

BETADEN BROKER MARKET TEST - ITT REVIEW

FAR COMMITTEE RECOMMENDATION

That the Committee:

1. Notes the update and outcome of the Betaden Broker Market Test project and subsequent Invitation to Tender (ITT);
2. Notes the progress made with regard to Betaden and Malvern Hills Science Park and its potential commercial relevance;
3. Notes the background information regarding Betaden's commercial position and its relevance to securing investment capital.
4. Notes the feedback received from participating and consulted companies, and;
5. Notes the recommendations and, where applicable, target dates, with regard to:
 - Malvern Hills Science Park
 - Project phasing and tendering
 - The InTend procurement platform
 - Commercially-focused business model

4.1 Context

- 4.1.1 The BetaDen project was discussed at the May 2020 FAR Committee meeting as it has received pilot phase funding from WLEP. During FY 2020/21 Betaden has commenced the process of transitioning away from being a fully publicly funded model. This is to be achieved through seeking commercial partnerships with private sector organisations and (ultimately) private investment capital, when practicable.
- 4.1.2 Betaden presently has project status and operates within Worcestershire LEP. Discussions have been ongoing for 15 months regarding the opportunity for Betaden to join with Malvern Hills Science Park (MHSP) in a yet to be decided capacity, possibly as a business unit. Discussions and arrangements are still to be concluded but on 25th February the MHSP board confirmed that it wished Betaden to join MHSP, subject to reasonable due diligence.
- 4.1.3 Because of its project status, Betaden is not incorporated as a company, nor does it have a dedicated bank account. As such it cannot be registered as an SEIS/EIS for tax-efficient investment purposes.
- 4.1.4 During its pilot phase, Betaden has operated a 'pass-through' delivery model, whereby central funding (from ERDF and Growing Places) has been used to cover cohort programme costs and staff overheads. There has been no requirement to generate income during this pilot phase, nor to implement a commercial business model, nor demonstrate future profitability.
- 4.1.5 Whilst ERDF provides an essential funding stream to Betaden, it places regulatory restrictions on how Betaden can pursue commercial activities and constraints upon

net revenue generation. Commercially derived income must only be used for purposes *other* than what the ERDF funds are in place to pay for. If this rule is not adhered to, the ERDF funding is simply reduced by the same amount as the commercially derived income, neutralising any gain.

- 4.1.6 Betaden does not presently have a commercial business model in place, although this matter has been discussed. Currently, no investment is made into the cohort companies, nor equity taken – ERDF stipulations preventing this (although a separate investment fund structure could potentially circumvent this problem).
- 4.1.7 Betaden has secured Steatite as its Innovation Partner for Cohort 4.0, evidencing that private sector income can be generated. The Steatite package is worth c.£50k to Betaden over the course of Cohort 4.0, which includes a £20k cash contribution and around £30k value of cohort-related technical expertise and guidance.
- 4.1.8 The FAR Committee requested that Betaden undertake a market test of its model and its proposed legal and governance structure by using a suitable professional services provider. The request extended to choosing and contracting with an investment broker in order to commence investment fundraising activity on behalf of Betaden.
- 4.1.9 Betaden’s Advisory Board endorsed the broker market test activity and have been kept regularly updated on progress and issues.
- 4.1.10 This report provides an overview of the work undertaken to date, the outcome of the procurement exercise, and the proposed follow-on activity and recommendations.

4.2 Defining the Brief

- 4.2.1 On the basis of the FAR Committee’s instruction, an initial brief was drawn up for early July 2020. From the onset this received input and scrutiny from Betaden’s WCC Finance representative, LEP CEO and Betaden CEO and underwent several iterations as part of this process.
- 4.2.2 An initial document was produced as a basis for discussion and feedback with selected potential service providers. It also served as the basis for an ‘expression of interest’ exercise. Again, this document was circulated to the aforementioned individuals and a number of subsequent iterations were drawn up, ensuring that the stated service requirements met with the agreed brief.

4.3 Expression of Interest Exercise

4.3.1 Prior to writing and publishing an invitation to tender (ITT) document, it was felt that an expression of interest (Eoi) exercise should be undertaken for the following reasons:

- Ensure that the brief made sense to, and was appropriately structured for, potential service providers
- Gain feedback from experienced service providers working in this field and entertain any proposed modifications

- To gauge a level of interest from a small representation of the professional services market to better understand the expected level of response to the final ITT

Three professional service providers were selected for the EoI exercise:

- Jerroms Corporate Finance
- Price Pearson Accountants
- Bishop Fleming

A conversation was held with representatives of each firm and with representatives from WLEP, Betaden, WCC and members of the Betaden Advisory Board. Each conversation lasted around an hour and provided very useful information and feedback. These conversations took place in early/mid August 2020.

Clear direction was shown from all three firms in their advice to structure the ITT into two distinct phases; with Phase 1 relating to Betaden's legal structure and governance and Phase 2 the marketing of Betaden to potential investors via the procured broker services.

4.4 Tender Preparation Process

4.4.1 Using the EoI document as a basis, and incorporating feedback from the three service provider conversations, an ITT document was drafted. The tender document split the project into the two distinct phases, as recommended during the EoI exercise. This document was circulated for comment and as a result a number of increasingly refined iterations were produced over a two-month period.

