Webinar for Prospective Enterprise Capital Funds Managers

July 2020

#BBBECF
Welcome & Overview

Ken Cooper
Managing Director
Venture Solutions
### Agenda

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<td>Welcome &amp; Overview - Ken Cooper</td>
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<td>11:10 – 11:20</td>
<td>The ECF Story So Far – James Campbell</td>
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<td>11:35 – 11:45</td>
<td>Technical Q&amp;A – Ken Cooper &amp; Mark Sims</td>
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<td>11:45 – 12:25</td>
<td>Current ECF Fund Manager Panel – Kerry Baldwin (IQ Capital), Simon Murdoch (Episode 1 Ventures), Sinclair Dunlop (Epidarex Capital), Check Warner (Ada Ventures)</td>
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<td>12:25 – 12:30</td>
<td>Wrap Up – Ken Cooper</td>
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Enterprise Capital Funds Team

Ken Cooper – Managing Director
Mark Sims – Director
Michael Laycock – Senior Investment Manager
Elizabeth Bailey – Senior Investment Manager
Simon Cunnington – Senior Investment Manager
Sam Ettelaie – Investment Manager
James Campbell – Investment Manager
Seun Fayemi – Investment Analyst
Olivia Cooper - PA
The British Business Bank Group
How We Operate

Expertise
Designing solutions to make finance markets for small businesses work better

Money
£6.2bn of public funding commitments (as at Feb 2020)

Private sector money
- Start Up funding providers
- Business Angels
- Asset finance providers
- High street banks
- Venture capital
- Fund managers

Private sector money
- Invoice finance / factoring
- Debt funds
- Challenger banks
- Supply-chain finance providers
- Peer-to-peer lenders
Our objectives

1. Increase the supply of finance to smaller businesses where markets don’t work well

2. Help to create a more diverse finance market for smaller businesses, with greater choice of options and providers

3. Identify and help reduce imbalances in access to finance for smaller businesses across the UK

4. Encourage and enable SMEs to seek the best finance suited to their needs

5. Be the centre of expertise on smaller business finance in the UK providing advice and support for Government

6. Achieve the Bank’s other objectives whilst managing taxpayers’ money efficiently within a robust risk management framework
# International Economic Development Banks

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<th>Bank</th>
<th>Founded</th>
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<tr>
<td>Business Development Bank of Canada</td>
<td>Est. 1944</td>
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<td>KFW Bankengruppe</td>
<td>Est. 1948</td>
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<tr>
<td>Banca del Mezzogiorno</td>
<td>Est. 1952</td>
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<td>Small Business Administration (SBA)</td>
<td>Est. 1953</td>
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<td>BPI France</td>
<td>Est. 2005</td>
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<td>Japan Finance Corporation</td>
<td>Est. 2008</td>
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<td>British Business Bank</td>
<td>Est. 2014</td>
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Welcome & Overview

Our Success – The Last Five Years

1. Increase the supply of finance
2. Help to create a more diverse finance market
3. Encourage and enable SMEs to seek the best finance suited to their needs
4. Achieve this whilst managing taxpayers’ money efficiently

Stock of finance for smaller businesses

Percentage through non-Big-Five banks

Awareness of the Bank amongst businesses who might seek finance

Return on capital employed
The ECF Story So Far

James Campbell
Investment Manager
Venture Solutions
The ECF Franchise

British Business Bank is a long term participant in the venture market and a professional LP

We have backed emerging managers who have become household names in UK and European VC

We have backed a high proportion of fund managers in a second and in some instances a third fund

BBB was one of the most active UK venture LPs last year
Our ECF programme has committed more than £1.36bn of finance since inception, of which British Business Bank has contributed almost £795m.

We're working with 31 Fund Partners across the UK to unlock finance for smaller businesses.

The programme has supported over 550 UK smaller businesses, 47% of which are based outside of London.

