Digital Innovation Hubs 2nd Working Group meeting

Brussels
February 21, 2018
Innovation Finance Advisory (IFA) – What do we do?

**Project Advisory**
- Improve bankability/investment readiness
- Enable earlier/faster access to finance
- Light Project Advisory

**Horizontal Activities**
- Improve framework conditions for financing
- Develop “business case” for new financing mechanisms in RDI sectors
- Prepare studies on increasing effectiveness of financial instruments to address specific sector/RDI policy objectives

**Investment Platforms**
- Leverage horizontal (market) studies to identify funding gaps
- Where necessary, recommend internal EIB-managed instruments and/or Investment Platforms (IP)
- Structure/implement IP that mobilise public/private investors

**Support Investment Platforms:**
- Independent advisory
- Support pipeline development
- Upstream project advisory where needed (technical, financial)

**Leverage horizontal (market) studies:**
- ECS/Photonics
- High Performance Computing (HPC)
- Digitisation of SMEs & Innovation Hubs
- Key Enabling Technologies (KETs)
IFA’s portfolio of Horizontal Activities

- **KETs Phase I**
  - Key Enabling Technologies
- **IDFF**
  - Infectious Diseases Finance Facility
- **RTOs**
  - Research and Technology Organisations
- **KETs Phase II**
  - Key Enabling Technologies
- **Financing Pan-EU RI**
- **Circular Economy**
- **Pilot LPA**
  - Light Project Advisory
- **Road Transport**
- **SET**
  - Strategic Energy Technology
- **Bio-economy**
- **Funding Web-Tool 2.0**
- **Agri-Food**
- **SME Instrument**
- **Digital Economy III**
  - Digital Innovation Hubs
- **Innovative Life Science**
- **Space Technologies**
- **Digital Economy I**
  - High Performance Computing & European Science Cloud
- **Digital Economy II**
  - Electronic Components & Systems/Photonics
- **Circular Bioeconomy Thematic Investment Platform**
- **Dedicated Renewable Energy and CCS Project Development Assistance (NER 300)**

- **Approved/Ongoing**: Orange
- **Completed**: Green
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EIB Group Product Offering

Pre-seed Stage of development (FTEs)
- Startup
- Small MidCaps: <250 employees
- MidCaps: 250-500
- Large MidCaps: 500-3,000
- Emerging
- Small MidCaps: <250 employees
- MidCaps: 250-500
- Large MidCaps: 500-3,000
- Large Caps

Parental leave

Seed stage
- Tech Transfer / VC
- VC / SME Funds
- VC / SME Funds
- PE / MidCap Funds

First “Valley of Death”
- VC / SME Funds
- PE / MidCap Funds

IP/Mandates/ SLA
- Global Loans
- Investment Loans
- Contingent Loans

Second “Valley of Death”
- Innovation finance gap
- Growth Finance Gap – expansion capital
  - EUR 7.5m-25m

Access to finance
- Funding size (EURm)
- Intermediaries (Funds)
- Intermediaries (Banks)
- Quasi-equity/Co-investments/Direct Equity
- Global Loans
- Investment Loans
- Contingent Loans

EIB Group Product Offering

Innovation Finance Advisory / European Investment Bank
Digitisation of SMEs - A big challenge - reaching the shoe makers

✓ Digitisation -the adoption of digital technologies- by industry and SMEs across all sectors is critical for Europe to remain competitive in a global marketplace.

✓ The digitisation of companies in Europe varies significantly by geography, sector and type and size of company. While 54% of large companies are highly digitised, only 17% of SMEs have successfully integrated digital technologies into their businesses.

✓ Private investors (venture capitalist) focus primarily on financing high-tech start-ups with high growth potentials (unicorns) and not on SMEs in traditional sectors (i.e. retail) that aim to digitise their companies.

✓ A key challenge for the digitisation of SMEs is a Knowledge Gap: SMEs often lack the awareness about the benefits of digitisation and the knowledge about how to adopt digital technologies into their businesses.

✓ Existing Funding Gap- there does not exist any financial instrument at the EU-level that is specifically dedicated to the digitisation of SMEs.

✓ Successful digitisation programs focus on providing an integrated set of products and services to SMEs including: (i) awareness raising activities; (ii) digital literacy programs; (iii) knowledge transfer; (iv) advisory services and (v) investments in digital technologies.

