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Scale-up guide

Key financial considerations to successfully grow your business

Introduction

If you're aiming to grow your business quickly, you'll be aware of the many challenges and opportunities ahead. We have created this scale-up guide as a single point of reference for business owners to unravel the complexities of scaling a business.

Our hope is that, as a business owner, you'll find this guide a useful information source to sense-check, to enhance and develop your understanding of the key financial considerations that should be taken into account, in order to scale successfully.

We have split the guide into three, bite-sized sections focused on , and .

With the support of the guide you can establish if your business is on the right path for achieving your scale-up goals. As many of the topics covered are complex, we offer a high-level view, to develop and sustain scale-up momentum in your business most effectively.

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Inside this guide

Navigate through our guide by clicking on each of the topics listed to the right.

Investability

Preparing your business so that it's ready and attractive for investment can pose many challenges. You'll need to address both operational considerations as well as readily having information that investors will expect to see. Planning for investment can take anything from six months to five years. Giving due consideration to these areas will help you to maximise the chance of obtaining the right investment for your scale-up.

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Maintaining high quality historic financial information

It is important that your business produces financial information that demonstrates its strong performance and tells a growth story. Investors will also want to see that your financial information is prepared with a sound basis and is readily available. This will give them reassurance that the business is being well managed.

Financial information should include as a minimum an income statement (revenue and costs), balance sheet (assets and liabilities) and a cashflow statement (cash movements). When produced annually, these show the progress of your business over time.

Investors are interested in seeing financial information for the most recent financial period, but you should also be able to produce records dating back to the inception of the business and include commentary and explanations where appropriate.

We also recommend preparing financial information on a monthly basis in the form of management accounts. These should display business performance clearly and ideally differentiate business divisions or revenue streams.

Financial information should be prepared by a qualified accountant, to ensure it complies with applicable accounting standards.

Income statement

Balance sheet

Cashflow statement

Financial information

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Identifying and reviewing the most important KPIs

When aiming for rapid business growth, your most important Key Performance Indicators (KPIs) are those that capture this expansion and provide an early warning of any potential problems.

Traditional financial KPIs tend to focus on growth in revenue and profit. However, other operational KPIs are also important, such as cost of customer acquisition, cash headroom and current asset ratio (current assets/current liabilities). Minimal headroom or a negative current ratio could indicate cash constraints in your business that will impede scaling-up.

Non-financial KPIs are also important to consider, because they can serve as leading indicators of future growth. Examples include the number of active users of your service or the average length of time people spend on your platform. You could also use KPIs to show the diversification of your client base or the ratio of repeat to one-off business.

Once you've established your KPIs, it's vital to monitor them regularly and take action quickly, to address any concerns if your business plans are going off course.

Key performance indicators

Financial KPIs

Cost of customer acquisition

Cash headroom

Current asset ratio

Non-financial KPIs

Number of active service users

Average user time on platform

Client base diversification

Repeat vs one-off businesses ratios

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Preparing effective financial forecasts

You can demonstrate to investors that you have a working idea of how to ensure a return on investment by setting out your plan in a financial forecast.

Forecasts, by nature, lack total certainty. Preparing a forecast can be daunting, especially for early stage scale-ups where the future is particularly uncertain or where there are many different avenues that lead to growth. Nevertheless, producing a credible financial forecast is an essential requirement in demonstrating sound financial management in your business.

The following tips aim to help you prepare a suitable financial forecast:

- Your financial model doesn't need be overly complex, but should ideally be prepared by an accountant or someone with financial modelling experience.
- Include sufficient details to give investors and stakeholders a clear picture of your business and its potential.
- Include tools that allow you to change assumptions or introduce different options in order to show the impact on revenue, EBITDA and cashflow.
- Always overwrite forecast data with real-time data when available. There is nothing worse than seeing a financial forecast that includes incorrect actual data.

