

# TECHNOLOGY SECTOR BENEFITS FROM IMPROVING GROWTH CAPITAL ENVIRONMENT

A review of Q3 2020 growth capital investment in the technology sector

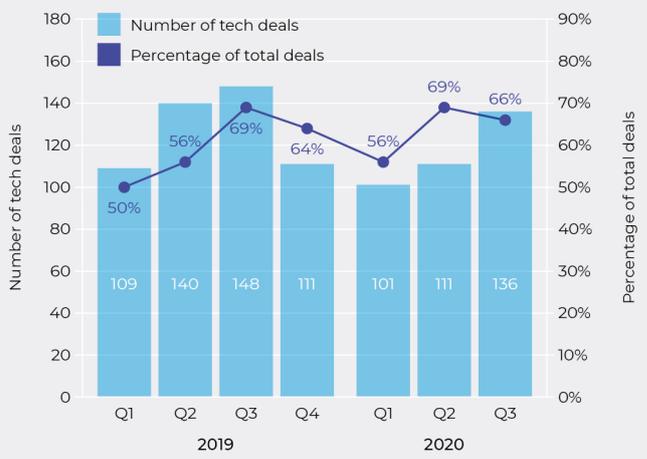
According to our research into UK private companies raising between £1 million and £20 million of growth equity capital each, 206 British businesses raised £982 million of growth capital in the third quarter of 2020. The Q3 figures for the overall growth capital market revealed a 28% quarter on quarter increase in the number of deals completing and a 26% increase in the amount of growth capital being raised.

This significant increase in activity was underpinned by a new UK government initiative to support direct equity investment in high-growth, innovative firms across the country. The Coronavirus Future Fund was launched in May, with an initial commitment from the government of £250 million of funding which would be unlocked by private investment on a match-funded basis. This commitment was later extended, and in June it was announced that more than £320 million had been invested.

The technology sector has largely kept pace with this general increase in activity with 136 deals completed in Q3, up 23% on Q2. In aggregate, £608 million of growth capital was raised for technology deals, an increase of 14% on the previous quarter. Its overall share of the growth capital market held up very well with technology deals making up almost two thirds of all deals completed.

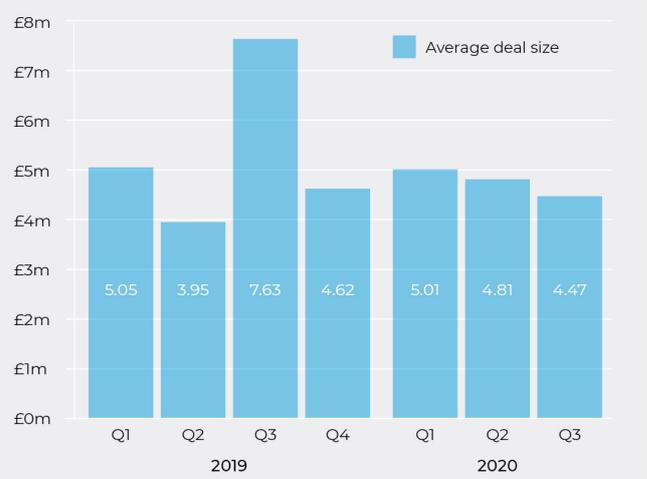
“The majority of growth capital continues to be invested in UK tech companies,” says Nick Winters, Head of Technology at Moore Kingston Smith. “Almost two thirds of all recorded fund raises in 2020 were in this sector. There has been a significant increase in the number of deals this quarter with investors seeking the next unicorns and backing this sector as being the most likely to produce another. This mirrors our experience where we have seen continued growth from our tech clients despite the challenging environment”.

**TECH SECTOR DEAL VOLUME AND AS A PERCENTAGE OF TOTAL DEALS**



The average deal size in Q3 was £4.47 million, which is 7% down on Q2's £4.81 million.

