MEZZANINE FINANCING FOR ACCESS TO ENERGY IN SUB-SAHARAN AFRICA

A PRACTICAL GUIDE FOR ENTREPRENEURS

July 2020

The Energy Entrepreneurs Growth Fund (EEGF) is an investment fund that provides financing and technical assistance to entrepreneurs operating in the Access to Energy (A2E) sector, which includes off-grid electricity and mini-grids, in Sub-Saharan Africa (SSA). The EEGF, managed by Triple Jump as portfolio manager and Persistent Energy Capital as advisor, was launched in 2019 with capital from FMO and Shell Foundation. The EEGF provides flexible equity, mezzanine, and debt investments in the range of USD 1-10 million per company.

This document is specifically aimed at familiarizing companies and entrepreneurs with what mezzanine structures are and how they work best in the context of the A2E sector in SSA.

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FMO Entrepreneurial Development Bank
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UKaid from the British people
Triple Jump impact-focused investment management
PERSISTENT

A2E companies need more patient, risk-taking and flexible forms of capital

Access to Energy (A2E) companies provide the underserved bottom of the pyramid with innovative energy solutions. Many different types of companies are active in the A2E sector, ranging from providers of solar home systems, pico solar lanterns and mini-grids, to those offering industrial-scale solar power systems and enablers. These business models are relatively new and complex, and often combine a broad range of activities, such as purchasing, logistics, distribution, finance and after-sales services. A2E companies require substantial amounts of patient, risk-taking and flexible capital to provide the broad range of financial resources needed to fuel their growth. This paper seeks to explore mezzanine capital as a category of financial instruments that are well-suited to serve these A2E business models. A2E business models are still evolving and going through a process of trial and error to develop models that are scalable and replicable. However, one current trend is that companies are simplifying their business models and becoming specialized, by unbundling services and focusing on their core competitive strengths.

In such a dynamic and rapidly changing landscape, entrepreneurs are faced with many uncertainties, and obtaining financing is often challenging:

- **Equity risk capital** is already generally scarce for SMEs in Africa, and companies in the A2E sector find it especially difficult to obtain equity financing. Providers of equity financing, such as venture capital (VC) firms, are reluctant to invest in A2E companies due to their stage of growth and the higher perceived risk inherent in the sector. In addition, there is no clear exit strategy: A2E companies currently have a lower chance of being acquired by a strategic player or another PE fund, creating a risk for equity investors that they will be stuck with their shares.

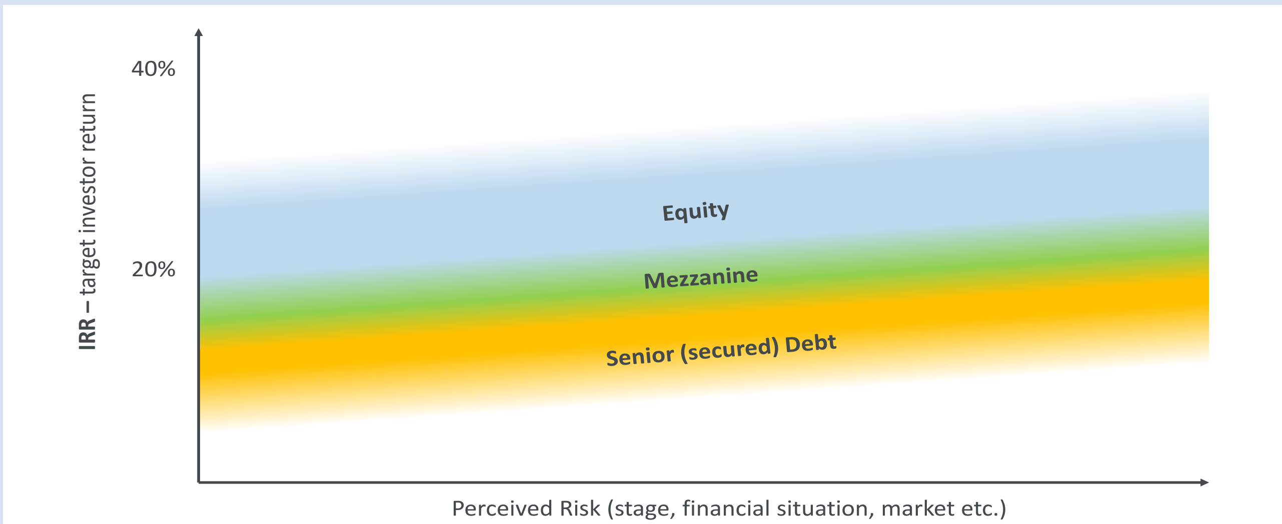
- **Debt capital,** on the other hand, is often also not an optimal financing solution, since traditional forms of lending are not tailored to the needs of fast-growing companies in the A2E sector. These forms of financing also typically come with constraining requirements related to collateral and track record. Traditional lending focuses on a company's existing cash flows and assets, offering limited possibilities for structures that are tailored towards the specific growth and cash flow patterns of A2E enterprises.

