# Finance

**NEW CASE STUDIES FOR 2018**

Accel

Balderton Capital

Crowdcube

Draper Esprit

Eight Roads*

Index Ventures

IP Group, including Touchstone Innovations

LDC

Notion

Partech*

Santander Growth Capital Fund Breakthrough programme*

Woodford Investment Management

**CURRENTLY ENDORSED CASE STUDIES**

Barclays: Venture Debt

BGF

British Business Bank: Enterprise Capital Fund

Octopus Titan VCT

*Female Founders focus

1 http://www.growthbusiness.co.uk/octopus-group-simon-rogerson-and-chris-hulatt-2554307/

## The ecosystem for growth capital continues to improve but the UK must continue to expand the pool of patient finance available to scaling businesses across the country and address the regional disparities, awareness and depth issues that persist.

Findings from the Scaleup Survey in 2018 suggest that while 74 per cent of scaleups rely on external finance to support growth, four out of ten scaleups do not have the right funding in place to fulfil their current ambitions.

In our analysis of 'visible scaleups' with Beauhurst, we have identified those equity, debt and mezzanine investors who have been the most active in supporting scaleups between the period of 2011 to 2018. We feature these as our case studies for 2018. All of them have demonstrated commitment to financing scaleups through successive rounds and they are institutions about which scaleups should be more knowledgeable. We hope to see more new models of funding emerging from the Patient Capital Review.

The breadth of these case studies demonstrates there can be no single route to finance for scaleups. A blend of complementary sources of UK-based long-term capital, all of whom have the capacity to participate in follow-on rounds and to add value by bringing knowledge, networks and expertise along with their funding, is vital.

Seven of our case studies are VC firms – **Balderton Capital, Accel, Index Ventures, Notion, Partech, Eight Roads**. (Draper Esprit is also a VC firm but one that is publicly listed on the London Stock Exchange, and so we consider it with other institutional funds). They reflect the emergence of VC investors who are consistently supporting the scaling up of companies and provide exemplars of how the wider VC industry has the potential and capacity to provide support to all stages of scaleup growth. Some of the firms, such as Partech and Eight Roads, have a global mandate; others, such as Balderton, Accel and Index, invest in UK scaleups from funds with a Europe-wide focus. **The Octopus Titan VCT**, endorsed in 2017, continues to grow in size and increase its annual number of investments; it also offers structured support for the international growth strategies of its portfolio companies – more than 60 per cent of its portfolio companies have a presence outside of the UK.[1] It is an exemplar of how VCT investors can provide knowledge and resources as well as finance. These investors are mainly tech-focused and we need to consider how to develop pools of capital for all sectors as well as their greater disbursement throughout the UK's regions – this is a key element of the British Business Bank's mission.

We have previously endorsed two programmes provided by banks: the provision of venture debt, as exemplified by **Barclays**, and the **Santander Breakthrough Growth programme**. The varied capability of the principal banks to support scaleups is underlined by our endorsement this year of LDC, the private equity arm of Lloyds Banking Group, as a result of the firm's ongoing active investment in UK scaling companies. First formed in 1981, **LDC** invests in growing businesses from all sectors via a regional network of nine offices.

Institutional funds, either investment trusts or publicly quoted firms in their own right, form another important part of the funding landscape for scaleups. The emergence of these patient capital institutions – as well as the creation of British Patient Capital by the British Business Bank – creates a fresh source of institutional investment with time horizons that are less constrained by the life of a particular fund. This year we endorse **Draper Esprit**, which has received a £30m investment from the British Patient Capital programme, **Woodford Investment Management** and the **IP Group** (which acquired Touchstone Innovations in 2017).

A newer asset class – equity crowdfunding – has emerged over the past decade as an alternative finance option for scaling companies. This is reflected in the number of companies that Beauhurst data has identified as being supported via the **Crowdcube** platform. The growth of such platforms, along with the fostering of fintech companies in the FCA's regulatory "Sandbox," demonstrates the level of innovation in finance from which scaleups can benefit.

It is important that this growing number of diverse funding sources leads to greater allocation to companies with higher levels of gender diversity. **Financing and supporting more female scaleup role models will encourage more women to scale up their businesses** the Santander programme has expanded its offer, notably including a Women in Business programme to provide networking opportunities, mentoring and events specifically for female entrepreneurs. Research conducted by Beauhurst for our Female Founders Index highlight how some of these endorsed firms – such Partech and Eight Roads – also demonstrate their support of and investment in female founders.

