



Scaling Up Scotland

March 2023



The
Scottish
National
Investment
Bank

In partnership with





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www.thebank.scot



The 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. SUi's mission is to help the UK to become the best place in the world to scale a business as well as start one, and enable our existing high-growth businesses to scale up even further.
www.scaleupinstitute.org.uk

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“The Bank is focused on how it can support the patient capital needed for our scaling community to thrive.”

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Foreword

The Scottish National Investment Bank and the ScaleUp Institute have developed this report to highlight and analyse the current trends and gaps in the Scottish scaleup investment landscape.

As businesses scale, they go through different stages of growth, with their requirements for finance evolving and changing at each stage. Scotland has had successes in supporting the early growth of businesses. However, at the mid to later stages of scaleup growth, where the sizes of risk and reward are magnified, the role and accessibility of finance, while not the only challenge, becomes even more important.

The analysis in this report underlines the critical role of public sector-backed funding, working with the private sector, as vital to releasing Scotland's scaleup potential. As a development bank, the Scottish National Investment Bank is focused on how it can provide the patient capital needed for innovative and productive businesses in Scotland to thrive as they scaleup further and go global. So far, up to the end of February 2023, the Bank has invested over £378 million, enabling more than £667 million in co-investment.

In addition, we recognise that scaling businesses face barriers beyond finance and this report highlights some of these key areas, what the ecosystem is currently doing to address those needs, and what more can be done. There is a growing ecosystem of entrepreneurial support in Scotland, and the Bank is contributing to this, for example, by working in partnership with The Hunter Foundation to support their 'ScaleupScotland2.0' programme, supporting scaleups with very high growth ambitions.

Success in achieving a healthy scale up support landscape and funding continuum to enable growing businesses to thrive will be transformational for the economy. Ensuring that scaling businesses can access the investment they need to sustain their growth brings productivity gains, enhanced R&D investment, high-value job creation and export growth. It also reduces the risk of businesses relocating to regions where investment is more readily available.

This work comes at a time of considerable economic, environmental, and social challenge. New sectors and technologies are emerging, creating opportunities for new start-up and scaleup businesses, and providing opportunities for growth and innovation for established businesses that are diversifying or pivoting their focus.

As a leading centre of financial activity, with a large investment management industry and a track record in responsible investing, this report highlights the importance of the Scottish finance ecosystem and what more it will need to do to support our scaling businesses as they grow.



Willie Watt
Chair
Scottish National
Investment Bank



Irene Graham OBE
CEO of the
ScaleUp Institute



Executive Summary

This paper sets out the scaleup landscape in Scotland, looking at its strengths, weaknesses and potential to grow. It explores how scaleups might help Scotland to address key challenges, and the role that funding can play to realise this potential.

The OECD defines scaleups as companies that are achieving average annual growth of 20% or more in turnover and/or employees over three years, with at least 10 employees at the beginning of the observation period¹.

Scaleups are a key driver of growth and productivity

Scaleups account for just 0.52% of the total number of Scottish SMEs in 2021, but generated one third of the total SME turnover, contributing £36.12 billion to the Scottish economy. In 2021 there were 1,770 scaleups operating in Scotland with an average turnover of £20.1 million.

Scaleups are more productive than their peers, on average, they generate 61% more turnover per employee than other Scottish enterprises. The vast majority are growing between 20% and 40% in either their turnover or headcount, with a quarter growing at a rate of 50% or more every year.

Scaleups are in every sector and region of Scotland, and are significant exporters.

Scaleups have strengths in health, wholesale and retail, and the professional, scientific and technical sectors. Whilst 61% of scaleups are found in the central belt, the Aberdeen City & Shire region has the highest scaleup density in Scotland, at 39 per 100k of population. Scottish scaleups are mainly 'Business to Business' (B2B) enterprises (70%) and around half are significant exporters with over 50% operating internationally and seeking to expand further.

The investment ecosystem in Scotland has certain strengths at early-stage investment, but there is a gap for investment in scaling businesses.

Early-stage investments are available from a broad range of sources both public and private. However, at the mid to later stages of a business's growth, particularly where greater levels of investment are required, there are fewer options for accessing growth capital. The ScaleUp Institute estimates a funding gap of between £217 million - £1.5 billion for scaling businesses.

Scaleups are not just 'accelerated start-ups' and there are opportunities to unlock additional, unrealised growth amongst existing businesses in Scotland.

42% of scaling businesses are over 20 years old, therefore additional business growth will not only result from start-ups, but also from more established businesses that scale.

Further development of the investment available can deliver business growth in sectors that also deliver positive social and environmental impact.

There is an opportunity for investors, including the growing number of impact investors, to play a key role in supporting businesses to scale up and to realise social and environmental benefits. Of the £1.5 billion maximum funding gap mentioned above, up to £1.1 billion could be for business that provide positive impact benefits, many of which will align to the missions of the Scottish National Investment Bank.

1. The OECD high-growth (scaleup) definition which is followed by the Scottish Government <https://nationalperformance.gov.scot/high-growth-business>. The ScaleUp Institute utilises this definition in all its scaleup analysis with the pipeline analysis expanding on that to incorporate the Eurostat- OECD (EU regulation No 439/2014) 'high growth' definition lowering the 20% threshold to 10%.



Section 1: The Scaleup Landscape in Scotland

This section outlines the role of scaleups in the Scottish economy and why scaleups matter. We have worked with the ScaleUp Institute and their analysis of the scaleup landscape in Scotland using the latest statistics (ONS IDBR 2021, Companies House and Scaleup Survey) looking across regions, sectors and visible scaleups, including trends over time.

1.1 What are scaleups and why are they important?

“Scaleups” is a recognised term for describing a high-growth company. They are found across many stages of company growth including more established businesses who are realising new growth opportunities/ambitions to those maturing out of and past the start-up phase.

As a development bank, we take an open approach to defining and supporting scaleups. Our focus is on those businesses who are ambitious to grow and deliver to a wider market, or who are seeking to create and shape new markets that will be critical for delivering on our net zero, place and innovation missions.

The OECD definition of a scaleup, or high-growth company, which is used by the ScaleUp Institute in its core scaleup analysis is: companies that are achieving average annual growth of 20% or more in turnover and/or employees over three years, with at least 10 employees at the beginning of the observation period¹.

Scaleups generate significant turnover and employment opportunities through their operations right across Scotland and in every sector. As per 2021 ONS data, **there are 1,770 Scottish scaleups generating £36.12 billion of turnover – that’s a 31.1% share of the Scottish SME economy despite representing less than 1% of Scottish SMEs.**

The infographic opposite highlights several ways that Scaleups are different from their SME peers. While all of these data points are worthy of consideration, we would draw particular attention to the stark difference in productivity. Key attributes of scaleups are their high innovation and international drive which in turn fosters efficiencies and productivity².

1. The OECD definition is followed by the Scottish Government <https://nationalperformance.gov.scot/high-growth-business>

2. See ScaleUp Debt Finance Journey (2023), Predictors of a Scaleup (p32) <https://www.scaleupinstitute.org.uk/reports/scaleups-debt-finance-journey/>



Section 1: The Scaleup Landscape in Scotland continued

Why Scaleups Matter

Scaleups are productive

61%
more productive than the average Scottish enterprise

£20.4 million
average turnover per scaleup

£213,868
average turnover per employee




Scaleups are innovative

8 in 10

scaleups have introduced or improved a product, service or process in the last three years – twice the rate of large firms. They're also significant adopters of new technologies.



