European Innovation Council (EIC)
EIC Fund
Investment Guidelines
(Horizon Europe Compartment)

Version 3.0
22 April 2021
DISCLAIMER

The present EIC Fund Investment Guidelines are conditional upon their final adoption without significant modifications by the European Commission.
Introduction – The role of the EIC Fund

The EIC Accelerator is a breakthrough initiative of the European Union (EU) under the European Innovation Council (EIC). It aims to fill a persistent critical financing gap in the European technology transfer market: Despite the channeling of significant amounts of grant funding to research and innovation projects in Europe by EU and national schemes, very few operations subsequently manage to attract investment and reach the commercialization and scale-up stages.

The EIC Accelerator aims at bridging this market failure, known as the “Valley of Death of European Innovation”, which significantly affects growth and jobs in Europe compared to its main competitors. The EIC Accelerator targets potential market-creating innovation presenting a too high level of risk for traditional public and private investors, whether based on breakthrough technologies originating from research (deep-tech) or disruptive thinking, but also on impactful incremental and social innovation. Beneficiaries are innovators, start-up and SMEs, and small Mid-caps, eager to bring their innovation to market deployment and to scale-up.

EIC Accelerator support consist of EIC blended finance, a mix of grant and investment – in particular equity. In the case of a small Mid-cap, it consists only of an investment and on a co-investment basis. By providing funding beyond the limited remits of usual grant mechanism and for the time necessary to significantly diminish technological, market and financial risks, the EU intends to attract co- or alternate investors and thus give more impact to its financial support. The EIC Accelerator is the first of its kind EU intervention in direct investment, in particular equity-type investments.

The EIC and the EIC Accelerator are implemented under the operational lead of the European Innovation and SME Executive Agency (EISMEA), by delegation of the European Commission (EC). In accordance with the Horizon Europe legal base and subject to these guidelines, the EIC Fund is specifically tasked with:

- the implementation of the investment component of the EIC blended finance awarded by the EC,

- raising awareness and interests among investors to leverage and crowd-in co- and alternate investments,

- the management and exit from the investment to the combined benefit of the beneficiary and of the EU financial interests.

The EIC Fund is supported in its work by the EIB Group as its Investment Advisor.

The EIC Fund is governed by the Board of Directors, vested with the broadest powers of the EIC Fund. The Board oversees the investment strategy and makes the final decision on any single operation having regard to recommendations of the EIC Fund Investment Committee. The Board is composed of five members appointed by the EC.
The Investment Committee is established by the EIC Fund Board of Directors and has responsibility for making proposals to the Board on the investments structure and terms, follow-on investments and divestments, having regard to recommendations of the fund’s Investment Adviser.

The eight members of the EIC Fund Investment Committee (IC) are proposed by the Commission Directorate-General for Research and Innovation, on recommendation of the EIC Advisory Board. They are independent experts and practitioners, except the Chairperson who represents the EC.

The EIC Fund’s main guiding principles are:

- **Focus on** financing growth prospects of break-through innovative businesses organized as single economic entities (i.e. only SMEs and small mid-caps are eligible under the EIC Accelerator, and not consortia, universities, etc.);
- **Support selected companies and their projects through financial structures that are inclusive** (crowd-in) vis-à-vis private capital. The EIC Fund aims to act as a catalyst to crowd in other investors both public and private.
- While keeping **flexibility** to deliver tailored support, develop standardised **financial packages**, due diligence processes and implementation networks¹ to ensure efficiency, consistency and ability to contract across member state jurisdictions (including HE associated countries);
- Create value through **connections with specialized mentors, ecosystems** and additional funding opportunities;
- **Monitor investments and in certain cases, support investee companies in subsequent rounds of capital increase;** and seek **exits** from such investments where EIC’s support is no more necessary to the success of the action or to maintain the interests of the EU;
- **Report** to the governing bodies of the EIC on an investment portfolio basis and adhere to the structures and instructions from these bodies, in line with EIC’s policy objectives.

The present document only applies to the EIC Accelerator Compartment under Horizon Europe.

