

# ***EBRD Support for Innovation***

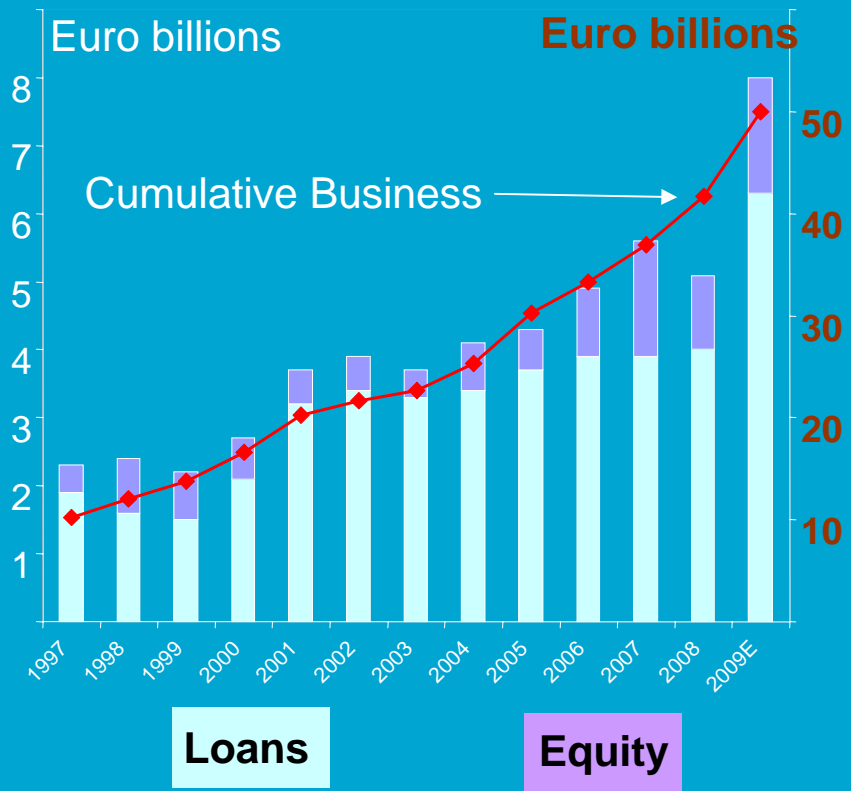
**AEB - 24 November  
Moscow**

**Eric Rasmussen  
Director Corporate Sector  
Russia Business Group**



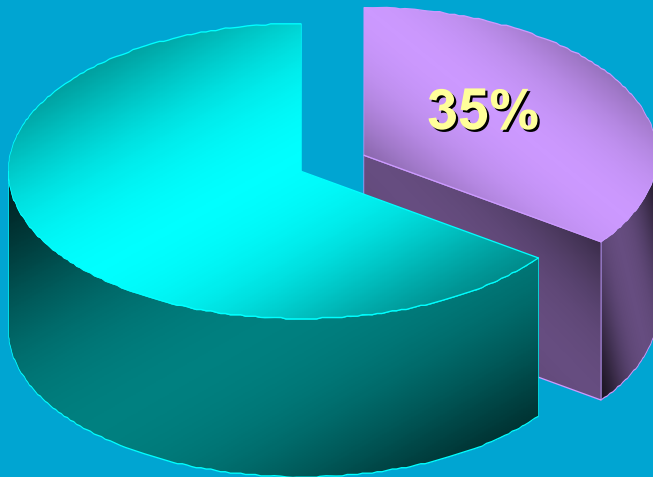
## EBRD's cumulative investments of EUR 50 billion. About 25% in Russia.