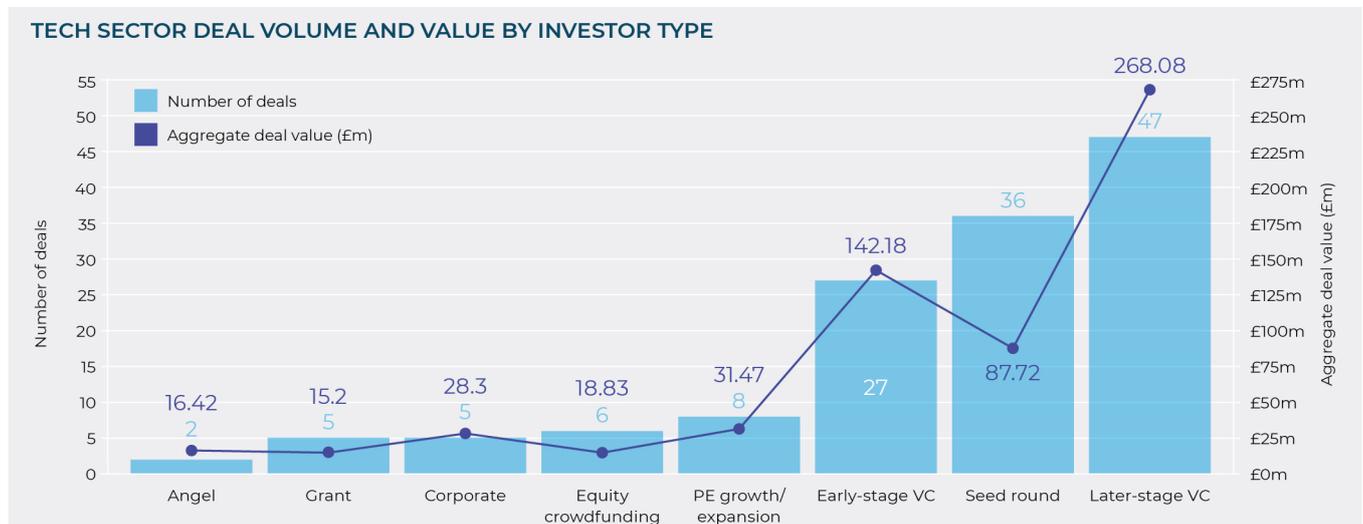
**AVERAGE DEAL SIZE IN THE TECH SECTOR (£M)**



# A REVIEW OF Q3 2020 GROWTH CAPITAL INVESTMENT IN THE TECHNOLOGY SECTOR

Regarding the types of technology investment deals that were most common in Q3 2020, later-stage VC accounted for 35% of the deals completed and 44% of

the money raised, with seed rounds coming second in terms of number of deals done, and early-stage VC third.



