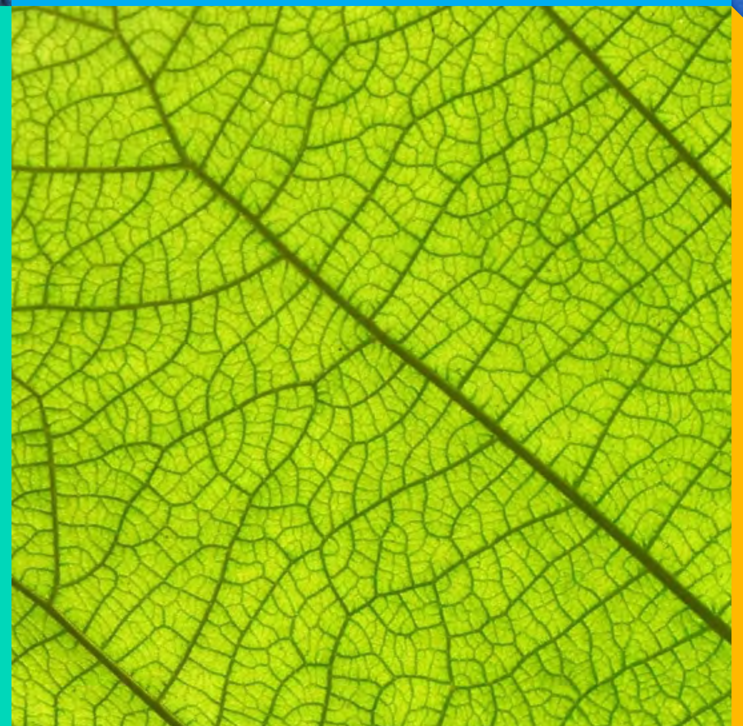
Unlocking Growth: Your Introduction to Funding

September 2021

Eagle Labs



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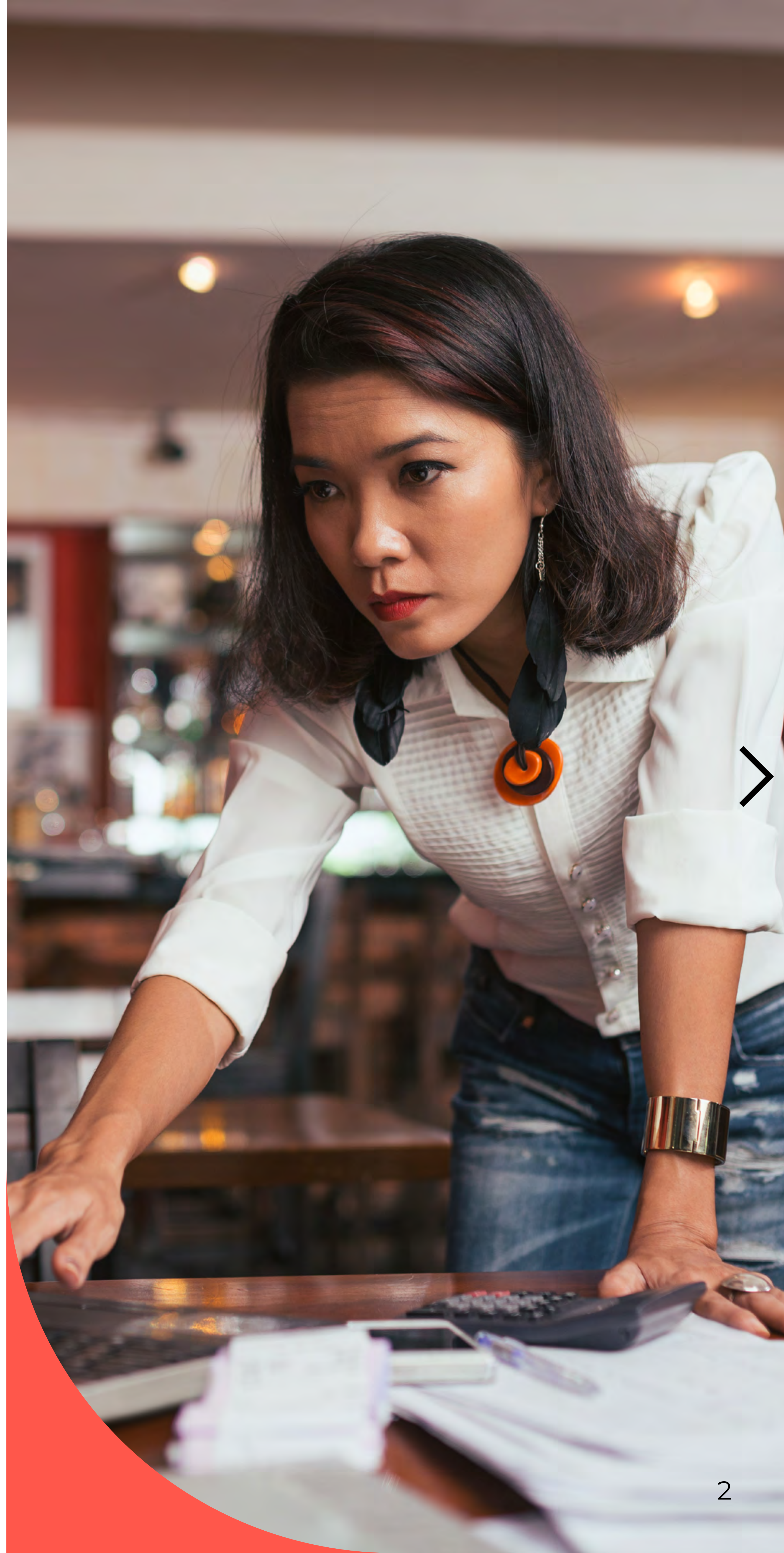


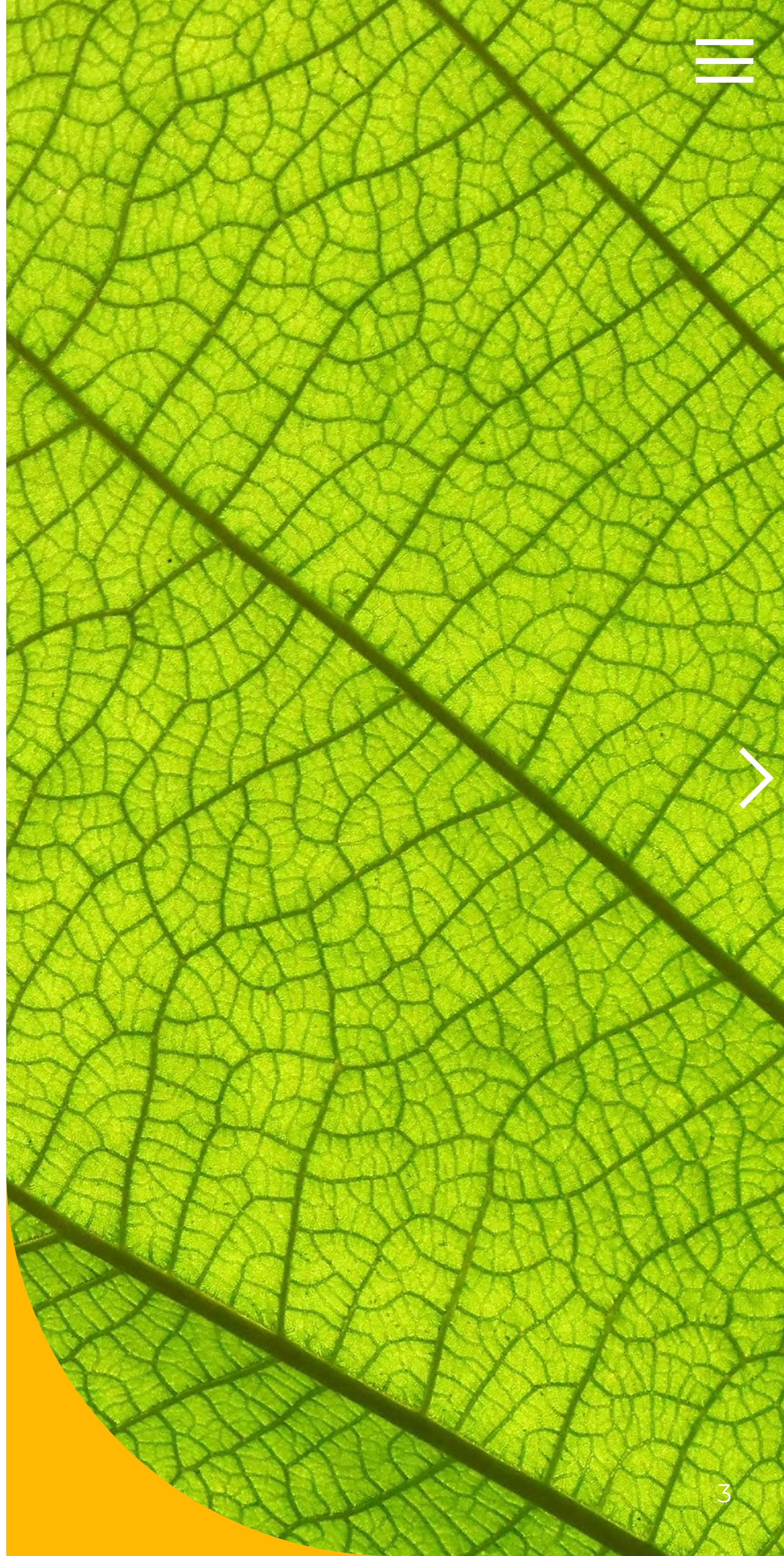
Welcome to Unlocking Growth: Your Introduction to Funding

