MOORE Kingston Smith

2021 Q1 SEES RETURN OF INVESTOR CONFIDENCE AS UK GROWTH CAPITAL FUNDRAISING HITS TEN-YEAR HIGH

Growth Capital Update – a review of Q1 2021

The year has got off to a very strong start, with 301 growth capital deals worth a combined £1.5 billion completed in the first quarter, the largest aggregate value in our ten-year data sample. The figures are up 37% and 52% respectively over the previous quarter, and up by more than 60% year-on-year, before the pandemic had fully hit the UK.

The statistics are very encouraging after a sputtering year, and they may yet improve in Q2: our data typically shows Q1 is slow following the year-end break. The frenetic end to 2020 may have meant a lot of deals were pushed into the new year, while the pending end of the Coronavirus Future Fund may have led to an increased number of fundraising applications ahead of its 31 January 2021 cut-off.

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

That the activity has gone up markedly even before any meaningful easing of lockdown restrictions have taken place is testament to the confidence as well as the agility of businesses a year into the pandemic as well as the digital transformation revolution. “Investors eager to partner with management teams and entrepreneurs have pivoted adeptly to transacting remotely, with relationship building and due diligence taking place remotely,” says Paul Winterflood, Corporate Finance Partner at Moore Kingston Smith. “Expectations last year of a depressed pricing owing to uncertainty have given way to very high valuations for in-demand businesses attracting a large number of suitors.”

John Cowie, Head of Growth Capital at Moore Kingston Smith, says: “The long hoped-for recovery of deal activity is already underway, with investors eager to back promising businesses. Fast-growing businesses with robust business models are attracting unprecedented interest. The challenge will be ensuring founders maximise value and are thoughtful about choosing the best partner to help them scale their business.”

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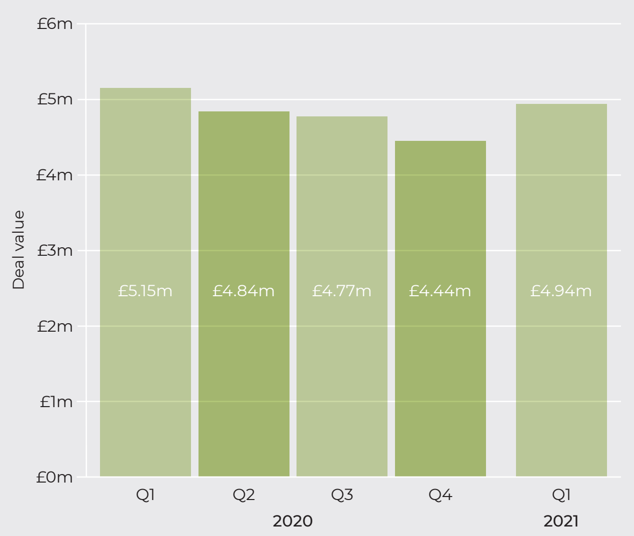
BIGGER DEALS ARE BACK

