

Solving liquidity challenges for founders and early-stage investors

For founders, raising initial or subsequent venture capital funding is understandably a major milestone for their developing business. However, over the past year as economic challenges have mounted, securing capital has proven more challenging.

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Global venture capital investors significantly cut allocations in 2023, as evidenced by the 31% year-on-year fall in capital commitments in Q3, from \$106B to \$73B. The crunch has been particularly acute in the UK, with later-stage VC funding down by 75% during the first half of the year versus the corresponding period in 2022. This is sharper than the decline of 51% in the US, 58% in Asia and 64% in France.

This funding fall is elevating the pressure on founders. As market and economic uncertainties persist and exit horizons have shifted to the right, founders require supportive investors with flexible capital who can not only provide growth capital, but also offer partial liquidity to alleviate some of those pressures.

Reaping the rewards for longer

The timeframe for founders of a company at series A stage to ultimate exit could be at least a ten-year journey. We recognise that founders, especially in the formative years, may have paid themselves below market rate and there comes a time when they may face a cash need to

meet the financial commitments of everyday life – such as reducing the home mortgage or financing their children’s education.

With a large portion of their wealth locked up within their business, the prospect of a protracted wait for a liquidity event can be frustrating, which may steer them towards making a full exit from the business before it has reached its true potential. Similarly, having supported a company’s initial growth phase, earlier-stage investors may also be looking to make a return on their long-held investment via a partial or full sale of their equity.

Historically, founders of UK companies have made full exits earlier than their US counterparts – with UK companies often sold to entities from across the Atlantic. This typically means there is significant potential for further expansion. For founders to be able to reap the rewards of growth for longer, additional avenues to realise value before an ultimate exit must be found.

Deepening existing relationships

The recent Mansion House reforms aim to encourage pension funds to invest in unlisted UK businesses. However, given the volatile nature of early-stage companies, institutional investors will be looking to leverage the expertise of specialist providers with successful track records of harnessing the resilient growth available in these businesses.

As a result of this demand, we have recently launched a new partnership to enable institutional investors to support growth in the UK and Ireland. *Gresham House Private Equity* Release LP has successfully raised just shy of £60M, in excess of its original £50M target. The fund will seek to provide secondary capital into established portfolio companies as well having the flexibility to provide secondary, buyout, or acquisitional capital into new investment opportunities.

This solution will provide an option for founders looking to de-risk while still retaining a large portion of their ownership and continuing to benefit from the future growth of the business. Capitalising on existing relationships can also pave the way for more straightforward transactions, mitigating the complexities typically involved.

Beyond the obvious monetary elements, there are other benefits for companies in deepening relationships with existing investors. Existing investors typically better understand a company's value trajectory and are therefore well placed to provide guidance to founders and management teams as the business continues to mature.

With an expected acceleration of institutional capital set to flow to early-stage companies over the coming years, founders are set to benefit from much-needed flexibility to enjoy everyday life, while continuing to share in the next phase of success for their business.

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