

«DISRUPT» Programme (DISRUPT/0123) – Frequently Asked Questions (FAQs)

Q1. Why should the investment be from a VC Fund?

Access to high-risk finance is reported in various reports as a challenge for the national R&I ecosystem. The Government of Cyprus has implemented a number of reforms to address such challenges including tax incentives for individuals and corporates to invest in smaller tickets in start-ups and innovative companies.

Cyprus has improved its position in terms of VC Investments in recent years but the level of investment by VCs in Cypriot innovative companies is still low. The Call is designed to incentivize venture capital investments in Cypriot companies developing innovative products or services for international markets. Its objective is to drive up investments from VCs in Cyprus innovative companies and fund the further development of their products/services to be competitive in the market.

Q2. What's considered to be a VC Fund?

For the purposes of this Call, as per the Call Documents, any «investment fund(s) regulated in a competent authority in Cyprus or in another Member State of the European Economic Area» is considered to be eligible. Please note that for the purposes of this Call, the Investment Fund may be regulated directly or indirectly through supervision of its AIFM by the competent regulatory authority in Cyprus or in another Member State of the European Economic Area.

Q3. The criterion of having at least 1M Euro in a signed agreement with a VC prior to submission of the proposal, with a proposal deadline of 2 months may exclude a large number of companies, especially SMEs which are the real beneficiaries in this call. What is the reason behind the imposition of this rule?

The Disrupt program was announced on 20/1/2023. A pre-announcement was made on the 19/12/2022.

As per Call Documents, a legally binding agreement with a VC Fund, which foresees a direct investment in exchange for equity of at least 1M EUR in the company should be submitted with the proposal. Note that there is no restriction as to when the legally binding agreement was signed, for as long as a direct investment of at least 1M EUR is made between the Call announcement date and until the end of the Project funded by the RIF.

The RIF has committed 10M EUROS to this programme. The RIF will have multiple submission deadlines throughout 2023 (with dedicated budget), up until the full budget of 10M EUR is committed, in order to cater for all different cases, and to operate at pace to evaluate and select proposals to fund, as soon as possible in order not to slow down the company and the VC to deliver.

Q4. Why have investment funds from the United States and Israel been excluded?

The DISRUPT Programme is financed by the Recovery and Resilience Facility of the NextGenerationEU instrument. Certain eligibility criteria and rules apply. That said, we note that the country of origin for

the funds is not restricted by the Call. All that is required is that the investment fund be regulated in a competent authority in Cyprus or in another member state of the European Economic Area.

Q5. This is a great initiative but I have not yet come across anyone in Cyprus who has the complete set of skills to take innovative/disruptive products to the market.

The Call covers specific activities that are eligible for funding by the RIF, including labour cost of researchers carrying out the activities eligible for funding. Please refer to Call Documents for all relevant details.

There is no restriction on the use of the VC funds. The use of the VC funds is a matter of the company and the investor to determine and agree upon, including leaving the use of the VC investment at the sole discretion of one or the other of the parties. Thus, it can be used to bring into the company additional skills necessary to complete the set of skills needed to take innovative products to market or any other purpose the party agree upon.

Q6. I have recently launched a new product in the market. It does not make any sense to 'improve its technology readiness level'. Can I even do more TRL 6, 7, 8 work on it?

Where additional or improved features or functionality would enhance the competitive advantage of a product or service – even one recently introduced to the market - those features or functionality may require research and development to advance relevant technology. This occurs, for example, when customer feedback suggests improvements for a next version of the product or service.

It may also occur if the company wishes to expand sales into new customer segments or markets in new countries which have different customer requirements or where regulation/legislation imposes certain obligations on a product/service. As another example, there may be also an opportunity to pivot to pursue an entirely new market using the MVP as a launchpad to do so. There also may be other market-driven reasons for improving or enhancing the product or service. If R&D is required and it falls within the TRL range of the DISRUPT Call, a proposal can be submitted.

Q7. How is it possible for a product or service to be at a beta testing phase (even if this phase is completed) and at the same time available in a market? What do you mean by available? Should the sales have already started?

For the first part of the question please refer to the answer of Q6 above.

With regards to «available in the market», there should be at least a Minimum Viable Product that customers can acquire and use. Note that in the case of innovations in the field of biomedicine, «it is expected that at least the in-vitro testing stage has been completed».

Q8. It is the worst possible strategy for a startup to launch a half-ready product in the market that needs improvement or to launch a new product in the market that does not sufficiently cover the functionalities that the market needs.

The Call sets a minimum requirement that the enterprises should have a Minimum Viable Product (MVP) and is available in at least one market, or for innovations in the field of biomedicine, it is

expected that at least the in-vitro testing stage has been completed. These are set as minimum requirements not as conditions. Please also refer to the answer of Q7 above.

