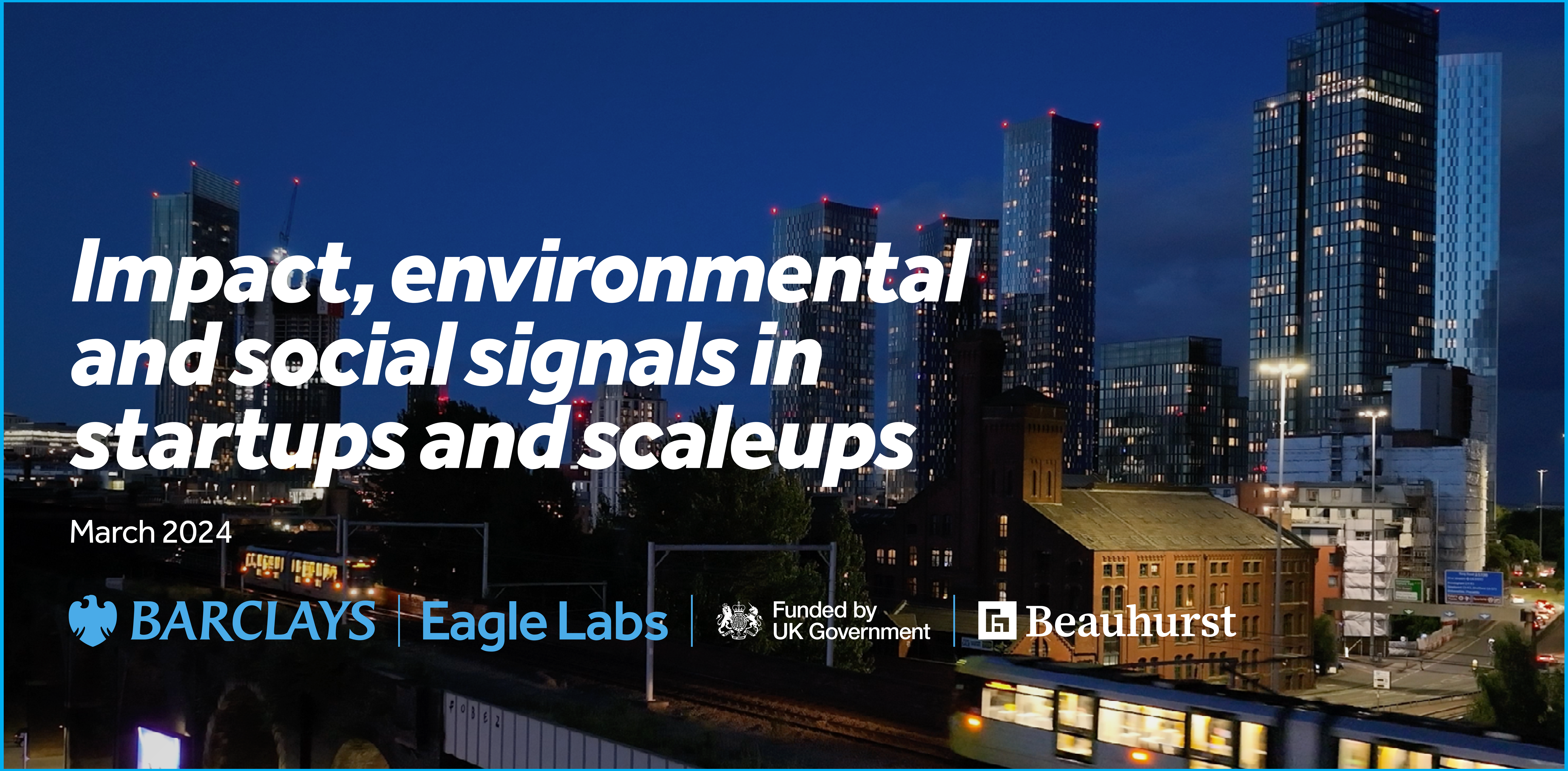


Impact, environmental and social signals in startups and scaleups

March 2024

BARCLAYS | Eagle Labs | Funded by UK Government | Beauhurst

Executive summary

The number of active potentially impactful companies has increased by 65.3% since 2013. If this growth trend continues, by 2028 there could be over 12,000 companies within this cohort in the UK's high-growth economy.

London is home to the largest proportion of potentially impact-driven companies with more than 2,000 high-growth businesses headquartered in the capital. This can be attributed to the city's dense business population, access to skilled talent, and financial support networks. Outside of London, the South East (1,199) and the East of England (892) account for the largest proportions of high-growth impact-centric companies. The high number of businesses in these regions is likely due to their proximity to London and the presence of renowned academic institutions such as the University of Oxford and the University of Cambridge. Companies with all-male founding teams represent the largest proportion of high-growth companies showing ESG positive signals (76.6%), whereas mixed-gender and all-female founding teams account for 15% and 8.42%, respectively.

In recent years, potentailly impactful high-growth companies have raised significant levels of equity investment, recording a peak of £9.68b in 2022. The rise in investment in this area can be attributable to several factors including shifting societal values, the rise of socially conscious consumers, and an increase in the number of high-growth companies aiming to provide a positive impact on society and generate financial returns. The number of deals completed by businesses in this area has also surged from 497 in 2013 to over 1,000 in the first three quarters of 2023. Crowdfunding platforms have participated in the greatest number (461) of equity financing deals in impact-driven companies between 2020 and Q1-Q3 2023. Seedrs has facilitated the greatest number of equity deals (247), followed by Crowdcube (214) and Scottish Enterprise (124). Analytics, insights, and tools (710) is the most populous subsector for high-growth impact-driven companies, followed by those operating

"Business for impact has been a growing trend over a number of years, be that from a social perspective, climate or equality. This summary of the investment landscape and also sharing founder stories is a useful review, and the projections indicate that this growth trend will continue, as businesses seek to solve the big problems of today."

Katherine Morgan
Head of High Growth and Entrepreneurs

in property development and construction (625) and Software-as-a-service (602).

This report examines companies showing ESG positive signals. It takes a deeper look at investment in companies. It also takes a deeper look at investment in companies that have an environmental (E), or social and governance (SG) signal, that aligns with Beauhurst's definition (see **methodology**). Impact-driven companies encompass ESG strategies but the main difference is that ESG strategies encourage companies to incorporate responsible business practices,
whereas impact-driven strategies seek to leave a measurable impact.

Understanding impact investing

Impact investing refers to investments with the intent of generating a social or environmental impact as well as a financial return.[1] Impact investing is an intentional investment strategy aimed at addressing societal and environmental challenges within industries such as energy, healthcare, and agriculture.

Impact investments often include investments that align with environmental, social, and governance (ESG) strategies. ESG criteria can be used to assess a company's or investment's performance. Environmental factors, for instance, encompass aspects like carbon footprint, resource efficiency, and sustainability practices - with higher environmental scores indicating a commitment to reducing ecological impact, utilising renewable energy, and embracing eco-friendly practices. Social factors within ESG cover diversity, inclusion, human rights, and working conditions, while governance addresses management, corporate governance practices, and ethical business conduct. When using ESG characteristics to assess startups, the term can encompass factors that evaluate the company's sustainability and ethical impact. ESG criteria can also provide a framework for investors to gauge a startup's commitment to sustainable and socially responsible operations.

It is important that the resultant impact of investment strategies can be measured and reported. Investors and companies alike struggle to quantify the impact. To aid this, the principles of responsible investing, defined by the United Nations-supported network of financial institutions, utilised the term ESG to assess investment decisions and strategies. Examples of quantitative tools developed to measure impact include the Global Impact Investing Network's Impact Reporting and Investing Standards (IRIS) metrics and the Global Reporting Initiative's sustainability reporting.

Within the UK's startup ecosystem, impact investors support a diverse range of businesses through the provision of equity finance and resources, such as mentoring and networking opportunities. Businesses are eligible to receive this support if they align with the principles and objectives of impact investing. Impact investors invest in companies they perceive to align with their specific impact principles and objectives. Such ventures, often referred to as social or impact enterprises, can operate in various sectors, including renewable energy, plant-based alternatives, and wildlife conservation. Some notable social investors in the UK include Big Society Capital, an organisation dedicated to encouraging impact investing across the country, and Ascension, a UK-based seed investor with a strong focus on impact-driven ventures. In 2022 alone, Big Society Capital provided £67.5m in equity investment to organisations delivering positive social impact.[2] London-based innovation consultancy Plexal offers support to early-stage businesses through accelerator programmes like the Venture Creator Programme, which specifically targets innovative technologies addressing the climate crisis.

The UK's Innovation Strategy outlines the important role of technological innovation in achieving environmental goals. Impact investment growth amongst investors and individuals can also be attributed to an increase in the awareness of pressing societal and environmental challenges, such as climate change, social inequality, and healthcare disparities. It is estimated that the size of the impact investing market in the UK in 2020 was £58b, with a further £53b associated with impact-aligned investments.[3]

These investments not only create tangible benefits for communities and the environment, but also stimulate innovation and job creation. Impact investing in the UK thus plays a pivotal role in advancing the country's commitment to sustainability, social responsibility, and a more equitable future.

This report examines the 10,441 active or historically active high-growth companies within the UK that can be associated with specific environmental, social, or governance criteria. These varied criteria encompass a range of areas such as clean and renewable energy, sustainable food and agriculture, and social impact accolades. The substantial number of companies within this cohort supports the significance and expansion of this ecosystem.

Further information on the ESG classification is available in the methodology (on page 37).

The Spectrum of Capital

The “Spectrum of Capital” illustrates the range between traditional investing and impact-driven investing. It highlights the steps investors and financial institutions alike can take toward creating a more inclusive and sustainable economy.[4]

Adapted from: 'Bridges Fund Management and The Impact Management Project', 2017

- Responsible investing aims to mitigate risk and avoid negatively affecting the environment or underserved people.
- Sustainable investing looks to benefit and create a positive impact on all stakeholders in the long term. For instance, it may aim to address access to affordable healthcare, education, or housing.
- Impact-driven investing deliberately looks to create a positive outcome for the planet or underserved people.[5]

The "Spectrum of Capital"

Approach	Traditional	Responsible	Sustainable	Impact-driven
Financial goals	← Accept competitive risk-adjusted financial returns →			Accept disproportionate risk-adjusted returns
Impact goals		Avoid harm		
			Benefit all stakeholders	
				Contribute to solutions
	Don’t consider May have to consider effects on important negative outcomes for people and the planet	**Avoid harm** Try to prevent significant effects on important negative outcomes for people and the planet	**Benefit** Affect important positive outcomes for various people and the planet	**Contribute to solutions** Have a significant effect on important positive out-come(s) for underserved people or the planet
		The “impact economy”		

Adapted from: 'The “Spectrum of Capital”, The Rise of Impact: Five steps toward an inclusive and sustainable economy', The British Private Equity & Venture Capital Association (BVCA) (inspired by: Bridges Fund Management and The Impact Management Project 2017)

