Catapult Digital

Digital Catapult's Investor Attitude Tracker

2023

Contents

Methodology

The research was conducted by Censuswide, among a sample of 1,257 early-stage investors, in the UK, France, Germany, Spain and the Netherlands.

Responses during data analysis were broken down by number of start-up investments; start-up success rate; and average investment made.

In addition, respondents self-described as: angle investor (14% of total sample); early-stage investor (17%); seed stage investor (26%); growth stage investor (19%); and private equity (24%).

Respondents also declared themselves most likely to primarily invest in the following level of start-up: pre-seed (11%); seed (24%); series A (36%); series B or C (22%); later stage (8%).

The data was collected between 05.07.23 - 14.07.23. Censuswide abides by and employs members of the Market Research Society and follows the MRS code of conduct which is based on the ESOMAR principles.

Executive Summary

Amid continued economic headwinds across Europe investors' risk appetite has taken a hit.

The intention to take risks certainly exists - at larger funds especially - but bullish investors are in the minority.

33%

investors say their risk appetite has decreased

82%

of investors believe they will increase their fund allocation in the next nine months;

But

35%

of investors across the continent say their risk appetite is higher

23%

say this will rise within the next quarter

Just

8%

of respondents expect their level of investment to fall during the next nine months

Named by

23%

as the place they'll likely invest, the UK currently sits on top of a 'league of investment nations'

The UK is also viewed as an 'epicentre' of deeptech and investment by the highest proportion of respondents:

25%

This report summarises the current views of start-up investors across the continent towards a range of issues. Analysis includes comparisons between the different markets studied - with the UK having a more resilient risk outlook than other countries - as well as variations by investor type, and size of fund.

For instance, angel investors have generally become more risk averse. By comparison, growth stage and Series A funding seems an attractive option for capital investment.

We also delve into respondents' attitudes towards the creation of an investment environment that would be more inclusive for start-up founders from all backgrounds, giving them equal access to vital capital.

In addition, our report considers the characteristics investors seek before committing - including demonstrable sector knowledge, an understanding of the investment process, and a skilled workforce.

The findings should interest investors across Europe, as well as the start-ups and scale-ups that are keen to seize opportunities for rapid and sustainable growth - not least in the burgeoning areas of AI and deeptech.

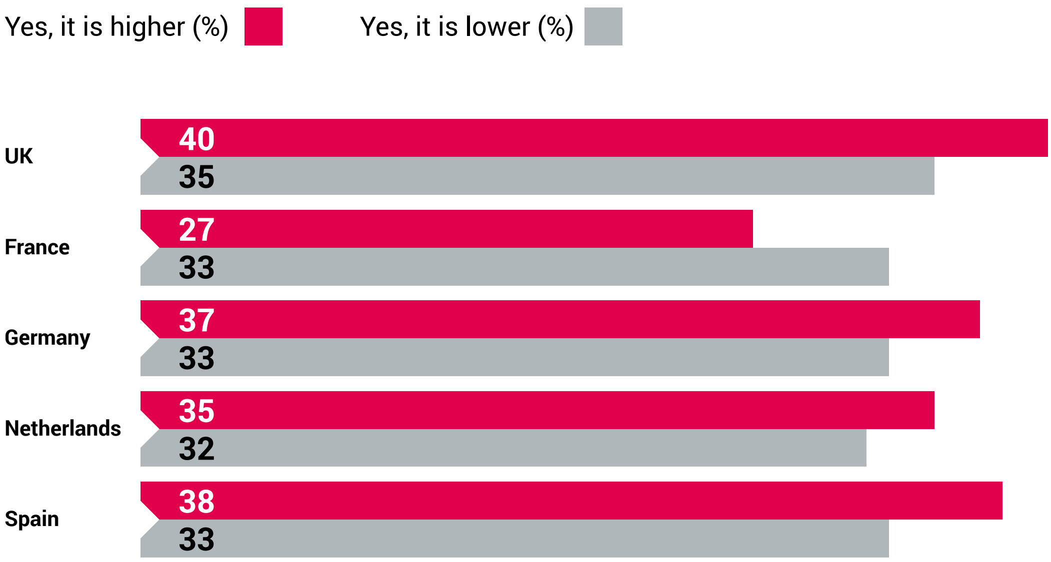
It's clear from our study that investors and founders face myriad challenges. Digital Catapult is an independent organisation where investors can discover more about the best tech start-ups and derisk choices while they are deciding which to back.

