par equity

Northern Lights

Unleashing the potential of tech ecosystems in the North of the UK

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Introduction

If the North of the UK was a country, it would have a gross domestic product (GDP) of over $1 trillion, making it the eighth largest economy in Europe, equivalent to the Netherlands and larger than each of Switzerland, Poland, Belgium, and Ireland.

London remains ground zero for startups and scale-ups, notably across fintech and SaaS, yet for companies in the categories of deeptech, cleantech and life sciences, the North is booming. Indeed, our latest research in collaboration with Beauhurst shows that there are 58% more "high-growth" opportunities in these fields in the North of the UK than there are in London.

This is not a new phenomenon. Over the last four years, the Scale-Up Institute has combed through granular data from the ONS which shows that there are between 30% and 50% more "identified scale-ups" in the North of the UK than there are in London. And yet, the North of the UK's tech ecosystem is only able to raise less than 1/6th of London's tech companies.

This is not a problem exclusive to UK tech either. The government's levelling up white paper[1] in 2022 highlighted that the UK is one of the most geographically unequal countries in Europe, on a similar scale to Latvia, Hungary and Poland, and far behind nations like Sweden, Austria and Spain. This alarming finding has continued to trend in the wrong direction over the last decade.

This report is aimed at the investor community – limited partners, VCs, CVCs and angels. We dig into the data that explains why Par Equity is backing the North, and why you should too.

"In recent years, Par Equity has deployed between £30m and £35m per annum into early-stage tech companies across the North of the UK and we lead around 75% of these deals, but we're doing a lot of the heavy lifting with only a handful of investment partners. This needs to change. We must encourage more capital into this part of the UK if we're to build category-leading, world-class businesses here," says Par Equity Partner, Andrew Noble.

About us: Par Equity is a venture capital firm based in Edinburgh and Leeds, investing in innovative technology companies with high-growth potential across the North of the UK. Since launching in 2008, Par Equity has invested over £185m across 79 companies, catalysing a further £307m of capital from third-party investors.

Par Equity partners with early-stage companies, operating B2B business models, with many innovating in the fields of climate tech, health tech and industrial tech. The investment strategy focuses largely on IP rich and deep tech companies at the Seed through to Series A stages.

Par Equity's investment team is 15 strong, with 40 operating partners and 240 angels in its community of business builders.

Opening Statement

Paul Munn,
Managing Partner

If we have learned anything over the last decade, it is that technology has the potential to improve and shape our lives whilst also enabling growth across the UK. We've seen this first-hand across our portfolio.

To date, Par Equity has backed 79 companies, of which we've made 31 exits, which includes 185 realised investment transactions, delivering capital back to investors every year since 2013. We've built a successful investment strategy, forged in the North of the UK, and had the opportunity to support some of the best tech companies here. We're proud to partner with industry game changers such as Current Health, Phlo, DeltaDNA, Symphonic, Fuuse, Advanced Electric Machines, Aveni, Integrated Graphene, Nova Pangaea Technologies, Neuranics, Optoscribe, Gigged AI, Novosound and many others. Best Buy's acquisition of Current Health for $400 million in 2021 was Europe's second-largest digital health tech exit ever.

Building on this track record, we launched our latest institutional fund in August 2023, backed by more than 40 investors who understand the regional divide and see this gap in the market. Our latest fund is designed to back the breakout stars in the North, innovating in the fields of industrial tech, climate tech and health tech, providing them with access to capital so they can scale faster and compete on a global stage.

As a local investor, it's our job to champion the incredible talent here and to act as a platform for high-growth technology firms to unlock necessary capital from VCs in London and further afield.

We're passionate about our role in the local market which is why we have also committed a large portion of our carried interest from our new fund into not-for-profit, ecosystem building initiatives in the North. This not-for-profit will have a primary focus on improving structural issues, such as increasing STEM talent across our schools and universities and working on programmes to improve gender representation in tech and VC.

A thriving venture capital landscape in the North of the UK has the potential to move the needle when it comes to regional inequality. Building world-leading companies here will create jobs, opportunities and skills in the North with tremendous spillover impact into other parts of our economy.

