The Importance of Exit via Acquisition to Venture Capital, Entrepreneurship, and Innovation

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Abstract

Antitrust regulators around the world, including in the UK, have proposed changes to merger review policies that impact how acquisitions of start-ups would be investigated and evaluated. Such changes will likely lead to heightened scrutiny—and increased costs and longer reviews—for many acquisitions, including both horizontal and non-horizontal mergers. In evaluating the merits of such changes, it is critical to take into account the important role that exit via acquisition plays in providing incentives for venture capital (VC) investment and entrepreneurship. This article seeks to provide context for evaluating the effects of such proposed changes. First, it documents the links among VC, entrepreneurship, and innovation, and how exit via acquisition can foster dynamic innovation, one of the stated goals of the CMA. Second, it identifies additional consumer benefits derived from acquisitions of small companies by larger companies. Third, it describes VC investment in the UK, including the favourable, yet fragile, position that the UK holds as a VC hub for continental Europe. Finally, it documents the recent increased diversity in VC investment and entrepreneurship in the UK, which could be curbed by the proposed changes.

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I. INTRODUCTION

Antitrust regulators around the world have recently proposed changes to merger review policies and enforcement strategies that have implications for how acquisitions of start-ups are investigated and evaluated. The UK's Competition and Markets Authority (CMA) has been particularly active in this respect. In February 2021, the CMA published its revised 'Digital Markets Strategy.' Among other stated strategies, the CMA outlined its goals for the newly established Digital Markets Unit (DMU). The overarching goal of the DMU is to 'deliver a step-change in the regulation and oversight of competition in digital markets and in turn drive dynamic innovation.'[1] As part of this expanded enforcement effort, the CMA stated: 'We expect to be an increasingly active enforcer in relation to digital markets, in part due to the fact that we are now taking on digital enforcement cases and mergers which would previously have fallen under the jurisdiction of the European Commission.'[2]

In March 2021, the CMA issued revised Merger Assessment Guidelines, which clarify the CMA's approach to evaluating 'sectors that are characterised by fast-moving technological and commercial developments.' The CMA stated that, when evaluating such transactions, 'the absence of certain types of evidence such as historical data will not in itself preclude the CMA from concluding that the [substantial lessening of competition] test is met.'[3]

These changes will likely lead to heightened scrutiny—and increased costs and longer reviews—for many acquisitions, including both horizontal and non-horizontal mergers.[4] In evaluating the merits of such changes, it is critical to take into account the important role that exit via acquisition plays in providing incentives for venture capital (VC) investment and entrepreneurship, and more broadly in driving dynamic innovation—one of the stated goals of the CMA.[5]

This article seeks to provide context for evaluating the effects of such proposed rule changes. First, the article provides an overview of the VC ecosystem and the link between VC investments and

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1 'The CMA's Digital Markets Strategy', CMA, February 2021, p. 7, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/959399/Digital_Markets_Strategy.pdf.

2 'The CMA's Digital Markets Strategy', CMA, February 2021, p. 11, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/959399/Digital_Markets_Strategy.pdf.

3 'Merger Assessment Guidelines', CMA, 18 March 2021, p. 14, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1011836/MAGs_for_publication_2021_--.pdf.

4 'Joint statement on merger control enforcement', CMA, 20 April 2021, available at https://www.gov.uk/government/publications/joint-statement-by-the-competition-and-markets-authority-bundeskartellamt-and-australian-competition-and-consumer-commission-on-merger-control/joint-statement-on-merger-control-enforcement.

5 'The CMA's Digital Markets Strategy', CMA, February 2021, p. 7, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/959399/Digital_Markets_Strategy.pdf.

innovation. Second, the article identifies consumer benefits that acquisitions by large companies of younger, smaller companies can provide beyond simply the impact on incentives for VC investment. These dynamics highlight the beneficial role that acquisitions of smaller firms by larger firms play in the economy, particularly in driving innovation. Third, the article describes the context in which VC investment in the UK occurs, including the favourable, yet fragile, position that the UK holds as a VC hub for continental Europe. Finally, it provides background on the recent push for increased diversity in VC investing in the UK—not just geographically, but also for individuals of diverse backgrounds—which is important context given that rule changes might have an especially negative impact on newer VC investments.

II. THE LINK BETWEEN VENTURE CAPITAL, EXITS AND INNOVATION

Realising returns on their investment and effort is an important, if not primary, incentive for entrepreneurs and their investors. This realisation of returns on investment occurs through what is commonly referred to as 'exit from entrepreneurial ventures.' Forms of exit include acquisitions, initial public offerings (IPOs), special purpose acquisition company (SPAC) listings and buyouts. Due to the nature of the current VC ecosystem, these exit opportunities, and in particular exits via acquisition, are critical drivers of entrepreneurship and innovation.[6]

A. The Role of Exits in Venture Capital

To evaluate the role of exit opportunities for entrepreneurship and innovation, it is necessary to first describe the VC model and its incentive structure.

VC firms typically raise closed-end funds from institutional and wealthy individual investors through a limited partnership. VC firms then invest those funds in young, privately held, high-growth firms, commonly in exchange for an equity stake.[7]

VC funds have finite lives—typically eight to ten years.[8] Venture capitalists typically have five years to invest the capital and the remaining period to work with founders to grow the venture and earn returns on their investments.[9] At the end of the fund's duration, capital and gains, if applicable, are then returned to the limited partners. The ultimate goal for investors in VC funds is realising

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6 Gary Dushnitsky and D. Daniel Sokol, *Mergers, Antitrust, and the Interplay of Entrepreneurial Activity and the Investments That Fund It*, USC Law Legal Studies Paper No. 21-35 (June 2021).

7 Bronwyn H. Hall and Josh Lerner, *The Financing of R&D and Innovation,* 1 HANDBOOK OF THE ECONOMICS OF INNOVATION, 609-639 (2010); Gary Dushnitsky and D. Daniel Sokol, *Mergers, Antitrust, and the Interplay of Entrepreneurial Activity and the Investments That Fund It*, USC Law Legal Studies Paper No. 21-35 (June 2021).

8 Josh Lerner and Ramana Nanda, *Venture Capital's Role in Financing Innovation: What We Know and How Much We Still Need to Learn*, 34 JOURNAL OF ECONOMIC PERSPECTIVES, 237-261 (2020).

9 Josh Lerner and Ramana Nanda, *Venture Capital's Role in Financing Innovation: What We Know and How Much We Still Need to Learn*, 34 JOURNAL OF ECONOMIC PERSPECTIVES, 237-261 (2020); Gary Dushnitsky and D. Daniel Sokol, *Mergers, Antitrust, and the Interplay of Entrepreneurial Activity and the Investments That Fund It*, USC Law Legal Studies Paper No. 21-35 (June 2021). We also note that other funders play a role at different stages of the entrepreneurial ecosystem—angels, angel groups, and corporate venture capital, for example.

the return on their investment either by selling the venture to a corporate acquirer or through a public equity markets sale.[10] Near the end of the fund's life, successful VC firms typically seek to raise follow-on funds from investors to begin a whole new cycle of investment in other younger, smaller firms.[11]

Present-day entrepreneurship is heavily dependent on the availability and ease of exit opportunities—both because exit opportunities incentivise VC investments given VC firms' ultimate objectives and because of the incentives for entrepreneurs themselves.[12]

VC firms benefit from successful exits of their ventures in at least two ways. First, venture capital firms are compensated through a share of the capital gains they generate (typically 20%, but sometimes up to 30%).[13] Second, a history of successful exits can establish a venture capitalist's reputation and improve future business for the VC firm through additional capital and less time spent fundraising.[14]

The prospect of a successful exit is also the primary motivation for entrepreneurs. Of a sample of start-up founders and executives in the UK, 76% cite acquisition or IPO as their company's long-term goal, while only 11% aim to remain private.[15]

Exits via acquisition account for the vast majority of non-shutdown exits by start-ups.[16] Moreover, acquisitions are often the only viable loss mitigation strategy for VC ventures that have generated a potentially useful product or service but lack a viable path to monetisation. Such start-ups generally are not viable candidates for IPOs. In the absence of loss mitigation exits via acquisitions, such start-ups would shift from partial losses to total losses, just like shutdowns. A significant increase in the fraction of VC portfolios expected to result in total losses would likely force VC firms to scrutinise start-ups more carefully, reduce investment in marginal start-ups, and reduce aggregate investment in start-ups.

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[10] Bronwyn H. Hall and Josh Lerner, *The Financing of R&D and Innovation,* 1 HANDBOOK OF THE ECONOMICS OF INNOVATION, 609-639 (2010).

[11] Paul A. Gompers, *Grandstanding in the venture capital industry*, 42 JOURNAL OF FINANCIAL ECONOMICS, 133-156 (1996).

[12] Gary Dushnitsky and D. Daniel Sokol, *Mergers, Antitrust, and the Interplay of Entrepreneurial Activity and the Investments That Fund It*, USC Law Legal Studies Paper No. 21-35 (June 2021).

[13] Capital gains are in addition to management fees (commonly between 1.5-2.5% of capital under management and less in more recent years). Josh Lerner and Ramana Nanda, *Venture Capital's Role in Financing Innovation: What We Know and How Much We Still Need to Learn*, 34 JOURNAL OF ECONOMIC PERSPECTIVES, 237-261 (2020).

[14] Paul A. Gompers, *Grandstanding in the venture capital industry*, 42 JOURNAL OF FINANCIAL ECONOMICS, 133-156 (1996).

[15] '2020 Global Startup Outlook', Silicon Valley Bank, 2020, p. 7, available at https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/startup_outlook_report/suo_global_report_2020-final.pdf.

[16] 92% of all U.S. non-shutdown venture-backed exits from 2004-2020 were mergers and acquisitions. 'NVCA 2021 Yearbook', NVCA, 2021, pp. 39-40, available at https://nvca.org/wp-content/uploads/2021/03/NVCA-2021-Yearbook.pdf.

