The Deal 2022

Equity investment market update

Beauhurst

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Data for this report was finalised on 16 January 2023.

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

- Dated between 1 January 2012 and 31 December 2022
- Publicly-announced
- Some form of equity investment
- Secured by a non-listed UK company

Foreword

Henry Whorwood

Head of Research & Consultancy

Investment into the UK's startups and scaleups is down. But not by much. The murmurs of a changing tide started in March and April last year, as public tech company valuations started to sink, and some significant layoffs began, particularly in the US. Commentary began almost immediately after that about how it was only a matter of time before VC investing ground to halt.

And to be sure, inflation and interest rates have only continued to alter the calculus for investors. But the drop in equity investment is not pronounced — deals are down by only 7% and the amount invested by 16%.

We've gone from a frenzy where investors felt they couldn't get money out the door quickly enough, to some diligence finally being done on at least some deals. This is a provocative oversimplification, but I have spoken with plenty of VCs who have slowed to compensate for earlier excesses. That said, I have also spoken to VCs who don't know how their fund-returner is going to exit now and, therefore, expect raising the next fund to be very tricky.

So, a relatively good 2022 doesn't mean we can be complacent about 2023. It's not surprising to see that the stage of company that fared best in 2022 was the seed stage, as the riskiest part of private equity investment is also the most counter-cyclical. But investors are needed at every stage. If some of them keep stepping back, companies will start to falter.

2,722
deals announced

-7%
since 2021

£19.7b
invested

-16%
since 2021

Key findings

The latest data on UK equity investment. We've analysed every publicly-announced equity deal over the past decade to spot emerging trends in the market in 2022.

Investment activity declined overall, with £19.7b invested into private UK companies during the year, across 2,722 announced equity rounds.

The seed stage was the only stage of evolution to see an increase in deal numbers since 2021, despite a 13% drop in first-time fundraisings.

More than half of deals went to London-based companies, accounting for 69% of pounds deployed.

The median company valuation in Northern Ireland more than doubled between 2021 and 2022.

A total of 88 megadeals were announced, of which 40 were worth more than £100m.

Despite wider market trends, the blockchain and cleantech sectors both saw an increase in deal numbers during the year.

Just 2p in every £1 invested went to all-female founding teams — versus 85p to all-male founding teams.

Individual angels saw the smallest decline in investment, but private equity and venture capital firms still accounted for half of deals.

Headline funding figures

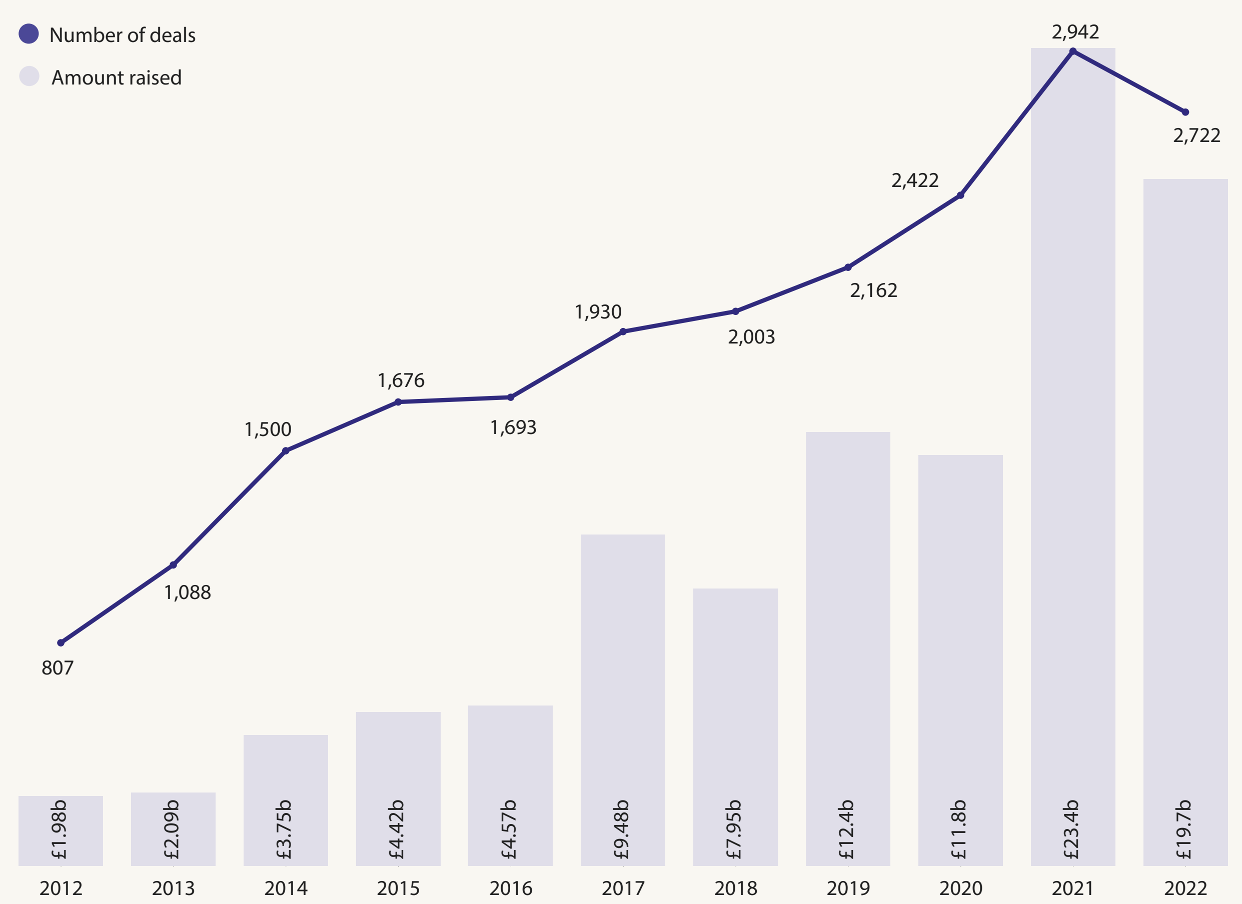
Following record levels of investment activity in 2021, deal numbers dropped by 7% this year, with 2,722 announced equity rounds in total. This marks the first down year for deal numbers since our records began. The amount invested was also down significantly, landing on £19.7b, 16% below 2021.

It was a year of two halves. Q1 2022 remains the top-performing quarter in the UK to date, both in terms of the number of rounds being announced (843) and the amount raised (£7.28b). In contrast, Q3 2022 saw just 582 deals announced, and less than half the amount raised (£3.05b). Similar trends were seen in Q4, with £3.51b raised, across 587 rounds.

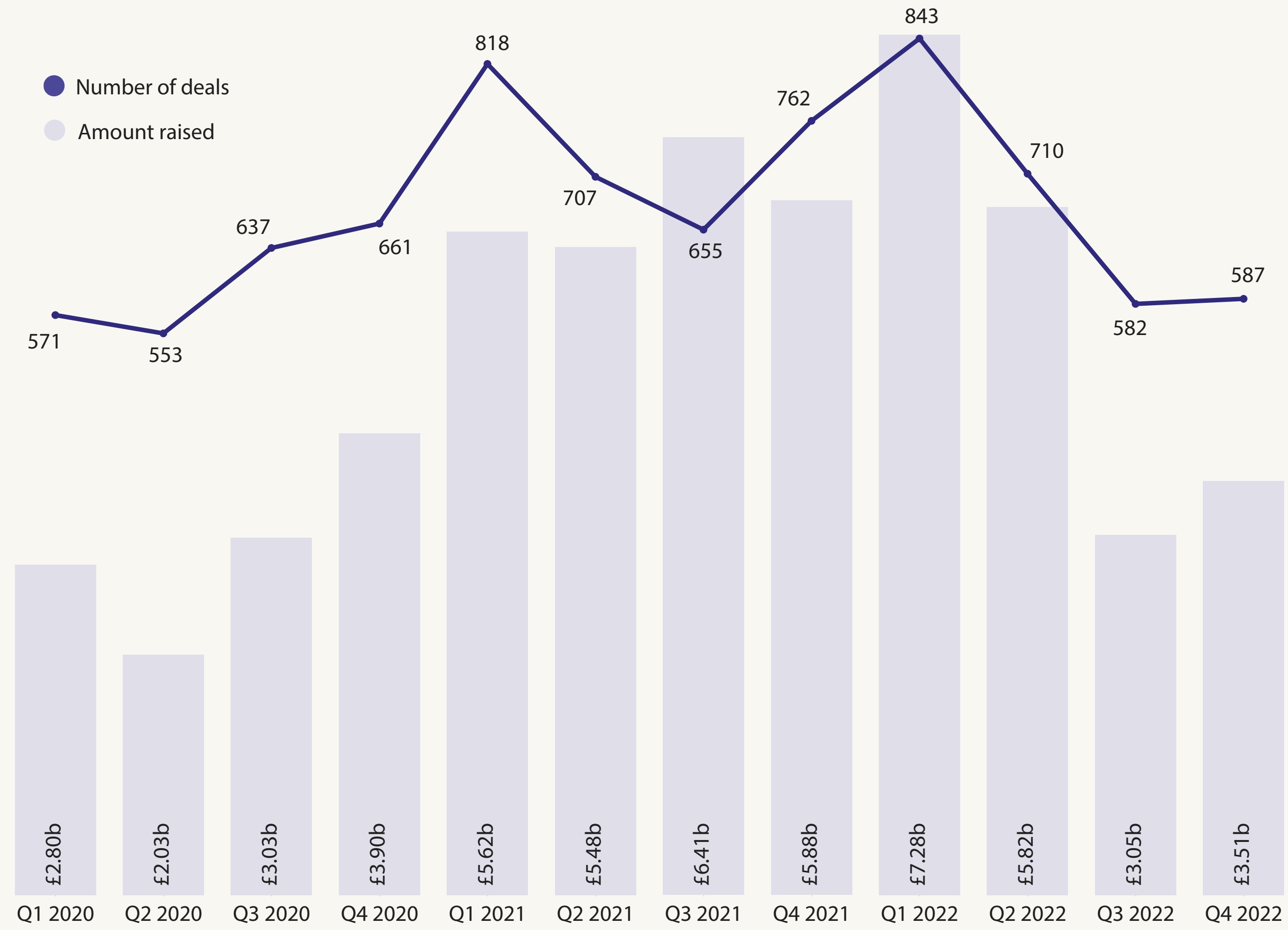
Supply chain disruptions, political uncertainty, and the energy crisis in Europe have all contributed to this year's challenging conditions. In contrast, 2021's extraordinary spike in deal volume was spurred on by unprecedented economic stimulus measures, postponed deals from 2020, pent-up capital, and low interest rates. Viewed in this way, the drop in investment this year is perhaps less dramatic than it appears. Indeed, 2022 still saw considerably more deals and pounds invested than in any year prior to 2021.

