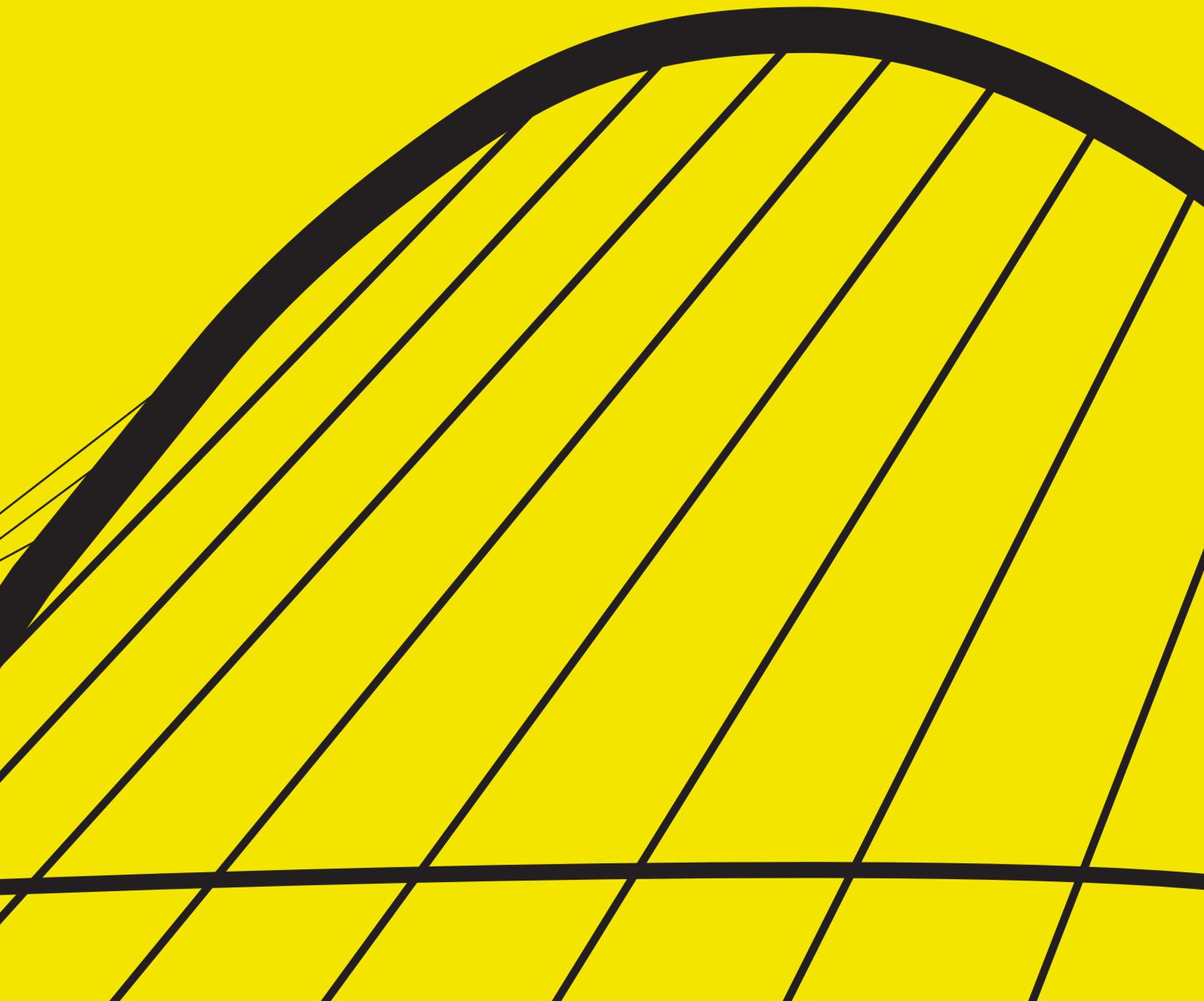


HIGH-GROWTH IN THE NORTH EAST

Equity investment into startups and high-growth businesses in the North East from 2011.



Contents

04

Overview

The headline figures and main findings.

06

Investment

A closer look at deal data and stages of evolution.

08

Sectors

Which sectors take the greatest share of deals?

10

Company Spotlight

Who are the region's most exciting companies?

14

Investors

Focus on top investors and the future of funding.

