Bulgaria
Recovery Equity Fund
Bulgaria Recovery Equity Fund

Open Information Session

Sofia, 21st November 2023
Agenda

1 Welcome Remarks

2 EIF: Supporting regional markets

3 Bulgaria Recovery Equity Fund: Call for EoI (key points)

4 The EIF Investment Process

5 Q&A
Welcome Remarks
The EIF as an investor

We do not invest or lend directly. We are not a bank.

We use financial instruments to address gaps, foster sustainability, multiply resources and in doing so, improve access to finance.
Our unique approach

We design financial instruments that share risks with our partners multiplying public resources and increasing the supply of finance

Our resources

- European Commission
- European Investment Bank
- Local authorities & National Promotional Institutions
- Other investors*

Our approach

We design and deploy financial instruments that target funding gaps

- Equity risk sharing
- Debt risk sharing

Our partners

- 700+ Funds
- 500+ Banks

Small businesses

- More than €5 investment and lending to small businesses

5x leverage of public resources**

*Includes EIF’s own resources and other external resources including private investors.

**Depending on the instrument and the transaction, the instrument-level leverage can range widely. December 2022 data.
Benefits of our approach

We multiply resources
We design financial instruments that share risk with banks and funds and, as a result multiply resources

We target funding gaps
We help our investors support new segments and target specific gaps at a European, national and local level

We nurture ecosystems
We partner with established and new providers of equity and debt financing, often taking a cornerstone position when required

- Increasing the overall supply of finance for small businesses
- Increasing financing options especially where markets don’t work well
- Increasing the number of local partners lending to and investing in small businesses
EIF: supporting regional markets

The Bulgarian VC & PE ecosystem
Building the Bulgarian VC / PE ecosystem
An ongoing relationship with EIF

JEREMIE Bulgaria
• JEREMIE comprised both debt and equity financial instruments for a total budget of EUR 349m
• Equity side: 3 seed / early - stage funds and 2 P/E funds were supported with a total contribution of EUR 61.3m
• A total of 225 start-ups were supported
• > EUR 66m of reflows generated / re-invested in equity initiatives

JEREMIE top-up
• As JEREMIE reflows started coming back, initial funds were topped up and new equity initiatives were supported
• These increased equity commitments to EUR 100,9m and added one more VC fund in the JEREMIE portfolio

InvestBG
• EUR 52,3m committed to 3 local / regional VC funds and 2 P/E funds, leveraging c. EUR 279m of private resources
• One co-investment of EUR 5m undertaken in a Bulgarian company
• A portfolio of 48 companies already built, total invested amount of EUR 89.8m
2022

Bulgaria Recovery Equity Fund

- The Republic of Bulgaria entrusted the EIF with the implementation of the Bulgaria Recovery Equity Fund (‘REF’), with a view to provide access to finance to Final Recipients in the form of equity / quasi-equity investments.
- The Funding Agreement between the two parties was signed in December 2022 and ratified by the Bulgarian Parliament in February 2023.
- The objective of the REF is to address the market failure related to the access to finance resulting from the COVID-19 crisis by facilitating access to finance / improving funding conditions for companies active in Bulgaria through the implementation of an equity instrument.
- The REF is financed by resources of the Recovery & Resilience Plan of Bulgaria (‘RRP’).
- The Call for EoI was launched in September 2023.
Bulgaria Recovery Equity Fund

- Investment strategy
- State-aid options
- Application process
Investment Strategy

Investment windows

**Innovation window**
- EUR 67.5m

**Infrastructure window**
- EUR 27.5m

**Growth window**
- EUR 67.5m

Please note that the Call supersedes any information given in this presentation.
# Innovation window

**Investment strategy**

<table>
<thead>
<tr>
<th>Key elements</th>
<th>Technology Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td>Activities carried out by universities or other higher education institutes performing research and other research organisations aiming at:</td>
</tr>
<tr>
<td>increase innovation capacity of companies and accelerate their productivity and transition to a knowledge economy</td>
<td>- converting research, development, skills, knowledge, technologies or innovations into commercial applications, products, processes or services; and/or</td>
</tr>
<tr>
<td><strong>Investment stage</strong></td>
<td>- fostering the application of existing technology to develop innovative products, processes or services for existing and new markets.</td>
</tr>
<tr>
<td>from Seed to Later stage venture(^1), including Technology Transfer</td>
<td>Examples of activities: proof of concept, technology validation, technology demonstration, prototyping, market development, scaling up, IP out-licensing, IP in-licensing, cross-licensing activities, sale of patents and/or other IP assets</td>
</tr>
<tr>
<td><strong>Target Recipients</strong></td>
<td><strong>Target areas</strong></td>
</tr>
<tr>
<td>SMEs, Small Mid-caps and Technology Transfer projects</td>
<td>ICT, industrial automation, AI, robotics, blockchain, fintech, LS, cybersecurity, quantum technologies, IoT, cloud computing, clean and sustainable technologies, social entrepreneurship, biotech, etc</td>
</tr>
</tbody>
</table>