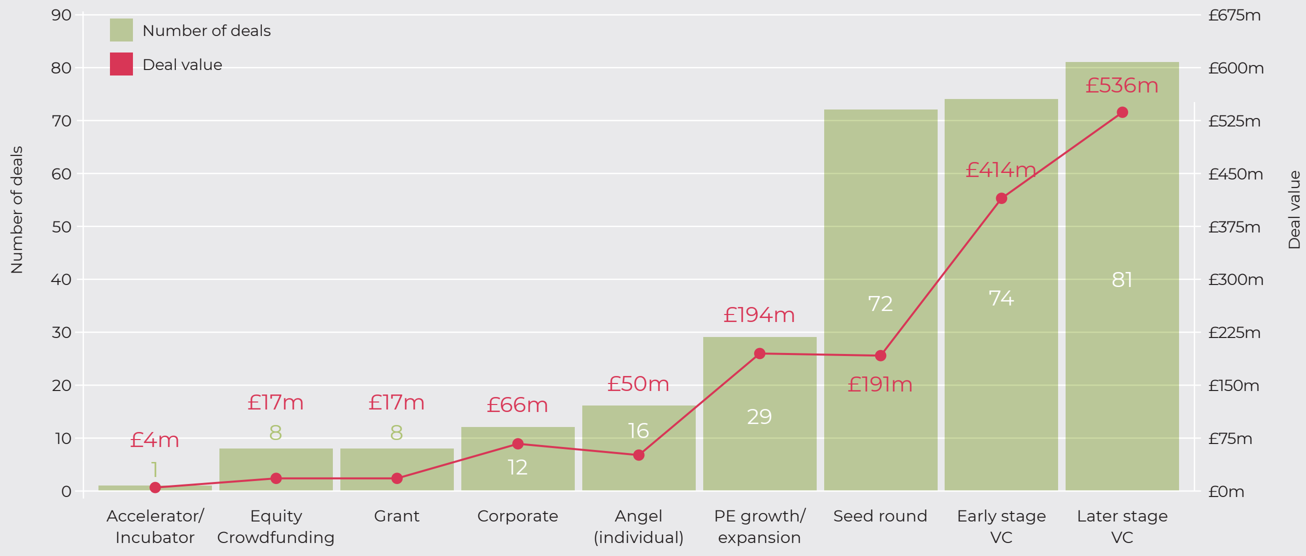
The start of 2021 saw a return of larger deals (£10+ million), which had been declining last year as activity was buoyed by smaller investments. Deals in the £10-15 million bracket saw their share roughly double from 7% to 13% between the end of 2020 and Q1 2021. Average deal size has increased from £4.44 million to £4.94 million, reversing a three-quarter-long trend since the pandemic hit activity in Q2 2020.

AVERAGE DEAL SIZE BY QUARTER



Venture capital retained its dominance as the top funding source, with early- and late-stage VC accounting for a combined 52% of deals in Q1 2021.

Q1 2021 DEAL VOLUME AND VALUE BY DEAL TYPE



TECH REMAINS MOST POPULAR

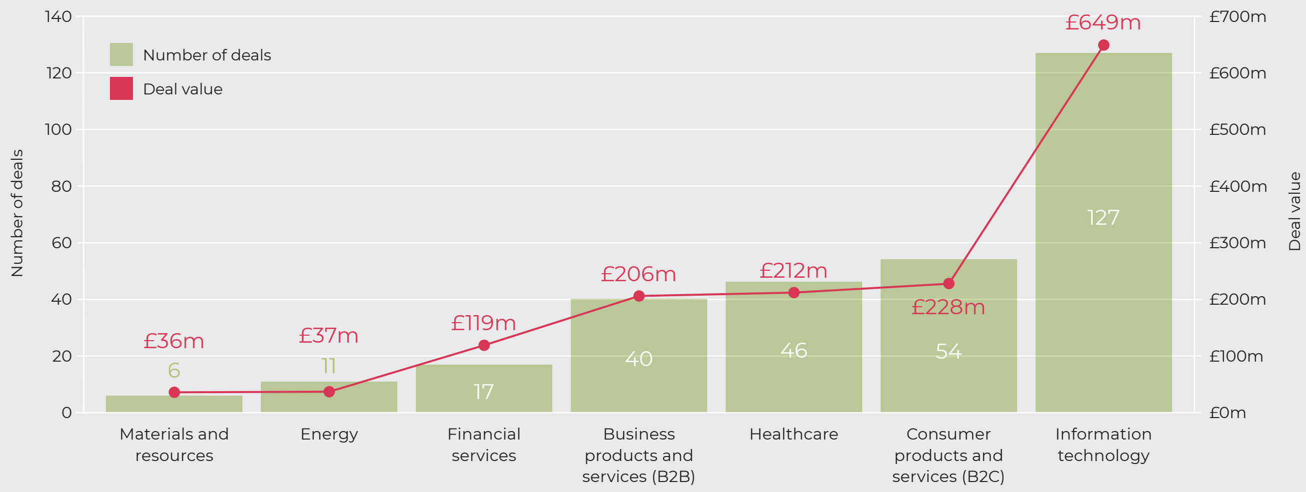
Investments in tech-enabled businesses were the most prominent in Q1, accounting for over two-fifths of activity volume (42%) and value (44%), flat on the previous quarter. Consumer businesses accounted for nearly a fifth of the number of deals (18%) while the business products and services sector accounted for 13% of transactions.