- Promote market efficiency by investing mainly in the private sector
- Mobilise foreign direct investment
- To support municipal services to improve people's lives
- To encourage environmentally sound and sustainable development
- 2,600 projects since 1991
- 1/3 of all new business in Russia
- Largest equity fund program in the EBRD countries of operation



## Direct Financing: Basic Guidelines

*Minimum  
EBRD financing: Euro 7mn*



*Minimum Project: Euro 20mn*

- Significant equity contribution from the Sponsor ensures a prudent capital structure
- Appropriate return on investments - a fair balance of risk / reward
- EBRD money usually not to exceed 35% of capitalisation of company (or 50% in case of syndication)

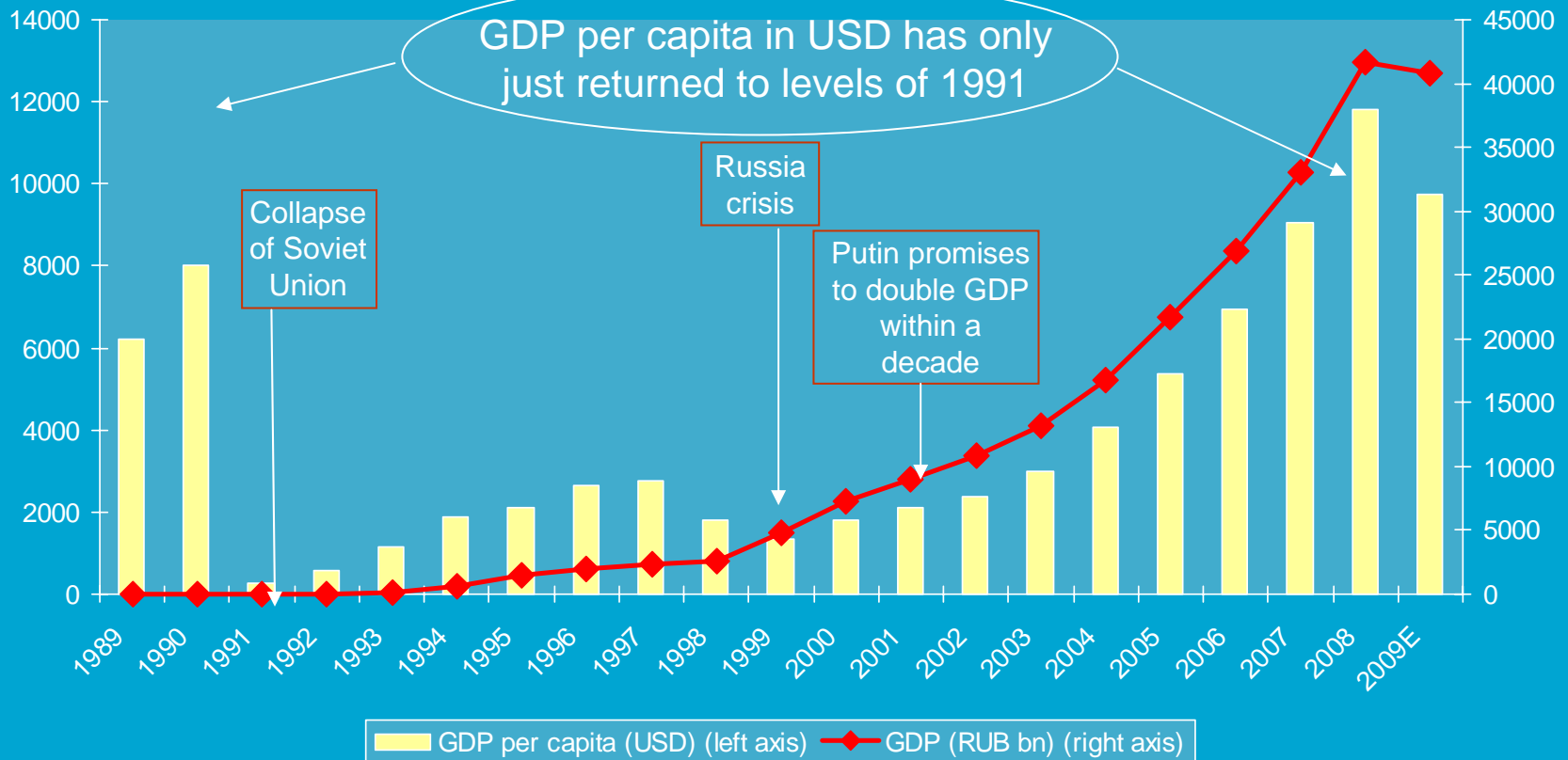


# EBRD - Support For Innovation

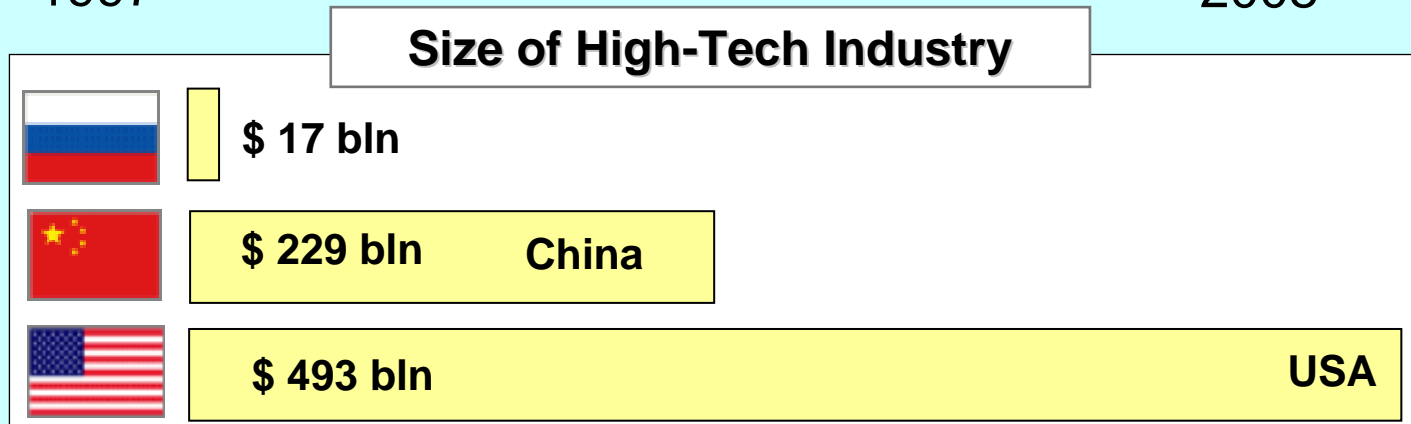
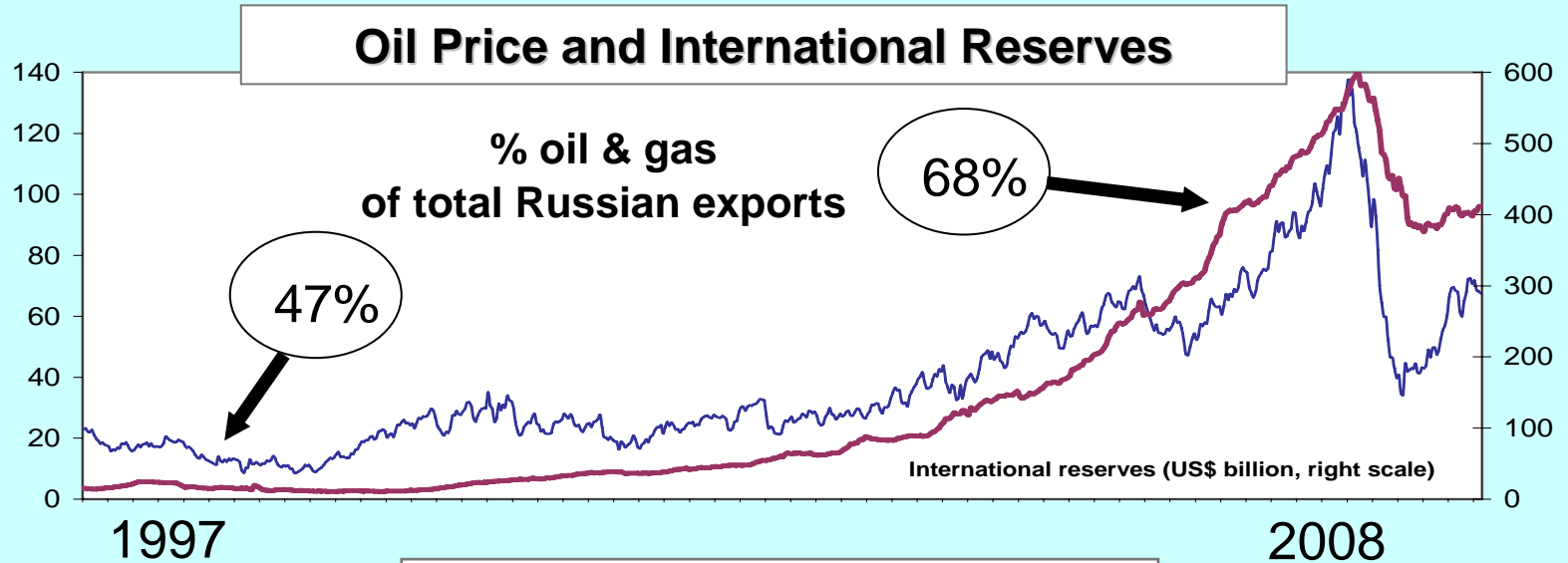
- **AAA rated** and internationally recognised IFI with long-term view
- Willing to **share risks**, including political risks
- Experience gained in **problem resolution**
- **Extensive knowledge** of local business environment
- Good working **relations with authorities**
- Good corporate governance (incl. protection of **minority interests**)
- High quality **due diligence and opportunity studies**
- Limited recourse **long-term equity and loans** (2,600 projects)
- Largest **private equity fund** program in the region (1,000 clients)