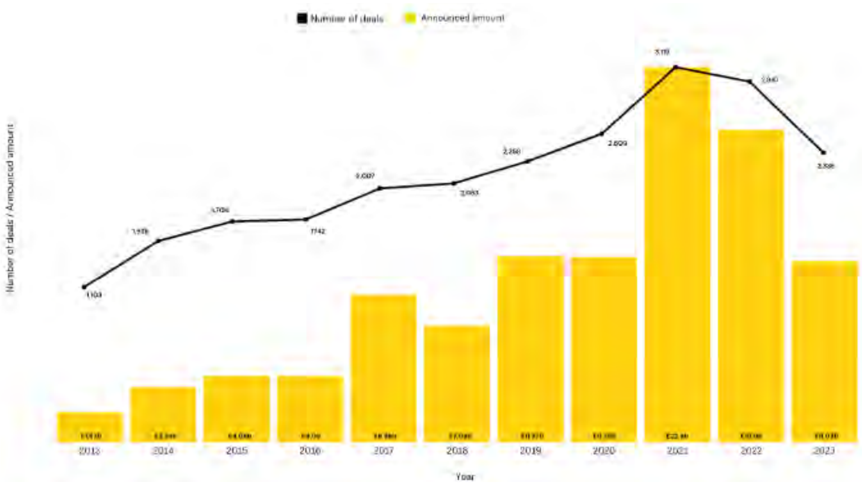
We want to see northern tech companies build through the Series A stage and become industry leaders that change the way people live and work around the world.

UK investment: The State of Play

As we head into Q3 2024, the fundraising environment remains a challenge for startups and scale-ups in the UK. The market is correcting itself following an excess supply of capital in 2021 and 2022, followed by a sharp contraction of liquidity events through M&A and IPOs.

Number of announced deals and amount 2013 - 2023

The Deal, Beauhurst 2023



A London-centric landscape

Amid this more sober investment environment, the London-centricity of the UK tech landscape has worsened with the percentage of VCs based in London rising from 74.3% in 2014 to 77.6% in 2023.

That's a concern. British Business Bank's analysis[2] of investor-investee pairings between 2011-2020 revealed that in 82% of transactions, the investee company was within two hours of the investor's office. Our own data, for the period 2014-2023, supports this finding, and shows that slightly more than 50% of investments were signed where the investee company is within one hour's travel time of an investor's office. A further 20% of deals were completed with investee companies based between one and two hours from the investor, i.e., c. 70% within 2 hours. For 91% of deals, the investee company is within 4 hours.

Therefore, if you're a startup or scale-up based in Manchester, Newcastle, Belfast, Edinburgh, Glasgow or Aberdeen, you're statistically unlikely to raise capital from a VC in London. Despite the North of the UK having more scale-ups than London, it received only 10.4% of total equity investment between 2014 and 2023, whereas London tech companies attracted 66.3% of total equity investment during the same period.

Robert Higginson
Partner

"The reality is that tier 1 VCs are seeing around 10,000 investment opportunities per annum, and are only able to invest in 5-6 of those, i.e., around 0.05% conversion rate. This reflects an enormous amount of deal sifting work for VCs and so the priority tends to be on those deals coming in through their network of advisors, operating partners, and founders or through syndication with other VCs," said Robert Higginson, a partner at Par Equity.

"With most VCs being based in London, it makes it more challenging to meet with prospective founders in other parts of the UK and assess whether that particular team has what it takes to be a breakout success."

Industry Differences

The flight of capital varies by industry.

For example, with a median travel time of 21 minutes, VCs don't have to travel too far to find and back fintech companies driven by London's significance in the global financial service markets.

For AI and SaaS, the median travel time between a VC and its investee company is around 50 minutes, which reflects the population density of Greater London and the access to talent and capital that these tech companies have when starting a business.

In life sciences and clean tech (and indeed, deeptech) the story is little different with the median travel time increasing to around 100 minutes. The further distances seen in the life sciences and cleantech sectors reflect the dependency of these companies on specialised infrastructures and services. These are more common in the distinct clusters outside London, predominantly near research centres and academic institutions in the Golden Triangle, and across cities such as Bristol, Glasgow, and Edinburgh.

Where we see opportunity

London will remain a magnet for capital and talent. It has an attractive offering in terms of resources, funding and peer-to-peer networks, but for a pre-revenue startup, it is also incredibly expensive. We believe there will be a greater number of companies started and built outside of the capital over the next 10 years and we hope to encourage more entrepreneurs to do so.

