



Department
for Business
Innovation & Skills



RESEARCH REPORT

Equity Crowdfunding in the UK: Evidence from the Equity Tracker

Beauhurst 
deep data on growing companies

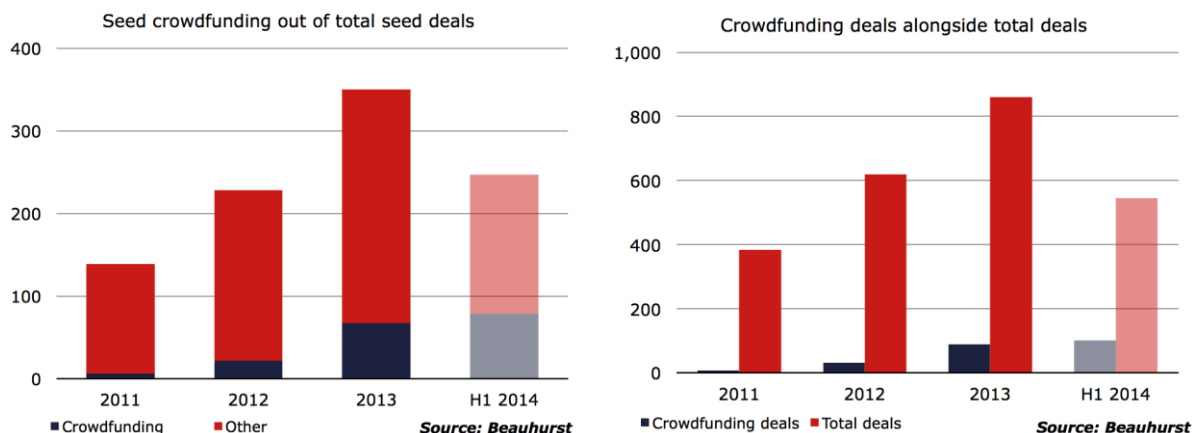
www.british-business-bank.co.uk

Contents

Key points	3
Introduction	4
1. Understanding equity crowdfunding	5
1.1 Overview of the market	5
1.2 Definitions and categories	6
1.2.1 Defining equity crowdfunding platforms and deals	6
1.2.2 Different styles and focuses	7
2. Crowdfunding within the wider equity investment market	9
2.1 Totals and stage of evolution	9
2.2 Comparison with angel networks	12
3. Recent trends in equity crowdfunding	15
3.1 Regional breakdown	15
3.2 Sector breakdown	18
3.3 Sub-sector breakdown	20
3.4 Investment sizes	22
Conclusions	23
Methodology	25
References	26
Acknowledgements	26
Appendix: Investment stage classifications	27

Key points

- The equity crowdfunding market is still small relative to other forms of investment, but is growing at a rapid pace.



- Crowdfunding is having a significant impact on seed-stage activity in the UK equity investment market
- The majority of crowdfunded deals have been at the seed-stage, but there is increasing activity at the venture-stage
- Early signs indicate that crowdfunding platforms pose a challenge for angel networks, in part because some angels are choosing to invest through such platforms
- Technology was the sector with the highest number and value of investments, in line with its performance in the wider market
- Companies whose products or services are consumer-facing were particularly successful, such as mobile apps, food and drink and musical theatre
- London, the South East and the South West were the regions with the most deals and investment
- The emerging nature of crowdfunding was evident in both the regional and sector spread of deals:
 - The location of the operations of crowdfunding platforms themselves impacted upon the regional spread of deals, meaning that some usually strong regions for equity investment had a surprisingly low volume of crowdfunding activity
 - The crowdfunding success of companies that also make use of the 'crowd' concept (such as Crowd Property) may be an indication of investors already being committed to the concept

Introduction

New equity crowdfunding platforms have been rapidly appearing on the UK funding scene since 2011, and have firmly captured the imagination of the public and the media. Crowdfunding has been credited by some with bringing equity investing into the mainstream and has been described as a catalyst for the creation of a new funding landscape. In this report, we aim to provide some clarity on the scope and impact of crowdfunding in the UK using a data-driven approach. We make use of independently collected equity investment figures, enabling us to place equity crowdfunding within the context of wider UK equity investment activity.

The data in this report is produced by Beauhurst, a provider of deep data on equity investment into UK companies¹. Beauhurst have used their bespoke database to develop an 'Equity Tracker' for the British Business Bank and the Department for Business Innovation and Skills (BIS), the full report of which was published recently. This report represents a separate strand of the Equity Tracker project, which utilises the detailed data for a 'deep dive' into one aspect of the funding environment. It is envisaged as the first of many such analyses, with subsequent reports expected to accompany new editions of the Equity Tracker.

The choice of equity crowdfunding for this study is a reflection of the growing interest and activity in this asset class amongst investors and firms, as demonstrated by the main Equity Tracker report. It should not be interpreted as either an endorsement or rejection of equity crowdfunding or individual platforms by the British Business Bank.

Beauhurst's equity deals data goes back to July 2010 and is comprehensive across all publicly announced equity investments into UK-based private companies. The deals reported here involve firms identified as being small or medium sized, according to the definition of 'SME' set out by the European Commission².

Equity deals are categorised as either 'visible', which means that the deal has been publicly announced, or 'hidden', which means that the deal has not been publicly announced. All references in this paper to deal numbers, investment and activity refer to what is visible only. This caveat should be borne in mind when interpreting the data.

¹ For more information visit <http://about.beauhurst.com/>

² http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm

1. Understanding equity crowdfunding

1.1 Overview of the market

Equity crowdfunding as a concept first developed in the US in the mid 2000s, and took off in the UK in 2011 with the launch of Crowdcube. Since then, many other platforms have appeared, some of which are experimenting with different models and niches (discussed below). Seedrs became the first crowdfunding platform to be regulated by the Financial Conduct Authority (FCA); since then the FCA has taken an active role in monitoring equity crowdfunding activity and providing a regulatory framework to support these developments. For instance, new FCA rules that include measures to provide better investor protection came into force on April 1st 2014, following a period of active consultation.

Understanding of the risks involved in equity crowdfunding, and the extent of investor protection required, is still developing; more will be known as the market grows and matures. We do not go into detail on the risks in this report, as our focus is instead on the activity data³.

