MOORE Kingston Smith
Corporate Finance

GROWTH CAPITAL UPDATE Q1 2019

STRONG START FOR UK GROWTH CAPITAL MARKET

2019 Q1 surpasses same quarter last year for growth equity capital fundraising

£574 million of growth equity capital was invested across 120 deals in the first three months of the year, making the quarter stronger than the same period last year. 2018 proved to be a record, with a total of 511 deals worth £2.3 billion recorded despite a lacklustre first quarter which saw £481 million invested across 114 deals. Last year's strength came from exceptionally active second and third quarters, which accounted for nearly two-thirds of the year's total value. The data is from analysis conducted by Moore Kingston Smith on UK private companies raising £1 million to £15 million each of growth equity capital.

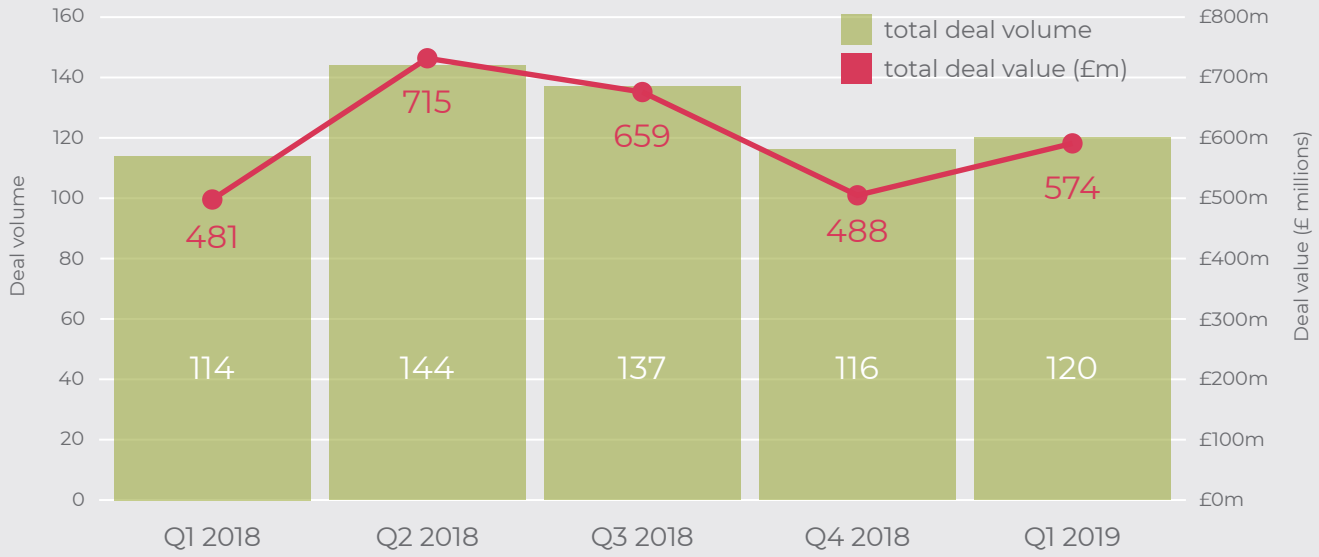
The funding was done by a mixture of venture capitalists (the most prevalent), angel and private investors, and a few venture capital trusts (VCTs).

"Venture capital has enjoyed a renaissance in the UK," points out Nick Thompson, corporate finance partner at Moore Kingston Smith. "A growing number of unicorns combined with genuine value-add from experienced investors has helped attract investors into these funds, which in turn use the capital to back growing companies. We are seeing increased interest in young dynamic businesses from these backers and expect it to continue."

VCT fundraising recorded its second-highest year, raising £731 million in the year to April 2019, just surpassing 2018's exceptional figure of £728 million and near to the all-time high of £779 million raised in 2005/2006. That such a staggering sum was raised is good news for firms seeking growth equity capital, particularly given rule changes in 2015 and again in 2017 mean most VCT capital must go into minority investments in growing businesses.

Q1 2019 highest Q1 deal volume for three years

Deal volume & value



Busy institutions

BGF, Octopus Ventures and Amadeus Capital Partners were among the most active institutions of the quarter in the £1 million to £15 million space. Investments from the quarter's busiest ten investors accounted for over a quarter (28%) of the period's total investment.

