The climate for early stage investing in the Creative Industries

Presented by

UKBAA
UK Business Angels Association

In partnership with

creative england
Creative Enterprise
Investing in the future of storytelling



Introduction from UKBAA

Jenny Tooth OBE | Executive Chair, UKBAA

One of our core roles at the UK Business Angels Association is to enable our investment community to connect with innovating businesses in key growth sectors and regional clusters across the UK, whilst enabling entrepreneurs to access the investment and support they need to build and grow. One of these key growth sectors is the Creative Industries and notably fast-growing screen content businesses, offering huge opportunities for investment across the UK. We are delighted therefore to be working with Creative UK and the British Film Institute under the Evolve Programme to enable many more angel and early stage investors to identify the potential to back businesses from this important sub-sector.

As part of our work with Creative UK and BFI, we have been organising opportunities for investors to interface directly with curated cohorts of investment-ready screen-focused businesses through bespoke showcasing events, networking, and one-to-one interactions. This has also included a series of investor dinners, where a selected group of investors and entrepreneurs have been brought together to share insights and perspectives, enabling intensive engagement between investors and entrepreneurs who have presented their businesses and gained detailed feedback, advice, follow-up, and investor introductions.

We have also undertaken a further survey among the investment community, four years after our last survey in 2019. This was designed to give us a further understanding of the interest and focus of investors in relation to Creative Industries and sub-sectors, identifying what impact our activities may have achieved, what further barriers and challenges still exist for investors, and what more could be done. The results of this survey are presented in this report, and we want to thank all of the investors who have taken the time to contribute their insights and experience on investing in creative industries detailed within this report.

Our key findings can be summarised as follows:

- Digital media and content and immersive technology were the most attractive sub-sectors within the creative industries and there is a considerable increase in investor interest in gaming compared with our 2019 survey, potentially resulting from the significant surge in games participation during the pandemic and increased access to gaming businesses under the Evolve programme.
- When looking at the types of businesses that investors are interested in, content creators together with enabling technologies and services are identified as offering the most potential for investment where they see the benefits of technology converging with creativity and innovation.
- Over half of the survey respondents have participated in UKBAA and Creative UK-related activities over the past 4 years. Over 50% of these identified a general increased interest and understanding of the sector, demonstrating that investor-focused interventions are pushing the needle.
- Of those not yet prepared to make an investment in the creative industries, a lack of knowledge or experience of the sub-sectors was cited as the biggest factor combined with access to information about the growth and returns of the sector.

In terms of what should be done to reduce barriers and increase investment, we need to:

- Increase awareness and understanding of angels about the investment and growth potential of screen-focused businesses, through the provision of regular market intelligence on the sector and access to industry insights and peer-to-peer experience.
- Create more opportunities for angels to interact with investment-ready growth-focused businesses from the sub-sector including pitching events with curated businesses and small bespoke networking events to meet quality dealflow.
- Attract and mobilise more lead angels with experience working in the screen-focused industries and/or with investment knowledge of the sector and build and support more investor syndicates focused on the Creative industries sub-sectors.



Foreword from Creative UK

Tim Evans, Investment Director, Creative UK

No other industry marries up the joy inherent in creative practice with positive economic gains quite like the Creative Industries. It is truly unique. We all know, anecdotally and personally that creativity is a route towards innovation; but we also know, from statistical data, that creativity is a route towards growth. The creative sector consistently outpaces the general economy in terms of growth and is home to some of our most innovative and exciting subsectors, from virtual production right through to AI and Games.

With more than one in eight UK businesses now part of the Creative Industries, this sector accounted for £115.9 billion of GVA in 2019 and has heft across the globe, with global exports of creative services totalling $1.1 trillion in 2020. To put this into context, the same year saw global exports of goods total $524 billion. Despite this abundance of data, a House of Lords report published in January ('At risk: our creative future') showed that there is now, more than ever, the requirement for government and industry to get behind our creative sectors. These sectors are undervalued, under-funded and, as a consequence, are at risk of being outpaced by our European neighbours.

Here at Creative UK, we know that offering the support and finance to back up the individuals behind our creative output is key to securing a positive future. And Evolve is a huge part of that story. Since launching four years ago, the Creative Enterprise Evolve programme has seen some of the finest talents that the UK's screen industries has to offer. Our cohort businesses now number more than 50 – that's 50 companies whose founders have received mentorship, guidance, and vital introductions to investors during their time on the programme.

The results have been hugely satisfying – we have two games companies who have received debt investment through our Creative Growth Finance fund; angel funding rounds that have secured £300,000 for the financing of an interactive film; venture investment secured to finance digital humans and a successful Kickstarter fund raised to enable the production of a feature film. This by no means an exhaustive list is just the tip of the iceberg. We are so proud of the diverse array of companies that have made up our cohort and we continue to value the long-lasting relationships with them that we nurture.

None of this would be possible without the support and funding of the British Film Institute who, like us, believe in the power and value of creativity. We've also received fantastic support from our partners at UKBAA and the numerous mentors and industry experts who have shared their expertise and time with our Evolve cohort.

Opportunities for investing in the Creative Industries

Late 2022 and early 2023 presented economic challenges for investors and entrepreneurs alike. Despite this, we continue to see interest in innovations on the rise in the creative sector. From Games steadily scaling and holding court as the leading at-home entertainment service to Virtual Reality gaining momentum with predictions to grow exponentially in the next five years, the sector is one to watch.

