Lead with confidence

Finance, fundraising and financial performance for startups and SMEs

STARTUP FINANCE TOOLKIT

Who we are

Dr Matthew Halstead

Fractional CFO passionate about commercialising deeptech, startups & SMEs

17 years' experience building, fundraising & restructuring SMEs and startups

MD, CFO, COO & Board roles across sectors including deep-tech, (biotech, medtech, hardtech), digital health, manufacturing, automotive, SaaS, real estate and nonprofits

Chartered Accountant & PhD Quantum Chemistry

James Shrager

Fractional CFO specialising in startups and SMEs in complex, regulated industries & distressed companies

Founded and exited from own startup in mobile gaming sector after learning to code, developing and launching mobile game

Six years in Strategy & Innovation consulting working with some of the largest companies in the world (Philips, Ford, Centrica, BAE Systems)

Trained as Chartered Accountant at PwC

Contents

Setting up a company

How do I incorporate my company?

2 main incorporation options

Do it yourself

Cheaper (£13)

Can be done via Companies House

Formation agent

More expensive (c.£60)

Hassle-free

Documents & info

Memorandum of Association
Articles of Association

You can use the standard templates for these initially

Directors' Details
Registered Office
Shareholder Information
Persons with Significant Control (PSC)

What about VAT and payroll?

Value Added Tax (VAT) is a UK tax on sales and supplies, paid quarterly and on a net basis (sales VAT less supplies VAT).

If your business's taxable **turnover exceeds the VAT threshold (currently £90,000), you must register for VAT**.

You can register for VAT voluntarily if below this threshold. The benefit being if you are purchasing equipment & supplies, as you can reclaim cash from HMRC (which helps cashflow).

Register through HMRC company portal. An email is often sent to you following incorporation.

Payroll is required to pay employees (not contractors). HMRC collects PAYE (Pay As You Earn) income tax and National Insurance contributions from the company.

Accounting software (e.g. Xero) automates VAT and payroll compliance — very useful and straightforward to use!

What finance team and resources do I need & when?

Start with the basics

Start with a basic setup to manage costs — a bookkeeper to manage day-to-day transactions and "Year-End" Accountants to manage annual compliance and strategic tax planning.

As you grow

As your startup grows and brings in funding, consider hiring or contracting a part-time (fractional) CFO to manage more complex financial strategies and support forecasting, and funding rounds.

Post Series A

Transition to a full finance team (in-house) including a CFO, Financial Controller, Bookkeeper to support an expanding operation.

There is a lot of technology to help automate financial management e.g. accounting (Xero / Quickbooks / NetSuite), reporting (Fathom), expenses (Dext Prepare) and HR (BrightPay / CharlieHR). Build an efficient and effective "finance & HR stack".

What foundations are important to prevent future issues?

1. Legal & Compliance

Avoid choosing the wrong business structure; each has different implications for liability & taxation

Ensure compliance with regulations like GDPR, statutory reporting requirements

2. Financial Management

Cash flow management

Maintaining proper records

Registering for VAT and PAYE

3. IP & Insurance

Make sure you protect IP (trademarks, patents)

Ensure you have the right insurance policies in place (e.g. professional indemnity, public liability, employer's liability, cyber, Directors & Officers)

4. Employment & Partnerships

Comply with employment law (contracts, minimum wage, discrimination)

Draft clear agreements (shareholder, partnership etc)

Exit Strategies

What are my exit options?

1. IPO	Your company offers its shares to the public in a new stock issuance. This is often seen as the most prestigious exit route but requires significant preparation & regulatory adherence.
2. Trade Sale	Another company, usually in your industry, acquires you. This could be strategic — where you're bought for your unique capabilities, tech or market share, or financial where the focus is purely on financial returns.
3. Merger	Similar to a trade sale, except your company combines with another company. Mergers can help expand market reach, diversify and/or increase resource capabilities.
4. Management Buy Out	Your company's existing management team, or employees, buys the business with the help of external financing. Typically, selected when the founder wants to retire while ensuring business continuity.
5. Private Equity Buyout	Involves selling your company to a private equity firm; who are looking to implement strategic changes to improve profitability.

