STARTUP ACTIVATOR

STARTUP REVIEW UPDATE:

A MANCHESTER DIGITAL REPORT ON THE STARTUP LANDSCAPE IN GREATER MANCHESTER

AUGUST 2024

Manchester Digital

INTRODUCTION

Introduction by Katie Gallagher OBE

Welcome to our Startup Review update, where we survey the changing landscape for startups and founders across our region.

Since our initial report in January, we have a new government which I hope means a few years of stability where our businesses can focus on growth along with some positive policy changes. Key issues that we will be championing include making changes to R&D tax credits, ensuring that they are properly administered, levied at the right businesses and with an increased allowance. We also hope that work on the Mansion House pension reforms will continue with the potential to unlock over a billion pounds of investment into UK science and tech businesses. We will also maintain our focus on building a diverse talent pool in the region to ensure your teams have the spread of skills to keep building brilliant products and services.

It has been great to see new support for startups come online in the last six months including the new Turing Innovation Catalyst and the Wired For Growth Taskforce that brings together investors, advisors, trade bodies, banks, governing bodies, universities, founders and business leaders to help start-ups in the North West. There has also been a groundswell of new meetups and events all aimed at connecting and helping the region's founders to grow their businesses.

For our part, we have recently started delivering our Startup Activator Roadshows across the region with a focus on supporting diverse founders and I'm delighted that they are being led by our new startup manager, Alice Pickersgill.

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Alice Pickersgill
Manchester Digital

Welcome to Alice
We'd like to introduce Alice Pickersgill who has just joined our Manchester Digital team to head up the Startup Activator programme. Alice has great experience of working with founders and startups from her previous roles with Form and previously Exchange at Department.

Alice said: "I'm really excited to join the Manchester Digital team and work to support founders and startups right across our region to help propel their business growth. We are developing the Startup Activator programme to foster community, facilitate valuable connections, and guide early-stage businesses through the critical stages of development. We are dedicated to building a diverse and supportive community from all ten boroughs of Greater Manchester to aid further growth of the Manchester ecosystem into the future."

Manchester Digital wins funding to support startups

Manchester Digital was awarded funding from the Barclays Eagle Labs Ecosystem Partnership Programme to extend its Startup Activator programme across Greater Manchester. By running roadshows for startups, founders and entrepreneurs across the 10 boroughs of Greater Manchester, Manchester Digital will create opportunities for investable, scalable businesses, leading to more high quality jobs across the whole region.

Phase 2 of the funded programme - called Initiate - will begin in October 2024 to help founders on their startup journey. The programme includes in-depth masterclasses, expert advice, a community with other regional founders, resources and tailored content.

The application deadline for startups to apply for the Initiate programme is 25 September. The programme is mostly remote, with some in-person sessions in Manchester city centre.

[Find out more here]

New taskforce established to help startups in the North West

A new taskforce, called Wired for Growth, has been created to bring together investors, trade bodies, banks, governing bodies, universities and founders to help startups grow and scale.

Led by KPMG Acceleris, the group will focus on helping the region's founders to navigate barriers and identify the opportunities that exist for startups. Manchester Digital is a part of the task force and contributed to the report as well.

The potential that exists within the North West region alone is huge – with Manchester being home to the seventh largest concentration of tech talent in Europe and 531 active high growth companies across Manchester and Liverpool and 3,415 scaleups across the North West.

However, just over 38 per cent of companies set up in the North West in 2015 are still active five years later. Wired for Growth is focusing on raising awareness and removing barriers to drive venture scale growth in the North West.

A dozen startups selected for Praetura Ventures' new North of England investment programme

Praetura Ventures has shortlisted 12 companies which took part in its PraeSeed programme, a new initiative designed to identify the most promising startups in the North of England and support them with equity funding.

First announced in March, the programme received over 200 applications from startups in a wide range of sectors, including AI, healthcare, hospitality, leisure, manufacturing, robotics and SaaS. The 12 shortlisted businesses attended a series of workshops delivered by later stage founders and experts in their field.

