

A child wearing a silver helmet and goggles is peering out from the top of a large, white, conical launch tube. The tube is mounted on a red and black base with a white star. The background is a blurred desert landscape with mountains under a bright sky.

EY Fast Growth Tracker 2018

A survey of UK entrepreneurs

December



Building a better
working world



Executive summary

EY is pleased to share the second annual **Fast Growth Tracker**, a survey of the UK's leading entrepreneurs and startup founders. Entrepreneurs are vital contributors to innovation and growth in the UK and the cohort we surveyed in 2018 are no different. We're proud to present their views on the UK startup ecosystem and the issues they consider most important.

Entrepreneurs play a vital role in the UK economy. The products and businesses they create drive innovation, economic growth and generate jobs. In 2018 we turned to entrepreneurs for their views on the startup ecosystem, surveying the business leaders of tomorrow to determine what comes next for UK founders.

The 2018 Fast Growth Tracker proves that 'Fast Growth' companies can be found across the country and come in all shapes and sizes. The startups surveyed in 2018 are young: 59% are under five years old. However these companies have significant ambition. **Over 51% expect to grow revenues by 50% or more this year** and 43% are planning to add 10 or more people to their team in the next 12 months.

Our survey suggests that **UK entrepreneurs have a strong appetite for funding as they look to fuel innovation and deliver on their ambitious growth targets**. 66% expect to raise capital in the next 12 months and 70% of this group are planning to raise £1m or more. Crowdfunding and initial coin offerings (ICOs) offer access to new pools of capital. However for 75% of entrepreneurs traditional equity financing via venture capital firms remains the preferred source of funding.

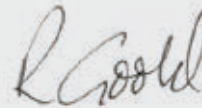
For the second year in a row **the majority of UK entrepreneurs are planning to exit to an international acquirer (53%), with 67% expecting to exit within the next five years**. This hints at a larger trend within the UK startup ecosystem, with many founders choosing to leverage the resources of a large parent organisation and accelerate growth rather than remain independent.

There are of course challenges to entrepreneurial success. The 2018 survey highlighted two obstacles that are affecting startup founders: **access to funding**

(51%) and a talent shortage (45%) remain critical barriers to growth. This is consistent with the 2017 survey, implying that further work in the public and private sector is required to help resolve these issues.

There is also evidence that **market volatility and uncertainty over the UK's future have started to impact the M&A landscape**. 29% of entrepreneurs plan to pursue M&A in the next 12 months and just 17% believe that now is a favourable time to exit. This appears to be, in part, attributable to Brexit. Over 75% of UK founders are concerned about the impact of Brexit on their business and 18% identified it as their biggest issue.

Maintaining a supportive environment for entrepreneurs who want to start and build companies in the UK will be vitally important to the country's economic future. We live in a dynamic and fast-changing world. Innovation is at the heart of this and we're proud to provide a voice to the entrepreneurs across the country who are working to invent the future.



Richard Goold
Partner
EY Fast Growth



Joanna Santinon
Partner
EY Entrepreneur Of The Year



Anna Faelten
Associate Partner
EY Corporate Finance

About the 2018 Fast Growth Tracker

Our annual survey of UK entrepreneurs offers an insight into the minds of the country's most innovative business leaders. We asked them about their priorities, frustrations and plans for the future. In 2018 we received 380 responses from startup executives and founders ...

