ZAZEN TAX

Getting Funding Ready

The twelve months before a round, in order, from both a lender's angle and an investor's.

Eight chapters, one timetable, and the arithmetic both audiences will run on you.

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The worked figures are Meridian Studio Ltd's, the company behind every tool on zazentax.com, including the round it might one day price: £1,000,000 on £4,000,000 pre-money.

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1 Two audiences, two questions

A lender asks: will I be repaid if this goes badly? An investor asks: how big does this get if it goes well? Every document you prepare serves one question or the other, and most serve both.

The lender reads your downside: cash, covenants, security, the stability of the base. The investor reads your upside: growth, retention, unit economics, the size of the market the model implies. The overlap is trust in the numbers, which is why the first six months of funding readiness are identical whichever route you take.

> THE COST OF THE TWO ROUTES, IN ONE SENTENCE
>
> On Meridian's figures, £250,000 over three years costs £87,500 as debt and £600,000 as a 20 per cent equity stake at a £3,000,000 exit: equity costs nothing a month and the most overall, which is why it is the right money only for risk a lender will not carry.

2 Twelve months out: make the numbers trustworthy

Diligence does not check whether your numbers are good. It checks whether they are true, and it starts with whether they reconcile.

- Management accounts monthly, closed in five days, reconciling to the bank. Two years of history if you have it; clean months from now if you do not.
- A three-statement model with the balance sheet balancing by construction. The ask, the runway and the milestones all come off it.
- Revenue recognition written down. Deferred income handled properly. A policy that changes mid-process reprices the deal.
- The close discipline installed now, because twelve clean months is a thing you can only start growing today.

3 Nine months out: the legal spine

Legal diligence opens with the cap table, and a cap table that does not reconcile to Companies House ends more rounds late than any trading number.

- Every allotment filed, every share certificate signed, every previous SEIS and EIS round documented with its certificates.
- EMI options granted with valuations and signed agreements. A pool that exists only in a spreadsheet is a repair bill during the round.
- IP assigned in writing by every founder and every contractor, including work done before incorporation.
- SEIS and EIS advance assurance from HMRC before conversations open, if your investors will claim relief. Angels walk over missing assurance, and it costs weeks exactly when weeks cost momentum.

4 Six months out: the metrics they will rebuild

Whatever your deck claims, diligence rebuilds churn, concentration and unit economics from the ledgers. Compute them from the books first, so theirs match yours.

Concentration is the one services companies underestimate. Meridian's largest client is £28,000 a month, 10.4 per cent of revenue, which sounds safe until operating leverage is applied: losing them takes 56 per cent of profit, because the fixed costs stay when the revenue leaves. Both audiences price that: lenders as covenant risk, investors as a discount.

Retention arithmetic gets the same treatment. At £20,100 of new monthly revenue and 3 per cent monthly churn, growth stops at £670,000 a month, and no sales hire changes that ceiling: only retention does. An investor who finds the ceiling before you do owns the valuation conversation.

5 Three months out: the data room

The data room is not a diligence chore, it is a negotiating position: answering in hours instead of weeks is how momentum survives, and momentum is price.

Build it before the term sheet, to the standard index: corporate, financial, tax, commercial, people, IP and data, legal, in the order diligence opens them. One naming convention, no passwords, and a written Q&A log so every answer exists once.

Then read your own room like a buyer: the related-party invoice, the change-of-control clause in the biggest customer contract, the bridge loan. Every one of those is fine disclosed and expensive discovered. Diligence rarely kills deals; it reprices them, and it reprices hardest late.

6 The lender's route

Debt is cheaper and it arrives with covenants: promises about ratios, tested quarterly, that are an event of default when broken, even on a loan being serviced perfectly.

The two tests almost every SME facility carries: leverage (net debt over EBITDA, commonly capped around 3 times) and interest cover (EBITDA over interest, commonly floored around 4 times). Meridian passes both with room: net cash on the balance sheet, cover of 20 times, and EBITDA able to fall 80 per cent before the first breach.

- Know your covenant floor before the lender does. The Covenant Headroom Calculator prices it in a minute.
- Covenants test the facility agreement's adjusted EBITDA, not your management accounts' version. Read the definition before signing, not after.
- A conversation you start about headroom goes better than one the lender starts.

7 The investor's route, and what dilution costs

Equity prices are made of arithmetic wearing a story. Know the arithmetic cold before anyone tells you the story.

The demo round: £1,000,000 raised on £4,000,000 pre-money is £5,000,000 post, and the investor holds 20 per cent. Then the quiet clause: a 10 per cent option pool created BEFORE the money lands dilutes only the existing holders. Founders keep 70 per cent, not 80, and the pool is £500,000 of founder value, moved before the negotiation appears to start.

The round	Amount
Pre-money	£4,000,000
Raised	£1,000,000
Investor share	20 per cent
Pool, created pre-money	10 per cent
Founders keep	**70 per cent**
What the pool cost the founders	**£500,000**

The counter is not refusing a pool, it is sizing it: to the actual hiring plan between this round and the next, not to the round number in the term sheet. Every point of pool is real money, and the Dilution and Cap Table Calculator prices it live.

8 The timetable on one page

When	What has to be true
Twelve months out	Five-day close running, model built, clean months accumulating
Nine months out	Cap table reconciled, EMI tidy, IP assigned, advance assurance in
Six months out	Metrics computed from the books, concentration and retention story owned
Three months out	Data room built to the index, read like a buyer, Q&A log ready
The round	Answer in hours, keep the board approving, keep trading: the best diligence answer is a month that beats plan mid-process

The pattern in every row: the work is boring, cheap done early and ruinous done late. Funding readiness is not a project for the quarter you need money. It is the by-product of a finance function that was built properly, which is the actual subject of this library.

Where to go next

Download the Fundraising Readiness Checklist and the Data Room Index, then run the Cost of Capital Comparison and the Dilution and Cap Table Calculator on your own numbers before anyone else does.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures, the same conventions and the same worked company as the chapters here.

General information, not advice for your circumstances. Rates and thresholds are 2026/27 for the UK and change from time to time.