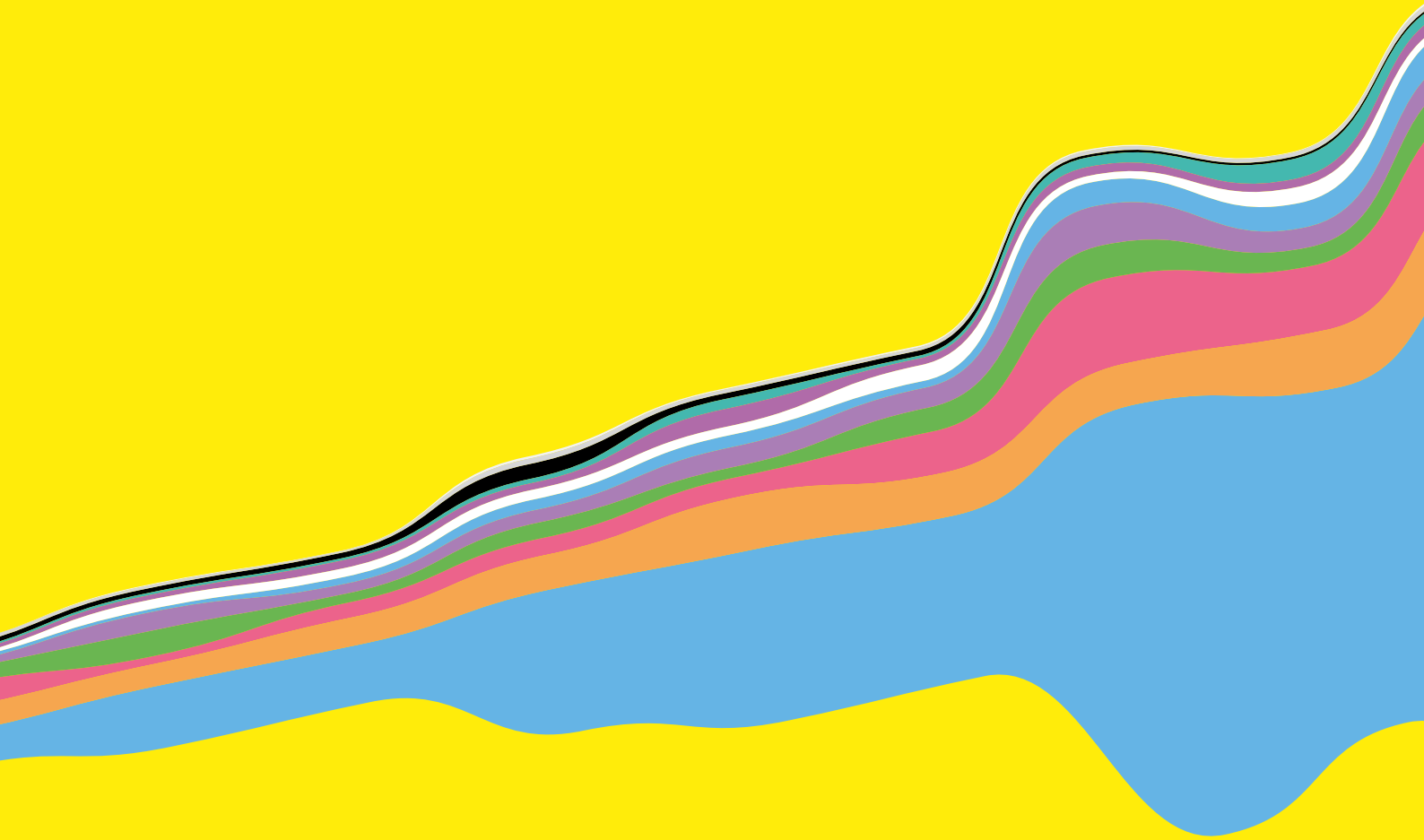
Beauhurst



The Deal

Equity investment in the UK 2019

NOTES:

To be included in our analysis, any investment must be:

- Publicly announced between 1 January - 31 December 2019
- Some form of equity investment
- Secured by a non-listed UK company

A word from our CEO

A CHANGING LANDSCAPE

The equity market has matured considerably since we first started tracking its progress back in 2011. Just £1.6b was invested in the UK's high-growth companies in that first year, a figure that was surpassed just 49 days into 2019. Individual deal sizes have grown massively, and with OneWeb's £941m raise back in March it's only a matter of time before we see billions of pounds' worth of equity deployed in a single transaction. In total, 2019 saw £12b deployed across the country – an astonishing close to the decade.

A DECADE OF INNOVATION

Fuelled by this significant increase in capital, ambitious UK companies have made great technological advancements. The 2010s have seen the exponential growth of fintech and artificial intelligence companies, with many other niche areas coming to the fore. We're now witnessing the start of a seismic shift towards more environmentally conscious innovations, including clean energy and electric vehicles, as well as a near continual stream of new words added to the startup lexicon, including femtech and agetech among many others. Our data team is working to illustrate these new areas of operation with an extended list of buzzwords and a shiny new sector matrix to better accommodate them, due to be implemented on Beauhurst this year.

OUR POSITION ON THE GLOBAL STAGE

We take our first steps into the new decade with some clarity over our position on the global stage, but our ceremonial departure from the European Union is just that—the embarkation of an extended and unresolved transition process. Over the course of the past year, foreign investors have taken particular advantage of the fluctuating price of the pound and shown increased appetite for UK business, completing more deals and investing more capital into the country than ever before. We're confident that the wealth of talent and ambition that is so plainly evident across the country means the UK will remain an attractive place to do business, however the precise details of trade negotiations transpire.

A ROCKY ROAD AHEAD?

Perhaps more worrying is the status of government support systems in place for entrepreneurs, young companies and investors. Some fantastic initiatives have been put in place over the past few decades, including Entrepreneurs' relief, Innovator visas, R&D tax credits and EIS/SEIS. These have helped build and maintain the UK's position as one of the world's leading startup cultures. But many of these schemes are seen as easy targets for revenue raising or simplification, and may now hang in the balance as we await the first budget of the new government.

We would be first to argue that some reforms are required, particularly to close the loopholes in Entrepreneurs' Relief that have allowed thousands to benefit without taking real entrepreneurial risk. But we also encourage the government to carefully consider the positive impact that these schemes have on the ecosystem, and seek to reform, protect and expand these initiatives wherever possible. Change could not come at a more critical time, as investment into the UK's earliest-stage startups continues to lose momentum. The growing risk averse sentiment amongst both investors and entrepreneurs will spell trouble for us in the coming years, as the pipeline of future growth-stage companies is diminished.

Despite these words of warning, we hope that this report effectively shines a spotlight on the strength of the UK's high-growth economy. As always, I'd like to thank those who have contributed their time and expertise to this report, and hope that you enjoy reading it as much as we've enjoyed putting it together. Have any questions or comments? Get in touch using the details below.

TOBY AUSTIN
CEO AND CO-FOUNDER

info@beauhurst.com
@Beauhurst
company/beauhurst
beauhurst

2019 in review

A record breaking £12b worth of equity was invested during 2019, but the number of deals completed continues to decline. For the second year in a row, early-stage companies have been hit the hardest.

RECORD INVESTMENT, FEWER DEALS
£12b was deployed through the year, but the number of deals completed has continued to decline since 2017.

FOREIGN INVESTMENT SKYROCKETED
As the pound fluctuated, investors from abroad showed more interest in British companies than ever before, participating in 27% of deals.

ANOTHER TOP YEAR FOR FINTECH AND AI
Fintech and AI continue to demand attention, with deal numbers increasing 11% and 5% respectively since 2018.

CROWDFUNDING STRIDES ON
It was another great year for crowdfunding platforms, and Seedrs is crowned the most active UK investor of 2019.

LONDON SEIZES A GROWING SHARE
As usual, the Capital saw a significant share of deals, and an astonishing 73% of pounds invested in 2019 were pumped into London-based businesses.

A BLEAK YEAR FOR GENDER DIVERSITY
The proportion of investment awarded to female-founded business stagnates at around 20% for the fourth year in a row.

Warning signs at the seed stage

2019 was a mixed year for equity investment into the UK's high-growth companies. There were 1,751 investments made, ranging from first-time, friends and family rounds, to a near £1b round into OneWeb. 1,751 is a large number of deals—over 3x the number seen in 2011—but represents a fall from the all-time high of 1,818 deals in 2017. With the macroeconomic uncertainty that abounded in 2019, it was tempting to see this dip as the beginning of a more pronounced cooling off. But we've seen more money flowing to these companies than ever before: £12b was invested through those 1,751 deals. It doesn't take advanced mathematical skills to see that the average deal size has continued to climb—driven particularly by megadeals, like that OneWeb outlier.

This is natural and what we should expect to see at this stage in the cycle. The companies that were raising their seed rounds seven or eight years ago are now raising their growth rounds. More interestingly, investors who were participating in seed rounds seven or eight years ago are now participating in those growth rounds too – and this might be causing a problem for first-time raisers. I'll come back to this problem. Deal sizes that were previously impossible – or at least not possible without going to the public markets – are now commonplace.

Megadeals have become commonplace because there is more capital chasing private company investments than ever before. With new, large funds still coming to market – such as Skymind Global Ventures' $800m fund and Felix Capital's $300m fund – the amount of dry powder in the ecosystem is only set to increase. Over the course of 2019, bigger funds have been chasing the same later-stage deals, driving up valuations to create new unicorns. Snyk's investment round last month took the UK's unicorn count to 22 – an exciting herd that we explore in depth in our Unicorn Report.

When we launched our Unicorn Report last month at Smith & Williamson, one of the statistics that stood out most starkly was the fact that of the 42 founders at the 22 unicorns, only one is female. The lack of gender diversity in the UK's high-growth companies' founding teams is something we care deeply about. For this reason we worked with Newable to produce our state of the nation report on female entrepreneurship in the UK. Only 25% of the UK's high-growth companies have at least one female founder but, even worse, in 2019 only 9% of pounds invested went to those companies. We see better statistics for the early-stage companies that are being supported by accelerators: 38% of accelerated businesses have a female founder. This suggests there is a pipeline of companies that may be about to change the narrative – if they can get funding.

Although there is more money being invested in private companies than ever before, it's getting harder to raise at the seed-stage. The number of seed deals fell for the second year in a row from 739 in 2018 to 689 last year. Even the amount being invested at the seed-stage fell slightly. Why this might be is a complex question of supply and demand. Are there fewer seed-stage startups? Are companies boot-strapping for longer? Are accelerators replacing the need for the earliest investment rounds? Are the earliest-stage companies raising fewer but bigger rounds? Are investors following their portfolio and being drawn away from the seed stage to later rounds?

Last summer we hosted an event with NatWest called 'Seeds of Doubt' to try to answer these questions. Two themes emerged from the discussion: firstly there was an awareness of entrepreneurs accessing alternative forms of finance. As types of debt funding available to riskier businesses have proliferated, their use by entrepreneurs has increased. Secondly, VCs in the room were aware that they and their colleagues had drifted away from investing in the earliest stage companies. It is impossible, for now at least, to say whether they'll return to those companies as the macroeconomic picture improves (or at least becomes clearer) or if they are just following the development and requirements of their existing portfolio.

The potentially 12 billion dollar question is: what's going to happen in 2020? We're confident that we'll continue to see a huge amount of money invested into the UK's high-growth companies. But will deal numbers fall further? We think they will, and that it will take some brave VCs making more and riskier investments to ensure that it is not a steep fall.

Henry Whorwood

> **"Deal sizes that were previously impossible—or at least not possible without going to the public markets—are now commonplace.**

Investment activity in 2019

A total of £12b was deployed over the course of 2019, eclipsing the previous record of £9.1b set in 2017, and a 58% increase from 2018. For the second year in a row, the number of deals completed has slightly declined, settling at 1,751 at the end of the year.

HOW DID 2019 COMPARE WITH 2018?

