

# UNITED KINGDOM

STARTUP ECOSYSTEM REPORT

MAY 2021

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# OVERVIEW

For several years the United Kingdom (UK) has been able to attract domestic and foreign talent due to numerous characteristics, including a relatively liberal and diverse population, a dynamic job market and an advantageous regulatory framework. Businesses of all kinds have also long recognised the value of the UK's geography, its proximity to Europe, language, a central location within the world's time zones, and historic connections to centres of trade and innovation. The venture industry is no different in recognising this value but the greatest opportunities will only continue to develop; as capital, labour and innovation become more globalised, the UK is expected to be a gateway to these opportunities in the same way it has long been a gateway for global finance.

London is the leading startup hub in the UK, and has one of the world's most favourable ecosystems to build a globally successful startup. According to the latest data from Startup Genome's Global Startup Ecosystem Report 2020, the UK capital improved on its joint third place in 2019 to tie in second place with New York in 2012.

One of the biggest, if not the biggest, success stories of the UK's startup ecosystem in the last decade is the development of London into one of the world's leading FinTech hubs, hosting 25 of Europe's 50 most successful FinTech companies. However, London's leading position cannot be taken for granted, as FinTech is a relatively young industry and London competes in this area with other FinTech hubs, including New York, Silicon Valley and Singapore.

This is no surprise since entrepreneurship is keenly favoured by the United Kingdom. The English government has encouraged and provided support in areas like early stage seed investment, a commitment to open data, favourable corporate tax rates and overall tax simplification. All of these initiatives are built upon an already favourable set of incentive programmes as formed by governments on both sides of politics, to create what has become an extraordinarily pro-business climate both in action and spirit. Taken in their entirety, the range of Government policies and actions make the UK particularly attractive for entrepreneurs and investors, particularly at seed stage.

This has contributed to the UK becoming a unicorn capital, creating eight new \$1 billion companies in 2019 alone. That was twice as many unicorns as Germany and three times as many as France, taking the total number of billion-dollar companies in the country to 77, according to a [report](#) by Tech Nation and Dealroom.

Since the finalisation of Brexit in 2020, the UK's relationship with the rest of Europe and the world at large will no doubt change. The uncertainty of the economic relations with Europe and internationally still remains a point of contention and business owners are similarly divided.

From a Portuguese perspective, Brexit has provided a big business opportunity. In the IT sector, the upside is that some of the great software engineers that moved to the UK are coming back to Portugal, several companies in the UK

