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# EIC Accelerator
# Work Programme post 2024

## EAIC Position Paper

June 2024

The present document analyses the November 2023 results of EIC Accelerator (EICA) against cumulative EICA data and issues recommendations to inform the future EICA Work Programmes.

## Background

The official figures of the EICA programme under Horizon Europe (excluding the cut-off in November 2023) reveal that the success rate at the interview stage is 34% on average (Step 3: interview conversion into a Grant Agreement).

In November 2023, the interview success rate dropped to 17%, resulting in an overall success rate of 4% for step 2 applications (Full Applications > Face to Face> Winners) in the last cut-off of the year.

While this may have been explained by the high number of Blended Finance applications being granted top of the range investment components (thereby contributing to a fall in the number of applicants awarded funding), this trend has been consistent throughout 2023.

In the last cut-off of the year, 47 candidates were awarded a total of €285m in funding. A maximum of €37.5m (13.2% of the funding or less) was awarded to 12 Grant-First cases and 3 Grant-Only cases, while the remaining €247.5m (86.8% of the funding) was allocated to the other 26 Blended Financing candidates (plus 1 Equity-Only case).

This is not much different from the 2023 average, where Blended and Equity-Only financing made up 84% of the funding awarded, with only 10% of candidates being awarded Grant Only (just 17 companies).

Importantly, the average ticket size for cases involving equity has increased to just below €10m, which is more than double the average ticket size of all the previous cut-offs in Horizon Europe.

The budget cuts from 2023 onwards are expected to lead to a lower number of successful applicants in 2024, which might be even lower if recent accounts of the EIC instructing evaluators to prioritise ‘big tickets’ are true.

If the goal of the EIC Accelerator is to promote the growth of the European deep-tech ecosystem, then a success rate of 4% or less is not in line with this goal, and what could be interpreted as a systematic preference for large tickets, coupled with the decrease in budget, will only accentuate the trend, thereby lowering success rates further.

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## What type of company is the EICA aiming to support?

So far, the EIC has opted to fund a broad range of companies: from early-stage start-ups (seed or pre-seed rounds) requesting "grant-first" support to scale-ups (B or C rounds) requesting blended financial support with an equity ticket of €15m. The EIC even allows midcaps to apply for EIC funding.

However, with the severe budget cuts implemented in the Work Programme 2024 (and likely to remain in subsequent Work Programmes), such a broad funding approach has become counterproductive.

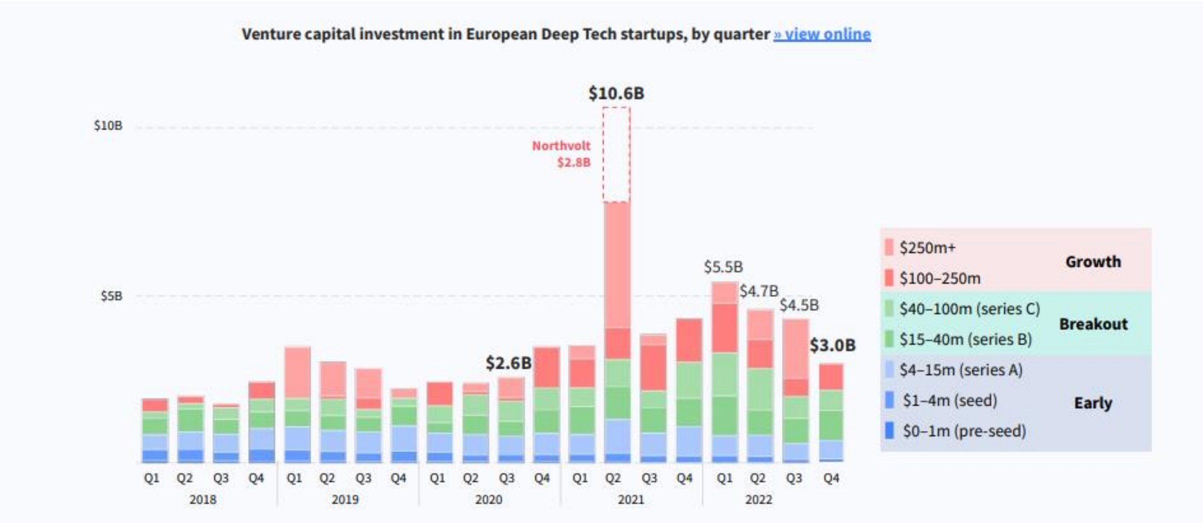
Take for example each challenge of the new work programme, which has been allocated €50m for the entire year, i.e. €25m for each cut-off. This budget will only allow the EIC to fund 1 large case (€17.5m in grant + equity) per cut-off, leaving a mere €7.5m to share with all other cases (i.e. 3 grant-only cases at best).

