REPORT FROM A WEBINAR TO DISCUSS THE IMPACT OF COVID-19 ON EARLY STAGE INVESTMENT

Advanced Oxford

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A webinar was held on 5th May, 2020, by Advanced Oxford and Oxford Investment Opportunities Network (OION), with the support of PwC and Taylor Vintners. The purpose was to discuss early-stage investing and the impacts of Covid-19 on the investment environment.

An audience of 130 attendees joined the one-hour session, indicating a high level of interest in the subject, with companies and investors joining the event. There was good engagement by the audience, prior to and during the webinar in posting questions to the panel. The webinar was recorded to assist those unable to attend and the recording can be viewed here: https://youtu.be/JzMa_p28RJ4.

Jens Tholstrup, Executive Chairman of OION, and Advanced Oxford board member, chaired the webinar and Rebecca Reading, Director, PwC provided an independent view. The panel, which was made up of both companies and investors to provide perspective from the demand and supply side, was:

- Ann Kramer, CEO, The Electrospinning Company
- David Ford, angel investor
- David Pritchard, angel investor
- James Mallinson, Partner, Oxford Investment Consultants
- Kyle Grant, CEO, Oxwash
- Rebecca Todd, Investment Director, Longwall Ventures

Key take-aways

***For Government*:**

- The Future Fund is incompatible with EIS and means that large numbers of companies, particularly angel-backed companies, are excluded
- A need for further clarity on what can be used as match within the Future Fund
- Calls for ways to use the R&D tax credit scheme to help companies
- Support for the furlough scheme, but concern about what happens afterwards and that it does not help with cashflow
- Flexibility is needed on HR policies – a role for Government to help companies to think through how they can respond by using good human resources measures and clarifying what is legal, e.g. how to introduce short-term pay cuts?

- Bringing forward grant payments from Innovate UK to help with cash-flow and cash-preservation, what more can they do on loans too?

***For companies and investors*:**

- Good investor relations and communication has never been more important
- Investors, particularly Angels, have a really important role in helping companies get through this period by providing mentorship, advice, guidance and moral support
- It is likely to be more difficult to raise money going into 2021 so preserving cash and drawing out your runway will be really important

Insights and views from the discussion

In opening the discussion, Jens Tholstrup noted that while the speakers and the discussion was going to focus on Oxfordshire and the wider Thames Valley, the issues were likely to be applicable more broadly and to be common across the UK.

Ann Kramer kicked off the webinar with her experiences from the Electrospinning Company. Ann noted that there were three key issues that had impacted the company as a result of the Covid-19 situation; (i) a reduction in elective procedures; (ii) a reduction in clinical trials, (iii) closure of laboratories. She noted that much larger companies, such as Medtronic, were reporting significant drops in sales due to the much lower level of elective surgery. The Electrospinning Company provides materials and services into clinical trials and their experience was that three quarters had been put on hold. Other work, such as specialist design work was holding up, however. The company has responded by putting R&D projects on the backburner and by prioritising cash-generating projects. Two staff members have been put on furlough and a rota of 5 staff at a time had been established to allow work to continue on site. Although the Electrospinning Company is revenue generating, there would still be a need for investment. Ann stated that the company was not a fit for the Future Fund, due to the use of EIS. She is watching the Innovate UK funding injection - £750m – with interest.

Kyle Grant gave an alternative company perspective, discussing his company, Oxwash. Oxwash is a 2 year-old company with sites in Oxford and Cambridge, and a third planned for London. They are disrupting the laundry and dry-cleaning market with their low energy cleaning technology. Kyle noted that their competitors had seen a 90% reduction is activity in two key segments - dry cleaning industry and the provision of laundry services to the hospitality sector and private gyms and that most of the industry was in furlough. Despite these segments seeing a shutdown of activity, Oxwash had seen incredible growth in healthcare/specialist cleaning, particularly in relation to the cleaning and sterilisation of PPE. They were working with other industry players to show that sterilisation can be delivered at 20^{o}C or lower. Kyle noted that they had been lucky to have closed a £1.4m seed raise before the Covid-19 crisis started. This was giving them the runway to keep operating. Kyle echoed what had been stated by Ann, that the Future Fund was incompatible with their company, due to the incompatibility with EIS and this was especially so for angel investments.