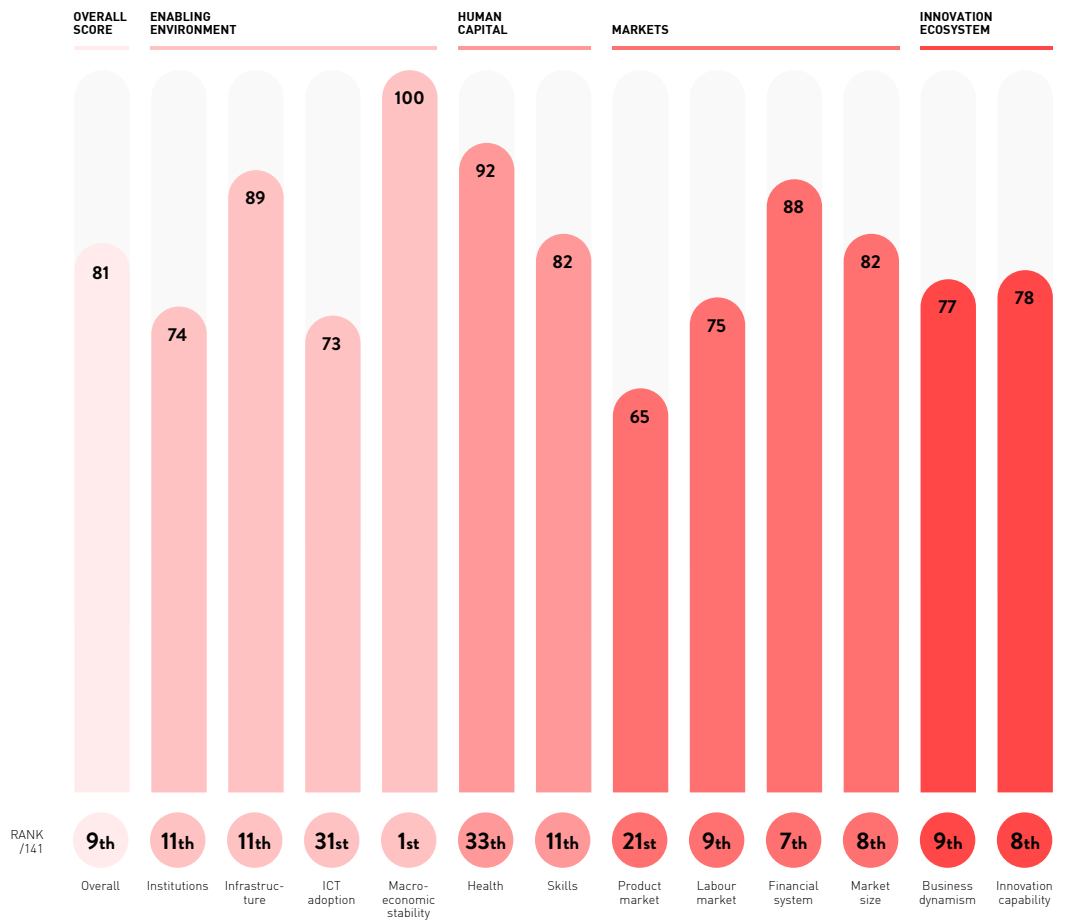


are looking at companies in Lisbon to develop their applications and software, because IT resources are sourced and salaries have increased.

Lisbon is also becoming an interest for many UK companies to resettle as it is nearshore to England and is in the same time zone as London. Lisbon's proximity between the airport and the city's business district is also desirable.

Portugal further has very good software engineers who graduated from excellent universities, with a high level of English-language proficiency. Therefore, Brexit has opened a door for UK-based companies to look to Portugal, but we acknowledge that the country faces stiff competition from other European markets.

OVERVIEW



## SELECTED CONTEXTUAL INDICATORS

Population millions	66.5	GDP (PPP) % world GDP	2.25
GDP per capita US\$	42,558.0	5-year average FDI inward flow % GDP	3.1
10-year average annual GDP growth %	1.7		

## SOCIAL AND ENVIRONMENTAL PERFORMANCE

Environmental footprint gha/capita	6.9	Global Gender Gap Index 0-1 (gender parity)	0.8
Renewable energy consumption share %	8.7	Income Gini 0 (perfect equality) - 100 (perfect inequality)	33.2
Unemployment rate %	4.0		

# STARTUP COMMUNITY

## GOVERNMENT INITIATIVES

### 01. FUNDING

The government offers several funding routes for startups. Startups can apply for one of the range of government grants offered by the [Department for Business, Energy & Industrial Strategy](#) or the [Startup Loans scheme](#), which offers loans of up to £25,000 at a fixed interest rate of 6% per annum for new business ideas. Successful applicants also receive guidance on writing a business plan and up to 12 months of free mentoring.

There is also a range of funding competitions offered by [Innovate UK](#) which funds and connects UK businesses to develop new products, processes and services. Entrepreneurs setting up businesses in the capital can seek support from the [London Co-Investment Fund](#), a programme established by the [London Economic Action Partnership \(LEAP\)](#), which contributed £25 million to the fund, is supported by the Mayor of London, and delivered by Funding London and Capital Enterprise. The money is earmarked for investment in seed rounds of between £250,000 to £1 million.

Other government funding initiatives include the [Seed Enterprise Investment Scheme \(SEIS\)](#), which offers tax relief to individual investors who buy new shares in a company, Research and Development (R&D) tax credits, which allows companies to claim back R&D costs up to two years after the end of the accounting period. The costs relate to the EU's Horizon 2020 funding pot, which UK companies still have access to after Brexit.

