

SMALL BUSINESS EQUITY INVESTMENT TRACKER

2016

Beauhurst 

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EXECUTIVE SUMMARY

This report highlights the continued growth of equity investment in UK smaller businesses, which is of vital importance in supporting companies with the potential to scale up. It follows British Business Bank's first Equity Tracker Report published in 2015 in examining equity investments in UK smaller businesses.

A strong equity finance market is essential for ambitious smaller businesses looking to grow. Equity investment at the right time can fuel rapid growth, and is often used during the most risky periods of a business' development when companies are starting, expanding, diversifying or entering new markets.

Encouragingly, this report finds that the UK equity finance market continued to improve in 2015, with both deal numbers and investment amounts increasing year-on-year since 2011. The report identifies a number of clusters of equity investment in cities around the UK.

The overarching picture is very positive, however this analysis also highlights a couple of areas of concern; notably that the market shows some signs of softening in the final quarter of 2015 and that there is great regional disparity with a concentration of equity investments in London and the South East. The continued importance of the British Business Bank's objectives in addressing these issues and unlocking finance for smaller businesses remains clear.

We will continue to:

- Increase the supply of equity finance available to smaller businesses in areas where the market does not work well
- Create a more diverse finance market for smaller businesses including in the provision of equity finance
- Help ensure better provision of information in the market connecting smaller businesses and finance providers

The British Business Bank continues to maintain and expand our equity interventions, with the £100m Angel Co-Fund and the Enterprise Capital Funds programme, which has an investment capacity of over £600m, both working to address structural issues in equity markets. We have also supported the establishment of funds through our VC Catalyst Fund, which has so far committed £71m to eight venture capital funds. In addition, the British Business Bank will launch the newly announced £400m Northern Powerhouse Investment Fund and £250m Midlands Engine Investment Fund in 2016, which will help to deliver more equity finance to those regions.

Our understanding of the equity finance markets for smaller businesses presented in this report will be used by the British Business Bank to help refine our equity programmes and to further support ambitious smaller businesses looking to grow.

DEAL NUMBERS CONTINUE TO GROW, BUT THE MARKET SHOWS SIGNS OF SLOWING

The flow of equity finance to smaller businesses grew in 2015 as finance markets continued to improve. Notably, overall annual deal numbers and investment amounts have been increasing since 2011 and now stand at 1,270 equity deals in 2015 with an investment value of £3.5bn. Given the private nature of equity deals, no one data source is able to capture all deals, but the Beauhurst data used in this report covers the widest range of investors from crowd funders to Private Equity funds.

Deal numbers in 2015 are 5% higher than 2014, and the amount of funding is considerably higher, increasing by 58% compared to the previous year. The rate at which annual deal numbers have been growing has slowed slightly, while the rate for investment amounts has increased due to larger deal sizes in 2015. There has been a 71% increase in the number of equity deals above £10m in size compared to 2014, with the ten largest investments forming 25% of the total equity market.

The overall positive picture presented by the 2015 annual figures is tempered by a slowdown in the final quarter of 2015 offsetting the strong performance seen in Q3 2015. The number of investments in Q4 2015 was 16% lower compared with the number in Q1 2015. Despite this, quarterly investment totals in 2015 remain well above the final quarter figure for 2014.

There is evidence to suggest that UK equity markets are beginning to slow as other Beauhurst data shows the decline in deal numbers continuing in the first quarter of 2016. It will be important to assess to what extent this trend continues and the impact this has on the funding needs of growing businesses.

SEED, VENTURE, AND GROWTH STAGE INVESTMENTS HAVE ALL INCREASED. ANNUAL INVESTMENT AMOUNTS SHOWED THE MOST SIGNIFICANT GROWTH, WITH THE VENTURE-STAGE GROWING AT THE FASTEST RATE

For the purposes of this report Beauhurst have split their analysis of UK equity investment into three stages: seed-stage, venture-stage and growth-stage, all of which have seen increases in 2015. Venture stage investments have seen the most significant increase, with double-digit growth between 2014 and 2015. Investment value has grown significantly across all three stages.

At the seed-stage (predominantly pre-revenue companies) equity deal numbers and investment amounts both increased between 2014 and 2015. Annual deal numbers increased by 3% (27% by value) compared to 2014, growing year-on-year since 2011, but the rate of growth has been declining each year. There were 544 seed stage investments in 2015 (£251m). The Angel Co-Fund will continue to support seed-stage investment in 2016.

At the venture-stage (predominantly pre-profit companies) annual deal numbers grew by 11% between 2014 and 2015, and the annual investment value grew by a very significant 62%. Annual deal numbers at the venture-stage have grown year-on-year since 2011, and there were 458 venture-stage deals in 2015 (£1.2bn).

At the growth-stage (profitable companies looking to expand) annual deal numbers grew by only 0.4% between 2014 and 2015 but the annual amount invested grew by 60%. Annual deal numbers at the growth-stage have grown year-on-year since 2011. There were 268 growth-stage investments in 2015 (£2.1bn).

Equity finance is a crucial component in scaling up businesses in the UK and tackling our productivity gap. The British Business Bank is committed to focusing more attention and resources towards finding effective financing solutions for smaller businesses to allow them to scale-up and achieve their growth ambitions.

THE TECHNOLOGY / IP-BASED BUSINESS SECTOR CONTINUED TO ATTRACT THE GREATEST EQUITY INVESTMENT IN THE UK. MOST SECTORS HAVE ALSO SEEN UNINTERRUPTED YEAR-ON-YEAR GROWTH IN THE NUMBER OF DEALS RECORDED

Reflecting the UK technology sector's continued growth, the number of equity investments in technology / IP-based businesses has increased every year since 2011 and the amount invested in the sector has reached the highest recorded level of £1.6bn in 2015. Growth has been particularly strong at the venture stage.

Despite strong growth in investment and deal numbers, technology / IP-based businesses' share of total equity transactions has fallen each year from 46% in 2011 to 37% in 2015.

Life sciences and software are the largest two technology sub-sectors. The number of deals in the software sector reached a record high in 2015, as did the amount invested (296 deals, £659m in 2015). The number of deals grew only by 5% compared with 2014 but the amount invested grew by 45%. The number of deals in the life sciences also reached a record high in 2015 (growing by 10%) but the amount invested grew by an even greater amount (71%).

COMPANIES LOCATED IN LONDON CONTINUE TO BE THE LARGEST RECIPIENT OF EQUITY FINANCE RECEIVING 47% BY NUMBER AND 57% BY VALUE IN 2015. OUTSIDE OF LONDON PERFORMANCE HAS BEEN MORE VARIED

London has seen the largest year-on-year growth in both deal numbers and the total amount invested. The number of equity deals grew by 17% in 2015, with the total amount invested increasing by 100%. Whilst the value of deals outside London rose by 23%, the number of deals declined by 4%.

Only two regions outside London have seen continuous year-on-year increases in deal numbers since 2011: the South East and the West Midlands. No region outside of London has seen continuous year-on-year increases in the total amount of annual investment between 2011 and 2015.

London has the highest share of high-growth enterprises (21%), but its share of the total number of equity deals in 2015 is much higher at 47%. Our analysis of the location of equity deals in 2015 shows that other cities such as Edinburgh, Manchester, Cambridge, Newcastle, Bristol, Liverpool, Brighton and Glasgow have clusters of small businesses using equity finance, albeit on a smaller scale than in London.

Research by the Enterprise Research Centre¹ shows that high growth businesses are spread across the whole of the UK. This demonstrates the potential to encourage more equity investment to support high growth firms in other areas of the UK.

THE BRITISH BUSINESS BANK HAS A NUMBER OF EQUITY PROGRAMMES DESIGNED TO INCREASE THE SUPPLY OF EQUITY FINANCE FOR SMALLER BUSINESSES

Based on the number of visible investments, British Business Bank programmes are estimated to have supported around 6% of all equity deals and these deals formed around 9% of the overall invested equity amount.

The newly announced Northern Powerhouse and Midlands Engine Investment Funds will specifically target increasing finance availability in the North and Midlands. The need for these programmes to boost equity deal flow in these regions has been further reinforced by this research. Growth in the number of equity deals in Northern Regions overall has been relatively weak, with growth stalling since 2013, whilst growth in the number of equity deals in the Midlands has been lower than growth in London and the South East.

The Northern Powerhouse and Midlands Engine Investment Funds will work with Growth Hubs and private sector sources of support to help develop local business environments conducive to greater equity investment and business growth.

The British Business Bank is also active in raising awareness amongst small businesses of the options for obtaining equity finance. Our Business Finance Guide² provides information on the finance options available to businesses at different stages of their development, providing advice and sources of information to help them grow.

In summary, the long-term trend in equity investment is positive with all stages of business development benefitting from greater access to equity finance. However, the report shows there is more work to do, particularly around encouraging equity finance outside of London and the South East.

WE WOULD WELCOME DISCUSSING IDEAS AS TO HOW THE BRITISH BUSINESS BANK CAN FURTHER IMPROVE THE USE OF EQUITY FINANCE TO ENSURE THAT THE UK'S BEST SMALLER BUSINESSES CONTINUE TO GROW AND THRIVE.

INTRODUCTION

BACKGROUND

The British Business Bank first collaborated with Beauhurst to produce an Equity Tracker report last year. The report was produced in response to the lack of reliable and comprehensive data on the number and value of equity investments into UK private companies. To this end the report looked at investments made by the full range of equity investors from large multi-million growth investments in established businesses by Private Equity Funds, to smaller investments in early stage companies by angel investors and equity crowdfunding platforms.

METHODOLOGY

This year's report builds on the previous Equity Tracker Report published by the British Business Bank in 2015.³ Refinements to the underlying dataset allows this report to be the most accurate and complete view of UK equity investment to date. Full description of the data methodology is given in the appendix.

Beauhurst's dataset is built from the bottom-up, identifying each individual business receiving investment. This focus enables the data to be analysed by company stage, sector and location, or according to the type of investors, or the size of investment.

In this report "equity investment" includes any form of external equity finance, excluding transactions on public equity markets, buyouts and family and friends rounds. The definition incorporates the activity of business angels, equity crowdfunding, venture capital funds, corporate venturing, and private equity funds. The investments reported in the Equity Tracker were all publicly announced deals and were all received by businesses defined as small or medium sized, according to the definition set out by the European Commission.⁴

Deals that are not publicly announced will not be included in the Equity Tracker dataset. There are likely to be differences in the willingness of investors to make their deals publicly known. For instance, angel and private investors could be less likely to announce their investments than Venture Capital/ Private Equity funds.

For the purpose of this report, Beauhurst applies an "SME filter" so that only companies that were SMEs at the time of receiving funding are included. The SME filter has now been applied based on the accounts filed closest to the date of the equity investment, which differs to the approach taken in the previous report. Additionally, currency conversions of investment sizes are now more accurate and are based on the actual exchange rate on the day of the investment. On account of these improvements, there will be a discrepancy between the previous 2015 tracker report and this latest 2016 report for the quoted historic figures covering 2011 to 2015. The figures quoted in this report should be considered to supersede those previously quoted.

It is important to acknowledge that a number of other data sources also cover equity investments including the British Venture Capital Association (BVCA) and Invest Europe. These predominantly measure the investment activities of their members, which are mainly comprised of Private Equity and Venture Capital funds. Therefore, the data sources have different coverage of investors and are not always consistent with one another. The UK Business Angel Association estimates that private investors account for between £800m and £1bn of early stage investment in the UK. The British Business Bank's 2015/16 Small Business Finance Markets report provides an overview of the differences between these data sources and offers explanations for any differences observed.⁵



ABOUT BEAUHURST

Beauhurst is the leading provider of research and data on the UK's high growth companies, their deals and their investors. Beauhurst's London-based research team curates in-depth profiles of these companies - including deal history, financials and valuations. Beauhurst works with professionals across a broad range of industries including corporate finance, accountancy, higher education and government.

CHAPTER 1: TRENDS IN OVERALL INVESTMENT ACTIVITIES

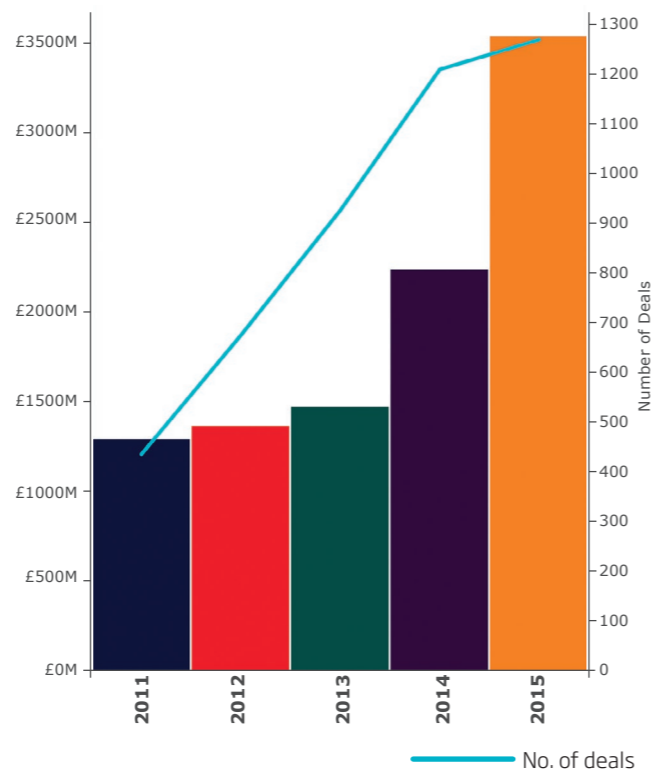
1.1 TOTAL INVESTMENT

ANNUAL FIGURES

Annual deal numbers and investment amounts have been increasing since 2011 and now stand at 1,270 equity deals in 2015 (£3.5 bn). The rate at which annual deal numbers have been growing has slowed year-on-year, but the growth rate for investment value has increased, in particular to an increased number of very large deals:

- The annual number of equity deals completed grew by 5% between 2014 and 2015, but the annual amount invested grew by 58% between 2014 and 2015.
- The average amount invested fell between 2011 and 2013 but has increased in 2014 and 2015. The average amount invested per equity deal in 2015 was £3.49m, but this varies by investor type.
- The number of investments greater than £10m in size has increased by 71% between 2014 and 2015.
- The ten largest investments in 2015 accounted for around £900m, forming 25% of the total amount invested in 2015. In comparison, the ten largest investments in 2014 accounted for £450m in 2014, and formed 20% of the overall market.

FIG1.1a
INVESTMENT AND DEALS BY YEAR

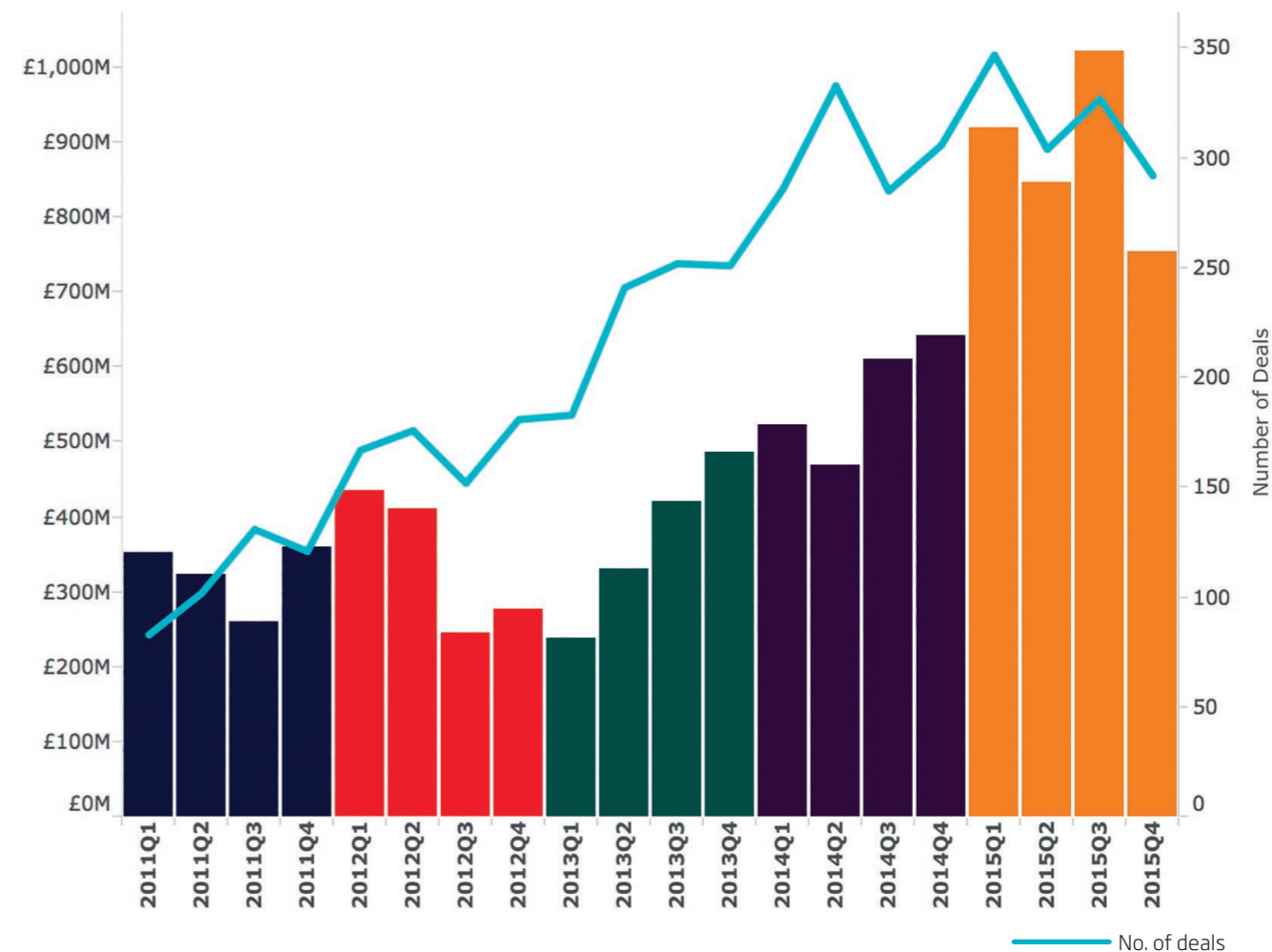


QUARTERLY FIGURES

The overall positive picture presented by the 2015 annual figures is undermined by Q4 2015 which shows a large decline:

- The number of investments in the fourth quarter of 2015 (292) was 16% lower compared with the number in the first quarter of 2015 (347). The quarterly investment amount total was also 18% lower (£754m). Q3 2015 was particularly strong with over £1bn invested, and so the quarter on quarter decline in investment value is more pronounced at 26%.
- Deal numbers in Q2, Q3, and Q4 of 2015 were all lower than the highest quarter in 2014 (Q2 2014 with 333 deals).
- Quarterly investment totals in 2015 remain well above the quarterly figures of previous years. Q4 2015 was 18% higher than the highest quarter in 2014, despite Q4 2015 having the smallest investment total of the year. Emerging evidence suggests UK equity markets are slowing down as other Beahurst data shows the decline in deal numbers continues in the first quarter of 2016.⁶ This is part of a wider global slowdown in Venture Capital (VC) arising due to VC investors becoming more cautious.⁷

FIG1.1b
INVESTMENT AND DEALS BY QUARTER



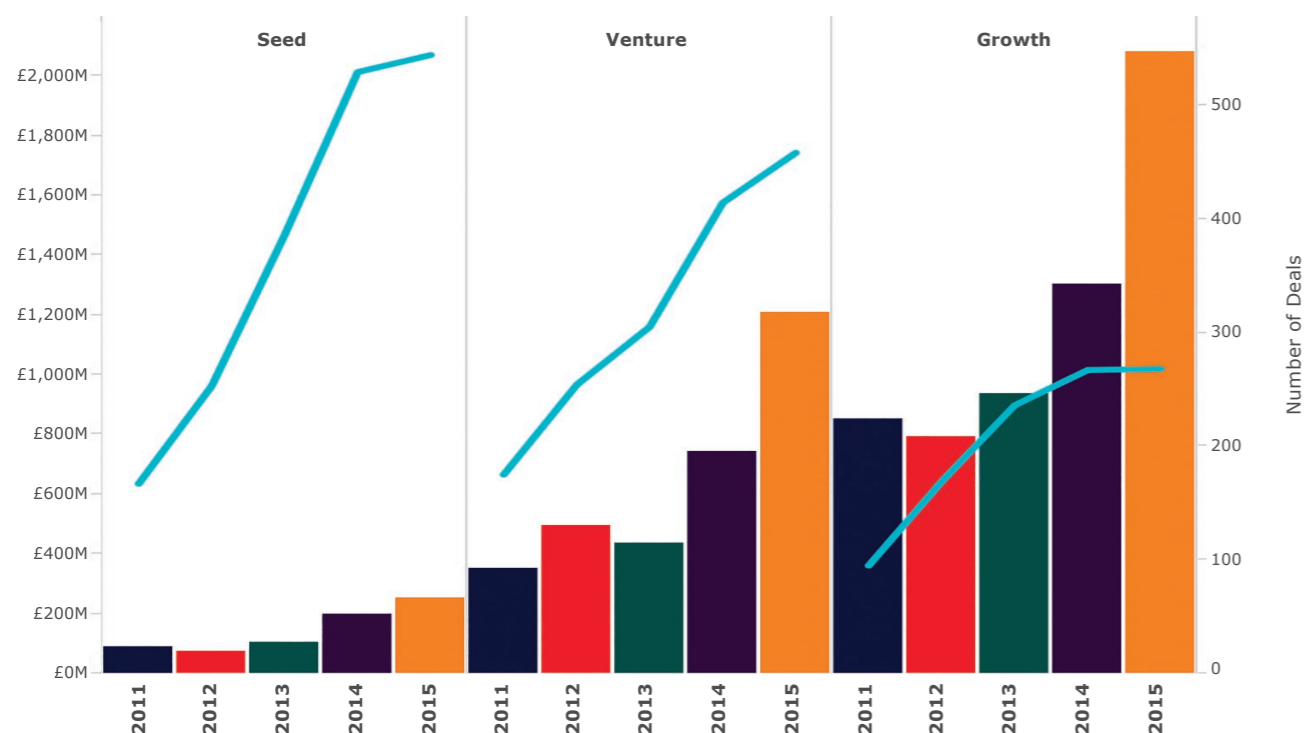
1.2 BUSINESS STAGE

The number of venture investments showed double-digit growth in 2015, but seed and growth stage investments have increased more slowly. Investment amounts grew more rapidly with the venture stage growing at the fastest rate.⁸

- At the seed-stage annual deal numbers and investment amounts both increased in 2015. Deal numbers increased by only 3% but the amount invested grew by 27%. Deal numbers at the seed-stage have grown year-on-year since 2011 but at a falling rate. The amount invested has grown year-on-year since 2012 but slowed in 2015 when there were 544 investments worth £251m.

- At the venture-stage equity deal numbers and investment amounts both increased between 2014 and 2015. Deal numbers grew by 11%, outperforming growth in the seed and growth-stages. The annual amount invested grew by 62%. There were 458 venture stage investments in 2015 worth £1.2bn.
- At the growth-stage deal numbers only increased slightly (0.4%) in 2015, but investment amounts grew strongly (60%). Deal numbers have grown year-on-year since 2011 but the rate of growth has been falling. The amount invested has grown since 2012 with the growth rate increasing each year. There were 268 investments in 2015 worth £2.1bn.

FIG 1.2 INVESTMENT AND DEALS BY BUSINESS STAGE



1.3 SECTOR

The technology & IP-based sector received both the highest number of deals and greatest amount of investment in 2015. Most sectors have seen uninterrupted year-on-year growth in the number of deals. The amount invested in each sector has generally increased between 2011 and 2015 but there is some volatility between consecutive years.⁹

- The number of equity investments into technology & IP-based businesses has grown every year since 2011 to 473 in 2015. The amount invested in the sector hit a record high of £1.6bn in 2015, growing by 49% compared to 2014. Despite this strong growth, technology / IP-based businesses' share of total equity fundraising transactions has fallen each year from 46% in 2011 to 37% in 2015.

- The number of equity investments into business & professional services has increased year-on-year since 2011 to 265 in 2015, though growth slowed in 2015 (2%). The amount invested in these companies has grown substantially each year since 2011, reaching £800m in 2015.
- The number of deals in the industrials sector has grown steadily since 2011 to 169 in 2015, with an increase of 17% in 2015. The amount of investment in the industrials sector grew by 39% between 2014 and 2015 reaching £223m.
- The media sector was one of the few sectors to experience a decline in deal numbers in 2015, falling by 15% to 84 - although it has grown since 2011. The amount invested into media reached a record level in 2015 of £158m. A few large investments were responsible for this record total amount of investment.

FIG 1.3a INVESTMENT AND DEALS BY SECTOR

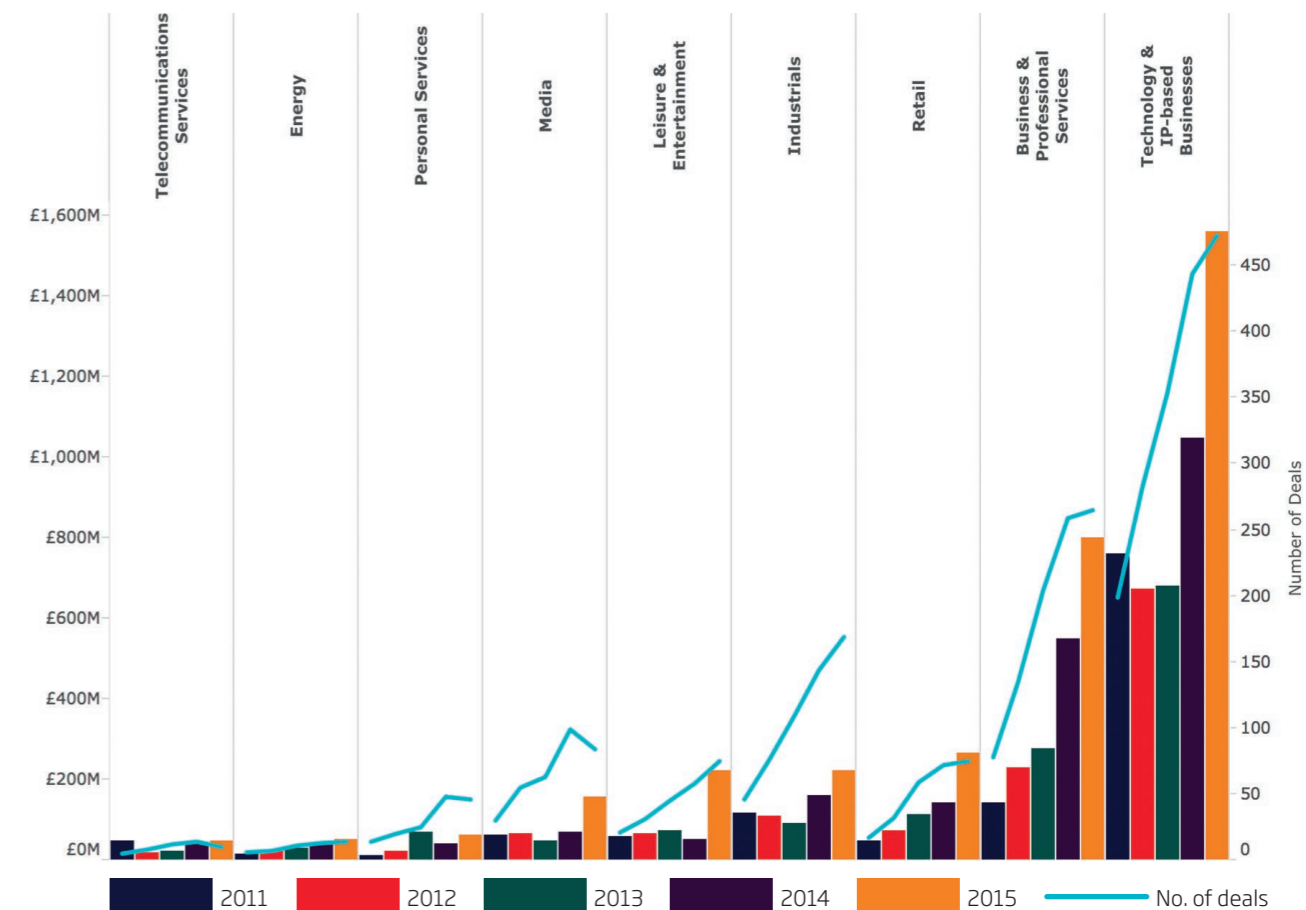
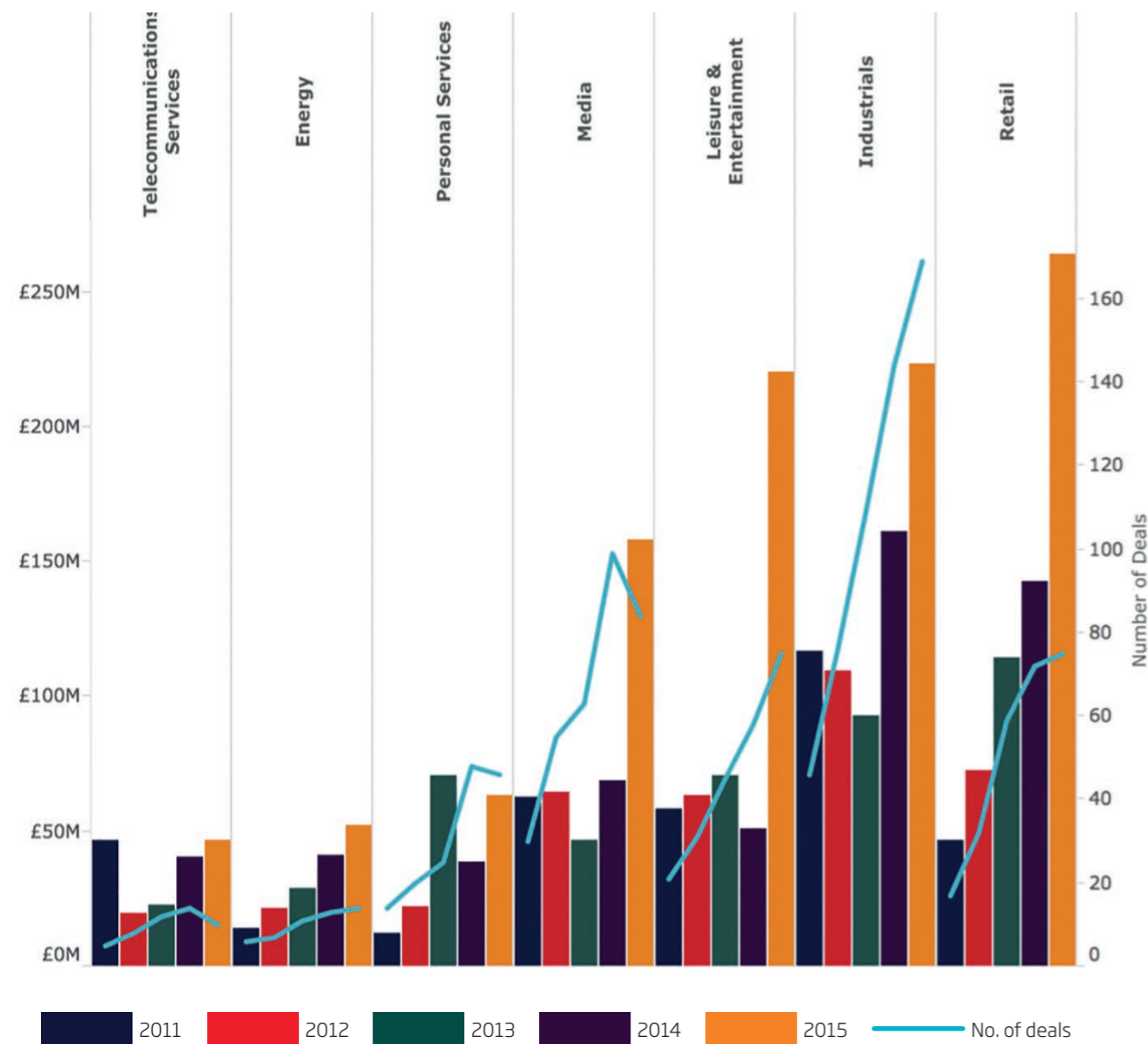