Praetura plans to make equity investments of £200k in up to eight of the twelve cohort businesses later in the year. The cohort will also be introduced to Praetura's co-investment network at a showcase date to be held in September in Manchester.

The dozen companies in the cohort are: Antonym, Aquaint, Bidscript, CCI Photonics, Gaia Learning, FireflAI, North AI, Praxium, Pupil Pathways, Scrubmarine, Robitiz3d and WAC.

LATEST INVESTMENT FIGURES

2022

City Region	Investment £ raised in 2022	Number of active high-growth companies	Number of unicorns
LONDON	17,700,000,000	2264	47
CAMBRIDGE	910,000,000	154	2
MANCHESTER	**680,000,000**	**415**	**2**
EDINBURGH	511,000,000	72	1
BRISTOL	496,000,000	176	2
LEEDS	323,000,000	373	0
LIVERPOOL	99,200,000	116	0

Data source: Beauhurst

2023

IN 2023 MANCHESTER HAS...

£984M OF INVESTMENT

436 HIGH GROWTH COMPANIES

3 UNICORNS

City Region	Investment £ raised in 2023	Number of active high-growth companies	Number of unicorns
LONDON	34.400,000,000	3396	39
CAMBRIDGE	31.180,000,000	162	2
MANCHESTER	**984,000,000**	**436**	**3**
EDINBURGH	677,000,000	76	1
BRISTOL	731,000,000	181	2
LEEDS	414,000,000	385	0
LIVERPOOL	103,000,000	97	0

INVESTMENT RAISED **2022** VS **2023**

INVESTMENT RAISED BY MANCHESTER STARTUPS THIS YEAR:

£193.7M

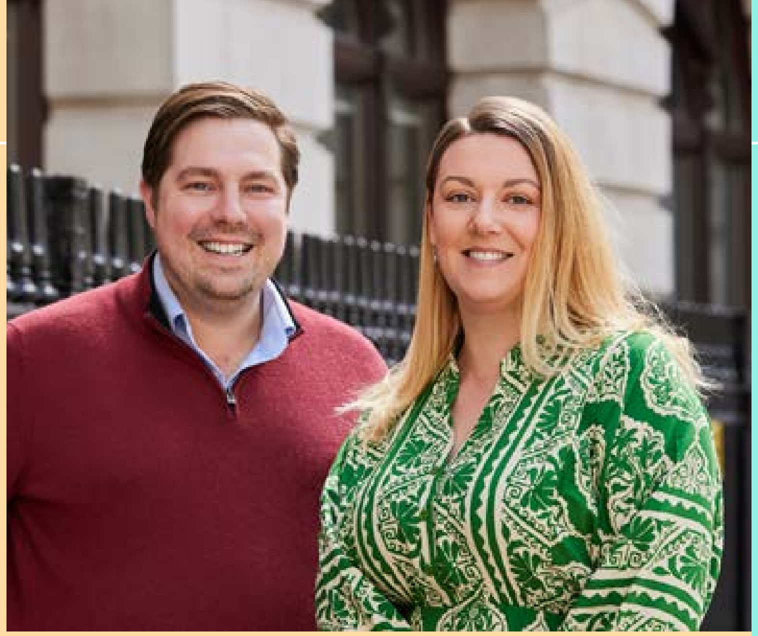
*This is an approximate amount sourced from various data platforms and may have changed by the time this article is published.

INVESTMENT RAISED ACROSS THE UK FROM JANUARY TO MAY 2024:

£6.53BN

*Figure from Barclays Eagle Labs and Beauhurst report 'Unlocking investment'

FIRENZE



RECENT RAISES: FIRENZE

If you want to raise a funding round quickly, it might help to build something investors want to use themselves. That was certainly the case for Firenze.

It wouldn't be surprising if you've never heard of a 'Lombard loan', but this startup might just change that.

Lombard loans allow high-net-worth individuals to borrow money using their investments as collateral. But Firenze wants to make them available to a far wider range of people, via its target market of wealth managers, advisers, and investment platforms.

