Financial Instrument: Description and Selection Criteria

Part I: Description of the Financial Instrument

Capitalised expressions utilised herein shall have the meaning attributed to them in the above mentioned Call for Expression of Interest, unless otherwise defined below or the context requires otherwise. Unless the contrary intention appears, words in the singular include the plural and words in the plural include the singular.

1 Rationale

The purpose of the Financial Instrument is to support SMEs at their seed and start-up stage by providing funding in the form of either equity or quasi-equity in order to enhance the access to financing to this untapped SMEs group as well as to streamline the transition to a knowledge-based economy in Bulgaria.

2 The Financial Instrument

The Financial Intermediary is expected to allocate the total funds under the instrument and manage them in a framework having a main fund and one sub-compartment within it:

- **Acceleration compartment**: Initial financing up to a predefined amount by the Financial Intermediary supporting the entrepreneurs (Eligible SMEs) to research, assess and develop an initial concept.

  In order to attract a critical mass of eligible applications for receiving financing in the Acceleration compartment, the Financial Intermediary shall envisage holding competitive application windows. Upon closure of any such procedures, approved SMEs (according to pre-defined eligibility and quality assessment criteria by the Financial Intermediary) could receive initial financing.

- **Early Stage Fund**: the Financial Intermediary shall provide: (i) initial and follow-on financing to Eligible SMEs in their first and subsequent stages of product development and commercialisation, whilst it is understood that such Eligible SMEs might not have sold their product commercially and (ii) follow-on financing up to the maximum amount to Eligible SMEs already supported in the Acceleration compartment, upon successful graduation of each Eligible SME from the Acceleration compartment. At least [30%] of the capital from the Early Stage Fund should be invested in graduates from the Acceleration compartment.

3 Summary of Transaction Terms

<table>
<thead>
<tr>
<th>Financial Instrument</th>
<th>Early Stage Fund with an Acceleration Compartment</th>
</tr>
</thead>
</table>
### Fund Manager

Financial Intermediary selected by EIF to manage the Early Stage Fund with an Acceleration Compartment. The Fund Manager will comprise a team of experienced professionals, operating according to best industry practices, complying with professional standards issued by the Invest Europe ¹ or other equivalent organisation. Such team will be expected to act independently. Up to two Fund Managers (Financial Intermediaries) could be selected as a result of the Call and subsequent selection process.

### Target Geography

The Financial Intermediary shall structure and implement an investment strategy which covers the entirety of targeted territory of Bulgaria. Specific emphasis should be also put on at least one more of the most active start-up and early-stage hubs in Bulgaria, other than Sofia.

An equal proportion to the resources raised from private investors in the Financial Instrument could be invested in SMEs registered and operating outside the territory of Bulgaria.

### Indicative maximum amount of funding foreseen for the Financial Instrument (JHF contribution)

Indicative budgetary allocation from JHF reflows of up to EUR 40m, in line with the JEREMIE Recycled Funds Investment Strategy.

The final budgetary allocation under the instrument will be decided after the qualitative assessment of the applications submitted by the prospective Financial Intermediaries.

### Objectives of the Fund

The Early Stage Fund with an Acceleration Compartment is expected to create and develop a portfolio of innovative Eligible SMEs at the early stages of their business development.

### Investment amount into an Eligible SME (maximum amount)

Investments and Follow-on Investments into any Eligible SME by the Early Stage Fund with an Acceleration compartment cannot exceed:

1. **No private co-investors at the Eligible SME underlying level**: EUR 200,000 to a single undertaking, as defined in art. 2 of Commission Regulation (EC) 1407/2013, over any period of three fiscal years reduced to EUR 100,000 for Eligible SMEs active in the road transport sector. (A fiscal year runs from 1 of January to 31 of December).

