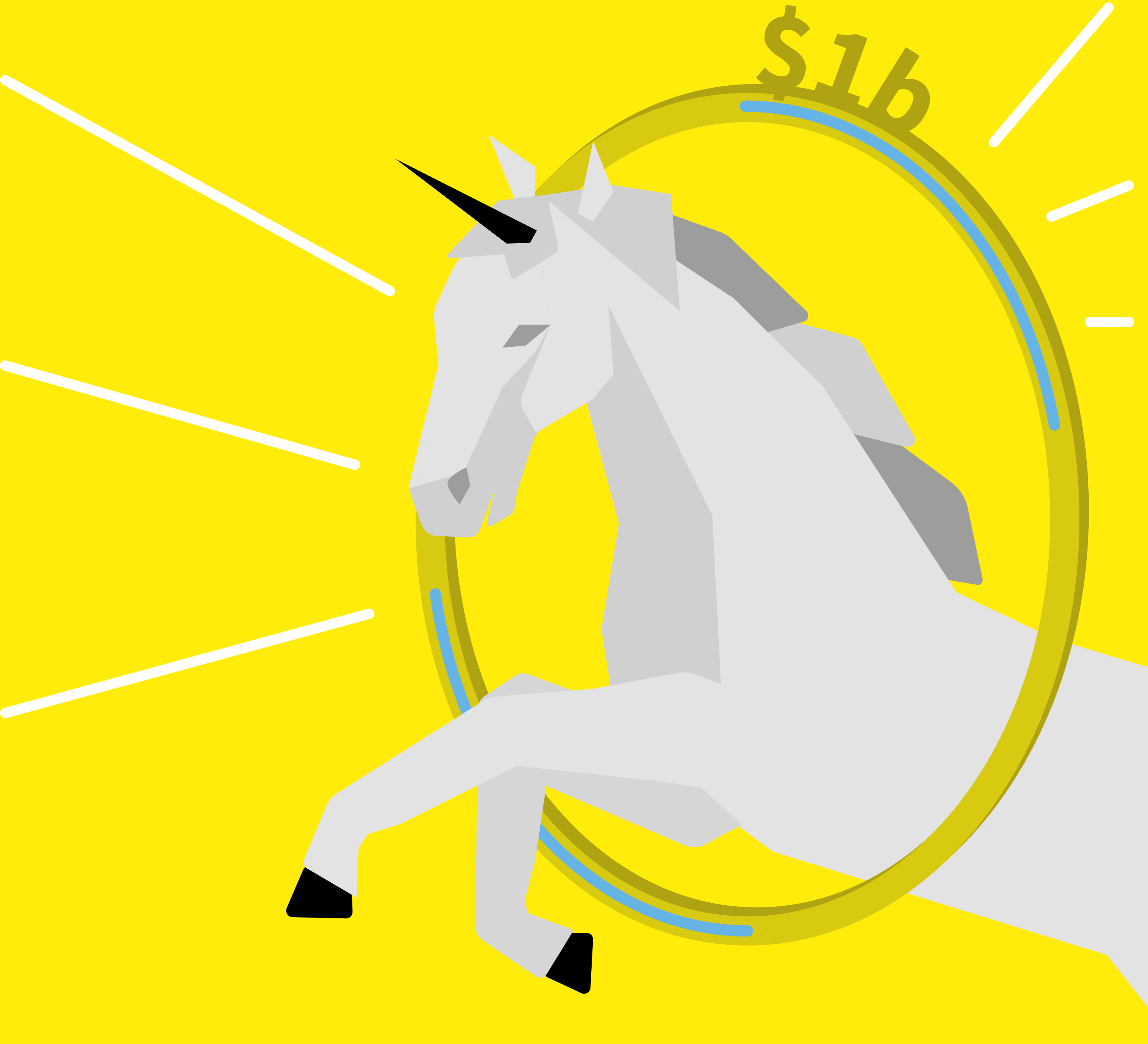
Unicorns

Britain's $1b companies



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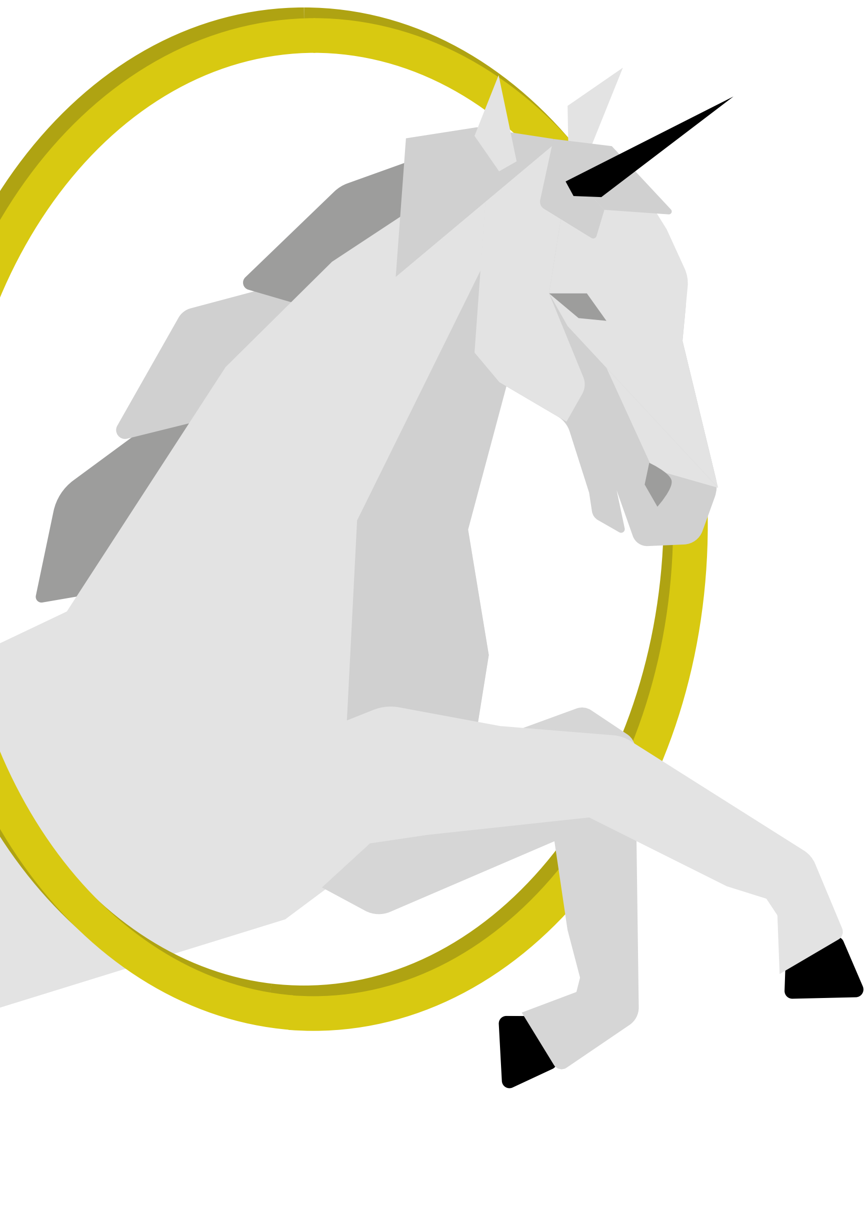

Foreword

"The UK is building its own collection of billion dollar companies at a steady rate."

WHAT IS A UNICORN STARTUP?

Back in 2013, founder of Cowboy Ventures Aileen Lee coined the term "unicorn" to refer to a young, private company that was incorporated after 2003 and has achieved a valuation over $1b. Depending on conversion rates, this is between £710m and £810m. Named after the mythical creature, the term is intended to highlight the rarity of such a company and the achievement of reaching the coveted status. At the time of her writing, there were just 39 US-based unicorn companies.

NO LONGER SO RARE

But six years after the term first entered the startup lexicon, $1b companies are no longer so rare. Current figures report between 190 to 220 such businesses in the United States and between 390 and 500 worldwide. In light of this growing population, the meaning of the term "unicorn" becomes increasingly diluted; instead of elusive and solitary, these startups are becoming ever more common, with whole herds of unicorns cropping up around the world.

> **"Companies are now able to reach unicorn status in less time than ever before.**

Whilst the US and China are rapidly breeding 'mega-herds', the UK is building its own collection of $1b companies at a more steady rate. We've confirmed 16 active unicorn startups headquartered in the UK, with an additional five that have exited. One UK company, Powa Technologies, achieved unicorn status before it fell into administration.

Other companies are rumoured to have surpassed the $1b valuation mark, but have not yet confirmed this to the media or through their financials. We refer to these companies as 'invisible unicorns' — they're out there but are currently in hiding.

HAPPENING FASTER

As we'll see in later chapters, companies are now reaching unicorn status at a faster rate than ever before. This has been driven by the maturing venture capital industry, which continually pumps funding into the world's most promising and high-potential enterprises in the hopes of generous returns on their investment. But other support systems have also been instrumental. For example, many British unicorns have also benefited from grants, attended accelerator programmes, or secured venture debt in order to help them scale.

Early access to large amounts of capital, plus mentoring and business connections provided by various support mechanisms allows startups to expedite their growth, demonstrate their potential and secure colossal valuations at a very young age.

WHY ARE UNICORNS INTERESTING TO LOOK AT?

In a well-balanced and diverse portfolio with multiple businesses that may fail to make an exit, one multibillion dollar exit will mean the portfolio is still likely to make a significant return. This is why many early-stage, risk tolerant investors are on the hunt for future unicorn companies to put their money behind. And what better place to look for the tell-tale signs of a unicorn than by examining the herd as it stands now?

WHAT THIS REPORT COVERS

This report examines these growth journeys and identifies key trends between them. Starting with an analysis of the UK's active unicorn herd, we've also investigated the companies that we suspect are 'invisible' unicorns, and those up-and-coming startups that we can reasonably anticipate will surpass a $1b valuation in the near future. We've coined these high potential companies 'soon-icorns'.


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Mapping the herd

The unicorn herd is a diverse group, pioneering across sectors and employing varied strategies for success. We look at where they are, how old they are, and who started their journeys.

Summary

21 UNICORN COMPANIES IN THE UK
There are 16 active and private unicorns in the UK, along with five exited unicorns.

CREATING UNICORNS FASTER THAN EVER
The average age of a company at unicorn status has decreased from nine years to six.

A POOR SHOWING FOR WOMEN
Only one out of 39 unicorn founders is female, and the average age of a founder at unicorn status is 40.

WELL FUNDED UNICORNS
The average unicorn has raised £125m over 4.5 funding rounds prior to reaching unicorn status.

ONE SUDDEN UNICORN
Checkout.com is the only UK company to reach unicorn status in their first equity round.

A HERD IN LONDON
3 in 5 unicorns are based in London, where they benefit from proximity to the 77% of UK VCs.

21

UK unicorns worth over $1b

4.5

average number of rounds before unicorn status

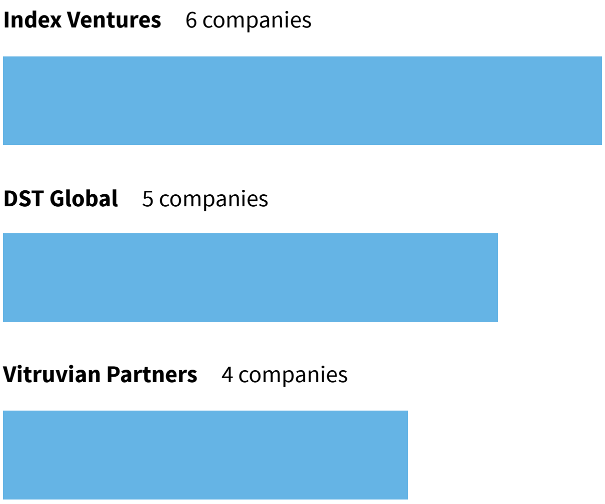
£125m

average amount raised before unicorn status

6

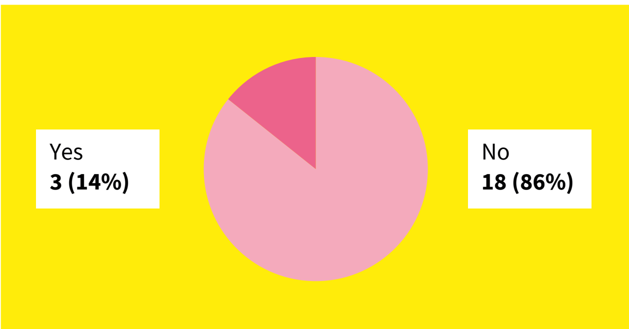
average age of company at unicorn status

TOP INVESTORS BY NUMBER OF UNICORNS INVESTED IN

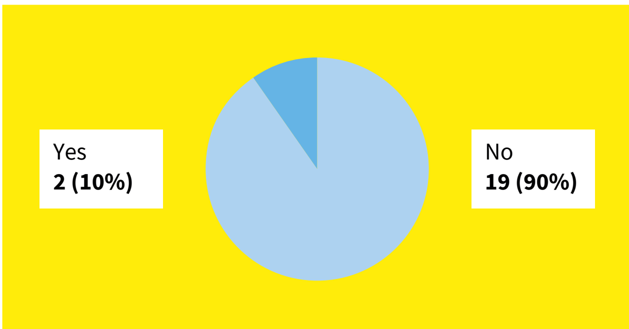


HIGH-GROWTH STRATEGIES: PERCENTAGE OF UNICORN COMPANIES

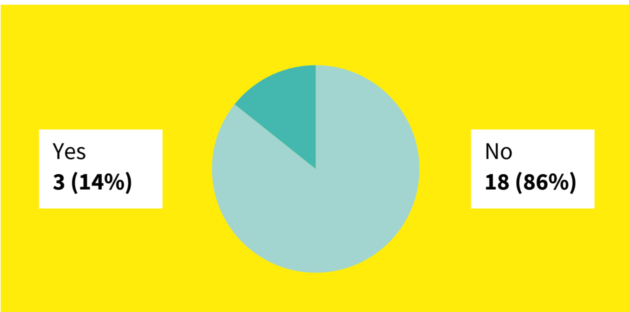
Received a loan?