4.4.2 WCC Procurement were engaged, providing significant help and feedback on the document structure. Minimum acceptable levels of response were built into the tender questions, meaning that if a submission scored lower than the acceptable minimum on any question, then that company would be removed from the tender process altogether.

4.4.3 The budget allocated to the project was clear at £50k maximum. Defining the pricing regimen with regard to Phase 2 (brokerage element) was not straightforward though, since research suggested that potential bidders would likely be looking for a percentage payment based on the total sums raised, the market rate being between 5-10%.

As such, the ITT went ahead with the understanding that in the event of in excess of £500k being raised, then there could be a requirement for a percentage of this total (in addition to the allocated Phase 2 budget) to be paid to the broker. It was felt that this would still be an acceptable outcome.

4.4.4. The tender opened on 2nd December 2020 and closed on 8th January 2021.

4.5 Evaluation

4.5.1 A panel of evaluators was assembled. This included two employees of WCC Finance; a Commercial Partner from Harrison Clark Rickerby (external); a Betaden/WLEP employee; and a WCC Procurement employee (non-scoring, to manage the process).

4.5.2 There were 21 organisations who accessed and reviewed the ITT documents:

- Around 15 were micro-scale businesses
- Two were businesses of a regional scale
- Only one of the three companies who took part in the Expression of Interest exercise decided to make a submission, the other two decided not to.

4.5.3 There were only two companies that responded to the tender with submissions:

- Jerroms Corporate Finance
- Edale UK Management

4.5.4 Evaluation outcome

- None of the four evaluators scored either of the submissions highly enough to exceed the minimum acceptable requirements.
- There was a unanimous conclusion at the Evaluators' Final Meeting that neither of the two submissions met the minimum acceptable requirements. This was supported by WCC Procurement.
- Both companies that submitted were emailed by WCC Procurement to inform that they were unsuccessful on the 22nd January. Follow up calls were held shortly thereafter.

4.5.5 As a result of the evaluation decision, the tender was not awarded.

4.6 Reflection on the Outcome

4.6.1 It is disappointing, though perhaps not surprising, that after the considerable work and consultation that took place, both internally and externally, that there should be so little interest in submitting a tender. Key reasons as to why there was so little qualified interest could be as follows:

4.6.2 The InTend platform can be perceived as complex for organisations that are not familiar with it. Despite attempting to market the tender to appropriate organisations, it proved extremely difficult to secure engagement.

It would also appear that there are numerous small firms of consultants registered on InTend, but few with the necessary wider and deeper experience levels that are required for this project. Hence the significant initial interest from small firms who ultimately felt unqualified to lodge a tender.

4.6.3 The ongoing situation with MHSP (see 4.1.2) had created an uncertainty around future structure and governance for Betaden. This uncertainty could be off-putting to potential bidders. When a final decision is arrived at there will be much greater clarity.

4.6.4 Feedback suggested that the tender should be split into two separate procurement projects since the phased approach of a single tender could be off-putting to firms who were specialist in only one of the phase disciplines.

4.6.5 Presently Betaden is not an investible entity (see 4.1.2 – 4.1.6). Potential investors could not view Betaden in its present form as investible for a number of reasons,

including its non-incorporated status; the current absence of a commercial business model; and no clear path to profitability and investor ROI.

Note: Edale Management UK suggested that Betaden tap into an existing investment fund in order to use it as a vehicle to take equity in cohort members, not for investment into the Betaden operation itself (see 4.1.6).

4.6.6 Selected feedback from interested firms who did not submit a tender, as follows (quoted verbatim):

Nitrous Limited

- Fee was contingent on fund raising. Fund raising is a very difficult task and the supplier's success would be dependent on a large number of dependencies out of our control, as well as extraneous variables.
- Diverse skill sets required - legal, commercial, accounting, investment banking (essentially the task of fund raising) meant that our company cannot meet all requirements.
- £50k budget does not align with objectives and outcomes sought. For example, market rate for success fee on fund raising is 4-5% alone. The stated allocation of 20% towards phase 1 would be difficult to achieve due to the legal work required.

Nuage Limited

- Unless Betaden itself has equity holdings in the companies on site and is willing and able to provide investors into Betaden the economic benefit of such holdings in return for investment into Betaden then there is little chance of securing the form of investment Betaden is seeking.

4.7 Suggested Follow-On Activity

4.7.1 Prior to taking a decision as to whether to re-run the tender, it is recommended that the following are undertaken:

- Feedback has been obtained from Price Pearson and Bishop Fleming to understand why they both declined to make submissions after appearing to show interest during earlier EoI exercise:
 - Price Pearson felt that the tender was too complicated and that the fund-raising element of the requirement lacked definition (given the underlying conditions noted in 4.1.2 to 4.1.6).
 - Bishop Fleming were not attracted to the tender partly on the basis that the fundraising element was complex, for the above-stated reasons, and that the remuneration structure seemed somewhat disjointed from the tender requirements.
- Review the ITT document to ascertain if the requirements were confusing or unrealistic, for example:
 - Were the two phases too distinct to include in the same tender process? Should they be split into two separate tenders?

