techstart NI

September 2014

This document sets out scheme information for Invest Northern Ireland's techstart NI fund and how it will operate under Commission Regulation (EU) 651/2014, the General Block Exemption Regulation.

Member State

1. United Kingdom

Region

2. Northern Ireland

Title of Scheme

3. techstart NI

UK Legal Basis

4. The relevant legal powers under which support will be provided under this Scheme are contained in:

   The Industrial Development (Northern Ireland) Order 1982[1]

   The Industrial Development (Northern Ireland) Act 2002[2]

   The European Communities Act (1972)[3]

EC Legal Basis

5. Aid provided under this Scheme will principally be State aid within the limits and conditions set out in Commission Regulation (EU) 651/2014, the General Block Exemption Regulation (GBER)[4]. Exceptionally, De Minimis Aid may be provided.

Government body authorised to implement the scheme

6. The Government Body authorised to implement the scheme is Invest Northern Ireland, a non-departmental public body under the Department of Enterprise, Trade and Investment for Northern Ireland.

Definitions

7. The relevant definitions in Article 2 of Commission Regulation (EC) 651/2014 shall apply to techstart NI.

Background

8. techstart NI was launched in September 2014 and it has a number of elements as follows:

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[1] http://www.legislation.gov.uk/nisi/1982/1083/contents

[2] http://www.legislation.gov.uk/nia/2002/1/contents

[3] http://www.legislation.gov.uk/ukpga/1972/68/section/2

[4] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0651&from=EN

- £13m SME equity fund
- 2 x £1.5m university spin out/in funds
- £7.6m Proof of Concept grant fund
- Investment Awareness Programme

SME Equity Fund (£13m)

9. The SME Equity Fund will provide seed and early stage equity funding of for SMEs. Individual investments will have a deal size range from £50,000 to £250,000 and the fund can invest up to £500,000 in portfolio companies when follow on deals are included. Initial investments will take place over the first five years of the fund's life and follow on deals will be permitted during and after the initial five year period. It will operate commercially and under an investment policy included in a Limited Partnership Agreement – with evidence of at least one of the following elements:
    - A product or service with one or more unique aspects (with a strong intellectual property base);
    - Early sales or demonstrable customer traction;
    - Experienced, if not complete, management team;
    - Scalable business model; and/ or
    - Export/ global growth prospects.

10. The SME fund will primarily focus on technology businesses which are innovative and have significant export potential. The fund will be able to invest in university spin out/spin in companies once the university funds have reached their maximum investment limits.

University Funds (2x£1.5m)

11. The university spin out/in funds will be for Queen's University Belfast and the University of Ulster with the objective to encourage and fund spin-outs/spin-ins from/to the universities. Individual investments will have a deal size range from £50,000 to £250,000 and the funds can invest up to £300,000 in portfolio companies when follow on deals are included. Initial investments will take place over the first five years of the funds' lives and follow on deals will be permitted during and after the initial five year period.

Proof of Concept Grants (£7.6 million)

12. Proof of Concept (PoC) grants will be targeted at non university projects - individuals and SMEs - and will offer, on a competitive basis, Concept grants of up to £10,000 and Pathfinder grants of up £40,000 in respect of third party costs

Investment Awareness Programme

13. The Investment Awareness Programme will be run over five years to tie in with the period of new investment by the equity funds. Its content will be offered as a series of workshops of varying duration. Investment awareness will create capability and inform decision making about whether equity investment is appropriate. The programme will include intensive mentoring of a number of programme participants

and will make linkages to other entrepreneurs and potential investors elsewhere in the UK, Ireland and beyond.

Fund manager and further details

14. The funds and the Investment Awareness Programme will run under a fund manager appointed via an open and competitive tender process in line with public procurement policy and process.

Portfolio Limits and Maximum Aid Intensities

15. Each element is considered below:

<u>£13m SME equity fund</u>

16. Investments made by this fund will comply with Article 21 (Risk finance aid) and Article 22 (Aid for start-ups). The fund will have the power to invest start-up aid in companies that comply with Article 22 without any private matched funding. Eligible undertakings shall be unlisted small enterprises up to five years following their registration, which have not yet distributed profits and have not been formed through a merger. For eligible undertakings that are not subject to registration the five years eligibility period may be considered to start from the moment when the enterprise either starts its economic activity or is liable to tax for its economic activity.

