



Silicon Valley Bank

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U.K. STARTUP OUTLOOK 2016

# UK startups prepare for a new reality



# Letter from SVB's CEO

We are pleased to present Startup Outlook 2016, Silicon Valley Bank's annual report on the health of the innovation economy. For each of the past seven years, we have taken a survey of companies to learn what entrepreneurs are thinking about business conditions, access to capital and talent, and the policy issues that help or hinder their success.

This year, we are drawing on responses from more than 900 technology and life science executives, and for the first time we expanded the survey to China. SVB conducted the survey portion of the report in December 2015, just as significant market volatility was taking hold. They say timing is everything, and in the past several weeks it has become apparent that entrepreneurs' perceptions at the end of 2015 had already shifted by mid-January.

The public conversation about 2016 is filled with doom and gloom about the innovation sector, with exaggerated predictions of the death of unicorns, a funding crisis and lackluster results all around.

At Silicon Valley Bank, we see it differently. We think it's a healthy recalibration but it doesn't mean it's going to be easy for entrepreneurs.

Valuations were high, now they are coming back to earth. Growth at any cost is being replaced with a focus on profitability. Companies were priced for perfection, and we may see some stumble or even go out of business.

Entrepreneurs we speak with, while remaining naturally optimistic, are adopting a new attitude: Be prepared. They are pulling the reins tighter on operations and retooling strategies. They are anticipating a more balanced funding environment. They are considering M&A an even more viable exit strategy. In 2016, access to capital will get harder. But it's not supposed to be easy, and there will be opportunities for good companies with good ideas. That's healthy.

Thank you for taking a look at this report. We hope the findings can be useful as you chart your own path or follow this sector. Looking globally, the opportunities for innovation are abundant. Entrepreneurs are strong-willed men and women who want to have a positive impact on the world. That's never going to change.



**Greg Becker**

*President and CEO, Silicon Valley Bank*

After record levels of investment in 2015, UK startups are retooling strategies for a shifting economic environment, according to Silicon Valley Bank's annual outlook survey of technology and life science executives. Startups are saying no to a British exit from the EU (Brexit) and are planning to hire—but they expect that finding the right talent will continue to be difficult. An increasing number of businesses will pursue venture capital funding in 2016. As they plan their growth strategies, executives are being cautious. International market volatility and a tough start to the year have everyone keeping a close eye on what's next.

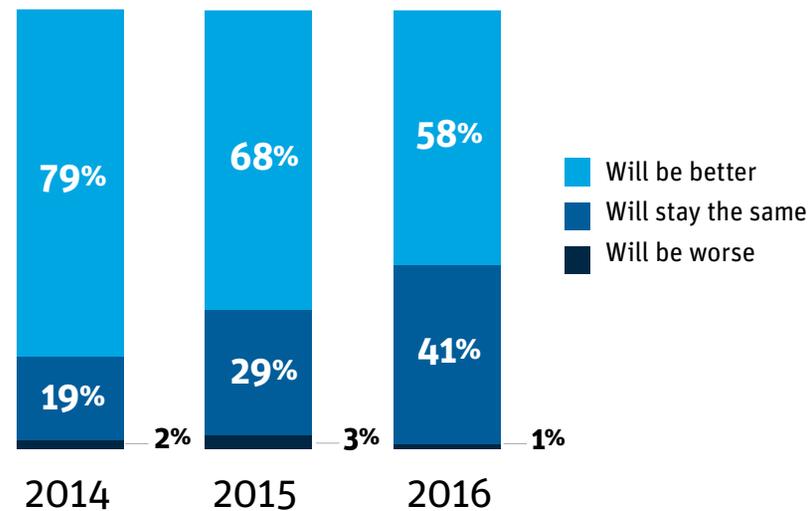
# Startups temper their positive outlook

Fifty-eight percent say business conditions will be better than 2015. That said, it represents a 21 percentage point drop over the last two years. Unbridled optimism has been replaced with rational restraint. “Startups focusing on solving real problems will succeed regardless of wider market perceptions,” a London medical devices executive said.

## Describe your outlook on business conditions for your company this year compared to last.

“There may be a valuation correction but the fundamentals are sound.”