Emerging companies that are driving growth in the A2E sector require financing that is appropriate to their projected growth patterns. Mezzanine capital is a suitable and flexible alternative that can be molded to the varying financing and operational needs of these companies. It offers long-term growth financing, has higher risk tolerance, and can help to optimize the company's capital structure by efficiently bridging equity and senior debt. The flexibility of the various mezzanine instruments also means more complexity; therefore, one needs to understand the instrument well in order to fully exploit the potential benefits of mezzanine finance instruments.

Mezzanine financing: equity-minus or debt-plus

Mezzanine capital is a broad category of flexible and tailored financial instruments that are neither collateralized term loans nor straight equity. Mezzanine instruments incorporate elements of both debt and equity financing in a single instrument and can be considered a hybrid of institutional lending and private equity. It is a form of risk capital and does not require full, or any, collateral coverage. Mezzanine capital allows companies to take in more risk capital, supporting them while they grow and limiting dilution for equity investors. Investors expect lower returns on their mezzanine investments than on equity – hence the costs of mezzanine products are between the somewhat lower financing costs of a senior secured loan and the 'cost' of equity (which are the returns an equity investor expects to make), as shown in the graph below.

Risk-return profiles of equity, mezzanine and secured senior debt



Mezzanine has the flexibility to accommodate the varying financing needs and operational characteristics of early-growth stage companies. The flexibility offered by mezzanine makes it highly suitable to the dynamic A2E sector. Many A2E companies have good unit economics but also relatively high overhead costs, which means that a certain scale is needed to reach breakeven.

Covid-19

During the finalization of this report, COVID-19 cases have been recorded in all SSA countries, with numbers increasing exponentially since the onset of the outbreak. Although it is evident that the scale and intensity of COVID-19 will surpass other crises, and the severity of its impact is yet to be determined, it is apparent that the A2E funding gap will be exacerbated by the COVID-19 crisis. By focusing on flexible instruments such as mezzanine finance, EEGF is ideally positioned to bridge the urgent need created by this funding gap, helping companies to sustain growth, mitigate the impact of the crisis and increase operational efficiency, while ensuring sustainable long-term sector growth.

In this crisis, mezzanine finance is preferred over equity or senior debt, as companies need flexible and risk-tolerant funding without massive dilution. Mezzanine instruments are flexible by nature and can be tailored to the specific situation of a company, taking into account crisis response, recovery plans and adjusted business plans. EEGF will offer tailor-made mezzanine solutions that can structure interest and repayment schedules according to the cash flow of the company, applying a back-end weighted payment structure. In addition to funding, EEGF will seek to provide much-needed hands-on capacity support focused on strengthening key operational areas.

The overview below describes the most common categories of mezzanine instruments listed to show the relative proximity of each to straight debt and pure equity.

Debt-like

Instrument	Description
Partially unsecured / Junior loans	Subordinated loans with a repayment structure tailored to the projected growth pattern of the borrower, with flexibility regarding collateralization requirements (typically not requiring full, or any, collateral coverage).
Revenue participation loan	Junior loans with a comparatively low base interest rate and the right for the investor to receive a small percentage of the borrower's gross revenues until all interest and principal has been paid. Also called revenue sharing, participating loans or royalty financing.
Convertible loans	Loans that entitle the investor to convert some or all of the loan into shares of the company at an agreed price and date or triggered by an event such as an acquisition of the company. Exercising the option terminates the debt component of the convertible portion of the debt, and repayment of debt cancels the conversion option. The option to convert is usually at the discretion of the investor up to a certain time or based on the existence or absence of certain conditions.
Preference shares	Shares that entitle the investor to a fixed annual dividend, paid out before any additional dividends are paid to common/ordinary shareholders and that provide the investor with priority in the distribution of assets at liquidation of the company. Such non-participating preferred shareholders do not share in the upside of the company beyond their fixed dividend, but they do usually have a set a date for redemption.
Redeemable equity	Shares issued to the investor entitling the investor to sell the shares back to the entrepreneur or company (similar to a put option) at a pre-determined price or according to a pre-determined formula and at a pre-determined date or event. This feature is often used to ensure an exit for the investor at a certain minimum share price.
Debt with (Call) warrants	A warrant is a right to purchase shares in the company, typically at a predetermined price or formula. A common mezzanine structure is to include a warrant as an 'equity kicker' to the interest payable on the mezzanine loan. If the warrant has value (i.e., the underlying shares to be purchased are worth more than the warrant's exercise price), then the mezzanine lender is rewarded for the company's success when they exercise the warrant.

