

What can a founder expect from working with a Venture Capital Trust?

Empowering the next generation of entrepreneurs sits at the heart of Venture Capital Trusts (VCTs) and is fundamental to the startup ecosystem. Understanding the fundraising landscape in the UK is essential for aspiring entrepreneurs who are looking to scale their businesses using equity finance, and VCTs offer a promising route.

Temps de lecture : minute

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VCTs have become an increasingly popular fundraising option for early-stage businesses. In the 2022-23 tax year, VCTs raised £882M — one of the top three years for fundraising since their inception in 1995.

VCTs provide more than just funding; they offer essential business expertise, access to human capital and strategic support, making them valuable partners for startups.

As an Investment Director at Pembroke, I'd like to explain the VCT model and the unique opportunities it presents for founders.

What Are VCTs?

Venture Capital Trusts are investment companies listed on the London Stock Exchange and are designed to invest in early-stage, entrepreneur-led businesses across a wide range of sectors. This includes everything from deep technology to professional services, and even consumer brands. VCTs are government sponsored investment vehicles and as part

of the tax advantages available to investors they have some specific investment criteria—your business must be based in the UK, can be no older than 7 years (or 10 years for knowledge intensive businesses), and fewer than 250 employees.

Why should small business owners consider VCTs?

There are over 40 VCTs in existence today, which may make it tricky to find your perfect investor. While each VCT has its own unique characteristics, they will often be nuanced depending on age of the fund, it's size and sector expertise. One of the standout advantages is the hands-on support that VCT investors can provide in helping to scale businesses in the UK market.

At Pembroke, we are focused on backing people and believe that the better your team, the stronger your business. Our team comprises both former business founders and seasoned investors. This blend of relevant experience enables us to identify and understand founders with innovative business models, and to understand the markets they operate in.

Our investment is not purely financial; we also invest time in you and your team.

Our goal is to be a guide where needed, helping to streamline operations, hire the right people - whether that be an experienced CFO or Non-Executive Directors - so that you can concentrate on what you are best at. We take a hands-on approach, facilitating the process to ensure your business is well-supported. Moreover, securing VCT investment opens doors to new networks, connecting you with other startups in our portfolio

at similar stages of growth, which can provide invaluable advice, support and additional growth funding too.

At Pembroke, we focus on sound business models that can build and maintain resilience over time, and successfully evolve to reflect changing market conditions. We employ a long-term investment strategy—what we call “patient capital.” This approach is one of the key benefits of VCTs as there is no mandated exit horizon.

How and when to approach a VCT

You can reach out to a VCT through various channels: email, LinkedIn, phone, the VCT’s website, or through introductions by mutual contacts.

A well-researched, personalised note can go a long way.

Most VCTs invest in revenue-generating businesses. At Pembroke, we typically consider businesses with £1M to £10M in revenue, depending on the sector. The specific criterion of your targeted investor is crucial; this information is usually available on their websites or can be inferred from their portfolio. While not every funded business will fit the investment criteria, we endeavour to keep an open mind to capture exceptional outliers. Most investors prefer to see an opportunity and decline it than miss out altogether, so if you have a compelling reason for them to back you, articulate it clearly.

It is also worth building relationships in advance of a funding round. VCT investors may be keen to receive regular company updates before they consider investing as this can significantly enhance confidence in the business opportunity.

Do not be discouraged by a few rejections—AirBnb, for example, was turned down by seven Venture Capital (VC) funds before securing its first investment. VCs are often time-poor and review thousands of opportunities each year, making them selective about where they invest their time.

What happens next?

If the Pembroke team expresses an interest, we will arrange an in-person meeting to discuss your business further. This is your chance to win hearts and minds. If we you feel we are a good fit, we will delve into key areas—speaking to customers, reviewing financial models, and analysing your market position.

Following this, we will prepare a proposal for our Investment Committee. If it is interested in progressing further, you will present directly to them. This aspect differentiates Pembroke; we conduct our “first look” at the start of the process to avoid wasting your time. This also allows the Investment Committee members to provide valuable feedback early on; something we believe to be a critical component of any investment case.

Successful completion at this stage leads to a ‘deep dive’ due diligence process that typically lasts a couple of months. This involves in-depth discussions with you and your team to fully understand your business operations—from financial and legal aspects to commercial and technical considerations.

Post-Investment: what to expect

Pembroke’s post-investment support varies based on the depth of our partnership and your existing structures. We often assist founders in elevating their businesses, including bolstering the Board, building best-in-class teams, and helping to navigate strategic decisions. Additionally,

we can connect you with experts who offer advice on a range of issues, whether that be international expansion, media relations or regulatory compliance.

Exiting a business is also an important part of a founder's journey. At Pembroke, we have a network of corporate finance advisers that can support when you are ready to start that process, providing access to trade buyers and Private Equity houses.

Ultimately, investing in your business is a bet on you. Our role is to support you in turning your vision into a successful enterprise, while navigating the ups and downs of the entrepreneurial journey together.

If this sounds like the right path for your business, we would love to hear from you.

Fred Ursell is an Investment Director at *Pembroke VCT*.



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Article écrit par Fred Ursell