How do early considerations impact exit options?

Ownership Structure & Equity Distribution

Equity division can greatly affect exit options. Over dilution early on can leave founders with less control.

Shareholder Agreements

The terms agreed upon with early investors can either open up or limit future exit opportunities.

Funding Choices

The type and source of funding can limit or open exit opportunities. For example, VCs may seek a high-return exit through an IPO or acquisition.

IP Management

Properly managed and protected IP can be a major asset in an acquisition, particularly for technology-driven startups.

Governance & Compliance

Early compliance with relevant regulations and proactive management of legal risks can prevent costly litigation & regulatory hurdles during the exit process.

Financial Management

Clean, well-documented financial records and robust financial controls are critical for any form of exit, whether it's an IPO or acquisition.

Crafting a Basic Business Plan

What should be in a business plan?

1. Company Purpose	Aim for a crisp, memorable statement that encapsulates your vision, ensuring it grabs attention
2. The Problem	Detail the specific market problem your startup aims to solve
3. The Solution	Present your product or service as the antidote to the identified problem
4. Why Now	Discuss why the current market landscape presents the perfect timing for your solution
5. Market Size	Quantify the size and growth potential of your target market
6. Competition	Understanding and clearly articulating your competitive landscape shows you're informed and ready

What should be in a business plan?

7. Product / Service	This is your opportunity to dive deep into what you're offering
8. Traction	Be specific about your achievements and how they position you for future success
9. Business Model	Clearly outline your revenue model, pricing strategy, and key revenue streams
10. Go-to-market Strategy	Detail how you plan to capture and grow your market share
11. Team	Highlight the experience, expertise, and passion of your founding members and key employees
12. Financials	Forecast projections for revenue, costs, & profitability. Include key metrics that investors care about
13. Investment Opportunity	Clearly articulate the funding ask, use of funds, and investor upside

Why is customer discovery so important?

Technology-led vs needs-led

Building “technology first” has an inherent risk that it might not serve market needs.

Customer discovery de-risks this to identify market needs and therefore a deep-tech technology can be adapted to serve these needs

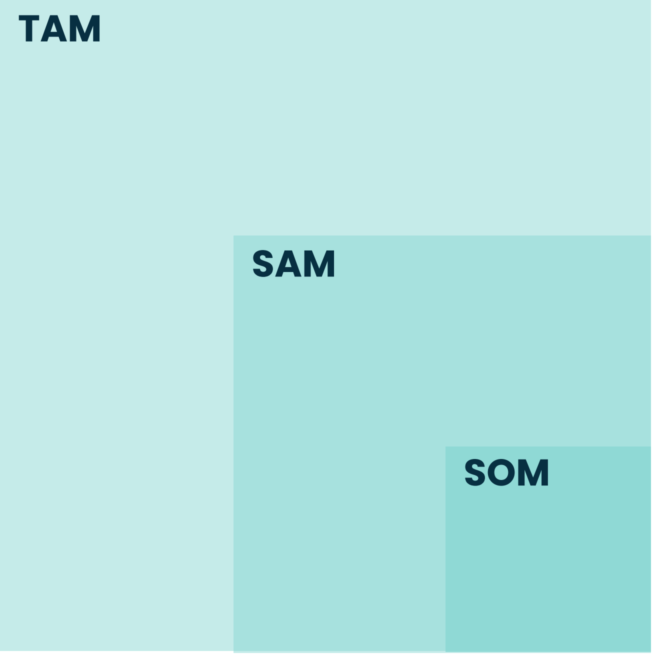
This HAS to be done in parallel to building the technology, not after.

Scientists generally good at this as it is hypothesis / experimentation / data driven

Benefits of this approach

- Identifies “ideal customer profile” (ICP) customers to initially engage with and understand their problems and needs
- Ensures your product or service is solving a real, significant problem for your target customers.
- Feedback from potential customers can help refine product features and prioritisation.
- Understanding who your customers are influences marketing strategies and product development.
- Minimises the risk of product launch failure by confirming market demand and avoiding “venture-killers”

How do I show our business is attractive for investors?