Recipients of investment

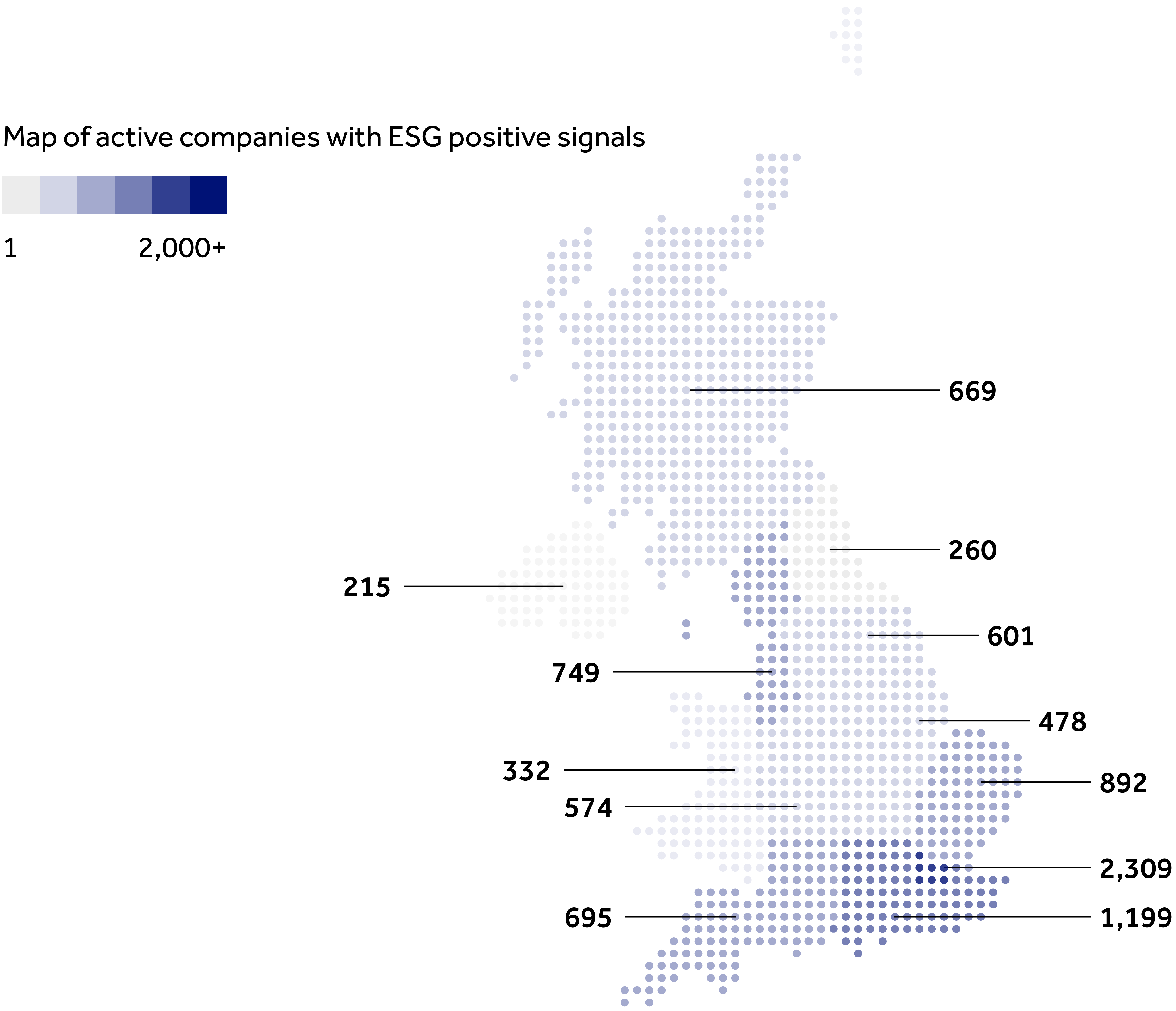
The capital is home to over 2,000 companies with ESG positive signals. The next most populous regions for impact-driven companies are the South East (1,199) and the East of England (892). Companies with mixed-gender and all-female founding teams represent the smallest proportions of the potentially impactful economy, accounting for 15% and 8.42% of the active impact-driven company population respectively. Businesses with mixed-gender director teams represent 50.2% of the impact-driven ecosystem, outperforming the wider high-growth population within the UK, where mixed-gender directorships account for 35.9% of the total.

Regional distribution

London is home to the largest proportion of companies with ESG positive signals, accounting for 25.7% of the active company population, underscoring the dense concentration of the city's business-driven human populations. This is supported by a more granular analysis which reveals that Westminster (408), Camden (256), and the City of London (220) hold the majority of high-growth, potentially impactful companies within the UK.

Outside of London, there's a strong cluster of impact-focused companies in the South East and East of England. This is likely due to the increased density of people and businesses in these regions as well as their proximity to London. The North West and Scotland boast a growing ecosystem of high-growth companies with ESG positive signals, representings 749 and 669, respectively. Scotland's emerging impact ecosystem reflects the Scottish government's Economic Strategy, which aims to reach carbon neutrality by 2045, five years ahead of the UK government's overall goal.[6]

Map of active companies with ESG positive signals



Company spotlight: Emizio

"The economic environment over the last few years has presented significant challenges across the market. This has led to a lot of businesses struggling financially. However, Emizio has been able to grow despite downward trends in the market and this can be slightly attributed to our operation within the sustainability sector," says Natasha Thakur, Co-founder and CEO of Emizio.

Headquartered in London, Emizio has developed an artificial intelligence (AI) powered platform to support businesses with carbon management. The platform calculates customers' carbon emissions and delivers regulation-compliant carbon accounts, by modelling and analysing the data provided.

These accounts are used by businesses to create tailored carbon reduction strategies, an increasingly important aspect of corporate responsibility. "Our platform, developed by leading engineers and industry experts, leverages generative AI, making it more efficient and faster when compared to our competitors," explains Thakur.

Emizio has secured positions on several accelerator programmes, including the Barclays Eagle Labs - Female Founder Accelerator 2023 and Village Capital's Greentech Europe 2023 Program. Reflecting on attending the programmes, Thakur says, "Starting a business as a woman makes you feel like a minority as the space is very male dominated. The Female Founder Accelerator had a great cohort of women participating. Each week was focused on a different challenge faced when starting a business and provided us with a whole range of skills."

Due to its positive environmental impact, Emizio has benefited from varied support and initiatives tailored towards impact-driven companies. "A lot of investors now back impact-led initiatives. This type of investment is becoming increasingly common. In the UK, we are lucky to have organisations such as Innovate UK. Alongside the grant, we worked with the Knowledge Transfer Network (KTN). There is a wide range of valuable expertise and support provided through this network" says Thakur.

As the UK strives to become more environmentally conscious, the Net Zero Strategy outlines policies and proposals for decarbonising all sectors of the UK economy. "The Net Zero Strategy sets out targets for 2050," says Thakur. "This regulation will directly impact our customer base. Sustainability reporting will be mandatory in future, so the government must regulate carbon accounting. Because of this, many companies will be requiring a platform like Emizio."

"Emizio has been able to grow despite downward trends in the wider market and this can be slightly attributed to our operation within the sustainability sector."

Natasha Thakur
Co-founder and CEO of Emizio

The hiring of suitably skilled talent is an industry-wide challenge and can, in turn, lead to delayed business expansion. However, Emizio has experienced the exact opposite."Securing talent has not been a challenge. Increasing talent attracted to working within sustainability is critical. We are working on a novel and challenging approach to carbon accounting, utilising the latest in AI which is extremely interesting to work on. We have been fortunate to build a very talented and committed team," says Thakur.

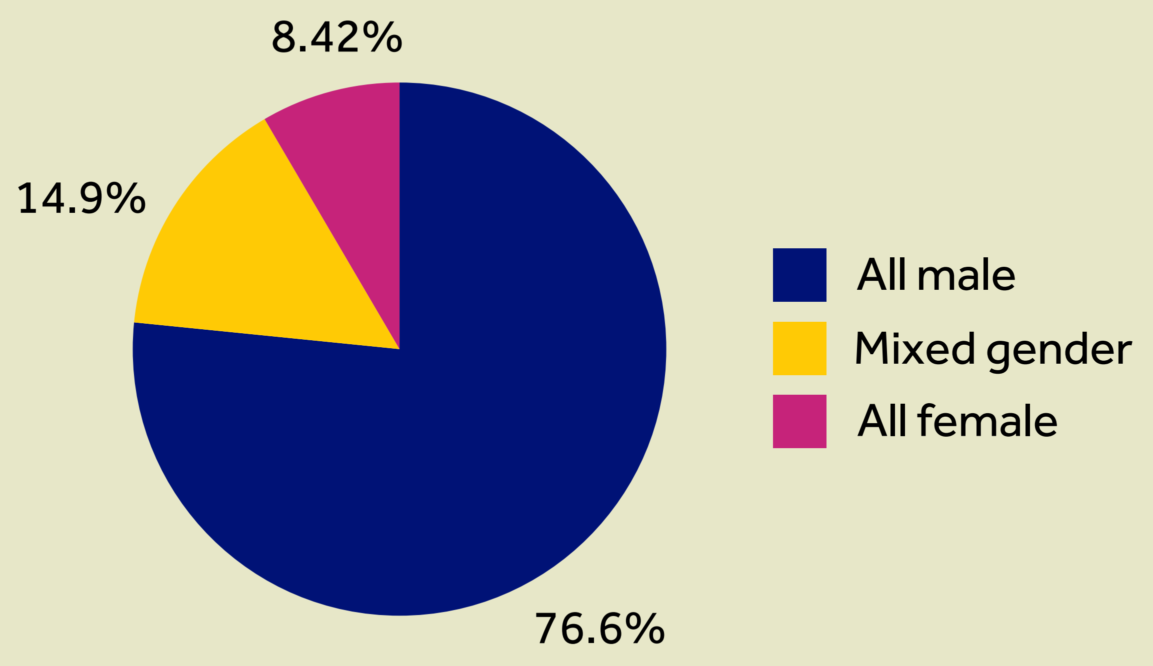
Nonetheless, securing investment as an early-stage business can often prove difficult. Thakur offers advice to fellow entrepreneurs: "Ensure you do research before every meeting. There's a lot of noise within the space but by analysing the investors you can make sure they are right for you. Reflect on the feedback provided and adjust your approach accordingly. Lastly, if possible, always arrange a face-to-face meeting."

Founder diversity

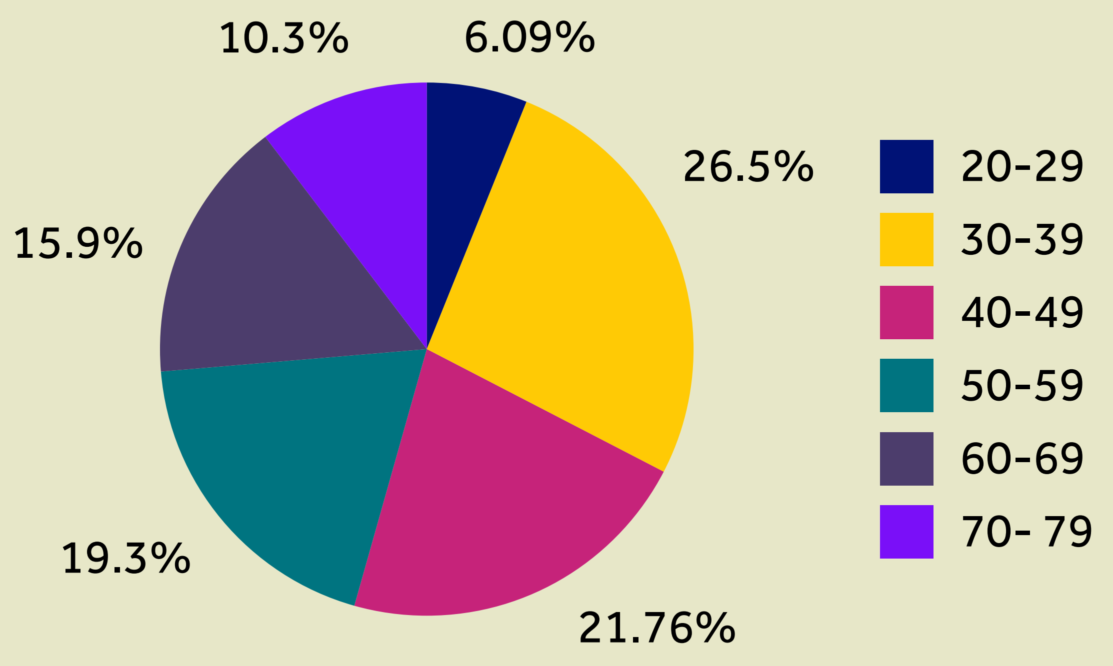
Beauhurst data shows that 76.6% of impact-driven companies have an all-male founding team in comparison to just 15% and 8.42% for mixed and all-female teams. Companies showing ESG positive signals exhibit a marginally higher proportion of all-male founding teams in contrast to the broader high-growth population (74.8%). People aged 30-39 make up the highest proportion of founders (26.5%), suggesting that potentailly impactful companies are more popular amongst millennial founders.