B. VC Investments and Impact on Innovation

VC funding has contributed to such key technological innovations as mainframe computing in the 1960s; personal computing in the late 1970s; biotechnology in the 1980s; internet and e-commerce in the 1990s; 'smart' mobile communications technologies and cloud computing in the 2000s; and several novel products and business models in the 2010s, including mobile apps, fintech, software as a service, and 'sharing economy' platforms.[17]

VC is an important source of funding for many entrepreneurs. Through their support of entrepreneurship, VC funds have a significant impact on innovation. Beyond venture capitalists identifying promising business models and enabling their success through financing, research on VC in Europe and the US finds that VC actively stimulates post-deal innovation.[18]

A common, although admittedly incomplete, measure of the impact of VC funding on innovation in the academic literature is patents. A study of VC investment in several European countries, including the UK, found that a higher level of VC investment leads to more patent applications in that country.[19] A study of a US pension fund policy change in 1979 that stimulated VC fundraising found that VC investment was associated with significantly higher patent rates. Although VC funding accounted for less than 3% of US corporate R&D from 1983-1992, researchers estimated VC funding to be responsible for around 8% of US patents over this period, which indicates that a dollar of venture capital appears to be three times more valuable than a dollar of corporate R&D.[20] A recent study of US firms' patenting outcomes found that VC-backed firms were between two and three times more likely to have 'higher quality' patents, as measured by citations, originality, generality and closeness to science.[21]

VC firms' contribution to innovation is not limited to financing, but also stems from direct interactions between VC investors and portfolio companies after investment. A US study that examined variation in available airline flights between VC firms and their portfolio companies found that shorter flight times were associated with more patents, more patent citations and more successful exits.[22] Another study of US public firms as of 2019 found that firms backed by VC

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[17] Josh Lerner and Ramana Nanda, *Venture Capital's Role in Financing Innovation: What We Know and How Much We Still Need to Learn*, 34 JOURNAL OF ECONOMIC PERSPECTIVES, 237-261 (2020); 'Recalling Apple's VC-Funded Past', PitchBook, 14 September 2012, available at https://pitchbook.com/newsletter/recalling-apples-vc-funded-past.

[18] Ana Faria and Natália Barbosa, *Does Venture Capital Really Foster Innovation?* 122 ECONOMICS LETTERS, 129-131 (2014); Samuel Kortum and Josh Lerner, *Assessing the Contribution of Venture Capital on Innovation*, 31 RAND JOURNAL OF ECONOMICS, 674–692 (2000); Shai Bernstein et al., *The Impact of Venture Capital Monitoring*, 71 THE JOURNAL OF FINANCE, 1591-1622 (2016).

[19] Ana Faria and Natália Barbosa, *Does Venture Capital Really Foster Innovation?* 122 ECON. LETTERS 129-131 (2014).

[20] Samuel Kortum and Josh Lerner, *Assessing the Contribution of Venture Capital on Innovation*, 31 RAND JOURNAL OF ECONOMICS, 674–692 (2000).

[21] Sabrina T. Howell et al., *How Resilient is Venture-Backed Innovation? Evidence from Four Decades of U.S. Patenting*, National Bureau of Economic Research (NBER) Working Paper No. 27150 (May 2020).

[22] Shai Bernstein et al., *The Impact of Venture Capital Monitoring*, 71 THE JOURNAL OF FINANCE, 1591-1622 (2016).

prior to their IPOs accounted for 89% of R&D expenditure, even though they accounted for only 56% of the firms overall and 53% of aggregate revenue.[23]

Empirical findings also provide support that the end of the VC investment cycle, via acquisition or other exits, further incentivises and drives entrepreneurship and innovation.[24] A recent study found that, within an industry, European VC funding increases in the short term following a 'big tech' acquisition in that industry.[25] In a study of both country and US state-level takeover laws, researchers found that laws intended to make M&A markets more attractive led to significant increases in VC deals, while antitakeover laws led to significant decreases in VC deals.[26] Additionally, in a US study, R&D within small firms has been shown to be responsive to changes in acquisition activity in related industrial sectors.[27]

C. Maintaining Incentives for Venture Capital Investment in Entrepreneurship and Innovation

The VC ecosystem is an important stimulator of entrepreneurship and innovation, providing funding for early-stage ventures that may not be appropriate for the risk profiles of larger corporations. VC funding is designed to generate returns on these inherently risky investments through exit strategies that depend on a business developing over a few years' time to the point where it is attractive to an acquirer or (more infrequently) capable of going public. These exits then enable new rounds of VC investment in other young firms and entrepreneurs. Rule changes and enforcement actions that treat almost any acquisition as a nascent competitor, rather than as a potential complementor, are likely to make acquisitions more difficult and more costly, and so pose a serious risk of disincentivising an important source of investment for entrepreneurs.

III. CONSUMER BENEFITS WHEN LARGER FIRMS ACQUIRE SMALLER FIRMS

In addition to providing economic incentives to founders and investors for pursuing entrepreneurship, the acquisition of smaller firms by larger firms provides other significant benefits to consumers.

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[23] Josh Lerner and Ramana Nanda, *Venture Capital's Role in Financing Innovation: What We Know and How Much We Still Need to Learn*, 34 JOURNAL OF ECONOMIC PERSPECTIVES, 237-261 (2020).

[24] Gordon M. Phillips and Alexei Zhdanov, *Venture Capital Investments and Merger and Acquisition Activity Around the World*, NBER Working Paper No. 24082 (November 2017).

[25] Tiago S. Prado and Johannes M. Bauer, *Effects of Big Tech Acquisitions on Start-up Funding and Innovation,* Quello Center Working Paper No. 04-21 (August 2021).

[26] Gordon M. Phillips and Alexei Zhdanov, *Venture Capital Investments and Merger and Acquisition Activity Around the World*, NBER Working Paper No. 24082 (November 2017).

[27] Gordon M. Phillips and Alexei Zhdanov*, R&D and the Incentives from Merger and Acquisition Activity,* NBER Working Paper No. 02138 (August 2012).

A. Why Larger Firms Need Smaller Firms' Innovation

Large firms often rely on acquisitions to foster innovation. This is partly because smaller firms are often more successful at prioritising the innovation process than larger firms and undertake riskier types of breakthrough innovation. There are several reasons why.[28]

Larger firms do well with routinised processes that come with scale, but are less nimble given their size, and thus often are better equipped to enact incremental change and are less adept at radical innovation.[29] Large firms, in turn, can help smaller firms bring products to market and scale at an efficient cost.[30] Smaller firms may not have the expertise or resources to do this on their own, and consumers benefit from having quicker and lower-cost access to new products. Acquired firms benefit from the acquiring firm's maturity and resources, putting them in the position of a more-developed company without the cost and time it usually takes to get to that stage.[31] As a result, the acquired company receives support, strategic planning and opportunities for market scale that would not be available on the same timeline otherwise.[32] These efficiencies often may not be possible through other means, such as bilateral contracts, alliances or joint ventures, due to contractual inefficiencies and 'holdup' problems that can occur with non-integrated entities.

In addition, larger firms have more stakeholders and oversight compared to entrepreneurs. As a result, decisions at larger firms may face increased scrutiny, and investing in unproven ideas may lead to concern. Large firms face pressure to generate returns on invested capital, and that can disincentivise them from engaging in risky enterprises or meaningfully investing in new ideas. By relying on entrepreneurial ventures to innovate, large firms shift risk away to smaller innovation hubs, while retaining their ability to offer products at scale to the benefit of consumers. Larger firms can then save resources for innovations that will most likely be successful, investing in more-developed ideas.[33]

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[28] Gary Dushnitsky and D. Daniel Sokol, *Mergers, Antitrust, and the Interplay of Entrepreneurial Activity and the Investments That Fund It*, USC Law Legal Studies Paper No. 21-35 (June 2021).

[29] Gary Dushnitsky and Michael J. Lenox, *When do Firms Undertake R&D by Investing in New Ventures?* 26 STRATEGIC MANAGEMENT JOURNAL, 948–949 (2005) ('[E]ntrepreneurial ventures are likely to be the source of highly valuable and innovative ideas.').

[30] Gary Dushnitsky and D. Daniel Sokol, *Mergers, Antitrust, and the Interplay of Entrepreneurial Activity and the Investments That Fund It*, USC Law Legal Studies Paper No. 21-35 (June 2021); Marc Goedhart, Tim Koller, and David Wessels, 'The six types of successful acquisitions', McKinsey & Company, 2017, available at https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-six-types-of-successful-acquisitions.

[31] Richard T. Harrison and Colin M. Mason, *Venture Capital 20 years on: reflections on the evolution of a field*, 21 VENTURE CAPITAL, 1-34 (2019).

[32] 'What is an Acquisition?', Corporate Finance Institute, available at https://corporatefinanceinstitute.com/resources/knowledge/deals/acquisition; Bruce Nolop, 'Rules to Acquire By', Harvard Business Review, September 2007, available at https://hbr.org/2007/09/rules-to-acquire-by.

[33] Matthew Higgins and Daniel Rodriguez, *The Outsourcing of R&D through Acquisitions in the Pharmaceutical Industry*, 80 JOURNAL OF FINANCIAL ECONOMICS, 351-383 (2006).

As one example, an entrepreneur with VC funding may make sizable investments in a new product or firm. Even if the project ultimately fails to offer a return, the broader impact may be relatively minimal—risk is built into the VC business model, and is an inherent component of the investment strategy where many bets are made in anticipation that only a few will pay off.[34] However, if a division of a large company makes such an investment and incurs a loss, that may have significant repercussions on quarterly revenue and, in the case of public companies, consequent pressure on the share price if not outright investor action. Shifting risk outside the boundaries of established firms encourages ambitious investments from entrepreneurs, and then acquisitions enable promising ventures to develop further and integrate with complementary assets of the acquirer.

B. Innovation Multiplier Effects of Acquisitions

Exit through acquisition can create 'multiplier' effects by stimulating further entrepreneurship and associated innovation. This creates further benefits for consumers within the same dynamic ecosystem, which, in turn, leads to societal benefits such as job creation, increased standard of living and overall economic growth.[35]

When an entrepreneur's company is acquired, there are at least three potential multiplier effects.

First, the entrepreneur and the associated backing VC investors may use the returns realised in the acquisition to move on from that venture and fund additional ventures. The capital invested in and generated from the original venture thus continues to fund ideas and companies, generating further innovation in the space.[36] For example, a study from Bain & Company found that 'independent venture capital firms and corporate venture funds that sold 11% to 20% of their start-up portfolio invested in 40% more deals than funds that sold 10% or less of their portfolio.'[37]

Second, the entrepreneur's company may have valuable employees, and the acquiring firm may leverage this talent as part of their own expansion. This practice, known as 'acquihiring,' has been increasing in popularity.[38] Acquihires can be a result of a competitive hiring environment, in which the fastest and most reliable way to secure talent is through acquiring an entire company.[39]

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[34] Deborah Gage, 'The Venture Capital Secret: 3 Out of 4 Start-Ups Fail', Wall Street Journal, 20 September 2012, available at https://www.wsj.com/articles/SB10000872396390443720204578004980476429190.

[35] David Ahlstrom, *Innovation and Growth: How Business Contributes to Society*, 24 ACADEMY OF MANAGEMENT PERSPECTIVES, 10-23 (2010).

[36] D. Daniel Sokol, *Vertical Mergers and Entrepreneurial Exit*, 70 FLORIDA LAW REVIEW, 1357-1378 (2019); 'Small Business Equity Tracker 2021', British Business Bank, June 2021, p. 53, available at https://www.british-business-bank.co.uk/wp-content/uploads/2021/06/Equity-Tracker-2021-Final-report-1.pdf; 'The State of European Tech', Atomico, 2020, p. 178, available at https://soet-pdf.s3.eu-west-2.amazonaws.com/State_of_European_Tech_2020.pdf.

[37] 'Technology Report 2021', Bain & Company, 2021, p. 21, available at https://www.bain.com/globalassets/noindex/2021/bain_report_technology-report-2021.pdf.

