THE UNIVERSITY of EDINBURGH

EDINBURGH INNOVATIONS

Getting Your Startup Investor Ready

"Far and away the best source of finance for a business is revenue from customers. Most other sources – especially equity investment, and loans – have strings attached."

Jonathan Harris, Editor, Young Company Finance

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Introduction

This short and practical guide is designed to help you understand the key funding options available to you and some of the key aspects to consider as you build your startup.

As this is a fast-changing, complex area, this guide does not attempt to be all-encompassing! Edinburgh Innovations is here to help, so please speak with us to identify the best options for your startup.

Sections in blue relate particularly to social enterprises.

1. Understanding different types of funding

There is a lot of funding available from many sources for startups. The challenge is to negotiate this complex, continually-evolving landscape and identify the sources that are likely to give you funding. This guide aims to give an overview of options and insights into where you might see success.

One important aspect of this is to consider what stage your startup is at:

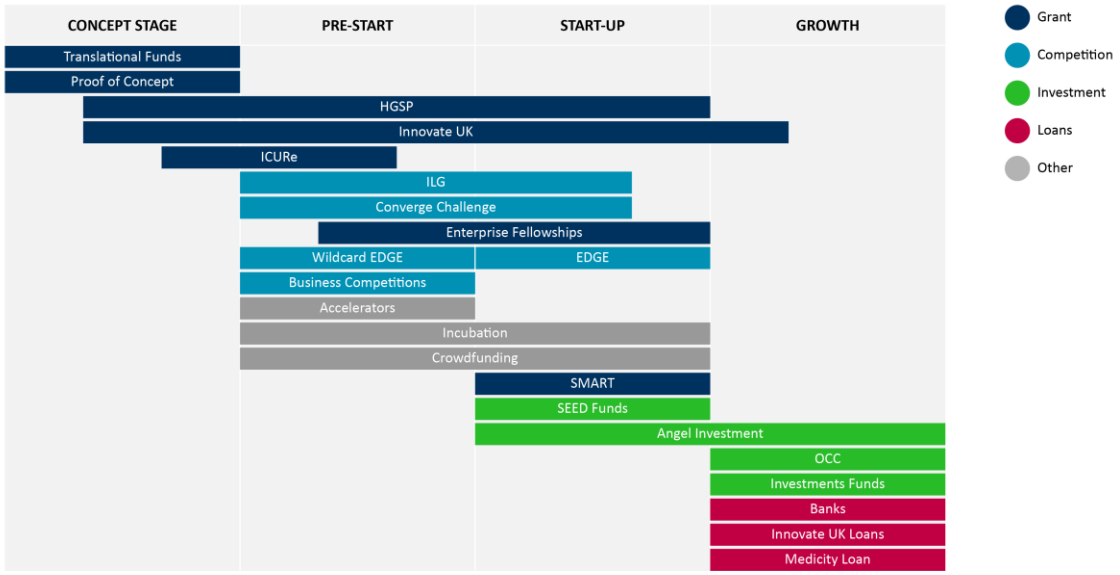

Figure 1: Types of funding for startup phases

In general, grants and competitions are great in the early stages to build credibility and value into your company. Accelerators and crowdfunding can help further and then as you get nearer market, equity investment may be an option. Finally, loans can be useful once you are trading and looking to grow.

a. Grants

There is a wide range of grants available, but many of them are restricted to specific geographical areas or are available to researchers rather than companies. Most grants have a defined aim, for example to support economic development, commercialisation of R&D or social or environmental objectives. Few grants provide 100% funding, so you may need to find "match" funding from other sources.

b. Competitions

There are a great number of competitions, generally looking for innovative startups in specific sectors or being led by founders that meet certain eligibility criteria. Competitions can be an excellent way to help your startup gain credibility and can provide significant funding too, but of course they are competitive, so there is no certainty of winning…

c. Friends and family

If you can't persuade your rich auntie or your dad's golfing buddy that you have an investable business idea, why should anyone else be interested? Since business is about people and networks, your own contacts can often be a great place to go, particularly early on when you are working to validate your concept or if you have secured a grant that needs match funding.

d. Accelerators

In 2005 a new way of supporting startups was born with the launch of Y Combinator in Cambridge, Massachusetts. The first accelerator programme of its kind, it invested in a small batch of promising startups – including Reddit and mobile location startup Loopt, which sold for $43.4 million in 2012. Using a lean startup approach, it worked intensively with them for three months to prepare them for pitching to an invite–only audience of venture capitalists.

