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The early-stage, equity-finance journey of potential high-growth companies in the UK

A report for the Department for Business and Trade

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The views expressed within this report should not be treated as Government policy.

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Executive summary

Early-stage equity finance plays a critical role in supporting the commercialisation strategies of potential high-growth firms and helping them to scale up. However, securing this funding is typically challenging and time consuming. The challenges in seeking equity finance to fund later-stage growth in the UK have been widely documented¹. This study, for the first time uses a new quantitative survey - of 1,200 early-stage, UK companies, with the potential for high growth (PHG) and who are equity-engaged - to better understand the journey of such companies towards securing equity finance, including the barriers and enablers involved in the journey.

The report is based on an analysis of data collected in the course of interviews with founders in these companies that took place over two phases: 729 interviews during “phase 1” of the survey between January and June 2023, and 471 interviews during “phase 2” from September 2024 and April 2025. The report is also bolstered by a set of qualitative interviews that took place with equity providers and other stakeholders in 2023.

It is thought that the UK has around 40,000 early-stage, potential-high-growth (PHG) companies. Most of these companies, if and when they apply for equity finance, are not successful in obtaining the finance they are seeking. These firms expend significant management resource in their search for such finance: nearly half of the firms interviewed by DBT submitted applications to numerous finance providers². Of these, companies at the pre-trading stage were by far the most active group of equity-finance seekers³, yet they also faced the lowest success rates.

Across the market, early-stage trading ventures pursued equity finance far more frequently than older firms (72.4% of early-stage firms applied to at least one provider vs. 47.4% of older firms that applied to at least one provider). But early-stage ventures encountered higher rejection rates, often being filtered out in the earliest investor interactions. Few ventures secured their full target, and nearly half obtained no equity at all. Pre-trading firms fared worst, raising only a small share of what they sought.

DBT’s new survey provides evidence of both demand and supply barriers in early-stage equity finance. Barriers to obtaining equity are diverse and reflect both demand-side issues (such as very early-stage development, IP issues, and lack of management capabilities) and supply-side failings (e.g., limited investor knowledge and fit, reduced investor appetite due to the early-stage and disruptive nature of the sector’s high risk).

On the demand side, firm characteristics need to be addressed so that founders are more “equity finance-ready”. A significant proportion of ventures avoided seeking equity entirely

¹ The British Business Bank’s “Small Business Finance Markets”, 2024, and the BBB’s annual “Small Business Equity Tracker” 2024 and 2025.

² Ventures reporting seeking equity were asked how many potential equity providers they had approached in the past year. The most common answer was ‘5 or more’ equity providers.

³ This pattern was more pronounced for pre-trading ventures, where over two-thirds applied to five or more providers in the previous 12 months (significantly more than the most established trading ventures in our study (67% versus 43%). The search for equity finance appears to be at its most resource-intensive at the proof-of-concept stage.

due to concerns around a loss of control or perceived lack of readiness, particularly among pre-trading firms. To some extent, loss of control concerns are legitimate as many US listed companies have sought to address this by issuing special voting shares for founders that allow them to keep control. Such voting shares are now allowed in London, after a reform to the UK's Listing Rules; however, such a reform is not applicable to unlisted companies, so concerns around a loss of control will always be a factor for founders seeking private investment rounds.

One of the most important factors in the availability of and distribution of equity finance is the quality of a company's management team. Indicators of a company's management quality suggest that access to equity finance is constrained by both demand and supply side factors. On the demand side, companies need to present well and credibly to investors. Evidence from DBT's survey shows that a number of aspects of management capability, especially financial capability, positively shape equity-finance outcomes. Ventures with a Chief Finance Officer (CFO), Non-Executive Director (NED)⁴, or Board advisors⁵ were both more likely to seek equity and to secure a greater share of it, and they were more likely to do well in the earlier stages of the equity finance application process. This suggests that demand-side initiatives that help to embed firms' access to financial expertise and support would turn more early-stage companies into investable propositions and would mean more of them would be better able to absorb the increase in the supply of early-stage equity finance expected over the next few years – thanks to DBT/ British Business Bank's (BBB) expanding equity finance programmes and HM Treasury's ongoing support for business-angel investment via the EIS/ SEIS scheme.

Demand-side initiatives are already in train, led by the Budget 2025 announcement to expand the Enterprise Management Incentives scheme, which will help more early-stage and scale-up companies to recruit and retain key employees with experience and expertise, including in raising equity finance.

Some access-to-finance constraints are unambiguously on the supply side, especially where the quality of management is shown to have a limited bearing on equity finance outcome. Long search times are also typical, potentially pointing to a lack of supply and difficulties in accessing equity finance. It often takes early-stage companies' management teams 18 months or longer to secure an investment round (often involving applications to multiple sources) and this holds back the company's development and consumes scarce management resource.

Indeed, the DBT early-stage survey shows key factors illustrative of management capability and credibility do not improve access to finance outcomes, again suggestive of supply issues. Business angels and venture capital partners are typically faced with a deep imbalance between the time available to sift through applications and the number of applicants, and the survey findings suggest that the imbalance meant using external financial expertise did not reduce the likelihood of rejection through the earlier stages of the application process (up to and including the presentation of slide decks to investors). In addition, ethnic minority-led ventures were also much more likely to fail to cut through the early-stages of the application process. Meanwhile, companies with board advisors/NEDs

⁴ NEDs typically have prior finance expertise; business angels are often NEDs in early-stage companies

⁵ Typically lawyers and accountants with finance expertise

or CFOs are supposed to be associated with lower rejection rates and yet evidence from the survey shows such ventures had higher rejection rates during the latter stages of the application process, (e.g. due diligence stages).

At the final stage of the application process, companies in receipt of an equity finance offer need to decide whether to accept it and the pattern of rejection of offers also suggests potential supply issues. Management teams taking advice appeared to be more selective and more likely to reject offers that did not align with their expectations, indicative that the terms from financiers were worse than expected. Management teams taking advice may have greater certainty and confidence in the value of their proposition, creating a mismatch in valuation with the supply side in cases where financiers are unable to appreciate the value already created by the venture. The mismatch in valuation is unlikely to be due to systemic over-valuation by the demand-side, because that would be associated with a high rejection rate by all groups of successful applicants, irrespective of the management team's knowledge, experience and expertise, which is not the case.

Within the various management quality attributes, it is possible to rank the ones which have the most impact:

- Prior experience of accessing equity investment which a CFO or NED is a better indicator of equity finance application success than prior leadership experience, more broadly
- External advice helped ventures reach later stages of assessment but did not necessarily improve performance at early decision points, suggesting persistent supply-side constraints.

And patterns of inequity were evident:

- Women-led and ethnic-minority-led ventures were less likely to pursue equity finance and, when they did, faced higher rejection rates at the very early stages of the application process and lower overall funding success.
- Age is an issue, with younger ventures more likely to be screened out at after the first slide-pack presentation, while older ventures reached later stages of the application process, but were more frequently rejected at final finance approval.

Overall, the findings depict a demanding equity-raising journey, especially for early-stage, pre-revenue, and under-represented founders, marked by multiple applications, early rejection, and often only partial success despite significant effort.

Receiving less equity finance than required created clear negative effects: around two-thirds of underfunded ventures reported constrained growth, and over half reported slowed technology or product/process development. The study identified additional costs: with delays in launching products or services to the market, difficulties in recruitment and a diversion of management attention caused by repeated fundraising efforts.

Supply-side evidence from UK government-backed and private VC evaluations shows intense competition and a strong preference for trusted deal sources. Typical VC managers review hundreds of applications, often using feeder channels such as accelerators and top universities, advancing only about 10% of applications to meetings, and fund fewer than 2% of applicants. Time from application to funding commonly

averages three months but can extend to nine months or more when due diligence or funding round complexity increases. Syndication is common among VC managers to share validation, risk, and support networks.

Recent programme evaluations also indicate long search times for early-stage equity seekers. Among some programme beneficiaries, three-fifths had applied to four or more sources and one-fifth to more than 10. Average search durations for early-stage equity finance are reported around nine months, with some evidence pointing to substantially longer timelines: the typical interval between early-stage rounds is about two years, and the first equity round can involve roughly 18 months of search activity. Analysis of grant-to-equity timing shows gaps of around 1.7–1.9 years between receiving innovation grants and subsequent equity fundraising.

In our study, a significant share of ventures avoided seeking equity finance in the prior year because of equity aversion or perceived lack of readiness: 21.7% feared loss of control and 42.3% of pre-trading firms believed they were insufficiently developed to attract equity. The presence of Board Advisors, NEDs, and CFOs correlates with higher application rates and better success, suggesting a role for capacity-building interventions. Econometric evidence from comparable programmes shows strong performance gains for VC-backed ventures, including higher employment, greater R&D investment, increased valuations, and better follow-on funding prospects, supporting policies aimed at earlier and more timely VC access for high-growth potential ventures.

UK early-stage equity finance investment market context

Stakeholder interviews indicated that early-stage markets are well supplied by a diverse range of tech investors, including accelerators, business angels, seed VCs, and crowdfunding platforms. Tech investment has been boosted by Seed Enterprise Investment Scheme (SEIS) tax benefits, which have fostered a proliferation of 'EIS' angel networks and VC seed funds. Angel co-finance and EIS funds have contributed to increased investment in later seed and Series A stages, as well as in early-revenue ventures. Additionally, there has been a rise in seed VC investing driven by SEIS funds.

An addition to the growing UK tech accelerator scene is the rise of tech founder launchpads, supported by public bodies (e.g., universities, Investment UK (IUK), corporate partners, and VC investors). The pipeline of S&T research-driven spinouts is increasingly well-funded through collaborative university seed funds (e.g., Northern Gritstone).

Innovate UK Business Growth (formerly Innovate UK Edge) increasingly plays a crucial role in preparing new ventures for investment (IR), especially following the loss of the European Regional Development Fund (ERDF) and the need to address equality, diversity and inclusion (EDI) and promote equitable growth across UK regions. Closer collaboration between IUK, BBB, and UK Business Angel Association (UKBAA) is also enhancing regional funding and fostering sector specialisms. Furthermore, the BBB's increased funding and role, including Nations and Regions Investment Fund (NRIF) regional support, sector priorities like sustainable cleantech, and initiatives to develop women VC fund managers, aim to tackle these issues and the persistent patient capital challenges faced by deep tech.

Deeptech or hardtech remains challenging to fund through private equity, especially at early stages where risks are highest, exit timelines are longer, and multiple capital-intensive rounds are necessary (for example, to develop prototypes). Furthermore, S/EIS ordinary shares do not offer protection against the significant valuation drops experienced by later-stage investment shares. Sustainable deeptech requires a mix of more consistent public grant funding, available during the pre-revenue phase, and public-private co-financing. This approach can generate earlier equity investments, foster commercial acumen, and enhance the signalling of venture quality to later-stage investors.

Detailed survey findings

The new equity finance survey reported here aimed to gather data on 1200 early-stage entrepreneurs, whether before or after having starting trading, hereafter 'ventures'. Respondent ventures are categorised as 'pre-trading' and 'trading'.

Profiling Respondents

Most trading ventures began trading after 2018. Among those in the pre-trading phase, only about a quarter had been in development for five years or more. The rest were almost evenly divided between ventures in development for one to two years and those for three to five years. Overall, 15.0% of ventures had board advisers, a similar proportion (19.8%) had non-executive board members, and 22.9% of ventures had both. 42.2% of ventures had neither type of adviser. These proportions were fairly consistent across sectors and stages of development. 61.3% of ventures had a CFO on the leadership team. This pattern was broadly comparable across industries and stages of development, although trading companies were marginally less likely to have a CFO.

Over half of the respondents had owned or led other firms, while 31.0% had no prior involvement in ownership or leadership roles in businesses. About half of all respondents had experience with external finance in the past five years, a figure broadly consistent across sectors and stages of development. 51.4% of respondents had sought or used equity finance in the previous five years.

Among firms that sought or used equity finance over the past five years, 74.6% also accessed government grants. This percentage dropped to 55.4% among those not using equity finance. A different picture appears with bank loans, where only 40.8% of equity finance users also accessed loans compared to 31.0% of non-equity finance users. This suggests a strong complementarity between grant funding and equity finance use, and a weaker, yet still positive, complementarity between equity finance and loan funding.

Firms that used equity finance had a lower proportion of women in their leadership teams (22.4%) compared to non-equity-finance-using firms (30.2%). A similar trend was seen in ethnicity, with equity finance-using firms having a smaller share of ethnic minorities in their leadership teams (17.8%) than non-equity-finance users (20.3%). Equity finance use was also closely linked to having either a Board Advisor or NED. Among firms with both types of support, 65.2% were using equity finance, compared to only 38.0% of firms with neither a Board Advisor or NED.

About 46.5% of respondents reported seeking external financial advice in the year before the survey, while a further 28.7% had sought external advice prior to that year. Pre-trading

firms and those in the manufacturing sector were most likely to have sought external financial advice in the previous year.

55.5% of respondents used external finance 12 months before the survey, a figure that was slightly lower among pre-trading firms (52.1%). Among the responding ventures, equity was the most commonly used funding source, with 48.7% of firms choosing it. About a third of ventures used bank finance and Innovate UK loans/grants, while one in six ventures also relied on credit cards and directors' loans for funding.

The Equity Finance Journey

The survey focused on firms interested in equity finance. Naturally, it is not surprising that, across both pre-trading and trading ventures, 49.5% of firms sought equity in the year before the survey (590 firms). This proportion was slightly higher among pre-trading ventures (54.7%, 201 firms) than among trading ventures (47.1%, 389 firms).

Ventures reporting seeking equity finance were asked how many potential equity providers they had approached in the past year. The most common answer was '5 or more' equity finance providers. Only about 7.9% of ventures seeking equity finance pursued new funding solely from their existing funders; the others either approached only new funders (54.1%) or a mix of new and existing funders (38.1%).

The most common equity finance providers approached were business angels or angel networks (58.3%) and venture capital funds (53.1%). Smaller proportions of ventures approached private equity firms (29.8%) and other types of private and public/government providers.

Where ventures sought equity finance, just under one-third (31.3%) secured all the funding they sought, while a further 23.8% obtained some of the equity finance they requested. About 44.9% of ventures seeking equity finance were unsuccessful in securing any finance. Success rates were below average among pre-trading businesses, which experienced the highest funding failure rate (55.4%) of all types of firms.

As part of the survey, firms were also asked about the value of equity finance they sought and the proportion of that equity finance they obtained. Among all respondents seeking equity finance, including those who were unsuccessful, firms received 13.3% of the value of the equity finance they aimed for. For those firms that obtained some or all of the equity finance they sought, they achieved 43.6% of the value targeted.

Seeking **business advice** is closely associated with seeking equity finance. 31.5% of ventures not seeking advice sought equity finance in the year before the survey, compared to 55.6% of ventures that did seek advice. Among firms seeking advice, 27.8% of ventures obtained all the equity finance they aimed for, versus 39.8% among ventures not seeking advice. There is little evidence of a consistent link between taking advice and the likelihood of ventures being rejected during the initial or later stages of their process. Ventures that received advice were more likely to consider staged offers or to find any offer unacceptable (15.0% versus 8.3%), but they were significantly more inclined to reject offers of equity they received (5.4 versus 2.1%).

Ventures' **management capabilities and characteristics** are strongly associated with seeking equity finance. Where a venture had an NED or Board Advisor, 57.5% sought equity finance compared to 37.2% where neither was present. Ventures with a CFO were

also significantly more likely to seek equity finance (61.5%) than those without (41.8%). Prior leadership experience also increased the likelihood that ventures would seek equity finance (54.0 vs. 38.9%).

Having a CFO or similar role increases the proportion of equity finance obtained from 34.6% to 48.3%. Similarly, having a Board Advisor or NED raises the proportion of equity finance secured from 26.4% to 47.4%. Possessing both a Board Advisor or NED and a CFO reduces the likelihood of early rejection but heightens the chance that a venture will reject an offer of equity finance if one is made.

Women-led ventures were less likely to seek equity finance (43.1%) compared to male-led ventures (53.1%). Male-led ventures were also more likely to secure all the equity finance they aimed for (32.1% versus 26.3%).

Leadership ethnicity had a smaller influence on the likelihood of seeking equity finance, with 46.9% of ethnic minority-led firms pursuing equity finance compared to 50.4% of other firms. Ethnic minority-led firms were less likely to secure all the equity finance they sought (23.8% versus 32.8%).

For both women-led and ethnic-minority-led ventures, rejection was more likely to occur at the very early stages of the application process - initial contact or the first email exchange. Male-led and non-ethnic-minority-led firms tended to advance further in the application process before facing rejection or receiving a partial offer.

Older ventures (operating for over five years) were less likely to have sought equity finance in the past year (47.4% applied to at least one provider) compared to early-stage trading ventures (72.4% applying to at least one provider). Early-stage trading ventures were more inclined to approach venture capitalists, crowdfunders, and incubators or accelerators.

More established trading ventures were slightly more successful in securing the equity finance they sought. When firms obtained any of the equity finance they pursued, these ventures secured 51.9% of the desired equity finance compared to 45.2% for early-stage ventures.

Where ventures receive no equity finance or only part of the equity finance they seek, early-stage ventures are more likely to face rejection in the initial phases. In contrast, more established firms tend to fail during later stages of negotiation.

Barriers to seeking equity finance

Barriers to seeking equity finance were analysed in the survey. The most common reason for not pursuing equity finance was linked to the early stage of business development, with this reason cited by nearly half (42.3%) of pre-trading ventures. An unwillingness to lose control of the business and a preference for other types of funding were significant factors for about a quarter of ventures. Notably, comparatively small proportions of ventures reported difficulties with information about equity funders or identifying providers of equity finance (8.4-11.2%).

Where firms sought equity finance and received either no funding or only part of the funding they desired, several barriers were identified. Key themes include demand-side issues such as being too early-stage, intellectual property (IP) concerns, and lack of management capabilities, as well as supply-side challenges like limited investor knowledge and fit, reduced investor appetite due to the early-stage and disruptive nature of the sector's high risk, fund timing constraints (for example, investments cannot be made during venture fund fundraising), and partial investments owing to the scale of funding required.

Almost two-thirds of firms identified the inability to secure the necessary equity investment as a barrier to business growth. More than half reported delays in launching products or services to the market, challenges in technology development, and difficulties in recruitment.

Recommendations from stakeholders

Insights and recommendations for enhancing early-stage investment markets were generated from 21 Stakeholder interviews and 14 Venture case interviews. The venture case interviews focused on first round equity problems – search time, and external assistance and funding. These venture cases included women-led, ethnic minority-led, and serial and first-time entrepreneurs drawn from across the UK.

It was recognised that support for these markets is especially crucial during economic downturns when private investment is more vulnerable to the increased risks of early-stage investing. These recommendations focus on strengthening the overall UK early-stage equity high-growth potential venture market, including regional growth and EDI, as well as tackling the issue of patient capital.

- Continue to support S/EIS and ensure it is locked into long-term policy to ensure early-stage market stability.
- Provide enhanced tax incentives through e.g. S/EIS for patient capital – including key incentives for green environmentally positive activities - and Research and Development (R&D) to assist with re-balancing the investment risk-reward ratio.
- Enhance public-private co-financing programmes for angels and VCs to cover the loss of European Investment Fund (EIF) and ensure that these funds apply environmental credentials (with do not harm (DNH) as a minimum requirement) regional focus and EDI. It was noted that BBB is enhancing the regional investment through the Nations and Regions Investment Funds and this needs to be stepped up.
- IUK is playing an increasingly crucial role in developing Investment Readiness (IR) programmes through the Business Growth (formerly Edge) programme. This is vital, and the connections between IUK, grants, and Investor Partners are very important for creating a smoother and more effective early-stage funding pathway that links grants with equity.
- Public sector investment readiness programmes are critical in linking ventures to finance and can play an important role in addressing regional growth and EDI. French Tech offers a potential model for support and investments consistently across national regions.
- More substantive and progressive grants like the Department for Energy Security and Net Zero (DESNZ) Energy Entrepreneurs Fund are required to support longer-horizon cleantech and disruptive hardtech. These need to offer follow-on grants and

co-finance early with accredited angels and VC to create a blended tech and commercial finance support programme.

- Support the momentum behind university collaborative seed funds which might help unlock more corporate and institutional investment into earlier stages.
- Unlocking institutional pension funds is a game changer for early-stage investment. Just 1% of these funds invested into UK early-stage markets with a focus on patient capital would transform the market.
- Develop international collaborative cross-border investing (Ireland has been suggested as a strong case), particularly to overcome shortfalls from European Investment Fund (EIF) and to ensure a more effective long-horizon early-stage investment market which avoids thin market pitfalls and is able to follow investments overseas to optimise returns and likely retention of UK IP and employment.

Section 1: Seeking early-stage equity finance

1.1 Objectives

It is widely recognised that early-stage entrepreneurs, especially those operating in high-risk markets, face challenges in accessing capital. High-risk, early-stage firms without trading track records often struggle to secure private debt finance in the UK. Early-stage equity can play a crucial role in supporting the commercialisation strategies of high-growth potential firms.

The Department of Business, Energy and Industrial Strategy (BEIS) provided an assessment of the availability of early-stage equity in 2019, based on data collected before the European Union (EU) exit and the pandemic. In this project, we update this previous work and aim to: (1) evaluate the availability of early-stage equity for different types of firms; (2) examine the impact of any equity gaps; and (3) offer detailed insights into the stage of the application process where specific deals fail. The latter is crucial for shaping potential support mechanisms for early-stage entrepreneurs, helping them to access early-stage equity.

