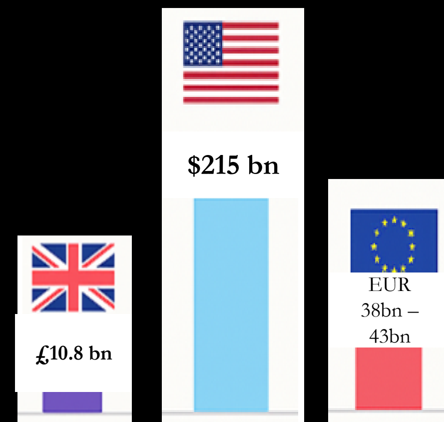
UK Venture Capital Market

UK Small Business Ecosystem



Investment Tax Reliefs

Valuation & Business Acronym

Angel Investors & Entrepreneurs

Bahaa G. Arnouk

London 2025

This publication is designed to provide accurate and authoritative information regarding the subject matter covered. It is read with the understanding that neither the author nor the publisher is engaged in rendering legal, investment, accounting, or other professional services. While the publisher and author have used their best efforts in preparing this publication, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional when appropriate. Neither the publisher nor the author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, personal, or other damages.

About Dr. Arnouk

Business Author | Business Advisor | Audit Director RI | Transforming Businesses Through Audit & Assurance Excellence

Contact me:
Visit my website:
Home - Bahaa Arnouk

You can email me at:
b.arnouk@bahaa-Arnouk.co.uk

Or on LinkedIn:
Bahaa G. Arnouk, - Ph.D. - ACCA - SCPA | LinkedIn

Based in London, I bring 18+ years of global expertise in audit & advisory services, specializing in large corporations. Passionate about venture capital, economic policies and equity market, exceptional client experiences, fostering innovation & building lasting partnerships. My journey began in the Middle East, navigating diverse business landscapes & regulations. I now leverage this experience to guide UK organisations, particularly in Oil & Gas and Services, towards financial clarity & robust governance.

Business Author: Variety of business writings and publications on different business topics in different jurisdictions. Click on the below buttons to visit my blogs and books.

Global Economy & Investment Frontiers series:

- BRICS Odyssey: Navigating a Multipolar World
- Global Economy Shifting Currents
- The EU Horizons: The Economic Realities Driving Tomorrow’s Investments
- The Middle East Economy A Rising Star
- The Arabian Gulf Economic & Investment Ecosystem

Global Hegemony A Strategic Illusion

UK Venture Funding Ecosystem

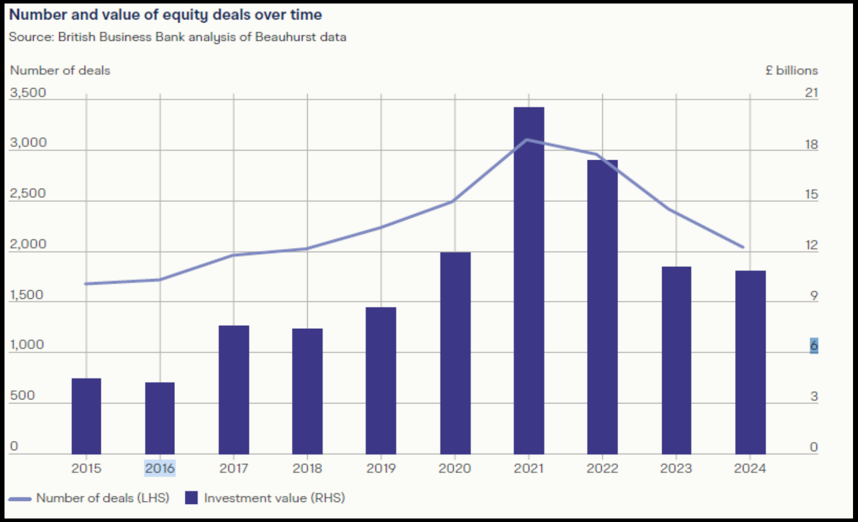
UK smaller businesses attracted £10.8 billion of investment in 2024 — just 2.5% down on 2023.
Although volumes remain muted compared with the exceptional highs of 2021 (£20.6bn) and 2022 (£17.4bn), 2024 still ranked as the **fifth-strongest year on record** and comfortably above pre-pandemic levels. This underlines a market that has cooled since early 2023 but continues to deliver historically strong levels of funding..

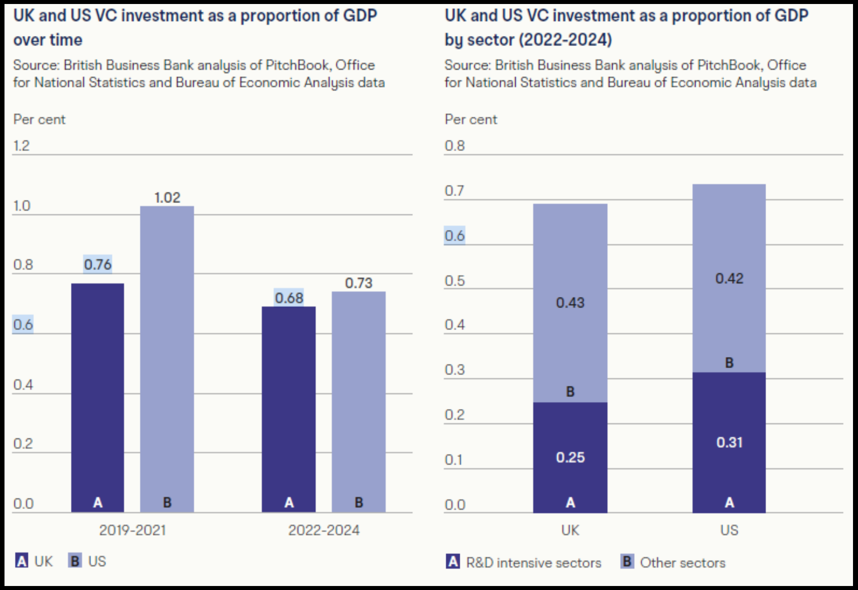
Over the past three years (2022–2024), UK venture capital investment has averaged **0.68% of GDP**. That puts the UK just a touch behind the US, which stands at **0.73%** – in other words, the US channels about **10% more capital** on a GDP-adjusted basis. But the real story is how much the gap has closed. Back in 2019–2021, US VC intensity was around **1.3x higher**, at roughly 1% of GDP, while the UK lagged further behind.

