



Frequently Asked Questions ("FAQs") – DDE Innovation Seed Fund

These FAQs are provided for informative purposes. They are not intended to provide advice of any kind (including legal, financial, tax or other professional advice). You should seek professional or specialist advice before doing anything on the basis of this content.

1. What is the DDE Innovation Seed Fund?

The **DDE Innovation** Seed Fund is a fund created by the University of Edinburgh ("**University**") and administered by the Edinburgh Technology Fund with the aim of providing a small early stage investment of £15,000 into Data Driven Innovation companies which have high growth potential and are associated with the University. Investment will be provided by way of an Advance Subscription Agreement ("**ASA**").

2. Who is the Edinburgh Technology Fund Limited?

Edinburgh Technology Fund ("**ETF**") is a wholly owned subsidiary of the University and is the entity which will enter into the advanced subscription agreement on behalf of the University. ETF will be the holder of the shares in the company following conversion of the Advance Subscription Funds.

3. How many companies will receive funding?

The first round of applications will open February 2021 and close in March. We hope to make five awards. Additional calls are expected to be announced based on demand and subject to the availability of funds.

4. What is the company eligibility criteria for the DDE Innovation Seed Fund?

To be eligible for the scheme, a company must meet the following eligibility criteria:

- the company must have an association with the University of Edinburgh;
- the company must have a digital or data-driven aspect to their business, product or service;
- the company must have raised less than £250,000 of equity investment (or similar fundraising instruments);
- the company must have a committed founder who has already incorporated the company (or is in the process of incorporating);
- the company must be able to demonstrate that they are building a tangible product and/or service with a compelling value proposition; and
- the company must have identified a large market opportunity and a plan to develop the business further.

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5. Are sole traders / freelancers eligible?

No. To be eligible a business must be a UK incorporated private company limited by shares. Sole traders, partnerships, LLPs and unincorporated bodies are not eligible, nor are companies whose shares are traded on public exchanges.

6. What happens if the eligibility criteria are not met?

If the eligibility criteria are not met, your Application will not be able to proceed.

7. Are there restrictions on the use of proceeds from the fund?

The funds must be used toward the general working capital of the company, in particular, to provide cash flow for trading activities. The funds may be used for other purposes provided they are agreed in advance between the company and ETF. The company may **not** use the funds to:

- pay any personal costs or costs which are not directly related to the company;
- repay any debts except for any debts incurred in the ordinary course of business;
- make any dividends, other distributions or transfer of funds to shareholders or associated companies and/or persons other than in the ordinary course of business; or
- pay any bonus or discretionary payment to any employee, consultant, contractor or director of the company, other than in accordance with the company's contractual obligations.

8. What is an Advance Subscription Agreement (ASA)?

An ASA is an equity instrument where the investor (in this case ETF) pre-pays for shares in a company that will be converted into shares at a later date, typically at a future funding round.

9. When will the investment convert into shares?

The funds provided by way of ASA will convert on the occurrence of specific events detailed within the agreement. These are as follows:

- automatically on the company raising more than £100,000 in equity funding (in one or a series of fundraisings);
- at the election of ETF, on an equity fundraising which is less than £100,000;
- automatically in the event of insolvency of the company;
- automatically in the event of a sale or listing of the company;
- automatically if there is no conversion event in two years; or
- automatically on the mutual agreement of the company and ETF.

10. What price will the shares convert at?

The price at which the conversion shares are valued will be dependent on the circumstances surrounding the conversion. The conversion price may be:

- the price paid per share on the most recent subscription for equity in the company; or
- a price based on a fully diluted pre-money valuation of £1 million; or
- a price agreed by the company and ETF.

In exceptional situations, the fully-diluted pre-money valuation may be increased, at the point a formal offer is made, based on individual company circumstances.

11. Is there a conversion discount?

No, although common in early stage investments, given the nature of this fund and its intention to support early stage businesses associated with the University, the conversion price is not subject to any discount.