Equity-like

The overview above illustrates several common mezzanine structures. Since mezzanine represents all forms of financing between pure equity and straight debt, there are many variations and combinations, as well as other mezzanine instruments. This overview builds on the 2016 report "New perspectives on financing small cap SMEs in emerging markets"[1], published by the Dutch Good Growth Fund, which provides more background on the perspective of fund managers on mezzanine financing.

Benefits of mezzanine financing for A2E entrepreneurs

Each mezzanine instrument or investment structure using a mezzanine component has specific advantages for entrepreneurs. It is however not an off-the-shelf product. Its flexibility creates the challenge for both investor and investee to design a structure that best meets the financing needs and capital structure of the company. In this section, we will summarize the potential benefits of mezzanine capital (some of which have already been mentioned) and broadly explore some of the potential drawbacks. We will then proceed to illustrate, through examples, optimal mezzanine instruments for various company situations.

- **Company-specific deal structuring –** as mentioned above, mezzanine instruments are flexible by nature and can be tailored to the specific situation of a company. A provider of a mezzanine product will factor in the specific cash flow profile of the company, for example by offering a grace period on a loan, taking into account the company's ability to make repayments and a progressive interest component. This means that mezzanine is often a more long-term form of financing than a traditional loan. Mezzanine structures can also be structured around situations in which equity is not optimal, either because the entrepreneur has no plans to sell the company in a few years or wants to minimize dilution.

- **Limiting dilution –** related to the point above, entrepreneurs are often more open to sharing profits with an investor than they are to giving up too much ownership and control of the company. Mezzanine structures can be used to achieve exactly that, for example through a loan plus a profit-sharing mechanism, or preference shares that give investors rights to dividends but without voting rights. Another example is a convertible loan, which may be a good solution when the owner of the company is not yet willing to give up much ownership but is willing to let an investor benefit in the event of an exit.

- **Increasing the ability to attract additional (debt) financing** - Banks and other lenders generally provide only senior loans, which have priority over junior loans in terms of interest and principal payments and generally require between 100% and 200% collateral coverage. Mezzanine loans invariably are junior, and often unsecured, allowing other lenders to take all required collateral without interference from another creditor. One of the primary objectives of EEGF's mezzanine financing is to unlock senior loans from financial institutions and intermediaries for EEGF's Investees.

- **Improving financing terms –** mezzanine products not only make attracting other debt financing easier, but having a layer of mezzanine financing - which will often be treated by most debt providers as an equity-like layer (Tier II capital), as it ranks below senior debt – can allow companies either to absorb more senior loans or improve terms and conditions from lenders. This could be a lower interest rate, a longer tenor or less stringent financial covenants.

- **Lowering financing costs** – Apart from enabling entrepreneurs to obtain better loan terms, mezzanine can lower a company's overall financing costs. The returns that providers of mezzanine finance seek are typically higher than those on senior loans to compensate for the higher risk. Equity investors, on the other hand, ultimately seek even

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[1] https://english.dggf.nl/publications/publications/2018/5/18/news---publication-of-new-perspectives-on-mezzanine-finance-for-small-cap-smes-in-emerging-markets

higher returns (in terms of Internal rate of Return, IRR). Mezzanine can be viewed as a cheaper form of equity financing: giving up equity ownership may ultimately be a lot more costly than mezzanine financing.

- **Alignment between company and investor –** Most forms of mezzanine provide an investor with some participation in the growth and profitability of the company (also called upside). This is the core difference of these structures compared to senior loans. With a mezzanine provider, there is much more alignment between the interests of the company and the investor, as the investor benefits from the long-term growth and profitability of the company. This makes the relationship between a mezzanine provider and a company fundamentally different from a relationship between a senior lender and a company.

- **Active involvement and support –** related to the previous point, mezzanine providers are very active investors, who leverage their experience for the companies they invest in to help achieve the desired growth path. The alignment ensures that the investor will do everything they can to help the company succeed, which benefits the entrepreneurs. Many mezzanine providers, such as EEGF, also provide business development support and other forms of technical assistance and advisory services to the companies they invest in.