This report is based on a survey of equity-engaged, early-stage entrepreneurs and businesses, as well as interviews with equity providers. Fieldwork was conducted between January and May 2023, including a phase 1 business survey and key informant interviews, and a phase 2 business survey carried out between September 2024 and April 2025. The results inevitably reflect the climate of uncertainty in financial markets and the specific pressures on firms caused by the cost of doing business crisis during this period. Interviews with policy stakeholders and investors took place in June 2023 and have been complemented by subsequent reporting evidence.

The report addresses several key questions:

- Who seeks early-stage equity finance? What are the characteristics of these firms/entrepreneurs? What age/sector/size are firms seeking equity? Where are they located?
- What is the attitude of early-stage entrepreneurs towards using equity? How does this vary relative to other financing sources? How is this influencing their demand for early-stage equity? How does this differ across regions and sectors?
- Are firms prepared for investment? Do they possess competencies in corporate finance or have they sought external advice for fundraising? How accessible is high-quality advice? Is this situation different across regions or sectors?

- Do firms seeking equity get the finance they are seeking? How does this differ between potential sources of equity funding and locations? Where are the equity 'gaps' in terms of investment size, sector, stage of development and location? Are these uniform or specific to sub-groups of companies?
- Where early-stage entrepreneurs do encounter equity gaps how is this influencing the financing and growth of their businesses?
- How does the customer journey towards equity funding work? Are there specific barriers or challenges? Where equity is not obtained where did the process fall down? Why did the process collapse in the firm's view?

1.2 The UK Early-stage Venture Investment Market Context

UK early-stage venture investment markets have developed considerably over the past 10 to 15 years, following the Global Financial Crisis of the late 2000s. This period has seen increasing volumes of investment into UK high-growth potential ventures of all sizes and stages. Strategically, these are important to the UK economy as they are likely, at some stage, to form a key part of the 'Vital 6%'⁶ of UK SMEs that create half of new jobs – often high-skilled jobs (e.g., software and technical engineers) that are well paid. Furthermore, these smaller high-growth potential ventures can provide the cleantech innovations needed to address UK and global Net Zero and wider environmental aspirations.

However, early-stage venture equity investment is highly risky, with high failure rates, and only a small percentage (less than 1:10) achieve 'blockbuster' returns, as the best performers often take the longest to exit. Public policy therefore plays a crucial role in supporting and developing venture capital markets, especially in reducing risks during early-stage investment. This is when information asymmetries between venture founders and private financiers are at their greatest, and where ventures lack a trading track record and collateral.

In such cases, potential high-growth ventures are generally not suitable for UK private debt finance options. The UK has experienced significant state intervention, especially to support early-stage investment, mainly through grants from Innovate UK (IUK), venture capital co-financing via the British Business Bank, and investor tax relief (from HMRC). Despite these efforts, gaps in UK equity finance persist, with evidence from the financial supply side showing fluctuations in the availability of financing at different stages and high numbers of equity application submissions.

⁶ NESTA (2019)

Qualitative studies such as BEIS (2017) 'Journey to Finance of Innovative Businesses' indicate that early-stage ventures often lack the experience and resources, and therefore the investment readiness, to seek and successfully apply for equity finance.⁷ However, little is known about the very early venture demand-side experience and success rates in obtaining the first formal round of equity data. This is because current UK venture finance data (e.g., Beauhurst, Dealroom, etc.) usually track new venture investment data from the first publicly announced round of finance (either a large grant of £100k or more, equity, or possibly a small loan for a soft start trading venture) rather than from the time when firms initially seek finance.

There is an assumption that high rejection rates for equity applications reflect the market functioning properly by turning down commercially unviable proposals. However, qualitative studies indicate that these failures may stem from a combination of applicants' lack of experience and investment readiness, as well as a shortage of suitable financing options, especially for disruptive technologies requiring substantial capital and long-term investments. This latter aspect is crucial for policy, since many innovative cleantech solutions originating from new ventures may fall into this 'deep-tech' category.

A key source of recent data is the British Business Bank's annual Small Business Equity Tracker, which is based on Beauhurst data for reported formal equity investments in UK ventures. This indicates that the number of equity investment deals and the total investment volume increased steadily from 2011, rising from less than £2bn across approximately 500 deals to a peak of £20.6bn in nearly 3,000 deals in 2021, before falling by 7% in deals and 11% in investment volume in 2022.

This decline, which took place in the second half of 2022, can be linked to several factors, including a market correction after a boom period in 2021 when valuations may have been overly optimistic, the cycle of equity investment where many investors were raising funds for additional capital, and worsening economic conditions that slowed down the exit markets for investments. Ongoing global market turbulence through 2023 and 2024 led to a further decrease to £10.8bn, but with only a small 2.5% drop from 2023 to 2024, suggesting a stabilisation just above pre-pandemic levels and slightly below the UK market's 10-year average (£10.4bn), while deal numbers were 9.6% lower than the annual average of 2,266.

Equity Tracker data indicates that although the earlier seed and venture (Series A early commercialisation) stages were initially less impacted by the market downturn, this was beginning to affect the earlier investment stages by 2023.⁸ The latest British Business

⁷ BEIS (2017)

⁸ British Business Bank (2023)

Bank Equity Tracker data (2024) described the UK seed investment market as 'challenging' in 2023, while 2024 has been turbulent, with a sharp 14.5% fall in annual deal numbers to 858, but an 18.4% rise in annual investment volume to £1.97bn.

The 2022 UK seed stage investment market saw a £2.2bn investment across over 1,100 deals, reflecting a 14% rise compared to 2021. However, the underlying trend indicated a decline in seed and venture stage investments during the latter half of the year. This suggests that the phase 1 early-stage venture survey in this report has been affected at least partly by this market downturn. The further decrease in the UK seed equity market throughout 2023, where investment volume fell by 32% to £1.5 billion and deal count dropped by 20% to 881, would also have influenced the second-phase survey.

Moreover, although the UK seed market's investment volume increased in 2024, the number of deals decreased. This suggests that seed investors are adopting a more cautious approach, focusing their funding on larger follow-on rounds for existing portfolio companies rather than initial startup rounds. The market outlook remained similar into Q1 2025, indicating that our surveyed second-phase pre-trading equity seekers faced a challenging period of fundraising.

1.2.1 Public-Private policy influence

The recent growth in the post-Global Financial Crisis (post-GFC) UK equity market has been driven by many innovations and changes in financial markets, supported by public-private co-financing efforts of the British Business Bank (BBB) (which backs around 1:7 of equity deals, with a strong regional presence in London, the North West, the Midlands, and South West England). The Bank was established in 2013 to oversee the public development of SME finance markets, with a particular focus on early-stage seed and Series A funding.

This has mainly taken place through the flagship Enterprise Capital Fund (ECF) programme, which aimed to co-fund new and existing VCs to invest at earlier stages in order to address a perceived equity gap in the £250k-£5m range, where private VCs often lack risk appetite or experience. Additionally, public co-financing of business angels—traditionally the main early-stage source of equity in the UK market—has increased via the Scottish Co-fund and more recent British Business Bank initiatives, including the Regional Angels Programme. The ERDF, which concluded in 2023 and was replaced by the Shared Prosperity Fund, provided funds to English regions and devolved nations. The British Business Bank's enhanced Nations and Regions Investment Funds were created to address regional equity finance gaps, support shortfalls, and encourage regional growth.

A further major policy contributor to the stimulation of early-stage private investment has been the Seed Enterprise Investment Scheme (SEIS) investor tax relief, which, alongside the later stage EIS, has supported Venture Capital Trust funds and a plethora of more

recent angel EIS funds (e.g. SyndicateRoom, Green Angel Ventures, etc).⁹ S/EIS has also supported the development of equity crowdfunding platforms since they first appeared in the UK in 2011, led by Crowdcube and Seedrs.

1.2.2 The early-stage venture pipeline

As the BBB Equity Tracker demonstrates, UK equity finance markets are dynamic and fluctuate over time. The potential high-growth venture finance escalator relies on achieving a balance between a sufficient innovative and scalable venture pipeline and a suitable supply of risk finance.¹⁰ Therefore, public policy must address the ecosystem support requirements to stimulate good quality new venture formation alongside the supply of finance.¹¹

The post-GFC period has experienced a notable rise in the activities of launchpads and accelerators, which aim to develop new technology-based companies, bringing together new venture founders, providing small initial investments, and supporting the development of proof of concept and investment readiness of founding teams (see Case A). These initiatives have attracted both public and private investment, particularly from corporate early-stage investors into tech accelerators.

This has happened alongside the growth of university seed funds, which increasingly rely on university collaborations such as Northern Gritstone and SETsquared to provide the initial support pipeline for ventures. The British Business Bank Equity Tracker reported that university investment reached a record UK level of £2bn in 2022. Despite turbulence in the seed market, the Equity Tracker 2025 report again highlights that university spinouts raised £1.9bn in 2024, representing 17% of the UK equity market by volume and 12% of deals.

Many pre-seed start-ups consider Innovate UK (IUK) their initial source of public funding, often through grants but increasingly via connections to seed investors through their Investor Partners programme. This is a crucial link, as previous BEIS research has indicated a limited connection between the technical assurance provided by IUK SMART grant funding for new ventures and investors' commercial needs.

The first phase survey primarily relies on the IUK support network of early-stage venture Pitchfest applicants for initial Proof of Concept grant funds. Both phases also occur too early to assess how IUK's Launchpad programmes will perform. These programmes aim to develop new business pipelines in Net Zero and key UK industrial strategy sectors (notably cleantech, energy, hydrogen, AI, digital, advanced manufacturing, life sciences,

⁹ See <https://www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme>.

¹⁰ Mason C (2018)

¹¹ Brown and Mason (2017)

financial, professional, and creative services) across the regions. Alongside the IUK Growth and Investor Partners programmes, they are designed to enhance the early-stage innovation support ecosystem and the finance escalator.¹²

1.2.3 Persistent patient capital funding gaps

The early-stage capital market has been well supplied by early-stage investors, especially in the growing tech hotspots such as London, Cambridge, Oxford, as well as Central Scotland and Manchester. Indeed, the British Business Bank Equity Tracker highlights Fintech, Cleantech, Software (notably AI), and Life sciences as sectors where the UK excels. While these continue to perform well, there remains a persistent funding gap for more disruptive, longer-term 'deeptech' ventures—such as cleantech, energy, and advanced manufacturing in engineering biology—that require higher capital expenditure for hardware prototype development and tend to spend longer periods in the 'valley of death' before establishing a commercial foothold.¹³

Comparisons with the more established and significantly larger US VC market show that at every stage, UK VCs invest less than their US counterparts. Although this gap has narrowed, many UK deeptech ventures still risk failure due to insufficient investment, and those that do exit often do so at earlier, less optimal stages and through trade sales to overseas investors.¹⁴ This poses serious questions in terms of UK strategic socio-environmental policies, which address Net Zero and wider environmental – rather than purely economic – aims, aligning with the United Nation's (UN's) Sustainable Development Goals and the UK's Green Finance Strategy.¹⁵

1.3 Identifying survey participants

The business survey reported here aimed to gather data on a group of early-stage entrepreneurs both before and after they began trading, hereafter referred to as 'ventures'. Standard methods for building sampling frames based on business registers or Companies House data might overlook pre-trading or emerging businesses. Therefore, we adopt a different two-stage approach to identify potential respondents.

- **Stage 1: Identifying potentially relevant ventures** – we gathered information from a variety of accelerators, incubators, and equity providers across the UK about their client companies (both successful and unsuccessful). Additionally, for Phase 1, we established a data-sharing agreement with IUK regarding companies that had either applied to or participated in their Pitchfest event or received grant support for research and development (R&D) or innovation. This resulted in a list of approximately 12,000 company names, although some entries were duplicated, and

¹² See <https://www.gov.uk/government/publications/industrial-strategy-sector-plans/sector-plans>.

¹³ Owen R (2021)

¹⁴ British Business Bank (2022)

¹⁵ HM Government (2023)

contact details for individuals were often incomplete or of variable quality. In phase 2, we relied on private data listings from Beauhurst and investor data to minimise bias towards publicly supported companies. This approach yielded a list of 14,854 cases after removing duplicates from Phase 1.

- **Stage 2: Screening for equity-relevant ventures** - where possible – depending on contact details - we then aimed to conduct telephone interviews with firms. In each case, we contacted the lead entrepreneur or owner-manager of the company. If they agreed to participate in the survey, we asked a series of filter questions to identify a relevant group of entrepreneurs or firms who had at least considered the potential value of equity for their business, exhibited significant growth ambitions, and were at an early stage of development.

The sampling method used here has both benefits and drawbacks. The main benefit is that we can be sure respondents have engaged with using equity in their ventures or businesses, at least to some degree. The drawback, compared to a more typical structured survey sample, is that we are less certain about how well it represents different sectors or regions. Instead, we have a group of respondents that is heavily self-selected based on their engagement with equity. This leads to biased regional coverage, with Wales, Northern Ireland, Scotland, and some northern areas being underrepresented relative to their population shares. This reflects a mix of ventures being included or excluded from the original sampling frame, survey non-response, or early screening out during the survey process. **See appendix 1A, at the end of chapter 1.**

1.4 Profiling respondent ventures

Respondent ventures are classified as pre-trading and trading. Figure 1.1 shows when trading ventures actually started. The majority of these ventures began trading after 2018. Among the pre-trading group, only about a quarter of ventures had been in development for five years or more, while the rest were roughly evenly split between those in development for one to two years and those for three to five years (Figure 1.2).

Figure 1.1: Dates when trading ventures started trading (N=764)

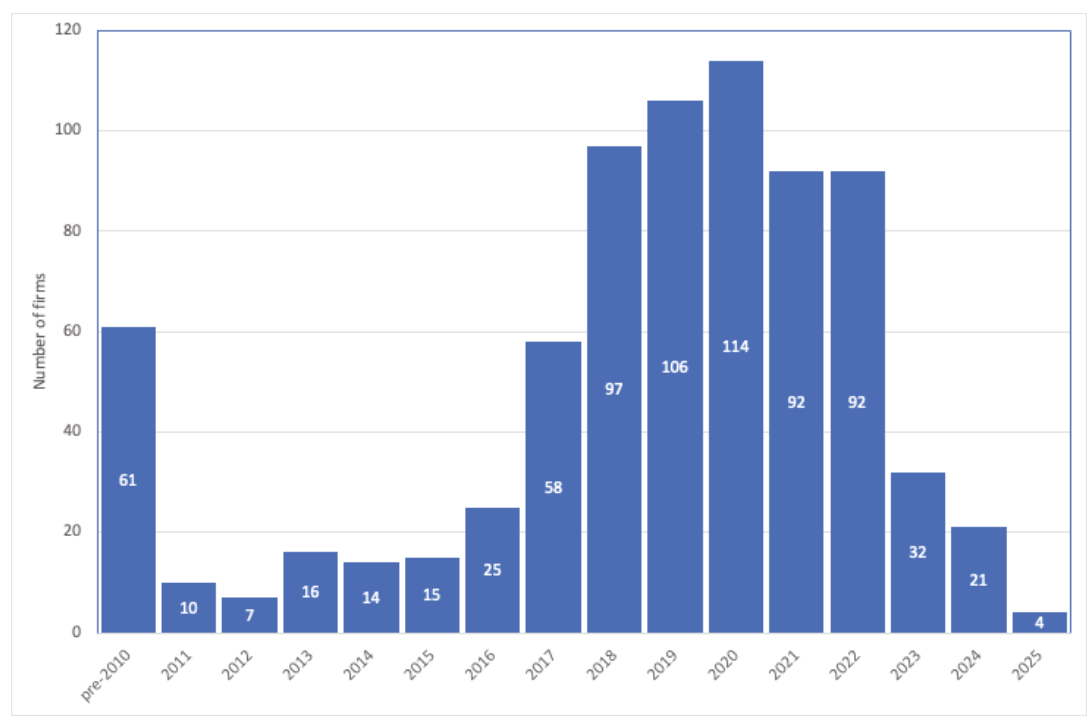
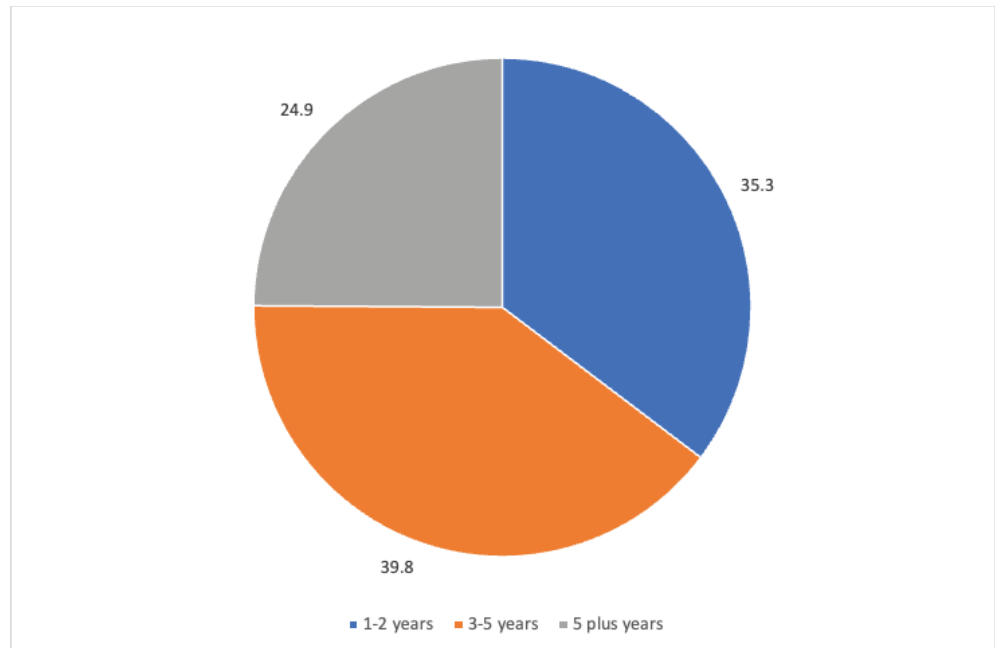


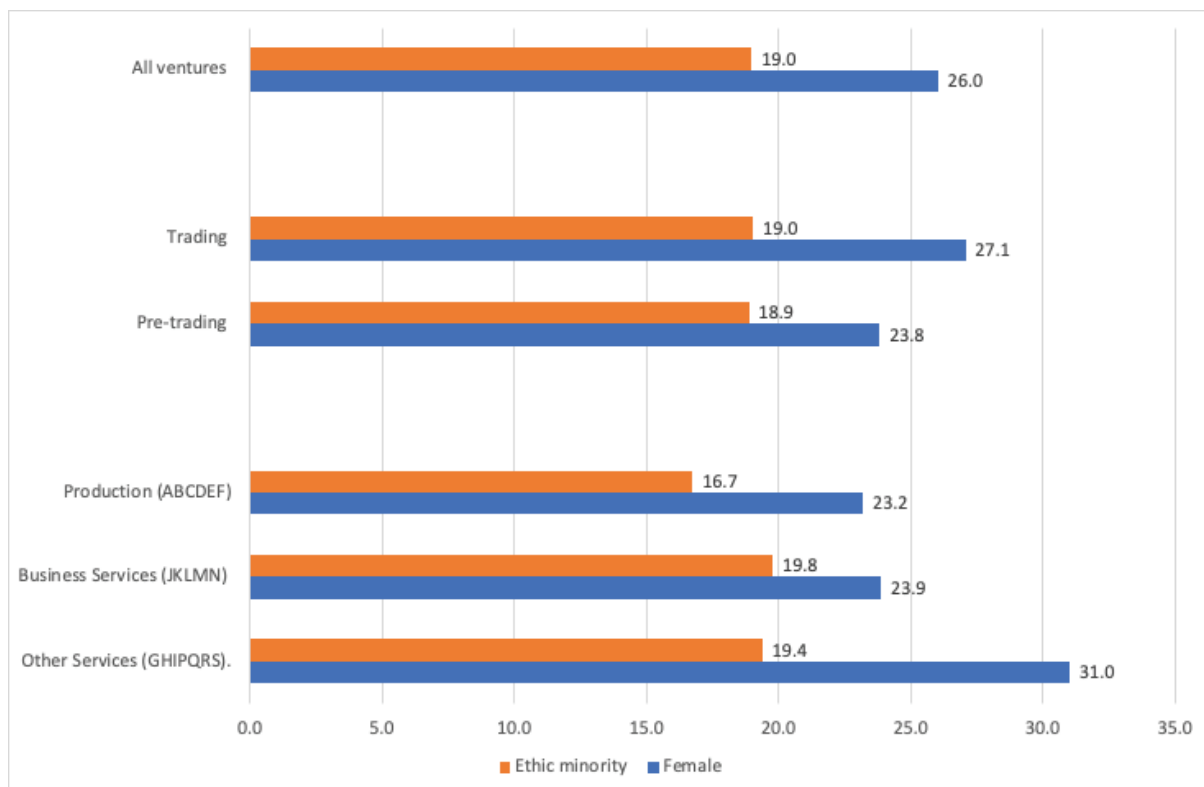
Figure 1.2: Length of development period of pre-trading ventures (N=357)



Almost all the ventures included in the survey (98.5%) were limited companies, a trend that applied to both trading and non-trading ventures. Nearly all of the ventures interviewed (97.8%) also still had the founder involved in the firm. These are strong indicators that the surveyed ventures are at a stage where they are potentially suitable for equity investment and are likely still at a relatively early stage.

