SME Financing –
Key findings from the EIF’s new
“European Small Business Finance Outlook 2021”

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European Investment Fund (EIF)
Research & Market Analysis
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EIF, a unique approach

An EU body, dedicated to improving access to finance for small businesses.

We do not invest or lend directly. We are not a bank.

We use financial instruments to address gaps, foster sustainability, multiply resources and in doing so, improve access to finance.
Our shareholders

We have a diverse public and private shareholder base

European Investment Bank (EIB)
59.40%

European Union, represented by the European Commission (EC)
30%

38 Financial Institutions from European Union Member States, the United Kingdom and Turkey (F. I.)
10.60%
Our products help small businesses at every stage of development
General SME access to finance
SME access to finance in Europe: where are we “post”-COVID-19

**% of SMEs that considered access to finance to be a serious* issue:**

**% of SMEs that reported to have used....**

*Rating it 7 or more on a scale of ten, 0 being not problematic at all, 10 being extremely problematic

Source (all graphs on this slide): ECB SAFE, 2021.
The European PE/VC market

A healthy Greentech eco-system can only thrive in a well-developed private equity (PE)/venture capital (VC) environment.
European Private Equity (PE) market activity

Fundraising, investment and divestment amounts by PE firms located in Europe

- The COVID-19 crisis hit at a time when the European PE/VC market was on a positive growth path.
- Overall, the PE/VC ecosystem weathered the crisis reasonably well.

VC investments & fundraising

VC fundraising: amounts raised by VC funds located in Europe

VC investment amounts in Europe by stage focus

Note: Incremental amounts raised during period

- In the European VC market (the PE market segment that is most relevant for risk finance for young, innovative start-ups), investments even exhibited growth during the 2020 crisis year.

Investor base: Share of government agencies in VC fundraising*

* Percentage of incremental amounts raised during year (in contrast to final closings only). Excludes capital gains. Unclassified sources of funds have been extrapolated.

**Venture Capital prospects**

Average confidence in the long-term growth prospects of the European VC industry [on a scale of 1 to 10]

- VCs are confident in the long-term growth prospects of the VC industry in Europe.

- The investment potential in the healthcare / life sciences sector has continued to increase, with biotech, healthtech and digital health featuring prominently.

- Sustainability (including transition to greener energy and climate change-related investments) are also on the rise.

### Biggest challenges currently seen in VC business

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>High investee company valuations</td>
<td>45%</td>
</tr>
<tr>
<td>Competition from other investors</td>
<td>34%</td>
</tr>
<tr>
<td>Fundraising</td>
<td>33%</td>
</tr>
<tr>
<td>Number of high quality entrepreneurs</td>
<td>26%</td>
</tr>
<tr>
<td>Exit environment</td>
<td>19%</td>
</tr>
<tr>
<td>Small fund sizes</td>
<td>18%</td>
</tr>
<tr>
<td>Regulation</td>
<td>18%</td>
</tr>
<tr>
<td>Investee company performance</td>
<td>17%</td>
</tr>
<tr>
<td>COVID-related disruptions of business activity</td>
<td>17%</td>
</tr>
<tr>
<td>Market volatility</td>
<td>12%</td>
</tr>
<tr>
<td>IPO market</td>
<td>8%</td>
</tr>
<tr>
<td>Cross-border market fragmentation</td>
<td>7%</td>
</tr>
<tr>
<td>Political uncertainty</td>
<td>5%</td>
</tr>
<tr>
<td>Fee pressure</td>
<td>5%</td>
</tr>
<tr>
<td>Brexit</td>
<td>3%</td>
</tr>
</tbody>
</table>

Note: The number in brackets [ ] corresponds to the ranking of the respective challenge in the EIF VC Autumn 2020 Survey.


"High investee company valuations", “Competition from other investors” and “Fundraising” were most frequently stated as important challenges.
### Challenges: Comparison Europe vs US (fundraising)

VC fundraising Europe vs US

Source: Author, based on data from Invest Europe/EDC and NVCA/Pitchbook.

Please note that the underlying definitions (categorisations) for the collection of European / US data are not identical, hence differences can only be interpreted as approximation.
Distribution of fund sizes (vintages 2017 to May 2021)

Source: EIF Research & Market Analysis, based on data from Pitchbook
Non-European investors fill the void

More than 50% of European late-stage financing rounds come from outside Europe

High-growth companies in a pre-IPO phase typically need funding of a magnitude surpassing EUR 40m.

As growth financing in Europe is not well developed, many European companies look towards the US or China for funding of a sufficient ticket size.

Source: Atomico (2020), based on data from Dealroom
Overall, the European PE/VC ecosystem weathered the COVID-19 crisis well.

Important challenges remain in terms of fundraising, scale-up financing, exits and the market size compared to other world regions.
The EU Market for Greentech VC/PE financing
The importance of Greentech Innovation for the EU Green Transition

Financial damage caused by weather events in Europe

- Climatological events
- Hydrological events
- Meteorological events

Source: Eurostat

Mitigation investments = demand for Greentech innovation

- Climate Target Plan (55% reduction)
- Long Term Strategy (40% reduction)
- Baseline (business as usual)

Source: European Commission
1) Exponential growth
2) Maturing market
3) Regulation drives investment

Increasing focus on energy system

Source: Pitchbook

Source: Pitchbook
Concluding remarks

• No “black swan” effect on the VC industry in the wake of COVID-19:
  • Crisis-as-opportunity mantra
  • Swift COVID-19 public support measures – including many deployed by the EIF

• A positive outlook:
  • EIF VC surveys: “VCs confident in the long-term growth prospects of the industry”

• But … structural issues remain
  • gap with other regions of the World
  • Lagging European scale up and exit markets
  • Fragmentation of EU market
  • Scale-up, patient, financing for deeptech Greentech

Rationale for continued public support to the European VC/PE ecosystem, with particular focus on developing Greentech ecosystem
If we believe in small big things can happen
Thank you for your attention!


At EIF Research & Market Analysis, we remain committed to report on the state and outlook of European VC (e.g. see our flagship publications)