



Building the Next Generation of UK Decacorns

Summary of OC&C work for the CBI

Research conducted from January – April 2023



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Foreword

Sustainable growth for the UK must flow from a competitive, effective business growth environment. An environment not just conducive to starting an innovative business, but also to quickly grow one into a profitable, expanding, SME. And - where possible - from there to being a \$1bn-valued unicorn and right through to becoming a UK-grown and -based *Decacorn* business, valued at \$10bn or more.

While the UK is seen as a world leader in nurturing startups, we could stand to improve the competitiveness of our environment for scaleups – particularly those continuing the fast growth trajectory from larger businesses into globally-leading ones.

In late 2022 the CBI commissioned OC&C Strategy Consultants to help us understand the UK landscape of 'Decacorn' businesses, with a view to informing how we can build 'The next generation of UK Decacorns'. They completed their thorough and detailed work published here in April 2023 – huge thanks to Laura, Alex and team at OC&C. The nine UK Decacorns they identify aren't all from the sectors you might think, or primarily based in the regions you could expect. Importantly, the Decacorns are also mostly highly technology-enabled, but not tech companies.

This report, completed in April 2023, we hope gives helpful direction to the scaleup community and policymakers focused on growth and industrial strategy in driving the development of more Decacorns in the UK in the future. We're delighted to publish it now to support the CBI's broader work through 2024 on ensuring the UK is the best place in the world to scale an innovative business.

Dr Benjamin Reid

Technology and Innovation Transformation Director – CBI



About OC&C



OC&C is a global strategy consulting firm, bringing clear thinking to the most complex issues facing management

- Founded in 1987
- 17 offices worldwide
- Global coverage through our hubs

OC&C's client roster includes some of the largest corporations and most innovative challengers across our industries of expertise

- **TMT:** Technology; Business Information Services & Media; Media Entertainment and Consumer Media
- **Retail:** Grocery; Apparel; Multi-category; Speciality & Luxury; Disruptive Digital Models
- **Leisure & Hospitality:** Accommodation, Parks & Resorts; Food & Beverage; Entertainment; Gambling & Gaming; Travel
- **Consumer Goods:** Food & Drink; Beauty & Luxury; Beer, Wine & Spirits
- **B2B Products & Services:** Construction & Infrastructure Services; Industrial Products; Automotive & Mobility; Insurance; Outsourcing; Testing, Inspection & Certification

To learn more about perspectives in this report:



