MOORE Kingston Smith

FULL STEAM AHEAD FOR THE UK GROWTH CAPITAL MARKET

Growth Capital Update – a review of Q2 2021

As reported in our last update, 2021 got off to a flying start, with last quarter's data revealing ten-year highs for both the number of growth capital deals and the aggregate amount of money raised. At the time, we predicted activity levels to grow further in Q2 and Q3, and thus far our predictions have proved accurate. The data we have for Q2 2021 shows a market that is booming, outstripping the activity that we saw throughout 2020 and well above pre-pandemic levels.

According to our latest research into UK private companies raising between £1 million and £20 million of growth equity capital each, 426 British businesses raised £1.914 billion of growth capital in the second quarter of 2021. The average deal size was £4.49 million.

In Q1 2021, we saw 301 deals with an average deal size of £4.94 million, and £1.488 billion raised in total. Our Q2 figures therefore reveal a 42% increase this quarter in the number of deals completing and a 29% increase in the overall amount of growth capital being raised.

This quarter's data looks even more positive when viewed in the wider historical context. Compared with the same quarter last year, which was severely impacted by the pandemic, 2021's data represents a massive 165% increase in the number of transactions concluded. Looking further back to 2019 and 2018, 2021's data is still c. 70% ahead of the activity in those pre-pandemic years.

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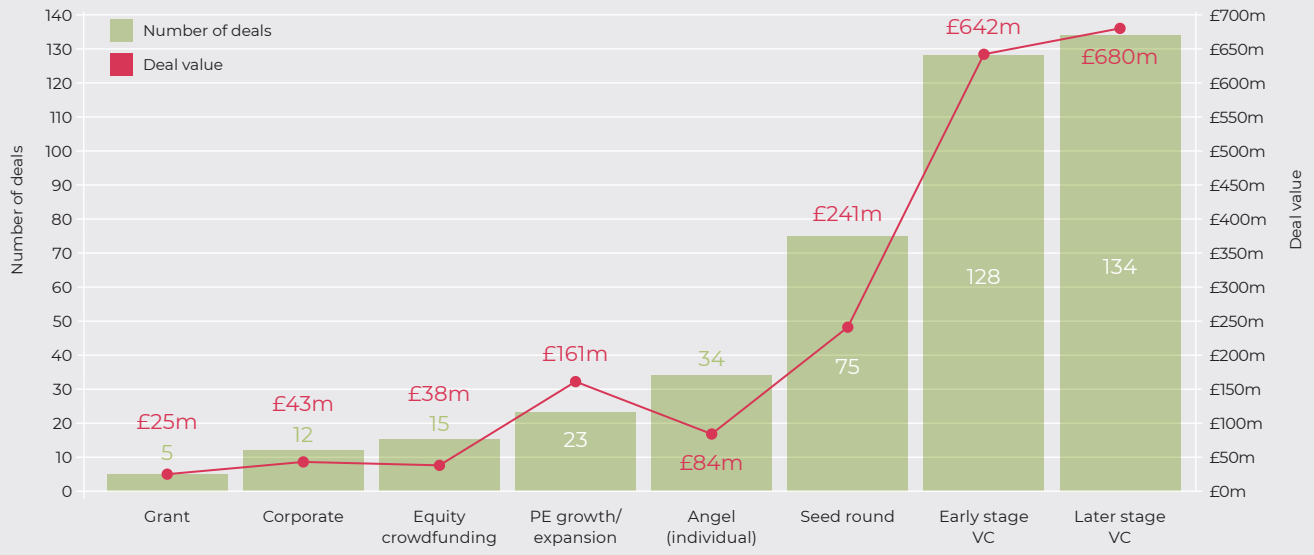
Activity and investor appetite appear to continue unabated, driven by the easing of lockdown measures, the strength of the UK economy and its swift rebound to pre-pandemic levels.

John Cowie, Head of Growth Capital at Moore Kingston Smith, says: "We're seeing an increasing number of exciting businesses vying for a plentiful supply of growth capital – it's a great endorsement of the entrepreneurial culture within the UK growth businesses sector and bodes well for the future as we emerge from a period of unprecedented market upheaval."

As far as the types of deals that were most common in Q2 2021 are concerned, later-stage VC held onto the top spot, with early-stage VC a close second. Together, early-stage and later-stage VC accounted for 62% of all deals by number and 70% by aggregate value.