This concept is supported by a survey that the Society for Human Resource Management (SHRM) created, that reveals that ESG initiatives are significant employer attributes for gen-Z and millennials within the workforce.[7] An article by Stanford Business further echoes this, highlighting that approximately two-thirds of millennial and gen-Z investors are concerned about environmental and social issues, in comparison to two-thirds of investors aged over 58, who were somewhat or not all concerned with the environment.[8]

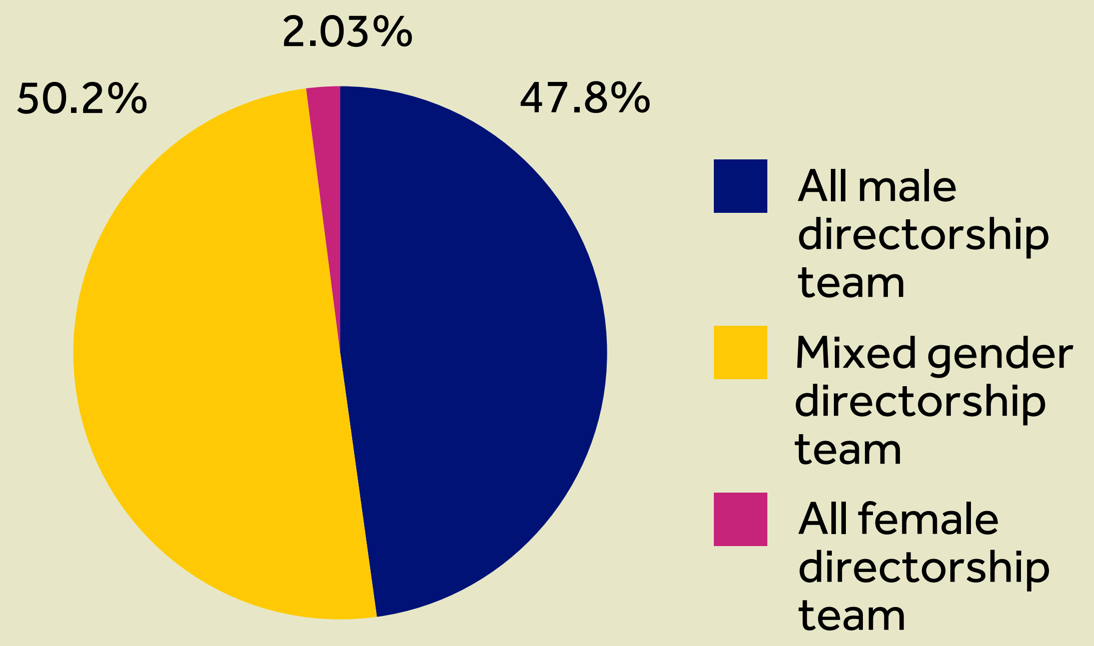
Gender composition of impact-driven founders (November 2023)



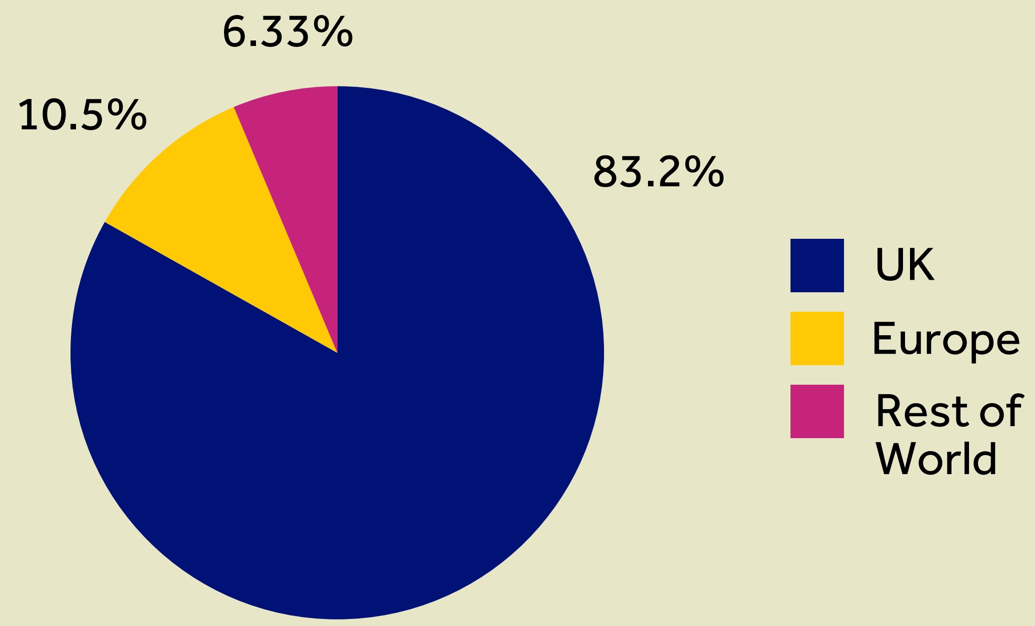
Age composition of high-growth impact-driven company founders (November 2023)



Gender composition of directors in impact-driven companies (November 2023)



Nationality compositon of high-growth impact-driven company founders (November 2023)



Company spotlight: Carbogenics

“Investors should be focused on impact investing. There is more and more recognition with the ecosystem. that the sustainability sector is something to be excited about. There are very few investors out there who are not interested in sustainability. However, investors are too focused on returns and this is impacting decision-making. This should not be the final decision point,” says Ed Craig, CEO of Carbogenics and founder of the Edinburgh Centre for Carbon Innovation (ECCI).

Spun out of the University of Edinburgh, Carbogenics is a circular economy start-up that produces sustainable carbon adsorbents - a highly porous form of carbon that can be used for purification purposes. The patented technology converts waste and secondary biomass into carbon-rich char through pyrolysis—a process that involves heating organic material in the absence of oxygen at very high temperatures. CreChar, the final char product, can be used in the anaerobic digestion of waste products, such as food or sewage sludge, to produce biogas. Within the UK, there are 650 operational anaerobic digestion facilities and this number is set to rise as biogas is an important source of renewable energy.

Carbogenics has recently secured £1.01m in equity investment with impact investor Green Angel Ventures, Scottish Enterprise, and Old College Capital participating. In 2021, Carbongenics participated in the Climate KIC Accelerator, a programme dedicated to supporting startups with climate solutions.

Explaining the challenges encountered during fundraising, Craig advises other founders: “With the current uncertainty in the UK, investors have not been investing or are delaying investments. This creates numerous challenges for small businesses, and we have struggled to raise our funding. When trying to secure investment, be very clear about the amount you are looking to raise and its intended use. Do your research and ask yourself if the potential investor matches your values, as it is not just about financial support.”

Diversity is a significant challenge within the tech industry and is also one common indicator within Environmental, Social, and Governance (ESG) characteristics. Craig explains: “If you want an ethnically diverse, balanced, fair workplace, it doesn't just happen by accident. You need to have those morals and set them as standards. We have those values imprinted in our vision statement. It is important to be as balanced as we possibly can be.”

Companies with a sustainability focus are growing within the UK economy, with a number of initiatives

“Investors should be focused on impact investing [...] Investors are too focused on returns and this is impacting decision-making. This should not be the final decision point."

Ed Craig
CEO of Carbogenics

being developed to support businesses operating in this sector. An example is the established Green Gas Support Scheme, where the government provides financial incentives for new anaerobic digestion biomethane plants to increase the proportion of green gas in the gas grid.

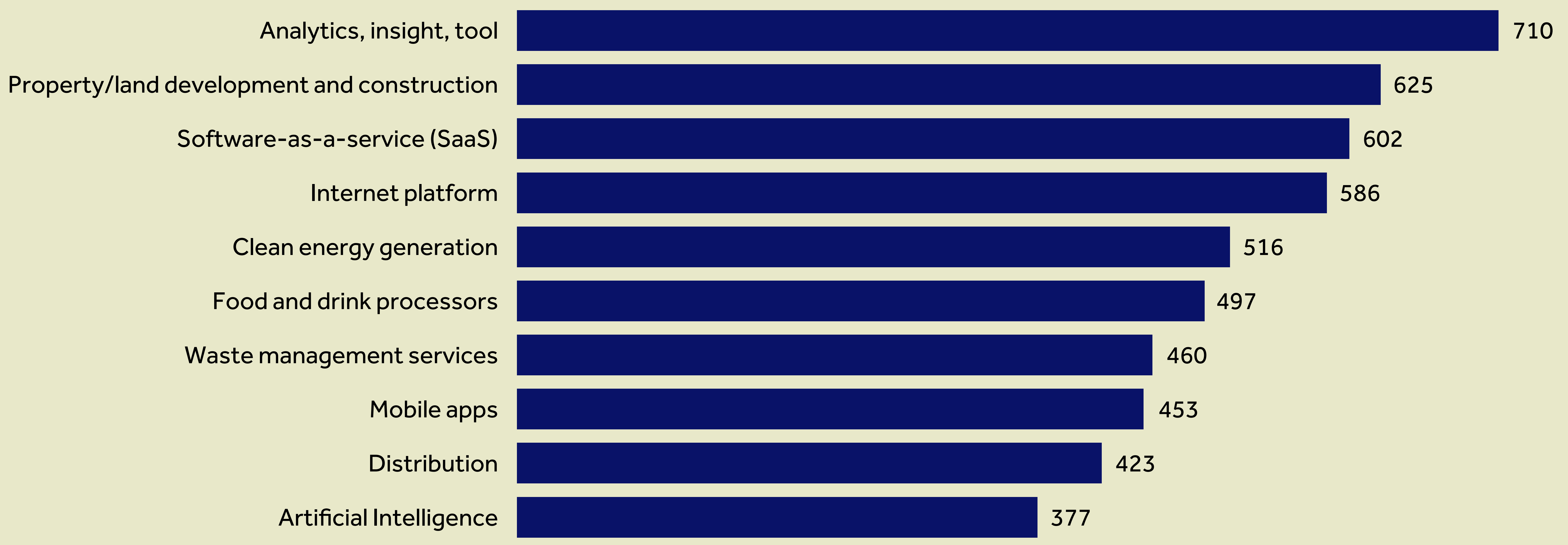
"In England, they have finally legislated the separation of food waste and domestic food waste, which is a very positive step. Currently, when you dispose of your food waste and it goes to a landfill site, it deteriorates and leaks methane into the atmosphere. Collecting it allows our main client group, anaerobic digesters, to utilise it as a resource to produce biogas," explains Craig. Looking forward, Craig acknowledges, "We have a long way to go but there has been interesting development in the ecosystem. The environment is finally being taken seriously."

Top sub-sectors

Analytics, insights, and tools rank as the top subsector for companies with ESG positive signals, with 710 actively operating high-growth businesses in this industry. Businesses in this subsector typically leverage disruptive and emerging technologies such as artificial intelligence (AI), machine learning (ML), as well as big data. High-growth companies operating in this industry include data aggregation and analytics company Topolytics. The Edinburgh-based company provides insights into waste produced by businesses. Its analytics platform, WasteMap, uses ML to make waste management resources more transparent and presents more environmentally friendly business solutions.

The next most popular subsector for companies showing positive ESG signals is property development and construction (625) followed by Software-as-a-Service (SaaS) organisations (602). Socially conscious companies in property development prioritise sustainable business practices by integrating environmentally friendly infrastructures such as renewable energy. Companies actively practising in this area include London-based Parity Projects. The company's digital platform provides retrofit programmes designed to create more efficient and cleaner sources of energy for UK homes. SaaS businesses develop software that serves a specific user need, which is then continuously improved to enhance customer experience. Other companies operating in this subsector include Oxford-based Blockhouse, which runs a blockchain security technology platform. The startup has raised an impressive £21.9m in equity investment since launching in 2018.

Top sub-sectors for companies showing ESG positive signals (November 2023)



Company spotlight: Slinger

"The landscape of investor interests is evolving. Many investors who previously prioritised growth are now shifting towards a more sector-specific focus. It's challenging operating in the social space as investors need investments to make good returns so they can't just be focused on impact," says Theo-Lee Houston, CEO and founder of Slinger.

Slinger is a London-based staffing platform that aims to help hospitality workers find employment. With over a decade of experience in the hospitality industry, Houston identified staffing as the primary hurdle for businesses in this sector. Most jobs in the hospitality sector pay the minimum wage, which is different from the living wage. The living wage is defined as the minimum income level necessary for a worker to meet their basic needs. The required amount changes based on geographical location, and it is often higher than the minimum wage, especially in London. Recognising this issue, Slinger ensures that all employment opportunities provided through Slinger are compensated at a minimum of the living wage standard.