The Salford-based startup announced it had raised a £750,000 pre-seed round in May 2024. And while Lombard loans might not be familiar territory for many people, they're something many angel investors will be familiar with. This made raising the round something of a word-of-mouth success, says co-founder David Newman.

"It was a fun round. A lot of angels understood the product and got behind it. They got what we were doing. And then they introduced a friend, who introduced a friend, who introduced a friend…

"A lot of angels are either private banking customers or they were people below that level and thought 'this product exists? Why haven't I got it?"

This buzz eventually led to scout funds from top VC funds like Andreessen Horowitz and Atomico to invest. And while the round was announced as being £750,000, David says it actually ended up at £770,000.

Many early-stage funding rounds can take many months to raise in the current climate, but David says Firenze's was wrapped up after just 10 weeks of pitching.

When David and his co-founder Anna Curtis started pitching investors, they had a simple MVP (minimum viable product) version of what they wanted to build, a letter of intent from a funder, and some market research to back up their vision.

They also had an initial level of interest from potential clients, meaning investors had people to speak to if they wanted to do due diligence on customer interest.

"Feedback I got from investors was that there was a real clarity of vision and clarity of execution," David says.

"I was very open about the risks I was worried about coming into the business, which ones I'd solved, and which ones I hadn't solved yet and why they didn't stress me out that much. People liked that openness."

Since raising the round, Firenze has been busy expanding its team to further develop the product with the goal of signing up its first wealth managers and getting its first loans issued in the coming months.

As someone who spends a lot of time commuting between Manchester and his clients and funders in London, David wants to see better connectivity on trains between the two cities so he can improve his productivity.

"I go to London twice a week. It takes two hours. That's not a problem, it's more the fact that it costs me £600 to do that trip twice at peak times, and I can't get WiFi for eight hours of my week.

"Manchester will never replace London… but don't cry about it, just make it easy to connect the two ecosystems."

HACE

RECENT RAISES: HACE

Tech for good doesn't always have an air of investability around it. Making the world a better place isn't necessarily the most effective way to make money, and if there's one thing investors want, it's money.

That's something Eleanor Harry, founder of HACE, saw first hand as she worked to raise the £450,000 round the startup announced in February 2024.

HACE is focused on eradicating child labour in global supply chains through its products. It's a highly worthwhile goal, but not one that necessarily clicks immediately with many investors.

But while it was a slow process to raise the round, Eleanor says it ended up oversubscribed by 30%.

"Money doesn't always come in from one fund at the same time, so it's okay to raise on multiple different tranches, as long as you have some security for investors.

"If you're raising across multiple different tranches, it's actually okay to keep a round open for a little bit longer, as long as you've got a deadline. And you can just negotiate the over-subscription as well. You don't have to close a round just because you reach a limit; you can keep it open longer."

HACE is using the funds to develop its Child Labour Index, as well as an Engagement Toolkit to help companies understand what to do if they are exposed to legal risk from the possibility of child labour in their supply chain.

Manchester Angels led HACE's round, which also included money from London and the USA. Eleanor speaks highly of having "local champions" to support your raise but she also has suggestions for improving the local investment landscape.

She believes that while there are funds available to invest in startups in Manchester, more of their mandate should be non-dilutive, helping early-stage startups avoid venture capital terms that can be a bad fit for some kinds of company.

