

# Sources of Finance & Getting Investment

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Enterprising  
Futures at LSBU



## ***Today's Agenda***

Introduction

Investment Ecosystems

Key Players

Understanding Investor Perspectives

Understanding your Equity

The Perfect Pitch

Finding Investors

Final Takeaways

Questions

# What's your current funding stage?

(bootstrapped, seed-funded, seeking Series A, etc.).

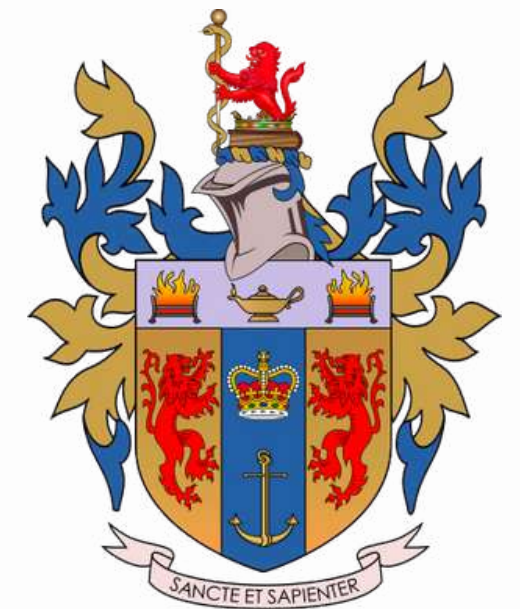


About Us:

Adam Sumar



**KING'S**  
*College*  
**LONDON**





Born out of King's College London, London Venture Capital Network is a spinout of an investment collective connecting startup founders to angel investors.

The goal of London VC Network is to provide access to Venture Capital. This includes Limited Partners, VC Investors, Founders, Operators, Angel Investors, Students, and more.

**Through three core programmes we connect the London VC ecosystem:**

- Investor Education
- Events
- Research & Publications





# Why a Strong Ecosystem is Important



**Access to Capital**

**Network Access**

**Wealth Creation**

**Portfolio Diversification**

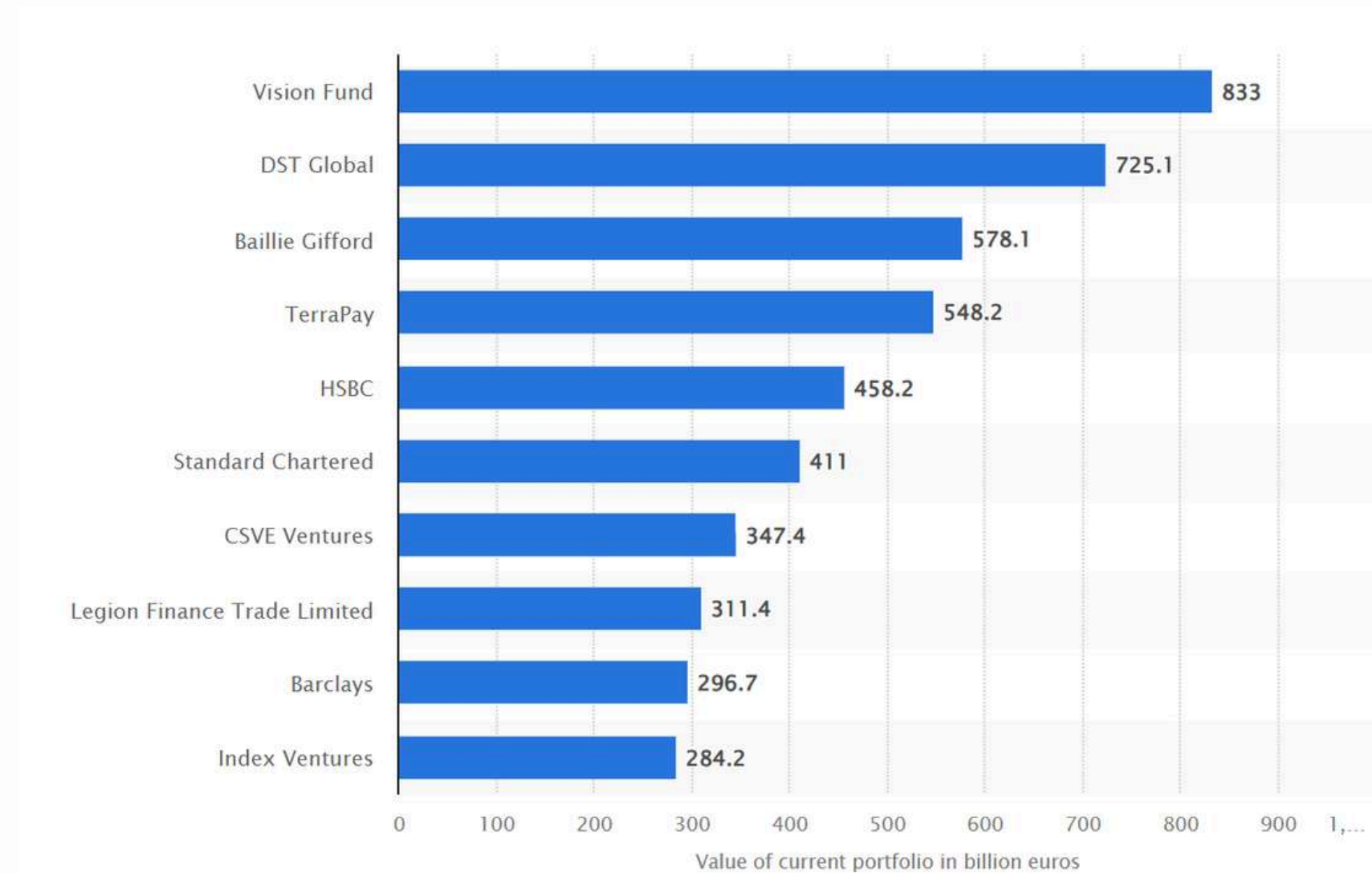
**Entrepreneurial Learning /  
Exposure to Startup Culture**

**Investment into  
Experimental Research**

# How UK Investors Consider Opportunities

The UK is a leader in the European and global venture capital market, attracting substantial investment, particularly in fintech, healthcare, and sustainability sectors.

