Financial Maturity

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Financial Maturity

Key points

Lessons learned and do’s/don’ts

Financial Maturity
Key points

Objective: assess the project capacity to reach Financial Close within 4 years or faster*

Project business plan and profitability

Soundness of the financing plan

Commitment of project funders

Understanding of project business and financial risks

New

*For the topics Pilots and Manufacturing, projects demonstrating the **ability to reach financial close within two years and entry into operation within four years** after grant agreement signature may receive a higher score under the project maturity criterion

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Key points

Objective: assess the project capacity to reach Financial Close within 4 years

Relevant sections of the proposal and mandatory annexes

- **Application form, Part B, sections:**

  3.2 (Financial maturity)

  3.4 (Risks management)

  7 Work packages, activities, milestones

- Mandatory annexes : Business Plan (including financial statements of the project shareholders), Financial Information File **to be filled completely** (which includes the Relevant cost calculator, the financial model Summary Sheet, the grant drawdown schedule and the cost efficiency calculation), Applicant's Financial Model (xls)

- Any existing due diligence report (optional)

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Business model => Business plan

- Credibility of the business model and business plan:
  - Describe the proposed project business model, including the project competitive advantage, targeted market(s) and products, barriers to entry and how it addresses market gaps.
  - Fully describe and substantiate the main revenues and cost assumptions (CAPEX and OPEX). Include a detailed breakdown and description of prices and volumes assumed (attach any available due diligence).
  - Describe the strategy to secure key contracts with off-takers, key suppliers, construction contractors… Where available, provide contractual evidence for example letters of support, indicative terms from MoU's,..
  - Justify the contingencies (CAPEX and OPEX) used and ensure that they are in line with market practice in your sector.

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Business Plan => Financial model

- Robustness of the cash flow projections and project profitability
  - Ensure that the financial projections are coherent with the assumptions of the business plan and across the other application documents.
  - Fill in the Financial Model Input Sheet in the Financial Information File and make sure the data are coherent with your own financial model.
  - Describe project returns over the entire project lifetime with/without the grant and compare it to the WACC.
  - Ensure that assumptions used for WACC adequately reflect the project risks.

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Soundness of financing plan

- Project Financial Close must be reached latest 4 years after signing of the Grant Agreement.

  ⇒ Justify the planned date for Financial Close, clearly describe the work packages, milestones and deliverables up to that date.

- Demonstrate financial viability of your project. Does the financing plan cover construction costs and potential negative operational cash flows?

- If your financing plan includes external debt, justify the key terms and show they are in line with market standards. Ensure that the level of debt assumed is supported by stable cash flows and reinforced with long-term off-take contracts. If possible, letters from banks substantiating the conditions and letters of potential off-takers are always a plus.

- Describe the funding structure in the organizational chart highlighting the main legal entities and where the debt (if any) will be raised (will it be recourse/non-recourse?).

- Make sure that grant disbursement is in line with the call text.

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Commitment of project funders

- Describe the state-of-play, nature, level and conditions of support provided by project funders.
- Provide corresponding evidence like letters of interest/support, letters of approval from funders/shareholders or board confirming the support of the financing plan. This will be even more crucial for unprofitable projects (pilots or others). Also describe the necessary internal approval process.
- Support from other sources including market mechanisms, support from Member States and status/planning for State aid clearance where relevant (provide evidence if you have, do not just mention it).

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Business and financial risks

- Provide a description of the main business and financial risks with the appropriate mitigation measures
- Underpin your analysis with the business plan and provide a risk heat map
- Describe contingency planning and/or contingency funding to cover downside scenarios like lower green price premium, sales growth or lower than anticipated, price increase, higher construction cost, absence of additional grant (if any)
- Fill in the risk matrix in section 3.4 of the application form part B