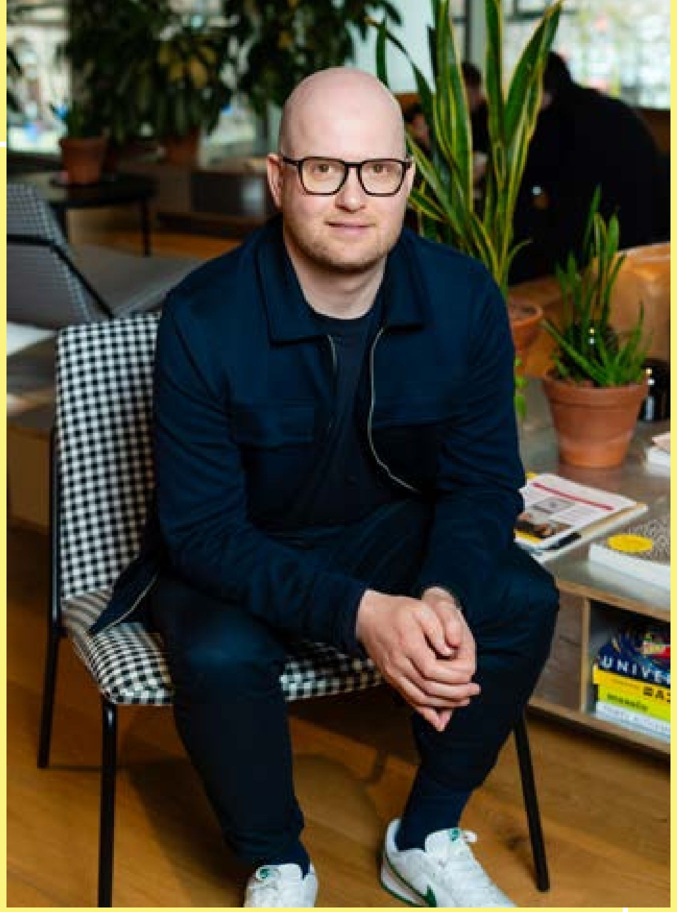
"There should probably be more opportunities for non-dilutive funds in Manchester or the North West region, perhaps involving universities and academic institutions in partnership with the technology sector.

"Traditionally, tech for good is seen as a philanthropic investment, but without it we don't have true innovation around things that are really important, like climate change or child labour."

Eleanor thinks while Manchester isn't strong in this regard currently, there's a real opportunity to attract companies from elsewhere to relocate to the city so they can solve important problems for the future of the planet.

"Other cities are better at doing it than Manchester. I'm a guest lecturer at the University of Cambridge. We have a partnership with one of the colleges there, and the city is incredible for climate tech.

"Climate tech is now becoming something that more VCs want to invest in, and a lot of that is because certain specific cities are really spearheading it."



RECENT RAISES: LEMON

It's often overlooked by founders that venture capital isn't a way for investors to put money into businesses they happen to like. It's a very specific business model that looks for fast growth and the potential for enormous returns.

So if you want to raise VC, you might find yourself having to adapt your business to how your investors think you can best achieve the growth they need to see.

That was the case when Lemon raised £500,000 from SFC Capital, Pitchdrive and angel investors, in a round that was announced in April 2024.

Lemon helps businesses manage their software subscriptions, but as co-founder and CEO Matt Bird explains, they had to adjust their priorities to make the startup an investable proposition at its current early stage.

"There's a financing element to our core proposition, where businesses can finance annual software plans. The way we were building that part of the business, we would have had to raise a load of debt to be able to offer that financing.

"VCs deemed it too risky, because if we lent money to a company that then went out of our business, we were then still responsible to pay that money back. The cost of capital last year was really expensive as well, so the unit economics were very, very challenging."

And so Lemon focused on a different part of its product roadmap, which didn't rely on loans. That turned out to be the key to raising the round, with software that helped businesses drive towards greater capital efficiency at a time when that has been top of mind for many CEOs.

Since raising their round, Lemon has hired a CTO and launched its subscription-tracking product into the market. They've also been working on a new model for the lending side of the offering.

Matt says raising from good investors who aren't based in Manchester can be tricky as they often apply a "Northern discount" to how much they think you need to raise.

"Because you're in Manchester, they think everything's cheaper, so they think they'll be able to offer less money and get more equity."

But that didn't end up being a problem for Lemon, which raised from a combination of UK and Belgian investors.

"It never became a challenge that we were in Manchester and not London," Matt says.

And while Matt says the angel and VC scene is improving in Manchester, founders shouldn't be afraid to cast their net wider to find the right investors for their business.