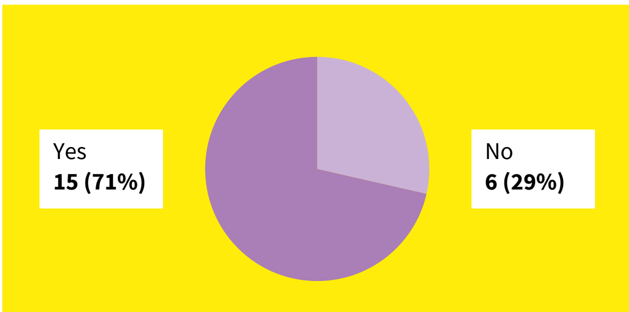
Is a spinout?



Received a large innovation grant?



Attended an accelerator?



Where are unicorns found?

HABITAT: LONDON

London has a somewhat infamous reputation for dominating the UK's high-growth ecosystem as a whole, but this is especially true of unicorn companies. Three fifths of the UK's unicorns call the capital their home, benefitting from proximity to 77% of the UK's venture capital investors, as well as easier access to international talent.

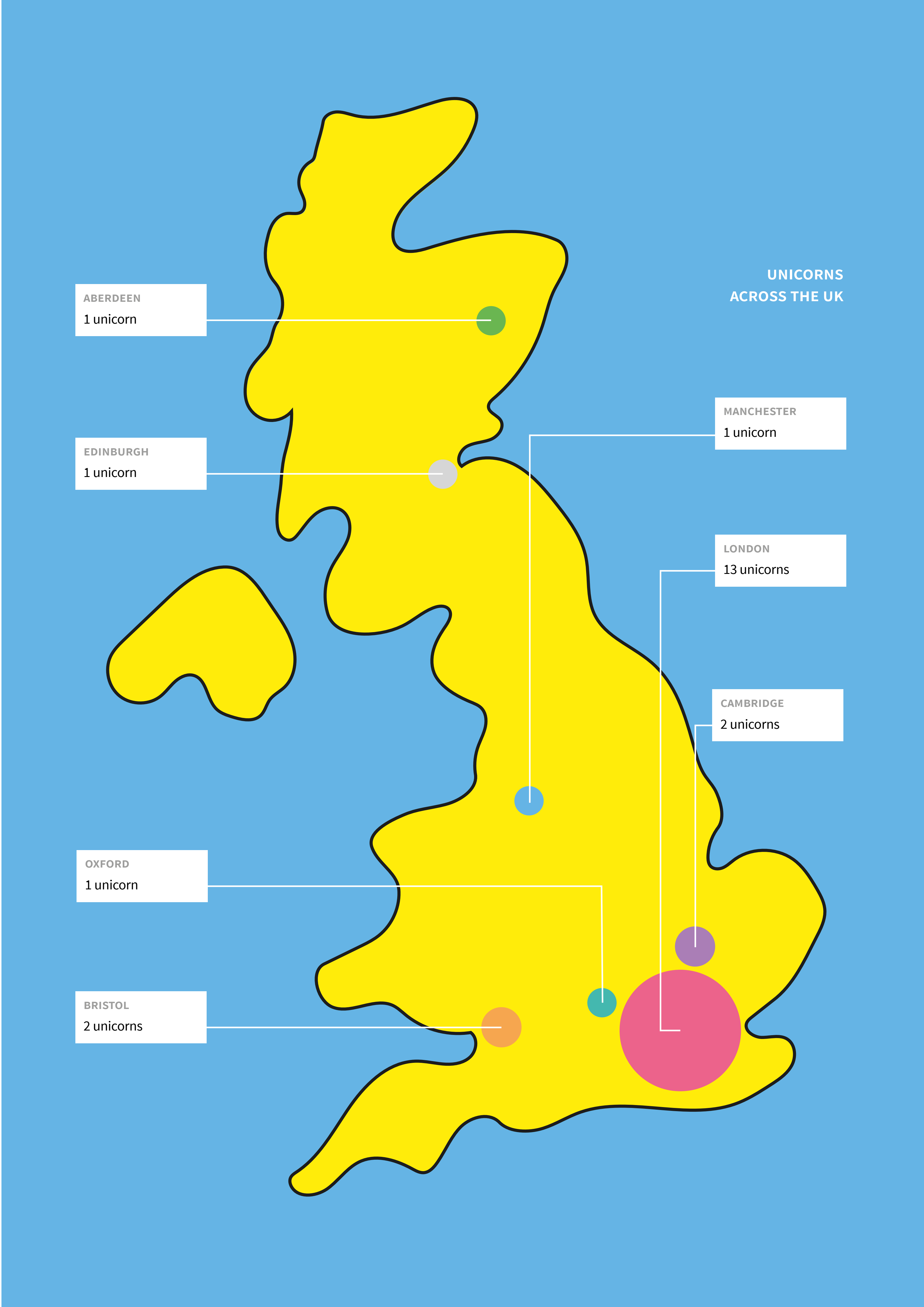
Originally starting up in the North West, OakNorth Bank recently migrated to London, joining the five other fintech unicorns in the city, which has been hailed as the 'fintech capital of Europe'. The remaining five active unicorns have capitalised on the resources and innovation hubs spread more widely across the country. Oxford Nanopore and Darktrace, the only two unicorns that have spunout from UK universities, have set up shop in their hometowns — Oxford and Cambridge. Although not a spinout, CMR Surgical has done the same. This has allowed them to make full use of the resources that their world-class universities can provide, such as state-of-the-art research centres. Of course, as a spinout secures more investment for themselves they will be increasingly self-sufficient and less reliant on their parent university. One resource they can continue to benefit massively from, and infact is likely to be more important as the business scales, is the large pool of first-rate graduate talent in the area.

Out to the west, OVO Energy has chosen its home in Bristol, a fittingly progressive area for a company that supplies renewable energy. Rebel craftbrewer BrewDog hails from Aberdeen, whilst acquisition aficionado The Hut Group controls its empire of e-commerce brands from Manchester. Only one of the UK's five exited unicorns resides outside London — Skyscanner was the first company to reach a $1b valuation in Scotland, and is the UK's oldest unicorn. The travel comparison site remains headquartered in Edinburgh, even after being bought by Chinese travel company Ctrip in 2016.

3 in 5

unicorns are based in London

Although these companies have proved that unicorns can flourish outside of the capital, we suspect future unicorns will continue to be concentrated between London and the research clusters in Oxford and Cambridge. This trio of cities, dubbed 'The Golden Triangle', claim the vast majority of equity investment in the country, and are also the most attractive locations for foreign investors to deploy large-scale capital. In the first half of 2019, these three cities have secured 53% of equity deals and 75% of pounds invested into UK companies.


UNICORNS
ACROSS THE UK
ABERDEEN
1 unicorn
EDINBURGH
1 unicorn
MANCHESTER
1 unicorn
LONDON
13 unicorns
CAMBRIDGE
2 unicorns
OXFORD
1 unicorn
BRISTOL
2 unicorns

FINTECH

- TransferWise
- Funding Circle
- checkout.com

CHALLENGER BANK

- monzo
- Revolut
- OakNorth

ARTIFICIAL INTELLIGENCE

- DARKTRACE
- GRAPHCORE
- babylon
- BenevolentAI

HEALTH-TECH

- babylon
- BenevolentAI
- Oxford NANOPORE Technologies
- CMR

PROPTECH

- Zoopla

FOOD AND DRINK

- BREWDOG

E-COMMERCE

- FARFETCH
- THEHUTGROUP

DELIVERY

- deliveroo
- JUST EAT

ENERGY

- ovo energy

TRAVEL

- skyscanner

VIRTUAL REALITY

- IMPROBABLE

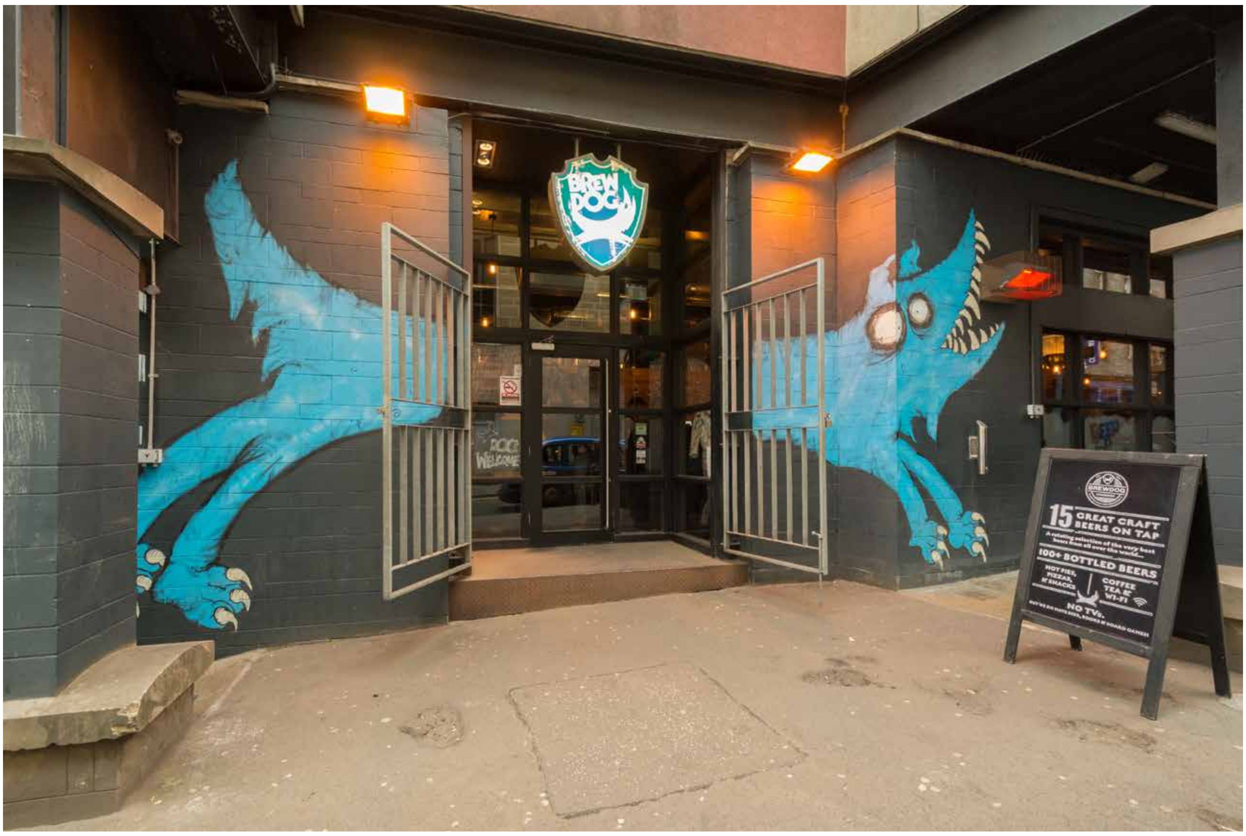
What sectors are unicorns in?

A VARIED HERD

UK unicorns are spread across a fairly broad range of sectors, from e-commerce to energy and innovative technology. Fintech is an obvious strong point for the herd, with six companies operating in the space, and three within challenger banks more specifically. This is as expected given that fintech is the most successful sector across all of the UK's high-growth companies, attracting more equity investment than any other vertical. In fact, during the first half of 2019 the UK's fintech companies raised a greater value of investment than in 2018 as a whole.

Artificial Intelligence (AI) is the second-most prominent sector amongst the cohort, with four AI unicorns that span the realms of eHealth (babylon), big data (BenevolentAI), cybersecurity (Darktrace) and chips and processors (Graphcore). Clearly, the applications of AI are already very broad, and in the coming few decades this rapidly evolving technology is forecasted to permeate almost all aspects of our lives. Because of this, we expect to see AI companies have a more dominant presence in the herd in the future.

There is also a cluster of more customer-centric companies such as delivery companies JustEat and Deliveroo, craftbrewer BrewDog, and e-commerce giants FarFetch and The Hut Group making a name for themselves. These unicorns have generated crowds of loyal customers who have helped support the company through each stage of evolution.



MAPPING THE HERD

How old are our unicorns?

