



# The Social Value of SME Investment in the UK Regions

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A Review of  
Enterprise Ventures'  
Investment  
Activities

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By Big Issue Invest

Winter 2014



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**About Big Issue Invest** – Set up in 2005 Big Issue Invest is a wholly owned subsidiary of The Big Issue, a company limited by guarantee. As the social investment arm of The Big Issue, the UK's most trusted social brand, BII exists to further The Big Issue's mission and reach. BII provides finance to social businesses, charities and ventures that help tackle poverty and inequality in the range of £50,000 to £1.5 million. Since start-up, BII has invested £25m in more than 310 social enterprises, directly benefitting over 1.8m people and sustainably employing 3,200.

**About Geoeconomics** – Set up in 2007 Geoeconomics is a research-based consultancy focused on social value creation as a strategic priority for businesses, governments and non-profit organisations. They design methodologies and tools to assess social value creation from an economic development perspective.

# Foreword

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This report is, appropriately enough, an innovation. It is the first attempt at a comprehensive social audit of the activities of a venture capital firm, and an exceptionally active one at that. It was an act of some courage both for Enterprise Ventures to submit themselves to an examination the likes of which had not been conducted before and where the outcome was far from absolutely certain. It was also a bold move by Big Issue Invest (BII), who had previously undertaken similar work in the private equity market with Lloyds Development Capital (LDC), in that it takes them in to territory which might be considered beyond their traditional terrain. The end result is an intriguing read of itself as well as a major contribution to the wider debate about post-financial crisis capitalism.

It is also an outcome which, in truth, is more forensic than I for one had anticipated. This is a challenging area in which to seek measurements which are manifestly meaningful and which have a potential comparative quality. It would have been easy for BII to stick to generalities and produce conclusions which while credible in the case of Enterprise Ventures would not have much value more broadly. The past six years have seen numerous quests for an “ERR” (external rate of return) which would be as applicable to society at large as the long established IRR (internal rate of return) is for the investor community. To be candid, most of these attempts to secure an intellectually rigorous framework for assessing the social contributions made by business of any organisational form, not merely private equity or venture capital, have fallen short of a compelling proposition. They have told us something but not enough to be a convincing method for others to emulate.

The Social Value Assessment methodology which Geoeconomics has devised in partnership with BII is much more convincing. Their five key tests are ones which officials, policymakers and regulators would recognise as robust and relevant to the quest for a better balanced economy in the future than Britain has experienced in the recent past. This is a series of questions for which it is plainly possible to secure precise answers and thus to allow comparisons to be made across firms and over time. It may not be exactly the system which comes to be adopted by those interested in examining the social contribution of capitalism but my strong sense is that whatever that final matrix is it will be based on the thinking which BII have pioneered here. If others believe that they have a better system to offer, let them come forward.

What has assisted BII in their endeavours here is the nature of their subject matter. Enterprise Ventures is an extraordinary institution not merely in the volume of deals undertaken but in their willingness in the spirit of Star Trek (albeit with a split infinitive) “to boldly go” where the so-called mainstream banks have abandoned and show little or no sign of returning. There will be very very few businesses of any kind who score as strongly in the social realm as Enterprise Ventures have done in this inquiry. It is to be hoped that the content of their crusade as well as the character of this survey will be replicated by others.

**Tim Hames**

Director General, BVCA.

# Introduction

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I have been investing in regionally-based UK small to medium sized enterprises (SMEs) for more than 25 years. Small business owners have never found it easy to raise the debt and equity that they need, but I cannot recall it ever being as difficult for them to raise capital as it is now. SMEs are more than 90% of the UK business community and small business form 90% of SMEs. Therefore there can be no sustained recovery without SMEs thriving and playing their part.

The shift in attitudes towards the need to devolve power to the UK regions must mean that we can now start to tackle the increasing divide between the UK's richest and poorest regional economies; this is not just a North/South divide.

Of course, as a fund manager, Enterprise Ventures can never ignore the need to derive financial return from any investment, but what is so poorly understood is the social, non-financial returns that come from investing in small businesses. Perhaps that is why the social impact of investment is so frequently ignored. We commissioned this independent research on Enterprise Ventures' regional investment activities in order to improve the levels of understanding, as much for ourselves as for others.

This is the context of our request to BII in the summer of 2014 to conduct a substantial research exercise to quantify the social value of our investment activities and illustrate the outputs we have achieved in the context of the current debate about the regional economies.

Overall, the report shows that Enterprise Ventures is doing things differently and, hopefully, this points the way ahead for growth in regional investment. Local Enterprise Partnerships and leaders in the emerging City Regions have all been tasked with improving local economies. There is much to be done.

I hope that this report gives some indication as to how investment levels could rise, showing ways in which private capital can be drawn in alongside public funding, and offering a clearer view on the social value that can be achieved alongside the appropriate financial returns.

I would like to take the opportunity to thank Mark Hepworth Head of Research and Policy for BII and Chief Executive of Geoeconomics who led the research on behalf of BII and Sam Waples for his technical and data analysis.

**Jonathan Diggines**

Chief Executive, Enterprise Ventures.

# Executive Summary

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**Section 1** provides the background to this report by BII which assesses the social value of Enterprise Ventures' investment activities. Social value is assessed by how Enterprise Ventures' activities contribute to meeting the UK's goal of developing a more 'balanced economy' – an economy that delivers sustainable and inclusive growth for all.

**Section 2** outlines the context of Enterprise Ventures' activities – namely SME Investment and Regional Development in the UK. These core areas of interest for Enterprise Ventures are also central planks of the Government's 'balanced economy' agenda.

**Section 3** explains BII's social value framework, both definition and measurement. BII has developed a "Social Value Scorecard" for the private equity and venture capital investment sector and is keen to accelerate adoption of the BII methodology as a standard tool for social value reporting across the sector.

- ▶ BII defines and measures the social value of private equity and venture capital investment activity by its congruence or alignment with the UK's social goal – the creation of an inclusive 'balanced economy'.

**Section 4** shows that Enterprise Ventures has become one of the UK's leading providers of venture capital and loans to SMEs – especially 'small businesses'. Since 2002 Enterprise Ventures has invested in nearly 850 SMEs, a total of £344 million from public (40%) and private investment sources (60%). Private sources include banks, pension funds and insurance companies; public sources include the EU, the UK Government and local authorities. Enterprise Ventures currently has £142 million funds under management and a portfolio of more than 400 SME venture capital and loan investments.

**Section 5** assesses the social value of Enterprise Ventures' portfolio across 5 areas of the 'balanced economy' agenda. The key findings of this data analysis are:

- ▶ Investment in the Recession: Enterprise Ventures sustained a high level of investment from 2010 onwards at a time when private equity investment and bank lending was flat or declined.
- ▶ Investment in SME Growth: Average turnover growth across two-thirds of Enterprise Ventures investees since 2010 far exceeded the regional and UK averages. Survival rates for Enterprise Ventures' investees are also well above the English average. Job-creation performance was also positive, and relatively concentrated in full-time employment.
- ▶ Investment in Priority Sectors: Enterprise Ventures investees are highly concentrated in the 'priority sectors' of UK Industrial Strategy, with manufacturing making up 33% of its portfolio versus 6% of the UK business stock. Also, in terms of positively re-balancing the economy by sector: 49% of Enterprise Ventures investees are in export-intensive sectors versus 17% of all UK businesses; and, investees are more concentrated in local economies dependent on the public sector.

- ▶ Investment in the Regions: Enterprise Ventures' SME investment in the North West and Yorkshire and the Humber regions far exceeded that of the rest of the UK private equity and venture capital sector. This lead increased after 2010 and during the recession. 97% of Enterprise Ventures' portfolio companies are located outside London and the Greater South East, compared to 57% of Great Britain's entire SME stock.
- ▶ Investment in Deprived Areas: Nearly 60% of all Enterprise Ventures investees are located in the 20% most deprived areas of England, compared to 23% of all SMEs. More than 90% of Enterprise Ventures' portfolio companies are located in communities where the local unemployment rate is higher than the national average, compared to 52% of all SMEs.

These positive results are carried forward to Section 7 where they are converted into social value indices and then distilled into a Social Value Scorecard.

**Section 6** presents Enterprise Venture's Social Value Scorecard. The Scorecard summarises the results of the portfolio analysis given in Section 5. For each of the 5 'balanced economy' domains, we provide an Index score based on a simple ratio between Enterprise Ventures' performance and national and regional average performance, by sector and geography. For example:

- ▶ The growth rate of Enterprise Ventures' equity and loan investment between 2008 and 2012 was 4.4 times greater than the national growth rate for bank lending
- ▶ The share of manufacturing in Enterprise Ventures' portfolio was 5.3 times greater than the share of manufacturing in the total GB business stock
- ▶ The share of Enterprise Ventures' investees located outside London and the Greater South East was 1.7 times greater than the share of for all GB SMEs

Enterprise Ventures' overall score of 2.9 on the Social Value Index is the median of the scores across all five 'balanced economy' domains. That is to say, Enterprise Ventures' investment activity – more accurately, the past and present trajectory of the Company's investment activity - is 2.9 times more favourable to 'balanced economy' objectives than existing or average trends in both SME investment and the UK economy, by sector and region.

The basic implication is that policy makers and socially-minded investors who want to transform the UK into a more balanced and inclusive economy should back and promote financial intermediaries like Enterprise Ventures – to take advantage of the high social value rating they potentially offer. As a rule, the higher the rating the more leverage for social value creation and the stronger the case for private and public investment.

BII is therefore exploring ways to cascade a standard Social Value Assessment across the industry which will provide a robust and appropriate tool for measuring social value performance in relation to wider social and economic objectives.

Finally **Section 7** presents five case studies of Enterprise Ventures portfolio companies to illustrate how SME investment can generate growth, competitiveness and employment outcomes for the business (through capital investment, skills and innovation, improved management methods and new business) whilst, in the process, creating social value in the form of wider economic development impacts.

The case study participants were; an international development consultancy, an on-line mobile tyre-fitting service, the developer of a patented polymer bead cleaning system for the global laundry industry, a manufacturer of funeral vehicles, buses and specialist vehicles for the emergency services, and a drugs developer for the global pharmaceutical industry.

These studies offer valuable insights into the nature of equity investment and the co-creation of social value by the investee and the investor:

- ▶ Success happens when there is a close social value alignment between the investor and the investee, and when the knowledge, skills and resources of both are pooled and harnessed to good effect.
- ▶ Innovation, employee engagement, skill and entrepreneurship can be harnessed through successful equity investments; and
- ▶ Well-designed policy, funding and governance vehicles that enable appropriate equity investment can help the UK build a 'balanced economy'.

### **Mark Hepworth**

Head Of Policy & Research, Big Issue Invest  
Chief Executive, Geoeconomics.

# 1. Background

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There is increasing public and private market interest in the social value of equity and loan investment in UK small and medium-sized enterprises (SMEs). Given its own interest in this area, Enterprise Ventures commissioned Big Issue Invest (BII) to carry out an independent assessment of the social value of its investment activities in the UK regional economies. BII is the social investment arm of The Big Issue Group.

In this report, we assess the social value of Enterprise Ventures' investment activities in terms of the extent to which they help to meet the Government's stated ambition to build a more "balanced economy". This ambition, backed by a consensus across business, public policy and academia, is the goal of UK economic policy and industrial strategy.

As suggested by the title of this report "The Social Value of SME Investment in the UK Regions" we are focused on two aspects of the "balanced economy" agenda: the need for a stronger and well-invested small and medium-sized enterprise (SME) sector, and the need for stronger regional economies outside the Greater South East of England.<sup>1</sup>

The regional development focus of this report is noteworthy. The Scottish Referendum has re-ignited a long-standing debate over regional devolution in England. The expectation is that the economic thrust of devolution in England would be led by "city regions", such as Liverpool, Manchester, Sheffield and Leeds City Regions, which feature strongly in this assessment of Enterprise Ventures' investment activities.