Financial forecasts

Revenue by type

Numbers of clients

Average client revenue

Different types of costs, categorised by sales and administration

Cashflow projections

Future funding requirements

Capital expenditure requirements

Tax payments

R&D claim submissions

Any dividend payments

Planned profit and clearly defined EBITDA

Monthly figures

Annual summaries for at least five years

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Benefits of EIS/SEIS for investors

Income tax liability reduced for investors

SEIS and EIS shares exempt from CGT

CGT deferral benefits on gains realised on other disposed assets

Shares sold at a loss can be set against income tax

Considering the merits of EIS /SEIS status

The Enterprise Investment Scheme (EIS) and the Seed EIS (SEIS) are designed to encourage equity investment in businesses. SEIS is available to companies with gross assets of less than £350,000 that have traded for less than three years. EIS can benefit companies with up to £15m in gross assets.

Both schemes can be attractive for investors, due to the significant tax advantages they bring, which can ease your ability to raise funds.

Key benefits for investors:

- Their income tax liability is reduced by 50% of the amount invested under SEIS and 30% under EIS.
- SEIS and EIS shares are exempt from capital gains tax (CGT).
- If the investor has realised gains on the disposal of other assets, there are CGT deferral benefits (and partial CGT exemption benefits under SEIS).
- If the shares are sold at a loss, the loss (after the income tax relief already given) can usually be set against income tax.

Although the investors gain the tax benefits, it's the fundraising company that needs to apply for SEIS/ EIS status and detailed conditions need to be met. You should always seeks advice on your HMRC application for either scheme to avoid any delays that could put off potential investors.

Corporate structures 5 tips

Identifying appropriate corporate structures

It's important to consider the structure of your business as early as possible in its growth journey. Having the right ownership structure is essential in enabling your business to scale effectively. In contrast, the wrong structure could hamper growth, deter investors, create tax inefficiencies and prevent you from realising your objectives. Professional advisers can give you good advice regarding the structure of the business on set up.

Here are our top 5 tips for selecting the right structure:

1 Consider having different companies to form a 'group'

If you have different risk profiles for different revenue lines in your business, you could form different companies to 'house' the various business streams. Benefits include potentially limiting liability for shareholders and making it easier for you to divest parts of your business.

2 Do not make structures unnecessarily complicated

Complexity in corporate and group structures can add additional cost and be confusing. Examples include complex and differing ownership holdings for parts of the group, minority interests and different intermediate holding companies. Such complexities can cause unnecessary risk and deter potential investors. Simplicity is best unless there are genuine commercial or legal reasons for having a more complex structural arrangement for your business.

Corporate structures 5 tips

3 Play the long game

Consider your objectives for the business and plan accordingly. Make sure that anything you decide will help you achieve your long-term business aims, whether geographical expansion or attracting the right investor.

4 Make the structure work for investors

If scaling is likely to require new external investors, consider what ownership structure might work best for them. For example, most institutional investors will want to have a share in the whole business rather than having different parts owned by other parties, which could reduce control and increase risk. Click to read more about attracting investors in the section on 'Considering the merits of EIS/SEIS status'.

5 Take professional advice on international expansion

Setting up abroad can be complex. Different countries will have their own unique laws on tax and other compliance issues. As a foreign owner, it'll be important to get advice to make sure you're using the most appropriate structures and complying with following local legal requirements.

Preparing an investment or information memorandum

An Investment or Information Memorandum (IM) is your opportunity to convey how successful your business is to prospective investors or buyers.

There are some core sections that you need to demonstrate in your IM, including the products or services of the company, the market landscape in which it operates, and the current and forecast financials.

Avoid early stage company common pitfalls by making sure you:

- **Clarify the stage your business has reached**
  Are you pre-revenue and still developing your product, or are you revenue generating? Clarifying your situation will ensure your IM is read by relevant investors or buyers.
- **Remember your audience**
  How much do investors or buyers know about your market? Make sure to tailor your explanation of what you do and the industry in which you operate to those reading the document.
- **Check your key messages are correct**
  Key messages should be present in your core story with details to reinforce this and your business potential.

The IM represents you and your business to potential investors – so ensure you lead with what is unique about your company.

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Achieving financial compliance

Regulations relating to financial compliance keep evolving, creating a complex landscape with many details and deadlines. You need to keep up with requirements relating your company's financial statements, corporation tax returns, VAT returns, company secretarial matters and tax schemes such as Enterprise Management Incentives (EMI).