Since then, this model has been replicated, adapted and developed by accelerator programmes the world over. In fact, in 2019, the University of Edinburgh has exciting plans to launch a series of accelerators itself looking at a variety of sectors including Data Driven Innovation, Fintech, Tech for Good, Carbon Innovation and Digital Healthcare.

Funding from accelerators generally comes in the form of equity investment (through the chance to pitch at the end of the program) and/or a stipend for the founders for the period of the program.

e. Crowdfunding

Crowdfunding is the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet. Crowdfunding platforms are internet sites where this can be done and can be grouped under four categories:

- donations, mainly applicable to charitable giving;
- rewards, where the venture seeking funds offers something in return for the money pledged;
- equity, where the supporter acquires a shareholding in the business; and
- peer-to-peer (P2P) lending, where the 'crowd' can lend funds more quickly and at more competitive rates than institutional lenders.

f. Angels

Business Angels are high net worth individuals, generally successful entrepreneurs or business people themselves, looking for the opportunity to invest in up and coming businesses. There is no such thing as a typical business angel but one thing they have in common is that they invest in people as much as in business propositions. A good business plan is necessary but never sufficient to clinch a deal. The chemistry between the investor and the management has to be right for both sides. Angel rounds usually consist of £250K - £3M.

g. VCs

Institutional investors are those which invest funds on behalf of others. Venture Capital (VC) firms are set up in order to attract funds from partners such as pension funds and insurance companies, by offering a different asset class (high growth privately owned companies) and their own expertise in investment.

While VC firms are investing to make a profit for their own funders, corporate venturers are usually looking for companies which have technology or services which could complement or contribute to their own core business activities.

Many VCs do not invest at the start-up stage of a business, and expect companies to have established at least an initial level of revenue before they will invest. VCs have more money than angels and can invest tens to hundreds of millions in a business.

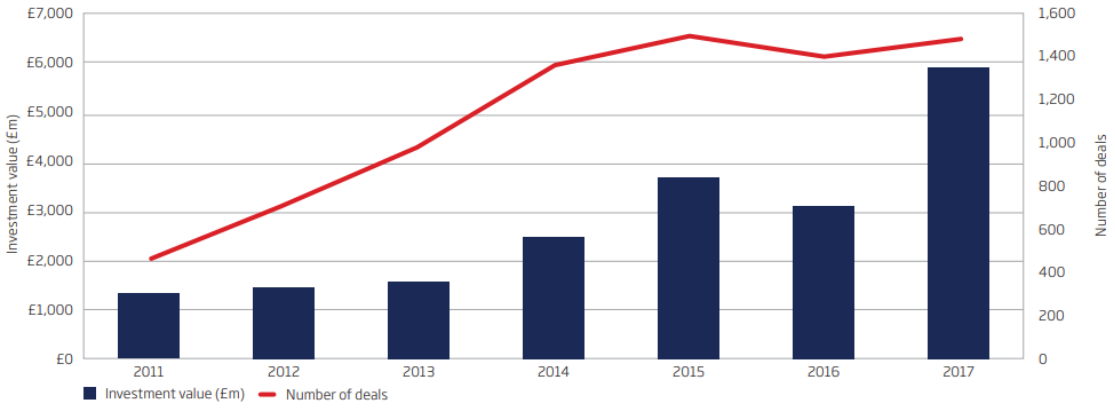

Figure 2: Number of equity deals in UK (Source: British Business Bank analysis of Beauhurst)

h. Loans

Traditional bank loans and overdrafts have become more difficult to obtain for early stage companies which do not have regular revenue streams or assets which can be offered as security. Having said that, the UK government does run a startup loan scheme.

