The Importance of Exit via Acquisition to Venture Capital, Entrepreneurship, and Innovation

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Abstract

Antitrust regulators around the world, including in the UK, have proposed changes to merger review policies that impact how acquisitions of start-ups would be investigated and evaluated. Such changes will likely lead to heightened scrutiny—and increased costs and longer reviews—for many acquisitions, including both horizontal and non-horizontal mergers. In evaluating the merits of such changes, it is critical to take into account the important role that exit via acquisition plays in providing incentives for venture capital (VC) investment and entrepreneurship. This article seeks to provide context for evaluating the effects of such proposed changes. First, it documents the links among VC, entrepreneurship, and innovation, and how exit via acquisition can foster dynamic innovation, one of the stated goals of the CMA. Second, it identifies additional consumer benefits derived from acquisitions of small companies by larger companies. Third, it describes VC investment in the UK, including the favourable, yet fragile, position that the UK holds as a VC hub for continental Europe. Finally, it documents the recent increased diversity in VC investment and entrepreneurship in the UK, which could be curbed by the proposed changes.

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I. INTRODUCTION

Antitrust regulators around the world have recently proposed changes to merger review policies and enforcement strategies that have implications for how acquisitions of start-ups are investigated and evaluated. The UK government and its Competition and Markets Authority (CMA) have been particularly active in this respect. In February 2021, the CMA published its revised "Digital Markets Strategy." Among other stated strategies, the CMA outlined its goals for the newly established Digital Markets Unit (DMU). The overarching goal of the DMU is to "deliver a step-change in the regulation and oversight of competition in digital markets and in turn drive dynamic innovation."[1] As part of this expanded enforcement effort, the CMA stated, "We expect to be an increasingly active enforcer in relation to digital markets, in part due to the fact that we are now taking on digital enforcement cases and mergers which would previously have fallen under the jurisdiction of the European Commission."[2]

In March 2021, the CMA issued revised Merger Assessment Guidelines, which clarify the CMA's approach to evaluating "sectors that are characterised by fast-moving technological and commercial developments."[3] The CMA stated that, when evaluating such transactions, "the absence of certain types of evidence such as historical data will not in itself preclude the CMA from concluding that the [substantial lessening of competition] test is met."[4]

In July 2021, the UK government released reports on potential reforms to competition law.[5] These proposals included an expansion in the jurisdiction of the CMA to review certain mergers, and designations of "strategic market status" to certain large tech companies that would be required to notify the CMA of all proposed

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1. COMPETITION & MKTS. AUTH., THE CMA'S DIGITAL MARKETS STRATEGY 7 (Feb. 2021), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/959399/Digital_Markets_Strategy.pdf.

2. *Id.* at 11.

3. COMPETITION & MKTS. AUTH., MERGER ASSESSMENT GUIDELINES 14 (Mar. 18, 2021), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1051823/MAGs_for_publication_2021_--_.pdf.

4. *Id*.

5. *A New Pro-Competition Regime for Digital Markets*, GOV.UK, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1003913/Digital_Competition_Consultation_v2.pdf, (May 6, 2022); *Reforming Competition and Consumer Policy*, GOV.UK, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1004096/CCS0721951242-001_Reforming_Competition_and_Consumer_Policy_Web_Accessible.pdf (April 20, 2022).

mergers and face a lower burden of proof for blocking acquisitions.[6] In addition, the proposals included updated jurisdictional thresholds "to better address emerging threats to competition such as 'killer acquisitions' in fast-moving markets."[7] In its consultation responses in April 2022 and May 2022, while the UK government did weaken some of these proposals, it maintained a number of significant changes to competition law that affect merger review thresholds and reporting requirements.[8]

The CMA also targeted Facebook (now Meta Platforms, Inc.) in its acquisition of GIPHY based on a nascent competition theory of harm.[9] This decision has been critiqued by some as a very expansive approach to nascent competition type cases.[10]

Such changes to the status quo would lead to heightened scrutiny—and increased costs and longer reviews—for many acquisitions, including both horizontal and non-horizontal mergers.[11] In evaluating the merits of such changes, it is critical to take into account the important role that exit via acquisition plays in providing incentives for venture capital (VC) investment and entrepreneurship, and more broadly in driving dynamic innovation—one of the stated

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6. DEPARTMENT FOR BUSINESS, ENERGY & INDUSTRIAL STRATEGY, GOVERNMENT RESPONSE TO THE CONSULTATION ON A NEW PRO-COMPETITION REGIME FOR DIGITAL MARKET, 2022, CP 657, at 7–9 (UK) [hereinafter A NEW PRO-COMPETITION REGIME FOR DIGITAL MARKETS]; DEPARTMENT FOR BUSINESS, ENERGY & INDUSTRIAL STRATEGY, REFORMING COMPETITION AND CONSUMER POLICY: GOVERNMENT RESPONSE TO CONSULTATION, 2022, CP 656, at 7–18 (UK) [hereinafter REFORMING COMPETITION AND CONSUMER POLICY].

7. REFORMING COMPETITION AND CONSUMER POLICY, *supra* note 6, at 31.

8. *Reforming Competition and Consumer Policy*, GOV.UK, https://www.gov.uk/government/consultations/reforming-competition-and-consumer-policy (April 20, 2022); *A New Pro-Competition Regime for Digital Markets*, GOV.UK, https://www.gov.uk/government/consultations/a-new-pro-competition-regime-for-digital-markets (May 6, 2022).

9. *See* Competition & Mkts. Auth., *Facebook, Inc. (now Meta Platforms, Inc.) / Giphy, Inc. Merger Inquiry*, GOV.UK, https://www.gov.uk/cma-cases/facebook-inc-giphy-inc-merger-inquiry (Oct. 19, 2022). The Competition Appellate Tribunal largely supported the CMA. *See* https://www.gov.uk/government/news/cat-endorses-cma-assessment-that-meta-s-purchase-of-giphy-harms-competition. https://www.catribunal.org.uk/judgments/142941221-meta-platforms-inc-v-competition-and-markets-authority-judgment-14-jun-2022.

10. *See e.g.*, Kay Jebelli, *Facebook/GIPHY and the (Un)innovative Theory of Harm*, DISCO (June 8, 2022), https://www.project-disco.org/competition/060822-facebook-giphy-and-the-uninnovative-theory-of-harm/#.Y1BqT3bMJPY.

11. Competition & Mkts. Auth., *Joint Statement on Merger Control Enforcement*, GOV.UK (Apr. 20, 2021), https://www.gov.uk/government/publications/joint-statement-by-the-competition-and-markets-authority-bundeskartellamt-and-australian-competition-and-consumer-commission-on-merger-control/joint-statement-on-merger-control-enforcement.

goals of the CMA.[12] Overall, these changes, we argue, would increase merger uncertainty and hence create a potential chilling effect for innovation.

This article seeks to provide context for evaluating the effects of such proposed rule changes and shifts in enforcement profile. First, the article provides an overview of the VC ecosystem and the link between VC investments and innovation. Second, the article identifies consumer benefits that acquisitions by large companies of younger, smaller companies can provide beyond simply the impact on incentives for VC investment. These dynamics highlight the beneficial role that acquisitions of smaller firms by larger firms play in the economy, particularly in driving innovation. Third, the article describes the context in which VC investment in the UK occurs, including the favourable, yet fragile, position that the UK holds as a VC hub for continental Europe. Finally, it provides background on the recent push for increased diversity in VC investing in the UK—not just geographically, but also for individuals of diverse backgrounds—which is important context given that rule changes might have an especially negative impact on newer VC investments.

II. THE LINK BETWEEN VENTURE CAPITAL, EXITS AND INNOVATION

Realising returns on their investment and effort is an important, if not primary, incentive for entrepreneurs and their investors. This realisation of returns on investment occurs through what is commonly referred to as "'exit' from entrepreneurial ventures."[13] Forms of exit include acquisitions, initial public offerings (IPOs), special purpose acquisition company (SPAC) listings and buyouts. Due to the nature of the current VC ecosystem, these exit opportunities, and in particular exits via acquisition, are critical drivers of entrepreneurship and innovation.[14]

A. THE ROLE OF EXITS IN VENTURE CAPITAL

To evaluate the role of exit opportunities for entrepreneurship and innovation, it is necessary to first describe the VC model and its

12. COMPETITION & MKTS. AUTH., *supra* note 1, at 7.

13. Gary Dushnitsky & D. Daniel Sokol, *Mergers, Antitrust, and the Interplay of Entrepreneurial Activity and the Investments That Fund It*, 24 VAND. J. ENT. & TECH. L. 255, 262 (2022).

14. *Id.* at 264.

incentive structure.

VC firms typically raise closed-end funds from institutional and wealthy individual investors through a limited partnership. VC firms then invest those funds in young, privately held, high-growth firms, commonly in exchange for an equity stake.[15]

VC funds have finite lives—typically eight to ten years.[16] Venture capitalists typically have five years to invest the capital and the remaining period to work with founders to grow the venture and earn returns on their investments.[17] At the end of the fund's duration, capital and gains, if applicable, are then returned to the limited partners. The ultimate goal for investors in VC funds is realising the return on their investment either by selling the venture to a corporate acquirer or through a public equity markets sale.[18] Near the end of the fund's life, successful VC firms typically seek to raise follow-on funds from investors to begin a whole new cycle of investment in other younger, smaller firms.[19]

Present-day entrepreneurship is heavily dependent on the availability and ease of exit opportunities—both because exit opportunities incentivise VC investments given VC firms' ultimate objectives and because of the incentives for entrepreneurs themselves.[20]

VC firms benefit from successful exits of their ventures in at least two ways. First, venture capital firms are compensated through a share of the capital gains they generate (typically 20%, but sometimes up to 30%).[21] Second, a history of successful exits can establish a venture capitalist's reputation and improve future business for the VC firm through additional capital and less time spent fundraising.[22]

The prospect of a successful exit is also the primary motivation for entrepreneurs. Of a sample of start-up founders and executives in

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15. Bronwyn H. Hall & Josh Lerner, *The Financing of R&D and Innovation*, *in* 1 HANDBOOKS IN ECONOMICS 609, 624; Dushnitsky & Sokol, *supra* note 13, at 265.