Achieving compliance can therefore be challenging if you're scaling your businesses. But it's essential, not only for avoiding penalties but also to attract investors.

Methodical record keeping will ensure your business is ready for investors or buyers at the right time. Funding rounds and exits can often be delayed due to non-compliance issue. This could present itself through a lack of available management information or even missing documentation such as share transfer certificates.

When it comes to going to the market, unfiled returns and restated accounts won't fill investors with confidence that the business is being run methodically with sound controls over records and information.

Professional advisers can help you stay on track to ensure your finance compliance doesn't become an ongoing challenge on your growth journey and gives you more time to focus on strategic areas of your businesses.

Benefits of correct finance function

- Well-maintained share registers
- Timely Companies House filings
- Punctual financial statement submissions
- Punctual HMRC tax filings (corporation tax and VAT)

Raising finance

Raising finance may be the key to unlocking further growth, but it can also become a massive distraction to scaling your business and can even become a full-time job. The variety of fundraising options, lending institutions and investors can make it a complex process. Understanding what's involved, the options open to you and getting expert advice are all important factors in completing a successful raise.

When is the right time for your business to raise finance?

The answer to this very much depends on your growth strategy and how quickly you want to scale-up.

If you're a scaling business that has a fast cash burn, raising finance could be an obvious option to maintain growth. Additional funding could help you employ the right people or pitch for bigger client work. However, raising finance isn't free. Besides deal costs, you give up a share in your business by taking on equity investors and you'll pay interest on any debt.

Therefore, you need to conduct a realistic cost-benefit analysis, considering different funding options. Think like an investor, weigh up the 'rewards' of generating increased value against the 'risk' of dilution or interest cost.

Timing is key in order to maximise the success of a round:

- Where is your company in its lifecycle? This will influence the funding solutions open and best suited to you.
- When will you need more funding? If your company is burning cash, allow a minimum 6 months' and ideally 9 months' lead time to raise the finance you need.
- If your business breaks even or becomes profitable, waiting longer before fundraising could achieve a better valuation (if the company is growing).

However, if you wait too long, your opportunity could be missed.

Raising finance timing

How quickly you want to scale

Business lifecycle stage

Future cash need

Time between fundraises

Choosing between different types of funding

There are many different sources of finance available to your business, with different strengths and weaknesses. Professional advice is essential for determining which is most appropriate for your business at its current stage of development.

Funding is typically divided into two core types: debt and equity. However, your business can also gain a cash injection through other sources, including grants and tax credits. Click to read more under the R&D tax credits section of the guide.

Debt funding options

- **Credit cards**
  If you're a cardholder, you should pay back the money accrued by using the credit card, including interest, as well as any additional charges set out in the terms and conditions.

- **Overdraft**
  An overdraft is a form of credit granted by a lending institution when the account reaches zero balance or below. If you don't pay back your overdraft within a timescale pre-set by the lending institution, the bank could involve a collection agency to secure the repayment.

- **Bank loan**
  A loan may be a one-time amount or it can be

Debt funding options

Debt funding options

available as an ongoing credit for your business but no more than the specified limit, and pre-set interest charges as usually applicable. You may receive better rates of interest through competitive
.

- **Mortgage**
  Your business can raise money by applying for mortgage secured by your real estate property. The sum is required to be repaid within a predetermined schedule.

- **Asset finance**
  You can borrow money or ask for a loan by securing it against your business' balance sheet assets, which may include short-term investments, or accounts receivable and inventory. This can provide more flexible funding and a few lenders have expanded their asset-backed lending offer to include intangible assets such as software or intellectual property (IP).

- **Invoice financing**
  This form of asset-based finance allows your business to borrow money against customers' billing amounts. A percentage of the invoice has to be paid to the lender as a fee for borrowing the money.

- **Bridge funding**
  This is an interim option for your business to raise money while you wait for a long-term financing option to become available.

- **Peer-to-peer lending**
  Your business can borrow money directly from individuals without a financial institution as the middleman. There are many websites that facilitate these transactions.

