

PRIME MINISTER'S COUNCIL FOR SCIENCE AND TECHNOLOGY

The purpose of this document is to clarify financial and business investment terminology. It has been developed to support members of the Council for Science and Technology to develop clear advice to government on the innovation ecosystem.

This document has been reviewed by government officials and analysts working in this policy area but is not intended to be the last word. Please email CSTSecretariat@go-science.gov.uk if you want to suggest an update.

Term	Definitions
Describing businesses	
A business	An organisation, person, group of people or entity that sells goods or services in order to make a profit. In the UK, a business can be described as a company if it is registered as a legal entity.
An industry	<p>A broad group of companies that operate in the same general space or 'sector'. For example, energy or healthcare are well-established industries that represent the breadth of the term.</p> <p>An industry vertical, however, is more specific and describes a group of companies that focus on a shared niche or specialised market spanning multiple industries e.g., Fintech.¹</p>
Start-Up	<p>A company that is young, typically operating for two years or less, which is independent and operates privately.² These companies are usually founded by one or more entrepreneurs who want to develop a product or service for which they believe there is demand. They generally start with high costs and limited revenue, which is why they look for capital from a variety of sources such as venture capitalists.</p> <p>Start-up subgroups include:</p> <ul style="list-style-type: none"> • Bootstrapped – a start-up using their own funds, debt, and revenue to grow and scale. • Venture-backed – a start-up using formal equity-based funding and classical staged financing to grow and scale. <p>Note: A spinout is a particular type of start-up.</p>
Spinout	A spinout is a company that has been created to exploit research, expertise and/or intellectual property developed in another context e.g., either a university, national laboratory, or a parent company. For spinouts, the new company's development would usually be supported by the parent institution's enterprise team and the parent institution (or a connected venture arm), which will usually retain a significant stake in the company.

¹ <https://cdo.mit.edu/blog/2021/06/17/what-are-industry-verticals/>

² 'Defining the UK's startups and their potential' Beauhurst, 2018

	<p>Corporate spinouts are companies that have separated from their parent company to pursue a defined business goal.³</p> <p>University spinouts are usually founded by researchers (or sometimes students) to exploit knowledge or inventions developed from university or publicly funded research.</p> <p>Note: When spinout companies are first formed, they would be classed as a type of start-up.</p>
SMEs	<p>Small and Mid-size Enterprises (SMEs) are businesses that have below 250 employees. The Government further categorises these businesses into:</p> <ul style="list-style-type: none"> ● Micro - less than 10 employees and an annual turnover under €2 million ● Small - less than 50 employees and an annual turnover under €10 million ● Medium - less than 250 employees and an annual turnover under €50 million⁴ <p>A SME would be classed as a start-up if it has been operating for two years or less, but it could be a longer established company.</p> <p>There were 5.6 million SMEs in the UK in 2021, which was over 99% of all businesses.⁵</p> <p>Note: In defining SMEs, employee measures are more commonly used than turnover rates due to exchange rates.</p>
Scale-Ups	<p>A scale-up is a distinct phase of company growth and can also be referred to as a 'high growth' company. These are enterprises with an average annualised growth greater than 20% per annum of either turnover or employee count, over a three-year period, with a minimum employee count of 10 at the start of the observation period, as defined by OECD.⁶</p>
Unicorn	<p>A privately held (unlisted) company worth over \$1 billion which has received venture capital funding,⁷ but has not yet exited from the market (such as an Initial Public Offering of shares or acquisition). A type of start-up.⁸</p> <p>Note: An Initial Public Offering is the first time a business raises finance publicly.⁹ It is sometimes referred to as either 'listing' or 'floating' on the public market e.g., on the London Stock Exchange.</p>

³ The British Business Bank 2022

⁴ [Small and medium-sized enterprises action plan](#), Department for International Trade, 2020

⁵ Business Statistics, UK Parliament: <https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf>

⁶ 'Eurostat-OECD Manual on Business Demography Statistics: High-Growth Enterprises' OECD, 2007