Investment Intentions Across Europe

01

Opportunity and risk

Do you feel that your risk appetite has changed in light of the current economic climate?



Venture capital investment in the UK experienced steady growth in the decade from 2013 to 2022. An all-time high of $15.2bn VC funding was invested in the first quarter of 2022 - but since then the value of VC funding has decreased.

A majority (69%) of investors reveal their risk appetite has changed due to fluctuating economic circumstances across markets. Amid a tougher investment landscape, one in three (33%) investors overall say their risk appetite has diminished.

In the UK, three quarters (75%) have reviewed their risk strategy. UK-based investors are most likely to say their risk appetite is lower (35%). Here, 41% of growth stage investors say their risk appetite has decreased. The youngest investors, aged 18 to 24, have also become more reticent about risk (39%) compared to other age groups.

Respondents in France have observed the least fluctuation in risk appetite, with 34% saying there has been no change. However, this market is also the only one surveyed where more respondents say their risk appetite has decreased (33%) than increased (27%). In Germany, 43% of seed investors in start-ups state their risk appetite has decreased.

In contrast, 35% across the continent say their risk appetite is higher despite the continuing inflationary headwinds. UK-based investors are the most bullish (40%).

Meanwhile, investors who back the largest start-up portfolio among those surveyed - 250 or more businesses - are most positive, with 44% saying their risk appetite has increased. This is also true for investors making average investments of £1.1m to £3m per deal (41%); and investors with a start-up success rate between 5% and 10% - with four in 10 (40%) citing higher risk appetite.

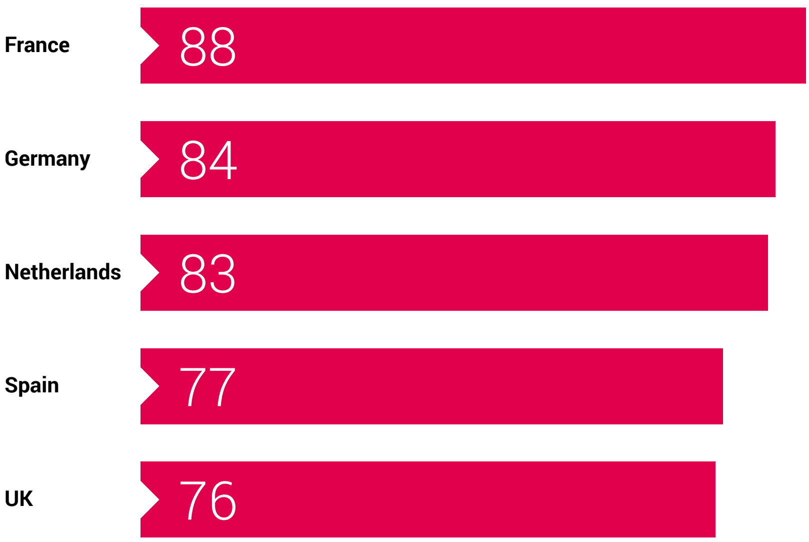
While risk appetite is in flux, intention to invest is largely buoyant across all of the markets surveyed.

Fewer than one in 10 (8%) respondents expect their level of investment to fall during the next nine months. A further 10% do not expect it to change.

That means more than four fifths (82%) of early-stage investors believe they will increase their fund allocation in the next nine months. Some will do so far sooner. In Germany, for example, 33% of Series A investors and the same proportion (33%) who describe themselves as primarily early-stage investors intend to increase investment during the next quarter.

