

# Accelerating patient capital

[Kevin Baughan](#) and [Nick Bassett](#), 25 January 2018 - [Funding](#), [ISCF](#), [Support](#)

The [Patient Capital consultation](#) made interesting distinctions when it set out to understand the current UK landscape for financing growth in innovative firms. As you would expect, it looked into the economic factors which impact the supply and demand for ambitious long-term investment in innovative companies. But critically, it also looked into the factors that determine successful deployment and in particular the challenges of matching patient capital to the companies with the highest growth potential.

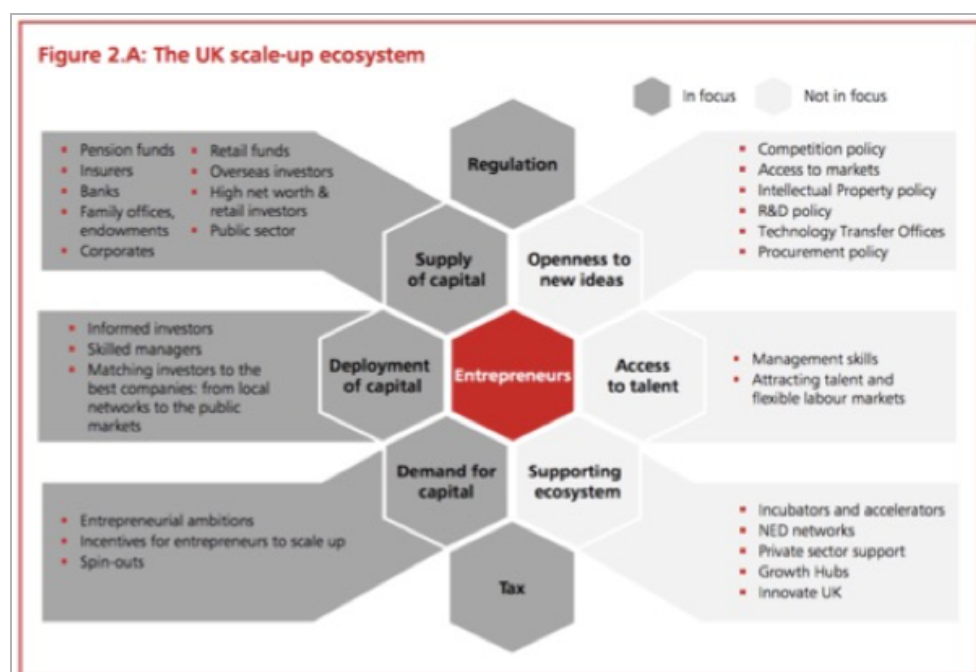


Fig 2.A - The UK scale-up ecosystem

## The key weakness identified - level of business R&D

The Patient Capital consultation also put its finger on a key weakness; the level of business R&D investment going into UK young companies versus the US despite the UK having a higher quality research base than the US upon which to attract that investment. The difference is stark. In the US, 45% of the Business R&D investment goes into young companies whilst in the UK it is only 15%. Three times as much of the R&D investment is going into young companies in America, compared to their counterparts here in Britain.

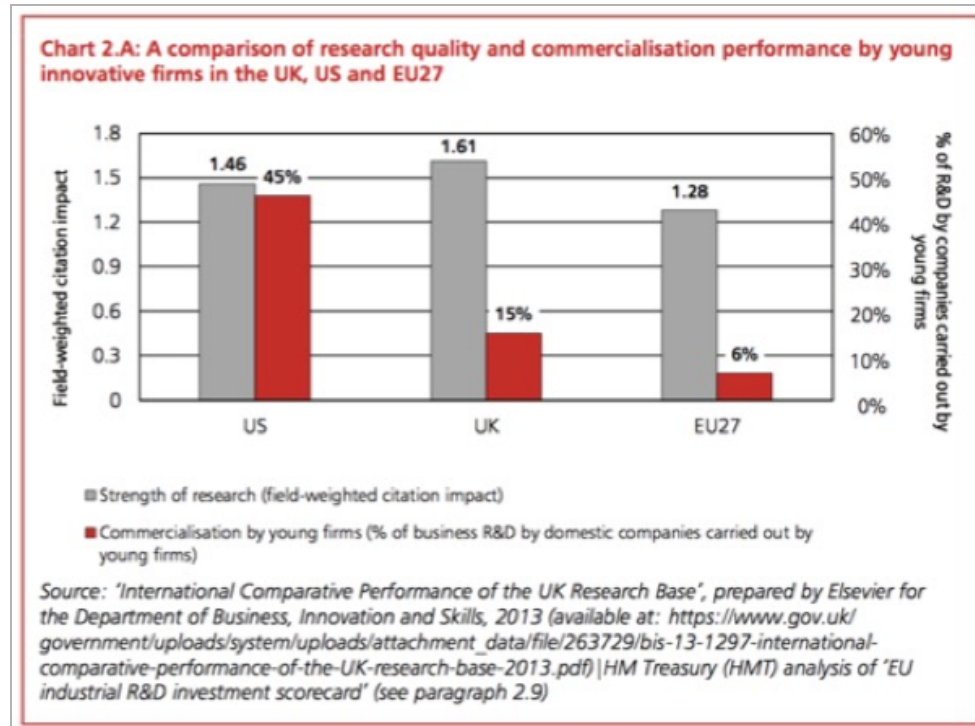


Chart 2.A: A comparison of research quality & commercial performance by young innovative firms in the UK, US & EU27

## Finding new solutions for accelerating patient capital deployment

The challenge for young companies in the UK is further compounded by the low level of our total R&D investment, which has plateaued around 1.7% of GDP for the last 20 years, whilst our global competitors such as the [US and Germany have increased their investment to 2.8% and 2.9% respectively](#). Finding new solutions to accelerating patient capital deployment is

going to be critical, if we are to compete more effectively globally.