---

1. **EIC Fund – Investment Options, Funding components and Process**

The EIC Fund provides the **investment components of the EIC blended finance awarded by the EC (in particular in equity or quasi-equity)**. Candidate companies will apply to the EIC Accelerator through **public calls for proposals** published by the EC. The EISMEA will collect and evaluate Accelerator proposals. The EC will then select those Accelerator actions to support and **award an indicative EIC blended finance amount, which may under conditions² consist of a grant only, or a grant first with potential subsequent investment, or and if so requested only an investment support.**

Following selection, the EISMEA will negotiate and conclude a contract describing the action and providing already for the grant component of the awarded EIC blended finance. In parallel, the EISMEA will channel actions selected to the EIC Fund to process the awarded indicative

---

¹ Implementation networks refers to the entities that the EIC Fund may need to engage with for the implementation of the investments (e.g., law firms).

² See EIC Work Programme.
investment component ³ (due diligence, market assessment and identification of co-investment or syndication opportunities, preparation of the possible term-sheet, approval by the EIC Fund Board, negotiation of the investment agreement, etc.).

Once concluded, the investment agreement will enter into force upon an amendment to the Accelerator contract, reflecting the agreed investment amount, instalments of the investment and related milestones or deliverables, and any agreed change to the action (activities, deliverables, milestones), in order to ensure its unicity and the consistent implementation and management of both support components. Other elements of the Investment agreement, in particular terms and shareholders agreements will be kept confidential by the EIC Fund.

EIC Fund Investment Process (illustrative)

2. Scope

**Policy targets:** Whilst open to innovation in all areas presenting high technological or market or financial risks, the EIC Accelerator may also focus part of its support, on capital-intensive strategic technologies in policy priority areas, including Health, Green Deal (e.g. clean energy, climate action, future mobility) and Digital Transformation, advanced engineering, life sciences and space.

³ Proposals selected by the EC and awarded an investment component are channeled to the EIC Fund [Step 1]. The EIB Group, in its role of Investment Advisor, will undertake financial due diligence (unless performed by co-investors, please refer to Investment Scenarios section under section 3). In parallel, the EIC Fund will perform KYC-compliance checks with the help of service providers duly contracted. [Step 2]. The EIB will negotiate draft financing terms with the beneficiary and co-investors (if any), or advise the company in case of alternate investors. The Investment Committee appointed by the EC will examine the due diligence together with the structuring proposal from the EIB Group [Step 3]. The Investment Committee will recommend financing operations to the EIC Board [Step 4], which will either approve (sometimes with conditions) or reject the operation [Step 5]. Provided that the EIC Board has approved the investment, the Investment Advisor will guide the work of the lawyers for each specific transaction leading to legal documents which will be signed by the EIC Board. [Step 6]. Monitoring, milestone disbursements, reporting and exit will be undertaken [Step 7].
<table>
<thead>
<tr>
<th>2.1 Type of innovations</th>
<th>The EIC Accelerator will support different types of innovation, in particular those based on deep-tech or radical thinking, but also social innovation. For the purpose of the present guidelines, “deep-tech” refers to a technology based on cutting-edge scientific advances and discoveries. It is characterised by the need to stay at the technological forefront by constant interaction with new ideas and results from the lab. Deep tech is distinct from ‘high tech,’ which tends to refer only to R&amp;D intensity.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2 Target company - development stage</td>
<td>Pre-Seed, Seed and Early-stage SMEs, and small mid-caps Eligible applicants under EIC Accelerators are for-profit SMEs, including start-ups and early-stage companies, and small mid-caps, from any sector, and typically with a strong intellectual property component. EIC Accelerator support aims to address high-risk projects that are not yet sufficiently attractive for investors, with the aim to de-risk such projects and catalyse private investment thanks to the EIC Fund leverage.</td>
</tr>
<tr>
<td>2.3 Geographical scope and European technological sovereignty</td>
<td>Eligible companies must be established and operating in the EU Member States or Associated countries to Horizon Europe. When negotiating and implementing investments decided by the Commission, the EIC Fund will ensure that supported companies keep most of their value, including their IP, in the EU or in Associated Countries, in order to contribute to their economic growth and job creation. Having regard to its public policy role, the EIC Fund will also take into account the EU initiatives to create a Capital Markets Union, including an attractive landscape for the financing of companies in the European Union that ensures a very high level of protection, effectiveness and easiness of operation, The EIC Accelerator will hence discourage investments in companies that have set up or plan to set up financial holding vehicles outside of the territory of the EU Member States or Associated countries to Horizon Europe. Accordingly, taking into consideration the financial interests of the EU and Horizon Europe and EIC objectives, the EIC Fund Board may recommend the EC, on a case-by-case basis, to decline to invest in such companies. The Commission may also decide to terminate the grant component, and even to cancel its overall support, where any such intent was purposely hidden at proposal stage.</td>
</tr>
<tr>
<td>2.4 Exclusion</td>
<td>The EIC Accelerator shall not invest in economic sectors that are considered incompatible with the ethical and social basis of the Horizon Europe mission. Such restrictions are summarised in the Horizon Europe Regulation including Article 19 (Ethical principles), the EU Financial</td>
</tr>
</tbody>
</table>
### 3. INVESTMENT GUIDELINES

