



FINANCE FOR GROWTH

INVESTMENT





INTRODUCTION

Tech London Advocates and City of London Corporation convened a group of high profile leaders from across the investment ecosystem, to discuss growth capital along with the key challenges and opportunities facing entrepreneurs and investors searching for scale.

The roundtable discussion focused on two key areas: the current investment landscape in the UK and the steps required by policymakers and the private sector to ensure the future success of Britain's funding landscape.

This report outlines the key discussion points and conclusions from the roundtable.



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ATTENDEES

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Russ Shaw, Tech London Advocates & Global Tech Advocates

Damian Nussbaum, City of London Corporation

Chris Wilford, Confederation of British Industry

Emma Titmus, London Stock Exchange

Eyal Malinger, Beringea

Irene Graham, Scaleup Institute

James Klein, Penningtons Manches

Janet Coyle, London & Partners

Jenny Tooth OBE, UK Business Angels Association

Kirsty Mitchell, KPMG

Ruth Milligan, techUK

Tom Britton, Syndicateroom

Simon Andrews, BGF

Vivek Manipadam, Technology & Investment Banking, Credit Suisse





KEY THEMES

THE CURRENT INVESTMENT LANDSCAPE

UK tech has risen to become the nation's fastest growing sector and is at the heart of what an innovative, ambitious and internationally prosperous post-Brexit Britain should represent on the global stage.

London & Partners reported that 2017 was a record year for tech investment, with figures from GP Bullhound pointing in the same direction. The UK continues to dominate the European tech ecosystem, producing the highest number of billion-dollar companies in Europe since 2000.

Yet, the question remains as to why UK tech companies cite access to growth funding as one of the biggest challenges that they face. Are UK investors risk averse? Whilst the US investor is asking what can go right, is the British counterpart asking what can go wrong.

Those attending the roundtable agreed that if the UK is to harness the positive potential of tech to deliver innovation, growth and

employment then businesses need access to capital - at all levels. One of the greatest hurdles for tech firms looking to scale at pace is knowing when they are "investor ready". As the headlines suggest the question may not be if there is enough capital but how we connect the right funding, to the right businesses.

In part, the key to unlocking potential and scaling the UK's ambitious businesses is education. The investment community as a collective ecosystem needs to support companies on a regional level. Scaling businesses shouldn't have to look to the US or even London for growth capital, the breadth of funding options - venture capital, private equity, angel investment - must all be available on a local and regional level. There is no need to reinvent the wheel - Founders4Schools connects business leaders with students and this model could find equal success bringing together investors with entrepreneurs seeking capital. Attendees welcomed the start made by the British Business Bank in launching its new online information hub.

We must come to address the current gaps in availability of funding, industry experts agreed that capital was there for



INCREASING ACCESS TO CAPITAL FOR SCALE-UPS :

- Regional investment ecosystems
- Education and awareness
- Diversification of the UK's investment landscape



early stage businesses and also for those generating high revenues, the concern is at the scale-up and growth stage where the number of active UK investors is small. Penningtons Manches presenting a sobering anecdote, over half of the 350-400 businesses it had engaged with recently, that were looking to raise between £5-10 million, feel they have to do this in America.

Corporate venture capital is an underused source of funding that many companies are not considering or are simply unaware of. Large corporations are backing exciting start-ups with very creative deals that offer unique strategic partnerships in the market – by raising awareness we can further unlock a dynamic source of capital.

In the coming years, it is going to be essential that UK businesses have a global outlook and that funding supports companies to scale both here in Britain and in overseas markets. The emergence of “Cross-over” funds is a welcomed first step and will help to bridge the capital gap as firms expand abroad – the importance we place on funds for international growth is only going to increase.

There is a role for government to play in developing regional funding ecosystems and supporting the innovation taking place in communities outside of London, taking care to go with the grain and build on those emerging regional ecosystems with fundamental strengths which can be bolstered with government support, rather than ‘forcing’ the development of regional hubs in areas where they would be less sustainable in the longer term.

It is vital that we tap into the depth of the UK economy and incentivise people to ask for support. The British Business Bank should be a central player in creating a diverse funding landscape that elevates and scales companies in every region of the UK – the development of a network of regional managers has been applauded by the investor community.

Investors and entrepreneurs in attendance praised the government for supporting start-ups and creating a regulatory environment that drives growth at the earliest stage. The role of the Government’s Industrial Strategy must be to help join the dots and accurately reflect where the investment community sees growth and areas of emphasis going forward.

Currently the private sector is concerned that investor appetite is not consistently reflected in the sectoral focus that the Industrial Strategy has demonstrated to date. Co-investment between the private and public sector has driven growth in Silicon Valley and can be a powerful force in the UK. Britain can also take inspiration from the effectiveness of universities in America in commercialising IP and attracting capital for spin-outs.

KEY THEMES

FUTURE PROOFING LONDON

The second half of the Finance for Growth roundtable discussion focussed on how we future proof the investment landscape and ensure that the UK continues to provide the tech ecosystem with the capital to scale.

Attendees agreed that institutional investors will remain of critical importance to the tech community - and despite Brexit it appears that the UK is still an attractive destination for foreign investors who have continued to support capital requirements.

Concerns were raised over the instability caused by any change in government, some evidence of anti-business rhetoric across the political spectrum and the need to sustain a regulatory framework that sponsors scale. The narrative is vital, business as a force for good must be understood both by politicians and key officials and investment in our future as a priority in policy debate, if our investment landscape is to reflect the potential for growth.