The British Business Bank (BBB) provides a model of how public sector finance can work with – and not crowd out – private sector finance in order to develop far bigger pools of capital in the UK and encourage more investors willing and able to provide ongoing rounds of follow-on or scaleup finance.

In 2017, we featured the **BBB's Enterprise Capital Fund** (ECF) programme as a case study. The investment capacity of this programme has now increased to more than £1.2bn, with 28 funds facilitating finance to more than 470 businesses (as at end June 2018). In addition, the BBB has amplified its support of scaleups with the launches this year of British Patient Capital, the Managed Funds programme, and a Knowledge Hub for scaleups to identify and attract appropriate growth capital.

One of our original case studies, **BGF**, has continued to grow its support of scaleups. It has invested £1.7bn and backed 250 growth companies with £430m of follow-on funding and has 14 offices including opening in Ireland in 2017 with a €250m fund to support growing Irish businesses.

Scaleups continue to emphasise that it is not just cash that they seek from the financial community. They want smart money which brings knowledge and support along with it. The nature of that additional backing is taking many forms.

A more plural and diverse finance market requires strong and clear education for scaleup leaders about the growth finance options that are available.

# Stephen Welton

**CEO, BGF**

SCALEUP INSIGHTS

**They say change is the only constant and looking back at the last year or so, that has certainly been the case. While on one side, technological progress is transforming our lives, creating new industries and with them, a wealth of opportunities – on the other side, we are navigating increasingly uncertain waters. As we head towards Britain's exit from the EU in 2019, an exact vision of the future is hard to imagine.**

One might naturally assume that such uncertainty would be bad for business. But as we've seen at BGF over the past 12 months, entrepreneurs and scaleup business leaders across the country, while acknowledging its impact, are determined to make the most of the opportunities it might present.

In 2018, BGF has on average made one investment per week, bringing our overall investment to more than £1.7bn across 250 companies.

## A time of great transformation

The business environment is evolving, even down to the very ways we define success. There seems to be a renewed confidence in the impact that innovative, scaling businesses can have on the world around them. Leaders are striving to make a positive difference to society and power progress in the UK.

Indeed, innovation and supporting R&D have been a clear focus for the government, as seen in its Industrial Strategy and the new deals being brokered to support Britain's prowess in emerging areas, such as artificial intelligence (AI).

## Our technology success

Britain's tech industry is certainly flying. The latest reports from TechNation suggest that the digital tech sector grew 2.6 times quicker than the rest of the economy between 2016 and 2017.

This growth is reflected across many of BGF's portfolio businesses, in particular our earlier stage group, which is in large part driven by digital. Take for example Trouva, which is creating an online marketplace for global bricks-and-mortar boutiques.

But we must not forget that fast growth – and the progress it brings with it – is not merely seen in the technology sector.

I can say with confidence that the bright sparks of innovation and productivity can be seen vividly from all sectors. From manufacturing and energy, to business services, hospitality and healthcare, we are a nation of passionate and ambitious creators.

## The importance of diversity

For the UK to build a sustainable economy, it must create and support a diversity of businesses across all regions. We can't put all of our eggs in one basket and with such a wide-range of skills and talent in every corner of the country, there is no reason we should. Having more strings to our bow will bring resilience and will help us to meet any economic hurdles that this age of uncertainty might throw up.

It is critical, on a finance and growth capital basis, to be close to our scaling businesses. We need to build a nationwide approach, with more investment needed on the ground and a renewed focus on making Patient Capital a reality by crowding in institutional funds to support Britain's scaleups. The future may be uncertain, but one thing is clear – with such an inspiring crop of innovative, scaling companies, based in all corners of the UK – the future is bright.

# ACCEL

ENDORSED ENDORSED

## IMPACT FOR SCALEUPS

| | | | |
|---|---|---|---|
| 27 COMPANIES BACKED | 48% FOLLOW-ON INVESTMENTS | 2% INVESTMENTS OUTSIDE OF LONDON | 27 GROWTH-STAGE INVESTMENTS |

**Accel is an early and growth-stage VC firm which has a number of funds including the $500m Accel London V Fund which is focused on Series A and B investments in Europe and Israel.**

Typically investing between $5-$10m in Series A or B first-round investments, Accel invests on average $15m per company over time; the average size of the investment rounds into UK companies in which it has participated since 2011 is £17.4m.

