GROWTH CAPITAL UPDATE **– A REVIEW OF 2018**

Kingston Smith

2018 a record for growth equity capital fundraising

2018 eclipses 2017 to cement new record for UK growth equity

A staggering £2.3 billion of growth equity capital was invested across 511 deals in 2018, eclipsing the previous record of £1.7 billion across 416 deals in 2017. The year-end totals signify tremendous growth in equity deployment even as the wider M&A markets see a slowdown in the run-up to the UK's withdrawal from the EU.

The strong year was driven by a phenomenal Q2 and Q3, which accounted for £715 million and £659 million respectively towards the year's total. The first and fourth quarters were quiet in comparison, recording £481 million and £488 million respectively. The data is from analysis conducted by Kingston Smith Corporate Finance on UK private companies raising £1 million to £15 million each of growth equity capital.

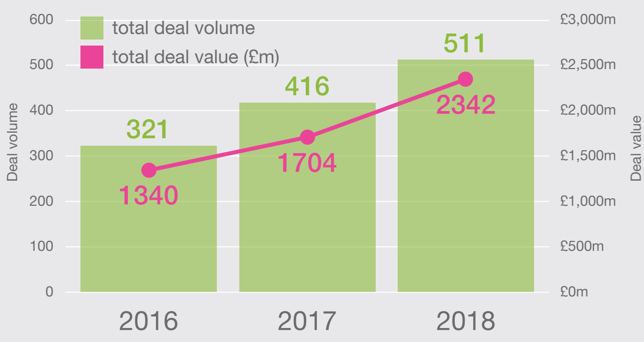
Such strong activity in the face of significant ongoing political uncertainty is testament to the allure of the target businesses as well as the capital providers funding them. Indeed, preliminary data from various researchers suggests 2018 was a strong year for private equity deal-doing across the board, whether start-up, growth or buyout capital, with the sub-£100 million space faring particularly well.

The VCT community has played its role in this, raising £728 million to record its second-highest year for fundraising. Octopus Investments raised £200 million for its Titan VCT, making it the largest-ever VCT raised. The total 2017/2018 VCT sum is only marginally below the 2005/2006 record of £779 million.

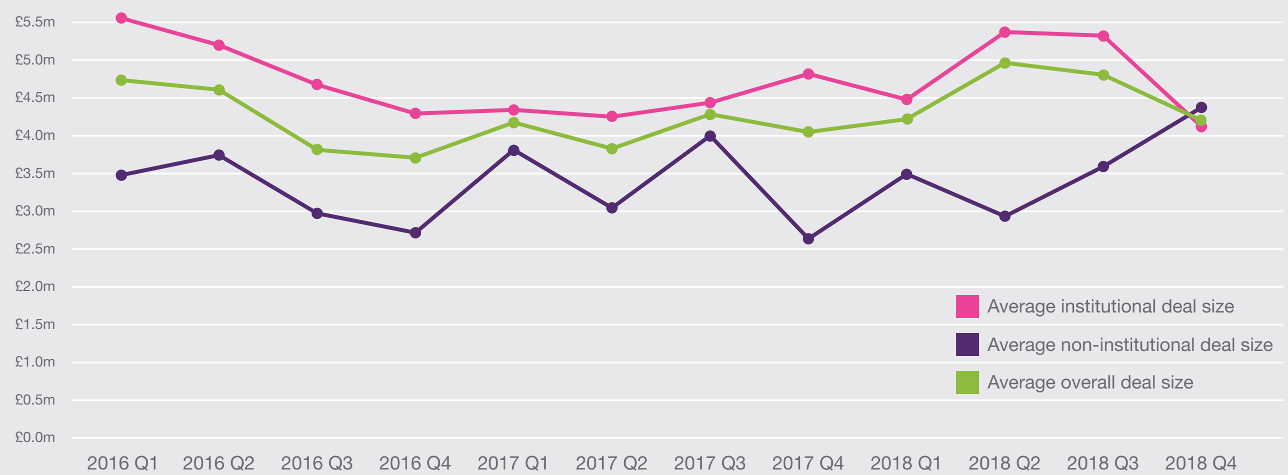
"The VCT landscape has undergone notable change in the last four years," points out Nick Thompson, corporate finance director at Kingston Smith. *"Material changes in what constitutes qualifying investments came into place in 2015 and 2017, precluding buyouts and reducing the amount a target can receive in funding. It has meant some managers have sought alternative funding methods, and we've seen a number raise institutional funds as a result. Ultimately though, the changes have done little to put the brakes on the industry."*

