INVESTORS STILL KEEN TO DEPLOY CAPITAL AMIDST MARKET UNCERTAINTY

Growth Capital Update – a review of Q1 2020

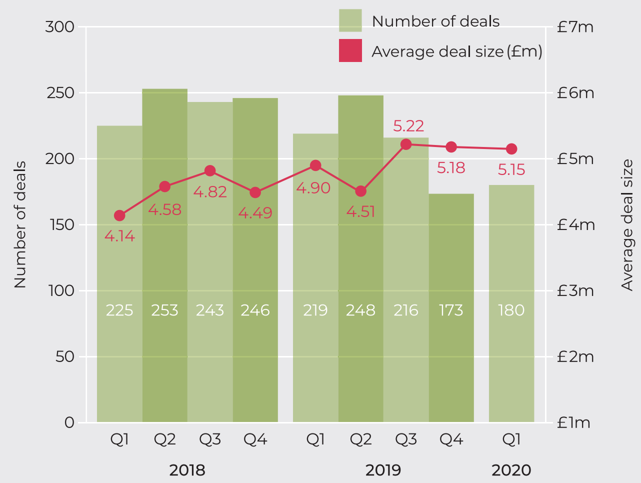
According to our research into UK private companies raising between £1 million and £20 million of growth equity capital each, 180 British businesses raised £927 million of growth capital in the first quarter of 2020: an average deal size of £5.15 million.

This representative deal size compares reasonably favourably with the final two quarters of last year, where the average was £5.22 million in Q3 2019 and £5.18 million in Q4. In our experience, there is a seasonal aspect to transactions completing in the UK – Q1 is normally a quieter quarter following the Christmas and New Year break – but nevertheless Q1 2020 appears to have been a little quieter than normal.

In Q1 2018, we recorded a total of 225 deals and in Q1 2019 219 deals, so just 180 deals in Q1 2020 appears to indicate a decline. It may be that this is the early signs of the Coronavirus affecting the growth capital market. Alternatively, it may be that while the UK is in lockdown, reporting of completed transactions takes longer so this might be an incomplete set of data. When we produce our Q2 update, we should be able to clarify the position.

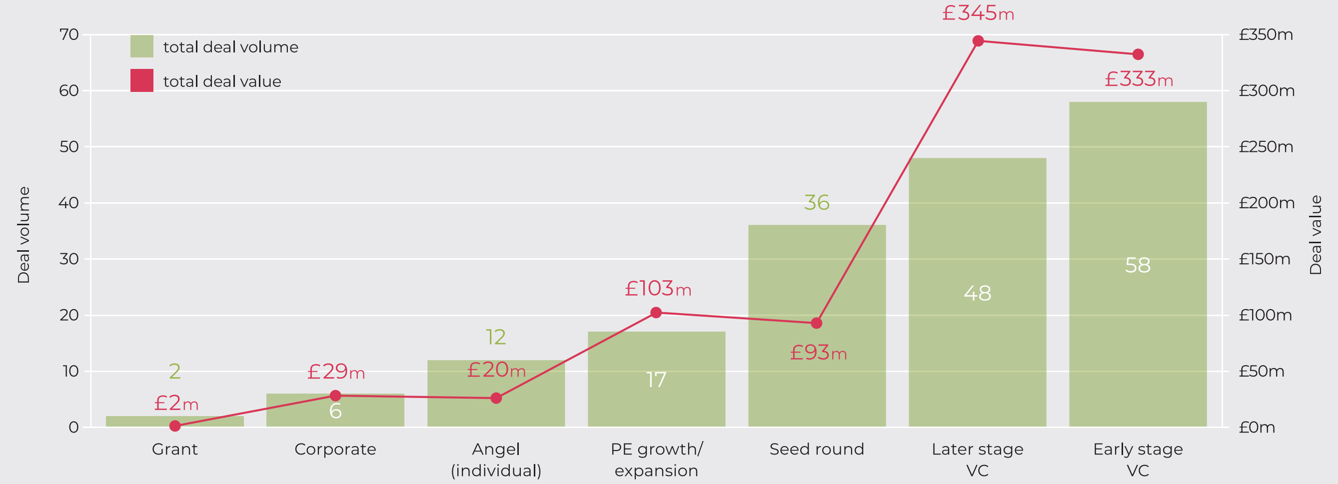
“It is good to see deal sizes holding up in the first quarter of 2020. We do, however, look at this with caution. The Coronavirus pandemic will undoubtedly affect deal activity. However, growth capital funds are still keen to deploy capital so the question at this point is to what extent,” says John Cowie, Head of Growth Capital.

