# Option 1: Main Fund structure

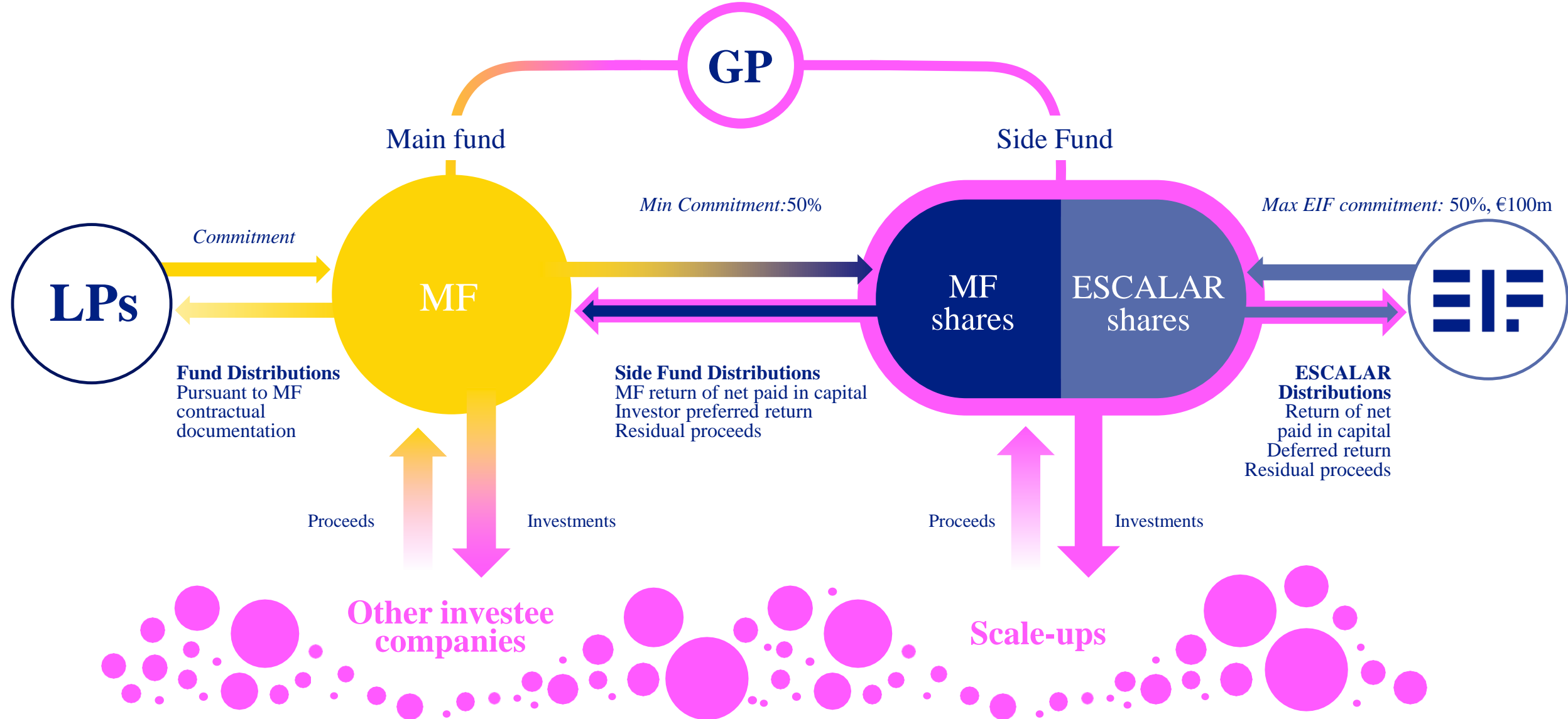
A dedicated class of shares for ESCALAR in the main fund





# Option 2: Side Fund structure

A dedicated class of shares for ESCALAR in a side fund



# Investment guidelines

1/3

---

<b>Investment size</b>	Up to €100m per financial intermediary Max of 50% of ESCALAR commitments to either the Main Fund or Side Fund
<b>Duration</b>	Max 15 years + up to 3 years extension
<b>Approval by</b>	31 December 2020
<b>Signing period term</b>	31 December 2022
<b>Private capital</b>	Min 30% of aggregate commitments are made by independent investment sources. Including EIF/EIB own resources, other IFIs and National Promotional Banks (with their own risk and on commercial terms)
<b>Management fees</b>	None
<b>Carried interest</b>	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

---

# Investment guidelines

2/3

---

## Financial intermediaries

- Funds and side vehicles providing long term risk capital investments in the form of **equity, hybrid debt-equity, or other type of mezzanine financing equity**
- Excluding entities targeting buy-out (or replacement capital) intended for asset stripping

---

## Target Final Recipients

- At the time of investment by ESCALAR (all of the following):
- SME or a small Mid-cap** (at time of first investment by the fund);
  - Scale-up Not an Excluded Final Recipient;**
  - Established or operating in the EU**

---

## Minimum allocation to target final recipients

### Option 1 (Main Fund)

- The Financial Intermediary shall invest in Target Final Recipients an amount equal to the lower of:
  - Two times of the aggregate amounts** drawn down from ESCALAR for the purpose of investment; and
  - Two-thirds of the total amount** drawn down by the Financial Intermediary from its investors for the purpose of investments.
- **subject to a floor of 50%** of invested amounts allocated to Target Final Recipients.