- 2%

1751
equity investment deals

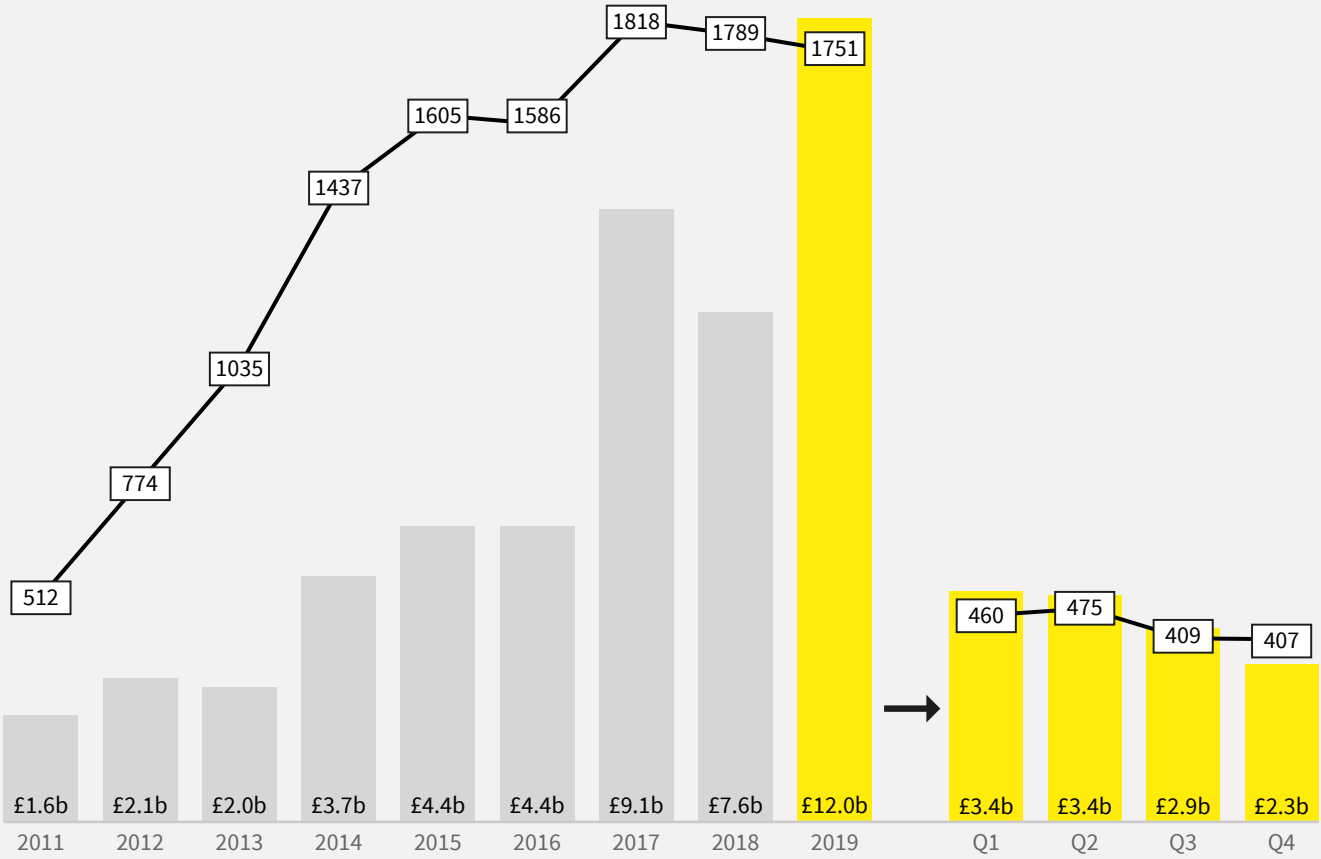
+ 58%

£12.0b
invested into UK companies

+ 61%

£6.8m
average investment size

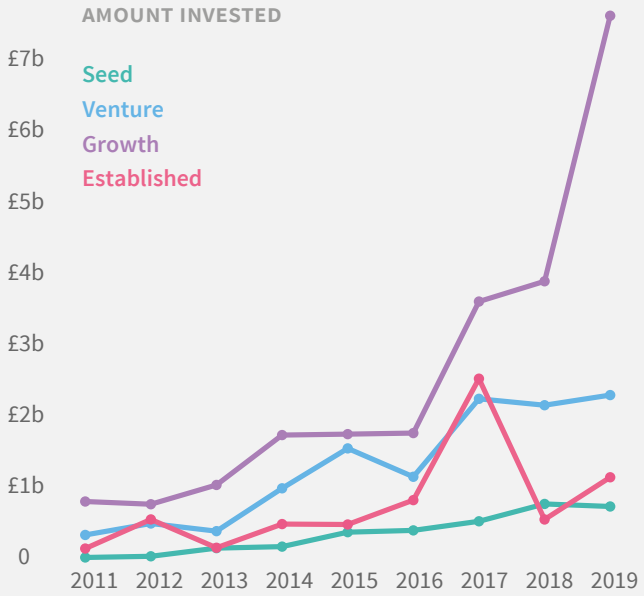
A RECORD YEAR FOR INVESTMENT

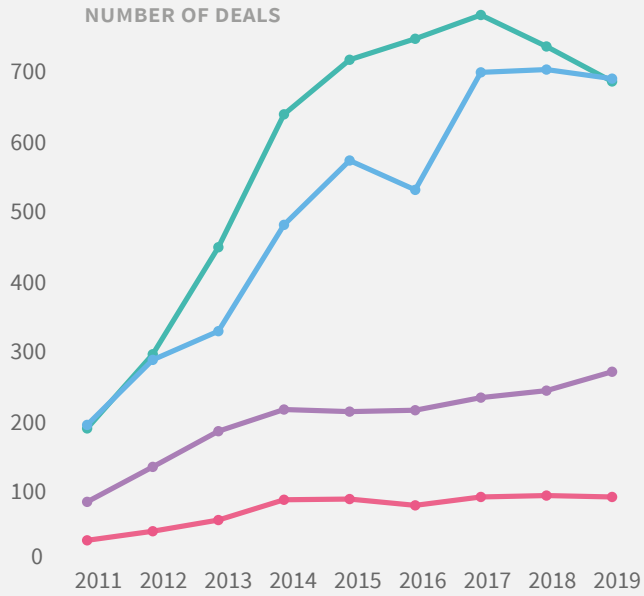


Investment stages

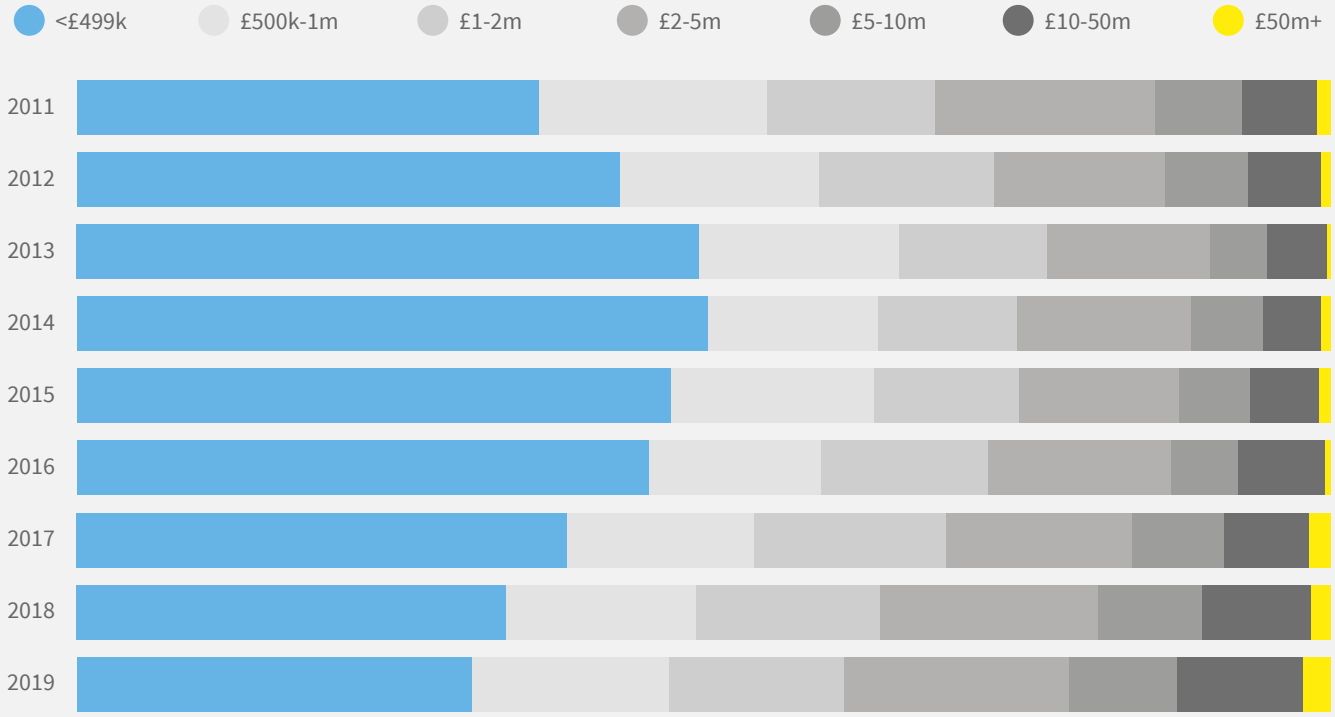
The number of deals fell 7% at the seed stage of evolution and increased 11% at the growth stage. This represents a maturation of the market. The amount raised at the growth stage of evolution has grown massively since 2018, from £3.9b to £7.6b.

THE SEED STAGE TAKES A DIVE





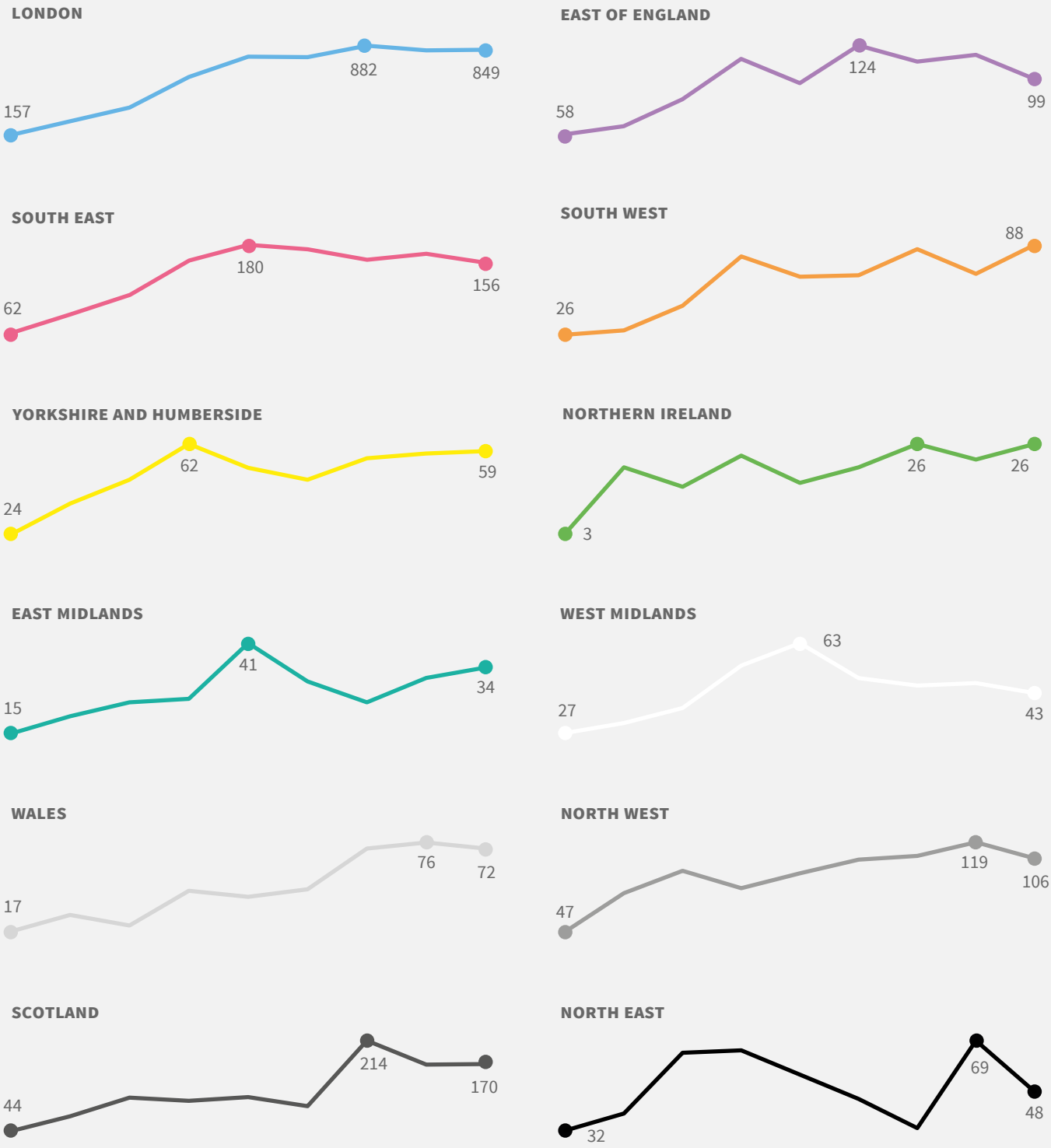
THE TREND FOR LARGER DEAL SIZES CONTINUES



Geography

Most regions saw a decline or plateau in deal numbers between 2018 and 2019, including London. Still, the Capital attracted a staggering £8.7b over the course of the year. The South West was the only region to secure a record investment amount and number of deals, with £366m deployed over 88 deals.

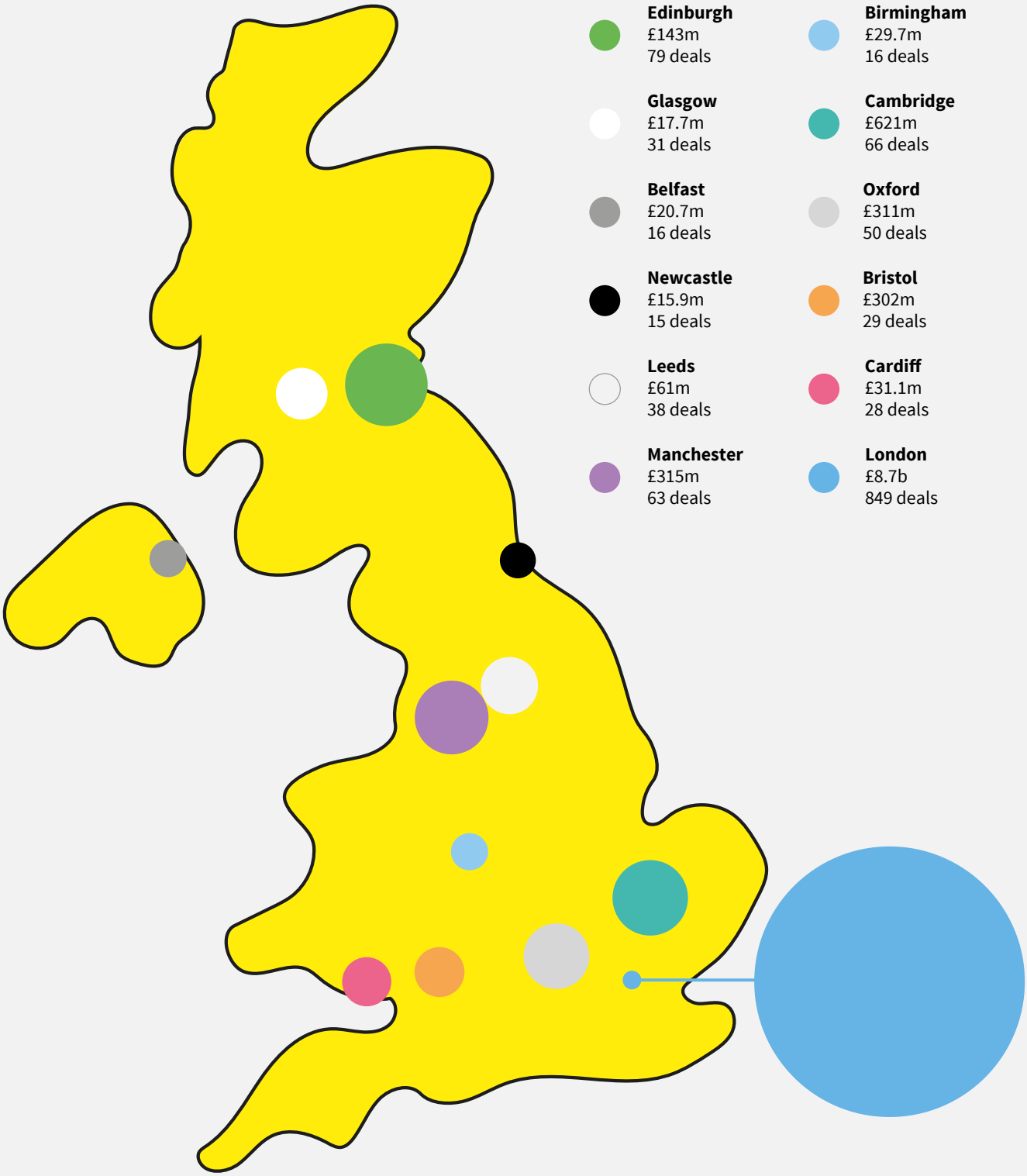
NUMBER OF DEALS PER REGION 2011-2019



Geography

London-based companies saw 48% of all UK equity deals in 2019, and a massive 73% of all pounds invested. Edinburgh was the next most popular city, with 79 deals worth a combined £143m. Meanwhile, the Cambridge tech cluster secured the highest value of investment outside of the capital, with 66 deals worth £621m.

