Unlocking investment

Trends for high-growth companies, H1 2023

August 2023

BARCLAYS | Eagle Labs

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Beauhurst

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Barclays Foreword

I am delighted to have the opportunity to foreword this new Barclays report - Unlocking investment: trends for high-growth companies H1 2023. We have seen the challenging headwinds of 2022 continue and the hard become harder, in 2023. The impacts of rising inflation and unstable confidence in public markets have added pressures to equity investment. We have seen economic challenges significantly impact valuations and consequentially capital sought. We also witnessed the shock collapse of Silicon Valley Bank, reverberate significant concerns within the equity market – a number of disruptive factors that have contributed to a run-rate decline on equity investment, year to date. I have been fortunate to spend time with founders seeking capital and many are in the quandary of deciding whether to take on debt, accept lower valuations, or simply try to wait – until economic concerns have subsided.

The overall outlook is not all doom and gloom though. Market research suggests there is still a decent amount of dry powder of investment capital available in the UK; with new pension rules coming into place, there could be more capital than ever available. The problem to address is not a lack of available capital or market conditions, but instead getting founders prepared, ready and realistic in their expectations when raising capital. I am delighted that we continue to play a productive role in supporting founders and the equity market ecosystem, with our Eagle Labs programmes and propositions.

Any founder, wishing to brush up on their investment readiness can look at the Funding Readiness Programme (FRP) we run quarterly as a first point of call, for support in Equity, Grants or Crowdfunding. Various companies across the UK who have participated in this programme have gone on to raise. Founders can leverage our specialist bank of mentors, who are perfectly placed to support capital raising questions.

Finally, investment ready founders could use our Demo Directory platform, providing them with the opportunity to be discovered by hundreds of active UK investors. The platform boasts a number of active registered investors, with over 610 founders currently utilising it. As of August 2023, we have identified 54.3% of businesses seeking investment from Barclays Eagle Labs have an ethnically diverse founder and 39.0% of these have a female founder (either solely or as a part of the founding team). 48.6% of these organisations applying for support from our directory, are also based outside of the 'Golden Triangle' of London, Cambridge and Oxford - in the South East of England.

Propositions like the Demo Directory have demonstrated support to diverse founders across the UK, looking to raise funding – helping to improve diversity within the UK ecosystem. I hope you enjoy reading the report as much as I have. Analysing the data, to me it's clear that more must be done to support investment into diverse founders as well as founders outside of London and the South-East. Eagle Labs supports diverse founders with bespoke tools and programmes. I hope when we review the landscape next year, we can see a significantly more positive outlook for all.

The stats above are a reflection of the data we are seeing at Eagle Labs based on applications. Figures correct as at 18 August, 2023.

Executive summary

This update outlines the current state of equity investment in all high-growth companies within the UK. High-growth companies are essential drivers of job creation and innovation. Although there are a range of factors that contribute to the growth and development of these companies, this report will focus on the distinct role equity investment plays in fostering growth and supporting innovation in early-stage companies.

Equity investment stands as a pivotal metric within the UK's high-growth landscape. It reflects the growth potential of early-stage companies and is arguably more advantageous than mechanisms like debt financing, which find better alignment with more established businesses. Debt financing necessitates the repayment of borrowed funds along with interest within a set timeframe. In contrast, equity finance bears no obligation for repayment. As a result, more resources can be directed toward scaling and growing the business.

Beauhurst data shows that the majority of high-growth companies are founded by males and individuals between 40-59 years old. While there's been an increase in mixed-gender directorship teams, women remain underrepresented as founders, signalling a need for more efforts to make entrepreneurship more accessible to women.

Despite more challenging conditions in 2023, the UK's high-growth companies managed to secure £7.61bn in equity finance in H1 2023. However, the full year figures for 2023 are unlikely to reach the record-high levels of 2021 (£28.1bn) and 2022 (£25.5bn). London leads as the primary hub, securing almost half of the total investment in the first half of 2023. However, companies in the South East and East of England also attracted substantial funding, whereas areas located further from the capital, in particular Northern Ireland, the North East, and Wales, received comparatively less investment than London.

Seed-stage companies and venture-stage companies, which serve as the backbone of the UK's high-growth ecosystem, secured £1.08bn and £2.82bn, respectively in H1 2023. The anticipated decline in total investment in 2023 for both groups could signal a return to pre-pandemic investment levels. The total investment raised in 2019 was £1.95bn for seed-stage companies and £4.16bn for venture-stage companies.

Seed-stage software and hardware companies have exhibited reasonably similar valuations over the last five years, while valuations have been more variable at the venture stage, with hardware valuations lagging behind software. It's likely that the pandemic heightened demand for software, boosting its investment appeal, but risk aversion during the early pandemic stages curtailed investment made into more capital-intensive and riskier hardware companies.

Companies in digital sectors secured the highest number of equity deals in H1 2023, reflecting the ongoing desirability of internet platforms and software-as-a-service (SaaS) companies to investors, alongside emerging sectors like artificial intelligence (AI) and fintech, despite a more challenging environment for raising investment.

The UK's entrepreneurial ecosystem

This equity investment report covers high-growth companies across the UK. A large proportion of companies are based in London (31.2%), while high-growth firms are also concentrated in southern England and in the North West, particularly in Manchester and Liverpool. There is a significant gender gap in these companies, with 75.3% of companies having all-male founding teams. There is, however, a higher representation of women at the board level. Most founders are aged between 40-59.

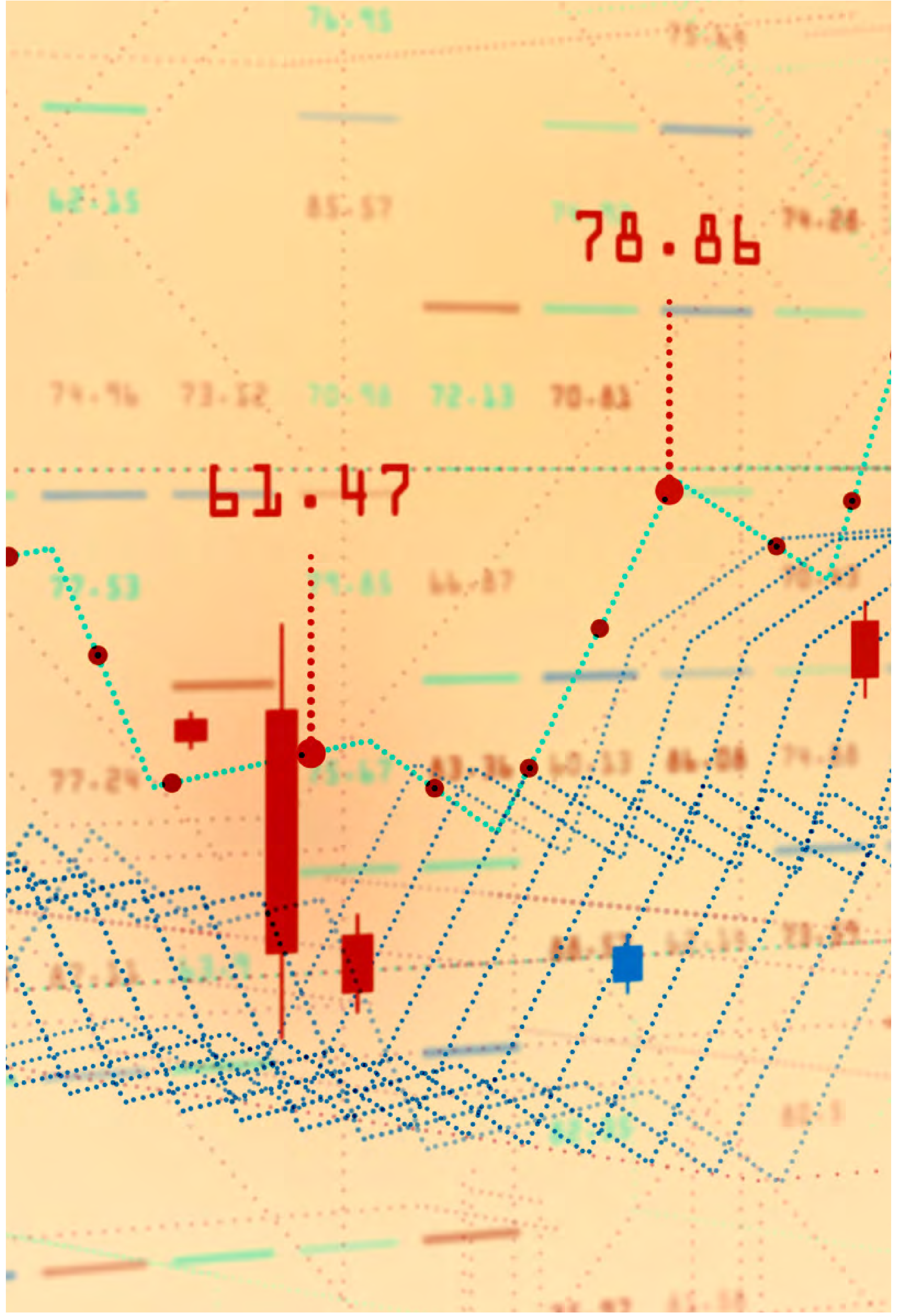
Defining high-growth and equity investment

A high-growth company is a business that has experienced rapid growth or has the potential to do so. Several factors can indicate that an early-stage company is on its way to becoming high-growth. Beauhurst uses eight growth indicators (listed on page 27) to identify these types of businesses. Examples of growth indicators include whether a company has received equity investment, grant funding, or attended an accelerator programme. In the first half of 2023, UK high-growth companies raised a total of £7.61bn in equity finance.

Beauhurst's equity investment growth trigger is key for identifying high-growth companies for several reasons. Firstly, it demonstrates that external investors have enough confidence in a company's vision to provide financial backing, despite the risk. Secondly, it indicates that a company has ambitions to further scale and develop. Lastly, companies that receive equity investment can benefit from investor expertise and support, which ranges from new connections to opportunities in untapped markets.