As part of the survey, all ventures were asked about the proportion of their leadership teams involved in daily operations who were women and from ethnic minority groups. On average, 26.1% of ventures' leadership teams consisted of women, with 18.9% from ethnic minority groups (Figure 1.3). These figures varied slightly between pre-trading and trading ventures and more notably between sectors, especially concerning women's involvement in ventures' leadership teams. The proportion of women is significantly below the 47% national average for startups.¹⁶ It may indicate the considerably lower proportion that are confident in seeking equity finance.¹⁷ In contrast, the opposite seems to be true for ethnic minority groups, where the national average is 10%.

Figure 1.3: Women and ethnic minority share of ventures' leadership teams (N=1,070)

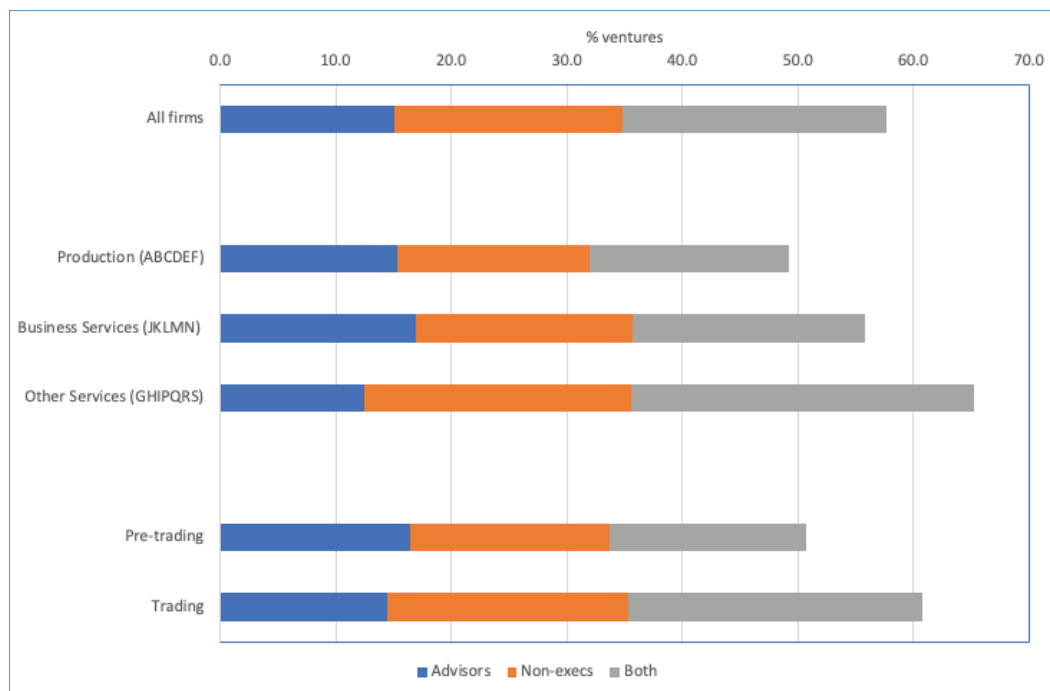


¹⁶ Hutton (2024)

¹⁷ Fraser et al. (2015)

The survey also explored another aspect of business leadership: whether ventures had board advisors, non-executive board members, or both. Responses are summarised in Figure 1.4. Overall, 15.0% of ventures had board advisors, a similar proportion (19.8%) had non-executive board members, and 22.9% of ventures had both. 42.2% of ventures had neither type of advisor. These proportions were fairly consistent across sectors and stages of development (Figure 1.4). The high use of external board advisors aligns with the resource-based view that early-stage ventures are more likely to succeed if their founding teams are supported by specialised sector and financial advisors.¹⁸

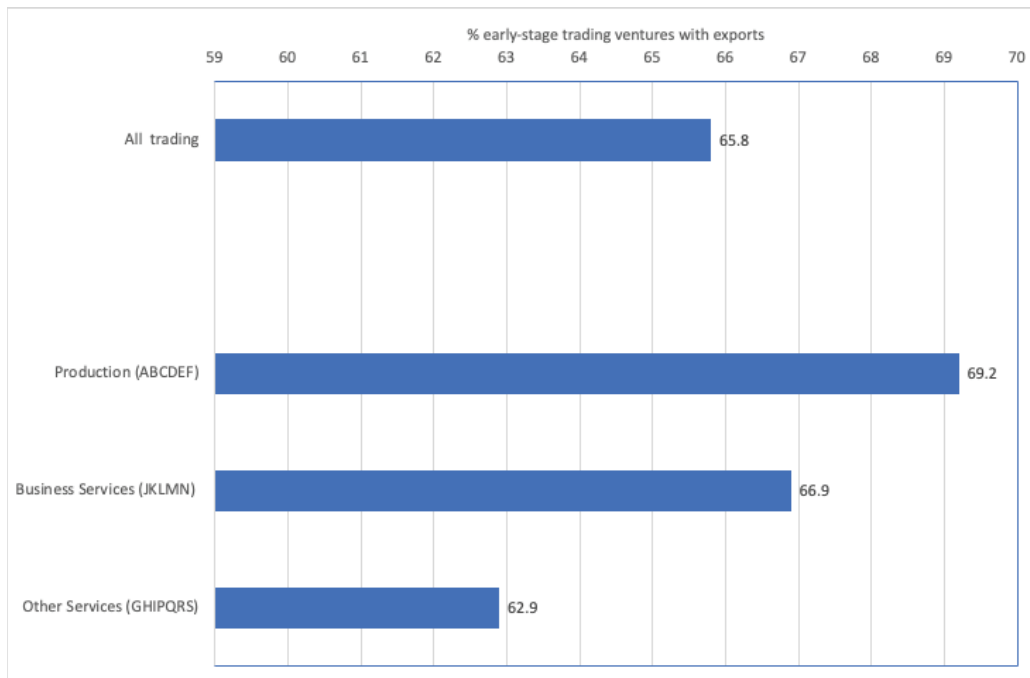
Figure 1.4: Proportion of ventures with board advisors and non-execs (N=1,179)



Among these early-stage ventures involved in trading, exporting was common, with 65.8% of firms reporting export sales. This proportion was lower in Business Services and Other Services (Figure 1.5). The high overall percentage of exporters reflects the nature of globally scalable ventures that attract equity investment.

¹⁸ BEIS (2017)

Figure 1.5: Proportion of trading ventures with exports (N=809)



1.5 Profiling individual respondents

In addition to the characteristics of the ventures participating in the survey, we also asked several questions about the respondents themselves, their previous work experience, and their familiarity with engaging in and raising business finance. First, respondents were asked about their activities immediately prior to joining their current venture. About half of all respondents had other jobs before starting or joining the current venture, while the rest were almost evenly split between managing another business and full-time education (Table 1.1). These proportions showed little variation across different sectors and stages of venture development.

Respondents were also asked about their previous involvement in owning and leading businesses before joining their current venture (Table 1.2). This could refer to the period right before starting the current venture or earlier in their careers. Once again, over half of the respondents had owned and managed other firms, while 31.0% had no previous involvement in ownership or leadership roles in businesses.

Table 1.1: Respondents' activity immediately prior to becoming involved in this venture (%) (N=1,117)

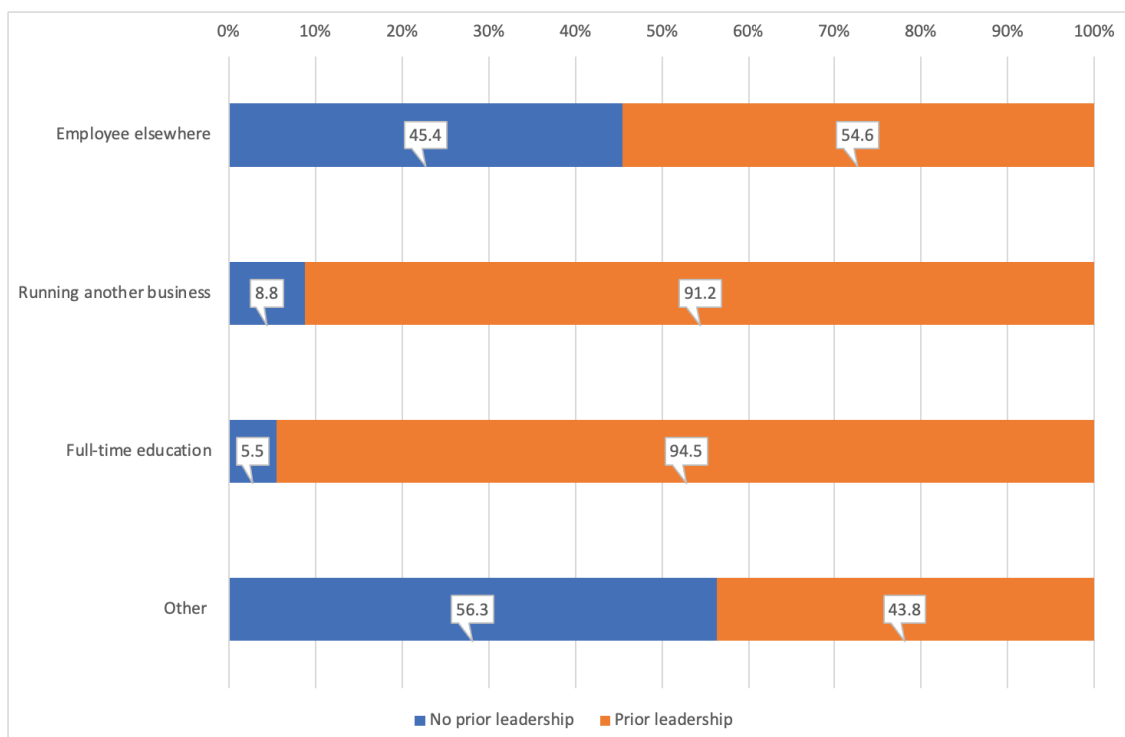
	Employee elsewhere	Running another business	Full-time education	Other	
Total	54.3	20.3	21.1	4.3	100.0
Production - ABCDEF	48.9	23.4	22.6	5.1	100.0
Business Services – J	53.2	20.9	22.0	3.9	100.0
Other services - GHIP	58.7	17.8	19.3	4.3	100.0
Pre-trading	49.7	19.4	25.3	5.7	100.0
Trading	56.2	20.7	19.3	3.7	100.0

Table 1.2: Respondents' prior leadership activities during their career (N=1,184)

	Owned and led other firms	Led other firms	Owned other firms	None of these	Total
Total	56.1	9.2	4.1	30.7	100.0
Production - ABCDEF	55.7	9.8	5.5	29.0	100.0
Business Services – J	57.2	9.1	3.5	30.2	100.0
Other services - GHIP	54.9	8.9	3.9	32.3	100.0
Pre-trading	57.0	8.5	4.7	29.9	100.0
Trading	55.7	9.5	3.8	31.0	100.0

The respondents' previous experience and their labour market position before starting their current venture show some notable differences. Experience in business leadership was most common (91.2-94.5%) among those running another business or engaged in full-time education (Figure 1.6). About half of those employed elsewhere or in different roles had prior leadership experience (Figure 1.6).

Figure 1.6: Prior leadership experience and job roles before starting the current venture (N=1,111)



Of particular interest is whether respondents had a background in securing external funding before the year of the survey, since previous research shows that prior equity fundraising experience increases the chances of future successful equity fundraising.¹⁹ This was covered in the survey with a question asking: 'Over the last five years have you sought or used any of the following types of funding?' Overall, about half of all respondents had either sought or used external finance in the past five years, a figure consistent across sectors and stages of development (Table 1.3). Government loans/grants were more common, sought or used by around 65.3% of firms, while bank lending had been sought or used by 36.1% of respondents.

¹⁹ North et al, (2013), BEIS (2017), Owen et al. (2019)

Table 1.3: Proportion of respondents seeking/using external finance in previous five years (%) (N=1,192)

	Total		Production	Business Services	Other Services		Pre-trading	Trading
Commercial mortgage	4.8		5.9	2.7	6.7		3.8	5.2
Equity	51.4		52.7	52.7	49.0		54.6	50.0
Factoring	9.5		8.6	9.5	10.0		5.2	11.4
Govt. Loans/Grants	65.3		72.3	68.5	56.9		69.7	63.3
Bank etc. Loans	36.1		38.7	36.9	33.5		25.1	40.9
Peer-to-peer loans	6.5		8.2	4.6	7.7		4.1	7.5
Supply chain/JV funding	7.1		7.0	7.1	7.2		6.6	7.4
None of these	14.4		12.5	13.7	16.5		13.9	14.6

Note: Figures do not add to 100 as respondents could indicate multiple forms of finance.

Among firms that sought or used equity over the past five years, 74.6% also accessed government grants. This proportion dropped to 55.4% among those not using equity. A different picture appears with bank loans, where only 40.8% of equity users also accessed loans compared to 31.0% of non-equity users. This suggests a strong complementarity between grant funding and equity use, and a weaker, yet still positive, complementarity between equity and loan funding.

Firms that used equity had a lower proportion of women in their leadership teams (22.4%) than those that did not use equity (30.2%). A similar pattern was seen in terms of ethnicity, with equity-using firms having a smaller share of leaders from ethnic minorities (17.8%) compared to non-equity users (20.3%). Equity use was also closely linked to having either a Board Advisor or NED. Among firms with both types of support, 65.2% were using equity, compared to only 38.0% of firms with neither a Board Advisor nor NED.

Appendix 1A: Screening for early-stage, equity-relevant ventures

Two screening questions were then used to identify ventures which completed the main survey. These were as follows:

(1) Have you ever thought or considered that equity finance might be appropriate for your idea, project or the business you run?

(2) Which of the following statements describes your reasons for being in business? (1) I am in business as a means to work (as opposed to being an employee); (2) My goal is to run my own business and make a good living for myself and my family; (3) I want to be successful in business and become wealthy from running my business; (4) I hope to develop a product or service that will change my industry, society and/or make the world a better place.

Only ventures which responded positively to (1) and selected option (3 or 4) in question (2) were subsequently interviewed in full.

The initial group of potential respondents was mainly based on information provided by Innovate UK through a data-sharing agreement. This naturally influenced the composition of the group, with about three-quarters having sought or utilised some form of government loan or grant before the survey (see Table 1.3). The purpose of the Second Phase survey was to achieve a broader representation of equity-seeking companies that had not previously used IUK services and funding, aiming to create a more balanced sample. Ideally, this sample should better reflect UK early equity seekers, but may still be biased due to the available sample selection.

Throughout the report, we examine the differences in ventures' attitudes, their use of, and success with equity funding across sectors and at various stages of business development. We distinguish between ventures that were pre-trading (n=367) and those that were trading (usually in earlier stages of trading) (n=826), as well as three broad sectors: 'Production (divisions ABCDEF, n=256), Business Services (divisions JKLMN, n=518), and Other Services (divisions GHIPQRS, n=419).²⁰

²⁰ Pre-trading firms comprised 298 from Phase 1 and 69 from Phase 2. Trading businesses were 429 from Phase 1 and 397 from Phase 2.

Section 2: Market trends

2.1 Introduction

This section examines stakeholder interviews and other contextual evidence to provide an overview of recent trends in early-stage equity markets. The UK early-stage equity investment market has seen a shift in focus between business angels and VCs in recent years. Angels have increasingly formed networks to support their investment in larger syndicates. This is also strongly encouraged by tax-efficient EIS funds, which have led to a greater presence of angels in follow-on funding during later seed and Series A early commercialisation rounds.

Table 2.1: Qualitative Sampling and Stakeholder Interview Breakdown

Stakeholders	No. Interviews	Regions/Devolved Nations
Accelerators	2	South, West, East
Angel Networks	5	UK, London, East, Midlands
Seed VCs	5	London, East, Midlands
Equity Market Support	5	South West, South and North
Public Agencies	4	UK, Wales, Scotland

Stakeholder analysis was conducted to provide context to the UK early VC market context to the early equity venture survey and also to provide qualitative insights from the finance supply-side and venture demand-side. The research consisted of 21 stakeholder interviews, and 14 venture case interviews focusing on first round equity problems.

In contrast, respondents from the British Business Bank observed a growing presence of seed VCs and their interest in becoming the first formal investors, especially in tech ventures. Several respondents mentioned that “*VC repositioning themselves to ensure they get an earlier slice of the pie, as angels are now less easily pushed into lower valuations and share values by VC investors at the Series A stage.*” VCs are also becoming more inventive, including developing SEIS funds, to support and invest in tech launchpads to create new venture pipelines. As a representative of the Development Bank of Wales emphasised, “*The UK market now has a far wider variety of equity financing options, which have spread across the regions and devolved nations.*” There is also evidence of a significantly increased willingness among angels and VCs to syndicate together, as both see greater mutual benefits from this in terms of increasing round sizes and spreading early-stage investment risk.

2.2 Strong public policy influence

S/EIS funds are increasingly managed by angel network investors (e.g., Green Angel Syndicate, Seedtribe), venture capitalists (e.g., newer VC entrants like Regenerate Capital), and launchpad accelerators (e.g., Carbon 13). At the same time, SyndicateRoom serves as an example of an equity crowdfunding platform that has become an accredited EIS fund. EIS funds are contributing to rising volumes of angel funding and are especially useful in enabling angels to provide follow-on funding. They also offer strong certification to IUK of the increasing professionalisation of angel investor networks and their acceptance into the Investor Partnership programme and the British Business Bank Regional Angels Programme.

Those involved in the IUK Investor Partners programme highlighted *the “improved pipeline of seed stage investment opportunities and technical quality insurance offered by IUK’s grant ventures. We see them earlier and we don’t miss them.”* These programmes, especially the devolved nations’ Scottish Co-Fund and the newer Welsh Angel Co-Fund, offer public-private co-funding opportunities for accredited, experienced investors with proven track records. They aim to increase the flow and scale of early-stage, high-growth potential venture investments. The UK Business Angel Association (UKBAA) also actively supports the Regional Angel Funds as a way to promote regional growth, with 85% of investments made into ventures outside London and 37% in Scotland, Wales, and Northern Ireland.

S/EIS is also regarded as a vital catalyst for the early-stage investment market. An early-stage VC stated: *“We would not invest in more than a quarter of our portfolio without SEIS!”* however, another sustainable impact VC observed that the largest VC investor in cleantech ceased EIS investments when the rules changed in 2016, which failed to

support this type of long-term investing – *“I don’t know what the lost opportunity for cleantech was from these changes, it appeared counter to the needs to address Net Zero.”*

One angel investment network representative criticised the rise of angel EIS funds. These attract high-net-worth investors to later-stage, larger angel deals. This creates a problem of insufficient attraction and recruitment of new, smaller-scale angel investors, who are vital to the very early-stage investment market.

The Success of S/EIS:

Policy Case Study: [Green Angel Ventures](#)

Green Angel Ventures (GAV - formerly Green Angel Syndicate), established in 2013, has become the UK’s leading early-stage green business angel network with over 300 investors. In recent years the angel investment network has professionalised and evolved into a UK Financial Conduct Authority (FCA) accredited venture capital investor, operating an evergreen Enterprise Investment Scheme (EIS) Climate Change Fund which regularly fundraises multi-million pounds rounds. GAV has so far deployed over £50M into over 50 companies, saving 265,000 tonnes of CO2 equivalent.

“UK Government EIS tax breaks have been fundamental to the development of GAV, attracting new investors and through the venture fund, enabling more passive investors to gain from their deal flow and investment experience in the sector – helping to grow UK Cleantech companies.”

GAV also benefits from two supporting UK Government schemes:

- IUK [Investor Partnerships Future Economy Programme](#) provides a pipeline of grant certificated early stage investible cleantech companies
- British Business Bank [Regional Angels Programme](#) has provided £10M co-funding for investments into the UK regions.

Seed, launchpad, and accelerator investments by VCS have grown considerably, shaping the tech investment sector. This trend aligned with the rise of accelerators in the early 2010s, such as Seedcamp and Bethnal Green Ventures, especially around London’s Tech City, often involving early corporate investment from firms like Google and Microsoft. Furthermore, there has been an increase in seed VC investing supported by the British Business Bank’s Enterprise Capital Funds, which co-fund VC fundraising and aim to improve the skills, experience, and sustainability of the early-stage investment market.

Primarily, growth has occurred in software technology (e.g., Passion Capital, Episode 1), working closely with very early-stage ventures. Consequently, the recent rise of lean start-up Launchpads has emerged, bringing together potential founders through online and offline cohort training and one-to-one support for venture start-up development. These launchpads often provide early Proof of Concept funding in early equity, frequently organised around evergreen S/EIS funding structures overseen by VCs (e.g., Carbon 13 and ET Capital in Cambridge). IUK has recently introduced regional Launchpads to support the development of early-stage ecosystems for regional science and innovation venture pipelines, as well as early-stage financing aimed at deep tech and sustainable societal sector clusters.

Stimulating Regional Sustainable Innovation:

Policy Case Study: [Innovate UK Launchpads](#)

Introduced in 2022, the initial £15M IUK Launchpads programme operated by Carbon Limiting Technologies (CLT) was designed to stimulate sustainable innovation startups across the UK regions. It has developed regional sector-based clusters in net zero, digital, biotech, Life Sciences, Creatives, Marine and Agritech. The regional Launchpads bring together local authorities, universities, research institutes, innovators and industry to develop business projects and investible, sustainable early-stage companies. To date over 100 business projects have been supported.

“The Launchpads seek to develop regional innovation cluster specialisms like buildings in Birmingham, recycling in Brighton and hydrogen in Daresbury. We are keen to develop venture studio approaches which bring together innovators, industry and investors to generate purpose-led ventures that can solve real world problems.”