The process of capital raising is a ubiquitous challenge driven by an ever-changing investor landscape. Investors are often keen to identify ground-breaking ideas and technologies that will give them access to and enhance markets across the globe, providing them with a return on their investment in a timely manner.

The task of the entrepreneur is therefore simple, to convince the investor that their business opportunity is balanced, provides fair valuation and could realise a return on their investment in the not-so-distant future. Being able to demonstrate the opportunity is one thing, the hard work truly begins when you have raised the capital and need to deliver on those expectations.

Having worked with a wide variety of aspirational entrepreneurs over the years and having listened to and learned from the many obstacles that they have faced, I know that raising capital is an exceptionally challenging process to undertake. It is hardest for first time fundraisers, those who do not have a wide professional or investor network, and for those where initial seed capital is difficult to come by.

The entrepreneurial journey is a steep learning curve and raising capital is no different. There is no one formula or science behind how to successfully raise the capital needed to grow and scale the business. Instead it is a series of learning opportunities as you face questions from people who may not share the same view of the world as you. This report aims to bring an informative viewpoint on the language, the process and art of raising capital. It provides an introduction to the ways to raise capital and the different funding rounds, as well as practical advice and best practices, as advised by investors.



Raising capital is one of the three core challenges entrepreneurs tells us that they need support with, and Barclays Eagle Labs have built a suite of programmes designed to make the process easier. Twice yearly, we partner with Capital Enterprise to deliver the Funding Readiness Programme, which is a superb starting point to learn more about the basics of grants, crowdfunding and equity funding, through to hints and tips to get your business and pitch ready to raise funding.

Additionally Eagle Labs run regular Global Connect programmes that enable businesses to immerse themselves in international ecosystems to understand those funding landscapes, with a view to raising funding or accessing international markets in the future.

More details about these programmes can be found on the Eagle Lab website along with articles and videos on a variety of capital raising topics, such as what to include in the pitch and how to value the business.

Finally, for founders ready to raise funding and showcase their business to potential investors, the Eagle Labs Demo Directory is a simple way to get your polished demo shared among a large group of active and interested investors.

Please do take the time to read this report and take a look at our programmes that can provide support as you prepare for your raise, but do remember that there is no 'cookie cutter' approach as investors wants and focuses change periodically, and they are as individual as your business is.

Best of luck with your capital raise and remember that Eagle Labs is here to help you along this journey.

Benjamin Storey, Key Clients, Industry & Performance Lead, Barclays Eagle Labs

Chapter 1:

Funding options

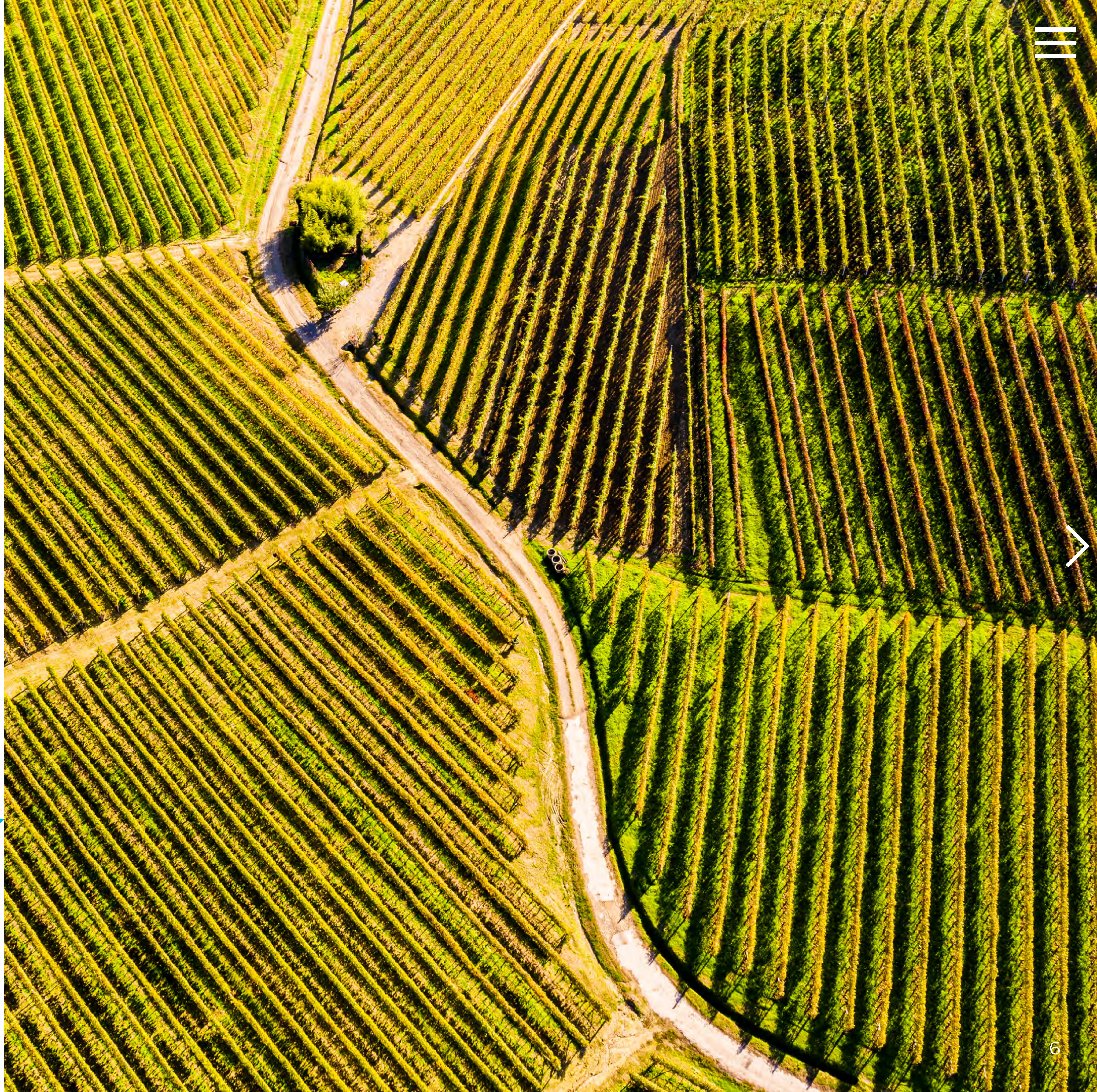
The first step on your funding journey is to understand the range of funding types commonly used by startups

Family, friends and self-funding

Investment from friends and family is typically only used at the pre-seed stage of a startup. These can be micro-investments to help get an idea off the ground. Founders may also use their own cash. Financial arrangements can range from gifts and interest-free loans to various forms of equity.