The ECF programme has helped 16 Fund managers to raise their first institutional fund and so far 63% of these have already gone on to raise a further fund.
The average fund size has increased from c.£20m in the early years of the programme and is closer to c.£60m today. The fund size has to be relevant for the market gap and strategy of the manager.
Managers Supported By The ECF Programme
Since 2006, 31 ECFs Have Been Launched
The ECF programme is sector agnostic targeting high growth companies across the UK
We will continue to support high quality emerging fund managers.

The ECF programme is well funded after securing £1bn of funding in 2017 to be deployed over 10 years.

The quality of ECF managers and the underlying portfolio companies demonstrates the success of the programme.
ECF Guidance & Selection Process

Elizabeth Bailey
Senior Investment Manager
Venture Solutions
Key Features of ECFs

➢ A “geared” return structure designed to be competitive with other investment opportunities for the private investors.

➢ A significant commitment from British Business Finance Limited “BBFL” of up to £50m and 60% to 66% of the fund.

Waterfall

• 3% prioritised return to BBFL
• Repayment of capital to BBFL and private investors
• Distribution of a fixed share of profit to BBFL – remainder shared between private investors and the fund manager

Private Investment

• Investors must invest on a commercial basis
• Private investment must be incentivised into the market by the ECF structure
The Strings – ECF Restrictions

- Initial round size and total investment limits focused on “equity gap”.

- Equity component with a significant prospect of a material capital gain.

- Unlisted SME either pre-commercial sale or within 7 years of first commercial sale or is launching a new product or into a new geography requiring investment >50% of preceding 5yrs average annual turnover

- Investment must be for the benefit of the UK economy.

- Investment must be a ‘qualifying trade’.

**Full details of the restrictions are in our Guidance for Prospective Fund Managers**
Assessment Criteria

Four broad areas of assessment:

- Strength of investment team, relevant experience and expertise
- Investment strategy
- Sources of private capital
- Financial terms

The programme is competitive with only the strongest proposals being taken forward.

Successful proposals must also offer the best overall value for money in meeting BBFL’s objectives.
The Application Process

- Call, email and meetings for initial feedback
- Iterative process, keeping contact until ‘investment ready’
- We may start ‘light’ due diligence, including referencing and consideration of track record, experience of team etc.
- ‘Full’ due diligence, includes access to a data room and a complete due diligence questionnaire as well as multiple onsite meetings.
- Formal ‘5-pager’ comes later
- Length of the process varies
## The Application Process – Common Sticking Points

| Team                  | A new team demonstrating they can work together effectively together
|                       | Existing team finding it difficult to demonstrate they have the bandwidth to deliver a new fund |
| Track Record          | Portfolios that are largely unrealised
|                       | Whose deal was it? |
| Terms                 | “We’d like some feedback on our commercial terms.” |
| Strategy              | “Me too”, no differentiation or obvious links to team’s skills
|                       | Conflicts of interest
|                       | “What’s the minimum fund size?” |
| Private Investors      | “We don’t want to fund raise until we know you are in.”
|                       | Private investors with motives other than commercial return. |
The Application Process – Common Sticking Points

NO SURPRISES!
Is An ECF Right For You?

➢ ECF’s structural requirements and restrictions must fit with your investment strategy.
➢ No minimum or maximum fund size – managers need to demonstrate that the proposed fund size is appropriate to the investment strategy.
➢ Maximum ratio of BBFL participation set by type of company that the fund will focus on.

Strength of proposition remains paramount
Looking for ‘stand out’ proposals
Further details at: http://british-business-bank.co.uk/ourpartners/enterprise-capital-funds/
Still Interested?

Read the Guidance and if you still think an ECF is for you get in touch!

ecfteam@british-business-bank.co.uk
Technical Q&A

Ken Cooper
Managing Director
Venture Solutions

Mark Sims
Director
Venture Solutions
Current ECF Fund Manager Panel
Current ECF Fund Manager Panel

Kerry Baldwin
IQ Capital

Sinclair Dunlop
Epidarex Capital

Simon Murdoch
Episode 1 Ventures

Check Warner
Ada Ventures
Wrap Up

Ken Cooper
Managing Director
Venture Solutions