



The Growth Trilogy Part 2

Venture Capital as 21st Century Growth Catalyst

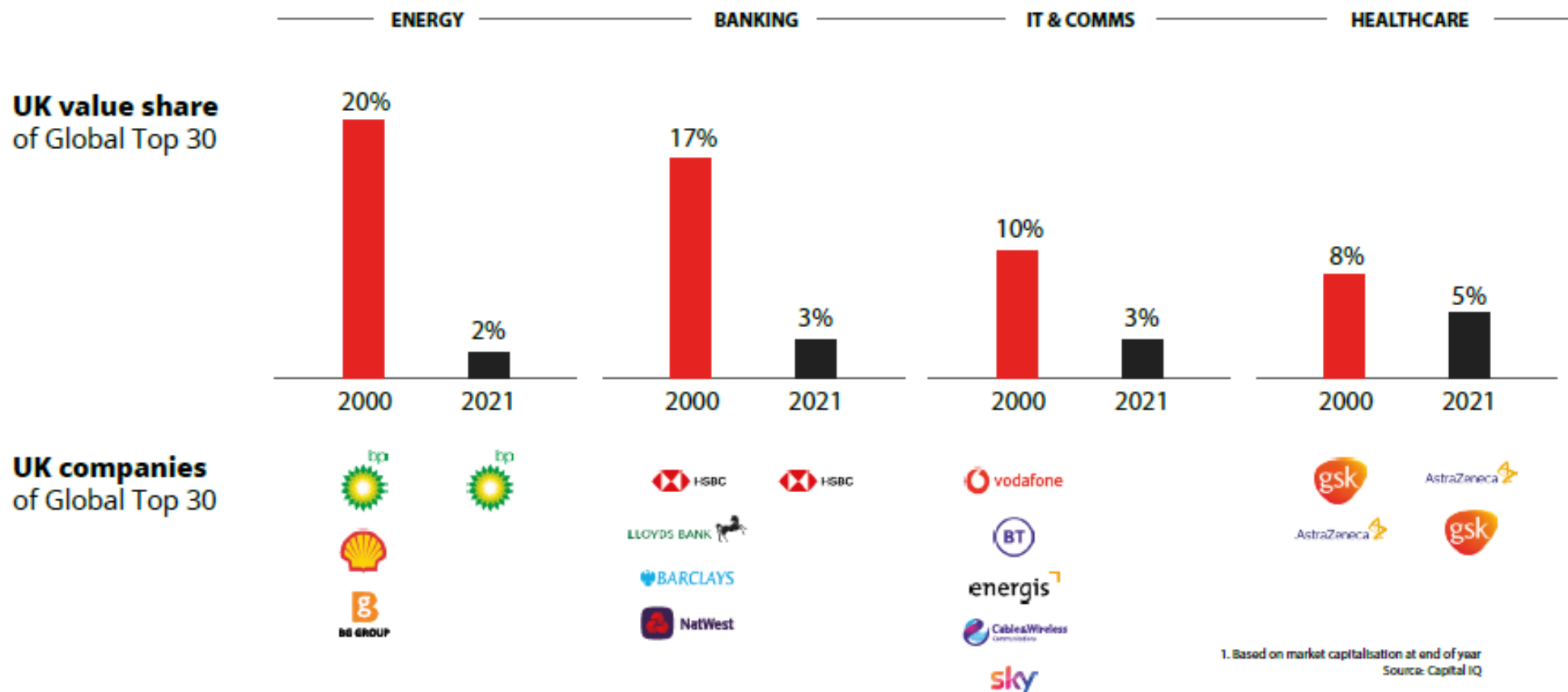
May 2025

Overview: The necessary but insufficient precondition for higher growth is a cohort of high growth firms

- Productivity, investment and growth record well known
- Productivity and business dynamism closely linked to 5 per cent of fast-growing small firms – important source of innovation, challenge to incumbents and source of growth companies
- UK strong record on startups and unicorns – third only to USA and China
- BUT: Too many scaleups (94%) get acquired rather than exit via IPO and go overseas. For example, between 2014-24, 41 % of high growth business were acquired abroad, 65 % of academic spinouts and of all deals more than £500mn, 70 % abroad.
- The result: too few self-standing consequential UK growth companies reinforcing problems cited above