   The rules for cumulation of the aid shall apply in accordance with art. 3 and 5 of Commission Regulation (EC) No 1407/2013. In accordance with art. 5, par. 2 of Commission Regulation (EC) No 1407/2013 de minimis aid shall not exceed:

   1. **No private co-investors at the Eligible SME underlying level**: EUR 200,000 to a single undertaking, as defined in art. 2 of Commission Regulation (EC) 1407/2013, over any period of three fiscal years reduced to EUR 100,000 for Eligible SMEs active in the road transport sector. (A fiscal year runs from 1 of January to 31 of December).

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¹ Invest Europe is the association representing Europe’s private equity, venture capital and infrastructure sectors, as well as their investors.
be cumulated with State aid in respect of the same eligible costs if such cumulation would result in an aid intensity exceeding that fixed in the specific circumstances of each case by a block exemption Regulation or Decision adopted by the Commission.

2) At least 30% private co-investors at Fund or Eligible SME underlying level: EUR [1,500,000] for any twelve month period, in accordance with art. 2.1.1 (31 to 35) of the Guidelines on State aid to promote risk finance investments (2014/C 19/04).

<table>
<thead>
<tr>
<th>Financial Instrument availability (Fund duration)</th>
<th>Up to 10 years, with the possibility of extension for 2 years.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund’s investment period</td>
<td>Initial investments in Eligible SMEs are envisaged to be made no later than 5 years after the first closing of the Fund. Follow-on investments in existing portfolio companies are allowed beyond this period.</td>
</tr>
<tr>
<td>Capital split between the Acceleration Compartment and the Early Stage Compartment.</td>
<td>The final split of capital commitments between the Acceleration Compartment and the Early Stage Fund is left at the discretion of the applying Financial Intermediaries. Nevertheless, in order to retain the early stage focus of the instrument as well as provide for sufficient follow-on capital, the capital commitments to the Acceleration compartment should be between min [15]% and max [49]% of the total capital commitments to the Financial Instrument.</td>
</tr>
<tr>
<td>Portfolio Diversification</td>
<td>The Fund will not invest more than [15]% of its total commitments in one Eligible SME.</td>
</tr>
<tr>
<td>Type of investments</td>
<td>The Early Stage Fund with an Acceleration Component will undertake risk capital investments, taking form of either equity or quasi-equity.</td>
</tr>
<tr>
<td>Follow-on Investments</td>
<td>In accordance with the Guidelines on State aid to promote risk finance investments (2014/C 19/04), such investment means additional investment in a company subsequent to one or more previous risk finance investment rounds.</td>
</tr>
</tbody>
</table>
| Eligible SMEs                                     | The Fund will target only SMEs as defined under Commission Recommendation 2003/361/EC, and the Small and Medium-Sized Enterprises Act of the Republic of Bulgaria, which are not “firms in difficulty” within the meaning of point 20 of Community guidelines on State aid for rescuing and restructuring firms in difficulty (2014/C 249/01) as from time to time amended or substituted (“Eligible SMEs”). However, as stipulated by point 24 of Community guidelines on State aid for rescuing and restructuring firms in difficulty, an SME which has been incorporated for less than three years shall not be considered, for the purpose of the Financial Instrument, to be in difficulty with regard to that period, unless it fulfils the criteria under the relevant national law for being the subject of collective
insolvency proceedings.

Eligible SMEs must be (1) registered under Commerce Act of Bulgaria and (2) have its main place of business in Bulgaria such that:

(i) at least 50% of the revenue of the SME is accounted in Bulgaria; or
(ii) at least 50% of SME’s assets (tangible or intangible) are permanently based or are otherwise registered in Bulgaria; or
(iii) a substantial majority of SME’s business value creating professional staff (including, without limitation, engineers, technical staff, academics and senior operations executives involved in the business strategy and/or product development) located in Bulgaria or has substantial product development operations in Bulgaria.

It should be noted that SMEs defined under Commission Recommendation 2003/361/EC, notwithstanding the place of registration of such SMEs, which are the controlling owner of an Eligible SME that meets the requirements under (2) above and the requirements under (2) above are satisfied on consolidated group level.