[38] Aaron Chatterji and Arun Patro, *Dynamic Capabilities And Managing Human Capital*, 28 ACADEMY OF MANAGEMENT PERSPECTIVES, 395–408 (2014).

[39] Kyle Mayer and Jaclyn Selby, *Startup Firm Acquisitions as a Human Resource Strategy for Innovation: The Acqhire Phenomenon*, 2013 ACADEMY OF MANAGEMENT PROCEEDINGS (2013).

Acquihires bring on key talent as a source of innovation separate from technological offerings that acquired firms provide. Moreover, this talent and the associated knowledge may also get dispersed across an organisation, creating an internal multiplier effect for human capital in ways that are important but difficult to measure.

Third, the acquisition may result in 'spin-off' firms. A spin-off firm refers to a venture carried out by a former employee of a large firm.[40] Such an employee will leave a large, successful firm, and begin a new venture entirely separate from the parent company. Evidence from academic literature has found that acquired firms are more likely to generate spin-offs than non-acquired firms,[41] and employees of high-growth and VC-backed acquired firms are more likely to return to the start-up sector than employees who had been hired previously at the acquiring firm.[42] Relatedly, academic literature has found that having workplace peers who have been entrepreneurs increases the likelihood of pursuing their own entrepreneurial opportunities.[43] Moreover, given that spin-offs by definition are start-ups that emerge from employees from larger firms, they tend to combine the skills and knowledge from the larger firms with the ambitions of entrepreneurial ventures.

The entrepreneurial ecosystem is one that continually supports itself and provides ways to continue innovation. Successful entrepreneurs have ever-increasing opportunities to innovate over time, whether through acquisitions, through spin-offs or from the founding of new ventures that eventually mature into successful firms.

C. Additional Benefits for Consumers and Competition

The positive effects flowing from the acquisition of innovative and entrepreneurial companies are not limited to supporting incentives for VC investment. When large firms acquire smaller firms, consumers may also benefit from having greater access to more diverse sources of innovation and to a broader range of products that can be brought to market more quickly and more efficiently. Moreover, acquisitions can enable multiplier effects that cause these benefits to proliferate through further entrepreneurship and innovation. This cycle of investment, development, exit, and reinvestment can create a more dynamic and diverse marketplace that is the driver of even greater competition.

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[40] Steven Klepper and Sally Sleeper, *Entry by Spinoffs,* 51 MANAGEMENT SCIENCE, 1291–1306 (2005).

[41] Steven Klepper and Sally Sleeper, *Entry by Spinoffs,* 51 MANAGEMENT SCIENCE, 1291–1306 (2005).

[42] J. Daniel Kim, *Startup Acquisitions as a Hiring Strategy: Worker Choice and Turnover*, SSRN Scholarly Paper ID 3252784 (March 2020); Weiyi Ng and Toby Stuart, *Acquihired: Retained or Turned Over?* SSRN Scholarly Paper ID 3461723 (September 2019).

[43] Ramana Nanda and Jesper B. Sørensen, *Workplace Peers and Entrepreneurship*, 56 MANAGEMENT SCIENCE, 1116-1126 (July 2010).

IV. THE UK IS WELL-PLACED TO COMPETE GLOBALLY IN THE DIGITAL SPACE

The UK, and London in particular, is well-established as one of the leading locations for start-ups and VC investment, often following only behind the US-based hubs of Silicon Valley and New York City in rankings of start-up ecosystems and VC investment flows.[44] This leadership outside of the US stems not only from London's traditional place as a global financial centre, but also from a supportive regulatory environment and access to highly trained human capital.

A. UK Regulatory Environment

The UK's strength as a hub for start-ups and VC investment stems in part from initiatives and a regulatory framework designed to foster innovation and business development.[45] These supportive policies target different aspects of innovation development, from R&D to VC funding facilitation to creating environments conducive to new business growth, including the following:

- **Public sector stimuli**, through organisations such as UK Research and Innovation (UKRI).[46] The UKRI's Industrial Strategy Challenge Fund is backed by £2.6 billion of public funds with matched funding of £3 billion from the private sector to directly invest in projects across different regions in the UK in various key emerging sectors, including clean growth and artificial intelligence (AI).[47] The UKRI further supports the entrepreneurial ecosystem via initiatives such as the Future Leaders Fellowships aimed at supporting the next generation of entrepreneurs.[48] In 2019, the UK government also launched the AI Sector Deal with dedicated funding of nearly £1 billion for the sector alongside an action plan for promoting the adoption of AI in the UK economy.[49]
- **Regulatory frameworks for new ventures to launch.** The UK Financial Conduct Authority's (FCA's) 'regulatory sandbox' programme is designed to allow new businesses to test their innovations in the market with real consumers, but in a controlled environment with the aim of reducing time-to-market and developing new regulatory frameworks to support new products and services.[50] Launched in 2016, the

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[44] *See, e.g.*, 'Ecosystems, London', Startup Genome, available at https://startupgenome.com/ecosystems.

[45] 'London Tech Week 2019 (Update)', Dealroom, 11 June 2019, p. 14, available at https://dealroom.co/uploaded/2020/06/londontechweek2019.pdf?x20197.

[46] 'Regional distribution of funding', UK Research and Innovation, available at https://www.ukri.org/about-us/what-we-do/funding-data/regional-distribution-of-funding/.

[47] 'Industrial Strategy Challenge Fund', UK Research and Innovation, available at https://www.ukri.org/our-work/our-main-funds/industrial-strategy-challenge-fund/.

[48] 'What are Future Leaders Fellowships', UK Research and Innovation, available at https://www.ukri.org/our-work/developing-people-and-skills/future-leaders-fellowships/what-are-future-leaders-fellowships/.

[49] 'AI Sector Deal', Gov UK, 21 May 2019 (last updated), available at https://www.gov.uk/government/publications/artificial-intelligence-sector-deal/ai-sector-deal.

[50] 'Regulatory Sandbox', Financial Conduct Authority, 17 August 2021 (last updated), available at https://www.fca.org.uk/firms/innovation/regulatory-sandbox.

programme has included over 60 firms in annual cohorts and has continuously expanded based on its success in helping get new ideas to market.[51]

- **Tax incentives for early-stage investment.** The Seed Enterprise Investment Scheme is designed to help entrepreneurs raise money during the early stages of development by offering tax incentives to investors who buy new shares.[52] Under the scheme, investors may receive 'up to £150,000 of their investment back in income tax relief.'[53]
- **Practical thought leadership**, such as the Centre for Data Ethics and Innovation (CDEI), which provides advice on leveraging the benefits and managing the risks of data-driven technologies.[54] The CDEI serves to connect policymakers with industry and civil society in order to 'develop the right governance regime for data-driven technologies.'[55]

B. Competition for Entrepreneurs

The UK has historically been an attractive landing spot for highly educated Europeans looking for entrepreneurial opportunities, particularly in technology. A study by Microsoft's LinkedIn and Stack Overflow, the online developer community, found that London attracted more European and non-EU technology professionals than the rest of Europe in 2017 and 2018.[56] A recent study by the consulting firm Startup Heatmap Europe reported that 73% of UK start-up founders were born outside the UK.[57]

Part of the reason the UK has been successful in attracting talented entrepreneurs is that it offers a highly educated workforce. According to a study by the consulting firm Accenture, in the UK there are 422,000 professionals in data analytics, artificial intelligence, blockchain, extended reality and quantum computing.[58] Approximately 37% of these professionals are in London. Other research

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[51] 'FCA explores creation of global sandbox', Finextra, 14 February 2018, available at https://www.finextra.com/newsarticle/31677/fca-explores-creation-of-global-sandbox.

[52] 'Use the Seed Enterprise Investment Scheme to raise money for your company', Gov UK, 12 October 2018 (last updated), available at https://www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme.

[53] 'Ecosystems, London', Startup Genome, available at https://startupgenome.com/ecosystems/london.

[54] 'About us', Centre of Data Ethics and Innovation, Gov UK, available at https://www.gov.uk/government/organisations/centre-for-data-ethics-and-innovation/about.

[55] 'What the Centre for Data Ethics and Innovation does', Gov UK, available at https://www.gov.uk/government/organisations/centre-for-data-ethics-and-innovation.

[56] 'London attracted more tech talent than rest of Europe in 2018', Computer Weekly, 11 February 2019, available at https://www.computerweekly.com/news/252457339/London-attracted-more-tech-talent-than-rest-of-Europe-in-2018.

[57] 'Discover London', Startup Heatmap Europe, available at https://www.startupheatmap.eu/London/.

[58] 'London Startup Ecosystem – Ultimate Report 2021', Startups of London, 7 February 2020, available at https://startupsoflondon.com/london-startup-ecosystem-ultimate-report-2020/.

by Stack Overflow found that London has more than 250,000 software developers, more than any other European city.[59]

The UK's university system is an important draw for talent, as well as an important incubator of innovation and entrepreneurship. The UK has many of the world's top universities. The Times Higher Education World University Rankings 2022 included eight UK schools among the top 50 universities in the world, with the universities of Oxford and Cambridge in the top 10.[60] Such a collection of prestigious institutions of higher education serves to attract significant talent to the UK.

Moreover, universities can produce comprehensive entrepreneurial ecosystems. The combination of inspired, intelligent students and the financial and intellectual resources of these institutions makes fertile ground for innovation.[61] For example, both the University of Oxford and the London Business School rank in the top 25 of MBA programs in the world based on the number of alumni who received a first round of venture funding between 2006 and 2020.[62]

Furthermore, universities in the UK have taken strong steps to nurture entrepreneurship with students. Oxford University Innovation provides patenting, licensing and other support, as well as targeted entrepreneurship programmes.[63] Oxford Foundry, set up in 2017, serves as an accelerator for ventures by current students and alumni.[64] Cambridge offers the Cambridge University Entrepreneurs (CUE), an organisation that provides programming, lectures and competitions for burgeoning entrepreneurs.[65] University College London (UCL) brings together companies and academia with the Innovation and Digital Enterprise Alliance London (IDEALondon), an innovation centre in London with the goal of developing entrepreneurship.[66]

Another potential reason that the UK has been successful in attracting entrepreneurs is its generous Start-up visa program. In 2019, the UK launched the Start-up visa program, which provides

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[59] 'London still top European city for attracting tech talent', Net Imperative, 19 February 2018, available at https://www.netimperative.com/2018/02/19/london-still-top-european-city-attracting-tech-talent/.

[60] Times Higher Education World University Rankings 2022, available at https://flipbooks.timeshighereducation.com/19712/60439/index.html?10158.

[61] Heiko Bergmann, Christian Hundt, and Rolf Starnberg, *What makes student entrepreneurs? On the relevance (and irrelevance) of the university and the regional context for student start-ups*, 47 SMALL BUSINESS ECONOMICS, 53–76 (2016).

[62] 'PitchBook Universities: 2020', PitchBook, 22 September 2020, available at https://pitchbook.com/news/articles/pitchbook-universities-2020.