Given these budget constraints, it is critical for the EC to clarify the mission of the EIC Accelerator in terms of targeted companies.

Based on the trends observed in the past three years, where Blended Finance cases have been awarded 80% of the funding, and anecdotal evidence gathered from the association's members, we believe that early-stage scale-ups with a well-structured/experienced team (especially if founders have a prior successful exit) and reputable investors in the cap-table are much more likely to be funded than less mature companies.

We see two main options:

1) If the main goal is to accelerate the scale-up of deep-tech companies who are already in B or C rounds, then the available budget will not leave any room for supporting other less mature companies, and success rates will drop to 1-3% again, as at the end of Horizon 2020.
2) If the main goal is to take less mature companies and make them investor-ready for seed rounds or A-rounds, then there must be a clear signal (to applicants and evaluators) that those are the targeted companies, given the budget limits.




*Source: The European Deep Tech Report 2023 Edition (Dealroom, Lakestart, Walden Catalyst)*

While budgets for public funding are being squeezed, the size of deep-tech funding rounds has increased over the past three years. Companies are raising B-rounds between €15m and €100m, which suggests that public funding is not essential for companies at this stage, with the EIC potentially crowding out private finance. Furthermore, with a €15m investment limit, the EIC is limited to a minor role in such rounds.

Public funding does, however, remain essential for companies looking to bridge the gap between prototype (TRL5/6) and commercialisation (TRL8). Many of these companies struggle to raise funding because VCs are reluctant to commit until they have eliminated technology development risks and have clear evidence of commercial traction. This is the original funding gap the EIC Accelerator instrument was designed to fill.

## A possible way forward?

The current EIC Accelerator success rate trend has reduced the attractiveness of the programme and is not sustainable. With a success rate below 4%, high-potential companies will shy away from it, spending their time on activities that bear a higher chance of success, with only less promising companies with no other line of funding in sight choosing to remain in the EIC Accelerator pipeline.

Our members report that a number of what would have been promising candidates have decided not to apply for EIC Accelerator funding, due to the management and financial resources required and low chances of success.

Statistically speaking, the lower the success rate is, the more difficult it is to identify and select the "better" projects, creating more unexpected evaluation issues. Furthermore, with such a broad range of companies able to receive funding, especially given a perception that the "need for EIC" criteria can be somewhat subjective, it is difficult for companies to estimate their chances of success, creating a great deal of uncertainty for applicants.

We believe that the EIC should consider returning the EIC Accelerator to its roots of supporting less mature, but high-potential companies. In our view, urgent action is needed, and we would like to put forward two recommendations:

**Recommendation 1:** Refocus a large part of the budget on Grant Only cases, making sure that evaluators and jury members do not disadvantage these cases (it is possible they may have been encouraged to favour blended finance cases in the past). This would foster a complete transformation in the evaluation mind-set and reduce perceptions noted by the EAIC of a seemingly intentional and systematic preference towards candidates who apply for equity components in the form of Blended Finance or Grant First, rather than Grant Only.

Furthermore, we urge the EIC to allocate a predetermined budget to grant-only projects, removing any discretionary power for budget re-allocations within schemes, and clarifying the criteria governing the selection of Grant Only applications. Three years into the programme, applicants and consultants are unsure of what makes one grant-only application successful over another. Another possible option would be to have a consistent selection process where the TRL achieved by the applicant is in line with the funding type.

**Recommendation 2:** For companies requesting Blended Finance, limit the maximum equity request to €5m. Each project should have a key milestone (at month 12, 18 or even 24) for fundraising from private investors alongside the EIC fund. If the company does not meet that milestone, the equity offer should be rescinded and placed back into the available budget.

## About EAIC

The European Association of Innovation Consultants (EAIC) brings together active innovation consultants in the field of European research and innovation projects. The association aims to facilitate the exchange and promotion of best practices, as well as to uphold professional skills and expertise in European RDI funding. To date, the group has assembled more than 50 members who are active throughout Europe.

## Contact

EAIC – European Association of Innovation Consultants

Square de Meeûs, 35

1000 Brussels

Belgium

www.eaic.eu