For many social enterprises who adopt a traditional asset locked legal structure – such as Company Limited by Guarantee, Scottish Charitable Incorporated Organisation (SCIO) or Community Interest Company Limited by Guarantee (CIC) – investment in the form of a loan is the only option. This is because equity investment is not possible since no shares are available to sell. Organisations such as Social Investment Scotland and Big Issue Invest offer a range of flexible loan funding packages for social enterprises.

2. Funding available in Scotland

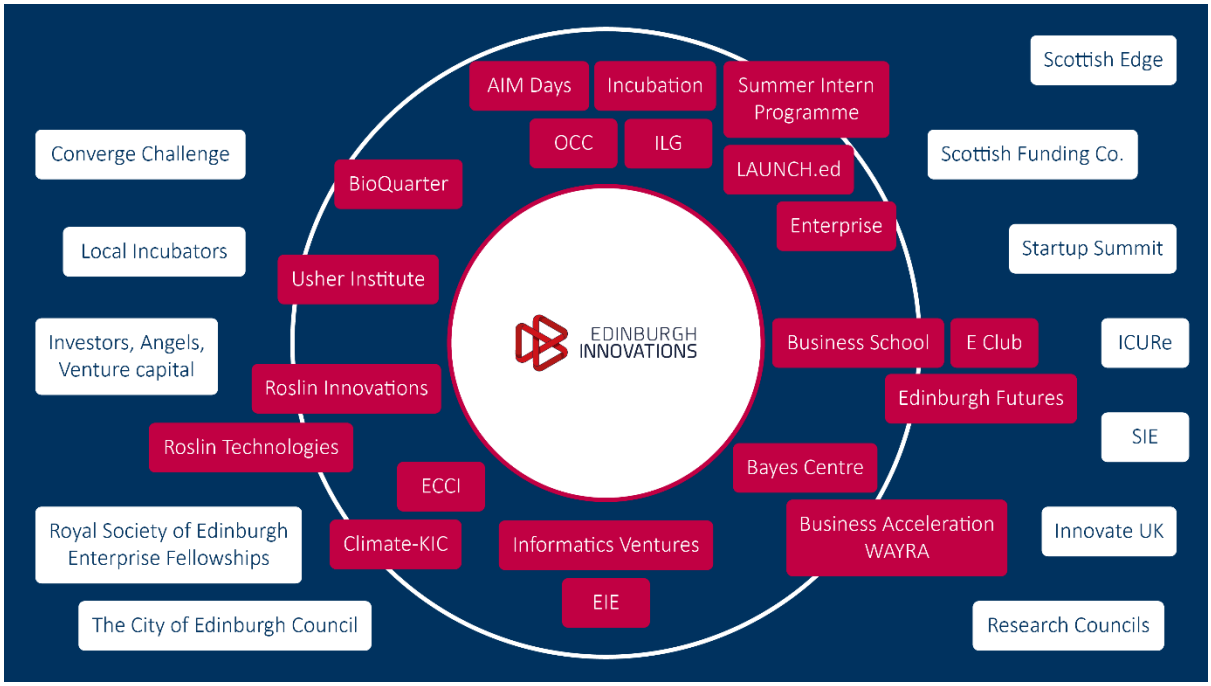

Figure 3: some of the funders in Scotland

There is a wide variety of funding available in Scotland. Some particular highlights are outlined below. As well as the actual funding, an award from one of these sources will also provide credibility through their endorsement and the due diligence they have undertaken.

i. Edge

Scottish EDGE is a competition aimed at identifying and supporting Scotland's up-and-coming, innovative, high-growth potential entrepreneurial talent.

If you have an innovative, high-growth potential business (including social enterprise) then you could win up to £100k (£150k for Higgs EDGE for science, technology and engineering focused businesses) plus a package of support from Scottish EDGE. The application and video submission are assessed by an independent panel of judges against the following criteria: Innovation, Entrepreneurial Spirit, Business Growth Potential, Customer Focused, utilisation of funding and risk awareness and for social enterprise social and/or environmental impact.

j. Converge Challenge

Converge Challenge is a key company creation programme for staff, students and recent graduates of Scottish Universities with the aim of creating a new generation of entrepreneurs in Scotland. This is particularly good for science companies who may have IP and need business training. They also actively support social enterprise and have a specific award category for high impact social businesses.

