RocketPhone.ai

PROVIDED BY ROCKETPHONE.AI · EIS-QUALIFYING COMPANY

The Intelligent Investor’s Guide to EIS

How EIS can change the economics of investing in innovative UK companies such as RocketPhone.ai.

EIS combines access to early-stage growth companies with UK tax incentives designed to compensate investors for accepting greater investment risk and lower liquidity. This guide examines the benefits, risks and potential outcomes objectively.

THE CENTRAL DISTINCTION

EIS can change an investor's economic outcome. It cannot change the commercial result of the company.

EIS in five points

30%	0%	Loss	Estate	Growth
Potential income-tax relief on qualifying investments under current rules	Potential CGT on gains from qualifying EIS shares	Potential relief where qualifying investments underperform	Potential inheritance-tax treatment, subject to applicable rules	Exposure to private companies - with high risk and low liquidity

01 / FRAMEWORK

What is the Enterprise Investment Scheme?

A UK Government scheme intended to encourage private investment into qualifying smaller companies by offering tax incentives to eligible investors.

Investor capital
Equity investment in newly issued qualifying shares

to

Growth company
Capital supports innovation, expansion and employment

to

Higher risk
Private-company uncertainty and limited liquidity

to

Tax incentives
Designed to compensate for additional risk - not eliminate it

Investors generally need to hold qualifying shares for at least three years to retain certain reliefs. Both company and investor eligibility conditions apply, and continued qualification matters. Advance Assurance indicates HMRC’s view of a proposed share issue based on information supplied; it is not approval of the investment and does not guarantee an investor’s ultimate entitlement to relief.

KEY TAKEAWAY

Evaluate two layers separately: the quality of the company and the tax-adjusted economics for the investor.

02 / RELIEFS

Why investors consider EIS

Four reliefs may materially alter effective exposure and after-tax outcomes. None is automatic, and all depend on applicable rules and individual circumstances.

01 · INCOME TAX

Reduce effective cash exposure

Qualifying investors may currently claim relief equal to 30% of the amount invested, subject to limits and sufficient UK income-tax liability.

ILLUSTRATIVE EXAMPLE - NOT A FORECAST

Amount invested in company	**£100,000**
Potential income-tax relief	**£30,000**
Effective exposure after relief	**£70,000**

The company receives £100,000. £70,000 represents effective exposure after a successful £30,000 claim.

02 · CAPITAL GAINS

Potential tax-free growth

Where qualification requirements are satisfied, gains on qualifying EIS shares may be exempt from Capital Gains Tax.

ILLUSTRATIVE EXAMPLE - NOT A FORECAST

Investment / exit proceeds	**£100k / £300k**
Investment gain	**£200,000**
Potential CGT on qualifying gain	**£0**

A standard taxable investment may create a CGT liability. The rate would depend on the investor and then-current rules.

03 · LOSS RELIEF

Mitigate - but not erase - loss

A qualifying loss may potentially be set against income or capital gains after accounting for income-tax relief already received.

ILLUSTRATIVE AT 45% - INDIVIDUAL CIRCUMSTANCES APPLY

Investment less initial relief	**£70,000**
Potential further loss relief	**£31,500**
Effective economic loss	**£38,500**

The company investment lost 100%. The investor’s tax-adjusted economic loss did not. Eligibility and usable relief depend on individual circumstances.

04 · INHERITANCE TAX

Potential estate-planning relevance

Qualifying EIS shares may potentially qualify for Business Relief for inheritance-tax purposes once relevant ownership and other conditions have been satisfied.

Not automatic.

Current rules, transitional provisions and future reforms should be verified before any investment or estate-planning decision.

03 / ECONOMICS

The EIS risk/reward equation

The underlying investment remains risky. The tax treatment can make the investor's economic payoff asymmetric.

UNRELIEVED PRIVATE INVESTMENT

Maximum capital at risk: £100

No EIS downside mitigation assumed.

ILLUSTRATIVE QUALIFYING EIS INVESTMENT

£100 invested

Illustrative effective loss: £38.50

Assumes 30% initial relief, total failure and usable loss relief at an illustrative 45% rate.

Upside

The investor participates in the full equity upside. Gains on qualifying shares may potentially be free of CGT.

Downside

Initial income-tax relief and potential loss relief may materially reduce the effective economic loss.

ESSENTIAL DISTINCTION

Tax relief reduces downside. It does not reduce the probability that the company fails.

04 / OUTCOMES

Realistic expectations

Early-stage outcomes range from complete loss to rare outlier returns. Individual investments are highly unpredictable; portfolio construction matters.

Complete loss | Partial recovery | Capital returned | 2-3× | 5×+ | Exceptional outlier

SCENARIO A · ILLUSTRATIVE, NOT A FORECAST

Company fails

£0

Company exit value

At a 45% illustrative income-tax rate, initial and loss relief could reduce a £100,000 economic loss to £38,500. Tax conditions apply.