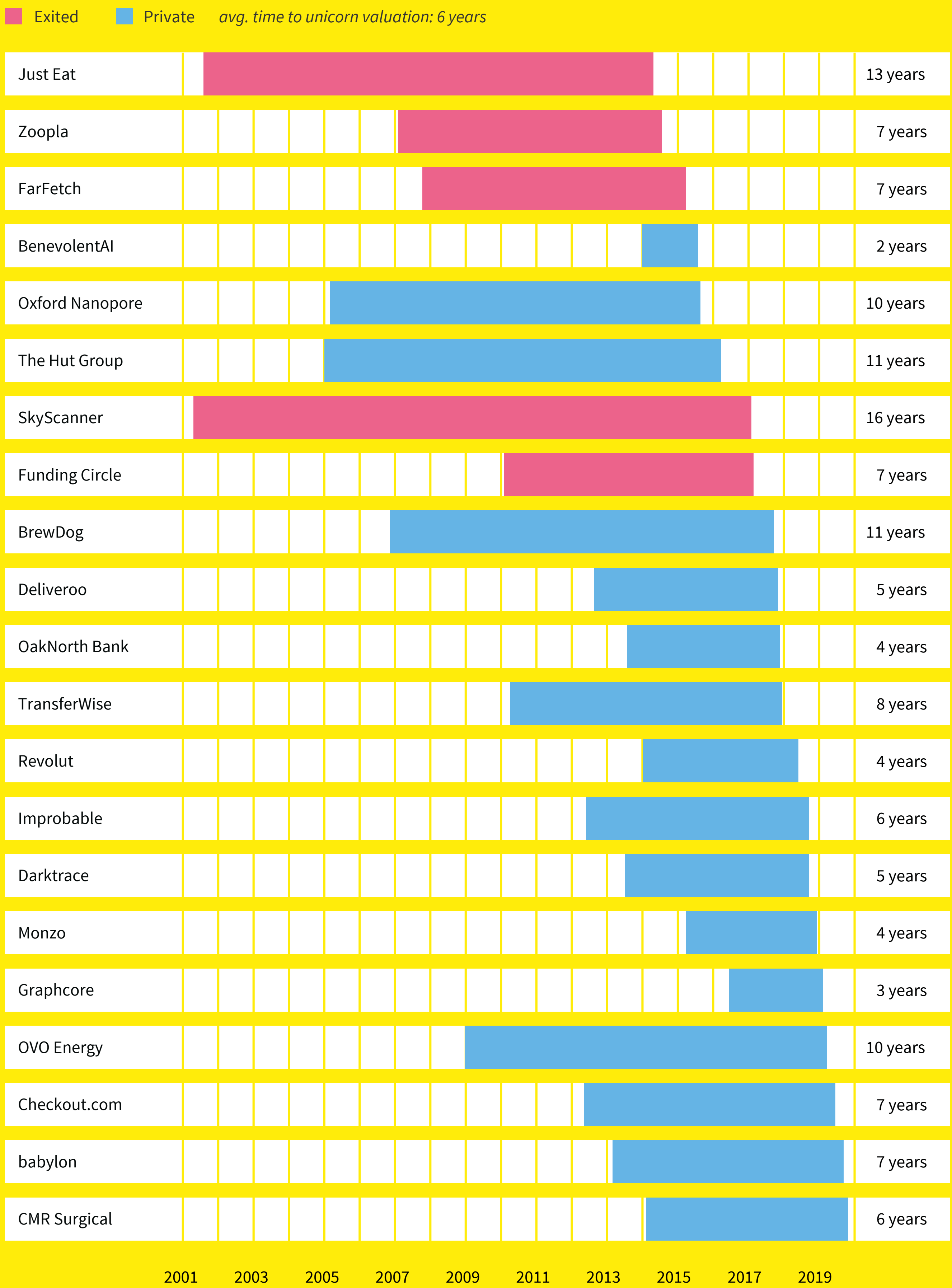
HARDER, BETTER, FASTER, YOUNGER

The average age of UK companies at unicorn status is six years old. Within this, there is a fairly wide variation. BenevolentAI reached unicorn status at an astonishing two years old back in 2015 as the fourth UK unicorn, and has maintained its title as the fastest unicorn to this day. At the other end of the scale, Skyscanner took eight times as long to secure a billion dollar valuation in 2017, taking 16 years to do so.

Of course, these companies operate in very different spaces, both in terms of sector and location. But even a more well balanced comparison results in varied timelines. Back in 2014 takeaway service JustEat took 13 years to become the first unicorn in the UK, but three years later competitor Deliveroo earned the accolade at just five years old. Despite the quickest unicorn appearing two years before the slowest, there has been a slow decline in the average age of a company at unicorn status over time. The average age of the first ten companies was nine years, whereas the most recent ten were just six years old at billion dollar valuation.

This decrease in time taken to reach unicorn status has coincided with an increase in the number of companies achieving billion dollar valuations. Just three unicorns were born in 2014 compared to the six born in 2017, and there have been three unicorn births in 2019 so far.

TIME FROM INCORPORATION DATE TO $1B VALUATION



Unicorn founders

With unicorns regarded as the startup sector's leading lights, one can assume their founders have fairly enviable CVs. What does the average UK unicorn founder look like?

HOW MANY FOUNDERS?

There are 16 active unicorns in the UK, with a further five unicorns that have gone on to exit, and one that has since died. These 21 were founded by a total group of 39 businesspeople. The saying 'two's company' seems to hold true when it comes to the size of unicorn founding teams, with the average founding team sitting at 2 people. The largest founding team, at five, was the team behind robotic surgery company CMR Surgical.

HAVE THEY FOUNDED BEFORE?

Some of these founders are "serial entrepreneurs", i.e. entrepreneurs that have had prior experience in founding companies before starting their unicorn. Alex Chesterman, of Zoopla, was already a well-established entrepreneur by the time he started the property website in 2007. In 2001, during the dotcom boom, he started the now rather retro (but no less successful) DVD rental brand Lovefilm. The company was acquired by Amazon in 2011, after pivoting to an online streaming service, perhaps laying the technology foundation for Prime Video. His most recent venture is an online marketplace that allows customers to buy and rent used cars, which has already raised £55m since it was registered in October 2018.

Tom Blomfield, the man behind the now ubiquitous Monzo, had a hand in another well-known tech company: GoCardless. Founded in 2011, the company has raised nearly £100m, and recently saw turnover top £10m. He left in late 2013. His next step was very interesting: Blomfield co-founded Starling Bank, a close rival of Monzo's, with current CEO Anne Boden. However, he left in February 2015 due to a fallout with Boden, according to the Financial Times. Monzo has since outgrown his previous venture.

Ali Parsa previously founded another company before starting 'doctor-via-video-call' app babylon. This was the private healthcare provider Circle, which boasts Michelin-starred chefs amongst other perks. However, similarly to babylon, this company hit obstacles whilst partnering with the NHS. Whilst an early IPO in 2011 was promising, its share prices suffered several hits, and it delisted in 2017.

Rishi Khosla and Joel Perlman are a two-man entrepreneur team who met whilst studying at the LSE. Together they founded the research and analytics firm Copal Amba, a financial research firm that was sold to Moody's in 2011. They are now in charge of OakNorth Bank, the only non-exited UK unicorn to have yet turned a profit.

Nigel Toon founded Graphcore, a next-generation chip manufacturer, in 2016. Previously, he had already started and sold another chip manufacturer, Icera, to NVIDIA for $435m.

40

average age of founder at time of unicorn status

1

female founder present among 39 unicorn founders

HAVE THEY MIGRATED ACROSS INDUSTRIES?

These serial entrepreneurs have largely stuck to the same industry, except perhaps for Chesterman. Blomfield remains in fintech, Parsa in healthcare, Khosla/Perlman in finance, and Toon in the chip industry. However, there has also been a recurrent theme to Chesterman's businesses: bringing viable internet commerce to sectors that had been underserved. Lovefilm allowed users to rent DVDs via the web, Zoopla provided an online marketplace for properties, and Cazoo is attempting to expand the use of the internet in the used car marketplace.

Even if previous experience didn't include founding other startups, CVs generally feature high-powered positions in large corporates. Former management consultants are common: Funding Circle's Samir Desai worked at BCG, Perlman had a stint at McKinsey, TransferWise's Kristo Käärmann worked at PwC, and Blomfield spent over two years at OC&C. Investment banking also features: Parsa worked at Morgan Stanley amongst others, as did Deliveroo's Will Shu. The biggest anomaly here is two thirds of the Improbable co-founding team: Herman Narula and Rob Whitehead. They were 24 and 21 respectively when they incorporated Improbable after leaving the University of Cambridge, and had limited experience in the corporate world.

The founder behind the UK's latest unicorn, CMR Surgical's Martin Frost, had a long history both in innovation product design, and in Cambridge's tech cluster. As befitting one of the UK's few hardware unicorns, his co-founders all have extensive experience in medicine, engineering, or design.

HOW OLD ARE THEY?

The average age of a founder at the time of achieving unicorn status is 40 years old. It is clear that building such a wildly successful business requires years of experience, connections and business know-how. Nevertheless, the youngest founders to reach unicorn status, Peter Lipka, Herman Narula, and Ron Whitehead, were 29, 29, and 26 years old respectively when Improbable achieved a $1b valuation in 2017.

WHERE ARE THEY FROM?

Six of the fifteen active unicorns had at least one foreign national in their founding team, according to data from a report by The Entrepreneurs Network, *The Immigrant Founders of the Top 100*. This is slightly lower than the UK's broader fast-growth business sector, where 49% of founding teams featured a non-domestic partner. Improbable and OakNorth were both founded by entrepreneurs of British-Indian dual nationality whilst Deliveroo was founded by two Americans (one of Taiwanese descent). Eastern Europeans also feature: TransferWise was founded by two Estonians, whilst Revolut was founded by NIkolay Storonsky, who was born in Russia. Ali Parsa was born in Iran, but left for the UK with his parents after the Iranian Revolution in 1981. Guillaume Pousaz, the man behind Checkout.com, is Swiss.

WHO IS MISSING?

One glaring observation is the severe lack of gender diversity amongst the cohort of founders. Just one female founder is currently present in the population of 39 founders; Poppy Gustaffson co-founded the AI-driven security software company Darktrace with David Palmer in 2013. Gustafsson studied mathematics at Sheffield University, before joining Deloitte as an accountant, and then becoming a fund accountant for Amadeus Capital. Before Darktrace she worked as a controller at HP, before co-founding Darktrace, originally as the CFO before moving to COO and her current role as co-CEO.

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deliveroo

About the unicorns

Taking a deeper look at each unicorn company, we profile each business. In exclusive interviews with OakNorth, Deliveroo and OVO Energy, we investigate their unique stories of growth.

The Unicorn List

These 16 companies make up the members of the UK's current unicorn club: our private companies worth over a billion dollars. From innovative health-tech and virtual reality through to craft beer, these are some of Britain's most valuable private companies.

WHAT THEY DO:
babylon has developed an app enabling patients to book and conduct remote video consultations with a GP. The app also employs artificial intelligence, enabling patients to consult virtual nurses about their symptoms.

INCORPORATION DATE: 31/01/2013
DATE BECAME UNICORN: 08/02/2019
TOTAL AMOUNT RAISED: £435m
LATEST TURNOVER: £1.81M
LOCATION: London
FOUNDER: Ali Parsa

BAI

WHAT THEY DO:
BenevolentAI has developed artificial intelligence and machine learning technology that aims to speed up scientific discovery through mass analysis of scientific data.

INCORPORATION DATE: 05/12/2013
DATE BECAME UNICORN: 02/07/2015
TOTAL AMOUNT RAISED: £151m
LATEST TURNOVER: £6.83m
LOCATION: London
FOUNDERS: Michael Brennan, Kenneth Mulvany, Brent Gutekunst, Ivan Griffin

WHAT THEY DO:
BrewDog operates a number of bars and produces its own bottled and canned beers, which are distributed to British supermarkets and exported worldwide.

INCORPORATION DATE: 07/11/2006
DATE BECAME UNICORN: 12/08/2017
TOTAL AMOUNT RAISED: £284m
LATEST TURNOVER: £140m
LOCATION: Aberdeen
FOUNDERS: Alan Dickie, James Watt

WHAT THEY DO:
Checkout.com has developed software that allows businesses to process their payments online in multiple currencies.

INCORPORATION DATE: 19/04/2012
DATE BECAME UNICORN: 02/05/2019
TOTAL AMOUNT RAISED: £176m
LATEST TURNOVER: £34.6m
LOCATION: London
FOUNDER: Guillaume Pousaz

WHAT THEY DO:
Darktrace has developed security software that identifies behavioural anomalies that could signal security threats.

INCORPORATION DATE: 10/06/2013
DATE BECAME UNICORN: 12/08/2018
TOTAL AMOUNT RAISED: £173m
LATEST TURNOVER: £59.5m
LOCATION: Cambridge
FOUNDERS: Poppy Gustafsson, David Palmer

WHAT THEY DO:
Deliveroo provides delivery services for restaurants, using technology to predict the time taken to prepare meals and efficient ways of delivering orders.

INCORPORATION DATE: 03/08/2012
DATE BECAME UNICORN: 23/09/2017
TOTAL AMOUNT RAISED: £1.15b*
LATEST TURNOVER: £277m
LOCATION: London
FOUNDERS: William Shu

**this figure includes Amazon's investment from May 2019, which is under investigation by the CMA*

WHAT THEY DO:
Graphcore has created a processor which allows developers to run quicker machine-learning models. This enables AI researchers to undertake new types of work, not possible using current technologies.

