RISE OF THE GROWTH HUNTERS

UK INVESTORS AND EARLY-STAGE EQUITIES

SYNDICATE ROOM
Invest with the professionals

CONTENTS

Foreword

Investor returns have been dwindling for years in the popular asset classes, with recent global events like Brexit and Trump adding more volatility to the markets. The low-yield investor environment we're experiencing is the new normal.

And people are being seriously affected by it.

Rise of the growth hunters finds that nearly 50% of active retail investors in the UK consider themselves to be 'off track' in meeting their financial goals. Roughly half of UK investors in bonds reckon they will see zero return, or worse, over the next year.

But in all the turmoil, early-stage equities continue to perform well as an asset class.

This report provides a comprehensive body of evidence for the long-term returns and significant growth potential of early-stage investing.

It finds that demand for these potentially lucrative opportunities is at record highs – growth-starved investors are willing to reallocate an average of 14% of their portfolio to early-stage equities.

But significant barriers still exist. A lack of information, access to opportunities and awareness of the EIS tax regime among older investors are just some of the issues investors face. We estimate that if these barriers are broken down, up to £25bn of investor demand could be released into early-stage equities in the next 12 months.

Most importantly, this report is a call to the whole industry – investors, advisors, bankers, entrepreneurs, platforms, commentators, regulators and the government – to tear down these barriers. With investor demand at record highs, now is the time to work together to keep building a more accessible and transparent asset class.

Gonçalo de Vasconcelos
Founder and CEO, SyndicateRoom

Quantitative and objective data on early-stage investing is very hard to find. As such, this report from SyndicateRoom is as unusual as it is fascinating. It suggests that early-stage investment, whilst risky, can offer impressive returns to investors with a high-risk appetite.

Access to these opportunities is improving and, supported by the EIS tax regime, the evidence is building to suggest that early-stage equity investments should form a part of a high-risk appetite asset allocation.

Investors need to understand that these opportunities need to be thoroughly researched and present significant idiosyncratic risk, but for those prepared to make the effort the rewards can be impressive.

Rupert Taylor
Founder, AltFi Data

Rise of the growth hunters

It's a tough time to be an investor. For the past 20 years, interest rates have been declining. In the mid-1990s nominal ten-year yields on government debt in rich countries hovered around 8–10%. These days, they're well below 2%.

It's not merely the yields of government debt that have declined. In September 2016 Sanofi, a French drugmaker, and Henkel, a German manufacturer of detergent, both issued bonds with a negative yield. Investors are guaranteed to make a cash loss if they hold them to maturity.

LOWER FOR LONGER

The decline in interest rates is partly a result of bond-buying by central banks (quantitative easing). More important, however, is what economists call 'secular stagnation'. Demographic changes (especially ageing) have increased the savings rate and pushed down global aggregate demand. High supply of savings, and low demand for borrowing, means that the market-clearing interest rate has fallen to record lows.

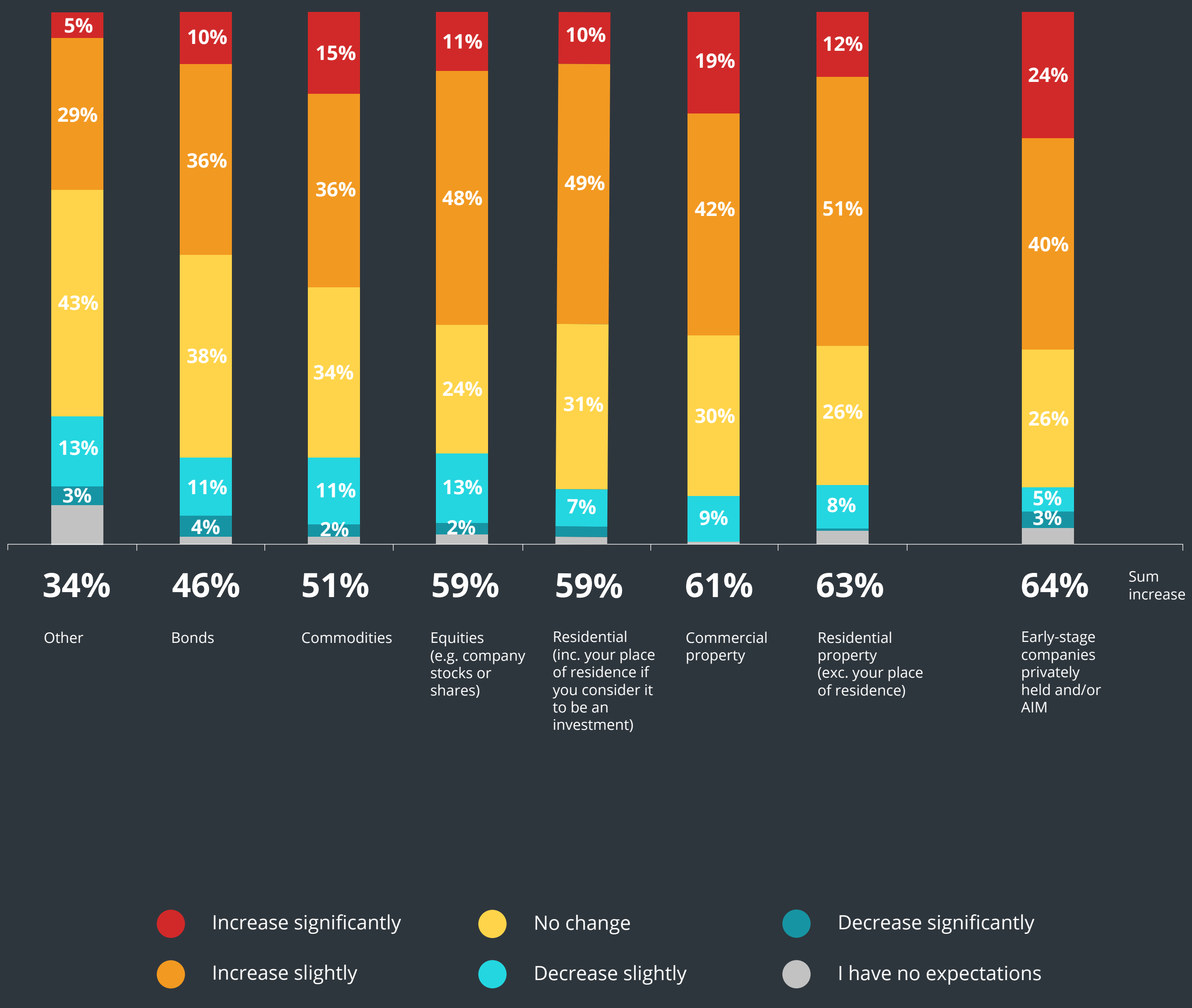
The secular decline in interest rates poses a problem for investors. It's increasingly difficult to 'find yield'. On top of this, market volatility has increased in recent years, not only because of the after-effects of the 2008–09 financial crisis, but also because of phenomena such as the slowdown in Chinese economic growth, Brexit and the election of Donald Trump as US President.

MISSING THE TARGET

These long-term changes in financial markets are squeezing investors. We commissioned an independent survey that shows that nearly 50% of retail investors in the UK consider themselves to be 'off track' in meeting their financial goals. Roughly half of UK investors in bonds reckon they will see zero return, or worse, over the next year.

However, investors are not doomed to put up with low returns. There is one asset that has performed particularly well relative to other sorts in recent years: early-stage equities.

What return do you expect to get on your investments in 12 months' time?