The [Enterprise Investment Scheme \(EIS\)](#) was also built to help younger, higher-risk businesses raise finance by

offering generous tax reliefs of between 30%-50% to investors. Under this scheme, an investor providing £15,000 to a startup can reclaim £7,500 off their annual income tax bill. This provides a significant incentive for business angels to invest their money in UK based companies.

These investments are often pooled into investment funds managed by VC companies which allows for larger-scale investments to be made in qualifying companies. Along with attracting more angel investors and financial resources, these schemes also make it easier for startups to ask for more money since investors will receive half of their investment back in tax-relief.

The UK [Department for International Trade](#) has further developed an initiative, called the [Venture Capital Matchmaking – DIT Platform](#), made to connect the UK's venture capitalists with live investment opportunities from across Europe and Israel. The aim is to facilitate more connections between the best young European companies, those seeking the capital needed to internationalise their businesses, and the rich network of funders across the UK.

### 02. SUPPORT

In terms of soft support, the [Department for Business, Energy & Industrial Strategy](#) maintains a database of schemes offering expertise and advice, while the [Business is Great](#) website provides information on subjects ranging from how to [protect your intellectual property](#) to [tax advice](#).

The [Department for International Trade](#) is also available to support

entrepreneurs looking to open a branch in the UK. The Department focuses on promoting and financing international trade and investment, championing free trade and promoting British trade and investment across the world.

[Tech.London](#) offers advice on setting up a company in the capital, including local workspaces, events, mentorship programmes, job boards and funding tips, as part of a collaboration between the Mayor of London, investor portal [Gust](#) and lead sponsor IBM. London & Partners also [offer support and advice](#) for scale-up companies looking to set up shop in the capital.

Overseas entrepreneurs can seek free guidance from the Department for International Trade's (DIT) [Global Entrepreneur Programme \(GEP\)](#) while startups in the capital can apply for a place on [Techstars London](#), an accelerator providing access to investment, mentorship and collaboration with other top entrepreneurs.

The GEP is built to help high-growth overseas technology companies relocate to the UK. It offers bespoke support mentoring and business support to non-UK based founders to help them set up and scale their business from a UK global headquarters. Once the company establishes its global HQ in the UK, it receives tailored support as part of the GEP Alumni Academy.

Further guidance is also available at [Tech Nation](#), a government-funded body which provides a range of support for technology companies. Its schemes include the [Future Fifty](#), which has given the likes of Just Eat, Shazam and Skyscanner access to expertise across both the public and private sectors, and the [Digital Business Academy](#), a free online learning platform for budding tech entrepreneurs, to learn the skills they need to start, grow or join a digital business.

The government has also tried to attract startups to the country by offering one of the lowest corporation tax rates in the G20 and the ability to register a company within 48 hours.

### 03. VISA OPPORTUNITIES

The tech sector has regularly warned that access to the international workers they need to bridge the digital skills gap is too restricted. These concerns have been amplified by the vote to leave the EU, as the resulting uncertainty about the UK's future and the wave of anti-immigrant rhetoric risked damaging the country's ability to attract top talent to its shores.

In 2017, the government tried to allay these concerns by doubling the number of visas available through the Tier 1 (Exceptional Talent) route from 1,000 to 2,000 a year. Applications are assessed by an independent panel of experts against the eligibility criteria in the guidance of Tech Nation, the body designated by the Home Office to endorse applications for the visa. Applicants should be deemed either an "Exceptional Talent" proven to be a recognised leader, or to have "Exceptional Promise" as an emerging leader.

In March 2019, two further visa routes with no cap on the number of applicants came into effect as replacements for the Tier 1 (Graduate Entrepreneur) visa: the Startup visa and the Innovator visa.

Foreign workers who want to run a business in the UK can apply for an [Innovator Visa](#) if their idea is endorsed by an approved body, they're from outside the European Economic Area (EEA) and Switzerland, and they meet the remaining eligibility requirements. They must also have at least £50,000 in investment funds for a new business, but do not need this if their business is already established and endorsed for an earlier visa.

