ADVANCE QUEENSLAND

Business Development Fund

Application guide

The Business Development Fund is the Queensland Government's $80 million early stage and follow-on venture capital fund investing in growing innovative Queensland businesses.

The Business Development Fund (the 'Fund') is part of the Advance Queensland program which will facilitate growth of Queensland's knowledge-based economy, creating jobs and industries of the future.

Following the Palaszczuk Government's additional $40 million contribution in the 18/19 Budget, the Fund will continue to invest $80 million in emerging and high growth innovative Queensland businesses. Its objective is to grow the pool of angel and venture capital funding available to Queensland businesses, which will support the growth of innovative businesses and create high-value jobs in Queensland.

The Fund will invest in Queensland businesses alongside private sector co-investors. The role of a co-investor is to assist a business through mentoring, expertise and networking, and to provide access to later-stage finance and markets.

Investment Criteria

The Fund focuses its investments towards businesses commercialising research, or an innovative idea, product or service. It is expected that these businesses will create opportunities for new, high-value and skilled employment in Queensland.

Key Eligibility Criteria

An application must meet the following criteria to be eligible for Fund investment:

- The business must have the majority of its assets and employees located in Queensland.
- The co-investor's investment in a business must at least match the investment sought from the Fund.
- The business must not have property development, land ownership, finance, or construction as its predominant activity.
- The business must not be an investment fund.

Co-investor Criteria

A co-investor can be:

- an individual investor
- an angel investor
- an investment business including a venture capital fund, or
- a syndicate of investors.

A co-investor cannot be:

- the founder of the business
- an employee, or contractor or consultant to the business
- the business in which the Fund is investing, or

Queensland Government

- a government department, including a department from another state or territory or the Australian Government.

A co-investor must demonstrate a number of attributes, these are:

- Demonstrated commitment to, and track record in, making investments in seed and early stage businesses.
- Experience in providing support, management and mentorship to seed an early stage businesses.
- A strong and established reputation.
- Ability to manage Fund reporting.

As the Fund aims to expand venture capital activity in Queensland, it seeks to encourage new co-investors to enter the market. Therefore, if a co-investor does not possess all of the attributes, it would need to demonstrate capacity to fulfil the role of a co-investor in investing, mentoring and supporting the growth of the business.

Government grants will not be considered as part of a co-investment, but part of the business's existing cash flow.

Business Criteria

The business requiring investment must:

- Be commercialising research, an innovative idea or an innovative product or service.
- Require seed, early stage or follow-on investment.
- Create opportunities for new, high-value and skilled employment.
- Have a realistic prospect of becoming commercially successful.
- Be or become a proprietary or public company prior to any investment.
- Be an Australian registered company, or an Australian registered subsidiary of a foreign registered company, prior to any investment.

In addition to the above, the business must be able to demonstrate to the satisfaction of the Investment Panel that Fund investment in the business will promote the Government's priorities. The Government's priorities may include (but are not limited to):

- the priorities outlined in *Our Future State: Advancing Queensland's Priorities*;
- priority industries and roadmaps outlined by the Department of State Development, Manufacturing, Infrastructure and Planning;
- supporting businesses which are headquartered in, or provide significant benefits to, regional Queensland; and
- other stated priorities of government agencies and initiatives.

Business Development Fund Investment

Investment Size

The Fund may invest between $125,000 and $2.5 million in the business. The Fund's investment will not exceed the amount provided by the co-investor. The Fund's offer may differ from the level of funding sought. It will however, be at a minimum of $125,000.

Investment Type

The Fund's investment is a direct investment in the business. It is not a payment to the co-investor, a grant or a loan.

Both the co-investor and the Fund will become shareholders in the same company, holding shares with identical rights. The Fund will continue to hold this investment until the Fund's shares are bought out through a merger, acquisition or initial public offering.

Tag-along and drag-along provisions allow for the Fund to exit an investment when the co-investor exits the investment, or the business is merged, acquired or publicly listed.

Buy-out Option

If a Fund application is successful, the co-investor may be provided with an option to buy-out, at a favourable rate, the Fund's shares in the business. This will be between two and five years from the initial investment date.

Documentation

The following templates are available on the Fund's website and will form the basis of any Fund investment agreement:

1. Term Sheet
2. Subscription Deed
3. Shareholder Agreement
4. Company Constitution
5. Deed of Intellectual Property Assignment 6. Quarterly Co-investor Report

7. Annual Co-investor Report.

Roles

Co-investor Role

It is the co-investor who makes the application for Fund investment. It is expected that the co-investor will have undertaken appropriate levels of due diligence on the business prior to lodging the application.