Number and value share of UK companies in the global top 30 companies



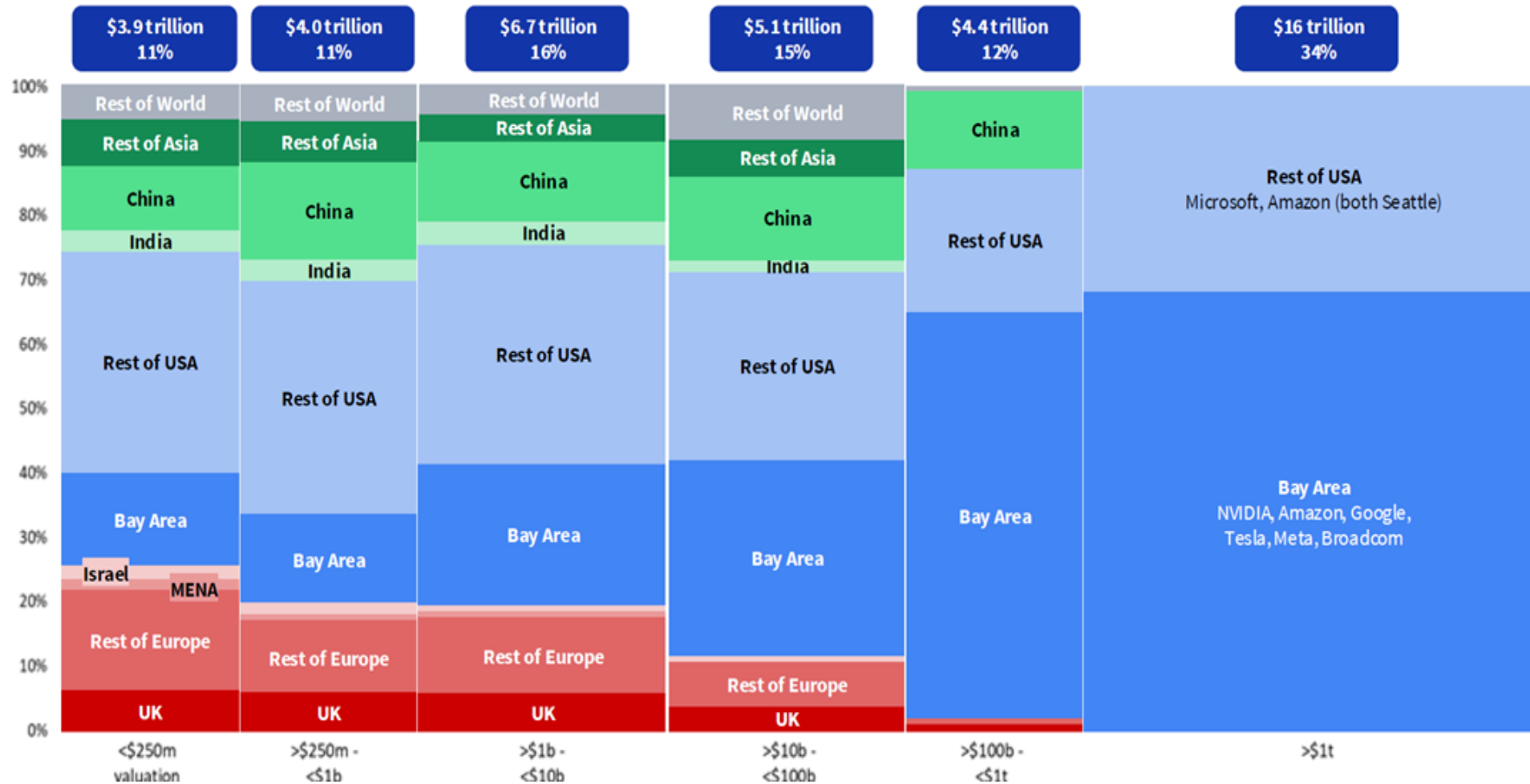
Source: Lakestar (2022).

VC as growth catalyst – the ‘third great institution of modern capitalism’

- Technological and financial innovation have been interdependent over time. The development of VC over the last fifty years has been driven by, and it in turn drives, the new ‘knowledge’ economy reliant on intangibles.
- US VC only fund 0.15% of new businesses each year, yet accounts for the backing of nearly half of publicly listed companies
- Spillovers from VC-backed startups are seven times larger than those generated by the R&D investment of established companies.



