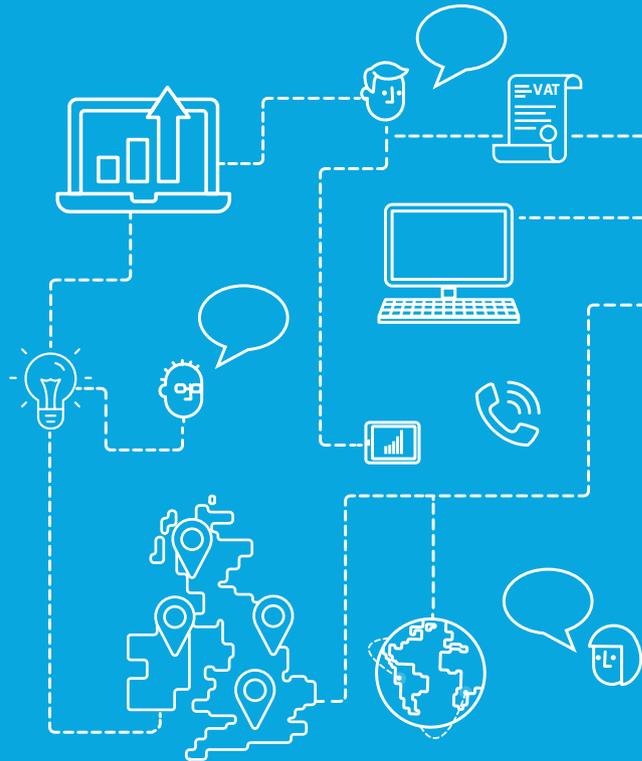


# High Growth Tech

Supporting your journey



THE POWER OF BEING UNDERSTOOD  
AUDIT | TAX | CONSULTING



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# Introduction

Over the last decade, the technology sector has become a key component of the UK economy. Encouraged by local and national government initiatives and backed by some of the biggest global tech firms and learning institutions, the goal has been to make Britain the go-to place for tech scaleups. The Government's Digital Strategy to make Britain the best place in the world to start and grow a digital business indicates how important the sector is and will continue to be, with digital enterprises growing faster in turnover and productivity than the rest of the economy.

Clusters of pre-revenue digital businesses, set up by young and talented tech entrepreneurs, are putting down roots in the UK. The nucleus is in the East End of London but has spread across the City and the UK with tech ecosystems existing in Manchester, Leeds, Bristol, Cambridge, Liverpool, Edinburgh and Belfast, to name but a few.

Along with meeting the demands of developing innovative digital solutions and services, technology companies like yours face a variety of complex challenges when considering how and when to scale your business. Managing the growth phase is critical to your company's long-term sustainability. From funding concerns to staying on pace with a rapidly changing marketplace, there's much to consider. At RSM, we're committed to providing our clients and industry executives relevant insights to help entrepreneurs and businesses stay on top of these issues as well as staying up-to-date on technology's investment landscape.

At RSM, we complement our own tech professionals, who speak your language, with audit, tax and consulting experts. Together and led by a single point of contact, we'll put in place the components that will take your business from scaleup through to international expansion, maturity and/or exit, without losing touch with who you are and what you want to become.

## RSM and Tech Nation

In order to support the growth of successful UK tech-based scaleups, RSM has partnered with Tech Nation on several initiatives. Tech Nation is a national network for ambitious tech entrepreneurs to scale faster through growth programmes, digital entrepreneurship skills, a visa scheme for exceptional talent, and by championing the UK's digital sector through data, stories and media campaigns.