Key funding stages:

- Pre-seed
- Seed



Grant funding

Governments and other organisations want new, innovative businesses to grow and succeed for the greater good of the economy and may provide financial support through grants. While there are a lot of different grants available, applying for innovation grant funding can be a complex task. Founders must identify the right opportunity, developing the necessary project plans, understand all the resources required – plus possibly find partners and matched funding from other investors.

Grant funding opportunities tend to have strict criteria, be they in industries such as defence or finance, or technologies like quantum or the circular economy. Make sure that your project matches the purpose of the grant. For grant applications you should consider potential benefits and impacts on wider stakeholders, such as supply chain partners, broader industry, products to market, jobs, or new technology that can benefit the economy. Show awareness of environmental and societal impacts and show how negative effects could be mitigated.

If funded, your project will usually be required to submit a collaboration agreement. These can be complex and so it's a good idea to have open discussions early on with your partners.

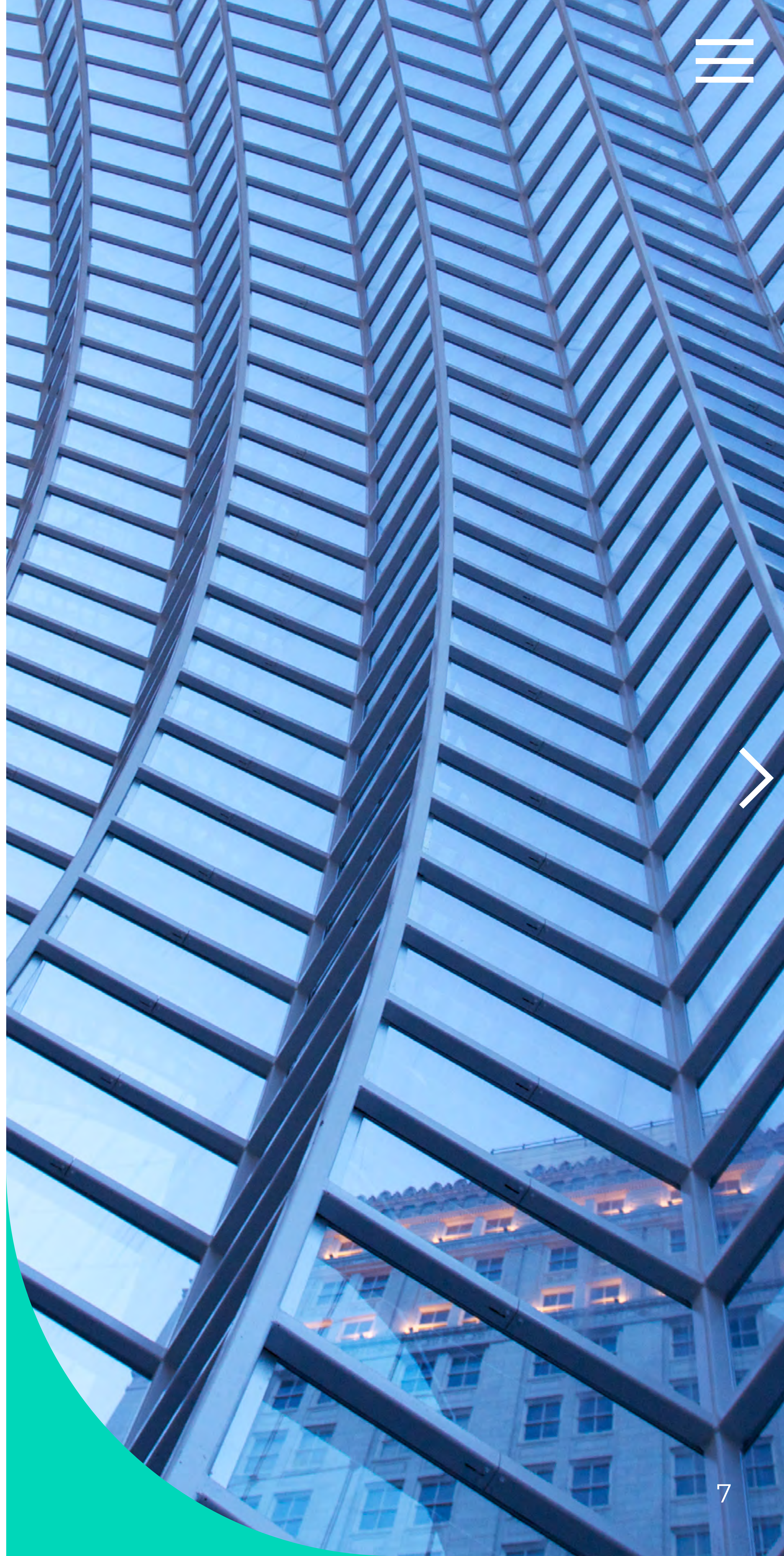
UK Research and Innovation is a good place to start your search for grant funding.

Key funding stages:

- Seed
- Series A
- Series B

Read:

Discover 11 top tips on writing winning grant applications



Crowdfunding

Crowdfunding can be a highly effective method of raising capital through the combined effort of family, friends, customers and investors – it's almost like a marketing campaign for your fundraise. It can be a complicated and time-consuming process but creates a strong bond with customers and is a great way to promote your business and build a buzz around your mission.

Crowdfunding is very different to the established ways of raising capital. Traditionally, if you wanted to raise capital, you would have to pitch your idea to banks, angel investors or venture capital firms. It can take a great deal of effort to secure those meetings with no guarantee that the pitch would be successful. By contrast, crowdfunding platforms provide a showcase to address a larger audience of potential backers, including individuals who could be less sophisticated or experienced investors. And crowdfunding allows very low initial investments, sometimes as low as £10.