During this period, the fund has provided follow-on investments for 13 of the 27 UK companies that it has backed, averaging 1.85 investments per company. For more than half (56%) of the companies, Accel was the first institutional investor.

Accel contributed to ten equity investments into six unique scaleups in rounds worth a total of £277m.

The fund invests in technology companies globally, with a focus on the US, UK and India. Of the 50 investments made by Accel since the start of 2011, 49 have been into London-based companies.

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# BALDERTON CAPITAL

ENDORSED ENDORSED

## IMPACT FOR SCALEUPS

| | | | |
|---|---|---|---|
| 37 COMPANIES BACKED | 54% FOLLOW-ON INVESTMENTS | 8% INVESTMENTS OUTSIDE OF LONDON | 37 GROWTH-STAGE INVESTMENTS |

**Balderton Capital focuses on Series A investments into European technology companies but also provides growth capital to companies at venture and growth stage.**

Balderton typically invests between $1-$20m; the average size of the investment rounds into UK companies in which it has participated since 2011 is £10.5m. During this period, the fund has provided follow-on investments for 20 of the 37 unique UK companies that it has backed. Balderton has contributed to 11 investments into six unique UK scaleups since 2011 worth a total of £222m.

The fund primarily invests in businesses based in Europe but has invested in US and Asian businesses. It focuses on markets such as technology, e-commerce, software, communications, security, semiconductors, consumer services, media and financial services. It does not invest in life sciences or cleantech.

Describing itself as investing in European founders with global ambitions, Balderton organises hundreds of networking events across Europe each year, designed to connect companies with mentors, board members and customers. It provides advice on talent acquisition and global expansion. In October 2018 Balderton launched Liquidity I, a new $145m fund dedicated to buying equity stakes from early shareholders in European-founded, high growth, scaleup technology companies.

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# CROWDCUBE

**IMPACT FOR SCALEUPS**

| 543 | 11% | 46% | 40 |
|---|---|---|---|
| COMPANIES BACKED | FOLLOW-ON INVESTMENTS | INVESTMENTS OUTSIDE OF LONDON | GROWTH-STAGE INVESTMENTS |

**Crowdcube operates an online crowdfunding platform on which businesses pitch to receive investment. The fund focuses on seed and early-stage businesses due to average size of capital provided, although businesses at any stage are eligible.**

Crowdcube typically invests between £250,000-£1m, with funding available as equity investment or mini-bonds, with the average size of its investment into UK companies since 2011 being £648,000. During this period, the fund has provided follow-on investments for 62 of the 543 UK companies that it has backed. Crowdcube has contributed to ten equity investments into six UK scaleups since 2011 worth a total of £13.2m; it has also facilitated two debt funding deals totaling £12.3m for the scaleup BrewDog.

Crowdcube exclusively invests in UK companies and has offices in Exeter and London. It provides companies that raise funds via the platform with access to a help centre and a campaigns team, access to a network of founders, and support with marketing and investor relations.

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# DRAPER ESPRIT

**IMPACT FOR SCALEUPS**

| 33 | 36% | 21% | 19 |
|---|---|---|---|
| COMPANIES BACKED | FOLLOW-ON INVESTMENTS | INVESTMENTS OUTSIDE OF LONDON | GROWTH-STAGE INVESTMENTS |

**Draper Esprit invests in seed, venture and growth-stage companies based in Europe.**

The firm typically invests between $500,000-$20m; the average size of the investment rounds into UK companies in which it has participated since 2011 being £9.15m. During this period, the fund has provided follow-on investments for 12 of the 33 unique UK companies that it has backed. Draper Esprit has contributed to 15 investments into seven unique UK scaleups since 2011 worth a total of £146m.

Founded in 2006, the fund invests throughout Europe, with offices in London, Dublin and Cambridge. It invests in technology-based businesses and those in e-commerce, digital media and online publishing. It focuses on companies in electronics, software, internet, medtech and mobile.

The average number of deals per annum, including follow-on rounds, is 20.

