SCOTTISH ENTERPRISE

Evaluation of the Scottish Co-investment Fund (SCF) and Scottish Venture Fund (SVF) III and IV – Final v5.0

April 2022

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EXECUTIVE SUMMARY

Introduction

RSM UK Consulting LLP (RSM) was appointed by Scottish Enterprise (SE) to evaluate the Scottish Co-Investment Fund (SCF) and the Scottish Venture Fund (SVF) (the "funds"). This evaluation covers Phase III and part of Phase IV of the funds' operation, i.e., the period between July 2015 and March 2020.[1] It assesses the funds against their strategic and SMART objectives, and incorporates evidence from funds' management information, a review of the strategic and policy context, and interviews and surveys with team members and strategic stakeholders, SCF partners and SVF co-investors, and investee companies.

The European Regional Development Fund (ERDF) provided support for the period July 2015 to September 2018 and the impacts resulting from this ERDF support are reported separately in Appendix 1 to this report.

Fund overview

SE's Co-investment Funds seek to address the systematic market failures in the supply of early-stage risk capital to high-growth Scottish businesses. This includes increasing the diversity of participants in the Scottish investment market, attracting international investors, enabling investors to recycle capital, support high-growth companies in securing initial and follow-on capital, as well as secure exit opportunities. SCF/SVF support high-growth, early-stage companies, who are often pre-revenue and high risk - as they seek to commercialise research / bring new, innovative (frequently technology) products and services to market. These companies are less able to secure adequate levels of growth finance in the form of equity given their stage of development (frequently pre-revenue, and always early stage) and associated high level of risk. Alternative sources of finance e.g., debt financing is not appropriate for these types of companies given the absence of a track record and ability to repay. Equity finance is key to enable growth at this stage, but, as detailed within this evaluation, market failures and structural challenges mean that access to this finance is a barrier to growth for many early-stage companies in Scotland. More detail on the funds aims, design and rationale are provided in **Chapter** Error! Reference s ource not found..

Evaluation approach

To meet the terms of reference we carried out a mixed-methods evaluation comprising of:

- desk research, including a review of the fund's performance data and a review of the policy and market context;
- stakeholder consultation, including workshops with the transaction and portfolio teams who deliver the funds and interviews with 16 co-investors and 11 beneficiaries; and,
- an online survey of supported companies, receiving responses from 57 out of 170 beneficiaries (a 33% response rate).

Our analysis reflects the funds logic model (Figure 4) and key research questions identified in the evaluation brief. The beneficiary consultations have also been used to develop case studies.

[1] N.B. Phase III of the Funds ran from July 2015 to July 2018 and Phase IV ran from August 2018 to May 2021.

Key Findings

The key findings of the evaluation, reported against each of the evaluation objectives, are summarised below.

Fund rationale

The rationale for providing risk capital to private sector high growth companies in Scotland is supported by evidence on both the demand and supply side. Investors identified an ongoing funding gap at an early stage of development which is addressed by SCF and SVF. The majority of investee companies had sought equity investment from alternative sources, and they reported that a lack of equity investment available in the market was a key barrier to growth.

Impact on supply of capital

Investors have reported that the funds have enabled deals to take place that would otherwise not have been done, increasing the average size of deals, and that this has had knock-on impacts for the survival, growth and performance of the companies. The investors see SE and the funds as enabling a higher level of capitalisation in the Scottish marketplace and they feel that the marketplace would be less liquid without the funds, leading to less available cash and fewer business successes. Investors also highlight that without the funds, companies would spend more time chasing money, which is a drain on their resources and takes a focus away from growth.

Some of the investees confirmed that the fund had given them access to a higher quantum of funding than would have otherwise been available.

The impacts of the funds have extended beyond the Scottish market. In our survey of investee companies, 43% reported that they have attracted international investment and approximately half feel their business is now more attractive to international investors.

Fund management and delivery

The vast majority of **investee companies** consulted were positive regarding the application process. Some frustration was expressed by a minority of investees which centred on the length of time of the deal process, although this was expressed as a frustration with deal processes in general and it should be noted that it is the private sector co-investors that lead the deals and set the terms. The processes were considered comparable amongst those who had experienced both SCF and SVF, with a minority of beneficiaries highlighting that SVF is more time consuming and uncertain. This reflects the different fund parameters and in the case of SVF, SE may need to undertake due diligence on co-investment partners (e.g., where there is not a track record of co-investing with SE) and may need to undertake additional due diligence on deals as part of the approval process for SVF deals (for example where there is additional risk) to satisfy SE investment criteria.

Investee companies were overwhelmingly positive about the communication they received. It was recognised by companies that the role of SE Portfolio Managers was generally to work alongside the private-sector co-investors who normally took the lead on ongoing communications. This feedback is in line with the ‘co-investment’ model and was seen by some to be a positive, lessening the burden of investor management. It was acknowledged that SE had a ‘there when needed or looked for’ approach.

Investees highlighted that the SE Account Manager role was important in terms of the additional support that they provided, and that the closeness of this relationship was an important aspect of the wider support offer.[2]

With regard to the wider, non-financial support provided by the funds, respondents found that their **Portfolio Manager** was an excellent source of advice (on markets, board decisions, future strategy and opportunities), new connections and insight into further support available from SE.

Investors and partners viewed communications with SE teams as very good, whether referring to the transaction team (i.e., the team primarily responsible for completing deals) or portfolio team (i.e., the team responsible for ongoing investment management). The portfolio team is recognised as being available when required, reflecting the size of the SE portfolio, with focused attention on key milestones such as follow-on funding rounds, consents and exits. This is seen as appropriate for SE's specific role as a public sector gap funder, however, questions were raised as to whether more value could be added (in terms of supporting company growth) if the team had more resources and therefore fewer companies per Portfolio Manager.

Strategic context / fit

The basic policy of committing funding to address the gap at the level where SCF and SVF operate is seen as sound. As reported above, systemic gaps are widely perceived as still being present and the rationale for intervention is persistent.

On the policy side, there was an appetite for enhanced communication to improve understanding in the market on the respective roles of the SCF and SVF, the money being deployed through other publicly funded investors (Foresight, Techstart Ventures) via the SG Scottish Growth Scheme and that of the recently launched Scottish National Investment Bank (SNIB).

LINC Scotland, the national association for business angels in Scotland, is also seen a key part of this early-stage ecosystem, highlighted by several investors as a source of referrals, information for start-ups, and standard templates for legal documents[3].

From this review, it is evident that the funds are of central importance to delivery of Scottish Government (SG) policy goals. The funds have sought to, and succeeded in, stimulating the Scottish early-stage investment market in providing risk capital to innovative, high-growth potential companies and increased the overall scale of the market in terms of number of deals transacted and total investment. Supporting these companies has consolidated key sectors of strength in Scotland and provided high-value job opportunities. The funds also have a wider remit of developing the investment market in Scotland and attracting international investment, which are key goals for Scottish policymakers. Chapter 4 and Appendix 7 of this report provides further evidence on the wider influence of the funds.

Impacts of Covid-19 and Brexit

Investee feedback highlighted that the impact of Covid-19 and Brexit varied considerably depending on their sector, activities and target international markets. Investors and partners confirmed that business sector and the stage of development were significant determinants of impact.

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[2] N.B. Section 1.2 details planned changes in SE's Bespoke Business Development Support, with the latest SE Business Plan (2021/22) outlining a move away from a fixed portfolio of Account Managed companies to a model that seeks to serve more companies to implement opportunities that will sustain or create more quality jobs, that are fair, green and can last. Full details of changes can be found in Section 1.2 of this report.

[3] These standard templates have been developed jointly with SE

Consultations highlighted that the early interventions[4] provided by the UK Government and SG (which included the Early-Stage Growth Challenge Fund developed and delivered by SE) were highly significant in alleviating the worst impacts of the Covid-19 pandemic. However, businesses reliant on on-site visits and face-to-face contact were significantly impacted by the pandemic. Conversely, some business providing digital services or online commerce found that the pandemic expanded their markets and enabled them to flourish.

Consultees suggested that the earliest stage[5] companies have adapted well to working at home or working in shifts in a socially distanced workplace and that they have been able to preserve cash, perhaps by delaying some of their development plans at the technical/Research and Development (R&D) stage. Those at a later stage, which had been intending to undertake significant marketing or liaison with customers or suppliers that would ordinarily require extended face to face communications (such as integration of new technology into systems), have suffered much harsher impacts and delays to revenue generation.

The majority of investors found that their portfolios of companies had been able to plan around Brexit so far, however, some sectors (e.g., construction, enabling technology companies) had had severe effects (via reliance on European funding or exposure to regulations that were changing) and there was a perception that Brexit impacts would grow over time.

Scotland's National Performance Framework

Survey respondents reported on the wider benefits that they were able to deliver, relative to the National Performance Framework Measures. Significant wider benefits to Scotland included investment in R&D, as well as adding and securing high value jobs and supporting the wider Scottish economy through supply chain impacts.

Fund Performance

Based on a pro rata allocation of objectives[6] reflecting the level of fund expenditure at the end of the evaluation period (i.e., March 2021), the funds have successfully met (and in some cases significantly exceeded) the majority of their SMART objectives, as set out in

[4] E.g., Coronavirus Job Retention Scheme; Business Interruption Loan Scheme; Bounce Back Loan Scheme.
[5] "Earliest stage" companies refer primarily to those at Seed stage, whose focus is on R&D and meeting milestones for product development. These companies are pre-revenue. In this context, "later stage" refers to those companies at venture stage with established products / business model, and a focus on accessing new markets for their product.
[6] SCF/SVF IV SMART objectives were for the period 2018 to 2021. The evaluation reviewed fund performance up until March 2020 and as such, SMART objectives have been adjusted on a pro-rata basis (reflecting the level of fund expenditure) to allow for assessment of actual performance versus target to date.

Table 1. The number of supported high growth potential companies is the only objective not fully met (pro-rata target: 290 – 363, actual: 229).

The funds have:

- invested a total of £158m in 229 companies, predominantly in the enabling technologies, life sciences and creative industries sectors;
- levered £494m in private sector investment (approx. 3:1 ratio) and attracted £5.3m from other public sector bodies;
- invested in 19 companies with deals that have proceeded to be written off[7] (totalling £6.58m);
- had 29 businesses exit / repay their investments, generating total income of £41.5m and a profit of £5.3 million. Additional income, beyond that from exits / repayments, from interest, dividends, fees and value recovered from write offs totals £0.87m;
- invested in companies that are forecast to generate 41,100 net jobs and £12,560m in turnover by 2028, as well as between £3,638.5m – £4,017.5m net GVA.

ERDF provided **£36.6m** of funding to SE to partially fund the SCF and SVFs. 170 companies received ERDF funding over **379 deals**. ERDF provided 40% match for deals in this period, contributing to a total **£91.4** of SE investment, and an additional **£214.4** private sector leverage and other public sector investment.

ERDF support has led to companies generating over £90.8m of turnover from 2015 to 2020 and supported 855 (net) job-years. By 2028, the direct result of ERDF input is expected to be between £659.2m – £727.9m net GVA output, 6,840 net jobs and £1,560.1m in turnover.

The £36.6m investment in companies from ERDF is forecast to generate 9,430 net jobs and £2,888.8m in turnover by 2028, as well as between £836.855m – £924.025m net GVA.

[7] For companies that have been dissolved, liquidated, or entered into formal insolvency proceedings where there is no prospect of recovery, SE can ‘write off’ the original cost of the equity investment. N.B. these companies, prior to being dissolved, liquidated or entering into insolvency procedures may have contributed positively to economic activity during the period of the investment.

Table 1: Progress against SMART Objectives

Target	(a) SCF III &SVF III SMART Objectives[8] (July 15 to July 18)	(b) SCF IV & SVF IV SMART Objectives (Aug 18 to May 21)	(c) SCF IV & SVF IV SMART Objectives Pro Rata[9]	(d) Combined SCF III &SVF III and pro rata SCF IV & SVF IV SMART Objectives (Columns a + c)	(e) SCF and SVF III and IV Performance (to March 2020)[10]
Investments	300 - 360	300 – 360	244 – 293	**544 - 653**	**666**
High Growth Potential Companies	160 - 200	160 – 200	130 – 163	**290 – 363**	**229**
Private Sector Leverage	£200 - £225 million	£220 - £260 million	£179 – £212 million	**£379 – £437 million**	**£494.2m**
FTEs over 10 years	1000-1800 FTE net jobs forecast	900 -1500 FTE net jobs forecast	733 – 1222 FTE net jobs forecast	**1733 – 3022**	2025: **18,000** Net FTEs forecast 2028: **41,100** Net FTEs forecast
Additional net GVA forecast over 10 years	£360 - £600 million	£320 - £550 million	£261 – £448 million	**£621 – £1,048 million**	2025: Net GVA **£1,676.4m – £1,851.0m** forecast 2028: Net GVA **£3,638.5m – £4017.5m** forecast

Economic impact and Value for Money

Below, the net impact to date (March 2020) and the forecast impact to 2028 are summarised. March 2020 was selected by SE to be the cut off point for the evaluation of fund / company performance and data provided was to March 2020. Forecasts, determined by a survey of portfolio companies, are to 2028 as this represents ten years from the recapitalisation of the funds in 2018 (beginning of SCF/SVF IV) and allows for an assessment of SMART objectives set in 2018, that require a view over 10 years. The main body of the report also assesses impacts to 2025 (to also meet ERDF reporting requirements), representing 10 years from 2015 and the beginning of the third iterations of the fund. RSM estimate that:

- the total actual (net) GVA created by portfolio companies to March 2020, ranges from £436.5m to £482.0m after adjustment for deadweight, leakage and displacement and taking

[8] SMART Objectives for SCF and SVF III included as part of wider objectives for Scottish Enterprise's Co-investment Funds (Scottish Seed Fund, Co-investment Fund, Venture Fund and Portfolio Fund).
[9] Pro rata allocation of objectives-based fund expenditure at the end of the evaluation period (i.e., March 2021) as a proportion of total funds allocated i.e., £61.1m spent out of £75m (81%).
[10] the targets noted in columns (a) and (b) are for the full SCF and SVF III and IV periods and the Funds' performance includes only the investments made for the period to 31 March 2020. Additional investments made from SCF and SVF IV which will contribute to these figures.

into account supply chain impacts. It is also estimated that between £270.6m and £298.8m of net GVA is directly attributable to the funds;

- based on the total SE financial investment (inclusive of all prior funding provided by SE to supported companies, the estimated cost of operating the funds (i.e., staff costs) and the financial input from SCF/SVFIII and IV) the actual impact ratio to date has been calculated to be between £1: £1.7 and £1: £1.8;

- the cost per net job created / protected for all SE investment (inclusive of all prior funding provided by SE to supported companies as well as the estimated cost of operating the funds (i.e., staff costs) as well as the financial input from SCF/SVFIII and IV) was £104,300 in 2019 and £335,300 to date (2020).[11] This unit cost will decrease as employment impacts are realised over time;

- forecasts for 2028 suggest that the impact ratio for total SE financial investment (inclusive of all prior funding provided by SE to supported companies, the estimated cost of operating the funds (i.e., staff costs) and the financial input from SCF/SVFIII and IV) could be between £1: £13.8 and £1: £15.3. The cost per net job[12] is calculated to be £8,000 in 2028;

- ERDF - funding of £36.6m has contributed to £58.5m gross GVA output and net GVA output of between £57.1m and £61.0m, giving an actual impact ratio of between £1: £1.6 and £1: £1.7. By 2028, the impact ratio is estimated to be between £1: £18.0 and £1: £19.9. The cost per job (ERDF supported jobs) for ERDF investment was £119,100 in 2019 and £321,900 in 2020. In 2028, the cost per job is estimated to be £5.3k.

Lessons learned and recommendations

Drawing together evidence from beneficiaries and stakeholders, as well as fund performance, it is clear that the co-investment model and current approach is appropriate and effective. It is well regarded by beneficiaries and investors and only a few areas of potential improvement have been cited by stakeholders.

Based on a pro rata allocation, the funds have successfully met (and in some cases significantly exceeded) the majority of their smart objectives, with only one (number of companies) falling slightly short. Targets relating to private sector leverage, job creation and, the generation of additional net GVA, have been significantly exceeded.

Drawing on SE Risk Capital Market Report evidence and the perspective of investors and investees, it is evident that the market failure rationale remains valid, with funding gaps persisting and demand for funding at this level cited as being relatively constant. Stakeholder feedback suggests that funding gaps may have evolved over recent years and the next stage of funding above SCF/SVF (Series A of £10m+ or immediately prior) is seen by some as difficult to access in Scotland and there is some evidence that the amount of funding required for SCF investments is increasing.

The recommendations cited within this report are as follows:

Issue: fund beneficiaries were very positive regarding the model and the current approach, suggesting only minor potential improvements to: enhance the efficiency of the administration/ support processes; maximise the value obtained from investor insight and

[11] Data gaps for employment figures means cost per job estimates are inflated.
[12] Net jobs are calculated based on adjustment for deadweight, leakage, displacement and employment multipliers. This is detailed in Chapter 3.

knowledge; ensure opportunities for beneficiaries to obtain other support/ advice are captured; and maximise opportunities to attract international investment.

Recommendation 1: where possible, SE to consider any further opportunities to streamline administrative and legal processes. It is recognised that this would need to be done in the context of continuing to protect SE investment interests (including application of MEOT in all deals)[13] and reflect total SE cumulative investment in previous rounds and deal specific risks. Companies too will often seek bespoke legal agreements based on their circumstances rather than a 'one-size-fits-all' approach.

Recommendation 2: SE to consider what further work can be undertaken to increase awareness and take-up by companies of available SE early-stage advice and support, particularly in areas where SE can add value (i.e., identifying appropriate finance, help with preparing to raise finance and how to take advantage of available incentives and wider SE support).

Recommendation 3: SE to continue to pursue opportunities for increased collaboration with SE's international arm, Scottish Development International (SDI), to showcase investment opportunities and give companies traction with international investors. A number of investors and investees highlighted the added benefit that SDI's international networks and contacts, as well as information and training has had on the supported businesses expanding into new markets. It is noted that this work is already being progressed following the recent launch of SG's Global Capital Investment Plan where SE plays an important role given existing relationships with international investors and development of a growing portfolio of attractive investment opportunities.

Issue: There is evidence that the SCF funding limit could be usefully increased to £2m based on the frequency of and importance of follow-on funding to achieving company progression. This would increase the availability of working capital to respond to opportunities and risks and is in response to a perception that this stage of the funding gap may be expanding to larger sized deals. It is noted that SCF partners are able to seek SVF funds for their companies if the SCF limit is reached and that this often occurs.

Recommendation 4: To facilitate these larger deals, for accredited partners, it is recommended that SE should consider increasing the SCF deal limit from £1.5m to £2m. N.B. This recommendation has already been enacted by SE.

Issue: Investors have stated that there is an increasing gap at the very earliest and highest-risk stage of the market. This is supported by market evidence, which across the UK, points to a gradual shift away from the very early stages (deals typically less than £500K into companies seeking first time equity, start-ups and seed deals). As the objective of SE and SG is to support the full pipeline of early-stage opportunities, the development of an intervention specifically targeting this stage and these opportunities should be considered.

Recommendation 5: SE should investigate the potential for establishing an intervention that supports riskier early-stage opportunities, with a particular focus on start-ups and new to equity investments, to complement the SCF and SVF. The Early-Stage Growth Challenge Fund, which did not require matched funding and had permittable State Aid in the product, developed in response to the Covid-19 pandemic, was identified by stakeholders as providing an example of a successful intervention targeted at this cohort of businesses.

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[13] Market Economy Operator Test. The purpose of the MEOT is to assess whether the State has granted an advantage to an undertaking by not acting like a market economy operator with regard to a certain transaction.

CONTENTS

APPENDICES

Appendices for this evaluation report are included in a separate document.

INTRODUCTION

1.1 Introduction and Terms of Reference

RSM UK Consulting LLP (RSM) was appointed by Scottish Enterprise (SE) in February 2020 to carry out the evaluation of the Scottish Co-Investment Fund (SCF) and the Scottish Venture Fund (SVF) across Phase III and IV of the funds' operation (i.e., between July 2015 and March 2020). The European Regional Development Fund (ERDF) provided support for the period July 2015 to September 2018 and the impacts resulting from ERDF support (i.e., July 2015 to September 2018) are to be reported separately. This can be found in **Appendix 1**.

The evaluation is to identify the distinct impact of the funds on outcomes for businesses, whilst also being mindful of the potential for beneficiaries to have been in receipt of other funds (including earlier SE investments and wider SE support) and the challenges associated with demonstrating causality. In reporting on ERDF-specific impacts, the evaluation is also required to assess impact at given geographies (i.e., Lowlands and Uplands and Highlands and Islands).