IUK Launchpads have benefited from collaborations with other UK Government programmes:

- IUK grants and Investor Partnerships can generate early-stage private sector investment into the launchpad companies.
- British Business Bank Regional Angels Programme financing

2.3 Devolved nations

The early-stage equity funding market in the devolved nations performed well during the recent COVID period. Investors initially retreated to support existing portfolios but then returned to record levels of investment in early-stage ventures from 2021 to mid-2022. Although there has been some decline since then due to market realignment and caution over the UK cost of living crisis and rising interest rates, there is a consensus that the early-stage markets remain resilient because of market-building activities in Wales, well-established angel markets, and the Scottish Co-Fund.

Wales has seen significant growth in early-stage investment capacity thanks to the activities of the Development Bank of Wales (DBW) over the past five years. During this period, Welsh taxpayer money has been invested in building the Welsh Tech Seed Fund (WTSF), which co-invests £20m into early-stage equity (£50-350k), and the £8m Welsh Angel Co-Fund, which collaborates with Angel Invest Wales. The latter is a publicly supported angel network that has nearly seven-fold increased the former Xenos private angel network in the last five years, to around 350 members. As respondents from DBW stated, *“There is a good supply of early-stage equity in Wales, which is well connected, and it is now possible for Welsh businesses to raise £2-3m in equity investment.”*

Improving Nations and Regions Investment:

Policy Case Study: [Development Bank of Wales](#) and [Investment Fund for Wales \(IFW\)](#)

Development Bank of Wales (Banc) is Welsh Government funded and manages a suite of SME finance, including the Wales Technology Seed Fund (£20M) investing in early-stage Welsh located companies that have achieved proof of concept – offering £50-£350k equity investment. Additionally, Wales Angel Co-investment Fund, co-invests between £25-£250k into business angel rounds led by angels accredited by Angel Invest Wales – a Welsh business angel network supported by Banc.

“Wales traditionally has a small number of angel and early-stage equity investors. Banc stepped in to assist angel network development and together with the Tech Seed Fund has considerably strengthened investment, including much needed inward investing... Investment levels have increased through more private VC syndication. Complementary work with the British Business Bank’s IFW can help to increase investment round sizes, meet more capital expensive hardware tech funding requirements and follow-on fund to maintain and grow companies in Wales.”

Wales has also benefited from UK Government Funding:

- IUK’s Investor Partnership Programme’s 150 plus investor links, which include Banc
- S/EIS investment which has particularly benefited Welsh angel and seed VC investment
- The British Business Bank’s £130M IFW programme brings welcome additional equity investment for early stage and scaleup.

2.4 Universities

Universities are offering increasing amounts of early-stage funding through their grant and seed VC programmes. A recent trend involves the development of collaborative VC funds, leading to initiatives such as Northern Gritstone in northern England and SETsquared in south-west England. These partnerships amplify the scale of funding and make them more attractive to corporate and institutional investors, who may be drawn to the high-quality R&D potential of research-intensive universities.

One early-stage seed VC mentioned that: *“We only take on pipeline cleantech investments through top-performing UK universities. These offer the disruptive technologies and technical expertise that we can commercialise.”* However, even with the increased universities’ seed funding in the UK in recent years, there is an acknowledgement that hardtech requires considerably larger volumes of investment to support commercialisation.

Universities as Innovation Finance leaders:

Policy Case Study: SETsquared Scale-Up Programme

An early-stage SME innovation scale-up programme bringing together six Universities in the South West of the UK (Bath, Bristol, Cardiff, Exeter, Southampton and Surrey). Funded through Research England's Connecting Capability Fund in 2018 and managed by SETsquared, a £7.65M scaleup accelerator was operated over five years. This delivered support to a network of 3,500 businesses and academics, including networking, accelerator training to improve management skills, Executive Director placements and IR pitching and to deliver commercial R&D knowledge, resulting in £713M of investment with forecast gross value-added (GVA) of up to £1.3bn by 2030.

"SETsquared stresses the need to look creatively at commercial financing needs - what is the appropriate funding requirement and what types of funding in combination might work best. This can include combinations of grants, equity, and international funding and working with corporate investors to meet their innovation needs, including sustainable solutions."

UK regional University collaborations funded through combinations of UK Research and Investment (UKRI), IUK, former European Regional Development Funds (now Shared Prosperity Funds) and private corporate investment are providing vital ecosystem support for high quality potential high growth innovative ventures in key sectors such as tech, health, AI, robotics, energy and sustainability. Regional examples include: [Midlands Mindforge](#) and [Northern Gritstone](#).

This has dovetailed with British Business Bank programmes to support earlier stage and regional VC investment:

- British Business Bank Regional Funds (now designated as Nations and Regions Investment Funds) and Enterprise Capital Funds programmes support the establishment and development of early stage VC.

The [UKI2S](#) (formerly Rainbow) is a £110M science seed fund operated by Future Planet Capital VC and financed by UKRI/IUK to support university deep tech spin outs for societal impact.

2.5 Current market challenges

However, despite the early 2020s 'froth' in UK early-stage investment across regions where both public and private investors have been attracted to seed investment in tech (notably Fintech and AI), the market has declined since mid-2022 and continues through to Q1 2025. While respondents agree that the UK early-stage market ecosystem is now more resilient, with a broader range of equity finance options and support networks, the worsening economic climate—with higher inflation and interest rates—alongside increasing international market frictions that restrict trade and limit access to skilled labour and financial investment—indicates that the higher-risk early-stage investment market will remain challenging in 2025.

UKBAA and Beauhurst data showed that angel investment dropped by 20% in Q4 2022 compared to the same quarter in the previous year. This decline in business angel and seed funding has persisted into 2024, with the British Business Bank reporting that EIS

investment decreased by 20% in 2024 to £1.6bn, a 31% decline from its peak of £2.3bn in 2022. Additionally, the UK seed investment market experienced a 14.5% reduction in deal numbers in 2024. Within the seed market, deal sizes have increased, indicating a focus on follow-on seed funding into angel and seed VC portfolios, which suggests a very tough environment for first-time equity applicants.

Programme managers and market experts observed increased signs of investor caution, higher levels of syndication to spread risk, smaller individual investments, and a retreat into supporting follow-on funding within existing investor portfolios instead of riskier new venture investments. One investor stated that *“2023 was the year of the extension round.”* Early-stage investors (angels and VCs) explained that they are making adjustments. These relate to the much more difficult fundraising market where institutional investors and Family Offices are withdrawing from early-stage investing, and early-stage investors are focusing only on their best portfolio ventures. Because many S/EIS funds are evergreen and require annual fundraising, this may lead to a quicker contraction in the market. Significantly fewer new investments will be made, and increasingly, early-stage investment is directed into existing portfolios where venture valuations remain flat. One investor commented, *“It is brutal, I’m making difficult decisions, turning away good propositions. Only the best portfolio businesses will survive.”*

Although some may argue that this represents a market rebalancing following an exceptional boom when valuations became inflated, the effects on UK markets are quite complex. For instance, there is likely to be a growing concentration of funding into the London-Oxbridge golden triangle, which typically accounts for around two-thirds of equity investment. There could be regional exceptions, such as Scotland’s strong and well-established network for angel and public co-funding investments, and the emerging publicly supported Welsh market might perform better. However, other UK regions might face challenges.

There may also be negative impacts on sectoral equality, diversity, and inclusion. For example, UKBAA data suggests that women investors are more cautious than their male counterparts during recessionary periods – they were in 2020 at the outset of COVID-19 and again in the second half of 2022.²¹ This has a knock-on effect because male investors are more likely to invest in all-male or male-led ventures and because ‘warm contacts’ are the main way early-stage ventures gain investment. This last point was ably demonstrated by a VC manager’s explanation of their current application funnel:

“Warm contacts are how we make 99% of our investments. We receive maybe 5,000 applications each year, mainly through our website, whilst around one-fifth of these are from our founders and investor contacts. We only aim to invest in 8 to 12 companies each year and only one investment since we started our EIS funds in 2015 has come from a cold call!”

This potentially emphasises the importance of public policy, as, for example, IUK and specifically the Business Growth (Edge) programme for investment readiness offers a pathway to grant and equity funding through the Partner Investors Programme. Investor Partners, including accelerators, angel networks, and VCs, were very enthusiastic about

²¹ These findings are reflected in the work of the HMG (2024) Women-Led High Growth Task Force.

this pipeline of investable new ventures, which indicates IUK's strong technical quality certification.

Private networks of women investors such as 'Fund Her North', Seedtribe, and FiveThirteen were also identified as potentially making a difference. It is noteworthy that the British Business Bank, alongside UKBAA, recognises these concerns to increase the number of women angel and VC investors and announced the launch of an Open Office programme from July 2025 to support and attract emerging women VC fund managers to their initiatives, including the flagship Enterprise Capital Funds.

Section 3: Ambition and investment readiness

3.1 Introduction

This section focuses on the ambition of respondent ventures, their managerial and organisational capabilities, and investment readiness. We first consider the level of ambition of the respondent ventures. Do they aim to grow and exit, or are they seeking to build an international business? Second, we focus on the technological and innovative capabilities of firms before examining their investment readiness.

3.2 Ambition

Respondents were asked about their objectives for the business over the next year. Table 3.1 summarises the proportion of respondents indicating that each objective was either 'important' or 'very important'. Profiles were similar across sectors and stages of development, with around 85 to 90% of respondents aiming to 'build a national or international business' (Table 3.1). Approximately two-thirds of respondents sought to grow the business for exit, and a particularly high proportion of respondents, 86.7%, aimed to build a sustainable business.

Table 3.1: Business objectives over the next year -% respondents indicating objectives were important or very important (N=1,183)

	Total		Production	Business Services	Other Services		Pre-trading	Trading
To build a national and/or international business	86.4		86.7	88.9	83.1		87.1	86.1
To keep my business similar to how it operates now	18.3		17.6	13.9	24.2		13.6	20.4
To grow my business rapidly and profitably with a view to exit	68.3		70.6	70.8	63.8		69.4	67.8

To create a culture of employee engagement	84.7		83.5	86.6	83.0		82.4	85.7
To maximise the social or community value of the business	74.9		72.5	73.4	78.1		75.1	74.8
To build a sustainable business	86.7		92.2	86.7	83.3		93.1	83.9

We can also investigate how these business objectives are related to firms' pursuit or utilisation of finance prior to the survey. Table 3.2 shows the proportion of firms seeking or using different types of finance where various business objectives are regarded as either 'important' or 'very important'. A clear difference appears between the patterns for equity and other forms of finance. Equity use is considerably lower among firms aiming to 'keep my business similar to how it operates now' (34.3%) compared to all other objectives (50.7-57.8%). Use of other sources of finance, including government grants and bank loans, is much more evenly spread across ventures with different business objectives.

Table 3.2: Percentage of ventures seeking/using finance by type of business objectives (N=1,183)

	To build a national and/or international business	To keep my businesses similar to how it operates now	To grow my businesses rapidly and profitably with a view to exit	To create a culture of employee engagement	To maximise the social or community value of the business	To build a sustainable business	All
Commercial mortgage	3.9	5.6	4.7	4.6	4.7	4.4	4.8
Equity Finance	52.4	34.3	57.8	52.9	50.7	51.1	51.4
Factoring	9.1	8.3	11.0	10.5	10.2	9.5	9.5

Govt. Loans/Grants	65.3	57.9	66.9	65.2	66.1	67.1	65.3
Bank etc. Loans	36.1	35.2	37.2	37.2	36.9	36.9	36.1
Peer-to-peer loans	6.2	7.9	6.3	6.8	7.0	6.4	6.5
Supply chain/JV funding	7.0	7.9	6.3	7.6	8.1	7.2	7.1
None of these	14.7	21.8	12.0	14.0	14.1	14.1	14.4

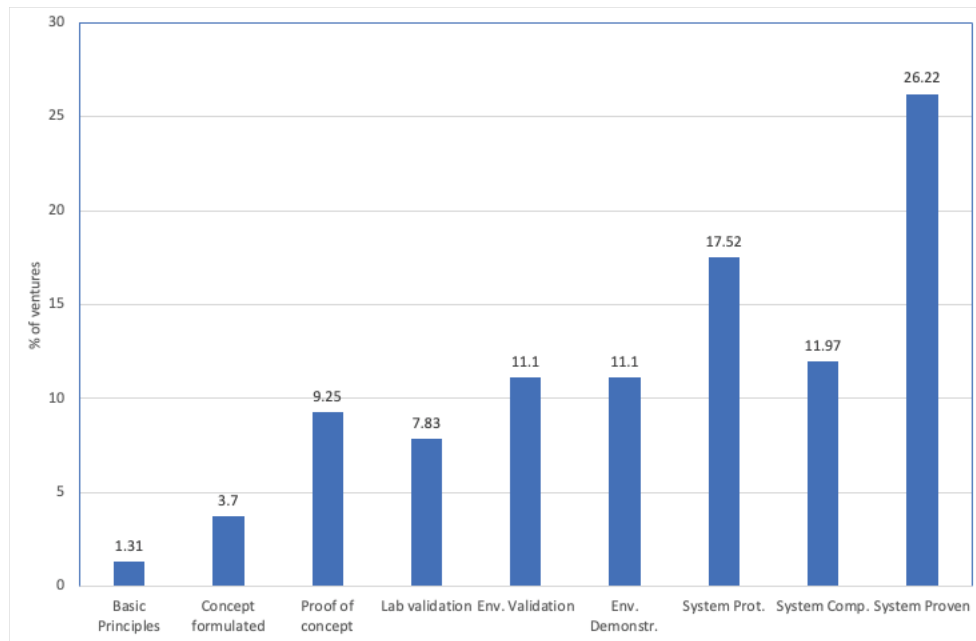
3.3 Technology readiness

Approximately 79% of respondents stated that their business focuses on developing and implementing new technology. For those who reported this, a simple question was asked regarding the stage of development their technology had reached (Figure 3.1). About one in four respondents had a proven system technology, with many still in the early stages of technological development.

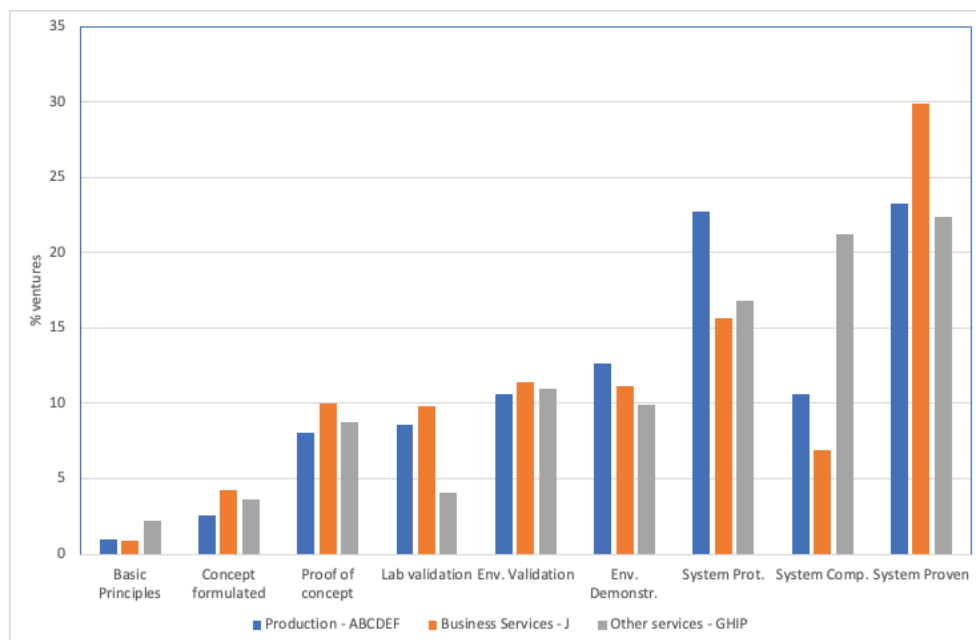
Profiles are similar across sectors (Figure 3.1c), but they differ significantly between pre-trading companies and those in the trading category (Figure 3.1c). A follow-up question about profitability is particularly interesting in relation to firms currently operating profitably (17.9%), with most firms across all categories expecting to become profitable within 1-2 years (Table 3.3). A notably higher proportion of pre-trading firms expect profitability to be more than three years away.

Figure 3.1: Technology readiness levels (N=919)

A. All respondents



B. By sector (N=919)



C. By stage (N=919)

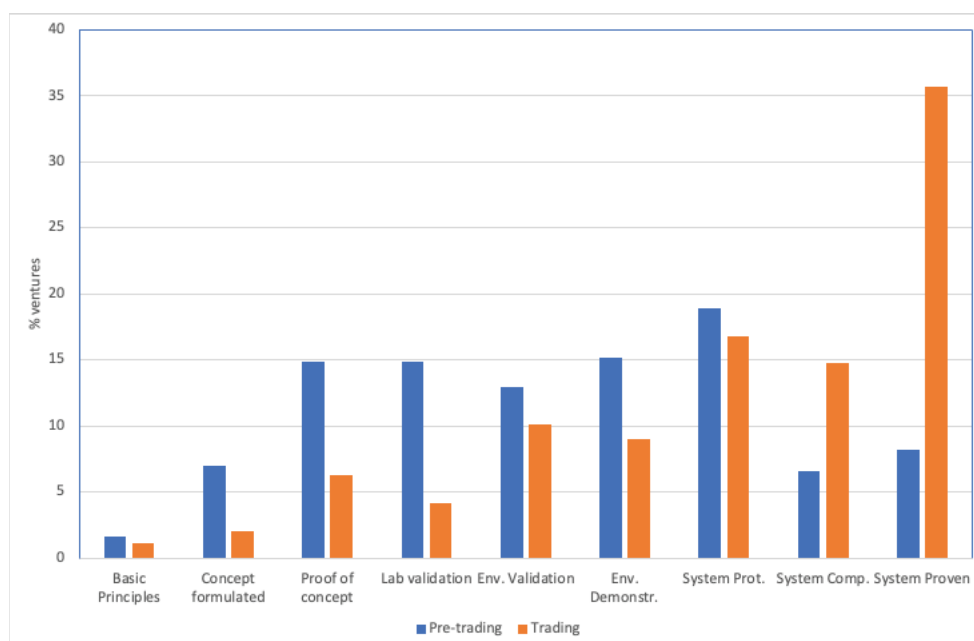
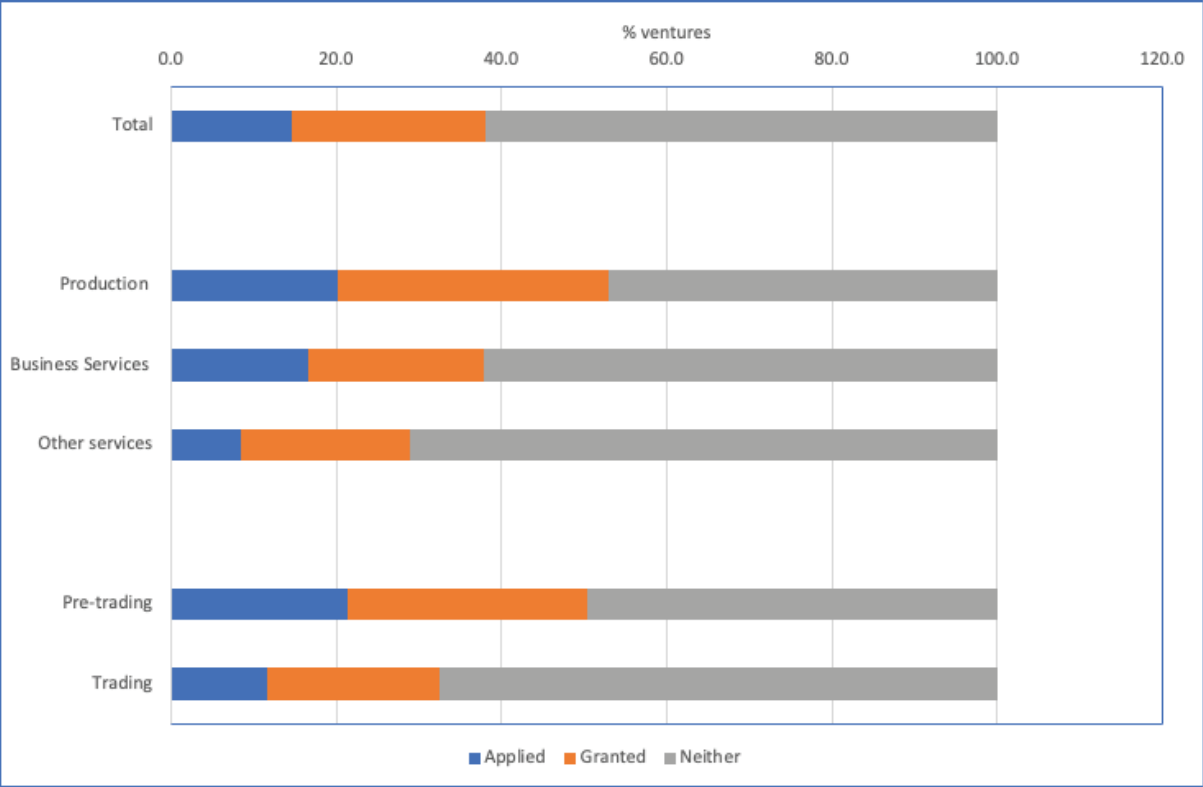


Table 3.3: Years to profitability (% ventures) (N=584)

	Years to profitability					
	Already profitable	1-2 years	3-5	6-9	10+ years	Total
Total	17.9	58.7	21.0	1.9	0.6	100.0
Production	17.4	62.1	18.5	1.0	1.0	100.0
Business Services	17.1	59.9	20.3	2.3	0.5	100.0
Other services	19.6	54.4	23.9	1.8	0.4	100.0
Pre-trading	1.9	65.8	26.6	4.4	1.3	100.0
Trading	26.4	54.9	18.0	0.5	0.2	100.0

Another aspect of technology that may be relevant to firms’ ability to access equity is their holding or application for patents (Figure 3.2).²² Around 38% of ventures had either applied for patents, had them granted, or both. This proportion was notably higher among product and pre-trading firms.

