

A MATT HAYCOX SIGNATURE FRAMEWORK

THE CAPITALTM STACK SYSTEM

The No BollocksTM Framework for Funding Your
Business at Every Stage

BY MATT HAYCOX

Over £250 million raised for his own companies, over £1 billion deployed into UK SMEs, and invested in over 100 global businesses. Borrower and lender. Founder and investor. This is the complete capital playbook.

HOW TO USE THIS FRAMEWORK

Every business needs capital. But not every business needs the same type of capital. And not every stage of growth calls for the same funding strategy. The entrepreneur who raises venture capital for a business that should be bootstrapped is making a mistake just as costly as the entrepreneur who bootstraps a business that needs venture capital. The difference between the two is not ambition or intelligence — it is understanding.

The Capital Stack System™ is a framework for understanding every type of capital available to you, when each type is appropriate, how to access it, and — critically — the hidden costs and trade-offs that nobody tells you about until it is too late. It is called a "stack" because the most successful businesses do not rely on a single source of funding. They layer multiple types of capital on top of each other, each serving a specific purpose, each appropriate for a specific stage of growth.

I have raised over £250 million for my own companies, deployed over £1 billion into UK SMEs and invested in over 100 global businesses. I have been the borrower and the lender. The founder and the investor. The person writing the cheque and the person cashing it. This framework is the distillation of everything I have learned from sitting on every side of the table.

It is structured as five layers, from the bottom of the stack (lowest risk, lowest cost, most control) to the top (highest risk, highest cost, least control). Each layer builds on the one below it. Your job is to understand all five, identify where your business sits today, and build a capital strategy that matches your stage, your ambition, and your risk tolerance.

WHY MOST ENTREPRENEURS GET FUNDING WRONG

The funding landscape is a minefield, and most entrepreneurs walk through it blindfolded. They make one of four critical mistakes:

Mistake 1: They raise too early. They seek external capital before they have proven that the business model works. This means they give away equity at the lowest possible valuation, diluting themselves unnecessarily. Worse, it means they are spending someone else's money to figure out whether the business is viable — which is an expensive way to learn.

Mistake 2: They raise the wrong type. They take equity investment when they should be using debt. They use personal savings when they should be using grants. They take on high-interest debt when they qualify for government-backed loans. Every type of capital has a cost, and using the wrong type means paying more than you need to — in money, in equity, or in control.

Mistake 3: They raise too much. Counterintuitive, but true. Raising more money than you need creates a false sense of security. It encourages overspending, premature hiring, and a lack of discipline. The best-funded startups in history have also produced some of the most spectacular failures, precisely because too much capital masked fundamental problems in the business model.

Mistake 4: They don't understand the terms. They sign documents they do not fully understand, agree to covenants they cannot meet, and accept dilution they did not anticipate. By the time they realise what they have agreed to, it is too late to renegotiate.

The Capital Stack System™ eliminates these mistakes by giving you a complete map of the funding landscape and a clear framework for navigating it.

THE FIVE LAYERS: AN OVERVIEW

The stack is designed to be climbed from the bottom up. Each layer validates the business for the layer above it. A business that has been successfully bootstrapped is more attractive to grant bodies. A business with grant funding is more attractive to lenders. A business with debt capacity is more attractive to angel investors. Skipping layers is possible but risky — and usually expensive.

LAYER	NAME	WHAT IT IS	COST OF CAPITAL	CONTROL RETAINED	BEST FOR
1	Bootstrapping	Self-funding from personal resources and revenue	Zero financial cost (but high opportunity cost)	100%	Validating the idea, proving the model
2	Grants & Government	Non-repayable funding from public sources	Zero financial cost (but high time cost)	100%	R&D, innovation, social impact ventures
3	Debt	Borrowed money that must be repaid with interest	Interest payments (5-25% APR)	100% (if covenants are met)	Scaling a proven model, bridging cash flow gaps
4	Angel & Seed	Equity investment from individuals and small funds	Equity dilution (10-25%)	Shared (board seat, reporting)	First external capital, pre-revenue or early revenue
5	Institutional	Equity investment from VC funds, PE firms, and strategic investors	Significant equity dilution (15-40% +)	Significantly shared (board control, governance)	Rapid scaling, market expansion, pre-exit growth

BOOTSTRAPPING

"Self-funding, revenue-funding, and the art of building with nothing."