The EIC Accelerator supports innovators and entrepreneurs. Starting at the earliest at TRL 5/6 down to TRL9, the support aim at bringing their innovation to market deployment and scale-up.

Adding to a grant component for TRL 5 to 8 activities, representing up to 70% of these activities’ costs, the investment component may be tailored and take different forms. It may consist of a combination of convertible notes and direct equity, or direct equity, initially covering seed-stage up to series C rounds - to support the innovator along its journey from concept to scale up, evolving and increasing as stages of maturity and TRLs are achieved (milestones).

Without prejudice to possible follow-on investment, the awarded initial investment component will range between EUR 0.5 and EUR 15m.

#### 3.1 Leveraging co and alternate investments

The EIC Accelerator focusses on innovators and entrepreneurs, and complements the Single Union financial instrument (InvestEU), which is investor and financial intermediary driven. It aims at directly de-risking selected operations in order to better bridge these two worlds and crowd-in investors. For that purpose, the EIC Accelerator is designed to fulfil the role of initial or first risk-taker, where needed.

Yet, as its default initial investment strategy and at any later stages as the operation unfolds, the EIC Fund will systematically seek co-investment from and syndication with other investors, on a matching basis, and even alternate investors. It will aim to crowd-in significant and fit-for-purpose additional or alternate funding needed to successfully develop an innovation, deploy it to the market and scale-up, whilst ensuring its sustainability.

In addition to enhancing the impact of the Union support and contributing to stimulate the overall European investment ecosystem, bridging with and crowding-in qualified investors\(^4\) at the earliest stage is considered essential for the success of the investee companies and their innovation. More than funding only, “qualified investors” can add critical value to a company: they also have the knowledge, the expertise, the teams and the networks of contacts needed to help investee companies reinforce their teams and business strategies, and achieve a successful commercialisation and scale up in the specific verticals, in accordance with their high-growth potential and ambition.

---

\(^4\) Qualified Lead Investor(s) shall be defined as a professional investor or group of professional investors that are new, unaffiliated investors to the Company that make a capital investment to the Company in the context of a larger equity round. The Lead Investor(s), acting professionally and on commercial basis, shall in good faith negotiate the terms and conditions to be applied in the equity round, including valuation (share subscription price), any preferences linked to the issuance of new shares (liquidation, anti-dilution etc.) as well as other main terms of the share issuance in the context of the equity round.
Depending on the starting stage of the operation and its nature, investors may include Business Angels, Venture Capital funds, Impact investment funds, Family offices, Venture debt funds, NPBs or corporate venture arms.

### 3.2 Investment principles

The EIC Fund initial investment (in particular equity or quasi-equity) will range between EUR 0.5m and EUR 15m per company.

Where it provides equity or quasi-equity, the EIC Fund will target **minority ownership stakes**, and up to a blocking minority in cases identified by the EC as falling under an essential area for the EU. It will avoid in principle situations where it holds majority stakes and control. However, where circumstances and the protection of EU financial interests calls nonetheless for the EIC Fund to hold majority stakes, it will strive to fall back to a minority stake subject to the said interests.