Scaleups are international



6 in 10

scaleups are involved in international trade in a range of markets across the world. They're looking to expand further internationally.

Scaleups are across all sectors

Scaleups in Scotland span the economy: whilst the majority operate in sectors outside of technology, including food & drink and manufacturing, they are significantly tech enabled.




Scaleups create high quality jobs

Scaleups help create high-quality jobs¹ – employing

168,898

workers with an average 95 employees.

Scaleups are diverse

40% of Scottish respondents from the ScaleUp survey reported to have at least one female director (compared to 36% for all UK respondents).



Scaleups are good corporate citizens





HALF

describe themselves as being a social business, operating in the green economy or meeting ESG goals.

66%



offer opportunities to young people through work experience, internships or apprenticeships.

Scaleups plan to grow

8 out of 10 scaleups expect to grow again in the coming year.



50%+ 1 in 10 expect to achieve growth of 50% or more in either turnover or employment.

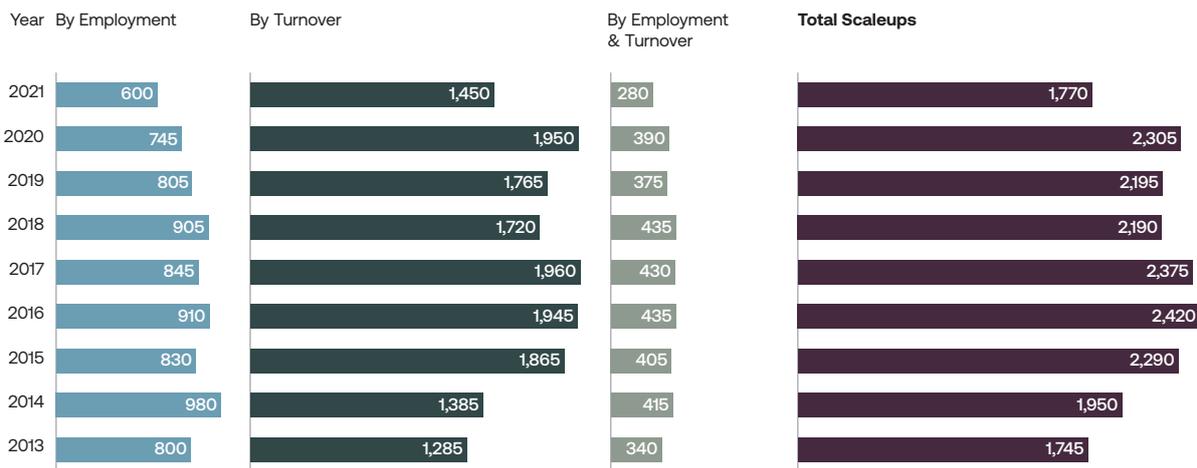
Sources: ONS IDBR 2010-2021, ScaleUp Survey & British Business Bank Small Business Finance Markets 2022/23 <https://www.british-business-bank.co.uk/research/smallbusiness-finance-markets-report-2023/>

1. Per Scaleup Survey 2022, to retain, attract and improve job quality, 86% of scaleup leaders are increasing focus on developing their "employee experience", 76% are adapting and allowing hybrid style of working, and 71% are increasing investment in training and reskilling their employees.



Section 1: The Scaleup Landscape in Scotland continued

Number of scaleups over time in Scotland



Source: ONS IDBR 2010-2021

Visible Scaleups

The “visible” scaleup landscape are those private scaleup companies large enough to be declaring their turnover and employee numbers in filed annual accounts at Companies House. This typically refers to UK businesses recording a turnover of over £10.2 million or with assets of £5.1 million or more that have increased on average their turnover or headcount by 20% or more per annum for three consecutive years within a five year observation period.

In 2022, the ScaleUp Index identified 8,457 visible scaleups in the UK. Of these, 431 visible scaleups are located in Scotland, an increase of c.9% from 2020 generating £13.7 billion and employing 98,300 people.

Additionally, there are 233 visible pipeline scaleups (those growing between 10 - 19.99%). These generate £9 billion in turnover and employ 42,909 people.

Visible scaleups by sector

The biggest clusters in the Scottish visible scaleups are Business and Professional services followed by Industrials (primarily composed of Manufacturing companies).

High-Level Sectors	No. of visible scaleups	% of visible scaleups
Business and Professional Services	159	37%
Industrials	140	32%
Built environment and infrastructure	67	16%
Leisure and Entertainment	60	14%
Technology/IP	58	13%
Retail	51	12%



Section 1: The Scaleup Landscape in Scotland continued

1.2 Scaleups are a key driver of growth

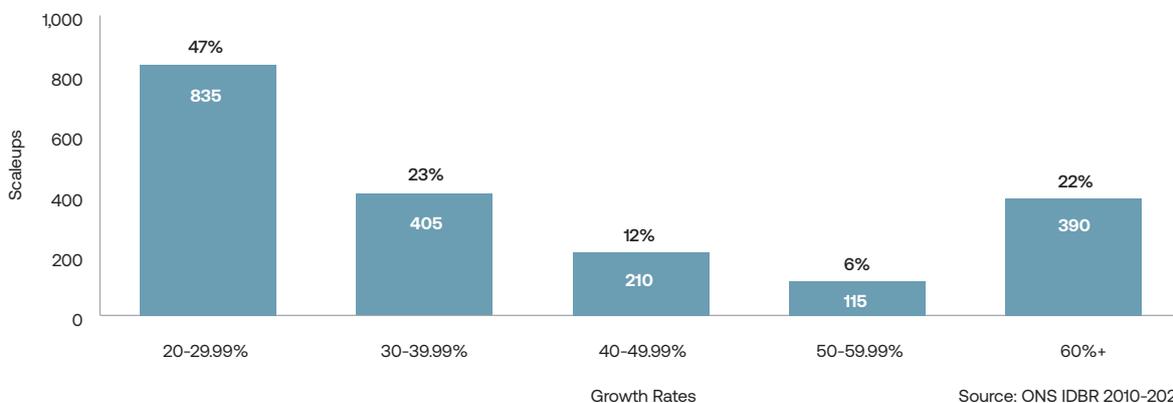
Scaleups are also important because they play a vital role in driving growth in Scotland's economy. Despite accounting for just 0.52% of the total number of Scottish SMEs in 2021, scaleups generated around one third of the total SME turnover, contributing £36.12 billion to the Scottish economy.

The vast majority are growing between 20% and 40% in either their turnover or headcount. However, **over a quarter of all scaleups in Scotland are growing at a rate of 50% or more every year.** Scaleups in Scotland are more productive than their peers. On average, they generate **61% more turnover per employee** than other Scottish enterprises.

Of the 1,770 scaleups operating in Scotland, 600 are identified to be growing by their employee headcount, 1,450 by turnover, and 280 are scaleups that are increasing by both turnover and employment.

Growth Rates based on ONS 2021 data on scaleups analysed by the ScaleUp Institute

Scottish scaleups have a spread of growth rates with nearly a quarter growing by more than 50% in either employment or turnover. These are the fastest growing amongst the scaleup population, approximately employing 60k people and generating £15 billion in turnover.



Analytical note: The overall number of scaleups shown in this table does not align with the overall number of scaleups shown previously, as scaleups growing by both turnover and employment at different growth rates are double counted (i.e. a business scaling employment between 20-29.999% and turnover between 50-59.999% will be counted both in the 20-29.999% growth segment as an employment scaleup and in the 50-59.999% segment as a turnover scaleup).