The creative sector in numbers

£116bn

The Creative Industries contribute **£116bn** in GVA to the UK economy, which is greater than the aerospace, automotive, life sciences, and oil and gas sectors combined.

£150bn by 2025

And with the Creative Industries predicted to grow to £150bn by 2025, the sector offers exceptional opportunities for investment.



Creative Clusters with high concentration and growth across the UK

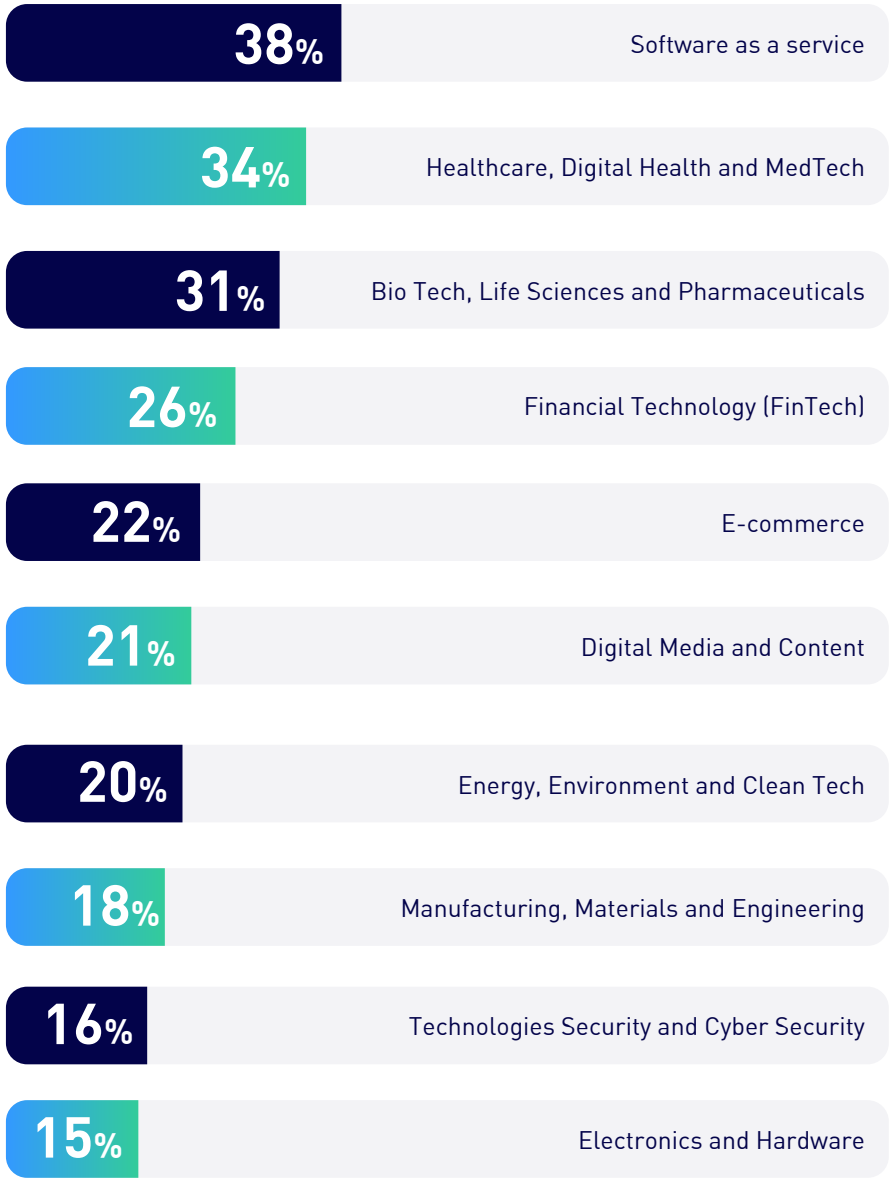
The Creative Industries and related sub-sectors offer substantial opportunities for investors, yet, we continue to see other sectors like Healthcare, Digital Health and MedTech, Bio Tech, Life Sciences, Software as a Service, and FinTech as the most saturated by investors.

However, in *The UK Business Angel Market 2020* report developed in partnership with British Business Bank and UKBAA, Digital Media and Content was the **6th most popular sector** among angels, and with more technologies crystallising their role in the Creative Industries, it is likely we will continue to see this.

The Creative Industries is vast, and there are a variety of high-potential sub-sectors not frequently engaged with by our investment community. From AR and VR creating immersive meeting spaces or shopping experiences to games technologies reimagining how we teach, train, and learn, the Creative Industries are fusing with other fast-growing sectors and creating new exciting opportunities.

