Venture capital in the UK
Its vital role in driving growth
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Foreword

Venture capital firms are the catalyst for the growth and development of exciting new companies and now form a vital part of the economic infrastructure.

In the UK we have a great VC infrastructure and a number of fantastic businesses have been highly successful, in part, because of it. But everyone is asking why doesn’t the UK have its own tech giants? If we are to build our own we need more active VC investment and I believe banks must now bring their vast network of business connections and expertise to the table.

We are excited to be able to bring some of our expertise to supporting the UK’s burgeoning entrepreneurial talent.

We are excited to see the burgeoning entrepreneurial talent in the UK and are keen to play our part in helping drive this success. Barclays has always backed the visionaries and innovators throughout our 325+ year history and we look forward to the positive impact this sector will have on the UK’s economy and employment for generations to come.

We have built a strong, dedicated high growth and entrepreneurs team and also a VC coverage unit to enable Barclays to help serve the entire VC ecosystem and to help VCs and start-ups as they develop together.

Barclays is strongly placed to support a VC expansion, backing one million SMEs, developing programmes like RISE and Eagle Labs; and connecting to the depth and breadth of corporate and investment bank relationships we have from Silicon Valley to Singapore.

Increasingly, I question whether we are now a technology company, an information business or a bank – in reality, we are all three and we can partner in differentiated ways with VCs.

I am determined to ensure that the new world beaters of the future are supported by Barclays every step of the way – whether it’s in biomedcs, AI, graphene or even driverless cars. By working much more closely with VC firms and their clients, we can help to accelerate the growth of high-performing companies and do our part to boost national and global prosperity.

Ashok Vaswani
CEO, Barclays UK
Key takeaways

Why is venture capital so important to the UK economy? How large is the market and what does it do differently?

Scale
The Venture Capital market in the UK has built up considerable scale over the last decade. In 2016, 936 deals were completed, delivering €4bn in investments. While down on the 2015 peak of €5.6bn, this is still a considerable contribution and represents roughly 34% of all deals completed in Europe.

Why is VC important?
The origination of innovation has gradually shifted away from in-house research facilities in large corporates towards smaller companies and start-ups. Early-stage fast growth companies rely on VC which gives it a phenomenally important role in helping deliver the innovation which creates growth and improves the UK economy. The recent high profile investment in London-based software firm, Improbable, is just one example of how the traditional models are being broken down.

The UK’s strong venture capital scene has created a fertile environment for disruptive tech companies. Today, it is a world leader in the financial technology (fintech), enterprise technology, e-commerce, property, and travel sectors. Funding Circle, DeepMind, ASOS, Zoopla, Kano and Skyscanner are examples of UK success stories in each of these sectors.

Disruption
The larger companies that have been disrupted by the VC scene and the ecosystem it helps support have been, in large part, slow to react. However, there is now a more concerted effort by some of these organisations to help grow the entrepreneurial and innovative businesses that look to VC for funding. There has been a recent increase in the number of corporate-sponsored accelerator programmes and funding cycles.

At Barclays we have been keen to help develop the infrastructure for some time – we set up UK banking’s first dedicated High Growth and Entrepreneurs team, our RISE programme provides collaborative working spaces for innovative fintech businesses and our accelerator programme, in partnership with Techstars, has helped many start-ups with mentoring and guidance through their first difficult years.

Why is venture capital so important to the UK economy? How large is the market and what does it do differently?

The UK venture capital market

- UK total deal value (2016): €4bn
- More than 200 UK firms have raised £50m or more
- More than 200 UK firms have had successful exits in the past 10 years

1Pitchbook 2016 Annual European Venture Report.
Why is venture capital so important to the UK?

Today, venture capital is one of the most important sources of funding in the UK economy.

The country’s productivity has stalled. Between 2007 and 2015, output per hour rose by just 0.7%. That matters: productivity gains are a central driver of economic growth as a whole, so only an economy that is consistently innovating and becoming more efficient can expect to grow in the long run.

At the same time, there has been a shift in where innovations and technological breakthroughs originate. In previous generations, the most consequential innovations tended to come from large, established companies. Today, they are more likely to come from smaller companies and start-ups, and bigger organisations – Google, Facebook – are now as likely to acquire their innovation as to develop it within their walls. This is happening in part because the technology on which innovation relies is now cheaper and more accessible.

“It has never been less expensive to start a software company,” explains Will Bowmer, Managing Director of Barclays International, who is based in Silicon Valley. “Because of this, the number of start-up ideas that are now viable is amazing – and they continue to proliferate.”

Early-stage, fast-growth companies rely on venture capital, which gives it an outsized role in enabling the innovation that improves productivity.