Converge works with all industry sectors, products and service-based ideas including social enterprise at any stage of their development.

By providing high quality training, hands-on mentoring and practical support, including cash prizes, Converge Challenge helps to refine and accelerate the pipeline of spinouts and startups by developing fledgling businesses and social enterprises into investor ready companies.

k. ILG

Edinburgh Innovations' Inspire Launch Grow Awards are designed to reward staff, researchers, students and recent graduates (up to four years after graduation) of the University of Edinburgh who have started a new business, social enterprise or turned their research into a business opportunity. We want to recognise those who achieved entrepreneurial success while pursuing their studies or academic career or developed an inspiring new business post-graduation.

This pitching competition is not a competition for early-stage ideas. ILG is looking for applicants who have already taken considerable steps towards starting up. There is a total prize fund of £20,000, with a top award of £5,000 cash. ILG takes place each April.

l. Social Enterprise Start-up Grant Funding

Firstport and **Unltd** both offer Start It grants of up to £5,000 and further Grow it grants of up to £25,000 to social enterprises based in Scotland. Big Issue Invest, with funding support from University of Edinburgh, offer a combination of mentoring, business support and funding of up to £50,000 (half loan, half grant) through their Power Up Scotland Programme.

m. High Growth Spin Out

The Scottish Enterprise High Growth Spin-Out Programme (HGSP) supports the commercialisation of leading-edge technologies emerging from Scotland's universities, research institutes and NHS Boards. It helps researchers to export their ideas and inventions from the lab to the global marketplace. For University of Edinburgh projects, applications can only be submitted through Edinburgh Innovations.

n. Innovate UK

Innovate UK's aim is to drive productivity and economic growth by supporting businesses to develop and realise the potential of new ideas, including those from the UK's world-class research base. If you're a UK-based business or research organisation, you may be able to compete for government-backed funding to:

- research and develop a process, product or service
- test your innovation ideas
- collaborate with other organisations

Innovate UK runs a number of calls focused on specific topics each year and has a 7% success rate, so quite competitive.

o. SMART

SMART: SCOTLAND is a grant up to £100K for small to medium enterprises (SMEs) based in Scotland. The grant helps you undertake technical feasibility studies that have a commercial endpoint. A feasibility study is carried out at an early stage of an R&D project, to see if the new product or process will work in the real world.

SMART can support up to 70% of the eligible costs for a small SME with fewer than 50 employees and a turnover of less than €10 million.

Studies must last between 6 and 18 months, and the maximum grant is £100,000. The grant is paid quarterly in arrears against claims submitted.

p. RSE Enterprise Fellowship
The RSE Enterprise Fellowship is Scotland's leading business development and training programme for the Higher Education sector. It enables science and technology researchers to develop into successful and world-class entrepreneurs.

Practically, an RSE Enterprise Fellowship offers you the chance to be paid for one year to develop your business.

3. How to Find Investors For Your Startup

The best way to find investors is through your network, as it's easier to get noticed by an investor through a connection rather than by sending in a business plan cold. There are various lists providing links to investors such as the YCF Guide to Finance (attached) where you can do your research to find the best investor with relevant experience, industry knowledge and funding ranges.

If you are a social enterprise then connect with organisations such as Firstport, Edinburgh Social Enterprise Network, Social Enterprise Scotland, Big issue Invest and Social Investment Scotland. All these organisations run networking events and workshops. Speak to your social enterprise adviser at Edinburgh Innovations who can help make introductions to the right people in each of these organisations.

When you're looking to start raising for your company consider these ways to find your angel investors and venture capitalists.

Through Edinburgh Innovations and various parts of the University and Edinburgh including the Business School and Informatics Ventures.
We have a strong network of investors and successful entrepreneurs from our own network, faculty, alumni and guest speakers. Ask us if we might be able to point you in the right direction and potentially make an introduction.