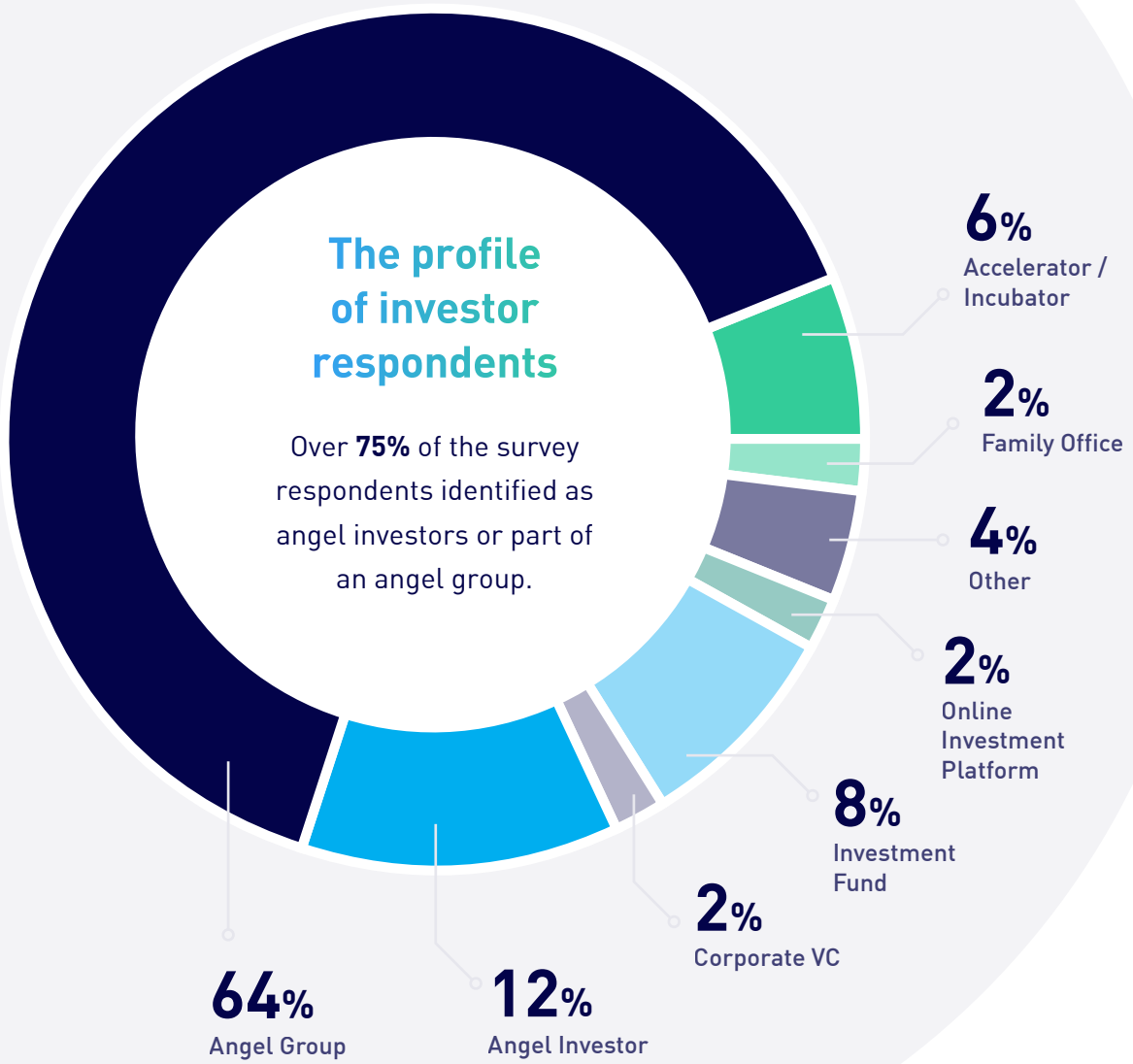
Top 10 sectors angels are investing in

Source: The UK Business Angel Market 2020 report



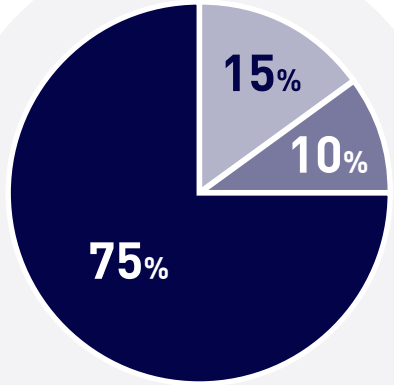
The profile of investor respondents

Over **75%** of the survey respondents identified as angel investors or part of an angel group.



Activity in the Creative Industries

Of those that are interested in the sector...