Total Addressable Market
The TAM is the value of the entire market, or total possible demand for a product or a service

Serviceable Addressable Market
The SAM is the portion of the TAM that you can reach with your product or service. The SAM is usually limited by geography and/or customer demographics.

Serviceable Obtainable Market
Also known as **share of market,** the SOM is the portion of the SAM that you can acquire in the short term with your product or service. Over time, the SOM can grow.

How do I demonstrate my idea is commercially viable?

Commercial viability looks to understand whether a proposition is financially viable by considering both the revenue and the costs

For the **business**, it demonstrates you can deliver the product/service at a price that will make you money and gives you the required return

For your **customers**, it demonstrates the price is attractive vs current costs and vs alternative solutions

Viability can be assessed in two ways:

Financial & operational model

Use it to understand key levers, scenario test and drive forward your business

Unit economics

Consider, unit economics and customer lifetime value, distribution channels

Part of your customer discovery process to test and validate the commercial viability of your product / service by testing your technical, feasibility & desirability assumptions with potential customers

How are you going to take your product / service to market?

Identify Target Customer

Use a mixture of primary (i.e. customer discovery interviews) and secondary research. Segment based on identified needs (needs based segmentation) or split customers by personas (who have specific needs).

Break down further

Identify specific groups within the target segments. Deep dive further into their needs and pain points.

Decide Sales Channels

Determine how you're going to sell. Direct-to-consumer (D2C)? Business-to-business (B2B)? Reach consumers via partners (B2B2C)? Understand how they buy currently. How do competitors reach their customers?

Identify Key Partners

If you're going to use distributors or partners, who are they? Are they global or specific to each country? What are the cost/benefit implications of this go-to-market approach?

Discovery as Sales

Use customer discovery as "early-sales" to engage directly with large enterprises and try to receive "Letters of Intent" or paid strategic partnerships. Potentially utilise B2B channels for distribution, focusing on direct engagement and industry-specific distributors.

Roadmap

Establish a launch timeline synchronised with industry adoption and regulatory cycles. Plan for geographic and sector expansion based on pilot project successes and early adopter feedback. Monitor adoption rates, customer satisfaction, and performance benchmarks / KPIs to gauge success.

Financial Planning and Forecasting, Metrics and KPIs

What is the North Star Metric concept?

A single, company-specific metric that best **captures the core value** that your product delivers to customers

Why Use?

Helps focus efforts across all functions on what's most impactful to growth. Use as an organising principle.

Common Examples

Daily active users for social media platforms, weekly rides for a transportation app, etc.

Deep-tech examples

Semiconductors (Chip Performance Efficiency, Cost per Wafer, CAC, Time to Market for new chips)

Biotech & HealthTech (Patient outcomes improved / clinical trials success rate)

How do you identify your North Star Metric?

Keep it simple! Focus on what actually captures value for your current or future customers.

Financial Planning and Forecasting, Metrics and KPIs

Budgeting and Forecasting

It's critical to maintain accurate budgets and manage cash flow, especially when R&D expenses are high.

Use forecasting (financial models) to predict grant claim timings and market entry points (for revenues and commercialisation costs).

When revenues arrive, always use **a 13-week cash flow** to identify dips in cash that may be hidden in a monthly forecast

Metrics & KPIs

Early deeptech metrics could be — Burn Rate, Paid Partnership Pricing, patent portfolio size, technology roadmap milestones, number of prototypes developed, patent applications filed, and partnerships formed with research institutions.

Key Performance Indicators of success — justify targets, measure outcomes, track progress.

Focus on achieving milestones aligned to commercial traction.

Scenario Planning

Use scenario analysis to prepare for various technology commercialisation pathways and market conditions.

It can be useful to stress test assumptions around milestones and timings for e.g. regulatory approval and also different levels of market uptake.