Matt would like to see Manchester investors write bigger cheques and align more with the thinking of the big VC funds in London and other parts of the world, to better support seed-stage startups in the city.

INVESTOR NEWS

Launch of the Northern Powerhouse Investment Fund II

In March, the British Business Bank launched its new Northern Powerhouse Investment Fund II, a £660m fund set to cover the entire North of England. The Northern Powerhouse Investment Fund II will increase the supply and diversity of early-stage finance for Northern smaller businesses, providing funds to firms that might otherwise not receive investment and help to break down barriers in access to finance.

Providing loans from £25k to £2m and equity investment up to £5m, the fund will continue investing into companies operating within the North West, Yorkshire and the Humber and Tees Valley and the North East.

Since the launch of the first Northern Powerhouse Investment Fund in 2017, over £1bn of direct and private sector co-investment has been facilitated to businesses. Nine fund managers have been appointed to manage the Northern Powerhouse Investment Fund II and Manchester-based Praetura Ventures will manage equity deals (up to £5 million).

Startup Tracker launched

In January, startup publication PreSeed Now launched its Startup Tracker, in partnership with The Tech Dept. The Startup Tracker, features all the companies profiled by PreSeed Now, including funding, investment plans and updates about their business operations and products.

VIEW HERE

New investment fund for AI businesses

In February, Manchester-based tech investor EHE Ventures announced it was looking to raise £15m for a new S/EIS fund aimed at investing in innovative businesses that use AI. EHE Ventures has already invested in two AI-driven companies: Peppercorn AI, which is developing a B2B SaaS platform called Pipr, and ClioBooks, the world's first AI-powered book writing and publishing platform for non-fiction authors.

15% drop in EIS funding

New figures released by HMRC in May, stated that in the tax year 2022-23, 4,205 companies raised a total of £1,957 million of funds under the EIS scheme. Funding has decreased by 15% from 2021 to 2022, the previous year, when 4,455 companies raised £2,297 million.

Investment in 2022-23 saw a reduction down to average levels seen prior to the previous year's increase, which was itself a rebound from the pandemic.

In 2022-23, 1,815 companies raised a total of £157 million of funds under the SEIS scheme. Funding in 2022 to 2023 has decreased by 24% from 2021-22 when 2,295 companies raised £207 million.

Around 1,440 of the companies were raising funds under the SEIS scheme for the first time in 2022-23, representing £137 million of investment. The schemes bring together private investors with companies that need funds to scale up operations.

UPDATES ON RECOMMENDATIONS

By Katie Gallagher OBE

In our initial Startup Review report, we outlined a number of recommendations as well as a list of what Manchester still needs. Here we review any changes or updates for the Manchester tech community that have happened since then.

Stronger sense of community

Since the beginning of this year, there has been a groundswell of activity and a willingness of ecosystem leaders to work together and reduce duplication. Activity is becoming better coordinated to make it more visible to founders and easier to access.

On top of this, there are more events and meetups for founders, entrepreneurs and startups across the region. This is hugely positive for the startup community, after the Covid pandemic meant that many events and meetups had dwindled or stopped altogether.

We have launched our Startup Activator Roadshows across Greater Manchester, which aim to provide support to startups and founders outside of the city centre and in more diverse areas. Our Startup Activator programme also offers a community for founders in order to offer advice and support to one another.

Clear oversight of the region's assets to benefit startups

We will continue our ongoing reporting of the region's startup economy, as well as highlighting the region's entrepreneurs and founders to the regional authorities.

Manchester City Council has commissioned Manchester Digital and Glenluna to map out the startup ecosystem across Greater Manchester to figure out where the gaps are for startups, as well as barriers to growth. We're really pleased to be collaborating with the city council on this piece of research, which will help all partners understand the current tech landscape and help shape the growing sector to benefit all.

We also welcome Labour's 'mission-led Government', and are looking forward to working alongside DSIT and other departments to ensure that our region's startups and scaleups are enablers of growth.

