

Funding innovation

The impact of equity and grant finance



About this report.

We wanted to find out how **equity and grant funding affect young businesses**. We analysed a huge range of trends in Innovate UK grant-giving between 2011-2016, and looked at our entire equity funding dataset for the same period. The **two together form a complete picture** of how innovative businesses are funded.



Ben McLeod
Senior Associate

“ A business that wins grants and equity has the two key factors for success – a product and a market.

The regional picture

The business growth process requires many ingredients. Where can you find all of those in one place? London. The capital has education, diverse talent, abundant innovation, and a rich supply of capital. For now, these ingredients don't have critical mass elsewhere in the UK.

It makes sense then that the capital took 45% of all equity funding between 2011-2016. Behind this statistic is an even bigger gap between London and everywhere else in the UK: 8% of London equity rounds had some level of public sector backing, compared with 73% in the North East.

Fortunately, the Government is aware of the reasons for London's dominance, and is ecosystem-building elsewhere – particularly by feeding innovators money. Innovate UK exemplifies this push of government cash to other centres of innovation, with eight of the top ten grant-winning universities found outside of London. Over time, private investors will follow. But until then, prospective unicorns need one foot in London.

Being a great partner

Of the top 10 grant winners, only three are non-Russell Group universities. The general industry consensus is “no surprise there”.

The Innovate UK projects most likely to succeed draw together a talented academic, top research infrastructure, and a business leader to solve a problem. And while the ability to craft good grant applications is essential to securing funding, infrastructure and decades of research certainly help.

Our enquiries showed that company leaders care that their university partners both understand business and have exceptional research – but that many companies are not even aware of grant funding as an option. With the right strategy, other

universities could exploit this niche in the market to generate more partnerships.

Grants and equity – the best of both worlds?

Businesses that secure both grants and equity outperform those that secure only grants or equity. They tend to raise more money and achieve higher valuations. Why?

Stories abound of companies getting 'hooked' on grants. Yet due to the time-intensiveness of applying for them and the limited capital on offer, dependence has a high opportunity cost. And when it comes to equity investment, overly optimistic assessments of technology may hinder returns. Clearly, adopting either model in isolation has risks.

But the due diligence processes of Innovate UK and an equity fund focus on different aspects of a business, and so help mitigate these risks. The former is designed to pick products that are technologically novel and achievable, while the latter picks businesses that have potential to make money. A business that wins grants and equity has therefore proven it has the two key factors for success - a product and a market. The pedigree of the founding entrepreneurs is also important. A team that has the skill to find, apply for and win two very different, very competitive investments is more likely to be a team with a strong advisory panel and full start-up skill set.

These conclusions have recently been validated by Innovate UK itself, which has just launched an 'investment accelerator' competition for entrepreneurs. Winners will receive simultaneous Innovate UK grant funding and venture capital investment from the private sector. We look forward to seeing innovative businesses take advantage of this powerful combination in the future.

The view from the field.

Opinions from universities, businesses and funds.

The regional picture

“ The market actors in London are more proximate and that means the city gets **much richer networks making it more efficient and competitive**. Each region needs to build an ecosystem that will absorb more churn, so they will create more businesses that will replace those that are leaving the ecosystem.

Martin Hughes, Visiting Professor, Hunter Centre for Entrepreneurship

Founded 1947

International centres Oman, Switzerland, Greece, Singapore, Abu Dhabi, Dubai, and Malaysia.

Number of students 4500 across 11 subject departments and specialist units.



Average investment £300k

Transactions funded Early-stage seed funding.

Regional focus The North

About Angel Groups provide a platform for individual angels and groups to work together and invest.



“ Many business owners have never heard of equity investment; the idea of selling a portion of their business is new. The way to resolve weaker ecosystems outside London is to **build knowledge of the investment process**. That requires setting up tech clusters, so entrepreneurs grow business where they are.