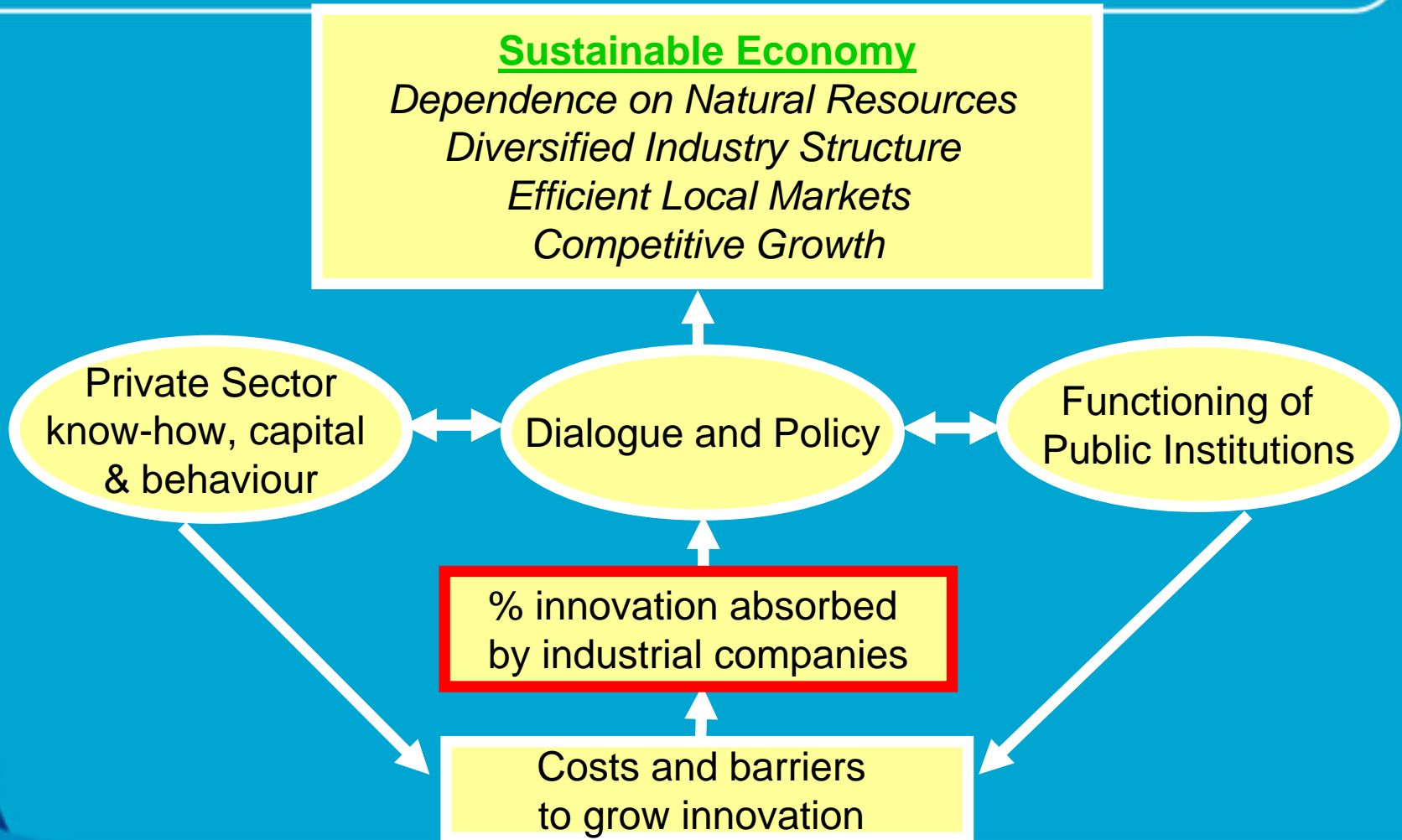
# Russia has still lots of potential...