So what still drives the difference today? The answer lies in **R&D-intensive industries**. In 2022–2024, US VC investment in these sectors represented **0.31% of GDP**, compared to **0.25% in the UK** – a gap of about **1.3x**. By contrast, when you look at all other sectors – including fintech, where the UK is a recognised global leader – the two markets are virtually on par.

In short, the UK has closed much of its historical gap with the US, and now matches it in most sectors. The remaining shortfall is concentrated in **R&D-heavy industries**, which explains almost all of the difference between the two markets.

Source: Small Business Equity Tracker 2025 | British Business Bank



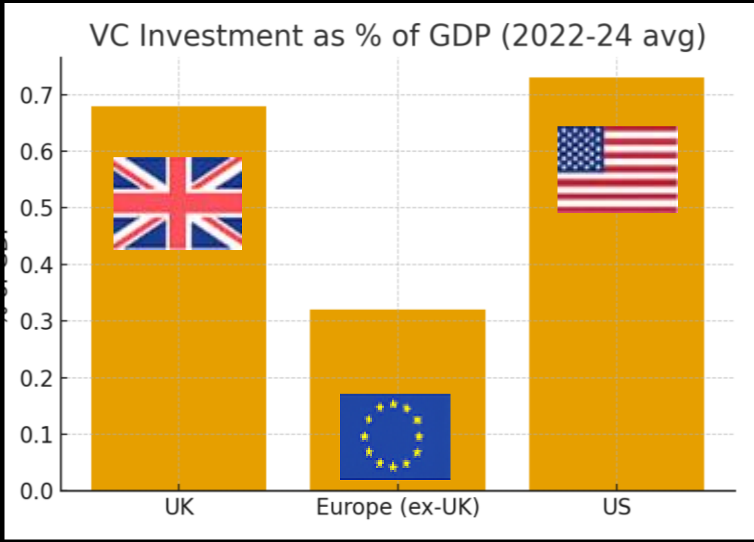


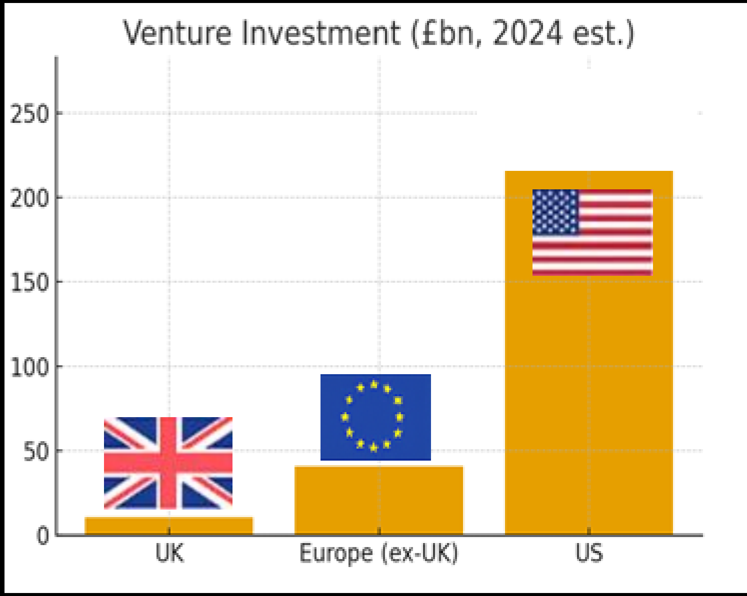
UK vs Europe vs US – Venture Funding Snapshot

- In 2024, the United States cemented its position as the undisputed heavyweight of global venture capital. More than half of the world's deal value—57 percent—flowed through American firms, which together closed 14,320 deals worth $215.4 billion.

- But the geography of U.S. venture capital is more nuanced than those big numbers suggest. The traditional powerhouses—California, New York, and Massachusetts—still dominate, drawing the lion's share of investment. Yet, outside these hubs, a different reality emerges. The typical venture fund in these rising markets is just $10 million, less than half the national median of $21.3 million. It's a sign that while capital may be smaller in scale, the appetite for innovation is spreading far beyond Silicon Valley and Wall Street.

- UK startup equity market: £10.8bn in 2024, ~2,048 deals (5th-highest year).
- UK outperforms mainland Europe (France, Germany saw sharper declines).
- Earlier stages of the market experienced larger reductions in deal numbers in 2024. The number of seed and venture stage deals fell by 14.5% and 17.2%, respectively, while growth stage deal volumes were down by 11.5%. This decline in early-stage funding was a global trend in 2024, with other leading markets also experiencing this challenge. Overall, the pace of the UK market's recovery is behind that of the US but ahead of the rest of Europe.
- US still far larger ($215bn+), but UK closer to US as % of GDP (0.68% vs 0.73%).
- Angels (£1.6bn EIS), VCs (domestic & overseas), and BBB programmes form the backbone.
- Strong momentum in AI, life sciences, and university spinouts (£1.9bn in 2024).
- London dominant but regions (Scotland, North West, Midlands) gaining share.
- Trend: Fewer, larger deals; >50% follow-ons; R&D sectors underfunded vs US – VC opportunity.