INCORPORATION DATE: 17/05/2016
DATE BECAME UNICORN: 18/12/2018
TOTAL AMOUNT RAISED: £244m
LATEST TURNOVER: £912k
LOCATION: London
FOUNDERS: Nigel Toon, Simon Knowles

WHAT THEY DO:
Improbable has developed the SpatialOS platform, which has enabled unprecedented gameplay through simulating virtual worlds of large and complex scale. The platform also has applications for corporate use.

INCORPORATION DATE: 16/05/2012
DATE BECAME UNICORN: 27/07/2018
TOTAL AMOUNT RAISED: £461m
LATEST TURNOVER: £580k
LOCATION: London
FOUNDERS: Peter Lipka, Herman Narula, Rob Whiteheade

WHAT THEY DO:
Monzo operates a digital bank that can only be accessed by mobile. It offers its customers a current account and prepaid debit card to manage their money.

INCORPORATION DATE: 18/02/2015
DATE BECAME UNICORN: 31/10/2018
TOTAL AMOUNT RAISED: £324m
LATEST TURNOVER: £19.7m
LOCATION: London
FOUNDERS: Tom Blomfield, Paul Rippon, Jonas Templestein

WHAT THEY DO:
OakNorth Bank provides business loans and property finance to entrepreneurs and growing companies.

INCORPORATION DATE: 03/07/2013
DATE BECAME UNICORN: 12/10/2017
TOTAL AMOUNT RAISED: £637m
LATEST TURNOVER: £77.2m
LOCATION: London
FOUNDERS: Rishi Khosla, Joel Perlman

WHAT THEY DO:
OVO Energy supplies gas and electricity to domestic properties throughout the UK by combining natural energy with smart technology to create a renewable energy system.

INCORPORATION DATE: 31/12/2008
DATE BECAME UNICORN: 14/02/2019
TOTAL AMOUNT RAISED: £259m
LATEST TURNOVER: £834m
LOCATION: Bristol
FOUNDERS: Stephen Fitzpatrick

WHAT THEY DO:
Oxford Nanopore Technologies has developed a range of portable DNA and RNA sequencing devices, that are also capable of characterising epigenetic modifications.

INCORPORATION DATE: 09/03/2005
DATE BECAME UNICORN: 21/07/2015
TOTAL AMOUNT RAISED: £493m
LATEST TURNOVER: £13.8m
LOCATION: Oxford
FOUNDERS: Gordon Sanghera, Spike Willcocks

WHAT THEY DO:
Revolut operates a challenger bank which provides an app on which users can trade cryptocurrency, track and send money, as well as a range of other financial services.

INCORPORATION DATE: 06/12/2013
DATE BECAME UNICORN: 26/04/2018
TOTAL AMOUNT RAISED: £244m
LATEST TURNOVER: £12.8m
LOCATION: London
FOUNDERS: Nikolay Storonsky, Vladyslav Yatsenko

WHAT THEY DO:
The Hut Group operates a range of e-commerce websites and has also developed e-commerce software that it licenses to other online retailers.

INCORPORATION DATE: 31/12/2004
DATE BECAME UNICORN: 16/02/2016
TOTAL AMOUNT RAISED: £395m
LATEST TURNOVER: £916m
LOCATION: Manchester
FOUNDERS: Matthew Moulding, John Gallemore

WHAT THEY DO:
TransferWise has developed a platform that allows individuals and SMEs to transfer money abroad using real exchange rates.

INCORPORATION DATE: 31/03/2010
DATE BECAME UNICORN: 02/11/2017
TOTAL AMOUNT RAISED: £290m
LATEST TURNOVER: £117m
LOCATION: London
FOUNDERS: Taavet Hinrikus, Kristo Käärmann

WHAT THEY DO:
CMR Surgical provides robotic-assisted surgery procedures through its robotic system, Versius.

INCORPORATION DATE: 27/01/2014
DATE BECAME UNICORN: 17/09/2019
TOTAL AMOUNT RAISED: £310m
LATEST TURNOVER: Undisclosed
LOCATION: Cambridge
FOUNDERS: Martin Frost, Paul Roberts, Luke Hares, Keith Marshall, Mark Slack

Stories of growth: OakNorth Bank

ABOUT OAKNORTH BANK

Launched in September 2015, OakNorth Bank provides loans between £0.5 million to £50 million to fast-growth businesses, entrepreneurs and property developers. Founders Rishi Khosla and Joel Perlman launched OakNorth with the aim of providing a ‘bank for entrepreneurs by entrepreneurs.’ The idea for OakNorth originated when Rishi and Joel attempted to raise capital to support their own research and analytics service company.

Upon realising how difficult it was for startup companies to raise capital, the idea for OakNorth began to form. Today, OakNorth is one of the most active lenders in the UK, having lent over £3.3 billion and being recognized on several high-growth lists such as Leap 100 and Tech City’s Future Fifty.

How did OakNorth get started?

In 2006, our founders, Rishi Khosla and Joel Perlman, were entrepreneurs trying to scale their rapidly growing business, Copal Amba. Despite healthy cash flows and strong projections for the future they struggled to secure working capital because they didn’t have traditional assets, such as property, to act as security for a loan. Copal Amba kept growing, Rishi and Joel realised that there are millions of other entrepreneurs with growth businesses around the world facing the same struggle of securing growth capital. This was essentially where the idea for OakNorth came from.

After scaling and eventually selling Copal Amba, the two took the expertise they’d developed in financial research and set out to redefine lending to SMEs. The journey began with launching OakNorth Bank in the UK to lend to small and medium sized businesses and prove the value of their platform and its unique credit underwriting approach.

OakNorth Bank obtained its license in March 2015 and began lending £0.5m-£40m to small and medium-sized businesses in September 2015.

When did you realise you had product market fit?

If you look at the SME lending market today, a similar pattern emerges. When it comes to loans of £500k or less, big banks and platforms such as Ant Financial, Kabbage, SoFi, Lending Club, Funding Circle, etc. offer several debt options including small general-purpose business loans, asset finance, and invoice finance. To make this commercially viable, lending is typically based on automated credit models which allow lenders to process loans quickly and efficiently.

When it comes to loans of £45m or more, banks can justify allocating significant amounts of time and resource to underwriting because the potential returns are greater. Loans that fall outside these parameters however (i.e. those between £0.5m and £25m), are either too large to be subject to the automated credit process that can be undertaken with smaller loans (as it is difficult from a risk perspective to justify automating this size of loan); or too small to be underwritten in the way that big banks do with large loans because the potential returns don’t make it commercially viable. As a result, this segment of the market has been overlooked and underserved for decades.

What was your approach to securing initial investment? Was it easier the second time?

Our co-founders sold Copal Amba to Moody's in 2014 for nine-figures, returning over 175x capital to their original investors, so it was a lot easier raising capital to start their business the second time around! A good thing too as setting up a regulated bank requires a lot more start-up cash than what Rishi and Joel used to start Copal Amba (£40k).

What do you look for in an investor?

We look for investors who share our long-term vision, believe in the mission, can help us get there, and are willing to back our founders and management team.

The point on sharing our long-term vision is key. They're not looking for a quick exit which is in sync with our founders, who have always said that you should run your business like you'll be running it forever and that way you'll always be taking the long term into consideration.

How do you think the climate has changed since you first started out? Are you doing anything differently as a result?

We launched in the UK in September 2015, so we've pretty much built our entire business with Brexit in mind. Generally, despite what you might read in the mainstream press, we've found that there are still many SMEs who are just getting on with it. They are keen to continue scaling their business and are looking for debt finance to help them do that.

What do you see as emerging trends in the fintech sector?

Collaboration: between fintechs, between fintechs and large financial institutions, between large financial institutions and big tech, and possibly even between fintechs and big tech one day if the fintechs can reach a scale that makes them interesting enough for big tech to collaborate with.

Do you think there are enough available resources to help companies start and scale these days?

The UK is one of the best places to start a business, but we languish in comparison when it comes to supporting scale-ups. In fact, OECD research from 2017 found that while the UK ranks third for start-ups, it ranks only 13th for the number of businesses that scale up successfully. If we support scale ups, we can close the productivity gap, the housing gap, generate more GDP for the economy, and ensure that the country's fastest-growing, and most successful businesses are being supported.

Do you have any intention to exit or do you see staying private as preferable? Why?

Our founders are building for the long term, and this isn't about the exit for them. What's driving them is the mission to help small and medium-sized businesses globally get the debt finance they need to scale.

Why has OakNorth been so successful — what did you do differently that allowed you to succeed where others failed?

We're still very much at day zero right now. While we're incredibly proud of our achievements to date, we have so much more to accomplish before we'll feel like we're "successful".

But with this in mind, there a few things that make us different to other fintechs:

1. We care about profits and feel it's important to demonstrate a viable business model as quickly as possible. This has helped us to attract the best talent and investors and to reassure our customers and partners that we'll survive and thrive any potential challenges in the future such as Brexit or an economic downturn.

2. We are focused on the long-term. We don't get distracted with thinking about the exit.

3. Our mission and vision is focused on SMEs whereas a lot of other fintechs are focused on retail propositions.

“

Our founders are building for the long term, and this isn't about the exit for them. What's driving them is the mission to help small and medium-sized businesses globally get the debt finance they need to scale.

VALENTINA KRISTENSEN
DIRECTOR, GROWTH AND COMMUNICATIONS


VIPER
deliveroo
HONLEY
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Stories of growth: Deliveroo

ABOUT DELIVEROO

Deliveroo is an online food delivery company that was founded in 2013 by Will Shu in London. Deliveroo has developed the 'Frank' algorithm which uses powerful predictive technology to evaluate the most efficient way of distributing orders, taking into account the location of restaurants, customers and delivery riders. In addition to food delivery, Deliveroo also helps to launch new restaurants and expand them into in-demand areas, through its 'Editions' platform.

This platform invests in and provides assistance to restaurants who provide a cuisine that its customers desire but do not have close access to. Now, Deliveroo has partnered with thousands of restaurants and operates in over 200 cities across 13 countries.

What's the story behind Deliveroo?

When Deliveroo's founder and CEO Will Shu moved to London in 2013 he discovered a city full of great restaurants, but he was amazed that so few of them delivered food. He made it his personal mission to bring the best local restaurants direct to people's doors. He was Deliveroo's first rider, first employee and first customer.

Since then Deliveroo has partnered with thousands of the nation's best-loved restaurants offering fast and reliable delivery across the UK. Deliveroo is passionate about food and bringing people evermore choice, for all food occasions. Deliveroo has expanded across the UK and around the globe. We work with over 80,000 restaurants and takeaways across 13 markets in over 500 towns and cities.

When did you realise you had product market fit?

We always knew there was demand for a restaurant-quality food delivery service in London — it was just a question of whether we could make a product which worked for restaurants and customers. The scale of the demand became apparent when the company saw the level of return customers in London and also that demand existed outside of the city centre, showing that a range of demographic groups would take to such a service.

This international potential of the service was underlined when we launched in Paris in April 2015 and it was extremely popular. Given Paris is such a foodie city, this underlined that restaurants and people of all types were keen to explore food delivery.

What was your approach to securing initial investment? Was it easier the second time?

We had to sell our vision of why we believed Deliveroo would be a success. In early-stage funding, investors aren't just looking for the right team behind an idea, they need to buy into the vision. After the initial investment rounds, the strength of our growth added weight to the vision we were selling. Securing investment doesn't become easier, however, as there is always pressure to secure the investment to realise ambitions.

How has your approach to growth changed with every new round of funding secured?

Growth has been a key focus of the company since day 1. But it's true that our approach to how and where we grow has changed over the past six years. In the earlier rounds of investment, our priority was getting market share as quickly as possible to grow our brand and get ahead of any competition. As we have continued to grow and take on new investment, we're now focused more on strengthening the sustainability of our business model and carving out a road to profit. That is why, for example, we are doubling down and focusing on growth in our existing markets where we see the greatest potential.

What do you look for in an investor?

Investors not only provide capital for growth, but they also play an important role in advising the future direction of the company. Therefore we look for an investor who buys into the vision of the company. Deliveroo is a food company driven by technology, aiming to be the world's definitive food company, and we think we will get there by always being the leading innovators in our sector. We want to partner with investors who share that vision for the company.

How do you think the climate has changed since you first started out? Are you doing anything differently as a result?

When Deliveroo started 6 years ago, I don't think anyone could have predicted how fast the food delivery market has grown. But it's not just consumer behaviour which has changed — the needs and ambitions of restaurants have also evolved. Deliveroo's success is predicated on the success of our partner restaurants, and we've had to adapt to ensure we can support their growth. That's why we've launched a number of innovations, including our delivery-only Editions kitchens, which help restaurants access more customers without having to pay for a high street premises. We're also providing restaurants with a range of data insights to help them better understand their customers and optimise their menu.

What do you see as emerging trends in the food-service industry?

Sustainability is becoming more of a priority for both customers and restaurants. Customers want to know that their food is coming from a sustainable source, whilst restaurants are turning to packaging which is less harmful to the environment. Deliveroo has taken action to make our service more sustainable. We have made plastic cutlery an opt-in for all customers and introduced a new line of eco-packaging, with 50 new products to help restaurants offer sustainable packaging.

Do you think there are enough available resources to help companies start and scale these days?

Growing a business at such a pace is always challenging, and we're learning new things everyday. Advice and input from investors is key, and we've been fortunate enough to have people on board who are really supportive. The great thing about working at Deliveroo is that we're always learning new ways of approaching problems and identifying opportunities — most of the time we're learning from our colleagues. We've found that getting the right team together, who are working towards one goal, is vital in scaling a business.

