2020 IN REVIEW: A YEAR OF TWO HALVES FOR THE GROWTH CAPITAL MARKET

Growth Capital Update – a review of 2020

Our research into UK private companies raising between £1 million and £20 million of growth equity capital each finds that, in 2020, 767 UK businesses raised a total of £3.67 billion. This compares somewhat unfavourably with the two previous years. In 2019, 856 UK businesses raised £4.22 billion of growth equity capital and, in 2018, the comparable figures showed 967 businesses raising a total of £4.37 billion.

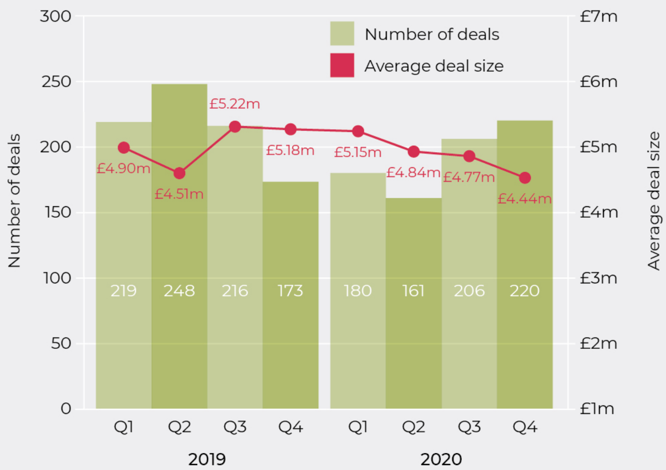
The average deal size in 2020 was £4.78 million, a small decrease on 2019, where the average deal size was £4.93 million. However, it was ahead of 2018, where the average was £4.52 million.

ANNUAL NUMBER OF DEALS AND AVERAGE DEAL SIZE

Given that 2020 was the year the global Coronavirus pandemic took hold, knocking business performance, and shareholder and investor confidence, we are not surprised to see a 10% decline in the number of growth capital deals completing.

However, this apparent year-on-year decline in the number of UK companies raising equity growth capital presents a different picture if we examine the quarterly data. Essentially, 2020 had a fairly slow start and then was particularly badly affected by one extremely difficult quarter, Q2, which reflects the period when the UK first went into lockdown. However, it saw something of a rebound in the second six months of the year. In the final quarter, 220 UK businesses raised a total of £977 million, a 7% increase on the previous quarter in terms of number of deals. More deals completed in Q4 2020 than in three out of the four quarters of 2019.

QUARTERLY NUMBER OF DEALS AND AVERAGE DEAL SIZE



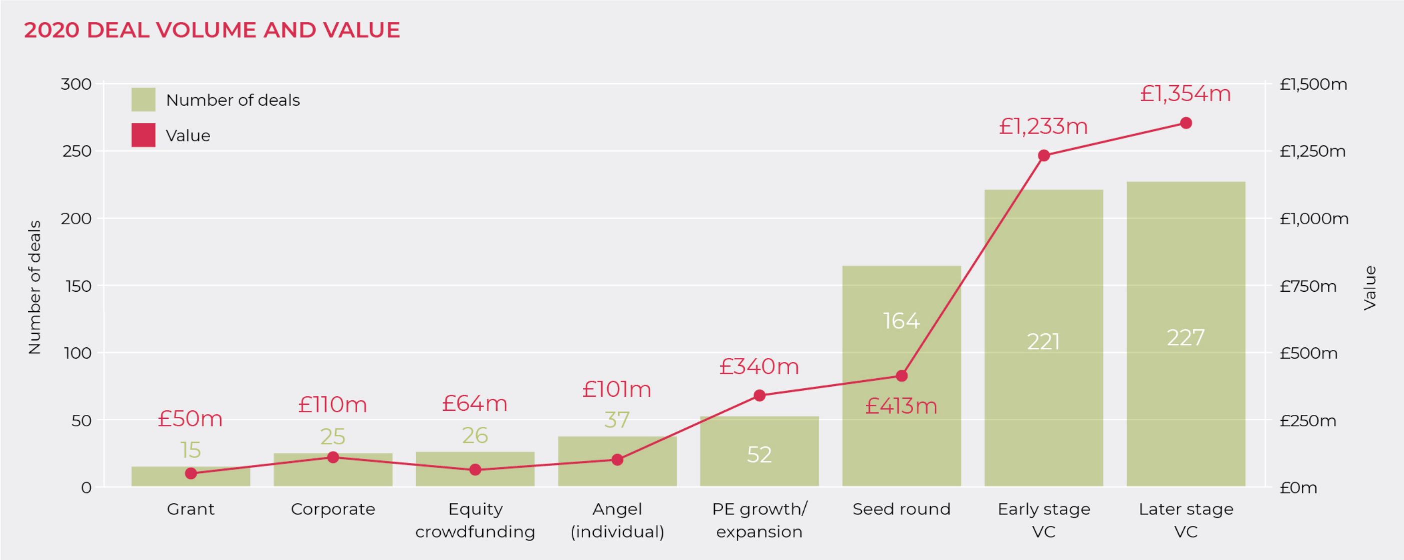
The performance of the UK's growth capital market in 2020 is particularly impressive when compared to the M&A market which has seen declines of close to 50% reported in the UK and elsewhere.