16. Josh Lerner & Ramana Nanda, *Venture Capital's Role in Financing Innovation: What We Know and How Much We Still Need to Learn*, 34 J. ECON. PERSP. 237, 253 (2020).

17. *Id.*; *See* Dushnitsky & Sokol, *supra* note 13 at 267. We also note that other funders play a role at different stages of the entrepreneurial ecosystem—angels, angel groups, and corporate venture capital, for example.

18. Hall & Lerner, *supra* note 15, at 624.

19. *See* Paul A. Gompers, *Grandstanding in the Venture Capital Industry*, 42 J. FIN. ECON. 133, 135 (1996).

20. Dushnitsky & Sokol, *supra* note 13, at 262.

21. Capital gains are in addition to management fees (commonly between 1.5-2.5% of capital under management and less in more recent years). Lerner & Nanda, *supra* note 16, at 254.

22. Gompers, *supra* note 19, at 136.

the UK, 76% cite acquisition or IPO as their company's long-term goal, while only 11% aim to remain private.[23]

Exits via acquisition account for the vast majority of non-shutdown exits by start-ups.[24] Moreover, acquisitions are often the only viable loss mitigation strategy for VC ventures that have generated a potentially useful product or service but lack a viable path to monetisation. Such start-ups generally are not viable candidates for IPOs. In the absence of loss mitigation exits via acquisitions, such start-ups would shift from partial losses to total losses, just like shutdowns. A significant increase in the fraction of VC portfolios expected to result in total losses would likely force VC firms to scrutinise start-ups more carefully, reduce investment in marginal start-ups, and reduce aggregate investment in start-ups.

B. VC INVESTMENTS AND IMPACT ON INNOVATION

VC funding has contributed to such key technological innovations as mainframe computing in the 1960s; personal computing in the late 1970s; biotechnology in the 1980s; internet and e-commerce in the 1990s; "smart" mobile communications technologies and cloud computing in the 2000s; and several novel products and business models in the 2010s, including mobile apps, fintech, software as a service, and "sharing economy" platforms.[25]

VC is an important source of funding for many entrepreneurs. Through their support of entrepreneurship, VC funds have a significant impact on innovation. Beyond venture capitalists identifying promising business models and enabling their success through financing, research on VC in Europe and the U.S. finds that VC actively stimulates post-deal innovation.[26]

A common, although admittedly incomplete, measure of the

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23. SILICON VALLEY BANK, 2020 GLOBAL STARTUP OUTLOOK 7 (2020), https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/startup_outlook_report/suo_global_report_2020-final.pdf.

24. 92% of all U.S. non-shutdown venture-backed exits from 2004-2020 were mergers and acquisitions. NAT'L VENTURE CAP. ASS'N, NVCA 2021 YEARBOOK 39–40 (2021), https://nvca.org/wp-content/uploads/2021/03/NVCA-2021-Yearbook.pdf.

25. Lerner & Nanda, *supra* note 16, at 241; *see also Recalling Apple's VC-Funded Past*, PITCHBOOK (Sept. 14, 2012), https://pitchbook.com/newsletter/recalling-apples-vc-funded-past.

26. Ana Paula Faria & Natália Barbosa, *Does Venture Capital Really Foster Innovation?* 122 ECON. LETTERS 129, 130 (2014); Samuel Kortum & Josh Lerner, *Assessing the Contribution of Venture Capital on Innovation*, 31 RAND J. ECON. 674, 675 (2000); Shai Bernstein et al., *The Impact of Venture Capital Monitoring*, 71 J. FIN. 1591, 1592 (2016).

impact of VC funding on innovation in the academic literature is patents. A study of VC investment in several European countries, including the UK, found that a higher level of VC investment leads to more patent applications in that country.[27] A study of a U.S. pension fund policy change in 1979 that stimulated VC fundraising found that VC investment was associated with significantly higher patent rates. Although VC funding accounted for less than 3% of U.S. corporate R&D from 1983-1992, researchers estimated VC funding to be responsible for around 8% of U.S. patents over this period, which indicates that a dollar of venture capital appears to be three times more valuable than a dollar of corporate R&D.[28] A recent study of U.S. firms' patenting outcomes found that VC-backed firms were between two and three times more likely to have "higher quality" patents, as measured by citations, originality, generality and closeness to science.[29]

VC firms' contribution to innovation is not limited to financing, but also stems from direct interactions between VC investors and portfolio companies after investment. A U.S. study that examined variation in available airline flights between VC firms and their portfolio companies found that shorter flight times were associated with more patents, more patent citations and more successful exits.[30] Another study of U.S. public firms as of 2019 found that firms backed by VC prior to their IPOs accounted for 89% of R&D expenditure, even though they accounted for only 56% of the firms overall and 53% of aggregate revenue.[31]

Empirical findings also provide support that the end of the VC investment cycle, via acquisition or other exits, further incentivises and drives entrepreneurship and innovation.[32] A recent study found that, within an industry, European VC funding increases in the short term following a "big tech" acquisition in that industry.[33] In a study of both country and U.S. state-level takeover laws, researchers found that laws intended to make M&A markets more attractive led to

27. Faria & Barbosa, *supra* note 26, at 131.

28. Kortum & Lerner, *supra* note 26, at 675.

29. Sabrina T. Howell et al., *How Resilient is Venture-Backed Innovation? Evidence from Four Decades of U.S. Patenting* 2 (Nat'l Bureau of Econ. Rsch., Working Paper No. 27150, 2020).

30. Bernstein et al., *supra* note 26, at 1592.

31. Lerner & Nanda, *supra* note 16, at 240–41.

32. *See generally* Gordon M. Phillips & Alexei Zhdanov, *Venture Capital Investments and Merger and Acquisition Activity Around the World* (Nat'l Bureau of Econ. Rsch., Working Paper No. 24082, 2017).

33. Tiago S. Prado & Johannes M. Bauer, *Big Tech Platform Acquisitions of Start-ups and Venture Capital Funding for Innovation* (Mich. State Univ., Working Paper, 2022).

significant increases in VC deals, while antitakeover laws led to significant decreases in VC deals.[34] Additionally, in a U.S. study, R&D within small firms has been shown to be responsive to changes in acquisition activity in related industrial sectors.[35]

C. MAINTAINING INCENTIVES FOR VENTURE CAPITAL INVESTMENT IN ENTREPRENEURSHIP AND INNOVATION

The VC ecosystem is an important stimulator of entrepreneurship and innovation, providing funding for early-stage ventures that may not be appropriate for the risk profiles of larger corporations. VC funding is designed to generate returns on these inherently risky investments through exit strategies that depend on a business developing over a few years' time to the point where it is attractive to an acquirer or (more infrequently) capable of going public. These exits then enable new rounds of VC investment in other young firms and entrepreneurs. Rule changes and enforcement actions that treat almost any acquisition as a nascent competitor, rather than as a potential complementor, are likely to make acquisitions more difficult and more costly, and so pose a serious risk of disincentivising an important source of investment for entrepreneurs.

III. CONSUMER BENEFITS WHEN LARGER FIRMS ACQUIRE SMALLER FIRMS

In addition to providing economic incentives to founders and investors for pursuing entrepreneurship, the acquisition of smaller firms by larger firms provides other significant benefits to consumers.

A. WHY LARGER FIRMS NEED SMALLER FIRMS' INNOVATION

Large firms often rely on acquisitions to foster innovation. This is partly because smaller firms are often more successful at prioritising the innovation process than larger firms and undertake riskier types of breakthrough innovation. There are several reasons why.[36]

Larger firms do well with routinised processes that come with

34. Phillips & Zhdanov, *supra* note 32, at 29.

35. Gordon M. Phillips & Alexei Zhdanov, *R&D and the Incentives from Merger and Acquisition Activity* 34 (Nat'l Bureau of Econ. Rsch., Working Paper No. 18346, 2012).

36. *See* Dushnitsky & Sokol, *supra* note 13, at 263–64.

scale, but are less nimble given their size, and thus often are better equipped to enact incremental change and are less adept at radical innovation.[37] Large firms, in turn, can help smaller firms bring products to market and scale at an efficient cost.[38] Smaller firms may not have the expertise or resources to do this on their own, and consumers benefit from having quicker and lower-cost access to new products. Acquired firms benefit from the acquiring firm's maturity and resources, putting them in the position of a more-developed company without the cost and time it usually takes to get to that stage.[39] As a result, the acquired company receives support, strategic planning and opportunities for market scale that would not be available on the same timeline otherwise.[40] These efficiencies often may not be possible through other means, such as bilateral contracts, alliances or joint ventures, due to contractual inefficiencies and "holdup" problems that can occur with non-integrated entities.

In addition, larger firms have more stakeholders and oversight compared to entrepreneurs. As a result, decisions at larger firms may face increased scrutiny, and investing in unproven ideas may lead to concern. Large firms face pressure to generate returns on invested capital, and that can disincentivise them from engaging in risky enterprises or meaningfully investing in new ideas. By relying on entrepreneurial ventures to innovate, large firms shift risk away to smaller innovation hubs, while retaining their ability to offer products at scale to the benefit of consumers. Larger firms can then save resources for innovations that will most likely be successful, investing in more-developed ideas.[41]

As one example, an entrepreneur with VC funding may make sizable investments in a new product or firm. Even if the project ultimately fails to offer a return, the broader impact may be relatively

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37. *Id.*; Gary Dushnitsky & Michael J. Lenox, *When Do Firms Undertake R&D by Investing in New Ventures?*, 26 STRATEGIC MGMT. J. 947, 948 (2005) ("[E]ntrepreneurial ventures are likely to be the source of highly valuable and innovative ideas.").

38. Dushnitsky & Sokol, *supra* note 13, at 264; Marc Goedhart et al., *The Six Types of Successful Acquisitions*, MCKINSEY & CO. (May 10, 2017), https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-six-types-of-successful-acquisitions.

39. Richard T. Harrison & Colin M. Mason, *Venture Capital 20 Years on: Reflections on the Evolution of a Field*, 21 VENTURE CAP. 1, 5 (2019).

40. *See* Bruce Nolop, *Rules to Acquire By*, HARV. BUS. REV. (Sept. 2007), https://hbr.org/2007/09/rules-to-acquire-by; *see generally What is an Acquisition?*, CORP. FIN. INST., https://corporatefinanceinstitute.com/resources/knowledge/deals/acquisition (Feb. 6, 2022).