The expectation for those holding early-stage equities is bullish, with 64% expecting these to increase over the next 12 months – joint highest with residential property. Investors in this asset class also show the most optimism, with 24% of those with early-stage equities expecting their investment to increase significantly over the next 12 months.

Source: FTI

In this report, we consider a range of independent research into early-stage equities. The conclusion of the research is clear: when part of a diversified portfolio and a view for the long-term, early-stage equities appear to be a sensible investment. We show that their popularity appears to be growing in the UK. And, finally, we talk about the future for investing in that industry.

BACK TO BASICS

But first: what are early-stage equities? Broadly, these are shares in companies that are in the early stages of trading and seek finance for growth. Investing in these companies is riskier than investing in traditional equities, but there is a prospect of higher returns in the long term.

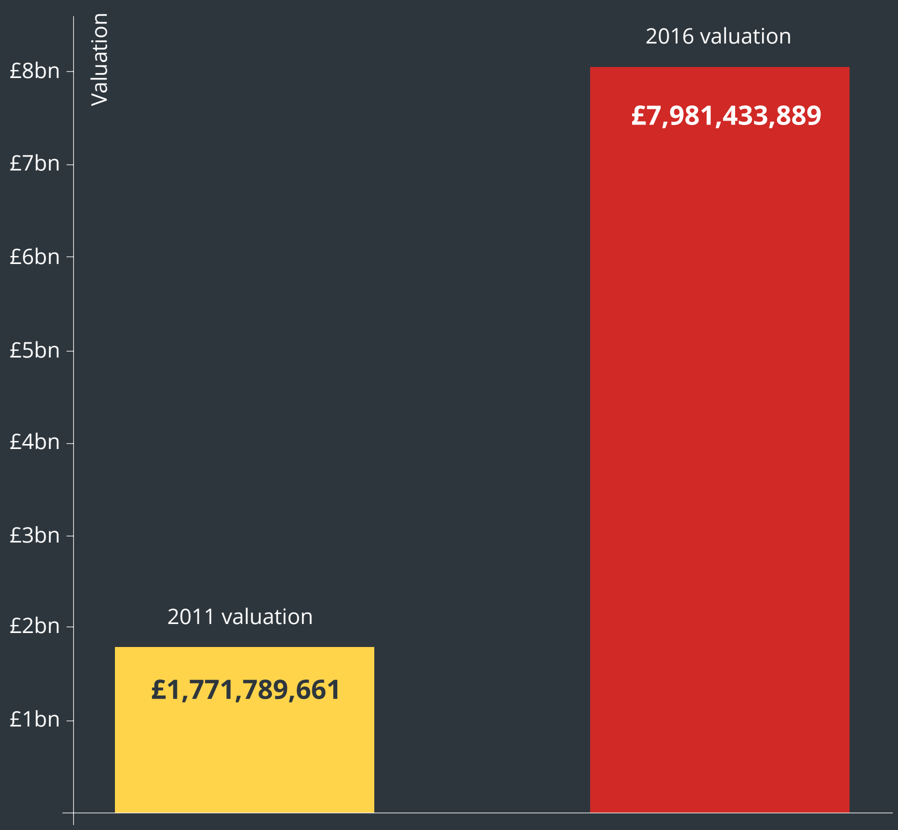
There's not much evidence on the investment performance of early-stage equities. So we turned to Beauhurst, an independent research firm, and FTI, a global consultancy firm.

Beauhurst looked at the performance of a cohort of early-stage equities in 2011–16, comprising 578 companies that raised equity at seed or venture stage in 2011.

The results are startling. In 2011 the cohort of 578 companies was valued at £1.8bn. The average valuation was £3m (with a relatively wide range: the lowest valuation was £18,000 and the highest was £138m).

By 2016, however, things looked very different. For data up to September 2016, the full cohort of 578 is now worth £7.98bn. The average valuation is now £13.8m, with the highest at £930m.

Performance of the early-stage cohort 2011–16



Source: Beauhurst

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This research shows the power of UK scale-ups that are achieving rapid growth and the potential in returns for investors. Our own data in the Barclays Entrepreneurs Index reveals that the EIS and seed EIS tax reliefs have been popular measures and contributed to a rise in good conditions for entrepreneurs.

It's crucial that UK businesses have access to a wide range of funding on their journey to growth and we are committed to playing a role.

Richard Heggie
Head of High Growth and Entrepreneurs, Barclays

It's also vital to note that while, overall, investors have got more money out than they put in (we will address exits and cash returns later in the report), most of this growth marks an increase in value that is yet to be realised. The increase in value is measured by the price that investors are willing to pay for equity in these companies between 2011 and 2016 – as opposed to a cash return to investors. Investors must remember that shares in private companies are highly illiquid and need to be held for the long term. The potential for very generous returns is the prize for taking on this risk.

Unsurprisingly, the research shows that not all of the companies did well. About 90 companies (roughly 15% of the total) were written down to zero by 2016, and about 120 companies (roughly 20% of the total) experienced a fall in valuation in 2011–16.

FAT TAILS

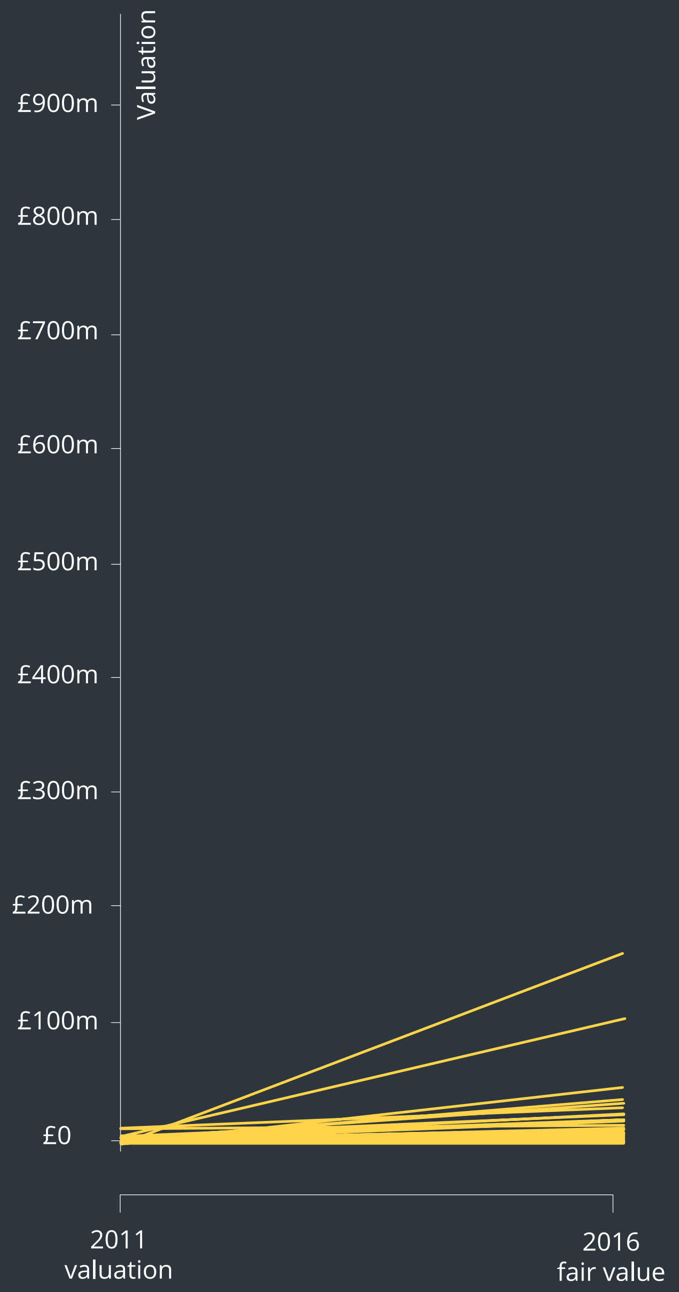
So there are risks. However, other companies have performed extremely strongly.