Overview of UK VC activity

<table>
<thead>
<tr>
<th>Year</th>
<th>Deal Values (£B)</th>
<th># of Deals Closed</th>
</tr>
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<tbody>
<tr>
<td>2007</td>
<td>€1.4</td>
<td></td>
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<tr>
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<tr>
<td>2015</td>
<td>€5.6</td>
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<tr>
<td>2016</td>
<td>€4.0</td>
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The UK’s strong venture capital scene has created a fertile environment for disruptive tech companies.

Repairing UK productivity and supporting long-term growth therefore needs a thriving venture capital sector. “Venture capital is increasingly responsible for the formation of the most exciting and the most disruptive companies that we see in the UK,” explains Sean Duffy, Head of Technology, Media and Telecoms at Barclays. “It’s driving more and more of the growth that we see in the economy.”

The UK’s strong venture-capital scene has created a fertile environment for disruptive tech companies. Today, it is a world leader in the financial technology (fintech), enterprise technology, e-commerce, property, and travel sectors.
Selected UK venture capital players

There are a number of VC players in the UK market; this section highlights just a few of those active today.

**Dawn Capital**
- **Type:** Venture capital focusing on seed and impact investments
- **Sectors:** Impact investing, SaaS, venture capital
- **Current investment:** 135 investments
- **HQ:** London

**Octopus Ventures**
- **Type:** Impact investing, finance
- **Investment size:** £200,000 – £25m
- **Sectors:** Mobile, software as a service, security, enterprise software, IT infrastructure, media, healthcare, consumer
- **Current investment:** 166 investments
- **HQ:** London

**LocalGlobe**
- **Type:** Venture capital
- **Sectors:** Tech and B2B software
- **Current Investments:** 24 investments
- **Exits:** 4 IPOs, 18 acquisitions
- **HQ:** London

**Balderton Capital**
- **Type:** Seed, early-stage venture, later-stage venture, and private equity investments
- **Sectors:** Consumer internet and mobile, enterprise technologies
- **Current investment:** 568 investments
- **Exits:** 14 IPOs & 96 acquisitions
- **HQ:** London

**The European Investment Fund**
- **Type:** Public-private partnership and subsidiary of the European Investment Bank
- **Investment size:** £1bn – £25m
- **Sectors:** Mobile, software, fintech, curated web, healthtech, e-commerce, gaming.
- **Current investment:** 203 investments
- **Exits:** 4 IPOs, 30 acquisitions
- **HQ:** London

**The British Business Bank**
- **Type:** Government-owned bank, and British Business Bank Investments is its commercial arm.
- **Sectors:** Curated web, mobile, e-commerce, gaming.
- **Current investment:** 90 investments
- **Exits:** 20 acquisitions
- **HQ:** London

**Accel**
- **Type:** Venture capital, seed, early- and growth-stage investments
- **Sectors:** Information technology, cyber security, internet infrastructure
- **Current investment:** 388 investments
- **Exits:** 20 acquisitions
- **HQ:** California

**Atomico**
- **Type:** Venture capital that does seed, early-stage venture, later-stage venture, and private equity investments
- **Sectors:** Curated web, mobile, e-commerce
- **Current investment:** 90 investments
- **Exits:** 7 acquisitions
- **HQ:** London

**MM Capital Ventures**
- **Type:** Banking, finance, venture capital
- **Investment size:** £500k – £5m
- **Sectors:** Enterprise software, fintech, e-commerce, marketplaces, digital media
- **Current investment:** 63 investments
- **Exits:** 7 acquisitions
- **HQ:** London

**Amadeus Capital Partners**
- **Type:** Angel investment, financial services, venture capital, and private equity investments
- **Sectors:** Hardware, software, web hosting
- **Current investment:** 142 investments in 78 companies
- **Exits:** 2 IPOs and 24 acquisitions
- **HQ:** London
Venture capital and the UK

The venture capital and entrepreneurial ecosystem in this country have not come about by accident; there are a number of characteristics which have helped drive a culture of innovation and disruption.

The UK’s advantages

The UK’s venture capital and start-up scene shares many characteristics with its US counterpart: the ambition to build valuable, high-growth companies, a history of openness to new ideas and talent, a willingness to experiment, and an implicit belief that many sectors are ripe for disruption.

But it also reflects characteristics that are particular to the UK: a pragmatic, problem-solving attitude, a predilection for the property and financial services sectors, and a position midway between US and European attitudes.

In the UK, entrepreneurship is seen as a good career choice by more people than in France, Germany or Spain, but by fewer people than in the US and Canada. Financial and labour regulation is, for the most part, more flexible than it is in continental Europe, but less so than in the US.

“The UK has the most flexible economy of all the European economies,” says Barclays’ Sean Duffy.