In the case of investment in tranches, the Board will take a position on the entire amount it considers for funding. Such total investment amount may be lower or higher than the one awarded by the EC. The Board will decide on the overall investment package for the company and has the right to recommend to the EC to revise or even reject the investment it has initially awarded (see below point 3.2).

The timing and conditions for investment in tranches (upon achievement of predefined milestones) will be negotiated, agreed and managed by the EIC Fund, under the operational coordination of the EISMEA as long as the grant component of the EIC blended finance is still in force.

For the purposes of these guidelines, **milestones will be meaningful achievements in the development of the innovative project** of a company, reflecting maturity stages and TRLs achieved, including co-investment leveraged. The EIC Accelerator support will finance the activities of the company as long as relevant milestones are achieved, except where the expected market deployment, especially in the EU, cannot realistically be met.

The EIC Fund will aim to ensure **founder friendly terms** to preserve the value and motivation of the founders, for example a stock option pool of at least 10% for founders/key employees. Equally, **investor friendly terms** will be considered to attract potential private capital. While the EIC Accelerator may potentially disrupt the investment ecosystem by enhancing risk-taking attitude among investors, it remains of the utmost importance that it does not create market distortion in filling the financing gap for its high-risk targets.

The EC may award follow-on investment on an *ad hoc* basis (outside any EIC call for proposals) and at any stage to those operations that were initially awarded either:

---

5 Subject to the terms of the Commission selection decision.
- an investment component together with a grant component,
- or a "grant first" support,

subject to budgetary availability, review by independent experts and advice of the EIC Board (see below under Follow-on investments).

A material breach of the EIC Accelerator contract related to the grant component shall prevent the EIC Fund to further invest in a company and eventually lead to early exit, and vice-versa.

### 3.3 Investment & co-investment scenarios under the EIC Fund

From the onset, and subject to non-disclosure obligations, the EIC Fund will connect the potential investee company to the EIC Fund investor community ecosystem, to leverage co-investment opportunities.

**Beneficiaries are also entitled to and even encouraged** to seek on their side for co-investors, building on the EIC Accelerator support.

If the company and the EIC Fund consent to the proposed co-investment opportunity, financial and commercial due diligence and negotiations may then be performed jointly and in agreement with the potential co-investor(s).

Following an initial assessment implying some level of due diligence, including KYC compliance checks, and market consultation (performed by the Investment Advisor, the Investment Committee and the relevant service providers) the EIC Fund will classify the proposals for investment into four types of scenarios, translated into the 4 “buckets” presented below.

**This classification will not be static**, as cases may be moved from one bucket to the other as the due diligence process evolves, based on its findings, or on the initiation of co-investment interest - resulting inter-alia from the de-risking operated by the EIC Accelerator support, or at later stage as the operation unfolds and milestones are reached.

#### 3.3.1 Bucket 0: No Go

Bucket 0 will include cases for which initial assessment or due diligence, at any stage, reports substantial negative issues preventing any investment.

Compared to the evaluation process run by EISMAE, the EIC Fund’s pre- and due diligence are by definition a more in depth examination of an operation. Whilst its purpose is not to re-evaluate the proposal or question the opportunity of the EIC Accelerator support awarded by the EC but to implement its investment component, **findings may lead to question the legality or the rationale of the operation**.

Negative issues include fraud, misrepresentation, refusal or failure to submit requested information, manifest error of appreciation by the EC, substantial negative changes of circumstances (Material Adverse Changes - MAC) as compared to those existing at the time of the initial
<table>
<thead>
<tr>
<th>EC award, reputational risk for the EU, and other findings affecting the financial interests of the Union.</th>
</tr>
</thead>
<tbody>
<tr>
<td>E.g.</td>
</tr>
<tr>
<td>- The innovation does not show the expected solid, long-lasting competitive advantage and impact on the basis of which the operation was selected.</td>
</tr>
<tr>
<td>- The team has changed since the evaluation and does not anymore gather the strong skills, capabilities and motivation needed to get the company off the ground and scale-up.</td>
</tr>
<tr>
<td>- Other examples of MAC (Material Adverse Changes) have occurred since the initial assessment of the company undertaken by EISMAE, including major changes in management, changes in control, use of bad leaver provisions, serious litigation situations, including among shareholders, or loss of major suppliers or clients or partners on which the company is heavily dependent.</td>
</tr>
<tr>
<td>- The cap table evidences strong misalignment of existing shareholder’s interest vis-a-vis the company, lack of sufficient incentive for founders and key team, etc.</td>
</tr>
<tr>
<td>- The beneficiary refuses or is unable to provide information on an existing investor/shareholder and their ultimate beneficial owner(s), in relation to a possible reputational risk for the EU.</td>
</tr>
<tr>
<td>- An existing shareholder and/or its ultimate beneficial owner (UBO) falls under the cases of exclusion from Union support in accordance with the EU Financial regulation</td>
</tr>
<tr>
<td>- Financial data and documentation submitted at proposal stage contradicts company’s books.</td>
</tr>
<tr>
<td>- Alleged IP is not directly owned by or accessible to the company or is the subject of litigation</td>
</tr>
</tbody>
</table>

