

REGIONAL ANGELS PROGRAMME

Catalysing early stage investment across the UK

Request for Proposals

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1. Introduction

1.1 Background to The Regional Angels Programme

The Regional Angels Programme (the “Programme”) was announced as part of the Autumn Budget 2017, in response to the feedback received during the consultation on *Financing growth in innovative firms*¹, which highlighted how there continue to be difficulties in accessing early stage capital in parts of the UK².

Angel investors play a vital role in the economy, bringing patient capital, business experience and skills to support the growth of smaller businesses.

With the business angel market maturing, the experience of the investors and the volume and value of investments made has been increasing in recent years, with syndicates becoming an increasingly common route to investment.

The UK continues to be a world-leading place to start a business, but some of the UK’s highest potential, most innovative businesses can struggle to start up and scale up because of a lack of finance. Evidence suggests that there is a lack of effective supply of long-term investment in innovative firms led by ambitious entrepreneurs who want to build large-scale businesses in the UK.

The UK also suffers regional imbalances in both the demand and supply of early stage finance for growth businesses. The supply of early stage equity finance typically comes from angel investors who are largely concentrated in London, and therefore other UK areas are not as well represented by such finance offerings.

The Regional Angels Programme has been set up within British Business Investments (“**BBI**”) to help reduce regional imbalances in access for smaller businesses³ to early stage equity finance. The Programme aims to increase the availability, supply and awareness of early stage, angel equity investments across the UK. BBI’s investment should unlock additional private capital to the above asset class.

The Programme, which has been allocated £100 million of funding, will aim to provide early stage equity capital by participating in investments via

¹ The consultation response can be found at <https://www.gov.uk/government/consultations/financing-growth-in-innovative-firms>

² For the avoidance of doubt, the UK includes devolved administrations.

³ Smaller businesses for this Programme are defined as those with annual revenues of less than £5 million and primarily operating within the UK.

delivery partners that can offer managed solutions (see Section 3.8 for an explanation of this particular criterion).

1.2 Objectives

Under the Programme, BBI will commit funds for investment to delivery partners which, alongside angel and other early stage equity investors, will foster longer-term equity investment into smaller businesses across the UK, particularly in areas of the UK that are currently underrepresented. The Programme is focused on increasing the availability, supply and awareness of angel equity investments into smaller businesses.

The objectives of the Programme are:

- **To increase the aggregate amount of early stage equity capital that is available to small businesses with high growth potential throughout the UK.** By committing capital across a range of delivery partners, BBI will seek to increase the supply of early stage equity finance to small businesses throughout the UK, particularly in areas that are currently underrepresented. This will help to allow businesses to reach their funding target and attract additional capital as they continue to grow.
- **To promote angel investing across the UK, particularly in areas that are currently underrepresented.** BBI, through its investments, will seek to raise the profile and professionalism of angel investment activity, and aims to attract further third-party private capital alongside angels. BBI plans to attract angel and other early stage equity investors to invest in places where they may have not done so in the past. With additional investment and professionalism in early stage equity capital markets across the UK, BBI aims to reduce the current regional imbalances in access to such capital.
- **To generate a market rate of return.** As a commercial organisation, BBI is mandated to make a commercial rate of return on investments it makes, in-line with its expected market rate of return. BBI is seeking to build a well-diversified portfolio of investments in underlying businesses across sectors and regions of the UK.

2. Application Process

2.1. Overview of the process

BBI welcomes proposals from any Applicant that is able to promote the objectives and satisfy the criteria for the Programme. Applications will be assessed in accordance with the process outlined below.

2.1.1 Expression of Interest ("EOI"): Applicants are required to provide a short submission outlining key elements of the proposal, the Applicant's business model and investment strategy. In addition, the EOI should clearly set out how the Applicant's proposal could credibly promote the objectives and satisfy each criteria of the Programme. This is expected to be between five and ten pages. Applicants are also requested to complete the Track Record Pro-Forma published in conjunction with this Request for Proposals as part of any EOI. A copy of the Track Record Pro-Forma is available for download on the BBI website, or alternatively is available upon request to the email address below. If Applicants are successful at this stage they will be invited to submit a Formal Proposal and to arrange a management meeting.