UK attitudes towards the speed of monetisation can also represent the midpoint between the traditional European impatience to see revenues exceed costs, and Silicon Valley’s more relaxed view – that, in the long run, technology’s network effects mean that it is the companies that invest deeply enough in rapidly gaining the most users which become the most valuable.

As a hub for start-ups and the venture capital firms that support them, the UK also has other significant advantages. It is Europe’s early adopter, leading the world in per capita e-commerce and advertising spend. The online economy accounts for 8.3% of GDP – the highest percentage in the world and more than double the G20 average.

And it boasts the most plentiful early-stage capital in Europe, world-class universities, government tax incentives for investment and research, and one of the world’s biggest customer bases for enterprise and infrastructure technology. “If you can get your company working in the UK,” explains Duffy, “you have some idea that it might be transferable elsewhere.”
UK venture capital: the view from the US

The US venture capital community’s view matters. The more capital, know-how and media attention that UK firms can attract from the US, the better their chances of scaling globally.

After all, the UK might be the venture capital centre of Europe, but it is dwarfed by the US. In the year to the third quarter of 2016, for example, there was more venture capital invested in the state of Massachusetts than in the UK as a whole.⁴

Still, US venture capital investment continues to flow into the UK: it was the leading destination for US investment in 2015, with US-led investors such as Andreessen Horowitz, Sequoia Capital and Insight Venture Partners investing $1.4bn in UK companies.

US companies often see the UK as a perfect early ‘test run’ for international expansion. “When US start-ups want to expand internationally, the UK is the best market to start with,” explains Will Bowmer. “It’s large, it’s growing, and English is the primary language. If companies can expand successfully into the UK market, then they can try the harder task of moving to countries that are culturally further away from the US, where the principal language is not English, and where the regulatory challenges may be different.”

London’s popularity and success, however, could have the negative effect of diluting innovation and ideas. Tony Broccardo, Head of Asset Allocation at Barclays UK Retirement Fund, points out that many in the US attribute Silicon Valley’s success to the fact that it is able to focus exclusively on technology, given its ecosystem of universities, accelerators and venture capital firms. There is, he says, a perception that in London, technology is just one of many things going on, so “it is harder for London to create the intensity of focus found in Silicon Valley. Given London’s sheer size, there’s always a danger that interesting ideas are lost.”

UK venture capital: the view from Europe

If the UK venture capital scene looks to the US as a market where deal sizes, exits and capital pools tend to be bigger, continental European countries tend to look at the UK in the same way. The UK has the highest concentration of capital in Europe and is a significant source of funds for the rest of the continent. In 2015, UK funds including Balderton Capital, Mosaic Ventures, Scottish Equity Partners and DN Capital invested €250m in France and €400m in the Nordic countries. In the DACH region (Germany, Austria, Switzerland), rounds worth €700m were led by UK funds.¹⁵

The European venture capital industry is seen as a growing market. Tony Broccardo says that it is increasingly common to see ideas generated in Europe receive follow-on capital from the US. “Some of the best winners in the US have been ideas generated in Europe,” he explains. He says that this reflects the fact that “the infrastructure for gathering, funding, and promoting them in Europe has never been stronger”. Broccardo adds that European countries also have an advantage when they are able to innovate around processes that have a plausible link with a homegrown industry – such as the automotive industry in Germany.

The UK has the highest concentration of capital in Europe and is a significant source of funds for the rest of the continent.

In 2015, UK funds invested:
- €250m in France
- and €700m in the Nordic countries

In Germany, €700m DACH rounds in Germany were led by UK funds including Balderton Capital, Mosaic Ventures, Scottish Equity Partners and DN Capital

Source: Thomas Olszewski, Startups and Venture Capital in the UK, Frontline Capital
Brexit

In 2019, the UK is expected to leave the EU and, in all likelihood, the single market, which gives rise to a number of fears, but also opportunities.

The fears
First, there is the possibility that Brexit will limit the flow of new fast-growth companies by making talented entrepreneurs less willing to base their businesses and their lives in the UK.

Second, it might limit the ability of existing companies to hire the talent they need in order to scale fast. Fast-growing companies rely on ready access to a pipeline of talent currently, London is home to roughly as many software developers as Dublin, Stockholm, Amsterdam, Warsaw and Berlin combined. If European migration is restricted, and/or the residency rights of European citizens are not assured, this advantage may be eroded.

Third, Brexit may increase the regulatory burden on the financial institutions that support the UK’s venture capital ecosystem.

Fourth, it may deter capital itself. Venture capital is highly mobile and flows towards real or perceived opportunities. If the UK is seen as being in relative decline, mobile venture capital may decide to turn its attention towards companies and regions it sees as rising, even if absolute deal sizes are smaller at the time.