Investors in France are the keenest to increase their backing for businesses, while those based in the UK and Spain are slightly more cautious:

Total respondents expecting to increase investment (%)



Similarly, the youngest investors, aged 18 to 24, and the oldest, aged 55 and over, are most eager to increase their spend (85%). So too are investors with a portfolio of 250-plus companies (89%) and those with an average investment of more than £5m (93%).

Meanwhile, the UK currently sits on top of a 'league of investment nations', according to our respondents, closely followed by France as the priority place to invest.

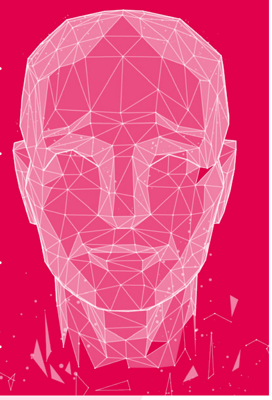
As the leading prospective investment market, it's interesting to examine more closely the profile of those prioritising the UK. A snapshot shows these investors are most likely to be:

Aged 25 to 34

Invested in <10 start-ups

Average investment <£100k

<5% start-up success rate



Where are your future investment priorities?
(All respondents %)

UK **23%**

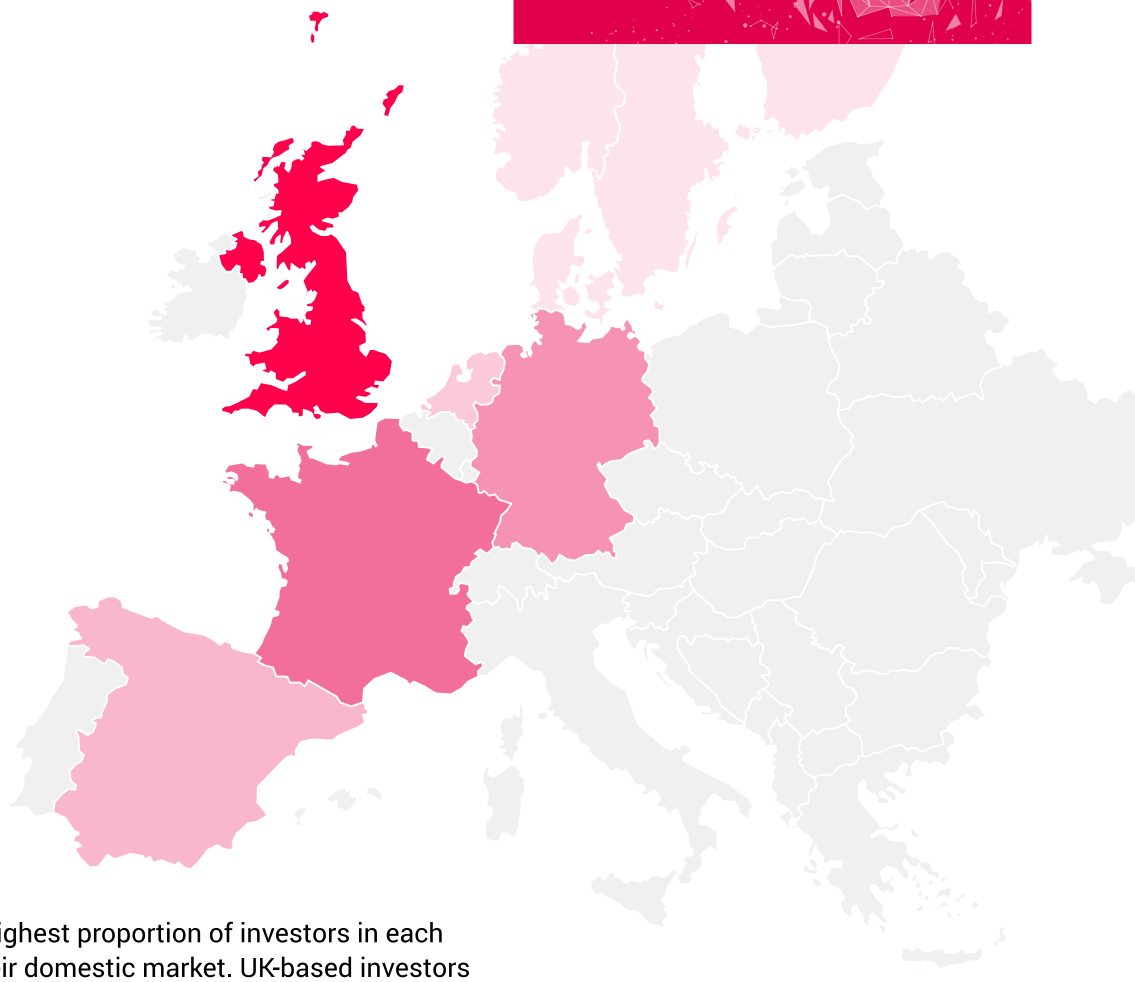
France **20%**

Germany **17%**

Spain **16%**

Netherlands **12%**

Nordics **11%**



Perhaps unsurprisingly, the highest proportion of investors in each country is set to prioritise their domestic market. UK-based investors are most certain of this strategy (57%), while those in the Netherlands are the least committed (26%) to backing companies at home.

Research from Deal Room has shown that UK investment across Europe stands at 55% to 60%. Compared to our own data, this suggests Europe is catching up the UK; its leading position as an investment hotspot appears under threat.

The deeptech landscape

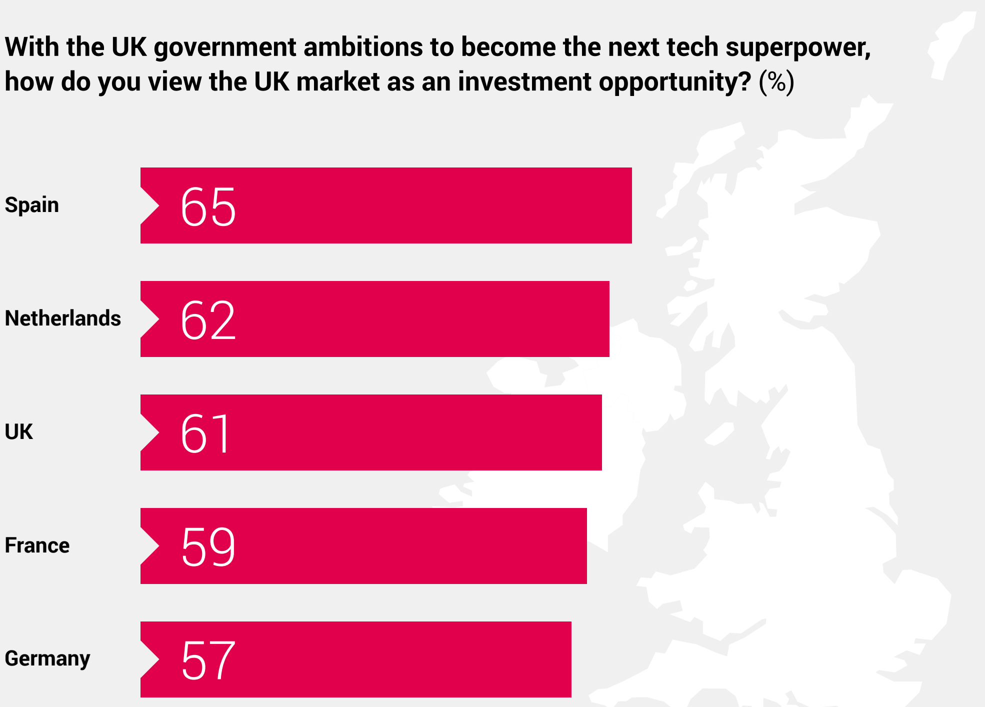
The UK government has a stated aim to make the nation an "international technology superpower" by 2030, as investment in AI and other technologies becomes more attractive. Deal Room reports the UK is still the top market in Europe for deeptech investment, followed by France, Germany, Sweden and Switzerland.