Alternatively, they can apply for a [Startup Visa](#) if they're from outside the European Economic Area (EEA) and Switzerland, meet the remaining eligibility requirements and are endorsed by an authorised body that is either a UK higher education institution or a business organisation with a history of supporting UK entrepreneurs.

Other available visas for entrepreneurs include the [Skilled Worker Visa](#) which allows entrepreneurs to come to or stay in the UK to do an eligible job with an approved employer as well as the [Global Talent Visa](#) which allows someone to work in the UK if they are a leader or potential leader in digital technology.

## INCUBATORS AND ACCELERATORS

There are around 7,000 new businesses supported by incubators in the UK at any one time.

Research by Nesta demonstrates that there are around 250 incubators and close to 200 accelerators in the UK, as well as some slight variations on these themes in the form of 11 pre-accelerators, 7 virtual accelerators and 4 virtual incubators.

More than half of all the accelerators are based in London, whereas incubators are more evenly distributed to other UK cities. Interestingly, whereas accelerators mostly rely on corporate/private sources of funding, incubators in the UK support an estimated 6,900 businesses at any time and are usually funded by the public sector or universities.

The digital technologies sector is the most common focus for incubators that are sector specific. An estimated 29% of incubators are focussed on digital technologies, and 45% have no sectoral focus.

**Here is a list of the UK's top incubators and accelerators:**

### 01. [Second Home London](#)

Second Home is a creative workspace and cultural venue, bringing together diverse industries, disciplines and

types of social businesses. Second Home brings together a diverse range of creative people and industries, from fashion and technology, through to film-making and design. The auditorium plays host to a regular programme of talks, film screenings and live music performances. Recent events include talks by fashion designer Stella McCartney and Harvard evolutionary biologist EO Wilson, arts events with the Gagosian Gallery and the Institute of Contemporary Arts, film screenings with Secret Cinema's Future Shorts, and live music performances by Kindness and Eat Your Own Ears.

### 02. [Barclays Accelerator](#)

This London accelerator provides a unique opportunity to get entrepreneurs hands on the best advice, support and tools to build a FinTech business. For 13 weeks, Barclays allows successful candidates to work alongside each other to develop their solutions, culminating in the Barclays Accelerator Demo Day, where companies pitch to top-tier investors from around the globe. Unique to Barclays, a chosen few work full-time at Rise London, Europe's largest workspace dedicated to FinTech.

### 03. [Reply](#)

Reply is made up of a network of highly specialised companies, which support leading industrial groups in defining and



developing business models to optimise and integrate processes, applications and devices, using new technology and communication paradigms, such as Big Data; Cloud Computing; Digital Communication; Internet of Things; Mobile and Social Networking.

#### **04. Founder Institute**

Founder Institute offers a four-month entrepreneur training and startup launch programme focusing on practical business-building skills, assignments and training courses.

#### **05. BBC Worldwide Labs**

It's a programme that supports innovative digital media companies and includes six startups each year to become a part of the BBC ecosystem.

#### **06. Seedcamp**

Europe's leading pre-seed and seed stage investment fund for startups.

#### **07. Microsoft Ventures**

It's a three-month programme created to help early stage startups that work in cloud, mobile and internet. The programme provides training, top-quality mentorship and free tools.

## STARTUPS

The UK ranks #1 in Europe for potential future unicorns, with over 100 companies valued at \$250M-\$800M. "Silicon Roundabout" was coined as a joke in 2008 about a small cluster of startups; there are now over 35,000 startups and scaleups across the UK. The UK's first co-working spaces opened in 2008/09; there are now 260 across dozens of UK towns and cities.

**Here is a list of the UK's most innovative startups:**

#### **01. Revolut (Finance)**

With over four million customers in the UK and Europe, Revolut is one of a number of challenger banks to have emerged in recent years. First attracting users with competitive international spending options, Revolut are planning to become a global bank, offering a full suite of financial services to users around the world.