It is for the enterprise to determine/decide what an MVP looks like in their industry/market and elaborate so, and what the right time to take it to market is. There are numerous definitions available in the literature and on the web if the concept is unfamiliar to you.

Q9. Can I have an MVP in the market if I have not already done a feasibility study?

Feasibility studies are an eligible expense. This does not mean it is mandatory to do one. It is for you to decide. You may of course decide that you need a feasibility study for the further development/enhancement of your MVP and or any other R&D work you propose to carry out as part of the project.

Q10. What does direct investment in equity or in exchange for equity mean?

Direct investment is a cash infusion in exchange for shares of equity. The investment must be made within the time frame specified in the call and only be contingent on successful performance of the proposed research and development as of the date when the investment should be made.

Q11. What is the investment window? Is it ok to have the investment before the approval?

As per Call documents, the investment should be made between the Call announcement date and until the end of the Project funded by the RIF.

Q12. We have an MVP and we are spending a lot on R&D releasing new product updates and features. Can we participate?

Yes, so long as the proposed funding is for new work, not previously conducted R&D.

Q13. What are the terms that should be included in the agreement with the VC?

The only requirement the DISRUPT Call places on terms of the agreement is that it is a direct investment in exchange for equity of at least 1M EUR and that the investment is made between the Call announcement date and until the end of the Project Funded by the RIF. Please refer to Call Documents for the details. Applicants are strongly advised to seek for professional advice before signing any investment agreement.

Q14. Can the agreement between the enterprise and the investment fund state that the investment fund is legally obliged to invest only if the enterprise secures funding from the RIF Disrupt Programme?

Yes, provided that this the only condition set.

Q15. Is a convertible loan allowed under this Call?

To start with, a convertible loan is not a direct investment in exchange for equity so it would not qualify per se. As per Call Documents, the company should have a legally binding agreement with a VC Fund, which foresees a direct investment in equity of at least € 1 M in the company. The investment should be made between the Call announcement date and until the end of the Project funded by the RIF. If the convertible loan is additional to the direct investment of 1M EUR then it is allowed. It can also be accepted if the loan is converted into an equity purchase of at least 1M EUR in the time window between Call announcement and the end of the Project Funded by the RIF. We strongly recommend that such options are carefully considered and evaluated before agreed upon as there are financial risks in using such instruments in conjunction with this Call. We would advise you to obtain professional advice on such matters to be fully aware of the risks you will be taking.

Q16. Can we have buy-back clauses in the agreement?

Yes, provided that such clauses do not affect the requirements on the investment as specified in the Call. As per Call Documents, the RIF will require relevant proofs for the transactions (e.g. documentation of issued share capital).

Q17. What happens if I make an exit before the end of the RIF funded project?

So long the purchase of equity for cash has been made by the date specified in the Call, RIF has no restrictions on how investor exit is addressed in the investment agreement.

Q18. I do not want to have a VC in my company.

That is entirely up to you to decide. If you do not want a VC then this is not the right Call for you. You may be interested in one of the other funding programmes of the RIF and/or the European Commissions R&I Programmes.

Q19. Can there be a VC leading an investor and other partners joining in to make a total investment of 1M Euros?

Yes, provided it all falls under one legally binding agreement with a regulated fund or funds in Cyprus or any other EEA Member State and the regulated fund is the lead investor designated as such in the agreement.

Q20. Could the company have agreements with more than one VCs adding to 1M Euros direct investment?

Please see answer to Q18 above.

Q21. I am looking to raise 5M EUR for my startup. Can I apply to this call?

As per Call Documents, a direct investment in exchange for equity of at least € 1 M in the company is required. For as long as this criterion is met, yes, there is no restriction on the maximum investment made by the venture capital fund nor on the type of investment (i.e. direct, indirect) for the amount over the minimum of 1M EUR.

Q22. Does the company need to be in Cyprus?

Please see the definition of eligible companies in the Call Documents and also refer to relevant clauses in the RESTART Framework Programme.

Q23. Please define the desired text wording of the binding agreement with the investor. What kind of agreement-text description would be eligible for you?

The agreement between the enterprise and an investor is solely for the two parties to negotiate and agree. The RIF cannot provide any advice on that. You may wish to obtain services of experts to support you in negotiating and/or drafting such a deal.

The only requirement the DISRUPT Call places on terms of the agreement is that it is a direct investment in exchange for equity of at least 1M EUR and that the investment is made between the Call announcement date and until the end of the Project Funded by the RIF. Please refer to Call Documents for the details.

Q24. Does the use of the funds provided by the investor need to be only for international expansion? Cannot it be used for further product optimization, for example?

As per Call Documents, the investment funds may cover any activities deemed necessary by the investors for the scale-up and market deployment of the innovation, including the company's own contribution to the RIF funded project.