James George

james.george@occstrategy.com



Justin Walters

justin.walters@occstrategy.com



Toby Chapman

toby.chapman@occstrategy.com



Laura Gibb

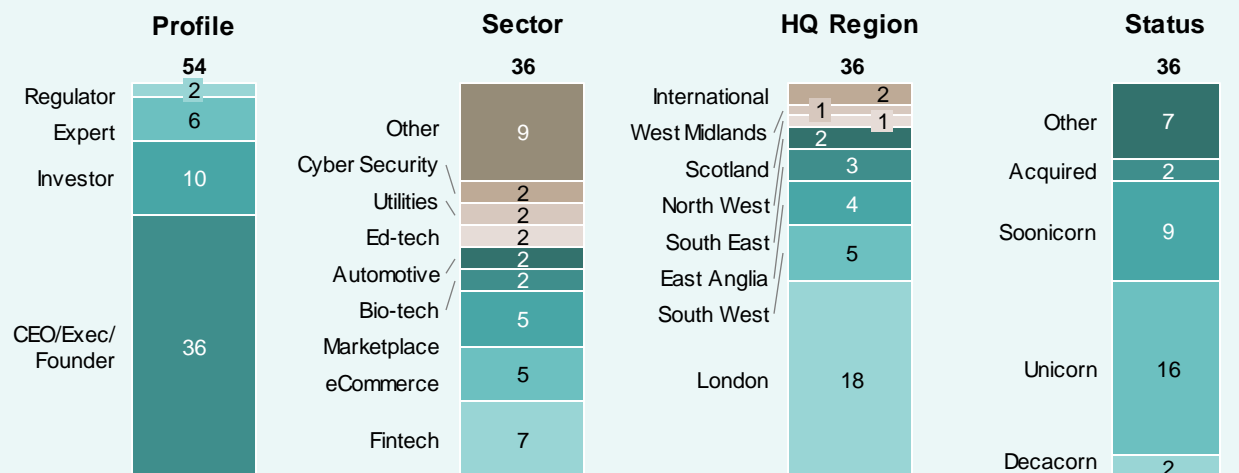
laura.gibb@occstrategy.com

Context



- The UK is home to a substantial number of large, innovative firms including 9 Decacorns and over 100 Unicorns¹. They span multiple sectors and regions of the UK
- On behalf of the CBI, OC&C were engaged to conduct research to understand how well the UK is positioned to build from this starting point and what is required for the next generation of UK Unicorns and Decacorns to thrive
- Across early 2023, OC&C interviewed founders, executives and investors from some of the UK's most exciting and disruptive companies to understand the challenges and opportunities they face
- Responses were revealing: Optimism about the health of innovation in the UK persists, but there is consensus that more needs to be done to support late-stage businesses reach their potential and compete on the global stage

50+ interviews across January – April 2023



1. High-growth companies with a valuation of over \$1bn or \$10bn respectively. For more context on OC&C's definition see page 5

Key Takeaways



- In a world marked by technological change and increasing competition, cementing innovation and technology at the heart of the UK's economy will be key to ensuring the nation's long-term growth and prosperity
- The ability to build and support the next generation of Unicorns and Decacorns will play a pivotal role: They are large, innovative, growing companies that generate wealth and jobs and drive productivity. They are beachheads in innovation clusters. They are pioneers of next-generation technologies that will be fundamentally important to both the UK and the world
- The UK's starting point is strong. It has the third most Unicorns and Decacorns globally, surpassed only by the US and China. Its tech sector is worth more than £1trn¹. It has many characteristics that make it an attractive place to grow and build a business and its start-up ecosystem remains vibrant
- However, continued strength is far from assured. In the face of increased focus and investment in technology from international competitors, there is a real danger the UK is taking its foot off the gas
- The Chancellor's ambition to make the UK better 'at turning world-class innovation in to world-class companies'² is both timely and laudable, but will be meaningless if not accompanied by coherent and substantive action to create the supportive environment in which they can succeed
- Through interviews and analysis, OC&C have identified 5 themes that can support the next crop of high-growth innovative companies to flourish in the UK:
 - Pro-Innovation Regulatory Approach***
 - National Assets pointed at Commercial Innovation***
 - Access to Brightest and Best***
 - Unleash Institutional Investment***
 - Top-Down Sector / Tech Focus***
- More detail on our findings and on the actions that could support each theme are included in this report

Definitions



- Unicorns and Decacorns are typically large, growing companies with innovative business models
- Analysing how many Unicorns or Decacorns a country has is one measure by which its success in commercialising innovation at scale can be judged
- Commonly, Unicorns and Decacorns are defined by the Venture Capital community as *privately-held firms with a valuation of over \$1bn or \$10bn respectively*
- Here we use a slightly broader definition in order to understand the UK's position more expansively
- Within this report, UK Decacorns / Unicorns / Soonicorns¹ are defined as:

Decacorn

1. **Headquarter:** Located in the United Kingdom
2. **Foundation Year:** Founded after 1990
3. **Standalone Entity:** Active and not acquired by a third party
4. **Valuation:** Private companies valued >\$10bn at latest funding round OR public companies with a market cap of >\$10bn within last 2 years AND a current market cap of >\$5bn (to account for market fluctuations)

Unicorn

1. & 2. & 3. UK HQ, founded after 1990 and active/not acquired
4. Current public or private valuation >\$1bn

Soonicorn

1. & 2. & 3. UK HQ, founded after 1990 and active/not acquired
4. Current public or private valuation >\$500m

Unicorns and Decacorns are important as they support economic growth, foster innovation and support more companies to grow

Growth

Drive productivity
Generate wealth
Create highly-paid jobs

Innovation

At the fore of the next generation of technology, much of which has a fundamental importance to UK society and its future strategic advantage

Success Breeding Success

Beachheads in innovation clusters where knowledge & skills disseminate
Next generation of founders and companies are born

Large: UK Decacorn average global revenue **£1.7bn¹**

High growth: UK Decacorns annual revenue grew at **c.20% pa** last 5 years²

Employment: UK Decacorns employ on average **2,300 people** in UK



Robotics



ML-based **cyber security software**



Cancer treatments targeting novel DNA Damage Response pathways

42 ex-Revolut & Wise employees founded start-ups, often with seed capital from the FinTech ecosystem³