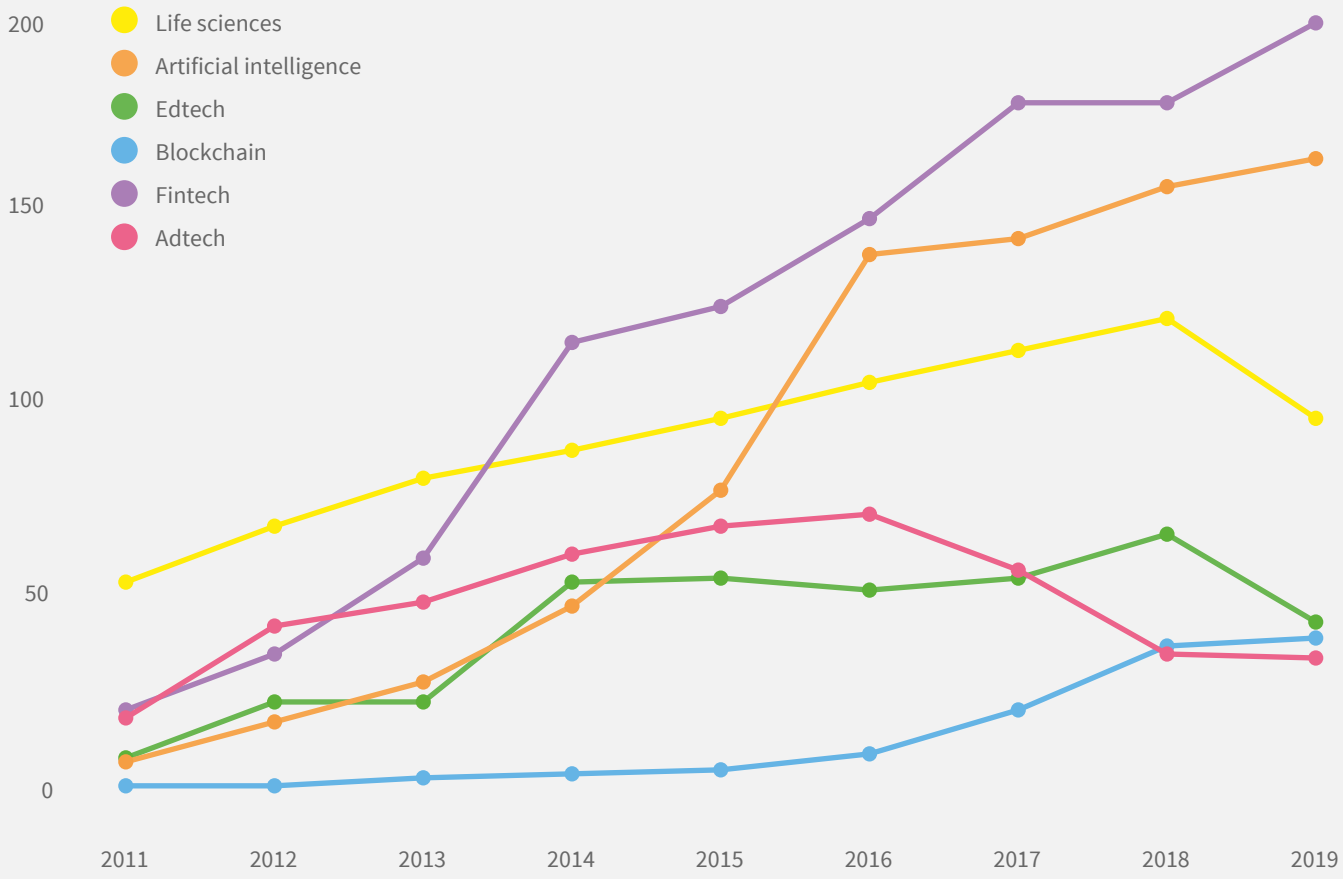
DEAL NUMBERS AND AMOUNT INVESTED, SELECTED CITIES



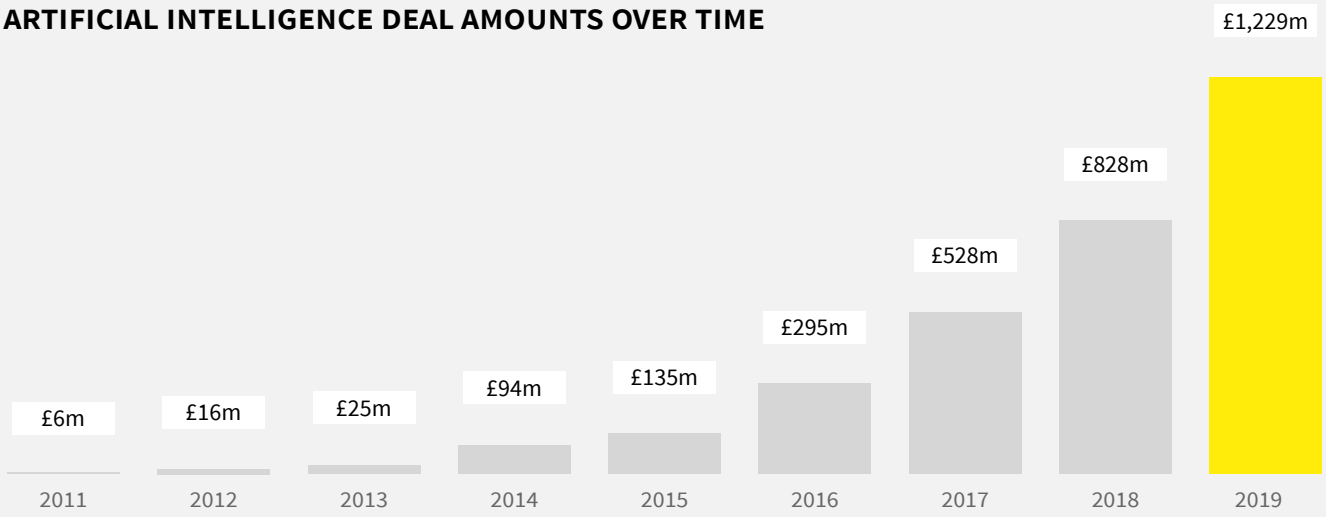
Sectors and verticals

Fintech and AI companies continue to dominate, with both sectors securing a record number of equity deals in 2019 – 191 and 157 respectively – and together attracting 20% of all deals. Deal numbers dropped significantly for edtech (35%) and life sciences companies (21%), whilst blockchain and adtech saw deal numbers plateau.

DEALS IN SELECTED VERTICALS OVER TIME



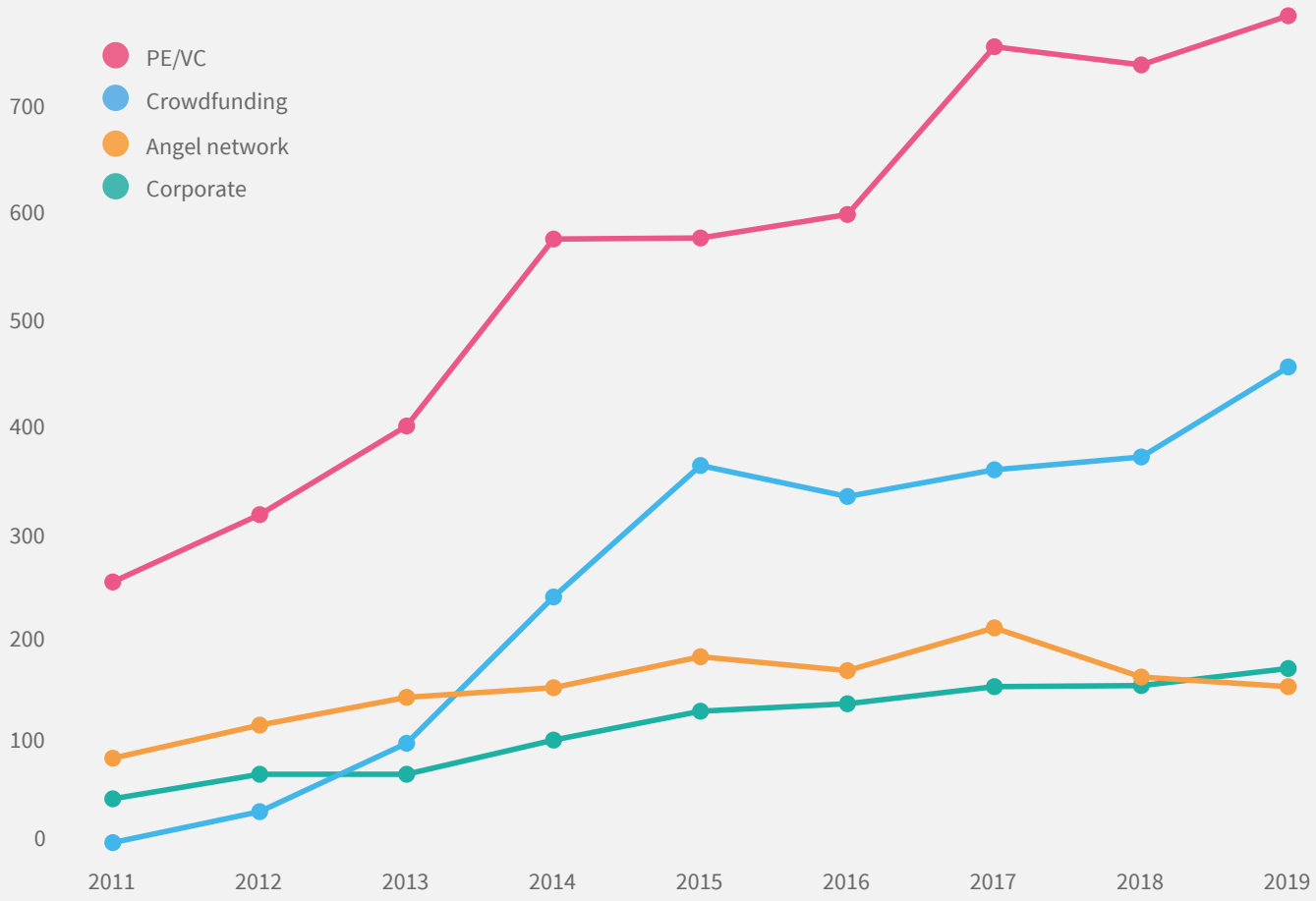
ARTIFICIAL INTELLIGENCE DEAL AMOUNTS OVER TIME



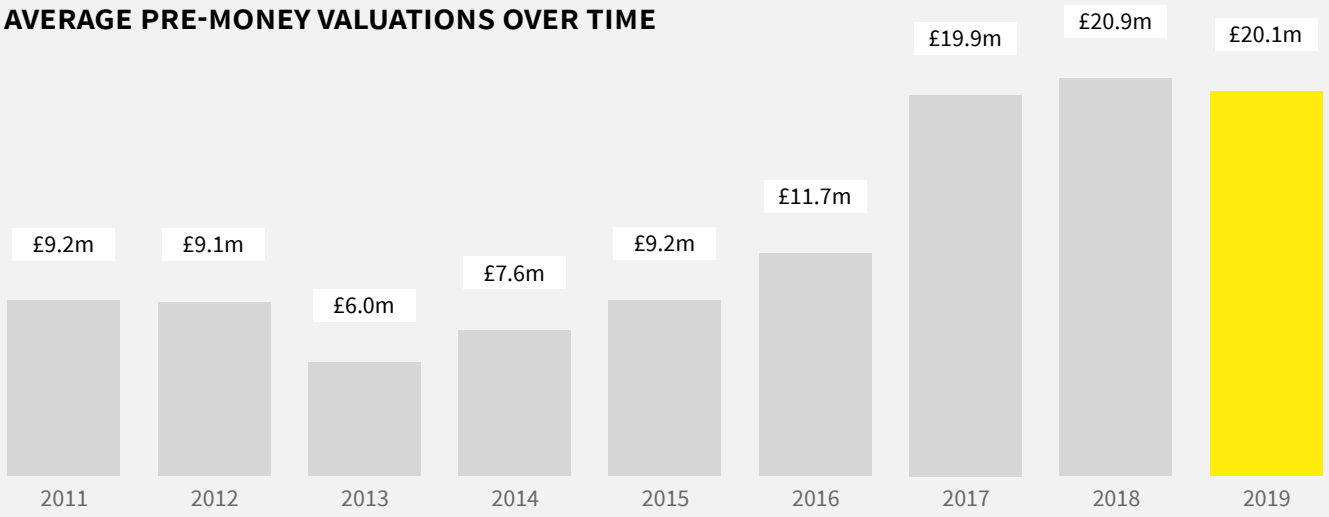
Investors and valuations

PE and VC firms, crowdfunding platforms and corporate funds all made a greater number of deals in 2019 than any year prior. PE and VC funds continue to show the highest level of activity of all investor types. Angel Networks have seen a 26% reduction in activity since 2017.