## Leading VC Investors by Portfolio Value (2024)





# Startups v c SMEs

## Startups

- Rapid development, fast-paced, and quick failure risk
- High probability of failure, around 90%
- Aggressive growth / scaling
- Targets global markets
- Driven by tech innovation
- Seeks risk/venture capital

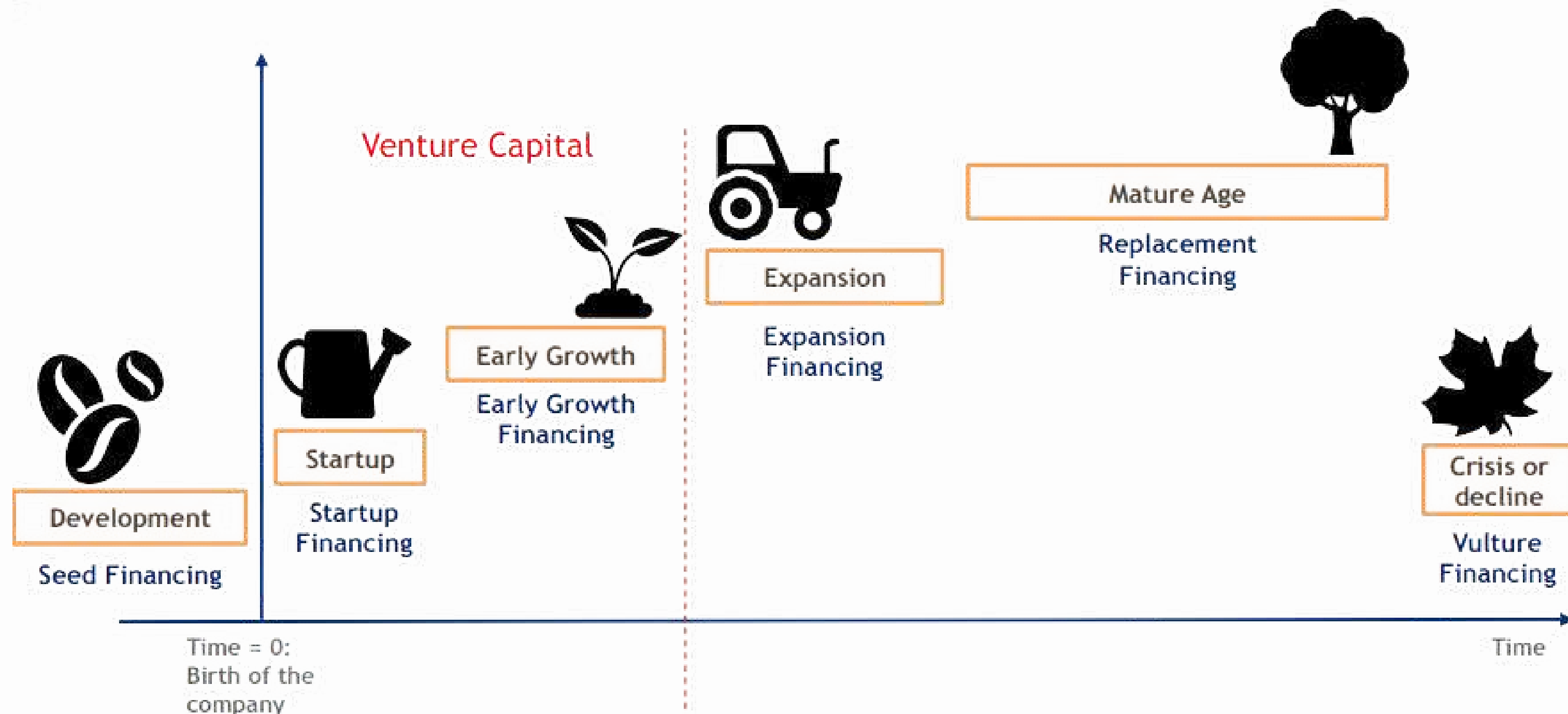
## SMEs

- Stable, gradual growth
- Addresses regional / national challenges
- Not tech-focused
- Usually traditional, physical-location businesses
- More likely to succeed than startups
- Doesn't aim for VC funding





# What is Venture Capital?



# Types of Investors



**Alma.**  
*angel network*

 **COSMOS**  
Family Office

**SEQUOIA** 

**Blackstone**

**Wwayra**  
O<sub>2</sub> Innovation



# Types of VC funds:

## Idea-Stage/Pre-Seed Funding

- Provide initial capital for idea development and prototype building.
- High risk, small investments from angel investors or seed-specific VC funds.
- Crucial for validating business concepts, market research, and developing MVPs.

## Growth Equity Funds

- Growth Equity lies between VC and Private Equity.
- Target mature companies with product-market fit and consistent revenue growth.
- Provide capital for expansion, market dominance, or IPO preparation.

## Early-Stage Funds

- Invest in startups at nascent stages.
- Focus on seed and Series A rounds.

## Impact Investing

- Prioritize financial returns alongside social and environmental impact.
- Attract LPs like foundations, family offices, and socially conscious investors.

# Motivations

## Founders

- Passionate about product/service
- It's fun
- No alternative
- For the money

## Angel Investors

- Money
- Friends & Family
- Passion
- Diversification
- Excitement



## VC/PE/ Corporates

- Money, money, money?