Figure 3.2: Patents applied for and granted (% ventures) (N=1,158)



3.4 Investment Readiness

This section examines certain aspects of the investment readiness of respondent ventures. One potentially significant factor is the level of financial expertise and experience within the business. Both may be linked to ventures’ ability to secure external funding, including equity.²³

In the survey, companies were asked whether they had a Chief Finance Officer (CFO) in the venture. Responses are summarised in Table 3.3. Overall, 61.3% of ventures had a CFO in the leadership team. This pattern was largely consistent across sectors and stages

²² Studies consistently demonstrate the role of patents in successfully signalling to access equity investment; O'Reilly & Mac an Bhaird (2024).

²³ BEIS (2017)

of development, although trading companies were marginally less likely to have a CFO (Table 3.4).

Table 3.4: Who deals with finance in the venture? (% ventures) (N=1175)

	Have CFO or another person with specific finance responsibility
Total	61.3
Production	60.2
Business Services	64.3
Other services	58.2
Pre-trading	68.4
Trading	58.1

Experience in raising equity finance can also be a key factor in investment readiness. As part of the survey, firms were asked, ‘do you or another member of your senior management team have experience of raising equity finance before the last year?’ Responses are summarised in Figure 3.3. Overall, 59.4% of respondents had experience of raising equity finance before the year of the survey, a figure that was higher among pre-trading firms and those in business services (Figure 3.3).

The survey also recognised that individuals might seek financial advice outside the firm, with around half (46.5%) of respondents indicating they sought external financial advice in the year prior to the survey, and a further 28.7% having sought external advice before the last year (Table 3.5). Pre-trading firms and those in the production sector were the most likely to have sought external financial advice in the previous year.

Figure 3.3: Firms had sought equity finance before the year in which the survey took place (% ventures) (N=1,182)

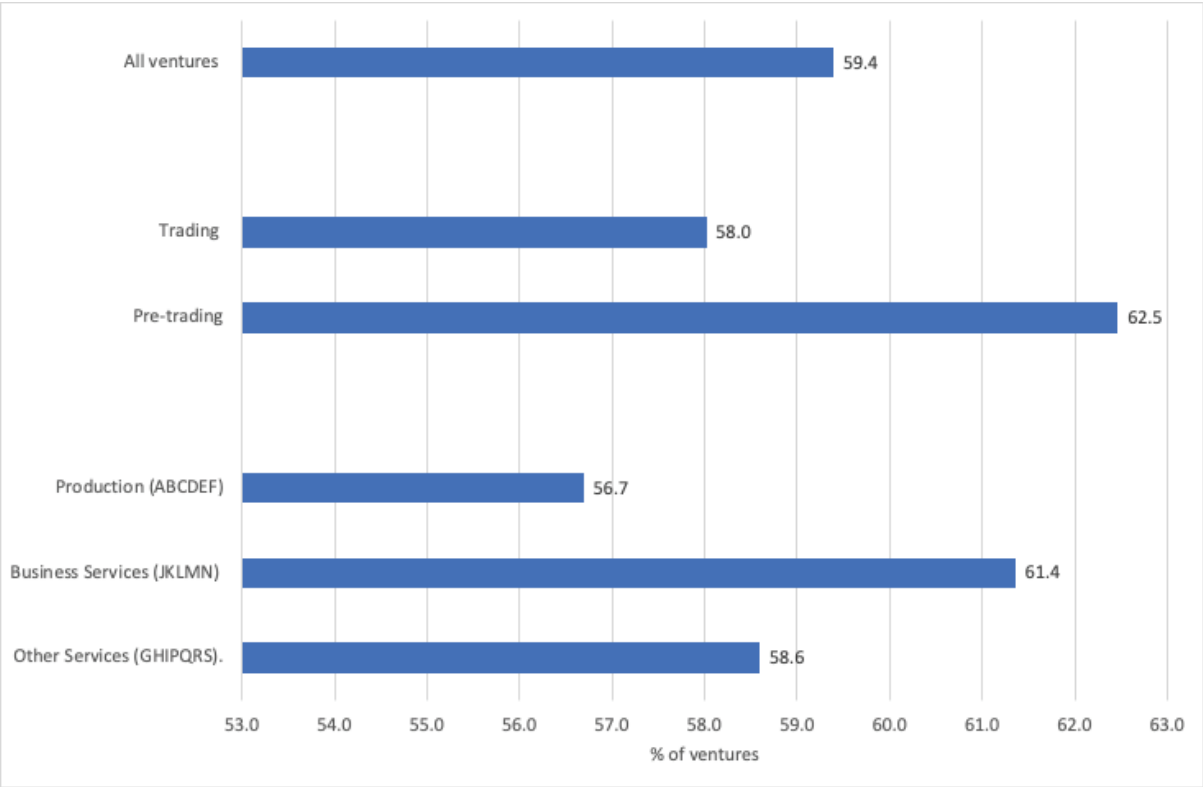


Table 3.5: Seeking external financial advice (N=1,182)

	Over the last year	More than a year ago	Never	Total
Total	46.5	28.7	24.8	100.0
Production	52.6	27.7	19.8	100.0
Business Services	48.4	26.4	25.2	100.0
Other services	40.4	32.1	27.5	100.0
Pre-trading	52.6	27.6	19.8	100.0
Trading	43.8	29.2	27.1	100.0

Firms seeking financial advice in the years before the survey were more likely to utilise most types of external finance (Table 3.6). This was true for equity as well as government loans, grants, and bank finance. The proportion of firms using commercial mortgages and factoring appears unrelated to whether or not firms sought financial advice.

Table 3.6: Use of external finance and external financial advice: all ventures (N=1,182) (% firms)

	Sought financial advice	Never sought advice	All
Commercial mortgage	4.4	5.8	4.8
Equity Finance	56.3	38.0	51.4
Factoring	9.3	9.6	9.5
Govt. Loans/Grants	67.2	59.6	65.3
Bank etc. Loans	38.3	30.8	36.1
Peer-to-peer loans	6.9	5.1	6.5
Supply chain/JV funding	7.8	5.1	7.1
None of these	11.9	22.3	14.4

Section 4: The Equity Finance Journey

4.1 Introduction

In this section, we examine ventures' journey towards equity finance. We analyse the role that equity plays in ventures' overall financial profiles, the choice between equity and alternative forms of finance, and the details of firms' progression towards equity. Towards the end of the section, we focus more specifically on the reasons provided by respondents when the search for equity fails and the business consequences of this outcome.

The section examines firms' experience in raising finance during the year before the survey. The survey was conducted in two phases - from March to June 2023 and from September 2024 to April 2025, a period marked by high levels of inflation, rising interest rates, and considerable international uncertainty. The survey results inevitably reflect this specific context, which may limit firms' willingness to invest and the willingness of financing organisations to provide capital.

4.2 Use of external finance before the survey – all ventures

Before considering firms' search for finance in the year prior to the survey, it is useful to understand whether ventures were using external finance 12 months before the survey and which types of finance were employed. Overall, about 55.5% of respondents (pre-trading and trading) were using external finance 12 months before the survey, a figure that was slightly lower among pre-trading firms (52.1%) (Figure 4.1).

Table 4.1 summarises the types of external finance used by ventures that sought external funding a year before the survey. Among the responding ventures, equity was the most common funding source, with 48.7% of firms choosing it. This proportion was quite similar across broad sectors and for both pre-trading and trading companies. Around a third of ventures used bank finance and Innovate UK loans/grants, while one in six also relied on credit cards and directors' loans for financing (Table 4.1). Among pre-revenue firms, the use of bank finance (overdrafts and loans) was about half that of the surveyed trading firms, indicating that traditional debt finance is less feasible when there is an insufficient trading track record.²⁴

²⁴ North et al (2013)

Figure 4.1: Using external finance, a year prior to the survey (% pre-trading and trading ventures) (N=1,187)

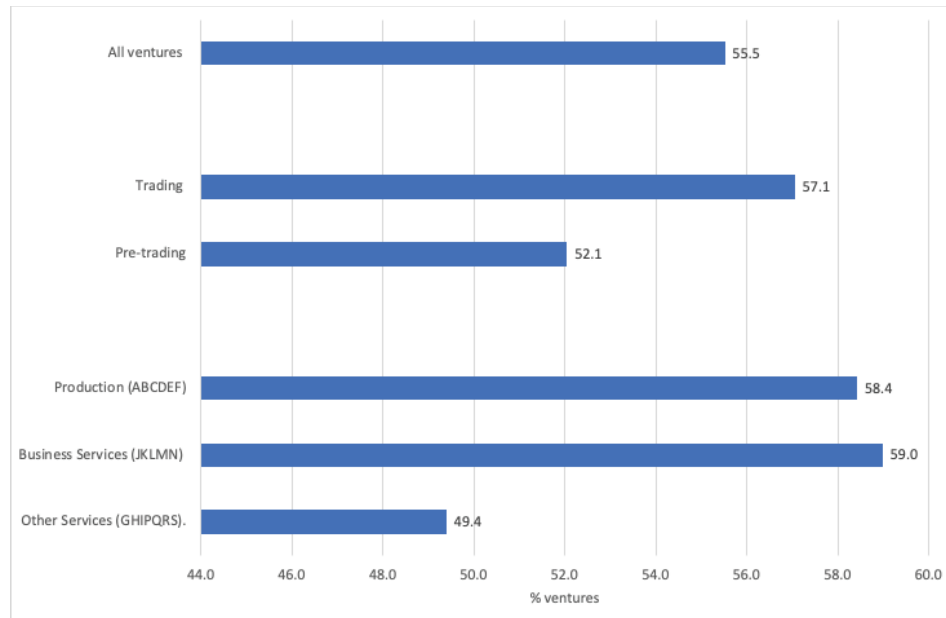


Table 4.1: Sources of finance 12 months prior to the survey (N=659)

	Total		Productio n	Busine ss Service s	Other Service s		Pre-tradin g	Tradin g
Bank overdraft facility	13.8		16.8	11.5	15.1		6.8	16.6
Commercial mortgage	1.7		2.0	0.7	2.9		1.1	1.9
Credit cards	17.5		20.8	16.1	17.1		12.6	19.4
Equity Finance	48.7		40.9	50.8	51.2		48.4	48.8
Factoring/invoice discounting	2.0		2.0	1.6	2.4		0.5	2.6
Leasing or hire purchase	5.9		8.1	4.3	6.8		0.0	8.3

Loan from a bank, building society or other financial institution	29.4		34.9	27.5	28.3		17.9	34.1
Loan from family/friend	8.3		8.7	8.2	8.3		6.8	9.0
Loan from business partner/directors/owner	19.6		19.5	21.6	16.6		16.8	20.7
Loan from a Peer-to-peer platform	2.7		2.7	2.6	2.9		0.5	3.6
Innovate UK grants or loans	30.2		28.2	33.4	26.8		40.0	26.2
Other government or local authority finance grants	23.7		27.5	24.3	20.0		24.2	23.5
Other finance	6.8		9.4	4.9	7.8		6.8	6.8

The proportion of ventures using different sources of external finance a year prior to the survey also varied based on the management characteristics of the venture. Generally, management traits influenced the use of equity and Innovate UK grants but had little effect on the proportion of ventures employing other forms of finance, including bank loans. Ventures with a board advisor or NED were significantly more likely to utilise equity but less likely to access Innovate UK grants (Table 4.2). Having a CFO or similar financial leader also increased the likelihood of using equity, while decreasing the chances of securing Innovate UK grants. The presence of a founder with leadership experience in other firms had a smaller impact on the types of finance used (Table 4.2).

Table 4.2: Sources of finance 12 months prior to the survey (N=659)

	Board advisor or NED		CFO or similar		Prior leadership or ownership	
	No	Yes	No	Yes	No	Yes
Bank overdraft facility	8.2	15.6	12.4	16.3	12.4	14.3
Commercial mortgage	0.5	1.5	1.0	2.7	0.5	2.2

Credit cards	15.0	18.3	16.8	19.0	18.6	17.2
Equity Finance	28.5	60.6	38.9	63.9	47.9	48.7
Factoring/invoice discounting	0.0	2.7	0.5	4.2	2.1	2.0
Leasing or hire purchase	1.9	6.4	4.1	8.7	4.6	6.5
Loan from a bank, building society or other financial institution	29.5	29.0	29.6	29.7	24.2	31.7
Loan from family/friend	9.7	7.9	8.0	9.1	10.3	7.6
Loan from business partner/directors/owner	19.8	20.0	19.3	19.4	19.1	20.0
Loan from a Peer-to-peer platform	1.4	3.7	2.1	3.8	4.6	2.0
Innovate UK grants or loans	35.7	28.5	33.2	26.2	32.0	29.8
Other government or local authority finance grants	23.2	24.0	24.7	21.3	29.4	21.5
Other finance	5.3	7.4	4.6	9.5	7.7	6.5

4.3 Seeking external finance – all ventures

Among respondent ventures, 53.9% had not sought external finance in the year before the survey (Table 4.3). Of the 46.1% of firms that sought finance, most approached funders multiple times. Firms in the production sector were notably less likely to seek external finance during this period compared to firms in other sectors. However, when production firms did seek external finance, they were more likely to approach funders five times or more than any other group.

This may be linked to the difficult financing environment faced by these companies or the relatively large size of their capital needs. Pre-trading ventures were more likely to seek external funding (49.6%) and to approach funders five or more times than their trading counterparts (Table 4.3). Multiple funding applications within the same year indicate longer periods of searching for venture funding, underfunding, and slower company progress.

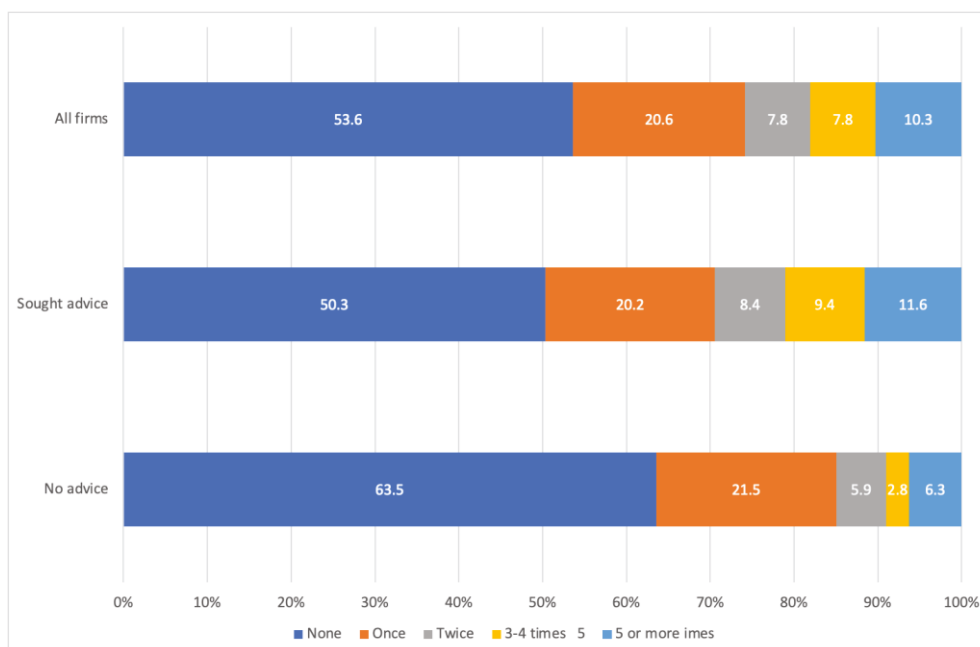
Previous studies suggest that this can be especially problematic for capital-heavy prototype pilot development in pre-trading production firms.

Table 4.3: How many times did you seek external finance in the last year? (% ventures) (N=1,170)

	None	Once	Twice	3-4 times	5 or more times	Total
Total	53.9	20.4	7.7	7.7	10.3	100.0
Production – ABCDEF	42.5	25.2	5.9	10.2	16.1	100.0
Business Services – J	55.8	19.9	8.5	7.1	8.7	100.0
Other services – GHIP	58.7	18.1	7.8	6.9	8.6	100.0
Pre-trading	50.4	19.2	6.7	9.5	14.2	100.0
Trading	55.5	21.0	8.1	6.9	8.5	100.0

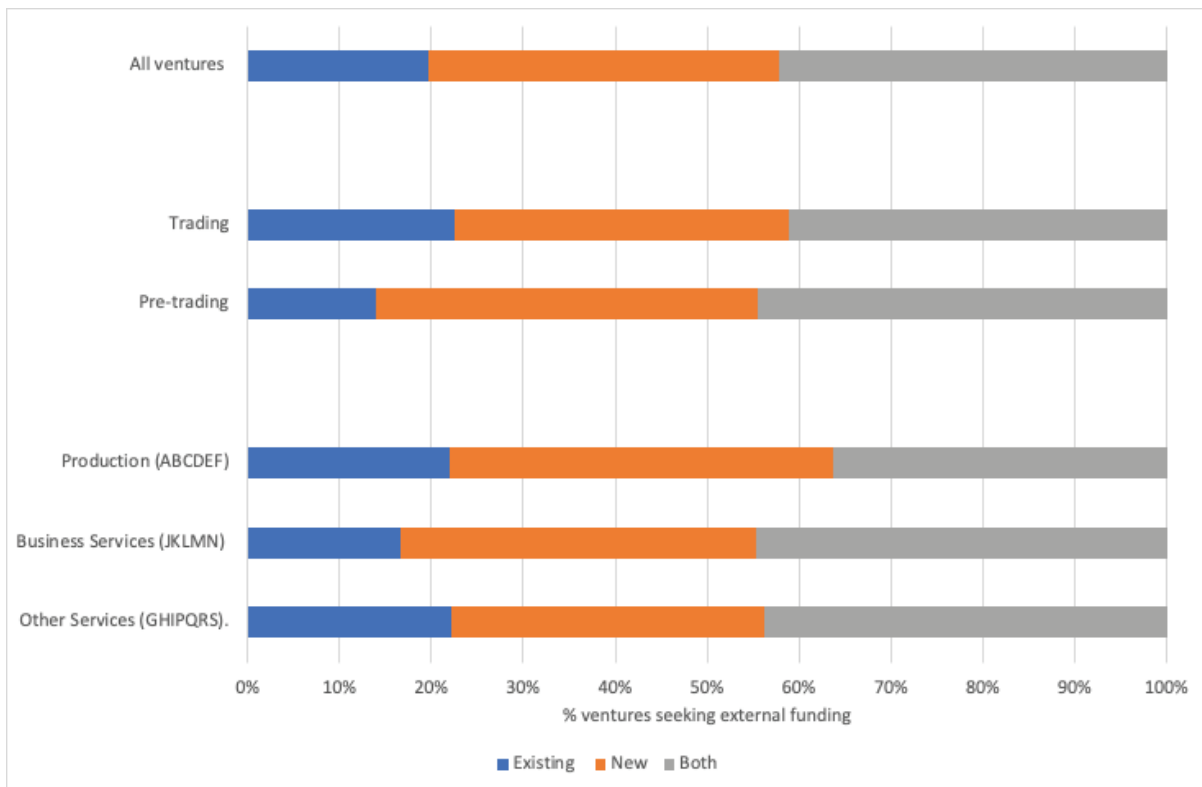
There is a connection between seeking external advice on finance and the extent to which ventures search for external finance (Figure 4.2). Firms that sought advice were more likely to seek external finance (63.5% compared to 50.3%) and to pursue finance more actively. For example, 11.6% of firms seeking advice looked for finance from five or more providers, compared to 6.3% of ventures that did not seek advice (Figure 4.2).

Figure 4.2: External financial advice and the number of times ventures sought external finance (% ventures) (N=1,170)



Where ventures sought funding, the majority aimed to diversify their sources, with only about one-fifth of those seeking financing approaching existing providers alone. The remaining ventures either approached new funders or used a mix of both new and existing finance providers (Figure 4.3). Pre-trading firms and those in Business Services were more likely to diversify their sources of funding (Figure 4.3).

Figure 4.3: Who did you approach for funding? New or existing providers (% ventures) (N=502)



Among those respondents seeking finance, 62.2% had sought equity in the past year, with more than 43.7% also pursuing Innovate UK grant support (Table 4.3). About one in four ventures had applied for bank loans or debt finance, a figure notably lower among pre-trading ventures (Table 4.4).

