



HARPER  
JAMES  
SOLICITORS

# **EMERGING FROM COVID: START-UP INVESTMENT REPORT**

A MODERN LAW FIRM PURPOSE BUILT TO SUPPORT AMBITIOUS  
BUSINESSES FROM START-UP TO SCALE-UP

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# INTRODUCTION

We have created Emerging from Covid: Start-up Investment Report to help survey the investment landscape for new UK businesses, as they recover from the first wave of coronavirus.

In this report, we talk to leading British investor Rob Kniaz, founding partner of Hoxton Ventures, who tells us of his confidence in homegrown start-ups and the 'fantastic founders' of the UK start-up scene.

As a law firm purpose built to support start-ups, Harper James Solicitors has helped dozens of ambitious companies complete funding rounds during this period. This funding will not only safeguard them through the pandemic: it will give them a base to build on for the future.

We talk to five thriving start-ups who we have supported over the past quarter about their experiences of raising finance during this global pandemic. The insights they share will come in helpful to start-ups who are looking for investment to scale up and realise their growth ambitions during these tougher times.

Our team has helped:

- ▶ Secure funding for a fast-growing recruitment platform that will drive it towards its target of one million clients
- ▶ Deliver investment for a healthcare start-up who now plan to take their pioneering technology into the US market
- ▶ Raise funds for an AI firm which will help drive transformational research projects

Each of these deals comes during a period that is the most challenging we have ever witnessed. Guiding our clients through it has been at the front and centre of the work provided by our team of solicitors and support staff. It has been truly inspiring to see how so many of our clients, working in various sectors, have been able to diversify and pivot to come through this once in a generation challenge. Britain's start-up scene is still very much alive and kicking and our investment report serves as testimony to the vital work many of them have been doing.

Toby Harper  
Founder and CEO, Harper James Solicitors  
August 2020

**Recruitment platform SonicJobs has recently raised pre-series A financing from UFI Ventures, Velocity Capital, the Future Fund and existing angels. This means that the London-based start-up, who specialise in finding jobs for candidates in the hospitality sector, has raised a total of £2.5m since launching three years ago.**

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### **What are the positives for those seeking to secure funding in the current climate?**

First of all, it is important to remember that despite the pandemic, investors who understand early-stage investing continue to be active. They know that the best start-ups take advantage of a crisis, and that the best returns can be made investing during a crisis. The tourists are gone. The ones who remain are the ones you want on your team.

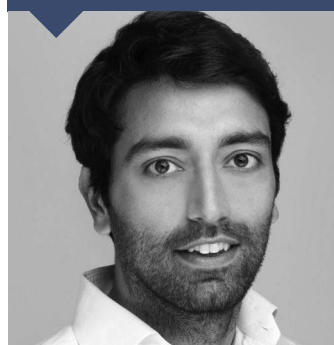
### **What advice would you give to other entrepreneurs aiming to secure funding?**

My advice would be that every crisis is an opportunity. Use it to create a better business in the long-term. Adding building blocks to create a better business will increase the chances of you securing funding, crisis or not. I would also encourage start-ups to be resilient and be flexible. The Future Fund was an opportunity we hadn't envisaged. It has worked out really well for us, acting as a catalyst for new investors and existing investors to take part in our round.

### **What are the biggest challenges the next 12 months will present?**

The pandemic has thrown up new challenges for start-ups wanting to secure investment. Investors want to know how resilient you are as founders and as a business. The world has changed. As start-up founders, we need to be quicker to adapt than the incumbents and we need to demonstrate how we are going to succeed in the new world. The biggest challenge over the next 12 months, for me, will be the

**Mikhil Raja**



CEO, SonicJobs

**'The best start ups take advantage of a crisis.'**

uncertainty this virus creates. Uncertainty slows decision-making. Several potential clients that we were about to bring on delayed due to Covid. I believe that things will open up again, but it will likely be gradual. We just have to be patient and be ready once the economy accelerates again, which it will.

### **How did the support from Harper James assist you?**

Many start-ups tend to avoid legal services because they can be put off by the cost. It can be a large payment and a sizeable chunk of a start-up's cashflow. What attracted me to Harper James was the pricing model they have in place. It means we get access to top professionals at prices we can afford. In our most recent funding round, the support we received was vital. Towards the end there was some quite complex advice we needed. But Harper James was always on hand to navigate us through the process. Having Harper James as our provider is almost like having your own in-house counsel. I'd recommend them to others.