Martin Avison, Managing Director

“ Sheffield, Leeds and other universities are particularly strong in innovation, and **Innovate UK is fair in its distribution of funding**. The South receives more equity as it has stronger infrastructure and the TTOs have much greater links with investment funds. Travel is also an issue – **it de-risks the process if you invest in companies nearby**.

David Astles, CEO

Founded 2011

Equity £2.93m over 4 rounds

Grants £353k over 4 grants

What do they do? Ionix have developed materials that generate electricity when pressure is exerted on them, for high temperature, high work environments.



Being a great partner

Founded 1796

Innovate UK projects 132

Innovate UK funding £54.2m

Number of students 21,470, over four faculties – Science, Engineering, Business, Humanities and Social Sciences.



“ Part of Russell Group members' intrinsic value is their **core of funding based on research excellence**. The translation of Russell Group “basic” research into Innovate UK applications reflects this bias in core funding. Our team has an IUK specialist who reviews applications, which certainly improves our hit rate.

Stephen Armstrong, Head of R&KE Development Service

“ Reputation attracts the best talent, alumni, and government and private funding. In order to emulate the access to Innovate UK funding of Russell Group universities, **other universities need to emulate the research excellence, business model and links to industry** of these universities as well.

Tim Wright, CEO

Founded 2012

Equity £8.55m over 3 rounds

Grants £183k over 4 grants

What do they do? AQDOT have developed a method of manufacturing microcapsules for use in industry and laboratory research. The company is a spinout from the University of Cambridge.



Founded 2012

Equity £2.39m over 6 rounds

Grants £583k over 4 grants

What do they do? Rezatec have developed software to analyse satellite and ground data by monitoring and measuring land use over time.



“ Funding bodies are now focused on commercial outcomes, which hasn't been missed by universities. I personally have never considered the Russell Group an important factor: **we look at the expertise of the academics first**. They qualify if they have business expertise. They don't if they just want to write papers from the grant.

Patrick Newton, CEO

Grants and equity - the best of both worlds?

“ Equity and grant-backed companies do better because they have more money, and **grants help de-risk equity**. But grants can distract companies as they'll just seek more for the sake of it, and not use it properly. That skews their focus because **grant and market demands often conflict**.

Martyn Buxton-Hoare, Director of Technology Transfer

Founded 1891

Innovate UK projects 56

Innovate UK funding £8.47m

Number of students 15,050, over three faculties – Arts and Social Sciences, Engineering and Physical Sciences, Health and Medical Sciences.



Invests between \$500k - \$15m

Transactions funded Growth capital, MBOs and acquisitions.

Investment focus Technology, with a focus on electronics, software, internet, medtech, and mobile.



“ Frequently companies will get grants before equity, so **grants are a useful signal of the technology moving into the market**. Because the grant-winning process is difficult, it says something about the entrepreneur. But for the most part the grant sums on offer are small compared to VC rounds.

David Cummings, Partner
Isabella Cookson, Head of Research

“ **Grants are really an indicator of the quality of the entrepreneur**. They are hard to win with most businesses never making it though Innovate UK's due diligence process. Experienced entrepreneurs think carefully about how to pass, and have also had time to develop the network of advisors that can mentor them through the process.

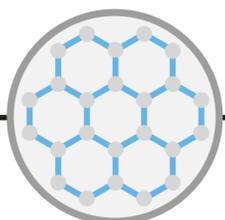
Max Rothery, Digital Strategy Manager

Founded 1839

Operations 11 countries worldwide, mainly in Europe.