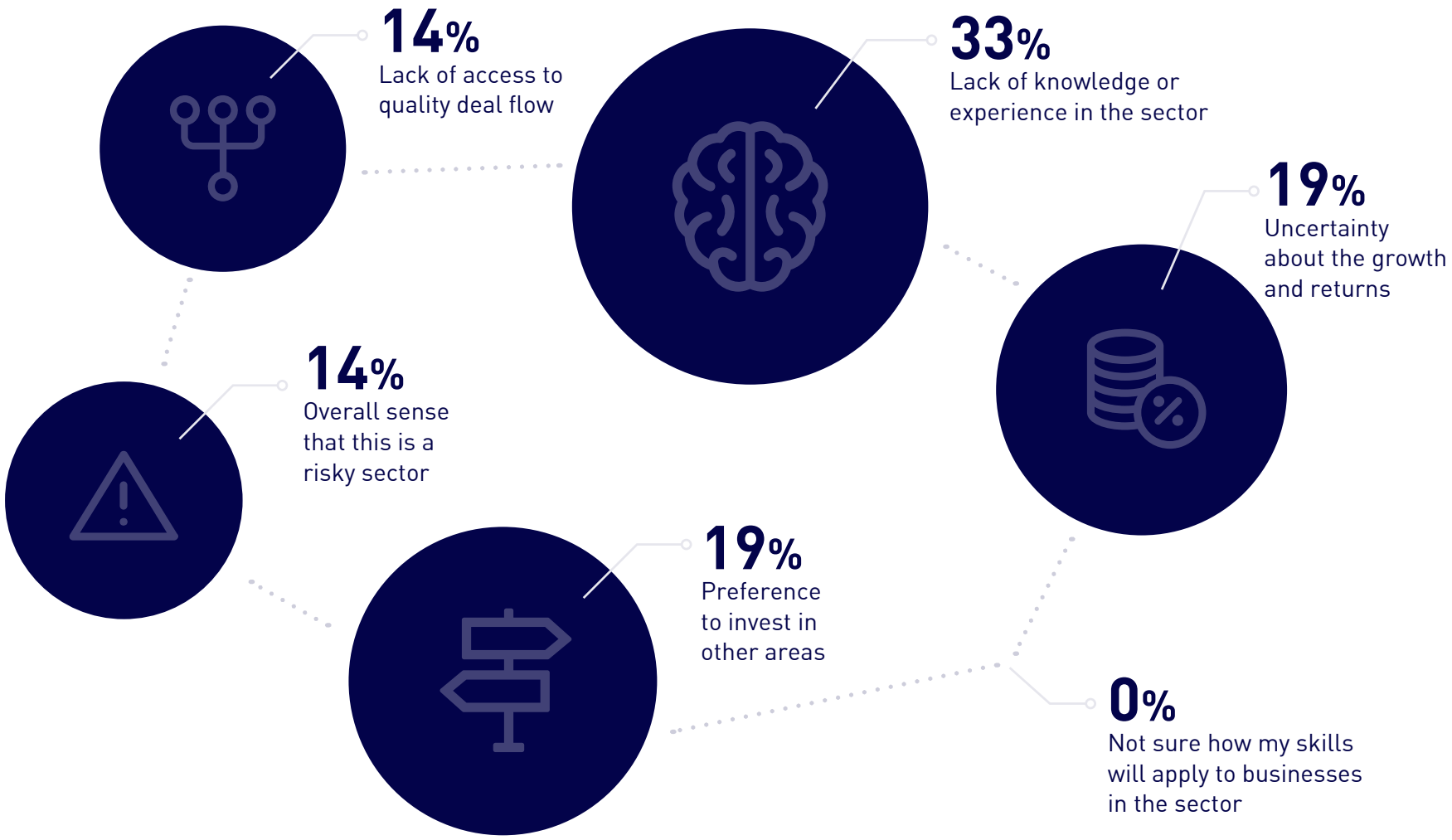
75% I have made 1 or more investments

15% I am strongly considering investing in the sector

10% The sector is interesting but I am not prepared to make an investment yet

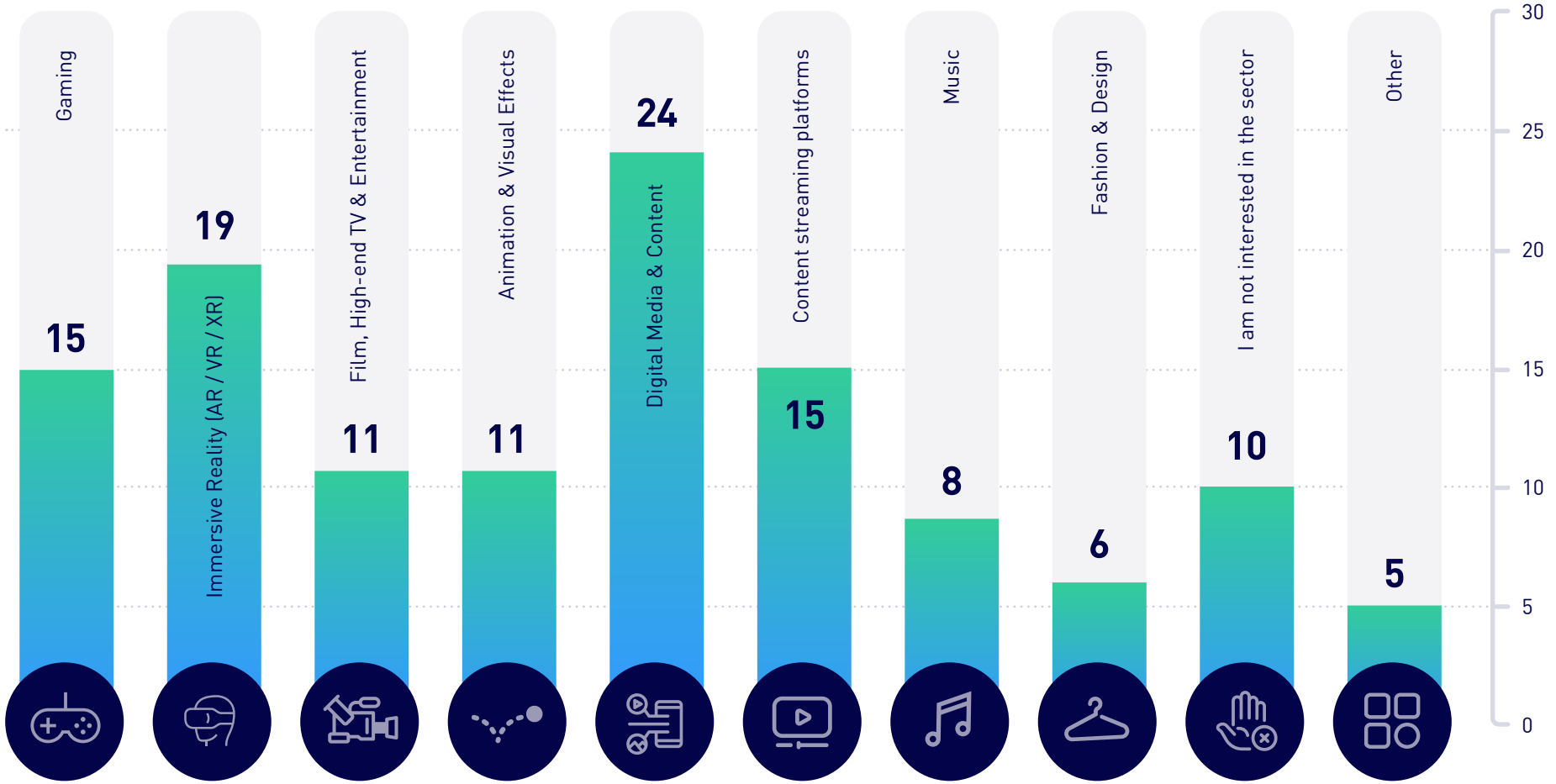
¾'s of the survey respondents indicated they have made **one or more** investments in the creative sector. Of those active in the sector, **over half** were angel investors.

