

**The Risk Capital Market**

**in Scotland**

**2014**



# INTRODUCTION

The purpose of this report is to provide a detailed and comprehensive analysis of the early stage risk capital market in Scotland for the calendar year 2014.

The report is one of a series dating back to 2003. The most recent in the series covered the years 2012-2013 and was published in December last year.

The report is intended to improve the understanding of the scale and characteristics of the early stage risk capital market in Scotland. This understanding comes at a time when the economy is consolidating its recovery from the economic turmoil in the wake of the banking collapse in 2008. It identifies the contribution made by risk capital investment to business ventures in Scotland and provides evidence   
for the development and evaluation of policies to stimulate the market.

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June 2015

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# EXECUTIVE SUMMARY

**THERE HAS BEEN A FURTHER STEEP INCREASE IN THE TOTAL INVESTMENT   
IN THIS MARKET**

Investment amounts have increased in each of the past three years, with the number of deals in 2014 increasing by 45% over 2013, and the amounts invested up by over 20%. The total investment is now close to it highest ever level of £250m reached in 2001, at the height of the dot.com boom.

**THE TOP FEW DEALS CONTINUE TO ACCOUNT FOR THE MAJORITY OF THE INVESTMENT**

Although there were increases across the board, in 2014 the top 20 deals accounted for two thirds of all investment - the top three deals alone accounted for one third.

**THE MIDDLE INVESTMENT BAND HAS SEEN SUBSTANTIAL CONSOLIDATION**

In 2014, 70% of all deals were in the middle band - between £100k and £2m - taking 28% of the total investment. This is regular territory for business angel groups, but more VCs and institutional investors are making investments at this level, even if these are tranches of larger commitments. VCs made 56% of their investments in this range, but these accounted for only 10% of their value.

**IN 2014 BUSINESS ANGEL GROUPS HAD A RECORD YEAR**

Not only were investment amounts at record highs, but the angel groups invested in a record number of new companies.

**VC AND INSTITUTIONAL INVESTMENT MORE THAN DOUBLED OVER THIS PERIOD**

Investment by this category of investor rose by 125% from 2012 to 2014. £80m of this increase was in the ‘higher band’ of investment (over £2m).

**THE ICT SECTOR SAW A FURTHER SURGE IN INVESTMENT LEVELS**

For several years the ICT sector has been the recipient of more investment than other sectors, and experienced a further large increase in 2014. Life science companies also did well in 2014. Energy was the only sector to see a decline in investment levels.

**INVESTORS CONTINUE TO BACK NEW VENTURES   
(AS WELL AS PORTFOLIO COMPANIES)**

The number of companies securing investment for the first time has increased substantially in each of the past two years. This increase is not however matched by the amounts invested, which have dropped back slightly in 2014.

**THE EAST OF SCOTLAND DOMINATES THE MARKET**

As we reported last year, in 2013 companies in the East of Scotland took over half (53%) of the total equity funding. In 2014 this increased to 58% (of the much enlarged total), and the East now secures more investment than all other regions added together.

# BACKGROUND

Access to a strong supply of early stage risk equity capital is important for national and regional economies due to the catalytic role that it plays in the entrepreneurial process. UK and Scottish Government policy recognises that the market does not always enable SMEs to grow rapidly because of the existence of equity gap(s) beyond the levels banks will lend and beyond the means of most informal investors and business angels, but below the level usually considered for venture capital funding.

In common with early stage markets elsewhere, the Scottish risk capital market continues to be fragmented with many parts of the market not visible in the public domain. This presents challenges when determining the extent to which it is efficient in how it functions in channelling growth finance to early stage companies.

Scottish Enterprise commissions research to identify the investment activity of all participants and to estimate the total flow of risk capital investment into early stage Scottish companies. This includes investigating the characteristics of the industry’s key players and beneficiary companies, the scale of the annual flow of new investment, and establishing whether there is evidence of gaps in the supply of risk capital. From this analysis SE is able to quantify the impact on the market of its early stage equity investment vehicles (the Scottish Seed Fund, Scottish Co-investment Fund and the Scottish Venture Fund) to ensure that SE interventions remain ‘fit for purpose’ and able to optimise economic impact.