## Key stats



**Investment** for UK scaleup digital firms grew **61%** between 2017 and 2018

**35%** of Europe's **169** unicorn tech companies have been **created in the UK**

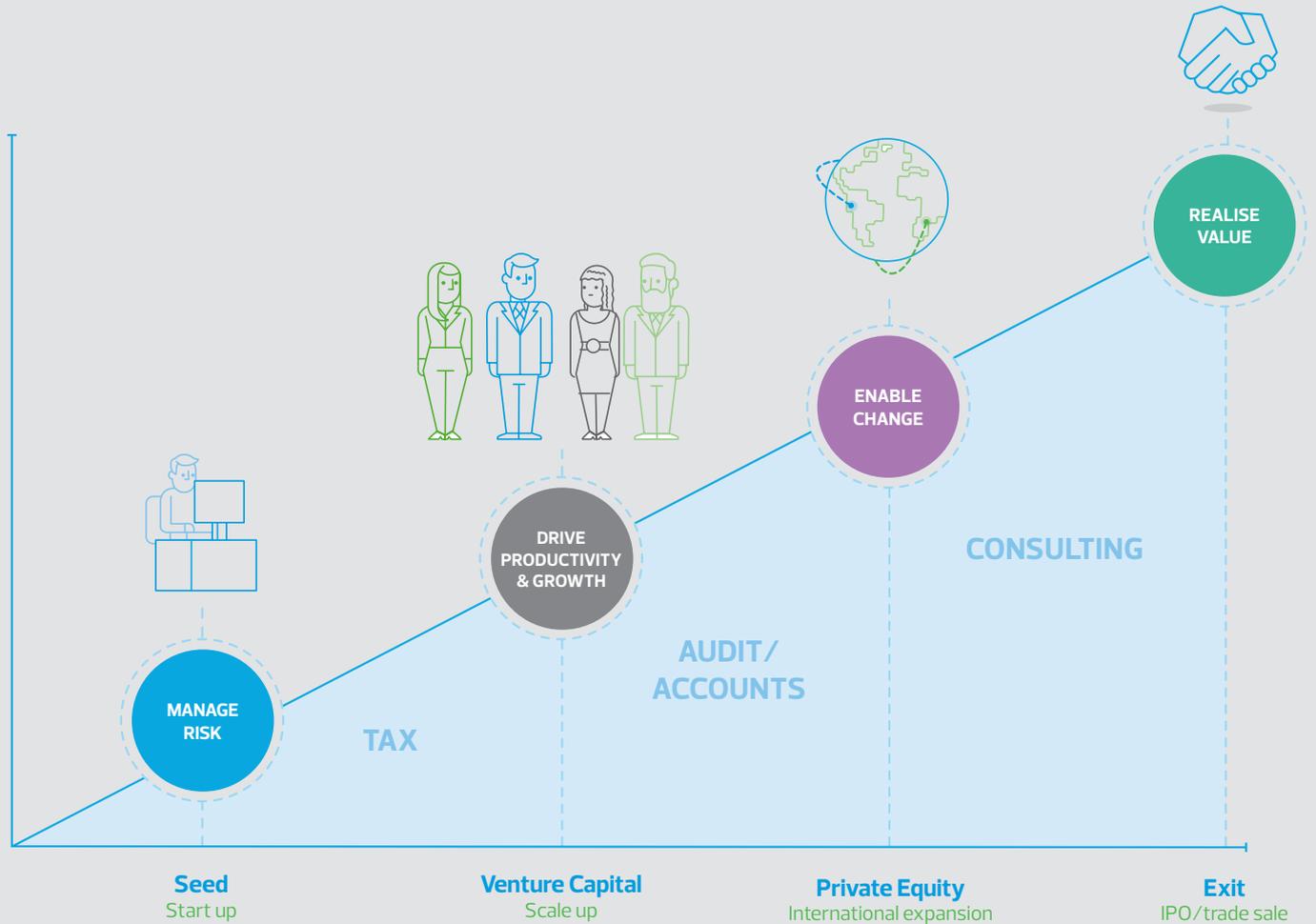


The total **venture capital investment** in UK tech in 2018 topped **£6bn**, more than any other European country



The recent **revenue growth** for London tech scaleups at **56%** makes the cluster first in the world for **scaleup growth**

# How RSM can help



## Funding

The right type of investment can give you a head start and the critical mass you need to see off rival businesses.

Tech companies seek investors who share faith in their concept and will enable them to make the financial leap towards what they want to become. Investors meanwhile are looking for potential. They want to be in at the start of the next digital giant or, at the very least, a disruptive business that offers something new and could become a very significant player. Investors are seeking out tech that is solutions focussed and scalable.

Right now, there is no shortage of investment opportunities or funding in the UK. Investors are backing scaleups that are at the right stage of their growth cycles and offer a mix of strong leadership, technical know-how, a proper business model and believable innovative products or services.

### Stages of funding

The stage of development a business is at will determine the type of funding it will attract. The earlier in the cycle, the higher the risks, but the greater the potential opportunity.

- **Angel and high net worth individuals:** an angel investor is usually a high net worth individual (HNWI) who provides financial backing for small scaleups or entrepreneurs. Angels and HNWIs are funding exciting, new and innovative products, technologies and services at the smaller end of the tech market where risk and potential return is greatest.
- **Venture Capital:** Venture Capital funding, which typically ranges from several £million to tens of millions, is the next step on the funding ladder. Terms such as 'Series A' or 'Series B' are commonplace in reference to early and mid-stage businesses. The VC is usually looking for growth potential and will typically fund loss-making scaleups that are still developing their tech. VC targets are usually at the pre-revenue phase of development. If the company continues to grow and its value increases, the VC will exit, selling the stake for more than its original purchase price.
- **Private Equity:** Private Equity (PE) buyers acquire businesses because they can see the potential returns to be made by providing capital to facilitate faster and further growth. Raising funds from private equity can help tech entrepreneurs take their business to the next level through acquisition, geographical expansion or by introducing new products and services.