This report builds on BII's established social value assessment methodology, through an analysis of Enterprise Ventures' investment track record since 2003 and individual case studies. The report is organised as follows:

- Section 2 outlines the context for the report
- Section 3 explains BII's definition and measurement of social value
- Section 4 gives an overview of Enterprise Ventures
- Section 5 assesses Enterprise Ventures' investment portfolio
- Section 6 summarises the results of assessment in the form of a Social Value Score Card
- Section 7 presents case studies of Enterprise Ventures' SME investees

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<sup>1</sup>The Greater South East is a planning term for London and the South East and East of England regions together.

## 2. Context

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### 2.1 SME Investment in the Regions

In the UK, SMEs have always been seen as extremely important to economic growth and development at all levels. SME growth and enterprise development have high priority in the UK's Industrial Strategy and the Strategic Economic Plans of the Local Enterprise Partnerships. Paradoxically, despite their high policy status, SMEs – and small and micro enterprises in particular face the highest barriers in accessing external sources of finance for start-up and early-stage growth especially.

In the UK, SMEs have always been seen as extremely important to economic growth and development at all levels. SME growth and enterprise development have high priority in the UK's Industrial Strategy and the Strategic Economic Plans of the Local Enterprise Partnerships. Paradoxically, despite their high policy status, SMEs – and small and micro enterprises in particular face the highest barriers in accessing external sources of finance for start-up and early-stage growth especially.

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*"The economic recession and financial crisis led to a sharp decline in banking lending to SMEs. The growth rate in the stock of lending to SMEs has been negative for the past four years across a range of measures, though has contracted by less since the start of 2013 (Bank of England, Trends in Lending, April 2014). Private equity investment was also hit by the financial crisis, declining, stabilising and now 'booming' with the UK recovery underway – but not for seed stage and growth stage businesses however; venture-stage investment is still squeezed."*<sup>2</sup>

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Hence policy-makers and SMEs are looking to alternative sources of start-up and growth-stage finance. The need for alternative finance providers to play a more proactive role in regional economic development was underlined by the sector body, the BVCA:<sup>3</sup>

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*"As a significant investor in the regions, private equity and venture capital are well placed to contribute to this debate on the development of cities outside of London. Fund managers currently maintain investments in local business in cities including Manchester, Nottingham, Newcastle and Bristol. Findings from our recent publication 'The Growth Initiative and Tech Country' highlight the potential for regional cities to develop existing nascent clusters into national, if not global, success stories. Rebalancing the British economy away from London is no small task."*<sup>4</sup>

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The company featured in this report, Enterprise Ventures, has long been established in the North of England; however the wider UK private equity and venture capital sector is less developed in the North. BVCA statistics indicate that London and the South East still dominate UK equity and venture capital investment but, more positively, the North's share appears to be increasing (Chart 2.1). Market analyst Beauhurst suggests that the UK may be overly reliant on London, and that decentralisation could indicate the more expensive funding requirements of businesses in London.

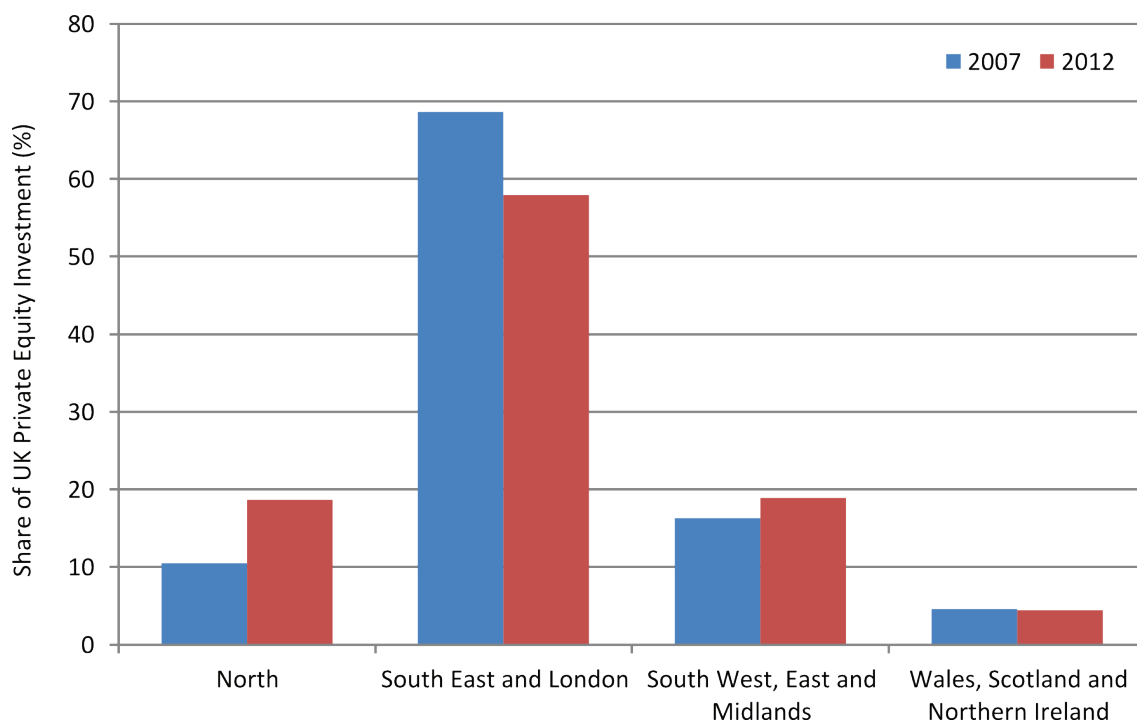
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<sup>2</sup> Beauhurst UK Equity Investment Review, 2014.

<sup>3</sup> Enterprise Ventures has an affiliation with two sector bodies – the BVCA and the CDFA (Community Development Finance Association). Big Issue Invest is also a member of the CDFA.

<sup>4</sup> Evidence to the RSA City Growth Commission, January 2014

**Chart 2.1: Regional Share of UK Private Equity Investment, 2007 and 2012**



Source: Private Equity Investment – BVCA Private Equity and Venture Capital Report on Investment Activity, Table 11, BVCA May 2009 – 2012.

Private equity investment, and particularly that of Enterprise Ventures, potentially straddles two areas of the UK's 'balanced economy' agenda:

- **Investing in SME growth** – the Regions outside the Greater South East offer a more promising route to 'rebalancing', compared against the uncertainties of corporate head office re-location and foreign direct investment.
- **Investing in the Regions** – the 'balanced economy' comes with a built-in regional development agenda – a more decentralised pattern of economic growth based on strengthening regional economies outside the Greater South East.

SME investment for economic development and regeneration is a well-established area of spatial planning policy. Over the past decade, £1 billion of UK government money matched by a further £1 billion of private money and £500 million of European Regional Development Fund money has been invested in a range of schemes. Enterprise Ventures has, for example, been active at the EU, UK and local levels of publicly-backed SME investment activity:

- **EU Regional Development** – European Regional Development Fund (ERDF) and the JEREMIE funds (ERDF and European Investment Bank), the latter explicitly set up to close the 'gap' in SME access to finance, which is seen as a bottleneck to economic growth. These cover the North West and Yorkshire and Humber, as well as the North East regions
- **UK Economic Regeneration** – closing the 'equity gap' that inhibits small business growth and start-up activity in the de-industrialised Coalfield areas, on behalf of the Department of Communities and Local Government.

<sup>5</sup> Capital for Enterprise (now part of British Business Bank): "Overview of publicly-backed venture capital and loan funds in the UK", January 2012.

- **Local Economic Development** – a long-standing relationship with Lancashire dating back to the mid-1980s, where Enterprise Ventures’ investments in small businesses are concentrated in priority sectors, such as aerospace or digital technology.

## 2.2 The ‘Balanced Economy’ Agenda

The wider policy context for looking at SME investment and regional development is the Government’s stated goal of developing a “balanced economy” in the UK. The Department of Business, Innovation and Skills (BIS) tracks progress towards this goal on The Growth Dashboard (July 2014), where it is stated as follows:

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*The Government’s economic policy objective is to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries.*

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There is an apparent consensus across political parties, academic experts and business leaders that the UK economy needs to be ‘rebalanced’ by sector and by region. Some examples of general support for re-balancing are given in Chart 2.2.

There is agreement on the need to re-balance the UK economy, however opinions differ on how this is to be achieved. Closing the big ‘infrastructure’ gap between the North of England and the Greater South East is one major issue. Similarly, SME access to finance is another. Nobody would disagree with the Government’s ambition “to make the UK the best place in Europe to start, finance and grow a business”, but opinions will tend to vary on the role of equity and venture capital, as opposed to government grants and subsidies, bank lending and other SME support measures.

Regional development is also a fundamental ‘rebalancing’ issue. Policy and institutional solutions have come and gone over the past decades, but the wealth, earnings and productivity ‘gap’ between the Greater South East and the North and Midlands regions of England has persisted, and during the recession it grew enormously.

Deprivation and inequality has also persisted, ironically with London seeing the worst rise in inequality:

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*Household wealth in the South East has been rising five times as fast as across the whole country. London stands out as having an extreme polarised wealth distribution; children in London are among the most likely in the country to live in the poorest households. (ONS, May 2014: “Wealth Report”)*

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The Government is now pursuing a more devolved approach to tackling regional inequality and local economic regeneration. Local Enterprise Partnerships (LEPs), which replaced the former Regional Development Agencies, are responsible for the preparation of Strategic Economic Plans, now financially underpinned by the Single Local Growth Fund and ‘Growth Deals’. Launched in July 2014, the first wave of 39 Growth Deals worth £5 billion will go towards employment and training schemes, the construction of new homes and hundreds of transport and communications projects. Lord Heseltine, ‘architect’ of the Local Growth Fund, believes it represents “a giant step in the rebalancing of our economy”.<sup>6</sup> LEPs are also responsible for the EU Structural and Investment Funds in England for 2014-2020.

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<sup>6</sup> Lord Heseltine’s ‘No Stone Unturned’ report, 2012.

Thus, the wider context for our social assessment of Enterprise Ventures covers SME investment and regional development in the UK. This context has been fluid and uncertain as policy and institutional solutions have changed. The fact remains that, as of September 2014, there is still a 'regional gap' in wealth and earnings, and there is a 'finance gap' in SME access to finance, particularly for early stage businesses.

## Chart 2.2 Views on Re-balancing the UK Economy

### Policy Perspective

HM Treasury: Government Policy is to Rebalance the Economy (July 2013)

*Rebalancing the economy is not about trading the success of one sector for another. It's about spreading our success more evenly - both geographically and by sector - and supporting the world class industries we already have, as well as the new ones that we're developing.*

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Prime Minister David Cameron speaking at the Liverpool International Festival of Business (June 2014):

*The new £300m Liverpool2 freight terminal is a perfect example of how the economy is being rebalanced so the whole of the UK, not just the South east, benefits from the revival. This new terminal will ensure that freight can come directly to the North of England. That is an active rebalancing of the economy. Rebalancing is happening but needs to go further and go faster.*

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In July 2014, Lord Adonis launching Labour Party's review into UK economic growth:

*A really big package of devolution to the cities and county regions of England is the key to a balanced economic recovery in which prosperity is shared, and fractures are healed. We have got to see prosperity shared more widely, and it can only be shared more widely if we have strong powerful economic and political institutions at the local level not just in London.*

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### Academic Perspective

Michael Kitson, Cambridge University Centre for Business Research, in **Compass** July 2013

*In the UK, there are sector imbalances due to a focus on the financial services and the relative decline of manufacturing. There are also regional imbalances: London has done very well over the last thirty years while the North West and the North East have not. There are also trade imbalances: we have had a big balance of payments deficit and we are not paying our way. These three imbalances cannot continue, else we are destined to see much lower growth for ourselves and our children in the future.*

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### Business Perspective

CBI: **The UK's Growth Landscape: Harnessing Private Sector Potential across the Country**, 2012

*Only sustainable, private sector growth can lead the UK back to economic health, weaning the economy off its debt-fuelled dependence on government and household consumption. This private sector growth must come from all corners of the UK if the economy is to successfully rebalance towards investment and exports and establish a sustainable growth footing. The view from business is that a new approach is needed, one based on the 'geography of growth', which seeks out private sector growth at every spatial level and in every part of the UK.*

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# 3. The BII Social Value Framework

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BII has developed its social value assessment methodology with and for the private equity investment sector. It is presently working closely with the sector association – the BVCA – to accelerate adoption of the methodology as a standardised tool for social value reporting, whilst continuing to work with leading individual investors, such as Enterprise Ventures to develop and refine the methodology through learning by doing.