UK Venture Capital Schemes

EIS, SEIS, SITR, and VCTs

Tax Reliefs & Market Activity

Investor Tax Reliefs

Fund Qualification Rules

Source: Accredited official statistics- Tax Relief statistics: 2025 - HMRC

[Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2025 - GOV.UK]

Feature	EIS	SEIS	SITR (closed to new investments from 6 Apr 2023)	VCT
Up-front Income Tax relief	30% of amount subscribed	50% of amount subscribed	30% of amount invested	30% of subscription for new VCT shares
Annual investor cap	Up to £1m; £2m if the amount over £1m is in Knowledge-Intensive Companies (KICs)	Up to £200k	Up to £1m	Up to £200k
Minimum holding period to keep relief	3 years	3 years	3 years	5 years
CGT on disposal of the scheme shares (if conditions met)	Exempt	Exempt	Exempt	Exempt
CGT deferral / hold-over	Yes – can defer gains reinvested into EIS shares (no statutory upper limit)	No deferral, but see SEIS reinvestment relief below	Yes – deferral/hold-over available, but only for investments on or before 5 Apr 2023 and up to £1m	No
Extra CGT relief	—	SEIS reinvestment relief: up to 50% CGT reduction on gains reinvested into SEIS	—	—
Loss relief (set loss against income or gains)	Yes (Share Loss Relief)	Yes	No specific SITR "share loss relief" (SITR could be equity or debt; normal rules apply)	No
Tax on dividends from the investment	Normal rules (not tax-free)	Normal rules	Normal rules	Tax-free dividends from VCT shares
Carry-back of Income Tax relief	Yes (to prior tax year, subject to limits)	Yes (to prior tax year, subject to limits)	n/a for new investment (scheme closed)	No carry-back

Investor Tax Reliefs

Fund Qualification Rules

Source: Accredited official statistics- Tax Relief statistics: 2025 - HMRC

[Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2025 - GOV.UK]

Topic	Enterprise Investment Scheme (EIS)	Seed Enterprise Investment Scheme (SEIS)	Social Investment Tax Relief (SITR)	Venture Capital Trust (VCT)
Company gross assets limit at investment	≤ £15m pre-issue and ≤ £16m post-issue	≤ £350k	(Various SITR conditions; lifetime raise cap below)	Typically, ≤ £15m (and ≤ £16m post), aligned with EIS rules
Employees (FTE)	< 250 (or < 500 if KIC)	< 25	(Varies by rules for social enterprises)	< 250 (higher for KIC)
Company age limit	Usually, ≤ 7 years since first commercial sale (≤ 10 years for KICs; alternatives exist for "follow-on"/significant investment)	New qualifying trade started ≤ 3 years ago	n/a (scheme specific social enterprise conditions)	≤ 7 years since first commercial sale (higher for KIC-type cases)
Amount company can raise	Up to £5m in any 12-month period; £12m lifetime (higher £10m per year / £20m lifetime for KICs)	Up to £250k lifetime	Up to £1.5m lifetime	Company-side "risk finance" limit aligns with EIS rules (e.g., £5m/12 months, £12m lifetime; £10m / £20m for KICs). VCTs must also keep ≥70% in qualifying holdings*
Qualifying trade / excluded activities	Must carry on a qualifying trade (lists of excluded activities apply)	Must carry on a new qualifying trade (excluded activities apply)	Investment in qualifying social enterprises; equity or debt could qualify	VCT must invest mainly in qualifying holdings (unlisted/AIM; qualifying trades; excluded activities apply)
Use of funds / timing	Raised funds must be used for growth and development; time limits apply	Similar; SEIS has its own timing conditions	As per SITR rules (scheme closed)	VCT must meet portfolio tests (e.g., ≥70% qualifying holdings)

Figure 1: Number of companies raising funds and amount raised, 1993-94 to 2023-24

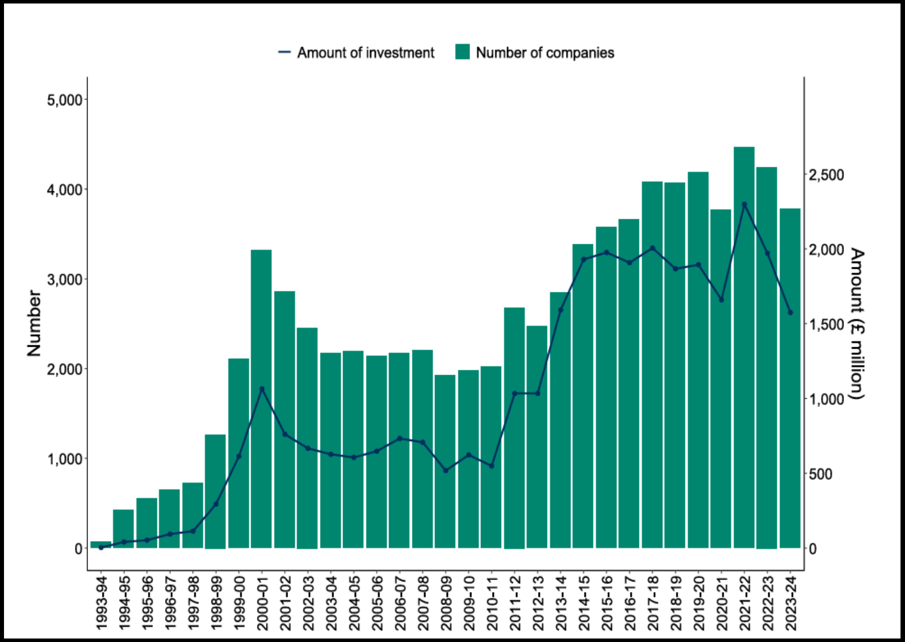
The number of companies tapping into the Enterprise Investment Scheme (EIS) has closely mirrored broader investment trends since the program's launch. Between 2023 and 2024, activity slowed: just 3,780 companies raised funds, securing a total of £1.58 billion. Analysts point to a prolonged period of higher interest rates as a key factor, alongside a natural cooling after the record levels of investment seen in 2021–2022—a pattern consistent with the wider UK venture capital market.

Another shift shaping the landscape is the expanded Seed Enterprise Investment Scheme (SEIS), which may have diverted some investor appetite away from EIS. Still, the long-term trajectory tells a different story. Since 2010, EIS participation has steadily grown, fueled by an era of low interest rates, greater visibility and promotion of the scheme, and the rising role of professional fund managers.

In 2023–2024, the Seed Enterprise Investment Scheme (SEIS) recorded a sharp rise in activity. A total of 2,290 companies raised investment under the scheme, up from 1,835 the previous year. The amount raised jumped 51%, reaching £242 million compared to £160 million in 2022–2023.