Moving to the investor perspective, **David Ford** is an angel investor with around 20 companies within his portfolio. David invests in life sciences, with investments across the Golden Triangle of Oxford, London, Cambridge. David said that he is willing to invest in 2020. He noted that he has made 2 new investments recently, but both of these had started long before Covid-19. Recognising the vital role that angels play in supporting companies beyond the money that is invested, David stated that he thought it was important to provide emotional support to young entrepreneurs who were cut-off from their networks due to home working and social distancing. Looking forward, David thought that private investor risk appetite would be much lower in 2021; that it would be harder to raise money; that valuations will be affected. He stressed the importance of good communication with investors moving forward. David thinks that investing in science-based companies is a good space to operate. As with previous speakers, he highlighted that the Future Fund would not be suitable for EIS-led companies but said that the furlough scheme has been great.

James Mallinson lent his support to David Ford's views. He was in full agreement with the views that had been expressed regarding the Future Fund and EIS. James said that times of trouble can be times of great opportunity. Investors will need to be bold as there were lot of opportunities for new innovation. Investors need to look to the long-term – many have seen crises before.

David Pritchard is an active angel, with a portfolio of around 20 companies also. David typically invests and works with companies until they reach the point of an institutional raise. Within his portfolio he had seen one company 100% mothballed, using the furlough scheme, but another making record sales, with everything in between. His advice was to preserve cash and raise more if you can. The focus was on surviving and to keep going through the crisis, but it would be different sector by sector and company by company. There will be some great opportunities which will be missed by investors if they hunker down.

The last speaker in this session was **Rebecca Todd**, who noted that it was good to share experience and views in this way. Rebecca noted that there was still much to be clarified in relation to the Future Fund and did not know if Enterprise Capital Funds would be able to be used as match funding. Rebecca said that there had been a boom in venture fund raising prior to the crisis and that funds have money to invest still. She highlighted that there were some positive outcomes from the situation, citing one digital health company that had seen huge growth in demand for their product – in terms of digital adoption, what had taken 5 years was now taking 5 weeks. She said that she believed that companies that get through this crisis will be stronger as a result.

Rebecca Reading from PwC, providing some personal reflections, drew the first part of the webinar to a close. She thought that EIS will need to be reformed and that this provided an opportunity moving forward.

Jens opened up the remainder of the webinar to questions, posed by the audience. What more could Government be doing to help early-stage companies?

(JM) R&D tax credits have been a big benefit and support to companies, but lots of companies bump up against the ceiling. Innovate UK is a great channel and provides a very suitable channel for deploying funds quickly. (DF) In the short term, cash preservation was a priority to allow companies to extend their runway. The furlough scheme and more grant funding were both important. Longer term, we need to think about what can drive capital into early-stage companies – Government could look at raising the % or raising thresholds on SEIS and EIS. (AK) suggested a need to look at mechanisms that already exist and can be modified, to help companies by using systems that they are already familiar with. She thought that loans through Innovate UK could be useful, given that companies like The Electrospinning Company are too high risk for traditional lending. More detail is needed on Innovate UK grant schemes. (KG) thought that it would help if you did not have to claim back retrospectively with the furlough scheme and if you didn't have to pay the cash to employees upfront. He also noted that there was considerable uncertainty as the end of the furlough scheme approaches – will companies have to make employees redundant, or will companies need to get everyone fully back to work; alternatives would be reducing wages.