To grow the industries of the future, we must harness the capabilities of innovative young companies.

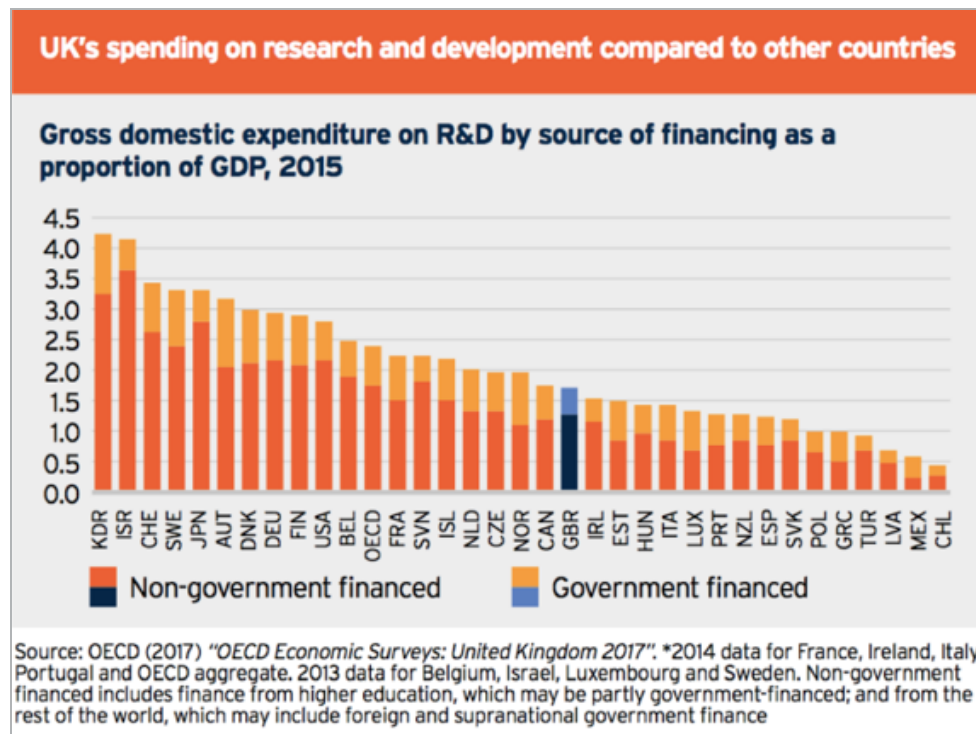


Chart showing UK's spending on research & development compared to other countries.

## 75% of R&D is carried out by just 400 businesses

The foundations for tackling this challenge have been set out by the government in its Industrial Strategy white paper where it set an important new policy ambition for the UK economy to lift its total investment in R&D over the next ten years to 2.4%, bringing it much closer to the OECD average.

This is a challenge which is more about breadth than depth. The UK has excellent examples of R&D intensive industries e.g. in auto, aero and pharma but as the white paper points out 75% of our private sector R&D is carried out by just 400 businesses.

We need a way to accelerate patient capital more broadly into young agile companies, which can drive growth and prosperity right across our economy.

## The demand is there but what is missing?

The demand is there, in Innovate UK we see it every day in the number of high quality applications we receive for our funding competitions. The long-term supply of finance has also been strengthened, with the government's industrial strategy laying out plans to make an additional £20bn available for innovative and high potential business.

What is missing are new ways to bring supply and demand for business R&D together in order to drive new patterns of capital deployment right across the UK economy.

Our [first of a kind Investment Accelerator](#) took on that challenge by bringing together:

- Innovate UK expertise at reaching out across the UK economy in order to identify high potential businesses with great technologies and market opportunities
- Venture Capital (VC) expertise at identifying the management teams and business plans which have the capability to realise that high growth potential
- Innovate UK grant funding to create a risk profile that crowds-forward private sector investment into early-stage R&D
- Venture Capital equity funding and expertise providing a higher likelihood of securing follow-on private sector growth funding for the company
- 100% project funding for the successful companies, with an offer combining grant funding from Innovate UK with matched equity funding from the VC

# Investment Accelerator pilot success

- The pilot competition received over 750 registrations, the majority of which were from businesses who had never approached Innovate UK before.
- From the registrations, we received over 220 applications with over 50 in the strand for Infrastructure and over 170 in the strand for Health & Life Sciences.
- From these applications, we are on course to securing over 40 joint investments by Innovate UK and our Venture Capital partners and will announce the successful winners shortly once contractual arrangements are complete.

## Feedback from our Venture Capital partners on the pilot

“ Longwall has been really excited to work on this Innovate UK initiative and has been impressed at the range and quality of companies that it has been able to review as potential investments.”

“ The Investment Accelerator has been an effective way for Mercia to meet a wide range of new companies and the grants have facilitated quick investment decision making.”

“ The Innovate Investment Accelerator enabled OSI to see more companies and invest in ones it otherwise would not have done, whilst providing additional funding for new projects in existing investments that may have been delayed.

You can [see the full list of Innovate UK Venture Capital partners](https://innovateuk.blog.gov.uk/2018/01/25/accelerating-patient-capital/) involved in the investment accelerator pilot 2017 here.”

# Create a step change in growth

The UK government has set itself the ambition to become the world's most innovative economy. We have the high potential companies and plans are in place to drive up the supply of patient capital. If we now align the core strengths of our public and private funding communities, through solutions such as the Investment Accelerator, we can break out of our historic investment bias and create a step change in growth across our economy.

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