

INVESTMENT PROGRAMME

**Guidance Document for Expansion Capital
Investments**

**(Direct Capital and Managed Investments applicants should
refer to the *Investment Programme Guidance Document for
Direct Capital and Managed Investments*)**

Legal Notices

British Business Investments is the trading name of British Business Investments Ltd, a wholly owned commercial subsidiary of British Business Bank plc, registered in England and Wales, registration number 09091930, registered office at Steel City House, West Street, Sheffield, S1 2GQ. It is not authorised or regulated by the PRA or FCA. British Business Bank plc and its subsidiary entities are not banking institutions and do not operate as such.

A complete legal structure chart for British Business Bank plc and its subsidiaries can be found at www.bbinv.co.uk.

Contents

<u>Contents</u>	3
<u>1. Introduction</u>	4
<u>2. Application Process</u>	7
<u>3. Investment Criteria</u>	10
<u>4. Terms and Conditions</u>	14
<u>Annex</u>	16
<u>Part A: Basic Information</u>	16
<u>Part B: BBI Returns</u>	16
<u>Part C: SME Loan Book or Financial Projections</u>	17

1. Introduction

1.1 The Investment Programme

The British Business Bank Investment Programme (the 'Investment Programme' or the 'Programme') seeks to address long-standing gaps in the SME finance market to promote greater choice in the supply of lending to SMEs. It is operated by British Business Investments ('BBI'), a wholly-owned subsidiary of British Business Bank Plc¹ ('BBB').

The Programme, which builds on the Business Finance Partnership, was originally launched by the Department for Business Innovation and Skills ('BIS') in April 2013 as part of "Building the business bank"².

Expansion Capital Investments, launched in January 2015, is a variant of the Investment Programme. Through Expansion Capital Investment, BBI is making commercial investments, in a variety of forms and in a variety of entities, in areas that include (but are not limited to):

- Equity, equity-like and debt instruments in financial institutions;
- Debt funds or asset backed lenders that lend directly to businesses; or
- Non-bank channels, such as supply chain finance, peer-to-peer lending and other lending platforms.

1.2 Objectives

BBB supports economic growth by bringing together public and private sector funds to create more effective and efficient finance markets for smaller and medium-sized UK businesses. It is a key element of the government's Industrial Strategy, and it is already contributing to making the UK one of the best places in Europe to start, grow and finance a business.

The objectives of BBB are focused on addressing the inadequate access to finance available to small and medium sized enterprises in the UK. To further these wider

¹ British Business Bank plc is a public limited company registered in England and Wales. As the holding company of the group operating under the trading name of British Business Bank, it is a development bank wholly owned by HM Government which is not authorised or regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). It operates under its own trading name through a number of subsidiaries, one of which is authorised and regulated by the FCA. British Business Bank plc and its subsidiary entities are not banking institutions and do not operate as such.

² <https://www.gov.uk/government/publications/building-the-business-bank-strategy-update>.

objectives, the Investment Programme will allocate funds to eligible Applicants best able to promote the following four objectives:

- Support the development of diverse debt finance markets available to SMEs³ (“Diversification”);
- Mobilise additional funding from private sector sources in order to support lending to SMEs (“Leverage”);
- Channel finance to SMEs in an effective, appropriate and responsible manner (“Effective Deployment”); and
- Expand the aggregate amount and / or types of debt funding available to SMEs (“Additionality”).

BBI welcomes Proposals from a wide range of entities which facilitate the provision of debt finance to viable SME businesses operating in the UK, and with a consolidated annual global turnover below £100m.

1.3 Expansion Capital Investments

This Guidance Document relates to Expansion Capital Investments. It provides potential Applicants with information to decide whether to submit a Proposal to the Programme and to help ensure that any Proposals submitted are aligned with BBI’s objectives. The application process is set out in Section 2. BBI will allocate funds only to those proposals that it considers to best fulfil the Investment Criteria set out in Section 3 and which, in its opinion, are best able to promote the four objectives set out above. Selection is competitive. BBI cannot invest in every proposal it receives and so will look to invest in what it considers to be the strongest proposals.

Relationship between Expansion Capital Investments and the Investment Programme: Expansion Capital Investments is a variant of the Investment Programme. Applications for Expansion Capital Investments will be considered alongside applications for Managed Investments and Direct Investments under the Investment Programme.

