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Future Fund for early stage & high growth companies what you need to know



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On 20 April, the UK Government announced a new scheme to support early stage and start-up businesses adversely impacted by Covid-19 that may be unable to secure finance under the existing Coronavirus Business Interruption Loan Scheme (“CBILS”).

Early stage businesses – particularly those that are yet to generate any sales - are typically funded by equity rather than debt. Most such enterprises will not be able to meet the criteria for loans under CBILS being applied by the banks. The new Future Fund will provide finance between £125,000 and £5 million to qualifying early stage businesses. The fund is being administered by the British Business Bank and will launch in May, remaining open for applications until September. The Government is initially making £250 million available for this scheme.

The finance will be provided in the form of a loan note, which will convert into a shareholding in the company when there is a new equity funding round. The conversion will be at a minimum 20% discount to the price set by that funding round. On a sale or initial public offering the loan note will either convert to equity or be repaid with a 100% redemption premium, whichever gives the highest return to the lender. If the loan reaches maturity, the lender can choose either to convert into equity at that point or for the loan to be repaid with a 100% redemption premium.

The loan notes will carry a minimum interest rate of 8% per annum (non-compounding), payable on the maturity of the loan. The loans will have a maximum maturity of three years. The main eligibility criteria for funding are that the applicant company must:

- be an unlisted UK company
- that has raised at least £250,000 from private third-party investors in the last five years; and
- have a substantive economic presence in the UK.

The loans will be provided on a matched funding basis, meaning that at least the same amount of finance must be raised from other sources, such as existing or new investors or lenders.

The finance provided by the Future Fund can only be used for working capital purposes and not to repay existing borrowings or pay dividends to shareholders or bonuses to employees. The new scheme is a welcome addition to the range of Government financial support for companies affected by Covid-19.

The future strength of the economy will be heavily dependent on the survival of the UK's fast-growing and innovative young companies. However, the requirement to have raised at least a quarter of a million pounds in previous funding and to secure matched funding from other investors during the current pandemic is likely to restrict the take-up of the fund.

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