The opportunities
However, despite this uncertainty, there are still a number of reasons for the market to remain positive, not least because that uncertainty often breeds opportunity.

Since the mobile revolution, VC has been at the vanguard of technological development and, because it is so digitally advanced, the UK is ideally placed to take advantage of the next developments in AI and augmented reality.

The UK’s track record as early adopters of new tech should mean that there will still be a captive market for new disruptive companies. The political position vis-à-vis European Union membership, whilst important, will be unlikely to affect this.

Big international companies continue to make the UK their home. Facebook recently doubled the size of its London office and Google have also committed to building a new HQ, creating up to 3000 jobs. In January 2017, Snapchat launched its European HQ in London.

Additionally, the UK market has seen a number of successful exits recently and the expectation is that those involved in these will look to re-enter the cycle. And finally, the culture of innovation and disruption that has been built up in the UK market over a number of years is here to stay. Brexit may be challenging but it won’t be insurmountable.

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14 UK: $4.3bn; Massachusetts: $6.2bn. Source: Thomas Olziewski, Startups and Venture Capital in the UK, Frontline Capital
15 Thomas Olziewski, Startups and Venture Capital in the UK, Frontline Capital.
16 Ibid.
The current landscape of entrepreneurial finance

The past decade witnessed a dramatic growth in the number and types of investors, and the UK is at the centre of many of these developments.

These investors have commonalities, such as the disbursement of risk capital in return for equity, but they also differ in terms of the investment they undertake and the objectives and structures they pursue. This article reviews the prominent investor types; taken together, they constitute real innovation in start-up financing.

The key investors…

There are five distinct categories of equity investors in entrepreneurial ventures:

1. Angel investors

These are accredited individuals who invest their own personal wealth. Some angels are former entrepreneurs, while others have built or inherited wealth from elsewhere. They tend to invest at earlier stages and often employ a less formal approach to investing, both in terms of the level of due diligence and the formality of contracts. Angel groups range from a loosely organised periodic gathering to tightly coordinated groups that co-deploy funds and undertake coordinated due diligence.

2. Crowdfunding

This describes online platforms that aggregate relatively small amounts across a large number of individuals, potentially from all over the world. The platform plays a role in due diligence and deal-flow screening. Their economic models differ, and may include commission on capital raised, equity allocation, or both.

3. Venture capital funds

They are structured as limited partnerships and invest in start-ups with the objective of generating superior financial returns. They raise funds from a set of limited partners (e.g. ultra-high-net-worth individuals, university endowments and pension funds), which they then invest into a portfolio of innovative companies. As general partners, venture capital funds are contractually obliged to return the capital and proceeds within a set period of time, which is often 7-12 years.

4. Corporate venture capital

This denotes the systematic practice by established corporations of making equity investments in innovative start-ups. The capital originates from a parent corporation, varying from an ad hoc, deal-by-deal basis through an annual allocation to a multi-year segregated pool of capital. Investment objectives also differ across corporate venture capital units. Some exclusively pursue venture capital-like financial returns, while others seek a balance with the strategic objectives of the parent corporation (e.g. technological co-development and joint commercialisation).

5. Accelerators

These are cohort-based programmes that offer mentorship and a work space to a group of start-ups in return for an equity stake. Admission into the cohort often also entails a capital disbursement. Interestingly, a number of accelerators offer a set valuation to all participants – the investment amount and equity are set at a similar level for each and every cohort member. Some experienced accelerator operators run multiple accelerator programmes in several countries. Others are affiliated with a corporate sponsor or a not-for-profit organisation.
Comparison of common investor structures

**Venture capital**
- **Investors** (Limited Partners)
- **Venture capital fund** (General Partner)
  - Returns
  - Equity
  - Cash (Fundraising)
  - Cash (Disbursing)
- **Entrepreneurial ventures**

**Angel**
- **Individual investor (Angel)**
  - Equity
  - Cash
- **Entrepreneurial ventures**

**Crowd funding**
- **Investors** (Diverse pool)
- **Online marketplace**
  - Equity
  - Cash
  - Cash
- **Entrepreneurial ventures**

**Corporate venture capital**
- **Established Corporation**
  - Tech & Market Insight, returns
  - Cash
  - Equity
  - Cash
- **Corporate venture capital unit**
  - Cash
  - Equity
  - Cash
- **Entrepreneurial ventures**

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...And a few implications

When start-ups can choose between investors, the onus is on the investor to articulate their unique selling proposition. Characteristics that distinguish the different investor types include:

- Source of capital (e.g. angel investors are investing their own wealth whereas venture capital funds invest capital committed by their limited partners)
- Timing (e.g. period of investment and time to nurture and exit)
- Investment amount (e.g. investment at current round and the capacity for follow-on investment)
- Investors’ value add (e.g. pool of talent and potential hires, scope of reach to key decision-makers and access to unique resources)
- Portfolio characteristics (e.g. number of portfolio companies, portfolio composition and overlap).

