UNIVERSITY OF CAMBRIDGE
INSTITUTE FOR SUSTAINABILITY LEADERSHIP

CANOPY

FOUNDERS TO FUNDERS

Key trends and reflections of fundraising for circular disruptors & innovators

This project is part funded by the European Regional Development Scheme

European Union
European Regional Development Fund

HM Government

The University of Cambridge Institute for Sustainability Leadership partners with business and governments to develop leadership and solutions for a sustainable economy. We aim to achieve net zero, protect and restore nature, and build inclusive and resilient societies. For over three decades we have built the leadership capacity and capabilities of individuals and organisations, and created industry-leading collaborations, to catalyse change and accelerate the path to a sustainable economy. Our interdisciplinary research engagement builds the evidence base for practical action.

Acknowledgements

CISL Project Lead: Jie Zhou, Programme Manager

With special thanks to the individuals who participated in interviews to share their business insight for this project: Amy Peace, Dr Michael Anstey, Arjune Shukla, Karishma Gupta, Sabinna Rachimova, Dr Monica Saveedra, Laura Harnett, Kaushal Shah, Jamie Goldring.

Thanks also to Liz Naven (Fugu PR Ltd) and Anne Sorkamo (Alex Chilton Design) for editorial and design support.

CONTENTS

PREFACE

In an era of risk and instability, impact-driven businesses, with their adaptability and disruptive potential, are well-positioned to bring about change.

They are also at an advantage when it comes to raising capital: over the past four years, more than £1.5 billion has been invested in the UK's circular economy businesses,[1] and this trend is expected to continue.

There is a really powerful competitive advantage to doing things in a more circular fashion: it reduces exposure to supply chain disruptions and volatility of resource prices, it allows businesses to better respond to changing consumer demands, and it creates sustainable economic growth.

Yet the fundraising process itself can often be complex and overwhelming. Most founders begin their businesses with their own money and that of friends and family. Beyond this, there are many funding options to grow and scale: customer revenue, debt financing, bank loans, grants, crowdfunding, angel investment and venture capital investment.

There's no right way; it will depend upon the nature of your startup, what stage you're at, how much money you require, your growth plans and goals, and how much control you want to keep.

There are different challenges depending on the sector you're in. For example, deep tech ventures which aim to develop truly innovative technologies face particular difficulties in attracting early-stage capital. Such firms are essential to building new industries, but research and development costs burn through cash, and revenue is likely to depend on a small number of clients or pilot schemes.

What's more, for female founders, funding remains the number one barrier faced at every stage of their business journey.[2] Currently, only 13.3 per cent of VC firms and business angel groups have women in investment decision-making roles, despite growing evidence that diverse teams are more innovative and generate higher revenues.

1 https://www.scotsman.com/business/2022-expected-to-be-record-year-for-investment-in-circular-economy-says-bdo-3781123

2 https://www.natwestgroup.com/news/2022/02/nwg-rose-review-reports-third-year-of-progress.html