Financial maturity

Scores per topic LSG-2022

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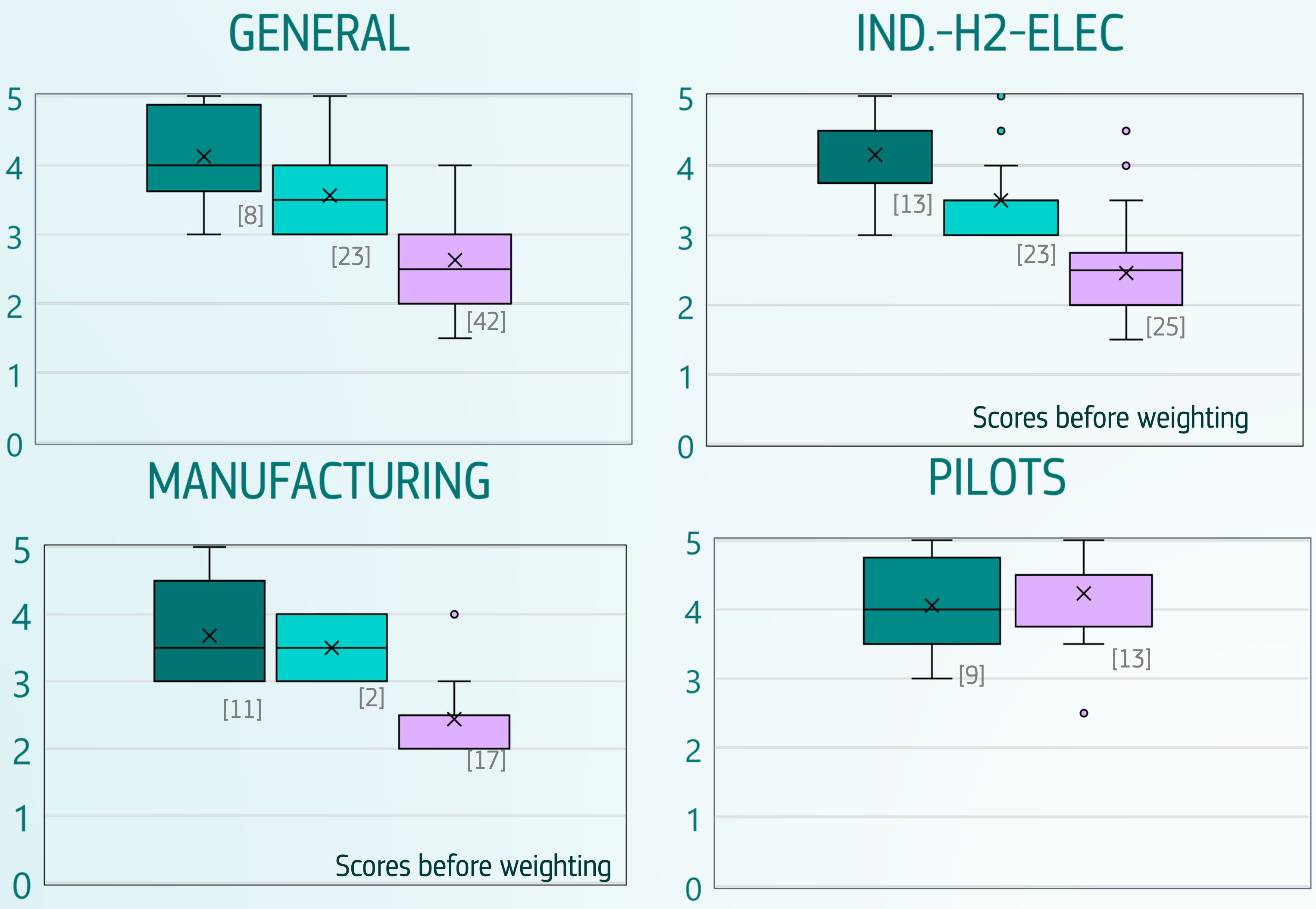
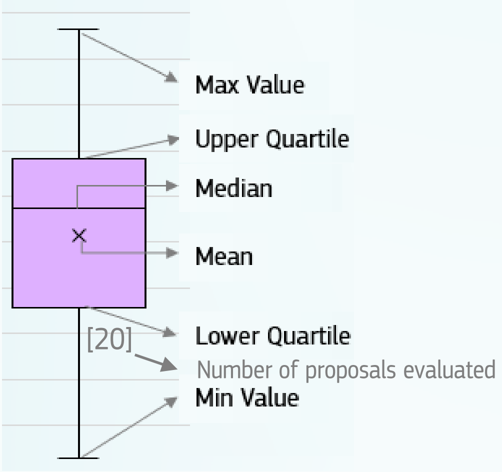