Companies secure equity finance—money to grow the business—by selling shares to equity investors. For early-stage, high-growth companies, this is usually via primary equity investment rounds, where the company issues investors new shares in exchange for money. As a result, investors end up owning part of the company. For entrepreneurs and business owners, equity investment can open avenues to new networks, industry expertise, and resources. For investors, while backing early-stage companies is considered high risk, it presents the potential for high rewards. Investors provide companies with equity finance in the hope of generating an extraordinary rate of return, either via a company listing on a public market or by selling its shares to a private buyer.

Venture capital and private equity firms are the most common source of equity finance by value for high-growth companies in the UK. Many companies also obtain equity investment from angel investors, crowdfunding platforms, and corporate venture capital funds (see page 17 for further details).



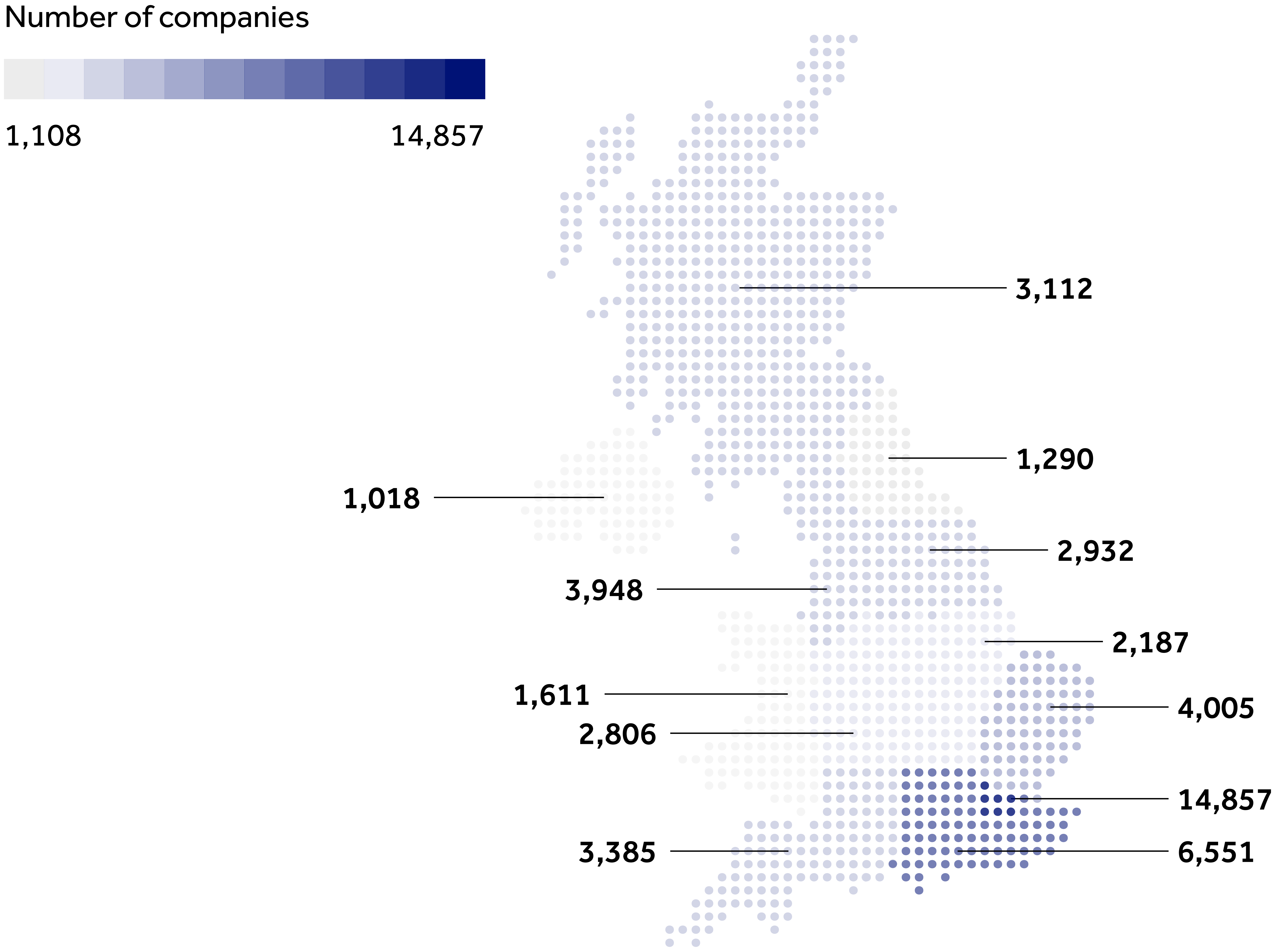
Regional distribution

This regional breakdown shows the companies across the UK that are in scope for this equity investment market update. London is home to 31.2% of the UK's high-growth company population, reflecting the density of its human business populations, as well as its status as an international centre for finance.

Outside of the Capital, many of the UK's high-growth companies are based in the south of England, again reflecting some of the increased density of people and established companies. There is a strong entrepreneurial ecosystem supported by accelerators and universities in cities such as Bristol, Oxford, and Cambridge.

The North West is home to 8.28% of the total population of high-growth companies, benefitting from large populations of digitally-enabled service businesses and tech hubs in Manchester and Liverpool.

Active high-growth companies by region (July 2023)