It was a year of two halves. Q1 2022 remains the top-performing quarter in the UK to date

1.1 Number of announced deals and amount raised by year



1.2 Number of announced deals and amount raised by quarter



Stages of evolution

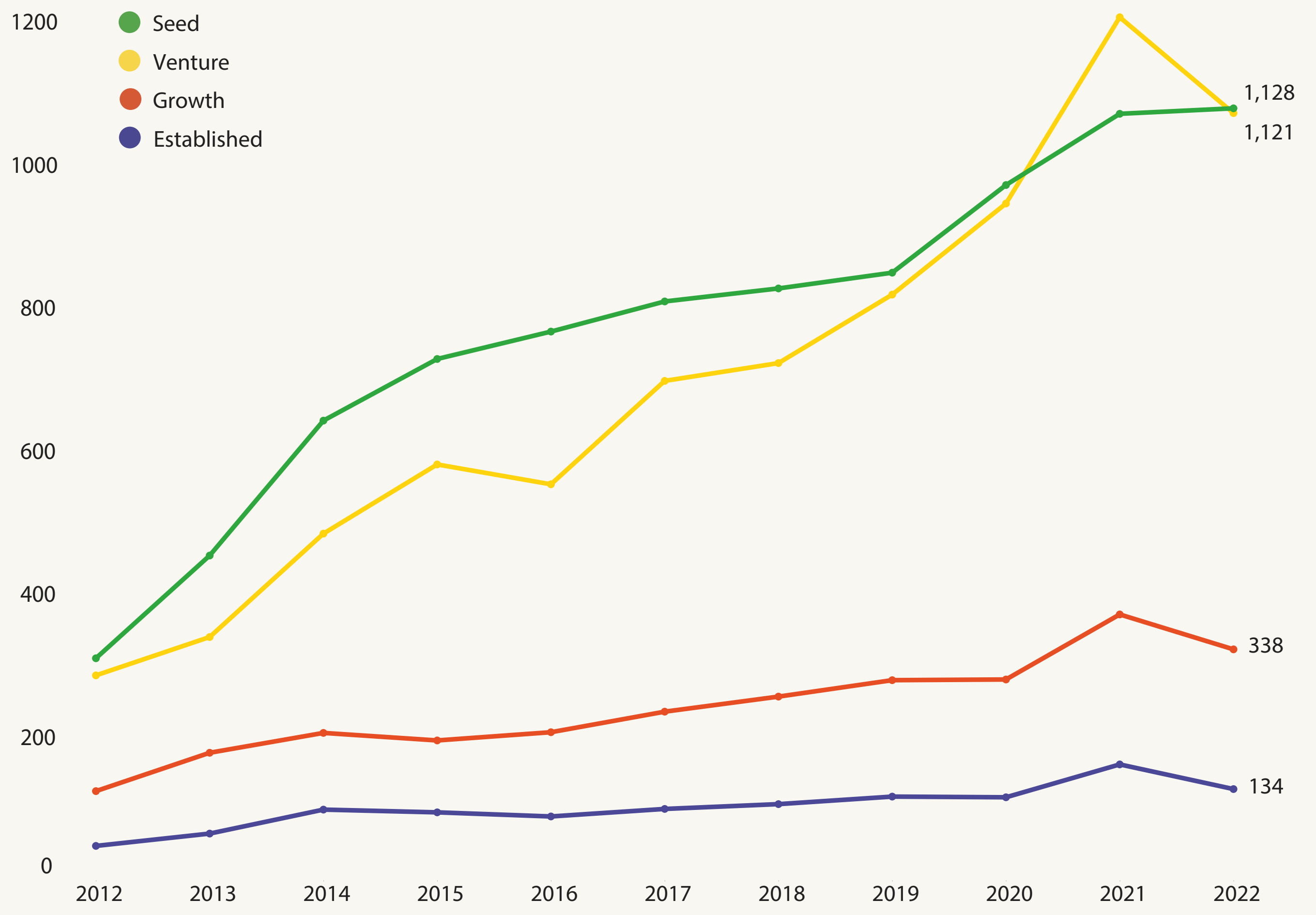
Equity investment declined across every stage of evolution in 2022, bar the seed stage which restored its title as the most common for announced equity deals, after being outperformed by the venture stage in 2021. A record 1,128 seed rounds were announced in 2022, up 1% from 2021. Venture rounds dropped to 1,121 (-11%), growth rounds to 338 (-13%) and established rounds to 134 (-21%).

The amount invested via seed and venture rounds in 2022 was up from 2021, increasing 12% and 8% respectively. But the later stages fared less well; deal value declined by 24% at the growth stage, and by 34% at the established stage.

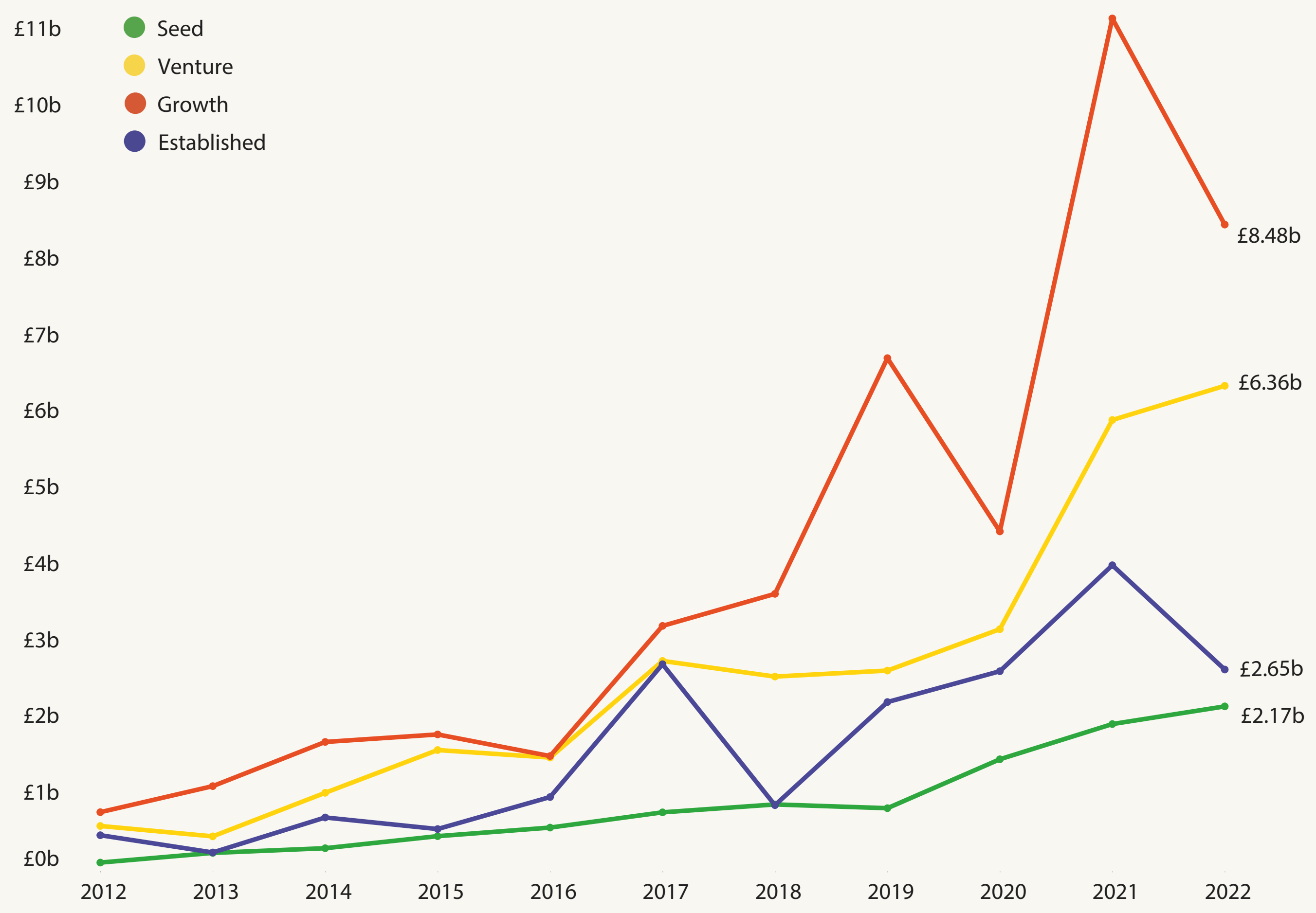
Interestingly, between Q3 and Q4, the growth and established stages saw slight upticks in deal numbers, while seed-stage and venture-stage deals declined. The number of first-time fundraisings that were announced in 2022 was down 13% from 2021. This implies declining investor risk appetite, with funds doubling down on their existing portfolios and later-stage (read lower-risk) deals in the latter half of the year.

