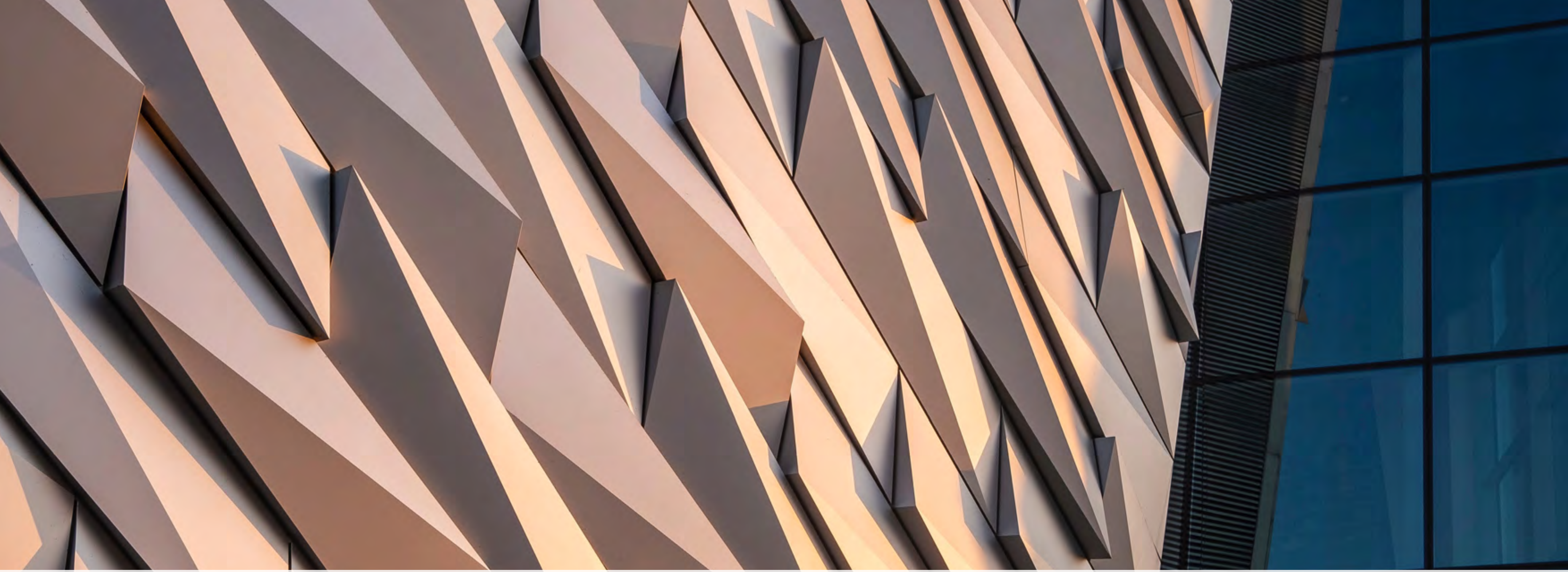

2021 North West Tech Funding Report

A review of the strategic landscape

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Comment

Luke Freeman, Whitecap Consulting

We are delighted to be part of this review of the North West Tech Funding scene.

As a regionally focussed commercial strategy house with an active involvement in supporting deals at the early stages, we are encouraged by the strength of deal flow in the North West, the wealth of funds available and the far-reaching networks in the region, particularly in Manchester and Liverpool.

The tech industry is a global one and while the region's tech start-ups need not be limited by location when it comes to raising their pre-seed, seed and Series A funding rounds, the funding options they are able to access locally is an important supportive factor in the development of the regional tech eco-system.

The North West is already a European leader in the tech funding space and the higher the deal volume, the more funding deployed, the more competitive the valuations become and the more entrepreneurial tech talent we will attract to our region. There's no doubt that the North West will continue to go from strength to strength and the positive headlines will continue, but part of making sure our tech eco-system continues to thrive relies on North West entrepreneurs feeding back into the existing environment.

It's equally important to understand the experience of the businesses behind the headlines, and to make sure that the increasing number of funds deployed in the region is working both for the entrepreneurs and for the underlying investors whose assets are being deployed. In this report we hope to give an honest account of their experiences of tech entrepreneurs and funders in the North West, and in doing so provide a true reflection of what it's like to raise in the region.

Thanks to Author:
Eleanor Simmons, Whitecap Consulting
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Piers Dryden, Brabners

As a leading independent law firm with a strong presence in the North West, we regularly support clients who are raising capital and making investments in the region. As we reflected on the work we do with businesses and investors, we were struck by the resilience and vibrance of the technology sector in our region.

We are advocates of our burgeoning technology sector and want to give voice to the direct experiences of those who have lived and breathed the funding and investment journey from all sides, because in no sector is it more important to secure stable and smart investment than in the high-growth tech sector. We initiated this review of the investment landscape in the North West as part of our commitment to the sector and those involved in it in our region.

We know that access to appropriate and timely funding and investment is repeatedly and rightly recognised as an essential component in our region's ability to support high growth businesses and embrace the very real opportunities that come when those business flourish. However, it is also repeatedly stated by those involved as an area that could be improved upon.

We are delighted to be presenting the report in partnership with Whitecap and sharing our collective experiences. We hope that the insights offered by those we have spoken to while compiling this report will challenge and help evolve the current landscape and that, as a business community, we will come together to tackle the existing barriers in the sector head on.

This is not just desirable, but essential, especially in the current climate of self-reflection and as the business community turns its attention to building back better.

Thanks to Author:
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Introduction

Whitecap Consulting and Brabners have conducted a review of the early-stage tech funding scene in the North West in order to give a voice to the region's entrepreneurs and help explain the nature of the region's funding options and opportunities.

This report is about pulling away from the statistics and the headlines to truly understand what it's like trying to raise capital as an entrepreneur in the North West. As our entrepreneurs continue on their journey, growing their businesses, navigating the changing landscape and in doing so raising the profile and the credentials of the North West in a global tech environment, this report looks to gather and distil their experiences, to inform and guide the next generations of entrepreneurs and those of us who support them as they progress along their business journeys.

This report is aimed at entrepreneurs who are considering pre-seed, seed and Series A funding rounds. We believe it will help them understand what to expect, what best practice looks like, where the pitfalls are, and how to avoid them, empowering them to secure the best funding partnerships for their businesses.

By the same token the report also offers an insight into what that means for the broader early-stage tech funding landscape which will be of interest to a wider range of stakeholders regionally, nationally and internationally.

We have split the report into three sections based on the funding stage: "Angel and Pre-Seed"; "Seed and Venture" and "Series A". It is important to note that the definitions used in the industry and in quotes from interviewees in this report vary, and the amounts raised under each category can change and overlap according to the stage of the business, its growth ambitions, and what the money is intended to be used for.

Accordingly to impose some level of uniformity, we have used "Angel and Pre-Seed" to cover equity fund raises up to £250k with a private angel, network of angels, or angel syndicate (e.g. G.C Angels). We have applied the term "Seed and Venture" to cover equity fund raises between £250k and two million, and the term "Series A" for raises in excess of two million.

While the "Angel and Pre-Seed" and "Seed and Venture" sections reflect the experiences of entrepreneurs raising at these stages, "Series A" largely reflects the views and requirements of the region's funders. This is to help businesses approaching this stage of the funding cycle understand what those funders are looking for and what the demands on them will be.

We have used the terms "early stage" and "start-up" to cover businesses across all of these stages, and equally you will notice they are used interchangeably in quotes by various stakeholders.

To support our objectives and deliver on our chosen format we have conducted in excess of 50 interviews with key stakeholders including entrepreneurs, experienced early stage financial and managing directors and NEDs, angels and angel networks, private equity houses, venture capital firms and investors, Corporate Finance advisors, not-for-profit and institutional support networks and services, and other key stakeholders. We have gathered detailed insights from the experiences and opinions of each of these players in the eco-system to paint a broader "birds-eye-view" picture of the North West tech funding scene.

In order to guide the region's upcoming entrepreneur through the funding and investment journey they can expect, we have broken down the funding experience and worked through each aspect of it step-by-step. From deciding when is the right time and how much to raise, through to preparing for pitch, navigating investor feedback and offers, valuation, dilution and negotiating the deal, through to navigating the Investor Director relationship post raise, and finally where the most common funding deployment mistakes can occur.

This report has been a joy to research and write and both Brabners and Whitecap extend our heart-felt thanks to all our interviewees for their time, contributions and candour. Their honest and direct feedback is in part a challenge to us all to take their feedback and use it to better the environment that our vibrant entrepreneurs operate within and so, more than anything, we are grateful for the opportunity we now have to do this.

Overall observations

Pre-seed and Angel

What does the overall picture look like?

The pre-seed and angel funding scene in the North West is stronger than it has ever been. GC Angels in particular, as well as protagonists like North Invest have increased their deal volume year on year. Access to these networks is readily available to those prepared to utilise in-routes including Tech Nation, the Growth Hub, HOST, Tech North Advocates, Enterprise City's Exchange Programme, Innovate UK Edge, and more. Entrepreneurs are willing and able to navigate those networks to get initial meetings, and where initial meetings don't lead directly to funding, are in many cases using the feedback received to drive their businesses to a position where they are subsequently able to raise the funds they need. There is a widely held view that the North West doesn't currently have a wealth of "tech-literate" angels, but also recognition that this picture is constantly improving. Valuations were considered to in some ways reflect the region's deal volume and level of competition between prospective investors. For their part, funders repeatedly stressed how many of the pitch decks they receive are not clearly articulated and this is clearly an area for founders and their advisors to focus on improving.

What is the experience of entrepreneurs in the region and what conclusions can be drawn from them?

1. Diversity has the potential to be stifled by expectations: entrepreneurs raising their pre-seed and angel rounds were often expected to provide either an MVP or proof of customer. While this is not intrinsically a bad thing, it does impose pressure on entrepreneurs' ability to raise "family and friend" rounds and/or subsist without an adequate salary. As such those with sufficient socio-economic wealth and networks can progress where those without are held back, factors which will likely impact diversity in our ecosystem.
2. Investor/entrepreneur mismatch: there were a number of cases in which entrepreneurs, in their haste to get off the ground, chose their first funding offer without clarifying what that funding would mean post deal. This supports the view that professional advisors need to be more accessible to early stage businesses whilst early-stage businesses need to be willing to seek advice at an earlier stage than they currently do. Cases where angels were more hands on than the entrepreneur expected, or institutional funders structured the deal in a way that put the entrepreneur at a disadvantage, were not unusual pieces of feedback.

Seed and Venture

What does the overall picture look like?

There are a healthy number of opportunities for start-ups in the region to raise seed and venture rounds locally if that is what they choose to do. However, there is a structural challenge in this regard in that the majority of institutions responsible for the deployment of funds in the North West at this level are Private Equity houses. While this is no bad thing for the region overall, it does mean that the types of businesses more likely to receive funding in the North West are those who can meet private equity expectations of a high probability of a return within five to seven years (or less).This means that for better or worse, businesses whose vision is genuinely to create completely new markets, or to completely disrupt existing ones - who may be more likely to be the next tech unicorn, but equally may be more likely to fail and die - are more likely to have to go outside the region for VC capital which more closely matches their stage and investment profile. This is not to say that businesses raising at this stage shouldn't look elsewhere and increasingly businesses based in the North West are looking for national and international funding as well as regional, which can only make for a more diverse and thriving funding scene but it is important feedback for both investors and businesses. For investors because there is an opportunity for quality VC houses in the region and for businesses in understanding that if their investment profile is more VC than PE they should focus their efforts in the right investment markets.

What is the experience of entrepreneurs in the region and what conclusions can be drawn from them?

1. The question of how much to raise: Businesses in the region are grappling with uncertainty around whether to raise bigger rounds earlier and push for fast growth, or bootstrap for longer, raising smaller rounds on a more incremental basis to test and prove the business model. This is both an ambition piece which often comes down to the business itself and the market opportunity and a time-commitment piece, as clearly the incremental approach requires fund-raising to be an ongoing project as the (smaller) rounds arrive with more regularity.
2. Understanding the differences between VC and PE: Businesses who knew the level of their own ambition in the near and long term tended to have a solid understanding of the different type of funding available at this early stage. Those within this cohort who also understood what was best suited to them as a business were then better-placed to achieve their ambitions. It was clear that the best experiences were enjoyed by those who raised with investors who had pre-existing experience in the same sector.

Overall observations contd.

Series A

What does the overall picture look like?

Businesses raising at Series A stage in the North West were largely positive about the experience and were able to use the rigour of the due diligence and the expertise of the funders to sharpen the analytical lens on their businesses and ultimately make them into better-functioning and more professional outfits. Again, the majority of firms offering Series A funding are private equity houses with a risk tolerance that favours businesses who are post revenue and often profit-generating businesses with a proven business model to demonstrate to the investors and with a clearly articulated pathway to ever-more profitable growth. Founders who have higher risk propositions and more speculative pitches may find fewer NW funders who are prepared to or are able to play the 'true venture' game. In general, we found that Series A businesses ended up raising more than they had originally intended but were entering into negotiations on valuation and deal terms and structure already well-versed on what they wanted, with legal and Corporate Finance advisors in place able to support them, and therefore clear on deal terms that went beyond what they felt was appropriate.

What is the experience of entrepreneurs in the region and what conclusions can be drawn from them?

1. Most businesses had positive experiences of raising at Series A because of their investor's ability to offer them sector expertise, business vertical expertise, a strong network of potential expert employees, chairs, NEDs and mentors, and their ability to support them in later rounds, delivering on growth ambitions that were right for the business. Where this wasn't the case, investor-entrepreneur relationships became strained. A key conclusion to be drawn in this regard is therefore that founders and investors must be clear from the outset what the investor's motivations and investment parameters are as well as what they can offer beyond the money.

2. We also heard from entrepreneurs keen to emphasise the importance of understanding exactly what the specifics of a deal mean for them on a operational day-to-day basis as well as in the event of an exit. Entrepreneurs burned at Series A could have mitigated this risk by being better informed around key terms such as the preference waterfall, various levels of economic participation rights, the intricacies of investor consents on business decision-making, and leaver provisions that can end up excluding founders from upside on exit if improperly negotiated.