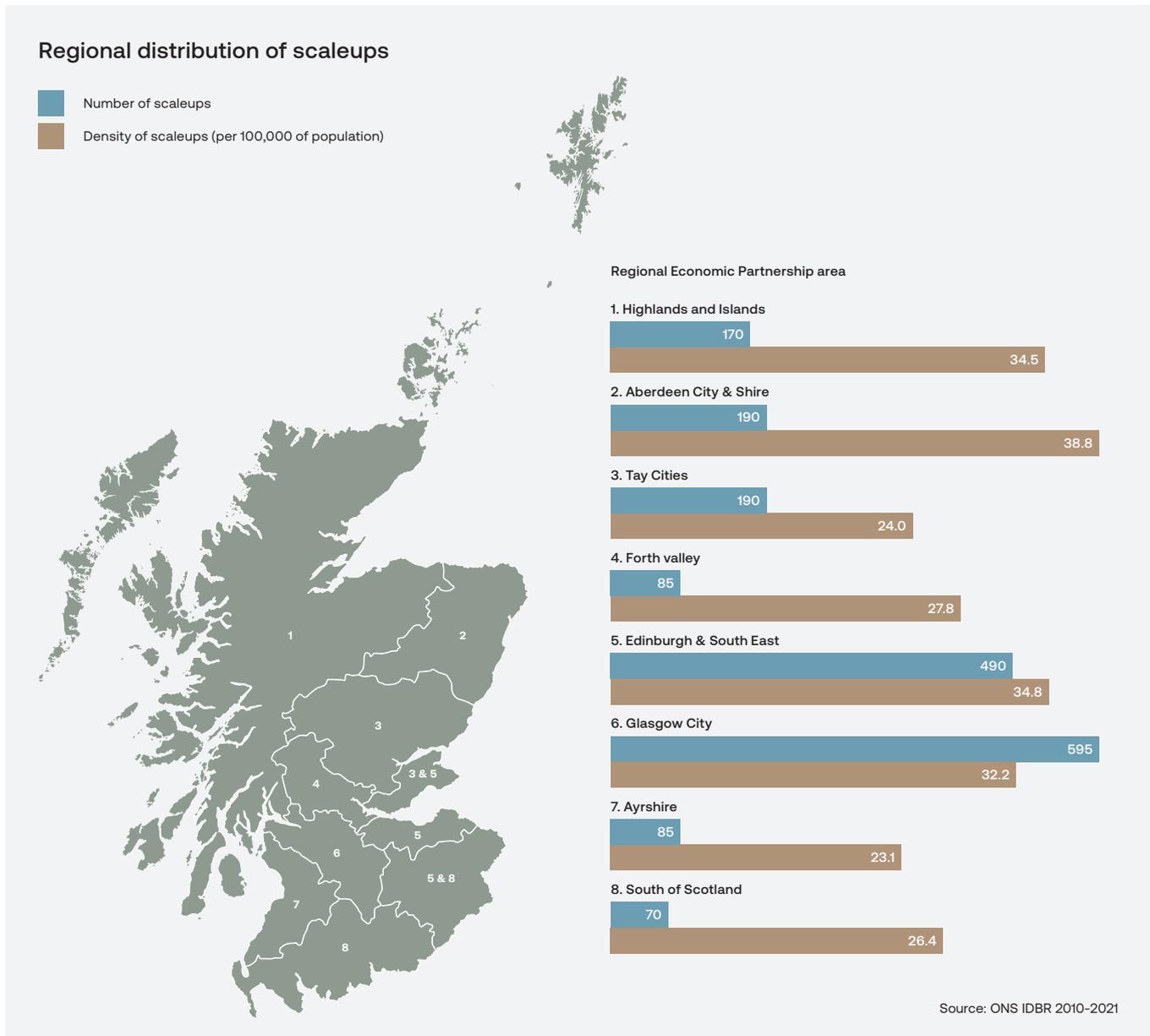


Section 1: The Scaleup Landscape in Scotland continued

1.3 Regional density of scaleups vary significantly across Scotland

Scaleups are a crucial driver of economic growth for Scotland and their distribution across different regions also highlights key insights.

While there is a reasonable distribution of scaleups across different regions of Scotland, perhaps unsurprisingly, Glasgow and Edinburgh¹ Regional Economic Partnership (REP) areas come out as the top two with 61% of scaleups located in one of these two city regions. However, when we look at the density in terms of scaleups per 100k population, Aberdeen City & Shire comes out as the top with 39 scaleups per 100k.



1. Edinburgh & South East Regional Economic Partnership includes overlaps with Tay Cities (Fife LA) and South of Scotland (Scottish Borders LA)



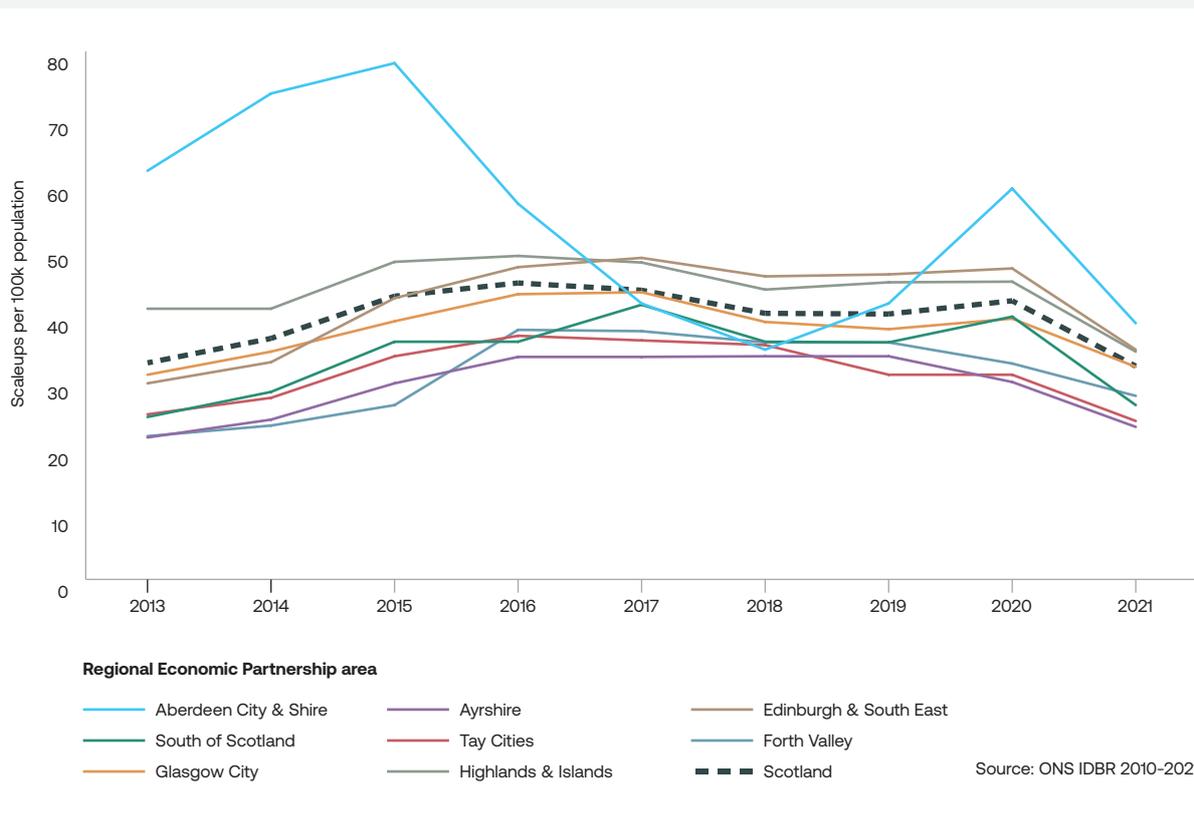
Section 1: The Scaleup Landscape in Scotland continued

Scaleup Density Trends over time

Across Scotland, its REPs and at local authority level, the ScaleUp Institute has analysed the 8-year cumulative change in scaleup density.

