

Future Fund

Headline Terms

The Government has announced a new scheme to issue convertible loans to innovative companies which are facing financing difficulties due to the Coronavirus outbreak: the Future Fund.

The Government will initially make up to £250,000,000 available in total for the scheme. The Government will keep this amount under review. The scheme will initially be open until the end of September 2020.

The scheme will be delivered in partnership with the British Business Bank.

It is expected that the headline terms for these convertible loans will be as set out below. These headline terms do not represent a binding commitment of any nature from the Government to enter into a long form agreement with any specific company. Full and final details of the scheme (including full eligibility criteria) will be published shortly.

Eligibility: To be eligible for a loan from the Government under this scheme, a business must be an unlisted UK registered company that has raised at least £250,000 in aggregate from private third party investors in previous funding rounds in the last five years and have a substantive economic presence in the UK. If the company is a member of a corporate group, only the ultimate parent company, if a UK registered company, is eligible to receive the loan. An eligible company shall also be subject to customer fraud, money laundering and KYC checks prior to any loan being made.

Matched funding: The Government shall make unsecured bridge funding available alongside other private third party matched investor(s). The loan shall constitute no more than 50% of the bridge funding being provided to the company, with the remaining amount provided by matched investor(s).

Loan size: The minimum amount of the loan provided by the Government to the company shall be £125,000. The maximum amount of any such Government loan shall be £5,000,000. There shall be no cap on the amount that the matched investor(s) may loan to the company and therefore no cap on the aggregate bridge funding being provided. Use of proceeds: The bridge funding shall be used solely for working capital purposes and shall not be used by the company to repay any borrowings, make any dividends or bonus payments to staff, management, shareholders or consultants or, in respect of the Government loan, pay any advisory or placement fees or bonuses to external advisers.

Conversion: The bridge funding shall automatically convert into equity on the company's next qualifying funding round at a minimum conversion discount of 20% (the "Discount Rate") to the price set by that funding round with a company repayment right in respect of the accrued interest. The Discount Rate will be higher if a higher rate is agreed between the company and the matched investors.

On a non-qualifying funding round, at the election of the holders of a majority of the principal amount held by the matched investors, the bridge funding shall convert into equity at the Discount Rate to the price set by that funding round.

A "qualifying funding round" shall take place where the company raises an amount in equity capital (excluding any shares issued on conversion of the bridge funding or to employees/consultants on exercise of any options) equal to at least the aggregate amount of the bridge funding. A "non-qualifying funding round" shall take place where the company raises less in equity capital than the amount required for a "qualifying funding round".

On a sale or IPO, the loan shall either convert into equity at the Discount Rate to the price set by the most recent non-qualifying funding round or it shall be repaid with a redemption premium (being a premium equal to 100% of the principal of the bridge funding), whichever will provide the higher amount for the lenders.

On maturity of the loan, the loan shall, at the option of the holders of a majority of the principal amount held by the matched investors (i) be repaid by the company with a redemption premium (being a premium equal to 100% of the principal of the bridge funding); or (ii) convert into equity at the Discount Rate to the price set by the most recent funding round provided that the Government's loan shall convert unless it requests repayment in respect of its loan.

On a sale or an IPO or maturity of the loan, the Discount Rate shall not apply to the most recent non-qualifying funding round where such round took place prior to the issuance of the bridge funding. In such circumstances, the conversion price shall not include a Discount Rate.

On conversion of the loan, only the principal under the bridge funding (and not any accrued interest) shall convert at the Discount Rate and any accrued interest not repaid by a company shall convert at the relevant price without the Discount Rate.

Valuation cap: The Government shall not set a valuation cap on the price at which the loan converts into equity on the company's next funding round. Where the matched investors have agreed a valuation cap with the company, the Government shall be entitled to those same terms.

Conversion equity: On a conversion event, the loan shall convert into the most senior class of shares in the company. If a further funding round is completed within six months of the relevant conversion event, the lenders shall be entitled to convert their shares into the senior class of shares of the company in issue post that round.

Interest rate: The Government shall receive a minimum of 8% per annum (noncompounding) interest to be paid on maturity of the loan. The interest rate shall be higher if a higher rate is agreed between the company and the matched investors.

Term: The loan shall mature after a maximum of 36 months. Decision-making: The Government shall have limited corporate governance rights during the term of the loan and as a shareholder following conversion of the loan.

Warranties: The company shall provide limited warranties, including in respect of title and ownership, capacity, its loan eligibility in accordance with the

Government eligibility criteria, compliance with law, the borrowing facilities of the company, litigation and insolvency events to the lenders on closing of the loan.

Covenants: The company shall provide limited covenants to the Government during the term of the loan and as a shareholder following conversion of the loan, including undertaking to treat the lenders and the holders of the conversion equity fairly and equally and to provide the Government with the same information rights as other investors in the company, and compliance with law obligations.

Most favoured nation: In the event that the company issues further convertible loan instruments to investors (including any new or existing investors which are not matched investors) with more favourable terms, those terms shall apply to the bridge funding provided under the scheme.

Negative pledge: The company shall not permit the creation of any indebtedness that is senior to the loan other than any bona fide senior indebtedness from a person that is not an existing shareholder or matched investor.

Transfer rights: The Government shall be entitled to transfer the loan and following conversion of the loan, any of its shares without restriction to an institutional investor which is acquiring a portfolio of the Government's interest in at least ten companies owned in respect of the Future Fund. In addition, the Government shall be entitled to transfer any of its shares without restriction within Government and to entities wholly owned by central government departments.