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**West Midlands  
Economic Forum**



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# Midven

- Our expertise is in providing risk capital of less than £1m
- We have 16 staff in Birmingham
- We have over £60m under management, c70 companies in our portfolio, and invest in two companies a month
- In 2011 we invested in businesses in Craven Arms, Cannock, Keele, Kenilworth, as well as the usual Birmingham/Coventry conurbation



# Risk Capital

- Provide finance without security
  - Finance not obtainable from banks
  - Providers need a high reward because they are taking a risk
  - The provider of finance accepts that regular monthly repayments may not always be possible, and that the company may not perform exactly to business plan
  - Multitude of providers – it's a personal judgement
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# Existing Local Provision

## ○ Debt

- BCRS / ART / Impetus / Michelin / Cov & Warw
- UK Steel Enterprise

## ○ Equity

- Early Advantage (managed by Midven) – 1 company a month
- Exceed (managed by Midven) – 1 company a month
- Lloyds Development Capital (£200m set aside for manufacturing)
- Business Growth Fund (£10m turnover plus)
- Gresham / Isis / Equistone / EV / Key Capital / Maven / Mercia
- Formal Business Angel Networks (ABA, CEBA, Beer, Minerva)



# Existing National Provision

## ○ Equity

- Loads of venture capital and private equity firms in London, Oxford, Cambridge (VCTs, EIS funds, family offices, sector specific funds)
- Corporate Venturing (eg Rolls Royce, Dow, Intel, Google)
- New Business Angel Co-investment Fund (£50m)
- Enterprise Capital Funds / Bridges Funds
- AIM / OFEX



# Existing Informal Networks

- Informal networks quite strong (eg Black Country)
  - Customers
  - Suppliers / Landlords
  - Fixed Asset Manufacturers
  - Friends & Relatives
  - Serial Entrepreneurs – Grove, Whateley, Hales etc
  - Advisors
    - Orbis
    - Accountants
    - Solicitors



# Is government involved?

- European Investment Fund - €6bn of risk capital under mgmt
- Capital for Enterprise - £1bn of risk capital under mgmt
- Regional government tier abolished
- Local government  
Finance Birmingham, Staffordshire Business Support Fund etc



# Why is government involved ?

- Risk capital is risky
- Therefore equity gap below £2 million  
(lots of reports)
- Turnover trebles in companies receiving venture capital  
(BVCA data + Midven experience)
- Lots of jobs are created / safeguarded  
(Midven experience is one job for every c£5,000 invested)



# Does local government realise how difficult this is ?

Fund start date	No. of funds	10 <sup>th</sup> Percentile IRR(%)	25 <sup>th</sup> Percentile IRR(%)
1998 - 2000	21	≥ 5.0%	≥ 0.2%
2000 - 2002	35	≥ 6.6%	≥ -0.8%
2002 – 2004	20	≥ 9.0%	≥ 3.2%
2004 – 2006	21	≥ 15.4%	≥ 1.1%

Source: BVCA data (venture)

- There is a big skill gap. Median performance for 97 funds is -8% pa
- That equates to losing half your money over a 10 year period



# Policy ?

- Midven funds make money, 75% of the industry does not
- Therefore Midven has bid for a grant of £50m from the Regional Growth Fund, to be used to attract private sector investors into the sector
- This will help the West Midlands have the same amount of risk capital finance as neighbouring regions (eg Wales, NW, Yorks)



# Policy ?

- CDFI providers running out of cash. On average CDFI providers lose c25% of investors' cash (that's better than 50% lost by the average venture capitalist)
- Therefore they also bid for a grant from the Regional Growth Fund, to be matched with private sector cash
- The bid was successful, but they haven't received the cash yet



# Conclusions

- Various tiers of government are always involved in risk capital provision
- Local government needs to avoid learning hard lessons
  - 1 Understand the full extent of the risks
  - 2 Go and talk to Capital for Enterprise
  - 3 Talk to the CDFIs
- If local government gets it right, there are large economic benefits
- If local government gets it wrong, it distorts the economy and throws resources into unproductive companies



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