In this analysis, it is evident that scaleup density in Scotland between 2013 and 2016 was increasing and reached a peak in 2016 of 44.9 scaleups per 100k population, however since 2017 we observe a decline. Part of this decline, especially in Aberdeen City & Shire is potentially linked to slowdown in the oil and gas industries as highlighted by the Centre for Cities¹ and the significant drop appearing in 2021 likely demonstrates the full effects of the pandemic.

This means that from 2013 overall density has fallen by 0.5 scaleups per 100k population from 32.8 to 32.3, (albeit up until the pandemic density had been consistently at 40 or above since 2015).



1. See <https://www.centreforcities.org/blog/aberdeens-economic-slowdown-highlights-dangers-one-sector-city/>



Section 1: The Scaleup Landscape in Scotland continued

1.4 Scaleups are focused on a key set of sectors across the Scottish economy

While scaleups can be found across all sectors of the Scottish economy, **the three largest sectoral clusters in Scotland, according to ONS 2021 data, are Health, Wholesale & Retail, and Professional, Scientific & Technical.** Broadening this out, the top 7 sectors account for over three quarters of all scaleups.

For investors and others actively seeking to support scaleups these are some of the key market sectors with potential for further scaleup growth in Scotland. For the Scottish National Investment Bank, as well as considering target sectors for growth, we also need to consider which sectors are most relevant to supporting our missions.

It is worth noting that more targeted support is already emerging to support growth in certain key sectors, these include Net Zero, Construction and Tech including the BE-ST Innovation Factory, CodeBase, the Net Zero Technology Centre in Aberdeen and Highlands and Islands Enterprise's NEXUS. As a result of Mark Logan's Scottish Technology Ecosystem Review (STER)¹ TechScalers has also been established, in a collaboration between the Scottish Government and CodeBase, to support early-stage scaling businesses and tech startups.

Distribution of scaleups across market sectors since 2019-2021 (ONS Data)

(Sectors highlighted in green shades have shown growth since 2019).

ONS Sectors	Percentage of Scaleups		
	2021	2020	2019
Health/Social Work	13.6%	10.2%	8.0%
Wholesale/Retail	13.0%	11.3%	13.4%
Prof, Scientific & Tech	12.4%	11.9%	10.0%
Admin & Support Service	10.2%	10.8%	10.5%
Accommodation /Food	9.6%	11.7%	13.4%
Construction	9.3%	9.5%	10.5%
Manufacturing	9.0%	11.3%	9.3%
Info & Communication	6.5%	5.0%	5.5%
Transport	3.7%	3.7%	4.6%
Creative/Arts	2.8%	4.3%	4.6%

1.5 Scotland's scaleup support landscape

The ScaleUp Institute has, since inception, collected detailed data from thousands of scaleup leaders across the UK regarding the challenges they are facing to scale. They have interviewed several hundred Scottish based scaleup CEOs in that time. In 2023, whilst facing significant macroeconomic headwinds, Scottish scaleup leaders are focused on growth but remain challenged by persistent barriers in **accessing markets (74%), talent (64%) and finance (40%)** which remain their top concerns followed by **infrastructure and ability to build out their leadership teams**. They are also less confident about the future with four in 10 worrying whether the UK will be a good location for a business in a few years' time and half perceiving there is little support available for businesses like theirs. Four in 10 (40%) feel that the majority of money and business advice is provided in London and the south-east of England.

1. See <https://www.gov.scot/publications/scottish-technology-ecosystem-review/>

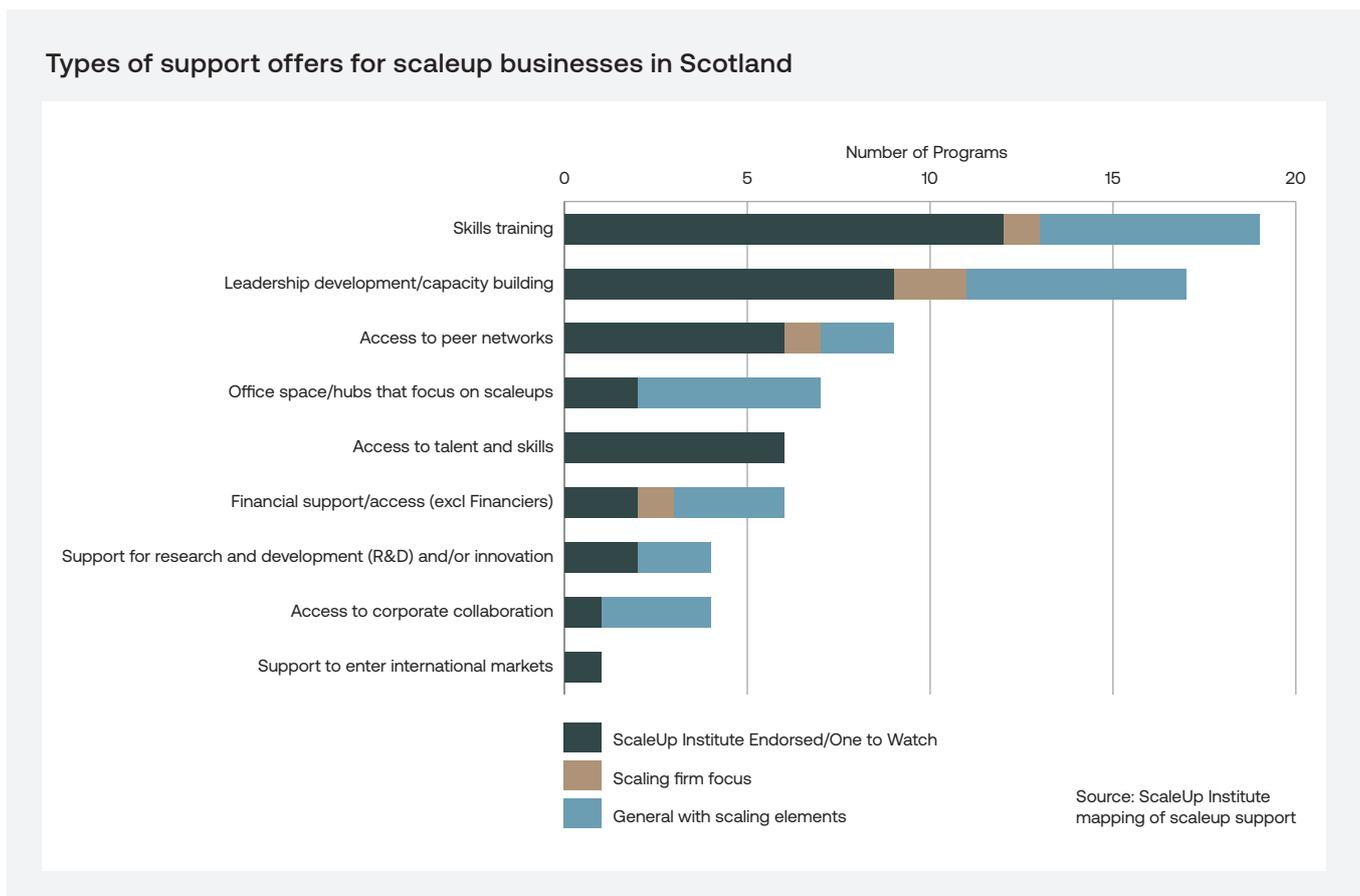


Section 1: The Scaleup Landscape in Scotland continued

Against that backdrop, the ScaleUp Institute has worked with the Scottish ecosystem on the support needed to overcome scaleup barriers. This has led to an emergence of dedicated Scottish scaleup programmes - driven by ecosystem collaboration across government, private, academic and entrepreneurial partners.

