



Venture Capital Guide 2026



Introduction

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The DWF Venture Capital Group is pleased to present our Venture Capital Guide for 2026 containing a series of thought leadership materials by over 40 of DWF's lawyers with guidance on legal aspects of UK Venture Capital transactions together with trends in the market.

Venture Capital remains a big driving force behind innovation and economic progress, empowering startups and emerging businesses with essential funding and strategic support. As the industry adapts to new challenges and opportunities, the legal frameworks that shape it are also evolving. This Guide offers a thorough exploration of the latest legal and market shifts in UK Venture Capital, providing actionable insights for investors, founders, and legal professionals.

Our 2026 Guide covers the following topics:

- Understanding the language of Venture Capital and Private Equity: a glossary of key terms.
- Allotting and issuing new shares for private limited companies in England and Wales.
- Breaking barriers: how venture capital can empower female entrepreneurs.
- Understanding Share Classes in Venture Capital: a guide for founders and investors.
- Valuing a company in venture capital transactions.
- Dividend rights and venture capital landscape.
- Liquidation preference rights.
- Comparative analysis of UK corporate investment vehicles.
- UK venture debt market review: key developments and deal term trends in 2024-2025.
- Conversion rights in venture capital transactions: key considerations.
- UK venture capital in 2024-2025: trends, challenges, and opportunities.
- Redemption in venture capital transactions.
- Budget 2025: Venture Capital implications.

This Guide serves as both a reference resource and a practical toolkit for navigating the UK Venture Capital landscape. It begins by demystifying the language of Venture Capital and Private Equity, offering a comprehensive glossary that covers alternative investments, securities, and rights commonly encountered in transactions. Readers are then introduced to the essentials of UK company law, with clear explanations of how the Companies Act 2006 translates into everyday decisions for founders—such as share allotment, statutory and contractual pre-emption, and the governance structures in equity documents.

The Guide moves on to the core instruments and economic principles that define venture capital. It explores the differences between ordinary and preference shares, the mechanics of conversion rights and redemption, dividend structures, and the distribution of returns through waterfall models. Key term sheet choices—such as participating versus non-participating preference shares, weighted average versus full-ratchet anti-dilution provisions, and fundraising triggers—are examined for their impact on future funding rounds and company

growth. Contextualising venture capital within the current UK market, the Guide highlights the sector's resilience in 2024-2025, marked by robust early-stage activity, leadership in AI and deep tech, and the emergence of regional investment hubs. It also addresses the persistent late-stage funding gap, which has led to increased overseas participation in growth rounds. Founders are shown how they can combine equity with tools like venture debt and how to structure funding rounds that extend runway while preserving future flexibility.

A focus on inclusion is central to the Guide's outlook for the future of Venture Capital. It discusses the challenges faced by female-led businesses, highlighting both structural barriers and targeted solutions—from female-led funds and investor networks to diversity metrics and practical signposting—that help translate potential into tangible outcomes. The Guide also addresses the importance of alignment between founders and investors, emphasising the need for clarity in valuation, expectations, and governance. It explains how legal structure choices—whether a private limited company, LLP, or LP—affect liability, tax, and control, and provides practical advice on selecting the right corporate vehicle for different investment strategies.

The Guide offers actionable advice on execution, covering best practices for key performance indicator (KPI) dashboards, investor-ready data rooms, term sheet checklists, and preparing for successful exits. It underscores the habits that keep companies fundable and resilient, and encourages readers to use the Guide as a field manual for building knowledge and capital together. Finally the Guide summarises with the key takeaways from the UK Budget in 2026 and how they will impact the Venture Capital industry.

We hope you find this Guide informative and useful as you navigate the evolving legal of the landscape Venture Capital industry. If you have any questions about the topics covered, then please do reach out to us.



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Understanding the language of Venture Capital and Private Equity: A Glossary of Key Terms

Venture Capital (VC) and Private Equity (PE) are dynamic and rapidly evolving industries that play a crucial role in fostering innovation, supporting entrepreneurship and driving economic growth. Navigating the complex and rich landscape of PE and VC requires a solid understanding of the key terms that are commonly used across the industries. We have set out below a glossary of key terms to assist in demystifying the terminology and to serve as a useful guide for both seasoned professionals and newcomers in the industries to the world of private investing.

A

Alternative investments

Investments into classes of assets that cannot be classified within one of the three traditional areas of shares, bonds and cash. Categories of alternative investments include: VC, PE, hedge funds, derivatives, tangible assets such as real estate etc.

Angel Investor

An individual who provides financial support, usually in the form of debt or equity, to early-stage and start-up companies. Angel investors are often knowledgeable entrepreneurs or business professionals who not only contribute capital but also typically offer valuable industry experience, insights and mentorship to the companies they invest in. Angel investors are incentivised by the potential high returns on their investment and a belief in the growth prospects of the businesses they support.

Anti-dilution

Anti-dilution provisions protect the ownership interests of the existing investors in a company. They typically take effect when a company looks to issue new shares at a price per share that is lower than the price per share

paid by those existing investors (a down round). They ensure that the proportional ownership interests of the original investors are maintained. However, any shareholders who do not have the benefit of the anti-dilution provisions may be disproportionately affected as a result.

Articles of association

A publicly available document that outlines the internal rules and regulations governing the operations and management of a company. It is the key document that forms a company's constitution and should always be consulted, in addition to any potential shareholders' agreement, before entering into a corporate transaction.

Asset class

A group of financial instruments or investments that share similar characteristics and behave in a comparable way in the financial markets. Assets within the same class generally exhibit similar risk and return profiles. Investors often allocate their portfolios across different asset classes to achieve diversification and better manage risks. Common asset classes include equities, bonds, cash, real estate, commodities, cryptocurrencies, etc.

Assets under management (AUM)

A financial metric representing the total market value of the assets that a fund such as a PE or VC fund oversees on behalf of its investors. AUM is a useful indicator of the size and success of such funds and is often used to gauge influence and scale in the financial industry.

B

Bad leaver

Often used in the context of shareholders' agreements or articles of association to determine the price at which an employee is required to sell their shares in the company prior to their departure. A bad leaver is often restricted to selling their shares at the lower of the market value and the price paid on issue. The specific criteria for a bad leaver tends to be negotiated between the parties but typically refers to an individual who is leaving the company under circumstances that are deemed unfavourable or detrimental to the interests of the company or shareholders. Common reasons for an employee becoming a bad leaver may include: breach of contract, gross misconduct or voluntary resignation without an acceptable reason from the board's perspective.

BIMBO (Buy-In Management Buy-Out)

Refers to a corporate transaction whereby the existing management team of a company, often in collaboration with incoming management, external investors or a PE fund, acquires a significant stake in the business.

Boilerplate

A set of standardised provisions used in legal documents. These clauses usually address important yet largely uncontroversial matters which tend not to be specifically negotiated between parties. Boilerplate clauses typically include provisions governing: the service of notices, the choice of jurisdiction of the agreement, rights of third parties, amongst other things.

Bolt-on

A fund acquiring a new company to supplement an existing company portfolio.

Bridge financing

A short-term loan or financial arrangement that provides interim funding for a business until more permanent and comprehensive financing is secured.

Broad-based weighted average ratchet

A type of anti-dilution adjustment formula which considers the dilutive impact of the shares issued in a down round, and depending on the mechanic, adjusts the rate at which preferred shares are converted into ordinary shares or bonus shares are issued. The issue price of the existing investors' shares is adjusted by a weighted average of the existing investor's share price and the down round share price, such that the existing investors end up with a shareholding equal to what their shareholding would have been had they invested at a lower price. "Broad-based" protection is more favourable to existing investors than a narrow-based weighted average ratchet, as the former is calculated by using the fully diluted issued share capital of the company (including convertible securities such as options and warrants) in the denominator for the formula for calculating the new weighted average price.

Burn rate

The rate at which a company is using up its cash reserves or capital over a specific period. Burn rate is often expressed as a monthly or yearly figure and provides insight into the company's spending and how quickly its funds are depleting.

Buy and build

A company growing bigger (whether by obtaining more clients, having increased services/products or entering into new territories) through acquisitions.

C

Capitalisation table (or Cap Table)

A spreadsheet showing the shareholders of a company, the forms of securities they hold (for example preferred shares, ordinary shares, share options, warrants and securities convertible into shares), the number of such securities they hold, and their shareholding percentages. It can also show the holders of debt of a company and the amounts owed to them.

Carry (Carried interest)

Refers to the share of the profits that is paid to a PE or VC fund's general partner in return for managing the fund. The carry is a kind of performance fee that aligns the general partner's compensation with the fund's returns. Carried interest is often only paid if the fund achieves a specified minimum return.

Class rights

The rights and privileges associated with a specific class of securities issued by a company. PE and VC capital investments often involve the issuance of various classes of securities, such as ordinary shares, preference shares, etc. Each class may carry distinct rights that will determine its position in terms of dividend distribution, liquidation preferences, voting rights, conversion rights and anti-dilution and other protective measures.

Co-investment

Investments by multiple funds into a company at the same time and on largely similar terms.

Conversion

The process whereby convertible securities convert into other forms of security, for example convertible preferred shares converting into ordinary shares or convertible loan notes converting into equity shares. Conversion is often triggered by specific events set out in the investment or shareholders agreement or the class rights of the share in question in the articles of association. Convertible securities tend to provide an investor with additional protections (for instance a preference in the event of a winding up of a company) until the securities are converted.

Convertible Note

A type of debt instrument commonly used in early stage financing, especially in the start-up and VC space. It is a form of short-term debt that can be converted into equity at the occurrence of specific events or upon reaching certain milestones.

Corporate venture capital

A form of venture capital involving a company rather than a VC fund investing in start-up or growth companies.

Crowdfunding

The practice of raising capital from a large number of individuals who contribute relatively small amounts, often through online platforms. It is a form of alternative financing that allows entrepreneurs and start-ups to access capital from a diverse group of investors.

Cumulative dividend

The holders of preferred shares with rights to cumulative dividends are entitled to receive unpaid

dividends in full before any further dividends are paid to the holders of other classes of shares.

D

Deed of adherence

A legal document, which formalises the entry of a new party into an existing agreement (such as a shareholders' agreement). The incoming party, referred to as the adhering party, agrees to be bound by the terms and conditions of the original agreement.

Deferred shares

A class of shares which typically provide the holder with limited or no capital rights, no rights to vote, and rank in lower priority to other classes of shares. A company's articles of association can often include provisions whereby a Bad Leaver's shares may be converted into deferred shares and repurchased by the Company for a nominal sum (i.e. for one penny).

Down round

A fundraising round where the valuation of a company is below the valuation during a previous fundraising round.

Drag-along

Often included in shareholders' agreements or articles of association, drag-along is a contractual provision established to enable majority shareholders to force minority shareholders into the sale of a company to a third party buyer, so that 100% of the company is sold. The threshold and conditions at which the drag-along provisions are triggered can differ and are often the subject of important negotiations at the outset of an investment round.

E

Earn-out

A contractual arrangement in which a portion of the purchase price is contingent on the future performance of the acquired company. It allows the buyer or investor to make additional payments to the seller if specific financial or operational thresholds are achieved after the transaction. Earn-outs are commonly used to bridge valuation gaps between the buyer and the seller, and to

incentivise management in situations where they continue to work for the target post-acquisition.

EBITDA

Earnings before Interest, Taxes, Depreciation and Amortization. A financial metric used to assess a company's operational performance by measuring its profitability before accounting for non-operational expenses and non-cash items. EBITDA is often a key factor in valuation and investment decision-making.

EIS

Enterprise Investment Scheme, a UK government program designed to encourage investment in small and growing companies. Investors participating in this scheme can benefit from tax incentives, including income tax relief, capital gains tax relief, and loss relief on each investment that returns less than the investor invested.

EMI Options

Enterprise Management Incentive Options, a UK government scheme that enables eligible employees to benefit from tax-advantaged share options or other equity-based incentives in their employer's company.

Equity

Shares in a company or options to company shares.