The process leading to an Award under each Proposal type may differ. Proposals under the Expansion Capital Investments variant need to be developed and assessed in a way which is appropriate to the bespoke nature of such proposals and reflects the greater leverage which is sought from making such investments, including their potential for longer term impact.

The funds available under the Investment Programme are available to all types of Proposal. Applications which combine a request for Expansion Capital Investment alongside a Managed Investment or a Direct Capital Investment are welcomed. The

³ For the purposes of the Investment Programme small and medium sized enterprises are considered to be businesses with consolidated annual global turnover below £100m.

allocation of funds between investment types will be determined by the quality of Proposals received.

If Applicants are uncertain as to the categorisation of their Proposal, please contact BBI at help@bbinv.co.uk.

2. Application Process

2.1. Introduction

BBI expects Proposals to conform to the 4 stage application process detailed below. Proposals may be rejected at any stage. BBI reserves the right not to make any Awards should the quality of Proposals, in the opinion of BBI, be assessed as not meeting the objectives and the criteria of the Programme.

- **Expression of Interest:** Short submission outlining key elements of the Proposal. If Applicants are successful at this stage they will be invited to submit a Formal Proposal and attend a Management Presentation;
- **Formal Proposal and Management Presentation:** Detailed bid submission and Management Presentation covering the Investment Criteria set out in Section 3. If Applicants are successful at this stage, they will be taken forward to due diligence;
- **Due Diligence and Award:** Formal assessment stage focused on appraising an Applicant's business, its proposed investment structure and investment strategy. If Applicants are successful at this stage an Award, subject to confirmatory due diligence, finalisation of terms and completion of documentation, will be made by BBI; and
- **Completion, Commitment and Drawdown:** Final due diligence, agreement of final terms and completion of legal documentation. If Applicants are successful at this stage, funds committed by BBI will be available for drawn down by Applicants in accordance with the terms of the legal documentation.

Where individual commercial circumstances require an expedited decision making process, BBI may amend the 4 stage Application Process outlined above.

Pre-Submission Engagement

Applicants are invited to direct questions in advance of submitting a Proposal to help@bbinv.co.uk. Questions and answers in relation to the Programme in respect of policy, objectives or investment criteria are available to Applicants on the BBI website at www.bbinv.co.uk.

2.2 Expression of Interest

Applicants are expected to make contact with BBI at the earliest opportunity at investmentprogramme.proposals@bbinv.co.uk in relation to their Proposal. Expressions of Interest must be made before a Formal Proposal is submitted, however BBI will expect Applicants to be able to provide details of key features of their Proposal at this stage and have an initial meeting with BBI's representatives if

required. Applicants should complete the information schedules included in the Annex to this Guidance Document.

If, in the opinion of BBI, Expressions of Interest meet the objectives and the criteria of the Programme, Applicants will be invited to have an initial meeting with BBI's representatives to discuss their Expression of Interest. A decision will be taken after this meeting as to whether Applicants will be invited to submit a Formal Proposal. If, in the opinion of BBI, Expressions of Interest do not meet the objectives and the criteria of the Programme and/or there are other applications which BBI believes better achieve the Programme's objectives and criteria, they will be rejected. Written feedback will be provided to all Applicants, and Applicants will be able to resubmit Expressions of Interest at any point while the Programme remains open for applications.

BBI reserves the right not to invite any Applicants to submit Formal Proposals should the quality of Expressions of Interest, in the opinion of BBI, be assessed as not meeting the objectives and criteria of the Programme.

Important notice: By submitting an Expression of Interest, and in consideration of the resource dedicated by BBI to assessing Applications, Applicants will be deemed to have read and accepted the Terms and Conditions in Section 4.

2.3 Formal Proposal and Management Presentation

Following an invitation to submit a Formal Proposal, BBI will require a detailed submission setting out the proposed investment structure, strategy and timeline. Applicants are encouraged to submit their Formal Proposal as soon as practicable and in line with any timetable proposed by BBI and to engage with the Investment Team at BBI to further develop the Proposal.

This Formal Proposal should address in detail the Investment Criteria set out in Section 3.

All Formal Proposals will be assessed by BBI. Assessments will be informed by the content of Formal Proposals and any further information requested from Applicants. Following receipt of a satisfactory Formal Proposal, BBI will expect in most cases to meet with the Applicant (including selected members of its team) to discuss the Formal Proposal and the Applicant's operations.