There are three broad types of support available to scaleups: leadership development programmes; skills and talent development; and support for businesses to access markets (including access to resources for collaboration, R&D and hubs). These are listed in Appendix 1, and include those endorsed by the ScaleUp Institute¹ as well as those more general programmes which have a growth element.² A wider guide to the Scottish Entrepreneurial Ecosystem has also been produced by Scottish Enterprise, Highlands and Islands Enterprise and the South of Scotland Enterprise to show the breadth of support available to start-ups, SMEs and other businesses across Scotland³.

This mapping does uncover a key gap in the scaleup-focused support available in helping CEOs face the challenges of access to markets.



1. The ScaleUp Institute maps those offers explicitly focused on growth and scaling, endorsing the ones that are able to provide evidence of their impact - <https://www.scaleupinstitute.org.uk/find-programmes/>

2. Support is also available from UK-wide and international offers as well as UK government offers like Innovate UK EDGE services and the British Business Bank.

3. See <https://unlockingambition.scot/resources/>



Section 1: The Scaleup Landscape in Scotland continued

Scaleup insight



Lucinda Bruce-Gardyne is chair of Scotland Food & Drink and the founder of Genius Foods.

How can scaling businesses best set themselves up for success?

To scale successfully, it requires deep technical understanding for maintaining product/service quality at large scale; a strong team culture; robust processes and funding.

Don't underestimate the issue of talent.

Always plan how you will satisfy these requirements at least six months to a year ahead of business needs.

Focus on the biggest size of prize opportunities that satisfy your customers' needs most, to avoid getting bogged down with complexity and distracting projects. Too much complexity can lead to dwindling quality and disappointed customers.

What do you wish you had known when you were scaling?

I wish I had known the strength of demand for my fresh gluten-free bread before we launched. Keeping up with fierce demand is a nice problem to have but it can lead to serious technical and resourcing challenges for a small team.

What kind of skills development is needed in the scaleup journey?

- ◆ **Technical skills** – scientific and data driven understanding
- ◆ **Forecasting** to always keep a few steps ahead in planning to service customer demand and resourcing your business to do so effectively
- ◆ **Discipline** to focus on doing a few things really well – it is easy to take on too much and hard to manage unplanned complexity
- ◆ **Resilience** to the rollercoaster ride – managing our own emotions and other peoples'
- ◆ **Strength** to remain humble and to persuade a growing team to always put the customer at the heart of every business decision



Section 2: Scaling up for Impact

This section looks at the importance of diversity in scaleups and the areas of opportunity for impact investing to play a role in supporting scaleups to deliver on social and environmental goals.

The Scottish National Investment Bank was established to support the solution of three ‘grand challenges’ through a mission led approach¹: to **achieve a net zero economy**, tackle **place-based inequality** and address the **innovation and productivity challenges** facing Scotland. As an impact investor², we embed our missions at the heart of everything we do, and we believe that scaleups are critical to the achievement of our missions.

As a development bank, we have been set up to look for where finance is not finding its way to the right projects and businesses. Investing in growing and scaling businesses offers a significant opportunity for the Scottish economy, and also aligns with the gap in access to finance for scaling businesses.

The Bank is actively finding ways to address inequality and support diversity in our scaleup landscape. We welcome the recent Stewart Review, which aligns to our published Equality Strategy³ to increase access to capital for groups who have found, and continue to find, this access challenging.

We also consider the social outcomes that our investments lead to and seek to use this to further drive equality.

Pathways: A new approach for Women in Entrepreneurship⁴

This report, led by Ana Stewart and Mark Logan, recognises that only one in 5 of Scotland’s entrepreneurs are women, and they receive only 2% of overall investment capital. It challenges all to change how we think about the under-participation of women in entrepreneurship, asking for a focus on the systemic underlying causes as well as the more obvious, visible ones.

They recommend a portfolio approach, which they believe will have wider applicability to other under-represented groups – but note that this analysis requires further work.

- ◆ Bringing start-up incubation, education and support to where primary carers are
- ◆ Supporting under-represented founders through the Concept and Journey Funds
- ◆ Encouraging better representation during “selection events” within the entrepreneurial journey
- ◆ Integrating entrepreneurial education within Scotland’s education system
- ◆ Establishing Scotland as a leading nation in Femtech
- ◆ Addressing the underlying sexism at the heart of under-participation
- ◆ Clarifying Access Pathways into Entrepreneurship
- ◆ Establishing a comprehensive database for tracking progress towards full representation in entrepreneurship

1. See our Mission Report <https://www.thebank.scot/sites/default/files/2022-10/snib003-mission-report-2022-final-010422.pdf>

2. See our Impact Investing Review <https://www.thebank.scot/sites/default/files/2022-11/SNIB021%20Impact%20Investing%20Review.pdf>

3. See our Equality Strategy <https://www.thebank.scot/sites/default/files/2022-10/bank-equality-strategy-2022.pdf>

4. Pathways: A new approach for women in entrepreneurship. Available at <https://www.gov.scot/publications/pathways-new-approach-women-entrepreneurship/>



Section 2: Scaling up for Impact continued

Scaling Businesses with positive impact

Current and future environmental, social, and economic changes, create significant opportunities for businesses to scale. Analysis of the current scaleup landscape highlights that many businesses are identifying these opportunities and building successful businesses as a result. For example, delivering a Just Transition to net zero by 2045 will require substantial changes across the Scottish economy.

Other new sectors and technologies are emerging, creating many growth opportunities both for start-ups and for scaling and established businesses who are diversifying or pivoting their focus. We see a cross-cutting role for the Bank to support those scaling businesses who are creating the new products, services and business models that are needed for Scotland in support of our missions.

In our review ‘Unlocking Impact Investing in Scotland’, we set out the spectrum of capital investment, showing that there is a range of intentionality on the part of investors between no, or limited, consideration of Environmental, Social or Governance (ESG) factors, through to responsible investment which aims to avoid harm, right through to impact investing which actively seeks to contribute to solutions.

The global spectrum of capital: From mainstream to impact¹

\$112 trillion			Size of market	
No or limited consideration of ESG factors	\$35 trillion			
		\$1.16 to \$2.28 billion		
	Responsible	Sustainable	Impact	Style of investment
	Mitigate ESG risks to protect financial value	Align with progressive ESG themes that may enhance financial value	Address societal challenges that drive a twin financial and impact return	Strategy pursued
	Avoid Harm	Benefit Stakeholders	Contribute to Solutions	Spectrum of intentionality

1. See <https://www.thebank.scot/sites/default/files/2022-11/SNIB021%20Impact%20Investing%20Review.pdf>



Section 2: Scaling up for Impact continued

In much the same way as the Bank desires to support the broader investing industry to move greater amounts of capital into impact, we also seek to support and encourage the growth and transition of businesses into impact-oriented activity.

