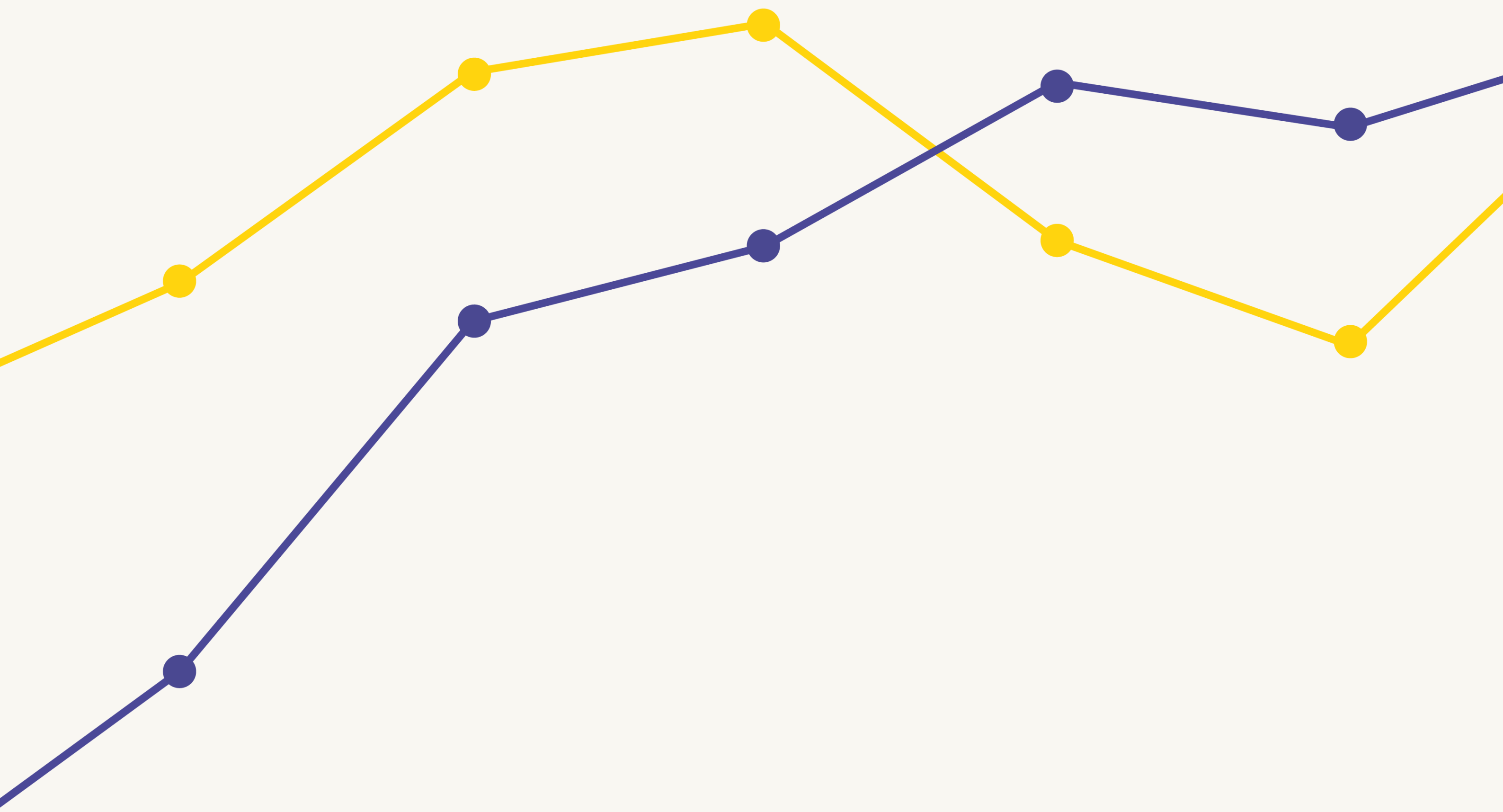
Seeding to Succeed:
First-time Deals 2022 Trends

April 2023



Beauhurst

SFC

Stephen Page, Founder and CEO at SFC Capital

Executive summary

This report offers vital insights for investors, entrepreneurs, and policymakers striving to comprehend the trends within the UK's startup ecosystem during a period when external factors have dampened momentum and necessitated support for startups and investors alike.