- **Self-liquidation** – having an equity investor on board means that ownership of the company is shared. The investor is involved in key decisions and shares in any dividends that are paid out. Equity investors, such as PE and VC firms, are betting on the sale of their shares to make their returns. This means that the company will be, entirely or partly, sold to other investors. This can lead to a number of undesired consequences for the entrepreneur, such as being forced into a sale or being confronted with a new shareholder in the business that may have different objectives. And if there is no exit, the entrepreneur and the equity investor are "stuck" with each other. Most mezzanine structures do not rely on an exit, as the instrument has a built-in liquidation mechanism and hence there is a natural and clear date set for the involvement of the investor in the company.

The above points highlight the main benefits of mezzanine financing for entrepreneurs. Nonetheless, structuring mezzanine finance requires careful consideration. As mentioned above, a mezzanine finance provider ultimately takes more risk than a traditional loan provider, which means the financing costs of a mezzanine product are higher than those of a traditional term loan. The mezzanine structures that are not dependent on a third-party exit, such as revenue participation loans, effectively translate into a higher interest rate as the company grows. This can lead to a high cash burden for the company. Also, the more complex structures could in some instances prolong the transaction process. Lastly, mezzanine structures are relatively new in many markets, meaning that other (equity) investors, banks, lawyers, but also courts, tax authorities and policy makers sometimes have less understanding of these structures.

Application of mezzanine instruments

In the table below, we illustrate situations where the mezzanine instruments described on page 4 can be optimal.

Instrument	Application
Partially unsecured / Junior loans	• Partially unsecured / junior loans are suitable for companies that require structures that factor in longer loan tenors, longer grace periods or specific seasonal patterns in relation to principal repayments and interest payments. • The model can accommodate various types of companies, including start-ups. Since investor returns are based solely on interest payments, this specific structure is typically used for companies that at least have some collateral to offer and have a realistic potential for solid operating margins and cash flows within a foreseeable period. • This structure also suits entrepreneurs who are not willing to share any upside with an investor: this structure allows the company to obtain a more risk-taking and flexible layer of capital in a relatively simple structure without dilution or without having to share upside with the investor. This also means that there is less alignment between the company and the investor. • Entrepreneurs need to bear in mind that not sharing upside with investors will also translate into a higher interest rate. This may take out too much cash from the company and harm its growth.
Revenue participation loan	• Revenue participation loans are most suitable for businesses with a few years of track record, realistic potential for high operating margins once the company has achieved scale, relatively easily verifiable sales and that are unlikely to become targets of mergers or acquisitions by other companies or financial intermediaries. • One of the main advantages of a revenue participation loan is that the total cost of the loan essentially floats with the sales performance of the company, while the investor shares both the risk of low sales and the financial benefits of strong sales. • This structure ensures a high degree of alignment between the interests of the company and the investor, while the entrepreneur does not have to give up ownership or control of the company. Transaction processes can also be faster, as there is no need for any valuation discussions. • Another advantage is that the base interest rate is relatively low, because the investor expects to compensate this lower interest in the future with a revenue share. • If sales are significantly above projections, the cost of the loan may be excessively high. (See "Variable Revenue Participation %" in Terms chart below). However, lenders often allow for a reduction of the revenue participation percentages if performance exceeds projections.

Convertible loans	• Convertible loans are typically used for early-stage businesses with a potential to 1) be an acquisition target of another company or financial intermediary in the future, 2) be listed on a stock exchange, or 3) provide its shareholders with substantial and steady dividends. • How a convertible loan is structured depends on whether it is principally seen as an equity or as a debt investment. – From an equity perspective, a deal can be structured as a convertible loan if the entrepreneur does not want to dilute from the onset or for tax optimization purposes. Another reason can be to postpone valuation discussion by linking the future conversion valuation to the valuation of the next investment round. – From a debt perspective, a loan can be structured with an added 'sweetener' to the deal; potentially boosting the returns just in case there is a third-party exit. This can be an optimal structure if the investor is not banking on an exit for its returns but would like to benefit from an exit if it occurs. Also, defaulting on the loan or breaching covenants can be a reason for conversion. • A major advantage of convertible loans for the company is that it is able to obtain a loan with an interest rate that is lower than it would be without the conversion feature, and it is not required to provide full collateral coverage. • This structure also creates alignment between the company and the investor, as both are incentivized to maximize equity value. Depending on the shareholding after conversion, the fund manager may act as an equity holder from the beginning.
Preference shares	• Preference shares can be a suitable option when the objective is to provide an investor with an equity-like position without having to dilute the entrepreneur (for example to a minority position). Preference shares can also be used to strengthen a company's balance sheet. • There are a variety of preference shares, such as cumulative preferred stock, non-cumulative preferred stock, participating preferred stock and convertible preferred stock. In some cases, these shares also have redemption rights, preferential voting rights, and rights of conversion into ordinary shares. • An advantage for entrepreneurs is that preference shares often have a fixed annual dividend that is only payable when the company can afford to pay out: dividend and redemption payments cannot be made if there are no distributable reserves. • One advantage of preference shares over mezzanine instruments with a loan component (such as convertible loans, participating loans and junior loans) is that investors do not require security over the company's assets and cannot use financial covenants. • Preference shares are not common in smaller transactions due to the complexity. Preference shares are generally more suited for more sophisticated investments in more mature and larger companies (partly due to high transaction costs).

