



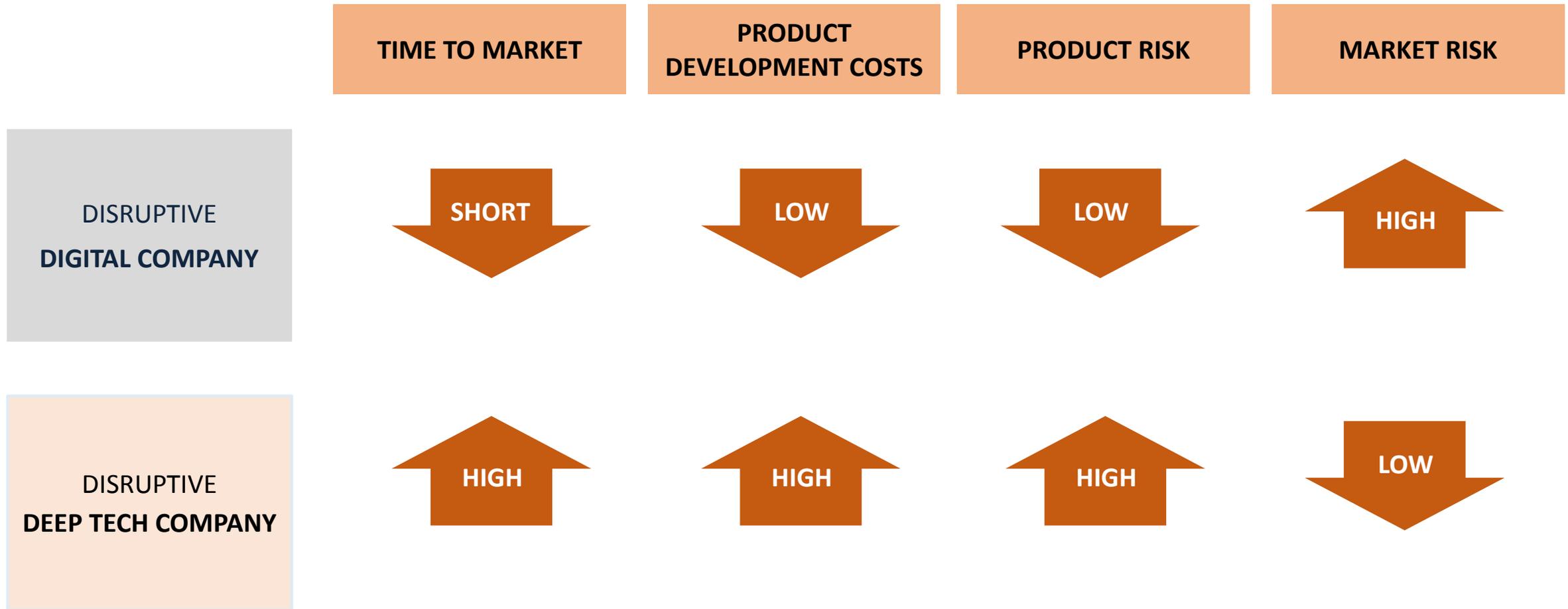
NOTES ON EUROPEAN INNOVATION COUNCIL

Brussels
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ACCESS TO FINANCING FOR R&D-BASED COMPANIES: MAJOR PROBLEM IN EUROPE

- **No real problem with financing of innovative digital companies in Europe as VC is growing rapidly:**
 - VC in Europe has been growing at double-digit rates over the past 5 years
 - But basically all the VCs in Europe are crowding the internet, app, and software space
- **Major problem with financing of science- and R&D-based companies (“deep tech”)**
 - Outside of biotech and corporate VCs, there are basically no venture funds in Europe investing in deep tech
 - The financing problem persists at all company stages for deep tech companies
 - Extremely difficult to get seed funding for such companies (at the order of 200,000 EUR to 2 million EUR)
 - Practically impossible to get Series A/B funding (at the order of 3 million EUR to 10 million EUR)
 - Very difficult to finance even later rounds if the company does not have significant revenues from its products

THE MAIN DIFFERENCE BETWEEN DIGITAL AND NON-DIGITAL COMPANIES: PRODUCT RISK



DEEP TECH INVESTMENTS ARE MUCH LESS ATTRACTIVE FOR VCS THAN DIGITAL COMPANY INVESTMENTS

CHALLENGES SPECIFIC TO DEEP TECH INVESTING

A

Inherent technological risk

This risk is non-existent or much lower in non-deep tech companies

B

Great idea vs. great entrepreneur

Lower likelihood that deep tech inventors are also great entrepreneurs

C

Longer market lead times & higher capital requirements

Time to market and capital required in early stages is usually higher than for digital start-ups

CONSEQUENCES FOR TRADITIONAL VC INVESTORS

- More risk in the portfolio

- More active VC involvement in running of the start ups, which means...
- ...smaller overall portfolio, which means...
- ...more risk in the portfolio

- Lower annualized returns
- Smaller overall portfolio, which means...
- ...more risk in the portfolio

R&D GRANTS FROM EC ARE POORLY ACCESSIBLE TO HIGH POTENTIAL DEEP TECH START-UPS

- **Problem #1: Major misalignment between where most innovations come from and where money most of EU R&D money is going**
 - Large companies or SMEs are not the main source of innovations: EARLY STAGE COMPANIES are!
 - The main sources of private sector innovations: EARLY STAGE COMPANIES specifically set up to commercialize a major technological innovations
 - But most H2020 money that is dedicated to non-academia targets large firms
 - The remainder tries to turn SMEs into innovators rather than targeting highly innovative early stage companies
- **Problem #2: The funding does not cover a sufficiently large part of the life cycle of disruptive deep tech companies.**
 - Product development in deep tech companies is very long and takes place in stages:
 - each entails various degrees of research, experimental development and engineering work toward the next milestone
 - each represents decreasing but still significant risk from the point of view of investors
 - But most of the EC instruments only cover their very early stages
 - Funding is project focused, rather than company or milestone focused

R&D GRANTS FROM EC ARE POORLY ACCESSIBLE TO HIGH POTENTIAL DEEP TECH START-UPS

- **Problem #3: Funding potentially available to deep tech start-ups from EC sources is highly fragmented**
 - Many instruments are administered by many EC entities – quite difficult to navigate even for a start-up that already has some experience with EU funding
- **Problem #4: Application process for existing funding instruments is ineffective, nontransparent, highly burdensome, and not reflecting the specific needs and limitations of deep tech start-ups**

WHAT SHOULD THE EIC BE ABOUT: KEY GUIDING PRINCIPLES

- **Focus on early stage companies commercializing science and R&D (deep tech)**
- **Offer comprehensive coverage and a life-cycle approach**
- **Mobilise other sources of funding, especially private funding**
- **Operate as a one-stop-shop for early stage companies commercializing science and R&D**

WHAT SHOULD THE EIC DO: KEY INSTRUMENTS

- **R&D grants for deep tech start-ups**
 - Seed stage grants
 - Early stage grants
 - Advanced stage grants
- **Tools for mobilising smart private money (sophisticated venture capital)**
 - Grant instrument supporting investments of high quality venture funds focused on science- and R&D-based companies (model on European Angel Fund)
 - Grant mechanism supporting hi-quality private accelerators and funds that target science- and R&D-based companies around Europe
- **Tools for improving quality and access to non-EC public funding**
 - Structural funds
 - National sources of funding
 - EIB and other non-equity funding
 - Third country collaborations