Events of default

These events typically refer to specified circumstances or breaches set out in a contractual agreement such as a loan note instrument or loan agreement, which may trigger a default. Examples may include failure to make a required payment, breaches of covenants, financial distress or an unauthorised change of control. When an event of default occurs, the non-defaulting party can terminate the agreement and demand repayment of all amounts owed to them.

Exit Strategy

A PE or VC fund's plan to sell or divest of an investment in a specific portfolio company. Common exit strategies include an initial public offering (IPO), selling the portfolio company to another company through a merger or acquisition or a management buyout (MBO) or buy in (MBI).

F

Full ratchet

The full ratchet is an anti-Dilution provision designed to protect existing investors from dilution in the event of a down round by resetting the existing investor's original price per share to match the new down round price and issuing bonus shares to the existing investor to achieve such a shareholding had it originally invested at the down round price.

Fund-of-Funds (FoF)

Rather than directly investing in start-ups, private companies, or other assets, a fund of funds is an investment fund that allocates its capital into PE and VC funds.

G

General Partner (GP)

The GP assumes the responsibility for managing a fund. Typically, the GP charges an annual management fee, which falls within the range of 1% to 2% of the total funds under management. However they also bear unlimited liability. The GP can play a central role in the fund's activities, including fundraising, investment decision-making, and overall investment management.

Good leaver

Unlike a 'bad leaver', a good leaver typically refers to an individual, often an employee or senior executive, who leaves the company under specific circumstances that are considered acceptable according to the terms of the shareholders' agreement or the articles of association and gets paid a fair value for their shares. Examples of a good leaver might include retirement, the sale of the company, constructive dismissal, or voluntary resignation due to health issues or other personal circumstances that are deemed justifiable by the board.

Growth capital

An investment of a minority shareholding where the investment amounts are used to grow the company. This is different from VC investments because growth capital investments tend to be in more developed companies and different from PE investments as growth capital investments do not result in a controlling shareholding.

H

Heads of terms

Also referred to as a term sheet or memorandum of understanding (MOU), heads of terms is a non-binding document that contains the key terms and conditions of a proposed investment or transaction. It serves as an initial agreement between the parties involved and is used as a basis for further negotiations and the preparation of more formal legal documents.

Hurdle Rate

A minimum rate of return that an investment must achieve before certain profit-sharing mechanisms come into effect. The hurdle rate serves as an objective or benchmark and if the investment performance exceeds this rate, investors and fund managers can then share profits according to the terms outlined in the investment agreement or fund documents. The hurdle rate also governs the appropriate compensation of parties according to the level of risk, with riskier projects usually having higher hurdle rates. A general partner is commonly only allowed to charge their carried interest if a fund's return is at or above the hurdle rate.

I

Incubator

An organisation that provides support, resources, and mentorship to early-stage start-ups and entrepreneurs to help them develop their businesses. Incubators aim to accelerate the growth and success of start-ups by offering supporting resources such as a shared workspace, access to mentorship, networking opportunities, and sometimes initial funding.

Indemnity

A contractual obligation by one party to financially compensate the other party for losses, damages, liabilities, or other expenses incurred as a result of specified events or circumstances.

Information rights

Companies will typically provide investors with information rights in investment and shareholder agreements to ensure that the investors are granted access to the company's financial and operational information. Access to information rights enables investors to keep apprised of the performance and activities of the companies in which they invest.

Institutional buyout (IBO)

The acquisition of a company by an institutional investor, such as a PE fund. These transactions often involve thorough due diligence, strategic planning, and collaboration with the management teams of the target companies to drive operational improvements and create value. This structure is often used when taking a public company private. An institutional buyout is the opposite of an MBO (management buyout) where a company's existing management acquires the company.

Institutional investors

Organisations that invest money on behalf of other people, such as hedge funds, insurance companies, mutual funds and pension funds.

Internal Rate of Return (IRR)

A compound rate of interest computed over the duration of a fund, encompassing both the investment yield and the pace at which the return is generated. This calculation evaluates, at the exit date, the cash spent by the fund and cash returned (typically interest, dividends, share or loan stock redemptions and share sale proceeds). IRR helps determine the annual rate of growth that an investment is expected to generate.

Investment manager

An individual or entity responsible for managing and making investment decisions on behalf of an investment fund. The investment manager, also known as the fund manager or general partner, plays a central role in sourcing, evaluating, and executing investment opportunities, as well as overseeing the portfolio companies or investments within the fund.

IPO

An Initial Public Offering, the process of a company offering its shares to the public for the first time on a stock exchange (sometimes also referred to as 'floating'). Through an IPO, a company transitions from being privately held, often with a small group of private investors, to becoming a publicly traded company with shares that can be bought and sold by the public on a stock exchange.

K

KYC

Know Your Customer, a regulatory and due diligence process used by regulated businesses such as financial

institutions, including PE and VC funds, to verify and understand the identities of their clients, assess potential risks, and ensure compliance with their anti-money laundering (AML) and other financial regulations.

KPI

Key Performance Indicators, metrics or measures used to evaluate the performance and success of a business, project, or investment. Effective use of KPIs allows investors to track the performance of their investments, identify areas for improvement, and make data-driven decisions to enhance overall portfolio value. The selection of KPIs may vary based on the industry, business model, and specific goals of the investors and portfolio companies.

L

Lead investor

The investor that makes the largest investment in a company as part of a VC fundraising round. The lead investor normally leads on the negotiation of key commercial terms with the company and calculates the valuation of the company as part of the fundraising.

Leveraged buyout (LBO)

A common strategy employed in the PE industry, where investors seek to use a large amount of financial leverage, such as debt, to amplify their returns. LBOs may involve substantial financial and operational risks, as the success of the investment depends on the ability of the acquired company to manage and repay the debt while achieving operational improvements. The term "leveraged buyout" can also be generically used to refer to any type of buyout which is financed with both debt and equity.

Limited Partner (LP)

An investor or entity that participates in a PE or VC fund as a "passive" investor. Limited partners provide capital to the fund but typically do not engage in the day-to-day management or decision-making of the fund's portfolio companies. Limited partners enjoy limited liability, meaning their potential losses are generally restricted to the amount of capital they have invested in a fund.

Liquidation preference

The right of holders of preferred shares to receive the proceeds from a liquidity event in priority to the holders of ordinary shares.

Liquidity event

A specified event that allows investors to convert their investment in a company into cash or other marketable securities. Such events provide investors with an opportunity to realise returns on their investment. These events usually arise on a sale of a company, an asset sale, an IPO or upon the liquidation of the company.

Loan note

An interest-bearing debt instrument issued by a company to loan note investors. This is a common form of financing in various stages of a company's lifecycle, from early-stage ventures to more established businesses. It provides a way for investors to provide capital to companies while earning a fixed return through interest payments. The terms of loan notes are typically documented in a formal loan agreement or loan note instrument.

M

Material adverse change (MAC)

A contractual provision that allows the buyer to withdraw from an acquisition if there is a significant negative change affecting the financial condition, business operations, or prospects of the company between exchange and completion. In the context of a lending transaction, a MAC clause can trigger an event of default. The interpretation and enforcement of MAC clauses can be subject to negotiation and legal scrutiny, and the specific language used in the agreement plays a significant role in determining the applicability of the clause in any given situation.

Management Buy-in (MBI)

A corporate transaction in which the external managers or executives acquire ownership and take over the existing management of a company in conjunction with a PE fund.

Management Buyout (MBO)

A corporate transaction in which the existing management team of a company alongside a PE fund acquire ownership of the business they are managing from its current owners.

Management fee

A fee paid by the limited partners of a PE or VC fund to the general partner for managing the fund.

Mezzanine financing

A form of financing combining equity and debt investments through preferred equity and subordinated debt, which is typically used to support expansion, acquisitions or other strategic initiatives of a company. It is normally ranked lower than the senior debt of a company but normally has higher interest rates and includes equity options for example warrants. It is often used by companies which have exhausted traditional debt options but wish to avoid excessive dilution of equity. It allows them to secure additional capital with more flexibility than pure equity financing. Mezzanine investors, in turn, take on a higher level of risk but have the potential for greater returns if the company performs well.

Model articles

A set of standardised articles of association, in the form prescribed by the Secretary of State pursuant to the Companies Act 2006, for use as a default framework for the governance of a company. They apply automatically to companies incorporated on or after 1 October 2009, if a company chose not to modify their articles on incorporation.

N

Narrow-based weighted average ratchet

A type of anti-dilution adjustment formula which considers the dilutive impact of the shares issued in a down round, and depending on the mechanic, adjusts the rate at which preferred shares are converted into ordinary shares or bonus shares are issued. The issue price of the existing investors' shares is adjusted by a weighted average of the existing investor's share price and the down round share price, such that the existing investors end up with a shareholding equal to what their shareholding would have been had they invested at a lower price. The difference between a narrow-based weighted average ratchet and a broad-based weighted average ratchet, is that the former uses only the issued share capital of the company not on a fully diluted basis (and so not including the convertible securities such as options and warrants) in the denominator for the formula for calculating the new weighted average price.

Net asset value (NAV)

Describes the current value of a company as a sum of its assets minus its liabilities divided by the number of shares in issue.

Non-disclosure agreement (NDA)

A legal agreement between two or more parties outlining the terms and conditions regarding the sharing of confidential information. NDAs are commonly used from the beginning of the due diligence phase of potential investments to protect sensitive information about a company and its operations.

Non-participating preference share

A form of preference share that grants the investor, on a liquidation event, a right to only receive its preferred return following which the other shareholders and not the investor will receive the excess proceeds.

O

Operating partner

An individual with specialised operational expertise or industry knowledge who is engaged by a PE or VC fund to work closely with portfolio companies. Operating partners play a hands-on role in helping portfolio companies improve their operational efficiency, strategic direction and overall performance.

Option

An option is a contractual right granted to the option-holder, enabling them to purchase shares at a pre-determined price in the future. This mechanism is frequently employed to motivate employees in contributing to the growth of the company's value or to provide investors with an opportunity to acquire additional shares at a later date.

Option pool

A set portion of a company's shares, earmarked or already allocated for issuance to employees as part of incentive programs. While the specific size of option pools is subject to negotiation, it often involves reserving at least 10% of the shares for employee incentives.

Ordinary share

The most common type of shares issued by a company. Ordinary shares typically confer one vote per share at shareholder meetings, and rank after preference shares when it comes to the distribution of capital following a

winding-up or liquidation of a company. The terms and conditions associated with ordinary shares are typically outlined in the company's articles of association or shareholders' agreement.

P

Participating preference share

A form of preference share that grants the investor, on a liquidation event, a right to receive its preferred return together with a pro rata share of the excess proceeds.

Par value or Nominal value

The nominal value of a share. Par value is a fixed amount determined by the company and is stated on the share certificate.

Pay-to-play

A contractual provision that may be included in investment or shareholders agreements which typically requires existing investors to contribute additional capital in subsequent financing rounds to maintain their ownership stake or certain rights in the company. The term suggests that investors must actively participate financially to "stay in the game" and avoid dilution of their ownership.

PIK

Payment in kind, where payments of interest are done through the issue of more securities rather than in the form of cash.

Post-money valuation

The valuation of a company following a new external financing or investment round.

Portfolio company

A company in which a PE or VC fund has made an investment, typically as part of a diversified portfolio.

Pre-emption rights

Typically found in the company's articles of association or shareholders' agreements, these enable existing shareholders to maintain their proportionate ownership in the company by giving them the opportunity to be issued or acquire (as applicable) additional shares before these shares are offered to external parties. These rights protect shareholders against dilution of their shareholdings when a company

decides to issue new shares or an existing shareholder decides to sell their shares.

Preferred share

A share that has a preferred right compared to other classes of shares, most commonly in respect of a priority on the payment of dividends and/or the proceeds on a liquidation event.

Pre-money valuation

The valuation of a company prior to a new external financing or investment round.

R

Ratchet

A contractual mechanism whereby economic rights in respect of shares are adjusted based on particular events occurring for example if performance targets are reached by management shareholders

Redeemable shares

Shares that the company has the option to redeem or repurchase from the shareholder at a specified price or according to certain pre-determined conditions.