## 3.1 Definition

Following a critical review of theoretical and policy literature, BII formulated its own definition of social value from the ideas of two influential economists:<sup>7</sup>

- **Joseph Schumpeter:** “social value refers to the value society itself sets on things” – such as the firm’s activities as an individual business - Quarterly Journal of Economics, 1908
- **Michael Porter:** “businesses create economic value as market actors whilst simultaneously creating shared value for society by addressing its needs and challenges” – Harvard Business Review, 2011

In simple terms, the social value of investment activity can be defined and assessed by how the activity helps ‘society’ meet its common needs and challenges. In modern capitalist, democratic societies, these common challenges and needs are shaped by ideological arguments, but ultimately they reflect a broad consensus across the political, business and academic/independent expert spectrum.

As explained in Section 2, there appears to be a consensus in the UK that the common challenge facing the nation is to build a “balanced economy” – a model economy that is internationally competitive, evenly and equally developed across the UK regions, sustainable and regenerative and ‘transformational’ for local communities, where socio-economic deprivation has persisted for decades.

Thus, BII assesses the social value of Enterprise Ventures’ investment activities by their congruence or alignment with the UK’s wider social challenge – bringing about the structural shifts needed to create a ‘balanced economy’ capable of inclusive and sustainable growth.

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<sup>7</sup>Forbes Magazine (June 30, 2014) hailed Schumpeter as one of the greatest economists of all time for his work on innovation and entrepreneurship as the disruptive drivers of capitalism (“creative destruction”). Porter invented the cluster model of economic growth which has been highly influential in regional and local economic development. Recently, he has promoted the Shared Value Approach and the Social Progress Index (with Mark Kramer).

## 3.2 Measurement

BII used a standard impact assessment template to design an appropriate methodology for assessing the social value of Enterprise Ventures – Activities, Outcomes, and Impacts (Chart 3.1).

**Chart 3.1: The BII Model of Social Value Creation**



- **Activities** – Enterprise Ventures raises investment funds from private and public sector sources and invests these in SMEs either as debt or equity. We have concluded that the accumulated local knowledge of businesses in the UK regional economies where it operates and its ‘patient capital’ approach to investment are two key factors which explain Enterprise Ventures’ strong track record in managing publicly-backed investment funds.
- **Outcomes** – These are the ‘intermediate’ effects of Enterprise Ventures’ activities on investee companies and private and public investors. Business outcomes for the investee can be improvements in innovation, skills and management (drivers) leading to better results – productivity, growth in turnover and profitability, competitiveness and employment. For private investors, outcomes include portfolio diversification and financial returns whereas, in the case of public funders, outcomes are geared towards economic development targets (jobs created, enterprise start-ups etc.)

- **Impacts** – These wider effects capture the social value contribution of Enterprise Ventures in terms of how it helps the nation to achieve its ambition to build a ‘balanced economy’. Impacts arise from the improved business outcomes that Enterprise Ventures’ investment makes possible. At the national level, these impacts are measurable by the international competitiveness and growth performance of UK plc, whilst at the regional and local levels they are defined in terms of economic development, regeneration and well-being.

The BII assessment in Section 5 covers all three ‘blocks’ of social value creation and places them under a ‘balanced economy’ umbrella:

- **Activities** – we look at Enterprise Ventures’ investment trends and patterns, compared against sector trends in bank lending and private equity.
- **Outcomes** – we look at SME growth and survival rates across Enterprise Ventures’ portfolio, compared against regional and national averages for the SME sector.
- **Impacts** – we look at the sector and geographical profile of Enterprise Ventures’ portfolio, compared against ‘balanced economy’ impact indicators.

The results of the data analysis are used to create “social value indices” as benchmarks of Enterprise Ventures’ performance across 5 areas of the ‘balanced economy’ agenda:

- Investing throughout the Recession and Financial Crisis
- Investing in SME Growth
- Investing in Priority Sectors
- Investing in the Regions – outside the Greater South East
- Investing in Deprived Areas

Finally, the separate indices are brought together to create a “Social Value Scorecard”. This shows how Enterprise Ventures performs on each of the 5 areas of the ‘balanced economy’ and also provides an overall Social Value Index score.

- ▶ The higher the Index score, the higher Enterprise Ventures’ relative contribution to the UK’s progress towards a ‘balanced economy’ future
- ▶ The policy implication is that a high Index score creates a stronger the case for scaling up Enterprise Ventures’ investment activities – crudely, having ‘more of a good thing’.

## 4. An Overview of Enterprise Ventures

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Enterprise Ventures<sup>8</sup> was established in 1982 as part of Lancashire Enterprises, the economic development arm of Lancashire County Council in an innovative move to help grow Lancashire companies. It was taken into private ownership as Lancashire Enterprises plc in 1989 and became one of the first members of the AIM market in 1995. The fund management business was acquired by its management in 2002.

In the last 10 years Enterprise Ventures has evolved into one of the UK's leading providers of venture capital and loans to small businesses. Today, it provides equity and/or loan funding from £50,000 to £2,000,000 to selected unlisted<sup>9</sup> small and medium-sized enterprises (SMEs) in a broad range of sectors and at all stages of their development: proof of concept, seed, start-up, early-stage, growth and expansion capital, replacement capital and management buy-outs and buy-ins.

Enterprise Ventures' registered office is in Preston with additional offices in Liverpool and Manchester and the majority of its portfolio investments are located in Northern England (Chart 4.1).

### 4.1 Investing in the SME Space

Enterprise Ventures invests in SMEs which are defined as businesses that employ up to 250 people and generate up to Euros 50 million (£40 million) in turnover. 'Small' SMEs, which make up almost 50% of Enterprise Ventures' portfolio, employ up to 50 people and generate up to Euros 10 million (£8 million) in turnover. 'Micro' SMEs, which make up another 38% of the Enterprise Ventures' portfolio, employ less than 10 people and generate up to Euros 2 million (£1.6 million) in turnover. Thus, Enterprise Ventures' investment in SMEs is predominantly (88%) in small and micro businesses. By way of comparison, in 2013, SMEs accounted for 59% of UK private sector employment and 48% of turnover. Small SMEs accounted for 79% of employment and 69% turnover.

Between 2002 and 2014, Enterprise Ventures brought financial support to 837 SMEs, a total of £344 million from public investment sources (40%) and private sources (60%). Private sources include banks, pension funds and insurance companies, and wealthy individuals (60%). Public sources of funding have included the EU, the UK Government and local authorities. At the end of August 2014, Enterprise Ventures had around £142 million of funds under management and a portfolio of more than 400 SME venture capital and loan investments.

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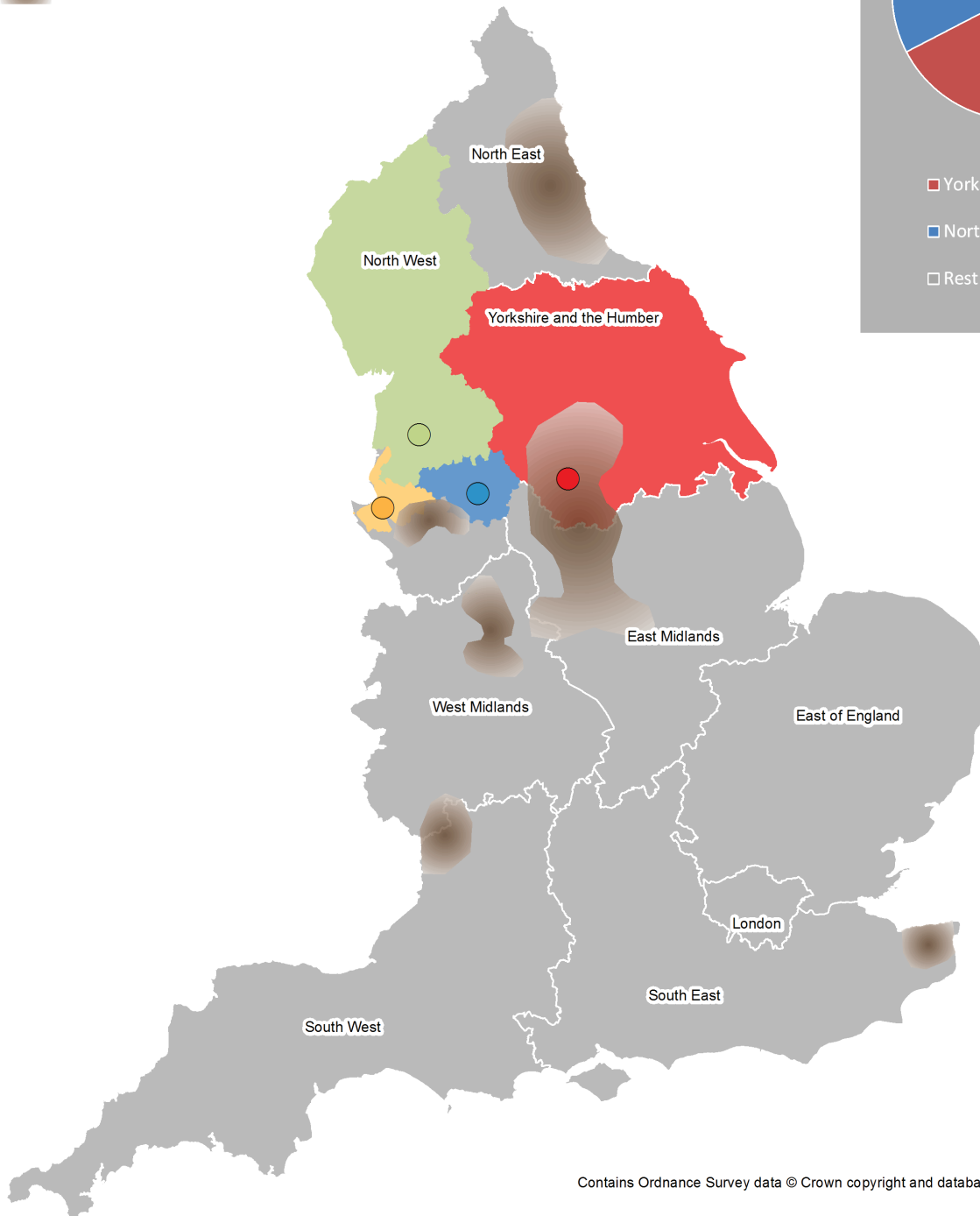
<sup>8</sup>Enterprise Ventures Limited is authorised and regulated by the Financial Conduct Authority.

<sup>9</sup>Unlisted investment, by either institutions or wealthy individuals, finances commercial ventures in ways that do not involve the use of publicly tradable assets such as corporate shares and listed bonds. The term covers private equity, venture capital, growth and mezzanine capital, angel investing and private equity funds. Venture capital is investing in companies that have undeveloped or developing products and revenue.

