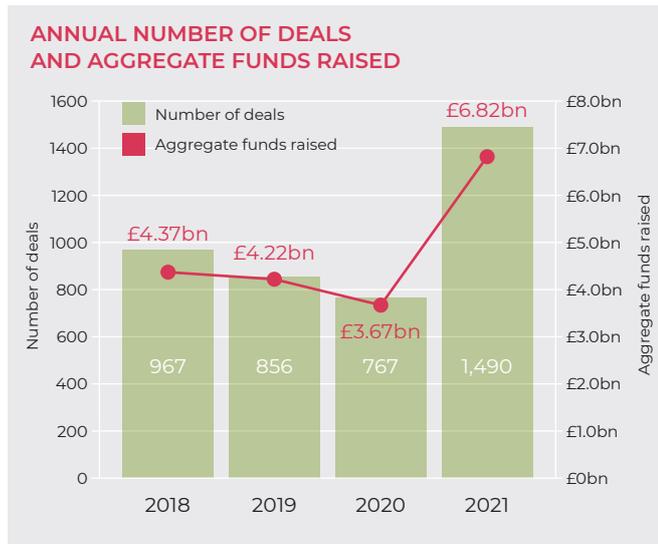




# 2021 IN REVIEW: A PHENOMENAL YEAR FOR THE GROWTH CAPITAL MARKET

Growth Capital Update – a review of 2021



**“The UK’s growth capital market came roaring back with a vengeance in 2021.”**

Our research into UK private companies raising between £1 million and £20 million of growth equity capital each finds that, in 2021, 1,490 UK businesses raised a total of £6.82 billion. This compares extremely favourably with the three previous years. In 2020, just 767 UK businesses raised £3.67 billion, which represented a low point for the market as the Coronavirus forced an end to numerous deals that had hitherto been in play. Pre-pandemic levels of activity were also far below those achieved in 2021. In 2019, we recorded 856 deals raising £4.22 billion and in 2018, we noted 967 deals raising £4.37 billion. 2021 therefore represents a period where deal activity was more than 50% up on anything seen in the last few years.

The UK’s growth capital market came roaring back with a vengeance in 2021. Investment activity not only surpassed that seen in 2020, a year majorly impacted by the Coronavirus, but also that of previous years, breaking all recent records. We first signalled this increase in activity in Q1 2021 and the year only grew from strength to strength. There was very little let-up in dealmaking even through the summer months and winter holiday period which are traditionally quiet.

Our Q4 2021 research reveals that 363 UK businesses raised a combined £1.715 billion of growth equity capital between October and December 2021, with an average deal size of £4.72 million. Taking 2021 as a whole, the average deal size was £4.57 million, which is smaller than the £4.78 million we recorded in 2020. This may reflect a much larger number of earlier stage deals attracting funding in the past year.



Undoubtedly one factor in the relative outperformance of the UK's growth capital market in Q1 2021 was the intervention of the UK government's Future Fund, which issued convertible loans between £125,000 and £5 million to innovative UK businesses affected by the Coronavirus. These businesses had largely been unable to access other government business support programmes because they were either pre-revenue or pre-profit and typically reliant on equity investment.

The Future Fund launched in 2020 and shored up the growth capital market in that year, but it also remained open for business until the end of January 2021, investing more than £1.14 billion in qualifying UK companies by the time it closed. The Future Fund was a match-funded scheme, so companies seeking to benefit from it needed to find equity investment elsewhere before they could access it. The Future Fund provided vital underpinning and support to the growth capital market throughout 2020 and into 2021, but did not supplant it. As can be seen from the data, once the Future Fund ceased activity, the growth capital market continued in its resurgence, driven by positive economic data and optimism that the worst effects of the pandemic might be behind us.