More transparency around university spinouts

The former Government produced a Spinout Review in November 2023, so we look forward to working alongside the Labour Government to further these recommendations, and achieve more transparency and better deals for spinout startups.

A 2023 report from Beauhurst called Spotlight on Spinouts, discovered that the average equity stake taken by universities grew from 19.1% to 22% over the past year - although overall mean stake has decreased over the past decade.

Our Manifesto for the Northern Tech Economy asked the GM Mayor to look at creating a working group with the region's universities to explore best practice in achieving spinouts, including setting a flat equity fee.

Creating a more diverse culture

Diversity and inclusion in the overall tech industry continues to be a huge challenge for businesses. This is especially difficult for startups which will naturally begin with a small team. We fully support the letter written to new Tech Secretary Peter Kyle from the BCS, which states there are 500,000 women 'missing' from the tech industry, along with a number of recommendations to close the diversity gap.

Across Greater Manchester we have seen numerous initiatives and events to bring women into the tech industry, as career returners or from school age. Here at Manchester Digital, we have launched our new Digital Her software developer apprenticeship scheme and also a leadership programme called EnableHER.

On top of that, the funding from Barclays Eagle Labs will allow us to run roadshows across the 10 boroughs of Greater Manchester, in order to reach some of the more deprived areas as well as a diverse set of entrepreneurs.

A top-tier tech event

In our [Manifesto for the Northern Tech Economy], launched for the Greater Manchester Mayoral elections, we recommended that a Northern Tech Nexus should be created to bring together the tech ecosystems of Manchester, Leeds, Sheffield and Liverpool. We also suggested that this should involve an annual international Northern Tech Summit, which would bring together regional authorities and mayors, tech leaders and businesses, investors and the education sector.

We'd love to further the conversation on this and give Manchester - and the whole of the North - the chance to shine in a global setting. This would also help with creating better international connections and connecting Manchester with other startup hubs.

Better transport infrastructure

The Bee Network is a new initiative, launched by GM Mayor Andy Burnham, to integrate public transport across Greater Manchester to make it easier and cheaper for people to travel around the region. Last year, we saw the introduction of £2 adult fares for a single ticket, as well as the recent introduction of combined bus and tram tickets. Currently around 50% of services are franchised Bee Network services and from January 2025, all local buses will be under local control.

Mayor Andy Burnham has also talked of plans to expand the Metro tram network to Stockport as well as connecting Oldham and Bury, as well as possibly expanding to Bolton. On top of this, the new Transport Secretary Louise Haigh has announced that rail services will be brought back under public ownership in order to improve their service levels.

Despite the overall positive news for better transport in our region, a report commissioned by the Conservative Government found that the new High Speed trains, which will travel on existing lines north of Birmingham due to the cancellation of the HS2 phase, will have fewer seats than existing trains. This means that railways may have to incentivise people not to travel by rail, or to travel at different times.

STARTUP ACTIVATOR ROADSHOW DATES

SALFORD
3 SEPTEMBER
HOST Salford, MediaCity UK, Salford, M50 2ST

BOOK NOW

BOLTON
4 SEPTEMBER
The Bolton Hub, Bold Street, Bolton, BL1 1LS

BOOK NOW

BURY
5 SEPTEMBER
The Fusilier Museum, Moss Street,
Bury, BL9 0DF

BOOK NOW

TAMESIDE
10 SEPTEMBER
Ashton Library, Market Place,
Ashton-under-Lyne, OL6 6BH

BOOK NOW

ROCHDALE
11 SEPTEMBER
Fire Up Co-Working Space, Maclure Road,
Rochdale OL11 1DN

BOOK NOW

STOCKPORT
12 SEPTEMBER
Venues @ Cornerstone, 2 Edward Street,
Stockport SK1 3NQ

BOOK NOW

WIGAN
17 SEPTEMBER
Wigan Library, The Wiend, Wigan, WN1 1NH

BOOK NOW

OLDHAM
24 SEPTEMBER
Oldham Library, Greaves street, Oldham, OL1 1AL

BOOK NOW

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