The surge follows a major expansion of SEIS, introduced in April 2023, which relaxed several limits that had previously restricted eligibility. Among the changes, the cap on how much a company can raise was increased from £150,000 to £250,000. These reforms are widely seen as the driving force behind both the higher number of participating companies and the sharp increase in funds raised over the year

Accredited official statistics- Tax Relief statistics: 2025
[Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2025 - GOV.UK]



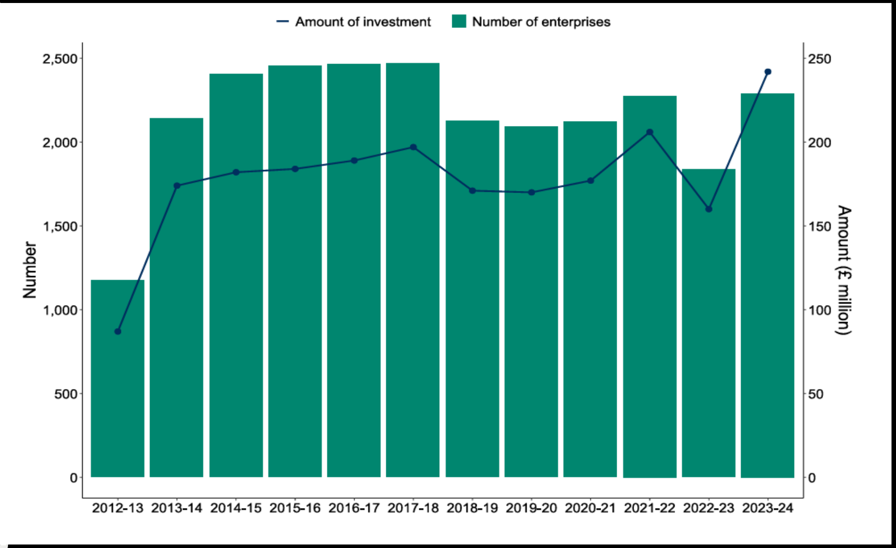


Figure 2: Amount of funds raised under the EIS by new companies and old companies, 1993-94 to 2023-24

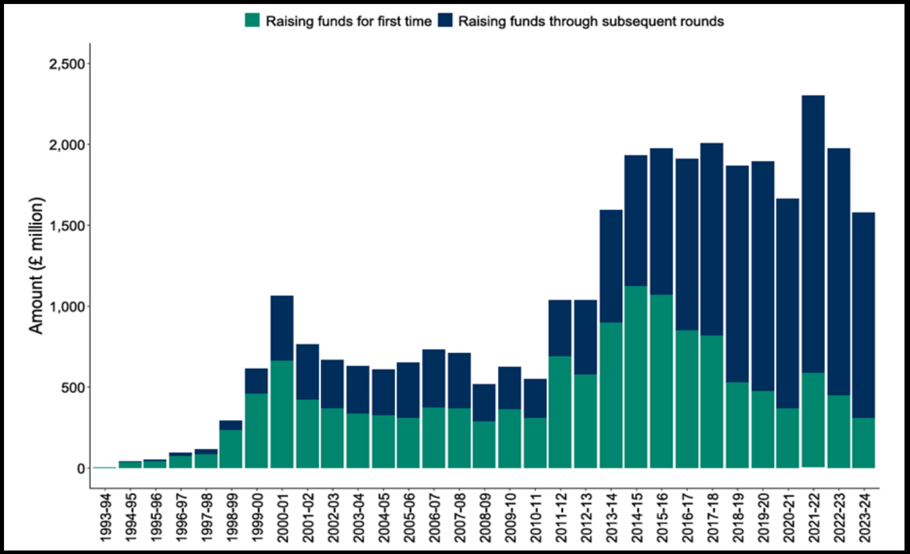
The share of Enterprise Investment Scheme (EIS) funding going to new companies has been on a steady decline since its peak in 2014–2015. At that time, investment was bolstered by activity in the renewable energy sector, which has since been progressively excluded from the scheme.

By 2018–2019, the shift was stark: only 28% of EIS funding went to companies raising capital for the first time. The downward trend has persisted, with new companies accounting for just 20% of total EIS investment in 2023–2024.

Observers link this to the introduction of the risk-to-capital condition, which tightened eligibility requirements under the scheme. At the same time, the expansion of the Seed Enterprise Investment Scheme (SEIS) has provided an alternative route for newer companies, many of which may now prefer to raise funds through SEIS rather than EIS.

In the 2023–2024 tax year, the number of new companies securing funds through the Seed Enterprise Investment Scheme (SEIS) rose by about 5% compared with the previous year. The total amount raised by these companies climbed even more sharply, increasing by 29%. The growth aligns with the expansion of the SEIS investment cap, which was raised to £250,000.

Source: accredited official statistics- Tax Relief statistics: 2025
[Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2025 - GOV.UK]



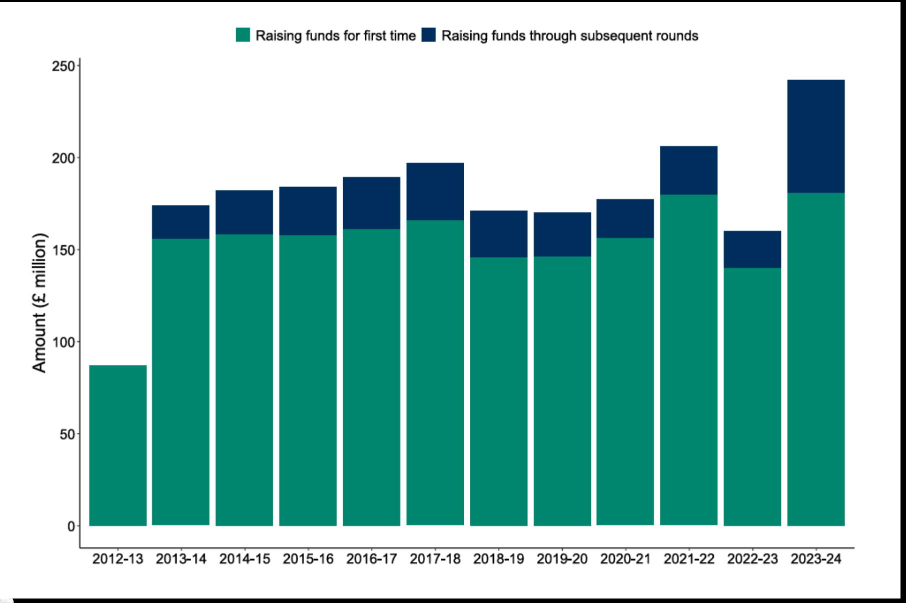


Figure 3: Comparison between amounts of funds raised under the EIS by different industry sectors, 2022-23 to 2023-24