#### **02. Igloo (Energy)**

On a mission to make customers' homes smarter and more efficient, Igloo is an ambitious energy retailer. Combining smart technology with simple and actionable advice, Igloo makes use of clever algorithms to generate recommendations. A shrewd partnership with Tesla also means that Igloo customers can charge their hybrid or electric cars using the greenest possible power sources.

#### **03. Trouva (Retail)**

Trouva is a software-enabled marketplace, bringing customers and independent retailers together. Previously a Startup Award winner, and featuring in Wired Magazine's hottest European startups, Trouva is disrupting the retail space with over 150,000 unique products on offer.

#### **4. Soldo (Finance)**

Soldo's aim is to help companies balance their budgets, providing a single account to manage all staff and department spending. Each employee is provided with a prepaid card with set limits, giving complete control to finance teams while enabling staff to spend when they need to. With allocated funds and controlled spending, Soldo is on a mission to streamline a process that has baffled businesses for years.

#### **04. Elder (Healthcare)**

A tech-enabled healthcare business, Elder helps older people live in the comfort of their own homes for longer. Matching families with professional, vetted carers, Elder uses personality compatibility along with preference matching to ensure that every carer can be a trusted source of companionship. Founded in 2015, Elder is a one-stop-shop for arranging care or finding work as a carer.

**Here is a list of Portuguese startups operating in the UK:**

#### **05. Uniplaces (Property)**

Uniplaces is an online platform for renting rooms and has quickly come to dominate the housing market, not just in Lisbon, but also a number of other European capitals. The simplicity of its website contributes a lot to the brand's success. Its headquarters are in Lisbon and they have recently opened offices in London, Madrid and other large European cities.

#### **06. Indie Campers (Travel)**

What started off as a 3 van rental company in Portugal, brought to reality in 2013 by 2 good friends, a Portuguese and an Austrian, has become Europe's largest campervan rental company. With a fleet of over 800 vehicles, Indie Campers currently operates over 35 locations across Portugal, Spain, France, Italy, Germany, Netherlands, Belgium, Croatia, Iceland, Ireland, and Great Britain.

#### **07. Feedzai (Finance)**

Feedzai's risk management platform scores trillions of dollars of transactions to protect the world's largest companies. Feedzai operationalizes machine learning and mitigates even the most complex financial crime. With offices all around the world including England.

#### **08. Nonius (Hospitality)**

Nonius provides the most complete Guest Technology solutions portfolio for a contactless Digital Guest Journey. All solutions are built in-house allowing highly integrated and competitive offers. The technology solutions serve more than 330,000 rooms worldwide – in Hotels of the most renowned international chains and several of the most emblematic and recognized independent hotels.

#### **09. MOVVO (Retail)**

Movvo is a global technology company strategically positioned at the intersection of the retail industry, artificial intelligence and custom.