41. Matthew J. Higgins & Daniel Rodriguez, *The Outsourcing of R&D Through Acquisitions in the Pharmaceutical Industry*, 80 J. FIN. ECON. 351, 381 (2006).

minimal—risk is built into the VC business model, and is an inherent component of the investment strategy where many bets are made in anticipation that only a few will pay off.[42] However, if a division of a large company makes such an investment and incurs a loss, that may have significant repercussions on quarterly revenue and, in the case of public companies, consequent pressure on the share price if not outright investor action. Shifting risk outside the boundaries of established firms encourages ambitious investments from entrepreneurs, and then acquisitions enable promising ventures to develop further and integrate with complementary assets of the acquirer.

B. INNOVATION MULTIPLIER EFFECTS OF ACQUISITIONS

Exit through acquisition can create "multiplier" effects by stimulating further entrepreneurship and associated innovation. This creates further benefits for consumers within the same dynamic ecosystem, which, in turn, leads to societal benefits such as job creation, increased standard of living and overall economic growth.[43]

When an entrepreneur's company is acquired, there are at least three potential multiplier effects.

First, the entrepreneur and the associated backing VC investors may use the returns realised in the acquisition to move on from that venture and fund additional ventures. The capital invested in and generated from the original venture thus continues to fund ideas and companies, generating further innovation in the space.[44] For example, a study from Bain & Company found that "independent venture capital firms and corporate venture funds that sold 11% to 20% of their start-up portfolio invested in 40% more deals than funds that sold 10% or less of their portfolio."[45]

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42. Deborah Gage, *The Venture Capital Secret: 3 Out of 4 Start-Ups Fail*, WALL ST. J., https://www.wsj.com/articles/SB10000872396390443720204578004980476429190 (Sept. 20, 2012).

43. David Ahlstrom, *Innovation and Growth: How Business Contributes to Society*, 24 ACAD. MGMT. PERSP. 10, 20 (2010).

44. BRITISH BUSINESS BANK, SMALL BUSINESS EQUITY TRACKER 2021 53 (June 2021), https://www.british-business-bank.co.uk/wp-content/uploads/2021/06/Equity-Tracker-2021-Final-report-1.pdf; ATOMICO, THE STATE OF EUROPEAN TECH, 178 (2020), https://soet-pdf.s3.eu-west-2.amazonaws.com/State_of_European_Tech_2020.pdf; *see generally* D. Daniel Sokol, *Vertical Mergers and Entrepreneurial Exit*, 70 FLA. L. REV. 1357 (2019).

45. BAIN & CO., TECHNOLOGY REPORT 2021: THE '20S ROAR 21 (2021), https://www.bain.com/globalassets/noindex/2021/bain_report_technology-report-2021.pdf.

Second, the entrepreneur's company may have valuable employees, and the acquiring firm may leverage this talent as part of their own expansion. This practice, known as "acqui-hiring," has been increasing in popularity.[46] Acqui-hires can be a result of a competitive hiring environment in which the fastest and most reliable way to secure talent is through acquiring an entire company.[47] Acqui-hires bring on key talent as a source of innovation separate from technological offerings that acquired firms provide. Moreover, this talent and the associated knowledge may also get dispersed across an organisation, creating an internal multiplier effect for human capital in ways that are important but difficult to measure.

Third, the acquisition may result in "spin-off" firms. A spin-off firm refers to a venture carried out by a former employee of a large firm.[48] This is a distinct concept from spin-offs under corporate law and finance.[49] In the tech version of a spin-off, such an employee will leave a large, successful firm, and begin a new venture entirely separate from the parent company. Evidence from academic literature has found that acquired firms are more likely to generate spin-offs than non-acquired firms,[50] and employees of high-growth and VC-backed acquired firms are more likely to return to the start-up sector than employees who had been hired previously at the acquiring firm.[51] Relatedly, academic literature has found that having workplace peers who have been entrepreneurs increases the likelihood that individuals will pursue their own entrepreneurial opportunities.[52] Moreover, given that spin-offs by definition are start-ups that emerge from employees from larger firms, they tend to combine the skills and knowledge from the larger firms with the ambitions of entrepreneurial ventures.

The entrepreneurial ecosystem is one that continually

46. Aaron Chatterji & Arun Patro, *Dynamic Capabilities and Managing Human Capital*, 28 ACAD. MGMT. PERSP. 395, 399 (2014).

47. Jaclyn Selby & Kyle J. Mayer, *Startup Firm Acquisitions as a Human Resource Strategy for Innovation: The Acqhire Phenomenon*, 2013 ACAD. MGMT. PROC. 1, 12 (2013).

48. Steven Klepper & Sally Sleeper, *Entry by Spinoffs,* 51 MGMT. SCI. 1291, 1291 (2005).

49. *See, e.g.*, Gailen L. Hite & James E. Owers, *Security Price Reactions Around Corporate Spin-off Announcements*, 12 J. Fin. Econ. 409 (1983).

50. *Id.*

51. Weiyi Ng & Toby Stuart, *Acquihired: Retained or Turned Over?* 43 STRAT. MGMT. J. 1025, 1039–40 (2019); *see also* J. Daniel Kim, *Startup Acquisitions as a Hiring Strategy: Worker Choice and Turnover* (Wharton Sch., Univ. of Penn., Working Paper, 2020).

52. Ramana Nanda & Jesper B. Sørensen, *Workplace Peers and Entrepreneurship*, 56 MGMT. SCI. 1116, 1116 (July 2010).

supports itself and provides ways to continue innovation. Successful entrepreneurs have ever-increasing opportunities to innovate over time, whether through acquisitions, spin-offs or from the founding of new ventures that eventually mature into successful firms.

C. ADDITIONAL BENEFITS FOR CONSUMERS AND COMPETITION

The positive effects flowing from the acquisition of innovative and entrepreneurial companies are not limited to supporting incentives for VC investment. When large firms acquire smaller firms, consumers may also benefit from having greater access to more diverse sources of innovation and to a broader range of products that can be brought to market more quickly and more efficiently. Moreover, acquisitions can enable multiplier effects that cause these benefits to proliferate through further entrepreneurship and innovation. This cycle of investment, development, exit, and reinvestment can create a more dynamic and diverse marketplace that is the driver of even greater competition.

IV.THE UK IS WELL-PLACED TO COMPETE GLOBALLY IN THE DIGITAL SPACE

The UK, and London in particular, is well-established as one of the leading locations for start-ups and VC investment, often following only behind the U.S.-based hubs of Silicon Valley and New York City in rankings of start-up ecosystems and VC investment flows.[53] This leadership outside of the U.S. stems not only from London's traditional place as a global financial centre, but also from a supportive regulatory environment and access to highly trained human capital.

A. UK REGULATORY ENVIRONMENT

The UK's strength as a hub for start-ups and VC investment stems in part from initiatives and a regulatory framework designed to foster innovation and business development.[54] These supportive policies target different aspects of innovation development, from R&D to VC funding facilitation to creating environments conducive to new

53. *See, e.g.*, *Ecosystems, London*, STARTUP GENOME, https://startupgenome.com/ecosystems/london (last visited Nov. 8, 2022).

54. *London Tech Week 2019 Update*, DEALROOM 14 (June 2019), https://dealroom.co/uploaded/2020/06/londontechweek2019.pdf?x20197.

business growth, including the following:

- **Public sector stimuli**, through organisations such as UK Research and Innovation (UKRI).[55] The UKRI's Industrial Strategy Challenge Fund is backed by £2.6 billion of public funds with matched funding of £3 billion from the private sector to directly invest in projects across different regions in the UK in various key emerging sectors, including clean growth and artificial intelligence (AI).[56] The UKRI further supports the entrepreneurial ecosystem via initiatives such as the Future Leaders Fellowships aimed at supporting the next generation of entrepreneurs.[57] In 2019, the UK government also launched the AI Sector Deal with dedicated funding of nearly £1 billion for the sector alongside an action plan for promoting the adoption of AI in the UK economy.[58]

- **Regulatory frameworks for new ventures to launch.** The UK Financial Conduct Authority's (FCA's) "regulatory sandbox" programme is designed to allow new businesses to test their innovations in the market with real consumers, but in a controlled environment with the aim of reducing time-to-market and developing new regulatory frameworks to support new products and services.[59] Launched in 2016, the programme has included over 60 firms in annual cohorts and has continuously expanded based on its success in helping get new ideas to market.[60]

- **Tax incentives for early-stage investment.** The Seed Enterprise Investment Scheme is designed to help entrepreneurs raise money during the early stages of development by offering tax

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55. *Regional Distribution of Funding*, U.K. RSCH. & INNOVATION, https://www.ukri.org/about-us/what-we-do/funding-data/regional-distribution-of-funding/ (June 27, 2022).

56. *Industrial Strategy Challenge Fund*, U.K. RSCH. & INNOVATION, https://www.ukri.org/our-work/our-main-funds/industrial-strategy-challenge-fund/ (last visited Oct. 8, 2022).

57. *What are Future Leaders Fellowships*, U.K. RSCH. & INNOVATION, https://www.ukri.org/our-work/developing-people-and-skills/future-leaders-fellowships/what-are-future-leaders-fellowships/ (Oct. 25, 2022).

58. *AI Sector Deal*, GOV.UK, https://www.gov.uk/government/publications/artificial-intelligence-sector-deal/ai-sector-deal (May 21, 2019).

59. *Regulatory Sandbox*, FIN. CONDUCT AUTH., https://www.fca.org.uk/firms/innovation/regulatory-sandbox (Oct. 14, 2022).