Since its launch in 2021, Slinger has raised £550k in equity funding, with significant contributions made by the Google Black Fund, Resolution Foundation, and Ufi Ventures in its most recent funding round. The Resolution Foundation, known for its commitment to innovative startups and early-stage ventures, focuses on enhancing the opportunities for low-to-middle-income individuals in the UK. The think tank plays a crucial role in both calculating and setting the living wage figures.

Ufi Ventures also has a strong emphasis on social impact, particularly in the field of educational technology (EdTech). Both these organisations align with Slinger's commitment to address crucial social issues through its business operations. Its objectives include improving employment standards and educational opportunities. Houston explains, "Our goal is to render the CV redundant in the hospitality sector, where practical skills outweigh paper qualifications. We're shifting our focus from temporary roles to more permanent placements. Additionally, the development of the Slinger Academy is a key initiative designed to equip individuals with minimal or no experience, enabling them to enter the workforce competently."

Slinger secured a position on the Barclays Black Founder Accelerator (BFA) programme in 2022. Reflecting on this experience, Houston says, "Being non-white in a predominantly white space presents its own unique challenges, especially when it comes to securing equity. There's often a smaller network of black entrepreneurs and fewer black investors.

"There is a lot of funding available in the UK and US markets. It may be difficult to navigate but there are opportunities, so being proactive is the only way to secure them."

Theo-Lee Houston
CEO and founder of Slinger

Programmes and networking are important for gaining exposure, mentorship, and a platform to connect with like-minded entrepreneurs and investors who are committed to diversity and inclusion.

To other budding entrepreneurs, Houston offers advice, saying, "There is a lot of funding available in the UK and US markets. It may be difficult to navigate but there are opportunities, so being proactive is the only way to secure them. There are plenty of offerings in London and the right investor is out there for every company."

Investment landscape

Investment into companies with ESG positive signals has grown signifcantly in recent years, raising record totals in 2021 (£6.94b) and 2022 (£9.68b). In the first three quarters of 2023, companies in this cohort secured £3.52b in equity and participated in over 1,000 fundraising deals, signaling continued positive investor sentiment towards impact-driven enterprises.

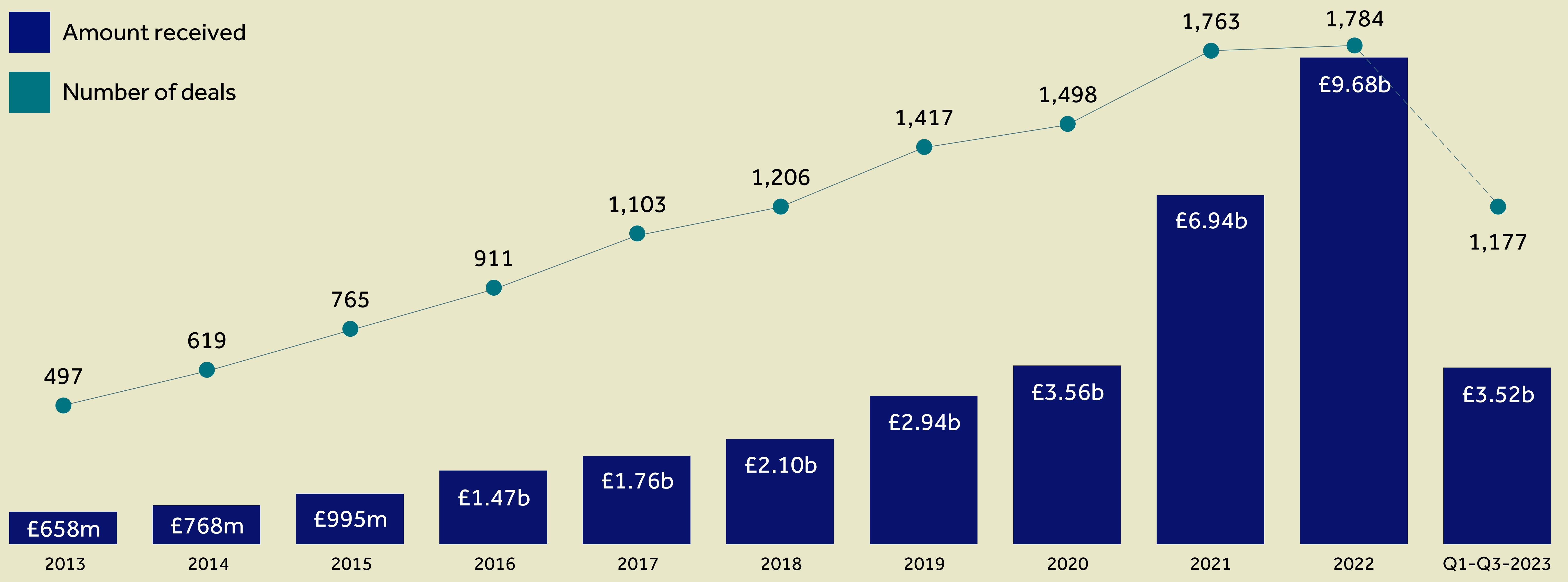
Investment into companies showing ESG positive signals

Investment into potentially impactful UK companies has increased notably over the last ten years, rising from £658m in 2013, to a record high of £9.69b in 2022. Similarly, the number of deals completed has more than doubled, from 497 in 2013 to a peak of 1,784 in 2022. The record-breaking high of 2022 can be attributed to several large fundraising deals by impact-driven companies, inclusive of payment processing platform SumUp (£506m). In April 2023, the London-based business announced several new ESG initiatives to support global sustainability efforts to preserve the environment. In partnership with River Cleanup, SumUp has pledged to remove 100,000kg of plastic from the Citarum River in Indonesia, the most polluted river in the world.

The surge in investment in recent years may also be attributable to a market shift—where socially conscious consumers favour businesses that are more sustainable, environmentally friendly, and socially conscious. As a result, more investorsand financial institutions have likely adapted their strategies to align with a more impact-driven society.

Despite a more challenging economic landscape, in the first three quarters of 2023, companies showing ESG positive signals particpated in over 1,000 fundraising deals and secured an impressive £3.52b in equity investment—suggesting that investor sentiment towards impact driven companies remains strong. However, tougher macroeconomic conditions, have naturally led to a more cautious fundraising environment. As a result, it's unlikely that equity investment totals for 2023 will match the highs of 2022.

companies showing ESG positive signals (2019-Q3 2023)



Company spotlight: Plexal

Plexal is a London-based innovation consultancy that aims to solve societal challenges. Committed to integrating ESG best practices into all its business activities, Plexal has developed numerous initiatives in collaboration with governmental bodies and financial service institutions. Examples include the Product Builder and Product Growth programmes, run in association with Barclays Eagle Labs. Both programmes provide founders with tailored resources and networks to accelerate their growth.

The Cyber Runway is the UK's largest cyber accelerator, launched by Plexal and funded by the Department for Science, Innovation and Technology (DSIT). The accelerator focuses on addressing key challenges such as promoting diversity, ensuring representation from various UK regions, and helping businesses to navigate the changing economic landscape. The Cyber Runway was established by merging and building upon three accelerator programmes previously funded by the Department for Digital, Culture, Media, and Sport (DCMS).

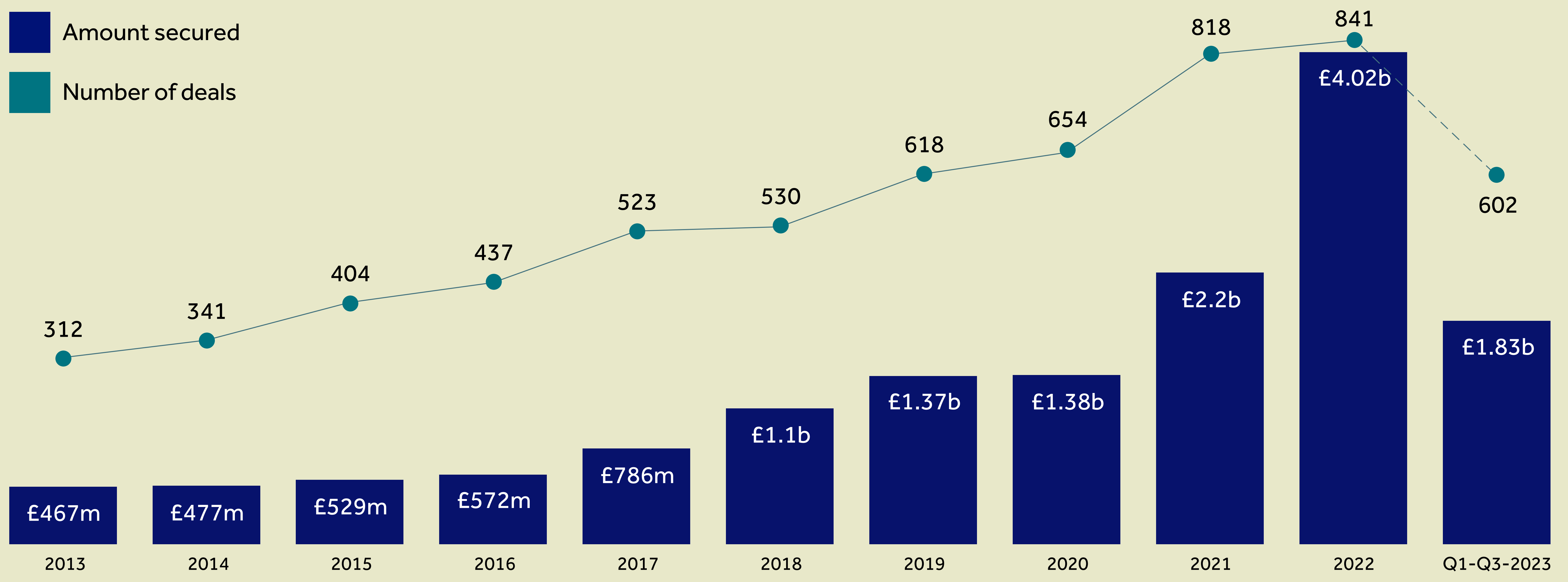
The accelerator aims for 30% of the participating cyber companies to be led by women, a minimum of 15% of founders to come from Black, Asian, and minority ethnic backgrounds, and for at least 50% of the participants to be based outside of London. Graduates from the 2022 programme include Cybermind, a Wolverhampton-based company specialising in the development of an AI platform that can detect and predict stress levels.

Investment in environmentally-focused companies

In the last decade, investment into environmentally-focused companies has increased almost tenfold from £467m in 2013, to £4.02b in 2022. This significant rise in funding can be attributed to several factors, including growing concerns over environmental challenges, particularly climate change. Similarly, the rise of conscious consumers has required businesses and constitutional investors to adapt to market trends and reassess responsible capitalism.

Investment in this area experienced a notable surge between 2020 and 2022. In 2021, the collective value of equity raised by environmentally focused companies increased by 37.8% from the previous year. This trend continued in 2022, with investment almost doubling, reaching a record high of £4.02b. The value of investment raised by environmentally-focused companies in the first three quarters of 2023 (£1.83b) reflects a return to pre-pandemic levels of investment. While it's clear that the end 2023 figures will not match the highs of 2021 and 2022, it's important to recognise that the economic stimulus measures and the increased reliance on technology during the pandemic played a significant role in channelling more funds into high-growth companies during these years. Similarly, in 2022, environmentally-focused companies benefitted from increased foreign participation, securing investment from funds based in the US (Luxor Capital), Saudi Arabia (Aramco Ventures Sustainability Fund), and Kuwait (Agility Logistics). High-profile deals completed during this period, include a £200m fundraising by sustainable energy company GRIDSERVE in August 2022. The Buckinghamshire-based company secured the investment from Infracapital to expand its electric vehicle (EV) infrastructure.