12. Will the fully-diluted pre-money valuation impact the valuation for future fundraisings?

No, the pre-money valuation limit referenced in FAQ 10 above does not limit the valuation for the next or any future fundraising.

13. What rights to information do the University of Edinburgh have under the Agreement?

The company will have to provide ETF with basic financial and trading information on a quarterly basis. There is also a requirement to provide an annual financial statement. ETF may also request further information which it reasonably requires in order to monitor its investment. The information rights of ETF are set out in clause 3.1 of the DDE Innovation Seed Fund Standard Terms.

14. Does the company need to give any warranties?

The company is required to make various statements of fact (representations and warranties) as follows:

- that the company is duly incorporated under the laws of the UK with full power and authority to enter into and perform its obligations under the agreement;
- no third-party consents, authorisations or approvals of any kind are required in order for the company to execute or perform its duties under the agreement;
- the completion of the transaction and performance of the agreement do not violate any provision in the company's articles of association or any applicable law and will not constitute a breach or any other agreement;
- the execution and performance of the agreement by the company has been duly authorised through the relevant company process;
- the company either owns, possesses or is able to acquire its intellectual property;

- the company has not and has not received any communications alleging that it has, violated or conducted business which would violate another person or company's intellectual property rights; and
- the company has not raised more than £250,000 in equity funding (including any funding which is convertible to equity).

No individual directors are required to give any representations and warranties.

The representations and warranties to be given by the Company are set out in clause 4 of the DDE Innovation Seed Fund Standard Terms.

15. What information does a Company need to submit once an Investor has made an application relating to them?

To submit the Application, you must be a statutory director of the company (unless the company is in the process of incorporation, in which case you must be a statutory director at the time of the award, if you are successful).

Along with the Application, you will need to provide the following information:

- company name and registration number (unless the company is in the process of incorporation, in which case the name and registration number will need to be supplied to us before any award is made);
- registered address and/or operating/trading address (if different);
- full details of all directors and shareholders;
- website address (if applicable); and
- nature of the company (and any intellectual property it owns).

16. Is there a requirement to consult with the University ahead of any future fundraising?

Yes. You will be asked to consult with ETF prior to any future fundraising from private investors. This is so the University can keep up-to date with your plans and potentially support your fundraising (if you would like us to) via our investment funds and relationships with private investors.

17. Does the University have any rights once the funds convert to shares?

ETF expects to have the same rights as any third-party investors when the funds convert to shares. ETF also expects any member of the University's group will have a right of first refusal to its pro-rata number of shares on any future issue of shares in the company. ETF and the University's investment management team are experienced in working collaboratively with University companies and the investment community.

18. Is the agreement transferrable/assignable?

The company will not be able to transfer or assign its rights under the agreement.

ETF will be able to transfer or assign its rights to any other member of the University group.

19. Can the money be repaid if the company decides?

No, the company cannot choose to repay the Advance Subscription Funds, the funds will always convert into shares automatically on one of the trigger events.

20. What if I am in the process of discussing external funding that may result in an investment greater than £250,000?

You are still eligible for the DDE Innovation Seed Fund. But you will be required to give a warranty to say you have not raised more than £250,000 in equity funding prior to entering into this agreement.

21. Will entering into the ASA affect the SEIS or EIS compatibility of investments made prior to the ASA?

It is our understanding that the investment by ETF should not affect SEIS or EIS investments made prior to entering into the ASA.

Ultimately, HM Treasury and HMRC are responsible for all decisions on tax reliefs, including on SEIS and EIS.

22. Will entering into the ASA affect the SEIS or EIS compatibility of future investments?

We do not believe the investment by ETF by way of ASA alone would affect the compatibility of SEIS and EIS.

Ultimately, HM Treasury and HMRC are responsible for all decisions on tax reliefs, including on SEIS and EIS.

23. Can I speak to someone?

If you have any questions, please contact us at etf@ei.ed.ac.uk.