2.4 Due Diligence and Award

Subsequent to the Management Presentation, BBI will decide whether to proceed to a due diligence stage. A due diligence checklist will be provided to all Applicants at this stage. Due diligence will focus on, amongst other things, assessing an Applicant's business plan and the proposed investment. The precise scope of commercial,

financial and legal due diligence will depend on the nature of the Applicant and its Proposal. Applicants may be required to provide additional documentary evidence that validates the information provided in the Formal Proposal.

By submitting a Formal Proposal, Applicants will be agreeing to allow BBI to undertake such background checks and referencing as it deems reasonable. This could include referencing with: prospective, existing and past investors; companies which the Applicant has previously lent to or invested in; or relevant third parties. BBI will request written consent from Applicants before any such background checks are undertaken.

Subject to meeting the overall objectives of the Programme, and following satisfactory conclusion of the due diligence process and approval by the Investment Committee, BBI will issue indicative terms of investment (an "Award") to the Applicant.

2.5 Completion, Commitment and drawdown

All Awards will be subject to final due diligence, agreement of final terms and completion of legal documentation including, where applicable, satisfaction of any conditions precedent. If Applicants are successful at this stage, funds committed by BBI will be available to be drawn down by Applicants as per the terms of the legal documentation.

Awards will be valid for a period of 3 months following notification. If Completion has not taken place within 3 months of the Applicant receiving notification of an Award, the Award will be withdrawn. Prior to an Award being allocated, BBI reserves the right to change the 3 month time period that the Award is valid for without prior notice, or to negotiate different availability periods for specific Proposals on a case-by-case basis.

2.6. Timetable

The Expansion Capital Investments variant will remain open for applications until the funds allocated to the Investment Programme are committed or if otherwise advised.

BBI reserves the right to change this timetable at any point and will do so on reasonable notice.

2.7 Delivery of Expressions of Interest and Formal Proposals

Expressions of Interest and Formal Proposals should be submitted by email and in portable document format ("PDF") to investmentprogramme.proposals@bbinv.co.uk. Any accompanying spreadsheets should be compatible with Microsoft Excel.

3. Investment Criteria

As part of the Investment Programme, Expansion Capital Investments will support the development of diverse debt finance markets for SMEs, promoting competition and increased supply through new finance providers, products or services, and will increase the provision of finance to viable but underserved businesses. It will achieve these objectives through ensuring funds are allocated and/or invested to support Diversification, Leverage, Effective Deployment and Additionality.

The 9 Investment Criteria below detail the criteria against which Expansion Capital Proposals will be assessed. Proposals should seek to address each of these Investment Criteria. If any information is unavailable, or cannot be disclosed, Applicants should make this clear in their Proposal.

3.1 Target Market

Proposals should be focused on lending to viable businesses, operating in the UK, with consolidated annual global turnover of up to £100m. Proposals able to demonstrate a focus on lending to businesses with a consolidated annual global turnover of less than £25m are likely to be viewed favourably.

Businesses operating in the UK are defined as undertakings that make a material contribution to economic activity in the UK, including UK resident businesses and branches of foreign incorporated parents with a genuine business in the UK.

Where investment strategies include lending to businesses with consolidated annual global turnover in excess of £100m, Applicants should consult with BBI at the earliest opportunity.

3.2 Investment Strategy

Applicants' investment strategies must be based on facilitating the provision of debt finance⁴. This may include hybrid or equity-like instruments however it would be expected that the majority of the return should be based on facilitating the provision of debt finance.

Evidence should be provided, where possible, of the Applicant's ability to facilitate a new or additional supply of finance to SMEs. Proposals will be viewed favourably if they can demonstrate an ability to stimulate additional lending to businesses, including in relation to:

⁴ For the avoidance of doubt, debt finance includes receivables financing, supply chain financing, trade finance and asset finance.

- Working capital, long term investment or growth capital;
- Stimulating provision of finance to underserved SMEs;
- Providing a product type that the Applicant does not currently offer;
- Expanding activities into market segments that are new to the Applicant; or
- Increasing lending through alternative or non-traditional financing channels.

If Applicants have any doubt as to whether their strategy meets the objectives and criteria of the Programme, they should consult with BBI at the earliest opportunity.

