SCALEUPS DEBT FINANCE JOURNEY

SCALEUP INSTITUTE

In partnership with

BARCLAYS

ScaleUp Institute is a private sector-led, not-for-profit organisation focused on collaborating with policy makers, corporates, finance players, educators and government at a local and national level.

Our mission is to help the UK to become the best place in the world to grow a business as well as start one, and enable our existing high-growth businesses to scale up even further.

At Barclays we understand you and your business and recognise your ambition to grow. We are here to help accelerate your journey as your partner for growth, providing you with growth solutions, expertise, education and connections – as you start, grow and scale. To find out more about how Barclays can support you and your business search Barclays Entrepreneurs.

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INTRODUCTION

Irene Graham OBE
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Scaleups play a vital role in driving productivity and growth in the UK economy. They are fast-growing, innovative, ambitious and international businesses operating across all regions and sectors contributing £1.2 trillion yearly to the UK economy - more than half of UK SME turnover despite being more than 0.6% of the SME population.

As we seek to remove barriers to their further growth scaleups consistently cite accessing finance - both debt and equity - as one of their critical challenges. Moreover, more than half of all scaleups say they do not currently have the right level of finance to fuel their future growth aspirations and regional disparities persist.

If we are to address this 'scaleup finance gap', it is even more vital, that we have a deeper and richer understanding of the finance journeys of scaling businesses so that the debt, venture and equity finance providers can deliver the optimal finance for their growth.

In this report, which we are delighted to have worked with Barclays Bank upon, we have used multiple evidence bases and data, to analyse the use of different types of finance by scaleups, delved specifically into their working capital usage and needs, and sought to understand better the interplay between debt and equity funding.

Use of finance by scaleups, which is more significant than SME counterparts, varies by their sector, age and size, with the same scaleup using different forms of finance at different stages in their growth - so 'one-size-fits-all' approach cannot be used.

The report reinforces the continued need for a concerted, transparent and joined-up effort from the finance community towards informing, connecting and educating scaleup leaders about all available options and focusing on holistic solutions which are tailored to scaleup needs - rather than a 'product' push.

It reaffirms the importance of the roles that Innovate UK, tax initiatives and Development Banks play in catalysing private sector investment. It explores the predictors of scaleup growth - enabling funders to spot their clients with scaleup potential early and tailor their services accordingly.

The proactive role that financial institutions can play at national and local level in enabling the full growth potential of our scaleup community is clear - and it is an opportunity we must push forward on with more coordinated action - a priority we will continue to champion in 2023.

FOREWORD

Katherine Morgan
Head of High Growth & Entrepreneurs
Barclays

I'm sure I don't need to tell anybody that this year's financial landscape has been a challenging one. With the lingering effects of the pandemic, conflict, and instability outside of Europe, rising inflation, fears around energy prices, and worsening supply chain disruptions – it's hard to think of a more volatile time in recent years for international markets.

All of this, of course, impacts the business world. Strategy and financial liquidity remain important for businesses to make it through these turbulent times. Businesses need to plan harder and further ahead, taking advantage of innovation and opportunities wherever they can.

But this kind of financial resilience doesn't happen in a vacuum. To succeed, it is increasingly clear that modern businesses also need a partner for growth to thrive.

These partners will fill different niches, depending on the organisation. However, to ensure the resilience and success of UK businesses, all partners should understand the changing needs of different businesses as they grow. Planning together and providing accessible, evidence backed guidance at every step of the growth journey can make a crucial difference.

Here at Barclays, we're committed to championing this type of partnership. As financers, our role as a partner for growth focuses on providing education about, and access to, a holistic blend of finance options – tailored to the sector, age, and specific needs of each business.

That's why we're so excited about our collaboration with the Scale up Institute to produce this report on the UK's engine of growth. We now have a deep analysis of the interplay between the growth of scaleup businesses - who as the ScaleUp Institute has shown are so vital to every area of the UK - and the types of finance they use, spanning across growth stages, sectors and regions.

There's a lot to learn from this report. It shows how we can further support existing scaleups to keep their growth rates optimised, what approaches scaleup businesses are using vs their SME counterparts and it demonstrates where the needs of businesses differ according to their life stages.

Most importantly, the data shows a funding gap that we must collectively work to close to support UK PLC's growth. For example, according to the ScaleUp Institute's 2022 annual survey more than half of the scaleups based in northern regions of North East, North West and Yorkshire and Humberside feel that they do not have the right amount of funding in place to support their growth ambitions. Overall the ScaleUp Institute's research reinforces that scaleups perceive that more money is in the south east of England than the rest of the country to meet their demand. However, we also need to acknowledge that our London based scaleups also feel under-served with 63% stating they do not have sufficient capital for their growth ambitions.

The good news is that these findings show how blended solutions along the scaleup growth journey can be used effectively, to support the scaleups that have such a huge impact on the UK's economy.

Essentially, the lessons can be broken down into four key areas: education, proactivity, planning, and a blended approach to finance options.

Focusing on finance, businesses need to look at their plans with a more holistic approach that blends a varied suite of financing options spanning equity and debt. Working capital should be a key focus, especially as supply chain disruptions and operating costs increase.

To take this holistic approach, scaleups need to know all their financing options – with clear explanations of which blend of solutions fit their journey. The report identifies big opportunities and highlights specific finance solutions that are seen as very useful yet are still underutilised overall.

To demonstrate, scaleups are either equally or more likely to use all forms of finance than regular SMEs – for example, 37% of scaleups use core forms of finance, compared to 31% of SMES. However, this drops to an equal 2% of both scaleups and SMEs using invoice finance, showing a clear lack of awareness of this finance solution.

The same is true for other finance methods like asset finance, venture debt and other forms of growth finance. Many of the CEOs interviewed admitted *'a lack of awareness and understanding of various forms of finance and an uncertainty around terms and benefits of products.'*

Similarly, tax credits are an underutilised resource. One area where opportunities are missed is in research and development, where government funding is available through tax credits and Innovate UK grants. Again, as the scaleups emphasise, increased education and awareness around government schemes and their benefits could help make sure these opportunities are better realised.

The data goes even further, for example, pinpointing a gap for small and young scaleups around working capital instruments, such as trade credits and – once again – invoice finance. Here, we see solutions being overlooked at what can often be a make-or-break point in a business' lifecycle.

Ultimately, all of this puts us in an exciting position. We now hold the key to better supporting, expanding, and fuelling the overall growth of the most productive sector of the economy. By following a consistent approach of planning and education across a blend of data-backed solutions, we all have the chance to positively impact the financial health of the UK by playing our role as partners for growth.

EXECUTIVE SUMMARY

SCALEUPS: THE UK'S ENGINE OF GROWTH

Scaleups are firms growing their employment numbers and/or turnover by more than 20% a year over a period of three years, with at least 10 employees at the start of the period. Based on the ScaleUp Institute's analysis of the latest available ONS data, there are 33,955 scaleups in the UK contributing £1.2trn in turnover and employing 3.1 million people.

Scaleups are the growth and productivity champions of the UK. They generate more than 50% of the turnover, despite making up only 0.6% of the total SME population. They are highly ambitious, innovative and international businesses.

Scaleups are far more likely to be using external finance than other small and medium sized businesses, with 8 in 10 scaleups using at least one form of external finance and half using or planning to use equity finance. However, they consistently rank access to funding as a key concern for future growth. 4 in 10 cite it as one of their top 3 challenges, and 2 in 10 say it is the most significant growth challenge for them. Moreover, around half of all scaleups say they do not currently have the right level of finance to fuel their future growth aspirations.

Perceptions of a regional divide also persist, with many believing that much finance is centred on London and the South East.

THIS REPORT

This report, from the ScaleUp Institute and Barclays, seeks to better understand the interplay between the various forms of funding used by scaleup businesses.

Combining different datasets and analyses, this study considers scaleups' current use of different forms of finance - in particular debt instruments and working capital and their interplay with equity funding. It also further looks at the characteristics of scaling firms and the market opportunities and knowledge gaps around forms of funding.

The report utilises the ScaleUp Institute's Annual Scaleup Survey, the SME Finance Monitor including the scaleup segment, and the Visible ScaleUp Index to analyse how use of finance changes with the demographics of the businesses. The descriptive statistics from these datasets highlight the underlying relationship between scaleup characteristics and their use of debt and working capital.

This quantitative analysis is complemented with qualitative interviews conducted with leaders of scaling businesses to create a holistic view of the scaleups perspective on funding. The study also includes findings from a driver analysis which aims to understand if and how much the use of finance and demographic factors can predict scaleup level growth.

KEY FINDINGS:

Scaleups are more likely to use finance than their peers - 82% of scaleups use some form of external finance according to the **ScaleUp Institute Scaleup Survey** and 76% of scaleups use some business funding according to the SME Finance Monitor. In particular scaleups use more core forms of debt finance, injection of personal funds and leasing/hire purchase type products - albeit the latter has more scope for usage.

There is a knowledge gap and market opportunity for specific finance products and regional disparities remain - when it comes to working capital / debt financing the majority of scaleups are using loans and overdrafts with limited usage of invoice finance, leasing/hire purchase, or venture debt. There is clearly an opportunity for the finance community to enhance the knowledge of the benefits of these products as well as consider the wider application venture debt solution in their portfolio of services.