Equity crowdfunded deal numbers and investment totals have been steadily rising since 2011, when only £1.6m was recorded as being invested across 7 deals. In the first half of 2014, £24m was raised across 101 crowdfunded equity investments, according to Beauhurst data. This is equivalent to 18% of total visible deals and 2% of total visible investment. Equity crowdfunding is still small compared with peer-to-peer lending platforms in terms of money invested: a recent report by Nesta⁴ finds £193m was lent in 2013 through peer-to-peer business lending platforms, whereas £19.5m was invested through equity crowdfunding according to Beauhurst data.

The Nesta report also includes an estimate of investment through equity crowdfunding platforms in 2013 which, at £28m, is significantly higher than the Beauhurst figure. The difference arises from different methodologies used by Nesta and Beauhurst – the former involves an analysis of survey data collected from platforms, investors and companies, whereas the latter is based solely on market investment data recorded by Beauhurst. The two estimates represent different approaches to tackling the issue of scaling the market; the Nesta figure serves as a useful counterpart to the Beauhurst data provided in this report.

³ For a detailed discussion of the risks in equity crowdfunding, see for example Wilson and Testoni, "Improving the Role of Equity Crowdfunding in Europe's Capital Markets"

⁴ "Understanding Alternative Finance"

1.2 Definitions and categories

1.2.1 Defining equity crowdfunding platforms and deals

Equity crowdfunding is a form of investing that involves many individuals investing online in a business in return for share capital, whether through a dedicated equity crowdfunding platform or independently organised by the company itself.

There is often a grey area between online angel networks and genuine equity crowdfunding platforms. Some companies offer a hybrid of the two, attracting both professional and armchair investors; some are outwardly similar in appearance to equity crowdfunding sites but actually target sophisticated or angel investors. For our purposes, we define equity crowdfunding platforms as those that:

- allow very small investment contributions (as an estimate, below £1000) which distinguishes them from 'traditional' equity investments
- allow lots of people to participate (as an estimate, more than 20)
- attract investors who are not already angels and/or high-net worth individuals (but do not necessarily exclude them).

We do not include non-equity crowdfunded deals, even if they are completed through a platform we are interested in – we take a deal-centric rather than platform-centric approach to the data. We also exclude crowdfunded 'mini-bonds'⁵.

That is not to say, however, that our focus is narrow – we include deals completed on platforms that use a variety of models but which still fall within our definition of crowdfunding. For instance, SyndicateRoom allows the 'crowd' to co-invest alongside an experienced angel who leads the investment. Our remit is visible deals, i.e. those that have been publicly announced or listed.

The importance of tax incentives, in the form of the Seed Enterprise Investment Scheme (SEIS) and Enterprise Investment Scheme (EIS), to the incipient equity crowdfunding market is clear. Many crowdfunding platforms have made a concerted effort to promote the tax incentives to investors – indeed some platforms host exclusively SEIS/EIS-eligible companies. Aside from driving up investment overall, the effect of this seems to be twofold. Firstly, there is likely to be a heightened awareness among a range of potential investors of the tax incentives on offer to them. Secondly, there is also likely to be a preference for investments in SEIS-eligible companies in particular, as 'crowd' investors often have relatively limited financial resources and

⁵ Mini-bonds are essentially fixed-term unsecured 'loans' from individuals to a company, on which the company pays interest in the form of cash and/or alternative benefits. An example is the 'burrito bond' offered by Chilango, a four-year loan of at least £500 which paid interest in the form of a cash coupon and free burritos at the restaurant.

prefer smaller commitments, and because SEIS is more generous than EIS⁶, which jointly lead to a focus on seed-stage investments.

1.2.2 Different styles and focuses

As equity crowdfunding gains traction in the UK, crowdfunding platforms are trying out different styles and models of investment, many of which are currently in their very early stages but which could well develop into distinct sub-categories of note in the future.

Some crowdfunding sites have chosen to adopt the direct ownership structure, in which individual investors are independently responsible for their shares; others have chosen the nominee structure, in which the company behind the equity investment platform manages the investors' shares on their behalf.

One of the common features of equity crowdfunding is that the company raising money usually sets their own valuation in advance, which arguably leads to more initial certainty about what the business and investors can expect. SeedUps uses a different approach – using the 'wisdom of crowds' theory, the valuation is set automatically during the bidding process and is determined by the level of investor interest.

Some of the more established crowdfunding platforms are branching out into other areas, alongside their core activities. Crowdcube has set up a venture fund, managed by Braveheart Investment Group, in which the 'crowd' can invest as a Limited Partner. Similarly, Seedrs offers the option of investing in a fund or an incubator programme, both ways of spreading the risk across a group of companies that are chosen by more experienced investors. Crowdcube has also started providing debt-based 'mini-bonds' and Seedrs has started offering convertible loans. Interestingly, PLCs are beginning to get involved – traditionally equity crowdfunding has been the domain of private companies – with the funding of Chapel Down Group (listed on ISDX) in October 2014.

Sites are often outwardly non-specific in their sector, stage and regional focus (although the data tells a different story, as noted in later sections). However, there are some that have set out with a specifically social or community focus, such as CrowdMission. Usually crowdfunded deals involve just the crowdfunding platform (and its crowd of investors) without co-investment from others, but this is not always the case.

⁶ SEIS offers a higher rate of tax relief than EIS – 50% compared to 30% – where (amongst other things) the recipient company has been trading for less than 2 years, has less than £200,000 in assets, and raises no more than £150,000 of SEIS investment. SEIS is also subject to an individual investment limit of £100,000 per year.