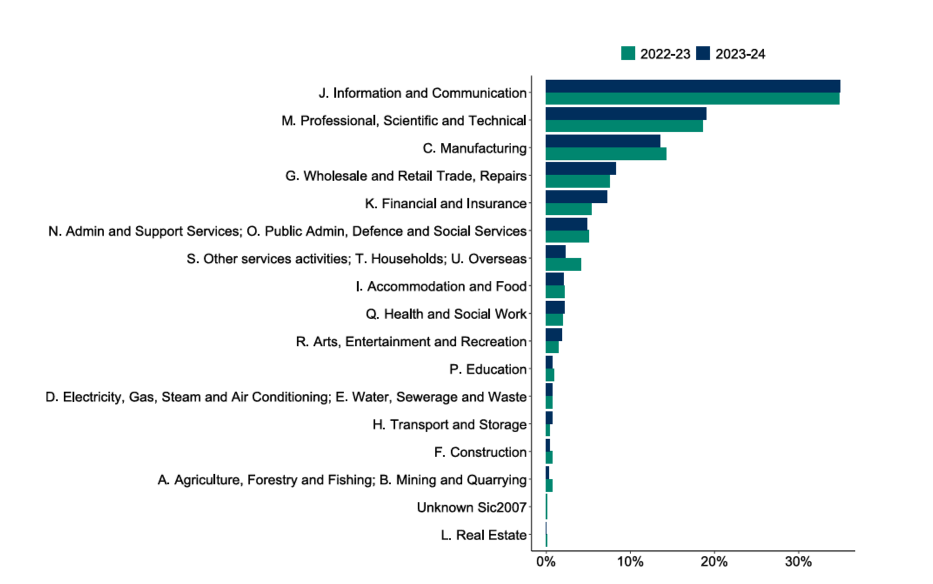
In 2023–2024, four sectors dominated Enterprise Investment Scheme (EIS) activity. Manufacturing, Wholesale and Retail Trade (including Repairs), Information and Communication, and Professional, Scientific and Technical services together attracted about £1.2 billion, representing 76% of all EIS investment. This marks a slight increase from the previous year.

Sectoral trends remained broadly consistent with 2022–2023, though there were notable shifts: investment in the Financial and Insurance sector rose, while the share directed to Manufacturing declined.

.

In 2023–2024, the Information and Communication sector led Seed Enterprise Investment Scheme (SEIS) activity, securing £99 million—41% of total SEIS investment. The next three largest sectors—Professional, Scientific and Technical; Wholesale and Retail Trade, Repairs; and Manufacturing—collectively accounted for 35%. Overall, the distribution of SEIS investment by industry remained broadly in line with the previous year

Source: accredited official statistics- Tax Relief statistics: 2025
[Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2025 - GOV.UK]



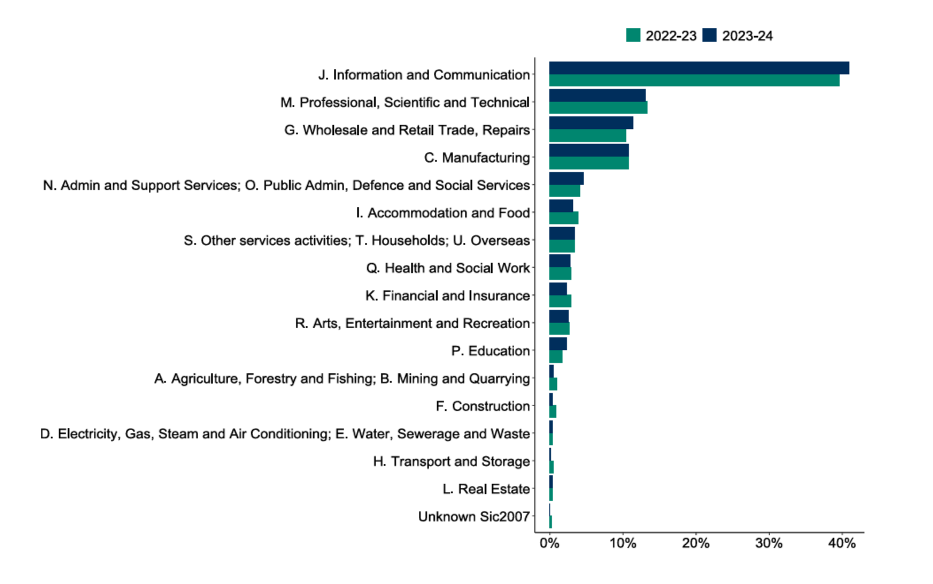


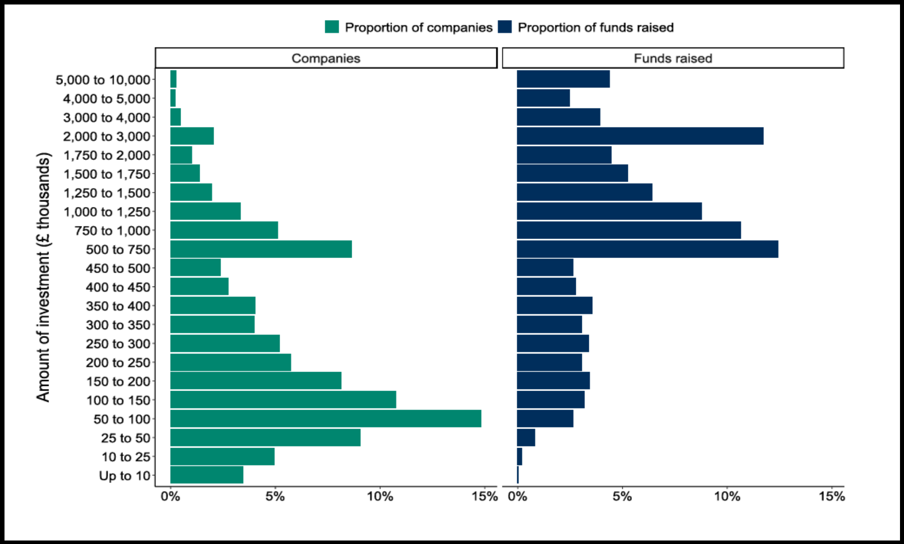
Figure 4: Distribution of the proportion of funds raised under the EIS by investment band, 2023 to 2024

