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HOW THE WORLD OF SMALL BUSINESS FUNDING HAS CHANGED

CAPTAIN MAINWARING HAS LEFT THE BUILDING

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AUGUST 2026

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Captain Mainwaring has left the building

- The fundraising journey of companies has changed dramatically in the past 25 years.
- The beginning, typically, still involves family and friends and, perhaps, a friendly bank manager.
- The end remains much the same, too.
- For the stages in between, the landscape has changed:
  - the local bank manager rarely plays a role these days;
  - companies come to the public markets later in their journey; and
  - private equity takes a much larger role.
- The UK is good at early stage, with supportive schemes such as EIS…
- …but has lost out on larger companies to New York, where valuations can be substantially higher.
- The environment continues to evolve, with the recent launch of PISCES platforms showing early signs of success.
- Founders, owners and managers often have little understanding of:
  - how investors look at companies and which type of investor they should be focusing on;
  - how to talk "investor"; and
  - how to value their business.
- On the one hand, the changes have made it difficult for retail investors to partake of certain opportunities, which are now dominated by private equity, while, on the other hand, the EIS scheme has allowed some retail investors access to exciting propositions.

Introduction

The author spoke at a financial event in Hay on Wye on the subject

This article is based on a speech on the subject "Minority Sports – Small Business Financing", which the author gave in March of this year at the "Weekend of Mistakes" event in Hay on Wye.[1]

It is now exactly 10 years since Hardman & Co published *The Gifford Report: Two questions every growth company management should ask themselves*. This paper sought to answer two straightforward questions: "Who will our next investors be?" and "What will they expect from us?"

At the time of writing that paper, the environment for funding businesses was evolving. In the 10 years since publication, the landscape for funding smaller businesses, in particular, has changed dramatically.

This article will be of interest to founders, owners and managers of businesses, as well as investors.

[1] You can view a recording of this speech here: https://hardmanandco.com/how-small-businesses-get-funded-keith-hiscock-weekend-of-mistakes/ The event website is here: https://www.weekendofmistakes.org/

The old model

Funding model has changed substantially in the past 25 years

The table below sets out the world of funding as it used to be. When was this "golden" period? Probably, more than 25 years ago would be a reasonable guess.

The table demonstrates that as a company grows in scale (we are using capital required here, rather than turnover):

- the source of funding evolves;
- the audience of investors to which it will appeal changes; and
- the advisors, such as lawyers and accountants, it will be expected to have in place progresses.

Broadly, the journey starts with friends and family and ends with global investors. In the early stages, the Captain Mainwarings[2] of the world would have been important; the local bank manager had real discretion over lending as well as being a pillar of local society! He would know all the local businesses, and had discretion over lending to them. The role and status of the local bank manager have changed dramatically, and judgments regarding lending decisions to smaller companies have been replaced by automated decisions.

The old model

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Market/equity value	£0m-£1m	£1m-£5m	£10m-£25m	£25m-£250m	£250m+	£1bn+
Market	Private	Private	Private	AIM	AIM	LSE Main Market
Profitable?	No	No	Possibly	Yes	Yes	Yes
Access to debt?	No	Overdraft/asset finance	Possibly	Yes	Yes	Yes
Status	Private	Private	Private	Public	Public	Public
Advisers	Local accountant Local lawyer	Local accountant Local lawyer	Regional accountant Regional lawyer Financial advisor	Regional accountant Regional lawyer NOMAD Broker IR/PR	National accountant National lawyer NOMAD Broker IR/PR	Top 4 auditor Magic Circle Bulge bracket Other bulge Big name PR
Target investors	Friends & Family	V-C, angel networks, SEIS/EIS investors, HNWIs, crowdfunding	EIS, HNWIs, Wealth managers, Private Equity, Micro-cap managers, retail investors	Wealth managers, Small-cap fund managers, retail investors	Institutional investors, Index funds, Wealth managers, retail investors	Big institutions, Global funds, Index funds
Bank help?	Asset Finance, Factoring, Director-guaranteed loans	Asset Finance, Factoring, Director-guaranteed loans	Asset Finance, Factoring, Director-guaranteed loans	Asset Finance, Factoring, Director-guaranteed loans, RCFs, Loans	Asset Finance, Factoring, Director-guaranteed loans, RCFs. Loans	Asset Finance, Factoring, Director-guaranteed loans, RCFs, Loans Bonds
The old days?	Local bank manager	Local bank manager	Local bank manager	Regional manager	National manager	Global team

Source: Hardman & Co Research

[2] Captain Mainwaring was the leading character in the BBC comedy, Dads Army, which covered the antics of a band of Local Defence Volunteers in a typical English seaside town during the Second World War. Mainwaring was the local bank manager in civilian life.