## Approach

Full details of the methodology adopted are given in Appendix 1. The approach is intended to separate actual flows of funds from the so-called ‘headline’ investments. These are the figures quoted in press releases and other statements by investors and investees, and include the total equity commitment (which is usually invested in tranches after the investee reaches agreed milestones). These headline announcements often include non-equity finance such as bank facilities and grant awards.

This report covers only equity investments by independent third party investors, omitting investments by ‘founders, friends and family’ or other non-independent investors prior to what the market usually terms a Series A round, meaning the first round in which independent investors participate.

The report also excludes commercial loans or other forms of debt finance.

Where regular independent investors such as angel groups make a relatively small early investment in a company in the form of a convertible loan, this is included in the figures in this report in the same way as equity investments. Such loans are not structured like commercial loans with a fixed repayment schedule, but are usually converted to equity at a relatively early stage rather than repaid.

# REPORT FINDINGS

## 1 KEY TRENDS

### 1.1 Trends in investment value

Figure 1: *Trends* 2005-2014

2014 saw a continuation of strong growth in equity investment in young Scottish companies, and indeed set a number of records. According to the 2005-2007 report in this series, prepared by York Consulting, the previous high point in amounts invested since the millennium was £250m in 2001, at the height of the dot.com boom. The 2014 figures are not far short of this total, and have exceeded those recorded every year since 2001 by a substantial margin.

Every report in this series has highlighted the fact that the totals are greatly influenced by a relatively small number of high value deals, and 2014 was no exception. This aspect of the data is examined more closely below.

The quarterly results for 1Q 2015 show continuing substantial investment, but there is a large degree of variability in the quarterly figures so it is too soon to predict that the rate of increase seen in the past three years will be extended this year.

Singular large deals tend to dominate the figures for any one period. As a result of this, there are a number of ways of looking at the underlying investment patterns. One approach is to isolate the top ten or twenty deals in each year, as follows:

Figure 2: Top twenty deals v remainder 2009-2014 £m

Based on the above evidence, it is possible to state that in 2012 and 2013 the top ten deals accounted for the largest part of the increase in investment. However, this is not true for the 2014 period, where the considerable increase in the value of the top ten deals is mirrored in the increase of all others.

It is possible to take this analysis a stage further, and look at the top ten deals alone. In the past three years, the top three deals alone have accounted for bulk of this total – more than 60% in the past two years (2012 - £22m; 2013 - £73m; 2014 - £82m) - which reinforces the conclusion that overall funding levels are very much dependent upon the number of large deals.

In the previous report we commented that The Business Growth Fund (BGF) had played a major role in the increase in investment levels. The BGF was involved in three of the top ten deals in 2014, investing £20m in total, but the remainder of the deals at this level were widely spread amongst different institutional investors.

An alternative perspective is to take the type of investors participating in the deals, and establish which category accounts for the largest increases, as follows:

Figure 3: Investment by investor type 2009-2014

Angel investors had a record year in 2014, moving well beyond the £14m-£17m range of the previous five years. As always, it was the institutional investors that accounted for the major part of the total. The category SE/public includes the Scottish Investment Bank co-investment funds, plus a small number of other public sector investors.

The angel, VC, and institutional investors are listed in Appendix 3.

A further analysis, used in previous Risk Capital Market reports, is to differentiate between deals in different size bands, which we examine in the following section.

### 1.2 Investments by band

The bands used in previous reports are: higher (over £2 million); middle (£100k to £2 million); and lower (under £100k).

The total number of deals, and the amounts invested in these bands, are shown in the following two charts:

Figure 4: Number of deals by size band 2005-2014

Although the number of deals under £100k looks modest, it is certainly underreported, owing to the difficulty of tracing investments by business angels acting individually rather than in syndicates or groups. That said, the data are collected on a consistent basis, so there can be a degree of confidence that the comparisons year on year are realistic. In other words, the number of investments at this level has remained reasonably steady.

The same cannot be said for investments in the middle band, which is where much of the increase (in number of deals) has happened. As the 24 deals over £2m in 2014 by definition cover the ‘top twenty’ deals described above, this means that there has been a significant consolidation of deals in this middle band, characterised as investments into companies largely beyond the start-up stage and needing finance to prove their technology and their business model.

