

Guide to Raising Finance – From Start Up to Exit

Stage of Business	Funding Requirement	Funding Features	Sources of Funding
Seed Capital GBP 1 – GBP 50,000	To fund additional research on your idea or to produce a prototype	'Ideas' are difficult to get funded. If you have a few customers, you will have a better chance of obtaining external capital	Founder Friends & Family Grants
Startup Upto GBP 500,000	Market Research is completed, and you have a working prototype or processes in place for running the business. You need finance for salaries, marketing, product development and testing	Easier to get funding if you have got a few customers and generated a few sales Explore Grants available in your sector and region for free funding	Friends & Family Bank Debt Grants & Awards Incubators focused on early stage funding Specialist Investment Funds Corporate Ventures
Early stage GBP 50,000 – GBP 250,000	You have completed Product development and have a few customers. You need finance for Marketing and Operations	If you are looking for equity financing, look for players focusing on your sector and specializing in the range of funding you are looking for	Business Angels Small funds Bank Debt Invoice Discounting Asset Finance Bootstrapping
Mature Growth GBP 250,000 – GBP 10,000,000	Your business is profitable. You need funding to develop new products or explore new markets	Teams and businesses with a track record find it easier to obtain funding Look for players focusing on your sector	Venture Capital Private Equity Mezzanine Finance AIM & PLUS Trading Markets
End Game (The exit) High Valuation!			Trade Sale, MBO, MBI, and in 2% of cases, an AIM or PLUS exchange Listing

Various Forms of Equity Financing : The Players

Angel Investors

- High Net Worth individuals either operating alone or in groups and syndicates; tend to invest locally
- Invest GBP 20,000 – GBP 200,000 per deal
- They are often experienced entrepreneurs who bring their Experience, Contacts and Divine Guidance along with Cash to the deal!
- Tend to invest in their area of expertise
- Expect 10x investment within a 5 - 7 year exit timeframe (they need high returns to cover the risk of lame ducks in their portfolio, as typically only 1 or 2 out of 10 investments go on to be successful)
- Deals from Referrals
- Not looking for a 'lifestyle' business – which supports the lifestyle of that particular owner

The Big VCs (Venture Capitalists)

- Looking for a proven Business Model – already generating money, can be easily duplicated and is scalable ; and High flying teams
- Tend to invest in deals over GBP2 million due to economies of scale of larger deals
- Deals targeting a GBP 1 billion market size
- Exit in 3- 5 years (through Trade Sale, LBO, Sale to other VCs, Private Equity Funds)
- Target over a GBP 100 million + exit valuation
- Invest other people's money, so tend to be quite demanding of how the business is to be run, who gets to run etc; can sack founder from CEO role
- Look for airtight technology and Intellectual Property protection
- Good option for high growth companies, which are already profitable and generating cash flows

Seed Funds / Investment Funds

- Seed funds affiliated to the technology transfer offices of universities and focus on tech innovation: Long lead time to revenues 12-18m
- Investment funds suited to businesses with some track record, and invest between GBP250,000 to GBP 1 million (www.bvca.co.uk)

Community Development Venture funds (CDVFs)

- CDVFs invest from GBP 100,000 up to GBP 2 million and are funded by BERR (www.berr.gov.uk) and the private sector
- Focus on under-invested communities

Corporate Ventures

- Large corporates invest in smaller ventures offering a strategic fit; tax relief benefit
- Suited to high-tech, innovative businesses

You may not get sole rights to your Intellectual Property developed in JVs

Venture Capital Trusts (VCTs)

- Invest in specific sectors, and rarely in startups
- To qualify for VCT investment, co. must have gross assets of < GBP 7m, before new money
- Favorable tax breaks for VCT investors

AIM and PLUS markets

- Established businesses can list/ float on these junior stock markets and raise public money; fewer formalities than larger exchanges

Enterprise Capital Funds (ECFs)

- Provide Govt. debt to compliment other investment; GBP 250,000 to GBP 2 million

Other Forms of Financing

<p>Bank Debt and Loans</p> <ul style="list-style-type: none"> • Usually require personal guarantees of Directors backed by personal security • Small Firms Loan Guarantee Scheme (SFLGS): Government guarantees 75% of the bank loan; a useful scheme where Directors do not have other acceptable assets to offer as personal guarantee 	<p>Local Investment Funds</p> <ul style="list-style-type: none"> • Make loans of GBP 25,000 – GBP 250,000 to enterprises which benefit the community • Organisations like www.firstfunding.org match lenders and borrowers and lend money rather than invest
<p>Grants and Awards</p> <ul style="list-style-type: none"> • Awarded on criteria such as location, purpose, individual background and sector. • Various kinds of grants available for SMEs in UK such as Capital grants, R&D projects, Marketing grants, Carbon Trusts, Farming, and R&D credits from HM Treasury of up to 150% of R&D expenditure • Grants do not offer complete funding, they offer 20%-30% of funding requirements • Do not commit to deals before the grant is awarded if you are relying on a grant 	<p>Factoring/ Invoice Discounting</p> <ul style="list-style-type: none"> • Useful for growing businesses that have significant debtor receivables • Upto 80% finance available on your debtor receivables when the factoring company receives an invoice copy, and the rest 20% less factoring charges paid on collection of receivables from customers.

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We will be delighted to find answers to any other queries you have on the subject. Please write to us at info@geniusincubator.com.