21st century value generation –specifically >\$1tn companies - has been substantially driven by the US, most of which were VC backed (Source: Dealroom 2025)



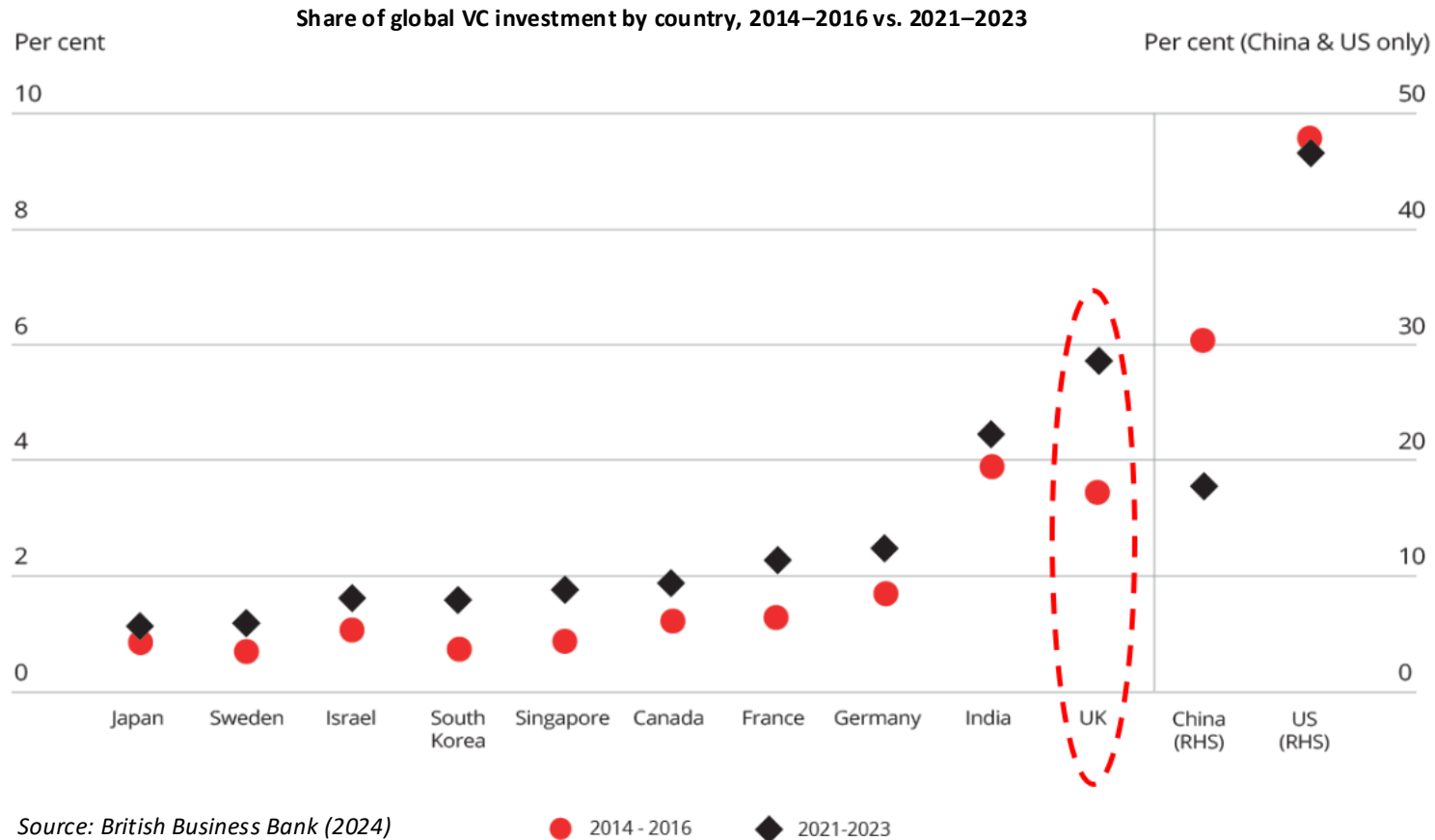
How VC adds value

- VC is focused investment supporting purposeful founders
- Sequential funding rounds embed milestones for assessment of performance and risk.
- Engagement – 25 % of VCs engage 2x week, 33% 1x week, Sophistication of control rights, fit-for-purpose boards etc
- Control shifts to VC investors when performance is weak and to entrepreneurs when performance is strong
- Often sustain engagement after IPO – highly growth oriented



UK venture ecosystem – a success story

- UK now 3rd largest VC market globally, accounting for nearly 6% of global investment, up from 3.4% nearly a decade ago. Largest VC market in Europe.
- The UK has leveraged its strengths in financial services to become a fintech global leader, attracting over 11% of global fintech investment.

