



Q&A

EARLY BIRD

Stephen Page, Founder and CEO of UK-based SFC Capital, is an expert in pre-seed and seed funding. We picked his brains about how the virus is affecting the startup industry and what he looks for in budding entrepreneurs.

> Milestone: How badly has SFC Capital been hit by the virus?

Stephen Page: When the virus first arrived we were incredibly concerned. SFC Capital has a portfolio of about 200 companies so March and April were worrying months. Were investors going to stop investing? Would our companies survive? But it soon became clear that the problems were going to be focussed on certain sectors, namely travel and hospitality, while big opportunities were opening up for companies involved in delivery and remote working, for example. Some of our portfolio companies had a very tough time but some thrived and a dozen or so witnessed their revenues shoot through the roof including a flower delivery business, a company that makes kits to upgrade push bikes to electric, and a sustainable packaging company (Transcend Packaging) that transitioned to producing recyclable PPE. Before the virus, they were supplying paper straws to MacDonald's so their story is a good example of innovation. The pandemic has really highlighted the resilience and ability of the best entrepreneurs. So far we haven't lost a company, some have flourished, while others have hunkered down and waited.

> What makes a good entrepreneur?

Good entrepreneurs can pretty much survive a nuclear war, they will be able to pivot, transition, rally their team, adapt. They are people-centric, which is hugely important. When we assess companies to invest in, we always look at how the CEOs and leaders interact with their employees, how they behave together in the bunker, so to speak. Are they all pushing in the same direction? The virus has stoked a kind of wartime spirit and the best entrepreneurs are making sure their companies are coming out the other side stronger.

> Do you think the UK government has done enough to help startups?

Because of the UK government schemes, some businesses that would not have sur-

vived – virus or no virus – have managed to stay afloat. The furlough and bounce back loan schemes have been vital lifelines and almost all British companies have signed up to them, while we all know that some have received more than their revenue warrants. Obviously the government aid is a good thing but I think it could have been more selective. When the schemes end some companies will really struggle as they've been subsidised for the best part of a year.

> What methods do you use to assess companies before investing?

As an early stage investor, SFC Capital uses a marking matrix to guide us, 50% of which scrutinises the CEO, leaders, co-founders, and team of each company. How do they come across? How do they behave? Have they got their finger on the pulse? If there is only one founder they are really up against it from day one, it's a negative in many ways but we certainly don't exclude them. Sole founders need to be seriously good to convince us to invest in them. We're looking for that real spark. We do psychometric testing, we have lots of discussions with them, we see how they respond to our questions on due diligence, and we do a deep dive on each company. If we do decide to invest, later on when we're considering whether to reinvest, we reevaluate them, check their resilience and perseverance, have they built a good team? In short, we're very thorough.

We're quite often presented with a brilliant idea but the team is lacking. I'd sooner have a great team with an average idea than an average team with a great idea. A great team will forge something, even during the toughest times. One of SFC Capital's first investments was an identity verification company called Onfido – when we invested they had no revenue, the product wasn't really there, but the team was so exceptional that we knew it was going to be something special. The company is now worth more than £350 million. It's all about the people.

> Which startups in your portfolio are you particularly proud of?

One company that's been really fun to work with is called Humanising Autonomy, which is all about predicting pedestrian behaviour to make autonomous vehicles safer, but it also applies to any mobility activity. The technology can foresee how people will react by scanning the pavements – it's very strong AI-based software and completely groundbreaking.

> Has anything surprised you about early stage investment during the pandemic?

Valuations have not gone down. People generally tend to overvalue their businesses – how can a company with zero revenue that's three months old be worth £2 million? We see crazy valuations like this all the time.

The pandemic is potentially a good thing for entrepreneurship. We're going to see a lot of people out of work when the furlough scheme in the UK comes to an end so there will be no shortage of startups, we're a very entrepreneurial country, but it also probably means we'll see some people who shouldn't be entrepreneurs trying their luck, coming to the market, and demanding corporate salaries.

> What advice would you give to budding entrepreneurs?

If you don't have a co-founder, get one. It's so difficult going it alone. If you find someone who is compatible with your vision it takes so much pressure off.

Take time to work out a detailed plan and don't rush things. Be clear when you talk to your potential investors – don't assume they know anything. Investors tend to be generalists so you need to be clear.

Don't overvalue your company. High valuations can destroy companies for so many reasons, not least because it will take so long to source enough investment that you run the risk of someone stealing your idea in the meantime. 🚫