European Scale-up Action for Risk capital (ESCALAR)

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This document provides some information on the terms of the European Scale-up Action for Risk capital (ESCALAR) Programme and its related documentation. This document is not, and should not be construed as, a binding document. It does not provide a detailed description of any party’s rights and obligations under the ESCALAR Programme documentation and should not be used to construe any of the terms set out thereunder. This document is qualified in its entirety by the terms and conditions contained in the relevant ESCALAR Programme documentation. This document does not constitute an offer of any nature whatsoever and does not create any binding obligations on EIF to enter into a contract with any third party in relation to the ESCALAR Programme or otherwise.

-FREQUENTLY ASKED QUESTIONS-

-published on 28th April 2020-

In accordance with the provisions of the Call for Expression of Interest published on the EIF’s website to select Financial Intermediaries under ESCALAR, you will find here below a list of some of the most commonly asked questions with respect to ESCALAR Programme. Please read through these FAQ before contacting the EIF.

If your question is not answered below and you believe it would be a good addition to the FAQ list, please send your suggestions by email, including in the title of the email “FAQ – ESCALAR”

Unless defined otherwise in this FAQ, all capitalized expressions used in this document shall have the meaning attributed to them in the above-mentioned Call for Expression of Interest.
Table of Contents
1. What is the aim of the ESCALAR Programme? ................................................................. 4
2. What kind of financial support does EIF offer under ESCALAR? ................................. 4
3. Which companies does ESCALAR support? ................................................................. 4
4. What is the minimum and maximum commitment possible from ESCALAR? ............ 4
5. How will applicants be selected under ESCALAR? ..................................................... 4
6. What does the requirement to have 30% of total fund commitments coming from private investors mean? .................................................................................................................... 5
7. Can ESCALAR invest in a non-EU established fund? .................................................... 5
8. We have already applied to for an investment from EIF and are currently undergoing due-diligence. Are we already considered for an investment from ESCALAR? Can we be considered for an investment from ESCALAR? ................................................................. 5
9. I am a fund manager managing several existing funds. Can I apply for all currently managed funds, or more than one fund? ........................................................................................................ 5
10. We are an existing fund and we are interested in requesting an investment from ESCALAR. However, we don’t yet know whether we will favour Option 1 or Option 2. Is this required at application stage? ................................................................. 5
11. Will ESCALAR contribute to the set up costs and/or running costs of the vehicle? ....... 5
12. We are considering applying for an investment from ESCALAR under Option 1 for our existing fund. Will ESCALAR pay equalisation interest? ................................................................. 6
13. We are considering applying for an investment from ESCALAR under Option 2. Should we already approach our existing investors to inform them of the intention to seek an investment from ESCALAR? ................................................................. 6
14. We are considering applying for an investment from ESCALAR under Option 2. However, while we expect support from many of our existing investors, we are not certain that the proposal will receive sufficiently broad support. Is it possible to allow existing investors, rather than the Main Fund, to directly invest in the Side Fund? ................................................................. 6
15. We are considering applying for an investment from ESCALAR under Option 2. As fund manager will be entitled to carried interest at the level of the Side Fund? ................................................................. 6
16. In the context of ESCALAR does a Scale-up include enterprises that have not recorded any revenue yet? .................................................................................................................... 6
17. What eligibility criteria must (portfolio) companies comply with? Are certain sectors favoured? ........................................................................................................................................7

18. I am a Scale-up seeking investment, can I apply for an investment from ESCALAR? ... 7

19. Could you please clarify if there are any requirements as to where the capital is deployed in terms of investments in existing portfolio companies versus investments in new companies? For example, is there a requirement that a certain proportion is to support existing portfolio companies? ........................................................................................................................................7

20. We are seeking an investment from ESCALAR for an existing and/or new fund-of-funds, which will target funds with investment strategies focusing on Scale-ups. Can ESCALAR invest in funds-of-funds? ........................................................................................................................................7
1. What is the aim of the ESCALAR Programme?