Figure 5: Investments by size band 2005-2014

*NB – this chart uses a logarithmic scale*

The comments on the number of deals are reflected in the deal totals, which is not necessarily the case when the top few deals account for such a large share of the total. The increase in amounts invested in deals in the middle band confirms the picture of a focus on companies which are already on the journey to full commercialisation.

**Lower band**

Lower value deals have fluctuated in number over the ten years shown, but account for a very small share of total investment. Even if a larger number of deals had been traced, they would not make a major difference to the total investment.

Many lower band investments are made into companies securing equity funding for the first time; this aspect of the statistics is analysed further in section 1.4 below.

**Middle band**

This has in previous years been the relatively constant sector of the market, typified by angel groups making very early stage investments, often as part of an ongoing commitment with future funding rounds ‘tranched’ and paid after the investee has reached agreed milestones.

The range from £100k to £2 million is wide, and can be broken down further as follows:

Figure 6: Middle band, breakdown by number of deals 2012-2014

Figure 7: Middle band, breakdown by investment levels 2012-2014 £m

Following a decline from 2012 to 2013, investment in all three categories of this middle band has increased substantially, both in terms of numbers and of investments.

Taking the three years together, we can analyse the types of investor involved:

Figure 8: Middle band, number of investments by investor type 2012-2014

*NB: Most deals have more than one category of investor, so the totals shown add up to a larger figure   
than the number of completed deals.*

Figure 9: Middle band, investment totals by investor type 2012-2014 £m

This middle band is the ‘sweet spot’ for investments by angel groups, which in 2012/2014 accounted for 72% of their total deals by number, and 87% by value. By contrast, VCs and institutional investors (excluding public sector agencies) made 56% of their total investments by number, but only 10% by value, in this band. VCs have become a little more active in this band; our previous report covering 2012-2013 showed VCs accounting for 21% of total investment in this band, but taking all three years 2012-2014 together, this has now moved up to 25%.

It should be remembered that the present report includes the actual amounts invested in each round, rather than the full commitment by investors (the ‘headline’ figure); announcements about many of the deals included here in the middle band gave totals that would allocate the deals into the higher band.

**Higher band**

The following scatter chart shows every deal over £2 million in date order, to illustrate the outliers and their distribution. Note that the chart uses a logarithmic scale for the deal values.

Figure 10: Higher band over £2m, distribution of individual deals 2012-2014

Besides the random timing of the outliers, the chart shows an increasing frequency of investments nearer the £2 million baseline. With a relatively small corpus of transactions, not too much should be read into this illustration, but for the moment at least Scottish companies have benefited from the increasing number of higher band deals. Following the point made above about deals in the middle band, it should be noted that these deals are (as far as can be ascertained) single transactions of high value; many companies will have secured substantial funding in aggregate (in several different rounds or tranches) without appearing in the higher band figures.

In our previous report we commented that although in earlier years large deals in energy and renewables dominated the higher band, in 2012-2013 the distribution was more generally spread, across all sectors. This trend has continued further in 2014, with higher band deals in all sectors, life sciences companies being the main beneficiaries. As always when discussing this band, a single outlier investment can make a major difference to the pattern of investment, although this effect is less apparent in the spread of deals by number.

Figure 11: Higher band number of investments by sector 2012-2014

Figure 12: Higher band, value of investments by sector 2012-2013 £m

### 1.3 Investment by sector

Figure 13: Number of deals by sector 2009-2014

Figure 14: Investment totals by sector 2009-2014 £m

The ICT sector saw a very large increase in deal numbers in 2014. However, this was not matched by the amount invested, which saw a substantial decline, although still stood at a much higher level than a few years ago. Life sciences companies on the other hand saw a reasonable increase in deal numbers while not moving far beyond the norms for the past few years, but saw a very substantial increase in investment, much affected by the number of higher band deals mentioned in the previous section.

The average deal sizes in each sector are as follows. Energy investments stand out in the middle band, but ICT and life sciences companies have higher averages for deals over £2 million; this higher band has a wider variability (the other two bands are constrained by upper and lower limits), and is strongly affected by the pattern of outlier investments in each sector.