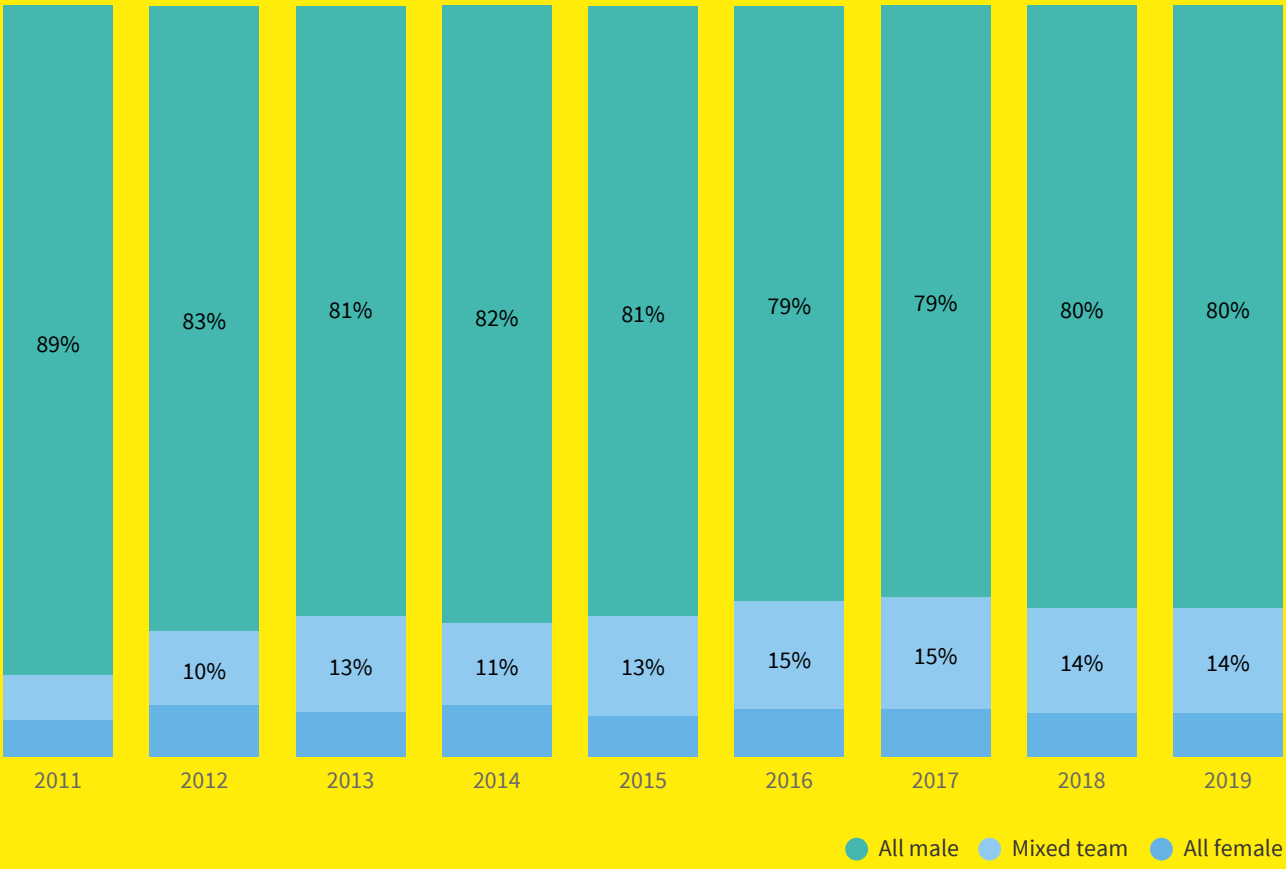
DEALS BY INVESTOR TYPE OVER TIME



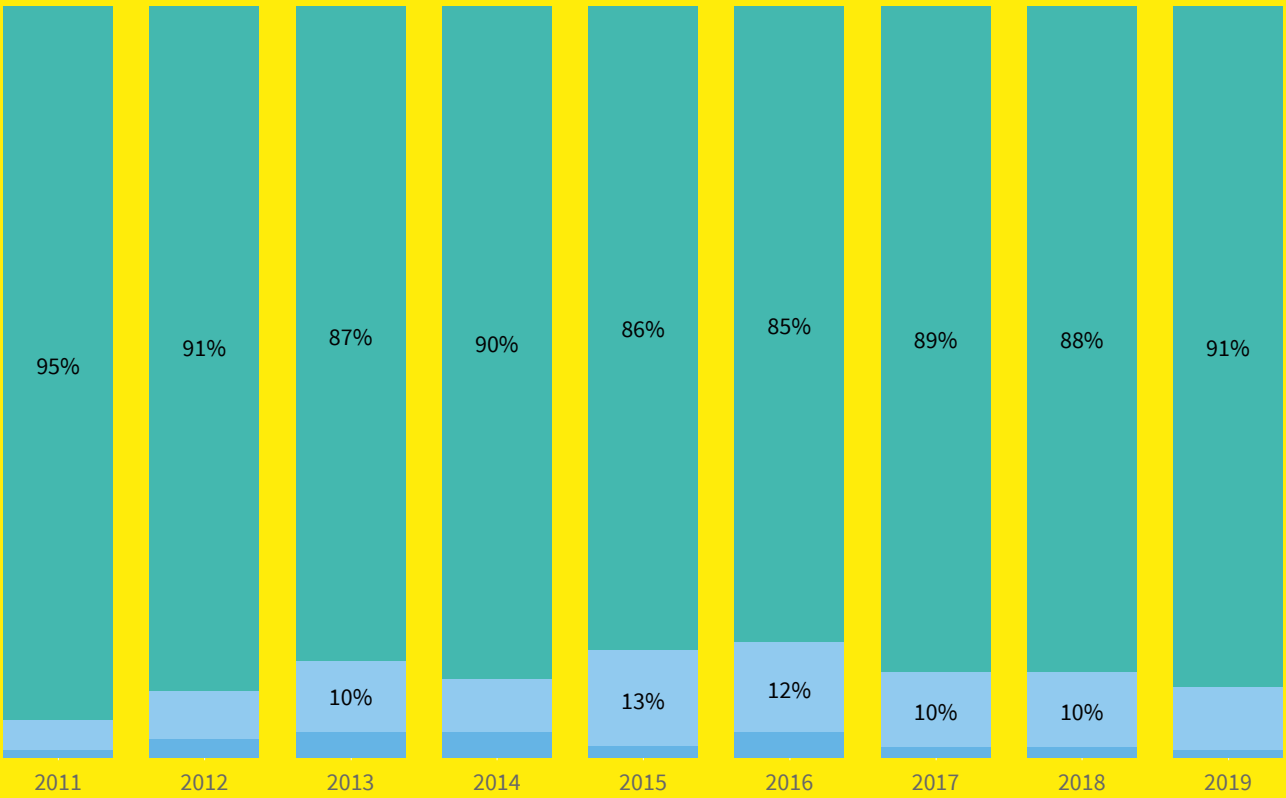
AVERAGE PRE-MONEY VALUATIONS OVER TIME



PERCENT OF NUMBER OF DEALS



PERCENT OF AMOUNT RAISED



It's bleak for female founders

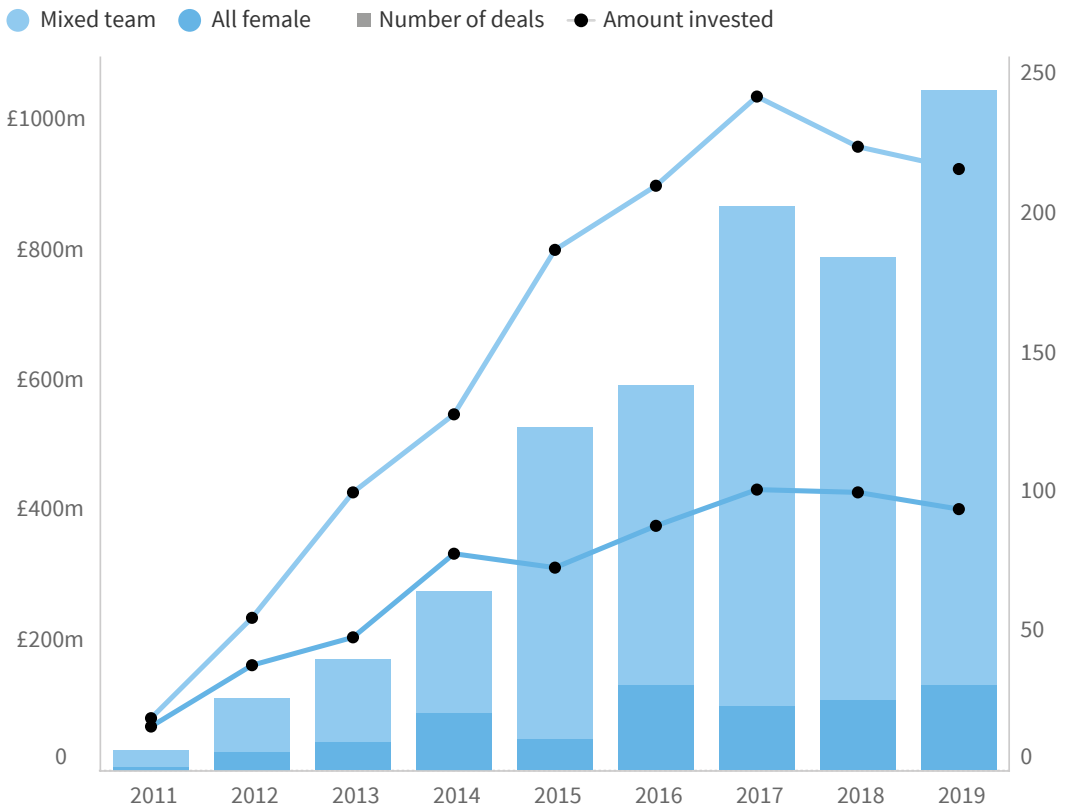
Last year, we published our first extended report on the state of gender diversity across the UK's high-growth ecosystem, in collaboration with our friends at Newable. The findings were both shocking and tentatively encouraging; despite the proliferating number of dedicated support systems for female founders, the gender funding gap is still fairly stark. Between 2011 and 2016, the proportion of equity deals secured by companies with at least one female founder grew from 11% to 21%, but there has been no improvement since then. The figure settled on 20% at the end of 2019, still far from the 25% of high-growth companies with a female founder.

In terms of the proportion of pounds received by female-founded companies, the picture is even more bleak. In 2019, just 9% of pounds invested went to companies with at least one female founder, the lowest level since 2012.

Within this, all-female founding teams received just 1% of all equity invested over the course of the year. The raw numbers show that the amount of funding secured by all-female founding teams in 2019 only just surpassed the record amount raised in 2016 (£132.2m and £131.9m, respectively). When we contextualise this with the increasingly high value deals secured by later-stage companies—which are more likely to be all-male founded—it seems clear that this inequality will persist in the coming years.

Many key players across the industry, from large corporates like JP Morgan and CMS, to investors such as British Business Bank and Crowdcube, are working hard to redress this imbalance and better support female founders from the very outset. We've shone a spotlight on some of these initiatives, as well as insights from some of the UK's most successful female-founders in the full report.

NUMBER OF DEALS AND AMOUNT RAISED



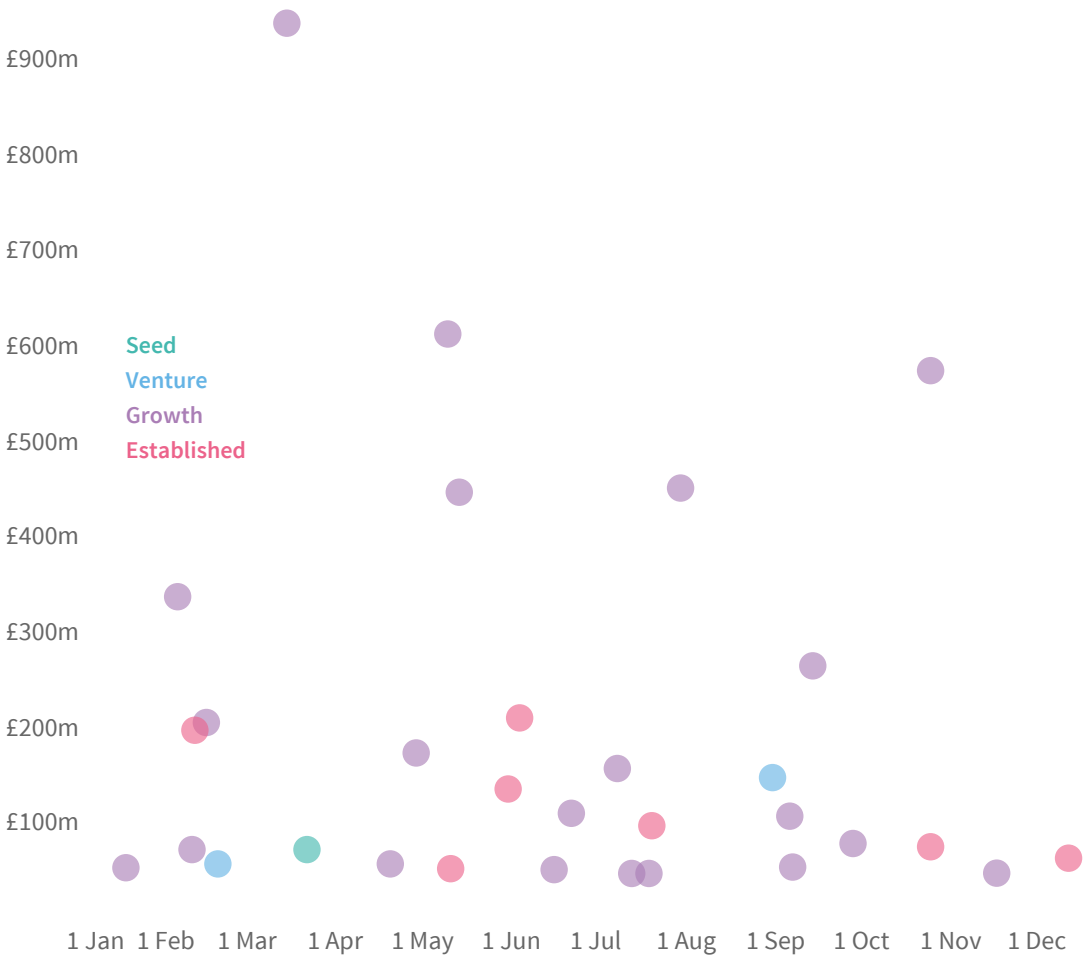
Note: Eagle-eyed readers may notice that the figures stated here don't quite match up with those quoted in the Female Entrepreneurs report. This is because The Deal does not include unannounced fundraisings. The discrepancy between numbers indicates that companies with a female founder are less likely to announce a fundraising to the media, which is likely related to the fact that female-founded businesses tend to be in earlier stages of development than those that are all-male founded.

The biggest deals of the year

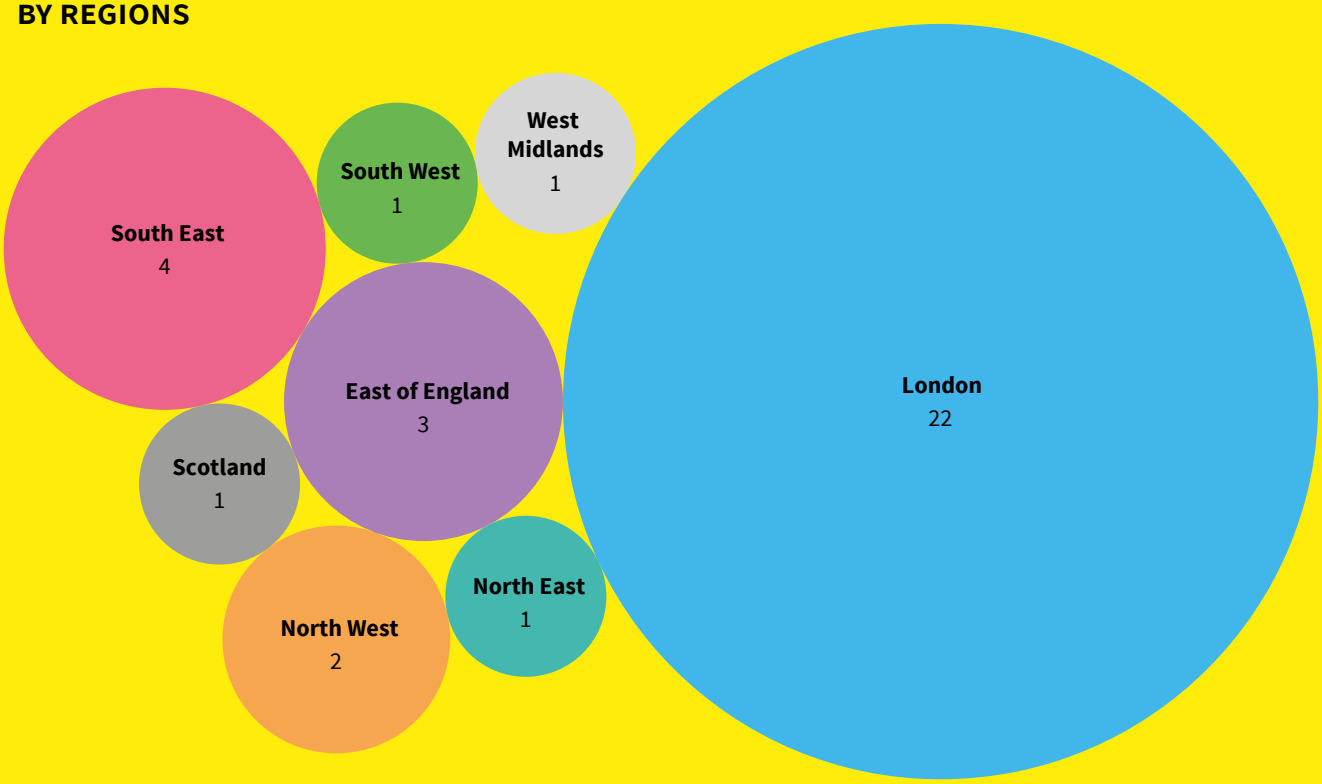
2019 saw a record number of megadeals completed (investments worth over £50m), with 35 announced over the course of the year, marking a 30% increase from 2018. The largest deal of the year saw £941m funelled into network provider OneWeb, which relocated from the US in 2017. Greensill, which provides working capital finance for supply chain companies across the world, achieved the second and third largest deals of the year worth a combined £1.13b. This equity was deployed by Japan's SoftBank Vision Fund, which also participated in OakNorth Bank's £340m fundraising in February.