Nearly 80% of the growth equity funding in 2018 came from institutions, up from 71% in 2017. This further underlines the financial firepower of such backers even as corporates slow their investment pace in these uncertain times. BGF was the most active institution of 2018, similar to 2017, with MMC Ventures and Amadeus Capital Partners also in the top three in the £1 million to £15 million space. The top ten investors of the year accounted for a combined £422.7 million, up from under £270 million in 2017. Mobeus Equity

Annual deal volume & value



Average deal sizes



Partners, Downing and Foresight Group were again among the most active according to our research and all manage multiple funds, including VCTs.

We reported in our Q3 update signs of increasing average deal sizes quarter on quarter, and year-end figures have confirmed this. For full-year 2017, the average deal size was just over £4 million; in 2018 this swelled to £4.6 million. This is driven by institutional deals, which averaged £4.4 million in 2017 and £4.9 million in 2018.

Notable players in 2018 include:

- **BGF**, which claims to be the UK's most active investor in SMEs, invested £288 million during the year across 51 new investments in the UK and Ireland and opened new offices in Newcastle, Cardiff, Belfast and Nottingham. Deals included leading the $17 million round into LoopMe, a mobile video ad platform; a £6 million cheque into interactive digital solutions business, Evoke Creative, to fund its further growth in the UK and abroad; and £5 million into Parklands, a Scottish independent care home operator.
- **MMC Ventures**, which had a busy Q3, backed flower retailer, Bloom & Wild, as part of a £15 million round led by Piper, and invested in BrightPearl, a cloud-based software provider for online retailers, as part of a $15 million growth round.
- **Amadeus Capital Partners** was among the top investors of the year, with investments including participation in an £8 million series-B round into machine learning innovator Ravelin and a £5 million round into spatial AI firm, SLAMcore, alongside existing investors and fellow new backer, Octopus. The firm also re-invested into Healx, a drugs repurposing business, in a $10 million A-round led by Balderton.
- **Mobeus Equity Partners**, a London-based equity investor into SMEs, made a hat-trick of deals in Q4 alone, leading a series-A round into Kudos, investing £9 million into Ventrica and providing £7.5 million of series-B funding to its existing investment, Preservica.
- **Foresight Group** continued to see a buoyant market in 2018, reviewing almost 1,500 investment opportunities and investing £80m across 27 new investments, as well as making 13 follow-on investments. During the year the firm made investments across SaaS, ecommerce, consumer roll outs, AI, life science services, robotics, and enterprise solutions, and also opened its fifth UK office.