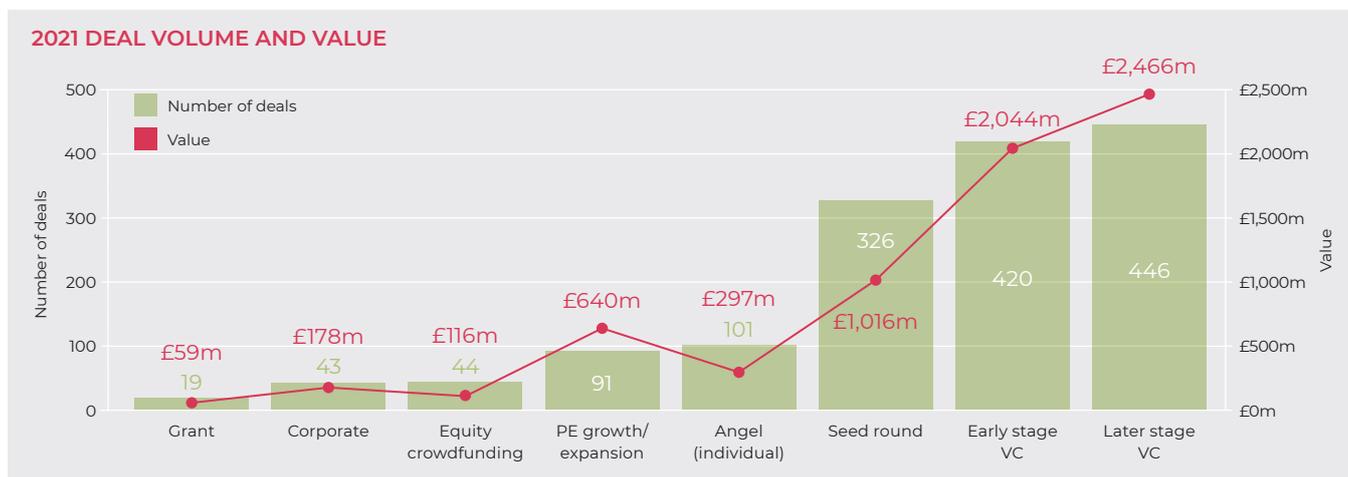
We sounded a note of caution in our Q3 2021 update and questioned whether news about the impact of increasing prices for commodities, pinch points in the supply chain and rising inflation on the wider economy might lead to a decrease in fundraising activity. This

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was before we had even heard of the Omicron variant, which led to reimposed restrictions in the UK, including the advice to work from home where possible in December. Q4's data does not reveal any slow-down; deal numbers are around 10% down on those of Q3, but total funds raised were slightly higher than the previous quarter. Nevertheless, we need to keep an eye on any possible impact of these factors as we look forward into 2022.

John Cowie, Head of Growth Capital at Moore Kingston Smith, comments: “Although some of the uptick in 2021 must be down to deals which were held up in 2020, nothing could have prepared us for a near doubling of deals done and funds raised. It's cause for optimism and bodes well for UK entrepreneurial businesses as we kick off 2022.”

As far as the types of deals that were most common in 2021 are concerned, later stage VC held onto the top spot, with early stage VC a very close second. Together, early stage and later stage VC accounted for 58% of all deals by number and 66% by aggregate value.



## TECH DEALS MOST POPULAR THROUGHOUT 2021

Technology was the most popular sector for investors every quarter last year, accounting for 48% of all transactions by volume and 51% by value in Q4 2021. Investor appetite for healthcare and B2B businesses also remained strong.

Notable deals in the tech space in Q4 included the £10 million investment by Ocado in Wayve, which is developing technology to facilitate autonomous grocery deliveries within complex urban environments.

Following on from the investment, a portion of Ocado's delivery fleet will be kitted out with Wayve's data collection devices to provide data for training and validating Wayve's technology.