FIG 1.3b
INVESTMENT AND DEALS BY SECTOR (EXCLUDING TECHNOLOGY & IP-BASED BUSINESSES, BUSINESS & PROFESSIONAL SERVICES)

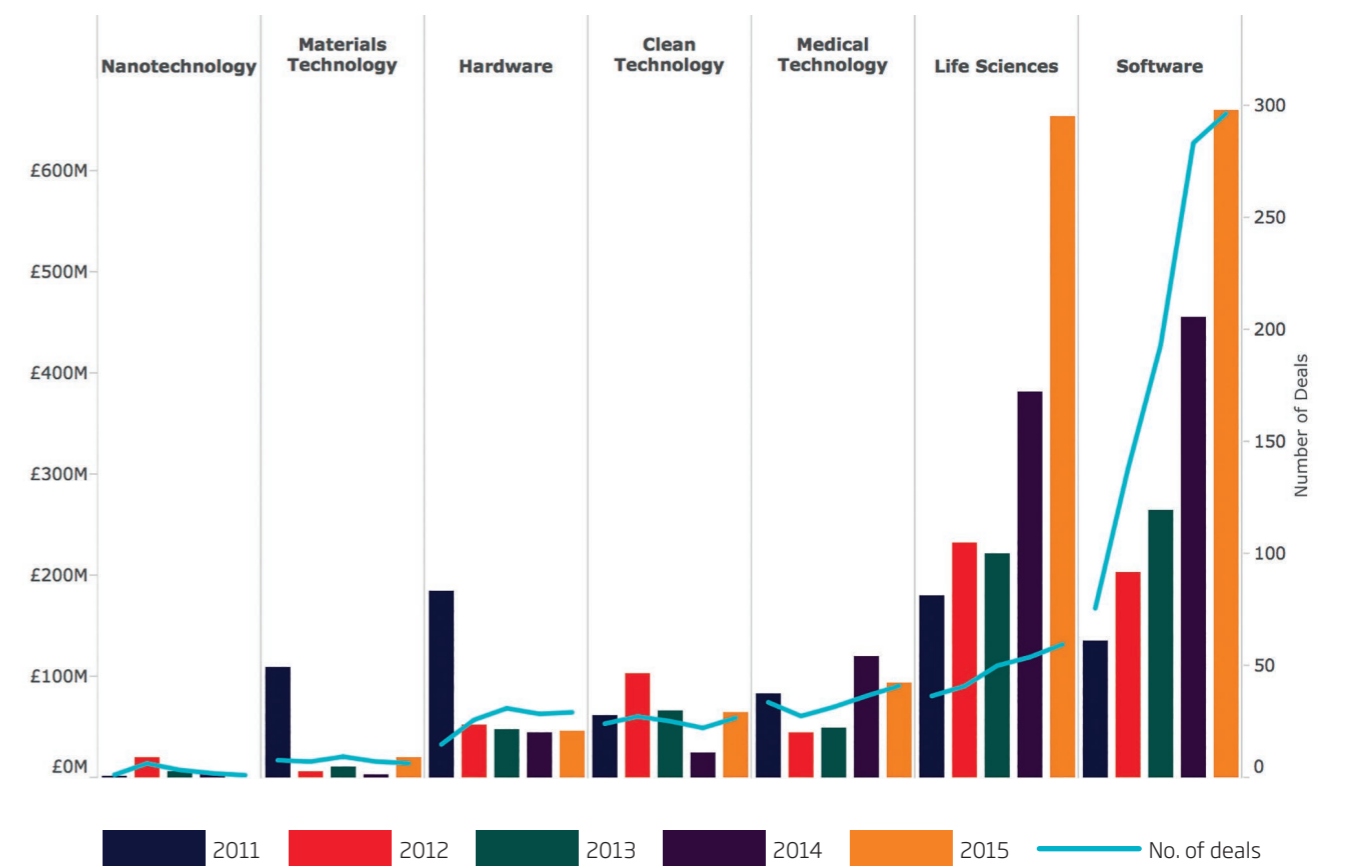


1.4 TECHNOLOGY SUB-SECTORS

The number of deals in most technology sub-sectors rose slightly in 2015. The amount invested increased substantially in life sciences and software sectors, and these sectors remain the largest technology sub-sectors:

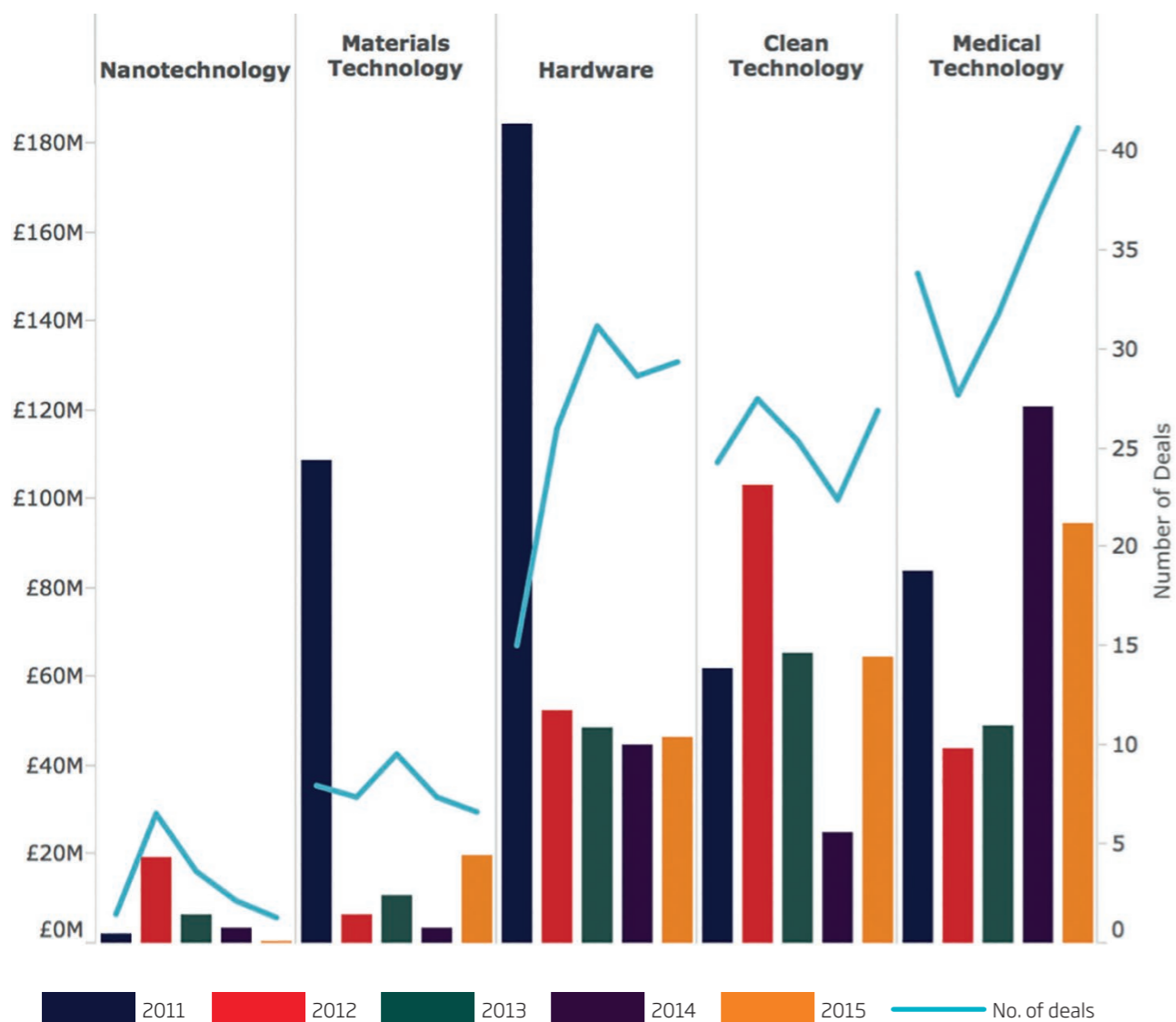
- The number of deals in the software sector reached a record high in 2015 of 297, as did the amount invested (£659m). The number of deals grew by only 5% but the amount invested grew by 45% compared with 2014. Software's share of the overall investments into Technology / IP-based businesses has grown from 38% in 2011 to 63% in 2015.
- The number of deals in the life sciences sector also reached a record high in 2015 (growing by 10% to 60) but the amount invested grew much faster (71%) reaching £654m - seeing almost as much investment as the software sub sector.
- Deal numbers in hardware have stagnated since 2012, growing by just 2% in 2015 to 29. The amount invested grew slightly between 2014 and 2015, reaching £47m but lower than 2011 levels.
- The number of deals in medical technology has grown since 2012, rising by 12% in 2015 to 41. The amount invested, however, fell by 22% to £95m.
- Deal numbers between 2014 and 2015 in clean technology grew by 20% to 27, whereas the amount invested increased by 158% to £64m after a very poor 2014.

FIG 1.4a
INVESTMENT AND DEALS BY TECHNOLOGY SUB-SECTOR



1.5 REGION

FIG 1.4b
INVESTMENT AND DEALS BY TECHNOLOGY SUB-SECTOR
(EXCLUDING LIFE SCIENCES, SOFTWARE)



London continues to be the region receiving the greatest amount of equity investment, and has shown strong year on year growth. Outside of London increases in equity finance have been more varied.¹⁰

- London has performed strongly with year-on-year growth in both deal numbers and the amount invested. The number of equity deals grew by 17% in 2015 to 598. The total amount invested in London increased by 100% in 2015 (£2.0bn) compared with the previous year. London was the location of 47% of equity deals in the UK and 58% of all investment.
- Whilst the value of deals outside London rose by 23%, the number of deals declined by 4%.
- Only two regions outside London have seen continuous year-on-year increases in deal numbers since 2011: the South East and the West Midlands.
- The number of deals in the South East grew by 15% in 2015 to 146. The amount invested in the region grew by 67% compared with the previous year to £644m.
- The number of deals in the West Midlands increased by 16% to 51, but the amount invested fell by 8% in 2015.

FIG 1.5a
INVESTMENT AND DEALS BY REGION

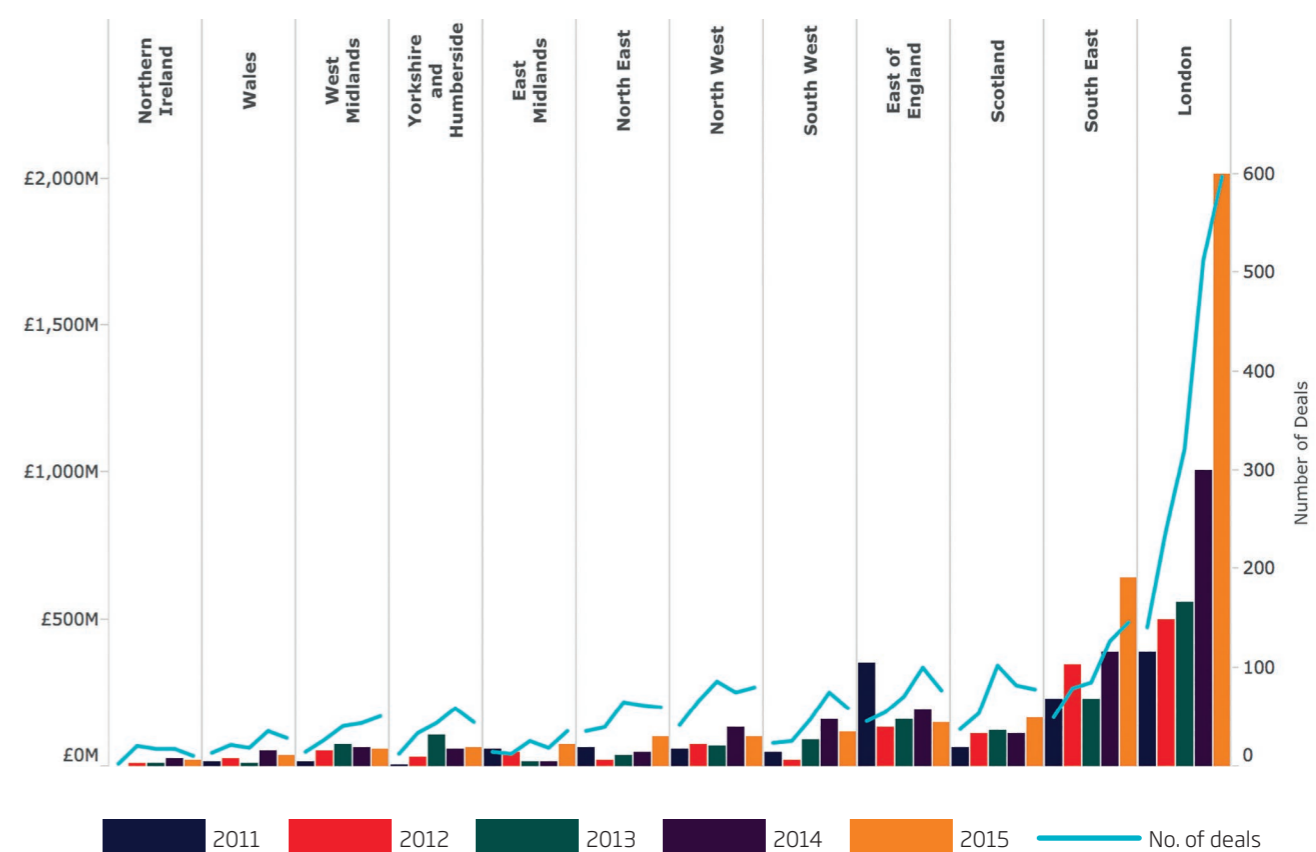
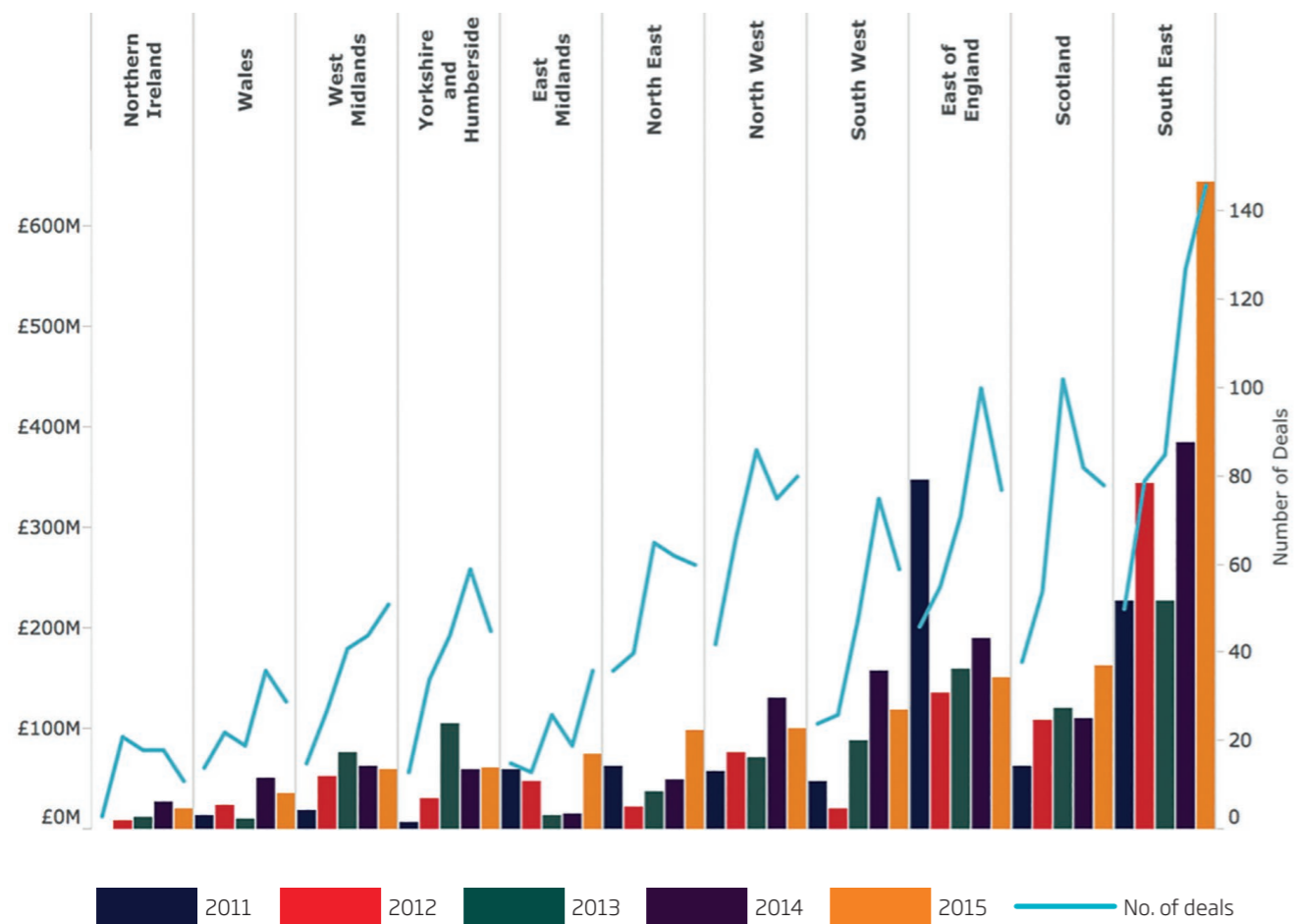


FIG 1.5b
**INVESTMENT AND DEALS BY REGION
 (EXCLUDING LONDON)**



PROPORTION OF EQUITY DEALS, HIGH GROWTH BUSINESSES AND BUSINESS POPULATION BY REGION

London received 47% of the total number of equity deals in the UK in 2015, but the region accounts for 21% of high growth businesses¹¹ and 18% of the wider business population.¹² This may suggest equity deals are underrepresented in other regions relative to the share of high growth businesses and business in the wider population.

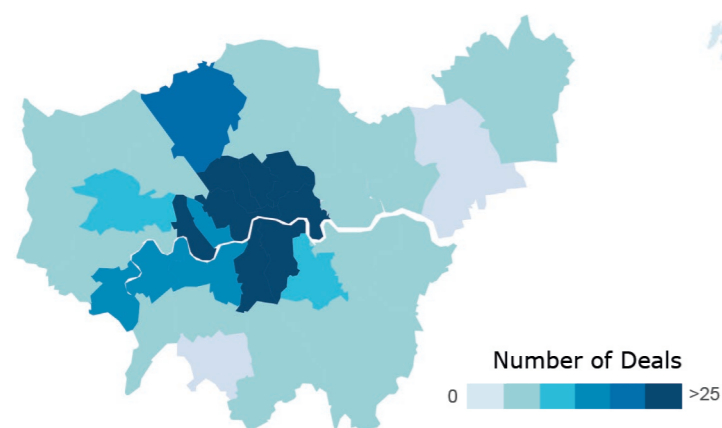
Region	% of total no. of UK Equity Investments	% of total no. of High-Growth Enterprises	% of total no. of UK Private Sector
London	47.1	20.9	18.1
South East	11.5	14.4	16.3
North West	6.3	11.1	9.9
East of England	6.1	8.6	9.8
West Midlands	4.0	8.5	7.4
South West	4.6	8.2	9.9
Yorkshire and the Humber	3.5	7.1	7.1
East Midlands	2.8	6.5	6.6
Scotland	6.1	6.4	6.3
Wales	2.3	3.5	3.9
North East	4.7	3.0	2.5
Northern Ireland	0.9	1.7	2.2

Source: Beauhurst, ONS analysis of high growth enterprises and BIS business population estimates

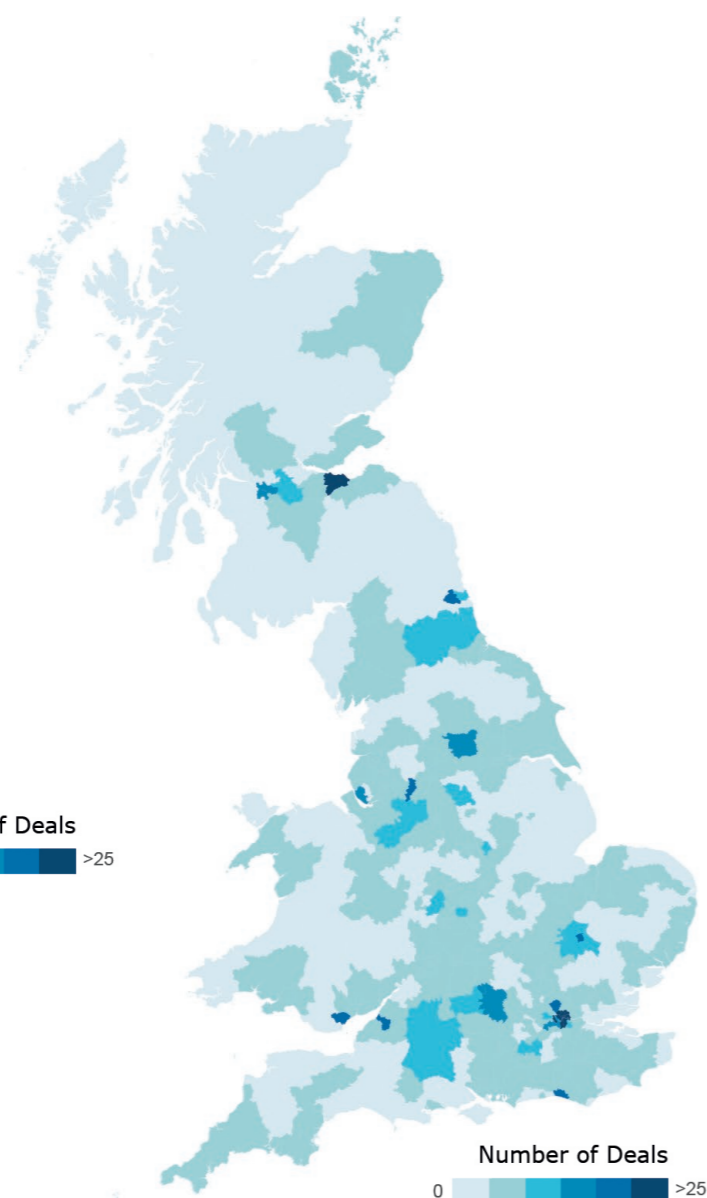
1.6 CLUSTERS

The following maps show the number of equity deals in 2015 by Local Authority District across the whole UK and across London boroughs. The table on the next page shows clusters of where deal activity was greatest in 2015. Taken together these show that despite the concentration of equity deals in London and the South East there are a number of cities where there are large numbers of equity deals occurring.

MAP OF 2015 EQUITY INVESTMENT ACTIVITY
IN LONDON BY LOCAL AUTHORITY



MAP OF EQUITY DEALS IN 2015
BY LOCAL AUTHORITY DISTRICT



Regional figures disguise the large variation in equity deal numbers that occurs within regions.

The following table shows the number of equity deals recorded in 2015 was highest in the following clusters and constituent Local Authority Districts:¹³

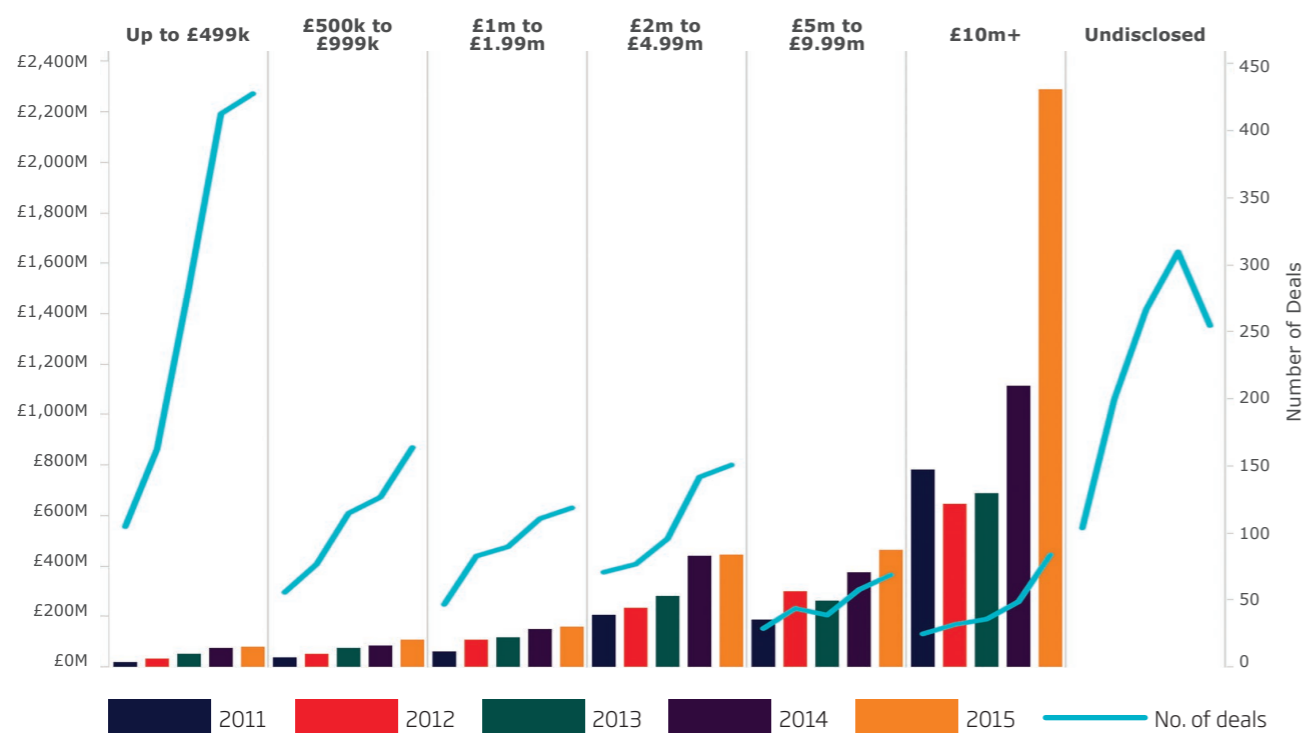
Cluster	Constituent Local Authorities	Number of Deals in 2015
Inner London	Camden	88
	City of London	60
	Hackney	63
	Hammersmith and Fulham	19
	Haringey	2
	Islington	67
	Kensington and Chelsea	14
	Lambeth	21
	Lewisham	6
	Newham	1
	Southwark	38
	Tower Hamlets	37
	Wandsworth	15
Westminster	96	
Edinburgh	Edinburgh	38
Manchester	Manchester	17
	Oldham	1
	Salford	2
	Stockport	2
	Tameside	2
	Trafford	4
Cambridge	Cambridge	19
Bristol	Bristol	17
	South Gloucestershire	1
Liverpool	Liverpool	16
	St. Helens	2
Brighton	Adur	2
	Brighton and Hove	17
Cardiff	Cardiff	14
Leeds	Leeds	14
Oxford	Oxford	13

1.7 INVESTMENT CATEGORY

There has been a large increase in the number of £10m plus deals in 2015:

- Deals up to £499k in size account for the largest proportion of equity deals in the UK every year since 2011 forming 34% of deals overall in 2015 (42% of deals with disclosed deal sizes).
- The category of deals greater than £10m in size accounted for the smallest proportion of deals in 2011 to 2014, in 2015 there were more deals greater than £10m than there were deals in the category below (£5m-£10m). Moreover, the investment value of deals greater than £10m in 2015 was worth £2.3bn in 2015 - more than double the figure for 2014.
- The number of investments greater than £10m in size increased by 71% in 2015. The ten largest investments in 2015 accounted for around £900m, forming 25% of the total amount invested in 2015. In comparison, the ten largest investments in 2014 accounted for £450m in 2014, and formed 20% of the overall market.
- The number of deals for which the amount invested was undisclosed fell sharply between 2014 and 2015, likely a result of the increasing deals sizes: the larger the deal, the more likely it is to warrant a press release.

