

Fueling the growth of early stage companies with Fuel Ventures #QVCS

Mark Pearson, Managing Partner of Fuel Ventures, an early stage seed/growth stage EIS Fund based in London, shares his journey, insight and what he looks for when investing in the most ambitious technology companies looking to navigate "The Valley of Death".

How Fuel Ventures began

Fuel Ventures technically started back in 2014 when we started raising our first fund, but my investment background started several years before. I started my own business, MyVoucherCodes, back in 2006 and grew it to a team of over 100 employees before exiting in 2014. At that time, I still owned 100% of the business, however, I was an active Angel investor into some other exciting fast growth UK based companies and had written some significant tickets.

After exiting MyVoucherCodes, I decided to set up Fuel Ventures because I enjoyed working closely with my portfolio and knew that I could bring significant value to other early stage companies. Fuel Ventures positioning as a 'seed fund' was really born out of this awkward space in startup growth, generally referred to as 'The Valley of Death', which is the funding gap between early Angel investment (£50K-£300K) and Series A (£3M+). This is the point where companies have a product built, are starting to get early commercial traction but don't yet have the resources to grow aggressively and

hit a point where Series A investors are interested.

It also is generally the point where founders find that they need some of their most active support, as they still can't hire large teams. I strongly felt that this was the point where I could add the most value to companies, whilst also getting the best deal for LP's. We spent the whole of 2015 raising capital and made our first investment early 2016. We have doubled the fund size each year since, and now have a great fund and portfolio support team in place and have proudly invested into 35 fast growth portfolio companies.

Industries of interest

Our investment remit focuses much more on UX and monetisation models than sector. Officially, we invest into: marketplaces, platforms and SaaS model businesses both B2B and B2C. This means that we can cover a wide range of different sectors which allows us to diversify our fund really well, which, as a seed fund, is important for us. The only sector we actively won't touch is medtech, biotech and pharma mainly because of the long turn over cycles and high cash requirement. Other than that, our portfolio covers a lot of different sectors.

The ideal founder?

We're not looking for perfection, what we are looking for is a super hungry and passionate founder/founding team with sector specific experience, good early coverage of leadership, product and tech positions and the drive to disrupt their industry with an innovative product.

The current portfolio

We love talking about our portfolio. We now have 35 portfolio companies in total which cover a wide range of sectors and 5 separate funds. So, rather than generalise, let's dive a bit more into some of our most recent investments.

Onbuy - we completed our investment into OnBuy at the start of 2020, they are currently the UK's fastest growing marketplace and have grown significantly during the COVID period. They have grown nearly 980% YoY and have gone on to raise a successful series A investment in a record 4 month's from our initial investment at a 3.9x valuation uplift for our investors. It is our fastest growing portfolio company to-date. Prior to investing, we spent a lot of time grilling the founder, Cas, on his unit economics which we thought were the

area that presented the most risk for the business. His experience really shone through at that point and we're incredibly happy with OnBuys performance.

Gyana – We led Gyana's latest round back in February of this year, they have since focussed heavily on the launch of their product Vayu, which was launched several months ago and has been a great early success. Vayu is a platform that allows no-code data science by automatically cleaning and visualising data sets. Gyana was the brainchild of Joyeeta Das and David Kell, who met at Oxford. We're incredibly bullish about the use of no-code and low-code, especially in industries that have struggled to attract top tech talent.

Poplar – our most recent investment, Poplar was founded by David Ripert and Laurie Ainley, and came out of the Founders Factory accelerator. Poplar is a distributed marketplace for 3D and AR developers to create marketing campaigns for companies on demand. They've recently announced that they are one of TikTok's first technology partners for AR Branded effects creation, as well as a Trusted Partner for Google's 3D display advertising format, Swirl.

Our portfolio is continually growing and we're always looking for new opportunities to invest into high growth potential businesses.

Changing with COVID-19

Like everyone, we've been working exclusively from home over the COVID period, which is a significant change for us as we like to spend face to face time with our companies which is a key reason we've always pushed an all under one roof approach. However, the majority of our work can be done remotely and we've been able to remain an active investor, closing several deals during this time. Our portfolio is almost exclusively digital and hardware lite, so they've generally been able to adapt well to the disruption and we've even seen some strong growth from some.