## Healthtech start-up Axis Spine Technologies secured £830,000 in funding from Mercia Asset Management and two other investors. The company develops spinal implant technology and its next move will be into the American market.

### What were the key successes to securing your investment?

My advice to start-ups looking to secure investment in the current climate is: it's time to go back to basics. Focus on the genuine value proposition of your product or service and ensure you convey what it is and why it's special. Good businesses will always get funding. Maybe an alternate version of the plan needs to be developed alongside plan A which delivers a lower-spend model to prove the concept in a smaller way, ahead of a bigger raise once conditions improve. If that plan requires less funding, that's less dilution during the high-risk raise and once things settle, can go and raise more with more data and a higher valuation.

Jon Arcos



Founder, Axis Spine Technologies

**'Ask yourself: what have we learned from the first wave that will better prepare the business for a repeat event?'**

### What are the most important lessons those seeking funding can learn from the challenges of the pandemic?

It's highly likely we will get a second and maybe even a third wave. We must ask ourselves: what have we learned from the first wave that will better prepare the business for a repeat event? Can you adapt your production, supply or sales channel for this? Does your business allow you to speed up production or sales in one region and dial it down in another, as lockdowns affect demand and supply? The first waves didn't hit everyone with the same severity at the same time. It's unlikely a second or third wave will too. What flexibility is there for the business?

At Axis, we planned on producing all of our goods in the US to supply the US. Pre-Covid-19, this reduced our risks and volatility. As a manufacturer, we have picked apart the supply chain with greater detail than ever before to understand where the raw materials come from and

when they are ordered by the machine shop. In our current orders we are making sure everything is on site before placing the POs.

**What are the biggest challenges that lie ahead for start-up firms seeking to secure investment?**

The biggest challenge moving forward over the next 12 months for my firm is around a second wave of Covid-19 hitting the US. We supply spinal fusion devices which are used in elective surgeries. The first lockdown resulted in elective procedures being postponed which has created a major backlog of patients requiring surgery. The positive outlook is for the market to be up 20% in 2021 as these waiting lists are brought down. If there is a major second wave which stops elective surgery, then our revenues could be majorly impacted. We are looking for creative ways to manage our cost outlay on inventory, partnering with vendors to give them orders now when they need them while exploring how we can have flexible drawdowns to preserve cash if demand dries up for a period.

**How did the support from Harper James assist you?**

They were brilliant to do business with and helped us every step of the way. They supported us and provided us with advice whenever we required it.



## Microfluid X secured £1.4m in seed funding weeks after the UK went into lockdown. The biotech start-up which develops tech for cell therapy now plans to rapidly accelerate its research work.

### What should start-ups applying for funding in the near future bear in mind?

The first thing to keep in mind is that institutional investors need to continue deploying money, even in the current climate, as they are looking to make a return for their own investors. This means that there isn't a shortage of investment supply from institutional investors, who usually make up the bulk of a start-up investment.

### Has working from home and being unable to meet investors face-to-face held you back?

Digital meetings have made it easier for start-ups to get an audience with potential investors, and particularly for international investors, since the travel barrier doesn't exist anymore. My advice to start-ups is to reach out to investors locally and abroad, at least initially, to establish contact and gauge initial interest. Regarding the pitch itself, I don't think that start-ups that are in the technology validation or product development stages need to worry too much about Covid, unless their suppliers or potential customers are directly affected by it. For later stage start-ups who are in the market entry stages, developing market access scenarios based on Covid impacts and showing upsides and downsides would be important.

### What worries you most about the next six months?

The biggest challenges for us are still how to attract and hire the right people, because the first hires always have a decisive impact on the company's success.

### How did the support from Harper James assist you?

We are grateful for the help received from Harper James. They brought excellent advice to make sure we were getting the best deal and assisted us on all stages on this fundraising exercise.

Antoine Espinet



Founder & CEO, Microfluid X

**'Reach out to investors locally and abroad, at least initially, to establish contact and gauge initial interest.'**



## **ANB Sensors secured a major new chunk of investment in June to help expand its work in PH development. Kay McGuinness, one of the firm's founders, says the key to their recent success has been remaining flexible.**

**What is the most important piece of advice you'd give other start-ups in the process of applying for funding?**

Finding ways to build a good relationship with the investors is key. Flexibility in the valuation and a comprehensive financial model to reassure the investors and show you are astute at understanding the climate and how it is changing.

