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The microFunding® Exchange: Guidance Notes for Investors

What is the microFunding® Exchange?

The microFunding® Exchange is a unique new three-way funding process. It introduces...

Thousands of **Inventors** seeking funding with **brilliant ideas** but no time, or little business experience and money

To

Thousands of **Managers** with **proven skills and experience** of making serious money for other people, and who now want the chance to have a real interest in a business

To

Thousands of **Investors** - 'Business Angels' - with the **money and motivation** to back exciting early stage opportunities, when they are managed by a highly skilled and experienced marketing team

...with the idea that they all make as much money as possible - quickly!

What is in it for me?

Looking for great investment opportunities with strictly limited risk and unlimited rewards?

Every investor would like to cut his risks and maximise the rewards. The microFunding® Exchange can't guarantee there are no risks, or high rewards; but it certainly does help.

microFunding® gives Investors the comfort of knowing that the 'risk-reward' profile of microFunding® investments is substantially improved by the nature of the process.

How can you plan to maximise investment profit potential with minimum effort?

Well, you could try to:

- motivate management to make a cash exit as profitable and as early as possible
- with investors guaranteed to be able to invest in their success
- or sell their rights for a quicker (but smaller) profit
- in businesses proven to have significant commercial potential for a very small initial stake
- in opportunities that have passed initial testing against strict eligibility criteria
- and were chosen at their own risk by sector experienced Managers because they recognised the best opportunities from sifting through a list of ideas containing a few really brilliant ones posted by thousands of inventors...

Which is exactly what the microFunding® Exchange does for you.

By investing small sums in the not-for-profit 'Proof of Concept' stage, Investors absolutely limit their downside risk.

By backing sector experienced Managers who selected their own projects at their own time and reputation risk, Investors give themselves every chance of a highly successful outcome.



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What is the microFunding® process?

Inventors post their ideas confidentially and securely, without having to commit to any future involvement in starting growing or managing the future business - but keeping a large stake in it.

Managers with a broad range of commercial skills have secure access to these ideas, and subject to strict confidentiality select those that in their judgment and experience have the best profit potential. For this, the Manager can grow a business in which he has his own large personal stake.

The critical part of the process is the Proof of Concept Project. By eliminating less viable inventions and identifying the winners early at little cost, the Proof of Concept Project gives Investors the chance of real Rewards at reduced Risk. So the Manager's first task, at his own time and reputation risk, is to specify what the 'concept' is and its proof by whom, by when, at what cost and to what criteria. The Manager is expected to use approved suppliers for much of this work, and while he will also cost his time it is unlikely that he will attract investors if the project's cost is excessive.

Investors from *Angels Den* - again securely and confidentially - have access to those ideas pre-selected by the Managers, and give their financial backing to the projects they choose. By backing the skills and experience of the Manager, rather than the idea alone, they greatly improve the risk-reward ratio of investing and so have a far better chance of profit while absolutely limiting their downside.

The responsibility for the success of the project and ensuing business is wholly up to the Manager. He has sole discretion over the strategy and its implementation, including personnel. The inventor may be required for his technical input, or not; it is up to the Manager.

Investors are guaranteed to be able to back the successful projects, or if they wish they can sell their investment rights for an early, smaller, profit.

If a project is successful, Inventor, Manager and investor each have a minimum guaranteed share of the success. If in order to become commercially successful both Manager and Investor have to risk more time effort and money, the guaranteed minimum share is 30% for each of the three parties. Because the Managers' shares are held as options, they can't realise anything before achieving a cash exit and so have a real incentive to work towards this goal as early and as profitably as possible. If however the Manager can arrange a profitable Licensing deal, with considerably lower risk for himself and the Investor, only half is split into three so the guaranteed minima of the ensuing business are that the Inventor takes 60% and the Manager and Investor 15% each.

The process – in detail from the Investor's point of view

- It is worth noting that Investors will never see the vast majority of microFunding® Inventions, only those that have been specifically selected by independent Managers at their own risk for commercial potential.
 - microFunding® is designed to provide Investors with reduced risk for greater reward, and is targeted specifically at two main types of Investor:
 - Investors who have substantial funds available and who wish to back exciting early stage businesses. By buying into microFunding® Proof of Concept Projects, these investors risk very modest sums. They are backing the experience, judgment and skill of the Manager who has already – at his own risk – put considerable effort into the Project purely because he sees its potential for profit. These Investors will follow their initial Project stage funding with the larger sums needed to make profitable businesses from the successful Projects.
 - Investors who have smaller sums available and who are prepared to take the higher risk
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associated with early stage investing in return for the early and potentially high rewards available from selling on investment rights in successful Projects.