18

Methodology

What data do we collect and how do we analyse it?

Overview



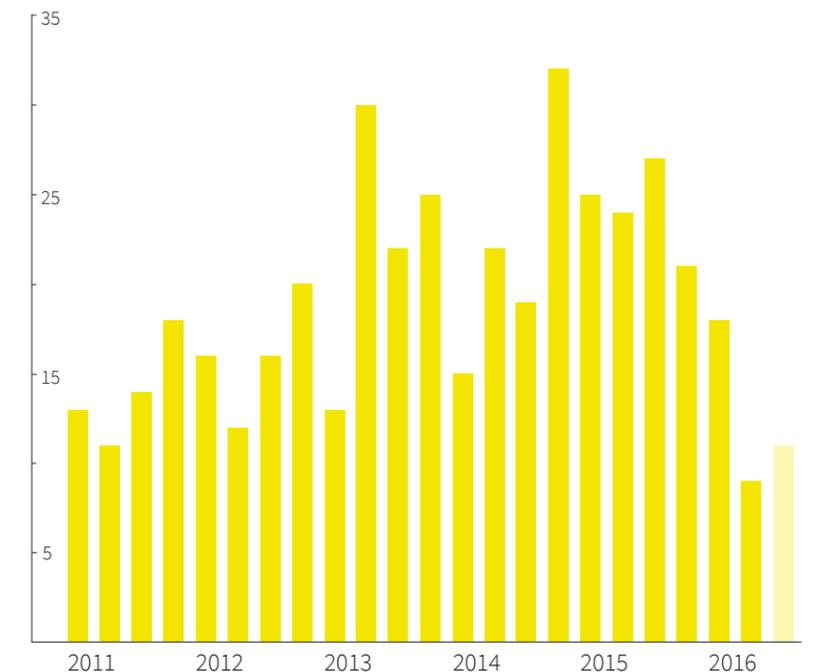
272
high-growth companies

433
equity fundraisings

83
known investors

£467m
invested

DEAL NUMBERS BY QUARTER



With the future of the Northern Powerhouse in question after the collapse of the North East devolution deal, the highest unemployment across the UK, and the lowest number of private businesses per capita¹, it might be tempting to assume a miserable landscape for startups and scaleups in the North East. However, an

overview of equity investment figures from 2011 onwards presents a brighter reality. **The North East accounts for 4.02% of UK high-growth businesses** – little, but respectable in proportion to its size. The region is in recovery from the nationwide investment slump, in contrast to larger regions and the UK as a whole.

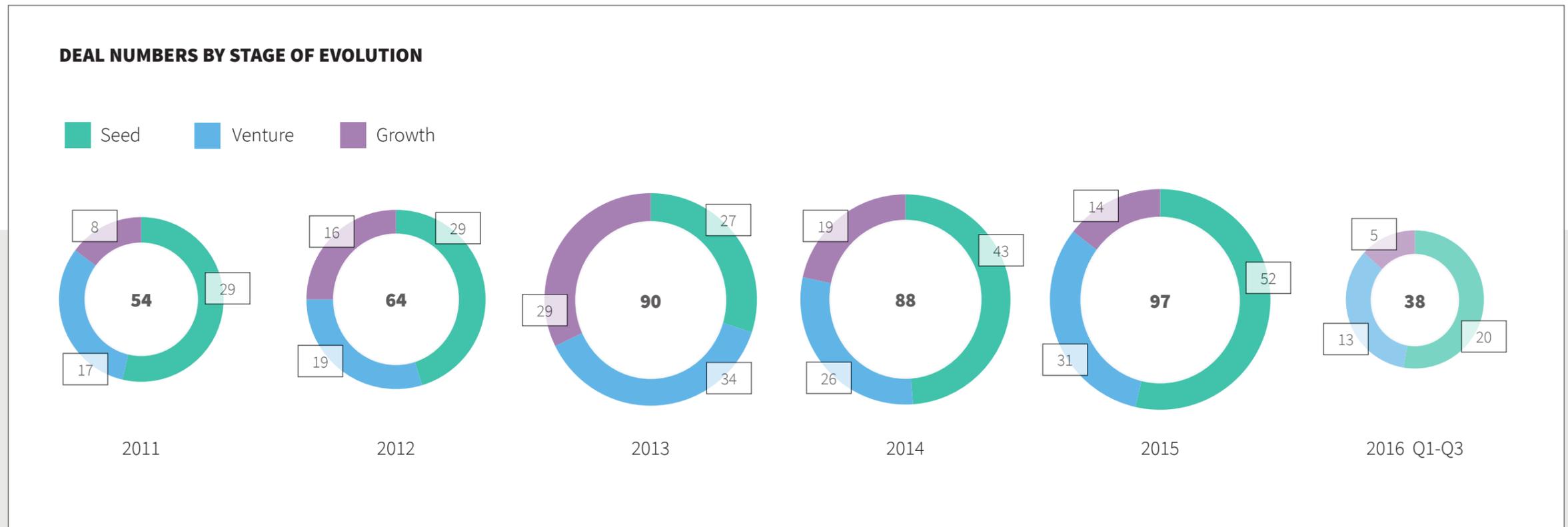
“**Equity investment figures from 2011 on present a brighter reality.**”