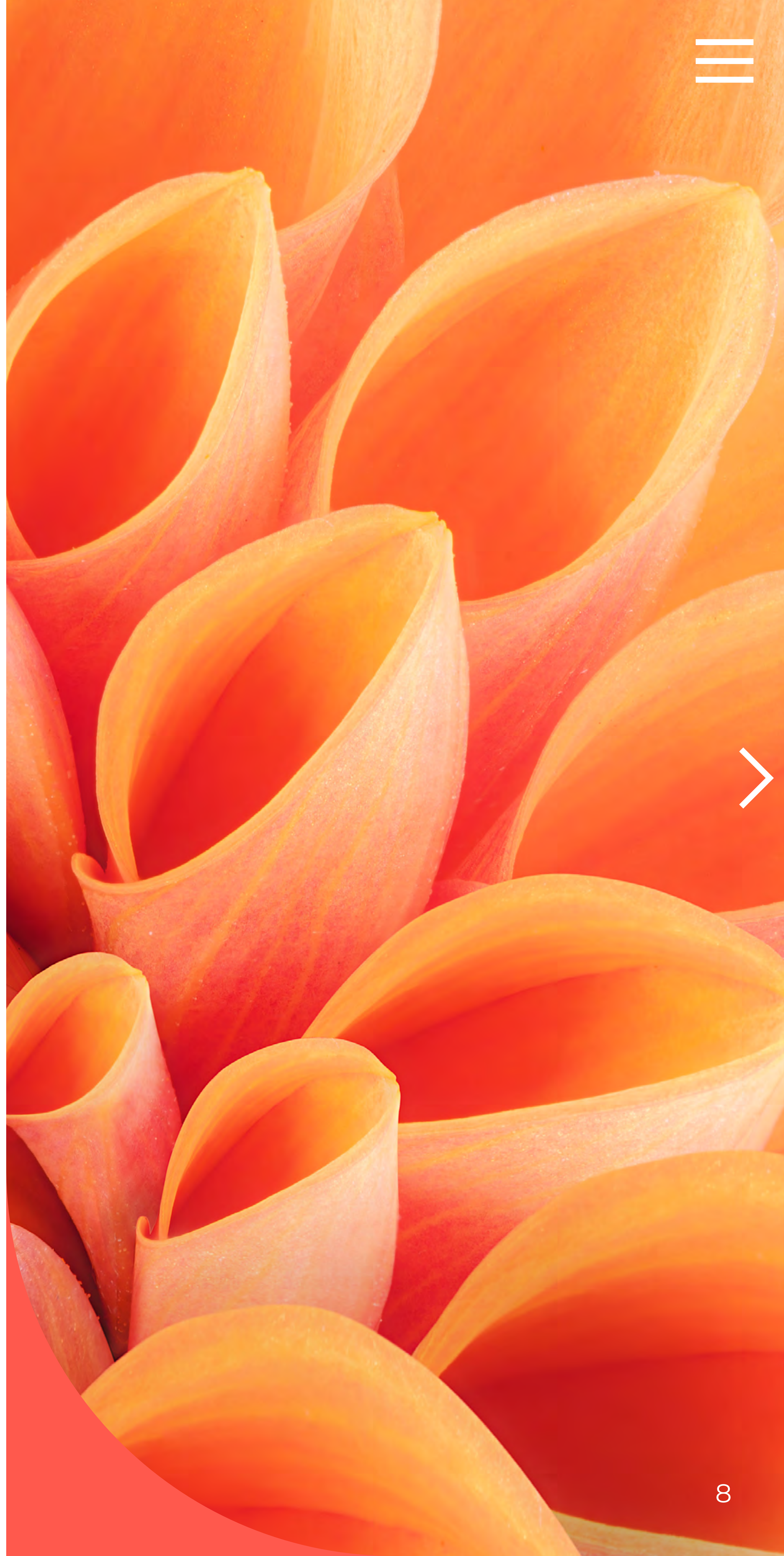
Crowdfunding campaigns need careful planning and can be complicated from a legal and administrative perspective. Successful campaigns may have secured investors who will put in a large proportion of the initial funding goal. This generates momentum for the campaign and helps it be further promoted.

Key funding stages:

- Pre-seed
- Seed

Read:

More advice on crowdfunding from Darren Balcombe, Deputy CEO of Capital Enterprise



Angel investment

Angel investors are critical to the startup ecosystem. Angels could be founders' friends and family, but more often are wealthy individuals with a private portfolio of investments or groups of such individuals working together to spread the risk and reward. The angel investor market includes a vast range of investments from a few thousand pounds to several millions.

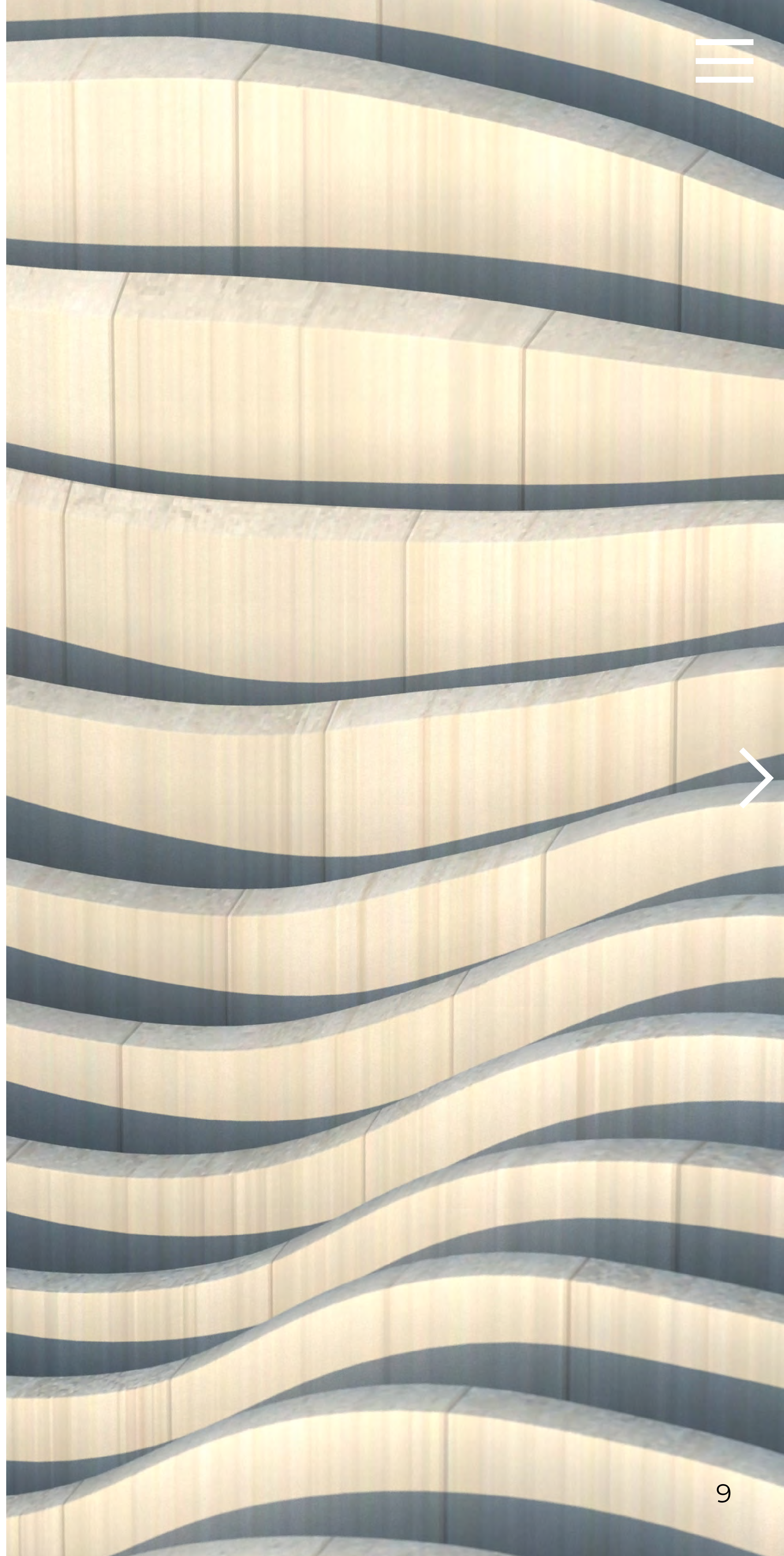
Angel investors are not just there for access to funding. The relationship between a founder and an angel investor can be an extremely important and close one, and sometimes an angel investor can also become a trusted advisor. Angels often work in either formal or informal collaborations with one another, spreading risk and pooling expertise.