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1 Definitions as per Invest Europe

*Please note that the Call supersedes any information given in this presentation*
# Growth window

**Investment strategy**

## Key elements

<table>
<thead>
<tr>
<th>Objective</th>
<th>alleviate the long-lasting negative economic impact of the COVID-19 crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment stage</td>
<td>from Later stage venture to Growth capital, including Buyouts</td>
</tr>
<tr>
<td>Target Recipients</td>
<td>SMEs, Small Mid-caps and Mid-caps</td>
</tr>
<tr>
<td>Target areas</td>
<td>Sector agnostic, but with the focus on companies in growth and expansion stages</td>
</tr>
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## Growth capital

A type of private equity investments in relatively mature companies that are looking for primary capital to expand and improve operations or enter new markets to accelerate the growth of the business

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1 Definitions as per Invest Europe
Infrastructure window

Investment strategy

**Key elements**

**Objective**
accelerate the green and digital transition in priority sectors in the country

**Investment stage**
Greenfield and brownfield

**Target Recipients**
SMEs, Small Mid-caps and Mid-caps, and Infrastructure projects

**Target areas**
Energy, transport, communications, industrial and service facilities, housing, social developments and climate change technologies, etc

**Infrastructure project**
A project requiring long term capital relating to the construction or development of physical assets in numerous sectors including, among others, energy, transport, communications, industrial and service facilities, housing, social developments and climate change technologies

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Bulgaria Recovery Equity Fund

All investment stages
Investment Strategy

Target Recipients

• An amount at least equal to the total commitment from the Bulgarian REF to be invested in Target Recipients

• Target Recipients are companies and projects that, at the time of first investment:
  • have an establishment, AND
    • have their main activities (i.e. the main portion of their activities based on headcount, assets or primary focus of the company’s business activities) in Bulgaria; OR
    • are planning to expand their operations into Bulgaria (as per business plan). For companies with expansion plans and early stage portfolio companies with insignificant operations, assessment shall be based on the portfolio company’s business plan at the time of the first investment.
  • In the case of Technology Transfer projects or Infrastructure projects/assets, they have to be located in Bulgaria.
Investment Strategy
Additional elements on investments

• Equity and quasi-equity investments:
  • Equity: provision of capital, invested directly or indirectly in return for total or partial ownership and where the equity investor may assume some management control of the firm and may share the firm's profits.
  • Quasi-equity: independent of its legal form, the type of financing that, ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity.

• Replacement capital (excluding strategies intended for asset stripping) may also be permitted
• Investments in companies listed on the official list of a regulated market are not allowed
• EIF Restricted sectors and Do No Significant Harm (DNSH) principle applied across investments
• RRF visibility requirements
Investment Strategy

Additional elements on funds

- **Independent teams** that take the management and investment decisions without the influence of investors, sponsors or any other third party which is not integrated in the structure.

- Investors’ representatives shall be appointed on appropriate advisory committee structures to review, inter alia, conflicts of interest.

- International team members or partnerships with international funds and newly set up teams are eligible.

- Typical investment period is 5+1 years.

- Typical duration of fund is 10+1+1 years for equity and 15+1+1 for infrastructure.

- Fund shall be managed based on commercial principles.

- The management fees should be proportional to the operational requirements of the Underlying Fund and the investment strategy.

- Reporting requirements as per Invest Europe guidelines (additional RRF & State aid reporting may apply).
State aid options

- As the REF is financed with public resources of the Republic of Bulgaria, its investments are subject to State aid rules and regulations.

- Depending on the investment Window, different state aid options are available:
  - **Innovation Window**
    - Pari-passu structure
    - GBER regulatory framework
  - **Growth Window**
    - Pari-passu structure
  - **Infrastructure Window**
    - Pari-passu structure

1. Definitions as per Invest Europe
State aid options

• As the REF is financed with public resources of the Republic of Bulgaria, its investments are subject to State aid rules and regulations.

• Under the Growth and Infrastructure Windows, the only applicable State aid option is the Pari-passu structure (i.e. State aid free option).