The pattern of fundraising under the Enterprise Investment Scheme (EIS) reveals a sharp contrast between the number of companies raising funds and the size of investments secured. In 2023–24, just 3% of EIS-backed companies attracted 23% of total investment, with deals exceeding £2 million. Analysts suggest that the risk-to-capital condition has had the greatest impact on these higher-value investments. Since 2012–13, the annual cap on EIS investment has stood at £5 million, though from 2018–19 it was doubled to £10 million for Knowledge Intensive Companies (KICs).

The majority of companies using the Seed Enterprise Investment Scheme (SEIS) secured investments exceeding £50,000 in 2023–24, accounting for 71% of participants. Almost half (45%) raised over £100,000, up from 41% the previous year.

The 2023–24 tax year also marked the first since SEIS funding limits were expanded, allowing firms to raise more than £150,000. Nearly one in five companies (19%) reached that threshold, and together they attracted 38% of all investment made through the scheme.

Source: accredited official statistics- Tax Relief statistics: 2025
[Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2025 - GOV.UK]



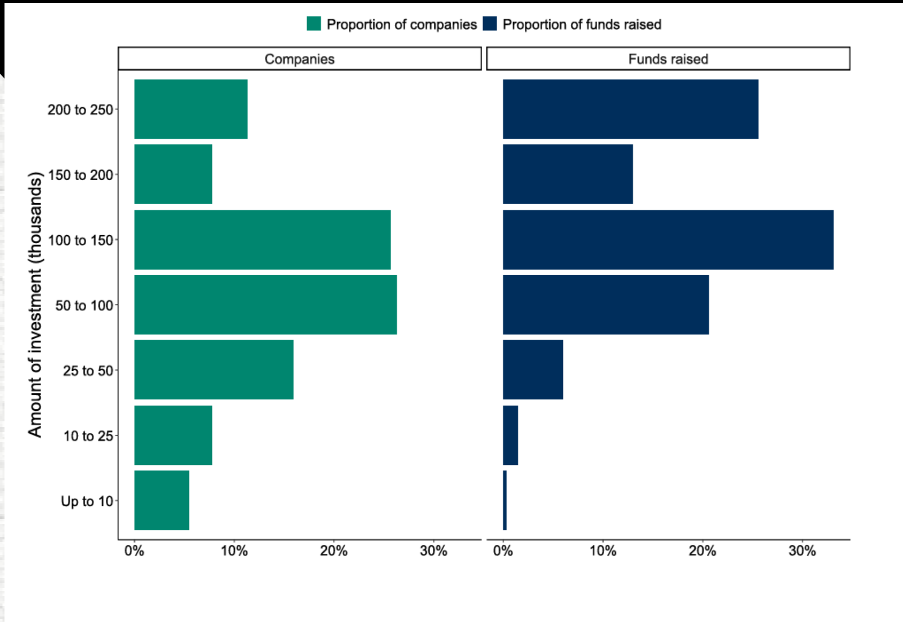
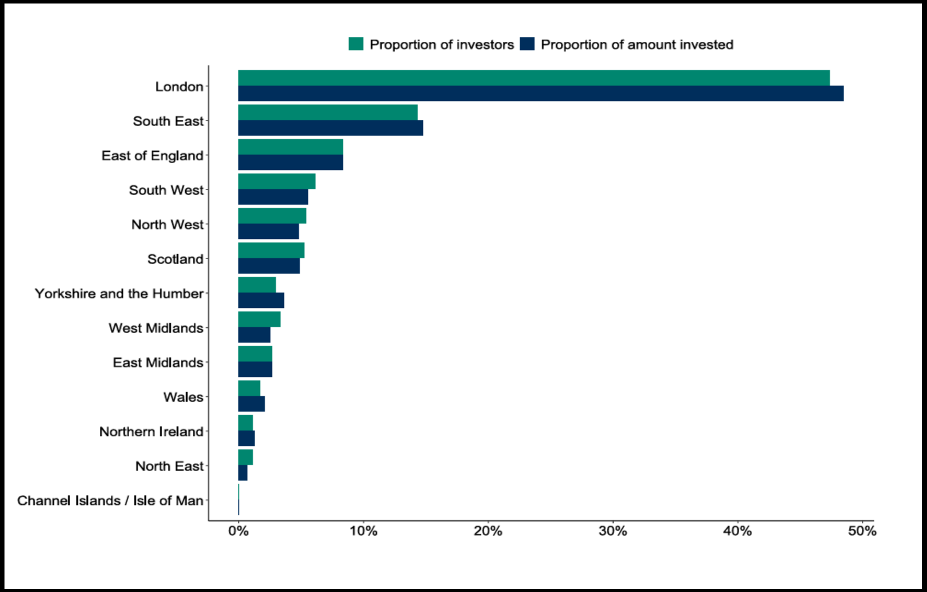


Figure 5: Distribution of the number of EIS and SEIS companies and amount of investment by location, 2023 to 2024

Companies based in London and the South East continued to dominate investment activity in 2023–24, accounting for 63% of the total. The share is broadly in line with trends seen in recent years.

London and the South East continued to attract the largest share of Seed Enterprise Investment Scheme (SEIS) funding in 2023–24, securing 65% of the total. The figure is broadly unchanged from the previous year.