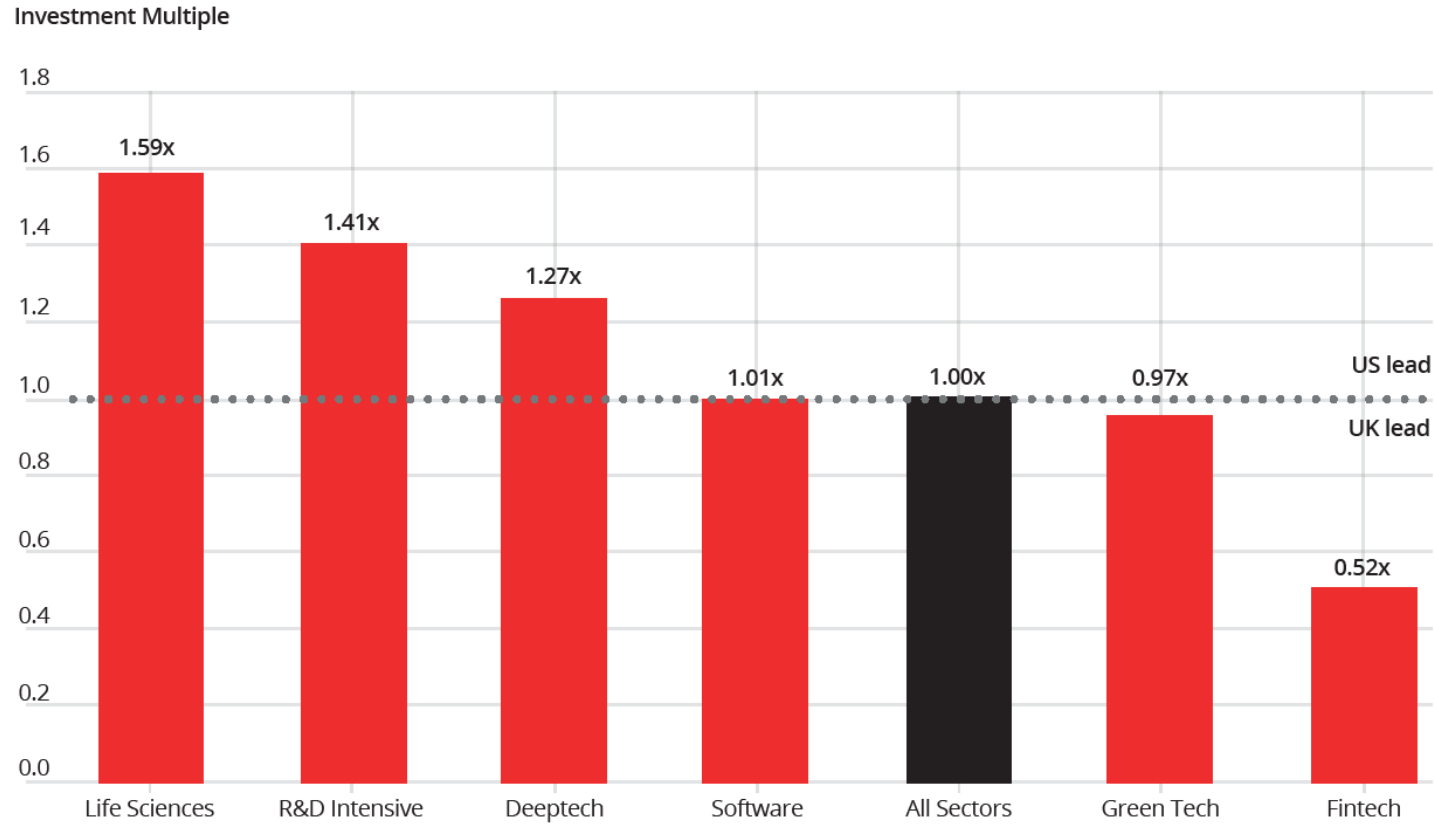


However, it's not all rosy

- VC invests less in deeptech but rather in 'lighter' low cost, quickly scalable companies. But deeptech is where next wave of innovation is likely to happen.
- VC is strongly cyclical and sensitive to macroeconomic factors: capital floods in during booms but evaporates in downturns, leaving even strong ideas stranded. Currently ~£200 bn of equity-backed firms cannot currently be sold
- Highly concentrated geographically with powerful gatekeepers
- Preference for acquisitions over IPOs as an exit mechanism
- Pressure for growth can encourage excessive risk-taking and corner-cutting.