# Motivations

## PE

- Strong and Proven Markets
- Longevity
- Consistent Cash-Flows

## Corporates

- Strategic Alignment
- Synergies with Product Portfolio
- Access to IP & Tech



# Types of Funding

**Bootstrapping**

**Grants**

**Accelerators**

**Crowd Funding**

**Government  
Funding**

**Loans**

**Equity**



# SAFEs & ASAs

## Mostly Used in United States & Globally

**S**imple

**A**greement  
for

**F**uture

**E**quity

- A flexible agreement providing future equity rights with no need for immediate valuation.
- Allows startups to postpone valuation to a later stage; prevents undervaluation and provides a quick liquidity injection.

## Mostly Used in UK

**A**dvanced

**S**ubscription

**A**greement

- An equity investment, with shares priced and issued at a later date.
- Shares are allocated to investors **at a discount to the share price in the next funding round** as a reward for early investment.

# HOW IS ASA DIFFERENT FROM CONVERTIBLE NOTE?

ASAs are purely an equity agreement, and the investment cannot be repaid in cash.

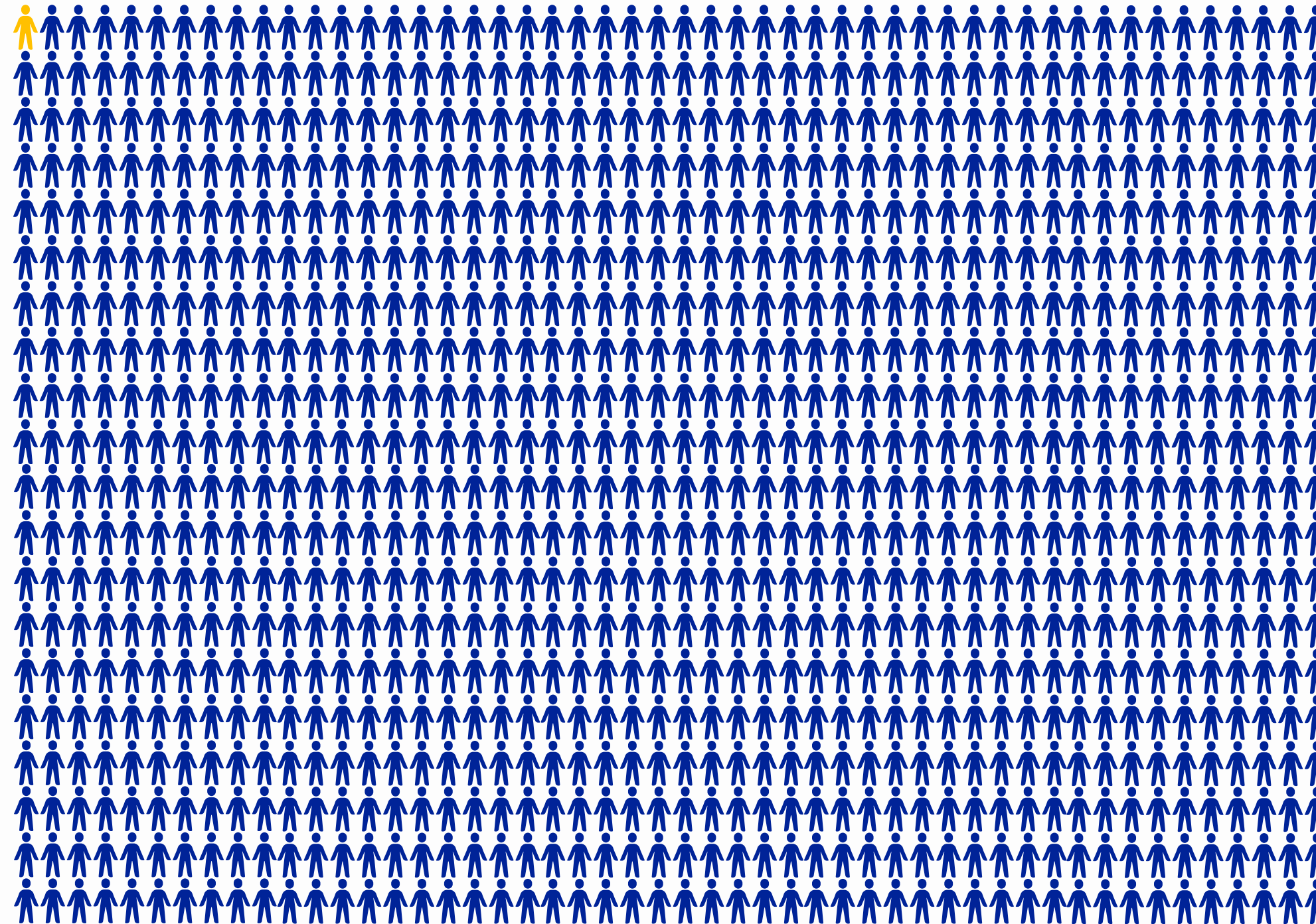
Convertible Notes are a hybrid of Debt and Equity- that can be converted into Equity.

The conversion usually occurs during a future funding round, where any investment (plus interest) is converted into equity.