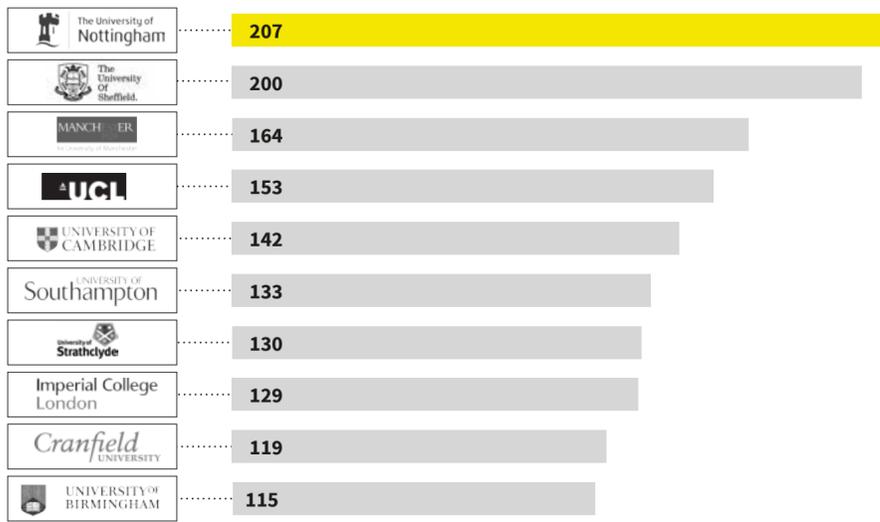
Assets managed €116b

Services Kleinwort Hambros offer private banking and wealth management.