Q2 2021 DEAL VOLUME AND VALUE BY DEAL TYPE



TECH CONTINUES TO REIGN

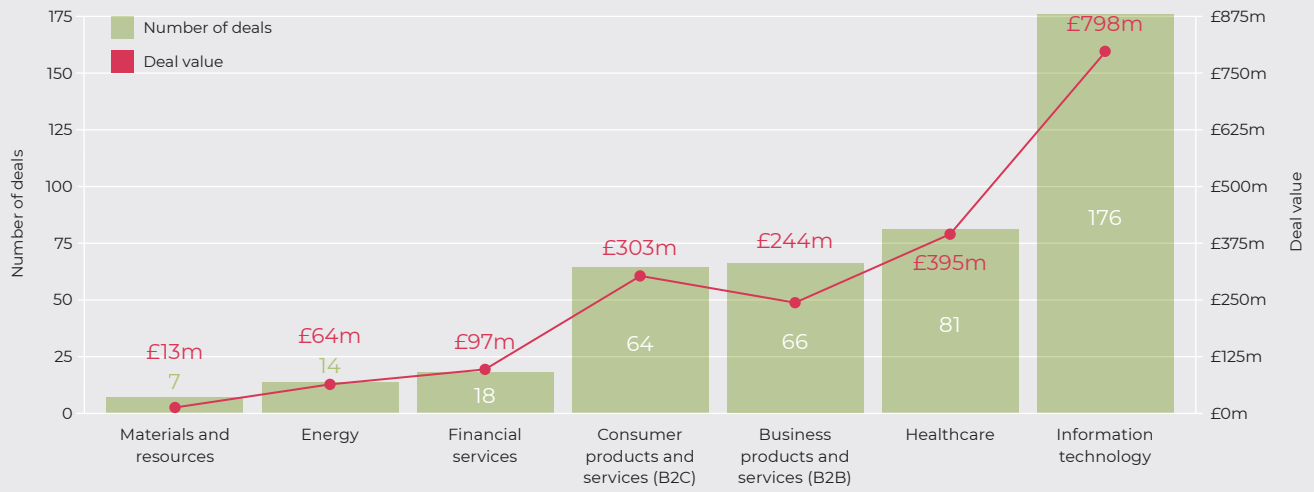
Just like last quarter, investments in tech-enabled businesses were the most prominent in Q2, accounting for 41% of deals completed and 42% of funds raised. Investor appetite for healthcare businesses was also strong, with this sector accounting for almost a fifth of all the deals we recorded.

Notable deals in the tech space included the £20 million raised in June by London-based tech start-up XYZ Reality. The company provides augmented reality goggles that can be attached to construction workers' safety helmets, showing them 3D holograms of schematics and building plans. Cazoo and Octopus Ventures led the Series A round.

In May, Surrey-based cyber security firm Panaseer announced that it had secured $26.5 million in a Series B funding round led by AllergisCyber Capital. The funds will be used to develop Panaseer's continuous controls monitoring products, which aim to solve what the company says is the biggest challenge in cyber security today: enterprises not knowing if their security controls are providing full protection at any given moment in time.

Paul Winterflood, Corporate Finance Partner at Moore Kingston Smith, says: "The current funding climate for tech-enabled businesses is exceptionally strong, with scalable tech and software solutions frequently the focus of bidding wars between UK-based VCs."

Q2 2021 DEAL VOLUME AND VALUE BY SECTOR



ACTIVE INVESTORS

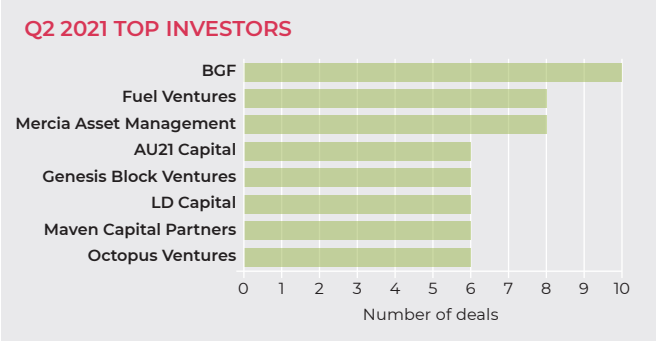
Notable active investors this quarter included BGF with ten deals and Fuel Ventures and Mercia Asset Management with eight deals apiece.

BGF's investments included a company operating co-working spaces, a producer of plant-based alternative meat products aimed at the growing vegan market, and a business marketing raw dog food produced from ingredients fit for human consumption.

Fuel Ventures backed the developer of a digital money platform aimed at international merchants, a company supplying multivitamins and dietary supplements under a subscription model, and the developer of a content management platform intended to help brands with their digital marketing campaigns.

Half of Mercia Asset Management's deals were in the healthcare space and included a biotech company developing treatments to suppress unwanted immune responses, the developer of a transdermal drug delivery platform, and the developer of an oral anticoagulant designed to treat and prevent life-threatening thrombotic events.

Several specialist blockchain technology investors feature in our top investors' chart this quarter. AU21 Capital, Genesis Block Ventures and LD Capital formed part of a consortium backing a provider of data mining services, the operator of a platform for non-fungible tokens and the developer of an end-to-end privacy protocol designed to deploy digital assets on any public blockchain.



OUTLOOK

We started the year with records being broken and, just three months later, those records are being broken again. The UK growth capital market is powering ahead and we are seeing unprecedented demand from institutional investors ready to back ambitious, fast-growing businesses. Provided the UK economy continues to flourish against curve balls thrown by Coronavirus variants, we expect this level of activity to continue well into the second half of the year.

Nick Thompson, Corporate Finance Partner at Moore Kingston Smith, says: "We have never seen greater appetite among growth capital investors. In the short to medium term, we expect to see an extremely competitive market as investors strive to deploy funds. Continued increases in average cheque size and more favourable terms for investee shareholders must surely be on the horizon."

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 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. Inevitably there will be transactions that have taken place but have not been captured. The research is based on data extracted from Pitchbook and information from the following sources: **standard.co.uk** and **techcrunch.com**.