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**Addendum to the  
Communications  
Pack:  
Backflow Model**



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## Responding to the Partnership

Thank you to those of you who joined us at a regional hub webinars shortly after the initial flagships call was launched. These have been as much a learning for us, as they have been for you. We have listened to your feedback and recognise there are some areas where we need to provide simpler, clearer definitions of our intentions, being one of these areas/topics the Backflow Model.

We hope this Backflow Model addendum to the communications pack does just that, but if it doesn't, please do contact your regional hub who will happily help.

## EIT Health Strategy

All activities selected in EIT Health's portfolio must commit to contributing to the long-term financial sustainability targets of the KIC (EIT Health) by aiming at generating financial contribution back to the KIC.

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



## Backflow model: what do we really mean by this?

The model of backflow can apply to Partner-driven and Start-up driven Innovation projects, including Fast Track Start-up driven Innovation projects (DiGinnovation). The amount of backflow is capped to an amount equalling the EIT Health funding received by the consortium, plus a project-specific, risk-related mark-up to be defined by each individual project.

The individual backflow shall be primarily contributed by the Commercialisation Partner(s), which are expected to be Industry Partners that commercialise the product or service and only in extraordinary cases other types of Partners.

### Financial Backflow Model

- ✔ Risk sharing
- ✔ Success-based paybacks
- ✔ Financial contribution based on the total grant benefitting the project + mark up
- ✔ Financial contribution will be part of the evaluation process
- ✔ For Partner-driven or Start-up driven projects
- ✔ In case of Start-up driven projects, if the proposal is selected, membership fees will be requested when grant is more than 50K€.



## Applied only with successful Commercialisation



The backflow shall only apply for the event of the successful commercialisation of the product/service developed or implemented during the project.



EIT Health assumes the risk linked to the feasibility of the commercialisation.



It can be proposed that a project that is not progressing as intended during its lifetime can be terminated.

### What 'successful commercialisation' means?

The definition of successful commercialisation of the project is linked to the achievement of the following KPIs:

- EITHE02.1\*: Innovations launched on the market or
- EITHE02.4\*\*: Innovations launched on the market with a sales revenue of at least 10 000 EUR documented.

This shall be defined in detail at the time of full proposal submission.

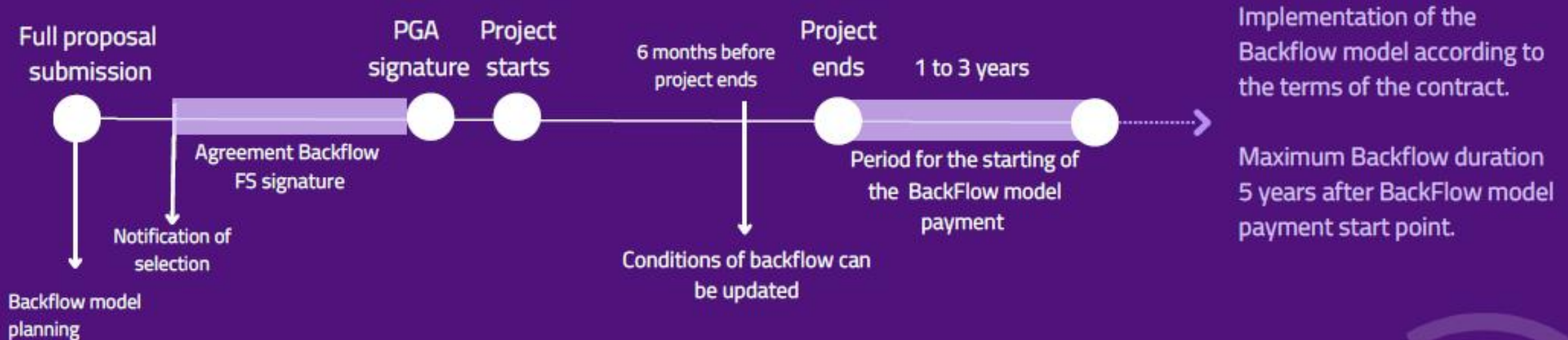
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\*EITHE02.1 will be only applicable to Service Quality Assessment projects in New Models to Deliver Healthcare.

\*\* The rest of Innovation project types are foreseen to be market-facing and need to select EITHE02.4 as their KPI.



## Backflow Model Timeline



# Backflow Model Plan

The consortium agrees to commit to the financial sustainability contract to be completed under the conditions expressed in the proposal with EIT Health after project approval.

If the project is accepted into the portfolio, details of the backflow will be agreed prior to the signing of the Project Grant Agreement (PGA) and will be outlined in the agreement.

A shared revenue plan will be defined at full proposal stage submission, with the assistance of EIT Health services during the Support Programme, and this will include:

- ✔ Fixed amount per year or Percentage of shared revenue (use of operating profit or free cash flow instead of revenue as baseline is possible. In this case, a mark-up of minimum 5% is compulsory).
- ✔ Extra specific project mark-up.
- ✔ Threshold from whereon the payback period starts (e.g. certain revenue threshold to be defined; positive gross margin threshold; break-even threshold).
- ✔ Backflow start point from whereon the payback is due (standard clause of not later than 3 years after project end).
- ✔ Backflow end point until when payback is due (standard clause of 5 years after backflow start point).