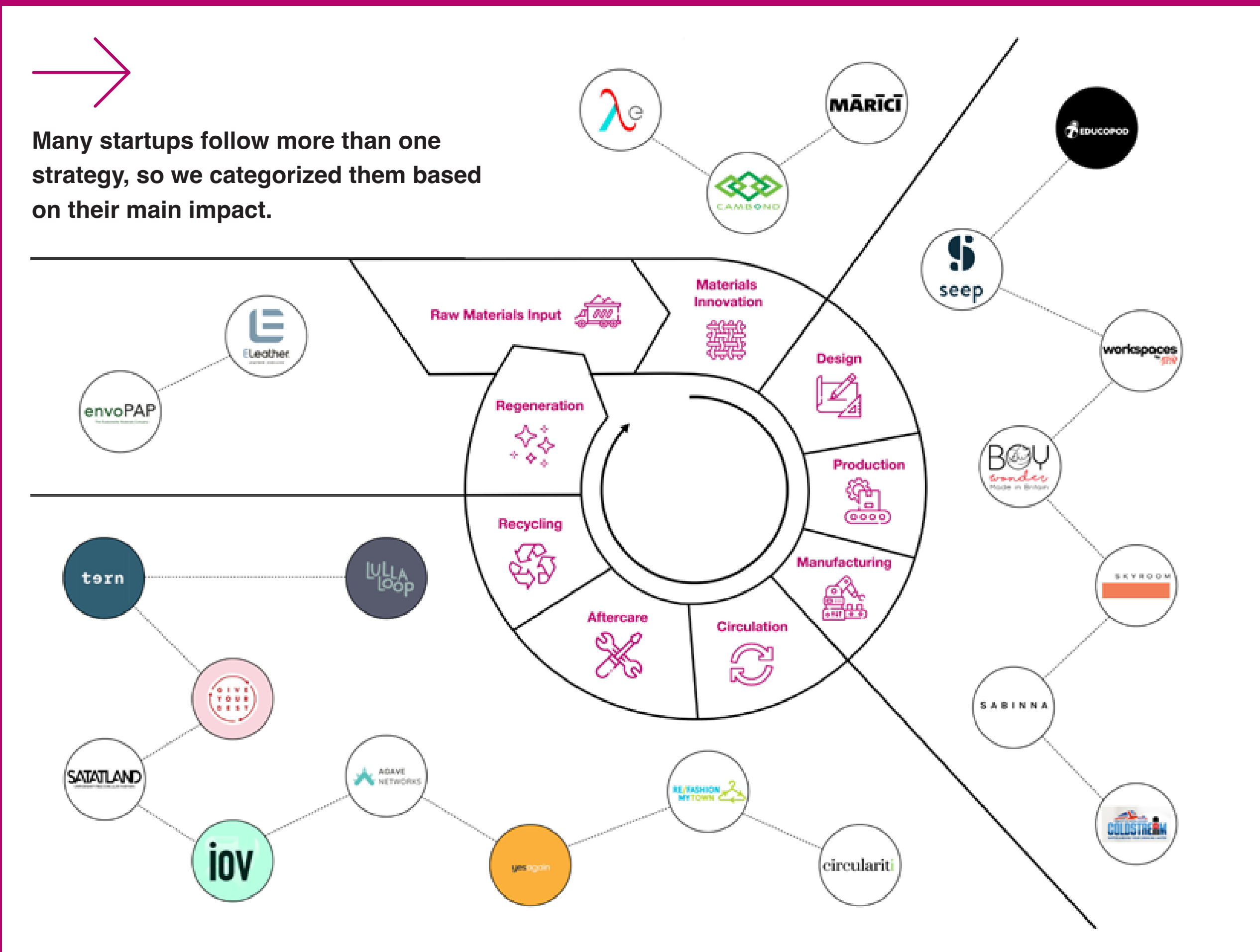
This is why we've put together this fundraising guide for sustainable startup founders. You'll hear from investors and funding experts as to what they look for in a startup, along with the experience and advice of six founders from our **Circular Disruptors Accelerator**, at different stages of funding and investment.

Wherever you're at in your journey, we hope this guide will better equip you to secure and sustain funding and investment – or to choose an alternative that's right for your business.

ABOUT THE CIRCULAR DISRUPTORS ACCELERATOR

Circular economy startups too are demonstrating their ability to tackle some of the world's biggest challenges such as climate change and biodiversity loss, through scalable business models and innovation. However, entrepreneurs who have the disruptive solutions may lack the capital, resources or enabling networks to replicate and scale up solutions.

Part of **Circular Economy Week 2022**, our Accelerator brought together a select cohort of early to growth stage startups seeking to scale their circular solutions. Delivered by cross-industry leaders and circular experts the programme aims to strengthen your circular value proposition and support business development.



THE FUNDER'S PERSPECTIVE

"The biggest mistake I see founders make is not clearly linking their financial plan to value inflection points."

- Dr Michael Anstey, Partner, Cambridge Innovation Capital (CIC)

THE FUNDER'S PERSPECTIVE

Amy Peace is the Innovation Lead for Circular Economy at Innovate UK, the UK's national innovation agency. Innovate UK's mission is to help businesses grow through the development and commercialisation of new products, processes, and services. Involving diverse talents, companies, investors and stakeholders, the agency helps companies access relevant expertise and equipment, builds partnerships to help them go faster, and funds innovation work through grants or loans.

HOW CAN FOUNDERS FIND GRANT OPPORTUNITIES?

"For some sectors, like electric vehicles or sustainable packaging, there are very obvious grants and funding programmes available. Other founders will find they don't neatly fit into one category or product group. That's when you need to be more tactical in finding out the information you need. We always advise people to sign up to **Innovate UK KTN's newsletter**, which regularly shares information not onvly about Innovate's own grants, but also other funding options. There are lots of opportunities in the circular economy space coming directly from the government, because it's such a big target for them at the moment."