Pre-seed and Angel

Summary table: Pre-seed and Angel

1. When is the right time to raise?	• A large majority of businesses who had raised investment successfully were able to demonstrate and (importantly) evidence one of either a basic MVP, committed customers, or clear proof of market need and an understanding of customer requirement. Regional stakeholders emphasised the importance of support services in providing opportunities for start-ups to reach these milestones. • Businesses who felt they raised capital too early spoke of regret giving away more of their business that was necessary; conversely VC houses warned against raising too late, when your cash runway is reduced, reducing negotiating power and adding additional pressure to negotiations. • Businesses with some idea of the “end goal”, or at least the immediate and medium-term ambitions of the business (however loosely articulated at pre-seed stage) were better aligned as a founder team in general and this benefitted their decision-making processes when deciding the right point for the business to seek investment.
2. How much should I raise?	• A number of North West businesses benefitted from raising less than they thought they needed at pre-seed. After raising a smaller amount forced them to make business decisions on a smaller scale, then subsequently making mistakes, many expressed relief at not having made those mistakes on a larger scale. • However, start-ups consistently spoke of under-estimating the time required to raise cash. As a result, although raising less gave them the opportunity to spend and test on a smaller scale, businesses found themselves in a never-ending cycle of raising. By the time the cash came in, planning for the next round needed to begin. Businesses with a long-term vision of their investment journey who allowed the time for conversations and relationship-nurturing with investors were better placed to make the correct decision on how much to raise. • Businesses which engaged in investment conversations earlier than necessary spoke of the fact that the feedback they received then informed their decision-making and ability to maximise their investment proposition later on when the time was right.
3. Finding the right investor	• Businesses spoke of wasting time speaking to investors who offered the wrong “type” of funding. Some went ahead with funding that was a mismatch for them because of poor education and the need for immediate cash. For example approaching investors who didn’t focus on their sector-vertical, whose ticket-size was not aligned with the raise needed or whose investment strategy otherwise did not enable them to engage with the business. • Businesses which targeted angels or national stakeholders because of their expertise or contacts were able to get more value from their investors post raise. Where angel networks weren’t visible/accessible, businesses were able to navigate the existing network to be directed to a relevant angel. • Where businesses and angels made clear the level of communication and involvement they wanted before the deal, post deal relationships were more productive and mutually beneficial.

Summary table: Pre-seed and Angel

4. Preparing for pitch	• Advisors stressed that they consistently encounter poor articulation of critical issues relevant to the investment proposition, in particular in “stating the problem to be solved” and “how the product solves it.” These key matters are not addressed in a number of pitch decks, posing a problem for investors (particularly angels) who are not tech literate. • Advisors stressed the importance of having a strong grasp of the commercial environment for the business: for example, market size and product differentiators. • Businesses able to field in-depth questions fared better; “know your business inside out” was seen to be good practice; specifically target customer, (and how to get them); competitors (and why you’re better) and intentions for the next phase of the business. • Businesses with a broader skillset within the founder and management team were seen to be at an advantage to single-founder businesses which had not yet expanded the team. For example two co-founders or more was perceived to be a strength and encouraged investors who could see willingness to embrace a diverse skillset in that broader approach. • Businesses open to constructive feedback, who were able to pivot their business model and were flexible to negotiate different deal term options according to feedback, were able to maximise growth and progress more quickly.
5. Navigating investor feedback and offers	• In the most successful raises, a consistent feature was the securing of more than one offer, increasing leverage on valuation and therefore dilution and other key terms and allowing the business more control over the investment process and timeline. Another feature of successful raises was the presence of an uncomplicated cap table, seen as more attractive by investors. • Businesses which found the investment process most fruitful were able to use the conflicting advice from various investors, whether they agreed or disagreed, to inform and sharpen their business propositions. By explaining and discussing strategies with investors, entrepreneurs were able to shed light on and better clarify the decisions they had made in their own minds. • Businesses which saw negotiations as a mutual exchange of valuable information and constructive feedback, rather than a “beg for cash”, experienced more fulfilling and productive investor meetings. • Businesses which were prepared for the intensive and indeed full-time commitment to raising capital were better able to manage the overall process whilst minimising the impact on their business as a result.
6. Valuation and dilution	• Advisors and entrepreneurs felt it important to stress that pre revenue, valuations are a calculation based on the amount the business needs and how much equity it wants to give away. However, this number is often informed by revenue projections that may be over-egged due to a lack of consideration and under-estimation of cost; including wages, failed hires, churn rate, travel and legal fees. Advisors report under-estimation of costs leading to under-performance on revenue as a common theme, with under-performance acting as a “noose” around the necks of entrepreneurs. • Where valuations are based on projections, projections are often “overly optimistic. Start-ups with more realistic projections and generous allowances for under-performance or unexpected costs benefitted post raise from this more measured approach when under pressure to deliver on their numbers post investment. • Businesses regretted undue stubbornness over valuation where it slowed things down. Others saw that headline valuations can be misleading, and took a lower valuation, instead securing added-value in the form of expertise and the investors’ contacts and network.

When is the right time to raise?

Businesses in the North West raising their angel or pre-seed rounds are generally able to access funding when they need it, and the North West network of angels is accessible via a number of in-routes. In general, funders and angels felt that businesses with proven traction - an MVP, or customer commitment, for example – were more likely to receive angel funding. Entrepreneurs who had achieved traction without equity finance were seen as a reflection of true entrepreneurial "character"; however, this attitude favours businesses with the ability to raise "family and friend" rounds or go without a salary, which has the potential to prejudice equality of opportunity and therefore the diversity of young businesses in the region. Equally, waiting until equity funding is a matter of "commercial life or death" tends to put businesses on the back foot in negotiations, forcing them to accept smaller investments for bigger stakes and driving down valuations.

A large majority of businesses who had raised investment successfully were able to demonstrate and (importantly) evidence one of either a basic MVP, committed customers, or clear proof of market need and an understanding of customer requirement. Regional stakeholders emphasised the importance of support services in providing opportunities for start-ups to reach these milestones.

"I knew it would be tough to raise money based on the concept; ideas are worth nothing without execution. We knew we had to build an MVP to get people interested in the product."

Pawel Oltuszyk, Frost

"We should have planned for more free trials, to get more data, to back the proposition, so we had proof in how people were using it and user feedback. This would have made initial investor conversations and subsequent delivery of the plan much easier."

Anonymous

"We need to make sure that decisions made by the LEP around business growth and skills investment are informed by diverse groups. We can't have obvious conflicts of interest around innovation funding on the LEP board, because then the same kinds of businesses will get the support."

Naomi Timperley, Tech North Advocates

"Be clear and open about how much future money you expect to need and raise at what stages over the life of your plan. You need to work out where your value inflexion points are. Investors love to see businesses just before these "tipping points" – for example having an MVP, or even better when you've got your first sales under your belt - that's when investor appetite increases as they can see demonstrable progress and a pathway for the next chapter for the business's development."

Mark Borzomato, LCR Angel Network

Businesses who felt they raised capital too early spoke of regret giving away more of their business that was necessary; conversely VC houses warned against raising too late, when your cash runway is reduced, reducing negotiating power and adding additional pressure to negotiations.

"There is a culture in London to go for the sky or bust, to raise and grow, grow, grow. In the North West people are looking more for sensible growth and keeping control of costs. They want to see a clear path to a profitable business, and skills around the running of the business rather than pure growth at any cost."

Guy Briselden, Bixteth Partners

"My experience is that people raise too late. By the time you realise you need the money, you're way behind the curve. We are constantly forecasting, tying our spend to some outcome or goal, so that cash has a measurable output way before you start generating real revenue."

James McMillan, myNexus

"In the pre-seed round, we were talking with a VC, but we were at their beck and call because we wanted the bigger cheque. We would be on a train to London with one day's notice, incurring significant costs."

Neil Andrew, PPC Protect

Businesses with some idea of the "end goal", or at least the immediate and medium-term ambitions of the business (however loosely articulated at pre-seed stage) were better aligned as a founder team in general and this benefitted their decision-making processes when deciding the right point for the business to seek investment.

"Setting up a business is like going into a marriage with your co-founder. For a healthy marriage, you need understand exactly what it is the founding team are looking to achieve individually with regards to size of the business and plans for exit. That way, when it comes to discussions further down the line, you understand where people are coming from."

Anonymous

How much should I raise?

Start-ups in the region are facing a decision between raising a big enough amount to keep their businesses in a healthy position for at least the next 18 months but potentially giving away too much equity, and raising less and being embroiled in a continuous cycle of funding, where, because of the time required to court investors, completing one pre-seed round is immediately followed by preparation and conversations for the next. By the same token, raising too much too soon (before product market fit) can lead to ill-considered investment deals and subsequent wasted spend. To make this process more efficient, North West founders should look to keep funders in their network updated with their progress and maintain relationships in between raises so investment can be secured promptly when it is needed.

A number of North West businesses benefitted from raising less than they thought they needed at pre-seed.

"In the pre-seed round, we closed £125k, although we were looking for £700k. I'm glad we didn't raise that money at pre-seed, we would not have had the experience, it would have hurt rather than helped us."

Neil Andrew, PPC Protect

"In hindsight, my biggest learning is to not over raise. We hired a large team quickly when we secured our first round of investment. We have since learnt we perhaps didn't need to. You ideally want to layer up your team and double down on areas of success. The right talent and small team can do a better job than 100 employees not aligned."

Anonymous

"Raising less helps keep you focussed. It means you don't overspend - you spend carefully and monitor the output."

James McMillan, myNexus

"Ideally, you should have a clear understanding of what the investment is for. Calculate it and add on a contingency."

Gareth Burton, Burton Beavan

However, start-ups consistently spoke of under-estimating the time required to raise cash. As a result, although raising less gave them the opportunity to spend and test on a smaller scale, businesses found themselves in a never-ending cycle of raising. By the time the cash came in, planning for the next round needed to begin. Businesses with a long-term vision of their investment journey who allowed the time for conversations and relationship-nurturing with investors were better placed to make the correct decision on how much to raise.

"Your line of sight on investments should be long. Start prospective conversations up to two years before you need the money."

Alistair Walmsley, North West FD

"There is an incorrect caricature of life at a start-up, that you get seed money, Series A, Series B. But that's not the way it happens, you get your seed money, you run out of money, you run out of money again, you do a few raises for a few hundred k."

Anonymous

"With my first start-up, we took too long raising, we raised £120k to give us 12 months runway, but you constantly feel like you have to raise and it's a massive distraction, you can't plan for the future."

Joe Perkins, Landscape

"In the North West we see a lot of businesses raising too late, running out of runway. If your runway is short, you lose negotiation power. We are a runway maker; we can write tickets and give businesses significant runway. A lot of investors only write small tickets, and can only give them six months, driving the valuation down, and the investment is then based on survival. They are held over a barrel."

Oli Hammond, Fuel Ventures

Businesses which engaged in investment conversations earlier than necessary spoke of the fact that the feedback they received then informed their decision-making and ability to maximise their investment proposition later on when the time was right.

"Get investors warm to your idea long before you need the money and understand what their requirements will be. If they say, "You're a little bit early" you can ask - where do I need to get to for you to consider me, and I won't disturb you until I've met those conditions."

Alastair Walmsley, North West FD

"It comes down to relationship building beforehand, chatting to them for feedback, get on people's radar, get intros, tell a story, paint a picture – you met us at this point, and now we're at this point. Look at the trajectory we are on."

Joe Perkins, Landscape

Finding the right investor

There is the view that the North West is nascent as a tech scene and lacking tech-literate angels. However, this was largely judged to be a work in progress. The North West tech sector is a tight knit network and, provided good businesses can get the attention of a key stakeholder (angel syndicate, co-working start-up support, accelerators, advisors), they will generally be recommended and passed between investors, gathering feedback, leading eventually to investment.

However, a number of businesses spoke of rushing into early-stage funding for immediate cash supply. In that case, investor and investee mismatches are common and businesses stressed the need for "investor due diligence" (making sure the investor matches your needs). Particular issues included failure to accurately communicate how involved an angel might be with business decisions, angels unable to contribute to tech-specific problems, or businesses raising with institutional funders too early, getting caught in overly restrictive deal structures.

Businesses spoke of wasting time speaking to investors who offered the wrong "type" of funding. Some went ahead with funding that was a mismatch for them because of poor education and the need for immediate cash. For example approaching investors who didn't focus on their sector-vertical, whose ticket-size was not aligned with the raise needed or whose investment strategy otherwise did not enable them to engage with the business.

"We spent an inordinate amount of time with people it didn't work for. We learned early doors that certain VCs needed an ARR which we weren't matching. We took institutional money because we wanted to get going, but we shouldn't have gone with them so early, we should have raised privately."

Anonymous

"We accepted investors as NEDs taking the money at face value. One exited this year. We didn't do enough due diligence about what he would bring to the table. We should have said, this is the vision, where do you see yourself being able to help support in sales and marketing."

James McMillan, myNexus

"People tend to give away too much equity at the first stage, they jump at the first offer of money available. Many don't have the foresight to see ahead."

Ranvir Singh, Innovate UK Edge

Businesses which targeted angels or national stakeholders because of their expertise or contacts were able to get more value from their investors post raise. Where angel networks weren't accessible, businesses were able to navigate the existing network to be directed to a relevant angel.

"I initially reached out to the DfE, a key stakeholder in the industry, who introduced me to Commando Joes, a provider of education services, where I was able to get value add from angels. My investors gave me a route to market. Does your investor have a channel you can sell to?"

Michael Brennan, Tootoot

"Be clear about the skills you're looking for. It was very important for us to have healthcare sector specific expertise."

Dom Raban, Xploro

"Angels tend not to make recommendations, but they may lead by example. If you get support from one, they will most likely talk favourably of you within their network."

Nicola Weedall, Hydr

"We were building a SaaS dual marketplace but had never launched one before, so I got people on my board who have done that."

James McMillan, myNexus

Where businesses and angels made clear the level of communication and involvement they wanted before the deal, post deal relationships were more productive and mutually beneficial.

"Be clear on post investment expectations - some investors want detailed reports every month, others are hands off. If it's an angel's first investment, they could be very precious over their money."

Ben Hookway, Relative Insight

"When my money ran out faster than expected, I talked to my existing angel investor about additional funds. He promised me another £50k if I found someone to match it."

Adeel Farooq, RevGlue

"Founders - if you say you will do it, do it. Build trust, create value and inform on progress. As a founder you are always either banking goodwill or calling in goodwill. There will be moments when you have to cash in goodwill with bad news."

Hector Macandrew, North West Angel


LOVE

Understand:

What is crowdfunding?

Crowdfunding platforms are widely accessible and after a number of crowdfunding success stories, this funding stream is becoming an increasingly competitive alternative to traditional streams. However, not every business is suited to crowdfunding and it is important for businesses to understand the key factors to consider.

If a business decides to engage in a crowdfunding round, there are various steps to take:

1. Use key themes, internal discussion and external validation (e.g. successful rounds for businesses in a similar sector/size) to decide which form of crowdfunding the business wants to follow and the platform that is best suited to it.
2. Develop and execute a rigorous pre-funding engagement plan. Although crowdfunding is largely conducted online, there is still a significant amount of direct engagement required to draw and maintain a crowd and substantial cornerstone investment required to be brought to the platform before engaging "the crowd". This will require a clear evidence-based view of the proposition and solid understanding of the benefits investors will receive. This process could require four to six months of engagement, depending on the size of the investee base.
3. Develop a continued engagement plan for use during the funding round.

Equally, they should consider:

1. There may be greater control provided through this funding stream, but there is the risk of failing to hit the target and the attendant negative publicity, as well as certain crowdfunding platform fees that must be paid regardless of success.
2. Crowdfunding can lead to a high valuation not validated by the market, which could be seen as unrealistic by institutional investors in later rounds.
3. The funding process is less formal – this should not by any means be confused with less effort.
4. If the technology is new or the IP is up for debate, engaging in a public campaign should be supported by the necessary safeguards, e.g., patents and trademarks if applicable.