With this in mind, we asked investors in the UK and other European markets how they view the market in terms of investment opportunities, specifically focusing on tech businesses.

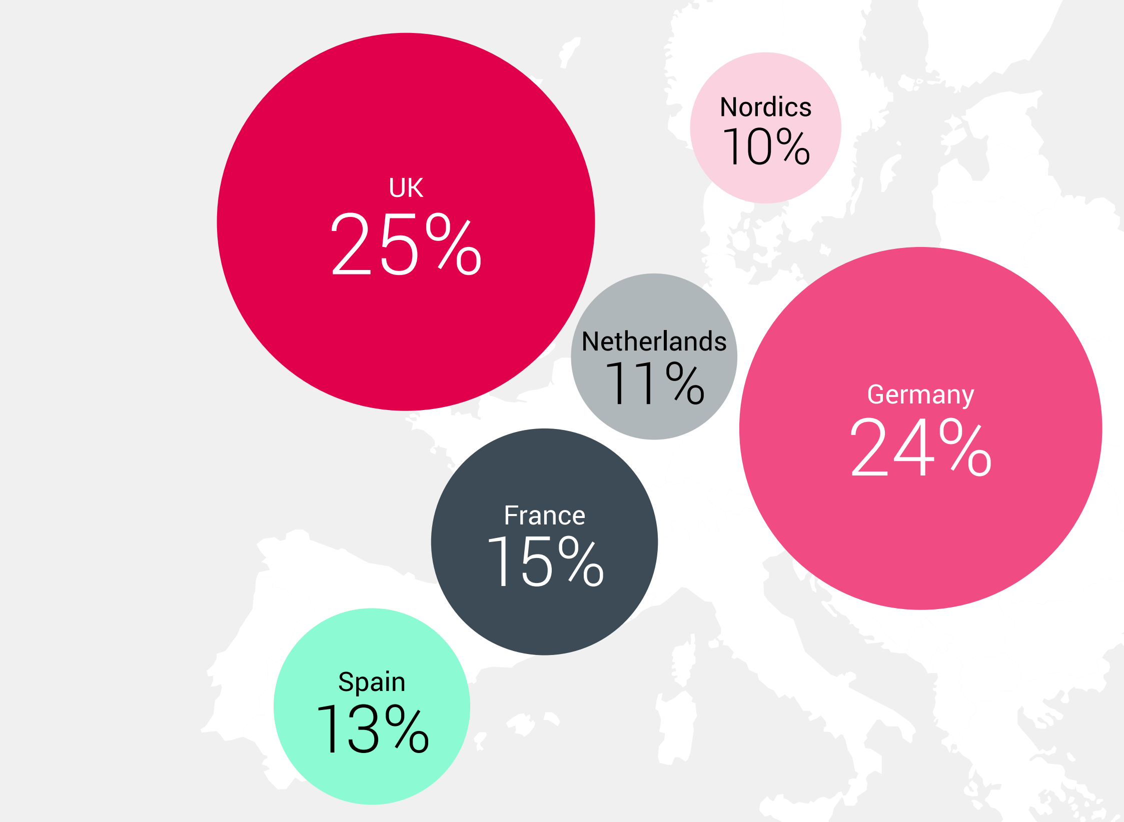
A majority (61%) of respondents in all countries has a favourable view of the UK on this measure; more than a quarter (27%) are very favourable. In fact, investors in Spain are particularly positive, with 65% expressing a favourable view. Also in Spain, those calling themselves growth stage investors (77%), and 71% of investors who predominantly focus on seed funding, are favourable towards UK-based deeptech opportunities..

Those in Germany are slightly less favourable (57%). It's also interesting to note that more than one in 10 (12%) UK-based investors have an unfavourable view of the country's tech sector as an investment opportunity.

With the UK government ambitions to become the next tech superpower, how do you view the UK market as an investment opportunity? (%)



Where is the current European deeptech epicentre in your opinion?
(All respondents)



The UK is already viewed as an 'epicentre' of deeptech development and investment by the highest proportion of respondents (25%), just ahead of Germany (24%).