Venture capitalists are traditionally respected for their quality advice and industry contacts.

Venture capitalists are traditionally respected for their quality advice, drawing on personal experiences as well as a network of past portfolio companies and industry contacts. More recently, some venture capital funds have moved beyond advice-provisioning and into operational support (e.g. the UK’s LocalGlobe and the US’s Andreessen Horowitz). To that end, they employ cadres of coding, marketing and recruitment talent.

Angel investors often offer advice based on deep personal industry experience and scale-up expertise.

A corporate venturing unit can draw on corporate staff; for instance, mobilising dozens of engineers to advise on and assist with technical issues. Corporate venture capital-backed start-ups may speed up a go-to-market strategy by using access to global distribution channels or deep regulatory contacts.

The average accelerator employs a few dozen mentors that bring operational expertise and access to key decision-makers. The more successful accelerators curate a group of high-quality mentors with whom they have long-term relationships.

A successful crowdfunding round raises capital while mitigating market risk. Success is not only about the total amount raised, but also about the fact that it is the sum of hundreds of individual investors. Such a vote of confidence in a start-up and its product sends a strong signal about viable demand.

Entrepreneurs should pick the most appropriate source of funding for their business strategy. For investors, the opportunity to collaborate across different types of investment structure can leverage efficient capital allocation to grow returns.
Comparison of investor characteristics and motivations

<table>
<thead>
<tr>
<th>Source of capital</th>
<th>Accelerators</th>
<th>Angels</th>
<th>Corporate venture capital</th>
<th>Crowdfunding platforms</th>
<th>Venture capital funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
<td>Generate financial returns for their investors.</td>
<td>Satisfy individual angels’ objectives.</td>
<td>Contribute to the parent corporation.</td>
<td>Satisfy a sufficiently large number of individual investors’ objectives.</td>
<td>Generate financial returns for their investors.</td>
</tr>
<tr>
<td><strong>Timing</strong></td>
<td>Pre-determined; per cohort admission and graduation dates. Usually a 3-6 month cohort, with some possibility for post-graduation interaction.</td>
<td>Ad hoc, based on personal discretion.</td>
<td>Similar to venture capital for corporate venture capital units with a segregated pool. Ad hoc for other corporate venture capitalists.</td>
<td>Ad hoc, based on securing a sufficiently large number of individual investors.</td>
<td>Pre-determined and stated in fund documents. Usually 7- to 12-year time horizon, where initial investments are undertaken during first couple of years.</td>
</tr>
<tr>
<td><strong>Investment amount</strong></td>
<td>Pre-determined valuation for each start-up in a given cohort. £25,000-£150,000 in return for a 5%-12% equity stake. Other accelerators negotiate valuation. Some accelerators may offer grants (no equity needed), or provide in-kind support (no investment).</td>
<td>Ad hoc, based on personal discretion. Usually &gt;£25,000. Angel groups may aggregate members’ capital and thus deploy larger amounts &gt;£1m.</td>
<td>Varies by corporate venture capital objective. Some focus on early stage and deploy &gt;£500,000. Others focus on later stages and invest multiples of £m.</td>
<td>The average total funds raised is often &gt;£150,000, although increasing number of campaigns have raised an aggregate &gt;£1m.</td>
<td>Varies by fund focus. Micro-venture capital and seed-stage funds deploy &gt;£500,000. Others focus on later stages and invest multiples of £m.</td>
</tr>
<tr>
<td><strong>Value added</strong></td>
<td>Access to a network of (often unpaid) mentors. The mentors offer industry experience, scale-up expertise, or network of talent and contacts. Successful accelerators cultivate high-quality mentors, as well as a strong alumni base.</td>
<td>Opportunity to access angel’s expertise and network. These include industry experience, scale-up expertise, and network of talent and contacts.</td>
<td>Opportunity to leverage parent-firm resources. These include R&amp;D insights (e.g. access to R&amp;D team and facilities), scale-up expertise (e.g. use global distribution channels and draw on regulatory compliance). Commercial relationship with other parent-firm divisions.</td>
<td>Attracting multiple investors can serve to validate demand and uncover desired product features.</td>
<td>Opportunity to access venture capitalist’s network consisting of industry experts, serial entrepreneurs, and knowledge of quality talent.</td>
</tr>
<tr>
<td><strong>Portfolio characteristics</strong></td>
<td>Cohort size is usually in the low teens. Some accelerators are generalists, while others are sector specialists (e.g. fintech and edtech).</td>
<td>Portfolio size and focus varies by personal preference.</td>
<td>Follows a thematic approach (e.g. by technology, market or support of parent-firm activities). Portfolio size ranges from a handful of companies to a few dozen active start-ups.</td>
<td>Portfolio size and focus varies across platforms.</td>
<td>Follows a thematic approach (e.g. stage or end market). Portfolio size is usually in the low teens.</td>
</tr>
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Case study: Kano

Kano is the brainchild of Micah Klein who, at the age of six, wondered whether it was possible to make “a computer that’s as simple and fun to make as Lego”.