Redemption date

The date on which redeemable shares must be repurchased by the issuing company or when the company has to repay the principal amount plus interest on loan notes.

Reserved matters

Specific strategic decisions or actions that are deemed significant and, as such, require the approval or consent of one or multiple investors, particularly those holding preferred shares or having specific rights. These matters are commonly outlined in an investment or shareholders' agreement and typically involve key decisions affecting the company's direction, structure, or value. This gives investors a level of control over crucial aspects of a company's operations and strategy.

Return on investment (ROI)

A key metric for assessing the success of investments, and used to evaluate the performance of PE or VC portfolios. It is expressed as a percentage and is calculated by dividing the gain or profit from the investment by the initial cost of the investment, then multiplying the result by 100.

Runway

The amount of time a start-up or company has before it exhausts its available financial resources, namely its cash reserves. It is used to assess the company's ability to operate and achieve certain milestones or profitability without requiring additional funding.

S

Secondary market

A market whereby limited partners sell their interests in funds to other limited partners.

Secondary shares

Shares in a company transferred by a shareholder to another person.

Section 431 election

A legal document, signed by an employee shareholder or option holder within 14 days of being issued with securities in their employing company. Under the 431 election, they elect for the securities to have specific tax treatment applied to them in the UK.

Seed Funding

An early-stage round of financing that a new business receives, normally from Angel Investors, seed funds, early-stage VC funds and/or family and friends of the founders of the business. This is intended to help the founders prove the concept, conduct early research and development, and reach key milestones necessary for further fundraising. As the company grows and achieves milestones, it may seek additional rounds of funding to scale operations, enter new markets, or further develop its products or services.

Senior debt

A loan that has higher priority on a Liquidation Event compared to other forms of debt and the shares in the capital of the company.

Series A, B,C etc

Stages of funding rounds that represent different rounds of investment in a start-up or a company as it progresses through various growth phases. These rounds are typically named alphabetically and denote the order in which the investments are made. The Series A round is the first significant round of financing that a start-up typically raises. It occurs after the seed stage and is aimed at helping the company scale its

operations, develop its product or service, and expand its market presence. The Series B round follows the Series A round and is focused on helping the company further grow and expand. The Series C round is the third major funding round and is conducted when the company has already achieved a certain level of maturity and success. At this stage and beyond (including further series of funding rounds), the company may be looking to expand globally, acquire other companies, invest in research and development, or prepare for an exit, such as an initial public offering (IPO) or acquisition.

Special Purpose Vehicle (SPV)

A company established for a specific and limited purpose. SPVs are typically used in the context of acquisition or PE transactions.

Step-in rights

Contractual provisions that grant investors the ability to intervene or take certain actions in the management or operations of a portfolio company. These rights are typically exercised as a last resort when other remedies, such as negotiation or dispute resolution, have not been successful. The specific terms and conditions of step-in rights are negotiated between the investors and the company during the investment deal structuring process.

Structural subordination

A situation in which certain debt or securities within a company's capital structure are subordinated to other debt or obligations. In the context of PE and VC, it is important to consider the hierarchical ranking of different securities or debt instruments to understand the order of repayment in the event of a company's liquidation or financial distress.

Sweat equity

Equity in a company that is provided to management or other key individuals as a result of work done rather than for investing capital into the business.

Sweet equity

Equity in a company that is provided to management or other key individuals as part of their compensation package. In the context of PE, sweet equity may be used to incentivise and retain key talent by aligning their interests with the success of the company.

T

Tag-along

A contractual right that allows minority shareholders to join a majority shareholder in selling their shares to a third party on the same terms. It protects minority investors such that they do not get left out of a sale initiated by the majority.

Target

A company that is 'targeted' by a potential acquirer.

Term Sheet

A preliminary document outlining the key terms and conditions of a potential investment or transaction. The term sheet serves as a basis for future negotiations before drafting formal legal agreements. Also known as heads of terms.

U

Undertakings

Commitments or promises made by a company to its investors or lenders regarding specific actions or restrictions. These may include financial covenants, operational requirements, or other agreed-upon obligations.

Unicorn

A privately held start-up or company with a valuation exceeding \$1 billion.

V

Veto right

A contractual provision that grants an individual or entity the power to block certain decisions or actions, providing a level of control or protection in the context of PE and VC transactions.

Vesting

The process by which individuals, often employees or founders, gradually earn the right to exercise their share options over a specified period, or gain economic rights over shares. Vesting is commonly used to incentivise long-term commitment.

Venture Capitalist

An individual or company that provides capital to start-ups and small businesses with high growth potential in exchange for equity. Venture capitalists often take an active role in the management and strategic direction of the companies they invest in.

VCT

Venture Capital Trust, a type of investment fund in the UK that pools capital from individual investors to invest in a portfolio of small and growing companies. VCTs also tend to offer tax incentives to investors.

Voting rights

The rights of shareholders of a company to vote in respect of certain matters concerning the company.

W

Warrant

A financial instrument that gives the holder the right, but not the obligation, to buy shares of a company at a predetermined price within a specified period, often used as a 'sweetener' for investors.

Warranties

Often found in acquisition, investment and subscription agreements, warranties are statements of fact made by: (a) on a PE acquisition, the seller about the target company; or (b) on a VC transaction the existing shareholders and the company itself about the company. Warranties provide assurances to the buyer or investor regarding various crucial aspects of the business. The main purpose of contractual warranties are to elicit information about the company and to allocate risk back to the party making them who is responsible for ensuring the statements contained as warranties are correct. Warranties further provide a buyer or investor with a remedy (a claim for breach of warranty) if the statements of fact are later proved to be incorrect, thereby serving as a retrospective price adjustment mechanism for any resultant loss of value arising out of the breach of warranty.

Waterfall

The hierarchical distribution of proceeds from a successful exit or liquidity event, specifying the order in which various stakeholders, such as investors and management, receive their share of the proceeds.

Y

Yield

The rate of return on an investment, often expressed as a percentage, taking into account both income (such as dividends or interest) and capital appreciation.

YOY

A financial metric used to analyse and compare a company's performance or financial indicators on an annual basis, assessing changes and trends over consecutive years.

Z

Zero-Sum Game

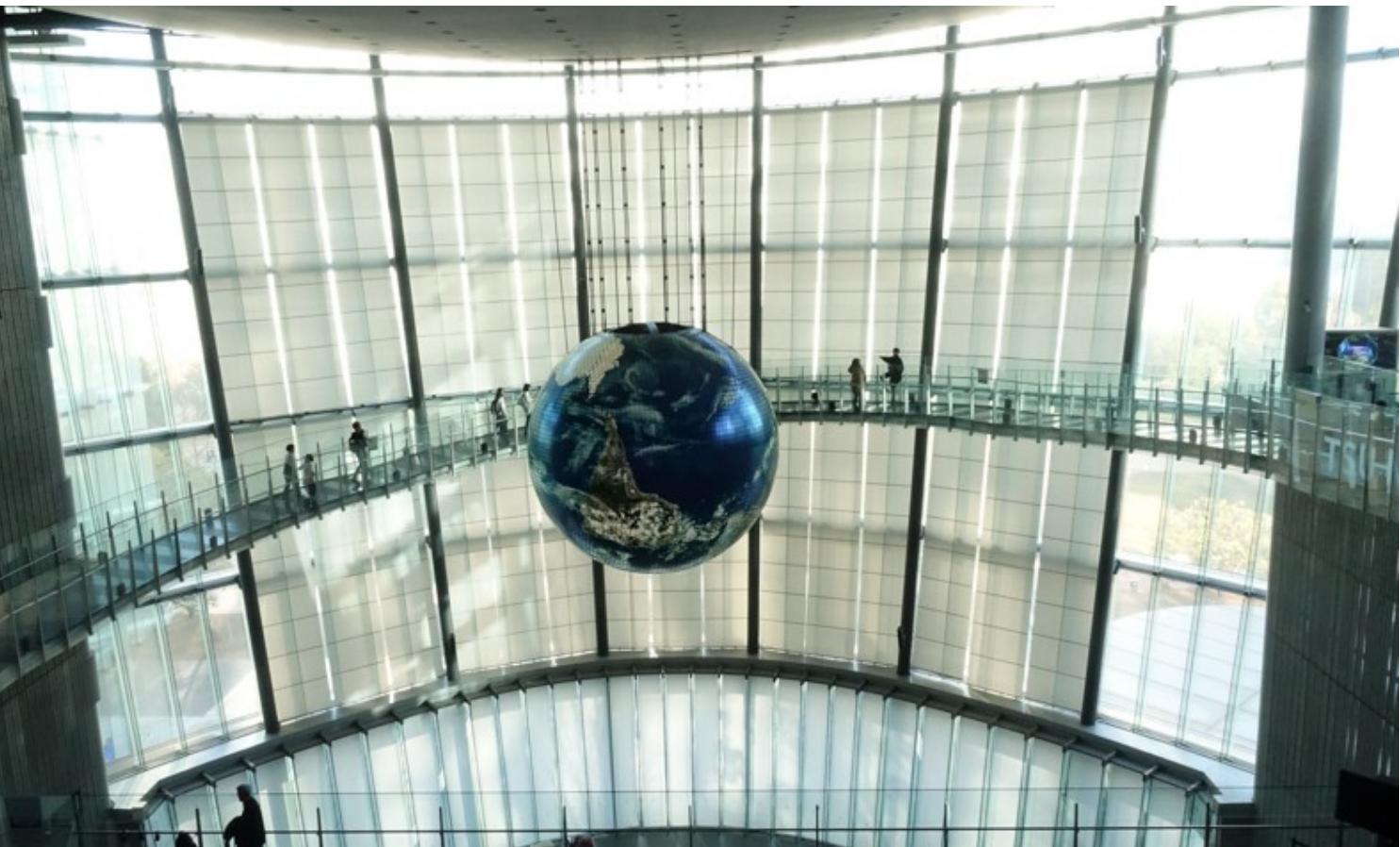
A situation where one participant's gain or profit is balanced out by the loss or cost incurred by another

participant. Investment returns are distributed among participants based on the performance of the underlying assets, with no net increase or reduction of value.



The above glossary is meant to provide a broad overview of the key terms used in Private Equity and Venture Capital. The principles and application in practice can vary significantly and may take on different meanings depending on the nature of the transaction and which investors are involved. It is recommended to verify the above meanings against the definitions used in the documents on the specific transaction you are working on.

Authored by Dhruv Chhatralia BEM and Sarah Deloison



Allotting and issuing new shares for private limited companies in England and Wales

This article sets out the key legal issues in relation to allotting and issuing new shares for private companies in England and Wales in accordance with companies law.

Authority to allot new shares

In general, directors cannot allot shares without authority under Sections 550 or 551 of the Companies Act 2006 (the "Act"). This authority is crucial to ensure that share allotments are conducted in accordance with legal and governance frameworks.

However several exceptions apply and directors can allot shares if the allotment is:

- Made under an employee share scheme (it is essential to review the company's articles first to confirm there are no specific articles restricting this activity)
- Regarding a company in financial difficulty as part of an arrangement or reconstruction
- In respect of exercising a right to subscribe for or convert securities into shares
- Concerning a sale or transfer of treasury shares
- Under a previously expired authority if an offer or agreement was made before the expiry and the expired authority allows the allotment to take place in such circumstances

If no exceptions apply, directors must obtain authority under Sections 550 or 551 of the Act – as explained further below.

Authority to allot under section 550 and section 551 of the Act

Section 550: Private company with one class of shares

Directors of private companies can allot shares without additional authority if the company has only one class of shares with uniform rights – and will continue to have one class of shares following the allotment.

However this cannot be relied upon if prohibited in the Company's articles. If prohibited, a special resolution (75% shareholder approval) is needed to amend the articles to remove the exclusion or to obtain the necessary authority under Section 551.

Note that companies incorporated under the UK Companies Act 1985 (or before) will need an ordinary resolution (i.e. the approval of a majority of shareholders) authorising them to allot shares under section 550.