Undeniably, 2022 proved to be a more challenging year for emerging startups and first-round investments due to ongoing economic disruptions and global instability. The data reveals a sharp drop in both new businesses and first-time investment deals between 2021 and 2022. Nevertheless, a more thorough analysis validates our expectation that 2021 was an anomalous year for startups and investments, driven by COVID-related stimulus packages. The data suggests that 2022 marked a return to the consistent downward trend seen since 2018. Evidently, the UK's startup ecosystem requires revitalisation.

Last year's data also underscores the importance of SEIS within our fundraising landscape. The vast majority of initial investment deals transpire through SEIS, making it the cornerstone of startups and innovation in the UK. However, despite its profoundly positive impact on the country's startup success since its inception in 2012, the data suggests SEIS has struggled to maintain the same growth since 2018. To better serve its purpose of fuelling the next wave of innovation and startup leaders, SEIS requires modernisation and adaptation.

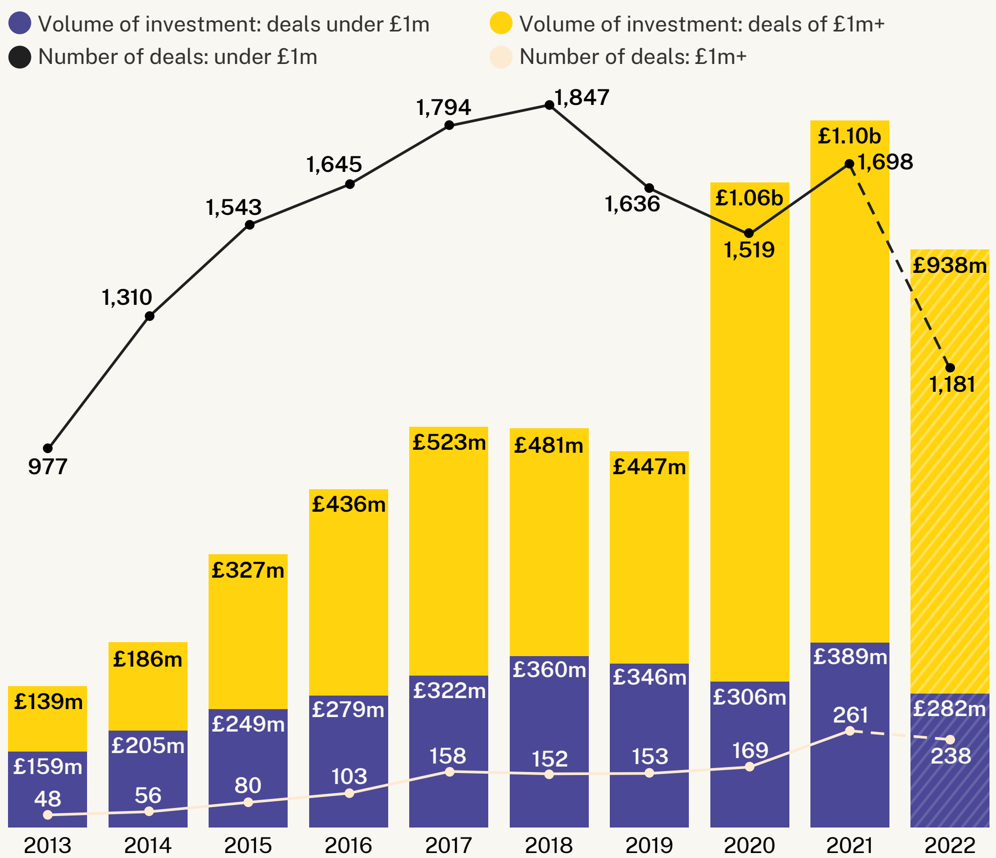
SFC Capital was one of the most vocal advocates lobbying for the SEIS scheme update and suggesting the exact necessary changes. The effort that was strongly supported by other parties interested in reinvigorating the UK's startup scene eventually paid off and resulted in the introduction of SEIS 2.0 in April this year. By enabling startups to raise more capital and investors to contribute more, as well as other positive changes, this update renders SEIS suitable for today's needs. It is an immensely positive development that will fundamentally reshape the SEIS market, benefiting both startups and investors.

To reverse the trends observed since 2018 and re-establish the UK's startup fundraising ecosystem as a global leader, the government must now help drive the success of SEIS 2.0 by raising awareness about the scheme and its remarkably generous benefits for UK taxpayers.

In summary, this report underscores the challenges faced by startups and investments during the pandemic, while emphasising the pivotal role SEIS has in fostering startups and innovation in the UK. The implementation of SEIS 2.0 marks a significant stride towards revitalising the UK's startup community, and we must collaborate to ensure its success through heightened awareness.