>30 ex-OpenAI employees creating new start-ups⁴

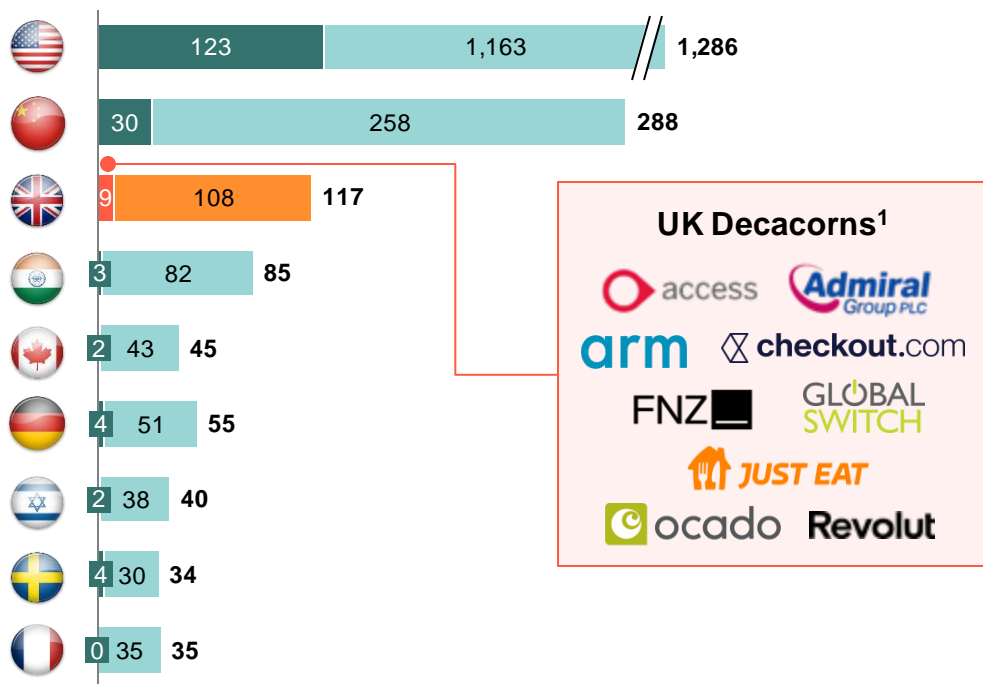


1. Mean revenue from 2022, Capital IQ 2. CAGR of total revenue growth per year from last 5 years (2017 to 2022) for 9 UK decacorns (21.7%), Capital IQ 3. Tesseract: Energy Asset start-up founded by ex-Revolut employee, raised c.£70m; Lightyear: Trading start-up founded by 2 ex-Wise employees, raised c.£29m 4. Anthropic: AI Research (e.g. AI assistant), raised c.£585m; Pilot: Accounting software, raised c. £134m; Living Carbon: Biotech Research to enhance plants for carbon capture, raised c.£30m

The UK has the third most Unicorns and Decacorns globally and possesses many characteristics that make it an attractive place to build and grow a business

UK #3 globally for Unicorns & Decacorns

International Decacorn and Unicorns¹
(March '23, #)



Attractive characteristics

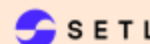
- Affluent, geographical concentrated, relatively large population
- Mature private funding landscape
- Clear, efficient legal system & judiciary
- Skilled labour pool with laws balancing flexibility with worker protection
- Leading university and education system
- Central time zone
- English language

1. All companies must have HQ located in the UK, founded after 1990, and must still be active today and have not been acquired by a third party. Decacorns are private companies valued >\$10bn at latest funding round OR public companies with a market cap of >\$10bn within last 2 years AND a current market cap of >\$5bn (to account for market fluctuations). Unicorns have a current public or private valuation >\$1bn

The UK's globally renowned fintech cluster is a clear example of a success story

Clear Success in Fintech

- The UK is a **leading global fintech hub with over 1,600** fintech firms, including 39 Unicorns and 4 Decacorns
- The UK is the 2nd largest destination for fintech investment with **£11bn invested** in 2022¹