21 of the 52 investments made into UK companies by Draper Esprit since 2011 have been outside of London. The firm describes growth investing as its core business and emphasises that as a publicly listed VC fund it is not constrained by the limited partnership model of a time-limited fund, saying: “we have a balance sheet, a longer view, and the staying power to back teams to reach their full potential.”

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# INDEX VENTURES

IMPACT FOR SCALEUPS

| 57 | 44% | 13% | 41 |
|---|---|---|---|
| COMPANIES BACKED | FOLLOW-ON INVESTMENTS | INVESTMENTS OUTSIDE OF LONDON | GROWTH-STAGE INVESTMENTS |

## Index Ventures is a multi-stage VC firm, making equity investments at seed, venture and growth stage.

The firm focuses on life sciences, medical technology, digital media, e-commerce and software and invests in companies based in the US, Europe and Israel. It announced new venture and growth funds amounting to $1.65bn in June 2018.

Index typically invests between $100,000-$2m in seed-stage companies and up to £50m for growth-stage companies; the average size of the investment rounds into UK companies in which it has participated since 2011 is £11.9m.

During this period, the fund has provided follow-on investments for 25 of the 57 UK companies that it has backed. Index has contributed to 17 investments into UK scaleups since 2011 worth a total of £386m.

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# IP GROUP, INCLUDING TOUCHSTONE INNOVATIONS

IMPACT FOR SCALEUPS

● TOUCHSTONE
● IP GROUP

| 50/76 | 58%/32% | 66%/88% | 23/17 |
|---|---|---|---|
| COMPANIES BACKED | FOLLOW-ON INVESTMENTS | INVESTMENTS OUTSIDE OF LONDON | GROWTH-STAGE INVESTMENTS |

## IP Group is an FTSE-250 listed IP commercialisation company whose funds provide venture capital to spin-out companies from its university partnerships.

IP Group owns several funds, including Touchstone Innovations (which was acquired in October 2017), Parkwalk Advisors, and stakes in Oxford Sciences Innovation and Cambridge Innovation Capital.

IP Group invests in spin-outs from UK universities and some US universities. The great majority of investments – 88% – made by IP Group have been into companies in local areas of the UK other than London. Its subsidiary Touchstone Innovations focuses on companies developing research originating from the UK's "Golden Triangle" (i.e Oxford, Cambridge, London).

The funds invest at seed, venture and growth stages and assist companies with the commercialisation of their new products and services, with technology transfer, IP licensing and protection. The funds continue to invest in portfolio companies as they scale. The firm has a long-term partnership model with UK universities and developed an approach to supporting businesses from "cradle to maturity," including assistance with executive search and recruitment and raising growth stage capital from co-investors.

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# LDC

## IMPACT FOR SCALEUPS

| 37 | 5% | 82% | 35 |
|---|---|---|---|
| COMPANIES BACKED | FOLLOW-ON INVESTMENTS | INVESTMENTS OUTSIDE OF LONDON | GROWTH-STAGE INVESTMENTS |

**LDC is the private equity arm of Lloyds Banking Group and has been an active investor in UK companies since 1981.**

It makes equity investments between £2-£100m to companies who can demonstrate minimum revenues of £5m with profits of £1m and a two-year profits history. The average size of its investment since 2011 is £15.9m.

LDC has contributed to 12 investments into scaleup companies since 2011, worth a total of £193m. Of the 39 investments made by LDC, 32 have been to companies based outside of London.

The firm invests solely in UK companies and has nine offices around UK, including Aberdeen, Manchester, Bristol, Edinburgh and Birmingham. Portfolio companies are provided with sector-specific guidance, access to an executive network, and peer network opportunities with other portfolio companies.

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# NOTION

## IMPACT FOR SCALEUPS

| 33 | 48% | 36% | 28 |
|---|---|---|---|
| COMPANIES BACKED | FOLLOW-ON INVESTMENTS | INVESTMENTS OUTSIDE OF LONDON | GROWTH-STAGE INVESTMENTS |

**Notion specialises in making seed and Series A investments but has an $80m growth fund to provide later-stage follow-on capital for portfolio companies. The fund invests exclusively in the B2B and SaaS sectors. Notion is located in London and invests across Europe.**

The firm typically invests between £250,000-£5m, the average size of the investment rounds into UK companies in which it has participated since 2011 is £6.73m. During this period, the fund has provided follow-on investments for 16 of the 33 UK companies that it has backed. Notion has contributed to nine investments into UK scaleups since 2011 worth a total of £108m.