A dramatic rise in the cost of living in London over the last three years has increased the opportunity cost of an entrepreneur launching a business in the Capital or for early employees who join tech companies which are unable to offer competitive base salaries. Additionally, coming out of the Covid pandemic, knowledge-based workers have a higher willingness to adopt hybrid working patterns, which includes remote work, particularly if they can optimise their work-life balance to be closer to family and friends and can satisfy their cost-of-living concerns. Data from Countrywide[3] is showing an upwards trend in renters leaving the Capital, with 40% of London renters registering with the agency in 2023 seeking to leave the Capital.

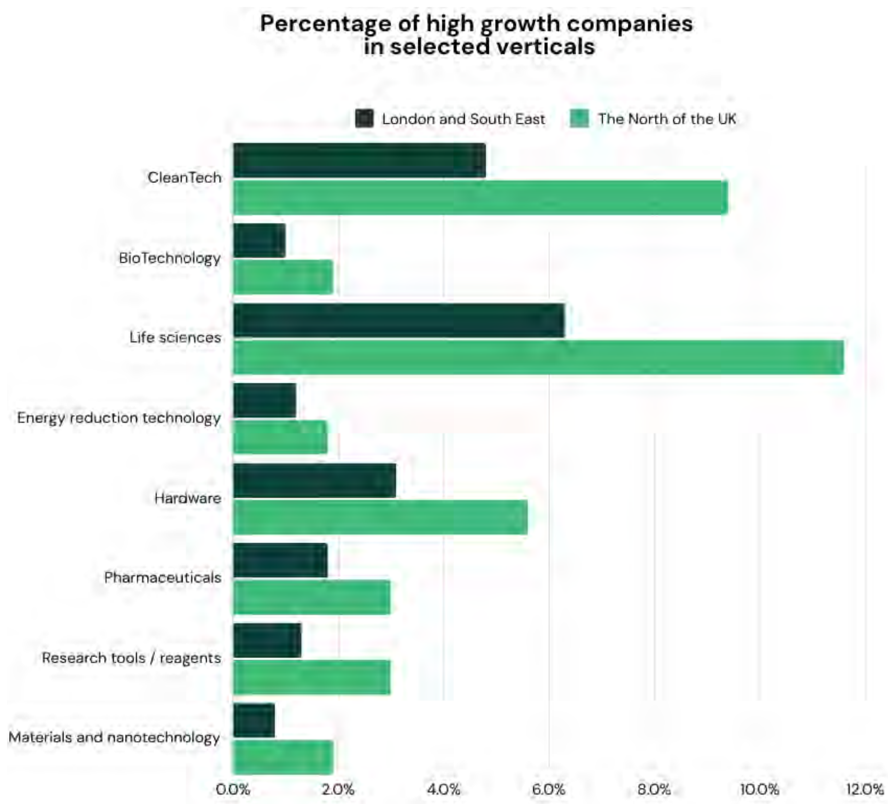
And if you're building a startup outside of London, access to affordable talent is improving. A recent report in the Financial Times[4] revealed that graduate wage premiums have flatlined in London and are falling elsewhere in the UK. Alongside talent moving out of London and into the regions, graduate retention rates from universities in towns and cities outside of London is on the rise. This increase in the supply of skilled labour in the regions, at more affordable rates, creates a talent arbitrage for tech startups and scale-ups here, particularly in junior to mid-level roles.

University spin outs are at the forefront of creating cutting-edge research and intellectual property and play a crucial role in the UK economy. Beauhurst data from 2023[5] shows that there have been 1,718 tracked spin outs across the UK since 2011 which have raised more than £12bn during that time and £2.1bn in 2022. Many of the universities across the North of the UK are punching well above their weight including the likes of Edinburgh, Glasgow, Manchester, Strathclyde, Queens, Leeds and Sheffield. However, they are attracting only a fraction of the capital raised by spin outs in the Golden Triangle.

Elizabeth Young
Investment Manager

"Of the 24 prestigious Russell Group universities in the UK, 10 are based in the North, while Scotland has 19 internationally-recognised universities, the largest proportion per capita of anywhere in the world. These universities are producing talent capable of propelling a new generation of startups in the North," said Elizabeth Young, Par Equity Investment Manager.