Respondents' bias towards their own country is evident: for instance, 61% of UK-based investors believe it is the epicentre of deeptech, while 56% of those in Germany believe the same of their nation.

Netherlands is the most extreme exception to this pattern. While almost a quarter (24%) of investors based there say the country is deeptech's European hotspot, 18% point to the UK, 15% say Germany and 13% France. This is further evidence of erosion of the UK's leading position as the key investment market.

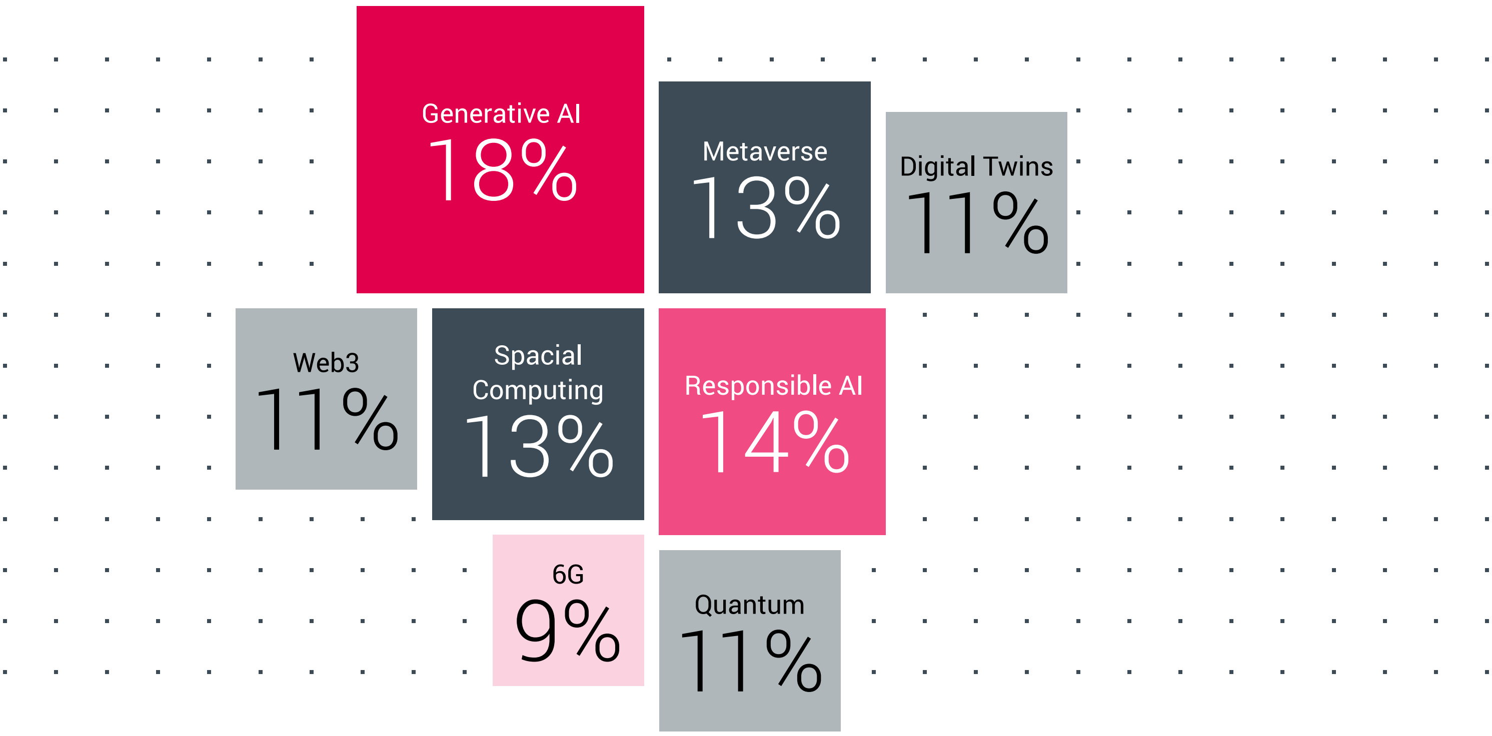
01

Deeptech investment drivers

Investors have a keen eye trained on technology trends as the market rapidly grows due to emerging innovation.