Key funding stages:

- Seed
- Series A

Read:

The six ways startups can make the most of business angels



Venture Capital Funding

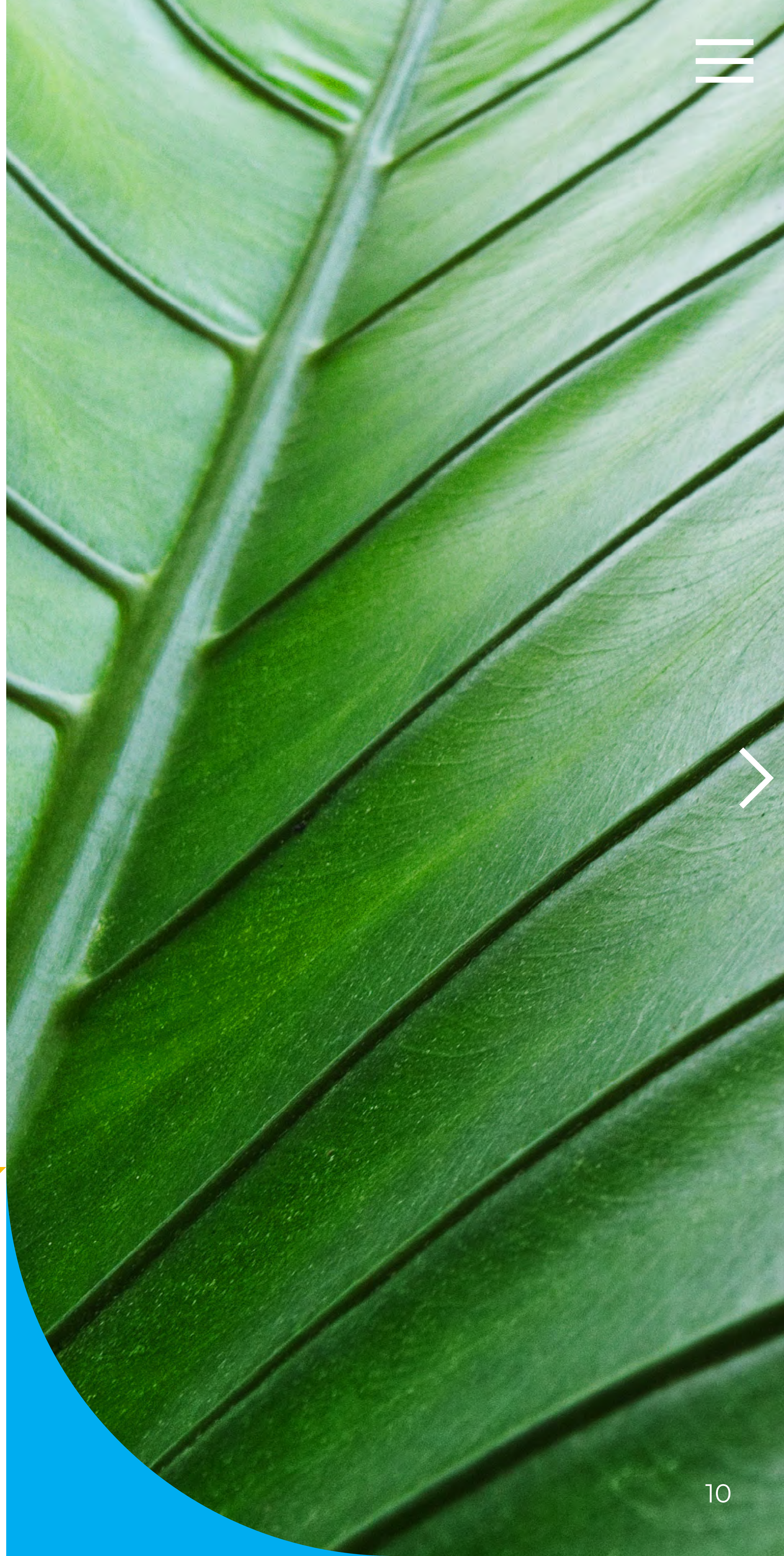
Whereas an angel investor is a wealthy individual who invests their own money into promising companies, a venture capital firm raises and invests capital from third parties, including pension funds, public venture funds and hedge funds. The partners in a VC firm may invest some of their own money but usually this only accounts for a small percentage.

Venture capital firms frequently invest in early-stage companies which may not yet be making a profit but have high growth potential. They often invest by sector or theme where they have identified high growth potential and market opportunity.

Venture capital firms and their backers may have extensive sector expertise and can provide access to industry partners and market opportunities. They are likely to be making significant investments and frequently have input into the business's strategy. Some firms can offer support services such as legal and recruitment. These professional investors have a term view and investment cycles typically last from three to five years with their return being realised at a future funding round, sale or IPO.

Key funding stages:

- Seed
- Series A
- Series B



Corporate Venture Capital

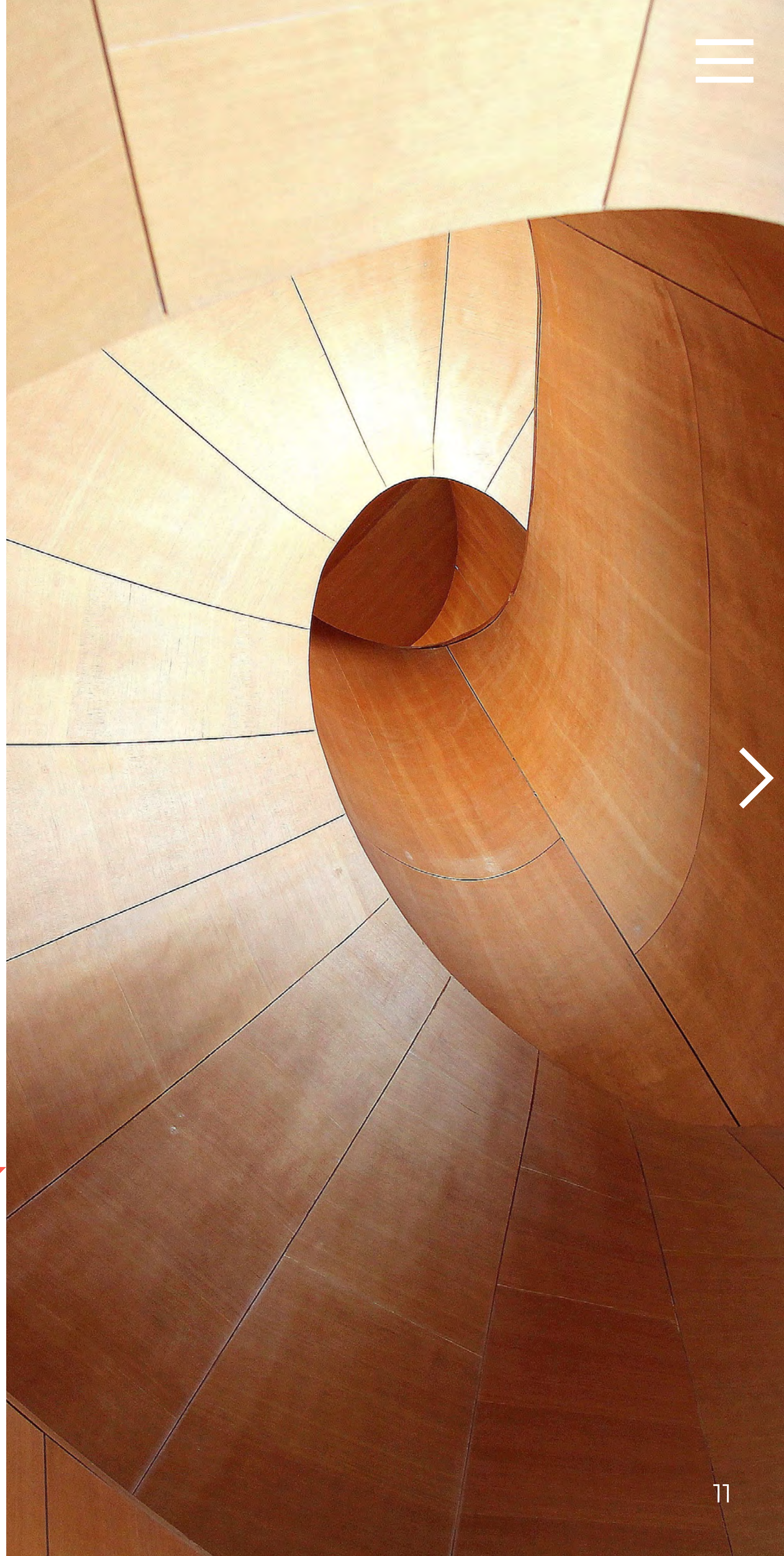
An avenue that startups are increasingly looking toward for funding is investment from large corporates who may then work with the business. These partnerships can be direct or through a corporate's venture arm. The specifics of the partnerships vary significantly but the key is that they are mutually beneficial. For the early stage company, this can mean not only funding but also access to resources, markets, distribution networks, expertise, mentoring and more.

