Defining the new economy and crossing the chasm between rounds, a profile of Volution

In the ever-growing investment landscape, funds are multiplying and diversifying, and for startups there is more to raising investment than the money and the media moment. With #QVCS Maddyness profiles different funds to give founders and entrepreneurs the information they need to choose the right investor. Today we interview James Codling, Managing Partner and Jonny Laughton, Partner at Volution.

We founded *Volution* in 2021 having identified *funding gap* in the founder journey from Series A to Series B.

The road to Series B is notoriously tough for any founder, with investors demanding more evidence of strong metrics and sustainable traction at this stage. This is not helped by the siloed funding structures of the UK investment landscape and an evident bottleneck when it comes to the availability of funding at Series B. Any business that successfully raises a Series B round will materially increase its chances of exit, and we believe that there is collective benefit in helping more companies to complete the journey from A to B.

At Volution we are backing the businesses that will define the new economy and we want to see more great companies reach their full potential. We offer flexible financing solutions to help founders cross the chasm between rounds and provide the operational support they need to get to Series B and beyond.

We have raised our first fund and have deployed into eleven ambitious UK based FinTech and SaaS businesses. We are now targeting a few additional investment opportunities and aim to close this fund in the next quarter, with an eye to raising Fund II in the second half of the year.

Which industries are you working in?

We're investing in businesses that focus on using technology to improve efficiency in capital markets and in the way we work: companies with the potential to improve working lives, productivity, and financial inclusion. We look for highly scalable operating models based on SaaS, AuM or transactional income streams. Our portfolio is roughly 50% FinTech and 50% SaaS, with some cross-over RegTech businesses that sit between, like *FullCircl*, the Customer Lifecycle Intelligence platform. In terms of verticals, the portfolio is quite diverse: we have invested in a neobank (*Zopa*), a home-buying platform (Habito), a lead generation business (*Cognism*) and a reputation management software company (*Signal AI*), to name a few. We look for companies that could become category leaders in their field. It is the transformative potential, the repeatability and the scale of ambition that unites our portfolio.

What do you look for in a founder?

We look for founders with ambition and drive – those who can hustle! An important quality is the ability to analyse, reflect, and if necessary – change course. Too many founders will keep pushing along in the same direction when something is not working, and only wake up to it when it's too late.

At the stage that we invest in (post Series A), we look for CEOs who have a track record of execution. Someone who has identified and honed-in on a market opportunity, who has a laser sharp focus and who understands where the value is. We look for leaders who are clear on the direction of the business and who can take their team on the journey with them. It is important for founders to understand the relationship between investors and management, which at its best is symbiotic, working together so the business can reach its greatest potential.

Can you talk about your current portfolio?

With pleasure! So far, we have built a portfolio of eleven innovative UK Fintech and SaaS businesses. We recently invested in the UK's leading savings platform, *Flagstone*, a company that started out to enable HMW investors to manage and diversify their cash holdings. By developing their tech capability, they have now reduced their minimum deposit size, empowering more savers to earn greater interest and reduce risk. Earlier in the year we took part in Cognism's Series C having first backed the company in 2018. We have seen this SaaS business, a leader in international sales intelligence, grow from strength to strength, earning recognition with its inclusion in the Deloitte Fast 50 and TechNation's Future Fifty programme last year, and we're excited to back their latest phase of growth as they continue their international scale-up. We also followed on into *DeadHappy* an insurtech on a mission to reshape how we think about and plan for death. Their innovative "Deathwish" platform that helps customers give meaning to how they wish to be remembered. You may recognise DeadHappy from their *outlandish ads*!

At the end of last year we saw two of our portfolio companies acquired by global strategic businesses. Brightpearl, the leading order management software company, acquired by Sage; and Passfort, the customer life-cycle management business, sold to Moody's. Brightpearl is a great example of a business that really prospered after finding their customer sweet spot, and then committing to it with relentless focus to build a category leading business. The Passfort acquisition is a great illustration of how our model at Volution works: the extension capital that we provided enabled Passfort to get to the next round, which led to a successful exit within a period of just seven months.

We're currently looking at some other great businesses with strong scale-up potential, including a platform enabling more families to get on the housing ladder through gradual home ownership, and one that helps businesses acquire and engage customers at scale with digital incentives. We find it incredibly exciting and inspiring to see how the UK is generating so many high-potential companies changing the way we work and live through transformative technology and innovation. The team at Volution sees it as our mission to ensure that more of these ground-breaking businesses succeed for the benefit of all.

How has COVID-19 changed the way you

operate?

We effectively built our business during the pandemic! It was a busy time, and it had its challenges. We were deploying into companies whose CEOs we had never met in person: this would never have happened before 2020. It is much harder to build a relationship on screen – you lose some of the subtleties of the interaction and some founders present quite differently on screen and in person. For us, as for many, the pandemic accelerated the transition to a more virtual way of doing business, including increased flexible and hybrid working. We think this is a great step: we’ve always believed that a flexible team is a happy team, and we’ve never been advocates for face time for its own sake, though we do enjoy it when we all get together in person! To a certain extent things today are easier, greener, and more efficient because of the transition. We spend less time travelling between meetings and achieve more in a day as a result. Almost all our portfolio companies have made a similar transition to this new way of working. Our founders also acted at the beginning of the first lockdown to mitigate the potential fall out of the pandemic, revisiting their cost base and operating models and adapting for the challenging circumstances. Undoubtedly many of them are stronger for it now.

What does the future look like?

Since 2020, we have seen a significant and timely shift in the landscape when it comes to incorporating Environmental, Social and Governance factors into the business strategies and daily operations of VC funds, start-ups and scale-ups. As many big corporates and asset managers have started to do already, VCs are now waking up to the need to take action on global threats such as climate change and social inequality. The dynamics of our industry mean that VC funds are uniquely positioned to catalyse change by investing in and supporting young, innovative businesses, and encouraging them to integrate best practices in ESG from an early stage. At Volution, we are determined to turn good intentions on this front into action and we have designed the fund to incentivise this. Not only do we encourage best practice sharing across the portfolio by bringing our founders into the fund, we are also putting our own profits behind ESG action with what we call ‘carbon carry’. CEOs can earn additional carry in the fund by achieving specific ESG targets, and we will then match what they earn against ESG initiatives such as carbon offsetting. We’re proud that two of our portfolio companies have already been certified as B-corps, the gold standard for ESG and we’re keen to see others in our portfolio motivated to join their ranks.

What makes Volution different?

At Volution, we are driven to ensure that more high potential companies can navigate the notoriously difficult path from Series A to Series B and beyond. Our team includes founders, investment professionals and operational experts who come together to help the ambitious CEOs we back to ‘cross the chasm’. We do this in three ways. We offer extension capital when it is most needed, we provide CEOs with the support that they need to reach the next round, and we bring our founders into the fund – building a community of entrepreneurs.

Our first cheque is usually in a bridging round: as I mentioned earlier, market conditions are creating a perfect storm, and companies that have raised Series A capital now face a far steeper climb to Series B than before. We believe that extension capital deployed in the right way can help bridge this gap, and in doing so, will enhance the outcome for success. Once our founders have the runway they need to focus, we offer the services of our Growth Model – whether that is leadership support, fundraising expertise and introductions, or go-to-market strategies: whatever they need to get to the next round. In addition to our core team, we have a growing pool of entrepreneurs in residence (EIRs) who bring their experience to the table. And both the EIRs and the founders we back get equity in the fund – so we’re creating an eco-system of entrepreneurs driven to build together.

What one piece of advice would you give founders?

Founders that want to succeed need to practice relentless focus. We know that the path to Series B can be the toughest stage of execution. A company with a clear value proposition and signs of early traction may have been able to win over investors at Series A, but Series B investors demand more; they look for clear evidence of strong metrics, robust product-market fit and a sustainable business model. The key for founders is to understand what Series B investors are looking for, and then commit to hitting those metrics. The payoff is that any business that achieves a Series B round is 50% more likely to have a successful exit, so it will inevitably be worth the blood, sweat and tears needed to get there. If at Volution we can help to make this transition for founders any less painful and more achievable, we will have done our job!

James Codling is Managing Partner and Jonny Laughton is a Partner at *Volution*.

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