The best-performing type of company was in the technology sector. In the cohort there were 416 technology companies (roughly two-thirds of the total). In 2011 those 416 companies had a total value of £1.5bn. However, their value has grown by £5.5bn to £7bn in 2016. This means that the underlying compound annual growth rate (CAGR) is 34%. Non-technology companies did not do as well, though they too saw a strong CAGR over the period.

Tech companies

Source: Beauhurst

Non-tech companies



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Fast-moving, high-growth technology companies continue to provide a vital stimulus for our capital markets and economy at large, and the findings from this research are a solid endorsement of just that. Where the main markets can be volatile and performance of traditional assets has slowed, early-stage investments present a compelling opportunity for higher returns in the long term – and it is encouraging to see close analysis which supports this.

So many young, ambitious companies have been able to come to market in the past few years and have gone on to do great things, whilst delivering long-term value in the process. What this research shows is the considerable value that these companies can unlock, in an environment of growing demand and greater access to finance.

Suranga Chandratillake
General Partner, Balderton Capital

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UK tech and tech-enabled businesses are growing, on average, at double the rate of any other sector in the UK, and we’re proud that Octopus Ventures and its portfolio are being recognised as leaders in the space. The UK tech sector is one of the most exciting in the world, with global leadership across a number of sectors including Fintech and AI, as evidenced recently by the acquisitions of SwiftKey by Microsoft and Magic Pony by Twitter.

Jo Oliver
Investment Director, Octopus Ventures

Technology companies attract the attention of business angels and venture capitalists, whose focus on this sector sees them making handsome returns from their investments. Their expertise means that private investors also do well by investing alongside them, providing they have access to the same financial terms.

The table below shows the most active investors in the 2011 cohort and how their portfolios have evolved over time.

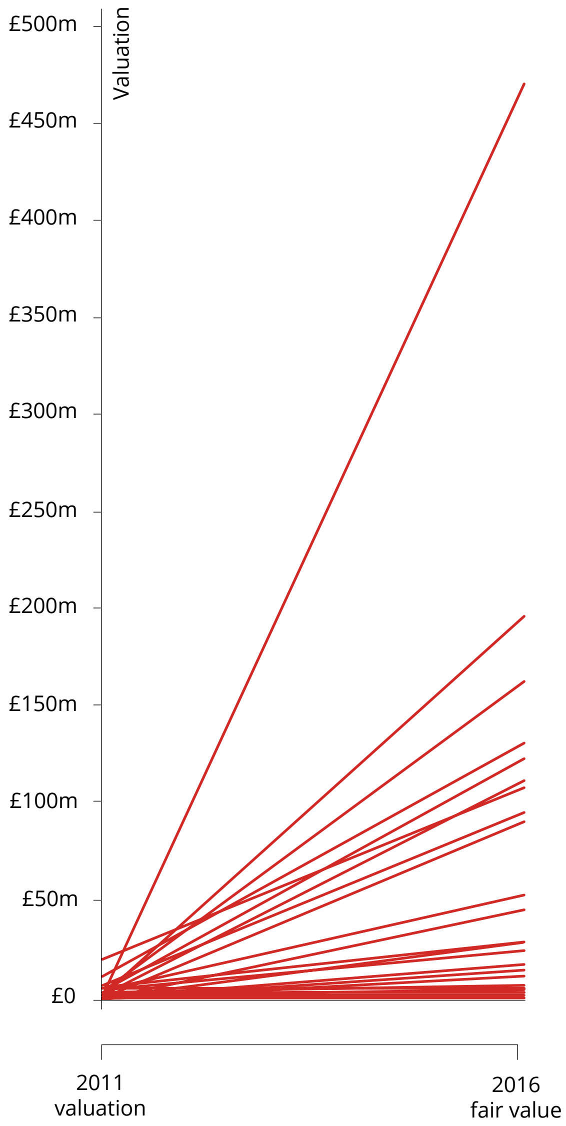
Most active investors in 2011

	SCOTTISH CO-INVESTMENT FUND	LONDON BUSINESS ANGELS	PASSION CAPITAL	OCTOPUS VENTURES	TRI CAP
NUMBER OF INVESTMENTS IN 2011	14	10	9	7	7
NUMBER OF COMPANIES IN THE COHORT BACKED N 2011	14	10	8	5	7
2011 INVESTMENT ROUNDS INTO THE COHORT	£7,140,000.00	£6,650,000.00	£4,050,000.00	£10,900,000.00	£3,760,000.00
VALUE OF THEIR PORTFOLIO IN 2011	£26,130,022.00	£17,073,184.00	£9,993,212.00	£19,369,614.00	£14,470,647.00
VALUE OF THEIR PORTFOLIO IN 2016 (INC EXITED COMPANIES)	£39,863,538.00	£52,571,667.00	£61,073,837.00	£191,014,258.00	£23,220,942.00
NUMBER OF EXITED COMPANIES	3	0	0	1	2
REALISED VALUE	£5,186,362.00			£7,473,373.00	£3,705,928.00
INCREASE IN PORTFOLIO VALUE	£13,733,516.00	£35,498,483.00	£51,080,625.00	£171,644,644.00	£8,750,295.00
PERCENTAGE INCREASE IN PORTFOLIO VALUE	52.56%	207.92%	511.15%	886.15%	60.47%
PERCENTAGE OF INITIAL FUNDING THAT IS REALISED	72.64%	0.00%	0.00%	68.56%	98.56%