Total respondents

380

Chart 1: Respondents by growth stage

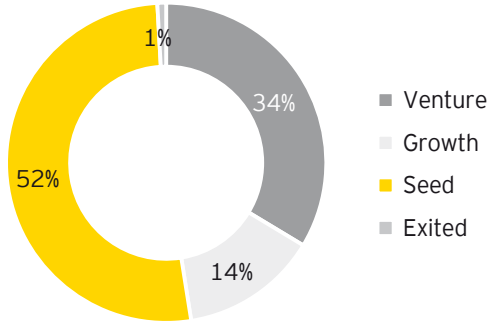


Chart 4: Respondents by industry sector

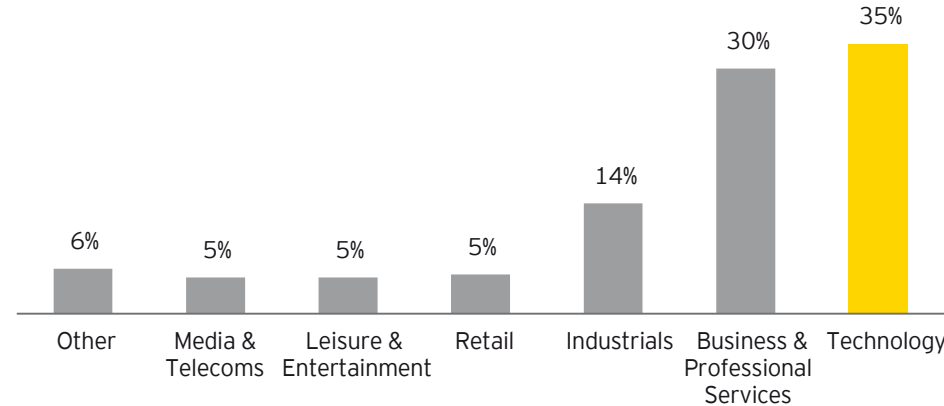


Chart 2: Company age

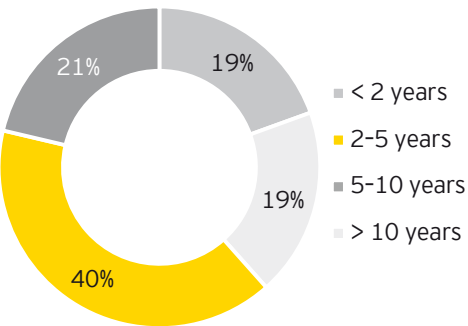


Chart 3: Prior year revenue

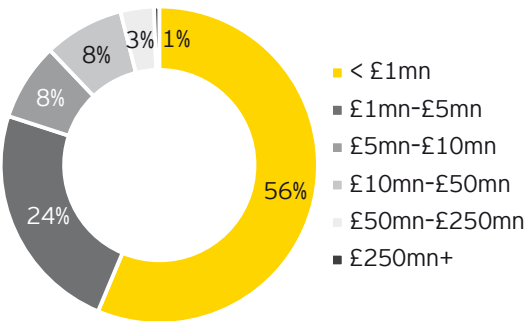


Chart 5: Respondents by location



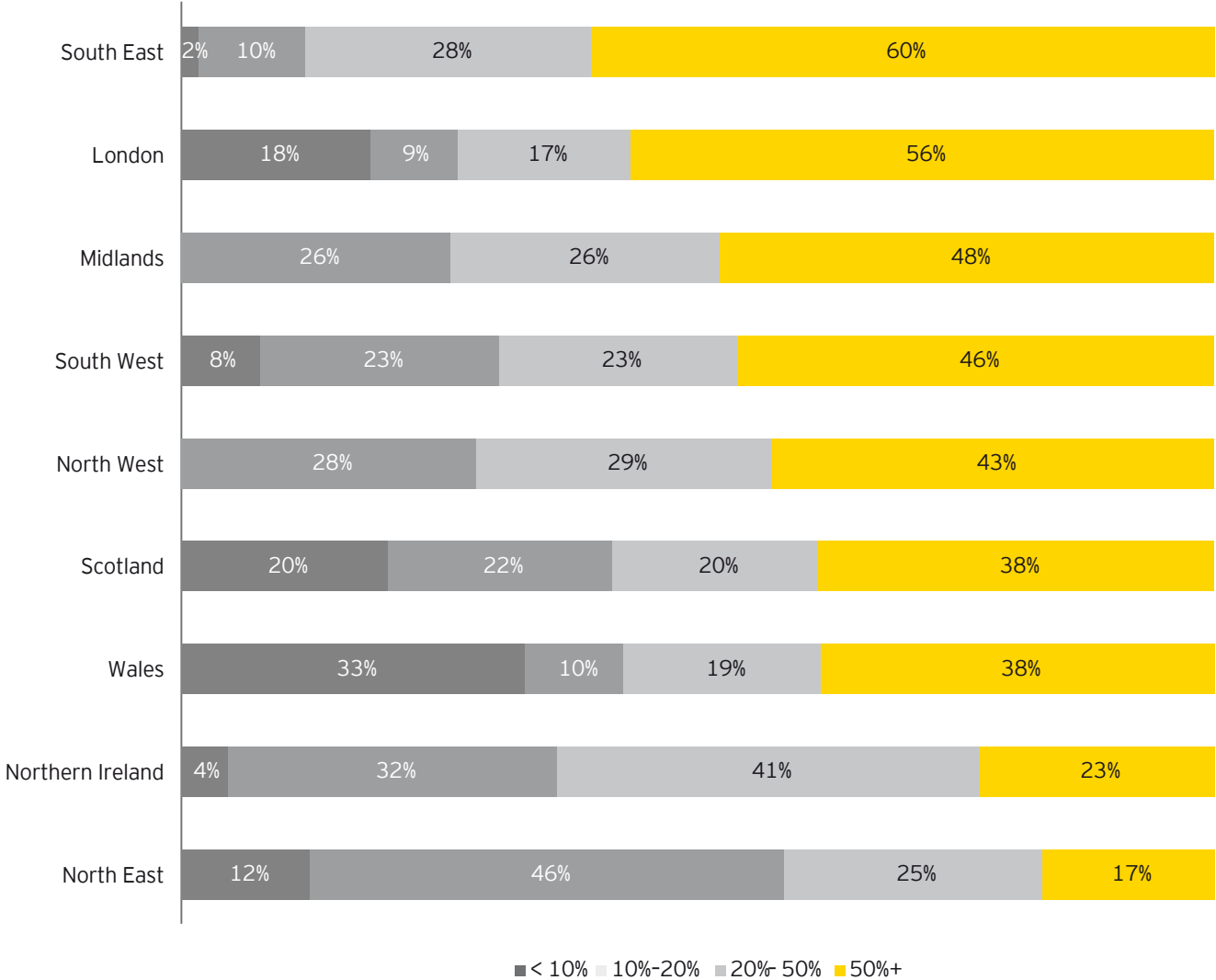
Perspectives on growth

UK entrepreneurs remain optimistic about their future growth prospects

Over 44% of entrepreneurs were able to grow revenues by 50% or more last year and this is expected to increase over the next twelve months. This bullish outlook is particularly strong in the technology sector where 59% of respondents expect revenue growth to exceed 50% this year.

London and the South East are the most optimistic regions, with 56% and 60% of entrepreneurs respectively expecting to grow revenue by 50% or more. However, while the overall outlook remains bullish there is evidence to suggest that growth expectations in other parts of the country are starting to soften. 38% of respondents in Scotland expect to grow revenues by 50% or more this year compared to 56% in 2017. Moreover, growth forecasts in Wales have followed a similar trend with the number of entrepreneurs expecting >50% growth falling from 67% to 38%.

Chart 6: What revenue growth do you expect to achieve this year?



Hiring and talent

Startups are looking to fill sales and digital roles in order to fuel growth

As entrepreneurs continue to scale their companies **access to talent becomes even more critical**. Responses to the 2018 survey suggest that some of the biggest gaps exist in sales and digital roles. 60% of entrepreneurs surveyed are currently looking to expand their sales team and 58% are actively seeking to improve their digital capabilities.



Chart 7: How many people do you expect to add to your team in the next 12 months?