The evaluation will consider:

- rationale for public sector involvement in the provision of risk capital to private sector high growth companies;
- impact of the funds on the supply of capital to businesses in Scotland, including on international investors and investor diversity in the Scottish market;
- investment performance of the funds;
- strategic context of the funds, considering the policy, economic and market contexts within which the funds have operated;
- impacts of Covid-19 and Brexit on the funds' performance and company growth;
- contribution towards attainment of relevant measures of the national performance framework;
- economic performance of the funds; and
- recommendations to improve operations and impacts of the funds.

In addition, our evaluation will:

- examine the supply-side impacts of the funds (e.g., have new investors entered the market, the extent to which there is evidence of market failure being addressed, has investment behaviour changed between type of investor?);
- consider the role and contribution of the wider programme of support that investors (including SE) can offer and its impact on investees; and
- consider the role of wider complementary support provided by SE in achieving the impacts / outcomes of the funds.

1.2 Funds Overview

Small and Medium-sized enterprises (SMEs) are likely to face challenges in growth whilst at an early stage of development. Attracting equity finance is a key mechanism to enable growth. Other sources of capital (e.g., debt finance) are less suited to high-growth potential, early-stage companies as this type of financing requires repayment, which will pose challenges for a pre-revenue company (distinct from equity investment, where only a share of the profits is repaid). The lack of company track record will also mean companies may struggle to secure loans, or loans of an adequate size to enable growth. An explanation of the gaps / market failures the funds seek to address is outlined in **Chapter** Error! Reference source not found.**.**

SE's Co-investment Funds seek to address the systematic market failures in the supply of early-stage risk capital to high-growth Scottish businesses and have the following **strategic objectives**:

- to address gaps in equity provision for high growth businesses in Scotland;
- to attract international investment into Scotland;
- to support companies to find appropriate sources of follow-on capital and secure exit opportunities;
- to enable investors to increase their pools of investment through recycling capital and talent;
- to increase the diversity of funding options in Scotland, seeking new and varied co-investors and supporting Angel Syndicates to invest with more ambition.

The funds also had the following **SMART objectives,** shown in **Table 2**.

Table 2: SMART Objectives

Target	SCF III and SVF III SMART Objectives[14] (July 15 – July 18)	SCF IV and SVF IV SMART Objectives (Aug 18 – May 20)
Investments	300 - 360	300 – 360
High Growth Potential Companies	160 - 200	160 – 200
Private Sector Leverage	£200m - £225m	£220 - £260 million
FTEs over 10 years	1000-1800 FTE net jobs forecast	900 -1500 net jobs forecast
Additional net Gross Value Added (GVA) forecast over 10 years	£360 - £600 million	£320 - £550 million
Deals with international investors	-	20 – 30

Both SCF and SVF are private sector led and share equal risk and reward between SE and private sector partners. This encourages private sector growth through reducing the risk that would potentially deter private sector investors. The funds are managed by SE's Growth Investment Team (formerly the Scottish Investment Bank). Although the two Funds are similar, they are designed slightly differently to address investor preferences and make a distinction

[14] SMART Objectives for SCF and SVF III included as part of wider objectives for Scottish Enterprise's Co-investment Funds (Scottish Seed Fund, Co-investment Fund, Venture Fund and Portfolio Fund).

between investors who wish to transact multiple deals and those who many only with to invest in single or very few companies.

- SCF can only be utilised through the use of approved / accredited investment partners with whom SE has a formal relationship. These partners are responsible for sourcing and leading investment deals and SE's investment decision is essentially delegated to these investors, relying on their experience and investment decision making. SCF is best suited to investors who are experienced and wish to undertake multiple investments into Scottish companies. Nineteen angel groups and VCs are currently accredited investment partners, having undergone a robust diligence process to support their application and demonstrating they align with SE objectives. **SCF deals are limited to £1.5 million cumulative investment from SE**.

- The SVF can be accessed by any investor and enables SE to consider investments alongside a wider range of investors including overseas investors. SVF does require investors to approach SE with investment propositions, with SE making the investment decision. The specific investment approach adopted by SE in these deals is dependent on the specifics of the deal (such as the investment experience of the co-investor, whether arm's length to the company, stage of company, existing investment and alignment with SE's objectives). SVF, although being private investor led, involves SE at an earlier stage, potentially negotiating investment terms and undertaking its own diligence for the opportunity where appropriate. **SVF has a higher limit of £2 million per deal**.

To comply with State Aid Law, investment must also be agreed under the Market Economy Operator Principle (MEOP), that interventions may be considered free of State Aid when they are made on terms that a private operator would have accepted under market conditions. To be eligible for investment from either SCF or SVF, companies must satisfy the requirements outlined below.

Table 3: Eligibility Criteria

Criteria	SCF	SVF
Be a commercially viable business	✓	✓
Have, or be in the process of developing a significant operational presence in Scotland which is proportionate to the levels of investment being sought	✓	✓
Demonstrate the economic benefits to Scotland that could result from the investment	✓	✓
Demonstrate which other funding sources have been explored	-	✓
Fall within the EU definition of a Small to Medium Enterprise (SME)	✓	✓
Not be involved in a restricted sector[15]	✓	✓

Figure 1 and Figure 2 summarise the client journey for the SCF and SVF, respectively, whereby a company progresses from the initial notification stage, highlighting to SE a potential investable opportunity, to the post-investment stage of ongoing support.

A **transaction team** is responsible for completing investments brought to SE by its investment partners. In the case of SCF, the team will rely on the SCF partner's due diligence, whereas, in

[15] real estate/property development; social and personal services; pubs, clubs and restaurants; local services; banking, some financial services and insurance; motor vehicles; nuclear decommissioning; professional services; retail

the case of SVF, the team has the discretion to carry out formal additional due diligence activity in addition to that performed by the co-investor. In relation to both funds, the team will ensure that investments are made on commercial terms (meeting the so-called MEOT test[16]) and on an equal basis alongside the investment partners.

Portfolio managers engage with the investee once the deal has been completed and investment is made. Post investment, even in SCF companies, no decision making, or management of SE's investment sits with the SCF partners. SE is responsible for post investment management of all its investments regardless of whether the original transaction was through SCF or SVF, as SE is the shareholder in the company. Their role is to protect SE's investment interests and meet SE's strategic objective of maximising economic and financial value from SE's investment portfolio, providing support and oversight to supported companies, as well as mitigating risks. These individuals are responsible for a significant number of supported companies. In addition, companies can access the wider support available through SE. It is also frequently the case that companies will be in receipt of SE support at the start up and scaling stages including commercialisation, leadership and strategy development, as well as preparing companies to raise equity finance.

SE account managers, although not directly related to the delivery of the funds, also have a role to play in providing a close relationship between SE and the company, seeking to understand the company's ambitions and growth plans, and highlighting areas where SE can add value. Although the role of account managers is highlighted throughout this report, it should be noted that planned changes to SE's bespoke business development support (detailed further below[17]) may have significant impact on the account management relationship.

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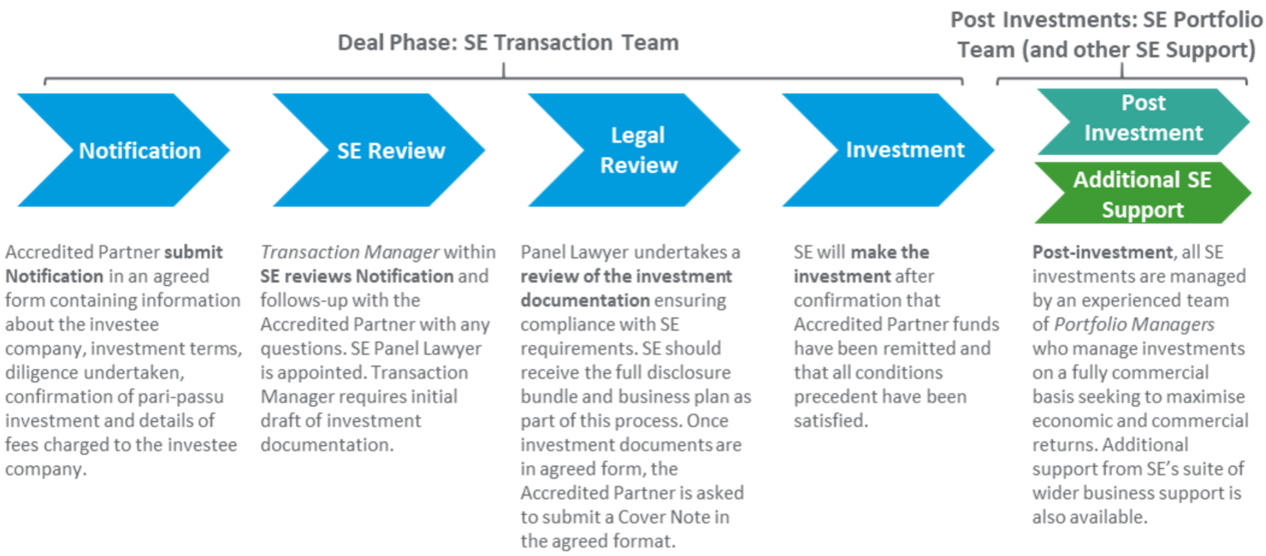
[16] Market Economy Operator Test. The purpose of the MEOT is to assess whether the State has granted an advantage to an undertaking by not acting like a market economy operator with regard to a certain transaction.

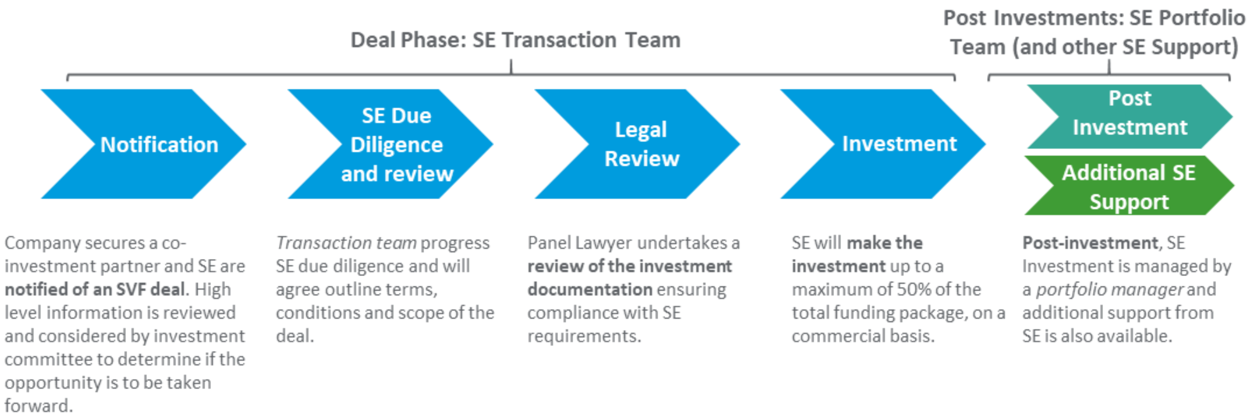
[17] The latest SE Business Plan (2021/22) sets out a change in the approach to providing bespoke business development support. This will mean a move away from supporting a fixed portfolio of Account Managed companies towards a model that seeks to serve more companies to implement opportunities that will sustain or create more quality jobs, that are fair, green and can last. The ambition is to deliver growth for more companies, keeping the elements that customers value, such as the face-to-face interaction, but also creating a model that is flexible and uses the skills of staff to achieve the greatest impact. This is in response to feedback from businesses on the need to build resilience and requests for help to adapt and grow in a changing economy. This will mean a shift in relationships during 2021/22 to focus on where there is a specific project or opportunity where SE can support a business to deliver. This means a move away from longer term account management to opportunity management, where face to face engagements will focus on achieving specific opportunities or projects and over a shorter timeframe. This will enable front line staff to work with more companies. To qualify for opportunity management support, businesses will need to show that they are committed to creation or safeguarding of quality jobs, to Fair Work and to Net Zero.

Figure 1: SCF Process



Source: Adapted from SE SCF Partner Form

Figure 2: SVF Process

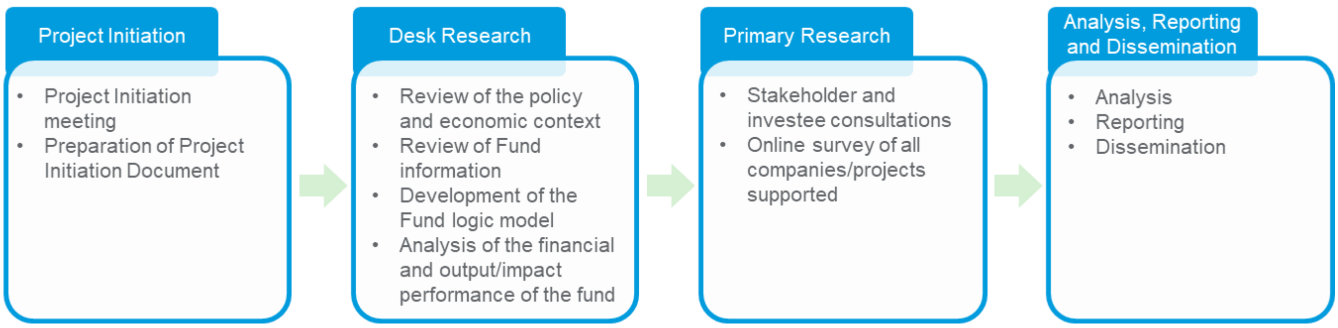


Source: Adapted from SE website, previous evaluation reports and notes from SE

1.3 Evaluation methodology

To meet the terms of reference we carried out a mixed-methods evaluation comprising the following activities, shown in Figure 3.

Figure 3: Work Programme



Desk Research – SE have provided actual performance and economic data for the funds and individual companies, to enable an analysis of the funds' performance, outcomes and impacts. The desk research process also involved a review of key features and changes within policy and market context during the evaluation period and, the development of a logic model to illustrate the rationale behind the funds.

Stakeholder and investor consultations – interviews were held with representatives of SE, SG and Highlands and Islands Enterprise (HIE), including workshops with the transaction and portfolio management teams, and with 16 co-investors.

Online survey of all companies supported – an online survey was circulated to 170 active supported companies to explore key evaluation questions including the effectiveness of the offer and delivery model, project performance and benefits and impacts. A total of 57 companies responded, reflecting an overall response rate of 34%, providing good representation of those who were supported by SCF (27%), SVF (36%) and those who received funding from both funds (42%). Detailed online interviews were held with 11 beneficiaries. All contributions from interviews and surveys are anonymous.

Analysis and reporting – our analysis of the findings has been based on the logic model (see Figure 4) and the key research questions identified in the evaluation brief. The beneficiary consultations have also been used to develop case studies outlining beneficiary journeys, learning and impacts, illustrating investee experiences and impacts supported by the funds; these are distributed throughout **Chapter** Error! Reference source not found. as boxed examples to i llustrate key points.

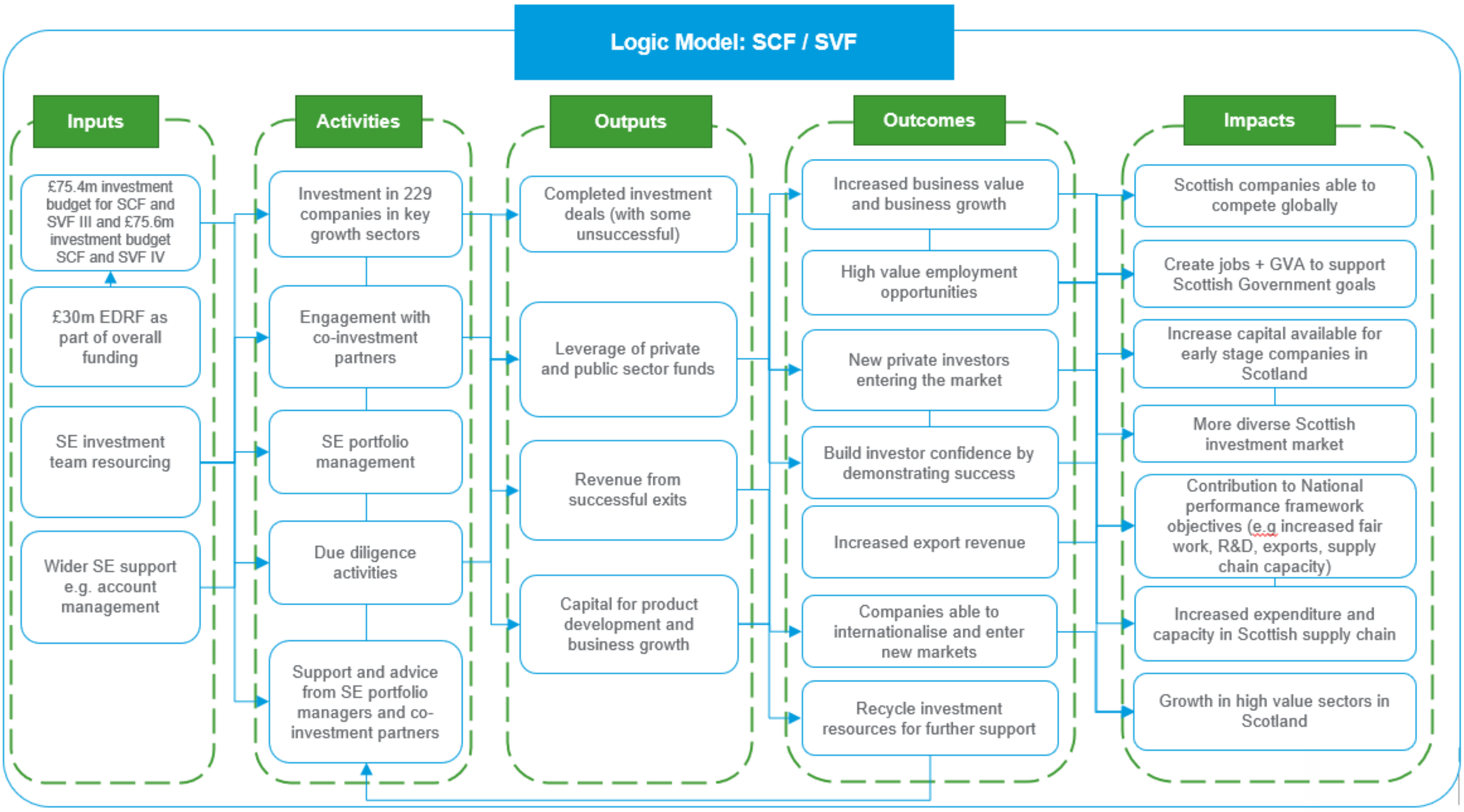
A key output from the analysis is an estimation of (gross and net) GVA impacts. The GVA method is summarised in **Chapter** Error! Reference source not found. and underlying a ssumptions are detailed in **Appendix 5**. To account for previous / additional SE intervention, measurements of impact (i.e., cost per job, impact ratio) have been calculated based on SE inputs, not just from SCF/SVF III and IV, but considering the total financial input into companies from SE. It is also acknowledged that non-financial impact (e.g., portfolio staff, Account Managers) are also a significant input from SE, that should also be considered when factoring in these Value for Money measures.

This report presents the findings from each of the main research methods in sequence, in their own individual chapters. In the conclusions chapter, the qualitative findings have been reviewed alongside quantitative data to address key evaluation requirements and, **Chapter** Error! R eference source not found. sets out the evaluation findings and lessons learned.

Logic model

Development of the Fund logic model – adopting HM Treasury standard evaluation practices set out in the Magenta Book, we have developed a "logic model" to set out the intended objectives, inputs, activities, outputs, and outcomes. This reflects the ERDF funding support, the different impacts and outcomes anticipated from investments, and the Strategic and SMART objectives set out above. The completed logic model is shown overleaf in Figure 4. The logic model and underpinning assumptions have then been used to develop and refine the key evaluation questions and research tools.

Figure 4: Logic Model



1.4 Report Structure

This report is structured as follows:

- **chapter 1** has introduced the aims of the evaluation, provided an overview of the funds and presented the logic model for the funds;
- **chapter 2** provides an overview of the policy and market context of the funds;
- **chapter 3** analyses the financial and economic performance of the funds, assessing the funds inputs, outputs, outcomes and impacts;
- **chapter 4** focuses on the perspectives of SCF/SVF stakeholders, investees and beneficiaries, drawing together their perspectives on the funds, the design, delivery and impact;
- **chapter 5** concludes and identifies a set of lessons for future implementation.

2. CONTEXT REVIEW

2.1 Introduction

This section reviews the policy, economic and market context within which the two Funds have operated.