WHAT ARE YOUR TOP TIPS FOR WRITING A GRANT APPLICATION?

"When it comes to writing grant applications, assume that the assessor might not have a lot of experience in your specific area. Give them the narrative of what you're trying to do, rather than getting hung up on the nuances. This will sound obvious, but always write what the questions are asking you to answer. Yes, we have human assessors. But if you don't put the right thing in the right box, there isn't flex in the system to account for that. Never put 'I've answered this in the previous question', you won't get any marks. It's also always better to write something, even if you're unsure, rather than simply say 'I don't know'."

DO YOU NEED A GRANT WRITER?

"It can be tempting to hire a grant writer but I'd recommend giving it a go yourself first. It's likely you're going to be better at telling the story of what you're doing than someone who's not as close to the business – and by the time you've explained it to them and edited their work, you may as well have written it yourself. What's more, the process of writing really helps to shape: 'what am I doing here?' and 'what is the point of this project?'. Plus you need to know and understand what you've put in your application, because we'll hold you to delivering it. **Innovate KTN's Good Application Guide** is a great resource to get started."

WHAT IS THE MOST COMMON MISTAKE YOU SEE IN GRANT APPLICATIONS?

"It can be tempting to be overly positive. In the programmes I specifically work on in the circular economy area, we're looking at what the trade offs might be: does a founder understand that by doing this, they might be causing an issue elsewhere? Public funding gives you the chance to think more broadly about a topic, so use that to your advantage. Go beyond commercial focus and bring in other people's opinions, thoughts and research."

Dr Michael Anstey is a Partner at Cambridge Innovation Capital (CIC), where he specialises in life sciences investments. CIC backs world-leading life sciences and technology companies with an affiliation to Cambridge, Europe's leading capital for innovation. The venture capital firm currently manages over £500 million and has invested in 30+ companies.

CAMBRIDGE INNOVATION CAPITAL

HOW DO YOU SELECT BUSINESSES TO FUND?

For all businesses, no matter the sector or focus, we're looking for what we call a 'glimmer of greatness'. They don't need to be perfect right now, or even in the near term, but we are looking for those that really have the ability to change the world. We are also strong believers in the importance of the team. It's not necessarily about having a super experienced team who have done it before, but rather a team who we think can learn the skills in the necessary time and have the characteristics that'll help them fulfil the plans of their business. We are futurists: we just need to be able to see a path forward, then we'll get hands on and work with these founders and their teams to achieve their goals.

ASIDE FROM THE VISION AND THE TEAM, WHAT ELSE ARE YOUR INVESTMENT DECISIONS DRIVEN BY?

Getting down to the nitty gritty, it's about having a technology with a sustainable competitive advantage. Something that can be protected, that can be scaled and, if it works, is able to fight off competitors. I know this word is overused, but we're driven by impact: societal, environmental and financial. And at the end of the day, for institutional investors like CIC, this is about making money. It's something founders often forget: we invest in them, because we have to make money for our investors."

WHAT ARE THE MOST COMMON MISTAKES FOUNDERS MAKE IN THE FUNDRAISING PROCESS?

The biggest mistake I see founders make is not clearly linking their financial plan to value inflection points. Take time to understand where your company and technology is currently at, then work out when your major value inflection points will be and what you'll need to achieve them. Ask: what is the least amount of money I need to achieve the maximum value inflection point in my business? Because when you achieve those goals, the value of the company goes up and you can raise more money at a higher valuation. That's how you make money.

WHAT MAKES A GREAT FOUNDER-INVESTOR RELATIONSHIP?

This is a heavily relationship-driven industry. Get to know the investors that you want to come into your company well before you have an ask for them. It's also about trust. Because inevitably, there will be challenges and tough times: the world will end several times on your business journey. There's nothing I've seen that we haven't been able to work through as a team, compared to when things are hidden or not surfaced early. As long as we're open and communicating, it always works out.

THE FUNDER'S PERSPECTIVE

Arjune Shukla has spent his entire career within sustainability investing, with close to ten years of experience across venture capital, growth equity and later stage private equity investment roles – all exclusively investing for environmental impact. He is on the investment team at Circularity Capital, a specialist private equity firm founded to deliver value for investors from the opportunities created by the circular economy.

