

Raising investment: what founders need to know

(in partnership with
Google for Startups)



BUCKWORTHS

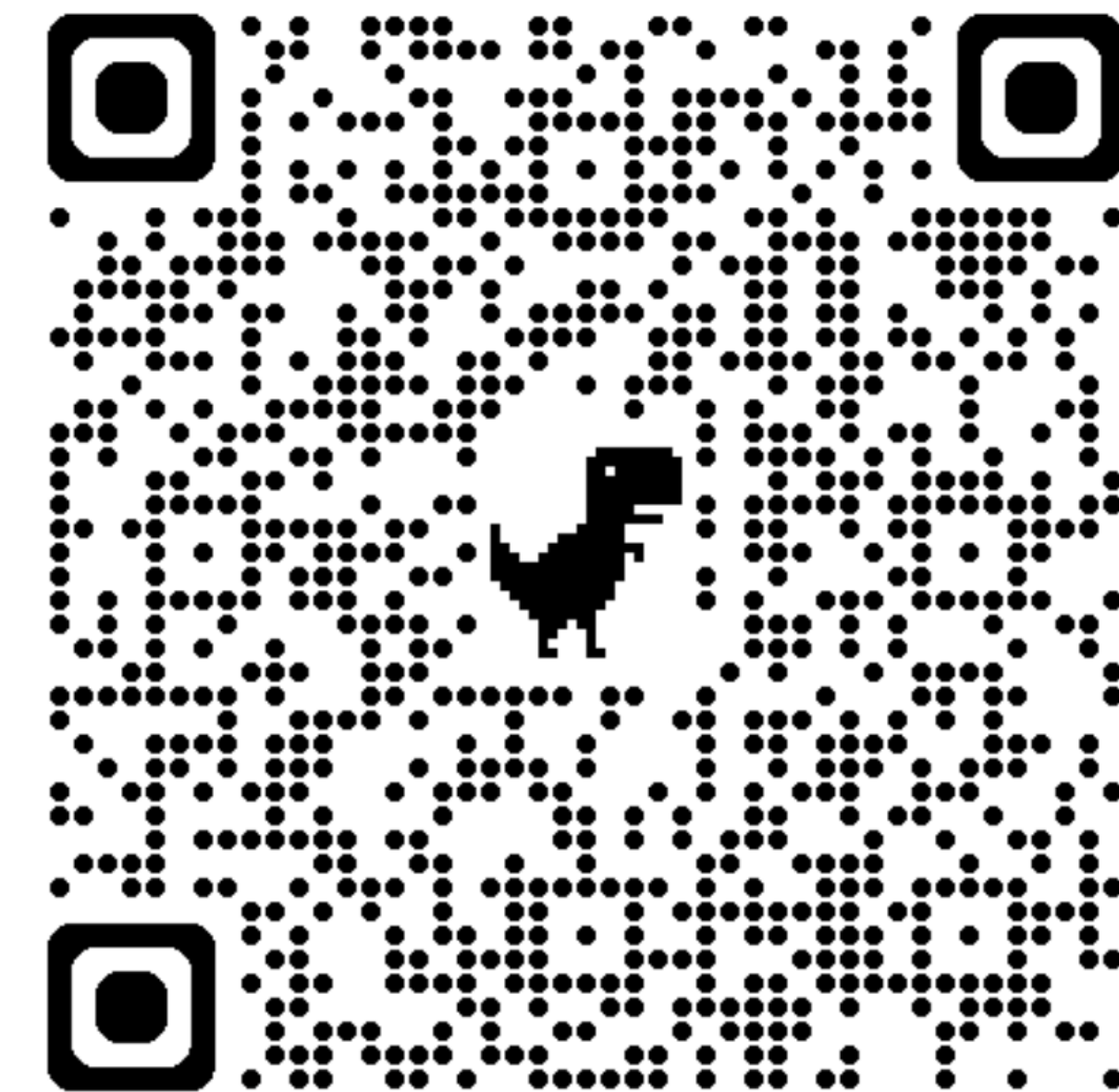


Google for Startups

Get the technology, training, and community support you need to grow faster, smarter, and more cost-effectively.

-  Google Cloud credits up to \$200,000 USD (up to \$350,000 USD for AI startups) over 2 years
-  Training & technical guidance
-  Networking with the Google startup community
-  Google-wide offers

Cloud Program



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About Buckworths

The only law firm in the UK working exclusively with start-ups and high growth businesses.

- Advisor primarily to start-ups from pre-seed, seed and Series A-C
- Experts in SEIS, EIS and VCT tax reliefs
- Recognised by the Legal500 ranking
- 15 year anniversary this year

@BuckworthsLaw



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What are we covering?

