

To Our Clients and Friends

Memorandum

April 23, 2020

COVID-19 Pandemic: Expansion of UK Loan Schemes - New Future Fund

*** In light of the rapidly developing situation and government response, this memorandum is current as of April 22, 2020.**

On April 20, 2020, the UK Chancellor of the Exchequer, Rishi Sunak, announced a new business support measure aimed at innovative high growth companies, including in the tech and life sciences sectors (the "**Future Fund**"). The UK Government has announced it will initially make up to an aggregate of £250 million available pursuant to the scheme, which together with matching funds from third-party investors, would make a minimum of £500 million available to UK registered companies under the scheme.

The UK Government has stated that the Future Fund may be a suitable option for businesses that rely on equity investment and are unable to access other announced support measures (such as the Coronavirus Business Interruption Loan Scheme).

Key highlights:

- The scheme will provide access to convertible loans to UK registered companies with 'a substantive economic presence' in the UK if such companies can attract the equivalent match funding from third-party private investors and institutions and have previously raised at least £250,000 in equity investment from third-party investors in the last five years;
- Loan sizes from the UK Government are to range from £125,000 to £5 million (in addition to the matching funding offered by private third-party investors), with a maximum term of 36 months;
- Any funding received by a business under the scheme must be solely used for working capital purposes; and
- The scheme will launch in May 2020 and will initially be open until the end of September 2020;

The indicative headline terms of the convertible loans are available [here](#). The exact terms of convertible loans in connection with the Future Fund are not yet finalised, and the UK government has stated that it will publish further, updated details shortly. The UK Government has also noted that it intends to keep under review the amount it makes available under the scheme (initially £250 million).

Through the Future Fund, an eligible company will have access to unsecured bridge funding from the UK Government in the form of convertible loans ranging from £125,000 to £5 million, provided that the company can raise at least a corresponding amount of investment from private third-party investors. The amount that private third-party investors may loan to the company under the scheme is uncapped.

The funding can only be used for working capital purposes. The UK Government has explicitly stated that the funding may not be used to (i) repay loans, (ii) pay dividends, (iii) pay any bonuses of any type, or (iv) pay any advisory fees (or, in respect of the UK Government loan, placement fees).

Eligibility

The UK Government guidance currently states that the scheme is open to unlisted UK registered companies that (i) can attract equivalent matching funding from private third-party investors, and (ii) have previously raised at least £250,000 in equity investment from third-party investors in the last five years. To be eligible, a business must also have a "substantive economic presence in the UK", though this term has not yet been defined. Only the ultimate parent company of a corporate group (if it is a UK registered company) is eligible to access to the scheme.

The UK Government has confirmed it will publish further eligibility criteria 'shortly'. It is possible that the scheme will be limited to businesses in certain sectors. The UK Chancellor of the Exchequer has stated that the scheme will be available to innovative high growth companies, including in the tech and life sciences sectors.

An eligible company will be subject to customer fraud, money laundering and KYC checks.

How to Access

The UK Government will issue further details about how to access the Future Fund 'shortly'. The scheme will launch in May 2020 and will initially be open until the end of September 2020.

Considerations

Businesses should consider the terms of their existing shareholder arrangements and articles of association to identify any restrictions on issuing convertible loans as contemplated for this scheme. Businesses should also consider if accepting the UK Government terms may make it more difficult for the company to raise equity in the future.

Businesses should consider the implications of (i) a government shareholder (for example, potential delays in receiving shareholder consent), and (ii) a potential transfer to an unknown third-party institutional investor.

If in financial difficulty, businesses could consider discussing options (including repayment holidays) with their existing lenders as an alternative to incurring additional debt. Potential participants should also consider if they are eligible to access funds under the Coronavirus Large Business Interruption Loan Scheme or the Coronavirus Business Interruption Loan Scheme.

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its contents. If you have any questions about the contents of this memorandum, please call your regular Fried Frank contact or an attorney listed below:

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