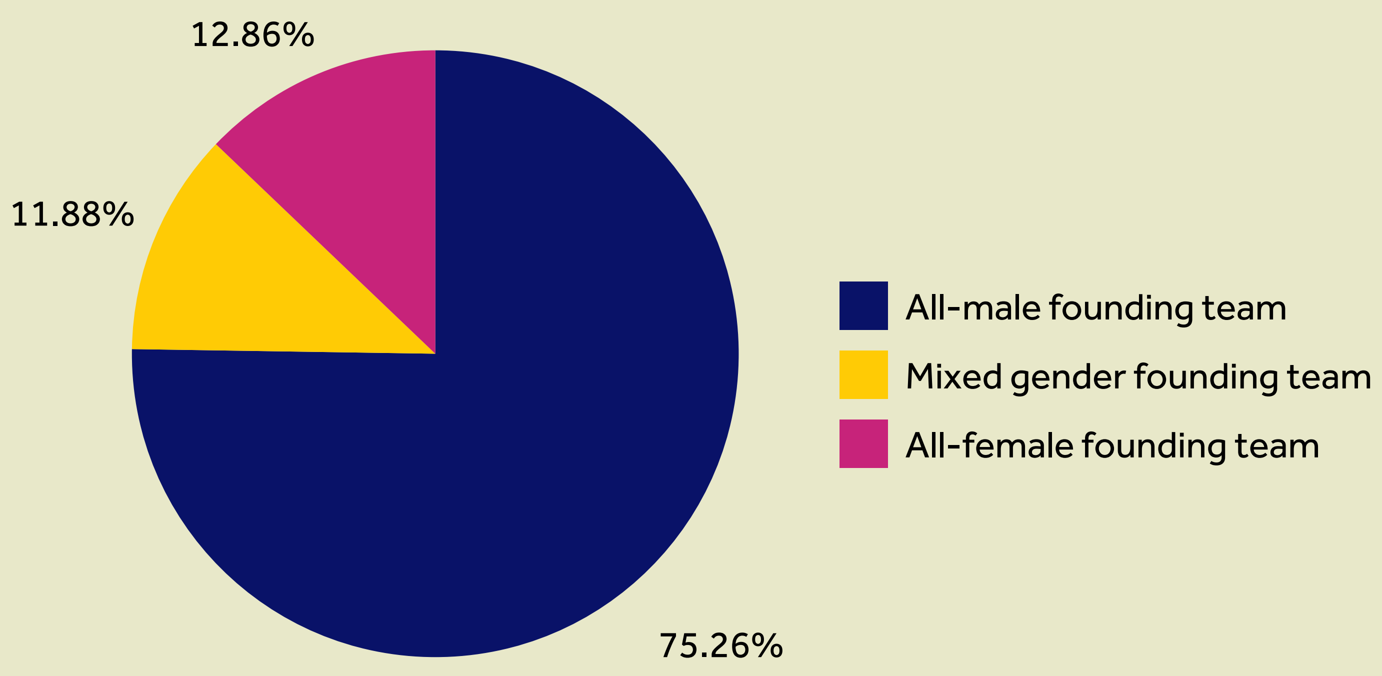


Company demography

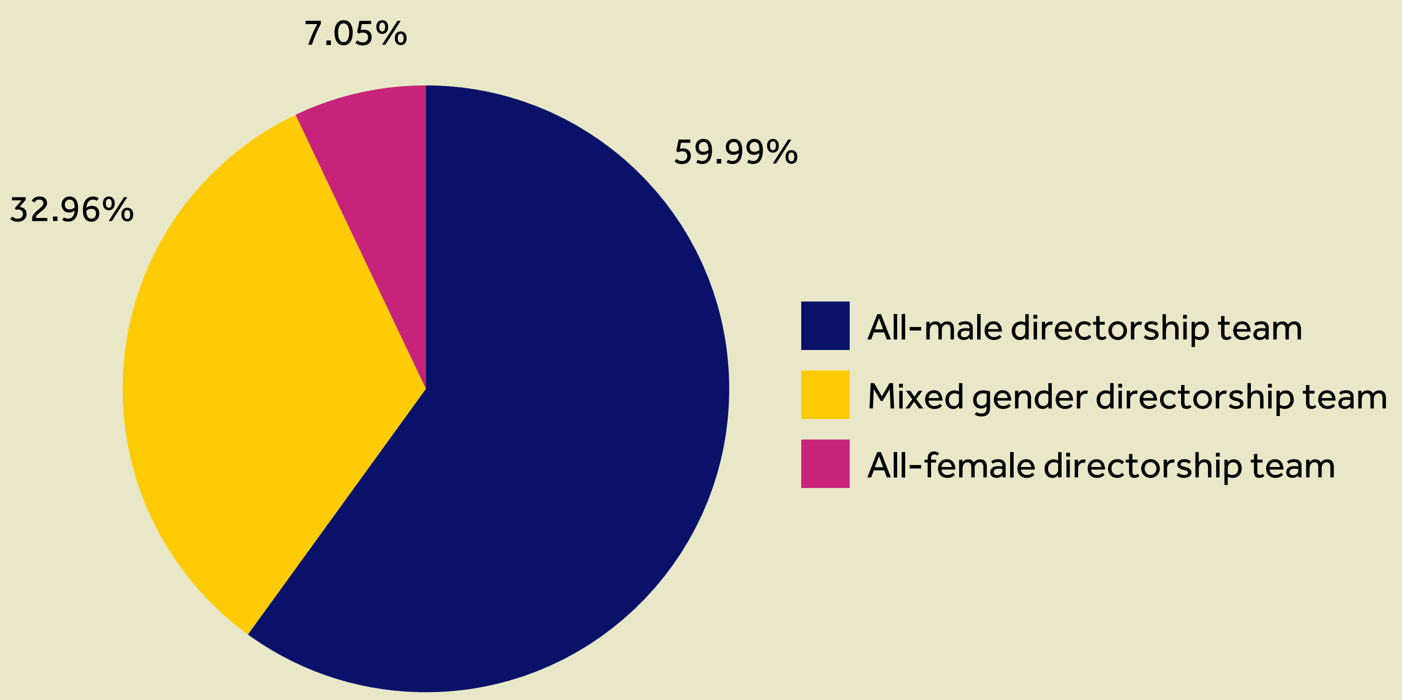
The UK's high-growth companies have predominantly all-male founding teams (75.3%) and all-male directors (60.0%). A notable difference between the founder and director breakdowns is that mixed-gender directorship teams account for a larger proportion of the active company population (33.0%) than mixed-gender founding teams (11.9%). This shows that women are more likely to be represented at the board level than as part of founding teams, suggesting that there is still more work to be done to make entrepreneurship a viable career path for women.

People aged 40-49 and 50-59 represent the majority of founders at active high-growth companies. This likely reflects factors such as business experience, financial resources, and access to networks that mean these individuals have a greater propensity to launch companies that remain active over time.

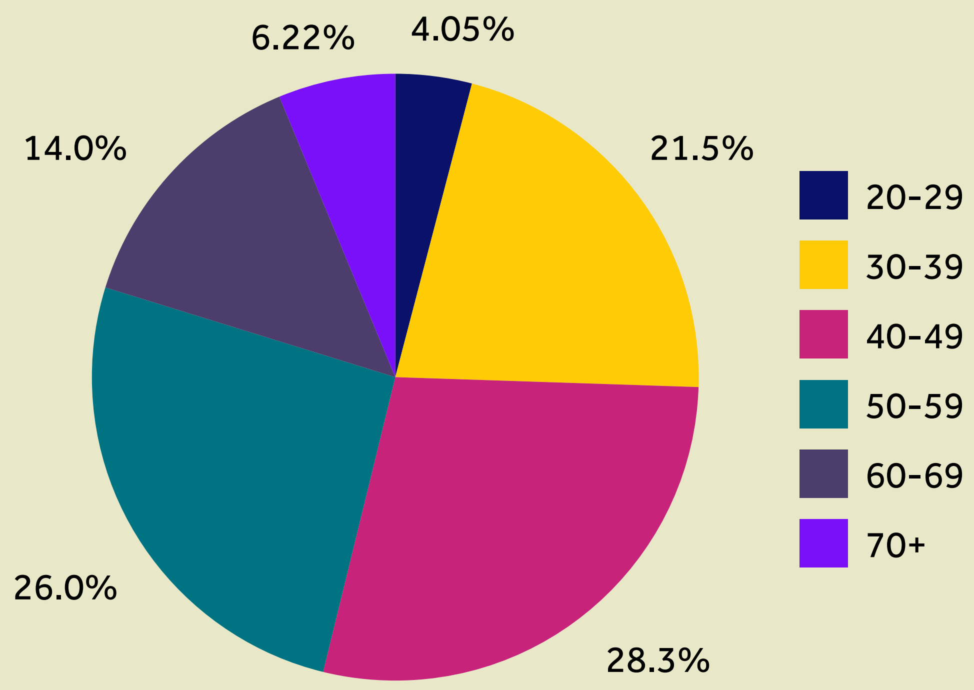
Gender of high-growth company founding teams (2023)



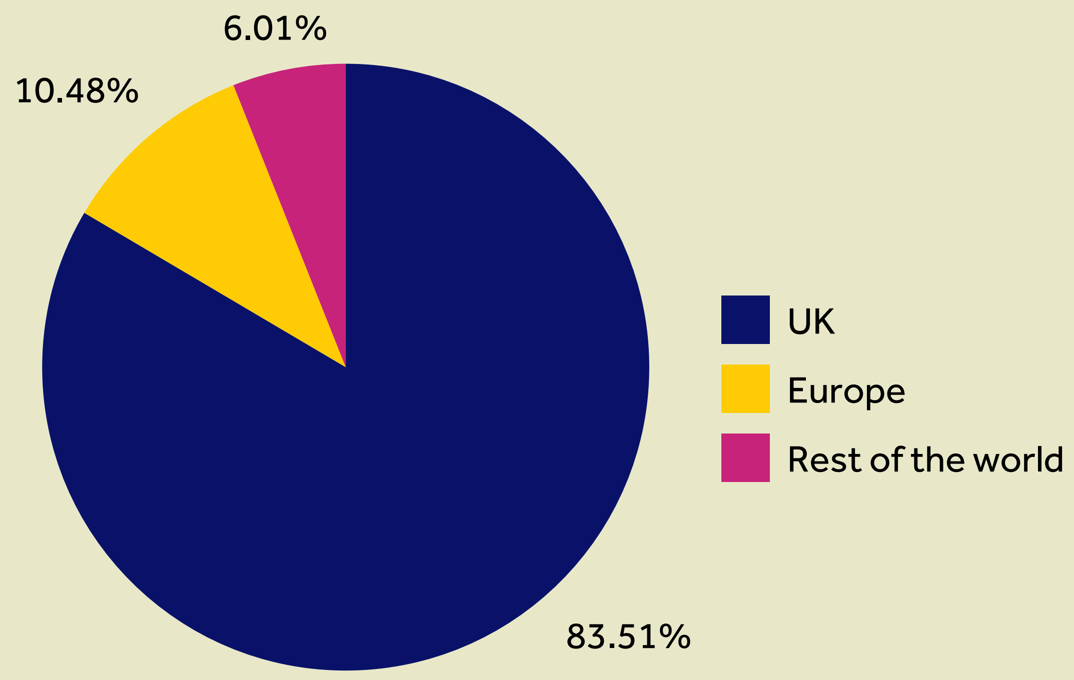
Gender of high-growth company directorship teams (2023)



Age of high-growth company founders (2023)



Nationality of high-growth company founders (2023)



Equity investment

In H1 2023, the UK's high-growth companies secured £7.61bn in equity, suggesting that full-year 2023 figures will reflect a decline from the record £28.1bn raised in 2021 and the £25.5bn raised in 2022. The year so far has certainly been a tougher funding environment for early-stage companies and their leaders. However, updates to the Seed Enterprise Investment Scheme (SEIS) which came into effect in April 2023 may help to drive more investment in early-stage companies.

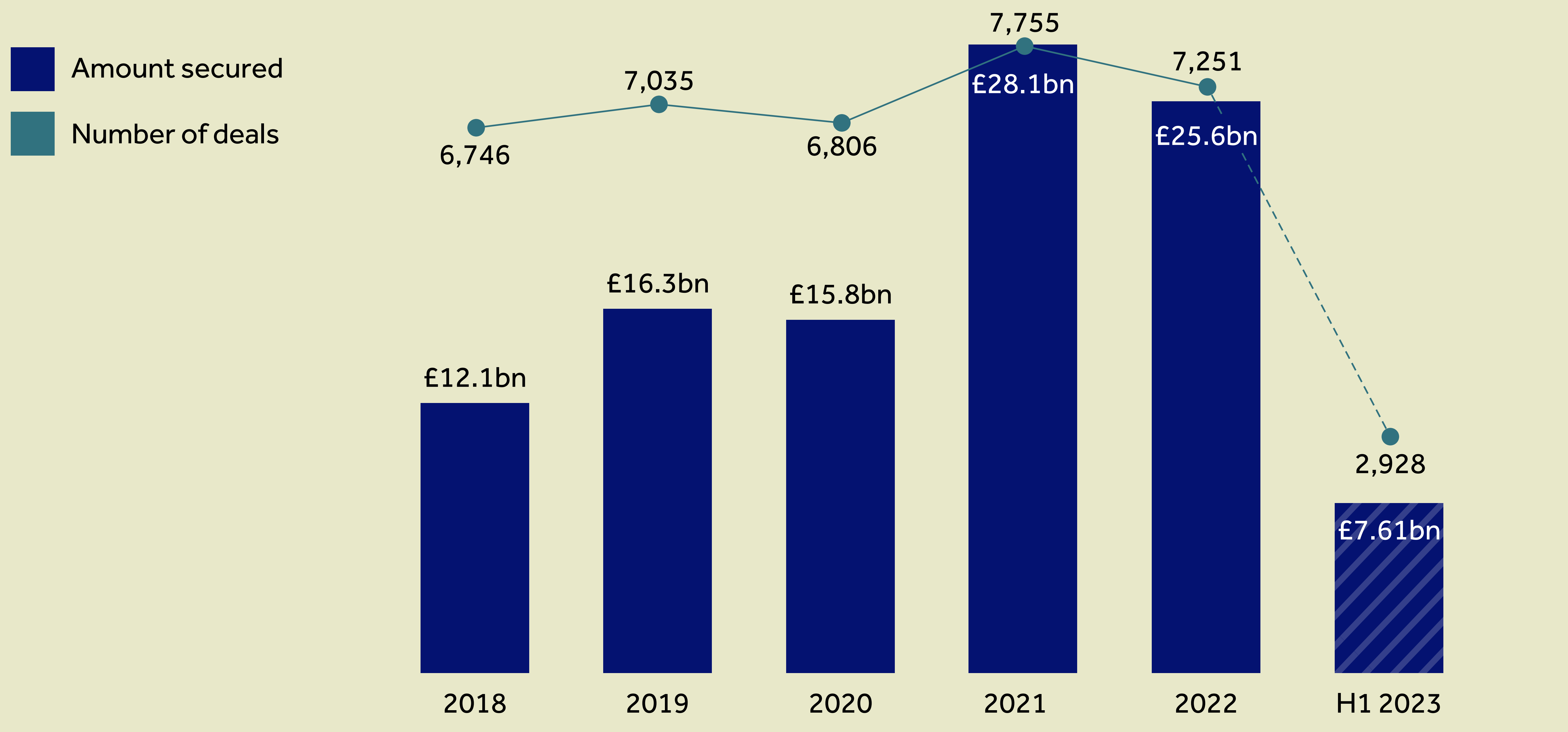
All equity investment

In the first half of 2023, high-growth UK companies completed just under 3,000 fundraising deals and secured a total of £7.61bn in equity finance amid more challenging macroeconomic conditions. It is unlikely that 2023 equity investment totals will reach the highs of 2021 and 2022, resulting in a more challenging fundraising environment for founders.