Source: Beauhurst

EXITS

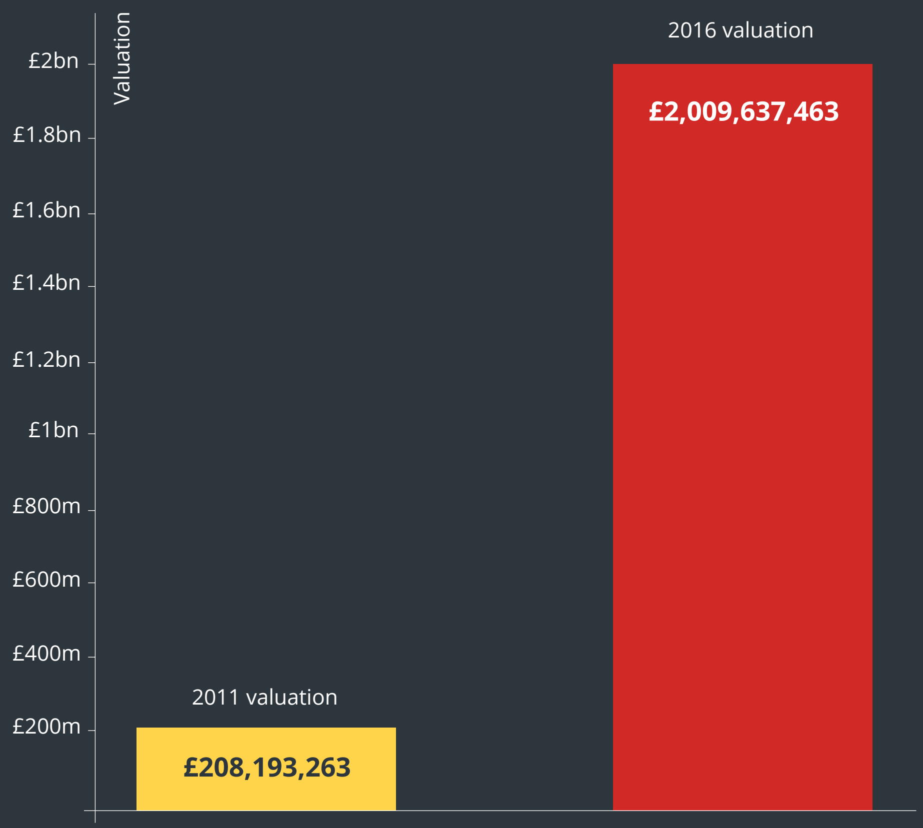
Since receiving equity investment in 2011 at the seed or venture stage, roughly one-tenth of the cohort has exited (i.e. when an investor sells their stake in a company; in the case of early-stage equities, this might be via a trade sale, an IPO or if the company is listed on a stock exchange). The total value of that cohort rose from £208m to £2bn in 2011–16, representing a CAGR of 54%. We calculate that £2.01bn of the fair value of the entire cohort in 2016 is accounted for by 'exited' companies, meaning that the value of those companies is either realised or realisable to the people who made the original investment.



This graph shows entry and exit valuations for companies that were bought by other companies or underwent an IPO.

Source: Beauhurst

Increase in valuation of exited companies 2011–16



This graph shows the starting valuation in 2011 against 2016 fair value for the cohort of companies that have exited.

Source: Beauhurst

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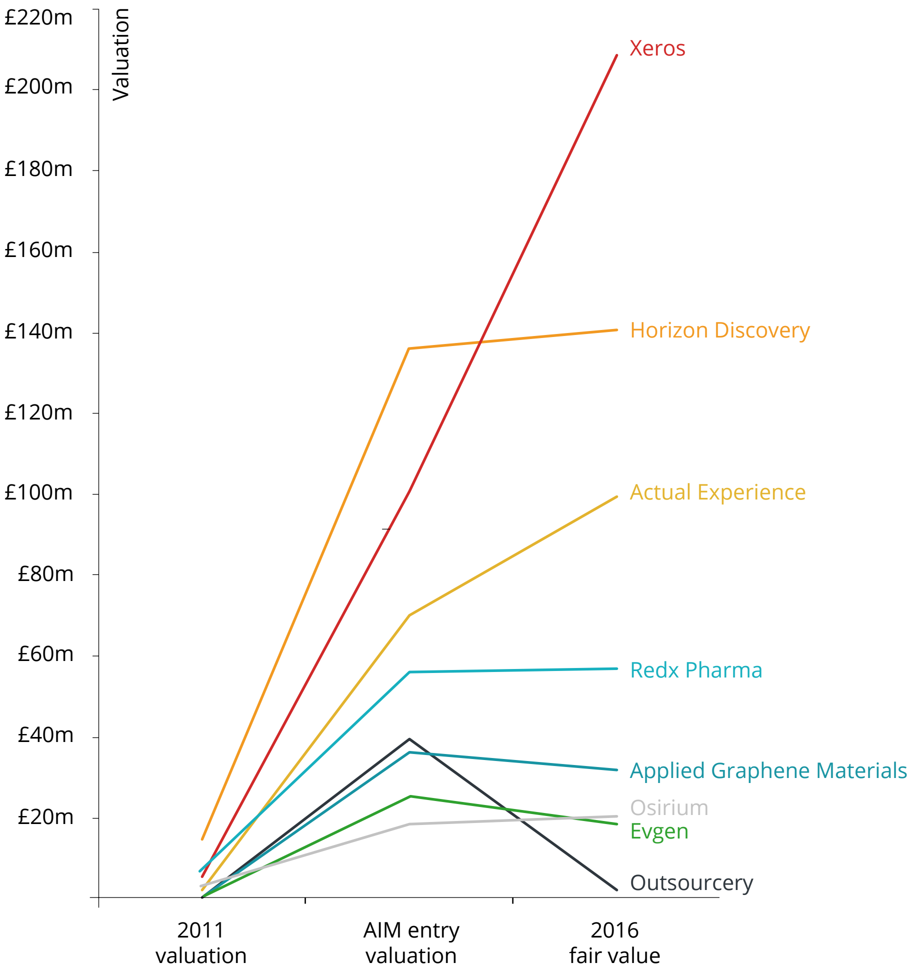
In my view, this data clearly demonstrates the very attractive risk/reward characteristics of the angel/startup investing space, when looking at the range of outcomes, but it does also underline the need to take a long-term view and have a diversified, portfolio-led approach to the market.

David Ford
Angel investor

Seven of the 578 companies that raised equity investment in 2011 are now traded on AIM, an index of alternative investments on the London Stock Exchange (LSE). One other, Outsourcery, was once listed on AIM too, but was eventually bought by GCI Network Solutions. Overall, the total valuation of these eight companies grew by 1,571% in 2011–16. This gives a CAGR of 71%.

One of the most successful growth stories from the cohort is Horizon Discovery Group plc.



Source: Beauhurst

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Horizon Discovery Group plc is a leading provider of research tools to support genomics research and the development of personalised medicines, and was floated on the London Stock Exchange on the alternative investment market, AIM. The company's initial public offering (IPO) of £68.6m was an all-time record for a life science company from the Cambridge Cluster. The stock market float also marked an impressive 2x to 30x investment return to pre-IPO angel, corporate and venture investors.

Since the IPO, the company has grown revenues from £6.7m to £11.9m (77% growth) in 2014 and to £20.2m (69% growth) in 2015 by selling its products and services to over 1,600 organisations globally. In addition, they have acquired the former NASDAQ-listed company CombinatoRx and SAGE Labs, the in vivo gene-editing market leader bought out from global life science company Sigma-Aldrich and Haplogen Genomics GmbH, a young Austrian company with a disruptive high-throughput gene-editing platform. These acquisitions, made for $65m, have increased Horizon Discovery's workforce to 300 across sites in Cambridge (UK), Cambridge (Massachusetts), St Louis, Missouri, Boyertown, Pennsylvania (all in the United States) and Vienna (Austria).

Dr Darrin Disley
CEO, Horizon Discovery Group plc

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AIM is an essential part of the toolkit for private investor growth hunters focusing on deeptech companies because i) there is very little venture capital for deeptech companies in the UK, and AIM has been a de facto provider, and ii) AIM enables investors to both value their holdings and also achieve partial realisations if required vs waiting for the unpredictable timing of a trade sale, and iii) once the business is established, AIM enables companies to more easily undertake the corporate development frequently involved in building really great businesses.

Fintech companies such as SyndicateRoom are emerging to improve AIM from the standpoint of both companies and investors.

Charles Breese
AIM investor and Director, Larpent Newton

Most important, however, is the *average* performance of early-stage equities. It is impressive. An investment of £100 in early-stage equities in 2011 would now be worth about £450.

Early-stage investments have also done well in comparison with other sorts of investments. Over the same period, companies listed on the LSE's 'main market' saw CAGR of about 5% per year, finds Beauhurst. The AIM index, for smaller, faster-growing companies, saw a similar CAGR over that period.