Figure 15: Average investments by sector, lower band 2012-2014 £’000s

*NB: No deals under £100k have been found for companies in the Energy sector*

Figure 16: Average investments by sector, middle band 2012-2014 £’000s

Figure 17: Average investments by sector, higher band 2012-2014 £m

### 1.4 New and follow-on investments

The following charts show the number of investments and amounts invested in ‘new’ companies, being the first time that these companies have secured independent equity investment, and follow-on investments where we are aware of previous equity investments in the company.

Figure 18: Number of new and follow-on deals 2012-2014

Figure 19: Investments in new and follow-on deals 2012-2014 £m

The number of companies securing investment for the first time has increased substantially in each of the past two years. This pattern is not however mirrored by the amounts invested, which after reaching a high in 2013 dropped back a little in 2014, but remain well above the average level over the previous five years.

These first time investments are spread across all sectors and regions, without any obvious pattern, and are mainly for relatively small amounts, although the list includes a number of large investments which as far as we are aware constitute the first independent external investment in the companies concerned; some of these are technology companies which have managed to secure substantial funding at a very early stage, and others are more established companies using equity to finance further development.

### 1.5 Time to investment

The following chart shows the average age of companies at the time they reached their first independent equity investment (ie the time from date of incorporation to the date of deal completion).

The number of ‘new’ companies securing investment for the first time has increased over the past three years, as shown in Figure 18, but as well as having raised less money in aggregate, they have taken longer to reach this point. The averages hide a wide range, however, with three of the 52 companies securing first time investment in 2014 having taken over ten years; these companies have financed their growth in other ways during this period, and so are in a rather different position from those which rely upon external funding before they can reach market.

Figure 20: Average years to first investment 2009-2014

## 2 COMPANIES

### 2.1 Location

Figure 21: Number of deals by region of investee 2012-2014

Figure 22: Investment by region of investee 2012-2014 £m

Although most regions saw more investment deals in 2014, the biggest increase by far was in the East of Scotland, which also saw a large increase in amounts invested, having attracted more investment in 2013 and 2014 than all the other regions added together. For a roughly 20% increase in deal numbers, companies in the West secured almost double the amounts of investment of the previous two years.

### 2.2 University spinouts

Figure 23: Number of investments in spinouts as % of all deals 2012-2014

Figure 24: Value (£ millions) of all investments in spinouts, as % of total investment

The figures for 2012-2013 have been revised from the previous report to include some companies which are technically ‘start-ups’ (formed by members of university staff, or recent graduates) rather than ‘spinouts’ (companies formed to commercialise IP owned by a university). These start-ups are developing technology which has clear origins in university research, even if it is not using IP owned by the university where it originated. Student start-ups, which might have nothing to do with the research being carried out at their university, are not included in the ‘spinouts’ figure here, but the list of ‘others’ does include some companies which were started by students.

The decline in both the number and amount of investment in spinout companies, observed in our previous report and not changed by the addition of some start-up companies as explained above, was reversed in 2014. These companies account for a little over 10% of all investments, by number and amount. This figure however undervalues the influence of universities in company creation; there has been a trend across the UK in recent years away from the formation of spinout companies, created to commercialise IP owned by the university, and towards the promotion of entrepreneurship more widely across the institution. This is reflected in larger numbers of start-ups by university staff and recent graduates (as well as more student companies), several of which are included in the figures covered by this Report even if not attributed to the university of origin.

We commented in the 2012-2013 report that no university spinouts featured in the list of investment deals over £2 million, but that this was changing in 2014. Four spinouts secured investments of over £2 million in 2014, and a further four completed deals of over £1 million. As remarked elsewhere in this report, there will be several more spinout companies which have raised this level of funding in aggregate, without any single round being in this bracket.

### 2.3 Exits

2014 was a relatively quiet year for exits, which are however often difficult to track. YCF has recorded the following exits by IPO and trade sale. As always, there is little information about values, as acquirers in trade sales are often reluctant to disclose this information.