As an investor in IP rich technology companies, we're seeing opportunities in the North of the UK where we have positions of relative strength, and the imbalance in the supply and demand of capital mean that companies building solutions here should be even more attractive to investors.



We are also seeing the emergence of key hubs across the North of the UK.

Edinburgh

With around 25% of children being educated in independent schools in Edinburgh (well above the 7% national average) and home to three universities, Edinburgh has the highest percentage of highly-skilled workers[6] in the UK, with over 65% having completed higher education. A recent Tech Nation report also highlighted a dramatic threefold increase[7] in the population of Edinburgh's tech sector since 2021.

The University of Edinburgh's Bayes Centre is regularly ranked number one[8] in the UK for data science degrees, and is considered to be one of the best established centres of excellence in Artificial Intelligence, having pioneered research in this area in the 1960s and now boasts one of the largest research and development departments for AI in Europe. The National Robotarium, a collaboration between the University of Edinburgh and Heriot-Watt University, is building cutting-edge solutions at the nexus of AI and robotics.

Notable startups:

aveni
SPEECH GRAPHICS
malted AI
CONTINUUM INDUSTRIES
Wordsmith

Glasgow

Glasgow is ranked no.1[9] of the UK's core cities for producing the highest number of students and graduates in advanced manufacturing, engineering and design. The Glasgow City Region has built more satellites than any other region in Europe. It is home to three world-class Innovation Districts clustered in a corridor along the River Clyde, five Innovation Centres, four Catapults and three Public Sector Research Establishments.

Notable startups:

Aberdeen

With its roots in the oil and gas sector over the last 50 years, Aberdeen is now building a reputation for renewables and alternative energy. It is home to the Net Zero Technology Centre that brings together scientists and engineers to create new clean energy companies, driving technology innovation to accelerate energy transition.

Notable startups:

Manchester

With the arrival of GCHQ in 2019, the Manchester tech scene took off and is now a £5bn digital tech ecosystem[10]. Manchester is also recognised as a leading international hub for health tech and med tech innovation, with the region having a reputation as one of the leading health tech centres outside of London. In 2022, Manchester saw the launch of DiSH, a £10m digital security hub, with the aim of creating 500 startups and over 1,000 jobs. Manchester is home to four leading universities and one of the UK's largest student populations. In 2015, the University of Manchester launched the National Graphene Institute, creating new and exciting applications of graphene and other 2D materials. The city boasts excellent links to these universities, including the largest clinical academic campus in Europe, offering access to state-of-the-art research and a highly-skilled talent pool.

Notable startups:

Liverpool

In recent years, there has been a resurgence within the Liverpool city region, with heavy backing from the local authority and exited founders. The emergence of the Baltic Triangle district has helped build a thriving community of gaming, virtual reality and digital agencies. The University of Liverpool provides access to world class facilities for R&D into immersive tech, AI and industrial tech.

Notable startups:

North East

Newcastle is the most active tech hub in the North East, with the highest number of tech companies, innovation centres, coworking spaces and networks based in and around the city. The five universities in the North East of England provide a source of strength, producing skilled STEM graduates, developing cutting-edge technologies particularly in the fields of advanced manufacturing and clean tech. Indeed it has one of the highest proportions of STEM students in the UK. Tees Valley is home to the second largest chemical complex in Europe and has also transformed itself into the UK's first decarbonised industrial cluster.

Notable startups:

Northern Ireland

Belfast is the second-fastest growing knowledge economy in the UK, with strengths in health tech, hardware and IoT. It has a rich tech ecosystem with tech giants like Microsoft, Google, and Amazon employing local talent. Belfast is also home to several centres of excellence, including the Precision Medicine Centre of Excellence at Queen's University.

Notable startups:

Yorkshire

Yorkshire is home to nine universities and nearly 18,000 students graduate in STEM subjects each year. 56% of graduates in Yorkshire stay in the region to work after finishing university, and 70% of those who leave to study elsewhere come back to the region to work. Leeds is one of the UK's fastest growing tech hubs in the UK and the launch of Climb, a tech festival bringing together startups, scale-ups and investors from across the North, has continued to propel the city as a key digital tech hub for the UK.

Sheffield has seen a growth of over 20% in the number of startups in the past 12 months with a focus on advanced and digital manufacturing. The University of Sheffield was awarded funding to establish a new Centre for Doctoral Training, part of a £1bn investment, to help students develop skills that are crucial for the future of UK manufacturing.