There is an opportunity to enhance working capital engagement in smaller and younger scaleUps - Further gaps are identified around specific demographic characteristics - e.g. use of working capital instruments (trade credits and invoice finance) is particularly low in smaller and younger scaleups.

Interplay between equity funding, debt finance and working capital - The comparative analysis highlighted that equity funding enabled scaleups to access more external finance overall. While use of debt did not change with equity, it is interesting to note trade credits were less likely to be used by scaleups that have equity funding.

Role of Innovate UK and Development Banks - Grants and loans by Innovate UK went to 3 main sectors: Manufacturing and Engineering, Human Health / Life Sciences and Scientific and Technical Activities. Scaleups that received Innovate UK grants were twice as likely to have received equity funding, and even more likely to use venture debt, tax credits and invoice financing; demonstrating a powerful 'crowding in' / kitemark effect of Innovate UK engagement with scaleups, which enables them to access other forms of funding more effectively. A similar impact can be seen among scaleups which have received support and funding from development banks. Of the 30 funds backed by the British Business Bank, the Development Bank of Wales and Scottish National Investment Bank have invested £1.2bn in visible scaleups since 2020.

Predictors of scaleup growth - Predictive analysis undertaken in this research re-affirms that an organisation's ability to innovate, and its potential to export, are the most significant predictors of a business entering scaleup mode - this innovative and international mindset is even more important than a growth mindset, which whilst playing a part is not the overriding factor. Additional factors that influence the likelihood of being a scaleup are capital investment and seeking core finance to grow. Age is another factor; more established businesses scale and scale significantly.

2. KEY FINDINGS AND RECOMMENDATIONS

For the first time, this report brings together multiple data sets, to provide a unique insight into how scaleup businesses are using different forms of debt finance and the interplay between stages of scaleup growth in different sectors and regions of the UK economy.

Our findings highlight both what is working and needs to be built on, alongside what needs to be done to further close the scaleup finance gap. The analysis also provides some clear guidance on actions we can collectively take to shift the understanding and options of funding available:

RECOMMENDATIONS THAT EMERGE

Initiatives to inform scaling businesses of finance options remain vital across the finance debt finance landscape - providing clarity of the finance solution and how differing solutions fit together is important. Case studies and role models can help in this regard, alongside non-executive directors (NEDs) and advisors. There is a need to make sure 'signposting' initiatives are as comprehensive and aligned as possible.

Finance providers need to be more proactive in joining up solutions and 'referring onwards' and / or syndicating structures if the funding need is not solely in their suite of services. There is a need for providers to come together and introduce more forms of blended finance which build on each other to support scaleup ambitions.

Use of finance by scaleups varies by sector, age, size and stage of scaleup growth. While not linear, scaleups are higher users of blends of finance, specifically equity and so **we must get the finance mix and ladder right - specifically at regional and sectoral level**.

Financiers need to be clearer on terms and be focussed on solutions versus product push: introducing new products to a scaleup business needs consideration in explaining how it fosters their growth journey and fits with existing forms of finance. Working holistically with a scaleup across their growth journey is important to scaleups and so development of proactive engagement such as through High Growth Relationship Management Teams is valued.

There is a clear opportunity in **raising the profile and benefits of invoice financing** for B2B scaling businesses and its role in enabling growth.

The role of Innovate UK and British Business Bank in the finance ecosystem is reinforced. The roles of these two organisations should be expanded. Access to R&D finance and tax options needs to be easier. Further work is needed to increase the knowledge of what is available. There is more generally an opportunity to increase awareness of government tax credit schemes among scaleups and ensuring the benefits of these are as well known as possible.

3. DATASETS AND METHODOLOGY

The Datasets analysed for the Purposes of this Report:

1. The ScaleUp Institute works with the **SME Finance Monitor** to regularly analyse scaleups' usage and attitudes to finance. The Monitor surveys around 5,000 SMEs each quarter and consistently interviews several hundred scaleups. For the purpose of this report, we looked at the data from the year ending 30 July 2022 which covers 3,822 scaleups and 11,946 SMEs trading for more than 2 years. The scaleups of the sample:

   - Cover all regions and most sectors of the UK economy
   - Are of different maturity level - 92.5% are more than 5 years old and over half are more than 15 years old
   - Have an approximately equal mix of B2B and B2C businesses
   - 61% have undertaken some innovative activity in the last 12 months and 17% have exported

2. The **2022 ScaleUp Survey** includes over 350 scaleup leaders surveyed in the 3rd and 4th quarters of 2022. It explores the key challenges and growth opportunities scaleups are facing. Respondents to the 2022 survey:

   - Employ over 19k people and have an aggregate turnover of £4bn (which they plan to grow by 20 per cent to £4.8bn in 2022)
   - Are spread across the UK
   - Cover the entire economy in diverse sectors from manufacturing to life sciences, and from professional services, scientific and technical activities to construction and the creative industries.
   - Are diverse - 37% had a female founder and 1 in 10 a founder from an ethnic minority background.
   - Are trading internationally - 5 in 10 currently doing so, with 6 in 10 looking to trade overseas in the future.
   - Are highly innovative - 9 in 10 have engaged in some form of innovation related activity.

3. **The Visible ScaleUp Index 2022** - The ScaleUp Institute, in partnership with Beauhurst, identifies a cohort of larger visible scaleups which have crossed £10.2m in turnover or £5.1m in assets. For the year ending 2022, there are 8,457 visible scaleups spread across the UK and belong to a range of sectors.

4. **Qualitative Interviews** - In-depth interviews to explore the attitude of scaling leaders towards different types of finance, understand their scaling journey and the role finance has played in it. The qualitative interviews conducted were mixed in geography, sector, age and size covering the South West, East Anglia, Yorkshire and Humber and South East and varied in terms of turnover and use of finance: some used only debt financing and some that used both debt and equity funding.

4. SCALING BUSINESSES AND SMES - HOW ARE SCALEUPS USING DEBT FINANCE AND HOW IS IT DIFFERENT FROM SMES?

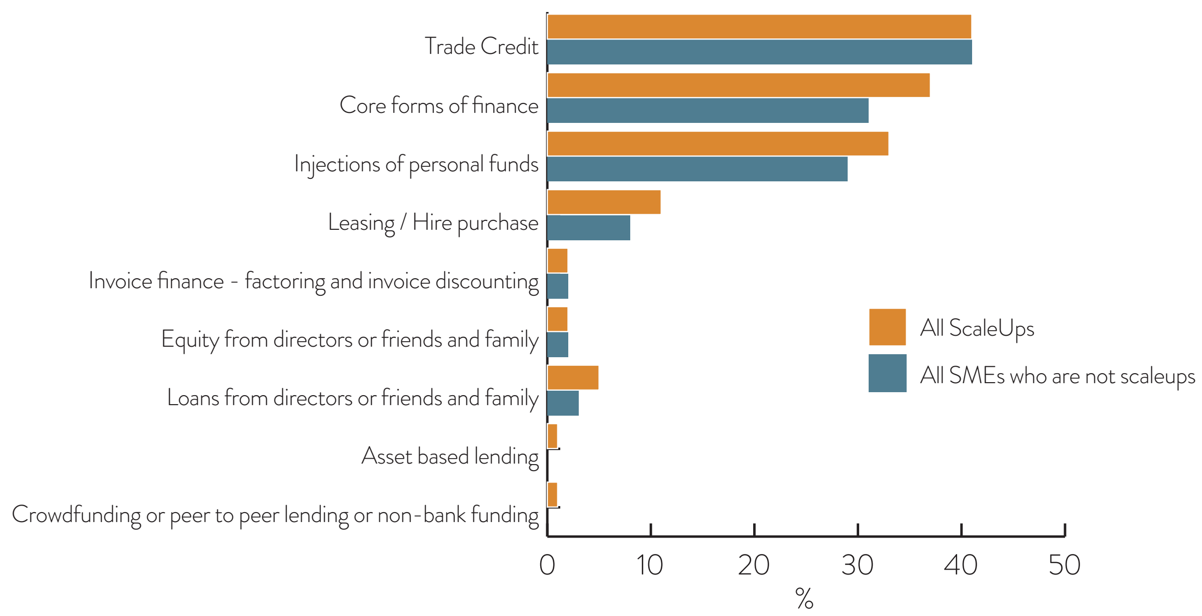
The following analysis looks at the SME Finance Monitor and evaluates how scaleups differ from SMEs in their use of different types of finances. There are interesting patterns of use which can help to discern the targeted support scaleups might need regarding debt financing.

Scaleups are more likely to use finance when compared to their SME peers - 8 in 10 of the scaleups from the SME Finance Monitor use some form of business funding including core forms of finance, trade credit and injections of personal funds. This compares to 7 out of 10 for the SMEs who are not scaleups.

As we break down business funding into individual elements, further trends emerge:

- Scaleups use all forms of core finance more than SMEs (see Figure 1 and Figure 2 below) - 37% of scaleups use core forms of finance (loans, overdrafts and credit cards), compared to 31% of other SMEs.
- They are also likely to be using more injections of personal funds (33% for scaleups vs 29% for other SMEs)
- They have a slightly higher use of leasing/hire purchase compared to other SMEs (11% vs 8%), similar to use of personal equity in the form of loans from directors or friends or family - (5% vs 3%).
- Trade credit is the most used form of business funding which is utilised equally by both scaleups and SMEs.
- Invoice finance is one of the least used debt instruments indicating a significant gap which needs to be addressed.