We’ve also seen earlier-stage companies take a growing share of investment, and a standout FinTech success story – Atom Bank. Despite the decline of industry in the North East, businesses in industrials take a significant share of

investment in the region, including companies with a long history in the region. And finally, although it’s true there are fears around the future of funding in the region post-Brexit, we think the North East is still set for growth.

1. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/467443/bpe_2015_statistical_release.pdf

Investment



Deal numbers have seen continuous yearly growth in the North East since 2011 – until now. Like all other regions, and the UK as a whole, the North East saw a decline in investments in Q2 2016. We suspect a lack of investor confidence following Brexit is partly to blame for the slump, which is still being felt across

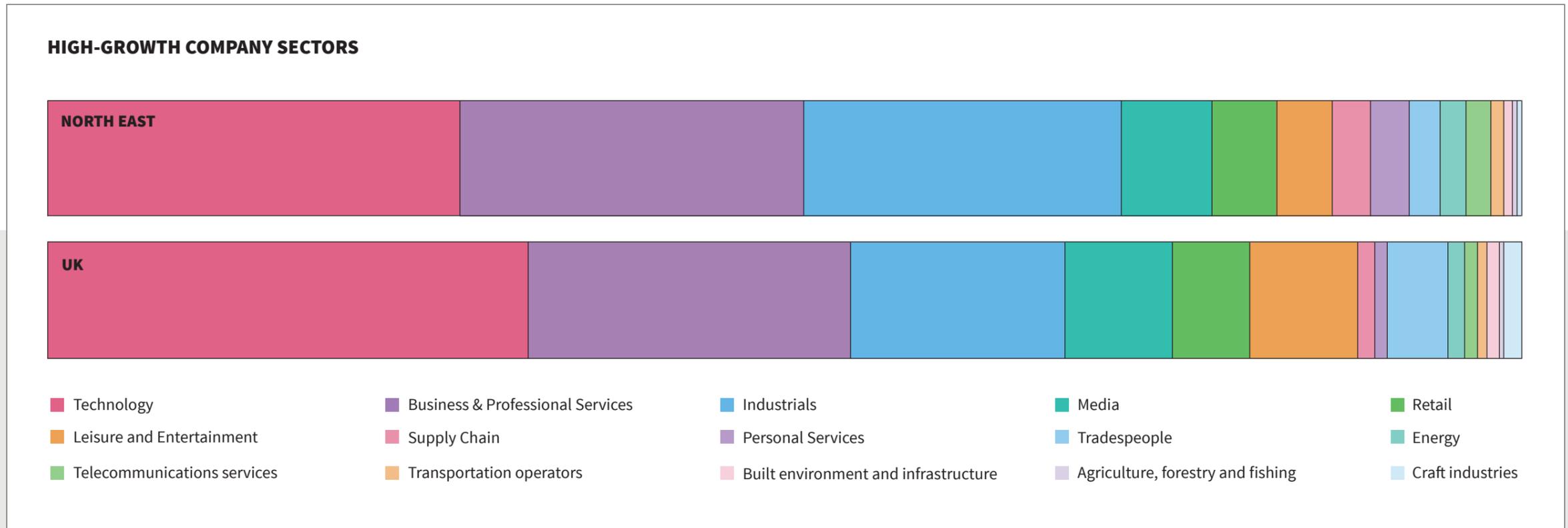
the UK. But things are looking up in the North East – deal numbers for the incomplete third quarter of the year have already surpassed those from the previous quarter. With such a slow start to the year, it seems unlikely that deal numbers for 2016 will climb to 2015 levels. However, we predict continued recovery for the region in Q4.

