# Digital Catapult Investment - Summary of Activities

## Overview

Digital Catapult invests (money and resources) in UK-based deep tech startups with high potential to successfully scale their solutions and equip key sectors to be future-ready. This document provides an overview of Digital Catapult's investment activity, including why Digital Catapult undertakes this investment activity, how investment decisions are made, what success looks like, and how impact is measured.

This is part of broader guidance, and more information about Digital Catapult's investment portfolio can be found here.

## What Digital Catapult does and why it invests in deep tech startups

Digital Catapult is a deep tech innovation organisation, founded in 2013, and drives the practical application of deep tech in industry to equip the UK to be future ready. For over a decade Digital Catapult has delivered pioneering innovation and accelerator programmes, to enable deep tech companies to scale successfully, as well as operate leading testbeds and facilities across the country. These services provide startup founders with the resource they need to commercialise their solutions and assess market fit, demand and whether deep tech innovation can address specific market failures.

Through ongoing interventions in the deep tech space, Digital Catapult has come to understand the complex barriers that many startup founders face when they seek to raise the capital that is essential to scaling their solution and proving its value to industry. Investors typically demonstrate reluctance to invest in deep tech, owing to a perceived risk that deep tech is a higher-risk asset class. This is because it often encompasses newer technologies that may not have yet proven viable market applications or commercial value, meaning that a return on investment could seem more uncertain than an investment in more tried-and-tested technologies.

As such, there is a strong need for an intervention that can address the lack of financial resource available to startups from more traditional funding sources. With the UK primed to be a world leader in specific subsectors of deep tech including quantum, photonics and AI, now is the right time to ensure that startups have access to the expertise, testbeds and capital they need to successfully scale. This is why Digital Catapult is undertaking this investment activity, supporting startups that may have a greater perceived risk of failure, and offering support for deep tech pioneers that may not have access to more traditional funding sources.

## Investment background

Scaling deep tech companies is critical to job creation, economic growth and international expansion. It is also foundational to maintaining the UK's position as a global technology hub. As it stands, the UK is home to a third of Europe's unicorns, and the support available for startups in the UK is helping to drive this success. This includes innovation and accelerator programmes, access to testbeds and facilities, a strong pool of investors, and leading academic institutions that continue to advance deep tech innovation and produce successful spin-offs, which Digital Catapult continues to provide and facilitate through its ongoing interventions.

Deep tech refers to technology that is based on substantial scientific or engineering innovation, offering potentially disruptive solutions to significant industrial challenges. Deep tech startups often struggle to fundraise due to long development cycles, capital intensity, technical uncertainty and difficulty demonstrating near-commercial viability, which is why intervention to scale these startups is necessary.

As a deep tech innovation organisation committed to scaling deep tech startups, Digital Catapult recognises the value of providing early-stage startups with the capital they need to commercialise their solutions. Investment ensures that as these companies scale, expand into new markets and grow their customer base, they are equipped with the financial flexibility and strategic runway to accelerate growth, attract further investment and strengthen their competitive position. Digital Catapult

is creating a pipeline of promising new companies that will equip the UK to be future ready and will address market failures across key economic sectors.

**Alignment with the UK's Industrial Strategy**

Digital Catapult's investment activity directly supports the UK Government's Industrial Strategy and innovation priorities. The investments help to grow high-value sectors, encourage technology adoption, and stimulate regional economic growth. The investments also ensure that startups have the resource they need to scale, incentivise talent to remain in the UK, and future-proof sectors by scaling solutions that can unlock new opportunities.

**Alignment with Digital Catapult's goals**

Digital Catapult's investment activity aligns with its goal to scale deep tech startups successfully and its purpose to equip the UK to be future ready. The successful commercialisation of solutions is intended to support sectors, unlock new market opportunities and promote inward investment and international expansion. These goals also include driving industrial supply chain resilience and accelerating the deployment and development of open and future networks in the UK. Industrial decarbonisation will also be considered in alignment with commercial demand and industrial strategy, as sustainability remains an investment priority in the UK and other markets.

**The instruments used for investment**

Digital Catapult's investments typically take the form of convertible loan notes which are short term instruments that can convert into equity at a later financing round. This means that if a company that Digital Catapult has invested in successfully scales its solution, the notes could either be repaid or converted into equity that appreciate in value. This gives Digital Catapult the potential to see a financial return that is significantly greater than its original investment in a 'shared prosperity' model. The profit generated can then be subsequently reinvested into additional deep tech startups, providing them with the resource they need to scale. This will drive momentum and develop a mechanism that can encourage competition and replicate success with a tried and tested approach.