### Option 2 (Side Fund)

- **100% of amounts drawn down** from investors for investments shall be invested in Target Final Recipients
-

# Investment guidelines

3/3

---

**ESCALAR  
deferred  
return**

[4 to 6]% IRR to be calculated pro rata temporis on the ESCALAR Shares Net Paid-In

---

**Investor  
preferred return**

[3-5] % IRR calculated pro rata temporis on:

- i. the LP Net Paid-In in case of ESCALAR Option 1
- ii. 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 [1.5 to 2.0]x.

---

**Drawdowns**

Pro rata

---

# 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 other LPs with a fixed return in priority to ESCALAR
  - Provide ESCALAR 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***

# Waterfall

## Main Fund structure

**Prior to trigger event**

		Capital repayment	Investor preferred return [3-5% IRR]	ESCALAR deferred return [4-6% IRR]	Remaining proceeds (incl. hurdle + carry)
Cashflow from Fund	LPs	✓	✓	✓	✓
	ESCALAR	✓	X	✓	✓
		Pro rata	LPs only	Cash flows split in a pre-agreed proportion	Split in a pre-agreed proportion (in favour of LPs)

**Following trigger event**

		Preferred capital repayment	Capital repayment	Investor preferred return [3-5% IRR]	ESCALAR deferred return [4-6% IRR]	Remaining proceeds (incl. hurdle + carry)
Cashflow from Fund	LPs	X	✓	✓	✓	✓
	ESCALAR	✓	X	X	✓	✓
		ESCALAR only	LPs only	LPs only	Cash flows split in a pre-agreed proportion	Split in a pre-agreed proportion (in favour of LPs)

# Waterfall

## Side Fund structure

**Prior to trigger event**



Cashflow from Side fund

<b>Main Fund shares</b>	✓	✓	✓	✓
<b>ESCALAR</b>	✓	<b>x</b>	✓	✓

Pro rata

MF shares only

Cash flows split in a pre-agreed proportion

Split in a pre-agreed proportion (in favour of MF shares)

**Following trigger event**



Cashflow from Side fund

<b>Main Fund shares</b>	<b>x</b>	✓	✓	✓	✓
<b>ESCALAR</b>	✓	<b>x</b>	<b>x</b>	✓	✓

ESCALAR only

MF shares only

MF shares only

Cash flows split in a pre-agreed proportion

Split in a pre-agreed proportion (in favour of MF shares)

# Fund selection criteria

## Value added criteria

---

### **Predominantly invest in high growth European SMES and small Mid-caps**

- “Medium” or higher score will be awarded if the Financial Intermediary in its investment strategy targets to invest at least 50% of the aggregate amounts drawn down from investors for the purpose of investment in Scale-ups
- “High” score in case the Financial Intermediary targets to invest:
  - i. More than 60% of the aggregate amounts drawn down from investors for the purpose of investment in a Scale-up, which is an SME or Small MidCap; or
  - ii. In particularly high growth Scale-ups, which are SMEs or Small MidCaps, with an average annual growth in employees or turnover greater than 10% p. a. over the three year period ending 31st December 2019

---

### **Invest in more than one EU Member State**

“Medium” or higher score for this indicator will be awarded if the Financial Intermediary in its investment strategy targets to invest less than 75% of its invested amounts in any single Member State based on an assessment made inter alia on its management team’s track record, strategy, pipeline, office location and composition. This individual score shall be positively impacted by a wider geographical coverage in the EU.

---

### **Invest in EU Member States below the average of investments in PE/GDP**

“Medium” or higher score for this indicator will be awarded if the Financial Intermediary in its investment strategy targets to invest at least 50% of the aggregate amounts drawn down from investors for the purpose of investment in EU Member States where, according to Invest Europe private equity investment volumes as a percentage of GDP are below the European average. This individual score shall be positively impacted by higher country coverage in such countries.

---

### **Internationalization of portfolio companies**

“Medium” or higher score for this indicator will be awarded if the Financial Intermediary in its investment strategy targets to invest at least 50% of the aggregate amounts drawn down from investors for the purpose of supporting the internationalization of portfolio companies. This individual score shall be positively impacted by a greater focus on investing in internationalization of portfolio companies.