> “We're never content with the status quo. The industry is changing so quickly, and we want to be leading that change. That's why we're always looking at the next innovation.
>
> **INES UERES CMO, DELIVEROO**

Do you have any intention to exit or do you see staying private as preferable? Why?

An IPO is not a priority right now. We're focused on growing the company.

Why has Deliveroo been so successful — what did you do differently that allowed you to succeed where others failed?

Firstly, we identified a gap in the market where there was huge demand. The UK is home to thousands of fantastic local restaurants, and it was the perfect place to start a food delivery service bringing restaurant-quality food to hungry customers.

Secondly, we're never content with the status quo. The industry is changing so quickly, and we want to be leading that change. That's why we're always looking at the next innovation — whether that's delivery-only kitchens to help restaurants access new customers, or being the first company in the on-demand economy to offer free insurance to our riders to keep them safe on the road.

Lastly, we've always maintained focus on what customers want — amazing meals delivered straight to their door. We want to give customers the best choice of food so they can access meals for any and every occasion.

Stories of growth: OVO Energy

ABOUT OVO ENERGY

OVO Energy is an energy supply company founded in 2009 by Stephen Fitzpatrick. It is now the UK's premier independent energy company and supplier, serving a huge number of customers with intelligent energy services. A large portion of OVO's energy supply comes from renewable sources, and the company is also focussed on using its resources to help tackle environmental issues such as climate change and air pollution.

The company's aim is for the UK to eventually be solely powered by renewables to build a sustainable energy system of the future. Today, OVO has 1.5 million retail consumers and has been the recipient of many awards such as uSwitch Supplier of the Year 2019.

What was the story behind how OVO got started?

Founded in 2009 by Stephen Fitzpatrick, OVO redesigned the energy experience to be fairer, greener and simpler for all. Today OVO is no longer simply an energy retail business: it is a group of innovative, dynamic companies, all striving to harness technological advances with great consumer propositions to create more affordable clean energy for everyone.

The business has grown rapidly over the past decade to become the largest UK independent energy supplier with over 1.5 million customers. Expanding into smart home services and investing heavily in new technologies including energy storage and electric vehicle charging, the company launched the world's first domestic vehicle-to-grid charger for electric vehicles last year.

OVO is now acting as a catalyst of change; creating platforms and products to address some of society's biggest and most complex problems such as climate change, increasing renewable energy availability and integrating electric vehicles on to the power grid.

You recently raised £200m in equity finance from Mitsubishi Corporation — how do they fit in with your company vision?

OVO and Mitsubishi Corporation share the same vision for the future of energy: secure, distributed and consumer centric, with affordable clean energy for everyone. They are also focused on a long-term vision — this isn't about making a quick return for them, they are in it for the long term.

We're delighted to be working with an exceptional global partner which is perfectly placed to help us accelerate our international expansion and technology roll out.

OVO will use the proceeds of Mitsubishi Corporation's strategic investment to expand into new markets across Europe and Asia Pacific and accelerate the development of its intelligent energy technologies unit, Kaluza. This new division within the OVO portfolio develops and manages software and hardware to support the integration of electric vehicles and dynamic battery storage onto the grid.

What was it about Bristol and the South West that made OVO decide to set up an office there?

OVO started out of a barn in Kemble in 2009 which we quickly outgrew. Moving to Bristol seemed like a natural step as it's a city that shares many of our values — a vibrant culture and tech community, entrepreneurial flair and challenger mentality. We've created a great place to work: fair pay, engaging work, flexible working, and access to world class training including sponsored MBA courses, OVO University (our in-house training lab) and a bespoke SMART meter engineering programme for our Installation Field Force.

What do you see as emerging trends in energy?

The energy industry is going through enormous change driven by new technology, digitisation and the falling cost of renewables and storage. As other industries like media and finance have been disrupted by new technology, customers are now expecting much more from their energy suppliers. The energy system of the future will be decentralised, distributed and decarbonised — giving customers more control over their energy.

Why has OVO been so successful — what did you do differently that allowed you to succeed where others have failed?

Over the last ten years, OVO has redefined what an energy company is, combining digital technology and human insight to completely transform consumers' understanding and relationship with energy. We are confident in our current strategy, which focuses on growing our UK retail business, delivering award-winning customer service, and expanding our retail reach into new international markets both organically and by acquisition. As well as capitalising on the significant potential of Kaluza (our technology business) with new partners, new products and new geographies.

How they got there

We investigate the various growth strategies employed by our unicorns, including equity investment, acceleration and acquisitions; and profile the top investors into unicorns.

Equity investment

A MATURING EQUITY MARKET

Over the past few decades, the venture capital and private equity ecosystem has matured manifold, with a more diverse range of finance than ever before, from comprehensive government grants to crowdfunding options. In addition to this, there is also a much greater amount of capital available.

But whilst more money is being invested, fewer deals are happening than before, likely due to the spreading of risk-averse sentiment within the investment community. This has resulted in later-stage, and hence higher value deals taking place. R&D intensive tech companies — which many of our unicorns are — have a big appetite for capital in order to accelerate innovation and achieve and maintain a market leading position.

The effects of this are most pronounced at the extreme end of the scale, with mega-deals (investment rounds that are worth £50m or more) becoming a permanent fixture in the funding landscape. 14 megadeals have been completed in each of the last three halves.

4.5

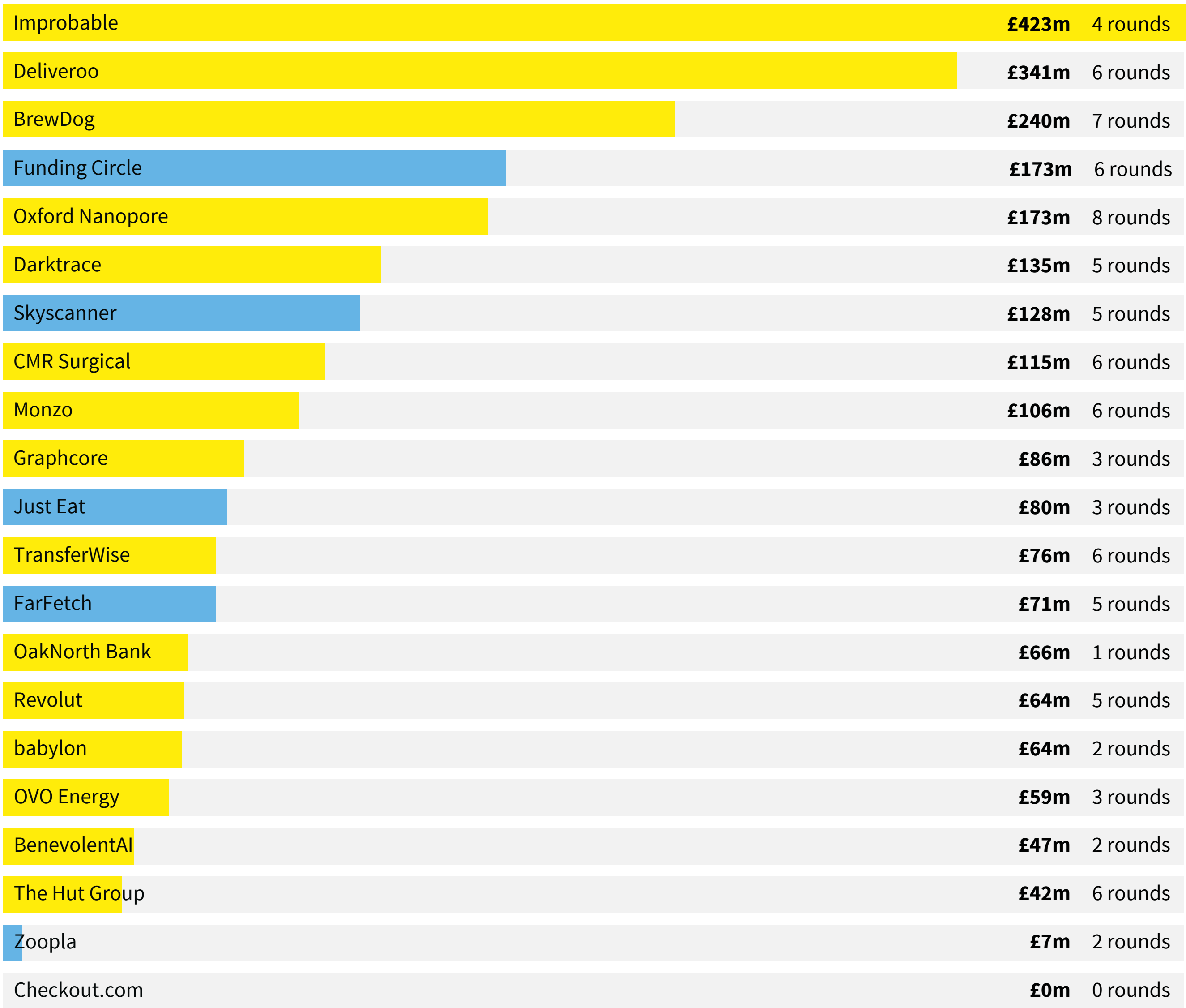
average number of rounds before unicorn status

£125m

average amount raised before unicorn status

EQUITY RAISED PRIOR TO UNICORN STATUS

Exited   Private   *Note: Checkout.com did not raise equity before their unicorn status £176m fundraising in May 2019*



These large rounds allow companies to reach large valuations sooner, and in fewer rounds than needed previously. Each of the UK's active unicorns has raised an investment round of over £50m, and the cohort have collectively secured 31 of these deals.

The increasing involvement of foreign funds in UK equity deals has further stimulated the market. Investors from abroad not only bring international experience to the table, they are often more able to provide larger pools of capital than domestic investors. Global funds will often have deeper pockets and may also have more freedom to deploy greater amounts of capital in one go. Indeed, every UK unicorn on our list has some international investors on their cap table.

For our cohort of 16 private and trading unicorns, the average amount raised was £125m over 4.5 funding rounds prior to their unicorn valuation deal.

Improbable raised the most of all the unicorns before securing its $1b valuation deal in July 2018, with £423m of equity investment over just four funding rounds. The company develops software that can support and facilitate rich simulated environments and worlds, first made for multiplayer game play, but with further applications in defence and health.

On the other hand, Checkout.com had never raised equity before securing unicorn status through a $230m (£176m) deal in May 2019, making it the first UK company to do so.

HOW THEY GOT THERE

Top investors

UNICORN HUNTERS

Investors play an important and multifaceted role in the growth trajectory of promising businesses. As well as providing growth capital, investors also support their portfolio with additional, non-financial guidance and resources, including mentoring and access to their broad networks of experts and key contacts. There are hundreds of investors in the UK, but only an elite few have identified high-potential startups and helped guide them to a $1b valuation.

Index Ventures has been the most active investor into UK unicorns, having backed six so far. As well as holding shares in TransferWise, Deliveroo and Revolut, the firm has also guided Funding Circle, Just Eat and FarFetch through to their exits. The international fund has offices in London, Geneva, Jersey and San Francisco, and they have backed 270 companies across the world, making Index one of the most active venture capital investors in the global high-growth space.

Digital Sky Technologies is the second most prolific of the unicorn hunters, having backed five UK unicorns. Based in the Russian Federation, this fund's investments into unicorns have all been so-called 'mega-deals', varying from a £56.3m investment into FarFetch in 2015, to a £210m backing of Deliveroo the following year.

Investing in four unicorns, Vitruvian Partners has the third largest unicorn bounty of all funds. It has also backed the highest proportion of Exited unicorns, with three out of four of Vitruvian's unicorn alumni having undergone either an IPO or an acquisition.

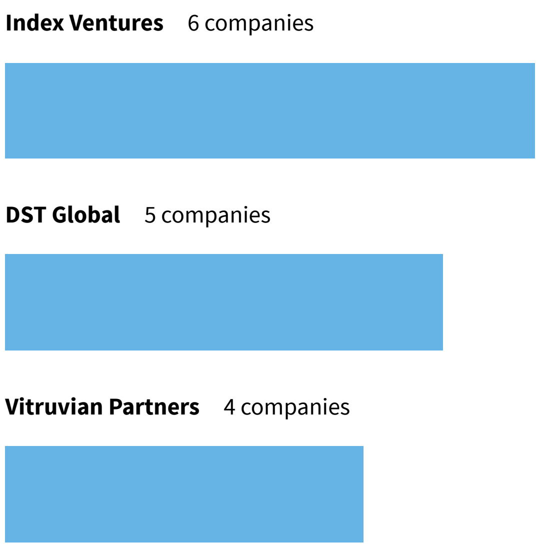
While these top three funds are all Private Equity and Venture Capital firms, there have been other types of investor getting in on the action. Crowdfunding is also a popular method of fundraisings for unicorn companies, with Exeter-based platform Crowdcube having facilitated funding rounds for BrewDog, Revolut and Monzo. These companies can leverage their consumer-facing brands to build successful campaigns on the site, mobilizing loyal customer bases to take their own stake in the business. BrewDog even holds continuous funding opportunities for its customers, who can become a so-called 'Equity Punk' through the process.

This is an example of equity fundraising becoming a marketing tactic in a company's public relations strategy.

The success of the three crowdfunder-backed unicorns mentioned above acts as reassuring evidence for the crowdfunding sector, which has been hailed by some as a way to democratise access to the rewards of equity investment. However, the three unicorns are yet to exit, meaning that any realisation of these crowdfunded investments are yet to manifest. This new method of raising capital is yet to establish itself as a reliably lucrative opportunity for the hobbyist investor.