- The investment unit in Proof of Concept Projects is £2500, and all Projects will require funding in multiples of £2500.
- It is expected that each Project will be funded by several Investors, and that
- Both types of Investor will be likely to spread their available funds across several Proof of Concept Projects in order to give themselves better chances of finding a success.
- Investors can register with the microFunding® Exchange through any affiliated website so long as they agree to microFunding's Terms and Conditions which include a strict Confidentiality clause.
- Registered investors may view the Projects selected by Managers on the Exchange prior to them appearing on a Funder's website
- Interested Investors invest through Angel's Den website, either in Projects preselected through the Exchange or by searching the Angels Den website for attractive Project Summaries, managed by experienced Managers. Upon finding such a Project, the Investors follow standard Angels Den procedures to express interest.
- Angels interested by the Summary will be required to agree to the microFunding® terms and conditions, and sign a specific Confidentiality Agreement
- Only after receipt of the above requirements, interested Angels will be able to see the full Proof of Concept Project Plan
- If enough Investors are interested, sufficient funds are raised and subscription agreements are completed by microFunding®'s in-house solicitors.
- Investors do not receive shares in the Project, but do get priority rights to subscribe to the next stage.

When the Proof of Concept Project is Funded

- A new Company is formed for the Project and all existing rights of any nature are assigned to it. The Inventor's shares are issued, all the others' held by Lawyer Nominees subject to the subscription agreement
- The Project is independently supervised, and is audited by a firm of Chartered Accountants

If the Concept is not Proven, then:

- The company and IPR are released back to the Inventor
- Any residual funds returned pro-rata to Investors - it is very possible that an opportunity will come up against a fatal flaw at an early stage, before all the enquiries have been completed and so before all funds have been committed
- The auditor provides a tax Certificate; Investors may be eligible to claim tax relief on losses

If the Concept is Proven, it is probable that it will become commercially profitable. The route to this profit will be either through Licensing or by creating a trading business to exploit it.

If a trading business is the optimal route,

- A report of the investigations provides the basis for the future Business Plan, and is circulated to priority Investors
 - Investors decide whether or not to take up their right to subscribe further
 - Exactly 30% of equity is available for Investors: if the assessed valuation is less than equitable for the required funding (and the deal is nonetheless worth doing), then part of the funds raised will presumably be as loan. If the value is greater than would be equitable, 30% is still available, which is the quid pro quo for taking the early stage risk
 - If an Investor fails to take up his option to invest further, co-Investors have right of first refusal,
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and then the option is saleable on the open market, possibly for a significant gain in the right circumstances!

- 30% of the equity is for the Inventor
- 30% of the equity is retained by the Manager for performance-related options
- 2.5% is retained by microFunding® for fees; and 7.5% is retained for contingencies but this may not ultimately all be issued
- (if appropriate and required) EIS applied for
- Shareholder agreements completed by microFunding®'s in-house solicitors

If Licensing is the optimal route

- A report of the investigations provides the basis for the Licensing Agreement, and is circulated to priority Investors
- No further investment is required (or is considered trivial by mutual agreement)
- 15% of equity is available for Investors
- 15% of the equity is for the Manager
- 60% of the equity is for the Inventor
- 2.5% is retained by microFunding® for fees; of the 7.5% allocated for contingencies no further shares will be issued.
- Shareholder agreements are completed by microFunding®'s in-house solicitors

Once the business is funded

- The Manager's role now starts in earnest. His main reward for succeeding in this process will be when he can sell his shares. This means that the Manager is very motivated to create a favourable exit in as short a time as is realistically possible for as high a value as possible

Which is surely what everyone else wants too, isn't it?

What documentation is required?

When an Investor wishes to investigate a project:

Investor will sign a Project specific Confidentiality Agreement

Investor will receive a copy of the manager's CV

Re-confirm agreement to the microFunding® Terms and Conditions

To fund a project

Subscription Agreement documents completed between
Inventor Manager and Investor(s)

All documents prepared by
solicitors B P Collins of
Gerrards Cross and
available for inspection