FIG 1.7 INVESTMENT AND DEALS BY INVESTMENT CATEGORY



1.8 INVESTORS

Private equity investors¹⁴ were the most active type of investor in 2015, followed by crowdfunding platforms and private investment vehicles:¹⁵

- Private equity investors were the most active source of investment in 2015 making 402 investments, followed by crowdfunding platforms (303) and private investment vehicles (201).¹⁶
- The number of crowdfunding deals grew by 55% in 2015 to 303, the first year since 2011 that the growth has fallen below 100% but reflecting this investment type becoming established in the market.
- Crowdfunding is the investment type that has seen its deal numbers grow the most each year in percentage terms. Between 2012 and 2015, crowdfunding deal numbers have grown by 877%.
- The greatest fall in deal numbers between 2014 and 2015 was experienced by private investment vehicles, which fell by 18% to 201 deals. The number of deals involving Private Equity investors also fell by 9% to 402.
- The number of deals completed by angel networks has recovered somewhat from the fall in 2014. In 2015 angel networks' made 107 deals.

FIG 1.8a DEALS BY INVESTOR TYPE

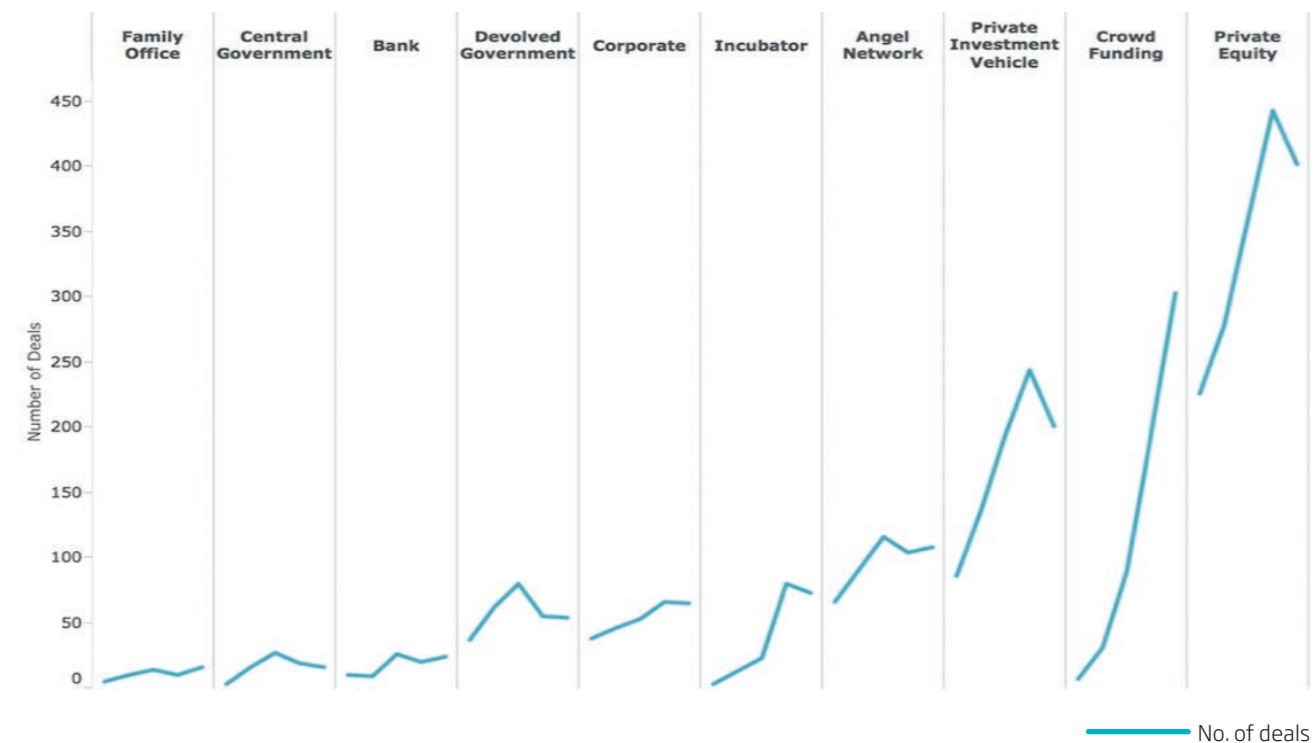
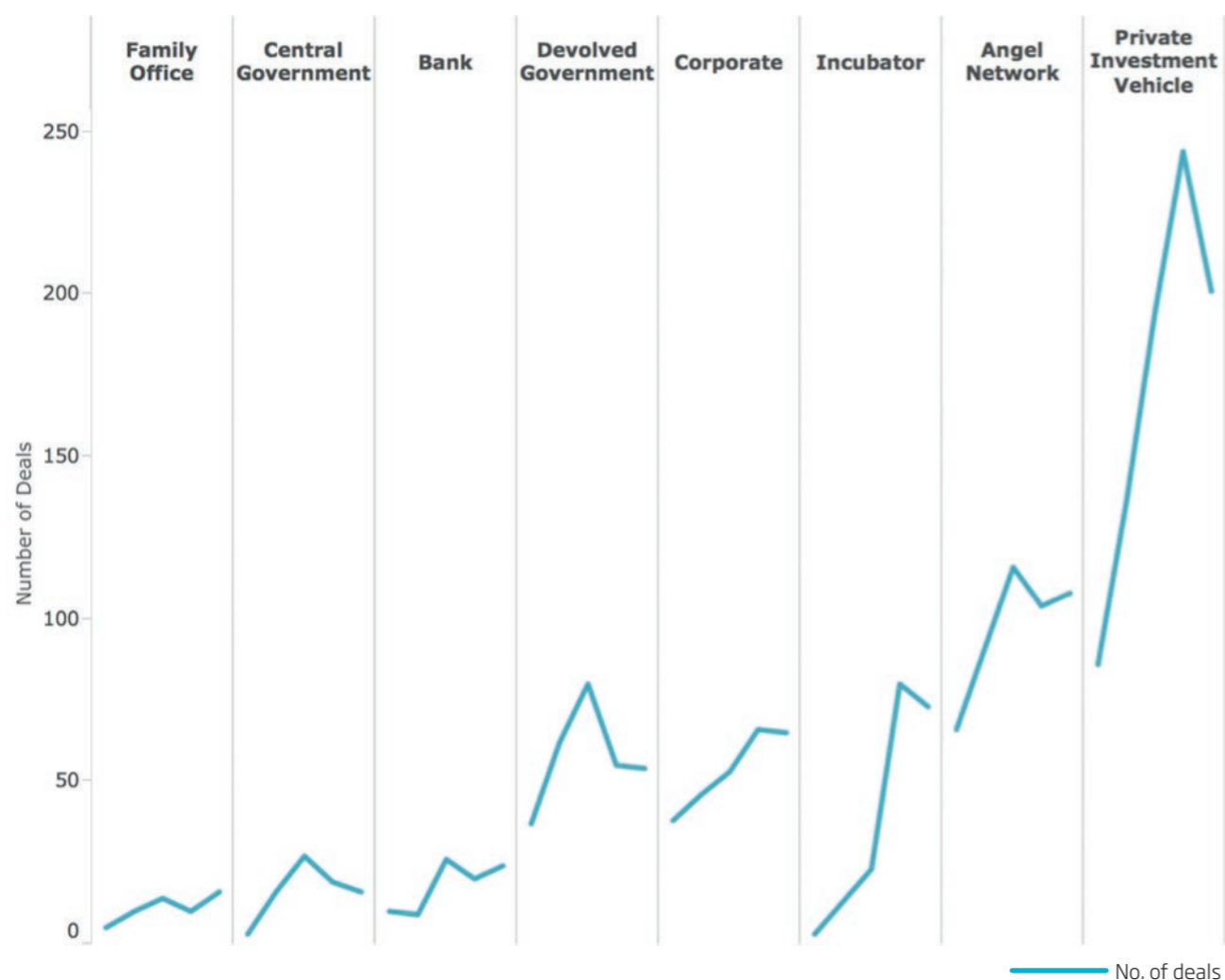


FIG 1.8b
DEALS BY INVESTOR TYPE (EXCLUDING CROWDFUNDING, PRIVATE EQUITY)



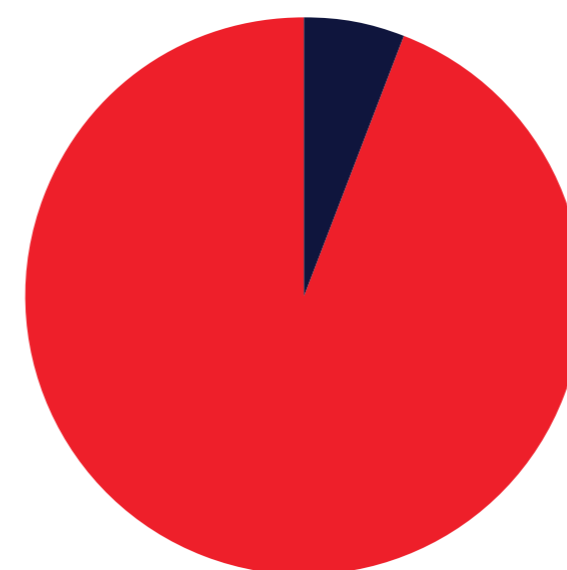
ACTIVITY OF BRITISH BUSINESS BANKS SUPPORTED FUNDS

The British Business Bank has a number of equity programmes designed to increase the supply of equity finance to UK businesses. Investments involving British Business Bank supported funds account for 6% of all equity deals by number and 9% by value:

- Businesses that have received funding by fund managers supported by the British Business Bank can be found within the Beauhurst database.¹⁷ Between 2011 and 2015, 289 visible equity investments were identified as being funded by fund managers supported by the Bank. This relates to 201 unique companies¹⁸, with a total investment value of £905m made up of British Business Bank fund funding and other investor funding.

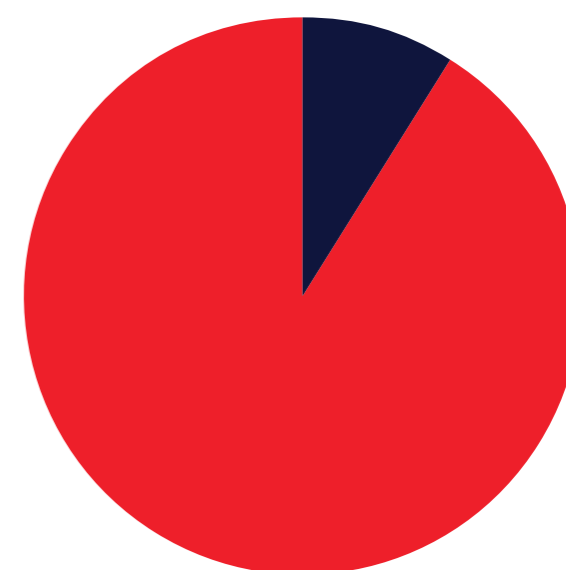
- There are a number of other investments within the Beauhurst dataset that relate to companies that have previously been funded by the British Business Bank through one of its previous schemes or through funding in an earlier time period prior to 2011. These are not included in the analysis.
- More detailed analysis of the activities of British Business Bank supported funds can be found in chapter 5.

FIG 1.8c
PERCENTAGE OF MARKET ACCOUNTED FOR BY THE BRITISH BUSINESS BANK, NUMBER OF DEALS 2011-2015



British Business Bank Fund Deals 6%
Other deals 94%

FIG 1.8d
PERCENTAGE OF MARKET ACCOUNTED FOR BY THE BRITISH BUSINESS BANK, INVESTMENT AMOUNT 2011-2015



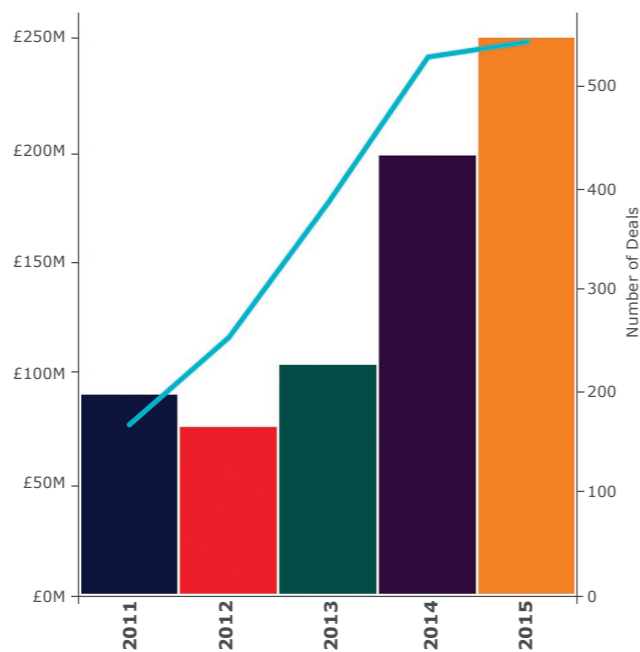
British Business Bank Fund Deals 9%
Other deals 91%

CHAPTER 2: SEED-STAGE

2.1 SEED-STAGE OVERVIEW

The number of equity investments into companies at the seed-stage reached a high in 2015 (544 deals) but the yearly rate of growth has slowed to 3%. The total amount invested into seed-stage companies also reached record levels (£251m), with stronger growth of 27% between 2014 and 2015.

FIG 2.1
SEED INVESTMENT AND DEALS BY YEAR



2.2 SECTORS, SEED-STAGE

Around half of all sectors saw growth in the number of seed stage deals between 2014 and 2015, but more sectors saw growth in the total amount invested:¹⁹

- The technology sector was the largest sector at the seed-stage in 2015, forming 38% by number and 53% by value. Growth in deal numbers between 2014 and 2015 has slowed to 5%, but the amount invested grew by 44%.
- The industrials sector saw the largest growth in deal numbers between 2014 and 2015 and the second highest rate of growth in total investment. Industrials are one of the few sectors to have seen both deal numbers and investment amount grow consistently year-on-year since 2011.

- The business and professional services sector saw both deal numbers and the total amount of investment fall between 2014 and 2015. Deal numbers fell by 5%, whereas the amount invested into the sector fell by 38%. The amount invested in 2015 into the sector, however, is up 105% compared with 2013 as the investment amount in 2014 was high.
- Media saw its deal numbers fall by 29% in 2015 and investment fall by 20%.

FIG 2.2a
SEED INVESTMENT AND DEALS BY SECTOR

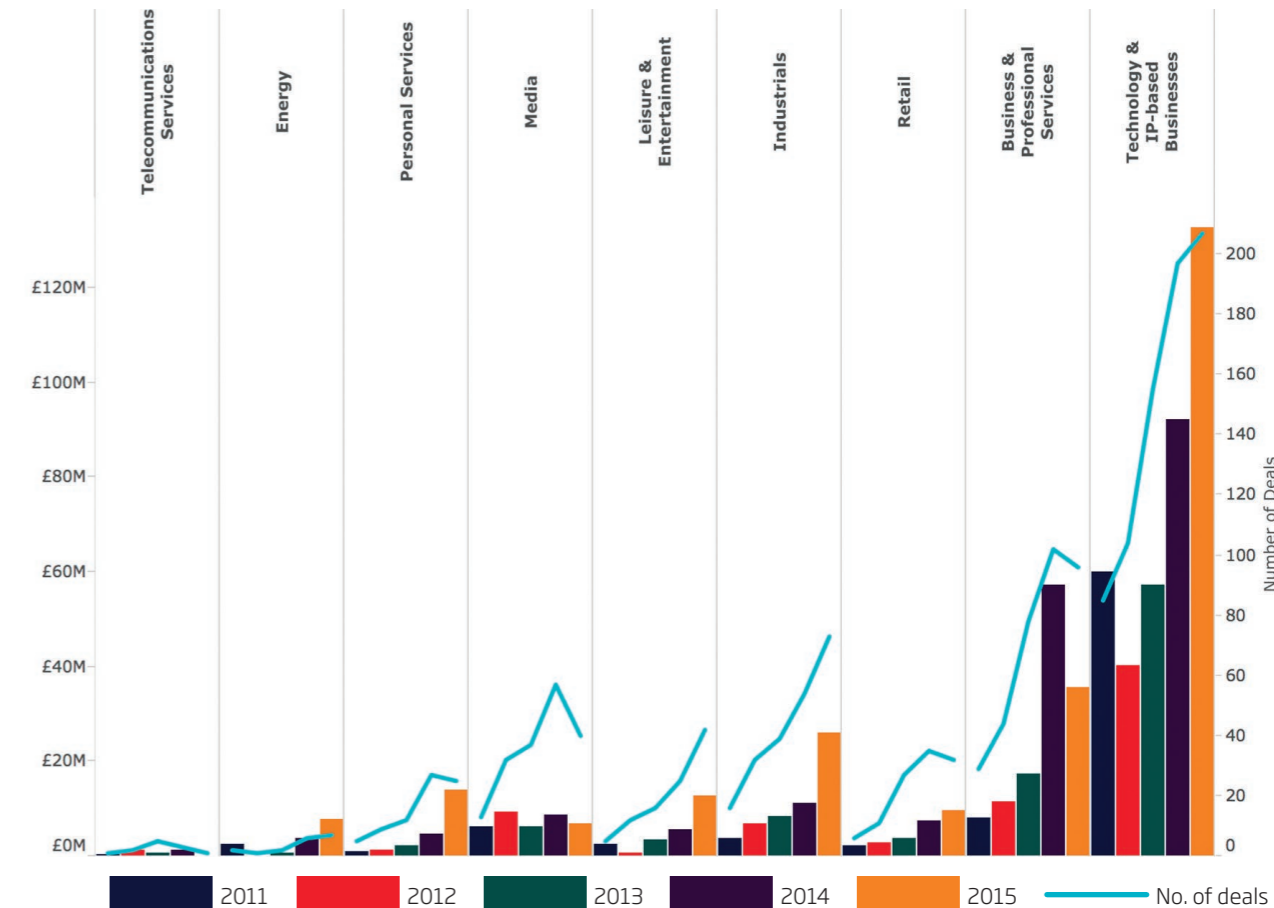
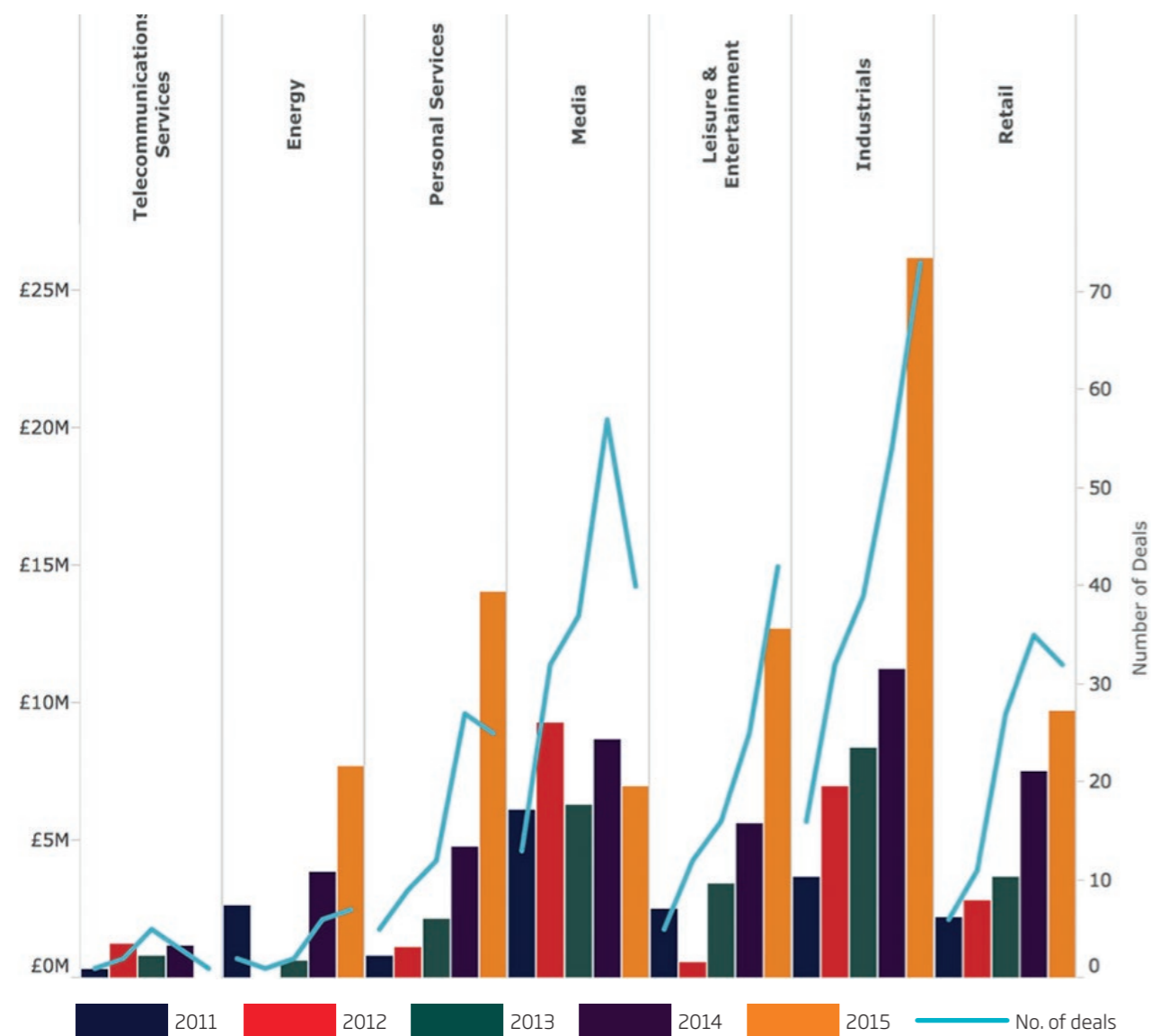


FIG 2.2b
SEED INVESTMENT AND DEALS BY SECTOR (EXCLUDING TECHNOLOGY & IP-BASED BUSINESSES, BUSINESS & PROFESSIONAL SERVICES)



2.3 TECHNOLOGY SUB-SECTORS, SEED-STAGE

Five of the eight technology sub-sectors saw their deal numbers grow between 2014 and 2015 at the seed-stage, but only four saw their total investment amount grow:

- Software continues to be the largest sub-sector with 141 deals (£48m). The number of investments made into the sector in 2015 only grew by 1% compared with the previous year - after years of strong double-digit growth. The amount invested into the sector, however, grew by 24%.

- Life sciences were another strong sector in 2015 with 24 deals, seeing 29% growth in deal numbers compared with 2014. The amount invested into the sector grew by 151% to £56m.
- There were mixed results in medical technology, which saw its number of deals grow by 61% (14) but the total amount invested fell by 5% (£12m).

FIG 2.3a
SEED INVESTMENT AND DEALS BY TECHNOLOGY SUB-SECTOR

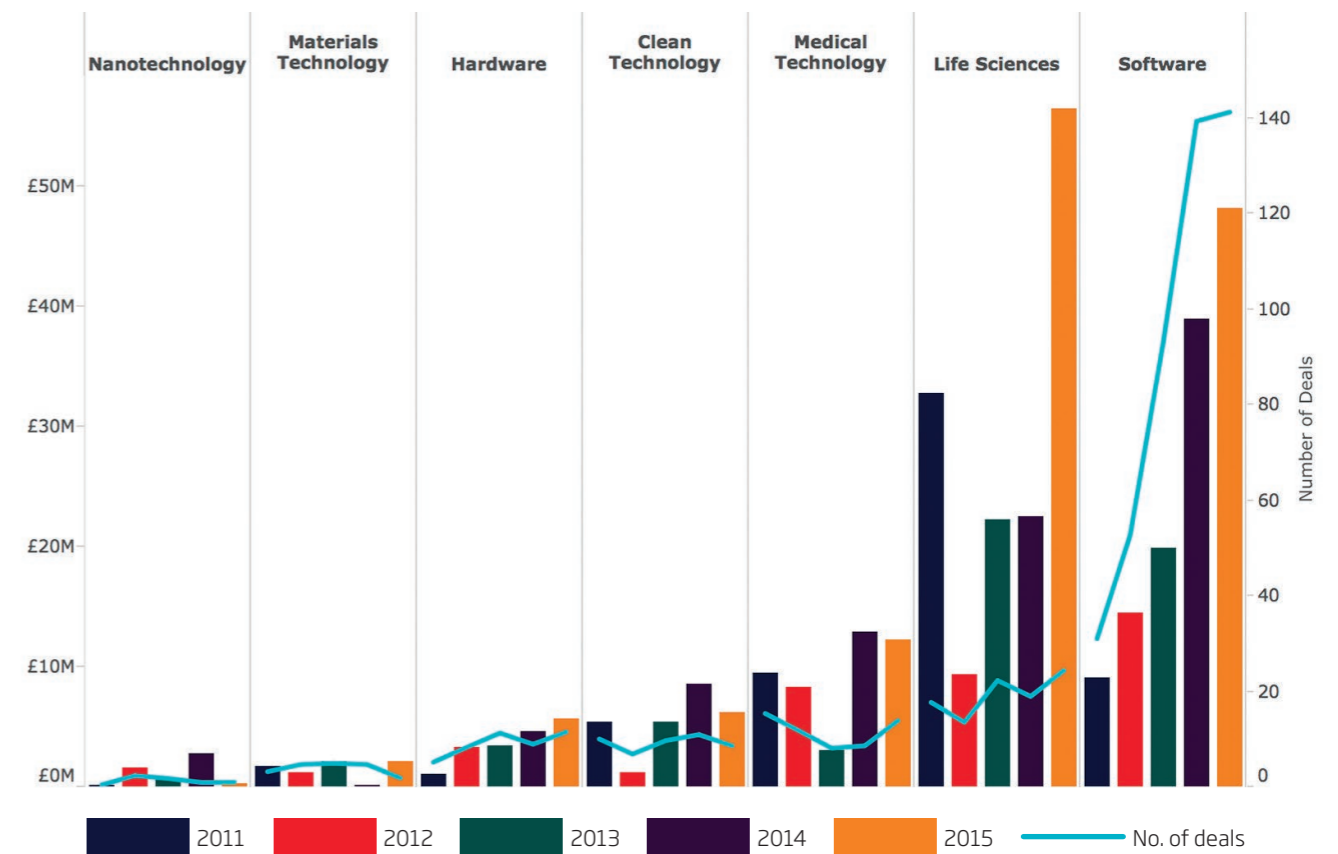
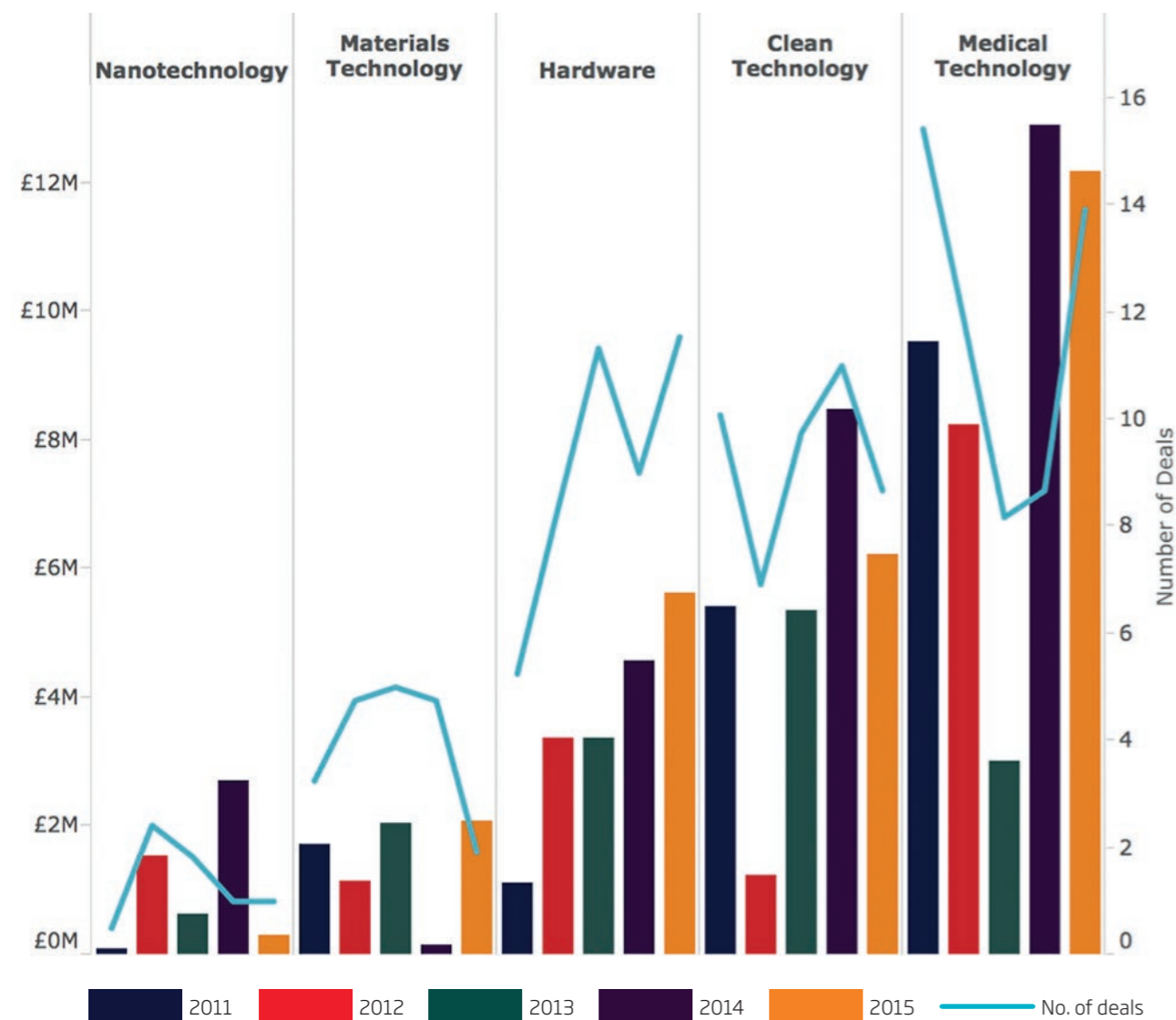


FIG 2.3b
**SEED INVESTMENT AND DEALS BY TECHNOLOGY SUB-SECTOR
 (EXCLUDING LIFE SCIENCES, SOFTWARE)**



2.4 REGIONS, SEED-STAGE

London remains as the region with the greatest number and value of seed investments, with the South East following behind:²⁰

- Deal numbers in London grew by 17% in 2015 compared to the previous year, but the amount invested grew by 68%. The amount invested in 2015 (£120m) is almost four times as much as was invested in 2011 or 2012. Both deal numbers and total investment have grown every year since 2011.
- The number of equity investments in the South East in 2015 grew by 35% and the amount invested grew by 70% to 58 deals and £40m respectively.

- Deal numbers in the East Midlands have been growing steadily since 2011 – although they are still less than 20 seed stages deals per year – but the amount invested increased by 743% in 2015, reflecting a couple of £1m plus deals.
- Whilst 2014 was a very strong year for seed equity investment in the North East with £29m of investment, 2015 investment figures returned closer to the longer term average of £4m.
- Although the number of deals in Scotland fell for the second year in a row in 2015 to 21, the amount invested achieved a record level (£21m). This was more than double the previous year.

FIG 2.4a
SEED INVESTMENT AND DEALS BY REGION

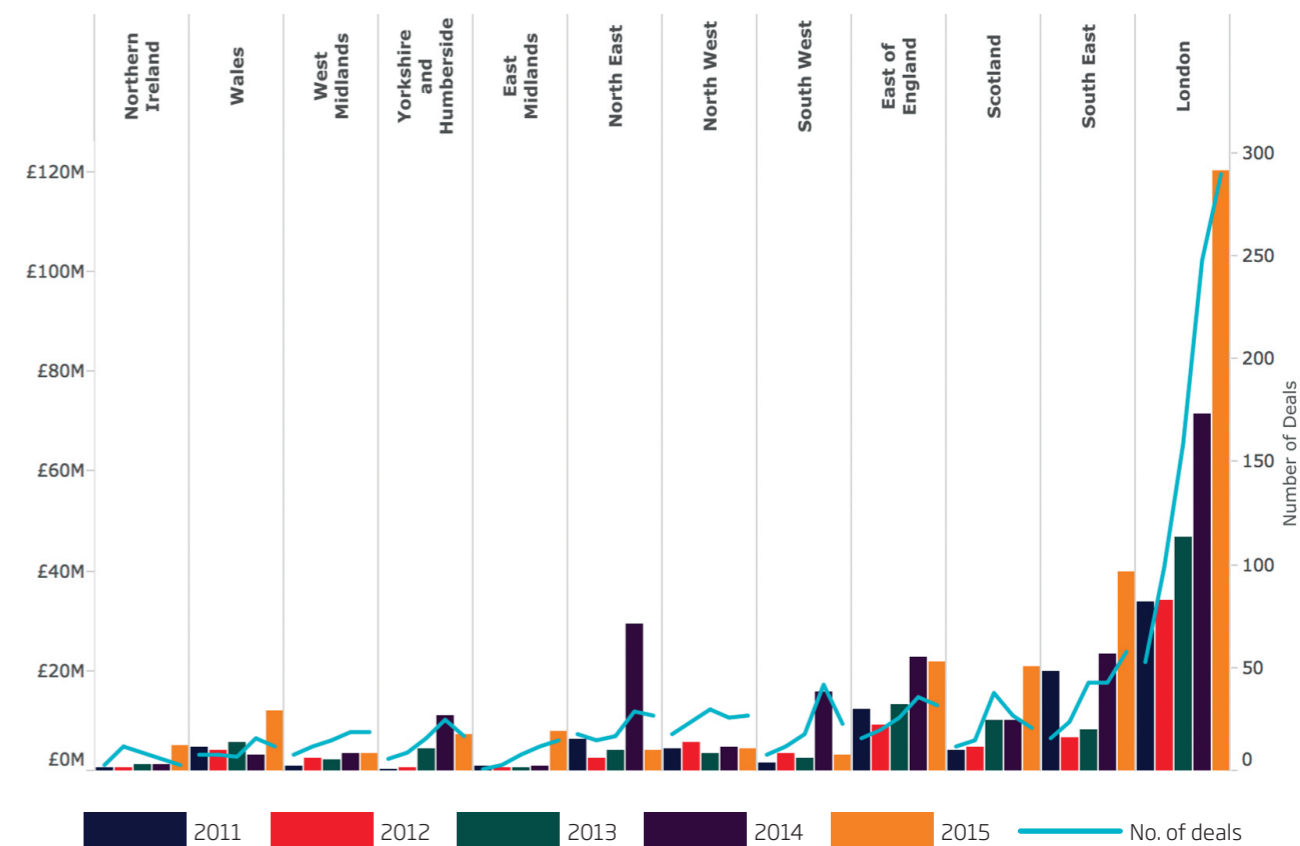
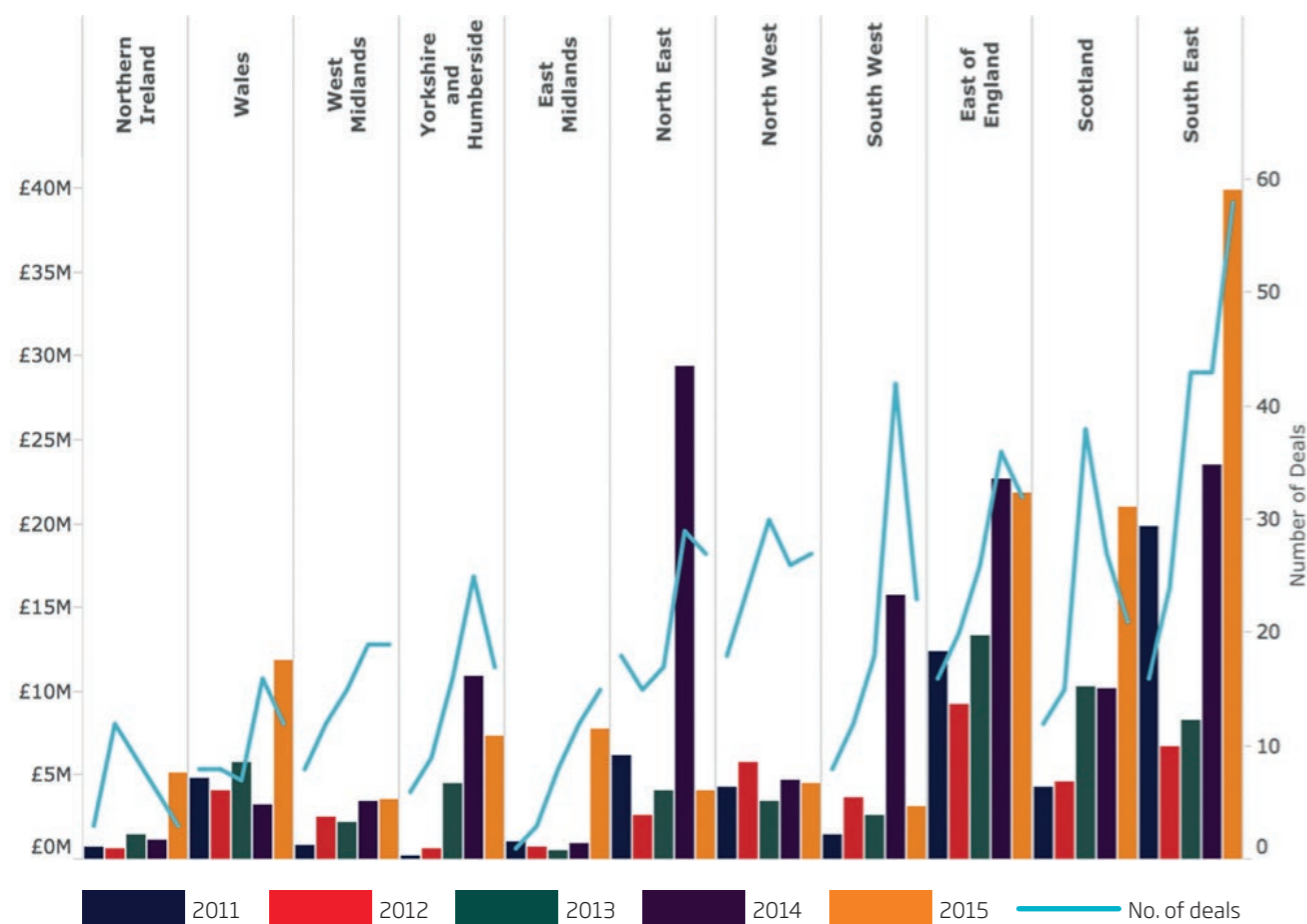


FIG 2.4b
SEED INVESTMENT AND DEALS BY REGION
(EXCLUDING LONDON)

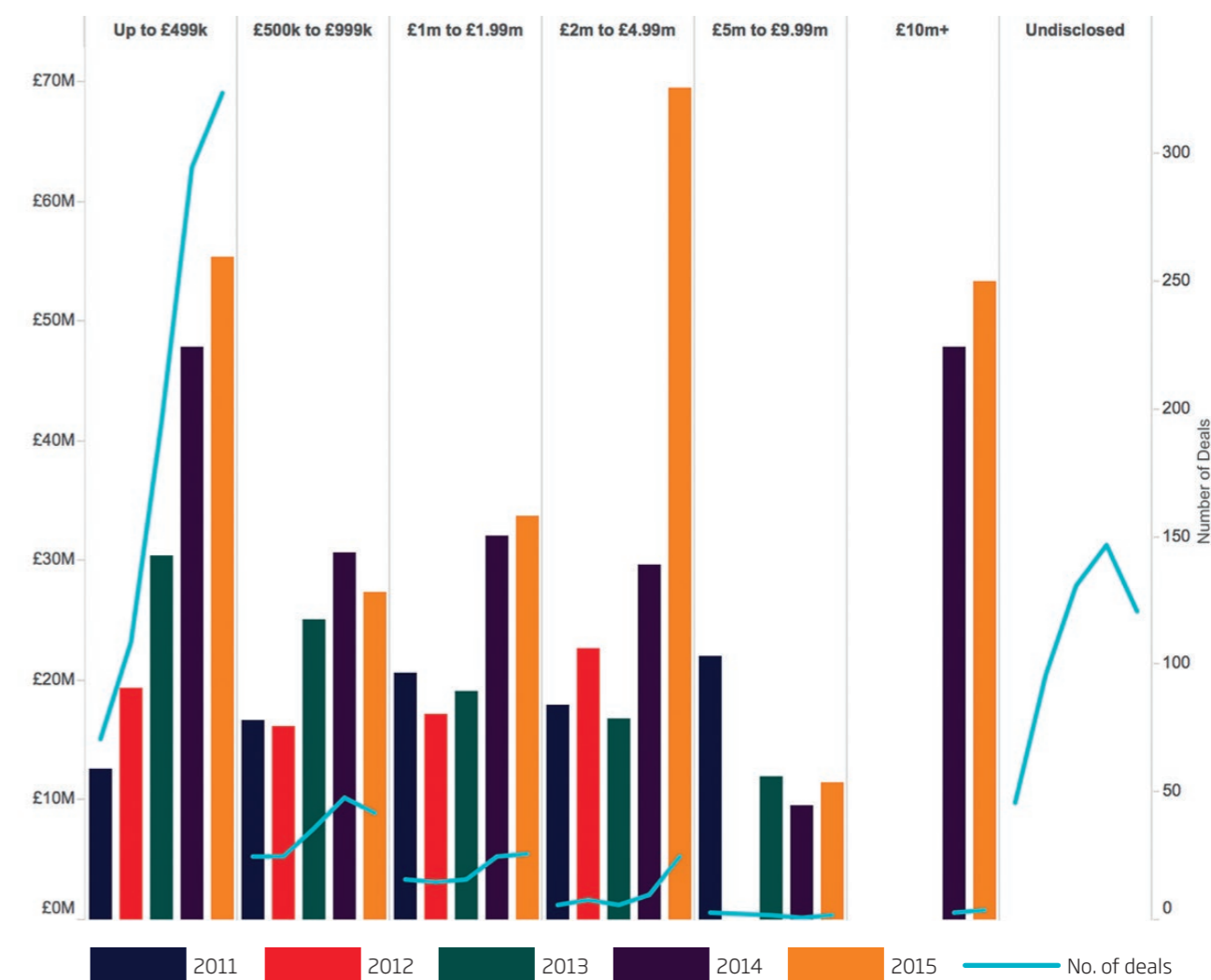


2.5 INVESTMENT CATEGORY, SEED-STAGE

The majority of seed stage deals are less than £500,000:

- The greatest number of seed-stage deals occurs in the smallest investment size category (Up to £499k) which accounts for 60% of all seed stage deals (77% for disclosed deal sizes). A record number of investments (324) worth £55m were completed in this category in 2015.
- Seed-stage deals worth more than £10m are also on the rise but remain comparatively scarce at just 4 deals in 2015. The number of investments in the second smallest deal size category (£500k to £999k) fell by 12% to 42.

FIG 2.5
SEED INVESTMENT AND DEALS BY INVESTMENT CATEGORY

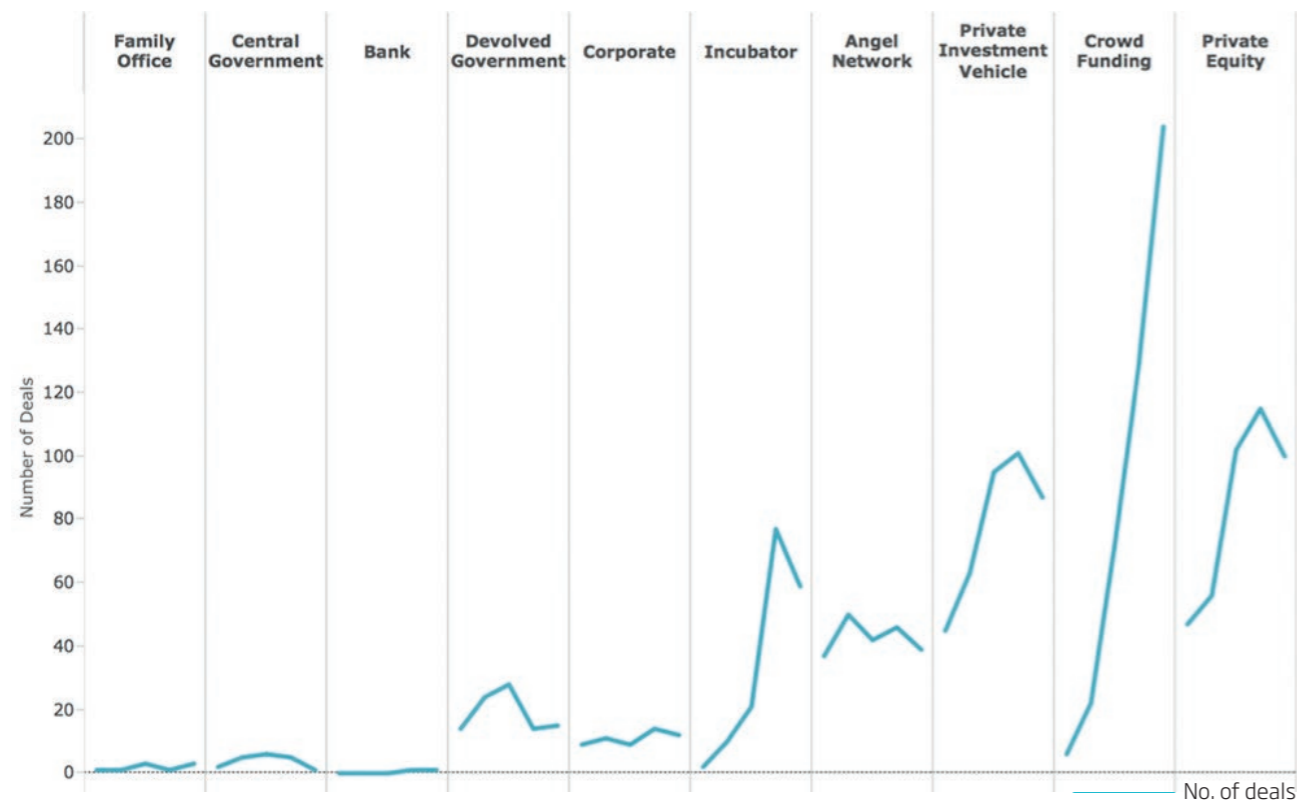


2.6 INVESTORS, SEED-STAGE

In 2015 the number of deals involving crowdfunding established a clear overall lead ahead of private equity funds and saw strong growth in deal numbers:²¹

- Crowdfunding platforms saw a 57% increase in deal numbers at the seed-stage in 2015 compared with the previous year to 204 deals per year. Crowdfunding platforms were responsible for 37% of all seed-stage activity in 2015.
- Private equity, which until 2014 had been the dominant investor type at the seed-stage, saw its deal numbers fall by 13% in 2015 to 100. 2015 was the first year that the number of private equity deals identified in the Beauhurst data set fell compared with the previous year. Private equity remains the second most active investor type at the seed-stage.
- After 3 continuous years of growth, private investment vehicles saw their deal numbers fall by 14% at the seed-stage in 2015. Private investment vehicles accounted for 16% of all seed-stage deal activity in 2015.

FIG 2.6 SEED DEALS BY INVESTOR TYPE

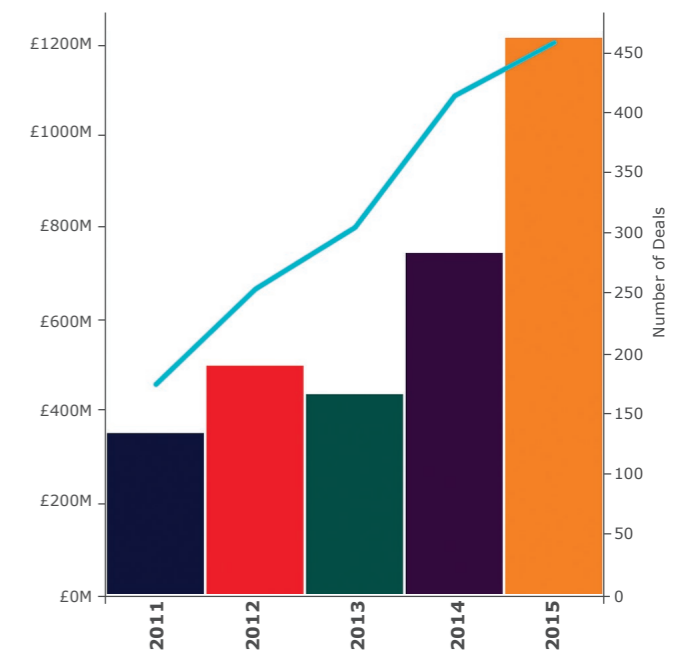


CHAPTER 3: VENTURE-STAGE

3.1 VENTURE-STAGE OVERVIEW

The number of equity investments at the venture-stage reached a record high in 2015 with 458 deals, growing by 11% compared to 2014. The total amount invested into venture-stage companies in 2015 also reached record levels having grown by a sizeable 62% to £1.2bn compared with 2014.

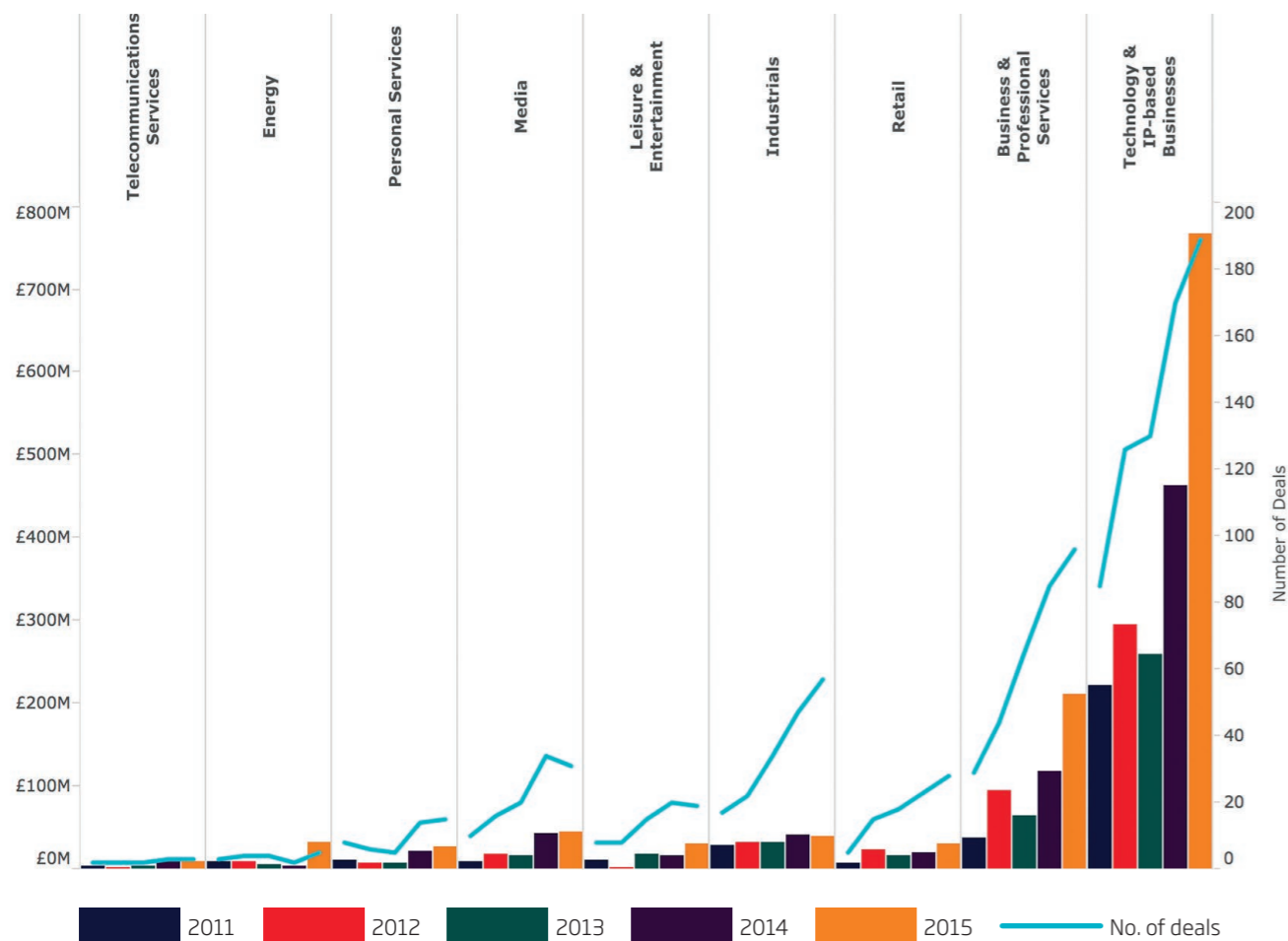
FIG 3.1 VENTURE INVESTMENT AND DEALS BY YEAR



3.2 SECTORS, VENTURE-STAGE

Technology and IP-based businesses is the largest sector at the venture stage, seeing large increases in funding amounts compared to 2014:²²

FIG 3.2a VENTURE INVESTMENT AND DEALS BY SECTOR



- The number of investments into technology and IP-based businesses grew by 11% while the amount invested grew by six times as much (66%) to £766m. Technology and IP-based businesses received more investment than all other sectors combined, forming 63% of the venture stage market overall.
- Business and professional services was the second largest sector in 2015, both in terms of the amount invested (£212m) and the number of investments (96 deals). Deal numbers grew by 13% compared with 2014, but the amount invested in the sector grew by 80% to reach a new record high.

- The retail sector saw steady growth in deal numbers in 2015. The past three years have each seen growth between 20% and 30% in yearly deal numbers in retail. The amount invested in the sector in 2015 reached a record high for the sector (£30m).
- The number of venture-stage investments into the industrials sector grew by 22% compared with 2014 but the amount invested fell by 4% in the same period. Industrials were the third largest sector in 2015 in terms of deal numbers (57 deals).
- Media was the only sector of the top five venture-stage sectors to experience a fall in the number of equity investments in 2015 (31 deals) compared with the previous year. The amount invested in the sector in 2015 (£44m) grew by 3%.

FIG 3.2ba VENTURE INVESTMENT AND DEALS BY SECTOR (EXCLUDING TECHNOLOGY & IP-BASED BUSINESSES, BUSINESS & PROFESSIONAL SERVICES)



3.3 TECHNOLOGY SUB-SECTORS, VENTURE-STAGE

Software remains the largest technology sub-sector at the venture-stage in terms of overall deal numbers, but life science is the largest sector by investment amount:

- Similar to the seed-stage, software remains the largest sub-sector at the venture-stage in terms of overall deal numbers (108). The amount invested into the sector grew by 43% to £185m in 2015.

- Life science had fewer deals than software in 2015, but is the largest sector in terms of total amount invested reflecting larger deal sizes, due to a small number of very large deals. The total number of investments at the venture-stage in 2015 (29) grew by only 5%. The total amount invested grew by 78% to reach nearly £0.5bn.