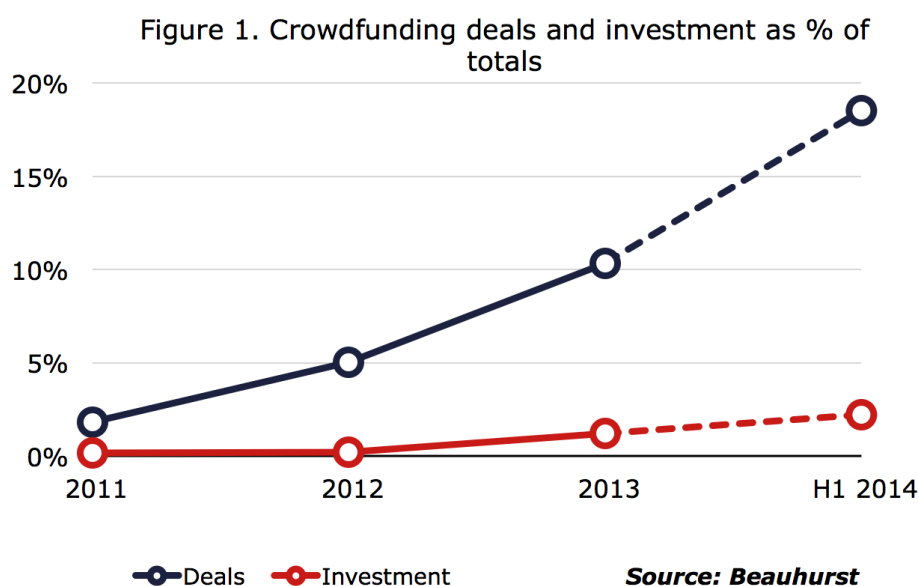
Finally, there are some companies that are choosing to bypass dedicated crowdfunding sites and organise their own crowdfunding campaigns – BrewDog has completed several rounds backed by crowd investors, who receive ‘membership’ perks as well as shares in the company. It is worth noting, however, that to take this route, BrewDog was required to become a PLC, with the increased regulatory requirements this entails.

2. Crowdfunding within the wider equity investment market

There has been a rapid increase in the number of deals and amount invested in equity crowdfunded transactions in the last three years. 101 deals were recorded in the first half of 2014 alone, up from 7 deals in 2011 when equity crowdfunding hit the UK for the first time. Similarly, the amount invested rose from £1.6m in the whole of 2011 to £23.9m in only the first half of 2014.

2.1 Totals and stage of evolution

Equity crowdfunding's share of the equity investment market in the UK has also been on the rise, although this impact differs substantially depending on whether we are considering deal numbers or investment.



Crowdfunded equity deals accounted for almost a fifth of all visible UK deals (18%) in H1 2014. This is up from 10% in 2013, 5% in 2012 and just 2% in 2011. Considering that total UK deal numbers have themselves been rising steadily since 2011, equity crowdfunding's increasing market share is all the more significant.

In terms of investment, equity crowdfunding has had a much less significant effect. Only 2.2% of UK total visible equity investment was attributed to crowdfunding in H1 2014, up from 1.2% in 2013, and 0.2% in both 2012 and 2011. Despite this, equity crowdfunding investment grew at a significantly faster rate than total UK equity

investment between 2011 and 2013. If it continues this trajectory, its relative impact on UK total investment is likely to be more marked in the coming years.

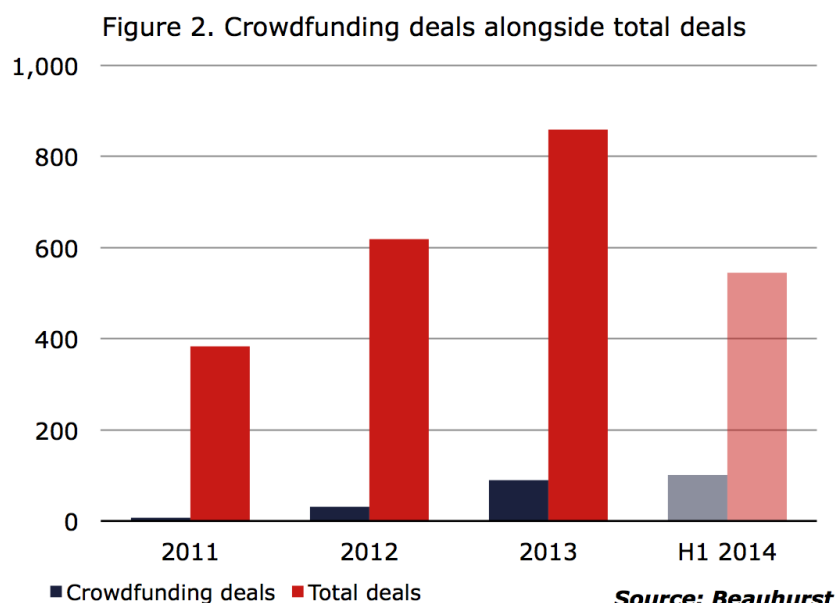


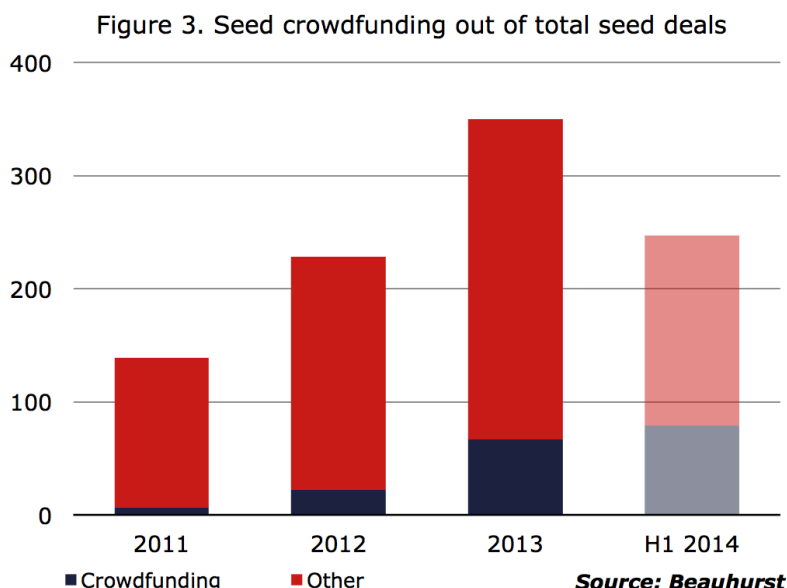
Table 1: Crowdfunding deals and investment compared to total deals

		2011	2012	2013	2014 (H1)
Equity crowdfunding	Number of deals	7	31	89	101
	Investment (£m)	2	3	20	24
Total equity deals	Number of deals	386	625	863	547
	Investment (£m)	1,043	1,323	1,621	1,084
% Equity crowdfunding	<i>By number</i>	1.8%	5.0%	10.3%	18.5%
	<i>By value</i>	0.2%	0.2%	1.2%	2.2%

