

Early stage micro-funds for technology business ventures



Step One — Proof of Concept Fund

For pre-trading or early-stage technology enterprises supported by Science City York

What is the Proof of Concept Fund (POCF) for?

The Proof of Concept Fund (POCF) was developed by Science City York to fill a recognised funding gap in the establishment and growth of technology ventures. One of the barriers to the successful start-up of a new business venture is lack of funds to research that the business concept is viable before the venture begins to trade with its customers. Failure to tailor the concept to the real needs of the market can increase the risk of business failure. The POCF is designed to help reduce that risk, speed the route to trading revenues, and thereby ensure a more sustainable business which is better able to raise further funds at a later stage. It is intended to assist a technology business in the very early stages when the risks involved, both technically and commercially, may make it hard for the business to find enough capital from private investors or from banks that will enable it to reach a stage when it can either generate adequate revenues or become sufficiently attractive to investors. Awards are made towards such pre-trading needs as:

- Proof of technical and commercial concept
- Securing adequate Intellectual Property rights
- Conducting market analysis and research
- Website design and marketing support
- Prototype design and assessment
- Needs that will speed the path to income generation and make a business more sustainable

What assistance is available?

The POCF provides relatively small capital investments of up to £10,000 to assist new ventures with high growth potential and a viable business plan. Funding is provided on a part-equity, part-debt basis with awards made as a package of a low interest loan together with a simple agreement on share options so as to provide the fund with a small equity stake in the venture. The start-up company is not required to begin paying any interest or capital until it has been in receipt of trading revenues for at least six months. If the company ultimately achieves success, then at a suitable exit point the fund will exercise its share options and re-invest the proceeds back into the POCF for use by other aspiring entrepreneurs.

To be considered for an award, an entrepreneur should meet the following basic criteria:

- A technology business concept that needs to be proved technically and/or commercially before launch
- A business concept that is sustainable and with the potential to offer employment opportunities to others
- Demonstration of personal commitment from the founding entrepreneur(s) and evidence of 'matched funding' equivalent to the value of the award. This personal risk capital investment must include cash expenditure and may also include some time investment to get the venture to an agreed stage of development.
- Situated in York or North Yorkshire

Step Two — Technology Growth Fund

A micro-fund available at the point of trading for technology companies supported by Science City York

What is the Technology Growth Fund (TGF) for?

The Technology Growth Fund (TGF) is designed to facilitate a package of funding to businesses in York and North Yorkshire with point of trading capital up to a level of £0.3m. The scheme helps early stage businesses with high growth potential and a viable business plan to obtain finance that would otherwise be difficult to access, thereby assisting the growth of the economy in the science and technology sectors.

What assistance is available?

The TGF draws together several key sources of funding for early stage businesses, to attract a total funding package of up to £0.3m. This is achieved by combining investment from the TGF with funds from private investors (business angels), along with the DTI's Small Firm Loan Guarantee Scheme (SFLGS) from the major banks. The Technology Growth Fund is provided as part equity, part debt with funding up to £25,000 to match a similar investment from private investors. With up to £250,000 available from the SFLGS, a company at the point of trading can therefore access funding of around £0.3m.

The scheme also provides early access to a range of business mentoring support for early-stage businesses. Along with assistance provided by Science City York business promoters, the angel investors can provide hands-on support and business expertise which can bring additional skills into the business.

Who is eligible?

The TGF is designed as a complementary second stage of funding to the POCF, but it is available to any early stage technology company with high growth potential and satisfying the same criteria as for the POCF. The scheme is intended to support companies in their early stages, but established businesses may also be considered for funding. Because the scheme in part utilises funding through the SFLGS, the criteria for loans laid down by SFLGS apply (www.dti.gov.uk/sflg).

Where do these early stage micro-funds come from and who makes the award decisions?

The POCF and TGF are Science City York initiatives to fill recognized funding gaps in the establishment and growth of technology ventures. Science City York is funded by the City of York Council and by Yorkshire Forward, the Regional Development Agency. The two funds are managed on behalf of Science City York by York Business Development Ltd (YBDL) which is a not for profit company limited by guarantee. Awards will be at the discretion of the administering Board on the recommendation of an Advisory Panel composed of representatives from both Science City York and YBDL.

Why are the awards not a Grant?

Science City York funding from Yorkshire Forward is not available for use as grants or gifts, and the fund awards are expected to be recycled for the use of other needy ventures in the future. There are some DTI grant schemes for early stage ventures with high growth prospects and Science City York can provide direction and support for such applications. An award, once approved for defined expenditure, is made as a lump sum to assist cash flow management.

What are the terms of a POCF or TGF award?

The awards come as a package of a low cost unsecured loan together with an equity share option. The objective of an award is to assist a technology business in the very early stages when the risks involved, both technically and commercially, may make it hard for it to attract enough capital from private investors or from banks. In this sense it is a 'loan of last resort' providing the capital necessary to enable the business to reach a stage when it can either generate adequate revenues or become sufficiently attractive to investors. The terms of the award are far from punitive given the uncertainty of such technology ventures:

- A loan at only 6% APR over a defined repayment period.
- No repayment of capital or interest until the company has been in receipt of trading revenues for at least 6 months.
- Longer capital or interest holidays may be available depending on the development needs of the venture
- An equity stake of just 0.2% per £1,000 of loan taken as share options at par.
- Loans are made against specific agreed project expenditure. There will be monthly reviews to check the accounts and to discuss progress.

Why do I have to give up equity as well as repay a loan?

The aim of the micro-funds is to provide new ventures with risk capital assistance when it is most needed yet retain the opportunity to yield a suitable return on the funds in the event a company proves to be very successful. Any return on the investments will be recycled into the Science City York early stage micro-funds for disposition to future business ventures.

The funds need to be able to mitigate some of the considerable risks by seeking a potential future return from those ventures that one day become very profitable. Some enterprises will fail completely, some will not realise their potential, and some will become very profitable. It is hoped that the profitable ventures will yield some future returns that can then be available for other aspiring entrepreneurs.

Does this mean I will have shareholders in my business telling me what to do ?

No. Regular review meetings are held to check that the company is keeping to the agreed business plan. There is a very simple share option agreement that will be activated only on exit, so the Fund does not become a shareholder. There is no shareholder agreement, no seat on the board, nor any chargeable expenses. Advice may be offered, but the Fund can make no decisions for the business.

When will Science City York exercise its share options?

As there is no intention to be a shareholder in the business, the share option will only be exercised at an appropriate exit point. This will be when the Fund feels that the business is properly established and can afford it. Such an exit may for example be at a future funding round or a change of ownership. Because the share option is at par, the percentage stake will not be diluted at subsequent funding rounds. In this way the fund can benefit in full from the risks it has taken and return assets for investment into other risky ventures.

How can I apply for Science City York early stage micro-funds?

More information about the funds is available from the Science City York business promoters, and from York Business Development Ltd (YBDL), our partner in managing the Fund. For a confidential discussion contact Andrew Griffiths, Deborah Girdlestone or Andy Gurnell at Science City York, or Norman Whyte at YBDL (www.yorkbac.co.uk).

These early stage micro-funds are supported by Yorkshire Forward

