



Innovate  
UK

# Our approach to credit

Why do you need public money?

- Revenue generating
- Operating profits
- Surplus cash
- Additional equity being raised upfront

Are you innovative?

- Revenue generating
- Operating losses
- Sufficient cash on balance sheet
- Follow-on equity being raised

Are you highly innovative?

- Minimal revenues
- Operating losses
- Insufficient cash on balance sheet
- Additional equity required

Is a loan suitable and responsible?

- No revenues
- Inadequate capitalisation
- Inadequate funding strategy

# Who and what gets supported?

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Both Innovation Quality and Credit Suitability required to progress, with bias towards innovation

Risk appetite: Recommended Innovation: Above quality line	
Risk appetite: Marginal Recommend Innovation: Top 75% above quality line	Risk appetite: Marginal Decline Innovation: Top 25% above quality line
Risk appetite: Marginal Recommend Innovation: Lower 25% above quality line	Risk appetite: Marginal Decline Innovation: Lower 75% above quality line
Risk decline and / or below quality line  Risk appetite: Any Innovation: Below quality line Risk appetite: Decline Innovation: Any score	

- Character:
  - Likely commitment of the business to repay
- Management team / people:
  - Capability / capacity of the business as a whole
- Liquidity / affordability: suitability of business for the proposed loan
  - Cashflow
  - Interest and debt service coverage
  - Leverage
  - Sources of additional capital
  - Balance sheet
- Market:
  - Resilience
  - Competitor / market analysis
  - Innovation risk
  - Political / regulatory risk
- Control culture:
  - Awareness and management of risks
  - Project spend control environment

## The 5 'C's of Credit

1. Character (credit history)
2. Capacity to repay (the financial standing of the business)
3. Capital (the equity in the business)
4. Conditions (the terms of the transaction)
5. Collateral (your security)

# “Undertaking in Difficulty” Test

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For the purposes of these guidelines, an undertaking is considered to be in difficulty when, without intervention by the State, it will almost certainly be condemned to going out of business in the short or medium term.

Therefore, an undertaking is considered to be in difficulty if at least one of the following circumstances occurs:

**(a) In the case of a limited liability company, where more than half of its subscribed share capital has disappeared as a result of accumulated losses. This is the case when deduction of accumulated losses from reserves (and all other elements generally considered as part of the own funds of the company) leads to a negative cumulative amount that exceeds half of the subscribed share capital.**

General Block Exemption Regulations

Using customer information from the application we check you don't breach the above test or that you have potential mitigating factors:

- Under 3 years old
- Recent management accounts
- Credible plans to raise additional capital or show reduction in accumulated losses
- Deferral / conversion of liabilities (eg Directors' loans)

# Initial decision-making process

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- Initial 'Credit triage' of all applications by Innovate UK Loans Ltd
  - "Undertaking in difficulty"?
  - Affordable?
  - Appropriate for debt finance?
  - Supported by credible management team?
- Innovation assessment
  - Independent technical & commercial assessors score Part A
  - Innovation quality 'line draw'
- Notification:
  - If 'below the line' or 'unsuitable': Application declined
  - If 'highly innovative' and 'not unsuitable': progress to detailed credit analysis

# Lending decisions / documentation

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- Detailed credit analysis may lead to conditional loan offer
- Management presentation to Credit Committee:
  - Project
  - Wider business
  - Responses to items identified by credit team
- Tour premises / meet key project team members
- Discussion of final offer terms
- Standard form loan agreement
- Pre-close due diligence:
  - Verification of key information
  - Know Your Customer / Anti Money Laundering / Politically Exposed Persons
- Corporate authorisations

# Operating your loan

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## Availability period:

- First drawdown:
  - Completion of loan agreement
  - Satisfaction of all 'conditions precedent'
  - First drawdown notice completed
  - Project baseline with Monitoring Officer
- Subsequent quarterly drawdowns
  - Monitoring Officer sign off and reconciliation
  - Credit Specialist sign off
- Interest quarterly in arrears (3.7% payable / 3.7% deferred), based on amount borrowed

## Extension period:

- No further drawdowns permitted
- Interest quarterly in arrears (3.7% payable / 3.7% deferred), based on amount borrowed
- Monitoring by Monitoring Officer and Credit Specialist

## Repayment period:

- No further drawdowns permitted
- Repayment of principal, deferred interest and interest at 7.4% (quarterly level payments)
- Monitoring by Credit Specialist