NUMBER OF DEALS & AVERAGE DEAL SIZE



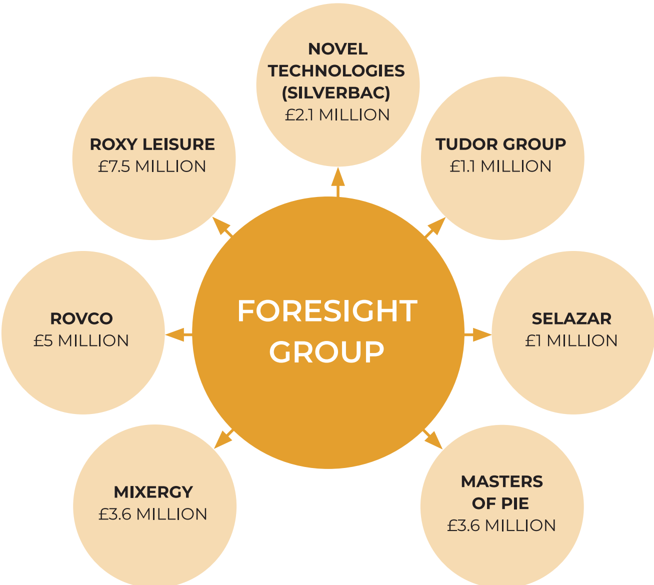
As far as the types of deals that were most common in Q1 2020 are concerned, early-stage VC continued to occupy the top spot (as it did throughout 2018 and 2019) with later-stage VC coming a pretty close second.