[63] 'Commercialising your research', Oxford University Innovation, available at https://innovation.ox.ac.uk/university-members/commercialising-technology/.

[64] 'What is the Oxford Foundry?', Oxford Foundry, available at https://www.oxfordfoundry.ox.ac.uk/what-oxford-foundry.

[65] 'Cambridge University Entrepreneurs (CUE)', Cambridge Network, available at https://www.cambridgenetwork.co.uk/directories/companies/2295.

[66] Philippe Mustar, Donald S. Siegel, and Mike Wright, *An emerging ecosystem for student start-ups*, 42 THE JOURNAL OF TECHNOLOGY TRANSFER, 909–922 (2017); IDEALondon, available at https://www.idealondon.co.uk/.

entrepreneurs who want to set up an innovative business with two-year visas to pursue the idea in the UK.[67] The programme only requires the business to be innovative and new, with endorsement from either an academic institution or a business organisation, and is otherwise open to all applicants—the business does not need to have funding already in place.[68] Entrepreneurs who are able to develop their idea and demonstrate they have secured funding can extend their stay in the UK by converting to an Innovator visa that prolongs stays by another three years.[69] These visa initiatives and the other policies described above make the UK an attractive place for entrepreneurs to pursue innovative business ideas and found new companies.

C. VC Investment in the UK

Across industries, the global volume of VC investments has increased significantly over the last decade. While much of the growth is accounted for by China and the US, the EU-28 (still including the UK) has experienced an increase from €4 billion to €28 billion between 2008 and 2018.[70] VC investment within Europe is highly concentrated on a limited number of countries, with the UK leading the field by a wide margin. In fact, the UK accounted for more than 30% of VC investments in the EU-28 in 2018, in terms of both investment amount and number of deals.[71]

This is also true for tech-related industries more specifically, which have been of particular interest to antitrust authorities in recent years. Over the past five years, tech-related VC investment in the UK has been substantial.[72] For example, as seen in Figure 1, in 2020 total VC investment in tech-related industries reached US$15 billion in the UK.[73] Compared to two of Europe's other strongest economies and start-up hubs, Germany and France, the UK has been consistently outperforming its closest rivals in venture capital invested in tech for the past five years.[74] In 2020, tech-related VC investments in Germany and France were respectively only 46% and 41% of the UK's investments. More broadly, UK's tech-related VC investments were slightly larger than the total across the rest of Europe (US$14.8 billion).

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67 "'Start-up visa",visa', Gov UK, available at https://www.gov.uk/start-up-visa.

68 'Start-up visa', Gov UK, available at https://www.gov.uk/start-up-visa.

69 "'Innovator visa",visa', Gov UK, available at https://www.gov.uk/innovator-visa/switch-to-this-visa.

70 Andrea Bellucci, Gianluca Gucciardi, and Daniel Nepelski, *Venture Capital in Europe: Evidence-based insights about Venture Capitalists and venture capital-backed firms*, EUR 30480 EN, Publications Office of the European Union, p. 22 (2021).

71 Andrea Bellucci, Gianluca Gucciardi, and Daniel Nepelski, *Venture Capital in Europe: Evidence-based insights about Venture Capitalists and venture capital-backed firms*, EUR 30480 EN, Publications Office of the European Union, p. 26 (2021).

72 'UK Tech Ecosystem update', Dealroom, December 2020, p. 4, available at https://dealroom.co/uploaded/2020/12/End-of-year-2020-Tech-Nation-Dealroom.pdf?x20197.

73 'UK Tech Ecosystem update', Dealroom, December 2020, p. 4, available at https://dealroom.co/uploaded/2020/12/End-of-year-2020-Tech-Nation-Dealroom.pdf?x20197.

74 'UK Tech Ecosystem update', Dealroom, December 2020, p. 4, available at https://dealroom.co/uploaded/2020/12/End-of-year-2020-Tech-Nation-Dealroom.pdf?x20197.

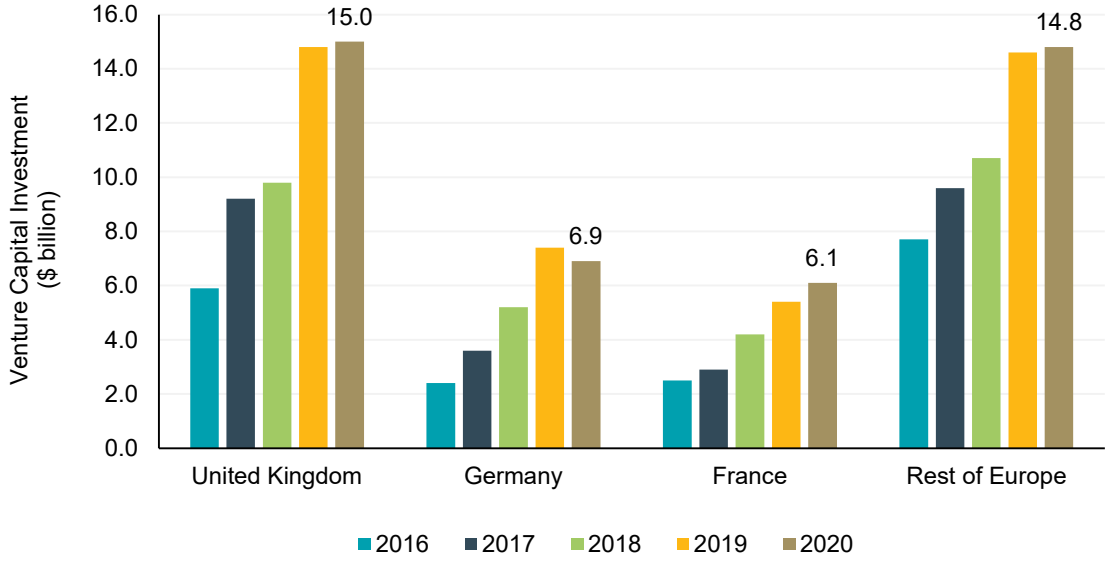

Figure 1

The picture is similar across other industries, including the EdTech,[75] Fintech, Energy & Cleantech, and AI & Deep Tech sectors reviewed by industry analysts at Dealroom.[76] Between 2018 and 2019, VC investments in the UK increased 96% in Fintech, 73% in Energy & Cleantech and 20% in Deep Tech, and outperformed Germany in all categories except Deep Tech.[77]

The UK also accounts for a disproportionate share of unicorns (companies reaching a valuation of US$1 billion or more) in Europe. As of 2019, 77 UK firms achieved unicorn status at some point in the firms' history for firms started in 1990 or later.[78] Germany accounted for the second-highest number of unicorns (32).[79]

Focusing on London, in recent years venture capitalists in London have continued to be more successful in attracting significant funds than those in other European hubs.[80] Figure 2 shows the tech-related funds raised by European VC investors in London, Paris, Berlin and Amsterdam

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[75] 'Global Trends in EdTech from a London Perspective', Dealroom, 23 September 2020, p. 8, available at https://dealroom.co/uploaded/2020/09/EdTech-vFINAL.pdf?x20197.

[76] '2019: A record year for VC investment in the UK', Dealroom, 15 January 2020, pp. 9-11, available at https://dealroom.co/uploaded/2020/01/2019-A-record-year-for-VC-investment-in-the-UK.pdf?x20197.

[77] '2019: A record year for VC investment in the UK', Dealroom, 15 January 2020, p. 8, available at https://dealroom.co/uploaded/2020/01/2019-A-record-year-for-VC-investment-in-the-UK.pdf?x20197.

[78] '2019: A record year for VC investment in the UK', Dealroom, 15 January 2020, pp. 2-3, available at https://dealroom.co/uploaded/2020/01/2019-A-record-year-for-VC-investment-in-the-UK.pdf?x20197.

[79] '2019: A record year for VC investment in the UK', Dealroom, 15 January 2020, p. 2, available at https://dealroom.co/uploaded/2020/01/2019-A-record-year-for-VC-investment-in-the-UK.pdf?x20197.

[80] As discussed further in Section V, while London constitutes a significant share of VC investment in the UK, there is geographic diversity in VC activity and entrepreneurship.

between 2016 and 2020.[81] London-based firms raised US$7.8 billion in 2020, which is over five times higher than in Berlin, six times higher than in Paris, and 11 times higher than in Amsterdam. London's remarkable progress over the years can be explained in part by the thriving fintech segment, which accounts for 41% of the city's VC investments. London also has attracted capital in enterprise software, transport and health.[82]

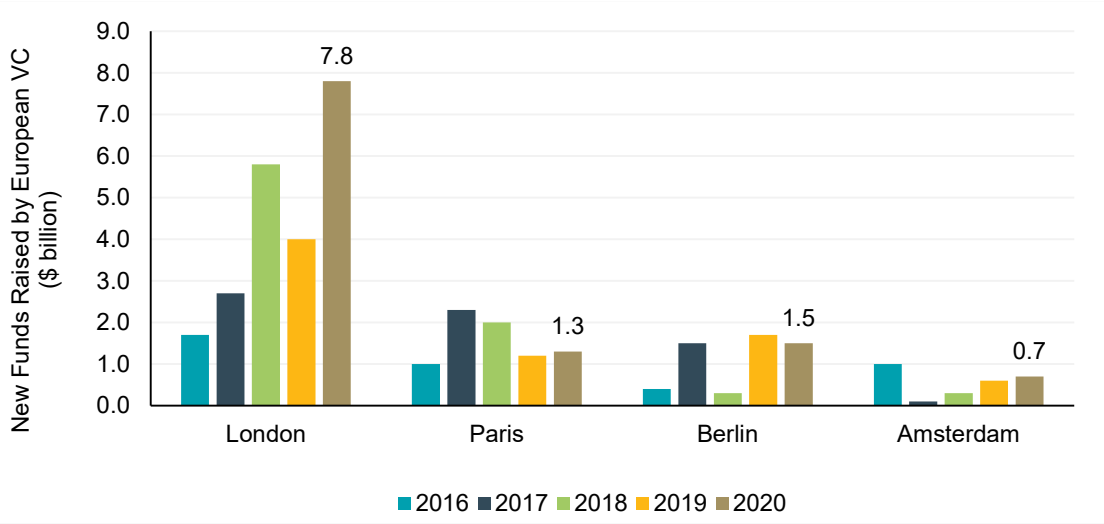

Figure 2

Funds raised by European VC investors in London were resilient despite the COVID-19 pandemic and almost doubled between 2019 and 2020, whereas funds raised in Paris, Berlin and Amsterdam either decreased or remained essentially unchanged.[83]

London has also outperformed other major European hubs across a number of sectors. For example, Figure 3 shows VC investments in start-ups in 2020 across a number of European cities and industries. In all of these industries, investments in London significantly exceeded investments in other cities.[84]

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[81] 'London: Europe's global tech city', Dealroom, 14 January 2021, p. 8, available at https://dealroom.co/uploaded/2021/01/dealroom-london-jan-21-1610614703.pdf?x20197.