The new model

The situation today is very different, as shown in the table below:

The new model	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Market/equity value	£0m-£1m	£1m-£5m	£10m-£25m	£25m-£250m	£250m+	£1bn+
Market	Private	Private	Private/PISCES	Private/PISCES/AIM	Private/PISCES/AIM	LSE Main Market
Profitable?	No	No	Possibly	Yes	Yes	Yes
Access to debt?	No	Overdraft/asset finance	Possibly	Yes	Yes	Yes
Status	Private	Private	Private	Private	Private	Public
Advisers	Local accountant Local lawyer	Local accountant Local lawyer	Regional accountant Regional lawyer Financial advisor	Regional accountant Regional lawyer Financial advisor	National accountant National lawyer Financial advisor	Top 4 auditor Magic Circle Bulge bracket Other bulge
Target investors	Friends & Family	V-C, angel networks, SEIS/EIS investors, HNWIs, crowdfunding	EIS, HNWIs, Private Equity	Private Equity	Private Equity, Institutions	Big Institutions, Global Funds, Index Funds
Bank help?	Asset Finance, Factoring, Director-guaranteed loans	Asset Finance, Factoring, Director-guaranteed loans	Asset Finance, Factoring, Director-guaranteed loans	Asset Finance, Factoring, Director-guaranteed loans, RCFs, Loans	Asset Finance, Factoring, Director-guaranteed loans, RCFs. Loans	Asset Finance, Factoring, Director-guaranteed loans, RCFs, Loans Bonds

Source: Hardman & Co Research

So, what has changed?

The beginning and end of the funding journey has not changed a great deal, apart from the loss of the local bank manager. It is the stages in between that are very different today.

Today, companies use public markets much later in their funding journey

Traditionally, a flotation on the stock market was a step on the road to greatness. Today, typically, companies come to the public markets later in their journey. The average market capitalisation of an IPO (initial public offering) on AIM (the Alternative Investment Market) was £21m in 1995; by 2020, that figure had risen to £127m.[3] This development has resulted in a substantial shrinkage in the number of public companies on the London market. Between 2007 and 2020, the number of companies trading on the Main Market of the London Stock Exchange shrunk by 25%, and those on AIM by 50%.[4] The same story has been seen on most stock exchanges around the world.

Essentially, public markets have been replaced by private equity for much of the pathway

The role of public markets in the middle of the funding journey has been substantially usurped by private equity. There are many reasons why companies go public later in their journey. However, the four key ones are:

The emphasis on liquidity post-Woodford has become much more important to professional investors, making it more difficult to invest in small- and mid-cap shares

a. The growth of private equity funds. Large, professional investors, such as pension funds, have allocated increasing proportions of their funds to private equity investments; typically, through funds. This has been funded by a decreased allocation to public markets.

b. Concerns about poor liquidity in trading shares in the UK, particularly at the mid- and small-cap end of the market, has significantly reduced demand from professional investors. Much of this can be traced back to the unfortunate events at the Woodford Equity Income Fund. In short, having once been very popular among retail investors, the mood changed and the fund suffered withdrawals. After all the liquid stocks had been sold from the portfolio, the fund was left with a selection of unmarketable shares, and had to "gate" the fund to halt further withdrawals in 2019. Following that event, fund managers have been under regulatory pressure to monitor the liquidity of their holdings. It is no surprise that many of them have dealt with the issue by avoiding or reducing their allocation to small and mid-cap stocks.

c. Related to the previous point, specialist small-cap fund managers have been losing funds under management.

d. The growing concentration of assets under management among wealth managers. We have seen several mega-mergers, which have combined with mandated model portfolios, to reduce their appetite for shares outside the mega-caps. Let us explain. The FCA has worried about there being differing outcomes for the clients of one firm with the same objectives. This has led to the creation of model portfolios. A wealth manager will ensure that investment outcomes are the same for similar investors by forcing them into a common portfolio. If, for example, the model portfolio has 100 holdings, the larger the wealth manager becomes,

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[3] See the paper jointly written by Hardman & Co and the Quoted Companies Alliance: *Are the public markets closing to smaller companies?*, pages 10 and 11, 1 May 2020, https://hardmanandco.com/research/corporate-research/are-the-public-markets-closing-to-smaller-companies/

[4] See the paper jointly written by Hardman & Co and the Quoted Companies Alliance: *Are the public markets closing to smaller companies?*, pages 5 and 6, 1 May 2020, https://hardmanandco.com/research/corporate-research/are-the-public-markets-closing-to-smaller-companies/

the larger the free market cap of its holdings must be to ensure liquidity is adequate, thus driving it to big caps.

New initiatives to encourage trading in private companies might have an impact going forward

A fifth reason for companies to delay "going public" is emerging. There have always been platforms where private company shares can be traded occasionally. However, the FCA launched an initiative, in June 2025, to give this space more legitimacy and comfort for investors – PISCES (Private Intermittent Securities and Capital Exchange System). There are already four approved platforms under this imitative: Asset Match; JP Jenkins; London Stock Exchange; and Vestd. Further details are set out below.[5] In the past few weeks, these platforms have raised money for Wayve, the British autonomous driving technology company[6] and announced a transaction for Moneybox, a London-based fintech,[7] (a trade that raised £45m in an employee share sale, valuing the whole company at £800m). The PISCES platforms may become a stepping stone in a company's path to becoming a mega-cap.

We should also note how much more important the Enterprise Investment Scheme (EIS) has become since its launch in 1994.

How do founders and managers decide the investor audience to which they appeal?

