1. CORPORATE FINANCE ISSUES AT STAKE

1.1. At enterprise level

Besides the coverage with debt financing, businesses, including smaller firms and Mid-Caps, will also need to increase their equity to:

- strengthen their balance sheets to address short term and long-term challenges: adaptation of their business models, modernisation of production facilities including green and digital transitions[1] and for some of them, the relocation of their activities. A significant movement of consolidation operations (M&As) within industry sectors which have been severely hit by the crisis (Tourism, transport, supply chain businesses etc.) is also expected;
- enable growth and expansion strategies of SMEs,
- secure investments for research, development and innovation as the most vulnerable start-ups seem to already be impacted in their fund-raisings. Reports suggest a drop of volumes of venture capital (VC) investments in 2020, although some sectors such as digital services may benefit from the crisis[2].
- create value, especially against the background of the currently decreasing company valuations, to harness the potential risk of hostile take-overs from third country investors

The targeted stimulation of the venture capital market and its use, particularly in times of crises, have resulted to the creation of very successful companies during the previous financial crisis.

1.2. At market level

- **The covid-19 outbreak will impact equity funds' new investments and their ability to raise new funds:**
  - The Economic outlook uncertainty and the expectation of a sharp contraction in companies valuations prompt funds to defer new investment decisions and put

[1] Before the Covid-19 outbreak, European companies estimated that less than half of their machinery and equipment was state of the art, according to the Investment Report 2017/2018 by the European Investment Bank.

[2] A KPMG report based on European venture capital data indicated a drop of start-ups first-time funding in Q1 2020 and predict new record low in both volume and number of VC investments in 2020. However, digital services, medtech, health and biotech companies, and certain B2B and B2C companies could remain attractive. Source: "Venture Pulse Q1 2020, Global analysis of venture funding", KPMG, April 21, 2020.

more capital into portfolio companies to extend their cash flows until sales increase again.

- New funds launch, and fund-raising are also slowing as 38% of fund investors, so-called Limited Partners (LPs) report postponements of fund closing in previous weeks. LPs become more selective and seem to have a wait-and-see attitude, so that around 25-30% of them declare that they will temporarily stop their new commitments in 2020[3]. This trend is expected to worsen as LPs are expected to pull back on these investments as stock price values decrease and opportunities to exit is reduced. This situation is also due do some LPs becoming over-allocated to VC. As a reminder, the contraction of VC investments lasted 3-4 years during the economic crisis of 2000 - 2001 and 2008 – 2009.
- Credit value adjustments and leverage levels observed on the LBO market suggest a collapse in debt issuance volumes for the riskiest companies. The cost of capital for PE-backed issuers will sharply rise since Fitch ratings have already indicated an increase of at-risk portfolio level of leverage credits by the end of 2019 and forecasts raising the share of 'ccc' in 2020[4].

- **Banks have liquidity facilities due to the ECB asset purchase programs and the relaxing of prudential requirements but are increasingly exposed to unlikely-to-pay and non-performing loans.** This may hinder their capacity to lend without public guarantees on the medium term and to lead to an increase of loans' interest rates.

- Equity provides a clear positive incentive to drag enterprises through this difficult period since investors cannot rely on collateral but depend on a possible future upside of the enterprise. Moreover, many enterprises are already highly indebted. The addition of even more debt instruments could lead to unsustainable debt positions.

[3] Survey data from the Institutional Limited Partners Association (ILPA) among 583 interviewees from 192 LPs (including 18% in Europe). Source: LP Perspectives on the Impact of COVID-19, ILPA, April 08, 2020. Another survey indicates that one third of European LPs have put on hold their investment process and allocation plans. Source: Pulse Record, Rede Partners, April 08, 2020.

[4] Fitch Ratings 2020 Outlook: European High-Yield and Leveraged Credit, EMEA, Fitch Ratings, November 29, 2019.

2. KEY TOOLS UNDER THE EU RECOVERY PLAN AND HOW NPBIS CAN HELP

2.1. Promoting more equity and leveraging NPBIs investment funds

It is essential that the EU stimulus plan enables investment in funds, and funds of funds, managed by NBPIs[5] in Europe**.** This is made necessary by the counter-cyclical role of these funds and the need to increase the firepower of national stimulus programmes. A limited number of private-sector fund managers will be closing new funds in the coming months. However, the creation of new funds which will drive recovery as well as the support for existing fund portfolios are crucial to ensure the development of innovative and promising companies. This essential topic should be targeted by the European Guarantee Fund. In the current crisis situation, the management teams at public promotional institutions with their continuous investment approach play a particularly important role and should therefore be involved in any measures taken.