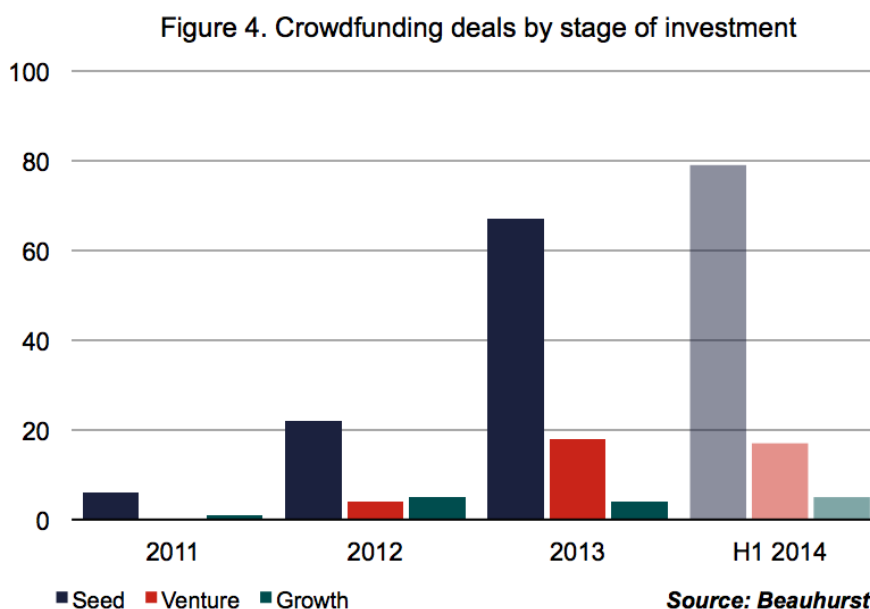
Moreover, crowdfunding accounting for a small proportion of total investment does not necessarily portray weakness. Total investment figures include larger growth-stage investments, whereas equity crowdfunding has so far disproportionately appealed to seed-stage companies and/or seed-stage investors⁷ (the direction of causation is unclear).

⁷ A detailed explanation of the investment stages used in this report can be found in the appendix

The seed focus fits with what we know about equity crowdfunding. For one, investors are typically not high net worth or sophisticated, and therefore invest smaller amounts, either because of limited means or risk mitigation. This trend is likely to have been supported by SEIS, which is widely promoted by the platforms. Seed rounds are usually smaller, and investors may be attracted by the chance of earning a very high return for a relatively small input if the business is successful.



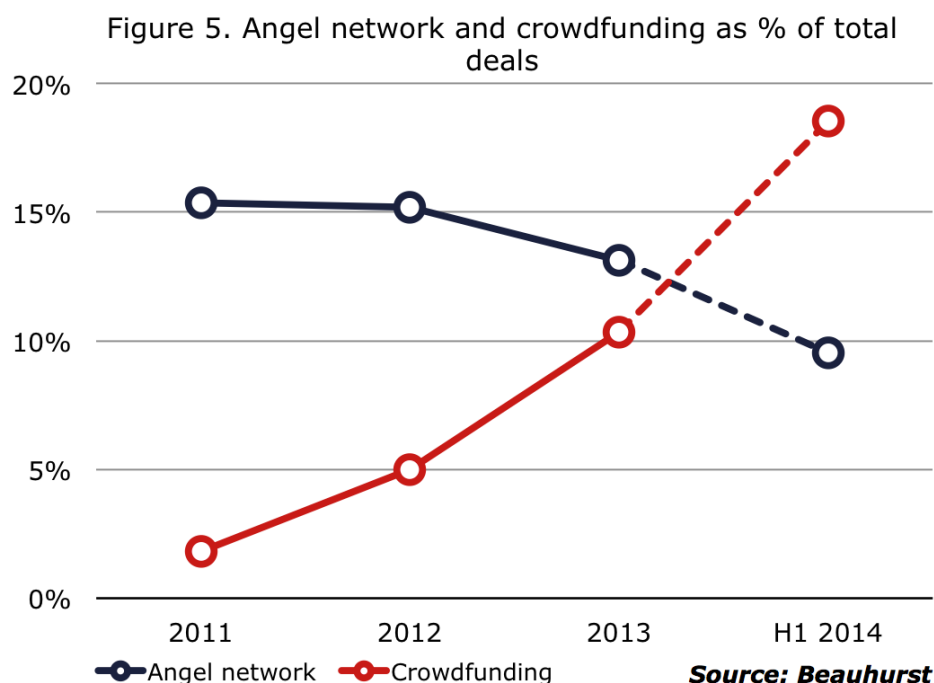
Crowdfunded seed deals accounted for 32% of all visible UK seed-stage deals in H1 2014, a trend that potentially has a large impact for young UK companies looking to grow. Since 2012, in the wider equity investment market, annual seed-stage deal numbers accounted for the largest number of deals out of all the stages (seed, venture and growth). There is a correlation between the rise in crowdfunded seed activity and increasing seed deals in general; however, this does not prove the former has caused the latter. It is possible that a buoyant seed stage has encouraged crowdfunding, or that other factors are at work. The reporting of seed-stage deals is often poor, and means that data in this space should be interpreted with caution.



Nevertheless, venture- and growth- stage companies are increasingly finding success with equity crowdfunding, perhaps capitalising on the confidence inspired among investors as crowdfunding becomes more mainstream and subject to FCA regulation and scrutiny. There were a negligible number of venture- and growth- stage crowdfunding deals in 2011; since then both stages have picked up, but the venture-stage is taking off faster. There were 17 venture-stage crowdfunded deals in H1 2014 (of 101 total crowdfunded deals), which accounted for 11% of all venture-stage deals. In the same period, there were 5 growth-stage deals, accounting for 3% of all growth-stage deals.

Equity crowdfunding is a young phenomenon and has shown strong growth in the last 3 years, which must be remembered when looking at a snapshot of its current impact. As well as this measurable growth, and although it is still relatively niche, crowdfunding as a concept has become much better known to UK businesses. British Business Bank figures⁸ show awareness of equity crowdfunding increased from 13% of smaller businesses in 2012 to 32% in 2014, and the proportion who reported knowing where to look for funding increased from 5% to 14%. These trends suggest that over time more businesses will seek investment through equity crowdfunding – although it should be noted that very few of those surveyed have done so to date.

