

# LONG-TERM INVESTMENT FOR TECHNOLOGY AND SCIENCE (LIFTS) RESPONSE

## CBI RESPONSE TO THE BRITISH BUSINESS BANK LIFTS INITIATIVE

### Introduction

The CBI welcomes the opportunity to respond to the Long-Term Investment for Science and Technology (LIFTS) initiative. The CBI is the UK's leading business organisation, speaking for some 190,000 businesses of all sizes, sectors, and regions, that together employ around a third of the UK private sector workforce.

We spoke to members in Science and Technology (S&T) scaleups and those across the wider ecosystem to develop this response.

We will continue engagement with members and would be happy to support engagement businesses as LIFTS develops. We will also share our upcoming research into how S&T scaleups can unlock more investment which is planned to in the coming months.

### Key feedback

#### There is support for the creation of LIFTS.

- Business is supportive of the LIFTS initiative. In the UK we have a strategic advantage in Science and Technology, however our businesses are under capitalised, particularly in comparison to the US. This is restricting potential of UK S&T scale ups and economic growth.
- Institutional investors are an underutilised source that can improve the supply of venture funding and have the long term perspective needed for S&T investments. A focus on tackling this challenge is welcome.

#### The British Business Bank has an important role to play in sharing investment risk.

- A common view from scaling S&T businesses is that institutional investors were cautious about investing in venture capital, particularly for high capital-intensive S&T companies, pioneering developments and when companies are pre-revenue.
- This was seen to be partly due to a lack of culture and history of investment into these areas and a preference for investment options perceived as less risky. This compares to the view that the US investment environment has a more entrepreneurial culture to investments, with more specialist investors set up to assess and manage the risk profiles and time horizons associated with these types of investments.
- Given the nature of venture capital investment, particularly in S&T, many felt the Bank's role in signalling and sharing investment risk could help crowd-in funding from institutions.

#### Investors have become more knowledgeable around S&T, however there remain few specialist long-term investors

- Our members believe investors have become more knowledgeable about investing in science and technology in the past ten years.
- However, there are only a few specialised S&T Venture Capital UK funds and they are small in size, particularly compared to the more mature US market, or the funding is for less capital intensive 'tech-enabled' investments rather than deep-tech.
- Venture Capital funding typically operates on shorter time frame (5-8 years) than deep tech investments need to reach successful commercialisation (typically 10 – 15 years). This can lead to an under-investment in the capital expenditure needed. Institutional investors are likely to want to

invest some of their assets in 'patient capital', and the Bank should also consider how S&T scaleups can benefit from these longer time horizons.

### **Funding is needed across sectors and sizes**

- Our members agree that there is a later stage funding gap (from Series C onwards) and that UK investors are unable to fund the larger investments that the US can, which is stifling UK scale ups' growth and opening up considerations of businesses relocating.
- However, there is also a lack of funding across S&T business stages, with a lack of earlier stage funding limiting scaleups in undertaking their necessary R&D spending.

### **Demand factors also need to be considered.**

- The Bank should also consider demand (the scale ups and their offer to investors) factors as well as the supply side factors. Some members noted how scaleups could improve their attractiveness and marketability to investors, with some scaleups focussing on the viability of the science and technology, without sufficient consideration or evidencing of the viability of the market opportunity or other factors investors would need to consider.

### **Investment needs to support our thriving regions.**

- To ensure LIFTS works for the whole of the UK, investment needs to support our thriving regions and S&T clusters. There was concern that institutional investors will focus where they have invested before rather than across the regions. If so, the Bank could help mobilise investors to generate the attractiveness and scale needed.