(Call) warrant	• As in the revenue-based loan structure described above, a lower interest rate is given in exchange for an element that can add upside for the investor. In this structure, this upside element is a warrant, which provides the investor with the right to buy stock in the company at a pre-determined price or according to a pre-determined formula at or within a time in the future. • Businesses often suited for a redeemable warrant are early-stage businesses on the path to high operating margins and predictable cash flows and that have the possibility, but not a high likelihood, of becoming the target of a merger or an acquisition by another company or financial intermediary. The investor is typically not banking on an exit but has a warrant to obtain equity in the event that the company does well and / or is expecting a successful exit. • A mezzanine structure involving a warrant has similarities to a convertible loan, as the warrant is also linked to a loan and also gives the investor the right to obtain equity in the future. One difference with a convertible loan is that the investor will have to buy shares in the company (meaning that the investor will have to put cash into the company when it exercises the warrant), rather than convert an existing loan into equity. • One of the main advantages of redeemable warrants is that the interest rate on the loan is lower than it would normally be without the warrant and the loan does not need to be fully secured. • Another advantage is that the investor has no voting rights and the warrant has no dilutive effect on the principals' shares until the warrant is exercised.
Redeemable equity	• Redeemable equity is mostly similar to ordinary shares, but with a right to sell the shares back to the entrepreneur, typically using a predetermined price or formula. • Since the investor holds shares in the company, this does dilute the entrepreneur's stake in the company, and the investor can influence the company's strategy and key decisions. • The redeemable component is mainly designed to prevent a situation in which the investor is stuck with an equity position if there is no exit. The redemption option does at least provide the investor with an opportunity to get a minimum price for his shares. • This makes redeemable equity suitable for early-stage businesses on the path to high operating margins and predictable cash flows, that are looking for an actively involved investor, and that may but are not highly likely to become the target of a merger or an acquisition by another company or financial intermediary. • This redemption option can only be exercised when the entrepreneur has the financial reserves available to purchase back the equity. So in effect the company can be required to hold financial reserves, which may be burdensome.

Three mezzanine structures commonly used by EEGF

In this section we will provide further details of three structures that could be used by the EEGF, including some typical deal provisions and ranges of possible transaction terms for a hypothetical company- Company A - active in the A2E sector. EEGF works with tailor-made solutions that structure interest and cash payments according to the cash flows of the companies it invests in.

The mezzanine structures that the EEGF will primarily use are loans with an upside element. The three examples we will show are **1) a revenue participation loan**, **2) a convertible loan** and **3) a loan with a redeemable warrant feature**. These are all tail-ended compensation structures that ensure alignment between EEGF and the companies it invests in.

Company A

The graph below shows the financials of Company A. The company's projected financials show strong growth, with revenues of USD 2.0 million in year one to USD 19.9 million in year six. The company's EBITDA is positive as of year three.

Company A financials						
Year	**1**	**2**	**3**	**4**	**5**	**6**
Revenue growth %		*150%*	*70%*	*50%*	*30%*	*20%*
Revenues (USDk)	2,000	5,000	8,500	12,750	16,575	19,890
EBITDA margin %	*-10%*	*-5%*	*1%*	*16%*	*25%*	*30%*
EBITDA (USDk)	(200)	(250)	85	2,040	4,144	5,967

