Powering the growth of software companies, a profile of Prefcap

With #QVCS, Maddyness profiles different funds to give founders and entrepreneurs the information they need to choose the right investor. Today, we speak to Jesse Heasman, investor at Prefcap.

Prefcap was launched in 2018 by Marc Young and Alastair Mills to support founders caught in the funding gap between Seed and Series A. As the macro environment has evolved, we've found opportunities to back businesses before Series B or those taking final funding before hitting breakeven too.

Our thesis that there are shortfalls in the funding market has been proven with the timing lag between Seed and Series A hitting over two years in 2023. This has been driven by institutional investors raising larger funds, which in turn increased their average cheque size and ultimately resulted in higher ARR targets for businesses (moving from £500K ARR five years ago to north of £2M today). There are plenty of exciting businesses who need that bit of extra runway to hit these VC targets or a capital injection to juice growth ahead of a larger raise.

Over the last four years we've launched our debut fund and invested in 21 B2B start-ups in the UK and Europe. We're out raising Fund II now with a growing pipeline of software companies ready to back.

Which industries are you working in?

We back enterprise software companies that develop niche solutions to specific problems for a defined set of users. We are sector agnostic so have invested in fintech, proptech and adtech to-date as well as revops and devops.

We believe that digitalisation in large enterprises has a long way to run and so are excited by cloud-based web apps that help streamline and automate desk jobs, providing analytics and visualisation upstream to the managerial level.

The rapid rise of artificial intelligence makes us even more bullish about vertical workflow solutions that can act as the guardrails to apply AI on proprietary datasets in a familiar and sandboxed UI.

What do you look for in a founder?

We love founders who have discovered a need in their specialism or industry and gone on to build it. Many of the companies we meet and invest in have pivoted from consultancy to a productised software offering. We believe that entrepreneurs with deep roots in an industry find it easier to sell their product and build stickier solutions compared with general SMB horizontal offerings. That being said – outsiders can often see through the noise and jargon to simplify processes and operations!

Can you talk about your current portfolio?

We've backed 21 companies since inception through investments from our balance sheet and Fund I. We have invested in sectors ranging from logistics to insurance and payments to AI.

We're thrilled to have achieved two exits in the period with ePOS solution Goodtill being acquired by SumUp and recruitment analytics layer Cube19 bought by Bullhorn.

As a representation of the diversity in the portfolio I'll mention our last five investments made in 2023 and the high level thesis behind each.

Brightmile: Driver safety tool for large enterprises to monitor the driving behaviour of employees using personal vehicles in their day-to-day job –– This taps into the growing trend of field agents and sales reps using their own cars for work and employer's responsibility to minimise risk on the job.

LDSK: Content management and scheduling platform for the digital out-of-home (DOOH) advertising space –– Out-of-home media is a growing sector as hardware pricing falls to bring more digital locations online – LDSK deal with both the processing and optimisation of DOOH content.

ThingCo: E2E telematics solution and fraud analytics tool for the car insurance industry — Insurance premiums are rising leading many insurers to launch lower cost telematics products to retain/attract customers and reduce claims – ThingCo manages the provision of these insurance lines.

Ladorian: AI recommendation engine to optimise in-store media and promotions to drive merchandise sales — Our first Spanish investment. This allows petrol stations, pharmacies and convenience stores to drive ROI from more timely and relevant in-store digital media.

Awaken: Configurable agent guidance and conversation analytics platform for contact centres — Call centre software is typically archaic and distributed across multiple apps – Awaken brings it all together under one hood adding an analytics and intelligence overlay.

What does the future look like?

We're focussed on the enterprise segment and believe that there is still a way to go until processes, communication and data are fully digitised or incorporated into E2E solutions.

The move to cloud-based applications will only be accelerated by the prevalence of AI and its interest at the C-Suite level since the launch of ChatGPT to drive internal administrative efficiencies in middle management or engineering roles and to gain new insights from internal datasets.

We continue to get excited about businesses building on the side of large platforms such as ServiceNow and Salesforce, with portfolio companies AutomatePro and Ebsta doing just that by providing tooling for their clients to make the most out of their platform licenses.

What makes Prefcap different?

We provide bite-sized funding for companies caught between rounds or founders that don't require the dilution of a large venture raise to execute on their plans. We pride ourselves in being quick to deploy capital (6 weeks from an offer) and easy to deal with.

Furthermore, we do not seek to impose ourselves on businesses by taking board seats and charging monitoring fees. We believe founders know their industry and company far better than us and we invest to back them. Where there are specific situations that would benefit from our team’s experience or relevant intros we can make in our network we are happy to assist.

What one piece of advice would you give founders?

Think carefully about the type and quantum of capital you need to grow. Optimising your hiring plan and monthly burn for a large VC round may not always deliver any greater ROI than if you had taken a smaller cheque, burned less capital, and maintained a greater share of your business before exit!

Jesse Heasemna is an investor at *Prefcap*.

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