The corporate that invests in a startup benefits by fast tracking their innovation pipeline, accessing new technology and competing with market disruptors. Corporates may also benefit from the agility of startups, and investments may evolve into acquisitions.

The pressure to scale quickly may be less in a corporate partnership than in VC-backed arrangement. There may also be less necessity to become cash-generating as corporates often take a longer-term view and can be more focused on the technology than the turnover. Potential downsides of corporate investment could include not being able to work with other corporate competitors, market opportunities being limited and becoming aligned to the corporate's requirements instead of following the market opportunity.

Key funding stages:

- Seed
- Series A



Pre-seed

Seed

Series A

Series B

Series C

Chapter 2:

The funding stages

The different types of funding come in to play as a business develops and scales. Here is an introductory guide to funding rounds from pre-seed to Series-C and beyond.

Pre-seed

Pre-seed is getting the company or idea off the ground. Investors here are usually the founders themselves, or family and friends.

Series A

This is usually when a business has developed more of a track record, has consistent revenue figures, and an established user base.

Series C

Companies that make it beyond Series B want to develop new products, expand into new markets, and even buy other companies.

Pre-seed

Idea | MVP

Seed

MVP | Growth

Series A

Growth | Expansion

Series B

Expansion | Mature

Series C

Expansion | Mature

Exit plans

Expansion | Mature

Seed

Seed funding is the first official equity stage, typically representing the first serious money that the company or venture raises.

Series B

Investors at this stage are seeking an established company that wants to expand their market reach.

Exit

Common exit strategies include being acquired, the sale of equity, or a mgmt or employee buyout.

Indicative business stage

Pre-seed funding

Pre-seed funding is the initial stage of the journey, where founders are getting the company or the idea off the ground. Pre-seed investors are usually the founders themselves, or family and friends who help with initial costs of developing the business idea.

The pre-seed fund will be used to validate the startup idea and further research and development. Important goals to achieve in the pre-seed stage could include the completion of prototypes and progress towards creating a minimum viable product (MVP).

Who invests in pre-seed rounds?
This is a pre-institutional stage. Investment is usually obtained from the founders themselves plus friends, family, and in some cases angel investors.

Pre-seed

Seed funding

Seed funding is often the first formal funding stage in the growth of a startup. To attract seed investment, businesses will need to demonstrate effective management, resilience and a business model that could lead to revenue generation and rapid scaling. Investors will expect the product and plan to evolve as the startup develops and iterates – they may be backing the founder team as much as the technology.

Seed funding is a major step to growth, helping a company finance integral early-stage elements such as extensive market research and product development. Initial recruitment is more common at this stage. Those that invest at the seed stage can have significant say over the final product and who the target market is.

Who invests in seed rounds?
Multiple parties may be interested in seed funding. This could include friends, founders, family, incubators and accelerators (some backed by corporates) and angel investors. Investment risks are higher at this stage, but equity can be relatively cheap compared to later rounds.

Seed

Series A funding

Series A is for companies that have developed a track record and may have consistent revenue figures and an established user or customer base.

Series A funding will enable a company to further optimise their business by developing better products and marketing them more effectively. It might create an array of new opportunities, including access to different markets. Unlike with pre-seed and seed funding, it's important that a company develops a more concrete business model that explains how the business will generate long-term profit, even if it is not yet profitable. While seed startups may focus on concepts, Series A is the stage to start proving assumptions with hard data.

Who invests in Series A round?
The scale of investments is significantly larger in a Series A funding round, which drastically changes the type of investors. Series A participants are often venture capital funds. They may engage with the company in a more strategic way, attracting additional investors and making industry connections to help the business develop.

Series
A

Series B funding

Series B rounds are all about taking companies to the next level - past the initial development stage. Investors are usually investing in an established company that wants to expand their market reach.

Series B funding is for those companies that been through seed and Series A and have now developed user-bases. The capital raised is commonly focused on sales, advertising, tech and business development. For example, these investments might allow a company to make more senior hires and accelerate market penetration.

Who invests in Series B round?
Series B investors are looking for the next stage of growth and ultimately more revenue. Series B is more often than not equity-based financing. Many of those that invest in Series B are linked to Series A investors - either they're the same people, known as "following on", or they have been made aware of the venture by the initial investors. Series B funders also include a new wave of venture capital firms, most of whom specialise in late-stage investing. The relative cost of equity is likely to be higher than at previous stages, but the risks will have reduced as the business proves its viability and starts generating increased revenue.

Series

B

Series C and beyond

Companies that progress beyond Series B funding are usually already successful and may be profitable. They're essentially looking for additional funding that will help them to develop new products, expand into new markets, and even buy other companies.

Series C funding is frequently used when a company wants to begin another venture. For instance, a startup that has already had significant success in the US may complete market research and business planning and decide to start a new venture in Europe; this is where Series C funding could come into play.

Who invests in Series C and beyond rounds?
Series C rounds are normally of an even larger scale. Series C investors include private equity firms, big secondary market groups, hedge funds and investment banks.

Read:

More on funding rounds from Darren Balcombe, Deputy CEO of Capital Enterprise

Watch:

John Spindler, CEO and Founder of Capital Enterprise, explains the basics on investor funding

Series C

Chapter 3:

Valuing your startup

We've talked about the investor and investment types so far and this next section goes into more detail on valuing your company to prepare for investment.

Establishing a valuation is a crucial part of the funding process, whatever stage your business is at, or type of funding required. The actual valuation will be the total value of the equity within the company. This is normally priced from the latest investment round.

There are myriad ways to value a startup or other businesses, and often a combination of approaches will be used alongside market conditions, forecasts, competition, investor experience and proprietary systems. The correct method for your business will depend on a multitude of factors, not least what stage in the startup lifecycle it is at.

Here are five tried and tested approaches to valuation that suit different types of startups.

Asset-based valuation

A simple way to assess the value of a pre-revenue company is through the asset-based model. The asset-based approach to valuation focuses on a company's net asset value (NAV), or the fair market value of its total assets minus its total liabilities, to determine what it would cost to recreate the business. The downside for a fast-growth startup is that it does not reflect or forecast future performance. It does not, for instance, include in its evaluation the value of a company's brand or intangibles that other methods account for. This is limiting as many startups by nature are based on intangibles, such as ideas, team skills and processes.

The Berkus Method

Created in the 1990s and named after prominent US angel investor Dave Berkus, the Berkus Method has been adjusted and updated several times to reflect the market. At its core, however, the approach "assigns a number, a financial valuation, to each major element of risk faced by all young companies — after crediting the entrepreneur some basic value for the quality and potential of the idea itself", according to Berkus. It calculates the valuation based on five elements: Sound Idea; Prototype; Quality Management Team; Strategic Relationships; and Product Rollout or Sales. The Berkus Method is a flexible and user-friendly valuation method for pre-revenue startups but is not appropriate to value a company with recurring revenue streams.