- Sources of funding
- Tax reliefs for angels: SEIS & EIS
- Preparing for investment
- Finding investors
- Our favourite early-stage investors
- Top 3 mistakes founders make

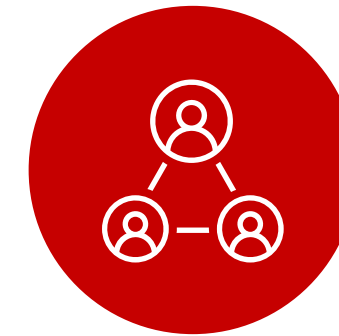


Sources of funding

Grant funding



Equity Investment –
angels and VCs



Self-funding, debt



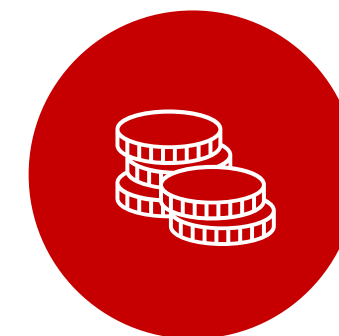
Pre-sale of goods *



Crowdfunding – debt
and equity



Credits incl. Google
Cloud Credits *





Self-funding & debt

- Only raise investment if you need it
 - By issuing shares to investors, you reduce your ownership of your business
 - Equity is more expensive than cash
- External money reduces your risk
 - Businesses fail – don't put all your savings into the business
 - Conviction – do you truly believe in your business?
- For smaller amounts of money, or where you need funds for a one-off project, debt may be better
 - Start-up loans – personal loans to founders
 - Entrepreneur loans from banks – guaranteed by British Business Bank
 - Traditional term loans and overdrafts





Grant funding

- Check out Innovate UK, UK government's grant funding body
- Free cash (grants) and longer term project loans
- Some require “matched funding” i.e. you raise investment in parallel to release the grant
- Primarily for innovative R&D activities
 - Tech
 - Fin-tech
 - Pharma / bio-tech
 - Clean-tech
- Only apply for grants wholly within scope of your business
 - Grants are competitive
 - Time-consuming to apply for





Crowdfunding

- Equity – Crowdcube and Seedrs
- What is it?
 - Platforms are FCA authorised
 - Start-up creates campaign video and platform promotes it to its network of investors
- When to do it?
 - Only once start-up has launched, built a network and probably raised a round
 - Marketing exercise – way to attract new customers
 - Start-up must bring 30% to 50% of round to the platform





Equity investment

- Issuing new shares in your company to third party investors for cash
 - You do not transfer any of your shares
 - The total number of shares in your company increases
- Types of investor
 - **Angel** – high net worth individual investors looking for:
 - A business that will grow and scale such that they can exit at a multiple of the price they paid for their shares
 - (UK angels) tax relief
 - **VC** – structured fund made up of angels, institutional money and government money. Looking for:
 - Specific multiple on exit
 - High degree of control



What are SEIS & EIS?



- (Seed) Enterprise Investment Scheme
- Tax rebate schemes giving investors:
 - 50% (SEIS)/30% (EIS) of their investment back as an income tax credit from HMRC
 - Capital gains tax relief on investment
 - Inheritance tax relief (if shares held for more than 2 years)
 - Loss relief (against income tax or capital gains tax)
 - 0% capital gains tax on sale

High risk investments

- Start-up companies
- Investment for growth NOT maintenance
- No preferential treatment for investors
- Apply to most trades (other than professions, property, asset rental, banks, crypto)

S/EIS: the detail



Seed Enterprise Investment Scheme (SEIS)

- the company lifetime allowance for SEIS investment is £250,000.
- the qualifying trading period for SEIS is three years from the date of commencement of trade.
- the upper limit of a company's gross assets is £350,000.
- the maximum amount that an angel investor is able to invest in start-ups using SEIS in any tax year is £200,000.

Enterprise Investment Scheme (EIS)

- Companies over 7 years old (standard) or 10 years old (knowledge intensive) will be treated as companies in distress and not eligible for EIS if they have spent more than half of their share premium account i.e. they have accumulated losses greater than half of their share premium account.

S/EIS: the process



Seek clearance from UK tax authorities.

Advance assurance that: (i) company carries on a “qualifying trade” and (ii) Company has suitable connection to UK

Investors invest into the Company

Claim for relief.

Immediately for SEIS and once traded for 4 months for EIS

Investors claim tax relief generally via their annual tax return but potentially intra-year

HMRC issues certificate.

This takes 4 to 6 weeks to be processed.