Strong Heritage + Historically Supportive Regulatory Environment

- **The UK is a world leader in financial services:** attracting capital from all over the world and is the highest net exporter of financial services globally²
- In 2021, the financial services sector **contributed £173.6bn to the UK economy** (8.3% of total economic output) and employed c.1.1m people³

- The FCA were quick to recognise benefit of **innovation** for consumers and markets
- **Key developments:**

2014

Banking Licence

Prudential Regulation Authority (PRA) makes **banking application easier by reducing** capital requirements and accelerating approval process

2016

Regulatory Sandbox

Financial Conduct Authority (FCA) launched **regulatory sandbox**, allowing companies test innovative propositions in the market with real consumers

2018

Open Banking

The 9 largest UK banks **securely allowed access to banking transaction data** to 3rd party payment and FS providers, allowing them to innovate and build new products and revenue streams

*“What the **FCA** did on **fintech** is the reason we are so **well positioned** there”*

*“The UK is the **‘best in the world’** for financial services and we the open banking was ahead of the curve”*

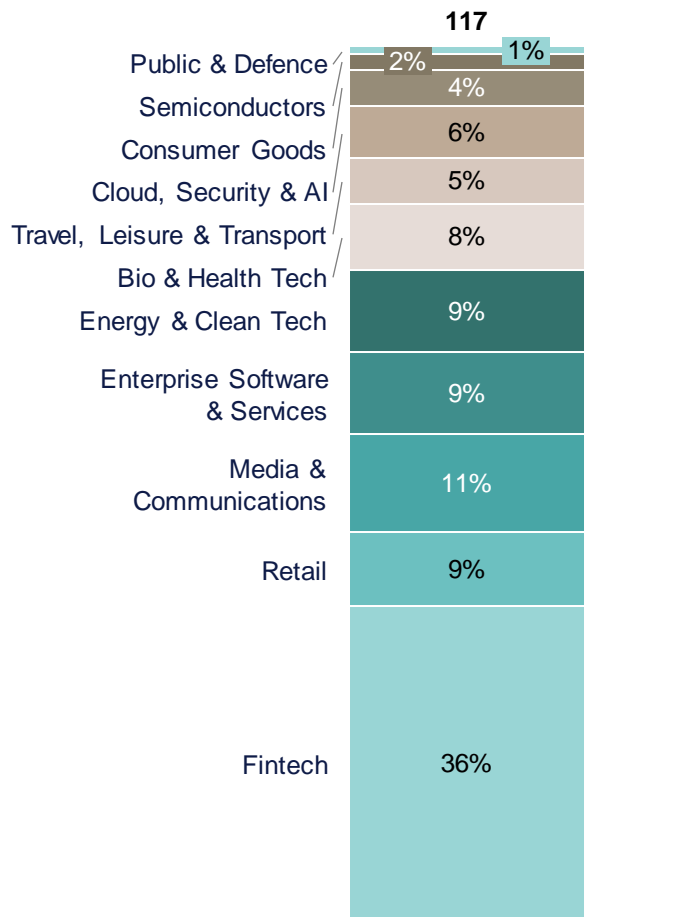
*“The success of open banking failed to disseminate into the adjacent banking markets... as we **did not double down on success**”*

1. Dealroom
 2. City UK's 2022 "Key Facts about the UK as a Financial Centre"
 3. House of Commons Library: "Financial services: contribution to the UK economy"