**Table 4.4: What types of finance have you sought? (% those seeking finance)
(N=547)**

	Total		Production	Business Services	Other Services		Pre- trading	Trading
Bank overdraft facility	19.7		21.2	14.8	25.0		14.9	22.1
Commercial mortgage	1.5		2.1	0.4	2.3		0.0	2.2
Credit cards	13.7		15.1	11.8	15.1		11.0	15.0
Equity Finance	62.2		60.3	63.8	61.6		69.1	58.7
Factoring/invoice discounting	5.1		5.5	4.4	5.8		1.1	7.1
Leasing or hire purchase	6.0		8.2	3.5	7.6		1.1	8.5
Loan from a bank, building society or other financial institution	25.2		28.1	22.7	26.2		18.8	28.4
Loan from family/friend	14.6		17.8	14.0	12.8		13.3	15.3
Loan from business partner/directors/owner	18.6		17.1	21.8	15.7		16.0	19.9
Loan from a Peer-to-peer platform	4.6		8.2	3.5	2.9		3.3	5.2
Innovate UK grants or loans	43.7		43.8	49.8	35.5		54.1	38.5
Other government or local authority finance grants	25.2		24.0	26.6	24.4		31.5	22.1
Other finance	10.2		10.3	11.4	8.7		15.5	7.7

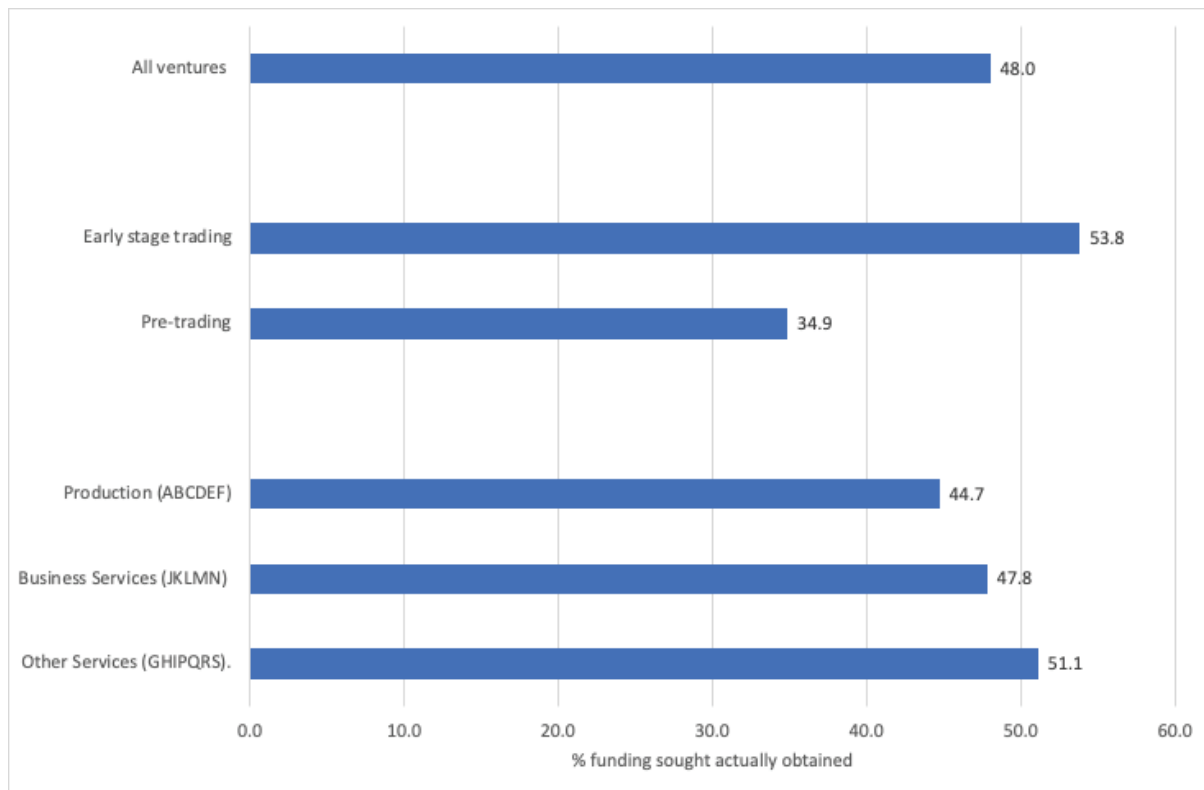
Ventures with a Board Advisor or NED, CFO, or similar leadership team member, as well as those with a founder who has prior leadership experience, were more likely to seek external finance of nearly all types (Table 4.5). 69.7% of firms seeking external finance pursued equity when a Board Advisor or NED was present. This proportion declined to 52.8% when neither position was held within a venture.

Table 4.5: Sources of finance 12 months prior to the survey (N=659)

	Board advisor or NED		CFO or similar		Prior leadership or ownership	
	No	Yes	No	Yes	No	Yes
Bank overdraft facility	13.5	20.0	17.5	22.6	21.4	19.1
Commercial mortgage	0.6	1.5	1.6	1.3	0.7	1.7
Credit cards	11.0	15.6	13.3	14.5	15.7	13.1
Equity Finance	52.8	69.7	59.7	66.2	56.4	64.1
Factoring/invoice discounting	3.1	5.0	4.2	6.0	7.9	4.2
Leasing or hire purchase	3.1	6.2	4.9	7.7	8.6	5.2
Loan from a bank, building society or other financial institution	28.8	23.2	26.0	24.8	25.0	25.5
Loan from family/friend	16.6	13.2	15.9	12.8	12.1	15.6
Loan from business partner/directors/owner	16.0	20.9	18.2	19.2	17.1	19.3
Loan from a Peer-to-peer platform	5.5	4.1	4.5	4.7	5.7	4.2
Innovate UK grants or loans	52.1	41.2	47.7	38.9	37.1	46.0
Other government or local authority finance grants	31.9	23.2	30.5	18.4	25.7	25.0
Other finance	9.8	10.3	7.1	14.5	7.9	11.1

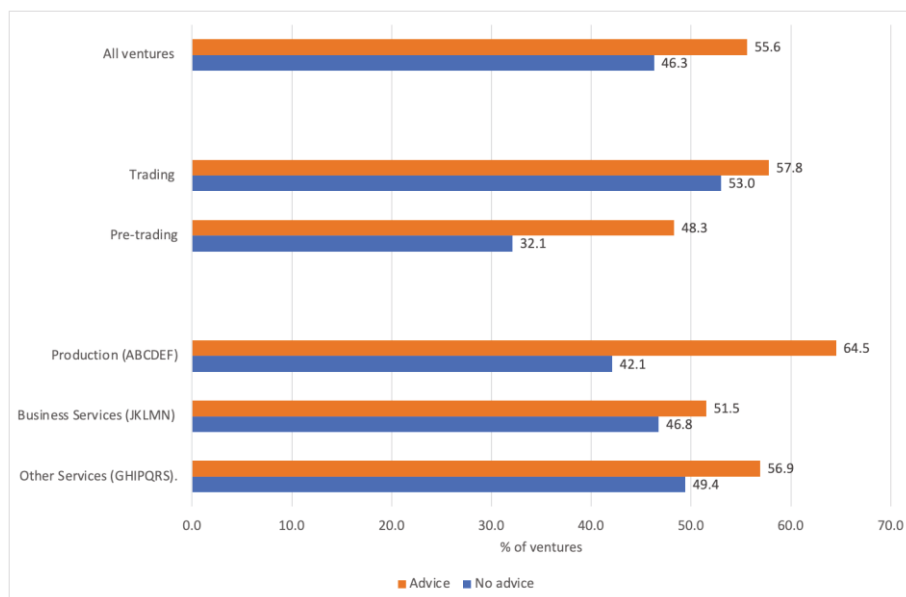
On average, ventures secured 48.0% of the funding they aimed for in the year before the survey (Figure 4.4). Generally, funding success was lower for pre-trading firms (34.9%) than for trading ventures (53.8%) (Figure 4.4).

Figure 4.4: Funding success: % funding sought actually obtained (N=428)



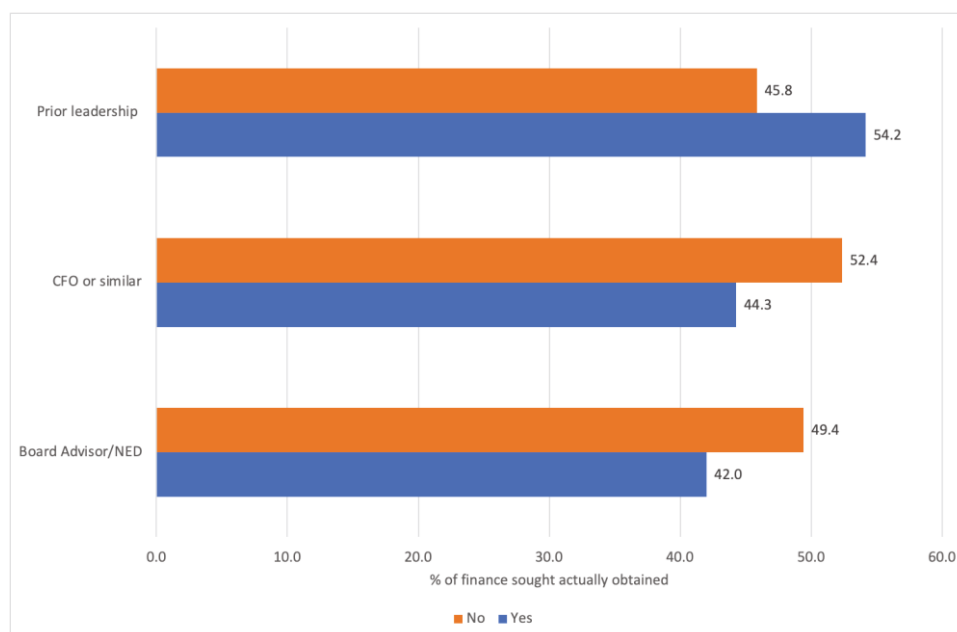
One factor that may influence the success of ventures in securing funding is whether they have previously sought financial advice. Figure 4.5 compares the funding success of ventures in each group that sought advice with those that did not before the survey. In each group, funding success is significantly higher for firms that have taken advice. This appears to be especially important for pre-trading ventures. Without advice, these firms secured 32.1% of the funding they sought. With advice, this figure increased to 48.3%.

Figure 4.5: Funding success by external advice: % funding sought actually obtained (N=428)



The link between funding success and ventures' management traits is not entirely clear. Funding success is positively linked to previous leadership experience, but it tends to be lower when ventures have a CFO, Board Advisor, or NED (Figure 4.6).

Figure 4.6: Funding success by management characteristics: % funding sought actually obtained (N=428)



4.4 Seeking equity finance- all ventures

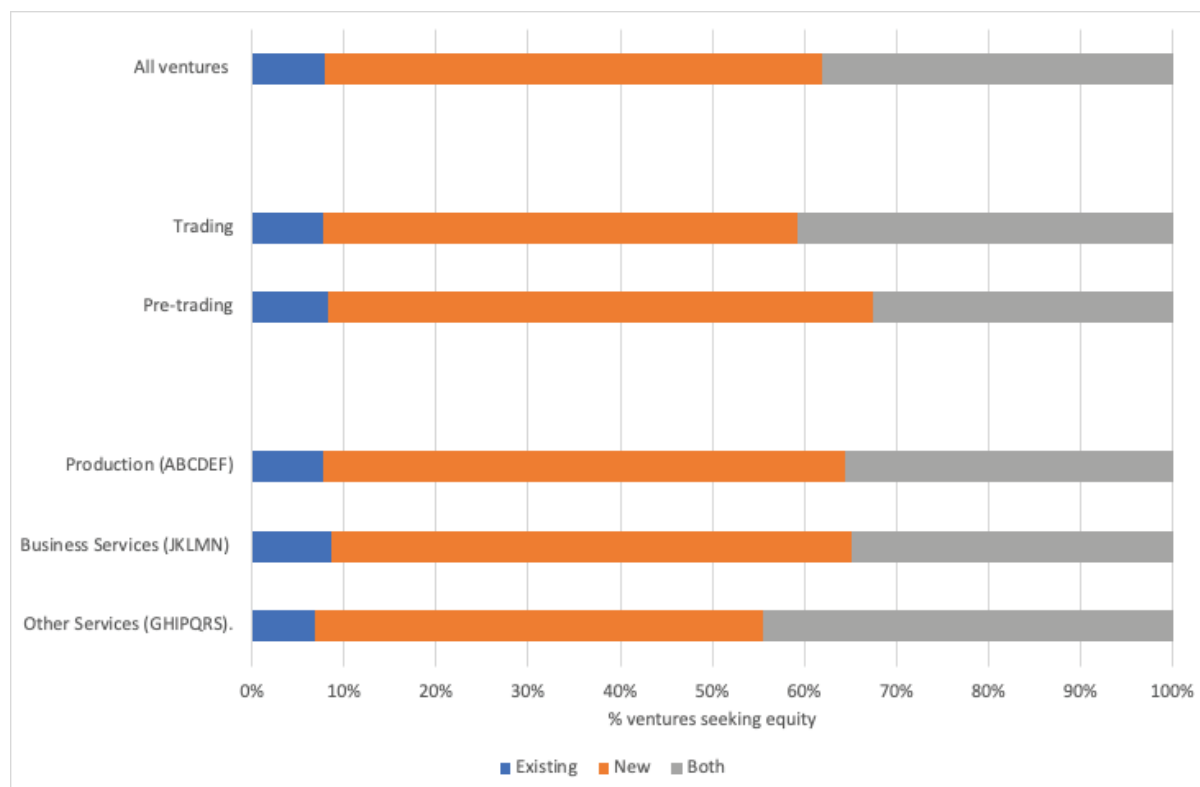
The survey targeted firms interested in equity finance. Unsurprisingly, 49.5% of firms across both pre-trading and trading stages sought equity finance in the year before the survey (590 firms). This percentage was slightly higher among pre-trading ventures (54.7%, 201 firms) than among trading ventures (47.1%, 389 firms). Ventures that reported seeking equity finance were asked how many potential equity finance providers they had approached in the past year (Table 4.6). The most common response was '5 or more' equity finance providers. This pattern, which shows the repeated efforts of ventures to find equity finance, was consistent across sectors and stages of development (Table 4.6).

The pursuit of equity finance also involved a wider range of new funders compared to the overall search for finance. In total, only about 7.9% of ventures seeking equity finance aimed to secure new funding solely from their existing funders; the remainder either approached only new funders (54.1%) or used a combination of new and existing funders (38.1%). This contrasts sharply with the broader search for external finance, where existing funders played a much more prominent role, as shown by the comparison of Figures 4.7 and 4.2. This aligns with previous studies, which find that the journey to secure funding, especially for pre-trading ventures, is often lengthy and complex, involving the assembly of blended finance (grants and equity) and multiple investor syndicates into funding rounds.

Table 4.6: How many equity finance providers did you approach over the last year (% ventures seeking equity finance) (N=563)

	One	2-3	4-5	5 or more	Total
Total	15.6	20.3	12.1	52.0	100.0
Production - ABCDEF	21.6	17.3	10.1	51.1	100.0
Business Services - J	13.6	19.6	12.4	54.4	100.0
Other services - GHIP	13.8	23.6	13.2	49.4	100.0
Pre-trading	15.2	18.3	17.3	49.2	100.0
Trading	15.9	21.2	9.4	53.5	100.0

Figure 4.7: Who did you approach in your search for equity finance? New or existing providers (% ventures) (N=573)



The most common equity finance providers approached were business angels or angel networks (58.3%) and venture capital funds (53.1%). Smaller proportions of ventures sought private equity firms (29.8%) and other types of private and public/government providers (Table 4.7). Again, these proportions were broadly similar across sectors and stages of business development, although the use of accelerators and incubators was notably more prevalent among pre-trading (20.9%) than trading (12.6%) ventures, demonstrating their important role in early-stage venture investment readiness.²⁵ Government equity funding also plays an important role, particularly in pre-trading, through, for example, the Enterprise Capital Funds programme. Overall, our findings accord with current British Business Bank reports, which indicate that it supports 15% of the market.²⁶ Among those ventures which applied for equity finance, management characteristics appear only weakly linked to the type of equity finance providers they approached (Table 4.8).

²⁵ [Pierrakis & Owen \(2022\)](#)

²⁶ British Business Bank (2024). See also

Table 4.7: What types of equity finance providers did you approach? (N=590)

	Total		Productio n	Busines s Service s	Other Service s		Pre- trading	Tradin g
Business angel or angel network	58.3		54.5	58.1	61.7		60.2	57.3
Private equity firm	29.8		35.9	25.7	31.1		30.8	29.3
Venture capital fund	53.1		48.3	57.4	50.6		53.7	52.7
Public or government equity investor	16.6		16.6	15.1	18.9		19.4	15.2
Equity crowd funding	11.9		14.5	10.2	12.2		11.4	12.1
Accelerator, incubator	15.4		17.2	13.6	16.7		20.9	12.6

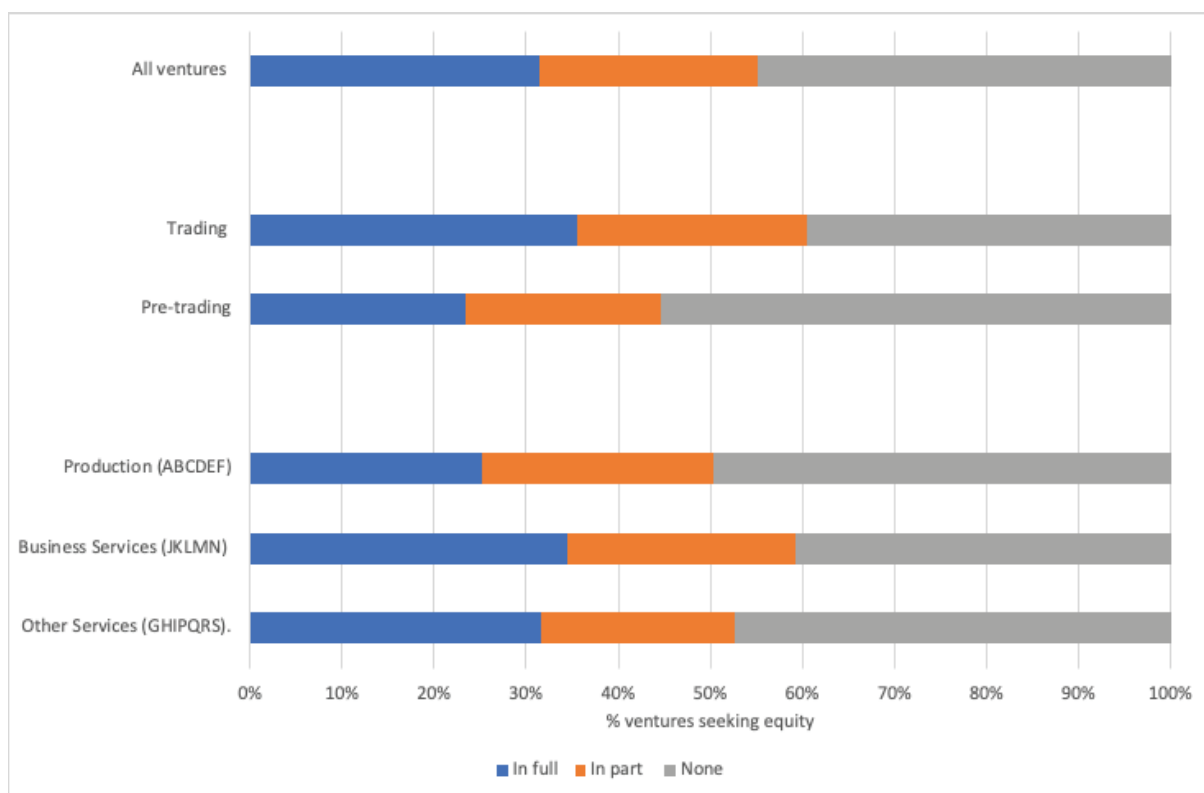
Note: Figures do not add to 100 as ventures often approach more than one type of equity provider.

Table 4.8: What types of equity finance providers did you approach? By management characteristics (N=590)

	Board advisor or NED		CFO or similar		Prior leadership or ownership	
	No	Yes	No	Yes	No	Yes
Business angel or angel network	59.7	59.2	58.5	58.7	57.0	58.9
Private equity firm	25.7	30.4	30.2	29.2	30.3	30.0
Venture capital fund	52.8	55.4	52.8	53.7	53.5	53.0
Public or government equity investor	11.8	17.9	16.6	17.1	15.5	17.2
Equity crowd funding	9.0	12.5	11.3	12.5	11.3	12.2
Accelerator, incubator	19.4	13.3	16.6	14.6	16.9	15.1

Where ventures sought equity finance, just under one-third (31.3%) secured all the finance they aimed for, while an additional 23.8% obtained some of the equity they requested. Around 44.9% of ventures seeking equity finance were unsuccessful in securing any funding. Success rates were below average among pre-trading businesses, which had the highest funding failure rate (55.4%) of all types of firms (Figure 4.8). These findings support qualitative studies, showing that pre-trading ventures often struggle to bridge the gap between proving their concept and becoming sufficiently investment-ready for angels and seed VCs.