S/EIS: gotchas



- Company must have a permanent establishment in the UK
- Company must not be controlled by another company
- Company must own and have created substantially all the IP it is commercializing
- Investors must not be connected with the Company
- Investors cannot hold any non-S/EIS shares when they invest
- Investors (together with any connected persons) cannot hold more than 30% of the shares or voting rights
- Advance assurance is conditional on accurate & all relevant information being provided to HMRC

Preparing for investment

- Be brutally honest and realistic
- Get feedback
- Build your network
- Get your public messaging right
- Engage with your customers
- Understand your financials
 - 3 year forward-looking P&L and Cashflow forecasts
 - Clarity on valuation methodology, assumptions and metrics
 - Understanding how investment monies will be spent



Finding investors

- Tap up your network
- Reach out to funds and angels
- Attend networking events
- Pitch at pitching events
- Consider accelerators
- Talk about your progress
- **Beware** of investor fraud



Our favourite investors

ASCENSION

G-FORCE.

BGF

GRADIENT

HAATCH™

CONNECT.

SEEDCAMP

Fuel
Ventures

SFC SFC Capital

Top 3 mistakes



Hiding away

- Ideas have no value
- Investors invest for execution
- Founders who won't discuss their business will fail



Making it complex

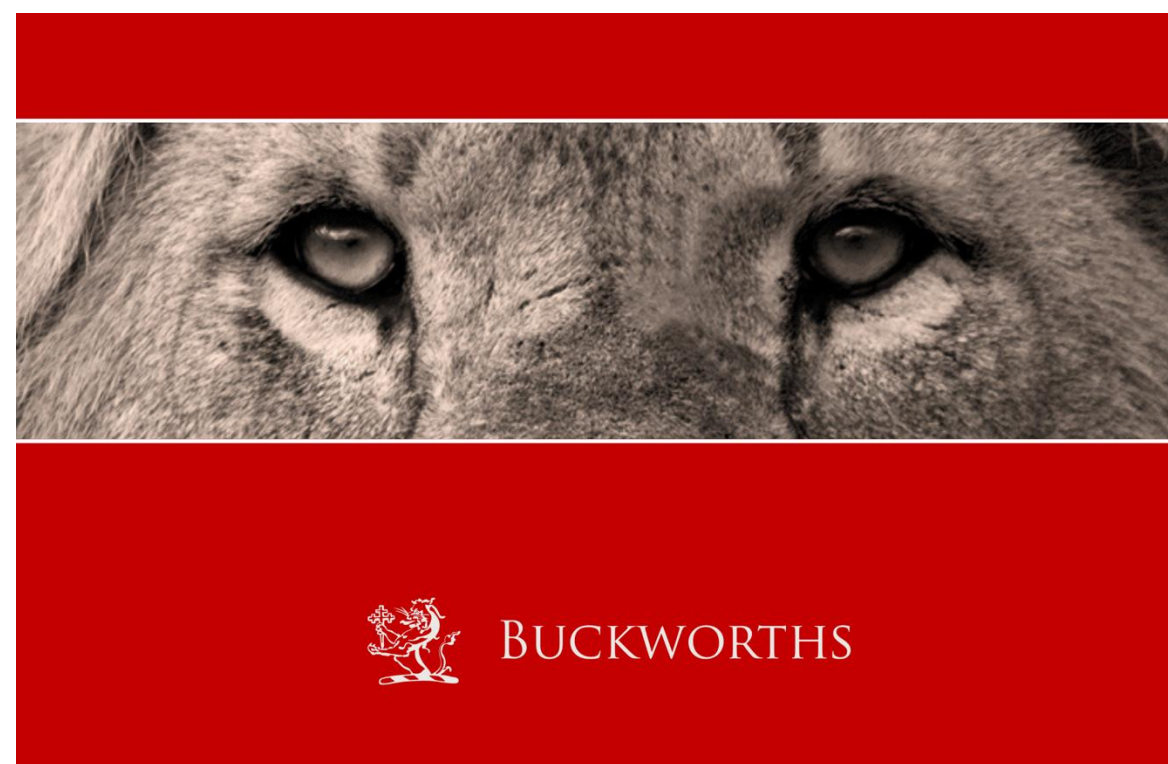
- Get investment upfront – tranching investment doesn't make sense
- Price the round – delaying valuation generally doesn't make sense