The two tables above show that each stage in a company's life appeals to a different sort of funder or investor. Size is an important part of the choice for nearly all investors. Many tend to specialise in a specific range of sizes. There are also other factors that investors take into account, such as:

Most founder/managers fail to understand which investors they are likely to appeal to

- **Risk:** Some investors want low risk, so businesses with reliable, recurring revenues appeal. Others are used to looking at high risk – these are often "early stage" companies, such as businesses in life sciences, oil and gas explorers or speculative mining companies.

- **Proven growth:** For some investors, reliable growth is key. Companies that have worked up a successful formula and are now rolling it out geographically are attractive to them, such as Greggs; having started in the North East, Greggs now has more than 2,700 units across the UK.

- **Roll up or buy and build companies:** Some investors favour businesses that take this approach. An example would be Dignity, which bought out family firms of undertakers, benefitted from scaling up savings (e.g. cutting billing costs by having one centralised system), while retaining local brands. CVS has been following a similar strategy in the veterinary market. Here, an investor will start by looking at how fragmented a market is, then take a view regarding how good management is at finding deals, paying the right price and integrating.

- **Strong management:** We know of at least one fund manager for whom the management team is critical. He has the advantage of having attended hundreds, if not thousands of management meetings. As he says, when you've met a thousand donkeys, you know what a horse looks like!

[5] FCA "PISCES: platforms for trading private company shares@ 27/4/26 https://www.fca.org.uk/markets/pisces-private-intermittent-securities-capital-exchange-system

[6] Employees of Wayve raised $85m through a transaction on the London Stock Exchange's PISCES platform, valuing the whole business at $8.5bn.

[7] Moneybox is proposing a £45m employee share sale, valuing the whole company at £800m.

When an investor is considering an opportunity, they will have in their mind a list of questions they want answered. The set of questions an early-stage investor asks will be completely different to those posed by "buy and build" investors.

What founders/managers struggle with in particular

Hardman & Co has worked with many companies to prepare them for fund raising and sale. In our experience, founders and mangers struggle with the following:

Apart from identifying the right investors, founder managers struggle with investor language and valuation

- **Investor appetites:** Often they seek to appeal to the wrong type of investor. They have not taken into account the distinctions between investors that we have set out above. There is no point marketing Greggs, for example, to an investor who wants early-stage companies for that combination of potentially explosive growth and high risk.

- **Speaking "investor":** They do not know how to speak "investor". Like every field of endeavour, investors have their own language. Being able to talk the same language helps managers and founders to engage with investors.

- **Valuing their business:** Typically, investors use different valuation criteria dependent on the sector/stage/type – perhaps, price to future revenues for AI or price to net asset value for property. Owners worry that when they come to sell, which they might well do just once in their life, their lack of experience will mean they get taken advantage of.

In a sense, owners and managers can be excused for not knowing these things, because their expertise lies in running their business, not talking to investors or valuing businesses.

Issues for investors

In the new environment, some investors can no longer participate in companies they might have been able to previously

The new small business funding environment has implications for investors as well, particularly retail investors.

Since, typically, companies come to the public markets later in their life and stay in the hands of private equity for longer, it is more difficult for retail investors to participate. These investors can only get access to PE investments through specialist funds, such as specialist investment companies. This can mean that, not only do they miss out on particular companies, but whole sectors may be in the hands of PE and unavailable to retail.

However, the EIS scheme has been a great success in funding companies

The EIS scheme and its little brother, the Seed Enterprise Investment Scheme, have been a great success in funding early-stage companies in the UK. The Enterprise Investment Scheme Association, the industry body, asserts that "*SEIS and EIS have together facilitated £35.5 billion of private investment into more than 62,000 businesses. These businesses generated £28.2billion in turnover and employed 386,000 people in 2023 alone*".[8] However, not all retail investors can participate; investors need to meet certain criteria before being let in. Despite the success of the schemes, it is still surprising how small a percentage of those eligible actually take advantage of these opportunities.

[8] https://www.eisa.org.uk/about-eis/facts-and-figures/

For more information on EIS investing visit the Hardman & Co website.[9] Hardman & Co is a leading commentator on the EIS market.

The same restrictions apply to investors in the PISCES platforms.

EIS and PISCES are part of the reason why the UK is good at early-stage investing. Where the UK can lose out is on larger companies, where valuations put on companies by US markets can be substantially higher.

[9] *https://hardmanandco.com/*

About the author

Keith Hiscock

Keith Hiscock is the Chief Executive of Hardman & Co.

He is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate.

Keith has more than 45 years' City experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith has also advised companies, large and small, on their relationships with the capital markets.

Keith was part of the group of investors that acquired Hardman & Co in late 2012. He holds an MA in Philosophy, Politics & Economics from the University of Oxford.

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Our expert team of sector analysts and market professionals collectively have over 400 years of experience. This depth of knowledge and a reputation for integrity have built trust with investors. With effective communication and precision distribution, we help companies disseminate their investment message to interested investors, as well as advise them on strategy.

Our smaller, boutique structure allows us to provide first-class customer service and to deliver a wide range of ad-hoc services for multiple clients with different needs.

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