

# The Business Finance Guide



## Venture capital

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Venture capital generally enters business life early on in its development. Sometimes, particularly with high tech businesses, it enters right at the beginning. However, it is more likely to be used after angel investors or after initial support when the business has been able to show they have a customer base. Companies don't need to have any revenue or profit when looking to the venture capital community for support.

Venture capital is an equity investment. A venture capitalist would expect to take a minority stake in a business on the basis of an agreed evaluation. Depending on the size of the business and where it is in its lifespan, a venture capitalist would expect to have representation on the board in order to offer strategic advice and support to the company as well as cash.

Venture capital funding usually lasts around 7-8 years. It would be unusual for venture capital funding to be used for less than 4-5 years unless the company was an astonishing instantaneous success. Frequently, follow on funding will occur and you might find depending on the level of support the business needs as it evolves that other venture capital firms become part of the syndicate as well. It may be that a specialist firm dealing with early stage businesses deals with you at stage one but as a business grows and looks to raise several million pounds, you might need a larger institutional supporter.

The amount of support varies depending on how early in the lifecycle the company is and the nature of its business costs. Some businesses are relatively cheap to scale up because they rely on social media or the internet whereas others need a full business development proposition. Some businesses might find funding for as little as £50,000 if it was at the proof of concept stage and is making sure the business idea has viability. However, businesses are more likely looking at several hundred thousands of pounds at series A or series B and probably entering the millions of pounds after that.

If a business is at its earlier stage, you would refer to this as seeds capital. This is an initial investment to determine whether or not there is a business idea worth pursuing. When things get a bit more serious at various stages, business will ask for larger sums of money to fund a business. Series A/B businesses are looking at around £500,000 - £2 million, series B £2-5 million, series C £5-10 million and series D you are looking at over £10 million.

Most venture capitalists will expect there to be a business plan. A business plan covers a variety of possibilities, particularly if it is highly innovative new tech as it will need to prove that the tech works rather than identifying a clear market at this early stage. For a more conventional proposition a venture capitalist will be looking at whether you know what the market is, its size and the potential the business has in penetrating that market.