✓ To promote the digitisation of SMEs it is required to support both the supply and demand side (“Push and Pull approach”).
Access-to-Finance for digitisation of SMEs Study

The objective of the Study:

➢ Provide an overview about the current access-to-finance conditions, trends and challenges related to the financing of programs supporting the Digitisation of SMEs in key sectors of the European economy
➢ Analyse access-to-finance conditions for the financing of Digitisation programs, in particular for SMEs and the development of Digital Innovation Hubs
➢ Identify principle national and European programs that support the Digitisation of SMEs in Europe and provide recommendations on how European programs can complement and strengthen existing national programs
➢ Provide a set of policy relevant inputs and recommendations on how to set up financial instruments (such as digitisation fund) at EU level with possible co-financing with national or regional schemes/contributors (the concept of EFSI platforms)
➢ Explore if there are collaborative funding models (involving public and private investors) that can improve financing conditions of DIHs

▪ Close collaboration with EC (DG Connect and DGRTD)
Digital Economy 3: Scope of work

1. Mapping of Existing Programs supporting digitisation of industry and SMEs in Europe
   - Mapping of existing programs
   - Desktop analysis of financing models

2. Study financing models of digitisation/DIHs programs
   - 4-6 case studies of DIHS
   - Interviews with DIHS and digitisation programs

We are looking for relevant cases

3. Study collaborative financing models for digitisation
   - Identify key obstacles for Financial Intermediaries
   - Analyze Risk Sharing Models (Gov and private sector)
   - Existing models to combine international and national resources

4. Assess key factors causing Investment Gap
   - Identify high priority projects to be supported through Project Advisory and EIB/EIF financing

5. Analyze how to fund digitisation and DIH programs under existing financial instruments (EFSI, Innovfin, ESIF)

6. Provide recommendations on how to set up a Digitisation Fund for SMEs at the EU level

Proposed Activities
Case Study: Inner City Urban Regeneration in Dublin

- **9 buildings 72,000 sq. ft.**
- **90 companies**
- **725 people working**

**Diversity** of tech & digital sectors

- **€2.8 m** in commercial revenue
- **57:43** Irish to FDI companies

**Double the office space** in next five years
How to finance digitisation? – A practical example (1/2) –

- In November 2017, EIB announced a EUR 150MM loan to BBVA to finance SME investments related to Innovation and Digitisation.

- This is the first EIB operation in Spain that is entirely dedicated to promoting and financing innovation and digitisation in SMEs, including funding for initiatives that enable them to digitise their operations.

- SMEs and Mid-Caps (up to 3,000 employees) can obtain a loan up to 100% of the projects costs (up to 25MM) to fund investments in the latest technologies and modernise their processes and equipment, improving data management, web portals, business marketing, etc.

- The companies that access this credit line will have the opportunity to benefit from the EIB’s favourable conditions, both in terms of maturity and interest rates.
IFA was involved in advising a large RTO and its partners including research institutions and universities in setting up a new Digital Innovation Hub.

New DIH project involves the construction of three new buildings (extending the existing RTO campus) to bring together major research centres, universities, high-tech incubators, high growth start-ups and industry and develop digital innovation projects in the following strategy areas: (i) Cybersecurity, (ii) Intelligence Artificial, (iii) Cyber Physics Systems and (iv) new manufacturing technologies.

Key elements: 1) clear business model based on renting space with clear anchor tenants, 3) strong support from well established RTO, and local authorities, 3) clear link to private sector and industry.
What does make a project bankable?

The following elements should be considered to make a project bankable (or in other words, to become potentially financeable by private investors):

- A clear legal and governance structure. This includes the management team, shareholders and any other relevant stakeholders (such as key commercial partners);
- A robust business model. This should include unique selling point and streams of revenues, nature of revenues (long term contracts or not, recurring clients), potential demand and key competitors, potential profitability;
- A sustainable capital structure. This should include major investment needs and funding sources (including equity, debt, and grants);
- A well-developed business plan. This should include: 1) product and value proposition, 2) Business model, organization & processes, 3) market and competitor analysis, 4) management team, 5) opportunities & risks, and 6) financial projections (covering evolution of revenue, profitability, and cash flow generation)

IFA Advisory services can help projects to improve bankability
Key Questions for discussion

1. What are the principal characteristics of the local, regional or national innovation ecosystem?

2. Does there exist a market assessment for the products and services offered by the DIH? What is the current demand for the products and service offered by the DIH?

3. Can DIHs develop a revenue generating business model to attract repayable capital and reduce dependence from grants?

4. Has the DIH programme explored collaborative funding models (involving public and private investors) that can improve financing conditions of DIHs?

5. How to better integrate the DIHs services with financial products (beyond public grants)? Partnership with lenders/banks? Direct lending from DIHs?

6. What is the potential role of DIHs in supporting SME to improve the access to finance of SMEs?

7. Where is the funding gap? Is in the adoption of digital technologies (such as ERP, e-commerce website, digital marketing, robot technologies, etc.) by SMEs in traditional sectors (such as construction, agriculture, etc.) or is in the development of new and innovative digital business models, digital products, digital services or digital processes by SMEs?
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