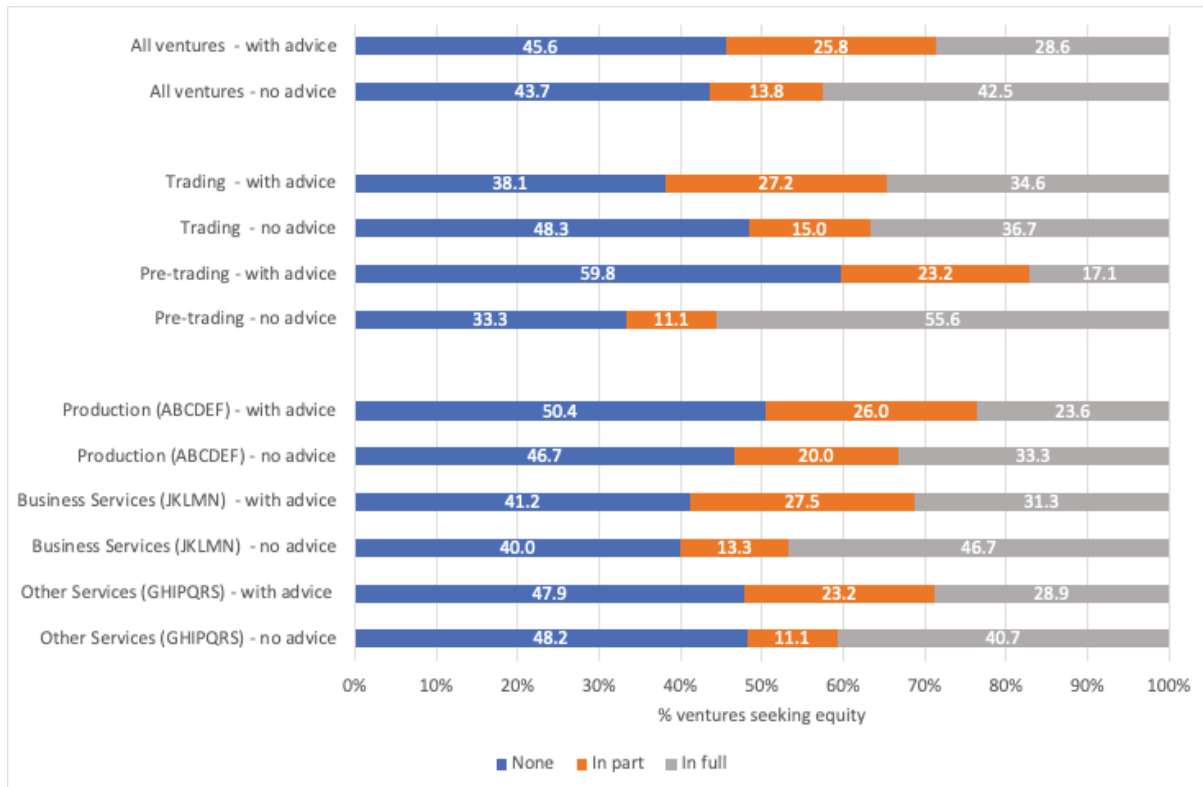
Figure 4.8: Full or partial success in seeking equity finance? (% ventures seeking equity) (N=568)



How did ventures' prior experience with external financial advice influence their success in securing equity finance? Figure 4.9 compares the equity success profiles of ventures that received previous advice with those that did not. Overall, advice has little effect on whether ventures obtain equity finance, but it does reduce the proportion of ventures that secure all the equity finance they aimed for from 42.5% to 28.6%. This impact is mainly due to the experience of pre-trading ventures, where the success rates of firms receiving advice were significantly lower than those that sought no advice. It may be that firms receiving advice were encouraged to be overly ambitious in their pursuit of equity finance, particularly during the early pre-trading stage.

Figure 4.9: Full or partial success in seeking equity finance and external financial advice

(% ventures seeking equity finance) (N=568)

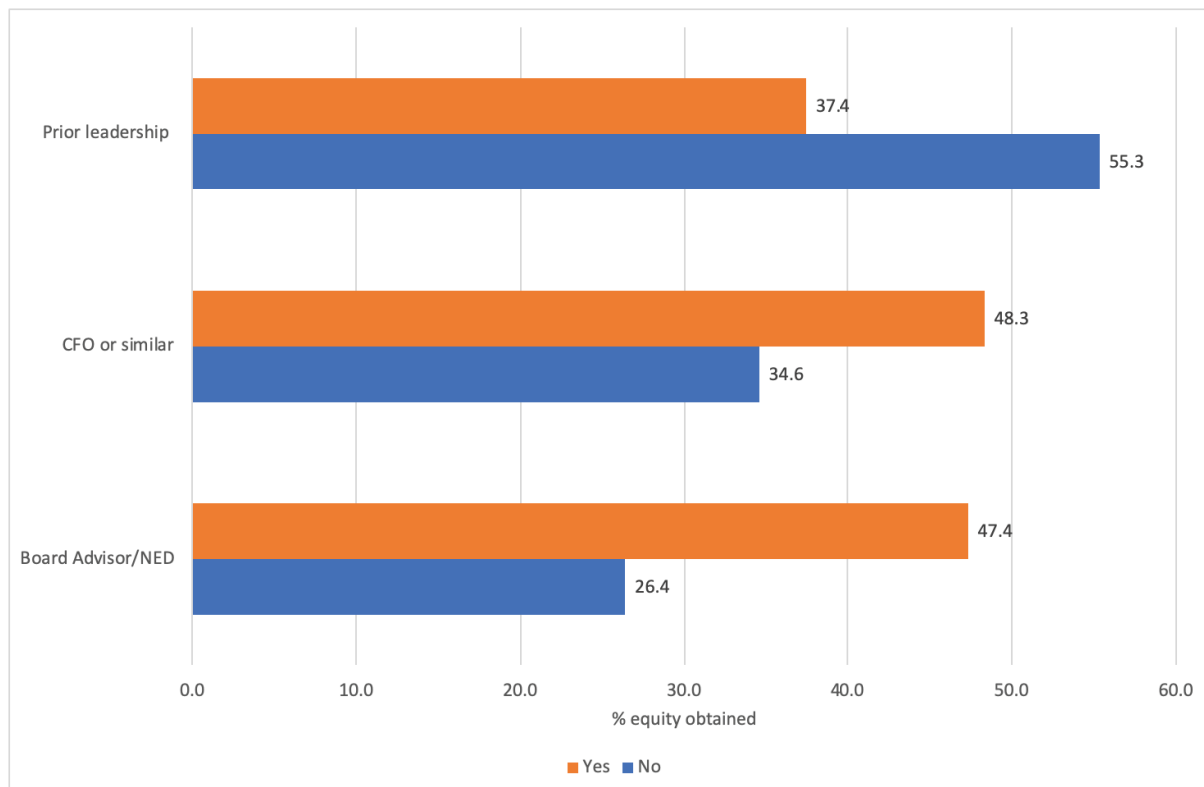


As part of the survey, firms were also asked about the value of equity finance they sought and the proportion of that equity finance they obtained. Across the entire group of respondents who sought equity finance, including those who were unsuccessful, firms obtained 13.3% of the value of the equity finance they sought. Among those firms which secured some or all of the equity finance they aimed for, they obtained 43.6% of the sought value. It is important to recognise from other studies that even when ventures succeed in securing equity finance, it often comes in the form of a slow drip-feed, leading to gradual progress along the financing ladder.

The proportion of equity finance obtained varied significantly with the venture's management characteristics (Figure 4.10). Having a CFO or similar role increased the equity share from 34.6% to 48.3%. Similarly, having a Board Advisor or NED raised the equity share from 26.4% to 47.4% (Figure 4.10). Interestingly, prior leadership experience is linked to a lower level of equity success. This may be due to a higher proportion of former business leaders involved in pre-trading (35.2%) rather than early-stage trading (28.7%) ventures.

Figure 4.10: Success in seeking equity finance and management characteristics where firms got some or all of the equity finance required

(% equity finance obtained) (N=568)



4.5 Stages in the equity finance journey

This section examines ventures seeking equity finance in the year before the survey. To gain a clearer understanding of the challenges these firms face, we asked a series of questions about their equity finance journey. Initially, ventures were asked whether they obtained all, some, or none of the equity finance they sought. When ventures received less than the full amount of equity finance requested, they were asked at which stage of the application process their application had been rejected. Specifically, ventures were asked: 'Thinking about the situation where you got closest to obtaining equity funding, at what point was the application rejected or the discussion ended?' Combining responses to these questions provides an overview of the entire equity finance journey.

4.5.1 All ventures

Responses for all ventures are summarised in Table 4.9. Rejection is most common during multiple presentations with investors. Of these ventures that applied for equity finance

(which is around half of the total sample interviewed), 30.2% were successful. Although an additional 13.8% of applicants received an offer of equity at some level, most of this additional group (9.0% of applicants) were only offered a partial amount of finance, whilst 4.8% of applicants rejected the equity finance offer they had received.

Table 4.9: At what stage were equity finance applications rejected? –% of ventures applying for equity finance (N=589)

Obtained all of the equity finance they sought	30.2
Where some or no equity finance was obtained:	
At the stage of initial contact – never heard back after sending slide pack	7.4
After the stage of e-mail correspondence – never heard back after initial e-mail correspondence following slide pack	4.2
After the stage of initial telephone contact – never heard back after various telephone conversation(s)	1.9
After the stage of initial presentation of slide deck – never heard back after attending first meeting with potential investors	8.0
After the stage of multiple presentations/ meetings with the same investor(s) – discussions never progressed further than this.	13.4
After due diligence stage involving accountants and solicitors had started – discussions didn't progress to deal stage	4.5
At negotiation stage the funder offered part or staged funding	9.0
Received an offer but the terms and conditions were unacceptable	4.8
Don't know	16.7
Total	100.0

4.5.2 Business advice and the equity finance journey

Seeking business advice is closely linked to seeking equity finance. 31.5% of ventures not seeking advice pursued equity finance in the year before the survey, compared to 55.6% of ventures that did seek advice. Among firms seeking advice, 27.8% of ventures obtained

all the equity finance they aimed for, versus 39.8% among ventures not seeking advice (Table 4.10). There is little evidence of a consistent connection between taking advice and the likelihood of ventures being rejected during the initial or later stages of their process (Table 4.10).

Ventures that received advice were more likely to consider staged offers or to find any offers unacceptable (15.0% versus 8.3%), but they were significantly more inclined to reject offers of equity finance they received (5.4 versus 2.1%).

Table 4.10: At what stage were equity finance applications rejected with and without financial advice? –% of ventures applying for equity finance (N=583)

	No Advice	With Advice
Obtained all of the equity finance they sought	39.8	27.8
Where some or no equity finance was obtained:		
At the stage of initial contact – never heard back after sending slide pack	6.2	7.7
After the stage of e-mail correspondence – never heard back after initial e-mail correspondence following slide pack	2.1	4.6
After the stage of initial telephone contact – never heard back after various telephone conversation(s)	2.1	1.9
After the stage of initial presentation of slide deck – never heard back after attending first meeting with potential investors	10.3	7.7
After the stage of multiple presentations/ meetings with the same investor(s) – discussions never progressed further than this.	12.4	13.8
After due diligence stage involving accountants and solicitors had started – discussions didn't progress to deal stage	4.1	4.6
At negotiation stage the funder offered part or staged funding	6.2	9.6

Received an offer but the terms and conditions were unacceptable	2.1	5.4
Don't know	14.7	17.0
Total		

4.5.3 Management characteristics and the equity finance journey

Ventures' management capabilities and characteristics are closely linked to seeking equity finance. When a venture has a NED or Board Advisor, 57.5% seek equity finance compared to 37.2% where neither is present. Ventures with a CFO are also significantly more likely to seek equity finance (61.5%) than those without (41.8%). Prior leadership experience also raises the likelihood of ventures seeking equity finance (54.0 vs. 38.9%).

The proportion of equity finance obtained varied significantly with the venture's management characteristics (Figure 4.10). Having a CFO or similar role increased the equity share from 34.6% to 48.3%. Likewise, having a Board Advisor or NED raised the proportion of equity finance obtained from 26.4% to 47.4% (Figure 4.10).

Considering the relatively small sample size here, it is also interesting to examine how the stage at which ventures' equity finance application was rejected relates to management characteristics (Table 4.11). Having a Board Advisor or NED and a CFO decreases the likelihood of early rejection but increases the potential for a venture to reject an offer of equity if one is received (Table 4.11).

Table 4.11: At what stage were equity finance applications rejected by management characteristics% of ventures applying for equity finance (N=584)

	Board advisor or NED		CFO or similar		Prior leadership or ownership	
	No	Yes	No	Yes	No	Yes
Obtained all of the equity finance they sought	19.4	34.0	24.3	35.7	40.8	26.9

Where some or no equity finance was obtained:						
At the stage of initial contact – never heard back after sending slide pack	5.5	7.0	6.8	7.4	5.7	8.1
After the stage of e-mail correspondence – never heard back after initial e-mail correspondence following slide pack	8.2	2.5	4.1	4.3	3.4	4.5
After the stage of initial telephone contact – never heard back after various telephone conversation(s)	5.5	1.7	3.4	0.6	2.3	1.8
After the stage of initial presentation of slide deck – never heard back after attending first meeting with potential investors	13.6	7.4	10.9	5.6	5.7	9.0
After the stage of multiple presentations/ meetings with the same investor(s) – discussions never progressed further than this.	10.9	14.5	15.0	12.4	11.5	13.9
After due diligence stage involving accountants and solicitors had started – discussions didn't progress to deal stage	5.5	4.1	2.7	5.6	2.3	5.4
At negotiation stage the funder offered part or staged funding	10.9	7.4	8.2	9.9	6.9	9.4
Received an offer but the terms and conditions were unacceptable	0.0	5.4	4.1	5.6	2.3	5.8
Don't know	20.5	16.0	20.6	13.0	18.9	15.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

4.5.4 The equity finance journey – gender and ethnicity of management

In this section, we examine the equity journey of ventures based on the background of their leadership team. In the survey, we asked 'how many people are involved in the day-to-day leadership of your business?'. Subsequent questions inquired how many members of the leadership team were women and from ethnic minority groups. We use this data to

create two simple binary variables for woman-led and ethnic minority-led businesses, where more than 50% of the leadership team was women or from ethnic minority groups.

Where ventures were led by women, they were less likely to seek equity finance (43.1%) compared to male-led ventures (53.1%). Male-led ventures were also more likely to secure all the equity finance they aimed for (32.1% versus 26.3%). Leadership ethnicity had a similar effect on the likelihood of seeking equity finance, with 46.9% of ethnic minority-led firms pursuing such finance compared to 50.4% of other firms. Ethnic minority-led firms were less likely to secure all the finance they sought (23.8% versus 32.8%) (Table 4.12).

Where ventures received none or some of the equity finance they sought, at what stage of the process was their application rejected (Table 4.12)? For both women-led and ethnic-minority-led ventures, rejection was more likely to occur in the very early stages of the application process—initial contact or the first email exchange. Male-led and non-ethnic-minority-led firms tended to progress further in the application process before facing rejection or receiving a partial offer (Table 4.12).

Table 4.12: At what stage were equity finance applications rejected by leadership characteristics: % of ventures applying for equity finance (N=589)

	Male-led	Woman-led	Non Ethnic Minority-led	Ethnic Minority-led
Obtained all of the equity finance they sought	32.1	26.3	32.8	23.8
Where some or no equity finance was obtained:				
At the stage of initial contact – never heard back after sending slide pack	7.0	7.9	4.8	12.7
After the stage of e-mail correspondence – never heard back after initial e-mail correspondence following slide pack	2.5	7.1	2.4	7.8
After the stage of initial telephone contact – never	2.5	0.9	2.4	1.0

heard back after various telephone conversation(s)				
After the stage of initial presentation of slide deck – never heard back after attending first meeting with potential investors	10.6	3.5	9.6	4.9
After the stage of multiple presentations/ meetings with the same investor(s) – discussions never progressed further than this.	13.1	14.1	12.9	14.7
After due diligence stage involving accountants and solicitors had started – discussions didn't progress to deal stage	4.5	4.4	4.3	4.9
At negotiation stage the funder offered part or staged funding	7.5	11.5	9.1	8.8
Received an offer but the terms and conditions were unacceptable	5.0	4.4	5.3	3.9
Don't know	15.1	19.9	16.5	17.5
Total	100.0	100.0	100.0	100.0

The combined effect of these differences in application rates for equity finance and rejection patterns meant that overall woman-led ventures received 37.4% of the equity finance they sought, compared to 43.6% for male-led firms. A similar pattern was evident for ethnic minority-led firms (37.8 vs. 43.1%) in terms of the equity finance they obtained.

4.5.5 Equity finance differences by age of trading ventures

Trading ventures among the respondents currently involved in trading vary considerably. In this section, we compare the differences in experiences of seeking and securing equity for ventures that started trading in the last five years with those that began before 2020. Early-stage ventures were more likely to have had a founder involved in owning or leading

a business previously (74.6%), compared to later-stage trading ventures (63.4%). However, later-stage trading ventures were more likely to have a CFO or similar position (45.1%) than early-stage ventures (39.4%). There was little difference between the groups in the proportion of ventures seeking external advice on finance (72.3-73.3%). Older trading ventures in the sample were less likely to have sought equity finance (47.4% applied to at least one provider in the previous 12 month) compared to early-stage trading ventures (72.4% of whom applied to at least one provider in the previous 12 month).

There was a broad similarity in the types of equity providers sought by early-stage and more mature trading ventures (Table 4.13). Early-stage trading ventures were more likely to approach venture capitalists, crowdfunding platforms, or incubators and accelerators.

Table 4.13: What types of equity finance providers did you approach? Trading ventures by years of trading (N=370)

	Trading for more than 5 years	Trading for less than 5 years
Business angel or angel network	55.2	59.7
Private equity firm	30.5	29.6
Venture capital fund	48.1	58.3
Public or government equity investor	15.6	15.7
Equity crowd funding	9.7	13.9
Accelerator, incubator	7.8	16.2

Note: Figures do not total 100 as ventures could approach more than one type of equity provider.

More established trading ventures, on average, were more successful in securing the equity finance they aimed for (Table 4.14). When ventures obtained no equity finance or only part of what they sought, they were asked about the stage in the application process when this failure occurred (Table 4.14). A clear pattern emerges here: early-stage ventures (operating for less than 5 years) are more likely to face rejection in the initial phases. In contrast, more established firms tend to fail during later stages of negotiation. Notably, a very similar proportion of ventures in each group rejected an offer when one was received.

Table 4.14: At what stage were equity finance applications rejected by trading age% of ventures applying for equity finance (N=370)

	Trading for more than 5 years	Trading for less than 5 years
Obtained all of the equity finance they sought	38.3	31.5
Where some or no equity finance was obtained:		
At the stage of initial contact – never heard back after sending slide pack	4.2	7.4
After the stage of e-mail correspondence – never heard back after initial e-mail correspondence following slide pack	2.1	5.2
After the stage of initial telephone contact – never heard back after various telephone conversation(s)	1.1	3.0
After the stage of initial presentation of slide deck – never heard back after attending first meeting with potential investors	5.3	10.3
After the stage of multiple presentations/ meetings with the same investor(s) – discussions never progressed further than this.	12.7	10.3
After due diligence stage involving accountants and solicitors had started – discussions didn't progress to deal stage	6.3	3.0
At negotiation stage the funder offered part or staged funding	8.5	5.9
Received an offer but the terms and conditions were unacceptable	5.3	5.9

Don't know	16.2	17.6
Total	100.0	100.0

4.6 Barriers to obtaining equity finance and the implications

As earlier sections suggest, the journey to equity finance involves several stages, and firms may encounter barriers or perceived barriers at each point. The first decision firms must make in the equity finance journey is whether to actively seek finance. To examine this decision, firms in the survey that did not pursue equity funding in the past year were asked for reasons, and the responses are summarised in Table 4.15. The most common reason for not seeking equity finance was related to the early stage of business development, cited by nearly half (42.3%) of pre-trading ventures. A reluctance to lose control of the business and a preference for other types of funding were important for about a quarter of the ventures. Notably, relatively small proportions of ventures reported difficulties with information about equity funders or identifying equity finance providers (8.4-11.2%).

This may indicate a maturing of the UK seed equity market, including improved regional coverage, but it is also likely to reflect the high proportion of respondents who had participated in IUK investment readiness pitching and grant funding channels (which we would expect to be better connected towards finding potential equity investors). In this context, initiatives like IUK's Investor Partners programme and Scottish Enterprise's investor database, which list potential seed equity investors, have helped firms overcome these initial barriers to seeking equity finance.

Table 4.15: Reasons for not seeking equity finance (% ventures) (N=562)

	Total		Production	Business Services	Other Services		Pre-trading	Trading
Didn't know about equity funding	8.4		9.3	4.9	11.3		4.7	9.7
Don't know how to find equity funders	11.2		15.9	5.8	14.3		8.7	12.1
Did not think my businesses was sufficiently developed to attract equity funding	29.7		33.6	34.4	23.4		42.3	25.2

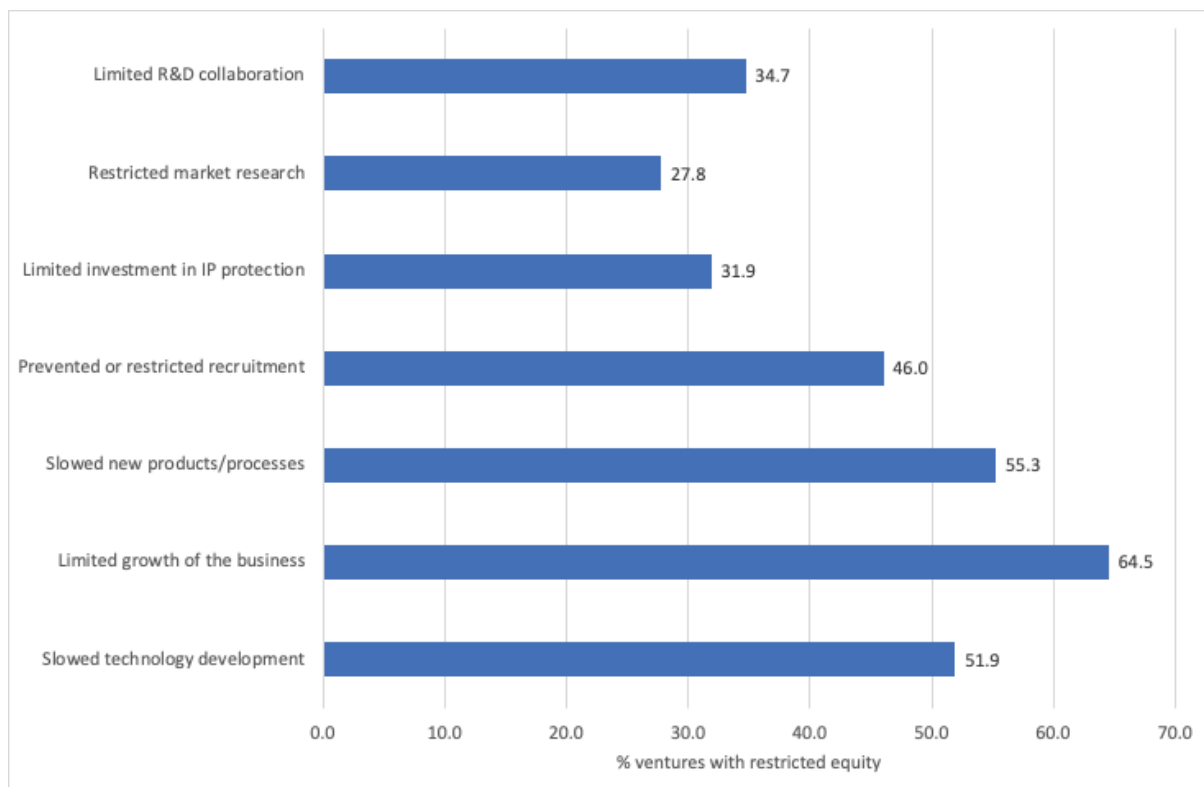
Did not want to lose control of the business	21.7		22.4	23.7	19.5		14.1	24.5
Preferred to fund growth in a different way	34.7		30.8	37.1	34.2		23.5	38.7

Note: Figures do not add to 100 as ventures could nominate more than one reason for not seeking equity finance.