– *Healthcare executive, London*



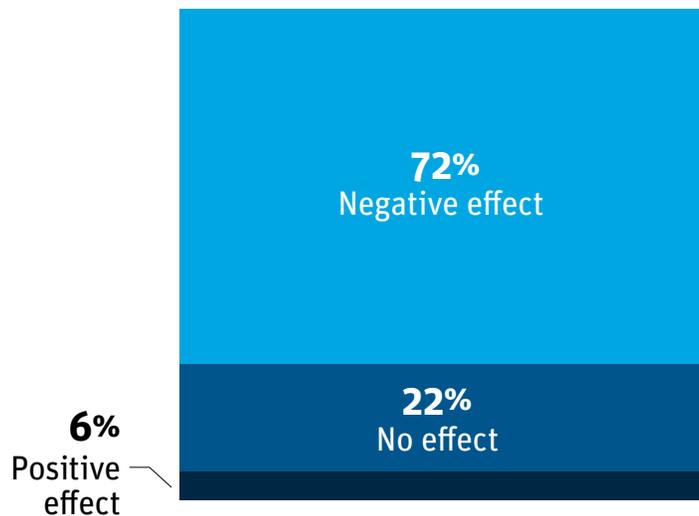
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# British startups oppose leaving the EU

Three-quarters of UK startups said that leaving the EU would have a negative effect on their business. “Leaving the EU would significantly reduce U.S. investment and jobs in the UK as they transfer their business to other EU countries,” a London hardware executive said.

UK fintech businesses think Europe holds the key to expansion, which could explain the lack of support for a Brexit. One fintech executive warned that “geopolitics can overshadow business matters in Europe.” Six percent of executives said the impact would be positive.

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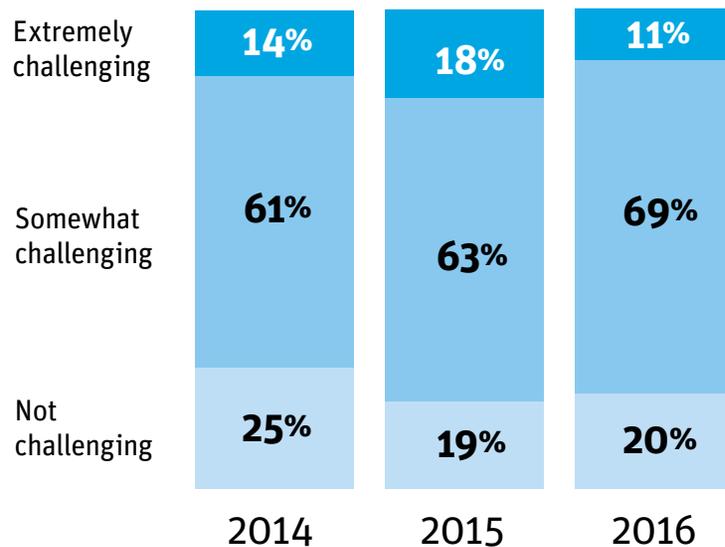


## Were the UK to leave the EU, what would the effect be?

Among the UK executives surveyed, 72% said leaving the EU would have a negative effect on their business, up from 64% the previous year.

# Raising capital continues to be challenging

Most UK executives (80 percent) said that the fundraising environment is extremely or somewhat challenging, and 25 percent named access to financing their biggest challenge. Raising money is always challenging, and tightening capital requirements often lead to healthier, more sustainable companies.



## What is your view of the current fundraising environment?

Among the UK startups surveyed, 80% believe the fundraising environment is challenging.

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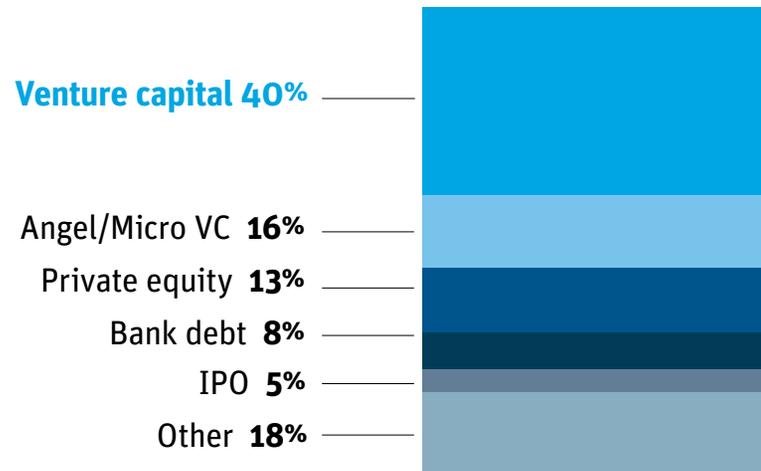
# Venture capital remains startups' top funding source

Survey respondents said they plan to seek venture capital over other funding sources. Forty percent of executives expected venture capital to be their next source of funding, with angel investment and private equity a distant second. We expect that venture fundraising will become more challenging in 2016 but that VC investment activity will remain healthy.