The number of first-time fundraisings that were announced in 2022 was down 13% from 2021

2.1 Number of announced deals, by stage of evolution



2.2 Amount raised via announced deals, by stage of evolution



Regional trends

From a regional equality perspective, the distribution of equity funding in the UK has worsened, with the South of England claiming the vast majority (72%) of investments. The South East received 9% of deals, the South West 6%, and the East of England 7%. Meanwhile, London secured the greatest proportion of announced equity deals on record, at 50% — up from 49% in 2021.

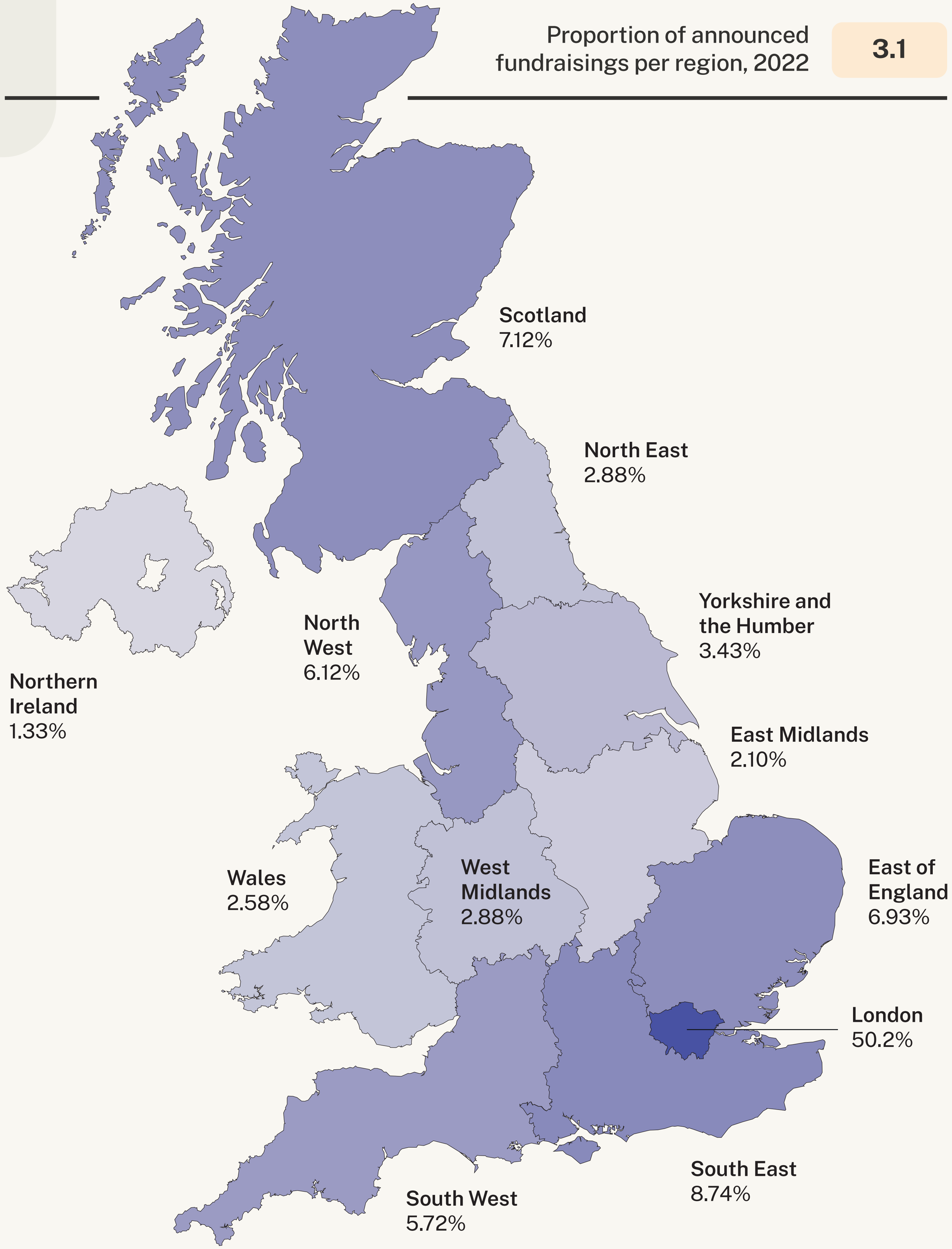
In comparison, the North of England (Yorkshire and The Humber, the North East and the North West) secured just 12% of deals. And in keeping with previous years, Northern Ireland received the smallest share of equity rounds, at just 1%.

Looking at the amount invested, the disparity is even bigger, with 69% of pounds deployed in 2022 going to London-based companies.

In more positive news, both Yorkshire and The Humber and the South West saw record deal numbers in 2022, with 155 and 93 rounds, respectively. Alongside Wales, they were the only regions to see an increase in investment volume from the previous year.

> **London secured the greatest proportion of announced equity deals on record**

Proportion of announced fundraisings per region, 2022 — 3.1



Sectors

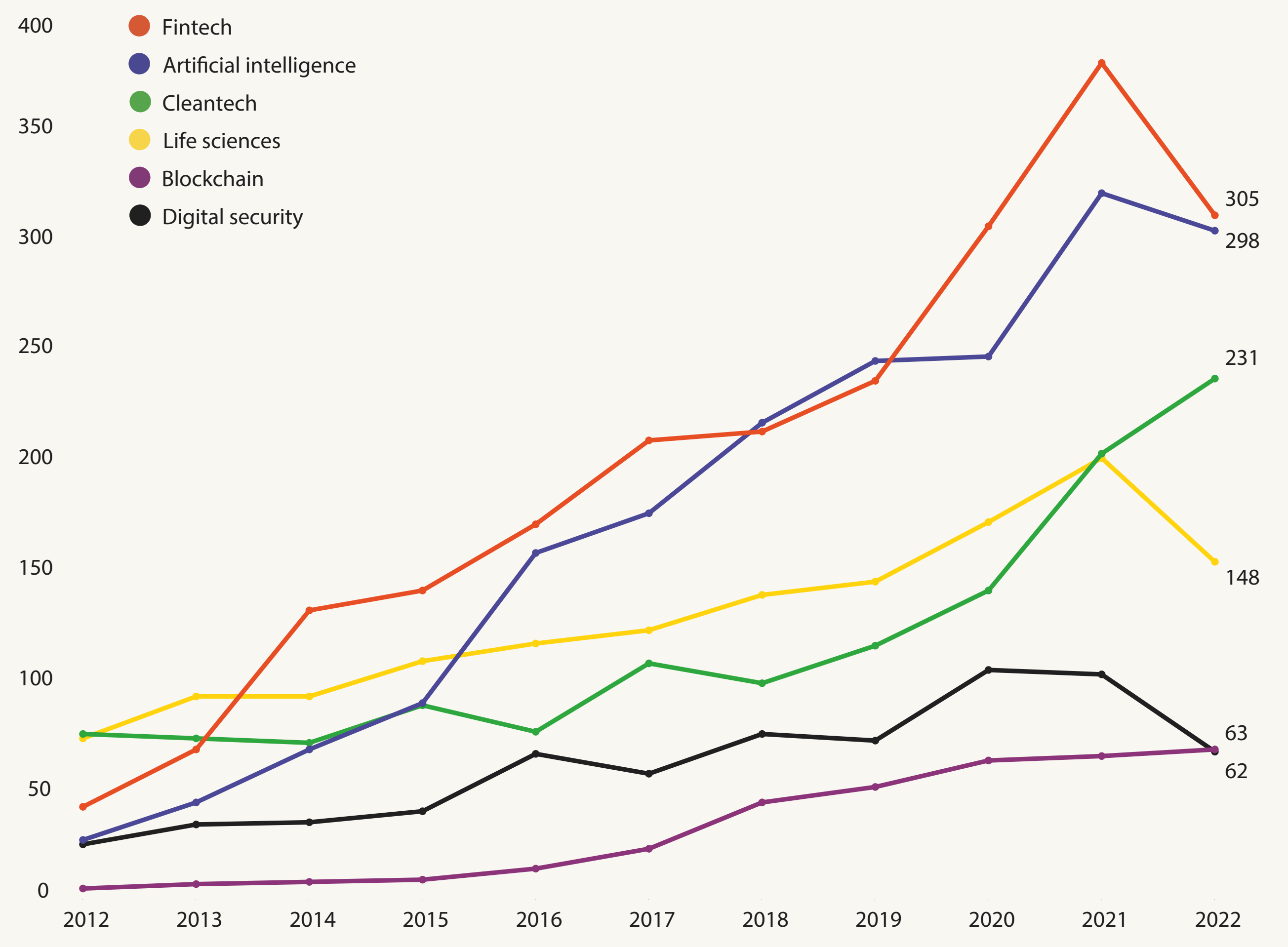
In line with wider market trends, most high-growth tech sectors saw a decline in announced deals in 2022. Artificial intelligence withstood the worst of it, with AI deals falling just 5%. Fintech, however, saw a sizable decline (-18%), while life sciences (-24%) and digital security (-36%) were impacted more heavily.