60. *FCA Explores Creation of Global Sandbox*, FINEXTRA (Feb. 14, 2018), https://www.finextra.com/newsarticle/31677/fca-explores-creation-of-global-sandbox.

incentives to investors who buy new shares.[61] Under the scheme, investors may receive up to £150,000 of their investment back in income tax relief.[62]

- **Practical thought leadership**, such as the Centre for Data Ethics and Innovation (CDEI), which provides advice on leveraging the benefits and managing the risks of data-driven technologies.[63] The CDEI serves to connect policymakers with industry and civil society in order to "develop the right governance regime for data-driven technologies."[64]

B. COMPETITION FOR ENTREPRENEURS

The UK has historically been an attractive landing spot for highly educated Europeans looking for entrepreneurial opportunities, particularly in technology. A study of Microsoft's LinkedIn and Stack Overflow, the online developer community, found that London attracted more European and non-EU technology professionals than the rest of Europe in 2017 and 2018.[65] A recent study by the consulting firm Startup Heatmap Europe reported that 72% of UK start-up founders who participated in a survey were born outside the UK.[66]

Part of the reason the UK has been successful in attracting talented entrepreneurs is that it offers a highly educated workforce. According to a study by the consulting firm Accenture, in the UK there are "422,000 professionals with skills in emerging technologies such as data analytics, artificial intelligence, blockchain, extended reality and quantum computing."[67] Approximately 37% of these

61. *Use the Seed Enterprise Investment Scheme to Raise Money for Your Company*, GOV.UK, https://www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme (June 1, 2022).

62. *Id.*

63. *About Us*, *Centre of Data Ethics and Innovation*, GOV.UK, https://www.gov.uk/government/organisations/centre-for-data-ethics-and-innovation/about (last visited Oct. 10, 2022).

64. Peter Jackson, *Data Ethics: What, Why Now, and Where Do We Start?*, DATAVERSITY (Oct. 8, 2021), https://www.dataversity.net/data-ethics-what-why-now-and-where-do-we-start/#.

65. *London Is Top European Hub for Global Tech Talent*, LONDON & PARTNERS (Feb. 7, 2019), https://media.londonandpartners.com/news/london-is-top-european-hub-for-global-tech-talent.

66. *Discover London Startups*, STARTUP HEATMAP EUR, https://www.startupheatmap.eu/London/ (last visited Oct. 10, 2022).

67. *London Demand for Skills in Emerging Technology Threatens to Create 'North-South' Talent Divide, Accenture finds*, ACCENTURE (Aug. 22, 2019), https://newsroom.

professionals are in London.[68] Other research by Stack Overflow found that London has more than 250,000 software developers, more than any other European city.[69]

The UK's university system is an important draw for talent and an important incubator of innovation and entrepreneurship. The UK has many of the world's top universities. The Times Higher Education World University Rankings 2022 included eight UK institutions among the top fifty universities in the world, with the universities of Oxford and Cambridge ranked in the top ten.[70] Having a collection of prestigious institutions of higher education serves to attract significant talent to the UK.

Moreover, universities can produce comprehensive entrepreneurial ecosystems. The combination of inspired, intelligent students and the financial and intellectual resources of UK institutions makes fertile ground for innovation.[71] For example, both the University of Oxford and the London Business School rank in the top 25 of MBA programs in the world based on the number of alumni founders whose companies received a first round of venture funding between 2006 and 2021.[72]

Furthermore, universities in the UK have taken strong steps to build and nurture entrepreneurship skills within students. Oxford University Innovation—a university-affiliated company that incubates new ventures—provides patenting, licensing, other organizational support and targeted entrepreneurship programmes.[73] The Oxford Foundry Elevate Accelerator, established in 2018, has served as an accelerator for ventures spearheaded by current students and alumni, and has since merged with the Saïd Business School at the University of Oxford.[74] At the University of

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accenture.co.uk/english-uk/news/uk-technology-talent-tracker-august-2019.htm.

68. *Id.*

69. *London Still Top European City for Attracting Tech Talent*, NET IMPERATIVE (Feb. 19, 2018), https://www.netimperative.com/2018/02/19/london-still-top-european-city-attracting-tech-talent/.

70. *The World University Rankings 2022*, TIMES HIGHER EDUC. 19 (Sept. 2, 2021), https://flipbooks.timeshighereducation.com/19712/60439/index.html?10158.

71. *See* Heiko Bergmann et al., *What Makes Student Entrepreneurs? On the Relevance (and Irrelevance) of the University and the Regional Context for Student Start-Ups*, 47 SMALL BUS. ECON. 53, 66, 69 (2016).

72. Jordan Rubio & James Thorne, *2021 PitchBook university rankings: Top 50 colleges for founders*, PITCHBOOK (Nov. 17, 2021), https://pitchbook.com/news/articles/2021-pitchbook-university-rankings-top-50-colleges-founders.

73. *Commercialising Your Research*, OXFORD UNIV. INNOVATION, https://innovation.ox.ac.uk/university-members/commercialising-technology/ (last visited Nov. 8, 2022).

74. *The Oxford Foundry Elevate Accelerator*, ENTREPRENEURSHIP CTR., SAÏD BUS.

Cambridge, students operate the Cambridge University Entrepreneurs (CUE), an organisation that provides programming, lectures and competitions for burgeoning entrepreneurs.[75] University College London (UCL) collaborates with Cisco and DC Thomson through the Innovation & Digital Enterprise Alliance London (IDEALondon), an innovation centre in London with the goal of developing entrepreneurship.[76]

Another potential reason why the UK has been successful in attracting entrepreneurs is its generous Start-up visa program. In 2019, the UK launched the Start-up visa program, an initiative which provides two-year visas to entrepreneurs who want to establish innovative businesses and explore the opportunity to pursue their ideas in the UK.[77] The program only requires that the prospective business be innovative, endorsed by either an academic institution or a business organisation, and otherwise open to all applicants.[78] A prospective business participant in the visa program need not have funding already in place.[79] However, entrepreneurs who are able to develop their ideas and demonstrate they have secured funding can extend their stay in the UK by converting to an Innovator visa that prolongs stays by another three years.[80] These visa initiatives and other policies, described above, make the UK an attractive place for entrepreneurs to pursue innovative business ideas and found new companies.

C. VC INVESTMENT IN THE UK

Across industries, the global volume of VC investments has increased significantly over the last decade. While much investment growth can be attributed to China and the U.S., the EU-28 (including the UK) experienced, between 2008 and 2018, an increase in annual

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SCH., https://www.sbs.ox.ac.uk/research/centres-and-initiatives/entrepreneurship-centre/oxford-foundry-elevate-accelerator (last visited Nov. 8, 2022).

75. *Cambridge University Entrepreneurs (CUE)*, CAMBRIDGE NETWORK, https://www.cambridgenetwork.co.uk/directories/companies/2295 (last visited Nov. 8, 2022).

76. Donald S. Siegel, Mike Wright & Philippe Mustar, *An Emerging Ecosystem for Student Start-Ups*, 42 J. TECH. TRANSFER 909, 916 (2017).

77. *Start-Up Visa: Overview*, GOV.UK, https://www.gov.uk/start-up-visa (last visited Nov. 8, 2022).

78. *Id.*

79. *Id.*

80. *Innovator Visa: Switch to This Visa*, GOV.UK, https://www.gov.uk/innovator-visa/switch-to-this-visa (last visited Nov. 8, 2022).

investments from €4 billion to €28 billion, respectively.[81] VC investment within Europe is highly concentrated in a limited number of countries, with the UK leading the field by a wide margin. In fact, the UK accounted for more than 30% of VC investments in the EU-28 in 2018, in terms of both investment amount and number of deals.[82]

This is also true for tech-related industries more specifically, which have been of particular interest to antitrust authorities in recent years. Over the past five years, tech-related VC investment in the UK has been substantial.[83] For example, as seen in

Figure 1, in 2021 total VC investment in tech-related industries reached nearly US$40 billion in the UK, nearly double that figure from 2020.[84] Compared to two of Europe's other strongest economies and start-up hubs, Germany and France, the UK has been consistently outperforming its closest rivals in venture capital invested in tech for the past five years.[85] In 2021, tech-related VC investments in Germany, France, and Sweden were only 50%, 32%, and 24% of the UK's investments. More broadly, the UK accounted for 35% of tech-related VC investments in Europe in 2021.[86]

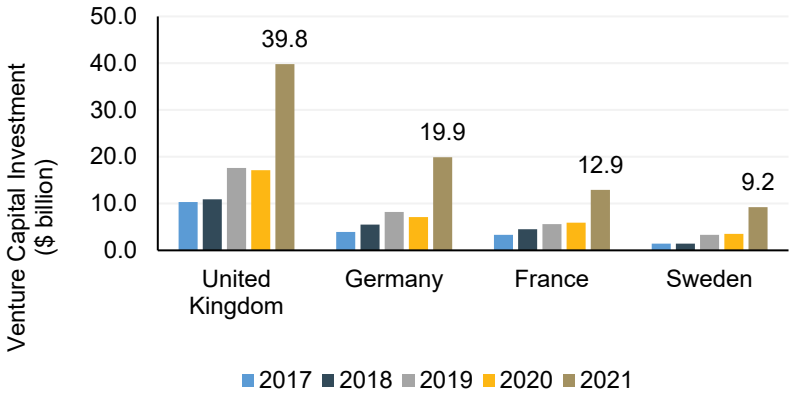

Figure 1

81. *See* ANDREA BELLUCCI ET AL., EUR. COMM'N, JOINT RSCH. CTR., VENTURE CAPITAL IN EUROPE: EVIDENCE-BASED INSIGHTS ABOUT VENTURE CAPITALISTS AND VENTURE CAPITAL-BACKED FIRMS 22 (2021).

82. *Id.* at 26.

83. *See2021: The Year London Tech Reached New Heights*, DEALROOM 4 (Jan. 2022), https://dealroom.co/uploaded/2022/01/Dealroom-London-report-2022-Jan.pdf.

84. *Id.*

85. *Id.* at 3–4.

86. *Id.* at 2.

The picture in recent years is similar across other industries, including the EdTech,[87] Fintech, Energy & Cleantech, and AI & Deep Tech sectors reviewed by industry analysts at Dealroom.[88] For example, between 2018 and 2019, VC investments in the UK increased 96% in Fintech, 73% in Energy & Cleantech and 20% in Deep Tech, and outperformed Germany in all categories except Deep Tech.[89]

The UK also accounts for a disproportionate share of unicorns (companies reaching a valuation of US$1 billion or more) in Europe. In 2021, the UK produced 20 new unicorns, and became the third country in the world, after the U.S. and China, with at least 100 unicorns.[90] As of 2021, the UK had more unicorns than Germany, France, and Sweden combined.[91]

Focusing on London, in recent years venture capitalists in London have continued to be more successful in attracting significant funds than those in other European hubs.[92] Figure 2 shows the tech-related funds raised by European VC investors in London, Paris, Berlin and Amsterdam between 2016 and 2020.[93] In 2020, London-based VC firms raised US$7.8 billion, more than five times higher than in Berlin, six times higher than in Paris, and 11 times higher than in Amsterdam. And in 2021, funds raised by London-based VC firms accounted for 35% of all funds raised by European firms.[94] London's remarkable progress over the years can be explained in part by the thriving fintech segment, which accounted for 46% of the city's VC investments in 2021. London also has attracted capital in telecom, enterprise software, health, and energy.[95]

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87. Best in Class: Global Trends in EdTech from a London Perspective, DEALROOM 8 (Sept. 2020), https://dealroom.co/uploaded/2020/09/EdTech-vFINAL.pdf?x20197.