2.2 Comparison with angel networks



There are distinct similarities with the way angel networks and equity crowdfunding operate – both pull together a group of individuals to invest in a company, with the idea that some of the risk may be mitigated with the contribution of others, and

⁸ “SME Customer Journey to External Finance 2014”

because of the economies of scale associated with collective due diligence and related paperwork. As such, it seems appropriate to compare the two investor types side by side.

Between 2011 and 2013, angel networks were consistently involved in around 15% of total deals. Equity crowdfunding's share lagged behind, but grew rapidly from 2% to 10% over the same period. In the first half of 2014 these trends accelerated, such that crowdfunding took a larger share than angel networks for the first time: crowdfunded deals accounted for 18% of the total, while angel networks participated in only 10%.

Equity crowdfunding's significance appears smaller when looking at investment. Deals with participation from angel networks take a much larger share of total investment. This means that, although they may not be getting involved in as many deals, angels are still involved in a greater portion of firm financing overall. It is worth noting that the investment totals include the contributions of any co-investors too, which will have a much more marked effect in deals involving angel networks (which often co-invest) than equity crowdfunding platforms (which seldom do).

One explanation for the difference in investment totals could be that angels are more targeted in their approach, investing in companies that they can bring their set of expertise to, giving the company a better chance of success, and therefore taking a bigger (personal) risk with larger investments. Alternatively, such companies may actively choose to approach experienced angels in their sector as a strategy for success.

The remits of angel networks and equity crowdfunding remain distinct, although overlapping, as indicated above. What may be happening, however, is that existing angel investors are choosing to invest via crowdfunding platforms instead of through traditional angel networks, so angel money is being counted within the crowdfunding total instead of the angel network total. We know that often a single investor provides an 'anchor' contribution for a crowdfunding campaign; a recent study produced by the Enterprise Research Centre for the Centre for Entrepreneurs and UK Business Angels Association⁹ found that 45% of angels surveyed had invested alongside an equity crowdfunding platform.

The unanswered question here is the extent to which angels who invest through crowdfunding platforms differ (in terms of their profile, experience, deal sizes etc.) from those who invest through angel networks. It might be the case that 'smaller ticket' investors, at the lower end of the angel spectrum, are the ones getting involved in crowdfunding, meaning there is relatively little overlap with the 'larger' angels investing in networks. However, we do not have sufficient evidence to take a clear view on this; it might usefully be the subject of further study.

⁹ "A Nation of Angels - assessing the impact of angel investing across the UK"

Changing angel investor behaviour in relation to equity crowdfunding poses a challenge to existing angel networks, and could have a number of possible consequences:

- There could be more movement towards hybrid angel network/crowdfunding sites, i.e. angels moving their activity online
- Angel investors may demand more rigorous due diligence and more detailed pitches for companies looking to crowdfund, as they will be looking to invest more than a few hundred or thousand pounds
- Equity crowdfunding platforms may have a larger potential pool of investors to support their campaigns – a mix of high-net worth individuals and unsophisticated/retail investors
- Equity crowdfunding could become a standard way of investing alongside others
- Angel networks and crowdfunding may each become more specialised/niche (e.g. by sector, stage or amount) to differentiate themselves.

3. Recent trends in equity crowdfunding

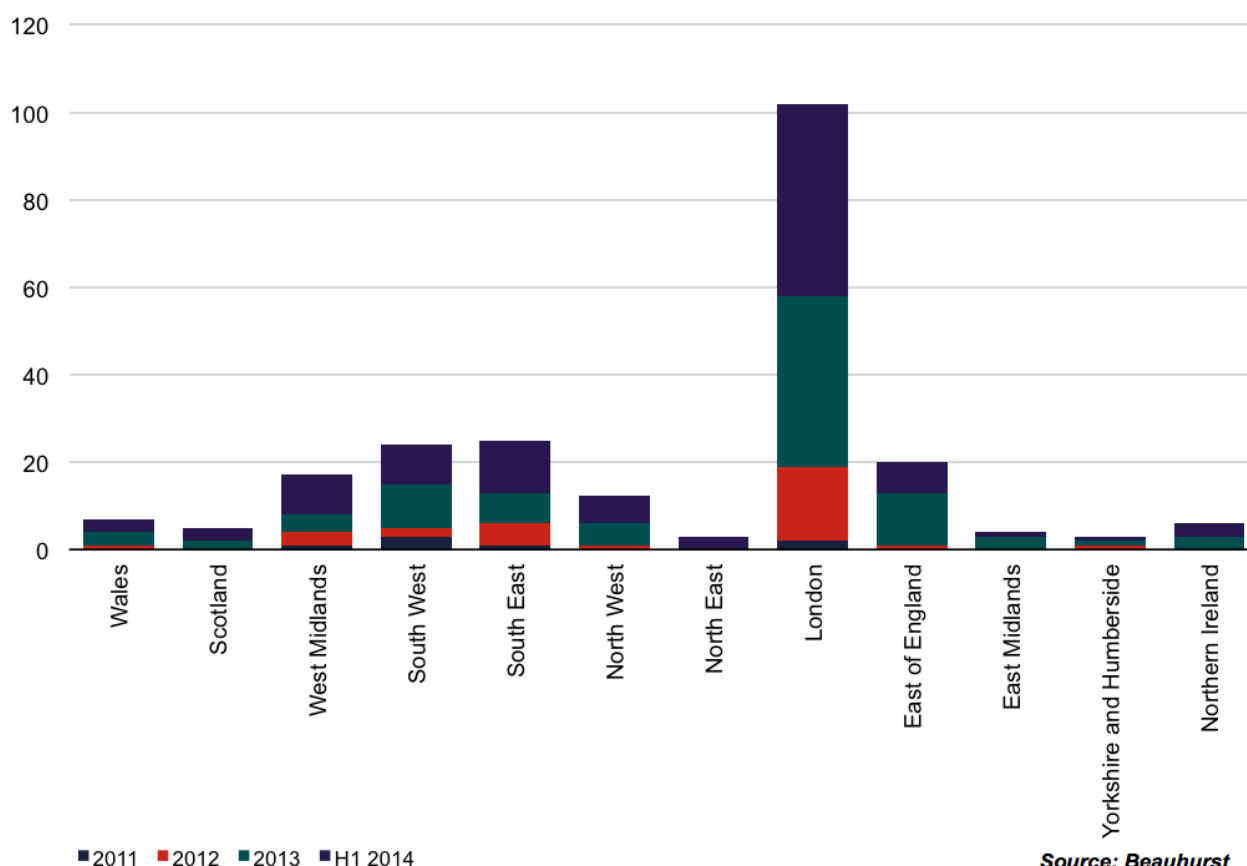
3.1 Regional breakdown

Because the crowdfunding market is so young and the deal volume is small, we will begin by looking at all deals between 2011 and H1 2014 to get a general picture removed from the 'noise' caused by fluctuating annual figures.