⁷ '[Small Business Equity Tracker](#)' British Business Bank and Beauhurst, 2021

⁸ '[Unicorn](#)' Investopedia, 2022

⁹ '[Initial public offering \(IPO\) – What is an IPO](#)' British Business Bank Definition

	<p>Note: These are companies that have grown quickly, generate excitement around their potential for bringing disruptive innovation to the market, and are expected to provide a significant return to early-stage investors. They can be a measure of the capacity of a country to support innovation.</p>
<p>Describing business financial maturity</p>	
Pre-Seed Funding	<p>This stage typically refers to the period in which a company's founders are first getting their operations off the ground. In the UK the most common "pre-seed" funders are the founders themselves, as well as close friends, supporters, and family.¹⁰ Funding may also come from venture capital (VC) funds, accelerators, incubators, and business angels. On average, start-ups secure approximately €475k.¹¹</p>
Seed Funding	<p>Seed funding rounds are typically €1-4M deals.¹² Funding is likely to come from venture capital firms, but in a minority of cases grant-awarding bodies, equity crowdfunding, and business angels are involved.</p> <p>Companies receiving seed funding are typically less than 2 years old and at the time of investment will have no more than £200,000 in gross assets, less than 25 employees and not previously carried out a different trade.¹³</p>
Series A	<p>A company's first full round of VC finance¹⁴ usually occurring within 5 years of the company's founding date. Typically, this funding is used to further optimise its user base and product offering.¹⁵</p> <p>Series A are deals often between €4-15M¹⁶ [Deal size may range by sectors, see table in Annex]</p>
Series B	<p>Series B funds are a stage of VC financing to support businesses in the development stage and to expand market reach.</p> <p>Series B deals are typically between for €15-40M¹⁷ [Deal size may range by sectors, see table in Annex]</p>
Series C	<p>Series C funding is aimed at later stage more established companies and these rounds are usually between for €40M-100M.¹⁸</p> <p>The recipient will typically have been around for 5+ years, has multiple offices or branches, has either got substantial revenues, some profit, highly valuable technology or secured regulatory approval.¹⁹</p>

¹⁰ ['How funding works – Pre-seed Funding'](#) Investopedia, 2022

¹¹ ['What is pre-seed funding'](#) Crunchbase, 2022

¹² <https://knowledge.dealroom.co/knowledge/investment-funding-rounds>

¹³ ['Use a venture capital scheme to raise money for your company'](#) HMRC Guidance, 2016

¹⁴ <https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/series-a-financing/>

¹⁵ [Investopedia: 'Series b-c funding – what it all means and how it works'](#)

¹⁶ <https://knowledge.dealroom.co/knowledge/investment-funding-rounds>

¹⁷ <https://knowledge.dealroom.co/knowledge/investment-funding-rounds>

¹⁸ <https://knowledge.dealroom.co/knowledge/investment-funding-rounds>

¹⁹ Beauhurst, 2022

Series D onwards	<p>Rounds raised beyond series C can be used as further funding for the development of the business, or as a bridging round before an exit via a trade sale or an IPO (where a bridge round is defined as obtaining another round of venture financing from the same investors as the last round). The funding can also be used to acquire another business.</p> <p>Series D deals vary in value dependant on the sector and what it is required for. These can be in the range of €40-100M.</p>
Megaround	Megaround deals are between €100-250M deals ²⁰
Megaround+	Megaround+ deals are €250M+ deals
Describing technologies in a business context	
Tech	<p>A superset: Technology covers all practical applications from scientific knowledge.</p> <p>'Tech' can sometimes be used as shorthand for 'Digital Tech', but it is broad 'superset'</p> <p>'Deep tech'²¹ is often used to distinguish from digital tech and indicates technologies not focused on end-user services, including artificial intelligence, robotics, blockchain, advanced material science, photonics and electronics, biotech and quantum computing.</p>
Digital	<p>An enabling medium: the branch of scientific or engineering knowledge that deals with the creation and practical use of digital or computerized devices, methods, and systems.</p> <p>Digital technologies can enhance or enable other technologies, e.g., artificial intelligence in robotics, or drug discovery, or manufacturing optimisation.</p>
Tech company	<p>A company that creates and sells technology as its output, e.g., software/platforms, IP, semiconductors.</p> <p>A digital tech business provides a digital technical service/product/platform/hardware, or heavily relies on it, as its primary revenue source.²² A digital tech business's margins reflect their product, often near zero marginal cost (software), and defended by IP allowing them to reach huge scale and profitability, e.g., Google (software), Facebook (platform), Amazon (AWS).</p> <p>A deep-tech company provides technologies relevant to a wide range of industries. The company is often based on an emerging technology with the potential for disruptive impact on a wide range of industry sectors e.g. Riverlane (quantum computing), Graphcore (semiconductors for artificial intelligence), Oxford Nanopore (biomolecular analysis).</p>