• Under the Innovation Window, two State aid options are possible:
  1. Pari-passu structure
  2. GBER regulatory framework

The applicable State Aid regime(s) will depend on the investment strategy proposed by the selected applicants and their ability to source private financing (which is part of the quality assessment criteria of applicants).
Pari-passu structure at fund level

Growth & Infrastructure Windows (default), Innovation Window (optional)

- **Diversification limit**: typically up to 15% of the total fund size in any single investee at any point in time (limit increase subject to AB approval)
- A minimum of **30% Private Investors’ contribution** at the Underlying Fund level on a ‘pari passu’ basis (same terms and conditions between public and Private Investors and therefore the same level of risk and rewards)
- **Pari-passu distribution cascade** for all investors
- Intervention of public and private resources always **simultaneous** (inherent in equity fund’s structure)
- In addition to micro, small or medium sized enterprises (SMEs), **non-SMEs** may also be targeted
- **Prohibited investments** in companies:
  - that have received illegal State Aid which has not been fully recovered
  - listed on the official list of a stock exchange or a regulated market
  - operating in restricted sectors (EIF & RRF DNSH rules)
Pari-passu at fund level

Republic of Bulgaria through EIF

Selection

Fund Manager

Max 70% contribution

Total fund
EUR XXm

Fund Manager's contribution

Min 30% contribution of total fund size (XXm)

Private Investors

Final recipients
## GBER regulatory framework

### Innovation Window (optional)

- **GBER Regulatory framework requirements:**

<table>
<thead>
<tr>
<th>Targeting enterprises that, at the time of initial investment or follow-on investment:</th>
<th>Minimum required financing from Independent Private Investors at fund level</th>
</tr>
</thead>
<tbody>
<tr>
<td>have not been operating in any market,</td>
<td>10% private participation</td>
</tr>
<tr>
<td>have been operating in any market for any of the following i. less than 10 years following their registration; or ii. less than 7 years after their first commercial sale</td>
<td>20% private participation (thus the Fund shall need to syndicate with Independent Private Investors on enterprises level, unless the weighted average participation rate in already existing portfolio, as mentioned above, covers the shortfall)</td>
</tr>
<tr>
<td>they require an initial risk finance investment which, based on a business plan prepared in view of a new economic activity is higher than 50% of their average annual turnover in the preceding 5 years</td>
<td>30% private participation (thus the Fund shall need to syndicate with Independent Private Investors on enterprises level, unless the weighted average participation rate in already existing portfolio, as mentioned above, covers the shortfall)</td>
</tr>
</tbody>
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2 Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (Text with EEA relevance) Text with EEA relevance, EUR-Lex -02014R0651-20210801-EN - EUR-Lex.europa.eu, as amended from time to time, Article 21(5)
GER regulatory framework

Innovation Window (optional)

- Maximum amount of risk finance per company does not exceed **EUR 16.5m**
- The Fund shall invest in enterprises **qualifying as SMEs** in both initial and follow-on financing rounds
- The Fund may provide support for **replacement capital only if** the latter is **combined with new capital** representing at least 50% of each investment round into the eligible undertakings
- **Preferential treatment of private investors** is possible (public investor returns capped at hurdle rate)
- **Prohibited investments** in:
  - companies in difficulty
  - companies that have received illegal State aid which has not been fully recovered
  - companies operating in additional not supported activities as per Art. 1 of GBER
  - companies operating in restricted sectors (EIF & RRF DNSH rules, as defined in the Call for EoI)

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Application process

Key elements

- The [Recovery Equity Fund of Funds of Bulgaria (eif.org)](http://eif.org) is already open
- Deadline for applications: 31 August 2025, 18:00 CET
- Application targeting more than one Windows is possible; it resides to the fund manager to make their case on how such an investment strategy can be successfully pursued
- Applications are evaluated on a first come - first served basis; this means that the Call remains open either until the deadline expires or the budget is fully committed to underlying funds
Our deployment & application processes

The processes explained step-by-step
How to apply

The application process in three steps

Step 1
Info point

eif.org

Gain an overview of the mandate and dig deeper into the Call for Expression of Interest documentation, which includes:

- detailed product term sheets
- reporting requirements & templates
- FAQs
- and more

Step 2
Apply

via email address

Send the application with all relevant documents to the indicated email address in the Call for Expression of Interest

Step 3
Selection

Desktop search & on-site visits

Analysis of the application with all relevant documents

Expected 6-12 months from application to commitment agreement (depending on quality of information received, legal negotiation, etc)
Our equity investment deployment process
A selective and rigorous approach involving EIF investment, risk, compliance, legal departments