Equity investment secured by environmentally-focused companies (2013-Q3 2023)



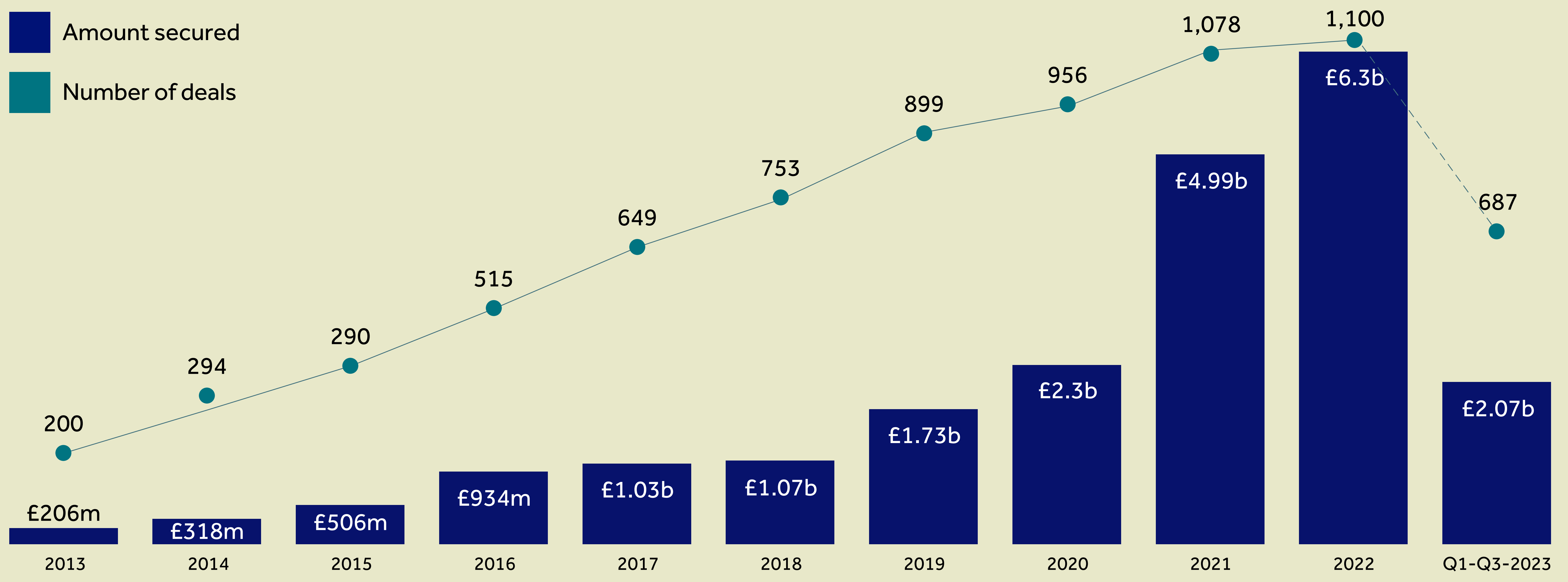
Investment in social/governance-focused companies

Developments in ESG-related issues have garnered wider interest from the general public, policymakers, and businesses in recent years.[9] Research by the Harvard Business Review suggests that more consumers, particularly millennials, find themselves increasingly associating themselves with brands that embrace purpose and sustainability.[10]

Beauhurst data shows that investment into social and governance (S/G)-focused companies has surged in the last decade, increasing from £206m in 2013 to £603b in 2022. In 2022, social and governance-focused businesses collectively raised 26.2% more in equity investment than in the previous year. The total amount raised by these companies can be attributable to multiple large fundraising rounds by companies such as SumUp (£506m), Netomnia (£295m), and Starling Bank (£263m). In the first three quarters of 2023, social and governance-focused companies raised £2.07b in equity investment, exceeding the total amount raised in the years 2013 to 2019. This is a strong testament to the resilience and continued desirability of social and governance-focused companies amongst investors, even amidst the backdrop of a tougher economic climate.

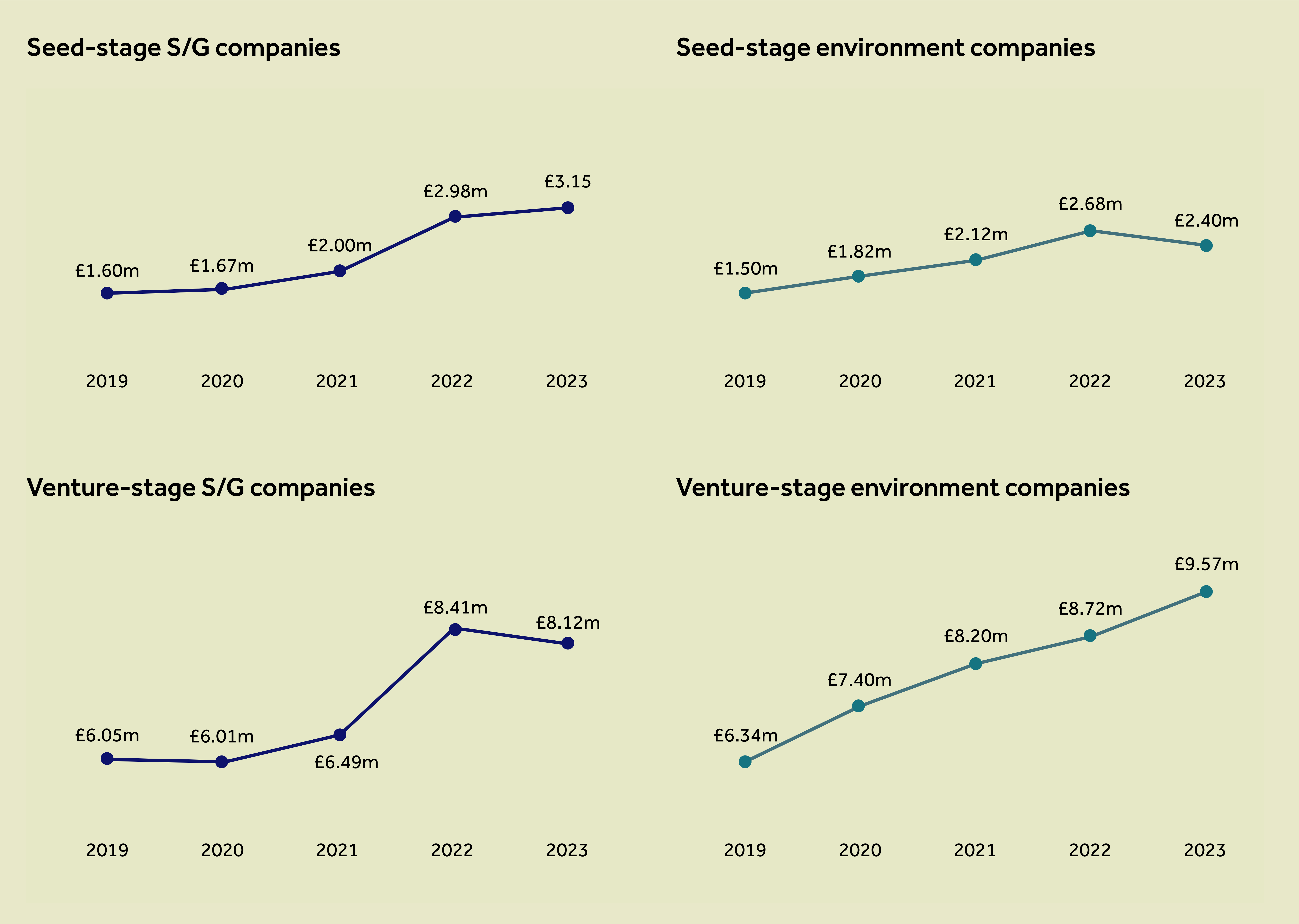
An increase in the number of active high-growth companies operating within the social and governance landscape is a likely contributor to the increased levels of funding secured in recent years. Beauhurst data shows that since 2013, the number of high-growth businesses operating within social and governance fields has increased by 61.4%. This suggests that the increase in environmentally conscious consumers and ESG-related strategies have opened a market for more impact-driven companies— consequently driving more investment opportunities into this industry.

Equity investment secured by social/governance-focused companies (2013-Q3 2023)



Valuation trends by impact type

Median valuations in seed-stage companies with positive ESG signals have increased at a similar rate across environmental, social, and governance-focused businesses since 2019, suggesting that the demand for impact-driven companies has grown at a close rate in each area. Social and governance-focused seed-stage businesses recorded a higher median valuation (£3.15m), than environment-focused companies (£2.40m) in the first three quarters of 2023. This may suggest that at the seed-stage environment-focused businesses are viewed as a less appealing investment. A proportional analysis of investment between Q1 and Q3 2023, supports this view, highlighting that social and governance-focused companies have raised approximately 13.1% more equity investment than environmental companies. Between Q1 and Q3 2023, pre-money valuations for social and governance-focused companies declined by approximately 3.45% to £8.12m, whereas environmental companies recorded a peak median value of £9.57m.



Impact investors

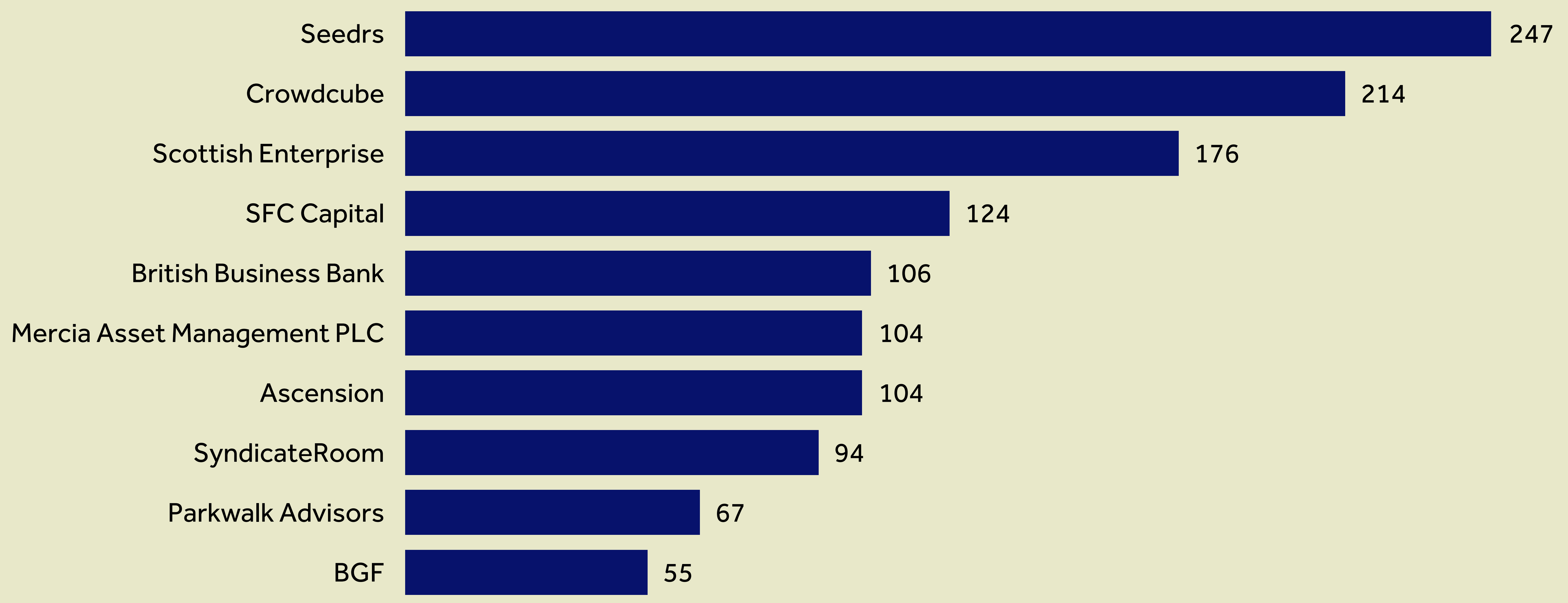
Crowdfunding is the most popular form of equity financing for companies showing ESG positive signals. Seedrs has facilitated the greatest number of deals (247) between 2020 and Q1-Q3 2023. Scottish Enterprise ranks highly in both environment and social governance-focused company fields participating in 101 and 93 deals respectively. SFC Capital and the British Business Bank are active investors in environmentally-focused enterprises, each participating in 50 fundraising deals between 2020 and Q1-Q3 2023.

