

SETsquared
PARTNERSHIP

Universities of Bath, Bristol, Cardiff,
Exeter, Southampton & Surrey



INVESTMENT FUTURE INSIGHTS

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At the end of 2023, we hosted our first Investment Futures event in London, an evolution of our annual Investment Showcase. As well as showcasing start-ups and scale-ups raising investment from across SETsquared’s portfolio, it was an opportunity to collate market insights about the investment landscape for 2024.

Through a series of roundtables, we gathered intelligence on topics ranging from corporate venturing, the recent Spin-Out Review, ESG and its impact on return on investment through to investment available in the UK and Europe, building a more inclusive funding ecosystem and deepening connections between investors and tech transfer offices.

This first report captures highlights from these roundtables and trends for investment in 2024. It’s set to be an exciting year, with a general election imminent and growing market interest in the potential of commercialising research, but also with the challenges of funding being in shorter supply. I am delighted to say over the coming months there will be an opportunity to take a deeper dive into each of the topics as we release the write-ups of the roundtables coupled with an in-depth blog from each expert facilitator.

What trends are we seeing on the ground?

Undoubtedly, the last couple of years have been challenging for start-ups and scale-ups raising investment. Following the highs of 2021, fuelled by capital that had been held back through the pandemic, equity has been scarcer and harder to raise.

The positive news is that we are still seeing successful fundraising activity from across SETsquared’s science, technology and innovation-led start-up and scale-up portfolio. In 2022 alone, SETsquared-backed ventures raised £0.5bn in investment and funding. This takes the total investment raised since 2002, when SETsquared was created, to £4.4bn.

This indicates that well-supported ventures with great innovation and a well-developed market proposition will continue to raise investment even in challenging times. There seems to be strong continued support for the sector from UK Government and UK Research and Innovation, including in Science, Innovation and Technology Secretary Michelle Donelan’s speech on 16 January, which doubled down on the Government’s mission to be the ‘powerhouse of growth’ and to close the gap on the US, matching its current levels of VC investment as a share of GDP, by 2030 – about £5bn per year extra.

Stimulating change with new initiatives

Investment Futures 24 was an opportunity to launch our new IMPACT-IP initiative. Led by the University of Southampton and funded by £1.5m from Research England’s Connecting Capability Fund (CCF), this new programme aims to increase connectivity between university Tech Transfer Offices, investors, and professional service firms to accelerate the pace of university commercialisation deals and spin-out creation.

By bringing together experience from across all six of our University ecosystems, we will create new standardised guidance, templates, toolkits and playbooks to make the commercialisation process far more efficient and the pipeline of potential new ventures far more accessible to investors.

We’re passionate about supporting academics and founders to create thriving businesses which address global challenges such as Net Zero, chronic health conditions, the ageing population and discrimination and marginalisation of areas of the population. Ultimately, this new programme is a key step towards launching transformative innovation into the market more swiftly, with more funding and support, in doing so, creating high-value jobs for the UK economy.



£0.5bn

investment secured by SETsquared-backed ventures in 2022



£4.4bn

total investment raised since 2002



£1.5m

funding from Research England’s Connecting Capability Fund (CCF)

The UK Government’s Science and Technology Framework set out a clear ambition to guide and unlock investment, catalyse private sector R&D, and boost the innovation activity of businesses, leading to UK economic growth. However, our most innovative SMEs with the potential to scale can often struggle to develop the capacity, capabilities and collaborations required to secure public and private funding. Disparities across different parts of the country also remain a real hindrance to realising our potential. While success rates in applications for UKRI funding to drive R&D and attract private investment are broadly the same across the UK, regions outside of London and the South East still lag significantly in the scale of projects that are supported.

Responding to these challenges, it was great to engage with the Investor community on the progress of major regional innovation programmes which have been launched with the backing of UKRI, focusing on key industries of the future for the UK such as Sustainable Technology, Creative Technology and Digital Health.

These new initiatives have been built around the capabilities and experience of our Scale-Up Programme, which supported members who raised £713m in investment and £72m in grant funding to drive R&D. We’ve also been delighted to partner with Innovate UK’s Investor Partnerships Future Economy Programme, directly supporting 15 companies to unlock £6m of non-dilutable grant funding alongside £12m angel co-investment.

Finally, with much recent coverage of the importance of ‘place’ in impact led innovation, we’re proud of the world-leading support available at our six SETsquared business acceleration centres across the South, South West, and South Wales. Together, they work with regional ecosystems to support hundreds of innovative ventures to make the right connections, get investor-ready and develop business models with the potential to scale globally.



What does all this mean for investors?

- Knowledge and innovation-led businesses will be the most resilient in a tough economic climate, creating growth and high-value jobs.
- There’s a huge opportunity to lean in and engage with early-stage technologies through universities and programmes supporting this innovation, such as Innovate UK’s ICURe and well-established incubators.
- Look at companies which have received non-dilutive grant funding to support their R&D roadmap for more pipeline opportunities.