[82] Trevor Clawson, 'London remains Europe's dominant startup investment magnet but it's not all good news for U.K. tech', Forbes, 19 January 2021, available at https://www.forbes.com/sites/trevorclawson/2021/01/19/london-remains-europes-dominant-startup-investment-magnet-but-its-not-all-good-news-for-uk-tech/?sh=4f9bbfd85b38.

[83] 'London: Europe's global tech city', Dealroom, 14 January 2021, p. 2, available at https://dealroom.co/uploaded/2021/01/dealroom-london-jan-21-1610614703.pdf?x20197.

[84] 'London: Europe's global tech city', Dealroom, 14 January 2021, pp. 12-16, available at https://dealroom.co/uploaded/2021/01/dealroom-london-jan-21-1610614703.pdf?x20197.

VC Invested in Start-ups in 2020 (£ billion)					
City	Fintech	Enterprise Software	Transportation	Healthtech	Food
London	4.3	1.9	1.5	0.7	0.6
Stockholm	1.1	0.0	0.2	0.3	0.1
Paris	0.7	1.0	0.1	0.5	0.2
Amsterdam	0.2	0.3	0.3	0.1	0.0
Munich	0.1	0.2	0.1	0.2	0.0
Berlin	0.0	0.6	0.8	0.4	0.2

Figure 3

From a global perspective, the UK also outperformed most cities in the US and across the world. It ranks fourth for tech VC investment globally in 2020 behind San Francisco, Beijing and New York.[85] As shown in Figure 4, London has been experiencing one of the highest growth rates[86] in tech VC investment over time, with its progress topping leading start-up hubs across the world, such as San Francisco and New York.[87] London is also tied with New York City for second in Startup Genome's Global Startup Ecosystem's rankings—behind only Silicon Valley—in large part due to access to funding and talent.[88]

[85] 'The Future UK Tech Built', Tech Nation, 2021, available at https://technation.io/report2021/#key-statistics.

[86] Growth rates are calculated based on the values that are reported in the original chart and may be marginally different from the actual growth rates recorded by Dealroom due to rounding errors.

[87] 'London: Europe's global tech city', Dealroom, 14 January 2021, p. 5, available at https://dealroom.co/uploaded/2021/01/dealroom-london-jan-21-1610614703.pdf?x20197.

[88] 'Ecosystems, London', Startup Genome, available at https://startupgenome.com/ecosystems.

VC Investment Growth in Global Hubs ($ billion) 2016 - 2020			
City	2016	2020	Growth Rate (%)
Bengaluru	1.3	7.2	454%
London	3.5	10.5	200%
Berlin	1.2	3.1	158%
Paris	1.3	3.3	154%
Munich	0.3	0.7	133%
Mumbai	0.7	1.2	71%
San Francisco	14.3	21.5	50%
Toronto	0.7	1.0	43%
New York	11.0	15.2	38%
Shanghai	7.9	10.5	33%
Shenzhen	1.5	1.5	0%
Beijing	22.2	16.6	-25%

Figure 4

The UK and London enjoy a favourable position in the global VC ecosystem due to a number of factors. According to Startup Heatmap Europe, which tracks the development of start-up ecosystems across European cities, London ranks first for Global Connectivity, Brand Visibility, Expansion Destination, Developer Availability, Industry Connections, Investment Raised and Exits.[89] As Figure 5 indicates,[90] the ecosystem in London has benefitted investors and start-ups as measured by the number of accelerators[91] and the number of unicorns compared to other European cities.[92]

[89] 'Discover London', Startup Heatmap Europe, available at https://www.startupheatmap.eu/London/.

[90] 'UK's leadership in European tech accelerates and extends beyond London', Dealroom, 24 October 2018, p 10, available at https://dealroom.co/uploaded/2020/06/Dealroom-Tech-Nation-and-Digital-Economy-Council-report-Q3-2018.pdf?x20197.

[91] Startup accelerators support early-stage, growth-driven companies through education, mentorship, and financing. Ian Hathaway, 'What Startup Accelerators Really Do', Harvard Business Review, 1 March 2016, available at https://hbr.org/2016/03/what-startup-accelerators-really-do.

[92] 'UK's leadership in European tech accelerates and extends beyond London', Dealroom, 24 October 2018, pp. 8, 10, available at https://dealroom.co/uploaded/2020/06/Dealroom-Tech-Nation-and-Digital-Economy-Council-report-Q3-2018.pdf?x20197.

City	Number of Accelerators	Unicorns Created
London	146	36
Berlin	42	8
Paris	51	5
Amsterdam	18	5
Dublin	14	2

Figure 5

Clusters, which are groups of geographically proximate and industry-related ventures, have a particularly positive impact on start-up success. Businesses within clusters benefit from shared knowledge, skill sets, technology and human capital. Research has shown that start-ups that exist within strong clusters experience higher growth in entrepreneurship and 'facilitate survival and growth' due to the supportive and reciprocal nature of the environment.[93] As a result, many geographies across Europe (including the UK) and the US are enacting policies to support and develop clusters with the hopes of generating booming landscapes.[94] One such policy type in the UK is that of Enterprise Zones (EZs), areas financially supported by government to generate business opportunities.[95] While historically used to develop disenfranchised areas, EZs have recently focused on supporting innovation and 'high-growth sectors with potential.'[96] EZs and other government-supported initiatives are hoping to benefit from the positive externalities associated with groups of likeminded firms found in clusters.

Recent experience in the UK suggests that clustering effects on entrepreneurial growth may be substantial. For example, from the founder alumni networks of 24 European tech companies that scaled to a valuation of US$5 billion or more—including Zalando, Spotify, Klarna, Skype and Just Eat—over 2,350 ex-employees of these companies listed themselves as founders or co-founders of other companies in 2019, with 599 of these being UK founders. The majority of founders that spun out of UK-based companies valued over US$5 billion also located their ventures in the UK.[97]

An important component of the ecosystem in the UK is the degree to which it has attracted foreign VC investment over the years. For example, foreign investment sources made up more than 60%

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[93] Mercedes Delgado, Michael E. Porter, and Scott Stern, *Clusters and Entrepreneurship*, US Census Bureau Center for Economic Studies Paper No. CES-WP-10-31 (September 2010).

[94] Aaron Chatterji et al., *Clusters of Entrepreneurship and Innovation*, 14 INNOVATION POLICY AND THE ECONOMY, 129–166 (2014).

[95] 'Enterprise Zones (EZs)', Thomson Reuters Practical Law, available at https://uk.practicallaw.thomsonreuters.com/1-386-4462?transitionType=Default&contextData=(sc.Default)&firstPage=true.

[96] Rachel C. Granger, *Enterprise zone policy: developing sustainable economies through area-based fiscal incentives*, 5 URBAN RESEARCH AND PRACTICE, 335-341 (2012).

[97] 'The State of European Tech', Atomico, 2020, pp. 178-179, available at https://soet-pdf.s3.eu-west-2.amazonaws.com/State_of_European_Tech_2020.pdf.

of UK's total tech investments in 2020, compared to 50% five years ago.[98] Additionally, 51% of the UK's tech investment originated in 2019 from investors in Asia and North America, a proportion substantially larger than in Germany (35%) and France (18%).[99]

Given the above tailwinds in terms of its regulatory environment, as well as its attractiveness to foreign talent and a university system that fosters both domestic and foreign talent, the UK enjoys a favourable position attracting VC investment. This is evident in the significant advantage the UK has over other European countries in terms of levels and recent growth in VC investment in various sectors. This favourable position could be threatened by a rule that makes exit for entrepreneurs more costly or difficult, given the incentives embedded in the VC ecosystem described above. Moreover, given the global competitive context for capital and investment in which the UK ecosystem exists, such rule changes may make this ecosystem particularly susceptible to negative impacts given its relative dependence on outside investment and resources.

D. Growth of Acquisitions in the UK

As discussed above, acquisitions serve a critical function in entrepreneurship and innovation. This is particularly true in the UK. In a recent survey of UK start-up founders and executives, 58% cited acquisition as the long-term goal for their company, compared to 18% whose goal was an IPO.[100]

UK start-up acquisitions are expected to continue to grow as the allure of IPOs declines.[101] Figure 6 shows the trend in the number of UK IPOs since 1998.[102] The number of IPOs dropped sharply following the financial crisis in 2008 and has yet to recover to pre-2008 levels.

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98 'The Future UK Tech Built', Tech Nation, available at https://technation.io/report2021/#key-statistics.

99 '2019: A record year for VC investment in the UK', Dealroom, 15 January 2020, p. 13, available at https://dealroom.co/uploaded/2020/01/2019-A-record-year-for-VC-investment-in-the-UK.pdf?x20197.

100 '2020 Global Startup Outlook', Silicon Valley Bank, 2020, p. 7, available at https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/startup_outlook_report/suo_global_report_2020-final.pdf.

101 Richard T. Harrison and Colin M. Mason, *Venture Capital 20 years on: reflections on the evolution of a field*, 21 VENTURE CAPITAL, 1-34 (2019).

102 Richard T. Harrison and Colin M. Mason, *Venture Capital 20 years on: reflections on the evolution of a field*, 21 VENTURE CAPITAL, 1-34 at p. 4 (2019).

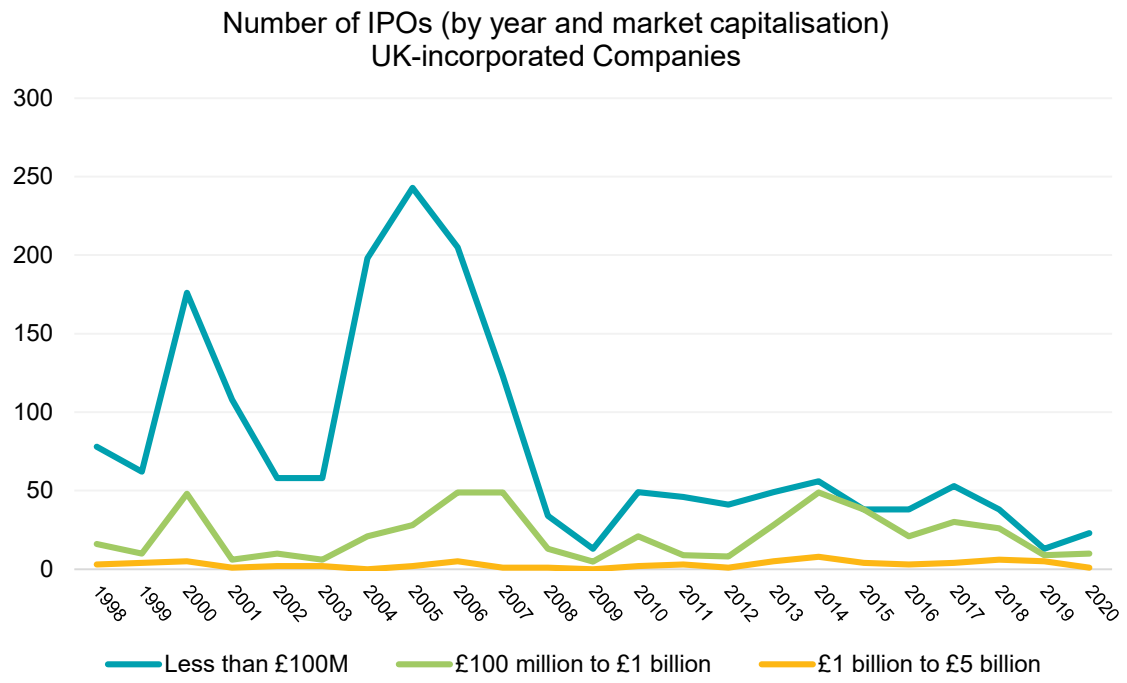

Figure 6

Other data show similar patterns. In a study of 1,545 British start-ups that raised equity in 2011, 226 companies had been acquired by 2019 while only 32 companies had exited via an IPO.[103] For UK small businesses backed by any form of equity investment, exits via acquisition have greatly outnumbered exits via IPO in recent years. Additionally, from 2012 to 2019, the pace of acquisitions has consistently increased. Moreover, from 2016 to 2020, the average value of an exit via IPO is much higher than the average value of an exit via acquisition.[104] This suggests that acquisitions are particularly important for smaller firms that may have less access to IPOs or other public equity market exits.