Making the most of the funding landscape

The vision catapulted his father Saul, along with Saul’s cousin Alex Klein and Yonatan Raz-Fridman, to launch a successful edtech venture in late 2012. The Raspberry Pi, an innovative single-board computer, offered a promising platform to build on. Named after Kanō Jigorō, the founder of the art of judo, the nascent company faced several challenges. It had to develop a modular and accessible technological solution around the single-board computer, devise a cost-effective procurement strategy, ascertain demand, and validate its business model.

Kano’s early steps took place against a backdrop of a vibrant edtech sector.

Kano’s early steps took place against a backdrop of a vibrant edtech sector. In 2012, venture capital investment in edtech start-ups exceeded $1.1bn globally, and 70% of the deals were in seed and early-stage start-ups, many of which were funded by angel investors. A number of accelerators and corporate-affiliated accelerators also targeted the education market and established firms engaged in corporate venture capital.

The company dedicated its first year to building a working prototype and securing a supply chain, funding itself through its founders’ resources and angel investors. By late 2013, the company was successful at mitigating technology and procurement risk, and the founders were pondering who to target and how, how many units to produce and at what price point, and the company’s subsequent funding needs.

In November 2013, the company opted for the crowdfunding approach, securing over $1.5m from 13,387 individuals on the reward platform Kickstarter. In doing so, it raised necessary funds while mitigating market risk.

Eighteen months later, Kano completed a $15m funding round led by Jim Breyer of Breyer Capital, along with JamJar Investment and the Collaborative Fund. In late 2016, the company launched its camera-speaker-pixel kit on Kickstarter and secured almost $650,000 from 2,399 individuals.

In 2013, the company opted for the crowdfunding approach, securing over $1.5m from 13,387 individuals.

Traditional debt finance also played a part in the funding structures that the business put in place. An overdraft facility put in place by Barclays enabled the team to ramp up production to meet the extraordinary demand for their product.

The Kano team successfully navigated their way through the many funding options available at each stage of their growth.

17https://www.kickstarter.com/projects/alexklein/kano-a-computer-anyone-can-make/posts/1038454
Looking ahead: challenges and opportunities

Venture capital in the UK faces some headwinds in the coming years, but the ingenuity and innovation that has characterised its development history should ensure it continues to thrive.

Challenges

Growth momentum slowing
First, there is the perception of relative decline. While the total value of the UK’s venture capital deals in 2016 remains ahead of its closest European competitors, the country’s rise may have stalled. UK total deal value peaked in 2015 before falling back in 2016. France’s venture capital investment, meanwhile, saw a compound annual growth rate of 40% between 2012 and 2016, and Sweden’s was an enviable 140% over the same period. So while both countries’ total deal values remain below the UK’s, they are growing faster.

Cost of living
Second, UK living costs are expensive compared with those in other European countries. This is especially true in technology clusters, and for a cost-sensitive start-up, cost of living matters. Rent in Berlin, for example, is over 60% lower than in London, a meal is nearly 40% cheaper, and a monthly transport pass is over 47% cheaper. The average salary of a software engineer, meanwhile, is £56,000 in London and €50,000 in Berlin.

Brexit and the European Investment Fund
Third, investment from the European Investment Fund accounted for over a third of the investment in UK venture capital between 2011 and 2015, and now the country’s exit from the EU puts its rights to the Fund in doubt. While the UK does not have to be a member of the EU to access the Fund, EU membership confers automatic membership, so whether British firms can access funding in future depends on how the institution interprets its membership rules. There are reports of a cooling towards UK investments from the Fund. However, UK politicians from all parties have stressed their commitment to support the UK tech and high growth industries in the future.

European VC activity
VC invested reaches second-highest total in decade

Opportunities
The UK venture capital scene will, however, retain a number of considerable advantages in the coming years.

Incubator of tech talent
First, it will not lose its place as a factory of talented technologists. Eight of Europe’s top 20 universities are in the UK, and the country leads in tech talent. For example, London has nearly twice as many users of Github (a software-development platform) as Paris or Berlin.20

Sub-sector thought leadership
Second, healthtech, fintech, and artificial intelligence (AI) are likely to remain investor priorities in the coming years, and the UK has advantages in each. The country is home to pioneering global AI company DeepMind – now a subsidiary of Google – and research hubs such as the Alan Turing Institute. In fintech and healthcare, too, the UK’s traditional advantages in talent, institutions and pay are likely to continue to be attractive to innovators.