There are already a significant volume of businesses who are seeking to make a positive impact, and while this clearly has room to increase, the ScaleUp Institute's survey¹ over the past two years has shown that around a third to one half of Scottish scaleup CEOs have demonstrated their alignment with the ambition to make Scotland a fairer and more equal society: three in 10 report being driven by a social mission, with two in 10 compliant with ESG goals and five in 10 stating that they are operating in the green economy.

Impact is good for business

The drive to have more businesses that are making a positive impact is not just good for society and the environment but also good for business.

At the Bank we believe that a key route to achieving our missions is through investing in scaleups that can lead to impact. These impacts can cut across any or all our missions, providing positive social and environmental benefits alongside financial returns.

As an Impact Investor and a development bank, we will continue to seek to use our investments, and to encourage others to invest to support those businesses who are seeking greater social and environmental impact at scale and actively support our businesses to encourage diversity and equality in the way they operate. We believe that there is a clear opportunity to align our impactful investments into businesses that align with our missions.

In Section 3, we asked the ScaleUp Institute to analyse the current scaleup and scaling pipeline to show the financing opportunities and gaps within key sectors that have relevance for our missions.

1. See <https://www.scaleupinstitute.org.uk/scaleup-review-2022/annual-review-highlights/>



Case study: PURE LiFi



No of employees: 40

Business Growth Rates: Growing systems business in volume, which has contributed to year on year growth

Plans for the future: Connect Everything and Everyone with LiFi

What does it mean to you to be a business with purpose?

Being a business with purpose means that we prioritise creating a positive and inclusive company culture, and foster innovation in every way we can. We strive to make a significant impact in Scotland and globally by creating a new LiFi industry. Ultimately, being a business with purpose means that we have a clear mission and vision that contributes beyond building value for our shareholders but also aligns with our values and beliefs.

What challenges have you found scaling your business and how have you overcome this?

At pureLiFi we have just crossed the “chasm” and are approaching a scaling phase. The company has recently launched Light Antenna ONE a module for enabling billions of devices with LiFi. We are now preparing for delivering at scale, with lots of growth opportunities ahead. It’s important to anticipate and plan for this growth to ensure success in the long-term. For us this is about building a strong leadership team, putting systems and processes in place and ensuring you nurture the right culture for scaling.

What advice do you have for other impactful scaling businesses?

When starting out or after securing funding, there’s a tendency to pursue every opportunity. However, staying laser-focused on winning in the specific areas you’ve identified is crucial. Stick to your strategy and resist the temptation to deviate while keeping one eye on external factors that affect your business. Only change tact when it really matters. There will be a lot you cannot control so focusing on what you can is the best use of your time and resources. Manage your cash, nurture your team, be ambitious and aim to push the limits and innovate in your industry.



Case study: Lothian Broadband



What does it mean to you to be a business with a positive purpose?

Our purpose is closing the digital divide across Scotland by building industry-leading gigabit capable broadband networks to towns and villages that would otherwise be left behind. Access to ultrafast, reliable broadband can be life-changing; communities in rural and semi-rural locations shouldn't have to choose between quality connectivity and living in the location they call home.

What challenges have you found scaling your business and how have you overcome this?

Financial – finding the right investor who understands both the opportunity but also the need to operate at pace within a scale up business has been a challenge. Accordingly, having the Bank as an investor has been transformational. The Bank's focus on impact investments and specifically their missions around driving innovation and addressing place-based inequality has empowered us to deploy capital at speed.

People – the biggest challenge we now face is finding and recruiting the right talent into the business. We don't have the brand attraction of our larger competitors and being a business that operates an extremely lean structure we find that not every candidate is willing to be as hands on as we need. To overcome this, we simply have to work harder at sourcing candidates, not making compromises on the experience and attributes we need and making sure we move as quickly as possible.

What advice do you have for other impactful scaling businesses?

- ◆ Keep your business as simple as possible and remain focused on your purpose. As you scale, the opportunities to diversify or add complexity come thick and fast so make sure to resist the urge to make the business so complex it becomes difficult to manage.
- ◆ Always focus on value creation. As you scale the overall capacity often creates contention so when you have multiple projects/tasks on the go at the same time always prioritise those that create value and deprioritise those that don't.
- ◆ Bring in talented hires rather than just a high volume of hires. Moving towards an operating model where you surround yourself with people you can rely on to take ownership and care about the business as much as you do is key to scaling.



Section 3: The Financing Gap for Scaleups

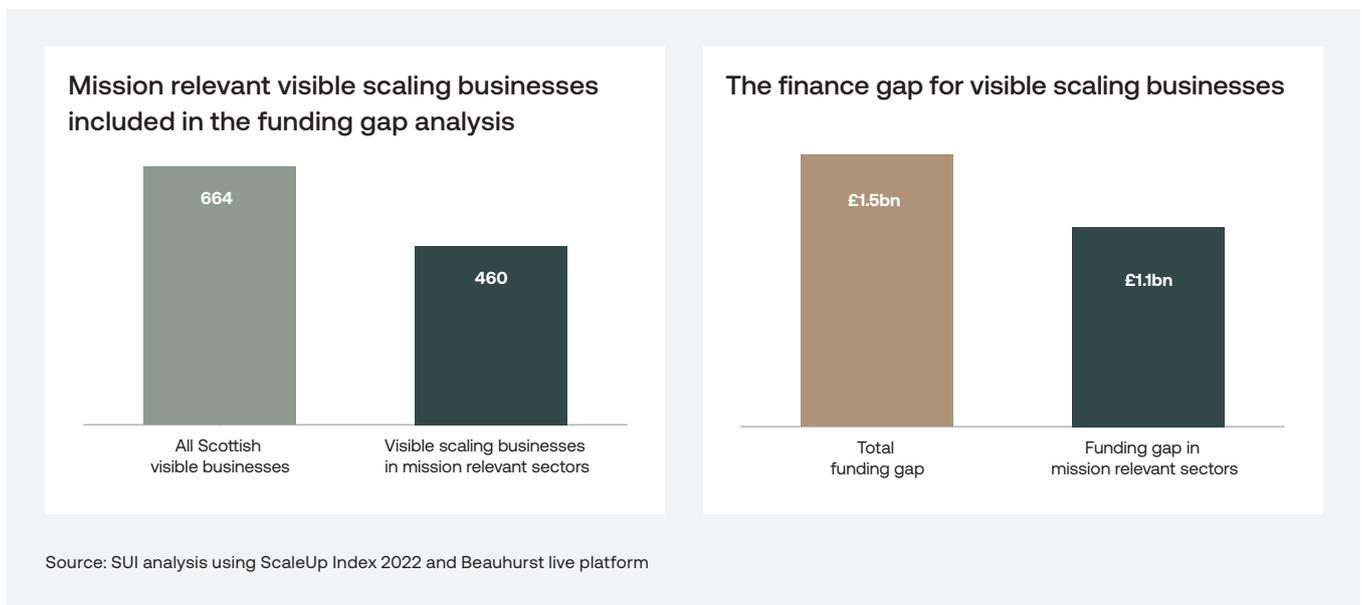
In this section the ScaleUp Institute use the latest data to look at the visible scaleups and visible scaling pipeline¹ in Scotland, seeking to size the potential financing gaps for businesses in sectors with mission-relevance for the Bank.

The ScaleUp Institute’s analysis of the investment trends in 664 Scottish scaling businesses (431 visible scale ups and 233 in the visible pipeline) identifies the pattern of stage of growth, turnover, employment and investment in order to determine the opportunities that exist for these scaleups.

