

Are we approaching peak AI investment in the UK?

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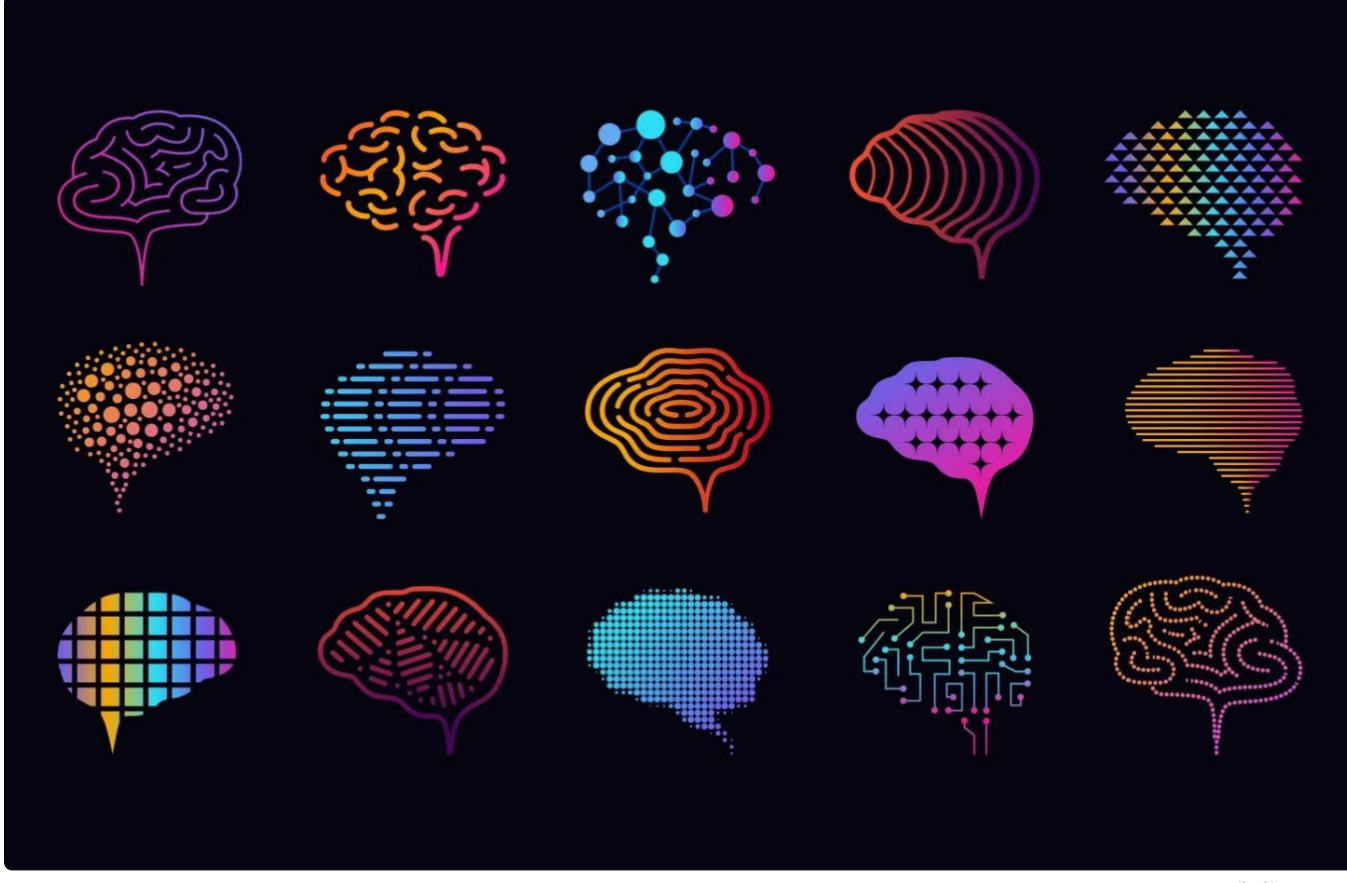


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Earlier this month, the government [scrapped £1.3bn of funding](#) for AI and technology projects, including the £800m 'exascale' supercomputer that the previous administration said would accelerate AI, medicine and low-carbon energy innovation.