What This Layer Is About

Bootstrapping is the foundation of the entire capital stack. It is the process of building a business using only your own resources — personal savings, revenue from early customers, and sheer resourcefulness. It is the hardest way to build a business, and it is also the most valuable, because it forces you to develop the discipline, creativity, and financial rigour that will serve you at every subsequent stage.

Every business should start here. Even if you plan to raise millions in venture capital eventually, the period of bootstrapping is where you prove that the business model works, that customers will pay, and that you can execute. Without this proof, everything else is speculation.

The Economics of Bootstrapping

The financial logic of bootstrapping is simple but powerful: every pound you invest in the business at the earliest stage is worth dramatically more than every pound an investor puts in later, because you are investing at the lowest possible valuation.

SCENARIO	YOUR INVESTMENT	VALUATION AT INVESTMENT	YOUR OWNERSHIP
You invest £50,000 at founding	£50,000	£50,000 (you own 100%)	100%
An angel invests £200,000 at a £1M pre-money valuation	£0	£1,000,000	83.3%
A VC invests £2M at a £8M pre-money valuation	£0	£8,000,000	69.4%

In this scenario, your initial £50,000 investment bought you 100% of a company that is now worth £10M (post-VC money). Your £50,000 is now worth £6.94M. That is a 139x return on your personal investment. If you had not waited and let the angel invest at founding instead, your ownership would be dramatically lower, and your personal return would be a fraction of this. This is why bootstrapping matters. It is not about being cheap. It is about being strategic.

The Bootstrapping Playbook

Rule 1: Revenue is the best capital.

The single best source of funding for any business is revenue from customers. It is non-dilutive (you do not give up equity), non-repayable (you do not owe it back), and self-validating (if customers are paying, the business model works). Every bootstrapped business should be obsessed with generating revenue as quickly as possible.

HOW TO GENERATE REVENUE BEFORE THE PRODUCT IS "READY"

STRATEGY	HOW IT WORKS	EXAMPLE
Pre-sales	Sell the product before it is built. Use the revenue to fund development.	A course creator sells access to a course before recording it, using the sales to validate demand and fund production.
Consulting-first	Deliver the solution manually as a service before building the technology.	A SaaS founder provides the same outcome through manual consulting, then uses the revenue and insights to build the software.
Minimum viable product (MVP)	Build the simplest possible version that delivers the core value, and sell it.	A marketplace founder creates a simple spreadsheet-based matching service before building the platform.
Pilot programmes	Offer a discounted "beta" version to early customers in exchange for feedback and testimonials.	A B2B startup offers 3 months of service at 50% off to 5 pilot customers, using their feedback to refine the product.

Rule 2: Control your burn rate ruthlessly.

Every pound you spend during the bootstrapping phase is a pound you cannot invest in growth. This does not mean being miserly — it means being intentional. Every expense should pass the "revenue test": will this expense directly contribute to generating revenue within the next 90 days? If not, defer it.

THE BOOTSTRAPPER'S EXPENSE FRAMEWORK

EXPENSE CATEGORY	SPEND NOW	DEFER UNTIL REVENUE
Product development (core features only)	✓	
Sales and customer acquisition	✓	
Office space		✓ — work from home or a co-working space
Full-time hires		✓ — use contractors and freelancers
Branding and design		✓ — use templates and DIY tools
Legal (incorporation, basic contracts)	✓	
Legal (complex IP, international structure)		✓

EXPENSE CATEGORY	SPEND NOW	DEFER UNTIL REVENUE
Marketing (paid advertising)		✓ — use organic channels first
Technology infrastructure (enterprise-grade)		✓ — use free tiers and open-source tools

Rule 3: Extend your runway through creative financing.

