

S E P T E M B E R 2 0 2 5

SPOTLIGHT ON:

Scaling your business



WHEN AND HOW TO ATTRACT OUTSIDE INVESTORS

Richard Place Dobson

External capital can accelerate product development, hiring, international expansion, and mergers and acquisitions (M&A). It can also help you professionalise reporting and governance, supporting sustainable growth. The trade-off is dilution and a closer relationship with investors who will expect evidence-based plans, transparent financials and measurable milestones.

Before you start any process, be clear about: what you need the money for, how much you really need, when you'll reach break-even (or the next value-step), and what you're prepared to give up to get there. Investors will ask the same questions. Read our extensive guide, which will help you better understand the process.

WHAT INVESTORS LOOK FOR

Commercial traction and unit economics: Show consistent revenue, gross margin and cash-burn trends, plus the drivers behind them. For subscription or marketplace models, include retention/churn, average revenue per user (ARPU), customer acquisition cost to lifetime value (CAC/LTV), cohort analyses and sales cycle.

A credible plan: Forecasts should tie to hiring plans, capacity constraints and pipeline quality. Your model must reconcile to historical accounts and bank statements.

A clean cap table: Avoid ambiguous share classes, undocumented promises, unpaid share consideration or inappropriate liquidation preferences. Keep option grants recorded and aligned with an agreed pool.

Defensible intellectual property (IP)

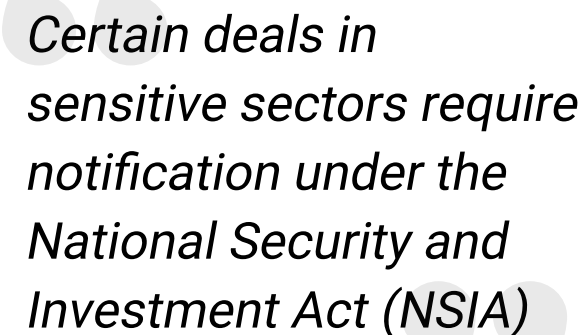
and contracts: Check assignments from founders/contractors, trade marks, licences, data-processing agreements and any change-of-control clauses.

Good governance: Board minutes, shareholder consents, policies (data protection, information security) and documented controls will all be tested during diligence.

Regulatory awareness: Certain deals in sensitive sectors require notification under the National Security and Investment Act (NSIA). Notifiable acquisitions typically include stakes of 25% or more (or equivalent voting/control thresholds) in 17 specified sectors; completing a notifiable deal without approval can render it void and risk penalties. If you operate in or sell to those sectors, get advice early.

Housekeeping with Companies House:

New rules are phasing in identity verification for directors, people with significant control (PSC) and those filing on a company's behalf. Voluntary verification has been available since April 2025, with mandatory verification beginning on 18 November 2025 with a 12-month transition window for existing directors/PSCs. Make sure your registered email and office address meet current requirements.



Certain deals in sensitive sectors require notification under the National Security and Investment Act (NSIA)

THE CURRENT UK EQUITY MARKET AT A GLANCE

Knowing the market helps you set realistic expectations on valuation, timelines and terms.

- UK smaller businesses raised £10.8bn of equity in 2024, down 2.5% on 2023; 2,048 deals completed (-15.1%). Despite softer activity since 2023, 2024 was still the fifth-highest year on record by value.
- Angel investors remain active. HMRC/Enterprise Investment Scheme (EIS) data suggests around £1.6bn of angel-type funding in 2023/24, with a majority of angels investing at an early stage.
- Spinouts were resilient – £1.9bn raised in 2024 (about 17% of total UK equity investment), with an average spinout deal size of £8m.
- The deal mix is changing. The British Business Bank reports larger average round sizes and strong interest in artificial intelligence (AI), where deal sizes were around 40% larger than the market average in 2024.

Use this context to frame your plans and timelines when approaching investors.





IS OUTSIDE CAPITAL RIGHT FOR YOU NOW?