Investees’ advisers / pool of mentors’ structure

The selected Financial Intermediary will be expected to establish a structure from which relevant industry experts could be recruited on as needed basis by the investee companies (the form, size, industry concentration, commitment and incentivisation scheme of the pool remains at the full discretion of the Financial Intermediary).

Excluded sectors and activities

Investments can be made in projects in all sectors of the economy, except:

a. Excluded sectors presented in Article 1 of the Commission Regulation (EC) No 1407/2013:
   (i) aid granted to undertakings active in the fishery and aquaculture sectors, as covered by Council Regulation (EC) No 104/2000 of 17 December 1999 on the common organisation of the markets in fishery and aquaculture products(1);
   (ii) aid granted to undertakings active in the primary production of agricultural products as listed in Annex I to the Treaty;
   (iii) aid granted to undertakings active in the processing and marketing of agricultural products as listed in Annex I to the Treaty, in the cases specified in Commission Regulation (EC) No 1407/2013;
   (iv) aid granted to undertakings active in the coal sector, as defined in Regulation (EC) No 1407/2002;
   (v) other enterprises specified in art. 1, from (a) to (g) of

b. Undertakings active in Section A - Agriculture, forestry and fishing as listed in NACE Rev. 2;

c. Illegal Economic Activities
Any production, trade or other activity, which is illegal under the laws or regulations of the home jurisdiction for such production, trade or activity.

Human cloning for reproduction purposes is considered an Illegal Economic Activity.

d. Tobacco and Distilled Alcoholic Beverages
The production of and trade in tobacco and distilled alcoholic beverages and related products.

e. Production of and Trade in Weapons and Ammunition
The financing of the production of and trade in weapons and ammunition of any kind.

f. Casinos
Casinos and equivalent enterprises.

IT Sector Restrictions

g. Research, development or technical applications relating to electronic data programs or solutions, which

(i) aim specifically at:

(a) supporting any activity included in the EIF Restricted Sectors referred to under e to h above;
(b) internet gambling and online casinos; or
(c) pornography,

or which

(ii) are intended to enable to illegally

(a) enter into electronic data networks; or
(b) download electronic data.

h. Life Science Sector Restrictions
When providing support to the financing of the research, development or technical applications relating to

(i) human cloning for research or therapeutic purposes; or
(ii) Genetically Modified Organisms (“GMOs”),

EIF will require from the EIF counterpart appropriate specific assurance on the control of legal, regulatory and ethical issues linked to such human cloning for research or therapeutic purposes and/or Genetically Modified Organisms.

Projects of social enterprises aiming at their business development, and projects of micro and small enterprises that are start-ups are not financed, if they are financed from financial engineering instruments supported by the European Social Fund.

An investment into an SME cannot be used for the same activity which has already been supported by public funds.
**Governing law and language**

The legal documentation of the Fund shall be in the English language and shall be governed by the laws of the country of incorporation within the European Union. All Fund related entities, such as general partner, management company, advisor, carried interest vehicle, team members investment vehicles, et similia, shall be incorporated within the European Union. Any cross border element of the structure shall be highlighted and justified.

**State aid regime**

Investments of up to EUR 200,000 are subject to the state aid regime defined by Commission Regulation (EC) No 1407/2013.

Investments and Follow-on Investments above EUR 200,000 and up to EUR [1,500,000] p.a. are subject to art. 2.1.1 of the Guidelines on State aid to promote risk finance investments (2014/C 19/04).

EIF and the MA will provide further instructions on compliance with the above-mentioned regimes, in the form of separate guidelines (“State-aid Guidelines”), prior to entering in Operational Agreements.

The Fund Manager will be responsible for ensuring that investments respect the provisions of such regulations, and such responsibility will be acknowledged contractually.

**Private Investors on a Fund level**

While private investors commitments on a Fund level are encouraged, due to the inherently high risk of the instrument, JHF could be the only investor in the Fund besides the management team own commitment.