Barclays’ Tony Broccardo adds that there are particular advantages in fintech because the banking arrangements that the sector is trying to disrupt “are normally more similar than different” across borders, which means that once an app has achieved a scalable business model, it is likely to be able to apply that model globally.

Corporate engagement is strong
Third, corporate venture capital in the UK is on the rise. Deal activity increased by 35% in 2016 compared with 2015; globally, it fell by 2%.21 Food delivery company Deliveroo’s series E round and security company Darktrace’s series C round, for example, were both backed by corporate venture arms.

Scale of existing investors
Fourth, the UK is likely to remain unique in Europe for the size of its late-stage funds, such as Accel, Index Ventures, Balderton Capital and Atomico.

Start-up infrastructure
Fifth, the UK has a head start on other European countries when it comes to accelerators. It has a number of well-established and well-regarded accelerators that are likely to increase the size of their investments at seed stage.

The UK will not lose its place as a factory of talented technologists. Eight of Europe’s top 20 universities are here.22

Government priority
Finally, the government seems to be committed to supporting innovation, such as with a £1bn investment programme in digital infrastructure, the Enterprise Investment Scheme, and the Seed Enterprise Investment Scheme.

Broccardo says he is upbeat about Brexit’s effect on financing because “pools of capital such as pension funds and long-term finance are more than adequate to fund these great ideas... because the reality is there aren’t that many great ideas.” In other words, the future of venture capital as an industry is more likely to be limited by investible companies than a lack of capital due to any regulatory change.

18https://ftalphaville.ft.com/2017/05/10/2188575/brexit-trouble-for-british-venture-capital/
19https://www.ft.com/content/8fab88be-34c9-11e7-bce4-9023f8c0fd2e
20http://technation.techcityuk.com/
Conclusion

Today, the UK has a strong claim to have evolved the most sophisticated ecosystem in Europe for young start-ups to grow: education, tech hubs, a population of early adopters, and plentiful funding right up the value chain.

Despite the challenges from Brexit in terms of attracting talent and ease of doing business, the UK is likely to remain the centre of gravity for Europe’s venture capital scene. Gary Dushnitsky emphasises just how fast the UK’s venture capital industry is already progressing. “What gives me a lot of comfort,” he says, “is the sheer speed of the UK’s progress, even just over the last decade. Ten years ago, there was a real scarcity of capital for early-stage start-ups. Even though you had the technology and the enterprising individuals, they didn’t necessarily have the risk capital in the volume necessary to support them.”

“Fast forward to 2017,” he adds, “and the UK is home to some of the most exciting seed-stage investors, a dozen accelerators, and venture investors that specialise in different stages of the investing profile, so there’s a robust infrastructure in place to support entrepreneurs at all stages of their journeys. Coming up with something like that is not something that you do overnight. The UK has built a system that can service it well in the coming years.”

The UK is also well-positioned to take advantage of likely future growth sectors. Tony Broccardo sees big opportunities in a number of sectors – particularly in robotics, where he says “innovations will last for generations”, and in healthcare, where big data will enable insurers to price policies more accurately. Fintech, where the UK already has a headstart, is likely to continue to grow.

Another factor driving growth in the UK’s venture capital industry is the fact that technology has become more widely accessible. “We’re increasingly seeing innovation delivered by smaller companies – that’s a very exciting trend and something that we want to support as much as we can,” explains Sean Duffy.

Will Bowmer shares this optimistic outlook. “There’s an expectation that a number of very large venture-backed companies are going to go public in the next two years,” he says. “The availability of late-stage private funding has allowed many of these companies to stay private longer and grow bigger. As those companies emerge on the market, they’re going to be huge – and that’s going to help rebalance the supply dramatically in the next two years.”

The UK is likely to continue to be unique in Europe for the presence of capital funds which can provide funding from early to late stage, for its wealth of technology and investment talent and experience, for its variety of investment structures, and for its entrepreneurial culture. These advantages have been built up over many years, and will take a long time for other countries to emulate.

Today, venture capital is vital to the UK economy – fueling the high-growth startups which deliver innovation, productivity gains, and growth. Its role in funding and mentoring fast-growing UK companies is likely to become even more critical in the years ahead.

In addition, entrepreneurship has gone mainstream, people are dreaming up ideas on the side of the desk – trying to start new things and disrupt the status quo. People are becoming less fearful of failure. This is a shift in mindset for the UK that has been in the US since the advent of Silicon Valley. And it is one that bodes well for an uncertain future.
Barclays’ support for the sector

Barclays has always backed visionaries and innovators throughout our 325+ year history. From funding railway expansion in the early 19th century to mobile payment and blockchain innovation today, we’ve consistently supported the disruptors who’ve changed the world.