---



# Fund selection criteria

## Main qualitative assessment metrics

### 1. Strategy

- Focus on late stage venture/growth capital
- Previous experience in investing in growth companies in need of additional funding to continue on their growth plan
- Demonstrated ability to source relevant deals and ability and credibility for identifying and appraising scale-ups.
- Evaluation of Applicant's investment processes, including ability to build companies, add value and exit strategies.

### 2. Team

- Evaluation of the team profile, stability and ability to implement the ESCALAR product.

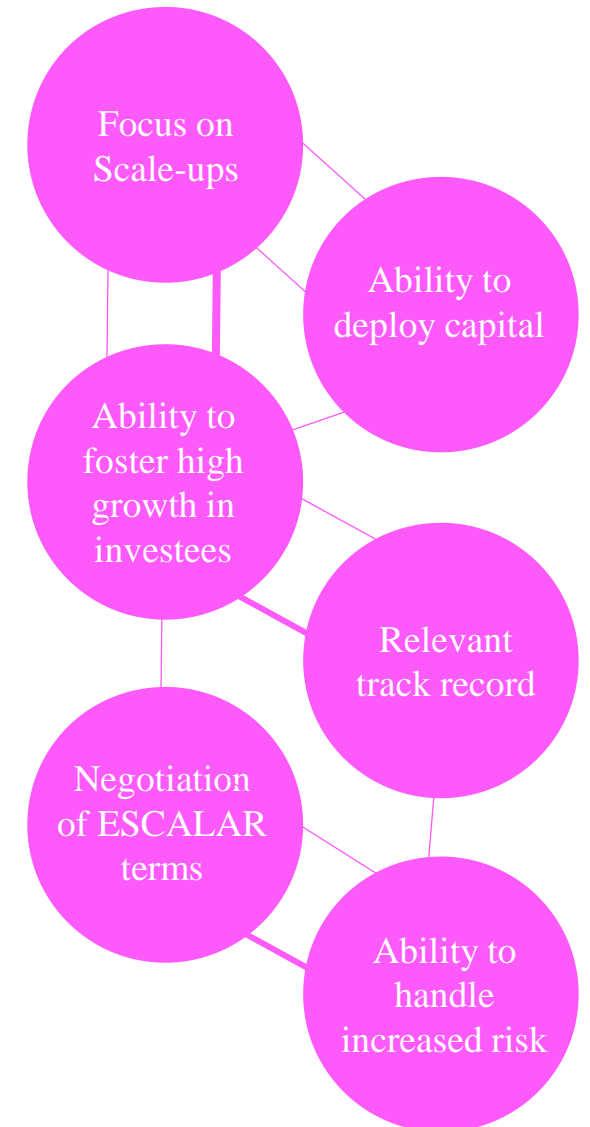
### 3. Track record

- Relevant track record, separating scale-ups vs. other investments.

**4. Terms and conditions**, including management costs and fees, and willingness to adapt to the incentive structure/profit share calculation methodology proposed (both on the GP side and LP side).

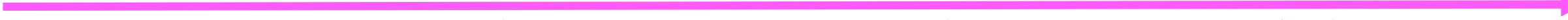
### 5. Assessment of legal structures and independence

### 6. Assessment of reporting procedures



# Process

Expected process and timeline for an investment



	Sourcing	Assessment	Approval	Closing
<b>EIF role</b>	Selection of funds which are in need of scale up capital	<ul style="list-style-type: none"> <li>• Screening</li> <li>• Due diligence</li> </ul>	EIF board approval	Structuring, legal negotiations and closing
<b>Key elements</b>	<p><b>Open call</b></p> <div style="background-color: #0070C0; color: white; padding: 10px; text-align: center;"> <p><u>Call for expression of interest available here</u></p> </div>	<ul style="list-style-type: none"> <li>• <b>Usual EIF assessment of proposals:</b> <ol style="list-style-type: none"> <li>i. First screening;</li> <li>ii. Second screening;</li> <li>iii. Due diligence</li> </ol> </li> <li>• <b>First come - first assessed basis</b></li> <li>• <b>Scoring system</b> to ensure consistency in evaluation of proposals and provide quantitative basis to the decisions taken</li> </ul>	EIF Board to approve potential transactions	Legal negotiations of LPAs and set up of the side vehicles or separate classes of shares
<b>Timing</b>	8 April 2020 to 30 June 2020	Q2-Q4 2020	Until 31 December 2020	Until 31 December 2022

*More information available  
at [www.eif.org](http://www.eif.org)*



---

To find out more please visit us at:

- [www.eif.org](http://www.eif.org)
- [www.eif.org/escalar](http://www.eif.org/escalar)

European  
Investment Fund  
37B avenue J.F. Kennedy

L-2968 Luxembourg  
Phone: +352 24851