Section 551: Other circumstances for private companies

Private companies will need to obtain authority to allot shares under Section 551 if either:

- the company has or will have (after the new shares are issued) more than one class of shares; or

- the company has one class of shares, but directors are restricted from using Section 550 either due to a provision in the articles or because the company (only in respect of companies incorporated under the Companies Act 1985 or earlier), lacks an ordinary resolution granting them authority to allot shares under section 550.

Authority to allot shares pursuant to section 551 can be granted either: in the Company's articles or via a shareholders' resolution - typically an ordinary resolution.

The terms of a Section 551 authority must include the maximum nominal value of shares to be allotted and the expiration date of the authority, which cannot be more than five years.

An existing Section 551 authority can be renewed, revoked, or varied by an ordinary resolution. Renewal is allowed for up to five years, and it can be revoked or modified any time before expiry.

Statutory pre-emption rights on allotment

Under Section 561 of the Act, when new shares are issued for cash, existing shareholders must be given the first opportunity to subscribe for them, ensuring they can maintain their proportional ownership in the company. Pre-emption rights can be excluded, disallowed or modified by:

- Provisions in the company's articles
- A special resolution authorising directors to allot shares without pre-emption rights
- Authorising directors under Section 551 to allot shares as if pre-emption rights don't apply through a special resolution or a provision in the articles
- A special resolution allowing directors to disallow or modify pre-emption rights for specific allotments.

Shareholders can pass a special resolution at a general meeting or through a written resolution if allowed by the articles. Existing shareholders can also waive their rights by signing a waiver letter.

Contractual Pre-emption rights on allotment

Contractual pre-emption rights can be excluded, disallowed, or modified by amending the articles

through a special resolution. Alternatively, if permitted by the articles, shareholders may waive or disallow these rights via a special resolution or unanimous consent.

Payment for allotted shares

There are four rules for payment for allotted shares. Firstly, shares must not be allotted at a discount and the full nominal value must be paid by the subscriber. Secondly, different amounts and payment times can be arranged amongst shareholders if the articles allow it. Thirdly, shares allotted along with any premium, can be paid for in money or money's worth (e.g. goodwill and know-how). Fourthly, a share is considered paid up in cash if the consideration is cash or equivalent.

The definition of cash consideration includes: (a) cash (including foreign currency); (b) a cheque received in good faith that the directors do not suspect will not be paid; (c) a release of a liability of the company for a liquidated sum; (d) an undertaking to pay cash at a future date; and (e) any other means giving a right to an entitlement to payment or credit equivalent in cash.

Non-cash consideration for future services or work is acceptable only if structured as a contract to perform services for a specified sum now payable, which is paid through fully-paid shares. However, the company must receive valid consideration for the shares.

This arrangement risks violating the rule against allotting shares at a discount as it is difficult to objectively value such service and may breach directors' fiduciary duties if the services are not worth the assigned value. Directors must ensure that the value of non-cash consideration meets the subscription price and that future services will certainly be provided to avoid risks to the company.

Courts may scrutinise the value assigned to non-cash consideration for shares in situations where:

- The contract may be invalid and subject to being set aside.

- The company may have deliberately overvalued the non-cash consideration to issue shares at a discount.
- Shares are issued without any consideration. In such a case the allottee and any subsequent holder must still pay the nominal value of the shares, regardless of what the contract says. The burden of proving that the consideration is illusory or overstated lies with the person asserting it.

Implementing the allotment

When a members' resolution is needed to grant authority to allot shares or disapply pre-emption rights, directors must either convene a board meeting or, if permitted by the articles, pass a signed written resolution. The board should review and approve the necessary members' resolutions, authorise the circulation of a written resolution to members and, following or subject to the passing of this resolution, resolve to allot the shares, specifying details such as the number and class of shares, allottees, price, and payment method (cash or other assets). Board minutes must be taken at any board meeting and retained for ten years.

When are shares allotted and issued?

While there is no statutory definition of when a share is issued, common law regards it as issued when the allotment is recorded in the company's register of members in its statutory books.

Post-allotment steps

Registration requirements include:

- Updating the company's statutory register of members and register of allotments within two months of the allotment. A different process applies if the company uses a central register at UK Companies House.
- Updating the Persons of Significant Control (PSC) register if the allotment affects the PSC position. Again, a different process applies if the company uses a central register at UK Companies House.
- Share certificates must be issued to new shareholders within two months of the allotment.

Companies House filing requirements include:

- Filing form SH01 (statement of capital) at Companies House within one month of the share allotment.
- Filing any ordinary resolution regarding directors' authority to allot shares and any special resolution on pre-emption rights within 15 days of the resolution, submitting a printed copy of the amended articles within 15 days of the resolution.
- Filing the appropriate PSC form (PSC01 to PSC09) if the allotment results in a new entry or change to the PSC register. If the company hasn't opted for a central PSC register, the relevant form must be submitted within 14 days of the change (section 790VA of the Act).

Authored by Dhruv Chhatralia BEM and Narissa Pankhania



Breaking barriers: How venture capital can empower female entrepreneurs

Women play an increasingly central role in the global workplace and in leadership roles, exemplified by the appointment of the first female UK Chancellor in 2024. This reflects a broader shift towards greater diversity in business leadership.

The evolving legal and economic landscape

As highlighted in our article last year, the data is stark when assessing the level of venture capital funding accessed by female-led companies in comparison to male-led companies. Female-led companies account for 21.1% of companies in the United Kingdom. However, they receive a disproportionately low 6.9% of funding from venture capital investors as opposed to 74.2% received by male-led companies in 2024.

There has been significant growth in the proportion of female entrepreneurs to male entrepreneurs since 2018 (from a ratio of less than 1:2 in 2018 to more than 4:5 in 2023). However, disappointingly, data shows that there are no great signs of progress in female-led companies accessing funding despite many worthwhile initiatives being undertaken across the UK. Moreover, there has been a lack of structural changes made to the investment industry to try to address the imbalance in funding opportunities.

Legal and structural barriers facing female entrepreneurs

Reports from groups, like the UK Women in Business Taskforce, highlight how prioritising diversity on boards and in business ownership boosts productivity, innovation, and overall success in the investment landscape. Research by Dr Caitlin Schmid, Global Institute for Women's Leadership King's College London, shows that female-led companies in

the past year outperformed male-led companies in respect of turnover growth. Despite their potential, however, female-led businesses face substantial challenges in accessing venture capital.

Implicit bias in investment decisions

Research from the [Harvard Business Review](#), reveals how unconscious biases can play a detrimental role in investment decision-making, which may contribute to disparities in funding outcomes.

Female entrepreneurs are often viewed as inexperienced or overly cautious compared to their male counterparts, which can determine the success or failure of a funding application. Raising awareness of these patterns, and consciously shifting our preconceived narratives on female entrepreneurs, can help ensure that all entrepreneurs are evaluated on equal footing.

Underrepresentation in decision-making

Women continue to be underrepresented in decision-making roles within the venture capital industry, a factor that exacerbates gender disparities in the industry. Despite growing awareness of the importance of diversity, studies show that women still hold a small fraction of leadership positions in VC firms, thereby limiting their influence over funding decisions and perpetuating systemic biases.

The lack of representation in the investment industry is thought to contribute to the underfunding of female-led startups, as decision-makers subconsciously gravitate toward entrepreneurs who share similar backgrounds or experiences and female investors generally focus their investments within their family networks.

Increasing the presence of women in leadership roles within the VC industry could help broaden perspectives, enhance investment strategies, and unlock the untapped potential of female-led companies.

Primary care responsibilities

The [Rose Review](#) is clear that female entrepreneurs held a disproportionate level of family and caring responsibilities and were twice as likely as men to mention these responsibilities as a barrier to creating or growing a business.

A [JP Morgan study](#) examining male and female small business owners revealed notable differences in goals for business growth. While 70% of female entrepreneurs explicitly aimed to maintain their businesses at the same size, only 63% of male entrepreneurs shared this perspective. We suggest institutionalised barriers, such as unequal access to resources and societal expectations shape women's entrepreneurial goals and influences women to prioritize stability over growth.

These studies highlight that there remains structural societal challenges for women in business.

Investment habits

The [Gender Index Report 2024](#) highlights that female investors are far more likely to invest through family connections than male investors. Male investors who invest outside of their family network outnumber their female counterparts by two to one.

There is significant work to be done to extract more female investment outside of the family network and to raise awareness of investment opportunities for women. This would encourage growth across the UK in a climate where the government is looking to encourage a move away from safe investments into riskier investments with greater growth potential.

Overcoming barriers: The role of venture capital

To unlock the full potential of female entrepreneurs, the VC ecosystem must adopt targeted strategies to dismantle these barriers:

Promoting female investors & signposting funding opportunities

Female-led funds and female investors generally play a pivotal role in championing diversity by supporting underrepresented entrepreneurs and investing in businesses that might otherwise be overlooked.

These funds not only empower female entrepreneurs but also prove that diversity drives innovation and can deliver strong returns. Highlighting success stories can help shift perceptions and encourage broader participation in the industry.

Connecting female entrepreneurs with female-led VC funds and investors more generally can help build networks and create pathways for success. Promoting these funds through visibility, mentorship, institutional support and the available tools is essential to creating a business and venture capital landscape that reflects the full spectrum of talent and ideas.

There are now AI products, such as mnAi, that can help to bridge the gap between investors and female-led companies. We hope that venture capital investors will use such products to find businesses outside of the usual funding pools.

The VC ecosystem also has a role to play in positive storytelling and signposting what investment and finance opportunities or options are available to businesses. The business finance system can be impermeable and time-consuming to understand. Tax reliefs such as the Enterprise Investment Scheme are complicated and require professional advice. All stakeholders need to work together if the true growth potential of all businesses are to be unlocked.

Creating targeted funding programs

VC funds should actively commit to developing funding programs specifically designed to support female entrepreneurs. Initiatives such as Innovate

UK's [Women in Innovation](#), [HATCH](#) and the [Female Founders Fund](#) demonstrate the potential of targeted programs to bridge the funding gap and empower female-led companies. By providing resources and tailored opportunities, these programs address systemic barriers and foster an environment where female entrepreneurs can thrive.

Enforcing diversity metrics

Voluntary initiatives like the UK's Investing in Women Code have shown that diversity-focused investment strategies can help expand opportunities for underrepresented entrepreneurs, with government [reports](#) finding that fund managers who have signed up to the Code are more likely to invest in female entrepreneurs.

Introducing accountability measures and diversity metrics in VC firms' portfolios can create accountability and ensure a fairer distribution of capital.

However, the lack of progress in recent years in bridging the funding gap between female-led companies and male-led companies demonstrates that there is more to be done and structural change is needed to break the cycle of underinvestment in female-led companies.

A call to action

The venture capital industry has the power to make change happen. It has the opportunity to empower female entrepreneurs and drive innovation. By recognising the legal and structural challenges women face, embracing the unique strengths women bring to the table, and implementing inclusive practices, the VC ecosystem can play a pivotal role in fostering a more equitable and prosperous future. Breaking down barriers isn't just about fairness—it's about unlocking untapped potential and creating lasting value and economic growth for all.

Authored by Caroline Colliston, Douglas Pyrk, Sofie Gill and Gabriella Rasiah



Understanding Share Classes in Venture Capital: A guide for founders and investors

This guide outlines the key types of shares used in venture capital (VC) transactions their effects, and what founders should consider before issuing them.

Not all shares are created the same. Founders need to have regard to the class of shares they are issuing in their start-up when raising money from investors.

Rights attached to classes of shares are outlined in a company's articles of association. These rights can provide more control over the running of the company, financial protections, or priority in receiving pay-outs when the company is sold ('Exit').

Ordinary vs. Preference Shares

The two main types of shares in VC transactions are ordinary and preference shares. Although there is no legal requirement as to the rights attached to these shares, they usually tend to provide the following rights:

- Ordinary Shares: offer standard voting rights but no financial protections in an Exit.
- Ordinary shareholders are usually last in line to receive a pay-out in an Exit.
- Founders, employees, and early investors usually hold this class of shares.
- Preference Shares: offer special rights protecting shareholders' investments.
- These may include priority in receiving returns, fixed pay-outs, or influence over company decisions.