3.3 Investment Size and Tenor

Applications for Programme funds (excluding Private Sector Investor funding) should be for an amount between £10m and £100m, with the relevant figure being the total funding requested from BBI across Expansion Capital, Direct Capital and Managed Investments. Applicants considering submitting a Proposal for Programme funds in excess of £100m must be able to demonstrate how the investment will deliver the objectives of the Programme more effectively relative to an investment size limited to £100m.

In exceptional circumstances, BBI will consider Proposals seeking Programme funds of less than £10m. Applicants must strongly evidence a Proposal's ability to meet all other Investment Criteria and the objectives of the Programme.

Proposals must also be able to demonstrate that BBI will be repaid its investment, together with any return thereon, within ten years of a first drawdown.

If an Award or Commitment is made, Applicants will be required to comply with BBI's marketing policy which governs the ways in which an entity, which has received investment from BBI, refers to and/or publicizes this.

3.4 Deployment of Funds

Applicants must evidence their ability to facilitate the flow of funds to SMEs within 3 years following entry into a binding commitment. Proposals are likely to be viewed favourably if they can demonstrate:

- A deployment period of less than 3 years; and
- An ability to facilitate the flow of funds to SMEs quickly following any potential commitment.

Where relevant, Applicants should provide details of loan origination strategies including, but not limited to:

- Structure and location of the management, origination and portfolio management team;
- Track-record of ability to originate loans;
- Expected drawdown profile of any Award made under the Programme;
- Pipeline of near-term lending opportunities; and
- Approach to portfolio diversification and risk management.

Where relevant, Applicants must also evidence that robust and tested systems and processes are in place for making and managing loans (e.g. documentation, back-office systems, monitoring and governance arrangements, management information reporting).

3.5 Commercial Returns

Expansion Capital Investments will be required to generate a commercial return in line with the risk associated with each investment and should be sufficient to stimulate long-term and sustainable participation of Private Sector Investors in these markets. BBI will expect to invest on terms and with a return and level of risk that would be attractive to Private Sector Investors in the absence of BBI's involvement.

Where costs and fees are charged to BBI as part of an investment structure, such costs and fees must be competitive (and, where BBI co-invests, no worse than those incurred by co-investors). Applicants should be able to demonstrate that any such charges provide Value-for-Money and that they are in line with market rates and, where applicable, normal market practice.

3.6 Funding to support Business Plan

Expansion Capital Investments is intended to support the growth of companies active in SME lending markets by providing long term equity or other forms of risk capital, including through debt funds. To the extent that Applicants' growth plans require additional funding, Applicants will be required to provide evidence that this funding is in place or can be secured to support their business plan.

3.7 Pari Passu Investment Terms

In contrast to the other investments made under the Investment Programme, Expansion Capital Investment Applicants are not required to be match-funded by a private sector investor. However, where private sector investors are co-investing alongside BBI, the commercial terms (including costs and fees) for BBI must be at least as favourable as those of the co-investors.

3.8 Management Team and Track Record

Applicants must be able to demonstrate that they have a competent team, with sufficient expertise to execute the Proposal's investment strategy. Applicants should provide:

- Information on the Applicant's management team and key personnel;
- Recent and relevant experience of, and successful track record in, the proposed activities of the investment; and
- Evidence of the management and investment teams having worked together effectively, and their ability to execute the mandate for the full life of the investment.

In the opinion of BBI, Applicants must have suitable standards of reputation and integrity, including appropriate ethical standards in all areas of its proposed operations.

Where the Proposal relates to a start-up operation, BBI will expect the Applicant to clearly demonstrate access to sufficient resources, skills and competencies required to execute the Proposal's investment strategy.

If an Applicant identifies any shortfalls in the levels of resources, skills and competencies required to deliver the Proposal's investment strategy, they will be required to demonstrate how they would expect to address these.

3.9 Legal Structure, Regulation and Tax Domicile

Applicants must be able to demonstrate transparent and appropriate investment, regulatory and tax structures. Proposals should also reflect appropriate ethical standards in relation to the proposed lending activity, operations and general business activities.

Applicants must also confirm that, where applicable, they have necessary authorisations, licences and permissions to conduct investment activities in line with their investment strategy.

4. Terms and Conditions

BBI reserves the right at any time not to make an investment and / or to cancel or withdraw from the process at any stage. Any costs or expenses incurred by an Applicant will not be reimbursed and BBI will not be liable in any way to an Applicant for costs, expenses or losses incurred as a result of this process.