The emerging nature of crowdfunding seems to have had an impact on the regional spread of deal activity. Crowdfunding platforms are concentrated in London and the South in general. Crowdcube – the platform with the most visible deals – began operations in the South West (offering an explanation for the high crowdfunding figures in the region), recently expanding to London. Many other major platforms, such as Seedrs and Seed EIS Platform, are London-based, whilst SyndicateRoom is run from Cambridge.

London is the clear leader for crowdfunding in the UK, both in terms of total deals and investment. There were 102 deals into London companies, compared with 25 in the South East, which took second place. Similarly, firms based in London received £24.3m of investment, while the South West took second place with £7.6m.

Figure 6. Crowdfunding deals by region and year (2011 to H1 2014)



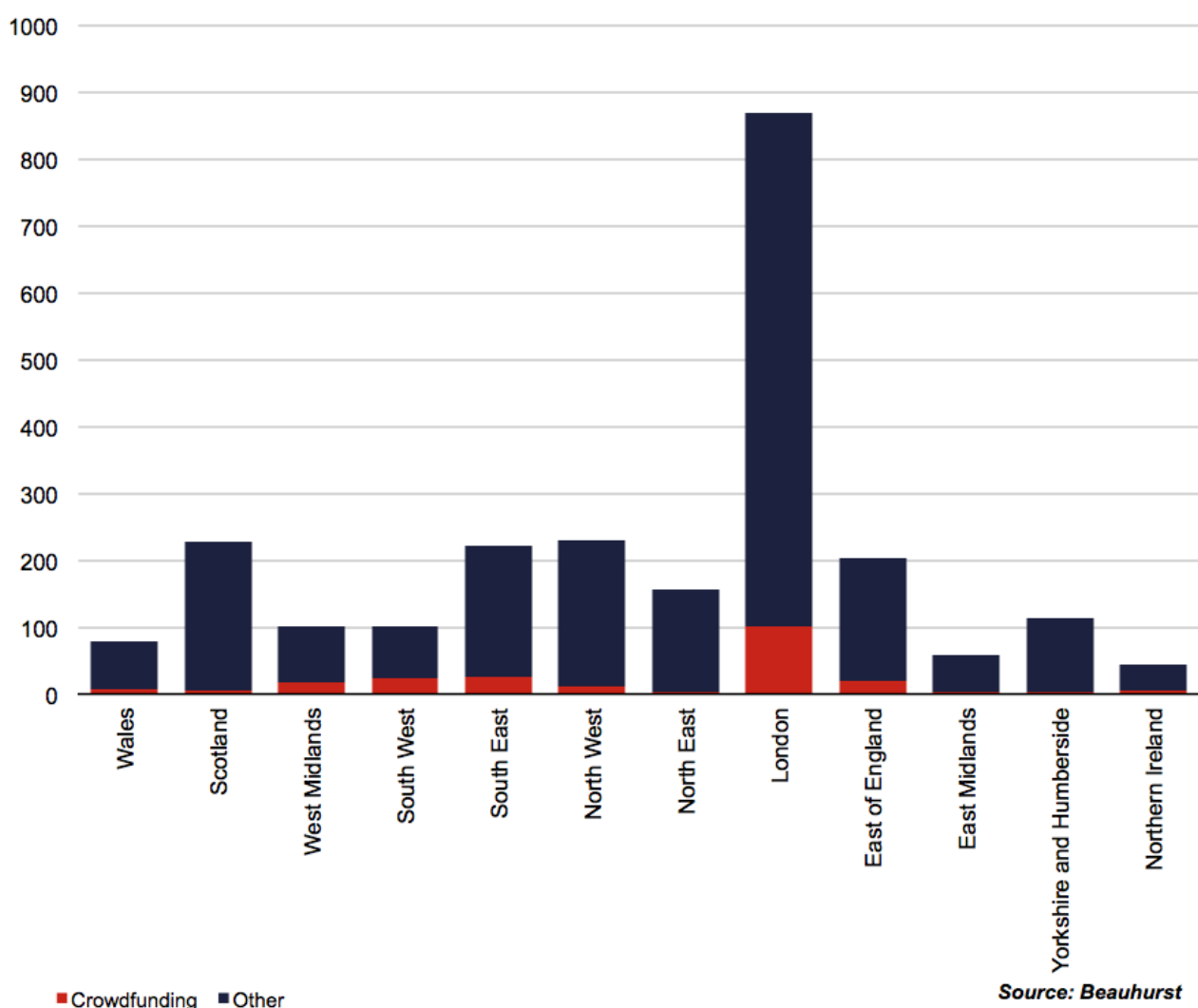
Source: Beauhurst

This gap between London and other regions has widened significantly since 2013 – beforehand, the regional spread was more even, and back in 2011 the South West actually had the highest number of deals (although London has always had the lead in total investment).

London’s lead in crowdfunding is in line with its consistent position as the top-performing region for total UK equity deal numbers and investment. Indeed, between 2011 and H1 2014 London’s crowdfunded deals actually accounted for a smaller proportion of the region’s total deals (12%) than other regions such as West Midlands (17%), South West (24%) and Northern Ireland (13%).

Crowdfunding activity in the South East falls into the same category as London – it is strong, but in line with the region’s position in the wider equity investment market. Still, it is interesting to note that a relatively high proportion of the region’s deal numbers are crowdfunded – 28% in H1 2014.

Figure 7. Crowdfunding deals out of total deals by region (total 2011 to H1 2014)



The South West's crowdfunding activity is more notable, considering its rather unremarkable position in the wider equity investment picture, and is most likely due to the presence of Crowdcube, which has had a focus on companies in the region. Alongside London, it was the first region in which crowdfunding seriously took off in 2011, and remains one of the key regions for crowdfunding (3rd for deal numbers; 2nd for investment). The impact of crowdfunding within the region has been marked – by H1 2014, 39% of the South West's total deals were crowdfunded, although this was only 4% of total investment.