## Net Present Value - NPV

The Net Present Value (NPV) of the model proposed by the consortium will be crucial criteria for the portfolio analysis phase in the selection of the funded projects and the option selected for backflow must be outlined in the full proposal to a sufficient level of detail that will allow a proper assessment of the project's risks and benefits.

Indeed, backflow mechanism (amount, caps, timeline, responsible party/ies, conditions, etc.) must be fully defined and agreed upon in writing by both parties before the project starts i.e., funds will be released only after both parties have agreed on the backflow mechanism details.

TIME POINT

YEAR 1    YEAR 2    YEAR 3    YEAR 4    YEAR 5

€<sub>1</sub>    €<sub>2</sub>    €<sub>3</sub>    €<sub>4</sub>    €<sub>5</sub>

NPV =  $\frac{\epsilon_1}{(1+r)} + \frac{\epsilon_2}{(1+r)^2} + \frac{\epsilon_3}{(1+r)^3} + \frac{\epsilon_4}{(1+r)^4} + \frac{\epsilon_5}{(1+r)^5} -$

last year of EIT Health funding period  
YEAR 0

Total EIT Health grant requested from the consortium

€: Annual financial return for EIT Health (to be proposed by consortia). NOT projected revenue of commercializing party.

r: discount rate to be applied. We propose a discount rate of 4%, which is in line with Commission Delegated Regulation.



## Is it a repayable loan? NO

Repayable loan	Backflow model
<ul style="list-style-type: none"><li>• No shared risk. Payment is triggered by a date.</li><li>• Quantity fixed by the lender (grant + interest rate; subject to fluctuations).</li><li>• Conditions fixed by the lender (modifications on conditions subject to payment).</li></ul>	<ul style="list-style-type: none"><li>• Risk sharing mode: backflow is only triggered if successful commercialisation.</li><li>• Quantity depends on the model proposed by the consortium (based on revenue, profit, fixed rate, etc.).</li><li>• Consortium proposes detailed conditions.</li><li>• Conditions can be updated 6 months prior project finalisation.</li></ul>



## Example of Backflow

- A project which is requesting 1.5M€ EIT Health fund is selected into the portfolio.
- Their backflow model is based on % of sales from year 2 after the end of the project during 5 years.
- The consortium proposed a mark up of 20% on top of the total grant amount which means they will be capped to the reimbursement of  $120\% \times 1.5\text{M€} = 1.8\text{M€}$
- The consortium will need to present the amount of grant reimbursed per year (linked to the % of sales) in order to enable the calculation of the NPV and the assessment of the financial contribution hypothesis.
- Find below 2 examples of calculation of NPV depending the model proposed by the consortium.

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total	Discount	Total grant
0	€100.000	€200.000	€300.000	€400.000	€800.000	€1.800.000	4%	-€1.500.000

**NPV -€11.809,03**

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total	Discount	Total grant
0	€300.000	€300.000	€300.000	€300.000	€600.000	€1.800.000	4%	-€1.500.000

**NPV €20.455,65**

- Positive NPV value indicates that the investment that is expected to be made will be probably beneficial.
- EIT Health will evaluate the risk and benefit of the investment.
- This evaluation will lead to a maximum of 1 extra point.

## Example of Backflow

Previous example with €1.5M EIT Health grant, with a payback model based on 25% of sales and a mark-up of 20%, showing estimated sales VS real sales achieved. This reflects the risk assumed by EIT Health.

ESTIMATED SALES					REAL SALES ACHIEVED									
Year 2	Year 3	Year 4	Year 5	Year 6	Best Case Scenario		Worst Case Scenario							
€400.000	€800.000	€1.200.000	€1.600.000	€3.200.000	Year 2	Year 3	Year 4	Year 5	Year 6	Year 2	Year 3	Year 4	Year 5	Year 6
€400.000	€800.000	€1.200.000	€1.600.000	€3.200.000	€400.000	€1.600.000	€2.400.000	€2.400.000	€3.200.000	€160.000	€80.000	€240.000	€240.000	€240.000
25% of sales ↓					25% of sales ↓					25% of sales ↓				
Year 2	Year 3	Year 4	Year 5	Year 6	Year 2	Year 3	Year 4	Year 5	Year 6	Year 2	Year 3	Year 4	Year 5	Year 6
€100.000	€200.000	€300.000	€400.000	€800.000	€100.000	€400.000	€600.000	€600.000	€800.000	€40.000	€20.000	€60.000	€60.000	€60.000
• Total: €1.8M - Total payback €1.8M					• Total: €2.5M - Total payback €1.8M					• Total: €240K - Total payback €240K				



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# Update from the Flagships Webinars

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