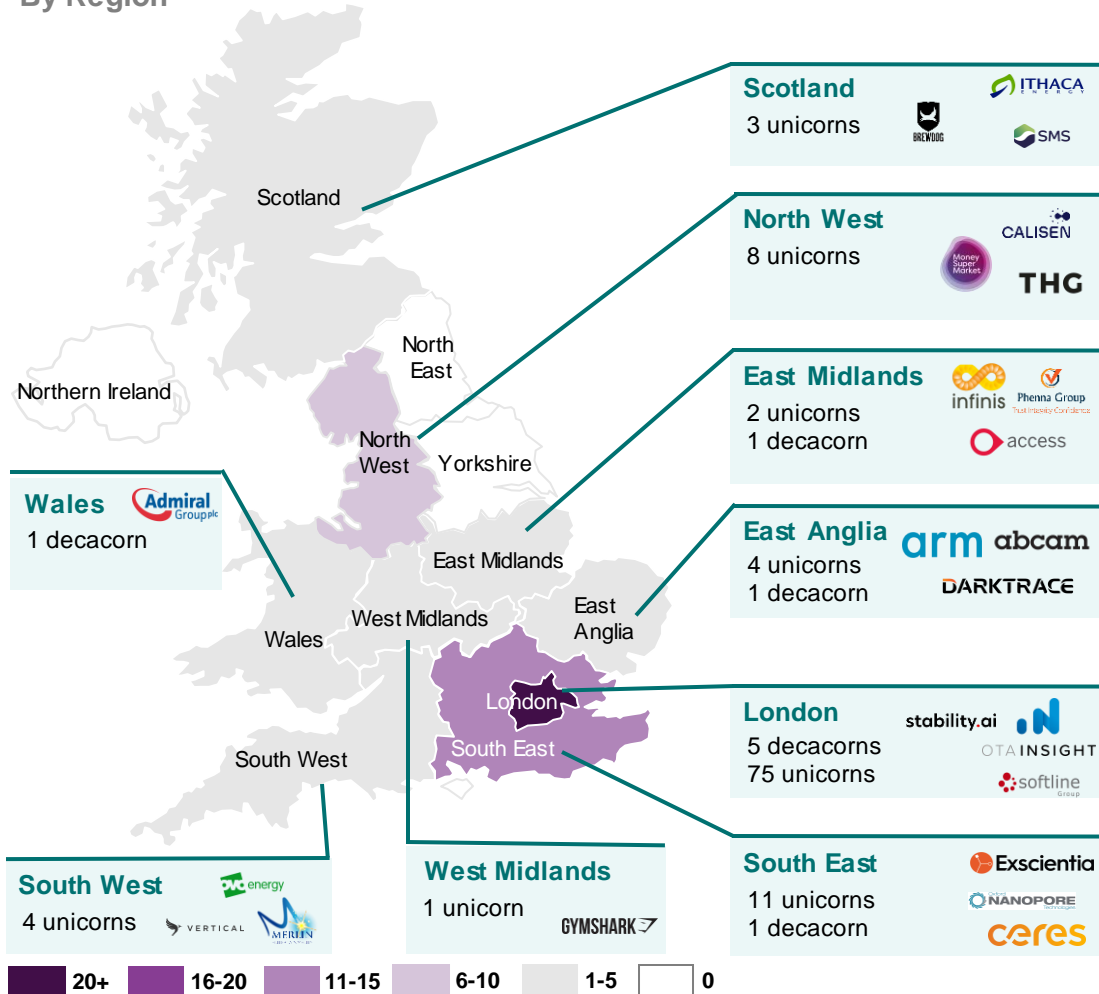
And there are shining lights across other industries and across different geographical areas of the UK

UK Unicorn and Decacorn Distribution


By Sector



By Region¹



1. Based on HQ
Source: Dealroom, Crunchbase, OC&C analysis



Future strength is not assured : more needs to be done to ensure the next generation of Unicorns and Decacorns can thrive

“The UK has lots going for it, but we need to do more to make sure our promising **firms don't exit early – give them the talent, the capital, the assets they need to succeed**”

“The pace is slow – in getting people, in getting regulators to act, in accessing funding in the UK – it's not **keeping up with the speed we need to grow to match our international peers**”

“**We can do more to support our businesses to thrive** – we don't do enough with our strengths and use them to **throw fuel on the fire...**”

Many initiatives have been pursued in the UK in support of this aim – but many are sub-scale, have lost momentum or remain in their infancy

Selected UK Initiatives

Interviewees' view of impact: ✔ High impact ✔ Limited impact to-date ? Too early to tell