Raising too much / too little

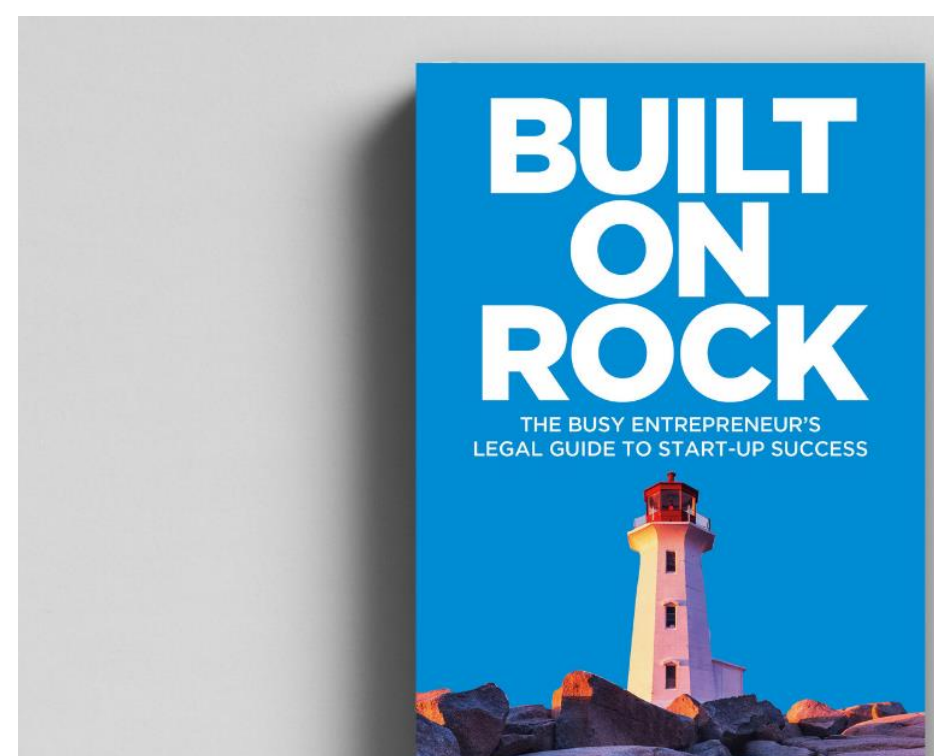
- Your valuation will increase as you spend investment money
- Valuation is partly based on how much is being invested

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Book



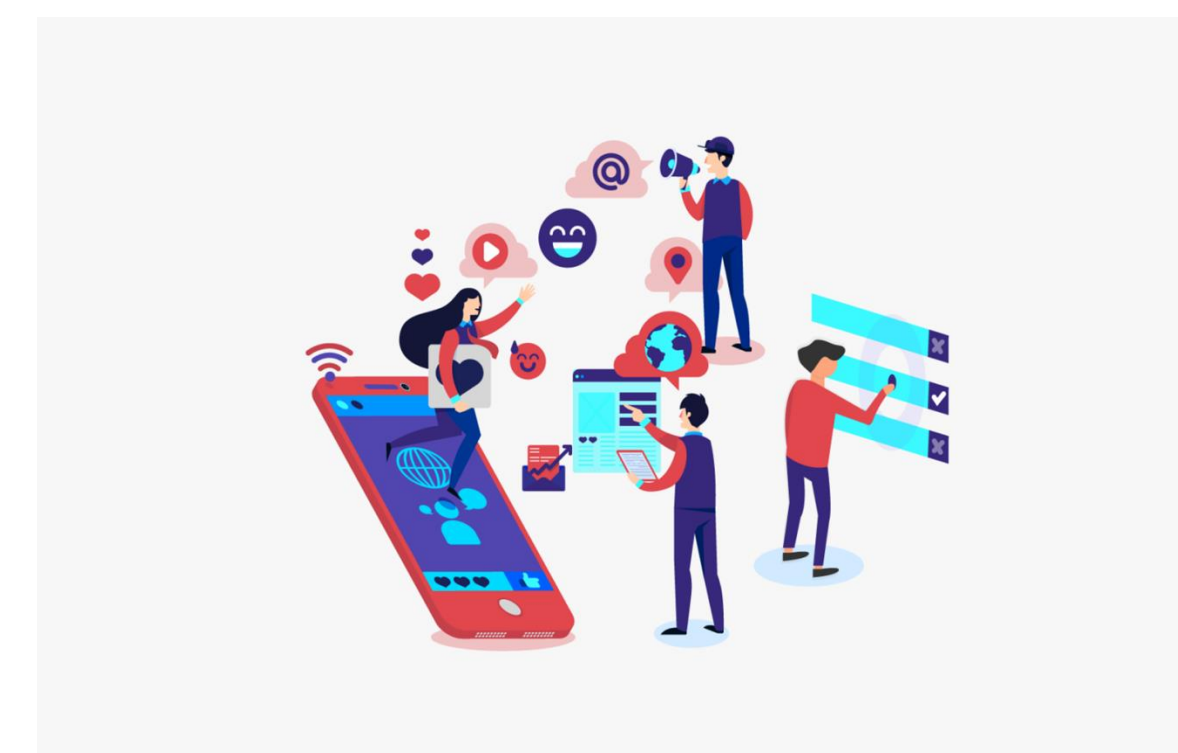
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