Bootstrapping does not mean you cannot use any external resources. It means you do not give up equity or take on significant debt. There are several ways to extend your runway without compromising ownership:

STRATEGY	HOW IT WORKS	TYPICAL VALUE
Customer prepayments	Offer a discount for annual payment upfront instead of monthly	1-12 months of cash flow acceleration
Supplier credit	Negotiate 30-60-90 day payment terms with suppliers	Frees up cash for other uses
Bartering	Exchange your services for services you need (e.g., marketing for accounting)	Variable, but can save thousands
Competition prizes	Enter startup competitions that offer cash prizes or in-kind support	£1,000-£100,000+
Accelerator programmes	Join programmes that provide mentorship, resources, and sometimes small amounts of capital	£10,000-£150,000 plus mentorship

When to Stop Bootstrapping

SIGNAL	WHAT IT MEANS
You have proven product-market fit	Customers are paying, retention is strong, and demand exceeds your capacity to serve it
Growth is constrained by capital, not by demand	You have more opportunities than you can fund from revenue
The competitive window is closing	A well-funded competitor is gaining ground, and you need to scale faster to maintain your position
Unit economics are proven and positive	You know that every pound invested in growth will generate a predictable return

BOOTSTRAPPING CHECKLIST

- Have you generated revenue from at least 5 paying customers?
- Do you know your unit economics (CAC, LTV, gross margin)?
- Is your monthly burn rate below £5,000 (or as low as possible)?
- Have you exhausted all non-dilutive funding options (prepayments, credit, bartering)?

- Is growth constrained by capital rather than demand or product quality?
- Can you articulate exactly what additional capital would be used for?

GRANTS & GOVERNMENT

"Free money — if you know where to find it and how to get it."

What This Layer Is About

Grants are the most overlooked layer of the capital stack. Most entrepreneurs either do not know they exist, assume they do not qualify, or dismiss them as too bureaucratic to be worth the effort. All three assumptions are wrong. Government grants, innovation funding, and public-sector programmes represent billions of pounds of non-repayable, non-dilutive capital that is actively looking for businesses to fund. You do not give up equity. You do not pay interest. You do not repay the money. It is, in the most literal sense, free capital.

The catch — and there is always a catch — is that grants are competitive, slow, and heavily bureaucratic. The application process can take months. The reporting requirements can be onerous. And the criteria are often narrow, meaning your business must fit a specific profile to qualify. But for businesses that do qualify, grants can provide tens or hundreds of thousands of pounds of funding that preserves ownership and accelerates growth.

The Grant Landscape

GRANT TYPE	TYPICAL AMOUNT	WHO QUALIFIES	KEY PROGRAMMES
Innovation grants	£25,000-£10M+	Businesses developing new products, services, or processes with a technological or scientific component	Innovate UK Smart Grants, UKRI funding, Horizon Europe
Start-up grants	£500-£25,000	New businesses in the first 1-3 years of trading	Start Up Loans (technically a loan at 6%), New Enterprise Allowance, Prince's Trust
Regional development grants	£5,000-£500,000	Businesses located in or relocating to specific regions, often areas targeted for economic regeneration	Local Enterprise Partnership (LEP) funds, Levelling Up Fund, regional growth hubs
Export grants	£1,000-£50,000	Businesses looking to sell products or services internationally	UK Export Finance, International Trade Advisors, trade mission funding
R&D tax credits	Up to 33% of qualifying R&D expenditure	Any UK company investing in research and development	HMRC R&D Tax Relief (SME scheme and RDEC)

GRANT TYPE	TYPICAL AMOUNT	WHO QUALIFIES	KEY PROGRAMMES
Sector-specific grants	Variable	Businesses in targeted sectors: clean energy, life sciences, advanced manufacturing, creative industries, agritech	Sector-specific Innovate UK competitions, BEIS programmes
Social enterprise grants	£5,000-£250,000	Businesses with a social or environmental mission	Big Lottery Fund, Social Enterprise Investment Fund, UnLtd

How to Win Grants

Grant applications are a skill. The businesses that consistently win grants are not necessarily the best businesses — they are the ones that understand what the grant body is looking for and present their application accordingly.

THE GRANT APPLICATION FRAMEWORK

Step 1: Alignment. Before you write a single word, ensure that your project genuinely aligns with the grant's objectives. Grant bodies have specific goals — creating jobs in a region, advancing a technology, solving a social problem. Your application must demonstrate that funding your business directly advances their goals. If the fit is not genuine, do not apply. You will waste your time and damage your credibility for future applications.

Step 2: The Problem-Solution Narrative. Grant applications follow the same storytelling structure as investor pitches: problem, solution, impact. But with grants, the emphasis is on impact — specifically, the impact on the grant body's stated objectives.

Step 3: Evidence and Credibility. Grant bodies are risk-averse. They are spending public money and must justify every allocation. Your application must demonstrate that you have the team, the track record, and the plan to deliver what you promise. Include CVs, case studies, letters of support from partners or customers, and any third-party validation.