Of these 664 scaleups, the ScaleUp Institute identified businesses that could potentially be supporting at least one of the Bank’s three missions. In this analysis they identified a total of 460². Whilst not each and every one of these businesses will fit within the Banks mission-criteria, all are in sectors that are mission-relevant, for example energy, health, housing and heat.

So far, 51 of those 460 scaling businesses potentially aligned to the Bank’s missions have raised a total of £907.4 million in equity funding across 156 fundraisings. Investors contributing to these businesses range from public sector, VCs, Angel and Business Networks, Crowdfunding platforms, Family Offices and more³.

The ScaleUp Institute estimates that across all regions, sectors and stages of growth for the 664 visible scaleups and scaling pipeline (which includes the 460 identified above) there is a potential funding gap in the range of £217 million (only those who have raised before, raise again in follow-on funding) to a maximum gap of £1.5 billion (all scaleups and pipeline raise now, including follow-on as well as new funding).



1. The ScaleUp Institute analyses further the visible scaling pipeline referring to those enterprises with at least 10 employees in the beginning of their growth and having average annualised growth in number of employees or turnover between 10-19.99%.

2. 114 visible scaling businesses are in multiple mission areas: 10 overlap across the 3 Missions; another 35 between Net Zero & Innovation; 6 between Innovation & Place; and 63 Between Net Zero & Place.

3. 28% Funders that have invested in these businesses have their headquarters in Scotland, while 33% of them are coming from outside the UK.



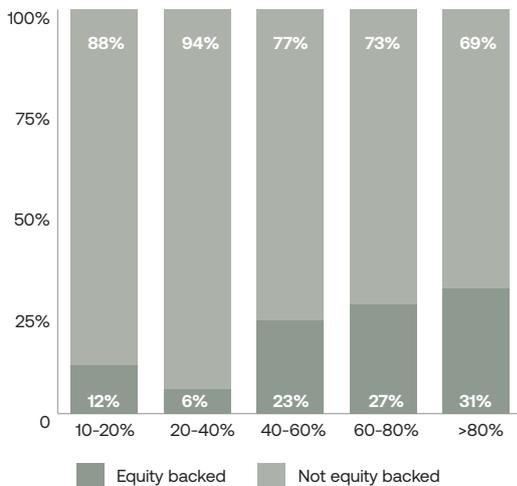
Section 3: The Financing Gap for Scaleups continued

Strikingly, of the maximum £1.5 billion gap, more than 70% of this gap, or £1.1 billion, sits within sectors that are identified by the Scottish National Investment Bank as potentially relevant to deliver on our missions.

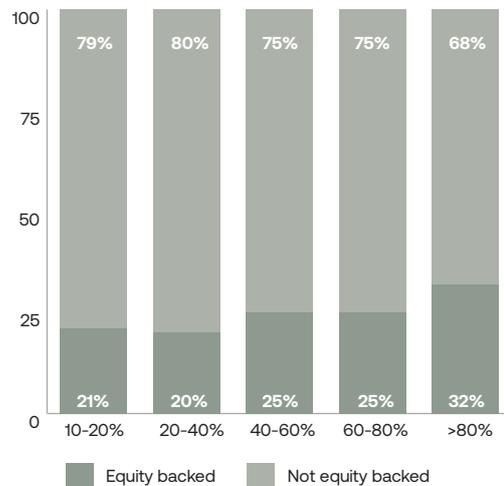
This analysis highlights a further key opportunity for how the investment community can support scaleups. By analysing the growth experienced by Scottish scaling companies, it is noteworthy that amongst those who are growing their turnover or employment particularly quickly there is a larger proportion of equity-backed businesses. This is similar to the trend observed across the whole UK, where 32% of scaleups growing turnover by 60-80% are backed by equity, along with 35% who are growing at 80% or more; headcount growth rates also mirror this relationship with equity funding. These findings suggest that those companies that have accessed equity investment have a higher likelihood of growing their turnover or employment more significantly than those that do not, although further research is needed to understand better the link between growth and equity investments.

Effect of equity on growth: turnover & employment

Turnover Growth



Headcount Growth



SUI analysis using ScaleUp Index 2022 and Beauhurst live platform

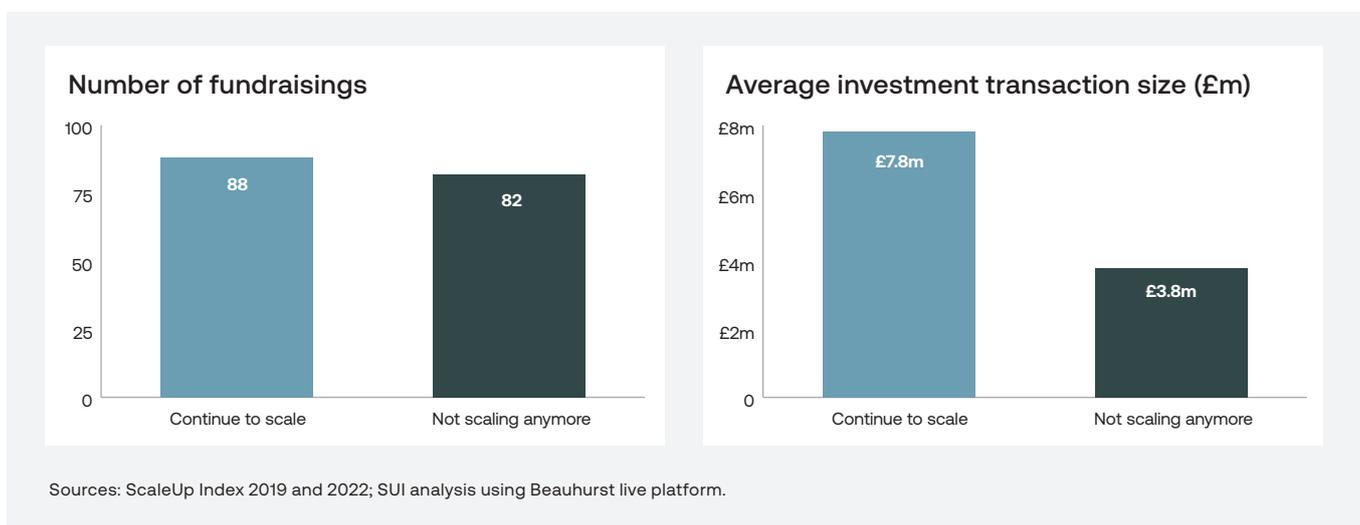


Section 3: The Financing Gap for Scaleups continued

Significant equity investment at later stages of growth supports scaleup longevity

The ScaleUp Institute has tracked Scottish long-term trends of scaleups and their investment patterns and found those with larger equity investments at established stages of growth retained their scaleup status over a greater period of time. In the 2019 ScaleUp Index, there were 330 Scottish Visible scaleups - 123 of these were also part of the latest 2022 ScaleUp Index and had more significant fundraisings by value.

While the number of fundraisings by those that continue to scale and those no longer scaling is similar as shown in the chart below, the key difference is the average investment transaction size is over double for scaling businesses. This reinforces that the larger the size of equity funding in a business, the greater the likelihood of long-term scaleup growth.



Public sector funding, working with the private sector, is a vital pillar to unlocking scaleup potential

The British Business Bank Small Business Finance Markets report showed an increase in demand for equity by SMEs after 2021 across the UK, and the 2022 Scaleup Survey indicates that four in 10 Scottish scaleups do not have the right amount of funding in place. This indicates a significant demand from scaling businesses which is likely to increase in the coming years.