UK has increased market share in sectors like green tech and software; BUT gaps remain in areas like life sciences, R&D intensive sectors and deeptech, particularly relative to the US

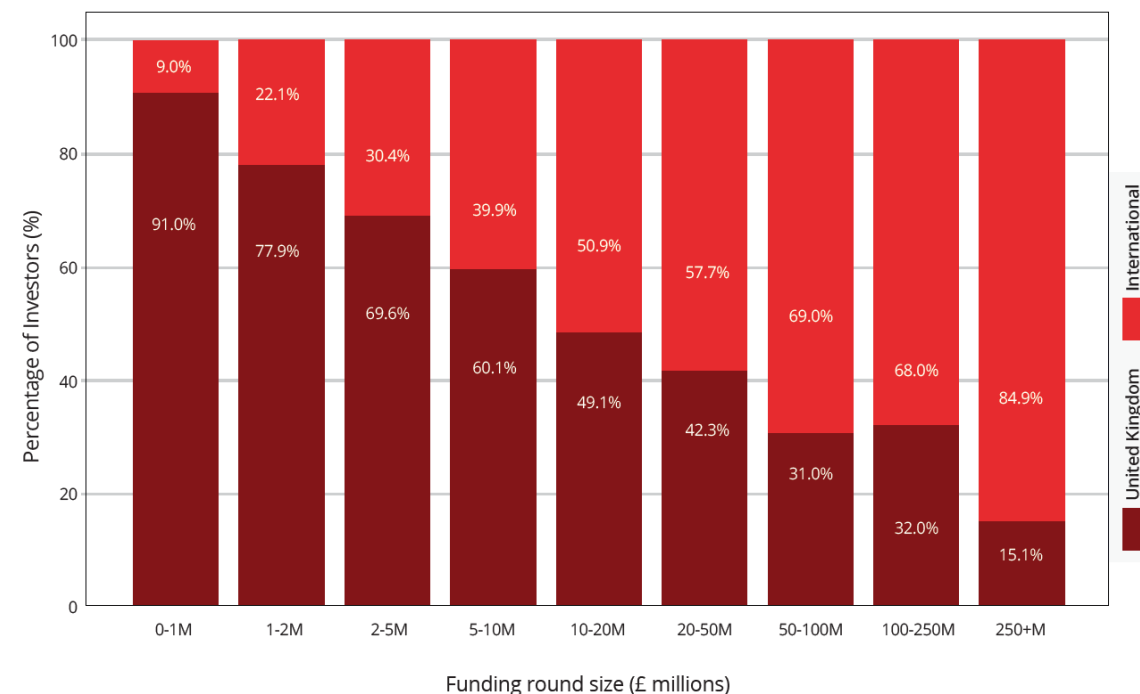


Source: British Business Bank (2024).

Issues to be addressed - money, money, money

- Equity gap estimated to range from £5bn to nearly £25bn per year. BUT policymakers must take a targeted approach to identify where the funding gaps are most pronounced along the funding escalator.
- Early stage, seed-corn and angel investment is plentiful –perhaps too plentiful - in part incentivised by generous tax credits.
- Later funding rounds successively more problematic, recently at the £2-10m stage corresponding to the transition from seed funding to Series A.
- Long-standing weaknesses at the scaleup stage (£100m+ rounds).
- Foreign investors, particularly US funds, tend to dominate larger, later funding rounds.
- Foreign VC investment as a share of total VC investment in the UK has increased over time.

Comparison of domestic and international participation (%) in equity funding rounds by deal value, 2014–2023



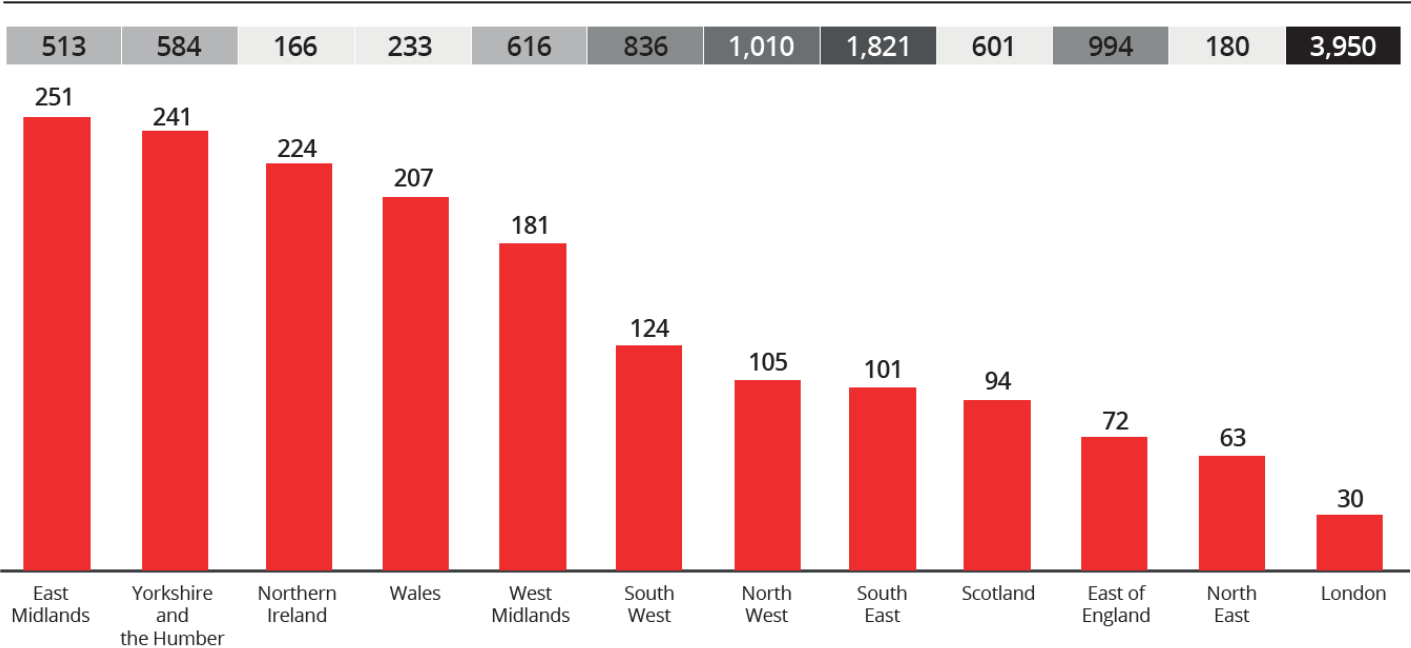
Source: Beauhurst (2024).