Across Europe, they are split on which types of tech will dominate investment during the next 12 months - with AI taking the lead, which currently makes headlines and dominates policy discussions globally. Investors are keen to follow what's topical; in 2022 the Metaverse was a hot theme, and in 2024 AI may have been overtaken by another emerging form of technology.

Which of the following technologies is the biggest investment growth area?
(All respondents)



There is some variation in investment interest between respondents in different markets. For example, UK-based investors see Generative AI (20%) as the best bet; for those in Netherlands spatial computing is most compelling (16%).

In addition, 36% of private equity investors look set to place their bets on Generative AI; but just 8% of Series A investors in France agree.

The type of technology in production is not the only factor driving investment opportunities. We also asked respondents which start-up founder characteristics are the most important to them.

Again, investors in different nations admire specific traits in founders of businesses they back. In the UK, respondents name passion as the key characteristic (26%), as do those in Netherlands (19%). In France financial acumen is prized above all else (24%). German investors seek strong leadership skills first and foremost (25%), and those in Spain say experience and knowledge is vital (26%).

Top five founder skills sought by investors (overall)

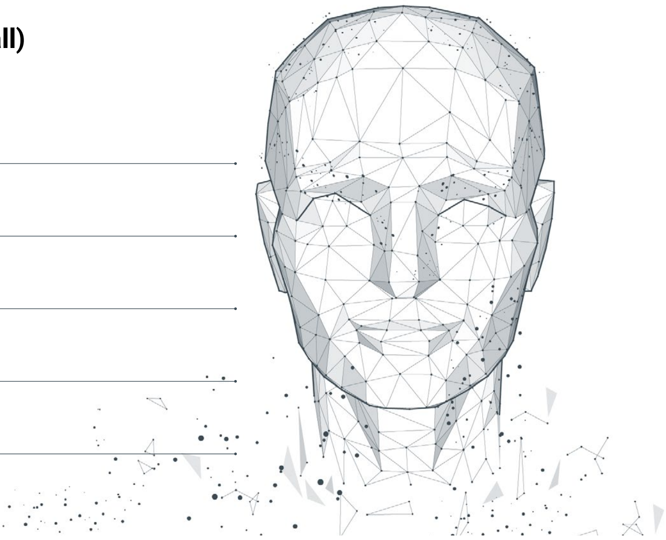
22% Industry knowledge/expertise

21% Strong team-building/mentorship

20% Leadership skills

20% Passion and drive for their idea

19% Clear, effective communication



Tech investment challenges

The founders' characteristics become even more vital when viewed alongside investors' perceived challenges with funding deeptech businesses.

The highest proportion (31%) cite a lack of investor understanding of the sector as a major risk factor. This is most acute in Spain (38%).

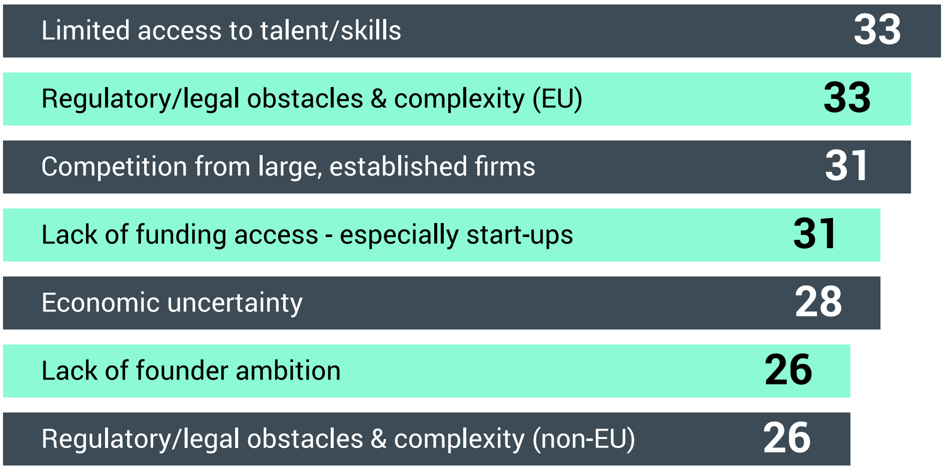
High chance of failure is another key challenge (30%), especially in the UK (39%) and Spain (38%); as is a lack of connections in the deeptech industry (also 30%).

