MOORE Kingston Smith

EARLY SIGNS OF RECOVERY AS DEAL VOLUME INCREASES SIGNIFICANTLY

Growth Capital Update – a review of Q3 2020

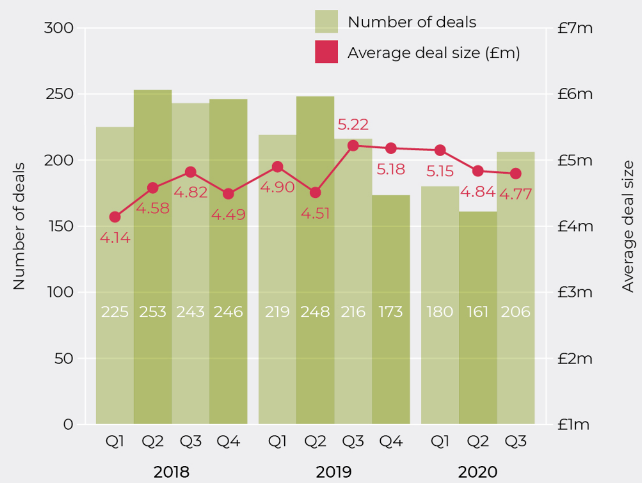
According to our research into UK private companies raising between £1 million and £20 million of growth equity capital each, 206 British businesses raised £982 million of growth capital in the third quarter of 2020: an average deal size of £4.77 million.

In Q1 2020 we saw 180 deals, with an average deal size of £5.15 million, and £927 million raised in total. In Q2 2020 there was a significant decline with just 161 deals completing, raising a total of £779 million, or £4.84 million on average. Our Q3 figures reveal a 28% increase this quarter in the number of deals completing and a 26% increase in the overall amount of growth capital being raised, albeit average deal size has continued to fall, by around 1.5% quarter on quarter.

A new UK government initiative to support direct equity investment in high-growth, innovative firms across the country has underpinned the growth this quarter, but is not responsible for all of it. We are encouraged by the general increase in activity, which reflects the UK economy starting to emerge from the depths of national lockdown, but remain cautious about the outlook for the full year. As the UK faces the difficult winter months ahead, with a rise in Coronavirus cases and more local lockdown measures anticipated, it is likely that the growth capital market will continue to experience some bumps in the road. The early signs of recovery are welcome, but we should note that activity in Q3 2020 was certainly not back to the levels experienced in the same quarter of 2019 or 2018.

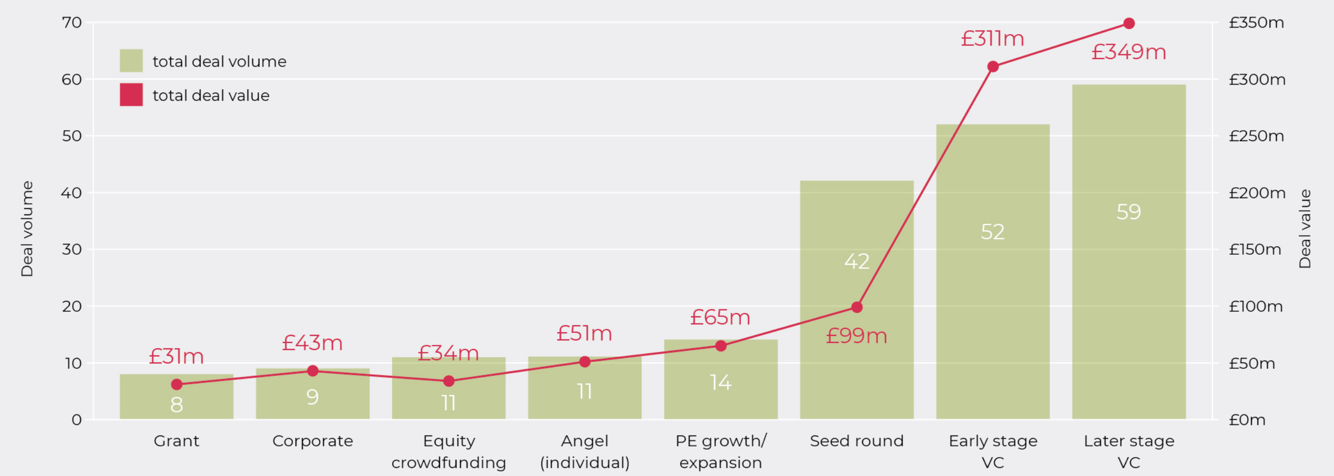
"It's encouraging to see something of an uplift in deal activity from the low level we saw in Q2, supported in part by government intervention. Investors tell us they are still eager to deploy their available capital but they continue to be short of quality opportunities. We'd urge business owners with growth plans to take advantage of this imbalance as it means that valuations have probably swung in their favour," says John Cowie, Head of Growth Capital.

NUMBER OF DEALS & AVERAGE DEAL SIZE



As far as the types of deals that were most common in Q3 2020 are concerned, later-stage VC held onto the top spot, with early-stage VC a close second. Together, early-stage and later-stage VC accounted for over half of all deals by number and more than two-thirds by aggregate value.