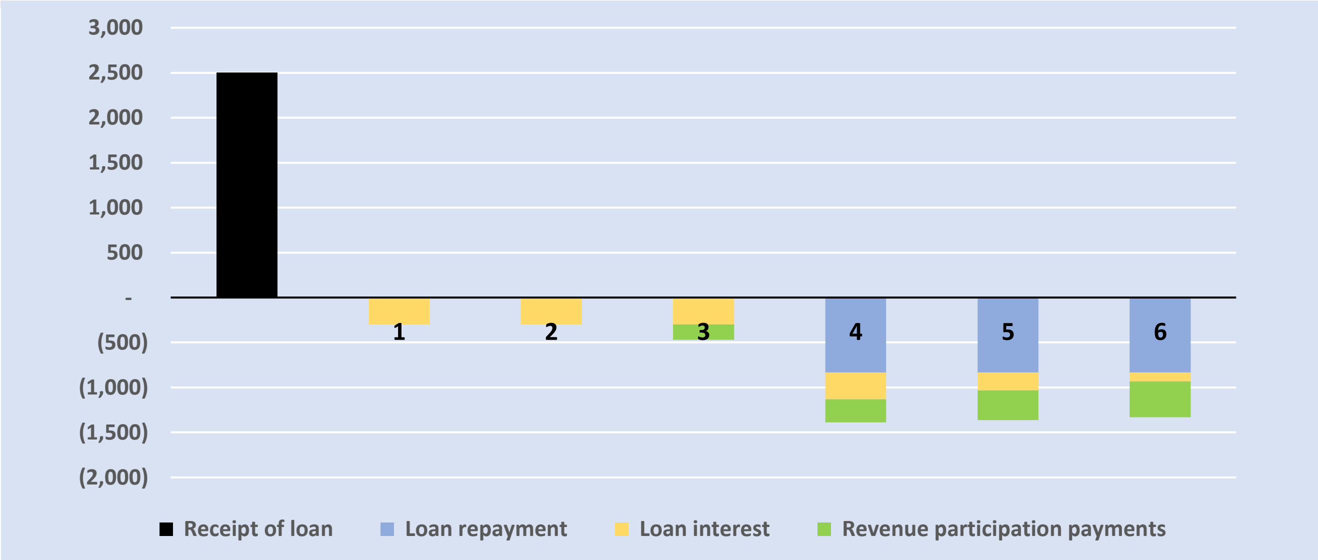
1. Revenue participation loan

The common provisions and ranges of possible terms of a revenue participation loan provided by the EEGF to Company A are as follow:

Key Provision	Typical terms	Description/Explanation
Loan	Interest: 2-3% premium on a senior secured (collateralized) loan Term of Loan: four to six years	Subordinated loan with a three-month to three-year grace period on principal. Interest is paid monthly, quarterly or semi-annually, often with accrued interest added to the principal balance.
Revenue participation	0.5% to 2.0% of gross revenues from sales	Typically paid over the same period as interest payments (starting after grace period on interest ends). Revenue participation ends when all interest, principal and revenue participations have been paid.
Deferral	As agreed when necessary	After a period of low sales, the fund and the company may agree to defer the payment on the revenue participation to a time when the payment has less effect on required working capital.
Variable revenue participation %	0.01% to 0.02% reduction per 1% of sales above projections	For example, if in any year actual sales are 100% greater than projected sales, a required revenue participation of 2% of sales would be reduced to between 1.8 % and 1.6% of gross sales for that year as a reward for performance above projections.

The graph below shows the cash flows of a revenue participation loan for Company A. In the example below, Company A is obliged to pay a portion of revenues to the investor as of year three. The grace period on the loan repayment is three years, so the entire principal is repaid in three equal amounts in years four, five and six.