88. 2019: A Record Year for VC Investment in the UK, DEALROOM 9–11 (Jan. 2020), https://dealroom.co/uploaded/2020/01/2019-A-record-year-for-VC-investment-in-the-UK.pdf?x20197.

89. *Id.* at 8.

90. *2021: The Year London Tech Reached New Heights*, *supra* note 83, at 2; 2021 Mid-Year Update of UK Tech, DEALROOM 6 (Sept. 2021), https://dealroom.co/uploaded/2021/09/Dealroom-UK-LTW-update-2021.pdf?x20197.

91. 2021 Mid-Year Update of UK Tech, *supra* note 90.

92. *See* discussion *infra* Part V, illustrating that while London constitutes a significant share of VC investment in the UK, there is geographic diversity in VC activity and entrepreneurship.

93. London: Europe's Global Tech City, DEALROOM 8 (Jan. 2021), https://dealroom.co/uploaded/2021/01/dealroom-london-jan-21-1610614703.pdf?x20197.

94. *2021: The Year London Tech Reached New Heights*, *supra* note 83, at 13.

95. *Id.* at 14.

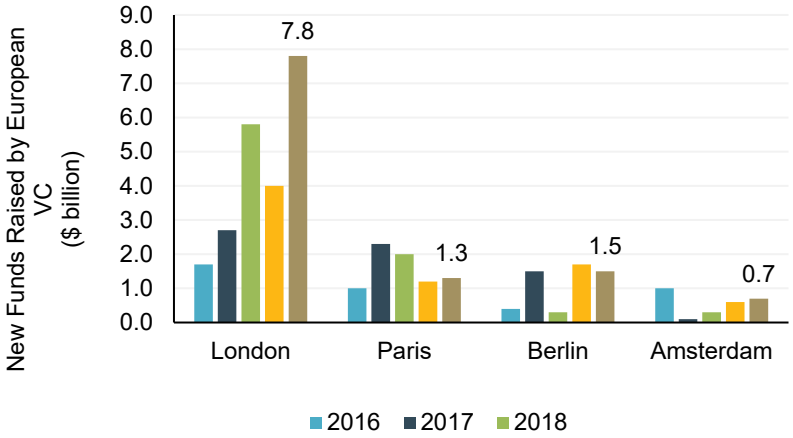

Figure 2

Funds raised by European VC investors in London were resilient despite the COVID-19 pandemic and almost doubled between 2019 and 2020, whereas funds raised in Paris, Berlin and Amsterdam either decreased or remained essentially unchanged.[96]

London has also outperformed other major European hubs across a number of sectors. For example, Figure 3 shows VC investments in start-ups in 2020 across a number of European cities and industries. In all of these industries, investments in London significantly exceeded investments in other cities.[97]

VC Invested in Start-ups in 2020 (£ billion)					
City	Fintech	Enterprise Software	Transportation	Healthtech	Food
London	4.3	1.9	1.5	0.7	0.6
Stockholm	1.1	0.0	0.2	0.3	0.1
Paris	0.7	1.0	0.1	0.5	0.2
Amsterdam	0.2	0.3	0.3	0.1	0.0
Munich	0.1	0.2	0.1	0.2	0.0
Berlin	0.0	0.6	0.8	0.4	0.2

Figure 3

96. *London: Europe's Global Tech City*, *supra* note 93, at 2.
97. *Id.* at 12–16.

From a global perspective, the UK also outperformed most cities in the U.S. and across the world. It ranked fourth for tech VC investment globally in 2020 behind San Francisco, Beijing and New York.[98] As shown in Figure 4, London has been experiencing one of the highest growth rates[99] in tech VC investment over time, with its progress topping leading start-up hubs across the world, such as San Francisco and New York.[100] London is also tied with New York City for second in Startup Genome's Global Startup Ecosystem's rankings—behind only Silicon Valley—in large part due to access to funding and talent.[101]

VC Investment Growth in Global Hubs ($ billion) 2016 - 2020			
City	2016	2020	Growth Rate (%)
Bengaluru	1.3	7.2	454%
London	3.5	10.5	200%
Berlin	1.2	3.1	158%
Paris	1.3	3.3	154%
Munich	0.3	0.7	133%
Mumbai	0.7	1.2	71%
San Francisco	14.3	21.5	50%
Toronto	0.7	1.0	43%
New York	11.0	15.2	38%
Shanghai	7.9	10.5	33%
Shenzhen	1.5	1.5	0%
Beijing	22.2	16.6	-25%

Figure 4

The UK and London enjoy a favourable position in the global VC ecosystem due to a number of factors. According to Startup Heatmap Europe, which tracks the development of start-up ecosystems across European cities, London ranks first for Global Connectivity, Brand Visibility, Expansion Destination, Developer Availability, Industry

98. *The Future UK Tech Built: Tech Nation Report 2021*, TECH NATION (2021), https://technation.io/report2021/#key-statistics.

99. Growth rates are calculated based on the values that are reported in the original chart and may be marginally different from the actual growth rates recorded by Dealroom due to rounding errors. *London: Europe's Global Tech City*, *supra* note 93.

100. *Id.*

101. *See United Kingdom, London #2*, *supra* note 53.

Connections, Investment Raised and Exits.[102] As Figure 5 indicates,[103] the ecosystem in London has benefitted investors and start-ups as measured by the number of accelerators[104] and the number of unicorns compared to other European cities.[105]

City	Number of Accelerators	Unicorns Created
London	161	75
Berlin	76	27
Paris	53	25
Stockholm	16	21
Amsterdam	40	17

Figure 5

Clusters, which are groups of geographically proximate and industry-related ventures, have a particularly positive impact on start-up success. Businesses within clusters benefit from shared knowledge, skill sets, technology and human capital. Research has shown that start-ups that exist within strong clusters experience higher growth in entrepreneurship and "facilitate survival and growth" due to the supportive and reciprocal nature of the environment.[106] As a result, many geographies across Europe (including the UK) and the U.S. are enacting policies to support and develop clusters with the hopes of generating booming landscapes.[107] One such policy type in the UK is that of Enterprise Zones (EZs), areas financially supported by government to generate business opportunities.[108] While historically used to develop disenfranchised

102. *Discover London Startups*, *supra* note 66.

103. Ecosystem Metrics, DEALROOM https://app.dealroom.co/metrics/ (select "Ecosystem" under "Stats & Insights" on the left-hand side) (last visited Feb. 3, 2022).

104. Ian Hathaway, *What Startup Accelerators Really Do*, HARVARD BUSINESS REVIEW (Mar. 1, 2016), https://hbr.org/2016/03/what-startup-accelerators-really-do ("Startup accelerators support early-stage, growth-driven companies through education, mentorship, and financing.").

105. *Ecosystem Metrics*, *supra* note 103.

106. Mercedes Delgado et al., *Clusters and Entrepreneurship* (U.S. Census Bureau Ctr. for Econ. Stud., Working Paper No. 10-31, Sept. 2010).

107. *See* Aaron Chatterji et al., *Clusters of Entrepreneurship and Innovation*, 14 INNO. POL'Y & ECON. 129 (2014).

108. *See Enterprise Zones (EZs)*, THOMSON REUTERS PRACTICAL LAW, https://uk.practicallaw.thomsonreuters.com/1-386-4462?transitionType=Default&context

areas, EZs have recently focused on supporting innovation and "high-growth sectors with potential."[109] EZs and other government-supported initiatives are hoping to benefit from the positive externalities associated with groups of likeminded firms found in clusters.

Recent experience in the UK suggests that clustering effects on entrepreneurial growth may be substantial. For example, from the founder alumni networks of 24 European tech companies that scaled to a valuation of U.S.$5 billion or more—including Zalando, Spotify, Klarna, Skype and Just Eat—over 2,350 ex-employees of these companies listed themselves as founders or co-founders of other companies in 2019, with 599 of these being UK founders. The majority of founders that spun out of UK-based companies valued over U.S.$5 billion also located their ventures in the UK.[110]

An important component of the ecosystem in the UK is the degree to which it has attracted foreign VC investment over the years. For example, foreign investment sources made up more than 60% of UK's total tech investments in 2020, compared to 50% five years ago.[111] Additionally, 51% of the UK's tech investment originated in 2019 from investors in Asia and North America, a proportion substantially larger than in Germany (35%) and France (18%).[112]

Given the above tailwinds in terms of its regulatory environment, as well as its attractiveness to foreign talent and a university system that fosters both domestic and foreign talent, the UK enjoys a favourable position attracting VC investment. This is evident in the significant advantage the UK has over other European countries in terms of levels and recent growth in VC investment in various sectors. This favourable position could be threatened by a rule that makes exit for entrepreneurs more costly or difficult, given the incentives embedded in the VC ecosystem described above. Moreover, given the global competitive context for capital and investment in which the UK ecosystem exists, such rule changes may make this ecosystem particularly susceptible to negative impacts given its relative dependence on outside investment and resources.

Data=(sc.Default)&firstPage=true.

109. Rachel C. Granger, *Enterprise Zone Policy: Developing Sustainable Economies through Area-based Fiscal Incentives* 5 URB. RSCH. PRAC. 335 (2012).

110. Atomico, *supra* note 44, at 178–179.

111. *The Future UK Tech Built: Tech Nation Report 2021*, *supra* note 98.

112. *2019: A Record Year for VC Investment in the UK*, *supra* note 88, at 13.

