

# Investment Instrument

## Things You Need To Know

Once you have been **offered** a place on the PraeSeed programme, the intention is that PXN will look to invest up to **£200k** into your business **at the end** of the programme, following an Investment Committee in September.

If PXN does invest in the business, the investment will be executed using a **pre-agreed** and **non-negotiable document** referred to below as a “PraeSeed Instrument”.

The PraeSeed Instrument is in effect a ‘convertible loan note’ (“CLN”), which means that PXN will not take equity in your company immediately, but the capital will instead convert into equity at a **future priced funding round**. This is designed to remove the friction of negotiation on valuation at the point of investment and allow you to continue any other fundraising conversations you may be having or intending to have without having to agree such valuation and terms with PXN explicitly.

We believe that this will allow you the **best opportunity to raise additional capital** in the future, post the PraeSeed investment. This document sets out the key terms of the PraeSeed Instrument which governs the PraeSeed investment into your company. PXN Ventures is the merger between Par Equity and Praetura Ventures Limited. In the legal document, we refer to Praetura Ventures Limited as that is the fund manager and legal entity that manages PraeSeed.

## Conversion Price

The conversion price is set based on the amount and timing of your next round of funding:

### Funding round within 6 months of PraeSeed investment

If you raise at least £1m in equity funding, including the PraeSeed investment amount, within 6 months of the PraeSeed investment, the PraeSeed investment will convert at the lower of a 10% discount applied to the valuation of the equity funding round, or £5m Pre-Money. The PraeSeed investment will convert into the highest class of shares being offered to investors in the round on the same terms as other investors.

### Funding round between 6 months and 12 months of PraeSeed investment

If you raise at least £1m in equity funding, excluding the PraeSeed investment amount, between 6 months and 12 months from the PraeSeed investment, the PraeSeed investment will convert at the lower of a 20% discount applied to the valuation of the equity funding round, or £5m Pre-Money. The PraeSeed investment will convert into the highest class of shares being offered to investors in the round on the same terms as other investors.

### Funding round more than 12 months after PraeSeed investment

If you raise at least £1m in equity funding, excluding the PraeSeed investment amount, 12 months or more after from the PraeSeed investment, the PraeSeed investment will (unless already converted – see below) convert at the lower of a 30% discount applied to the valuation of the equity funding round, or £5m Pre-Money. The PraeSeed investment will convert into the highest class of shares being offered to investors in the round on the same terms as other investors.

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## **No funding round of £1m within 24 months of PaeSeed investment**

If no qualifying round is raised within 24 months of the PaeSeed investment, we have the right (but not the obligation) to convert the investment into equity at the lower of a pre-money valuation of £1.5m, or the lowest price paid per share since the investment, with a discount of 30%. The conversion will be into the highest class of shares.

## **Repayment**

Although described as a 'convertible loan note', the PaeSeed investment only ever becomes repayable in two circumstances. First, if the company suffers an insolvency event before the PaeSeed investment has converted, and secondly if you materially breach any of the warranties or covenants noted in the PaeSeed Instrument.

You cannot voluntarily repay the funds to us.

## **Redemption Premium**

In the event the PaeSeed investment did become repayable, it carries a redemption premium set at 100%, meaning that you would repay 2 times the value of the PaeSeed investment.

## **Interest**

There is to interest to be accrued or paid.

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## Other PaeSeed Instrument Terms

### Warranties

You will be asked to provide us with a basic set of warranties against the facts surrounding your business. These warranties should not be contentious and will cover only basic information around the company and your ability to sell shares in the company to us.

As part of the warranties, we will ask you to confirm any liabilities that the company has at the time of investment and whether the company is currently subject to any litigation or similar issues.

### Covenants

You will be asked to agree to set a of covenants that detail your commitments to PXN in accepting the investment. This includes things such as information rights, principles of conducting your business, and things you will commit to around very limited consent matters, use of funding and ineligible activities. These should not contain anything surprising and are standard for any VC investor.

### Board Observer

From the date of the PaeSeed Instrument, PXN will have the right to appoint a Board Observer. Please note that this is not a right to appoint a statutory Board Director, but represents our ability to attend Board meetings of the company without voting on any Board decisions (unless relating to the explicit consent matters stated in the document).

### Information

You will agree to provide us with standard information rights, including management accounts on a monthly basis, and interface with our online reporting system.

### Fees

As part of the investment, you will be required to pay the following:

- Legal fees in respect of PaeSeeds legal costs. This will be limited to £4,000 +VAT
- Diligence fees in respect of Praetura's diligence costs. This will be limited to £1,000 +VAT.
- PaeSeed monitoring fees of 1.5% +VAT of the investment amount per annum, in advance.

For avoidance of doubt, there is no arrangement fee in respect of a PaeSeed investment.

The above fees will be deducted on completion of the PaeSeed investment. They are not payable if the investment does not proceed. This does not include the legal fees you are obligated to pay your legal representative.

### Disclaimer

Being invited to this programme is not a guarantee of investment, but should PXN opt to proceed with investment, it will be carried out via the PaeSeed Instrument document that is not subject to negotiation.