Where no remedies are possible, the EIC Fund Board will recommend the EC to reject the investment – a decision that may lead the EC to reconvene a jury of external independent experts to reevaluate the proposal, condition its support, but also terminate or even cancel the already concluded EIC Accelerator contract depending on the case.

<table>
<thead>
<tr>
<th>3.3.2 Bucket 1: low maturity and failure to attract co-investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bucket 1 will include cases that are not sufficiently mature for regular investors, due to remaining very high risk despite the awarded EIC Accelerator support.</td>
</tr>
<tr>
<td>This lack of traction may result from various shortcomings, such as the very early stage of the underlying technology, a too long planned time to market, a too small market compared to the investment needed, the low readiness of the company to absorb additional equity in terms of its team or cap table, etc.</td>
</tr>
</tbody>
</table>
Three types of cases are envisaged:

1. **The EC has awarded the support on the condition that it acquires a blocking minority, as the operation falls within an essential area of EU interest (in accordance with the Council Decision on the Horizon Europe Specific Programme⁶).**

   The EIC Fund will perform due diligence on the potential investee company and will proceed in principle with the awarded investment using a combination of quasi-equity and equity on EIC Fund own standard terms⁷. It will include an adequate package of support measures to address shortcomings to a sufficiently high degree.

   In such cases, operating as a major investor, the EIC Fund will ensure a Board Member seat in the target companies. External mentoring will be sought.

2. **The innovation has the potential to have a high impact by addressing a societal need or an EU priority, in particular in the case of strategic⁸ technologies.**

---

⁶ See footnote 33 of the Council decision on the Horizon Europe Specific Programme, p. 149): “As a principle, the EU is not expected to hold more than a minority of voting rights in companies supported. In exceptional cases, the EU may secure the acquisition of a blocking minority to protect European interests in essential areas, e.g. cyber security.”

⁷ Without prejudice to the necessary flexibility required in each case, the EIC Fund may in general offer to make its investment in at least two tranches in Bucket 1 cases in strategic policy priority areas.

1. In the **first tranche**, it will generally invest upon signature the maximum of either i) 50% of the estimated EIC Fund investment, or ii) the unfunded cash needs of the company over a period of up to 18 months (while a shorter period will usually be targeted), in the form of a convertible loan to be converted at the next qualified round. Consequently, and generally speaking, such convertible loan will have a maturity of a maximum of 18 months, interest rates of 8% (8% fixed interest, accruing and capitalized at prepayment or upon conversion) and standard discount rates depending on the length of its maturity (20% discount for 18 months maturity). The valuation to be taken into account if no round is achieved by maturity will in general be the post-money valuation resulting from the last round into the company or a lower amount if conditions have materially changed since the last investment round. The EIC Fund Board may on a case-by-case basis decide to introduce a cap for the conversion of the EIC Fund convertible loan at the next round. In case there convertible loan reaches its maturity without occurrence of a qualified round sufficient to convert the full amount, the EIC Fund will engage with the founders and other investors on a way forward. In addition, the EIC Fund may advise on potential co-investment opportunities for the subsequent round.