Scenario planning also helps to identify the key levers that have the biggest impact on revenue and profitability

Building your first financial model

Try and build a financial model that comprises the three financial statements. For more information on these statements, check out our "Introduction to Financial Statements article"

Model how your business operates in reality by logically thinking through how it works and representing this financially

If you struggle to create the 3 financial statements, **start with the cash flow first (5 year)**

Avoid burying assumptions within formulas

Clearly mark input cells with green shading

Add sources for assumptions as comments to the input cells

Use tabs to breakdown calculations into modules (sales, cost of goods sold, stock, administrative expenses, staff costs etc)

An example B2B SaaS Financial model is **here**

Some further tips for financial models

Benchmark margins and check assumptions based on industry averages or comparable companies/industries. **Make it believable!**

Ensure you build in checks to your model, particularly:

- The balance sheet cash at bank matches your cashflow closing balances
- The Net Assets and Equity balances on the balance sheet, as this checks that P&L and Cashflow are correctly linked

Include a summary sheet & KPIs to show a clear dashboard overview to both you and potential investors

Include your bottom-up TAM / SAM / SOM analysis so you can demonstrate growth into your SOM customer base over time and show your revenue projects as a % of the total market

Really important (!) Draft an accompanying Financial Model booklet

- Talk through each section of the model, the assumptions made and what the outputs are. **THIS BUILDS CONFIDENCE** in the model!

Preparing for Early-Stage Funding

What are my funding options?

Bootstrapping

Using personal funds or operating revenues to fund the business. Hard to do as a deep-tech entrepreneur, but not impossible.

Angel Investors

Wealthy individuals who provide capital for startups, usually in exchange for convertible debt or ownership equity. Useful at pre-seed & seed stages to offset VC funding.

Venture Capital

Funds that manage pooled money from many investors to invest in startups. Expensive and requires robust commercial traction metrics (or a MASSIVE opportunity).

Grants and Loans

Government or private grants for research and development, bank loans. Can derisk equity investment rounds and reduce founder dilution.

What does the UK funding landscape look like?

Venture Capital

Numerous VC firms across seed to late-stage investments. E.g. Octopus Ventures, Amadeus, IQ Capital.

Angel Investors

Robust network providing early-stage capital and mentorship. E.g. Bristol Private Equity Club, Angel Investment Network, Science Angel Syndicate.

Government Support

Innovate UK, British Business Bank offer grants, loans.

Crowdfunding

Platforms like Crowdcube and Seedrs enable public investment.

Regional Hotspots

Major hubs and startup ecosystems include London, Cambridge, Oxford, Bristol, Edinburgh, and Manchester.

What is the difference between debt and equity funding?

Debt Funding

Financing obtained through borrowing, which must be repaid over time with interest.

Pros:

- No dilution, allowing owners to retain full control
- Interest payments are tax-deductible
- Potentially lower cost over the long term if the company can pay off debt quickly

Cons:

- Requires regular repayments regardless of performance, which can constrain cash
- Often requires collateral, posing a risk to company assets
- Can be difficult to secure without a solid financial history

Example: A deeptech company secures a bank loan to purchase advanced manufacturing equipment, agreeing to repay the loan with interest over a five-year term.

Equity Funding

Capital obtained by selling company shares to investors, in return for a share of ownership in the company.

Pros:

- No repayment obligation if the business fails
- Investors often bring expertise & networks alongside cash
- Suitable for securing large amounts of capital, often crucial for extensive expansion efforts.

Cons:

- Dilution; potentially leading to a loss of control over decisions
- Generally involves complex legal agreements and negotiations
- Investors require high returns, which can pressure the company to scale quickly and exit early

Example: A biotechnology startup sells a 20% equity stake to a venture capital firm, obtaining the necessary funds to continue its R&D efforts, with the investor expecting significant returns upon commercialisation.

How do I engage with UK investors?

Be prepared and practice!

Identify investors with interests aligned to your startup; attend local startup events and VC meetups

Use warm introductions from accelerators and engage in local startup ecosystems to gain visibility

Tailor your pitch to investor interests; clearly articulate your value proposition and market fit

Keep potential investors updated regularly; incorporate their feedback to improve your business model

Good Luck!

www.startupfinancetoolkit.com