- VC investors will normally only subscribe to preference shares.
- While preference shares help attract funding, they also dilute founder control and potential financial upside.

Types of Preference Shares

Investors can negotiate different types of preference shares, attaching different rights, to ensure certain financial protections.

- Convertible preference shares allow investors, at their discretion, to convert these into ordinary shares when a company is sold or goes public (when it is financially beneficial to do so).
- Participating preference shares provide investors with a two-stage pay-out: they first recover their original investment, then they share the remaining profits alongside ordinary shareholders. This structure is highly favourable to investors but can leave little for founders and employees.
- Non-participating preference shares allow investors to choose to reclaim their original investment or convert their shares into ordinary shares. This is generally more balanced and founder-friendly.
- Redeemable preference shares allow investors to require the company to buy-back their shares after a set period. If the company is not generating

enough cash, this can put significant financial pressure on the business.

Voting Rights and Control

Investors often negotiate for voting rights that provide them with influence over key decisions.

- Ordinary shares typically carry one vote per share
- Super-voting shares grant multiple votes per share, allowing founders to retain control of a company even with a minority stake
- Protective provisions give investors veto rights over critical business decisions (e.g. raising more funding, selling the company, or appointing directors)

For founders, giving up too much control early can make it harder to steer the company in the long term.

Liquidation Preferences: Who Gets Paid First?

- Liquidation preferences determine the order of payment in an Exit or liquidation
- 1x Liquidation Preference (most common): investors recover their original investment before founders are paid
- 2x or 3x Liquidation Preference (less common, more aggressive): investors take double or triple their initial investment before founders are paid.

Higher liquidation preferences can significantly reduce returns for founders and employees, even in a successful Exit.

Anti-Dilution Protections

Start-ups may raise additional funding at a lower valuation than previous rounds. To protect the value

their stake in the company if this occurs, investors often negotiate anti-dilution protections. The two main types of protection are:

- **Full Ratchet Anti-Dilution:** If new shares are issued at a lower price, early investors' shares are adjusted as if they had originally bought at the lower price. This heavily dilutes founders.
- **Weighted Average Anti-Dilution:** A more moderate approach that adjusts the investor's price based on the number of new shares issued, softening the impact on founders.
- Strict anti-dilution protections can make it harder for startups to raise future funding, as new investors may be wary of earlier investors holding overly protective terms.

Key Takeaways for Founders

- Consider the long-term impact of share structures: what seems like a small concession today could drastically affect payouts and control in the future
- Pay attention to liquidation preferences: higher multiples can leave founders with little or nothing in an Exit
- Negotiate fair investor protections: some investor rights are reasonable but overly protective terms can make future fundraising difficult

By structuring share classes carefully, startups can attract investment while ensuring a fair outcome for all stakeholders.

Authored by Darren Ormsby, Andrea Tarazi and Gabriella Rasiah



Valuing a company in Venture Capital transactions

Valuing a company in venture capital (VC) transactions is both an art and a science, balancing data-driven analysis with market sentiment to determine how much equity investors receive for their capital.

A well-executed valuation aligns the interests of founders and investors, paving the way for growth. This article explores the key components of VC valuation, from pre-money and post-money calculations to market trends and structural mechanisms like tranches and ratchets.

Pre-money and post-money valuation

The cornerstone of any VC deal is the pre-money valuation—the company's worth before new investment. This figure sets the price per share, calculated by dividing the pre-money valuation by the fully diluted share count, which includes issued shares, employee stock options, and potential shares from convertible instruments like warrants or debt. For example, a £10 million pre-money valuation with 1 million fully diluted shares results in a £10 share price. Post-money valuation, by contrast, adds the new investment to the pre-money figure, reflecting the company's value after the round. These metrics are critical, as they determine how much equity investors receive and how much ownership founders retain.

Market trends and valuation multiples

Market conditions heavily influence valuations. Over the past 18-24 months, economic uncertainty has driven down multiples, with Software-as-a-Service (SaaS) companies now typically valued at 6-8x annual recurring revenue, compared to 10-12x during peak markets. Early-stage startups may face even lower multiples, as investors prioritise proven traction over potential. Understanding these trends helps founders set realistic expectations and negotiate effectively.

Tranche investments and milestones

VC investors often mitigate risk by investing in tranches, tying funds to milestones outlined in the Subscription Agreement. This approach is common in sectors like life sciences, where funding may depend on clinical trial progress. However, milestones can create tension if market conditions shift, rendering original goals obsolete. Disputes over milestone achievement can complicate funding, so clear, flexible terms are essential. Founders should negotiate for higher valuations on future tranches to reflect growth, ensuring alignment with investors.



Ratchets and shareholding adjustments

Ratchets are mechanisms that adjust shareholdings based on performance or exit outcomes, often used to bridge valuation disagreements or incentivise founders. For instance, an exit ratchet might grant founders additional equity if the company sells above a target value. While effective, ratchets require careful structuring to avoid tax complications or conflicts among shareholders. When designed well, they align interests and drive performance.

Conclusion

Valuing a company in VC transactions demands a nuanced approach, blending pre-money and post-

money calculations with market insights and strategic tools like tranches and ratchets. By understanding these elements, founders and investors can negotiate fair valuations that foster trust and fuel growth. In today's cautious market, a transparent, well-informed valuation process is more critical than ever to building lasting partnerships.

Authored by Will Munday, Kartik Monga and Alex Falco



Dividend rights and venture capital landscape

This article outlines the key types of dividend rights typically encountered in venture capital deals, why they matter to investors and what founders should consider when these provisions appear in a term sheet.

When negotiating venture capital investment, founders are often focused on valuation, equity dilution, and governance. However, financial terms such as dividend rights can have significant implications for a company's future cash flow, investor returns, and capital structure.

What are dividend rights?

Dividends are distributions of a company's profits or retained earnings to shareholders, typically in the form of cash or additional shares.

In the venture capital context, dividends are rarely paid out during a company's early growth phase since companies typically want or need to reinvest earnings to scale their operations and investors generally expect to generate their returns through capital appreciation at exit as opposed to receiving income. Nevertheless, dividend rights can often be included in term sheets for more mature companies as a protective or value enhancing mechanism for investors.

Dividend rights are usually the preserve of preferred classes of shares held by investors and are expressed as a percentage of the original issue price of those preferred shares. For example, a 10% dividend on a £1.00 preferred share would entitle the holder to £0.10 per year. The structure of these rights can significantly affect how value is allocated between preferred and ordinary shareholders.

Types of dividends include:

Cumulative dividends

Cumulative dividend rights entitle preferred shareholders to receive a fixed dividend each year regardless of whether dividends have been declared or profits generated from which dividends can be lawfully paid. Unpaid dividends will accrue or accumulate and must be paid in full to preferred shareholders before any distributions are made to ordinary shareholders or as a priority payment to those shareholders on an exit. This structure protects preferred shareholders as it prevents profits available for distribution being allocated by a company disproportionately in favour of ordinary share classes.

Non-cumulative dividends

Under this structure, dividends do not automatically accrue and are only paid if they are declared by the board in a given year. This offers a company greater flexibility in managing its cash flow and is more commonly seen in early-stage deals.

Participating dividends

Participating rights allow preferred shareholders to receive their fixed dividend and then to also participate in any additional dividends paid to ordinary shareholders. This structure aligns investor interests with company performance and can significantly increase investor returns in profitable years.

Non-participating dividends

Here, preferred shareholders receive only their fixed dividend and do not share in any additional

distributions payable on the ordinary share classes. This caps their return and leaves more upside for ordinary shareholders, which may be more favourable to founders and employees.

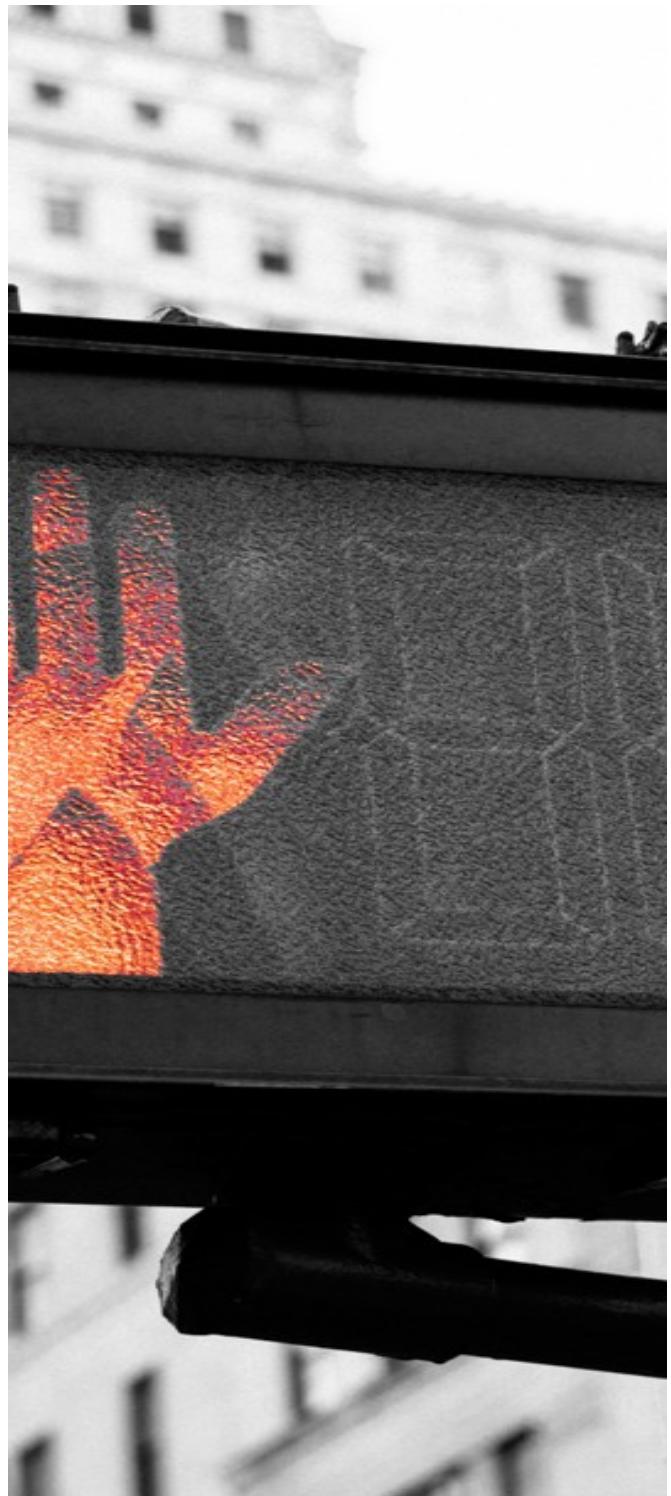
Investors may seek dividend rights for:

- Exit enhancement: accrued dividends can increase the investor's return upon a sale or liquidation.
- Risk mitigation: the income rights can provide a baseline return in scenarios where the company does not achieve a high-value exit.
- Negotiation leverage: in challenging fundraising environments, dividend rights may be used to balance other economic terms.
- Tax efficiency: in some jurisdictions, dividends may be taxed more favourably than capital gains.

Founders should carefully review any proposed dividend provisions and understand their long-term implications. For instance the cash flow impacts of dividend payments should be considered and how this might affect the company's ability to execute its growth plans. Obligations to pay dividends can also depress valuations since they represent a future liability which needs to be met.

Dividend rights are a nuanced but important element of venture capital financing. While they are not typically to be found in early-stage companies, their presence in a term sheet can significantly affect investor returns and founder economics at exit. Founders should approach these provisions with a clear understanding of their structure, purpose, and potential impact to ensure the terms align with their company's growth strategy and capital needs.

Authored by Scott Kennedy and Matthew Judge



Liquidation preference rights

For almost all investors on a venture capital transaction the primary motivation will ultimately be to make a capital return on their investment. In this regard, one of the protections that investors will often seek is a preference right attached to the shares subscribed for by the investors such that on a liquidation or an exit/sale event, the investors effectively rank ahead of the holders of other classes of share on the distribution of funds available.