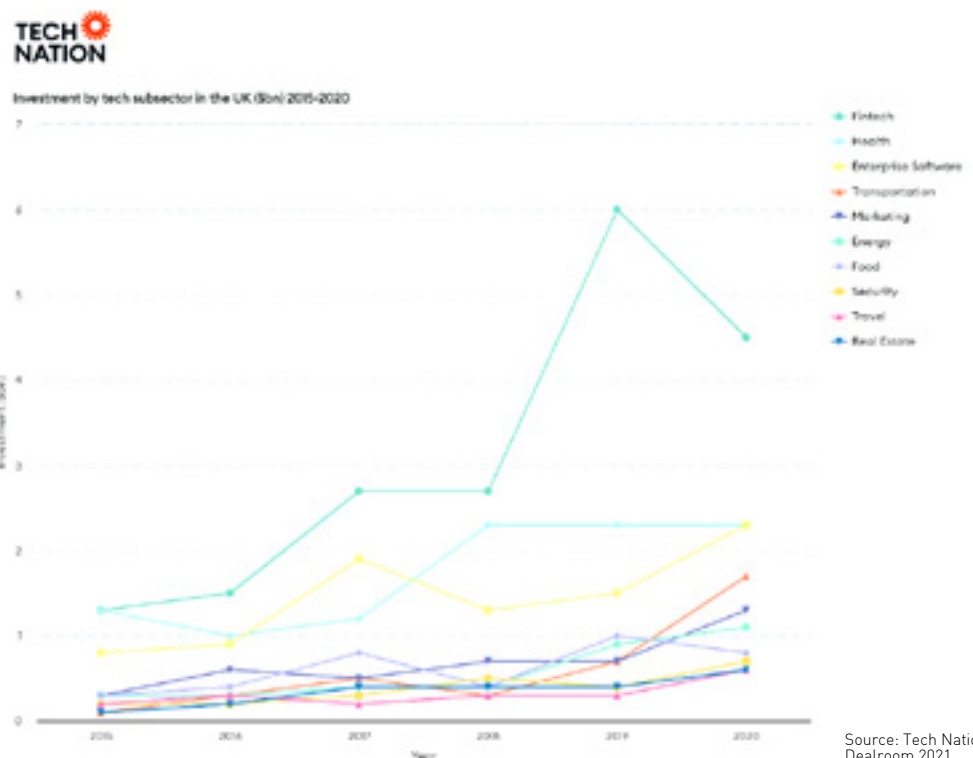
# INVESTMENT

There are a total of 11,770 investors in the UK and 4,489 of them are located in London. UK tech companies have continued to attract global attention for their investment potential. A maturing ecosystem has led to new heights for UK tech investment, significantly bolstered by investment raised from overseas. Venture Capital (VC) investment has continued to grow, hitting a record high of \$15bn in 2020. The UK is currently ranked third in the world for tech investment behind only China and the United States according to the latest [Tech Nation Report](#).

It was confirmed that England's capital city, London, ranked fourth for tech VC investment globally with \$10.6 billion, behind San Francisco, Beijing and New York. London also raised more VC funding than Paris, Berlin and Stockholm combined in 2020, and UK cities made up 20% of the top 20 European tech cities that year. Oxford, Bristol, Cambridge and Edinburgh are top for tech investment outside of London.

The social and economic strains brought on by the coronavirus pandemic and Brexit did create uncertainty in UK investment trends in early 2020. Investment was recorded to be considerably lower in the first half of the year than the second, where it picked up to record quarterly levels, resulting in UK startups securing an investment increase of around \$200m with 10 scaleups accounting for a fifth (\$3.5bn) of UK tech VC investment between them in 2020.

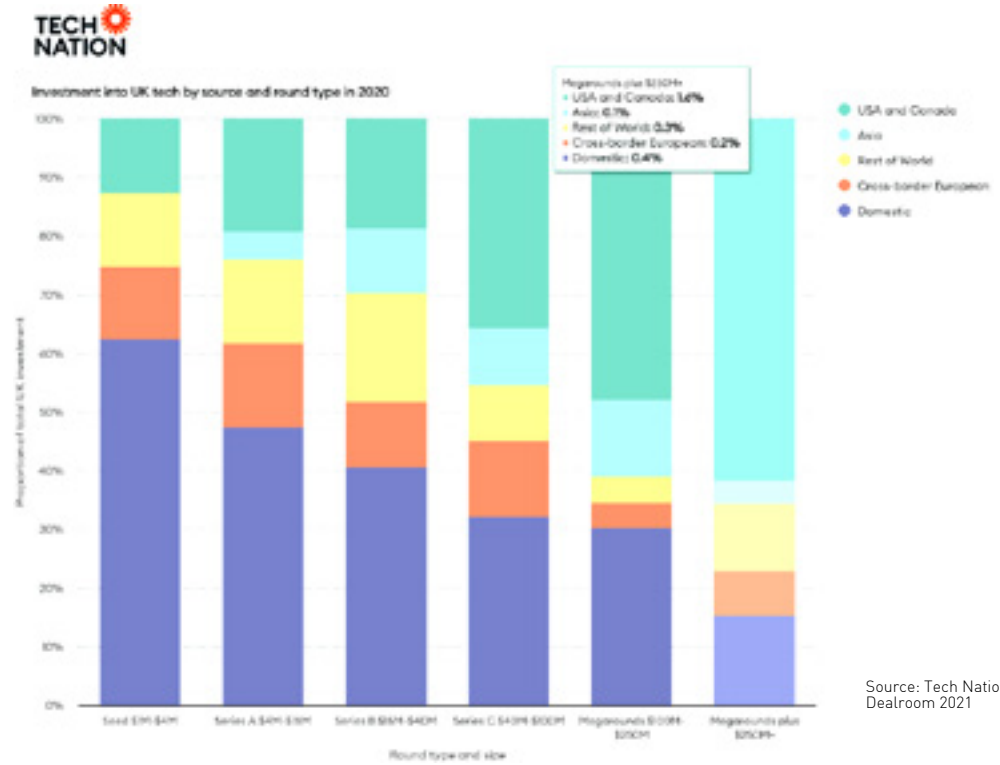
Fintech specifically continues to dominate VC investment with \$4.5bn raised in 2020, however it did drop from the 2019 record of nearly \$6bn as more firms opted for debt and other alternative financing options. Healthtech is the second largest VC investment sector across UK startups with a figure of \$2.3 billion, whilst Transportation, Energy and Security have increased by 160%, 20% and 66% since 2018.