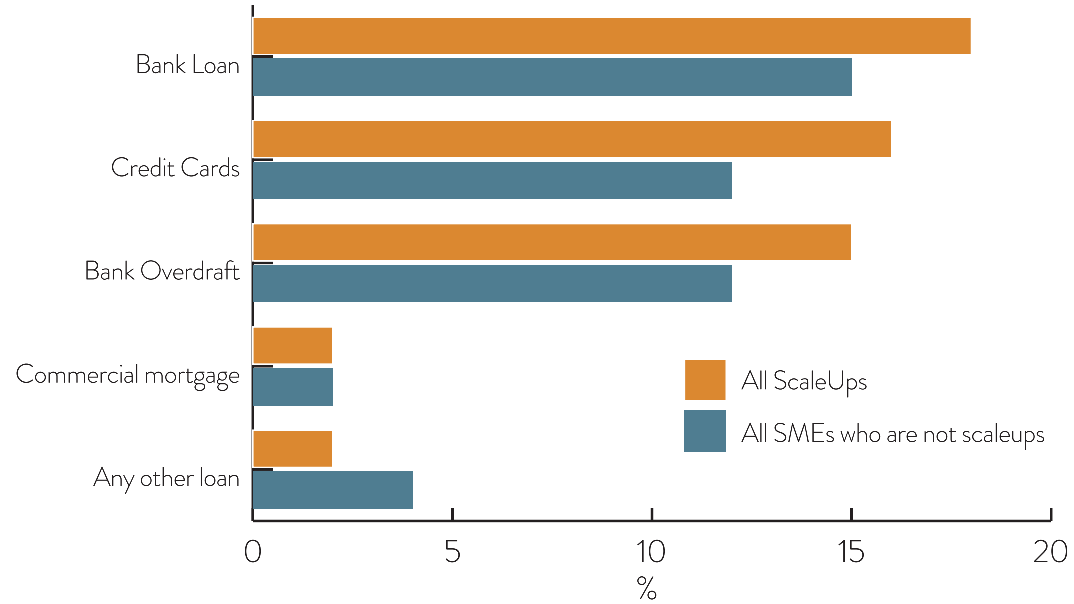
FIGURE 1: USE OF OVERALL FINANCE BY SCALEUPS AND SMES



Source: SME Finance Monitor Q3 2021 - Q2 2022

When it comes to core debt finance, scaleups use individual core debt products more than SMEs: credit cards have the highest difference in use by scaleups and SMEs while commercial mortgages are used similarly by both.

FIGURE 2: USE OF CORE FORMS OF FINANCE BY SCALEUPS AND SMES



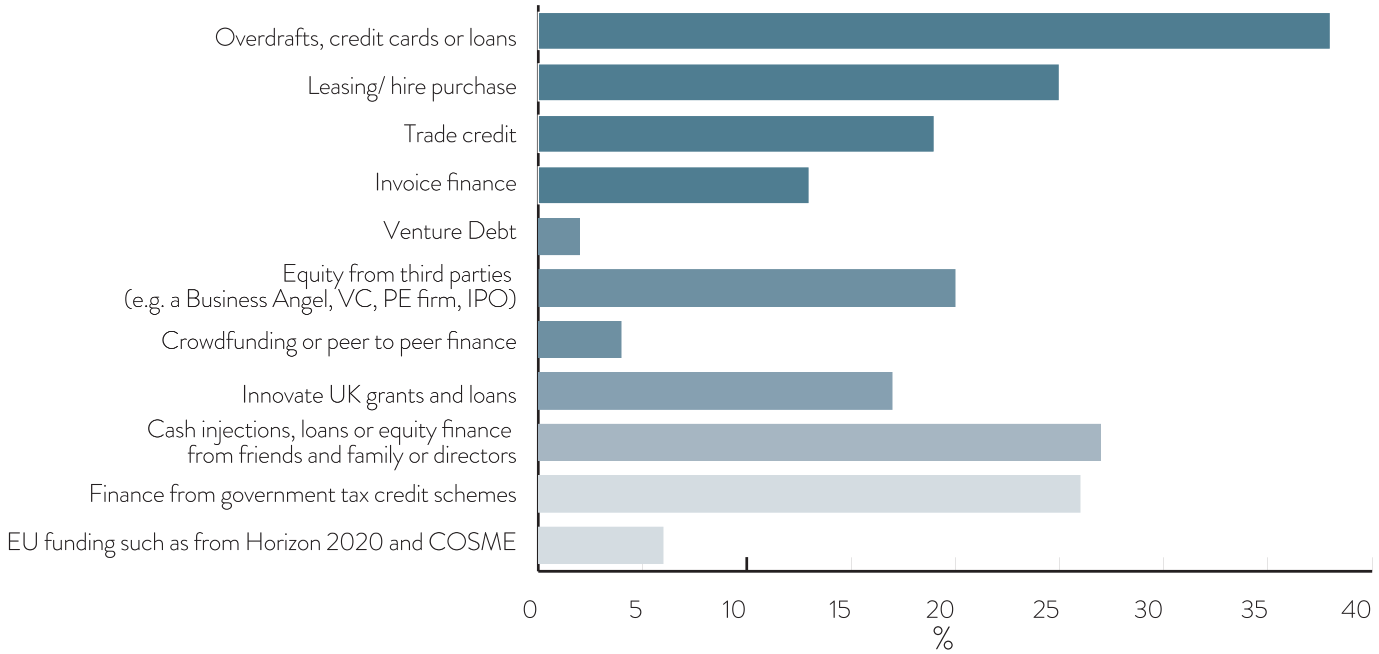
Source: SME Finance Monitor Q3 2021 - Q2 2022

Scaleups using core finance are more likely to take steps to reduce carbon footprint (35% v 20%) and make capital investment such as new plant/machinery/premises (31% v 17%) when compared to their other scaleup peers not using finance. Also, those using finance are twice as likely to have a mentor than those not using core finance.

Overview of use of debt and working capital finance by scaleups according to the ScaleUp Survey

Similar to the SME Finance Monitor, the Scaleup Survey further reinforces the fact that the most common form of finance utilised by scaleups is debt funding which includes overdrafts, credit cards or loans, leasing/hire purchase, trade credit and invoice finance. Analysing individual products shows that invoice finance is **again** the least used product (both according to the Scaleup Survey and the SME Finance Monitor). The Scaleup Survey also shows the growing dynamics of use of crowdfunding in scaling businesses - a trend which is also indicated in the ScaleUp Index (see section 4.3).

FIGURE 3: USE OF FINANCE BY SCALEUPS AS PER SCALEUP SURVEY



Source: Annual Scaleup Survey 2022

5. SCALEUP USAGE AND PATTERNS OF DEBT AND EQUITY FUNDING

In this section, we explore the variations in usage of finance by scaleups by key demographic factors including age of the scaleup, sector, region and the level of growth to help profile the required support.

5.1 By Turnover

Scaleups with higher turnover tend to use debt finance and working capital more compared to scaleups with less turnover. This was also the case for equity from third parties. The only exception is personal cash injections which are more utilised by smaller scaleups.

TABLE 1: USE OF FINANCE BY SCALEUPS IN DIFFERENT TURNOVER BAND

	Up to £1million	£1m to £9.9m	£10m+
Overdrafts, credit cards or loans	36%	40%	**45%**
Leasing/Hire purchase	16%	33%	**40%**
Trade Credit	12%	27%	**26%**
Invoice Finance	6%	19%	**29%**
Venture Debt	1%	1%	**10%**
Equity from third parties (e.g. a Business Angel, VC, PE firm, IPO)	18%	22%	**29%**
Crowdfunding or peer to peer finance	6%	3%	2%
Innovate UK grants and loans	15%	17%	**24%**
Cash injections, loans or equity finance from friends and family or directors	**28%**	21%	11%
Finance from government tax credit schemes	6%	6%	5%
EU funding e.g. Horizon 2020 and COSME	18%	32%	**36%**

Source: Annual Scaleup Survey 2022

5.2 By Type of Scaleup

Scaleups scaling by employment only tend to use more of most types of external finance especially leasing / hire purchase, trade credit, invoice finance and equity from third party. This reflects that external finance – working capital in particular - is crucial to fuel the employment growth for scaleups which are building / expanding their team for product development or service delivery.

TABLE 2: USE OF FINANCE BY SCALEUPS SCALING BY EMPLOYMENT OR TURNOVER

	Employment scaleup	Turnover scaleup
Overdrafts, credit cards or loans	38%	**39%**
Leasing/Hire purchase	**33%**	23%
Trade Credit	**28%**	22%
Invoice Finance	**17%**	13%
Venture Debt	3%	2%
Equity from third parties (e.g. Angel, VC, PE firm, IPO)	**22%**	17%
Crowdfunding or peer to peer finance	3%	3%
Innovate UK grants and loans	**18%**	16%
Cash injections, loans or equity finance from friends and family or directors	**27%**	24%
Finance from government tax credit schemes	**24%**	23%
EU funding e.g. Horizon 2020 and COSME	6%	6%

Source: Annual Scaleup Survey 2022

5.3 By Age

Younger scaleups (those who are 5 or less than 5 years old) tend to use personal cash injections, equity funding, government tax credits and EU funding more than other forms of debt finance as compared to mature scaleups.