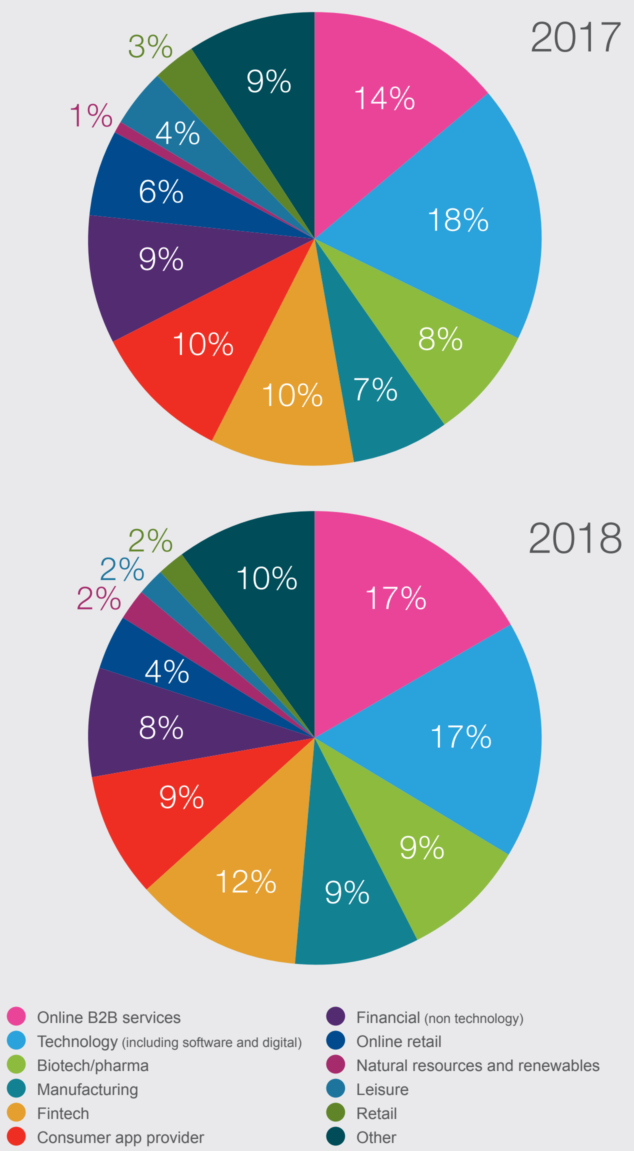
Tech deals most popular

Tech deals (including software and digital businesses) and online B2B services were joint most-popular according to our research, each accounting for 17% of the number of deals in 2018. Tech's domination is consistent with the 2017 stats, though online B2B services saw an increase in its share, up from 14% in 2017.

Notable tech deals in 2018 include managing digital agent, Azur, which raised £13.3 million in a round led by AIG; FetchAI, backed by Outlier in a £15 million round; and property business, Tepilo, which raised an additional £15 million from existing backers.

Online B2B deals during the year include mobile video ad business, LoopMe, which raised $17 million in a BGF-led round to fund expansion in the US; and edtech

Percentage of deals per year per sector



NB. Figures have been rounded

business, Fuse Universal, which raised $20 million in a round led by Eight Roads Ventures, investing from its recently launched fund.

Fintech attracted 12% of the deals in 2018, up from 10% in 2017. TransferGo, a London-based international payments business, attracted a £17.6 million series-B round led by Vostok Emerging Finance and Hard Yaka, while AccessFintech closed a $17.5 million series-A round from Citi, Credit Suisse, Goldman Sachs and JPMorgan Chase & Co in December.

The relationship between tech companies and VCs has long been a symbiotic one, with the companies offering great potential for backers to generate returns from, and the backers able to accelerate the company's growth through their experience and connections.

"Tech businesses continue to attract the lion's share of funding, with British entrepreneurs helping the country to punch above its weight in terms of successful tech companies," explains Paul Winterflood, corporate finance director at Kingston Smith. *"The progress of these businesses has been supported and nurtured through experienced growth equity backers, many of which have helped their portfolio businesses to expand into new geographies and through M&A. That a number have raised capital for investment in 2018 means they have fresh funds to back promising businesses."*

Outlook

A new record year for growth equity funding stands in stark contrast to wider M&A markets, highlighting the allure and resilience of this part of the investment market. *"Freshly filled institutional VC and VCT coffers combined with the continued ambition of entrepreneurs and owner-managed businesses mean there should be ample opportunity for continued deal-doing momentum in 2019,"* says John Cowie, corporate finance director and head of growth capital at Kingston Smith. *"The uncertainty facing markets is indeed taking its toll, but pockets of capital remain ready to be deployed by experienced growth capital backers. Accessing the right partner may be trickier now, but it is possible, as we've proven with a number of our own clients this year."*

How we can help

If you're an ambitious entrepreneurial business with revenues of at least £1 million and are looking to scale, get in touch for an initial discussion. We can work together to assess the best action and then assist with finding the right partner. Please contact us or read more about our Raising Finance and Growth Capital services here.

Contact us

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Methodology

Kingston Smith analysed transactions by UK-based companies that involve the issue of less than 50% of share equity share capital to third parties and funds raised of between £1 million and £15 million. Accordingly, these numbers do not include senior debt and mezzanine debt fund raisings and smaller fund raisings by companies and start-up funding unless more than £1 million is raised. Start-up funding is generally significantly less than this amount.

The research aims to capture all transactions by UK companies that fall within the criteria but inevitably we expect that there will be transactions that have taken place that have not been captured.

The research is based on data extracted from the Zephyr database of M&A transactions, published by Bureau van Dijk.

Institutions are defined as organisations in which full-time investment professionals are in place with access to assets under management or proven investor networks. We include companies undertaking corporate venture transactions.