Company A cash flows from revenue participation loan

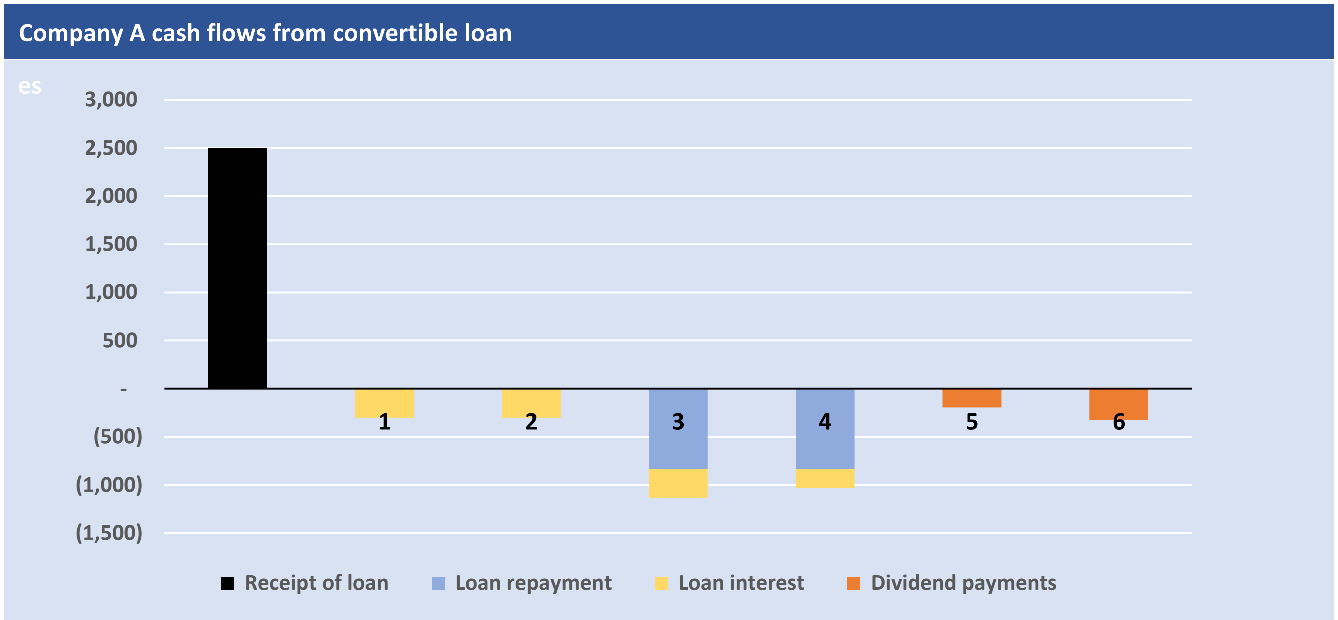


2. Convertible Loan

The common provisions and ranges of possible terms of a convertible loan provided by the EEGF to Company A are:

Key Provision	Term	Description/Explanation
Loan	Interest: 2-3% premium on a collateralized senior loan Term of Loan: four to six years	Subordinated loan with a three-month to three-year grace period on principal. Interest is paid monthly, quarterly or semi-annually, often with accrued interest added to principal balance.
Quasi-equity feature	Conversion right	The investor has the right to convert outstanding principal and interest owed into shares in the company.
Conversion price	Agreed price per share, or agreed process to determine the share price	The price per share at which the company and investor agree that shares may be purchased at the end of the loan period. Alternatively, they may agree a process or formula, such as a discount on the valuation as determined upon the next investor round or use an independent party to determine fair value.
Partial conversion	Percentage of the outstanding loan that is converted into shares	The investor may choose to convert a part or all of total amount owed by the company into shares.
Anti-dilution adjustments	Adjustment as agreed	An adjustment of the number of shares into which the loan can be converted to compensate for corporate events, such as share splits or the issuance of new shares at different prices.

The graph below shows the cash flows of a convertible loan for Company A. In the example below, the convertible loan behaves like a normal loan up to the fourth year, when the investor decides to exercise its right to convert its loan into shares in Company A. As a result, Company A is no longer obliged to make loan repayments and interest payments to the investor. Logically, the entrepreneurs will see their stake in Company A diluted as a result of the conversion. The graph below shows that Company A pays out dividends following the conversion. Whereas this may not be realistic for a fast-growing A2E company, this serves to illustrate the workings of a conversion to equity. Note that company might pay this dividend to the initial mezzanine provider, or to a new investor, if the conversion was executed before an upcoming exit (sale) to another investor.