Investment in high-growth companies reached a record high of £28.1bn in 2021, up 77.8% from 2020. There are multiple factors involved in the record levels of investment achieved in 2021, including increased investor appetite following low deployment during 2020—due to the disruption of the pandemic. The extraordinary economic stimulus measures employed by governments around the world to support economic growth would also have played a role in encouraging investment into riskier asset classes such as private equity. Several large deals by high-profile companies such as Hopin (£628m), Revolut (£578m), and Monzo (£409m) contributed to the 2021 total.

Despite more challenging conditions for raising investment in 2022, high-growth companies secured an impressive £25.6bn. Although the number of deals and value of equity investment declined slightly in 2022, it is possible that because some companies received significant amounts of funding in 2021, they did not need to raise another round in 2022.

Equity investment into high-growth companies (2018 – H1 2023)



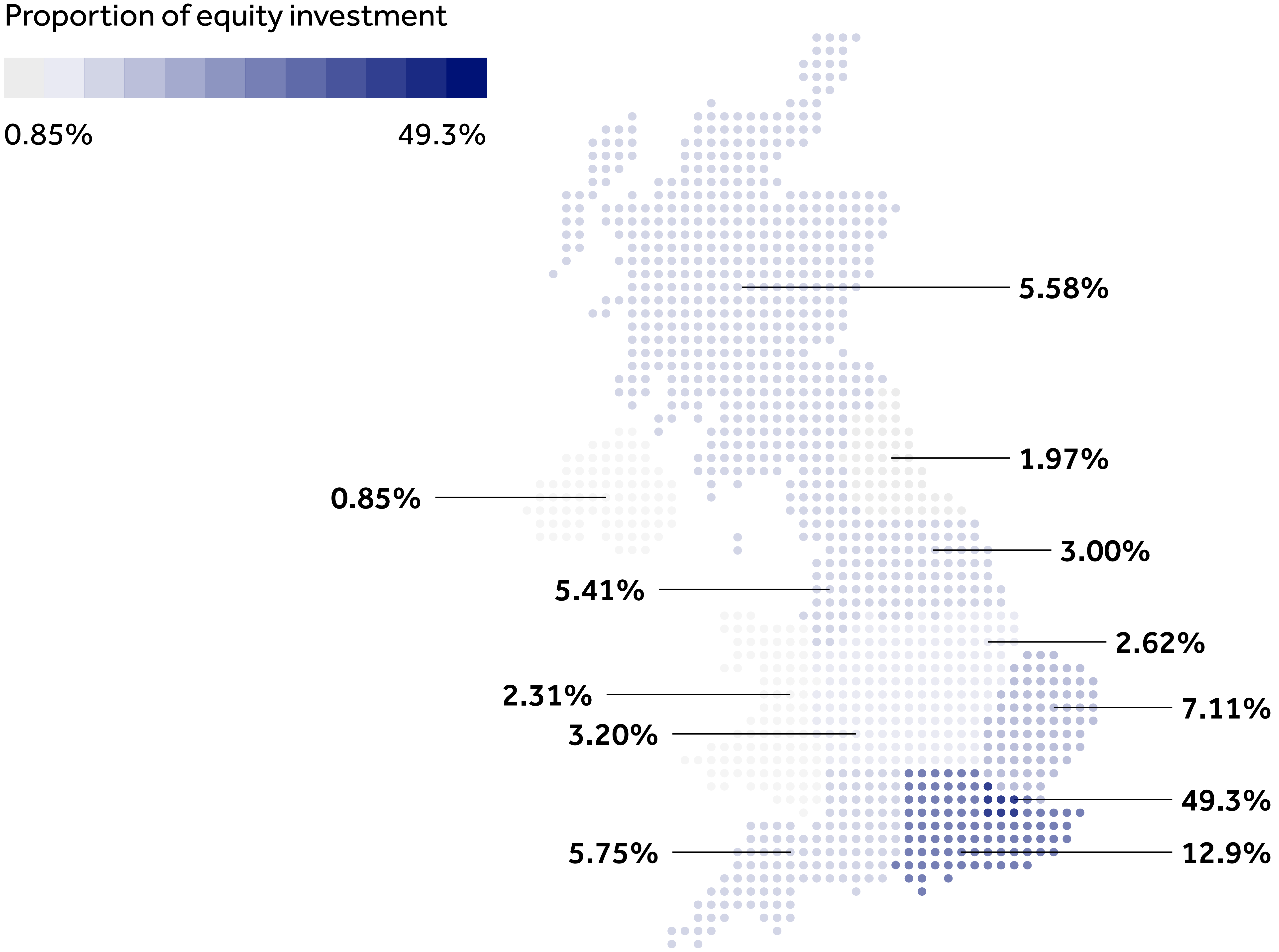
Regional investment

London remains unrivalled as the leading investment hub in the UK, with companies based in the city securing 49.3% of total investment in H1 2023.

Following London, companies headquartered in the South East and East of England received the greatest proportion of investment, respectively securing 12.9% and 7.11% of total investment. The high levels of funding concentrated in the south reflect the density of the human and company populations, which can support stronger networks and greater access to financial resources.

In contrast, businesses located further from the Capital have received the lowest proportions of equity investment in H1, particularly those located in Northern Ireland (0.85%), the North East (1.97%), and Wales (2.31%).

Proportion of equity investment by region (H1 2023)

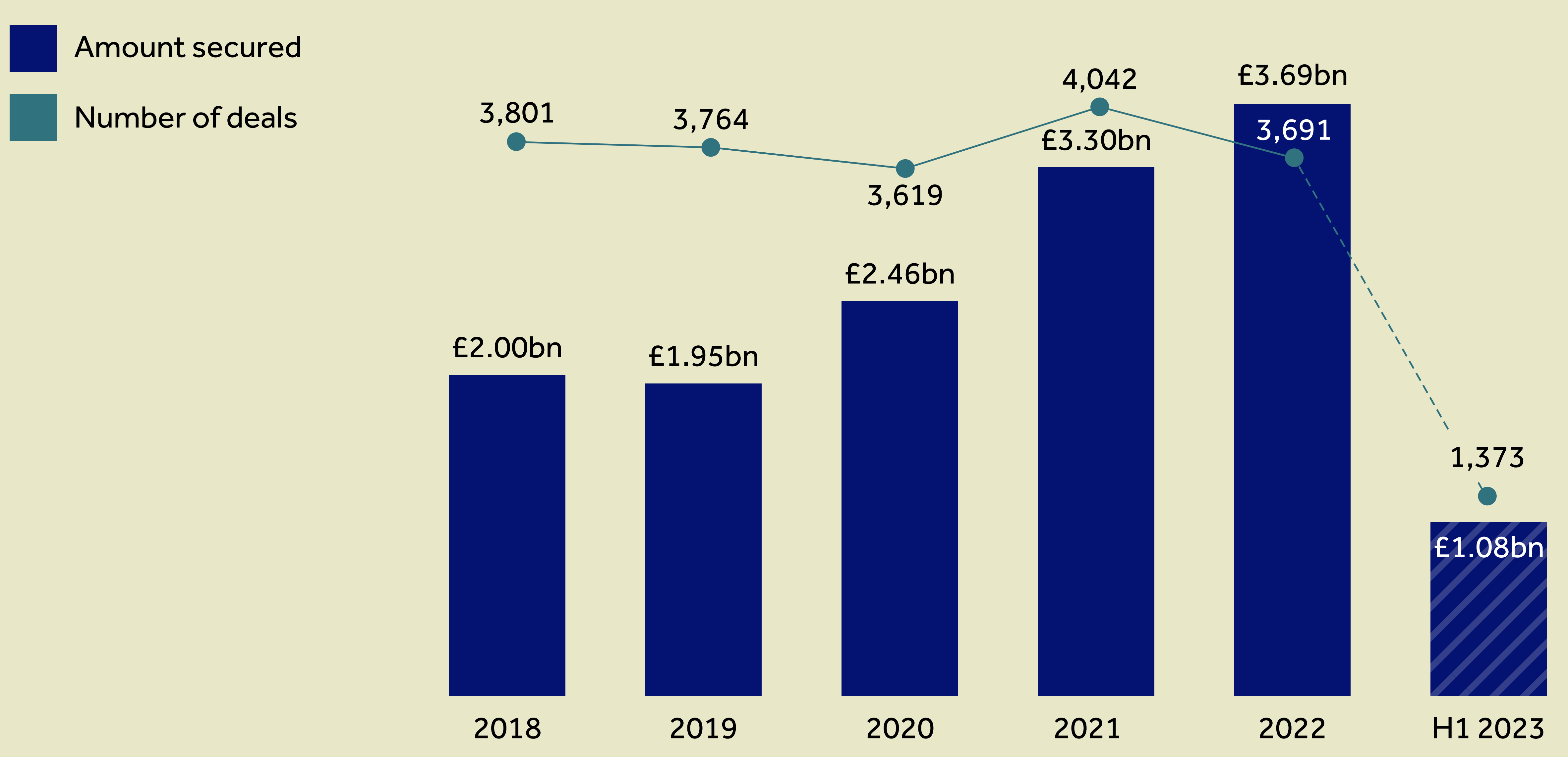


Seed-stage equity investment

The first half of 2023 saw £1.08bn of investment into seed-stage companies via 1,373 deals. Although not insignificant, at this rate of investment, the investment total for 2023 will be well below the high levels of investment into seed-stage companies during 2022. This trend mirrors the general equity investment landscape in the UK's high-growth companies for 2023. This is a worrisome trend given that seed-stage companies serve as the feedstock for the later stages of the UK's high-growth ecosystem. Underinvestment in these companies could result in a shrunken pipeline of prospective growth companies over the coming years.