HOW DO YOU ASSESS A VENTURE'S SUITABILITY FOR INVESTMENT?

Circularity Capital invests in companies in the growth stage, with initial cheques of around £5-15 million, and capacity to follow-on. This means the company is post-product market fit, with repeat business and a known audience. We help businesses to scale with customers that are already proven. The growth stage mandate means that most of the businesses we look at have more than £1 million in revenue. Beyond that, we look for really innovative products with a sustainable competitive advantage in the long term.

IS THERE ANYTHING FOUNDERS SHOULD BE AWARE OF BEFORE GETTING IN TOUCH WITH YOU?

We only do lead cheques, which means we're always willing to anchor a round with what is usually the largest size investment. We're sticking our necks on the line for every single company we invest in – that's important to understand. Other funds expect a certain amount of failure by investing thinly across a large portfolio; because we only take lead positions, we're more incentivised to ensure each of our investments succeeds to some degree; that lead-cheque-model translates into more support, network-introductions and attentiveness for management teams after investment – which we think is a great thing for a partnership.

HOW DO YOU MAKE THE FINAL DECISION ON WHO TO INVEST IN?

We see thousands of companies each year, but only invest in a few. Our decision-making process is very collaborative; we have an Investment Committee who must come to a consensus decision. The best thing a founder can do is have a dialogue already established with an investor and send them regular updates. That way, I'm already on the journey with you: I understand what you've done well but also what you've struggled with, and why. It makes the analysis phase easier and helps me to present the investment opportunity in the best light to the rest of my team.

WHAT'S YOUR BEST ADVICE FOR TRANSITIONING FROM SEED TO SERIES A FUNDING?

Going from seed funding to series A is difficult. We look for a really good understanding of why someone is buying the product or service, and how to turn that sales process into a machine. I'm always impressed by founders who can see both the macro and the micro. When they can say, 'here's why our product will work in the broader market', or 'here's our business trajectory and why we'll succeed', but can also explain the finer details, like the metrics being tracked, individual micro project plans and exactly how they plan to use invested capital. Surprisingly, those two skills don't get matched up regularly, so when we see someone who's got both of those qualities, it's exceptionally powerful."

THE FOUNDER'S PERSPECTIVE

"Keep going, even if funders underestimate you and your business"

– Karishma Gupta, Satatland

Karishma Gupta founded Satatland in January 2021, with a vision to create a zero-compromise fashion brand: circular, restorative, sustainable, beautiful and ownership-free. So far, the business has been completely bootstrapped by Karishma alone. Now, she is looking to get her startup off the ground with its first pre-seed funding round.

As a first-time, female solo founder from an ethnic minority background, the fundraising process is incredibly challenging. I fight each day to keep my motivation high and to preserve my mental health.

Some funders have not taken me seriously; they've told me I should start in India or that I don't have the right accent for a consumer business. Our financial model, strategy and impact analysis has been externally reviewed; the numbers are record-breaking.

Yet investors have said to me the numbers don't make sense… often I know they haven't even opened the reports.

What keeps me going is that I know sustainable fashion can be done really well. I can see an answer to the pollution, the waste, the exploitation. To me there is nothing more important that needs to be solved, and that's my driver. If you know your purpose and you're consistent, you will see success.

Finally, the startup community has been far more helpful than I ever imagined. Talk to as many founders as you can: those that are ten steps ahead from you can help inform your next move, those that are 30, 40 or 100 steps ahead can act as inspiration for your future.

Raising funds between

£0-200K

SATATLAND
CIRCULAR FASHION

Sabinna is a female-led conscious lifestyle brand founded by designer, consultant and public speaker Sabinna Rachimova. Sabinna believes that truly circular business models should explore sustainability beyond the product, taking the consumer on a journey to understand what conscious responsible consumption is. Her business has no formal investors by choice; instead it is mostly self-funded and bootstrapped, with the addition of grants and other non-financial support along the way.

Do things your own way (and remember you don't always need formal investment!)

Raising funds between

£0-200K

At the moment, I'm not looking for any formal investment. SABINNA is going through a phase of pivot and degrowth. We plan to offer less physical products, instead expanding our consultancy and educational content sites to diversify our revenue streams. My strategy to futureproof the business is to collaborate with others: mostly through consultancy work.