Of the 59 investments made by the firm since the start of 2011, 21 have been to companies based outside of London.

The fund offers knowledge, resources and pro-active support to its portfolio companies through its venture platform. This fosters active collaboration among its portfolio companies, shares knowledge to create "a powerful collective intelligence," and creates a network with "deep domain expertise." The founders say that their strategy is "to be the investor we wish we'd had."

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# WOODFORD INVESTMENT MANAGEMENT

ENDORSED

**IMPACT FOR SCALEUPS**

| 32 | 50% | 63% | 27 |
|---|---|---|---|
| COMPANIES BACKED | FOLLOW-ON INVESTMENTS | INVESTMENTS OUTSIDE OF LONDON | GROWTH-STAGE INVESTMENTS |

**Woodford manages the Woodford Equity Income Fund and the Woodford Patient Capital Fund; between them, they provide equity investment for venture and growth finance, R&D and working capital. The Equity Income Fund is limited to up to ten per cent in unquoted securities and the Patient Capital Fund is limited up to 80 per cent.**

Beauhurst research indicates that Woodford's funds typically invest between £2m-£40m, with the average size of deals being £32.7m. The funds invest in several other patient capital vehicles which invest in scaleups, including Draper Esprit and IP Group.

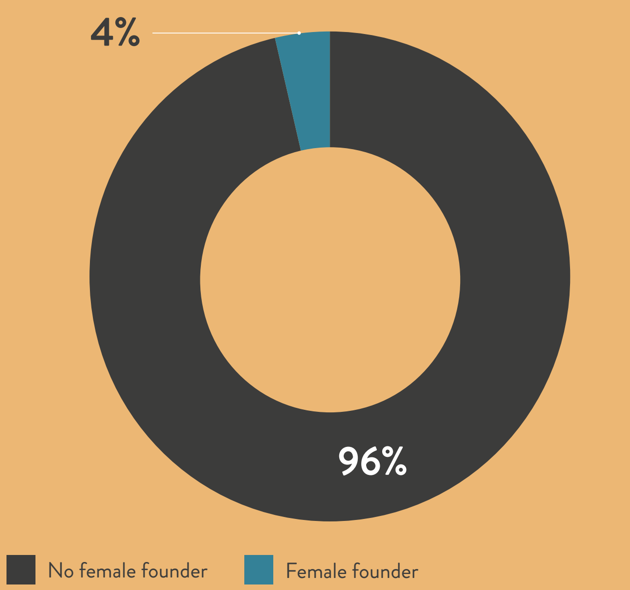
The funds have provided follow-on investments for 16 of the 32 companies it has backed since 2011. Of the 54 investments, 34 have been to companies based outside of London. It has contributed to nine deals into scaleups since 2011, worth £266m.

The firm has offices in Oxford and Exeter and invests mostly in UK businesses. The company vision is to provide patient capital to support young businesses "through to commercialisation and fulfillment of their long-term potential." The firms says that it aims to invest in businesses "with the potential to become the FTSE 350 companies of the future."

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# Female founders & finance

VISIBLE SCALEUPS IN 2017 WITH AT LEAST ONE FEMAILE FOUNDER




**Four per cent of visible scaleups have at least one female founder. As part of the inaugural Scaleup Female Founders Index, the ScaleUp Institute identified the top funders by number of fundraisings for deals into scaleups with at least one female founder.**

In total, £414m has been invested into female founded scaleups since 2011. The top investor is Eight Roads Ventures which contributed to 5 deals worth £121m. Other newly endorsed case studies with a track record in backing female founder scaleups include Partech Ventures with 2 deals worth £79m; and Santander Growth Capital Breakthrough Programme with 3 deals worth £15m.

