

GROWTH CAPITAL IN THE CREATECH SECTOR

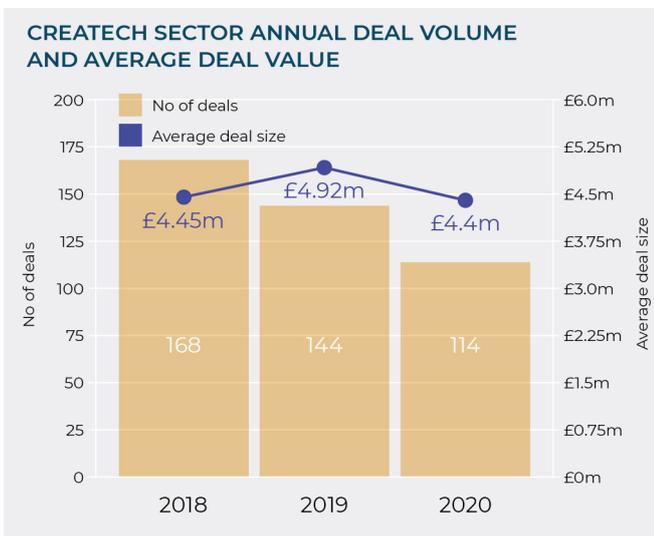
A review of 2020

Our research into UK private companies raising between £1 million and £20 million of growth equity capital each found that, in 2020, 767 UK businesses across all sectors raised a total of £3.67 billion, which represents a 10% decline on 2019.

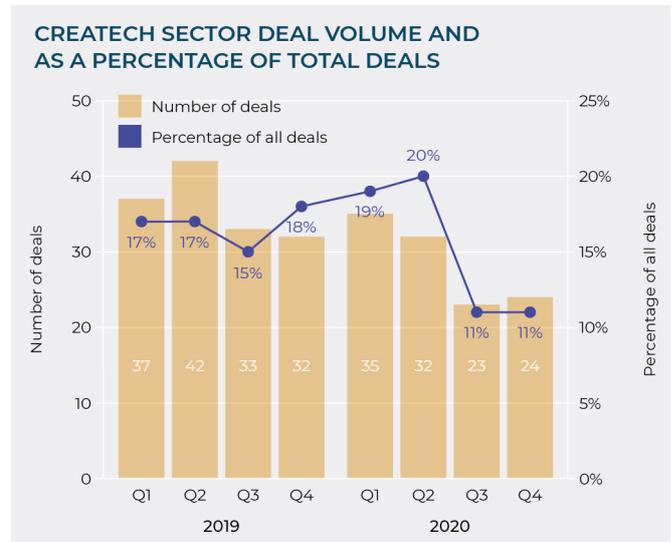
Given that 2020 was the year the global Coronavirus pandemic took hold, knocking business performance and shareholder and investor confidence, we are not surprised to see a general slowdown in the number of growth capital deals completing.

This impact of the Coronavirus has clearly fed through to the growth capital arena. However, when we look at CreaTech businesses in isolation, we find that the numbers are even lower than those seen in the wider market. In 2020, 114 CreaTech businesses raised a total of £501 million of growth equity capital, compared with 144 businesses raising £709 million in 2019 – a 21% year-on-year decline in the number of deals completing and a 29% decrease in the amount of funds raised.

The average deal size in 2020 was £4.4 million, a 10% decrease on 2019, where the average deal size was £4.92 million, but more in line with 2018, where the average was £4.45 million.



When we examine the quarterly data we find that the CreaTech sector had a particularly difficult second half of the year. Previously, the CreaTech sector had accounted for between 15% and 20% of all growth capital deals, but this fell to just 11% in Q3 and Q4. Unlike the wider growth capital market, which saw a marked improvement in the final six months of 2020, businesses in the CreaTech space failed to take advantage of what was a more benign environment for raising capital, spurred on by the UK government's Future Fund initiative.