The co-investor will need to take an active role in supporting the development of the business. This may include providing advice and support in establishing or further developing management systems, financial controls and reporting. It is also expected that the co-investor will provide access to markets and networks.

The co-investor will also be required to monitor and report on the performance of the business and the Fund's investment on a quarterly basis. Reporting will be on standardised forms (available on the Fund's website) and will focus on key performance indicators.

Business Development Fund Role

The Fund will be a passive investor, that is, under normal circumstances the Fund will not appoint a director to the company's board.

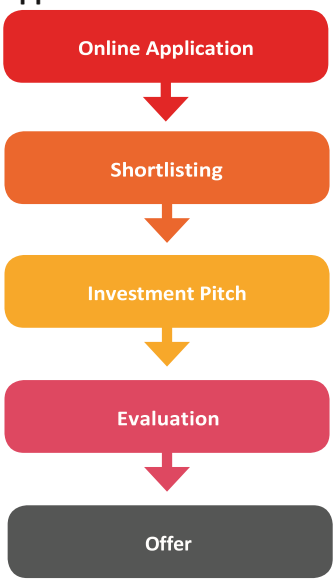
Investment Panel Role

The Investment Panel consists of experienced independent investors who have a strong background in entrepreneurship and early stage investment, particularly in innovative start-ups or growing technology businesses.

Panel members may invest in a private capacity in the business alongside the Fund. This investment will be on the same terms as the Fund's, but panel members' investments do not have to include a buy-out option.

Applying for Investment

Application Process



1. Online Application

Applications for investment are made online by the co-investor. Co-investors need to have assessed the prospective business to ensure it meets the Fund's criteria, undertaken due diligence, and indicated the level of investment they will provide. The information required for an application is detailed in the application form on the Fund's website. On submission of applications, QIC (which administers the Fund) reviews all applications against the key eligibility criteria and provides the Investment Panel with the applications that meet the key eligibility criteria.

The State, QIC and Investment Panel members reserve their rights, at their discretion, to require additional information from any applicant, and to take into account any information from its own and other sources in reviewing and evaluating applications.

There is no fee for applying for investment from the Fund. All costs incurred in relation to the application process (including participation in an investment pitch) are to be borne by the applicant.

2. Shortlisting

The Investment Panel considers applicants on a regular basis, this being at least quarterly. Panel members review the applications and shortlist them based on whether they best meet the investment criteria, are in the public interest and are, in their opinion, commercially viable. Applicants will then be notified of the outcome. Should an application at this stage be successful, the co-investor and business founder will be invited to pitch.

3. Investment Pitch

The investment pitch is a critical stage of the application process. It provides an opportunity for the co-investor and founder to draw out the merits of the investment proposal, and for panel members to ask relevant questions.

If an invitation to pitch is made, the co-investor and founder are strongly encouraged to provide a strategic overview of their business plan and any other materials to support their application. Where appropriate, teleconferencing or videoconferencing will be used, should the co-investor or founder not be able to attend in person.

The Fund would generally expect supporting material to include any third party due diligence reports commissioned by the co-investor or founder and the Fund will generally require that it be entitled to rely on these reports.

The Queensland Government's Business and Industry Portal (www.business.gov.au) is a valuable tool to assist applicants prepare for this stage, including the Business Planning Kit.

4. Evaluation

Following the pitch, panel members will convene to make an investment decision. Decisions will be made by majority vote. If the panel decides not to invest, unsuccessful applicants will be notified. If the panel decides to invest, they will outline an offer and inform QIC.

5. Offer

QIC will then present an offer for consideration to the co-investor and business. This offer will include a contribution from the Fund and may include an investment contribution from one or more panel members. Panel members will, like the Fund, be a passive investor.

The State, QIC and Investment Panel members are not obliged to accept any application or to proceed with an investment regarding an application. If an offer is accepted, QIC will execute the investment documentation on behalf of the Fund. No legally binding arrangement will take effect until written binding investment documentation is entered into by QIC (on behalf of the Fund), the co-investor and the business.

Don't have a co-investor?

The Queensland Government's Mentoring for Investment program is an ideal opportunity for your business to become investment-ready and actively seek external finance or capital. For more information, go to the Queensland Government's Business and Industry portal at www.business.qld.gov.au/business/businessimprovement/mentoring-growth

For further information visit

advance.qld.gov.au/entrepreneurs-startups/ business-development-fund.aspx

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