- **NPBIs direct investment is a contra-cyclical tool that is vital in quickly delivering support to promising businesses hit by the current economic crisis.**

  This approach is key to counteracting the wait-and-see attitude of fund management teams. Direct investment is aimed at structuring the market in target segments from which private investors tend to shy away, and to attract them in. This is the case in higher-risk segments of "small" development capital (amounts less than €5m) underfunded by the market; but also in the worst-hit sectors requiring specialist value-chain knowledge, (i.e. tourism, transport, retail and the creative and cultural industries etc.); as well as in capital-intensive innovative sectors, under-financed by the market (e.g. biotech and cleantech businesses). More than half of the NPBIs in the EU[6] currently undertake direct investments. Nine of them also raised the European Commission's awareness of the importance of making these mechanisms eligible for the InvestEU guarantee.[7]

- **NPBIs' "funds of funds" approach is a proven and valuable contribution to developing and funding the European ecosystem for growth capital.** This approach is intended to galvanise private-sector institutional investments and to boost the supply

[5] So called captive funds managed by NPBIs.
[6] Almi (Sweden), Axis (Spain), AWS (Austria), Bpifrance (France), Cassa Depositi e Prestiti (Italy), Enterprise Ireland and ISIF (Ireland), HDB Capital (Greece), Invega (Lithuania), Invest NL (Netherlands), MFB (Hungary), SID Banka (Slovenia), SNCI (Luxembourg), SRIW and PMV (Belgium), Tesi (Finland), Vaekstfonden (Denmark) and a number of German regional publicly-owned banks (NRW Bank, NBank, LfA, IBB etc.).
[7] Letter dated 31 March 2020 on the subject of "InvestEU Guarantee for direct equity investments".

of equity available to businesses as well as to foster professionalisation. The support of cross border investment funds remains critical to create a more integrated pan-European VC market. Moreover, the capillarity and multiplying effect of this "fund of funds" approach result in a very effective tool to channel large sums of money and to boost the ecosystem.

It is important to note, that as market financial institutions, accredited and regulated by their supervisory authorities, NPBIs have independent management procedures that meet professional standards. They invest pari-passu on markets terms, always alongside private investors. In addition, they usually bear themselves some, if not all, of the risk on their balance sheets.

2.2. The European stimulus plan should cover NPBIs' quasi-equity mechanisms

Quasi-equity (convertible bonds in particular) represents a solution positioned between debt and equity that is of great value as a stimulus. This makes it possible to finance companies with a high-risk profile by offering them financing with no repayments within the first few years (made convertible upon maturity) in order to help their recovery without burdening their balance sheet.

2.3. The European Recovery plan should make guarantees available by targeting long- term loans with low collaterals and at favorable terms as well as equity investments

Up to now, guarantees are mainly covering loans below 6 years in accordance with the temporary state aid framework. This has enabled to provide immediate working capital facilities to companies. A longer loan repayment period will be needed to support companies' investments in the recovery phase. These guarantees are also necessary to ensure risk relief for banks.
In case of equity financing, guarantees can be an appropriate way to encourage investments in a crisis environment. NPBIs could use guarantees to increase their investment potential and address certain investment topics that are worth promoting such as bio economy or artificial intelligence.

2.4. European initiative focusing on SMEs & Mid-Caps

Public listings as a possible source of equity for SMEs & Mid-Caps will be jeopardised since these companies are more exposed to changes in stock prices and are particularly affected

during these periods of deep economic and financial crisis. This will have lasting effects, some of which, already perceptible, will particularly affect the most fragile SMEs, without geographical distinction within the EU.
Resulting from the current crisis effect, a strong and urgent European initiative of long-term support in favour of this compartment of the economy should be designed. The creation of a European platform, which would aim at consolidating the equity of SMEs & Mid-Caps by targeting in particular those which are part of the key strategic sectors for the European economy, could be the right answer. Such an initiative will meet three criteria for creating long-term value: responding to a real economic need, triggering a dynamic of unification on a key segment of the European capital market as well as stimulating technology and ESG which are essential for competitiveness in growth Europe.

2.6 Trans-European cooperation and funds

Cooperation between NPBIs and International Financial Institutions is key when addressing the challenges of our sustainable future. Climate change, for instance, does not stop at national borders. ELTI members are already engaged in projects such as the "Joint Initiative on Circular Economy"[8], the "Clean Ocean Initiative"[9] or the "Marguerite Fund"[10], all of which are light-house projects which have a strong cross-border dimension. Moreover, the cooperation with International Financial Institutions such as the EIB Group is crucial for NPBIs who are looking to co-finance these large projects.

The current lack of (further) growth capital means that promising enterprises will sooner or later be forced to partner with Asian or American investors, who will soon reap a disproportionate share of the, partly public, investments that have been made in the past, using also EIB and EU funds.

The equity market is increasingly international. It is recommended to explore the possibility of setting up major European thematic funds that can invest cross (EU) country, multi stage and cross sectoral. Stimulating cross-border investments can also contribute to creating support for cooperation between EU countries.