## EIGHT ROADS

ENDORSED

IMPACT FOR SCALEUPS

| 14 | 21% | 12% | 13 |
|---|---|---|---|
| COMPANIES BACKED | FOLLOW-ON INVESTMENTS | INVESTMENTS OUTSIDE OF LONDON | GROWTH-STAGE INVESTMENTS |

**Eight Roads provides venture and growth-stage capital, investing in fast-growing technology companies across the enterprise, consumer, fintech and healthcare IT sectors. It looks for businesses within a revenue band of €1-€5m showing year-on-year growth of 100 per cent and for those with revenues exceeding €5m whose growth is at least 30 per cent.**

The fund has its head office in London and other offices in Hong Kong, Beijing, Shanghai, Mumbai, Tokyo, Hamilton, Boston and Stockholm. Eight Roads invests in companies based in Europe, US, India and China. It has backed 14 UK companies since 2011 and provided follow-on funding for three of them. Out of all these investments, the majority have been into London-based companies. The average size of the investment rounds into UK companies in which it has participated since 2011 is £32.4m, compared to £29.1m for all companies internationally.

The firm says that it aims to provide ambitious founders with scaleup guidance and business-building experience to help them "beat the odds" and that "with the right help the European ecosystem can systematically create $10bn-plus global tech businesses." Eight Roads is one of the funds showing a track record on investing in scaleup female founders or co-founders, investing for example in MADE and Notonthehighstreet, to name just a couple.

**For further information about the programme: scaleupinstitute.org.uk/scale-up-programmes/**

# PARTECH

## IMPACT FOR SCALEUPS

| 11 | 36% | 29% | 6 |
|---|---|---|---|
| COMPANIES BACKED | FOLLOW-ON INVESTMENTS | INVESTMENTS OUTSIDE OF LONDON | GROWTH-STAGE INVESTMENTS |

**Partech makes equity investments at seed, venture and growth stage, operating through five funds. The firm focuses on tech and digital businesses.**

The funds make around 45 new investments annually on a global basis, with a particular focus on the US and Europe. The funds have made 17 investments into UK companies, of which 12 were into London-based companies. During this period, the funds have provided follow-on investments for four of the scaling companies that they have backed. The average size of the investment rounds into UK companies in which it has participated since 2011 is £11m compared to £10.3m for all companies internationally.

In support of its portfolio companies, Partech provides coaching on strategy, operations, executive hiring, board structure, as well as preparation for M&A and build-ups. The firm also provides peer networking opportunities through its global portfolio.

Partech, itself having a female managing director and CFO, is one of the funds showing a track record of investing in female scaleup founders.

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# SANTANDER GROWTH CAPITAL BREAKTHROUGH PROGRAMME

## IMPACT FOR SCALEUPS

| 19 | 16% | 77% | 20 |
|---|---|---|---|
| COMPANIES BACKED | FOLLOW-ON INVESTMENTS | INVESTMENTS OUTSIDE OF LONDON | GROWTH-STAGE INVESTMENTS |

**Santander Breakthrough Growth Capital provides growth-stage capital through a mezzanine loan offer, typically between £500,000 to £5m, which can work alongside additional senior debt facilities.**

The funding, which targets companies that are growing at scaleup rates, has participated in 22 fundraisings totalling £76.4m. It is a national fund; five of the 22 investments have been into London-based companies.

A range of additional support is offered by the Breakthrough programme. This includes expertise to companies that are expanding internationally, providing commercial contacts and market knowledge to companies looking to export or open offices abroad. Businesses are connected with an online network of founders and business leaders, and regional peer group roundtables are also organised. The programme also runs a number of 'Access the Buyer' events, leadership masterclasses, a series of network and mentoring events focused on female business leaders, and support for internships.

The Growth Capital Fund has provided follow-on finance for three of the 19 unique companies it has backed since 2011. It is one of the growth capital vehicles showing a track record on investing in scaleup female founders.

For further information about the programme:
scaleupinstitute.org.uk/scale-up-programmes/

# Updates on currently endorsed case studies

## BGF

BGF is the most active and influential investor in small and mid-sized businesses in the UK, with £2.5bn to support a range of growing companies – early stage, growth stage and quoted – across every region and sector of the economy. BGF opened in Ireland last year and has an additional €250m to support Irish businesses on a similar growth path.

BGF makes long-term equity capital investments in return for a minority stake in the companies it backs. Initial investments are typically between £1m-£10m followed by significant follow-on funding as required. BGF is a minority, non-controlling equity partner with a patient outlook, based on shared long-term goals with the management teams it backs.