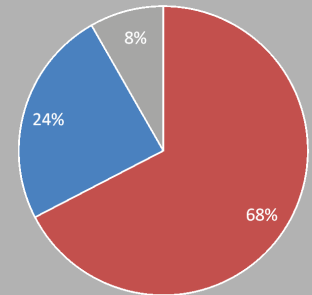
## 4.1: The Geography of Enterprise Ventures, 2014

### Enterprise Ventures Geography

- Greater Manchester
- Lancashire and Cumbria
- Merseyside
- Yorkshire & the Humber
- Coalfield Areas



### Regional Share of Enterprise Ventures Investees



- Yorkshire and the Humber
- North West
- Rest of England

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Enterprise Ventures has established itself as a leading regional player in the UK equity and venture capital sector. According to Experian research:

- Enterprise Ventures was the most prolific investor in UK private equity transactions between 2011 and 2013.<sup>10</sup>
- In the North West region, for January 2012 to May 2014, Enterprise Ventures ranked first out of 100 investors by the number of £500,000+ deals completed with local businesses. It completed 34 deals with a total value of £26.7m during this period – equivalent to 13% of all North West deals.<sup>11</sup>

Whilst bank lending has ‘ebbed and flowed’ and some bigger private equity players have withdrawn from the North West, Enterprise Ventures has maintained a strong commitment to SME investment and regional economic development.

Particularly in the market for publicly backed funds, Enterprise Ventures has developed a proven, but unusually effective, business model that delivers a range of difficult, multi-level policy objectives. With a 26% share of the total value of current JEREMIE funds under its management, it appears that Enterprise Ventures has earned a reputation for being ‘a safe pair of hands’ in what private equity investors and banks regard as a high-risk market space - but one that has high social value potential from an economic development perspective.

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<sup>10</sup> Experian Business Research, Monthly Review, March 2014.

<sup>11</sup> It should be noted that the Experian research excludes all transactions under £500,000, which account for the majority of Enterprise Ventures’ investments.

## 5. Enterprise Ventures' Portfolio Assessment

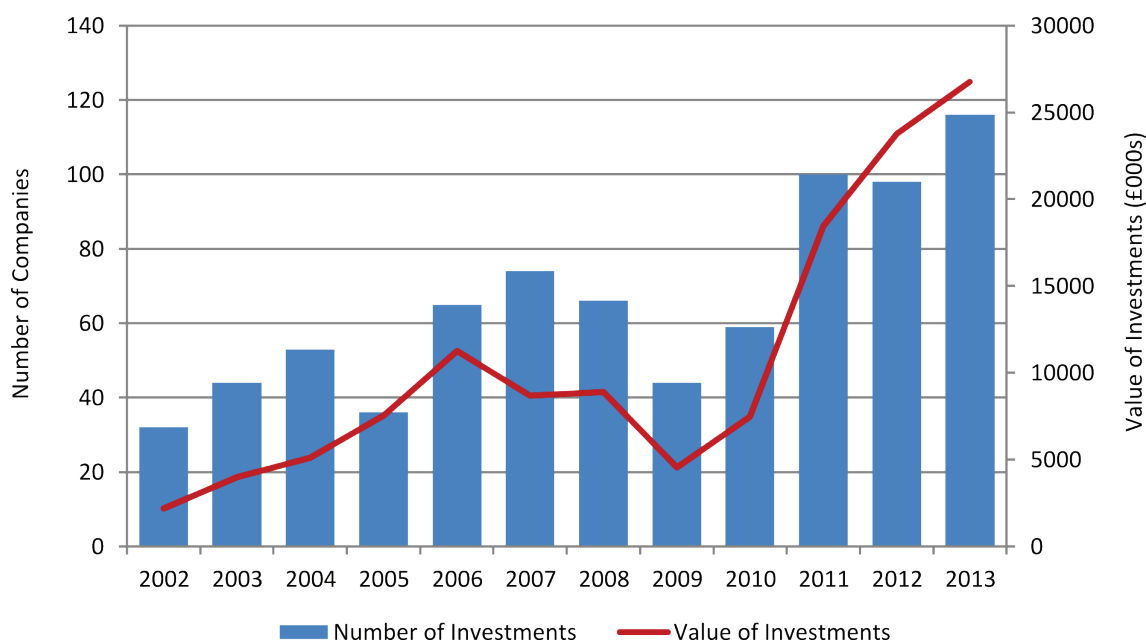
The assessment looks at Enterprise Ventures' portfolio of SME investments made between 2002 and 2013. Over this period, the portfolio included 837 businesses and around a third of these businesses were supported by multiple investments.

An assessment of this nature is understandably constrained, to some degree, by data availability. This applies mainly to business turnover and employment trends for the Enterprise Ventures' portfolio as a whole. These business outcomes are, however, not necessarily relevant to investments and loans in start-up and early stage businesses, where survival rates or projected performance are more appropriate to assessing growth outcomes.

### 5.1 Investing in the Recession and Financial Crisis

- Enterprise Ventures continued to invest throughout the UK's worst recession and the global financial crisis. It invested almost £130 million in over 800 UK-based companies during the period 2002 – 2013 (Chart 5.1). At the height of the recession (2008 – 2010) Enterprise Ventures invested £21 million in 169 businesses.

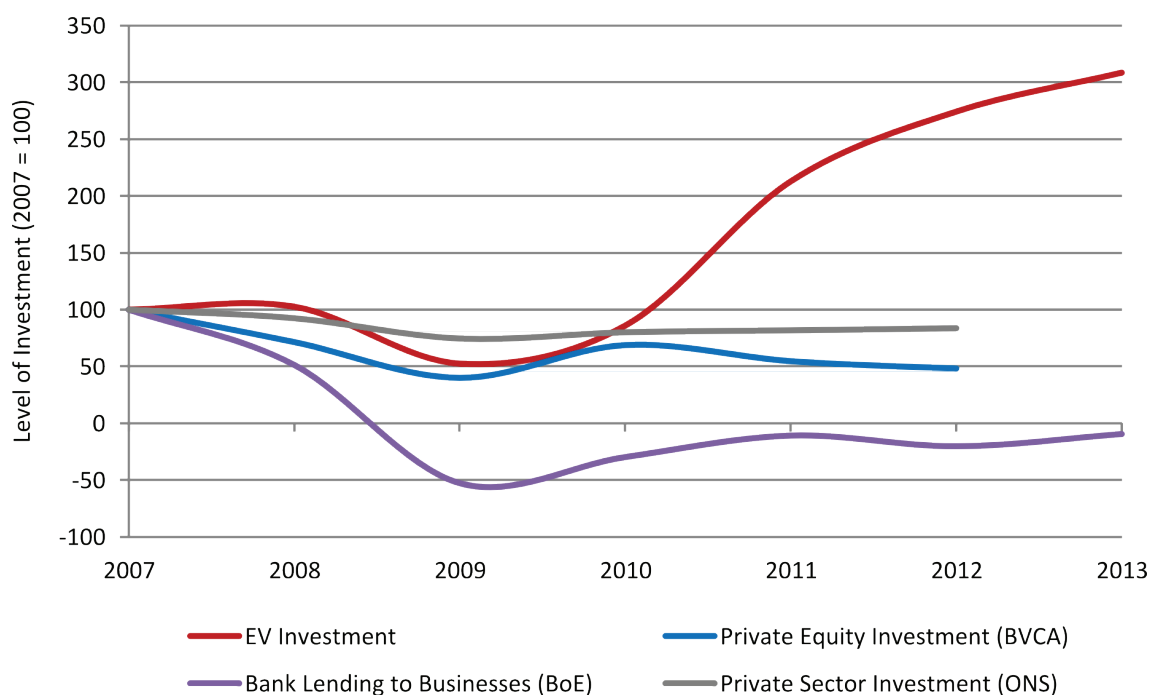
**Chart 5.1: Trends in Enterprise Ventures, 2002-2013**



Source: Enterprise Ventures

- Since 2010, Enterprise Ventures has achieved significant growth in its levels of investment during a period when investment and lending activity by the UK private equity / venture capital and banking sectors as a whole has been stagnant (Chart 5.2).

**Chart 5.2: Enterprise Ventures versus UK Investment Trends, 2007-2012/13**



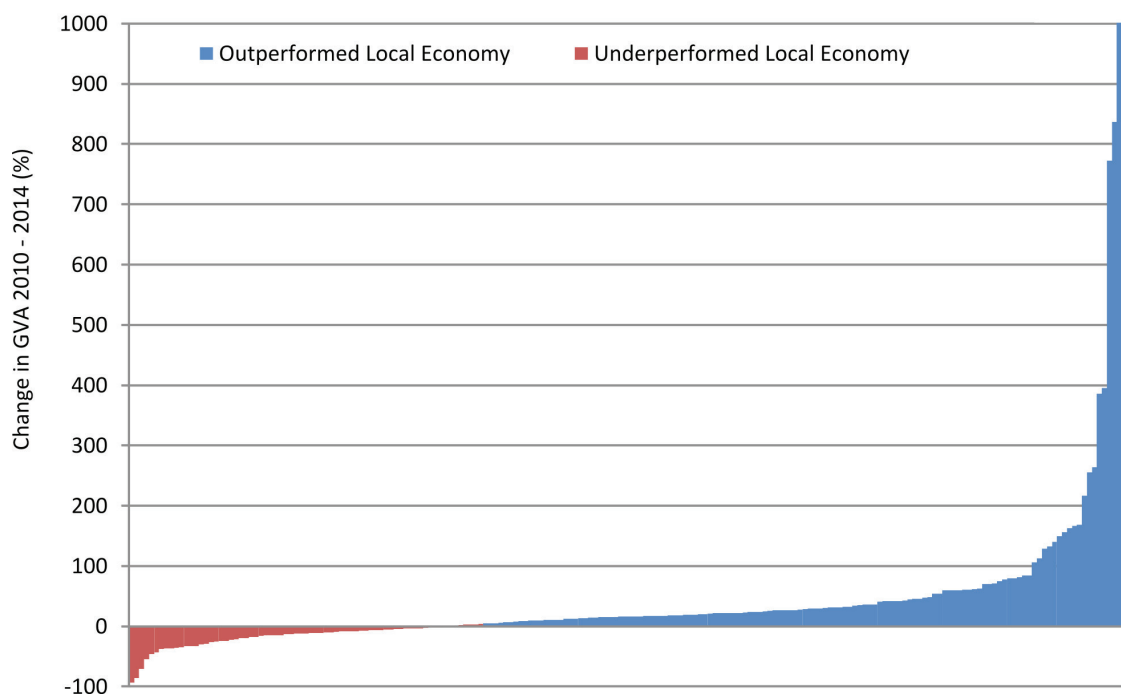
Source: Private Sector Investment – The Blue Book, Table 9.2, Gross fixed capital formation, ONS 2013; Bank Lending – Trends in Lending, Table 1-A, Average net monthly flow, Bank of England July 2013; Private Equity Investment – BVCA Private Equity and Venture Capital Report on Investment Activity, Table 2a, BVCA May 2009 – 2012.

## 5.2 Investing in SME Growth

- Since 2010, business turnover has grown on average by 13% in two thirds of Enterprise Ventures' investee companies (Chart 5.3). National Gross Value Added (GVA) growth over this period was 4.15% and regional GVA growth rates for the North West and Yorkshire and the Humber were 2.6% and 2.3% respectively.<sup>12</sup> Thus the majority of Enterprise Ventures-backed SMEs far outperformed the average growth performance of the UK economy in their surrounding regional economies.
- Employment data was uneven across the portfolio however there is some positive evidence. Between 2009 and 2012, 267 Enterprise Ventures' investee businesses created 1,750 jobs whilst all private sector employment in their surrounding regions fell by 2.7%. Since 2012, 200 Enterprise Ventures portfolio companies have created a further 1,770 jobs. An important aspect of this job-creation was the high proportion of full-time employment. As Chart 5.4 shows, Enterprise Ventures-backed SMEs created a relatively high proportion of full-time job opportunities compared against local employment trends.
- Enterprise Ventures supported 137 start-ups between 2009 and 2012. The 3 year survival rates for Enterprise Ventures start-ups were: 84% for 51 start-ups in 2009; 71% for 44 start-ups in 2010; and 86% for 42 start-ups in 2011. To benchmark survival rates against national and local averages we were only able to take Enterprise Ventures' performance for the 2009 base year. The Enterprise Ventures business survival rate of 84% compared highly favourably to the English average survival rate of 62.3%. It should be noted that Enterprise Ventures' survival rates for base years 2010 and 2011 were also relatively high.

<sup>12</sup> GVA or Gross Value Added statistics are routinely used to benchmark business turnover performance against wider national and regional economic performance.

**Chart 5.3: Turnover Growth for Enterprise Ventures Investees, since 2010**



Source: Enterprise Ventures; ONS

**Chart 5.4: Full-time Job Creation in Enterprise Venture Portfolio companies compared against the North of England average (North West, Yorkshire and Humber and North East)**

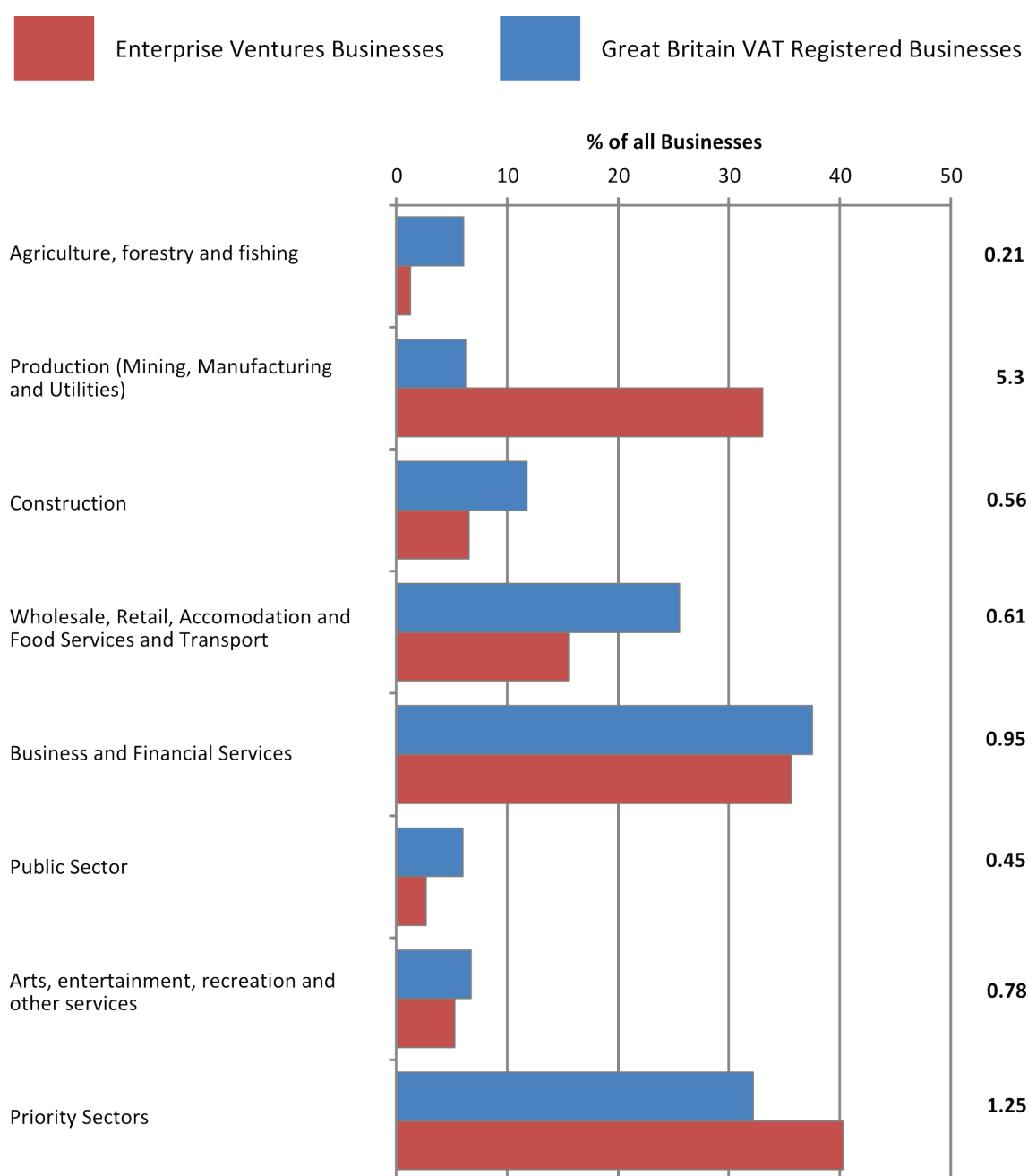


Source: Enterprise Ventures, Annual Population Survey 2014

## 5.3 Investing in Priority Sectors

- Enterprise Ventures invests relatively more in ‘priority sectors’<sup>13</sup> of the UK’s Industrial Strategy (Chart 5.5). Enterprise Ventures’ portfolio has a particularly high share of manufacturing businesses – 33% of the portfolio versus 6% of the total UK business stock. 49% of Enterprise Ventures’ investees are in ‘export-intensive’ sectors versus 17% of all UK businesses.
- Enterprise Ventures’ investment activity is helping to bring private investment to Britain’s least resilient, public sector-dependent local economies (Chart 5.6).

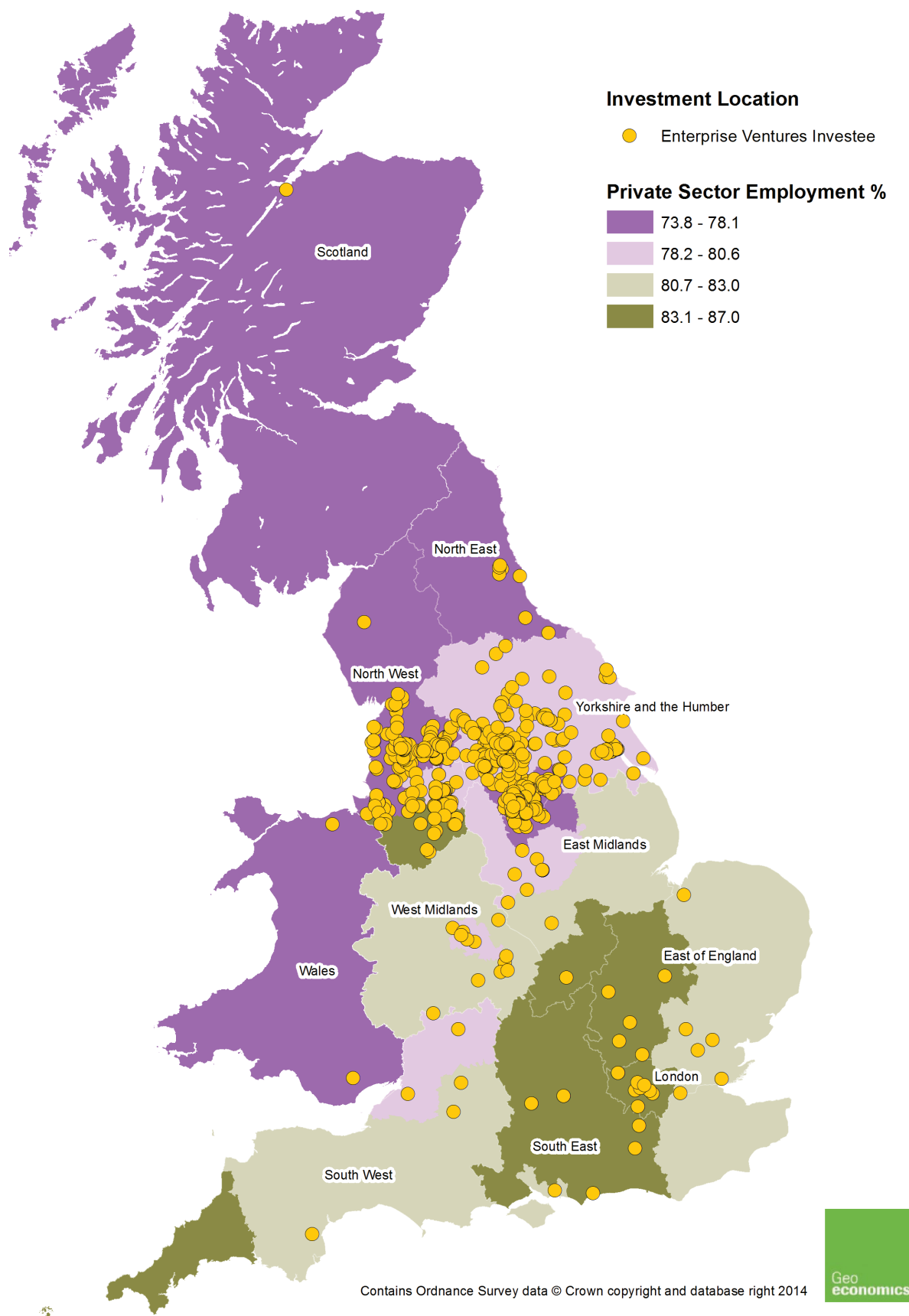
**Chart 5.5: Sector Balance of EV Portfolio versus GB Business Stock**



Source: Enterprise Ventures, Inter Departmental Business Register 2013. Notes: The column of figures on the right of the chart shows ‘sector-based concentration quotients’ for Enterprise Ventures. A score of above 1 means the sector is over-represented in Enterprise Ventures’ portfolio relative to the national average; a score of less than 1 means it is under-represented.

<sup>13</sup> “Priority Sectors” in the UK Industrial Strategy are Knowledge Intensive Business Services and Medium-to-High Technology and Value Manufacturing (UK Growth Dashboard).

## 5.6: Location of Enterprise Ventures Investees by the Private Sector-Intensity of Local Economies, 2012

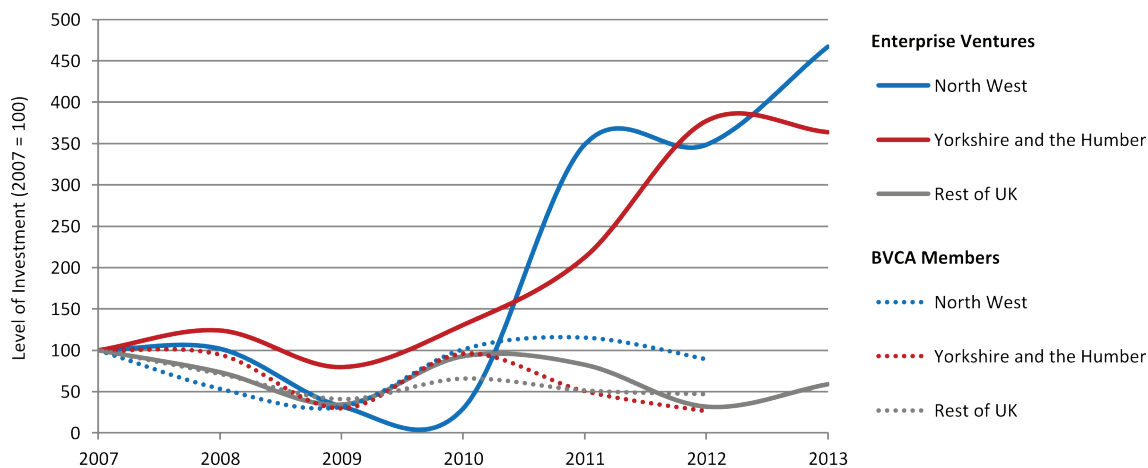


Source: Enterprise Ventures; Business Register and Employment Survey, 2012

## 5.4 Investing in the Regions

- Chart 5.7 shows that Enterprise Ventures' aggregate SME investment by its public and private sector funds in the North West and Yorkshire and the Humber regions far exceeded the rest of the UK equity and venture capital sector. This 'regional investment gap' in the SME sector widened greatly after 2010, and during the recession.