Of those not prepared to make an investment yet, a **lack of knowledge or experience in the sector** was the biggest factor influencing their decision. This underpins the need to continue to provide investors with tools and resources to help educate and upskill.



Where investors are interested

The survey respondents showed the greatest interest in **digital media & content** and **immersive technology**, whilst **fashion & design** was significantly less attractive. In 2019 when we surveyed our community, gaming was one of the least attractive sectors to investors, yet this survey saw a considerable increase in investor interest in the sub-sector.

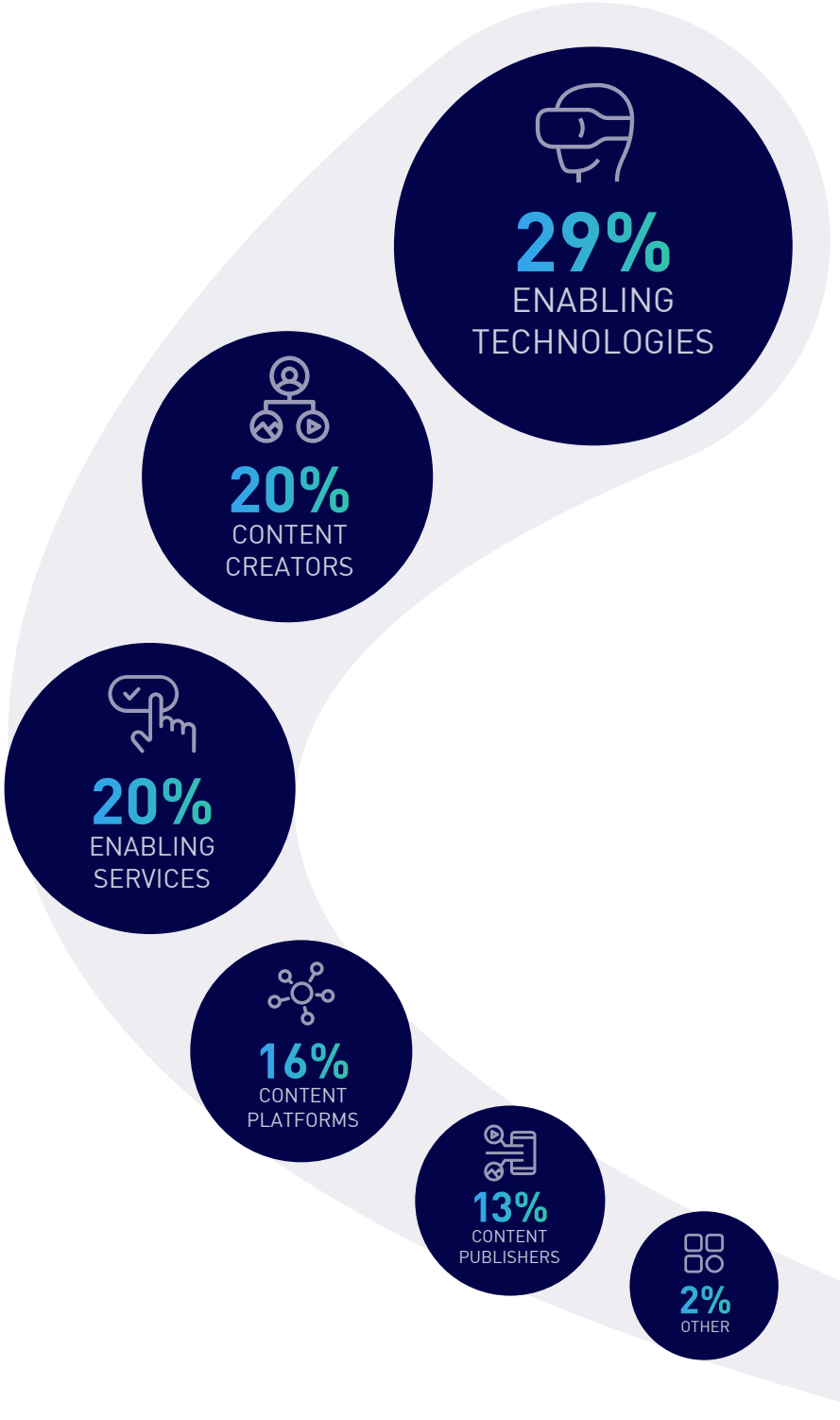


The types of businesses investors are interested in

Creative Industries are ripe with opportunities, and to adapt to industry demands and market needs, entrepreneurs continually evolve and create high-potential innovations. Our investment community indicated content creators and enabling technologies and services are the most interesting.