Table 1: Exits by early stage Scottish companies 2014

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| company | exit date | type | value | destination | location |
| Collagen Solutions | 02-Jan-14 | flotation | ~£10m | AIM:COS |  |
| Rocela | 13-Jan-14 | trade sale | n/d | Version 1 | Ireland |
| Metaforic | 07-Apr-14 | trade sale | US$11.6m | INSIDE Secure | France |
| Flexitricity | 08-Apr-14 | trade sale | £15.6m | Alpiq | Switzerland |
| Wolfson Microelectronics | 29-Apr-14 | trade sale | £291m | Cirrus Logic | USA |
| Pharmacells | 01-Jul-14 | trade sale | n/d | Precious Cells Group | UK |
| Factonomy | 18-Oct-14 | trade sale | n/d | Sentronex | UK |
| Fathom Systems | 18-Dec-14 | MBO | £4.25m |  | UK |
| Gael | 18-Dec-14 | trade sale | £18m | Ideagen | UK |
| Cascade Technologies | 22-Dec-14 | trade sale | n/d | Emerson | USA |

Figure 25: Years to successful exit

This chart combines the limited data on exits in the early stage company sector in Scotland, with the figures from YCF’s sister publication Spinouts UK. There are many more exits in the Spinouts UK database, which covers companies formed from university research across the whole of the UK. The comparison is not direct – the YCF figures include all types of companies, but only in Scotland, and the Spinouts UK figures include only university companies but UK-wide – but they are converging on a normal span of between 8 and 10 years for a technology company to reach a trade sale or IPO. The YCF average is based on a small number of exits, and the uptick in years to exit in 2014 should not be regarded as indicating a trend.

## 3 INVESTORS

### 3.1 Business angels

Angel investing continues to be a major part of the early stage investment environment in Scotland.

The national business association LINC Scotland has some 20 angel groups and at any one time around 100 solo angels as members, although there are several other angel groups and many solo business angels who are not LINC members. With crowdfunding platforms continuing to grow, there is an increasing number of private individuals now investing in early stage companies.

Reporting by financial year, LINC recorded all-time high investment figures for 2014/15. The chart below shows the amount invested by different parties, in deals in which LINC members participated. This includes the business angels themselves, the other private investors joining the deal (sometimes management or directors of the investee companies, and sometimes independent institutional investors such as VCs), and matched funding from the public sector (largely the Scottish Investment Bank’s Co-investment and Venture Funds).

The 108 investments included in this chart amounted to £43.2 million, in itself an 84% increase over the previous year. The amounts invested by business angels themselves showed the most dramatic increase, 76% above FY 2013/14. Investment by other private investors also showed a large increase over the previous year, but this fluctuates widely from year to year, usually dependent upon the number of infrequent but large ‘block-buster’ deals. Because of the way in which the SIB co-investment funds work, the public sector figure partially tracks the curve of the other investors, although a significant number of deals in the 2014/15 figures did not include public sector co-investment.

Figure 26: Angel investing by LINC Scotland members 2011-2014 £m

This increase in investment levels is by no means restricted to follow-on investments in portfolio companies. As Figure 27 shows, investments in new companies increased by over 100% to a level well in excess of the previous high point in 2013.

Figure 27: New companies funded by business angel groups

There are several angel groups (and many other individual angel investors), which are not members of LINC but whose investments, where known, are included in the results elsewhere in this Report.

Specific data on angel investing in the USA is provided by the Center for Venture Research (CVR) at the University of New Hampshire, which can be summarised for recent years as follows:

Table 2: Angel investing in USA 2011-2014

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2011 | 2012 | 2013 | 2014 |
| investees | 66,230 | 67,030 | 70,730 | 73,400 |
| amount $bn | $22.5 | $22.9 | $24.8 | $24.1 |
| active investors | 318,480 | 268,160 | 298,800 | 316,600 |
| yield rate (successful applications) | 18.3% | 21.3% | 21.6% | 19.2% |

The $24.1bn invested by US business angels in 2014 is close to the record high of $26bn in 2007.

According to CVR the ‘yield rate’ is normally around 15%; although this figure slipped back in 2014 from the high points of the previous two years, it remains above this norm. Business angel investment in the USA clearly continues at a high level, but has not seen the large increases observed recently in Scotland.

As in other areas of the world, the angel investors in Scotland make many more investments than VC or institutional investors, but at an earlier stage and in smaller amounts.