Should private investors be raised on a fund level, the respective amount committed should count pro-rata towards, and respectively decrease, the requirement of private co-investors set forth in art. 2.1.1 (31 to 35) of the Guidelines on State aid to promote risk finance investments (2014/C 19/04) with respect to investments undertaken at the level of underlying Eligible SMEs.

Private Investors on a Fund level shall be deemed to be any investors which are normal economic operators (i.e. investors operating in circumstances corresponding to the market economy operator test in a free market economy, irrespective of the legal nature and ownership structure of such operators). In this context, funding with resources, which are not State resources within the meaning of Article 107.1 of the Treaty of the Functioning of the European Union, is considered to be provided by private investors.

**Private Investor Ranking**

JHF, the Private Investors on a Fund level and the Private Co-Investors at the level of the underlying Eligible SME will rank “pari-passu” in the Early Stage compartment in the Fund, i.e. sharing exactly the same upside and downside risks and rewards.
and hold the same level of subordination in relation to the same risk class, via the same investment transaction.

| Private Co-Investors at the level of the underlying Eligible SME | Each investment or Follow-on Investment exceeding EUR 200,000 requires at least 30% private co-investors at the Eligible SME underlying level in accordance with art. 2.1.1 (31 to 35) of the Guidelines on State aid to promote risk finance investments (2014/C 19/04).

For the purposes of the above “Private Co-Investors” shall be deemed to be any investors which are economically and structurally independent from the Eligible Beneficiaries where an investment is made, and from any entities and/or individuals connected thereto (excluding, in the case of a follow-on investment, the existing shareholders that are not founders of a company), and (iii) in the reasonable determination of the Manager, are normal economic operators (i.e. investors operating in circumstances corresponding to the market economy operator test in a free market economy, irrespective of the legal nature and ownership structure of such operators). In this context, funding with resources, which are not State resources within the meaning of Article 107.1 of the Treaty of the Functioning of the European Union, is considered to be provided by private investors. |
| Management team own commitment | The management team will be required to commit at least 2% of the total instrument size at pari-passu terms.

| Management Costs of the Fund | The management costs of the Financial Instrument shall be in line with market practice for similar instruments with an overall cap of 20%.

For the purposes of the above, the management costs shall be deemed to include any fees, expenses and costs necessary to set up and manage the Financial Instrument. |
| Fund’s distribution cascade | The distributions of proceeds from the Fund will be made according to the schedule below:

A) Acceleration Compartment

1. First, up to 100%² to the Fund’s investors (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital commitments;

2. 50/50 Split: Thereafter, 50% to the Fund’s investors (pro-rata to their underlying economic interest) and 50% to the carried interest beneficiaries (“Carried Interest”).

B) Early Stage Fund Compartment

² The final threshold to be set depending on market response.
1. First, 100% to the Fund’s investors (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital commitments;  
2. Hurdle Rate or Fixed Multiple\(^3\): Second, 100% to the Fund’s investors (pro-rata to their underlying economic interest) until each investor has received a preferred return of \([xx]\)% or \([xx]\) return on their capital commitments.  
3. Catch-up: Third, 100% to the carried interest beneficiaries until they have received an amount equal to 25% of the total preferred returns distributed to the investors under paragraph 2 above; and  
4. 80/20 Split: Thereafter, 80% to the Fund’s investors (pro-rata to their underlying economic interest) and 20% to the carried interest beneficiaries (“Carried Interest”).

<table>
<thead>
<tr>
<th>Additional features of the Financial Intermediary</th>
<th>The Fund Manager will manage the Fund based on commercial principles. Investors’ representatives shall be appointed in appropriate advisory committee structures to review inter alia Fund corporate governance. In the management of the Fund, the Financial Intermediary shall apply best practices, inter alia considering guidelines developed by Invest Europe, and shall perform controls as required by the public nature of JHF investment.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting</td>
<td>The Fund Manager shall provide EIF with periodical information in a standardised form and scope, in compliance with De minimis regulation, State-aid Guidelines and Invest Europe guidelines, as to be specified in the Operational Agreement.</td>
</tr>
<tr>
<td>Monitoring and Audit</td>
<td>The Fund Manager and the relevant SMEs (final beneficiaries) shall agree to allow and to provide access to documents related to the Financial Instrument for the representatives of the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, EIF, Managing Authority(^5) and any other authorised bodies duly empowered by applicable law to carry out audit and/or control activities. To that effect, the Fund Manager shall include appropriate provisions in each investment agreement with Investment Targets.</td>
</tr>
<tr>
<td>Publicity</td>
<td>The Fund Manager shall carry out adequate marketing and publicity campaigns aimed at making its activity and the JHF known to the SMEs in Bulgaria.</td>
</tr>
</tbody>
</table>