Q25. What other documentation do you need from our investor (financial statement, regulatory approvals, registration, etc.)?

The requirements are clearly laid out in the Call Documents. Please refer to them.

Q26. Is the Programme open to under establishment companies?

The Programme addresses only enterprises, which at the time of proposal submission, are legally established and active in territories under the control of the Republic of Cyprus. According to the RESTART 2016-2020 Work Programme, the activity of the entities is documented by the existence of facilities and other equipment in territories under the control of the Republic of Cyprus and, indicatively and not restrictively, by audited financial statements, the tax return of the entity in the Republic of Cyprus, etc.

Q27. Is it possible to replace the VC Investor before the Contract signing or during the Project duration?

No. The VC Fund declared in the Proposal cannot be replaced at any stage after the proposal submission.

Q28. What should be the product's phase ideation, mvp, fully functional?

The Call sets a minimum requirement that the enterprises should have a Minimum Viable Product (MVP) and is available in at least one market, or for innovations in the field of biomedicine, it is expected that at least the in-vitro testing stage has been completed.

Q29. Can foreign research organisation be hired as part of the activities?

Foreign organisations may participate as subcontractors (Costs for External Services) under Experimental Development, Innovation Activities, and Other Activities, as describe in the Call for Proposals.

Q30. Since, according to the Call document, an MVP should be available in the market, why are TRL6-8 activities supported?

Please see answer to Q6 above.

Q31. Can the lead investors be an EEA regulated fund, but the follow-on not?

For as long as the requirement for a direct investment in equity of at least 1M Euro by an investment fund regulated in a competent authority in Cyprus or in another Member State of the European Economic Area is fulfilled, the RIF does not set any other requirements including any requirement on any follow-on investments. Please also see answer to Q18 above.

Q32. Does the investment need to come from a VC or could it come from an enterprise/customer that sees benefit in the technology? Can a company already funded by a VC individual, further invest in a new company for a new product that complies with the requirement?

Investors should comply with the Call requirements. Please see answer to Q2 above.

Q33. Does the investor have to be a regulated VC fund?

Investors should comply with the Call requirements. Please see answer to Q2 above.

Q34. Can the investor be a VC individual?

Investors should comply with the Call requirements. Please see answer to Q2 above.

Q35. Can the VCs be from outside of Europe?

Please see answer to Q4 above.

Q36. Are Angel Investors eligible for this Programme?

Investors should comply with the Call requirements. Please see answer to Q2 above.

Q37. Are Registered Alternative Investment Funds (RAIFs), which are externally managed by an Alternative Investment Fund manager established in Cyprus (regulated under CySEC) or in another EU member state (regulated), eligible for this Programme?

Investors should comply with the Call requirements. Please see answer to Q2 above.

Q38. Should the agreement be signed by 23rd March, but the funding to be made available later?

The signed legally binding agreement should be in place by the Proposal submission. For the investment period, please see answer Q11 above.

Q39. Can you provide specific guidance about the definitions of TRL levels in specific areas, as TRLs vary from industry to industry?

You may find the TRL definitions in the Call for Proposals document. For additional clarifications please see answers in Q6-8 above.

Q40. The budget included in the proposal is for innovation activities only and should exclude the EUR 1M being provided by the VCs?

The eligible activities and costs are described in detail in the Call for Proposals document. Regarding the use of the investment see answer in Q23 above.

Q41. Is a signed Simple Agreement for Future Equity (SAFE), eligible for this Programme?

As per Call Documents, the company should have a legally binding agreement with a VC Fund, which foresees a direct investment in equity of at least € 1 M in the company. The investment should be made between the Call announcement date and until the end of the Project funded by the RIF. Please also see the answer to Q14 and the call Document.

Q42. Are there any restrictions regarding the participation of affiliated companies in the Programme?

In case where the company is not autonomous, the characteristics of «partner» or «linked» companies do not affect the company's eligibility, but may affect the company's size and therefore the maximum funding percentage over the Project budget.

Q43. Can a «spinout» company undertake the implementation of the Project?

According to the Call for Proposals, eligible organisations are any local enterprises, regardless of their size (small, medium or large) or year of establishment, with mature cutting-edge ideas, which, at the proposal submission, have a legally binding agreement with a VC Fund, which foresees a direct investment in equity of at least € 1 M in the company, to support its scale-up towards the international markets. It is clarified that the agreement should be made between the VC Fund and the beneficiary company.

As specified in the RESTART 2016-2020 Work Programme Document, the company which will act as the Host Organisation in a Project, should be legally established and active in territories under the control of the Republic of Cyprus, and therefore, by the proposal submission deadline the company should be registered in the Official Registrar of Companies. Please also see answer to Q25 above.

It is clarified that, according to the RESTART Work Programme Document, no changes or additions to the proposal shall be accepted after its definitive submission.