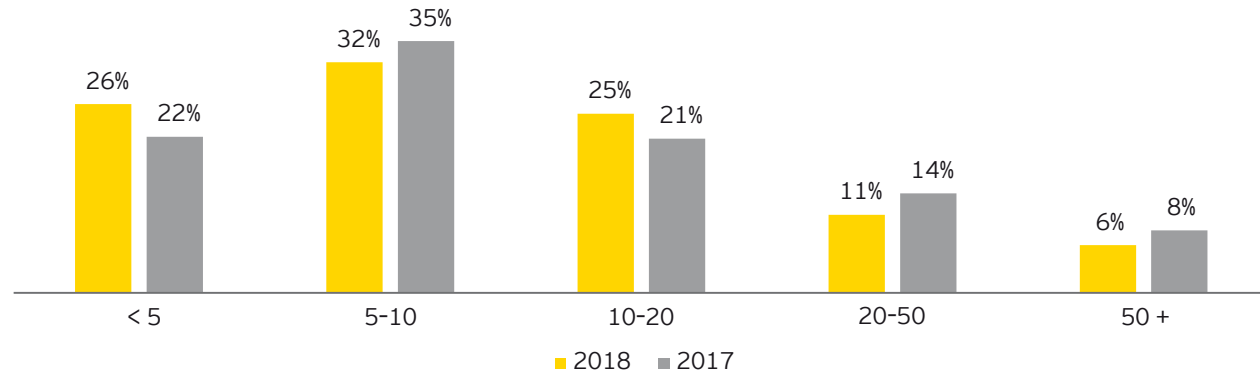
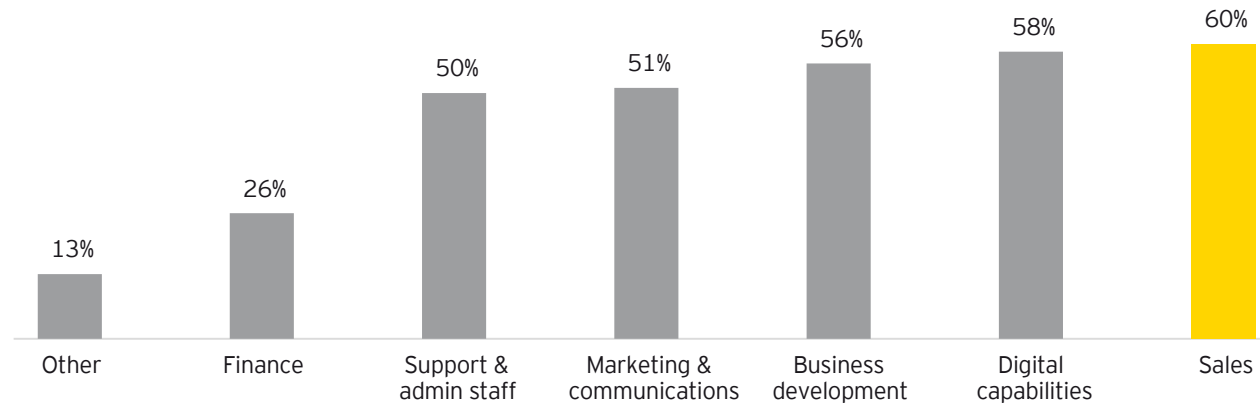


Chart 8: Which areas of your business are you looking to hire for?



Note: Respondents able to select multiple answers

Raising capital

Venture capital remains the preferred source of funding for UK entrepreneurs

The pools of capital available to entrepreneurs have increased significantly in recent years. Startups can now explore crowdfunding and initial coin offerings (ICOs) in addition to traditional equity and debt finance. However for 75% of entrepreneurs venture capital remains the primary source of funding.

In a similar manner to 2017, **team distractions and the identification of suitable investors remain the most difficult part of fundraising in 2018**. Although undoubtedly challenging, our experience is that these obstacles can be overcome through careful planning and preparation in advance of a fundraising.



Chart 9: Do you expect to raise funds in the next 12 months?

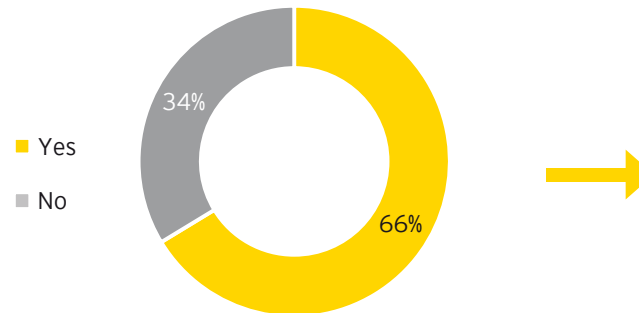


Chart 10: How much are you planning to raise?

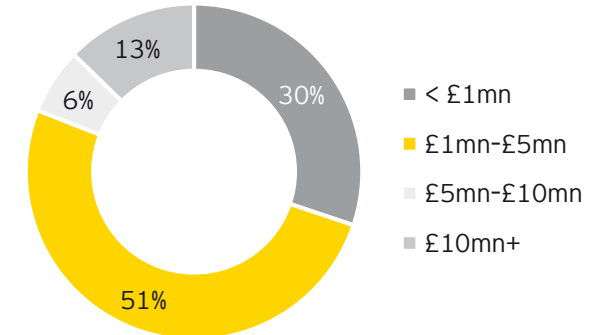


Chart 11: Which sources of funding are you considering?