Equity funding options

The advantages of raising funds through some form of debt:

- You won't dilute your company's share ownership.
- Many different institutions can provide debt finance, including banks, asset finance companies and credit unions.
- Obtaining funds is a relatively quick process (if you're eligible).

There are disadvantages to consider too:

- Your business will need sufficient 'free cash' to be able to service the debt, which may not be possible for early-stage companies.
- You may have to pay high interest and administration charges.
- The debt provider may require a personal or professional guarantee from the business owners or may enforce restrictive covenants.

Sources of equity funding

- **Friends and family**
  Those who know you best may be willing to back your business at an early stage.

- **Angel investors**
  High-net-worth individuals provide money to small start-ups or entrepreneurs, usually in exchange for business equity ownership. Connect with angel networks or attend their networking events to maximise your chances of finding a suitable angel investor.

- **Crowdfunding**
  This involves raising small amounts of money from a large number of individuals to finance your start-up. This is usually best suited to consumer facing businesses.

Equity funding options

- **Venture capital**
  Venture capital (VC) is suitable investment for earlier stage companies also with potential for very strong growth. VCs take minority stakes in businesses.

- **Private equity**
  If you have a mature business with good growth potential, you could raise funds through private equity (PE) finance. This is insitutional investment in return for a stake in your company.

- **Initial public offering**
  This is the process when a business issues its shares to the public for the first time to raise capital.

Advantages of equity funding:

- It can bring more expertise to your business e.g. board advice and new skills.
- Businesses at all stages of growth (even early stages) are likely to be eligible for some form of equity investment.
- There are no ongoing debt service fees or costs to your business.

Disadvantages of equity funding:

- Your company's share ownership will be diluted and depending on the size or type of equity investment you take, you may need to give up control of your business.
- Equity funding is harder to obtain and can take longer than debt finance.
- You will face the added pressure of dealing with new shareholders while still running the day-to-day business.

How much funding can and should you raise?

How much you should raise depends on the plan you're trying to execute and the stage your business has reached. Fleshing out your strategy in a business plan and a financial model will help to identify your need.

Our advice is to raise slightly more than you first think you require. This gives you extra cash to deal with contingencies. In our experience, realising plans often takes longer and costs more than expected. It's much better to have a cash buffer than to have to seek more funding from investors too soon after the first round. However, raising money without an identified use might result in dilution for existing shareholders without an increase in value being driven by using monies raised. It's therefore important to find the right balance.

You also need to set your fundraising goal by reference to what is achievable in the market. While some pre-revenue companies can raise tens of millions, those are the exceptions to the rule. Generally, revenue can help you unlock raising more money, and a seed stage company may be able to raise hundreds of thousands without revenue. However, they're unlikely to be able to complete a multi-million pound Series A raise.

What is the investment criteria at each funding stage?

There are no hard and fast rules when it comes to raising finance, as each business will have its own attributes. There are some broad guidelines for what you could raise as your business moves through different stages:

- **Seed stage**
  The rule of thumb is that a business with a minimum viable product (MVP) but with no revenue may be able to raise a small seed round, up to approx. £500k. A business that has generated some revenue may be able to raise a larger seed round, of approx. £500k to £2m pounds.

- **Series A stage and beyond**
  For a business looking to raise Series A funding, often in the region of £2m to £5m in the UK (but potentially larger in the US), a £1m run-rate revenue is the threshold that will unlock a round. However, more revenue increases the likelihood of being able to raise funding and the potential to achieve a target valuation.

The growth rate of your business revenue is also important. A business with £3m of revenue and flat growth may find it harder to raise finance than a business with £1m revenue that's doubling in size.

Following Series A, growing businesses can raise additional and increasing finance through Series B and further rounds. In general, the more traction your business has in its market, the more likely it'll be to raise extra finance.

Funding stages

Seed

MVP

Pre or post revenue

Business model

Management team

Series A and beyond

Product launched

Rapid revenue growth

Potential of raising £2m and upwards

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Valuing your business – how to maximise value

Investors will generally use a pre-money valuation to determine how much equity to ask for in return for their cash injection to your business.