As is consistent with the previous two years, companies based in London accounted for around two-thirds of these megadeals. London is a favourite destination among global investors, which are more likely to participate in large, late-stage deals; 80% of megadeals in 2019 involved participation from a one or more foreign investors. The capital is also well represented by the UK's fintechs and challenger banks, which secured 15 deals worth over £50m over the course of the last year.

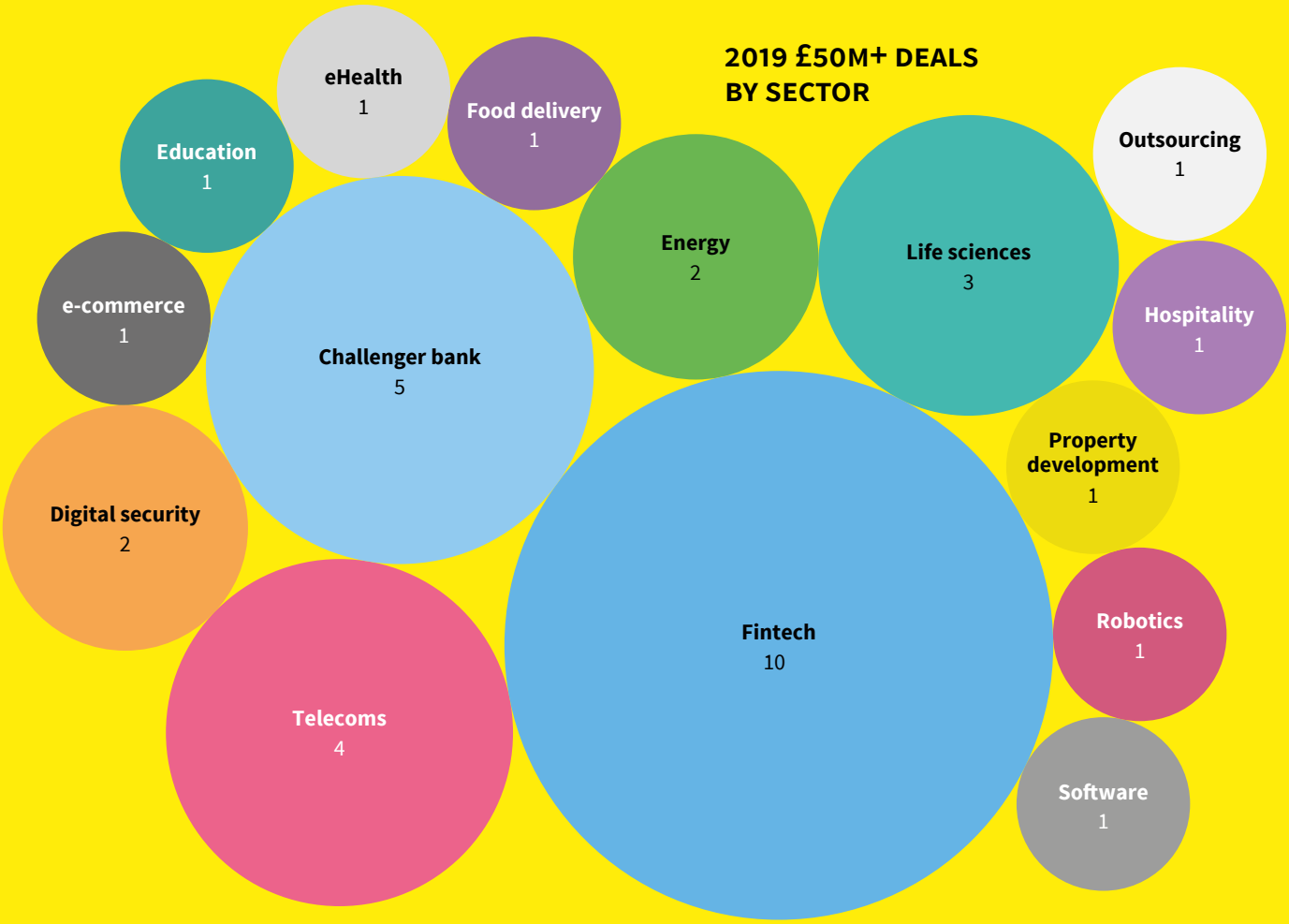
DEALS OVER £50M IN 2019



2019 £50M+ DEALS BY REGIONS



2019 £50M+ DEALS BY SECTOR



£941m ($1.24b)

DEAL DATE
18 March 2019

**Our records date from OneWeb's relocation to the UK in 2017.*

INVESTORS
Qualcomm Ventures, Government of the Republic of Rwanda, Grupo Salinas, SoftBank Group, undisclosed investors

TOTAL RAISED TO DATE
£941m over one round

£615m ($800m)

DEAL DATE
13 May 2019

INVESTORS
Softbank Vision Fund

TOTAL RAISED TO DATE
£1.31b over three rounds

£511m ($655m)

DEAL DATE
28 October 2019

INVESTORS
Softbank Vision Fund

TOTAL RAISED TO DATE
£1.31b over three rounds

£454m ($550m)

DEAL DATE
2 August 2019

INVESTORS
Kinnevik, Munich Re's Ergo Fund, Public Investment Fund (PIF), Vostok New Ventures, undisclosed investors

TOTAL RAISED TO DATE
£518m over three rounds

£449m ($575m)

DEAL DATE
17 May 2019

**This investment has been paused while it is under investigation by the CMA.*

INVESTORS
Amazon, Fidelity Management & Research Company, Greenoaks Capital Management, T. Rowe Price

TOTAL RAISED TO DATE
£1.15b over nine rounds

£340m ($440m)

DEAL DATE
8 February 2019

INVESTORS
Clermont Group, Softbank Vision Fund

TOTAL RAISED TO DATE
£637m over four rounds

£213m

DEAL DATE
7 June 2019

INVESTORS
TA Associates, Warburg Pincus, undisclosed investors

TOTAL RAISED TO DATE
£346m over two rounds

£200m

DEAL DATE
14 February 2019

INVESTORS
Mitsubishi Corporation

TOTAL RAISED TO DATE
£249m over four rounds

Sectors in focus

2019 was another stellar year for investment into fintech and artificial intelligence companies. We're also seeing a shift towards more environmentally conscious investments, and the rise of sustainable startups.

2019: the year of sustainability?

2019 began with a stark warning from Sir David Attenborough "We are facing ... our greatest threat in thousands of years". This caution rang out to the backdrop of sustained global protests from Extinction Rebellion and the pervasive rallying cries of environmental activist Greta Thunberg, which only got louder throughout the year.

But it wasn't just at the grassroots level that people took notice, large conglomerates joined in on the action to, such as Microsoft's resolution to become carbon negative by 2030 and Amazon's pledge to be carbon neutral by 2040. Businesses are now showcasing the need to adapt in order to meet ever-increasing concerns about a climate emergency. This strengthened focus upon safeguarding the planet for future generations has collided with the emergence of disruptive companies in the UK, with ventures spanning across clean energy, ethical decision-making and waste reduction.

RAISING FUNDS & AWARENESS: EMPOWERING CONSUMERS

Alongside pressure on established corporations to adopt sustainable goals, 2019 ushered a number of significant investments into UK companies seeking to alter the status quo by offering more eco-conscious options to consumers.

Appearing on SyndicateRoom's 'Top 100 - Britain's Fastest Growing Businesses' for two consecutive years and raising £5m in August 2019, Farmdrop promotes a more sustainable weekly-shop by enabling consumers to order fresh produce directly from farmers via their site. Olio has designed an app to encourage the sharing-economy through listings of unwanted food and household items for collection by locals. With a mission to empower communities to reduce waste, Olio raised $6m in 2018 from backers including Octopus Ventures and Silvergate investments, followed by an unannounced investment of £7.5m in November 2019.

Founded by former investment managers Matthew Latham and Tom McGillycuddy, tickr has brought impact investing to the masses. The team has developed a mobile app that allows users to invest in companies that have a positive impact on people and the planet, with portfolios focusing on issues such as climate change and equality. Having raised £1.14m through crowdfunding platform Seedrs in June 2019, tickr is set to expand its team, develop its product, and acquire new users.

With 2019 seeing both institutional investors and the 'crowd' pumping significant injections of capital into companies promoting ethical choices, tools facilitating more conscious consumer decision-making look set to become more mainstream as options continue to diversify.

CLEANING UP ENERGY

Challenger energy supplier, OVO Energy, which is on a self-proclaimed "journey to zero carbon", raised a staggering £200m investment from Mitsubishi Corporation in February. This led OVO to the much sought-after unicorn status, with the goals of expanding into new markets in Europe and Asia, as well as developing 'Kaluza', its intelligent technologies unit. Renewable energy provider Bulb is also well funded, to date having secured £65m to OVO's £259m. The majority of this total came in one £60m round from Digital Sky Technologies and Magnetar, with the aim of hiring more top class engineers and energy experts. As the likes of these disruptive organisations stay hot on established providers' heels, taking a technology focused approach while winning customers concerned about an energy crisis, the current climate seems well set for innovations and developments in the sector.

MATERIAL CHANGES

The backlash against waste being sent to landfill (plastic in particular) gained even more traction this year. This issue is being addressed by a number of ambitious companies across the UK that are working with sustainable materials with all sorts of applications. NOTPLA, an Imperial College spin-out, has developed an edible water bottle made from seaweed, while Middlesbrough-based Presca Teamwear (which raised £400k in May 2019) reuses plastic bottles to create sportswear. In July 2019, Maven Capital's NPIF Equity Finance participated in a £1.27m investment into TRAKRAP, a Lancashire-based sustainable packaging manufacturer, for the purpose of creating 67 new jobs. Meanwhile, Worn Again is attempting to combat fast-fashion habits by utilising waste textiles to create new clothes, completing a £5m round with participation from

H&M CO:LAB. With such a vast spread of support from the likes of universities, corporate investments and traditional private equity and venture capital backers into a varied cohort of companies, the battle against single-use materials is being tackled from a multitude of angles.

AN ECO-FRIENDLY ECOSYSTEM?

As consumer interest in eco-friendly products and services continues to grow, so do the support systems behind the companies; there are a growing number of social impact funds and accelerator programmes specifically designed to support sustainable business ventures.

The University of Edinburgh-based 'Climate-KIC' accelerator provides a three-stage programme for low-carbon entrepreneurs and start-ups. Graduates include H2GO Power, a University of Cambridge spin-out that develops hydrogen-storage technology with a range of applications including portable energy sources for electric vehicles and smartphones.

'The Future 20' accelerator, managed by the Future Business Centre, assists companies that aim to address global and local challenges through technology, specifying as one of its entry requirements that companies must be "addressing at least one of the UN Sustainable Development Goals with their business model". Notable attendees include BEEN London, an online store selling items made from upcycled materials that would otherwise go to landfill, and Twipes which manufactures an environmentally-friendly toilet paper that breaks down within 3 hours.

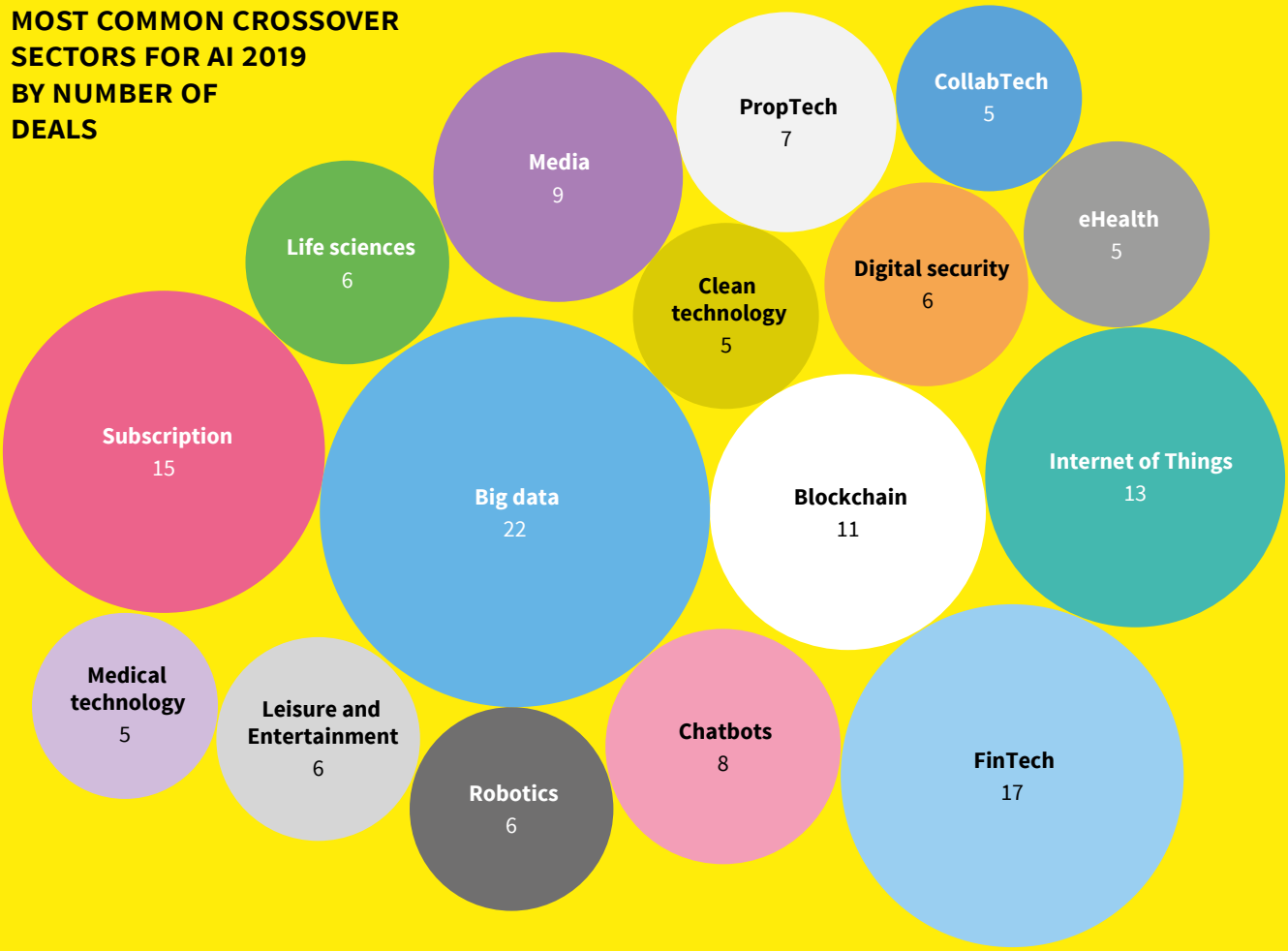
It's not just accelerators pulling their weight; there really is activity at every stage of the ecosystem. Work is being carried out at universities across the UK to support spin-outs and commercialise cutting-edge research, and large corporates are embracing the intrapreneurial spirit to foster sustainable initiatives. And that's not to mention the existence of active social impact VCs across the UK, with the likes of ClearlySo, Nesta Impact Investing and LGT Venture Philanthropy investing into socially and environmentally conscious companies. It's encouraging to see such provision of support growing for companies with commendable visions, and this is a trend we expect to see continue throughout 2020 and beyond.

Though critics have been quick to judge a number of startups for a 'growth-at-all-costs' mindset, 2019's activities in the realms of sustainability should be cause for hope, showing a diverse range of companies and supporters seeking sustainable business models both in terms of longevity for themselves, and for our planet.