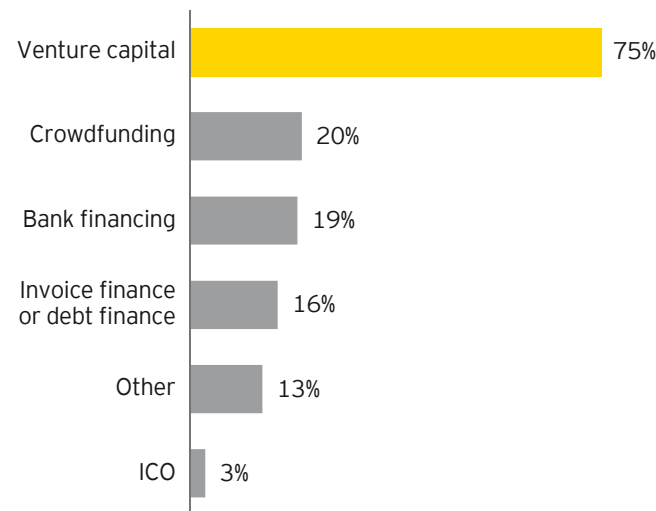
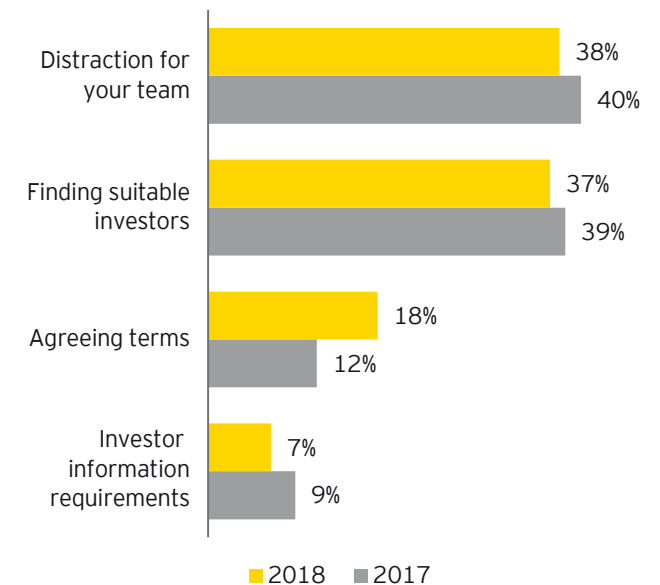


Chart 12: What was the toughest part of your last fundraiser?



Note: Respondents able to select multiple answers

Sector focus: Technology

Despite confidence in their own growth prospects, tech entrepreneurs are planning for an exit

Tech entrepreneurs remain confident in their ability to scale their businesses. Nearly 60% of the technology companies we surveyed in 2018 expect to grow revenue by 50% or more this year. The majority plan to fuel this growth by raising more money. **76% of entrepreneurs believe that valuations in the technology sector are improving** and they plan to capitalise on that by launching a funding round in the next 12 months.

Despite the optimism surrounding their own companies tech entrepreneurs aren't convinced that the UK start up ecosystem will support more 'unicorns'. 58% agree that the UK entrepreneurial environment is currently not conducive to producing 'unicorn' technology companies. Moreover, **72% plan to exit their business within the next 5 years and 25% in under 3**. In a similar manner to the 2018 Fast Growth Tracker cohort, an exit to an international corporate is the most attractive option for 60% of tech entrepreneurs.

Chart 13: What revenue growth do you expect to achieve this year?



Chart 14: Do you expect to raise funds in the next 12 months?