[8] https://circulareconomy.europa.eu/platform/en/news-and-events/all-news/eu10-bn-support-circular-economy-eu
[9] https://www.eib.org/attachments/press/facsheet_coi_final.pdf

The European Association of Long-Term Investors – ELTI

ELTI members represent an European-wide network of National Promotional Banks and Institutions who offer financial solutions tailored to the specific needs of their respective country and economy. Multilateral financial institutions complement the activities at national level with specific cross-boarder solutions or investments with an European impact. Following the specific public mission of each member the business model of each institution differs from country to country including different products and approaches. This is the same for multilateral ELTI members. Most of the members offer various debt-products but not all members have a mandate for investment in equity.

The 32 members of the European Long-Term Investors Association (ELTI) a.i.s.b.l. are major long-term investors and represent a combined balance sheet of EUR 1.8 trillion. The Association promotes and attracts quality long- term investment in the real economy, including:

- strengthening cooperation, including at an operational level, between European financial institutions as well as with other Institutions of the European Union (EU) acting as long-term financiers;
- informing the EU and its Institutions on the role and potential of the Members as institutions and agencies for long-term financing;
- strengthening the access of the Members to information on matters related to the EU;
- exchanging information and experiences among Members and with national and international organisations sharing the Association's interest in the promotion of long-term investment;
- developing the concept of long-term investment within the economic and financial sector and promoting academic research on long-term investments;
- representing, promoting and defending the shared interests of its Members in the field of Long-Term Investment in full transparency.

The Full Members of ELTI are generally national official financial institutions dedicated to the promotion of public policies at national and EU level[11]. The European Investment Bank (EIB) as the status of a permanent observer. ELTI also includes Associate Members notably multilateral financial institutions, regional financial institutions and non-banking institutions[12].

[11] Oesterreichische Kontrollbank (OeKB) Austria, Federal Holding and Investment Company (SFPI) Belgium, Bulgarian Development Bank (BDB) Bulgaria, Croatian Bank for Reconstruction and Development (HBOR) Croatia, Ceskomoravska Zarucni a Rozvojova Banka (CMZRB) Czech Republic, Caisse des Dépôts et Consignations (CDC) France, La Banque publique d'Investissement (bpifrance) France, KfW Bankengruppe (KfW) Germany, National Bank of Greece (NBG) Greece, Hungarian Development Bank (MFB) Hungary, Strategic Banking Corporation of Ireland (SBCI) Ireland, Cassa Depositi e Prestiti (CDP) Italy, Latvian Development Finance Institution (ALTUM) Latvia, Public Investment Development Agency (VIPA) Lithuania, Société Nationale de Credit et d'Investissement (SNCI) Luxembourg, Bank of Valletta (BOV) Malta, Malta Development Bank (MDB), Malta, Invest-NL Netherlands, Bank Gospodarstwa Krajowego (BGK) Poland, Instituição Financeira de Desenvolvimento (IFD) Portugal, Slovak Investment Holding(SIH) Slovakia, Slovenska Izvozna in Razvojna Banka (SID) Slovenia, Instituto de Credito Oficial (ICO) Spain

[12] Nordic Investment Bank (NIB), Council of Europe Development Bank (CEB), Long-Term Infrastructure Investors Association (LTIIA), Participatiemaatschappij Vlaanderen NV (PMV) Belgium, Fund Manager of Financial Instruments in Bulgaria (FMFIB) Bulgaria, NRW.Bank Germany, Consignment Deposits and Loans Fund (CDLF) Greece, INVEGA Lithuania, Turkiye Sinai Kalkinma Bankasi (TSKB) Turkey

About EVFIN

The European Venture Fund Investors Network (EVFIN) was set up in 2011 in response to the funding crisis in the venture capital (VC) sector across Europe. It gathers today 19 major European public operators investing in venture capital funds from 17 EU countries. It aims at facilitating exchange of best practices among its members and at exploring measures at the European level to create a self-sustained EU VC market in cooperation with the EU institutions. Its members are:
Altum (Latvia); **Austria Wirtschaftsservice,** AWS (Austria); **Axis** (Spain); **Bpifrance** (France); **British Business Bank,** BBB (United-Kingdom); **Enterprise Ireland** (Ireland), **HBOR** (Croatia), **HDB Capital** (Greece); **Instituição Financeira de Desenvolvimento**, IFD (Portugal); **Invega** (Lithuania); **Ireland Strategic Investment Fund**, ISIF (Ireland); **KFW Capital** (Germany); **KredEx** (Estonia); **Magyar Fejlesztési Bank**, MFB (Hungary); **PFR** (Poland); **ParticipatieMaatschappij Vlaandere,** PMV (Flanders, Belgium); **Saminvest** (Sweden); **Société Régionale d'Investissement de Wallonie**, SRIW (Wallonia, Belgium); **TESI** (Finland) ; **Vaekstfonden** (Denmark).