In a word, early-stage equities are to be a prudent investment for people willing to tolerate the risks.

	AVERAGE COMPANY VALUATION/MARKET CAPITALISATION		CAGR
	2011	**2016**	
PRIVATE COMPANY COHORT	£3,065,380	£13,808,709	33.20
LSE MAIN BOARD	£2,002,182, 136	£2,532,980,538	4.58

Source: Beauhurst

FROM RESEARCH TO REALITY

The research into UK early-stage equities may be convincing. But what do real investors believe?

We commissioned an independent survey of 1,053 UK-based active retail investors (the methodology can be seen in the Appendix). Surveys are an imprecise science, of course, but the relatively large sample size, and wide range of questions that were posed to respondents, mean that the results should be robust.

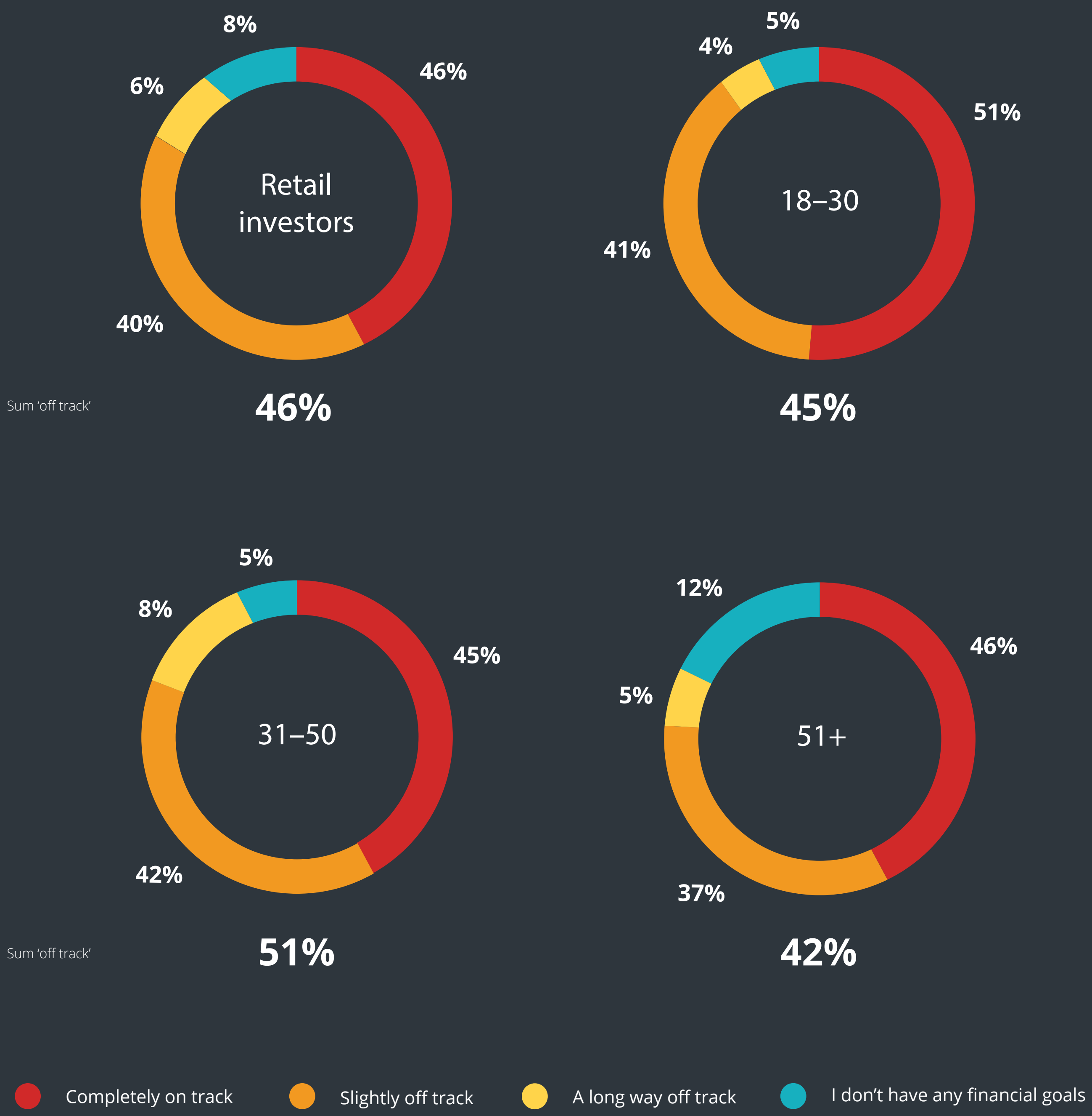
The survey reveals a number of interesting trends. At present, investment in early-stage equities by UK investors is still relatively small. But it is set to grow.

THE SPECTRE OF SECULAR STAGNATION

The survey shows that UK investors allocate a relatively large amount of their wealth to investments. About 3% of them allocate between 90% and 100%; the mean value is about 25%.

It's small wonder, then, that people want to make their money work hard. But at present, many of them are falling short. The majority of people are, at best, only 'slightly satisfied' with their overall equity investments. And half of retail investors consider their finances to be 'slightly off track' – or worse.

How on track are you to achieve your financial goals as an investor?



Source: FTI

These investors are hurting from secular stagnation, but have not considered non-traditional investment opportunities. About one-fifth hold their entire portfolio in late-stage equities, but only 2% hold their portfolio in early-stage equities. Meanwhile, a large proportion of UK investors hold a very small amount (1–9% of their portfolio) in early-stage equities. Given the strong performance of early-stage equities in recent years, it looks like investors are missing a big opportunity.

Happily, it seems as though investors are gradually realising their mistake. Risk appetite is rising. Two-fifths (39%) of retail investors say they are more willing to take risks now than they were a year ago – far more than those claiming they are willing to take fewer risks. About two-thirds of people see 'the prospect of higher returns' as a big incentive to move into investing in early-stage equities.

THE PROGRESSIVE YOUNG

Young people are particularly keen to take on more risk (a massive 71% of 18- to 30-year-olds want to take more risks than they did a year ago). And they are far more likely than other age groups to say that a diverse portfolio – 'portfolio building', in the jargon – would help them achieve better returns. A whopping 92% of 18- to 30-year-olds say that portfolio building would help them to improve investment performance.