Expressions of Interests should be submitted in writing to RegionalAngelsProgramme@bbinv.co.uk

2.1.2 Formal Proposal and Management Meeting: Once invited to this stage, Applicants will be asked to attend a formal management meeting with BBI to discuss their proposal in further detail and to outline what is expected in a Formal Proposal submission. Applicants are then required to submit a Formal Proposal, which should build on the Applicant's EOI, with particular focus on any feedback provided by BBI to the Applicant. Following the appraisal of the Formal Proposal and Management Meeting, BBI will decide whether to proceed to due diligence.

2.1.3 Due Diligence: The focus of due diligence will be the Applicant's business operations, financial standing, proposed investment strategy, organisational structure and track record. A due diligence questionnaire will cover commercial, financial and legal due diligence. In addition to assessing information received in response to the questionnaire, due diligence will include site visits. A key part of the due diligence process will be assessing the Applicant's own due diligence and investment processes. At this stage BBI will also undertake background and referencing checks and appropriate consents will be requested as needed.

The purpose of due diligence is, among other things, to verify whether a proposal can reasonably be expected to promote the objectives and satisfy the criteria of the Programme.

If BBI considers that due diligence has been completed to its satisfaction, applications will be taken to the next stage.

2.1.4 Investment Committee: If the BBI assessment team believes that an application is likely to promote the objectives and satisfies the criteria of the Programme, it will submit a recommendation to BBI's Investment Committee. The BBI Investment Committee has absolute discretion whether or not to approve making a commitment to the proposed Applicant.

If the BBI Investment Committee does approve the making of a commitment, the successful Applicant will be issued with a non-binding offer letter and heads of terms. The offer letter will set out any pre-conditions to a BBI commitment, including confirmatory due diligence, entry into definitive legal documentation and any further conditions, which BBI in its discretion deems necessary.

Important note: BBI reserves the right to reject or decline to progress to the next stage, any Proposal at any stage in the Application Process. Any application which does not, or which in BBI's opinion based on the information provided is not likely to, promote the objectives or satisfy the criteria of the Programme may be declined by BBI at any stage.

Guidance Note: Pre-Submission Engagement

Applicants are invited to make contact with BBI at the earliest opportunity prior to submitting an EOI. In the first instance, please send an email to RegionalAngelsProgramme@bbinv.co.uk. BBI will use its reasonable endeavours to answer questions in relation to the Programme, its objectives and criteria.

2.2. Timetable and Availability of BBI Funding

Under the Programme, BBI has a funding allocation to commit up to £100 million for investment in successful proposals. Individual commitments are likely to be in the region of £5 million to £15 million to each successful Applicant.

Selection is competitive and at each stage of the process, BBI will only look to take forward proposals that can demonstrably promote the objectives

and satisfy the criteria of the Programme. As it completes each new commitment, BBI will publicise certain details of the transaction on its website.

This application process is designed to enable BBI to select proposals that are considered to offer the best overall proposition in promoting the objectives and satisfying the criteria of the Programme.

BBI will make reasonable endeavours to respond promptly to applications at each stage of the application process.

3. Programme Criteria

The Programme will support the development of investment activities that provide early stage equity investments to small businesses in regions of the UK particularly underrepresented in the provision of such funding. In addition to demonstrating how proposals will help BBI promote the three objectives for the Programme, all Applicants must demonstrate how they will satisfy the following eight criteria against which all proposals will be assessed. Expressions of Interest must address each of these criteria. If any information is unavailable, or cannot be disclosed, Applicants should make this clear in their Expression of Interest.

3.1 Target Market

Proposals should be focussed on the Applicant's ability to provide and/or facilitate early stage equity investment in smaller businesses. Applicants who can demonstrate that the target market they operate in is in areas of the UK that are currently underrepresented in the provision of such funding, will be viewed favourably. BBI would like its commitment to be deployed in individual investment rounds of at least £100,000 and no more than £1,500,000 over a number of funding rounds.