Undoubtedly a key factor in the relative outperformance of the UK's growth capital market in the second half was the intervention of the UK government's Future Fund. It was launched in May, with the intention of issuing convertible loans between £125,000 and £5 million to innovative businesses in the UK affected by the Coronavirus. These businesses had largely been unable to access other government business support programmes, such as CBILS, because they were either pre-revenue or pre-profit and typically reliant on equity investment.

The Future Fund launched with an initial commitment from the government of £250 million of funding which would be unlocked by private investment on a match-funded basis. This commitment was later extended and, in October, it was announced that almost £800 million had been invested. The scheme was originally supposed to close for applications at the end of September 2020 but the deadline was subsequently extended twice, finally ending on 31 January 2021.

The Future Fund was a match-funded scheme, so companies seeking to benefit from it needed to find equity investment elsewhere before they could access it. The Future Fund underpinned and provided support to the growth capital market but did not supplant it. However, it certainly greased the wheels.

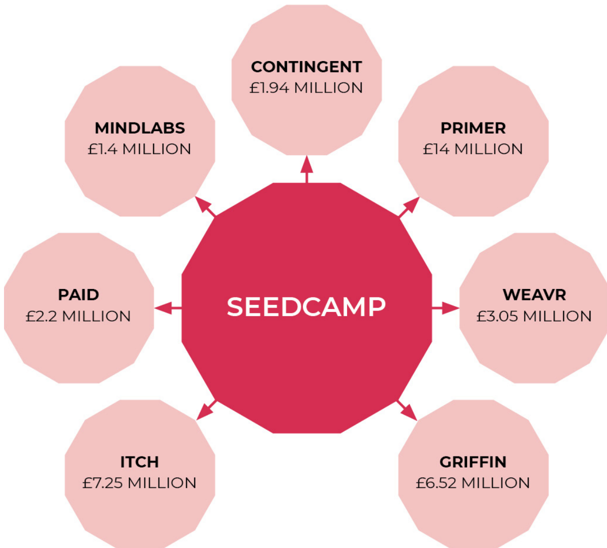
As far as the types of deals that were most common in 2020 are concerned, later stage VC held onto the top spot, with early stage VC a very close second. Together, early-stage and later-stage VC accounted for 58% of all deals by number and 71% by aggregate value.