“Deal numbers have seen continuous growth in the North East – until now.”

Investment into growth-stage companies has traditionally been particularly strong in proportion in the North East. However, since 2013, we’ve seen a growing share of deals going to companies at the seed-stage, signalling a return to a more natural state of affairs. It could also suggest that later-stage capital is hard to come by,

but we suspect more capital is going into fewer deals. Indeed, the North East saw a bumper year for amount invested in 2015, with £182.4m going to the region. This number was strongly skewed by Atom Bank’s two fundraisings, which contributed £114.4m to the total. 2016 has seen £59.6m invested so far.

Sectors



As you would expect from the high-growth company landscape, the greatest proportion of businesses fall into the technology sector. However, **the sector is slightly less dominant in the North East than it is across the UK**. 28.1% of high-growth companies in the North East are tech businesses, compared with

32.5% across the UK. However, we believe it's onwards and upwards for tech in the North East. Cheaper living costs, universities and initiatives such as Tech North make the region an increasingly desirable place to start a business, with Newcastle already identified by many as a technology hotspot to watch.

“It's onwards and upwards for tech in the North East.”

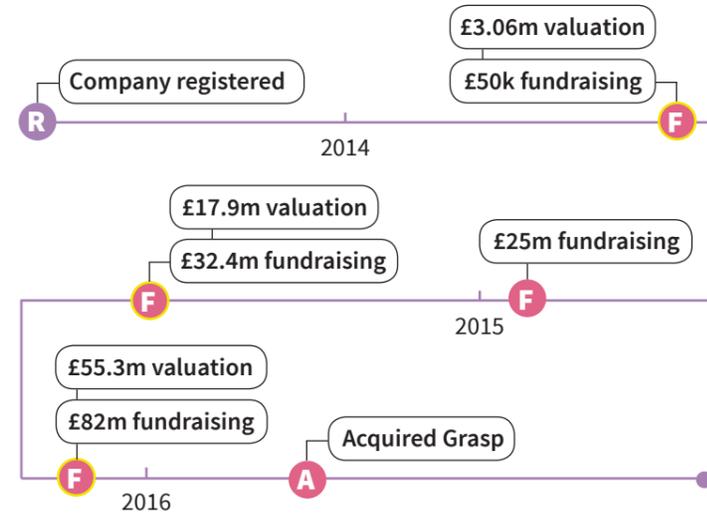
And what of the North East's industrial heritage? **Despite the decline in the region's traditional sectors, industrials are still particularly strong in the region**. 28.1% of high-growth businesses in the North East fall into the industrial sector, in contrast to 14.6% across the UK. There is still a strong tradition of

manufacturing and engineering in the region, producing everything from sugar-free champagne (Thomson and Scott), to plastic pouch sterilising machines for food (Continuous Retorts). We think the combination of a growing tech scene and manufacturing heritage could lead to exciting things in the North East.

