

Corona Matching Facility: support for German START-UPS

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INTRODUCTION

The German government has extended its financial support for businesses challenged by the adverse economic effects of the ongoing COVID-19 pandemic. In addition to the initial unprecedented loan program addressed to businesses ranging from the self-employed to large corporates, the government has now also set up a program for the benefit of start-ups and young growth enterprises.

This program, overseen by the German Federal Ministry for Economic Affairs and Energy and the Federal Ministry of Finance, and with a total budget of EUR 2 billion, is based on two pillars: (1) liquidity support by way of providing public capital through the "Corona Matching Facility" and (2) financial support for start-ups and young growth enterprises not backed by venture capital funds and thus not eligible for funding under the Corona Matching Facility.

While the support loans to businesses are provided by the German state-owned development bank Kreditanstalt für Wiederaufbau ("KfW"), the start-up support is facilitated through KfW's subsidiary KfW Capital which invests in German and European venture capital and debt funds and the European Investment Fund ("EIF") (each a "CMF Institution").

PILAR 1: THE CORONA MATCHING FACILITY

To preserve liquidity of start-ups and young growth enterprises during the COVID-19 crisis, the Corona Matching Facility enables private venture capital managers with a portfolio in Germany to match financing rounds through public capital provided by a CMF Institution. First financings are to be made available by the end of May 2020.

Scope and Eligibility Criteria

The Corona Matching Facility addresses companies closely related to Germany and backed by venture funds which are managed by accredited private venture capital fund managers ("GPs"). The following criteria must be met:

a. GPs

Independent German or European venture capital fund manager (excluding corporate venture capital) which has successfully completed due diligence by a CMF Institution.

b. Companies

Portfolio or new investment companies closely related to Germany with no financial difficulties as of 31 December 2019, no financial or strategic majority investor, funding round documentation in place and tender obligation for current and new investments until 31 December 2020.

c. Investing Scheme/Fund

Existing funds or newly established SPVs

Existing funds must have successfully passed KYC and governance checks with standard market terms, fund currency and maturity in line with CMF Institution guidelines, no single majority shareholder and shares of private investors in the fund of less than 50%.

Newly established SPVs must have state aid conformity and no other GPs or venture capital funds as investors.

Mechanism

To benefit from funding under the Corona Matching Facility, the GP enters into a co-investment and trust framework agreement (“CTFA”) with a CMF Institution under which it is a fiduciary for public funds made available under the Corona Matching Facility.

Under the Corona Matching Facility, funds are made available from the CMF Institution to the GP in an amount matching the funds invested in the company by the GP at a *matching ratio* selected by the GP. The standard matching ratio is 50%, the maximum is 70%. A matching ratio above 50% can only be selected if other private or public investors also participate in a financing round as the CMF Institution's share must not exceed 50% of a financing round. The GP selects the matching ratio for all rounds of financing until 31 December 2020, it has to be the same for all of its portfolio companies. For new investments, the GP can select different matching ratios no larger than the ratio for the portfolio companies.

The GP has separate tender obligations to offer any future investments in portfolio companies or new investments made until 31 December 2020 for matching under the Corona Matching Facility (*Andienungspflicht*). The tender obligations are autonomous – if funds under the Corona Matching Facility are only made available to new investments but not to portfolio companies, there is no tender obligation to offer for matching future investments in portfolio companies and vice versa.

Funds under the Corona Matching Facility are made available in the same manner (e.g. convertible loans or equity) as any funds invested by the GP and at the same commercial terms. The GP chooses the type of exit and timing. No additional management fee is payable from the CMF Institution to the GP and no carried interest is charged.

For any financing round already agreed as of 02 April 2020 and to the extent indicated in the documentation, the Corona Matching Facility can be applied also retroactively.

Application

Applications are accepted since 14 May 2020 and until 31 December 2020 (latest date for signing of financing documents).

Applications can be made directly to KFW Capital respectively the EIF.

Click [here](#) for further details.

PILAR 2: SUPPORT FOR START-UPS AND YOUNG GROWTH ENTERPRISES NOT ELIGIBLE FOR CMF-SUPPORT

For start-ups or young growth enterprises with no access to funds under the Corona Matching Facility, the German Federal Ministry for Economic Affairs and Energy and the Federal Ministry of Finance have initiated that German federal and state institutions including state banks (*Landesbanken*) will collaborate on providing liquidity support, also through existing funding programs, public funds and local investment companies.

Please reach out to your usual Goodwin contact with any questions.

Please visit Goodwin's [Coronavirus Knowledge Center](#), where lawyers from across Goodwin are issuing new guidance and insights to help clients fully understand and assess the ramifications of COVID-19 and navigate the potential effects of the outbreak on their businesses.

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