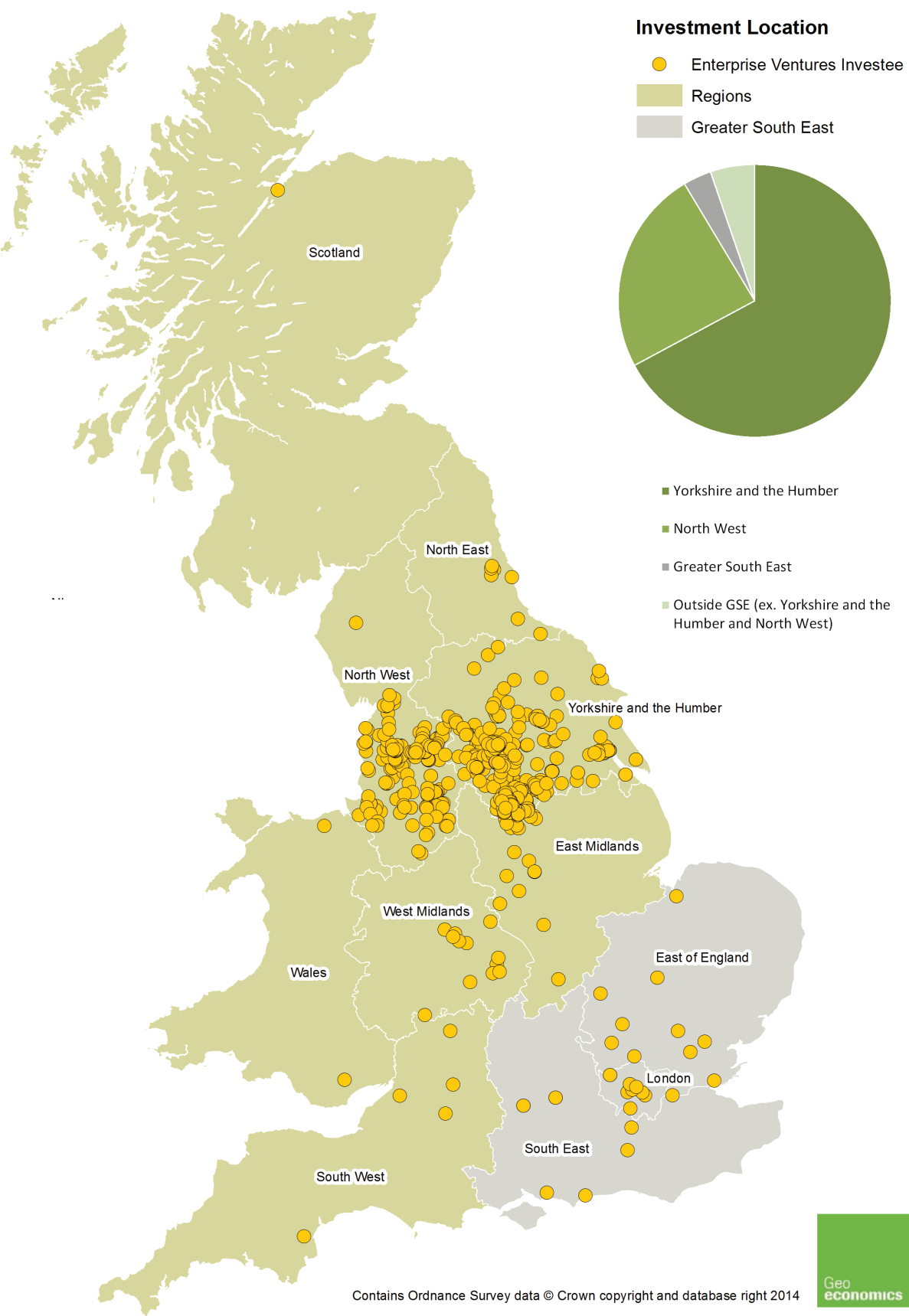
**Chart 5.7: Regional Trends in Private Equity Investment - Enterprise Ventures versus the Sector, represented by BVCA Membership, 2007 to 2013**



Source: Enterprise Ventures. Private Equity Investment – BVCA Private Equity and Venture Capital Report on Investment Activity, Table 11, BVCA May 2009 – 2012.

- Chart 5.8 serves to highlight Enterprise Ventures' contribution to bringing much needed investment to SMEs in the North of England. 97% of Enterprise Ventures' portfolio companies are located outside the Greater South East, compared to 57% of the Great Britain's entire SME stock.

Chart 5.8: The Regional Spread of Enterprise Ventures Portfolio Companies

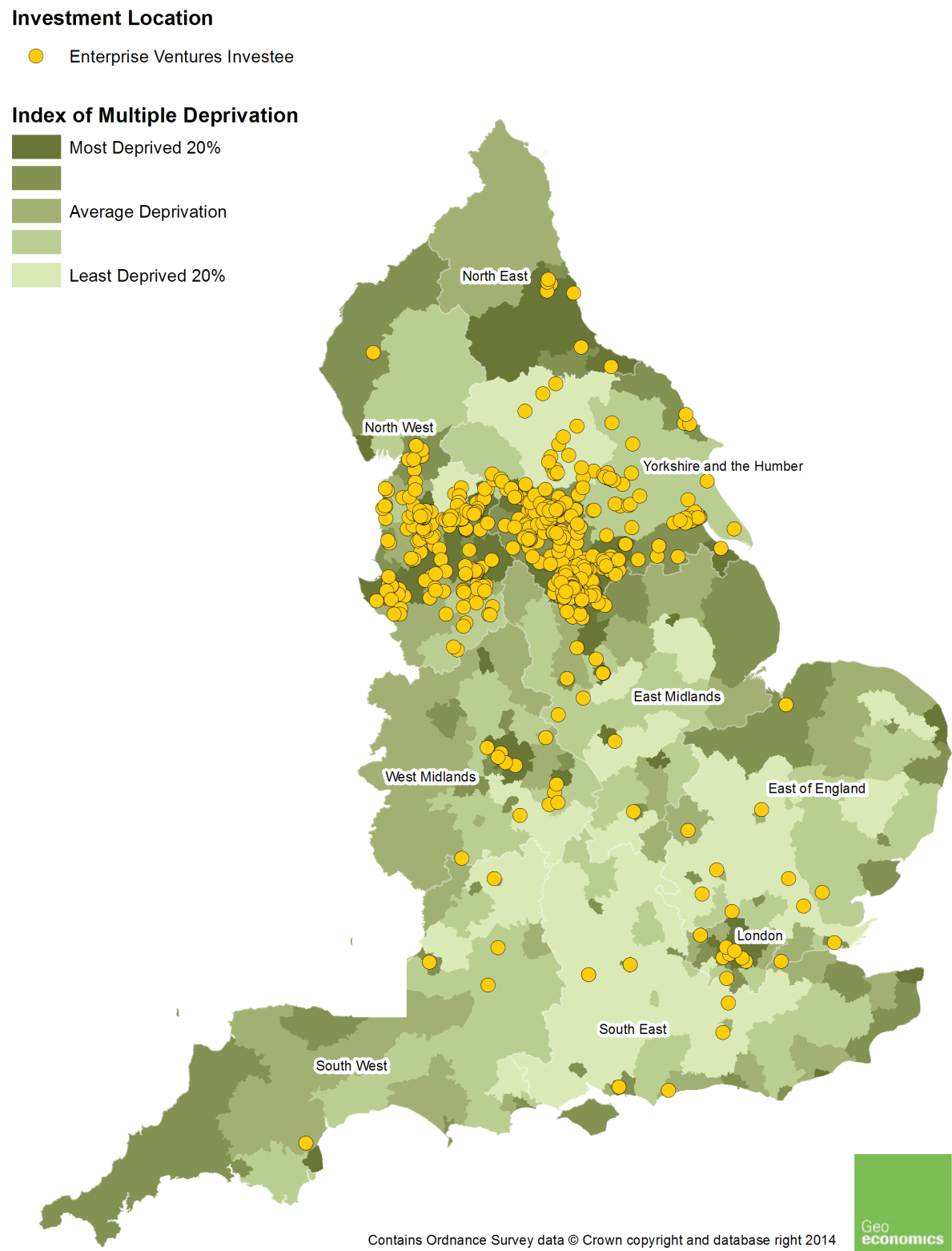


## 5.5 Investing in Deprived Communities

In the case of publicly-backed funds, Enterprise Ventures' investment activities are targeted towards SMEs located within designated under-performing regions of the UK/EU economy, and within regeneration areas.

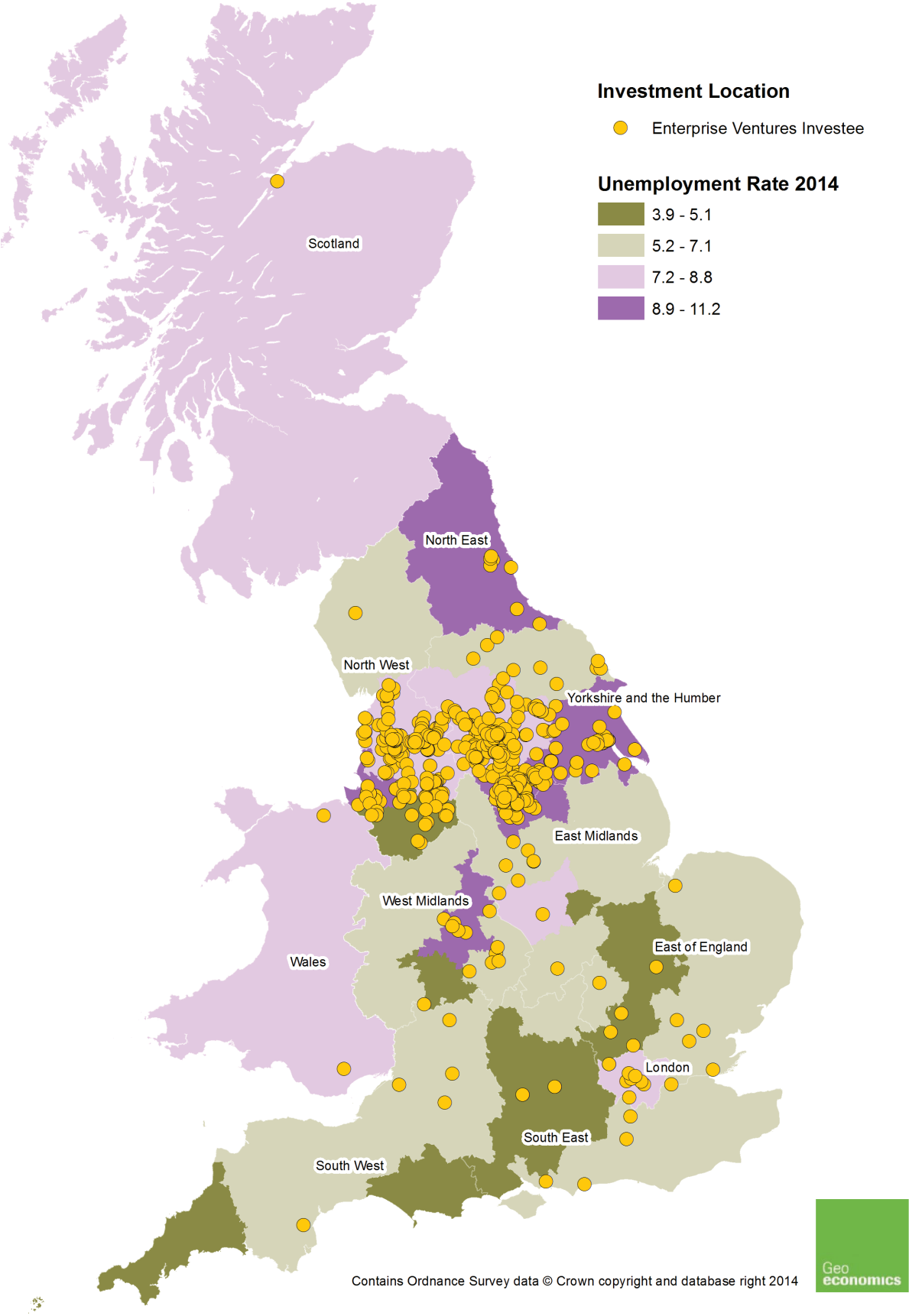
- Nearly 60% of all of Enterprise Ventures' investments are located in England's 20% most deprived areas (Chart 5.9). This compares with a figure of 23% for all SMEs. Enterprise Ventures' investment footprint includes Liverpool and Manchester which rank in the top 5 most deprived local authority areas in England (with Hackney and Newham in London).
- More than 90% of all of Enterprise Ventures' portfolio companies are located in communities where the local unemployment rate is higher than the national average (Chart 5.10). In comparison 52% of all small businesses in Great Britain are situated in above average unemployment areas. Note that the level of long-term unemployment is the main determinant of local variation in community well-being (2011 Census).

