

Annex 10 – Financial sustainability model for Innovation activities: Grant for option model

In the case of start-up-driven projects, EIT Health is committing to support the development of the selected Start-ups by granting funds and in-kind contributions to support innovation activities of a project. In return, EIT Health shall participate in the start-up by way of receiving options to assume shares in the start-up upon the occurrence of pre-defined Exit Events (as defined below). In such Exit Events, EIT Health has the right to subscribe to shares in the start-up and subsequently be treated as a shareholder of the company. The total value of EIT Health's investment shall be the total amount of the grant paid to the Start-up and the nominal value of in-kind contributions of EIT Health to the Start-up prior to and during the project.

Main principles:

- Upon selection, EIT Health is committing to support the development of the Start-up by granting funds to support innovation activities in a said project:
 - In a start-up driven project: min €300,000 grant within a maximum €1.5 million grant going to a project and fixed in-kind in the value of €150,000.
 - In Fast-Track start-up driven project (DiGinnovation): min €150,000 grant within a maximum €350,000 grant going to a project and fixed in-kind in the value of €100,000.
- In return for a grant and in-kind contribution EIT Health will receive option in a start-up which shall entitle EIT Health to subscribe to a certain number of shares in a start-up in case of an Exit Event (defined below).
- In-kind contributions are defined as services and non-financial resources provided to selected start-ups, that EIT Health delivers in addition to the direct grant payments. Including but not limited to, in kind contributions include access to EIT Health members network, assignment of a dedicated EIT Health's Single Point of Contact to ensure follow-up, ongoing support of in project management and link with the main stakeholders/partners. The value of in-kind contributions is fixed at the project level (€150,000 in Start-up driven projects and €100,000 in the Fast Track Start-up driven project)
- In addition to the fixed in-kind contribution per project type, direct grant and/or service-specific in-kind contributions may be added on top, in case the project benefits from additional EIT Health's Accelerator services in the framework of a Flagship. Depending on services, the value of such additional in-kind contributions is ranging from €1,200 for access to the Finance Booster training to €40,000 for market access support through Bridgehead.

- By using options, EIT Health intends to be treated comparable to a shareholder and participate in future financial successes of the start-up without assuming immediate equity.
 - Importantly, if the option is not yet exercised or surrendered, EIT Health holds no equity in the start-up and have no shareholder rights.
- EIT Health shall be entitled to appoint one (1) member of the advisory board, as long as EIT Health holds options or shares which - on a fully diluted basis – correspond to at least 8.00 % of the share capital.
- EIT Health`s options will dilute in financing rounds in the same ratio as equity-shares.
- In Exit Events, EIT Health has the right but not the obligation to purchase shares upon surrender of the options and such shares shall be granted by the Start-up.
- Exit events are defined as follows:
 - Sale of more than 50% of the shares in the Start-up
 - Sale of more than 50% of assets as well as licensing of substantial IP rights of Start-up
 - Initial Public Offering (IPO)
 - Liquidation
- Alternatively, the Start-up is entitled to directly settle EIT Health`s claim to shares by paying to EIT Health a Compensation Payment equal to the amount EIT Health would have received in such Exit Event as pro rata shareholder
- In the event of a merger, the option of EIT Health shall be converted into new options on the level of the new entity. The conversion shall occur on the same economic conditions as the shareholders.
- The number of shares EIT Health is entitled to purchase by surrendering the options corresponds to the price per share which shall be determined by either of the following:
 - i. The post-money valuation of the last qualified financing round¹⁹ if the financing round was concluded no later than one year prior to application
 - ii. The pre-money valuation of the current external funding round if it is closed prior to the conclusion of the Option Agreement
 - iii. The pre-money valuation obtained as a part of a valuation analysis performed by an independent third party contracted by EIT Health.

¹⁹ “Qualified Financing Round” is an equity financing round (including financially comparable measures) in which new shares are issued to existing shareholders and/or new investors against contributions and/or other payments in cash (e.g., nominal amount of newly issued shares, premiums or any other payments into the Company’s capital reserves), yielding gross proceeds to the Company from private investors of no less than € 500,000.00. In this case, please provide a signed Investment and Shareholders’ agreement as a proof of the post-money valuation of the Qualified Financing Round and proof that Private Investors have invested at least € 500,000.00. “Private Investors” include but are not limited to: Business Angels, Super Angels, CVCs, VCs, family offices and other private investment firms.

- In case of (i) and (ii) the start-up will have to provide proofs of the valuation prior to the project start. In cases, where the start-up is not able to evidence the conclusion and the respective post-money valuation of the Qualified Financing Round, EIT Health will only accept the valuation of (iii). In case of (iii), valuation analysis will be performed and communicated to the Start-up prior to the project start. If the valuation of (iii) is not accepted by the Start-up, the full Innovation project will not be considered for funding. Please note that in case the start-up has received a valuation through another EIT Health programme no more than one year prior to application, it will also be accepted under Start-up Amplifier alternative (i), should the supporting documentation be provided.
- For start-up driven projects with a duration of two years, it will be possible to reconsider the valuation of a start-up during the project lifetime, though this step is not required. Should the Start-up wish to adjust its valuation during the lifetime of the project, it shall follow the principles of the [CIMIT Healthcare Innovation Cycle Milestone framework](#) to define significant value inflection points that leads to a valuation increase.

The revenue received by EIT Health from these projects will be invested in future innovation opportunities for the network.