What are the biggest risks of deeptech business investing?
(All respondents %)

Lack of understanding/knowledge	31
Lack of industry connections	30
High chance of failure	30
Lack of large follow-on investors	29
Lack of limited partner appetite	29
Length of timeline to returns	28
Companies unlikely to scale	28
Lack of dealflow	25

Beyond a specific deeptech focus, investors see tech companies' ability to source the right talent, as well as regulation and competition as potentially limiting factors in backing technology start-ups. Regulation of deeptech is becoming a focus for governments globally, and it's perhaps surprising this is not yet deemed a bigger challenge.

What are the biggest challenges around tech start-up investment?
(All respondents %)



Inclusive Investment Initiatives

02

Could start-ups founded and run by people from minority backgrounds be missing out due to inherent investment bias against them?

Previously, Digital Catapult partnered with consultancy firm Beauhurst to delve into the state of founder diversity in the UK tech ecosystem. The study assessed investment trends by gender, ethnicity, educational background and age.

Key findings revealed that, in 2022, over 70% of total equity investment across all five digital technology areas was secured by all-male founded companies. Further analysis showed that access to funding for ethnic minority founders had improved significantly in some technology areas, but in other industries it remained limited. For instance, companies with a Black founder secured less than 0.1% of the total equity investment raised by Quantum companies in 2022.

To investigate further we asked pan-European investors a series of questions designed to dig out the truth about backing for underrepresented business owners.

The survey results reveal the vast majority (99%) of investors think some form of bias is present in the process. More than four in 10 (43%) say this is most detectable in scouting and dealflow (43%) followed by investment committees (42%).

Issues differ by market. For example 49% in the UK identify scouting and dealflow with this figure dropping to 34% in France. Meanwhile, 46% in Germany says bias is a problem in screening calls, compared to 33% who say this in the Netherlands.

Investors based in Germany (78%) are the most positive that their market offers equal access to capital for all founders. This compares to just 53% in France.

99%

of respondents believe some form of bias is present in the investment process

02

Founders who struggle the most to access capital, according to respondents, are likely to come from less wealthy backgrounds (37%); have a disability (33%); or belong to an ethnic minority (32%).

To some extent, investors blame the founder for reduced opportunity, citing a lack of investment knowledge - 41%, rising to 46% in the UK - among underrepresented groups. But investors also acknowledge conscious or unconscious bias is a problem (37%). More than a third - 34%, increasing to 40% in the UK - even claim systemised bias is endemic in the investment community.

With this bias and discrimination in mind, a third (33%) of respondents believe it is up to the investment community to create opportunities for unrepresented founders - the top response, ahead of corporations (30%) and governments (29%). In Spain, four in 10 investors say they should take the lead, but this drops to 27% in France.

In response, four fifths (80%) of investors claim to have plans in place to support unrepresented founders. This rises to 88% in Germany, but decreases to 67% in the Netherlands.

Major initiatives include:

Running networking events	43%
Scout programmes to find these founders	43%
Using data analysis for outreach to them	41%

However, there are perceived barriers to progress. Overall, 37% of investors do not feel they have enough familiarity or experience with this group; 34% admit there is no appetite for investing in them. The most common reason given is it's simply not a priority compared to quick financial gain: 42% across Europe, rising to 52% in Germany.

41%

of investors blame the founder for reduced opportunity, citing a lack of investment knowledge

Digital Catapult
101 Euston Road
London NW1 2RA

digicatapult.org.uk