2.2 Strategic and Policy Context

Appendix 2 details policy documents, the economic context and wider policy ecosystem (considering investment priorities, inclusive growth agenda, etc.) relevant to the funds evaluation period. Key findings from this review are summarised below:

- encouraging and supporting an innovative, enterprising, skills-based economy that provides high value jobs and supports Scotland's competitiveness in specialist sectors is a key goal of Scottish public sector stakeholders. Key documents highlighting these objectives include Scotland's Economic Strategy (2015), SG's Economic Action Plan (2019-2020) and Shaping Scotland's Economy (Inward Investment Plan) (2020). The funds contribute significantly to these objectives, by strengthening key sectors, enabling growth of innovative companies that generate high-value jobs and by supporting Scottish supply chains;

- ERDF priorities for Scotland included the themes 'strengthening research, technological development and innovation' and 'enhancing the competitiveness of SMEs' as key drivers to achieve EU2020 objectives.[18] The ERDF's 'Scotland Operational Programmes 2014-2020' strategy justifies the focus on these, highlighting that both a higher fear of failure and limited source of finance for investment are key issues in Scotland, and that the SME-dominated economy has the potential to grow, as Scottish SMEs take advantage and access wider markets.

- Scottish Government and ERDF strategy documents highlight the sectors in which Scotland has competitive advantage and future opportunity. These include energy transition, transport decarbonisation, software and IT, digital financial services, digital business services, space, health-tech, life sciences, chemical industries, creative industries, textiles and food and drink innovation. There is a commitment to specifically support these sectors and bring the benefit to all of Scotland. The funds specifically target a significant number of these priority sectors, providing necessary capital to strengthen these sectors and enhance competitiveness and innovation;

- there is a clear policy objective to develop the investor market in Scotland and to see Scotland attract a greater proportion of equity investment from international investors (e.g., as highlighted within Scotland's Global Capital Investment Plan (2021), Scotland's Trade and Investment Strategy 2016–21 and Scotland's Inward Investment Plan (2020)). A key aspect of recent strategies is to promote investment in sectors (identified above) where Scotland can compete globally;

- aligned with policies which seek to promote investment in Scottish businesses, gaps which the funds seek to address include general market failures such as investors favouring larger deals with later-stage investments, and inherent risks taking a new product to market putting off early-stage investment as well as structural features particular to the Scottish market. These structural features include the focus of large-scale UK investment on London and the

[18] EU2020 is a strategy responding to the 2008 global financial crisis, with the aim of strengthening and transforming Europe's economy through Smart Growth, Sustainable Growth and Inclusive Growth.

South East, impacting early-stage access to capital as well as engendering equity gaps in the larger, later-stage deals over £2 million[19];

- as well as the focus on economic development and investment, core cross-cutting themes include a commitment to inclusive growth, fair-work and place-based opportunity, as well as the central need to decarbonise / transition to net zero emissions. The funds have addressed these wider ambitions by creating high-value jobs, supporting companies delivering energy transition, and supporting place-based economic opportunities (e.g., in rural areas by promoting investment in textiles, energy, and food and drink manufacturing);

- the review also considers the impact of external events (e.g., Covid-19, Brexit) on the economic context, highlighting the potential exposure of key sectors (manufacturing, construction, financial services) to Covid-19 and Brexit impacts, as well as other social impacts.

From this review, it is evident that the funds are of central importance to delivery of SG policy goals. The funds have sought to, and succeeded in, stimulating the Scottish investment market in providing risk capital to innovative, high-growth potential companies and increased the overall scale of the market in terms of number of deals transacted and total investment. Supporting these companies is strengthening key sectors of strength in Scotland and providing high-value job opportunities. The funds also have a wider remit of developing the investment market in Scotland and attracting international investment, which are also key goals for Scottish policymakers. Chapter **Error! Reference source not found.** and Appendix 7 of this report p rovides further evidence on the wider influence of the funds.

2.3 Scotland's Public Sector Early-Stage Risk Capital Support

Appendix 3 provides a review of key public sector supports for early-stage risk-capital that is available to businesses in Scotland. Key findings are outlined below:

- over the period of the evaluation the main public equity support mechanisms active in Scotland were Scottish Enterprise's Co-investment Funds (SCF and SVF, and formerly the Scottish Seed Fund and Scottish Portfolio Fund);

- the Covid-19 pandemic caused significant disruption and uncertainty to the investment market, and even further limited the amount of risk capital available to early-stage companies. To mitigate this, two initiatives, the Scottish Enterprise Early-Stage Growth Challenge Fund (ESGCF) (Scotland) and the British Business Bank Future Fund (UK wide) were set up. The ESGCF provided convertible loans and a small grant component (20%) of a total of up-to £300k to early-stage companies, which is intended to be converted into equity at a future funding round. The Future Fund provided match funding from private investors. In Scotland, the ESGCF contributed to 90 Scottish deals[20] and the Future Fund supported 7 (total value £2.6m) Scottish beneficiaries.[21] Both interventions contributed to the strong market performance seen in 2020 despite the pandemic;

- in November 2020, the Scottish National Investment Bank (SNIB) was launched as a development bank to invest in projects and businesses that will impact the national economy, where the private sector is not providing sufficient investment. SNIB invests in opportunities,

[19] Source: SE Board Approval Papers for Third and Fourth Iteration of the funds.
[20] Scottish Enterprise (2021), Investing in Ambition: Scotland's Risk Capital Market in Context
[21] https://www.british-business-bank.co.uk/press-release/future-fund-publishes-diversity-data-of-companies-receiving-convertible-loan-agreements-8/

based on its missions: a just transition by 2045, equality of opportunity through improving places and harnessing innovation to help people flourish; and

- other SE funds and initiatives such as the Energy Investment Fund, Scottish-European Growth Co-Investment Programme have also provided risk capital to early-stage companies in Scotland during the evaluation period. Scottish Enterprise has also invested into externally managed funds such as Epidarex Life Sciences Fund II to increase the availability of growth capital.

2.4 Scotland's Risk Capital Market

The investor market context is important to consider as the overall investment ecosystem has the potential to influence the level of impact generated by the funds. A summary of the Scottish and UK investment market is provided in **Appendix 4**. This draws on SE's risk capital market report[22], research undertaken by SE, based on Beauhurst data, that tracks the performance of the Scottish equity market and benchmarks with the other regions and nations of the UK. Salient points to note in relation to Scotland include:

- in terms of number of deals, Scotland is the only UK Nation / region to show positive growth from 2018 to 2019 and 2018 to 2020. After London and the surrounding regions (Southeast of England and East of England), referred to as the Golden Triangle, Scotland is amongst the next best performing areas. Scottish Enterprise is very active in the market - Beauhurst report that SE is consistently amongst the 10 most active investors by deal numbers in the UK[23];

- across the UK, relative performance is significantly impacted by the increased prevalence of very large deals of £50m and £100m plus and while these do occur across the UK these are generally focused on London, and do materially influence performance;

- from 2011 to 2020, there has been a 170% growth in the Scottish Market overall, with a 133% growth in the underlying market (deals under £10 million). From 2015 (when SCF/SVF III was initiated) and 2018 (when SCF/SVF IV was initiated) the growth in the underlying market represents 50% and 20% respectively;

- likewise, the number of deals in Scotland has grown from 2011, to be outperformed only by London and the Southeast in terms of deal numbers in 2020. However, since 2016, the proportion of deals in Scotland that were first time deals has dropped from 44% to 24% in 2020, although this 2020 figure should be considered in the context of Covid-19, where investors focused on protected their portfolio. This is consistent with the UK trend where first time deals fell from 43% in 2016 to 24% in 2020 and points to the ongoing challenge early-stage companies face when seeking to raise equity finance for the first time;

- while the Scottish market has a diverse mix of investor types included venture capital and corporate investment, the Business Angel market in Scotland is particularly strong, with evidence of increased deal syndication where more than one Business Angel Group will come together to invest in a deal. In common with the regions and devolved countries outside the Golden Triangle, Scotland faces similar challenges with respect to growing a pipeline of attractive investment opportunities able to secure international investment;

[22] Scottish Enterprise (2021) Investing in Ambition Scotland's Risk Capital Market in Context
[23] Beauhurst (2021), The Deal: Equity Investment in the UK in 2020

- the vast majority of priority sectors for SCF and SVF are represented in the sectors receiving the most amount of investment, highlighting a significant degree of alignment between the ambitions and objectives of the fund, and the outcomes for the Scottish Risk Capital market.

2.5 Summary

Attracting investors to Scotland, supporting sectors in which Scotland has competitive advantage and potential future opportunities for growth, and creating new, high-value jobs across the country are central SG priorities. Key SG strategies (e.g., Scotland's Global Capital Investment Plan, Scotland's Trade and Investment Strategy and Scotland's Inward Investment Plan) outline a clear policy objective to develop the investment market in Scotland and see Scotland attract a greater portion of international investment. The funds have delivered against these objectives by stimulating the Scottish investment market, positioning Scotland as an attractive option for international investment, as well as supporting high-growth potential companies in innovative and high-value sectors, to add skilled jobs to the economy.

Structural factors and market failures impact on the availability of funding to early-stage companies and as such, there remains a rationale for public sector intervention within the Scottish market.[24] Although the number of deals below £10 million has increased 50% from 2015 and 20% from 2018 to date, there is a negative and wider UK trend in the number of first-time deals from 2016.

Although there have not been wholesale changes in the makeup of the Scottish Investment market over the period of the funds activity, business angels and angel syndicates have remained particularly strong, with increases in the proportion of deals involving business angels. Scotland has also done relatively well in attracting PE and VC investments, with the second highest deal participation by these investors outside the Golden Triangle. Scotland still faces the ongoing challenge (similar to rest of UK nations and regions) of growing a pipeline of investor opportunities that can attract international investment.

[24] An overview of market failures and structural factors providing rationale for the intervention can be found in SE Board Approval Papers for Third and Fourth Iteration of the funds.

3. PERFORMANCE ANALYSIS

3.1 Introduction

This chapter uses financial and company monitoring data to assess the performance of the funds and to assess their economic impact. Data has been sourced from SE's growth investment data, company monitoring and, in cases where data is missing or unavailable, survey data has been used. In some cases, outcome data for supported companies (i.e., employment levels, turnover) has not been provided, which may result in outcomes for invested in companies being understated. A separate appendix (**Appendix 1**) has been produced analysing performance of the companies and funds supported by the European Regional Development Fund. The following analysis relies on a number of key assumptions which will impact on the accuracy of reported outcomes and impacts. These assumptions include:

1. the data provided on company economic data (e.g., turnover, employment) is complete and accurate[25];
2. outputs are assumed to be proportional to financial inputs. Financial input to supported companies from SCF/SVF III and IV represents 62% of the total SE investment into these companies, with 38% of investment coming through prior iterations of the funds or other SE investment supports. In order to report on outputs directly attributable to this funding intervention we have assumed that outputs and impacts are proportional to financial inputs and are therefore reported as 62% of the total. This approach is detailed further in section 3.2.
3. GVA calculations, and corresponding measures of economic impact, are based on average GVA per head estimates per sector, which may underreport GVA for high-performing, innovative companies, and may overestimate GVA for pre-revenue companies. The assessment of additionality also relies on benchmarks and guidance documents;
4. data derived from survey activity is assumed to represent the entire population[26];
5. future projections are accurately reported and the optimism bias (OB) of 20% applied is appropriate.[27]

3.2 Overview

229 companies were supported through 666 deals (SCF III: 204 deals, SCF IV: 112; SVF III: 232; SVF IV: 118) over the period July 2015 – March 2020, investing a total of £158.1m (not including any other public money leveraged) into companies across twelve priority sectors. 29 companies have exited to date (repaying £27.7m in investment) and 19 companies have had deals written-off. Of the 229 supported companies, 123 (54%) individual companies received investment

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[25] A review of this data has found it to significantly underreport company economic data, due to gaps in reporting and lag time in receiving company data, therefore meaning that outcomes and impacts are likely to be underreported.

[26] Surveyed companies are found to broadly reflect the wider population. Comparison of the sectors represented in the survey with those in the portfolio shows that all sectors are represented to the same proportion +/- no more than 4%. The average SE investment for surveyed companies is £330k, 38% larger than £240k average for the portfolio, and average company size in 2020 was 18, slightly above the portfolio average of 14.5.

[27] This OB figure is based on benchmarks from other similar interventions (with OB ranging from 20% to 25%), as well as SE data on company forecast accuracy, which shows that, (albeit over much shorter timeframes) 25% of SE account managed companies overestimate forecast turnover and 28% overestimate forecast employment). 13% underestimate turnover and 9% underestimate jobs growth. This broadly demonstrates that the majority accurately or underestimate performance, and hence the lower end of the identified range has been selected. A full discussion of OB calculation can be found in Appendix 6.

support from SE prior to receiving funding from SCF / SVF III / IV. This support totalled £95.8m, equating to 38% of the total SE inputs into supported companies. A breakdown of investment by funding source is detailed in **Table 4**. **In our analysis of fund performance, to account for the support received prior to SCF / SVF III and IV, only 62% of outputs, outcomes and impacts will be attributed to the funds.**[28]

Table 4: SE financial input into supported companies

SE Financial Inputs	Amount	% of Total Investment
SCF / SVF III and IV funding	£158.1m	62%
Funding from previous SCF / SVF funding rounds	£66.2 m	26%
Support from other (previous SE funding interventions	£29.6 m	12%
Total	**£253.9m**	**100%**

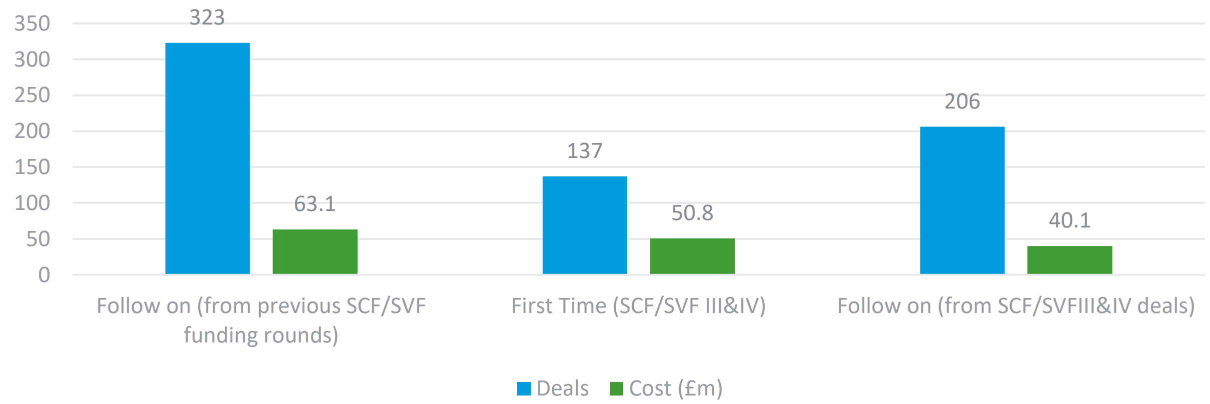
Source: SE SCF / SVF Evaluation Deals Data

Types of deals

Over the period evaluated, 323 deals were follow-on deals, where companies had received funding from prior iterations of SCF / SVF, and 206 were follow-ons from deals initiated in the SCF/SVF III and IV period. Close to 80% (529) of deals done and over 65% (£103.2m) of the SE investment total related to follow-on investments.

From July 2015 to March 2020, only 137 new deals occurred, for a total investment of £50.8m. The average deal size for initial investments is £370k, whilst follow on investments are significantly smaller, at £195k. This analysis will split out investment in companies that have previously received SE support (123 companies) and those who were first supported by SE in the SCF / SVF III and IV funding period (106 companies).

Figure 5: Type of deal by number and SE investment value



Source: SE SCF / SVF Evaluation Deals Data

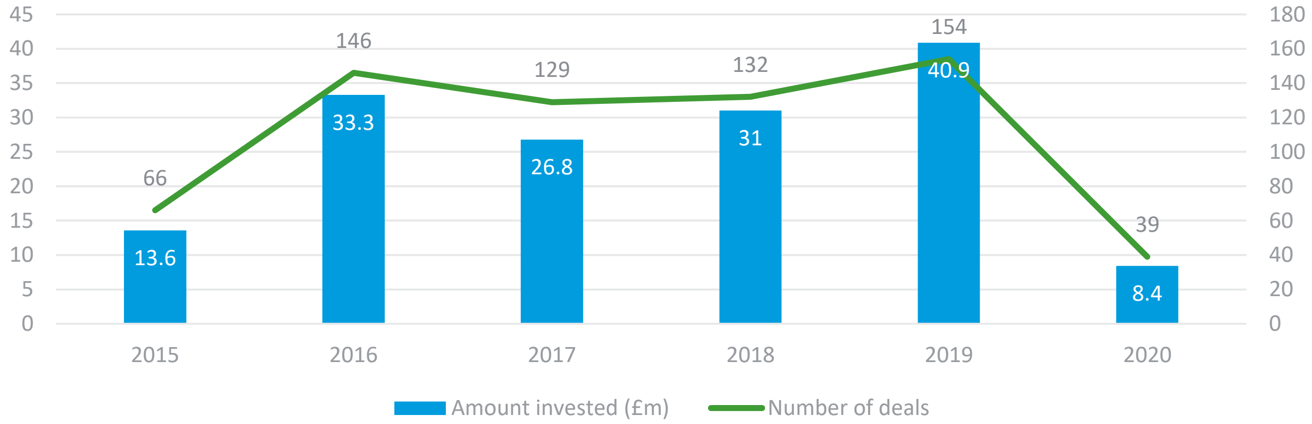
[28] RSM acknowledges that the identified pro-rata approach to apportioning impact has limitations - it does not consider the medium/long term impacts of earlier interventions, nor the interplay between outputs/ impacts generated by SCF / SVF III & IV and those resulting from earlier interventions. However, as agreed with SE, given data constraints, the pro-rata approach is the only suitable approach to providing a quantitative estimate of the funds attributable impact.

Investments by Year and Fund

A total of **£158.1m** has been invested by SE over the evaluation period, excluding any private leverage. **Figure 6** highlights that a total of 66 deals took place in the year of launch (2015). The funds launched in July 2015 and therefore reflects half a calendar year. This activity related exclusively to SCFIII and SVFIII.

The total number of deals peaked in 2019, at 154 although engagement has been fairly consistent since 2016, averaging 119 deals per year from this point. Total deals from 2020 appears lower and is explained by the review period ending on 31/03/2020, or one quarter of the 2020 calendar year. Investment continued after this period but is out-with the review period.

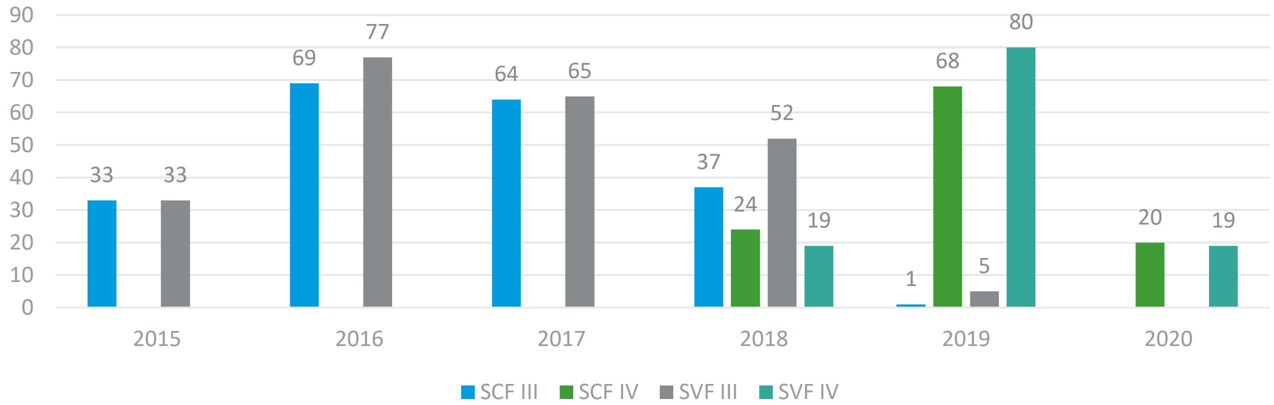
Figure 6: Total deals and investment per year



Source: SE SCF / SVF Evaluation Deals Data

Figure 7 highlights that, over the period 2015 to 2017, all deals were from SCF III and SVF III. In 2018, the fourth iteration of the co-investment fund was approved and at this point, there was broad balance in the predominant source of deals, until 2019 onwards when SCF IV and SVF IV became the core source of deals, as the third iterations funding period came to an end. The overlap in 2018 can be explained by the fact that the SCF/SVF III funding period ran until July 2018, and SCF/SVF IV began in August 2018. A small number of SCF/SVF III deals occurred in 2019, with deal processes potentially starting in the SCF/SVF III funding period, but taking longer to complete, with deals hence recorded in 2019.