BBI reserves the right to amend the timetable and / or the process until such time as legally binding arrangements are concluded with Applicants.

BBI reserves the right to reject any and all Proposals with or without cause.

BBI reserves the right to request clarification of information submitted and to request additional information regarding any or all Proposals, including the right to request face to face meetings. Failure to provide such information upon request may cause the Proposal to be rejected.

Applicants warrant and represent that all information provided to BBI (whether written or verbally) is true, accurate and not misleading in all respects and omits no material information relevant to their Application. Applicants will update BBI at any stage in the application process (unless they are rejected or withdraw their application) if any information previously provided ceases or is discovered to be untrue, inaccurate or misleading in any respect or omitted material information relevant to their Application.

Any Award made by BBI as a result of this process will be subject to the prompt and satisfactory agreement of legal terms. Applicants will also be expected to provide a timetable for meeting any other obligations, such as the raising of further investment, and the Award and continuation through to Completion, Commitment and Drawdown will be conditional on meeting that timetable.

All information provided by BBI to Applicants, including fact that an Application has been made and the contents and status of BBI's discussions with Applicants will be treated by Applicants as confidential. Such information may only be disclosed by Applicants within the Applicant's organisation, to the Applicant's professional advisers, where required by law or with BBI's prior written consent.

All information provided to BBI by Applicants will be treated as commercially confidential. Such information may be disclosed by BBI to other members of the BBB group and its and their respective directors, staff and professional advisers involved in assessing Applications or where otherwise required by law or Parliament. BBI will retain Proposals after an Award has been made, for example to support any evaluation of the Programme.

Applicants should note that the Freedom of Information Act 2000 ("FOIA") applies to BBI. If BBI receives a request for information under the FOIA which relates to an

Applicant's commercially sensitive information, BBI will use all reasonable endeavours to apply one of the relevant exemptions from disclosure under FOIA (including the exemptions for commercial interests, information provided in confidence and personal information) and, to the extent practicable and permissible, will consult with the relevant Applicant as to the application of such exemptions.

Save for the terms and conditions set out in this section 4, this Guidance Document is not a legally binding document and should be treated as indicative only.

Annex

Part A: Basic Information

Name of Applicant	_____
Background	_____
BBI Investment Size	_____
Date of First Drawdown	_____
Drawdown Profile	_____
Deployment Period (on-lending to SMEs)	_____
Investment Tenor (term of investment)	_____
Status of additional funding required to support business plan	_____
Source of additional funding	_____
Target Borrowers	_____
SME Borrowing Purpose (e.g. working capital, long term finance etc)	_____
Target Cost of Borrowing for SMEs	_____

Note: If any items are not applicable to a Proposal, the Applicant is requested to state so.

Part B: BBI Returns

Applicants to provide projections showing management’s base case expected return for BBI’s Expansion Capital Investment, alongside any other potential co-investor returns. Above to also include sensitivity analysis showing potential upside and downside scenarios.

Part C: SME Loan Book or Financial Projections

SME Loan Book ((3 year historical and 3 year forecasts)

	<u>2015A</u>	<u>2016A</u>	<u>2017A</u>	<u>2018F</u>	<u>2019F</u>	<u>2020F</u>
Opening SME Loan Book (£m) [A]	_____	_____	_____	_____	_____	_____
New SME Lending Originated in the Period (£m) [B]	_____	_____	_____	_____	_____	_____
New SME Lending Originated in the Period (# loans)	_____	_____	_____	_____	_____	_____
SME Loan Repayments (£m) [C]	_____	_____	_____	_____	_____	_____
Bad Debts, Provisions and Other Adjustments (£m) [D]	_____	_____	_____	_____	_____	_____
Closing SME Loan Book (£m) [E] = [A] + [B] + [C] + [D]	_____	_____	_____	_____	_____	_____
Total Bad Debts / Provisions at Year End (£m)	_____	_____	_____	_____	_____	_____
Value of Other New Lending Originated (£m)	_____	_____	_____	_____	_____	_____

Financial Projections

If considered more appropriate, applicants may present 3 to 5 year financial projections, including:

- Summary P&L, balance sheet and cashflow statement
- Volume and type of financing to be extended to SMEs
- Expected returns across the various types of financing

© British Business Investments Ltd (July 2018)

This publication is available from bbinv.co.uk

Any enquiries regarding this publication should be sent to:

British Business Investments Limited
Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX