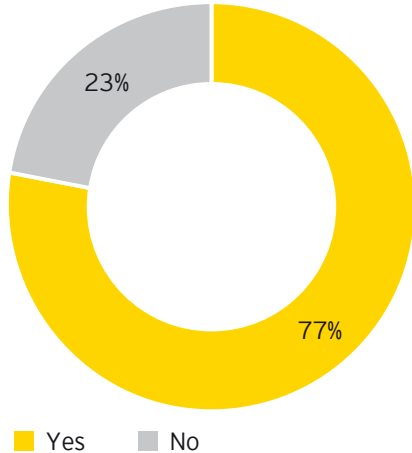
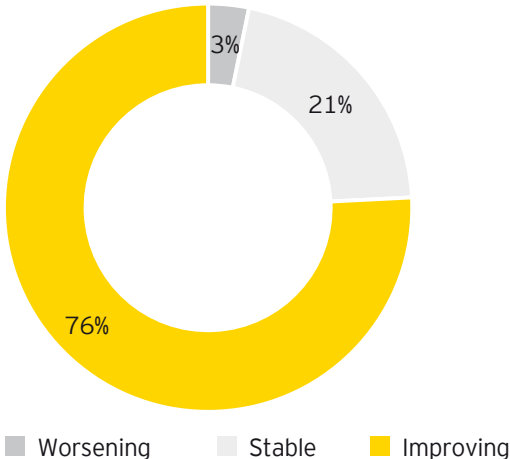


Chart 15: What are your expectations for valuations of businesses like yours?



Preparing for an exit

For the second year running an acquisition by an international corporate is the preferred exit route for UK founders

67% of entrepreneurs expect to exit their business within five years. This is consistent with the 2017 Fast Growth Tracker, however just 22% expect the exit to come under three years compared to 30% in 2017. This implies that some entrepreneurs are starting to revise their own exit timetable, with near term events like Brexit creating market uncertainty.

An exit to an international corporate remains the preferred exit route for 60% of entrepreneurs, a seven percentage point decrease from 2017. In comparison just 11% of startup founders are considering listing on an international stock exchange and 14% plan to exit to private equity.



Chart 16: When do you expect to exit?

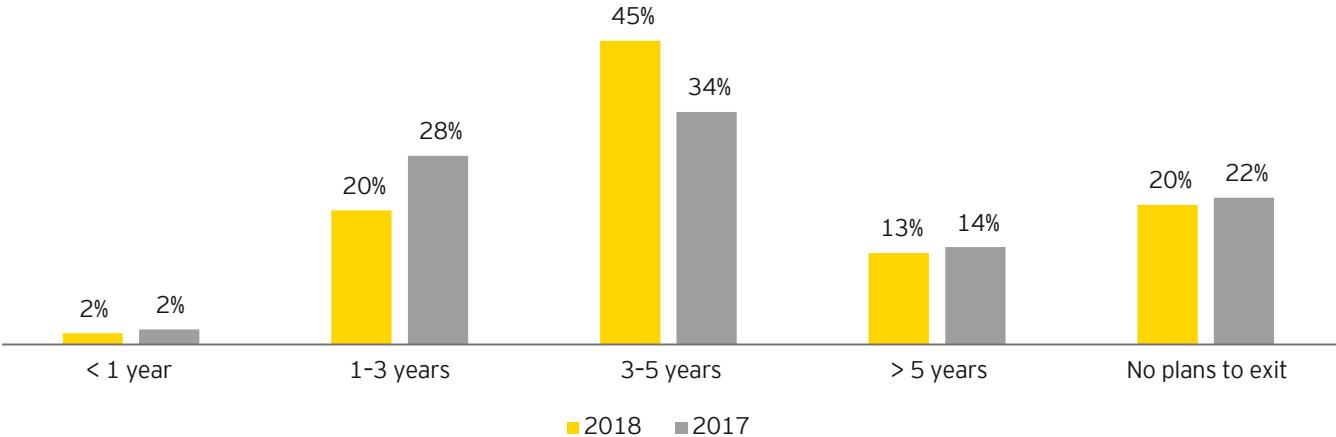
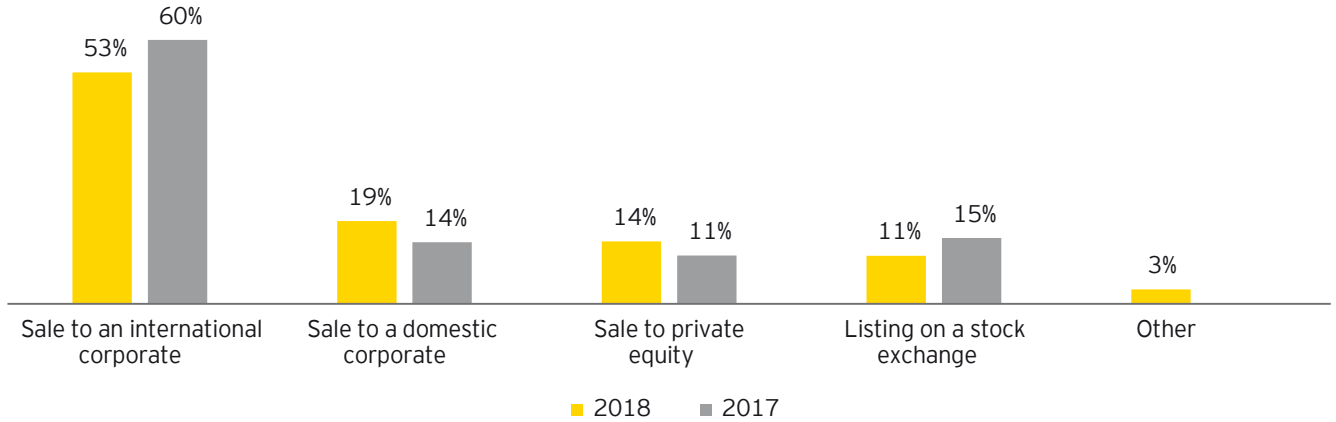