Another surprise leader is the West Midlands, which is also unremarkable in the wider equity investment market. The region saw 17 deals totalling £3.8m between 2011 and H1 2014. The impact of crowdfunding has arguably been even more pronounced here, with crowdfunding investment accounting for 32% of total investment in the region in H1 2014. This is surprising, given that (aside from Northern Ireland's 14%) crowdfunding's share of total investment was never more than 8% in other regions. Similarly, crowdfunded deals accounted for 43% of total deals in the region.

There are a number of regions that are notable for the opposite reason – they are relatively strong locations for equity investment in general, but have seen relatively little crowdfunding activity. Between 2011 and H1 2014 the North West had 12 deals, of a total 229; the North East had 3 deals, of a total 158; Yorkshire and Humberside had 3, of a total 113.

Scotland had only 5 crowdfunded deals out of its total of 231 recorded equity deals. Scotland is known for its active angels and networks, which perhaps have a greater influence on early stage investment there compared with the rest of the UK. Deals involving angel networks accounted for around half of all deals in the period, and Scotland accounted for 30% of the UK's angel network deals. Scotland therefore bucks the UK trend of increasing crowdfunding deals and falling angel network deals observed in section 2.2.

Rank	Region	Deals
1	London	102
2	South East	25
3	South West	24
4	East of England	20
5	West Midlands	17
6	North West	12
7	Wales	7
8	Northern Ireland	6
9	Scotland	5
10	East Midlands	4
11=	Yorkshire and Humberside	3
11=	North East	3

Figure 8. Regional ranking for crowdfunding deals (total 2011 to H1 2014)

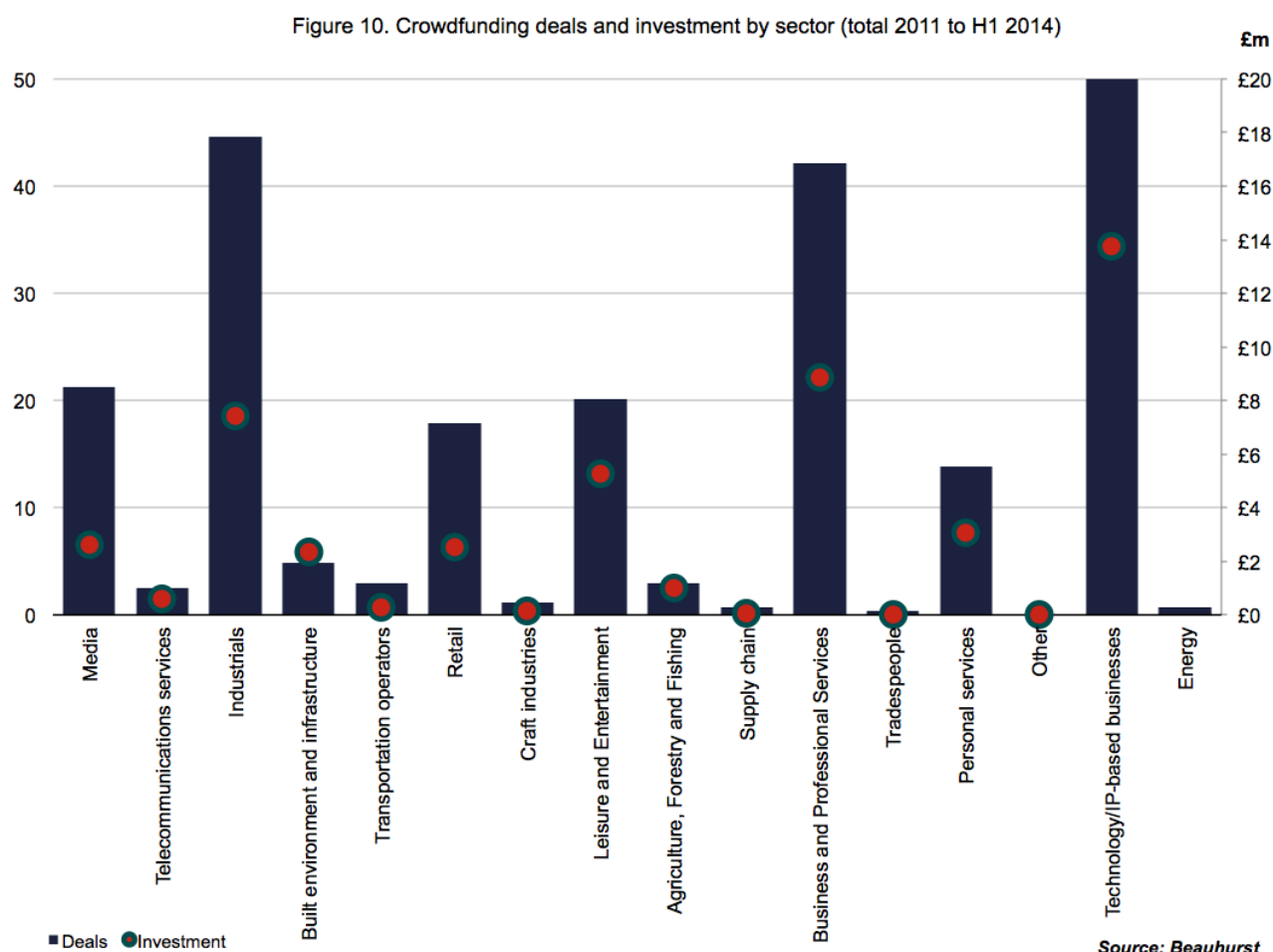
Source: **Beauhurst**

Rank	Region	£
1	London	£24.27m
2	South West	£7.56m
3	West Midlands	£3.83m
4	South East	£3.67m
5	East of England	£3.61m
6	North West	£1.24m
7	Northern Ireland	£1.22m
8	Wales	£0.71m
9	East Midlands	£0.53m
10	Scotland	£0.51m
11	Yorkshire and Humberside	£0.33m
12	North East	£0.19m

Figure 9. Regional ranking for crowdfunding investment (total 2011 to H1 2014)