Chart 5.9: The Geography of Enterprise Ventures Investees by Deprived Area, England



Source: Index of Multiple Deprivation 2010

Chart 5.10: The Geography of Enterprise Ventures Investees by Local Unemployment Rate



Source: Annual Population Survey, March 2014

## 5.6 Comments

The results of the portfolio analysis are clearly positive, with Enterprise Ventures' investment activity performing above average – by sector and geography – across all of the 'balanced economy' indicators.

### Two points are worth making.

**First**, the analysis needs to be regularly up-dated to reflect changing market and economic conditions, and also Enterprise Ventures' own business direction of travel. Although the overall time-frame of the analysis is 2002-2014, the social value benchmarking focuses on 2008-2012, i.e. the period of the recession and financial crisis, and the early stage of the UK economic recovery. Annual or bi-annual updates are required to make the social value assessment a valuable dynamic tool for investment decision-making and marketing.

**Second**, a common barrier to social value assessment in the private equity and indeed social enterprise sector is the incompleteness of employment-related data that gives a more accurate picture of the net job creation effects of investments. These data issues need to be addressed in future by investors and fund-managers, perhaps in the form of a reporting requirement for SME investees at the contract stage. And, for this requirement to have social value, the data need to be shared and made publicly available, subject to properly addressing confidentiality issues.

# 6. Enterprise Ventures' Social Value Scorecard

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## 6.1 The Scorecard

The Social Value Scorecard shown in Chart 6.1 summarises the results of the portfolio analysis presented in Section 5.

For each of the five 'balanced economy' domains, we have calculated an Index score based on a simple ratio between Enterprise Ventures' performance and national and regional average performance, by sector and geography. For example:

- The growth rate of Enterprise Ventures' equity and loan investment between 2008 and 2012 was 4.4 times greater than the national growth rate for bank lending.
- The share of manufacturing in Enterprise Ventures' portfolio was 5.3 times greater than the share of manufacturing in the total GB business stock.
- The share of Enterprise Ventures' investees located outside London and the Greater South East was 1.7 times greater than the share of for all GB SMEs.

The scores are not standardised across the 13 'balanced economy' indicators in the interest of transparency. The 2.9 score on the Social Value Index is simply the median of the 13 separate scores.

The Scorecard indices or ratios are meant to capture Enterprise Ventures' trajectory of investment growth – angled towards SMEs with limited access to bank lending and equity finance, angled towards the Regions and deprived areas and angled towards priority sectors of UK plc. It is the growth trajectory of Enterprise Ventures' investment activity – angled towards the 'balanced economy' as an ideal destination – which accounts for its high social value score.

Like other score cards, it would be interesting and useful to compare Enterprise Ventures' social value index scores with other individual players in the private equity and venture capital sector – ensuring like for like comparisons. This will become possible as more players adopt BII's social value assessment methodology – this is happening on a case by case basis, and could be given impetus by collaboration with the BVCA.

Nevertheless, even as a stand-alone assessment, this report shows that the thrust of Enterprise Ventures' investment activity is more closely aligned to 'balanced economy' objectives than existing market and economic trends – by a factor of 2.9. What this favourable social value 'rating' means is that scaling-up Enterprise Ventures' investment activity will help the UK achieve its 'balanced economy' goal more rapidly and more certainly.

**Chart 6.1: The Enterprise Ventures Social Value Scorecard 2014**

Social Value Domain	Indicator	Portfolio Index Score	Domain Score
<b>Investing in the Crisis</b> 2008-2012	Bank Lending	4.4	4.0
	Gross Capital Formation	3.0	
	Private Equity	4.0	
<b>Investing in SME Growth</b> 2009-2012	Survival Rate	1.3	3.2
	Turnover Growth	5.1	
<b>Investing in Priority Sectors</b> 2013	Manufacturing sector	5.3	2.6
	Export-intensive sectors	2.9	
	Industrial Strategy sectors	1.3	
	Low private sector-intensity areas	2.3	
<b>Investing in the Regions</b> 2013	Businesses outside GSE	1.7	3.9
	Equity Investment outside GSE	6.0	
<b>Investing in Deprived Communities</b> 2010/2014	Businesses in High Unemployment areas	1.8	2.2
	Businesses in Deprived Areas	2.6	
<b>OVERALL SCORE</b>		<b>2.9</b>	<b>13.9</b>

## 6.2 BII Interpretation of the Results

- i. Enterprise Ventures can be seen as both a ‘model business’ and a ‘business model’ for re-balancing the UK economy. It scores 2.9 on the overall Social Value Index and achieves consistently high scores across all domains. As a ‘model business’, it is helping to help the country’s social need for balanced growth and development; as a ‘business model’, Enterprise Ventures shows that social and financial returns are jointly attainable.
- ii. The most significant aspect of Enterprise Ventures’ social value is that it is helping to build regional platforms for seed, early stage and equity-linked investment and business loans outside London and the Greater South East. These ‘regional platforms’ – in the shape of a strong and dynamic investment and professional services community – offer long-term potential for rebalancing the UK economy. This is a ‘back to the future’ role, if we look at the historical role of private investors and philanthropy-minded business leaders in building industrial clusters/districts and communities right across the UK. Enterprise Ventures scores 4.0 in the Investing in the Crisis domain and 3.9 in the Investing in the Regions domain.
- iii. Enterprise Ventures also has a high social value because it delivers much-needed investment and management and other forms of business support to SMEs located in Britain’s least resilient economies and communities – places where enterprise and jobs are most urgently needed. Enterprise Ventures scores 3.2 in the Investing in SME Growth domain and 2.2 in the Investing in Deprived Communities domain.
- iv. The fourth and final high performance area of Enterprise Ventures’ social value creation is a score of 2.6 in the ‘Investing in Priority Sectors’ domain. A manufacturing ‘renaissance’ – led by export-oriented and knowledge-intensive businesses – is a central plank of the UK’s Industrial Strategy. Enterprise Ventures investment activity is highly supportive of manufacturing and innovative technology businesses at the seed- and early-stages of development, as we see in the case studies in Chapter 7. This is reflected in its 5.3 Index rating for Manufacturing in the Scorecard.

# 7. Case Studies of Portfolio Companies

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From Enterprise Ventures' current portfolio of over 400 portfolio companies, five were selected as case studies to illustrate how social value is co-created at the level of the individual firm. Facilitated by Enterprise Ventures, BII carried out on-site interviews with directors and senior management teams over the period July to August 2014.

## 7.1 The Sample

- **IMC Worldwide** – international development consultancy, with head offices in Redhill, Surrey (Employees: 60)
- **Tyres on the Drive** – on-line mobile tyre-fitting service, with head offices in Warrington (Employees: 70)
- **Xeros Technology** – developer of a patented polymer bead cleaning system for the global laundry industry, with head offices in Rotherham (Employees: 54)
- **Redx Pharma** – developer of drugs based on a patented 'redox switch platform' for the global pharmaceutical industry, with head offices in Liverpool (Employees: 150)
- **Woodall Nicholson** – manufacturer of funeral vehicles, buses and specialist vehicles for the emergency services, with head office in Bolton and additional plant in Rochdale (Employees: 220)

## 7.2 IMC Worldwide

Established by a management buy-out (MBO) from WSP Group plc in 2011, IMC Worldwide is an international development and engineering consultancy. Its innovative projects in infrastructure, livelihoods, economics, climate change and disaster recovery are funded by donor organisations such as UK Department for International Development (DfID), the EU, the European Investment Bank, the World Bank and the Inter-American Development Bank.

### Business Transformation

The MBO gave the Company the 'freedom to innovate' and take a long term view, through further diversification into broader international development services from its traditional specialisation in technical transport-related engineering services.

Its permanent workforce has grown from 39 to 60 people since the MBO, and its consultant workforce has grown from 25 to 40 specialists. Turnover has grown from £18m to £21m and it has seen a healthy rise in its profitability.

### Enterprise Ventures

Enterprise Ventures supported the MBO and its client funds retain a 35% equity stake in the Company with one of its own team, Paul Taberner taking a non-executive director role on the board.

The Company perceives a close value alignment with Enterprise Ventures; a common aspiration to generate social and financial value. At the MBO stage, Enterprise Ventures was seen as the ‘best fit for growth capital funding’.

The MBO has been mutually beneficial. IMC believes Enterprise Ventures has been a highly supportive partner, particularly in difficult market conditions, whilst providing IMC Worldwide the space to innovate and grow. The investment in IMC has helped Enterprise Ventures to diversify its portfolio by sector and geography, whilst being a patient capital investment with attractive returns.

### **Social Value Creation**

International development is social value-driven, its ultimate beneficiaries being local communities in some of the world’s poorest countries. It is characterised by rising market and government interest in ‘impact investing’. IMC Worldwide runs DfID’s “Innovation Prize” programme (Ideas to Impact) that rewards innovation that achieves sustainable livelihoods and legacy benefits. The programme will stimulate and incentivise research to develop technologies that will improve poor people’s access to affordable clean energy, safe drinking water and resilience to climate change.

The Company is committed to developing SME-related projects that maximise the social return on grants – and, the social value of investments. It believes that innovation holds the key to creating social value.

According to IMC Worldwide, “We’re doing some good by eradicating poverty and improving the well-being of the poorest countries. Our employees are motivated by the social goals of international development, as well as the opportunity it provides to be innovative.”

## **7.3 Xeros Technology Group**

Xeros was incorporated in 2006 to develop and commercialise Leeds University Professor Stephen Burkinshaw’s research into textile dying and the use of polymer beads for cleaning various substrates. The group initially targeted the commercial laundry market and, in 2013, began rolling-out 25kg washing machines which exclusively use Xeros’ patented polymer bead cleaning system. The Company has a Research & Development agreement with BASF to develop second generation polymer beads and, by January 2014, it had filed 27 patent families across global jurisdictions.

### **Business Transformation**

The Company began with a professor, a doctoral student, a technician and a chief executive officer. Today, Xeros has been transformed into an AIM-listed public company with a market valuation of c.£80 million. It now employs 42 people in the UK at the Advanced Manufacturing Park in Rotherham and 21 people at its US subsidiary in New Hampshire.

The Company has ‘gone global’. More than 80 Xeros washing machines, manufactured in China, are on schedule to be rolled out in the UK, US and EU by the end of 2014. The Company is accelerating roll-out in the commercial laundry market and is developing other applications of its unique ‘bead’ technology in domestic laundry and even leather processing. The Group’s stated mission is ‘disruptive innovation’<sup>14</sup>: “to convert the world from conventional aqueous washing to Xeros bead cleaning”.

<sup>14</sup> A disruptive innovation is an innovation that helps create a new market and value network, and eventually disrupts an existing market and value network, displacing an earlier technology. Joseph Schumpeter used the term ‘disruptive innovation’ in his book *Capitalism, Socialism and Democracy* (1942). Today, Harvard University’s Clayton Christensen is a leading thinker on disruptive innovation.

## Enterprise Ventures

Xeros sees Enterprise Ventures as playing a critical role at the proof of concept stage of its development: “It put very early stage finance into our business when it was only a twinkle in a professor’s eye. We were in a small laboratory on the University of Leeds campus and short of money.” Said Bill Westwater, CEO of Xeros.

