

A world in constant movement: Digital Catapult's report on the early-stage investor ecosystem across Europe

The UK remains the epicentre of deeptech innovation in the eyes of European investors despite cost-of-living crisis, ongoing inflationary pressures, and geo-political upheaval.

We live on a planet in constant movement.

In 2023, it is common knowledge that we are all living on a big rock.

This big rock is rotating at 1000 miles per hour, making it possible for life to thrive on its surface.

Surrounded by other flying rocks, these celestial bodies are floating together, like a ballet of titans. This rotation, this eternal dance is the result of a cloud of gas and dust collapsing on itself because of gravity, creating Earth and its everlasting spin.

But continents too, despite appearing as huge terrestrial bodies to a human scale, are nothing else but islands moving on a blue sphere.

The movement of tectonic plates has, for millions of years, forged the geography of our world, giving each continent unique resources and shapes.

Catapulted away from each other, these moving landmasses have given to one of these continents, Europe, a unique and sinewy aspect.

Because movement is what makes Europe and the world go round, it is primordial to check their pulse to better understand their journey and prosperity.

Digital Catapult, the UK authority on advanced digital technology, has released its European Investor Attitude Tracker, which represents a comprehensive pulse check on the early-stage investor ecosystem across Europe.

Checking Europe's pulse

The pan-European research comprises data compiled from more than 1,250 early-stage investors from across the UK, France, Germany, Netherlands and Spain. Investors surveyed have invested in 97 startups on average, with an average investment of £821,460, and an average success rate of 26%.

With the UK government having stated its aim to make the nation an “international technology superpower” by 2030, European investors believe the UK is well on its way to achieving this ambition with 25% of respondents touting it as the epicentre of Europe's deeptech development and investment. Germany, however, is only marginally behind, with 24% of investors holding this view about the continent's largest economy by GDP.

“The UK has a history of incubating some of the most investable deep tech businesses in Europe and, as this new data reveals, despite ongoing economic headwinds and geo-political crises, investment appetite for sustainable, advanced technology-based solutions remains strongly focused on the UK.” says Dr Jeremy Silver, CEO of Digital Catapult.

AI or the champion of growth

Against the backdrop of a year of ground-breaking developments and significant technological advances in the field of Artificial Intelligence, Generative AI and Responsible AI are touted as the two areas with the biggest potential for growth. These were followed by Spatial Computing, the Metaverse, Quantum Computing , Web3, Digital Twins, and 6G.

Driven by the war in Ukraine, soaring price rises due to ongoing inflationary pressures, and a cost-of-living crisis across Europe, early-stage investors have seemingly adapted their appetite for risk accordingly. More than two-thirds (69%) have reviewed their risk strategy, with this being most pronounced in the UK, where 75% have taken this action.

However, 35% of investors buck this trend and say that their risk appetite is higher despite economic challenges. Those investors with larger start-up portfolios (250+ investments) are even more bullish, with 44% saying their risk appetite has increased.

Equality at stake

The three biggest challenges investors cite when funding deeptech businesses are their lack of understanding/knowledge about deep tech startups, lack of industry connections, and a high chance of failure. And beyond a specific deeptech focus, investors view limited access to talent/skills, regulatory/legal obstacles, and competition from large incumbents as the most limiting factors when backing technology start-ups.

“Investors cited lack of industry connections and the challenge of navigating the startup landscape as one of the biggest barriers to investing in deep tech startups. That’s a challenge which Digital Catapult is here to help address. Our role remains to help increase private and corporate investor confidence through a dynamic range of acceleration and

innovation programmes.” added Dr Jeremy Silver.

Turning to inclusivity around the investment process, a staggering 99% of respondents believe some form of bias is present in the investment process. This is most detectable in scouting and deal flow. This is closely followed by investment committees. 78% of German investors are most positive about their market’s potential to offer equal access to capital to founders, compared to just 53% in France.

Founders who struggle the most to access capital are, according to respondents, likely to come from less wealthy backgrounds; have a disability; or belong to an ethnic minority. However, to some extent, investors do in fact blame founders for reduced opportunities, with 41% of respondents citing a lack of investment knowledge as the principal culprit for start-ups struggling to secure investment.

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