Figure 7: Deals per year, by fund

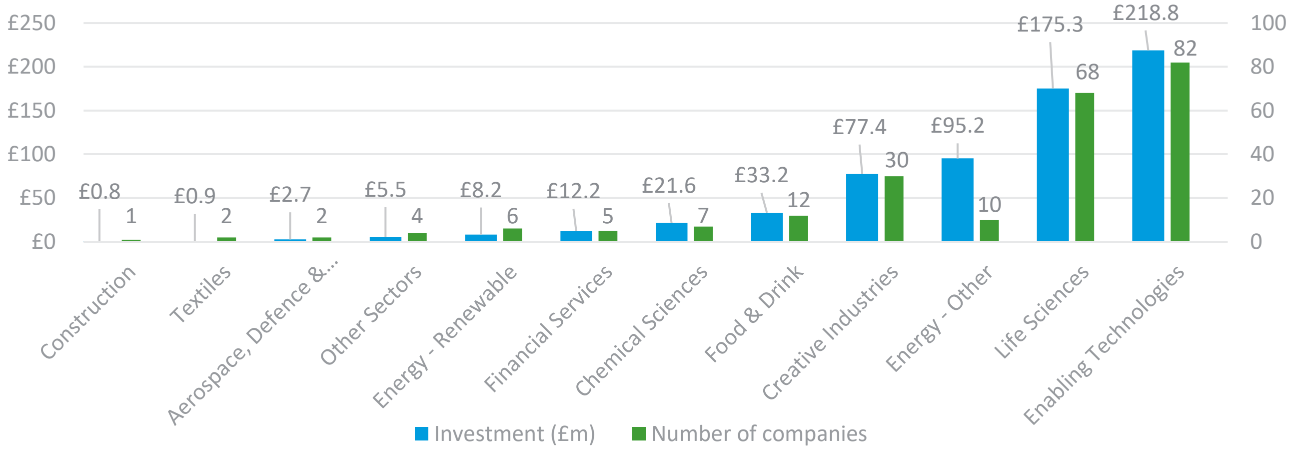


Source: SE SCF / SVF Evaluation Deals Data

Investment sectors

The funds invested across a large range of high growth sectors. As can be seen in Figure 8, the sectors with the most supported companies included Enabling Technologies (35.8% of all supported companies) and Life Science (29.7%). Creative Industries, Energy (renewables and other) and Food and Drink make up the next most common sectors for investments with 30, 16 and 12 supported companies, respectively. The figure also shows the total amount invested (including SCF / SVF investment, private leverage and other public funding) per sector, with the same main sectors accounting for the largest amount of total investment. However, notably, energy (other[29] and renewables) received greater investment, despite significantly fewer deals, resulting in a higher ratio of investment to deals than all other sectors invested in.

Figure 8: Number of supported companies per sector



Source: SE SCF / SVF Evaluation Deals Data

3.3 Investment and Leverage

Fund Investment

As shown in **Table 5**, SVF III makes up the greatest proportion of the total investment at c39% and both SVF funds have been able to invest more than the comparable SCF iteration, and have made, on average, larger deals. The size of deal varied greatly, with 7% of deals below £30,000 and 4% of deals greater than £1 million in size.[30] On average, SE invested £240,000 per deal made across the four funds.

Table 5: Actual Fund Investment

Fund	Number of deals	Actual Investment (to March 2020)	Average deal size (SE Investment)	% of Total Invested
SCF III	204	£35.6m	£174.4k	22.5%
SVF III	232	£61.5m	£264.9k	38.9%
SCF IV	112	£24.7m	£220.5k	15.6%
SVF IV	118	£36.4m	£308.6k	23.0%
Total	**666**	**£158.1m**	**£237.4k**	**100%**

Source: SE SCF / SVF Evaluation Deals Data

[29] Energy (other) sector includes oil, gas and other non-renewable energy sector companies
[30] These deals of over £1 million were received by 25 companies in the portfolio (11%). These companies account for 24% of turnover, 27% of employment growth, and 15% of international sales.

Private Sector Leverage

Deals have generated approximately £494.2m in private sector leverage, representing over 75% of the total monies invested (the 25% balance being SCF and SVF funds and other public sector funding) in companies, shown in **Table 6**. The proportion of private capital leveraged has been roughly consistent across the funds, with leverage ranging between c70% and 78%, although the Scottish Venture Funds (III and IV) do show an increased percentage of private capital than the SCF counterparts. This may be attributed to the larger limit on deals for SVF, enabling it to lever greater private capital from a more diverse investor base, include VCs.

Table 6: Private Sector Leverage

Fund	Private Capital Leveraged	SE Investment	Other Public Sector Investment	Total Investment	% of total investment private capital
SCF III	£111.2m	£35.6m	£2.2m	£149.0m	74.6%
SVF III	£215.8m	£61.5m	£1.1m	£278,4m	77.5%
SCF IV	£57.0m	£24.7m	£0.2m	£81.9m	69.6%
SVF IV	£110.2m	£36.4m	£0	£146.6m	75.2%
Total	**£494.2m**	**£158.1m**	**£3.5m**	**£655.9m**	**75.3%**

Source: SE SCF / SVF Evaluation Deals Data

Private sector capital was provided from Angel Syndicates and Other Private Sector Investors (e.g., High Net Worth Individuals, Venture Capital, and Corporate Investors). **Table 7** details the source of private capital per fund. The table shows that overall, Angel Syndicates accounted for 27% of private investment, compared to 73% in Other Private Sector capital. SVF funds had a much greater proportion of deals from Other Private Sector sources than Angel Syndicates, whereas SCF funds saw a more even distribution of private funding sources. Many angel syndicates are SCF accredited partners, including the largest and longest established. Given the way the funds operate, investors use SCF preferentially over SVF to co-fund their investments. The SCF model is likely to suit established Angel Groups who undertake multiple investment into Scottish companies, whilst the SVF model is more suited to less active investors, investors who are new to the Scottish market (and who may apply to become SCF partners after having demonstrated a track-record) as well as to VCs and Corporate Investors, who are more likely to undertake one off investments. The larger limit on deals for SVF is also likely to suit those wishing to take part in larger deals.

Table 7: Source of Private Capital

Fund	Source of private capital	Amount Leveraged	% of total private investment
SCF III	Angel Syndicate	£54.5m	49%
	Other Private Sector	£56.7m	51%
SVF III	Angel Syndicate	£31.7m	15%
	Other Private Sector	£184.2m	85%
SCF IV	Angel Syndicate	£33.2m	58%
	Other Private Sector	£23.9m	42%
SVF IV	Angel Syndicate	£14.7m	13%
	Other Private Sector	£95.7m	87%
Total	**Angel Syndicate**	**£133.7m**	**27%**
	Other Private Sector	**£360.5m**	**73%**

Source: SE SCF / SVF Evaluation Deals Data

Other Public Sector Investment Funding

Investment funding from other public sector[31] bodies totalled £3.5 million, shown in **Table 8**. SCF III saw the majority of additional public sector investment at 63%, and SVF III saw 32% of the total other public funding. Life Sciences was the main sector receiving 72% of total other public sector investment. Energy – other (16%), Enabling Technologies (8%) and Chemical Sciences (4%) were the other sectors able to leverage additional public money. Of the total 666 deals, only 20 (3.0%) involved other public sector funding. This accounts for just over 2% of the SE investment, which, when benchmarked against a previous SCF iteration, is lower than the 5.6% of additional public sector investment.[32]

Table 8: Other Public Sector Investment

Fund	Other Public Sector Investment	% of total other public sector investment
SCF III	£2.2m	62.6%
SVF III	£1.1m	32.3%
SCF IV	£0.2m	5.1%
SVF IV	£0	0%
Total	**£3.5m**	**100%**

Source: SE SCF / SVF Evaluation Deals Data

Investment Performance

The funds have invested in 19 companies with deals that have been written off. As shown in **Table 9**, all write-offs to date have been from either SCF III or SVF III, however, caution should be applied to the interpretation of this given the extent to which investee companies have accessed funding from both the SCF and SVF and with respect to follow on rounds in various iterations of the funds. The largest proportion of written off amounts (75%) is from the Venture Fund reflecting higher incidence of larger deal sizes. The investment amount written off equates to 4.2% of total SCF/SVF III and IV investment, which is the same rate of write off as in SCFII[33] and is lower than the write off rate for SCFI (5.5%).[34] When compared to other similar UK co-investment funds, this write off rate is as expected for a fund of this nature i.e. operating at the higher risk end of the market.

Table 9: Investment Write-Off

	SCF III	SVF III	Total
Write Off	£1.6m	£4.9m	**£6.6m**

Source: SE SCF / SVF Evaluation Deals Data

As shown in Table 10, 29 investments, totalling £22.4m in SE investment, have been disposed of with a return of £27.7 million, giving a profit of £5.3 million. 17 companies exited for a profit, and 12 companies exited at a loss. Additional income from interest, dividends, fees and value recovered from write-offs totals £0.87 million.

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[31] Other public sector investment captures a wide range of potential additional sources of public sector capital, aggregated into this categorisation by SE monitoring. Examples of sources of other public sector investment received by portfolio companies include interventions backed by the British Business Bank and private manged funds such as the Epidarex Venture Capital which are in receipt of public money at the fund level.

[32] SE (2008), Evaluation of the Scottish Co-Investment Fund, prepared by Hayton Consulting

[33] SE (2016), Evaluation of the Scottish Co-Investment Fund (April 2009 – December 2013), prepared by Malcolm Watson Consulting

[34] SE (2008), Evaluation of the Scottish Co-Investment Fund, prepared by Hayton Consulting

Table 10: Share Disposals

	SE Investment in exited companies	Share Disposals	Income from capital repayment/ disposals	Profit from disposals
Total	£22.4m	£13.8m	£27.7m	£5.3m

Source: SE SCF / SVF Evaluation Deals Data

182 companies remain active investments, with a current total **Net Book Value**[35] **of £117.6 million.**

With a total initial investment of **£158.1m**, income on that investment of **£28.6m** and a current (as of 31 March 2020) Net Book Value of **£117.6m**, the **current Gross Return on Investment** overall for the funds is **-7.55%**. This should be viewed in the context of the Covid-19 pandemic where valuations as of 31 March 2020 were significantly suppressed due to uncertainties at the time.

A general feature of early-stage investing is that 'losers' (i.e., companies which fail to deliver on their original promise and do not perform well) tend to be identified early (and are hence reduced in value). The 'winners' take time to mature with exits (where valuation uplifts may be expected) occurring later in the investment cycle. Within the Scottish Enterprise Portfolio, the average period taken to exit is 8 years, with the market as whole typically taking 8-10 years to exit from the initial investment. To put this in context, the Net Book Value at the end of July 2021 of this cohort of investee companies had increased to **£137.3m** and income on investment at this point in time was **£30.8m**, producing a **gross Return on Investment of 6.29%**, which indicates a positive direction of travel as 'winners' begin to generate strong returns and as companies begin to recover from the impact of COVID.

3.4 Outcomes

This section looks at the outcomes (e.g., employment, turnover, etc.) for supported companies following investment from the co-investment funds. As previously highlighted, the extent of the outcomes presented may be understated as data has not been collected for all supported companies, and in particular, the year 2020 is underreported.[36] This section, in order to report outcomes as attributable to SCF / SVF III and IV as well as provide analysis on the difference in outcomes for those companies who have received prior investment, will report across **different cohort groups** (**prior funding and first-time investment) as well as report the total outcomes for companies and the proportion (62%) attributable to SCF / SVF III and IV**.[37]

[35] Net Book Value is calculated using the International Private Equity and Venture Capital Valuation (IPEV) Guidelines which puts forward recommendations, intended to correspond to current best practice, on the valuation of private equity and venture capital investments. Valuation will use a range of techniques including a market approach (multiples, industry valuation benchmarks, available market prices); income approach (discounted cash flows); and replacement cost approach (net assets) to come up with an accurate estimate of an investment.

[36] SE has recognised these challenges and is undertaking work to backfill data on these key outcomes into the organisation's CRM system.

[37] This 62% apportioning of outcomes does not include additionality adjustments but reflects that 62% of total investment in supported companies came from SCF/SVF III and IV and the remaining 38% of investment came from previous iterations of the funds or other SE sources of investment. A discussion of this approach can be found in section 3.2.

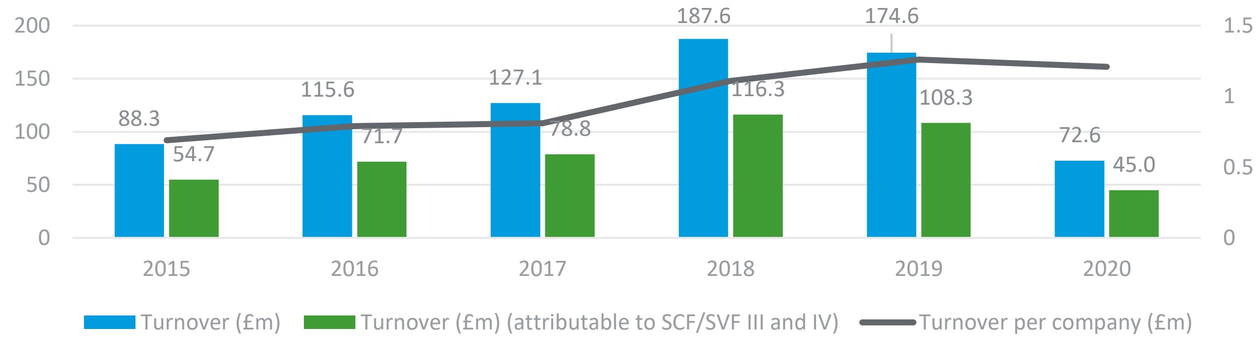
Turnover

During the evaluation period, companies supported by the funds have generated turnover of **£765.8m**. The annual breakdown of this turnover is presented in **Figure 9**. Of this total, **£474.8m** can be attributed directly to the funds' investments. The average turnover per company[38] has increased year-on-year, by 76% from 2015 to 2020, increasing from £0.7m to £1.2m.

From the year of first investment, to the most recent available data, the average turnover growth rate for portfolio companies was 366%. 79 companies had no turnover in the first year of investment, and among these companies, their average final turnover equated to £0.5 million.

The top 20% of companies accounted for a significant proportion of this growth rate, with an average of 1653%, compared with the bottom 80% of companies seeing an average of just 41% growth.

Figure 9: Total turnover (£m)



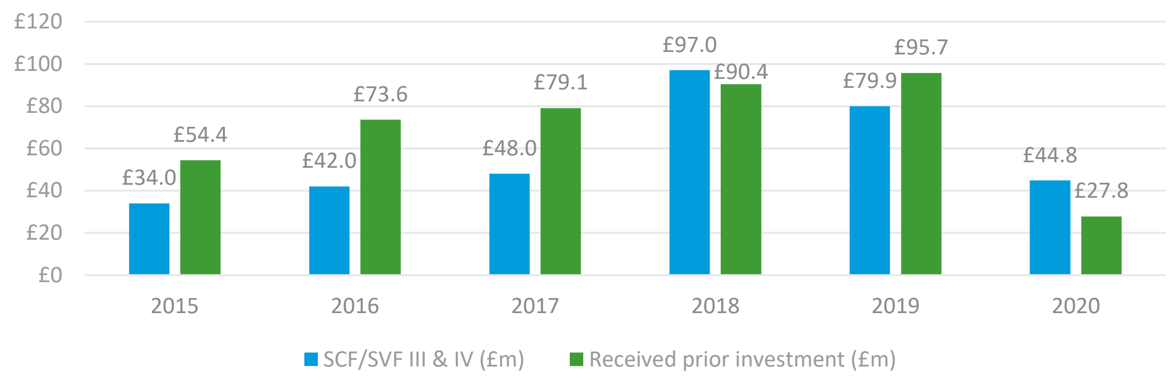
Source: SE SCF / SVF Company Metrics

Contrasting the turnover performance amongst companies who received SE financial support prior to SCF/SVF III and IV, to those that were first time investments in this period, those with previous support generated £419.9m whilst those representing investments new to the portfolio in the SCF/SVF III and IV period generated £345.7m in turnover.[39] The prior investment cohort is slightly larger, shown in **Figure 10**, and in the early years of this funding period, made up a significant majority of the portfolio (i.e. in 2015 99 out of 127 companies reporting turnover data received prior investment). However, by 2018, the SCF/SVF III and IV cohort was on par, and in some years, outperforming the prior investment cohort in 2018 and 2020. This may be attributed to the particularly strong performance of a small number of companies in this cohort over these years. Indeed, the top 20% of companies in terms of turnover performance delivered 83% of the total turnover, and the top 10% delivered 72% of total turnover.[40]

[38] For companies providing turnover data

[39] N.B. it is likely that company age, along with a range of other factors, will contribute to this.
[40] This is consistent with what private investors would expect from their portfolio.

Figure 10: Turnover, by cohort



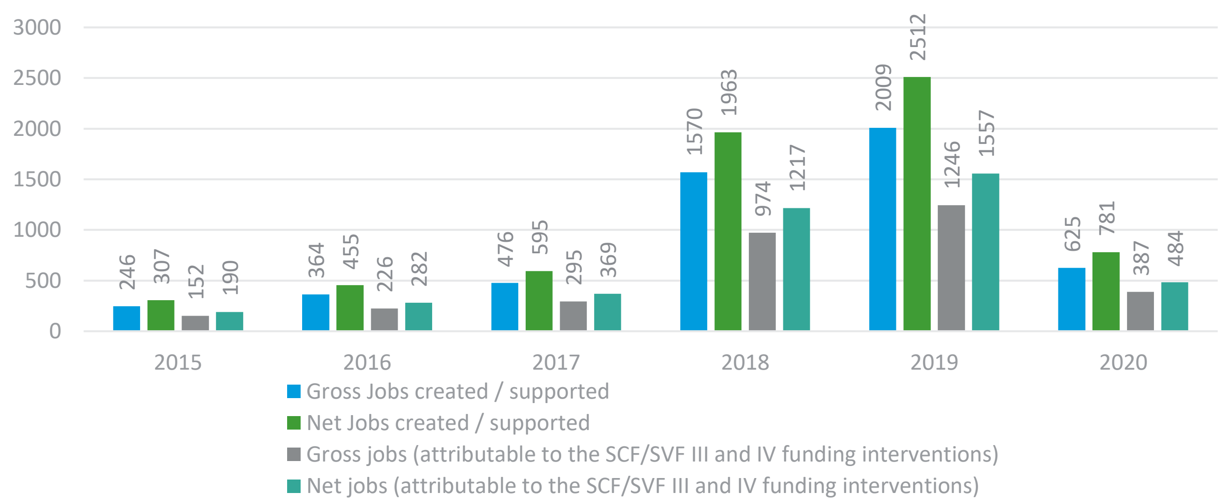
Source: SE SCF / SVF Company Metrics

Employment

Prior to the SCF/SVF III/IV period (2014), the reported employment level amongst supported companies was 506 FTEs. Data inconsistencies and anomalies have meant that this is the most appropriate baseline figure for employment, and as such, jobs created / supported are additional to this baseline figure. Figure 11 details the jobs created / supported by the Fund's intervention, per year. **At peak employment in 2019, the investee companies supported 2,076 additional gross jobs and in total, the funds have created / supported an additional 5,290 job-years (gross**).[41] The net jobs created by supported companies **have been calculated using assumptions for deadweight, leakage, displacement and multipliers**, as outlined in **Appendix 5**. These results are also highlighted in Figure 11. The net job-years supported by the funds is calculated to be 6,613 job-years.

With SCF/SVF III and IV financial inputs accounting for an estimated 62% of company outcomes, a pro-rata apportioning of employment finds that the funds are responsible for **3,280 (gross) job-years** and **4,100 (net) job years**.