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## What do you expect your company's next source of funding will be?

Forty percent of UK innovation executives expected venture capital to be their next source of funding.



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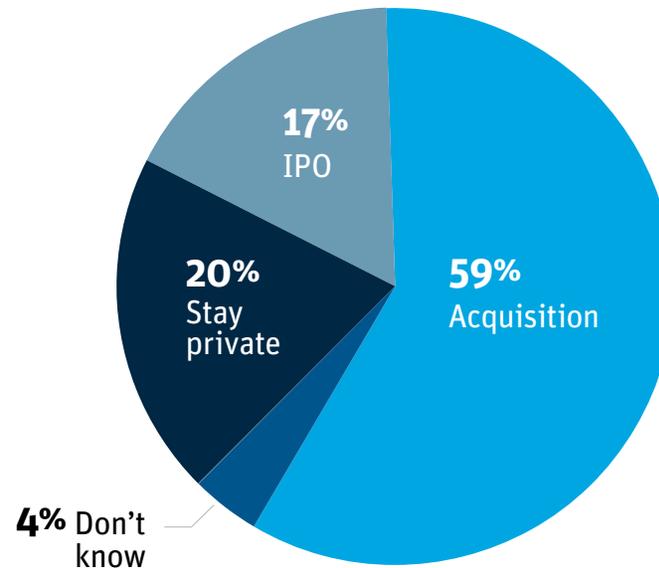
# More startups plan to be acquired than to go public

Acquisition eclipsed IPOs as the preferred exit strategy of entrepreneurs. Of the UK executives surveyed, 59 percent said their long-term goal is to be acquired, compared with just 17 percent who seek an IPO.

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## What is the realistic long-term goal for your company?

Acquisition is the long-term goal of 59% of the UK startups surveyed. Just 17% are aiming for an IPO.

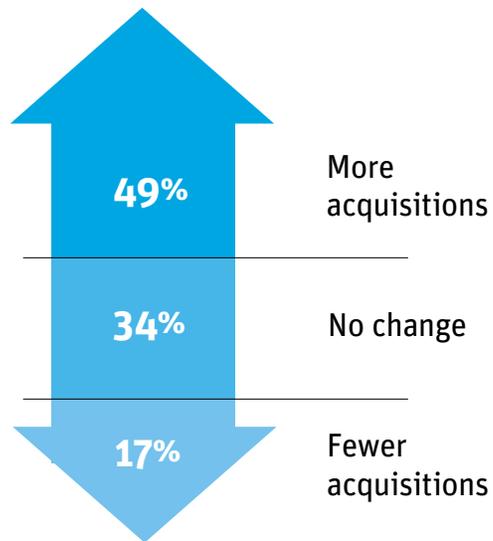


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# Innovators expect M&A to stay strong this year

A majority of startups said they expected the number of acquisitions to grow or stay the same. Many tech IPOs faltered in 2015, making M&A a more viable exit option. Also, reduced valuations make acquisitions more attractive for top acquirers that have plenty of cash on hand to make significant purchases.

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## How do you think the M&A market will change over the next 12 months?

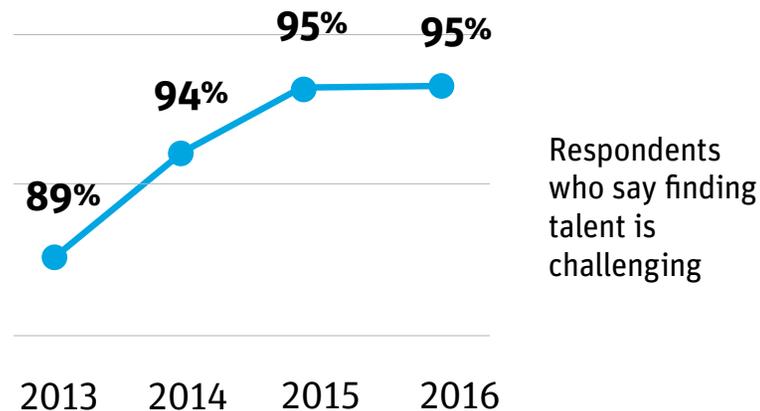
Of those surveyed, 83% said they expected acquisitions to equal or exceed those in 2015.