Objectives	Example Initiatives	Impact
Cross-Regulator Cooperation	<ul style="list-style-type: none"> DRCF (2020): Cooperation between regulators on cross-regulator topics (eg AI) DMU (2021): Pro-Competition regulation for digital markets 	?
Innovation-Friendly Regulation	<ul style="list-style-type: none"> Funding for innovative approaches to regulation & sandbox experiments (Regulators Pioneer Fund - 2019) and a body to advise on regulation of new technology (Regulatory Horizon Council - 2019) “Pro-Innovation Regulation of Technologies Review” (2022-23) 	(✔)
Domestic Upskilling	<ul style="list-style-type: none"> Skills Bootcamp (2020), Digital Skills Partnership (2018) / Digital Skills Council (2022) raising awareness and providing upskill opportunities for in-demand skills 	(✔)
Access to International Talent	<ul style="list-style-type: none"> 4 new visas launched since 2020 (eg Scale-up, Global Talent) with focus towards highly skilled and entrepreneurial talent 	(✔)
Patient Capital for Equity Investment	<ul style="list-style-type: none"> ‘Edinburgh Reforms’ & ‘Solvency II’ (2022): Proposals to create Long-Term Asset Fund (LTAF) & bring changes to pension charge cap and illiquid disclosure requirements (amongst others) 	?
Attractiveness of UK Public Markets to Technology Firms	<ul style="list-style-type: none"> ‘UK Listing Review’ (2021): Advocating measures to change listings requirements, review the prospectus regime and rebrand/reposition the standard listing segment (amongst others) 	?
Start-up Funding	<ul style="list-style-type: none"> EIS (1994): 30% upfront income tax relief on returns for start-ups British Business Bank (2012): Different vehicles provide source of funding to high-growth UK companies (eg British Patient Capital (2018) manages assets of £3bn focussed on start-ups and scale-ups) 	✔ Focused early-stage
Coordination of UK Science & Technology Strategy	<ul style="list-style-type: none"> Identification and focus on five growth sectors in early 2023 – Digital Technology, Green Industries, Life Sciences, Advanced Manufacturing and Creative Industries Initiatives within DSIT (previously OSTs) to review actions required to foster priority industries or technologies (eg current focus on AI; other examples include Cyber, 5G, Semiconductors) ARIA (2023): Emerging S&T fund focused on longer-term ‘moon-shot’ investments 	?

The international playing field is getting tougher, particularly as competition for capital and talent increases

Most relevant comparators

- **Clear signposting & investment from French government on importance of tech & unicorns to future economic plans**
 - ‘France 2030’ plan (budget c. £27bn from 2022-27), esp. prioritizing energy, transport & health, with tax deductions and grants
 - Yearly keynote by French President at Viva Technology (largest European Tech Conference)
- **Supported by strong focus on unlocking domestic funding**
 - Scheme matching institutional investors with accredited VCs (TIBI £17bn raised) & sovereign wealth fund (BPIFrance £32bn AUM)



- **Long-term approach to investment with certainty of funding over 10 years**
 - ‘Deep Tech & Climate Fund’ (budget c.£900m from 2023-2033) and ‘SPRIND’ providing funds & know-how to new ideas with long investment horizons (Budget c.£750m from 2023-2029)
- **Moves to improve regulatory innovation environment**
 - Pilot public data sandboxes with health, environmental & infrastructure data made available



- **Scale-up gap identified as widespread European challenge & tackled with funding**
 - Europe Tech Champions Initiative (c.£3.3bn budget, with ambition to grow to c.£9bn) channelling funds through established VCs in late-stage European scaleups to compete on a global scale



Significantly larger than UK

- **Strong focus on government procurement**
 - Mandating Federal agencies to allocate min. 3.2% of R&D budgets to the SBIR³ program for start-ups to develop IP
 - In-Q-Tel helping defence start-ups with funding & coaching on bidding for federal gov contracts
- **Significant tax credits promised to domestic clean tech via IRA**
 - c.£330bn towards net zero ambition with >50% directly benefitting corporations
- **History of substantial early-stage S&T funding (eg DARPA)**



- **Strong government guidance on priority sectors & investments behind those within dedicated geo clusters**
 - Set-up of more than 1,500 gov incubators (Torch programme) and ‘Government Guided Funds’ (c.£750bn since 2013) to support specialized tech clusters (eg pharma in Shanghai)



OC&C's interviews and analysis point to a series of challenges that innovative UK firms can face in realising their potential

Regulation

- UK regulators take an inherently risk-averse approach, with few structures or incentives in place to allow them to adequately support innovation. They too often default to a prescriptive approach with a lack of clarity on how regulation is applied to emerging technologies
- These issues are compounded by an under-resourced and fragmented regulatory environment that is hard for businesses to navigate