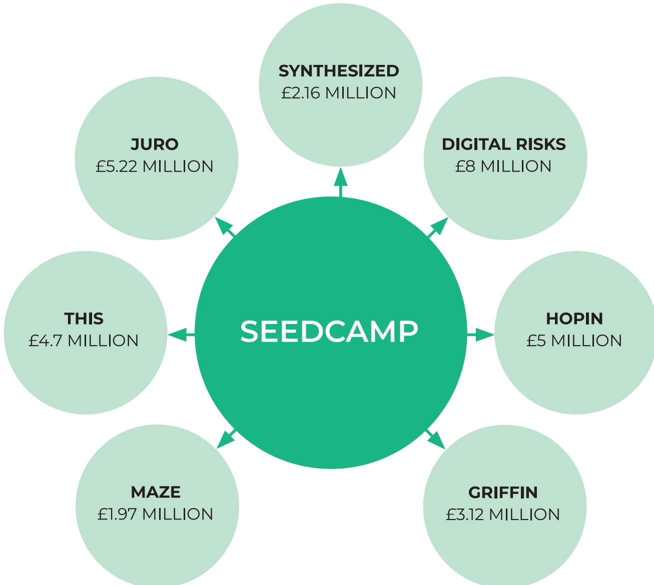
DEAL VOLUME & VALUE



ACTIVE INVESTORS

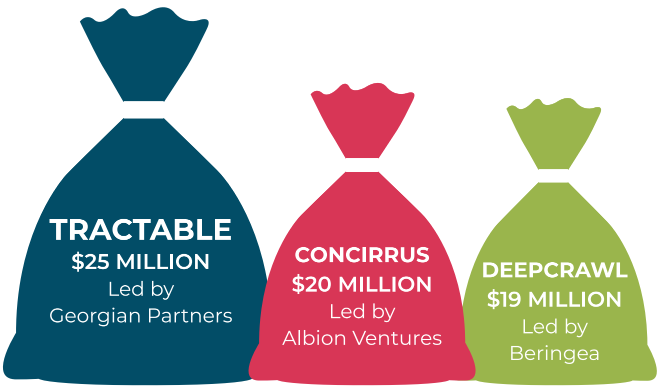
Foresight Group and Seedcamp topped our list of investors, completing seven deals apiece in Q1 2020. Foresight backed companies in the information technology, healthcare, hospitality and consumer products sectors, while Seedcamp focused largely on early-stage software and technology businesses.



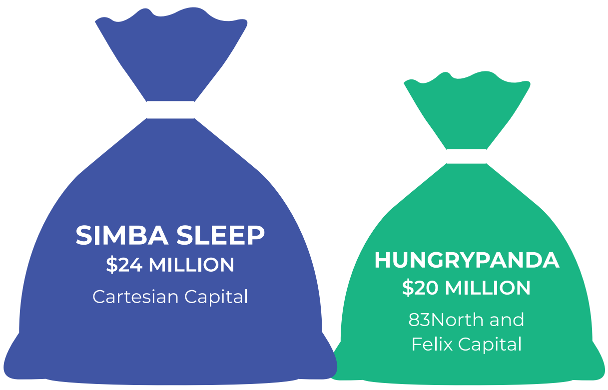


IT DEALS CONTINUE TO BE MOST POPULAR

Information technology was the most popular sector for investors in 2019, and that theme has continued into the first quarter of 2020. Investments into IT businesses in Q1 2020 accounted for 40% of deals by volume and 42% by value. Deals in this space included:



Investment in the B2C space was the second most popular sector, accounting for nearly a fifth of deals both by volume and by value. Deals in this space included:



OUTLOOK

At the end of 2019, we opined that 2020 would prove to be a promising year for owner-managers of strong, growing businesses looking to raise growth equity capital, with an increasing number of VCs and high net worth individuals interested in participating in larger deals. Clearly this was before the emergence of the Coronavirus, which has had and continues to have, a significant impact on businesses throughout the UK and on the appetite of investors.

It is too early to say how deep or prolonged the economic impact of the Coronavirus will be – so much depends on whether it can be brought under control and whether people can return to work quickly or have to remain in lockdown for a prolonged period. However, we can surely expect that next quarter's numbers will be lower than Q1's and that certain sectors – particularly anything related to travel, retail (outside food) and entertainment – will fare worse than others.

All of the investors that we have spoken to are still very much open for business and have funds to deploy

That is not to say that we will not see any deals done in the next three months. Many institutional investors are at pains to say they are still open for business. Because of the time it takes to complete a fundraising, there are deals currently in train that will manage to get over the line, providing they are not in the highest-risk sectors. However, we expect that the traditional upswing we see in the spring, which usually sees the launch of a host of new fundraising rounds, will be rather subdued this year, as people and businesses adjust to the exceptional circumstances in which they now find themselves.

"All of the investors that we have spoken to are still very much open for business and have funds to deploy," says Paul Winterflood, Corporate Finance Director. "There will be innovative companies that manage to prosper in the current environment that will be looking for investment. There will also be opportunistic investors actively looking for investments at the right valuation, so there certainly still are deals to be done over the next three months."

CONTACT US

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 action and then assist with finding the right partner. Contact us to find out more about our **raising finance and growth capital** services.

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METHODOLOGY

Moore Kingston Smith has analysed transactions by UK-based companies that involve the issue of less than 50% of equity share capital to third parties and funds raised of between £1 million and £20 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. Inevitably there will be transactions that have taken place but have not been captured. The research is based on data extracted from Pitchbook.