THE TIMES

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‘Californians just aren’t very good at understanding fintech. We are’

The serial entrepreneur William Reeve tells **Patrick Hosking** there is a gap for a British tech-driven giant

The tech bros in Silicon Valley just aren’t very good at financial services, remarks William Reeve cheerfully. The sauvignon is flowing nicely and we’re fantasising about Britain’s best chance of one day creating a disruptive, world-beating tech-driven giant business on a scale that could cheer us all up.

“You’ve got to be able to pick something where the Californians are not going to eat your lunch and Californians are not very good at fintech,” he says. They don’t understand the regulation and anyway all the expertise and experience is thousands of miles away on the US east coast.

“Fintech,” Reeve says, “is our best chance.” Fintech, to be clear, is just City jargon for technology-driven businesses in financial services.

Reeve knows quite a lot about Britain’s track record in building and backing new disruptive businesses. He’s been a serial entrepreneur and angel investor for 28 years and was a leading force in the creation of LoveFilm, Britain’s answer to Netflix before it was sold to Amazon. He’s been a founder, director or investor in a string of promising and sometimes not-so-promising start-ups, including Zoopla, Secret Escapes, Graze and Adzuna. Today he runs Goodlord, a digital platform that claims to do all the grunt work for letting agents.

He also chairs Augmentum Fintech, an investment trust specialising in backing ambitious tech-enabled banks, payments companies and trading platforms. Its investments include Zopa Bank, Tide, Smart Pension and BullionVault and Gemini, platforms respectively for gold and crypto punters.

Augmentum’s raison d’être is to get in early on financial services businesses with the potential to grow exponentially and take the fight to the incumbent players. It has succeeded once before, alighting early on Interactive Investor, the platform for retail investors, making 11 times its money when it was sold to Aberdeen Group for £1.5 billion.

We’re in Orrery, a plush restaurant in Marylebone. Reeve chose it because it first featured in his life when he was “a penniless entrepreneur”. It was 1997. He’d just been terminated by McKinsey, the management consulting firm, and with Neil Bradford, his business partner, had set up a fledgling market research outfit. The two promised their girlfriends, also McKinseyites, that if they ever showed signs of making a bean they’d treat them to dinner at Orrery, newly opened by Sir Terence Conran and the ultimate in fashionable dining. Their luck seemed to come in quickly when the first report they penned, on football finance, made it on to the front page of the Financial Times.

The promise was honoured, he recalls, as the waiter hovers, though he can’t remember what he ate. His girlfriend, Fiona, later became his wife. Today, he goes for a glass of Piper-Heidsieck champagne, saffron risotto with ossobuco sauce and sea bass with a herb crust.

AKIRA SUEMORI FOR THE TIMES

William Reeve chairs Augmentum Fintech, which aims to get in early on financial services firms with soaraway potential

CV

Age: 52
Family: Married to Fiona, three cats
Education: Perse School Cambridge; University College, Oxford, MEng, engineering and economics.
Career: 1995-97: McKinsey & Co; **1997-99**: Fletcher Research; **1999-2002**: Forrester Research; **2003-08**: ScreenSelect, then Video Island, then LoveFilm; **2010-2012**: Oxalyst Systems; **2010-2013**: Paddy Power; **2018-present**: CEO, Goodlord; chairman, Augmentum Fintech

Back to 1997. Reeve and Bradford’s timing was impeccable. It was the dotcom boom and suddenly everyone, large corporates, the media and the investment banks, wanted to know about the internet and were prepared to fork out as much £800 a time for one of their hastily created reports. “Everyone was trying to understand, what’s this internet thing, how’s it gonna work?” The business took off.

They sold out to the Nasdaq-listed Forrester Research six months before the dotcom boom turned to bust and Reeve was left with what he says was a “life-changing” amount of money. He stayed on at Forrester for a while but was soon thinking what sector would be good for another venture.

“I had two graphs in my head, both shooting upwards.” One was mobile phone demand, the other was DVD rental by post. “So I started asking around, ‘Anybody seen any DVD businesses?’ And Neil said, ‘Well, there’s this thing in America called Netflix’ and I had a look at that and thought, ‘That actually looks like quite a lot of fun’.” He and a new business partner, Alex Chesterman, launched ScreenSelect, one of a string of DVD rental companies that emerged at the time. They raised £1 million from about 30 angel investors to seed it. There was no venture capital money. “Back then I didn’t quite realise how extraordinary that was.”