National Assets

- Access to public procurement is challenging for high-growth innovative firms. Processes are burdensome, the focus is too often on 'lowest cost' and there is low consideration for how innovative companies can be promoted within existing frameworks
- Multiple deep datasets exist in the UK, but are not often centralised/structured in a way that is conducive to commercial NPD
- The university system is world-leading, but the commercial arms of UK institutions are not appropriately structured to promote successful spin-outs. As an example, ownership structures are seen as prohibitively high compared to US comparators

Talent

- Although attracting talent is not a barrier for most high-growth UK firms, areas of friction do exist. These include issues with visa time and expense, talent gaps for Deep Tech/technical roles and UK graduates who lack commercial skills and nous
- Further, founders and investors experience challenges in finding growth leaders, pointing to the relatively small UK scale-up community with few opportunities for networking and mentoring

Funding Landscape

- Historically (last 5 years+) there hasn't been a significant barrier to accessing capital for the majority of businesses, including in later rounds. Later stage funding is, however, often sourced from abroad, which can lead to later pressure for a foreign acquisition or listing
- Access to capital is much harder for R&D intensive businesses at mid-sized check sizes and beyond, where there is a dearth of large expert VC funds with long-term investment horizons in the UK
- UK public markets continue to be seen as unattractive for many high-growth tech firms

Signalling

- There has been a lack of clear signalling on the sectors/tech where the UK will win, with frequent changes in direction
- International peers (including the US and France) have been much more consistent in sign-posting priorities, which provides greater confidence to the finance and business communities, allowing them to invest in growth

There are five themes which can support the next generation of Unicorns and Decacorns to thrive in the UK

Pro-Innovation Regulatory Approach

- Redress the balance across innovation:risk
- Become forerunners in regulation of new technology

Access to Brightest & Best

- Remove friction for global talent
- Empower private sector to domestically train and upskill
- Network and champion scale-up leaders

Unleash Institutional Investment

- Push UK institutional capital in to public and private equities

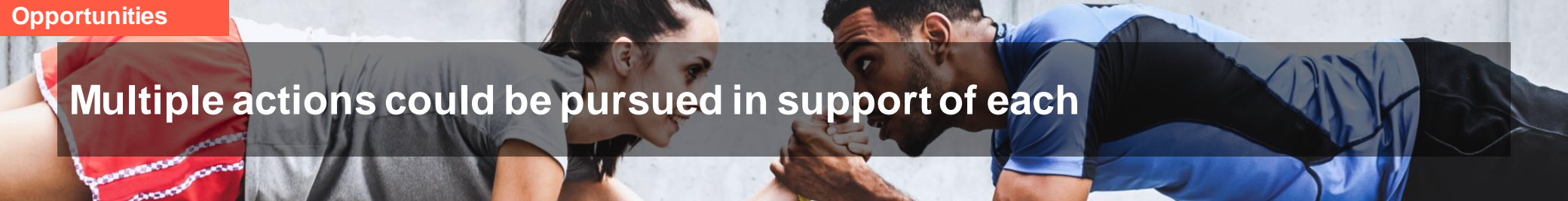


National Assets Pointed at Commercial Innovation

- Public procurement supporting innovative firms
- Work with private sector to harness power of public data
- University excellence into commercial spin-out success

Top-Down Sector / Tech Focus

- Clear and consistent signalling of sectors / technology where UK is going to win



Multiple actions could be pursued in support of each

Example Actions

Pro-Innovation Regulatory Approach

- Accelerate shift to outcomes-based approach
- Cross-sector governance hubs (eg AI)
- Champion regulators and invest in resourcing and upskilling
- International harmonisation
- Innovation duty

National Assets Pointed at Commercial Innovation

- Smarter promotion of scale-ups in public procurement frameworks
- Public data APIs & marketplace
- Best practice review of international spin-out success (focussed US)
- Reduction in start-up equity take-rates by universities

Access to Brightest and Best

- Automated visas focussed specifically for scale-ups
- Scale-up leadership network with direct line to Number 10
- Continuity plan for Global Talent visa
- Visa processing SLA times improved
- Introduce dual-track business & STEM degrees

Unleash Institutional Investment

- New sector-focussed funding vehicles pointed at late-stage
- DC fund consolidation to support greater equity allocation
- Accelerate capital market reforms
- Systematic review of equity funding gap by sector

Top-Down Sector / Tech Focus

- Consistency of signalling over longer-term time horizon
- Increase pace at which National Strategies developed

Thank you!



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