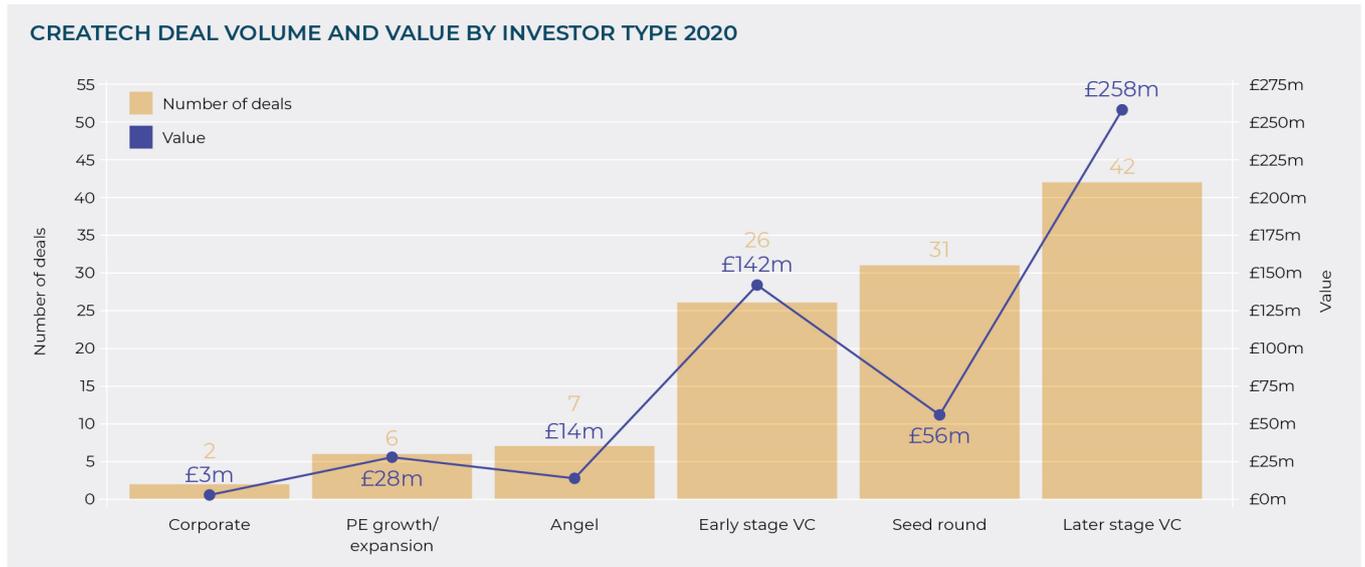


Firms involved in the CreaTech sectors, providing the technology that powers the UK's creative industries, appear to have been affected more than most by the Coronavirus. Some will have been in the position of offering technological solutions to the deprivations of lockdown, and therefore found themselves able to raise growth capital. However, many saw their order books dry up, as their end clients in the media and entertainment space effectively shut up shop for most of the year.

As far as the types of CreaTech investment deals that were most common in 2020 are concerned, later-stage VC held onto the top spot for number of deals completed, with seed rounds coming second.



GROWTH CAPITAL IN THE CREATECH SECTOR – A REVIEW OF 2020



60% of all equity growth capital raised in 2020 was invested in businesses headquartered in Greater London. This percentage increases to 79% when

we look at CreaTech deals in isolation, confirming London’s position as the centre of CreaTech innovation.

