



Funding your product

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Enterprising
Futures at **LSBU**

Funding your product



BUCKWORTHS



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- Author of Built on Rock, the busy entrepreneur's legal guide to start-up success
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What are we covering?

Sources of funding

Tax reliefs for angels

SEIS & EIS

How to engage with investors

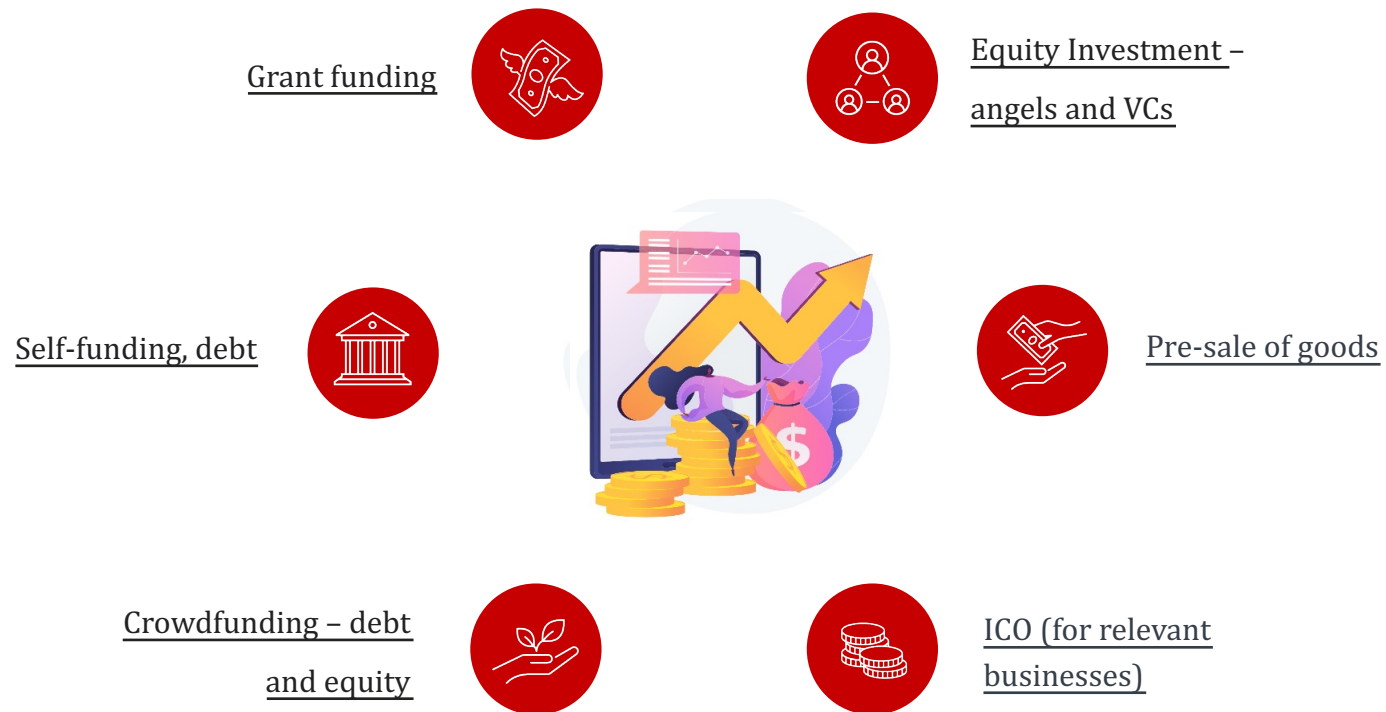
Getting the maths right

Top 3 mistakes founders make



INVESTMENT

Sources of investment





Grant funding



- Check out [Innovate UK](#), UK government's grant funding body
- Free cash (grants) and longer term project loans
- Some require “matched funding” i.e. you raise investment in parallel to release the grant
- Primarily for innovative R&D activities
 - Tech
 - Fin-tech
 - Pharma / bio-tech
 - Clean-tech
- Only apply for grants wholly within scope of your business
 - Grants are competitive
 - Time-consuming to apply for