The group explored the prospect of unlocking the vast sums held in pension funds, following in the footsteps of international counterparts and relaxing regulations, allowing investment in patient capital funds.

UNLOCKING THE UK'S GROWTH POTENTIAL :

- Patient capital
- The role of government in supporting access to growth funding
- Global competitiveness

There are regulatory considerations, yet attendees asked the sector to embrace a cultural shift and a greater understanding throughout the investment landscape - if institutions, private and public, come together capital can be funnelled into the most valuable areas of our economy and provide real value for small companies. Notwithstanding the positive noises from government on potential regulatory change, it's this attitudinal change which will still need to be cracked; more hard data and compelling evidence such as that put forward by the BVCA is required to start to change mindsets and effect real cultural transformation amongst institutional investors.

Attendees recognised that if the UK is to prosper as a nation that drives enterprise and fuels growth across Britain then investors and entrepreneurs must reflect the diversity in our society. It is an unfortunate truth that female founders are less likely to go in search of funding and the reality is that the investors they approach will be predominately men.

Those from across the sector had differing views on how to approach one of the biggest problems tech faces, but agreed on the urgency to stimulate change and ensure that capital to scale is accessible for all businesses.

Attendees also discussed the lack of diversity in those running businesses which do attract scale-up funding, and the need to improve access to growth capital from e.g. women-led businesses with high growth potential.

TESTIMONIALS

CHALLENGES & OPPORTUNITIES

I am increasingly seeing technologies become intrinsic to financial services, I'm interested in recognising how investment comes into companies but also into environments - what could the UK do to foster policy and a regulatory environment that allows tech to scale and go from fintech into mainstream financial services, and then out across the economy. A lot of the technology that have a seedbed in financial services have implications across the whole economy.

RUTH MILLIGAN
TECHUK

It's not just about raising quick capital, getting an MVP and then going back, it's about companies that have that ability to scale and being able to tap into it earlier, so they don't get bogged down with raising more money in a shorter period of time.

TOM BRITTON
SYNDICATEROOM

Competition between investors intensifies as the rounds get larger and larger, if you look at the bigger rounds raised for UK companies it's a global investor base. There are a lot of US funds that might not have offices here but invest in Europe, regularly. The important point is how can you get investors involved at an earlier stage because once you move towards a later part of the table it just gets more intense.

VIVEK MANIPADAM
CREDIT SUISSE

For me availability is there – we are seeing companies staying private for longer, becoming much larger before they tap into public markets, it's not about availability, but we still lack education on the demand side. Particularly talking about supporting companies who want to be investor ready regionally.


EMMA TITMUS
LONDON STOCK EXCHANGE

Whilst I think there's money available at lots of different stages, the right money finds the right businesses and it's not the technology that's necessarily important, it's finding a product and a market for that product, proving that there's sufficient demand and then going out and selling it, and selling it globally.

SIMON ANDREWS
BGF

I am very interested in the diversity piece, with only 2 percent of VC funding going into female entrepreneurs last year and only 0.2 percent to women with ethnic backgrounds, that is the challenge. If we look at the next ten years let's really try and shift that dial together, because I think that we can do it.

JANET COYLE
LONDON & PARTNERS



65% of angel investment income is in London and the South East and if you look at most other regions they're probably only getting around 8% of the angel capital, if you look at the heat map around the UK there's a reasonable amount in Scotland, there are areas where there's a concentration of great tech entrepreneurs but absolutely massive gaps in access to angel capital. What we're trying to do is create a UK vision where capital is moving to the regions and not just expecting entrepreneurs to get on trains and come and find that in London.

JENNY TOOTH OBE
UK BUSINESS ANGELS ASSOCIATION

A lot of this boils down to networks and knowledge...raise education among businesses about what they actually need to do to get ready for financing and help them on their journey, that's going to be really important.

CHRIS WILFORD
CONFEDERATION OF BRITISH INDUSTRY

We need to support the current policies that have been in place to support the start-up community – we are not so good at scaling businesses, so we need to give the public sector a lens for scale. I think the Industrial Strategy has been a key step and one of the things we need to do as a group here is make sure we help them deliver that and make them accountable. The unlocking of institutional funding for finance is probably one of our greatest challenges.

IRENE GRAHAM
SCALEUP INSTITUTE

What we see in the regions is you have some very intelligent people doing some very interesting things, you've got some great research coming out of universities, you've got universities trying to bring their business schools and their investment programmes together to try and create that commercialisation. There isn't that wider business awareness driving it forward to create momentum.

KIRSTY MITCHELL
KPMG

Perception of what's actually out there is key, clearly there is capital available, I don't think it's necessarily available to companies investors don't understand. Through our report we spoke to 350 to 400 companies in Cambridge, Oxford, London, Reading, Guildford, and they all said the same thing - we're doing a £5 to £10million raise in 2018 and it's going to come from the US - why do you think that? Why aren't you looking at the UK. I think this is a big issue and something we need to try and work to change.

JAMES KLEIN
PENNINGTONS MANCHES

I think the UK is one of the most advanced governments for supporting the start-up industry, it's easy to set up a business, an FCA sandbox - there are so many amazing government led policies and initiatives for start-ups.

EYAL MALINGER
BERINGEA