1. Sourcing
   - Call for Expression of Interest
   - Market intelligence
   - Pro-active sourcing via existing network and placement agents
   - Active participation in conferences

2. Screening
   - First screening through desk analysis
   - Second screening through physical/online meetings

3. Due diligence
   - Through site visit(s) and interviews, full due diligence is conducted on:
     - strategy
     - market opportunity
     - team
     - track record
     - structure
     - T&Cs
     - maximisation of alignment of interests

4. Investment decision
   - EIF IC investment team
   - Risk
   - Compliance
   - Legal services
   - CEO office

Outcome
- Deal pipeline
- Decision to move to full due diligence
- Investment recommendation

Responsibility
- Equity investment team
- Equity investment team
- Equity investment team and risk department
Our commercial due diligence process

We perform a thorough review of the main aspects of the investment proposal.
What is the EIF looking for?

Main considerations

**Who?**
Team & Track record
- Proven track record & reputation
- Team cohesion & succession
- Commitment
- Carry split
- Governance

**Why?**
Fund Parameters
- Value creation & USP
- Alignment of interest
- Coherence between the Who, What and Why

**What?**
Market Opportunity
- Trends
- Competition
- Demand side economics
- Deal flow & pipeline

**How?**
GP Strategy Focus
- Fund model (size, pace, diversification)
- Terms & Conditions
- Legal structure
Investment considerations

Investment strategy

1

What

- Investment focus: geography, sectors, investment stage, etc
- Capital deployment & portfolio construction
- Origination strategy

Why

- Fit with the mandate requirements
- Strategy consistency with team past experience
- Ability to source investments in line with the strategy
- Ability to create value during the holding period

When

- From the 1st screening to Due Diligence

Our commercial due diligence process
Investment considerations

Market

What
- General macro overview of the targeted country
- Overview of VC industry in the targeted market
- Direct competition: other funds, family offices, etc
- Indirect competition

Why
- Attractiveness of the market
- Analysis of differentiating angles: proposal vs market

When
- From the 1st screening to Due Diligence
## Investment considerations

### Team

<table>
<thead>
<tr>
<th>What</th>
<th>Why</th>
<th>When</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team set-up: completeness &amp; complementarity</td>
<td>Assessment of team dynamics</td>
<td>From the 1st screening to Due Diligence</td>
</tr>
<tr>
<td>Background, skills &amp; experience</td>
<td>Assessment of adequacy to invest and deploy</td>
<td>One-to-one meetings during site visits</td>
</tr>
<tr>
<td>Hiring plan</td>
<td>Completeness &amp; workload analysis</td>
<td></td>
</tr>
<tr>
<td>Decision process</td>
<td>Incentive scheme</td>
<td></td>
</tr>
<tr>
<td>Alignment of interest</td>
<td>Reputation</td>
<td></td>
</tr>
</tbody>
</table>
Investment considerations

Performance and benchmarking

Our commercial due diligence process

<table>
<thead>
<tr>
<th>What</th>
<th>Relevance and attribution</th>
<th>Case study: origination, value creation &amp; exit skills</th>
<th>Case study: lessons learnt</th>
<th>Current performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why</td>
<td>Assessment of relevance and attribution</td>
<td>Assessment of the performance</td>
<td>Benchmarking</td>
<td>Expected performance</td>
</tr>
<tr>
<td>When</td>
<td>From the 1st screening to Due Diligence</td>
<td>Reference calls with previous employers, portfolio companies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Investment considerations
Structure, governance and budget

What
- Legal structure: SPVs, carried interest vehicle, etc
- Regulated vs unregulated structure
- Shareholding structure
- Decision making

Why
- Compliance assessment of the structure
- Assessment of indecency of decision making
- Budget review: viability and surplus analysis

When
- From the 1st screening to Due Diligence
- Budget review during Due Diligence
We ensure that mandate requirements and good market practices are implemented.
Specific legal framework
Requirements and guidelines

Requirements
- Mandate requirements
- Legal Framework

Guidelines
- EIF guidelines for equity investments
- Good market practice for equity investments
Key terms and conditions
Investment guidelines and investors’ protection

- Geographic and sector focus
- Investment period and duration of the fund
- Concentration limit (single investment, sector, vintage, etc)
- Co-investment policy
- Cross-over investments
- Reinvestments
- Borrowing and landing rights

- Limited liability of investors
- Pari-passu treatment
- Key person / change of control
- Removal of the fund manager (for cause and without cause)

- Fund governance & team’s independence
- Dedication and exclusivity / successor funds
- Appropriate management fee / Hurdle rate
- Team commitment
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