Use of leasing/hire purchase, trade credit and invoice finance particularly increases with the maturity of the scaleups.

TABLE 3: USE OF FINANCE BY SCALEUPS OF DIFFERENT AGE

Age of the scaleup	Less than 5 years	6 - 9 years	10 - 15 years	More than 15 years
Overdrafts, credit cards or loans	33%	32%	31%	**45%**
Leasing/Hire purchase	15%	19%	**31%**	30%
Trade Credit	8%	7%	21%	**29%**
Invoice Finance	7%	5%	15%	**19%**
Venture Debt	3%	4%	3%	0%
Equity from third parties (e.g. Angel, VC, PE firm, IPO)	**45%**	26%	13%	9%
Crowdfunding or peer to peer finance	8%	5%	0%	4%
Innovate UK grants and loans	**29%**	12%	16%	13%
Cash injections, loans or equity finance from friends and family or directors	**38%**	30%	19%	24%
Finance from government tax credit schemes	**32%**	**32%**	16%	25%
EU funding e.g. Horizon 2020 and COSME	**12%**	0%	6%	5%

Source: Annual Scaleup Survey 2022

Similar to the findings from the Scaleup Survey, the scaleup cut of the SME Finance Monitor also shows that the use of debt finance increases with the maturity of the businesses whereas injection of personal funds is needed more at an earlier stage of scaling up.

TABLE 4: USE OF FINANCE BY SCALEUPS OF DIFFERENT AGE AS PER SME FINANCE MONITOR

	Less than 5 years	6 - 9 years	10 - 15 years	More than 15 years
Trade Credit	24%	39%	36%	**47%**
Core forms of finance	29%	**43%**	39%	36%
Leasing / Hire purchase	9%	**13%**	10%	12%
Invoice Finance	1%	2%	2%	3%
Injections of personal funds	**38%**	33%	36%	30%
Equity from directors or friends and family	1%	1%	1%	2%
Loans from directors or friends and family	5%	7%	6%	5%

Source: Annual Scaleup Survey 2022

5.4 By Growth Rate

Scaleups that grew by more than 100% in turnover or employment in the last 12 months use overdrafts, credit cards or loans more than their scaleup peers. Use of trade credit also increases with the growth rate of scaleups.

Debt finance including overdrafts, credit cards or loans, leasing/hire purchase and trade credit are used more by scaleups growing between 20% to 49%. While invoice finance is used similarly across all growth rates; equity, government tax credit schemes and EU funding is used much more by scaleups growing by more than 50%.

TABLE 5: SCALEUPS SCALING BY TURNOVER OR EMPLOYMENT GROWTH AND THEIR USE OF FINANCE

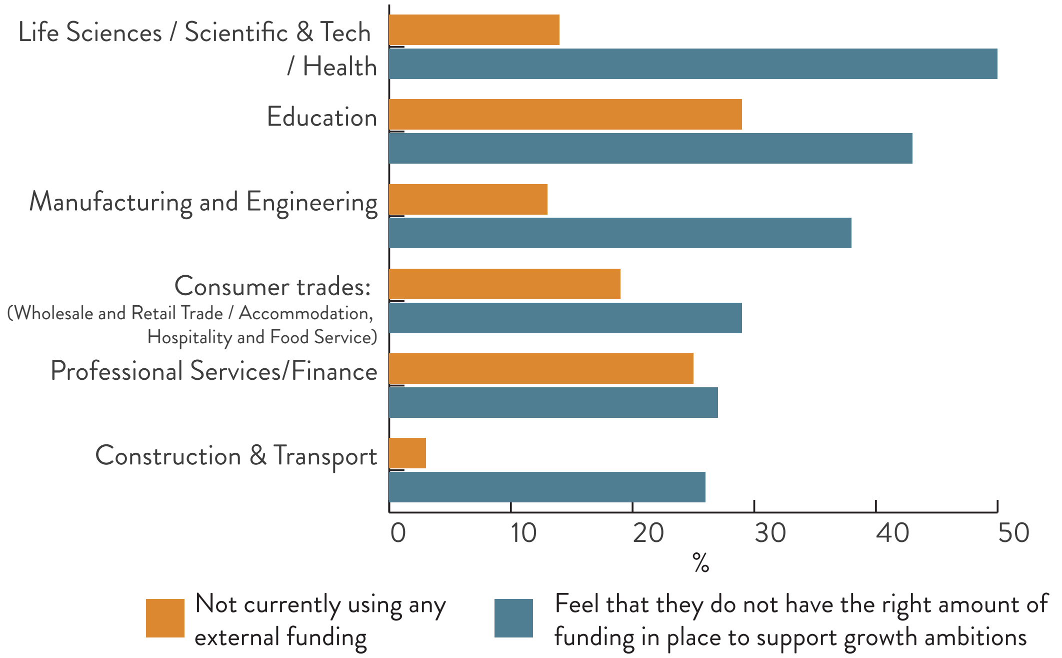
	Scaleups scaling by turnover or employment growth and use of finance		
	Grown by 20-49%	**Grown by 50-99%**	**Grown by more than 100%**
Overdrafts, credit cards or loans	**44%**	36%	35%
Leasing/Hire purchase	**28%**	18%	18%
Trade Credit	**21%**	12%	13%
Invoice Finance	11%	9%	**13%**
Venture Debt	2%	3%	3%
Equity from third parties (e.g. Angel, VC, PE firm, IPO)	17%	52%	**58%**
Crowdfunding or peer to peer finance	1%	**12%**	8%
Innovate UK grants and loans	15%	**42%**	38%
Cash injections, loans or equity finance from friends and family or directors	30%	33%	**45%**
Finance from government tax credit schemes	25%	**48%**	43%
EU funding e.g. Horizon 2020 and COSME	6%	3%	**20%**

Source: Annual Scaleup Survey 2022

5.5 Sectoral Dynamics

The biggest perceived funding gap is reported by scaleup leaders from Scientific and Tech or Health / Life Sciences sector . While 86% of the scaleups in the sector use some form of external funding, 50% of them feel that their current funding is not sufficient to support their growth ambitions. This is closely followed by scaleups Education, Manufacturing and Engineering saying they have a significant unmet demand.

FIGURE 4: UNMET DEMAND: THE SECTOR PERSPECTIVE



Source: ScaleUp Survey 2022

Those that use some form of external finance, differ widely in their use of different types of finance based on sector. However it is notable that:

- Debt products including overdrafts, credit cards or loans, leasing/hire purchase and trade credits are popular within the Construction and Manufacturing sectors.
- Invoice finance is used the most by Manufacturing and Engineering companies, with 28% of the scaleups from these sectors saying they use it.
- Equity finance is most used by scaleups in Health & Life Sciences and Scientific and Technical Activities.
- Cash injections are used the most by Consumer trades scaleups including Wholesale, Retail and Accomodation and Food scaleups.