The European Scale-up Action for Risk capital (ESCALAR) is a new pilot programme launched by the EIF and the European Commission using resources from the European Fund for Strategic Investments (EFSI) to address the financing gap experienced by high-growth European Scale-up companies. ESCALAR can support both new funds needing to achieve a larger critical mass to support such companies in their future portfolio, and existing funds seeking additional capital to make follow-on investments in Scale-ups in their existing portfolio.

2. What kind of financial support does EIF offer under ESCALAR?

ESCALAR will make equity investments in funds (Option 1), and side vehicles of funds (Option 2), through a different share class or fund unit to other investors. ESCALAR investments will have different terms to the investments made by other investors, namely a (1) preference on fund distributions in certain predefined downside scenarios, and (2) subordination, and reduced claim on investment returns.

An investment from ESCALAR can enhance the risk-adjusted returns to LPs, thereby attracting investors to the asset class and crowding in private capital for Scale-ups.

3. Which companies does ESCALAR support?

Via the selected funds, ESCALAR will support SMEs and Small Mid-caps in the EU aiming to scale up. In particular ESCALAR aims to support EU companies to make investments in increased production capacity, to finance market or product development, to provide additional working capital or to be used for a (total or partial) acquisition, with a view to further growing the business.

4. What is the minimum and maximum commitment possible from ESCALAR?

ESCALAR’s commitment shall not be lower than 7.5% of the total commitments made at the closing at which ESCALAR is admitted. ESCALAR’s investment shall not exceed the lower of: (i) €100m, and (ii) 50% of the aggregate commitments made to the Fund in case of Option 1, or the Side Fund in case of ESCALAR Option 2. See Annex II - Investment Guidelines for further details.

5. How will applicants be selected under ESCALAR?

Financial Intermediaries will be selected on a rolling basis, as applications are received, according to the merits and evaluation of the proposal, in line with the selection process described in Sections 4.1 and 4.2 of the Call for Expression of Interest. For the avoidance of doubt, each application will be analysed on the basis of its specific merits and circumstances; accordingly, it is expected that some of the applications eventually selected may have been submitted later than other applications who will not be selected, always on the basis of their merits.
6. What does the requirement to have 30% of total fund commitments coming from private investors mean?

At the time of the ESCALAR closing at least 30% of total investor commitments, including those from earlier closings but excluding ESCALAR’s commitment, must be made by independent private investment sources, as further set out in Annex II - Investment Guidelines. Where an applicant is applying for an investment from ESCALAR in respect of new fund, this requirement will need to be satisfied for the closing where ESCALAR commits and it is not required to have these commitments in place at the time of application.

7. Can ESCALAR invest in a non-EU established fund?

ESCALAR can only invest in EU established vehicles.

8. We have already applied to for an investment from EIF and are currently undergoing due-diligence. Are we already considered for an investment from ESCALAR? Can we be considered for an investment from ESCALAR?

Only applicants who have applied in accordance with the Call for Expression of Interest can be considered. However, financial intermediaries who already received an investment from EIF and financial intermediaries who have applied for investment are eligible to apply for an investment from ESCALAR.

9. I am a fund manager managing several existing funds. Can I apply for all currently managed funds, or more than one fund?

It is permitted for a manager to apply on behalf of more than one fund. However, in order to ensure the broadest possible outreach from the limited ESCALAR resources, commitments in several funds managed by the same GP are not intended to be a priority.

10. We are an existing fund and we are interested in requesting an investment from ESCALAR. However, we don’t yet know whether we will favour Option 1 or Option 2. Is this required at application stage?

There is no requirement to decide on Option 1 or Option 2 at application stage. An indicative preference is requested but this does not prejudice the final decision which can be made at a later stage.