Proposals evaluated

- Pre-selected for grant preparation
- Beyond available budget
- Not meeting minimum thresholds

How to interpret these graphs



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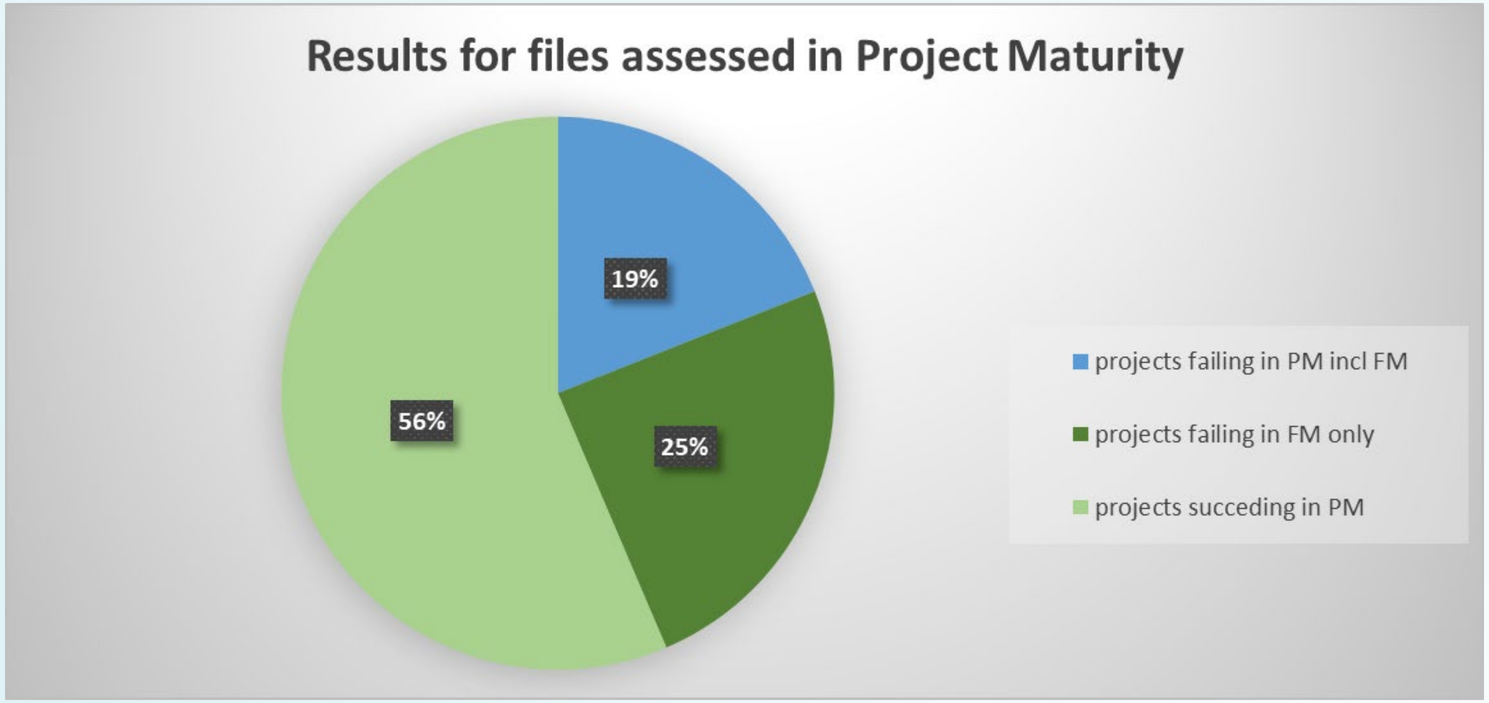
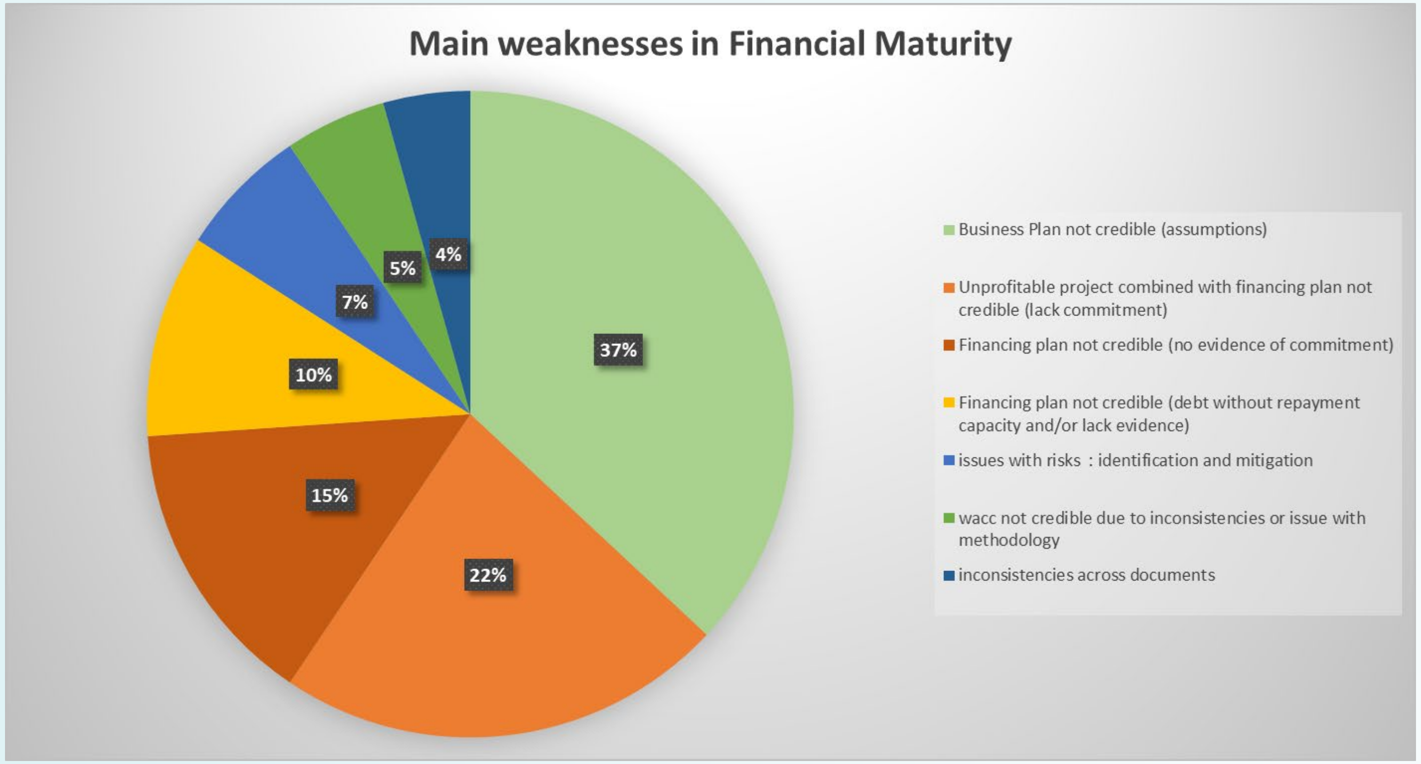
Main lessons from previous Large-scale call in Financial Maturity