Entrepreneur Perspective: Anonymous

"We carried on with crowdfunding, smashed our goal, went beyond our institutional funders' target, closed the round and decided not to progress with our existing institutional funders. Crowdfunding gave us more leverage."

"For the right sectors at the right point in your journey, crowdfunding has its place. We became aware of stigmas against crowdfunding and were surprised. The institutional funder didn't understand and thought it was gimmicky."

"Crowdfunding is exhausting and time consuming – you need to write off your day job for two months, and we worked with raising partners!"

"There's a game to crowdfunding, the crowd follows organisations doing well, there's a lot of preparation, you have to start the round with an amount already raised, you're marketing your proposition, emailing out to prospective investors. You'll get a constant stream of questions through the crowd platforms."

"The agency recommended raising partners, who were great. I would use the experts where you can afford to do so."

Investor Perspective: Guy Weaver, Praetura Ventures, Anonymous and James Gregson, Palatine

"Some of the businesses we see have previously raised with Crowdcube. The valuation can get out of kilter; they expect an uplift on that valuation and often it's a battle over valuation. They don't understand that we don't compete in the same pool as Crowdcube, it is a different type of funding which also brings added value."

"When previous valuations have come from Crowdcube, there are no metrics behind that. When we look at the business, post revenue, we will apply market metrics to justify any valuation put to a business to our investment committee."

"For businesses that have crowdfunded, the valuations at that end of the market can be very high – but, this can be a great funding source to get a concept off the ground ahead of bringing in a more value-add investor such as private equity."

Understand:

What is SEIS?

The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) were set up to give UK Investors tax reductions, benefits and protection to encourage them to invest in SMEs across the UK.

However the business performs, investors are provided with various streams of tax related deductions and insurances, including specific income tax relief, capital gains tax freedoms and deferrals, loss relief and inheritance tax freedoms.

As long as they are eligible, businesses benefit from increased investor appetite, despite the often-high-risk profile of early stage businesses particularly. For the SEIS, a business can receive a maximum of £150k including other state aid received up to three years prior and counts towards limits for other state schemes – including the EIS. For the EIS, you can receive a maximum of five million every year and a maximum of £12 million in the company's lifetime – which includes amounts received under other capital venture schemes (including the SEIS).

Advisor Perspective: Victoria Price, EY

"Have an understanding of tax efficient ways for people to invest in the business. Investors will be savvy about tax efficient investment options (SEIS) and you should make yourself savvy too, so you can understand whether you can attract investors because of your status, that is key."

Entrepreneur Perspective: Anonymous

"I knew we needed SEIS pre-approval. I didn't quite grasp SEIS, it was my lack of knowledge and understanding, our main investors were private family offices. SEIS was basically the protection that the investor got from the business not performing or succeeding."

Should I be considering debt?

Funder perspective: Ryan Sorby, Boost and Co.

"Our venture debt fund can provide funding ahead of a future equity round. We have experience supporting younger businesses and we often come in earlier than traditional lenders and at a higher quantum."

"We frequently have conversations with fast growing companies. Management teams are often faced with a situation where the opportunity is there to gain significant market share. Do they take on equity or debt, how does this affect the period of time to reach profitability, and how much will they have to dilute?"

"You can't always raise debt and go for the same aggressive growth; you have to consider repayment. Businesses have to ask, how much am I willing to temper my growth, to reduce the time to profitability, so I can service debt. If you are 100% about revenue growth and have less of a focus on profitability and cash generation, the answer may be equity. But this brings dilution. Don't discount a debt solution; you could hit the same growth level and service debt even if you're not profitable today. This is often the case with high margin business models."

"We look for different downside protection to traditional banks. The visibility of revenue - annual subscriptions, length of contracts and quality of products that customers can't turn off, that are business critical."

Advisor Perspective: Victoria Price, EY

"People get nervous about debt, they don't like the sound of it, but in reality, it can be a good option in the early stages if you can make your repayments."

Entrepreneur Perspective: Chris Meehan, Sentric Music

"Before we got the North West fund, we weren't quite ready to go for the valuation that we wanted. We borrowed £100k from RBS and used it to get us investor ready. We used it to develop tech and brand marketing and paid it off over three years. That was a really good use of debt. It's cheaper than equity."

Preparing for pitch

Funders repeatedly stressed that the majority of pitch decks fail to communicate investment-critical information effectively, despite the wealth of guidance and support online and from regional entrepreneur support systems around pitch-deck preparation. Funders and advisors suggest practising on trusted family, friends or external professional contacts to ensure the deck is understandable and clear. Angels and funders are often left unable to understand what the product is.

Advisors stressed that they consistently encounter poor articulation of critical issues relevant to the investment proposition, in particular in "stating the problem to be solved" and "how the product solves it." These key matters are not addressed in a number of pitch decks, posing a problem for investors (particularly angels) who are not tech literate.

"People chasing seed don't get that investors will never know everything about your business and you shouldn't try to teach them. Instead, you need to learn that there are proxies investors look to, to indicate success. Trying to communicate a complicated story badly is a common problem."

Ben Hookway, Relative Insight

"Innovate UK Edge have a number of smart funding schemes that provide between £200k and two million non-dilutive cheques. The Growth Hub helps people with these applications. The consistent knowledge gaps I see are in the pitch deck – communicating the size of the opportunity, how their business addresses it, what it will cost and how much they'll make."

Ranvir Singh, Innovate UK Edge

Advisors stressed the importance of having a strong grasp of the commercial environment for the business: for example, market size and product differentiators.

"Don't get bogged down in product, features and benefits. Look at how big your market is, your potential market, how it will grow, Porters Five Forces, barriers to entry, route to market, how will you protect yourself, growth prospects."

Gareth Burton, Burton Beavan

Businesses able to field in-depth questions fared better; specifically target customer (and how to get them), competitors (and why you're better) and intentions for the next phase of the business.

"Angels bring a wealth of expertise but are not always experts in your field, it's all about them having the confidence in you."

Nicola Weedall, Hydr

"The main questions I was asked were around understanding the next stages of the business."

Michael Brennan, Tootoot

"Entrepreneurs can be so eager to get to the finish line that they assume it's a done deal before all final questions are answered. Lack of clarity in response or "I don't know" to a late question is often when deals falls over. I was in a round as an investor recently where that happened."

Helen Oldham, NorthInvest

Businesses with a broader skillset within the founder and management team were seen to be at an advantage to single-founder businesses which had not yet expanded the team. For example two co-founders or more was perceived to be a strength and encouraged investors who could see willingness to embrace a diverse skillset in that broader approach.

"I would have found a good CTO. I was CTO/CEO, and we needed a tech manager to fill in the bridge between the clients and my tech team."

Adeel Farooq, RevGlue

Businesses open to constructive feedback, who were able to pivot their business model and were flexible to negotiate different deal term options according to feedback, were able to maximise growth and progress more quickly.

"Selling the idea felt fairly easy. No one questions the need for our product, because it's something all organisations should have. The sticking points when initially seeking investment were around the business model, which I've now improved."

Gemma McCall, Culture Shift

"Acknowledge the opportunity cost and the risk of not getting it right. You will get questions around what happens if you don't achieve the numbers, and alternative terms. You have to be prepared to take terms away and think about them before committing. Remember, you are married to your investors once you agree terms - pick the right investors for your business."

Michael Brennan, Tootoot

Navigating investor feedback and offers

In general founders were unprepared for the time commitment of raising and felt their business suffered as a result. Many businesses found that matching and pulling together a range of offers from different angels at the same time was fraught with last minute dropouts, failing to keep one angel interested while courting the rest, and in some cases, rounds falling through. Businesses who remained committed to the process and kept prospective investors updated with changes and updates in the run up to the deal taking place were least susceptible to last minute dropouts.

In the most successful raises, a consistent feature was the securing of more than one offer, increasing leverage on valuation and therefore dilution and other key terms and and allowing the business more control over the investment process and timeline. Another feature of successful raises was the presence of an uncomplicated cap table, seen as more attractive by investors.

"Practise on the investors you may not want, sharpen your delivery and get feedback from those who are less likely to invest. They will be the harshest. We went to reputable organisations and listened to the feedback, then shaped our pitch to the investors we felt we did want."

George Richardson, Aero Cloud

"We accepted the terms our institutional investor was offering, so we took the path of least resistance and lost a couple of angel investors as a result. We should have looked closer at the deal and shopped around."

Anonymous

"We see some messy cap tables, typically where an entrepreneur has given equity in return for work - some can have over ten people on their cap table going into a first fundraise. This is a deterrent for would-be investors. Don't give away equity at the beginning unless you absolutely have to."

Helen Oldham, NorthInvest

"We shied away from a deal because a founder had given 40% of his business away, and the 40% shareholder had taken over."

Mahesh Patel, KM Capital

Businesses which found the investment process most fruitful were able to use the conflicting advice from various investors, whether they agreed or disagreed, to inform and sharpen their business propositions. By explaining and discussing strategies with investors, entrepreneurs were able to shed light on and better clarify the decisions they had made in their own minds.

"Listen to what investors say. If it's a no, follow up with a phone call to understand why. If you're constantly hearing that you're too early – find out where you need to get to."

Alastair Walmsley, North West FD

"If I could do it again, I would get more detailed feedback from clients at the start. We always heard it was "really interesting", but you want constructive criticism to highlight any red flags. I wanted to understand why some people weren't buying into the business."

Eddie de Lewis, Final Stage

"Try to find people in complimentary businesses. Look for people in that industry who can recommend you and make introductions, and look to work with people who can give you sector-specific feedback."

Peter Lusty, Manchester Tech Trust

Businesses which saw negotiations as a mutual exchange of valuable information and constructive feedback, rather than a "beg for cash", experienced more fulfilling and productive investor meetings.

"Be clear what you have to offer to them. Equally, make it crystal clear what that offer will entail."

George Richardson, Aero Cloud

"The investor is lucky to have you. Don't be desperate for the money. We had a misunderstanding with one investor on what a board seat meant. He thought he would be a NED. What I was offering was an observer. Make it clear about what you're offering - don't just think – "I've got your money."

Dom Raban, Xploro

Businesses which were prepared for the intensive and indeed full-time commitment to raising capital were better able to manage the overall process whilst minimising the impact on their business as a result.

"Make sure there's someone who can run the business day to day. It was such a draining process, each conversation that went well had to be given additional data and information. I did that with 20 or 30 different sources of funding. Each one feels like it's going to be the one. You're not able to focus on sales. You can't prepare yourself for the work and disappointments."

Dom Raban, Xploro

Valuation and dilution

Businesses were generally able to come to valuations they were happy with, often revised down from their starting point. Businesses found a compromise between getting funds in quickly and accepting a lower valuation – a number of founders wish they had accepted the lower valuation sooner and "not been hung up on decimal places". Equally, others warned of raising with a too low a valuation at pre-seed, which stuck to them at following pre-seed rounds, forcing them to give away more equity. Generally, businesses who could provide evidence of similar transactions based on similar metrics and proof points elsewhere in the North West (not elsewhere in the country/Scotland), saw less challenges to their desired valuation.

Advisors and entrepreneurs felt it important to stress that pre revenue, valuations are a calculation based on the amount the business needs and how much equity it wants to give away. However, this number is often informed by revenue projections that may be over-egged.

"The start-up will say, I need £200k, I only want to give away 20%, so I will value at two million. Everyone knows that's how it works, but no one says it."

Anonymous

"We looked to our industry, the last ten years of meaningful exits, we understood the numbers that surrounded those exits and what the multiples were, we overlaid that onto the financial plan, and came up with valuation."

Joe Perkins, Landscape

"We saw a business recently who we turned away because they owned less than 50% going into a seed round. Ideally at this point you should own almost all of the business and look to give away between ten and 20%".

Helen Oldham, NorthInvest

"We had a NED who was chair of another business who had built and sold businesses in the past. He negotiated a higher valuation."

Anonymous

"Entrepreneurs accept any money at pre-seed for a valuation of around one million. Then at seed, investors ask your pre-seed valuation, which can limit you. Maximise the valuation at pre-seed and then minimise your raise at seed - don't give away too much of your business before you get to Series A."

David Goadby, North West Angel

Where valuations are based on projections, projections are often "overly optimistic. Start-ups with more realistic projections and generous allowances for under-performance or unexpected costs benefitted post raise from this more measured approach when under pressure to deliver on their numbers post investment.

"Projections are about understanding the fundamentals of the business model, not creating a set of numbers. I've seen time and again, entrepreneurs spending the first year of board meetings explaining why they didn't hit the numbers. Expenses not factored in include the fact that 30% of hires fail. Churn rate. Wages. Travel. Legal costs."

Gareth Burton, Burton Beavan

"Initially our business plan showed overly aggressive and ambitious projections in the first couple of years. We wanted to show potential ROI, but the investor response was - if I can't believe the first year, how can I believe the rest of the plan. When you're demonstrating long-term return don't underestimate the long haul to profitability, it raises alarm bells."

Dom Raban, Xploro

"We put together a proposal for a lot more money, we should have presented a plan that showed no revenue within the first year. We should have been more conservative with the numbers and time to market."

Anonymous

Businesses regretted undue stubbornness over valuation where it slowed things down. Others saw that headline valuations can be misleading, and took a lower valuation, instead securing added-value in the form of expertise and the investors' contacts and network.

"If you're selling a relatively small stake in the company, the difference your early valuation makes to long term plans is tiny. It's irrelevant. Time is valuable, get the money in and get going."

Matt Latham, Tickr

"We did lose one investor because we were so hung up on valuation, we should have done a deal, we would have been about a year ahead."

Dom Raban, Xploro

"If you can take money in at a low valuation from a decent investor that can follow on or introduce you, that valuation is irrelevant – you're getting more security, and a likelihood of getting money in the future."

Anonymous

Entrepreneur takeaways: Pre-seed and Angel

How much should I raise?

- Be aware of the perils of raising too much, and the risk that comes with raising and spending too much, too quickly. A number of entrepreneurs regretted spending the amount they had raised on sales before they had a tried and tested method for growth; a number expressed relief at not having raised a larger amount and made mistakes on a larger scale. Consider that raising “little and often” in a series of pre-seed rounds, could be a reality.
- Equally, understand that raising too little could leave you having to prepare for the following round of funding immediately after the first round completes; monitor and track outgoings and aim to have enough to last you at least 18 months.
- Court your potential investors long before you need the cash and keep them updated on incremental progress, to maintain an open dialogue with them. Industry advisors recommend courting potential investors up to two years before you need the money, partly to allow for their delay and partly to understand, over that time, exactly what they are looking for from your business, so that when the time comes, the investors are already in the loop on where you are up to.

When is the right time to invest?