SCENARIO B · ILLUSTRATIVE, NOT A FORECAST

Capital returned

£100,000

Company proceeds · 1× gross

The commercial investment has not grown, but retained £30,000 initial relief could create a positive tax-adjusted result.

SCENARIO C · ILLUSTRATIVE, NOT A FORECAST

Successful

£300,000

Exit proceeds · 3× gross

£200,000 company gain; potential CGT exemption plus initial relief. Tax-adjusted proceeds relative to £70,000 effective exposure: 4.29×.

SCENARIO D · ILLUSTRATIVE, NOT A FORECAST

Exceptional

£1,000,000

Exit proceeds · 10× gross

Outliers can transform portfolio results. Returns of this magnitude are uncommon and should not form the base case.

05 / PORTFOLIO

The power-law nature of growth returns

Returns are rarely evenly distributed. A small number of companies may generate a substantial proportion of a portfolio's total value.

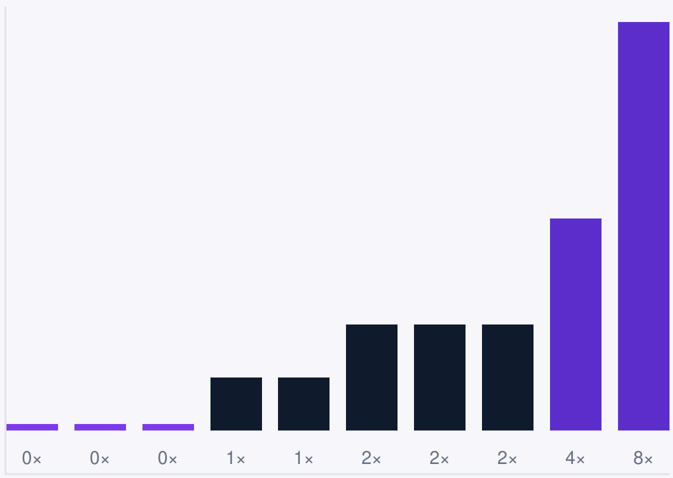
Illustrative diversified portfolio

Ten investments of £10,000. Three fail; two return capital; three return 2×; one returns 4×; one returns 8×.

ILLUSTRATIVE - NOT A FORECAST

Total invested	**£100,000**
Gross portfolio value	**£200,000**
Gross money multiple	**2.0×**
Potential initial tax relief	**£30,000**
Potential loss relief on three failures*	**£9,450**
Tax-adjusted net value*	**£239,450**

*Uses 45% illustrative loss-relief rate on £21,000 net qualifying loss. Individual circumstances and qualification apply.



Gross value by company. The 8× outcome accounts for 40% of portfolio value.

POWER LAW

Diversification does not guarantee success. It increases the chance of participating in the small number of companies that may drive returns.

06 / CONTEXT

EIS within a wider portfolio

EIS is best considered as private growth capital: potentially complementary to core assets, not a replacement for them.

Asset class	Return potential	Liquidity	Capital risk	Tax features	Typical horizon
EIS	High / highly dispersed	Very low	Very high	Income-tax, qualifying gain, loss and potential IHT treatment	5-10+ years
Listed equities	Growth and income	Generally high	Market risk	ISA/pension wrappers may apply	5+ years
Venture capital	High / power-law	Very low	Very high	Structure-dependent	7-12+ years
Private equity	Growth / value creation	Low	High	Structure-dependent	5-10 years
Property	Income and appreciation	Low	Market, leverage, concentration	Tax varies by ownership and use	Long term
Cash / bonds	Low to moderate	High to moderate	Inflation, credit, rate risk	Wrapper-dependent	Short to long

Illustrative allocation architecture - not a recommendation

Core assets · 70-90%	Alternatives · 10-30%

EIS may represent part of an alternative allocation depending on risk tolerance, tax position, liquidity needs, age, wealth, experience and time horizon. No universal percentage is appropriate.

May be relevant

For investors with UK income-tax liability, sufficient liquid assets elsewhere, comfort with long holding periods, and a desire for exposure to UK growth businesses.

May be less appropriate

Where capital access is important, losses cannot be tolerated, tax liability is insufficient, concentration would be excessive, or tax relief is the principal thesis.

07 / TIME

The three-year rule is not the investment horizon

Three years is generally a minimum qualifying holding period for certain reliefs - not a promise of commercial liquidity.

Year 0
Investment and share issue

Years 1-3
Business execution and qualifying period

Year 3
Minimum qualifying period may be reached

Years 5-10+
Possible acquisition, secondary sale or IPO - or no liquidity

PLANNING PRINCIPLE

Assume the investment remains illiquid for longer than expected.

08 / SELECTION

What drives strong EIS returns?