> **"Only an elite few investors have identified high-potential startups and helped guide them to a billion dollar valuation.**

TOP INVESTORS BY NUMBER OF UNICORNS INVESTED IN



Index Ventures

ABOUT INDEX VENTURES
Index Ventures is an international venture capital firm founded in Geneva in 1996, with principal offices in London and San Francisco. Their funds can make investments from early-stage through to growth-stage.

OFFICE LOCATIONS:
London, San Francisco, Geneva, Jersey

PREFERRED SECTORS:
Fintech, business services, infrastructure

UNICORNS INVESTED IN:

TransferWise, Funding Circle, JUST EAT, deliveroo, Revolut, FARFETCH

DST

ABOUT DST GLOBAL
Headquartered in Moscow, Digital Sky Technologies (DST Global) was founded by influential entrepreneur Yuri Milner in 2005. The fund specialises in late-stage growth investments in the global internet industry.

OFFICE LOCATIONS:
Moscow, London

PREFERRED SECTORS:
Global internet

UNICORNS INVESTED IN:

FARFETCH, Funding Circle, checkout.com, deliveroo, Revolut

VITRUVIAN PARTNERS

ABOUT VITRUVIAN PARTNERS
Vitruvian Partners was founded in 2006 with headquarters in London, Munich and Stockholm. The firm focuses on growth capital and management buyout deals, typically investing in companies valued between €75m – €1bn+.

OFFICE LOCATIONS:
London, Munich, Stockholm, Luxembourg, San Francisco, Shanghai

PREFERRED SECTORS:
Business services, consumer services, financial services

UNICORNS INVESTED IN:

FARFETCH, JUST EAT, DARKTRACE, skyscanner

TECH NATION FUTURE FIFTY

Future Fifty is a late-stage growth programme that is specifically focused on developing digital businesses in the UK, offering services such as masterclass workshops and peer-to-peer networks.

UNICORNS ACCELERATED: 12
Revolut, Monzo, Darktrace, Checkout.com, OakNorth Bank, Deliveroo, TransferWise, Funding Circle, Zoopla, Skyscanner, Just Eat, FarFetch

TECH NATION UPSCALE

Upscale is focused on developing the UK's most promising tech companies to accelerate their growth, through workshops and access to the accelerator's alumni network.

UNICORNS ACCELERATED: 2
Monzo, Improbable

ELITE

Run by the London Stock Exhange, ELITE offers a programme of structured engagement to growing UK companies, supporting their development for the next stages of growth and investment.

UNICORNS ACCELERATED: 2
Skyscanner, BrewDog

DigitalHealth. London | ACCELERATOR

The DigitalHealth.London programme develops healthcare businesses in London by providing opportunities to connect with NHS stakeholders, industry investors and other healthtech innovators.

UNICORNS ACCELERATED: 1
babylon

PUBLIC SERVICE LAUNCHPAD

by Hub Launchpad and FutureGov

The Public Service Launchpad programme, run by Hub Launchpad and FutureGov in 2014, was focused on supporting companies developing solutions to public sector inefficiencies.

UNICORNS ACCELERATED: 1
Zoopla

Seedcamp

Launched in 2007, Seedcamp was the first pan-European accelerator programme. No longer an accelerator, they provide pre-seed funding to startups as a fund.

UNICORNS ACCELERATED: 2
Revolut, TransferWise

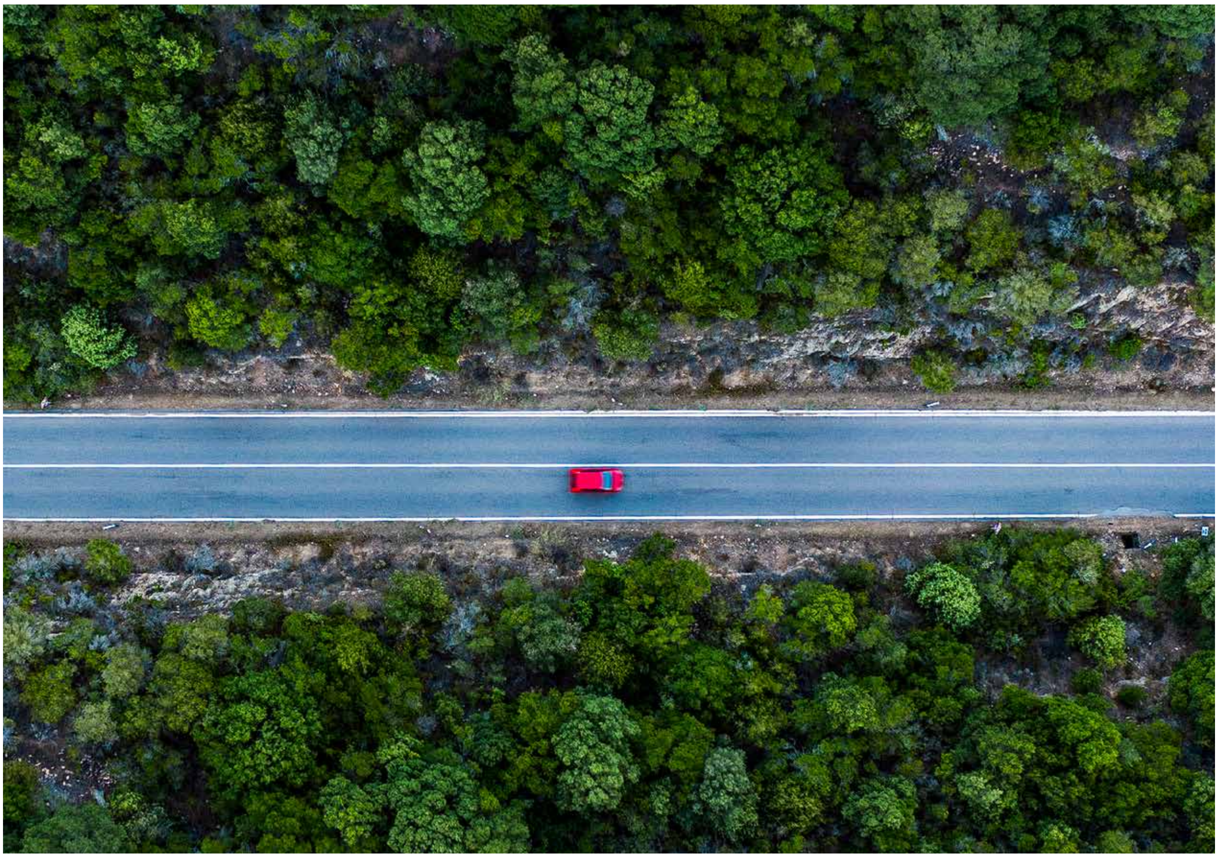
Accelerating towards unicorn status

PROVIDING A HELPING HAND

Accelerator programmes are designed to help entrepreneurs grow their ideas from just that: ideas, into successful, fast-growing businesses. The most common benefits include mentoring, financial investment, business advice, office space and access to the accelerator's business network.

First conceived in Silicon Valley with Y Combinator in 2005, there are now over 150 competitive accelerator programmes operating in the UK, which have fast become one of the most important ways to nurture young companies from startup to scaleup and beyond. This is evident in the fact that three quarters of the UK's unicorns have attended accelerator programmes.

Between them, these unicorns have attended six different accelerator programmes. The most popular of these is Tech Nation's Future Fifty programme, which has accelerated 12 of the UK's unicorns. Tech Nation also run the Upscale programme, which counts Monzo and Improbable amongst its alumni.



Future Fifty: empowering future unicorns

ABOUT FUTURE FIFTY

Future Fifty is a prestigious programme for 50 leading late-stage UK tech companies, with approximately 25 new businesses selected to join each year. Run by TechNation and now entering its eighth year, it was launched in December 2013 by George Osbourne at the London Stock Exchange to make it as easy as possible for the world's fastest growing companies to list in the UK and to showcase the UK's leading late stage digital businesses.

We spoke to **Parveen Dhanda, Head of Growth Programmes at Tech Nation**, previously Programme Lead for Future Fifty. With a wealth of experience in supporting innovative ventures, Parveen shared some fascinating insights on how programmes like Future Fifty can help future unicorns.

You've built an incredible network of over 100 alumni, including Deliveroo and Skyscanner — does this track record make it easier to build awareness and attract companies to your programme?

Definitely. Having household names like JustEat, Funding Circle and Farfetch has really helped build the profile of our programme, because people are familiar with their growth trajectory and success. As a result, other people want to be part of that same network and to have the accolade of being recognised as a Future Fifty company.

And when a company applies, what does the application process look like?

We bring on 25 each year and the programme runs for approximately two years. The reason it's 25 and not 50 companies in a cohort is that what we've found there aren't enough companies out there that meet our criteria. This is due to the fact that our criteria is evolving over time — it has to because the quality of application has increased over the years too. It shows that the ecosystem and support for early stage companies is working.

What do you look for when judging which companies should join the programme?

At this stage, it is more about the company itself rather than the founder. We are looking for companies that have a minimum of £5 million in revenues or have raised a minimum of Series B in founding and can prove 50% year-on-year growth. They need to demonstrate ambition and the extenet to which they are are making a dent in their market via their growth trajectory.If a company can show that they are influencing their sector and stealing market share from the incumbents then we want to speak to them.

In terms of the founders themselves, above all else we look for passion. Can they demonstrate a passion for their company, for their sector and for the UK ecosystem as a whole? Passion and ambition is so important to running a successful business, from motivating employees to convincing funders to invest. When people see that you're truly passionate and believe in what you are doing, it becomes a lot easier for them to come on board with your vision.

How do you define success for your companies?

For us we break success for our companies down into three main areas: job creation, creating economic wealth (revenues), and IPOs and M&A.

You're the only digital tech network in Europe, what kind of tailored support do you provide your attendees once they're accepted into the programme?

Each of our attendees will have different challenges and needs, but also share in experience very fast-paced growth because they're operating within digital tech. We assess the individual challenges that the companies have outlined in their applications and learn more about them during the onboarding process, so that we can effectively tailor support to their needs. There are four main support pillars to our programme:

Peer-to-peer networks: C-Suite roundtables
The C-suites roundtables allow C-suite execs to get together every quarter to bounce ideas around, raise challenges, and discuss potential partnerships. There is tremendous value in being able to talk openly to someone who has gone through or is going through a similar experience to yourself, so the feedback from these roundtables has been very positive. Participants really value the fact that they are with a group of companies in the same sector as they are all facing similar challenges to one another.

Masterclasses: workshops led by global experts
The masterclasses consist of workshops and events based around typical challenges that our companies are currently going through or that they may experience in the future. For example, one of the masterclasses was based around IPOs and featured the chairman of Funding Circle to share insights on how they found the process and any learnings that may be valuable for our participants to hear.

Access to government: exclusive ministerial roundtables
With Future Fifty being partially government backed, we also host round tables where entrepreneurs can raise key concerns with ministers and secretaries

of state. It's great for our companies to get this facetime with key policy influencers and start to build relationships because they may become very important down the line.

Tech Nation Visa: access to a dedicated Tech Nation Visa team
Finally we have the Tech Nation visa support team which is on hand to advise our companies when it comes to seeking visas for employees and expanding abroad. Again, like most of our other tailored support pillars, it's very practical support because we know that a lot of our companies will have plans for international expansion, if they haven't done so already.

Of all the different support mechanisms that you provide in your program, what have you heard back as being the most valuable of these?

We've always had excellent feedback from the peer to peer networking sessions for the reasons I mentioned — it's not often you have the opportunity to speak to such a range of C suite execs who have faced similar challenges themselves and therefore learn from their mistakes and successes.

More broadly, we've heard that the Future Fifty accolade in itself has massively helped our attendees with recruitment and investment.

Looking at the 5 unicorn companies that have attended your program — what did they have in common that set them up for such success?

It boils down to two main areas, skillset and mindset:

Skillset: raise smart
In terms of skills, the most successful companies have the ability to fundraise. And just as important, an ability to know where to spend the money once they've completed the deal. Successful companies have a pretty clear idea of what they need to do in order to scale and they use their funding wisely in order to do this, whether that be for hiring an experienced C-suite team, or setting up infrastructure for international expansion.

Mindset: shared ambition
The most successful companies have a forward thinking, humble CEO who has a strong awareness of their own ability. They need to know when to trust their own judgement and when to defer to someone who is more versed in that area — a leader who thinks they're an expert in everything is very unlikely to succeed.

Of course the founder and CEO have a huge part to play in setting the tone for the rest of the company, but it's equally, if not more critical to have an ambitious and focussed mindset across the organisation. Every team member needs to buy into the vision of the business and be prepared to work hard to manifest it.

Along with ambition, the most successful companies will also have focus, recognizing the most important metric to judge themselves on and putting all of their effort and energy into exceeding it. This is really what separates the winners from everyone else. It's so easy to get distracted, especially when the company has had some early successes because suddenly there are so many doors open to them. But it's the companies that can stick to their guns and maintain focus on their north star metric that will thrive.

Is becoming a unicorn a specific goal for a lot of companies?

Reaching unicorn status isn't a goal for everyone — it depends on the mission of the company. But it can be a very useful accolade from a media perspective, and, for companies that are fundraising heavily, it might help their pitch.

How do you see the role of accelerators developing in the future?