A number of reasons have been identified to explain the decreasing popularity of public offerings and the relative increase in the number of acquisitions: (1) the increasing prevalence of intangible assets (e.g., knowledge, information, data-driven innovation and high skill levels), which are difficult to value in a public market, but more easily valued by a few specialist investors with non-public information; (2) the high costs of an IPO—in the US, recent underwriting fees alone have averaged between 3.5% and 7% of gross IPO profits; (3) corporate governance laws, which essentially discourage risk-taking and entrepreneurial behaviour; and (4) a growth in private equity

[103] 'We tracked every startup that raised venture capital in 2011', Beauhurst Blog, 23 May 2019, available at https://www.beauhurst.com/blog/startups-of-yesteryear-2019-update/.

[104] 'Small Business Equity Tracker 2021', British Business Bank, June 2021, pp. 54, 58-59, available at https://www.british-business-bank.co.uk/wp-content/uploads/2021/06/Equity-Tracker-2021-Final-report-1.pdf.

financing available to UK companies, which has been shown to be inversely related to number and profitability of IPOs.[105]

As discussed in Section III, acquisitions can create significant value for consumers due in part to the value proposition large firms can offer to help scale and commercialise smaller firms' products. For example, Accomable was a London-based travel start-up that catered to individuals with special accessibility needs to help book accommodations that could suit their needs.[106] As a small start-up, it needed to achieve its scaling potential by partnering with an established player in this space. In 2017, Airbnb acquired Accomable, and the co-founder of Accomable became the accessibility program and product manager for Airbnb.[107] Airbnb was thereby able to integrate Accomable's expertise into its platform to improve accessibility, benefitting consumers by making this more widely available.[108]

Similarly, as discussed in Section III, acquisitions can help entrepreneurs reinvest their efforts for additional ventures. Serial UK entrepreneurs such as Alex Chesterman not only find incredible success, but then continue to pursue opportunities even after their first massive wins.[109] Thus, they are able to take capital earned in deals and turn it into future innovations in the UK.

Despite these increasing trends, the market for acquisitions in the UK is still susceptible to external forces. In a 2020 survey of 22 VC fund managers by the British Business Bank (BBB),[110] 77% of fund managers felt that the availability of exit opportunities had become worse since 2019. Of

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[105] 'Factors influencing the decline in the number of public companies in the UK', University of Edinburgh Business School, October 2020, available at https://www.appcgg.co.uk/wp-content/uploads/2020/12/APPCGG-202-report-Edinburgh.pdf; 'Considering an IPO? First, understand the costs,' PwC, available at https://www.pwc.com/us/en/services/deals/library/cost-of-an-ipo.html.

[106] 'Airbnb just bought Accomable, a startup that helps travelers with disabilities find places to stay', Business Insider, 16 November 2017, available at https://www.businessinsider.com/airbnb-acquires-a-london-startup-that-helps-those-with-disabilities-2017-11.

[107] 'Airbnb Highlights New Accessibility Filters and Features for Guests with Disabilities Worldwide', Airbnb News, 15 March 2018, available at https://news.airbnb.com/airbnb-highlights-new-accessibility-filters-and-features-for-guests-with-disabilities-worldwide/.

[108] As part of Accomable co-founder's efforts to improve accessibility for guests, in March 2018 Airbnb launched 21 accessibility filters enabling customers with disabilities to narrow down their search to listings that accommodate their needs. 'Airbnb Highlights New Accessibility Filters and Features for Guests with Disabilities Worldwide', Airbnb News, 15 March 2018, available at https://news.airbnb.com/airbnb-highlights-new-accessibility-filters-and-features-for-guests-with-disabilities-worldwide/; 'Making Travel More Accessible', Airbnb News, 16 November 2017, available at https://news.airbnb.com/making-travel-more-accessible/.

[109] Alex Chesterman founded Zoopla, a property listing website and one of the UK's first unicorns that was sold for £2.2 billion in September 2018. He also founded a marketplace for used cars, Cazoo, in 2018 and announced a £30 million funding round for Cazoo in December 2018. 'Overview of UK's Top Serial Entrepreneurs', Beauhurst Blog, 19 March 2019, available at https://www.beauhurst.com/blog/successful-serial-entrepreneurs/; 'Zoopla founder Alex Chesterman to launch used car sales platform', AM Online, 12 December 2018, available at https://www.am-online.com/news/dealer-news/2018/12/12/zoopla-founder-alex-chesterman-to-launch-used-car-sales-platform.

[110] The BBB includes the Enterprise Capital Funds, VC Catalyst Fund, and Angel CoFund. 'Angel CoFund', British Business Bank, available at https://www.british-business-bank.co.uk/ourpartners/angel-cofund/.

those UK fund managers surveyed, 41% viewed the current market for successful exits as 'poor' or 'very poor.'[111]

Moreover, recent evidence highlights the impact that increased difficulties associated with acquisitions would likely have on the UK ecosystem. A survey of investors focused on UK start-ups from the Coalition for a Digital Economy (Coadec) found that 90% of investors identified the ability of start-ups to be acquired as 'very important' for the success of the tech start-up ecosystem, with the remaining 10% identifying it as 'somewhat important.'[112] Similarly, 23% of investors stated that a 'significant restriction' on the ability to exit would lead them to stop investing in UK start-ups, with an additional 50% stating that they would 'significantly reduce' their investments.[113]

E. Impact of Brexit

Brexit has had an important impact on the UK economy and its global competitive positioning. Although the long-term effects are unclear, there have been immediate impacts on the UK financial system and its relative position compared to other European hubs.

It is clear at this stage that the traditional financial services sector in the UK, and in London specifically, has suffered as a result of Brexit, in part because many areas of the financial sector were not covered by trading agreements between the UK and EU.[114] For instance, Bloomberg found that the value of shares traded in London was down 34% following Brexit, with flows shifting to Amsterdam—which saw 356% growth over the same period—as well as to Paris and Frankfurt.[115] To date, tracking by Ernst & Young has identified at least £1.3 trillion of assets that have shifted from the UK to Europe following Brexit.[116] M&A activity appears resilient, with foreign companies' acquisitions in the UK reaching a record total value, although this has been

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[111] 'UK Venture Capital Financial Returns 2020', British Business Bank, 12 November 2020, p. 32, available at https://www.british-business-bank.co.uk/wp-content/uploads/2020/11/BBB-VC-Returns-Report-2020-FINAL-1.pdf.

[112] 'The Digital Markets Unit: On the Side of Startups? An Investor Perspective', Coadec, September 2021, pp. 2, 16-17, available at https://coadec.com/wp-content/uploads/2021/09/On-the-Side-of-Startups_-1.pdf.

[113] 'The Digital Markets Unit: On the Side of Startups? An Investor Perspective', Coadec, September 2021, p. 16-17, available at https://coadec.com/wp-content/uploads/2021/09/On-the-Side-of-Startups_-1.pdf.

[114] 'Brexit has caused very few finance jobs to leave London', Economist, 1 May 2021, available at https://www.economist.com/britain/2021/05/01/brexit-has-caused-very-few-finance-jobs-to-leave-london; Silla Brush, 'Seven Charts Show How Brexit Has Already Changed the City of London', Bloomberg, 26 March 2021, available at https://www.bloomberg.com/news/features/2021-03-26/brexit-news-charts-show-financial-impact-on-london-paris-amsterdam-dublin.

[115] Silla Brush, 'Seven Charts Show How Brexit Has Already Changed the City of London', Bloomberg, 26 March 2021, available at https://www.bloomberg.com/news/features/2021-03-26/brexit-news-charts-show-financial-impact-on-london-paris-amsterdam-dublin.

[116] 'EY Financial Services Brexit Tracker', Ernst & Young, 2 May 2021, available at https://www.ey.com/en_uk/news/2021/03/ey-financial-services-brexit-tracker--uk-financial-services-firms-continue-to-incrementally-move-assets-and-relocate-jobs-to-the-eu-but-changes-since-the-brexit-deal-are-small. For context, the UK's Office of National Statistics estimates there were £35.5 trillion of UK financial assets as of 2020.

partially attributed to depressed valuations of UK companies relative to global peers.[117] As of 2021, the cumulative loss of jobs to EU financial centres since Brexit has been relatively minor at around 8,000,[118] but stricter immigration policies now requiring visas for EU nationals to work in the UK have only recently been put in place, which may lead to further jobs moving to the continent.[119] Moreover, the financial job losses in the UK, though relatively small, stand in contrast to small increases in jobs in the Netherlands, Germany, France and Ireland.[120]

Despite these challenges to the financial sector in the UK, it appears that the entrepreneurial ecosystem is relatively resilient as the early impacts of Brexit emerge. A survey of UK start-ups has found that very few plan to shift their headquarters out of the UK in response to Brexit, although an increasing number are opening up European offices.[121] Similarly, a survey of business leaders found that the majority do not believe Brexit will affect their dealings with UK entrepreneurs, with many noting the continued appeal of UK products and services, and the potential for improved trading with UK partners.[122]

The impact of Brexit on VC investment in London is less clear. While annual investment in London grew faster between 2016 and 2020 compared to the next highest growth hubs of Munich, Berlin and Paris,[123] VC investment in London slightly declined between 2019 and 2020 while the rest of Europe experienced modest growth.[124] Notably, however, Brexit has resulted in the European Investment Fund pulling out of investing in the UK.[125] The fund was a major source of

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[117] Silla Brush, 'Seven Charts Show How Brexit Has Already Changed the City of London', Bloomberg, 26 March 2021, available at https://www.bloomberg.com/news/features/2021-03-26/brexit-news-charts-show-financial-impact-on-london-paris-amsterdam-dublin.