Figure 11: Jobs created / supported by supported companies (FTEs)

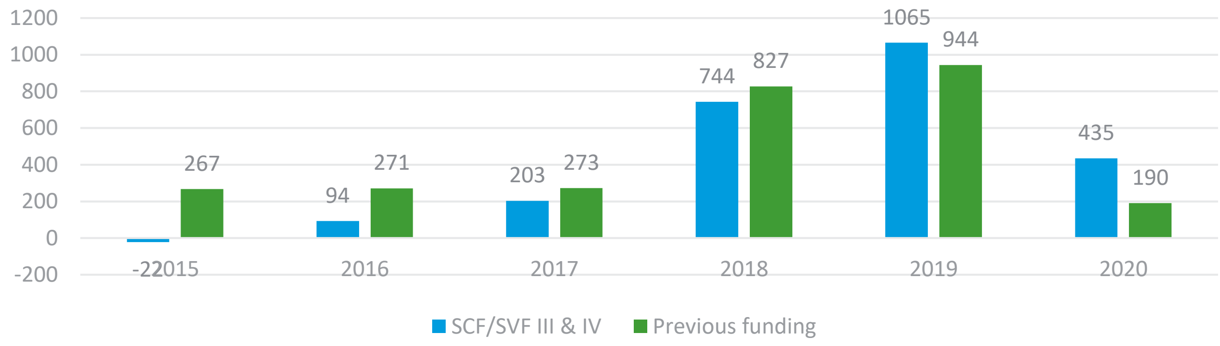


Source: SE SCF / SVF Company Metrics

41 Job-years are the number of jobs (FTE) created / protected per annum

As with turnover, those companies receiving support prior to SCF/SVF III and IV saw stronger employment performance in the first few years of funding, but by 2018, the gap between the cohorts was small. This is detailed in Figure 12.

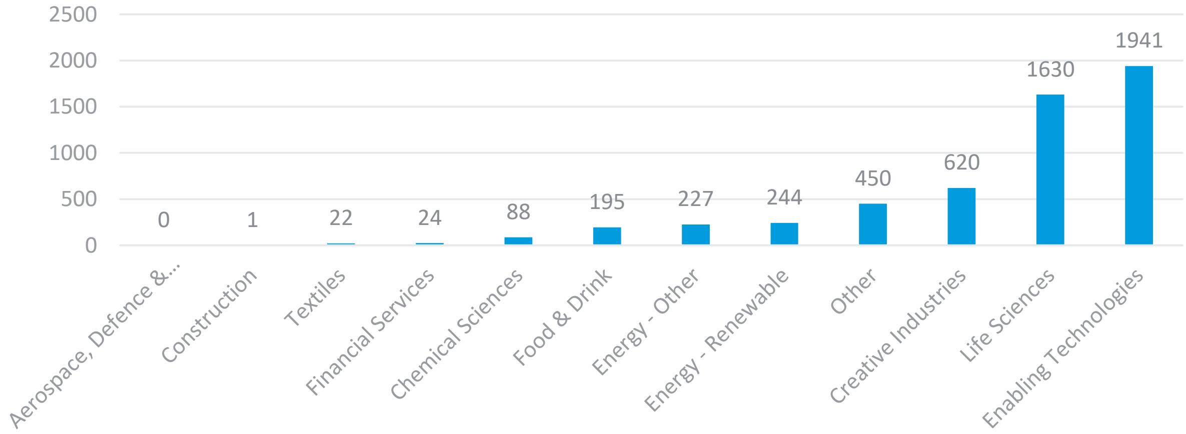
Figure 12: Employment, by cohort (FTEs)



Source: SE SCF / SVF Company Metrics

Enabling technologies, life sciences and creative industries are responsible for the majority of jobs-years created / protected, shown in **Figure 13**. Based on these job-years by sector figures, as well as the average salary per head for each sector[42] an estimated £33.5m in income tax generated by supported companies has been calculated.[43]

Figure 13: Job years per sector



Source: SE SCF / SVF Company Metrics

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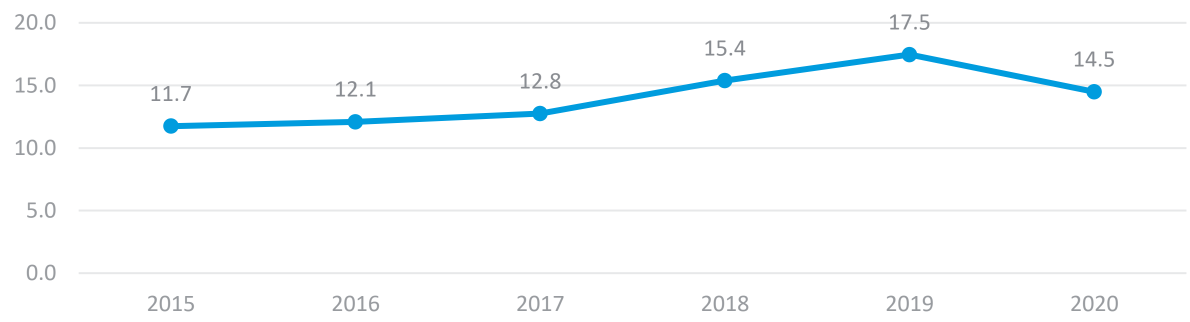
42 SABS (2018)

43 This is a rough estimate of income tax, based on average wages per sector. A conservative approach has been taken, assuming taxable income to be at the lower 20% threshold and must be caveated by the fact that average wages per sector will likely deflate the amount of taxes paid, as higher earners will pay a proportionally larger amount of income tax. In order to sense check income tax figure, the ratio of employment costs to turnover has been calculated for SCF/SVF supported companies (all sectors) giving a figure of 21.9%. SABS figures for Manufacturing (16%), IT and Communication (24%) and Professional, Scientific and Technical (26%) sectors. This shows that the SCF/SVF figure is broadly in the range for expected employment costs to turnover. It may be at the lower end of the range due to the underreporting of employment data, as multiple companies provided turnover data per year, but not employment data, skewing results. The provided figure relies on a number of key assumptions, and as such should be considered an indicator of income tax, rather than a precise estimation.

The average employment level of portfolio companies has slowly risen over the course of the evaluation period, from 11.7 FTEs in 2015 to 17.5 FTEs in 2019, before dropping to 14.5 FTEs in 2020, shown in **Figure 14**. This is likely to be impacted by high-performing outliers.

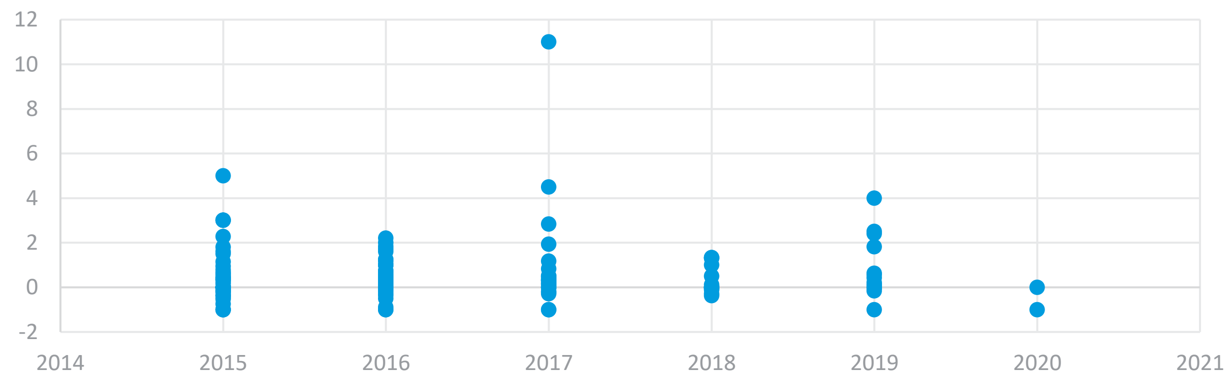
Figure 14: Average portfolio company size (FTEs)



Source: SE SCF / SVF Company Metrics

The employment growth for each company (where data was available[44]) was calculated based on growth from the year of first investment to the most recent employment figures available. The **average employment growth for supported companies is 47.4%.** This average score is skewed by several highly performing companies. The top 20% of companies have an **average growth rate of 225%** and the bottom 80% of companies, an average growth of 3%. The year of first deals completing has limited impact on the growth rate, with the exception of deals in 2020, where the impacts of funding have had less opportunity to develop and may have been impacted by the Covid-19 pandemic. **Figure 15** shows that across years, employment growth rates for individual companies are clustered between 50% and -50% growth. A number of outliers will demonstrate particularly strong growth. In 2015, 2016, 2017, and 2019, a small number (13) companies showed very strong (over 200%) growth in employment, which will skew results across the portfolio.

Figure 15: Employment Growth Rate by year of first deal



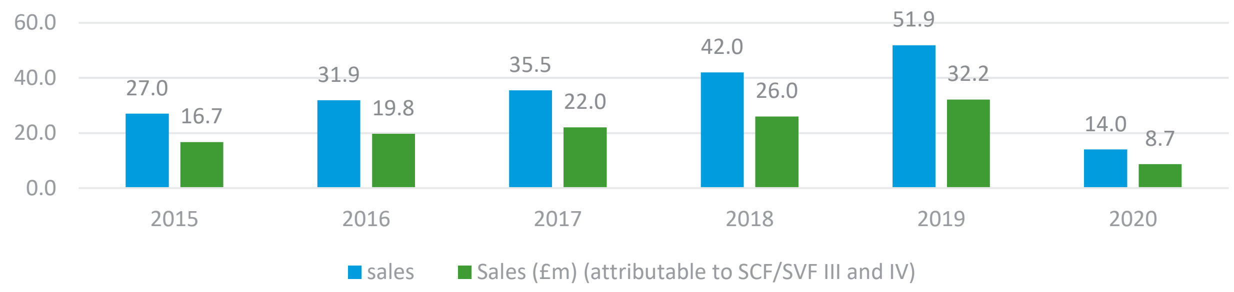
Source: SE SCF / SVF Company Metrics

International Sales

In total, there has been **£202.3m** of international sales from supported companies. Of this figure, **£125.4 m** can be directly attributed to SCF/SVF III and IV funding (62% of total). **Figure 16** details the international sales generated by supported companies per year.

[44] Based on 169 companies

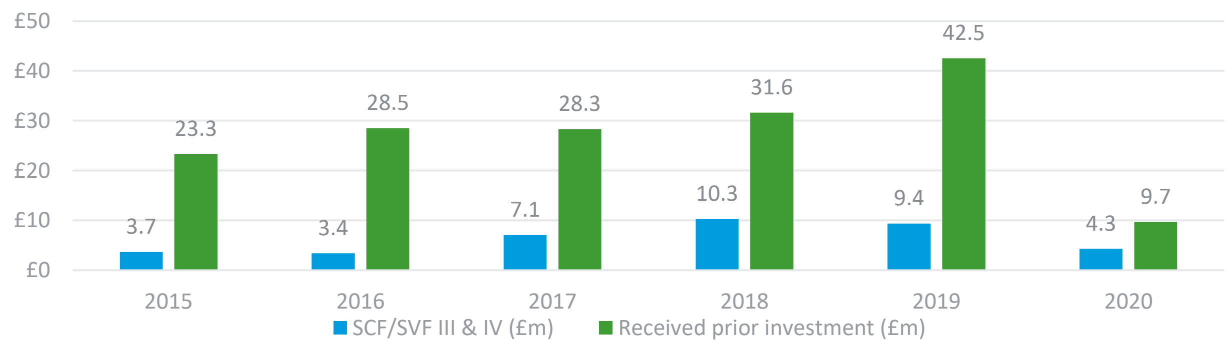
Figure 16: International Sales (£m)



Source: SE SCF / SVF Company Metrics

To assess the differential impact of companies receiving prior investment and those receiving their first investment in this funding period, the export sales across the two cohort groups are detailed in **Figure 17**. Unlike with previous analysis, those receiving prior investment vastly outperform those new to the portfolio with £163.9m of exports compared to £38.2m. Companies who have received prior investment are likely to be more mature and looking for overseas expansion opportunities, hence the gap in cohorts.

Figure 17: Export sales, by cohort (£m)



Source: SE SCF / SVF Company Metrics

Forecast Employment

Surveyed companies gave estimates of future turnover and employment levels, in 2025 and 2028, as well as present day estimates. These have been used to calculate an estimate of turnover and employment for the next seven years using survey data to provide an estimate for the total beneficiary population.

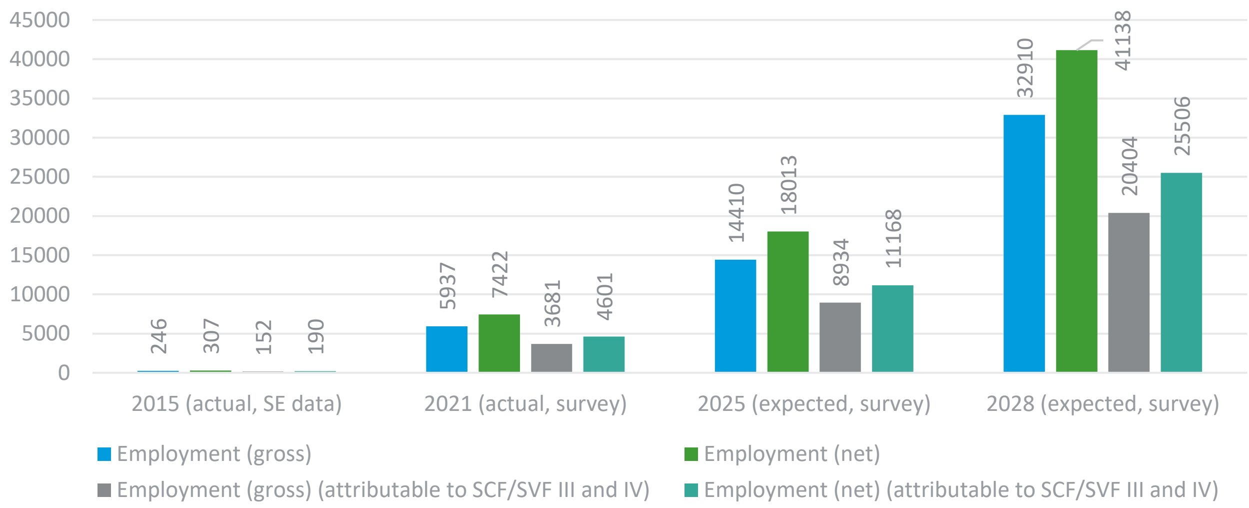
Figure 18Error! Reference source not found. details employment forecasts (both gross and net), using the same methodology detailed in the employment section. To account for the optimism of entrepreneurs self-reporting, the expected employment levels for 2025 and 2028, shown in the figure below, have been reduced by 20%. The method for this is summarised in **Appendix 6**. This figure of 20% is thought to be appropriate by both evaluators and SE, drawing together multiple pieces of evidence.

Supported companies expect a significant increase in employment, to 41,000 net jobs created by 2028, up 1882% from the 2019 peak employment of 2,076[45]. Also included in the figure are the jobs attributable to the funds financial investment (62% of total expected jobs) representing 25,500 net jobs. This significant forecast growth reflects the expectations of these high-growth

[45] 2019 figure used to compare as 2020 underreports employment due to data gaps.

potential companies, as they mature, prove concepts and are able to bring products to market. The results are impacted significantly by a relatively small number of companies reporting high levels of anticipated performance, with the top 20% of companies accounting for 84% of forecast employment and an average expected an employment level of 730 FTEs. The contrasts with the remaining 80%, which expect an average employment of 34 FTEs in 2028, representing 16% of the total forecast employment.

Figure 18: Forecast FTE employment (adjusted for over-optimism)

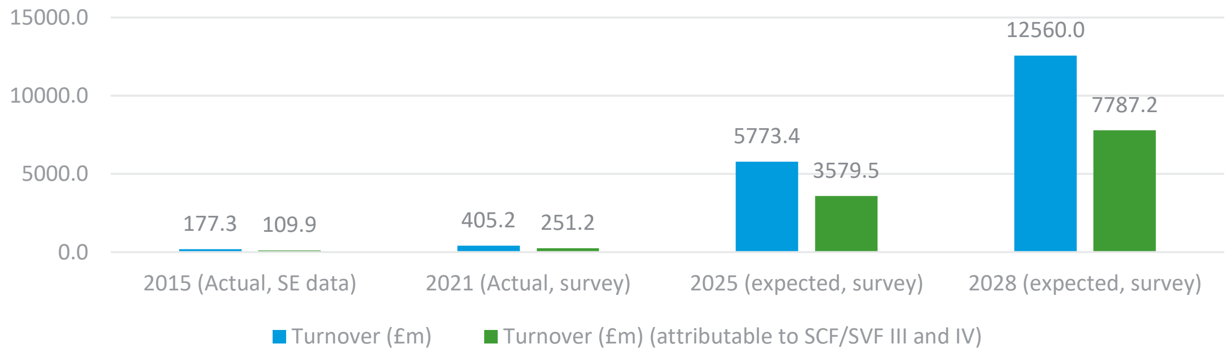


Source: RSM Survey 2021 (n=57)

Forecast Turnover

Figure 19 details forecast levels of turnover, which are likewise expected to rise significantly to 2028, where forecast is expected to be £12,560m (adjusted for over-optimism). The forecast turnover attributed to SE SCF/SVF III and IV financial investment is £3,580m in 2025 and £7,787m in 2028. The range of expected turnover of the top 20% and bottom 80% of companies is significant, with the top performing companies expecting an average turnover per company of £277.6m by 2028, whilst the average for the bottom 80% is £17.4m in the same period. As with the employment figures, expected turnover in 2025 and 2028 has been reduced by 20% to account for optimism bias in the self-reporting of expected turnover, as detailed in **Appendix 6.**

Figure 19: Forecast turnover (adjusted for over-optimism) (£m)



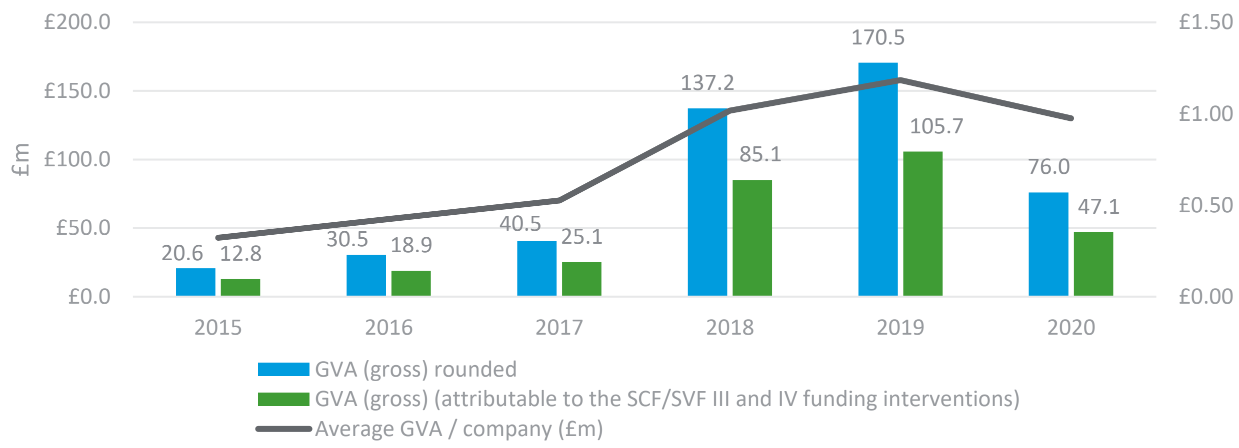
Source: RSM Survey 2021 (n=57)

3.5 Economic Impacts

Gross Value Added

The additional GVA (gross) per year from company activities is detailed in **Figure 20**, calculated using an employment approach to GVA, summarised in **Appendix 5.** The total additional GVA impact of supported companies from 2015 to 2020 is **£475.3m**.[46] Based on the number of jobs attributable to the Fund's intervention (see Section 3.2) the funds have contributed directly to **£294.7m GVA**. Significantly, analysis of the additional GVA (gross) per company, shows an increasing trend, highlighting that increases in the GVA created come as a result of not just portfolio growth, but company expansion and activity. It should be noted that a number of portfolio companies will be pre-revenue and not profit making, and as such, GVA estimates per head may overestimate additional GVA.

Figure 20: GVA (gross) per year (£m)



Source: SE SCF / SVF Company Metrics; SG Growth Sector Statistic (2021); SABS 2018

To calculate the net additional local GVA, the jobs created figure used to provide gross GVA estimates has been adjusted to consider deadweight, leakage, and displacement as well as the induced and indirect impacts. The assumptions for additionality are summarised in **Table 11**.

We have applied **an adjustment of -20% to -30% to gross figures to account for deadweight.** Further details of our approach are provided **Appendix 5**.