With a specialist internal team of over 150 people, combined with an international network of business leaders, sector experts, and board-level non-executives, BGF has a unique platform and capability to support growing UK and Irish businesses. This is further reinforced through dedicated in-house support with chair and senior executive selection and appointments provided by its Talent Network, now some 5,000 strong.

BGF invests off its own balance sheet allowing it to offer flexible investment structures with a mix of equity and loan notes as appropriate. BGF can also provide equity release for existing shareholders, and funding to support acquisitive and organic growth strategies at home and abroad.

## British Business Bank: Enterprise Capital Fund

The Enterprise Capital Funds (ECF) programme is a significant part of the UK venture capital industry now with 28 funds facilitating finance to more than 470 growing businesses. It aims to increase the supply of equity to UK growth companies and to lower the barriers to entry for fund managers looking to operate in the VC market.

The British Business Bank – the UK's national economic development bank – invests alongside venture capital funds on terms that improve the outcome for private investors when those funds are successful. It does this to encourage venture capital funds to operate in a part of the market where smaller businesses are not able to access the growth capital they need.

Enterprise Capital Funds are managed by experienced fund managers from a variety of backgrounds – including teams from the venture capital industry as well as serial entrepreneurs with a history of success in building early stage UK companies.

From inception to June 2018 more than £1.2 billion (including third party funding) has been committed through the ECF programme.

In 2017/18 the British Business Bank also developed a new British Patient Capital programme, providing up to £7.5bn of finance and designed to support high growth potential innovative UK businesses in accessing the long-term financing they require to scale up and launched the £250m Midlands Engine Investment Fund to support businesses across the region.

## Octopus Titan VCT

FINANCE

ENDORSED

Octopus Titan is the UK's largest Venture Capital Trust with £120m raised last year and £600m in assets under management. The 2017 ScaleUp Review identified it as an exemplar of how the wider VCT industry has the potential and capacity to provide assistance to all stages of scaleup growth.

Typically investing £1-£5m in a first round investment the Trust has the capability to follow its investments up to £20m. It has built a portfolio of approximately 60 of the UK's fastest-growing tech-enabled businesses with the potential for significant growth.

Octopus offers rapidly scaling businesses access to follow-on funding to promote significant growth, enabling high-growth companies to scale without the distraction or delay of seeking other funding sources whenever required. The firm's wider network of Venture Partners provides hands-on help, practical advice and professional connections to other portfolio companies and industry experts both in the UK and overseas. Octopus has itself set up a New York office and collaborates with key partners in Singapore and Shanghai to help companies cope test and enter new markets.

Octopus is working with other leading organisations in the finance community, including the British Private Equity & Venture Capital Association (BVCA) and the Venture Capital Trust Association to champion entrepreneurship and scaleup.

Over recent years Octopus investment has enabled businesses to become part of some of the largest businesses in the world including Google, Amazon, Twitter and Microsoft.

# Sam Smith

## CEO, finnCap and female scaleup founder

SCALEUP INSIGHTS

**The pool of capital available to scaling private businesses has deepened significantly in recent years. The landscape has completely changed. For today's scaling businesses this is very good news. We track the number of fundraising rounds between £2m-£25m – they have risen steadily.**

Worldwide record low interest rates have been a key factor, as this has driven both private and institutional investors to look further afield for yield and to move into private investment opportunities.

This means that many more public market institutions will now look at private deals. In 2011, 173 institutional investors deployed capital in private deals; in 2017, it was 315. Not only does this deepen the pool of capital but it also brings different types and styles of investors.

The rise of patient capital institutions such as BGF and Woodford – as well as the creation of British Patient Capital by the British Business Bank – is creating a cohort of institutional investors whose time horizons, unlike VC and private equity firms, are unconstrained by the life of a particular fund.

Investment in early-stage growing businesses will continue to increase. This is partly due to the Chancellor's decision to double the limit on EIS investment, both in terms of the limits of how much investors can invest and how much EIS investment companies can receive, and to make changes to VCT rules in order to encourage investment in entrepreneurial knowledge-intensive companies.

These changes will result in further growth in tax-driven funds, all seeking great investment opportunities in the private capital landscape. A middle tier of finance for scaleups is emerging, comprising many disparate players. They range from family offices and VCTs to entrepreneurs who have sold their businesses but now want to be active investors.

