# The Series B Crunch.

Why so many promising companies fail at this crucial funding stage.

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# It's a monumental effort to hit the Series A milestone. But if you thought that was painful, it gets harder. In fact, the curve for more funding just gets steeper.

**Series B is an important stage. It's less of a 'long shot' for investors as companies are expected to have moved from having potential, to having proven their business model by this point.**

It's a true inflection point, where you move from proving your concept to being in the position to scale it. Getting ready for Series B funding can therefore be quite a complex process, and a huge drain of resource on your management team to get right.

## What is the 'Series B crunch'?

Going back 5-10 years, the 'Series A crunch' was a well-documented phenomenon in venture capital - There was ever increasing seed and angel funding (thanks to the rise of crowdfunding platforms and smaller VC firms), but no accompanying increase in the supply of funding for businesses ready for the crucial Series A funding.

More recently, commentators have suggested the bottleneck has since crept further along the growth journey, to Series B. This is still partly due to the plethora of investment money available downstream at the seed stage (and Series A rounds getting bigger), but the flow of capital is also being throttled due to less exits upstream. Companies are having a longer curve of growth than ever before, meaning less capital is being redeployed further down the ranks.

What's more, Series B is a notoriously tricky spot for attracting funding. It can be hard for owners to prove to investors that they deserve their investment. In Seed and Series A rounds, investors invest in a dream (with a little bit of proof required for Series A). But when it comes to Series B, they need more certainty. A proven product fit. Strong revenues (usually at least $3 million). Evidence that the business is scalable. And all of this needs to be based on facts and figures rather than hopes and dreams. This can be difficult to provide when your business is still at a relatively early stage.

Many businesses simply don't get there. They're either still selling a dream, weren't able to achieve the revenue growth from Series A to Series B, or can't demonstrate the scalability of their business.

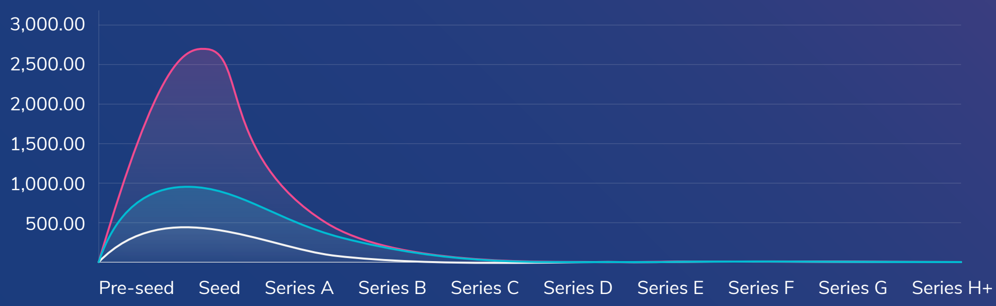
*Welcome to the Series B crunch.*

# Series A and Series B: Worlds apart

While the total funding for Series A and Series B was broadly similar over the past year in the UK (£2.8 billion vs. £2.9 billion respectively), Series B is more challenging. There are significantly fewer Series B rounds, and while that's predominantly due to companies failing as a business before they reach this point, some will simply fail to access the funding they need. More importantly, the amount of funding required ramps up significantly at this stage.

## Fewer rounds

250 companies successfully raised Series A funding in the last year.  Over the same period, just over a third of that number (86) raised Series B funding.