D. GROWTH OF ACQUISITIONS IN THE UK

As discussed above, acquisitions serve a critical function in entrepreneurship and innovation. This is particularly true in the UK, where in recent years, start-up acquisitions have grown as the allure of IPOs has declined.[113] Figure 6 shows the trend in the number of UK IPOs since 1998.[114] The number of IPOs dropped sharply following the financial crisis in 2008 and has yet to recover to pre-2008 levels.

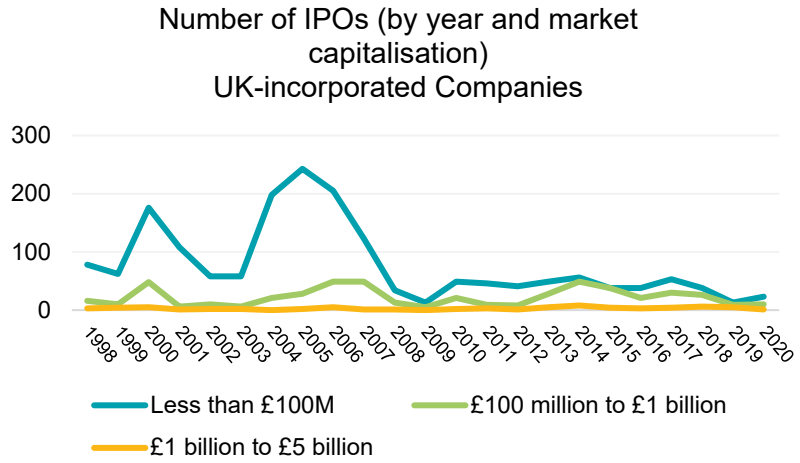

Figure 6

Other data show similar patterns. In a study of 1,545 British start-ups that raised equity in 2011, 226 companies had been acquired by 2019 while only thirty-two companies had exited via an IPO.[115] For UK small businesses backed by any form of equity investment, exits via acquisition have greatly outnumbered exits via IPO in recent years. Additionally, from 2012 to 2019, the pace of acquisitions has consistently increased. Moreover, from 2016 to 2020, the average value of an exit via IPO is much higher than the average value of an exit via acquisition.[116] This suggests that acquisitions are particularly important for smaller firms that may have less access to IPOs or other

113. Harrison & Mason, *supra* note 39, at 4.

114. *Id.*

115. *We Tracked Every Startup That Raised Venture Capital in 2011*, BEAUHURST BLOG (May 23, 2019), https://www.beauhurst.com/blog/startups-of-yesteryear-2019-update/.

116. *Small Business Equity Tracker 2021*, *supra* note 44, at 58–59.

public equity market exits.

A number of reasons have been identified to explain the decreasing popularity of public offerings and the relative increase in the number of acquisitions: (1) the increasing prevalence of intangible assets (e.g., knowledge, information, data-driven innovation and high skill levels), which are difficult to value in a public market, but more easily valued by a few specialist investors with non-public information; (2) the high costs of an IPO—in the U.S., recent underwriting fees alone have averaged between 3.5% and 7% of gross IPO profits; (3) corporate governance laws, which essentially discourage risk-taking and entrepreneurial behaviour; and (4) a growth in private equity financing available to UK companies, which has been shown to be inversely related to number and profitability of IPOs.[117]

It must be noted that overall exit activity skyrocketed throughout Europe in 2021. This included a record-setting year for VC exit values, with IPOs accounting for the majority of value.[118] The FCA has also recently taken steps to encourage public listings and SPACs.[119] However, acquisitions continued to significantly outnumber public listings,[120] and a recent survey of UK start-up founders and executives showed that 58% cited acquisition as the long-term goal for their company, compared to 18% whose goal was an IPO.[121] Whether 2021 was an outlier for IPO activity remains to be seen; regardless, acquisitions are expected to remain a critical form of exit for many entrepreneurs in the UK VC ecosystem.

As discussed in Section III, acquisitions can create significant value for consumers due in part to the value proposition large firms can offer to help scale and commercialise smaller firms' products. For example, Accomable was a London-based travel start-up that catered to individuals with special accessibility needs to help book

117. University of Edinburgh Business School, Factors Influencing the Decline in the Number of Public Companies in the UK (Oct.2020), https://www.appcgg.co.uk/wp-content/uploads/2020/12/APPCGG-202-report-Edinburgh.pdf; *Considering an IPO? First, Understand the Costs*, PWC, https://www.pwc.com/us/en/services/deals/library/cost-of-an-ipo.html.

118. Pitchbook, European Venture Report 2021 Annual 11–12 (Jan. 19, 2022).

119. Philip Stafford & Laura Noonan, *Sweeping Overhaul of UK Listing Rules Comes into Force*, FINANCIAL TIMES (Dec. 2, 2021), https://www.ft.com/content/9da686a8-15dc-40c7-9fb0-d774e24b04f7; *Developments in the London Listing Markets: SPACs, Dual Class Share Structures and Other Listing Rules Reforms*, WATSON FARLEY & WILLIAMS (Jan. 12, 2022), https://www.wfw.com/articles/developments-in-the-london-listing-markets-spacs-dual-class-share-structures-and-other-listing-rules-reforms/; Pitchbook, *supra* note 118, at 12.

120. Pitchbook, *supra* note 118, at 12.

121. Silicon Valley Bank, *supra* note 23.

accommodations that could suit their needs.[122] As a small start-up, it needed to achieve its scaling potential by partnering with an established player in this space. In 2017, Airbnb acquired Accomable, and the co-founder of Accomable became the accessibility program and product manager for Airbnb.[123] Airbnb was thereby able to integrate Accomable's expertise into its platform to improve accessibility, benefitting consumers by making this more widely available.[124]

Similarly, as discussed in Section III, acquisitions can help entrepreneurs reinvest their efforts for additional ventures.[125] Serial UK entrepreneurs such as Alex Chesterman not only find success, but continue to pursue opportunities even after their first wins.[126] Thus, they are able to take capital earned in deals and turn it into future innovations in the UK.

Despite these increasing trends, the market for acquisitions in the UK is still susceptible to external forces. In a 2020 survey of 22 VC fund managers by the British Business Bank (BBB),[127] 77% of fund managers felt that the availability of exit opportunities had become worse since 2019.[128] Of those UK fund managers surveyed, 41%

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122. Caroline Cakebread, *Airbnb Just Bought Accomable, a Startup that Helps Travelers with Disabilities Find Places to Stay*, BUSINESS INSIDER (Nov. 16, 2017), https://www.businessinsider.com/airbnb-acquires-a-london-startup-that-helps-those-with-disabilities-2017-11.

123. *Airbnb Highlights New Accessibility Filters and Features for Guests with Disabilities Worldwide*, AIRBNB (Mar. 15, 2018), https://news.airbnb.com/airbnb-highlights-new-accessibility-filters-and-features-for-guests-with-disabilities-worldwide/.

124. *Id.*; *Making Travel More Accessible*, AIRBNB (Nov. 16, 2017), https://news.airbnb.com/making-travel-more-accessible/ (describing that as part of Accomable co-founder's efforts to improve accessibility for guests, in March 2018 Airbnb launched 21 accessibility filters enabling customers with disabilities to narrow down their search to listings that accommodate their needs).

125. *See* discussion *supra* Consumer Benefits When Larger Firms Acquire Smaller Firms

126. Alex Chesterman founded Zoopla, a property listing website and one of the UK's first unicorns that was sold for £2.2 billion in September 2018. He also founded a marketplace for used cars, Cazoo, in 2018 and announced a £30 million funding round for Cazoo in December 2018. Lucy Wilson, *13 Serial Entrepreneurs Behind Top UK Tech Startups*, BEAUHURST BLOG (Jan. 13, 2022), https://www.beauhurst.com/blog/successful-serial-entrepreneurs/; Tom Sharpe, *Zoopla Founder Alex Chesterman to Launch Used Car Sales Platform*, Article in *Car Dealer News,* AM ONLINE (Dec. 12, 2018), https://www.am-online.com/news/dealer-news/2018/12/12/zoopla-founder-alex-chesterman-to-launch-used-car-sales-platform.

127. *UK Venture Capital Financial Returns 2020,* 2020 BRIT. BUS. BANK 2, 31, https://www.british-business-bank.co.uk/wp-content/uploads/2020/11/BBB-VC-Returns-Report-2020-FINAL-1.pdf.

128. *Id.* at 32.

viewed the current market for successful exits as "poor" or "very poor."[129]

Moreover, recent evidence highlights the impact that increased difficulties associated with acquisitions would likely have on the UK ecosystem. A survey of investors focused on UK start-ups from the Coalition for a Digital Economy (Coadec) found that 90% of investors identified the ability of start-ups to be acquired as "very important" for the success of the tech start-up ecosystem, with the remaining 10% identifying it as "somewhat important."[130] Similarly, 23% of investors stated that a "significant restriction" on the ability to exit would lead them to stop investing in UK start-ups, with an additional 50% stating that they would "significantly reduce" their investments.[131]

E. IMPACT OF BREXIT

Brexit has had an important impact on the UK economy and its global competitive positioning. Although the long-term effects are unclear, there have been immediate impacts on the UK financial system and its relative position compared to other European hubs.[132]

It is clear at this stage that the traditional financial services sector in the UK, and in London specifically, has suffered as a result of Brexit, in part because many areas of the financial sector were not covered by trading agreements between the UK and EU.[133] For instance, Bloomberg found that the value of shares traded in London was down 34% following Brexit, with flows shifting to Amsterdam—which saw 357% growth over the same period—as well as to Paris and Frankfurt.[134] To date, tracking by Ernst & Young has identified at least £1.3 trillion of assets that have shifted from the UK to Europe

129. *UK Venture Capital Financial Returns 2020*, *supra* note 127 fig.7.2.

130. The Coalition for a Digital Economy, The Digital Markets Unit: On the Side of Startups? An Investor Perspective*,* 2021 COAL. FOR DIGIT. ECON. 2, 16 (Sept.2021), https://coadec.com/wp-content/uploads/2021/09/On-the-Side-of-Startups_-1.pdf.

131. *Id*. at 16–17.

132. *See* Silla Brush, *Seven Charts Show How Brexit Has Already Changed the City of London*, BLOOMBERG (Mar. 26, 2021), https://www.bloomberg.com/news/features/2021-03-26/brexit-news-charts-show-financial-impact-on-london-paris-amsterdam-dublin.