Step 4: Budget and Value for Money. Every grant application requires a detailed budget. The budget must be realistic, justified, and demonstrate value for money. Do not pad the budget — it will be caught and your application will be rejected.

Step 5: Milestones and Reporting. Grant bodies want to see a clear plan with specific milestones and deliverables. Include a Gantt chart or timeline, specific KPIs, and a reporting schedule.

COMMON REASONS GRANT APPLICATIONS FAIL

REASON	HOW TO AVOID IT
Poor alignment with the grant's objectives	Read the guidance documents thoroughly. If in doubt, call the grant body and ask.
Weak evidence of team capability	Include detailed CVs, relevant experience, and third-party endorsements.

REASON	HOW TO AVOID IT
Unrealistic budget	Base every line item on quotes, benchmarks, or historical data.
Vague milestones	Use specific, measurable, time-bound deliverables.
Poor writing quality	Have the application reviewed by someone with grant-writing experience.
Missing the deadline	Start the application at least 6 weeks before the deadline.

R&D Tax Credits: The Hidden Grant

R&D tax credits deserve special attention because they are available to almost every business that is developing something new, and most businesses that qualify do not claim them. The UK government allows businesses to claim back up to 33% of their qualifying R&D expenditure.

WHAT QUALIFIES AS R&D

ACTIVITY	QUALIFIES?	WHY
Developing a new software product	Yes	Overcoming technological uncertainty in design and implementation
Improving an existing manufacturing process	Yes	Seeking to advance capability beyond current industry knowledge
Adapting an off-the-shelf product for a new use	Maybe	Only if the adaptation involves genuine technological uncertainty
Routine software development (e.g., building a standard website)	No	No technological uncertainty — the methods are well-established
Market research	No	Not a scientific or technological activity

Work with a specialist R&D tax credit advisor. They will identify qualifying expenditure, prepare the technical narrative, and submit the claim to HMRC. The advisor typically charges a percentage of the successful claim (15-25%), meaning there is no upfront cost.

GRANTS CHECKLIST

- Have you searched for grants relevant to your sector, stage, and geography?
- Have you identified at least 3 grants you may qualify for?
- Have you read the full guidance documents for each?
- Does your project genuinely align with the grant's objectives?
- Have you prepared a detailed, justified budget?
- Have you gathered evidence of team capability and project credibility?

- Are you claiming R&D tax credits? If not, have you engaged an advisor?
- Have you started the application at least 6 weeks before the deadline?

DEBT

"Borrowed capital — the most misunderstood tool in the stack."

What This Layer Is About

Debt is the most powerful and most misunderstood layer of the capital stack. Most entrepreneurs either fear it irrationally (because they associate all debt with risk) or use it recklessly (because they treat it as free money). Neither approach is correct. Debt, used properly, is the cheapest and most efficient form of growth capital available — because it does not dilute your ownership.

The logic is simple: if you can borrow money at 10% interest and deploy it in a business that generates 30% returns, you are creating 20% of value for every pound borrowed — and you keep 100% of the upside. This is the fundamental principle of leverage, and it is how the most successful businesses in the world are built.

But debt is also unforgiving. Unlike equity investors, lenders do not share in your downside. If the business fails, the debt must still be repaid. Miss a payment, and the consequences are immediate — penalties, covenant breaches, and potentially the loss of assets you pledged as security.

The Debt Landscape

DEBT TYPE	INTEREST RATE	SECURITY REQUIRED	BEST FOR	REPAYMENT STRUCTURE
Bank overdraft	5-15%	Personal guarantee or business assets	Short-term cash flow smoothing	Revolving (pay interest on what you use)
Term loan (bank)	5-12%	Business assets, sometimes personal guarantee	Purchasing equipment, funding specific projects	Fixed monthly payments over 1-5 years
Government-backed loan	6-8%	Usually unsecured or lightly secured	Early-stage businesses that cannot access commercial lending	Fixed monthly payments over 1-5 years
Invoice financing / factoring	10-25% (effective)	The invoices themselves	Businesses with long payment terms from creditworthy customers	Repaid when the customer pays the invoice
Revenue-based financing (RBF)	12-30% (effective)	No security — repayment is a % of revenue	Businesses with predictable, recurring revenue	Variable — a fixed % of monthly revenue until repaid