Ask yourself the following questions.

- **Do you have line-of-sight to value creation?** Funding should take you to a defined milestone that materially reduces risk (for example, regulatory approval, contracted annual recurring revenue (CARR), first factory line).
- **Have you exhausted cheaper capital?** Consider grants, revenue-based finance, asset finance or bank debt where cashflows support it.
- **Will dilution be worth it?** Model ownership after the round and under future dilution scenarios.
- **Are there deal-breakers today?** Examples include uncertain IP ownership, disputed founder arrangements, missing statutory filings or unresolved HMRC issues.

If the answer to any of these is “not yet”, tackle those items first. It usually shortens fundraising time and improves outcomes.

TYPES OF OUTSIDE INVESTORS (AND WHAT THEY EXPECT)

Friends and family: Fastest to close but treat it professionally: a simple subscription, a clear use of funds and transparent updates.

Angel investors and syndicates: Often experienced operators who can add expertise and networks. Many angels invest using the Seed Enterprise Investment Scheme (SEIS) or Enterprise Investment Scheme (EIS), which can materially improve your close rate if you qualify. Typical expectations: early signs of product-market fit, a clear hiring and go-to-market plan, and timely reporting.

Equity crowdfunding: Useful for B2C brands with engaged communities. Be ready for disclosure, ongoing investor relations at scale and platform diligence.

Venture capital (pre-seed to Series B):

Venture capitalists look for fast growth and large addressable markets. They negotiate preference shares, investor rights and board seats. They examine unit economics closely and expect monthly reporting.

Growth equity/minority private equity:

Targets proven commercial traction and a clear path to profitability. Expect comprehensive due diligence and more robust minority protections.

Corporate/strategic investors: Can add distribution, credibility and technical collaboration. Balance strategic value against potential conflicts, such as customer exclusivity.

Family offices: Increasingly active; may offer flexible terms and longer hold periods, but diligence standards vary — confirm decision processes and timelines.



INVESTOR INCENTIVES YOU CAN USE

SEIS and EIS are two HMRC-backed schemes that can improve investor returns and make a round easier to close if your company and the investor meet the conditions.

SEED ENTERPRISE INVESTMENT SCHEME

- **For investors:** Income tax relief at 50% on investments up to £200,000 per tax year; partial capital gains tax (CGT) reinvestment relief is also available.
- **For companies:** Can raise up to £250,000 under SEIS, subject to age, asset and trading-status limits.

ENTERPRISE INVESTMENT SCHEME

- **For investors:** Income tax relief at 30% on up to £1m a year (up to £2m if at least £1m is invested in knowledge-intensive companies), with CGT advantages on exit.
- **For companies:** Can raise up to £5m per year and £12m lifetime across EIS and other venture capital schemes (higher limits apply for knowledge-intensive companies).

Certainty of availability: The government has legislated to extend EIS and venture capital trust (VCT) income tax reliefs to 6 April 2035, giving long-term policy certainty.

Advance assurance and advanced

subscription agreements: Many investors will ask for HMRC advance assurance. If you use an advanced subscription agreement (ASA, also known as SAFE notes), to take funds before a priced round, ensure the ASA is equity-only (no refund or interest). For SEIS or EIS advance assurance, HMRC expects a long-stop of no more than six months; in later compliance reviews, HMRC has indicated that a longer long-stop won't automatically prevent relief if the ASA remains equity-like (no interest, no redemption and genuine subscription for shares).

Practical tip: Build time for the advance assurance process. It's not mandatory, but it can shorten investor invested capital cycles.