3. Loan plus redeemable warrant

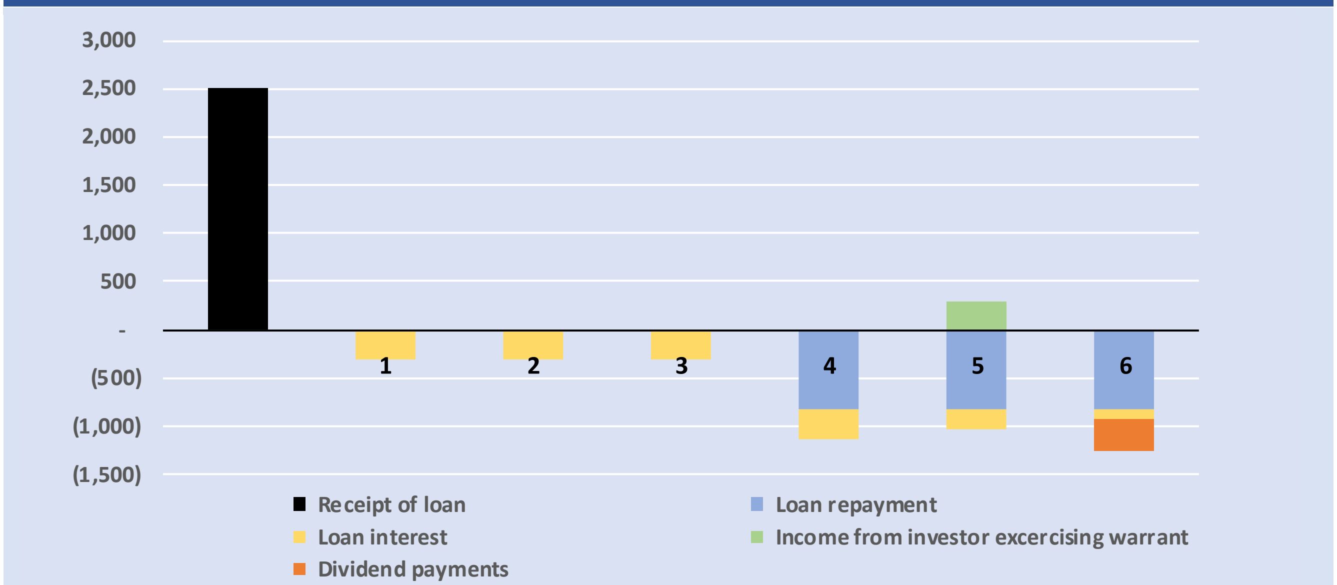
The common provisions and ranges of possible terms of a loan plus redeemable warrant provided by the EEGF to Company A are:

Key Provision	Term	Description/Explanation
Interest	Interest: 2-3% premium on a collateralized senior loan Term of Loan: four to six years	Subordinated loan with a three-month to three-year grace period on principal, potentially a grace period of up to 18 months. Interest is paid monthly, quarterly or semi-annually, often with accrued interest added to principal balance.
Warrant exercise price of call warrant	Agreed price per share for an agreed number or % of outstanding shares, or agreed process to determine the share price	The locked-in price or formula at which the investor may purchase an agreed number or percentage of shares at an agreed date or during an agreed period of time. The investor is not obligated to purchase the shares and generally will not do so unless the fair market value of the shares exceeds the exercise price.
Minimum exercise price of put warrant	Usually the right to sell back at a minimum valuation of say one to three times the share value at which the shares were purchased.	Often the investor has a right to sell the shares purchased by exercising the call warrant back to the company (similar to a call option) at a pre-determined price or according to a pre-determined formula and at a pre-determined date or event.
Number of shares	As agreed	The number of shares that the investor may purchase by exercise of the warrant.
Cashless exercise	No cash payment	A warrant may permit the exercise price to be paid by giving up warrants with a net value equal to the exercise price.

Anti-dilution Adjustments	Agreed adjustment for corporate events	An adjustment of the exercise price or number of shares for which the warrant can be exercised to compensate for corporate events, such as share splits or the issuance of new shares at different prices.
Duration of warrant	Three to five years or during a three to five-year period.	The term of the warrant may be a fixed number of years or indefinite. The warrant may provide for a change in duration upon specified events, such as an acquisition of the investee or listing of the shares.
Partial exercise	Percentage of warrant that is exercised	Warrant terms can provide for exercise either in whole or in part.

The graph below shows the cash flows from a loan plus redeemable warrant for Company A. In the example below, the investor decides to exercise its right to purchase shares in Company A, leading to a cash inflow in year five. As of year six, the investor is entitled to receive a dividend. The redemption of the shares (selling back to the entrepreneur) is not shown in the chart below.

Company A cash flows from redeemable warrant



Conclusion

This paper explores the concept of mezzanine finance for entrepreneurs in the Access to Energy sector. We have elaborated on the most common mezzanine instruments and provided three examples of structures that the EEGF uses. Many investment instruments and structures exist beyond straight debt and pure equity and the optimal structure for any transaction depends on the specific situation of a company and the objective(s) of the financing. The loan components of the mezzanine structures are determined by the company's cash flows and, to a lesser extent, its assets that can serve as collateral. The upside is determined by the company's growth potential, the likelihood of an exit through an acquisition and the entrepreneur's preferences. Optimal mezzanine structures take into consideration the investor and investee's preferences and shares the risks and rewards fairly. EEGF's ambition is to work closely with entrepreneurs to provide the appropriate type of financing and support required for them to realize their growth ambitions.