- If you can, get to a stage where you have a proven business model, proof of customer commitment, or a minimum viable product (MVP) before you approach investors. For both B2C and B2B, the more customer cohort data and feedback you can present, the more convincing your proposition will be. This will give you more leverage in discussions around funding amount and valuation.
- Weigh up the pros and cons of raising earlier, when dilution is likely to be higher; or later, when dilution is likely to be lower but your power to negotiate might be reduced if your cash runway is tighter at that point, leaving you at the “beck and call” of a specific investor. Leaving your fundraise too late could also delay your ability to grow at speed or to take advantage of a particular opportunity.
- Have an idea of what your funding journey will look like as a whole; what your overall ambitions are, how long it will take you to get there, how much you expect to give away in the process and the degree of flexibility you as a founding team have on each of these points.
- Tie costs and revenue to a model from the outset so that you can work out exactly how long each injection of cash will last you (whilst understanding that business plans rarely run according to plan). Having even the loose context of the bigger picture will help the rationalisation and justification of when is the right time for your first raise.

Finding the right investor

- Before you approach investors when raising your pre-seed and angel rounds, make sure you fit their criteria, and they fit yours. If you are left in a situation with one offer on the table, make sure it is one that you intentionally pursued. Consider the investor’s or angel’s credentials in your sector and in the skillet; ensure you are the right fit for them with regards to business size, cheque size, and future growth projections; consider the distinct differences between private and institutional funding and research the administrative due diligence that will come with each.
- Consider approaching institutions or national bodies that could be a future customer, stakeholder or sponsor. Pull in relevant contacts to your network and use them for recommendations and introductions to specific sector expertise or skillsets, or to private angel networks for future investor, advisor, or board member opportunities..
- When holding talks with investors – particularly angels – make clear your expectations of their involvement and contributions and your preferred communication style. This can range from monthly check-ins to daily WhatsApps, but a lack of alignment around support expectations could cause confusion down the line.

Entrepreneur takeaways: Pre-seed and Angel

Preparing for pitch

- Start your pitch deck by stating the problem that you're solving, and how your product solves it. Check that it makes sense to family, friends, and ex-colleagues before pitching to investors.
- Key metrics investors look for include commercial considerations such as size of the opportunity and how you differ from competitors. Specifics around product and features are of less concern. Be prepared to field questions on these topics in meetings, as well as your immediate, medium and long-term expectations for the business.
- Know your numbers inside out – even raising the smallest amounts at the earliest stages – to demonstrate your competence and instil confidence in prospective investors from the outset. Even if it's not expected by all at this stage, it reflects well on you as a founder and stands you in good stead for recommendations and follow-ons in future rounds.
- Know that having a co-founder is an advantage from a support perspective, and also viewed as a positive by investors. If you don't have a co-founder, make sure you have the required strategic skillset in your team, or, if you can, in place ready to be hired.
- Go into conversations knowing you don't have all the answers; be prepared to take investor feedback, consider it, and pivot some of your business decisions if you have to. Equally, if you don't agree with investor feedback (which you inevitably wont due to the variability of conflicting feedback) use your point of view to hone and shape your opinions and reasons for the decisions you have made, better preparing you for future conversations.

Navigating investor feedback and offers

- Be prepared to set aside 6-9 months for fundraising and understand that if you don't delegate the running of the business, raising will significantly eat into your working week. Some entrepreneurs spent their evenings and weekends on the raising journey (this could be gathering requests for data) while others let it take up the majority of their working week and saw the business suffer as a result.
- Don't just take the first offer you are given without close analysis of the terms and expectations. If you can, secure more than one offer to strengthen your position – being left with one offer on the table reduces your ability to negotiate your position if you're not happy with it.
- When negotiating and navigating offers, keep your cap table structure as simple as possible, particularly in the early days where you might have a number of angels on board.
- Use investor meetings – particularly with those investors you might not want – to practise your pitch and sharpen your delivery. Use their feedback to sharpen your opinion or understanding of particular discussion points.
- Don't leave investor meetings without a thorough understanding of, if it was a no, why it was a no. If they are reluctant to give you a reason, or repeatedly answer "you're too early", chase with a phone call to understand what about the business is too early and what specific milestones need to be met to secure investment.
- Don't treat investor meetings as a request-v-offer scenario; you aren't on the back foot asking for money, this is a mutual exchange of value in which they are paying for the opportunity to have a stake in your business.

Valuation and dilution

- Approach valuing your business with the knowledge that it can only be a calculation at this stage. Look to the last ten years of meaningful exits, understand the numbers that surrounded those exits and the multiples. Look for similar transactions of businesses at your size with your metrics who have raised in your area. Overlay that onto the financial plan, and go from there.
- Make sure that revenue projections that form the basis of valuations are backed up tried and tested growth methods and all assumptions are explained. Don't overlook costs; industry stakeholders see under-estimation of hiring costs, wage costs, travel, churn rate, and legal fees.
- If you can secure one angel at a set valuation then that reduces the negotiating power of other angels joining the round; having an investor who backs you is incredibly powerful.

Seed and Venture

Summary table: Seed and Venture

1. When is the right time to raise?	• Businesses able to prove they had tested their assumptions and business model were more successful raising their seed and venture rounds, and were more able to field questions on unit economics, customer data and business analytics. • Businesses who raise too late tend to impede earlier and faster growth; and also put themselves at a disadvantage in negotiations because they have a short time period to secure investment before running out of cash. • Businesses waiting for funding to come in found themselves caught up in a mindset of prevarication in executing their strategy by prefacing decision-making with "when we get the money…". • Businesses with well-formed, well-functioning and well-advised teams and often with specialists in place on a part time basis found themselves better able to manage and succeed through the rigorous investment process.
2. Finding the right investor	• Businesses who were able to look nationally or internationally had more offers and a broader pool of comparison, giving them more leverage to negotiate a deal that suited them. • Businesses who are able to navigate the northern networks found investors operating nationally by introduction, including from investors who don't invest in the relevant sector-vertical themselves but "know people who do". • Businesses who researched and understood what each investor wanted, including speaking to past investees, were significantly more likely to secure investment and reap the rewards of being forewarned in this regard post raise. • An investor which can demonstrate a track record of alignment with your business' mission and investment in your sector is more likely ask valuable questions and be able to benefit the business post raise.
3. Preparing for pitch	• Founders stressed that the "best" VC meetings were a mutual and open discussion around an exchange of value, rather than a lend/ borrow dynamic in which the entrepreneur was on the back foot. • Founders used pitching sessions and investor meetings to assess the investors by the quality of their questions and considered their feedback as part of a broader imperative to get the right investor. • Funders are seeing a recurring pattern of businesses not able to articulate their business clearly which is a significant challenge for both sides of the deal. • Entrepreneurs entered pitches for seed and venture with a strong handle on the detailed breakdowns of their business performance, past and future.

Summary table: Seed and Venture

4. Navigating investor feedback and offers	• Businesses expressed the importance of adopting an organised and methodical approach to managing multiple prospective funders. • Businesses raising with VC firms in particular found a serious case of “sheep herd mentality” and “FOMO”. Investors were reluctant to commit until they knew which other investors were on board. • Businesses found they were tripped up by informing their current business activity by expectations of an impending fundraise, to the extent that they prejudiced the business in the here-and-now, losing momentum and traction. • Some businesses had been stung by “throwing all their eggs into one basket” and regret not pushing for a “fast no” from investors, often finding that when they did raise, it happened quickly. The statement that what kills you is not “no”, but a “slow-no” was amply supported by the feedback. Getting a decision quickly, even if not a “yes” is important.
5. Valuation and dilution	• Where businesses were basing valuation on existing and projected revenue, they were careful to ground those projections in a proven repeatable scalable business model. • Businesses used relationships built with VCs as part of the raising process as a source of advice later in the deal. • Businesses able to get multiple offers were better able to reach the valuation they wanted. • Businesses advocated being firm with the valuation they deserved and could get elsewhere but warned against agonising over decimal points. • Businesses who kept in mind their future raises were less likely to end up with a valuation that impeded them later on in that regard.
6. Navigating investor relations mid and post raise	• During the deal the exchange of information can be taxing. Some businesses found themselves scrambling to pull together the necessary breakdown of information. Preparation and adequate professional support is vital. • Businesses found selecting and using their chair as a soundboard hugely valuable but warned against accepting an investor-appointed chair from the investor too early on. • Founders stressed the importance of keeping an open communication with the board. • Founders found it most useful to see their Investor Director as a source of advice and rather than an authority to answer to.
7. Negotiating the deal	• Entrepreneurs’ understanding of the term sheet and clauses was seen to be necessary to avoid signing up to deal terms that could be detrimental. • As early as possible, engaging appropriately experienced lawyers to check over a term sheet was felt to be important and beneficial. • Understanding the terms of a deal with an advisor is equally important.


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When is the right time to raise?

Businesses in the North West are split between raising a large amount in one go - saving time spent raising smaller amounts more often and allowing them to grow more quickly and remain competitive – and raising smaller amounts more frequently – allowing them to test strategies on a smaller scale, prove their business model and methods of growth.

Businesses found that North West funders were more often in favour of the latter, while conversations with London funders were around raising "bigger", earlier. The better informed the entrepreneur around the funding available and the necessary requirements were more able to navigate conflicting advice.

Businesses able to prove they had tested their assumptions and business model were more successful raising their seed and venture rounds, and were more able to field questions on unit economics, customer data and business analytics.

"You need to show product development, acceptance and adoption. You need to hustle and acquire users before you get seed, you're expected to have made progress to a decent level."

Ben Hookway, Relative Insight

"Whatever you're using the money on, ask whether you have a scalable process that you know works. With our pre-seed round, we got to grips with how you build sales teams, we only gave 4.8 % equity. Then at seed, were able to show the investors the figures."

Neil Andrew, PPC Protect

"We didn't appreciate how ARR impacts the overall value of the business. Our pricing model involved a big set up fee and small ARR, which was fine for the business at the time. It didn't affect investor appetite, but it was something we had to remodel to grow more quickly and become a more valuable business."

Gemma McCall, Culture Shift

Businesses who raise too late tend to impede earlier and faster growth; and also put themselves at a disadvantage in negotiations because they have a short time period to secure investment before running out of cash.

"We should have started raising earlier, we bootstrapped for two years before we raised any money, we could have accelerated that two year period. We were a week from death if we didn't close our first deal, and we didn't need to put ourselves in that situation."

Simon Swan, Hiring Hub

"For months we were struggling to raise the level of investment needed. We kept being pushed to lower our expectations, raise less, and more frequently. Thankfully, we were connected with incredible local mentors and advisors who explained we were raising the wrong amount in the wrong places. We went from an attitude of "how much?!" at a lower valuation to raising a million in a matter of weeks."

Jonathan Lloyd, CG Hero

Businesses waiting for funding to come in found themselves caught up in a mindset of prevarication in executing their strategy by prefacing decision-making with "when we get the money…".

"At a point we had to just say: "we're doing this regardless and the money will come". Getting into that attitude makes you more attractive to an investor, and the more progress you can prove you're making, the more it de-risks it for them. If you begin to execute on the plan, you're not waiting for money to solve your problems and you get creative."

Matt Latham, Tickr

Businesses with well-formed well-functioning and well-advised teams and often with specialists in place on a part time basis found themselves better able to manage and succeed through the rigorous investment process.

"I wish I'd had a business model in excel with details of our customer base, cost per acquisition, specific breakdown of areas for funding allocation and breakdown of running costs before conversations with investors - it would have made them easier to navigate! In the end, Praetura introduced us to an FD, and we took him into the meetings with us."

Gemma McCall, Culture Shift

"Consider your team: do you have the elements required to build a business; tech, commercial, financial. Consider a NED. We have four founders covering marketing ops, creative and tech."

Neil Andrew, PPC Protect

"We'd have been better at raising money and understanding key metrics If we had hired a finance person earlier."

Anonymous

Finding the right investor

There is a lack of understanding in the North West around the different types of funding and the stage at which those are appropriate. It is widely understood that the North West is far behind London in the number of VC firms following the American style "portfolio perspective".

In its absence, some tech start-ups talked of raising with PE Houses under a more formal, heavily checked process at a stage that they felt was too early for them, because of the lack of options in the region. More recently, however, businesses looking for "true venture" (higher risk profile, longer horizon, less in-depth due diligence processes), were able to navigate North West networks to find funding that was right for them.

Businesses who were able to look nationally or internationally had more offers and a broader pool of comparison, giving them more leverage to negotiate a deal that suited them.

"There's a narrative around Manchester that you can only fund yourself from Manchester, but that's wrong. It's two hours on a train to London, where there's more money and a broader pool of VC options. Manchester might get more money, but the ratio available will never change."

Ben Hookway, Relative Insight

"Deals happen in London because there's a huge network, and experienced investors or venture-backed founders are accessible and happy to help. We don't have that network here yet - so it's key to plug into what London has to offer, and not get hung up on the region."

Tim Dempsey, Epiphany Capital

Businesses who are able to navigate the northern networks found investors operating nationally by introduction, including from investors who don't invest in the relevant sector-vertical themselves but "know people who do".

"Praetura were very keen to link me into a network before they had invested – Insurers, Copywriters, Recruiters and other like-minded people in the tech eco-system. Those connections are so valuable."

Gemma McCall, Culture Shift

"That's the eco-system, there is a pay it forward mentality and a genuine care towards helping start-ups succeed."

Jonathan Lloyd, CG Hero

Businesses who researched and understood what each investor wanted, including speaking to past investees, were significantly more likely to secure investment and reap the rewards of being forewarned in this regard post raise.

"We should have found people who understood recruitment, to avoid time wasting in the wrong place. We're tech but operate in recruitment. Pick a target list of ten investors in the sector you're operating in."

Simon Swan, Hiring Hub

"Look at the basics: are the investors B2B/B2C, have they invested in your sector? Do they want D2C, big vision, or are they metrics heavy? Don't do a different pitch each time, but you can tweak according to their criteria."

Ben Hookway, Relative Insight

"Entrepreneurs need to do due diligence on the investor. Talk to other investors and ask them for examples when things didn't go so well. They will always wheedle out who has done well, but if they have a high turnover of founders, find the founders and speak to them."

Anonymous

"Align the expectations you have to the expectations the investor has. If you want to be a unicorn, find a VC that builds unicorns. If you want to exit at £50m and retire, find someone who does that."

Ben Hookway, Relative Insight

"I went to businesses that had attended VC open days and asked them what the VC was like, rather than businesses in their portfolio."

Neil Andrew, PPC Protect

An investor which can demonstrate a track record of alignment with your business' mission and investment in your sector is more likely ask valuable questions and be able to benefit the business post raise.

"We went out to committees who have been in this industry for a long time, and we were asked how we would scale our artist workforce, a lot around triggers and KPIs driving the business forwards. Revenue was second to achieving our critical KPIs."

Jonathan Lloyd, CG Hero

Preparing for pitch

In general, at seed and venture rounds, businesses found investor questions were more sector-specialised, and questions around the numbers more in depth.

Businesses used the same tactics as with pre-seed, starting by pitching to investors they didn't want to hone their practice. Again, investors found pitch decks failing to articulate the market need.

Founders stressed that the "best" VC meetings were a mutual and open discussion around an exchange of value, rather than a lend/borrow dynamic in which the entrepreneur was on the back foot.