DEBT TYPE	INTEREST RATE	SECURITY REQUIRED	BEST FOR	REPAYMENT STRUCTURE
Asset finance / leasing	5-15%	The asset being financed	Purchasing vehicles, equipment, or machinery	Fixed monthly payments over the asset's useful life
Merchant cash advance	20-50% (effective)	Future card sales	Retail or hospitality businesses with high card transaction volumes	Automatic deduction from daily card sales
Mezzanine debt	15-25%	Subordinated to senior debt, sometimes with equity warrants	Later-stage businesses that need capital between debt and equity	Interest payments with bullet repayment at maturity
Convertible notes	5-10% + conversion discount	Converts to equity at next funding round	Bridge financing between equity rounds	Converts to equity (no cash repayment)

How to Choose the Right Debt

PURPOSE	BEST DEBT TYPE	WHY
Smoothing cash flow between invoice and payment	Invoice financing or overdraft	Short-term need, repaid from incoming cash
Purchasing a specific asset	Asset finance or term loan	The asset serves as security, reducing cost
Funding growth (marketing, hiring)	Revenue-based financing or term loan	Repayment is tied to the revenue the growth generates
Bridging to the next equity round	Convertible note	Avoids setting a valuation during a transition period
General working capital	Overdraft or term loan	Flexible, multi-purpose

Common Debt Covenants

COVENANT	WHAT IT REQUIRES	WHY LENDERS IMPOSE IT
Debt Service Coverage Ratio (DSCR)	Your operating income must be at least 1.2-1.5x your debt payments	Ensures you can afford the repayments
Loan-to-Value (LTV)	The loan must not exceed a certain % of the asset's value	Protects the lender if they need to seize and sell the asset
Minimum cash balance	You must maintain a minimum amount of cash in the bank	Ensures you have a buffer for unexpected expenses

COVENANT	WHAT IT REQUIRES	WHY LENDERS IMPOSE IT
No additional borrowing	You cannot take on more debt without the lender's permission	Prevents you from over-leveraging the business
Regular reporting	You must provide monthly or quarterly financial statements	Allows the lender to monitor the business's health

The Golden Rules of Debt

RULE 1: NEVER BORROW TO SURVIVE.

Debt should fund growth, not cover losses. If your business is losing money and you borrow to keep the lights on, you are not solving the problem — you are making it worse. Fix the business model first, then borrow to scale it.

RULE 2: ALWAYS KNOW YOUR DEBT SERVICE CAPACITY.

Maximum Monthly Debt Payment = (Monthly Operating Cash Flow) × 0.5. Never commit more than 50% of your operating cash flow to debt service.

RULE 3: READ EVERY WORD OF THE AGREEMENT.

Every word. Every clause. Every schedule. If you do not understand something, ask your lawyer to explain it. If your lawyer cannot explain it in plain English, get a different lawyer.

RULE 4: PERSONAL GUARANTEES ARE A LAST RESORT.

Only agree to a personal guarantee if you have exhausted all other options and you are confident in the business's ability to repay.

RULE 5: BUILD RELATIONSHIPS WITH LENDERS BEFORE YOU NEED THEM.

The worst time to approach a bank is when you desperately need money. The best time is when you do not need it at all.

DEBT CHECKLIST

- What is the specific purpose of the borrowing?
- What type of debt is most appropriate for this purpose?
- What is the effective annual cost (including all fees)?
- Can the business service this debt from current cash flow (within the 50% rule)?
- What covenants are attached, and can you meet them?
- Is a personal guarantee required? If so, what is the maximum exposure?
- What happens if the business cannot repay? What are the consequences?
- Have you had the agreement reviewed by a lawyer?

ANGEL & SEED

"The first external equity — and the most important relationship you will ever form."

What This Layer Is About

Angel and seed investment is the moment your business stops being entirely yours and starts being partly someone else's. This is a profound transition, and it should not be entered into lightly. When you take equity investment, you are not just accepting money — you are accepting a partner who will have opinions about how you run the business, who will expect regular updates and financial transparency, and who will have legal rights that constrain your freedom of action.

Done well, angel and seed investment is transformative. The right investor brings not just capital but expertise, connections, credibility, and accountability. Done poorly, it is a trap — the wrong investor at the wrong valuation on the wrong terms can cripple a business more than any competitor.