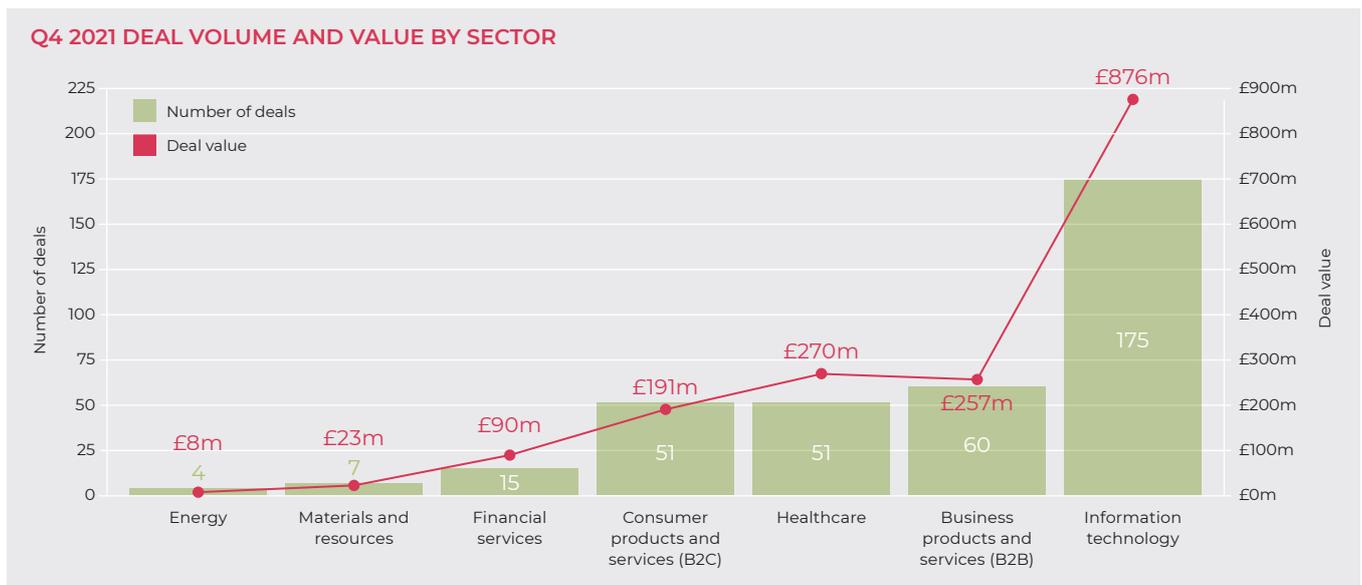
Q4 also saw the announcement by Belfast-headquartered B-Secur that it had secured its first ever US investor in a \$12 million fundraising round led by First Capital Ventures, based in Denver. B-Secur is a developer of ECG algorithms and analytics which are

designed to be integrated into consumer and medical devices for user identification, security and health and wellness purposes. The investment is expected to be used to accelerate B-Secur’s commercial expansion within the US.

Paul Winterflood, Corporate Finance Partner at Moore Kingston Smith, says: “The demand from investors for tech-enabled solutions continues to soar, with the competition for the best businesses presenting valuation challenges for many investors. The macro

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factors that have led to this market are well set, so we expect this trend to continue through the year ahead and beyond.”



## ACTIVE INVESTORS IN Q4

Ascension Ventures was the most active investor in the final quarter of 2021 with 13 deals completed. BGF, which had previously held the top spot in Q2 and Q3, fell back to eighth place, with just five growth capital deals announced in the last three months of the year. Despite this fall, BGF remains our most active investor when looking at 2021 as a whole, closely followed by Octopus Ventures and Mercia Asset Management.

In Q4, Ascension Ventures backed a number of technology businesses, particularly in healthtech and also the artificial intelligence and machine learning space. Investments included the developer of a mental wellbeing platform, a company looking to develop retinal biomarkers for use in age-related macular degeneration and glaucoma clinical studies, and the provider of AI-driven online dispute resolution services.

Octopus Ventures backed companies in the healthcare space, including the developer of a new vaccine platform, and also invested in the development of a smart robotic soft fruit picker and a SaaS platform intended to manage entertainment assets, rights, metadata and royalties.

Paul Forster, a prolific angel investor, best-known for founding the worldwide job search engine Indeed.com

and selling it to Japan’s Recruit Co for an estimated \$1 billion in 2012, achieved equal third billing in Q4’s table, completing as many transactions as institutional investors Seedcamp and Mercia Asset Management. Companies that he backed were mainly in the automation, artificial intelligence and augmented reality space.



## OUTLOOK

2021 has been a record-breaking year for the UK's growth capital market. Strategic government intervention may have provided something of a boost to the market right at the start of the year when the UK was in strict lockdown, but the closure of the Future Fund led to no diminution in dealmaking. It has, in fact, been quite the opposite, with Q2 2021 producing the highest number of deals we have seen in a decade.

Investor appetite for growing UK companies – particularly tech-enabled companies – continues unabated, even if there are some slightly darker clouds on the horizon.

The arrival of the Omicron variant at the tail end of 2021 was obviously unwelcome as it heralded the reintroduction of some restrictions for businesses,

but these were not as severe as those imposed at the end of 2020 in response to the Delta variant. Omicron may therefore be more of a bump in the road than the major dent we saw with Delta.

“We remain extremely optimistic about the outlook for 2022. We are in contact with an ever-growing pool of institutional investors with substantial amounts of capital to deploy, so we expect the market will prove resilient in the coming year.”

## 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 for you. Contact us to find out more about our **raising finance and growth capital services**.

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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 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 and information from the following sources: **wayve.ai**, **inc.com** and **b-secur.com**.