## It's hard to find the right talent

Ninety-five percent of executives said it's challenging to find people with the skills necessary to help grow their businesses—up 6 percentage points since 2013. After years of increasing difficulty finding the right talent, it's possible that the talent crunch has reached its peak and the very tight labor market may loosen. Even so, finding employees with the right skills will remain difficult in an overall environment of low unemployment rates.

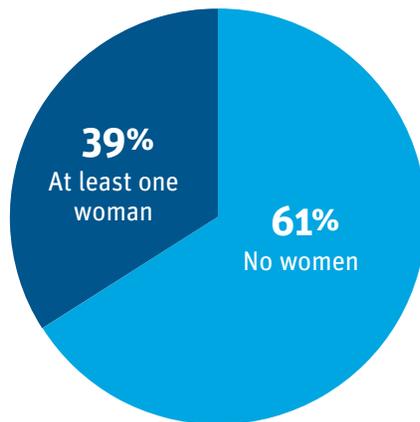
### How challenging is it to find workers with the skills necessary to grow your business?

Ninety-five percent of UK entrepreneurs say it's challenging to find the right talent, up from 89% in 2013.

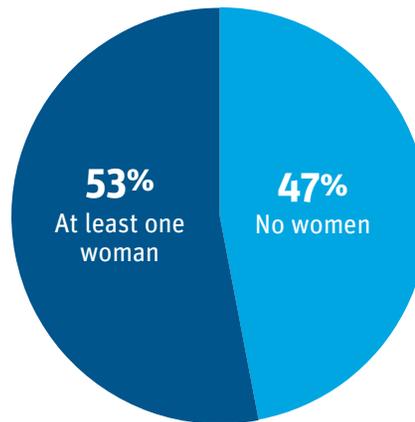


## Startups have few women in leadership positions

It's well documented that women are underrepresented in leadership positions: 61 percent of UK startups have no women on their boards, and nearly half (47 percent) lack women in executive positions. Just 15 percent say they have programmes in place to increase the number of women in leadership roles. Creating more diversity in the top ranks of all companies is an imperative, and the dialogue on how to make it happen needs to continue.



Women on the board



Women in executive positions

### How many women are in leadership positions within your company?

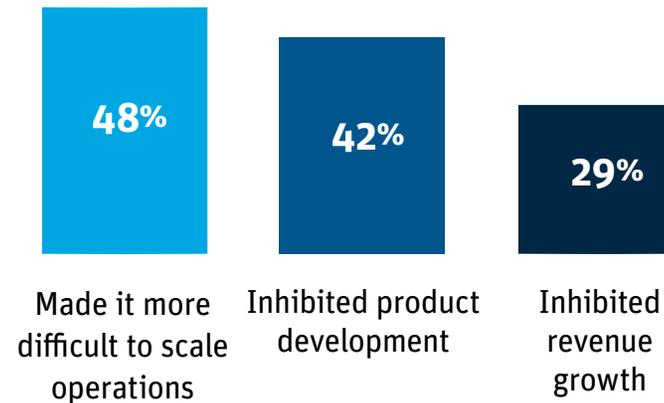
Almost two-thirds of UK startups don't have any women on their boards, and 47% have no women in executive positions.

## Lack of skilled workers hurts the bottom line

Of the leaders surveyed, 26 percent said recruiting is their biggest challenge. Half of the respondents said they're looking for sales skills, while engineering and technical skills, product development, and marketing skills are also critical needs in 2016. The lack of skilled workers creates measurable business impacts, such as inhibiting product development, making it harder to scale operations and inhibiting revenue growth.

### How has the lack of access to talent affected your company?

Innovation executives said the lack of skilled workers inhibited product development and made it difficult to scale operations.



Note: Respondents were given the opportunity to select multiple responses.