Understanding Angel Investors

WHAT ANGELS LOOK FOR

FACTOR	WHAT THEY WANT	HOW TO DEMONSTRATE IT
The Founder	Someone they believe in — passionate, resilient, coachable, and honest	Your personal story, your track record, your energy in the meeting
The Market	A large, growing market with a clear problem that needs solving	Bottom-up market sizing with credible sources
The Traction	Evidence that the business is working — revenue, users, partnerships, waitlists	Specific metrics, not vanity metrics
The Return Potential	A realistic path to a 10-20x return on their investment within 5-7 years	A credible vision, comparable exits, and a clear growth trajectory
The Terms	A fair valuation and standard terms that protect their investment	Alignment with market norms for your stage and sector

WHAT ANGELS BRING BEYOND MONEY

VALUE-ADD	HOW IT HELPS	HOW TO ASSESS IT
Industry expertise	Guidance on strategy, product, and market positioning	Ask about their operating experience in your sector
Network access	Introductions to customers, partners, and future investors	Ask for specific examples of introductions they have made
Credibility	Their name on your cap table signals quality to future investors	Research their reputation and portfolio
Mentorship	Regular coaching and accountability	Ask how often they meet with their portfolio companies
Follow-on capital	Ability to invest in future rounds	Ask about their typical follow-on investment strategy

How Seed Funds Differ from Angels

DIMENSION	ANGEL INVESTOR	SEED FUND
Decision-making	Individual decision, often fast (days to weeks)	Committee decision, slower (weeks to months)
Cheque size	£10,000-£100,000	£100,000-£1,000,000
Due diligence	Light — often based on personal assessment	Formal — financial, legal, and commercial review
Board involvement	Advisory, informal	Often takes a board seat with formal governance
Follow-on	Variable — depends on personal capacity	Usually reserves capital for follow-on rounds
Portfolio size	5-20 investments	20-50+ investments

Structuring the Angel/Seed Round

STRUCTURE	HOW IT WORKS	WHEN TO USE IT
Priced round (equity)	Investors buy shares at a fixed price, based on an agreed valuation	When you have enough traction to justify a valuation
Convertible note	Investors lend money that converts to equity at the next priced round, usually at a discount	When you need capital quickly and do not want to set a valuation yet
SAFE	Similar to a convertible note but without interest or a maturity date	When you want simplicity without the debt characteristics

STRUCTURE	HOW IT WORKS	WHEN TO USE IT
ASA (Advance Subscription Agreement)	The UK equivalent of a SAFE, structured as a forward subscription for shares	The standard convertible instrument for UK companies

TYPICAL SEED VALUATIONS (UK, 2024-2026)

STAGE	TYPICAL PRE-MONEY VALUATION	TYPICAL ROUND SIZE
Pre-revenue, strong team and concept	£500K-£2M	£100K-£500K
Early revenue (£5-15K MRR)	£2M-£5M	£300K-£1M
Growing revenue (£15-50K MRR)	£4M-£10M	£500K-£2M
Strong revenue (£50K+ MRR)	£8M-£20M	£1M-£5M

SEIS and EIS Tax Relief

SCHEME	TAX RELIEF FOR INVESTOR	MAXIMUM INVESTMENT	COMPANY ELIGIBILITY
SEIS	50% income tax relief + CGT exemption on gains + loss relief	£200,000 per investor per year	Under 3 years old, fewer than 25 employees, assets under £350K
EIS	30% income tax relief + CGT deferral + loss relief	£1M per investor per year (£2M for knowledge-intensive companies)	Under 7 years old (or 10 for KICs), fewer than 250 employees, assets under £15M

Ensure your company has advance assurance from HMRC before approaching investors. This confirms that the company qualifies for SEIS/EIS and gives investors confidence that the tax relief will be available.

ANGEL & SEED CHECKLIST

- Have you exhausted bootstrapping and non-dilutive options first?
- Do you have enough traction to justify external investment?
- Have you decided between a priced round and a convertible instrument?
- Do you have a realistic valuation range based on comparables?
- Have you obtained SEIS/EIS advance assurance from HMRC?
- Have you created an option pool of appropriate size (10-15%)?
- Have you identified 30-50 potential angel investors and seed funds?
- Do you understand the terms you are willing to accept and the terms you will reject?
- Have you engaged a lawyer experienced in startup fundraising?

