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Investment in UK tech at 10-year high

By Maija Palmer, technology correspondent

Investment into UK technology start-ups reached a 10-year high in the first half of 2012, with nearly £600m put into early-stage businesses.

This level of funding exceeds the last boom year, 2008, when some £550m was invested in tech companies in the first half – and is already three-quarters of the total funding committed last year – according to figures released Wednesday by Ascendant, the corporate finance advisory company.

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Ascendant says the total for this year is likely to be between £900m and £1bn.

“There is a lot of money going in to companies,” said Stuart McKnight, managing director of Ascendant. “We have not seen a boom year like this since 2008.”

Much of the money is going to internet, mobile and digital media companies, as well as new cleantech businesses.

However, tech companies operating in areas such as semiconductors and software have seen a decline in funding.

So far this year, the biggest deal has been a £40m fundraising for Just Eat – an online business that allows people to order takeaway food from restaurants in their area. Enecsys, a Cambridge-based company that improves the efficiency of solar panels, raised the next biggest round at £25m.

Of the venture capital investors making investments, the busiest have been Index Ventures, Cambridge Angels, Eden, Greylock Partner, North West Fund and Scottish Enterprise.

Mr McKnight said that new, smaller venture capital companies, such as Passion Capital had also entered the market, helping to boost levels of investment.

A number of entrepreneurs who had been successful in selling their businesses have also returned to the UK tech sector as investors – including the founders of Playfish, Bebo, Messagelabs and Skype.

At the same time, corporations are investing more in start-ups, Mr McKnight noted, as they look to gain access to cutting-edge technology.

Honda and Sumitomo of Japan, for example, have made investments in companies developing fuel cell technology, while Ascendant reported that the World Gold Council and the Energy Technologies Institute were coming in as investors for the first time.

The World Gold Council last year invested in Oxford Photovoltaics, which is developing technology to improve efficiency in solar cells.

"Corporates, who have been holding onto cash for the last few years, are now spending it, and they are more interested in the technology and less interested in whether the start-ups have revenue or not," Mr McKnight said.

Corporate investors participated in 13 per cent of the deals in the first half of the year. About 30 per cent of deals included a private investor, and US investors came in on 17 per cent of deals.

US venture capital companies, such as Greylock Partners and Union Square Ventures, have been increasingly looking on European investment targets as good value, given the rising start-up valuations in Silicon Valley.

UK government backing of the venture capital sector might have had some influence on the increase in investment levels as well. In 2010, the UK pledged to boost tech investment through a £200m innovation investment fund, focused on life sciences, digital and advanced manufacturing businesses.

There have been a few notable success stories for UK tech investment, such as Skype, the internet telephony company. Initially backed by Index Ventures, it was then sold, first to eBay for about $2.6bn and later to Microsoft for $8.5bn.

However, overall, venture capital funds have had produced relatively poor returns over the past decade.

Jos White – a former founder of MessageLabs, the UK security company and now partner at Notion Capital, the venture capital firm – told the Financial Times that most venture capital companies managed only 2 to 3 per cent internal rate of return, not much more than the rate of inflation.

Some venture capital companies have slowly retreated from the market after being unable to raise funds.

Mr McKnight said: "As an asset class, venture capital has been awful. But some of the best funds are seeing performance in the upper 20 percentiles, and are doing well.

"Many of the poorly performing funds have left the market, but the good funds are getting more money," he added.

But while venture capital investment goes up, the market for tech floats on the London Stock Exchange remains closed, with no main market listing of tech businesses since 2010.

It remains to be seen, therefore, whether the exit strategies for the new wave of tech investors will remain limited.

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