2. In the **second tranche**, it will invest in an equity round in principle the remaining estimated investment subject to the co-investment by private investors of an amount fully matching the totality of the EIC Fund investment, including the convertible loan provided by the EIC Fund in the first tranche. The EIC Fund Board may require that such private investors co-investing with the EIC Fund are qualified external professional investors – with the purpose of both valuing the company on market terms and providing it with subsequent crucial support for a successful market entry and scale-up. The EIC Fund Board may also decide on a minimum size of the round for the EIC Fund to invest its second tranche – considering the financing needs estimated by the Board for the company to successfully reach the market and scale up, based on the outcome of the due diligence and the Investment Committee recommendation.

⁸ Strategic technologies are in particular those related to Section III.3 of the EIC Work Programme, defined as critical technologies and technology roadmaps in the action plan on synergies between civil, defence and space industries of 22.02.2021 (COM(2021) 70 final), as well as in accordance with the forthcoming update of the industry strategy.
The EIC Fund Board may decide on an exceptional basis to proceed as in case 1 using a combination of quasi-equity and equity on EIC Fund own standard terms (see footnote 8 above). It will include an adequate package of support measures to address shortcomings to a sufficiently high degree.

In such cases, operating as a major investor, the EIC Fund will ensure a Board Member seat in the target companies. External mentoring will be sought.

3. **In all other cases**, the EIC Fund Board will propose to the EC to revert to an uncapped\(^9\) “grant first” support to cover up to 70% of total eligible costs of the pre-TRL9 activities, and recommend milestones that once reached, may attract co-investors and hence trigger the investment component initially awarded by the EC.

### 3.3.3 Co-investment opportunities

**Bucket 2** will include cases where potential investors show immediate interest in co-investing into EIC selected companies.

The EIC Fund will seek that its investment is at least matched by these other investors (i.e. which will cover at least 50% of the round), generally relying on financial, commercial and technology due-diligence performed by them and generally seeking to align to their terms.

Where the awarded EIC support is conditioned to the acquisition of a blocking minority by the EIC Fund, and in order to align interests, the EIC Fund Board may opt to substitute direct blocking minority by a shareholder agreement\(^{10}\) providing for similar guarantees regarding EU interests.

On behalf of the EIC Fund, the Investment Advisor will negotiate the terms with potential co-investors, including possible mentoring tasks.

### 3.3.4 Alternate investment opportunities

**Bucket 3** will include cases where potential investors show immediate interest in providing the full investment into EIC candidate companies.

The EIC Fund Board could nevertheless decide to co-invest, in particular to secure a blocking minority where the EU interests cannot be otherwise protected or in the case of strategic technologies.

The EIC Fund may also reserve the initially awarded investment as a possible follow-on investment.

---

9 Where initially requested by the beneficiary, “grant first” support (like “grant only”) for pre-TRL 9 activities cannot exceed EUR 2.5 m (See Article 43 of Horizon Europe Regulation). In the case of a full blended finance request, the “grant component” may exceed that ceiling where duly justified.

10 The EIC Fund will agree with other shareholders on modalities to safeguard EU interest as an alternative to take a blocking minority on its own.
Compliance and some due diligence checks will be performed by the EIC Fund based on its compliance rules, related among others to KYC (Know Your Customer), anti-money laundering (AML), anti-terrorism financing, tax-avoidance, non-compliant/non-cooperative jurisdictions (NCJ) and sanctions. Compliance and KYC checks will be performed prior to the initial investment, as well as prior to possible follow on investments. They will be extended to shareholder and their ultimate beneficial owners (UBO). Non-compliance issues could also be linked to political or integrity aspects creating a high reputational risk for the EU as assessed by the EIC Fund Board on a case-by-case basis, and that may hence recommend to the Commission to terminate or even cancel its support (see Bucket 0).

The breach of any of these obligations and at any stage may lead to the interruption or cessation of the EIC Accelerator support in all its components, and even its cancellation.