FIG 3.3a
VENTURE INVESTMENT AND DEALS BY TECHNOLOGY SUB-SECTOR

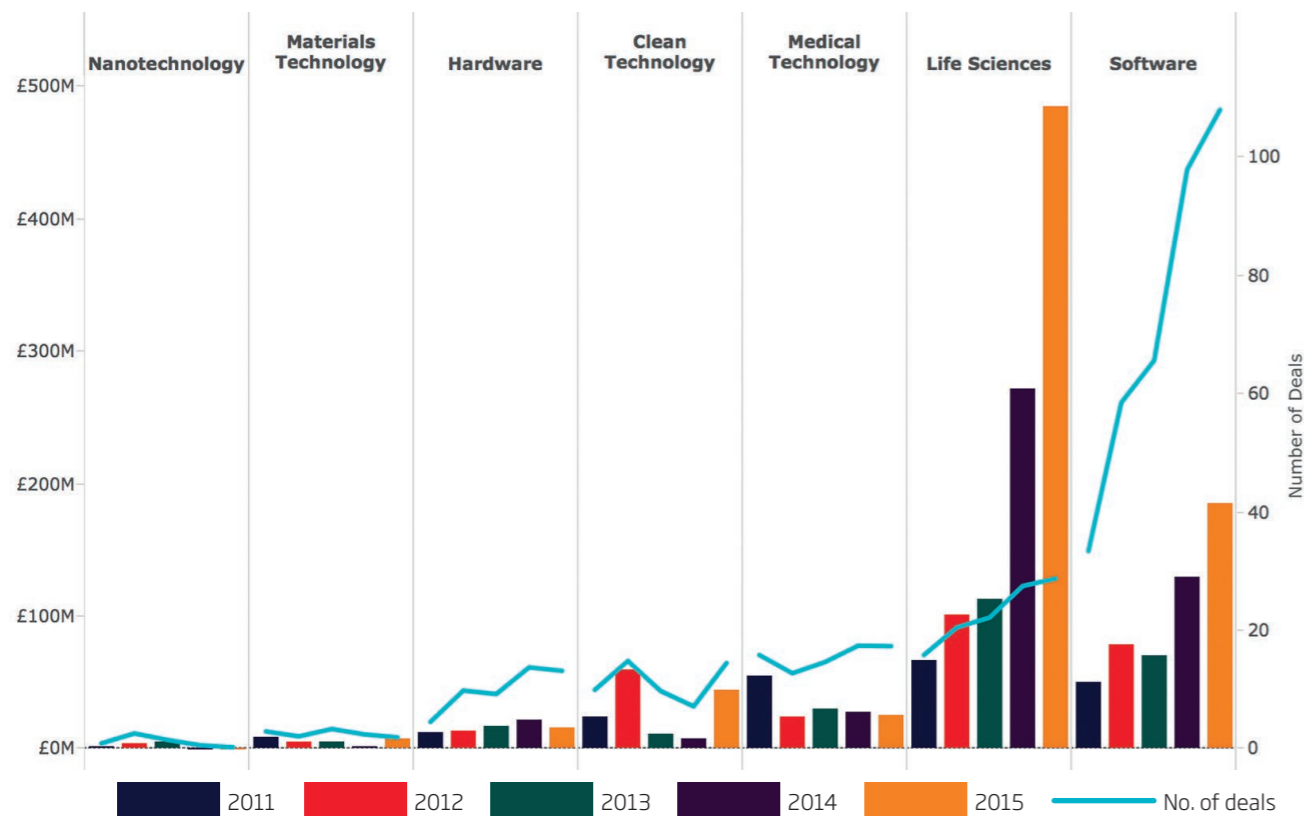
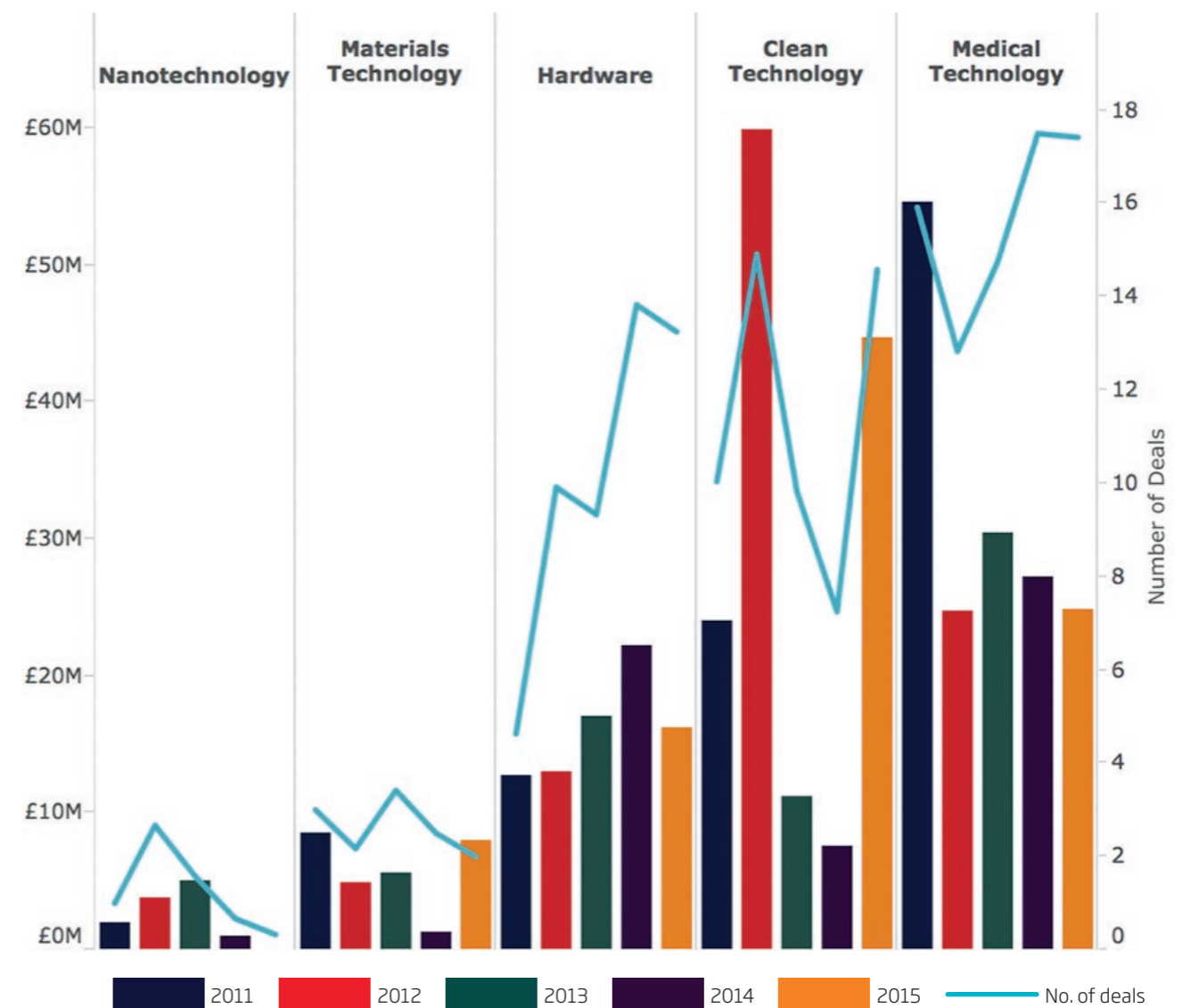


FIG 3.3b
VENTURE INVESTMENT AND DEALS BY TECHNOLOGY SUB-SECTOR (EXCLUDING LIFE SCIENCES, SOFTWARE)



3.4 REGIONS, VENTURE-STAGE

London is the region with the greatest number and value of equity investment at the venture-stage, followed by the South East.²³

- Just as at the seed-stage, London is the region with the greatest number and value of investments. Venture-stage deal numbers grew by 12% in 2015 compared with the previous year to 199; the amount invested grew by 80% to £557m. The amount invested in London in 2015 is five and a half times as much as was invested in 2011.

- The number of equity investments in the South East grew by 26% in 2015 to 63 and the amount invested grew by 88% to £339m. The amount invested in the South East in 2015 was greater than that invested in London in 2014.
- The North East saw its number of investments increase by 38% in 2015 but remains just below the high set in 2013. The amount invested in 2015 has grown by 1,092% compared to 2014.

- The North West saw deal numbers grow by 28% in 2015 compared with the previous year, matching 2013's record. The amount invested grew by 46% but remains below the record set in 2012.

- The number of deals in Scotland rebounded by 6% to 37 but remain below the record high level seen in 2013. The amount invested at the venture-stage, however, achieved a record high level of £67m after growing by 15%.

FIG 3.4a VENTURE INVESTMENT AND DEALS BY REGION

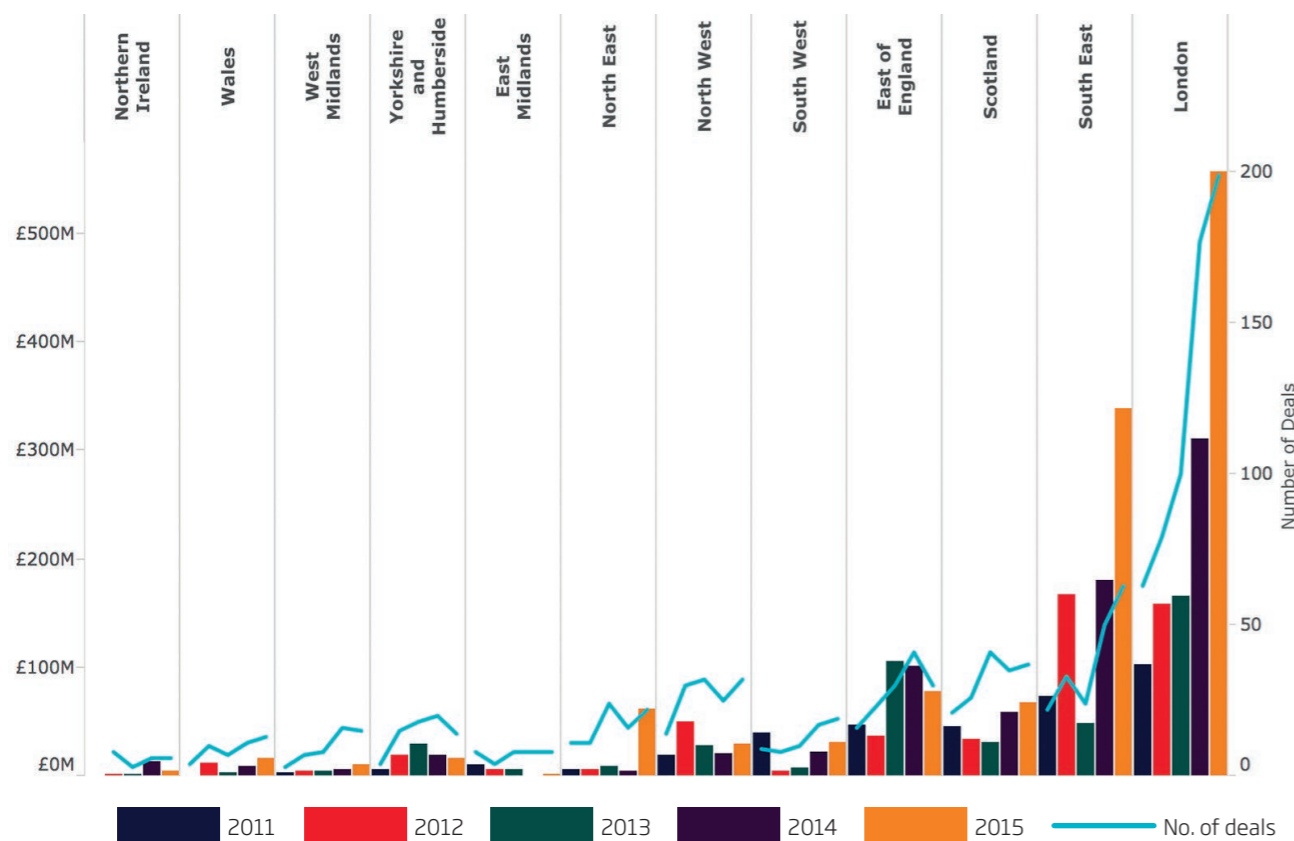
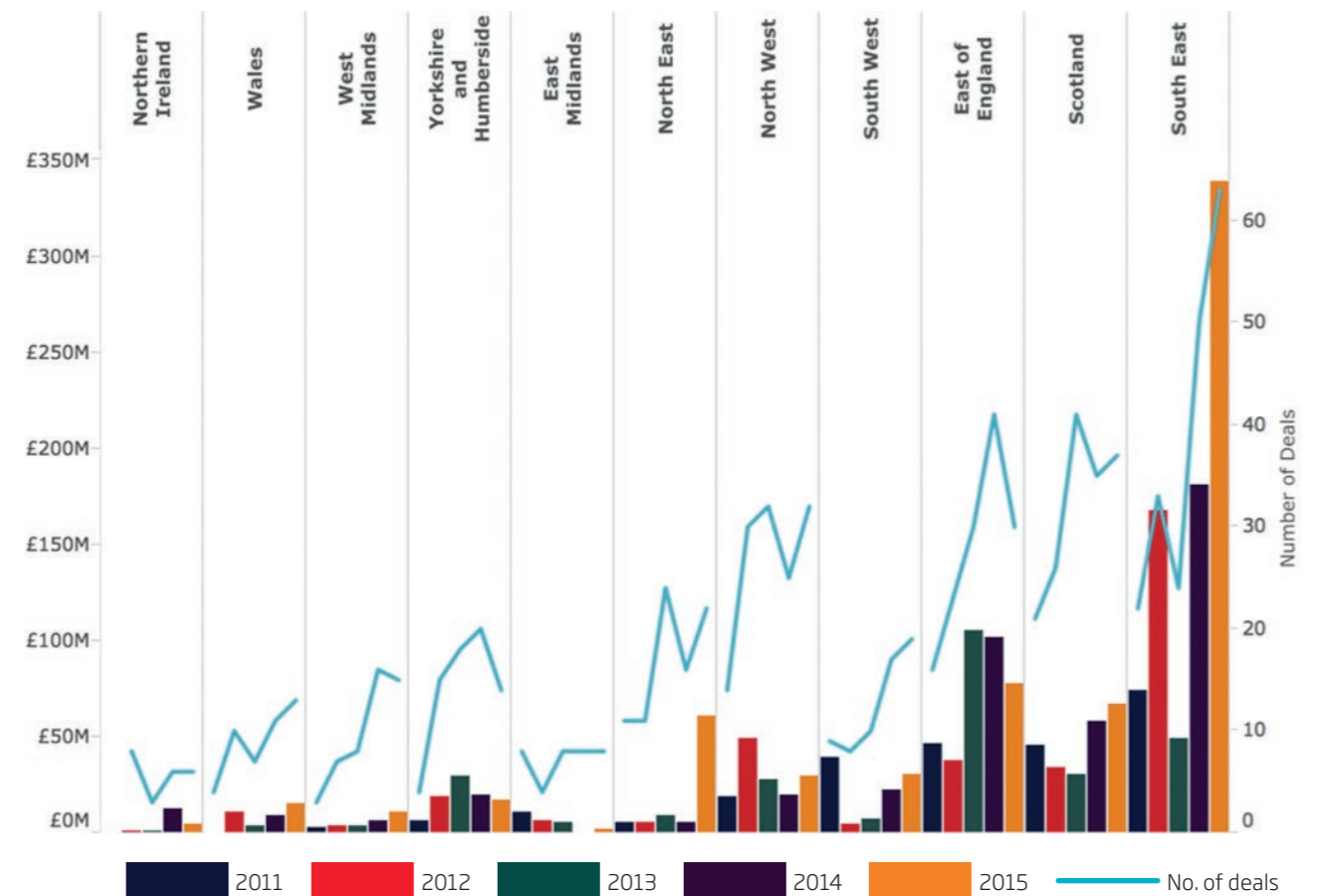


FIG 3.4b VENTURE INVESTMENT AND DEALS BY REGION (EXCLUDING LONDON)



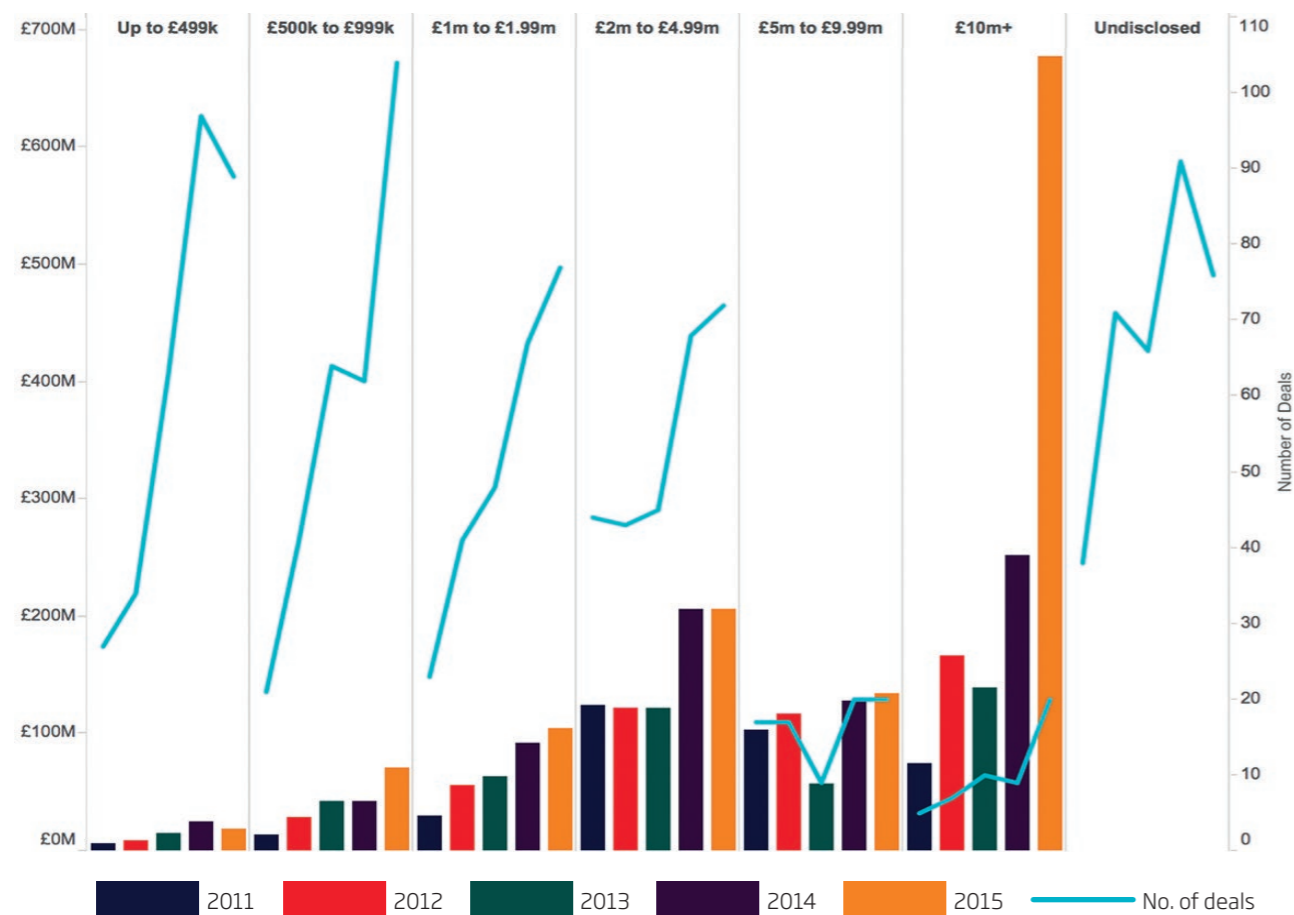
3.5 INVESTMENT CATEGORY, VENTURE-STAGE

There has been a large increase in deal sizes greater than £10m:

- Venture-stage investments generally have an even distribution across deal size investment categories up to £5m. There are a significant number of venture-stage investments above the £5m threshold but far fewer than below it.

- In 2015 the £10m+ category experienced the fastest growth with deal numbers growing by 122% - this corresponded to growth of 169% in the total amount of investment contained within the category (nearly £700m).
- The £500k-999k category also grew significantly (by 68%), accounting for more venture-stage deals than any of the other categories (23% for all deals, 27% for deals with disclosed investment amounts).

FIG 3.5 VENTURE INVESTMENT AND DEALS BY INVESTMENT CATEGORY



3.6 INVESTORS, VENTURE-STAGE

Private Equity remained the largest investor type at the venture-stage, maintaining a clear lead over all other investor types, despite a fall in deal numbers. Crowdfunding and angel networks experienced growth in deal numbers in 2015:²⁴

- Private equity, remained the largest investor type at the venture stage with 144 deals in 2015, but saw deal numbers fall by 18% compared with 2014.

- Crowdfunding experienced the fastest growth of any venture-stage investor type - growing by 54% to 83 deals. Crowdfunding remains just behind private investment vehicles (86 deals) and significantly behind private equity.

- After a small decline in 2014, angel networks recovered to achieve record deal numbers in 2015 (60) - although the figure was only up 5% compared with 2013.

FIG 3.6a VENTURE DEALS BY INVESTOR TYPE

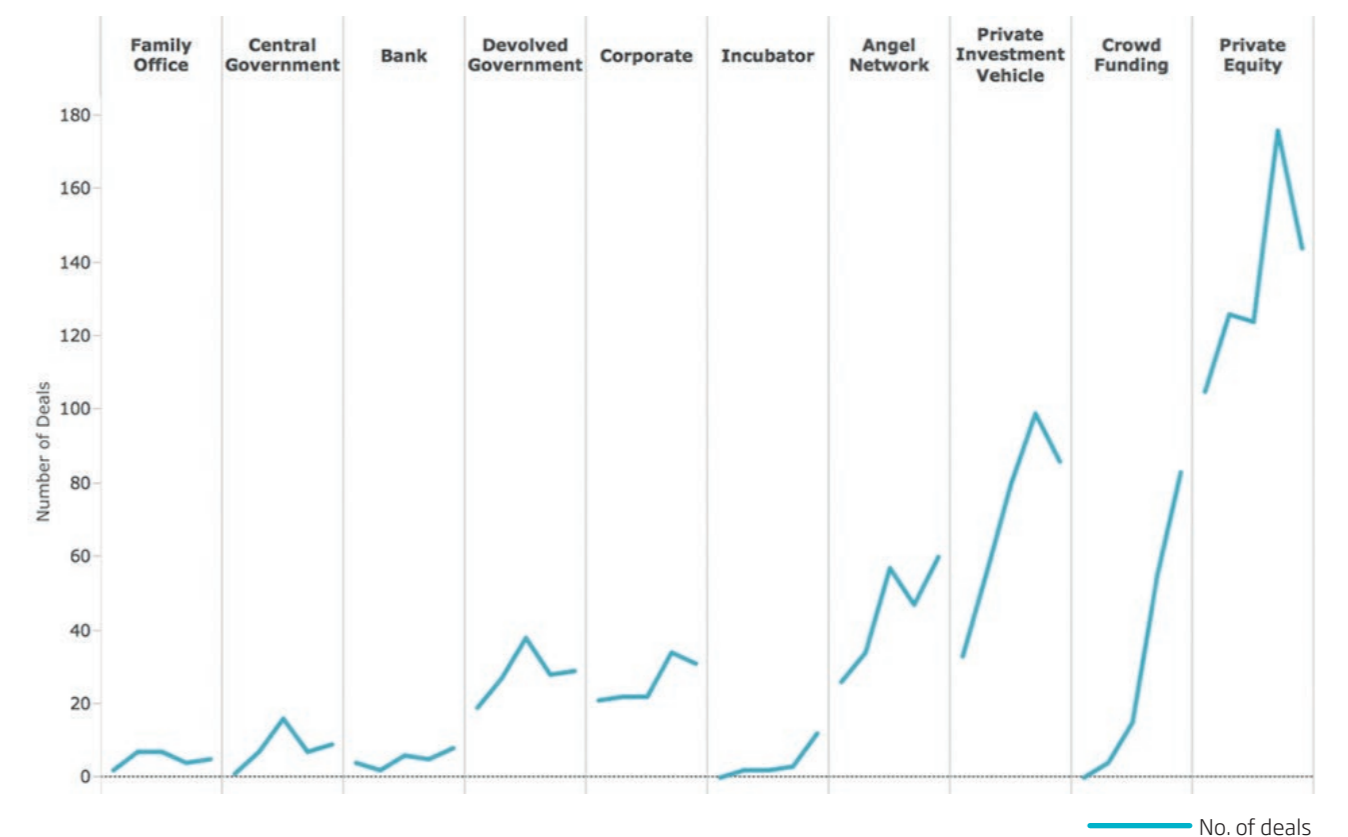
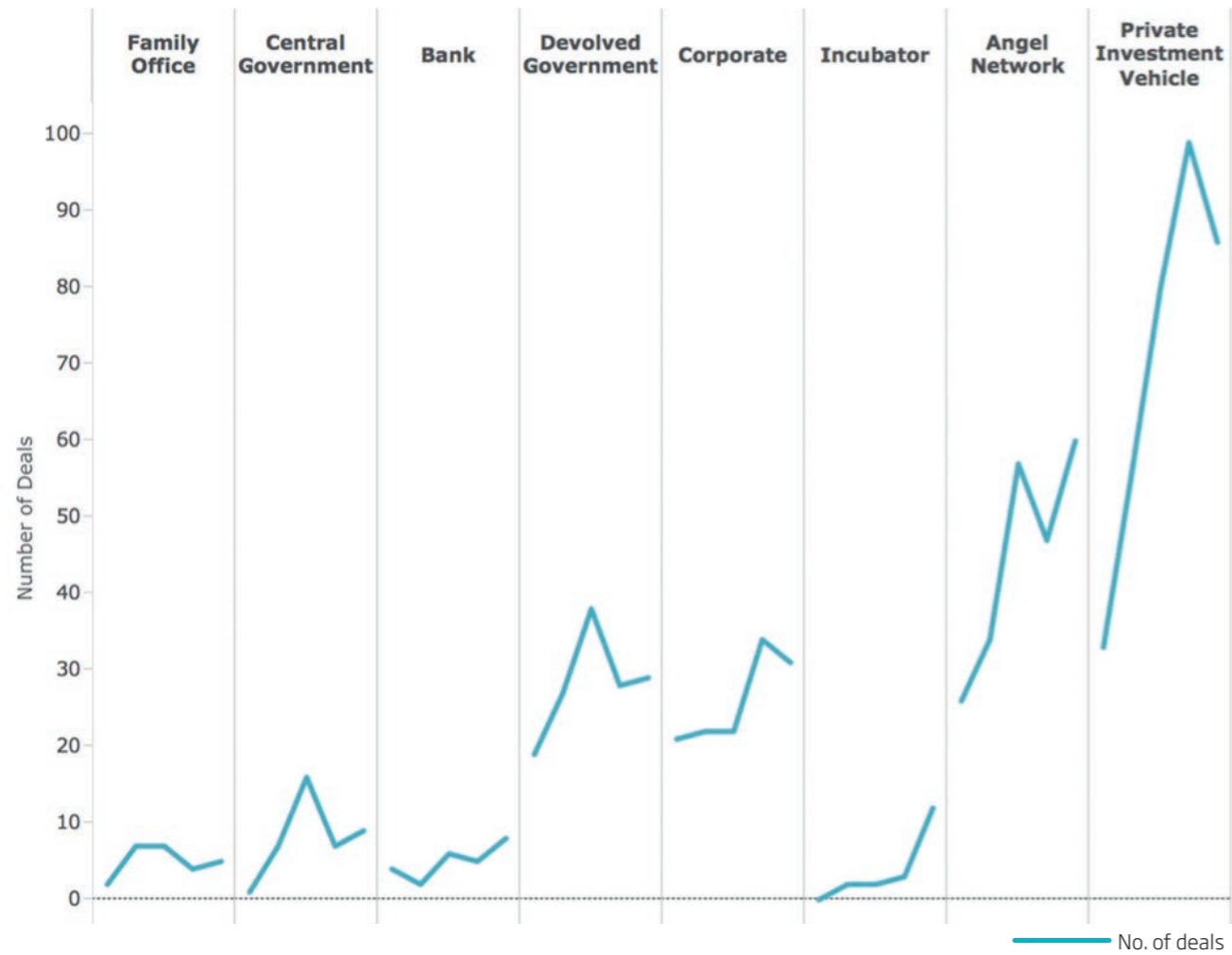


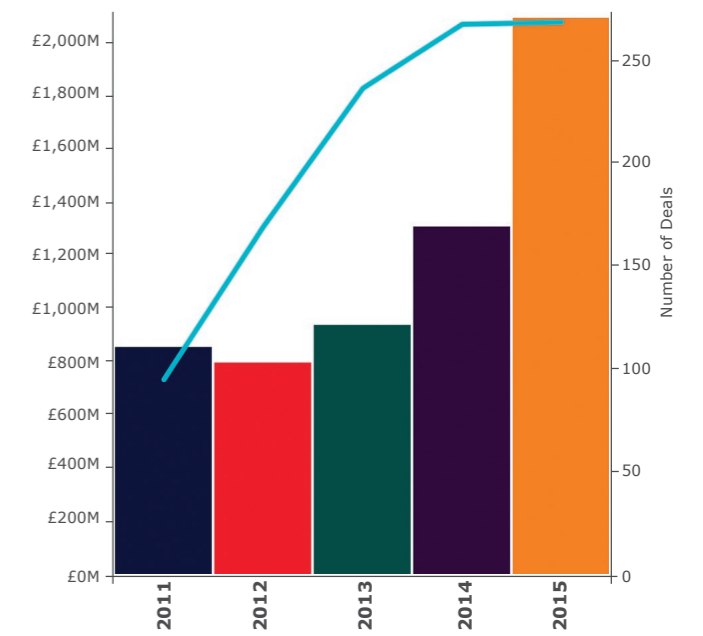
FIG 3.6b
VENTURE DEALS BY INVESTOR TYPE (EXCLUDING CROWDFUNDING, PRIVATE EQUITY)



4.1 GROWTH-STAGE OVERVIEW

The number of equity investments into growth-stage companies only just managed to reach a record high in 2015 of 268 deals, having grown by less than 1%. The total amount invested into growth-stage companies in 2015 reached record high levels (£2.1bn) having grown by a sizeable 60% compared with 2014.

FIG 4.1
GROWTH INVESTMENT AND DEALS BY YEAR

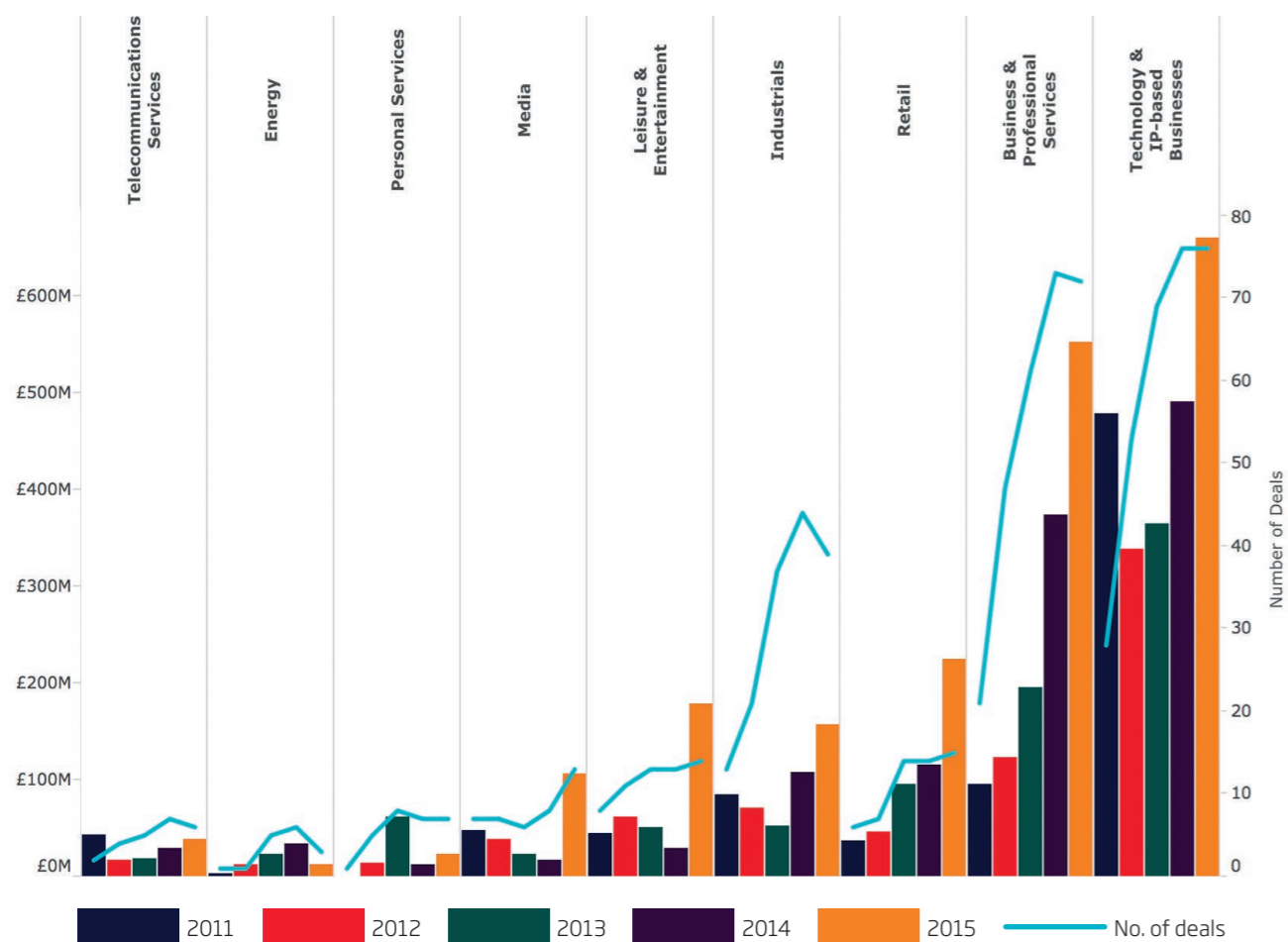


4.2 SECTORS, GROWTH-STAGE

Technology and business and professional services are the two largest sectors at the growth stage with investment amounts growing significantly compared to 2014:²⁵

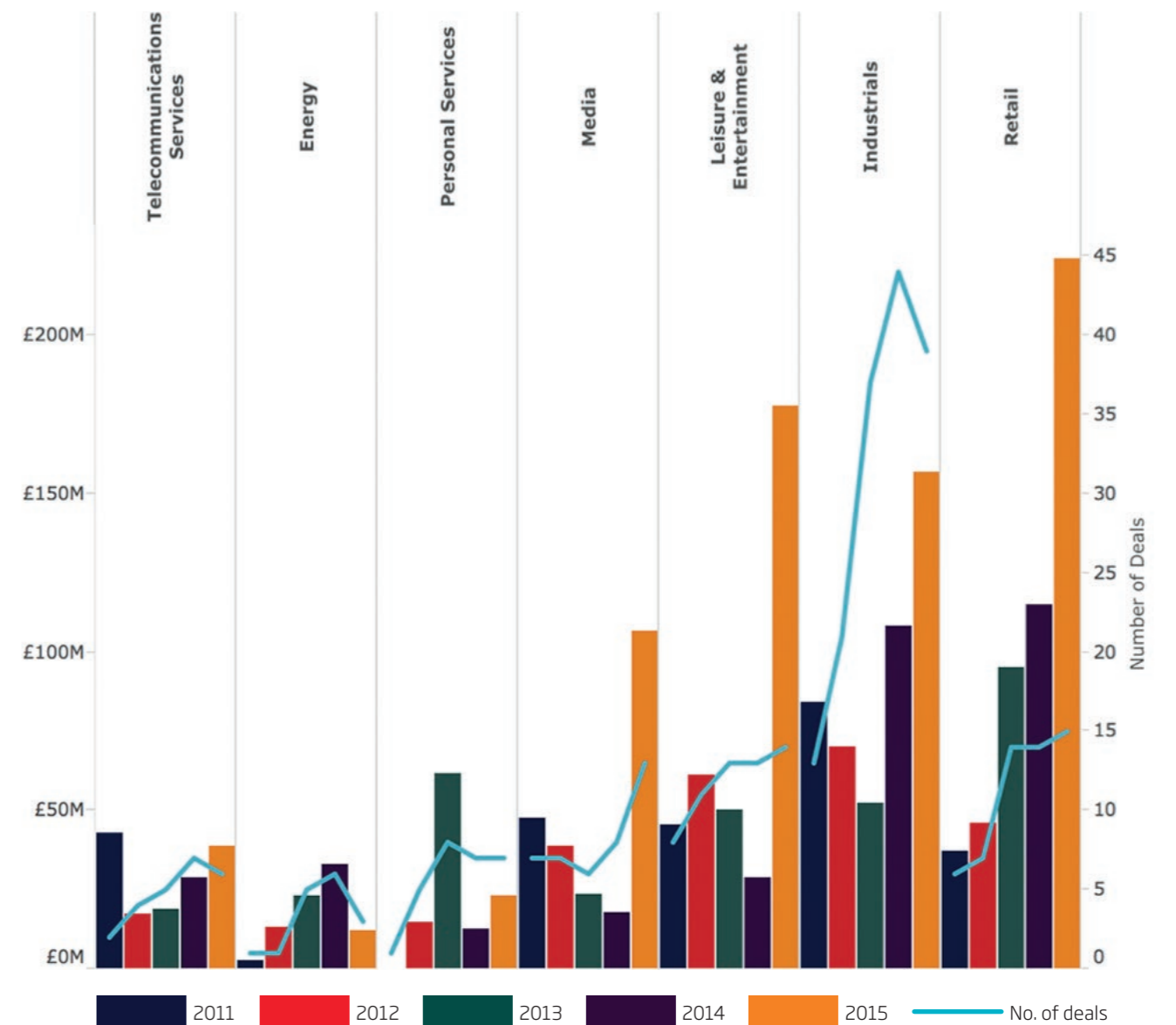
- In 2015 the number of investments into business and professional services fell by 1% compared with 2014 but the amount invested grew by 48% to £553m. Investment into business and professional services companies account for 27% of all growth-stage investment.

FIG 4.2a
GROWTH INVESTMENT AND DEALS BY SECTOR



- Technology/IP-based businesses saw deal numbers fall by less than a single percent in 2015 to 76 but this came after three consecutive years of double-digit growth. The amount invested in the sector grew by 34%, the second largest growth rate since 2011. Investment into technology/IP-based businesses accounted for 32% of all growth-stage investment.
- Media experienced its best year of growth in deal numbers in 2015 - growing by 58% to 13 deals in 2015- but grew even higher in terms of investment amount, which grew by 504% to £107m. This growth comes after three consecutive years in which the total amount invested fell.
- The number of investments into the retail sector has remained relatively flat in 2013-15 but in 2015 the total amount invested grew by 95% compared with 2014.
- The number of investments into industrials remained relatively strong in 2015, despite an 11% fall compared with the previous year. The amount invested grew by 45% in the same period.

FIG 4.2b
GROWTH INVESTMENT AND DEALS BY SECTOR (EXCLUDING TECHNOLOGY & IP-BASED BUSINESSES, BUSINESS & PROFESSIONAL SERVICES)



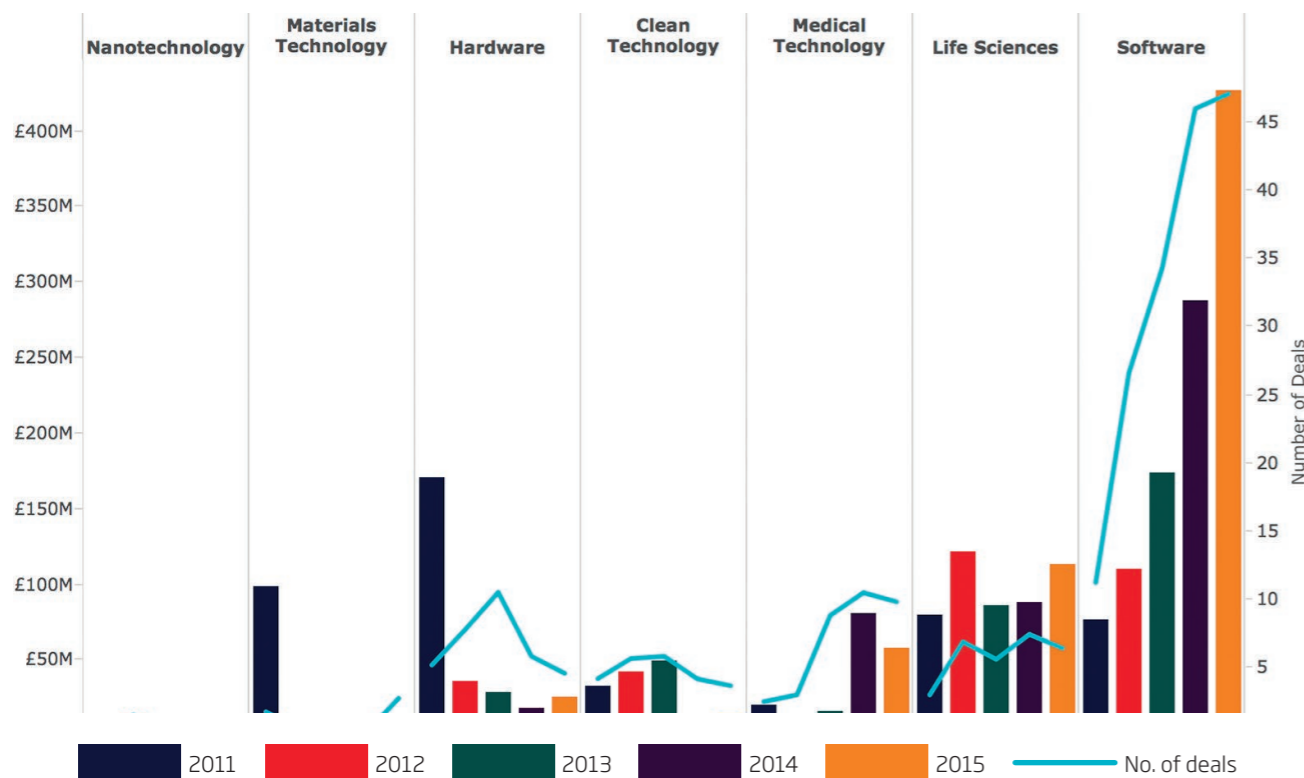
4.3 TECHNOLOGY SUB-SECTORS, GROWTH-STAGE

Software and life sciences continue to be the largest technology sub sectors at the growth stage by value of investment:

- Just as at the seed and venture-stages, software saw the most deals in 2015 and the greatest amount of investment (£426m). Software accounted for 62% of all technology deals and 65% of all investment in technology. The amount of investment grew by 48% in 2015 compared with the previous year, but the number of deals grew by only 2%.

- Medical technology was the next largest technology sub-sector in 2015 (10 deals) in terms of deal numbers but was behind life sciences in terms of amount invested - this is not surprising given that growth-stage life science investment are generally quite large. Medical technology accounted for 13% of all technology deals in 2015, despite having fallen by 6%.
- Life sciences deal numbers fell slightly in 2015 to 6, accounting for only 8% of technology deals. The amount invested in the sector, however, grew by 29% and accounted for 17% of total investment into technology sectors.

FIG 4.3 GROWTH INVESTMENT AND DEALS BY TECHNOLOGY SUB-SECTOR



4.4 REGIONS, GROWTH-STAGE

Similar to seed and venture stage investments, London is the region that has the greatest amount of growth-stage equity investment, with 2015 seeing large increases in funding going to this region:²⁶

- London saw growth in both deal numbers and the total amount invested in 2015 at the growth-stage. Four consecutive years of growth saw deal numbers rise by 24% in 2015 to 109. The total amount invested at the growth-stage increased by 114% to £1.34bn, the fastest annual rate of growth to date.

- The East Midlands, the West Midlands and the South West saw an increase in the total number of investments in 2015. This corresponded to an increase in the amount of total investment only in the East Midlands.
- In 2015 deal numbers continued to fall in the North East having fallen by 29% in 2014, they continued to fall in 2015 by a further 35%. The total amount of investment remains around £30m.

FIG 4.4a GROWTH INVESTMENT AND DEALS BY REGION

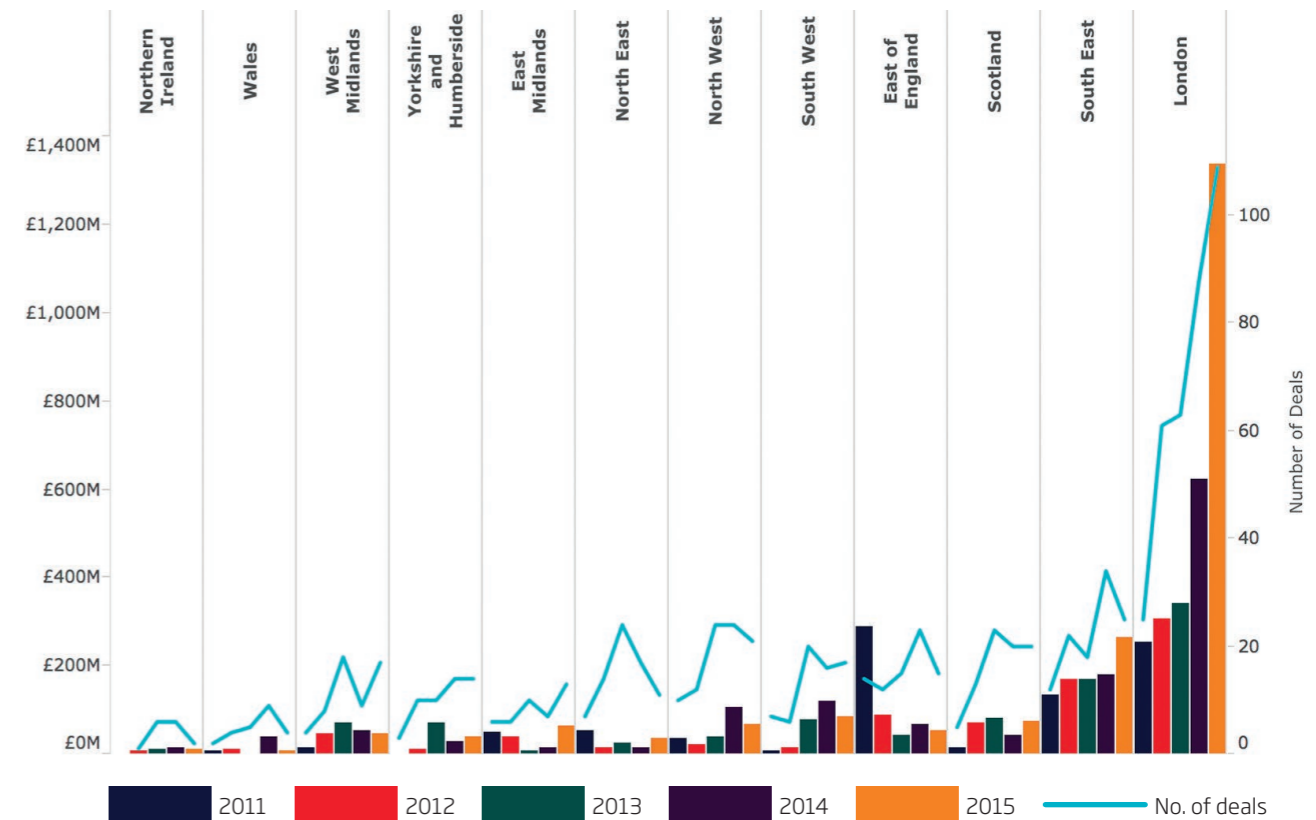
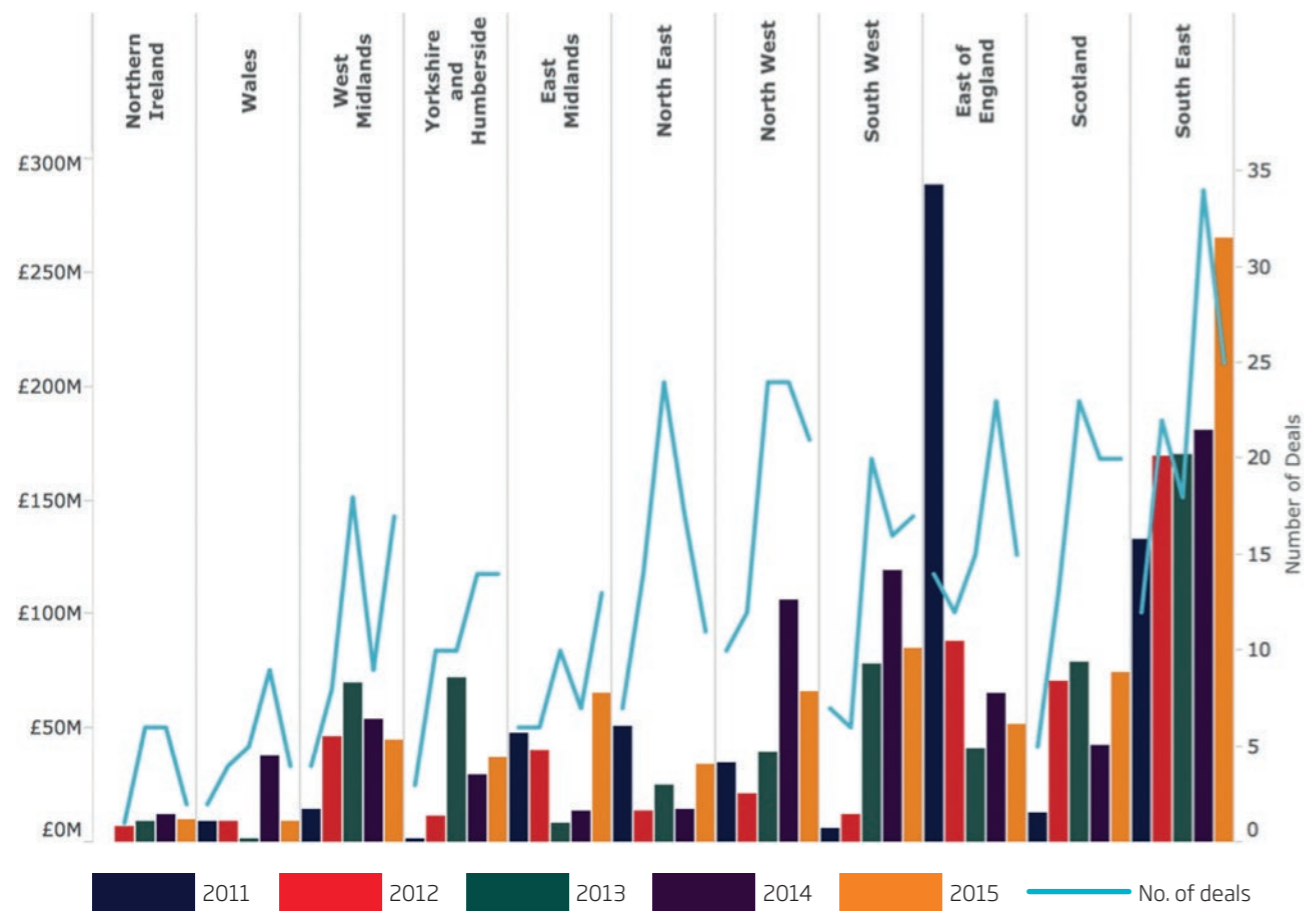


FIG 4.4b
GROWTH INVESTMENT AND DEALS BY REGION (EXCLUDING LONDON)



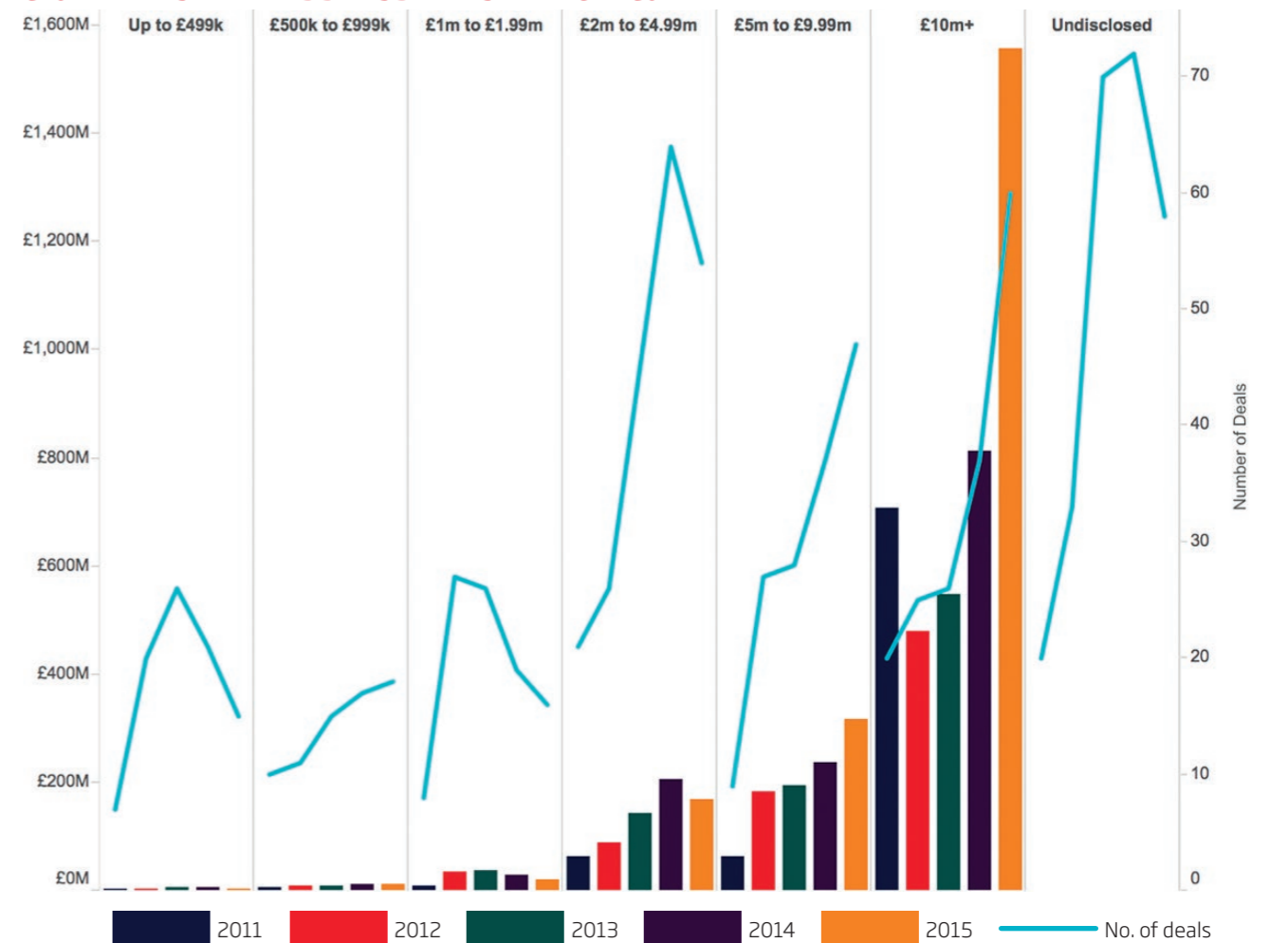
4.5 INVESTMENT CATEGORY, GROWTH-STAGE

£10m plus was the largest investment size category at the growth-stage:

- The number of deals within this category grew by 62%. Only the £5m to £10m and the £10m plus categories have seen their deal numbers grow each year since 2012.

- Deals greater than £10m in size formed 22% of all deals (29% for disclosed investment amount), but formed 75% of the total investment by value in 2015.

FIG 4.5
GROWTH INVESTMENT AND DEALS BY INVESTMENT CATEGORY



4.6 INVESTORS, GROWTH-STAGE

Private equity remains the largest investor at the growth-stage, though crowdfunding and corporate investors continue to increase their deal flow:²⁷

- Private equity's deal numbers grew by 4% in 2015 compared with 2014 to 158. Private equity investors formed 59% of all growth-stage deals in 2015.
- Private investment vehicles remained the second most active type of investor at the growth-stage in 2015, despite seeing their deal numbers fall by 36% compared to 2014.
- Crowdfunding continues to grow at the growth-stage, though at a much lower rate than at the seed or venture-stages. Crowdfunding platforms facilitated 6% of growth-stage investments in 2015, equivalent to 16 deals.