# VCS - The Power Law

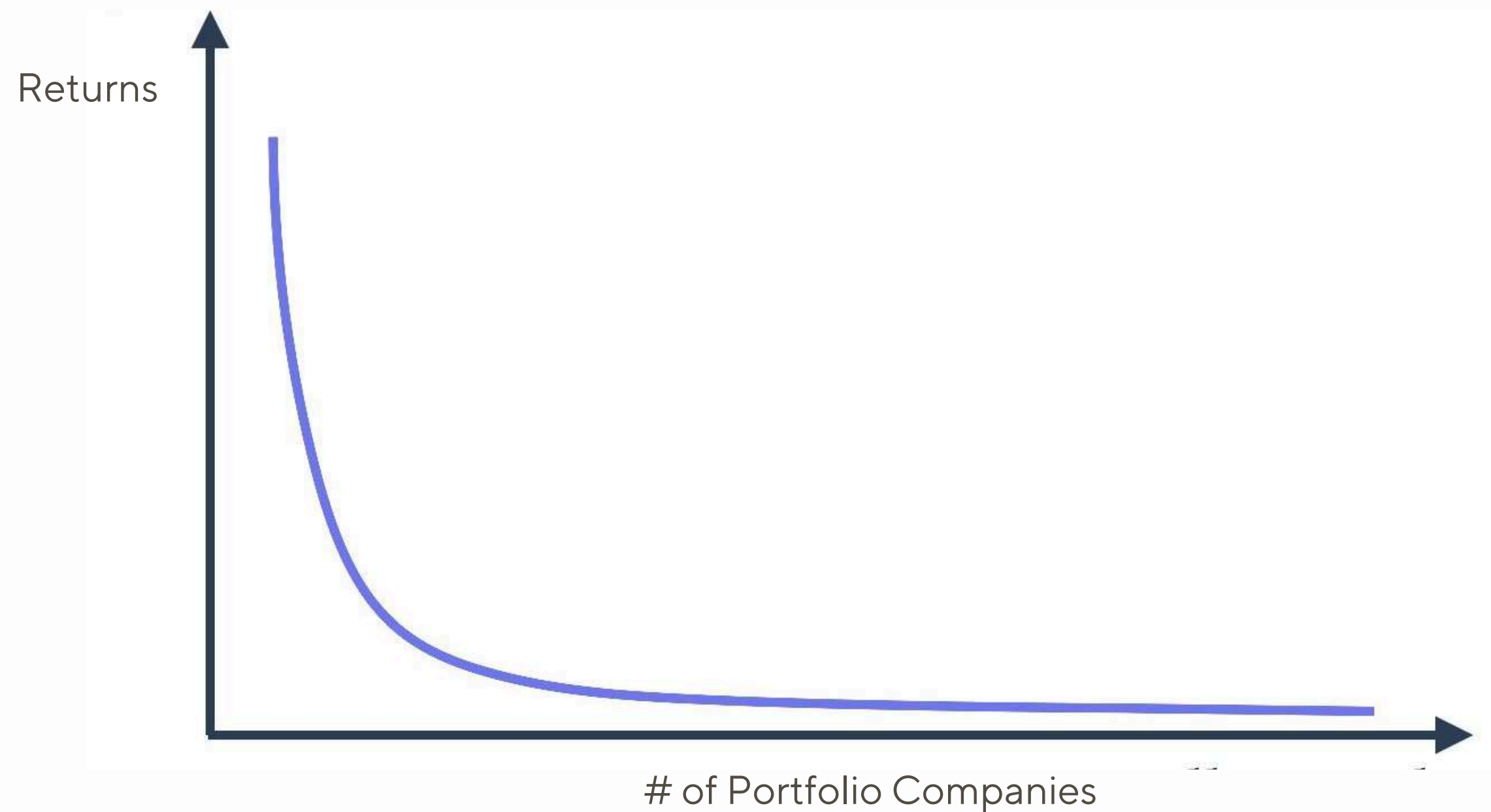
*>95% of exit profits come from 0.1% of all startups*



# VCS - The Power Law

*Venture Capital is not an “easy game”*

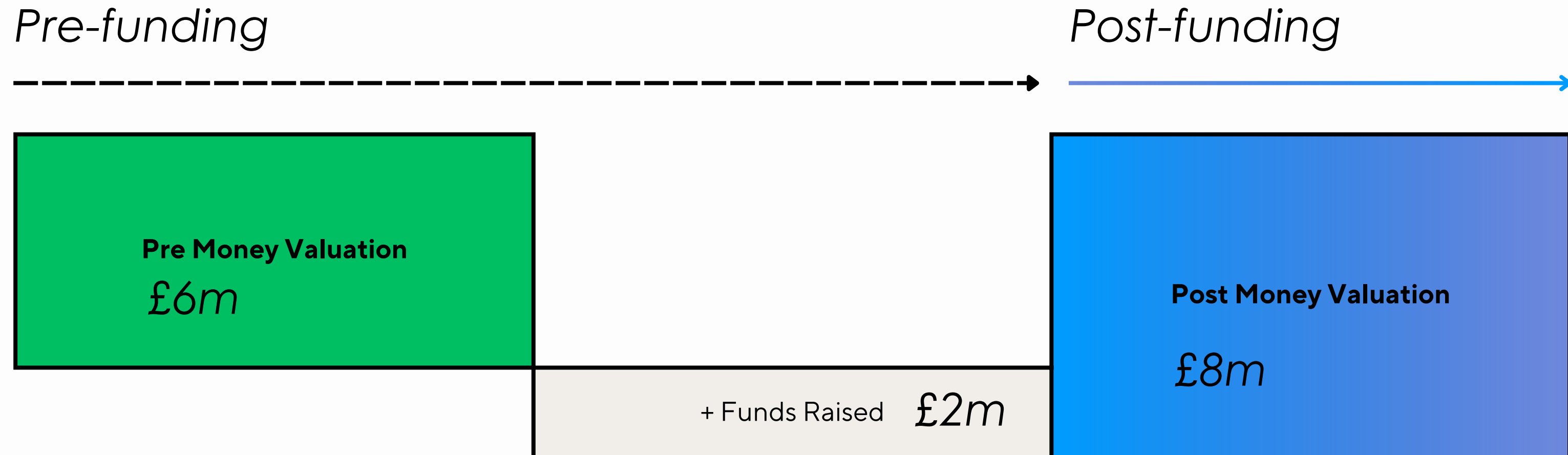
*Each investment must have the potential to return the fund*



# Quick Valuation Discussion

*During a startup's fundraise, we (usually - 90% of the time) refer to the pre-money valuation.*

Example:



After the funding round, the company's valuation will be £8m



# Understanding Cap Tables

**Dilution** refers to When a company issues additional stock, reducing the ownership proportion of a current shareholder.