The financial and commercial due diligence process will focus on the following aspects related to the detailed risk assessment of the potential investment:

- Governance and quality of the company’s management
- Capital structure and financial planning
- Business strategy
- Competition

11 The EIC Fund shall apply EU rules, policies and procedures, addressing the requirements in respect of money laundering, terrorism financing, tax avoidance, tax fraud and tax evasion that are contained in Article 155(2)(a) of the Financial Regulation. Such rules also reflects the prohibition to enter into new or renewed operations with entities incorporated or established in jurisdictions:

- listed under the relevant Union policy on non-cooperative jurisdictions; such as the list of non-cooperative jurisdictions (as amended from time to time) for tax purposes issued by the Council (OJ C 438, 19.12.2017, p. 5);
- or that do not effectively comply with Union or internationally agreed tax standards on transparency and exchange of information, as well as the possibility to derogate from this requirement when the action is physically implemented in one of those jurisdictions, contained in Article 155(2)(b) of the Financial Regulation.

12 A Compliance KYC self-certification may be collected together with the full accelerator proposal. However, it will not be considered during the evaluation, only by the EIC Fund where the proposal is retained by the Commission.
- Market assessment
- Value creation
- Legal form and jurisdictions

**Additional technology due diligence** may be required on a case-by-case basis. Whilst technology is assessed prior to the EC award decision, it may need to be complemented by a more in depth and “investor angle” due diligence, in order to have a more complete view of the operation. The EIC Fund may call for different options in this regard, including when appropriate, by EIC Programme Managers or technology expertise in national innovation agencies.

### 3.5 Valuation methods

The use of equity or quasi-equity instruments may require discussions on valuation and possible equity stakes in the potential investee companies. In general, the EIC Fund will align its valuation for the purposes of equity investment to the valuation set by the market (i.e. by the private qualified investors co-investing alongside the EIC Fund).

Valuation methods vary depending on the business models, markets and sectors, technology and other intangible aspects to consider. For ease of reference, some methods commonly used by investors are listed below:

- **Multiples of Earnings**: For a start-up, it is usually considered a Times Revenue Method (sometimes it could be applied on an expected value). This formula calculates a business’s maximum worth by assigning a multiplier to its current revenue. Multiplier benchmarks vary according to industry, economic climate, and other factors.

- **Fair Market Value**: it reaches the value of a company by comparing it either to similar businesses that have sold previously or to a peer group of comparable companies listed on the stock markets.

- **Book Value**: It takes into consideration the value of the business’s equity by taking into account the market value of the assets (not the accounting value in the financial statements), intangible assets (goodwill created at the time of the valuation) minus total liabilities (eventually adjusted if there is a relevant swing in the cost of debt).

- **Price of recent investment**: takes account of the valuation used in a recent previous investment in the company, then estimates the current valuation based on the value creation from that reference point.

- **Discounted Cash Flow**: it values a business based on its projected cash flow discounted by a factor (usually the average cost of capital). The result is present value. It is more often applied to companies in growth or mature stage as cash flow generation is needed.
- **Other asset-Based methods, such as**: among several other asset-based approaches there is the “liquidation value”.

The above-mentioned methods are market references for valuation purposes and tools for companies in their negotiations with potential investors. Such negotiations are often time consuming and interfered by intangible factors such as bargaining power, which will significantly influence the valuation.

### 3.6 Possible forms of investment, in particular equity or equity-type investments

There are different types of instruments an emerging business may use to finance its growth. The financial instruments used by the EIC Fund will in priority take the form of equity or quasi-equity investments. The terms and conditions will be defined and standardized to the extent possible (adjustments may be needed in each case to reflect business and legal specificities, the interests of the EU, and alignment of interests between the company and co-investors).

Standard equity and quasi-equity instruments are summarized as follows:

- **Common shares**: represent an ownership interest in a corporation, including an interest in earnings and dividends. They may be voting or non-voting and may be divided into classes with special voting privileges assigned to each class. In the VC market, founders and management team usually hold common shares.
- **Preferred shares**: represent a hybrid in the sense that it is an equity interest with debt-type features such as seniority at dividend payments and liquidation proceeds. VC funds usually hold preferred shares.
- **Convertible instruments**: like convertible loans, have a convertibility feature attached to a debt instrument that is attractive to the issuing company, since they bear a lower interest rate and postpone dilution. They offer flexibility to investors allowing them to shift the risks and rewards of their investment to some point in the future after the initial investment.
- **Other equity-type instruments**: appropriate to achieve the objectives of the EIC Fund.