But it wasn't all doom and gloom, as emerging technologies like blockchain saw a slight (5%) uptick in deal volume.

Most notably, cleantech deals increased by 17% between 2021 and 2022, continuing the sector's steep upwards trajectory in recent years.

Despite securing a similar number of deals to life sciences in 2021, cleantech is now firmly positioned as one of the top tech verticals in the UK equity market. With 231 investments in 2022, it sits behind only fintech and AI, which secured 305 and 298 deals respectively.

4.1 Number of announced deals, by selected sectors



Not All Hot Air: How Hydrogen Could be Here to Stay

Dan Robinson
Senior Research Manager

UK hydrogen technology companies collectively raised a record £299m via 36 equity fundraising deals during the year, bucking the overall decline in investment in 2022. The total amount raised is up from £147m via 28 deals in 2021. While the sector is nascent, investment activity into hydrogen technology companies involves a range of non-traditional and international venture capital investors, signalling the area's perceived strategic importance.

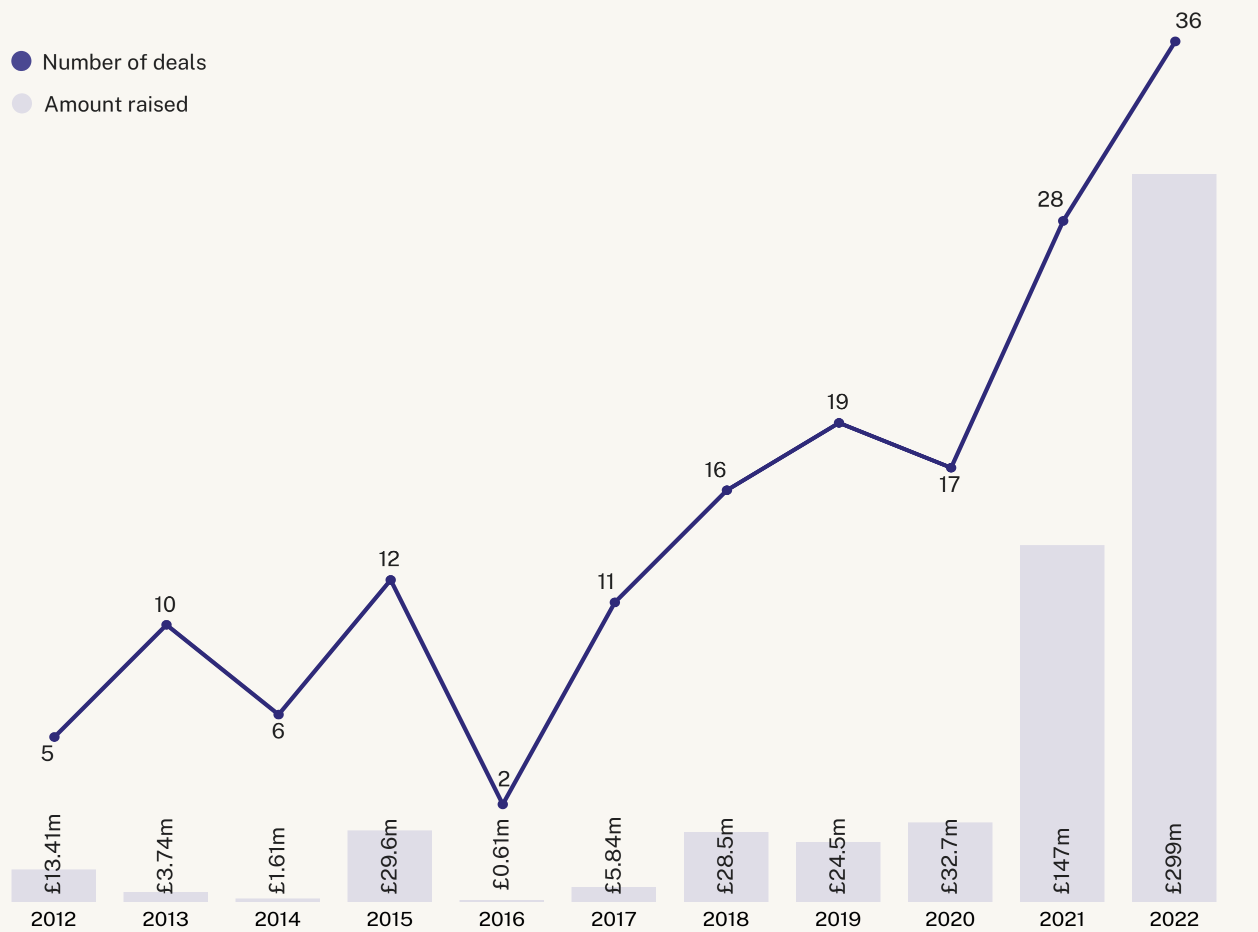
Hydrogen technology companies are those innovating in any part of the developing sector: production, storage, distribution and supply chain, and end applications of the energy source. The different parts of the emerging sector are drawing in a diversity of investors. Oil and gas investors and infrastructure providers are focusing their investment on hydrogen production and distribution companies. Car manufacturers are focusing on hydrogen-electric vehicle technologies. And more traditional venture capital investors are exploring cutting-edge uses of hydrogen such as in nuclear fusion reactors. The dramatic increase in equity finance flowing to these businesses likely reflects a combination of technology readiness across the sector and increased investor interest in energy — driven by the current crisis in Europe and the global transition to cleaner energy sources.

While still at an early stage, the UK's hydrogen technology sector is already of strategic importance to a diverse group of backers. Half of the hydrogen equity deals in 2022 involved seed-stage companies and 36% involved venture-stage companies. The fact that investment is dominated by early-stage companies speaks to the newness of the sector, as does the median deal value of around £1m in 2021 and 2022. However, the median deal value has roughly tripled in the last three years, having hovered between £300k-£400k between 2016 and 2019.

Hydrogen is attractive because it produces no emissions when burned and is an abundant element that can be sourced or produced from many sources, including renewables. Although, it is not without its drawbacks; many hydrogen production methods require significant energy and create CO_2. Transportation is also challenging due to the gas's low density, which requires high-pressure or low-temperature storage. Despite the challenges, it seems likely that hydrogen will be part of the world's future fuel mix. While some investors may be wary — and still bearing the scars of previous cleantech cycles — the activity from strategic investors is a promising sign.

Renewable energy technology company Storegga raised a £51.3m round in May — the largest during the year. The deal saw its existing investors, Australia's Macquarie Capital, M&G Investments, Singapore's GIC, and Japan's Mitsui, joined by Italy's Snam — a natural gas infrastructure provider. Hydrogen production is only part of the London-based Storegga's operations; it also has expertise in carbon sequestration and direct air capture of CO_2. Ahead of the May fundraising, Storegga announced Scotland's first green hydrogen project in partnership with Scottish Power. In November, Storegga announced plans to work with Malaysia's Petronas to explore carbon sequestration projects in the country.
For investors with oil and gas exposure like Macquarie and Mitsui, companies like Storegga offer a double benefit. Firstly, carbon sequestration is a mechanism for mitigating the emissions from hydrocarbon extraction and makes use of existing infrastructure such as wells and reservoirs. Secondly, it offers investors a method to diversify away from hydrocarbons into a fuel source that may become the dominant gaseous fuel of the future. Some investors in the space are gaining exposure indirectly, such as UK petrochemical refiner INEOS. The large private company provided £25m in founding capital to HydrogenOne Capital, an LSE-listed fund launched in July 2021 focused on hydrogen investments. Since launch, it has taken equity stakes in four high-growth UK hydrogen companies.

4.2 Hydrogen company deals and amount raised by year



One of these is hydrogen fuel cell developer Bramble. HydrogenOne contributed £10m to a £40m investment in February 2022. The deal also included follow-on investment from existing backers BGF, Parkwalk, and IP Group among others. West Sussex-based Bramble was spun out of UCL and Imperial College in 2016 and creates fuel cells for light commercial vehicles and generators. Its designs use the existing printed circuit board supply chain, enabling the company to offer scaleable solutions at a low cost.

Those with oil and gas exposure are not the only investors taking strategic steps in hydrogen. UK-based global forecourt operator EG Group invested £25m in September into Glasgow-based HV Systems, which is developing a 40-tonne hydrogen heavy goods vehicle. EG Group operates thousands of forecourt sites across the UK, Europe, the US, and Australia. Being actively involved in shaping the next generation of heavy goods vehicles makes strategic sense for the company.

French aerospace and defence group Safran is also looking to UK hydrogen technology companies for strategic investment. In March 2022, Safran Corporate Ventures contributed £3.50m to a £14.4m fundraising by Cranfield Aerospace Solutions. The Bedfordshire-based company is developing hydrogen-fuelled aircraft, starting with the conversion of existing aircraft to hydrogen. Spun out of Cranfield University in 1997, the company specialises in aircraft modifications and prototyping of new designs. Cranfield Aerospace Solutions' March deal also saw participation from HydrogenOne Capital, Motus Ventures, and Tawazun SDF — the investment arm of the United Arab Emirates Armed Forces.