Equity gaps also manifest themselves at a regional level

- Regional equity gaps (the equity gap relative to investment) is largest in the East Midlands, Yorkshire and the Humber, and the Northern Ireland.

Estimated equity gap (2021) as a proportion of total equity deal flow in 2019-2022,

Absolute size of estimated potential equity gap, £ million

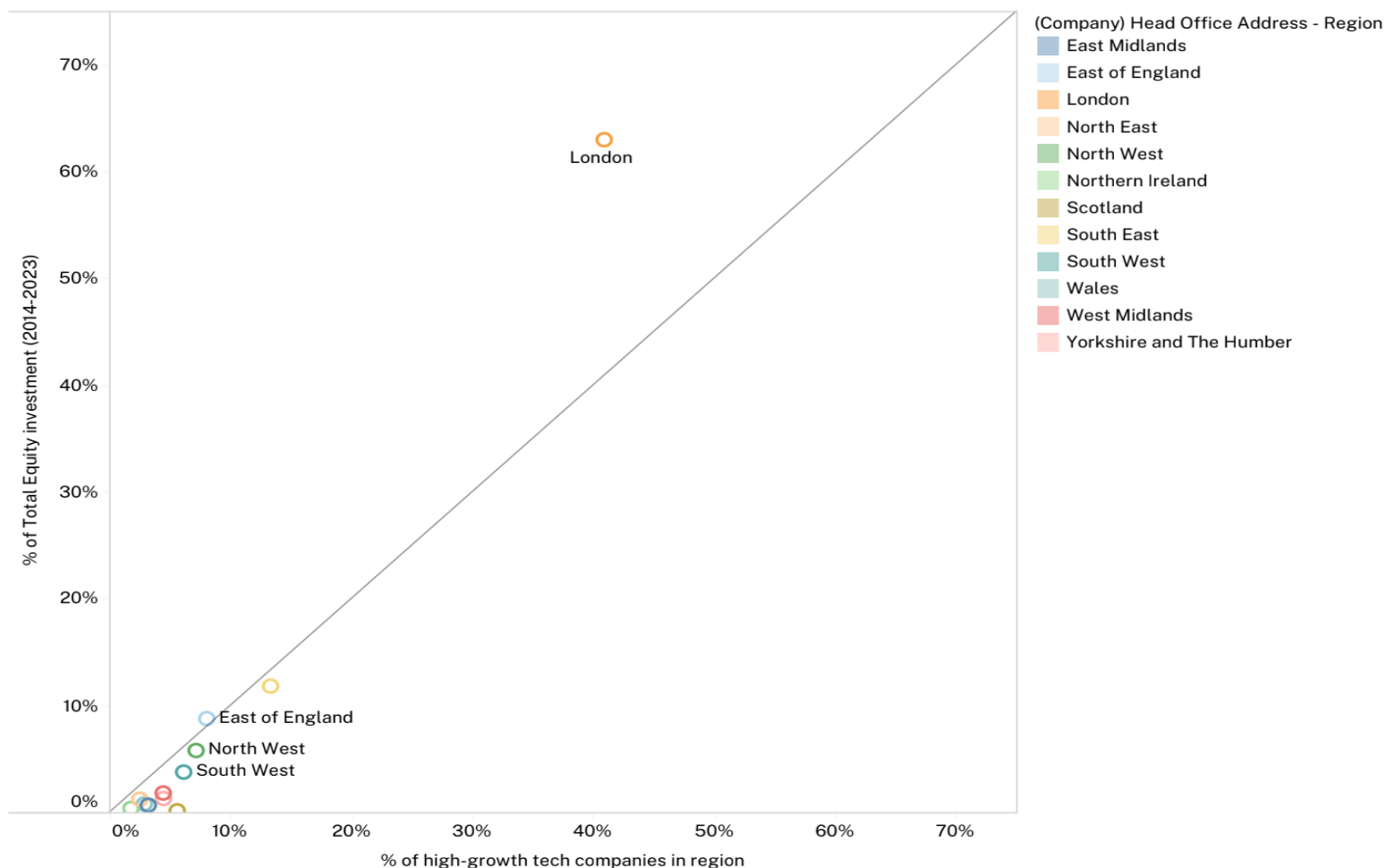


Source: Oliver Wyman (2024) based on Kacer and Wilson (2023).

Equity gaps also manifest themselves at a regional level (cont..)

- There is substantial concentration of VC investment in London, but the evidence is that opportunities exist across the country – for example, Pragmatic Semiconductor and Matillion.

Correlation between number of equity investments in a region and the proportion of UK high-growth firms located in that region