**In securing your investment what did you have to demonstrate to those providing the funding about your ability to cope with the economic challenges of the pandemic?**

We had to create a new financial model where we set out a contingency plan. We pushed commercialisation back by six months, reduced our sales number projections, decreased salaries and removed the new hires we had planned. We got information into the government business interruption loans and applied for an extension to our EU grant to reassure the investors that the company could survive in this environment. We also had multiple interested customers who were willing to talk to our investors to demonstrate their intent.

**What are the biggest challenges to overcome?**

As we are just launching our first product, one of our main challenges is getting the word out there, as the key expos we were planning to attend have been postponed. Travel is more difficult, so more emphasis is placed on web-based marketing and sales. Going forward, managing our budget will be key. The timing of recruiting a sales and marketing

**Kay McGuinness**



Co-Founder, ANB Sensors

**'Finding ways to build a good relationship with the investors is key.'**

team needs to be finely balanced to ensure the correct market impact without having a detrimental effect on our profits.

### **How did the support from Harper James assist you?**

The help and advice we received from the team at Harper James was invaluable in getting us through our first investment round. The quick turnarounds and both email and telephone accessibility was always reassuring. As a scientific start-up, with little knowledge of investment procedures, Harper James led us through the process with patience and understanding.'

**Tech start-up Luffy AI was awarded more than £200,000 in funding to support its transformational research work. In a major boost, the Oxford-based firm received a grant from the UK Innovation and Seed Fund for product development.**

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**What should start-ups who are seeking funding keep at the front of their minds in the next six months?**

It is still all about the fundamentals of the team, technology and route to market. Cashflow is perhaps more important than normal. You should really think about whether Covid will slow down your customer pipeline and if you need extra cash reserves. Getting to market may cost more than it did pre-Covid. Otherwise, all the essentials are the same.

**What three things will be the biggest challenge in the short term for your business?**

I think one of the biggest challenges will be recruitment, onboarding and managing teams of remote workers. It is unknown how long the pandemic will last. It is foreseeable that many businesses will continue to use remote working for extended periods.

**What advice do you have for overcoming this?**

This will be particularly challenging for young start-ups, because there isn't an existing company culture to lean on. Founders will need to invest much more time than normal in communicating with their staff and teams.

**How did the support from Harper James assist you?**

As a relatively new company, having a legal services provider who could help us navigate through the process, was incredibly important. I was stunned at the low cost of the service, given the value it provided us. Having accessible legal services is so important for a start-up firm and Harper James offer that. We've now turned to Harper James to help us with some other services, including changes we've made to shareholders' agreement contracts. I'd certainly encourage other start-ups to use them.

**Alex Meakins**



Co-Founder, Luffy AI

**'Think about whether Covid will slow down your customer pipeline and if you need extra cash reserves.'**

**Rob Kniaz is the founding partner of Hoxton Ventures, who have recently announced a new £70m fund which will back fledgling companies across Europe. His investments include Deliveroo, DarkTrace, Babylon Health, TourRadar and Behavox.**

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**Some reports have suggested as many as one in three deals that have been paused during the pandemic won't be completed. What's your view?**

I think it depends on the sector. I think most funds will return, although those that are in fundraising mode may have difficulty and there will be some funds that never get that subsequent fundraising done. As for companies, I think except for sectors overexposed to Covid (retail, travel) most will power through unless they simply run out of capital and are forced to shut. Almost by definition, founders have to be crafty and clever: we've seen plenty who have been able to find ways to stay alive until things get better.

**What three pieces of advice would you give to a start-up hoping to secure funding in the next year?**

Looking at this with a venture lens, I'm not sure how different my advice would be compared to what we'd normally feed back to founders! Figure out how to deliver growth and show that you're in a compelling market. To an extent, this is driven by the sector and stage of the company, but if you're growing and in a good market, then it's just a matter of narrowing down to find investors who are active in that market. If there's not growth in your market, then decide how to weather the storm and control costs until growth returns. Non-venture deals are less driven by pure growth, so this advice is really specific to ventures where growth is king.

**Has the pandemic changed the type of questions you ask those seeking investment?**

The questions we look to ask our kinds of companies haven't changed materially. It's more about how the world has changed and how has your business taken advantage of that change. Our diligence process is still the

**Rob Kniaz**



Founding Partner, Hoxton Ventures

**'Despite the pandemic, there are still fantastic founders.'**

same, except for understanding underlying market changes. For example in areas like e-commerce and consumer marketplaces, user behaviour has changed so we want to understand how that affects the business now versus historically. Otherwise, it's still the same goalposts we look for as usual - very fast growth and ability to win and scale rapidly.