Source: Tech Nation, Dealroom 2021

In 2020, 63% of investment into UK startups came from overseas, up from 50% in 2016. It reached its peak in 2019, at 69% of total VC investment before dropping by 6% in 2020. Last year, domestic investment made up a slightly

higher proportion of the total, at 37%. Nevertheless, the UK startup ecosystem remains an attractive proposition for international investors, despite challenging conditions.



# IMPACT OF BREXIT ON THE PORTUGUESE ECOSYSTEM

There are various sectors that will be impacted by Brexit in the Portuguese economy and will be significantly transverse in terms of goods and services, international trade and investment, migration flows and in the remittances from migrants, in tourism and in real estate.

Out of the 27 countries in the EU, Portugal is greatly affected by Brexit than the rest. This is due to our greater exposure to the UK because of our relevance in the UK market and resulting uncertainty generated by its move from the EU.

The risks and opportunities for the Portuguese economy and businesses can be increased or reduced based on several factors including:

- The historical ties between the two countries
- The large number of Portuguese residents in the UK
- The connection of Portuguese banks to the UK
- The implications in terms of changes in macroeconomic governance in Europe

In light of these factors, the change in UK/EU relations does present potential risks to the Portuguese exports of goods and services. This may result in a reduction in exports to the UK depending on the type sector and nature of the trade relationship established between Portugal and the UK.

## Results of the overall sensitivity analysis of Portuguese exports to Brexit

<p>Overall analysis of the exposure risk to the Brexit for the Portuguese economy</p> 	<p><b>High Risk</b></p>	26: Computer, electronic and optical products
		27: Electrical equipment
		29: Motor vehicles, trailers and semi-trailers
		Travel*
		10: Food products
	<p><b>Medium-High Risk</b></p>	11: Beverages
		12: Tobacco products
		13: Textiles
		14: Wearing apparel
		15: Leather and related products
		17: Paper and paper products
		21: Basic pharmaceutical products and pharmaceutical preparations
		22: Rubber and plastics products
		23: Other non-metallic mineral products
		24: Basic metals
		25: Fabricated metal products, except machinery and equipment
		28: Machinery and equipment n.e.c.
		31: Furniture
		Financial Services*



Overall analysis of the exposure risk to the Brexit for the Portuguese economy

<b>Medium risk</b>	01: Products of agriculture, hunting and related services
	07: Metal ores
	08: Other mining and quarrying
	16: Wood, products of wood and cork, except furniture; art, straw, plaiting materials
	19: Coke and refined petroleum products
	20: Chemicals and chemical products
	30: Other transport equipment
	32: Other manufactured goods
	35: Electricity, gas, steam and air conditioning
	38: Waste collection, treatment and disposal services; materials recovery services
	58: Publishing services
	59: Motion picture, video and television services, sound recording, music publishing
	71: Architectural and engineering services; technical testing and analysis services
	90: Creative, arts and entertainment services
91: Library, archive, museum and other cultural services	
<b>Low risk</b>	Transport*
	02: Products of forestry, logging and related services
	03: Fish and other fishing products; aquaculture products; support services to fishing
	05: Coal and lignite
	18: Printing and recording services
	74: Other professional, scientific and technical services