²⁰ <https://knowledge.dealroom.co/knowledge/investment-funding-rounds>

²¹ <https://techcrunch.com/2020/03/11/what-do-we-mean-when-we-talk-about-deep-tech/>

²² 2018 Tech Nation report: <https://technation.io/insights/report-2018/>

Tech-enabled company	A company that uses technology (usually digital technology) to enhance the delivery of its products or services, e.g., ecommerce is digital tech-enabled retail, fintech is digital tech-enabled finance. Their margins reflect the products they sell (such as clothing, or forex), slightly improved by tech process at scale. Typically, they will not be as profitable or scalable. E.g., The Hut group (ecommerce), Transferwise (forex), Amazon (retail).
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Annex A: British Business Bank examples of stage of company or technology development in different sectors

The British Business Bank have created the following table to define each stage of financing across different sectors.

Series	Life Sciences	DeepTech'	Software/ generalist VC
Seed	<p>Expected round size range: <£10m</p> <p>Company has a core dataset from a research group. Technology is differentiated and can generate protectable intellectual property.</p>	<p>Expected round size range: <£5m</p> <p>Core technology identified and patented; pre-product-market fit; no or limited revenue</p>	<p>Expected round size range: <£5m</p> <p>Company has built a team; product is in idea phase but pre-pilot or production</p>
Series A	<p>Expected round size range: £10m-£80m</p> <p>Therapeutics – Company has clear proof of concept data, has a clear patent strategy and some pre-clinical data.</p> <p>Medtech' – Company has developed an early product (patent application(s) made) and has feedback from key opinion leaders in industry.</p>	<p>Expected round size range: £5m-£50m</p> <p>Proof of concept contracts with customers; market identified; looking for product-market fit; some limited development related revenue</p>	<p>Expected round size range: £5m-£20m</p> <p>Product is developed, potentially with some early commercial traction and revenue streams. Revenue in the £0m-£2m range, with capital required to scale commercial traction into streams of revenue.</p>
Series B	<p>Expected round size range: £20m-£100m</p> <p>Therapeutics– Company has patent protected drugs and is on the path to clinical trials and/or partnership deals with large pharmaceutical companies.</p>	<p>Expected round size range: £20m-£80m</p> <p>Product-market fit achieved; repeat sales of non-custom products; capital used for financing scale up production</p>	<p>Expected round size range: £10m-£50m</p> <p>Product market fit and early revenue in the £2m-£10m range. Capital required to scale revenue streams.</p>

	MedTech' – Company has early revenues and customer feedback. Path to regulatory approval & paying customers is partly achieved (in the US, UK and/or Europe).		
Series C	<p>Expected round size range: >£30m</p> <p>Therapeutics – Company has products in clinical trials and/or partner deals with large pharmaceutical companies. Ready for an IPO.</p> <p>MedTech' – Company is scaling revenues, expanding the product portfolio and continues to expand internationally.</p>	<p>Expected round size range: >£30m</p> <p>Revenue expansion; new markets either international or new product applications.</p>	<p>Expected round size range: >£20m</p> <p>Company has multiple significant revenue streams with an Annual Recurring Revenue of at least £5m, capital required for international expansion</p>