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# Access to talent is the No. 1 policy issue for startups

Nearly 60 percent of survey respondents said that access to talent is the most important public policy issue on their mind. “Access to foreign talent and [the] ability to bring people into the UK is the key,” a London fintech executive said. International trade, cybersecurity, consumer privacy regulations and use of independent contractors were also key policy issues.

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## What are the most important public policy issues affecting companies like yours?

UK startups say access to talent is the most important policy issue, followed by international trade.



- 1. Access to talent 57%**
- 2. International trade 40%**
- 3. Cybersecurity 29%**
- 4. Consumer privacy regulation 28%**
- 5. Employees vs. independent contractors 24%**

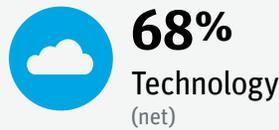
Note: Respondents were given the opportunity to select multiple responses.

# About the Startup Outlook 2016 survey

Our seventh annual survey of technology and healthcare executives offers insight into what’s on the minds of innovation leaders today. For this year’s survey, we received more than 900 responses, covering such topics as how innovation companies are faring, hiring projections and how government policies are affecting business growth.

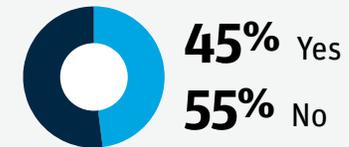
**Total respondents**  
**929**

### Industry sector

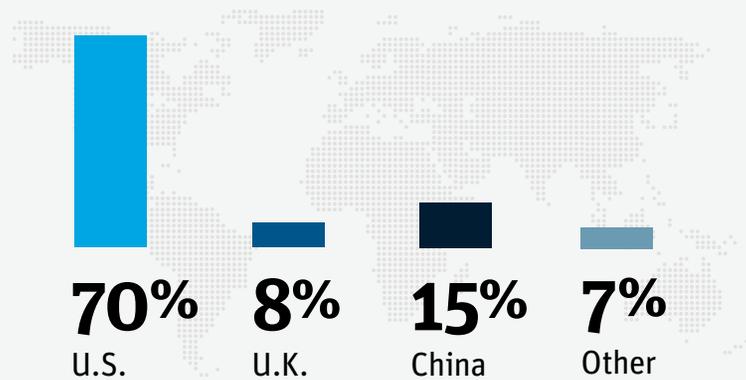


**17%**  
Other

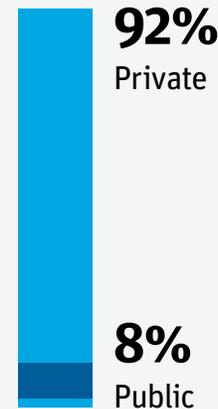
### Profitable



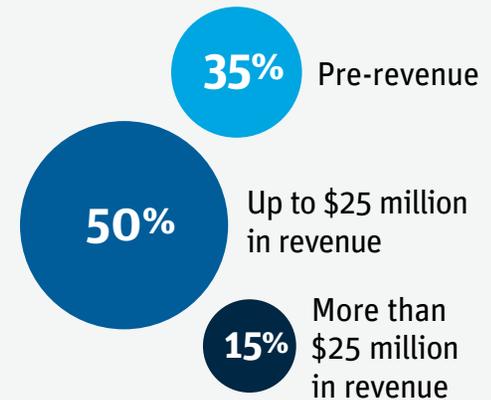
### Primary place of business



### Ownership



### Revenue stage





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## About Silicon Valley Bank

For more than 30 years, Silicon Valley Bank (SVB) has helped innovative companies and their investors move bold ideas forward, fast. Silicon Valley Bank is the California bank subsidiary of SVB Financial Group (Nasdaq: SIVB). With commercial, international and private banking services, SVB helps address the unique needs of innovators. Forbes named SVB one of America's best banks (2015) and one of America's best-managed companies (2014).

Silicon Valley Bank is the California bank subsidiary and commercial banking operation of SVB Financial Group (Nasdaq: SIVB) and a Member of the FDIC. Silicon Valley Bank and SVB Financial Group are members of the Federal Reserve System.

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A third-party firm, Peerless Insights Survey, conducted the Innovation Economy Outlook 2016 survey online on Silicon Valley Bank's behalf from November 12, 2015, to January 6, 2016.

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