Through people you know in the industry
Ask founders of companies within your industry who have already found investors and ask them for recommendations and introductions. As various investors specialize in specific markets, like life sciences, software, travel, or IoT, they usually find companies through networks. So familiarise yourself within these networks, do some research on angel investors who work in your area, and aim to get an introduction.

Online
There are many sources to find angel and Venture Capital investors online such as UK Business Angel Association, AngelList, and Crunchbase. Use normal online networking sites such as LinkedIn to find investors, as well. Make sure your online presence creates a sense of credibility before approaching investors.

Investor networks and funds
You can search for angel investor networks and VC funds online as well as by reading the YCF Guide to Finance.

Crowdfunding
You can search for crowdfunding platforms by searching online while targeting the specific niche you are after, such as arts, science, business, startups, and others with angles like equity investments, loans, social enterprise and charities.

Edinburgh's entrepreneurial community
Get involved in the Edinburgh entrepreneurial and social enterprise ecosystem. Attend start-up and investment events within the University of Edinburgh, Edinburgh Council, Scottish Government and start-up communities. Speak to other founders and join tech or social enterprise startup groups on EventBrite, Facebook and LinkedIn. Attend events and network. Do pitching competitions and get exposure. Edinburgh Innovations can point to you to right events and competitions in order to get noticed by investors.

Through mentors
Edinburgh Innovations provides a mentor service linking start-ups to experienced and successful entrepreneurs who act as mentors to your start-up. These mentors will have raised investment in the past and have an extended network they can use to introduce you to people in the investment community.

Accelerator programmes
Offered by investment firms, seed funds, universities and other large established entities, accelerator programs are found pretty much all across the UK, Europe, Asia and America. Some of the top accelerator programmes are highly competitive, like Y Combinator and AngelPad, but the payoffs are big. Weeks or months-long boot camps for the sole purpose of launching a company with classes and talks by highly regarded entrepreneurs, accelerator programmes are a great way to meet other founders, get real-world guidance from industry mentors and smooth out some rough edges. Some accelerators offer a seed investment in return for equity, and they usually culminate in a Demo Day presentation in front of an audience of investors. Normally, 50% of these start-up pitches go on to raise £Millions in investment thereafter.

Firstport run Launch Me, Scotland's only social enterprise accelerator. It aims to develop a pool of strong, capable and ambitious social enterprises that can go on to secure investment which will allow them to achieve social impact at scale. It offers £10,000 seed investment, intensive business support, access to grant funders and social impact investors.

The Climate-KIC Accelerator, run at Edinburgh Centre for Carbon Innovation (ECCI) is an 18-month, three-stage programme for low carbon entrepreneurs and start-ups in the UK. It offers investment, resources, tools and coaching to help grow your business.

4. Expectations from investors

Whatever kind of investor you approach, they will see lots of interesting proposals and can therefore afford to be picky. Ask yourself, do I have:

- A strong team with experience in the sector
- A large, growing target market
- Evidence that my product or service will work
- Evidence that your market cares?

There's not necessarily a right or wrong time to approach an investor, but generally the more progress you have made, the more value you are building into your company. Be aware also that the process is likely to take 6-9 months. Some investors want to see your product, or prototype at least, and evidence of working with a large company partner. Others want to see evidence of "hustle"! Others might say they want traction and team, not just technology. Do some research to understand what they are looking for.

Most business angels focus on companies which qualify under the HMRC Enterprise Investment Scheme or Seed Enterprise Investment Scheme as this offers investors tax relief incentives when investing in early stage businesses. Investors can access the same tax relief incentives when investing in either a CIC or SCIO through Social Investment Tax Relief. Establishing your eligibility should be a first step before seeking investment. Investors will also expect you to have thought about their sectoral relevance, their skills and experience and whether they have the capacity to follow their money as your business grows. Do some research to understand what they can offer.

Many angels group together in syndicates to spread their risk and to allow them to invest greater sums and follow their money as your business grows.

Once you have identified some investors with a good fit, you then need to get a hearing with the group 'gatekeeper' or screening committee. This needs a really strong executive summary which doesn't dwell on your technology or product but on the problem it solves and the business opportunity it creates.