3.2 Investment Strategy

BBI is looking for Proposals which:

- can demonstrate the Applicant's investment activities centre around the provision of early stage equity investments which are angel led or include significant angel investor participation;
- are focussed on early stage equity investment into small UK businesses within the target market;
- demonstrate a clear framework of procedures i.e. from origination strategy and route to market, through to due diligence and investment decision making processes and portfolio monitoring and management;
- have a detailed and robust screening and diligence process, whether this is undertaken in-house, or by external parties;
- have a robust valuation methodology that ensures that the terms of each BBI investment in underlying businesses are fully commercial for BBI in its capacity as an institutional investor;

- outline the level of involvement, if any, with the underlying businesses. This can be taking up board positions, mentoring, providing financial advice or other such interactions; and
- have a strategy which can viably deploy £5 million to £15 million of BBI capital within agreed timescales.

3.3 Track Record and Expertise

Applicants must demonstrate they are experienced and competent with a track record of early stage equity investments in the target market. BBI is looking for Applicants that are able to demonstrate having worked together effectively and have the capacity to execute the investment strategy for the full life of BBI's commitment. In addition to the track record and background information requested, BBI will also place high reliance on satisfactory face-to-face and other dealings with Applicants throughout the application process.

BBI will assess the overall returns generated by the Applicant and any other relevant information regarding the Applicant's investment track record, including information contained in the Track Record Pro-Forma submitted as part of the Applicant's EOI.

Where an Applicant is a start-up operation, BBI will expect the Applicant to clearly demonstrate access to sufficient resources, skills and competencies required to execute its investment strategy.

3.4 Origination

Applicants should be able to demonstrate they can facilitate the sufficient flow of funds to target businesses within a defined investment period.

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

- structure and location of the senior management, origination and portfolio teams;
- track record of ability to originate investments in line with the Investment Strategy outlined in Section 3.2;
- expected deployment profile of any commitment made under the Programme;
- pipeline of near-term investment opportunities; and

- approach to portfolio diversification and risk management.

3.5 Commercial Returns and Remuneration

Applicants must provide evidence that they will generate a market rate of return. Proposals must include an indication of the expected returns and how these will be achieved. BBI will analyse previous track records (including that set out in the Track Record Pro-Forma submitted with the Applicant's EOI) and will assess the credibility of forecasted returns.

Applicants are required to make full disclosure of any fees and other associated costs to BBI in making the proposed commitment. Whilst lower fees and costs will be preferred, BBI recognises that applications with the lowest level of fees or costs will not always represent the best value-for-money.

BBI recognises that performance related compensation will align the interests of the Applicant with those of BBI during the life of BBI's commitment. Proposals should include details of any proposed incentive scheme. In BBI's overall assessment of the expected returns, fees, costs and incentives, no one parameter will necessarily determine the suitability of a proposal. BBI uses external benchmarks as part of its assessment of gross and net returns.

3.6 Private Sector Leverage

Proposals must demonstrate that a commitment from BBI will be invested in underlying businesses alongside significant investments made by other early stage equity investors.

In assessing whether Applicants can deliver the level and diversity of private sector funding the Programme is looking to leverage, BBI will consider the mechanisms in place to attract and utilise funding from private sector investors.

Note that BBI is seeking for its commitment to be deployed in participations of between 20-50% of any individual investment round raised by each underlying business. Therefore, Applicants must demonstrate they can source the remaining 50-80% of each investment round from other sources.

3.7 Portfolio Management

BBI will make a substantial amount of funding available to each successful Applicant and will, therefore, need to ensure its investment will, and will continue to be, properly monitored and managed.

Applicants should provide details of their processes when investing in small businesses and managing a portfolio of such investments, these include but are not limited to:

- follow on investments (e.g. using pre-emption rights);
- facilitating an exit;
- potential sale of investments on secondary markets; and
- investees becoming financially distressed.

In addition to providing details on formal reporting, Applicants will be expected to set out how they will engage with BBI to provide information, intelligence and assurance on the allocation, monitoring and on-going management and performance of the portfolio of underlying investments. This might include, for example, arranging for BBI to audit individual valuations, observe due diligence or investment decision making meetings. In any event BBI, will expect regular relationship meetings with key persons and senior team members involved in managing its investment.