This valuation is based on expectations of what your company might sell for in the future, with most investors looking for a triple return on their investment.

Getting this valuation pitched at the right level is crucial. If you 'oversell' you'll create immense pressure on your business to deliver the investor's returns; if your valuation is too low, the founders' holding could be unnecessarily diluted and future investment rounds could be impacted.

Three key considerations:

1 There's no time like the present

To determine the most accurate value of your business, regularly monitor your revenue lines and any profits, excluding exceptional items such as ad-hoc recruitment costs or one-off revenue contracts. You should present what the most recent figures imply on an annual run-rate basis, and avoid sharing the figures from old statutory financial statements. Click to read more under the Financial forecast section of the guide.

Investors often use a pre-money valuation

Try to value, based on run rate

Valuing your business

2 What are your driving forces?

Value drivers differ depending on the type of business. Potential examples include your business' ability to scale, its geographical reach or how robust the technology is. Clarifying your value drivers from the outset will help you market your business at the right level and to the appropriate prospective investors.

3 Value is not objective, it is subjective

Value is subjective so it's important to tailor your proposition to each prospective investor based on where they believe the value lies. You want them to picture their future with your business in mind. You therefore need to relate your proposition and the key benefits of your business to the potential investors' current situation or existing portfolio.

Valuing a business is as much an art as a science, with many factors to consider. Professional advice is always recommended in order to achieve the best outcome and is likely to be more impartial and less emotive.

Know your value drivers

External advice may be more impartial

Making use of grants

Grants are offered by a range of funding bodies around the UK and in Europe to help businesses grow and innovate. Some are highly targeted towards a sector, such as those managed by central government, or you may find regional grants available through local councils or regional bodies.

You should first consider what each grant provider offers to fund and if your activity meets that need before starting the application process. Timing can also be an important factor as preparation and application can sometimes take longer than anticipated initially. The assessment process can also take up to three months, hindering the start of your project, therefore if your funding requirement is urgent, grants may not be the most suitable option to you. You also need to be aware that your business will need to meet audit requirements in order to receive grant payments and some grants fall under Subsidy Control restrictions.

If you apply for a grant, it can potentially make your business attractive for investors as the strict application requirements mean you spend time formulating your innovation and growth strategy. Professional advisers can help you maximise your chances of getting funding and their support will allow you to focus on running the business.

Grants

Grant provider criteria

Application timing

Audit requirements

Increased investability

Growing

As well as making your business investable and raising finance, there are other areas you need to keep in mind to ensure continued growth of your business. The strategies and issues we consider may be appropriate at any stage of growth but are likely to be more relevant for more established scale-ups. However, there is no 'one-size-fits-all' solution to growing a business. Even if you're not ready yet to implement certain strategies, thinking about potential future opportunities will make sure you take appropriate actions at the right time to keep scaling-up your business fast.

Incentivising staff with EMI options

In today's highly competitive talent market, the right people strategy is essential. The first step is working out the skill-sets your employees need so that you can target your recruitment accordingly. Then, once you've got the right people in your team, you need to hold onto them.

One way to attract, retain and motivate talented individuals is to set up an Enterprise Management Incentive (EMI) scheme. This HMRC-approved employee share option scheme offers significant tax advantages over unapproved employee share option plans.

Providing the scheme is correctly set up, employees who are granted EMI options are likely to pay a lower tax rate on the gain in the value of the employing group's shares from the date of grant. By contrast, gains from unapproved employee share option plans are taxed at the employee's marginal income tax rate (which could be significantly higher) and subject to national insurance (including employers' national insurance).

As well as establishing whether your company meets the various qualifying conditions for EMI, make sure there are sound commercial reasons for establishing an EMI scheme. This holds true for any employee incentive scheme. Inappropriate and badly designed share incentive schemes can be highly damaging for your business.

Should an EMI route not be possible or appropriate, various alternative plans can be explored and established. We therefore recommend seeking professional advice to check both your qualifying status and any alternative schemes that might work for you.