Are you prepared for the time commitment (3-6 months of active fundraising)?

INSTITUTIONAL

"Venture capital, private equity, and the big leagues."

What This Layer Is About

Institutional capital is the top of the stack. It is the largest cheques, the most demanding investors, and the highest stakes. Venture capital firms, private equity funds, and strategic corporate investors operate at a scale and with a level of sophistication that is fundamentally different from angel investors and seed funds.

This layer is not for every business. In fact, it is not for most businesses. Institutional capital is designed for companies that are pursuing rapid, exponential growth in large markets — companies that have the potential to become worth hundreds of millions or billions. If your ambition is to build a profitable, sustainable business doing £5M in revenue, institutional capital is not the right tool.

But if your ambition is to build a market leader — to dominate a category, to scale internationally, to create something that changes an industry — then institutional capital is the fuel that makes it possible.

Venture Capital: How It Actually Works

THE VC ECONOMICS

COMPONENT	HOW IT WORKS
Fund size	Typically £20M-£500M+
Management fee	2% of fund size per year, paid to the VC firm to cover salaries and operating costs
Carried interest ("carry")	20% of profits above a hurdle rate (typically 8%), paid to the VC partners as their performance bonus
Investment period	Years 1-5: actively investing in new companies
Harvest period	Years 5-10: managing existing investments and seeking exits
Target return	3x net return to LPs (i.e., a £100M fund must return £300M)

WHAT INSTITUTIONAL INVESTORS EVALUATE

DIMENSION	WHAT THEY WANT TO SEE	HOW THEY ASSESS IT
Market	A large, growing market (£1B+ TAM) with structural tailwinds	Market research, industry reports, expert calls
Product-market fit	Strong evidence that customers love the product	Net Promoter Score, retention cohorts, organic growth metrics
Unit economics	Proven, positive unit economics with a clear path to improvement at scale	CAC, LTV, gross margin, payback period — all with 12+ months of data
Growth rate	Rapid, consistent growth — typically 2-3x year-over-year	Monthly revenue data, growth rate trends, leading indicators
Team	A world-class team with relevant experience and the ability to scale	Track records, references, organisational design
Moat	A defensible competitive advantage that compounds over time	Network effects, switching costs, proprietary data, brand
Capital efficiency	Evidence that the business can generate significant returns per pound invested	Revenue per employee, burn multiple, magic number

THE BURN MULTIPLE

Burn Multiple = Net Burn / Net New ARR

BURN MULTIPLE	RATING	WHAT IT MEANS
Below 1x	Amazing	You are generating more new ARR than you are burning — highly capital-efficient
1-1.5x	Great	Efficient growth — investors will be very interested
1.5-2x	Good	Acceptable for early-stage companies with strong growth rates
2-3x	Mediocre	Investors will question your efficiency
Above 3x	Concerning	You are burning too much relative to growth — fix this before raising

The Institutional Fundraising Process

STAGE	DURATION	WHAT HAPPENS
1. Preparation	4-8 weeks	Build the data room, refine the pitch deck, prepare the financial model, identify target funds
2. Outreach	2-4 weeks	Secure introductions, send materials, schedule meetings
3. First meetings	2-4 weeks	30-60 minute meetings with partners at target funds

STAGE	DURATION	WHAT HAPPENS
4. Partner meetings	2-4 weeks	Deeper sessions with the full partnership, often including product demos and customer references
5. Due diligence	4-8 weeks	Financial, legal, commercial, and technical due diligence
6. Term sheet	1-2 weeks	Negotiation of key terms
7. Legal documentation	4-6 weeks	Drafting and negotiation of final legal agreements
8. Closing	1-2 weeks	Signing, funding, and board formation

PROTECTIVE PROVISIONS

ACTION	WHY INVESTORS WANT APPROVAL RIGHTS
Issuing new shares	Prevents dilution without their knowledge
Taking on significant debt	Prevents over-leveraging the business
Selling the company	Ensures they have a say in exit decisions
Changing the company's business	Prevents a pivot that undermines their investment thesis
Hiring/firing the CEO	Ensures leadership stability
Declaring dividends	Prevents cash being extracted before they achieve a return
Changing the articles of association	Prevents changes to their rights