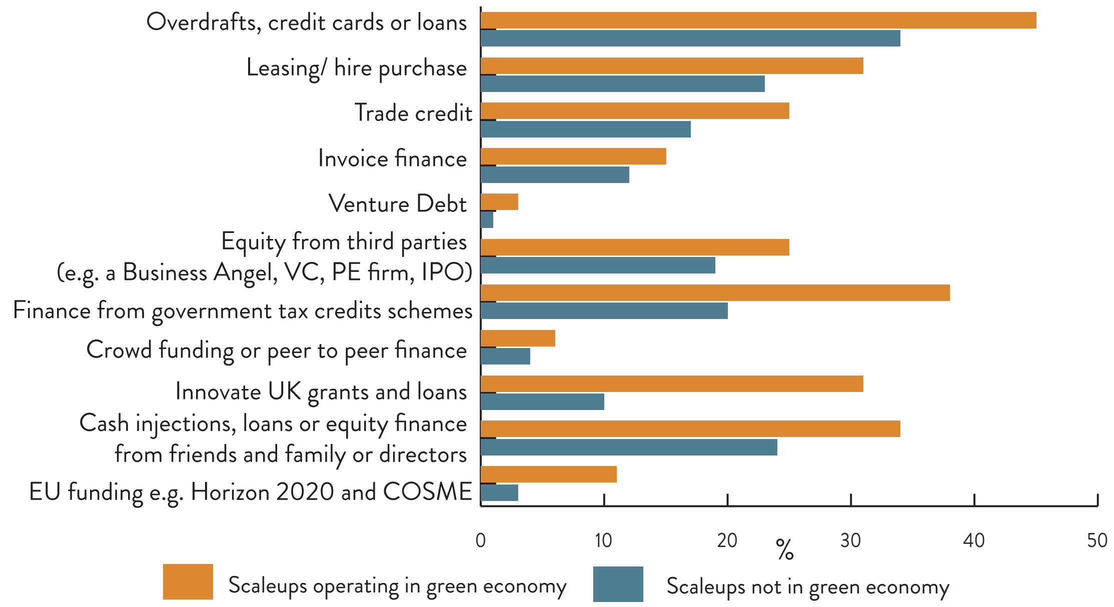
TABLE 6: USE OF FINANCE BY SCALEUPS IN DIFFERENT SECTORS

	Construction & Transport	Finance / Professional services	Human Health / Life Sciences	Manufacturing and Engineering	Scientific & Technical Activities	Consumer trades: (Wholesale and Retail Trade / Accommodation, Hospitality & Food Service)	Other Service & Education	Other
Overdrafts, credit cards or loans	61%	25%	30%	49%	32%	42%	30%	30%
Leasing/Hire purchase	61%	12%	13%	37%	15%	22%	14%	14%
Trade Credit	45%	2%	13%	32%	10%	31%	5%	5%
Invoice Finance	12%	14%	10%	28%	0%	19%	5%	5%
Venture Debt	3%	2%	0%	0%	5%	0%	5%	5%
Equity from third parties (e.g. Angel, VC, PE firm, IPO)	9%	9%	33%	26%	29%	17%	22%	22%
Crowdfunding or peer to peer finance	3%	2%	3%	7%	0%	3%	3%	3%
Innovate UK grants and loans	9%	9%	27%	32%	27%	11%	8%	8%
Cash injections, loans or equity finance from friends and family or directors	30%	25%	13%	34%	20%	39%	22%	22%
Finance from government tax credit schemes	15%	9%	43%	37%	41%	22%	11%	11%
EU funding e.g. Horizon 2020 and COSME	6%	2%	10%	10%	10%	0%	8%	8%

Source: Annual Scaleup Survey 2022

Along with broad sector classification, the ScaleUp Survey identifies scaleups who consider themselves to be operating in the green economy. These Green Scaleups use all forms of external finance more than other scaleup peers. They also use more government funding in the form of Innovate UK grants and tax credit schemes.

FIGURE 5: USE OF FINANCE BY GREEN SCALEUPS AND NON-GREEN SCALEUPS



Source: Annual Scaleup Survey 2022

As per the SME Finance Monitor, the take up of trade credit varies most widely across different sectors. For example nearly 6 in 10 Wholesale & Retail scaleups use it, whereas it is used by only 1 in 4 of Health & Social Work companies. Hotels & Restaurants scaleups are the biggest users of core forms of finance followed by Manufacturing and Transport firms, and the Agriculture sector is the biggest for personal cash injections. Use of invoice finance is quite low across all sectors.

TABLE 7: USE OF FINANCE BY SCALEUPS IN DIFFERENT SECTORS AS PER SME FINANCE MONITOR

	Agriculture / Hunting	Construction	Health & Social Work	Hotels & Restaurants	Manufacturing	Property & Business Service	Transport	Wholesale and Retail	Other
Trade Credit	42%	55%	26%	37%	56%	34%	32%	59%	29%
Core forms of finance	31%	40%	22%	45%	42%	32%	42%	40%	38%
Leasing / Hire purchase	12%	13%	4%	6%	10%	10%	18%	13%	8%
Invoice Finance	2%	2%	3%	4%	3%	2%	2%	2%	1%
Injections of personal funds	34%	26%	24%	33%	26%	22%	31%	23%	30%
Equity from directors or friends and family	1%	1%	*	1%	3%	2%	1%	2%	2%
Loans from directors or friends and family	4%	2%	5%	4%	12%	4%	5%	10%	7%

Source: SME Finance Monitor Q3 2021 - Q2 2022 [Note: grouping of sectors analysed by SMEFM differ from those in the ScaleUp Survey]

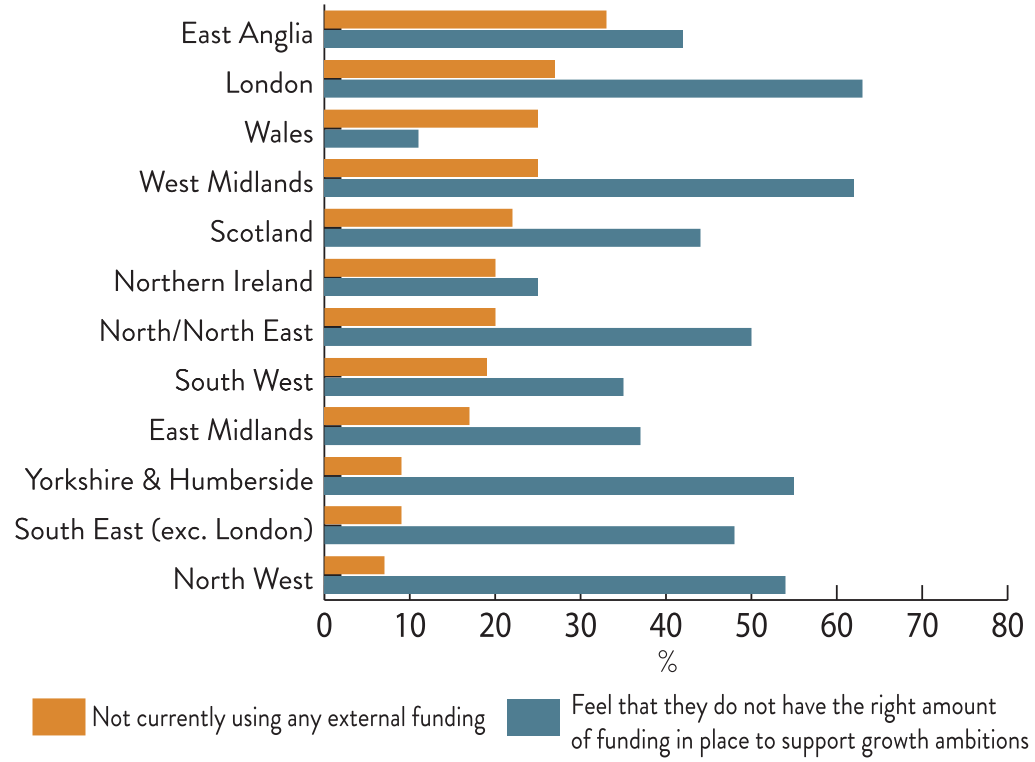
5.6 Regional Picture

5 in 10 scaleups responding to the Scaleup Survey feel that most funding resides in London and the South East and is not reaching them in the locations they reside across the country (this compares to 4 in 10 among their peers in London and the South East).

In addition 5 in 10 scaleups feel that they do not have the right amount of funding in place to support their growth ambitions.

Below we analyse this perceived funding gap alongside the percentage of scaleups not using any external funding by region. There is a perceived funding gap across all regions of the UK, even in areas where there is a high current utilisation of finance it is often not sufficient to what they require to meet their growth ambitions.

FIGURE 6: NOT CURRENTLY USING AND THE PERCEIVED FUNDING GAP BY REGION



Source: Annual Scaleup Survey 2022

Of those using finance in the regions this is the pattern of usage which varies with regions and individual products.

TABLE 8: USE OF FINANCE BY SCALEUPS IN DIFFERENT SECTORS

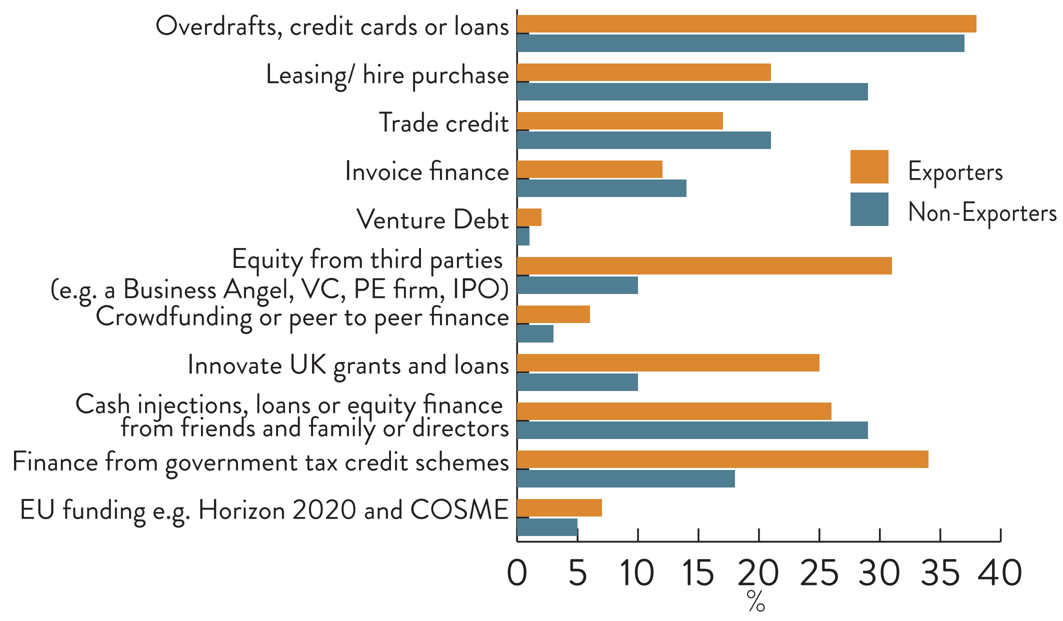
	East Midlands	West Midlands	East Anglia	North / North East	North West	Yorkshire and Humberside	London	South East	South West	Devolved Nations
Overdrafts, credit cards or loans	44%	36%	17%	35%	36%	64%	24%	42%	38%	39%
Leasing/Hire purchase	39%	7%	33%	30%	18%	36%	15%	26%	17%	35%
Trade Credit	25%	18%	0%	30%	21%	32%	2%	23%	12%	29%
Invoice Finance	19%	18%	11%	10%	18%	14%	2%	13%	7%	18%
Venture Debt	0%	0%	0%	5%	0%	0%	5%	6%	0%	0%
Equity from third parties (e.g. Angel, VC, PE firm, IPO)	11%	11%	28%	5%	29%	18%	27%	30%	19%	18%
Crowdfunding or peer to peer finance	3%	4%	0%	15%	7%	5%	0%	4%	7%	4%
Innovate UK grants and loans	11%	11%	22%	15%	4%	27%	15%	28%	17%	18%
Cash injections, loans or equity finance from friends and family or directors	31%	18%	0%	15%	18%	50%	29%	36%	36%	22%
Finance from government tax credit schemes	19%	18%	39%	15%	14%	41%	32%	28%	14%	37%
EU funding e.g. Horizon 2020 and COSME	6%	0%	6%	10%	0%	14%	5%	8%	10%	4%