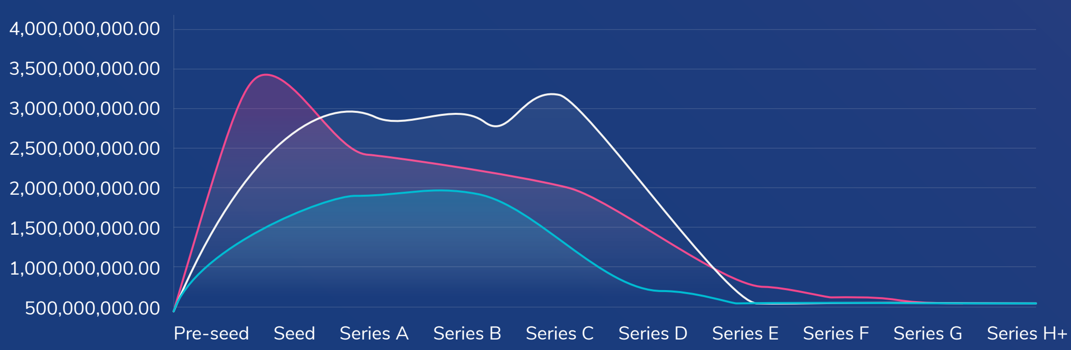



Average number of funding rounds per year, UK (by series)

- Last Year
- Last 3 Years
- Last 5 Years

## More funding required

The average Series B round raised £33.9 million, more than three times the average Series A round (£11.2 million).




Total raised, UK (by series)

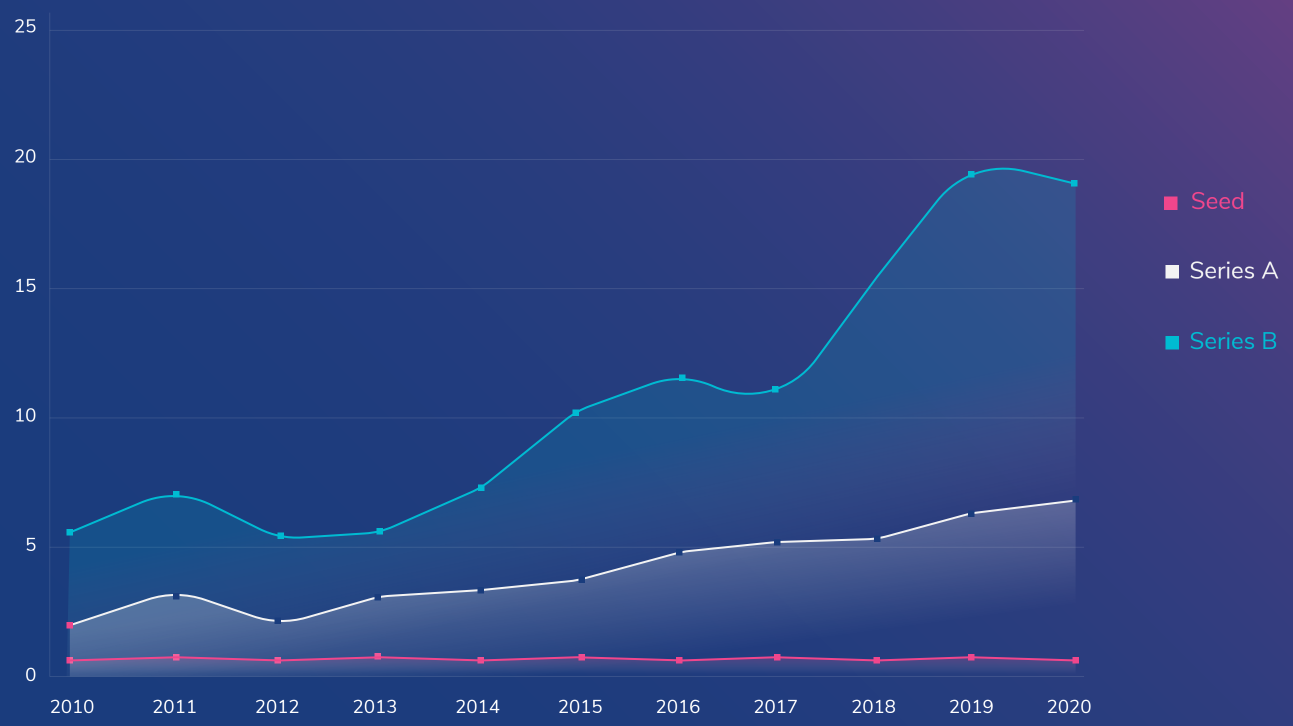
- Last Year
- Last 3 Years
- Last 5 Years

## Series B: when the rubber meets the road

Series B is an important inflection point for most companies – investors move from investing in a story to a cold, hard look at your actual progress as a company. It's where numbers and projections really start to matter. And sometimes it's a stretch moving from having a vision to having a proven business model.