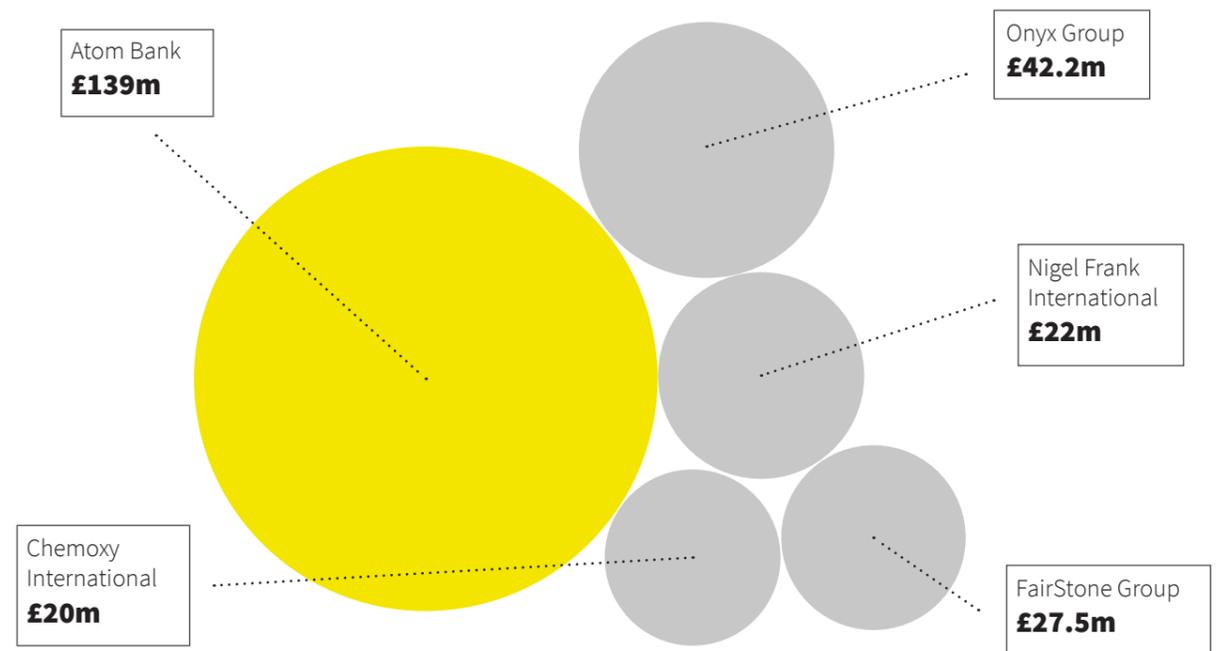
Company spotlight

ATOM BANK SPOTLIGHT

Atom Bank is developing a disruptive digital-only retail banking service.



TOP COMPANIES BY EXTERNAL INVESTMENT RECEIVED



The UK's FinTech success isn't limited to London – **the standout high-growth company from the North East is Atom Bank**, who offer an app-only retail banking service. Based in Durham, the company was founded in 2013, authorised as a bank in June 2015, and launched in April this year. The challenger bank was founded

by Anthony Thompson – also a co-founder of Metro Bank – which has undoubtedly helped it attract significant capital from high-profile investors, including Neil Woodford and Spanish banking group BBVA. The bank has raised £139m through fundraisings to date, and in its last round was valued at £55.3m pre-money.

“The UK's FinTech success isn't just limited to London.”

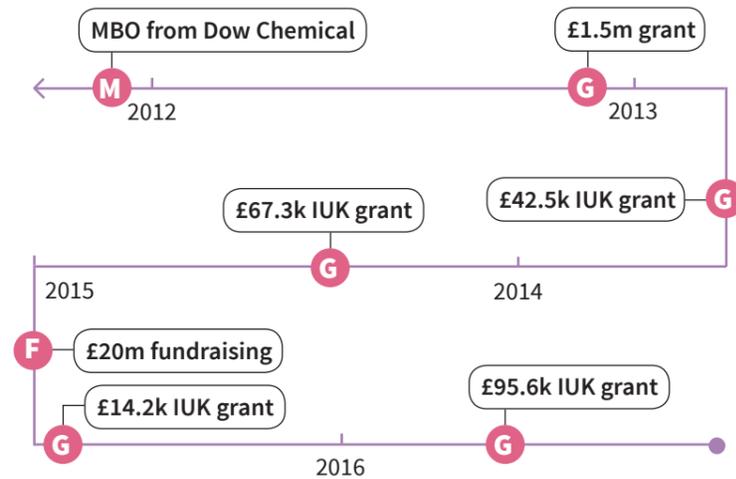
And It's not only FinTech that has seen success in the North East – FairStone Group are a financial services provider. Founded in 2007, and backed by Committed Capital and Northstar Ventures among others, the group has grown significantly after two equity fundraisings and a buyout by Synova Capital.

While still headquartered in Newcastle, the company now operates across the UK. FairStone's growth strategy is focused on the structured acquisition of independent financial advisor organisations and individuals, bringing them all under one banner and facilitated by a proprietary technology platform.

Company spotlight

CHEMOXY INTERNATIONAL SPOTLIGHT

Chemoxy manufactures petrochemicals and speciality chemicals.