[118] 'Brexit has caused very few finance jobs to leave London', Economist, 1 May 2021, available at https://www.economist.com/britain/2021/05/01/brexit-has-caused-very-few-finance-jobs-to-leave-london.

[119] 'Visiting the UK as an EU, EEA or Swiss citizen', Gov UK, 2 September 2021, available at https://www.gov.uk/guidance/visiting-the-uk-as-an-eu-eea-or-swiss-citizen.

[120] Silla Brush, 'Seven Charts Show How Brexit Has Already Changed the City of London', Bloomberg, 26 March 2021, available at https://www.bloomberg.com/news/features/2021-03-26/brexit-news-charts-show-financial-impact-on-london-paris-amsterdam-dublin.

[121] 'UK Startup Outlook 2019', Silicon Valley Bank, 2019, available at https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/startup_outlook_report/uk/svb-suo-uk-report-2019.pdf.

[122] 'Britain's start-up appeal: Business leaders back Britain for start-ups', Barclays, available at https://www.barclays.co.uk/business-banking/sectors/entrepreneurs/start-up-appeal/.

[123] Moreover, in 2021 total investment in London exceeded by over 3x the level of investment in Paris and Berlin. 'London: Europe's global tech city', Dealroom, 14 January 2021, p. 5, available at https://dealroom.co/uploaded/2021/01/dealroom-london-jan-21-1610614703.pdf?x20197.

[124] However, as noted above, new funds raised by London-based VC firms increased significantly from 2019 to 2020. 'London: Europe's global tech city', Dealroom, 14 January 2021, p. 6, available at https://dealroom.co/uploaded/2021/01/dealroom-london-jan-21-1610614703.pdf?x20197.

[125] 'European Investment Bank', Institute for Government, 24 March 2020, available at https://www.instituteforgovernment.org.uk/explainers/european-investment-bank-brexit.

UK venture capital funding, and to date no concrete plans are in place for the UK government to replace that source of capital.[126]

Brexit is also expected to affect the flow of human capital into the EU. Changes in immigration policy could lead to lower first-year EU undergraduate and graduate student enrolment in the UK.[127] This includes decreases in foreign enrolment at both the undergraduate and graduate levels for the universities of Oxford and Cambridge.[128] UK universities have acted as an important draw and incubator for entrepreneurs, and Brexit could reduce the UK's relative advantage in terms of entrepreneurial talent in Europe.

The outflow of capital and talent, depression of overall M&A valuations and uncertain financial regulation agreements with the UK and EU present an important overhang for the UK's entrepreneurial ecosystem's ability to secure funding and exit opportunities, or even take advantage of the UK's departure from the EU. In addition, the risk of a lack of regulatory reciprocity with the EU in areas such as data protection (GDPR in the EU) may create barriers to scaling UK start-ups and limit the appeal and increase the costs of starting and growing a new venture in the UK. While it is too early to gauge the ultimate impact of these negative effects of Brexit, or the extent to which Government policy can counterbalance them, the uncertainty created by Brexit for entrepreneurs, their employees and investors poses a drag on the industry. Ultimately, it will be critical that the UK pursue policies in building its post-EU future that buttress its strengths as a centre for entrepreneurship and avoid compounding existing challenges.

F. Protecting the UK's Role as an Important Locus of Innovation

The tenuous context of exit opportunities in the current entrepreneurial ecosystem in the UK provides important background for evaluating rule changes that impact the attractiveness and feasibility of acquisitions. Especially with declining interest in IPOs, increasing the costs and difficulty of successful acquisitions would likely lead to a reduction in exit opportunities that could disrupt investment, entrepreneurship and innovation in the UK. The uncertainties introduced by Brexit only compound the risk of disruption. Indeed, the fact that much of the investment in UK firms comes from the US and other foreign sources of funds—funds which could be funnelled

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[126] 'European Investment Bank: the UK will miss it when it is gone', London School of Economics, 28 September 2020, available at https://blogs.lse.ac.uk/brexit/2020/09/28/european-investment-bank-the-uk-will-miss-it-when-it-is-gone/.

[127] 'EU exit: estimating the impact on UK higher education', UK Department for Education, February 2021, p, 59, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/958998/EU_exit_estimating_the_impact_on_UK_higher_education.pdf.

[128] Researchers do not account for the post-study work rights available via the new Graduate Route. 'EU exit: estimating the impact on UK higher education', UK Department for Education, February 2021, pp. 9, 59-60, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/958998/EU_exit_estimating_the_impact_on_UK_higher_education.pdf.

elsewhere in Europe and abroad—increases the potential for disruption from changes in UK policy.[129]

V. UK VENTURE CAPITAL SUPPORTS DIVERSIFICATION OF THE ECONOMY

The benefits associated with the entrepreneurial ecosystem extend beyond the London geographical area, and also reach many diverse groups of individuals.

A. Growth of VC Investment Beyond London

While London is the main hub of entrepreneurial activity, there are also other regions in the UK that have large start-up communities. For example, the South East has developed an active community of entrepreneurs that specialise in the Health and Food tech sectors.[130] More broadly, a number of cities across the UK have been bringing together resources enabling the growth of start-ups, such as Oxford, Cambridge, Manchester, Edinburgh and Leeds.[131] Looking at the number of accelerators, for instance, the area of Oxbridge[132] has 22 accelerators in total, which is more than four times higher the number of accelerators per 1,000 people that are present in London.[133]

This growth of the entrepreneurial ecosystem across the UK is in part driven by purposeful government policy. For instance, UK Research and Innovation, through the initiative Innovate UK (IUK), provides funding to innovative businesses that are research-intensive to support the development of new ideas.[134] As shown below,[135] IUK invests throughout the entire country, with approximately 87% of investment outside of London.

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[129] For example, recent research using data from 2017 has shown that almost 20% of UK investment rounds had a US or Canadian investor, but that US and Canadian investors also have sizable presences throughout Europe. Wendy Bradley et al., *Cross-Border Venture Capital Investments: What Is The Role of Public Policy*, 12 JOURNAL OF RISK AND FINANCIAL MANAGEMENT 112, at p. 4 (2019).

[130] 'Startup explorer UK', Sifted, available at https://explore.sifted.eu/.

[131] 'UK's leadership in European tech accelerates and extends beyond London', Dealroom, 24 October 2018, p. 10, available at https://dealroom.co/uploaded/2020/06/Dealroom-Tech-Nation-and-Digital-Economy-Council-report-Q3-2018.pdf?x20197.

[132] The term Oxbridge refers to the combined areas of the cities of Oxford and Cambridge.

[133] London hosts 146 accelerators and has a population of 8.2M which corresponds to 0.018 accelerators per 1,000 people, while Oxbridge hosts 22 accelerators and has a population of 290K, resulting in an equivalent ratio of 0.076. 'UK's leadership in European tech accelerates and extends beyond London', Dealroom, 24 October 2018, p. 10, available at https://dealroom.co/uploaded/2020/06/Dealroom-Tech-Nation-and-Digital-Economy-Council-report-Q3-2018.pdf?x20197.

[134] 'Regional Distribution of UKRI Spend', UK Research and Innovation, 28 April 2021 (last updated), p. 11, available at https://www.ukri.org/wp-content/uploads/2021/04/UKRI-280421-RegionalFunding20182019-AnalysisReport.pdf.

[135] 'Regional Distribution of UKRI Spend', UK Research and Innovation, 28 April 2021 (last updated), p. 12, available at https://www.ukri.org/wp-content/uploads/2021/04/UKRI-280421-RegionalFunding20182019-AnalysisReport.pdf.

Innovate UK Spending FY 2018-2019		
Region	**Amount (£ million)**	**Share of Total (%)**
West Midlands	133	14%
South East	129	14%
London	125	13%
South West	116	12%
East Midlands	99	11%
East of England	82	9%
Yorkshire and the Humber	79	8%
Scotland	57	6%
North West	41	4%
North East	39	4%
Wales	30	3%
Northern Ireland	11	1%
Total	**941**	**100%**

Figure 7

The geographical distribution of investments is also influenced by the location of VC funds. According to the BBB, the location of VC funds plays an important role in the choice of target companies, with funds being more likely to invest in businesses of close proximity, *ceteris paribus*.[136]

BBB's latest Equity Tracker showed that more than half of equity deals that took place in 2019 were targeted toward London and the university cities of Oxford and Cambridge, jointly known as the 'Golden Triangle.'[137] However, when evaluating VC funds' performance, BBB found that VC funds that are established outside the equity cluster created in the Golden Triangle have a potential for higher returns.[138] In particular, results for the 2002-2015 time period showed that the DPIs[139] of Golden Triangle-based funds, on average, were 70 percentage points lower than those achieved by the 16 VC funds based in other locations in the UK that the report studied.[140]

[136] 'UK Venture Capital Financial Returns 2020', British Business Bank, 2020, p. 19, available at https://www.british-business-bank.co.uk/wp-content/uploads/2020/11/BBB-VC-Returns-Report-2020-FINAL-1.pdf.

[137] 'UK Venture Capital Financial Returns 2020', British Business Bank, 2020, p. 19, available at https://www.british-business-bank.co.uk/wp-content/uploads/2020/11/BBB-VC-Returns-Report-2020-FINAL-1.pdf.

[138] 'UK Venture Capital Financial Returns 2020', British Business Bank, 2020, p. 3, available at https://www.british-business-bank.co.uk/wp-content/uploads/2020/11/BBB-VC-Returns-Report-2020-FINAL-1.pdf.

[139] DPI refers to Distributed to Paid-in Ratio, a measure of returns on invested funds.

[140] 'UK Venture Capital Financial Returns 2020', British Business Bank, 2020, p. 26, available at https://www.british-business-bank.co.uk/wp-content/uploads/2020/11/BBB-VC-Returns-Report-2020-FINAL-1.pdf.