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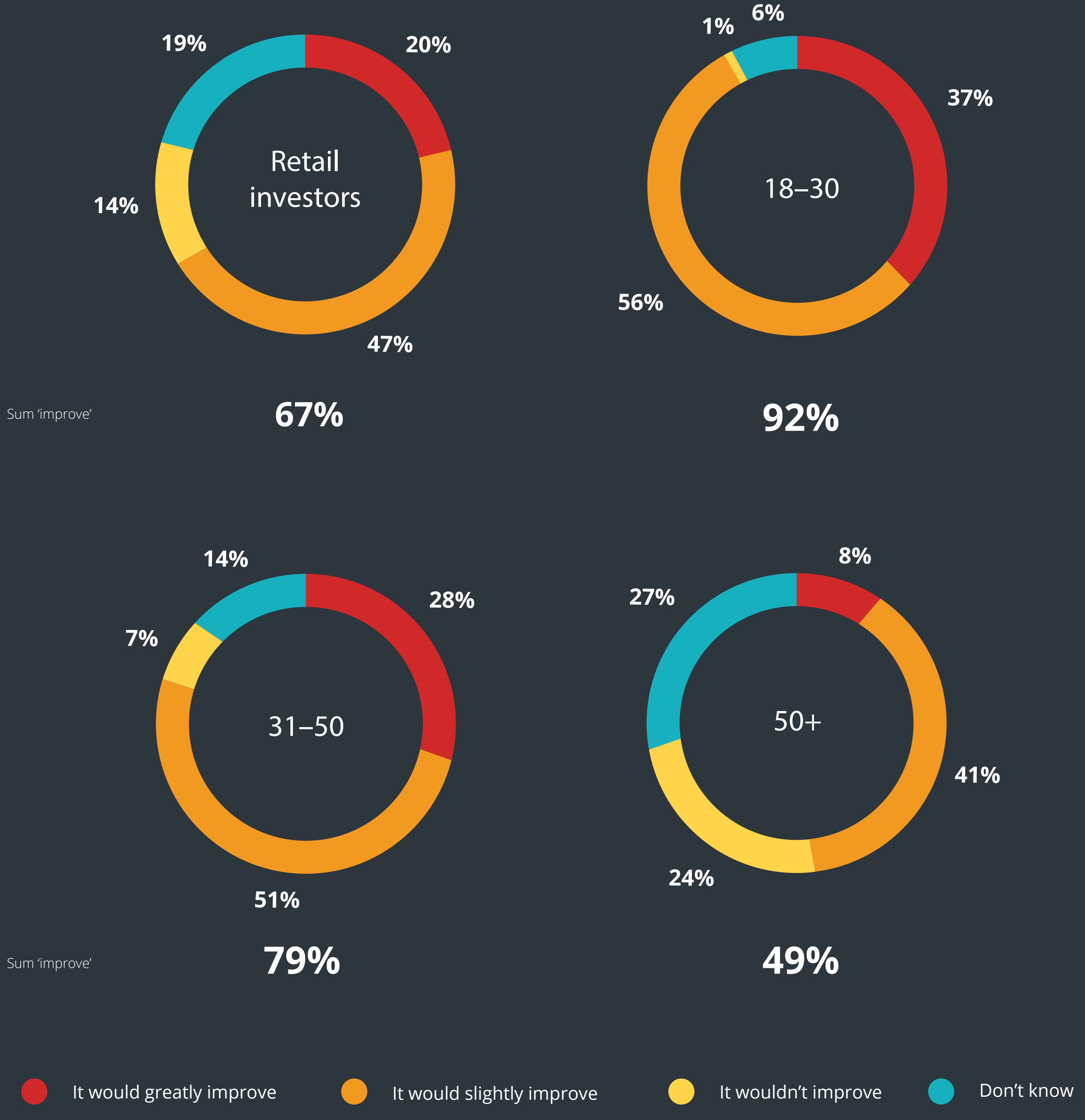
There appears to be an entrepreneurial buzz about the younger generation – with an appreciation that whether they're starting a business or investing personal cash, taking risk is essential. This, coupled with the potential attractive tax benefits, should result in the alternative investment sector continuing to grow in popularity.

Craig Rickman
Money Management, *Financial Times*

How do you feel investing in a diverse portfolio of early-stage equities would help you achieve your financial goals as an investor in the long term?



Source: FTI

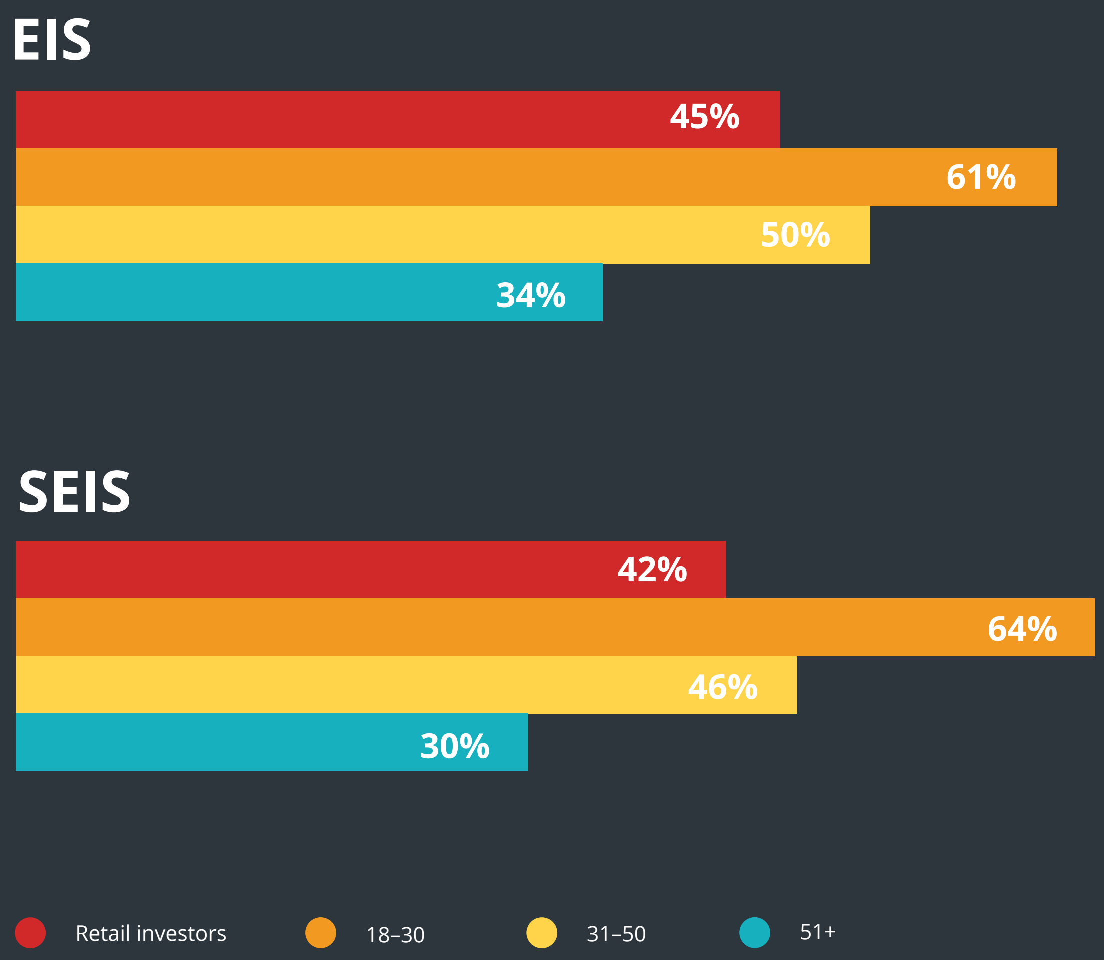
Young folk also seem particularly keen on non-traditional investment opportunities, such as early-stage equities. They are roughly 15% more likely than someone over the age of 51 to know what early-stage investment is. And only very few of them, compared with older generations, say they do not want to invest in this asset class.

To find good investment opportunities, 18-to-30s are willing to be creative. They are far more likely than older investors to use tax-efficient structures, such as the enterprise investment scheme (EIS) and the seed enterprise investment scheme (SEIS), to make early-stage investments.

One-third of young people say tax-efficient structures make them 'much more likely to invest' in early-stage equities – a much higher reading than the other age groups.

The stage seems set for a boom in early-stage investment. And, as young people age and become more mature investors, the potential for early-stage investing could be even bigger.

How would you rate the impact of EIS/SEIS on encouraging early-stage equity investments?