A **Capitalisation (Cap) table** shows the equity ownership capitalisation of a company.

It is an important part of the financial decision-making process, as it involves Equity ownership, market capitalisation, and market value.



# Calculating dilution in Cap Tables

Day 1

	Common Shares	Preferred Shares	%
Partner 1	4,625,000	-	50
Partner 2	4,625,000	-	50
Total Shares	9,250,000	-	100

# Calculating dilution in Cap Tables

Hired a General Manager:

- Stock Options – issued 250,000 shares with an option pool of 500,000 shares available for future employees

	Common Shares	Preferred Shares	%
Partner 1	4,625,000	-	46.25
Partner 2	4,625,000	-	46.25
Options Issued	250,000	-	2.5
Options Available	500,000	-	5
Total Shares	10,000,000	-	100



# Calculating dilution in Cap Tables

Now imagine we have 2 rounds of private funding with 2 investors:

- First Round (January), investor pledges £200,000 at a £4,000,000 valuation cap (5% equity)
- Second Round (December), investor pledges £800,000 at an £8,000,000 valuation cap (10% equity)
- The Partners have now sold 15% of their business

Note: the investors have purchased SAFEs, but no new shares have been issued so the cap table hasn't changed, but the owners do now only own 85% of their company.

# Calculating dilution in Cap Tables

## **Common Shares:**

- Partners: 9,250,000
- Options Issued: 250,000
- Option Pool: 500,000
  - Common Shares Sum to 85%

## **Preferred Shares:**

- SAFE 1: 5%
- SAFE 2: 10%

# Calculating dilution in Cap Tables

	Common Shares	Preferred Shares	%
Partner 1	4,625,000	-	39.31
Partner 2	4,625,000	-	39.31
Options Issued	250,000	-	2.13
Options Available	500,000	-	4.25
SAFE 1	-	588,235	5
Safe 2	-	1,176,471	10
Total Shares	10,000,000	1,764,706	100



# Calculating dilution in Cap Tables

## Priced Investment Round:

- Pre-Money Valuation = £15,000,000
- Raising: £5,000,000
- Post Money Valuation = £20,000,000
  - 1- Investors Invest (which triggers the conversion of the SAFEs)
  - 2- SAFEs convert
- Post-Money Valuation greater than the caps of both SAFEs (so both SAFEs get their capped valuation equity %
  - 3- Investment Pool increases
- Negotiated a target 10% equity pool for future employees

## Final Cap Table:

- SAFEs Convert
  - Investors Invest
  - Options Pool
- Increased

# Calculating dilution in Cap Tables

	Common Shares	Preferred Shares	%
Partner 1	4,625,000	-	?
Partner 2	4,625,000	-	?
Options Issued	250,000	-	?
Options Available	?	-	10
SAFE 1	-	588,235	?
Safe 2	-	1,176,471	?
Investor	-	?	25
Total Shares	10,000,000	1,764,706	100

# Calculating dilution in Cap Tables

## Calculating the option pool increase

- Negotiated 10% of shares must be in the available option pool
- 25% of shares have been bought by the investor
- Therefore, all previous 11,264,706 shares - are equal to 65% of total shares. So, 10% of shares are therefore 1,733,303 - the size of our available option pool
- So the increase in available option pool is the new pool size - old pool size: 1,733,303 - 500,000 = 1,233,303

## Capitalisation:

### Initial Shares (including original options) + SAFE Conversion + Option Pool Increase

- $10,000,000 + 1,764,706 + 1,233,303 = 12,998,009$  Shares (Rough Estimate)

## Price Per Share:

- $£15,000,000 / 12,998,009 \text{ Shares} = £1.154$

## Investor Shares:

- $£5,000,000 / £1.154 = 4,332,600$



# Calculating dilution in Cap Tables

	Common Shares	Preferred Shares	%
Partner 1	4,625,000	-	26.69%
Partner 2	4,625,000	-	26.69%
Options Issued	250,000	-	1.44%
Options Available	1,733,303	-	10.00%
SAFE 1	-	588,235	3.39%
SAFE 2	-	1,176,471	6.79%
Investor	-	4,332,600	25.00%
Total Shares	11,233,303	6,097,306	100.00%



***In startups, sometimes it's not about what you know...it's about who you know***

**Build Key Relationships:**

- Engage with entrepreneurs, investors, and industry professionals to access valuable insights, maintain deal flow, and explore investment opportunities.

**Stay Connected:**

- Attend industry events, conferences, and meetups to grow your network and stay informed about trends and innovations.

**Leverage Industry Connections:**

- Strengthen relationships within the sector to stay ahead of trends and create new opportunities.

# The Intro Call With Founders

*A typical founder conversation  
might look like this....*



- Introduction
- Underrepresented founder
- Headquarters
- Founding Team Background
- Target Demo
- Problem
- Solution
- Potential Pitfalls
- Traction
  - Product
  - Commercial
- Functionality of Product
- Market Size
- Raise Information
  - Amount
  - Raise Amount
  - Valuation
  - Use of Raise
  - When they would like to close?
- Other Considerations
- Potential Expansion into other areas?
- Exit Opportunities?
- Competition
- What kind of investors are you looking for?
- Founder's Questions
- Recommendation



# The Due Diligence Process

- Varies between firms
- Your information should be **easily understandable and well-organised**
- Usually in form of a data room organised to include key information such as:
  - Financial Statements
  - Business Plan
  - Investor Deck
- Differing levels of due diligence may be required before moving forward with an investment