In 2022, seed-stage companies in the UK experienced a 27.6% decrease in first-time deals compared to the previous year. While this number is striking, it aligns with a general consensus that 2021 was an extraordinary and atypical year for first-time funding rounds — driven by COVID-related stimulus packages. A closer analysis of the figures suggests that 2022 marks a return to the downward trajectory that has been ongoing since 2018. The critical question now is whether startups and investors can rebuild lost confidence amidst the persistent geopolitical pressures weighing on the fundraising market.

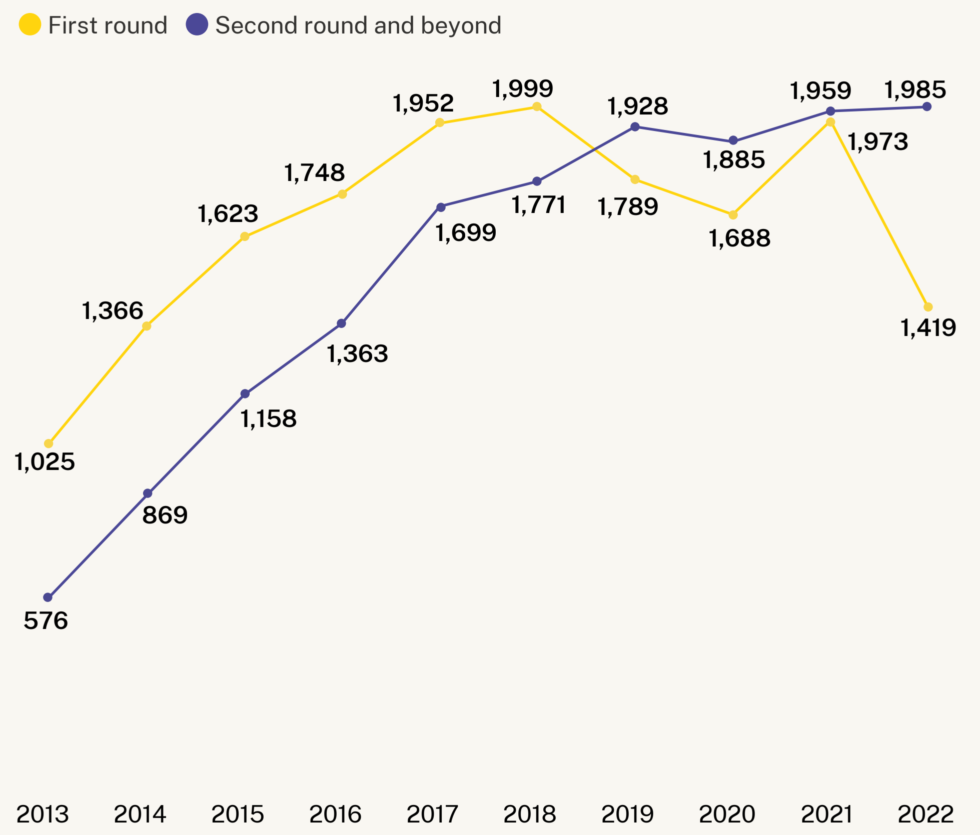
First time deals by seed-stage companies (2013-2022)