The ScaleUp Institute's analysis for Scotland reinforces the role that public sector backed funds have in driving forward scaleup potential. Currently 40% of fundraisings into the visible scaling businesses that align to our missions are backed from the public sector including Innovate UK¹. Further analysis into the Scottish public backed funds indicate that the Enterprise Agencies are – in keeping with their role – more focused on earlier stage businesses with an average deal size of £2.22 million, including angel co-investment, while the Scottish National Investment Bank typically operates at a later stage of business growth with average deal size of £9.5 million.

Whilst the Scottish National Investment Bank cannot fill the whole gap, we aim to play a key role in closing the funding gap identified above for scaling businesses working with the private sector to encourage and enable other investors.

Scaleups are crucial in driving growth and supporting mission-aligned businesses presents a clear opportunity to deliver fairer, greener, more ambitious Scotland.

1. 49 visible scaling businesses have received £31.6m in Innovate UK grant funding, with 16 of these leveraging £164m in equity. In comparison, VCs have contributed to 36.5% of the investments with £6.92m average deal size, and Angels, Crowdfunders and Family offices to 39% of the total with an average deal size of £2.31m.



Section 4: Conclusion

This section concludes with some reflections on how the Bank will continue to work with businesses, investors, and its other partners to support growing businesses in Scotland.

Scaling businesses represent a key opportunity to drive both growth and productivity. While these businesses are present in all regions and sectors of Scotland, there are key areas of focus that investors and others who want to support these businesses to succeed, should consider within their strategic prioritisation.

While the Scottish scaleup landscape has strengths, there are still challenges to be overcome to ensure that Scotland realise its full potential. As this report sets out, this includes access to markets, talent and capital.

Ensuring that these businesses can access the investment they need to sustain their growth can provide benefits beyond those of the Scottish economy. There are many scaleups that align to our missions, and others that may have alternative positive impacts, which are critical to creating a fairer, greener and more ambitious Scotland.

Looking forward the Bank sees several key areas for its activities in this regard:

- ◆ **Continuing to make investments in growing businesses** – the Bank is already making impactful investments into growing and innovative businesses in Scotland and will continue to do so.
- ◆ **Build on our work with the existing private sector ecosystem** – to unlock opportunities that the private sector cannot currently service on its own and to enable and encourage increased investment into mission-aligned scaling businesses.
- ◆ **Continue to work collaboratively with the wider public sector ecosystem** – requirements for business support change at each stage of a business's life. The Bank has been established to invest patient capital on commercial terms with a focus on larger investments of sizes up to £50 million. Our investment often follows on from early-stage public sector support and we will continue to ensure that businesses are supported in a joined-up way.
- ◆ Finally, **working with our partners** – both in the private and public sector – to deliver on our missions. The Bank will continue to work with the businesses, investors and other partners who share a commitment to support innovative and growing businesses and to deliver a fairer, more productive and sustainable economy for Scotland.



Appendix: Scaleup support programmes in Scotland

Talent / Skills Development

- ◆ Debate Mate (UK-wide)
- ◆ Careers & Enterprise Company (UK-wide)
- ◆ F4S (UK-wide)
- ◆ Google Digital Garage, Google (UK-wide)
- ◆ LifeSkills, created with Barclays (UK-wide)

Leadership Development

- ◆ Catalyst Programme, Entrepreneurial Scotland
- ◆ Goldman Sachs 10,000 Small Businesses UK, Goldman Sachs (UK-wide)
- ◆ Growth Advantage Programme, Strathclyde Business School
- ◆ Innovate UK EDGE Scale Up Programme, Innovate UK EDGE (UK-wide)
- ◆ Impact30, Highlands & Islands Enterprise
- ◆ Pathfinder Accelerator, Highlands & Islands Enterprise
- ◆ Principally Women, Scottish Enterprise
- ◆ ScaleupScotland Leadership Programme, Hunter Foundation / Entrepreneurial Scotland
- ◆ ScaleupScotland2.0, Hunter Foundation / Scottish National Investment Bank
- ◆ Unlocking Ambition Challenge, Scottish Enterprise
- ◆ Scottish EDGE, Scottish EDGE C.I.C / Hunter Foundation
- ◆ Shott Scale Up Accelerator, Royal Academy of Engineering (UK-wide)
- ◆ Upscale, Tech Nation (UK-wide)
- ◆ Young Presidents Organisation, YPO
- ◆ Vistage (UK-wide)

Infrastructure

- ◆ Barclays Eagle Labs, Barclays (UK-wide)
- ◆ BE-ST Innovation Factory, Built Environment - Smarter Transformation
- ◆ Codebase (which has three sites in Scotland and links with Barclays Eagle Labs across the rest of the UK)
- ◆ Digital Catapult (UK-wide)
- ◆ FCA Regulatory Sandbox, FCA (UK-wide)
- ◆ NatWest Entrepreneur Accelerator, NatWest (UK-wide)
- ◆ NEXUS, Highlands & Islands Enterprise Scotland
- ◆ Techscalars, Scottish Government
- ◆ TechX Growth, Net Zero Technology Centre
- ◆ Sharing in Growth (SiG) (UK-wide)
- ◆ BioCity Glasgow, Pioneer Group
- ◆ Edinburgh Technopole, Pioneer Group



Talent and Skills



Leadership



Infrastructure



Scaleup institute endorsed



Source: The Scaleup Institute



Methodology and Data Acknowledgements

Methodology on Funding Gap

The ScaleUp Institute modelled the growth capital gap for the visible scaleups and scaling pipeline businesses based on trends in investment in similar businesses and data on demand and use of finance. This is observed through a range of lenses across three parameters - Stages of Evolution, Region and Sector:

- ◆ **Model 1:** Scaleups and Scaling pipeline businesses yet to raise capital - £1.3 billion
- ◆ **Model 2:** Half of those yet to raise capital raise (i.e. 50% of Model 1) - £673 million
- ◆ **Model 3:** Only those scaleups and scaling pipeline who have previously raised, raise further investment - £217 million
- ◆ **Model 4:** 50% of those raising previously and 50% of those yet to raise investment (i.e. Model 2 plus 50% of Model 3) - £782 million
- ◆ **Model 5:** All visible scaleups and scaling pipeline seek and raise investment (regardless of their previous fundraising status) - £1.5 billion

Taking into account the fact that not all companies will raise funds at the same time, these different models provide insights into the likely demand across regions and sectors for growth businesses.

Data Acknowledgements

ONS IDBR 2010-2021

Data used in this report is taken from the IDBR datasets 2010-2021. The confidentiality of all data held on the IDBR is protected by the National Statistics Code of Practice and associated Protocols and by specific legislation. In accordance with these requirements, data presented is rounded to prevent disclosure. Differences may exist in totals across tables due to disclosure methods used. This work contains statistical data from ONS which is Crown Copyright.

The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data.

This work uses research datasets which may not exactly reproduce National Statistics aggregates.

Companies House data, investment trends and funding gap in Visible ScaleUps

This report uses data from Companies House as shown in the ScaleUp Index 2022 (<https://www.scaleupinstitute.org.uk/reports/scaleup-index-2022/>) alongside additional analysis by the ScaleUp Institute from the Beauhurst live platform into investment trends and the funding gap.

ScaleUp Institute Annual ScaleUp Surveys

Every year since its inception the ScaleUp Institute has conducted a survey of the UK scaleup population to understand their perceptions on scaling up, future aspirations, the challenges they are facing to ongoing growth and what support they would like to access to help them achieve their growth goals. Analysis included in this report reveals the insights of Scottish respondents to the ScaleUp Surveys.





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