EMI options

Attract, retain and motivate staff

Lower gain tax rate of 10%

Small UK entities

R&D tax credits – making your funding last as long as possible

If your business is involved in product development or creating a technology platform, it may be possible to submit a research and development (R&D) tax credit claim. This tax relief is based on the R&D costs that your company incurs. It can be used either to reduce the amount of tax that your company pays. Currently, it can lead to a cash payment from HMRC of up to 33% of the qualifying expenditure for small and medium-sized businesses (SMEs). However, this is decreasing to a maximum of 27% from 1 April 2023.

The definition of an eligible project is widely drawn and covers most sectors. If your projects aim to overcome scientific or technical challenges, those are likely to be covered by the relief. The outcome of the project should either be: tangible (such as new products or processes) or intangible (such as knowledge or software improvements), even aborted projects can qualify. Your patents and other copyright material or processes are a helpful outcome when putting your case forward for relief, but they're not essential at this stage.

If you run a small business and haven't yet submitted an R&D tax credit claim, you're likely to be eligible for Advance Assurance on. This recent initiative from HMRC is intended to simplify the complex R&D tax credit scheme, meaning that HMRC will accept claims you submit within your first three accounting periods.

Benefits of R&D tax credits

Reduce tax liability

Cash payment from HMRC

Maintain cashflow

Attract investment

International expansion 10 tips

Achieving international expansion

One of the biggest challenges in scaling-up is growing your business in new territories.

Top 10 tips for international expansion:

1 Have a sound commercial reason to expand

The reason may be the location of existing clients, key employees or the fact that you have fully penetrated your local market and therefore need new locations to grow.

2 Do your research

Not all products and services are transferable to new locations. To make a success of your new overseas venture, consider testing the market with perhaps one client or a sales representative before investing straight away in an entire team.

3 Do not underestimate the value of distributors

The use of external distributors on the ground can be a good, cheap way to sell your service overseas. They may already be set up and understand the local market.

4 Embrace local ways of doing business

Be aware that different countries have different approaches to business. Although you'll want to keep your overall company ethos and culture the same, adjustments will need to be made to reflect the practicalities of trading in a new location.

5 Do not try to do everything remotely

There's no substitute for meeting clients and suppliers face to face, so be prepared to build business relationships locally.

6 Keep involved

Opening in new territories brings risk, so you as a founder should be highly involved. Alternatively, if you can't monitor development yourself, make sure you have someone you trust to oversee the operation.

7 Get local advice

It is vital that you have advisers and employees on the ground who can help you to navigate through local laws and other commercial requirements. They can provide advice on how processes are managed locally and their knowledge will save time and cost in the long run.

8 Set up a local company

Given the risks of doing business in a new location, setting up a local company is a sensible option as it should reduce the transfer of risk to the rest of your business.

9 Be aware of local tax laws and get sound advice

Most countries will have their own bespoke rules covering complex issues such as foreign ownership, distributing profits overseas and determining whether you have a permanent establishment in their country.

10 Do not spread yourself too thin

Expansion can be timely and expensive, and it can end up causing more pain than it's worth if not executed properly.

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Structuring your finance and management team

A strong financial management team is an asset – helping your business to achieve its goals by setting the right financial targets and act as a strategic driver. The right structure for your business will depend on your specific circumstances. You can use a mix of internal and outsourced resources, depending on who you need, how much of their expertise you need, and when you need it.

A range of the various structures:

- Cloud-based accounting software
- External book-keeper
- Internal book-keeper and outsourced accountant
- Internal book-keeper and outsourced financial director
- Internal book-keeper and outsourced accountant and internal financial director

Your business may adopt these various structures sequentially, as it grows. Essentially, it's important to recruit or outsource the skillsets that are required within a business but are not innately present.

To decide when you need them is generally based upon your position in your lifecycle. For example, a book-keeper can be the best initial hire in order to maintain your records. As your business develops, you're likely to need to hire a finance member internally, either to work with an outsourced accountant or to assume the full responsibility.

The requirement of an outsourced finance director will be determined if this skillset can't be found internally. Your business can benefit from an independent viewpoint over your finances.

You may ultimately need to recruit an in-house financial director as some transactions and fundraisers may require your business to have that job role in place.