\(^3\) To be decided depending on market response  
\(^4\) Invest Europe is the association representing Europe’s private equity, venture capital and infrastructure sectors, as well as their investors.  
\(^5\) National public authority designated by GoB as referenced in the Funding Agreement.
Additional requirements

The Applicant shall refer to EIF Policies, in particular:
- Anti Fraud Policy;
- Policy on Offshore Financial Centres & Governance Transparency;
published on the EIF website.

Part II: SELECTION CRITERIA for the Financial Intermediary

1. ELIGIBILITY CRITERIA

<table>
<thead>
<tr>
<th>System of appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes/ No</td>
</tr>
</tbody>
</table>

A. Receivability

1.1. The Expression of Interest is submitted within the Deadline;
1.2. The Expression of Interest is submitted both by registered mail and e-mail;
1.3. The Expression of Interest is completed and submitted in English;
1.4. The Expression of Interest is duly signed;
1.5. The Expression of Interest is prepared in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided.

B. Eligibility

1.6. Applicant’s absence of conflict of interest (as per template provided in Appendix 4 to the Expression of Interest);
1.7. Applicant and its senior management are not in any situation of exclusion (as per template provided in Appendix 5 to the Expression of Interest);
1.8. Ability to communicate in Bulgarian and English;
1.9. The Expression of Interest addresses all the items set out in the Project Description (Appendix 2 to Annex 1);
1.10. The Expression of Interest addresses all the items of the Financial Instrument, including any special conditions, set out in the relevant parts of the Financial Instrument description (Part I of Annex 2);
1.11. Applicant commitment for own investment in the Early Stage Fund with an Acceleration Compartment of at least 2% of the total size.

2. QUALITY ASSESSMENT CRITERIA
### 2.1. Project Relevance, Quality and Coherence

| 2.1.1. Evaluation of the Fund focus and proposed investment strategy, including viability of Fund’s size; |
| 2.1.2. Evaluation of the Fund Manager team profile, stability and ability to implement the Financial Instrument; |
| 2.1.3. Assessment of operational, financial, technical and early stage investment and value add competences; |
| 2.1.4. Track record of the Fund Manager team (specifically in angel, seed, start up and venture capital investments and early-stage business development); |
| 2.1.5. Capability as members of boards and/or committees of an investment and/or advisory nature; |
| 2.1.6. Evaluation of Applicant’s investment processes, including dealflow generation, ability to invest, ability to build companies and add value and exit strategy; |

#### 60 points

### 2.2. Project Maturity

| 2.2.1. Applicant’s own investment in the fund; |
| 2.2.2. Demonstration of ability to source deals in Bulgaria and in the Region (SMEs); |

#### 20 points

### 2.3. Institutional Capacity & Sustainability

| 2.3.1. Fund Manager organisation, structure and long-term viability; |
| 2.3.2. Assessment of the envisaged application and selection procedures; |
| 2.3.3. Assessment of the investees’ advisers / pool of experts' structure to be put in place; |
| 2.3.4. Assessment of the corporate governance in place; |
| 2.3.5. Assessment of legal structures and independence; |
| 2.3.6. Terms and Conditions, including management fee and profit share arrangements; |
| 2.3.7. Assessment of the alignment of interests between the Fund Manager and JHF; |
| 2.3.8. Assessment of Reporting and Control Procedures. |

#### 20 points