Discounted Cashflow Method

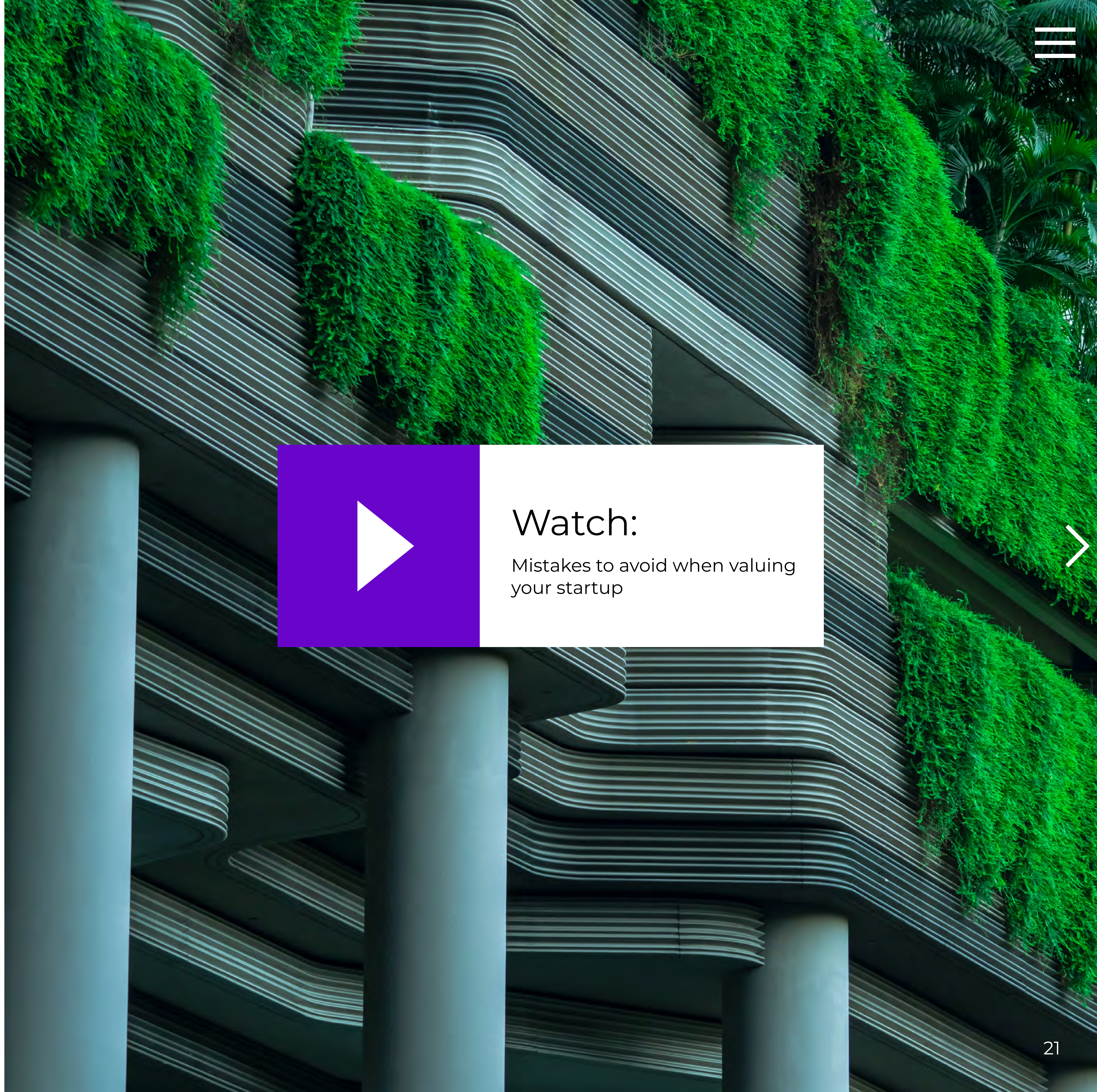
The Discounted Cashflow Method seeks to forecast how much cash a business will have in the future. The value is calculated based on future cash flows, which should be discounted at a certain rate, which helps to obtain the present value. The downside of this method is that it is based on estimates, much like a forecast. Its success is based on the accuracy that its user can forecast future market conditions and make reliable assumptions.

The First Chicago Method

The First Chicago Method is also known as the Venture Capital Method. It works best for startups that have made revenue and is the most complicated and time consuming of these approaches. Therefore it is better suited to Series A and beyond. It is typically used by private equity and venture capital firms. The First Chicago Method requires you to create three possible different future scenarios: Best Case, Average, and Worst Case. To do this you will need data such as earnings, cash flows, exit-horizon, revenue, financial forecasts, for each scenario. These scenarios are then combined into one weighted average valuation.

Comparable Transactions

This approach uses data from comparable transactions to estimate the value of a startup. The aim is to find a company in the same industry with a similar business model to use as an accurate valuation benchmark. First you identify the relevant comparable transaction and then calculate the key valuation metrics for those transactions. For example, if an app similar to the one developed by your startup was recently valued at £3m and it had 100,000 users, this means each user is valued at £30. This comparable transaction benchmark can be used by investors to value your offering.



Chapter 4:

Pitching

Potential investors need to understand your business and why they should back it. They also want to get a feel for the team behind the business. Pitching is the show-and tell-process that is a critical part of funding rounds, especially for early-stage startups.

Nick Slater is a Partner at AI Seed, an early-stage fund that invests in AI businesses, and was previously Investment Manager at the London Co-Investment Fund. Here he shares practical advice on producing pitch decks that investors want to see.

The power of the team
Whatever business you are building, the people are the most important factor, as investors are putting their faith in the success of the founding team. Make sure you show them off – and provide LinkedIn links to make life easy.

Identify your beachhead customer
If your product or service is not yet released, then identifying your first customer early in the deck is vitally important. This helps frame the rest of the deck.

Understand your market
We've seen all those big circles in decks showing an insanely high number regarding total market size, but you need to ensure that the number you chose for market size is obtainable and appropriate for what the business is trying to achieve. Investors love ambition as long as it has robust data to back it up.

You also need to show an understanding of TAM, SAM and SOM:

- TAM or Total Available Market is the total market demand for a product or service
- SAM or Serviceable Available Market is the portion of the TAM targeted by your products and services which you can acquire based on your business model
- SOM or Serviceable Obtainable Market is the portion of SAM that you can realistically capture

Nail the go-to-market
Investors don't believe in the "if you build it, they will come" approach. Once you've established your market and beachhead customer then showing how you will get the product into their hands is vital to promote confidence.

Show how it works
Many decks talk about the product/service almost as a side note. Showing investors what the product does through an online demo or video can help them understand the business more quickly and effectively than a series of slides.

Traction and Technology
If your startup is technology-based, then for your early rounds you should be able to get away with showing off the strength of your tech to raise investment. After this (and if you're not a tech startup) then traction is key to having the investor believe that the business is scalable. Investors can be sheep-like, so the more well-known a brand is that you can show you've worked with, the better!

How does it make money?
Investors don't expect the first business model you come up with to be the one you take through to IPO. That being said, having a well thought out and profitable business model is important to demonstrate how the business can succeed.

Financials are boring, but cash is king

When you first send a deck to investors, if you have historic financials then do share them, but most investors would rather not see projected revenues until later down the process. Showing that the amount you are raising is enough to last you at least 18 months is important to demonstrate that the business has enough time to hit milestones before running out of cash.

Achievable milestones

Make sure you highlight the milestones you plan to achieve with the investment you are raising. Investors want to know what their money is going towards and to see targets hit in advance of the next round of investment.