DEAL VOLUME & VALUE Q3 2020



ACTIVE INVESTORS

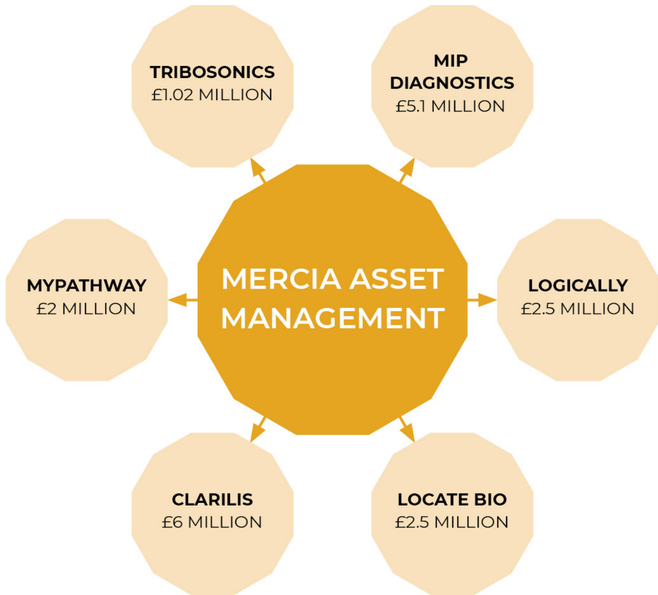
The UK government was the dominant deal-doer in Q3 2020, with its Coronavirus Future Fund involved in a total of 22 deals; just over 12% of the deals completed in the quarter.

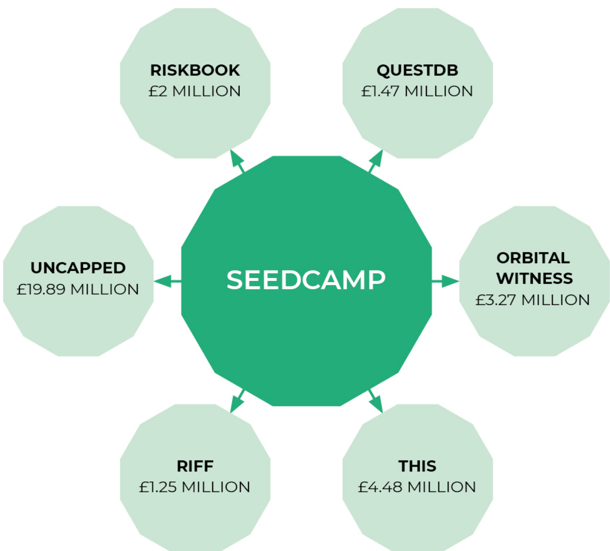
The Chancellor of the Exchequer announced on 20 April 2020 that he intended to establish a new Future Fund to support the UK's innovative businesses affected by the Coronavirus. These businesses had largely been unable to access other government business support programmes, such as CBILS, because they were either pre-revenue or pre-profit and typically rely on equity investment.

The scheme was launched in May 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 June it was announced that more than £320 million had been invested. The scheme was originally supposed to close for applications at the end of September 2020, but the deadline has subsequently been extended to 30 November 2020. It is therefore likely that next quarter's report will also see the UK government involved in a significant percentage of the deals we cover.

It is important to emphasise that the Future Fund is a match-funded scheme, so companies seeking to benefit from it do need to find equity investment elsewhere before they can access it. The Future Fund is underpinning and providing support to the growth capital market but not supplanting it.

Beyond the Future Fund, notable active investors this quarter included BGF with eight deals, and Mercia Asset Management and Seedcamp with six deals apiece. BGF backed businesses in energy storage, business productivity software and biotechnology, Mercia Asset Management focused on pharmaceuticals, biotechnology and healthcare, while Seedcamp largely backed software development businesses.





IT DEALS CONTINUE TO BE MOST POPULAR

Information technology was the most popular sector for investors for the third quarter in a row this year, accounting for 39% of all transactions by both volume and value in Q3 2020.

“Scalable software and technology solutions continue to be much sought after by investors with this trend only strengthening over the past six months. Coronavirus led to a rapid digital transformation revolution with firms being forced to be more digitally agile, increasing demand further for digital services and solutions. Capital being deployed has followed suit and I have no doubt that the demand from VC and PE houses, who have significant capital to deploy will continue to look to invest in digital solutions for the foreseeable future” says Paul Winterflood, Corporate Finance Partner.

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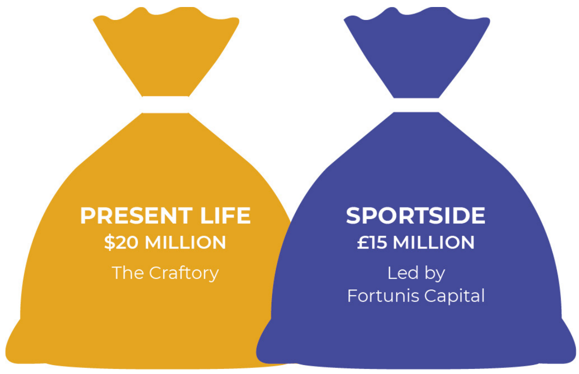
Investment in the B2C space was the second most popular sector, accounting for 20% of transactions completed. Deals in this space included:



OUTLOOK

In our Q2 report we expressed the view that investors were still keen to do deals and had large pools of capital to deploy, but a shortage of new deals coming to market was dampening activity. That hasn’t changed appreciably.

It would seem, however, that strategic government intervention, coupled with increasing economic activity as the UK emerged from full lockdown, has now encouraged companies to launch their investment rounds. With the extension of the Future Fund into Q4, we expect this increase in deal-doing to continue for the remainder of this year. Nevertheless, we remain cautious about the economic impact of a resurgence of the Coronavirus as we head into the winter months, and the possible effects of local lockdown measures on business confidence generally.

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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 with you 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

SOME OF OUR GROWTH CAPITAL TRANSACTIONS

Social Media	Technology	Technology
Influencer	TRI	UBISECURE™
Lead Adviser	**Lead Adviser**	**Lead Adviser**

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.