In addition, the long-established de facto options for scaling companies – VC and private equity firms – have amassed considerable financial firepower (the so-called "dry powder") and they continue to look for great scaling businesses in which to invest.

> the question today is not so much about access to capital, but rather access to the right kind of capital which is best suited to your business

The public markets not only offer entrepreneurs access to capital and a broader shareholder base but also the ability to stay in control of their company. Far from viewing an IPO as an exit, it is another step on the growth ladder.

So for private scaling companies, the options are broad and extensive. While this widening and deepening pool of capital is positive for scaleups, it does create a more confusing marketplace. It is hugely important for each scaleup to find the right investors – those whose investment hypothesis is aligned to the vision and strategy of the company. In an increasingly large and complex market, that is difficult.

For scaleups, the question today is not so much about access to capital, but rather access to the right kind of capital which is best suited to your business. Yet a great number of companies, particularly female-led businesses, simply don't try to raise growth capital.

There are many reasons for this, many of which relate to confidence and ambition. We are trying to fuel this ambition. We launched Ambition Nation to fuel growth among UK companies by telling stories of ambition to entrepreneurs and also providing them with better knowledge of the financial landscape. We want to encourage more people to grow their businesses and to access the right form of growth capital to help them achieve that.

In building finnCap, my barrier has always been about getting comfortable with the next stage of growth. If you are comfortable, the more likely you are to do it. To get comfortable and to gain that vital confidence, you have to meet people who have done it. Until you see what is possible and get comfortable with that, you won't get out of your comfort zone.

It's all about lighting ambition and refreshing people's bigger picture thinking. We have to encourage the mindset that people can build a £100m company – and if they can do that, then it could be a £1bn company. After all, it's easier to go from £200m to £1bn than it is from nought to £2m.

Entrepreneurs need to have the confidence to grow, and to hear stories of how they could potentially increase the size of their company ten times. It is all about planting the vision and making people feel comfortable with the risks they are taking.

As a subset of Ambition Nation, we are focusing on developing this "think big, be bigger" approach among female founders. Many of them don't want to raise funds. Few of them go out on the road to do so, and fewer of them actually get money. But while there are both push and pull factors at work, we know that demystifying finance is at the crux of this problem.

There's a general point: financiers and entrepreneurs can often talk in different languages. Entrepreneurs want to get comfort on and understand issues such as the potential loss of control; financiers will focus on the numbers and financial ratios. And the other key point is that the world of finance remains very male-dominated. There's also a shortage of role models of female CEOs who have been there and done it – who have tackled the challenges of growth and have raised money.

Things are starting to shift – the push is definitely there. There is no shortage of female-led growing businesses and it's vital to keep building that pipeline. Steps are being taken to encourage more female angel investors and VC partners. Funds have been launched that will allocate more to companies with higher levels of gender diversity. Having more role models will exponentially encourage more women to scale up their businesses. I'm confident that we will make huge strides over the next few years.

# Social Scaleups

SCALEUP INSIGHTS

**Social businesses account for a large and growing portion of the UK business sector, comprising a range of enterprises focused on responding to complex and challenging community, environmental and broader societal concerns. In 2018, the ScaleUp Institute, in partnership with Barclays, has been looking more intensively at this under-researched sector of the economy.**

Social businesses are not always perceived to be high growth but there are many that are actively scaling.

Not only are they growing their revenues and employee numbers rapidly, they are making profits which are then being reinvested to further their social goals and increase their reach. They are not necessarily just operating within their local communities but are active players on a national and international scale. These social scaleups are driven by ambitious leaders and are delivering innovative solutions.

The research draws from the findings of our Annual Scaleup Survey, in-depth interviews with a number of social business leaders and an extensive literature review. It demonstrates that social scaleups face a number of challenges to their growth.

They cite talent and skills as their principal issue, reflecting the concerns of the wider scaleup population. However, access to finance is seen to be a greater challenge to social scaleups than for their fast-growing peers in other sectors of the economy.

The findings will be published in Winter 2018 and will discuss the characteristics of social scaleups, the challenges they face and help to break down the barriers to their scaling up and the social impact of their activities.

This report will shed light upon this diverse group, whose scaleup ambitions are not always recognised. It will explore in more detail their challenges in access to finance and provide insights to the finance community, policymakers and ecosystem to act upon.


Company's Growth
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