

The rise of boring: Why investors have become so enamoured with the dull and mundane

If the past 30 years have shown us anything, it's that with the start of a new decade comes the start of a new era of technology. Personal computing enabled the web and the web empowered mobile computing. The ubiquity of devices and the swathes of data they create fuelled cloud computing, and as we move through 2021, we're entering the next era of deep tech.

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Deep tech firms are those that sit directly behind – or many layers below – the consumer technologies we rely on daily. They're not sexy and they're rarely newsworthy. They're often complex, confusing and niche. In summary – they're boring. But in the current investment landscape, it seems that boring is more important than ever.

The rise of boring

We're using the term boring flippantly. A better descriptor may be 'functional', or 'critical'. According to Nathan Benaich, founder and general partner at Air Street Capital: "For a startup to earn the 'deep tech' label, there must be science or engineering risk in getting the idea to work and, assuming it does, risk in proving market demand for that product. If there is only one of these risks, then we're not talking about deep tech."

Swati Chaturvedi, the founder of deep tech angel investing firm [Propel\(x\)](#) who is credited with coining the term, deep tech is born from 'a scientific discovery or meaningful engineering innovation.' Traditional tech firms, by comparison, are largely built on business model innovation; repurposing existing technology rather than building something from scratch.

Data from the [European Startups project](#) shows that deep tech – AI, blockchain, robotics and quantum technology among many other subsectors – now accounts for a quarter of all venture capital investment in Europe.

The combined value of European-founded deep tech companies is \$845B and growing.

This rise of boring can be attributed, in part, to deep tech breakthroughs crossing into the mainstream. Google achieved quantum supremacy for the first time last year, while DeepMind found a solution to a major protein folding challenge. Both got worldwide coverage. Advancements in [mRNA-based vaccines](#) made headlines when the Moderna Covid-19 vaccine was approved. Cambridge Quantum Computing's entire MO is improving access to quantum computing with its quantum development platform, [t|ket](#).

And then there's the small matter of the global pandemic.

"Investors want to make the greatest possible return on their investment," Phil Bird, founder of enterprise marketplace Perfect Channel tells *Maddyness*. "The pandemic has resulted in many adopting an increasingly risk-averse attitude. As such, many investors will be looking for "safer" options, which are more likely to generate returns. The crashing and burning of hyped companies like WeWork will only add to this."

More capital to go round

If we broaden the scope, another reason why boring, deep tech companies are having such a moment is because of the increasing number of VCs with increasingly niche theses. A rudimentary search on Crunchbase reveals 6,000 organisations classified as venture capital firms. This doesn't include the investment arms of corporations, nor does it capture all family offices, private equity firms, university spin-off funds and angels.

The investment market has become saturated and highly competitive and – for founders – there has never been a better time to launch a startup, despite the pandemic. To stand out, VCs are finding unique approaches to attract the best founders, and this often relies on niche skill sets and experiences. Whereas a decade ago, deep tech firms would have struggled to find an investor who understood their technology and had the capital to back it, today, many are spoiled for choice.

Of course, tech doesn't live in a vacuum. Outside of these advancements, a wave of recent regulatory changes have taken place which directly play into the rise of boring.

“There are huge global background trends at play that are changing the world, and will change it even further,” said Ian Gass, CEO of London-based payment and identity company, Agitate. “This change is happening not just via the entire technology stack, but even in the market rules and infrastructure. With this change comes great opportunity, hence big investments are being made.”

In the past decade alone, such changes include the introduction of GDPR and the California Act. Open Banking and PSD2 protocols have shone a spotlight on fintech processes, not to mention the Online Harms Bill and Digital Economy Act moving through parliament.

“VCs are not stupid; they are looking at these same trends and trying to predict what the future world will look like,” said Gass.

Europe is all grown up

In Europe, the growth capital market has matured to the point that unicorn founders and alumni now also have the means to invest in the next-generation, creating a trickle-down effect. Along with money, they bring real-world experience of how to scale.

As a sign of such a trend, Blossom Capital recently launched Cultivate, an angel

investment program in which current and former unicorn executives not only help fund new technologies, but give up their time to mentor founders as well.

Elsewhere, universities and research organisations are getting increasingly better at spinning out innovations. The UCL Technology Fund managed by AlbionVC in collaboration with UCL Business, for example, made 45 investments from its first £50M fund. More than half have subsequently raised external funding exceeding £1B and created more than 570 jobs. The fund was such a success, UCL and Albion launched a second £100M fund in the summer.

“Building a deep tech startup – particularly in the early phases – largely goes against everything VCs typically look for,” said David Grimm, investment director at the UCL Technology Fund.

“Metrics make way for value, revenue makes way for loyalty, and fast growth makes way for patience.”

“The traditional playbook is effectively thrown out on a gamble because a smart person has a smart idea.”

“These companies often solve very real problems and deliver great value to their customers resulting in massive, global markets,” said Mikael Johnsson, general partner of Oxx. “But they don’t get the appreciation they deserve. It takes a certain type of investor to really get under the hood and understand the true potential for these companies. Most investors either aren’t willing to spend the time, or don’t have the knowledge and skills to do it.”

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The boring spectrum

Beyond the truly deep tech innovators, there are the businesses that aren't deep in the 'risk' or 'scientific breakthrough' sense, but are technologies that lie deep within workflows. There are also technologies that underpin entire global systems, but which the majority of people have never heard of. Some are built on former deep tech breakthroughs, being used in new, innovative ways.