Soon came a scramble of consolidation and Reeve and Chesterman ended up as the big winners. After taking over one rival and adopting its brand LoveFilm for the enlarged business, they were by this time the No 1 in the UK. “It was a scale game and we had the lowest cost structure, which was what ultimately enabled us to win.”

Then came the start of the big shift to streaming. The LoveFilm team first sold a 30 per cent stake, then the entire business, to Amazon, which incorporated it into its Prime offering, a service giving free delivery on purchases as well as streamed movies.

Reeve had moved on by then, as had Chesterman, who founded Zoopla, which was to become another disruptive winner, in property search. Could LoveFilm have made it as an independent and continued to grow at that stunning pace? It’s a tantalising “what if?” After all, Netflix in America continued to grow and today is valued on Wall Street at $380 billion. Could LoveFilm have muscled in to the US and achieved anything like that?

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RECEIPT

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2x set menu:	£118.00
Saffron risotto; sea bass	
Beetroot tartare; sea bass	
1x mashed potato	£7.25
1x broccoli	£7.25
1 x glass, Piper-Heidsieck	£19.00
1 x bottle, Aquamarine sauvignon blanc	£51.00
2 x water (1 still, 1 sparkling)	£11.00
1 x macchiato	£5.95
14.5% service charge	£31.82
TOTAL	**£251.27**

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Orrery, W1

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THANK YOU!!

“Probably not,” says Reeve, munching on a spear of broccoli. First, the shift to streaming levelled the playing field with US rivals, increasing the benefits of scale and their giant home market. Then came the decision by Netflix to create its own content, becoming in effect a Hollywood studio in its own right. “I think that was punchy.” That would have required vast amounts of capital which from London might have been hard to source. Reed Hastings, Netflix’s co-founder, was “a genius” to do it, though, he says.

We chat about the British attitude to risk compared with America’s. Reeve is scathing about the short-termism of the investment battalions in the City. “A ‘Netflix of Europe’ would never have got off the ground because the investors would all have said, ‘Where are dividends?’,” he says. “Netflix didn’t make profits for years and years.”

The listed company world is worse, even less inclined to invest for the long term and ever more focused on dividends and share buybacks. Reeve has been a non-executive director at Paddy Power and Dunelm. “At Dunelm we would sit and talk about what the current shareholders wanted. I’d be like, ‘What about the shareholders that we *don’t* have? What about the shareholders that would value us at twice [our current valuation], but they won’t look at us?’”

We skip pudding. Reeve chooses a macchiato. Talk turns back to UK fintech and the open goal left by the incumbent banks because of their failure, he says, to grasp the nettle of disruptive innovation due to the cannibalising of their businesses. “Name any sector where the large, well-resourced incumbent has succeeded in eating his own children ... it’s hard to eat your own children.”

Barclays, he says, also could have been far bigger today had it not sold iShares, its innovative and disruptive exchange traded funds business, to BlackRock in the throes of the banking crisis: “iShares, arguably, has been the making of BlackRock and that could have been kept over here.”

Why, I ask, doesn’t the stock market believe Augmentum has the potential to winkle out and nurture the prospective financial world-beaters of tomorrow? The shares on the day we lunch are languishing at a yawning 44 per cent discount to net assets and are below the 100p issue price at which the trust was launched in 2018. Since then the discount has worsened to 48 per cent on the back of the recent rout in US tech stocks.

That is “frustrating”, he says, as the revenues at the biggest ten portfolio companies are galloping ahead at 52 per cent and the net asset value is rising nicely. City rules are hurting, though: wealth managers who put their clients into Augmentum now see it as too small. They have been increasing the minimum market cap size they are prepared to invest in.

The biggest issue, perhaps, is the paucity of exits across the sector. Investors need to see portfolio companies being sold to trade buyers or floated at valuations at or preferably above net asset value in the books. That hasn’t been happening often. “Right now, there has been a bit of a drought on the exit front, which is longer than any drought ever in the tech space, but most droughts end.”

A successful flotation of Revolut, say, or Klarna (neither of which Augmentum owns) could trigger a rethink. Wise, a London-based and listed financial disruptor valued at £9.4 billion, shows what can be done.

“We’ve got a couple of businesses which have traded very, very well and which, if the market reopens, I’m sure their boards will be keen to understand their options ... One of our top five investments is making more than £50 million of ebitda [earnings before deductions]. It’s not necessarily the one everyone thinks is the star in the portfolio.”

He won’t say more, alas. “I need to run,” says the man with more start-ups to back.