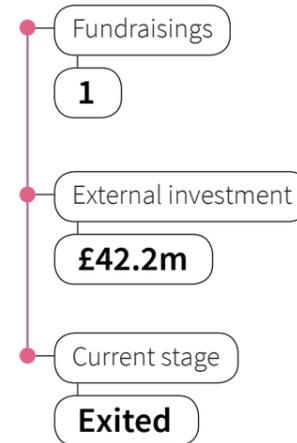


It's not only new companies growing fast in the North East – **Chemoxy International, who provide petrochemical and speciality manufacturing services, began operations in 1868.** After a long ownership history, management most recently led a buyout from Dow Chemical in 2011. The company has since grown significantly,

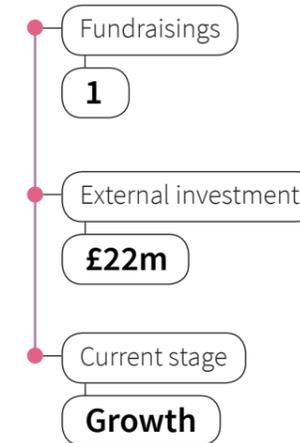
employing more than 130 people. The company has received a series of grants from Regional Growth Fund and Innovate UK, and in February 2015 raised £10m from the Business Growth Fund, and a further £10m in working capital from RBS. The management team's ambition is to grow revenue to £100m by 2020.



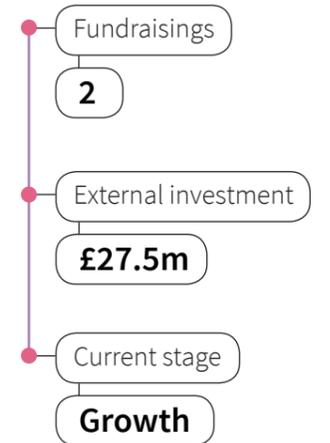
Provide data centres, network and cloud services.



Microsoft expert recruitment agency.



Financial and investment management services.



Other significant businesses in the region are Nigel Frank International, and Onyx Group. Nigel Frank is a recruitment firm focussed on professionals who have expert knowledge of Microsoft products. The company raised 22m from Livingbridge and HSBC in 2013, and now boasts seven offices dotted around the world.

Onyx Group provide technology solutions including data centres and cloud services. The company raised £250k from North East Technology Fund in October 2010 – then £42m for an MBO from Livingbridge in October 2011. It was acquired by Pulsant in June this year, creating a business of over 400 staff.

“It's not only new companies growing fast in the region.”

Investors

TOP INVESTORS BY DEAL NUMBERS

Finance for Business North East Growth Fund

68

North East Proof of Concept Fund

40

Finance for Business North East Angel Fund

36

North East Accelerator Fund

36

North East Growth Plus Fund

16

TOP INVESTOR DEALS BY LOCAL AUTHORITY

Finance for Business North East Growth Fund

North East Proof of Concept Fund

Finance for Business North East Angel Fund

North East Accelerator Fund

North East Growth Plus Fund



The North East suffers from a lack of private money, and indeed the top five investors by deal numbers were all government backed funds. Together these funds were involved in 45% of fundraisings from 2011 on. Although **it is true there might be over-reliance on state money**, these investments are usually small

and early-stage, and we think it is positive that growing businesses are encouraged in the region. Investment from these funds is heavily focused around Newcastle. The list of top investors by total value of fundraisings is dominated by private equity funds, including Livingbridge, BGF Growth Capital and NVM Private Equity.

“The North East suffers from a lack of private money.”

With the North East equity funding scene dominated by government money, and by extension European money, there are understandable fears that **leaving the EU could be catastrophic for investment into high-growth businesses in the region**. Funding is guaranteed until the end of the current programme in 2020,

and leaders are working to secure cash for the successor fund to Finance for Business North East, the most active investors in the region. We hope the government will do its best to protect the future of investment in the North East past this point, but as with any Brexit-related issue the future is clouded in uncertainty.

Methodology

When discussing UK investment totals and deal numbers in our blogs, articles and reports, we use the following methodology, unless we state otherwise. The deals we include in this report are equity investments into UK-based businesses. The majority of articles and analysis contained herein are based only on announced equity investment. Wherever unannounced deals are being mentioned or analysed, it will be explicitly mentioned within that article.

This data is based on our own independent monitoring of fast-growth UK companies, their deals and their investors. We have comprehensive coverage of announced equity deals from Q3 2010 to present, and comprehensive coverage of unannounced equity deals from Q1 2015 to present.