However, contrasting H1 2023's investment figures against the record-breaking investment into seed-stage companies in 2021 and 2022, may not present an accurate picture. Following the pandemic, there was significant equity investment into seed-stage companies in these years. This influx of investment was largely due to pent-up investor demand during the pandemic, coupled with exceptional stimulus measures that encouraged investment into early-stage ventures. The reduced total funding in H1 2023 might indicate a reversion to pre-pandemic equity investment levels within the UK's high-growth ecosystem. This change means a tougher funding climate for early-stage entrepreneurs. However, updates to the Seed Enterprise Investment Scheme (SEIS) that came into effect in April this year may help to drive more investment into early-stage companies. The SEIS company investment limit has increased from £150k to £250k, along with changes to gross assets limits, age limits, and individual tax reliefs.

Equity investment into seed-stage companies (2018 – H1 2023)



Equity spotlight

London-based **Hertility** specialises in reproductive healthcare for women. It offers diagnostic at-home hormone and fertility testing to provide customers with data-driven insights into conditions such as endometriosis, fertility decline, and menopause. It was co-founded in 2019 by CEO Dr Helen O'Neill, COO Dr Natalie Getreu, and CCO Deirdre O'Neill. The company was born from a desire to bridge the gap in support for women's reproductive health and to provide more accessible tools to women.

Since launching, it has raised a total of £6.62m in equity finance via three funding rounds. Before its first fundraising round in 2020, Hertility attended several accelerators; the Hatchery accelerator, which is managed by University College London (UCL) Innovation and Enterprise, and the P4 Precision Medicine accelerator, which is managed by Capital Enterprise.

Accelerator programmes provide a range of services to support startups in their growth journey. This will often involve peer-to-peer learning, mentoring from experts, and access to business and investor networks that can lead to future investment opportunities.

In its first funding round in March 2020, Hertility raised £128k at a pre-money valuation of £1.73m with undisclosed investors. It then went on to attend Mischcon de Reya's M: Tech accelerator programme in 2020. In the following year, Hertility announced that it had secured £4.20m in equity finance to support the advancement of its clinical trials and product offerings. The company received investment from angel investors and venture capital firms LocalGlobe and Venrex investment management. In its latest fundraising round in May 2023, Hertility raised £1.99m in equity investment at a pre-money valuation of £27.0m. Its most recent round was facilitated by crowdfunding platform Crowdcube with the money earmarked for further R&D and the creation of new test kits to scale the company's diagnostic capabilities.

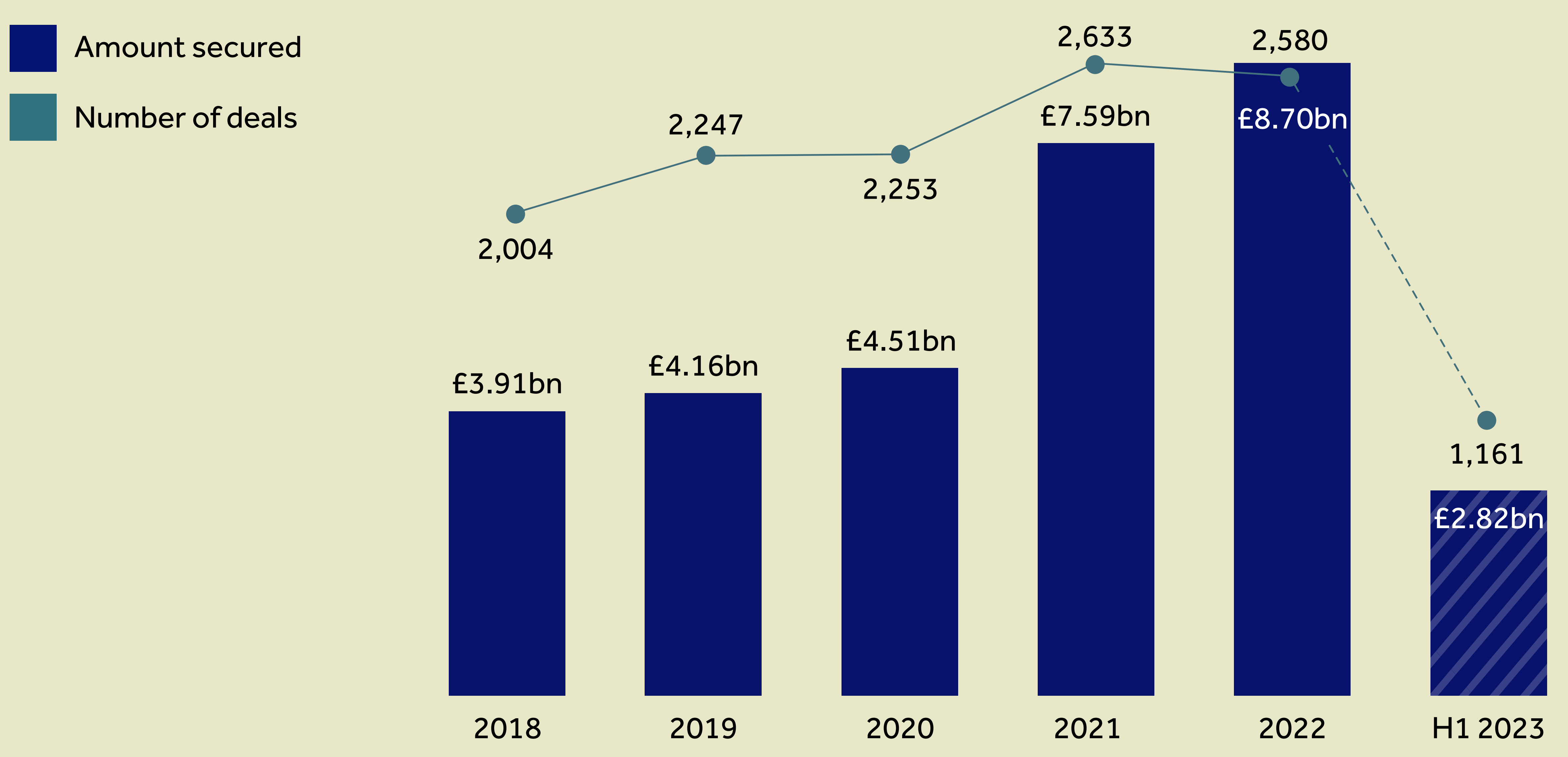
Venture-stage equity investment

Venture-stage companies are early-stage businesses that have progressed beyond the seed stage. At this level, a company would have evidenced greater growth potential. This may be through increased traction as measured by sales or users, regulatory approval, or meeting other growth metrics. These companies attracted £2.82bn in equity investments in the first half of 2023. Nevertheless, at this rate of investment, the total for 2023 will not match 2022's peak when venture-stage firms raised £8.70bn. This pattern mirrors the overall investment landscape for the UK's high-growth firms, as also observed with seed-stage companies.

During 2021 and 2022, venture-stage companies saw a higher increase in the proportion of investment compared to pre-pandemic norms over seed-stage firms. Significant levels of capital were funnelled towards riskier entities driven by global economic stimulus initiatives. The highs of 2022 can be partially attributed to significant deals by venture-stage companies such as Volta Trucks. The London-based electric truck manufacturer raised a total of £242m via two fundraisings in January (£191m) and November (£51.9m).

Although venture-stage companies present somewhat less risk than seed-stage businesses, they tend to be more capital-intensive. The investment downturn in H1 2023 will likely affect companies at this stage that are seeking funding and have achieved high valuations in the more capital-abundant periods of 2021 and 2022.

Equity investment into venture-stage companies (2018 – H1 2023)



