

Guarantees for economic recovery and to foster sustainable investments

Fostering SMEs' resilience: The role of equity and mezzanine finance



What specific obstacles do SMEs have to face?

They usually have...

- no access to the stock market for funding
- no access to the capital markets for corporate bonds
- no/little access to private equity (from banks, private equity companies)
- no/little access to alternative financial instruments (e.g. ABS)
- weaker equity ratios and higher number of bankruptcies

In times of crisis, these factors are exacerbated even more!

- Equity ratios impacted by losses incurred due to lockdown
- Business recovery needs to be financed (working capital, investments)
- Digitization, Automatization, Transformation – need for ever-lasting change process
- ESG topics, supply chain regulation pose new challenges

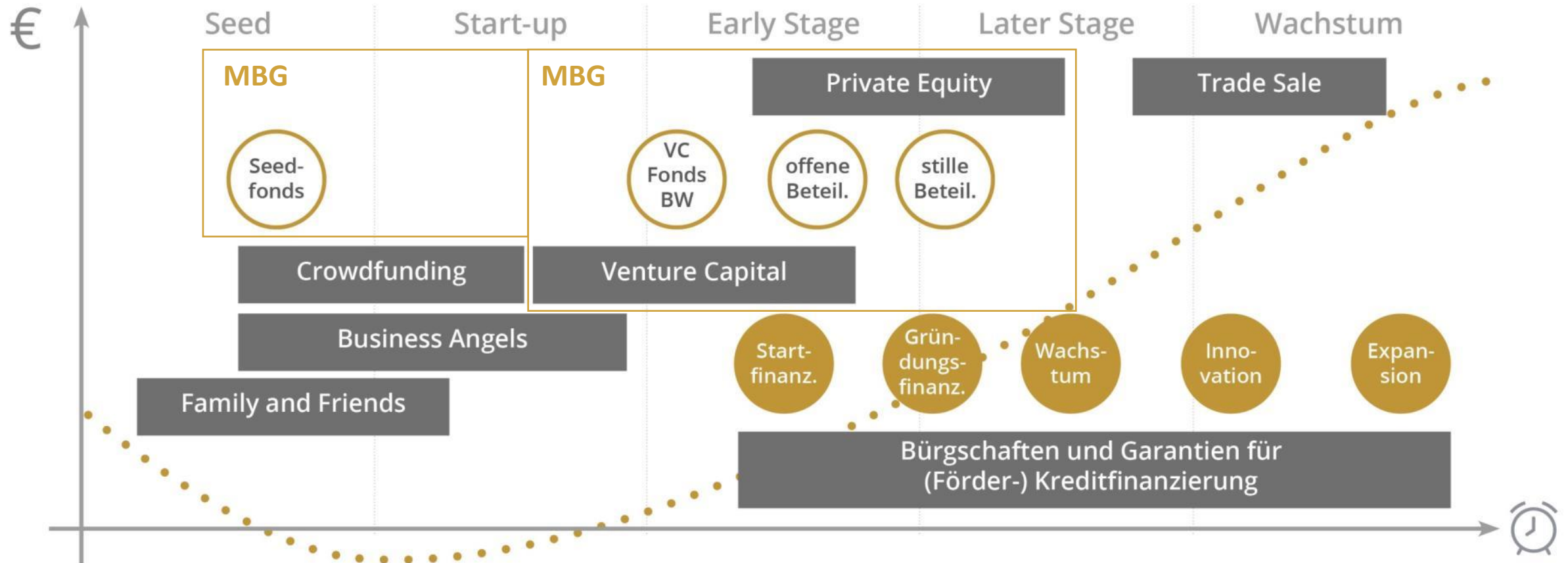
How to address these specific obstacles?