Demonstrate that there is a large growing market - and you know how to access it; that your investors can make a significant multiple on their investment in three to five years and that you have clear understanding of the route to that exit and how much capital it will take to get there.

When pitching to social investors the focus will be on the size of the societal problem you are addressing and the scale of the social or environmental impact you can achieve along with a strong business model that supports growth and scalability. Essentially – how do you intend to achieve a triple bottom line of people, planet and profit?

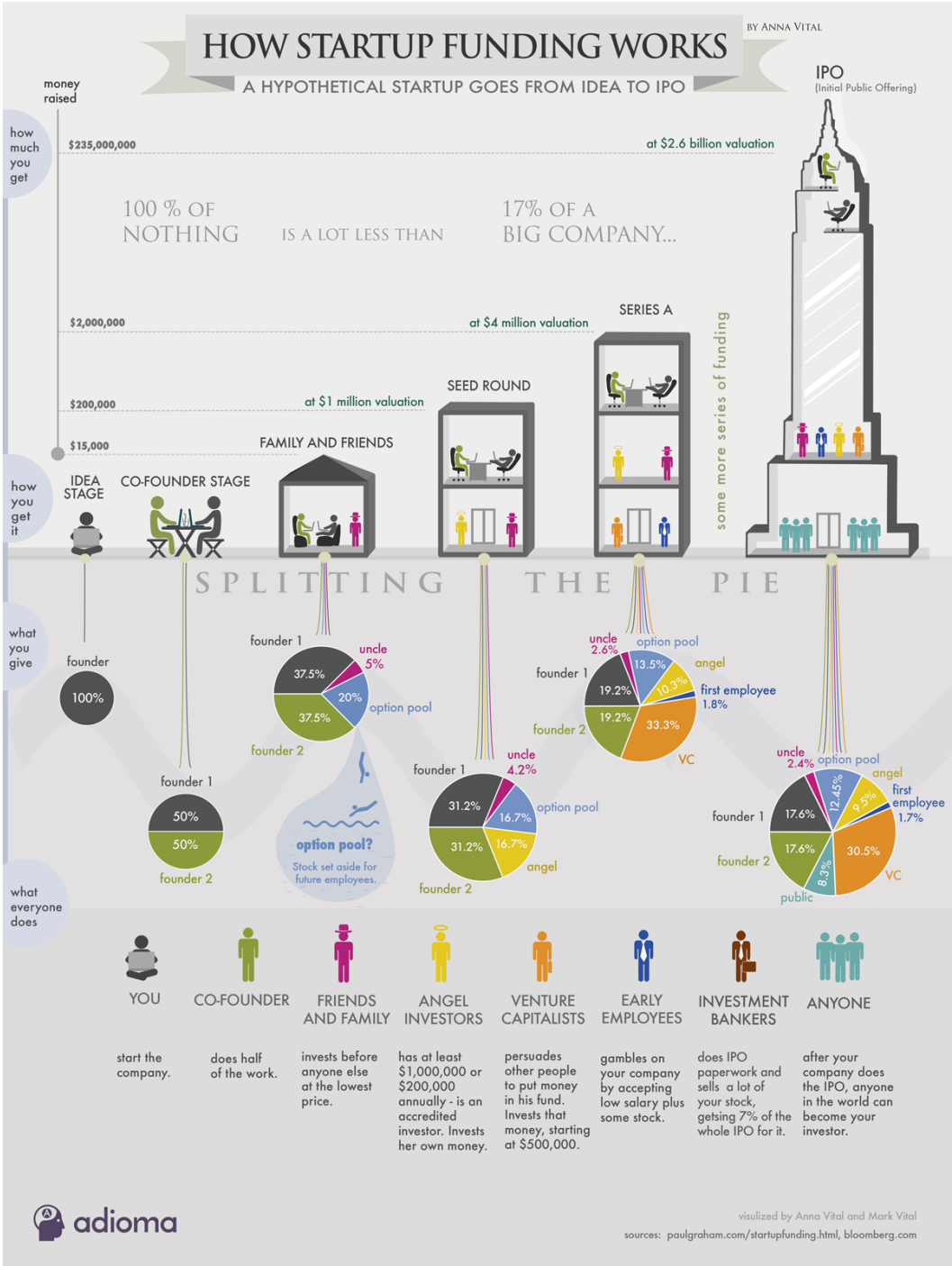

Figure 4: Hypothetical Startup funding journey (Source: Anna Vital)