Typically, a preference right will stipulate that, on a liquidation or exit event, the holders of the shares that have the preference right attached will, once all of the company's liabilities are satisfied and ahead of any other distribution to shareholders, receive an amount equivalent to their initial investment for such preferred shares or, less often on venture capital transactions, a multiple of that investment amount.

After satisfying the preference rights by the payment of the relevant amount, any remaining liquidation funds or exit proceeds are then available for further distribution to the shareholders. On venture capital transactions the approach to this "next phase" varies on a deal by deal basis depending on the dynamics and commercial position but common approaches in venture capital include:

- A "fully participating" or "double dip" scenario where the remaining funds are simply distributed pro rata amongst all shareholders, including both preferred and ordinary shareholders.
- A "simple participating" scenario where the ordinary shareholders next receive an amount equivalent to their original investment after the preferred shareholders' preferences are satisfied, following which the remaining proceeds are further divided among all shareholders on a pro rata basis
- An "as converted" or "non-participating" scenario where there is no participation for preference shareholders beyond their preference amount. Instead, at the point in time where the funds

available for distribution are such that, if the funds had been distributed pro rata across all classes of share as if one class, they would result in a higher amount received by the preference shareholders than their preference amount, then the preference shareholders would instead receive this higher amount as if all of the shares had been of the same class.

The above is a condensed list of some simple and "classic" venture capital liquidation preference positions but, ultimately, the size and structure of a liquidation preference right will be subject to bespoke negotiations, reflecting the associated risk levels of each investment round. Factors such as the company's valuation and market conditions critically influence these negotiations. Higher risks necessitate higher returns, hence more robust liquidation preferences.

In summary, the mechanisms surrounding preference rights on any capital distribution will be at the heart of a negotiation process on a venture capital investment and provide a safety net for investors to protect their financial interests during critical corporate transactions. It is crucial then that appropriate care, diligence and advice is taken when considering such terms.

Authored by Paul Pignatelli and Graham Tait

Comparative analysis of UK corporate investment vehicles

This article examines the principal corporate forms available in the UK—private companies limited by shares (Private Ltd Companies), limited liability partnerships (LLPs), and limited partnerships (LPs)—through the lens of investors pooling capital to invest in early and growth stage companies. It considers how each form allocates liability, structures governance, satisfies disclosure obligations and impacts tax obligations.

For investors, choosing the appropriate investment vehicle is crucial. The form chosen will reflect an investor's approach to risk exposure, governance control and tax efficiency.

Liability: From limited exposure to unlimited risk

Private Ltd Companies cap shareholder liability at the amount of any unpaid share capital, insulating personal assets from business debts. LLPs occupy a middle ground: while members' liability is generally confined to their capital contributions, it may be extended through contractual arrangements such as personal guarantees. LPs are unique in pairing passive limited partners with a general partner (GP), whose liability is unlimited.

Governance: Structured boards versus flexible agreements

Governance in Private Ltd Companies relies on a board of directors and shareholder resolutions, offering a familiar, codified decision-making process. LLPs dispense with formal boards altogether (appointing designated members to carry out director style functions and make operational decisions that fall outside of those matters requiring a partnership vote); members craft bespoke governance through their LLP agreement, which governs voting on operational and strategic matters and profit sharing amongst other matters. LPs vest control in the GP,

with limited partners remaining passive, and bound by the terms of the limited partnership agreement.

Compliance: Disclosure requirements and registry filings

Private Ltd Companies have moderate compliance burdens: annual confirmation statements, statutory accounts, and, if they exceed certain size thresholds, an audit. LLPs mirror these requirements but bypass share capital filings and audits are triggered only at higher turnover levels. LPs require minimal ongoing filings under the Limited Partnerships Act 1907—no public accounts or audit unless triggered by related LLP status. For investor syndicates, the low-disclosure LP is favoured to preserve confidentiality around investment performance and portfolio composition.

Tax considerations: Transparency and efficiency

LLPs and LPs are both tax transparent. This means that profits are not subject to corporation tax at the entity level; instead, they flow directly to the members or partners, who pay tax as though they were themselves directly carrying out a share of the transparent vehicle's taxable activities. This avoids the double taxation that can arise in corporate structures—where profits are taxed within the company and again when distributed as dividends. For purely investment-focused vehicles, this transparency can be highly efficient. It also allows an investor to be taxed on a capital basis (where the

LLP/LP itself realizes capital receipts) whereas a distribution from a company will almost certainly be regarded as income. These benefits should be balanced against investors being taxed on the vehicle's profits as they arise regardless of whether or not those profits are distributed. Companies can allow profits to be accumulated without any tax for an investor until those profits are realized.

Financing: Equity issuance, capital contributions and profit sharing

For investor syndicates, a private limited company often provides the most practical structure for holding investments. It allows the syndicate to issue shares to participating investors, create different share classes to reflect varying rights or economics, and onboard new members efficiently. LLPs do not issue shares; new capital typically arrives through admission of additional members with a defined right to receive a share of the LLP's profits. LPs, by design,

hinge on capital commitments and scheduled capital calls—built-in mechanics for managing liquidity, preferred returns, and carried interest

Conclusion: Aligning structure with investment strategy

For investor syndicates, the choice of investment vehicle depends on the desired balance of control, liability, tax efficiency and administrative burden. Private Ltd Companies offer simplicity and flexibility for direct equity investments. LLPs provide a middle group with operational flexibility and tax transparency. LPs are ideal for more structured syndicates seeking centralised management and confidentiality.

Authored by Justin Edgar, Tom Rank, Matthew Kernohan and Fernando Martins



UK venture debt market review: Key developments and deal term trends in 2024–2025

The UK's venture debt landscape in 2024 and the beginning of 2025 has undergone a quiet transformation, becoming a vital financing route for startups navigating a more cautious and less volatile investment climate. As equity funding tightened, venture debt stepped into the spotlight, offering founders a strategic alternative to fuel growth without giving up equity.

A market on the move

Despite global economic uncertainty, the UK venture debt market showed resounding resilience. Venture debt, once a niche tool, gained traction as startups sought to pair debt with smaller equity rounds in order to extend runway, finance acquisitions, or bridge to profitability.

The UK remained one of Europe's most active hubs for venture debt, with a strong late-stage startup scene and increasing interest from institutional lenders.

Government initiatives, such as the Mansion House reforms, aimed at unlocking pension fund capital for private markets, added momentum. These reforms signalled a broader shift toward diversifying funding sources for innovation-driven businesses, with venture debt positioned as a key beneficiary.

Venture debt competition is intensifying

HSBC Innovation Banking topped Sifted's Q2 2025 European ranking by deal count, with Columbia Lake Partners and Claret Capital close behind. Atempo Growth is scaling with a new fund, while BlackRock's acquisition of Kreos Capital has added heavyweight firepower to UK and European venture lending.

Traditional bank lenders are also active, and more institutions are circling. Expect further capital

formation as private credit continues to attract mainstream attention.

Deal Terms: A Shift Toward Structure and Caution

Deal terms have evolved to reflect a more risk-aware environment. Several notable trends have recently emerged:

- Greater standardisation: Updated model documents from industry bodies like the BVCA have helped streamline negotiations. These templates encourage consistency in shareholder agreements and subscription terms, reducing friction and legal costs.
- Borrower sensitive provisions: Greater lender competition for quality credits has led to initial interest only provisions followed by amortisation. We are also seeing fewer covenants relative to traditional bank loans, though material adverse changes, negative pledges and restrictions on additional debt continue to remain a feature.
- Investor protections on the rise: In response to market volatility, investors leaned into protective provisions. Participating liquidation preferences have become more common, and in some cases, preference multiples increased. Anti-dilution clauses—particularly full ratchets—are more

frequently seen in down rounds or rescue financings.

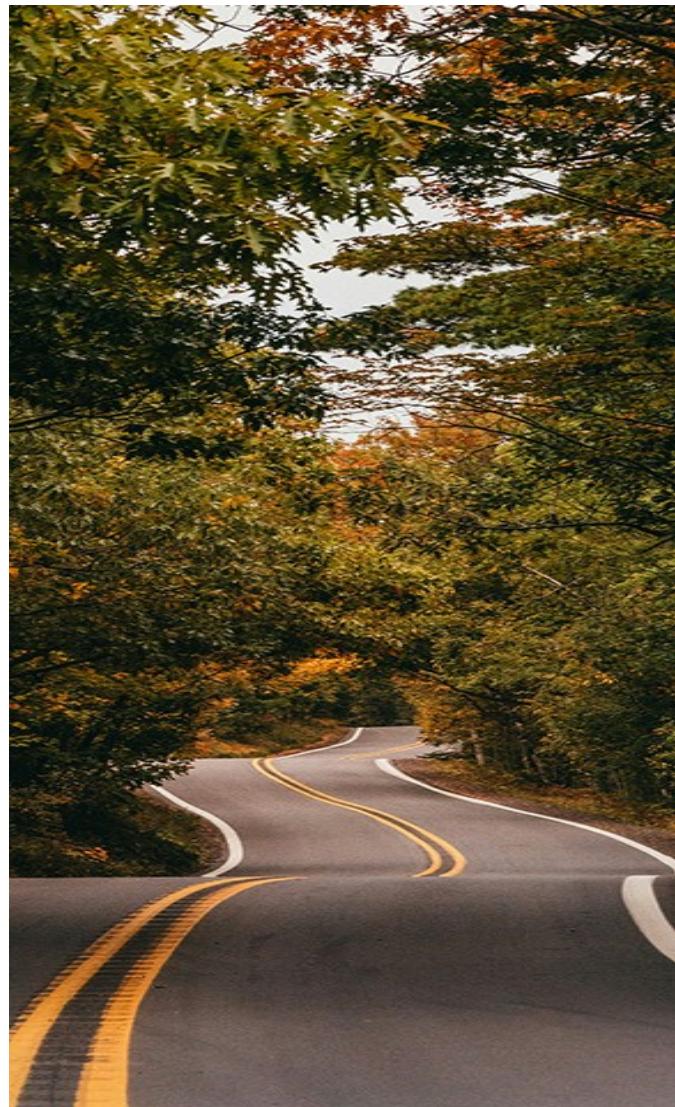
- Founder commitments scrutinised: Investors continue to request personal warranties from founders, despite industry guidance suggesting company-only warranties. Leaver provisions have also become more structured, with clear distinctions between "good" and "bad" leavers and vesting schedules tied to performance.

Sector trends and the road ahead

Fintech saw a dip in funding whilst sectors like AI, health tech, life sciences and climate innovation attracted strong interest. Government backing for tech infrastructure, including a £1 billion investment in AI and supercomputing, reinforced the UK's commitment to future-facing industries.

Looking forward to the next 12 months, venture debt is expected to play an even larger role in UK start-ups as a complement to equity. As founders seek capital that preserves equity and investors look for structured exposure to growth-stage companies, venture debt offers a middle ground for capital efficient growth. With regulatory support, greater supply of funding, better pricing for top credits and increasing familiarity among founders, the venture debt market is poised for continued expansion.

Authored by Amrish Sharma and George Robinson



Conversion rights in venture capital transactions: key considerations

Preference shares are a common feature of venture capital (VC) investments. They typically provide investors with significant downside protection and preferential economic rights when it comes to dividend payments and on returns of capital (whether on an exit or a liquidation). There are circumstances when it is beneficial, or indeed necessary, for an investor to convert preference shareholdings into full 'participating equity' (ordinary shares), alongside other shareholders in the company.

Convertible preference shares create the ability for investors to do this, by allowing a holder to convert their preference share position into ordinary shares, either at a time of their choosing or on the occurrence of specified events. Conversion is usually at a pre-determined price or by reference to an agreed formula, which can vary the price depending on a variety of factors. Understanding how and when conversion can occur and the conversion ratio and price that will be applied is crucial for both investors and founders, as it can have a significant impact on the risk/reward profile for all shareholders. It can also have an impact on the ability of the company to attract further investment. Below, we highlight some of the key considerations in a convertible share structure.