A cog in the well-oiled German SME promotional wheel

The MBGs – publicly supported PE companies

- **MBGs** as publicly supported private equity companies investing in startups and entrepreneurs as lead and co-investors
- PE experience going back to the 1970s
- Current portfolio of the 15 German MBGs:
 - > 3.600 investments of more than a billion Euros (1,022 b€)
 - Germany's most frequently used PE investors and one of the largest providers of PE funding
- In addition, MBGs also manage several venture capital funds that provide early-stage VC to innovative and high-growth start-ups
- MBGs work closely with the regional guarantee banks (Bürgschaftsbanken)
 - MBG Equity investments guaranteed by associated Bürgschaftsbank, operating with state and federal counter-guarantees.
- State aid compliance: notified method

Bürgschaftsbank & MBG | Optimal financing for each stage of the corporate lifecycle





Private Equity

established companies
„Mittelstand“

Venture Capital

start-ups and entrepreneurs
(seed, start-up, innovative projects)

When is MBG PE best used | Key scenarios for mezzanine capital

Growth and innovation projects

Acquisitions/Takeovers

Successions (MBO/MBI)

Innovative projects

Projects with one-off higher financing requirements

Limited access to debt financing

Difficulties in assessing value of collateral

Special risks (e.g. product development/market development risks)

Promising future earnings and growth potential

Mezzanine capital does not replace hard equity in the long run
operating cash flow has to cover the mezzanine debt service

MBG | Terms and conditions overview

Mezzanine capital

up to
1 Mio. €

Standard mezzanine
programme

- Specific purposes: investment | growth | succession | innovation | ...
- Company size: SMEs
- Equity parity
- Risk relief through guarantee bank and federal/state government (de minimis aid)
- 10% risk relief for credit institution possible, partial guarantee of the shareholders may be required
- Reduced funding conditions for start-ups and company succession
- Micro investments up to T€ 50: Mikromezzaninfonds

≥ 1 Mio. € up to
≤ 2,5 Mio. €

- 50% risk relief by credit institution required (bank cooperation)
- Highly flexible design: e.g. with regard to company size | intended use | location of investment
- optional risk relief from the guarantee bank and the federal/state government or EIF (special approval required)

MBG | Requirements

promising corporate concept/strategy

Investment or project in the state of Baden-Württemberg

sales and earnings growth

adequate controlling systems

transparent information and communication policy

qualified management

MBG investment

What are the benefits of an MBG investment?

A solid and strategic element for the overall financing concept

- long-term financing at attractive conditions – similar to equity
- Liquidity saving by repayment in full at the end of the term (transparent exit)
- Silent partnership – no interference in the daily business of the company
- No dilution of capital shares
- Usually no collateral needed (except for personal guarantee)
- Subordinated in case of bankruptcy
- MBG mezzanine capital
 - optimizes balance sheet ratios
 - improves company's rating and thus the creditworthiness
 - opens up new financing possibilities and decreases financing costs
- MBG is a reliable partner for “the Mittelstand “ offering long-term investments without exit pressure

How did the MBGs adapt to the pandemic?

The MBGs role in the supporting SMEs during Covid

- After overcoming the Covid-related demand for working capital loans, the focus is increasingly shifting to growth and transformation projects
- The MBGs were able to broaden their product range while also enhancing the scope of their existing products
- Against this background, demand for MBGs' equity financing programs has picked up considerably in 2021.
- As of June 30th, the German MBGs were able to double their investment volume in comparison to 2020 to about 150 m€.

How did the MBGs adapt to the pandemic?

Extension of counter-guarantees

Extended Covid programs of Guarantee Banks and MBGs

- Increase of investment ceiling to EUR 2,5 million (no approval required from federal government)
- Possibility of financing working capital under certain conditions
- Facilitation with regard to equity parity
- Guarantee Bürgschaftsbank 80 % against MBG with increased counter-guarantee 80 % federal/state government
- Risk distribution 64 % federal&state vs. 36 % MBG instead of 49 % / 51 %

How did the MBGs adapt to the pandemic?

New product

„Pillar 2“ of federal Covid-support program

- New product in cooperation with KfW and regional promotional banks
- Specifically targeting Startups and SMEs hit by Covid
- PE and VC capital investments of initially up to 800 k€; later raised to 1,8 m€
- No mandatory capital parity
- Possibility of financing working capital
- Goal: 500 investments totalling 250 m€ (should be reached by year end)

Thank you for your attention.



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Questions?

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