Chart 17: How are you planning to exit?



The challenges ahead

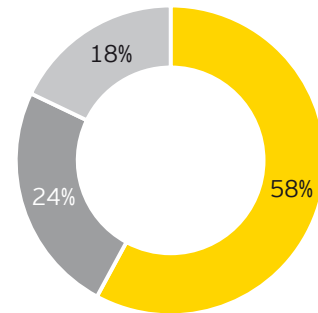
Structural challenges in the UK continue to create barriers to entrepreneurial success

Perhaps unsurprisingly Brexit remains a pressing concern for UK entrepreneurs, with 76% concerned about its impact on their companies and 18% identifying it as their biggest concern.

In addition, 49% of the founders surveyed do not believe that the current environment in the UK is conducive to producing a 'unicorn' company. This implies that there is more work to be done by the public and private sector to support UK entrepreneurs. Maintaining the UK's status as an attractive market to build a company will be of vital importance if the economy is to thrive in the future.

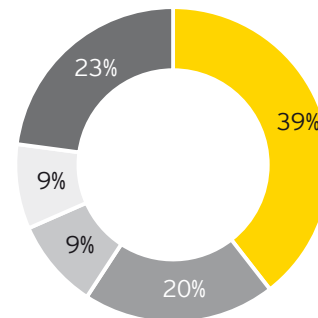


Chart 18: Are you concerned about the impact of Brexit on your business?



- Yes, but I have more pressing concerns
- Yes, it is my biggest concern
- No

Chart 19: What do you believe are the major barriers to female entrepreneur success (if any)?



- None (equal opportunity)
- Limited access to funding
- Lack of relevant role models
- Women prioritise a work/life balance
- Other

Chart 20: 'The UK entrepreneurial environment is currently not conducive to producing 'unicorn' technology companies.'



- Strongly agree
- Agree
- Neither agree nor disagree
- Disagree
- Strongly disagree

Key contacts



Richard Goold
Partner
Fast Growth Platform
+ 44 20 7951 0603
rgoold@uk.ey.com



Joanna Santinon
Partner
Entrepreneur Of The Year
+44 20 7951 5510
jsantinon@uk.ey.com



Anna Faelten
Associate Partner
Corporate Finance
+ 44 20 7951 3063
afaelten@uk.ey.com

Contributors

The EY Fast Growth Platform

The EY Fast Growth Platform provides a tailored suite of professional services and support to fast growing tech companies.

For more information, visit www.ey.com/uk/FastGrowthPlatform

EY Entrepreneur Of The Year

EY Entrepreneur Of The Year has been celebrating, supporting and connecting entrepreneurs since it first launched in the UK more than 20 years ago. The programme recognises successful entrepreneurs making a positive impact on their society and the economy, and the legacies they're building.

For more information and to enter next year's competition, visit www.eoy.co.uk

Beauhurst

Beauhurst provides research and insight on the UK's high-growth companies. The data platform allows professionals to discover and track Britain's most ambitious businesses in unrivalled detail.

For more information, visit www.beauhurst.com

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2018 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

EY-000081087.indd (UK) 12/18. Artwork by Creative Services Group London.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk