Small Business Equity Tracker 2022

British Business Bank

Beauhurst

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Foreword

Now in its eighth year, our annual British Business Bank Equity Tracker report provides a comprehensive picture of equity funding conditions for smaller businesses across the UK.

The British Business Bank has been, from its inception, a key provider and enabler of equity finance as an important means of supporting innovative companies. These businesses are vital to UK growth, are able to respond quickly to new market opportunities, and are key players in addressing long-term challenges such as climate change.

2021 was an exceptional year for UK equity markets, with a record £18.1bn invested – nearly double the level in 2021. This shows the continued strength of the UK ecosystem in helping companies to scale up. A concurrent increase in the number of announced deals, which grew 17% to 2,616 – again a record high – meant that more companies than ever before succeeded in getting the finance they needed to take their businesses to the next level.

This strong growth continued in Q1 2022, with £7.6bn invested, by far the highest amount of equity investment ever recorded in a single quarter. Although undoubtedly positive news, this should be treated with caution given a deterioration in the economic outlook more generally. We will continue to monitor equity market conditions as they develop.

British Business Bank equity programmes are an increasingly important part of the equity market, supporting around 18% of all announced equity deals in 2021. This was driven by increased activity from British Patient Capital, our Enterprise Capital Funds and the Regional Angels Programme delivered by British Business Investments.

Whilst the UK has high levels of Venture Capital activity compared to other European countries, this year's Equity Tracker exposes disparities in the availability of equity funding going to R&D-intensive sectors. This substantially contributes to the overall equity funding gap with the US. Last year the Bank launched Future Fund: Breakthrough through its commercial subsidiary British Patient Capital, to help deep tech companies to raise the additional growth capital they need.

The Bank has a mission to drive sustainable growth and prosperity across the UK, and to enable the transition to a net zero economy, by improving access to finance for smaller businesses. There was a welcome 30% increase in the number of clean tech deals in 2021, albeit starting from a low base. This suggests investors are turning their attention to this critical but underfunded sector.

International investors make a large contribution to UK equity markets. The proportion of equity deals involving an overseas investor has increased over time from 12% in 2014 to 29% in 2021. Overseas investors were involved in nearly half (45%) of all growth stage deals in 2021, an area of the market our subsidiary, British Patient Capital, specifically targets to crowd in additional funding. This year's report also finds that overseas investors contributed over half the capital to UK VC funds last year.

As the country's largest domestic institutional investor in UK Venture Capital, we also continue to work to unlock more funding from UK institutional investors. By attracting this type of funding alongside our own, we increase the diversity and size of the market. This is especially important for the venture growth capital market which serves high-growth early stage technology-led businesses.

I hope you find this year's Small Business Equity Tracker informative. As the government's centre of expertise on smaller business finance, this research helps us to provide the government, the finance industry and small businesses themselves with a trusted source of information on how the markets are performing.

By tracking changes in equity finance, and identifying areas of the market that are not working as effectively as they might be, our research also informs the development of our equity programmes for smaller businesses. In doing so, we can support the government's wider policy agenda, such as building on the UK's position as a science superpower and levelling up the regions so that prosperity and success is more evenly distributed across the whole of the UK.

Catherine Lewis La Torre
CEO, British Business Bank

Executive summary

UK equity investment has been very strong in recent years, and 2021 has been an exceptional year with £18.1bn invested into high growth potential smaller companies.

Equity investment increased 88% in 2021 compared to the £9.6bn invested in 2020. 2021's increase is the largest annual increase since Beauhurst started tracking equity deals in 2011. There have also been increases in the number of equity deals made in 2021, showing more companies are able to raise the funding they need.

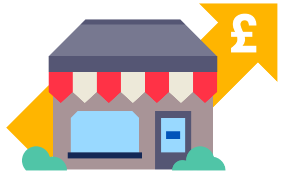
Table 1

Number and value of equity deals over time by stage

Source: British Business Bank analysis of Beauhurst data

Year	2019	2020	2021
Number of deals	**2,002**	**2,244**	**2,616**
Seed	801	935	982
Venture	823	952	1,163
Growth	378	357	471
Investment value (£bn)	**£8.3**	**£9.6**	**£18.1**
Seed	£0.8	£1.5	£1.7
Venture	£2.4	£3.1	£5.7
Growth	£5.2	£5.1	£10.8

Key Findings



1) 2021 has been an exceptional year for UK equity finance with £18.1bn of investment, nearly double its 2020 level

Global equity investment was buoyant in 2021 and the UK was no exception to this as investors looked for higher returns in the low interest rate environment. The average quarterly amount of UK equity investment in 2021 was £4.5bn, which is comparable to annual investment levels prior to 2016.

In recent years, the growth in overall equity investment had largely been driven by the later growth stage as the ecosystem matured. Whilst the growth stage grew the most, 2021 saw record levels of activity across all three company stages, which benefitted the overall equity ecosystem.[1]

There were 2,616 announced equity deals in 2021, which is a 17% increase on 2020. This also confirms more companies are raising funding than previously.

2021 was characterised by larger deal sizes and higher valuations compared to 2020, as increased competition for deals led to more founder-friendly terms. Average deal sizes increased by 61% to £7.4m in 2021, with increases seen in all three company stages leading to new record levels. Average pre-money valuations also sharply increased in 2021 reaching £34.2m, an 84% increase. This has mostly been driven by increases in valuations at the growth stage, but valuations increased across all stages.

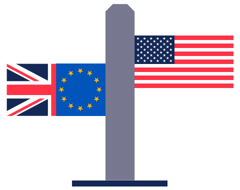
Despite greater economic uncertainty from the invasion of Ukraine, higher inflation and central banks increasing interest rates, UK equity finance continued its momentum into 2022, with record-breaking deal numbers and investment in the first quarter. £7.6bn was invested in Q1 2022, by far the highest amount of equity investment ever recorded in a single quarter. This exceeds the amount invested in every year before 2019.

Technology/ IP-based businesses continued to attract both the largest number of deals and the most investment in 2021 with 1,019 deals and £8.2bn invested, up 11% and 99% from 2020. The market for clean tech is also beginning to expand with 30% more deals and 38% higher investment in 2021 compared to the previous year, in part due to greater investor interest in this sector. However, clean tech still only forms 3% of all deals and 2% of all equity investment in 2021, showing it is a relatively small part of the overall equity market.

2) British Business Bank equity programmes have an increased role in UK SME equity finance markets

British Business Bank equity programmes supported around 14% of all announced equity deals between 2019 and 2021, with the Bank's share of supported deals increasing from 6% in 2011 to 18% in 2021. The recent increase is due to increased deal activity by ECF, BPC, Managed Funds and Regional Angels programmes.

Funds supported by the British Business Bank were more likely to invest in technology/ IP-based businesses than the overall equity market between 2019 and 2021, with 47% of British Business Bank supported deals in this sector compared to 39% of the wider market. British Business Bank programmes are more likely to fund academic spinout companies than the wider equity market. 14% of Bank supported equity deals went to a company that is classed as an academic spinout, which is higher than the overall equity market (9%) and wider PE/ VC market (11%). This shows British Business Bank equity programmes are helping to support the commercialisation of research coming out of UK universities.



3) The UK has a relatively high level of VC activity compared to other European countries but continues to lag behind the US, especially for investment in deep tech and R&D intensive sectors

The UK remains the largest VC market in Europe, forming 31% of the number of VC deals and 34% of total investment, ahead of France and Germany combined at 22% and 29% respectively. Other European countries are showing strong growth in their VC markets, with the VC investment in France growing 706% since 2015 ahead of the UK's growth of 585%, albeit from a much smaller level. The UK has made progress with closing the gap with the US, as US VC investment grew 353% over the same period.

As European VC markets mature and against the backdrop of higher company valuations, there have been increased numbers of VC-backed companies reaching unicorn status in 2021. Between 2015 and 2021, the UK has created a higher number of unicorn businesses than France and Germany (39 compared to 15 and 31 respectively). However, Europe as a whole has created fewer unicorn companies than the US (177 compared to 724) over the same period.

Relative to GDP, the UK has a lower proportion of VC investment going to deep tech and R&D intensive companies than China, Sweden and the US. The majority of the overall UK-US VC funding gap is caused by differences in funding going to these two sectors, as UK funding for other sectors is more comparable to the US. Deep tech is an important sector for future economic growth and prosperity and for addressing global challenges.

4) Overseas investors have a large role in UK VC markets contributing funding at both deal level and fund level

Overseas equity investors make an important contribution to UK VC. The involvement of overseas investors in the UK market has increased over time, with 29% of all equity deals in 2021 involving an overseas investor.

Overseas investors have the largest role at the later stages of financing, where 45% of deals at the growth stage involved an overseas investor. As overseas investors continue to open offices within the UK, they are becoming increasingly active at earlier stages. Overseas investors were involved in 62% more deals at the seed stage in 2021 compared to 2020.

US investors have consistently been involved in the largest number of UK deals, as they have looked for greater returns outside of their home market, followed by investors from Germany and France, reflecting Europe's next largest VC markets.

Investors that invest overseas are often larger than those that invest only in domestic markets. Overseas investors can contribute additional funding to UK companies, leading to larger deal sizes. The average UK growth stage deal involving an overseas investor in 2021 was £46.1m compared to £8.7m for growth stage deals only involving domestic investors. Overseas investors played a major role in funding 'megadeals' that are larger than £100m in size in 2021.

The report explores whether companies that receive equity investment from overseas investors are more likely to exit overseas via a trade sale by an overseas based company or an IPO listing on an overseas public market. Between 2011 and 2021, 44% of all equity-backed company exits occurred overseas. Of companies that received funding from domestic investors only, 40% exited overseas, but this increased to 61% for companies previously funded by an overseas investor.

Overseas investors not only contribute funding at the deal level but also contribute investment into UK VC funds. 56% of Limited Partner (LP) commitments by value into UK VC funds raised between 2017 and 2021 came from overseas investors, including the European Investment Fund (EIF). Government contributed around 25% of the capital to UK VC funds, which suggests the remaining 19% of capital came from private UK investors including pension funds, high net worth individuals and corporate investors. Despite increases in UK VC funding over time, UK VC funds are reliant on overseas sources of capital.

Business Bank response

The British Business Bank will use the evidence presented in this report to inform our ongoing discussions with Government, Parliament, businesses and the finance industry, and to ensure our programmes remain targeted on parts of the market where smaller businesses can benefit the most from the Bank's support. This report highlights several important findings:

- **Lower levels of funding to deep tech and R&D intensive companies:** The report show a lack of VC funding going to R&D intensive industries, which contributes to the UK's overall VC funding gap with the US. The Future Fund: Breakthrough programme delivered by BPC is currently helping to fund later stage R&D intensive companies, but the scale of the challenge is large.[2]

- **Recovery in the number of companies raising their first equity round:** There were 1,287 first-time fundraisings in 2021, up 27% from 2020. The number of initial rounds had plateaued between 2014 and 2020 as the UK equity market has matured. It is therefore encouraging to see an increase in the number of companies raising equity finance for the first time in 2021, as it will strengthen the future pipeline of deals. Whilst the number and value of early-stage seed deals increased in 2021, the rate of increase was lower than other parts of the market, leading to a fall in the proportion of deals and funding going to seed stage companies. Therefore, the Bank's Enterprise Capital Funds and Regional Angel programmes will continue to focus on early stages of the market, to build on their existing successes developing the early-stage VC ecosystem and keep pace with increases in the later-stage VC market.

- **Increased concentration of equity deals in London.** London's proportion of the UK's equity deals increased by three percentage points in 2021 to 49%. This shows the continued need for the Bank to address geographic disparities in equity finance. The Bank received £1.6bn of funding at the 2021 Spending Review to develop the next generation of regional funds and looks forward to working with the Devolved Nation's economic development banks and local stakeholders to deliver this increased support.[3]

- **Continued growth in investment UK VC in Q1 2022.** It is positive that UK equity finance continued to grow in the first quarter of 2022, despite increased global economic uncertainty, higher inflation and higher interest rates which has adversely impacted on public equity markets. VC funding in the US has already declined in Q1 2022 showing market conditions are changing. The Bank will continue to monitor UK equity finance conditions very carefully.

Introduction

- This is the eighth annual Equity Tracker report exploring trends in equity finance for unlisted UK smaller companies using Beauhurst data
- This year's report also examines how UK VC markets compare to other countries, especially in relation to funding going to deep tech and R&D intensive sectors
- The report also looks at the contribution overseas VC investors and Limited Partner (LP) investors make to the UK VC market

This is the eighth annual Equity Tracker report exploring trends in equity finance for unlisted UK smaller companies using Beauhurst data

The report provides a summary of equity finance activity in 2021, building on the previous analysis contained in our recent Small Business Finance Markets Report that covered equity activity up to Q3 2021.

Beauhurst identifies and records equity deals made by the full range of equity investors, from large multi-million growth deals in established businesses by private equity funds, to smaller deals in early-stage companies by angel investors and equity crowdfunding platforms.

Additional information on Beauhurst methodology and terminology can be found in the report appendix.

This year's report also examines how UK VC markets compare to other countries, especially in relation to funding going to deep tech and R&D intensive sectors

Data from PitchBook is used to complement and enrich the analysis derived from Beauhurst by providing data that allows for international comparisons to be made in relation to equity funding going to R&D intensive sectors and the wider VC ecosystem.

The report also looks at the contribution overseas VC investors and Limited Partner (LP) investors make to the UK VC market

Data from PitchBook is also used to show the composition of Limited Partner (LP) commitments to VC funds across the UK, US and rest of Europe.

This year's report is structured as follows:

– **Section 1** provides an overview of equity market activity in 2021, as well as a headline summary of deal and investment in Q1 2022.

– **Section 2** provides an overview of equity deals made by the British Business Bank supported equity funds between 2019 to 2021, making comparisons by stage, sector, region and gender composition to the overall equity market.

– **Section 3** provides an examination of how the UK VC market compares to other selected countries, focussing on the availability of funding for deep tech and R&D-intensive sectors.

– **Section 4** focusses on the contribution overseas investors make to the UK VC market, as well as looking at the proportion of UK companies that exit overseas.

Section 1

Recent trends in SME equity finance

- 2021 was an exceptional year for UK equity finance with investment reaching £18.1bn, nearly double its 2020 level
- Strong growth continued in Q1 2022 with £7.6bn invested, the largest quarterly amount recorded, despite emerging economic headwinds
- Growth has been seen across all three company stages, with the later stage growth activity increasing the most in 2021
- Deal sizes and valuations have increased sharply in 2021 as VC investors have competed for deals
- London's concentration of equity activity increased in 2021, despite recent increases elsewhere in the UK, but there is evidence of strong clusters developing outside of London
- The technology sector continues to be the main sector of focus for investors
- Female-founded companies continue to receive relatively low levels of equity investment

2021 was an exceptional year for UK equity finance with investment reaching £18.1bn, nearly double its 2020 level

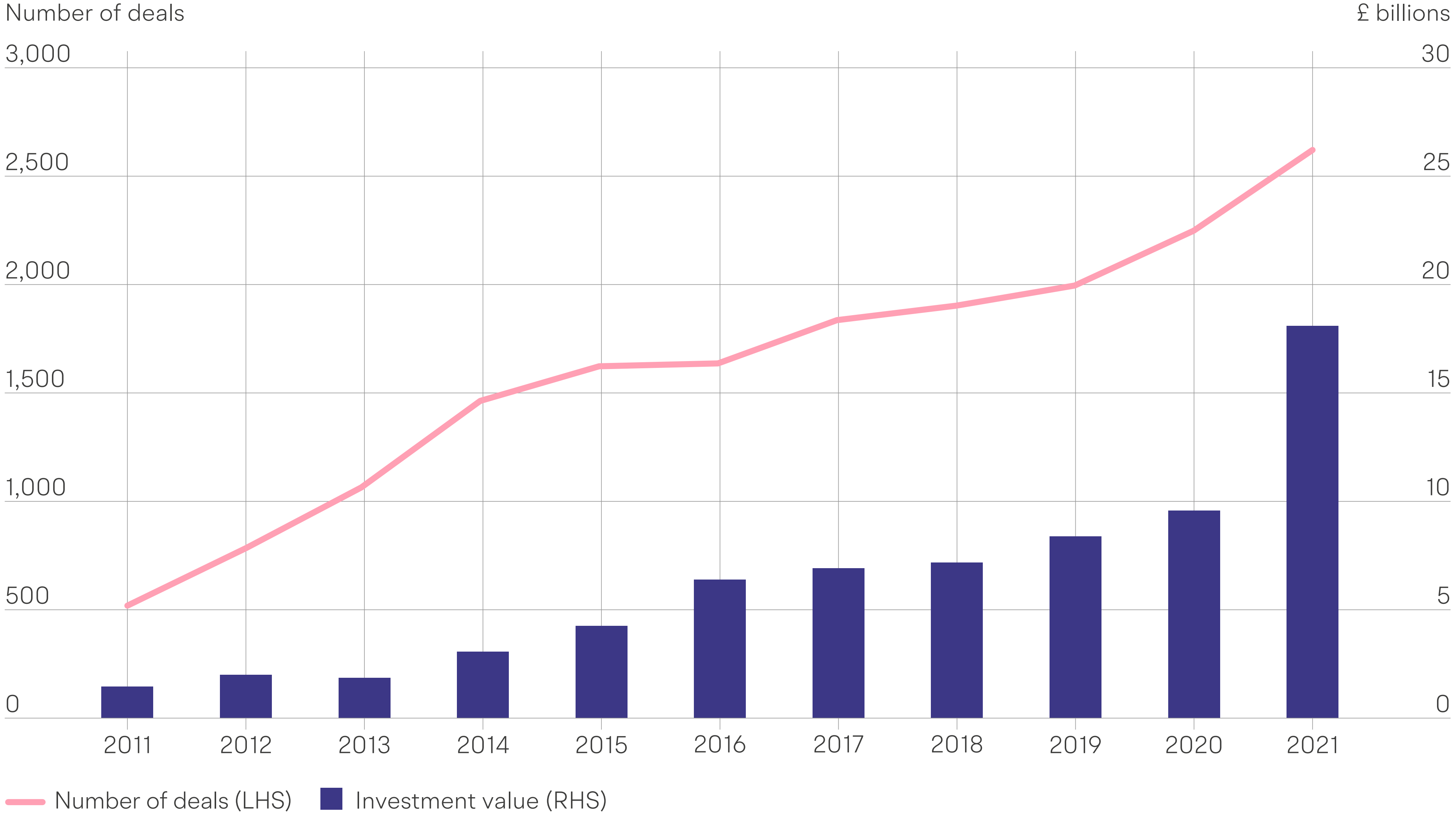
The Bank's recent Small Business Finance Market report found that equity markets had an exceptional first three quarters of 2021, with equity investment on pace to double the previous record set in 2020. The latest full year figure falls just short of doubling 2020's investment figure, but 2021 was still an exceptional year for equity activity with strong growth in both deal numbers and in investment values.

There were a record number of announced equity deals and investment into small UK businesses in 2020, despite the uncertainty created by the COVID-19 pandemic. Figure 1.1 shows that activity accelerated in 2021, setting further new records for announced equity deals and investment. There were 2,616 announced equity deals in 2021, which is a 17% increase on the 2,244 recorded in 2020. There was £18.1bn of investment in 2021, which is an 88% increase on the £9.6bn recorded in 2020. This is the largest annual increase since Beauhurst started tracking equity data in 2011.

Figure 1.1

Number and value of equity deals over time

Source: British Business Bank analysis of Beauhurst data



Strong growth continued in Q1 2022 with £7.6bn invested, the largest quarterly amount recorded, despite emerging economic headwinds

Private equity markets finished the second half of 2020 strongly as economic uncertainty around the pandemic reduced. Figure 1.2 shows that this momentum accelerated in 2021. Each quarter in 2021 was above the previous record of £3.5bn that was set in Q4 2016.

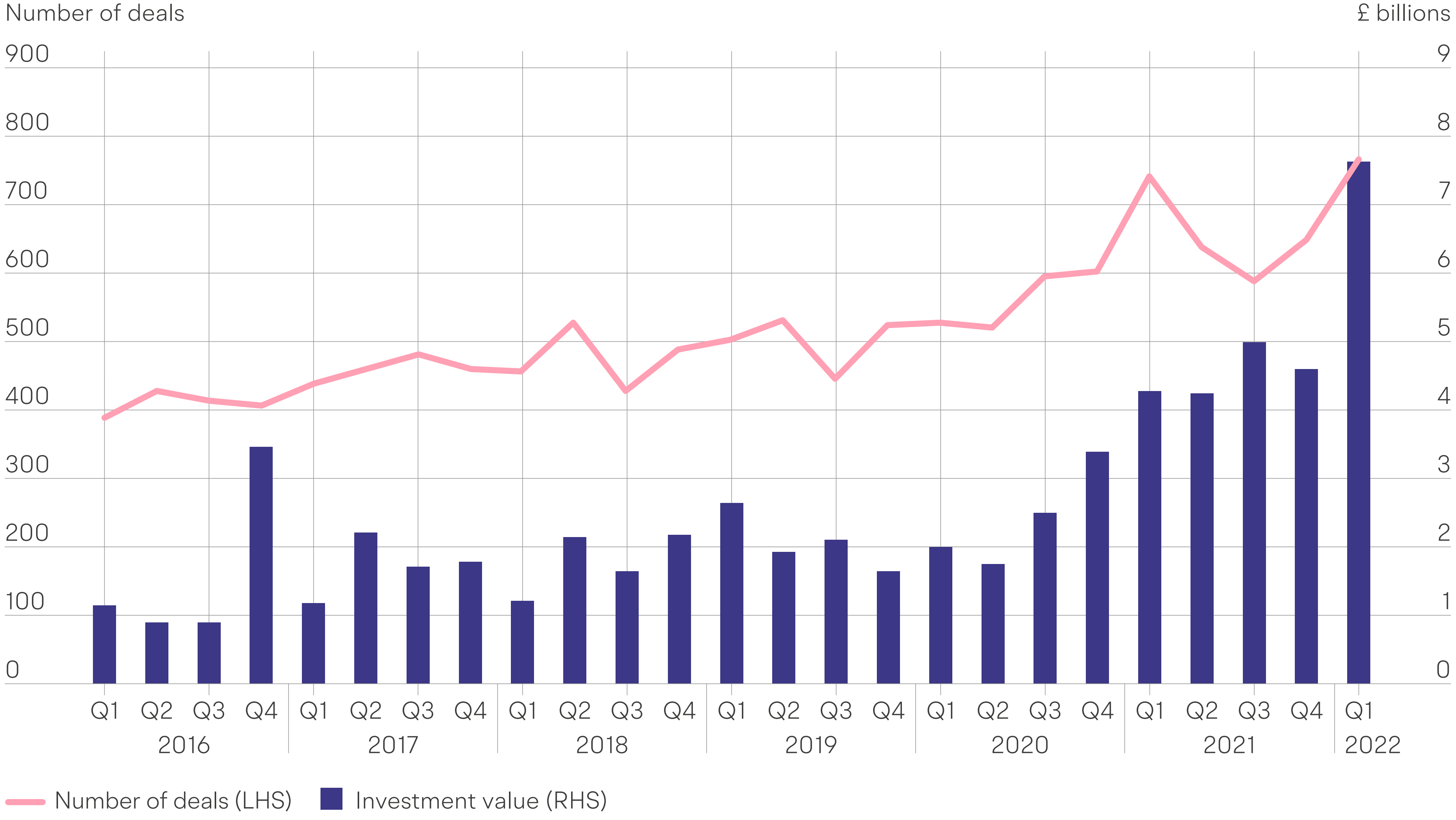
The average quarterly amount of UK equity investment in 2021 was so strong at £4.5bn that it is comparable to previously recorded annual investment levels prior to 2016. All four quarters in 2021 recorded more than £4bn in investment with Q3 2021 recording £5bn of investment. This £5bn of investment in Q3 2021 is 45% higher than Q4 2016's previous record of £3.5bn.

Beauhurst continually update their dataset as new equity deals are discovered. Beauhurst have recently identified a £2.4bn growth stage deal in Global Switch in Q4 2016, which has led to a substantial change in the historical investment figures for this quarter and year.

Figure 1.2

Number and value of equity deals over time by quarter

Source: British Business Bank analysis of Beauhurst data



Every quarter in 2021, apart from Q3, recorded a higher number of deals than the previous record of 602 set in Q4 2020 peaking at 743 deals in Q1 2021.

However, the first quarter of 2022 has gone on to top even these extremely strong 2021 levels of activity with 765 announced deals worth £7.6bn, setting another new record for both UK quarterly deal numbers and investment. The latest deals numbers are 3% higher than the previous quarterly record (Q1 2021), and the investment is 52% higher than the previous quarterly record set in Q3 2021. In fact, there was more investment in this quarter than in any year prior to 2019. BritishVolt, a company developing lithium batteries for electric cars, raised £1.7bn of funding in Q1 2022, contributing a substantial proportion of the total equity raised in the quarter. Beauhurst measure the total funding round size, but a substantial proportion of this £1.7bn deal involved debt financing. At least £44m was structured as equity investment, but it is not possible to separate out the remaining amount. Even if this one deal was removed, it would have still been a record quarter for UK equity investment with £5.9bn invested.

This comes despite economic headwinds that have emerged in the second half of 2021, and a deteriorating economic outlook in 2022. For instance, the Bank of England forecasts UK economic growth to slow sharply over the first half of 2022, reflecting the significant adverse impact of higher global commodity and goods prices on UK demand. GDP is projected to fall in Q4 2022, driven largely by the decline in households' real incomes.[4]

UK investment trends using Beauhurst data for Q1 2022 differ to those in the US using PitchBook data where VC investment in Q1 2022 was 6% lower than the average quarterly funding amounts in 2021, although the number of deals continued to increase in the US.[5] UK trends are currently following trends seen in Europe where PitchBook[6] data shows quarterly investment increased in Q1 2022 reaching record levels. PitchBook data for the UK does suggest a slight decline in overall investment of 3% in Q1 2022 compared to average quarterly investment raised in 2021.[7]

In both the latter half of 2020 and throughout 2021, equity markets were one of the beneficiaries from the global loose monetary policy that resulted in ultra-low interest rates. Monetary policy was combined with fiscal stimulus to support the economy in response to the COVID-19 pandemic.

Public markets recovered in 2020 and 2021, driven by greater market liquidity and optimism around the vaccine roll out, which raised prospects for strong economic growth as economies reopened. The increase in company valuations on public markets, especially in the technology sector, also flowed across to private markets.

Public markets provide liquidity for later stage VC-backed companies by allowing investors to realise returns through IPOs. Higher valuations in public markets also contributed to higher valuation in private markets, which are often more difficult to value given the lower frequency of deals and less public information available. 2021 was characterised by an increased number of SPACs (Special Purpose Acquisition Company) providing an alternative route to listing. Investors and VC-backed companies were drawn to the ability to go public more quickly without much of the volatility associated with a traditional IPO.[8]

The low interest rate environment also encouraged institutional investors to look for assets that were able to generate higher returns. This encouraged new investors into the market, increasing the amount of VC funding available to businesses.

This is also reflected in global VC investment growing substantially in 2021, with record amount of funding raised. KPMG found that 'global venture capital annual investment [shattered] records'.[9] PitchBook found that there was "roughly double the previous record" of US VC funding[10] and that VC investment in Europe and Israel surpassed €100m for the first time.

However, economic conditions began to turn towards the latter part of 2021, with higher inflation and interest rates, continued supply chain shortages and geopolitical uncertainty all contributing factors to reduced investor confidence as investors began to price this into their investment decisions. This has led to declines in the value of global stock markets, but the decline has been most apparent in the valuations of tech companies. This is shown by the poor performance of the NASDAQ in 2022, which has declined by over 25% since the start of the year, reversing some of the gains it has made since 2020.[11]

Tech companies' valuations, especially those that are not yet profitable and growth focussed, have declined faster than those in the overall market due to their perceived greater levels of risk. This is because assets that gain most of their value from expected future revenue are more sensitive to increases in interest rates and changes in expected interest rates, given that cash flows will be realized well into the future. Higher interest rates may lead to lower company valuations as investors value cash generative businesses/income generation in the present over future growth.[12] Even 'big tech' established companies like Apple, Meta, Alphabet and Amazon have not been immune from the fall in value seen in 2022 so far, although some of this is also due to lower reported quarterly earnings.

The market for IPOs has ground to a halt in Q1 2022, with several high-profile delays and drastically reduced exit values for venture-backed companies compared to the same period last year. PitchBook[13] found the exit value of European VC-backed companies fell by nearly half when comparing Q1 2021 to Q1 2022, suggesting VC markets are beginning to adapt to the new economic outlook. Their latest analysis states "At its current pace, exit value is on course to register a 75.5% year on year decrease from 2021 by the year's conclusion". The SPAC route for listing has also cooled sharply in 2022, partly due to greater levels of investor scrutiny and proposed new US accounting rules to ensure SPACs are more regulated.[14]

Growth has been seen across all three company stages, with the later stage growth activity increasing the most in 2021

Beauhurst have historically classified deals into three stages: seed, venture and growth, reflecting the company's underlying position in terms of product development, commercialisation, sales and profitability. In 2019 Beauhurst introduced the 'established' company category, a subset of the original growth stage which reflects more mature companies. Beauhurst define the established category as "companies that may well be experiencing significant growth but are doing so from a position of greater commercial security than a company at the seed, venture or growth stages".

For consistency with previous Equity Tracker reports, we are not currently using the established category in our analysis. Therefore our deal stage analysis will differ to Beauhurst's own reporting.

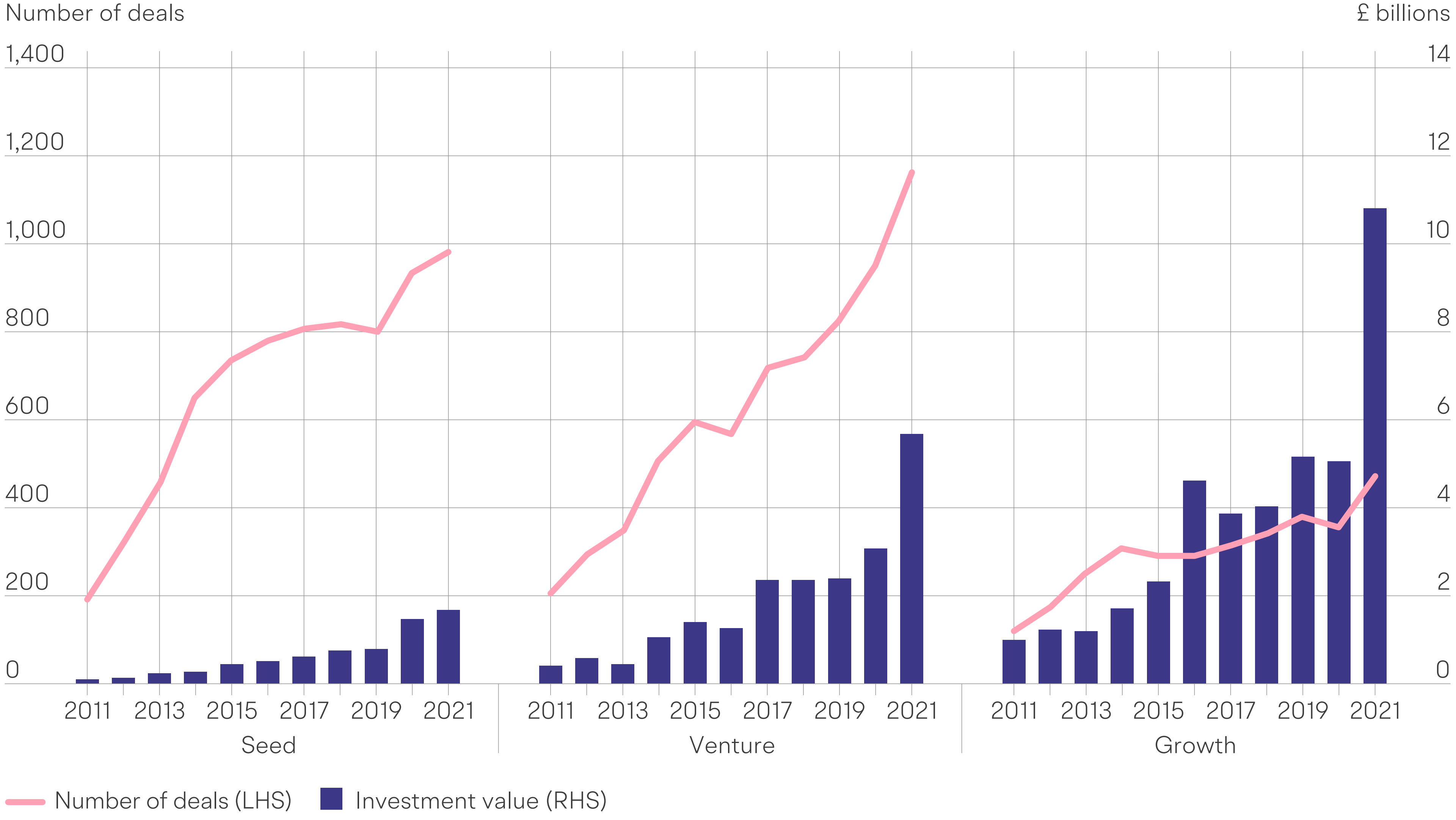
The seed stage generally encompasses young companies being set up or that have been in business for a short time but have not yet made any commercial sales.[15] The venture stage covers companies that have been in existence for a few years and are in the process of gaining market traction with sales growing rapidly. The venture stage does not solely correspond to funding by venture capitalists, as other investor types also provide funding to venture stage companies. Growth stage businesses are more developed with multiple offices or branches and substantial revenue streams (some of which may be profitable). The growth stage includes later stage VC-backed companies seeking to grow their core market, expand into new markets or create new products/services.

Figure 1.3 shows the number and value of deals at each company stage. In recent years, the growth in overall investment had largely been driven by the growth stage as the ecosystem matured. 2021 saw record levels of activity across all three stages, which bodes well for the overall health of the ecosystem.

Figure 1.3

Number and value of equity deals over time by stage

Source: British Business Bank analysis of Beauhurst data



The tailwinds for equity markets mentioned earlier benefitted the growth stage the most, with strong exit opportunities on public markets allowing private companies to raise large amounts of capital at higher valuations ahead of listing. Growth stage companies in the UK also benefitted from the inflow of crossover and overseas investors and the additional capital they contribute. These investors prefer investing in later stage companies, as these companies are better able to demonstrate success and can absorb significant amounts of capital compared to earlier stage companies.

Seed Stage:

There were 982 announced seed stage deals in 2021, 5% higher than in 2020. The amount invested at this stage was £1.7bn in 2021, a 12% increase compared to the previous year. However, there was one extremely large seed stage deal identified in 2020 (£601m).[16] If this £601m deal is removed from the 2020 data, the amount invested increased by 89% in 2021.

A strong seed stage is important for the overall health of the ecosystem as these companies provide the pipeline for future deals. Before COVID-19, there had been concerns about the health of the seed stage as its growth in the number and value of investment had been lagging that of later stage companies. There were also concerns that COVID-19 would have seen investors pull back from the seed stage as their appetite for risk decreased. It is encouraging that this trend did not continue in 2021, and the seed stage has continued to perform strongly in Q1 2022. There were 272 deals worth £419m in Q1 2022, which is a similar pace of investment to 2021. Deals at the seed stage are most impacted by the reporting lag for equity investments, so it is likely that this figure will be revised upwards.

Venture Stage:

As with the other stages, the venture stage performed strongly in 2021, building on the growth seen in 2020. There were 1,163 deals in 2021, a 22% increase on 2020, with £5.7bn invested, an 85% increase on 2020. It's encouraging to see the venture stage continue to perform strongly in 2021, as these companies are scaling up their activities. Some of this may be a result of investors trying to invest in companies at an earlier stage to avoid the greater competition for deals seen in the later VC stages. In Q1 2022, the venture stage continued to receive the most activity as it has in the last couple of years with 363 deals worth £2.2bn. If this pace of investment continued throughout 2022, the venture stage would substantially exceed 2021's record.

Growth Stage:

Growth stage activity was slightly down in 2020 compared to 2019 after driving much of the increase in overall market investment between 2015 and 2019. 2021 saw a return to the previous trend. There were 471 growth stage deals in 2021, a 32% increase on the 357 recorded in 2020. There was a remarkable £10.8bn invested in growth stage companies in 2021, up 113% on 2020. This is above the annual level of investment recorded in any of the years prior to 2021. The data for Q1 2022 shows that the growth stage continues to surge forward in terms of investment. There were 130 deals worth £5bn in growth stage companies in Q1 2022, nearly half of 2021's figure already with three quarters remaining in the year.

Figures 1.4 and 1.5 show the proportion of deals and investment going to each stage. The seed stage saw its proportion of deals decrease by 4 percentage points to 38% and its proportion of investment decrease by 6 percentage points to 9% between 2020 and 2021. The venture stage's proportion of deals increased by 2 percentage points to 44% and its proportion of investment decreased by 1% to 31% over the same period. The growth stage's proportion of deals in 2021 increased by 2 percentage points to 18% and its proportion of investment increased by 7 percentage points to 60% compared to 2020, reflecting the increase in deal sizes seen in the latter stages.

Figure 1.4

Proportion of equity deals over time by stage

Source: British Business Bank analysis of Beauhurst data

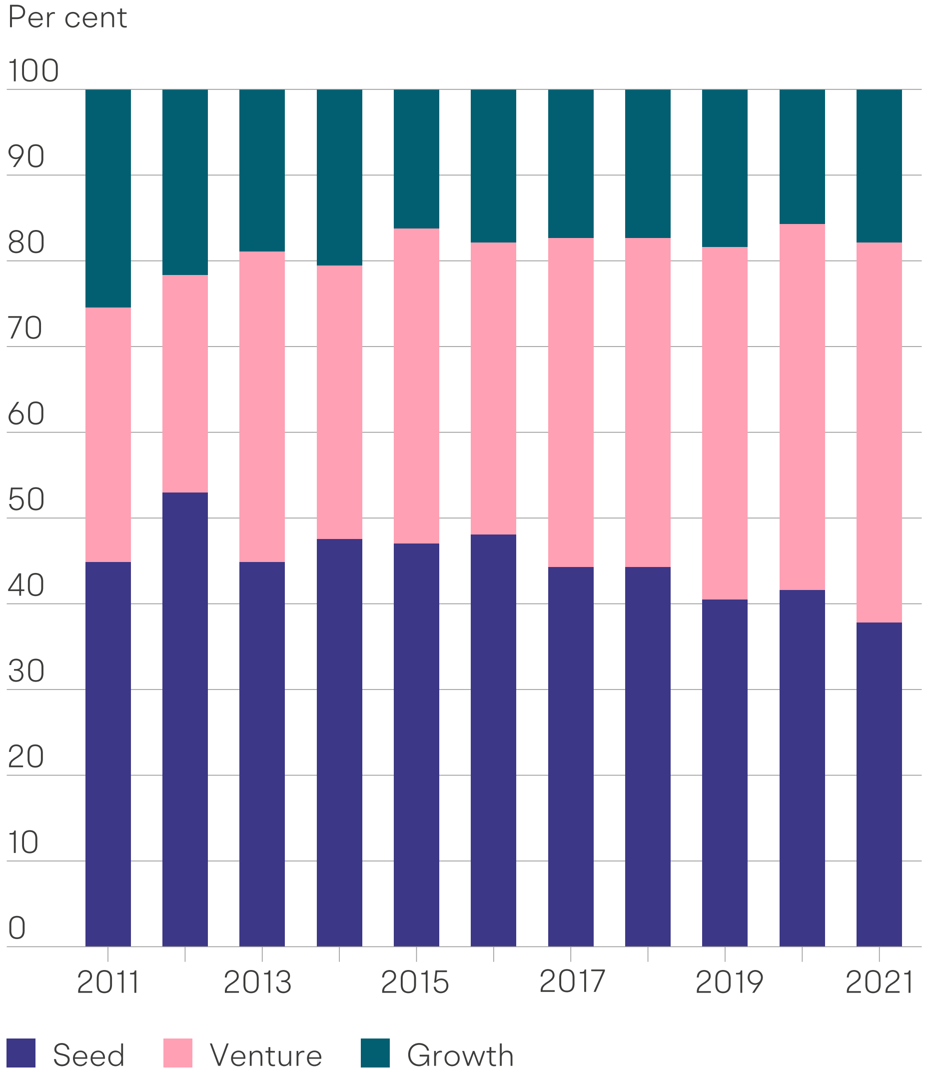
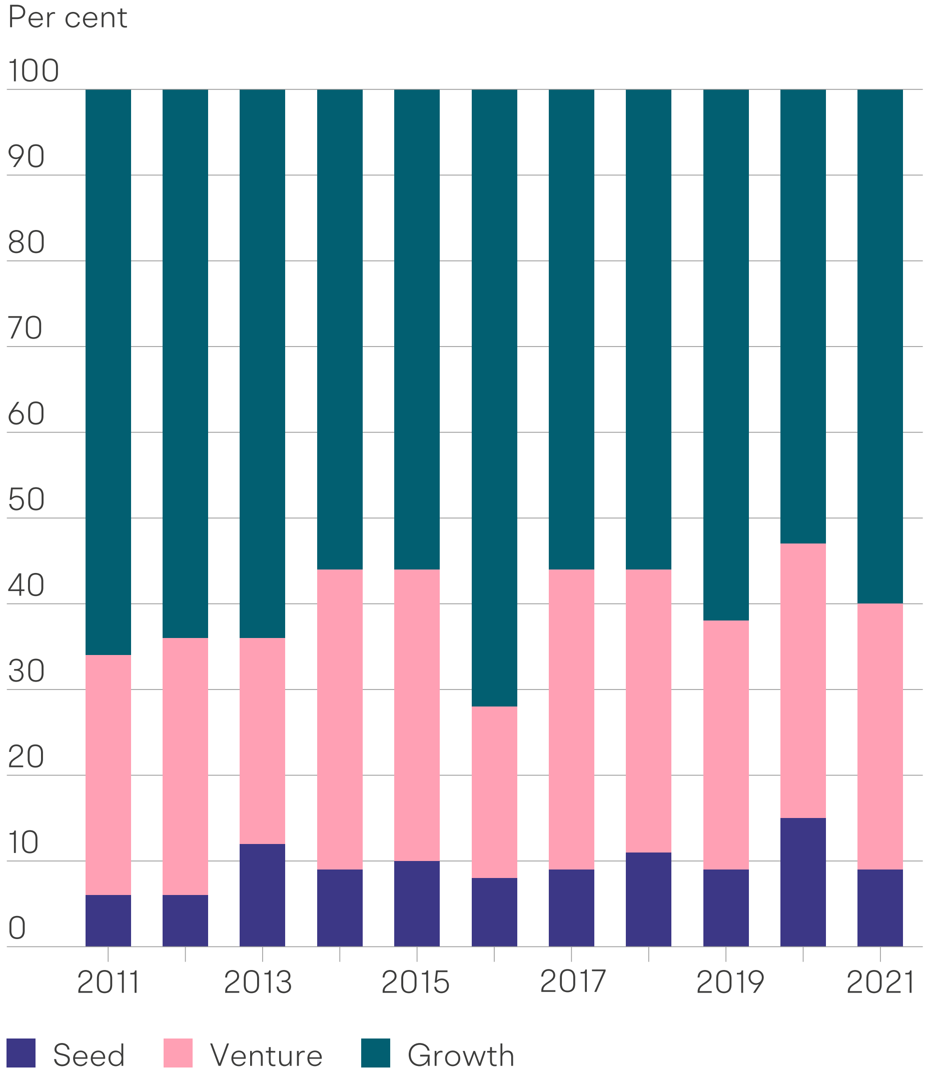


Figure 1.5

Proportion of equity investment over time by stage

Source: British Business Bank analysis of Beauhurst data



Another indicator for the strength of the pipeline is the number of first-time fundraisings. Similarly, the number of follow-on fundraisings serves as an indicator of the ecosystem's ability to successfully scale companies. In recent years, the number of first-time fundraisings had remained flat whilst the number of follow-on fundraisings increased. This led to the number of follow-on fundraisings overtaking the number of first-time fundraising in 2019 for the first time.[17]

Figure 1.6 shows that both the number of first-time and follow-on fundraisings increased in 2021 from the previous year, showing that the overall ecosystem performed strongly in 2021. There were 1,287 first-time fundraisings in 2021, up from 1,013 in 2020 and 1,329 follow-on fundraisings, up from 1,231 in 2020. The number of initial rounds had plateaued between 2014 and 2020 so it is encouraging to see an increase in 2021, which will strengthen the pipeline sustaining future activity. This has led to an increase in the proportion of initial deals from 45% in 2020 to 49% in 2021, reversing some of the long-run decline in the data. Initial deals formed 62% of all deals in 2015, but has shown a long-run decline due to the UK equity market maturing.

Deal sizes and valuations have increased sharply in 2021 as VC investors have competed for deals

The increase in deal numbers seen in 2021 has not been of the same order of magnitude as the increase in investment. This means that the driving force behind the increased investment is larger deal sizes.

The size of the average equity investment in the UK sharply increased between 2015 and 2016 and then has remained around that level until 2021, which saw another sharp increase. This is in part due to increased competition for deals amongst investors, as well as increased participation from overseas and crossover investors with access to large amounts of capital. These factors will be explored in greater detail in section 4 of the report.

Figure 1.6

Number of equity deals over time for companies raising initial equity deals and follow-on deals

Source: British Business Bank analysis of Beauhurst data

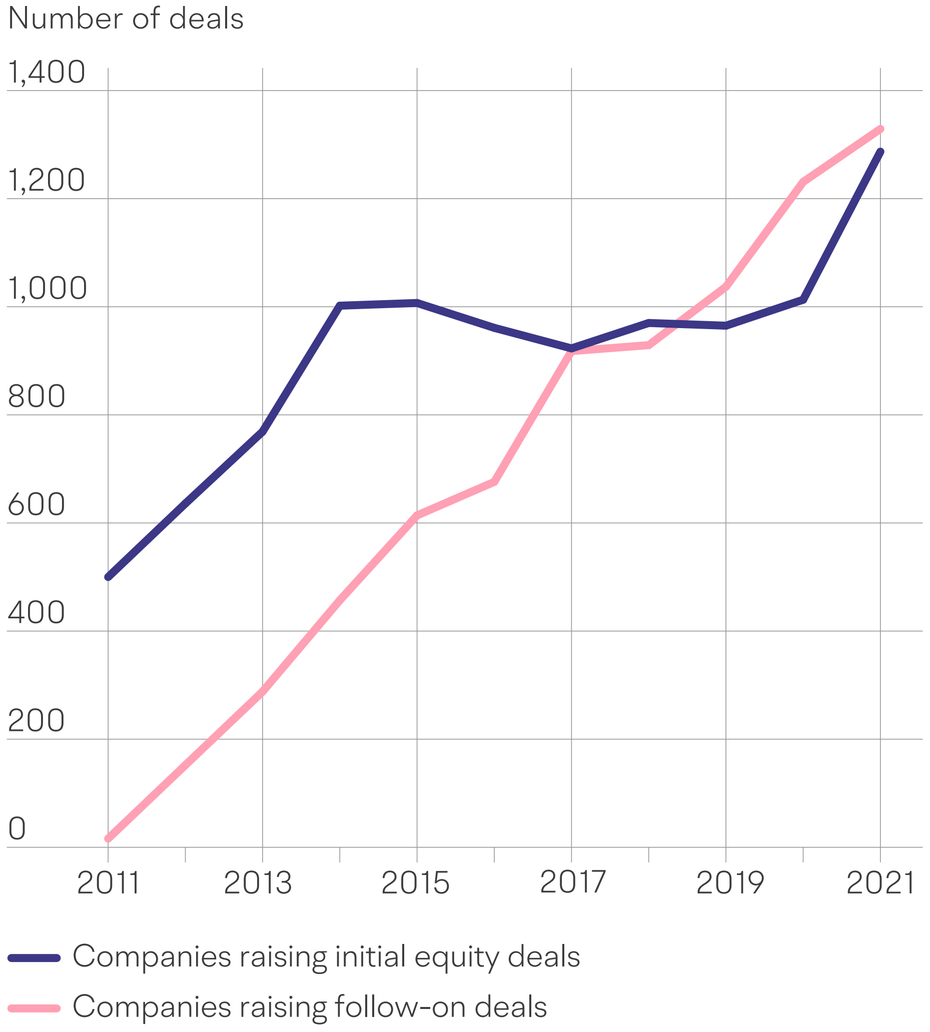


Figure 1.7 shows that the average deal size in 2021 was £7.4m, a 61% increase on the £4.3m recorded in 2020. All three stages saw an increase in their respective average deal size to reach record levels in 2021.

The average seed stage deal in 2021 was £1.8m, up 5% from the £1.7m recorded in 2020. However, there was one extremely large deal of £601m identified by Beauhurst as a seed stage company in 2020 (Inigo). If that deal is removed from the figures, the increase becomes 77%. With this outlier deal removed, the average seed stage deal had remained flat since 2018. Increasing average deal sizes can be a positive for the ecosystem, as it means that companies are better capitalised and therefore better able to pursue their growth ambitions. This is particularly true of seed stage companies, who are almost entirely dependent upon investor capital until they can generate sufficient sales.

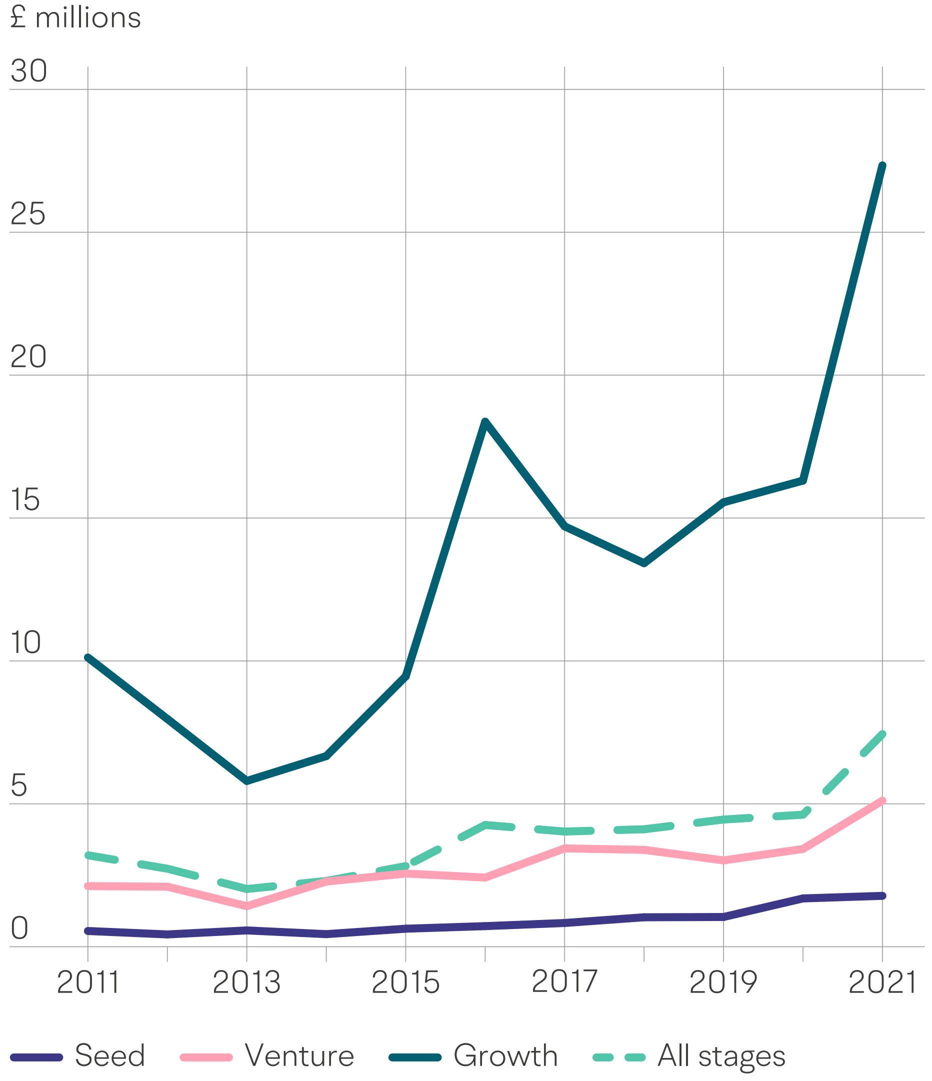
The average venture stage deal in 2021 was £5.1m, a 50% increase on the £3.4m recorded in 2020. The average growth stage deal was £27.3m, a 68% increase on the £16.3m recorded in 2020.

Megadeals (deals larger than £100m in size) have increasingly become a feature of the UK ecosystem and 2021 saw a record number of these megadeals, contributing to the sharp increase in the average deal size. There were 32 megadeals in 2021, up from 7 in 2020. This is almost equal to the 35 recorded between 2011 and 2020. These deals were concentrated in growth stage companies with 23, though there were 7 in venture stage companies and 2 in seed stage companies. Despite economic headwinds and lower valuations for public market companies, these deals continued to occur in Q1 2022, becoming even more prevalent. There were 17 megadeals in Q1 2022, over half of the total figure for 2021.

Figure 1.7

Average deal size over time by stage

Source: British Business Bank analysis of Beauhurst data



The extremely large megadeals mentioned previously can skew the average deal size upwards. For instance, the largest equity deal in 2021 was a £358m growth stage deal in SaltPay, followed by two growth stage equity deals of £323m and £287m in Hopin. The ten largest equity deals in 2021 were all greater than £150m in size with a combined investment size of £2.3bn. The ten largest equity deals made up 13% of the overall investment value in 2021, a lower proportion than the 21% in 2020, reflecting the increased number of larger deals and megadeals more generally in 2021.

It is therefore useful to look at trends in the median deal size, which is more representative of the typical funding amounts companies receive. Figure 1.8 shows that the median deal size also increased sharply in 2021 reaching £1.3m, a 69% increase on the £760k recorded in 2020. As with the mean average, there were record median deal sizes across all three stages. The median seed stage deal was £492k, a 41% increase on 2020. The median venture stage deal was £1.8m, a 49% increase on 2020. The median growth stage deal was £9.9m, a 65% increase on 2020.

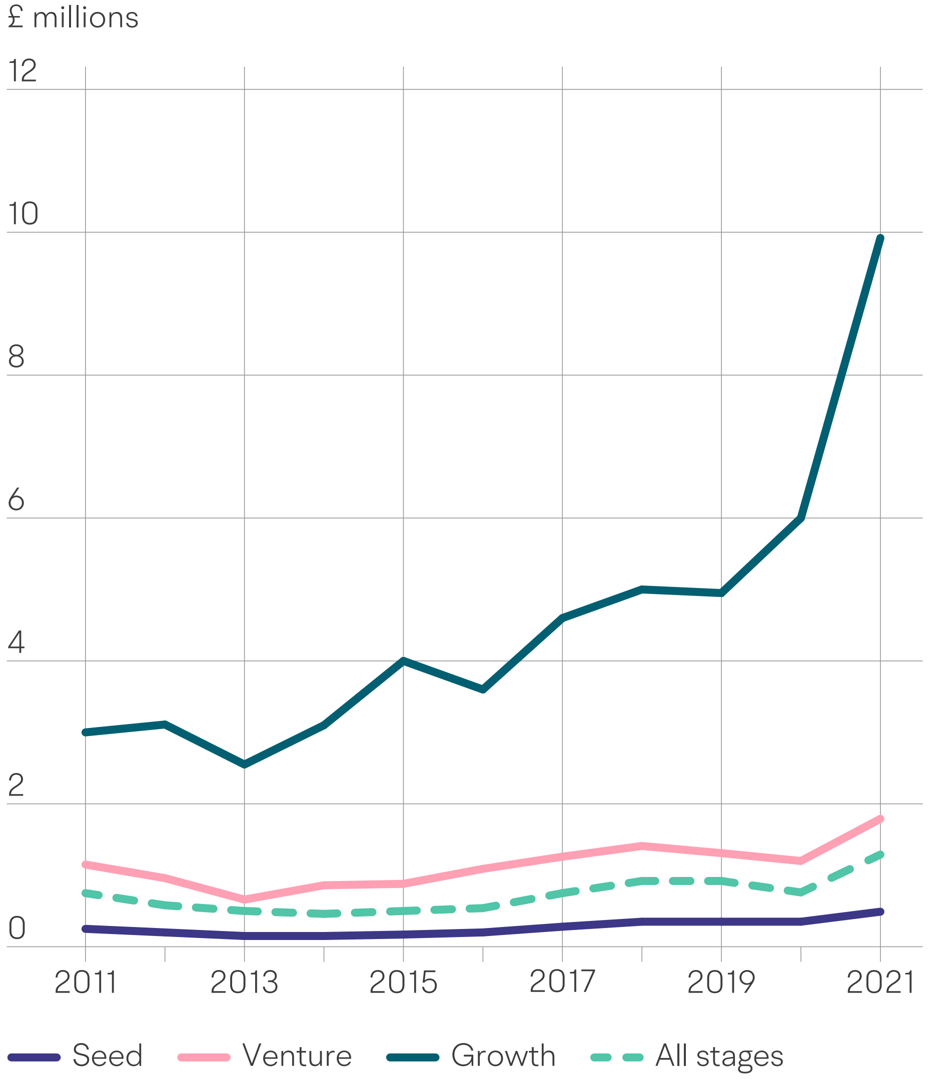
Beauhurst includes information on company pre-money valuations, allowing analysis of trends over time. Pre-money valuation refers to the valuation of a company prior to financing. A company's valuation reflects the price of the business the investor must pay in order to obtain a share of the business. Valuations are based on projected company growth and future prospects with investors making judgements about the value of the company at each funding round. Figure 1.9 shows the mean average pre-money valuation of companies receiving equity finance by stage.

As with deal sizes, valuations have increased over time, albeit with volatility in the growth stage over the 2017 to 2019 period. As with average deal sizes, the average pre-money valuation of a company increased sharply in 2021 reaching £34.2m, an 84% increase on 2020. There were records set across all three stages, but this has mostly been predominantly driven by increases at the growth stage.

Figure 1.8

Median deal size over time by stage

Source: British Business Bank analysis of Beauhurst data



The average growth stage valuation reached £169m, an 88% increase on the £89.8m in 2020. Post-pandemic growth has enabled many technology companies to flourish, with VC investors competing to participate in flagship rounds, which has led to valuation step-ups. As described in our recent Small Business Finance Markets report, exit conditions and public markets were extremely strong for most of 2021. As growth stage companies are the closest to exit for their investors, their valuations are the most likely to benefit from these tailwinds. In addition, the maturity of the equity ecosystem means there are more large companies at the growth stage than previously.

The average seed and venture stage valuations also saw notable increases in 2021, although to a smaller extent compared to the growth stage. The average seed stage valuation in 2021 was £4.3m, a 28% increase on 2020. The average venture stage valuation in 2021 was £18.1m, a 44% increase on 2020. This shows that conditions have become increasingly founder-friendly, as companies are able to get a higher price for their companies at earlier stages.

The economic headwinds mentioned earlier on the section may lead to reduced valuations as investors re-assess their previous valuations given public market turmoil and as the cost of capital increases. To date, this hasn't occurred, with the average pre-money valuation in Q1 2022 being £38.5m, 13% higher than the 2021 average.

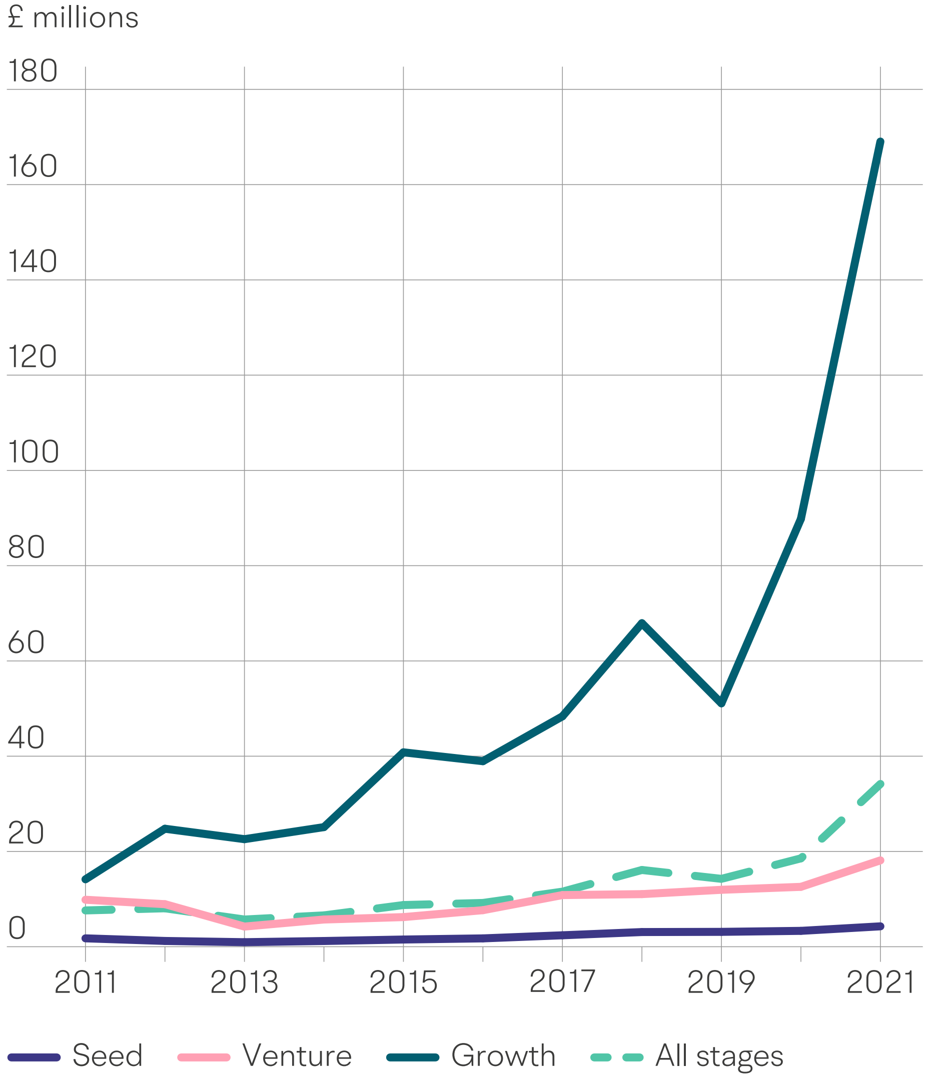
As with deal sizes, the mean average valuation is vulnerable to distortion from extremely large outlier valuations. It is therefore useful to look at trends in the median. Figure 1.10 shows the same picture emerges as average valuations, with increases in the median valuation at all company stages leading to record valuations.

The overall median valuation in 2021 was £5.8m, a 29% increase on 2020. The median seed valuation in 2021 was £2.4m, a 9% increase on 2020. The median venture valuation in 2021 was £8.3m, a 20% increase on 2020. The median growth stage valuation in 2021 was £53.3m, a 46% increase on 2020.

Figure 1.9

Average pre-money valuation over time by stage

Source: British Business Bank analysis of Beauhurst data



As with the average, the growth stage saw the largest increase in the median pre-money valuation, showing that conditions were accommodating across the whole growth stage market. One notable feature of the UK equity market has been the increased number of unicorns created each year, and it is a contributing factor to the increases in average valuations seen at the growth stage.

The market has become increasingly founder-friendly in the past couple of years, with founders able to access capital more easily at a better price, retaining more of their company. If capital becomes scarcer or investors start being more cautious with valuations, some companies may struggle to 'grow into their valuations', and may not be able to raise a round at a higher valuation than previously, leading to a 'down round'. This is a negative outcome for both current investors and the founders as their stakes would be diluted.

This report defines a unicorn as a privately held company worth over $1bn which has received VC funding. Our definition excludes companies that have achieved a $1bn valuation through Private Equity rounds alone such as Gymshark.

This report only classifies a company as reaching unicorn status if it has a verified valuation over $1bn on a commercial equity data provider. There has been increasing media interest and speculation on companies reaching unicorn status in recent times. The valuation of some companies that are widely reported by the media to be unicorns are not verified, and so are not included in our list.

Table 2 shows as at 6th June 2022, the UK had 33 equity-backed companies with unicorn status. Over half (52%) of these companies have received funding from a British Business Bank Equity programme, showing the Bank's equity programmes make an important contribution to supporting high growth scale-up companies.

Figure 1.10

Median pre-money valuation over time by stage

Source: British Business Bank analysis of Beauhurst data

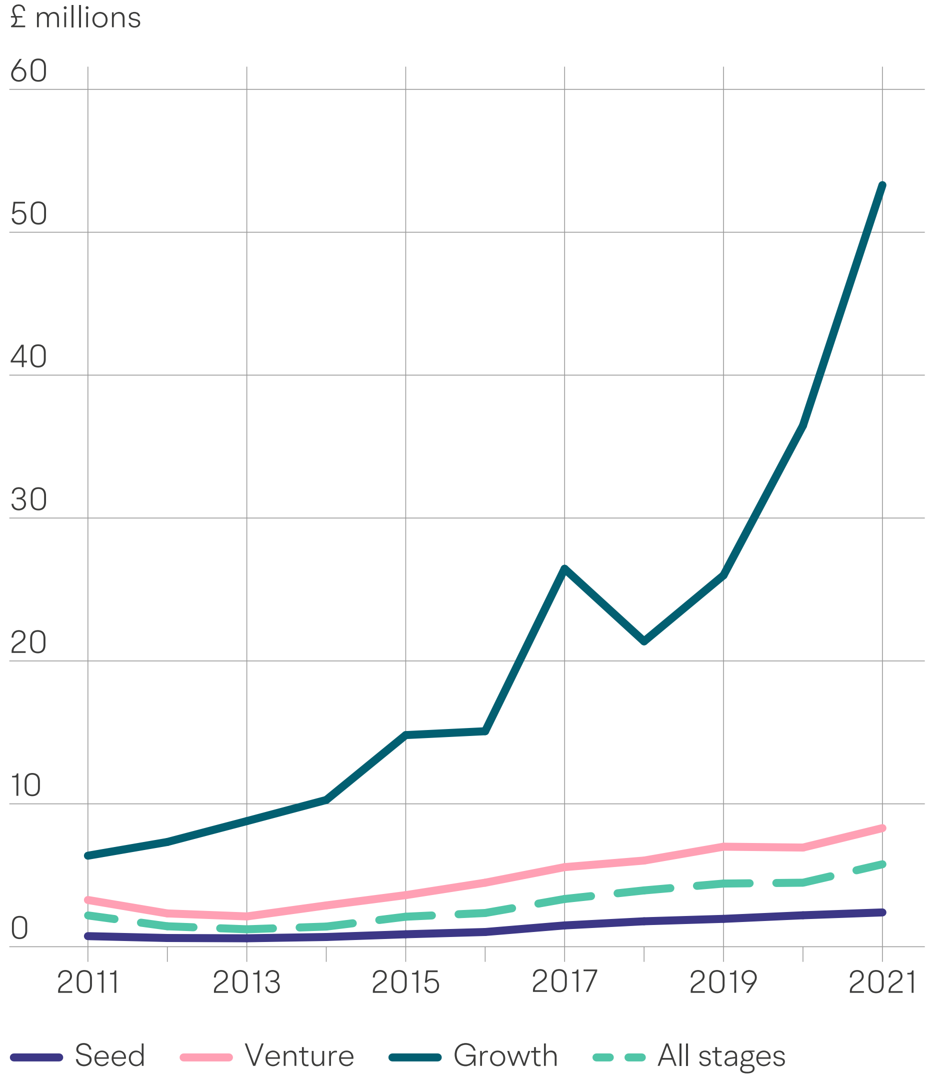


Table 2

Current UK unicorn status businesses (as of 6th June 2022)

Source: British Business Bank analysis of Beauhurst, PitchBook and other datasources.

Count	Name	Location	Sector	Date of unicorn status	BBB involvement
1	Brewdog	Ellon	Beverage manufacturing and distribution	Sunday, 9 April 2017	
2	Improbable	London	Gaming	Thursday, 11 May 2017	ECF
3	Oaknorth	London	Challenger bank	Thursday, 12 October 2017	Bank Delivery Partner: Help to Grow and Covid loan schemes
4	Benevolent.ai	London	AI	Thursday, 19 April 2018	
5	Revolut	London	Challenger bank	Wednesday, 25 April 2018	UKIIF, BPC, Managed Funds
6	Monzo	London	Challenger bank	Wednesday, 31 October 2018	
7	Graphcore	Bristol	Semiconductor manufacturing	Tuesday, 18 December 2018	ECF, BPC and Managed Funds
8	Checkout.com	London	Fintech	Thursday, 2 May 2019	Managed Funds
9	OneTrust	London	Cyber security	Thursday, 11 July 2019	
10	CMR Surgical	Cambridge	Life sciences	Tuesday, 17 September 2019	
11	Rapyd	London	Fintech	Tuesday, 1 October 2019	
12	Snyk	London	Cyber security	Tuesday, 21 January 2020	Managed Funds
13	Gousto	London	Subscription meal service	Monday, 2 November 2020	ACF
14	Hopin	London	Events platform	Tuesday, 10 November 2020	BPC
15	Starling Bank	London	Challenger bank	Monday, 19 April 2021	Bank Delivery Partner: Covid loan schemes
16	Blockchain.com	London	Fintech	Wednesday, 24 March 2021	

Table 2 (continued)

Count	Name	Location	Sector	Date of unicorn status	BBB involvement
17	Zego	London	Fintech	Wednesday, 10 March 2021	BPC and Managed Funds
18	Zepz	London	Fintech	Monday, 23 August 2021	
19	Gelato*	Oslo	Printing	Monday, 16 August 2021	ECF
20	Tractable	London	AI	Friday, 13 August 2021	ECF
21	Many Group (Bought by many)	London	Insurtech	Thursday, 27 May 2021	Managed Funds
22	Marshmallow	London	Insurtech	Thursday, 12 August 2021	ECF
23	Motorway	London	Used car marketplace	Monday, 29 November 2021	Managed Funds
24	Zopa	London	Peer to peer lending	Monday, 11 October 2021	
25	Thought Machine	London	Fintech	Monday, 29 November 2021	BPC, Managed Funds
26	Zilch	London	Fintech	Wednesday, 10 November 2021	
27	Matillion	Manchester	Data integration	Wednesday, 15 September 2021	
28	TrueLayer	London	Fintech	Tuesday, 21 September 2021	
29	Paddle	London	SaaS	Tuesday, 10 May 2022	
30	GoCardless	London	Fintech	Monday, 9 May 2022	ECF, BPC, Managed Funds & UKIIF
31	Wayve	London	Autonomous cars	Tuesday, 1 February 2022	BPC
32	PayHawk	London	Fintech	Monday, 7 March 2022	
33	Lendable	London	Fintech	Thursday, 10 March 2022	BPC

*Gelato is currently headquartered in Norway but was set up in the UK

London's concentration of equity activity increased in 2021, despite recent increases elsewhere in the UK, but there is evidence of strong clusters developing outside of London

Table 3 shows the number and value of announced equity deals in the regions and devolved nations of the UK. Equity investment has historically been concentrated in London and 2021 saw this concentration increase, reversing recent improvements. In 2021, 1,286 deals worth £11.9bn took place in London, 49% of the UK's total number of equity deals and 66% of total investment. London's share of deals increased by 3 percentage points whilst its share of investment increased by 1 percentage point, reaching 49% and 66% respectively compared to 2020. This was driven by stronger growth in London than the rest of the UK, rather than a decline in activity in the other regions and devolved nations.

Table 3

Number and value of announced equity deals by English region and devolved nation

Source: British Business Bank analysis of Beauhurst data

Regions and devolved nations	Number of deals (2021)	% change compared to year ago	Investment value (2021)	% change compared to year ago
London	1,286	23%	£11.9bn	89%
South East	269	24%	£1.6bn	59%
East of England	169	14%	£1.4bn	91%
North West	160	26%	£872m	213%
South West	130	49%	£821m	357%
Scotland	223	-19%	£549m	74%
West Midlands	68	13%	£338m	-12%
Yorkshire & the Humber	86	18%	£179m	13%
East Midlands	50	32%	£154m	92%
North East	76	6%	£150m	58%
Northern Ireland	39	44%	£88m	240%
Wales	60	-22%	£83m	44%

2021 was a good year for equity investment outside of London, despite London increasing its concentration of activity. There were 1,330 deals worth £6.2bn in the English regions outside of London and in the devolved nations. This is an 11% increase in the number of deals and an 88% increase in the investment value.

Every region in England saw increased number of deals while in the devolved nations, Northern Ireland was the only one to experience an increase. Every English region and devolved nation apart from one (the West Midlands) had an increase in equity investment in 2021. The South West, Northern Ireland and the North West were the three areas with the largest increases in investment in 2021, increasing by 357%, 240%, 213% respectively.

As discussed previously, the growth stage was a key driver of the overall growth in investment, especially the megadeals in growth stage companies. Given London is recognised as an established hub for VC activity, it is unsurprising that its concentration increased in 2021. However, there are promising signs that the ecosystem is developing outside of London, as companies and investors are establishing themselves in many clusters outside of the capital.

Looking at investment at the seed and venture stage combined, English regions outside of London and devolved nations grew 107% on 2020, substantially more than the 36% growth in London. Looking at the seed stage in isolation, the amount of seed stage investment in London in 2021 declined by 22%, with seed stage investment in English regions outside of London and the devolved nations increasing by 88%.

Another sign of the increasing strength of the overall UK equity ecosystem outside of London and the expanding pipeline is the increasing number of angels outside of London. The number of deals involving an angel outside of London increased 21% to 373 between 2020 and 2021, whilst the value of those deals increased by 87% reaching £1bn. Business angels are a vital part of equity ecosystems, providing finance and support to start-ups at their earliest stages. It is therefore encouraging to see angel activity continue to increase.

Equity clusters have been developing in recent years. The formation of clusters is important for the strength of the ecosystem as equity-backed companies benefit substantially from agglomeration effects. These include access to talent, proximity to clients and investors, and access to hardware such as lab space. Equity investment in the UK has historically been concentrated in the so-called “Golden Triangle” clusters of London, Oxford and Cambridge. London for example has benefitted from the concentration of venture capital investors, whilst Oxford and Cambridge have been able to leverage the intellectual property and research coming out of the local universities. London is ranked as the third largest city globally by number of VC deals between 2015 and 2017, behind San Francisco and New York.[18]

Table 4 shows the 20 clusters with the highest number of equity deals in the UK over a three year time period, 2019 to 2021.[19] The Golden Triangle continues to receive the highest amount of investment, with London having by far and away the most equity activity. However, the picture is slightly different when looking at the number of deals. Between 2019 and 2021, Edinburgh had the second highest annual number of deals with an average of 127 deals per year, ahead of both Oxford and Cambridge, whilst Manchester had the fourth highest number of deals with an average of 74 deals per year. The growth in clusters outside of London, Oxford and Cambridge, is not coming at the expense of the Golden Triangle as deal numbers have increased every year in these clusters even as other clusters have developed.

Table 4

Top 20 equity clusters by number of equity deals (2019-2021)

Source: British Business Bank analysis of Beauhurst data

Rank	Cluster	Average yearly number of deals (2019-2021)	Average yearly investment value (2019-2021)	Largest sector by deal count
1	London	1,086	£7.9bn	Software
2	Edinburgh	127	£195m	Business and professional services
3	Cambridge	87	£616m	Life sciences
4	Manchester	74	£333m	Business and professional services
5	Oxford	60	£574m	Software
6	Glasgow	58	£83m	Business and professional services
7	West of England CA (Bath and Bristol)	53	£222m	Business and professional services
8	West Yorkshire CA	38	£64m	Software
9	West Midlands CA	31	£160m	Software
10	Cardiff	30	£34m	Software
11	Newcastle	29	£70m	Business and professional services
12	Cheshire	24	£51m	Business and professional services
13	Belfast	21	£29m	Business and professional services

Table 4 (continued)

Rank	Cluster	Average yearly number of deals (2019-2021)	Average yearly investment value (2019-2021)	Largest sector by deal count
=14	Aberdeen	20	£54m	Energy
=14	Sheffield City Region	20	£29m	Industrials
=16	County Durham	18	£13m	Industrials
=16	Liverpool City Region	18	£14m	Business and professional services
18	Guildford	14	£41m	Business and professional services
19	Swansea	12	£7m	Business and professional services
20	Cornwall	11	£35m	Industrials

Table 4 also shows the top sectors by deal count in each of these clusters. As these clusters form, skilled staff and supporting facilities also gather. Equity investment further leverages the knowledge and the facilities available, leading to some clusters developing strengths in specific sectors or technology areas. Cambridge for example has world-leading research and facilities for life sciences, which results in life sciences being the top sector. Other areas, such as the Sheffield City Region with its Advance Manufacturing Research Centre, have strength in the industrials sector. Aberdeen has a focus on the energy sector, related to it being a hub for the oil and gas industry.

Many of these clusters are built around the universities in the area. Beauhurst define an academic spinout as a company that was set up to exploit IP developed by a recognised UK university and then either licences the IP from the university, or the university owns or has the option to purchase shares in the company. It is important to note that staff or students can set up start-ups which would not meet this definition.

As would be expected, the Oxford and Cambridge clusters have the highest proportion of deals going to university spinout companies at 43% and 37% of deals respectively in 2019-2021, but other clusters also have a significant proportion of academic spinout deals. Glasgow, the West Midlands Combined Authority, Belfast and Edinburgh have above 20% of their equity deals going to university spinouts compared to the overall UK market figure of 9%.

The technology sector continues to be the main sector of focus for investors

Figure 1.11 shows the number and value of announced deals by sector.[20] Technology/ IP-based businesses and business and professional services have traditionally been the sectors that received the majority of equity deals and investment, which has continued into 2021. 2021 however presents a different picture to 2020 where only some sectors benefitted from increased investor interest and shifting consumer preferences, whilst other sectors suffered as a result of pandemic-induced uncertainty and difficult operating conditions as a result of COVID-19 restrictions. Every sector in 2021 had an increased number of deals and investment.

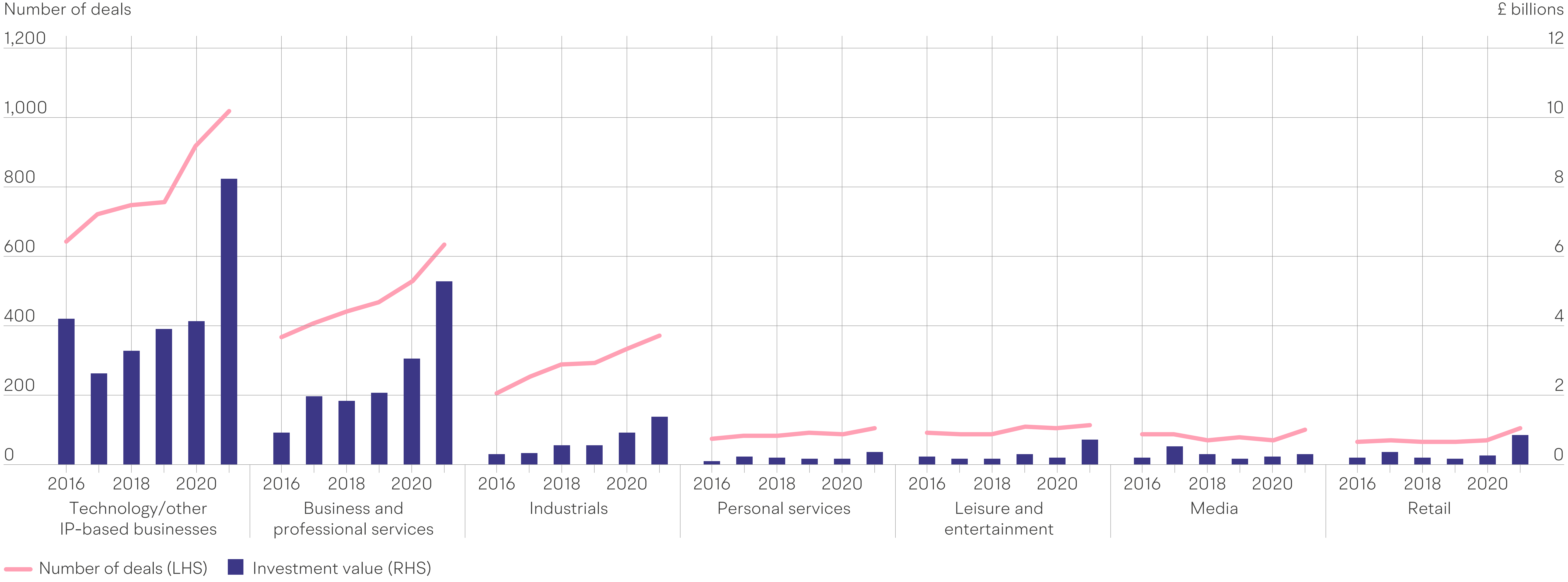
There were 1,019 deals into technology/ IP-based businesses in 2021 worth £8.2bn. This is an 11% increase on the number of deals in 2020, and a 99% increase on investment in 2020. There were 633 deals worth £5.6bn in business and professional services companies in 2021, a 20% and 73% increase on 2020 respectively.

The largest increases in investment in 2021 went to sectors that suffered the most in 2020, including the retail sector and the leisure and entertainment sector. There were 106 deals worth £839m in the retail sector in 2021, a 55% increase in the number of deals and a 224% increase in the investment on 2020. There were 113 deals worth £719m in the leisure and entertainment sector, a 9% increase and a 279% increase on 2020 respectively.

Figure 1.11

Equity deals and investment over time by sector

Source: British Business Bank analysis of Beauhurst data



Beauhurst subdivides technology/IP-based businesses into eight technology sub-sectors which reflect the underlying activities of the companies. Figure 1.12 shows the number and value of deals in each sub-sector. Two sub-sectors have traditionally formed the majority of the technology/ IP-based business sector:

- Software continues to attract the most deals and investment out of the technology sub-sectors. There were 627 deals worth £4.8bn into software companies in 2021. This is a 14% increase in the number of deals from 2020 and a 107% increase in the amount invested.
- Life sciences has continually been the tech sub-sector with the second highest deals and investment and has benefitted since COVID-19 from increased investor interest in the sector. There were 120 deals worth £1.7bn in 2021. This is a 4% increase in the number of deals from 2020, and a 100% increase in the amount invested.

Another tech sub-sector to benefit from shifting societal preferences in 2021 is clean tech. There were 72 deals worth £436m in clean tech companies in 2021. This is a 30% increase in the number of deals, making it the second largest of all sectors, and a 38% increase in the value of investment. However, clean tech still only forms 3% of all deals and 2% of all equity investment in 2021, showing it is a relatively small part of the overall equity market. Clean tech looks to be a sector that will continue to gain investor interest and receive increasing amounts of equity investment moving forward.

Sectors like industrials and business and professional services cover a broad range of activities. In order to define what a company does, Beauhurst also offer verticals as an alternative way to classify companies based on the market the company serves, the technology it employs or the delivery model of the company. This is a more targeted classification approach, allowing investors to identify companies that offer niche products. Verticals better match the description fund managers use to describe the areas of the market they focus on. It is important to acknowledge that companies can be in more than one vertical e.g., software-as-a-service (SaaS) and fintech, and so it is not possible to aggregate these verticals together.

Table 5 shows the ten verticals that received the highest amount of equity investment in 2021. SaaS continues to receive the most investment with £5.1bn, followed by Fintech and Artificial Intelligence (AI). These three vertical sectors have consistently received the most equity investment over the last three years.

Table 5

Top 10 verticals by investment received in 2021

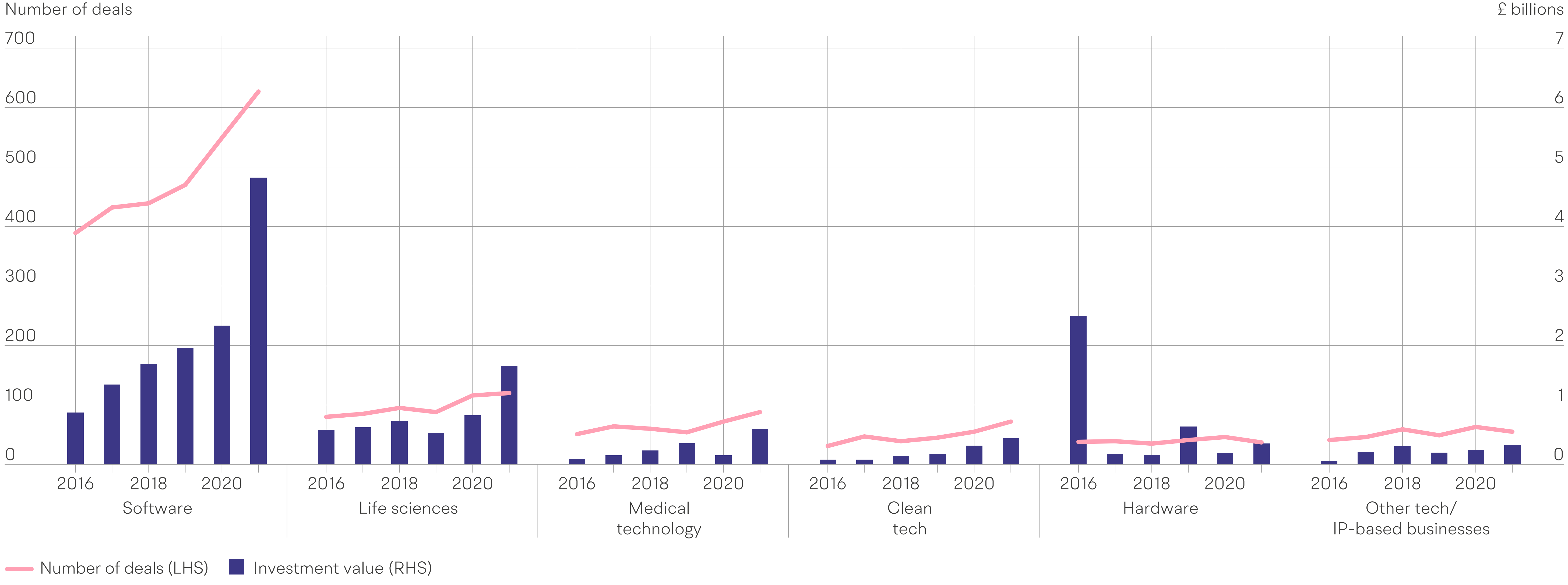
Source: British Business Bank analysis of Beauhurst data

Vertical	Investment	Number of deals
Software-as-a-Service (SaaS)	£5.1bn	591
Fintech	£3.9bn	290
Artificial Intelligence	£2.1bn	260
Subscription	£1.5bn	177
Big data	£1bn	61
Clean tech	£0.9bn	152
Insurtech	£0.8bn	50
Digital security	£0.7bn	84
Precision medicine	£0.6bn	27
Crypto-currencies	£0.5bn	39

Figure 1.12

Equity deals and investment over time by technology sub-sector

Source: British Business Bank analysis of Beauhurst data



Female-founded companies continue to receive relatively low levels of equity investment

Encouraging diversity and inclusion is important within the equity ecosystem. Women and people from an ethnic minority background have historically and continue to be underrepresented within the VC industry, both on the supply and demand side. Beauhurst include information on the gender composition of the founding team and key individuals for the UK companies they track.[21]

The amount of equity finance invested into all-male and mixed gender founder teams has increased by 83% and 145% to £14.3bn and £2.5bn respectively from 2020 to 2021, while the value of announced deals into all-female teams has declined by 17%, down to £0.3bn. This is despite an increase in the number of deals to all-female founder teams.

This means for every £1 of equity investment in the UK in 2021, all-female founder teams received 2p, all-male founder teams received 84p, and mixed-gender teams 14p. This is lower than the 4% received by all-female teams in 2020, reflecting yearly volatility.

Figure 1.14 shows that over time, the share of equity investment received by teams involving one or more female founders has increased slightly to 16% in 2021, 3 percentage points higher than in 2012, driven by increased investment in mixed gender founder teams. However there has been no significant shift in investment into companies with all-female founders, with all-male founder teams still accounting for 84% of investment received in 2021.

Figure 1.13 also shows there has been no real increase in the proportion of deals to all-female founded businesses from 2012 onwards.[22]

All-female founder teams made up 9% of all seed stage deals in 2021, but this decreases to 6% of all venture deals and just 2% of all growth deals. In 2021, there were just 10 announced deals in all-female founder teams at the growth stage.

Some of this may be explained by female-founder teams having additional difficulties raising funding. Female-founded businesses typically raise smaller deal sizes at all stages and are less likely to receive follow-on funding. Follow-on rates are consistently lower for all-female teams compared to all-male and mixed gender teams. Differences do not appear to be driven by sector, as the effect persists across sectors including tech and business and professional services.

Cohort analysis was undertaken to assess how funding for all-female founded companies and mixed gender companies varies compared to all-male founder teams. Figure 1.15 shows just one third (34%) of all-female founder teams that raised funding between 2011 to 2013 went on to raise a subsequent round of funding after their initial equity round, compared to around half of mixed gender and all-male founder teams (50% and 55% respectively). This is also confirmed by all-female founder teams being less likely to have progressed to venture and growth stages relative to all-male and mixed gender founder teams.

Figure 1.13

Proportion of equity deals and investment received by all-female and mixed gender founder teams

Source: British Business Bank analysis of Beauhurst data

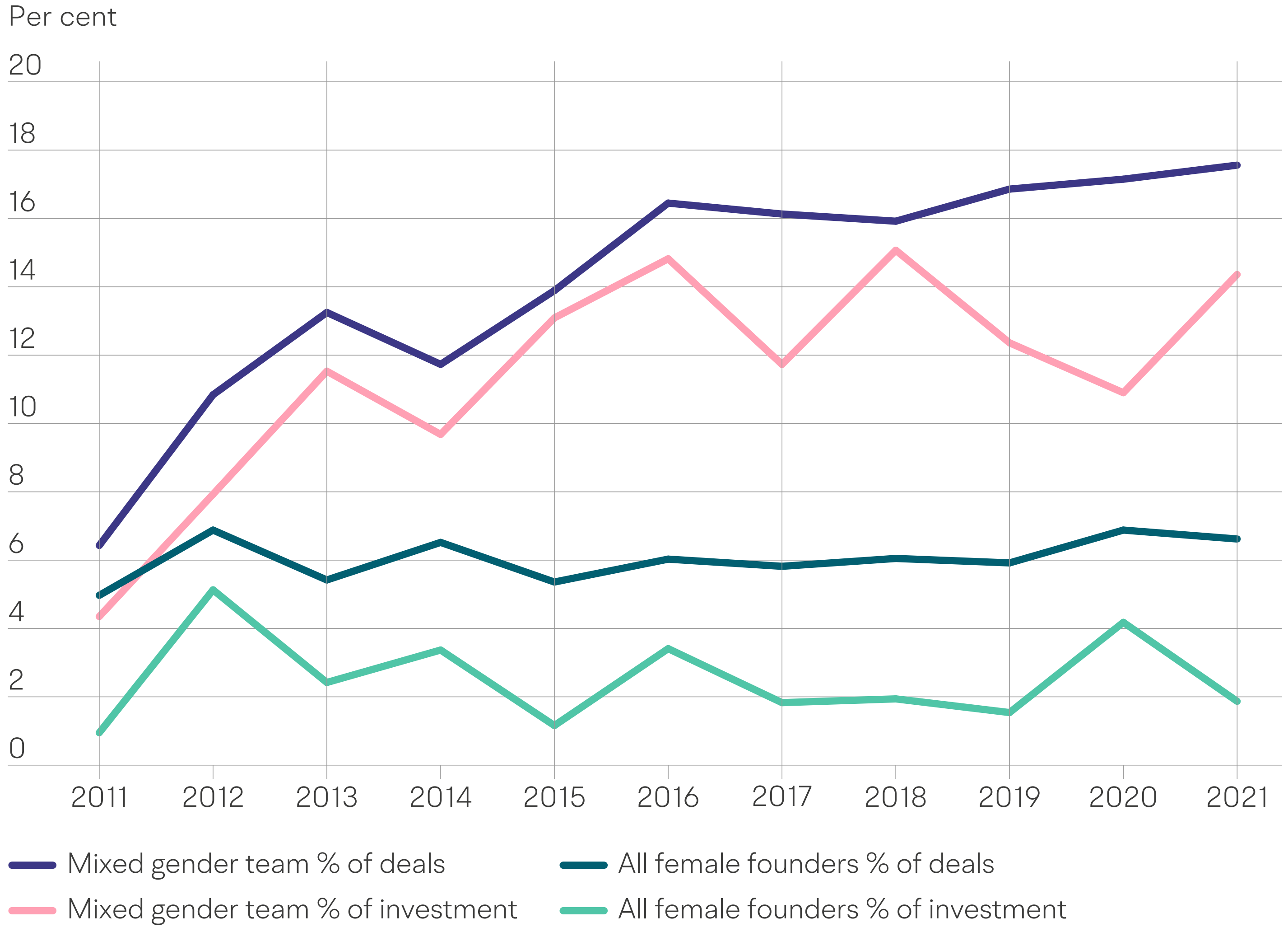
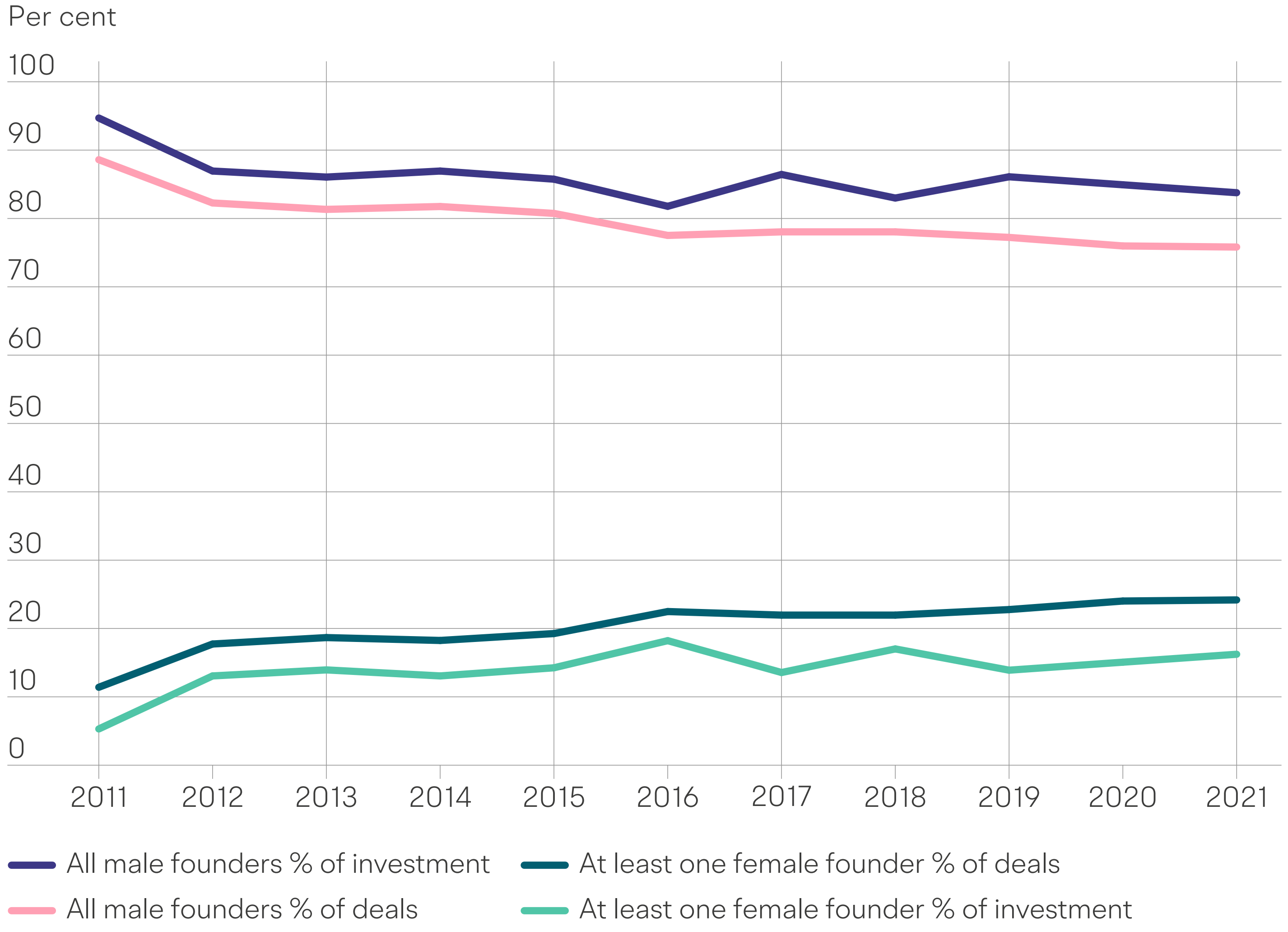


Figure 1.14

Proportion of equity deals and investment received by all-male teams and teams with at least one female founder (combining all-female and mixed gender teams)

Source: British Business Bank analysis of Beauhurst data



Amounts raised are lower too: all-female founder teams raised an average of £2.3m in their first follow-on round compared to £3.1m and £2.9m raised by mixed gender and all-male founder teams respectively. Mixed gender founder teams typically secured higher average deal sizes than all-male teams at seed stage, with comparable deal sizes at venture stage, indicating there may be some benefit to having a diverse team.

Deals in the technology sector made up the highest proportion of all-female founder team deals (29%) in 2019-2021, but this is lower than the corresponding share of around 40% for all-male and mixed gender businesses (Figure 1.16).

Figure 1.15

Proportion of companies raising a follow-on round by gender of founder team

Source: British Business Bank analysis of Beauhurst data

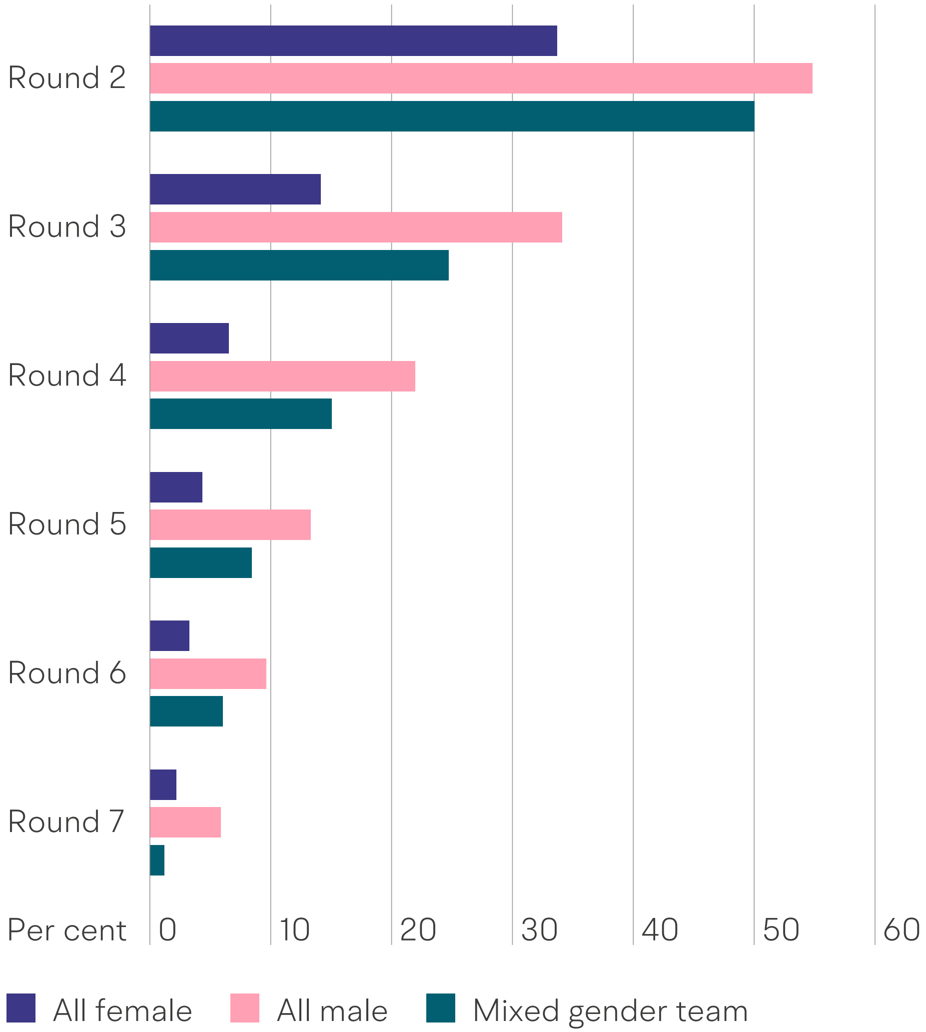
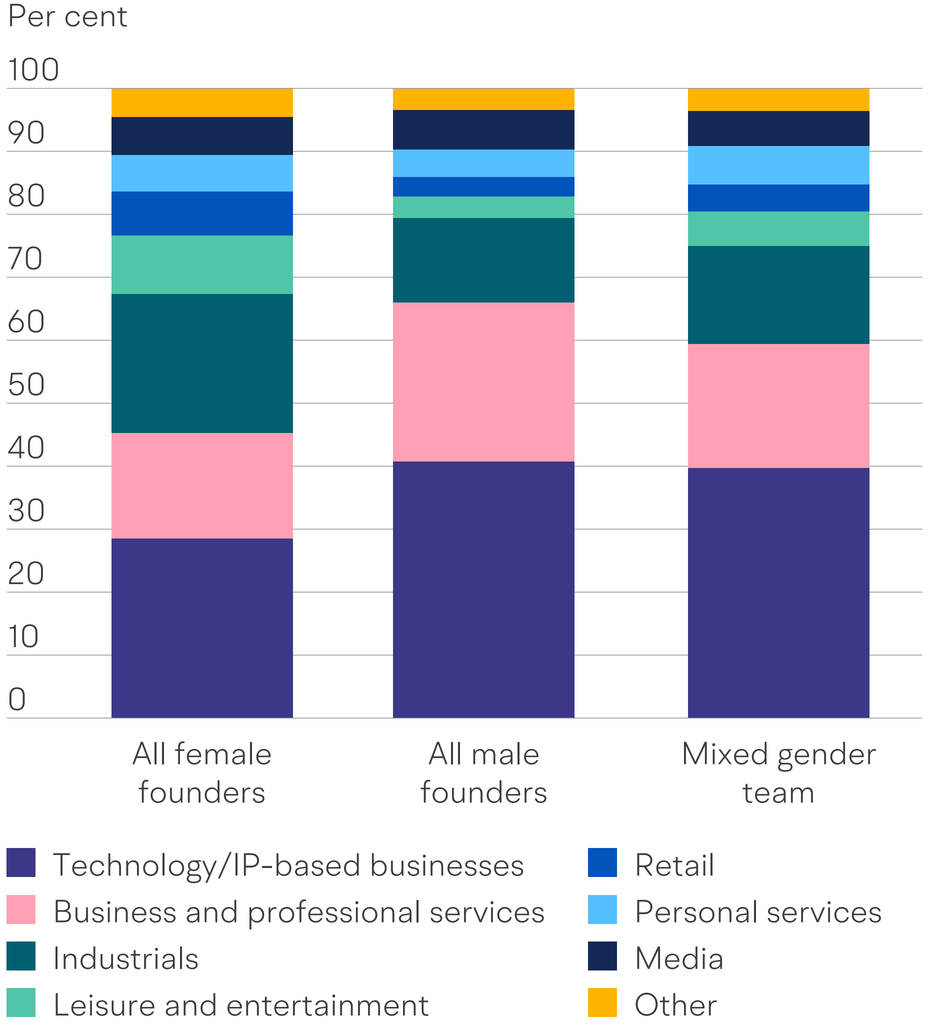


Figure 1.16

Proportion of deals by sector and gender of founder team (2019-2021)

Source: British Business Bank analysis of Beauhurst data



Section 2

British Business Bank activity

- British Business Bank equity programmes supported around 14% of all equity deals between 2019 and 2021
- British Business Bank supported funds were more likely to undertake deals in venture stage companies compared to the overall market
- Funds supported by the British Business Bank were more likely to invest in technology/ IP-based businesses than the overall equity market
- British Business Bank programmes are more likely to fund academic spinout companies than the overall equity market
- The Bank has a higher proportion of equity deals outside of London than the wider VC/ PE market, but is similar to the overall equity market
- The Bank recognises the importance of data on the gender diversity of companies funded by its programmes

Introduction

This section explores the characteristics of equity deals completed by equity funds supported by the British Business Bank, with comparisons made against the overall UK equity market and also against VC investors only.

As a government owned financial institution, the British Business Bank has the objective of increasing the supply of finance to smaller businesses in areas of the market that are not working as effectively as they could be.

From 2018, the British Business Bank also has an objective to reduce regional imbalances in access to finance. The Bank's equity programmes are designed to address market failures in small business finance markets. The Bank mainly does this by investing in VC funds as a Limited Partner (LP)[23] alongside private sector investors through the ECF and BPC programmes.

The exception to this is the Future Fund: Breakthrough Programme and Regional Angels Programme, which co-invest in companies alongside other equity investors, and also the Managed Funds and UKIIF programmes, which are fund of funds programmes that invest in funds targeting high growth potential companies.

The Bank is also delivering three region-specific programmes,[24] backed by ERDF and the EIB, which make both debt and equity investments to reduce geographic imbalances in the availability of finance in these areas:

– Northern Powerhouse Investment Fund (NPIF)
– Midlands Engine Investment Fund (MEIF)
– Cornwall and Isles of Scilly Investment Fund (CIoSIF)

British Business Bank analysis of PitchBook data shows the Bank (including BPC) to be the largest UK-based LP investor in UK VC funds between 2017 and 2022, based on amount committed and also the number of funds committed to.[25] Since the Bank's creation in 2014, the Bank has committed £2.3bn into 94 equity funds.

Table 6 provides a detailed overview of the British Business Bank equity programmes included within this analysis. Last year's Equity Tracker report provided a detailed assessment of the characteristics of companies funded by the Future Fund.[26] The Future Fund programme was open for applications from May 2020 to end of January 2021 for companies affected by the COVID-19 pandemic. The Future Fund is excluded from the analysis in this section, which focuses on the Bank's structural equity programmes.

Whilst Beauhurst is capturing the subsequent funding rounds where the Future Fund Convertible Loan Agreements converts to equity, the Bank is not providing any additional funding into the funding round. Therefore, these deals are not counted as British Business Bank supported deals in this section, although they will be captured in the overall market figures.

Table 6

Description of British Business Bank equity programme activity

Source: British Business Bank

British Business Bank Programme	Description	Year programme started	Currently investing in SMEs
ECF (Enterprise Capital Fund)	The ECF programme aims to increase the supply of equity to UK growth companies and to lower the barriers to entry for fund managers looking to operate in the VC market. The Bank invests in VC funds alongside private investors on terms that improve the outcome for private investors when those funds are successful. We do this to encourage VC funds to operate in a part of the market where smaller businesses are not able to access the growth capital they need.	2006	Yes
UKIIF (UK Innovation Investment Fund)	UKIIF was established as a fund of funds programme to increase the supply of equity finance to technology businesses in strategically important sectors such as digital technologies, life sciences, clean technology and advanced manufacturing.	2009	No
ACF (Angel CoFund)	The British Business Bank supported the establishment of the Angel CoFund to increase the supply of business angel finance available to viable small businesses with growth potential, and to improve the quality of angel investment through setting high standards for due diligence and scrutiny of deals.	2011	Yes
NPIF (Northern Powerhouse Investment Fund)	NPIF is a £500m programme in collaboration between the British Business Bank and LEPs in the North West, Yorkshire and Humber and Tees Valley to support smaller businesses across the Northern Powerhouse region utilising ERDF and EIB funding.	2017	Yes
Managed Funds Programme	The Managed Funds Programme is part of the Government's response to the Patient Capital Review and helps address the UK's patient capital funding gap. This £500m programme makes cornerstone investments in a number of large-scale, private sector managed fund of funds that invest in venture and growth capital funds backing innovative, high-growth businesses. The programme aims to draw in institutional capital into the UK's venture and growth capital markets.	2018	Yes

Table 6 (continued)

British Business Bank Programme	Description	Year programme started	Currently investing in SMEs
CIoSIF (Cornwall and Isle of Scilly Investment Fund)	The £40m programme was established in partnership with the Cornwall & Isles of Scilly LEP to support access to debt and equity finance for businesses in the area.	2018	Yes
MEIF (Midlands Engine Investment Fund)	MEIF provides over £300m of investment to boost small and medium business (SME) growth in the Midlands and is a collaboration between the British Business Bank and LEPs in the West Midlands and East and South East Midlands utilising ERDF and EIB funding.	2018	Yes
RAP (Regional Angels Programme)	The £100m Regional Angels Programme is established to help reduce regional imbalances in access to early stage equity finance for smaller businesses across the UK. It aims to raise the profile and professionalism of angel investment activity and to attract further third-party capital alongside business angels while generating a market rate of return.	2018	Yes
BPC (British Patient Capital)	British Patient Capital manages a £2.5bn investment programme designed to unlock an additional £5bn of institutional capital to support UK businesses with high growth potential to access the long-term financing they need to scale up. BPC invests on a commercial basis to demonstrate that a long-term patient capital investment strategy can produce commercially attractive returns. BPC was seeded with investments from the VC Catalyst programme which was established in 2013.	2018	Yes
Future Fund: Breakthrough	Future Fund: Breakthrough is a £375m UK-wide scheme which makes equity co-investments with private sector investors into growth stage R&D-intensive companies operating in breakthrough technology sectors.	2021	Yes

Deals completed by British Business Bank supported funds are matched to deals in the Beauhurst dataset using their Company House ID Number (CHID). Deals are then only classed as being backed by a British Business Bank equity programme if the name of the supported fund manager is listed in the named investors for that specific deal. Similar to last year, the matching is undertaken at the programme level as several fund managers are now funded across several Bank programmes, but an additional matching criteria was introduced this year based on the date of investment. For it to be included as a Bank funded deal, the Beauhurst investment date had to be within one year of the first recorded deal date on the British Business Bank MI data. This was to avoid capturing deals previously made by the fund manager that was not part of the British Business Bank programme.

This cautious approach is likely to underestimate the actual coverage of deals involving British Business Bank supported funds, as not all deals have complete investor information. However this approach minimises the chance of wrongly including deals that were not funded by a Bank programme.

Table 7 shows Beauhurst captures 56% of companies that have received an equity deal from a fund supported

Table 7

Beauhurst coverage of British Business Bank supported fund equity deals by programme

Source: British Business Bank analysis of Bank MI data and Beauhurst data

British Business Bank Programme	Number of matched UK companies	UK company population	Relative coverage
Enterprise Capital Fund	390	660	59%
BPC	280	493	57%
Managed Funds	107	425	25%
Regional Angels Programme	184	277	66%
UK Innovation Investment Fund	73	140	52%
NPIF	112	133	84%
Angel CoFund/ Aspire	84	114	74%
MEIF	69	83	83%
CIOSIF	9	16	56%
Future Fund: Breakthrough	2	2	100%
Overall	**1,310**	**2,343**	**56%**

by the Bank, which is lower than the coverage of 61% reported last year's report. This is due to the introduction of the additional matching criteria based on date and the larger number of deals undertaken by the Managed Funds programme, which has lower deal coverage (25%).

Coverage varies by programme with high deal coverage of NPIF and MEIF (above 80%) due to the majority of the deals being announced via the programme or fund managers' websites, but there is lower coverage of deals made by BPC (57%) and ECF programmes (59%). 100% of the Future Fund: Breakthrough deals were identified, although this is based on just two deals completed to date. The British Business Bank encourages all fund managers, whether supported or not, to disclose their equity deals publicly to improve the quality of the data.

Beauhurst also includes deals made by other government funds including ERDF-backed JEREMIE funds, as well as funds delivered by the devolved nations including the Development Bank of Wales and Scottish National Investment Bank and also local government funds, for instance, the London Co-investment Fund. British Business Bank funds delivered by private sector fund managers involving private sector sources of capital, such as the ECF and BPC programmes, are not included in Beauhurst's definition of government funds.

It is important to recognise the overall contribution government funds make to local equity markets. Whilst 13% of all announced equity deals involved a government investor, it is disproportionately important for the devolved nations where 51% of all announced equity deals in Northern Ireland and 51% of all announced equity deals in Scotland in 2021 involved a government fund. Whilst still important in Wales, the proportion is lower at 22%. In part this is due to Beahurst reclassifying some Development Bank of Wales deals as being Private Equity rather than government funds. Reclassifying back as government funds increases the percentage to 47%, which is more in line with the other devolved nations.

Between 2011 and 2021 there were 1,778 visible equity deals undertaken by funds supported by the Bank's equity programmes in the Beauhurst dataset (henceforth British Business Bank supported deals). This relates to a total funding value (British Business Bank and other private sector investors) of £9.8bn. Table 7 outlines the number of unique companies invested in by British Business Bank programmes, as well as the Beauhurst coverage of deals for each programme. The investments figures are likely to exclude follow-on funding as these deals are less likely to be publicly announced compared to new equity deals.

British Business Bank equity programmes supported around 14% of all equity deals between 2019 and 2021

Figure 2.1 shows the number of British Business Bank supported deals over time as identified in the Beauhurst dataset. The number of identified British Business Bank supported deals has increased from 30 in 2011 to 464 in 2021. This 2021 figure should be treated as preliminary, as Beauhurst will continue to identify deals and investors as more deals are announced over time. The ECF programme had the highest number of deals per year up to 2018, but between 2019 and 2020 BPC has a higher number of announced deals. However, in 2021, 162 deals involving the Regional Angels Programme were identified, making this programme the largest in terms of announced deals.

Note that these figures only include announced deals identified in the Beauhurst dataset and therefore differ from those on the British Business Bank Management Information (MI) system, which has full coverage. In addition, Beauhurst is less likely to report announced follow-on funding as these deals are less likely to be announced compared to new equity deals. Beauhurst does track follow-on rounds via SH01 forms submitted at Companies House, but these deals are largely unannounced.

British Business Bank equity programmes are estimated to have supported 14% of all UK equity deals between 2019 and 2021, with these deals forming 19% of the overall invested equity amount in that period. The British Business Bank's market share of deals has been increasing over time from 6% in 2011 to 10% in 2019, before increasing to 14% in 2020 and 18% in 2021. To reduce yearly volatility in the presented numbers, the remaining analysis in the report will consider the characteristics of the British Business Bank equity programme supported equity deals compared to the overall equity market over a three-year period (2019 to 2021), to allow a more detailed assessment to be made.

Figure 2.1

Number of announced equity deals involving British Business Bank supported funds over time by programme

Source: British Business Bank analysis of Bank MI data and Beauhurst data

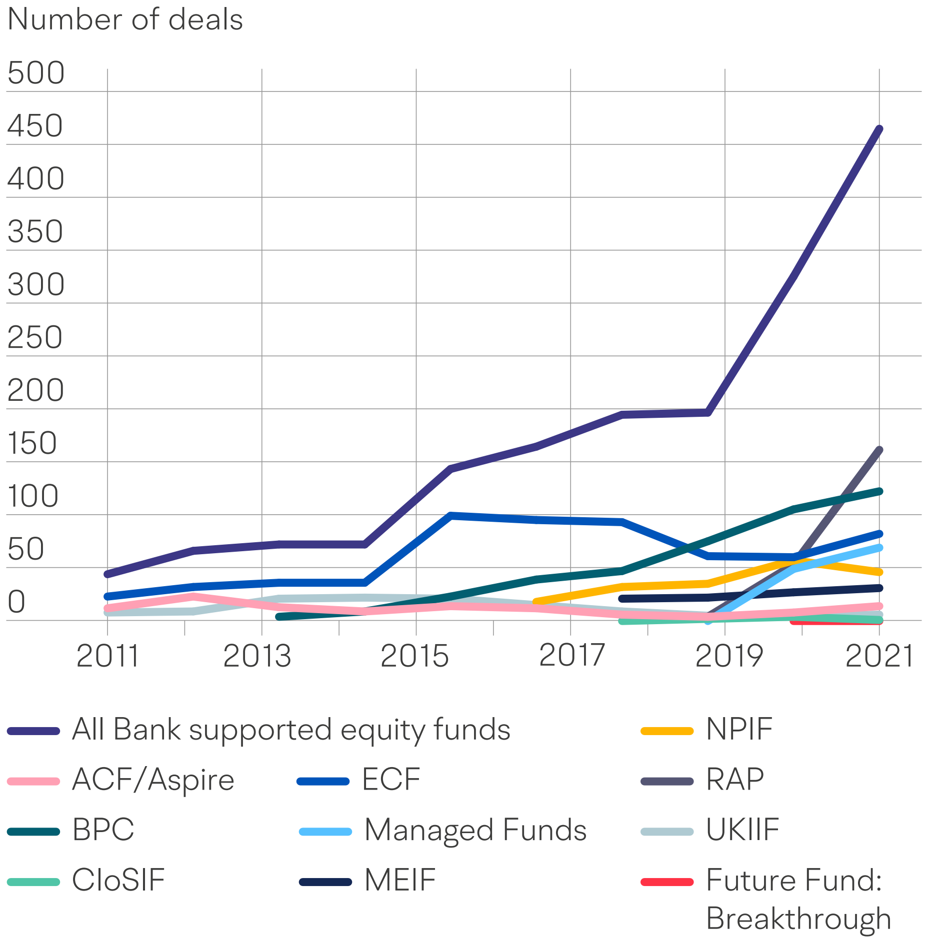


Table 8

British Business Bank market share in 2019-21 by stage

Source: British Business Bank analysis of Bank MI data and Beauhurst data

Stage	By number of deals	By investment value
Seed	13%	15%
Venture	16%	20%
Growth	13%	19%
Total	**14%**	**19%**

There are slight differences by stage, with the Bank having a greater market share at the venture stage compared to the other stages. British Business Bank supported funds were involved in 13% of seed stage deals (15% by value), 16% of venture stage deals (20% by value) and 13% of growth stage deals (19% by value) over 2019 to 2021. It is important to recognise the value figures relate to total deal size, which may involve other investors in the funding round and does not specifically cover British Business Bank's contribution to the funding round.

British Business Bank supported funds were more likely to undertake deals in venture stage companies compared to the overall market

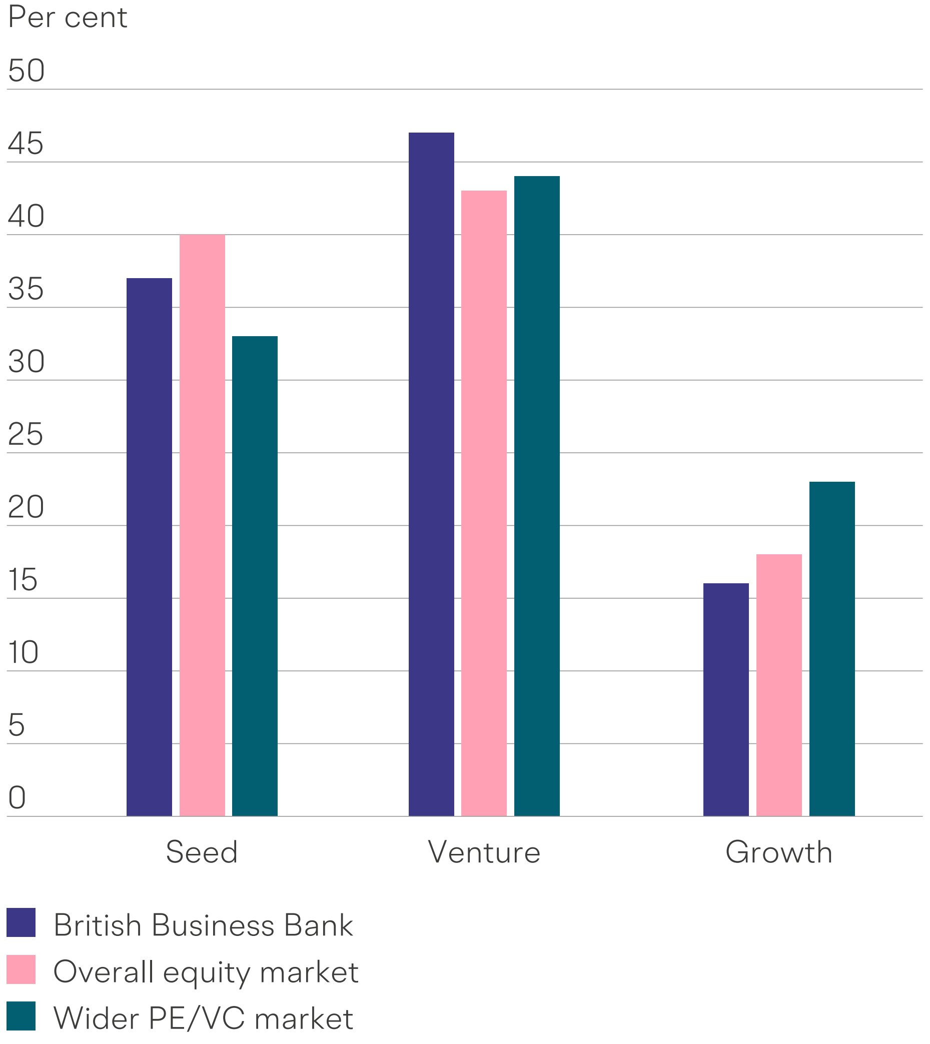
British Business Bank supported funds between 2019 and 2021 were most likely to undertake deals in venture stage companies (47%), followed by the seed (37%) and growth stage. Figure 2.2 shows this is higher than the overall equity market where 43% of deals went to venture stage companies, and PE/ VC investors where 44% of deals went to venture stage companies. Most British Business Bank programmes operate through VC funds, and so is useful to compare against the overall equity market and also the wider PE/VC market.

As shown in Figure 2.3, the stage composition of British Business Bank supported deals is volatile and has changed over time. Between 2011 and 2014 there was a shift away from deals at the seed stage to venture and growth stage deals, with seed stage deals falling from 37% of all British Business Bank deals in 2011 to 14% in 2014. Conversely, the proportion of British Business Bank supported deals at the venture stage increased from 47% in 2011 to 60% in 2013 (59% in 2014). Between 2014 and 2016 there was a large shift back towards the seed stage, with the proportion of British Business Bank supported fund deals in seed stage companies increasing from 14% in 2014 to 53% in 2016. This transition was largely due to the ECF programme investing in Entrepreneur First in 2016, an accelerator fund backing a relatively high number of early-stage businesses. Since 2016 there has been a reduction in the percentage of deals at the seed stage, to 39% in 2021, due to a combination of Entrepreneur First reaching the end of its investment period, but also the number of growth and especially venture stage deal numbers increasing.

Figure 2.2

Proportion of equity deals by stage in 2019-21

Source: British Business Bank analysis of Bank MI data and Beauhurst data



The average size of deals completed by British Business Bank supported funds varies widely by stage:

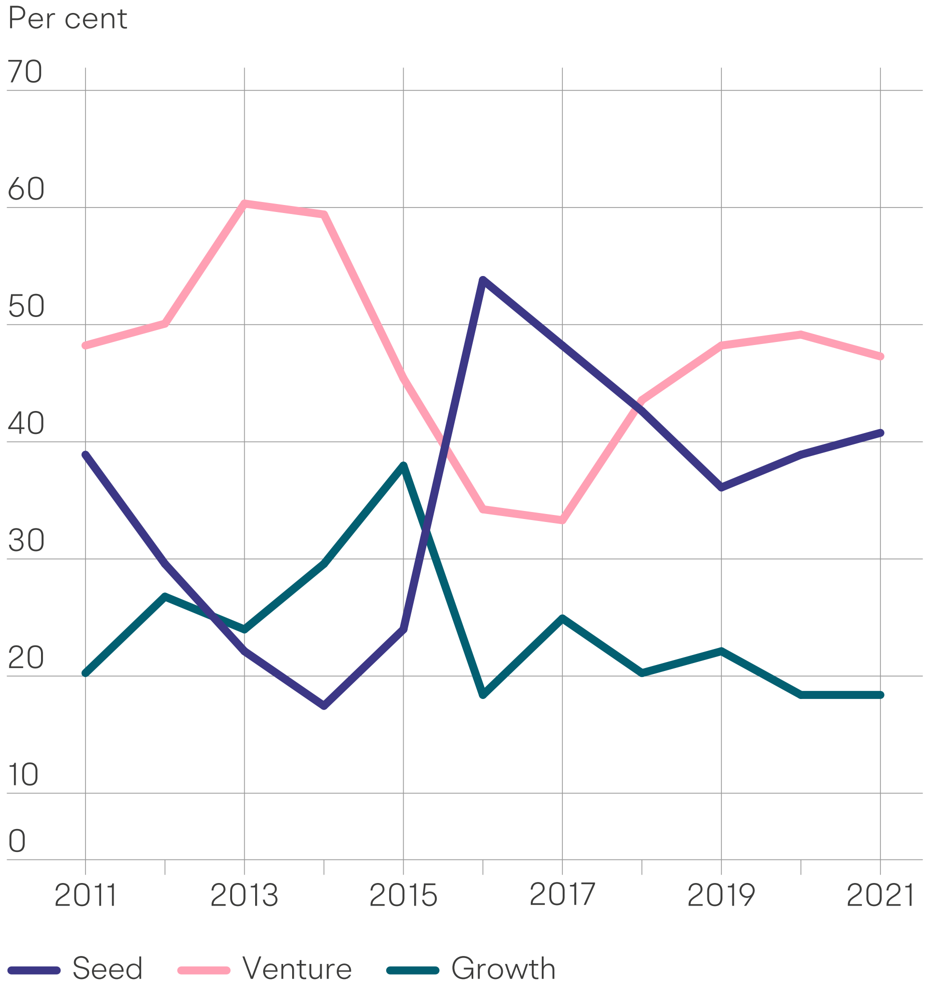
- **Seed:** The average size of British Business Bank supported fund seed stage deals in 2019-21 was £1.7m, compared to £0.5m and £2.7m for the overall equity and PE/VC market, respectively.
- **Venture:** The average size of British Business Bank supported fund venture stage deals in 2019-21 was £4.9m, compared to £4.0m and £5.5m for overall equity and PE/VC market, respectively. The size of venture stage deals completed is therefore largely in line with the wider PE/VC market, which is as to be expected since most of the Bank's supported deals at this stage are completed by VC funds.
- **Growth:** The average size of British Business Bank supported fund growth stage deals in 2019-21 was £26.5m, compared to £20.3m and £25.6m for overall equity and PE/VC markets, respectively. The average size of growth stage deals completed by funds supported by the Bank's programmes is therefore slightly larger than the wider equity market.

The average size of the Bank's growth deals has increased over time from £2.7m in 2011 to £31.6m in 2021. Over the last three years the Bank's growth stage deals have been larger than growth stage deals in the wider market, showing the success of the BPC programme in supporting UK scale-ups since 2018. BPC is targeted at later stage growth companies and is a major driver of this increase in deal sizes, so that companies are now better capitalised. BPC growth stage deals averaged £32.9m in size over 2019-21, considerably larger than the overall equity market (£20.3m) and VC/ PE market (£25.6m).

Figure 2.3

Proportion of British Business Bank supported equity deals by stage over time

Source: British Business Bank analysis of Bank MI data and Beauhurst data



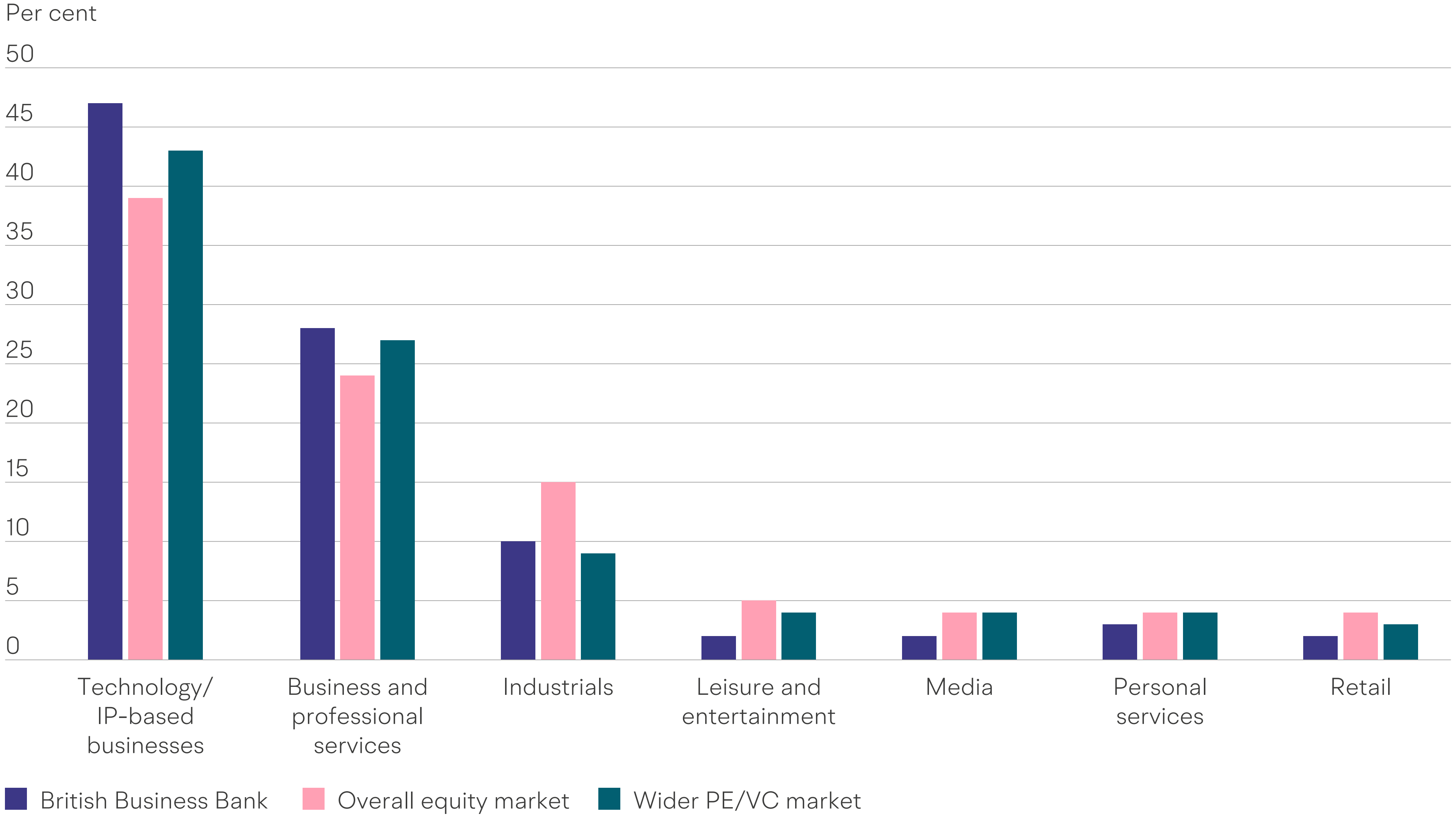
Funds supported by the British Business Bank were more likely to invest in technology/ IP-based businesses than the overall equity market in 2019-21

Figure 2.4 shows that funds supported by the British Business Bank were more likely to invest in technology/ IP-based businesses than the overall equity market in 2019-21, with 47% of British Business Bank supported deals in this sector compared to 39% for the wider market.[27] The second highest sector in terms of proportion of deals was the business and professional services (forming 28% of all British Business Bank supported deals), followed by the industrials sector (10%). These rankings follow the wider market, although industrials make up a higher proportion of overall equity market deals (15%). The proportion of British Business Bank deals in technology/ IP-based businesses is higher than for PE/VC investors, where 39% of deals went to the sector in 2019-21.

Figure 2.4

Proportion of equity deals by sector in 2019-21

Source: British Business Bank analysis of Bank MI data and Beauhurst data



Disaggregating the technology/ IP-based businesses sector into its component sub-sectors shows 29% of the Bank's supported deals was in the software sector, which is higher than the overall market (24%) and VC/ PE market (27%). The Bank has a similar proportion of deals going to companies in the life science sector with 6% of all deals going to this sector (the same percentage as VC/ PE investors) and one percentage point higher than the overall market.

The Bank has a smaller share of deals going to the clean tech sector with this sector forming one percent of all Bank deals in 2019-21, compared to 3% in the overall equity market (2% in the PE/ VC market).

British Business Bank programmes are more likely to fund academic spinout companies than the overall equity market

Universities undertake a large amount of research activity, and one way for them to commercialise this research is through the creation of university spinout companies.[28] Over 2019-21, Bank supported funds have made 136 equity deals into academic spinout companies. As a proportion of all deals undertaken, 14% of deals went to a company that is classed as an academic spinout. This is significantly higher than the overall equity market where 9% of deals went to a spinout company and the PE/ VC market (11%).

The ECF, BPC and Regional Angel programmes were the biggest contributors, representing (respectively) 26%, 24% and 22% of the total Bank deals to spinout companies. The regional programmes also made an important contribution with NPIF and MEIF each contributing 17% to the total number of spinout companies.

As a percentage of all deals made by the programme, all of the Future Fund: Breakthrough deals went to university spinout companies. This is based on just two deals but reflects the programme's objective of funding R&D intensive companies. The next highest percentages were MEIF at 28%, ECF at 17% and NPIF at 16%. 10% of BPC deals went to spinout companies. The strength of NPIF and MEIF deals in supporting university spinouts reflects the strength of universities in these regions and the MEIF's proof of concept fund.[29]

In terms of universities from where the spinout companies originated, the top four institutions by British Business Bank fund deal count are University of Cambridge (15 deals), University of Oxford (12 deals), University of Nottingham (10 deals) and University of Warwick (8 deals). Again, the presence of universities outside of London and the Golden Triangle show the importance of the regional programmes for supporting local innovation ecosystems.

The Bank has a higher proportion of equity deals outside of London than the overall VC/ PE market, but is similar to the overall equity market

Between 2019-2021, 53% of the Bank's deals went to companies outside of London, which is similar to the overall equity market (53%), but higher than the overall PE/ VC market (48%).

This shows the Bank's geographically-focussed programmes are making an impact.[30] NPIF began investing in 2017, with MEIF following in 2018. Beauhurst picked up 79 deals completed by these two regionally focussed funds in 2021, with MEIF and NPIF contributing to 17% and 12% of equity deals in the Midlands and North respectively in 2020. Both these percentages are lower than previously reported reflecting fewer programme deals identified, but also higher numbers of overall market deals which is a positive development, as these local ecosystems become more established.

The share of MEIF supported deals in the Midlands increased from 18% in 2018 to 23% in 2020, before declining to 17% in 2021. This is due to a 13% decline in MEIF activity picked up in the Beahurst dataset from 23 deals in 2020 to 20 deals in 2021, but the overall number of deals in the region has also increased by 20% to 118 in 2021.

The share of NPIF supported deals in the North has also declined from 20% in 2020 to 12% in 2021. This is due to a 29% decrease in NPIF activity identified in the Beahurst dataset, with deal numbers decreasing from 56 in 2020 to 40 in 2021. The overall number of deals in the North increased by 18% between 2020 and 2021, leading to decreased market share.

Whilst the CIoSIF has relatively smaller numbers of deals identified in the Beauhurst dataset (2 in 2021 and 3 in 2020 in the LEP area), there are relatively low number of deals in the Cornwall and Isles of Scilly Local Enterprise Partnership. CIoSIF therefore has a 25% market share of deals in 2021 and a 20% share of deals in 2020.

The Bank recognises the importance of data on the gender diversity of companies funded by its programmes

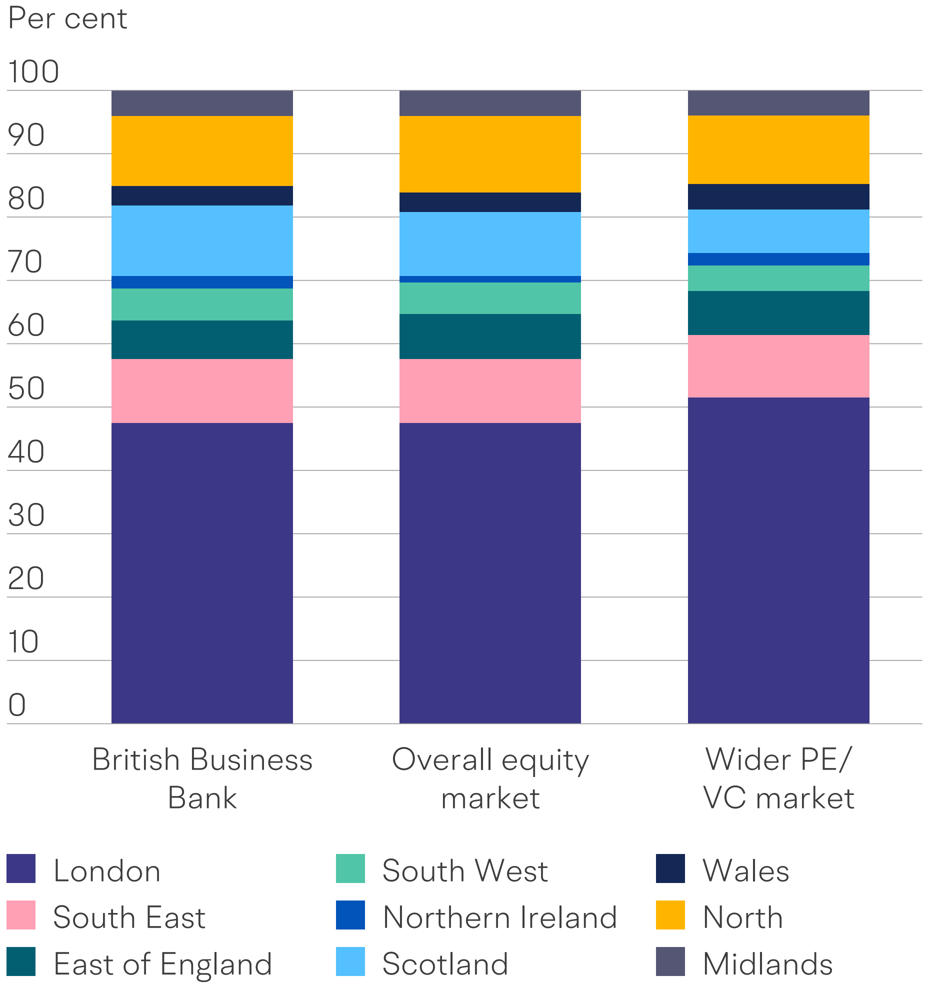
Last year the Equity Tracker report included findings on the gender diversity of founders and management of companies supported by the British Business Bank. Beauhurst's coverage of founder and key person gender has increased over time and Beauhurst now has nearly complete coverage, giving confidence on the robustness of these findings. For instance, Beauhurst records the gender composition of founder teams for 95% of deals in 2019-21 and that of key people in the company for 97% of deals in 2019-21.[31] The percentages mentioned in the following analysis relate to companies with information on founder team gender and key person team gender only. Companies with insufficient information are excluded from the denominator to allow robust comparisons.

Figure 2.6 shows 21% of British Business Bank programme supported deals in 2019-21 went to a company with at least one female founder (all-female founder teams and mixed gender teams combined). Whilst this is lower than the overall equity market (24%), it is more in line with the VC/ PE market (22%).

Figure 2.5

Proportion of equity deals by region and devolved administration in 2019-21

Source: British Business Bank analysis of Bank MI data and Beauhurst data



As companies grow and develop, they are likely to take on additional people, so it is also important to assess the current composition of the key people. By its nature, this will lead to the proportion of all-female companies declining assuming companies are just as likely to employ a male or female within its key functions. Figure 2.7 shows 69% of British Business Bank supported deals between 2019 and 2021 went to an all-female or mixed gender team, compared to 65% of the overall equity market (70% for PE/VC funds). This ahead of the overall market but is broadly similar to the PE/VC market and shows more must be done.

The Investing in Women Code[32] helps drive the change necessary to improve venture capital markets for female founders, so they can raise the capital they need for their businesses to reach their full potential. The British Business Bank is a founding signatory of the Code and manages it, on behalf of BEIS, for venture capital funds. The findings presented here provide valuable market-wide data that complements Code signatories' data on investment in female founders, due to be published in Summer 2022. Both are important for greater transparency across the industry. Such transparency can, in turn, help to identify whether measures are working and where further measures are needed.

Figure 2.6

Gender composition of company founders receiving an equity deal in 2019-21

Source: British Business Bank analysis of Bank MI data and Beauhurst data

Figure 2.7

Gender composition of company key people receiving an equity deal in 2019-21

Source: British Business Bank analysis of Bank MI data and Beauhurst data

Section 3

UK VC market compared to other countries

- The UK remains the largest VC market in Europe, but other European countries' markets are growing more quickly over time
- The UK has a relatively high level of VC activity compared to other European countries but continues to lag behind US despite recent increases
- There are cross-country differences in the structure of VC markets with some countries having stronger early stage markets, whilst others are more focussed on later stage VC
- The UK has a lower proportion of deals and investment going to deep tech and R&D intensive companies than other countries
- The overall UK-US VC funding gap is largely caused by differences in funding going to deep tech and R&D intensive sectors

Introduction

This section compares the size and structure of the UK VC market against several comparator countries to assess how the UK market compares and what lessons can be learned from these countries. This section uses data from PitchBook.[33] Pitchbook has good coverage of VC deals in Europe and the US, but it is possible that cross-country differences in coverage can exist if fund managers are less likely to disclose their deals or deal sizes. This should not distract from the main findings presented in this section, which are consistent with other data sources, such as Dealroom.

For conciseness, it is not possible to compare the UK against every country in the world, and so a comparison is made against the following selected countries for the reasons given:

US

Widely credited as being the birthplace of modern VC with the VC industry developing from the 1960's onwards.[34] The US is recognised as having the most developed VC market in the world with the most experienced and greatest number of investors. Global trends in VC often follow trends seen in the US VC market first. Many other countries also benchmark their VC markets against the US VC market, which makes the US a suitable comparator country.

France

A country with close geographic proximity and size, both in terms of GDP and population, France provides a good direct comparison to the UK. Whilst lagging behind the UK in terms of VC activity (France is the third largest country in Europe in terms of VC), the French government has sought to increase VC. In 2019, President Emmanuel Macron announced a €5 billion fund to support tech investments with €2 billion earmarked to help start-ups scale up, and introduced a new tech visa to help high-growth start-ups recruit foreign workers.[35] The government also has ambitions for creating at least 25 unicorn companies in France by 2025.

Germany

Whilst the German VC market is seen as lagging some of its European neighbours,[36] Germany is the second biggest VC market in Europe. There are positive signs of its market rapidly developing, especially in the start-up hub of Berlin which received 60% of VC investment.[37] German funds dominate early VC stages, but overseas funds are making an important contribution to later stage funding.[38] The German Federal Government launched the €10 billion Future Fund and has committed additional funds to the Deep Tech Future Fund, showing the market is developing.

Sweden

Sweden has historically high levels of VC funding in part supported by public funding, and strong investment in R&D exceeding 3% of its GDP per year.[39] Global success stories like Skype, Spotify, King (developer of Candy Crush) and Klarna are helping to encourage the next generation of start-ups and build a strong entrepreneurial culture.

Israel

Although a relatively small country by size, Israel has very high levels of VC activity for its size. Israel has actively encouraged overseas VC investment through public interventions like Yozma in the 1990's, leading to more than 30 based overseas VC funds setting up in the country.[40] This has now leveraged large amounts of private sector funding,[41] with the VC industry centred around defence applicable technologies including cyber security and Artificial Intelligence.[42]

China

The Chinese VC has been growing in importance in recent years and looks to be the second largest VC market globally. Some data sources previously indicated China (briefly) became, or was on the trajectory to become, the largest VC market globally ahead of the US, although there is now evidence the Chinese VC market has slowed down due to greater regulation of its financial system.[43] Some of China's first VC success stories have become not only some of China's biggest ICT firms but also its largest sources of VC funding, for instance, Alibaba and its fintech offshoot, Ant Financial.

Canada

Whilst Canada is in close geographic proximity to the US, its VC market is often seen to be in the shadow of its neighbour.[44] VC investment in Canada continues to be driven by US investors who contribute around half of all funding,[45] but Canada is beginning to be able to grow successful companies, as evidenced by Shopify's New York listing. Canada may therefore provide a suitable comparison country within North America outside of the US.

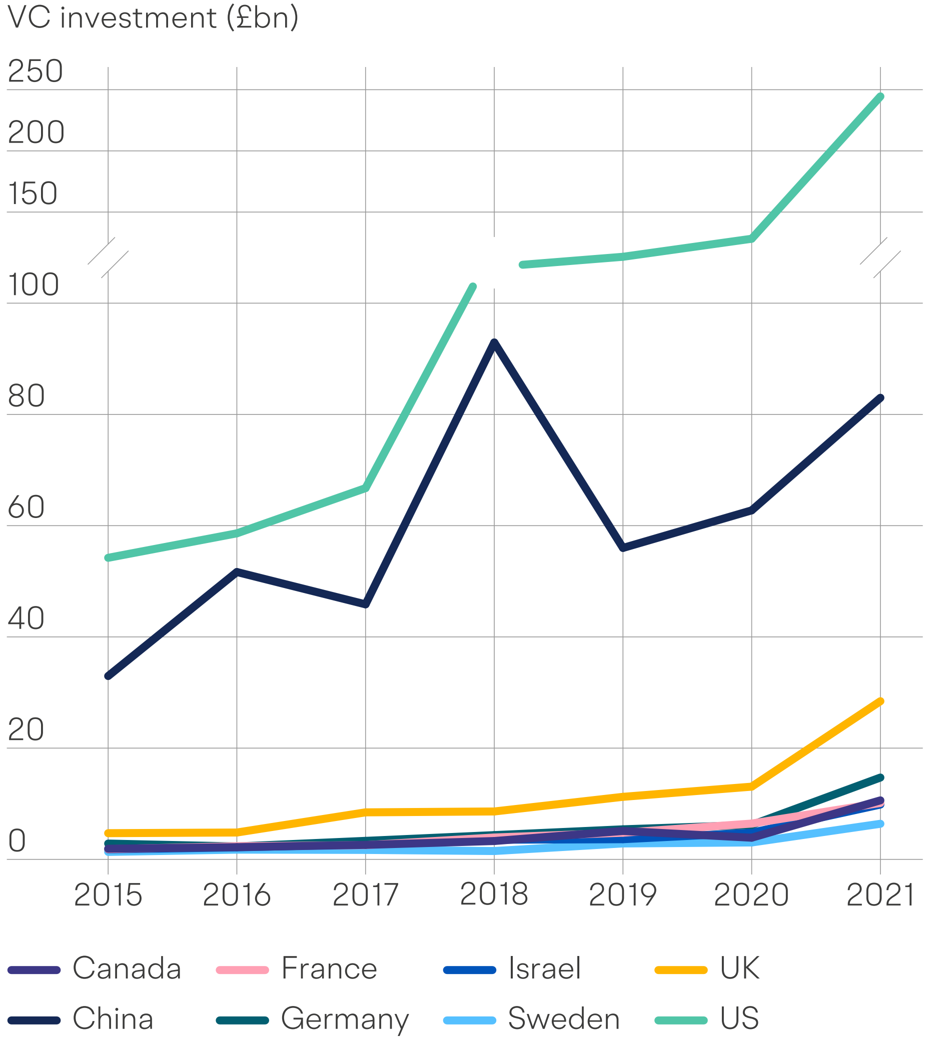
The UK remains the largest VC market in Europe, but other European countries' markets are growing more quickly over time

Figure 3.1 shows the US VC market is the largest globally with £245bn invested in 2021, up from £128bn in 2020. This is followed by China at £83bn. The Chinese VC market grew strongly in the middle part of the last decade, which indicated that it could grow to be larger than the US market, but this has not materialised. Chinese VC investment has slowed down in recent years and declined in 2019 and 2020. In part, this is due to greater financial regulation, which led to lower investor confidence cooling the market.[46] As a result, Chinese VC investment peaked in 2018 at £93bn (the US market was £107bn in 2018), before declining in the following years down to £56bn, and then recovering slightly in 2021 to £83m.

Figure 3.1

VC investment over time by country (£bn)

Source: British Business Bank user defined search of PitchBook. (Results may differ to PitchBook's own figures)



The UK VC market remains the largest in Europe with £28bn invested in 2021, substantially larger than France (£10bn) and Germany (£14bn) combined. The UK forms 31% by number and 34% of total investment in Europe in 2021.[47] In comparison Germany forms 17% of value and 11% deals in 2021. France forms 12% of investment value and 10% of deals in 2021.

Whilst differences in PitchBook's coverage of VC deals across countries could explain some of these differences, other data sources like Dealroom show almost identical numbers.[48] Dealroom data shows UK received 35% of Europe's total equity investment in 2021, confirming the UK is the largest market within the European VC ecosystem, larger than France and Germany combined (28%).

Whilst useful to look at the actual VC investment levels it is important to see how the markets have changed over time relative to one another. Figure 3.2 shows the trend in VC investment levels since 2015, using this as the reference year for all countries. The graph shows the UK has made progress catching up with the US. Over the same time period, US investment has increased by 353% compared to 585% in the UK. This will be explored more fully in the subsequent sections.

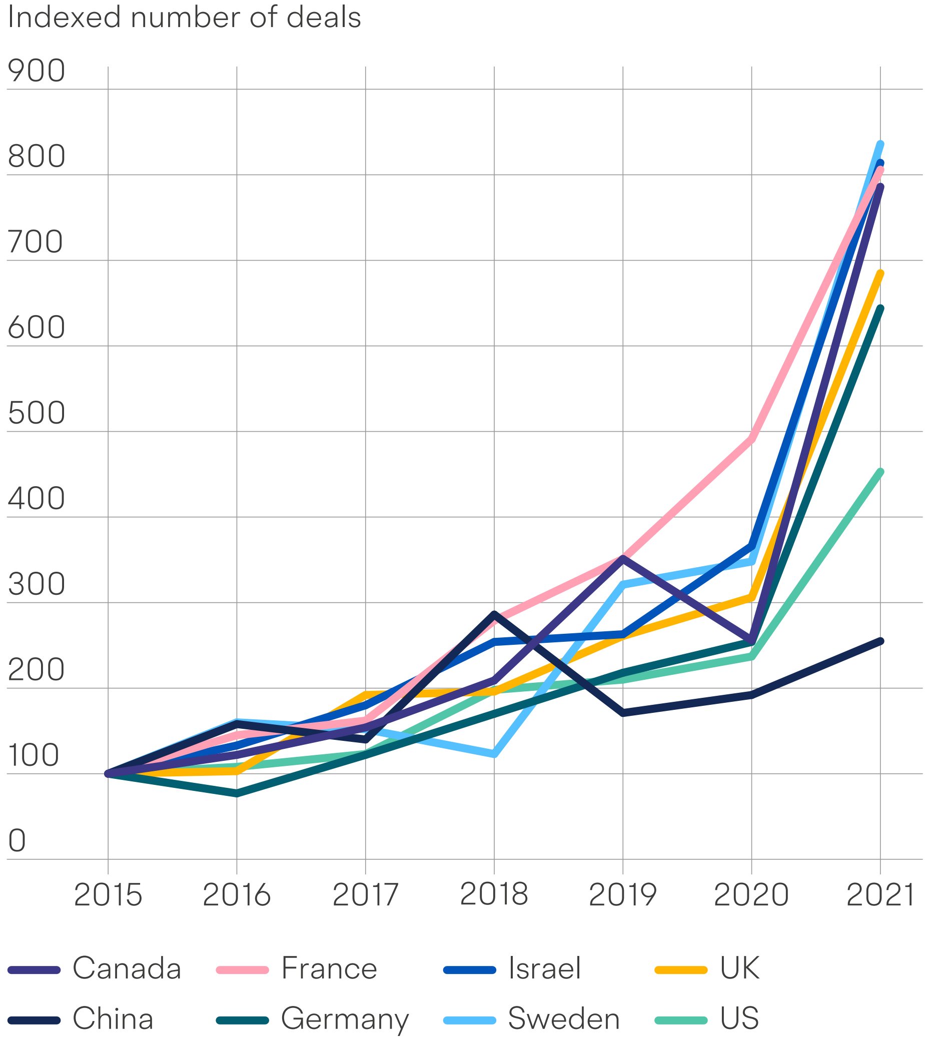
It is noticeable that VC activity is increasing strongly in France whose growth since 2015 is 706% higher than the UK's growth of 685% over the same period. In part this is due to efforts by the French government towards increasing the amount of VC in France. Israel and Sweden have also seen larger increases than the UK since 2015 with growth of 714% and 736%, respectively.

The large increase in UK equity investment seen in 2021, as reported in Section 1, is also seen in other countries, as evidenced by increase in the indexed trend line across most geographies (other than China). PitchBook data shows UK VC investment increased by 124% in 2021, higher than the increase seen in the US of 91%, but Canada and Germany grew more strongly at 207% and 154%, respectively. France's growth of 64% in 2021 was more modest in comparison, but reflect higher growth seen in previous years.

Figure 3.2

VC investment over time by country (Index, 2015 = 100)

Source: British Business Bank user defined search of PitchBook and calculations. (Results may differ to PitchBook's own figures)



VC deal numbers have also grown substantially over the same period across most geographies, reflecting local VC markets becoming more developed and the low interest rate environment encouraging investment into this asset class. The only exception to this is China, whose deal numbers are now only 13% higher than they were in 2015, but for several years were lower.

Table 9

Number of VC deals over time by country

British Business Bank user defined search of PitchBook. (Results may differ to PitchBook's own figures)

Country	2015	2016	2017	2018	2019	2020	2021
Canada	510	479	546	658	806	768	1,117
China	5,391	6,311	6,096	6,538	4,773	4,585	6,091
France	657	735	819	866	923	861	945
Germany	487	490	566	662	725	772	1,062
Israel	384	354	430	549	521	550	684
Sweden	264	318	349	315	366	359	494
UK	1,495	1,540	1,867	2,073	2,302	2,332	2,931
US	8,532	7,915	8,796	9,669	10,684	10,662	14,989

The UK has a relatively high level of VC activity compared to other European countries but continues to lag behind the US despite recent increases in VC funding

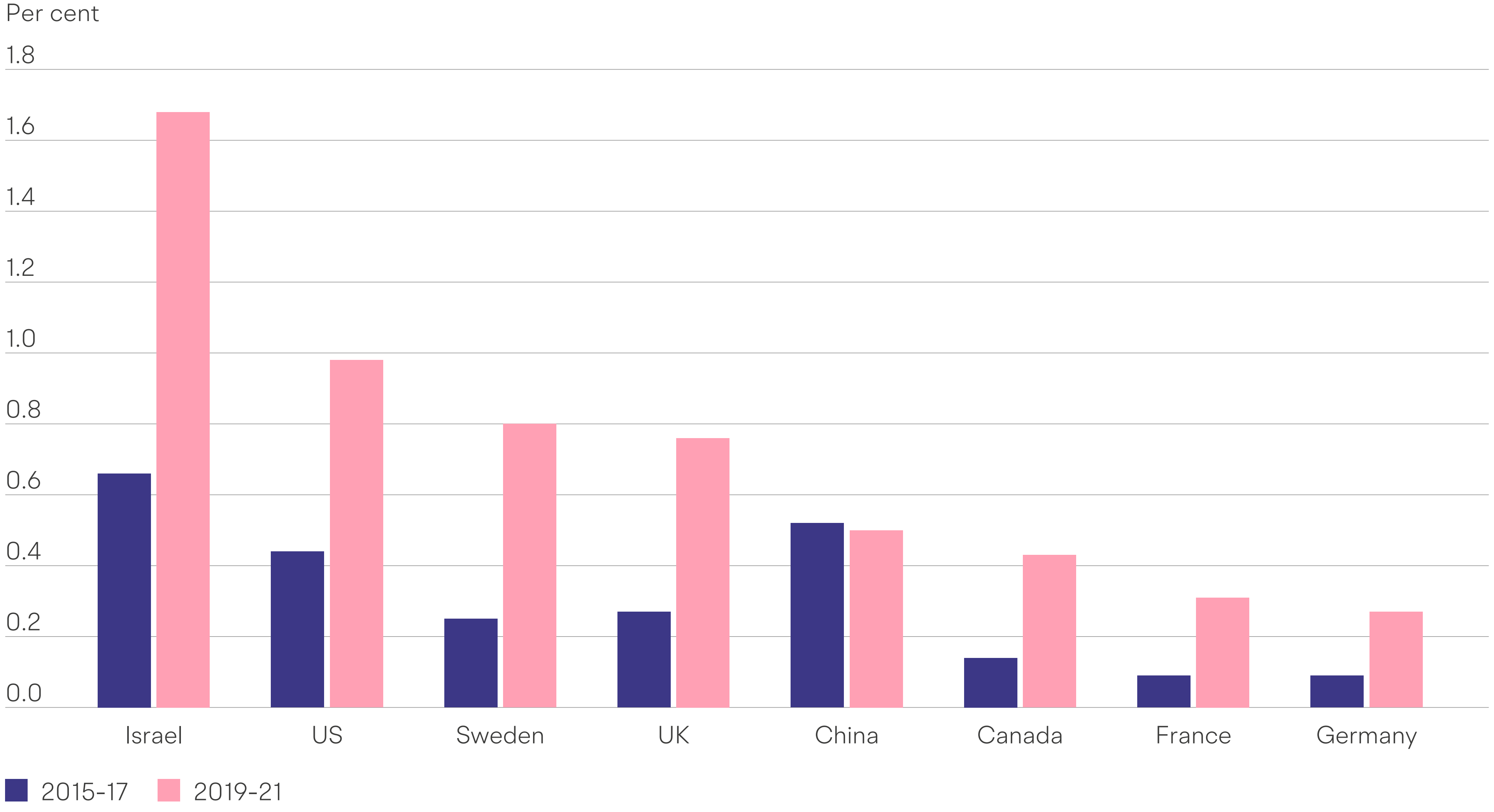
Whilst a comparison of absolute deal numbers and investment amounts is useful, it does not take into account differences in the size of economies. It is reasonable to expect larger economies will have a higher number of VC deals and investment due to their size. To make more robust cross-country comparisons of VC activity it is necessary to adjust for the size of the economy by using Gross Domestic Product (GDP) or population, as this can better show relative VC activity levels. It is not possible to make comparisons by number of businesses or innovation activity as these are not recorded consistently across countries. A three-year period is used to reduce yearly volatility in VC investment numbers allowing, a more stable comparison to be made.

Figure 3.3 shows VC to GDP percentages across a number of countries over two different time periods (2015-2017 and 2019-2021). This shows that the UK performs well when assessed against comparable

Figure 3.3

VC investment as a proportion of GDP by selected countries over time

Source: British Business Bank user defined search and calculations of PitchBook and World Bank data. (Results may differ to PitchBook's own figures)



European economies, such as France and Germany. VC investment in the UK is comparable to 0.76% of (UK) GDP in 2019-2021, compared to 0.31% in France and 0.27% in Germany. This means the size of VC activity in the UK is over twice as large taking into account differences in the size of the economy. Sweden has a VC to GDP percentage of 0.80%, suggesting it has similar levels of VC funding to the UK.

The US has a VC to GDP percentage of 0.98% which is 1.3 times higher than the UK's level. In comparison, Israel has a VC to GDP percentage of 1.68% which is substantially higher than both the UK and the US. In this regard, Israel is an outlier country with extremely high levels of VC (£9.3bn) for its size.

Levels of VC investment have increased over time across all geographies other than China, where the VC to GDP percentage is now 0.02% points lower in 2019-2021 than it was in 2015-2017. UK VC levels are now 2.9 times higher in 2019-21 than they were in 2015-2017 (from 0.27% to 0.76%), increasing more quickly than the US figure which is 2.2 times higher (0.44% to 0.98%). The UK now has higher relative VC levels than the US did in 2015-2017, showing it is closing the funding gap with the US.

France and Germany have also seen their relative VC levels increase by 3.5 and 3.1 times higher than the levels seen in 2015-2017. This suggests France and Germany's VC markets are growing more quickly than the UK's, albeit from a lower starting point. Sweden's VC market is also 3.2 times larger in 2019-2021 than in 2015-2017 (up from 0.25% to 0.80%), maintaining similar levels of VC activity as the UK over both time periods.

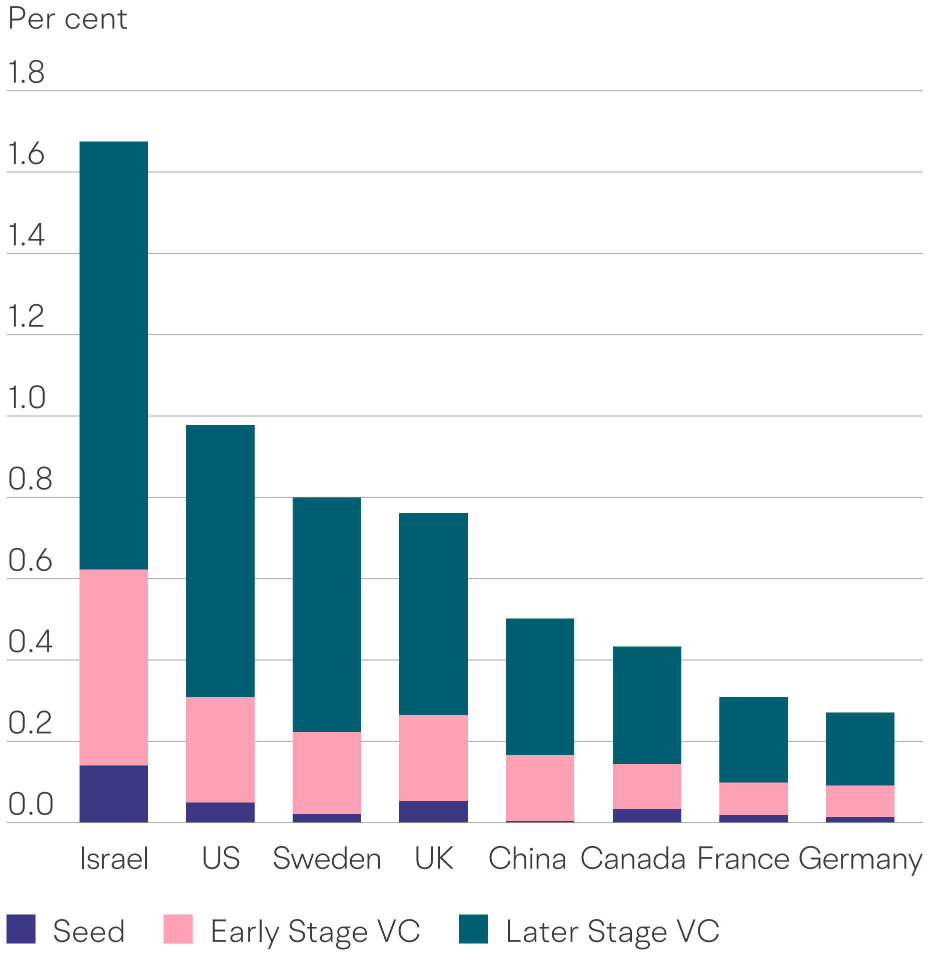
VC to GDP percentages can also be broken down further to show which stages of the market are relatively weak or strong. Figure 3.4 shows of the UK's 0.76% VC to GDP percentage in 2019-2021, 0.05% is at the seed stage, which is comparable to the US (0.05%), and ahead of Sweden (0.02%). However, the UK appears to have relatively less later stage VC funding (0.50%) compared to the US (0.67%) and Sweden (0.58%). This will be explored more fully later in the section.

Germany and France also show relatively low levels of seed stage funding with VC to GDP percentages for these stages of just 0.01% and 0.02% respectively.

Figure 3.4

VC investment as a proportion of GDP by selected countries by stage

Source: British Business Bank user defined search and calculations of PitchBook and World Bank data. (Results may differ to PitchBook's own figures)



Looking at VC deals per one million people in each country shows a similar picture to total VC investment with Israel substantially ahead of all other countries at 63 VC deals per one million population (Figure 3.5). The UK has 38 VC deals per one million people, a similar level of deals as Sweden (39) and the US (37). This suggests the number of VC deals is broadly comparable in these countries, and any overall differences in investment values relates to differences in deal size. This is most noticeable when disaggregating the number of deals by stage, as the UK has broadly similar number of deals to the US, once population size is taken into account.

France and Germany have much lower levels of VC deals per population than the UK, with 13 and 10 deals per one million population. Although China is the second largest VC market in the world, due to its large population size (1.4bn people), the number of VC deals per one million people is much lower than all other geographies (4), suggesting a relatively low prevalence of VC activity.

There are cross-country differences in the structure of VC markets with some countries having stronger early stage markets, whilst others are more focussed on later stage VC

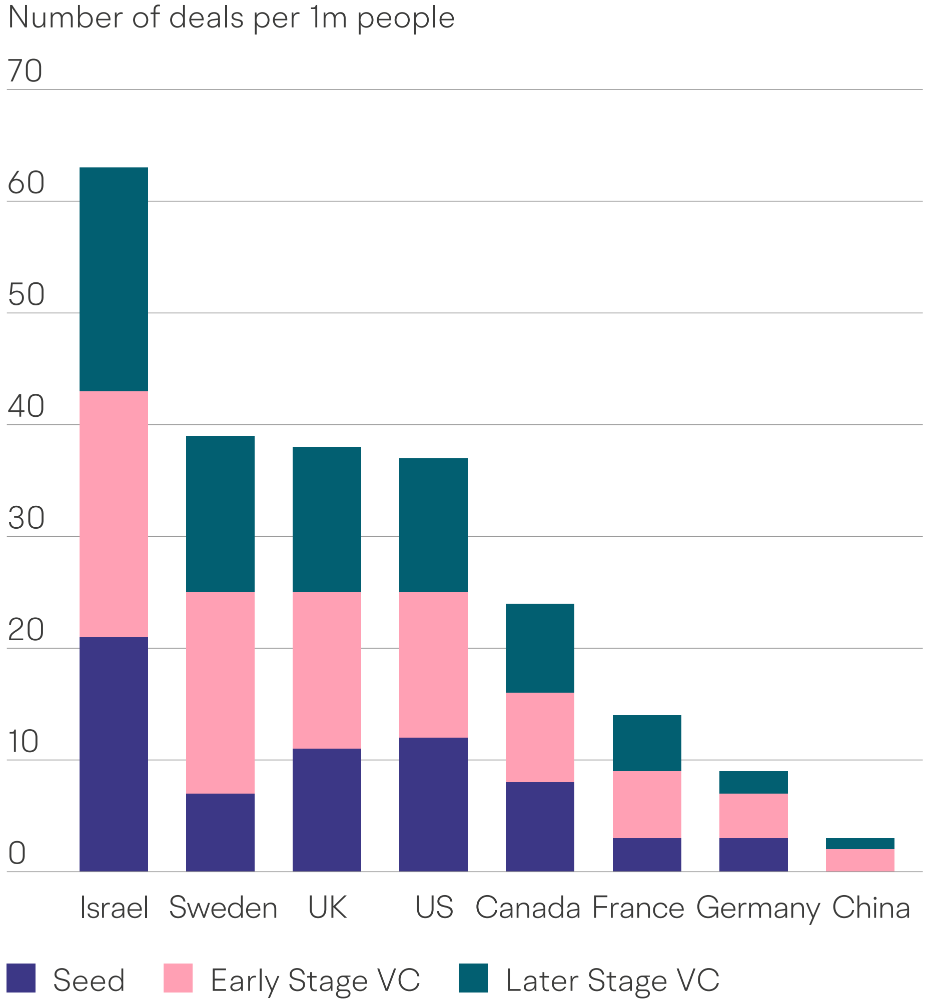
Figure 3.6 shows there are some cross-country differences in the proportion of VC deals going to different deal stages, which can show the different strengths of the VC markets. These deal stages include seed, early stage VC and later stage VC.[49]

It is noticeable that the advanced VC markets of Israel and US have deals split almost equally between all three stages, showing VC investors are able to meet the funding needs of companies at all stages of their development. The UK has slightly lower proportion of deals going to the seed stage (29%), but a greater proportion of deals at the early VC stage (37%). China, France and Sweden are noticeable for having a low proportion of VC deals going to the seed stage at 8%, 19% and 18% respectively.

Figure 3.5

VC deals per 1m people by selected countries by stage

Source: British Business Bank user defined search and calculations of PitchBook and World Bank data. (Results may differ to PitchBook's own figures)



Across the selected countries around a third of VC deals goes to the later stage. Sweden has the greatest proportion of deals at this stage (37%), while Germany has the lowest at 24%, suggesting the German market requires more later stage investors.

Figure 3.7 shows the proportion of VC funding going to seed stage deals is relatively low due to smaller deal sizes, but is broadly similar across countries at around 5% of all VC funding. The percentage of funding going to the seed stage is slightly higher in the UK (7%), Israel (8%) and Canada (8%), but is relatively low in China (1%) and Sweden (8%). Whilst later stage VC forms 67% of funding on average across the selected countries, Sweden has a greater share of funding (72%), the highest proportion of all countries considered. Israel has a relatively lower share of later stage funding (63%), in part due to its strong seed stage funding.

Figure 3.6

Proportion of VC deals by country by stage (2019-2021)

Source: British Business Bank user defined search of PitchBook. (Results may differ to PitchBook's own figures)

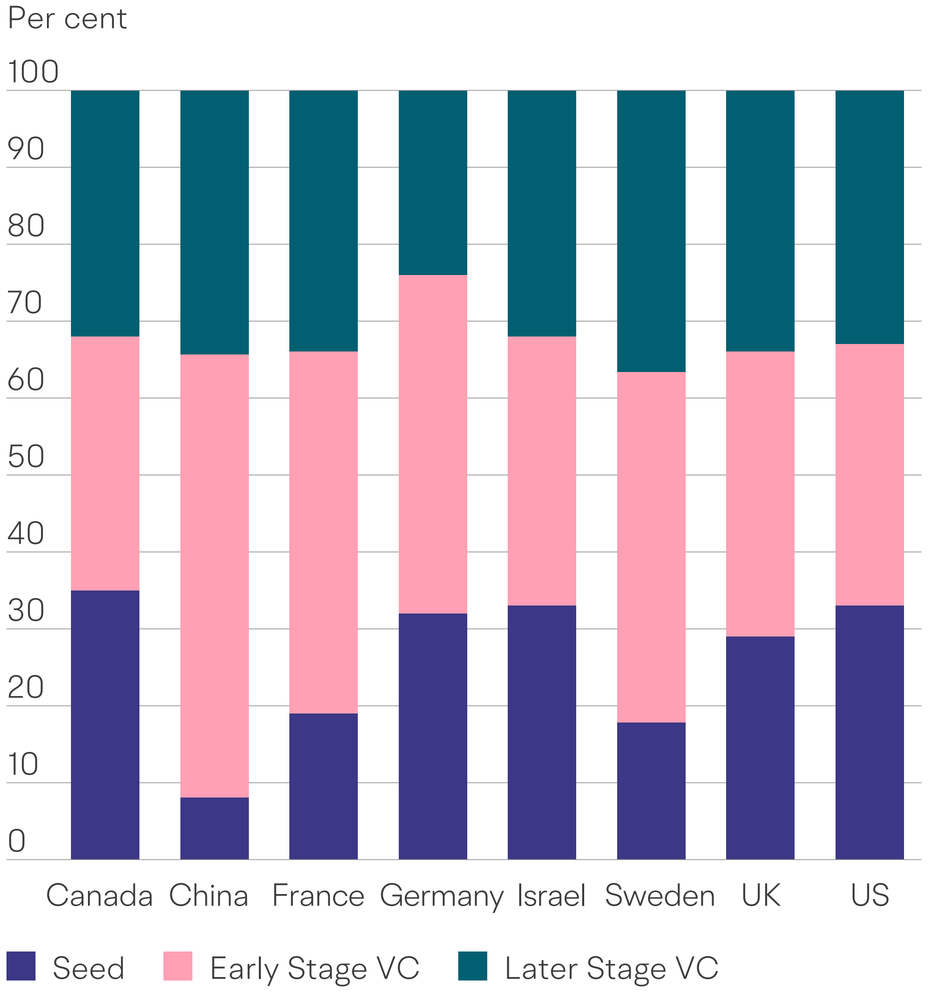
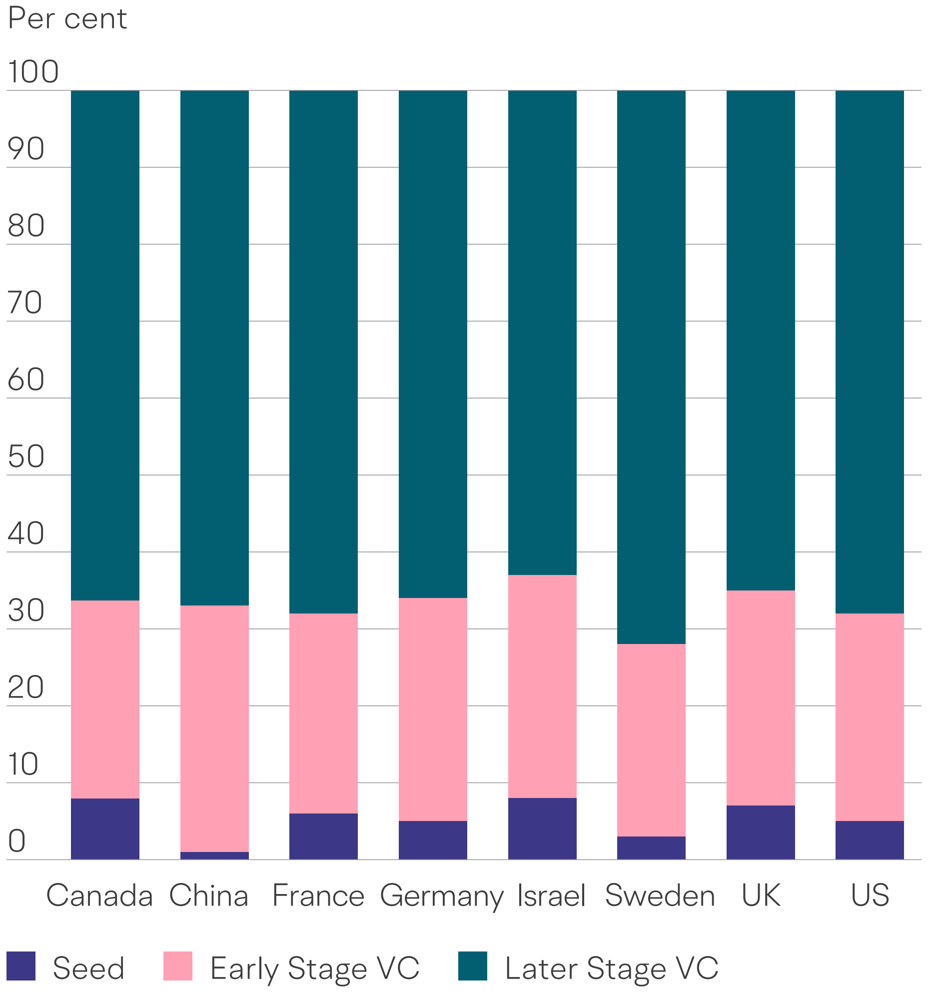


Figure 3.7

Proportion of VC investment by country by stage (2019-2021)

Source: British Business Bank user defined search of PitchBook. (Results may differ to PitchBook's own figures)



Differences in investment focus across national VC markets may lead to differences in the number of companies that scale up. The number of private companies reaching unicorn status can illustrate success in scaling companies to a substantial size, but it should be considered a welcome consequence of a well-functioning market, rather than a policy objective in its own regard. Once a rare occurrence, 2021 has led to a rapid increase globally in the number of VC-backed businesses achieving a $1bn valuation, driven by increased valuations and the large number of later stage businesses that have developed as a result of equity ecosystems maturing.

The US created 30 new unicorn businesses in 2016, but this has increased by 1,073% to 352 in 2021 (Figure 3.8), showing the impact higher valuations are having on the US VC market. 15 UK businesses achieved unicorn status in 2021, up from 2 in 2016. The increase is most noticeable in the rest of Europe which only created 1 unicorn business in 2016 but 53 in 2021. France created 10 unicorns in 2021, up from 2 in 2020, whilst Germany created 17 in 2021, up from 3 in 2020. Figure 3.8 is based on data from PitchBook only, which may differ slightly to the number of UK unicorn businesses presented in Table 2 of the report, which is constructed from a wider set of data.

Between 2015 to 2021, the UK has also created a higher number of unicorn businesses than France and Germany (39 compared to 15 and 31, respectively). However, in total Europe has created fewer unicorn companies than the US (177 compared to 724) over the same period. 2021 was an exceptional year globally in terms of company valuations and unicorn creation.

The UK has a lower proportion of deals and investment going to deep tech and R&D intensive companies than other countries

Equity Tracker 2021[50] identified deep tech has grown in importance in the last five years, but the UK lags behind other countries in terms of investment into this sector. Deep tech covers a broad range of different sectors including AI, clean tech and quantum computing, but the key focus is on the development of new ground-breaking technology. The section also looks at wider R&D-intensive sectors, which includes life sciences and healthtech, as these companies share similar funding characteristics to deep tech companies. This section builds on the analysis presented in last year's report by providing a more detailed breakdown by stage and country.

Figure 3.8

Number of new unicorn companies created over time by country

Source: British Business Bank user defined search of PitchBook. (Results may differ to PitchBook's own figures)

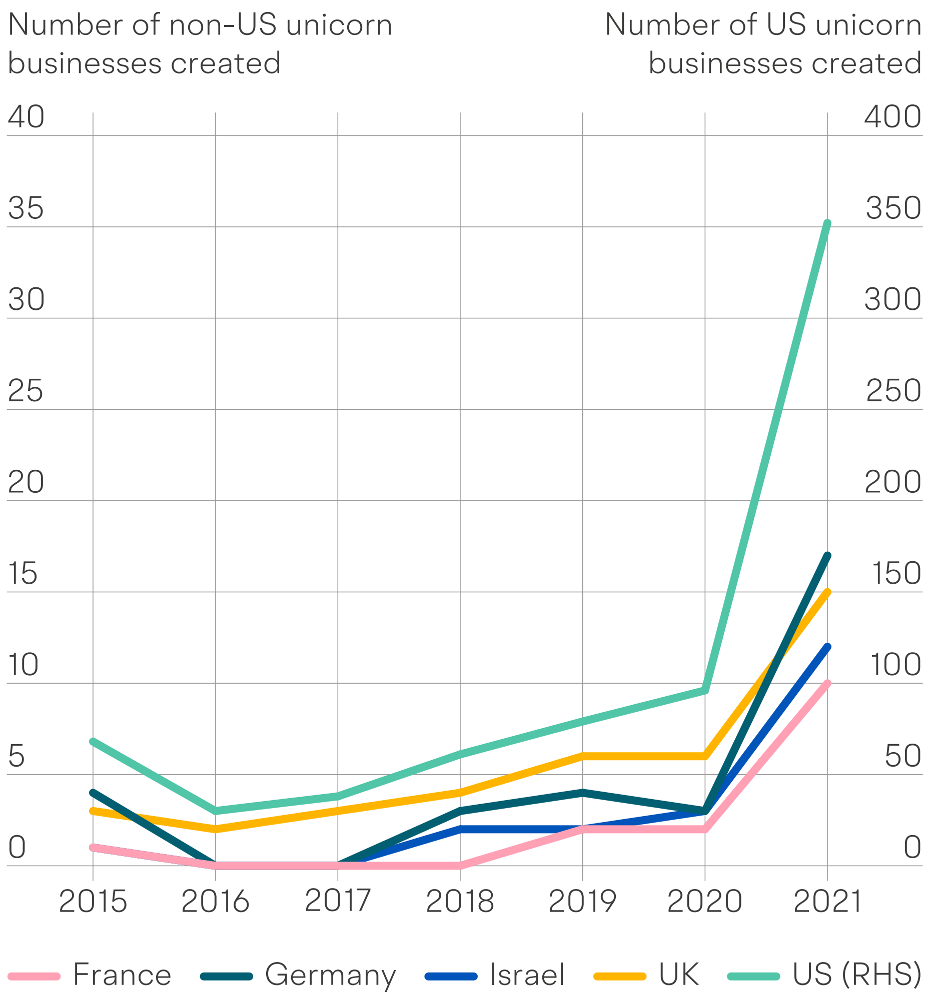


Figure 3.9 shows the proportion of UK VC deals going to the deep tech sector in 2019-2021 is similar to the US (22% compared to 21%), but most other countries have a higher proportion of deals going to this sector.
For instance, China, Germany and Israel have 36%, 25% and 35% of VC deals going to this sector.

For R&D intensive industries, which includes life sciences and other healthtech, the UK has a lower proportion of deals going to this sector than all other countries, with 35% of deals going to this sector. This compares to 37% in France and Sweden, 38% in Germany and 39% in US. However, 47% of deals in Israel and 50% in China are going to this sector.

A similar picture is seen by investment value where 19% of VC investment went to R&D intensive sector in the UK, which is identical to Germany, but much lower than France and the US at 24%. The R&D intensive sectors in Israel, China and Sweden receive a much higher proportion of funding at 31%, 35% and 41%, respectively.

There may be structural differences in the composition of economies that account for the different VC investment focus. For instance, it's not surprising that Germany has a greater relative focus on deep tech than the UK given Germany's industrial base. One reason for the UK having a lower proportion of funding going to deep tech and R&D intensive sectors is the UK's strengths in other sectors like fintech and software. Recognition of the UK's relative success in these sectors should not be diminished. A more detailed sectoral comparison with the US will be undertaken at the end of this section.

Figure 3.10 shows VC to GDP percentages across the selected countries for the deep tech and R&D intensive sectors. China, Israel, Sweden and the US all have relatively higher levels of VC funding going to deep tech and R&D intensive sectors than the UK. For instance, the US receives 1.6 times as much deep tech VC funding and 1.7 times as much R&D intensive funding as the UK. For Israel the figures are even larger at 3.6 times and 2.6 times as much funding as the UK, taking into account differences in the size of economy.

It is interesting to note that whilst China is behind the UK in terms of overall VC levels (0.50% compared 0.76% in 2019-21), it has a greater proportion of funding into R&D intensive sectors compared to the UK (investment equivalent of 0.28% of GDP compared 0.26% for the UK). Likewise, Sweden has a similar overall level of VC activity as the UK, but its VC market targets a greater share of funding to these sectors, so that it has 2.3 times as much VC funding going to deep tech and 1.6 times as much funding going to R&D intensive sectors than the UK.

Figure 3.9

Number of deep tech and R&D intensive sector VC deals as proportion of overall VC deals by country (2019-21)

Source: British Business Bank user defined search and calculations of PitchBook and World Bank data. (Results may differ to PitchBook's own figures)

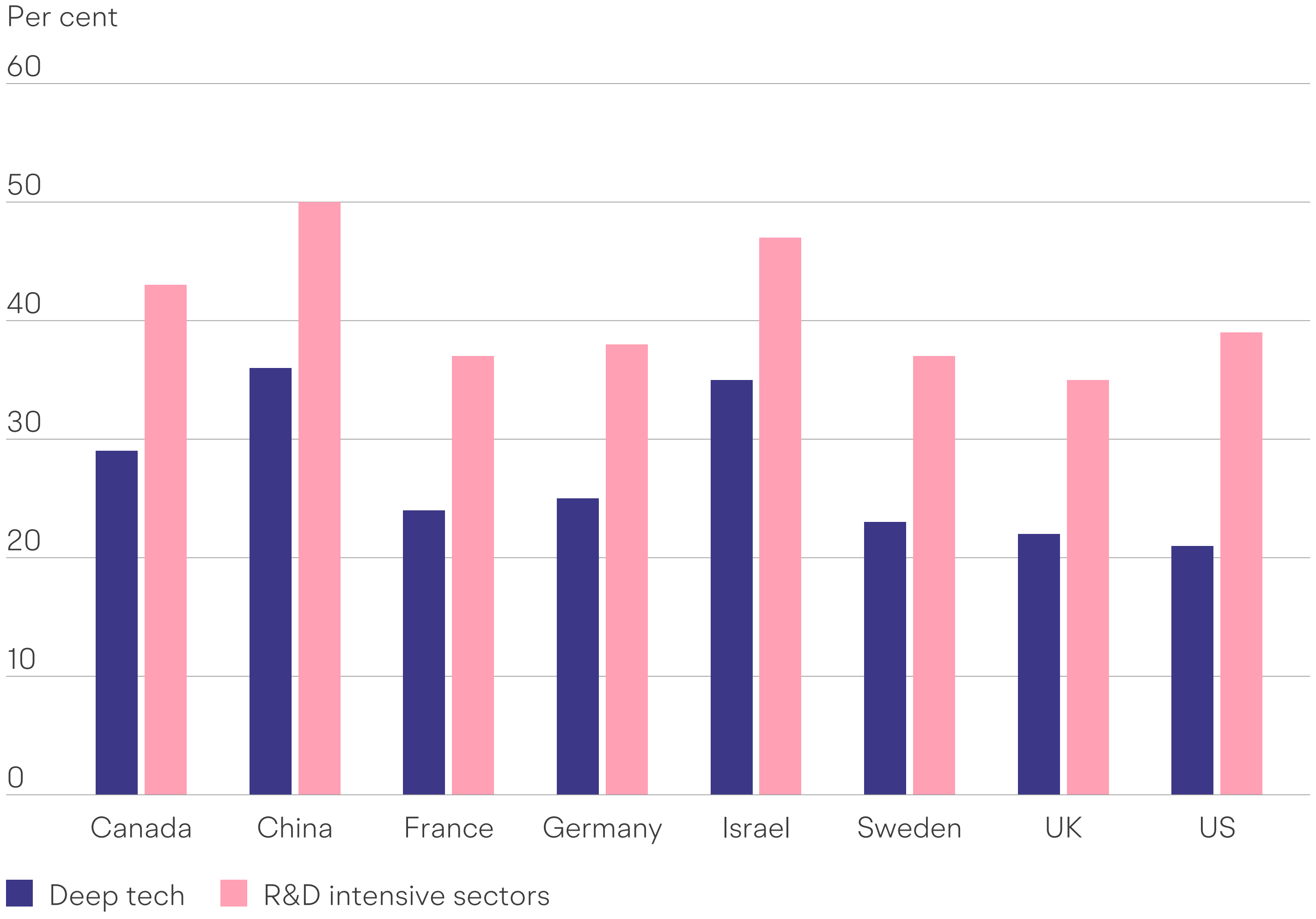
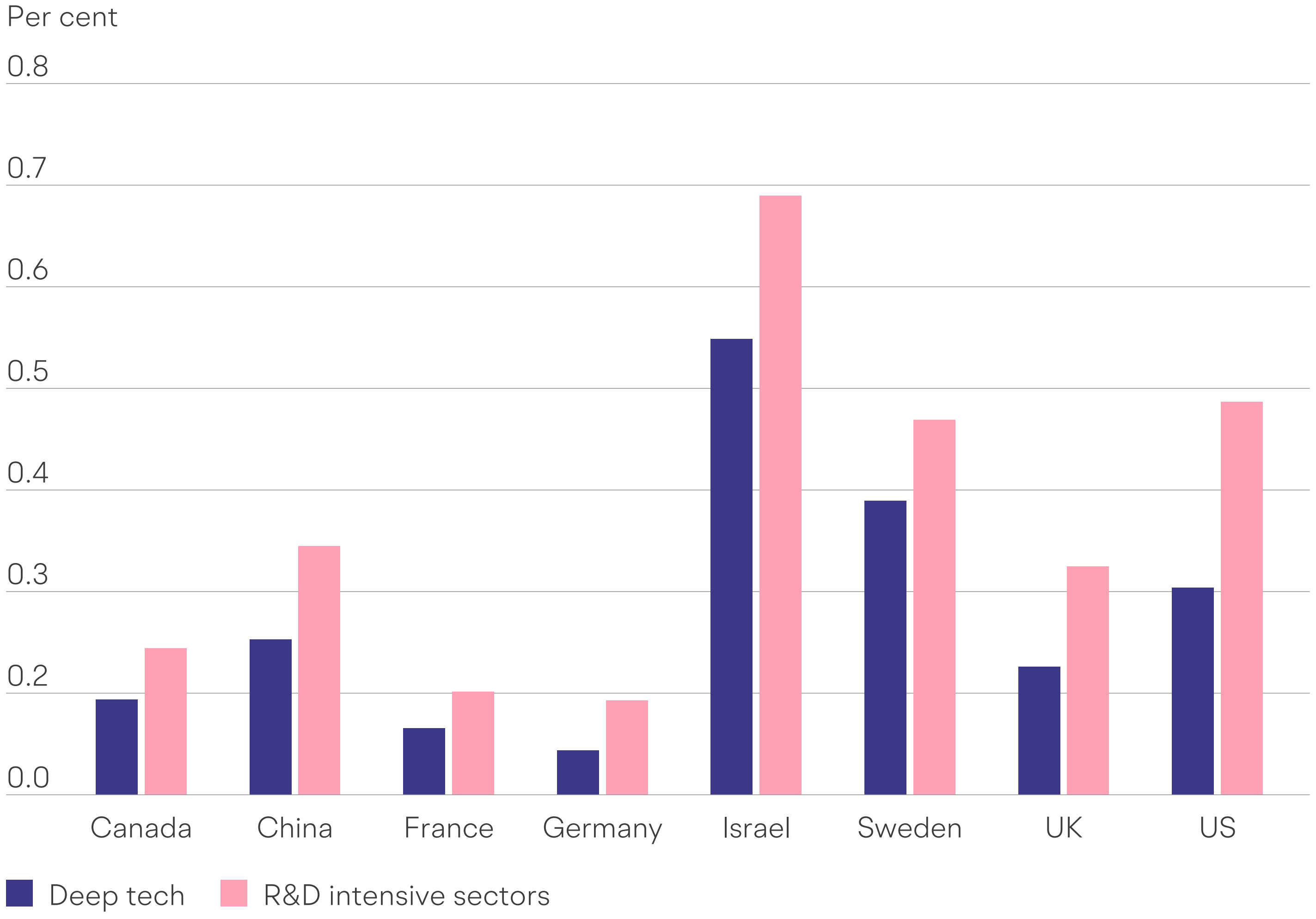


Figure 3.10

VC investment as a proportion of GDP for deep tech and R&D intensive sectors by country (2019-21)

Source: British Business Bank user defined search and calculations of PitchBook and World Bank data. (Results may differ to PitchBook's own figures)



The overall UK-US VC funding gap is largely caused by differences in funding going to deep tech and R&D intensive sectors

This analysis confirms it is still valid for the UK to compare its VC market against the US market as the US VC market remains the most developed in the world, and can be used as reference point for levels of VC activity. Whilst Israel has much higher levels of VC activity, its relatively small size, open economy, and investment centred around defence applications does not make it a suitable market that could be replicated in the UK. The UK VC market is most comparable to the Swedish VC market, as shown by similar investment trends over time. Other countries also compare their level of VC activity to the US including Germany[51], Canada[52] and Sweden.[53] Therefore, this next section will compare the UK VC market against the US VC market in more detail, by providing a VC to GDP percentage breakdown by stage and broad sector and a comparison of deal sizes by stage.

The relative level of VC activity in the UK has nearly tripled since 2015, with the VC investment to GDP percentage increasing in the UK by nearly 3 times from 0.27% in 2015-17 to 0.76% over 2019-2021 (Figure 3.11). Since GDP rose over the period, this means that the rate of increase of VC investment has been higher than the rate of increase in GDP. This analysis also shows that the UK has now surpassed the US position in 2015-2017 where VC investment was equivalent to 0.44% of GDP.

Despite increases in UK VC investment since 2015, US VC investment has also grown relative to US GDP and now forms 0.98% of US GDP in 2019-21.

The UK's lower level of VC investment compared to the US has increased in absolute terms over time. The UK's VC investment to GDP proportion was 0.17 percentage points lower than the US in 2015-2017, but was 0.22 percentage points lower in 2019-2021. However, the UK's relative position against the US has improved. US VC investment as a proportion of GDP was 1.6 times larger than the UK in 2015-2017, compared to 1.3 times larger in 2019-2021.

Figure 3.11

UK and US VC investment as a proportion of GDP over time by stage

Source: British Business Bank user defined search and calculations of PitchBook and World Bank data. (Results may differ to PitchBook's own figures).

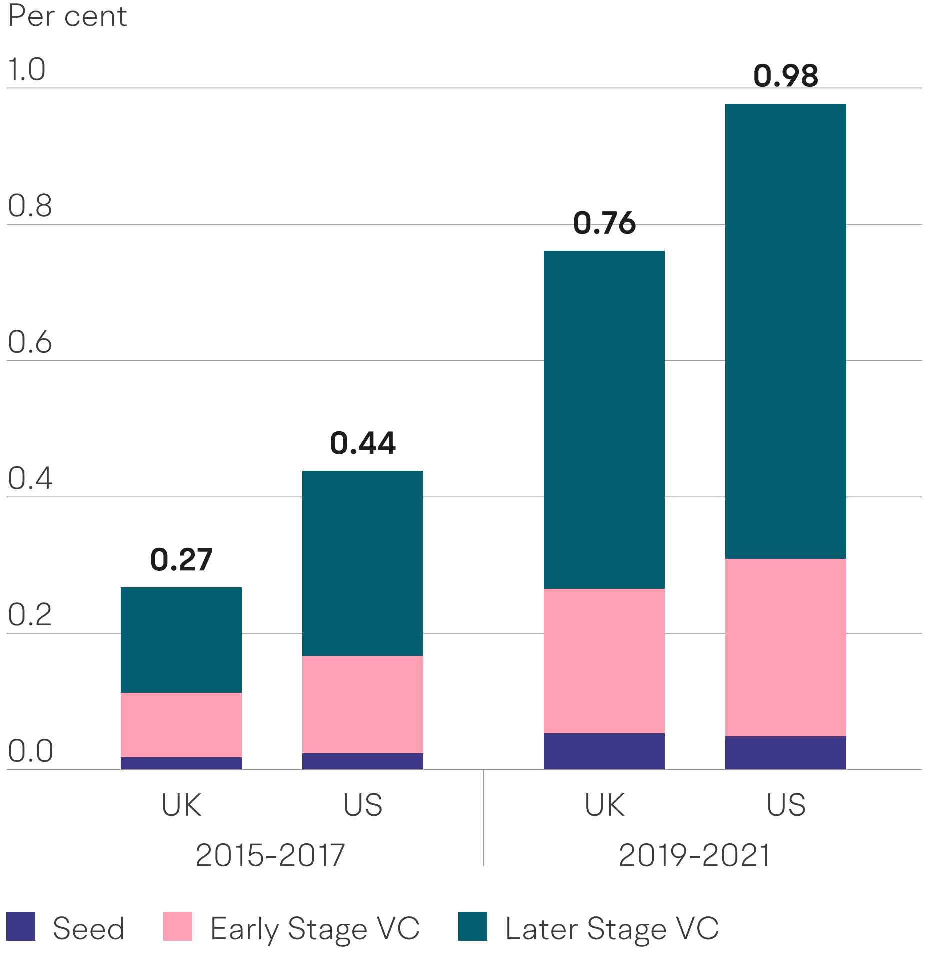


Figure 3.11 also shows the VC to GDP percentages broken down by stage. Between 2019 and 2021, the UK is receiving comparable amounts of seed funding relative to GDP to the US (0.05% compared to 0.05%). However, the US receives 1.2 times as much funding at the early VC stage (0.26% VC to GDP percentage compared to 0.21% for the UK) and 1.3 times as much later stage VC funding (0.67% VC to GDP percentage compared to 0.50% for the US). Therefore, lower amounts of later VC stages contribute to the overall UK funding gap with the US.

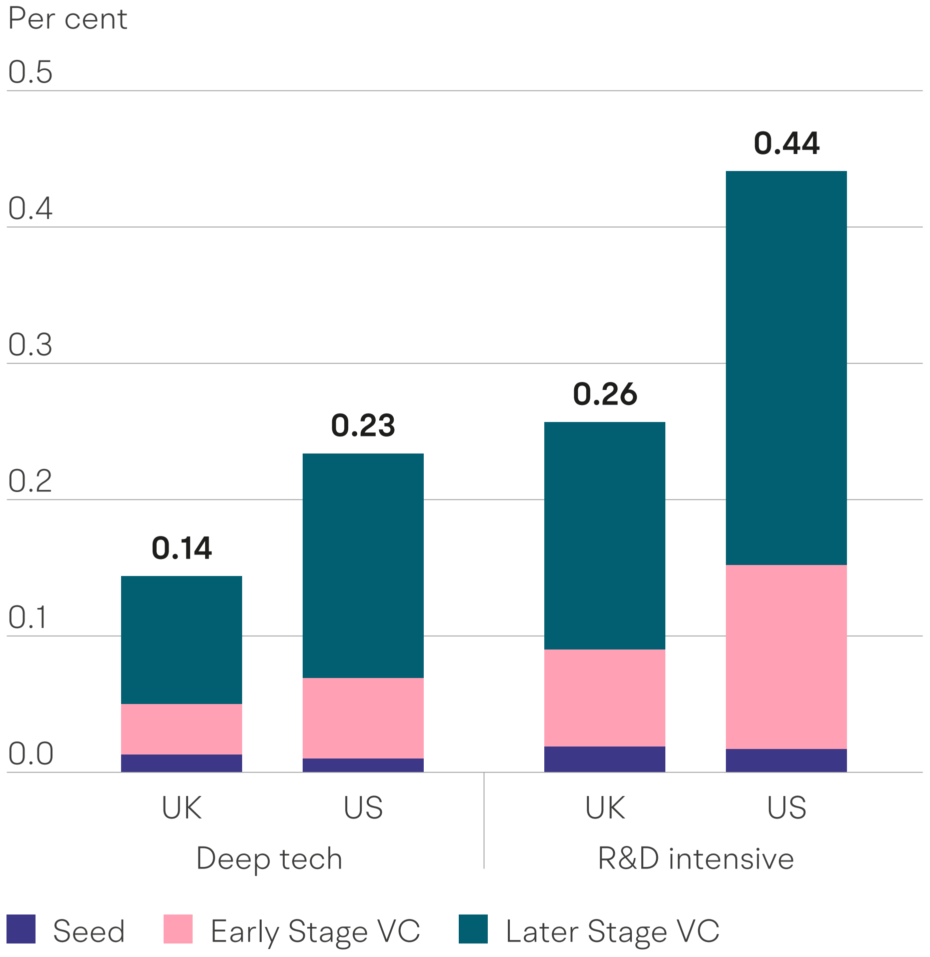
The relative differences with the US have reduced over time across all deal stages showing the UK market has made progress in catching up against the US. In 2015-2017, the US received 1.3 times as much seed funding, 1.5 times as much early-stage VC funding and 1.7 times as much later stage VC funding as the UK. The UK is now comparable to the US in terms of funding going to the seed stage.

Figure 3.12 shows a similar picture for deep tech and R&D intensive sectors where UK funding levels at the seed stage are similar to the US (with deep tech receiving funding equivalent to 0.01% of GDP and R&D intensive industries receiving funding equivalent to 0.02% of GDP), but differences begin emerging at the later VC stages. For instance, R&D intensive industries received later stage VC funding equivalent to 0.17% of GDP in the UK, but in the US these sectors receive funding equivalent to 0.29% of GDP. Therefore, the funding gap affecting deep tech and R&D is also a function of smaller deal sizes, particularly at later stages of the UK market.

Figure 3.12

UK and US VC investment as a proportion of GDP by stage for deep tech and R&D intensive sectors

Source: British Business Bank user defined search and calculations of PitchBook and World Bank data. (Results may differ to PitchBook's own figures).



As highlighted in section 1, deal sizes have increased over time, especially in 2021. Table 10 shows the average and median deal sizes for the R&D intensive and overall VC market by stage. US R&D intensive deal sizes were 2.3 times larger than deals in UK R&D intensive companies in 2021, driven by later stage VC (2.9 times larger in US). Early-stage VC deals were 2.2 times larger in the US compared to the UK, but seed stage deals were closer at only 1.1 times larger. When looking at the medians, the differences are even larger with US seed stage deals being 1.5 times larger, early-stage VC deals being 4.2 times larger and later stage VC deals being 2.7 time larger. A similar picture is seen for the overall VC market where the mean US deal size is 1.2 times larger at the seed stage, 2.2 times larger at the early VC stage and 2.2 time larger at the later VC stage.

Figure 3.13 shows UK investment as a proportion of GDP compared to the US for both deep tech and R&D intensive companies and other more generalist sectors.

This shows that in the UK VC investment equivalent to 0.26% of GDP flowed into R&D intensive industries in the UK versus 0.44% in the US over 2019-2021. Deep tech, a subset of R&D intensive, received VC investment of 0.14% of GDP compared to 0.23% in the US.

Table 10

Average and median average deal size by stage and sector (2021)

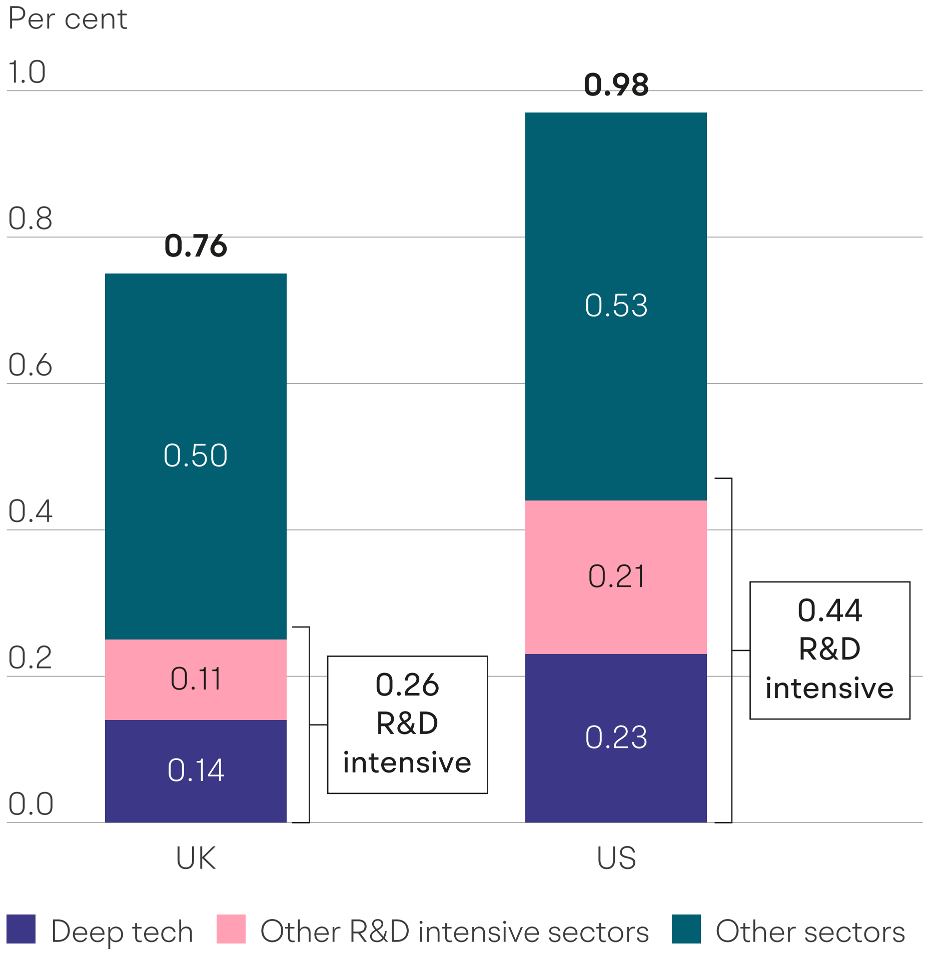
Source: British Business Bank user defined search of PitchBook. (Results may differ to PitchBook's own figures)

R&D Intensive sector	UK mean deal sizes	US mean deal sizes	UK median deal sizes	US median deal sizes
Seed	£2.5m	£2.8m	£1.2m	£1.9m
Early Stage VC	£7.2m	£20.9m	£1.9m	£7.9m
Later Stage VC	£16.8m	£36.4m	£3.7m	£9.9m
Overall VC market	**UK mean deal sizes**	**US mean deal sizes**	**UK median deal sizes**	**US median deal sizes**
Seed	£2.2m	£2.7m	£1.1m	£1.9m
Early Stage VC	£7.4m	£16.3m	£1.7m	£7.1m
Later Stage VC	£22.1m	£38.9m	£3.6m	£11.1m

Figure 3.13

UK and US VC investment as a proportion of GDP by broad sector

Source: British Business Bank user defined search and calculations of PitchBook and World Bank data. (Results may differ to PitchBook's own figures).



Other sectors mainly comprising of software and fintech sectors are also slightly underweight in the UK compared to the US using this GDP-weighted measure, but the difference is smaller at 0.50% of GDP for the UK compared to 0.53% in the US across 2019-2021. This means the lower amounts of funding going to R&D intensive industries in the UK contribute the majority of the overall UK VC funding gap with the US. This therefore provides the imperative for increasing funding to these sectors in order to close the overall funding gap, but also to benefit from the wider economic, social and health benefits deep tech investment contributes.

Table 11 provides a further breakdown of VC to GDP percentages by selected sectors. These sectors were identified using PitchBook verticals and sector classifications. Companies can be in more than one vertical and so it is not possible to aggregate the rows together. Software receives VC funding equivalent to 0.45% of UK GDP compared to 0.50% in the US, showing the UK has similar levels of VC activity as the US in this sector. The UK performs strongly in fintech across all investment stages, showing the UK has a comparative advantage in this sector. The UK is ahead of the US in terms of the amount of VC funding going to the sector, as illustrated by fintech forming a greater proportion of GDP (0.24% compared to 0.14% in the US) over the 2019 to 2021 period.

The UK receives around half the level of VC funding going to the clean tech sector than the US (VC investment equivalent to 0.03% of GDP compared to 0.06% in the US), which is similar to the climate tech vertical. Climate tech is a subset of the wider clean tech sector, specifically targeted at companies developing or commercialising technologies that are explicitly focussed on reducing greenhouse gas emissions or addressing the impacts of global warming.

Table 11

UK and US VC investment as a proportion of GDP for selected sectors (2019-2021)

Source: British Business Bank user defined search and calculations of PitchBook and World Bank data. (Results may differ to PitchBook's own figures).

Sector	UK	US
Deep tech	0.14%	0.23%
R&D intensive	0.26%	0.44%
Software	0.45%	0.50%
Fintech	0.24%	0.14%
Clean tech	0.03%	0.06%
Climate tech	0.02%	0.04%
Artificial Intelligence	0.10%	0.17%
Life sciences	0.09%	0.15%
Overall	**0.76%**	**0.98%**

Section 4

The contribution of overseas investors into the UK VC ecosystem

- Overseas investors have an increasing role in the UK equity ecosystem with 2021 seeing a record proportion of deals in the market
- US investors were involved in the highest number of deals followed by European investors
- Most overseas investors involved in the UK are VCs, but non-traditional and 'crossover' investors made substantial contributions in 2021
- Overseas investors have traditionally concentrated on funding later stage companies where they are able to write large cheques
- Overseas investors have now started setting up offices in the UK, and as a result are beginning to make investments at earlier stages
- Companies that have received investment from an overseas investor were more likely to have exited abroad, either through acquisitions or by listing on an overseas exchange
- Overseas investors not only contribute funding at the deal level but also contribute the majority of LP commitments into UK VC funds
- The European Investment Fund has been scaling back its commitments to UK VC funds, though remains active in the UK

Overseas investors have an increasing role in the UK equity ecosystem with 2021 seeing a record proportion of deals in the market

Beauhurst includes data on the names of the investors involved in the deal and their country location. Using this information, we are able to identify if an individual deal involved an investor located overseas. Deals involving overseas investors may also involve domestic investors. It is not always possible for Beauhurst to identify all the investors in a deal if they are not publicly announced, so this analysis is undertaken on a best-efforts basis.

Figure 4.1 shows the number of deals involving an overseas investor has been consistently increasing year on year, increasing from 98 in 2011 to 753 in 2021. This is a 58% increase on the 478 deals in 2020. Deals involving domestic investors only also increased in 2021, but at a lower rate than deals involving overseas investors. This has led the proportion of deals involving overseas investors to increase to 29% in 2021, the highest proportion on record.

Deals are often made up of multiple investors and so it is not possible to identify how much capital each individual investor contributed to the deal. It is therefore not possible to identify exactly how much capital has come from overseas sources, but the amount raised in deals involving overseas investors can be used as a proxy. As with deal numbers, the amount raised from deals involving overseas investor has increased every year since 2011. £13.5 bn was invested in deals involving overseas investors in 2021, a 118% increase on 2020.

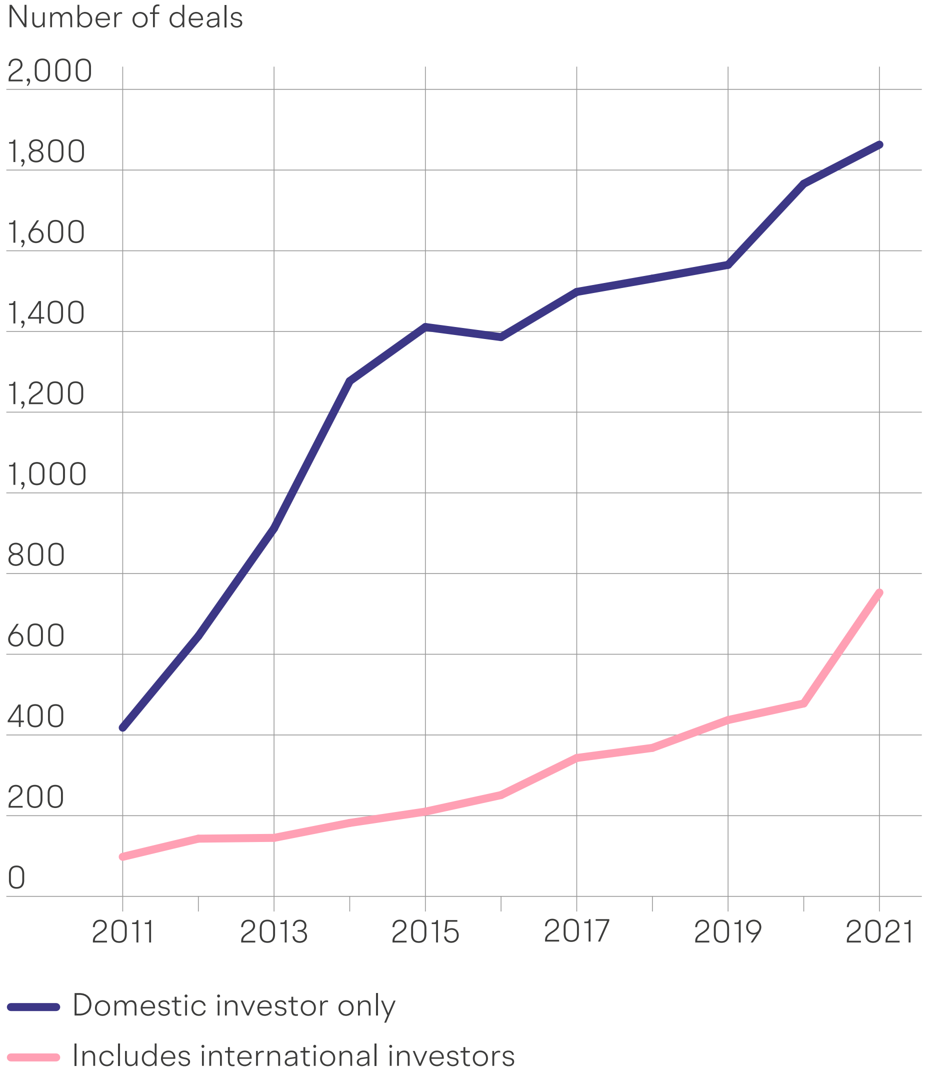
Since 2017, more than 50% of the annual investment value has come from deals involving overseas investors, with this proportion reaching a record 75% in 2021. Investment from deals involving domestic investors only has also increased since 2017 but at a much slower rate, 58% compared to 243%. The investment value of deals involving domestic investors only also reached a record high in 2021 with £4.6bn of investment.

This suggests that although the domestic equity investor base has strengthened in recent years, the increased participation from overseas investors has played a large role in the large growth seen in equity investment in the UK over the last few years.

Figure 4.1

Number of equity deals by investor location over time

Source: British Business Bank analysis of Beauhurst data



US investors were involved in the highest number of deals followed by European investors

Table 12 lists the top 20 countries for overseas investors investing in UK equity-backed companies, ranked by the average yearly number of deals investors from that country were involved in between 2019 and 2021. One deal can involve investors from multiple countries, as equity deals are often syndicated between multiple investors. Investors from the United States are involved in the most deals by far with an average 303 deals per year, nearly 4 times higher than the annual number of deals from investors from Germany (76 deals), who are ranked second.

Table 12

Country location of overseas investors by average number of deals involved in

Source: British Business Bank analysis of Beauhurst data

Country of overseas investor origin	Average yearly number of deals involved in (2019-2021)	Rank
United States	303	1
Germany	76	2
France	44	3
Netherlands	32	4
Singapore	28	5
Japan	26	6
Switzerland	24	7
China	23	8
Canada	18	=9
Hong Kong	18	=9

Country of overseas investor origin	Average yearly number of deals involved in (2019-2021)	Rank
Sweden	17	11
Ireland	15	=12
Austria	15	=12
Australia	14	14
Luxembourg	13	15
Spain	12	16
United Arab Emirates	11	17
Denmark	10	18
Italy	9	19
Norway	8	20

This is as we would expect, as the US has the most developed VC market in the world. Higher domestic valuations in the US market have made expanding into overseas markets an attractive option for some US investors as it increases the investment opportunities they have access to. VC-backed companies in the UK had lower average valuations (both mean and median) across all three investment stages in 2021 compared to US companies, combined with sterling weakening against the dollar in 2021. This means US investors were able to obtain equity stakes in high growth potential companies at a lower price than their domestic market.

After the US, European investors were involved in the highest number of deals due to their geographic proximity to the UK, shared cultural values and similar financial and economic systems. As two of the most developed ecosystems, and largest economies in Europe, investors from France and Germany were involved in a substantial number of UK company deals.

There are a small number of deals involving investors from Russia and China over this period (23 and 4). Due to geopolitical sensitivities, it is possible these deals are less likely to be publicly announced than other deals, underestimating the involvement of these countries in the UK equity finance market.

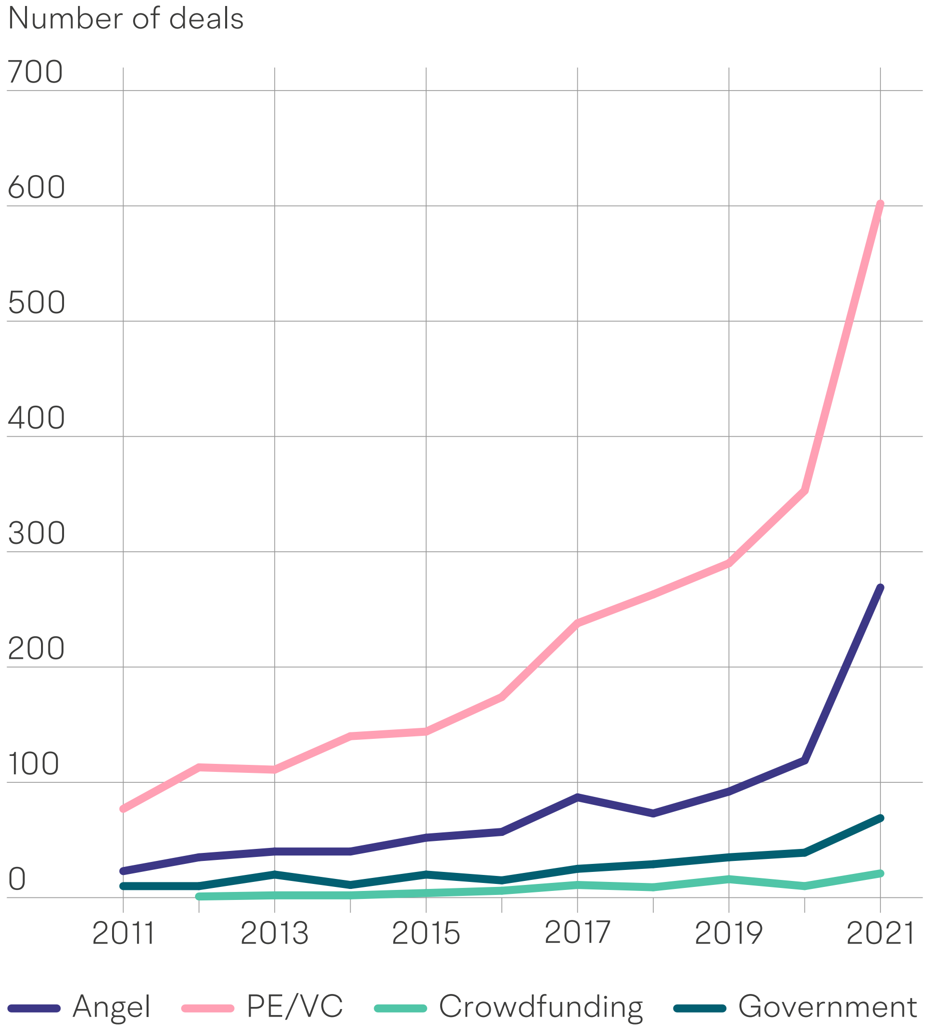
Most overseas investors involved in the UK are VCs, but non-traditional and 'crossover investors' made substantial contributions in 2021

Private Equity (PE) and Venture Capital (VC) investors are by far and away the most frequent investor type in overseas deals as shown by Figure 4.2. Of the 753 deals that involved an overseas investor in 2021, 602 (82%) of all deals involved PE/VC investors. Nearly 50% of all deals (1,322) that involved a PE/VC investor also involved an overseas investor in 2021. As deals can involve multiple types of investors, it is possible that a deal could involve a domestic PE/VC investor and an overseas investor of another type. In practice, for most of these deals the overseas investor will be PE/VC.

Figure 4.2

Number of deals involving overseas investors over time by investor type

Source: British Business Bank analysis of Beauhurst data



This contrasts slightly with the overall market. Figure 4.3 breaks down the number of deals for the overall market by investor type. Whilst PE/VC are still the most active investor type with involvement in 1,322 deals in 2021, other investor types have a significant role in the UK market. In 2021, the next most active investor type by number of deals was angel investors, either individual business angels or through angel networks, involved in 754 deals in 2021. Angel investors play an important role at the very earliest stages of the ecosystem, providing capital and support to founders. Many deals involving angel investors are unannounced, meaning that the true scale of the angel activity in the UK is not fully captured in this analysis.

Crowdfunding platforms were the next most active investor with involvement in 582 deals, followed by government investors with 334. Government investors were the only investor type to decrease their activity in the equity ecosystem in 2021. This is a result of the Future Fund closing for new applications in January 2021. The Future Fund provided co-investment to businesses affected by the COVID-19 pandemic.

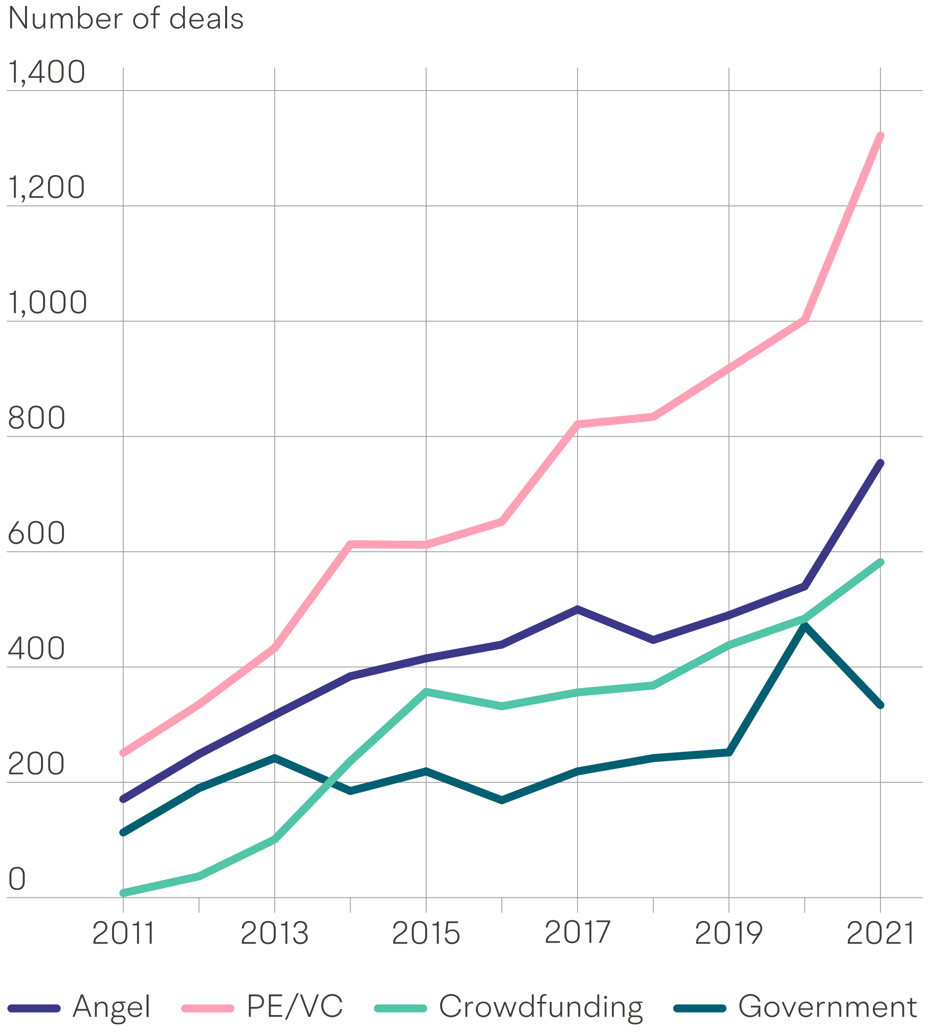
Notably lower proportions of deals by these investor types involve overseas investors compared to PE/VC investors. 36% of deals involving angel investors, 21% of deals involving government investors and 4% of deals involving crowdfunding platforms had involvement from an overseas investor. In these cases, it is likely that they co-invested alongside an overseas investor rather than being the source of overseas capital themselves. For example, angel investors leverage their network to identify and fund companies at their earliest stages. As these companies grow, more institutionalised investors such as PE/VC funds will become involved in subsequent funding rounds, but angels can still participate in these later rounds.

In previous Equity Tracker reports, analysis has been undertaken on the investor types mentioned above which have formed the majority of equity deals in the market. However, non-traditional investors such as mutual funds, hedge funds, corporate venture arms, etc. have become increasingly active in venture markets globally, drawn by the potential for higher returns. Many of these non-traditional investors are based overseas.

Figure 4.3

Number of deals by investor type over time (Overall market)

Source: British Business Bank analysis of Beauhurst data



In 2021, a subset of non-traditional investors known as 'crossover' investors gained much attention as they participated in later stage, pre-IPO rounds. PitchBook describe crossover investors and their strategy as "typically buy-side public equity asset managers that also invest in privately backed companies. By incorporating private companies into their investment strategy, crossover investors can invest earlier in the company life cycle, thereby acquiring larger equity stakes in promising start-ups with the hope of seeking venture-level returns."[54]

PitchBook has identified the top 25 crossover investors by deal count since 2015.[55] In order get a sense of the role that crossover investors played in the UK equity market, the Bank has used this list to identify deals that involved these crossover investors to analyse their impact on the market in 2021.

British Business Bank analysis of PitchBook data shows there were 55 equity deals that involved these crossover investors in 2021, substantially higher than 32 deals in 2020.[56] Whilst these remain a minority of the activity by deal numbers, what is noticeable is the size of these rounds.

The 55 equity deals totalled £5.6bn in size, a substantial proportion (21%) of the £27bn invested in 2021.[57] of UK VC investment that PitchBook identified in 2021. The average size of these deals was £113m, substantially larger than the average later stage VC deal of £22m. The median size of deals involving these crossover investors was £47m.

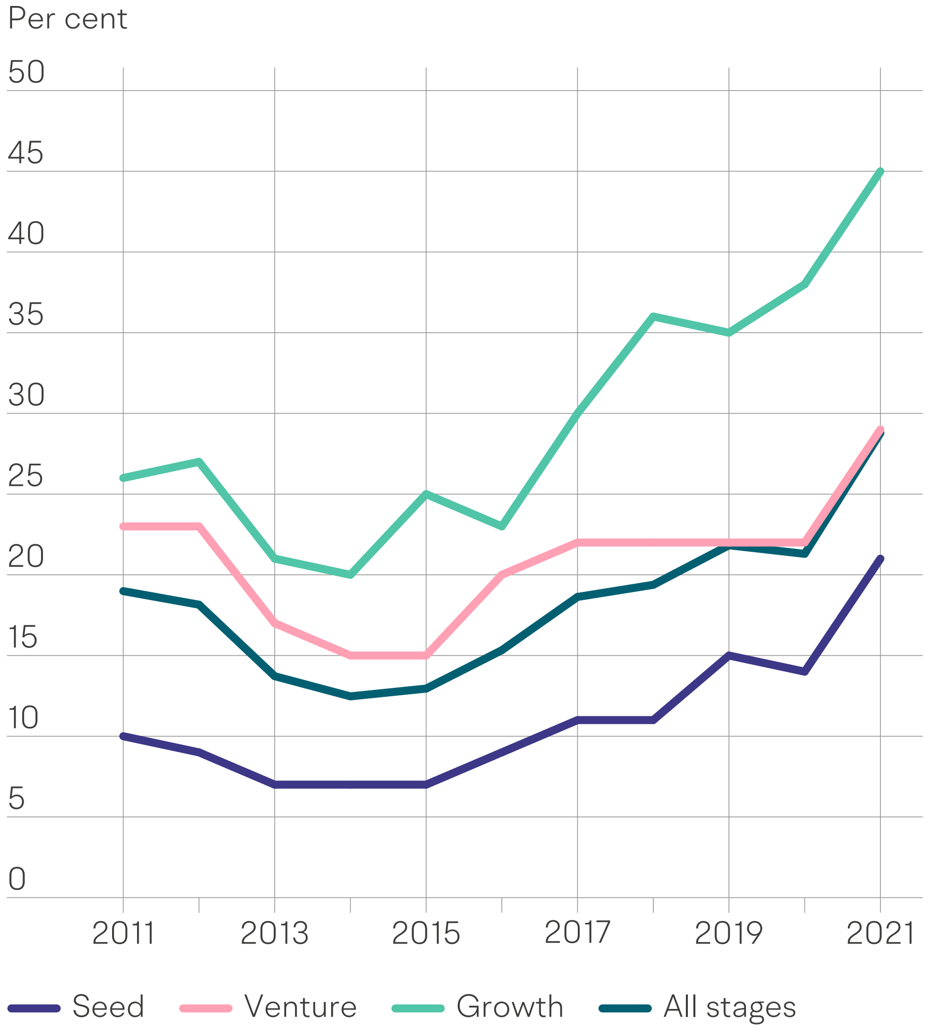
Overseas investors have traditionally concentrated on funding later stage companies where they are able to write large cheques

Figure 4.4 shows that overseas investors in general are more active in funding later stage companies. This has been true across the entire 2011 to 2021 period, but the proportion of growth stage deals involving an overseas investor has been increasing more greatly in recent years. In 2021, overseas investors were involved in 45% of growth stage deals, 29% of venture stage deals and 21% of seed stage deals.

Figure 4.4

Proportion of deals involving overseas investors over time by stage

Source: British Business Bank analysis of Beauhurst data



There are a number of reasons why overseas investors are likely to focus their deal activity on the later investment stages:

- Investors making equity deals in other countries are likely to be larger than investors that only make deals in their domestic market. Therefore, they are likely to focus on deploying larger amounts of capital, which naturally favours making investments at the later stages. Section 1 showed deal sizes get substantially larger as companies progress through the funding pipeline.
- There is also a smaller pool of companies to invest in at the later stage as the funding funnel narrows. Therefore, later stage investors often widen their investment focus to include companies based overseas to ensure they are investing in companies with the highest potential. Often these companies have the potential to compete in international markets.
- Early stage companies having comparatively higher level of risk. Investing in later stage companies means investors are selecting from a smaller population of companies that have already been filtered by domestic investors, with lower levels of risk.
- Another factor is the increased difficulty in sourcing early-stage deals which may require greater knowledge and access to local networks.

This ability and preference for overseas investors to write larger cheques is shown by Figure 4.5. Across all three stages, the average deal size is substantially larger for a deal involving overseas investors rather than just domestic investors.

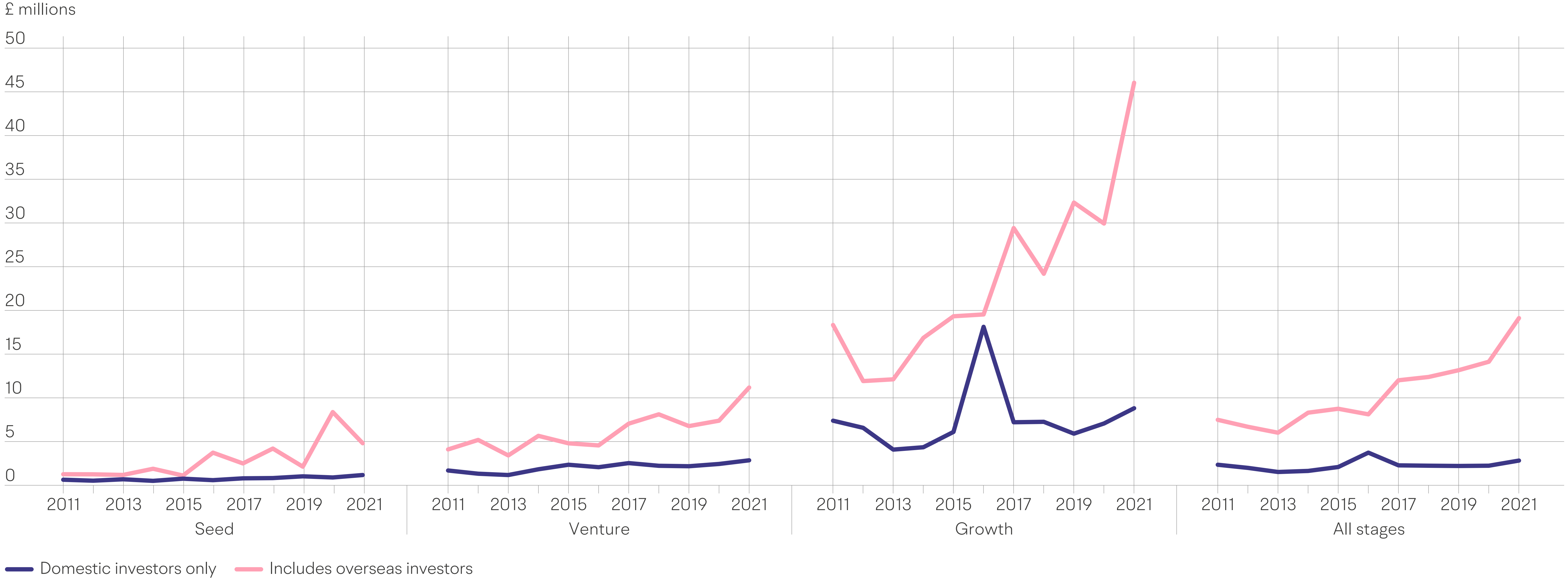
In 2021, the overall average deal size for a deal involving overseas investors was 7.1 times larger than a deal involving domestic investors alone. For the seed stage, this multiple was 4.6 times larger, at the venture stage this was 4.1 times larger and for the growth stage it was 5.3 times larger. This gap in average deal size has been present across the 2011 to 2021 period. This shows overseas investors are able to contribute additional capital to UK companies.

As described in Section 1, megadeals have increasingly become a feature of the UK ecosystem with a record number recorded in 2021. Of the 67 that have occurred since 2011, 57 (85%) involved overseas investors. Of the 32 that took place in 2021, 30 (94%) involved overseas investors. The ability of overseas investors to write larger cheques, including funding megadeals, is a positive development for the UK ecosystem. Better capitalised companies are more likely to achieve their growth ambitions, resulting in potentially higher returns for investors. This will encourage more capital into the ecosystem, a process referred to as the VC ‘flywheel effect’.[58]

Figure 4.5

Average deal size over time by investor location

Source: British Business Bank analysis of Beauhurst data



Overseas investors have started setting up offices in the UK, and as a result are beginning to make investments at earlier stages

Several prominent US investors have been 'putting boots on the ground' and setting up offices in the UK and Europe to improve their access to European companies. Examples of investors opening offices in the UK include Lightspeed Ventures, General Catalyst and Sequoia.

There has also been a general trend where venture capitalists have become increasingly involved at the earlier stages as competition for deals has driven up valuations in later stage companies. This makes the higher risk of early stage investing look more palatable when balanced against the potential for higher returns from investing early in a successful company. Indeed, many of the firms mentioned above have made explicit their desire to be able to access high potential companies at the earliest stage possible.[59]

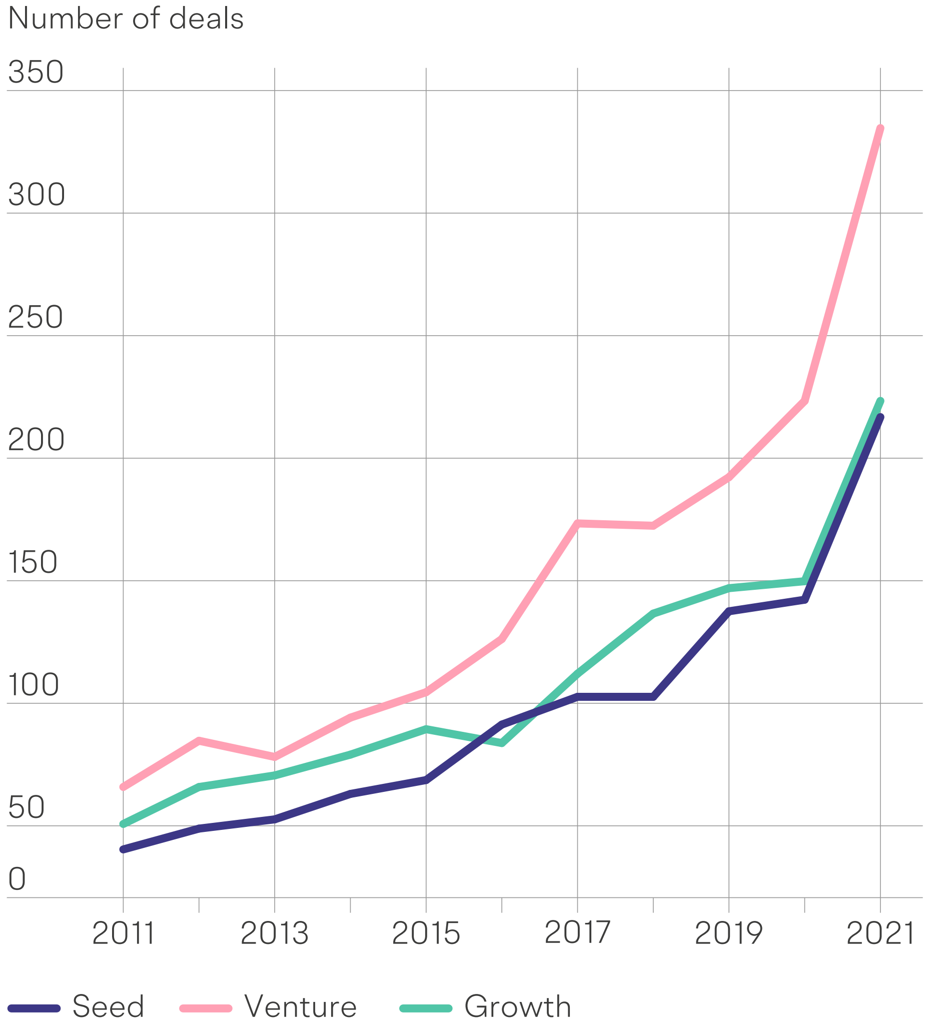
As a result, overseas investors have begun increasing their activity in earlier stages as shown by Figure 4.6. There were 207 deals in seed stage companies that involved overseas investors, up 62% on the 2020 figure of 128. In comparison, only 20 seed stage deals in 2011 involved overseas investors, showing the scale of the increase over the past decade.

Similarly, overseas investors were involved in a record number of initial deals in 2021 with 290, up from 190 in 2020. Unlike at the seed stage where activity has been steadily increasing, this is a relatively new phenomenon with the number of initial deals that involved overseas investors being relatively flat between 2011 and 2016. It has since increased year on year to 290 in 2021.

Figure 4.6

Number of deals involving overseas investors over time by stage

Source: British Business Bank analysis of Beauhurst data



Companies that have received investment from an overseas investor were more likely to have exited abroad, either through acquisitions or by listing on an overseas exchange

Figure 4.7 shows the proportion of equity-backed company trade sales that were acquired by an overseas company between 2016 and 2021 was 47%. The proportion has stayed relatively steady over the period. Figure 4.8 shows that between 2016 and 2021, 28% of companies that listed did so on an overseas exchange. However, there is significant variation over the period as a result of the relatively small number of IPOs. Across the 2011 to 2021 period there were only 133 IPOs in total. In 2019 83% of companies listed overseas whilst none did so in 2016.

The Bank has analysed the potential impact of receiving investment from an overseas investor and found that companies that have received overseas investment have been more likely to have been acquired by an overseas company. This is based only on those companies where it was possible to identify the location of the acquiring company. Figures have been aggregated across 2011-2021, in order to increase the coverage and improve the robustness of the analysis.

Figure 4.7

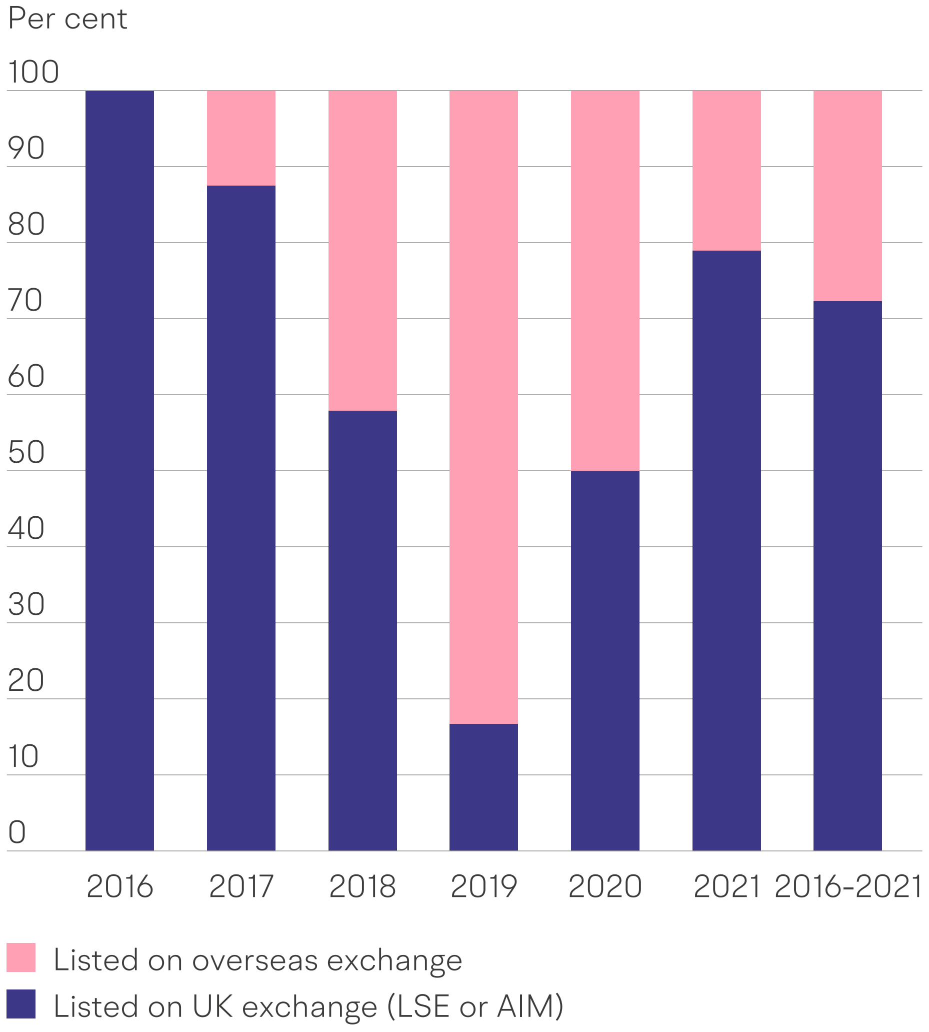
Proportion of UK equity-backed company trade sales over time by acquiring company's location

Source: British Business Bank analysis of Beauhurst data

Figure 4.8

Proportion of UK equity-backed company IPOs over time by public market location

Source: British Business Bank analysis of Beauhurst data



Between 2011 and 2021, 46% of acquired companies were acquired by an overseas company. Whether the company had received overseas investment at some point before exiting appeared to have an impact on their likelihood to be acquired by an overseas company. 64% of companies that had received overseas funding were acquired by an overseas company. This compared to 42% of companies that received funding from only domestic investors.

A similar picture emerges when analysing IPO location. Between 2012 and 2021, 26% of UK companies that listed did so on an overseas exchange. This proportion increases to 44% if they had received any overseas investment. Only 15% of companies that had only received investment from domestic investors listed on an overseas exchange.

If IPOs and acquisitions are combined, then 44% of all exited companies exited overseas. This increases to 61%, for companies that previously received overseas investment at the equity funding stage. In comparison, only 40% of exits were overseas for companies that received funding from domestic investors only. Whilst this analysis does not prove causality, it does suggest that companies funded by overseas investors are more likely to exit overseas.

Overseas investors not only contribute funding at the deal level but also contribute the majority of the LP commitments into UK VC funds

This section uses data from PitchBook to provides an overview of the types of Limited Partners (LPs) investing into UK VC funds, and then compares it against investors in US and rest of Europe VC funds between 2017 and end of 2021. This section also looks at the contribution overseas based LPs make to the UK VC market. PitchBook's coverage of LP commitments is lower than PitchBook's coverage of VC deals, and so there should be some caution around robustness of the findings. However, a comparison to other data sources like Invest Europe[60] and BVCA[61] also suggests a similar European and UK picture in terms of composition of LPs investing into VC providing reassurance on the findings.

The UK has the largest VC market in Europe, with more than double the number of deals and annual VC investment per annum than any other European country.[62] This is also reflected in the UK's LP base, where UK LPs committed more capital to a larger number of VC funds between 2017 and 2021 than any other country in Europe. The British Business Bank makes a strong contribution to the UK VC market, as PitchBook data shows the Bank is the largest LP investor into UK-based VC funds, and the second largest investor in terms of overall commitments to European VC funds behind the European Investment Fund (EIF).

Figure 4.9 compares the number of commitments made by LPs in the UK, rest of Europe and US based on the type of investor involved.[63] Country relates to the location of the VC funds, and not the location of the LPs. The data clearly shows the importance of pension funds and other institutional investors to US VC markets, where 34% of commitments by LPs during the period were undertaken by pension funds, and a further 9% by endowments. Equivalent figures for the UK are 8% and 2% respectively. For UK-based LPs, High-Net-Worth-Individuals (HNWI) made more commitments to VC funds than any other LP type, followed by government agencies and corporations. This updates previous British Business Bank LP analysis presented in the Patient Capital Review and 2019 Equity Tracker report.

Figure 4.10 shows a similar breakdown, but in terms of the total value of capital committed by LPs to VC funds in each geography over the same period, and the disparity is even more stark.[64]

Pension funds represented 72% of all capital committed to US VC funds, compared to 10% in the rest of Europe and 10% in the UK.[65] VC funds in the UK and rest of Europe are much more reliant on public funding, with funding from the EIF and other public sources (including the British Business Bank) representing 47% and 45% of capital raised by VC funds located in the rest of Europe and UK respectively.

Pension fund participation in the UK VC market does not appear to be improving over time, and in fact the UK appears to be converging with the rest of Europe on this metric. In 2017, 35% of UK VC funds involved at least one pension fund, compared to 16% in the rest of Europe. By 2021, this had dropped to 6%, compared to 8% in the rest of Europe.

Figure 4.9

LP composition by VC fund location, number of commitments made by LPs between 2017–2021

Source: British Business Bank user defined search of PitchBook and reclassification of LPs. (Data has not been reviewed by PitchBook analysts and may differ to PitchBook's own figures)

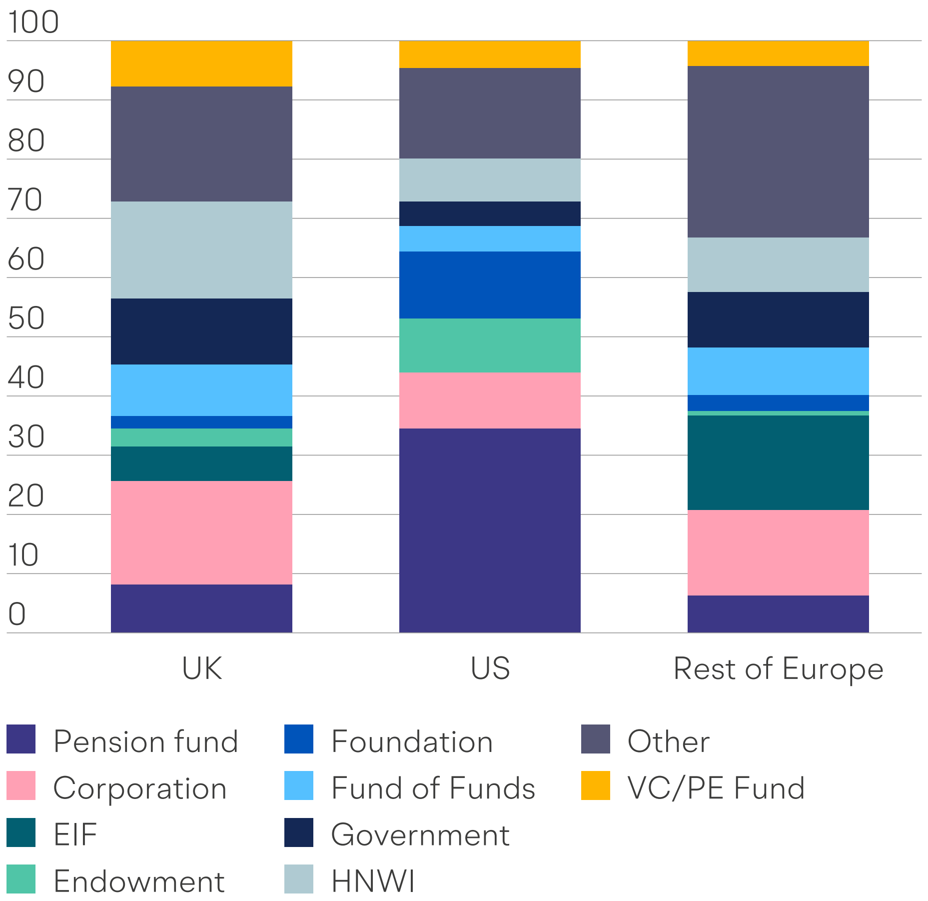
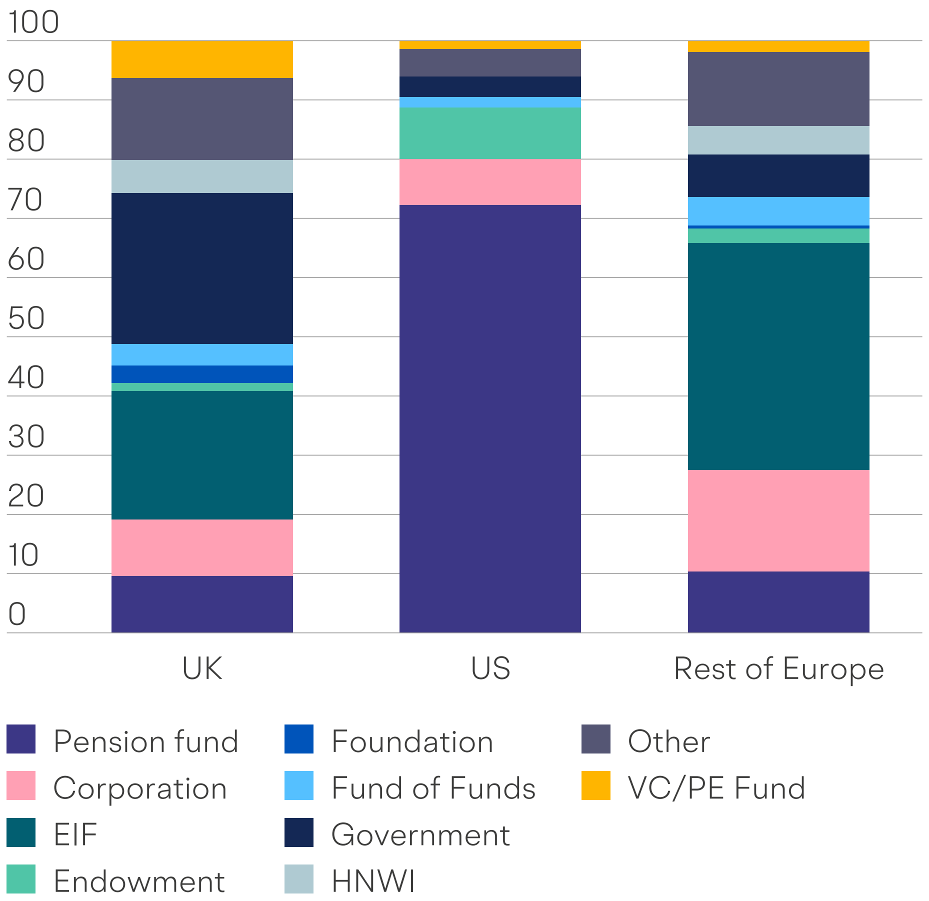


Figure 4.10

LP composition by VC fund location, value of commitments made by LPs between 2017–2021

Source: British Business Bank user defined search of PitchBook and reclassification of LPs. (Data has not been reviewed by PitchBook analysts and may differ to PitchBook's own figures)



The low prevalence of pension funds investing in European VC is also confirmed by Invest Europe data which shows pension funds contributed around 6% of total VC capital raised in 2021, behind government agencies, family offices and private individuals and corporate investors.[66] Similarly, BVCA data[67] shows pension funds contributed 12% of capital to funds raised in 2020, behind fund of funds (20%), private individuals (15%) and government agencies (13%).

A lack of institutional investors and reliance on HNWIs and government agencies for investment may be holding back the UK VC market. There is a lack of private sector LPs willing or able to write big cheques and cornerstone UK VC funds, which is important for UK VC fundraising. UK LPs commit lower amounts per fund on average than their US LP counterparts and the UK has a long tail of small commitment amounts. 40% of commitments by UK LPs are less than £1m in size compared to 13% of commitments made by LPs in the rest of Europe. This is likely to reflect the prevalence of HNWIs providing capital to UK VC funds who are not able to make large cheque sizes compared to institutional investors. The UK market also lacks the recurrent LP investors found in the US, and even to some extent in the rest of Europe, which will hold back successful fund managers from raising larger follow-on funds in the future.

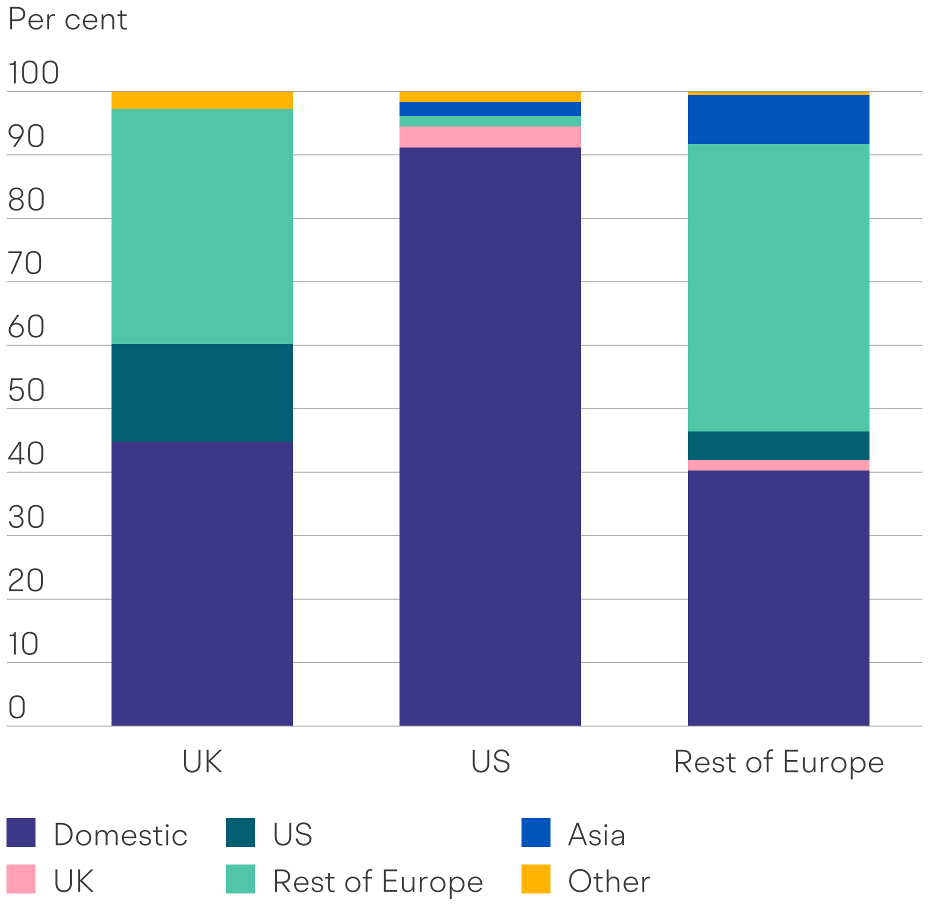
This lack of an active institutional LP base in the UK means that UK-based VC funds are more heavily reliant on overseas capital than their counterparts in the US and even in the rest of Europe. 43% of LP stakes in UK headquartered VC funds by number came from UK LPs, compared to equivalent figures of 85% and 55% for domestic LP investors for the US and rest of Europe respectively.

Figure 4.11 presents this breakdown by committed capital and shows a similar picture. Whilst it is positive that UK fund managers are able to attract capital from overseas, especially from US LPs, relying on overseas investors can make it more difficult for new VC fund managers to become established due to limited access to local networks. In addition, the supply of capital to UK LPs could be less resilient to macroeconomic factors like exchange rate movements.

Figure 4.11

LP composition by VC fund location, value of commitments made by domestic and overseas LPs between 2017–2021

Source: British Business Bank user defined search of PitchBook and reclassification of LPs. (Data has not been reviewed by PitchBook analysts and may differ to PitchBook's own figures)



56% of LP commitments by value into UK VC funds raised between 2017 and 2021 came from overseas investors. If the government contributed around 25% of the capital to UK VC funds over the same time period, this suggests the remaining 19% of capital came from UK investors including pension funds, HNWI and corporate investors, which is a relatively low proportion.[68]

The UK remains the largest part of the European VC market, but the lack of participation of domestic institutional investors in the market could be holding the UK back, driving the continued disparity between the UK and US in terms of VC investment. It is not an easy problem to solve, and there are multiple interlinking factors and obstacles to overcome in unlocking greater UK institutional capital.

The European Investment Fund has been scaling back its commitments to UK VC funds, though remains active in the UK

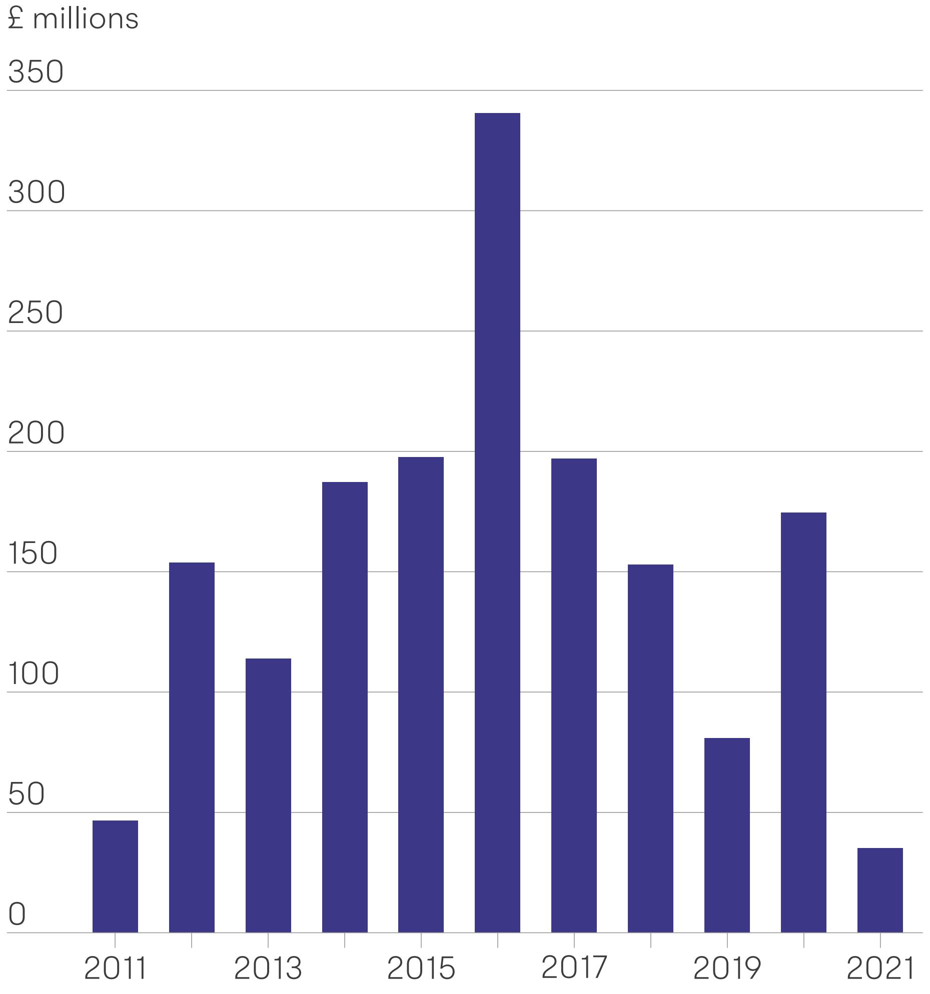
As outlined above, the EIF plays an important role as an LP in both the UK and the rest of Europe. Prior to the referendum for leaving the EU, the EIF was a major contributor to UK VC markets with average annual VC fund commitments of £242m between 2014 to 2016. Whilst the EIF is still an important investor in UK VC funds, the amount committed has declined by 60% to £97m per year between 2019 to 2021. This decline obscures strong yearly variation, as shown in Figure 4.12. Whilst 2020 was more positive with the EIF committing £175m to 7 UK VC funds (and one co-investment deal), this declined to £35m in 4 VC funds in 2021.

The UK is the largest VC market in Europe, and so EIF investment in PE and VC does reflect this. Nearly 13% of the EIF's PE portfolio is located in the UK, the largest single country, ahead of France (11.7%), the US (9.3%) and Germany (7.8%).[69] However, EIF is reducing its exposure to the UK over time, as the comparable figure in 2019 was 17.9%.[70]

Figure 4.12

Annual EIF commitments into UK-based VC funds over time

Source: British Business Bank analysis of EIF annual accounts 2011-2021



Appendix

Overview of Beauhurst announced deal data

- In this report equity investment includes any form of announced external equity finance, excluding transactions on public equity markets and buyouts.
- The definition captures the activity of business angels, equity crowdfunding platforms, venture capital funds, corporate venture and private equity funds.

The investment reported in the Equity Tracker are all publicly announced equity deals, which includes deals that are announced via government regulatory organisations, confirmed with the investee or investor or via a press release or news source. Whilst equity deals involving family and friends are not formally excluded, these deals are largely not publicly announced and so are not included in these numbers.

Beauhurst also identifies unannounced deals using share allotment filings. When a company allocates its shares, an SH01 form is submitted to Companies House, but details of who the new shareholders are is not included in the SH01 form. Whilst it is desirable to include as many deals as possible in the analysis, less information is available on these unannounced deals. In many cases it is difficult to identify the type of investor and in some cases, these deals will include investment from friends and family. This report therefore focuses on announced equity deals only.

The Beauhurst data for the Equity Tracker report has an SME filter applied to it, which removes large companies. This is based on the EC definition of an SME. This covers businesses with less than 250 employees and either a turnover of less than €50m or balance sheet total of less than €43m.

Only a small proportion of equity deals are announced, showing UK equity finance is much larger than practice than the announced deal and investment figures contained in this report. For instance, in 2021 there were 2,616 announced equity deals and 4,153 unannounced equity deals giving a total estimated market size of 6,769 equity deals. By number, announced deals made up a minority of all equity deals in 2021 (39%). There is some variation in the proportion of deals that are announced by region and devolved nation. Over half of the deals in in Northern Ireland (57%), Scotland (58%) and North East (58%) were announced in 2021, whilst the proportion in other parts of the country were lower such as in the South East, South West, West Midlands and London where the proportions were 31%, 34%, 35% and 37% respectively. This may be a result of differences in the types of investor active in each region and their relative likelihoods to publicly disclose deals.

By investment value the picture is reversed with announced equity deals contributing 84% of the total value invested (£18.1bn) in 2021. This further provides support for focusing on announced deals only, as many of the unannounced deals are very small.

There are likely to be differences in the willingness of investors to make their deals publicly known. For instance, angel and private investors are less likely to formally announce their investments than PE/VC investors. The larger the equity deal, the more likely it is to be announced. Equity crowdfunding is a slightly different case, by its nature of opening the opportunity to invest to the public, nearly all the deals made will be publicly announced. This year's report builds on the previous 2021 Equity Tracker Report, as there have been continued refinements to the underlying dataset to ensure that this year's report is the most accurate assessment of the UK SME equity market. The figures in this latest report supersede those previously quoted due to the inclusion of new equity deals since the previous reports were undertaken. Comparisons between figures in the year's Equity Tracker and last year's report are not recommended due to revisions in the number of historical deals. For more information on the methodology Beauhurst used to collect this equity data, please see previous Equity Tracker reports or Beauhurst's own website.

It is important to acknowledge that other data sources exist which also cover equity deals, including the British Private Equity and Venture Capital Association (BVCA), which measures the investment activities of its members, which are mainly comprised of Private Equity and Venture Capital funds. There are also other commercial data providers which gather data through a combination of technology (e.g. web-scrapers), analyst research and self-disclosure by fund managers. These data sources will therefore have coverage of different types of investors and are not always consistent with one another. No single data source captures all equity deals in the market.

Whilst the Beauhurst announced deal dataset has good coverage of equity deals involving institutional investors, business angels are less likely to seek publicity on completed investments and are therefore less likely to be captured in the investment numbers. The UK Business Angel Association (UKBAA), which covers 18,000 investors investing through 60 groups, confirms that no robust statistics exist on the annual number of equity deals undertaken by angel investors in the UK.

Beauhurst classifies equity deals into four stages; seed, venture, growth and established. These stages reflect product development, commercialisation, sales, and profitability levels in the recipient company. As in previous reports, we combine the growth and established stages for simplicity, which we refer to as the 'growth' stage. Beauhurst use a wide range of criteria for classifying companies between stages but the following definitions give a guide to the types of companies included in each stage:

– **Seed stage** encompasses young companies with a small team, low valuation and have received relatively low levels of funding relative to the sector. They have uncertain product-market fit or just getting started with the process of getting regulatory approval. Funding is likely to come from grant-awarding bodies, equity crowdfunding and business angels but may include early-stage VCs.

– **Venture stage** covers companies that have been in existence for a few years and are in the process of gaining market traction with sales growing rapidly. The venture stage does not solely correspond to funding by venture capitalists, as other investor types also provide funding to venture stage companies.

– **Growth stage** businesses are more developed with multiple offices or branches and substantial revenue streams (some of which may be profitable). The growth stage includes later stage VC-backed companies seeking to grow their core market, expand into new markets or create new products/services.

Beauhurst includes deals that are only partly funded by equity. Venture debt, loans or grants issued to private companies are only included if they have come alongside equity finance in the funding round. Therefore, total reported investment may include some debt finance.

Beauhurst only includes deals involving the creation of new shares (injection of new capital into the company) and excludes buyout, merger and acquisition deals involving a change in ownership.

Acknowledgements

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We would like to thank Beauhurst and PitchBook for their support and use of their data in this report.

Endnotes

1. See appendix for definitions of each stage.
2. https://www.britishpatientcapital.co.uk/future-fund-breakthrough/
3. https://www.british-business-bank.co.uk/press-release/autumn-budget-and-spending-review-2021/
4. Bank of England (2022) 'Monetary Policy Report May 2022' https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2022/may/monetary-policy-report-may-2022.pdf
5. British Business Bank user defined search of PitchBook (17/05/2022). These results have not been checked by PitchBook Analysts. PitchBook's own figures in Q1 2022 PitchBook NVCA Venture Monitor Report show a 17% decline in Q1 2022 compared to average quarterly figures in 2021. The difference lies in timing between when the analysis was undertaken at the PitchBook report was undertaken as of 31st March 2022.
6. PitchBook (2022) 'European Venture Report Q1 2022' https://pitchbook.com/news/reports/q1-2022-european-venture-report
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8. https://www.cbinsights.com/research/report/what-is-a-spac/
9. https://home.kpmg/xx/en/home/media/press-releases/2022/01/global-venture-capital-annual-investment-shatters-records-following-another-healthy-quarter.html
10. PitchBook (2022) 'PitchBook-NVCA Venture Monitor Q2 2021' https://pitchbook.com/news/reports/q4-2021-pitchbook-nvca-venture-monitor
11. Data as of 17th May 2022. The value of the NASDAQ is currently trading 23% higher than the level seen in February 2020 before it fell in March 2020 as a result of the economic disruption caused COVID-19 pandemic. Current valuations must be considered in terms of their long-term historical trends.
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13. PitchBook (2022) 'European Venture Report Q1 2022' https://pitchbook.com/news/reports/q1-2022-european-venture-report
14. https://techcrunch.com/2022/05/31/spacs-hit-a-wall/?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAALFiNLemR3wnWz3CuCIuYifqxpRETsjS01LzOh4GIn9yGWOg-z5PkTgDywLfgHzdsp0qDGFnYB2eUynHnKDFIpaQRw60bCDpjR2pLfZKAe-BRNeZ5S6x8_nsIz-8E36o03jTtE3xcQuUMfVJ-T37zYSt0cEo4hj4QTSNfnn-JkadIWP
15. Beauhurst provide a more detailed definition which includes a wider range of factors. For instance, seed stage companies are young companies with a small team, low valuation and have received relatively low levels of funding relative to the sector. They have uncertain product-market fit or just getting started with the process of getting regulatory approval. Funding is likely to come from grant-awarding bodies, equity crowdfunding and business angels.
16. Inigo provides insurance and reinsurance services and received £601m of equity investment from a consortium of global VC investors in 2020. Beauhurst classified Inigo as a seed stage company in 2021 as the company was first incorporated in July 2020 and only began underwriting in January 2021. This investment was also Inigo's first equity round providing confirmation that the company meet's Beauhurst criteria as a seed stage company at the time of the deal.
17. Around 50% of seed stage deals in 2021 were companies raising funding for the first-time, with an equal proportion of seed stage deals were follow on deals. The proportion of first-time deals drops to 11% at the venture stage, but increases to 24% at the growth stage, reflecting more established companies looking for growth capital.
18. https://startupsusa.org/global-startup-cities/
19. The Bank has combined individual Local Authority District (LAD) areas into clusters based on geographic proximity and administration, e.g., combined authorities. For instance, Manchester is made up of 10 Local Authority Districts.
20. Throughout this report, deal number and investment value calculated across industry sectors is based on weighted counts. This reflects the weighting Beauhurst attaches to the sectors an investee company covers. For example, a company in the internet platform and theatre sectors will be counted as half a deal in each of these two sectors, rather than being counted twice under each sector. This approach ensures the aggregation of individual sectors equals the total number of deals and investment overall.
21. Beahurst have gender founder information on 94% of companies.
22. Beauhurst data on announced deals to all female founding teams in 2011 represented 17 deals only so comparisons are made from 2012 onwards.
23. Limited Partners are predominantly institutional investors that invest in private equity and venture capital funds. British Business Bank funds delivered by private sector fund managers including private sector sources of capital are not included in Beauhurst's definition of Government funds.
24. These regional programmes also provide debt finance, but this is excluded from the analysis.
25. British Business Bank user defined search of PitchBook platform. Results may differ to PitchBook's own published figures.
26. British Business Bank (2021) 'Small Business Equity Tracker 2021' https://www.british-business-bank.co.uk/wp-content/uploads/2021/06/Equity-Tracker-2021-Final-report-1.pdf
27. These figures are based on weighted counts consistent with figures presented elsewhere in the report and previous Equity Tracker reports.
28. Beauhurst identifies companies that have spun out from universities based on the following criteria. If a company meets condition 1 and at least one other condition, then the company is classified as being an academic spinout:

    1. The company was set up to exploit intellectual property developed by a recognised UK university. (This is broadly in line with the Higher Education Statistics Agency's (HESA) definition of a spinout)

    2. The university owns IP that it has licensed to the company

    3. The University owns shares in the company or it has the right (via an option or warrants contract) to purchase shares in the company at a later date.
29. https://www.meif.co.uk/funds-available/proof-of-concept/
30. These market share figures are calculated on the region or LEP area only, relating to the region or LEP area Beauhurst allocated the company to. There are incidences of NPIF, MEIF and CIoSIF backed companies with their headquarters outside the regions or LEPs. This can be where companies are pending relocation or where significant investment activity takes place within the respective areas while the company is headquartered outside of them.

31. Beauhurst define a key person as someone with a c-suite or department head level role.
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47. Uses PitchBook platform definition of Europe which includes Russia.
48. Atomico (2021) 'State of European Tech 21' https://2021.stateofeuropeantech.com/
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64. Not all LPs disclose their commitment amount and so values are based on a lower number of LPs.
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British Business Bank plc
Steel City House
West Street
Sheffield S1 2GQ

t. 0114 206 2131
e. info@british-business-bank.co.uk

british-business-bank.co.uk

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