- Project maturity failing rate decreased in the last call from 49 to 44%, but project maturity still remains the most selective criterion.
- Applications failing only in financial maturity decreased from 36 to 25% of all evaluated applications in project maturity.

Main reasons for failure in Financial Maturity



- Issues with **Business Plan** credibility was the **most frequent weakness**
- Followed by **unprofitable projects showing a lack of commitment** from shareholders and then
- **Credibility of the financing plan** coupled with lack of commitment/evidence

! Clearly **identify all funding sources** with their terms and conditions and the progress made in defining and/or negotiating them with funding counterparts.

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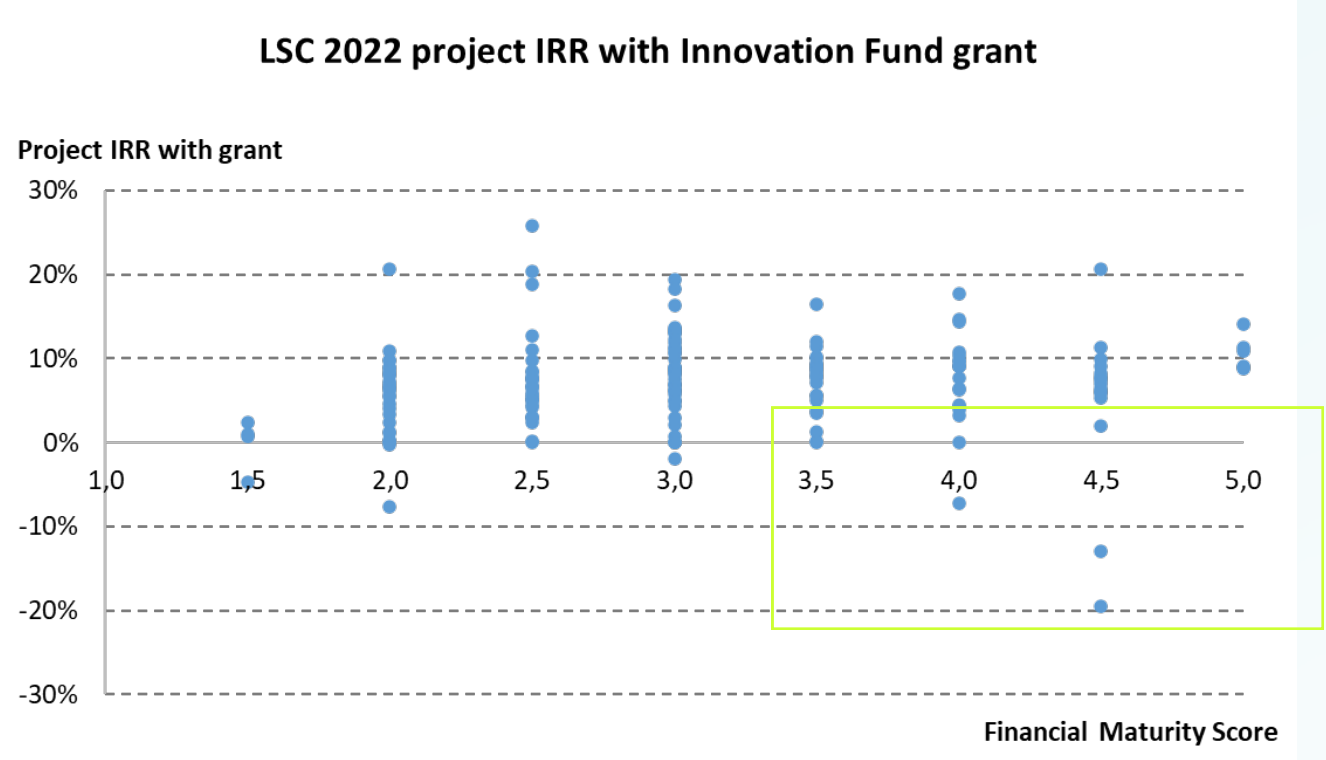
Funders commitment is important



Even projects with negative or low IRR can pass the Financial maturity sub criteria thanks to the **solid letters of commitment** from the project sponsors/shareholders => make sure the commitment letters recognize the issue of project profitability and confirm the willingness to implement the project.

7 Golden Rules of Financial Maturity

Financial maturity

1. Ensure concrete evidence of the commitment from each project funder, in particular if your project is not profitable (NPV<0)
2. Check Business Plan assumptions, their detailed break down and credibility (the more evidence, the better)
3. Make sure your financing plan is robust enough (sources clearly identified with concrete evidence)
4. Follow our guidance on how to calculate your project WACC
5. Ensure consistency across all application documents
6. Identify & provide effective mitigation measures for key risks and add a sensitivity analysis
7. Provide evidence (main project contracts and financing agreements)

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