

*Presentation at the*  
**Royal Society of Edinburgh and**  
**Foundation for Science and Technology**  
*joint meeting on*

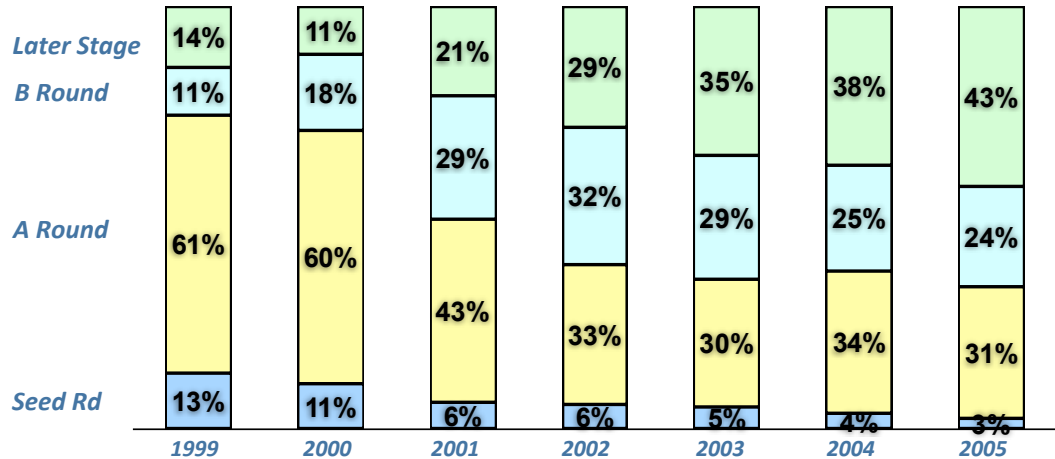
**What are the best ways to promote a  
culture of enterprise and innovation  
in Scotland?**

*held on*  
25th October, 2012



## ... when it all went wrong.

Development of VC investments in EU per Stage over Time 1999-2005



Source: DowJones VentureOne, E&Y 1Q2006

## Financing of Business Innovation

- Discussion paper produced *as input to a*
- Workshop at Royal Society of Edinburgh
  - 20 attendees from
    - Banks, Venture Capital, Angel Syndicates
    - Corporate Finance Advisors, Corporate Lawyers
    - Specialist Journalists, Academics, Accountants
    - Public Sector (Government and Scottish Enterprise)
- Final Report being completed

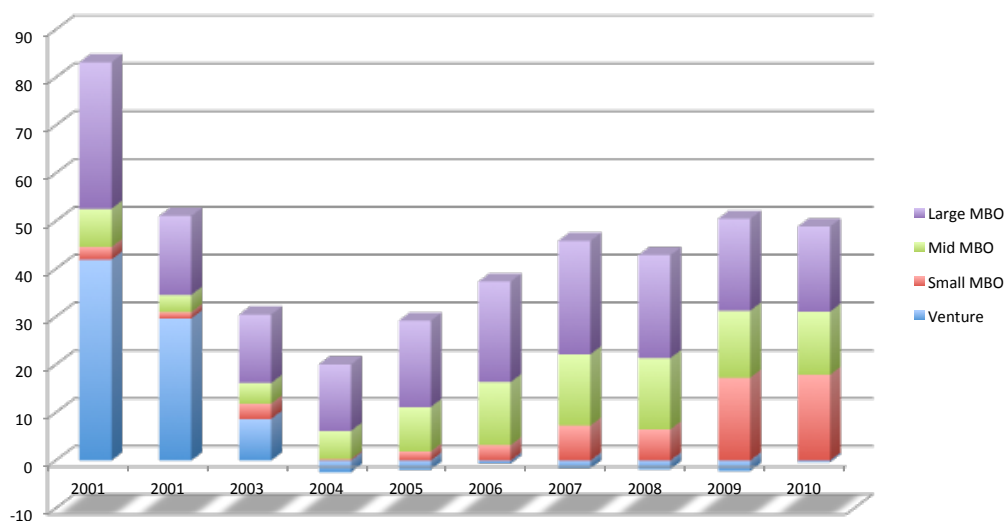
# Risk Capital has dried up

- 2001 dot.com boom/bust wiped out lots of high growth companies
  - and destroyed enormous amount of value
- Post-2001 funds were doing OK until...
  - The 2008 financial crisis wiped out exits and floatations
  - Without exits it is impossible for funds to perform
- Therefore as a category, risk capital has lost it's attraction to fund managers



## IRR(%) return

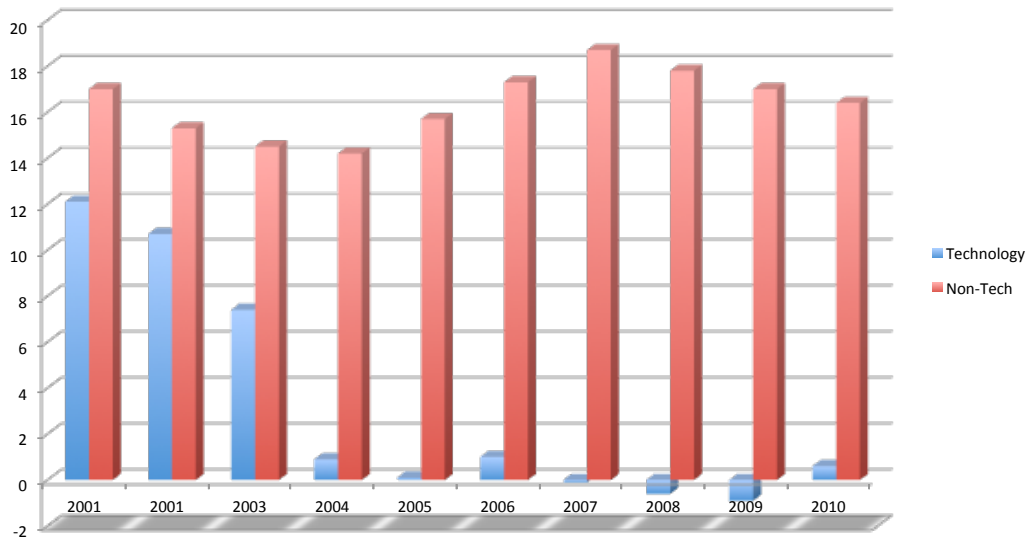
by investment stage and subcategory



BVCA Performance Measurement 2010

# IRR(%) return

by investment stage and subcategory



BVCA Performance Measurement 2010

## Angels to the rescue

- Angels have taken the strain
  - Willing to back start-ups and pre-revenue companies
  - EIS (and SEIS) provide attractive tax breaks
  - Scottish Co-investment and Seed funds double the financial firepower of angels in Scotland
- BUT...
  - Angels are usually limited to under £2m deals
  - Not suitable for larger, more ambitious, or longer terms deals (e.g. life sciences)
  - Don't mix well with later VC money with complex preferential share structures

# Risk Capital

- Need to review other sources of Risk Capital in Scotland now corporate funding has dried up
  - Pension funds (maybe via a CfE guaranteed return underwritten by government)
  - New personal investment vehicle maybe using VCT structures (a new Scottish Innovation 'Future' Fund)
  - Crowdfunding methods
  - Re-instate some form of Scottish Development Funds
    - Syndicate and partner with international investors
    - Specialise in Life Sciences, Green Energy etc.