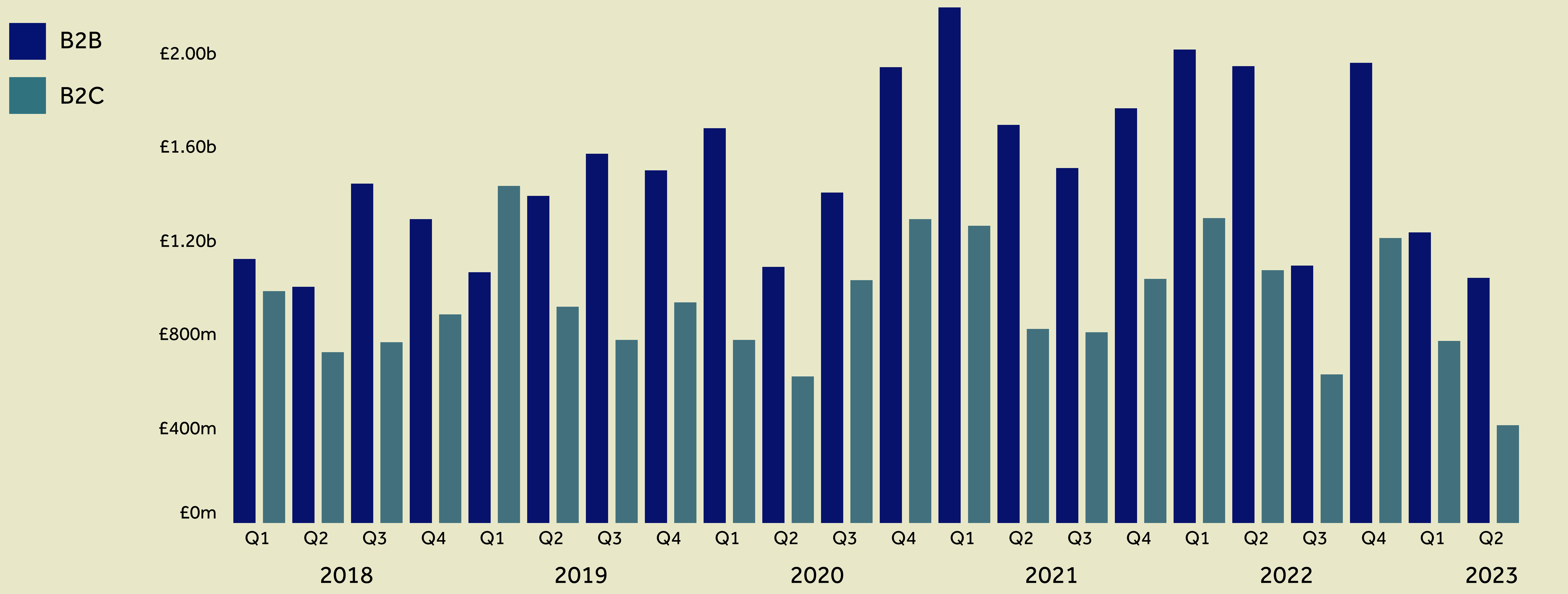
B2B and B2C equity investment

In Q1 2023, Business-to-Business (B2B) and Business-to-Consumers (B2C) companies secured less investment than in Q1 2022. B2B companies saw a 38.6% decrease in investment compared to Q1 2022, whereas investment in B2C businesses declined by 40.5%. Whilst this likely reflects negative investor sentiment amid worsening economic conditions, it may not necessarily indicate a long-term trend but a potential reversion to pre-pandemic levels of investment.

Investment in B2B businesses reached a record high in Q1 2021 (£2.20bn). This peak can be attributed to large deals such as Immunocore's £205m equity deal in January 2021 and the impact of increased stimulus measures to combat the effect of the COVID-19 pandemic and lockdowns. In contrast to B2B businesses, B2C companies secured significantly less investment in 2020. This may be a result of initial lockdown restrictions, which led to decreased demand for consumer goods and services, likely decreasing investor appetite for consumer-facing companies.

Despite tough macroeconomic conditions such as rising inflation and the Russian-Ukraine war, B2B entities continued to prove resilient in the first half of 2022, receiving more equity investment than in the second half of 2021. B2C companies also secured more equity investment in H1 2022, raising a total of £2.38bn in equity investment.

Equity investment in high-growth B2B and B2C customers by quarter (2018 – H1 2023)



Valuations

What is a valuation?
A valuation refers to the economic value of a company. A company will negotiate a pre-money valuation before receiving investment. The valuation is literally "pre-money", that is, the valuation before the company receives money from its investors. In comparison, a post-money valuation represents a company's value after investment. The post-money valuation is calculated by adding the amount invested to the pre-money valuation. For example, if a seed-stage company raised £100k at a pre-money valuation of £1.00m, the company's post-money valuation would be £1.10m.

Why are they important?
Determining a balanced pre-money valuation is important for both entrepreneurs and investors as it will determine how much of the company investors will own. Suppose a company's valuation is too low relative to the amount being invested. In that case,it can result in founders' equity stakes being diluted to the point where they have little incentive to grow the business. Investors want to keep entrepreneurs incentivised but must also account for the risk of investing in early-stage companies with unproven technology, founding teams, and business models. Conversely, an excessively high valuation can inflate investor expectations in subsequent fundraising rounds. If a company falls short of these expectations, it may dissuade future investments and strain the relationship between the company and its investors.

How are valuations determined?
Investors may choose to employ a range of methods to determine valuations for early-stage companies. "Comparables analysis" involves analysing similar companies and deals to determine the current market rate for the company.

Discounted cash flow analysis uses predicted future cash flows and discounts them to present value, but its application is less common due to the high uncertainty in projections for companies that may not have much financial data. This venture capital method estimates the company's future exit value and retroactively calculates a valuation by applying an expected rate of return. The scorecard valuation method compares the early-stage company to other funded ones, adjusting for factors like team, technology, and the market. These are just some of the varied methods that investors may employ for valuing early-stage companies, dependent on a range of factors such as investor preference, market conditions, and the company sector.

Valuations by stage

In 2022, seed-stage software and hardware firms had similar median valuations, reflecting structural similarities among companies at this stage. The median valuation for venture-stage hardware companies decreased in 2020, with the decline continuing to 2022, reversing in H1 2023. Venture-stage software valuations declined in 2020 before rebounding due to increased demand driven by remote work.

Early pandemic uncertainty made hardware investments less attractive, despite increased tech use. Beyond valuations, proportional changes in investment volumes support this observation. There was an 8.80% decline in the total value of software investment at the venture stage during 2020, compared to a 47.0% decline in investment into venture-stage hardware companies. The reduced demand for equity in hardware companies aligns with the decrease in median valuation.

Median pre-money company valuations (2018 – H1 2023)

Investors in focus

In H1 2023, high-growth firms in digital and emerging sectors, including internet platforms, SaaS, and AI, completed the most equity fundraising deals. Crowdfunding platforms Seedrs and Crowdcube have facilitated the most seed-stage equity deals in the last five years.

Fund type breakdown

Angel investors/networks
Angel investors are entrepreneurs or high-net-worth individuals who invest in early-stage businesses. They invest their own money in exchange for a minority stake in the company. Angel networks are groups of angel investors that syndicate their funds to make joint investments. It is an attractive option for founders that may be looking for their first round of equity investment for their company. In addition to money, angel investors may draw on their experience and wider network to support companies.

Corporate venture capital
Corporate venture capital (CVC) is a form of venture capital financing in which corporate entities invest directly into private companies in exchange for an ownership stake in the company. CVCs invest in companies that can provide them with a strategic advantage, via industry insights or innovative technology. In exchange for investment, early-stage businesses can, among other benefits, gain access to industry expertise, reach a wider pool of customers, utilise the CVCs connections, and benefit from association with a strong brand name.

Crowdfunding
Equity crowdfunding is a popular method of fundraising for early-stage companies. Platforms such as Seedrs and Crowdcube operate digital marketplaces that allow members of the public to invest in startups and scaleups. Companies sell small equity stakes to a large pool of investors in exchange for equity investment. Consumer-focused businesses with strong communities are likely to perform well as they can appeal to brand advocates while also seeking equity investment.

Private equity and venture capital
Private equity (PE) firms and venture capital (VC) firms both invest in companies but at different stages and with distinct strategies. PE firms typically acquire controlling stakes in established businesses in traditional sectors with the aim of improving efficiency for a profitable resale or initial public offering (IPO). PE firms often finance restructuring and expansion plans using debt. VCs invest in early-stage companies with high-growth potential, particularly in the tech sector. This style of investing is high risk, but the potential for high returns realised through an eventual sale or IPO is also considerable.

University funds
Universities sometimes have captive funds and specialised investment teams to back early-stage companies linked to their institutions, supporting the commercialisation of university intellectual property. For example, the University College London (UCL) Technology Fund, in partnership with UCL Business, invests in high-growth potential companies. It prioritises physics and life sciences ventures from UCL researchers and students. Such funds enable continued support for entrepreneurship and research and development (R&D) initiatives beyond the university, nurturing innovation in fields like deeptech and life sciences.

Equity spotlight

University of Oxford spinout, **Oxford SimCell (OSC)** is a synthetic biology company that develops non-replicating bacterial cells for use in biosensing and drug delivery. Its patented SimCell technology makes use of the features of living bacteria cells without replication capability, which makes them more stable for in vitro and in vivo healthcare applications. Notably, the use of SimCells does not cause damage to proteins or interfere with the properties of a living cell.

The company was co-founded in 2020 by a team of experts with diverse backgrounds, each contributing expertise to its success. CEO Michael Xiang has over 15 years of experience in business management. Joining him is CTO Boon Hooi Lim, the co-inventor of the SimCell patent, who brings over extensive knowledge in biotechnology investments from his previous role as a venture consultant. Academic co-founder Professor Wei Huang is the primary inventor of the SimCell technology and specialises in biological engineering.

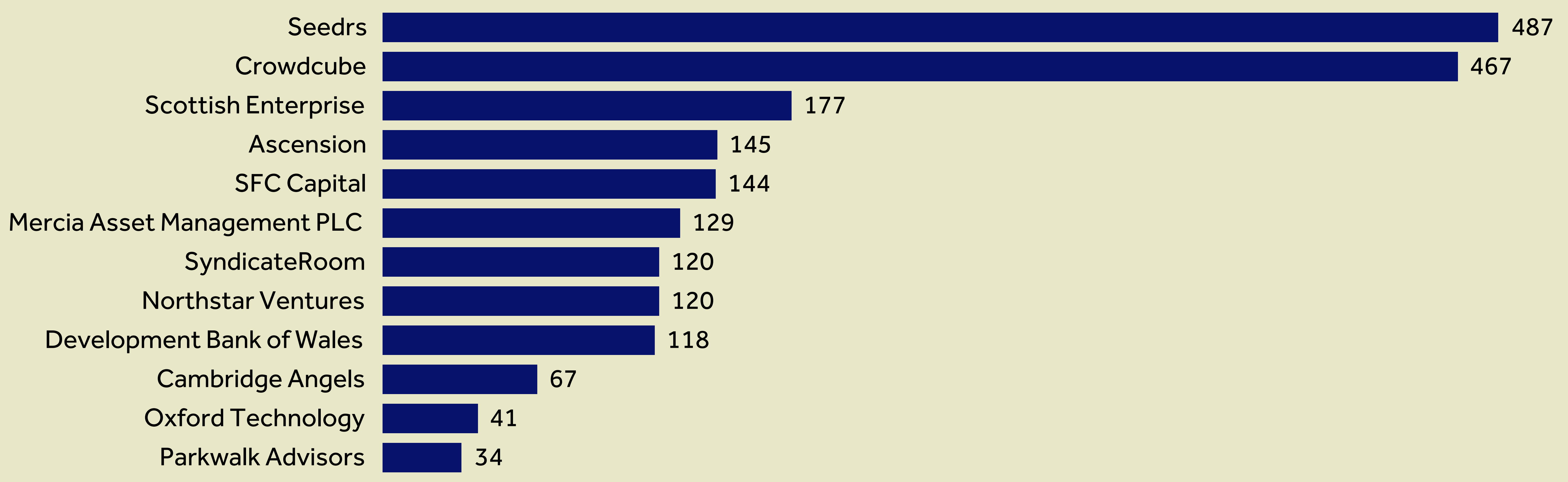
Since launching in 2020, the startup has secured £1.50m in equity investment via two fundraising deals. In its first funding round in August 2020, OSC successfully secured £500k at a pre-money valuation of £2.45m, with the support of undisclosed investors. In its most recent round in March 2023, it raised £1.00m in equity finance at a pre-money valuation of £3.45m from undisclosed investors. OSC recently announced that it had been awarded a grant from Innovate UK's Transformative Technologies programme to support its research into exploring the potential of SimCells in combating Staphylococcus aureus, a medical condition affecting the skin and soft tissues.