The investment has grown in value as the Company achieved development milestones with successive tranches of funding and the AIM listing. Investor and investee have co-created economic value and share the ambition ‘to build a highly valuable company as sales take-off and multiple bead cleaning applications come to market’.

Enterprise Ventures’ Julian Viggars is especially valued for his on-going work as a non-executive director. The Company believes his sector knowledge and committed ‘patient capital’ approach is valuable to all technology companies, like Xeros.

## Social Value Creation

The Company sees its social value to the UK in terms of the Industrial Strategy – the ambition to build a world-class Knowledge Economy, Bill Westwater specifically mentions:

- “We are not creating manufacturing jobs in the traditional sense (that is done in China) but still make sure that great ideas coming out of UK universities benefit UK plc.
- This is about retaining technology and ideas on UK shores – and the high-value end of design and development.
- We exemplify successful university spin-outs, which both the Government and UK venture capital have targeted as priority areas.<sup>15</sup>
- We’re stopping the brain drain to London by creating knowledge economy jobs in Yorkshire, in keeping with the Government’s balanced economy agenda.
- We are already contributing to the UK’s export performance, another plank of the Government’s balanced economy strategy.”

CEO Bill Westwater offered this valuable insight: “Social value will have a bigger impact when it becomes a conscious process in business decision-making rather than an unconscious one. Clearly articulating social value differentiates your company and encourages employee engagement and innovation.”

## 7.4 Tyres on the Drive

Tyres on the Drive, the brainchild of former Michelin senior manager Dominic Clark, is an online mobile tyre fitting service: instead of queuing at a tyre depot, customers go onto a website, key in their registration number to select the right tyres, and arrange for them to be fitted at a time and location of their choice.

## Business Transformation

The Company started up in 2011 with three staff and two vans. Today, it employs 70 people and turnover is expected to grow to c. £7m in the year to December 2014. It now operates 20 vans from three warehouse ‘hubs’ in Warrington, Birmingham and Slough.

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<sup>15</sup> British Venture Capital Association – Response to the City Growth Commission Call for Evidence, 2013

The Company's chosen business growth model is characterised by:

- **Customer focus** – technicians are trained and rewarded for their customer service performance (e.g. Extra Mile award). The Company is top ranked on the Trust Pilot website.
- **Employee engagement** – regular team meetings provide feedback for improving the business.
- **Technology** – the Company is stock-free, using IT to search for 55,000 different types of tyres held by 22 different tyre manufacturers. Its call centre markets and take orders on-line.
- **Location** – warehouse 'hubs' are located in low-cost regeneration areas and customer facilities are unnecessary.

### Enterprise Ventures

Enterprise Ventures provided initial seedcorn funding in December 2011, at a time when 'banks weren't lending'. The company values Enterprise Ventures' proactive role in providing links with suppliers and customers. "It's more than a financial relationship".

Enterprise Ventures' client funds have a 30% share in the Company, having contributed further tranches of funding to support growth alongside angel investor groups.

The company holds Enterprise Ventures in high regard because it 'took the risk at the early stage' and values the non-executive directorship role played by Enterprise Ventures.: "Enterprise Ventures is not your 'normal banker' because its team is very socially minded. They are interested in a business of people not just a business of P&L numbers. They encouraged a new employee ownership scheme which is seen as a mark of their social credentials.

### Social Value Creation

The social value of Tyres on the Drive derives from creating more and more job, training and career opportunities for younger people, particularly those with vocational qualifications from deprived communities.

Virtually all of the Company's staff has been on training programmes. Dan Bezer, who joined the Company as a technician, has 'gone from spanners to spreadsheets' through multiple training courses. As a Product Manager, Dan earns double the market rate for technicians – some of his peers are stuck in poor jobs or unemployed. Most employees are recruited from local communities surrounding the Company's head office and warehouses depots - areas of high deprivation.

All of the Company's technicians are paid above the market rate and receive bonuses linked to customer feedback. Career ladders reach to management jobs at head office or the warehouse hubs. Employee satisfaction is high with very low rates of staff turnover. Tyres on the Drive received a best practice training award from the University of Chester.

## 7.5 Redx Pharma

Redx Pharma was established in September 2010 when it purchased the patented technology assets of Bradford Pharma Ltd, licensed from Avecia Pharmaceuticals. This was enabled by a £2.25 million investment package to develop Redox Switch technology in four initial lead programmes: cardiovascular, influenza, antibiotics and neuropathic pain.<sup>16</sup> New shareholders, attracted by the potential for multi-million pound licensing deals at the point of clinical trial, included life sciences specialist Jon Moulton, the North West Fund and private investors.

The Company's head office and Redx Oncology subsidiary (anti-cancer drugs) are located at Royal Liverpool University Hospital. Another subsidiary, Redx Anti-Infectives (anti-bacterial and anti-viral drugs), is located at Alderley Science Park, Cheshire – where a new subsidiary, Redx Metabolic (drugs for heart disease, arthritis and diabetes), will be launched in 2015. A fourth subsidiary, Redx Crop Protection, applies Redox Switch technology to agro-chemicals (fungicides, pesticides and herbicides).

### Business Transformation

Rather than being an academic spin-out, characteristic of the biotechnology sector, Redx was driven by business people from day one, with an emphasis on early commercialisation with big corporate partners to generate revenue and a diversity of R&D programmes to spread risk.

The Company has exploited new models of research and development in the global pharmaceuticals market. As large companies have reduced their in-house R&D capacity, small innovative companies like Redx Pharma have emerged as external collaborators. This is powerfully illustrated by a new multi-million pound collaboration with AstraZeneca to develop new anti-cancer drugs, described by CEO Neil Murray as “transformational for Redx” (September 2014).

Since September 2010, Redx has raised £10m in private investment and secured government and public funding grants of £11.1m. Its innovation has been validated across more than 30 different chemical classes and 11 different therapeutic areas. In meeting the job-creation requirement of the Regional Growth Fund, Redx has expanded its largely scientific and technical workforce from 15 people in March 2012 to a present total of 150 people. The Company anticipates significant revenue growth from 2014 onwards and investor confidence is high.

### Enterprise Ventures

The Company's relationship with Enterprise Ventures started in April 2012, when the latter took over management of a fund, which holds a 7.5% equity share. Being a ‘work-out’ fund, with no new investment commitments, Enterprise Ventures' role has been oriented to managerial and business strategy.

The Company places a high value on Enterprise Ventures' Mark Wyatt's contribution, based on his considerable experience of the Life Sciences sector, in challenging Redx's business strategy, describing his pro-active role in a neat way: “an observer who behaves like a non-executive director and who is a key member of our Board meetings”.

### Social Value Creation

The Company has a high social value to the UK in terms of its balanced economy ambition. It is part of the

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<sup>16</sup> The “Redox Switch” platform allows rapid assessment of new drug candidates, which can progress through development with lower risk and greater speed into clinical trials.

high-priority Life Sciences sector (Industrial Strategy) and, just as important, it is a 'flagship' for the North West's regional knowledge economy and bio-tech cluster, confirmed by its recognition in numerous business awards.

Redx's model cluster role involves research and educational collaborations with Liverpool University, Liverpool Life Sciences University Technical College (the first school in the UK specialising in Science and Health Care for 14 to 19 year olds), local Hospital Trusts and Liverpool City Council.

Redx's importance to Liverpool City Region and the North West has grown following the departure of Astra-Zeneca for Cambridge, which has resulted in closer policy linkages between Manchester and Liverpool, with Alderley Park now seen as a 'Bio-Hub' for growing a global Life Sciences cluster. In the context of the UK's balanced economy agenda, the Redx investment in the North West is welcome as a balance against the South East 'golden triangle' of life science businesses concentrated around Oxford, Cambridge and London.

## 7.6 Woodall Nicholson

Woodall Nicholson, which incorporates Coleman Milne, Mellor Coachcraft and CM Specialist Vehicles manufactures and sells funeral vehicles, buses and specialist vehicles for the emergency services operating from two sites in Bolton and Rochdale.

The company is a market leader in a number of the markets it serves and aims to grow into a £100 million business within the next few years – partly through new acquisitions. In July/September 2014, it acquired the intellectual property/technology and manufacturing assets of both Bluebird Vehicles Limited and Manchester-based AES Limited.

### Business Transformation

The Company's roots go back to the 1820s coach building industry in Halifax. Whilst it had been successful under previous management significant progress came following the acquisition, in July 2013, by a syndicate of North West-based private investors, including Enterprise Ventures. The £4 million investment was used to establish a new board and management team, buying out the Company's former shareholder-directors, with the exception of Geoff Hudson who re-invested in the business alongside the new team.<sup>17</sup>

The new investors, with the support of the existing management team, have transformed the Company through a range of initiatives including: re-designing the production process, investing in new technology, minimising warranty claims and re-negotiating supplier payment schedules. Management and production supervisors have responded positively and employee engagement and staff morale have been greatly improved. As a result productivity has risen, and the Company's engineering and marketing/sales workforce has expanded – including apprenticeships.

In the first year after the management buy-in, the Company's turnover increased from £22 million to over £30 million and employment increased from 200 to 220, comprising engineers, skilled craftsmen and sales/customer services people. Most of the workforce lives within a 10 mile radius of the factory.

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<sup>17</sup> The new investors previously worked together on the successful acquisition and development of Scarborough-based Plaxton Coachbuilders in 2004.

## Enterprise Ventures

Enterprise Ventures' client funds have a 20% equity interest in the Company. The Company believes that there is a very close alignment between its values and those of Enterprise Ventures. There is a shared commitment to the manufacturing sector, the North West economy and the local communities. As highlighted in the opening paragraphs of this report, Enterprise Ventures' mission is to grow excellent businesses that are also 'good' for their surrounding local communities, in terms of jobs and well-being.

'Enterprise Ventures' contribution comes from being part of a highly committed team of investors and directors – “it has been highly active and interested in our business” (Geoff Hudson).

## Social Value Creation

The social value of Woodall Nicholson derives from its role as a 'high-to-medium value manufacturer' – a priority sector of the Industrial Strategy and, in so far as it is located in North West England, the Company is 'good' for re-balancing the UK economy.

More profoundly, its transformation into a high growth, SME manufacturer has to be a 'confidence-booster' for the area's local communities and businesses. The social value of Woodall Nicholson is therefore real – a 'manufacturing renaissance' in places where de-industrialisation appeared to be an unavoidable 'end-game'.

In the words of Geoff Hudson, “We're proud to be manufacturers and local employers – we generate jobs for people. Manufacturing has declined all around us – but we've shown what can be done.”

## 7.7 Comments

The case studies provide a qualitative understanding of the importance of equity investment, taking us beyond a narrow view of its private financial value to a wider view of its social value:

- Innovation, employee engagement, skill and entrepreneurship, increasingly recognised as the real sources of growth in businesses and economies, can be harnessed through successful equity investments (OUTCOMES)
- The UK's ambitions to become a more balanced economy, delivering growth, competitiveness and employment across the entire nation, can be achieved through carefully-designed policy, funding and governance vehicles that enable successful equity investment. (IMPACTS)

These case studies clearly illustrate that these OUTCOMES and IMPACTS are achievable when there is a close social value alignment between the investor and the investee and, just as importantly, when the knowledge, skills and resources of both are pooled and harnessed to good effect.

If anything, we have under-estimated the total social value of the case study businesses, because of our focus on economic growth, development and well-being. Xeros, for example, is producing 'green' washing machines which will have a positive effect on the environment. Redx Pharma's drug development activities may benefit health and well-being in the UK but also for rich and poor nations throughout the world.

The case studies highlight success stories; however venture capital is not always so successful. Nevertheless, policy-makers attach great importance to small business performance in the UK and evidence on what appears to work is valuable.

## The Social Value of SME Investment in the UK Regions

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