Source: Annual Scaleup Survey 2022

5.7 Exporting and Innovation Dynamics

Exporter scaleups use more external finance overall with 84% using some form of funding compared to 79% for non-exporter scaleups. They particularly use equity funding and government funding in form of tax credits more than non-exporter scaleups, while also highlighting their desire to see easier access to these finance opportunities.

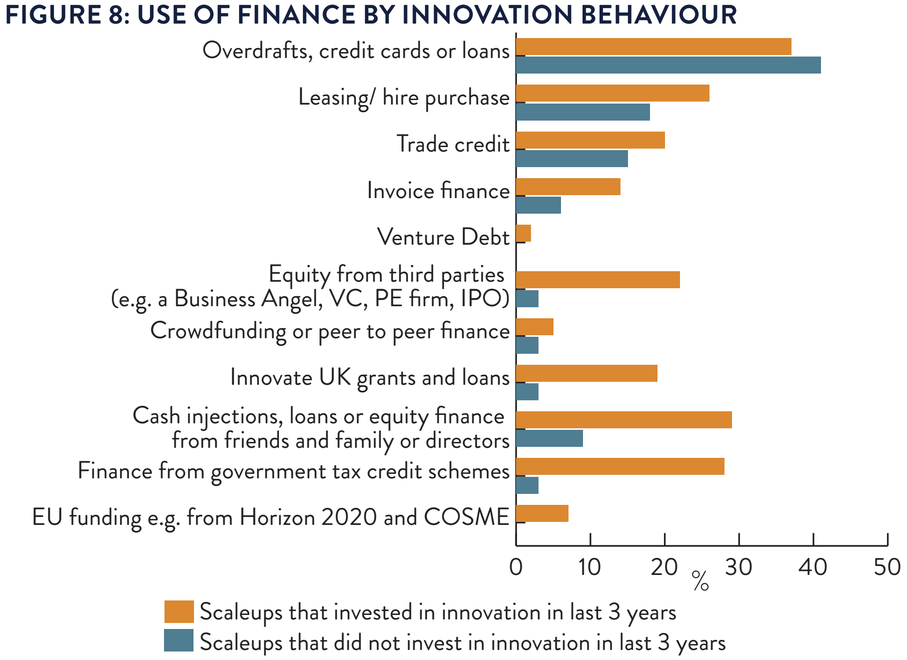
FIGURE 7: USE OF FINANCE BY EXPORTING BEHAVIOUR



Source: Annual Scaleup Survey 2022

Scaleups that have engaged in innovation projects in recent years also accessed more external finance. The biggest difference is in the use of invoice finance, equity from third parties, cash injections and finance from government tax credit schemes.

FIGURE 8: USE OF FINANCE BY INNOVATION BEHAVIOUR



Source: Annual Scaleup Survey 2022

6. THE INTERPLAYS

6.1 Core debt vs Other debt products

This analysis looks into individual businesses and their use of different debt products in conjunction with one another. This reflects that if a scaleup is a user of leasing/hire purchase then it is more likely to use trade credit than invoice finance.

TABLE 9: USE OF BLEND OF DEBT PRODUCTS

	Overdrafts, credit cards or loans	Leasing/ Hire Purchase	Trade Credit	Invoice Finance	Venture Debt
Overdrafts, credit cards or loans		20%	17%	10%	1%
Leasing/Hire purchase	20%		14%	9%	0%
Trade Credit	17%	14%		7%	0%
Invoice Finance	10%	9%	7%		0%
Venture Debt	1%	0%	0%	0%	

Source: Annual Scaleup Survey 2022

6.2 Core debt products vs Equity products

Scaleups that receive equity are much more likely to use other equity-like instruments including venture debt, peer-to-peer finance or even personal equity. They were also much more likely to use the tax credit scheme.

While use of most debt instruments did not change with use of equity, trade credits were less likely to be used by scaleups that receive equity.

TABLE 10: USE OF DEBT AND WORKING CAPITAL BY USE OF EQUITY

	Scaleups that use Equity from third parties	Scaleups that DO NOT use Equity from third parties
Overdrafts, credit cards or loans	32%	39%
Leasing/Hire purchase	17%	27%
Trade Credit	13%	21%
Invoice Finance	9%	14%
Venture Debt	7%	0%
Crowdfunding or peer to peer finance	10%	3%
Innovate UK grants and loans	38%	12%
Cash injections, loans or equity finance from friends and family or directors	35%	25%
Finance from government tax credit schemes	54%	19%
EU funding e.g. Horizon 2020 and COSME	14%	4%

Source: Annual Scaleup Survey 2022

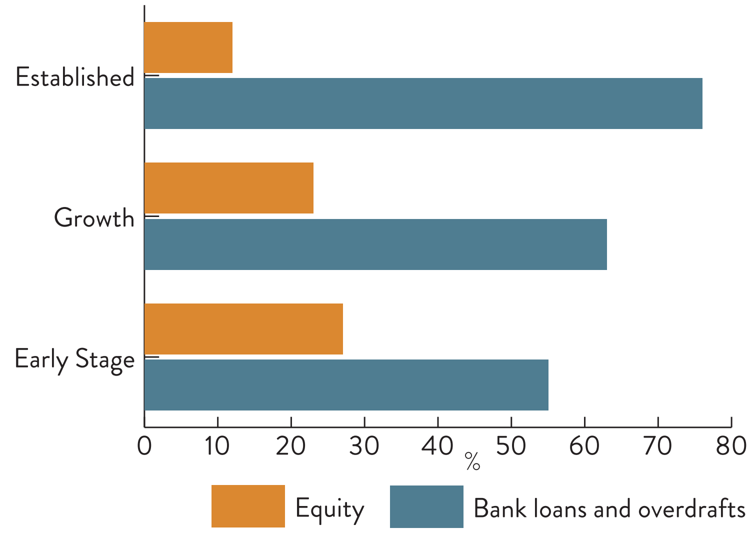
6.3 Finance Journey of Visible Scaleups

Data from the ScaleUp Index, which analyses visible scaleups' returns to Companies House, enables us to understand more about the use of different forms of finance across the lifecycle of a scaleup as it becomes larger and crosses the £10.2m turnover threshold and/or £5.1m assets.

The Visible ScaleUp Index reinforces that scaleups use finance more than other SMEs and that as the scaleup grows its usage of core forms of debt finance becomes significantly higher and they enjoy a greater variety of lending and finance options. Almost 70% of the visible scaleups from the ScaleUp Institute ScaleUp Index 2022 use some form of bank loans and overdrafts according to their latest financial statement. These visible scaleups have accrued almost £45bn in bank debt, with an average (median) level of debt of £530k, however by comparison the 19% of visible scaleups with equity funding have raised over £43.5bn.

There is also an evident inverse relationship between the use of equity and core debt finance by scaleups' stage of evolution. Early stage scaleups are the biggest users of equity at 27% while only 55% of them use core debt finance, whereas 76% of older, established scaleups are users of debt finance and only 12% of them use equity.