First-time deals and SEIS

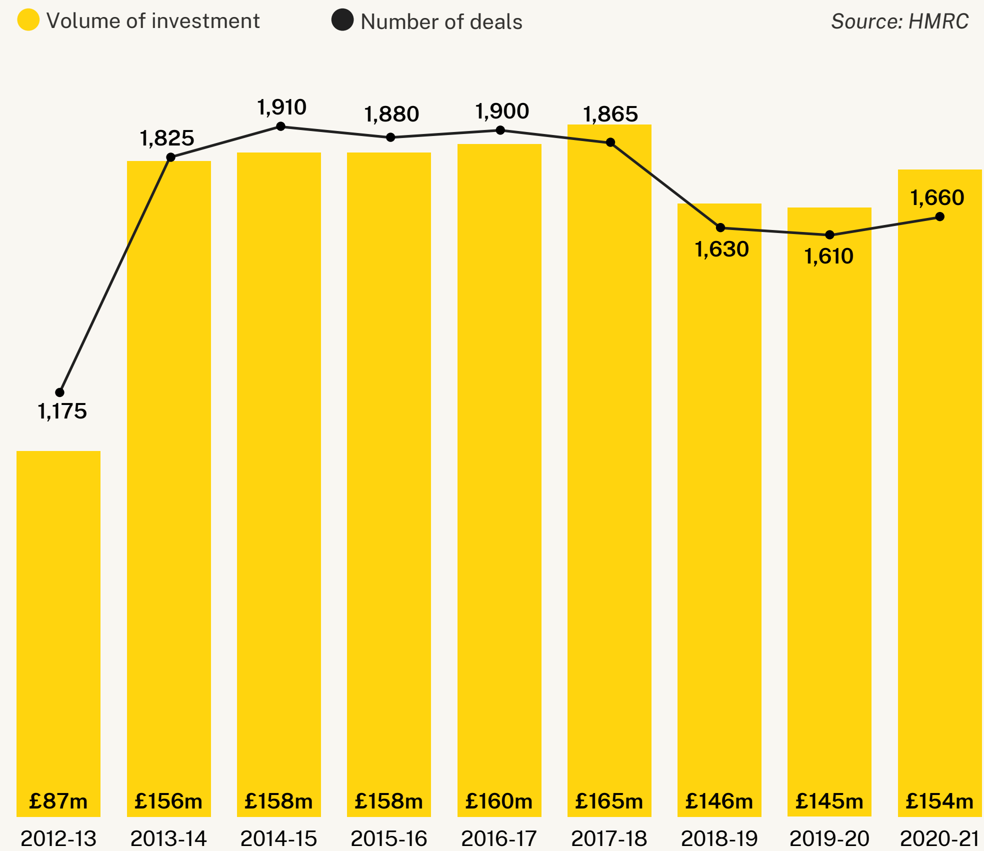
Last year saw investors take a cautious approach toward investment across the high-growth ecosystem against the backdrop of a more challenging macroeconomic environment. The drop in first-time equity deals between 2021 and 2022, contrasted with the rise in second-round and subsequent deals, points to an at least temporary shift in investor behaviour. The data reveals a prudent attitude toward new investments emerged, whereas investors seemed more willing to reaffirm their commitment to existing holdings. This implies that seed-stage capital remains accessible, but its current allocation leans towards safeguarding established assets rather than pursuing new opportunities.

Number of seed-stage equity deals by round number (2013-2022)



The data emphasises the irreplaceable role of SEIS within the UK's funding environment. Despite market challenges since 2018, the scheme's impact on the number of companies established and the number of first-time investment rounds secured since its introduction in 2013 is apparent. While we do not have 2022 figures for SEIS, it is clear that a substantial majority of first-time deals occur through this initiative, underlining its vital significance in nurturing emerging innovation.

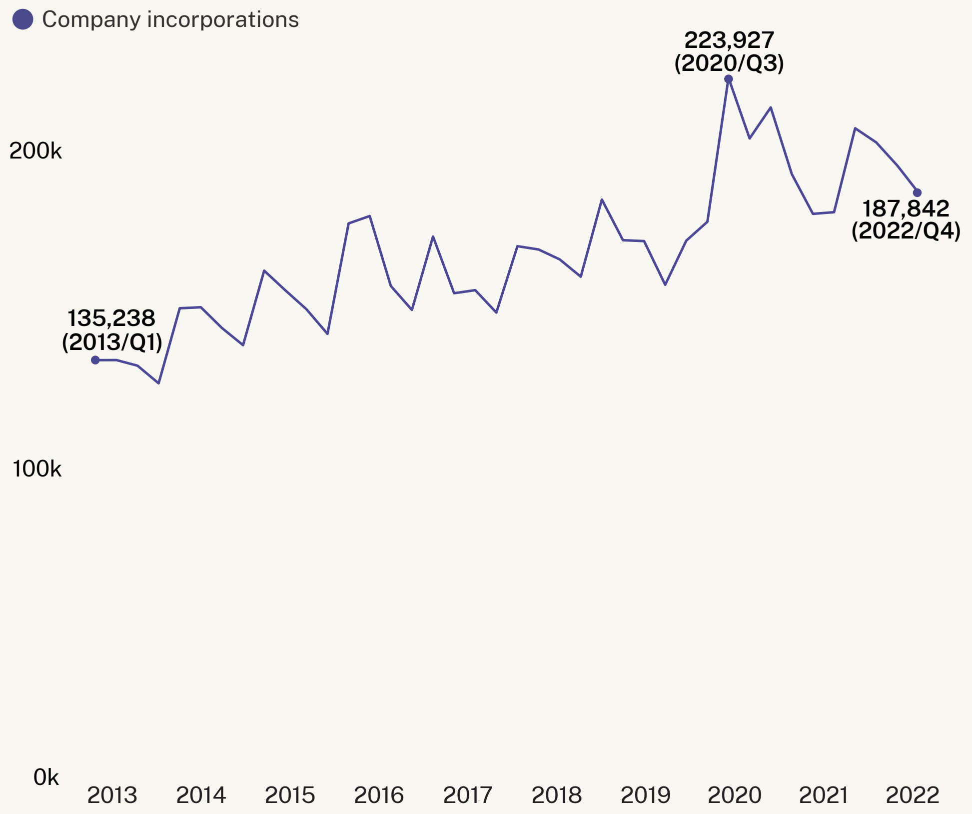
SEIS trends by companies raising first time deals (2012-2021)