Top seed-stage investors

Crowdfunding platforms Seedrs and Crowdcube have facilitated the greatest number of seed-stage equity deals in the last five years, participating in 487 and 467 deals, respectively. Crowdfunding platforms have a unique approach to facilitating investment that makes them attractive for raising seed-stage funding. In contrast to institutional investors such as private equity and venture capital, crowdfunding platforms offer companies the opportunity to campaign for equity finance from a larger pool of investors (the "crowd" in crowdfunding). Instead of convincing one investor to part with a large sum of money, the company might convince a large number of investors to make small investments. This approach can prove more accessible for some seed-stage companies.

The next most active investor is Scottish Enterprise—Scotland's national economic development agency, participating in 177 deals. Scottish Enterprise provides business grants and investment funding opportunities to early-stage companies. It invests in businesses through various entities such as the Scottish Co-investment Fund and the Scottish Venture Fund. Such funds predominantly invest in early-stage companies that have a potential for profitability and can contribute to the economic growth and development of Scotland. Scottish Enterprise helps seed-stage companies find investors by connecting companies with investors that suit their current stage of evolution and can assist in their growth. Specialised VCs also rank highly among investors by deal value. Ascension is a venture capital firm specialising in early-stage investments. It has participated in 145 equity deals worth a total of £173m since 2018. It runs funds from the seed-stage to Series A funding rounds and supports high-growth businesses to secure investment via its mentor network and investor showcases.

Top seed-stage investors by number of equity deals (2018 – H1 2023)



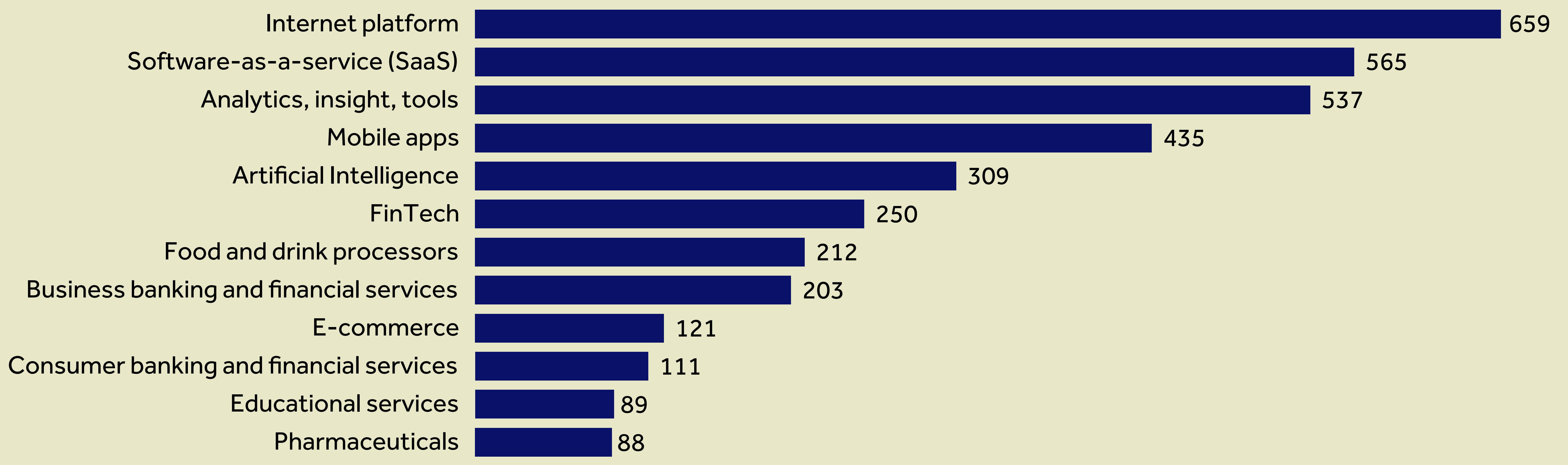
Top sectors and emerging sectors

High-growth companies operating in digital and emerging sectors have secured the greatest number of equity fundraising deals in the first half of 2023. This reflects investor perceptions of the high-growth potential of digital industries. Internet platforms rank as the top sector with companies in this area completing a total of 659 deals. Internet platform companies provide dynamic online services and technologies that allow users to connect with the digital world.

Following behind internet platforms are companies operating in software-as-a-service (SaaS) (565) and analytics, insight, and tools (537). SaaS businesses develop software that serves a specific function for users, it is then continuously improved to enhance user experience. High-profile companies operating within this space include London-based Onfido, which develops identity verification software and has raised £176m in equity investment.

Emerging sectors in technological innovation also performed well in the first half of 2023. Companies operating in artificial intelligence (AI) and fintech ranked highly, completing 309 and 250 equity fundraising deals respectively. AI companies continue to create cutting-edge innovative processes that are redefining society as we know it. High-growth companies in this space include Robin AI, a London-based AI platform that develops software for legal services. The fintech sector represents the intersection of financial services and technology, which has led to the creation of challenger banks such as Revolut, Monzo, and Starling Bank.

Top sectors and emerging sectors by number of equity deals (2018 – H1 2023)



Support schemes and other sources of finance

Government-backed schemes such as the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS), and Venture Capital Trusts (VCTs) are significant in helping to encourage investment in early-stage UK companies. Barclays Eagle Labs and DSIT support high-growth technology firms with resources for advancement. Additionally, R&D tax credits and Innovate UK grants are available to firms working on innovative scientific and technological projects.

SEIS and EIS

The Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme(SEIS) are government tax relief initiatives set up to encourage investment in high-risk and early-stage UK companies.[1]

EIS provides loss relief for investors and access to financial support for qualifying companies. EIS-qualifying companies must be established in the UK[2], must not be listed on a stock exchange (except London's Alternative Investment Market, AIM), and their assets must not be worth more than £15.0m before the issuing of shares and £16.0m immediately after. Eligible companies must employ fewer than 250 full-time employees at the time of investment and can raise up to £5.00m each year and up to a maximum of £12.0m in their lifetime via the scheme. Please note that funding limits are higher for knowledge-intensive companies (KIC), which have to meet several conditions to demonstrate they are creating intellectual property.

SEIS-qualifying companies[3] can receive a maximum of £250k across their lifetime. To be eligible for investment, a company must not trade on a public stock exchange, it must have fewer than 25 employees, and not have assets worth more than £350k. If a company has received investment via EIS or a venture capital trust (VCT) it will not be eligible for investment through the SEIS.

VCT

Venture Capital Trusts (VCTs) are listed investment vehicles that invest in private early-stage companies. The Venture Capital Trust scheme is a government tax-based initiative first introduced in 1995[4]. It was created in a bid to encourage investment into young, ambitious entrepreneurial ventures and to further economic growth.

VCTs encourage these companies by awarding investors various tax reliefs in exchange for investing in new and often high-risk companies. To qualify for investment a company must have a permanent establishment in the UK, operate a commercial business, employ fewer than 250 employees (500 for knowledge-intensive companies[5]), and not be listed on a UK-recognised stock exchange[6] (companies listed on AIM or the Aquis Stock Exchange (AQSE) Growth Market are not considered listed).

Furthermore, VCT-qualifying companies must not have assets worth more than £15.0m at the time of investment or £16.0m immediately after investment[7]. Eligible companies can raise up to £5.00m per year or £10.0m for knowledge-intensive companies and are limited to raising a maximum of £12.0m via the VCT scheme in their lifetime, or £20.0m if a knowledge-intensive company[8].

[1] HMRC (2016) The Enterprise Investment Scheme; HMRC (2017) The Seed Enterprise Investment Scheme
[2] HMRC (2017) Venture capital schemes: permanent establishment
[3] HMRC (2017) The Seed Enterprise Investment Scheme
[4] HMRC (2020) Venture Capital Trusts
[5] HMRC (2018) Knowledge-intensive companies
[6] HMRC (2023) Recognised stock exchanges
[7] HMRC (2020) Venture Capital Trusts
[8] HMRC (2020) Venture Capital Trusts

Digital Growth Grant programmes

Barclays Eagle Labs has been awarded the £12 million Digital Growth Grant by the UK Government to bolster the growth of tech businesses across the UK over two years. This initiative aims to provide support services to the digital sector, expand regional networks for tech startups and scaleups, offer digital entrepreneurship and investment readiness training, and guide startups and scaleups to existing initiatives. Here are six programmes we'll be providing to growing businesses as part of our Grant funded activity.

Product Builder Programme
A challenge-based initiative for early-stage startups to understand the basics of designing and testing a minimum viable product.