11. Will ESCALAR contribute to the set up costs and/or running costs of the vehicle?

ESCALAR will contribute to such costs (including set-up, accountancy, insurance etc.), on a pro-rata basis with other investors in the fund as further set out the legal documentation.
12. We are considering applying for an investment from ESCALAR under Option 1 for our existing fund. Will ESCALAR pay equalisation interest?

ESCALAR will not pay equalisation interest. This is justified by a number of elements including, among others:

- The fact that under Option 1, ESCALAR will subscribe to a new share class or fund unit different to the other investors;
- The different return profile of ESCALAR, with reduced participation in the upside performance of the Fund, which is in favour of the other investors.

13. We are considering applying for an investment from ESCALAR under Option 2. Should we already approach our existing investors to inform them of the intention to seek an investment from ESCALAR?

It is not a requirement that at application stage applicants have already consulted with, or received an approval to proceed from, their existing investor base. However, we recommend that applicants do approach their existing investors at an early stage as confirmation of this support will be required during the due diligence process and prior to receiving an investment from ESCALAR.

14. We are considering applying for an investment from ESCALAR under Option 2. However, while we expect support from many of our existing investors, we are not certain that the proposal will receive sufficiently broad support. Is it possible to allow existing investors, rather than the Main Fund, to directly invest in the Side Fund?

Option 2 is only possible with both the Main Fund and ESCALAR investing in the Side Fund. It is not possible for other investors to directly invest in the Side Fund, including where investing alongside the Main Fund. However, other investor combinations with ESCALAR are possible under Option 1.

15. We are considering applying for an investment from ESCALAR under Option 2. As fund manager will be entitled to carried interest at the level of the Side Fund?

Under Option 2, carried interest will continue to be calculated the level of the main fund, and not the Side Fund, in order to maintain the alignment of interests between the parties. However, ESCALAR has been structured in a way that it enhance the returns for the other investors, and therefore can also positively impact carried interest.

16. In the context of ESCALAR does a Scale-up include enterprises that have not recorded any revenue yet?

No, an enterprise is considered a Scale-up if: (i) it has already established a product or service, and (ii) has already generated revenue. While revenue generation is required, the enterprise does not need to be profitable yet.
17. What eligibility criteria must (portfolio) companies comply with? Are certain sectors favoured?

There is no sector focus under the ESCALAR Programme.

The Final Recipients must meet all eligibility criteria set out in **Annex II - Investment Guidelines**, including the requirements **EIF Restricted and Excluded Sectors**.

18. I am a Scale-up seeking investment, can I apply for an investment from ESCALAR?

The Call is addressed to financial intermediaries with an investment strategy that targets EU based Scale-ups. We are currently receiving and processing applications from interested financial intermediaries and, once selected, EIF will publish on the [ESCALAR](https://www.escalar.eu/) webpage the list of financial intermediaries benefitting from support under ESCALAR, with corresponding contact addresses. Scale-ups are then invited to approach these financial intermediaries directly.

Please note that final approval of funding for Scale-ups lies solely with the financial intermediary.

In the meantime, please find a complete list here of [financial intermediaries supported by EIF](https://www.escalar.eu/).

19. Could you please clarify if there are any requirements as to where the capital is deployed in terms of investments in existing portfolio companies versus investments in new companies? For example, is there a requirement that a certain proportion is to support existing portfolio companies?

ESCALAR is intended to provide broad support to Scale-ups across the EU and there is no requirement in terms of making a minimum allocation towards new companies or towards existing portfolio companies; the only requirement is the “Minimum Allocation” as outlined in Section 2 of the **Annex II - Investment Guidelines**.

20. We are seeking an investment from ESCALAR for an existing and/or new fund-of-funds, which will target funds with investment strategies focusing on Scale-ups. Can ESCALAR invest in funds-of-funds?

ESCALAR is exclusively focused on investing in financial intermediaries making direct investments into companies and therefore investments into fund-of-funds are not possible.