133. *Id.; Brexit Has Caused Very Few Finance Jobs to Leave London*, THE ECONOMIST (May 1, 2021), https://www.economist.com/britain/2021/05/01/brexit-has-caused-very-few-finance-jobs-to-leave-london.

134. Brush, *supra* note 133 (Illustration of figures reflecting average daily value of shares traded in Europe).

following Brexit.[135] However, M&A activity appears resilient, with foreign companies' acquisitions in the UK reaching a record total value, although this has been partially attributed to depressed valuations of UK companies relative to global peers.[136] As of 2021, the cumulative loss of jobs to EU financial centres since Brexit has been relatively minor at around 8,000 jobs,[137] but stricter immigration policies now requiring visas for EU nationals to work in the UK have only recently been implemented, which may lead to further jobs moving to the continent.[138] Moreover, the financial job losses in the UK, though relatively small, stand in contrast to small increases in jobs in the Netherlands, Germany, France and Ireland.[139]

Despite these challenges to the financial sector in the UK, it appears that the entrepreneurial ecosystem is relatively resilient as the early impacts of Brexit emerge. A survey of UK start-ups has found that very few plan to shift their headquarters out of the UK in response to Brexit, although an increasing number are opening up European offices.[140] Similarly, a survey of business leaders found that the majority do not believe Brexit will affect their dealings with UK entrepreneurs, with many noting the continued appeal of UK products and services, and the potential for improved trading with UK partners.[141]

The impact of Brexit on VC investment in London and the UK is still unfolding. For example, while annual investment in London grew faster between 2016 and 2020 compared to the next highest growth hubs of Munich, Berlin and Paris,[142] VC investment in London slightly declined between 2019 and 2020 while the rest of Europe

135. *EY Financial Services Brexit Tracker: UK Financial Services Firms Continue to Incrementally Move Assets and Relocate Jobs to the EU, but Changes Since the Brexit Deal are Small*, ERNST & YOUNG (Mar. 2, 2021), https://www.ey.com/en_uk/news/2021/03/ey-financial-services-brexit-tracker--uk-financial-services-firms-continue-to-incrementally-move-assets-and-relocate-jobs-to-the-eu-but-changes-since-the-brexit-deal-are-small.

136. Brush, *supra* note 133.

137. THE ECONOMIST, *supra* note 133.

138. *Visiting the UK as an EU, EEA or Swiss Citizen*, GOV.UK (May 27, 2022), https://www.gov.uk/guidance/visiting-the-uk-as-an-eu-eea-or-swiss-citizen.

139. Brush, *supra* note 133.

140. Silicon Valley Bank, UK Startup Outlook 2019 (2019), https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/startup_outlook_report/uk/svb-suo-uk-report-2019.pdf.

141. *Britain's Start-up Appeal: Business Leaders Back Britain for Start-ups*, BARCLAYS, https://www.barclays.co.uk/business-banking/sectors/entrepreneurs/start-up-appeal/.

142. *London: Europe's Global Tech City*, *supra* note 93, at 5.

experienced modest growth.[143] Nevertheless, 2021 was a record-setting year in global VC activity; the UK and London were no exception, with VC investment more than doubling from 2020.[144] While such strong growth may signal a promising future for VC activity in the UK, there are still reasons to be concerned. Notably, Brexit led the European Investment Fund, a major source of UK venture capital funding, to pull its investments out of the UK.[145] To date, no concrete plans are in place for the UK government to replace that source of capital.[146]

Brexit is also expected to affect the flow of human capital into the EU. Changes in immigration policy could lead to lower first-year EU undergraduate and graduate student enrolment in the UK.[147] Student applications from the EU to the most selective UK universities and courses (including Oxford and Cambridge) fell by 20% for the 2021 enrolment year and again by 16% for the 2022 enrolment year.[148] UK universities have acted as an important draw and incubator for entrepreneurs, and Brexit could reduce the UK's relative advantage in terms of entrepreneurial talent in Europe.

The outflow of capital and talent, depression of overall M&A valuations and uncertain financial regulation agreements with the UK and EU present an important overhang for the UK's entrepreneurial ecosystem's ability to secure funding and exit opportunities, or even take advantage of the UK's departure from the EU. In addition, the risk of a lack of regulatory reciprocity with the EU in areas such as data protection (GDPR in the EU) may create barriers to scaling UK start-ups and limit the appeal and increase the costs of starting and growing a new venture in the UK. While it is too early to gauge the ultimate impact of these negative effects of Brexit, or the extent to which Government policy can counterbalance them, the uncertainty created by Brexit for entrepreneurs, their employees and investors poses a

143. However, as noted above, new funds raised by London-based VC firms increased significantly from 2019 to 2020. *Id*. at 6–7.

144. *2021: The Year London Tech Reached New Heights*, *supra* note 83, at 4–5.

145. Brian Unwin & Iain Begg, *European Investment Bank: The UK Will Miss It When It Is* Gone, LONDON SCHOOL OF ECONOMICS (Sept.28, 2020), https://blogs.lse.ac.uk/brexit/2020/09/28/european-investment-bank-the-uk-will-miss-it-when-it-is-gone/.

146. *Id.*

147. Dr. Gavan Conlon et al., EU Exit: Estimating the Impact on UK Higher Education, U.K. DEP'T FOR EDUC., 59, 68 (Feb. 2021), https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/958998/EU_exit_estimating_the_impact_on_UK_higher_education.pdf.

148. Nick Morrison, *Brexit Hits U.K. Universities as E.U. Students Look Elsewhere*, FORBES (Oct. 27, 2021), https://www.forbes.com/sites/nickmorrison/2021/10/27/brexit-hits-uk-universities-as-eu-students-look-elsewhere/.

drag on the industry. Ultimately, it will be critical that the UK pursue policies in building its post-EU future that buttress its strengths as a centre for entrepreneurship and avoid compounding existing challenges.

F. PROTECTING THE UK'S ROLE AS AN IMPORTANT LOCUS OF INNOVATION

The tenuous context of exit opportunities in the current entrepreneurial ecosystem in the UK provides important background for evaluating rule changes that impact the attractiveness and feasibility of acquisitions. Increasing the costs and difficulty of successful acquisitions would likely lead to a reduction in exit opportunities that could disrupt investment, entrepreneurship and innovation in the UK. The uncertainties introduced by Brexit only compound the risk of disruption. Indeed, the fact that much of the investment in UK firms comes from the U.S. and other foreign sources of funds—funds which could be funnelled elsewhere in Europe and abroad—increases the potential for disruption from changes in UK policy.[149]

V. UK VENTURE CAPITAL SUPPORTS DIVERSIFICATION OF THE ECONOMY

The benefits associated with the entrepreneurial ecosystem extend beyond the London geographical area, and also reach many diverse groups of individuals.

A. GROWTH OF VC INVESTMENT BEYOND LONDON

While London is the main hub of entrepreneurial activity, there are also other regions in the UK that have large start-up communities. For example, the South East has developed an active community of entrepreneurs that specialise in the Health and Food tech sectors.[150] More broadly, a number of cities across the UK have been bringing together resources enabling the growth of start-ups, such as Oxford, Cambridge, Manchester, Edinburgh and Leeds.[151] Looking at the

149. For example, recent research using data from 2017 has shown that almost 20% of UK investment rounds had a U.S. or Canadian investor, but that U.S. and Canadian investors also have sizable presences throughout Europe. Wendy A. Bradley et al., *Cross-Border Venture Capital Investments: What is the Role of Public Policy?*, 12 J. RSK. FIN. MGMT. 112, 115–16 (2019).

150. *Startup Explorer UK*, SIFTED, https://explore.sifted.eu/.

151. *See* Leadership in European Tech Accelerates and Extends Beyond London,

number of accelerators, for instance, Oxford and Cambridge have eighteen accelerators in total, which is more than three times higher the number of accelerators per 1,000 people that are present in London.[152]

This growth of the entrepreneurial ecosystem across the UK is in part driven by purposeful government policy. For instance, UK Research and Innovation, through the initiative Innovate UK (IUK), provides funding to innovative businesses that are research-intensive to support the development of new ideas.[153] As shown below,[154] IUK invests throughout the entire country, with approximately 87% of investment outside of London.

Innovate UK Spending FY 2018-2019		
Region	**Amount (£ million)**	**Share of Total (%)**
West Midlands	133	14%
South East	129	14%
London	125	13%
South West	116	12%
East Midlands	99	11%
East of England	82	9%
Yorkshire and the Humber	79	8%
Scotland	57	6%
North West	41	4%
North East	39	4%
Wales	30	3%
Northern Ireland	11	1%
Total	**941**	**100%**

Figure 7

DEALROOM 10 (Oct. 2018), https://dealroom.co/uploaded/2020/06/Dealroom-Tech-Nation-and-Digital-Economy-Council-report-Q3-2018.pdf?x20197.

152. London hosts 161 accelerators and has a population of 8.2 million which corresponds to 0.020 accelerators per 1,000 people, while Oxford and Cambridge host 18 accelerators and has a combined population of 290 thousand, resulting in an equivalent ratio of 0.062. Dealroom, *supra* note 103.

153. Regional Distribution of UKRI Spend, UK RESEARCH AND INNOVATION 11 (2021), https://www.ukri.org/wp-content/uploads/2021/04/UKRI-280421-RegionalFunding20182019-AnalysisReport.pdf.

154. *Id.* at 12.

The geographical distribution of investments is also influenced by the location of VC funds. According to the BBB, the location of VC funds plays an important role in the choice of target companies, with funds being more likely to invest in businesses of close proximity, *ceteris paribus*.[155]

BBB's latest Equity Tracker showed that more than half of equity deals that took place in 2019 were targeted toward London and the university cities of Oxford and Cambridge, jointly known as the "Golden Triangle."[156] However, when evaluating VC funds' performance, BBB found that VC funds that are established outside the equity cluster created in the Golden Triangle have a potential for higher returns.[157] In particular, results for the 2002-2015 time period showed that the DPIs[158] of Golden Triangle-based funds, on average, were seventy percentage points lower than those achieved by the sixteen VC funds based in other locations in the UK that the report studied.[159]

There are highly valued businesses that have been established outside London, as shown in Figure 8.[160] The Scottish brewery Brewdog is a notable example. Founded in 2007, Brewdog quickly raised significant funds, allowing the company to expand both geographically, by opening breweries across the globe such as in the U.S. and with plans to open in Australia, and also in terms of its operations, which today include bars and hotels.[161] Today, Brewdog is valued at approximately US$2 billion, and is in the process of preparing an IPO on the London Stock Exchange.[162]

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155. *UK Venture Capital Financial Returns 2020*, *supra* note 129, at 19.