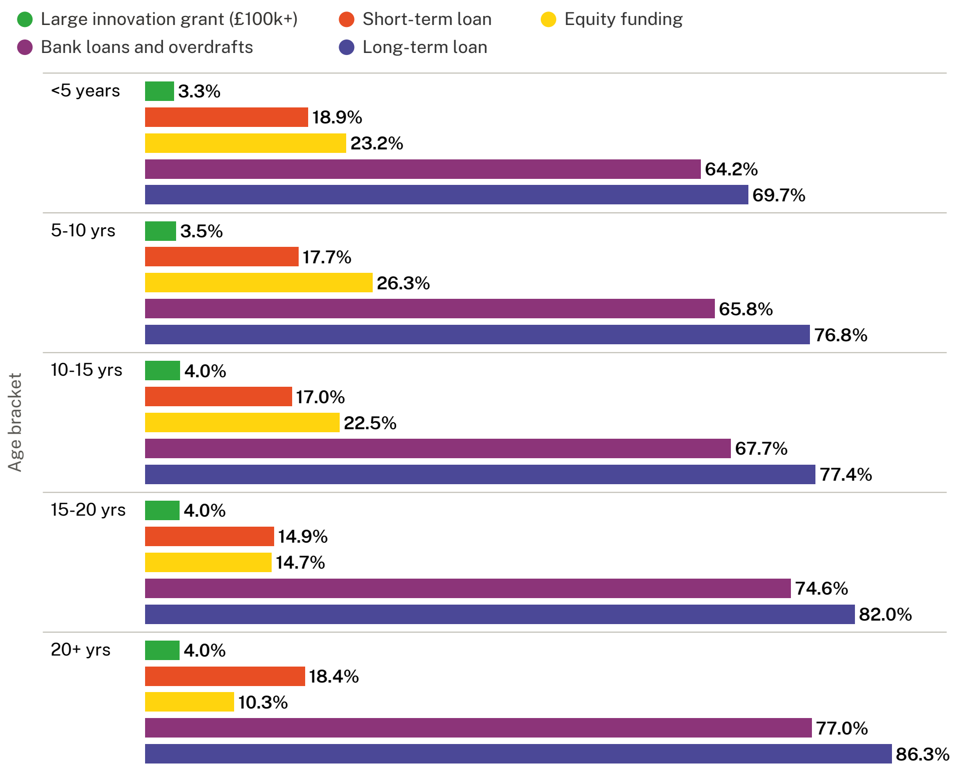
FIGURE 9: USE OF EQUITY VS BANK LOANS AND OVERDRAFTS BY STAGE OF GROWTH



Source: Scaleup Index 2022

When considering the age of a scaleup, equity funding peaks for scaleups which are between 5-10 years old. The use of core forms of finance – bank loan and overdrafts and also long-term loans – increases with the maturity of scaleups.

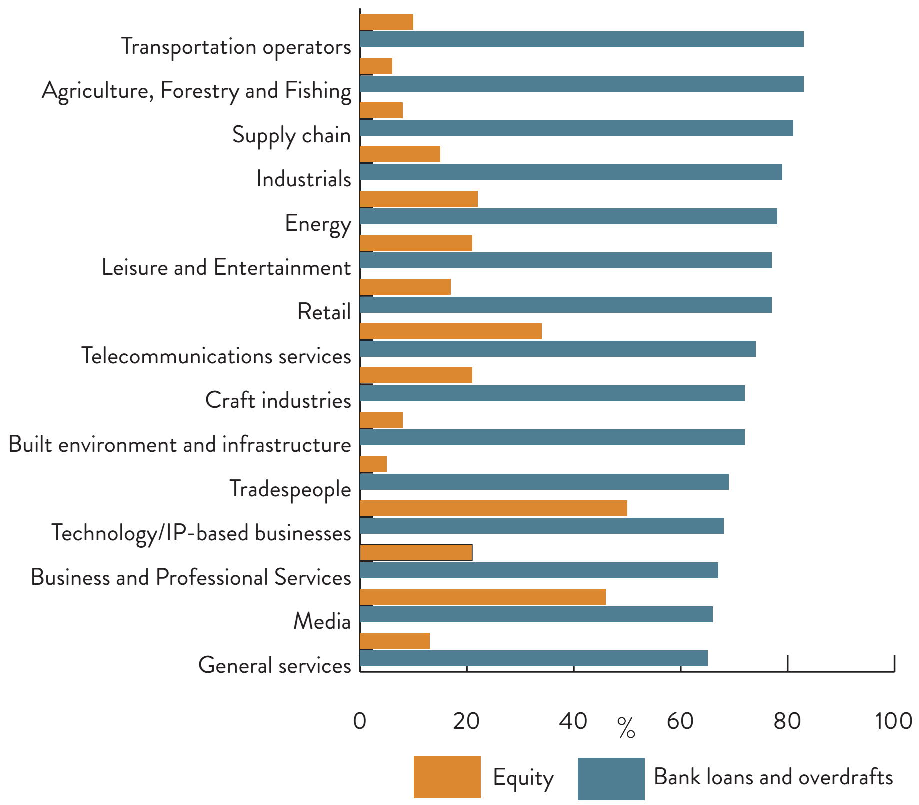
FIGURE 10: USE OF EQUITY VS DEBT VS GRANTS BY AGE



Source: Scaleup Index 2022

When analysing by sector, several stand out in their significant use of equity finance - Technology / IP-based businesses (50%), Media (46%) and Telecommunications services (34%). By comparison for visible scaleups from 7 sectors - Transport, Agriculture, Supply chain, Industrials, Energy, Leisure and Retail - more than 75% of these scaleups use bank loans and overdrafts.

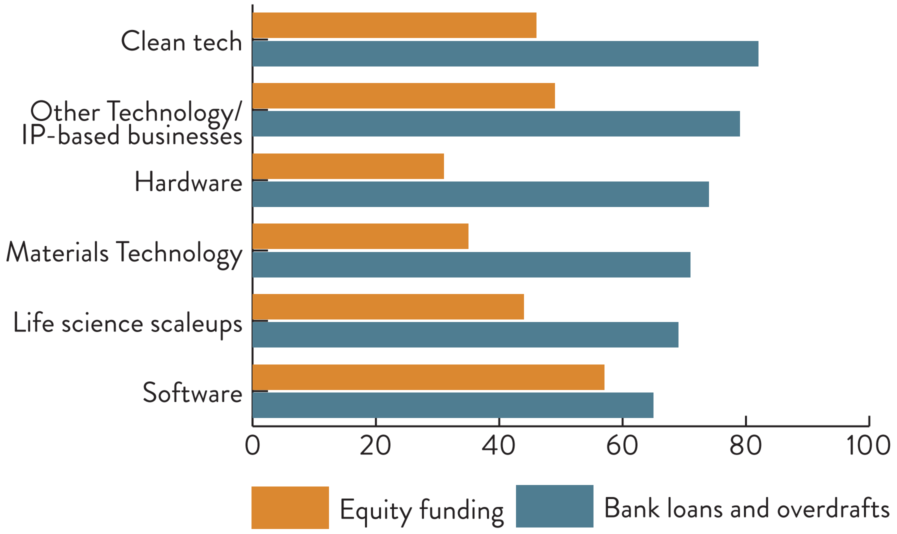
FIGURE 11: USE OF EQUITY VS BANK LOANS AND OVERDRAFTS BY BROAD SECTORS



Source: Scaleup Index 2022

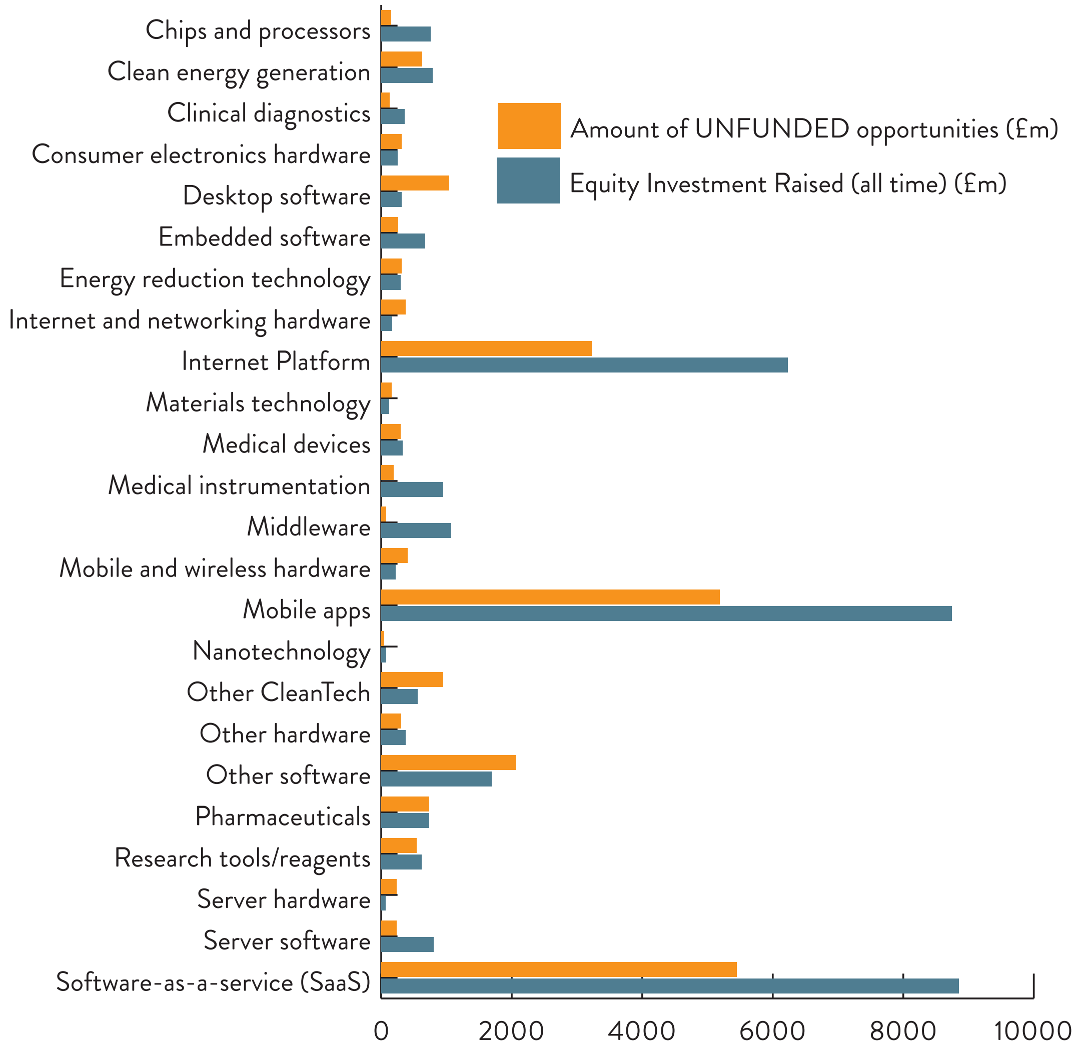
Focusing on Tech and IP-based visible scaleups, new patterns emerge for different sub-sectors particularly in terms of higher use of bank loans and overdraft facilities by cleantech scaleups and lower use of equity for those hardware and materials technology businesses [see figure 12]. More broadly as other analysis by the ScaleUp Institute has shown, we have an overall shortfall in financing in most tech subsectors . Investor bias towards internet platforms, mobile apps and SaaS is evident from figure 13 whereas there are significant gaps in growth capital for energy (clean energy generation, other cleantech) and life science sub-sectors (clinical diagnostics, medical devices, pharmaceuticals and research tools/reagents). Overseas investors account for the majority of investment into internet platforms and mobile apps - and for equal amounts in SaaS - and this, when coupled with the finance gaps in other sub-sectors, highlights the broader challenge that the UK faces in terms of closing the finance gap to fuel scaleup growth.