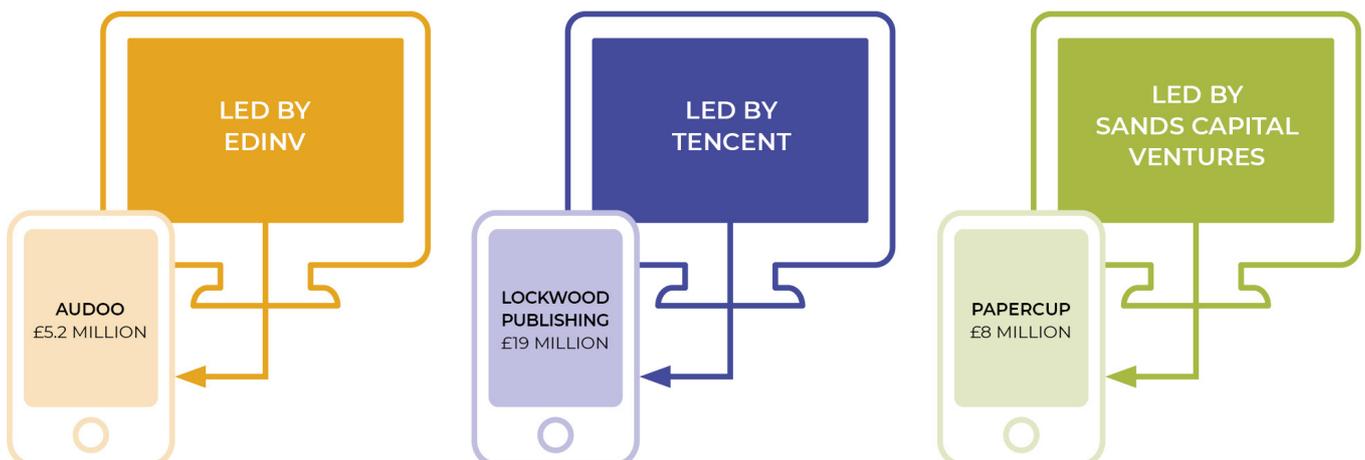
NOTABLE DEALS IN Q4

In November 2020, London-based music-tech company Audoo announced that it had closed its series A round, raising £5.2 million in less than ten weeks. The investors included family office Edinv, and musician Björn Ulvaeus, best known as one of the founders of ABBA. Audoo has invented an easy-to-fit audio meter which securely monitors music played in venues such as shops and gyms, recognises it and logs it, meaning that artists and composers can receive the royalties they are owed for the broadcasting of their work. Audoo is working with performing rights organisations around the world to make installation a condition of venues gaining a licence to play music.

Also in November, the Nottingham-based studio Lockwood Publishing, behind social simulation game Avakin Life, announced it had secured £19 million of

series A funding. The investment was led by Chinese tech giant Tencent, while existing investors Novator Partners, David Helgason and Hilmar Pétursson joined the round. Launched in 2013, Avakin Life is a 3D virtual world where people can meet socially and which boasts more than 200 million registered users on iOS and Android.

In December 2020, London-based artificial intelligence and machine-learning specialist Papercup secured £8 million in funding to help it develop speech technology which translates people’s speech into other languages. Papercup’s technology provides a more efficient alternative to dubbing for media owners looking to translate their content. The round was led by Sands Capital Ventures but also included such media companies as Sky, Guardian Media Group and Bertelsmann.



OUTLOOK

2020 has been an extraordinary year and has unfortunately pushed growth capital appetite for CreaTech businesses temporarily off course.

Understandably, businesses that provide the underlying tech that drives the creative sectors have suffered as their main clients have suffered, as a result of live entertainment venues closing and face-to-face conferences and events being cancelled. The demand for new online and digital offerings to replace real-world experiences has led to great opportunities for some CreaTech businesses, but these have not been sufficient to rescue the performance of the sector as a whole.

“We remain bullish about the sector, and see the current challenges as short-term rather than structural,” says Paul Winterflood, Corporate Finance Partner at Moore Kingston Smith. “We are naturally cautious regarding the continuing economic impact of a Coronavirus resurgence. However, we are encouraged by the promise of fast-moving vaccination programmes which should eventually lead to a return to normal levels of activity.”

MARKETING SERVICES AND MEDIA SECTORS

We produce a quarterly analysis of M&A activity in the marketing services and media sector in the UK. Our review of 2020 revealed that 45% fewer deals completed in the sector compared with 2019 – a huge reduction but not surprising given the impact of the Coronavirus on many businesses. We hope that fast-moving vaccination programmes will mean a return to normality in the latter half of 2021. Find out more in our latest report [here](#).

CONTACT US

If you're looking to scale your CreaTech 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 help you find the right funding partner.

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Moore Kingston Smith is a commercial partner of www.thecreativeindustries.co.uk, the official website of the Creative Industries Council (CIC), and an associate partner of the CIC CreaTech programme and Createch Ones to Watch.



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.