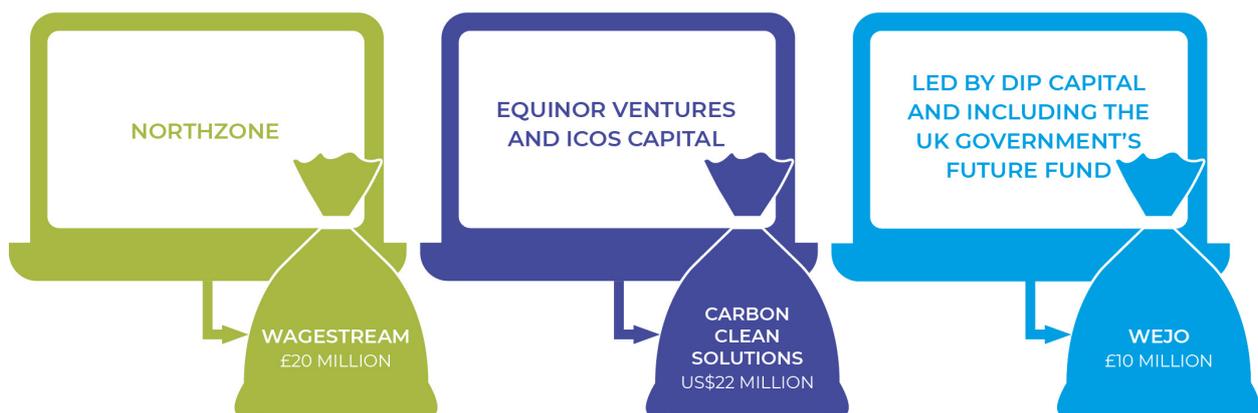
## NOTABLE DEALS

In July 2020, UK-based income streaming service Wagestream announced that it had raised £20 million in a series B funding round led by Northzone. Launched in 2018, Wagestream aims to disrupt the payday loans market by enabling staff at participating employers to draw down a percentage of their earned wages any day of the month for a flat £1.75 fee. The company claims to support 320,000 workers, with new client sign-ups particularly strong in the second quarter of 2020, as employers sought to make their staff more financially resilient in the face of the Coronavirus. Having recently launched its technology in Spain, the Netherlands, France and the US, Wagestream plans to use the new funding to push its international expansion.

Also in July, London-headquartered Carbon Clean Solutions completed a US\$22 million series B round with Equinor Ventures and ICOS Capital. Carbon Clean Solutions provides affordable carbon dioxide capture and separation technology for gas emitted from power plants, boilers, kilns and chemical facilities. Its

emission reduction solutions are designed to complement the general market transition to a low-carbon energy future. As Aniruddha Sharma, the company's CEO explained, "While renewable energy is growing exponentially, decarbonising heavy industry will be equally or more challenging. That is exactly where our innovative and modularised technology will play a fundamental role."

In August 2020, Manchester-based connected car data company, Wejo, announced that it had raised £10 million in a fundraising led by DIP Capital and including the UK government's Future Fund. The data and insights provided by the 15 million cars on the Wejo platform are licensed to mobility businesses, traffic analysts, parking app developers, smart city planners and governments. The funds raised are expected to underpin the next stage of the company's development as it seeks new global automotive partnerships, and secures its position as a market leader in the field of mobility intelligence.



# A REVIEW OF Q3 2020 GROWTH CAPITAL INVESTMENT IN THE TECHNOLOGY SECTOR

## OUTLOOK

The UK's growth capital market has performed strongly in Q3, underpinned by government support and intervention. It is encouraging to see that the technology sector has taken advantage of this more benign environment, with an increase in transactions getting over the line, and levels of activity more in line with historical norms.

Investors remain keen to deploy their available capital and there is positive sentiment being shown towards technology businesses, particularly those that provide solutions to the challenges brought about by lockdown. The recent announcement that the deadline for applications to the UK government's Future Fund has been extended to the end of January 2021 will provide additional support to the growth capital market throughout the remainder of this year and into the next. While there will doubtless be some bumps in the road ahead, as the UK contends with

new lockdown provisions, we remain confident that the appetite of growth capital investors to back technology businesses will endure.

"Scalable software and technology solutions continue to be much sought after by investors with this trend only strengthening over the past six months. Coronavirus led to a rapid digital transformation revolution with firms being forced to be more digitally agile, increasing demand further for digital services and solutions. Capital being deployed has followed suit and I have no doubt that the demand from VC and PE houses, who have significant capital to deploy will continue to look to invest in digital solutions for the foreseeable future. Companies across the technology sector have been well placed to exploit this opportunity," says Paul Winterflood, Corporate Finance Partner.

## SOME OF OUR GROWTH CAPITAL TRANSACTIONS

**Social Media**

Growth Capital Investment by  
Puma Private Equity



**Lead Adviser**

**Technology**

Growth Capital Investment by  
Octopus Investments



**Lead Adviser**

**Technology**

Growth Capital Investment by  
Octopus Investments



**Lead Adviser**

## CONTACT US

If you're looking to scale your technology business and it has revenues of at least £1 million, get in touch for an initial discussion. We can work together to assess the best action and assist with finding the right funding partner.

**Nick Winters**  
Head of Technology  
nwinters@mks.co.uk

**Paul Winterflood**  
Corporate Finance Partner  
pwinterflood@mks.co.uk

## METHODOLOGY

The data is from analysis conducted by Moore Kingston Smith on data extracted from Pitchbook on UK private companies raising £1 million to £20 million each of growth equity capital.