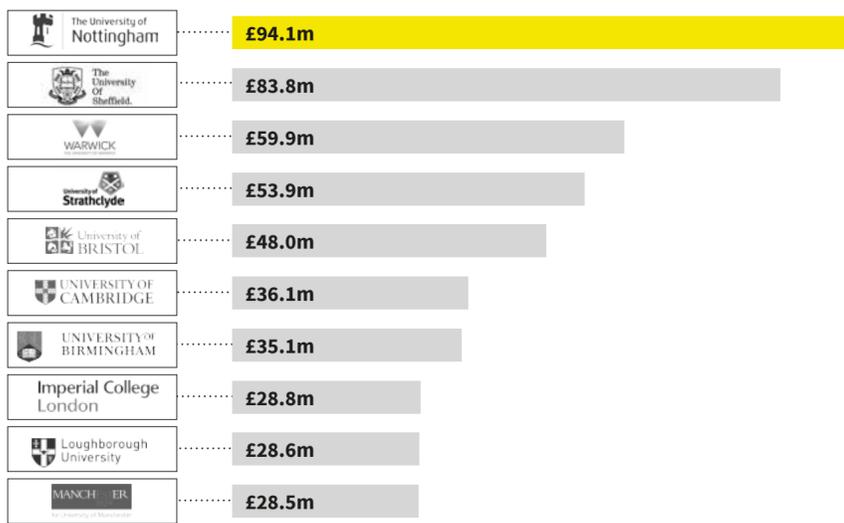


Universities ranked by funding

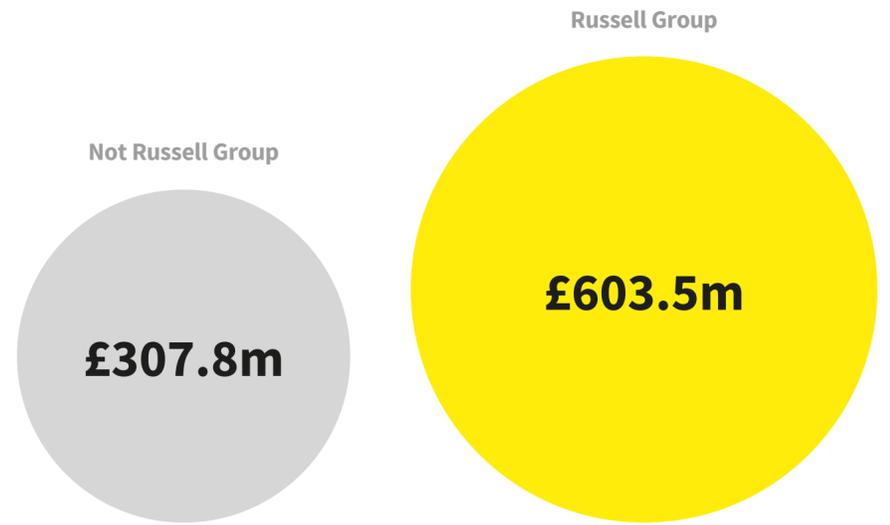
By number of projects



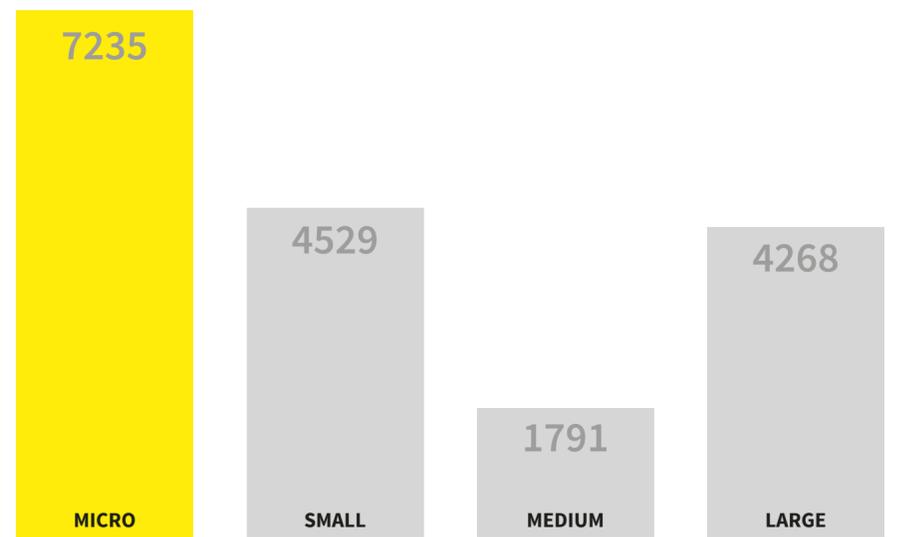
By total funding