Seed-stage supply and demand

> We need to top up the UK's hopper of startups and scaleups with new, funded seed-stage companies. These companies will become the future of the UK's high-growth economy. The decline in deals highlights how important the the extension to SEIS is going to be. We also need to see clearer support for the future of EIS.
>
> Henry Whorwood, Head of Research and Consultancy, Beauhurst

Number of company incorporations over time by quarter (2013-2022)



SFC Capital tops the ranking of investors in first-time seed-stage deals in 2022. Among its notable investments were Surgery Hero, an online health platform based in Yorkshire; Graide, an AI-powered academic feedback platform; and Glasgow-based Atypical, a personalised skincare company. SFC Capital participated in 59 first-time seed-stage equity deals in 2022. Crowdfunding platforms Seedrs and Crowdcube also continued to play a prominent role in facilitating seed-stage companies' first deals by allowing the public or the "crowd" to buy equity stakes in these early-stage businesses.

Top investors by number of first time seed-stage equity deals (2022)

SFC Capital	59
Seedrs	45
Crowdcube	27
Block Dojo	15
Global Founders Capital	13
Boost Fund	12
Seedcamp	10
20VC	10
Ascension	9
Access EIS	9
Haatch	8
Index Ventures	7
Fuel Ventures	7
Sustainable Accelerator	6

2023 prognosis

The decrease in the number of first-time seed-stage deals in 2022 is concerning, yet it should be viewed as an extension of the trend that commenced in 2018 rather than as a steep decline from the previous year. The recovery seen in 2021 was likely an anomaly propelled by extraordinary stimulus measures designed to mitigate the economic repercussions of the COVID-19 pandemic. Overall, the downward trend may point to a level of maturity in the UK ecosystem — there is a theoretical limit to the number of new, investable businesses an ecosystem can generate annually. However, it is more plausible that this trend reflects the disruption inflicted on the UK and the global economy during that period.

That said, it remains crucial for new enterprises to secure funding. Reversing this recent pattern is vital, as more companies lead to increased creative destruction, fostering innovative businesses and bolstering the UK economy. The government's Growth Plan set to be implemented in April 2023 includes modifications to SEIS's scope to further incentivise investment in seed-stage enterprises. This will be SEIS 2.0. SEIS should be expected to play a pivotal role in supporting the UK's startup ecosystem in 2023 and beyond. We anticipate adjustments to the fundraising cap, gross asset limit, and annual investment limit under the revised scheme will promote entrepreneurship and supply promising startups with the capital they require for expansion.

The last few years have been challenging for UK companies of all sizes. Seed-stage companies by definition lack the financial resources available to other companies. They are riskier and rely on more discretionary sources of investment for that first crucial round of funding. It is essential to closely monitor first-time seed-stage deals and ensure that entrepreneurs and innovators continue to obtain the necessary investments. SEIS 2.0 could be the difference maker in 2023, and we look forward to analysing those results in due course.

About

Beauhurst

Beauhurst is a searchable database of the UK's high-growth companies.

Our platform is trusted by thousands of business professionals to help them find, research and monitor the most ambitious businesses in the UK. We collect data on every company that meets our unique criteria of high-growth; from equity-backed startups to accelerator attendees, academic spinouts and fast-growing scaleups.

Our data is also used by journalists and researchers who seek to understand the high-growth economy, and powering studies by major organisations — including the British Business Bank, HM Treasury and Innovate UK — to help them develop effective policy.

For more information and a free demonstration, visit beauhurst.com

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SFC

SFC Capital is the UK's most active seed-stage investor, providing seed capital and support to promising British startups. By combining our leading investment funds with our angel syndicate, we have created a unique model that provides investors with diversified exposure to high-potential SEIS and EIS-qualifying businesses.

Since 2012, SFC has invested in over 450 startups and partnered with the likes of British Business Investments to support innovation across all UK regions.

To learn more about what we do and see our portfolio, visit sfccapital.com.

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