SABINNA

For a long time, I didn't realise you could monetise collaborative work, instead I thought it was only about support and having a positive impact. The sustainability crisis has shown that we need SMEs leading the change, being fierce in testing new ideas, and creating case studies that could be taken and scaled by large corporations.

Currently, we're working on a case study in connection with the European Green Deal with an educational company and a PR consultancy. If lots of us come together, the possibilities are higher.

Don't be discouraged because you hear from everyone that you have to go for formal investment. Stick to your strategy and vision: if you don't think it's the right way for you, don't do it. Bootstrap, find informal types of investment, enter awards… don't let other people sweet talk you into the benefits of their money.

Personally, I'm in this for the long run. I want to have impact and pivot as much as I can, so formal investment would actually be an obstacle to my strategy.

Dr Monica Saveedra is Chief Technical Officer of Lambda Energy, an early stage R&D startup that develops spectral converters for increasing the crop yields of plants in greenhouses. Lambda's team incorporates experts in Nanophysics and Photochemistry, and is supported by academic partners at Cambridge and Bath Universities. Having received a combined £750K from Angel and VC funding, at a valuation of around £4M, the team's next goal is to secure further investment for team expansion and capital equipment purchases.

Bring investors into your world. Focus on investors you resonate with.

Raising funds between

£200-750K

The entire process has been extremely challenging. In the beginning, I often felt I was trying to do too much in too little time, with next to no help, all while keeping the business afloat. We had to effectively ask for money without much in the way of results, 'selling the dream'. The operational costs of running a lab are high: we're always at risk of running out of money. It's a continuous cycle of getting more money to progress our technology, to then seek further investment, to make further technological progress.

There was a particularly hard moment where we thought the company was going to end within the month. So we organised a lab tour for our existing investors. They visited us in person, listened to a talk from our academic partners and got to see us in action, surrounded by our technology and all that we're working on. Our product literally glows, it is quite impressive when you see it live. Everyone got such a buzz from the experience, it helped them to connect with our work and resulted in the investment we needed to keep going.

No matter how manys 'nos' you receive from investors, keep going, because there's always a potential positive worth exploring. If you can, ask why it's a no. That information will help you work to become more investable as a business.

Also, don't waste time pitching to generalist investors if you're at a technology readiness level (TRL) <4. For a business like ours, which is early stage deep-tech, unless that investor is really passionate about what you're working on and has been trained on the subject, the chances of them investing are low to non-existent. Focus on investors you resonate with.

THE FOUNDER'S PERSPECTIVE

SEEP was born out of founder Laura Harnett's frustration with the household products available in supermarkets. An acronym for Sustainable Everyday Essential Products, SEEP offers 100% plastic free cleaning products, made from sustainable and renewable materials, either compostable or fully biodegradable. The startup is raising its first seed round, after being largely bootstrapped since its launch in October 2020, along with grant funding and support from friends and family.

> *Be diligent, prepared and plan ahead.*

Raising funds between

£200-750K

It's so hard for female founders. It's been found that for every £1 of VC investment in the UK, all-female founder teams get less than 1p. There is support, but often it's not very practical.

Prior to SEEP, I worked for large retailers like Selfridges and alongside that was an angel investor backing female-led tech businesses. I've got a very good network, and yet it's still been incredibly difficult – and I'm one of the luckier ones.

There are always certain things an investor will want to see. Have your data room ready to go: include your financials, customer insights, sales plans, contracts. You need to be prepared so as not to lose momentum. Then focus on securing a lead investor to create FOMO.

Do your due diligence, because the more well known and trusted they are, the more likely others will come on board. It also helps to have a really rigorous comms timetable so that everything goes out at the same time.

Fundraising for equity is really tough, and what comes with that money is an incredible expectation of what you're going to do. It sounds glamorous and can be perceived as the mark of a good business, but actually it's just one route. I recently met a founder whose business is entirely grant funded – she's raised £1million in grants!

There's also revenue-based financing, where you'll be lent a percentage of your cash flow. So find the right option for you – and remember, you'll always need more money than you think. Don't be too cautious and plan further ahead. Think 24 months, rather than 12.

seep

THE FOUNDER'S PERSPECTIVE

EnvoPAP is a sustainable materials company that uses agricultural waste from India to create innovative, sustainable paper and packaging. Founder and CEO Kaushal Shah comes from a family of paper producers and knows the packaging world inside out. Appalled by the problems of waste in his home country, Kaushal set up envoPAP with a mission to revolutionise packaging and help solve the environmental crisis. Backed by £1.1million in venture funding, envoPAP is currently on a Pre-Series A funding round to expand its market share and add a new line of products.

