GMCA GREATER MANCHESTER COMBINED AUTHORITY

GM Advance – Subsidy Control Scoring Principles

Introduction

GM Advance has been established to be a revolving, evergreen fund whilst being capable of offering sub-commercial terms of investment.

As the terms offered to successful applicants will include conditions that are more favourable than commercial comparables or that may provide an advantage, this is likely to be classified as a subsidy.

In addition to the base level of subsidy, which is comprised of the waiver of all standard deal fees (legal, monitoring, and arrangement fees), which is automatically applied to all recipients, successful applications will be scored based on a standardised balanced scorecard mechanism. This is based on the relative strengths and weaknesses of an applicant's strategic fit, risk, economic benefit and job creation metrics. The maximum score possible is 100 points, as per the below table.

The scored subsidy will take the form of lower interest rates charged on our loans, or where the fund provides equity, business valuations which are higher than a commercially focused investor would agree to, therefore reducing dilution to founders.

Scoring Matrix and Subsidies

SCORE	DEBT % discount on interest rate (up to)	EQUITY % increase on valuation (up to)
0 - 25	0%	0%
25 - 50	15%	10%
50 -75	30%	20%
75 - 100	50%	30%

How is the score calculated?

The scoring process is conducted by two evaluators, who will each provide their own assessment of the proposal, and it is subsequently moderated by a third person to arrive at the final result.

The evaluation is based on assessing six distinctive categories:

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- **Strategic Fit** – The evaluators will look at how the proposal fits with both GM Advance strategy and how it contributes to the advanced manufacturing and/or sustainable materials ecosystem(s). The evaluation will also consider how the proposal aligns with any (or more) of the following sub-sectors:
    - Development of new, or application of existing sustainable materials;
    - Development or adoption of advanced machinery and/or advanced manufacturing technologies;
    - Development and/or application of digital manufacturing processes and capabilities, and
    - Development and/or adoption of AI and machine learning capabilities.
- **Job Creation** – evaluators will assess the number of jobs to be directly created and safeguarded (measured as Full Time Equivalent roles), their expected salary levels, seniority, skills required for the role, and embedded or soon to adopt good employment and business practices such as continuous professional development for the staff, being part of or willing to join the Greater Manchester Good Employment Charter, etc.
- **Economic Impact** – which is measured as benefit-cost ratio and is derived from assessing the associated impact that the investment will unlock by way of Gross Value Added to the regional economy, the impact on existing and new skills, productivity gains, environmental impact, etc.

  The Benefit-Cost ratio (“BCR”) assessment follows HM Government Green Book guidance, and it is quantified as follows:
    - BCR over 4 - Very High
    - BCR equal or greater than 2 - High
    - BCR over 1.5 and lower than 2 - Medium
    - BCR over 1 and lower than 1.5 - Acceptable
    - BCR equal to or greater than 0 but lower than 1 – Poor
    - BCR lower than 0 - Very Poor

- **Management Strength** – the evaluators will consider the experience and track record of the management team including direct experience as well as acquired experience through their advisers and Board.

- **Commercial Opportunity** – consideration is given to the stage of the product/service, sales traction, contracts in place, customer concentration, etc. The analysis also considers the potential market size, proposed market penetration to achieve business plans, and pathway to profitability if early stage.

- **For <u>equity investments only</u>: Valuation, Structure and Returns** – the evaluator will consider the existing and proposed capital structure, valuation suggested or validated by third party institutional investors, existence of special clauses or agreements that may have an impact on the fund's investment and the potential to realise returns on exit.

- **For <u>debt products only</u>: Security arrangements** – the evaluator will consider how this debt interacts with any other existing debt, how much leverage the company has, and what is the level of collateral that is available for GM Advance's loan.

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