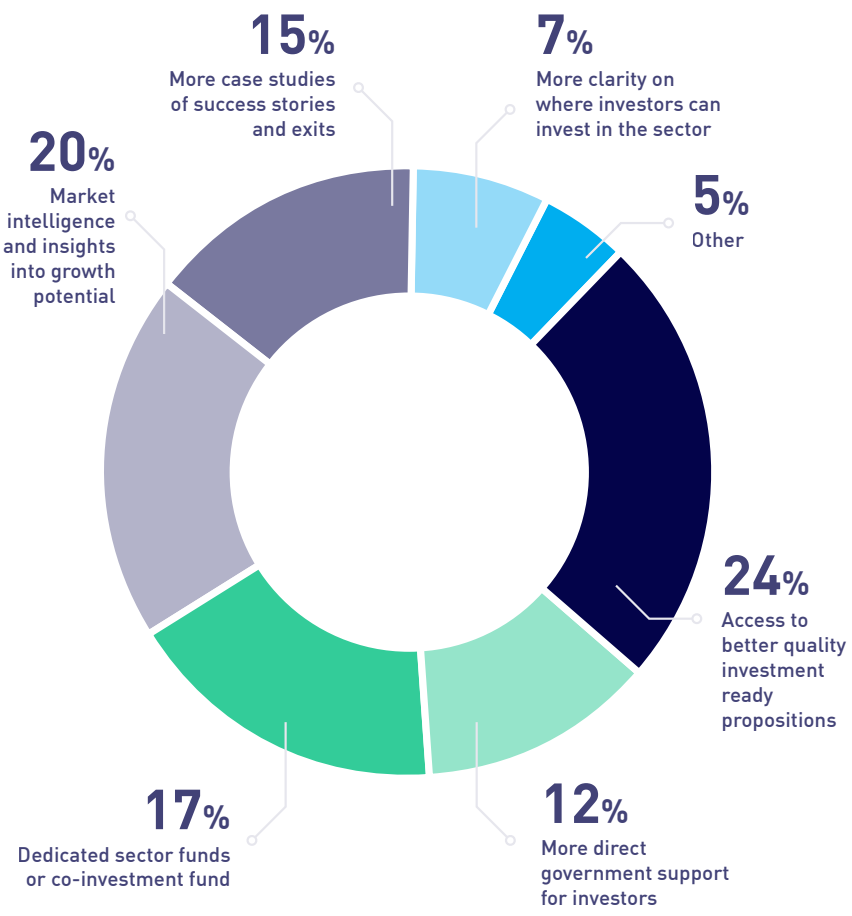
AI, AR and VR, and Fintech demonstrate the potential to disrupt the industry. From AI transforming how music is produced and interacted with to Fintech enabling secure payments and monetising content for creators - technology is converging with creativity and driving innovation.

> *"The Creative Industries are something Britain does really well, whether you're talking the Beatles, Elton John, or Adele in music. Whether you are talking Grand Theft Auto in video games, or James Bond in movies, these are all worldwide franchises, we have a reputation for great creativity"*
>
> **– SIR PETER BAZALGETTE**
> CO-CHAIR, CREATIVE INDUSTRIES COUNCIL



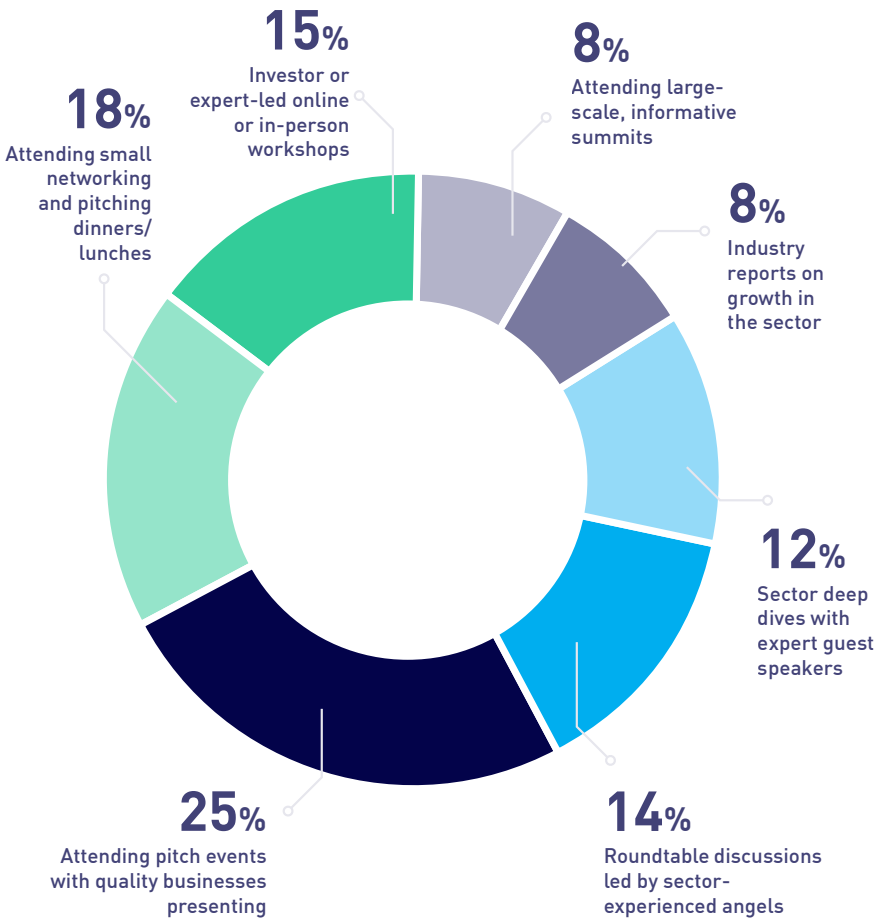
What angels think could reduce barriers to investment in the sector

Angels indicated access to better quality deal flow and more market intelligence into the growth potential of the sector are factors that have the potential to reduce barriers to investing.