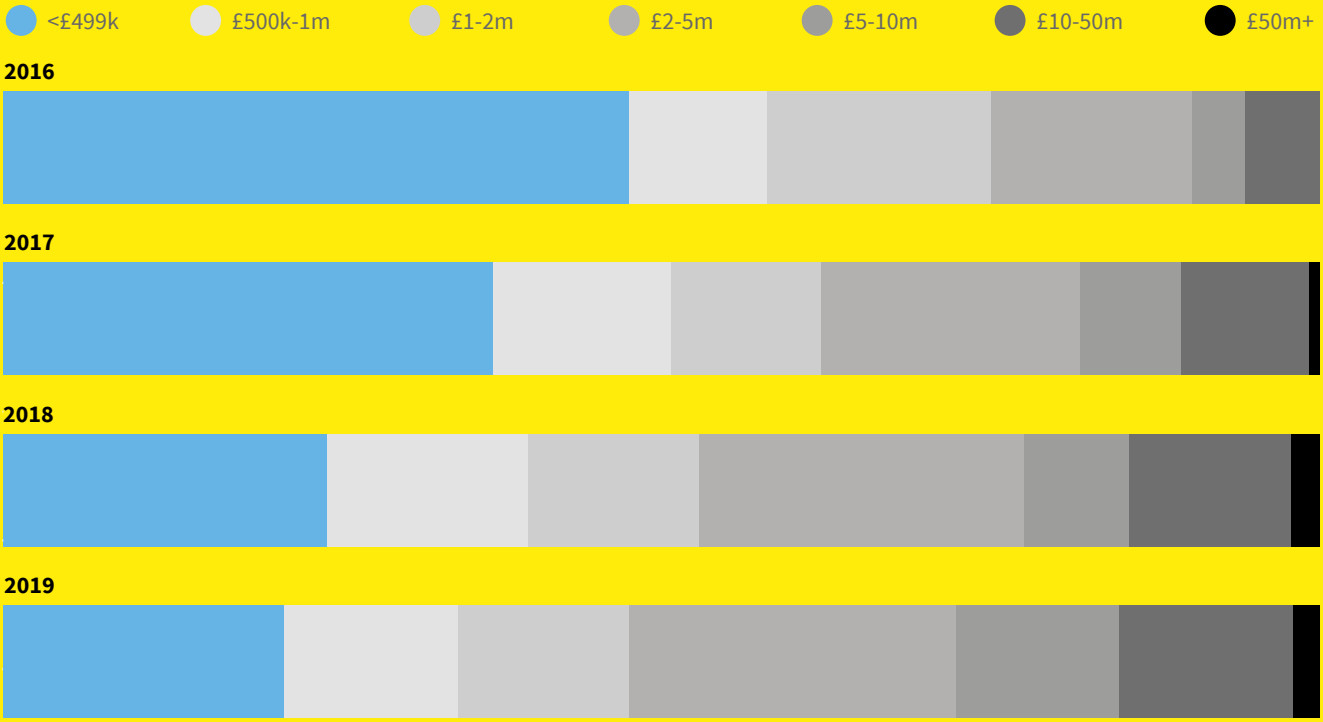
> **"As consumer interest in eco-friendly products continues to grow, so does the support system behind the companies.**

Jo Hawkins

MOST COMMON CROSSOVER SECTORS FOR AI 2019 BY NUMBER OF DEALS



AI INVESTMENT BRACKETS

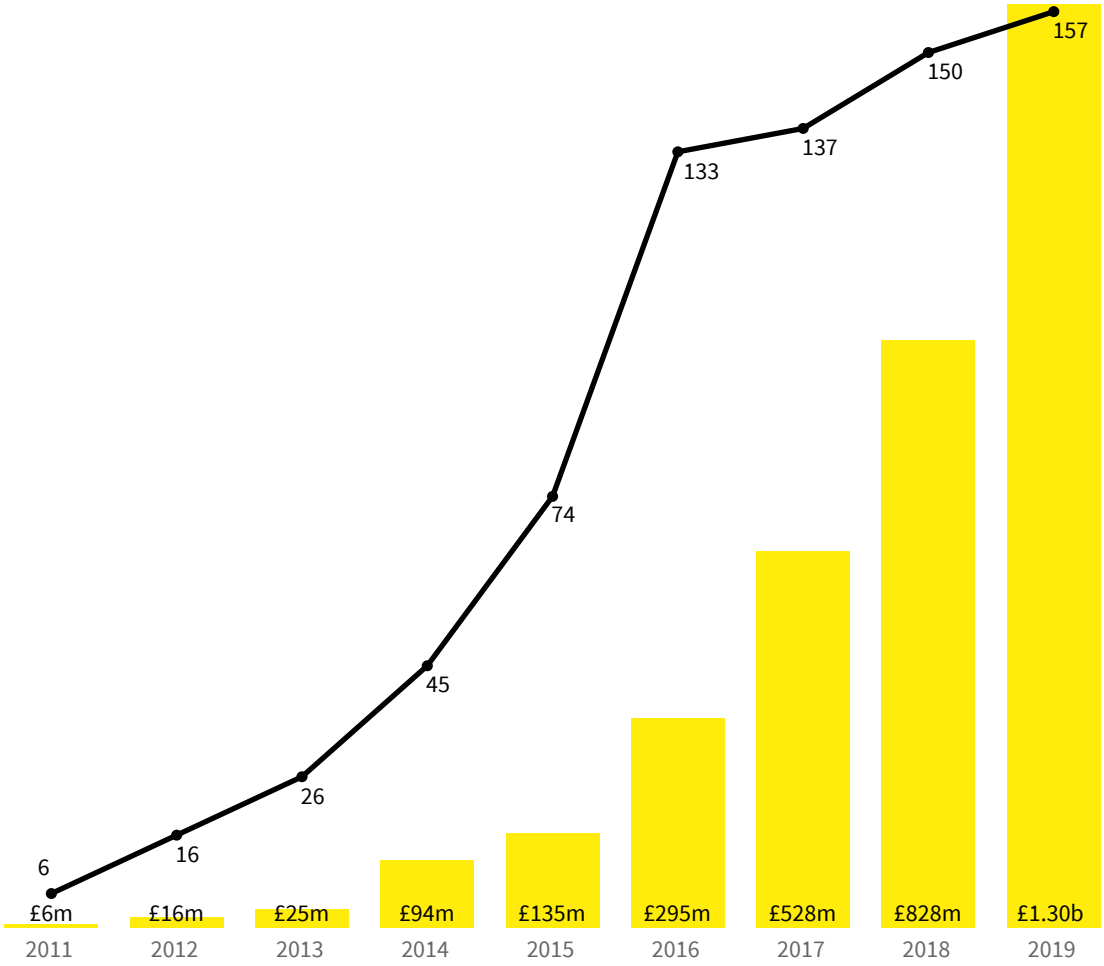


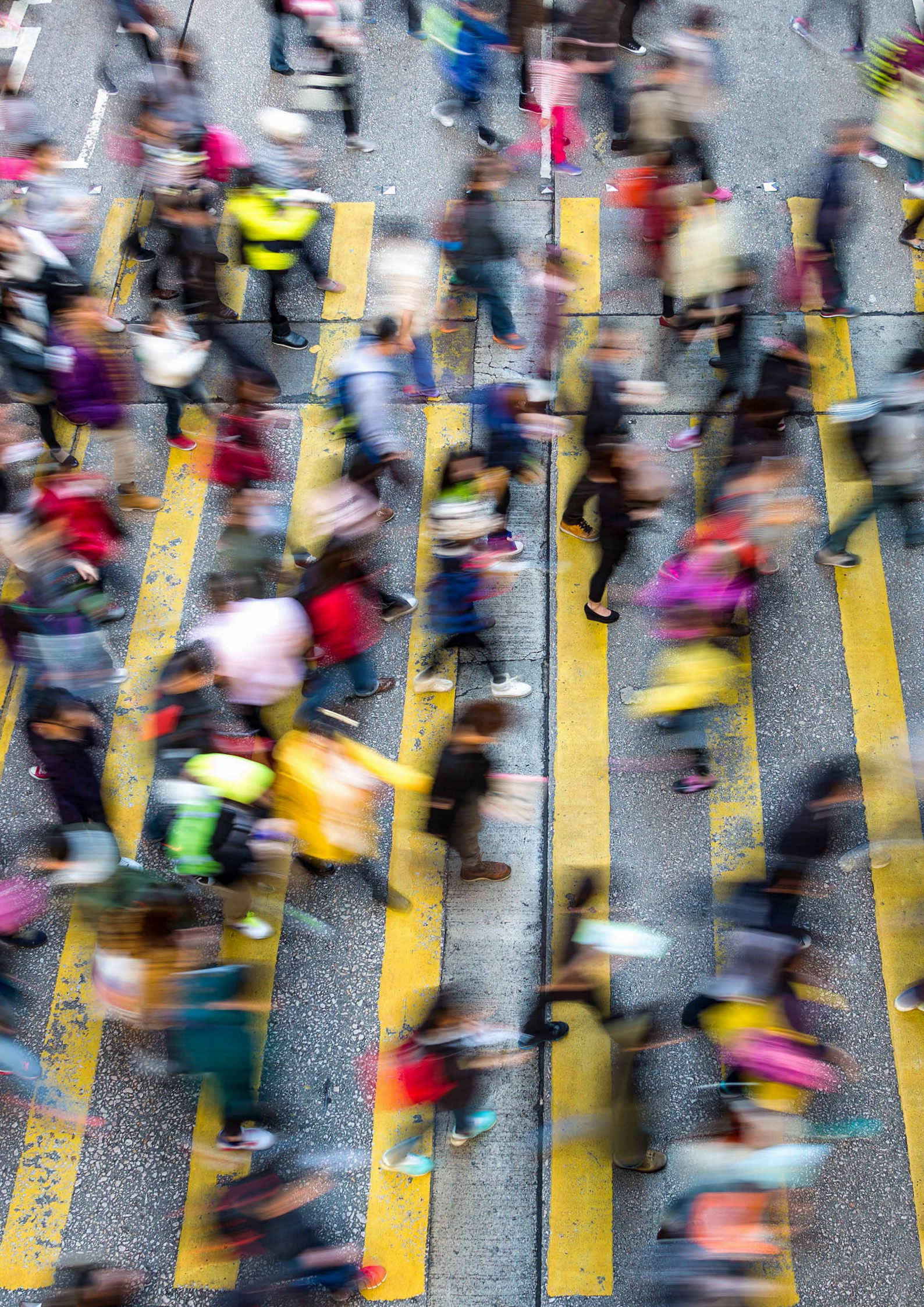
AI continues to storm ahead

2019 saw yet another year of continued growth for businesses in the AI sector. While deal numbers increased by a fairly respectable 5%, it was the amount invested that skyrocketed in 2019. Growing by 57% from 2018, £1.3b went into artificial intelligence businesses — 11% of the total invested into all businesses during 2019. Mirroring movements across the broader market, this significant jump can be attributed to an increase in larger deals at later stages.

In 2016, deals worth under £500k accounted for almost 50% of investments into artifical intelligence companies. As the market has matured, these deals now account for just over 20%. Further powering this growth is the fact that a significant number of businesses across some of the UK's most exciting sectors are powered by artificial intelligence. In 2019, 22 investments went into businesses operating in both the AI and big data space, and 17 to those in the FinTech and AI space.

AI DEALS AND INVESTMENT 2011 – 2019

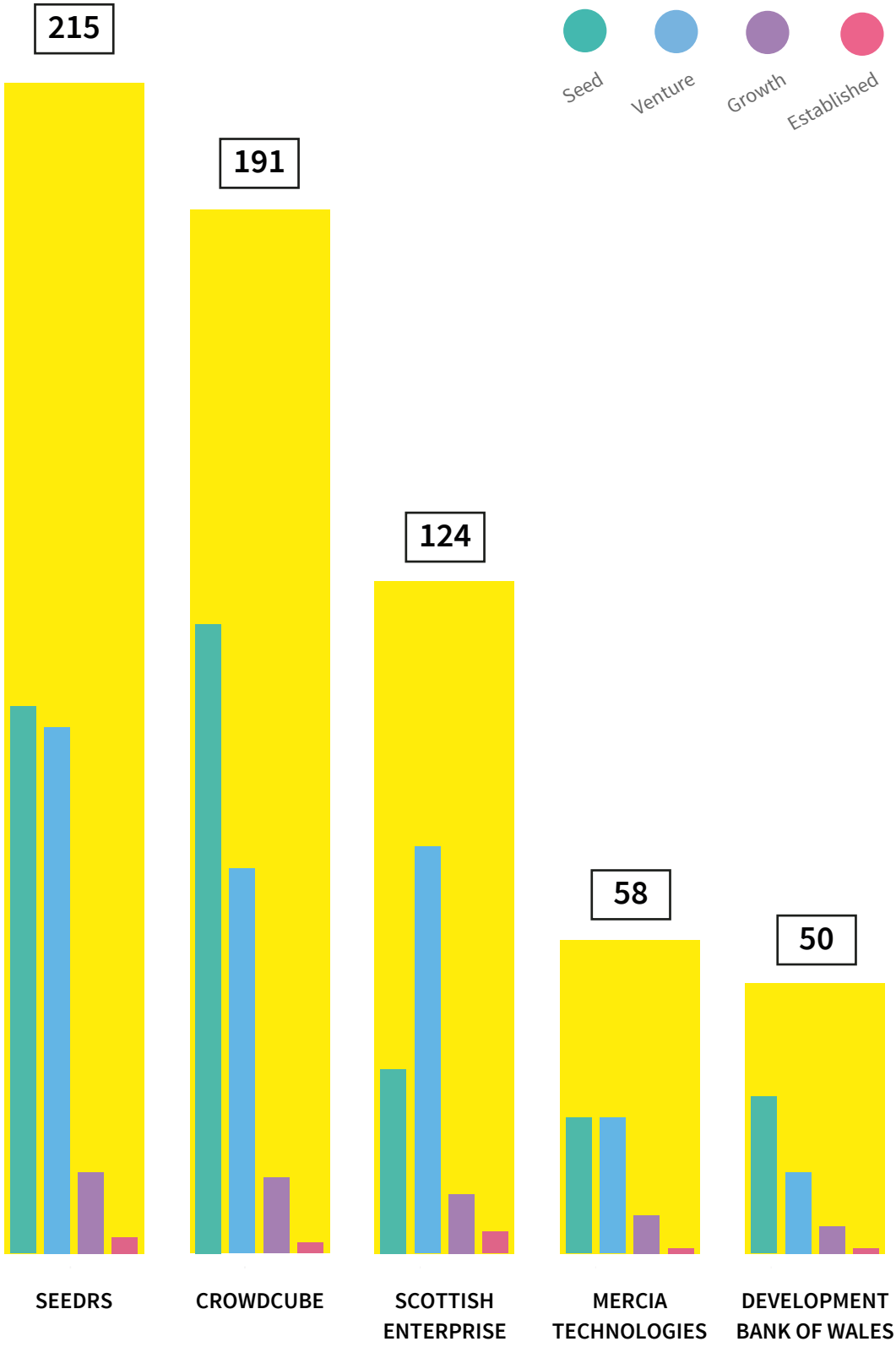




Investors in focus

Growth in crowfunding platforms continues, with a record number of deals during the year. Elsewhere, two new entrants make it onto the ranking of the UK's top ten most active investors.