INSTRUMENTS AND TERMS: GETTING THE STRUCTURE RIGHT

New ordinary or preference shares (priced round) are common for VC and growth equity. Key points you will negotiate include:

- **Valuation and option pool:** Pools are typically created or “topped up” pre-money; model post-money ownership for each scenario.
- **Investor rights:** Reserved matters, information rights and board representation.
- **Liquidation preference:** A standard term is 1x non-participating; multiples and participating features increase investor downside protection and your dilution in a downside exit.
- **Anti-dilution:** Weighted-average is more typical than full-ratchet in the UK; be clear how it interacts with future rounds.
- **Pre-emption, tag/drag-along:** Make sure these align with your growth and exit plans.
- **Convertible instruments:** In the UK, ASAs are widely used to bridge to a priced round. Convertible loan notes are also used but usually do not qualify for EIS/SEIS because they are debt. If investor tax relief is essential, structure carefully and take advice.
- **Secondary sales:** Selling existing founder or early investor shares can help rebalance risk. Plan early for any stamp duty or stamp duty reserve tax on transfers (not applicable to new share issues), and consider the optics with incoming investors.

EMPLOYEE OPTIONS AND YOUR OPTION POOL

A well-designed option plan helps you hire and retain key people and is expected by most institutional investors.

- The Enterprise Management Incentives (EMI) scheme offers significant tax advantages if you qualify. As a guide, a company must have gross assets of £30m or less and fewer than 250 employees; an individual employee may not hold unexercised EMI options over shares worth more than £250,000 at grant value.
- Across the company, unexercised EMI options over shares (by unrestricted market value at grant) must not exceed £3m at any time.

Investors will expect to see how the pool supports your hiring plan; factor pool size into your pre-money valuation discussions.

DUE DILIGENCE: WHAT TO PREPARE

FINANCIALS AND TAX

- Statutory accounts and management accounts with reconciliations to trial balance and bank.
- 12-24 month forecast model plus scenarios.
- VAT, PAYE, corporation tax filings and time to pay (if any).
- Research and development (R&D) tax relief – from accounting periods beginning on or after 1 April 2024, most companies claim under the merged R&D scheme (an R&D expenditure credit style credit). A separate enhanced R&D-intensive support remains for loss-making small and medium-sized enterprises (SMEs) with R&D intensity of at least 30%, with a one-year grace period if you dip below after qualifying. Expect close scrutiny of claims and compliance.

LEGAL

- Shareholder agreements, articles, option scheme rules, IP assignments, key contracts, data-processing agreements.
- NSIA analysis if relevant (see earlier section).

PEOPLE AND OPERATIONS

- Employment contracts, contractor agreements, right to work (RTW) checks and any IR35 assessments.
- Policies and controls (for example, information security if selling into enterprise or public sector).

CORPORATE RECORDS

Up-to-date cap table and Companies House filings. Prepare for upcoming identity verification requirements and keep your registered email and address compliant.

Create a simple virtual data room. Label documents clearly and keep a single source of truth for the capitalisation table.



VALUATION: HOW INVESTORS WILL THINK ABOUT IT

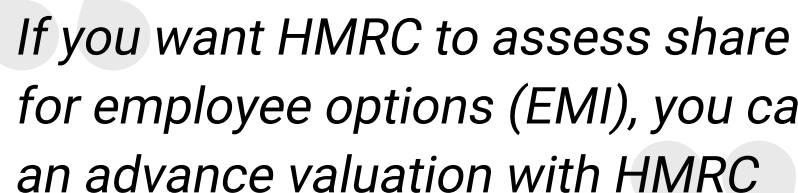
Valuation is a function of stage, growth, margins, capital efficiency, market scale and comparable transactions. Early rounds may reference market ranges for your sector and stage; later rounds will look more like a blend of revenue multiples, gross-margin-adjusted metrics, and discounted cash flows (where appropriate). Build sensitivity tables in your model so you see how valuation and dilution respond to different growth and burn scenarios.

If you want HMRC to assess share valuations for employee options (EMI), you can agree an advance valuation with HMRC. This is separate from investor pricing and can help with staff communications.