"Create meaningful connections with everyone you encounter.

Raising funds of

£1 MILLION+

I started envoPAP back in 2015. Growing up in a family of entrepreneurs, I knew how to run a business, but I had never raised funds before and had no understanding of how this process might work in the UK. I was lucky to have guidance from mentors and business owners I'd met through Founders Factory. I asked a lot of questions and this curiosity led to me quickly growing in knowledge and confidence.

For me, it's all about people. I'm building a family and I want likeminded people with a similar vision to come on board, which includes investors. At envoPAP, we are very specific about who we approach. Once we've identified appropriate funds, we'll send personal emails or reach out on LinkedIn. We also send products so people can get a sense of what we're offering. These consistent, meaningful engagements mean we're really prepared for our series A round. There are over 25 funds who have been following us for at least a year. They understand our products, they've invested in some companies who are actually our customers.

We meet with our angel investors once a year to pitch ideas and get their feedback. I also make a point of connecting with all of our existing shareholders each year. These conversations give me a new perspective on running the business and often open a lot of new doors. It allows us to think bigger: one conversation led to a new partnership in Thailand, helping expand our business.

My next plan is to create a newsletter for everyone we've ever met with, so we keep those conversations going – you never know where they might lead.

envoPAP
The Sustainable Materials Company
Certified B Corporation

Jamie Goldring founded Circulariti in 2020 to dynamically digitise and scale, circular fashion transparency. From materials to products, farm to factory, and fibre to consumer, Circulariti connects entire value chains in closed and open loops. Unifying social, circular and sustainability-related data, it's the only platform supporting the entire seed-to-second use, product lifecycle experience. Originally grant funded, Jamie's team deliberately bootstrapped and built the platform in 2021/22. Post-traction, they're preparing for a Series A (2023) funding round, of £10-15 million.

Welcome adversity, it's the evolution that will move your business forward.

Raising funds of

£1 MILLION+

Running a startup can seem like a daily validation of your own capability, talent and vision. That's because it is. Unless you prepare your resilience to match your creativity, your agility to be as adaptable as your vision and your capacity as limitless as your dream, I'd recommend working for a startup, before founding one. But, if you are prepared to see out months or even years of bootstrapping, pivoting and evolving in often hostile conditions, then it's worth every inconvenience.

circulariti

To keep the business going, we initially assembled a world-class team of board advisors, from Accenture to Ted Baker and Marks & Spencer. Their operating experience continues to be invaluable; they'll always advise us when we're wrong or could do something differently. Almost all of these ten individuals sit on Circulariti's cap table, with investment amounts of between £10K-£100K, which gave us the capital to reach our first milestones. It also gives us credibility with future investors, who can see we're backed by some of the biggest names in the business.

From day one, building a dream without a team, timed on the eve of a pandemic whilst bootstrapping every aspect of existence, from your family's personal to your own professional life, really isn't for everyone. It requires the capacity to learn how to control your emotions. I've learned to be more pragmatic and to avoid being deliberately negative if things don't go my way. It's been the most challenging undertaking of my life, but I wouldn't trade a moment of it.

Be brave. Embrace unforeseen challenges, be willing to take people's advice and don't be too precious about your own ideas. There is no effort without error, nor evolution without compromise. Enduring the depths of the deepest validation valleys, make the greatest standing – to thrive upon the highest mountains, of your dreams.

ABOUT CANOPY

Canopy is a new Cambridge community for entrepreneurs, startups, innovators and small-medium businesses pioneering sustainability innovation. An inspiring space to work, network and innovate, where ideas are built and radical collaboration happens.

Our members have access to a dynamic range of events and mentoring opportunities that support business development, impact potential and personal growth. Pitch and demo days offer the opportunity to put ideas directly in front of CISL's network of corporate and finance partners and our community includes a global network of 27,000 sustainability leaders.

If you'd like to become part of our home for the extraordinary, a place where your sustainable business can thrive and grow, register your interest now:

www.cisl.cam.ac.uk/work-with-us/
canopy-incubator-and-accelerator

Disclaimer
The opinions expressed here are those of the authors and do not represent an official position of CISL or The University of Cambridge.