5. Helpful Links

- YCF Guide to Finance
- Get Backed
- A Beginners Guide to Social Investment

6. Useful Materials

- Pitch deck (on file)
- Business Plan (see SMART template)

Appendix A: Angel Investors in Scotland

Apollo Informal Investment
Typically invests between £20k and £150k. Based in Edinburgh, the group is sector-agnostic and invests in companies with a maximum valuation of £500k.

Archangels
The preferred level of investment is £250-500k but can cover a range from £50k to £2m. Based in Edinburgh, Archangels is also a partner of the Scottish Co-Investment Fund.

EOS Technology Investment Syndicate
Typically invests between £20k and £500k. Invests exclusively in companies that are either EIS- or SEIS-qualifying, with a special focus on sectors such as software, oil and gas, renewables, bio-medical, and marine

Equity Gap
Typically invests between £20k and £500k. The average stake taken by investors in deals is 21.9% at a £1.46m pre-money valuation.

ESM Investments
Typically invests between £200k and £500k. The fund was founded in 2011 and is made up of current and former technology executives and founders.

Gabriel Investment Syndicate
Support includes a minimum of £20k from Gabriel, plus matching funding from Scottish Enterprise.

Investing Women
Their usual range of investment is between £50K and £250K of seed capital in early stage ventures that are based in Scotland. They also look at considerably larger investments collaborating with other angel groups.

Kelvin Capital
Kelvin Capital was founded in 2009 and has since raised a total of over £13.5million into 16 portfolio companies.

London & Scottish Investment Partners
Typically invests between £300k and £500k. The network is a Scottish-based angel group supported by investors from London and Scotland. It's members are part of LINC, the Scottish Angel Network.

Mercia Technologies
Mercia is a national investment group focused on the identification, creation, funding and scaling of innovative businesses with high growth potential from the UK regions. Initially this is through Mercia's managed funds and then selectively scaling businesses through its own balance sheet capital. From seed through to exit, Mercia is well placed to deploy a full range of equity and debt capital, from see rounds of £100,000 to funding rounds of £10million, through its 'Complete Capital Solution.'

Par Equity
Par Equity is a venture capital firm created to facilitate investment into smaller companies with high growth potential. Their primary interest is in companies that are innovative and do things in new and better ways, and so gain competitive advantage.
Where possible they use government approved tax wrappers such as EIS or BPR to maximise returns to investors.

TRI Capital
TRI Capital is based in the Scottish Borders and is particularly interested in businesses that are located in the Borders, Lothians and North of England, or are considering relocation to the area.

Appendix B: Social Investors in Scotland

Social Investment Scotland (SIS)
SIS provides loan investment for charities and social enterprises looking to make a positive impact on people's lives, society or the environment. Since they started in 2001, they have invested £63 million in over 300 organisations across Scotland.

SIS Ventures
SIS Ventures, part of the SIS group invests for social or environmental impact, regardless of legal structure. They aim to invest in businesses that can demonstrate 'profit with purpose' with the potential to scale their social or environmental impact. SIS Ventures is a flexible investor and will look to co-invest alongside other mission-aligned investors.

Big Issue Invest
Big Issue Invest offers social enterprises and charities, loans and investment from £20,000 to £3 million. They currently manage or advise on £170 million worth of social funds.

Resilient Scotland
Resilient Scotland provides social investment to help charities and social enterprises have a positive impact on the regeneration of the communities they support. They offer flexible investment packages of between £10,000 and £500,000.

Foundations and Trusts
Other organisations that help fund social enterprise include large trusts and foundations such as The Robertson Trust, Esmee Fairbairn Foundation and The Big Lottery. Each funder will have different priorities and programmes so please speak to the social enterprise adviser who can help identify the most appropriate funder and advise on eligibility criteria. You may also want to consult www.fundingscotland.com for more sources of funding.