### 3.2 Venture capital

The VC and institutional investors included under this heading cover a wide range of names, including specialist technology investors such as IP Group, Parkwalk Advisors, Maven, and Epidarex, mainstream non-specialist VCs such as SEP, Delta Partners, and Pentech, university funds such as Old College Capital, and corporate venturers such as DC Thomson. A full list of organisations in this category, with investments during 2012-2014 included in the figures in this Report, is given in Appendix 3.

We have commented above that much of the increase in investment levels during the period under review is attributable to a small number of very large deals, mainly by VC firms. We have also pointed out, in Section 1.2 above, that many VC and institutional investors are active in the middle band of investment (£100k - £2m). The following charts analyse VCs and institutional investor activity in further detail.

Figure 28: VC and institutional investors, number of deals by size band 2012-2014

Figure 29: VC and institutional investors, investments by size bands 2012-2014 £m

As might be expected there are very few deals in the lower band (omitted in the above charts) – 1 in 2012, zero in 2013, and 3 in 2014 - and the higher number of deals in the middle band represents only a small proportion of the total investment.

Figure 30: VC and institutional investors, number of deals by sector 2012-2014

Figure 31: VC and institutional investors, investments by sector 2012-2014 £m

The ICT sector has been the main focus of investment by VC and institutional investors, with life sciences attracting more attention in 2014. In these two sectors in particular, individual large deals make a big difference to the overall totals, with investment more evenly spread in the other sectors.

Figure 32: VC and institutional investors, percentage of deals by investor location 2012-2014

Figure 33: VC and institutional investors, percentage of investment by investor location 2012-2014

These two charts illustrate the fact that while institutional investors in Scotland (and to a lesser extent in the UK as a whole) play an important role in supporting early stage companies, the largest influx of funding comes from outside the UK, in relatively few deals.

Worldwide (as also in Scotland), the number of companies which secure investment from venture capital firms is an order of magnitude smaller than those winning angel investment, although in the USA the totals invested are not so far apart. Figures from the NVCA (National Venture Capital Association) in the US can be compared with CVR figures for angel investing, repeated from the previous section:

Table 3: VC investing in USA, comparison with angel investing 2011-2014

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2011 | 2012 | 2013 | 2014 |
| number of VC deals | 4,020 | 3,904 | 4,134 | 4,316 |
| VC investment $bn | $29.8 | $27.5 | $29.8 | $49.3 |
| number of angel investees | 66,230 | 67,030 | 70,730 | 73,400 |
| angel investment $bn | $22.5 | $22.9 | $24.8 | $24.1 |

The average angel investment derived from these figures is approximately $300k. Average VC investments increased substantially in 2014, from around $720k in 2011-2013 to over $1.1m in 2014; this is indicative of a surge in VC investing as an asset class in the USA, although deal numbers have not increased substantially up to the end of this period.

The NVCA figures show the number of deals – if they include any cases where a company has completed more than one investment round in the period, then the difference with the angel figures is increased.

In the UK, the BVCA (British Venture Capital Association) publishes comprehensive data on investments by its members. The latest figures available go up to 2013, and a comparison between Scotland and the rest of the UK using BVCA statistics was included in our previous report covering 2012-2013.

This showed that the 38 and 37 deals by VCs in Scottish companies in 2012 and 2013 tracked by YCF were more than those given in the BVCA statistics, but the BVCA figures are for investee companies rather than separate deals, and cover just BVCA members, whereas the YCF figures include other institutional investors such as corporate venturers, university funds, the Business Growth Fund and others, and exclude replacement and MBO/MBI investments. In 2014, YCF tracked 66 investment deals in which VCs and other institutional investors participated – a substantial increase on the previous two years.

### 3.3 Corporate venturing

Investment by corporate venturers was relatively quiet in 2014, following a considerable increase in the number of global firms setting up investment arms of this type in the previous few years. A number of corporate venturers (eg ABB, Fred Olsen, SSE) made follow-on investments in renewable energy companies, as did others such as DC Thomson across a wider range.

The year did however include an outstanding example of corporate venturing as an ideal outcome for both partners; in August, IKEA Greentech led a very substantial investment round in Design LED Products, “opening up fantastic possibilities for innovative designs using energy efficient LEDs” for IKEA, and enabling Design LED to expand its business and increase its product range.