"Arrive at a fast no, don't waste time. Individuals claim to be serious, and it can go nowhere. Ask the investor directly - what's your track record, how much capital do you want to deploy, over what time frame, how often you have followed on, what are their references. If they um and ah, leave."

Carl Wong, LivingLens

"You have to see it from their point of view. I'm offering them a seat on my rocket ship, they can't be on the rocket ship unless they give me the money. The rocket ship cannot launch unless we have their money. The deal has to work for both sides."

George Richardson, Aero Cloud

Founders used pitching sessions and investor meetings to assess the investors by the quality of their questions and considered their feedback as part of a broader imperative to get the right investor.

"Say there are 50 potential investors out there. It's your instinct to go after the top 5. However, your business plan won't be nailed down yet and those top five investors may not be right for you. Some "perceived" less high ranking VCs may ask questions that you hadn't considered. Be prepared for strategy suggestions and assess how good they are. Always be assessing the VC as to their input. You want a VC to question you, to push you and to make you ultimately a better business. They could be sat on your board."

George Richardson, Aero Cloud

"You always go through more nos than yes', especially in the early stages, investors don't know everything and won't necessarily know more about your space than you. You shouldn't be changing for every bit of feedback – it might be wrong."

Matt Latham, Tickr

"The best advice I got was from a successful entrepreneur who told me I seemed really laid back. He asked how passionate I was about my business, and said I didn't look it. It was great feedback – understanding how you're perceived by others and how you come across is vital. Ask for candid feedback."

Simon Swan, Hiring Hub

Funders are seeing a recurring pattern of businesses not able to articulate their business clearly which is a significant challenge for both sides of the deal.

"Pitch decks aren't articulating their business properly. People miss what the market problem and solution is in plain English. That explains the business in two questions. Give your pitch deck to someone you trust and say – do you understand this."

Guy Weaver, Praetura Ventures

"People don't put historical numbers in their business plan because they want to focus on the future post investment. Historical performance shows an investor where you are and what you have achieved to date. You will be asked for it eventually. Put them in and explain your assumptions around why they will go up."

Guy Weaver, Praetura Ventures

"People don't know about the formulaic way to pitch, that makes you think about total addressable market, product market fit, and the problem you're solving. They are the right questions to have good answers to. Lots of businesses haven't got an answer to that."

Carl Wong, LivingLens

Entrepreneurs entered pitches for seed and venture with a strong handle on the detailed breakdowns of their business performance, past and future.

"You think you'll go down and open up the pitch deck, but we didn't use it at all. It wasn't needed, they'd already read it. Be prepared for potential scenarios- think about all options and have an answer."

George Bettany, Sanctus

"At venture stage we knew how much it cost to acquire a user, user behaviour, the revenue we're going to generate from that product, and the unit economics – i.e. if we pour so much petrol on the fire, it will get this big."

Matt Latham, Tickr

Navigating investor feedback and offers

Businesses in the North West described a long courting process with prospective investors that they hadn't necessarily been prepared for. They stressed the benefits of being in a prospective investor's pipeline early and encouraged others to use the opportunity to understand exactly the requirements needed to get to "investment-readiness". However, they also warned against "putting all your eggs in one basket" and jumping through hoops in the blind hope of investment – encouraging founders to stay true to the ambitions of the business and keeping progress in the business a priority where possible.

Businesses expressed the importance of adopting an organised and methodical approach to managing multiple prospective funders.

"You become co-ordinator of a deal process. We had two angel networks, Maven, and independent angels, to bring together one set of documents to get the deal across the line. I would have been more regimented with my time; it takes you out of your business for months."

Simon Swan, Hiring Hub

Businesses raising with VC firms in particular found a serious case of "sheep herd mentality" and "FOMO". Investors were reluctant to commit until they knew which other investors were on board.

" A lot of VCs ask who your lead investor is – they won't lead, they only follow. There's a sheep herd mentality."

Anonymous

"Hit up the network of founders who exist, we've all struggled to raise money, we know who not to talk to. In reality, every investor will take a meeting because they want sight of deal flow."

Anonymous

"Some investors will ask who you're speaking to, you don't have to give it away, you don't have to say who you're speaking to. Don't underestimate the power of FOMO."

Matt Latham, Tickr

"Never send your pitch deck randomly to someone that asks, you should start with a call. You're just spreading information and it gets diluted, you want to know they want it for a good reason, they could be using it to compare to another company."

Neil Andrew, PPC Protect

Businesses found they were tripped up by informing their current business activity by expectations of an impending fundraise, to the extent that they prejudiced the business in the here-and-now, losing momentum and traction.

"No deal is done until it's done. We got into a lengthy conversation with one investor for a big cheque early on - everything we planned to do started falling into "post funding round". You have to run the business like the funding isn't happening, the money was meaningful for us, we paused what we were doing, and invested all our time, talking to an investor. The investor changed terms, we then had to carry on without the money, and keep talking to new investor

Anonymous

Some businesses had been stung by "throwing all their eggs into one basket" and regret not pushing for a "fast no" from investors, often finding that when they did raise, it happened quickly.

The statement that what kills you is not "no", but a "slow-no" was amply supported by the feedback. Getting a decision quickly, even if not a "yes" is important.

"Best thing to do is to get as much information from all potential investors as you can before entering exclusivity. You don't know what's going to happen, there could be a curveball later on."

Matt Latham, Tickr

"If they say they'll lead, say no or set terms, a fast "no" is better than a long term "we might be interested". Get down to the point as quick as possible."

Ben Hookway, Relative Insight

"The best interaction I had was a fast no from a London VC. We were told why it was a no, and the feedback helped us shape our pitch moving forward, that was a really good interaction."

Joe Perkins, Landscape

"Be super responsive even if the question is stupid – just steer the conversation somewhere else, don't let it irritate you or cloud your judgement. They don't know your business, there's no reason to be frustrated by daft questions. The key is be super professional and impress them because you're going to be working with them."

Richard Potter, Peak AI

Valuation and dilution

In general, businesses at this stage had proven unit economics to base their valuation on and few with this felt they had to compromise on valuation. While they stressed that competition between VCs can play a part in driving valuation up, they were quick to warn of the dangers of a high valuation making a great "headline", with the possibility of unfavourable deal structure of impeding follow-on rounds.

Where businesses were basing valuation on existing and projected revenue, they were careful to ground those projections in a proven repeatable scalable business model.

"I worked hard to move the needle and get a higher valuation, and I had investors with me on that. We always set high projections, and one time, we didn't hit them. That hampered us. Next round, I had to do a flat round. It is important to get the right valuation, not necessarily the highest, because you will need to justify valuation more and more as revenues grow. Early high valuations can hamper you in the future. Don't be too greedy!"

Carl Wong, LivingLens

Businesses used relationships built with VCs as part of the raising process as a source of advice later in the deal.

"We took advice from advisors, other VCs, asked if we could keep in touch and use them as a sounding board, to ask them what was standard. We would ask them, if you'd got to offer, what would you value us at."

Anonymous

"Ask them about preference shares, whether you should you be giving away a board or an observer seat and how many, as well as what rights you should have as founders in terms of voting."

Neil Andrew, PPC Protect

Businesses able to get multiple offers were better able to reach the valuation they wanted.

"Don't put the pre-money valuation on the deck, it's not your job, it's a negotiable process. If you choose to set, you only impede yourself because you set a permanent ceiling."

Oli Hammond, Fuel Ventures

"We got a 40% increase in valuation, we were firm with them, we had an offer significantly higher from a US VC based in New York. We said here's one offer, we know it's US, but we need you to get close to it. Don't be afraid to turn down the valuation. You will find someone."

Neil Andrew, PPC Protect

Businesses advocated being firm with the valuation they deserved and could get elsewhere, but warned against agonising over decimal points.

"You don't want to agonize over decimal points. Get the money in and get on, you will likely be in a competitive space. Having money in the bank and being able to execute on the plan is most important. Your ability to move fast is your biggest advantage. Dilution doesn't matter, you will make up this difference and you will get it done quicker if you get the deal done quicker."

Anonymous

"Do your research. We would say, we want 11x ARR for the next 12 months valuation. We were getting offers below that, but being firm as a founder is respected."

Neil Andrew, PPC Protect

Businesses who kept in mind their future raises were less likely to end up with a valuation that impeded them later on in that regard.

"Most early stage business plans will need to raise follow on funding and therefore a business needs to ensure it raises sufficient capital to demonstrate traction and a valuation uplift before the next raise. If a company raises too little and traction isn't proven before the next raise, a challenge which could materialise is the cap table itself; i.e., the management team being too diluted and not owning enough of the business"

Guy Weaver, Praetura Ventures

"Two of the biggest drivers of valuation at seed, are dilution and competition between prospective investors. Competition drives the value up. Dilution is tricky – because we write larger tickets (i.e., we might do up to two and half million), a factor we'll consider when setting the valuation is how much equity do we want in the business – it's not in our interest to over dilute the founders. That can sometimes mean basing the valuation above standard public market metrics."

Oli Hammond, Fuel Ventures

"Make your friends early and always be looking a round or two ahead. Make sure that whoever is investing in you at the moment has capacity to be there for the next rounds – a follow on investment will encourage others to get on board."

Mark Borzomato, LCR Angel Network

Navigating investor relations mid and post raise

In general, once the deal had gone through, entrepreneurs developed positive relationships with their Investor Directors – based on open communication and a friendly working relationship, a positive attitude towards the Investor Director as a bringer of value via contacts and experience. Entrepreneurs stressed the importance of understanding exactly what an Investor Director contribution will look like post raise.

During the deal the exchange of information can be taxing. Some businesses found themselves scrambling to pull together the necessary breakdown of information. Preparation and adequate professional support is vital.

"If we had had all the data the investors needed in the order they needed it, we would have been fine. It would have saved us weeks of work, getting that data room together beforehand. We were just four founders, and the time it took ended up taking away from our sales."

Neil Andrew, PPC Protect

"As soon as we got the VC term sheet, one of our original investors – who had not wanted to follow on - wanted in at the last hour. We needed their signature, but they wanted to update the terms of the deal, all at the last minute. It was a headache for us and our lead VC - it could easily have scuppered the deal."

Jonathan Lloyd, CG Hero

Businesses found selecting and using their chair as a sounding board hugely valuable but warned against accepting an investor-appointed chair from the investor too early on.

"I'm a chair and like to see a board pack with forecasts, burn rate etc, a week before. It frees up time for input on questions and problems at board – these can be any number of things, from do you think I should hire a CFO or outsource to my Accountant to how we build the right funnel so we convert fast enough. I would be suspicious if boards at seed and Series A are too formal. It's important for a founder to establish the culture they want."

Volker Hirsch, Amadeus Capital

"I'd be wary of getting a chair when you're forced to get one. I didn't know what I wanted one for or why it was important but it was a requirement from our investors to have one and that doesn't always make you make the right decision on what good looks like. A good chair keeps management really focussed. As a founder having someone to build confidence in you and develop you is valuable."

Chris Meehan, Sentric Music

Founders stressed the importance of keeping an open communication with the board.

"Investor Directors will want the board pack pre-board meeting and will come with specific questions. We set the agenda based on points we want to discuss to make sure we're maximising everyone's time."

Gemma McCall, Culture Shift

"It's about transparency and communication. There will be stages where you deviate from the plan, so just keep the cadence operating effectively. I send an email every Friday night with key metrics, what went well and what went badly, so there are no shocks at board."

Simon Swan, Hiring Hub

"We spent loads of time creating a board pack and going through it. I was pitching, not being honest. We should have been talking about why people weren't using the product."

George Bettany, Sanctus

"Be honest at board meetings, don't hide anything. Deliver news early on. I speak to my Investor Director at least once a week."

Gemma McCall, Culture Shift

Founders found it most useful to see their Investor Director as a source of advice and rather than an authority to answer to.

"Use your investors and board for their experience, get as much out of them as possible. You pay substantial monitoring fees, you are paying them a wage, they can be really valuable to you by giving you access to their networks, and also putting you forward for as much publicity as possible."

Gemma McCall, Culture Shift

"Treat Investor Directors like they are part of the team. You never know what value they can add unless you treat them as someone who is behind business. If they can't add value, don't treat them like they can't, just be honest about the business."

Chris Meehan, Sentric Music

Negotiating the deal

A number of businesses in the North West reported being burnt by deals they had not properly understood. Entrepreneurs stressed the need to understand term sheets and deal terms in detail, with a second opinion, and that term sheets are there to be negotiated. Equipping themselves with the tools to negotiate from a fully informed position stood entrepreneurs in better stead facing a pool of investors whose priorities, unchecked, could unfairly prejudice the position of the founders.

Entrepreneurs' understanding of the term sheet and clauses was seen to be necessary to avoid signing up to deal terms that could be detrimental.

"The buzz around tech has resulted in certain groups crowding the space and making it difficult for founders to recognise real and genuine, or gain access to valuable support for good value, or even for free. Founders should be discerning when meeting individuals purporting to be 3x exited entrepreneurs who are able to help you raise and also invest themselves, for example. Odd how that investment hasn't materialised yet? Ask for evidence and references if you're unsure – a good investor would have no scruples about this."

Jess Jackson, GC Angels

"There's simply no need for preference shares at Series A or seed. It often shows a fundamental misunderstanding of venture - which is about partnership and risk. Preference shares so early will mean that future investors will pile on and push founders further down the returns waterfall - so founders can build a valuable business and end off with a small proportion of their actual equity percentage. Founders beware - always opt for alignment."

Tim Dempsey, Epiphany Capital

"At seed, a term sheet should be a page or so long, no ratchet, no board fees, no preference shares. They can turn your cap table toxic, quickly. It makes it much harder to find follow on funding."

Volker Hirsch, Amadeus Capital

"We made sure we wouldn't be in a position, at board level, where we could be compromised by investors. I would look out for shareholder agreements and articles, large warranties, restrictive items from an employment perspective, good leaver bad leaver clauses, rights around swamping, and personal or company liabilities."

Anonymous

"Our term sheet included the right for them to remove us if they wanted to, and our equity would fall away completely. The terms they were looking for were what you would see for a two million raise, not for 250k."

Anonymous

As early as possible, engaging appropriately experienced lawyers to check over a term sheet was felt to be important and beneficial.

"Getting a very good Lawyer who does these deals every day of the week is your biggest superpower. They will have seen investors acting badly and are there to protect you. Listen to them. They've seen it all before."

Anonymous

"You don't know what a bad term is, you've never seen one before. Our Lawyer was like, "this is terrible". So the investor sent us a revised term sheet. They ended up saying you write the term sheet".

Anonymous

"We shouldn't have bootstrapped to the extent that we did. I would have got more advice around the IP position and on fundraising. I thought I didn't need advice, relied on my networks for ad hoc advice."

Dom Raban, Xploro

Understanding the terms of a deal with an advisor is equally important

"When you bring on an advisor, make sure you can get rid of them in the right situation. Ask - will you cost more than I need, how do I make sure you are acting on my behalf."