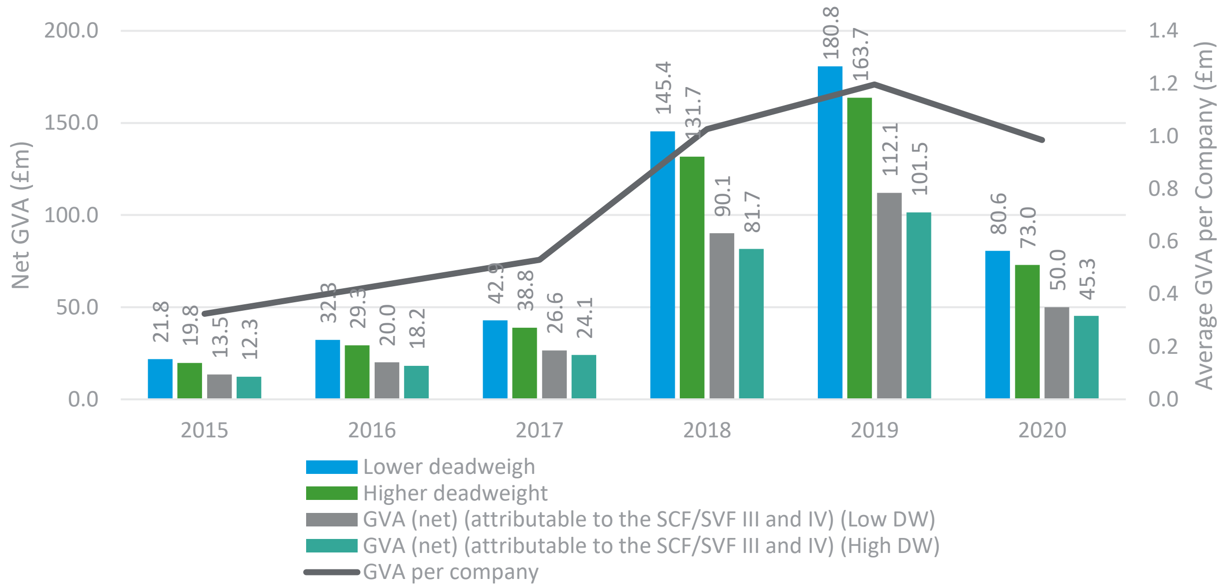
Table 11: Summary of additionality assumptions

Assumption	Adjustment
Deadweight	-20% to -30%
Leakage	-10%
Displacement	-25%
Indirect impacts	35%
Induced impacts	26%
Total Gross to Net	**-4% to 6%**

[46] N.B. as employment data for supported companies has extensive gaps, this figure is likely to be significantly unrepresentative of the actual GVA total created.

The adjustments were applied to the jobs created figures to makes a gross to net calculation. For each sector an upper and lower range of net jobs created (after adjustment for deadweight, leakage and displacement) was calculated. This allowed for GVA per head by sector estimates to be used to calculate the Net GVA Impact of the funds. GVA multipliers were used to account for the indirect and induced impacts of the funds. The total net GVA impact from supported companies ranges from **£436.5m to £482.0m**. Based on the number of jobs directly attributable to the funds interventions, it is estimated that the total net GVA impact attributable to the fund's intervention is between **£270.6 and £298.8m** (net GVA achieved by March 2020). These are profiled by year in **Figure 21**.

Figure 21: GVA (net) per year (£m)



Source: SE SCF / SVF Company Metrics; SG Growth Sector Statistic (2021); SABS 2018; Supply, Use and Input-Output Tables (Scotland); RSM Survey 2021.

Forecast GVA

Forecast employment figures (adjusted for optimism bias) were used to calculate the expected GVA (gross and net) of the funds, as shown in Table 12**Error! Reference source not found.**.

Table 12: Forecast GVA

Year	Expected GVA (gross) (£m)	Expected GVA (net) (£m)	Gross GVA Attributable to SCF/SVF III and IV	Net GVA Attributable to SCF/SVF III and IV
2025	£1,746.2m	£1,676.4m - £1,851.0m	£1,082.6m	£1,039.4m - £1,147.6m
2028	£3,790.1m	£3,638.5m - £4,017.5m	£2,349.9m	£2,255.9m - £2,490.9m

Source: RSM Survey 2021 (n=57)

Impact Ratio

The impact ratio details the net GVA per £1 of SE spend. Table 13: Impact ratio outlines the impact ratio for SE spend through SCF and SVF III/IV, the total SE SCF/SVF investment in supported companies, and the total SE investment in supported companies.

In addition to the financial support provided to supported companies, SE has also incurred delivery costs e.g., SE staff costs, legal costs and other fees. There are significant challenges in estimating an accurate figure for these costs, given that staff work across the entire SE investment portfolio. As such, SE have developed an approach to estimate this figure, based on an estimated time allocated per FTE and an estimate cost per annum. For the evaluation period (July 2015 to March 2020) staff costs and additional fees (legal, SCF) have been estimated at **£7.9m**.[47] It should be noted that these are best estimates of staff / operating costs only.

Table 13: Impact ratio

Funding Received[48]	Total Invested	GVA (net)	Impact Ratio (£) (high deadweight)[49]	Impact Ratio (£) (low deadweight)
SE SCF / SVF III/IV	£158.1m	£436.5m–£482.0m	£2.8 GVA: £1 expenditure	£3.1 GVA: £1 expenditure
Total SE financial Investment in companies	£254.0m		£1.7 GVA: £1 expenditure	£1.9 GVA: £1 expenditure
Total SE Investment and SCF/SVF III/IV Staff and other Costs[50]	£261.9m[51]		£1.7 GVA: £1 expenditure	£1.8 GVA: £1 expenditure

Forecast Impact Ratio

Based on the forecast net GVA for 2025 and 2028, the impact ratio (£GVA per £1 of SE expenditure) has been calculated. In addition to these financial inputs, SE has also incurred staff costs in providing non-financial support to companies, which must also be considered when approach impact ratio.

Table 14: Forecast impact ratio

Funding Received[52]	Total Invested	GVA (net)	2025		2028	
			Impact Ratio (£) (high deadweight)	Impact Ratio (£) (low deadweight)	Impact Ratio (£) (high deadweight)	Impact Ratio (£) (low deadweight)
SE SCF / SVF III/IV	£158.1m	2025: £1,676.4m - £1,851.0m	£10.6 GVA: £1 expenditure	£11.7 GVA: £1 expenditure	£23.0 GVA: £1 expenditure	£25.4 GVA: £1 expenditure
Total SE financial Investment in companies	£254.0m	2028: £3,638.5m - £4,017.5m	£6.6 GVA: £1 expenditure	£7.3 GVA: £1 expenditure	£14.3 GVA: £1 expenditure	£15.8 GVA: £1 expenditure

[47] N.B. companies are expected to require portfolio management support at a diminishing level of input up to March 2030.
[48] SE investment, including ERDF portion
[49] Based on the GVA (net) divided by SE investment
[50] See section 3.2 for detail.
[51] This figure includes the £7.9m calculated for staff costs from July 2015 to March 2020, in addition to the previous financial support provided.
[52] SE investment, including ERDF portion

Funding Received[52]	Total Invested	GVA (net)	2025		2028	
			Impact Ratio (£) (high deadweight)	Impact Ratio (£) (low deadweight)	Impact Ratio (£) (high deadweight)	Impact Ratio (£) (low deadweight)
Total SE Investment and SCF/SVF III/IV Staff and other Costs	£263.2m – £263.5m[53]		£6.4GVA: £1 expenditure	£7.0 GVA: £1 expenditure	£13.8 GVA: £1 expenditure	£15.3 GVA: £1 expenditure

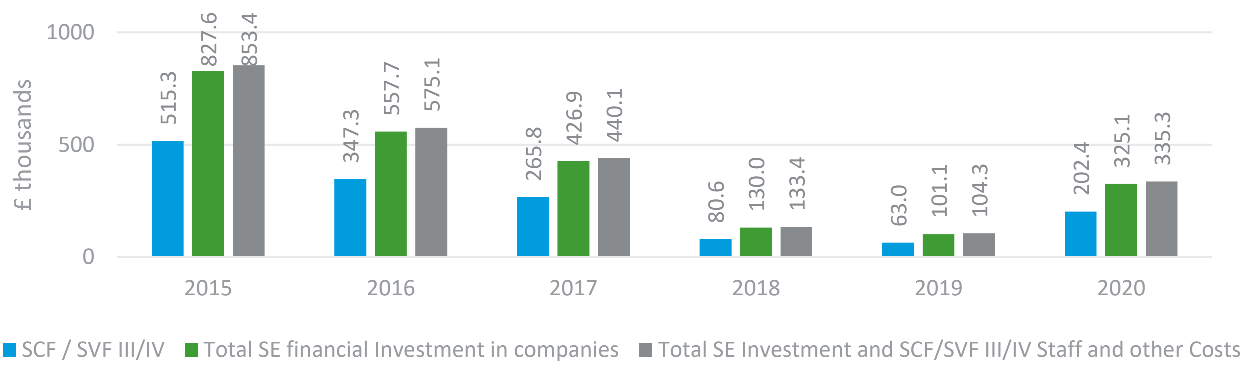
Cost per job

Employment figures have also been used to calculate the cost per net cost per job shown in **Figure 22.** The cost per job is based on the SE expenditure per net job created by the investment. To account for previous funding support, cost per job has been calculated for total SE expenditure relating to:

1. SCF/SVF III and IV;
2. the total SE investment in companies (considering all financial support provided to portfolio companies by SE, including SCF/SVF III and IV as well as any prior funding received); and
3. the total SE investment in companies (including all prior investment, in addition to staff costs, calculated to be £7.9m for the evaluation period.

The figure shows that at peak employment (2019) the cost per net job when all previous SE funding and staff/operating costs are accounted for (£261.9m), is £104,300, rising to £335,300 to end of March2020 (**N.B. this increase is likely incomplete company reporting of employment data to end of March 2020).** It should also be noted that company growth will be realised over a longer timeframe, and as such, these figures will overstate the cost per job.

Figure 22: Cost per net job created / protected (£)



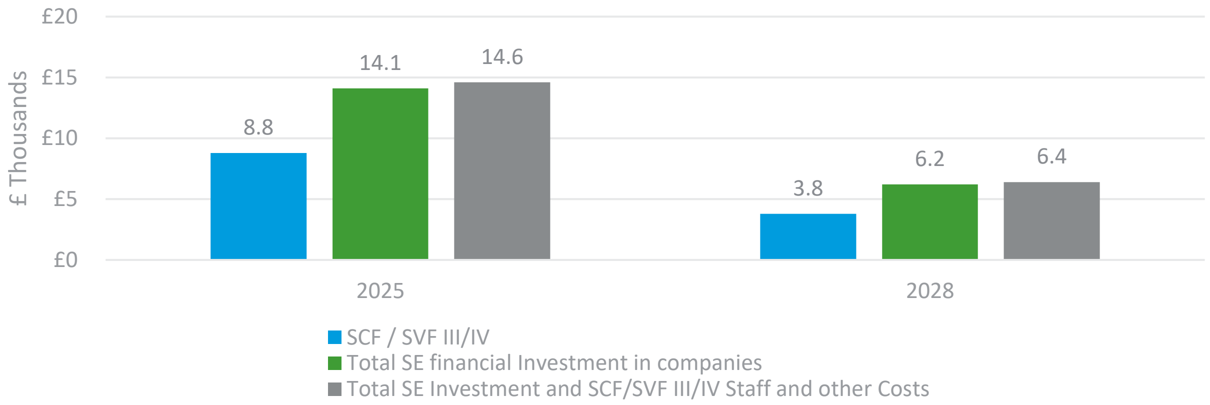
Source: SE SCF / SVF Company Metrics

[53] The total future operating cost of the funds (from 2015) is calculated to be £9.2m in 2025 and £9.5m in 2028.

Forecast Cost per Job

The expected gross and net cost per job has been calculated based on projected (net) employment figures. Expected employment figures have been reduced by 20% to account for optimism bias. The cost per job for SE investment is shown in **Figure 23**. In addition to these financial inputs, SE has also incurred staff costs in providing non-financial support to companies, which is included in the final row of the table. The total cost per job created/protected in 2025 is £14,600 and in 2028, this drops to £6,400.

Figure 23: Cost[54] per forecasted net job created/protected



Source: RSM Survey 2021 (n=57)

3.6 Summary

The funds have performed well in their third and fourth iterations, enabling £655.9m of investment to be provided to 229 high-growth Scottish Companies, seeing positive outcomes for supported companies in turnover, employment and exports. Given the fact that a large proportion of companies (123 companies, 54%) received prior investment from SE, this analysis has sought to take a pro-rata approach to outcomes and impacts. 62% of financial investment in supported companies came through SCF/SVF III and IV, and as such, 62% of observed and expected outcomes. It has also looked at outcomes in two cohort groups (those receiving prior investment and those new to the portfolio in the III/IV funding period).

Analysis of outcomes has found that these positive results are often attributable to a small proportion of high-performing portfolio companies (i.e., the 20%) who account for the majority of impacts. Analysis of outcomes has also revealed that companies receiving prior SE investment performed better at an earlier stage (in the years 2015 to 2018, likely due to factors including company age and other contextual factors) and after this point, it was broadly balanced in the portfolio as to the impacts seen.

For metrics such as turnover, employment, and GVA, growth over the five years of activity (2015 to 2020) is shown to not just be a result of growth of the portfolio, but indeed growth of companies themselves, given continually rising averages per year. This highlights that added value of the Fund's investment and non-financial support to support SME growth.

Forecast impacts in 2025 and 2028 are particularly positive, with an expected impact ratio in 2028 of between £13.81 and £15.25 generated per £1 of SE spend in the supported companies (across all interventions and staff costs) and a net cost per job of £8,000. This is reflective of the

[54] SE investment, including ERDF portion

fact that poor performing companies are likely to fail early, whilst amongst companies that perform well, the impacts are likely to take longer to occur. This trend is also reflected in the positive direction of travel identified in the calculated return on investment figures.

4. STAKEHOLDER PERSPECTIVES

4.1 Introduction

This chapter seeks to summarise feedback provided by key stakeholders and beneficiaries of the funds.

On the investor side, interviews were carried out in June 2021 with 16 SVF and SCF investors. The interviewees largely represented corporate venturers of some form, whether a business angel syndicate (7), a venture capital firm (4) or the venture capital arm of a larger private equity firm (3). Two High Net Worth Individuals were also represented.

On the beneficiaries' side, a survey was sent to all SCF and SVF (III and IV) active investments, generating 57 responses across three cohort groups (in receipt of SCF, SVF or both)[55]. In addition to the survey, 11 companies were interviewed, with responses used to produce 'snap-shot' case studies, detailed throughout the chapter to add insight into the experiences of supported companies.

Appendix 7 provides a detailed overview of survey and consultation responses from beneficiaries, the salient points of which are captured in this chapter.

4.2 Investor Perspectives

Programme Design / Rationale

Investors reported that, on the supply side, the Scottish funding and support ecosystem for businesses was very strong. The response pool included investors with direct experience of the market in the rest of the UK, who thought that the situation in Scotland compared favourably. Scotland benefits from a mature angel network, and availability of seed funding, on top of the availability of national support schemes such as EIS and VCT. On the demand side, there are also commercially minded universities producing spin-out companies.

Once a company reaches a certain size and stage of development, there is a definite funding gap, with initial investments ranging from circa £0.5m to £2-3m identified by the responding investors as needing specific support. While there is a relatively high number of syndicates and small venture capital firms operating in this market segment in Scotland, collectively they do not have the resources to meet all of the demand. This gap is clearly matched by the support provided by the SCF and SVF. The gap, and the corresponding rationale for the funds, was clearly set out by the investors in terms of the stage of development of the companies and the size of investment required to move them to the next stage.

This gap (up to £500k and £2-3m) is identified by investors as the key barrier to growth and attracting the required amount of investment. This gap, and the underlying market failure, was perceived to have been persistent throughout the evaluation period and for some time previous. With both demand and the level of provision increasing, this has contributing to maintaining a degree of equilibrium where additional support was required. In other words, while the overall market is seeing absolute growth with respect to the amounts being invested and number of deals, there is nevertheless a consistency in the difficulties and barriers encountered by companies when seeking early-stage equity funding at these levels.

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[55] 57 responses out of 170 beneficiaries (a 33% response rate)

There was also evidence that the £1.5m cumulative investment limit on SCF investments could be increased, based on demand from investors (see "ongoing rationale and policy implications" below).

Programme Management / Delivery

Referrals

Investors find that they receive so many inquiries and business plans by email that the process is one of triage rather than actively seeking investments. Either companies have done their own research and contacted potential investors (details available on SE and LINC Scotland websites) or have been referred (sometimes by SE). University innovation departments and the advisory community also provide referrals. VC firms have their own networks, as do Business Angel syndicate members, who can cover a range of sector specialisms. Many of the business plans are described as credible, even if not investable; they seemed to the investors to have a reasonable chance of success but were not suited to their specialisms in terms of sector or stage of investment or were simply not among the very best opportunities. This can be taken as a sign of the maturity of the Scottish entrepreneurial and investment ecosystem.

It is the case that there are opportunities to actively meet and pursue potential investees that are useful, particularly for sector specialists. Support facilities such as business accelerators and university commercialisation teams can provide referrals and run events which are seen as valuable for potential investors, and the Scottish EDGE competition was identified as one example providing interesting opportunities.

For accredited SCF partners, there is a very high likelihood that opportunities will be co-funded by SE – described in one case as "*close to automatic*" provided that the eligibility and investment criteria are met. This is built into the design of SCF. These partners use SCF co-investment for most or all of their deals, as the SE-provided funding completes the funding package, lessens risk and increases the likelihood of company growth. It also increases the viable capital for the entire market. One accredited SCF partner stated that "*SE trust us to be good custodians of capital but they still want knowledge of how that capital will be deployed*"; that is, the SCF process allows the partner to carry out the due diligence and report to SE on the potential economic and financial impact of that investment. If the procedure goes well, the SE part of the deal can be concluded in a matter of weeks (albeit the partner will have spent time previously conducting its own assessment / due diligence etc).

None of the investors represented in the sample, that had used SVF said it was usual or common for SE to turn deals down.[56] The SE team are described as "*having an opinion on what works for them*" and being proactive in shaping a deal that works.

It is generally seen as quite an easy process to engage with SE through SVF, although in the view of a small number of investors it can be viewed as rigid, and not always conducive to moving things forward quickly. This may simply reflect perceived differences with the SCF which, by its nature, is a quicker process.

In a couple of cases, the issue of timing of funding was raised. The lead investor has to carry out early work, gain traction and raise money from investors before approaching SVF, which comes in at a later stage when a funding gap is identified. With a pool of investors, the final investment amount can change right before completion. Due diligence undertaken by investors and planning may have been going on for 3-4 months before SVF involvement, with most of the time spent ensuring that there is sufficient capital for the business to fulfil the next step of its plans often

[56] One investor did report that others might say that their experience was different, but no-one with that sort of negative experience was directly represented in the sample.

reflected as a minimum raise in a heads of terms. One investor asked if there was any way to start the external and SE processes in tandem by giving SE notice in advance of a likely upcoming deal. It should be noted that this may not work in practice as SE co-investment may not be considered or required at the start of the diligence process, and in any case the make-up of the pool of investors, and the associated terms, can change during deals. Often, it is only once diligence has been completed that SE is approached for co-investment reflecting the compilation of the overall appetite across interested parties and a sensitised cash need, and critically where a gap has been identified.

In response, the SE team noted that they encourage early sight of deals in their communications with co-investors so that they can plan their resourcing and budget allocation, and to re-enforce the role of SE as a gap funder. However, given the volume approach of SE, transactors cannot be allocated to a deal until there is a known and demonstrable gap in the package which cannot be filled by private sector investment.

Communication

The great majority of comments about the effectiveness of communication between the investors and the SE teams were positive. Three investors independently made the point that they felt that the portfolio team were available when required and that they didn't expect to have regular in-depth engagement. One VC firm suggested that they were accustomed to being the "active investor" in their relationship, feeling that the company would not benefit from large numbers of investors *reviewing them.* This is in line with the SE co-investment model, where the preference is to have in place a private sector lead investor, although it is recognised that this is not always possible. This allows SE to work alongside experienced investors, while continuing to actively monitor investments (including Board packs) and stakeholder relationships, to ensure that SE's investment interests are protected. Where there is not a lead investor in place, SE takes a view on the level of engagement required to manage risk. A further three interviewees wondered if the size of the portfolio under management by SE might lead to the team being potentially overstretched.

Additional Support

All the interviewees were firmly convinced of the importance of contributing to the companies that they invested in through their governance structures, whether by appointing investor directors or chairs from within their own investment teams, and/or appointing other board observers or non-executive directors from within their syndicates or their networks. It was also common to seek out senior management staff such as chief executives and finance directors, to (in their opinion) improve the likelihood of the company's success by putting in people with experience of early business growth to support those founders that had had the original ideas but who had less experience of management. Other forms of support included business planning, exit strategy, and experience of securing additional and other sources of finance.