As record investment levels show, the UK's hydrogen technology companies are increasingly attractive to a diverse range of strategic and speculative investors. While the company population is dominated by seed and venture-stage firms, there are many tailwinds for the sector which should speed the adoption of hydrogen technologies and encourage further investment. High-growth hydrogen could be here to stay.

Founder gender

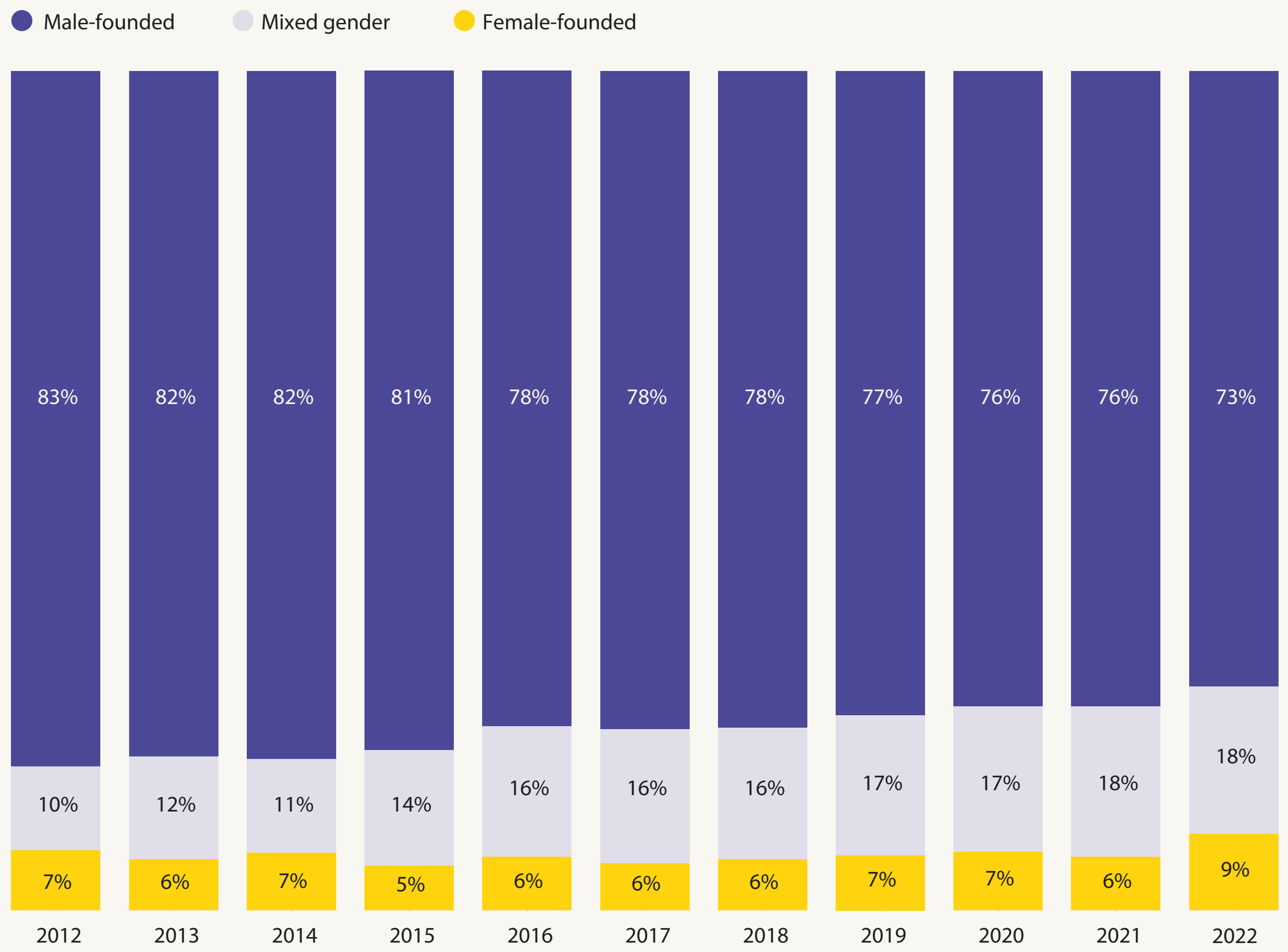
High-growth companies with a female founder secured 27% of announced equity deals in the UK this year — up from 24% in 2021. Businesses with mixed gender founding teams secured 18% of investments, as in 2021. Meanwhile, those solely founded by women (female-founded) secured a new record high of 9%.

The vast majority (73%) of deals, however, went to companies solely founded by men (male-founded). Clearly, there's still a long way to go to even begin to level the playing field for female entrepreneurs, but it's good to see progress after several years of stagnation.

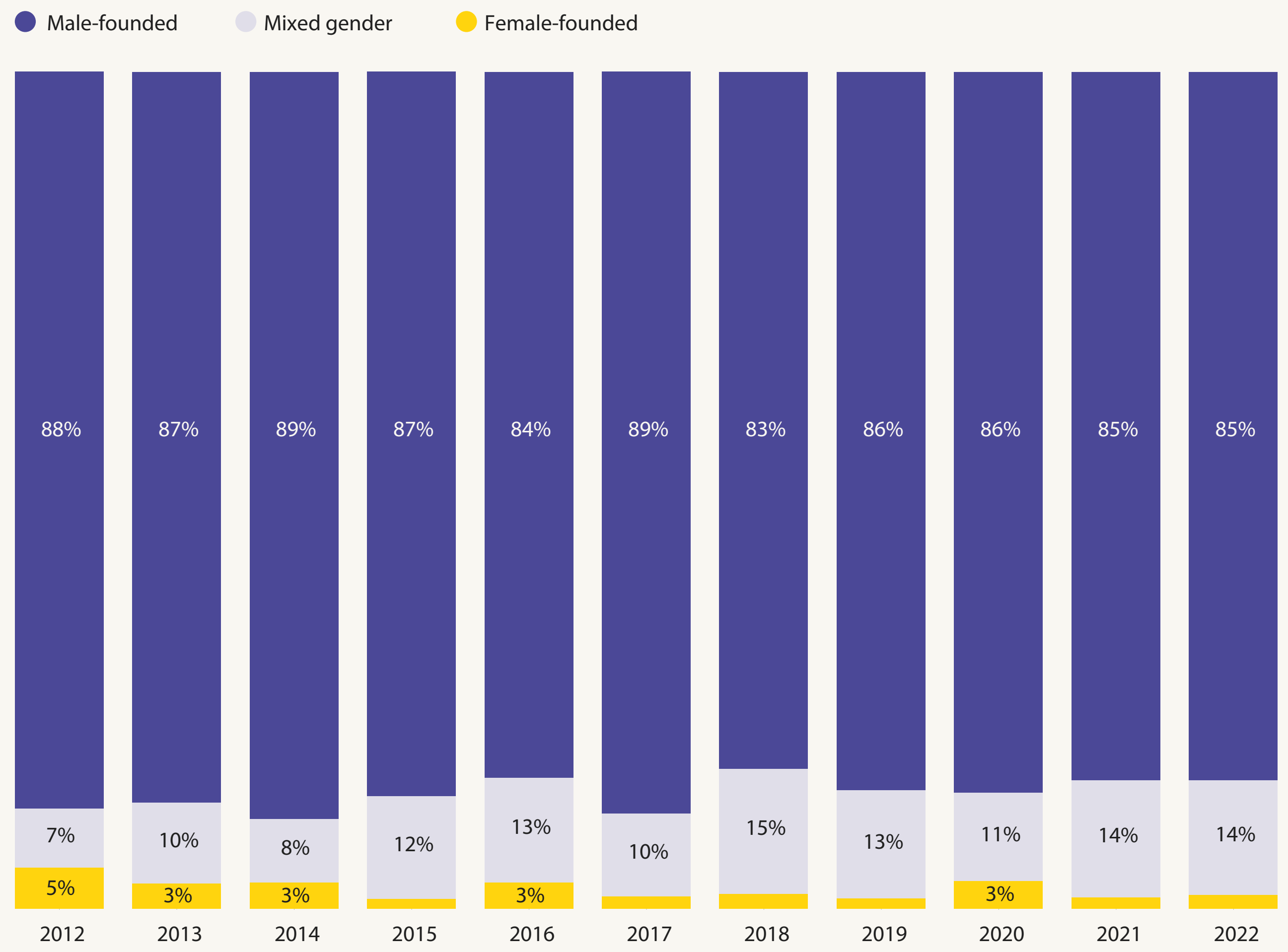
In terms of deal value, however, the numbers are more disappointing and show no improvement since 2021. Just 16% of funds went to high-growth companies with at least one female founder this year. And less than 2p in every £1 invested during 2022 went to all-female founding teams, versus 85p to all-male founding teams.