# Why VCs Reject Startups Early On

**Poor Investment Fit**

**Poor Founder-Market fit**

**Weak Market Potential**

**Complicated Business Model**

**Lack of USP**

**Incomplete Data**



# Identifying Red Flags and Areas for Concern - Financial Analysis

**Revenue Decline**

**Inconsistent  
Financial Reporting**

**High Burn Rate**

**High Debt Levels**

**Negative Cash flow**

**Low profit Margins**





# Pitch Perfect

- Highlight the problem
- Craft a one-liner
- Highlight team's experience
- Emphasise your traction
- Define the market opportunity (be specific)
- Articulate your unique vision
- Analyse the competition honestly
- Explain your revenue model clearly and simply (how you plan to generate income)
- Specify the funding required and its intended use





# More Simply

- Product
- Team
- Market
- Competition
- Business Model
- Go-to-Market
- Traction
- Use of Funds





## ***Key Points to Remember***

- Keep it concise - it's a **teaser** document
- Let your headings guide the narrative
- Focus on selling your vision
- Emphasise your position in the market
- Bottom line: ***how will you make money?***



# Which Funding is Right for You?

**Bootstrapping**

**Grants**

**Accelerators**

**Crowd Funding**

**Government  
Funding**

**Loans**

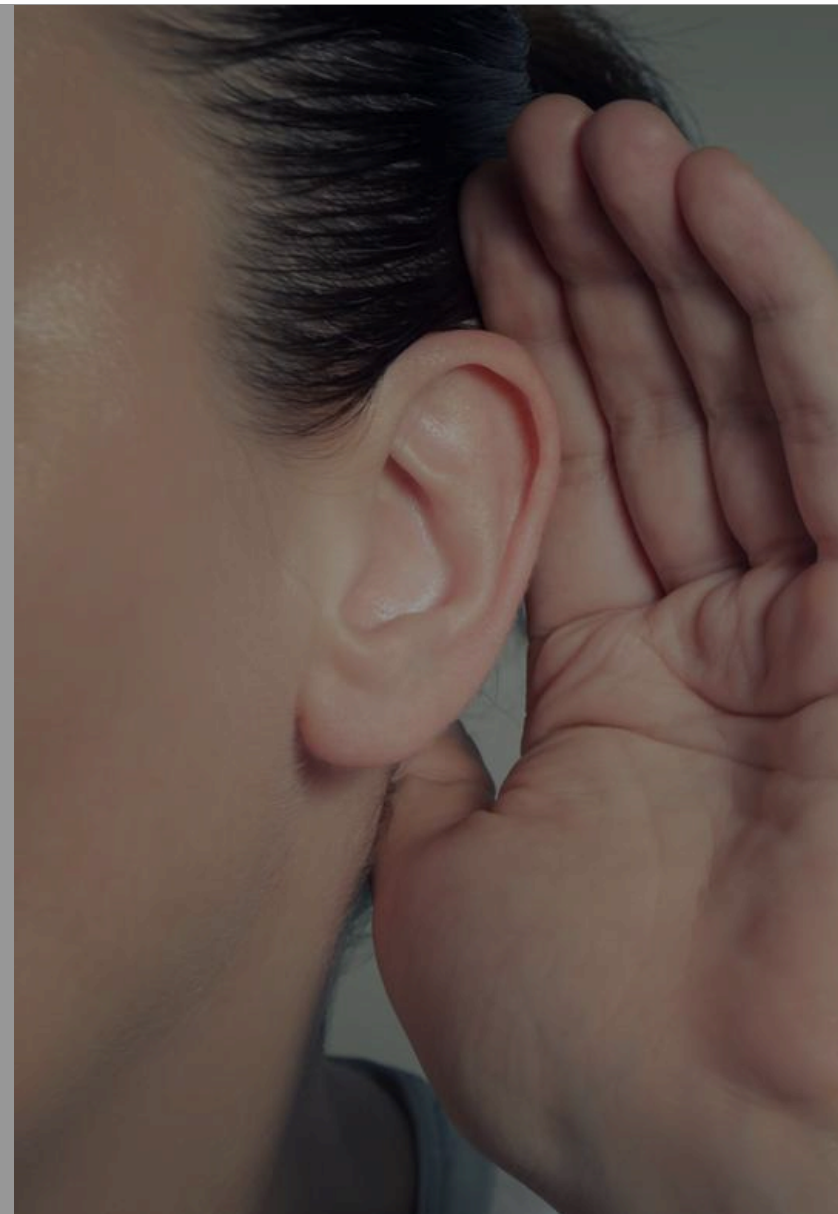
**Equity**



# Best Practices for Networking



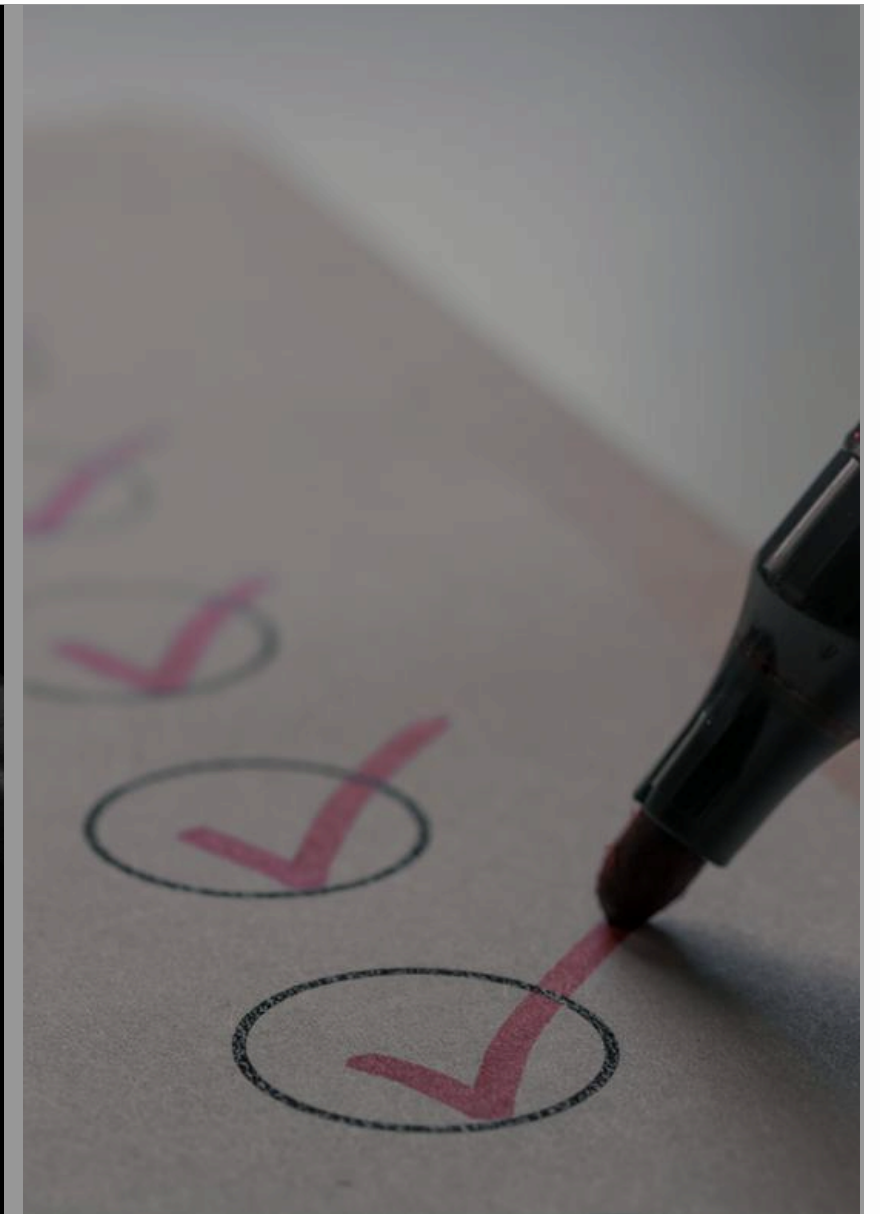
**Be Authentic**



**Listen Actively**



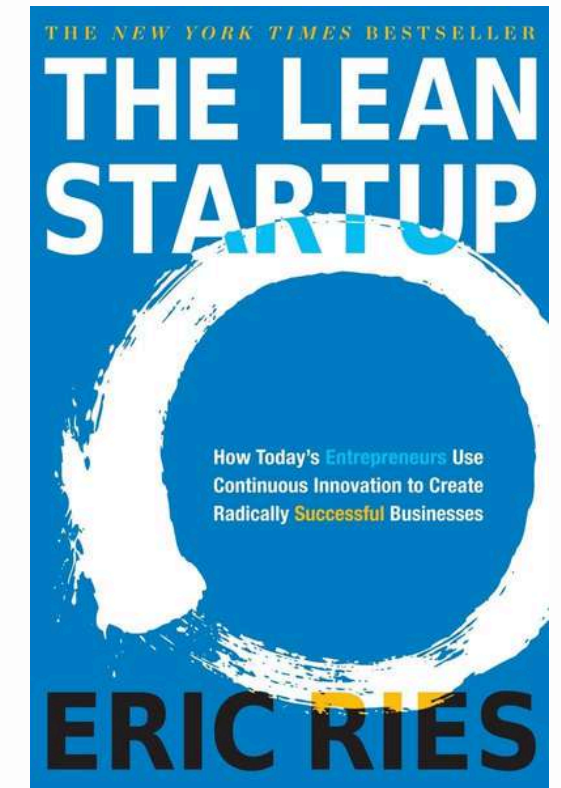
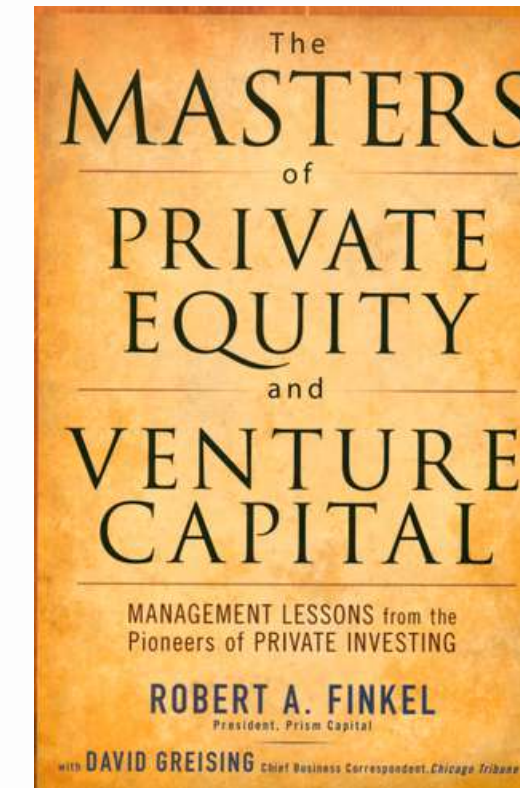
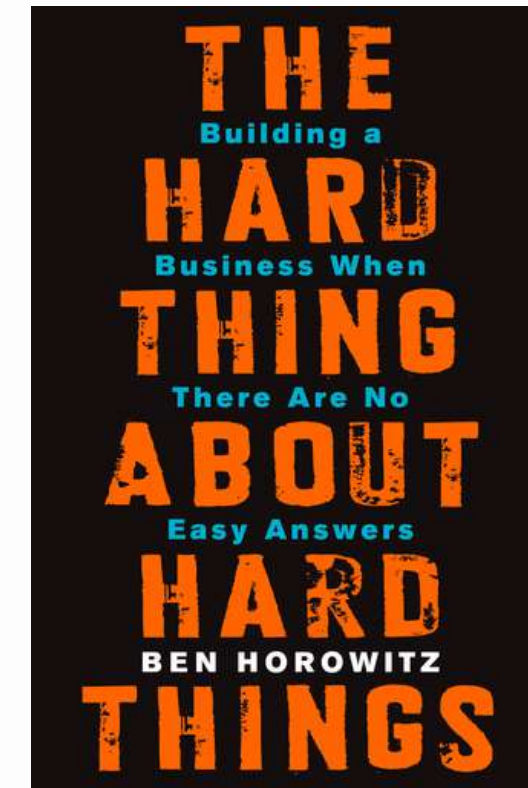
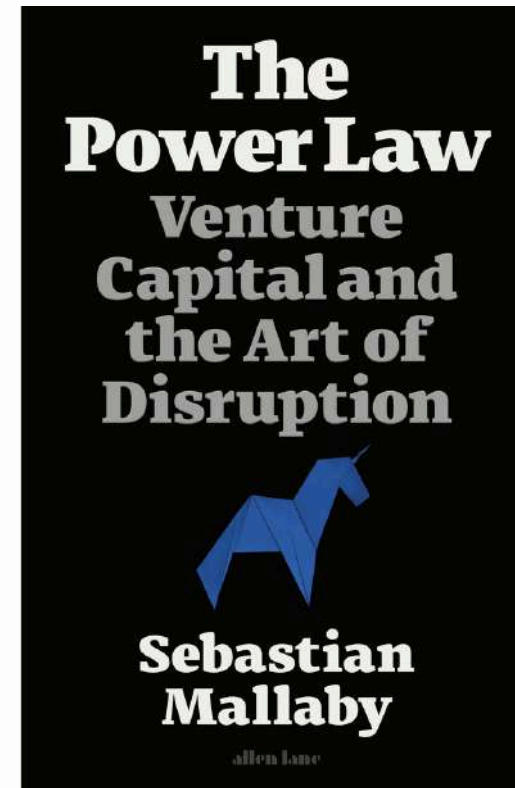
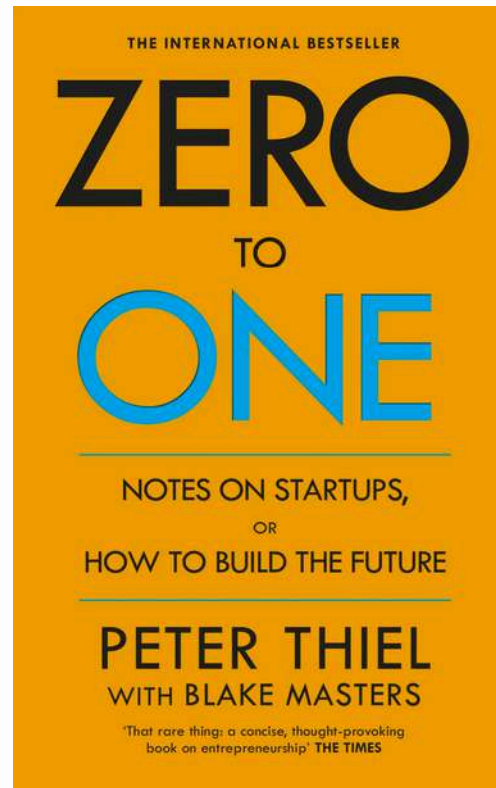
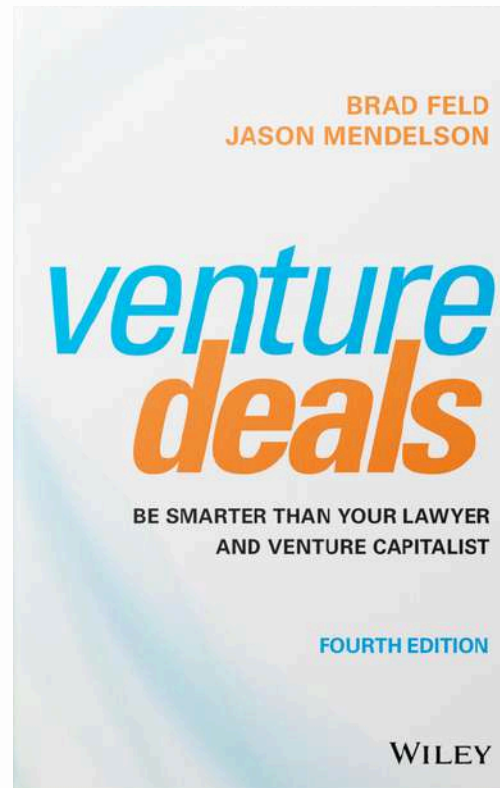
**Add Value**



**Follow Up**



# LVCN Recommended Reading



## Navigating the World of VC Resources: Our Top Picks

With so many VC resources available, finding a dependable tools for learning can be overwhelming. To simplify your search, we've compiled a list of our favourite reads to aid you in your journey. We highly recommend *Venture Deals* as your go-to "VC bible". Although it's a slow read, the knowledge you gain will be invaluable. Audio books are great for learning, but we do recommend purchasing a hard-copy for easy reference.

Take your time and absorb all you can, don't forget to have fun.

We wish you all the best on your journey!



# Some Important Metrics

- **Annual Recurring Revenue (ARR) Growth Rate**
- **Average Contract Value (ACV)**
- Revenue Retention Rate
- Annual Run Rate
- **Gross & Net Burn**
- Daily/Monthly Active Users & Average Revenue Per User (ARPU)
- **Monthly Active Churn**
- **Time to Scale**
- Cost Structure
- Pricing Strategy
- Customer Experience & Support
- Financial Planning
- Risk Management
- Governance
- Sustainability & ESG
- **Runway**

# Questions?



[londonvcnetwork.com](http://londonvcnetwork.com)



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Give your feedback:

- Scan the QR code
- Or click on the link <https://bit.ly/feedback240225>

**Thank you!**