3.8 Operational Structure, Legal and Regulatory

In view of BBI's status as a Government owned entity, proposed company structures and investment strategies must be consistent with the requirements of the British Business Bank plc's group-wide tax policy, a copy of which is available on the British Business Bank website: <https://british-business-bank.co.uk/transparency/>

Please note that BBI is looking for "managed solutions". By this, BBI means that it will not make deal-by-deal investment decisions nor will it directly monitor and oversee its investments in underlying portfolio companies. BBI is interested in proposals whereby the successful Applicant undertakes those activities for BBI in-line with agreed terms and conditions and standards. This could take the form of conventional investment funds or segregated managed accounts, angel syndicates, crowdfunding platforms or any other structure that satisfies this criterion.

Applicants will need to demonstrate, to BBI's satisfaction, that they (either on a standalone basis, or by forming a consortium, or entering into service provision arrangements, with suitably qualified third parties):

- have any appropriate permissions, registrations and authorisations that may be needed to provide BBI with a managed solution;
- will have the capacity to carry out client due diligence and anti-money laundering checks on other investors to applicable legal and regulatory standards;
- have systems, controls and procedures in place for identifying, making investments and controlling associated risks which are robust and appropriately documented;
- have the capacity to receive, hold and return BBI's funds and underlying investments;
- are capable of generating reports and other information regarding investments that BBI is likely to require from time to time; and
- are capable of complying with data protection laws, including the GDPR (including assessment of investee business compliance).

Proposals should also reflect appropriate ethical standards in relation to the proposed investment activity, operations and general business activities so as not to cause embarrassment to BBI in view of its status as a Government owned entity.

4. Programme Terms and Conditions

BBI reserves the right at any time not to make an investment and / or 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 binding arrangements are concluded with Applicants. BBI reserves the right to reject any, and all, applications at any stage, with or without cause.

BBI reserves the right to request clarification of information submitted and to request additional information regarding any application, including the right to request face-to-face meetings. Refusal to provide such information upon request may cause the application to be rejected. Where no reply to a request for information or for clarification is received within ten business days, BBI may consider that the application has been withdrawn.

No representation, express or implied, is made by BBI as to the completeness or accuracy of any facts or opinions contained in this Request for Proposals. Recipients of this document should seek their own independent legal, financial, tax, accounting or regulatory advice before making any application under the Programme.

Please note that BBI is acting as an investor for the purposes of this Programme and therefore this Request for Proposals does not require approval under financial promotion legislation or corresponding rules.

Applicants should be aware BBI is not authorised to carry out regulated activity. BBI will thus be unable to consider responses where receipt or processing would require BBI to obtain any form of regulatory authorisation or permission.

Any offer to invest 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 private sector investment, and successful completion of an application will be conditional on meeting that timetable.

Respondents should note that information received by BBI or any other member of the British Business Bank plc group as part of this process, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of

Information Act 2000 (FOIA), the Data Protection Act and GDPR (Data Laws) and the Environmental Information Regulations 2004. In view of this, should respondents consider that any information should be treated as confidential and/or commercially sensitive, it would be helpful if respondents could set out why they consider this to be the case in each instance. Automatic confidentiality disclaimers generated by IT systems will not, in themselves, be regarded as binding.

If BBI or any member of the British Business Bank plc group receives a request for disclosure of information provided by a respondent, full account will be taken of any such explanation, but no assurance can be given that confidentiality will be maintained in all circumstances. Decisions on disclosure remain the responsibility of BBI or the relevant member of the British Business Bank group and ultimately the Information Commissioner and courts. Personal data will be processed by BBI in accordance with the British Business Bank's privacy statement, a copy of which can be reviewed here: www.british-business-bank.co.uk/privacy-notice.

By submitting an EOI, Applicants accept the terms and conditions set out in this Section 4. Except for this Section 4, which is intended to be legally binding, this Request for Proposals is not a legally binding document and should be treated as indicative only.

Important legal notice

British Business Investments is the trading name of British Business Investments Ltd, a wholly owned 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.

British Business Bank plc is a public limited company registered in England and Wales registration number 08616013, registered office at Steel City House, West Street, Sheffield, S1 2GQ. 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 the Prudential Regulation Authority or the Financial Conduct Authority.

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.

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