... but the economy is more than ever dependent on oil.



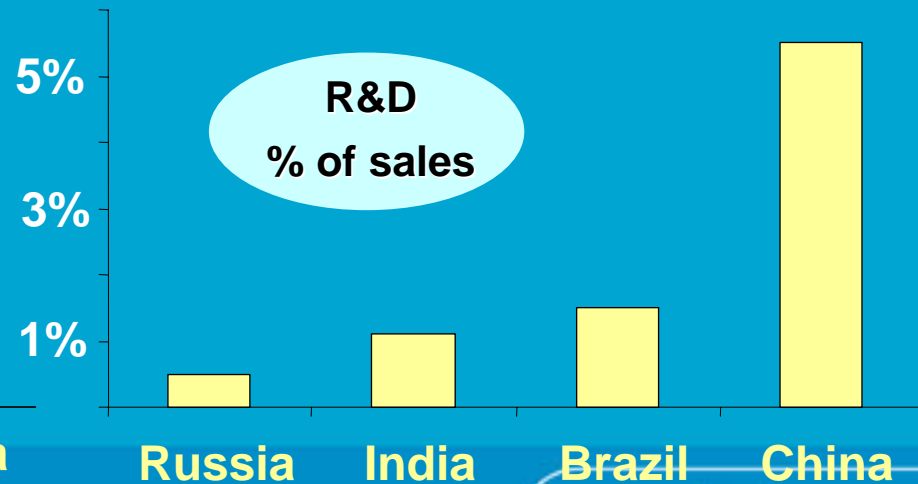
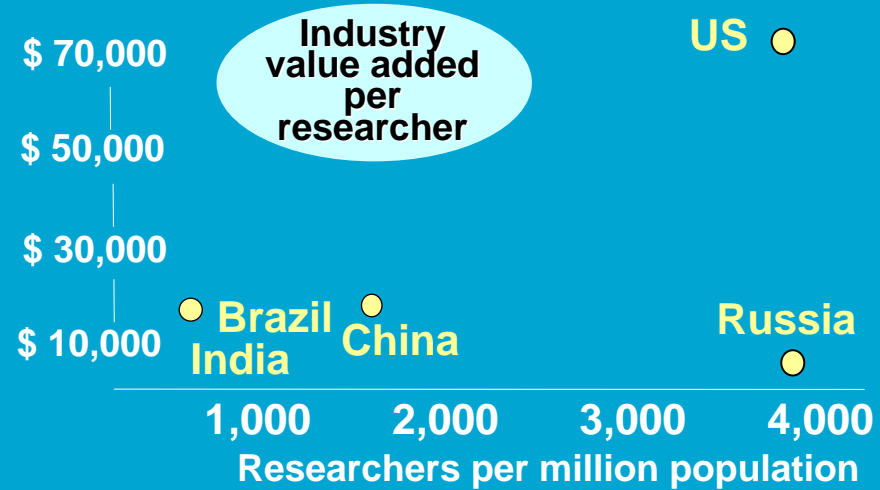
# Sustainable economic growth depends on the climate for industries to absorb innovation



# Private Sector: Transformation of Russian companies necessitate a higher pace of absorbing innovation.

## Innovation in Russian Firms

- 44% No innovation (passive)
- 7% In-house improvements
- 19% New technology for Russia
- 3% New technology for the World
- 27% Adapting imported innovation





# Private Sector: The transformation of Russian companies necessitate new operational and finance strategies.

	Re-think (1H 2009)	Adjust (2H 2009 - 2010)	Transform (2010-2015)
Operations	Viability Assessment	Cut to size	Innovate, imitate and refocus for recovery and competitiveness
Finance	Stand still	Rescheduling Financial investor	Restructuring Industrial alliances Tailored finance mix



# Barriers in Russia's Innovation Climate

- Few sources of finance and guidance



USA: Thousands of venture funds, angels, seed investors, high R&D in private sector.

Russia: Over 50% of R&D is financed by the State.

- Undeveloped high-tech infrastructure



USA: Example of success (Silicon Valley)

Russia: Techno parks are good, but yet untested.

- Complicated registration of high-tech start-ups



USA: 1 day

Russia: Several weeks to 8 months (red tape).

- Restrictive tax policies



USA: Tax preferences for high-tech SMEs.

Russia: SME are often unable to generate profits without complicated tax optimization.



# EBRD Innovation Opportunity Study: What & Why?

## Rationale

EBRD has launched a study to help scan for viable projects, which could tap Russia's scientific potential and help the industrial sector absorb innovation. **Rosnano** is a partner in the study.

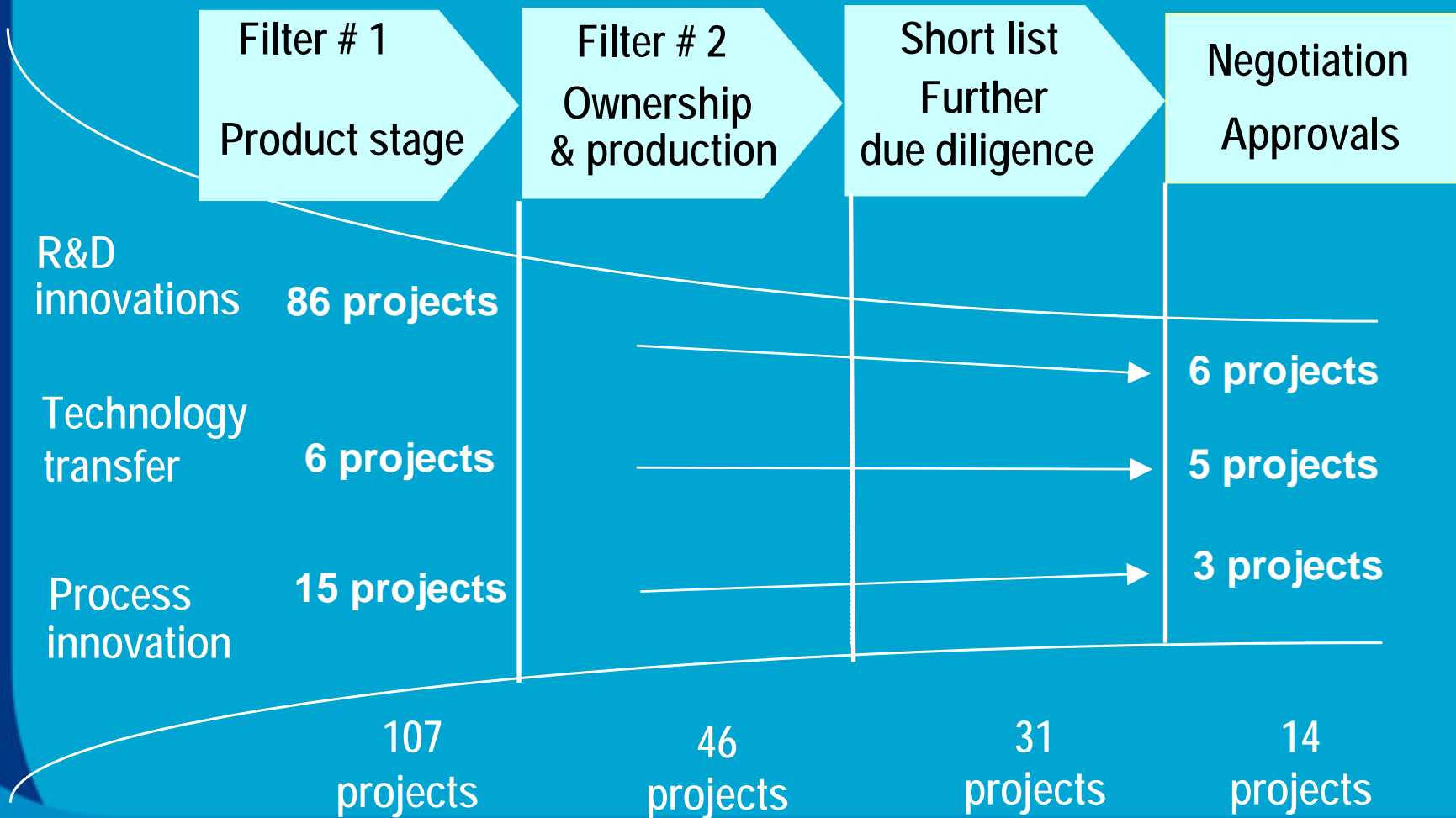
Russia has potential from its science base and education system in science and technology. However, the financial crisis imposes major constraint on the funding for innovative technology projects.

## Focus

The study involves visits to techno parks and various business incubators in order to identify projects led private sponsors. The focus is on commercialisation of high-tech innovative projects as well as demonstration cases in energy efficiency, health and safety.



**EBRD Innovation Opportunity Study:** Since July the study screened 107 opportunities and 14 projects are currently short-listed for commercial negotiations and internal approval.



# Petrovax Case Story

**Petrovax** is a small Russian pharmaceutical company focusing on development and commercialization of vaccines and drugs in the field of immunology. The firm had in 2003 **one key product** (polyoxidonium) an immune stimulant and an adjuvant for the flu vaccine. Petrovax **turnover in 2003** was EUR 5 millions.

## Strengths

- Intellectual property based on polyoxidonium molecule
- Highly knowledgeable and ambitious scientific team
- Key niche products

## Weaknesses

- Limited financial resources for R&D
- Limited production facilities and capabilities
- Low brand awareness



## **Petrovax Case Story: Vaccine Project**

**“Vaccine Project”:** Construction of a state-of-the-art manufacturing facility for production of flu vaccine in syringes. And the development of a new flu vaccine in a partnership with a leading pharma player.

**Alliance:** Solvay Pharma (today owned by Abbott)

**Finance:** EBRD EUR 25 million loan to SVP guaranteed by Solvay Pharma and Petrovax



## **Petrovax Case Story: R&D Project**

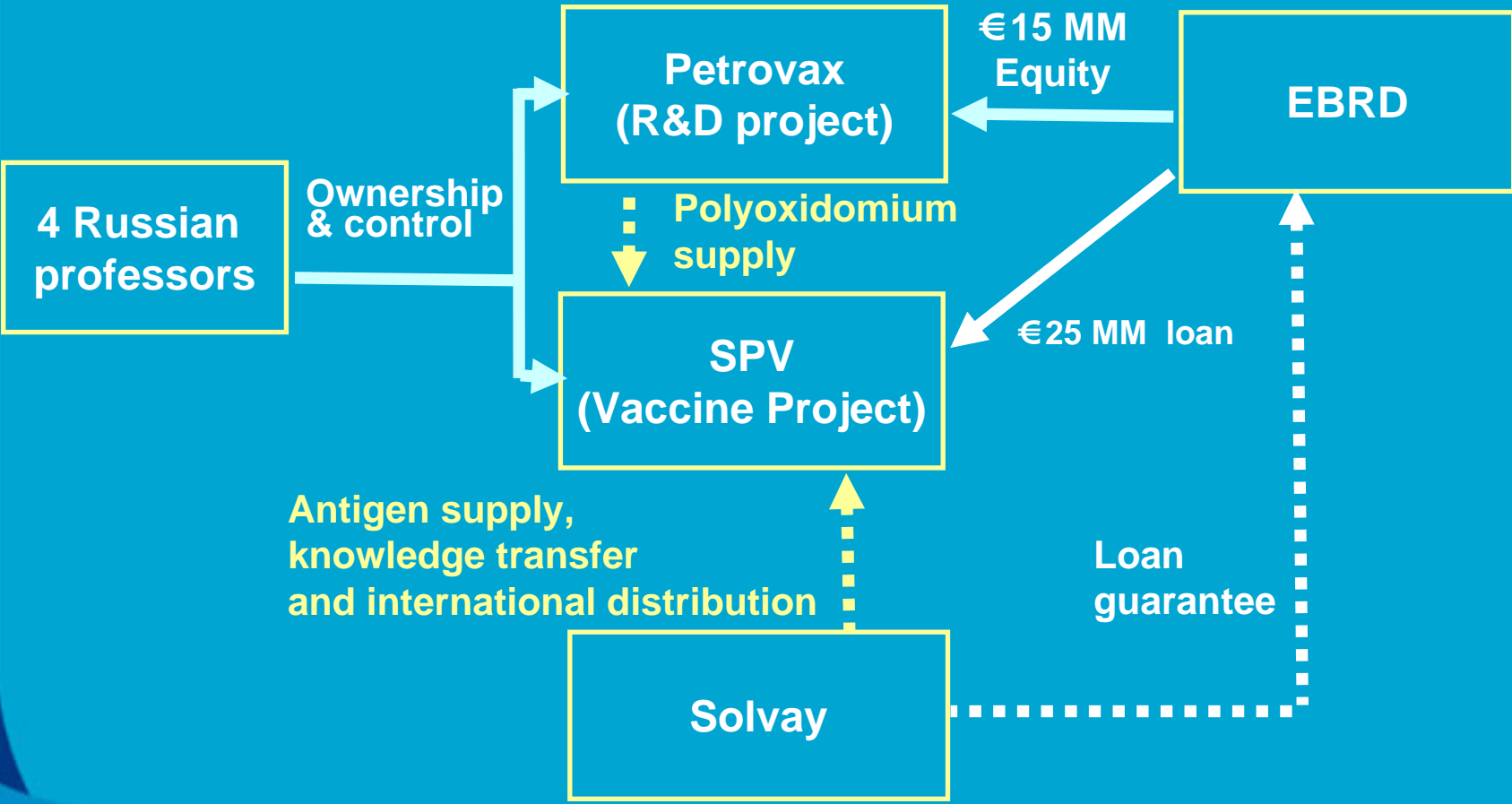
**“R&D Project”:** Construction of a 2nd production line (liquid and solid forms). Clinical trials, registration and commercialization of 2 new products. Also improvement in the organizational structure and corporate governance.

**Alliance:** EBRD involvement at Board

**Finance:** EBRD EUR 15 million equity Petrovax



# Petrovax Case Story: Project Structure



Note: details are simplified for case study





## Petrovax Case Story: Status

**Industry Position:** Petrovax is today a leading Russian pharmaceutical player with GMP facilities and a strong portfolio of branded products and products at various stages of development. Petrovax has several IP and production collaborations with the World's leading pharma companies.

**Sales:** Approximately **20x** increase in sales and profitability over the last 5 years and growing.

**Corporate Governance and Jobs:** Many new jobs for a new generation of researchers. Implementation of IFRS, modern MIS and corporate governance practices.



**Thank you for your attention!**