156. *Id*.

157. *Id*. at 3.

158. DPI refers to "Distributed to Paid-in Ratio," a measure of returns on invested funds.

159. *UK Venture Capital Financial Returns 2020*, *supra* note 129, at 26.

160. Data presented as of June 2018. London Tech Week UK Tech Report, DEALROOM & TECH NATION 5 (June 11, 2018), https://dealroom.co/uploaded/2020/08/London-Tech-Week-presentation-UK-Tech-Report-2.pdf?x20197.

161. *Our Venues*, BREWDOG (2022), https://www.brewdog.com/uk/locations; *Our Beer Journey So Far*, BREWDOG (2022), https://www.brewdog.com/usa/history.

162. Ben Lobel, *Everything You Need to Know About Brewdog*, FOREX (June 11, 2021), https://www.forex.com/en/market-analysis/latest-research/everything-you-need-to-know-about-brewdog/.

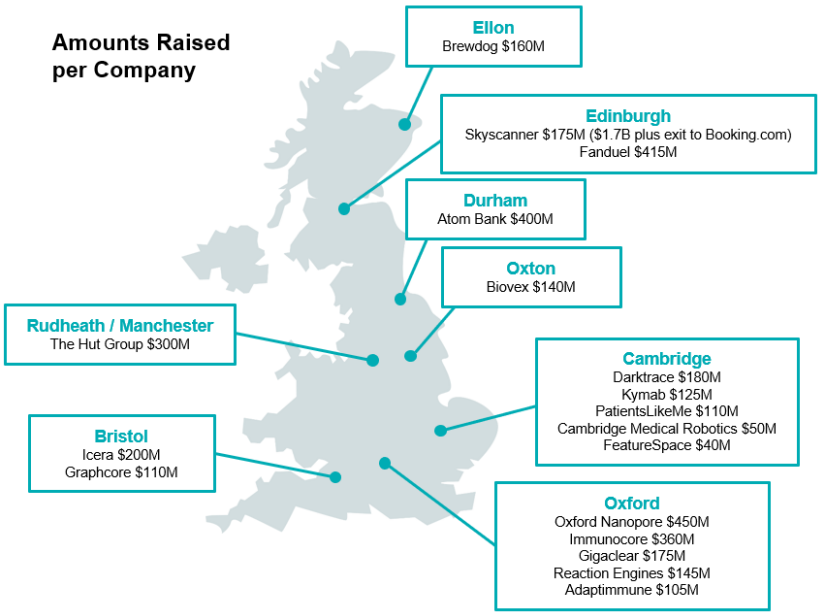

Figure 8

The diversity in business activity outside of London includes further exceptional performers. Many unicorns are not in London. As of early 2022, there were six unicorns in Cambridge, four in Manchester, three in Bristol, two in Leeds, two in Oxford and one in Edinburgh.[163] These groups of unicorns, particularly in Manchester, likely benefit from the advantages of being in clusters in which positive externalities from nearby businesses tend to seep into related firms. A concentrated network of similar firms provides each business shared resources, infrastructure, supply-chain connections and distribution networks, among other aspects, facilitating growth that possibly could not occur otherwise.[164] Similarly, as described above, the university ecosystems of cities like Cambridge and Oxford attract and foster talent, and can benefit from similar effects.

This geographic diversity serves to spread wealth opportunities outside of London and benefit areas throughout the UK. A potential rule change that undercuts the attractiveness of acquisitions and thereby reduces VC funding incentives likely would adversely affect these areas, particularly for younger VC firms that tend to have more difficulty accessing funds outside of London, given their less-proven

163. *London: Europe's Global Tech City*, *supra* note 93, at 5.
164. Delgado et al., *supra* note 106, at 8.

track records.

B. GROWTH OF VC INVESTMENT IN DIVERSE ENTREPRENEURS

The UK has been successful in attracting entrepreneurs and providing support for a thriving start-up ecosystem. As part of this system, there has been an increasing emphasis on diversity and a commitment to continued improvement, though it is important to note that this is an ongoing effort for the industry both in the UK and globally.

For instance, in recent years UK start-ups have seen significant progress in diversity and inclusion. A 2019 survey of UK start-up founders and executives by Silicon Valley Bank found that the percentage of start-ups with at least one woman on the board of directors increased from 27% to 47% from 2017 to 2019, while the percentage of women in executive positions increased from 42% to 57% during the same time.[165] In this respect, UK start-ups lead their U.S. counterparts, particularly in terms of female representation on start-up boards.[166] This pattern of progress is consistent with findings on the broader economy, with a survey of 20,000 UK SMEs showing that 32% were female-owned in 2020, up from just 17% four years prior.[167]

This pattern of progress is also reflected on the VC side of the ecosystem, with a 2019 study finding the percentage of women in the VC industry increased to 30%, from 27% in 2017.[168] At the same time, the proportion of UK VC equity deals received by a company with at least one female founder increased from around 11% in 2011 to 23% in 2020.[169] Studies have found that VC partnerships with female representation on investment teams are more likely to invest in female-led businesses.[170] That is to say that improvements in

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165. Silicon Valley Bank, *Women in Technology Leadership 2019*, 4 (2019), https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/women_in_technology_leadership/svb-suo-women-in-tech-report-2019.pdf.; Silicon Valley Bank, *supra* note 140, at 9.

166. *Id*.

167. Guillermina Correa, *UENI's 2020 Report on Gender and Small Business*, UENI BLOG (July 15, 2021), https://ueni.com/blog/report-gender-small-business-female/.

168. Diversity VC, Diversity in UK Venture Capital 2019, 13 (July 2019), https://www.diversity.vc/wp-content/uploads/2019/07/DiversityInVC_Report_10.07.2019_for_Web.pdf.

169. *See Small Business Equity Tracker 2021*, *supra* note 44, at 28 fig.1.10.

170. Diversity VC, *supra* note 168, at 33; Wendy DuBow & Allison-Scott Pruitt, *The Comprehensive Case for Investing More VC Money in Women-Led Startups*, HARV. BUS. REV. (Sept. 18, 2017), https://hbr.org/2017/09/the-comprehensive-case-for-

diversity in individual aspects of the entrepreneurial ecosystem have reinforcing and compounding effects on the industry.

The industry has also seen initiatives designed to improve diversity in entrepreneurship. For example, a number of VC and finance networking groups are focused on women in private equity, venture capital and entrepreneurship.[171] Public-private initiatives have also been introduced to support women's participation in the industry, such as the HM Treasury's "Women in Finance Charter" supported by UK VC firms,[172] and the Investing in Women Code (IiWC).[173]

There has also been an increase in dedicated funding for female-led and Black-led start-ups in the UK, such as NatWest Bank's recent announcement of £1 billion in debt funding specifically for female entrepreneurs.[174] Google for Startups has also created a US$4 million Black Founders Fund in Europe, and in early 2021 it awarded up to US$100,000 in equity-free cash, paired with other benefits and support, to 40 founders in Europe.[175] The Fund received approximately 800 applications from Europe, with nearly 600 from the UK, and UK start-ups dominated the field of winners.[176] Similarly, Impact X, a venture capital firm founded to support underrepresented entrepreneurs across Europe, raised £100 million as of December 2019, which it seeks to invest in minority-led businesses.[177] The initiative B.O.X. (Black-Owned eXcellence) was founded by Black entrepreneurs, multi-industry professionals and investors, and makes equity investing options more accessible to Black founders and their peers by bringing together a community of investors and business experts looking for venture opportunities.[178]

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investing-more-vc-money-in-women-led-startups.

171. Diversity VC, *supra* note 168, at 26; *The Alison Rose Review*, NATWEST (Mar. 15, 2022), https://natwestbusinesshub.com/articles/rosereview.

172. Diversity VC, *supra* note 168, at 26.

173. NATWEST, *supra* note 171.

174. *Id*.

175. *Black Founders Fund*, GOOGLE FOR STARTUPS, https://www.campus.co/europe/black-founders-fund/.

176. Tommy Williams, *Meet 30 Black Founded Startups Selected by Google for Their New $2 Million (£1.5 Million) Black Founders Fund*, FORBES (June 4, 2021), https://www.forbes.com/sites/tommywilliams1/2021/06/04/meet-30-black-founded-startups-selected-by-google-for-their-new-2-million-15m-black-founders-fund/.

177. *London VC Fund Impact X Has 100 Million Pounds to Jump Start Minority-Led Businesses*, BLOOMBERG (Dec. 18, 2019, 11:37 AM), https://www.bloomberg.com/news/videos/2019-12-18/london-vc-fund-has-100-million-pounds-to-boost-minority-led-firms-video.

178. *Our Mission*, THE B.O.X, https://www.theboxunlocked.co.uk/our-mission.

C. SPURRING GEOGRAPHICAL AND DEMOGRAPHIC DIVERSITY IN ENTREPRENEURIAL VENTURES IN THE UK

The recent push for various forms of diversity is far from complete. Rule changes that make exit via acquisition more difficult could hinder efforts to expand investment in innovation throughout the UK to areas outside of London, as well as have a disproportionate impact on younger VC firms that may tend to be more focused on promoting demographic diversity.

VI. CONCLUSION

The UK has witnessed a flurry of proposed changes to merger review policies in the past year. These changes are expected to lead to increased scrutiny of acquisitions of start-ups, without fully accounting for the important role of exit via acquisition in the VC ecosystem. As such, the changes may reduce exit opportunities for entrepreneurs and VC investors and threaten the UK's position as the VC hub for Europe. Such changes will also harm consumers, who benefit from the innovation that these acquisitions generate and from the incentives that motivate entrepreneurs to create new products and services that attract VC investors and acquiring firms. Moreover, the changes may curb the growth of the VC investments in areas outside of London and negatively impact geographic and demographic diversity in the UK economy.