

Funding Your Venture

A streamlined 5-step approach for early-stage companies

1) Identify the right investors

- At pre-seed and seed stages, focus on business angels and specialist early-stage VC funds (later-stage VCs usually won't engage this early).
- Many investors will seek SEIS or EIS relief - check eligibility early.
- Crowdfunding can suit consumer-facing businesses.
- Look beyond immediate needs: consider how early investors will fit as the company grows.
- Ensure outreach complies with financial promotion restrictions.

2) Understand share classes and investor rights

- Ordinary shares: simplest and align founder/investor interests.
- Preferred shares: add enhanced rights (e.g., liquidation preference, anti-dilution). These aren't always problematic but need careful review.
- Avoid terms that could prejudice SEIS/EIS relief.

3) Consider convertible investments

- Advance Subscription Agreements (ASA)/SAFEs: funds now, shares later at a discount or capped valuation; not debt; ASAs are usually SEIS/EIS compatible and SAFEs can be adapted to comply.
- Convertible loans/notes: legally debt, even if intended to convert; risk of repayment if conversion doesn't occur; not eligible for SEIS/EIS.
- Benefits: defer valuation discussions and simplify documentation.
- Watch conversion mechanics - especially if multiple rounds precede conversion.

4) Explore non-dilutive funding

- Grants (e.g., Innovate UK) provide capital without equity dilution.
- Check conditions carefully: IP ownership/publication obligations and any match-funding requirements.

5) Secure SEIS/EIS relief

- Most early-stage companies qualify for these tax reliefs.
- Consider advance assurance from HMRC - some investors require it.
- Rules are complex: timing and documentation matter to avoid disqualification.
- Take professional advice - our corporate and tax teams are experienced in the SEIS/EIS processes.

Summary

Early-stage funding involves more than raising cash - it's about choosing the right investors, instruments, and terms while protecting tax reliefs and future flexibility. Careful planning now avoids costly issues later.

Find out more

To read the full article please click here – <https://www.penningtonslaw.com/news-publications/latest-news/2024/fuelling-growth-funding-your-venture>

To download our emerging companies guide please click here – https://f.datasrvr.com/fr1/624/73592/Navigating_the_journey_of_growth_Sep24.pdf

To find out more about PennStart and how we can help you please click here - https://f.datasrvr.com/fr1/023/36261/PennStart_brochure_-_Penningtons_Manches_Cooper_May_23.pdf

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