What we include when analysing UK equity investment

Equity financing

Funding from either “organised” or “unorganised” investors. The former include institutions such as private equity firms, corporate venturing arms or formal networks such as business angel groups. The latter include business angels that are not investing through an angel network.

Crowdfunding investment

Investments of money in return for equity from crowd funding intermediaries are included.

Deals where third-party funders raised their cash from equity crowdfunding platforms

We include these if crowd investors either retained the power to allocate their money, after making a commitment to the funder, or if they (or the platform as a nominee) directly own shares in the investee companies.

Investor participations

We attribute each deal to however many investors were involved in the deal provided they received new shares, regardless of the number or value of shares received.

Pre-emption participations

We include all participations by investors, even if their contribution to a given round only represents the exercise of pre-emption rights.

Deals only partly equity

Venture debt, loans or grants issued to private companies are included only if they have come alongside equity financing. The entire round (including debt) is included in the data.

Investment only into private companies

Publicly listed companies of any kind that are actively traded on any exchange are excluded from our numbers.

Announced vs. unannounced deals

We categorise equity fundraising transactions into two types. Announced deals are those investments that had an accompanying press release or were mentioned in the news. Unannounced deals are investments that were uncovered by our in-house researchers. Information about these deals, such as the amount invested and the company’s valuation, are not publicly available.

What we do not include

Buyouts, mergers and acquisitions

These transaction types involve the change in ownership of existing shares (to buy out existing shareholders) rather than the creation of new shares (and the injection of new money into the company).

Private placements

Private investment in public equities even if made by a venture capital or private equity arm.

Solely debt/grant funding

Venture debt or grants issued to growing companies without any equity in the funding round.

Cash for rewards

Investment into companies for non-financial rewards, e.g. Kickstarter.

Project finance

Equity funding for individual films, construction projects and other individual projects.

Fund commitments

When a fund manager raises a new fund from which to disburse investments, it is not per se giving away equity in itself (though it might do that separately as well). This fundraising by the fund does not constitute equity investment. Therefore fund commitments are excluded from our analysis.

Further details

Sectors

We have developed our own sector matrix that we believe more accurately reflects the way in which investors and others in the industry think about fast-growth companies.

Cross-sectors

When analysing cross-sector data, i.e. comparing sectors, we weigh deal numbers and investment amounts across all of the investee's sectors. For example, a company in the Internet Platform and Theatre sectors will be counted as half a deal in each of these two sectors.

Single-sectors

When analysing single-sector data we do not apply weighting. For example, when looking at the Mobile Apps sector in isolation we count fully all deals and investment amounts related to all investee companies with Mobile Apps as one of their sectors. That same deal may also be counted fully when looking

at the E-commerce sector in a different section of the report if the company is in both the Mobile Apps and E-commerce sectors.

Currencies

Where investment amounts have been provided in foreign currencies, these have been converted to GBP at the average exchange rate for the quarter in which they were completed.

Seed/Venture/Growth

We categorise businesses as being at the seed-stage, venture-stage, or growth-stage based on proprietary research and criteria. A deal is a seed-stage deal if the company was at the seed-stage when it received the investment.

Location

This information is based on the head office location of the company receiving investment. For example, if a company has offices in multiple cities or was founded in a particular city but

has moved its headquarters, our data only reflects this headquarters address.

Second closing of a round

If, for example, a company completes a second closing of its Series B round for £5m this quarter having previously closed £2m last quarter (for a £7m total), only the £5m second closing is included in our data this quarter with the £2m first closing counting towards the previous quarter's figures.

Overfunding

If a company sets out to raise a certain amount of money (via e.g. equity crowdfunding), but continues its fundraising after it has reached that amount, and then does manage to raise that second amount, we would count this as one deal, placing it at the date on which the second amount of money was raised.

Close deals

If a series of similar deals are announced for the same company within a short me period and these in our opinion actually form one single deal then we will count these in aggregate as one deal.

Ongoing fundraising

If a company indicates the closing of £1m out of a desired raise of £10m, our data only reflects the amount that has closed.

Contingent funding

If a company receives a commitment for £10m subject to certain milestones being achieved but first gets £5m, the entire £10m is included in our data.

Timing

Investments are allocated based on the date given in the announcement of the deal. This may differ from the date on which the deal legally closed.