17. The start-up aid shall take the form of equity or quasi equity investment of up to EUR 0.4 million gross grant equivalent or EUR 0.6m for enterprises in assisted areas fulfilling the conditions of Article 107(3)(c) of the Treaty. For small and innovative enterprises, these maximum amounts may be doubled.

18. The Fund Manager may, on occasions, make investments (equity or quasi equity) in SMEs to prove their product without any private match. This will be start-up aid subject to the limits for aid for start ups and an overall investment limit in any portfolio company of £500,000.

19. Beyond the initial investment or where the undertaking is not eligible for start-up aid, the Fund Manager will bring angels or VCs into the funding round. In these circumstances, there will be compliance with Article 21 (risk finance aid).

20. Eligible undertakings shall be undertakings which at the time of the initial risk finance investment are unlisted SMEs and fulfil at least one of the following conditions:

    - Para 5 (a) they have not been operating in any market;
    - Para 5 (b) they have been operating in any market for less than 7 years following their first commercial sale;
    - Para 5 (c) they require an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographical market, is higher than 50% of their average annual turnover in the preceding 5 years.

21. Due to the stage of development of SMEs to be funded by techstart NI, Para 5 (a) and Para 5 (b) above are relevant.

22. The risk finance aid may also cover follow-on investments made in eligible undertakings, including after the 7 year period mentioned in GBER Article 21 Para 5(b), if the following cumulative conditions are fulfilled:

(a) the total amount of risk finance specified in Article 21 paragraph 9 (€15m) is not exceeded;

(b) the possibility of follow-on investments was foreseen in the original business plan;

(c) the undertaking receiving follow-on investments has not become linked, within the meaning of Article 3(3) of GBER Annex I with another undertaking other than the financial intermediary or the independent private investor providing risk finance under the measure, unless the new entity fulfils the conditions of the SME definition.

23. For risk finance measures providing equity, quasi-equity or loan investments to eligible undertakings, the risk finance measure shall leverage additional finance from independent private investors at the level of the financial intermediaries or the eligible undertakings, so as to achieve an aggregate private participation rate reaching the following minimum thresholds (GBER Article 21 paragraph 10):

(a) 10% of the risk finance provided to the eligible undertakings prior to their first commercial sale on any market;

(b) 40% of the risk finance provided to the eligible undertakings referred to in paragraph 5 (b) of GBER Article 21;

(c) 60% of the risk finance for investment provided to eligible undertakings mentioned in paragraph 5(c) of GBER Article 21 and for follow-on investments in eligible undertakings after the 7-year period mentioned in paragraph 5(b).

University Funds

24. Investments made by these funds will comply with GBER Articles 21 (Risk finance aid) and 22 (Aid for start-ups). The funds will have the power to invest start-up aid in companies that comply with Article 22 without any private matched funding. Eligible undertakings shall be unlisted small enterprises up to five years following their registration, which have not yet distributed profits and have not been formed through a merger. For eligible undertakings that are not subject to registration the five years eligibility period may be considered to start from the moment when the enterprise either starts its economic activity or is liable to tax for its economic activity.

25. The **start-up aid** shall take the form of equity or quasi equity investment, up to EUR0.4 million gross grant equivalent or EUR 0.6 million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(c) of the Treaty. For small and innovative enterprises, these maximum amounts may be doubled.

26. The Fund Manager may, on occasions, make investments (equity or quasi equity) in SMEs to prove their product without any private match. This will be start-up aid subject to the limits for aid for start ups and the overall investment limit in any university portfolio company of £300,000.

27. Beyond the initial investment or where the undertaking is not eligible for start-up aid, the Fund Manager plans to bring angels or VCs into the funding round. In these circumstances, there will be compliance with Article 21 (**risk finance aid**).

28. Eligible undertakings shall be undertakings which at the time of the initial risk finance investment are unlisted SMEs and fulfil at least one of the following conditions:

(a) they have not been operating in any market;

(b) they have been operating in any market for less than 7 years following their first commercial sale;

(c) they require an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographical market, is higher than 50% of their average annual turnover in the preceding 5 years.