Each of these technologies have similar critical importance as traditional deep tech firms, but they occupy a different area on the boring spectrum. VCs have varying views on what these companies look like.

"Boring can mean that there's not a lot of money circulating around the opportunity, even though it has giant value," said Rana Yared, general partner at Balderton Capital. "Like the pipes and plumbing of financial services, or critical issues with global shipping supply chains and freight moving, these can be the giant opportunities that might go unmissed."

For Dan Bowyer, partner at SuperSeed, a boring company is one that "makes money quietly behind the scenes, while no-one is watching. And then, boom, it's big news. The CEO is on the cover of TIME, and is investing millions back into "boring" technology companies."

One such company is Checkout.com. After launching its unified payment platform in 2012, the team spent seven years steadily growing, onboarding new customers, signing partnerships and developing technology. Then, in 2019, it made global headlines after raising a record-breaking \$230M Series A round. Suddenly, a firm that is functional, critical and downright boring was big news.

When Blossom Capital's Ophelia Brown launched Cultivate, it's no surprise that Checkout.com's CEO Guillaume Pousaz was among the first angels to sign up.

The boring butterfly effect

Each time a traditionally boring company such as Checkout.com breaks through to the public consciousness, it creates a butterfly effect. It spurs a host of related technologies that build on its breakthroughs. It sets a precedent for the next generation of boring firms to lean into, inspires founders to use the breakthroughs in new and exciting ways, and helps VCs use real-world metrics to guide decision making.

Take AI, for instance. When machine learning and deep neural networks were first conceived, they were the very definition of boring.

“AI started as a frontier technology where companies could sell on the promise of the technology alone,” James Coombes, CEO of vector.ai tells *Maddyness UK*. “Now, the focus is more on the application of AI to industry rather than AI itself. It is a consistent problem, when AI is the hammer everything looks like a nail. There are almost too many things that AI could be potentially used for.”

The same can be said for cloud computing. Once a highly specialist, niche and deep-tech market, it's become a way of life. *Gartner* predicts worldwide public cloud spend to grow 18% in 2021, reaching \$304.9B up from \$257.5B in 2020.

What then happens is a new wave of boring begins. More specific use cases and markets are found for these baseline breakthroughs, requiring more VCs with specific knowledge.

In fintech, as just one example, PayPal paved the way for the likes of Checkout.com, which helped pave the way for challenger banks like Starling and Monzo. These businesses opened the door for the likes of Billhop, a firm that helps small businesses plug their liquidity gaps and improve cash flow, and Pleo, the expenses tracking platform, among many more.

“They are a springboard to support new business innovations, above and beyond the technical issues they are solving,” said Tara Reeves, partner at OMERS Ventures.

“Open banking and accounting connectors have allowed for new lending structures and approvals. They've resulted in new personal finance management and forecasting businesses to be built on top of them. I'm sure there are several more I haven't heard about or dreamed up yet. That's the power and beauty of these “boring” businesses.”

COVID-19's impact on boring

While investments in deep tech and functional companies have been steadily growing for a number of years, the most recent boom of boring is being pinned on COVID-19.

“The surge of digital transformation and innovation over the past decade has often focused on the ‘shiny’ exciting things [with] the more important and ‘boring’ processes – such as accounting, expenses and invoices – often taking a backseat,” Pleo’s CEO Jeppe Rindom tells *Maddyness UK*.

“The pandemic has evidenced a need for essential technology like ours. [It] has exposed gaps in so many traditional business processes. It has forced everyone to adapt and it’s made sorting the ‘boring stuff’ that little bit more exciting.”

Sebastian Andreescu, CEO and co-founder of payment platform Billhop, said: “In the past, a lot of investment opportunities were fuelled by choosing the hottest and newest consumer brand. Paying your bills might not be the most exhilarating time of the month [but] what we’re seeing now is a huge backing of B2B solutions, enterprise, SaaS, and other backend products. These are often simple solutions that tackle specific, yet highly important needs.”

Beyond fintech – which is largely a poster child for the most boring yet useful innovations – the pandemic is seeing initial breakthroughs across AI and cloud filtering into more areas, particularly those with legacy, often offline, manual processes.

Coombes’ vector.ai focuses on digitising logistics and customs paperwork to reduce costs and processing time. It’s a seemingly boring and niche application but one that has huge reach, particularly in the wake of Brexit.

Elsewhere, Poland-based infrastructure-as-a-code startup Spacelift allows teams to manage complex cloud infrastructures. Topolytics is a data analytics platform for tracking waste. SwiftComply builds tools to prevent fat, oil and grease from entering sewer and drainage systems. The list, and the borderline quirky use cases, go on and will continue to rise.

Given that boring is so critical, there may be another reason why it’s so popular – it won’t ever go out of fashion. And, according to Eamonn Carey, managing director at Techstars London Accelerator, it’s only just getting started.

“People have started to realise that no industry, no matter how deathly dull and archaic it may be, is immune from disruption,” he said. “We’ll see so much more ‘boring’ innovation [in the next five to ten years] as people start seeing the opportunity to solve very dull and tedious challenges and processes with tech.”

“Despite being labelled as ‘boring’, these companies are far from it,” said OMERS Ventures’ Tara Reeves. “The solutions they continue to provide to organisations around the world fill me with both excitement and confidence that their success is going to be very long-lived. The future is definitely bright for these companies and the seemingly endless ambition that’s coming from

European founders is only going to continue attracting the capital they require.”

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