## VCT, EIS or SEIS

Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) funds have become an increasingly important source of funding to ambitious smaller companies, as a result of low interest rates and increasing restrictions on other tax-efficient investment opportunities for individuals.

However, recent changes to venture capital schemes have opened them up to larger companies that can, for example, use the monies raised to expand overseas. The changes also allow certain overseas companies to take advantage of such funds, for example, to expand into the UK.

The Seed Enterprise Investment Scheme (SEIS) introduced an even more tax-beneficial scheme with income tax relief at 50 per cent for investors in small, newly established businesses (broadly, carrying on a trade no more than two years old).

However, generous HMRC-approved tax savings come at a price. To protect their aims of encouraging high risk-investment in growing businesses, the EIS, SEIS and VCT rules contain a myriad of conditions and anti-avoidance provisions. Tax reliefs may incentivise individuals to invest in these schemes, but potential participants should also familiarise themselves with the commercial risks involved in investing in unquoted companies.

## Manage risk and compliance

Whether you are early, mid or late stage in your scaling journey, it is important to ensure that your company can properly manage risks and is compliant with the most recent laws and regulations as it evolves.



### Complying with auditing requirements

Not all businesses need an audit, but should you avoid auditors at all costs? If you are a growing business, or are considering a sale or flotation, an audit could help you ensure you have 'all your ducks in a row' in good time and make your business more appealing to investors.

Our audit approach focusses on quality. It is founded on detailed risk assessments, the use of data analytics and corroborated analytical review which involves understanding what makes your business tick. We put robust and considered planning at the centre of our process and involve your team at all stages.



### Meeting your financial reporting responsibilities

The year-end can be a difficult time, which many companies simply want to get through and then forget. But your accounts are more than just a statement of your company's transactions and financial position. As well as ensuring compliance with the relevant laws and regulations, they are an expression of the way your company does business and show how it presents itself to the outside world.

A well-prepared set of accounts speaks volumes to your existing and potential investors, as well as all of your stakeholders.



### Managing corporate tax risk & compliance

Your corporate tax issues could range from the routine to specialist and complex advice to support your business plans, strategies and transactions. As such we tailor our service according to your requirements and business circumstances. We can help you plan a tax-efficient approach to every aspect of your business, one that sees the whole picture and works with you to protect the interests of your stakeholders, is essential to your success



### **Managing VAT in today's digital world**

The issues and questions surrounding VAT in the digital sector are notoriously difficult. With increased legislation and regulation, this makes VAT one of the most complex taxes you are likely to encounter. Whatever your business sector or circumstances, you will need a tailored, practical and commercial approach which is specific to your business.



### **Managing risk through an outsourced back office**

A well thought out outsourcing plan means you can focus on running the business, leaving the back-office administration, bookkeeping, and VAT compliance to a reliable team of experts. Using bespoke software or familiar packages such as Xero and Sage means your daily, weekly and monthly accounting needs can be moulded to your exact requirements.



### **Paying your team the right amount and on time**

Many growing technology companies choose to outsource their payrolls. Take the monthly pain out of paying your staff and managing the related reporting, withholding and pension requirements. The right solution for your business could be anything from the supply of a customised online payroll and HR solution through to a fully managed outsourced solution for your payroll processing.



### **Addressing potentially complex company secretarial matters**

Taking on new shareholders, appointing new directors and group restructures, all part of the course for a fast growth tech company. A company needs to be on top of reorganising its share capital structures including capital reductions, purchase of own shares and multiple share class creation. Not only that, but also redrafting articles of association, applying for stamp duty exemptions and getting the basic annual filings in on time at Companies House, many young technology businesses turn to outside help

## Drive productivity and growth

To succeed in a crowded market, a tech scaleup can never stand still. Once your business is on its feet, it's important to identify areas for further expansion and improvement. These areas of focus are critical to your company's journey.



### **Having a robust business plan and forecast**

If you're attracting investment, you'll need a business plan and a forecast to present. Our experienced team can develop new tools and models to help you better present your business to investors, to support your decision making, provide valuations, or provide independent assurance over your own financial models. Financial models and analyses, in all their forms, play a crucial role in supporting corporate decision making and communication.



### **Meeting employee tax compliance obligations as your work force expands**

As the team expands, and a company offers a more sophisticated rewards and incentives package to its staff, so does the need to meet more complex employee and employer tax obligations. Ensuring accurate returns are made to HMRC, as well as dealing with internationally mobile employees is an area a technology company typically faces at an early stage.



### **Attracting, retaining and motivating key staff**

Incentivisation schemes, especially EMI, are used extensively by companies across the technology sector. Rewarding employees by giving them an equity stake in the business can help you attract and retain the best talent, aligning your work force incentives to those of the business. As many employers have already found, committed and incentivised staff are vital to business success.