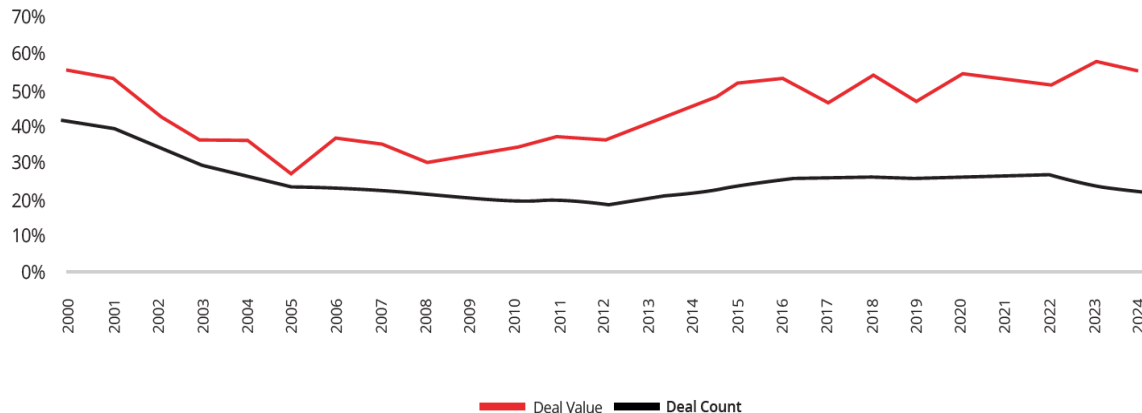


Source: Beauhurst (2024)

VC is not the only story in town

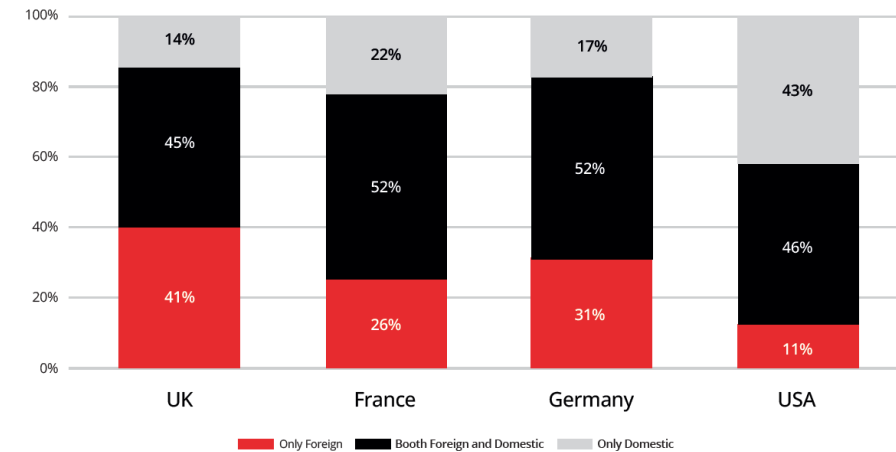
- There are alternatives to the traditional 7–10 year, arm’s-length limited partnership model — including evergreen funds, venture debt, venture studios, and corporate venture arms.
- Corporate venturing plays a significant role in the US, accounting for 56.1% of total US VC deal value and 22.8% of deal count in 2024. The ‘Magnificent Seven’ alone invested nearly three times more in startups than all VC investment in the UK.
- No country, even the US, is maximising CVC potential. Much more to be done. However UK trails badly – again reliance on overseas CVC

US VC deal activity with CVC participation as a share of overall US VC deals



Source: Pitchbook (2025).