- Was the stated budget too low or not explained well enough – particularly for the fundraising element?
- Was there an insufficiently explained complexity regarding Betaden’s existing status, structure and governance?
- Uncertainty regarding Betaden’s commercial model and intended uses for finance?

4.7.2 InTend, the WCC Procurement portal, introduces a layer of complexity and quite possibly a barrier to engaging with suitable service provider organisations. If decided to re-run the tender then an alternative procurement means, if possible, should be considered.

There was a strong desire that the tender be viewed by companies in addition to those that are already experienced in the WCC procurement process. To this end, a dozen or so selected service providers were contacted and informed of the tender opportunity and the need to register prior to viewing the document. Only one of those organisations ultimately did register and view the document.

4.8 Recommendations

4.8.1 As at 25/02/2021 the MHSP board confirmed its decision to welcome Betaden into the wider MHSP structure (potentially as a business unit). This is a very positive step for both parties. No deadline for completion of this move has yet been set though so the time scale for this action is presently open-ended. Betaden will work to expedite activity but it is still likely to take several months to complete the transfer from WLEP. Realistically, MHSP controls the timetable for this work, rather than Betaden.

This decision does now provide a level of certainty around how to structure Betaden and install the appropriate governance measures. This will help simplify the Phase 1 work. The MHSP relationship, if structured appropriately, will also provide a solid commercial platform upon which to build longer term commercial partnerships with larger companies and academic bodies.

Recommendation 1

Delay re-tendering for any work, especially around Phase 1, until a contractual relationship has been established with MHSP and the correct scope of work has been agreed and drawn up.

Target date for decision: End July 2021, assuming that MHSP/Betaden discussions progress expeditiously.

4.8.2 It is clear from feedback that the two elements of the project; structure/governance and raising of funds, are seen as being very separate objectives requiring markedly different skills. A number of firms appeared to be put off from tendering because they

felt qualified in only one of the disciplines. One firm who did submit a tender did so on the basis of almost entirely outsourcing Phase 1.

Recommendation 2

Should it be decided to re-tender for these services at a future date it should be strongly considered that the two phases are split into separate tenders with a view to contracting two different, specialist, suppliers.

In addition to splitting the work into separate tenders, it would also be prudent to ensure that – should it be decided to go ahead with both pieces of work – the two tenders were not run concurrently.

Target date for decision: End June 2021.

4.8.3 As noted previously, the tender was promoted on the WCC *InTend* platform. Functionally this is an intuitive and workable tool to use. However, for a one-off niche piece of work such as this broker test, it proved to have two significant flaws which greatly hindered the ability to engage with suitable specialist firms.

- The tender documents, when posted on InTend, are visible only to those firms who have previously registered with InTend. Registration requires approval, which takes a day or so before access is given. The firms who are registered with InTend seem to be more generalist in nature, given the types of contracts that WCC routinely issues. Companies offering niche services, raising investment funding for example, are not well represented on the approved firm roster. Consequently, the calibre of responses was relatively low and unsuitable for Betaden's requirements.
- Betaden was keen to work with high-calibre firms on this mandate and sent around a dozen or so emails to selected firms and contacts in order to increase awareness, and hopefully interest, in the tender. The emails included a link to InTend, since a link to the tender document itself was not possible since pre-registration was required. Only one of the contacted firms registered to see the tender document but declined to make a submission.

Recommendation 3

Should it be decided to re-tender for these services at a future date, alternatives to InTend should be explored *if at all possible*, particularly for the Phase 2 element of the work. If WCC is still deemed to be Betaden's accountable body then this will very likely *not* be possible.

However, if the MHSP relationship allows for an alternative procurement route then this is an option that should perhaps be explored in more detail.

Target date for decision: June 2021.

4.8.4 Income sourced from the private sector can potentially come in many forms. Betaden is only just commencing its commercial journey and must look at these various potential sources with a view as to which are likely to be most appropriate, and at what

point in time. Direct investment into Betaden is one such possible form of private sector income.

As discussed in sections 4.1.2 to 4.1.6 Betaden, for a number of significant and well understood reasons, is presently not an investible entity in the true sense. Betaden's current model would not hold appeal for angel or VC-type investors.

If Betaden moves towards a more commercially-focused model, securing an equity interest in participating cohort companies, this will create a growing asset base and potential income stream over the longer-term. ERDF stipulations must be considered.

During the short-medium term, Betaden's private income will most likely be derived from ERDF-compliant partnerships and the increasing commercialisation of the accelerator programme and associated services.

Recommendation 4

The Phase 2, investment fundraising, element of this work should be progressed at a time when Betaden is deemed a viable investible entity and an attractive investment proposition.

Until that point, other forms of private sector income should be pursued, in accordance with a commercially focused business model. The new relationship with MHSP, as previously mentioned, should provide Betaden with a platform to better help secure commercial partnerships, particularly with input from Worcestershire 5G, Betaden's 'sister' operation within MHSP.

No target date is suggested at this time.

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BetaDen