> **Less than 2p in every £1 invested during 2022 went to all-female founding teams**

5.1 Proportion of announced deals by gender of founding team



5.2 Proportion of amount raised by gender of founding team



Deal sizes

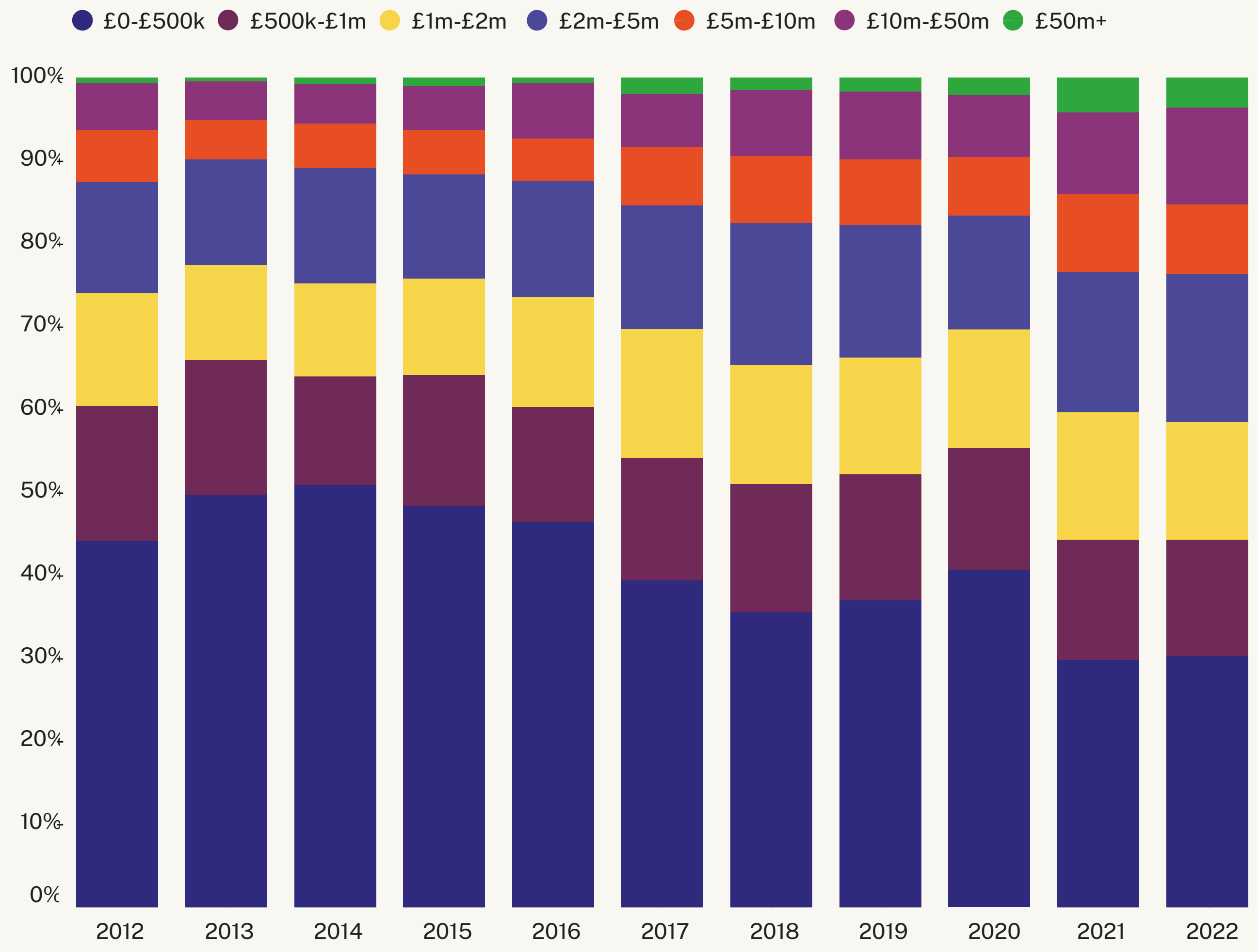
The only deals to increase in number between 2021 and 2022 were those worth £10m-£50m. Despite this change in deal volume, the breakdown of rounds by investment bracket in 2022 looked very similar to the previous year.

During 2022, just one in three announced equity rounds totalled less than £500k. This marks a stark change from a decade ago, when these smaller deals — which are necessary for early-stage startups to gain traction — accounted for around half of investments. Whilst this is, in part, a natural consequence of a maturing ecosystem, it could be cause for concern for younger businesses (and thus the long-term health of the ecosystem).

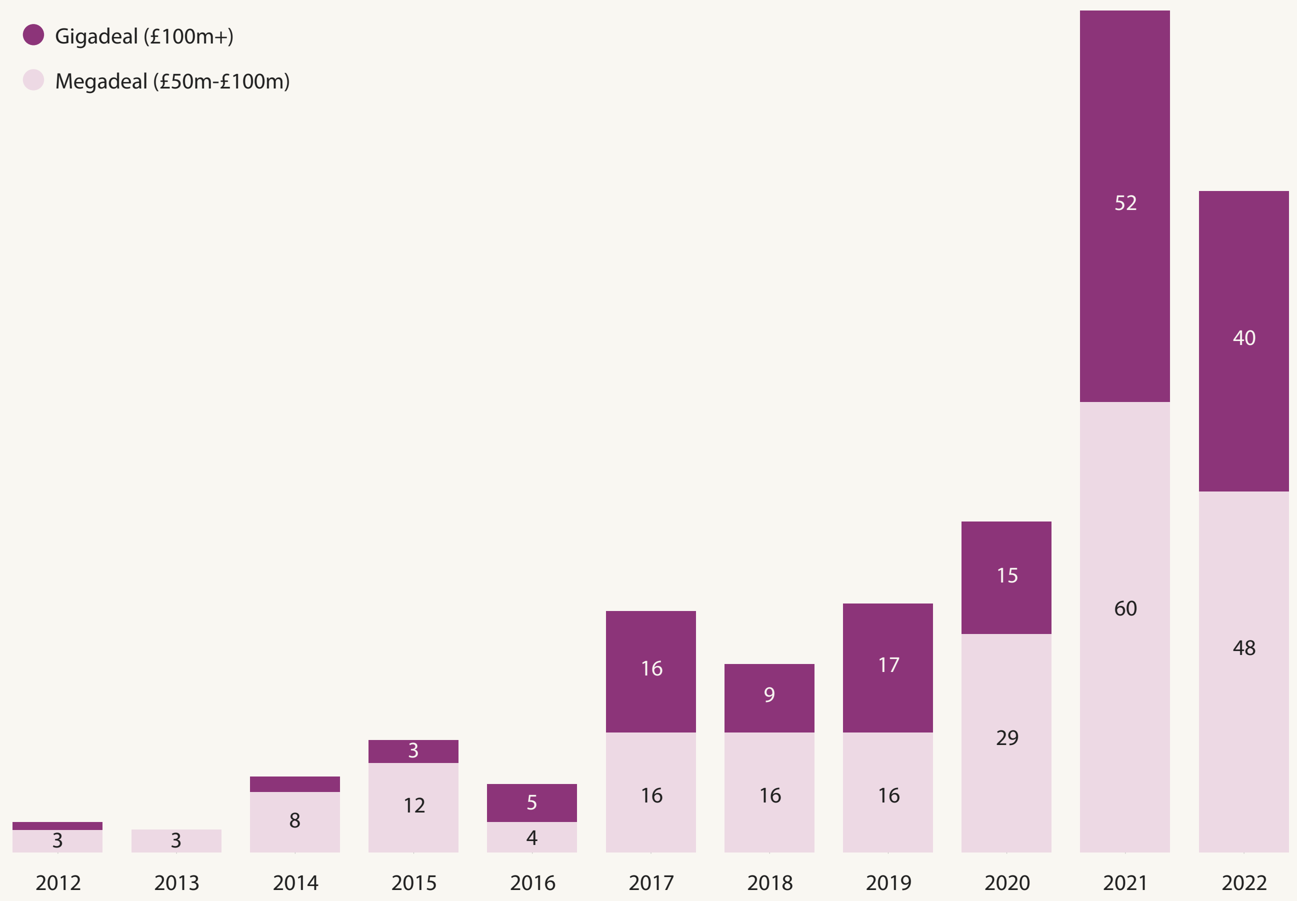
At the other end of the scale, megadeals (rounds worth £50m+) made up 4% of deals in both 2021 and 2022. Of the 88 megadeals announced in 2022, 40 were £100m+ gigadeals. While lower than last year's figures, 2022 saw double the number of megadeals announced than in 2020.

The median size of announced rounds was also largely unchanged this year, remaining at 2021's record high of £1.00m, following a drop in 2020 to £600k.

6.1 Proportion of announced deals by investment bracket



6.2 Number of megadeals and gigadeals announced



Biggest deals of the year

Checkout.com

£730m

Deal date 13/01/2022
Location London
Sector Fintech

Checkout.com develops software that allows businesses to process online payments in multiple currencies.

SumUp*

£506m
€590m

Deal date 23/06/2022
Location London
Sector Fintech

SumUp's payment solutions system enables sellers, particularly small businesses, to process payments using smart devices.

Cera*

£264m
$320m

Deal date 03/08/2022
Location London
Sector eHealth

Cera provides homecare, telehealth consultations, prescription services, and appointment booking through a mobile app.

GoCardless

£231m
$312m

Deal date 09/02/2022
Location London
Sector Fintech

GoCardless develops a platform that allows companies to send and receive payments online via direct debit.

Lendable

£210m

Deal date 10/03/2022
Location London
Sector Fintech

Lendable develops an online platform for consumer finance that uses AI and automated underwriting to rapidly approve loans.

GRIDSERVE

£200m

Deal date 08/08/2022
Location Buckinghamshire
Sector Cleantech

GRIDSERVE develops sustainable energy technology for solar storage, with applications such as electric vehicle charging points.