Participation of foreign and domestic corporate investors in CVC-backed rounds (2023)



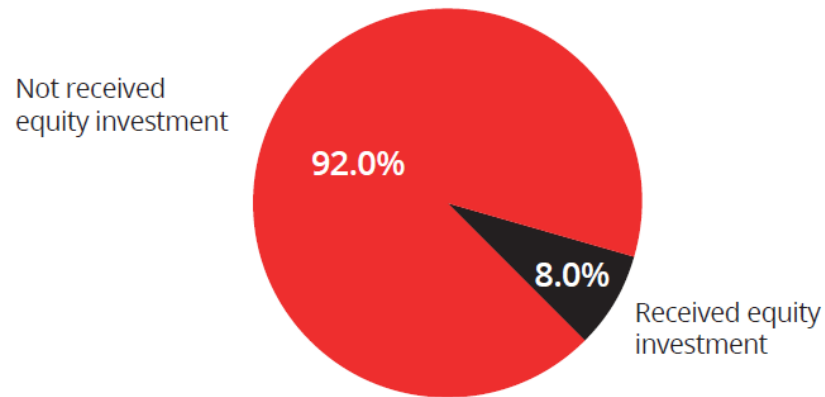
Source: GCV (2024).

Don't forget other forms of innovation and innovative businesses

- Support also needed for large number of bootstrapped/high-growth companies that don't necessarily have unicorn potential.

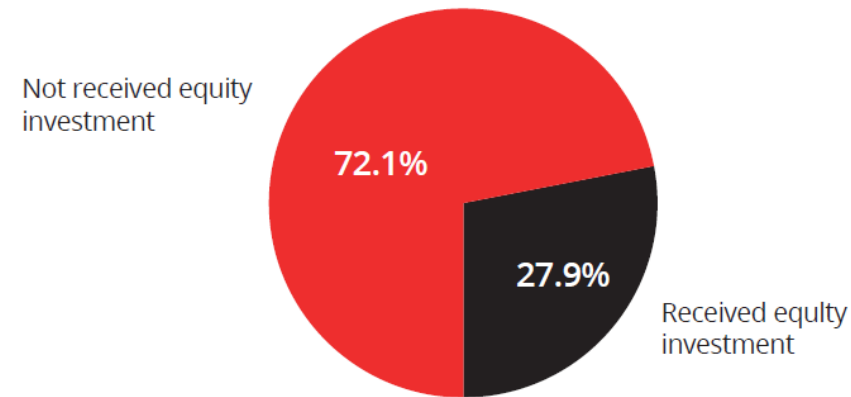
Bootstrapping status of active private UK tech companies

a. Total active tech companies
(incorporated after 2011)



n: 186,704

b. Total active tech companies
(20% headcount CAGR, incorporated after 2011)



n: 186,704

Source: Beauhurst (2025).

Policy avenues?

- Boost the VC funding capacity and role of the British Business Bank – British Patient Capital, LIFTS, National Strategic Security Investment Fund. Assume lead investor role?
- Enlarge UK risk capital allocated to VC – ISA reform, beyond Mansion House 2, the BCVA's NOVA programme, accelerate pension fund consolidation
- Clawback. Start something for something approach to tax incentives and grants – eg why no return of funds for EIS, VCT and SEIS funded companies when acquired overseas? Equally better tailor grants to long-term funding needs of deeptech?
- Encourage large companies to act as lead customer, speed payment processing times, engage in corporate venturing etc. David Willetts' suggestion of tasking ministers with holding relationship with one/two prime companies?



Policy avenues?

- Public procurement – ‘give me an order over a grant any day’ More of a VC mentality (equity warrants?)
- Cross-regional collaboration – the Pragmatic example
- Think Europe. New Palo Alto. Towards an EU innovation area. EU IN – the pan EU + UK passport for high growth scaleups
- Promote health of wider innovation ecosystem - from universities to Catapults



To Conclude

- Technology is changing with a greater focus on deeptech/hardware – we need types of financing that are optimised for this – that is also a reason for VC to step up its game.
- Britain – government and investors alike – need to be more keenly aware of the priority of nurturing the purpose that animates company founders and as far as possible of retaining headquarters, research and high value-added production in the UK.
- VC is critically important, cost-reward ratio outstanding and supporting it should be a policy priority





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