There are highly valued businesses that have been established outside London, as shown in Figure 8.[141] The Scottish brewery Brewdog is a notable example. Founded in 2007, Brewdog quickly raised significant funds, allowing the company to expand both geographically, by opening breweries across the globe such as in the US and Australia, and also in terms of its operations, which today include bars and hotels.[142] Today, Brewdog is valued at approximately US$2 billion, and is in the process of preparing an IPO on the London Stock Exchange.[143]

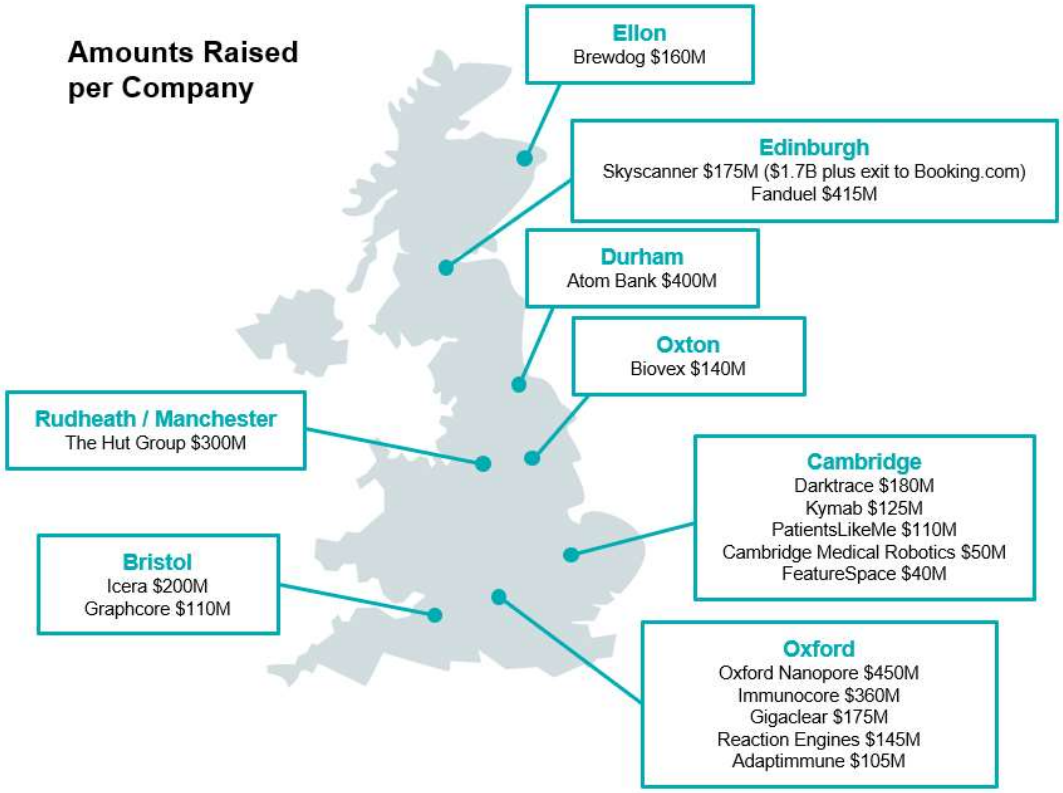

Figure 8

The diversity in business activity outside of London includes further exceptional performers. Many unicorns are not in London. As of 2019, there were five unicorns in Manchester, three in Edinburgh, two in Leeds and two in Bristol.[144] These groups of unicorns, particularly in Manchester, likely benefit from the advantages of being in clusters in which positive externalities from nearby businesses tend to seep into related firms. A concentrated network of similar firms

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[141] Data presented as of June 2018. 'London Tech Week UK Tech Report', Dealroom, 11 June 2018, p. 5, available at https://dealroom.co/uploaded/2020/08/London-Tech-Week-presentation-UK-Tech-Report-2.pdf?x20197.

[142] 'Brewdog Locations', Brewdog, available at https://www.brewdog.com/uk/locations.

[143] 'Everything you need to know about Brewdog', Forex, 11 June 2021, available at https://www.forex.com/en/market-analysis/latest-research/everything-you-need-to-know-about-brewdog/.

[144] 'London Tech Week 2019 (Update)', Dealroom, 11 June 2019, p. 17, available at https://dealroom.co/uploaded/2020/06/londontechweek2019.pdf?x20197.

provides each business shared resources, infrastructure, supply-chain connections and distribution networks, among other aspects, facilitating growth that possibly could not occur otherwise.[145] Similarly, as described above, the university ecosystems of cities like Cambridge and Oxford attract and foster talent, and can benefit from similar effects.

This geographic diversity serves to spread wealth opportunities outside of London and benefit areas throughout the UK. A potential rule change that undercuts the attractiveness of acquisitions and thereby reduces VC funding incentives likely would adversely affect these areas, particularly for younger VC firms that tend to have more difficulty accessing funds outside of London, given their less-proven track records.

B. Growth of VC Investment in Diverse Entrepreneurs

The UK has been successful in attracting entrepreneurs and providing support for a thriving start-up ecosystem. As part of this system, there has been an increasing emphasis on diversity and a commitment to continued improvement, though it is important to note that this is an ongoing effort for the industry both in the UK and globally.

For instance, in recent years UK start-ups have seen significant progress in diversity and inclusion. A 2019 survey of UK start-up founders and executives by Silicon Valley Bank found that the percentage of start-ups with at least one woman on the board of directors increased from 27% to 47% from 2017 to 2019, while the percentage of women in executive positions increased from 42% to 57% during the same time.[146] In this respect, UK start-ups lead their US counterparts, particularly in terms of female representation on start-up boards.[147] This pattern of progress is consistent with findings on the broader economy, with a survey of 20,000 UK SMEs showing that 32% were female-owned in 2020, up from just 17% four years prior.[148]

This pattern of progress is also reflected on the VC side of the ecosystem, with a 2019 study finding the percentage of women in the VC industry increased to 30%, from 27% in 2017.[149] At the same time, the proportion of UK VC equity deals received by a company with at least one female founder

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[145] Mercedes Delgado, Michael E. Porter, and Scott Stern, *Clusters and Entrepreneurship*, US Census Bureau Center for Economic Studies Paper No. CES-WP-10-31 (September 2010).

[146] 'UK Startup Outlook 2019', Silicon Valley Bank, 2019, p. 9, available at https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/startup_outlook_report/uk/svb-suo-uk-report-2019.pdf.

[147] 'Women in Technology Leadership 2019', Silicon Valley Bank, 2019, p. 4, available at https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/women_in_technology_leadership/svb-suo-women-in-tech-report-2019.pdf.

[148] 'UENI's 2020 Report on Gender and Small Business', UENI Blog, 15 July 2021 (last updated), available at https://ueni.com/blog/report-gender-small-business-female/.

[149] 'Diversity in UK Venture Capital 2019', Diversity VC, July 2019, p. 13, available at https://www.diversity.vc/wp-content/uploads/2019/07/DiversityInVC_Report_10.07.2019_for_Web.pdf.

increased from around 11% in 2011 to 23% in 2020.[150] Studies have found that VC partnerships with female representation on investment teams are more likely to invest in female-led businesses.[151] That is to say that improvements in diversity in individual aspects of the entrepreneurial ecosystem have reinforcing and compounding effects on the industry.

The industry has also seen initiatives designed to improve diversity in entrepreneurship. For example, a number of VC and finance networking groups are focused on women in private equity, venture capital and entrepreneurship.[152] Public-private initiatives have also been introduced to support women's participation in the industry, such as the HM Treasury's 'Women in Finance Charter' supported by UK VC firms,[153] and the Investing in Women Code (IiWC).[154]

There has also been an increase in dedicated funding for female-led and Black-led start-ups in the UK, such as NatWest Bank's recent announcement of £1 billion in debt funding specifically for female entrepreneurs.[155] Google for Startups has also created a US$2 million Black Founders Fund, and in early 2021 it awarded up to US$100,000 in equity-free cash, paired with other benefits and support, to 30 start-ups in Europe.[156] The Fund received approximately 800 applications from Europe, with nearly 600 from the UK, and UK start-ups dominated the field of winners.[157] Similarly, Impact X, a venture capital firm founded to support underrepresented entrepreneurs across Europe, raised £100 million as of December 2019, which it seeks to invest in minority-led businesses.[158] The initiative B.O.X. (Black-Owned eXcellence) was founded by Black entrepreneurs, multi-industry professionals and investors, and makes equity investing options

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[150] 'Small Business Equity Tracker 2021', British Business Bank, June 2021, p. 28, Figure 1.10, available at https://www.british-business-bank.co.uk/wp-content/uploads/2021/06/Equity-Tracker-2021-Final-report-1.pdf.

[151] 'Diversity in UK Venture Capital 2019', Diversity VC, July 2019, p. 33, available at https://www.diversity.vc/wp-content/uploads/2019/07/DiversityInVC_Report_10.07.2019_for_Web.pdf; Wendy DuBow and Allison-Scott Pruitt, 'The Comprehensive Case for Investing More VC Money in Women-Led Startups', Harvard Business Review, 18 September 2017, available at https://hbr.org/2017/09/the-comprehensive-case-for-investing-more-vc-money-in-women-led-startups.

[152] 'Diversity in UK Venture Capital 2019', Diversity VC, July 2019, p. 26, available at https://www.diversity.vc/wp-content/uploads/2019/07/DiversityInVC_Report_10.07.2019_for_Web.pdf; 'The Alison Rose Review', Natwest, 19 April 2021 (last updated), available at https://natwestbusinesshub.com/articles/rosereview.

[153] 'Diversity in UK Venture Capital 2019', Diversity VC, July 2019, p. 26, available at https://www.diversity.vc/wp-content/uploads/2019/07/DiversityInVC_Report_10.07.2019_for_Web.pdf

[154] 'The Alison Rose Review', Natwest, 19 April 2021 (last updated), available at https://natwestbusinesshub.com/articles/rosereview.

[155] 'The Alison Rose Review', Natwest, 19 April 2021 (last updated), available at https://natwestbusinesshub.com/articles/rosereview.

[156] 'Black Founders Fund', Google for Startups, available at https://www.campus.co/europe/black-founders-fund/.

[157] Tommy Williams, 'Meet 30 Black Founded Startups Selected By Google For Their New $2 Million (£1.5 Million) Black Founders Fund', Forbes, 4 June 2021, available at https://www.forbes.com/sites/tommywilliams1/2021/06/04/meet-30-black-founded-startups-selected-by-google-for-their-new-2-million-15m-black-founders-fund/.

[158] 'London VC Fund Impact X Has 100 Million Pounds to Jump Start Minority-Led Businesses', Bloomberg, December 2019, available at https://www.bloomberg.com/news/videos/2019-12-18/london-vc-fund-has-100-million-pounds-to-boost-minority-led-firms-video.

more accessible to Black founders and their peers by bringing together a community of investors and business experts looking for venture opportunities.[159]

C. Spurring Geographical and Demographic Diversity in Entrepreneurial Ventures in the UK

The recent push for various forms of diversity is far from complete. Rule changes that make exit via acquisition more difficult could hinder efforts to expand investment in innovation throughout the UK to areas outside of London, as well as have a disproportionate impact on younger VC firms that may tend to be more focused on promoting demographic diversity.

VI. CONCLUSION

The UK has witnessed a flurry of proposed changes to merger review policies in the past year. These changes are expected to lead to increased scrutiny of acquisitions of start-ups, without fully accounting for the important role of exit via acquisition in the VC ecosystem. As such, the changes may reduce exit opportunities for entrepreneurs and VC investors and threaten the UK's position as the VC hub for Europe. Such changes will also harm consumers, who benefit from the innovation that these acquisitions generate and from the incentives that motivate entrepreneurs to create new products and services that attract VC investors and acquiring firms. Moreover, the changes may curb the growth of the VC investments in areas outside of London and negatively impact geographic and demographic diversity in the UK economy.

[159] 'The B.O.X - Our Mission', available at https://www.theboxunlocked.co.uk/our-mission.