Companies at Series B are expected to have a proven product, indications of market demand and some revenue. With a sharp increase in the amount of capital needing to be raised, the risk is that even the most promising start ups will be unable to get the funding they need at this crucial point in their growth journey. Even perfectly good companies who are solid, but not 'breakout' might struggle.

**Over time, the value increase of Series B rounds has outpaced the earlier stages of investment.**




Median VC deal size in Europe, 2010 – 2020. Source: Statista, as at June 2020.

# What can you do to avoid the crunch?

## 1) Present the right data to investors.

Your pitch can't be too simple. Equally, you'll want to cut out the noise to what's really relevant. Customer success data is very important here. Investors need to be able to identify the great growth potential and come away seeing that the company isn't too risky. Key points that Series B investors want to see are:

**Revenue / customer growth.** The market standard is a minimum revenue of $3 million

**Available scope for further growth.** Based on the size of the market and your competitive position)

**Ability to scale.** Looking at what marketing and sales channels you've used to date, how well you've converted them (cost vs. return) and their potential growth in the future for each channel

Some companies hire people to help them prepare the pitch process. Another solution is to speak to investors before you're ready to raise, to get some early feedback on what sticks and what's weak in the pitch (this could be your 'tier 2' investors if you want to save a 'wow' moment for the investors you really want on board).

## 2) Finding the right investors.

The investors who come on board at this stage will be with you for many years: so do you have a good relationship with them? What's the investor value beyond the capital? Can they help you to attract independent board members?

This is especially important at Series B when you're in growth mode. As you look to hire and grow talent, your network is key. And your investors are an integral part of that.

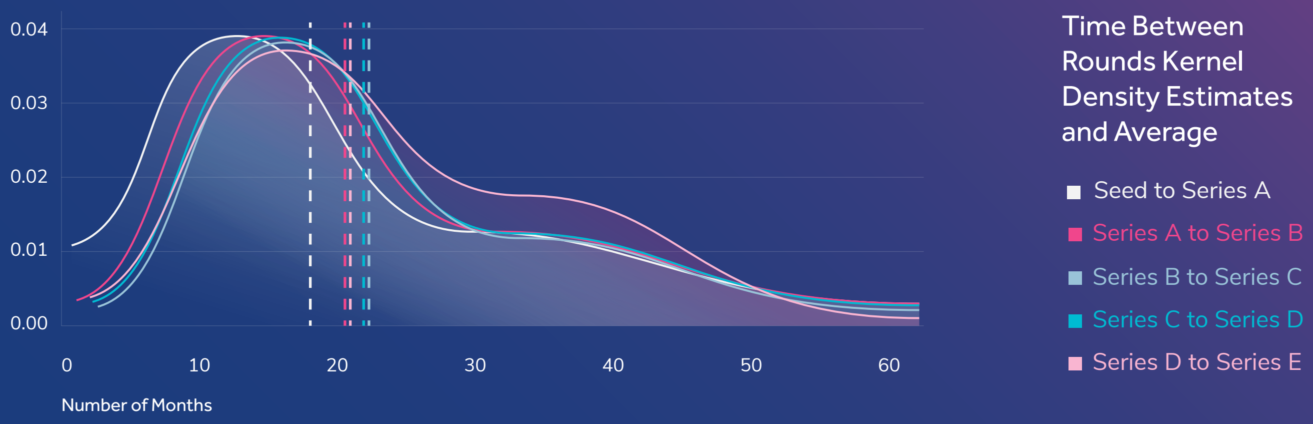
## 3) Know what works and what doesn't.