How and when conversion takes place - trigger events and investor controls

Preference shares are typically convertible into ordinary shares on the occurrence of agreed 'trigger events', usually comprising of some, or all of the following:

- At the option of the investor/holder of the preference shares.

- At the option of the founders/company on a specified date.
- On the occurrence of a further fundraising event.
- On the occurrence of an exit (being a sale of the company or an IPO).
- On the achievement of specified financial milestones (or on a failure to achieve certain financial milestones).

Conversion at the option of the investor

In VC transactions, investors will often require the right to convert their preference shares at a time of their choosing, typically exercised when a company is performing well and the investor can maximise returns by holding ordinary shares. This often occurs in anticipation of a further, larger fundraising or exit event, when an investor is happy to give up the downside protection of preference share rights. It can help the attractiveness of the company for future funding to simplify or 'flatten' the equity structure in this way.

Conversely, an investor may also seek to convert in circumstances where the business is not performing, usually at a more advantageous conversion price/ratio, and where they wish to influence the

direction of the company (given that ordinary shares have voting rights). Conversion in these circumstances would typically allow the investor to dilute other shareholders and therefore be in a position of greater economic and voting control, possibly even taking a majority equity stake and re-setting the share structure in its favour.

Investors may also seek further flexibility by negotiating a partial rather than a full conversion. This provides investors with the security of retaining a proportion of preference shares in certain circumstances.

Automatic conversion triggers

Investors and founders will also be likely to seek to agree certain automatic trigger events, typically including: on (or immediately prior to) the occurrence of an exit or qualifying fundraising event; on a specified date, if an exit has not been achieved; or, on the achievement of a specified financial milestone.

In relation to an exit, the conversion itself will usually occur immediately prior to the sale or IPO, ensuring that any preference share protections are maintained until the exit occurs, and the valuation of the exit can be applied to the conversion mechanism. This allows the investor to participate fully alongside the ordinary shareholders.

In setting out the parameters for automatic conversion on a fundraising or exit, the company and the investor will need to take particular care in relation to the definition of a "qualifying" fundraising or IPO, which will specify the criteria for conversion, such as the minimum amount of proceeds to be raised, a minimum price per share valuation, the identity of acceptable investors, and (in an IPO scenario) the exchange on which the shares are to be listed. Non-qualifying events may be subject to an investor veto, or a conversion price that is more advantageous to the investor.

Price and conversion ratio

Fundamental to the structure is the conversion price – being the relative valuation of the preference shares to ordinary shares, to be applied at the point of conversion. This impacts the ratio of conversion –

being the number of ordinary shares that any holding of preference shares will convert into.

A conversion may be at a fixed price per share, agreed at the outset of the investment, or by reference to an agreed formula usually specified in the articles of association (Articles). The Articles set the conversion price by reference to factors such as: the financial performance of the company since the issue of the preference shares; the valuation of the company during subsequent funding rounds; the amounts returned to shareholders in the period since the issue of the preference shares; and the proceeds available for distribution on the exit event.

The conversion ratio typically adjusts the number of ordinary shares by reference to the conversion price and will also cater for changes in the capital structure, in order to protect against dilution of the investor's shares.

Adjustments for anti-dilution

One of the most important features of preference shares is anti-dilution protection. If a company issues new shares at a price lower than the price initially paid by the investors (a 'down round'), the conversion ratio may be adjusted to protect the investors from dilution. This adjustment can take various forms, such as a 'weighted average' or 'full ratchet' mechanism and ensures that investors continue to maintain their pro rata proportion of the company's equity throughout the life cycle of their investment (or have the option to approve a dilution of their position).

Usually, a founder would have a preference towards a weighted average mechanism, considering this is a weaker form of anti-dilution mechanism. This would adjust the number of additional shares that an investor would receive based on the size and price of the down round relative to the investee's existing share capital. Under a full ratchet, the investor's original investment is re-priced at the share price of the down round, and the investor receives a bonus issue of new shares to increase its shareholding to what it would have received had its original investment been made at the down round price.

Whilst such provisions may make it easier to secure investor funding by making investments more attractive, from a founder's perspective, anti-dilution

provisions could also lead to significant founder dilution, impacting management and employee shareholder motivation and make it difficult to attract further funding.

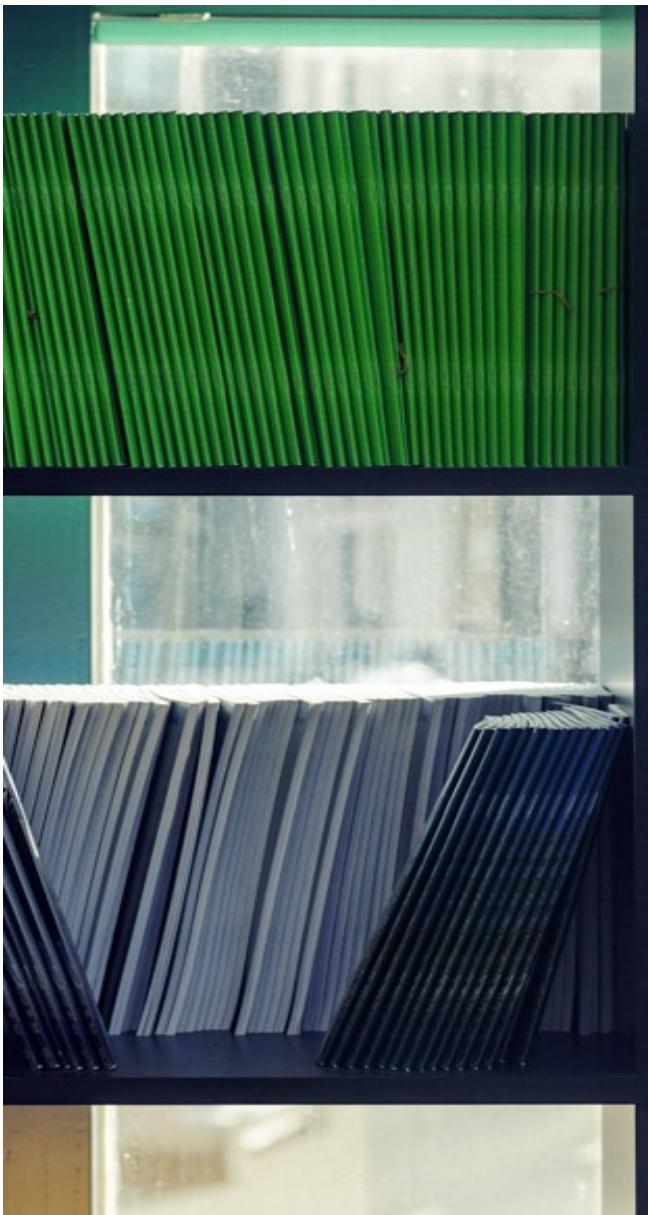
Practical implications

Preference shares and conversion rights are a key tool in structuring an investment and provide good protections to institutional investors. This allows early-stage or high growth companies to attract significant investors on valuations that would not otherwise be achievable.

For investors, broad and well thought out conversion rights and carefully drafted anti-dilution provisions are essential tools for managing their investment risk and maximising returns.

It is important to note, however, that the financial and structuring implications of including preference shares and conversion rights can be significant and can have a material impact on future fundraising opportunities and valuations. Professional advice, supported by careful negotiation and drafting of the conversion rights is essential.

Authored by James Bryce, Francesca Kinsella, Jagdeep Lall and Kirsty Wright



UK venture capital in 2024–2025: Trends, challenges, and opportunities

The UK's venture capital market is thriving, with strong early-stage activity, leadership in AI and deep tech, and growing regional hubs—yet scaling challenges persist, highlighting the need for greater late-stage investment.

The UK venture capital (VC) market has demonstrated resilience, reaffirming its position as Europe's leading destination for VC investment. According to KPMG's Private Enterprise Venture Pulse report, in Q1 2025, the UK attracted £4.1 billion in investment - more than double that of Germany, the next largest market. Despite this, deal volume decreased from 507 in Q1 2025 to 435 in Q2. Three key themes currently define the landscape: a surge in early-stage funding, the resilience of AI and deep tech, and the emergence of hubs beyond London.

Early-stage momentum vs late-stage stagnation

Early-stage investment continues to dominate the UK VC landscape. According to data from the British Private Equity & Venture Capital Association (BVCA), in 2024, seed-stage deals experienced an increase of more than 80% in investment levels, and the number of companies receiving funding at this stage rose by 30%. This trend reflects strong support for innovation and a healthy appetite for risk among investors. However, there is the risk the UK could become an 'incubator economy', as noted by the Lord Mayor of London.

Late-stage funding accounted for only 20% of total UK VC investment last year, compared to 35% in the US, leaving companies struggling to scale up through domestic capital. Notably, over 60% of late-stage

funding now originates from overseas investors - 42% from the US alone - diluting UK ownership and encouraging companies to look abroad. To avoid stagnation, UK based investors must increase their focus on growth-stage opportunities.



Advanced technology dominance

AI continues to dominate investment, with UK AI startups securing £1.8 billion in VC funding in the first half of 2025. Notable investments include Isomorphic Labs' \$600 million round (AI-led drug discovery), Sythensia's \$180 million (c. £160m) round (AI video generation), and Nscale's \$1.1 billion (c. £840m) round (AI infrastructure services). Deep tech - including technology such as quantum computing, augmented reality and life sciences also show significant promise, supported by government initiatives such as the Defence Innovation Fund and capitalising on the UK's strong academic research sector. These sectors are driving innovation and positioning the UK as a European leader in advanced technology investment.

The rise of regional hubs

While London remains the hotspot for UK venture capital - accounting for 47% of deals and 60% of investment value - regional hubs are expanding rapidly. Cambridge, Oxford, Cardiff and Glasgow have emerged as significant centres for investment, particularly due to their academic spinouts, which attracted £2.6 billion in equity investments in 2024. Oxford and Cambridge Universities ranked first and third, respectively, in Europe for their spinout creation value. The increasing prominence of deep tech and AI

is further enhancing the appeal of these research-driven regions, helping to diversify opportunities across the UK.

Looking to the future

The UK remains Europe's VC leader, but sustaining global competitiveness will require addressing the late-stage funding gap that forces many UK businesses to seek assistance overseas. VC firms should prioritise sustainable growth over short-term gains, fostering stronger, more resilient businesses that appeal to long-term investors. Government support will also be essential to retain high-potential companies.

Despite these issues, the UK's leadership in AI, deep tech, and life sciences provides a strong foundation for future growth. A strategic shift in capital allocation and focused regulatory support would ensure that the UK is well positioned to enhance its standing as a major global player.

Authored by Gary MacDonald, Alec Mackenzie, and Alex Alaniz



Redemption in venture capital transactions

In this article we explain what redemption rights are and look at the key considerations relating to their use in relation to UK private limited companies.

Redemption Rights in Venture Capital Transactions

Redemption rights can be a useful mechanism in venture capital transactions. Companies offering redemption rights may be more attractive to investors as they offer investors an alternative investment method which provides for an exit at a set price even if traditional liquidity events (such as a sale or listing) do not materialise within the expected timeframe.

What are redemption rights?

UK company law allows UK companies to issue 'redeemable shares'. These are shares which can or must be bought back (or 'redeemed') by the issuing company in certain circumstances. There are specific rules and procedures that must be followed in relation to both the creation of redeemable shares and their redemption.

The term 'redemption rights' refers to the circumstances which trigger redemption. For example, the share rights may require the shares to be redeemed:

- On a specific future date or in tranches over a number of dates
- On the occurrence of a specific event e.g. the failure to pay an agreed dividend, or the passing of a resolution to wind up the issuing company or to change the rights attached to the redeemable shares; or
- At any time (or during a specific period) at the option of the investor or the issuing company.

What are the benefits of redeemable shares?

Redeemable shares can offer the parties a degree of flexibility and security.