**The investment process**

The investment process typically starts with identifying founders from Digital Catapult's programmes and alumni network. On occasion referrals are made by Digital Catapult's network of experts, who can provide independent endorsement of a promising new startup for consideration, promoting open, fair and transparent competition. During the qualification scouting process, startups are assessed based on their ability to future-proof specific sectors, which could include defence and security, the creative industries, energy and utilities and network infrastructure. Strategic fit is also important, as well as how a solution aligns with Digital Catapult's main objectives, which can be found here and articulated below. The process then moves to further due diligence, where documents are reviewed, proposals are created and where appropriate, Innovate UK reports are conducted.

Where funding comes from the Innovate UK Cross Catapult Fund, an initial review is presented to the Innovate UK Investment Committee, and if approved, detailed technical, financial and commercial due diligence is carried out by Digital Catapult with support from Innovate UK. Founders might then pitch to the Innovate UK Committee with financial evaluations and proposals, before a final decision is made by Digital Catapult's Board.

If successful, the closing process includes know your customer (KYC) and anti-money laundering checks, legal documentation, and a safe-to-lend confirmation, after which funds are transferred to the startup followed by ongoing monitoring and reporting.

**What qualifies a company for investment**

To qualify for investment, a startup must be a UK registered company and should demonstrate strategic fit with Digital Catapult. This includes exploring early areas of deep tech innovation where there may not be as much investor interest and demonstrating the successful practical application of a new solution in an industry.

**The source of funding**

Digital Catapult has historically invested in startups through warrants and having equity in startups upon participation and completion of specific accelerator or innovation programmes, if a company was successful in receiving external investment. Convertible loan notes have also been used historically as an instrument to invest in high-potential startups, and this instrument is one that has been adopted by the Cross-Catapult Fund, which is funded by Innovate UK, the UK's innovation agency.

The fund enables the Catapult Network to invest directly into the companies they support. Each of the nine catapults can propose companies suitable to receive funding, and because convertible loan notes are used, the investments can either be repaid or converted into equity. Successes and failures from the Fund as well as learnings from a startups' scaling journey will be used as case studies to educate other startups participating on Digital Catapult's programmes. This provides real-world insights on the UK's investment landscape, deepening founders' understanding of investor expectations and priorities.

**Due diligence for investments**

To ensure Digital Catapult's investments meet regulatory requirements and fulfil standard investment practice, investment decisions are made following a thorough screening process. This process considers the growth projections of a startup, the founders' experience and expertise, and the startups' background. Investment deals are scrutinised by internal and external parties and post investment fit within Digital Catapult's robust governance and internal control frameworks to ensure that the funding is used appropriately and for its intended purpose.

**Addressing market failures**

Digital Catapult's investment activity will also look to consider where a startup has a solution that can solve market failures in the UK. These are instances where leading businesses struggle to solve a problem that inhibits their growth and has broader ramifications on a specific sector. When these failures occur, it can lead to economic stagnation, weakening competition amongst businesses. Market failures may include barriers to efficiency or inability to target new market opportunities. By investing in startups that have novel solutions to market challenges, it is intended for Digital Catapult's investment activity to be another tool that will maintain the UK's competitiveness, future-proofing the country's innovative edge.

**Assessing investment impact**

In terms of evaluating the impact of Digital Catapult's investments, value is determined by considering the financial return metrics and broader impact that can be complex or ambiguous for other investors. The first metric considers the total capital that a fund has returned to its investors, the return on investment when external factors are disregarded and the value or performance of Digital Catapult's investment relative to its initial cost. The latter accounts for impact pertaining to job creation, product development and expansion into new markets and territories. Investments have been made recently and financial returns on investments take time. Impact will be demonstrated as and when success from investment activity is achieved.

**How to engage with Digital Catapult's Startup Investment Team**

Digital Catapult welcomes engagement with individuals or organisations that operate within the UK's deep tech community, including but not limited to investors, venture capital funds, startup founders, mentors, technology experts and more. Digital Catapult operates independently and non-competitively and relies on convening capabilities to ensure that the investment portfolio continues to thrive based on knowledge-sharing, collaboration and partnership, and access to leading figures in the space.