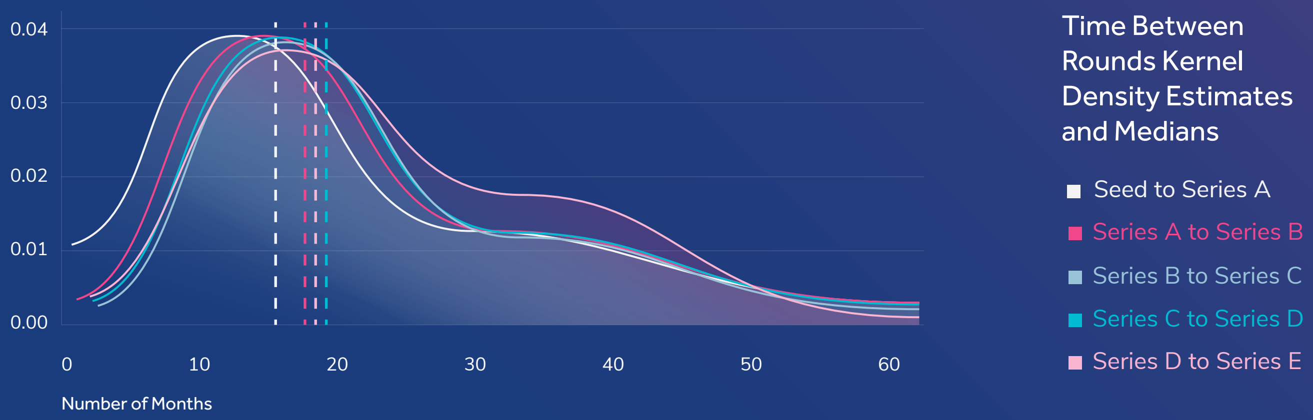
At Series B, you're expected to have moved beyond just a story, and have a working business. You can no longer pitch based on hopes and dreams – investors want to see how your business is really performing. You need to be very transparent and present your weaknesses alongside your strengths. Help them understand what's working and what isn't, and if it isn't working – how can it be addressed? Basically, know and quantify your risks.

## 4) Plan ahead.

Don't rush to raise and make sure you plan ahead so that you raise enough to see you through to the next round. This is difficult, as there is a lack of data for a relatively young company, meaning businesses are often driving blind when making critical decisions like how much to raise in funding rounds.

You can avoid this by not having your costs running too far ahead. Think carefully about how long you'll need until your next round (bearing in mind this may be longer than you first think: hard data suggests that owners should plan for at least 18 – 22 months of runway and as much as 35 months if you want to play it safe).




Data Source: Crunchbase

## 5) Get organised.

Preparing for a Series B can be a significant drain on your resources. Your management team should have visibility and access to all your business data to enable good decision making and to support a professionally run fundraising process. Get all your data organised ahead of your round - everything from CRMs, analysis, investor management and financial reporting (essentially your entire digital share ecosystem) - and the administrative burden will lighten significantly.

# Where's the market currently?

The past few years haven't been easy for businesses in the UK, following uncertainty around Brexit. But with Brexit now behind us, it's largely 'business as usual' in private capital markets. In fact, even the pandemic didn't cause much of a dent in funding round activity, with many businesses easily adapting to virtual pitches and continuing to raise as planned.

Post-downturn is also a potential attractive entry point for investors. Not only are valuations cheaper, but companies that have not only survived - but fared well - in a tough climate are appealing targets.

So, while there's a positive air and a general sense that more funds are available for the challenging Series B, this doesn't mean owners can take their foot off the gas. Series B, as the 'moment of truth' round, still deserves careful attention to detail and thorough preparation to avoid failure.

## Setting up for success

Despite the struggles you may face, Series B is an important step on your growth journey. You can demonstrate product-market fit, your customers are growing and you're ready to ramp up business to the next level. And while you're no stranger to the world of raising funds, having already gone through Seed and Series A, pursuing Series B can feel like a second job.

Series B is always going to be a tough raise because you've met certain milestones and you're past the initial stage.

It's where the rubber meets the road. The defining moment. When it starts getting serious. And that's a daunting prospect. And combined with the funding bottleneck caused by extra capital downstream and less exits upstream, even good companies suffer from the Series B crunch.

But you can get through it. Meticulous preparation to develop the perfect pitch while not losing sight of your business will stand you in good stead for moving to Series B and beyond.

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