Employee share schemes are now an important feature of the remuneration landscape. The use of HMRC approved and other tax-efficient arrangements make share schemes particularly attractive to employees. This can help give you the edge and set your business apart from your competitors when it comes to the war for talent for the best software developers.



### **Improving the efficiency and effectiveness of the finance function**

Whereas a bookkeeper and part time CFO would have been sufficient at start up phase, there comes a time when a fully fledged finance function is required, particularly if there are overseas elements. What then becomes important is a finance department that is efficient and effective, achieved by identifying inefficiencies and shortfalls, better management and reporting of data, and designing and implementing best-in-class finance processes.

## Enabling change & evolution

So, your business has grown successfully, with new products and new markets firmly on the agenda. We've set out the areas that your c-suite will need to consider for continued growth whilst also adapting to changes within your organisation.



### Expanding overseas

High growth businesses need to constantly push boundaries and enter new markets. For this reason, technology companies often expand overseas relatively early in their lifecycle, and the US is by far and away the destination of choice – usually East or West coast depending on market focus.

International markets present attractive opportunities for ambitious businesses, but as far as tax and compliance are concerned, there can be significant complexities. Seeking expert advice at an early stage will help overseas expansion go smoothly, minimising delays and avoiding unnecessary cost. We can assist with the practical and commercial implications of an overseas expansion, as well as your overall tax strategy to ensure it fits the countries in which you want to do business.



### Adhering to transfer pricing regulation

Transfer pricing refers to the valuation of transactions between related parties and covers goods, services, intangible property, debt, and typically comes into play once expansion overseas occurs. If your business has any transactions between related entities, such as group companies, then you will need to consider transfer pricing issues. For international groups, the complexity is multiplied as you factor in the differing views of the tax authorities in each country, particularly the United States.



### Growth by acquisition

Growth by acquisition is a further way to add scale or new product or service offerings to your business. Without doubt, the success of an acquisition to an acquirer can be significantly influenced by the extent and quality of the due diligence undertaken. Financial due diligence is a key aspect of the overall investigation into the target, alongside legal and commercial due diligence.



### **Migrating to a fully integrated ERP solution**

Fast growth tech businesses need to ensure their business and financial processes and software develops in line with the increasing demands of the businesses and its stakeholders. In the early stages, whilst it might have been sufficient to run the business with a basic financial reporting package and spreadsheets, there comes a point when a system upgrade is called for, which often means implementing a fully integrated ERP system.



### **Maximising tax efficiency**

Maximising tax efficiency and simplicity is no easy task with a complex group structure, but an expert corporate tax team can help you develop the right approach for your business. There will be immediate tactical decisions and complicated strategic considerations, anticipating the eventual impact of taxation on transaction costs and investment decisions. To retain control, it's crucial you have the information that allows you to identify any issues in good time and the expert advice that will enable you to factor-in practical measures.



### **Outsourcing global compliance and reporting**

Your business may have grown to the extent you have compliance requirements in multiple territories and can see the cost savings in outsourcing all of this; meeting your compliance, audit, accounting and regulatory reporting needs, wherever you are around the world.

## Realise value

Your business is flourishing, and your early/mid stage investors are due to turn a profit. What is your exit strategy?

As an owner-manager you may be selling the business that you have believed in from its embryonic stage. It is therefore vital that you choose an advisor that understands the unique pressures of running a private business, as well as the motivations and expectations surrounding your business sale.

For tech entrepreneurs there are several options when it comes to realising value. You may wish to sell to a trade buyer, Private Equity, or make an Initial Public Offering (IPO). A mature scaleup that has been through two or three rounds of funding, expanded internationally and gone from pre-revenue to running a proper profit and loss account, will be considering it's end game:



**Further organic growth** to establish itself as a truly large international business



Extract value with a **trade sale** to a super business. These companies pay well over the odds to secure a piece of software or a small-scale rival. For scaleup management, a trade sale may offer a lucrative exit.



Private Equity is a common route and provides finance and opportunities to take a company to the **next level**, with management often staying on.



An **Initial Public Offering (IPO) or listing** on a UK or foreign exchange

We can help to manage the entire sale process and ensure that your team remain in control of the sale process, from start to finish.

## RSM's Technology Group

RSM UK is a leading audit, tax and consulting firm to the middle market with nearly 3,800 partners and staff operating from 35 locations throughout the UK.

Our national technology group has a long and proud history of supporting clients to grow and expand in the tech sector. Our experience has been acquired by providing proactive solutions to clients with regards to their compliance and business advisory requirements. Your business is built on innovation. Just like you, finding new ways of doing things is key to the way we deliver our services. With in-depth sector expertise, tailored to your specific needs we will help you excel and grow.

**7th** : **116** : **41,000** : **750**  
largest global audit, tax : countries : staff : offices  
and consulting network : : : :

**Taking the middle market,  
to the global market**

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## Notes

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