Top investors

Equity crowdfunding has emerged as the top form of fundraising for companies showing ESG positive signals by the number of deals completed between 2020 and Q1-Q3 2023. Seedrs ranks first facilitating 247 fundraising deals, followed by Crowdcube with 214. Crowdfunding platforms operate digital marketplaces that allow the public to directly invest into businesses in exchange for equity stakes in the company. Securing equity finance is often difficult for early-stage companies as they are typically still in the ideation phases of growing their business and are thus considered high-risk investments. Crowdfunding is well suited to early-stage companies as it offers a more accessible route to equity fundraising in comparison to more traditional avenues.

It provides businesses that would typically not qualify for other forms of funding such as venture capital and private equity with the opportunity to source investment from a larger pool of investors—widening their access to potential funding. Similarly, for companies that draw a particular focus on the impact of their business—crowdfunding provides a platform where these businesses can attract investment from individuals aligned with their social impact goals—an attractive draw in for both investors and a loyal community of supporters. The next most active investor is Scottish Enterprise—Scotland's economic development agency, participating in 124 fundraising deals. Scottish Enterprise focuses on businesses with strong potential for success, that can contribute towards the economic growth and prosperity of the country. The organisation predominantly invests in early-stage businesses through various entities such as the Scottish Venture Fund and the Scottish Co-investment Fund. In addition to funding, Scottish Enterprise supports early-stage companies with business development and connects them with potential investors that suit both their current stage of evolution and business goals.

Top fund managers by number of equity deals into impact-driven companies (2020-Q3 2023)



Investor spotlight: Green Angel Ventures

"As a nation, we are leading in the impact investment space. It is an important area that will continue to grow in the coming years. The trajectory is very strong," explains Hugh Bartlett, Senior Investment Executive at Green Angel Ventures (GAV).

Green Angel Ventures is a specialised angel syndicate focused on supporting early-stage businesses, that contribute to the fight against climate change. Green Angel Ventures, by leveraging the Enterprise Investment Scheme (EIS), supports a range of companies within the green and sustainable technology sectors. Its portfolio included businesses operating in renewable energy, sustainable transportation, energy efficiency and waste management. Green Angel Ventures has made key investments in Better Origin, a company that converts food waste into animal feed using insects.

As well as Swytch, a company that transforms conventional bikes into electric bikes. The syndicate has had several successful exits, such as Zeigo, a climate tech platform that helps businesses access renewable energy. Bartlett adds, "We are an EIS investor looking to invest in IP-rich businesses. The GAV EIS Climate Change Fund supports a portfolio of UK-wide startup and early-stage companies across various sectors."

When discussing the UK government's influence on impact investing, particularly in green technologies, Barlett suggests, "The government should steer investment towards green EIS. This would encourage the sector's growth and investments." He acknowledges the growing importance of green technologies but also highlights the critical gap: "Even though green technologies are becoming a priority, they are not the highest priority." Barlett implies that while some progress has been made, more focused government intervention could significantly bolster the sector's growth and impact.

Calculating and ensuring a business delivers real impact through investments requires a methodical approach. Bartlett emphasises the depth of this process, "Our due diligence process is very thorough. It takes about two weeks. We scrutinise everything from the product and market to the assumptions companies may have made." He highlights the particular attention given to the impact, which is evaluated uniquely for each case. "There's a methodology developed for impact businesses that involves the determination of a carbon dioxide figure for simplicity," says Bartlett. He also acknowledges that this metric is not universally

"Even though green technologies are becoming a priority, they are not the highest priority."

Hugh Bartlett
Senior Investment Executive at
Green Angel Ventures

applicable. "Some companies do not qualify for a CO_2 figure," he adds, implying that impact assessment must be versatile and tailored to each investment.

Bartlett believes entrepreneurs seeking impact investment should focus on demonstrating their solution's effectiveness and market viability, ratherthan solely emphasising the environmental issue they aim to address. Bartlett explains, "Don't waste time lecturing others on how big the problem is. We're already aware of the environmental challenges. Focus more on how your solution targets these issues.

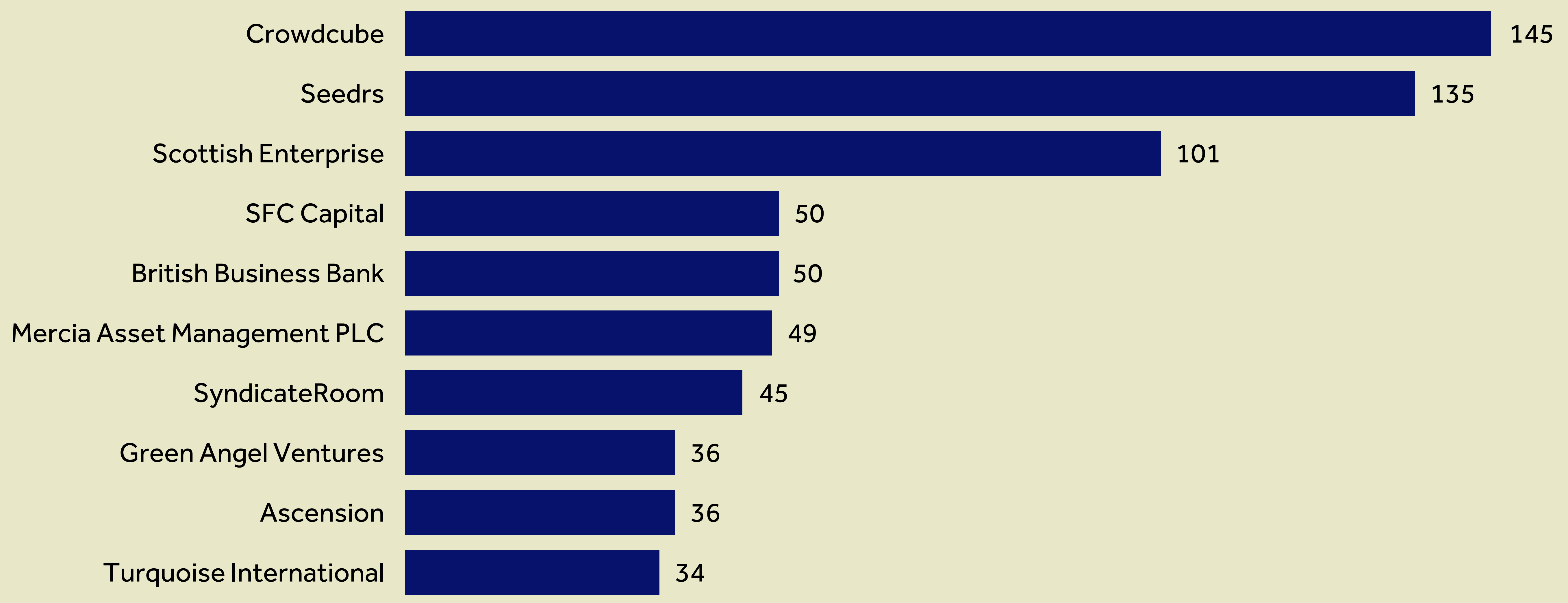
He stresses the importance of having a dual appeal: "Being green isn't enough. Startups need to offer a compelling reason for their use, as the green premium is often the first to be cut in tough times." Additionally, he suggests that entrepreneurs should understand their potential investors, align with them, and gain as much traction as possible. "Don't get distracted by awards and other accolades," he adds, emphasising the need for substance over style.

Top investors in environmentally-focused companies

Crowdcube ranks as the top facilitator for investment into environmentally-focused companies (145), followed by Seedrs (135). Crowdfunding platforms, unlike institutional providers of equity finance, can be a more accessible means of securing investment for early-stage companies. Individual investors, particularly those with a keen interest in environmental issues, can directly invest in companies tackling issues they care about. Companies that have participated in previous crowdfunding rounds include a number of London-based companies, such as hydro storage company RheEnergise, and emission tracking platform EcoHedge.

Scottish Enterprise also ranks highly in this field, participating in 101 deals. The Scottish development agency provides a range of services to support businesses working in green energy. For example, it offers expert advice to early-stage companies looking to transition or develop a business within the hydrogen sector. It also supports businesses through the Clean Energy Transition Partnership programme—a research programme created to accelerate the transition businesses make into clean energy, through funded support. SFC Capital and the British Business Bank each participated in 50 fundraising events between 2020 and Q1-Q3 2023, as previously mentioned. SFC Capital specialises in investing in seed-stage companies, providing capital to high-potential UK startups. The British Business Bank is a government-owned business development bank providing funding to early-stage businesses, scaleups, and established businesses. It offers financial support to enterprises through various funds, including its Future Fund and its Angel CoFund.

Top fund managers by number of equity deals into environmental companies (2020-Q3 2023)



Investor spotlight: Big Society Capital

"The most important companies of the next decade are solving the world's most pressing challenges and investors have a huge role to play. We have seen accelerated growth in the market over the last 11 years and we believe that this will continue over the years to come. The overall social impact investment market has grown eleven-fold in 11 years, to over £9b as of the end of 2022," emphasises Hayley Hand, Investment Director at Big Society Capital (BSC). BSC is a leading social impact-led investor who aims to grow the amount of money invested in tackling social issues and inequalities in the UK.

Hand explains: "At BSC, we focus on four key investment areas: social and affordable housing, which business accounts for the largest segment of the market, lending to charities and social enterprises, social outcomes contracts and impact ventures. In venture, we invest in funds, so while we don't invest directly into companies, our capital is reaching impact startups through the venture managers we are backing. We're trying to tilt the whole of the venture ecosystem towards impact, and we'll need more than our capital to do it."

BSC oversees several impact venture funds, including the Fair by Design Fund. Established in 2017, this fund has channelled investments into a multitude of startups dedicated to mitigating the "Poverty Premium". This represents the additional expenses incurred by individuals with lower incomes for essential goods and services, a consequence of market inefficiencies. Among the noteworthy recipients of these investments are Credit Kudos, an innovative credit reference agency leveraging open banking, and Switchee, a smart thermostat for social landlords, reducing the energy costs for social housing tenants.

Investment into UK impact-orientated startups increased seven-fold in the five years leading up to 2021. Hand explains: "Within the impact venture space, we have seen increasing interest from the three key stakeholders: limited partners, venture firms, and founders. At BSC, we've engaged with more than ten times as many venture firms with an impact lens seeking funding in 2022, than we did in 2018. This is coming from big established venture firms as well as emerging firms. Founders are also increasingly passionate about starting ventures that aim to solve social impact problems, driving innovation in healthcare, education and financial services. We are seeing more experienced serial founders setting up their next venture in an impact area."

"We are trying to tilt the whole of the venture ecosystem towards impact, and we'll need more than our capital to do it."

Hayley Hand
Investment Director at Big Society Capital (BSC)

This growth in interest has led BSC to create ImpactVC, a community of startups and VC fund managers, set up to accelerate impact standards in the venture space. Since its launch in early 2023, it's grown to 700 members, 500 of which are venture capital fund managers. In 2024, ImpactVC is set to launch a new 'Founder Impact playbook' designed to provide advice for Impact-focused entrepreneurs. As an early-stage business operating within this sector, investment opportunities are becoming more competitive.