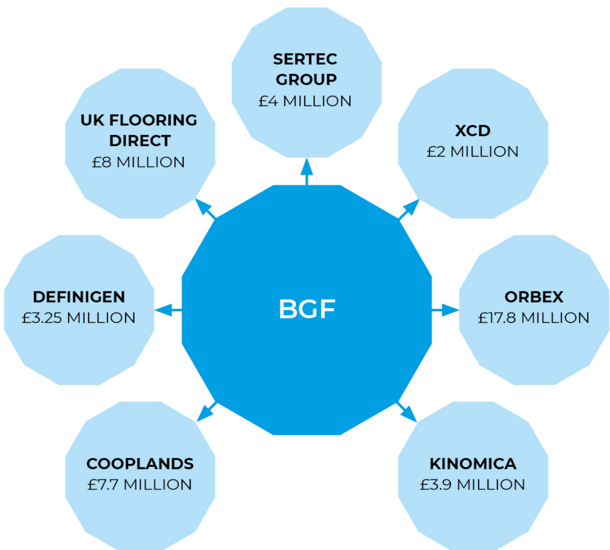


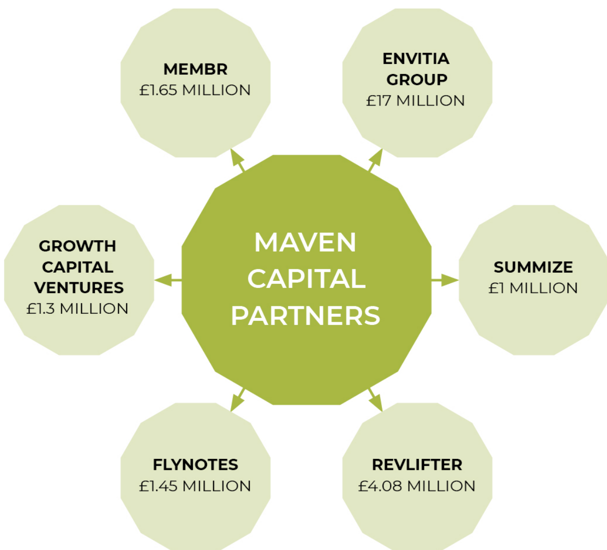
ACTIVE INVESTORS IN Q4

As was the case with our analysis of Q3, the UK government was the dominant deal-doer in the final quarter of 2020, with its Coronavirus Future Fund involved in a total of 12 deals – just over 5% of the deals completed in the quarter.

Beyond the Future Fund, notable active investors in Q4 included BGF and Seedcamp, with seven deals apiece, and Maven Capital Partners with six deals. BGF backed businesses engaged in manufacturing industrial components, drug discovery and food retail; Seedcamp focused largely on fintech investments providing funds to businesses providing e-commerce solutions; while Maven made a series of investments in IT businesses.







IT DEALS MOST POPULAR THROUGHOUT 2020

Information technology was the most popular sector for investors for the fourth quarter in a row this year, accounting for 42% of all transactions by volume and 43% by value in Q4 2020.

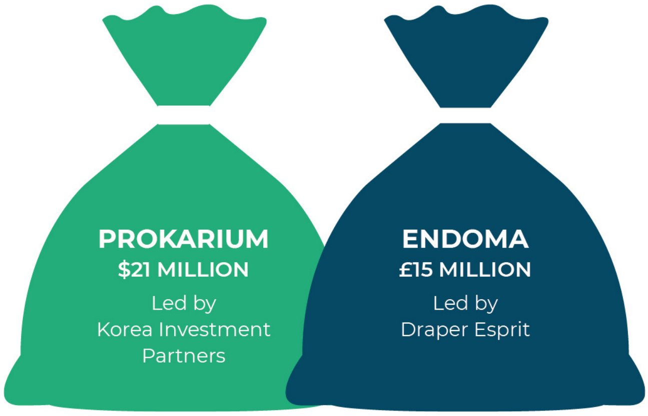
"Despite the underlying economic conditions, tech-enabled businesses have thrived, and this has been matched by investors looking to deploy capital," says Paul Winterflood, Corporate Finance Partner. "This trend will continue in 2021, so tech-enabled businesses that have proved their business model are extremely well-positioned to raise money this year."

Deals in this space in Q4 included:

NOTABLE IT SECTOR DEALS 2020

Investment in the healthcare space was the second most popular sector in the final quarter, accounting for 16% of completed transactions by volume and 17% by value. Deals in this space included:

