



# CORE TECHNOLOGY VENTURES SERVICES

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## European Technology Platforms

### Managing & Financing ETPs

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# Background

- ❑ It is recognised that Europe has some unique characteristics that distinguish it from the US, with consequent implications for financing RTD
- ❑ A working group on financing has formed by DG RT&D which includes the EIB and ETP representatives to work on new financing schemes for TPs to complement FP7 funding
  - TPs are playing a role in influencing the new financing instruments and are expected to be a source of demand for these new RTD financing facilities
- ❑ A Working document on debt instruments has been prepared.
  - Key findings of the document: Corporate versus SPV - or project – models
- ❑ Future work will consider other debt and equity instruments
  - The working group will organise dedicated ETP workshops



# Sources of Finance: Debt, Equity & Subsidies

	<u>Debt</u>		<u>Equity</u>		<u>Subsidies</u>	
Type	Bonds	Mortgages	Publicly traded shares	Privately traded shares	R&D Grants: e.g. EU Framework Grants	Tax Credits: e.g. accelerated depreciation
Used by	<ul style="list-style-type: none"> <li>✓ Companies</li> <li>✓ Governments</li> </ul>	<ul style="list-style-type: none"> <li>✓ Companies</li> <li>✓ Home owners</li> </ul>	<ul style="list-style-type: none"> <li>✓ Companies</li> </ul>	<ul style="list-style-type: none"> <li>✓ Companies</li> </ul>	<ul style="list-style-type: none"> <li>✓ National &amp; local governments</li> <li>✓ European Union</li> </ul>	<ul style="list-style-type: none"> <li>✓ National &amp; local governments</li> </ul>
Constraints	<ul style="list-style-type: none"> <li>❖ Ability to pay interest &amp; principal</li> </ul>	<ul style="list-style-type: none"> <li>❖ Ability to pay interest &amp; principal</li> </ul>	<ul style="list-style-type: none"> <li>❖ Capacity to generate profits and pay dividends</li> </ul>	<ul style="list-style-type: none"> <li>❖ Ability to show superior technology and management</li> </ul>	<ul style="list-style-type: none"> <li>❖ For companies, proven capacity to match the subsidy</li> </ul>	<ul style="list-style-type: none"> <li>❖ Ability to make profits to benefit from tax credit</li> </ul>
Typical Takers	<ul style="list-style-type: none"> <li>✓ Institutional Investors,</li> <li>✓ Financial companies</li> </ul>	<ul style="list-style-type: none"> <li>✓ Retail banks</li> <li>✓ Building societies</li> </ul>	<ul style="list-style-type: none"> <li>✓ Institutional investors</li> <li>✓ Individuals</li> </ul>	<ul style="list-style-type: none"> <li>✓ Business angels</li> <li>✓ Venture capitalists</li> <li>✓ Corporate venturers</li> </ul>	<ul style="list-style-type: none"> <li>✓ Companies</li> <li>✓ Universities</li> <li>✓ Research Institutes</li> </ul>	<ul style="list-style-type: none"> <li>✓ Companies</li> </ul>
Purpose	<ul style="list-style-type: none"> <li>❖ Debt allows companies to pursue their own interests by leveraging profits with little or no impact on control. Typically companies choose a mixture of debt and equity that suits their aims and the current state of the economy. E.g. as interest rates fall companies make seek to finance increased investment by debt rather than issuing new equity to shareholders.</li> </ul>		<ul style="list-style-type: none"> <li>❖ Equity gives companies the freedom to pursue their own best interests in the manner they regard as most appropriate, as well affording them the ability to make use various government subsidies, such as EU Framework grants. However, subsidies related to income tax relief require a company to generate taxable profits.</li> </ul>		<ul style="list-style-type: none"> <li>❖ Subsidies can allow both governments and companies to pursue the social welfare &amp; profit simultaneously by promoting economic growth (jobs). In the case of R&amp;D, subsidies encourage firms to pursue socially beneficial projects that otherwise may be lost to society. The drawback for newly emerging companies is that they often do not have the capital required to match grants not the profits to benefit from tax breaks.</li> </ul>	



# Guide to financing Projects



## The Guide...

- ...is especially oriented towards **R&D Managers** involved in the European Technology Platforms or other initiatives focusing on Research, Development and Innovation (RDI).
- ...demonstrates how a **financing plan for a RDI Project** can be structured
- ...shows how the **EIB involvement can add value** to project promoters and/or the R&D projects themselves
- ...gives an overview on a new higher risk lending initiative (RSFF) of the European Commission and the EIB



# Key Finding of the Brochure to Financing Projects



## Corporate Finance Model vs. Project Finance Model

### Corporate Finance Model



- Financing partners provide funding to the promoter on the basis of its financial strength.
- A promoter can be a company, a consortium of companies or an institution
- The financing partners are thereby exposed to the **credit risk of the promoter, not of the project.**

### Project Finance Model



- In the Project Finance Model, the project is realized and financed via a legally and financially standalone project company.
- The promoter(s) usually have the role of a strategic partner (e.g. shareholder).
- **The financing partners are thereby exposed to the credit risk project only .**



# New Initiatives in Higher Risk Financing

Potential new products?



## Risk Sharing with Banks

- **Targeted beneficiaries:** SMEs & MidCaps (low/sub-investmentgrade)
- **Product Ideas:** Risk Sharing Global Loan; Interest Contingent Supplier Facility, Co-financing
- **EIB value added:** Banks: risk sharing, capital relief, new customers/cross selling, Beneficiaries: risk sharing, higher debt capacity, lower financing cost

## Risk Sharing with Universities

- **Targeted beneficiaries:** Universities
- **Product Idea:** Royalty fund for scientific research projects
- **EIB value added:** Facilitate financing for universities, utilize royalty streams of research results (e.g. patents, lower financing cost)

## Action for Growth Instruments (SFF/RSFF) NEW PRODUCT DEVELOPMENTS

- **Targeted beneficiaries:** Mid-sized and large corporations (low/sub-investmentgrade),
- **Product Ideas:** Structured individual corporate loans for R&D projects (senior/junior debt, mezzanine)
- **EIB value added:** Lower Financing Cost, increase of debt capacity (in case of subordination), project risk sharing

- **Targeted beneficiaries:** JTIs, Technology Platforms, EUREKA Joint Ventures,...
- **Product Ideas:** SPV based structures for individual R&D consortia
- **EIB value added:** Provide structuring know-how (Project Financing) and facilitate private sector funding

## Corporate/Project Finance

## Financing R&D Consortia



# Finance and Demonstration Projects

Future Work will look at Equity

