

UK startups can shine in a post-Brexit world



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Matt Clifford is the co-founder and chief executive of Entrepreneur First, the five-year-old UK accelerator program, which has produced 75 startups since launch. One of their companies, Magic Pony was sold to Twitter [for \\$150m just last month](#).

It is just the kind of company you might think would suffer in the immediate aftermath of [last month's vote by the UK to leave the European Union](#). But apparently not. In fact, he had closed three seed investment deals since the result was announced.

Two weeks on from the referendum results, tech startups are swamped by uncertainty. The overwhelming majority – roughly 87pc according to a recent survey – were opposed to Brexit.

But European investors like Index Ventures and Local Globe insist they are remain [bullish on London as a tech hub](#) and will continue to actively invest there because of tax benefits, strong technical universities such as Cambridge, Oxford and Imperial College, and the UK's large English-speaking market – a combination that's tough for other European cities to beat.

The persistent “We are open for business” refrain might seem hollow to some, particularly in light of the tech sector's unequivocal Europhilia. But anecdotal evidence suggests that unexpected windows of opportunity are slowly opening up.

For instance, many agree that there could be unexpected opportunities for financial services disruption that fintech startups are best placed to grab. But first, let's examine the major concerns being raised about the state of the UK tech sector.

Let's start with the alarms about startups choosing not to operate in the UK. Entrepreneurs who are already entrenched here have no plans to uproot yet – even outspoken Estonian entrepreneur Taavet Hinrikus, chief executive of money transfer service Transferwise has said it's “unlikely” they will close down their London operations.

Certainly, for European or other foreign startups trying to expand internationally, it won't be easy to set down roots in the UK today, especially when the goalposts are moving every day.

But for those who are already embedded, moving out is not a sensible option. The confluence of rich culture, finance and commerce in the capital has led to the flourishing of a diverse set of startups from fashion to fintech. Britain is the global leader per capita for e-commerce and British consumers are early adopters.

Startup incentives like the UK's entrepreneur visa and the [SEIS and EIS tax relief schemes](#) for seed and angel investors will become powerful tools in coming months; Clifford says Entrepreneur First successfully applies for 50 visas a year and can easily handle a surge.

And, as one founder pointed out, if George Osborne slashes corporation tax further, an English outpost will become an attractive prospect even for foreign companies.

Another concern for entrepreneurs is a chill in investor appetite in the short-term. Damian Kimmelman, chief executive of London-based business intelligence startup Duedil says Brexit has definitely created uncertainty in the market for funding.

He isn't publicly looking for funding, but as the joke goes, if you're a venture-backed company, you're always raising money – and he admits it's not particularly easy to come by right now. Others concur hesitantly, pointing to stories of investors using the referendum and its aftermath as an excuse to renegotiate deals and lower the valuations of startups.

However, Clifford said at least two of his US-based investors emailed him a list of reasons why Brexit should be seen as an opportunity. For instance, the weak pound means a lot more foreign investor interest in UK startups; even if the recent drops are short-lived, the VC-founder relationships will become key in future.

Private equity firms are shopping for attractive new deals, peer-to-peer lending companies are looking to fill the gap in funding requirements, and private wealth managers are looking for liquidity events. Just this week, New York private equity giant KKR pumped \$65m into London-based [cybersecurity startup Darktrace](#).

Kimmelman too admits that he signed multiple new clients within days, all specifically responding to the vote. Of course, Duedil provides data-based intelligence in the face of uncertainty, which puts it an advantage, but any tech startup that thrives on volatility – and disrupting the status quo – has a chance to rise to the occasion.

For instance, traditional financial services organisations are entering a period of major instability, with time and resources rerouted to ensuring compliance with new laws. Entrepreneurs suggest that agile startups can quickly pivot to fill gaps, and perhaps provide cheaper solutions to companies facing issues arising from Brexit.

In general, constraints imposed by a quiet local investment climate could be good for the health of the startup community. It requires frugality and a return to unit economics in [a time of over-inflated valuations](#). Unnecessarily bloated companies may not survive, but growth-stage scale-ups with genuine business models could benefit from reduced investor pressure.

Of course, this isn't to say startups are backtracking on their original assessment of what a Brexit vote might mean. If freedom of movement is significantly curtailed, it will undoubtedly have a major impact on the fluid tech labour force in the UK, many of whom are currently foreigners.

In fact, [research by Duedil in March](#) found that one in five leaders of UK tech companies were foreign, with numbers of EU founders almost trebling since 2010. The data reflects Britain's increasing popularity as a hub for foreign tech talent before the referendum.

Although existing entrepreneurs may not necessarily be affected by changes in immigration policy, it could quell foreign entrepreneurs' appetite to set up shop here. Take Swedish entrepreneur Patrik Arnesson, the founder and chief executive of Football Addicts which makes hugely popular football app Forza Football; he planned to open up headquarters in the UK prior to Brexit. But threats to access to talent could kill fast-growing startups like his, Arnesson says. So he has put his plans for a British office on indefinite hold.

But for UK startups, there will be life after Brexit – and for some, it may just be the moment to shine.

