



THE VOICE OF  
PRIVATE CAPITAL  
VENTURE CAPITAL  
PRIVATE EQUITY  
INFRASTRUCTURE  
LONG TERM INVESTORS

Executive Vice-President Margrethe Vestager  
European Commission  
Rue de la Loi, 200  
1049 Brussels

1 April 2020

Dear Executive Vice-President Vestager,

The European start-ups, scale-ups and medium-sized businesses supported by the European private equity and venture capital industry are, as many others, greatly suffering from the economic shock caused by the Covid-19 pandemic.

As we mentioned in our previous letter, we commend the European Commission to have allowed Member States, in these exceptional circumstances, to take the necessary steps to help companies that are currently suffering the most from the effects of the crisis. State support, either in the form of direct financial aid or through state guarantee to bank loans, will be necessary, for some, to survive in the next few weeks and, for others, to strive in the next few months.

While offered by Member States directly, such aid is often granted on the basis of existing EU law. As many countries took the - reasonable - decision to direct most of the funding to small and medium sized businesses, the EU “SME Definition” set in Recommendation 2033/361/EC has been used as a benchmark in many capitals to determine which businesses should now receive financial support.

This support will be crucial also for companies backed by private equity and venture capital funds, active in sectors as varied as ICT, biotech, healthcare, energy or transportation, and a vast majority of which (around 85%) are SMEs. Between 2014 and 2018, our industry invested capital and expertise in 25,461 businesses across Europe, most of them at risk of suffering from the coronavirus impact.

Unfortunately the current SME Recommendation will often lead to a situation where companies in which a private equity or venture capital manager has a participation will fail to qualify as SMEs and, subsequently, to be eligible to the state support they may require in these difficult times. This is because the current Recommendation does not recognise the specific nature of the private equity commitment and considers these businesses as part of a conglomerate.

Although an important one for the thousands of businesses currently supported by our members, this is not a new issue. Your services recognised in previous Commission [assessments of the Recommendation](#) that the current definition, and more specifically the current concept of “linked enterprise” did not at the moment address the realities of private equity investments and did not take into consideration the fragility of the businesses these funds support.

Indeed, despite the investment, and in some cases, controlling stakes taken by a manager in the portfolio company, a SME backed by private equity always remains by nature a start-up, a scale-up

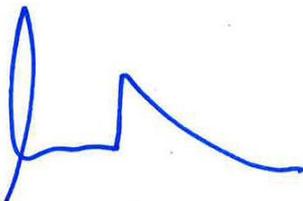
or a medium-sized company which requires the protection than the SME definition entails. SMEs which are supported by private equity will also, as any others, seek additional financing from third party providers to fund their growth or face unexpected situations. They will most importantly not benefit, in times of crisis such as the ones we are currently facing, from the advantages of being part of a group, as other companies that are targeted as “linked enterprises”.

While some countries, such as France, have taken this into consideration by allowing SMEs owned by private equity firms to benefit from specific guarantees, other countries have specifically restricted their guarantee schemes or financial aid to SMEs as defined within the meaning of the Commission Recommendation. This includes at the moment Denmark, Portugal and potentially Italy - but we fear other similar situations may arise in the coming days and weeks.

In light of this, we feel it would be important for the European Commission to address clear recommendations to Member States to allow start-ups and scale-ups backed by venture capital and private equity. Without these recommendations, there is a serious risk that in some EU countries, the start-up environment could be gravely affected, putting in danger the recent efforts made by the European Commission to support research and innovation through equity funding.

We of course remain at your disposal for more questions and will stand ready to give you additional details on the specificities of private equity and venture capital investments and on the needs of the businesses they support.

Your sincerely,

A handwritten signature in blue ink, appearing to be "Eric de Montgolfier".

Eric de Montgolfier  
Invest Europe Chief Executive

A handwritten signature in blue ink, appearing to be "Martin Bresson".

Martin Bresson  
Invest Europe Public Affairs Director

*Note: A similar letter has parallely been sent to Commissioner Thierry Breton.*