From an investor's standpoint, holding redeemable shares can, depending on the redemption rights, serve as a safeguard against illiquidity as they give it an exit route when other routes (such as a sale or listing) may not be available. The investor also has the benefit of knowing that the price it will get is pre-determined (either by way of a pre-agreed fixed price or a formula). Typically, VC funds must return capital to their limited partners within fixed timelines. If a portfolio company stagnates or delays an exit, redemption rights provide leverage to encourage strategic decisions (such as pursuing a sale or recapitalisation) that can unlock value.

Having set dates for redemption offers a degree of certainty to the parties and allows for planning. The redemption period usually begins five to seven years after the initial investment, aligning with the typical VC fund lifecycle.

What are the drawbacks of redeemable shares?

From a founder's perspective, redemption rights can introduce financial and operational pressure. If exercised, the company may need substantial cash reserves or access to financing to redeem the shares, which can strain resources and limit growth opportunities. In extreme cases, failure to honour redemption obligations can lead to investor enforcement actions, including forcing a sale or initiating legal proceedings.

Moreover, redemption rights can influence governance. Investors with redemption leverage may push for decisions that prioritise liquidity over long-term growth, potentially creating tension with founders who envision scaling the business over a longer term.

There are stringent rules relating to the creation and redemption of redeemable shares. Care must be taken to ensure these rules are followed as a mistake could lead to a redemption being deemed to be void and/or the company and its directors committing criminal offences.

Arguably the single biggest issue relates to financing the redemption. Typically, a company will need to have distributable profits at least equal to the redemption price to be able to proceed with the redemption. This can cause potential problems in particular for start ups. While there are other potential methods of financing a redemption (e.g. from the proceeds of a fresh issue of shares or out of capital), these are less commonly used as they are subject to certain restrictions.

There are also limited remedies available to an investor if the company fails to redeem shares when required to do so. The Companies Act 2006 specifically provides that if a company fails to redeem shares, it is not liable in damages in respect of that failure. It also provides that if the company cannot finance the redemption out of distributable profits, the court will not grant an order for specific performance to force the company to do so. It is possible to include specific provisions in the articles of association dealing with this scenario (e.g. providing that the company will redeem the shares as soon as it is able and restricting the ability of the company to pay dividends until the redemption takes place). The investor may also be able to seek an injunction preventing the company paying dividends until the redeemable shares have been redeemed. It is also

not uncommon for other documents, such as an investment agreement, to include remedies in the event of a failure to redeem e.g. it may be an event of default which triggers other rights for the investor.

Negotiating redemption rights

Redemption rights are highly negotiable. Key considerations include:

- **Timing** - extending the redemption period gives the company more time to achieve a successful exit.
- **Pricing** - redemption price formulas vary, some include interest or dividends, while others cap returns to avoid punitive outcomes.
- **Payment terms** - staggered payments or instalment structures can ease the financial burden on the company.
- **Triggers** - redemption may be tied to specific events, such as failure to meet revenue milestones or lack of an IPO within a set timeframe.

Founders should seek to balance investor protections with operational flexibility, ensuring redemption rights do not become an existential threat to the business.

Conclusion

Redemption rights are a powerful tool in venture capital transactions, offering investors a contractual exit while introducing potential risks for founders. Understanding their mechanics and negotiating fair terms is essential for maintaining alignment between growth ambitions and investor expectations. Ultimately, redemption rights underscore the importance of clear communication and strategic planning in the VC landscape.

Authored by Will Munday, Stephen Hardwick and Fortune Elenwa

UK Budget 2025: venture capital implications

The UK Budget on 26 November 2025 announced £26 billion in tax increases to attempt to balance the UK's books. The Chancellor introduced a wide package of measures, drawing on a range of sources, being careful not to noticeably raise the main rates of income tax, national insurance contributions or VAT. Some of the changes announced signal a shift towards the taxation of assets rather than just income alone. These changes, as well as the Enterprise Investment Scheme, Venture Capital Trusts and Enterprise Management Incentive changes, will have an impact on both venture capital investors and investee companies.

Enterprise Investment Scheme ("EIS") and Venture Capital Trusts ("VCT")

The Government announced changes to both the EIS and VCT rules, which had already been extended to 6 April 2035 in the 2024 Budget. These changes ensure that vital sources of finance for small and growing businesses remain available to increase those businesses' capacity and enable follow-on investments.

From 6 April 2026, the following changes will apply to both EIS and VCTs:

- annual company investment limit: Increased to £10 million (from £5 million), and £20 million for Knowledge Intensive Companies ("KICs") (from £10 million);
- lifetime company investment limit: Increased to £24 million (from £12 million), and £40 million for KICs (from £20 million); and
- gross assets test: increased to £30 million before share issue (from £15 million), and £35 million after (from £16 million).

However, the upfront income tax relief for individuals investing in VCTs will fall from 30% to

20%. This change is intended to better align the relief with EIS, which does not provide dividend relief, and to encourage VCT funds to focus on higher-growth companies.

Following the reduction in VCT relief, EIS funds may become more appealing to investors seeking to maximise upfront tax benefits. From 6 April 2026, EIS will retain the 30% income tax relief. EIS funds typically allow pooled investments through a nominee, offering access to a diversified portfolio of early-stage companies similar to VCTs.

The changes also mean that start-up and early-stage companies will be able to access more tax advantaged capital and do so at a later financial stage in their growth. The clear political bet here is that rather than raising revenue directly, these changes will drive wider growth across the economy.

This shift could prompt some investors to move from VCTs, which remain attractive for tax-free dividends and greater liquidity, to EIS funds. Ultimately, the choice will depend on individual priorities around income, growth, and risk appetite.

Income tax - Dividend income

Because individuals who receive dividend income do not pay national insurance contributions, from April 2026, the basic rate of tax on dividend income will increase for all UK taxpayers from 8.75% to 10.75% and the upper rate will increase from 33.75% to 35.75%. The additional rate of 39.35% will not be changed.

Although this is a rise in income tax, it is economically equivalent to levying a flat 2% employee national insurance contribution on dividend income. The Government may have chosen not to raise the additional rate of income tax for dividend income in an attempt to provide some comfort and stability to high-income investors and business owners, amidst other tax measures targeting the wealthy.

This increase was a surprise announcement in the Budget, although a reduction in national insurance and corresponding increase in income tax, which would have had a similar effect, was widely reported. The Government has noted in the Budget documents that over 90% of UK taxpayers do not receive taxable dividend income and that the additional revenue to be received from this tax increase is expected to come from the top 20% of the wealthiest households. The Government is therefore claiming to keep to its manifesto promise of not increasing taxes on working people and ensuring greater equity between the tax treatment of income received from employment and income received from assets.

However, the Office for Budget Responsibility has noted that this change is expected to result in some behavioural changes, such as individuals reducing their taxable dividend income.

Enterprise Management Incentive Changes

The number of companies in the UK that can utilise Enterprise Management Incentives ("EMI") will increase in April 2026 as a result of the Government increasing the thresholds for what constitutes a "qualifying company" for EMI purposes.

The changes are:

- the limit on the value of company options able to be granted at any one time will be increased from £3 million to £6 million;
- the maximum value of a company's gross assets at the time of grant will be increased from £30 million to £120 million; and
- the maximum number of employees that a qualifying company can have at the time of grant will be increased from 250 employees to 500 employees.

The maximum period for holding an EMI qualifying option will also increase from 10 to 15 years.

The Government guidance suggests that if your company has existing EMI options that are due to lapse as the tenth anniversary of the date of grant is approaching, you could consider amending the scheme rules and option agreements to extend the holding period to take advantage of the new 15-year period. HMRC has noted that such change would not result in the EMI options being considered to be surrendered and regranted.

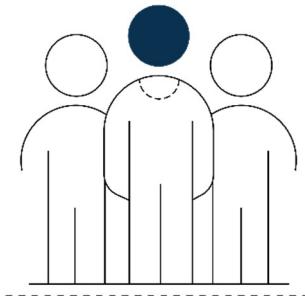
The Government has also announced that the EMI notification requirements will also be removed from April 2027. This extends HMRC's previous changes to the EMI notification requirements.

This is the first change to thresholds for what constitutes a "qualifying company" for EMI purposes since the EMI scheme was introduced in 2003. These increases are welcome and well overdue and will bring many larger companies within the scope of qualifying to grant EMI options.

The EMI option scheme is generally considered to have been very successful since its introduction and provides companies and employees with significant tax advantages if the rules are followed correctly. We would encourage companies that may have discounted EMI options as they did not qualify to reconsider. We would also encourage large

companies who, from April, will be within the scope of the EMI legislation and who are looking for ways to incentivise and retain staff to consider setting up an EMI option scheme. Our Tax and Share Schemes team has extensive experience in establishing EMI schemes so please do get in touch with us if you would like to discuss this further.

Authored by James Cashman, Colleen Dooner and Zita Dempsey



Our Recent VC Experience

- Acting for Nesta Impact Investments on their latest investment in Manchester-based Gaia Learning, a global leader in neuro-divergent education.
- Advising Nesta Impact Investments on an investment into Resi, a business which provides homeowners with a digital-first, end-to-end service for home renovations, such as loft or kitchen extensions.
- Acting for Pastest on its minority equity investment in The Medic Life, a medical education company.
- Advising CCI Photonics Limited and BidScript Limited in relation to separate investments from the PraeSeed Fund.
- Acting for Praetura on its investment in SISU Wellness.
- Advising GMCA on the further investment in Netacea by Mercia Asset Management.
- Acting for Scottish National Investment Bank and co-Investor Mercia Ventures in relation to an investment in Quantum Leap Technologies (Holdings) Limited (trading as Leap AI).
- Advising Scottish National Investment Bank on a number of different investments in the technology sector including in Utopi Ltd, Calcivis, Cyacomb, Travelnest and Pneumowave.
- Acting for Stormharvester Holdings Ltd on a Series A funding round led by YFM Partners and related secondary capital investment by Emerald Ventures.
- Advising CarbonFit Ltd on seed investments from a number of private investors over an extended period.
- Acting for The House of Dynamite Ltd on the terms of a new equity and debt investment into Spectrum Advice Group Ltd by South African headquartered firm Momentum Metropolitan Holdings (UK) Ltd.
- Advising Cordovan Capital on a number of equity funding rounds into Decom Engineering including a £2.5m convertible loan.
- Acting for Albion Capital on a number of venture capital investments.
- Advising Pets Love fresh on its seed and Series A funding rounds.
- Acting for specialist healthcare investor Apposite Capital on a number of minority investments, including in respect of diagnostics company Medical Imaging Partnership.
- Advising a number of family offices of independent successful entrepreneurs on multiple strategic venture capital investments, including in Glasswall Solutions (cyber security), Evolve Dynamics (Sky Mantis drones and tethers both for civil and military application), FibreCRM (software for professional services businesses) and Actus (performance and talent management software).
- Acting for Enter Air on its investment in the Swiss company Germania Flug.
- Advising the founder shareholders of BioSure (UK) Limited (a company in the biotech sector) in the raising of initial seed capital and, subsequently 3 further rounds of capital raising from, amongst others, Moulton Goodies Limited.
- Acting for Midnite, an esports and sports betting company, on its Series A and Series B funding rounds.
- Advising Octagon I/O Limited (trading as Converge), an early stage technology company, on its Series A equity funding round which included an investment from OGCI.
- Acting for the Ministry of Defence software supplier, Adarga, on its £17m Series A funding round.
- Advising Cellnovo Limited, a medical device company, on an initial investment to provide funds to develop its starlet range of drug infusion products together with subsequent funding rounds raising in aggregate of £40m.
- Acting for RideZoomo, an electric bikes leasing company, on its seed and Series A equity funding rounds which included investment from a number of venture capital funds.

Meet the Team

A Collaborative Venture Capital Team

As the largest venture capital team of any law firm in the UK with 84 lawyers in 10 offices, we act for some of the most high-profile investors and also companies at the centre of global financial and technological innovation.

DWF can rely on an extensive network of skilled lawyers in various jurisdictions to provide our clients a seamless and co-ordinated approach to venture capital transactions.



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