Source: accredited official statistics- Tax Relief statistics: 2025
[Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2025 - GOV.UK]



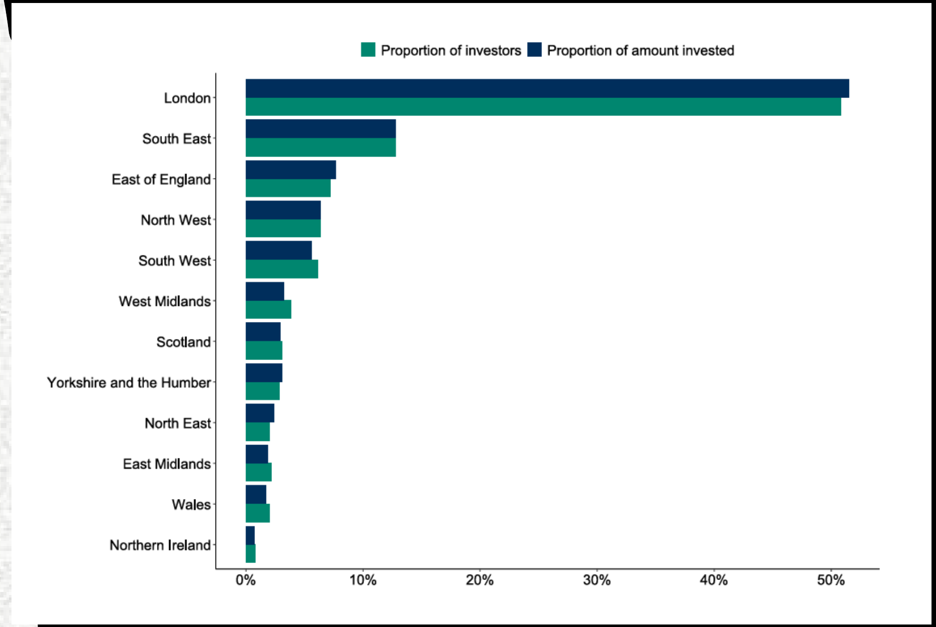
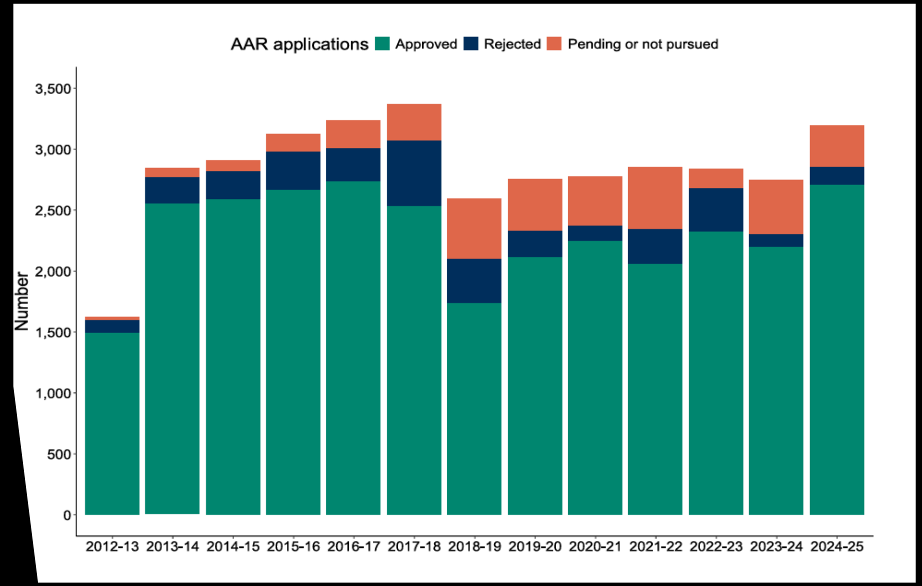


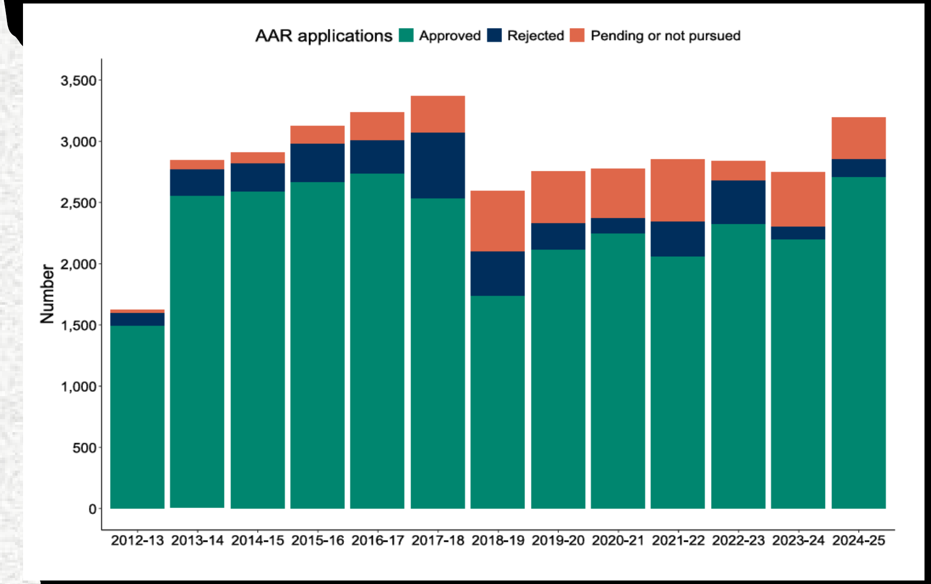
Figure 6: Number of EIS advance assurance applications received, approved and rejected, 2006-07 to 2024-25

Source: accredited official statistics- Tax Relief statistics: 2025
[Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2025 - GOV.UK]

HMRC received 3,090 advance assurance applications for the Enterprise Investment Scheme (EIS) in 2024–25, down slightly from 3,150 the previous year. While some 2024–25 applications are still being processed, 76% had been approved by March 2025. By comparison, 73% of applications submitted in 2023–24 were approved.



In 2024–25, HMRC received 3,195 advance assurance requests (AARs) for the Seed Enterprise Investment Scheme (SEIS), up 450 from the previous year. By March 2025, 85% of applications had been approved, though some remain under review. In 2023–24, there were 2,745 applications, with 2,200 approved — an approval rate of 80%.