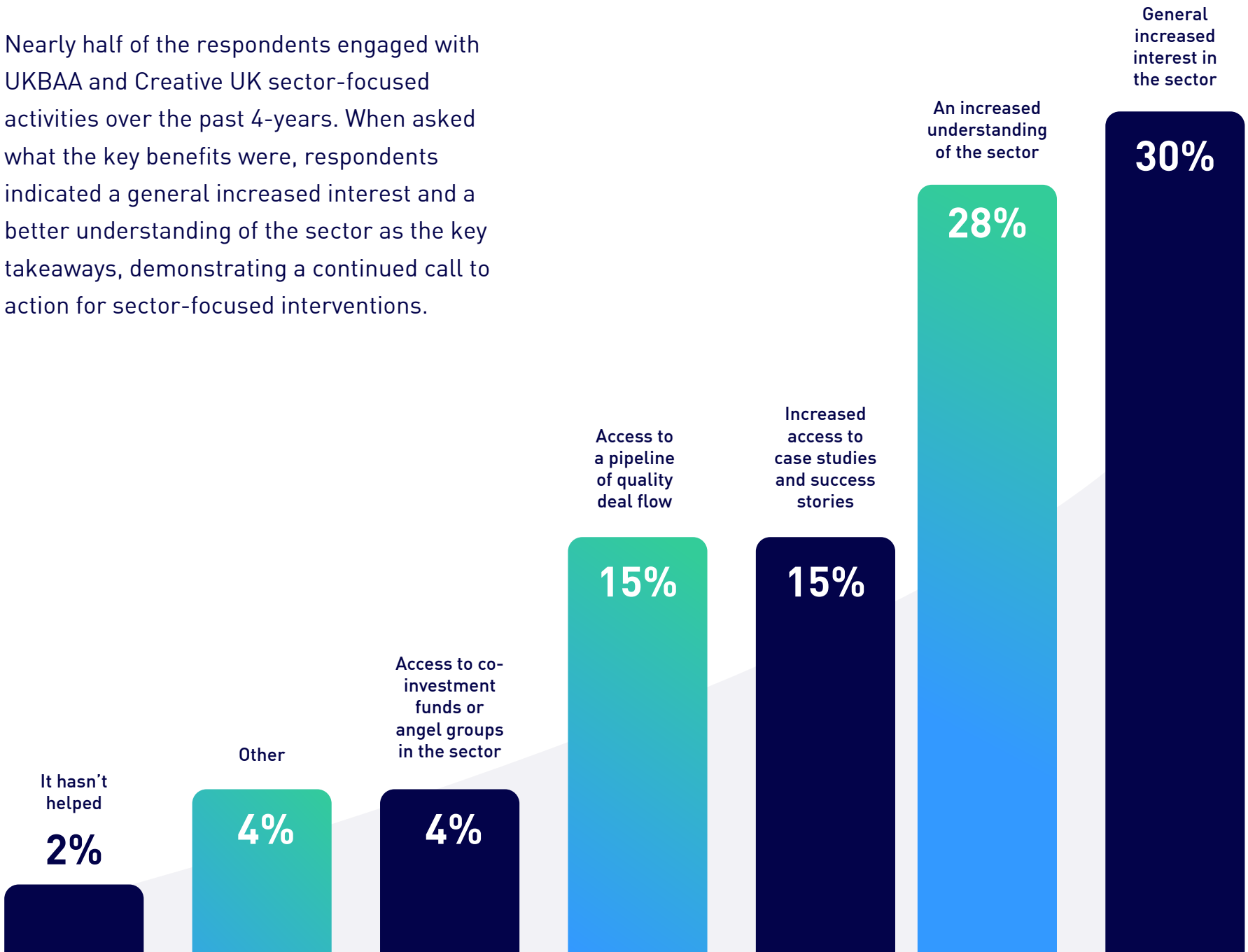
Activities and interventions to support investors

When asked what activities would impact angels to consider the sector, respondents indicated attending pitching events with quality deal flow and small investor networking and pitch dinners would add the most value.



Investors engaging with Creative Industry-focused activities

Nearly half of the respondents engaged with UKBAA and Creative UK sector-focused activities over the past 4-years. When asked what the key benefits were, respondents indicated a general increased interest and a better understanding of the sector as the key takeaways, demonstrating a continued call to action for sector-focused interventions.



Spotlighting leading UK creative innovators fusing creativity with innovation

Company name: Auroch Digital

Website: aurochdigital.com

Overview: Auroch Digital is a game development studio founded in 2010 by Tomas and Debbie Rawlings and based in Bristol, UK. Auroch Digital works on original titles, partnerships, and work-for-hire projects, specialising in strategy and digital tabletop games, working with leaders like Games Workshop and Ndemic Creations. Notable games include Mars Horizon, Dark Future: Blood Red States, Last Days of Old Earth, and many others.