Tax treatment is secondary to company selection, entry valuation and the capacity to create durable enterprise value.

Market & proposition

Large addressable market, real customer need, defensible advantage, scalable revenue and attractive unit economics.

Team & governance

Strong management, sound governance, credible milestones, capital efficiency and ability to raise follow-on capital.

Entry & exit

Realistic valuation, identifiable strategic acquirers, exit optionality and a credible route from today’s value to the required outcome.

VALUATION DISCIPLINE

A great company bought at an excessive valuation can still produce a mediocre investment return.

Understanding dilution

Initial ownership	**2.0%**
After later rounds	**1.5% to 1.2%**

Private companies frequently issue more shares. Investors who do not participate may own a smaller percentage.

2% of £5m company	**£100,000**
1% of £50m company	**£500,000**

Dilution is not necessarily destructive when new capital creates substantially more enterprise value.

Return multiples need time

26.0%	10.4%	24.6%	22.3%
2× over 3 years	2× over 7 years	3× over 5 years	5× over 8 years

Illustrative compound annual growth rates before fees and tax. A multiple without a period is an incomplete measure.

09 / QUESTIONS

Questions to ask before investing

A disciplined investment memo should answer commercial, financial, governance and qualification questions - not simply repeat management's forecast.

Market and product

What problem is solved? How large is the addressable market? What independent evidence supports product-market fit? What makes the advantage defensible?

Management and execution

How credible is the team? What has it delivered? Which assumptions could prevent success? Is key-person dependence excessive?

Revenue quality

What are current revenues, growth rates and gross margins? How concentrated is the customer base? Is revenue contracted, recurring or transactional?

Funding and dilution

How much additional capital is likely? On what plausible terms? Can existing investors participate? How does the cap table change?

Cash and runway

How much cash is available? What is monthly net burn? How long is runway, and what milestones must be met before the next raise?

Governance and exit

What shareholder protections exist? Who are plausible acquirers? What evidence supports their interest? What alternative paths to liquidity exist?

Valuation and required outcome

At what pre- and post-money valuation am I investing? What exit value and dilution assumptions are required to achieve 3× or 5×?

EIS qualification

Has Advance Assurance been obtained where relevant? What conditions must continue to be met? What happens economically if qualification or relief is lost?

> "Tax relief can improve the economics of a strong investment. It cannot rescue a fundamentally weak one."
>
> INVESTMENT PRINCIPLE

10 / STRONG OUTCOMES

Illustrative strong outcomes

These examples demonstrate mechanics. They are not expected returns.

EXAMPLE 1 · NOT A FORECAST

Single strong performer

5×

£50,000 becomes £250,000 after seven years. Potential initial relief: £15,000. Commercial gain: £200,000. Gross annualised return: approximately 25.8% before fees and tax.

EXAMPLE 2 · NOT A FORECAST

Diversified portfolio

1 winner

In a £100,000 portfolio, failures and modest outcomes may coexist with one 8-10× company that contributes a substantial share of value.

EXAMPLE 3 · NOT A FORECAST

Vintage diversification

10-15

£250,000 deployed across businesses and several years may diversify industries, economic cycles, maturity and potential exit timing.

11 / RISKS

What can go wrong

The benefits deserve no more emphasis than the risks. An investor should be financially capable of losing the capital invested.

Capital loss
Some or all of the investment may be lost.

Illiquidity
There may be no market or practical route to sell.

No guaranteed income
Dividends may be absent for many years - or permanently.

Company failure
Small companies have limited resources and high failure rates.

Dilution
Future rounds may reduce ownership and returns.

Valuation risk
An excessive entry price can impair returns despite growth.

Execution & technology
Products, teams and go-to-market strategies may fail.

Key-person risk
Critical knowledge may be concentrated in a few people.

Future fundraising
Capital may be unavailable or raised on punitive terms.

Economic cycles
Markets and exit conditions can deteriorate rapidly.

Tax-rule changes
Rates, limits and eligibility conditions may change.

Loss of qualification
Company actions can place expected tax relief at risk.

Uncertain exit
Timing may be much longer than forecast, or no exit may occur.

Concentration
Too few holdings can magnify company-specific outcomes.

12 / MINDSET

The EIS investor mindset

01
Business first
Invest for the underlying company - not simply the tax relief.

02
Longer than expected
Assume capital remains illiquid well beyond three years.

03
Diversify
Spread exposure where practical, across companies and vintages.

04
Expect failure
Model failed investments as part of the distribution, not an anomaly.

05
Seek asymmetry
Look for outcomes where winners can outweigh unsuccessful holdings.

The objective
Not to eliminate risk, but to construct a portfolio in which potential rewards appropriately compensate the investor for accepting it.

The Intelligent Investor’s Guide to EIS

Tax parameters should be verified before use · September 2026 edition