Entrepreneurs & angel investors relationship

Entrepreneurs & angel investors relationship

"4-7 years of lasting relationships, could be longer than a marriage "

"Mentoring beyond capital contribution"

"Open mind to be challenged"

"Emotion & conflict management"

"Respect, resilient and restraint"

Entrepreneurs & angel investors relationship

Between 2022 and 2024, just 8% of equity market deals were secured by female-founded companies, while 20% went to mixed-gender founding teams. The vast majority — 73% — continued to be dominated by male founders.

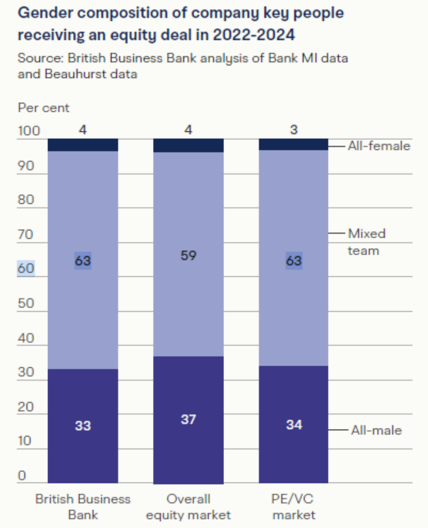
Taken together, however, all-female and mixed teams accounted for 63% of overall equity-backed deals during the period.

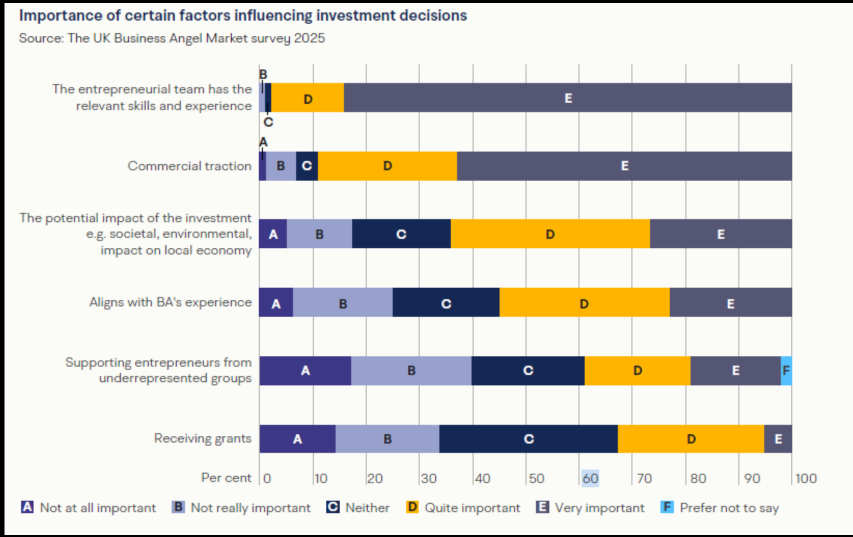
A recent BBB Angel Market survey highlights the factors most valued by investors when backing early-stage businesses. More than 95% said having a team with the right skills and experience was either very important or quite important, while around 90% pointed to commercial traction as a key consideration.

Over 60% of respondents said the potential impact of an investment plays a significant role in their decision-making. By contrast, fewer than 40% felt that whether founders came from underrepresented groups was an important factor.

When asked about prior grant funding, 65% of investors said it was irrelevant, although roughly 30% considered it an important part of the decision process.

[Source: Small Business Equity Tracker 2025 | British Business Bank]





Valuation and business acronyms

Valuation techniques criteria

References:
[IPEV Valuation Guidelines - December 2022.pdf]

[AICPA PE/VC Quick Reference Guide | Resources | AICPA & CIMA]

The key criterion in selecting a valuation technique is that is should reflect the nature, facts and circumstances of the investment and in the expected view of Market Participants. Each investment to be considered individually. Key factors to consider are:

- **Stage of Development** – Start-ups may require scenario analysis or OPM; later-stage companies often better suited to multiples or DCF
- **Market Conditions** – Use techniques reflecting current industry and broader market performance
- **Quality of Data** – Reliability, comparability, and consistency of inputs across time
- **Rights & Preferences of Securities** – Complex capital structures require careful allocation among share classes
- **Maintainable Profits & Cash Flow** – Consider if the enterprise can generate sustainable returns
- Exit Expectations – Likely buyer (IPO, strategic M&A, financial sponsor) and timing influence technique selection
- **Calibration & Back testing** – Techniques should be calibrated to entry price and adjusted over time; back testing helps refine assumptions
- **Use of Multiple Methods** – Encouraged to cross-check and corroborate fair value estimates

Venture Capitalists Expected Rates of Returns

Source: AICPA Guide

As described in AICPA Guide, discount rates should reflect the stage of your business and the expected return on investment at that stage by VC investors

Stage of development	Profile	Plammer (1)	Scherlis and Sahlman (2)	Stevenson & Bhide (3)
Start – up	Typically, are made in enterprises that are less than one year old. The venture funding is to be used substantially for product development, prototype testing and development, prototype testing and test marketing	50%-70%	50%-70%	50% - 100%
First Stage or "Early development"	Early development-stage investments are made in enterprises that have developed prototypes that appear viable and for which further technical risk is deemed minimal, although commercial risk maybe significant	40%-60%	40%-60%	40%-60%
Second stage or "Expansion"	Enterprises in the expansion stage usually have shipped some products to customers	35%-50%	30%-50%	30%-40%
Bridge/IPO	Can cover pilot plant construction, production design and production testing as well bridging financing in anticipation of later IPO	25%-35%	20%-35%	20%-30%

Valuation Approaches by Stage of Investment

Early-Stage / Start-ups

- Scenario Analysis / PWERM
- Option Pricing Method (OPM)
- Hybrid / Milestone methods
- Calibrated Recent Investment (observable prices of funding rounds)

Later-Stage / Established

- Market Approach Multiples (EBITDA/Revenue), Guideline Public Company Method GPCM and Guideline Transaction Method(GTM)
- Income approach: Discounted Cash Flow (DCF) or VC method
- Net Asset Approach (when relevant)
- Market Prices / Comparables

Relevant references:

Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2025 - GOV.UK

Small Business Equity Tracker 2025 | British Business Bank

IPEV Valuation Guidelines - December 2022.pdf

AICPA PE/VC Quick Reference Guide | Resources | AICPA & CIMA