### 3.7 Investment Implementation

The EIC Fund will proceed in a timely manner with the execution of the investment. This includes, among others, the identification of the most appropriate financing structure (based on others on the investee’s needs, development stage, investment plan, jurisdiction and sector specificities), the investment terms negotiations, the availability of third party financing from other sources and the closing of the final legal documents (including the investment agreement). The EIC Fund will contract with and finance directly the investee companies.
### 3.8 Monitoring and follow-up investments
The EIC Fund will follow up individual investments. This includes monitoring and acting on milestone funding, financing events (conversions, top-ups, etc.), write-downs and restructurings, exits, etc.

Roles such as representative or observer on boards of investee companies will be performed by qualified EIC Fund representatives appointed for this purpose. Such details will be discussed on a case-by-case basis during the due diligence and investment process and included in the legal documents to be signed.

### 3.9 Mentors
The EIC will put the company, with its consent, in contact with its network of mentors, which could also be potential investors, in order to provide advice and recommendations for the business development of the company and for any potential corporate actions.

In some cases such as those under “Bucket 1”, mandatory mentoring may be required as a condition to the investment.

### 3.10 Follow-on investment
The Commission may award follow-on investment on an *ad hoc* basis (outside any EIC call for proposals) to operations that were initially awarded an investment component or a “grant first” support, subject to review by independent experts and advice of the EIC Board\(^{13}\).

Where following an EIC Call for proposals the EC awards an additional investment to a Horizon 2020 EIC Pilot operation, the latter is transferred under the Horizon Europe compartment.

### 3.11 Duration of the investment and exit strategy
The EIC Fund will invest patient capital, with a long average perspective on return on the investment (7-10 years) with a maximum of 15 years in general. The levels of returns sought will be assessed on a case-by-case basis. **The EIC Fund’s main objective is “impact investment” rather than maximizing return on the investment** while of course a positive return is always planned at the time of investment.

The exit strategy for each company is to be set on a case-by-case basis given the specificities of each business plan, industry, expected holding period as well as the development of the companies compared to the initial milestones set. Exit routes may include IPOs, management buy-outs, secondary sales or liquidations.

### 3.12 Anticipated termination of investment
In addition to “Bucket 0”, other cases may lead the EIC Fund to interrupt and even terminate the investment.

The eligibility of the investee company, including any possible fraud, misrepresentation and non-compliance, **will be checked at each tranche disbursement** by the EIC Fund as well as the EISMEA. Ineligibility may lead the EC to terminate the contract and hence stop any further investment from the EIC Fund and exit from the company. Where fraud is detected, the EC may even cancel the EIC Accelerator support and

---

\(^{13}\) See Horizon Europe Regulation Article 48 (11), 2nd indent
recover all amounts paid, in addition to additional sanctions provided for by the EU Financial Regulation.

The investment agreement will contain protection clauses for the EIC Fund in case of, for example, material breach/fraud, or non-compliance, including with the sanctions regime, whereby the company will have to fully reimburse/cash settle the EIC support received. Regarding the equity component, those remedial measures shall include, but shall not be limited to, the disposal of EIC’s interest in the investing scheme via a secondary sales transaction.

<table>
<thead>
<tr>
<th>4. Intellectual Property management and European Union interests</th>
</tr>
</thead>
<tbody>
<tr>
<td>EIC Accelerator operations will be exempted from Horizon Europe obligations on Intellectual property except:</td>
</tr>
<tr>
<td>- if no investment component is awarded;</td>
</tr>
<tr>
<td>- or if no investment agreement is concluded;</td>
</tr>
<tr>
<td>- or if the operation is terminated by anticipation during the lifetime of the grant component.</td>
</tr>
</tbody>
</table>

Within applicable national legislation, the investee and co-investors will be given maximum autonomy regarding IP management, to the best interests of the deployment of the innovation and the companies’ development, in order to attract further investments to scale-up and to allow for an effective exit strategy for the EIC Fund.

Yet, and in particular but not only in the cases where interests of the Union are at stake and the EIC Fund acquires a blocking minority, the EIC Fund will seek to secure European ownership of IP and of the company wherever it makes sense for its development. The same guiding principle will apply for EIC Fund exit from investees.