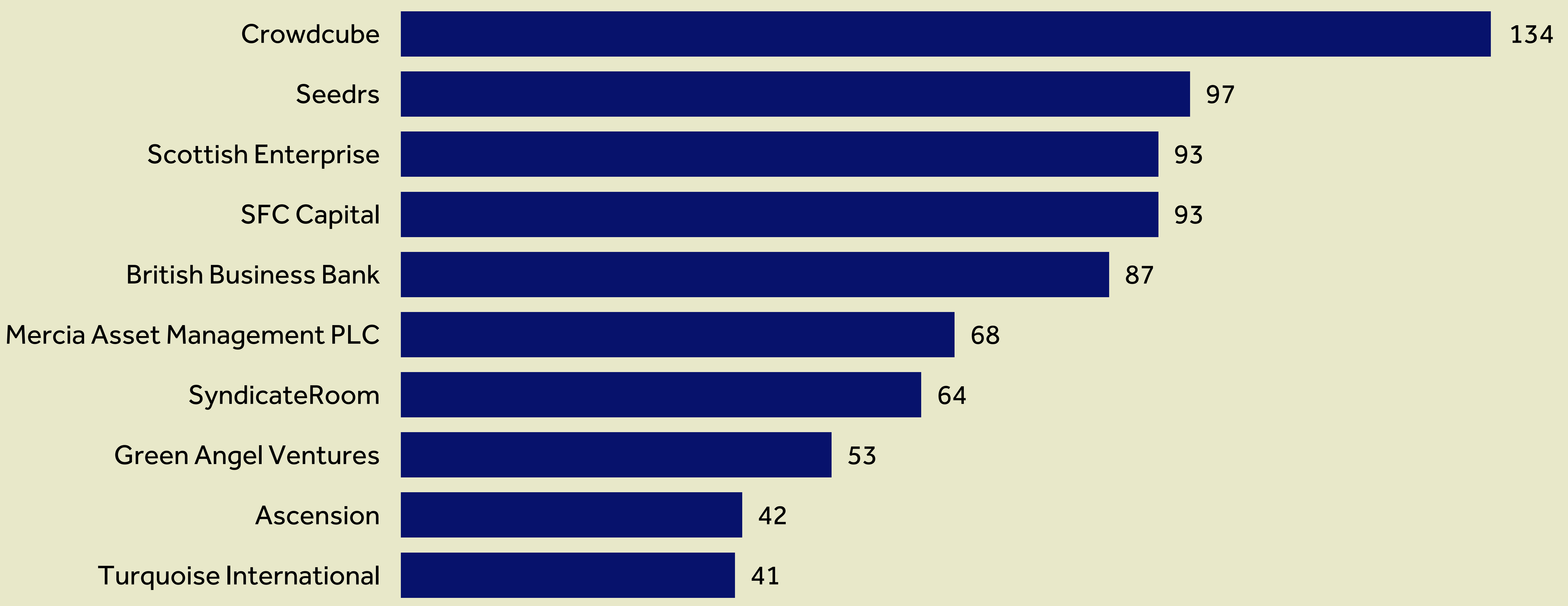
Hand offers advice to entrepreneurs: "One of the key things venture firms are looking for in impact founders is founder intent. Is creating a positive impact a core motivation for the founder? If so, entrepreneurs need to demonstrate why they are keen to solve the problem as well as why they are the best placed to solve it. Also, be clear on how focusing on impact will drive value for your business as it grows—this might be shown through how a focus on impact will give you an edge over competitors, or enable you to benefit from regulatory changes.

Top investors in social/governance-focused companies

Crowdfunding is also the top form of equity fundraising for social/governance-focused companies. Seedrs leads, facilitating 134 fundraising rounds between 2020 and September 2023, followed by Crowdcube (97). Companies in this cohort that have benefited from crowdfunding include Better Nature. The London-based B Corporation produces meat-free alternative foods using fermented tempeh. The startup's mission focuses on contributing to the fight against food poverty. It's committed to donating 1% of its sales to charity organisation YUM to help tackle malnutrition in Indonesia.

The next active investors in this group of companies are Scottish Enterprise and Ascension, both participating in 93 fundraising events. Scottish Enterprise provides funding, expert growth advice, and support to high-potential businesses. Ascension is a venture capital firm that primarily focuses on investing in early-stage businesses. It operates funds from the seed-stage to Series A funding rounds. Ascension invests in enterprises through its various funds, including the Good Fund which backs innovative health-oriented food businesses with a mission to tackle childhood obesity. Early-stage businesses that have received backing from Ascension include the Edinburgh-based agritech company MiAlgae and London-based social network Aura Fertility.

Top fund managers by number of equity deals into social/governance-focused companies (2020-Q3 2023)



Investor spotlight: Bethnal Green Ventures

"The future of impact investing in the UK looks brighter than ever before. Not only do we see more funds focusing on impact investing and more generalist VCs investing in impact-driven ventures, but our research from angels also suggests that there are more angel investors putting their money towards purpose-driven companies. This all contributes to more access to capital for impact startups," says Dama Sathianathan, Partner at Bethnal Green Ventures (BGV).

Founded in 2012, BGV is a London-based venture capital firm specialising in supporting early-stage startups with positive social and environmental aims. "We invest in companies that use technology to contribute towards a sustainable planet, an inclusive society, and healthy lifestyles. We back founders from all walks of life with registered companies in the UK and ambitions to scale internationally," says Sathianathan.

BGV provides funding, mentorship, and resources to businesses in many industries, including healthcare, education, and sustainability. Sathianathan explains, "We invest really early with a ticket of £60k and support founders through a six-week acceleration programme." The BGV programme provides early-stage businesses with skills through workshops, networking, and mentoring. "We continue to support our founders after the programme and reserve a portion of our fund to make follow-on investments where applicable so that portfolio companies can receive further investment up to Series A," says Sathianathan. BGV has recently announced the closing of its largest fund, which totalled at £33m. This fund is intended to support up to 100 startups over the next four years through its "Tech for Good" programme.

The quantification of impact and ensuring businesses are delivering sufficient impact is often difficult for investors to determine. Sathianathan explains: "As impact investors (in the VC asset class), we will want to understand how your venture can drive huge social or positive environmental impact and also generate great return for investors. We operationalised our approach to measuring and managing impact throughout our investment process, which is focused on supporting founders to maximise their impact potential and credibility, whilst also mitigating adverse impact. Our due diligence process involves a screening of alignment with BGV's themes— which are maintaining a sustainable planet, an inclusive society, and healthy lives. Then we dig deeper into the founder's understanding of the potential impact of their startup and take people's

"We invest in companies that use technology to contribute towards a sustainable planet, an inclusive society, and healthy lifestyles. We back founders from all walks of life."

Dama Sathianathan
Partner at Bethnal Green Ventures (BGV)

understanding of any potential negative, and unintended consequences into account. In addition we consider their strategies to mitigate those impact risks.

" When investing in a growing sector, staying well-informed is crucial. "Keeping track of emerging trends given the pace of technological advances is somewhat hard, but industry newsletters and flagship reports provide you with a good sense of what's going on," says Sathianathan.

The future of impact investing

Consumer shifts towards environmental consciousness is expanding the markets for impact-driven companies, potentially leading towards novel subsectors. Investment in impact-driven companies has increased annually from 2013 to 2020, with a significant rise observed in 2021-2022 due to COVID-19 and other economic stimuli. Projections using data from 2013 to Q3-2023 suggest a continued increase in investment from 2024-2028. The UK impact economy is projected to grow to 12,600 active impact driven companies by 2028, driven by government initiatives, consumer trends towards sustainability and investor interest.

Headwinds and tailwinds for impact investing

As highlighted throughout this report, impact investing is a rapidly growing industry that supports businesses that have the potential to generate both a positive and quantifiable social and environmental impact alongside a financial return.

Impact investing has the potential to transform global economies and address societal challenges such as famine and access to affordable healthcare. Shifts in societal conventions have led to more environmentally conscious consumers looking to invest and associate with impactful businesses. Moreover, as the market for impact-driven companies grows, and the population of companies in this area increases, we may witness the emergence of novel subsectors targeted at solving global issues and creating a more sustainable future.

Whilst impact investing has illustrated that good and ethical business practices and profit can be mutually exclusive, measuring impactful investment is a complex process with no clear methodology. Although impact-driven companies have proven that they can be high-growth enterprises, as with any form of investment, investors run the risk of their financial returns being lower than expected or not generating a profit at all. Lastly, impact-driven businesses also run the risk of not achieving their desired impact or potentially drifting away from their original focus due to potential regulatory, political, or economic impacts.

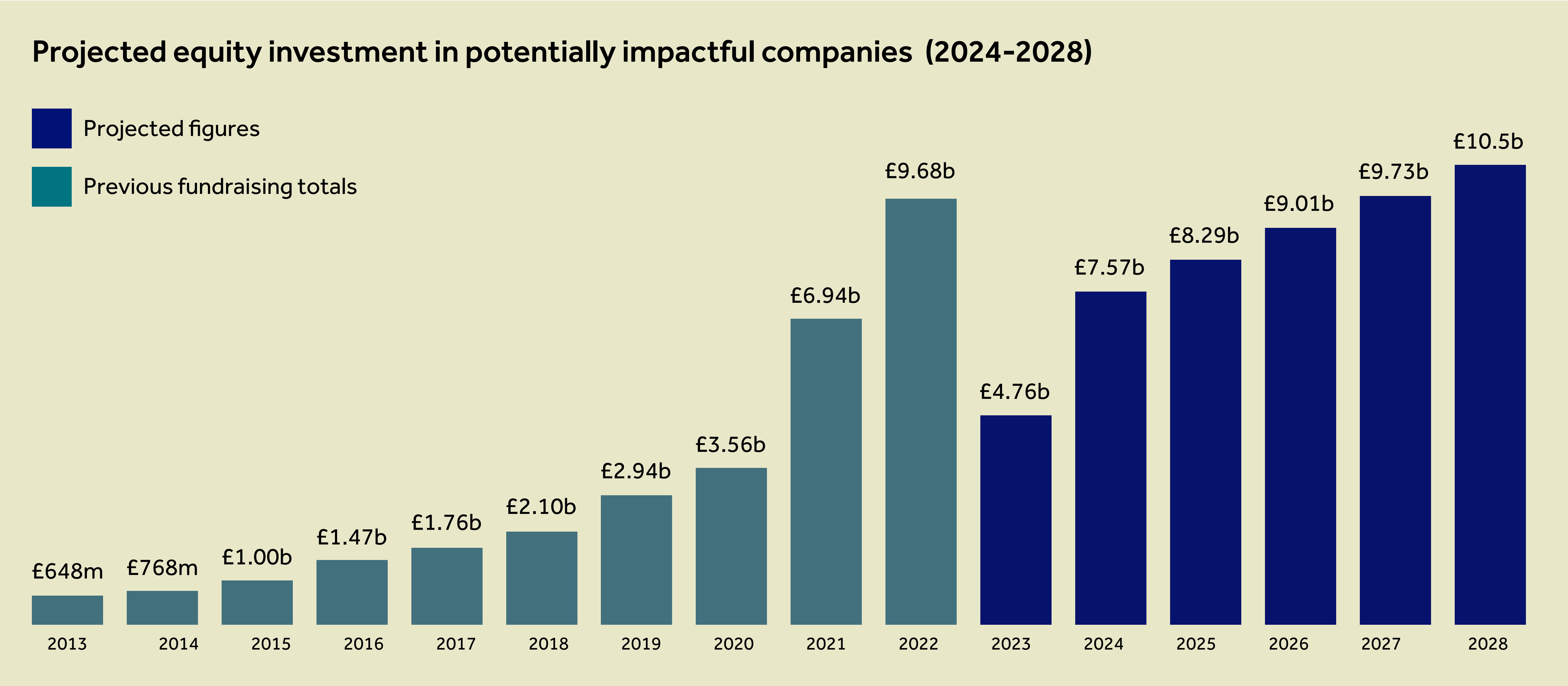
Barclays have launched a platform to support founders get exposure in front of a range of attested active investors called the Barclays Demo Directory. The free online platform supports UK based funding-ready founders to share their demo, and equips investors with search and filter functionality to help them identify suitable businesses. You can find out more on the Demo Directory website.

Projected equity investment

While projecting equity investment into companies showing ESG positive signals based on historical data has methodological challenges associated with it, the analysis provides a strong directional sense of a trend that has been unfolding since 2013. Between 2013 and 2020, investment into these companies increased year-on-year. The influence of the COVID-19 pandemic and an increase in economic stimulus measures to drive growth throughout the economy contributed to the unprecedented rise in fundraising activity during 2021 and 2022.

Although it is predicted that the end-year figures for 2023 will not match the highs of the previous years, it suggests a return to the pre-pandemic trend experienced in this industry. The projected analysis implies that the future looks bright for impact investing, forecasting a year-on-year increase between 2024-2028. Whilst this projection may be optimistic, current affairs suggest that it is certainly not impossible. Throughout this report, the data has supported the thesis, that a stronger demand for sustainable companies from conscious consumers over the last decade has influenced investor sentiments. The analysis presented here uses simple linear regression based on equity investment data from 2013 to 2023 to project investment into the future.

The full-year figures for 2023 were extrapolated from Q1-Q3 2023, which were extracted from Beauhurst's data platform. A linear forecast was then used to calculate potential Q4 figures for 2023. The total fundraising amounts for Q1-Q3 were then combined with the predictive Q4 fundraising amounts to calculate projected year-end figures for 2023. Once projected figures for 2023 were calculated, a linear forecast equation was used to project potential equity investment between 2024 and 2028.