Cinesite*

£194m

Deal date 25/07/2022
Location London
Sector Film

Cinesite produces special effects and animations for movies.

Copper

£191m

Deal date 15/07/2022
Location Cambridge
Sector Fintech

Copper's software platform provides custody and portfolio management services for digital assets and investments.

Volta Trucks

£191m
€230m

Deal date 21/02/2022
Location London
Sector Automotive

Volta Trucks designs and manufactures commercial electric trucks, used specifically for urban logistics.

Multiverse

£175m
$220m

Deal date 08/06/2022
Location London
Sector Edtech

Multiverse provides professional apprenticeships and training to non-graduates, and recruitment services for employers.

***Equity and loan**

Valuations

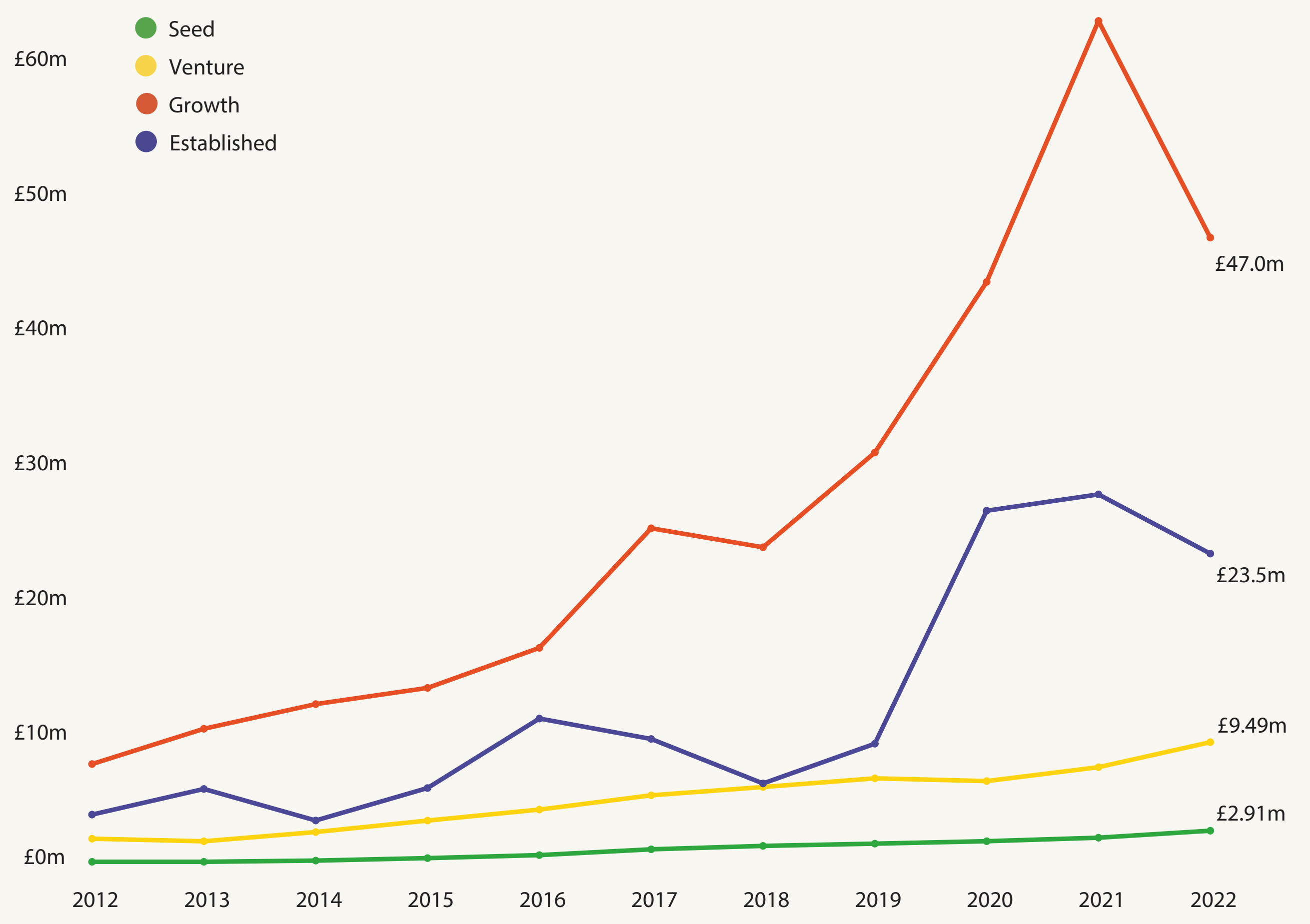
Median pre-money valuations declined at the later stages of evolution this year, after peaking in 2021. The median fell to £47.0m at the growth stage (-26%) and to £23.5m at the established stage (-16%). In contrast, median valuations at the seed and venture stages increased during 2022, to £2.91m (+22%) and £9.49m (+24%), respectively.

Unsurprisingly, the median pre-money valuation in the Capital (£8.74m) was considerably higher than in the UK's wider high-growth ecosystem. London valuations started to pull away from other regions as early as 2016 and have since maintained a significant lead.

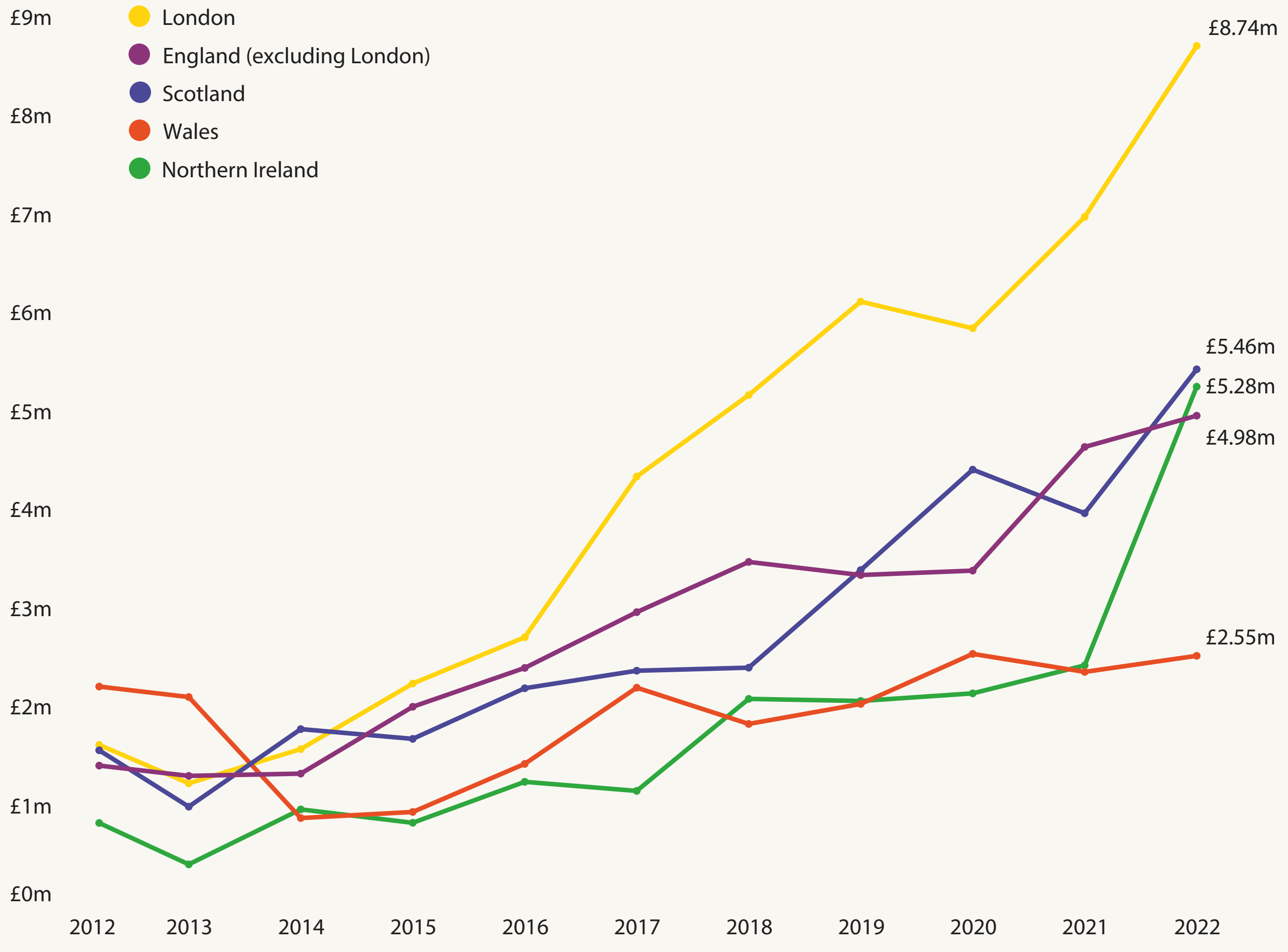
The biggest change to valuations this year was in Northern Ireland, where the median more than doubled, to £5.28m. This is similar to the median valuation in Scotland (£5.46m) and regional England (£4.98m), and leaves Wales far behind the rest of the country, with a median valuation of just £2.55m.