Self-funding; debt

- Only raise investment if you need it
 - By issuing shares to investors, you reduce your ownership of your business
 - Equity is more expensive than cash
- External money reduces your risk
 - Businesses fail – don't put all your savings into the business
 - Conviction – do you truly believe in your business?
- For smaller amounts of money, or where you need funds for a one-off project, debt may be better
 - Start-up loans – personal loans to founders
 - Entrepreneur loans from banks – guaranteed by British Business Bank
 - Traditional term loans and overdrafts



- Equity – Crowdcube and Seedrs
- Debt – Funding Circle and Crowd2Fund
- What is it?
 - Platforms are FCA authorised
 - Start-up creates campaign video and platform promotes it to its network of investors
- When to do it?
 - Only once start-up has launched, built a network and probably raised a round
 - Marketing exercise – way to attract new customers
 - Start-up must bring 30% to 50% of round to the platform

EQUITY & DEBT

Crowdfunding





Equity investment



- Issuing new shares in your company to third party investors for cash
 - You do not transfer any of your shares
 - The total number of shares in your company increases
- Types of investor
 - **Angel** – high net worth individual investors looking for:
 - A business that will grow and scale such that they can exit at a multiple of the price they paid for their shares
 - (UK angels) tax relief
 - **VC** – structured fund made up of angels, institutional money and government money. Looking for:
 - Specific multiple on exit
 - High degree of control

(Seed) Enterprise Investment Scheme

Tax rebate schemes giving investors:

- 50%/30% of their investment back as a credit from HMRC
- 0% capital gains tax on sale

High risk investments

- Start-up companies
- Investment for growth NOT maintenance
- No preferential treatment for investors

Apply to most trades (other than professions, property, asset rental, banks, crypto)

These schemes are used by 90% of UK angels

ANGEL ROUNDS

Tax reliefs for angels





SEIS & EIS

SEIS

- the company lifetime allowance for SEIS investment is £250,000.
- the qualifying trading period for SEIS is three years from the date of commencement of trade.
- the upper limit of a company's gross assets is £350,000.
- the maximum amount that an angel investor is able to invest in start-ups using SEIS in any tax year is £200,000.

EIS

- Companies over 7 years old (standard) or 10 years old (knowledge intensive) will be treated as companies in distress and not eligible for EIS if they have spent more than half of their share premium account i.e. they have accumulated losses greater than half of their share premium account.

Being prepared

- Build your network
 - Tell everyone about your business
 - Manage ongoing engagement
- Get your public messaging right
 - PR
 - Pitchdeck
 - Website
- Engage with your customers
 - Customers can be a key source of investment via crowdfunding
- Understand your financials
 - 3 year forward looking P&L and Cashflow forecasts
 - Clarity on valuation methodology, assumptions and metrics
 - Understanding of how investment monies will be spent

How to engage with investors



- ✓ Get the preparation right: good PR, great pitchdeck and coherent financials
- ✓ Reach out to your network
- ✓ Have qualified for tax reliefs if you are seeking investment from UK angels
- ✓ Be clear on how much you want to raise, the valuation and the commercial terms.
- ✓ Identify a lead investor
- ✗ Use precedent documentation
- ✗ Take the first offer you receive
- ✗ Agree complex structures you don't understand
- ✗ Issue shares until you have received the investment monies

Getting the maths right



Pre-money valuation = value of company today pre-investment

Post-money valuation = pre-money valuation + amount invested

Percentage investor will receive = amount invested / post-money valuation

Price per share paid by investor = pre-money valuation / number of shares pre-investment*

*Generally, the number of shares used is the *fully diluted share capital* (i.e. including any option pool)

Example



Pre-money valuation = £800,000

Amount to be invested = £200,000

Post-money valuation = pre-money valuation + amount invested
 $£800,000 + £200,000$
 $£1,000,000$

Percentage investor will receive = amount invested / post-money valuation

$£200,000 / £1,000,000$
 20%

Top 3 mistakes



Hiding away

- Ideas have no value
- Investors invest for execution
- Founders who won't discuss their business will fail



Making it complex

- Get investment upfront – tranching investment doesn't make sense
- Price the round – delaying valuation generally doesn't make sense



Raising too much / too little

- Your valuation will increase as you spend investment money
- Valuation is partly based on how much is being invested



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