Top investors by UK deal numbers



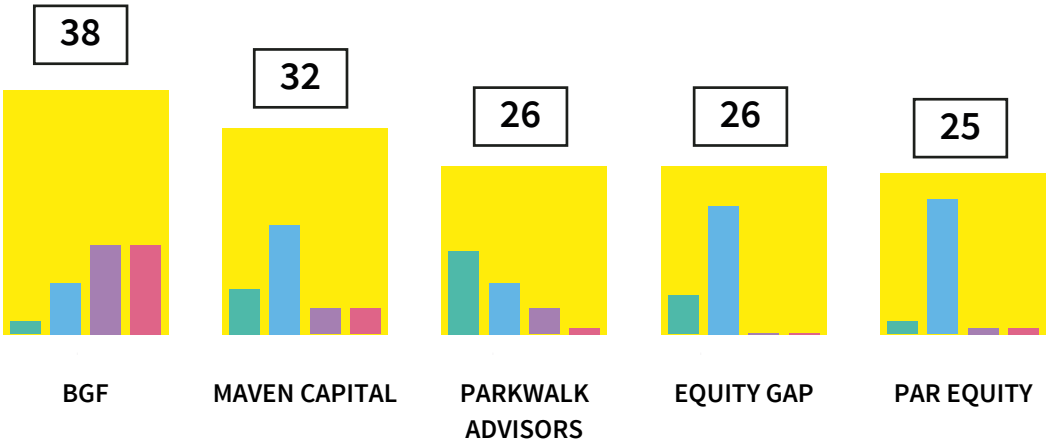
MAINTAINING THE STATUS QUO

Overall, the face of the UK's most active investors has shown limited change in the past few years, with just two new entrants since 2018: angel syndicate Equity Gap and VC firm Par Equity have entered the top ten, knocking SyndicateRoom and Foresight Group out of the rankings.

Seedrs takes the crown as the UK's most active investor, having facilitated 215 investments throughout the year. Coming in a close second in the overall rankings, Crowdcube participated in the highest number of seed-stage deals in 2019. It comes as no surprise that these two crowdfunding platforms top our charts – as they do so year after year – and we expect their dominance to persist for the foreseeable future. Whilst total UK deal numbers dropped between 2018 and 2019, both Seedrs and Crowdcube saw deal activity rise by 36% and 14%, respectively. Clearly, the crowd is showing great appetite for a chunk of the UK's fastest-growing businesses, and entrepreneurs want them on board.

GROWTH IN THE REGIONS

Scottish Enterprise has also seen a significant increase in deal activity, with a 32% jump in the number of deals completed between 2018 and 2019. The regional body has now ranked as the third most active investor in the UK for three consecutive years, whilst Development Bank of Wales has dropped from fourth place in 2018 to fifth place behind Mercia Technologies. Whilst the capital's behemoth high-growth ecosystem continues to demand investor attention, these regional bodies are ensuring that further-flung areas of the country are just as viable places to set up and grow new businesses.



INVESTORS IN FOCUS

Crowdfunding in 2019

The crowd of crowdfunded companies is growing larger and larger as investment platforms continue to back more deals every year. Primarily funding seed and venture stage businesses, crowdfunding platforms are an important supporter of companies at the earliest and most precarious stages of growth. 2019 reflects the busiest year on record for these platforms, with 424 deals by UK companies involving crowdfunding platforms. The past decade has been the stage for their debut into world of equity investment, so we've asked three experts in crowdfunding what lies ahead for these investors.

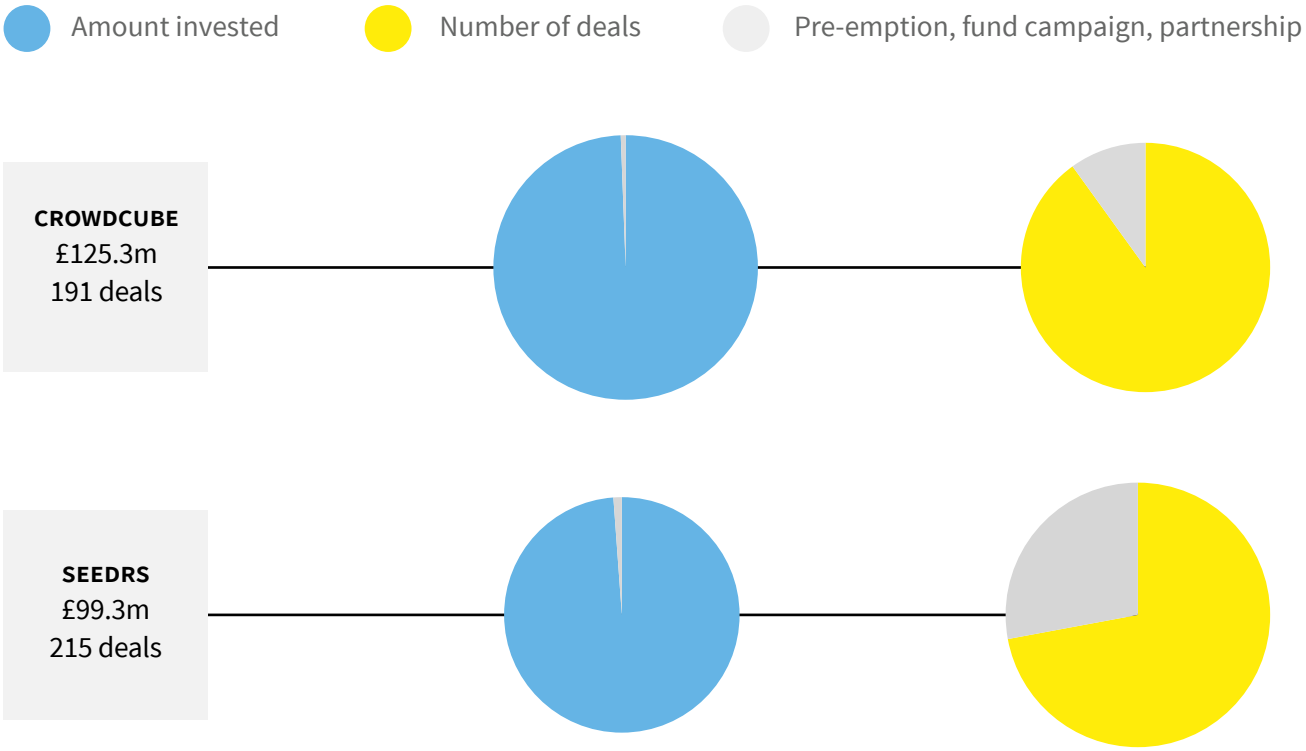
WHO ARE THE BIG PLAYERS?

Equity crowdfunding platforms allow capital (from chunks as small as £10) to be exchanged for stakes in companies looking to raise funds, taking on the challenges of organising and administrating thousands of investors within a single round.

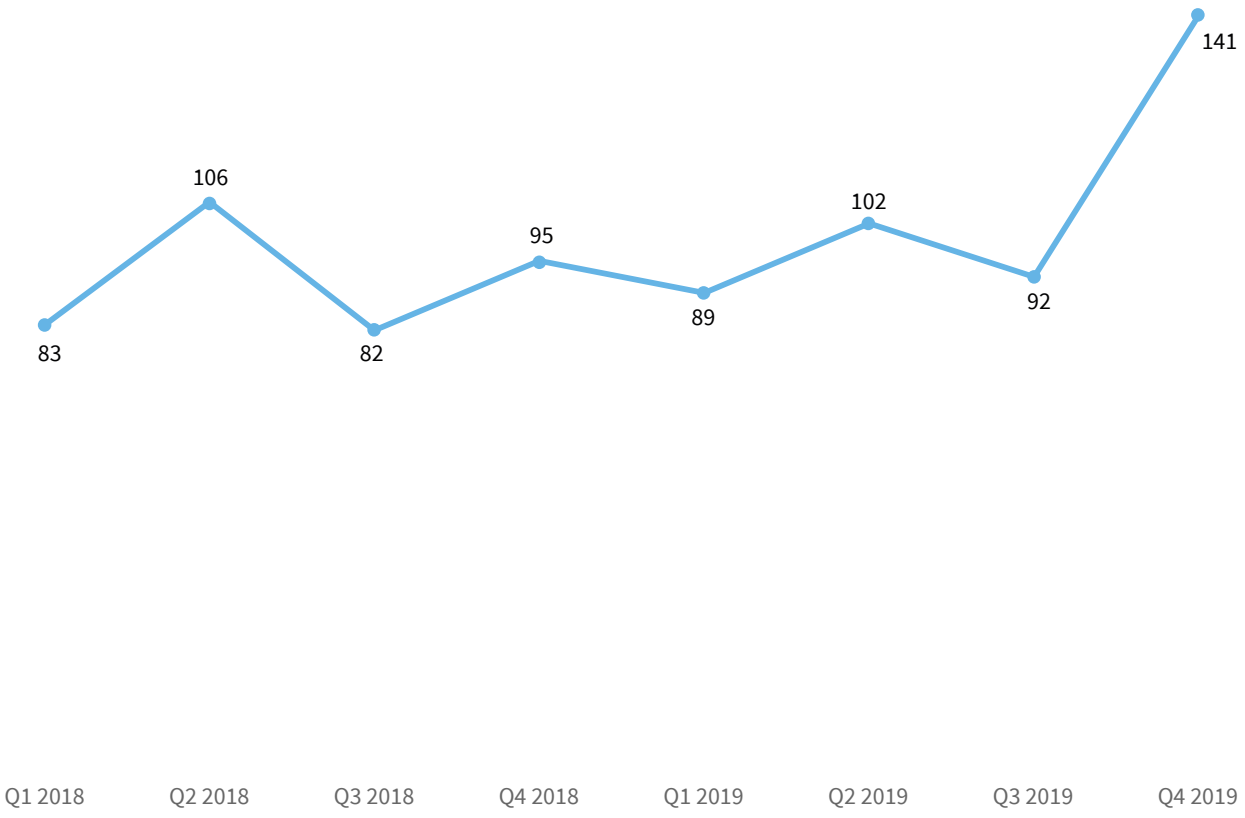
Crowdcube and Seedrs are the top two equity crowdfunding platforms in the UK. Crowdcube facilitated its first investments into startup companies in 2011, making seven investments totalling £1.6m. Seedrs made their crowdfunding debut in 2012, facilitating seven fundraisings worth £248k. They are now involved in hundreds of deals every year, both in the UK and abroad.

SyndicateRoom positioned itself as an equity crowdfunding platform that allowed amateur investors to co-invest alongside professional investors from 2013 to 2019, during which they helped raise over £250m. In 2019, pre-empting market changes they moved towards an index-informed portfolio approach. Through this move, they plan to give investors access to the top-end of the startup market, and not just those that use traditional crowdfunding platforms.

MAJOR CROWDFUNDING PLATFORMS, 2019



CROWDFUNDING DEALS OVER TIME, ALL PLATFORMS



GAPS IN FUNDING AND DIVERSITY

The UK's entrepreneurial scene is the most active in Europe, with a well developed innovation ecosystem that attracts a significant amount of foreign and domestic investment. Roberto Napolitano, Marketing Director at Seedrs, notes that the UK's tax relief incentives, such as EIS and SEIS, make the country a relatively hospitable place to invest in young companies, compared to other countries. "The government has thus far been very supportive of funding ambitious startups", he adds, "we're renowned for fostering an innovative and supportive environment for entrepreneurs, so we'd like to see that continue."

Marcin Zaba, Head of Marketing at SyndicateRoom reiterated that "there is a good amount already available for the really young startups. Funding is encouraged by tax relief schemes and support networks are well developed and relatively open." He identifies the key issue of the funding gap for companies looking for their next round of £1m – £5m. Crowdfunding platforms and angel investors rarely handle deals of these sizes alone, and institutional investors are moving progressively to even later-stage, larger deals. This shift has the potential to leave some companies stranded in the venture gap.

Crowdfunding platforms have supported very large deals in the past, such as Monzo's £20m through Crowdcube. However, these deals often involve institutional co-investors to reach these numbers. Marcin argues that these deals are only an option for particular types of companies i.e. those with a strongly-branded consumer product, such as challenger banks or brewing companies. Companies that can capture the imagination of thousands of crowdfunders may be able to raise millions through these platforms, but others may struggle.

While SyndicateRoom has supported life sciences and medtech companies, Marcin finds it "difficult to see a crowdfunding community with enough individual crowdfunders to support these kinds of businesses in their medium-sized rounds." Therefore, the ecosystem needs other kinds of investors to realign their activities with the needs of the market and fill this gap at the venture stage.

While later stage companies are needing more attention, the support provided to the earliest stage organisations remains poorly distributed. Luke Lang, Co-founder and CMO of Crowdcube, argues that regional and gender-based inequalities are the key challenges for young UK companies. "Although there are a wealth of co-working spaces, accelerators and incubators in London, this abundant ecosystem is yet to be replicated across the regions."

OUR EXPERTS

Roberto Napolitano
Marketing Director
Seedrs

Luke Lang
Co-founder & CMO
Crowdcube

Marcin Zaba
Head of Marketing
SyndicateRoom

Looking at the findings in Beauhurst's Female Entrepreneurs report, crowdfunding came out top as the most equitable type of investor in the UK. However, to redress the gender imbalance, it's clear that "much more needs to be done" to support female entrepreneurs seeking finance.

STRONG NUMBERS, IN THE RIGHT PLACE?

With nine years of rapid growth behind them and an unprecedented amount of investment activity in 2019, crowdfunding platforms are looking stronger than ever. Continuing this growth will be one test faced by crowdfunding platforms in upcoming years. "With 35,000 active investors already claiming SEIS/EIS in the UK, I'm not sure there are many more individuals who are willing to pick and choose their own startup investments. However, we believe that there's a much larger group of underserved passive investors" argues Marcin. Luke also recognises this challenge, but says it's one that Crowdcube are relishing. "I expect to see more overseas businesses raising with us, especially in the EU where new rules are changing to reflect what we have in the UK."

The creation of crowdfunding as a form of investment was enabled by changes in the FCA's regulation in 2000. Roberto noted that "regulation changes in early-stage fintechs can always be a challenge," and funding platforms should continue to work with the FCA in the UK to balance high standards and regulatory requirements with innovation in this sector.

However, if crowdfunding platforms cannot illustrate their activities as sound financial investments, the challenges faced in regulation and building an investor-base may be irrelevant.

There have been two IPOs and 35 acquisitions of companies that have used crowdfunding. Seedrs has backed the two companies that have reached IPO (FreeAgent and Coinsilium) and eight of those that have been acquired, while Crowdcube has backed 17 of the acquired companies. Crowdcube has also backed three of the UK's Unicorn companies (those that have achieved a valuation of $1b or more), and Luke "firmly believe[s] that the next generation of unicorns... will be fuelled by their customers."

Marcin shows less conviction in the investment model, which is further demonstrated by SyndicateRoom's movement away from the crowdfunding model completely: "The average growth rate (CAGR) across all companies that have received equity investment is 30%; the performance rates published by crowdfunding platforms have been significantly below this."

Marcin proposes that unless these figures improve, or the ecosystem sees some big, notable exits by crowdfunded companies, investors may lose confidence in crowdfunding as an asset class.