NOTABLE HEALTHCARE SECTOR DEALS 2020



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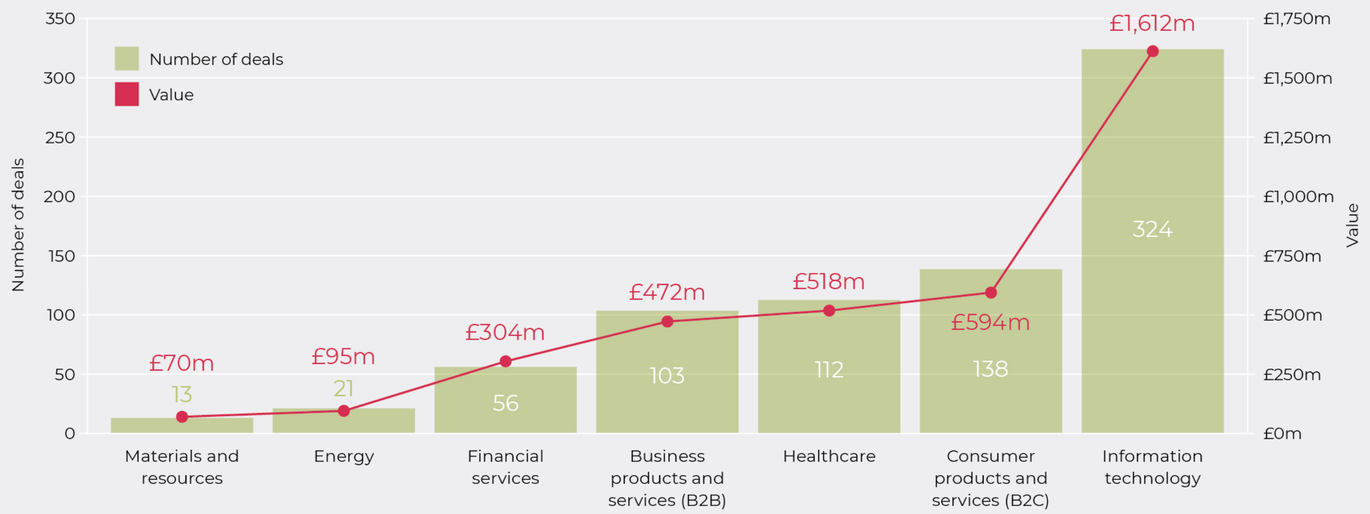
When we look at the year as a whole, information technology was the clear winner, but investment in B2C, healthcare and B2B sectors remained strong.

2020 DEAL VOLUME AND VALUE PER SECTOR



OUTLOOK

2020 was an extraordinary year so it is encouraging to see the UK's growth capital market only temporarily pushed off course before resuming more normal levels of activity. Undoubtedly, strategic government intervention has provided something of a fillip to the growth capital market in the latter half of the year. As the Future Fund application deadline has not been extended beyond January 2021, perhaps we will start to see activity slowing. However, there remains a large pool of private equity investors with substantial amounts of capital to deploy, so we hope the market will prove resilient, even with direct government support withdrawn.

There is light at the end of the tunnel, even if the tunnel is a bit longer than we might have wished for.

Naturally, we remain cautious about the economic impact of a resurgence of the Coronavirus. The arrival of new variants in the UK was especially unwelcome since it heralded further restrictions for businesses that were just starting to think about growing their operations. We expect severe restrictions to remain in place for some months, which will naturally have an impact on many businesses in the short term. However, there is a prospect of eventually returning to normality with the promise of continued fast-moving vaccination programmes.

Necessity is the mother of invention. Some businesses offering technological solutions to the privations of lockdown are in a perfect position to raise growth capital, where others may be stymied. Agile, innovative businesses, whose business models remain unaffected by lockdown, or perhaps look even more attractive because of lockdown, will continue to be popular.

In short, we believe there is light at the end of the tunnel, even if the tunnel is a bit longer than we might have wished for.

CONTACT US

If you're an ambitious entrepreneurial business with revenues of at least £1 million and are looking to scale, get in touch for an initial discussion. We can work together to assess the best action and then assist with finding the right partner. Contact us to find out more about our raising finance and growth capital services.

John Cowie
Head of Growth Capital
jcowie@mks.co.uk

Nick Thompson
Corporate Finance Partner
nthompson@mks.co.uk

Paul Winterflood
Corporate Finance Partner
pwinterflood@mks.co.uk

METHODOLOGY

Moore Kingston Smith has analysed transactions by UK-based companies that involve the issue of less than 50% of equity share capital to third parties and funds raised of between £1 million and £20 million. Accordingly, these numbers do not include senior debt and mezzanine debt fund raisings and smaller fund raisings by companies and start-up funding unless more than £1 million is raised. Start-up funding is generally significantly less than this amount.

The research aims to capture all transactions by UK companies that fall within the criteria. Inevitably there will be transactions that have taken place but have not been captured. The research is based on data extracted from Pitchbook.