The news is brighter for private investment. UK AI startups have raised \$2.1bn in investment so far in 2024, which is almost as much as was raised in the whole of 2023.

Investment is on track to reach an all-time high by the end of the year, with AI now accounting for 22% of the UK's innovation ecosystem value – up from 12% in 2019.

However, concerns about whether hefty AI investments from the likes of Microsoft and Google will pay off dramatically [hit the share prices](#) of US tech giants earlier this month.

All of this growth has caused the startup and VC world to wonder: are we reaching peak AI investment?

AI companies making 'commercial progress'

James Savage, portfolio director at YFM Equity Partners, believes the transformative potential of AI is huge, and when complemented by the drive and ambition of UK entrepreneurship and positive market drivers, it provides the potential for significant growth.

Savage remains bullish on AI. Last month, his firm participated in an [£8m Series A funding round into Xapien](#), an AI-powered due diligence startup.

"There's been another 12 months to understand the ramifications of ChatGPT's launch in 2022, which catalysed significant broader interest in AI and some hype," Savage tells *UKTN*. "AI remains a very young and exciting tool but there has been some maturing, allowing investors time to rationalise investment thesis."

"At the same time, companies at the forefront of AI adoption have made further commercial progress with accelerating growth, so are increasingly attractive to investors."

Edo Gentili, investor at Founders Factory, believes investing in AI-focused startups remains highly attractive in 2024 due to the technology's transformative potential across various industries.

"We started horizontally with AI building the infrastructure layer – for example, large language models (LLMs) like OpenAI," Gentili tells *UKTN*.

"Now, there is a lot of focus on the application layer where AI startups are starting to verticalise across industries like healthcare and financial services, with opportunities to solve complex challenges faster than ever."

UK has AI 'competitive edge'

According to analysis from HSBC Innovation Banking and Dealroom, UK AI startups are forecasted to reach a record-breaking \$4.4bn (£3.4bn) in investment by the end of 2024.

Gentili says this substantial increase in UK AI investment can be attributed to several key factors – a maturing ecosystem, government support for growth and the continued ability to produce high-calibre talent at academic institutions.

It's important to note that despite the new government cutting £1.3bn of funding promised by the last administration, it is still supporting AI projects. Just a few weeks ago, the government's tech department announced a [£32m funding pot](#) to be split between 98 projects developing AI in applications including the NHS, construction and railways.

"As nations vie for leadership in AI technology, investors are keen to support promising UK startups to maintain the country's competitive edge," says Gentili.

"Furthermore, we're seeing more practical applications of AI across various industries, with startups demonstrating clear ROI – which is particularly appealing to investors."

Is this the peak? Opinions are divided

So, while appetite is high right now, will this year mark the peak of interest in AI investment? The jury is split.

Oliver Johnston-Watt, investment analyst at Par Equity, believes the UK is approaching a peak in AI investment. He says many venture capitalists are expected to sit out AI investments for the next 6-12 months, anticipating a shakeout in the industry.

"While we will likely continue to see the completion of 'megarounds,' such as [Wayve's £840m funding](#) led by SoftBank at Series C, the volume of deals in the UK is decreasing, with investors becoming more selective at earlier stages," Johnston-Watt tells *UKTN*.

"Many investors have already backed a handful of AI startups and are now waiting to see how these investments mature. This "wait-and-see" approach indicates a more measured investment environment. We expect a consolidation phase where the industry will witness a shakeout, distinguishing the leaders from others."

Gentili is more optimistic, saying the market for UK AI startups has substantial room for growth beyond 2024.

"As AI technology continues to advance, we anticipate new applications emerging across various sectors, creating fresh opportunities for startups and investors alike," says Gentili. "The integration of AI with other emerging technologies such as IoT, blockchain and quantum computing could potentially spawn entirely new markets and use cases."

"Additionally, as more countries and industries seek to adopt AI solutions, UK startups with proven technologies will likely find global market opportunities."

The ongoing refinement of the UK's AI governance framework could provide a more stable and attractive environment for both startups and investors, potentially driving further growth too.

"Corporate adoption of new AI tools is likely to increase over the next three to five years, driven by the need to enhance productivity and address wage inflation challenges," adds Johnston-Watt. "This trend creates substantial opportunities for AI solution providers to secure new clients and expand their offerings."