James McMillan, myNexus


BBC
MediaCityUK

Fund deployment: Things I would have done differently

1. Hesitancy to spend:

"The stress is real when that amount of money lands in your account, more than you've ever seen before. It puts a lot more pressure on you. When you raise a big chunk of money, you might be risk averse on spending it, but the VC will speed you up. You have to get on with it, but equally you have to be nimble – it doesn't have to be deployed exactly where the plan says, the plan is indicative."

Neil Andrew, PPC Protect

2. Under-estimation of recruitment agency fees and recruitment costs"

"I underestimated how much recruitment fees would cost. In our plan, we had put in salaries, but I hadn't built in recruiter fees."

Dom Raban, Xploro

"We didn't hire the right level of people. You look at how little money you've raised, you try and maximise length of time money will be available, and don't invest in people."

Chris Meehan, Sentric Music

3. Indecision and overspend on office space:

"We are still paying full rent on an office, which has been empty for the best part of a year. It's hard to know what to do for the best."

Gemma McCall, Culture Shift

4. Breaking into a new sector:

"It was difficult trying to break into a new sector, especially in the midst of a global pandemic. We planned on doing it in six months and we've now passed the eight month mark. We're getting closer, the pipeline is building, it's just about holding our nerve. We know it will happen but it's difficult to predict when."

Gemma McCall, Culture Shift

5. Gaining a thorough understanding of customer acquisition:

"Be clear about the sector you want to go into, dual run two approaches, see which starts to move quickest, and if one doesn't work, flip to the other. Rinse and repeat until you can prove the market exists. Start-ups with multiple target customer groups are less likely to be able to prove the traction required for a seed round."

Helen Oldham, NorthInvest

6. Rushing into sales and marketing to acquire users:

"We could've used our early adopters way more. An early adopter has to go through pain to use a sub-standard product – use them. Acquiring users in the ones, twos or tens, you need to learn from them. Leverage the user base and community that you're building. They ultimately want you to succeed so don't be afraid to ask them to help. It's tempting to spend big money on marketing D2C early on - your best marketers will be your early users."

Matt Latham, Tickr

7. Being slow to respond to delivery demands post raise:

"Until you hit ten million ARR, every single decision you make as a founding team, will be how will this drive revenue. The figures have to be on track. We weren't laid back, but we had been relaxed in terms of how we do things. Now we are figure focussed."

Neil Andrew, PPC Protect

8. Being too stuck to the business plan:

"I set a business plan and raised against it. Having my time again, I wouldn't be as black and white with following the plan."

Michael Brennan, Tootoot

9. Rushing into sales without allowing contingencies:

"Sales was my biggest learning. I hired sales people because we had to hit growth numbers. We needed resource in place quickly, to validate a large sales target. In my first raise I didn't give the team enough time to achieve the growth numbers. Pipeline and building trust in your product takes time."

Michael Brennan, Tootoot

10. Neglecting product development for sales:

"We didn't invest enough into our dev team initially as a tech business; we were selling a software product and it stood still at one point. We now invest heavily in our product."

Michael Brennan, Tootoot

Entrepreneur takeaways: Seed and Venture

When is the right time to raise?

- Be prepared to set aside 6-9 months for fundraising and understand that if you don't delegate the running of the business, raising will significantly eat into your working week. Some entrepreneurs spent their evenings and weekends on the raising journey (this could be gathering requests for data) while others let it take up the majority of their working week and saw the business suffer as a result.
- Know your numbers inside out – even raising the smallest amounts at the earliest stages – to demonstrate your competence and instil confidence in prospective investors from the outset. Even if it's not expected by all at this stage, it reflects well on you as a founder and stands you in good stead for recommendations and follow-ons in future rounds.
- Know that having a co-founder is an advantage from a support perspective, and also viewed as a positive by investors. If you don't have a co-founder, make sure you have the required strategic skillset in your team, or, if you can, already in place to be hired.
- Go into conversations knowing you don't have all the answers; be prepared to take investor feedback, consider it, and pivot some of your business decisions if you have to.

Finding the right investor and preparing for pitch

- Start your pitch deck by stating the problem that you're solving, and how your product solves it. Check that it makes sense to family, friends, and ex-colleagues before pitching to investors.
- Key metrics investors look for include commercial considerations such as size of the opportunity and how you differ from competitors. Specifics around product and features are of less concern. Be prepared to field questions on these topics in meetings, as well as your immediate, medium and long-term expectations for the business. Don't just take the first offer you are given without close analysis of the terms and expectations. If you can, secure more than one offer to strengthen your position – being left with one offer on the table reduces your ability to negotiate your position if you're not happy with it.
- Use investor meetings – particularly with those investors you might not want – to practise your pitch and sharpen your delivery. Use their feedback to sharpen your opinion or understanding of particular discussion points.
- Don't leave investor meetings without a thorough understanding of, if it was a no, why it was a no. If they are reluctant to give you a reason, or repeatedly answer "you're too early", chase with a phone call to understand what about the business is too early and what specific milestones need to be met to secure investment.
- Don't treat investor meetings as a request-v-offer scenario; you aren't on the back foot asking for money, this is a mutual exchange of value in which they are paying for the opportunity to have a stake in your business.

Valuation and dilution

- Approach valuing your business with the knowledge that it can only be a calculation at this stage. Look to the last ten years of meaningful exits, understand the numbers that surrounded those exits and the multiples. Look for similar transactions of businesses at your size with your metrics who have raised in your area. Overlay that onto the financial plan, and go from there.
- Make sure that revenue projections that form the basis of valuations are backed up with tried and tested growth methods and all assumptions are explained. Don't overlook costs; industry stakeholders see under-estimation of hiring costs, wage costs, travel, churn rate, and legal fees.
- If you can secure one angel at a set valuation then that reduces the negotiating power of other angels joining the round; having an investor who backs you is incredibly powerful.

Entrepreneur takeaways: Seed and Venture

Navigating investor feedback and offers

- When there are multiple investors interested at one time, approach the process from a management perspective; keep all your potential investors at play, communicate deadlines for document delivery and decisions if you can, and don't feel obliged to reveal who you have interest from and at what valuation, unless it is in your interest to do so.
- Remember that deals can fall through at any minute and the more options you have in the initial stages can increase your level of protection. Push for a fast no and get as much feedback as possible.
- Take into account investor feedback and if you can, use it to refine your proposition, but understand that a lot of it will be conflicting. Get as much feedback and as many critical pointers as you can from each investor to better understand the requirements of the markets. The more informed you are the better.
- Use investor meetings as a test for personal chemistry between you and the investor, based on the fact you are entering a partnership and will be working with them closely. Get clear on the value they would bring to the business and how they like to work.

Negotiating the deal

- Where you can get advice, do. Having a professional second opinion will not only highlight any potentially harmful parts of the deal terms, but also translate and explain parts of the agreement you might not understand, so that you as a founder can participate fully in discussions.
- Make sure you are fully literate on the deal terms and understand what they mean in practice, particularly around your rights and obligations, and those of the investor at exit. Don't rely on your lawyer. Items to look for include shareholder agreements and articles, large warranties, restrictive items from an employment perspective, good leaver bad leaver clauses, rights around swamping, and personal or company liabilities.
- Beware of preference shares, which a number of experts warn shouldn't be a part of early-stage deals at seed and venture, because if they remain, it can make businesses less attractive to investors who will then sit below those preference shares in the pecking order at exit.

Navigating investor relations mid and post raise

- Get sight of the depth of analyses and financial documents required by investors before your start the process and prepare them in order to speed up the investment process.
- When you raise funding, bring in an Investor Director, and board meetings become more structured as a result. Make sure that you appoint a chair who works for you and who will play a valuable role with relevant experience; also someone who can introduce you to further outside expertise or customers.
- Post raise, when you are running board meetings, circulate the board pack with necessary financials pre-meeting, up to a week before. Use the board meeting to discuss questions and decisions so that the time is used effectively.
- See your Investor Director as a partner rather than a boss. When things don't go to plan, communicate with the board openly and use their experience for advice and input. Know that there will always be times that you deviate from the plan.

Series A

Summary table: Series A

1. Preparing for a Series A funding round: **What do you need?**	• A number of funders spoke of entrepreneurs being unprepared for the rigour of the checks and due diligence that take place during Series A investment processes with a private equity firms. As a result, completing deals can be more drawn out than necessary. Ideally, they want organised books and data to hand, a tight and detailed forecast model, and with all assumptions explained. • Funders in the North West detailed the important metrics for investing in tech, where traditional approaches to revenue may be less applicable. • Momentum was seen to be a key indicator of success and, going into a round with commercial "momentum" was seen to put the entrepreneur in a better position for negotiation. This includes both momentum in the business and momentum in the process. • Funders pointed out the need for businesses to have an understanding and perspective on the wider market beyond their existing competitors to inform business decisions and sharpen product focus. • Funders commented on seeing a common trend of sales pipelines that could not be explained in detail by management; with out-dated or unsolid leads, as well a lack of understanding around the customer acquisition processes, particularly accounting for the size and multi-layered processes of corporates, considering the small and agile nature of an early stage business. • Funders recognised the most common over-projection of income and under-projection of cost around sales efficiencies; the ability to explain sales conversion rates and have a strong set of possible scenarios to cover the downside risk was sometimes missing. • Funders at Series A look at the team as a whole; making sure the team has all requisite skillsets and is properly remunerated and incentivised as well as generally well-treated was a priority for them.
2. Completing a Series A funding round: **How do you keep control of the deal?**	• Funders acknowledged the difficulty of juggling multiple potential investors at once. • Funders found that at Series A, the process was often made smoother if the company employed a Corporate Finance advisor. However, they recognised that Corporate Finance advisors have the potential to over-guard the investee. • Funders found that businesses often underestimate how much funding they will need. • A high valuation is often in the interest of the business but the region's PE firms warned of the shift a high valuation makes to the risk return profile and the control dynamics. • Funders explained their approach to valuations, including looking at the market standard, assessing the returns at expected exit, and calculating the risk around a poor growth scenario. They also highlighted the common gap between their approach, and that of the entrepreneur looking to maintain the maximum share of their business possible. • Entrepreneurs aware of the possibilities of deals falling through and the reasons why were in a better position to explain, discuss, and negotiate risk levels and deal terms. • Funders found entrepreneurs who were well versed on deal terms, common clauses and rights were better prepared for conversations around deal structure.
3. Post Series A funding round: **The post investment relationship**	• Funders and Investor Directors stressed the need for clear communication with the board ahead of bad news. • Where relationships were tested, funders encouraged entrepreneurs to see the Investor Directors for the value they can add, pulling in experience from other portfolio companies – rather than as an authority figure.

What kind of investment?

Private Equity

While PE houses have traditionally focussed on later stage majority share equity and debt support, with a classically less risky profile, for a number of years PE Houses have been offering early-stage minority investment opportunities – particularly in the North West, where a number of PE houses administer Venture Capital Trust (VCT) funds and also administer regional development funds (for example Northern Powerhouse Investment Fund).

What to Consider?

- Depending on the PE house, they will look for between three and five times return over three to seven years.

Key Question to Ask?

- What are my business strategy and growth targets: are the ambitions of my business aligned with providing a return big enough to satisfy a PE House requirement in the next three to seven years?
- What governance and downside protections am I happy to accept? Some investors have stricter governance procedures than others.
- How much of my business do I want to give away? Typically, smaller shareholdings (e.g., less than 20%) will demand a lesser degree of governance from the investor than deals in the 80-100% range.

What is the way in?

"PE houses will want to court you early. It's similar to selling into a large corporate, in the sense you want to make sure you have buy-in from someone senior. Juniors generate leads and opportunities. There could be up to five stakeholders that make the final decision."

Alastair Walmsley, North West FD

"PE houses are looking to build a pipeline, they'll want to be checking in, there's a lot of money looking for a home. If you're not ready for funding today, put yourself on that track. Start talking to Series A investors almost as soon as you complete your seed round to put yourself on their radar. Understand what KPIs they are looking for in the next 18 months and what their concerns would be."

Maria Wagner, Beringea

Venture Capital

VCs primarily focus on early-stage minority share equity support, with a classically riskier profile, typically aiming to invest in fast growing tech SMEs to deliver significant returns over the long-term – the risk profile can mean VC's build a broader portfolio of investments, in the knowledge that some will fail, but that the successes will yield spectacular returns.

What to Consider?

- Depending on the VC firm, they will look for a return in the region of ten times over a longer time horizon.

Key Question to Ask?

- What are my business strategy and growth targets: are the growth ambitions of my business big and fast enough to match the required return of the VC over a ten-year period?
- How will this VC support me? Will they follow on funding in the next round or support me in finding someone else? Do they have a network and expertise in my sector?
- *"VCs are looking for unicorns. Look at how much they invest and the percentage and return they look for to make sure you can meet the KPIs for the right VC for you. You don't want to find out too late that you're going down the wrong track."*

Anonymous

What is the way in?

"We get upwards of 130 business opportunities submitted through our website every month. We ask for all business plans to be submitted through our website so that we can treat everyone equally and consistently. It helps to address some of the diversity issues in the sector. A lot of firms are taking a similar approach."

Guy Weaver, Praetura Ventures

"We've gone wrong in the past, we got a lot of term sheets, for venture, for half a million. The criticism of me was – you came in and didn't say you were going to change the world."

Chris Meehan, Sentric Music

Preparing for a Series A funding round: What do you need?

A number of funders spoke of entrepreneurs being unprepared for the rigour of the checks and due diligence that take place during Series A investment processes with private equity firms. As a result, completing deals can be more drawn out than necessary. Ideally, they want organised books and data to hand, a tight and detailed forecast model, and with all assumptions explained.

"We weren't fully aware of what the process would be with due diligence. It was the amount of detail that's needed, when you're growing the business, you're not thinking about that. The financial due diligence was like going to the dentist - it just highlighted the things we hadn't thought of. It was a positive process though, and at the end of it, the business was better."

Mark Pegler, ParkVia

"There's a lot of things you take as given that you have to pick apart. The business model, cash cycle, working capital, your revenue recognition method, what finance package you're using."

Mark Pegler, ParkVia

"There's nothing better than a fully integrated financial model; linked between cash flow, P and L and balance sheet, that you can play with, tweak, and run sensitivities. Often, there will be a delay in the process because we have to say to companies - go away and come to us with a model."

Matthew Pomroy, Foresight

"Be due diligence ready before you think about having conversations with a PE house. I know businesses that have started a funding process which has fallen through because the DD showed areas of weakness – being ill prepared is not only disruptive to a funding process, it can be binary as to whether you succeed."

Nisha Sharma, KPMG

"The model needs to show how the investment will create value and move the business forward. If we invest a certain sum, what is the business going to do, how will it grow, what are the key milestones, what are the cost assumptions, how is progress measured, how do the costs link to the key growth metrics. Consistently we see people fail to articulate the link between key areas of spend with growth and progress metrics."

Will Schaffer, Mercia

"We need to understand the assumptions that drive the growth model. Growth is almost always slower and more expensive than the plan so we want to be able to test forecasts for different circumstances. It's nice to see three scenarios: base case, upside, downside, with key inflection points identified."