2020 VISIONS

With the increasing demand for investment from early-stage companies, crowdfunding platforms cannot be complacent. Crowdcube and Seedrs have big plans for 2020 and beyond. Roberto from Seedrs adds, "after our successful 2018 and 2019, this year we will continue our journey to becoming a full-scale platform for investing in private companies.Think about what Amazon did for eCommerce, but in the context of VC, private equity and investing."

Luke describes how the increasing preference for later-stage, VC-backed businesses has borne out on the Crowdcube platform, with these companies looking to raise over £5m. He expects this trend to continue into 2020, "as more businesses understand the benefits, through increased revenue, engagement, loyalty and advocacy and of turning their community into shareholders."

SyndicateRoom will be continuing its work with its new fund Access EIS, launched in 2019. Using Beauhurst data, the team created an index of the best performing 'super-angels' and their investments, and are looking to co-invest with them across all their investments. Moving away to a market-level, portfolio approach to investment, Marcin says we "by investing across the entire top-end of the market, we want to become early backer of every single future British unicorn, not just those that happen to crowdfund." By following angels on their investment, SyndicateRoom looks to facilitate quicker funding rounds and periods of due diligence, allowing companies and their investors to "get on with it". SyndicateRoom has completed 17 fundraises with this new model so far, each of them closing within a month.

Our experts have big ambitions, taking different approaches and funding models to support young businesses. With such a successful year in 2019 behind them, we'll be keeping an eye on the data to see if crowdfunding continues this momentum through 2020 and beyond.

Ava Scott

> "With nine years of rapid growth behind them, crowdfunding platforms are looking stronger than ever.

Overseas investors get sterling deals

Parliament rejected Theresa May's withdrawal agreement from the EU by a record margin in January 2019, setting the tone for a year characterised by political and economic drama—and a volatile pound. The events that followed: the rejection of a second deal, May's resignation, the prorogation of Parliament and its ruling as unlawful, the Brexit extension and the December general election all helped Sterling to live up to its new moniker; the Great British Peso.

Beauhurst data suggests that foreign investors took advantage of the currency's volatility to invest in and purchase high-growth British businesses at attractive prices. Over the course of the year, private businesses secured 481 equity deals involving at least one foreign investor, an increase of 24% since 2018. Combined, these investments were worth £9b, more than double the £4.4b raised in 2018.

While this increase in both total money invested and number of deals may be representative of the growing amount of capital available globally, it is significant in the context of a 3.7% decline in total deal numbers in the UK since 2017. If the increase in deals is due to bargain hunting on the part of foreign investors, it is important to recognise that it is also a vote of confidence in the UK as a place to conduct business over the longer term.

Of course, the true test of confidence is whether foreign investors are prepared to own UK-headquartered businesses outright. The data suggests that 2019 did slake buyers' thirst for ownership. The total number of acquisitions involving a foreign acquirer or fund in 2019 was down slightly to 175 deals compared to 194 deals in 2018.

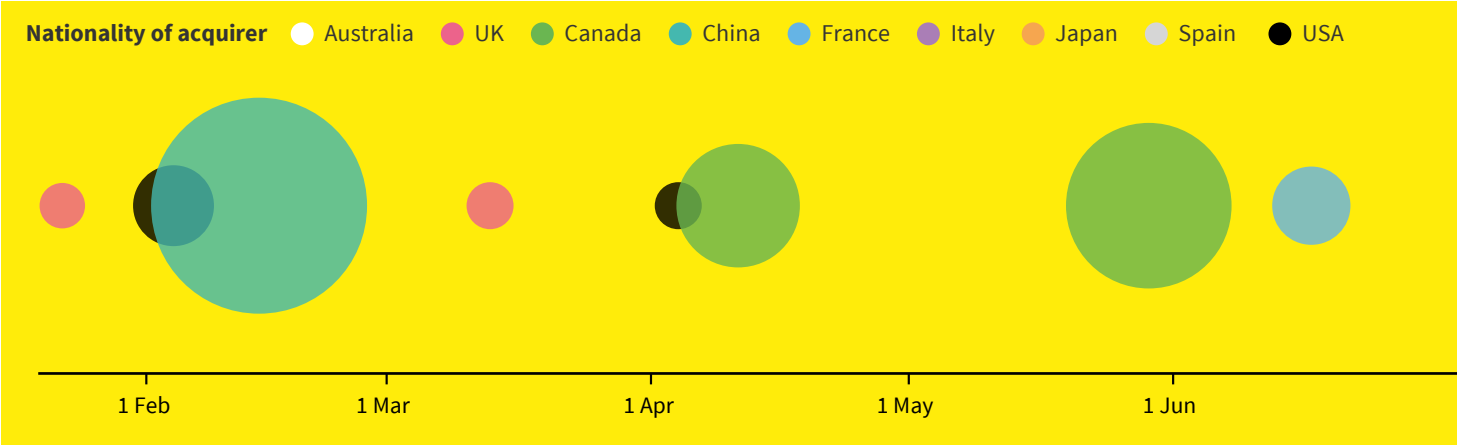
Several of the larger deals were in the financial services, perhaps indicative of depressed prices in the sector due to the uncertainty surrounding access to European markets.

FOREIGN EXCHANGERS

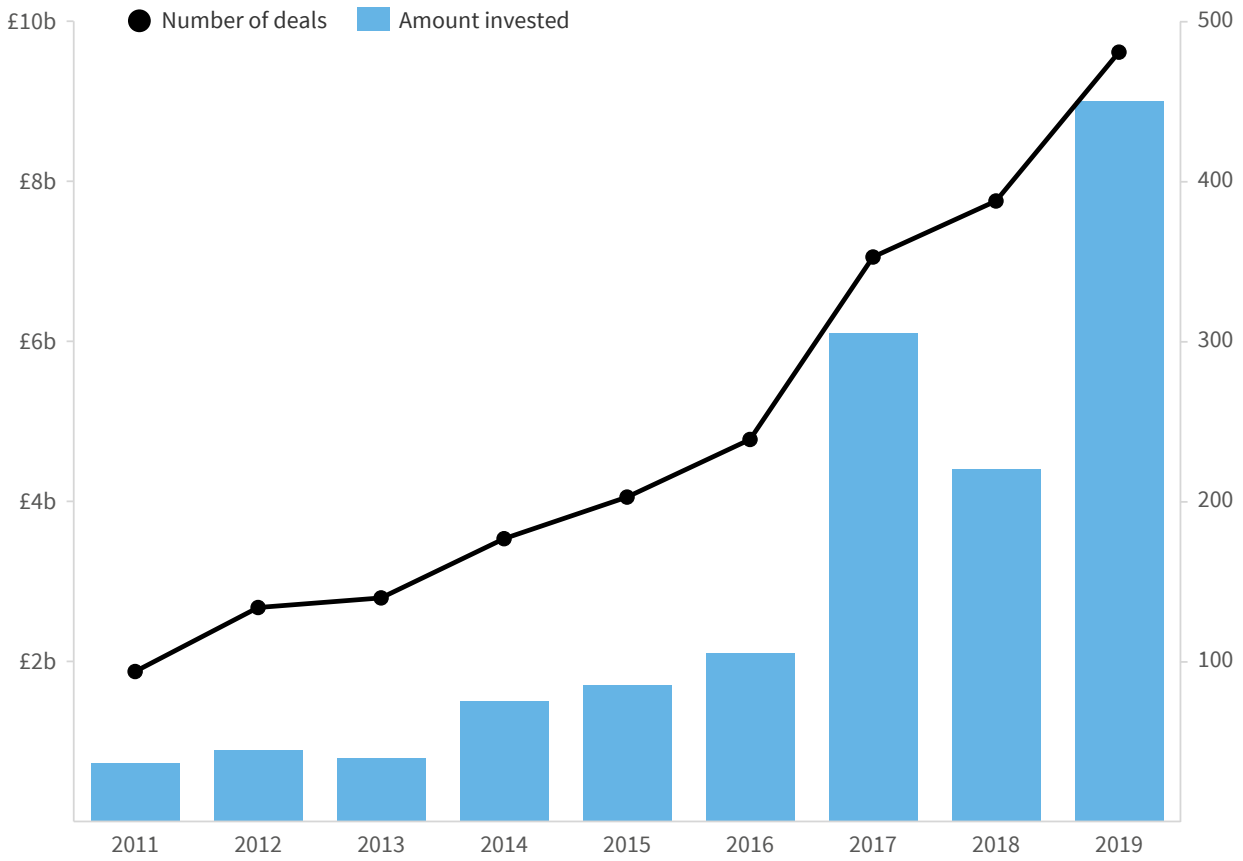
Among these was the acquisition of money transfer company WorldFirst for a reported $700m (£545m) in February by China's Ant Financial. The remittance company had only raised £265k over two equity rounds since it started in 2004, meaning co-founders Jonathan Quin and Nicholas Robinson and their families owned 52% of the business at the time of the sale.

Commentators noted that the deal was Ant Financials' first major foray into western markets, following its unsuccessful attempt to acquire US-based Moneygram in 2018, thwarted by regulators.

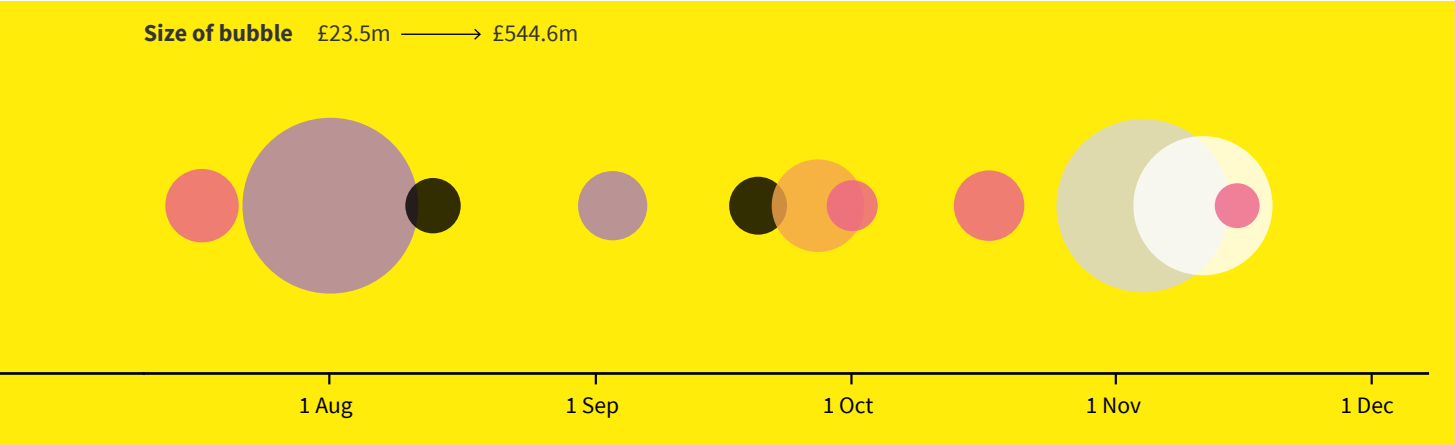
ACQUISITIONS OF UK COMPANIES 2019 (CONT. NEXT PAGE)



EQUITY FUNDRAISINGS WITH FOREIGN INVESTMENT



ACQUISITIONS OF UK COMPANIES 2019 (CONT.)



AUDIO NETWORK

Founded in 2001, this music licensing platform is used by content producers and brands including the BBC, Mercedes and Vice. It was acquired for £169m in April 2019 by Canada's Entertainment One with the potential for an earnout worth up to £9m paid through shares.

Audio Network had raised £2.7m in eight rounds and grown sales to £23m in the year to March 2019 with EBITDA of £6.5m. In December, Audio Network's new owner Entertainment One was acquired by US toy company Hasbro for a reported £2.9bn.

CRYPTO FACILITIES

Cryptocurrency exchange and futures trading platform Crypto Facilities was acquired by US counterpart Kraken for £76.5m in February 2019. The company incorporated in 2014 and raised a £1.1m round in 2016 from venture investors including Playfair Capital, String Ventures and Digital Currency Group. It is regulated by the Financial Conduct Authority and provides cryptocurrency pricing data to banks, traders and data vendors.

Since the deal, Kraken has continued its consolidation in the sector, buying assets from US-based Circle and acquiring the Australian exchange Bit Trade.

INVERTEK DRIVES

Welsh electronic drive manufacturer Invertek was acquired in September last year by Japan's Sumitomo Heavy Industries in a deal worth up to £100m. Invertek has been operating since 1998 and specialises in the design and manufacture of variable frequency drives that control motors in a range of industrial applications including pump control, air fan management and elevators. Sales hit £35.3m in 2018 with EBITDA of £6.5m.

WorldFirst's competitor Ebury sold a 50.1% stake to Santander in November for £350m. The foreign exchange brokerage had secured £78.8m in eight rounds since starting in 2009 from backers including Vitruvian Partners, 83North and Greylock Partners. Sales hit £43.7m in 2018 at the loss-making company. At the time of sale, Ebury said it would continue to operate independently of Santander but benefit from the bank's scale in serving SMEs trading internationally.

Also in November, Prepaid Financial Services was acquired by Australian-listed company EML Payments for £226m with an additional earnout of up to £55m. Since starting from the founders' kitchen table in 2008, the e-money service provider has grown to turnover of £65.5m in 2018 with EBITDA of £9.3m. It has bases in London, Ireland and Malta—due to its acquisition of Maltese software developer Spectre Technologies in 2017. EML Payments said that the deal would provide a more diversified financial footprint with access to eight new markets.

GEOGRAPHIC DIVERSIFICATION

Outside of financial services, a significant deal in the high-growth space was the £337m acquisition of molecular imaging company Blue Earth Diagnostics in June by Italy's Bracco Imaging. Since starting in 2013, Oxford-based Blue Earth had received a £500k Innovate UK grant and £40.8m in three equity rounds. The funds have been used to support its commercialisation of PET imaging agents to detect prostate cancer. Sales hit £58.5m in 2018 with EBITDA of £16.4m. The deal generated a 10x return for Blue Earth's former owner, FTSE250-listed lifesciences investor Syncona.

Canadian bus-maker NFI Group also used 2019 to strengthen its offering away from home with the acquisition of UK counterpart Alexander Dennis for £320m in May. The Edinburgh headquartered group was formed in 2004 when investors acquired assets from collapsed vehicle manufacturer Mayflower Corporation and has vehicles in service in Europe, North and South America and Asia. Sales were £630m in 2018 with EBITDA of £43.7m.

A volatile pound may have contributed to the record level of foreign investment in the high-growth space during 2019. However, the inward investment and the relatively strong market for UK growth businesses suggests confidence on the part of investors in the continued economic strength of the UK outside the EU. Hopefully the funds raised and the equity released during 2019 will stimulate the high-growth ecosystem to new highs during 2020.

481

equity investments with a foreign investor

175

acquisitions involving a foreign acquirer or fund

Dan Robinson

BEAUHURST DATA

Driven by our platform

All data featured in this report is available on Beauhurst — the best way to discover, track and understand high-growth businesses.

Beauhurst makes creating data-driven thought leadership easy. Up-to-the-minute data, sector trend maps and funding stats allow you to stay on top of the high-growth economy.

Find out more at beauhurst.com

Beauhurst

Editor Hannah Skingle
Contributors Henry Whorwood, Ava Scott, Jo Hawkins, Dan Robinson
Design Ella Halmari