Traction: In 2014, Auroch Digital received a Creative England Business Loan, and in 2019 they accessed investment from Bristol Private Equity Club (a UKBAA member) alongside Miniclip, which is majority owned by esteemed games investor Tencent. In 2021, Auroch Digital was acquired by award-winning games development studio Sumo Digital for an impressive £6m. Auroch Digital also took part in the DCMS Creative Scale-Up pilot programme in 2020, with the support of the West of England Combined Authority.

Company name: Covatic

Website: covatic.com

Overview: Covatic helps media companies deliver private-by-design, addressable advertising without exposing personal data. Its pioneering ID-less, privacy-first technology enables companies to maximise addressable reach and return, and build trust with high-value audiences, without commercial compromise. Working with global media companies and covering all major platforms including, mobile, web, smart speaker, CTV native, and CTV app, Covatic offers an innovative, highly scalable, and future-proof ad solution.

Traction: Covatic was founded in 2016 as a spin-out from the University of Oxford's Data Science department. It received funding from the Midlands Engine Investment Fund in 2018 and was backed by Creative UK through its Creative Growth Finance fund in 2020, alongside BBB funding through the Future Fund. In May 2023, it announced a $5 million Series A funding round, led by Manchester-based venture capital investor Praetura Ventures. Other investors included Creative UK's Creative Growth Fund and Comcast. The investment enables it to further develop its technology and scale its audience segmentation solution, setting a new standard for the industry.

Spotlighting leading UK creative innovators fusing creativity with innovation

INTERFLIX

Company name: INTERFLIX
Website: interflixmedia.com

Overview: INTERFLIX is a brand and entertainment company creating interactive content for the masses. With up to 76% of audiences skipping online ads, INTERFLIX allows viewers to engage with ads more by giving them greater control over what they're seeing. They achieve this in a range of ways: producing film/adverts that allow audiences to empathise and connect with characters, gamification that gives control over characters and greater monitoring of data to allow for a better understanding of audiences' behaviours.

Traction: In 2021, INTERFLIX took part in the Creative Enterprise Evolve programme which is delivered by Creative UK and backed by the BFI Lottery Fund. After an exciting year of working with investment mentors and engaging with potential partnerships and investors, co-founders Grace and Harry Chadwick successfully accessed an impressive seed investment of £550k to continue to grow.

VOLTA

Company name: Volta
Website: volta-xr.com

Overview: Volta is an XR creation platform that gives artists & creators the chance to design and broadcast experiential content that reaches into the metaverse. Developed with the latest 3D technology, Volta offers an immersive experience by creating stunning virtual venues where artists can perform and interact with their audience in real time. Founded by Alexander Kane, Volta enables live-streaming artists to use any audio source to automate visual effects of the world, in sync with their music in real-time — the first-ever initiative of its kind..

Traction: Volta is backed by TechStars, UKBAA member Supernode Global, 7Percent, and more. Volta is endorsed by Warner Music and Techstars and partners with Mixcloud, Wayra, and Unity, to name a few. Volta was recognised in the 2023 Startups 100 list, which highlights 100 of the most innovative and disruptive tech businesses in the UK.

What UKBAA and Creative UK have done together in 2023

UKBAA and Creative UK have been working together since 2019 as part of the BFI Lottery Funded Creative Enterprise programme, which seeks to support the growth of high-potential creative screen businesses in the UK.

Working together on 'Evolve', Creative Enterprise's Investment Readiness support programme, we have focused on increasing investor awareness of the Creative Industries and highlighted the opportunities in sub-sectors like High-End TV and Film, AR/VR, Games, Media Tech, Animation, and more. Throughout our nearly five-year partnership, we have presented four pitching events, seven investor deep-dive sessions, and six investor dinners, each of which has led to increased exposure of creative-focused start-ups and the profile of leading creative sector investors.

This year, we presented our annual in-person pitching event at the iconic BFI Southbank and three investor dinners in the heart of London. The investor dinners, in particular, presented a unique opportunity to bring together a curated group of investors ranging from angels to VCs to network, knowledge-share, and hear from a selection of businesses from the Evolve cohort.

Across the dinners, we heard from 12 businesses presenting opportunities ranging from Games through Media, Film, and AR/VR. We welcomed 24 investors, each with a different interest, level of activity, or connection to the creative sector. These intimate dinners enabled a unique atmosphere for investors to engage with creative companies and provided a platform to connect, share insights on investing in the sector, and offer perspectives on opportunities and trends on the rise.

Many of the themes discussed by the investors aligned with the findings of our community survey, which further underpins the continued need to support innovators and investors in this space.

Themes raised during and after the dinners include:

- Seeing creative sector businesses in an intimate and less formal setting enables deeper conversations and the opportunity to better understand propositions
- Bringing together investors with varying levels of experience and interest in the creative sector enables meaningful conversations and opportunities for peer-to-peer learning
- Collaboration across the ecosystem could create more visibility and inroads for investors seeking to engage with creative-focused investors and opportunities
- There are many opportunities for investment within the creative sector, but there continues to be a gap in investment readiness support
- Interventions like lobbying for increased government support, sector deep-dives, and market intelligence or benchmarking against other sectors could support investors considering the sector

The dinners provided valuable insight into investor perspectives, but undoubtedly, the experience was also extremely helpful for the participating companies. Not only did the entrepreneurs taking part have the opportunity to gain unique exposure to a room full of experienced early-stage investors, but they also had the chance to receive personalised in-time feedback and advice, join in exciting debates, and form meaningful connections with new and exciting investors.

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