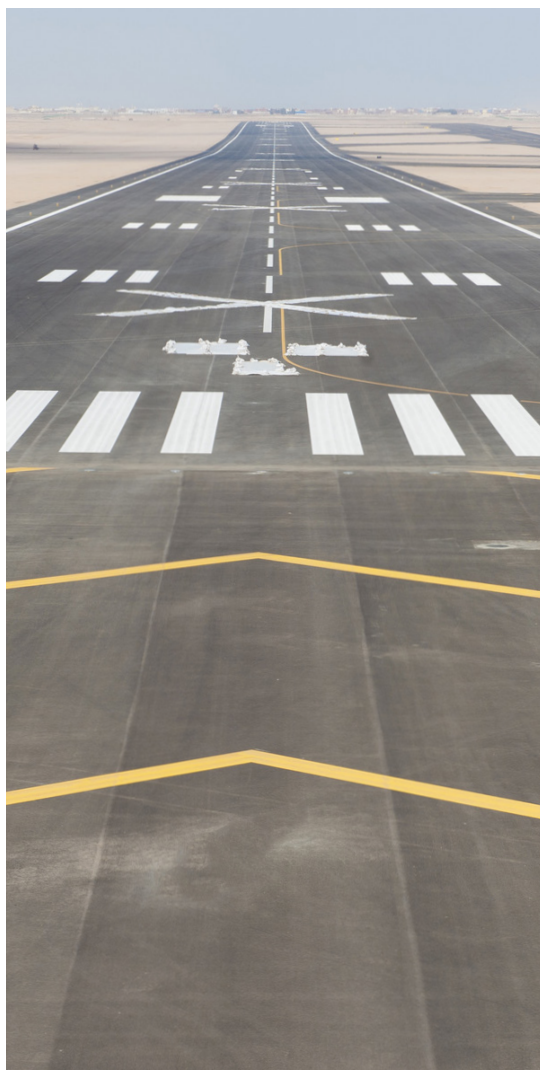
TYPICAL PROCESS AND TIMELINE

- 1. Preparation (4-8 weeks):** Business plan and model, data room, cap table, SEIS/EIS advance assurance (if using), shortlist of investors.
- 2. Outreach (4-8 weeks):** Intro calls and light diligence; update your model and deck based on feedback.
- 3. Term sheet (2-4 weeks):** Negotiate valuation, pool, and key terms; exclusivity may start here.
- 4. Full diligence and legals (4-8 weeks):** Financial, tax, legal and commercial diligence; long-form documents; regulatory approvals as needed (for example, NSIA).
- 5. Completion and post-close:** File share allotments, update PSC register and confirmation statement, issue option grants, and implement reporting cadence.

Timelines vary by stage and deal type; having a prepared data room is the simplest way to shorten them.



If you want HMRC to assess share valuations for employee options (EMI), you can agree an advance valuation with HMRC



INVESTOR COMMUNICATIONS AND REPORTING

- **During the raise:** Set a cadence for updates, highlight milestones and be clear about the runway.
- **After completion:** Agree on reporting (monthly or quarterly), key performance indicators, board meeting dates and information rights.
- **When things change:** Update investors early — most will help if they understand the problem and the plan.

HOW ACCOUNTANTS CAN SUPPORT YOU WHEN SCALING YOUR BUSINESS

We can review your plans with an investment lens, including:

- investment-readiness review (financials, tax, governance and data-room checks)
- forecast modelling and scenario analysis
- SEIS/EIS advance assurance and post-investment compliance
- EMI option scheme design and HMRC valuations
- transaction support (financial and tax due diligence) and post-completion integration
- NSIA signposting where relevant.

CLOSING THOUGHTS

This guide sets out the practical steps to raise outside capital, with 2025/26 tax year rules and current market data. Every situation is different — please speak to us before you take decisions that affect valuation, tax or control. We can help you plan the process, identify the right investor types, set realistic terms and complete efficiently.



If you'd like a short investment-readiness review or a second opinion on term sheets, let us know. We'll respond with a suggested scope and timeline.



1-7 Station Road, Crawley, West Sussex, RH10 1HT