A question was posed about companies aggressively growing their sales, particularly exploiting on-line channels to grow revenue. (AK) noted that there was a risk that larger companies will significantly reduce their external R&D spend/contracts. The Electrospinning Company was looking to target sales at smaller companies, which are leaner, may operate more virtual models and need to contract out work. (DP) observed that if there is latent demand, and if your supply chain works, the cost of customer acquisition can drop. (RT) wondered whether the "Silicon Valley" fashion for user-acquisition as a determinant of value would change and whether there would be a shift back to business fundamentals and the need for a solid growth strategy. (JM) noted that upgrading digital marketing capabilities was well worth doing. We are all experiencing a shift to digital meetings, so meetings are more easily to hold now. Companies should think about reinvesting money that had been earmarked for travel into sales activities, for example, you are able to secure digital meetings with the US, unlike before. (DF) said that low interest rates have helped to drive money into early-stage investments and hoped that this would continue, unless there is a huge spike in inflation. Our great research-led universities will continue to provide science-led innovation, providing a pipeline of opportunities. Things had slowly resumed after the 2008 financial crisis, hopefully this will the case this time around.

Questions and chat – what the audience was saying

Inevitably, due to time constraints, it was not possible to answer all questions that were posed. It is useful to look at questions that were put forward though, as they give a good insight into what is on people's minds – a list of these questions is provided in annex A.

During the webinar, the audience used a chat-function to both pose questions, but also to highlight key issues. Here are some of the highlights:

- Positive reaction to the furlough scheme
- Match funding for the Future Fund has to be compatible with EIS.

- Concern that research-led universities will be cash-strapped due to the decrease in student numbers.
- Innovate UK pay quarterly grants in arrears. If companies are really cash-strapped, they would be better to drop the grant. Can cash be paid in advance?
- Quite a lot of interest in the potential of adapting R&D tax credits. Can you increase the percentage? Can you speed up the processing of claims? Rather than being paid annually could you have quarterly claims/payments? A need to continue to promote R&D credits as some companies are still not claiming them. They help bring cash back into businesses. Are R&D tax credit processing times being affected (adversely) by Covid-19?
- On the question of the need for action on revenues longer term, one company said, "for my business our top line has reduced 95% overnight and won't rise again until we can travel without restrictions globally".
- A call for flexibility on HR policies, "I know one business that has cut working hours and pay to 3.5 days/week. Better that than furloughing, paying the difference in pay and not having any work from the team".
- The loss of angel investment impacts on due diligence, expertise and the advice they give to companies. What can be done to encourage angels to act as advisors and mentors?

Background to the webinar

Access to finance is a key issue for Advanced Oxford and is the focus of one of our active research projects. Availability of risk capital is critical to R&D/innovation-based businesses as they set up, grow and scale. Advanced Oxford, working with Oxford Innovation/OION (Oxford Investment Opportunities Network), is exploring how the financing ecosystem in Oxfordshire needs to develop in order to support the region's role as an engine room for innovation.

The COVID 19 epidemic, with its significant health, social and economic impacts will almost certainly create significant changes to the investment environment for companies moving forward. The initial response to the crisis from Treasury included a lot of brave and bold policies, including the jobs retention scheme, with its ability to furlough staff; but other loan-based interventions have not been as successful not directed at supporting innovative/R&D based companies, many of which are pre-commercial, venture-backed, do not use or access debt but are tomorrow's potential unicorns and arguably fall within the sectors of the economy with the biggest future job and wealth creation opportunity.

The announcement of the Future Fund heralded a recognition that high-risk, high-growth, venture-backed companies require a different type of policy response. The Future Fund will launch in May, 2020 but there is still a need for more information about the mechanisms of action for this support, in particular how the match funding is to be secured from third party investors, and what will qualify as match (e.g. can Enterprise Capital Fund investments be used as match). It is clear, however, that many smaller and younger companies will not be eligible, if they have not already raised at least £250k of equity investment.