Source: FTI

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Once again, the message that shines through most brightly from this report is that whilst EIS and SEIS continue to be a vital source of funding for SMEs, for investors, a knowledge gap persists whereby awareness of EIS and SEIS is significantly below that of more traditional investments, such as ISAs and pensions.

However, it’s encouraging to see investors in the 18–30 age bracket leading the charge in terms of engagement with the schemes. Financial advisers also score particularly highly in respect of the quality of advice they give, which really emphasises the value of a good adviser when investing in the tax efficient space.

Mark Brownridge
CEO, EIS Association

EIS in action

COMPANY FAILS	COMPANY BREAKS EVEN	COMPANY DOUBLES IN VALUE
You invest **£10,000**	You invest **£10,000**	You invest **£10,000**
You receive **£3,000** in income tax relief	You receive **£3,000** in income tax relief	You receive **£3,000** in income tax relief
The company goes bust and your shares are worth **£0**	If after 3+ years you sell your shares for **£10,000**, you will owe no capital gains tax on profit	If after 3+ years you sell your shares for **£20,000**, you will owe no capital gains tax on profit
You receive loss relief equal to your remaining at-risk capital multiplied by your income tax rate.*	Your total gain is **£3,000** (£0 profit from the sale plus £3,000 income tax relief)	Your total gain is **£13,000** (£10,000 profit from the sale plus £3,000 income tax relief)

*At a tax bracket of 45%, the loss relief would be £7,000 x 45% = £3,150. Therefore, for £10,000 invested, your real loss is £7,000 - £3,150 = £3,850

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The report shows that tax incentives have a major positive impact on early-stage investment. This is particularly the case in the 18–30 age group, where nearly 75% were more likely to invest because of SEIS/EIS relief.

The SEIS and EIS schemes are very valuable tax reliefs for investors in early-stage equities, but sadly not enough people are aware of them. The report shows awareness levels of 48% (SEIS) and 59% (EIS) compared to 99% for ISAs.

David Brookes
Tax Partner, BDO LLP

WHAT WILL AN INCREASED RISK APPETITE MEAN FOR BUSINESSES?

In carrying out the research, we identified that three-fifths of the population (58%) holds an investment of some form, and 40% of those investments are in company equity. With individual investors having an average £332,000 of assets, that works out to be around £2trln of individuals' combined capital.

While an overwhelming majority of this sum is invested in large-cap and mid-cap publicly listed companies, our research found that retail investors are willing to reallocate 14% of their wealth into early-stage businesses in anticipation of their potentially higher growth. That equates to £275bn worth of investment demand for early-stage businesses in the next 12 months.

However, despite such a large pool of capital, only £25bn is available to be transferred from large-cap to smaller businesses next year, with only 9% of retail investors' capital free from barriers and available for redeployment into early-stage companies. Such barriers include the cost of moving capital from one asset class to another as well as the fact that many investors just aren't given access to investment opportunities in early-stage businesses – and even when they are, many investors feel like they do not get adequate information.

PUT OFF

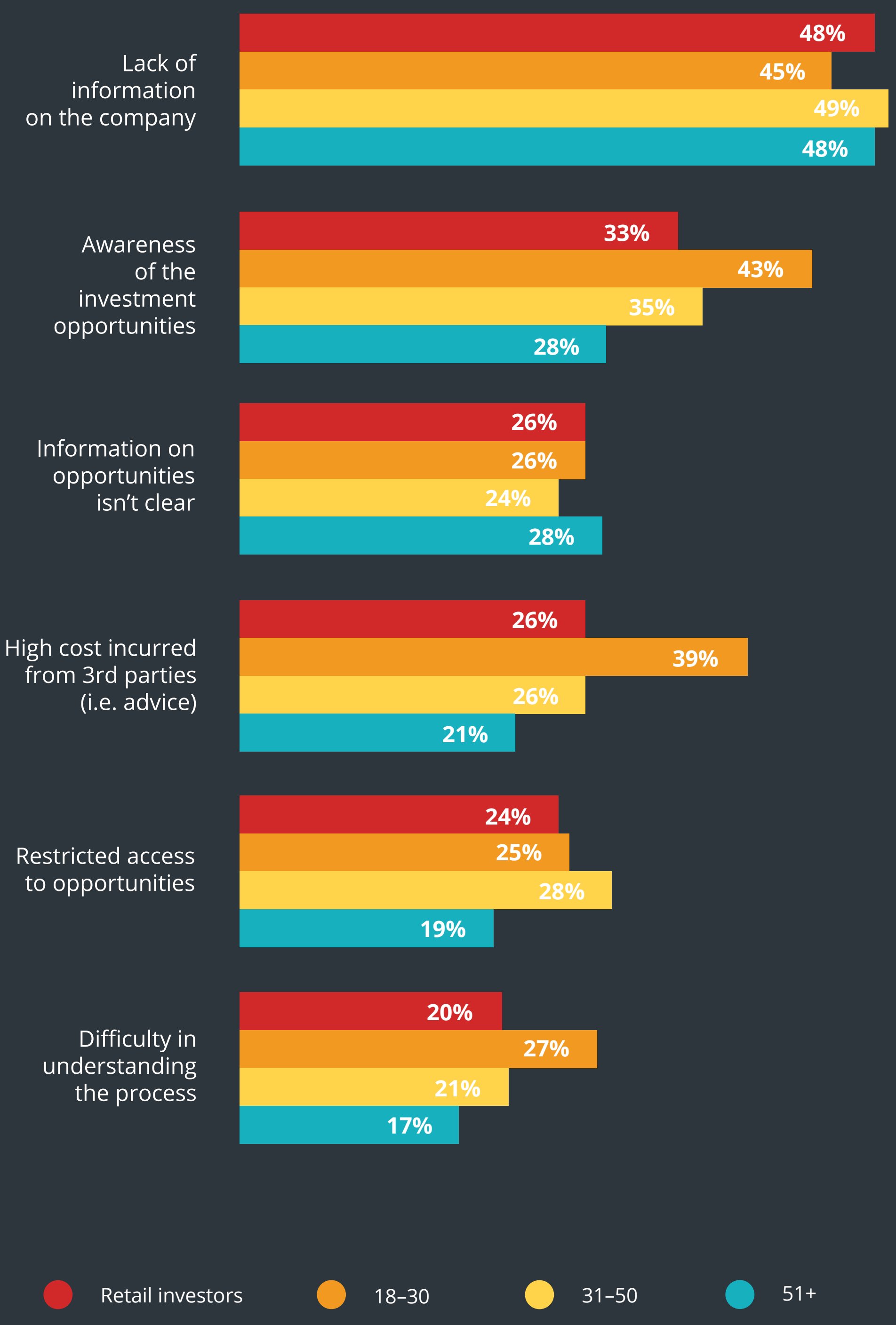
However, it would be complacent to conclude that investment in early-stage equities is destined to soar. A number of factors mean that investment in that asset class is lower than one would expect, given its demonstrable potential for long-term growth. None of the 18- to 30-year-olds surveyed say there are no barriers to investment in early-stage equities. This was the worst performance of any age group. It suggests that while in principle young people are interested in early-stage investing, in practice there are considerable barriers preventing them from doing so.

Surprisingly, Brexit does not appear to be one of these barriers. The majority of young investors voted to remain in the EU. But they are not moaning about the result. One-quarter of them say that the referendum decision has had no effect on their investment plans, and over half say that it made them more likely to invest.