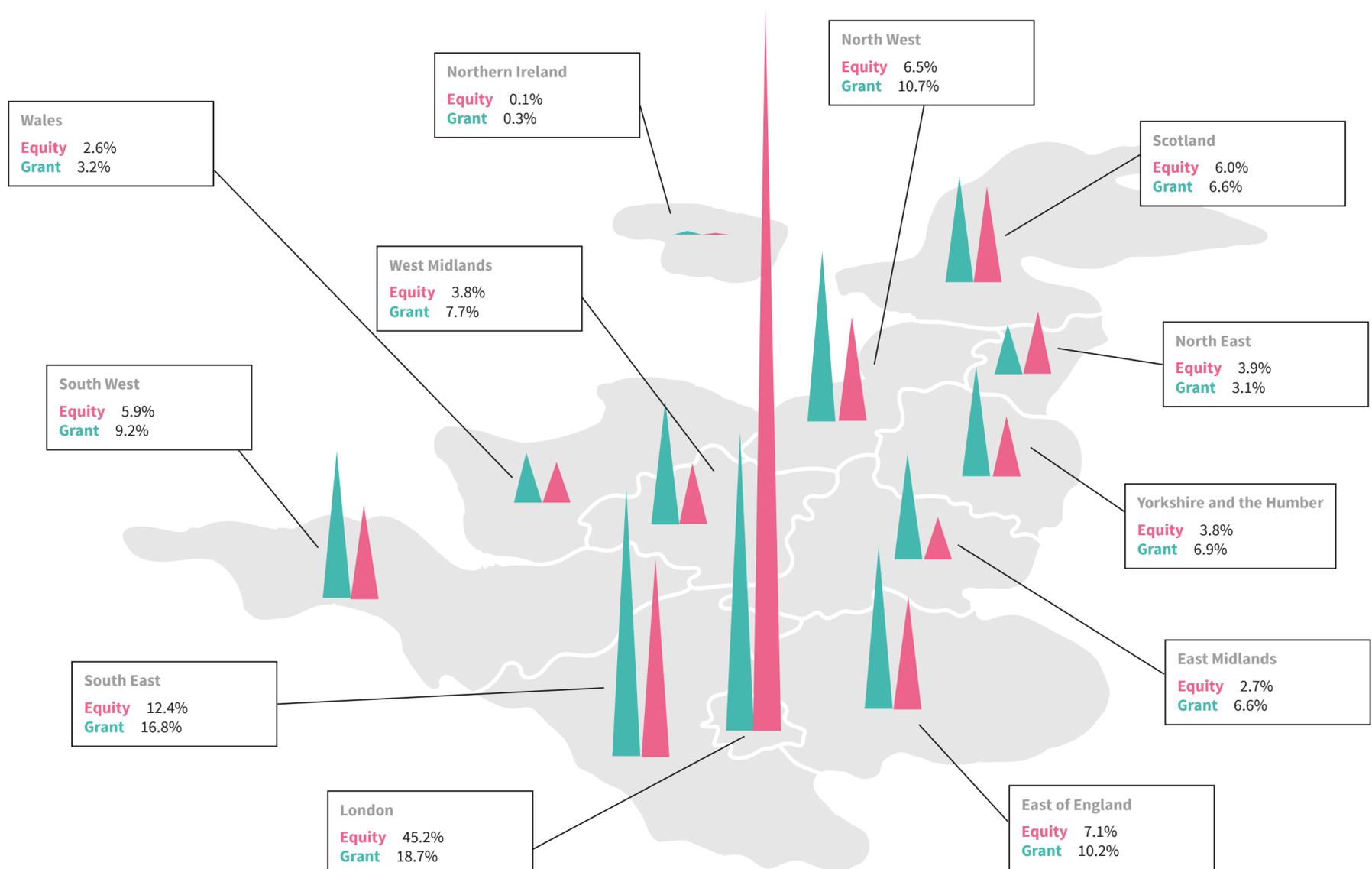
Russell Group funding



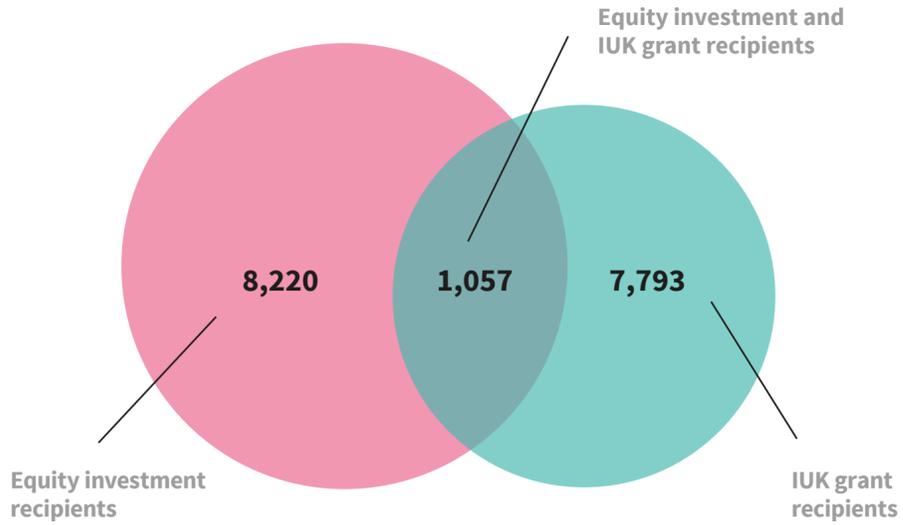
Projects by participant size



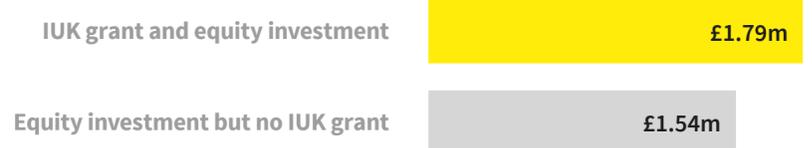
Distribution of equity and grant funding by region