FIGURE 12: USE OF EQUITY VS BANK LOANS AND OVERDRAFTS BY SUB-SECTORS OF TECHNOLOGY/IP-BASED SCALEUPS



Source: Scaleup Index 2022

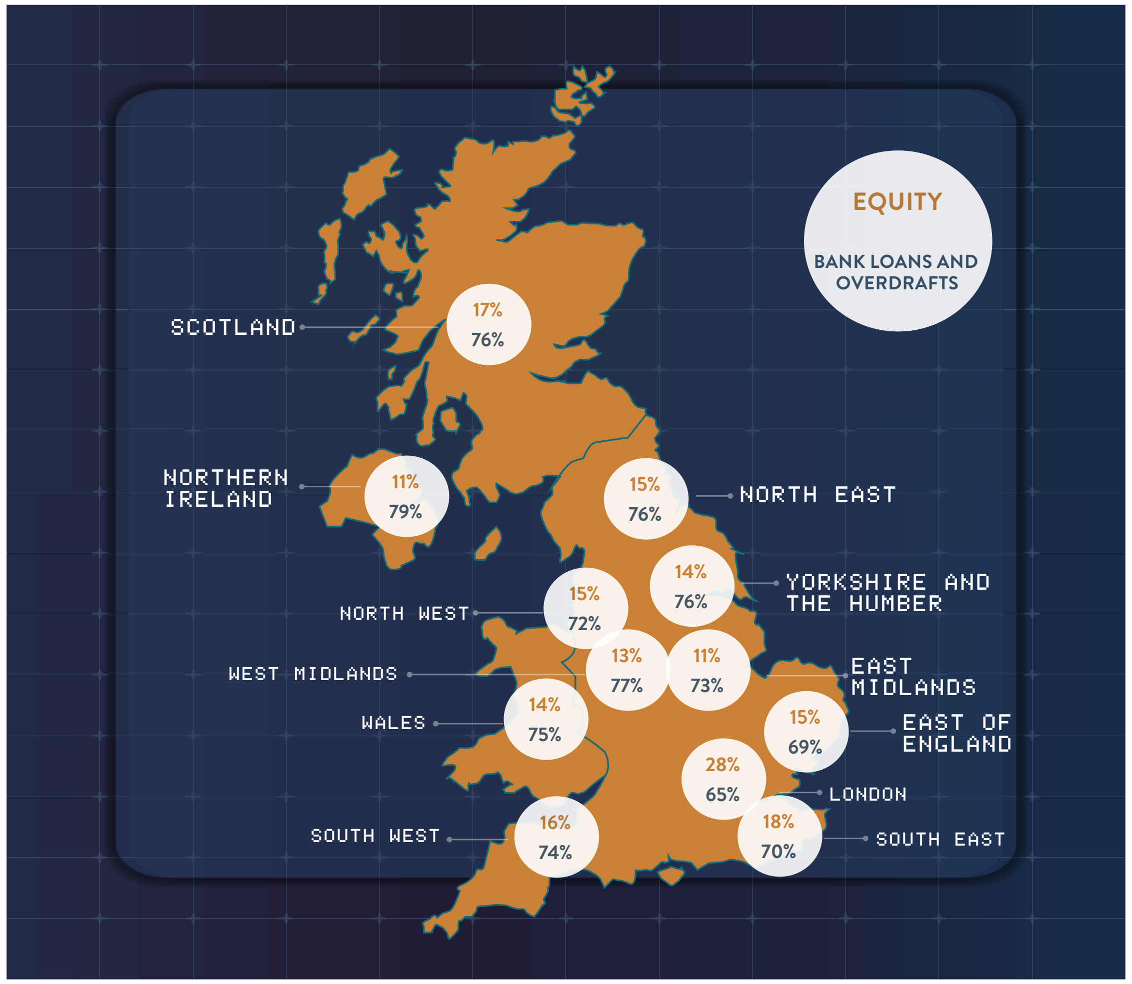
FIGURE 13: UNFUNDED OPPORTUNITIES VERSUS EQUITY FINANCE RAISED ACROSS TECHNOLOGY/IP-BASED SUB-SECTORS



Source: SUI analysis of data from Beauhurst

Analysing by region, use of core debt by visible scaleups is similar across the UK, with the exception of East of England and London where it falls below 70%. In terms of equity, London is the most significant location for visible scaleups using equity with 28% of visible scaleups receiving equity funding - reinforcing that equity usage is more prevalent in London. These trends, coupled with demand for finance illustrated in figure 5, are potential indicators of the nascence of the equity ecosystem outside of London.

FIGURE 14: USE OF EQUITY VS BANK LOANS AND DRAFTS BY BROAD REGIONS



Source: Scaleup Index 2022

Analysis of the ScaleUp Index also reinforces the importance of Innovate UK's role in supporting a scaleup journey alongside the criticality of those funds backed by the British Business Bank and Development Banks. 30 funds backed by the British Business Bank, the Development Bank of Wales and Scottish National Investment Bank have invested £1.2bn in visible scaleups since 2020.

7. PREDICTORS OF A SCALEUP

While the descriptive statistics in the previous sections of the report indicate that behaviours, attitudes and growth journeys of scaleups differ based on their key demographics, the driver analysis across scaleup and SME data from the SME Finance Monitor identified factors that positively influence the likelihood of being a scaleup.

These are:

The most significant factor is innovation followed by exports and then a growth mindset. Businesses which are happy to use finance to grow and / or currently using core finance are more likely to be a scaleup bringing the emphasis on the role of finance in solidifying growth. As additional characteristics, scaleups are more likely to have solid plans for the next 12 months such as major capital investment, talent acquisition or carbon reduction. Within scaleups, those using core finance are more likely to be taking steps to reduce carbon footprint compared to scaleups not using core finance (35% v 20%).

Insights from Scaleup Leaders In-depth Interviews

As part of the analysis the ScaleUp Institute undertook in depth interviews with a selective group of scaleup CEOs from various regions and sectors of the economy, across a range of sizes and ages and who have had a varied funding journey.

These CEOs highlighted that the needs of their scaleup business were specific to their sector, their business model, their finance and leadership journey so far and future growth plans.

The CEOs reflected on the different forms of finance that they had used so far, from loans to hire purchase, and from invoice finance to equity, etc. Many admitted a lack of awareness and understanding of various forms of finance and an uncertainty around terms and benefits of products, e.g. term lending against IP, revolving credit facilities, tax credit lending.

There was also some uncertainty about how different forms of finance interconnect and relate to each other, with some leaders unsure of how certain products worked and how they were different from the forms of funding they currently use.

All participants agreed that they would like to, and would benefit from, knowing more about the range of finance and debt finance products available to scaleups and how they can support the various stages of growth. CEOs were most impressed by potential funders who look to support a scaleup's growth journey and explain the merits of the various forms of finance rather than pushing a particular product.

Use of external support and guidance was also highlighted, with some business leaders feeling that what was on offer was not sufficient to meet their needs and difficult to navigate. There was general agreement on the important role that a chair and non-executive directors can play. And most CEOs said they would and should use professional advisers more extensively, if they could find the right advisers.

While the quantitative analysis in this report highlighted a gap in the market around use of invoice finance with only 9% of scaleups using it according to the scaleup survey, in the interviews it was brought out that the scaleups that actually use invoice discounting feel that it is an essential service for a B2B business. This potentially reflects a lack of education around such forms of working capital amongst the scaleup universe and an opportunity to address with better explanation and case studies etc.

In Conclusion

This report highlights for the first time in detail the debt usage and sentiments in the ScaleUp economy. It gives clear indications of what more needs to be done in closing the finance gap for our scaling firms which we hope the Finance community will continue to embrace. Closing the Growth Capital Gap remains a priority for the ScaleUp Institute and we will continue to work with the ecosystem to address those needs.

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