The investors noted that while SE typically appointed a board observer, they would not necessarily be present at every meeting. This was not presented in a negative way, and many noted that for key milestones such as additional funding rounds, SE have always been there to provide support.

Several investors noted the additional support that was available through SE (directly or via signposting) such as further financial assistance products (grants/loans) or information. Two of the investors with experience of many deals suggested that some of the SE team were very knowledgeable about the different forms of assistance that were available but that this was not uniform throughout the team. Where SE Account Managers[57] are used, these are seen as

[57] The RSM 2021 survey of beneficiaries found that 61% of supported companies (n=57) received additional support from a SE Account Manager

pivotal, offering financial support and knowledge of other products. One investor made a point of saying that they told companies in advance of the range of softer benefits that were available through an SE co-investment, which included networking, as well as the range of support products and signposting.

Programme Performance / Impact

The investors were positive about the impacts of the investments made through the Funds, acknowledging that within any early-stage investment, there is inherent risk that in some cases does not come off, but for the most part, investments have shown "*good returns*" and "*significant scale-up"* across their portfolios.

A further point, in relation to the short period under review, related to the time it would take to observe business performance impacts from the investment. Overall, the market suggests a timeframe of 8-10 years to achieve an exit, which would be predicated on companies demonstrating investor value and/or revenue generation. Some of the investors specialising in sectors such as life sciences referenced even longer timeframes to realise economic benefits and an exit. Many noted that entrepreneurs tend to be optimistic in their appraisal of the scale of their potential growth and the speed at which milestones can be hit.

In many cases, investors indicated that impacts were slower to realise than planned, with business plan milestones not being achieved within their target timeframe. This was regarded as "*business as usual*" for early-stage, high growth potential companies and further compounded by the impacts of Brexit and the Covid-19 pandemic. Linked to this is the observation from a number of the investors that a benefit of the availability of co-investment is the potential to provide a level of funding that lessens the risk of investments, mitigates against over-optimistic business plans and enables the realisation of benefits.

Investors had varying views on exactly what impact the availability of the funds may have had on the number and scale of investments that they may have made, and their attitude to taking on risk, but in all cases, it was viewed that the funds made deals happen and made them larger than they may otherwise have been. One SCF investor highlighted that the SE investment also *"allows for more capital to be deployed"* in follow-on rounds.

Despite the comments by investors about the speed of response of some elements of SE administration (particularly SE's legal framework firms), SCF in particular is regarded as a rapid source of sizable additional funding, with the accredited partner mechanism working well. Having the likely availability of substantial additional follow-on funding (which will inevitably be required for companies to fund their growth journey) from SE also provides comfort for potential investors to join a consortium. The investors did typically acknowledge that public money required strong due diligence. SE employs external legal firms with considerable deal-making experience who are charged with protecting the public investment in SE's interests, and who need to work thoroughly and robustly.

One investor was concerned that in the absence of SE and the SCF and SVF, the market would become saturated with crowdfunders, who could perhaps provide the required volume of funding but would not necessarily bring the necessary experience to add value and provide additional support to companies.

None of the investors specifically said that they were undertaking riskier deals as a result of the availability of SCF or SVF co-funding. One suggested that if SE explicitly wished to accomplish this, it would be better to provide a product aimed at earlier funding of even riskier opportunities to "*pump-prime*" the market. It should be noted that the Early-Stage Growth Challenge Fund – a response to the Covid-19 pandemic – provides an example of how this might work, with 38 new to SE equity investments (14 new to equity) funded through a Convertible Loan Note, with some already having progressed to a stage where they are attracting further private equity finance. Given the observations of investors that the funding gap is persistent in the market where SCF and SVF operate, the net effect could potentially be to increase the number and viability of opportunities in this market for SCF/SVF investors to take forward.

External factors

The **Covid-19 pandemic** provided an interesting set of impacts on the companies and investors funded by the SCF and SVF. The pandemic certainly had the potential to devastate businesses, but the investors report that the range of support vehicles provided by the UK and SG were highly effective in removing the immediate risks to businesses. The investors reported in many cases that they switched focus from funding new deals to maintaining and providing follow-on funding to their existing portfolios, with syndicates and high net worth individuals committing additional funds. However, as a consequence, there was a move from very early stage and ‘new to equity’ investment. This gradual trend was visible across the UK pre-Covid, accentuated by the pandemic, and has the potential to impact the pipeline of later-stage investments in the future.

Four of the investors identified specific companies in their portfolios that had actually received a significant boost in trade from Covid-19, as they provided products or services that were suited to the environment such as digitisation of services (having the impact of streamlining working or purchasing from home), or services facilitating online purchases or home delivery. Others reported that those types of sectors providing online services had benefited in general. However, there were also reports of four companies in particular that had done very badly as a result of their sectors; two were engineering firms, one provided building services, and another provided digital services to the entertainment sector, including the film industry, which had come to a standstill during the pandemic.

Another dividing line between companies has been their stage of development. The earliest stage companies[58] have adapted well to working at home, working in shifts in a socially distanced workplace. They have been able to preserve cash, perhaps by delaying some of their development plans. At the technical/R&D stage, their milestones are not commercial in nature. Those at a later stage, which had been intending to undertake significant marketing or liaison with customers or suppliers that would ordinarily require extended face to face communications (such as integration of new technology into systems), have suffered much harsher impacts and delays to revenue.

Between these extremes, companies experienced some delays, and disruption to supply chains, and found some activities more difficult (hiring people, moving premises). The net effect on the investors’ portfolios, however, was not considered to be significant – certainly by comparison with initial fears about how bad the economic impact might be.

Around half of the investors reported no significant impact of the **UK EU Withdrawal** (Brexit). This is partly due to sector-based issues – the companies may be, for example, high tech or life sciences firms that are not targeting outside the UK, or software companies that are selling globally on a virtual basis anyway and do not suffer significant supply chain impacts. Others said that their preparation was key - they had examined their supply chains and processes and made sure that they are not constrained by EU shipments or regulations.

[58] “Earliest stage” companies refer primarily to those at Seed stage, whose focus is on R&D and meeting milestones for product development. These companies are pre-revenue. In this context, “later stage” refers to those companies at venture stage with established products / business model, and a focus on accessing new markets for their product.

Conversely, some investors reported individual companies that had experienced significant problems. One issue was reliance on European sources of funding. One investor reported a firm that was regulated by the Financial Conduct Authority and was finding it very difficult to replicate that under the post-Brexit legal arrangements.

In-between the extremes, there were some common issues. Access to talent was a concern for some, with Brexit making it harder to recruit highly qualified people in sectors such as bioinformatics and software or hardware engineering. As a related issue, one investor noted that the differing Scottish income tax regime may make the impact of Brexit on access to highly skilled, highly paid individuals greater in Scotland than in England as their earning potential could be slightly less. There were some delays in getting hold of supplies and equipment, some price rises, and examples of overseas customers delaying purchasing or investment decisions while the nature of Brexit evolved.

There was a lingering concern that the full impacts of Brexit may not have been observed yet, while an endpoint to Covid-19 was in sight, the effects of Brexit could evolve and develop for some years to come.

Constraints on Success and Lessons Learned

Constraints outlined by investors included issues with timing, speed of progression, and the requirements of lawyers were mentioned. This is partly due to differing requirements in the details of the contract and terms and conditions between the public and the private sector co-investors, which need to be negotiated.

There was a perception that the amount of legal work had increased over time and that there was more “interference” from SE solicitors over terms than there had been, which can lead to investors taking the step of agreeing terms with SE before finalising them with the companies (this is SE’s preferred approach in any event). These issues were regarded as irritants rather than substantive barriers to progress.

Two investors outlined an issue with progressing to the next stage of investment, in that funding for scaling-up was difficult to access in Scotland. This was either described as a second funding gap, or a single gap that has grown larger over time, with the amount of funding required over £2m and anything up to £8-10m. The VC / private equity ecosystem in Scotland is seen as less mature than the smaller scale / business angel network, with later stage capital often provided by funders based out-with Scotland. This could be an issue for successful SCF/SVF investments that wished to progress, although, for those that are successful, it also means that international capital is coming into Scotland, along with the valuable connections associated with these funders. It is also worth noting that significant support is available from SE (in terms of teaser preparation, pitch-training, identification of potential funders etc) to companies looking to raise scale-up funding and the establishment of SNIB has increased potential options for such companies to secure later stage investment.

Development of the market

The investors were asked how, and to what extent, demand for equity funding had changed over the duration of the programme, and what implications this may have for the programme offer going forward.

Broadly, there was agreement that the underlying level of demand for equity finance at the SCF/SVF stage had been a consistent feature of the market. There were some observations of subtle changes within the market. One investor felt that they had received more inquiries in recent years but that the driver for this was the increased provision of support mechanisms such as accelerators, investment competitions or conferences. This was seen to be a continuation of a longer-term trend whereby the ecosystem in Scotland has become more established and geared towards equipping early-stage businesses to put forward initial offers that were better prepared and well-articulated. This investor felt that SE had played a key role as an agency in directing that trend.

Another investor stated that their records showed that there had been recent growth in demand for funding, as more companies were struggling, however, this included companies that were seeking loan funding (i.e., funding that's typically available from a bank), not equity funding. Furthermore, they stated that the investors in their syndicate currently had less appetite for early stage (higher risk) investments, but that a small number of successful exits could be sufficient to rekindle their interest.

Ongoing rationale and policy implications

One investor stated that given the overall objective of the SG and SE to stimulate and grow the economy, the provision of equity risk finance should be one of the very highest priorities, given the existence of the funding gap, the potential for public sector support to de-risk and unlock private sector investment, and the potential for significant returns in a small number of cases.

A related point was that there was potentially latent demand for funding at a level sufficient to warrant an increase in provision by SE, but that recruitment and retention of staff to manage the funds would be challenging, with the public sector less able than private sector institutions to reward staff through mechanisms such as bonuses or carried interest.

There is some evidence that the SCF funding limit could usefully be increased beyond £1.5m to £2m to meet the needs of early-stage businesses and to align with the SVF funding limit. While only one investor specifically made this request, the evidence supporting this includes:

- The very frequent use of, and importance of, follow-on funding at this stage of development;
- Reports that SCF partners would seek SVF funds for their companies if the SCF limit was reached;
- Importance of providing businesses with enough working capital to be able to meet business targets and respond to opportunities and risks; and
- Increasing average deal size, and perception that the stage of the funding gap may be expanding to larger sized deals (although this may be a separate funding gap at the scaling-up stage).

One investor felt that there was a further gap at a higher level of investment, for businesses seeking to raise between £2m and £8 – £10m, where attracting private investors was very difficult.

On the policy side, there was an appetite for enhanced communication to improve understanding in the market on the respective roles of the SCF and SVF, the money being deployed through other publicly funded investors (Foresight, Techstart Ventures) via the SG Scottish Growth Scheme and that of the recently launched SNIB.

LINC Scotland is also seen a key part of this ecosystem, highlighted by several investors as a source of referrals, information for start-ups, and the templates for legal documents.

Other comments

Overall, investors reiterated that they felt that the funds played a crucial role in the market and that their experience of engaging with the teams had been positive. This report has focused on elements that could be considered for potential improvements, but it should be reiterated that the overall experience of investors is extremely positive, the funds are enabling a large number of deals, including some which would not have been so large, would have happened more slowly or not at all, and the gap that the funds fill is still perceived in the market – the market failure rationale is ongoing.

Three investors suggested that the process could be made slicker (although "*it's already pretty slick*" was one comment). These improvements largely related to legal procedures and the perceived increase in the involvement of SE lawyers in deal finalisation (and slower pace as a result). A key element of this was proportionality with respect to stage of company and size of deal. It was highlighted that arguing out every detail of a legal document pertaining to a £200k funding round is, even if justifiable, less efficient than the same process at £200-500k or £0.5-£1m. The template documents developed by LINC (and SE) were referred to – the suggestion was for a cut-down version for deals under £500k which could be used to promote higher volume of smaller deals and free up legal resources. However, it was noted that SE is required to protect investments interests and that deals size may not fully reflect the extent of earlier investments and exposure. SE takes a risk-based approach, that seeks to be fully MEOP compliant, and seeks to achieve the same terms and legal protection as private sector investors participating in the same deals. Investee companies can often seek to introduce 'bespoke' terms which reflect their particular circumstances

4.3 Beneficiary Perspectives

Further detail and survey / consultation responses on beneficiary perspectives are summarised in **Appendix 7**.

Beneficiary Journey

A large portion of particularly SCF companies reported being referred to the funds through existing relationships with private investors. Equally significant was the role of SE account managers in signposting relevant companies to the funds. For the vast majority, previous equity finance has been sought prior to being added to the portfolio, but it was identified that access to appropriate levels of capital was a key barrier to company growth. Companies highlighted a lack of available capital in the market, as well as their early stage limiting opportunities for growth. Companies had a range of purposes to access funding (R&D activities and working capital for earlier stage companies, capital for marketing and sales for those slightly further on in maturity), often reflecting the stage of development.

Programme Delivery

The majority of respondents were positive about their application process, across cohort groups. For those in receipt of SCF funding, the lead taken by the private co-investor streamlined the process from initial conversation to conclusion of application. SVF was also considered to be an appropriate and straightforward application process, with SE account managers and private co-investors with previous experience of the funds both recognised as easing the process. For those who had experience of applying to both Funds, it was recognised that whilst there were many similarities in terms of application, applying to SVF was a longer process as there were no accredited partners in the deals. For both, a small minority did suggest that there was a degree of inflexibility in terms of timescales and requirements.

Beyond the application process, survey respondents were overwhelmingly positive about ongoing communication, with 93% (n=27) of SCF respondents and 97% (n=39) of SVF respondents finding it either good or excellent. It was evident from responses that the approach to ongoing communication with SE portfolio managers was appropriate and in particular, came to the fore in crisis points. This was felt to be a positive approach to the ongoing relationship, streamlining communication, with one consultee reporting '*they're there if we need them'*. Private investors were seen to be more hands-on in terms of investee relationships. Companies found this to be appropriate given the likely relevant experience that investors can bring to the table. It was recognised that co-investors were more closely in communication with portfolio managers and were able to alert them to issues of concern.

A **Life Sciences company** supported by **SCF** highlights the benefits of the differing relationships between SE and the private investment partners. In consultation it is highlighted that the company are able to access people regularly whenever they need, however, the SCF private partner acts as the lead touch point for the company, more regularly attending meetings and asking questions (i.e., 'Who is head of sales?' 'How is the company going to get new channels?') to push growth.

> *"I am happy with an expectation to engage with investors, but I would struggle if I had to engage with all investors if all were as engaged as [the SCF partner]. The SE funding is supportive and low maintenance because they rely on [the SCF partner] to lead oversight, works for them and works for me and the company".*

The approach taken by SE, trusting the SCF partner for oversight and engagement suits the needs of the company.

With regard to the wider, non-financial support provided by the funds, respondents found that their **Portfolio Manager** was an excellent source of advice (on markets, board decisions, future strategy and opportunities), new connections and insight into further support available from SE. One respondent stated, *"sometimes the non-financial help is as valuable as the financial - for example SDI introductions that connected the Business to overseas opportunities".*

Respondents from both Funds also found that having a dedicated **SE Account Manager** was useful in providing additional support. Actions provided by account managers include finding additional grant funding options, networking and internationalisation support and liaising with key stakeholders. Account management relationships[59], were understood to be closer and more personal than the portfolio management relationship which in part may reflect the lower ratio of companies supported given the management ratios. [60]

[59] N.B. as previously stated, the SE Account Management process has been altered in line with the latest SE Business Plan (2021/22) outlining a move away from a fixed portfolio of Account Managed companies to a model that seeks to serve more companies to implement opportunities that will sustain or create more quality jobs, that are fair, green and can last. Full details of changes can be found in Section 1.2 of this report.

[60] This is to be expected given the different roles and responsibilities of portfolio managers, who will often have to step in to provide support to businesses behind plan and will involve more onerous governance relationships, compared to the role of account managers. The portfolio manager role reflects SE's need to ensure public funds are utilised appropriately and that the funds are continued to be operated on a commercial basis.

One **renewable energy company**, supported through **SVF** explained that:

> *"In terms of raising support – I had no gauge of what was normal. Once we got the investment, we became account managed at SE – this gave a lot of targeted support around areas we wanted to grow."*

In general, the majority of respondents reported that they found the model of public and private sector co-investment to be very effective or effective.

Programme Impact

Detailed analysis of outcomes and impacts of the funds can be found in **Chapter** Error! Reference source not found., however, qualitative impacts reported through consultation and the beneficiary survey highlight that the funds have been essential for the survival and continued growth of many start-up companies with high growth potential and has strengthened the position of companies to compete globally and enter new export markets. Several company vignettes illustrate the impacts of the funds on their outcomes and performance.

One **Creative Industries** company, supported by **SCF**, explained that they had been able to attract a number of angel investors to their company, however, having SE as a co-investor significantly changed the amount of money it was possible to raise, as the company had struggled to get to the larger sums that would be transformational for the business.

The consultee highlighted that instead of being "handcuffed" with only half the funding required, having to constantly raising money from less appropriate sources, the company was now able to "put a plan together and make meaningful progress."

The impact of this over the funding period was evident, increasing their employment levels from 5 to 30 FTEs and turnover from ~£50-100k to £1m annual recurring revenue, in 5 years. The consultee explained, as she concluded:

- *"I often think - I don't know that we'd be here if we'd started in London, or the North of England. We have a very specific and supportive ecosystem that's joined up and has public money deployed in a sensible way"*

One company, operating in the **Life Sciences sector**, having received funding through **SCF**, has been able to turn the investment that they have received from the fund into a hugely significant deal with a global pharmaceutical company.

The support the company received was utilised for both product development, as well as in developing the business capabilities (i.e., sales and marketing, headcount in the USA, developing new partnerships). This allowed the company to develop a product that could compete on a global stage. The company was constantly reliant on SCF investment in the preceding years, as a loss-making company with never more than eighteen months of a funding runway.

In 2020, the company was able to negotiate a deal with a global pharmaceutical company to sell a white-label version of their product. This deal was only possible through the continued support of SCF and has allowed the company to grow significantly.

“We are providing them with a white label version with our product. No way we could sign that deal without everything in the previous 3 to 5 years. The state of our product and our ability to represent and our market intelligence allowed us to face off to a global pharma giant to secure that deal. We did that in competition with those who would have claimed to do the same thing as us… We’ve tripled our top line.”

“We wouldn’t have been able to sign the [pharmaceutical company] deal if we had a million less.”

SCF funding has allowed this company to compete on a global stage against companies with greater resources, delivering a successful product and significant outcome.

Another company working in the **Life Sciences Sector** and receiving funding from **SCF** predominantly does business internationally, with only 3% of revenue from Scotland. However, the costs associated with this (e.g., travel) have often been a *“rate limiter”* for the company. The company has used SCF funding as working capital, allowing the company to take additional risks to grow the business. From 2015 the company received two significant investments and after the second, began to grow rapidly.

“In autumn 2015, we were running out of money. Everything just took longer than we thought. At that point we needed investment for working capital. We knew opportunities were coming. We grew rapidly after the SCF investment in 2016/17”

Of those companies surveyed, a total of 44% (n=24) reported that they had received international investment since 2015. This included 7 of the SCF cohort, 13 of the SVF cohort and 4 of those receiving funding from both. Overseas investors, according to surveyed companies, found the co-investment model attractive, giving credibility to companies through government backing, enabling companies to receive investment or pursue this option in future funding rounds. 53% of the SCF cohort, 40% of the SVF cohort and 72% of those receiving from both funds reported that they were now either more attractive or significantly more attractive to international investment.

One company working in the **Digital Sector**, receiving funding from **SCF**. At present, the company is building customers in the UK, in order to prove the technology with a view to branching out into the USA in the next financial year – the company’s largest addressable market. This has implications for the investors that the company expect to come on board in future investment rounds.

“We expect follow on investment to come from international investors looking to lift and shift our growth strategy and technology to the US market.”

The funds also enabled companies to secure additional benefits for Scotland. These included investment in Research and Development, creating and protecting high-value jobs in the Scottish economy and supporting a significant number of Scottish businesses through supply chain impacts.

Amongst beneficiaries, it was felt that the funds were highly additional, with only one company suggesting that they would not have been at all impacted in the absence of the funds. 41% of companies reported that they would have been unable to proceed at all without the funds’ intervention, and for the majority of respondents, it was felt that to some degree impacts would have transpired, but not at the same scale and pace as seen through the intervention. This slower growth one company reported would have "*hugely increased the risk of business failure".* Participants equally felt that the additional, non-financial support provided through the funds (e.g., portfolio management advice, access to new networks) added to how the company was able to perform, leading to more significant impacts.