### 3.4 Crowdfunding and alternative finance

The deals listing for 2014 on which this report is based includes seven successful equity crowdfunding campaigns, raising £1.265 million in total, with the largest deal raising £330k. During 2014 and into 2015, many of the start-ups securing equity crowdfunding were in the retail food and drink sector, with craft beers, chocolate manufacturers, honey, cakes, jams and other such products winning support. Four of the seven deals in Scotland came into this category.

This deal flow is considerably lower than the figures reported by Nesta and the University of Cambridge in their detailed study of the sector, ‘*Understanding alternative finance: The UK Alternative Finance Industry Report 2014’*’, which shows 4% of a total £84m equity crowdfunding, ie £3.4m, coming to fundraisers in Scotland. This 4% of successful equity fundraisers in Scotland compares with the massive concentration of such funding in London (51%) and the South East (11%). There are signs of more, and larger, equity crowdfunding campaigns by Scottish companies in the first few months of 2015.

# APPENDICES

## Appendix 1: Glossary of key terms

Term Definition

**angels** Private individuals who invest their own capital either alone or part of a syndicate, and who personally own the equity they purchase.

**angel syndicates** Networks of business angel investors, who combine their investments in a company. Also referred to as angel groups.

**B2B, B2C** business to business, business to consumer – terms used to distinguish between those companies which sell to other businesses, and those which sell to the general public. These two categories normally have very different business models and different routes to market.

**deal** The transaction between an individual investor and a company, which may be standalone or part of an investment involving other investors.

**EIS** HM Revenue & Customs’Enterprise Investment Scheme, designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies.

**ERDF** the European Union’s European Regional Development Fund

**institutional investors** Organisations which invest on behalf of others and offer guidance and advice on investment. These include Venture Capital companies, partnerships, corporations and corporate venture firms, banks and investment trusts.

**ICT** information and communications technology

**investment** A discrete purchase of share capital in a company by one or more investors at a given time.

**IP** intellectual property

**LINC Scotland T**he national association for business angels in Scotland, with a membership network of hundreds of investors including those operating individually, many groups and syndicates, and some private offices.

**LS** life sciences

**new investment** The first significant external equity investment in a company, excluding early small scale investment by founders, friends, and family. Often referred to in the industry as a Series A round.

**others** The category ‘others’ refers to individual investors who are not part of an angel group (and are not ‘founders, family, or friends’), but also includes investors whose identity it has not been possible to determine.

**P2P** person to person, a term used to describe crowdfunding operations targeted at individuals rather than at businesses.

**PE** private equity, a term sometimes used to encompass all investment firms which seek to invest funds from other partners. The term sometimes includes venture capital firms (see VC below), but is sometimes used to distinguish later stage deals involving financial reconstruction from the early stage venture activities of VCs.

**public** Public sector investments include those by the Scottish Investment Bank funds and by Highlands and Islands Enterprise.

**SCF** The Scottish Investment Bank’s Scottish Co-investment Fund

**SE** Scottish Enterprise

**SEIS** Seed Enterprise Investment Scheme, a special extension of the EIS (see above) to encourage investment in companies at the start-up stage

**SIB** Scottish Investment Bank, a division of Scottish Enterprise that provides investment funds to support company growth in Scotland.

**spinout** a company set up to exploit IP owned by a university or other research institution.

**SSF** The Scottish Investment Bank’s Scottish Seed Fund

**SVF** The Scottish Investment Bank’s Scottish Venture Fund

**syndication** Investment by two or more groups or firms, investing under the same terms and conditions in order to increase the total deal size.

**VC** Venture capital, or venture capital firm**.** Typically, VCs are investing funds with a specified time scale, often ten years, within which they aim to generate returns on the investments of the fund’s LLP (limited liability partner) stakeholders.

## Appendix 2: Methodology

### Stage 1: Data collection

**Companies**

The current report is a continuation of an ongoing series, and is based on a list of known investment deals originating initially with deals listings from YCF, LINC Scotland, and the Scottish Investment Bank.