Show how you beat the competition

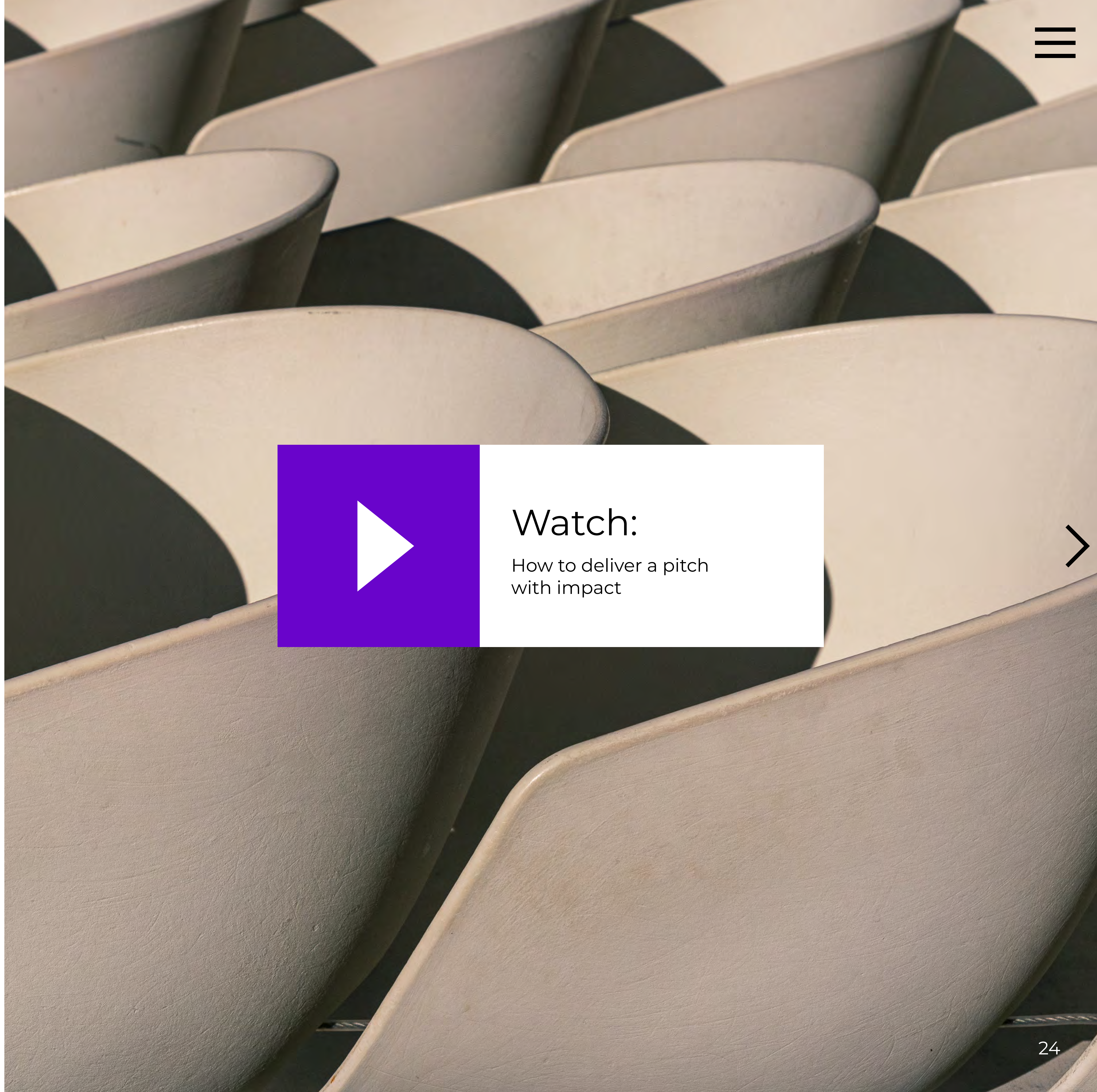
A lot of startups are hesitant to put in a competition slide as they feel it could put off an investor by showing there are other companies in your space. But an investor will conduct research and find these companies anyway. The competition slide should be used to show that your startup is the one to back by highlighting how you are better than the other players.

Keep it snappy

Ensure the deck isn't a chore to read. An introduction deck should be between 12-15 slides, anything above 25 slides has a chance of not even being opened by investors. If your deck is predominantly text, then find a way to cut down the waffle and add in visual aids.

The importance of the final slide

Make sure you put in details of your fundraise and how to contact you in the last slide. Decks are often shared beyond who you send them to directly, so make it easy for potential investors to get in touch.



Chapter 5:

Alternatives to raising funding

It’s a common misconception that all businesses must raise funding in order to grow. Some business models will allow you to generate revenue and be profitable at an early stage, especially if you are selling a service rather than a product and have low overheads. Here are just some of the viable alternatives to raising funding.

Organic growth
This can be achieved in a number of ways but is generally done through increasing business output and sales without the need to borrow or give away equity in the business in order to receive funding. Tactics can include marketing to reach a wider audience to boost sales and revenue.

Bootstrapping
Bootstrapping is building a company by using personal savings and assets without any outside cash or support. This is a method often used by businesses when they are starting out and growth is achieved through sales and revenue generation.

Borrowing and venture debt
This can be a viable solution for founders who do not wish to give away equity in their business but wish to grow and there are a number of borrowing options available to businesses that can be secured against assets or projected earnings.

Partnerships
Joining forces with a like-minded organisation and going to market together could strengthen your product value, making your combined proposition better and more appealing to your customers. Partnerships can take many forms and can be with corporates or with other early-stage businesses seeking growth.

Chapter 6:

Creating funding support and opportunities

How Barclays Eagle Labs can educate, inspire and connect entrepreneurs

Understanding the funding landscape is key for today's business founders and through this report we hope that we've been able to demystify the options available. The funding landscape is complex, and through our services, programmes and connections we aim to help you better navigate and understand your options when it comes to raising capital.

Eagle Labs

Eagle Labs helps businesses grow. It is more than just an incubator - it is a thriving community of startup and scaleup founders, investors and corporates. One of our main aims is to help build connections for businesses – whether that's to your peers, to business growth specialists, mentors, our partners or our wide network to give you access to every opportunity to help you scale.

We have a full calendar of events, workshops and growth programmes - both digitally and at our 24 sites across the UK. At each site there is flexible space designed to adapt and grow as you build your business plus there's expert advice through our Ecosystem Managers and access to rapid prototyping facilities at some locations.

One of our growth programmes, Funding Readiness, is designed specifically to educate businesses about the funding options available and comprises of three workstreams including grant funding, crowdfunding and investor funding to help you prepare for your fundraising journey. And when you're ready to raise funding, showcasing your business on our Demo Directory could give your funding campaign a helping hand.

Next steps

Startups and scaleups

- Register for our Funding Readiness Programme – the next programme starts in October 2021.
- Find out more about our Demo Directory where we will be able to share your Demo video with a group of investors who have signed up to receive them from us.
- Explore our programmes including Barclays Black Founder Accelerator and Global Connect.
- Discover the one-to-one coaching and mentoring on offer to Eagle Labs members and programme participants.
- Explore our locations – we have physical work spaces in 24 locations across the UK.
- We also partner with local authorities and local UK Government initiatives to run their incubators to stimulate the local tech and business sector. Get in touch to find out more.
- Check out our Support and Insights for practical advice and information from experienced investors, founders and industry experts – including a wealth of content on raising funding.

Investors

Whether you're a venture capitalist or an angel investor, we can connect you into a trusted network of high-quality founders and businesses. We have strong industry verticals across LawTech, HealthTech and AgriTech, plus AvTech, GamesTech, EnergyTech and connections to Barclays' FinTech arm, Rise, as well as a broad range of other sectors.

Do sign up to receive Demo videos from businesses in our network looking to raise funding.

Corporates & Potential Partners

Many of the startups and scaleups within the Eagle Labs ecosystem are looking for opportunities to work with larger organisations, both within the UK and worldwide. Get in touch to hear how we have helped corporates to partner with, invest in, and acquire some of the UK's most innovative tech businesses.

Local Authorities

Get in touch to find out how Eagle Labs has worked with a range of local authorities to support regional growth with everything from one-off initiatives to a complete service including workspaces and ongoing programmes.

Before you go...

Want to collaborate, tour one of our Labs, or find out about some of the great projects we're working on? Contact us. We'd love to hear from you.

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