Will Schaffer, Mercia

Funders in the North West detailed the important metrics for investing in tech, where traditional approaches to revenue may be less applicable.

"We are in unchartered territory when it comes to what creates value. Traditional models centre around EBITDA. The value in data led businesses is the data and the demographic they're able to reach. So the KPIs underpinning the valuation are different. Understand what exactly is driving scalability and build your strategy around that."

Victoria Price, EY

"B2B businesses should have accurate data for: spend of clients over time; the churn analyses; the LTV analyses; and LTV to CAC. They should be able to explain why someone churned, how much they can upsell, rate of sales and sales efficiency, what does the sales funnel look like from leads to conversion. And if you can, have client references lined up."

Maria Wagner, Beringea

"For B2C consumer apps, key metrics include not only downloads but more crucially time on app by month and week. A lot of founders will share download information, but we want to know how many are using it consistently – often consumers will open an app once and delete it straight away if the user experience isn't perfect . You need a strong positive curve on usage. Be able to show LTV over COA and COA over time. Customer growth and retention."

Ed Prior, GP Bullhound

"Cohort data is critically important, you need to be able to demonstrate how a subgroup of users are behaving. You ought to be able to show retention, upsells and downsells in a granular format."

Ed Prior, GP Bullhound

Momentum was seen to be a key indicator of success and, going into a round with commercial "momentum" was seen to put the entrepreneur in a better position for negotiation. This includes both momentum in the business and momentum in the process.

"We don't look at "field parameters", we look for momentum. It's a bit loose – but that could be having recently won pilots, a couple of key customers; it could be revenue - it's different for every business."

Guy Weaver, Praetura Ventures

"The real strong performers, you can see momentum day by day, week by week. They show strong historical growth, and then looking forward, a solid rationale driven by granular pipeline analysis."

Ryan Sorby, Boost and Co

"If you don't have your business in order, the deal takes too long, and you lose momentum in the deal. Our attention moves to other deals, and it can mean that we lose faith in the team as well."

Maria Wagner, Beringea

Funders pointed out the need for businesses to have an understanding and perspective on the wider market beyond their existing competitors to inform business decisions and sharpen product focus.

"Often the main issue is that the product being sold isn't relevant to the market, or the competition are already doing it better. Speak to customers and prospective customers to find out what they need."

Ryan Bevington, Maven Capital Partners

Funders commented on seeing a common trend of sales pipelines that could not be explained in detail by management; with out-dated or unsolid leads, as well as a lack of understanding around the customer acquisition processes, particularly accounting for the size and multi-layered processes of corporates, considering the small and agile nature of an early stage business.

"Alone, a pipeline is relatively meaningless – the important aspect isn't that you have a long list of targets, it is the conversion data – i.e. are you converting those names and how long does it take? You need to show a pipeline with strong traction and progression as well as an understanding of the dynamics around it - some industries, like law or the public sector, take as long as 12 months to convert targets through the pipeline."

Ed Prior, GP Bullhound

"It is important to have an internal champion in the company you are targeting (this will often be the person who's specific problem your product is solving) and turn them into your best salesman. Note this person isn't necessarily the person who will be signing off on buying your product. Also identify this person and have conversations directly with them at the right time."

Ed Prior, GP Bullhound

Funders recognised the most common over-projection of income and under-projection of cost around sales efficiencies; the ability to explain sales conversion rates and have a strong set of possible scenarios to cover the downside risk was sometimes missing.

"The key success factor is around sales and marketing. Hiring the right sales people, CROs and CMOs is so hard. We like to see that sales are no longer heavily reliant on the founder(s) and ideally that there's a CRO and/or CMO in place that has shown good execution already."

Maria Wagner, Beringea

"Over-prediction on growth is common, particularly around sales efficiencies. How much each sales person is able to deliver, how quickly can you hire and onboard sales people and get them up to steady conversion. For B2C, CAC and improvement of margins are always underestimated; particularly how fast or whether they will improve at all."

Gareth Burton, Burton Beavan

Funders at Series A look at the team as a whole; making sure the team has all requisite skillsets and is properly remunerated and incentivised as well as generally well-treated was a priority for them.

"Businesses often only have an outsourced Accountant. Post transaction, it's always, how did I cope without an FD."

Anonymous

"We like looking at the team, are the team incentivised with equity? A founder having 100 % equity would raise a red flag to us. Why have you not shared what you're doing, and got their buy in?"

Guy Weaver, Praetura Ventures

"We speak to the whole team and get a balance of views. Diversity is a big one, have you got that balanced team, bringing their opinions, backgrounds, creativity and challenges for better decision making. How the founder has treated the team is huge."

Guy Weaver, Praetura Ventures

Entrepreneur perspective

Richard Potter, Peak AI

"The two things that kill start-ups are time and money. They are totally interlinked. Time is money when you're burning cash. A CEO's job is to make sure the company has the right business conditions to be successful. You're the enabler, a catalyst for a company to be successful. Funding plays into that, you need to make sure you have enough cash, but behave in a way that your team aren't impacted by that."

"Burning cash was right for us because the market is big, the opportunity is now, and we have slowly tested parts of the business model to get to product market fit and beyond."

"At Series A, we had to do it more slowly and chip away, now we can do things differently."

"I was too honest with VCs, I pitched where we were as a business. I think I should have told them what we wanted to be int the end, pitching them the future business, this is what I've got, and this is how we will get there in the end."

"Raise for the market opportunity, relative to how fast you can grow. You won't have achieved product market fit at Series A, you might have proven but not achieved it totally."

"At Series B, we had seven term sheets. We decided not to do any, which is why we went for the £12 million extension. Internally we felt bullish, we knew that this business would be worth significantly more, we just needed a bit more time. We bankrolled the business for more time."

"All money is not created equal. An investor is somebody you're bringing into the business, so it's good to make it someone who you actually like."

Clemens Wangerin, vTime

"Start-ups need to get their product to market quickly. As fast as you can, get an understanding of what level of uptake you will get if you spend this much. Get a handle on user behaviour – engagement, retention, how often people use your app, how long they stay, do they come back, how long they spend in app. Use the data you have to demonstrate the changing landscape."

"Do due diligence on investors to make sure they believe in the market that you're in. We would spend time educating investors that wanted to know what VR was, convincing them it was an emerging market. That's not what we wanted."

"With EIS funding, be aware that you will see a variance in how much capital you receive with each deployment."

"Deepbridge were impressive, they were looking to grow their own business, they had some really interesting people. It wasn't just the money, connections or black book relevant to the business. We had a big synergy with the young team."

"Try and get as much leverage as the entrepreneur. Often, entrepreneurs in a weaker position want the money, but don't be afraid use leverage wherever you can. Don't go for highest valuation, it might become an albatross around your neck."

"Don't be afraid of Silicon Valley. We did cold call, and it did work - but we had traction. They could google us and see press coverage etc, and look at reviews about our products. We had a product in the market and people were talking about us."

"We have been most pleased that Liverpool has recognised the role tech can play in growth of the area and wider region. Initiatives elevate what happens in the sector."

Entrepreneur perspective

Carl Wong, LivingLens

"Without the accelerator, LivingLens wouldn't have happened – it was a semi structured programme, long days, with a group of experts delivering the programme. The mentors were sharp at what they do."

"The way to prove product market fit? We brought very senior people from large organisations to the table to challenge the product market fit, which helped us develop our entire market model."

"From the accelerator, we got a bunch of mentors who had been there and done it. They had built their own tech businesses – they knew the shortcuts, were brutally honest, and knew where to put your energy and not to put it."

"Investors will want certain things from you, fundamentally you need to go and talk to customers and get people through the door."

"I raised with syndicates and family offices. I wanted angels who invested in people and ideas and didn't interfere in the running of the businesses. VCs want a significant say in how and when and what you do and can stop you moving the business in a direction you disagree with. You've got to go into a VC relationship with your eyes open, it's a marriage of convenience and you have to be on the same page."

"We raised five million over four rounds. We didn't find the right VC partner; we spent a lot of time with people who wanted to low ball us and wanted too much control. They were interested but not interested enough. I wish I hadn't pursued VCs as much; it was time, energy and effort – it's hard to get a VC to say no quickly. I wish I had set firmer deadlines on decision times."

"I put more time and energy into angel networks – for cash further down the line. I had 26 people on my cap table, so no one overly influenced the business and I only had one angel investor who turned out to be a negative contribution in terms of the energy they brought. 50% of them were silent and invested as part of a network. There was just a semi regular Q and A. Two came to board meetings, an Investor Director and an observer, and added great value. You should be looking for chemistry, experience, guidance and challenge, but letting us do what we're good at."

"Perhaps something I would have done differently - for us, we had no tech lead – we went from one version to another version, we outsourced to a local agency. We allowed them to make decisions on our behalf too much, until we were brave enough to build up our own tech team."

"Marketing spend is pointless early doors if you don't have product market fit.

"Traction is far more important than people knowing about your brand."

"Do anything that you can do to get traction, get people using your product and paying you something for it. If it means giving it away at a discounted rate, get feedback, and leverage that as a case study and test model."

"Board meetings are a core part of how you're going to be successful. Without the support of your board, you won't accelerate your growth, they will be more and more of a time constraint. You need to get people who know stuff you don't know."

"Managing a group of investor stakeholders is a skill – it's about who they listen to, who are their key influencers – use that to get them on side. In my group of 26, I was able to bring all of them with us, even when they were not supportive, because people who they trusted were on side."

"How much you give away doesn't matter. Until you have a truly scaling business you've got nothing. Until you've got an exit you've got nothing, we all worry too much."

Entrepreneur perspective

Anonymous

"When we raised at Series A, our existing investors were happy to lead the round, but we went to the market because we wanted a VC with a larger fund that could reinvest in Series B and C down the line. We were also interested in partnering with a fund where we could network with a wider pool of portfolio founders to share learnings."

"Every funding round we've done has taken an incredible amount of time, from the number of conversations, to the huge amount of upfront work, pulling together the data room, investment deck, model and legal process. You try and keep the investment and funding piece to certain times in the day. We would spend the days on the business, and out of hours and weekends pulling together investment materials so we could focus. We've never used advisors."

"There's definitely a personal element to closing a round. You're signing up for the next ten years, you need a good working relationship. Start building that relationship way before you look to close the round. We'd met with a number of people in the prior year, we knew we got on really well, and that they would be an asset."

"The expertise of your investors is a huge factor. We would have taken a hit on valuation to work with a fund we've got respect for – you should look for whether they have experience of working with businesses in a similar space, whether they have experience of supporting businesses hiring and recruiting. You want an investor with vast networks for key hires and non-execs. Our backers were fantastic and supported us getting new chair. They also had the ability to follow their money in a later round."

"One of our key investors had experience of growing and selling a number of big-name product focussed businesses. He had a lot of valuable input on how we develop our product and how we run our teams around AB testing, and it's been invaluable to us. We completely changed the way we worked after scaling fast. We previously had a large team with one Head of Engineering, and now we have smaller team structures, with small teams having ownership over a certain goal. We run several tests per week, and product development is based off that."

"If things change in the market, don't be afraid to re-engineer the model. After our Series A we moved from B2C to a B2B first business. We were fortunate, we had full buy in from our board and we're now growing rapidly with the new direction."

"We tripled the team after our Series A to 30 people, we could have had better processes, to allow us to better scale that team. Don't overspend on marketing until you have achieved true product market fit as it's best to wait until your unit economics are in a strong place."

"Be transparent when things don't go to plan, have clear reporting, do regular board updates, and keep stakeholders in the loop. This helped with our Series A extension because we had been transparent about the changing market dynamics. We did board meetings, every six weeks, we would provide a board pack a week in advance with all detail we'd be discussing."


SENSO

Completing a Series A funding round: How to keep control of the deal

Funders acknowledged the difficulty of juggling multiple potential investors at once.

"If you can make it clear you have interest from several parties, and if one has committed you can start asking for set dates. By the time you're doing Series B or C, you will have really strong assets. If you can get first round PE offers. That's great. You can reverse the power and make demands."

Anonymous

"Structure the process so you're bringing all the possible investors the same amount of information at same time."

Anonymous

"You've got to maintain momentum with all parties without overselling it. If you are expecting a term sheet from one party imminently, use that to speed up an offer from another investor, if there is genuine interest, they will move quicky in order not to miss out on the opportunity."

Ed Prior, GP Bullhound

"Clear timelines are important: understand each VC's process and how long they will take. Some do more due diligence up front, others after the termsheet, and some go to investment committee at the last minute which means it could all fall through."

Maria Wagner, Beringea

Funders found that at Series A, the process was often made smoother if the company employed a Corporate Finance advisor. However, they recognised that Corporate Finance advisors have the potential to over-guard the investee.

"We used a Corporate Finance advisor, that was the essential, we wouldn't have managed had we not. They know who's in the market, has funds available and the profile of what they're looking for. They help you with how to manage the process and what to share."

Mark Pegler, ParkVia

"Businesses' level of preparation of depends on if they are advised or unadvised and to what level – if someone has engaged a Corporate Finance advisor, they are far better prepared. Some don't have NEDs, and the majority of those are Corporate Finance led."

Anonymous

"Far too many rely on their local Accountant or Lawyer to help them through a transaction. This leads to delays."

Anonymous

"Advisors can be very protective of management's time. Management need to spend time with funders to see if they can work with them as Investor Director. The advisor community needs to allow that to happen."

Nisha Sharma, KPMG

Funders found that businesses often underestimate how much funding they will need.

"We want to give them two years of cash runway. We want to give them space to make change, work the cash."

Anonymous

"It is crucial that post investment a business is funded properly, and this can sometimes be underestimated by a founder. Where necessary, we are always comfortable providing additional capital."

James Gregson, Palatine

"We would suggest companies raise more than they want, because once you have secured investment, there's nothing worse than running out of cash. When there are further rounds, allow for headroom – management very rarely hit their plan. At Series A stage, raise enough to get to Series B – that should be enough for at least two years, and add a buffer on top of that."

Maria Wagner, Beringea

"Never be holding out. As a rule of thumb, never have less than six months cash in the bank based on current burn rate. We use that as a "guard rail". At times where we have broken that guard rail, when one of our rounds took longer to close than planned. But having that rule meant we could continue in growth mode and not slowing down while we waited."

Richard Potter, Peak AI

A high valuation is often in the interest of the business but the region's PE firms warned of the shift a high valuation makes to the risk return profile and the control dynamics.

"We see a lot of business plan with quite ambitious valuations. A high valuation can be a turn off to an investor so ensure you have credible assumptions to support it. Remember you are in competition for funding with all the other opportunities a VC receives each week."

Guy Weaver, Praetura Ventures

"Remember a big valuation might affect you. Some investors sacrifice essential legal protections for a higher valuation. People don't understand stepping rights or liquidation, and the racier you get on valuation, the more funders will need to feel like they should be in control if something goes wrong."