A strong working trade relationship with the UK is important in setting realistic expectations of greater or lesser sensitivity of the Portuguese economy to the risks and opportunities arising from Brexit. Therefore it is best to mitigate

these risks by proactively valuing the UK as a Portuguese economic partner and share our diversity in trade and services across the sectors where we are strongest.

# OPPORTUNITIES FOR PORTUGUESE STARTUPS

According to the Department of International Trade, the Portuguese investment footprint in the UK includes over 150 companies from a wide range of sectors, with a strong tech background. This shows that the UK is open to foreign investors and entrepreneurs with half of the UK's fastest growing startups having at least one immigrant co-founder.

Luckily there is a strong Portuguese presence in the UK which can contribute to maintaining a privileged relationship between the two countries, mitigating adverse effects in the context of a closer relationship. This could be a big advantage to Portuguese founders looking to open business or partnerships in the UK.

We know that there is a combination of strong markets, funding, advanced infrastructure and business networks available in the UK that has the capability to tailor support for any stage of technology based business. That is why Portuguese startups looking to expand to the UK market need to be informed of the emerging trends to best navigate the right opportunities for you and your business. Following the emerging trends presented by COVID-19, investors and entrepreneurs alike in the UK are favouring Edtech, Healthtech and climate and agriculture tech. These key areas favour new opportunities for foreign startups in the UK. Here is why.

## EdTech

Educational technology has been a core feature through the startup ecosystem as schools and universities have had

to adapt to remote learning. 2019 was a record year for edtech investment in the UK, with \$184m raised. Edtech is essential to growth post Covid-19 as reskilling and upskilling will remain imperative for the future economy.

Edtech investment did fall by 26% between quarter 1 and 2 to \$23m in 2020 but investment steadily increased during the pandemic to \$33m by quarter 3, leading into quarter 4 where companies received \$36m. Venture Capital investment in edtech companies in London specifically increased by 21% to \$90m between 2019 and 2020. In the UK, emerging technologies within edtech such as Technology, Media and Telecom (TMT), SaaS (Software as a service), and artificial intelligence and machine learning are particularly sought after.

## Health and Wellness

Health and wellness companies raised \$1.5 billion in 2020. This year demonstrated how important physical and mental health is and with this recognition, came several deals.

The leading technologies and applications within health and wellness are artificial intelligence, climate tech, femtech, SaaS and TMT. There were 60 deals completed by TMT companies, a slight increase from 59 deals in 2019. The vertical retained its place as the leader within healthtech with a 23% increase in investment from \$681m to \$837m in 2020. There were 31 deals completed for AI companies, raising a total of \$176m, a significant decrease in investment compared to 2019, falling from \$620m. Investment in SaaS

companies also increased by 14% to \$418m last year.

### Climate and Agriculture

The United Nations Climate Change Conference (COP26) is being held in Scotland in November 2021. The aim of the conference is to accelerate action towards the Paris Agreement and reducing greenhouse gases. VC investment is essential to supporting

this aim alongside meeting the UN Sustainable Development Goals, specifically on Clean Water and Sanitation, and Affordable and Clean Energy. In 2020 the UK saw a 21% increase in investment for climate tech and agriculture companies, reaching a record \$798m. As the impact of climate change worsens, tech solutions and businesses will be in greater demand, resulting in funding and VC interest in this area to continue to grow.

## FURTHER READING

01. [UK Tech Ecosystem Update](#), London tech Week, June 2020
02. [The future UK tech built Tech Nation Report 2021](#)
03. [Global Startup Ecosystem Report 2019](#)

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