FIG 4.6a
GROWTH DEALS BY INVESTOR TYPE

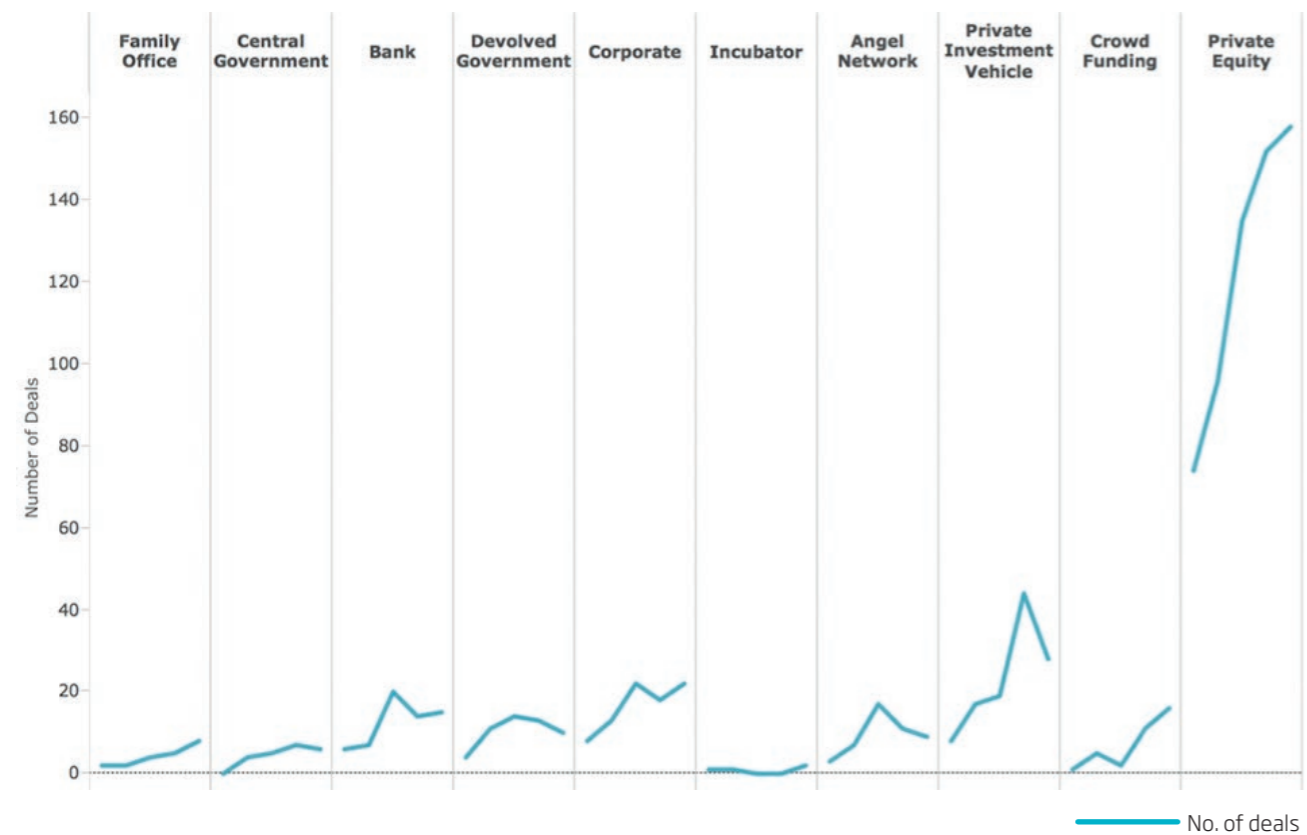
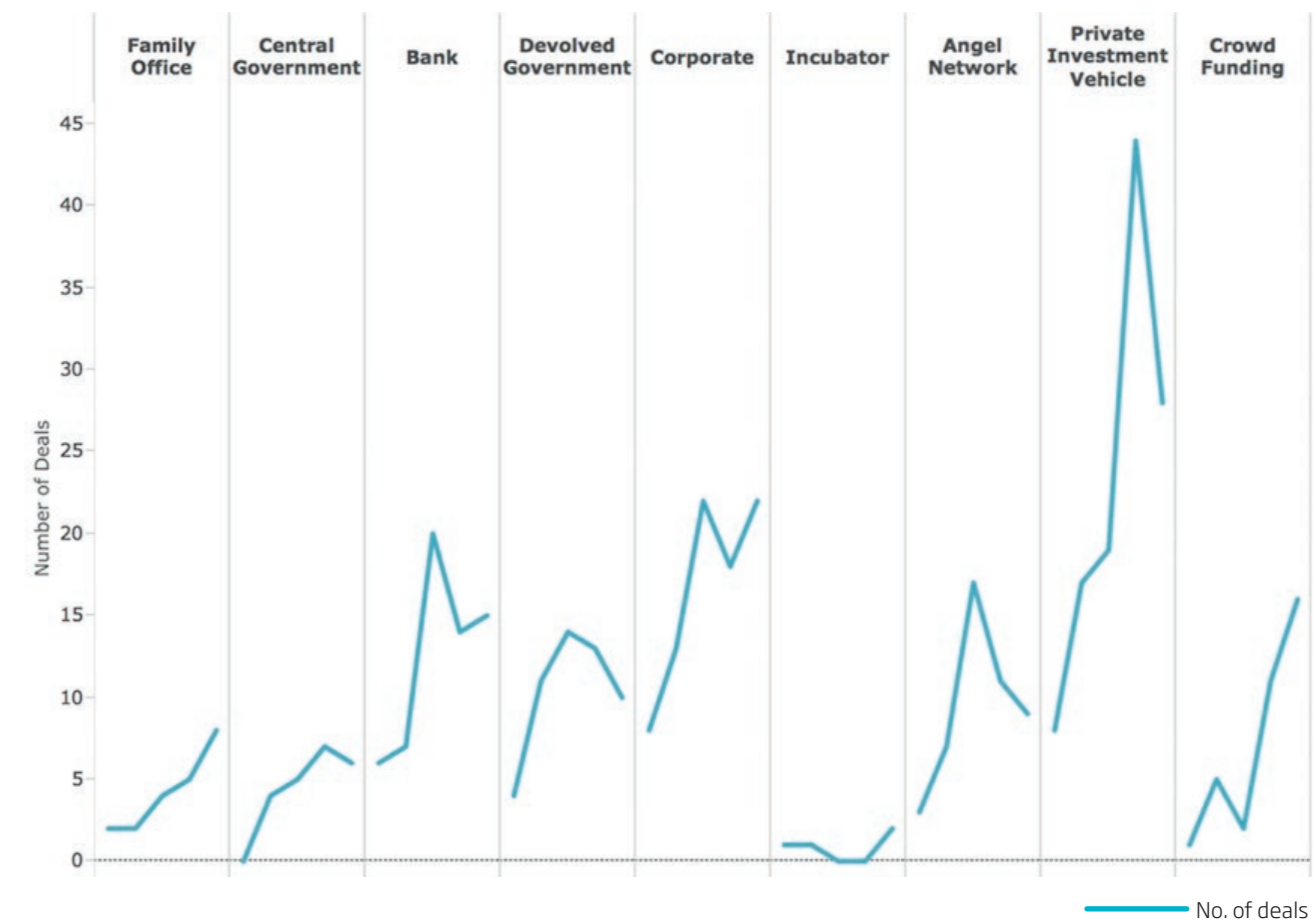


FIG 4.6b
GROWTH DEALS BY INVESTOR TYPE (EXCLUDING PRIVATE EQUITY)



CHAPTER 5: ACTIVITY BY BRITISH BUSINESS BANK EQUITY FUNDS

5.1 INTRODUCTION

This chapter²⁸ explores the characteristics of investments made by equity funds supported by the British Business Bank and compares the characteristics of these investments to those made in the wider equity market.²⁹

Between 2011 and 2015 there are 289 visible equity deals undertaken by funds financially supported by the British Business Bank in the Beauhurst dataset. This relates to 201 unique companies, with a total investment value of £905m.³⁰ This includes investments made by the following British Business Bank programmes:

- Angel CoFund
- Aspire Fund
- Enterprise Capital Funds (ECFs)
- UK Innovation Investment Fund (UKIIF)
- VC Catalyst Fund

SUMMARY OF BRITISH BUSINESS BANK PROGRAMMES

Programme	Objective
Angel CoFund	The Angel CoFund was established in 2011 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.
Aspire	The Aspire fund was established in 2008 to increase the supply of equity finance to women-led businesses with growth potential, but which would otherwise have struggled to raise private capital.
ECF	ECFs were established in 2006 as a rolling programme of funds to increase the supply of equity finance to high growth potential businesses that would otherwise have faced difficulties raising finance due to a lack of supply within the "equity gap".
UKIIF	UKIIF was established as a fund of funds in 2009 to increase the supply of equity finance to viable growing technology businesses in strategically important sectors such digital technologies, life sciences, clean technology and advanced manufacturing.
VC Catalyst Fund	The VC Catalyst Fund was announced in 2013 and invests in commercially viable venture capital funds that might otherwise fail to reach a satisfactory "first close".

Further information on British Business Bank programmes, including their design and investment criteria can be found on the British Business Bank website.³¹

It is important to acknowledge that the figures presented in this chapter are based on a sample of deals that British Business Bank-supported funds undertake, as some deals are not publicly announced and hence are not included in the Beauhurst dataset.³²

The table below illustrates this by showing the coverage of the Beauhurst data compared to the Bank's own monitoring data. As a result of being only a sample of British Business Bank activity, this chapter reports investment patterns using percentage figures for ease of comparison.

COVERAGE OF BEAUHURST INVESTMENTS AGAINST BRITISH BUSINESS BANK ADMINISTRATIVE DATA, 2011-2015

Programme	Number of visible British Business Bank-supported investments (unique investments only)	Total number of UK British Business Bank-supported investments (2011-2015)	Coverage (%)
Angel CoFund & Aspire	50	64	78%
ECF	102	151	68%
UKIIF & VC Catalyst Fund	49	117	42%
Total	201	332	61%

The Beauhurst dataset covers 61% of the total number of British Business Bank fund investments. It is important to acknowledge that no equity dataset has full coverage of the total UK equity market as there is not a central requirement to record equity investments or make information about them publicly available. The coverage of the British Business Bank deal population should also be considered as a possible proxy measure of Beauhurst coverage of the wider equity market, assuming that there is equal propensity to disclose deals. However, there is some evidence to suggest Beauhurst coverage of British Business Bank fund deals has deteriorated in more recent years from 75% in 2013, to 53% in 2014 and 45% in 2015. This could reflect a change in the behaviour of existing British Business Bank fund managers or new fund managers choosing not to make a public announcement.

It should be noted that British Business Bank programmes largely operate through Venture Capital funds set up as Limited Liability Partnerships and through co-investment with business angel syndicates through the Angel Cofund. Therefore, the wider market comparison is not necessarily "like with like", as the Beauhurst data includes a wider range of investors beyond VC funds and angel networks - such as private investors, crowdfunding and local/regional government - which may have different investment behaviour.

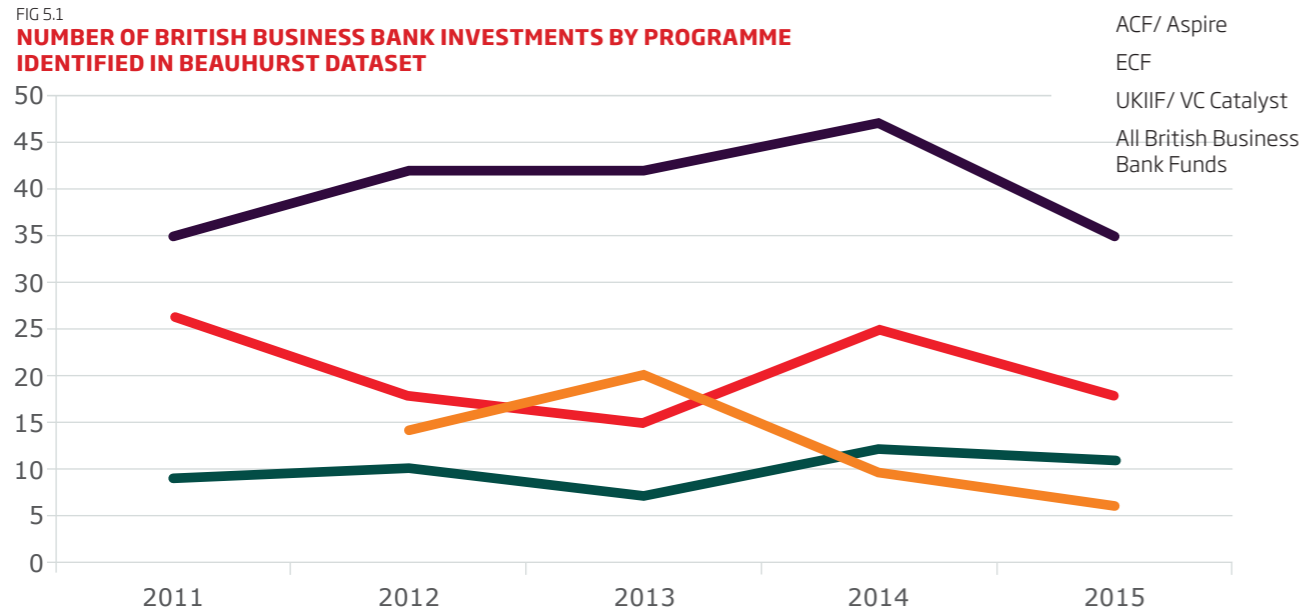
The following graph shows the number of unique³³ British Business Bank-supported investments over time identified by Beauhurst. The number of identified British Business Bank programme investments increases gradually over time from 49 in 2011 to 89 in 2014, before declining in 2015. Care should be taken in interpreting this finding as programme data shows the total number of British Business Bank supported fund investments in the UK fell in 2015 (from 89 to 77 investments per year).

In the last two years, the ECF programme has made the largest number of identified investments, followed by the combined UKIIF/ VC catalyst programme. The number of combined Angel Cofund/ Aspire fund investments has declined since 2013.

The proportion of deals that are unique are declining over time from 100% in 2011 to 56% in 2015, reflecting multiple funding rounds being recorded within the Beauhurst database. Analysis undertaken in the rest of this chapter is based on deals, rather than unique companies as per the rest of the report.

Based on the number of visible investments, British Business Bank programmes are estimated to have supported around 6% of all equity deals between 2011 and 2015 and these deals formed around 9% of the overall invested equity amount.

FIG 5.1 NUMBER OF BRITISH BUSINESS BANK INVESTMENTS BY PROGRAMME IDENTIFIED IN BEAUHURST DATASET



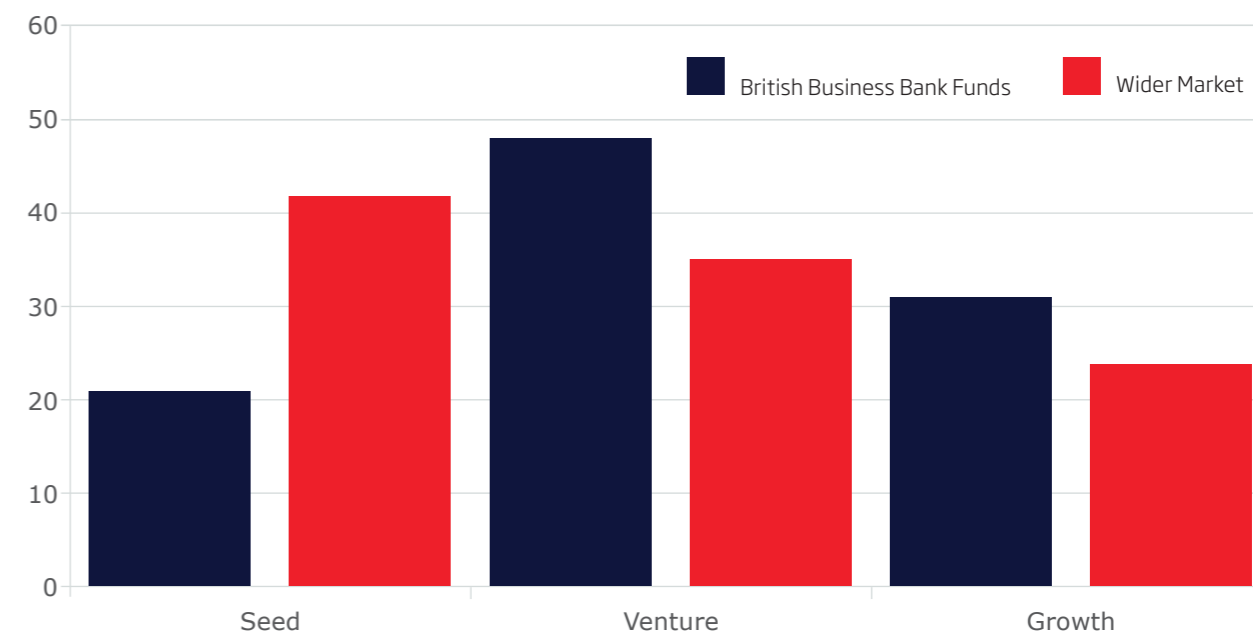
5.2 BUSINESS STAGE

The majority (69%) of British Business Bank-supported fund investments take place at the seed or venture-stage:

- This is lower than the wider equity market, where 77% of deals are at the seed or venture-stage over the same time period. In terms of number and value of investments, British Business Bank-supported funds invest a lower amount in seed-stage investments, but a higher proportion in venture-stage deals, compared to the overall market.

- Growth-stage deal sizes are larger than seed-stage and venture-stage deals, and accounts for 58% of British Business Bank-supported deals by value, compared to 31% by number. However, 60% of investment in the wider equity market is at the growth stage, despite it forming 23% of deals by number, suggesting larger growth stage deals.

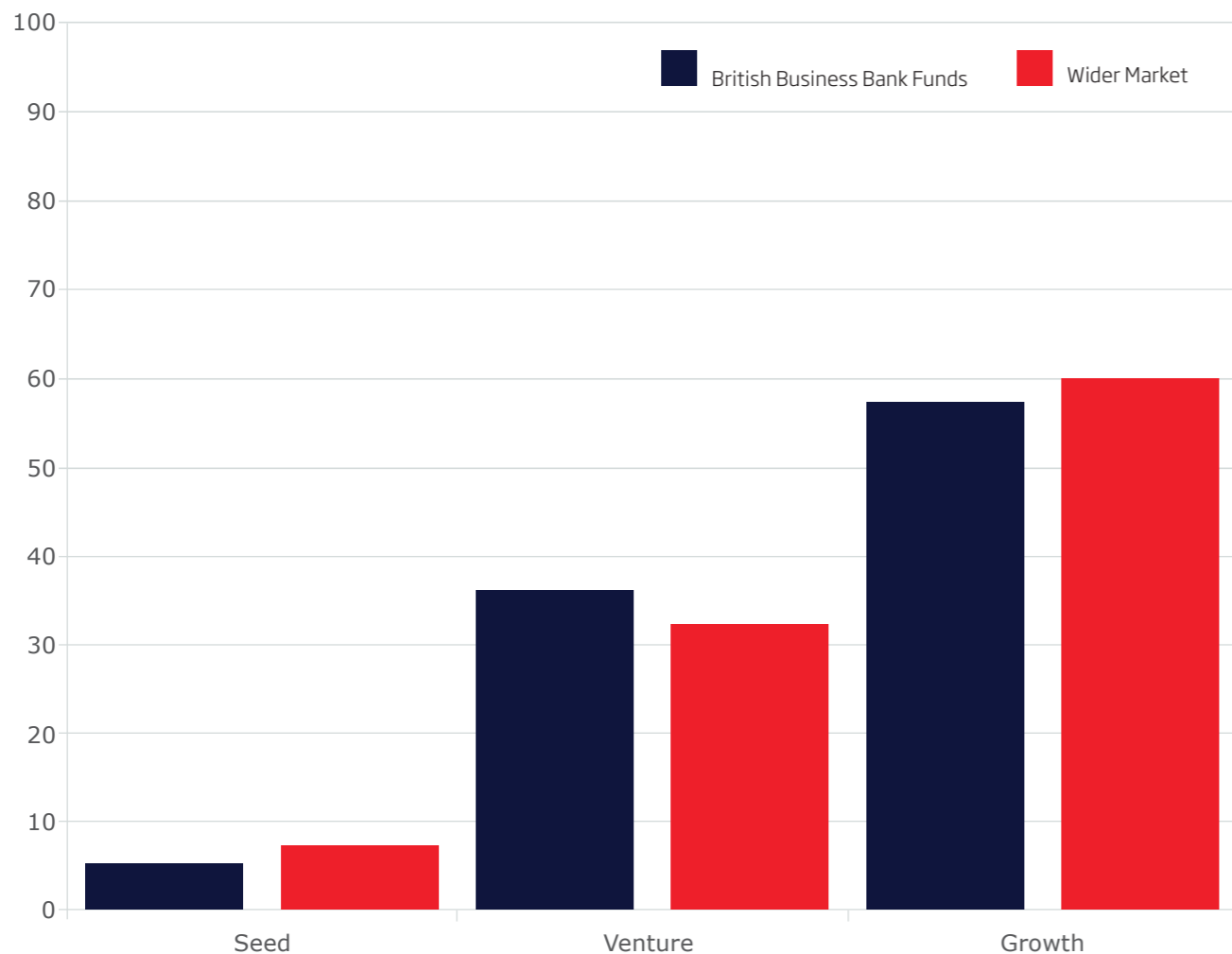
FIG 5.2a PROPORTION OF DEALS BY STAGE, 2011-2015



- The increased prevalence of crowdfunding deals may distort the comparison, and it is useful to compare against other VC funds. On this measure, British Business Bank funds appear to be making a slightly smaller proportion of their investments in seed (21% compared to 25% for other VC funds) and also lower proportion of growth stage deals (31% compared to 36%), but a larger share of deals are in the venture stage (48% compared to 36%).

- An examination over time reveals seed investments made by British Business Bank funds have been declining as a proportion of overall deals from 31% in 2011 to 15% in 2014, before increasing to 19% in 2015.
- Growth investments have increased in the British Business Bank portfolio and form 44% of all deals made in 2015. This may reflect the impact of UKIIF and VC catalyst fund investments within the overall portfolio. Care is also needed in this interpretation due to reduced coverage of the British Business Bank deal population in 2015. Larger deals could be more likely to be announced, which will skew the distribution of deals.

FIG 5.2b
PROPORTION OF INVESTMENT BY STAGE, 2011-2015



- There are some differences by British Business Bank programme, with the combined Angel CoFund/ Aspire Fund and ECFs having the highest share of seed-stage investments (24% and 22% respectively), in line with the programme objectives of supporting early stage deals.
- Although British Business Bank-supported funds were involved in 6% of all equity deals, there is some variation by investment stage. Funds supported by the Bank account for just 3% of the seed market (but this may reflect the increased number of crowd funding deals at the seed stage), but 9% at the venture stage, and also 9% of the growth stage.

- It is a similar picture when looking at investment amount, although British Business Bank funds form a slightly higher percentage of the market (9%) overall. It is important to acknowledge, that this investment amount does not reflect the amount of British Business Bank fund funding, as it also includes the funding from other investors who syndicate alongside the British Business Bank supported fund.

FIG 5.2c
PROPORTION OF DEALS BY STAGE OVER TIME

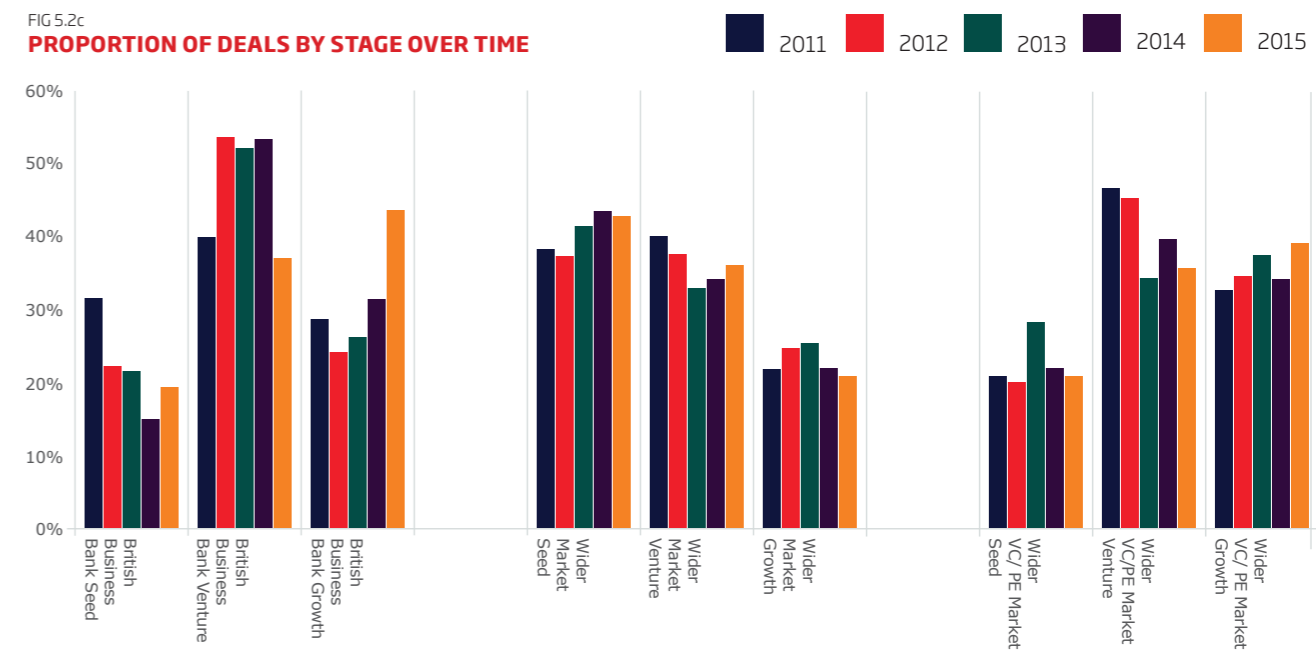


FIG 5.2d
BRITISH BUSINESS BANK PROGRAMME DEALS BY STAGE, 2011-2015

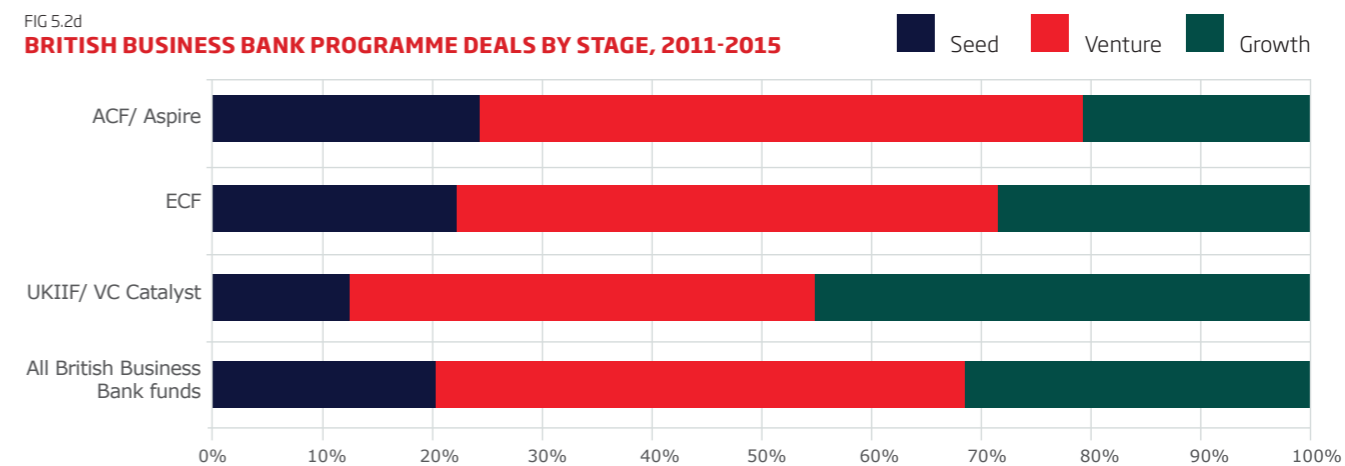


FIG 5.2e
BRITISH BUSINESS BANK FUND INVESTMENTS AS A PROPORTION OF THE WIDER EQUITY MARKET, BY STAGE, 2011-2015

Stage	Proportion of wider market: deals	Proportion of wider market: investment
Seed	3%	6%
Venture	9%	10%
Growth	9%	9%
Total	6%	9%

5.3 SECTOR

British Business Bank-supported funds invest in similar sectors to the wider equity market, with the Technology/IP-based sector being the largest sector both in number of deals and value of investment:³⁴

- The technology/IP-based sector accounts for 50% of deals and 49% of investment made by British Business Bank-supported funds, which is higher than any other sector. Business and professional services is the second most common sector, with a share of 22%, by number and 24% by value.
- This is similar to the wider equity market, where the technology/IP-based sector is also the largest by number and value (39% and 48% respectively), although these higher shares indicate British Business Bank-supported funds are dedicating a larger proportion of deals in the technology sector compared to other investors in the market.

- Within the technology/IP-based sector the software sub-sector leads the way, forming 28% by number and 28% by value of all British Business Bank programme investments. This is higher than the wider market where software forms 22% by number and 18% by value. The life sciences sector formed 7% of all British Business Bank fund deals (9% value), but the wider equity market undertakes larger life science deals as it forms 17% of all investments by value (5% deals overall).

FIG 5.3a
ACTIVITY BY SECTOR, 2011-2015

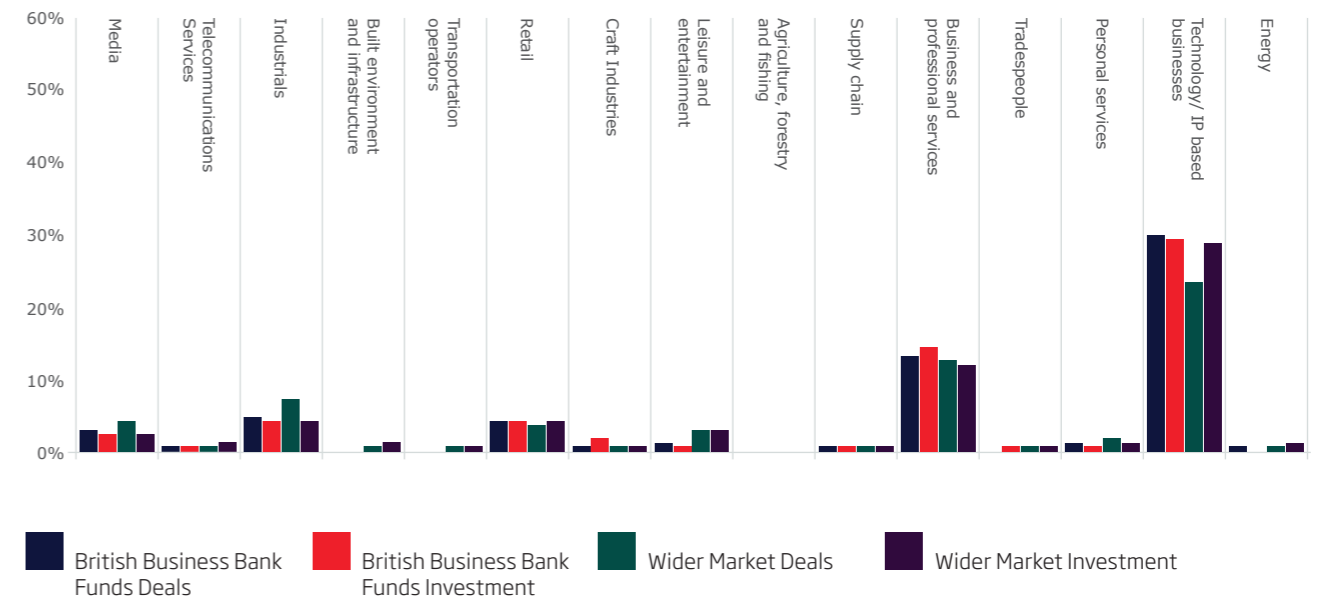


FIG 5.3b
ACTIVITY BY SUB SECTOR, 2011-2015



5.4 REGION

British Business Bank-supported funds follow the wider equity market, with London receiving the highest share of investment:

- Over half of all investment made by British Business Bank programmes between 2011 and 2015 occurs in London (53% by number and 59% by value), which is higher than the wider equity market where the share is 40% by number and 45% by value. The remaining distribution of investments by region approximately follows that observed in the wider equity market, although the share of deals and investments in the South East is lower than the wider market.
- British Business Bank programmes do not generally have any geographic restrictions or mandates in their investment activities, and so follow wider market trends. The Northern Powerhouse and Midlands Engine Investment Fund will increase the availability of funding in Northern and Midlands regions.