Structure of finance function

Cloud-based accessibility

Right financial targets

Strategic driver

Independent viewpoint

Getting the best from financial software

Choosing financial accounting software is a major decision in the scale-up journey. It's important to consider your options carefully to ensure the right fit for your business. Guidance from a professional adviser can be invaluable.

Some basic functionality is essential, so your chosen software should offer certain standard requirements, including:

- Transaction limits
- Multi-currency capability
- Integration and compatibility with existing software packages used by your business

Depending on your specific operational needs, you might also look for reporting capabilities (such as budget versus actual performance) or the ability to produce a purchase ledger by department.

The software also needs to align with your business strategy and anticipated future activities. Where will your business be in 3 or 5 years? If you're planning rapid growth, the accounting and business software needs to be sufficiently scalable itself. In order to provide sufficient capabilities, you might want to consider investing in an enterprise resource planning (ERP) system rather than entry-level accounting software.

Implementing new accounting software can be an onerous task, so set realistic expectations to embed and complete the project. In addition, try to avoid introducing new software when your business is scaling-up rapidly, as your attention is likely to be focused on other priorities.

Transaction limits

Multi-currency capability

Software package integration

Reporting functionality

Benefits of an audit

Many scale-ups will decide to have an audit even if they're not required to do so because of their size. This is because most investors at Series A or pre-Series A will expect to receive ideally 3 years' worth of audited financial statements. The fact the financial statements have been audited gives investors greater comfort and assurance about their quality.

Once your business exceeds the small companies' size limit for UK companies[1], you'll be required to have an audit of your statutory accounts performed by an independent auditor. It's important to choose an auditor that is experienced in auditing companies of your size and in your sector.

The auditor will provide an opinion on your financial statements to state that they're materially 'true and fair' and are properly prepared. They will perform tests on your underlying records before forming their opinion.

As well as providing comfort to investors, below are more benefits of an audit for a business looking to scale-up:

- An improved credit rating, which can help with winning new clients
- Greater assurance to yourself, as a business owner, that the financials are being prepared on a sound basis
- Feedback from the auditors regarding ways that you might be able to improve your controls and processes to run your business
- Better standing with banks, which might help with the provision of bank loans or other debt-funded instruments required to scale.

[1] Current UK company size limits – must not breach two out of three: £10.2m turnover, £5.1m total assets, 50 employees

Audit benefits

An improved credit rating

Greater assurance financials are soundly prepared

Receiving feedback from auditors

Better standing with banks

Optimising your exit

If you choose to sell your business, it'll take planning to maximise company value. Ideally, you should be prepared to spend sufficient time formulating your exit strategy and putting it into action – it'll take longer than you expect! Depending on your exit goals that may take up to 3 years.

When you have a plan in place, you can review the timeline you're working towards and establish when the best time will be for you to step away. If you're looking to capitalise value and your business is on a strong upwards curve, it's worth considering whether you can delay selling to help maximise your returns.

Before your exit, you should look to ensure that your business is able to run without you. Businesses that are reliant on the owner's continued involvement tend to suffer longer earn-out periods. Allow yourself time to consider what drives your decisions as this will later help you identify the exit route most aligned with your priorities.

Important considerations to factor in:

- Highest exit value
- Providing opportunity for the next generation of leaders in the business
- The future of your employees
- Protecting the legacy of your business

Considering these priorities will help you to ensure the success of your business, even after you move on, and will leave you with the peace of mind that your business is in the right hands. Remember to start planning as early as possible and keep your priorities in the forefront of your mind when deciding what exit route to take.

Professional advisers can help you plan your future and the succession of your business, as well as ensure you leave your business with the best deal possible.

Speak to an expert

Buzzacott is the largest single-office accountancy and business advisory firm in the UK with a reputation for supporting businesses for over 100 years. Our Technology & Media specialists provide financial and operational advice and services to innovative business owners from all business life-stages. Our team includes sector experts who recognise the needs of scale-ups and tailor their skills to deliver the solutions they need. We have the expertise expected from a large firm delivered with empathy and in a relationship-focused way that clients might expect from a small firm.

If you're looking for more information on how to scale your business successfully, please get in touch.

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