The ecosystem is more developed now and this allows for more specialisation. Accelerators will focus on specific sectors, which we have done at Tech Nation with fintech, AI and cyber. I think there will be more collaboration and partnerships with other accelerators across the globe, as this will make it easier for accelerator attendees to expand their operations overseas.

For the future of our own programme, we'll be focussing on the international side, working closely with the Department for International Trade and developing our network globally. We're also putting more emphasis on the well-being and mental health of leadership teams. The pressures of founding and/or running a company can be immense, especially when the funding actually comes in, because now the company has investors to answer to. And we are seeing the number of first time founders increase significantly this past year so these people find themselves in uncharted territory and can easily become overwhelmed. That's why we have set up the peer-to-peer support network, allowing C-suite execs to lean in and ask for support from peers who know exactly what they are going through.

ACQUISITIONS BY UNICORN COMPANIES IN THE UK

THE HUT GROUP

zavvi	2009	
lookfantastic	2010	£19.4m
MANKIND	2010	£2.5m
MYPROTEIN	2011	
PROBIKEKIT	2013	
Preloved	2014	
GROW GORGEOUS	2016	
SALU BEAUTY	2016	
HALE Country Club & Spa	2016	
HANGAR SEVEN	2017	
UK2	2017	
GLOSSYBOX	2017	
RY	2017	
ESPA	2017	£100m
ILLAMASQUA	2017	
eyeko London	2018	
language connect	2018	
ACHESON & ACHESON	2018	
Christophe Robin	2019	
ECLECTIC Hotel Collection	2019	

OVO ENERGY

VCHARGE	2017
CORGI HomePlan	2017
sse	2019 *subject to FCA/CMA approval

DELIVEROO

MAPLE	2017
cultivate	2019

BREWDOG

THE DRAFT HOUSE	2018
HAWKES	2018

HOW THEY GOT THERE

Growth by acquisition

ITS A COMPANY-EAT-COMPANY WORLD

One quick way to assert your dominance in the market is by subsuming your competitors and peers. By acquiring other start-ups, a business can expand their customer base, their IP and their product range and value, whilst reducing competition in the landscape. The Hut Group has made 20 acquisitions. As an operator of e-commerce websites, purchasing e-commerce sites and bringing them into the suite that they own and manage is a critical part of their business model. It's a very direct example of how acquisition can fuel the growth of start-ups.

BrewDog's purchase of Hawkes Cider and The Draft House also demonstrate their brand and business strategy. Bringing Hawkes Cider into the fold allowed BrewDog to expand into the independent cider market by tapping into an expertise and customer base that was already there. On the other hand, BrewDog's takeover of the Draft House, a chain of independent pubs, represents a proactive move to take further control of the craft beer sector.

Deliveroo's purchase of Maple, a New York based food delivery service that differentiated itself by owning the whole food production chain from ingredient sourcing to delivery, was in a similar vein. However, their other acquisition of the software development company Cultivate, is for something slightly different. Having worked closely with Cultivate previously, Deliveroo's acquisition of the Edinburgh-based company is part of their plan to build a techhub in the Scottish capital. This demonstrates the foodtech giant's ambitions to become more than just a delivery service, but an influential tech company in their own right.

OVO Energy's acquisitions are also steps towards its vision as a "a truly integrated, technology-enabled energy services company". The purchases of CORGI Homeplan and VCharge have expanded OVO Energy's capacities beyond the provision of gas and electricity, to include the maintenance of boilers, thermostats and smart-meters. Their latest acquisition of SSE, subject to regulatory approval, would make OVO Energy the UK's second largest energy provider, hot on the tails of British Gas.

These unicorns may have begun as niche service providers in very different industries, but their appetite for comprehensive service provision and whole sector domination is comparable.

What's next for unicorns?

We look at potential newcomers to the herd, and those that have chosen to exit. Finally, we take on the threat of the 'unicorn bubble', and ask; what does a $1b valuation really mean?

Exits

EXIT THIS WAY

An "exit" — whereby a business is sold to a larger corporate, or admitted to a public stock exchange in an initial public offering (IPO) — can provide a significant financial reward to shareholders, particularly for those with a significant stake in the company. For many, it is the prospect of this potentially sizeable payout which incentivises people to undertake the very risky venture of starting a new company in the first place. For others, an exit can be a means of growth, either through nestling under larger companies of similar interest, or a means of securing additional funding to support ambitious growth plans into new markets or locations.

TROUBLE THAT WAY

However, it is not without its risks: subjecting to the volatility of the stock market can raise a magnifying glass to a company's previously private indiscretions, with potentially disastrous consequences to the share price, whilst submitting to an acquisition risks losing the very culture upon which the company has thrived. Equally troublesome can be the additional bureaucracy associated with becoming a public company — red tape in the form of additional corporate governance requirements, and the challenge of dealing with an increased number of investors and their potentially competing interests.

JUST EAT 03/04/2014
IPO: London Stock Exchange £360m

The first of the herd to exit, the online food delivery service Just Eat listed on the London Stock Exchange at £2.60 a share. The offering raised over £360m and valuations for the company weighed in at £1.47b. In the five years since its IPO, its share price has grown almost consistently, to the point that the current share price sits at over 2.5x the original listing price.

ZOOPLA 23/06/2014
IPO: London Stock Exchange £352m

Just two months after Just Eat's exit, Zoopla was ready to announce. They too listed on the London Stock Exchange, and announced a share price of £2.20 when they floated. The proptech company, which lists residential properties for sale and provides housing market data via their website, raised just shy of £352m. The company ceased trading on the London Stock Exchange on 11th July 2018 after US equity firm Silver Lake acquired Zoopla's parent company, ZPG Property Services Holdings Ltd, in a $3b (£2.2b) deal. Shareholders received £4.90 per share, more than double the initial selling price.

SKYSCANNER 24/11/2016
Acquired: Ctrip International £1.4b

The only company in our herd to have exited through an acquisition, and the only exited unicorn to have been headquartered in Scotland, Skyscanner is a company of firsts. The price comparison site — which tracks flights, hotels and rental cars — was acquired by Chinese travel agency Ctrip International for £1.4b. Following the acquisition, the management team at Skyscanner continued on in their existing capacities.

FARFETCH 21/09/2018
IPO: New York Stock Exchange £514m

It was another four years after Zoopla's initial flotation before we would see another IPO from a UK unicorn, though this exit was a little further from home — ecommerce giant Farfetch decided to cross the pond and list on the New York Stock Exchange. The luxury online fashion retailer initially floated at a price of $20 per share, raising over $672m in the process (£514m). The company successfully maintained a fairly consistent share price above the $17 mark up until August of this year, where it suffered a 40% hit following the disclosure of "wider-than-expected losses". At the time of writing, the company trades at under $10 a share, less than half the original listing price.

FUNDING CIRCLE 28/09/2018
IPO: London Stock Exchange £300m

The most recent unicorn to exit the herd, Funding Circle listed on the London Stock Exchange. Their initial float yielded a £4.40 share price, and raised over £300m for the company. Share prices started to fall following the company's announcement that they were to wind down their £300m investment trust in April of this year. Funding Circle's share price tumbled further still after halving its growth revenue forecasts in a July announcement. The stock price currently sits at around a quarter of the original listing price.

Just Eat: a word on exits

ABOUT JUST EAT

Just Eat provides a marketplace for online food delivery, enabling its customers to easily order and pay for food from their over 29,000 restaurant partners. It was founded in August 2001 by five entrepreneurs in Denmark and aims to offer its customers unrivalled variety in their food choices and also supports its restaurant partners in raising their standards. The company operates by acting as an intermediary between takeaway food outlets and its customers.

Users can search for take-out restaurants, place orders, pay online and customise their food delivery options. With headquarters in London, Just Eat has now become a world leader in takeaway ordering, now operating in 13 markets across the world and boasting a team of over 3,600.

Was there any noticeable change in the way stakeholders approached or worked with you after achieving unicorn status?

The term unicorn did not really enter common parlance until 2013, by which time we had been in existence already for more than a decade, steadily growing all the time. During that period we had engaged with a huge number of stakeholders, whether they be suppliers, customers, regulators, investors, and they had all got to know us pretty well. In that sense, we were not really even aware of being a unicorn, it remained business as usual. We were still doing our best to offer the best possible service using the best possible technology. It certainly didn't change the way we operated, or how we were treated by others.

How did achieving unicorn status affect your path to exit?

Our valuation was never an issue. We didn't ever seek to achieve a certain status before listing. The timing was more impacted by the growth we had achieved, the size we had reached, and the opportunities in front of us. We were better able to go after those opportunities as a listed business.

Did your business or culture change at all following your IPO?

The culture has not changed at all, and that was a conscious decision. We deliberately wanted to retain the entrepreneurial, start-up spirit within our culture that had proved so successful. We ensured that our people remained empowered and did not feel constrained as a result in the change in status of the company. As a business, our people remain our greatest asset. Many of them joined because they recognized our unique culture so it was vital to keep it intact.

The business itself has of course changed as we have continued to grow, and we have had to adapt rapidly as customer attitudes and demand shift, but our ability to retain our leadership position has been in large part due to our ability to keep our culture dynamic and fast moving.

Soon-icorns

With the 22 established unicorns enjoying their title, industry eyes have inevitably turned to those companies that seem close to securing the much sought after $1b valuation. The companies are pioneering new technology across diverse emerging sectors, and fighting a vicious battle to lock-in brand loyalty and market share. This dramatic journey to $1b valuation goes largely unreported, due to the ambiguity in establishing valuations). Our soonicorns often have close rivals that have already achieved unicorn status or peers that are simultaneously wrestling for that $1b status.

A BRIGHT IDEA WITH A BRIGHT FUTURE

Bulb, a firm that provides environmentally friendly energy options, is a close competitor of OVO Energy, one of the UK's current unicorns. From their accounts, we can see the rapid growth of their valuation from £1.4m in October 2016 to £350m in June 2018. Extrapolating this growth rate of 700% a year would mean that Bulb would have already reached that $1b valuation. If they have reached a $1b valuation this would make Bulb the UK's first green unicorn. Given the huge size of the energy market in the UK alone, it seems likely that it could sustain several disruptive energy providers; while the competition may intimidate the players, it can be a blessing for customers who are looking to improve their own energy consumption.

READY, STEADY, PAY

Another huge market ripe for innovation is that of payment processing, within which two of our soonicorn companies, SumUp and PaymentSense, are etching out a niche. Both companies seek to facilitate card payments for vendors, making digital payments faster, more transportable and cheaper. PaymentSense provides a variety of card reader machines, including tabletop devices and portable machines for more mobile merchants, while SumUp have developed an alternative, but directly competitive, payment system that can charge customers by sending them a link to their smart devices, or by using an attachable card reader. Their business models vary slightly, with SumUp taking a small slice of each transaction and PaymentSense charging their clientele on a contract-basis. Despite these differences, both companies have seen huge commercial success so far.

PaymentSense has shown a dramatic increase in operating profits, from -£70k in 2015 to £18m in 2018. This huge growth suggests that they have significantly improved on their 2014 valuation of £50m, which was calculated when the company was still making a loss. Looking at their rival SumUp's financials, the picture is also looking very positive, with their turnover growing 24x between 2014 and 2017, from £1m to £24m. They've secured the backing of large financial corporates such as American Express, suggesting expert confidence in their business.

These kinds of numbers suggest that these two payment processing companies are well on their way to $1b valuations. However, their fiscal success also reduces their need to pursue external capital; until they hold a funding round, or decide to exit via an IPO or an acquisition, we are unable to confirm their unicorn status.

> **Our soon-icorns often have close rivals that have already achieved unicorn status or peers that are simultaneously wrestling for that $1b status.**

WHAT THEY DO:
Bulb supplies renewable electricity and carbon neutral gas derived from environmentally friendly sources to both business and domestic customers.

INCORPORATION DATE: 06/10/2014
TOTAL AMOUNT RAISED: £65.3m
LATEST TURNOVER: £183m
LOCATION: London
SECTOR: Energy
FOUNDERS: Hayden Wood, Amit Gudka

WHAT THEY DO:
PaymentSense provides credit and debit card machines and payment processing software to SMEs. The company's software also allows users to create and analyse sales reports.

INCORPORATION DATE: 22/10/2008
TOTAL AMOUNT RAISED: £329m
LATEST TURNOVER: £73.2m
LOCATION: London
SECTOR: Fintech
FOUNDERS: George Karibian, Jan Farrarons

WHAT THEY DO:
SumUp has developed a payment processing system that enables sellers to process and accept any card payment. Payments can be processed through payment links or attachable card readers.

INCORPORATION DATE: 07/11/2011
TOTAL AMOUNT RAISED: £304m
LATEST TURNOVER: £24.3m
LOCATION: London
SECTOR: Fintech
FOUNDERS: Jan Deepen, Daniel Klein, Marc-Alexander Christ, Stefan Jeschonnek, Petter Made

WHAT THEY DO:
Zopa is a peer-to-peer lending company which offers simpler, better-value loans. The Zopa lending platform directly matches investors with individuals seeking to take out a loan.

INCORPORATION DATE: 04/08/2004
TOTAL AMOUNT RAISED: £133m
LATEST TURNOVER: £46.5m
LOCATION: London
SECTOR: Fintech
FOUNDERS: Giles Andrews, James Alexander, Richard Duvall, David Nicholson, Tim Parlett

PROMISE FROM PEER-TO-PEER PLATFORM

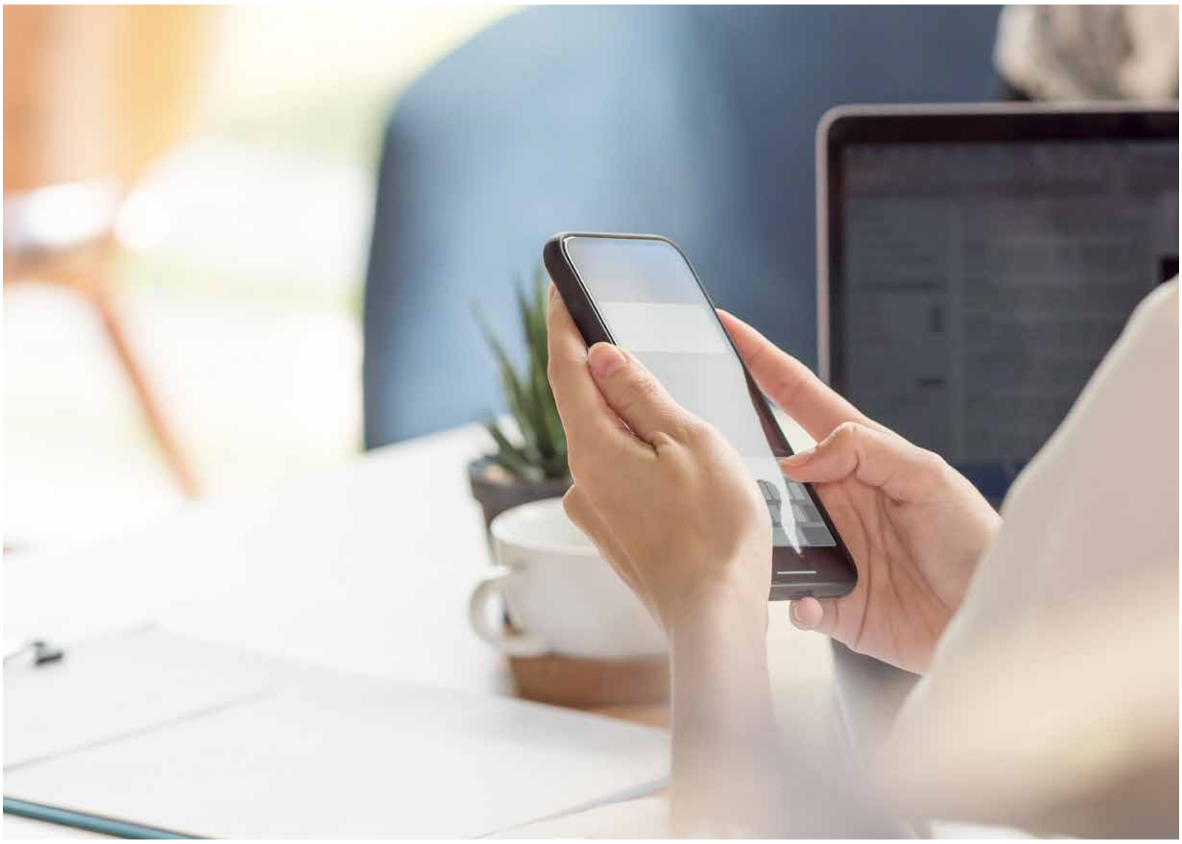
While there is some reasonable doubt whether the challenger bank scene can continue its momentum, this doesn't stop fintech from continuing innovation in different ways. The third fintech soonicorn to feature on our list is Zopa. Despite being the first company to build a peer-to-peer (P2P) lending platform in 2005, it was beaten by Funding Circle to become the first online lending platform unicorn.

Funding Circle allows individuals to invest in small businesses, while Zopa allows individuals to lend money across many borrowers, reducing the risk of defaults. The company is already classed as a scaleup; it has achieved above 20% growth in turnover for three consecutive years, reaching £50m by 2017. It's valuation has seen similar gains, almost doubling between 2017 and 2018, from £215m to £400m. The £789m threshold for unicorn status does not seem far off for a company with such momentum. However, they aren't short of competition, with at least 50 other high-growth companies operating in the space.

B2B TO BRING THE GOODS

Companies with consumer-facing brands currently dominate this list and indeed, many established unicorns have been those who could grow by leveraging social media campaigns and word-of-mouth recommendations.

Paying by phone and lending money to strangers on the internet were once seen as high futuristic, but are now commonplace. Some predict that a new generation of technologically advanced B2B companies is on the horizon, who will lead innovation across more traditional sectors. Agriculture and farming, medical and healthcare provision and professional services are just a few areas where new technology could vastly improve efficiency and outcomes. They may not be the household names of Deliveroo or the suite of challenger banks, but their impact on British society and beyond could be even more profound.



WHAT'S NEXT FOR UNICORNS?

A valuation bubble?

Having analysed the growth journeys of these unicorn companies, we arrive at some rather existential questions: do their valuations really mean anything? With half of them still operating at a loss, can a billion dollar valuation really be justified, and if not, are these valuations indicative of an issue in the wider economy? Valuing companies can be a complex business, with many different methods used at different times and by different industries. To begin to untangle some of this, a good place to start is by highlighting the complexities of valuations at every stage of the process.

DIFFICULTIES ESTABLISHING A VALUATION

A formal valuation for a company is most commonly agreed through — and because of — an equity round. Valuations have historically been calculated as a 7x to 10x multiple of a company's profit, but in today's fast-growing VC tech market, reaching profitability is not usually required to secure capital injections linked to large valuations. Indeed, 8 out of 15 companies in the herd of active unicorns are currently operating at a loss. Rather, investors place emphasis on the potential profitability of a company, and its ability to generate significant turnover.

In the absence of profit, there are a number of alternatives that may be considered when valuing a company:

1. *Times-Revenue*
   The Times-Revenue method determines the value of a company by multiplying its revenue.This multiplier is usually between 5x and 10x and depends on factors such as the macroeconomic environment. Whilst this is a relatively simple valuation method, it relies strongly on the assumption that revenue and profitability are linked, which is not always accurate.

2. *Net Present Value*
   The Net Present Value method values a company or proposed project using the present value of cash-flows. It is calculated by subtracting the initial cash outflow in starting a company or project from the total value of future estimated cash inflows. These estimated cash inflows are discounted (brought back to their equated current value) to adjust for the time value of money and investment risk.

Alongside these approaches, the Venture Capital method is commonly used to in relation to startup ventures. The estimated future exit value of the venture is divided by the return on investment that an investor is seeking. This figure is then subtracted by the total amount of capital invested in the company to give the pre-money valuation.

Of course, there are shortfalls and issues with all of these methods — basically, it's extremely difficult to value a company with intangible assets. In addition to this, it's also worth noting that valuations are always framed in the context of stakeholders' varying interests; that is to say, a company is worth more to those who want it to be worth more (e.g. the founding team who may want a lucrative exit) and less to those who want it to be worth less (e.g. a funder who wants a good deal when they invest). This creates a competitive tension that is present in all conversations regarding company valuation. Put simply, a pre-money valuation from an equity transaction is not a market price — rather, it's the price that two parties are willing to agree on at that moment.

There's no better parable to exemplify the difficulties in valuing a startup than the demise of Powa Technologies. Self-proclaimed as one of the country's first startup unicorns and a challenger to the hegemony of Silicon Valley, Powa developed a payment processing mobile app that could scan QR codes to make a paymen t. Led by founder Dan Wagner, who confidently predicted that the company would eventually be bigger than Google and Alibaba, Powa reached a massive £1.6b valuation in 2014 but tumbled into administration just over a year later.

Having been hailed as the UK's leading tech startup by David Cameron, Powa's subsequent fall from grace sparked a great deal of controversy in the media. A postmortem investigation by administrators Deloitte suggested that the company was chronically overvalued and neared insolvency at several points prior to collapse. Tellingly, just four months before the death of his unicorn company, Wagner was quoted in an interview saying "I don't like the term 'unicorn'. It's creating the wrong dynamic around businesses [...] Businesses shouldn't be championed for the fact that they have an X or Y valuation. They should be championed for the fact that they have a great initiative, great products, customers and momentum — all the things that define a business as a success." Even by Wagner's own measures, Powa Technologies was overhyped. But the company's collapse is not necessarily evidence of a valuation bubble in the wider market, rather it is evidence of how difficult it really is to value a company.

DIFFICULTIES REPORTING ON VALUATIONS

A number of difficulties may also arise when company valuations are reported on in the media. Multiple share classes with different prices can obscure a company's true valuation or even make it impossible to calculate, and lack of transparency in how published valuations are calculated can restrict external scrutiny. Because of this, misguided valuations are usually only apparent in hindsight.

So how do different share prices affect a valuation? Companies can offer shares with different rights across different investors, employees and other stakeholders. Preferred shares can mitigate the downside costs for investors — as they are guaranteed to be paid before ordinary shareholders — so in return they may be willing to pay a higher price per share. If the media assume that all share prices are the same and simply multiply the price per share of the most expensive share class by the total number of shares then the resulting figure will be inflated. A symmetrical problem can happen, of course, if you multiply the price per share of the cheapest share class by the total number of shares, though this would be less likely.

The lack of transparency in how reported valuations are calculated means that these cannot be easily validated by external sources. For example, four of the UK's unicorns have announced their billion dollar valuations through press releases with no indication of methodology, and which cannot be confirmed because their parent companies are based in 'secrecy jurisdictions' which do not have to make their share allotment forms publicly available (FarFetch: Isle of Man; Checkout.com, Isle of Man; babylon, Jersey; OakNorth Bank, Jersey) .

> **"Whilst it is rewarding to see the company grow this quickly, our recent valuation and billion dollar status isn't our focus. What is important to all of us at CMR is that we can start to get better surgery to millions of people around the world.**
>
> **MARTIN FROST CEO, CMR SURGICAL**

AGREEING ON A VALUATION ACROSS MARKETS

If a company chooses to list on a stock exchange then its valuation will have to face the music of the public market. There are a multitude of differences in how institutional and retail investors operate, so it's quite common for there to be discrepancies in what they're willing to pay for shares in a particular company. The ascent of wealthy megafunds (like China's SoftBank) has exaggerated these discrepancies further. Investors with access to enormous pools of capital will likely be willing to pay a different (read: greater) price for shares, catapulting the valuation of its portfolio companies well above what can be supported in the public markets.

With more capital flowing through the private markets than ever before, companies are no longer having to IPO in order to raise significant funds, and are thus staying private for longer. This means they can maintain a smaller roster of investors and are under less strict corporate governance requirements than a listed company. But delaying an exit event means that businesses are missing out on the price discovery that listing on a stock exchange affords. Instead, they spend more time building their business upon a potentially misleading valuation, only to suffer a significant blow to expectations when they eventually do reach an exit event.

Perhaps the most recent and high-profile example of this was the much-anticipated IPO of Uber on the New York Stock Exchange at the beginning of May 2019, which fell $17.6b short of the $100b valuation it had hoped to achieve upon listing. The most recent and ongoing instance cloaked in scandal is the very public process WeWork is currently going through in order to list on Nasdaq.

So far, none of the UK's now public unicorn companies have had quite such a dramatic exit event, but some are struggling to maintain their skyhigh values — both FarFetch and Funding Circle experienced a drop in stock price after their initial listings. FarFetch's share price surged on its first day of trading, closing at $28.45, but has since dropped to a third of this. Funding Circle listed at £4.40 per share in September 2018 and is currently trading at £1.07 per share.

It's worth noting here that a drop in stock price from the initial public offering isn't necessarily an indication of overvaluation whilst private. A listed company is vulnerable to market fluctuations, and private investors will still make a return if they can get out at a good price.

OPERATING AT A LOSS: GROWTH AT ALL COSTS

The fact that many present-day valuations are based on the potential of a company and not its current financial position has led to much criticism and concern from the wider industry, sparking rumours of a second 'valuation bubble' to rival the infamous dotcom boom. At some point, high-value businesses have to prove that they have sustainable levels of growth. If investors cannot make some kind of return, then the external streams of money they depend on will eventually dry up.

So why are many companies prioritising growth at all costs? They appear to be racing to establish a new brand in a space and claim a leading market position in an increasingly competitive ecosystem. Just take a look at our sector map — many of the UK's highest valued companies are direct competitors (challenger banks Revolut and Monzo for example), and need to sustain high levels of funding in order to keep up.

On top of this, large corporations are now improving their strategic responses to disruptive businesses, with internal innovation teams, corporate venturing arms and corporate-sponsored accelerator programmes becoming increasingly common. Hence, the opportunities for ambitious companies to displace incumbents, take advantage of their shortcomings and legacy systems to the extent that is possible at the moment may become harder (those that seek collaboration in lieu of competing with more established businesses may be less vulnerable to these risks). One advantage agile startups do still hold over incumbents, however, is the ability to park the concern for sustainable growth and instead prioritise rapid expansion.

If it's able to turn revenue into profit in the long term, then there is no foregone conclusion that a loss-making unicorn is a cause for concern or a sign of a valuation bubble. It remains to be seen whether the UK's current unicorn herd can turn their potential into cold hard cash and hefty returns for their investors. But, from our own research, it's clear that our current unicorn herd is focused on long-term, sustainable growth, and are not getting blindsided by vanity metrics and lofty valuations.

Driven by our platform

Looking for the UK's next unicorn startup?

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