- It should be noted that JEREMIE³⁵ funds, which make public-backed investments in northern England, are not included in the British Business Bank's investment figures within this report. Funds operated directly by the devolved administrations in Scotland, Wales and Northern Ireland are also categorised separately. The presence of such funds has a significant impact on the total amount of funding available, but their exclusion from the British Business Bank figures understates the total amount of public investment in these regions and countries.
- The inclusion of publicly backed funds in the wider Beauhurst figures overstates the amount of private sector funding going to these regions. The following chart shows the proportion of deals that involve local, regional or devolved government investors by region of the UK. There is a clear divide between the south and east of England on the one hand, where local and regional funds have been involved in relatively few deals, and the rest of the UK, where the local, regional and devolved government investors are in many cases involved in a majority of deals (up to 69% in the case of the North East).

FIG 5.4a
PROPORTION OF INVESTMENT BY REGION, 2011-2015

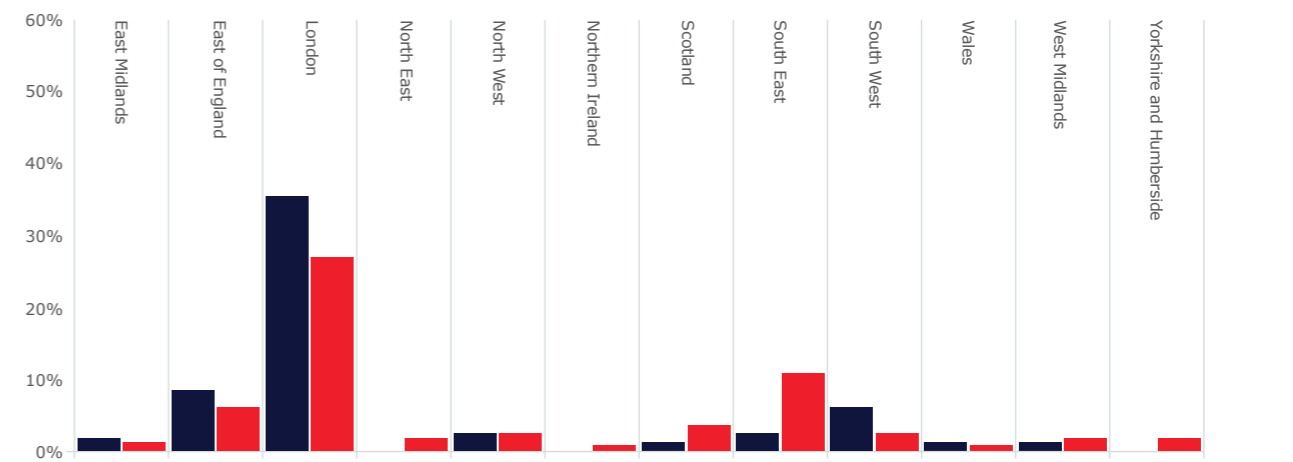


FIG 5.4b
PROPORTION OF DEALS BY REGION, 2011-2015

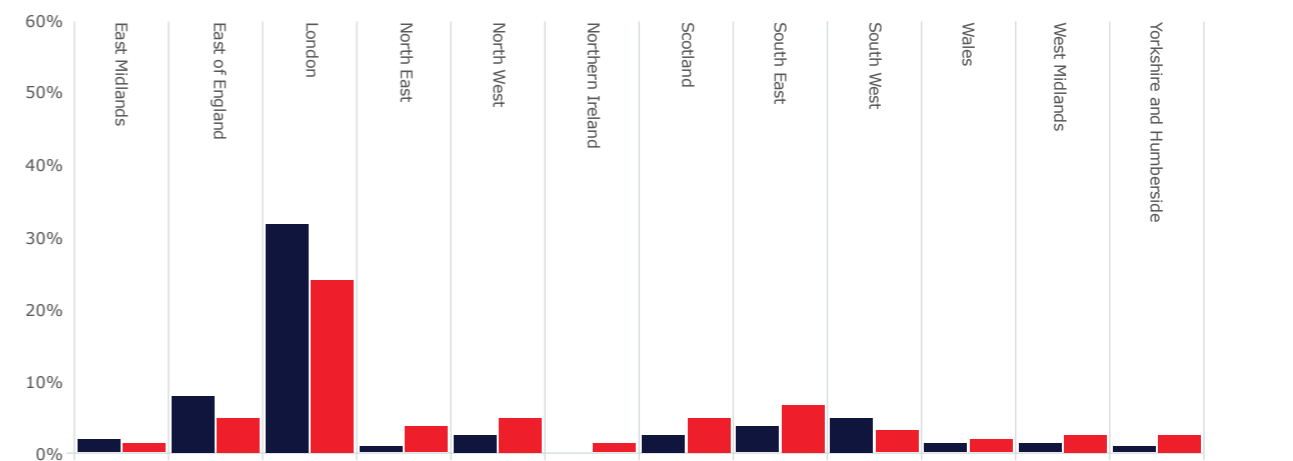
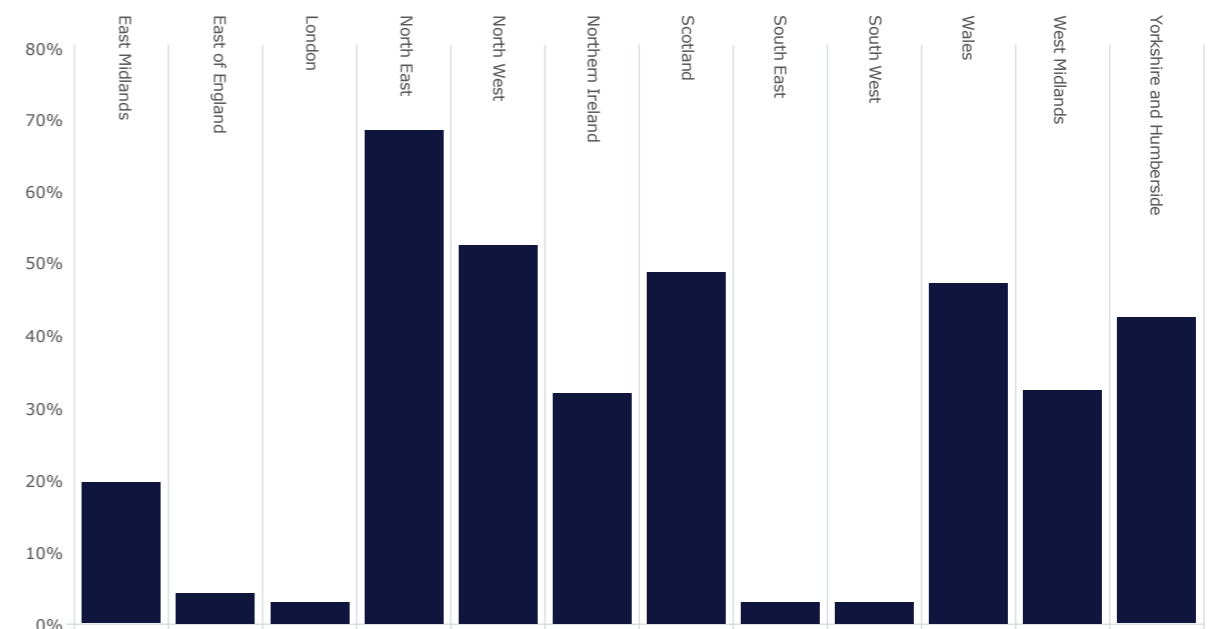


FIG 5.4c
SHARE OF DEALS INVOLVING LOCAL, REGIONAL OR DEVOLVED GOVERNMENT INVESTORS, BY REGION 2011-2015



5.5 INVESTMENT CATEGORY

British Business Bank-supported funds are targeted at the mid-range of deal sizes (£500,000-£5m) where the equity gap is thought to be greatest:³⁶

- The average reported deal size for British Business Bank-supported funds is £3.7m (median £2.0m). 25% the Bank's fund investments are in the £1m to £1.99m category, 19% in the £500k-£999k category and 28% between £2m and £4.99m. It is important to recognise this reflects total round size, rather than the specific funding amount provided by the British Business Bank supported fund. The total round size may reflect the extent British Business Bank supported funds can leverage additional funding from other equity providers.
- British Business Bank-supported funds appear to be completing larger deals than the wider market. This is most noticeable in the up to £499k band, which receives only 4% of British Business Bank-supported fund investments, compared with 41% from the wider market.
- There are two main reasons for the observed differences in deal sizes. Firstly, as outlined earlier in this chapter, British Business Bank programmes largely operate through formal venture capital funds and co-investment with angel syndicates. This approach lends itself to relatively larger deals. In contrast, the wider market figures include a broader range of investors, many of which – such as crowd funders – are mainly involved in smaller deals. Restricting the wider market to include only VC/PE funds shows BBB funds are much more aligned with 23% of deals below £1m (compared to 25%), 53% of deals between £1m to £5m (46%) but a lower proportion of deals above £10m (9% compared to 15%).

- Secondly, it is widely accepted that an “equity gap” exists at the early stage, which leaves viable businesses with growth potential lacking the investment they need. Views on the exact range of the equity gap vary, but it is often thought of as affecting certain businesses seeking investment from a few hundred thousand pounds up to as much as £5m. British Business Bank funds are intended to address the equity gap by investing where private capital is relatively lacking. Therefore, British Business Bank funds have a greater activity in deals between £500k and £5m is largely by design (72%) compared to PE/ VC funds (58%). British Business Bank deal sizes are also smaller than other VC/PE funds
- It is widely documented that there has been an increase in valuations recently, which has led to larger deal sizes in 2015 and this is also shown in the data.
- There is a wide degree of variation in average deal size between British Business Bank programmes and also between different investment stages. For instance, the average UKIIF/ VC Catalyst investment size is £7.2m, reflecting a focus on later-stage and/or capital intensive firms, whilst the combined Angel Cofund and Aspire funds have an average deal size of £1.9m. Average deal size also varies by investment stage, with the average size of British Business Bank seed-stage deals is £1.1m, venture-stage firms receive around £2.6m, and growth deals average £6.5m.

FIG 5.5a
PROPORTION OF DEALS BY INVESTMENT SIZE CATEGORY, 2011-2015

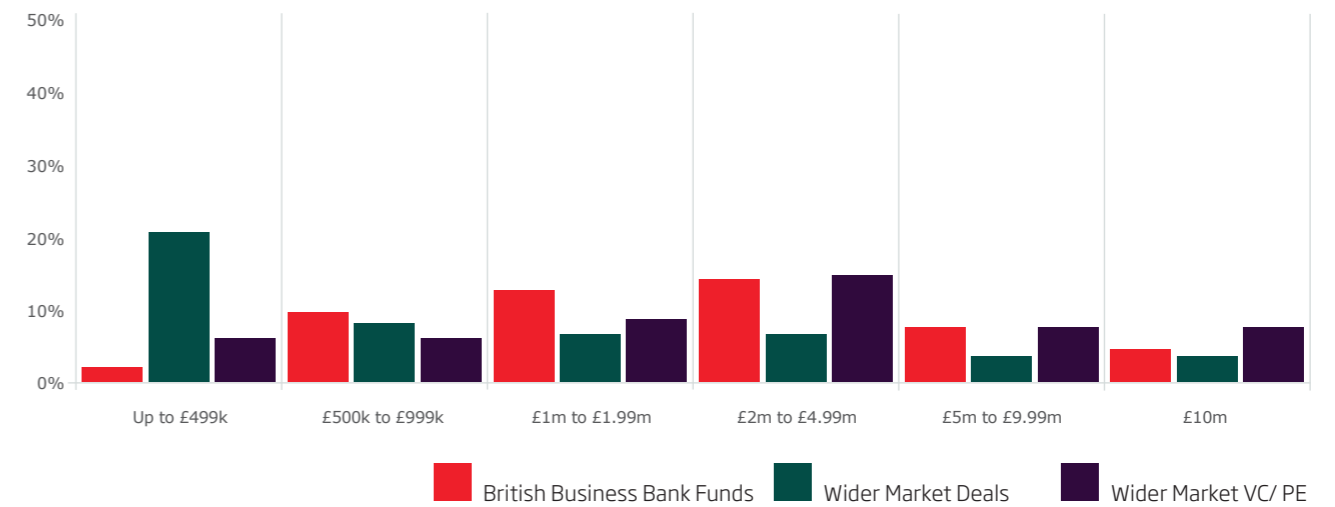


FIG 5.5b
AVERAGE REPORTED INVESTMENT SIZE

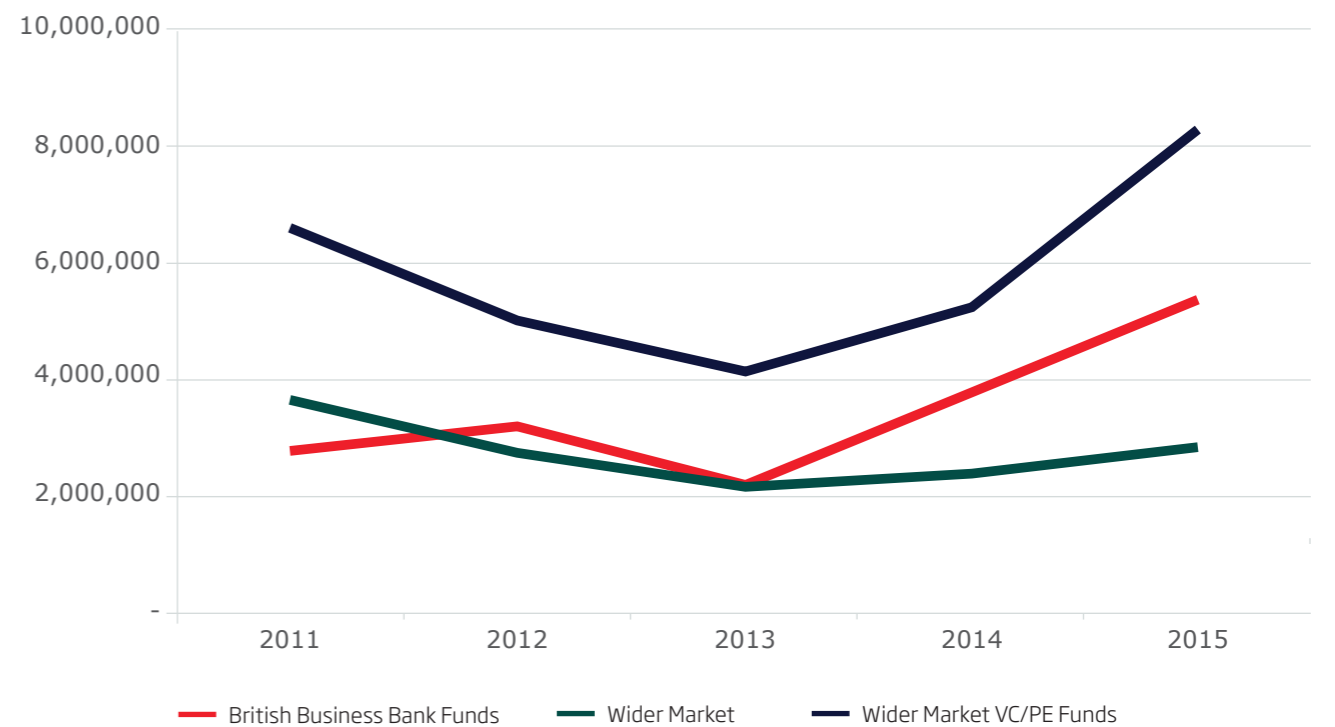


FIG 5.5c
AVERAGE INVESTMENT SIZE BY BRITISH BUSINESS BANK PROGRAMME AND INVESTMENT STAGE, 2011-2015 (TOTAL ROUND SIZE)

	BBB Funds	Wider market all types of equity investor	Wider Market VC/ PE only	BBB Funds
Seed	£1.1m	£540k	£1.4m	Angel Cofund/ Aspire
Venture	£2.6m	£2.6m	£4.2m	ECF
Growth	£6.5m	£7.6m	£9.9m	UKIIF/ VC Catalyst

APPENDIX

DATA

The information in the report is based on a combination of data collected by Beauhurst, the British Business Bank, Department for Business, Innovation and Skills and the Office for National Statistics.

Beauhurst provides deep data on the UK's fastest growing companies. Dr Stephen Bence and Toby Austin founded the company in 2010 having identified that more information about growing companies, widely known as "scale-ups", would be valuable to many organisations and UK plc itself. On a daily basis, Beauhurst's research team identifies and investigates equity deal announcements for UK companies. In the categorisation of deals by, for instance, sector and stage of business, researchers make use of a set of complex criteria developed in-house to maintain consistency. Beauhurst's equity deal data goes back to July 2010 and is comprehensive across all publicly announced equity investments into UK-based private companies.

A subset of the 1000+ business funds tracked by Beauhurst has been used in the production of this report. When Beauhurst tracks a new fund it ensures that deals are always back-filled to Q3 2010 in order to provide accurate comparative data.

Equity deals included meet the following criteria: (1) the recipient of the funding is a UK-based business; (2) there is no upper or lower limit for the sum invested; (3) the funds are either institutional investors or business angels, and where no funds have been disclosed Beauhurst is sure that the investment contains equity; (4) the investment is visible, meaning that it has been publicly announced via a press release or some other media; (5) The recipient of investment is a small or medium-sized business as defined by the European Commission.

When analysing cross-sector data, for example deals across all seed-stage companies, Beauhurst weights deal numbers and investment amounts across all the sectors the investee is in. For example, a seed-stage company in the internet platform and theatre sectors will be counted as

half a deal in each of these two sectors. This report omits single sector analysis based on double counted figures.

Where investment amounts have been provided in foreign currencies, these have been converted to GBP at the exchange rate on the day of the transaction.

The relatively simple breakdown by stage used by Beauhurst differs from organisations such as EVCA and BVCA, which tend to distinguish between seed and start-up, and between early and late stage venture. The reasons for using the simpler taxonomy are:

1. In some cases there isn't enough information to decide on a principled basis which of the two seed or venture subgroups a company lies in.
2. The simpler taxonomy can be used for all sectors, whereas a more complicated one would be more difficult to apply consistently across sectors.
3. A less detailed breakdown reduces "noise" in the data resulting from smaller numbers of deals being categorised into narrower stages - the small base sizes can lead to large swings in reported investment from one quarter to the next.

The following table summarises the differences between the Beauhurst taxonomy and the more detailed classifications of investment stage used by EVCA and BVCA, and offers some broad descriptors of the types of activity and company supported in each case.

Location information is based on the head office location of the company receiving investment. This is also true of ONS data used to measure equity deal activity against regional business stock.

Second closing of a round: If, for example, a company completes a second closing of its Series B round for £5m and previously had closed £2m in a prior quarter, then only the £5m is included in our data for this quarter.

Ongoing fundraising: If a company indicates the closing of £1m out of a desired raise of £10m, our data only reflects the amount that has closed.

Beauhurst classification	EVCA classification	Detailed breakdown (BVCA)	Broad descriptors; finance used for
Seed	Seed	Seed	R&D; initial concept
	Start-up	Start-up	Product development; initial marketing; pre-revenue
Venture	Later stage venture	Early stage	Post-product development; supporting commercial sales; pre-profit
		Late stage venture	Expansion of operating company which may or may not be profitable; already been backed by VCs
Growth	Growth capital	Growth/Expansion	More developed, profitable companies looking to expand/enter new markets

Beauhurst classification	Description of investor type
Family Office	Wealth management firms that manage the investments of wealthy individuals, families, or multiple families.
Government	Equity programmes managed by central, devolved, regional or local governments.
Bank	Institutions that also provide commercial loans to businesses alongside equity investors.
Corporate	Companies making equity investments into smaller companies directly or through a separate fund, often with a strategic purpose.
Incubator	Provide a variety of benefits to early stage businesses including mentorship, office space, and funding, often in exchange for an equity stake.
Angel Network	Networks of High Net Worth Individuals that invest their own wealth into growing companies. Angels may invest as an individual or as part of a syndicate involving other angels. Individual angels or the Angel network may originate the deal.
Private Investment Vehicle	Individuals or a small group of individuals that invest in growing companies. PIVs are similar to angel investors but the equity shares are held by a fund or other structure rather than directly held by the individual(s).
Crowd Funding	Online platforms enabling retail investors to invest into private companies.
Private Equity	Fund structures that invest institutional funding into private companies. Venture Capital funds typically invest in early stage, high growth businesses; whilst Private Equity funds invest in later stage established businesses.

METHODOLOGY

Contingent funding: If a company receives a commitment for £10m subject to certain milestones being achieved but first gets £5m, the entire £10m is included in our data.

Timing: Investments are allocated based on funding announcement date and not on close date. This is also true for deals backed by the British Business Bank. There is generally a lag between the announcement data and the close date, with the latter preceding the former.

Equity financing: Funding comes from both “organised” and “unorganised” investors. The former includes institutional investors such as private equity firms, corporate venturing arms or formal networks such as business angel groups. The latter includes investments by business angels.³⁶

Crowdfunding investment: Investments of money in return for equity from crowdfunding intermediaries are included, e.g. Crowdcube, Seedrs.

Deals only partly equity: Venture debt, loans or grants issued to private companies are included only if they have come alongside equity financing. The entire round (including debt) is added to the data.

Investment only into private companies: Publicly-listed companies on any exchange are excluded from our numbers even if they received investment by an organised investor.

Only announced deals are included: Investments are verified via (1) government regulatory organisations (2) confirmation with the investee or investor or (3) a press release or news source.

Companies must be headquartered in the UK: Our geographic data is based on the local authority where the company receiving investment is headquartered at the time of receiving investment. For example, if a company has offices in multiple cities or was founded in a particular city but has moved its headquarters, our data only reflect the headquarters address.

What Beauhurst does not include for the purposes of this report:

- **Buyouts, mergers and acquisitions:** These transaction types involve the change in ownership of existing shares (to buy out existing shareholders) rather than the creation of new shares (and the injection of new money into the company).
- **Private placements:** Private investment in public equities even if made by a venture capital or private equity firm.
- **Solely debt/grant funding:** Venture debt or grants issued to emerging, start-up companies without any additional equity financing.
- **Cash for rewards:** Investment into companies for non-financial rewards, e.g. Kickstarter.

ACKNOWLEDGEMENTS

This report was written by the Beauhurst research team: Henry Whorwood, Ella Halmari, Jonathan Ross and Jamie White with guidance from Dan van der Schans and Matt Adey of the British Business Bank. The Executive Summary was written by the British Business Bank and Chapter 5 was produced by Dan van der Schans of the British Business Bank.

FOOTNOTES

- 1 UK Growth Dashboard 2015 <http://www.enterpriseresearch.ac.uk/wp-content/uploads/2015/06/2015-UK-Growth-Dashboard-Report.pdf>
- 2 http://british-business-bank.co.uk/wp-content/uploads/2015/09/TECPLM14158-Business-finance-guide_WEB.pdf
- 3 <http://british-business-bank.co.uk/wp-content/uploads/2015/03/050315-Equity-tracker-FINAL.pdf>
- 4 The EC defines an SME as a business with less than 250 employees and either a turnover of less than €50m or balance sheet total of less than €43m.
- 5 <http://british-business-bank.co.uk/wp-content/uploads/2016/02/british-business-bank-small-business-finance-markets-report-2015-16.pdf>
- 6 <http://about.beauhurst.com/report-the-deal-2016-q1>
- 7 <https://www.cbinsights.com/reports/CB-Insights-KPMG-Venture-Pulse-Q1-2016.pdf>
- 8 Beauhurst classifies high-growth businesses into three stages: seed, venture and growth. Buyouts and public market investments are not included, as the focus is on early-stage, growing companies. According to Beauhurst’s taxonomy, the seed-stage encompasses pre-revenue companies who focus on R&D, product development, and initial marketing. The venture-stage covers mainly pre-profit companies working on post-product development, support of commercial sales, and expansion of operations; these companies may already have received backing by venture capitalists. Finally, the growth-stage comprises profitable companies working on expansion into new countries or markets.
- 9 Throughout this report, deal number and investment amounts calculated across industry sectors are based on weighted figures. 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.
- 10 Each business’ location is based on location of the registered head office. Businesses may have activities and offices in other locations.
- 11 High growth businesses in this instance are defined as “any business with average annualised growth of 20 per cent or more and with 10 or more employees in the starting period.” Source data: ONS Analysis of High Growth Enterprises 2010 to 2013, available at: <http://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/adhoc/005150analysisofhighgrowthenterprisesfrom2010to2013uk>
- 12 Source data: BIS Business Population Estimates for the UK and Regions 2015, available at: <https://www.gov.uk/government/statistics/business-population-estimates-2015>.
- 13 The constituent local authorities in a given cluster follow the Centre for Cities definitions.
Source: <http://www.centreforcities.org/wp-content/uploads/2014/08/12-03-19-Primary-Urban-Areas.pdf>
- 14 The term Private Equity is used in the wider sense here and includes Venture Capital funds and Private Equity funds. Deals categorised as buy-out are not included in this report.
- 15 Private Investment Vehicles invest money from a single individual or a small group of individuals. PIVs are similar to angel investors but the shares are held by a fund or other structure rather than directly by the individual(s).
- 16 Where an investment was syndicated between different investors it is not always possible to determine how much each investor contributed to the overall value of the deal and therefore investment totals are not shown here.
- 17 British Business Bank fund investments were matched to investments in the Beauhurst dataset using the CRO number in the first instance, followed by name of company where CRO number was not available. British Business Bank funds are then only included if the name of the BBB appointed fund manager is included in the Beauhurst list of investors.
- 18 Some companies receive more than one equity deal in a different time periods, either from the same investor/ group of investors or from different investors in a different funding round.
- 19 Deal number and investment amounts calculated across industry sectors are based on weighted figures. 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.
- 20 Each business’ location is based on location of the registered head office. Businesses may have activities and offices in other locations.
- 21 Where an investment was syndicated between different investors it is not always possible to determine how much each investor contributed to the overall value of the deal and therefore investment totals are not shown here.
- 22 Deal number and investment amounts calculated across industry sectors are based on weighted figures. 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.
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- 26 Each business’ location is based on location of the registered head office. Businesses may have activities and offices in other locations.
- 27 Where an investment was syndicated between different investors it is not always possible to determine how much each investor contributed to the overall value of the deal and therefore investment totals are not shown here.
- 28 This chapter is written by Dan van der Schans of the British Business Bank’s Market Analysis Team.
- 29 British Business Bank investments are matched to investments in the Beauhurst dataset using the CRO number in the first instance, followed by name of company where CRO number is not available. British Business Bank funds are only then included if the name of the fund manager is included in the Beauhurst list of investors. This will underestimate the actual coverage of BBB funds, but avoids capturing deals made in companies previously funded by BBB supported funds.
- 30 I.e. made up of British Business Bank fund funding and other investor funding
- 31 <http://british-business-bank.co.uk/ourpartners/>
- 32 The Beauhurst dataset used for this report only includes publicly announced deals through some form of media such as a press release.
- 33 I.e. excluding follow on investment or subsequent funding rounds
- 34 This is based on weighted sector consistent with the sector definitions used in the other chapters of the report.
- 35 JEREMIE funds are a European Commission initiative to improve small firms’ access to finance at a sub-national level. See http://ec.europa.eu/regional_policy/thefunds/instruments/jeremie_en.cfm for more information.
- 36 It is important to acknowledge that a significant proportion (39%) of investments made by British Business Bank-supported funds are not disclosed, preventing their addition in the Beauhurst data set, and larger investments are more likely to be publicised than smaller investments. Thus, the data may be slightly skewed in favour of larger deals.
- 37 The EC defines an SME as a firm with less than 250 employees and either a turnover of less than €50m or balance sheet total of less than €43m. See http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm for more information.



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BRITISH BUSINESS BANK PLC
FOUNDRY HOUSE
3 MILLSANDS
SHEFFIELD S3 8NH

Beauhurst 