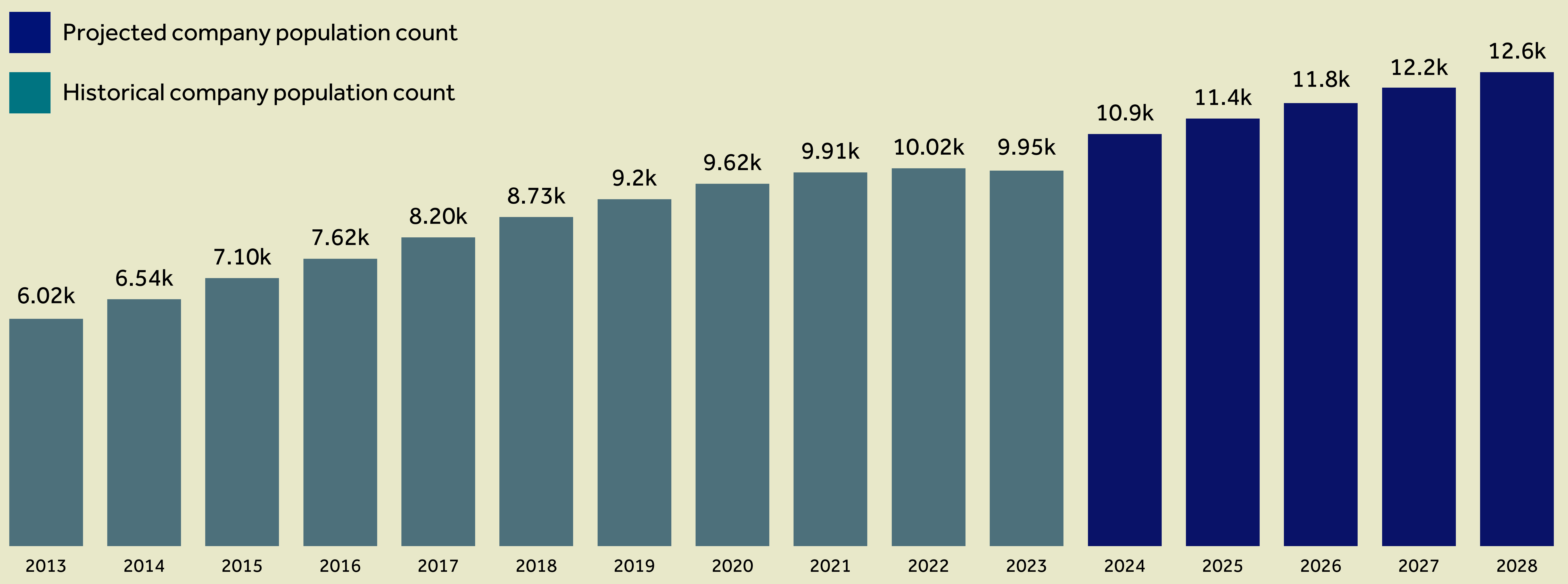
Projected company population

There are currently just under 10,000 potentially impactful active companies operating in the UK's high-growth ecosystem. A projected analysis of the UK's impact economy suggests that, by 2028 there could be 12,600 active companies within this cohort.

Several factors will play a key role in bringing this projection to fruition. Firstly, government-driven initiatives will continue to play a crucial role in regulating and creating sustainable societies. As more leaders look to establish Net Zero strategies, more innovative enterprises will be required to help enforce regulation and solve global issues such as food poverty and access to affordable housing and healthcare. Similarly, it's plausible that as more consumers turn to socially conscious brands, the market for impact-driven companies will expand, as will the number of investors looking to make a positive contribution to society and invest in impact-driven companies, with strong potential to generate lucrative returns. As a result, shifts in consumer behaviour, a greater focus on sustainability, and adaptations to market shifts will likely lead to an increase in the number of actively operating impact-driven companies.

The predictive analysis presented here was created using historical company information from data provider, Beauhurst. First, the number of active impact-driven enterprises operating from 2013 to November 2023 was extrapolated from the Beauhurst platform. Then a simple linear regression forecast was calculated using figures from 2013 to 2023 to predict the total population for the years 2024 to 2028.

Projected company population of companies showing ESG positive signals (2024-2028)



Diversity and inclusion

Companies with an all-female founding team represent just 8.42% of the UK's active impact-driven company population—all-male founding teams account for 76.6%. A 2023 research report by ESG_VC reveals that over 50% of companies that participated in its latest survey have no female representation on their board.[11] While the gender disparity evidenced at the company level is striking, it's a reflection of a more serious problem—gender inequities at higher levels of the investment funnel. Although equity fundraising plays a pivotal role in supporting enterprises; women, ethnic minorities and individuals from lower socio-economic backgrounds have historically received the lowest proportions of investment—resulting in a vast amount of unrealised potential, skilled talent, and stunted economic growth.[12]

This view is supported by the British Business Bank (BBB) and SQW in Finding What Works: Pathways to Improve Diversity in Venture Capital Investment. BBB and SQW assert that the lack of gender diversity within venture capital is reflective of broader underlying problems in the venture capital market, which adversely effects underserved founders. This incorporates access to networks, investment opportunities, and the transfer of knowledge between founders and potential investors.[13] Although Finding What Works focuses on diversity within venture capital, the stats are symptomatic of broader gender inequities, within entrepreneurial and financial communities.

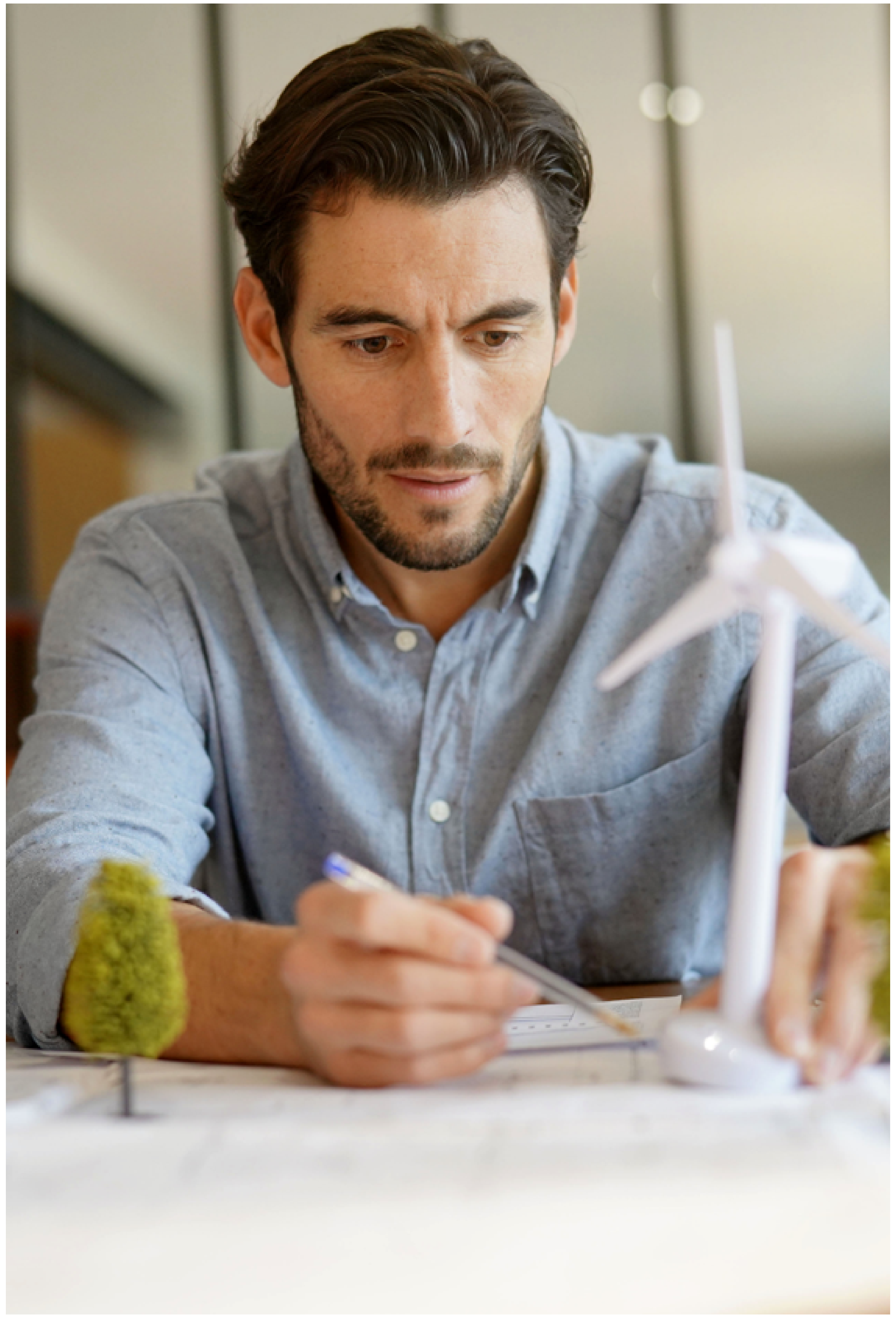
Creating a more inclusive impact economy requires a proactive approach at all levels. Finding What Works suggests that for increased diversity at the company stage, leadership teams at the top of the investment funnel must be varied. Improving diversity at the top end has been associated with positive returns.[14] By increasing diversity at board levels, VCs and other financial institutions create greater opportunities for underserved founders to access equity investment. Similarly, funds must actively foster an inclusive environment that encourages investment in underserved founders. For instance, Finding What Works suggests that VCs should actively use work hours to network and support diverse entrepreneurs. Doing so creates an environment where underrepresented individuals can exchange information with potential investors, opening up potential discussions for future funding.[15] Outside of financial support, research shows that companies that focus on creating a healthy work-life balance rank highly in employee satisfaction. ESG_VC's latest report reveals that SaaS businesses are outperforming the broader economy, by creating inclusive workspaces and placing an emphasis on employee well-being and mental health.[16]

Cleantech

ESG frameworks aim to show stakeholders how businesses and organisations perform in areas concerning the environment, social issues, and governance. Cleantech companies focus heavily on the "E" aspect of ESG by using technology to help protect the environment by delivering products, services, or processes that reduce the consumption of nonrenewable resources.[17]

Global issues such as rising climate change and shifts in consumer behaviour (particularly among gen-z and millennials), have created a market for entrepreneurs to develop cleaner technologies and conserve more energy and resources.[18]

The cleantech market is rapidly evolving and the demand for equity in these companies is prominent. High-growth cleantech businesses recorded a significant £2.47b in equity in 2022.[19] The UK's cleantech industry has the potential to accelerate growth and help advance the government's hopes of a Net Zero economy by 2050. The future of this industry looks promising as cleantech companies continue to garner international attention and raise record investment, from domestic investors. and garner international attention.[20] A report by Cleantech for UK, however, suggests that to compete with international superpowers such as the US and China, greater investment in clean technologies is required.[21] Research by the International Energy Agency (IEA) supports this, asserting that more renewable technologies need to be commercialised to reach Net Zero by 2050.[22]



Methodology

Defining startup and high-growth companies

Beauhurst identifies high-growth startup companies using eight triggers (outlined on this page) that it believes suggests a company has high-growth potential. More detail on Beauhurst's tracking triggers is available via its website.

Active companies

'Active' companies refers to companies that are at the seed, venture, growth or established stages of evolution by Beauhurst analysis. The term excludes companies that are zombie or dead, or have exited via an IPO or acquisition.

Defining ESG

To be included in the report a company must have been identified via the following ESG signals (outlined on this page). More details about Beauhurst's ESG signals are available via its website.

ESG Signals

Environmental

- Clean and renewable energy
- Green transport
- Green infrastructure and building
- Sustainable farming and food production
- Environmental accolades

Social and Governance

- Gender pay equality
- Gender equality of directors
- Age diversity of directors
- Social impact accolades

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 September 2023.

High growth triggers

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

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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.

Their platform is trusted by thousands of business professionals to help them find, research and monitor the most ambitious businesses in Britain. They 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.

Beauhurst's 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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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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