Notable startups:

What now?

We all want to build a vibrant UK tech sector, but the current status quo and geographical imbalance in the funding landscape means that we must either improve pathways for ambitious startups or scale-ups to move to London, or we build better venture capital programmes and access to capital for the North of the UK. Or, we do both!

At Par Equity, we're heavily incentivised and motivated to help build successful scale-ups in this part of the UK, and we're working with partners and stakeholders to make that happen. We want to deliver venture programmes in the North of the UK which are on similar scale and ambition to our peers in London and elsewhere, whilst also crowding in capital alongside our own. We've recently invested significantly in our team, adding five more investment professionals across our Edinburgh and Leeds offices, and we believe the strength of our founder / operator network and role as a local investment partner can have a significant impact on the trajectory of the early-stage companies we back, and the development of the ecosystem here.

Failing to build the tech ecosystems in the North of the UK will only accentuate regional imbalances, which would be bad news for UK plc. Recent government-backed programmes are aimed at addressing the shortage of capital. The Scottish National Investment Bank was also launched in 2020 to deliver £150m - £200m of patient, mission-driven capital to the Scottish economy per annum. In addition, the British Business Bank ("BBB") recently launched its Nations and Regions Investment Funds[11] which will deliver more than £330m of early-stage equity finance in the North of the UK for funding rounds of up to £5m. BBB's subsidiary, British Business Investments continues to develop and widen its Regional Angel Programme which provides local investors with additional capital.

Mark Barry
Investment Director and Head of Regional Angels Programme at BBI

Mark Barry, Investment Director and Head of Regional Angels Programme at BBI, said: **"BBI's Regional Angels Programme is committed to investing in the regions right across the UK. The North (including Scotland) is our largest exposure and we're continuing to invest in the region due high quality deal opportunities. This is evidenced by strong performance of our investments to date in the region. Not getting caught up in the hype, focusing on exits and sticking to your area of expertise, is something we've seen work well for us and our partners."**

Both the Scottish National Investment Bank and British Business Investments have also backed Par Equity's latest scale-up fund, with significant support also coming from the Strathclyde Pension Fund.

Both the Scottish National Investment Bank and British Business Investments have also backed Par Equity's latest scale-up fund, with significant support also coming from the Strathclyde Pension Fund.

The Fund is backed by a further 40 limited partners, including the University of Strathclyde, several family offices and a long list of individual investors.

Despite these initiatives, more can be done. We'd like to see improved spin-out funding and programmes for our world-class universities across the North of the UK. We'd also like to see more private capital find its way into the breakout stars in this region, notably from our VC peers, and in round sizes of £5m or more. We've built out our network across hundreds of VCs in Europe to help showcase the talent here. We also helped launch and sit on the steering committee of ESG_VC, which is a pan-European project to improve the ESG credentials of early-stage companies. We do this alongside some incredible partners such as Beringea, Atomico, Lakestar and Seedcamp as we seek to improve the visibility of our portfolio.

If we're able to improve access to scale-up finance here, we can also unlock the scale-up talent needed to turn these fledgling companies into global success stories. That talent can either be developed internally or drafted in from elsewhere in Europe and the US. Either way, more senior tech talent and mentorship, who have been there and done it, is required and governments in the UK should look to reduce unnecessary friction on the mobility of talent into the UK and across its home nations.

We'd like to see greater collaboration across the region to promote the ecosystem and provide a shop window for our tech community to the wider world. There's an opportunity to build a much more impactful and impressive tech conference for the North of the UK, but this requires greater coordination across all stakeholders with an interest in this region. Par Equity is a supporter of Climb in Leeds and we're also partnering with Turing Fest to build a more extensive and engaged investor community around the founders and operators in attendance.

We have excellent foundations to build successful tech ecosystems and venture programmes for this part of the UK. If we get it right, the spill-over effects are likely to be significant, not only in terms of job creation and wealth creation, but also because a thriving tech ecosystem can dramatically move the needle to improve workplace productivity and would help to correct the regional economic inequality we see today.

These foundations also present huge opportunities for VCs that are seeking to escape the noise of London and find opportunities in emerging sectors like health, industrial and climate, many of which are building technologies and solutions for some of the most pressing global issues over the coming decades.

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