This **SVF** company, working in the **Renewable Energy Sector** highlights the additionality of the support received, beyond the financial injection into the company. The consultee and founder engaged in courses provided by SE on fundraising and around making pitches. The founder states that the financial support received prevented the company from shutting down, however, the wider support received has been equally significant.

> *"It's been a bit like a jigsaw – giving us the tools to actually raise the finance and show the business to people. It allowed us to present ourselves well. How we presented ourselves before wasn't an investable position, but after working with SE it became one."*

The company has now won contacts that are "world firsts" with new opportunities emerging, highlighting the value of providing additional support.

Multiple consultees outlined a funding gap of circa £2 - £5 million, generally above the level that Angel Investors would be willing to fund and too low to attract larger VCs. These consultees had felt that the market was strong up to this £2 million point.

One **renewable energy company** supported by **SVF** outlined the above point, highlighting the challenges for scaling their business that this gap presented:

> *"The big area where there is a gap in angel investment and private equity is between £2 million and £5 million. There's a lot of smaller end at the £2 million and bigger investments start at £5 [million]; there's a massive hole at that point. If you can't get to the larger scale investments, you're in a limbo land. It makes scale up a bit harder."*

Similarly, a **life sciences company** supported by **SCF** highlighted the deals above £2 million posed a problem to their company:

> *"For the next couple of years, we'll be in that awkward in between phase – we are still at an early stage of traction which does limit the number of parties interested and willing to invest. You aren't at a safe demonstrable sales process that a VC will come and give you £10 – 20 million."*

The effects of external factors (i.e., Covid-19, UK EU exit) on impacts to beneficiaries were also considered. 88% of companies reported at least one negative impact from the pandemic, with delayed company growth, reduced internationalisation opportunities and poor sales performance all prominent. However, for a minority, these factors gave new opportunities for new product development and increased revenue.

One company in the **enabling technologies sector**, supported by **SCF**, as a result of Covid-19 was unable to continue on their planned trajectory with regard to developing international contacts and markets, and also saw supply chain shortages for necessary components, due to the shutdown in manufacturing globally.

However, as a result of the funding received in 2020 from SCF, the company was able to retain its technology team and not place them on furlough leave, and instead, were able to pivot to develop and sell an innovative product to support social distancing procedures within the sector that the company was already working:

> *"We gathered £600,000 of sales from that technology. It let us see clearly the way we can use our technology and skills in other areas. The funding we received allowed us to keep marching forward during the pandemic"*

The impact of the UK EU Withdrawal was likewise experienced differently depending on company activities, growth plans and sector. 35% of survey companies reported no impact whilst a significant number reported additional costs. The EU was less of a target market for supported companies, but for those that had planned expansion or were already exporting to Europe in significant numbers, the Withdrawal has posed serious threats to the feasibility of this market.

One company in the **life sciences sector**, supported by **both SCF** and **SVF** outlined the negative impacts of Brexit on their future plans:

> *"Brexit has been a disaster for us. We are about to launch in amazon Germany…we had a product that headed off in April. It took five or six weeks to clear customs."*

Future Recommendations

Beneficiaries were positive about both the model and the support that they had received. The funds had attracted investors and de-risked investment, enabled funds to be channelled to companies that require a longer term for returns, leveraged private sector monies, and added significant value more broadly. Beneficiaries highlighted the following key aspects of the funds which have led to benefits to the companies:

- the fund fills a necessary gap in the investment market, between smaller Angel investments and traditional VC money, which is looking for large deals in more mature companies;
- it boosts the amount of funding received by companies with limited due diligence burden;
- it attracts new investors to the market and to companies, and gives them confidence by sharing the risks; and
- it gives consistency to investees with straightforward processes and good ability to test whether funding will be available.

When asked to consider potential shortcomings of the funds, companies generally found that the funds themselves worked well and the potential shortcomings were with the wider suite of provision offered by SE, with companies suggesting that the "*bits around the edges*" could be improved to give more holistic support.

Other recommendations made by beneficiaries for improvements included:

- **additional support:** ensure that companies receive good early advice, particularly in the areas where SE can add value (for example, advice on what support and incentives are available). One individual also highlighted that they could have been better prepared to scale up their company had they been aware of and able to access specific support for this stage.

- **international investors:** look to attract international funds to co-invest in Scottish companies with SCF / SVF. International investment could also be boosted by hosting international investor conferences in Scotland, to showcase the investment opportunities and give companies traction with international investors. This is work already being undertaken with the recent launch of SG's Global Capital Investment Plan where SE plays an important role.

- **scale-up:** the model works well at the early stage. While not exclusively the remit of SE, the overall eco-system could be strengthened if support could be improved for scale-up companies and to help attract additional VC funds, by making the level of funding available higher. Other support that would be helpful to assist scale up includes developing networks, providing visibility / showcasing, providing access to infrastructure (financial and non-financial) and supporting with supply chain contacts.

4.4 Summary

The funds were very positively received by all investors and stakeholders, suggesting the model is efficient and effective in providing access to early-stage capital, mitigating risks and providing additional benefit to supported companies. It is evident that the rationale for continued intervention persists. While the Scottish funding and support ecosystem is seen as strong, there is a persistent funding gap at an early stage of development which is clearly matched by SCF and SVF. Indeed, a significant portion of supported companies reported that without the support received, their company would have been unable to proceed.

Investors receive many more requests for support than they can fund, most are not investable (though the ideas may be credible) and the process is largely one of filtering out the very best prospects rather than actively seeking companies. It is suggested that more opportunities could be funded if more capital was available. There was a range of opinions on whether access to capital was more available now than previously, with it often following sector lines as to whether the investor market had grown or stayed the same. One change reported by a significant number of investees was that companies were now more attractive to international investment.

With regard to Fund delivery, both the referral / application process and ongoing communication on the role of the funds were considered to be appropriate and effective. From an investor perspective, there is a high likelihood that opportunities will be co-funded by SE, almost certainly if brought forward by an SCF partner. It was felt by a minority that the application process could benefit from increased flexibility, however this would need to be considered in the context of safeguarding public funds and ensuring consistency and transparency in the overall delivery of the funds.

From a communications perspective, although relationships with portfolio managers were aligned to responding to demands as they arise, some investors and beneficiaries felt that more could be achieved with additional resources.

Investors provide input to governance and management structures from their teams and networks, and value the additional support available through SE, directly or via signposting, such as further financial assistance products or information. Beneficiaries found that the relationship with account managers, often initiated following a SCF or SVF investment, was key to accessing this support. The SE model seeks to invest alongside an experienced lead investor (often in deals where there are multiple investors) in every deal. In some cases this is not always the possible and this will inevitably mean that SE Portfolio Managers will need to vary their engagement with investee companies accordingly. SE can, where appropriate, appoint a Non-Executive Director and will maintain a dialogue with the SE Account Manager on opportunities to provide additional SE support.

5. EVALUATION FINDINGS AND LESSONS LEARNED

5.1 Performance against fund objectives

SE's Co-investment Funds seek to address the systematic market failures in the supply of risk capital to high-growth Scottish businesses and have the following **strategic objectives**:

- to address gaps in equity provision for high growth businesses in Scotland;
- to attract international investment into Scotland;
- to support companies in finding appropriate sources of follow-on capital and secure exit opportunities;
- to enable investors to increase their pools of investment through recycling capital and talent;
- to increase the diversity of funding options in Scotland, seeking new and varied co-investors and supporting Angel Syndicates to invest with more ambition.

The evidence in the preceding chapters shows that all have these have been met to some extent.

Investors and investees report that the **funding gap** for providing risk capital to private sector high growth companies in Scotland is real and ongoing, supported by evidence on both the demand and supply sides. Investors identified an ongoing funding gap at an early stage of development which is clearly matched by SCF and SVF. The majority of investee companies had sought equity investment from alternative sources, and they reported that lack of equity and debt investment in the market were key barriers to growth.

Attracting **equity investment** for Scottish businesses is a priority for SG. **Scotland's Trade and Investment Strategy 2016–21** highlights the desire to enable and support new investors to invest in Scotland, and to help companies access international investors and a broader range of venture capital. Of those companies surveyed, a total of 43% (n=24) reported that they had received international investment since 2015. This included 7 of the SCF cohort (39%, n=18), 13 of the SVF cohort (48%, n=27) and 4 of those receiving funding from both (36%, n=11). Overseas investors, according to surveyed companies, found the co-investment model attractive, giving credibility to companies through government backing, enabling companies to receive investment, or enable them to pursue this option in future funding rounds.

A total of 229 companies have been supported through 666 deals, hence, a majority of the deals were **follow-on** deals. Investors were keen to stress the likelihood that multiple rounds of funding would be necessary for companies at the early stages of development where SCF and SVF are typically sought to support progression and growth and reported that they were pleased at how frequently follow-on co-investment was available. Of the 229 supported companies, 123 had previously received funding from SCF or SVF. 29 companies have **exited** to date (repaying £27.7m in investment) and 19 companies have had deals written off. Companies supported have spanned innovative and high value sectors including life sciences, technology, creative industries and renewable energy and others, creating jobs and developing these clusters within Scotland, as well as supporting sectors key to economic development in the Highlands and Islands region (e.g., food and drink, textiles).

Due in part to the market uncertainty surrounding Covid-19 and Brexit, investors reported that at the time of interview (early 2021) the appetite for risk among VCs and syndicate members was lower than normal, and that investment groups were typically focusing on re-investing in their current portfolios rather than taking on many new deals. However, the investors reported that the level of capitalisation in the market, and the liquidity of funding, was increased as a result of the funds and the SE-supported ecosystem - this provides some evidence of recycling of capital.

In addition, the funds have met their SMART objectives, as set out in Table 15.

Table 15: Progress against SMART objectives

Target	(a) SCF III &SVF III SMART Objectives[61] (July 15 to July 18)	(b) SCF IV & SVF IV SMART Objectives (Aug 18 to May 21)	(c) SCF IV & SVF IV SMART Objectives Pro Rata[62]	(d) Combined SCF III &SVF III and pro rata SCF IV & SVF IV SMART Objectives (Columns a + c)	(e) SCF and SVF III and IV Performance (to March 2020)[63]
Investments	300 - 360	300 – 360	244 – 293	**544 - 653**	**666**
High Growth Potential Companies	160 - 200	160 – 200	130 – 163	**290 – 363**	**229**
Private Sector Leverage	£200 - £225 million	£220 - £260 million	£179 – £212 million	**£379 – £437 million**	**£494.2m**
FTEs over 10 years	1000-1800 FTE net jobs forecast	900 -1500 FTE net jobs forecast	733 – 1222 FTE net jobs forecast	**1733 – 3022**	2025: **18,000** Net FTEs forecast 2028: **41,100** Net FTEs forecast
Additional net GVA forecast over 10 years	£360 - £600 million	£320 - £550 million	£261 – £448 million	**£621 – £1,048 million**	2025: Net GVA **£1,676.4m – £1,851.0m** forecast 2028: Net GVA **£3,638.5m – £4017.5m** forecast

The funds have:

- invested a total of **£158m in 229 companies**, predominantly in the enabling technologies, life sciences and creative industries sectors;

[61] SMART Objectives for SCF and SVF III included as part of wider objectives for Scottish Enterprise's Co-investment Funds (Scottish Seed Fund, Co-investment Fund, Venture Fund and Portfolio Fund).
[62] Pro rata allocation of objectives-based fund expenditure at the end of the evaluation period (i.e., March 2021) as a proportion of total funds allocated i.e., £61.1m spent out of £75m (81%).
[63] the targets noted in columns (a) and (b) are for the full SCF and SVF III and IV periods and the Funds' performance includes only the investments made for the period to 31 March 2020. Additional investments made from SCF and SVF IV which will contribute to these figures.

- levered **£494m in private sector investment** (approx. 3:1 ratio) and attracted **£5.3m** from other public sector bodies;

- invested in **19** companies with deals that have proceeded to be written off (totalling **£6.58 million**);

- had **29** businesses exit / repay their investments, generating total income of £41.5m and a profit of **£5.3m.** Additional income, beyond that from exits / repayments, from interest, dividends, fees and value recovered from write offs totals £0.87m;

- RSM estimate that the **total net GVA** created by the fund to March 2020, ranges between **£436.5m and £482.0m** after adjustment for deadweight, leakage and displacement and taking into account supply chain impacts. (Between £270.6m and £298.8m are considered attributable to SCF/SVF III and IV intervention). For total SE financial investment (including investments prior to SCF/SVF III and IV and SE staff costs) the impact ratio has be calculated to be between **£1:£1.7 and £1:£1.8**;

- The cost per net job created / protected for all SE investment (inclusive of prior investment and SE staff costs) was £104,300 in 2019 and £335,300 in 2020.[64] These will decrease as employment impacts take time to realise.

- invested in companies that are forecast to generate **41,100 net jobs** and **£12,560m in turnover by 2028**[65], as well as between **£3,638.5m – £4,017.5m** net GVA;

- Forecasts for 2028 suggest that the impact ratio for total SE financial investment (inclusive of all prior funding provided by SE to supported companies as well as the estimated cost of operating the funds (i.e., staff costs) as well as the financial input from SCF/SVFIII and IV) is between **£1:£13.8 and £1:£15.3. The net cost per job is calculated to be £8,000.**

- ERDF provided **£36.6m** of funding to SE to partially fund the Scottish Co-investment and Scottish Venture Funds. 170 companies received ERDF funding over **379 deals**. ERDF provided 40% match for deals in this period, totalling **£91.4** of SE investment, and an additional **£214.4** private sector leverage and other public sector investment.

- ERDF support for companies has led to companies turning over **£90.8m** from 2015 to 2020 and supported **855 (net) job-years**. By 2028, the direct result of ERDF input is expected to be between **£659.2m – £727.9m GVA output, 6,840 net jobs** and **£1,560.1m in turnover**.

- ERDF inputs have contributed to **£58.5m gross GVA** output and the net GVA output of between **£57.1m and £61.0m**, giving an actual impact ratio of between **£1:£1.6 and £1:£1.7** and by 2028 forecast an impact ratio of between **£1:£18.0 and £1:£19.9**. Cost per job (ERDF supported jobs) for ERDF investment was **£119,100** in 2019 and **£321,900** in 2020. This is forecast to be **£13,300** per net job by 2025 and **£5,300** per net job by 2028.

Early-stage investments are inherently high risk, impacts often take longer than the 5-year evaluation period to realise, and COVID and Brexit had external impacts. Taking all that into account, investors believed that there was a strong impact of the SE funding on lowering company failure rates. Access to co-investment from SE provided some companies with more funding than requested in their business plans, de-risking them and increasing their performance.

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[64] Data gaps for employment figures means cost per job estimates are inflated.
[65] Forecast figures adjusted by 20% to account for optimism bias

5.2 Fund management and delivery

The vast majority of **investee companies** were positive regarding the process of application; in particular, those accessing SCF found that the co-investment partner was the driving force, and their role was minimal. Frustrations amongst the minority centred on the length of time of the process, which related to the deal processes in general, rather than an observation on the operation of the funds. The SCF and SVF processes were considered broadly similar amongst those who had experienced both, although SVF was perceived as being more time consuming and uncertain.

Investee companies were overwhelmingly positive about the communication received. It was fed back that companies felt that their ongoing relationship was one of being available when needed, and private co-investors taking the lead on ongoing communications SE had a ‘there when needed or looked for’ approach.

Portfolio Managers were considered to add additional value; however, it was the Account Manager relationships that respondents found most significant in terms of providing additional support. This close relationship was likewise considered an important aspect of the wider support offered. In this evaluation, responses from Fund beneficiaries refer to SE Account Management as part of the wider support package provided by SE. Planned changes to SE’s business development support are detailed in the footnote in **Section 1.2**.

Investors and partners viewed communications with SE teams as very good, whether referring to the transaction or portfolio teams. The portfolio team is seen as being focused on key milestones such as setup and follow-on funding rounds. This is seen as suitable for SE’s specific role as a public sector gap funder but there are some questions as to whether more value could be added if the team had more resources and fewer companies per Portfolio Manager.

5.3 Policy Context and Fit

The basic policy of committing funding to address the gap at the level where SCF and SVF operate is seen as sound. The market failure rationale was seen as valid, with the funding gap persisting and demand for funding at this level relatively constant. The funding gap may have evolved, with the next stage of funding above SCF/SVF (Series A or immediately prior) seen by some as difficult to access in Scotland.

The position of the funds in the wider ecosystem is also appreciated. The investee companies and the consistency of SE as an investment partner that support their business growth, and for others, the wider ‘jigsaw’ of support, financial and non-financial allowed them to professionalise their offering to secure major contracts and be globally competitive.

5.4 Recommendations

Drawing together evidence from beneficiaries and stakeholders, as well as fund performance, it is clear that the co-investment model and current approach is appropriate and effective. It is well regarded by beneficiaries and investors and only a few areas of potential improvement have been cited by stakeholders.

Based on a pro rata allocation, the funds have successfully met (and in some cases significantly exceeded) the majority of their smart objectives, with only one (number of companies) falling slightly short. Targets relating to private sector leverage, job creation and, the generation of additional net GVA, have been significantly exceeded.

Drawing on SE Risk Capital Market Report evidence and the perspective of investors and investees, it is evident that the market failure rationale remains valid, with funding gaps persisting and demand for funding at this level cited as being relatively constant. Stakeholder feedback suggests that funding gaps may have evolved over recent years and the next stage of funding above SCF/SVF (Series A of £10m+ or immediately prior) is seen by some as difficult to access in Scotland and there is some evidence that the amount of funding required for SCF investments is increasing.

The recommendations cited within this report are as follows:

Issue: fund beneficiaries were very positive regarding the model and the current approach, suggesting only minor potential improvements to: enhance the efficiency of the administration/ support processes; maximise the value obtained from investor insight and knowledge; ensure opportunities for beneficiaries to obtain other support/ advice are captured; and maximise opportunities to attract international investment.

Recommendation 1: where possible, SE to consider any further opportunities to streamline administrative and legal processes. It is recognised that this would need to be done in the context of continuing to protect SE investment interests (including application of MEOT in all deals)[66] and reflect total SE cumulative investment in previous rounds and deal specific risks. Companies too will often seek bespoke legal agreements based on their circumstances rather than a 'one-size-fits-all' approach.

Recommendation 2: SE to consider what further work can be undertaken to increase awareness and take-up by companies of available SE early-stage advice and support, particularly in areas where SE can add value (i.e., identifying appropriate finance, help with preparing to raise finance and how to take advantage of available incentives and wider SE support).

Recommendation 3: SE to continue to pursue opportunities for increased collaboration with SE's international arm, Scottish Development International (SDI), to showcase investment opportunities and give companies traction with international investors. A number of investors and investees highlighted the added benefit that SDI's international networks and contacts, as well as information and training has had on the supported businesses expanding into new markets. It is noted that this work is already being progressed following the recent launch of SG's Global Capital Investment Plan where SE plays an important role given existing relationships with international investors and development of a growing portfolio of attractive investment opportunities.

Issue: There is evidence that the SCF funding limit could be usefully increased to £2m based on the frequency of and importance of follow-on funding to achieving company progression. This would increase the availability of working capital to respond to opportunities and risks and is in response to a perception that this stage of the funding gap may be expanding to larger sized deals. It is noted that SCF partners are able to seek SVF funds for their companies if the SCF limit is reached and that this often occurs.

Recommendation 4: To facilitate these large deals, for accredited partners, it is recommended that SE should consider increasing the SCF deal limit from £1.5m to £2m. N.B. This recommendation has already been enacted by SE.

Issue: Investors have stated that there is an increasing gap at the very earliest and highest-risk stage of the market. This is supported by market evidence, which across the UK, points to a gradual shift away from the very early stages (deals typically less than

[66] Market Economy Operator Test. The purpose of the MEOT is to assess whether the State has granted an advantage to an undertaking by not acting like a market economy operator with regard to a certain transaction.

£500K into companies seeking first time equity, start up and seed deals). As the objective of SE and SG is to support the full pipeline of early-stage opportunities, the development of an intervention specifically targeting this stage and these opportunities should be considered.

Recommendation 5: SE should investigate the potential for establishing an intervention that supports riskier early-stage opportunities, with a particular focus on start-ups and new to equity investments, to complement the SCF and SVF. The Early-Stage Growth Challenge Fund, which did not require matched funding and had permittable State Aid in the product, developed in response to the Covid-19 pandemic, was identified by stakeholders as providing an example of a successful intervention targeted at this cohort of businesses.