When to Pursue Institutional Capital

SIGNAL	PURSUE INSTITUTIONAL CAPITAL	DO NOT PURSUE
Market size	£1B+ addressable market	Niche market with limited scale potential
Growth rate	2-3x year-over-year or faster	Steady, linear growth
Unit economics	Proven and positive, with clear path to improvement	Unproven or negative with no clear fix
Competitive dynamics	Winner-take-most market where speed matters	Fragmented market where speed is less important
Founder ambition	Build a category-defining company	Build a profitable, sustainable lifestyle business
Capital requirements	Significant capital needed to capture the opportunity	Growth can be funded from revenue

INSTITUTIONAL CHECKLIST

- Is your market large enough (£1B+ TAM) to justify institutional investment?
- Are you growing at 2x+ year-over-year?
- Are your unit economics proven and positive?
- Do you have 12+ months of financial data to share?
- Is your data room complete, organised, and current?
- Have you identified 20-30 target funds that invest in your stage and sector?
- Do you have warm introductions to at least 10 of them?
- Have you engaged experienced legal counsel for the negotiation?
- Do you understand the implications of every term you are being asked to accept?
- Are you prepared for the governance, reporting, and accountability that comes with institutional capital?

PUTTING IT ALL TOGETHER: BUILDING YOUR CAPITAL STACK

The most successful businesses do not rely on a single source of capital. They build a stack — layering different types of funding on top of each other, each serving a specific purpose at a specific stage.

The Ideal Capital Stack Progression

STAGE	BUSINESS MILESTONE	CAPITAL LAYER	PURPOSE
Idea / Pre-revenue	Validating the concept	Bootstrapping	Prove the idea works without giving anything away
First customers	£1-10K MRR	Bootstrapping + Grants	Extend runway with non-dilutive capital
Product-market fit	£10-50K MRR	Angel / Seed	First equity capital to accelerate growth
Scaling	£50-200K MRR	Seed / Series A + Debt	Equity for growth investment, debt for working capital
Growth	£200K+ MRR	Institutional (Series A/B)	Significant capital for market expansion and team scaling
Maturity	Profitable or near-profitable	Debt + Revenue-based financing	Non-dilutive capital for continued growth
Pre-exit	Preparing for IPO or acquisition	Mezzanine / Growth equity	Final capital to maximise valuation before exit

THE GOLDEN RULE

Always use the cheapest appropriate capital first. Bootstrapping before grants. Grants before debt. Debt before equity. Equity from angels before equity from institutions. Every layer of the stack has a cost, and using the most expensive capital when cheaper alternatives are available is a strategic error.

THE CAPITAL STACK MANIFESTO

1. Capital is a tool, not a trophy. Raising money is not an achievement. Building a profitable, sustainable business is an achievement. Capital is the tool that helps you get there — nothing more.

2. The cheapest capital is always the best capital. Revenue is cheaper than grants. Grants are cheaper than debt. Debt is cheaper than equity. Always exhaust the cheaper options before moving to the more expensive ones.

3. Every pound of equity you give away is a pound you never get back. Dilution is permanent. Be strategic about when, how much, and to whom you sell equity. Every percentage point matters.

4. The right investor is worth more than the right valuation. An investor who brings expertise, connections, and genuine support at a slightly lower valuation is almost always a better deal than a passive investor at a higher valuation.

5. Understand every term before you sign. If you do not understand a clause, do not sign it. If your lawyer cannot explain it in plain English, get a different lawyer.

6. Build relationships before you need capital. The worst time to meet an investor is when you are desperate for money. The best time is when you do not need it. Start building relationships 12-18 months before you plan to raise.

7. Cash flow is the ultimate capital. The business that generates its own cash flow is the business that has the most options, the most leverage, and the most freedom. Everything else is a bridge to get there.



WHAT COMES NEXT

This framework has given you the complete map of the capital landscape. But navigating that landscape — choosing the right capital at the right time, negotiating the right terms, and building the relationships that make it all possible — requires guidance from someone who has been on every side of the table.

The Capital Catalyst course walks you through the entire Capital Stack System with video tutorials, downloadable templates, live case studies, and direct access to me and my team. Whether you are bootstrapping your first venture or preparing for a Series A, Capital Catalyst gives you the tools and the confidence to fund your business on your terms.

This Framework Is the Map. Capital Catalyst Is the Compass.

Learn more at

matthaycox.com

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