Notable players in Q1 2019

BGF announced 14 investments in the first quarter. It follows on from a record 2018 for the firm during which time it deployed £443 million[1]. The firm had a particularly busy start to the year, with nine deals announced in January. The firm led a £11.6 million round into b2b technology firm Invenio, was part of a £3.5 million round into fintech firm Planixs, and led a £5 million round into family-owned Irish housebuilder Winterbrook at the end of the quarter. Winterbrook marked BGF's second investment in Ireland after its £10 million investment in nursing home operator Brindley Healthcare in January.

Octopus made 17 investments in the last year, putting more than £150 million to work[2]. Five businesses received funding from the backer in Q1, including Plum Guide, which received £5.7 million in a series-A round to support its overseas expansion. Octopus also provided £5 million of growth funding to lighting specialist Rotolight, which plans to use the capital to roll out 15 new products over the next five years.

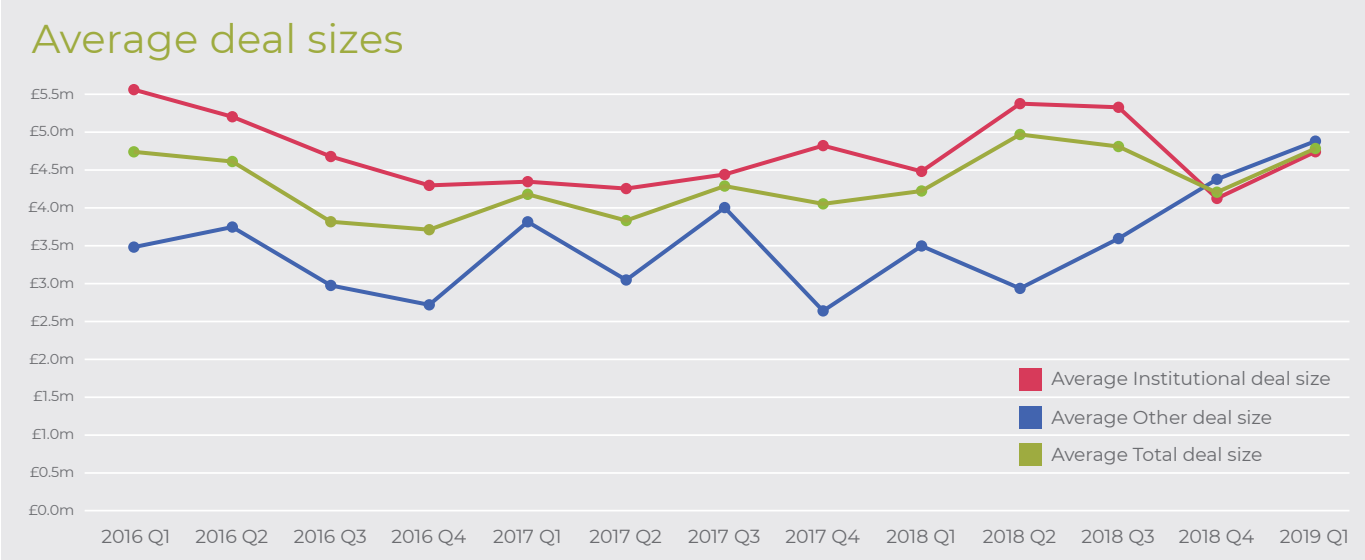
Amadeus Capital Partners announced four investments in the first quarter of 2019, with artificial intelligence (AI) a recurring theme. The firm led a £2.7 million seed round for machine learning company Seldon at the beginning of the year. Amadeus also participated in a $12 million series-A round for AI platform PolyAI, which was led by Point72 Ventures and also included Sands Capital Ventures, Passion Capital and Entrepreneur First. This follows an earlier $2.4 million seed round which was led by Amadeus and Passion. Amadeus also backed AI platform for cyber defence business Senseon as part of a $4 million round led by MMC Ventures and Mark Weatherford, former deputy under secretary for Cybersecurity at the US Department of Homeland Security. Amadeus also participated in a £6.5 million Beringea-led round for data discovery firm Exonar.

Deal sizes growing

We continue to see evidence of hiking deal sizes in the £1 million to £15 million range. Last year average deal sizes reached £4.6 million, up notably from £4 million in 2017, and the first three months of 2019 saw this increase further to £4.7 million. Institutional deals have been driving the increases, with most quarters recording substantially larger averages for such deals over others: full-year 2018 saw institutional deals average £4.9 million against £3.7 million for other backers.