The database was built up by including other potential investees companies which are similar in origin or nature to those in the first list, but were not known to have secured investment. This included companies from the previous Risk Capital Market reports and previous YCF deals listings, winners of SMART awards, presenters at pitching events such as Informatics Ventures’ EIE, tenants of science parks and incubators, and Scottish companies supported by Nesta, Innovate UK, and other relevant early stage support organisations. These companies were approached, by telephone and email, to establish if they had secured external investments which were not on the first list.

The Companies House database was also checked for all these companies, to establish the dates of any returns indicating the issue or allotment of shares. SH01 forms were used to verify the dates and actual amount of investments.

**Investors**

In addition to checking the investments made by those investing organisations included in the SIB, LINC, and YCF lists, other key early stage investors were researched to establish whether or not they had made investments in Scotland in 2014. The investors known to have invested in Scottish companies in 2014 are listed in Appendix 3.

### Stage 2: Analysis

The raw investment data (deal date, amounts by investor) was supplemented by company details (date of incorporation, location, sector) and further information such as the location of the investors.

For all the metrics covered in this report, formulae were created to count the number of deals and give total investment amounts, with the resulting information charted in order to have a visual representation of patterns and trends as the basis for commentary.

## Appendix 3: Investors by type

The following investors all made investments in Scottish companies in 2014.

### Angel groups

**Scotland**

3E

Alida Capital

Apollo Informal Investment

Archangel Investors

Barwell plc

Braveheart Investments

ChimaeraBio

Discovery Investment Fund

Equity Gap

ESM Investments

Gabriel Investments

Green Angel Syndicate

Highland VC

Kelvin Capital

Lancaster Capital

London Scottish Investment Partners

Par Equity Syndicate

Souter Investments

TRI Capital

West Invest Syndicate

WTFB Ventures

**outside Scotland**

Aero-Den LP

Angel Academe

London Business Angels

SWAIN

xenos

### 

### Crowdfunding

AngelsDen

Crowdcube

ShareIn

### VCs and institutional investors

**Scotland**

Albany Ventures

DC Thomson

Edinburgh Technology Fund

Epidarex

Maven Capital Partners

Old College Capital

Panoramic Growth Equity

Par Equity

Pentech Ventures

SEP

Simmons Parallel Energy Fund

SSE Venture Capital

Strathtay Ventures

STV

University of Strathclyde

**other UK**

Albion Ventures

Business Growth Fund

Downing LLP

Edge Performance VCT

Finance Wales

IP Group

Jenson Seed EIS Fund

Longwall Venture Partners

Midven Capital

Nesta Impact Investments

Northstar Ventures

Oxford Capital

Parkwalk Advisors

Penta Capital

Quilter Cheviot

Tate & Lyle Ventures

Triple Point Income VCT

UK Steel Enterprise

**outside UK**

ABB Technology Ventures

Andromeda Capital

Atlantis Resources

Bullpen Capital

Calculus Capital

Comcast Ventures

Delta Partners

HAI Investment Managers

IKEA Greentech AB

KKR

Lime Rock Partners

Lundbeckfond Ventures

Morningside Ventures

NBC Sports Ventures

Shamrock Capital Advisors

Sofinnova Partners

Sofinnova Ventures

# AUTHOR

**Jonathan Harris**

**Editor, Young Company Finance**

Jonathan Harris is the editor of Young Company Finance (*www.ycfscotland.co.uk*), a monthly publication which tracks and reports on the progress of early stage high growth companies in Scotland, from start-up or spin-out to maturity, with special reference to how they finance their development. Since it was started by Gavin Don in 1998, YCF has given detailed reports of over 1,000 investment deals, together with news and features about investors, major grants, funding initiatives, business awards, company pitches, and analysis and comment on the sector.

Since February 2011, the operations of YCF Scotland have been licensed to LINC Scotland, the national business angel association.

Outside Scotland, YCF initiated and runs the Spinouts UK project, an online database of spinouts and start-ups from all universities across the UK ([*www.spinoutsuk.co.uk*](http://www.spinoutsuk.co.uk)). A Quarterly Report gives details of new spinouts and start-ups, recent exits by way of trade sale or IPO, and major investments in spinout companies, together with news and analysis on the sector, and helps ensure that the database is up to date.