Growing influence

Following the Manchester-Liverpool region's sixth-placed ranking in the global emerging startup ecosystems report, Alex Bell explores venture capital's standing in the North West

Behind Copenhagen, Hong Kong, Barcelona and Dublin but ahead of Brussels, California and Estonia – that's where the North West sits for its startup ecosystem.

The 2023 Global Startup Ecosystem Report concludes that the North West boasted an ecosystem value of $23bn, total feed and Series A funding in tech startups of $697m, and a total value of exits from the ecosystem (2018 to 2022) of $12bn.

This data analysis of the current state of startup ecosystems by Startup Genome considers performance of startups, access to early-stage funding, the ability to scale up and the talent locally available.

Exploring venture capital (VC) – what it is, the funding options, who can access it, what a deal looks like, how it differs from private equity and what investors expect – *Insider* spoke with key figures operating within the North West.

The seasoned capital provider

Praetura Ventures describes its offering in three words: 'more than money'.

Investment director Pete Carway and marketing director Ben Davies explain the forces driving the Manchester-based VC company. "We've got multiple funds," says Carway. "We can do the earliest stage companies, we've got a healthcare firm that can do pre-revenue, an EIS fund that we can use anything from the early stages of revenue up to the Series A-type businesses that have maybe got £5m, £6m, £7m, £8m of revenue. We're not restricted to any size of company in particular."

With a nod to a B2B model preference he adds: "In terms of EIS we invest in different verticals where there is quite often a heavy tech theme. But we've got businesses in recruitment and marketing, deep tech, energy, data science businesses. We're a generalist."

Davies discusses the 1,400 funding applications Praetura receives on average each year. "All of them include some really good stuff, but one of the things people miss out is why you and why now," he says.

"People can often use buzzwords and you have to be careful what buzzwords you attach yourself to. It's important to remember that you are talking to someone who knows venture capital but one who doesn't necessarily know your sector."


Manchester has a thriving ecosystem

Carway adds: "It can be quite easy to put a VC off and we advise people to keep pitch decks nice and punchy. If you don't address why a problem is key to the market right now and have a solution it will be a rejection.

"It's also very important to include what the addressable market is over the next 12 to 18 months, what the bigger picture is after that and a demonstration of really understanding the market and how you are going to attack it."

The legal eagle

Mark Winthorpe, corporate services partner, Pannone Capital, unpicks VC.

Generally what are the different types of VC?

I'd probably put it into three pots, venture capital trusts, family offices – which spin into some of the EIS funds – and venture arms. Depending on who is investing influences what a deal looks like.

Can you talk us through a deal you were involved in last year?

We acted for Mercia which put around £6m into Camena Bioscience, based in Cambridge, who produce DNA structures together for big pharma and tech companies. It was to facilitate them going into the US market and involved a partnership with a big US corporate. It was about them being rolled out and scaled up over there. You tend to find that a lot of Series A rounds are about facilitating US expansions.

What's your outlook for 2024 in the VC startup space?

Venture capital is more patient capital. You haven't got the pressures that equity funds have in terms of getting the money and getting the money out. In 2023 tech was quieter and health tech busier. At the moment we have a couple of tech deals with SaaS [software as a service] businesses which often have some environmental and social angle to them. This year is looking busier I'd say on the venture side than it was. I'd also say VC was better than private equity last year as it doesn't have the debt constraints that private equity has with interest rates going up. Overall, this year, I'd say there's a bit of a bounce back and it's looking a little bit rosier.

The new (PE) kid on the block

"It's one of the same in the fact that you're providing capital into a private business but the main difference is the utilisation of the funds," says Mark Lyons of Puma Private Equity (PPE), when comparing VC with private equity.

Lyons, who joined PPE, part of Puma Capital Group, from Praetura Ventures last March, is tasked with expanding the presence in the North of England from its new Manchester base.

PPE operates in the scale-up to Series A space, providing equity investment of £2m to £10m to help ambitious businesses accelerate growth plans.

"VC tends to be that first set of capital and money that goes into a business to help get it off the ground in the very early stages, develop its product, or with more later-stage businesses where they've got that proven product market fit and help it expand," says Lyons.

"More traditional private equity is where you've got a much more mature business with established revenue streams, normally profitable and there's opportunity to buy out that business. The money is going to existing investors, whether that be the management team or historic institutional investors, and there's a share for share exchange."


Rory Southworth

The Lancashire dealmaker

Rory Southworth has rapidly become a key connector and dealmaker in the north.

As the FHundED's programme lead he operates from Fraser House Hub, a co-working tech space in Lancaster funded by Lancashire County Council which brings investors and venture capitalists from around the UK together with tech startups and scale-ups looking for investment.

During 2024 Southworth intends to expand by bringing events and sessions to Manchester. "When you bear in mind Fraser House Hub members have already raised nearly £37m in VC funding over recent years, you can see how much genuine investment potential Lancashire's fast-growing tech scene has," says Southworth.

He adds: "Fraser House was never mentioned at funding events in Manchester but now we are known and that's a new thing for Lancashire's startup ecosystem.

"We are going to take what we have been doing in Lancaster to Manchester this year. Our most innovative businesses will be there and we'll be collaborating with a Manchester VC on the event too." ■

TEN OF THE MOST ACTIVE VC FIRMS IN MANCHESTER

LDC
Sectors: Tech, healthcare, industrial, support services, construction, retail, consumer, leisure, travel, financial services
Stage: Seed
Companies invested in: Marmalade Game Studio, SMH Fleet Solutions, Real Digital
Typical investment range: £10m to £50m

DSW Ventures
Sectors: Tech
Stage: Seed, growth
Companies invested in: 4D Biomaterials, Poptop, Oneutilitybill.co
Typical investment range: £300,000 to £1m-plus

Livingbridge EP LLP
Sectors: Tech, consumer, education, healthcare, services
Stage: Early
Companies invested in: Adarma, Better Medical, Absolute Collagen
Typical investment range: £5m to £100m

Praetura Ventures
Sectors: Sector agnostic
Stage: Early venture, seed, venture
Companies invested in: FeedStock, Maxwellia, Futr
Typical investment range: £1m to £3m

YFM Equity Partners
Sectors: Sector agnostic
Stage: Early
Companies invested in: Displayplan, Fishawack Communications, Eikon
Typical investment range: £2m to £6m

Maven Capital Partners
Sectors: Sector agnostic
Stage: Seed stage
Companies invested in: Atlantic Foods, BioRelate, Attraction World
Typical investment range: $100,000 to $20m

Equistone Partners Europe
Sectors: Sector agnostic
Stage: Early
Companies invested in: Wealth at Work, Franke Water Systems, Ligentia
Typical investment range: €25m to €200m

NorthEdge Capital LLP
Sectors: Tech, business services, industrial, healthcare
Stage: Early
Companies invested in: IC Map, Orbis, Platinum
Typical investment range: £2m to £50m

Northern Powerhouse Investment Fund
Sectors: Sector agnostic
Stage: Early, growth
Companies invested in: SockMonkey Studios, Airship, inTEC
Typical investment range: Up to £5m

KM Capital
Sectors: Sector agnostic
Stage: Early stage
Companies invested in: BrandLab, Qube, Dash Water.
Typical investment range: £50,000 to £300,000