We have created this document to give you the key things you need to know, about how much, when and how our investment will be made and will convert into equity. This document is not a substitute for legal advice, and you are required to instruct your own lawyers. We have secured independent legal partners who have agreed fixed fees with us to act on your behalf, as they are familiar with the documentation and our process. Please advise if you would like an introduction to them.

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## Frequently Asked Questions

### **Why does PaeSeed invest via a CLN and not direct equity?**

By utilising a CLN, PXN will not take equity in your company immediately, but will instead convert into equity at a future dated funding round. The PaeSeed Instrument is designed to remove the friction of negotiation on valuation at the point of our investment and allow you to continue any other fundraising conversations you may be having or intending to have without having to agree such valuation and terms with PXN explicitly. We believe that this will allow you the best opportunity to raise additional capital in the future, post the PaeSeed investment.

### **Is a Convertible Loan Note like a bank loan with interest and repayments?**

In short no. Whilst it is, for the purpose of accounting, treated like a loan on your balance sheet, there are no monthly repayments and there is no interest to be paid. The reason for using this instrument is twofold: to remove the friction around negotiating a valuation and also not to “price” your company when we invest. It is fully intended that this CLN will be converted to equity when you raise a further £1m.

### **What is the expected date of the PaeSeed investment? When will we receive the money?**

PXN intends to take PaeSeed cohort businesses to Investment Committee in September, with approved companies able to proceed to legal stage shortly thereafter. We anticipate making our investment in October.

### **What happens if we raise less than the £1m target raise within 24 months of the PaeSeed investment?**

This would not satisfy the definition of a qualifying investment round, and so our instrument will not convert, unless at our discretion (more info in conversionprice sub-section).

### **What happens if we are raising capital and we miss the 24 month deadline by a small amount?**

Not a problem – While we have the right to automatically convert after 24 months, we can opt to hold off converting the instrument under the terms of the document and convert as part of your investment round.

### **What happens if we have raised some capital in the period prior to PaeSeed’s investment**

This does not factor in toward the qualifying investment round. Qualifying investment is any investment raised after our investment has been made.

### **Why does the discount rate increase over time?**

This is to reflect the risk that we have taken in funding the business at an early stage.

### **Why is the minimum investment for a qualifying round set at £1m?**

We believe a round of this size will be significant and PXN’s stake in the business will not be overly large, but also still enable us to have a position on the cap table that reflects the risk we have taken in investing in your business early.

### **Will you negotiate the PaeSeed Instrument?**

No. We have designed the programme to be efficient to enable us to invest within the pre-revenue, pre-seed space in the market. The standardised process keeps us streamlined and allows us to keep our legal and diligence costs low for the businesses, too.

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## **Will you sign NDAs ahead of the PraeSeed programme?**

No, it is not our policy to sign NDAs

## **Why do you not intend to invest in every company on the programme?**

We can invest in all the cohort businesses if we feel the quality of the businesses through the diligence process has been demonstrated. We have planned to make 5-7 investments as a minimum.

## **What does a Board Observer right mean in practicality?**

A member of the PXN Investment team will join your board meetings to receive business updates and contribute to the discussion, offering support and guidance for the business. We do not have any voting or consent rights, except for those explicitly stated in the PraeSeed Instrument Document

## **Can you invest more than £200k? What is the minimum amount of investment from PraeSeed?**

We are capping our ticket at £200k, and it is unlikely our investment will fall below £150k.

## **Will we need to appoint our own lawyers?**

Yes, you will. We have negotiated fixed fees with independent lawyers, who are familiar with the PraeSeed Instrument, that we can introduce you to subject to being offered a place on the programme. Although you are free to appoint your own lawyers, we do encourage you to use one of these firms.

## **Are there any maximums to the price at which PraeSeed investment converts?**

Yes. Our investment will always convert at a ceiling of £5m Pre-money.

## **Can Praetura's other funds provide the capital which triggers the conversion of the PraeSeed Instrument?**

Yes. If PXN chooses to invest in a further funding round that the business embarks upon, it would be able to follow its investment and take part. This process will be subject to the standard PXN investment process.

## **Can other people interested in investing at this point use the same**

## **PraeSeed Instrument terms to govern their investment into the business?**

Yes. Although the PraeSeed Instrument has been developed for PXN, and we do not hold it out as suitable for any other investor, we do not object to other investors investing on the same terms.

## **Are there any other fees involved in the PraeSeed programme?**

On completion of the PraeSeed investment, you will be required to pay the following:

- Legal fees in respect of PraeSeeds legal costs. This will be limited to £4,000 +VAT
- Diligence fees in respect of PXN's diligence costs. This will be limited to £1,000 +VAT.
- PraeSeed monitoring fees of 1.5% +VAT of the investment amount per annum, in advance.

For avoidance of doubt, there is no arrangement fee in respect of a PraeSeed investment.

## **Under what circumstances will the PraeSeed investment not convert into equity?**

Should a qualifying round not be achieved within 24 months, PXN can choose to leave the instrument unconverted