Tech deals remain most in demand

Tech deals were the most popular in the first three months of the year for growth capital. Tech (including software and digital businesses) accounted for nearly a quarter of the number of deals (23%) while fintech accounted for 12% and online b2b 11%. The sector breakdown is shifting from 2018, where full-year figures revealed tech to come in joint first-place alongside online b2b, each accounting for 17% of the number of deals. Fintech remained steady at 12%.



1 www.bgf.co.uk/bgf-appoints-grant-paul-florence-to-head-up-london-office/
2 octopusventures.com/

Deals in the tech sector in Q1 2019 include legal AI software firm Luminance, which raised $10 million in a series-B. Investors included Invoke Capital, Talis Capital and Slaughter and May, a magic circle firm. The round values the firm at $100 million and follows a $10 million series-A which valued the business at $50 million in November 2017. Another sizeable deal saw cloud-first deep tech firm Hadean raise £7 million in a round led by Draper Esprit and joined by Aster and London Venture Partners as well as existing backers Luminous Venture and Entrepreneur First.

There were over a dozen online b2b businesses in the UK that raised £1 million to £15 million of equity growth capital, including Adthena, which raised a $14 million series-A round from Updata Partners, with funds earmarked for supporting the search marketing intelligence firm's US growth; Immersive Labs, a cyber security training platform founded by a former GCHQ researcher in 2017, which raised $8 million in a series-A round led by Goldman Sachs; and Distributed, a platform for tech staff resourcing, which raised £1.5 million from Fuel Ventures in January.

Fintech accounted for 12% of deals in the quarter, steady on 2018 and up from 10% in 2017. BGF backed two deals in the sector, Invenio and Planixs, while VC Notion Capital led a €4.4 million series-A round (including Mosaic Ventures) for Vortexa, bringing the total raised by the energy market fintech specialist to €8.8 million[3].

"Investors continue to flock to tech businesses, creating a mutually beneficial ecosystem of driven entrepreneurs and supportive backers," says Paul Winterflood, corporate finance director at Moore Kingston Smith. "Britain punches above its weight as regards innovative technology, particularly in the fintech space, and VCs here and in the US are well placed to nurture many of these fledgling companies as they grow throughout the UK as well as internationally."

Outlook

The first quarter may be weaker than the end of last year's record activity levels, however it is stronger than the same period last year, suggesting this year could see momentum continue. The backdrop for businesses may have improved gently with the possibility of an imminent no-deal Brexit lifted. Meanwhile, near-record fundraising for VCTs and deal-hungry private equity and VC firms mean deal-doing should continue apace. "Ambitious management teams building strong businesses are being actively sought out by growth investors," says John Cowie, partner at Moore Kingston Smith. "This is borne out by inbound enquiries to our team, and the numbers suggest they are transacting – not just from our study but even our own record quarter. The uncertainty surrounding a possible no-deal Brexit seems to have caused a pause rather than put a stop to deal-doing, and we expect this to continue to be the case into the second quarter."

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How we can help

If you're an ambitious entrepreneurial business with revenues of at least £1 million and are looking to scale, get in touch for an initial discussion. We can work together to assess the best course of action and then assist with finding the right partner. Please get in touch or click here to find out more about our Raising Finance and Growth Capital services.

Methodology

Kingston Smith has analysed transactions by UK-based companies that involve the issue of less than 50% of share equity share capital to third parties and funds raised of between £1 million and £15 million. Accordingly, these numbers do not include senior debt and mezzanine debt fund raisings and smaller fund raisings by companies and start-up funding unless more than £1 million is raised. Start-up funding is generally significantly less than this amount.

The research aims to capture all transactions by UK companies that fall within the criteria but inevitably we expect that there will be transactions that have taken place but have not been captured.

The research is based exclusively on data extracted from the Zephyr database of M&A transactions, published by Bureau van Dijk.

Institutions are defined as organisations in which full-time investment professionals are in place with access to assets under management or proven investor networks. We include companies undertaking corporate venturing transactions.

3 www.eu-startups.com/2019/02/london-based-energy-analytics-startup-vortexa-raises-e4-4-million-in-series-a-funding/