We offer a range of services and initiatives to support the current ecosystem.

Dedicated Barclays support teams
Our Venture Capital Coverage Unit has been set up specifically to co-ordinate our various involvements with the ecosystem. We intend to bring the expertise of the whole Barclays Group to help VC funds to maximise returns and to support the businesses they have invested in to achieve the highest levels of success.

We have built a network of dedicated high growth experts across the UK, who use our deep understanding of the entrepreneurial journey and landscape to support businesses.

Holistic funding
Barclays has created venture loan products to help support fast-growing, equity-backed businesses ahead of them reaching cashflow breakeven, in addition to our extensive range of more traditional debt products.

We currently have a fund of £200m available for venture debt for Series A, B and C stage companies to help promising businesses scale up.

Eagle Labs
Providing workspaces and tools to help individuals grow their business or ideas. Designed to help customers and non-customers in local businesses and communities learn about new technologies and boost their own and the UK’s digital skills and confidence.

Rise
Rise is our award-winning community of the world’s brightest start-ups and experts working together to create the future of financial services. Home to the Barclays Accelerator programme, the Rise physical hubs are based in strategic locations across the world from London, Manchester and New York to Cape Town, Tel Aviv, Vilnius and Mumbai.

Unreasonable Impact
Unreasonable Impact, created with Barclays, is the world’s first international network of accelerators focused on scaling up entrepreneurial solutions that will employ thousands of people, while solving some of the world’s most pressing societal challenges.
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Sean leads the TMT and High Growth Group for Barclays Corporate Banking. The team focuses on all stages of the TMT sector from early stage businesses to FTSE100 names. In the last couple of years, they have developed a specialism in financing high growth and disruptive companies through the launch of a venture debt product – the only major UK bank currently offering this service.

Sean obtained a PhD in physics before training as an actuary. He worked in insurance and consultancy before moving across to Banking. He has been active in the world of corporate finance for the last ten years across a range of different sectors and asset classes.

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Gary Dushnitsky is an Associate Professor of Strategy & Entrepreneurship at London Business School. He also serves as a Senior Fellow at The Mack Institute for Innovation Management at The Wharton School (University of Pennsylvania). Gary’s work focuses on the economics of entrepreneurship and innovation. He explores the shifting landscape of entrepreneurial finance, exploring such topics as corporate venture capital, crowdfunding, and angel investors. His research appeared in leading academic journals, including Organization Science, Strategic Management Journal, and Nature Biotechnology.

Gary serves as the Co-Editor of the Strategic Entrepreneurship Journal, and a Senior Editor at Organization Science. He received several academic distinctions including the 2013 SMS Emerging Scholar Award, the 2009 Kauffmann Junior Faculty Fellowship, and several best dissertation prizes. Gary advises corporations in the Hi Tech, Food, Clean Tech, and Pharma sectors on a host of corporate venturing issues, and has been involved in several industry reports, as well as keynotes and panels such as the YPO, World Economic Forum, OECD, EVCA, BVCA, and others. His studies have been covered in the business media including Business Week, Dow Jones News, Entrepreneur Magazine, Financial Times, Les Echos etc.

*Please note: these are mobile phone numbers and calls will be charged in accordance with your mobile tariff.
Juliet Rogan leads a national team of High Growth Relationship Directors focused on supporting companies scale from start-up to exit. Over the last six years Juliet has worked across Barclays Corporate and Investment bank, specialising in the Tech Media and Telecoms Sector and played an integral role in building Barclays’ high growth franchise and venture debt product. Previously Director for Barclays’ Technology, Media and Telecoms team, she has worked with a portfolio of some of the most exciting tech companies in London including Blippar, Kano and Swiftkey. She joined Barclays in 2010 after qualifying as an accountant at KPMG.

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Tom leads the VC Coverage unit for Barclays in the UK. The team has comprehensive coverage of UK VCs, coordinating the delivery of banking services across the Barclays Group and effective engagement with portfolio companies. This ranges from the provision of corporate banking and venture debt solutions to later stage investment banking advisory services. In addition, the team looks to coordinate engagement between Barclays IT and Innovation hubs and our corporate client base, with our VC network.

Tom’s career began in corporate finance and debt advisory, working across a range of plc and private equity, M&A and financing deals. At Barclays Tom has spent a period as a Director in Debt Finance, supporting corporate and private equity clients with financing transactions, predominately in the TMT sector, partnering with colleagues right across the bank. In addition to this Tom has experience working with early stage businesses, focusing specifically on financing and venture debt.

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