Anonymous

"At an early stage, entrepreneurs can get bogged down with valuation, but it's just a calculation and mostly irrelevant. You should be focussing getting sufficient cash and expertise to turbo charge growth whilst retaining as much of your business as you can."

Nisha Sharma, KPMG

Funders explained their approach to valuations, including looking at the market standard, assessing the returns at expected exit, and calculating the risk around a poor growth scenario. They also highlighted the common gap between their approach, and that of the entrepreneur looking to maintain the maximum share of their business possible.

"Tech is a key word, and there's an assumption it attracts phenomenal multiples – but the headline figure can be misunderstood, as can the complexity of how the deal is structured."

Victoria Price, EY

"Every investor looks at risk and valuation differently and they will often disagree. Further, circumstances and markets always change so you can't always assume that valuation will go up. Be prepared for that scenario as a possibility and make decisions best for the long-term health of the business."

Will Schaffer, Mercia

"We look at similar deals in public and private markets, such as revenue multiples on other fundraisings, and we look at what the returns will be at our expected exit, and then calculate the implied entry valuation from there. If we don't get enough return or if the multiples are off the market, we get more nervous about it."

Maria Wagner, Beringea

"Valuation expectations are often the first issue. Founders can spend time going round the market looking for a better valuation, and end up raising at a lower valuation. It would often be better for the business to the get cash in quickly and get on with delivering the plan."

Ryan Bevington, Maven Capital Partners

Entrepreneurs aware of the possibilities of deals falling through and the reasons why were in a better position to explain, discuss, and negotiate risk levels and deal terms.

"Offers only ever fall through for a good reason. That can be the failure of big contracts due to drop or renew, key management positions leaving, not being able to prove retention rates, sudden churn. Investors don't like uncertainty and unprecedented changes in macroeconomics present unquantifiable levels of risk – for example Brexit and a global pandemic!"

Nisha Sharma, KPMG

Funders found entrepreneurs who were well versed on deal terms, common clauses and rights were better prepared for conversations around deal structure.

"Look at good leaver bad leaver clauses, understand the detail around classes of shares, preference shares and debt, the voting rights attached, and whether there's anything that could happen during the investment that could change the number of votes investors have, or trigger them taking control. There are clauses where if you can't pay they interest on the debt they become preference shares. Be clear on what happens on exit."

Victoria Price, EY

"We will always propose a standard set of deal terms then negotiate from there. The seed rounds might not have all the terms that later-stage VC investors or PE houses expect. Often entrepreneurs haven't had the exposure to legal agreements, board structure, consents, the vesting of shares etc. We spend time helping the entrepreneur understand these terms."

Maria Wagner, Beringea

"We didn't work with an external advisor, but we modelled through what the dilution would mean at exit, around warrants etc. We saw a lot of voting rights attached to shares in the US which we didn't see in the UK."

Clemens Wangerin, vTime

Post Series A funding round: The post investment relationship

Funders and Investor Directors stressed the need for clear communication with the board ahead of bad news.

"In board meetings, we are not looking for a one-way presentation from management about how fantastic everything is going. As non-Executive Board Directors we are there to help and problem-solve on key issues management is dealing with. Leverage the board and the strengths and networks of board members - the board is there to support the company."

Maria Wagner, Beringea

"We would rather have the exec team telling us everything about the business - even the bad things. How can we help if we don't know what's going on? Open transparent conversations, as and when things occur, are best. Don't save bad news for the board."

Matthew Pomroy, Foresight

"You should always prepare for the possibility of running out of cash. But don't just think about it, talk about it often and honestly, the worst thing you can do to a funding partner is surprise them with a cash issue. A good funding partner will want to help manage a difficult situation, but they can't do that if they're not properly informed or are backed into a corner with few options from the outset."

Will Schaffer, Mercia

"If there are problems within the business, flag in advance, clearly define the issue(s) and bring possible solutions to the board. Then the board can debate and take a timely decision. If you spend too much time dithering and the board is meeting once a month, you can blow through three to six months without actually addressing an issue, wasting valuable time and likely burning through funding at the same time."

Will Schaffer, Mercia

"A chair needs to be someone who adds value and can structure the right conversation – find a chair that knows the industry or understands the space and has done it before. We use our network or recruiters to introduce a number of candidates. Finding one with the right personality to fit the founder is important."

Ryan Bevington, Maven Capital Partners

Where relationships were tested, funders encouraged entrepreneurs to see the Investor Directors for the value they can add, pulling in experience from other portfolio companies – rather than as an authority figure.

"The Investor Director relationship was very different to the cosy relationship with three people I had known for a long time beforehand. There's a reasonable amount of challenge. I have come to appreciate it, if you are stuck in an echo chamber, it does limit your eyes."

Mark Pegler, ParkVia

"The Investor Director should be adding value, in terms of what they know and contacts they can bring in specific areas. We're not here to monitor, we actively support a founder in their journey."

Guy Weaver, Praetura Ventures

"Sitting on the board, I might not be the sector expert, but it's my job to connect the company to our resources and relationships behind the scenes. Our job on the board is to bring in skillset when it's needed."

Guy Weaver, Praetura Ventures

"We're not here to run a business, we support the business, we won't meddle with the day to day. I'll either speak to chairs or most businesses every week, and sometimes might not speak to them for three or four weeks. Some think they will have to run very decision by us and will be restricted, that's not what we're here to do."

Matthew Pomroy, Foresight

"We give suggestions to management on the structure for the board decks, including KPIs to be tracking (such as churn, CAC etc), management accounts (P&L, Balance Sheet and Cashflow vs budget and prior year) and key issues. That information should come on a monthly basis before the board meeting and it helps focus the discussion at the board."

Maria Wagner, Beringea

"Chemistry is incredibly important and for us it's all about the team that we are backing to lead and grow the business. We are always keen to spend as much time with them as possible before exclusivity and during due diligence."

James Gregson, Palatine

"I think it is important to make sure both parties are as clear as they can be at the outset in terms of investment targets and exit timing horizons so there's no surprises when those conversations start happening."

James Gregson, Palatine

Fund deployment: Biggest mistakes seen by region's funders

1. **"Office costs can run away with you."** *"People try to create a cool office slide. Do it when you're making profit. After raising three million, people do office fit outs they don't really need. They need to watch their overheads."*

   Anonymous

2. **"Sales teams are difficult to get right."** *"Particularly how quickly a sales director is able to convert and drive sales (in B2B). Or, underperforming sales teams are retained for too long, increasing cash burn on the business. Don't gear up too quickly and don't recruit an entire sales team in one go, slowly build it up."*

   Ryan Bevington, Maven

3. **"Businesses who push into new markets prior to having conquered the existing market."** *"By conquered, we mean strong unit economics, traction, one or two core markets in the UK. You can often get a very good UK business who think they have to go international. I don't think management teams understand that it's far easier to grow where you are currently. The US is a strong market, but the costs are comparatively very high. In Germany, e-commerce is four or five years behind the UK. There should be a really strong reason to focus on a geography outside of your own."*

   Matthew Pomroy, Foresight

4. **"Marketing spend is dangerous, particularly before you have a 100% proven product."** *"Turn the taps on with Facebook, google, or agency and you see immediate results. But it can fall over because it takes time to educate the customer and educate the market, switching habits is really hard."*

   Anonymous

5. **"PE houses are putting money into you to get a return."** *"So there's a tendency to say, let's get this to where we want it to be more quickly and turn on the sales taps. If that's more quickly than there is available capacity in the market, that could be a problem."*

   Mark Pegler, ParkVia

6. **"Businesses think acquisitions might get them out of a mess."** *"If a business is stagnant, they see an acquisition as the way to grow, but they don't understand how difficult it is to integrate a business into yours. A few we meet, might say this business here is a fantastic fit, without having worked out synergies. The customers might be similar, but it's a different team within that customer you're selling to, you still need two separate salespeople to do that."*

   Anonymous

7. **"Recruitment is the hardest thing that happens, although it is easier with remote working."** *"We've recruited people before; we know how much time it takes and how difficult it is to build a team and manage it. Often businesses hire too quickly, they don't hire the right people, nobody has the time or the process to teach them. Bringing people from corporates into a start-up often doesn't work out. They're not able to put forward initiative."*

   Anonymous

8. **"Shifting channels or flipping the business model always takes longer than planned."** *"We see a lot of cases where go-to-market changes don't work out or take way longer than expected. For example, if you have a B2C and want to test B2B, if you shift from direct sales teams to selling via partners, if you're targeting SMEs and want to expand to enterprise clients. The business model needs to be realistic how long such changes would take to implement."*

   Maria Wagner, Beringea

9. **"Businesses trying to push a product out too quickly, after having built an MVP."** *"You hire a whole sales team with expensive senior managers, then you find the product-market fit needs to be further defined."*

   Maria Wagner, Beringea

Entrepreneur takeaways: Series A

Preparing for a Series A funding round: What do you need?

- If you can, approach investors and go into the round with "momentum". That could be a run of key customer wins or renewals, pilots, or strong and steady uptick in acquired users, for example.
- Know that before going into a fundraise with a mid-market private equity house, you will most likely be expected to provide a fully integrated financial model, with the ability to run sensitivities and demonstrate scenarios around cost, sales activities, and revenue growth.
- Be prepared to present cohort analyses around retention, upsells and downsells; if you can, have qualitative client and customer feedback to hand to prove product relevance and customer need. If you are B2C, don't neglect data around "time in app" rather than downloads. For B2B, think about the quality of your pipeline in detail, particularly around time to conversion.
- Make sure you can connect spend to revenue directly; be aware that over-prediction of growth and subsequent inability to deliver on the plan often comes down to overly optimistic hiring and conversion predictions for sales teams (for B2B) and over-investment, too early on, in digital marketing (for B2C).
- Understand your key success metrics and be prepared to answer questions on scenarios around what key milestones are and when you expect to reach them.
- Be prepared to have your team assessed by investment teams and make sure they are able to talk in detail about their role and expected responsibilities. Know that many businesses who have been through this process found real value from hiring a part-time Financial Director.

Completing a Series A funding round: How do you keep control of the deal?

- Always allow for a buffer when estimating how much cash you will need and try to raise enough to last you two years, with head room – avoid the eventuality of running out of cash.
- In the stages before you have a term sheet, manage the various potential investors and their varying requests for information and demands as a process in itself; keep a timetable, set demands, prepare documents and circulate them at set points.
- As early as possible, get an understanding of the timetables, types of requests for information, and the expected nature of interactions with your investment committee. This will help you know what to prepare, when it will be expected, and to what extent at what stage the deal could fall through due to investment committee decisions.
- Keep all investors informed with progress in the deal to the extent that when you have a term sheet from one, inform the others to speed them up.
- If using a Corporate Finance advisor is an option, they will manage the process for you; a number of businesses who have raised with mid-market private equity houses in the region used a Corporate Finance advisor.
- When considering your valuation, ensure you have credible assumptions to support it, and understand that a higher valuation means higher risk for the investor which they will most likely account for in other areas of the deal terms. Consider the indicators that Series A investors look to; particularly, where you look for similar transactions in your sector, take into account that valuations in America will not match UK investment figures.
- Have a thorough understanding of deal terms and legal clauses to ensure you are prepared for every eventuality. You will be more informed in conversations and better able to negotiate.

Post Series A funding round: The post investment partnership

- Choose a chair and investor who you have chemistry with, that knows the sector you are in and has the experience you need. Understand their goals and intentions, specifically around investment targets and exit timing horizons, and bear that in mind in board meetings. Be prepared for them to play devil's advocate and push the boundaries of your decision-making.
- Understand the amount and kind of support your Investment Director expects to offer, how often they will expect updates and on what areas of the business.
- Contact investors about issues - particularly impending cash issues - before they reach crisis point. Communicating the issue before the board meeting means that both you and the Investor Directors have time to consider options and solutions.
- Send a board pack over pre board meeting with required information so that Investor Directors can come with questions and specific discussion points can be set. If you need to, ask for guidance around exactly the information they will need to see ahead of board meetings.
- Use your Investor Director for the experience they have had with other portfolio companies, and for their network of expertise and experience.

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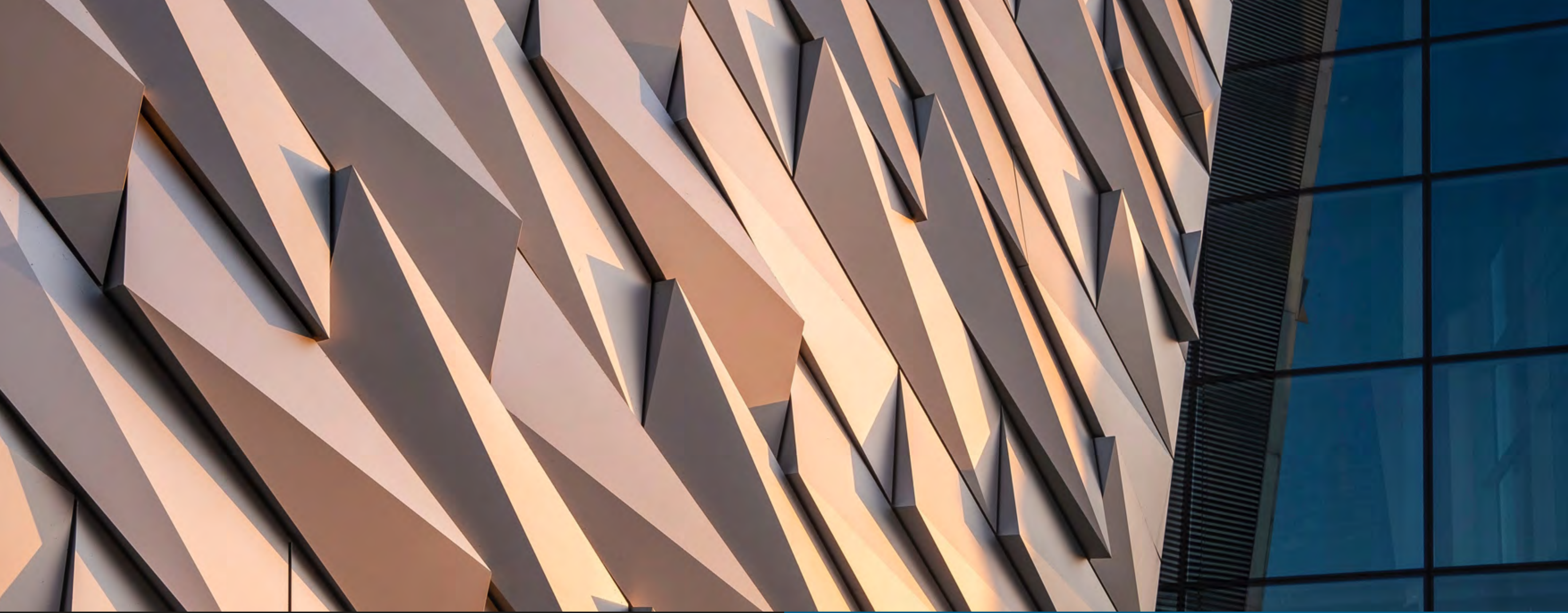

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