**Unicorn hunters are now having to rely on video calls to seal deals. What challenges does this throw up? And what advice would you have for investors about communicating in this way?**

It's harder to build rapport with founders when you can't have the sidebar conversations you'd normally have in a physical setting. It's nice to have that idle chatter to understand someone's family, personal history and other things that may not be part of a formal meeting agenda. I think the only compensation is we probably talk more with potential deals now (via Zoom) and build a regular cadence, which helps to facilitate some of those informal background types of conversation.

**The pandemic has given investors like you time to see what is out there. What have you learned and what has that process shown you?**

It's shown me that despite the pandemic, there are still fantastic founders. I was a bit fearful that idea flow would slow but I think like in other crises, it causes people to reconsider their existing default path and revisit other paths they can take. That's why we've seen just as many good founders and good people joining our companies. The loss of lives has been horrible. But I'm optimistic that the country can recover economically and move flexibly.

**Which sort of start-ups do you think have the best chance of securing investment over the next 12 months?**

I think the best chances will lie with the businesses that cater or adapt to remote work, ecommerce, and otherwise where virtual actions are enabled over physical actions. Some start-ups have unfortunately been structurally weakened, and need to figure out an emergency bridge or cuts to last through the downturn. Others may be able to either take advantage of an obvious tailwind or pivot a bit for the time being to find a backstop to get them through the hard times. We look a lot at founder resiliency and their adaptability, how much they can make lemonade out of the lemons life has sometimes tossed their way. Few founders could have predicted a pandemic ahead of time, but the best ones are either able to find a way to stay alive or adapt to market conditions in a constructive way.

## ABOUT HARPER JAMES SOLICITORS

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- ▶ We specialise in legal advice for growing businesses seeking funding, acting for both companies and investors, at any stage of investment
- ▶ Several of our corporate solicitors, including our CEO Toby Harper, have worked as in-house lawyers for venture capital firms
- ▶ As a full service commercial law firm we can provide expert advice in banking and finance law, commercial law, corporate law, employment law, data protection and intellectual property

## WHAT WE DO

Whether you're a business owner, an investor or VC firm, our expert lawyers can advise you on all aspects of fundraising and associated corporate work, including:

- ▶ Due diligence
- ▶ Employee share schemes and incentives e.g. EMI schemes
- ▶ EIS and SEIS relief
- ▶ Exits
- ▶ Investment agreements
- ▶ Shareholders' agreements
- ▶ Share buybacks

## WHO WE HELP

We've helped hundreds of high growth companies, spinouts and start-ups with grants, angel investment, private equity and venture capital funding, ranging from Pre-Seed to Series B.

# OUR CORPORATE TEAM



ABBY WATSON  
CORPORATE SOLICITOR



ADAM KUDRYL  
CORPORATE PARTNER



JAS BHOGAL  
CORPORATE SOLICITOR



IAN FRASER  
EMPLOYEE INCENTIVES  
SOLICITOR



MICHELLE HAYWARD  
CORPORATE SOLICITOR



SHUBHU PATIL  
CORPORATE SOLICITOR



STEPHEN EVANS  
CORPORATE SOLICITOR



TOBY HARPER  
CORPORATE SOLICITOR & CEO

# CLIENT FEEDBACK



We use Harper James because they understand the venture capital sector we operate in, know our business inside out and are always on hand to assist us in any way we need.

*Doug Scott, CEO*



My colleagues and I have found them to be adept at dealing with the variety of challenges facing early stage companies. They are a trusted source for sound, sensible advice and practical deal management.

*Jill Shaw, CEO*





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## WE'RE UNLIKE ANY OTHER LAW FIRM

Small but exciting businesses often struggle to afford the legal support they need at a time when it's critical to their success. We're on a mission to make legal services more cost effective and accessible, particularly for entrepreneurs and early-stage/high growth businesses.

## OUR SERVICE PLANS ARE WHAT MAKES US DIFFERENT

We have a different approach here at Harper James Solicitors. Our unique subscription plans coupled with our remote operating model allows us to deliver expert legal advice, from partner level lawyers, at just £125 per hour - a fraction of the cost compared with traditional law firms.

## A NATIONAL LAW FIRM

We mainly work remotely, so we can work with you wherever you are. But we can arrange face-to-face meeting at our offices or a location of your choosing.

- ▶ Birmingham
- ▶ Cambridge
- ▶ London
- ▶ Manchester
- ▶ Oxford
- ▶ Sheffield



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