Looking to the future

For the sake of staying concise, I'll draw on a few things that we think will affect us going forward:

Recession provides opportunity. We think that global recession in the next 12-18 months is highly likely (is already happening in some places), so a key part of our focus is investing in businesses that can thrive in such an environment. Recession doesn't mean the world stops, it just means that habits change. Our job is to predict those changes.

Our relationship with companies and investors is likely to become more digital. As a result of COVID, a lot of our relationships have moved to online forums, and we now host a lot of our events online. We've found that for us, our companies and our investors that this actually works really well. We're all busy people, and so removing travel from the mix has made events much more accessible.

The UK has some of the world's best talent. We are an EIS investor, so we're restricted to making investments into UK businesses or businesses with significant UK presence, and we're fine with that. We maintain that the UK is still the number one place in Europe to build a unicorn company. Manchester was recently revealed by TechNation to be the fastest growing tech hub in Europe. Universities still rank consistently highly on global tables. We've made our name as a UK based investor and, we still believe that that stance is right.

Likewise, a few areas that we're particularly bullish on right now:

Professional, distributed marketplaces/platforms – Freelance marketplaces have seen significant growth over the last 10 years, Uber, Just Eat, Deliveroo are all really good examples of this, but all of them make losses and margins remain low. Where we're expecting to see significant growth in the next 5-10 years is the professional marketplace, where high value freelancers can connect and work with some of the worlds largest companies/ high value clients. Platforms in this space can benefit from significantly higher margins on product whilst also allowing companies/ clients to tap into a significantly wider pool of talent. We've made a few investments into this space, Distributed, Lifted, CG Hero & Poplar. COVID-19 has strengthened our conviction in this area as companies have been forced to witness the benefits of distributed teams.

Ecommerce – Ecommerce has seen significant growth over the COVID-19 period as people were unable to leave their houses. However, we expect that this growth will be sustained post COVID as well. Demographics that would usually have actively shunned ecommerce have now been forced to embrace it and we think it's highly likely that those new converts are going to continue using the product. OnBuy, Thrift+ and Feel are all companies we're backing to make a significant contribution to the growth of ecommerce.

Open banking – The UK has led the world in Fintech for several years now, mainly because it's been the perfect storm of strong tech talent and progressive legislation. We strongly believe that a big part of the next evolution of fintechs will be through the use of ground breaking open banking technology that will drastically change the way we interact with banks, payments and investments. We've made 2 key investments in this area where we expect to see high growth, Volt is a payments platform that utilises open banking to support bank to bank payments, significantly reducing the cost and increasing

the speed of transactions. Hammock is creating an open banking product for landlords, a platform where they can track their properties and also their payments, whilst also accessing services like mortgage broking and insurance broking made significantly easier through Hammocks access to their payment data.

What makes Fuel different?

Fuel is an entrepreneur led fund. I've got extensive experience in building, managing and exiting companies and other members of our team have experience working in other fast growth startups. We've been there, done it, and now want to pass some of that value onto new founders at their easiest stages of growth.

We are always a conviction investor. We lead rounds at seed, which is helpful in a space that is filled with co-investors, and we do so with significant tickets of £500,000-£1.5m. Likewise, our investment team is flexible and fast moving, which means that we can go from initial conversation to term sheet within a few weeks as long as we're provided with the information we need.

We take an active role within our companies. For all investments we make, Fuel will always take an investor director position, which means we have a very active role in guiding our companies forward, supporting founders and, also, protecting investor interest.

Fuel isn't just an investor, we're a community of founders who support each other. Running a company can be a lonely gig, so we make a lot of effort to mitigate that where we can. We organise founder coffee events once a month and large events every quarter. We're also currently going through the process of formalising our already active advisory network with the help of Arbolus, one of our portfolio companies. General response from our founders has been great and, even better, has encouraged more suggestions. Ultimately, we're here to do whatever we can to make their lives easier. We invest in them because we know that, with the right support, they will create game changing businesses.

What one piece of advice would you give founders?

At the early stage, having lots of goals can feel overwhelming. We always encourage our companies to come up with 3 key KPI's for the business that we focus on until Series A. The KPI's should be the data points that you think are the most important to grow the business (for example, number of users, WAU/MAU, downloads, churn etc). Until Series A, you should take the approach

that, if any work is not directly improving the KPI's, then it's a waste of your time and should likely be forgotten. Until you can afford the luxury of having more specialised teams within your business, you'll usually find that forcing yourself to focus on too many metrics means that you'll fail on all of them.

Article by MARK PEARSON