What about innovation-led start-ups?

- The bar for securing investment has been raised. Ensure you’re as polished, prepared and targeted as possible when approaching investors.
- Look at alternative avenues for raising cash, such as corporate venturing and grant funding.
- Consider bootstrapping and developing your sales strategy to bring in revenue.
- Get support to ensure your underlying business is as investor-ready as possible.

The brilliant level of engagement in Investment Futures 24 demonstrated a shared desire amongst the wider investment and innovation community to collaborate and build on this success together. We are really grateful to all the facilitators and attendees who opened up on their big challenges, were generous in sharing their experience and approached discussions with an enthusiasm for making the whole science, tech and innovation market better in the year to come.

INVESTMENT FUTURE INSIGHTS SERIES

By signing up for this initial report, you'll automatically receive each instalment directly to your inbox each month.

To whet your appetite, here's a taste of what's to come:



Corporates and VCs working together – should corporates just invest in funds or come alongside as a co-investor?

Facilitator: Jim Mawson, CEO, Global Corporate Venturing



Headline findings:

- The roundtable saw notable contributions from corporate venturing units plus VC investors.
- There is no one size fits all. Find out how and when corporates invest in start-ups.
- Corporates' strategies change quickly.
- There's an increasing trend to look at ventures at an earlier stage.



Spin-out Review – so what? How does this shape the landscape going forward?

Facilitator: Tamsin Mann, Head of Policy and Governance, PraxisAuril



Headline findings:

- The Spin-out Review was largely positively received by those in attendance.
- A significant focus emerged on the need for more active engagement between all parties to improve understanding and demystify the spin-out process, with suggestions including greater publication of data and more thorough reporting processes.
- The conversation suggested previously unexplored opportunities to engage the investor community.
- The overarching sentiment echoed the understanding that the challenges and opportunities within the spin-out landscape are multifaceted, requiring a collective approach that leverages the strengths and expertise of each involved stakeholder.





Impact vs ESG - which do you prioritise in your portfolio? Does either make a difference in return on investment?

Facilitator: Ed Phillips, Partner, Future Planet Capital



Headline findings:

- Investors are searching for companies that will generate impact, and that is important, but the bottom line always comes down to returns.
- Start-up ESG policies tend to fall between two extremes - a tick box exercise for the sake of attracting investment, or it is all-encompassing to the detriment of the business.
- Creating an ESG Policy too early in a start-up's journey can stall company growth unless they have the personnel to achieve both simultaneously.
- The consensus around the table was largely on tackling ESG as the company grows and having the right mindset and education to achieve it.



Can the UK and Europe compete with the rest of the World with the level of investment available?

Are we in danger of our best companies moving further afield for investment?

Author: Lauren Crawley-Moore, Regional Lead, London & The South, UK Primary Markets, London Stock Exchange



Headlines:

- In an exclusive blog from Lauren, she sets out her stall on what needs to happen to stimulate public markets by providing a pipeline of private investment opportunities across a venture's lifecycle.
- She explains what initiatives the London Stock Exchange is putting in place to support UK start-ups and scale-ups to unlock equity.
- And why UK start-ups should stay in the UK to grow and thrive.
- With additional expert comments from VC investors.



Building a more inclusive fundraising ecosystem: challenges and opportunities ahead

Facilitator: Brianna Bao, Investor, Simsan Ventures



Headline findings:

- In order for us to make strides toward a more equitable and inclusive funding system, all stakeholders must come together and work collaboratively. There is no one-size-fits-all approach.
- A lack of representation amongst the founding and investment communities plays a big contributing factor.
- Encouraging underrepresented groups into white, male-dominated subjects like the sciences and engineering will help to level the playing field, but this is only part of the challenge.
- Concerted efforts must be made to ensure that underrepresented communities are supported continuously throughout their education and inspired to consider a career in entrepreneurship.



How can we deepen the connections between investors and tech transfer offices to speed up the commercialisation of research into the marketplace?

Facilitator: Diana Galpin, Director of Enterprise & Knowledge Exchange, University of Southampton



Headline findings:

- The discussions emphasised the need for improved dialogue and transparency between investors, technology transfer offices (TTOs) and founders to simplify commercialisation and maximise societal and economic impact.
- The development of standardised templates and simplified processes to streamline the commercialisation journey were also welcomed, with the potential to enhance investor engagement front and centre.
- Investors would like to see innovative research at an early stage, and some look to Innovate UK’s ICURe Programme to provide that early-stage link.
- It is hoped that the new IMPACT-IP programme will help make strides towards strengthening synergy between TTOs and investors, with new training initiatives, toolkits, and deal templates driving positive change in commercialisation and knowledge exchange.



We hope this series of Investment Future Insights will help provide direction and focus for investors and SMEs through the year ahead. There’s more to come. We’ll keep you updated on future events, where we’ll be taking a further snapshot of the investment market.



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