> **Median pre-money valuations declined at the later stages of evolution this year**

7.1 Median pre-money valuation by stage of evolution



7.2 Median pre-money valuation by region



Investors

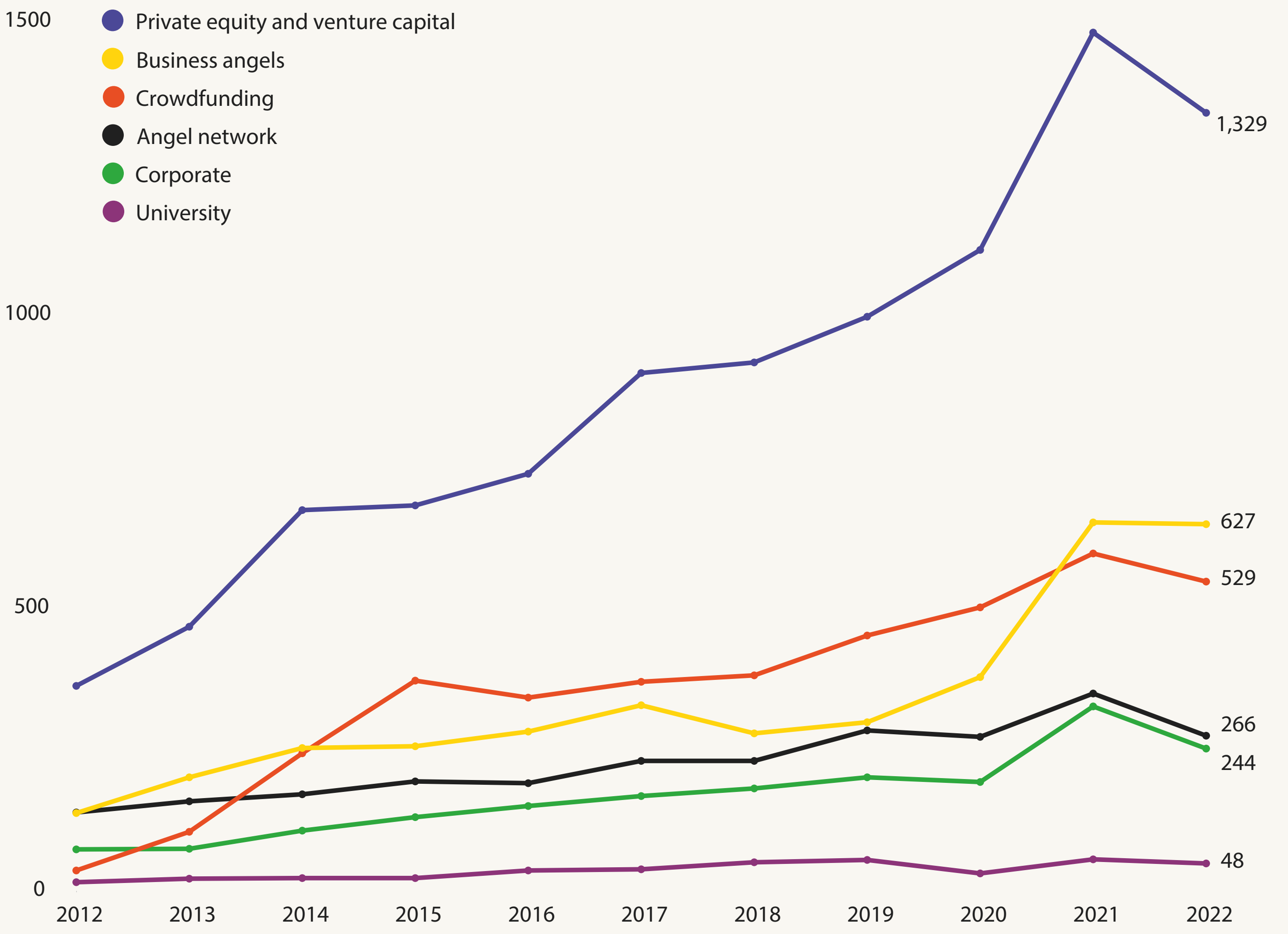
Every major investor type saw a drop in deal numbers in 2022. Even the UK's most active fund type, private equity and venture capital firms, saw a 9% decline in investments since 2021. In total, PE/VC funds participated in 1,329 announced equity rounds — 49% of all deals this year.

Individual business angels participated in 627 rounds, just three deals below last year's tally, while angel networks participated in 266 (-21%). Having overtaken crowdfunding in 2021, business angels remain the second most common investor type in the UK equity market, and seem to have been the least impacted by market conditions this year.

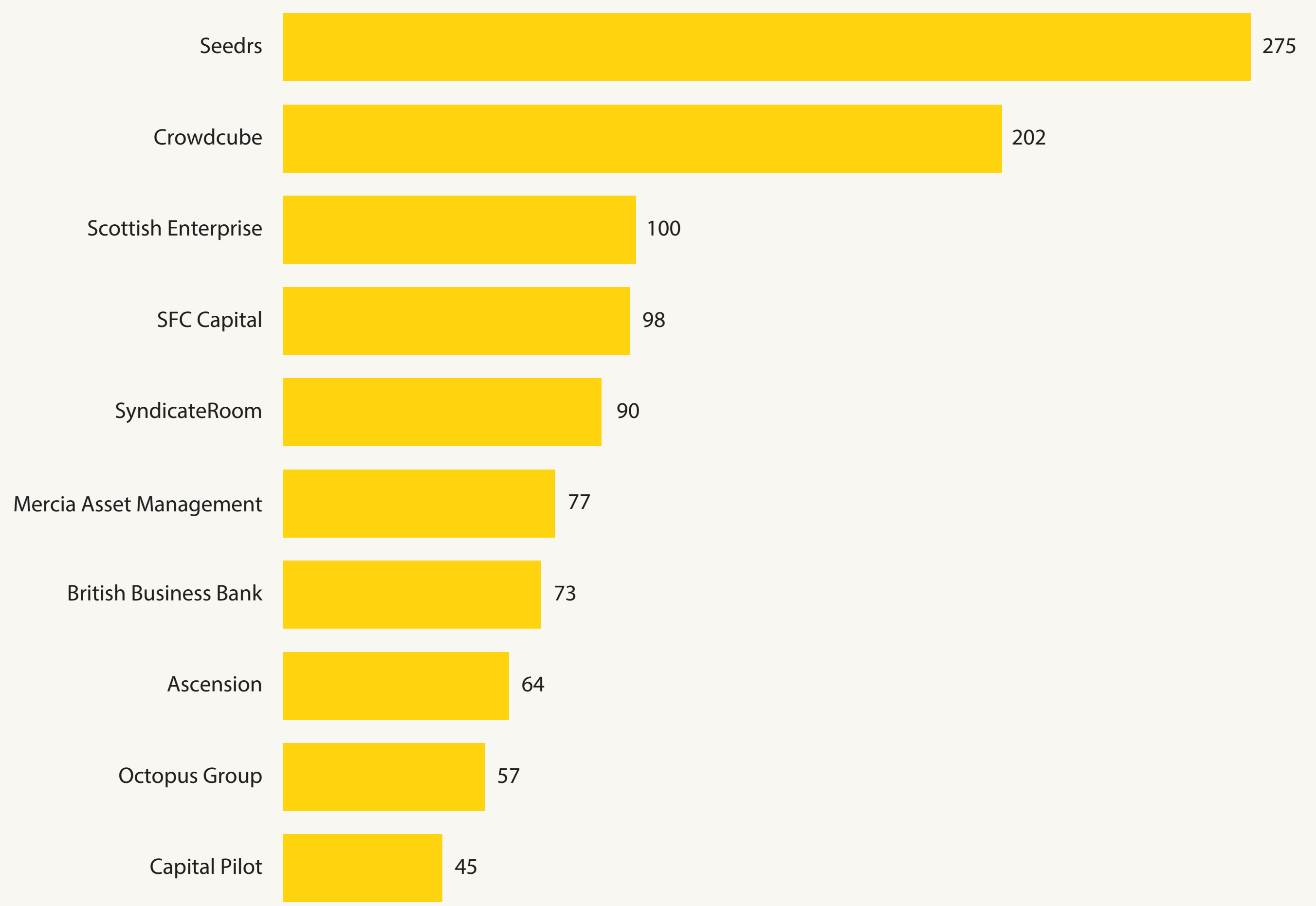
Crowdfunders announced 529 deals, down 8% since 2021. Nonetheless, the UK's two biggest crowdfunding platforms once again top the ranking for most active fund managers: Seedrs facilitated 275 equity rounds in 2022, while Crowdcube facilitated 202. SyndicateRoom also ranks very highly, with 90 deals.

Besides the usual culprits, this year's investor ranking welcomed new entrant Capital Pilot. The startup ratings agency manages the Boost Fund, an automated investment vehicle backed by high-net-worth individuals.

8.1 Number of announced deals by investor type



8.2 Most active investors in 2022



Want to access this data for yourself?

This report is just the beginning.

The Beauhurst platform helps you uncover and work with key players in the UK's high-growth ecosystem — from ambitious businesses and entrepreneurs to the funds and accelerators that back them.

Using proprietary tech and exclusive partnerships, we combine our own data points with thousands of other sources.

Sign up for a free demo below and we'll show you how you could:

- Find high-growth and ambitious businesses that match your ideal customer profile, in seconds
- Explore every equity fundraising in the UK, including the 70% of deals that aren't disclosed to the press
- Reach out to key decision makers, at the right time, using accurate contact details and network connections
- Build targeted lead lists, keep track of prospects, and be alerted to new opportunities before your competitors

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