Notable deals in the tech space include the £3.6 million pre-series A round for **Blippar**, a tech unicorn which fell into administration at the end of 2018 when an investor refused to allow follow-on funding. The augmented reality firm was rescued by incumbent backer Candy Ventures and in February 2021 secured fresh funding from several new investors.

Another deal in the creative technology space was Puma Private Equity's £2 million investment in **Ostmodern**, a digital product design and technology business with clients including Formula One, Arsenal, Channel 4 and Fox.

"Software and tech-enabled businesses continue to attract the highest level of investment and we expect this to continue," says Paul Winterflood. "This is because of VCs' proven ability to support their successful scaling, as well as an acceleration of tech adoption by businesses and consumers alike during the pandemic."

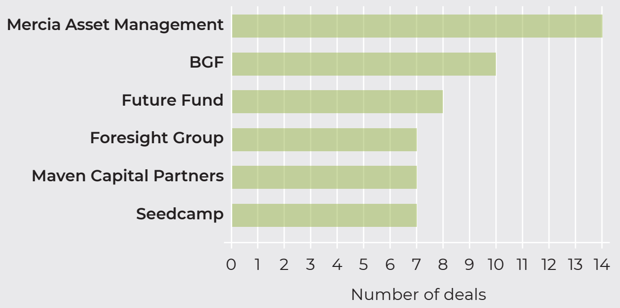
Q1 2021 DEAL VOLUME AND VALUE BY SECTOR



ACTIVE INVESTORS

The quarter saw investors back en masse, with Mercia Asset Management leading the pack. The backer's flexible offering enabled it to transact throughout the pandemic, with 136 venture, private equity or debt finance transactions recorded by Mercia between April and December 2020. The firm clocked up 14 growth capital deals in the first three months of 2021.

Q1 2021 TOP INVESTORS



Most of Maven's deals were later-stage venture capital, including investing £1 million towards the £15 million series B for **Pockit**, a fintech platform which also attracted capital from the Future Fund.

Foresight Group backed a mixture of VC and growth opportunities, including the £4.5 million investment in water mist fire suppression developer **iMist**. The deal saw Foresight invest from its VCTs as well as its Scottish Growth Fund to back the company's development.

While the quarter saw the Coronavirus Future Fund reinforce its position as one of the top funders, the fund stopped taking new applications in February. Its proportion of deal flow halved to under 3% in Q1. As such, we don't expect the end of the Future Fund initiative to dent future activity.

OUTLOOK

A robust start to 2021 suggests the UK growth capital market is regaining healthy momentum. Investors are well capitalised and ready to back ambitious businesses again, with software and tech-enabled companies particularly sought after.

Investor confidence is supported by an improving macro backdrop as well as unprecedented demand from institutional investors, leading to some venture and growth capital firms raising record funds. This, in turn, should enable continued healthy investment levels.

"We expect activity levels to grow further in Q2 and Q3 as has been the case historically in most years. Ample dry powder within the investor community as well as a lucrative exit market means investors continue to seek out high-growth opportunities to back. This makes for ideal prospects for growth businesses seeking funding," says John Cowie.

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**.

We also assist investors and are experts at providing advice throughout the acquisition or investment process. Our team can help identify and evaluate potential opportunities and run the financial and tax due diligence process, allowing you to make decisions quickly and confidently.

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METHODOLOGY

Moore 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 £20 million. Accordingly, these numbers do not include senior debt and mezzanine debt fund raisings, smaller fund raisings by companies or 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 there will be transactions that have not been captured. The research is based on data extracted from Pitchbook and information from the following sources: **businesscloud.co.uk**, **pumaprivateequity.co.uk**, **mercia.co.uk** and **foresightgroup.eu**.