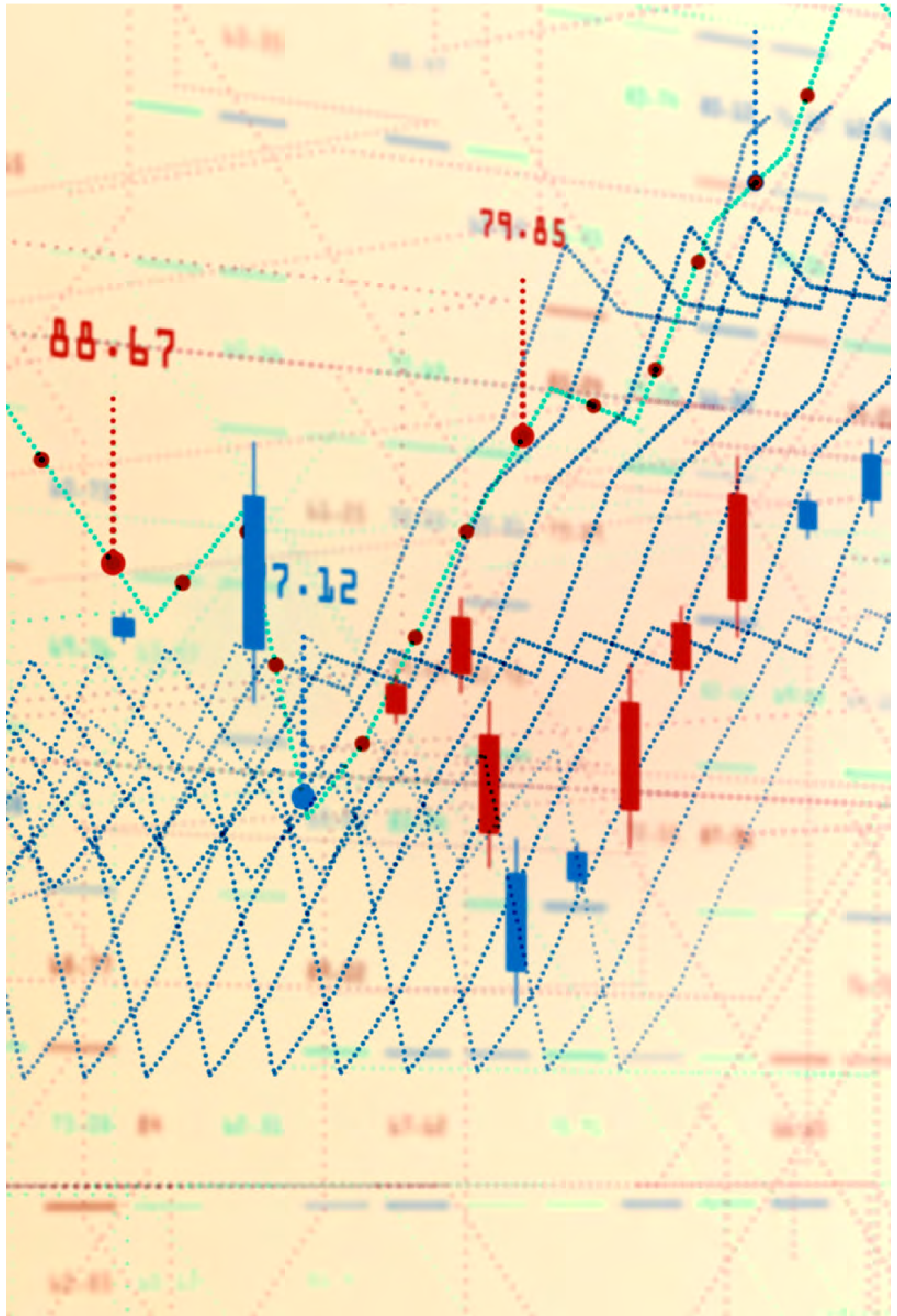
Funding Readiness Programme
Helps businesses comprehend and navigate the UK's funding landscape.

Scaleup Programmes
Expert-led programmes to assist rapidly growing businesses in further scaling their growth.

Industry Bridge Programmes
Connects larger businesses and startups within specific industries to share strategic insights and co-create innovative solutions.

Black Founder Venture Growth Programme
Provides targeted support for established Black Founder-led businesses to enhance growth and scaling.

Female Founder Accelerator
A programme dedicated to connecting and aiding Female-founded technology businesses in their growth journey while fostering a community of like-minded entrepreneurs.



Equity spotlight

Leeds-based **Acuity Robotics** is a seed-stage technology company that provides integrated inspection and data analysis via robots. It was founded by Chief Innovation Officer Robert Richardson and is currently led by Managing Director James Gibbons. The company has built two robots with enhanced climbing abilities, which can be used to provide infrastructure data and reduce any potential health and safety risks. Its proprietary ARIID dashboard is a cloud-based asset management platform that is used in combination with data to manage inspections and allow predictive maintenance.

Shortly after spinning out of the University of Leeds, Acuity Robotics attended Innovate UK's Innovation-to-Commercialisation of University Research (ICURe) accelerator programme in August 2018. ICURe is designed to help research teams with innovative concepts determine whether they can commercialise their ideas, in addition to typical support services such as mentoring, financial planning, and access to wider networks.

Since its establishment in 2018, Acuity Robotics has raised £150k in equity finance and received £207k in grant funding. It was awarded its first grant (£147k) in 2019 by Innovate UK to support its research into using robotics as a solution for hazardous and difficult-to-access environments. It went on to receive a second grant (£59.6k) from Innovate UK in October 2020. The purpose of this grant was to assess the utility of robots in infrastructure and asset maintenance. The startup company completed its first equity funding round in April 2023, securing an investment of £150k from undisclosed investors at a pre-money valuation of £1.35m.

R&D tax credits and Innovate UK grants

R&D tax credits
Research and development (R&D) tax relief supports companies that work on innovative advancements in science and technology. A company may claim corporation tax relief if its project meets the standard definition of R&D. HMRC defines R&D projects as those that work to make an advancement in science or technology.[9] It must relate to a company's trade, whether it already exists or it is one that it intends to develop following the results of R&D.

To claim R&D tax relief, a company must explain how its project looks for an advance in its field, has overcome scientific or technological uncertainty, and, cannot be easily resolved by an expert in the industry.[10] Small and medium-sized enterprises (SMEs) can claim SME R&D tax relief if they have fewer than 500 employees, a turnover of less than €100m, or a balance sheet total under €86.0m.[11] Aside from the standard 100% deduction available to SMEs, they can deduct an additional 86.0% off their qualifying costs from their yearly profit.[12] Loss-making startups and SMEs can also claim tax credits worth 10.0% of surrenderable losses.[13]

Innovate UK
UK Research and Innovation (UKRI) is a national funding agency sponsored by the Department for Science, Innovation, and Technology (DSIT) to support research and innovation in the UK. The UKRI comprises seven research councils, Research England, and Innovate UK.

Innovate UK is the UK's national innovation agency. It helps companies drive innovation by allocating research grants and loans to fund further development. In addition to financial support, Innovate UK connects companies to knowledge-transfer networks that encourage collaboration between academics and industry experts. Securing grant funding is a rigorous and competitive process.

Companies seeking grant funding can apply to one of Innovate UK's grant competitions. Applications will be reviewed by independent experts and the UK funder's panel, which then decides which projects to fund. In the first half of 2023, Innovate UK awarded 578 grants and a total of £195m to high-growth companies.

[9] HMRC (2007) Claiming Research and Development tax relief
[10] HMRC (2007) Defining Research and Development projects
[11] HMRC (2007) Claiming Research and Development tax relief
[12] HMRC (2023) R&D tax relief for SMEs
[13] HMRC (2023) R&D tax relief for SMEs

Methodology

In scope companies

This equity investment market update covers announced and unannounced equity investment rounds into high-growth, private UK companies between 2013 and the end of the first half of 2023. A company must meet at least one of Beauhurst's tracking triggers to be considered high growth. Beauhurst's high-growth triggers are outlined on this page, as are the in-scope equity investment criteria and definitions of announced and unannounced fundraisings. By "UK company", we mean one operationally headquartered in the UK and its respective islands. Crown Dependencies and British Overseas Territories are not part of the UK. For more information on Beauhurst's high-growth triggers or data, please visit www.beauhurst.com. The data included in this report is true as of 12 July 2023.

Equity investment

To be included in our analysis, any investment must be:

- Some form of equity investment
- Secured by a UK company
- Issued between 1 January 2013 and 30 June 2023

Announced and unannounced fundraisings

An unannounced fundraising is an investment made into a private company that is completed without press coverage or a statement from the recipient company or funds that made the investment. These transactions are an integral part of the UK's high-growth economy, accounting for around 70% of all equity transactions.

High growth triggers

- Equity investment
- Academic spinouts
- Scaleups
- High-growth lists
- Accelerator attendances
- Major grant recipients
- Management Buy-outs/ Buy-ins
- Venture debt

Barclays Eagle Labs

Barclays Eagle Labs is a growing national network that provides business incubation, dedicated growth programmes, mentoring as well as co-working, and office space for ambitious high-growth businesses.

By cultivating a community of like-minded entrepreneurs and providing a collaborative work environment, access to peers, and opportunities to maximise growth through digital connections and growth programmes, curated events, and funding opportunities, Eagle Labs is able to help startups to grow at pace.

Eagle Labs also specialises in positively disrupting key industries by bringing together key corporate players, industry bodies, leading universities, and startups to enable rapid innovation and investment, by asking them to collaborate and currently have dedicated lawtech, healthtech, energytech and agritech industry-aligned programmes.

With various Eagle Labs dotted all across the UK and many more in the pipeline, our focus is to help to connect, educate, inspire, and accelerate ambitious UK businesses and entrepreneurs.

Find out more at labs.uk.barclays.

Beauhurst

Beauhurst is a searchable database of the UK's high-growth companies.

Our platform is trusted by thousands of business professionals to help them find, research and monitor the most ambitious businesses in Britain. We collect data on every company that meets our unique criteria of high-growth; from equity-backed startups to accelerator attendees, academic spinouts and fast-growing scaleups.

Our data is also used by journalists and researchers who seek to understand the high-growth economy, and powering studies by major organisations – including the British Business Bank, HM Treasury and Innovate UK – to help them develop effective policy.

For more information and a free demonstration, visit beauhurst.com

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Before you go

Get in touch if you would like to find out how we can support you and your business. We'd love to hear from you.

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