Instead, the main barriers to young people investing in early-stage equities seem to be structural. Two important points stick out. First, they are particularly likely to think that there is insufficient information about available investment opportunities. The main culprit here appears to be the companies themselves. Among all age groups, the biggest barrier to investing in early-stage businesses was 'lack of information on the company'.

The third main barrier, for 18–30-year-olds, concerns help from third parties. Young people are roughly 18% more likely than those aged over 50 to believe that third parties charge too much for offering support and advice.

Which of the following do you consider to be barriers restricting investment into early-stage equities?



Source: FTI

THE 'MILLION POUND CLUB'

In an era of social and economic divide, a difference of investment style has appeared between retail investors with more than £1m to invest, and those with significantly less.

Those with more than £1m to invest – the 'Million Pound Club' – were found to be more risk averse than the average investor and more long term in their investment style. While 39% of investors are going to be investing with increased risk next year, that risk appetite is reduced by one-quarter for the Million Pound Club, 64% of whom said the prospect of long-term returns was 'very important' when considering investment in early-stage equities. Yet, Million Pound Club investors are nonetheless likely to allocate more of their portfolio to early-stage companies compared to the average investor.

This greater focus on early-stage investment from the Million Pound Club, despite a more risk-averse style, is driven by the ease of access to investment opportunities afforded to individuals with a significant amount of wealth available for investment. Compared to the average investor, those with more than £1m to invest are more likely to be granted access to an investment opportunity; and even when access is given to all investors, members of the Million Pound Club are more likely to be given additional information about a company seeking investment. They are also less likely to be put off an investment in an early-stage business because of the high cost of a third-party advisor or broker.

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This research has brought to light a key question for the investment industry: how can it be that the Million Pound Club investors, who are more risk averse than the average investor, are willing to allocate a greater proportion of their investment portfolio next year to early-stage businesses? The answer is clear – our study has discovered a disparity of information for early-stage business investment.

The ultra-wealthy seem to be getting greater access to investment opportunities and better information on the businesses looking for investment.

That is not okay.

It is selective disclosure and if equity investment is to shift from large-cap to early-stage companies next year, this needs to change. The growth of the online investment industry can serve as a catalyst to increase transparency and fairness.

Tom Britton
Co-Founder, SyndicateRoom

SHADES OF GREY

We have argued in this report that the fastest *rate* of growth in early-stage investments is likely to come from the younger generation. However, it's important not to forget about the contribution that older generations could make.

Generally, older generations seem somewhat less keen on early-stage investing. Compared with nearly 50% of young people, only 16% of the over-51s consider themselves to be 'knowledgeable' about early-stage investments, and the same proportion say they would like to invest in this asset class.

That older people are relatively more risk-averse than the young is hardly surprising. They have more to lose. The 'life-cycle' model of consumption, often referred to by economists, predicts that people start to 'dis-save' as they move into retirement, living off their past earnings rather than building them up further.

All this means investors over the age of 30 will move into early-stage investing at a slower rate than their younger counterparts. However, it's important to distinguish between relative and absolute growth in early-stage investments. Official data suggests the average person in their 50s has three times the level of wealth as someone in their 20s. As such, the *absolute* level of latent demand for early-stage equities from older people could still be larger than that of young people. In a word, there could be significant extra demand for early-stage investments from all generations.

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EIS and VCT investments are likely to become part of a well-diversified portfolio. With future pension investment limited, tax relief on EIS and VCT investments is potentially valuable. Take independent financial advice, as the investment case of the underlying business is paramount.

David Saunderson
Chief Executive, Cantab Asset Management

LESSONS TO BE LEARNED

This report has clear implications for the industry.

Wealth managers and independent financial advisors need to demonstrate to potential clients that investing in early-stage equities makes sense. We hope this report gives them the evidence and confidence in recommending this asset class to appropriate clients. The advisor community stands to benefit greatly too if they promote the EIS tax regime to their clients.

Industry commentators can play a role by educating on the risks and rewards of this asset class as well as the EIS tax regime. The government can also support awareness initiatives.

Companies, platforms and corporate finance firms need to take greater responsibility for the quality of information available on investment opportunities and making this available to a greater pool of investors.

Finally, the regulator must continue to allow financial innovations and increased access to early-stage investing. It must maintain strong standards for sustainable growth by promoting fair and transparent access to investment opportunities.

TO WRAP UP

The days when early-stage equities were the preserve of the elite are long gone, as awareness and knowledge of this asset class is on the increase. Investors with a rising appetite for risk are keen to seize on the long-term opportunities early-stage equities offer.

There is now objective, compelling evidence that early-stage equities have seen tremendous increases in value and strong returns to savvy investors. The asset class has performed extremely well in the past few years, all at a time when returns on other sorts of asset classes have been poor. And even with the younger investors most actively seeking out growth opportunities, older generations are not being left behind entirely. Indeed, in absolute terms they could have the most impact on the early-stage market in coming years.

It's a tough time to be an investor. But for those with a focus on the long term and an appetite for risk, the future looks good. And it's the responsibility of the industry to make it so.

Appendix

FTI

This research was conducted online by FTI Consulting's Strategy Consulting and Research team from 26th–31st October 2016, involving n=1,799 respondents reflective of the UK general population, of which n=1,053 were UK retail investors who completed the full survey.

Further information on the results and methodology can be obtained by emailing dan.healy@fticonsulting.com.

Please note that the standard convention for rounding has been applied and consequently some totals do not add up to 100%.

BEAUHURST

Beauhurst monitors and tracks every equity investment into private UK companies and has been doing so since mid-2010. Wherever possible, Beauhurst calculates the valuation of the company at the time of the investment. This dataset has enabled them to analyse the growth in valuation of a cohort of UK companies from 2011 to present (November 2016).

Cohort selection

Beauhurst selected a cohort of 578 companies that received equity investment in 2011 and for which Beauhurst has been able to calculate a valuation at the time of investment. They were sector-agnostic in selecting this cohort. They further refined this cohort by limiting it to companies that were seed- or venture-stage at the time of their 2011 raise. Where a company has exited or died, they remain part of the cohort and are valued on the basis below.

Valuation calculation

All Beauhurst's valuations are transactional and based on the price paid per share in the round and the total number of shares in the company. In some instances, valuations cannot be reliably calculated because of the use of preference/deferred shares, and these companies have been excluded from the cohort. All valuations are based on data that is in the public domain.

Valuation growth

To analyse the change in valuation of the cohort of companies between 2011 and now, Beauhurst determined the fair value of each company as at the end of Q3/16. This process takes into account:

1. Where the company has ceased trading or wound up, it has been valued at zero
2. Where the company has had a successful IPO, the company has been valued based on the share price at close on 30th September 2016
3. Where the company has been acquired, the company has been valued at either
   a. The sale price, where disclosed
   b. The value of the latest known valuation, where the sale price is undisclosed
4. Where the company has raised subsequent round(s) of investment, the company has been valued at the valuation of the most recent investment
5. Where the company has not raised any subsequent investment, but has not ceased trading or wound up, the company has been valued at the same value as its initial round of investment

Beauhurst presents in the findings the aggregate growth in valuation as the change in the sum of the cohort's valuation at the point of entry to the cohort in 2011, and its fair value in 2016. These are analysed by sector to produce the growth rates for technology sectors and non-technology sectors. Beauhurst also analysed the portfolio by performance to identify the top performing cohort and its characteristics.

Thank you

SyndicateRoom would like to thank all the contributors who have helped add colour to the research.

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