Where firms sought equity finance and received either no funding or only part of the equity finance they aimed for, we posed an open-ended (free text) question about why their equity applications failed. Of course, this reflects the firms' own view of the barriers they faced when seeking equity and may offer only a partial perspective. The responses highlight the stage of development of firms, perceived incompatibility with potential investors' priorities, and issues related to geography, sector, and potential discrimination. Key emerging themes include demand-side failings such as being too early-stage, IP issues, and lack of management capabilities, as well as supply-side failings encompassing lack of investor knowledge and fit, limited investor appetite due to early-stage and disruptive sector high risk, fund timing (e.g., investments cannot be made during venture fund fundraising), and partial investment owing to the scale of funding required.

See appendix 4A, at the end of chapter 4

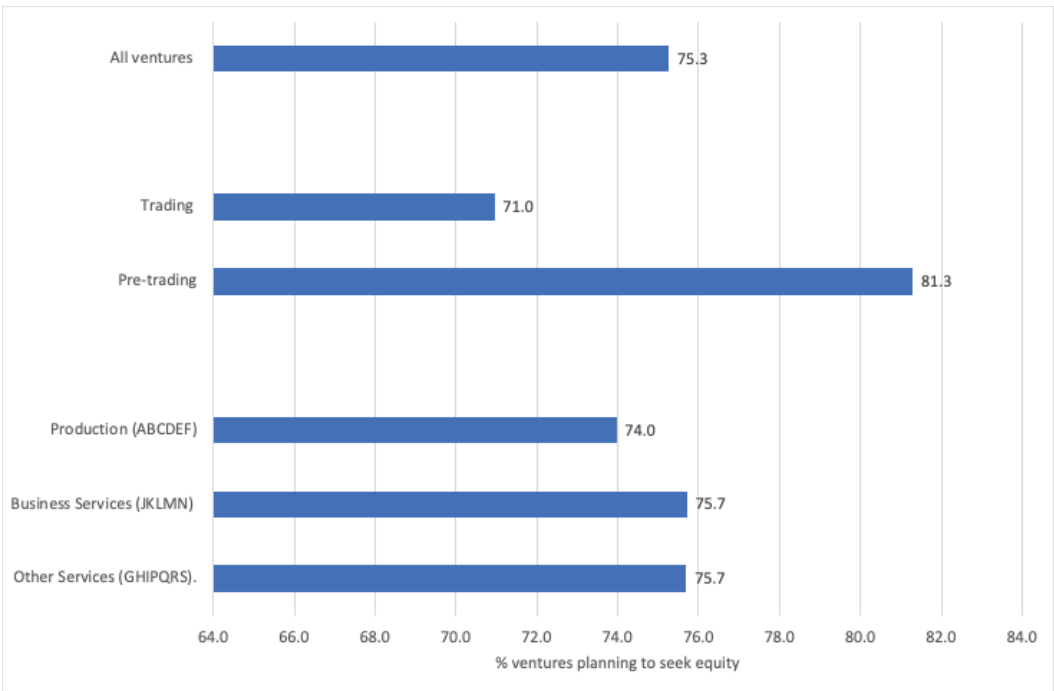
Figure 4.11: Consequences of not obtaining all of the equity finance required (% ventures for which equity finance was restricted) (N=389)



4.7 Plans to seek equity finance in the next year

All survey respondents were asked whether they were likely to seek equity funding in the next 12 months (Figure 4.12). Approximately 75% of respondents indicated they would pursue equity funding, with a notably higher proportion among pre-trading companies (81.3%).

Figure 4.12: Planning to seek equity finance over the next year (% ventures) (N=667)



Appendix 4A: Why did your search for equity finance fail?

Lack of investor knowledge or investor fit

- I presented to a room full of people and spoke with people who were interested in the product, but they said it didn't fit their investment profile.
- Not speaking to the right people.
- Our technology is leading-edge and not understood by mainstream experts.
- The start-ups are not in the sweet spot.
- Investors don't invest in hardware business.
- The investors lacked sufficient expertise in the field.
- Lack of understanding of the concept, felt it was outside the range of their experience, they wanted more proof of concept.
- We are based in North Wales, which doesn't get much attention from investors, and the local investment network consists of about 12 people.

Low investor appetite

- Low investor appetite.
- Got no responses. Been told by people I've been working with it's a new product and the market at the moment is not receptive to new products.
- Not fitting the investment criteria, or not being given a chance to pitch.
- People are very risk-averse these days.
- Timing and investor landscape uncertainty. Also, the sector we are in Property-tech and the history of the company.
- There is little appetite in the UK market for start-up tech that is perceived as risky.
- Life Sciences pharmaceutical investment, high risk, high return.

Too early-stage

- Too early in the business stage.
- In the process - just started the journey which takes around 6-9 months.
- Not doing sales yet.
- Too early-stage.
- We were a pre-product and pre-revenue and there is a nervousness with Angel investment and insufficient traction.
- Too early in the stages. Getting first round of funding was the problem.

Fund timing

- They were not sure as the timing is not the best as inflation and the cost of living is going up...they said they will get back to me, but they didn't get back.
- It's a tough time to release funds.

Lack of IP or IP issues

- There's a lack of IP in the business.
- The biggest problem is reconciling University/VC shareholder interests.

Management capabilities

- We struggle to source technical directors for the company.
- Change of personnel and changes in investor outlook.
- The team is uninvestable.

What consequences did these barriers to accessing equity finance have for the ventures involved? This is the focus of Figure 4.11, which asked firms: 'What was the implication of not receiving the (required) equity funding you were seeking?' Unsurprisingly, the failure to secure the equity investment needed by the ventures can have a devastating impact. Nearly two-thirds cite this as limiting the growth of the business, while more than half mention slower product or service market introduction, tech development, and barriers to recruitment.

Section 5: Key findings and policy implications

5.1 The UK Early Equity Finance Funding Access Problem

This study investigates early-stage SMEs' ability to obtain equity funding and the effects of inadequate equity finance funding on these ventures. It shows that less than one-third of SME early-stage equity finance applicants in the year prior to the survey received all the funding they sought, yet even among these successful cases, multiple applications are common (48% applied to 5 or more finance providers, 62% applied to 4 or more). We conclude, supported by studies such as BEIS (2017), that securing equity finance, especially for early-stage high-growth potential ventures, remains a time-consuming and challenging process.

In more detail, our study shows that pre-trading ventures are almost twice as likely (Table 4.3: 14.2% versus 8.5%) to apply to five or more finance providers of any type (debt or equity) than their trading counterparts in the year before the survey. In other words, among surveyed ventures that sought any type of external finance in the previous year, 28.7% of pre-trading ventures compared to 19.1% of trading ventures applied to five or more finance providers. Specifically, for ventures seeking equity finance, a much higher proportion submit multiple applications (Table 4.6: 52% make five or more applications and 64.1% make four or more). This pattern is even more pronounced for pre-trading ventures, where over two-thirds apply to five or more providers - significantly more than older trading ventures in our study (67% versus 43%). The search for equity finance appears to be at its most resource-intensive at the proof-of-concept stage.

The survey highlights the negative effects of receiving less than the required levels of equity investment (Figure 4.11). Nearly two-thirds of ventures in this group cited related constraints on business growth, and over half slowed their technology and product/process development. A limitation of our study is that we have little understanding of the long-term impact of this damage on the ventures involved.

Another significant factor here is the direct cost to the business from the delay and diverted managerial attention caused by the difficulty of seeking and securing equity. Other UK studies of government VC programmes, surveying beneficiaries and unsuccessful applicants, do not differentiate between the negative impacts of lengthy search times and the absence of funding, but they support the idea that prolonged search times hinder business development and can result in a loss of market primacy and even business closure (see the references detailed in the next paragraph). Additionally, our prior DBT early-stage equity qualitative research confirmed this to be the case.²⁷

²⁷ <https://www.enterpriseresearch.ac.uk/wp-content/uploads/2024/07/ERC-Report-Understanding-equity-access-and-use-in-early-stage-ventures-Roper-Owen-1.pdf> (p.55)

Drawing on other recent UK studies, it is possible to construct a demand and supply-side overview that highlights the challenges faced by early-stage ventures in accessing equity finance. First, from the supply perspective, various UK evaluations of government-backed equity funds (e.g., Enterprise Capital Funds, UK Innovation Investment Fund, Investment Accelerator Pilot) show that private venture capital (whether supported by government or not) receives a large number of applications—typically 250-500, sometimes exceeding 1,000²⁸) and prefer deal flow from trusted feeder sources such as accelerators and top universities. Only about 10 per cent of applications reach the meeting stage, and less than 2% of these are ultimately successful in securing funding. The time from application to funding usually lasts around 3 months, but can extend up to 9 months if due diligence or the funding round structure is particularly complex. It is also noteworthy that most ECF VC managers prefer to syndicate in order to share validation, risk, and support networks.

Second, recent programme evaluations assess search times to measure the visibility and additionality of UK government programmes. For example, it is notable that among ECF beneficiaries, three-fifths had applied to four or more funding sources, and a fifth approached more than 10. The evidence on search times for early-stage equity seekers suggests an average duration of 9 months²⁹, but in some cases, it can take much longer. Recent research in the UK, Europe, and the USA, drawing on Beauhurst, PitchBook, and DealRoom data sources, indicates that the typical time between early-stage funding rounds is around 2 years and that the first equity funding round involves a search time of approximately 18 months (relating to the median age of ventures from registered formation) before achieving at least some equity funding³⁰. Recent analysis by DBT of Beauhurst data also suggests significant time lags of 1.7-1.9 years between receiving an Innovate UK grant and equity fund-raising, whichever came first.

Finally, our study highlights the potential loss in growth and development for ventures that did not seek equity in the year prior to the survey. Among these ventures, there are signs of equity aversion and discouragement, related to avoiding loss of control (21.7%) and pre-trading ventures not believing they were sufficiently developed to attract equity funding (42.3%) (Table 4.15). We do not know from the survey how this may have impacted their development, but combined with strong findings linking Board Advisors, NEDs, and CFOs with equity application and higher success rates (Figure 4.10), it suggests a policy area worth addressing. Additionally, recent econometric difference-in-difference studies comparing the performance of government VC-funded beneficiaries with similar unfunded early-stage ventures (by sector, age, size, and location) show the performance benefits of

²⁸ UK ECF and CfEF Interim Evaluation (2014, p.65), see also BIS (2010, p.17) Early Assessment of the Impact of of BIS Equity Fund Initiatives https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32234/10-1037-early-assessment-bis-equity-fund-initiatives.pdf

²⁹ UKIIF Early Evaluation (2012, p.42)

³⁰ [Examining the patient capital problem for green technology start-up and scale-up businesses: Ventur...](#)

VC funding. For instance, Irish Seed Venture Capital fund beneficiaries between 2013-2022 generated 38% more employment, invested twice as much in R&D, achieved 58% higher post-funding valuations, and had a 25% greater chance of securing follow-on funding³¹. Collectively, there is a growing body of evidence to suggest that earlier and more timely access to VC funding, supported through government programmes, can boost potential high-growth venture performance.

5.2 Survey Findings

5.2.1 Headline findings

The business survey reported here aimed to collect data on a group of early-stage entrepreneurs both before and after starting trading, hereafter ‘ventures’. Respondent ventures are categorised as pre-trading and trading.

Among our sample of equity-engaged, early-stage entrepreneurs and businesses, seeking equity was more likely when a venture had an NED or Board Advisor, a CFO, when the entrepreneur had prior leadership experience, and when the venture had sought external business advice.

The most common reasons for not pursuing equity related to the early stages of business development, including a reluctance to lose control of the business and a preference for other types of funding.

Having a CFO, Board Advisor, or NED increased success rates in obtaining equity finance. While having a Board Advisor, NED, or CFO reduces the likelihood of early rejection, it also increases the chance that a venture will reject an offer of equity if one is received.

Early-stage ventures are more likely to face rejection during the initial phases of their search for equity finance. More established firms tend to encounter difficulties during later stages of negotiation.

Women-led ventures were less likely to seek equity finance compared to male-led ventures. Both women-led and ethnic-minority-led ventures were more likely to face rejection in the very early stages of the application process—initial contact or the first email exchange. Women-led firms and ethnic minority-led firms were less likely to secure all the equity finance they sought.

³¹ Review of State Support for Equity Investment in Ireland (2023)

Barriers to obtaining equity finance are diverse and reflect both demand-side issues (such as very early-stage development, IP issues, and lack of management capabilities) and supply-side failings (e.g., limited investor knowledge and fit, reduced investor appetite due to the early-stage and disruptive nature of the sector's high risk).

An inability to secure equity investment constitutes a barrier to business growth. A lack of equity finance also led to delays in launching products or services to the market, challenges in technology development, and difficulties in recruitment.

5.2.2 Detailed findings

The survey was targeted at firms which had an interest in equity finance. It is therefore unsurprising that across both pre-trading and trading ventures 49.5% of firms sought equity in the year prior to the survey (590 firms). This proportion was slightly higher among pre-trading ventures (54.7%, 201 firms) than among trading ventures (47.1%, 389 firms).

Ventures who reported seeking equity finance were asked in the survey how many potential equity providers they had approached during the last year. By far, the most common response was '5 or more' equity providers. Only about 7.9% of ventures seeking equity sought new funding solely from their existing funders; the rest either approached only new funders (54.1%) or a mix of new and existing funders (38.1%).

The most common equity finance providers approached were business angels or angel networks (58.3%) and venture capital funds (53.1%). Smaller proportions of ventures approached private equity firms (29.8%) and other types of private and public/government providers.

Where ventures sought equity finance, just under one-third (31.3%) secured all the financing they sought, while an additional 23.8% obtained some of the equity they requested. Approximately 44.9% of ventures seeking equity finance were unsuccessful in obtaining any finance. Success rates were below average among pre-trading businesses, which experienced the highest funding failure rate (55.4%) of all types of firms.

As part of the survey, firms were also asked about the value of equity they sought and the proportion of that equity finance that they obtained. Across the whole group of respondents who sought equity finance, including those who had no success, firms obtained 13.3% of the value of the equity finance they sought. Among those firms which obtained some or all of the equity finance they sought, they obtained 43.6% of the value sought.

Among all ventures seeking equity finance and achieving partial or no success, rejection is most common at the stage of multiple presentations with investors. Of these ventures, 13.8% received an offer of equity at some level. 9.0% of firms accepted this partial offer, while 4.8% rejected the offer of equity finance, they did receive.

Seeking business advice is strongly linked to seeking equity finance. 31.5% of ventures not seeking advice sought equity finance in the year before the survey, compared to 55.6% of ventures that did seek advice. Among firms seeking advice, 27.8% of ventures obtained all the equity finance they aimed for, versus 39.8% among ventures not seeking advice. There is little evidence of a consistent link between taking advice and the likelihood of ventures being rejected during the initial or subsequent stages of their process (Table 4.10). Ventures that received advice were more likely to consider staged offers or to find any offer unacceptable (15.0% versus 8.3%), but they were significantly more inclined to reject offers of equity they received (5.4 versus 2.1%). However, it is important to interpret these findings cautiously due to the relatively small sample sizes.

Ventures' management capabilities and characteristics are strongly linked to seeking equity finance. Where a venture had an NED or Board Advisor, 57.5% sought equity compared to 37.2% where neither was present. Ventures with a CFO were also notably more likely to seek equity (61.5%) than those without (41.8%). Prior leadership experience also increased the probability that ventures would seek equity (54.0 vs. 38.9%).

Having a CFO or similar raised the proportion of equity obtained from 34.6% to 48.3%. Similarly, having a Board Advisor or NED increased the proportion of equity obtained from 26.4% to 47.4%. Having a Board Advisor or NED and a CFO reduces the chance of early rejection but increases the potential that a venture will reject an offer of equity if one is received.

Women-led ventures were less likely to seek equity (43.1%) compared to male-led ventures (53.1%). Male-led ventures were also more likely to secure all the equity they aimed for (32.1% versus 26.3%).

Leadership ethnicity had a smaller impact on the likelihood of seeking equity, with 46.9% of ethnic minority-led firms pursuing equity compared to 50.4% of other firms. Ethnic minority-led firms were less likely to secure all the equity they sought (23.8% versus 32.8%).

For both women-led and ethnic-minority-led ventures, rejection was more likely to occur in the very early stages of the application process—initial contact or the first email exchange.

Male-led and non-ethnic-minority-led firms tended to progress further in the application process before facing rejection or receiving a partial offer.

Older trading ventures (operating for over five years) were less likely to have sought equity finance in the past year (47.4% applied to at least one provider) compared to early-stage trading ventures (of whom 72.4% applied to at least one provider in the previous 12 months). Early-stage trading ventures were more prone to approach venture capitalists, crowd funders, and incubators or accelerators.

More established trading ventures were slightly more successful in securing the equity finance they sought. When firms obtained any of the equity finance, they pursued, these ventures secured 51.9% of the desired equity finance compared to 45.2% for early-stage ventures.

Where ventures obtained no equity or only part of the equity they sought, early-stage ventures are more likely to face rejection in the initial phases. In contrast, more established firms tend to fail during later negotiation stages.

5.3 The early-stage UK patient capital market: stakeholder interview insights

Respondents highlighted the UK's early-stage patient capital investment issue and emphasised that sustainable investing still lacks sufficient support for early-stage financing in the UK. Investors explained that they typically seek software tech, where there are fewer funding rounds, and expect more rapid progressions to the market and higher multiples (closer to 8-10x) returns.

Investors usually prefer B2B or B2B2C models over direct B2C because they are easier to evaluate. Deeptech hardware investment is much more difficult. It demands larger funds and bigger investments over a longer period during the valley of death before revenue is generated. These longer exit timelines and lower returns are unattractive to most investors, including many impact investors.

Some angel impact investors, who invest to support potentially transformative global technologies, are willing to fund a small number of deeptech and long-term cleantech projects. However, these investors represent only a small proportion of niche impact investors like the Green Angel Syndicate (GAS) and FiveThirteen networks, which collectively number around 600 investors. Surprisingly, they are rarely the first to invest. Cleantech, in particular, presents challenges, especially when it involves hardware and disruptive deeptech, which are not well understood—even specialists like GAS want to see market traction.

A series of important recommendations for improving the early-stage investment markets were made—drawn from a broad range of investors and stakeholders. These apply to strengthening the UK's early-stage equity high-growth potential venture market overall, including regional growth, EDI, and also to the patient capital issue.

- Continue to support S/EIS and ensure it is locked into long-term policy to ensure early-stage market stability.
- Provide enhanced tax incentives through e.g. S/EIS for patient capital – including key incentives for green environmentally positive activities - and R&D to assist with re-balancing the investment risk-reward ratio.
- Enhance public-private co-financing programmes for angels and VCs to cover the loss of EIF and ensure that these funds apply environmental credentials (with do no harm (DNH) as a minimum requirement) regional focus and EDI. It was noted that British Business Bank is enhancing the Nations and Regions Investment Funds and this needs to be stepped up.
- IUK is playing an increasingly important role in developing Investment Readiness programmes through the Business Growth³² (formerly Edge) programme. This is vital and the linkages between IUK, grants and Investor Partners are very important to creating a more fluent and effective early-stage funding escalator connecting grants with equity.
- Public sector investment readiness programmes are critical in linking ventures to finance and can play an important role in addressing unequal regional growth and EDI. French Tech³³ offers a potential model for support and investments consistently across national regions.
- More substantive and progressive grants like the DESNZ Energy Entrepreneurs Fund are required to support longer-horizon cleantech and disruptive hardtech. These need to offer follow-on grants and co-finance early with accredited angels and VC to create a blended tech and commercial finance support programme.
- Support the momentum behind university collaborative seed funds which might help unlock more corporate and institutional investment into earlier stages.
- Unlocking institutional pension funds is a game changer for early-stage investment. Just 1% of these funds invested into UK early-stage markets with a focus on patient capital would transform the market.
- Develop international collaborative cross border investing (Ireland has been suggested as a strong case), particularly to overcome shortfalls from EIF and to ensure a more effective long horizon early-stage investment market which avoids thin market pitfalls and is able to follow investments overseas to optimise returns and likely retention of UK IP and employment.

³² [IUK Business Growth](#)

³³ [French Tech guide to building tech businesses and accessing investors.](#)

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