Advanced Oxford has been collecting insights from Oxfordshire-based innovation/R&D companies since the start of the lockdown period via a short on-line survey https://www.surveymonkey.co.uk/r/D73XTBS . The survey asks questions across a number of business issues, focusing on the impact of the Covid-19 virus and the associated changes in working practices. The survey also asks specific questions about impacts on companies' investment plans. From the initial analysis (view report here) it is clear that there are concerns about investment and cash-flow are significant. This led Advanced Oxford and OION to create a survey directed at investors, allowing us to develop insights into how Covid-19 is impacting on the supply side, with questions about investment intentions and appetite. This survey https://www.surveymonkey.co.uk/r/NRV7SGG is still open to responses and Advanced Oxford will shortly be analysing and publishing the results from this research.

Through Advanced Oxford and OION's external engagement, there appeared to be appetite and interest in organising a webinar to discuss and debate likely impacts on early-stage investment, as well as examining how companies are best supported and what interventions may be needed within the innovation ecosystem to support early stage, risk-based companies.

The webinar was held on 5th May, 2020, by Advanced Oxford, OION, with the support and of PwC and Taylor Vintners. We are particularly indebted to PwC for their support in hosting the webinar and in the organisation of the event.

Over 200 people registered for the event and approximately 130 attendees joined the one-hour session, excluding speakers and those organising the webinar. This indicates a high level of interest in the subject and there was good engagement by the audience, prior to and during the webinar in posting questions to the panel.

About Advanced Oxford

Advanced Oxford is a membership organisation with members drawn from R&D based/innovative companies working across Oxfordshire. Our membership includes companies, Oxford's two Universities, the NHS through Oxford Academic Health Science Network and providers of innovation infrastructure and support.

Advanced Oxford was set up in response to the Oxford Innovation Engine Update report. Published in 2016, the report identified the need for stronger engagement from the innovative businesses in Oxfordshire in the work to develop the region as a centre of excellence and an engine room for innovation. Work to scope and set up Advanced Oxford started in 2017. Further information about Advanced Oxford, our members and our work can be found on our website, www.AdvancedOxford.com.

Advanced Oxford is research-led, providing analysis and a united voice for our members on the key issues affecting the development of the innovation ecosystem in the Oxford region. We generate our own research and work to support and inform key stakeholders involved in the development of the business environment, infrastructure and policy. Advanced Oxford is working to support the long-term development and success of the Oxford region as a place to live and work. We do this by drawing on our collective experience of setting up, running or working in knowledge-based, innovation-focused businesses and organisations. We use our connections to other businesses to generate evidence and undertake research.

For further information about the event, Advanced Oxford's work or the research Advanced Oxford is undertaking on investment and impacts of Covid-19, please contact Sarah Haywood (sarah@advancedoxford.com). For more information about OION, please contact Jens Tholstrup (j.tholstrup@oxin.co.uk)

Annex A

Questions posed prior to and during the webinar

- Can Government increase the rate of R&D tax credits? – this is EIS/SEIS compatible.
- Is there a tendency among investors to freeze new funds while waiting for the recovery?
- Hints and tips on customer acquisition during C-19
- How are investors feeling about taking risks in the current climate?
- How should the Government go about assessing the financial and social cost/benefits of continuing to offer support to early stage businesses (eg extending the furlough scheme?) whilst they start to get back on their feet?
- Is this a time when investors might expect better value from investment opportunities than at other times....or do you think the 'market' will not have yet moved much?
- What are the main snags to applying under the government's coronavirus future fund?
- What areas are investors most interested in funding?
- What factors would you consider when you are investing in emerging companies in the context of COVID-19?
- What practical tips would you give an early stage company for surviving and thriving through the current COVID crisis?
- What should the Government do to ensure that sound early stage R&D businesses can access the finance that they need to scale-up?
- Will inflation be an issue?
- Would be interested to understand if current investors are prepared to share some of the extra risk caused by Covid-19 and delays to funding rounds and grants.

- To what extent do you sense that prospective investor sentiment changed (a) re valuation in respect of non "Covid-19 related" investment opportunities (b) in respect of appetite for investing in non-"Covid-19 related" investment opportunities at this time?