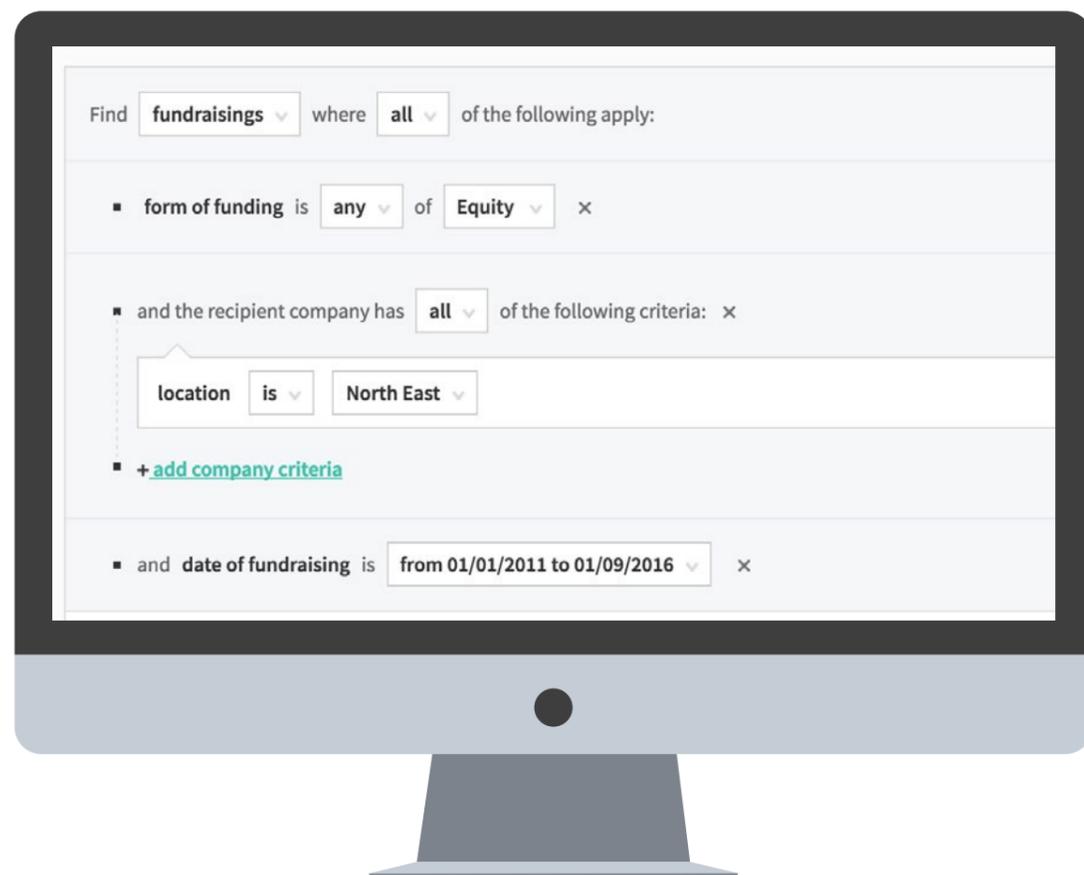
On occasion we see deals announced later than the date given, for example, a press release may be distributed in May that discloses that a deal happened in March. In this case we will take March as the deal date.

Data for this report was finalised on 01/09/16 – deals disclosed after this date are not included.



About Beauhurst

Research the UK's startups and high-growth companies. Instantly.



Rich company profiles

See rich curated profiles on over 8,000 of Britain's high-growth companies and their investors, including past transactions, key contacts and financial history.

Advanced search

Search through companies, funds and transactions in incredible detail. Filter by thousands of variables to find what you need in seconds.

Make research effortless

Customise your company or funder targets, then let Beauhurst update and expand your collection automatically. Receive instant alerts when any transactions or notable activity occurs and view instant statistics to help you understand the market.

Used by organisations including:



Find out more at www.beauhurst.com and book a free demonstration.

Beauhurst

Beauhurst is the leading provider of deep data on ambitious, high-growth UK companies.

www.beauhurst.com

[in /company/beauhurst](https://www.linkedin.com/company/beauhurst)

[beauhurst](https://twitter.com/beauhurst)

Text: Henry Whorwood, Ella Halmari

Data and analysis: Henry Whorwood, Ella Halmari, Simone Dauti

Production: Ella Halmari

© **Beauhurst** 2016