29. Due to the stage of development of spin outs/spin-ins to be funded by techstart NI, Para 5 (a) and Para 5 (b) above are relevant.

30. The risk finance aid may also cover follow-on investments made in eligible undertakings, including after the 7 year period mentioned in Article 21 paragraph Para 5(b), if the following cumulative conditions are fulfilled:

(a) the total amount of risk finance mentioned in Article 21 paragraph 9 (€15m) is not exceeded;

(b) the possibility of follow-on investments was foreseen in the original business plan;

(c) the undertaking receiving follow-on investments has not become linked, within the meaning of Article 3(3) of GBER Annex I with another undertaking other than the financial intermediary or the independent private investor providing risk finance under the measure, unless the new entity fulfils the conditions of the SME definition.

31. For risk finance measures providing equity, quasi-equity or loan investments to eligible undertakings, the risk finance measure shall leverage additional finance from independent private investors at the level of the financial intermediaries or the eligible undertakings, so as to achieve an aggregate private participation rate reaching the following minimum thresholds:

(a) 10% of the risk finance provided to the eligible undertakings prior to their first commercial sale on any market;

(b) 40% of the risk finance provided to the eligible undertakings referred to in Article 21 paragraph 5 (b);

(c) 60% of the risk finance for investment provided to eligible undertakings mentioned in paragraph Article 21 paragraph 5(c) and for follow-on investments in eligible undertakings after the 7-year period mentioned in paragraph 5(b).

32. The maximum amount that techstart NI will be able to invest in a university spin out/spin in is £300k.

PoC Grant Fund

33. The fund manager will determine if a PoC grant applicant is an eligible undertaking under GBER Article 22. If it is, then the investments made by this fund will comply with Article 22 Aid for Start-Ups. If the applicant not eligible for start-up aid, support will be considered under Commission Regulation (EU) No 1407/2013 (De Minimis Aid). In this case, the provisions of the De Minimis regulation will be respected. Investee companies will be required to declare all other offers of de minimis support in the previous three fiscal years and the fund manager will ensure that the grant offer is in compliance with the de minimis regulations.

34. Start-up aid shall take the form of grant up to EUR 0.4 million gross grant equivalent or EUR 0.6 million for undertakings established in assisted areas fulfilling the conditions of Article 107(3)(c) of the Treaty.

35. The maximum grant that can be awarded by this fund to an SME is not expected to exceed £40,000.

Investment Awareness Programme

36. The Investment Awareness Programme will be an awareness service provided to individuals in which circumstances aid will not be present.

37. The total amount of risk finance shall not exceed EUR 15 million per eligible undertaking under any risk finance measure.

Cumulation

38. techstart NI is at the beginning of the funding continuum and its investments will be relevant for other fund managers using the 2014 Risk Finance guidelines to provide funding to SMEs. Invest NI will ensure that appropriate information is available for fund managers, but it will remain the responsibility of each manager to ensure that cumulation rules are complied with.

39. Article 22 enables start-up aid up to EUR 0.4 million gross grant equivalent or EUR 0.6 million gross grant equivalent for enterprises established in assisted areas fulfilling the conditions of Article 107(3)(c) of the Treaty. Paragraph 5 of Article 22 states that for small and innovative enterprises, the maximum amounts set above may be doubled.

40. Under paragraph 4 of Article 22 a beneficiary can receive support through a mix of the aid instruments referred to in paragraph 3 of this Article, provided that the proportion of the amount granted through one aid instrument, calculated on the basis of the maximum aid amount allowed for that instrument, is taken into account in order to determine the residual proportion of the maximum aid amount allowed for the other instruments forming part of such a mixed instrument.

Co-financing

41. techstart risk capital investments will be up to 60% co-financed by the 2014-2020 European Regional Development Fund **Investment for Growth and Jobs Northern Ireland** programme.

Reporting and Monitoring

42. An annual report on the expenditure under techstart NI will be provided to the Commission.

43. Records will be kept for 10 year from the date of the last award of aid under the Scheme. Records will be sufficiently detailed to establish that the conditions of Commission Regulation (EC) 651/2014 are met.

Name and Address of Granting Authority

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