Recipients of IUK grants and equity investment



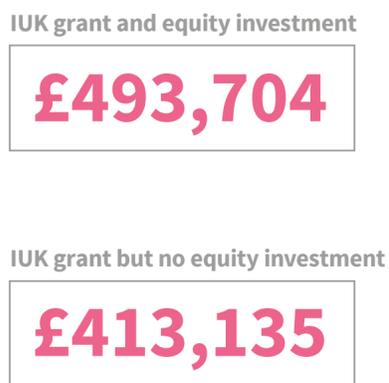
Average size of equity round



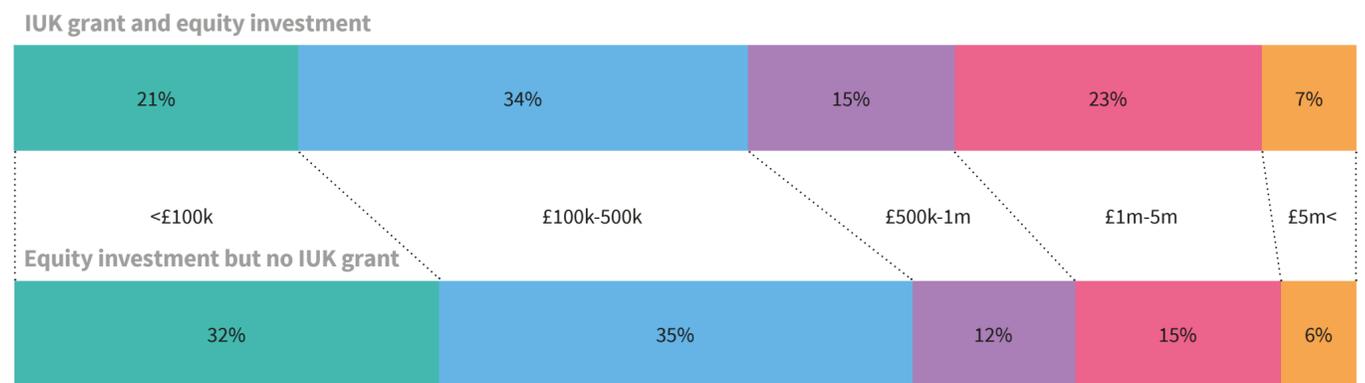
Average pre-money valuation



Average total grants



Size of equity investments



Age of recipient company

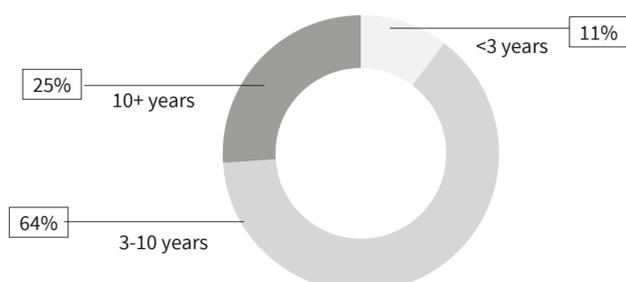
Equity investment but no IUK grant



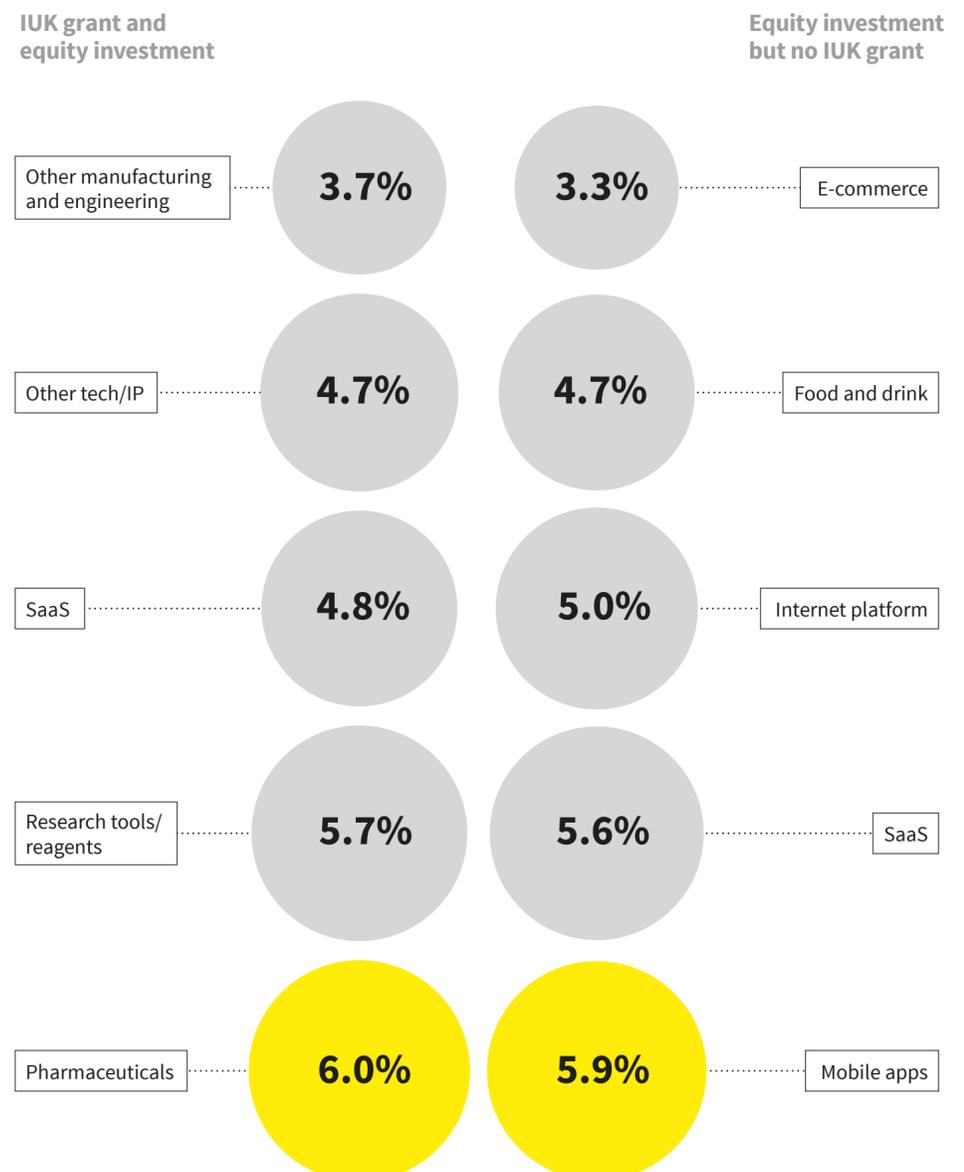
IUK grant but no equity investment



IUK grant and equity investment



Top sector tags



Beauhurst lets you discover the UK's **most innovative businesses.**

Used by hundreds of organisations to

-  Find high-impact, innovative businesses.
-  Monitor market trends and activity.
-  Find funders for research and spinouts.



The most innovative companies

-  **12,000+**
Innovate UK grant recipients
-  **8,500+**
equity-backed companies
-  **2,500+**
accelerator participants
-  **5,000+**
investors

Comprehensive data including

-  **50,000+**
transactions
-  **10,000+**
key contacts
-  **2,500+**
news articles
-  **8,500+**
financial statements

Used by organisations including



Data for this report was finalised on 20/03/17.

Beauhurst examined all Innovate UK projects with a start date between 2011-2016.

When considering equity finance we included any fundraisings secured by privately-held UK companies. Sources of funding included, but were not limited to, institutional investors, angel networks, crowdfunding platforms and government.

www.beauhurst.com

[in /company/beauhurst](https://www.linkedin.com/company/beauhurst)

[f /beauhurstuk](https://www.facebook.com/beauhurstuk)

[beauhurst](https://twitter.com/beauhurst)

Text: Ben McLeod, Eleanor Sharman

Data: Sareeka Linton, Rosanna Killick

Production: Ella Halmari

©Beauhurst 2017