Source: **Beauhurst**

3.2 Sector breakdown

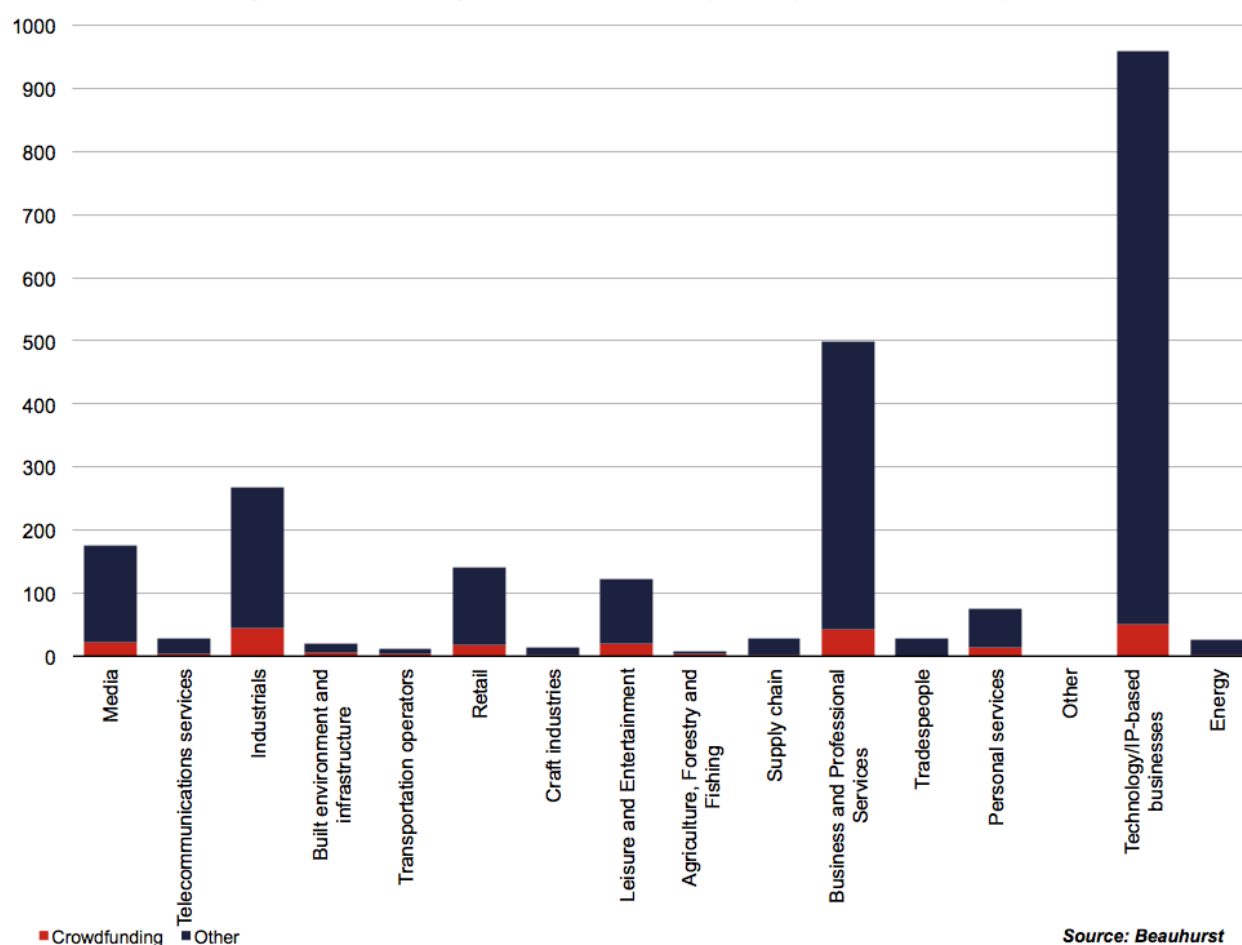


As before, we will begin by looking at all deals between 2011 and H1 2014 to block out the noise caused by fluctuating annual figures.

Technology/IP was the top-performing sector for both deal numbers and total investment, with 50 deals totalling £13.7m between 2011 and H1 2014. Next highest were Industrials, with 45 deals amounting to £7.4m, and Business and Professional Services, with 42 deals worth £8.8m in total. These three sectors together accounted for 60% of deals and 63% of total investment.

Technology/IP and Business and Professional Services have come first and second, respectively, in terms of overall UK deals and investment during the same period, so their crowdfunding success is in line with this. However, the crowdfunding activity in Industrials is more surprising given that the sector has taken a much less significant role in the wider equity investment market over the period. Crowdfunding accounted for 17% of deals in the sector, compared with 5% for Technology/IP and 8% for Business and Professional Services.

Figure 11. Crowdfunding deals out of total deals by sector (total 2011 to H1 2014)



Source: Beauhurst

It is worth noting that, whilst in every other sector deal numbers were already higher in H1 2014 than in the whole of 2013, Business and Professional Services had yet to reach this milestone¹⁰. The sector remained in the top 3 sectors in H1 2014, but this could be a sign of increasing diversification within crowdfunding – Business and Professional Services has seen a large share of activity since 2011.

In the next tier of top-performers came Leisure and Entertainment, with 21 deals totalling £5.3m, and Media, with 21 deals amounting to £2.6m. Again, this positioning was perhaps to be expected considering wider equity investment trends.

Crowdfunding accounted for 18 deals and £2.5m of investment in the Retail sector, a fairly average performance when compared with crowdfunding in other sectors, and with the relatively large total investment in the Retail sector as a whole. However, the strong bias in the wider market towards the larger growth-stage deals in Retail props up the sector's total investment, and, as we noted earlier, crowdfunding has thus far been concentrated at the seed-stage.

¹⁰ 15 deals were recorded in Business and Professional Services in H1 2014, compared with 19 in 2013.

There were 14 crowdfunded deals in the Personal Services sector, totalling £3m, a noteworthy performance considering the fairly low profile of the sector when looking at its overall totals. Crowdfunded deals accounted for 18% of the sector's deals.

Although it accounts for very few crowdfunded deals overall, Agriculture, Forestry and Fishing as a sector seems to be benefitting from crowdfunding – all of its deals in H1 2014 were crowdfunded. 3 of the 8 deals and £1m of the £9m invested in the sector between 2011 and H1 2014 were crowdfunded. The sector traditionally doesn't attract much equity investment, but crowdfunding may be changing this situation.

3.3 Sub-sector breakdown

Now we will look at how crowdfunding activity is broken down at a sub-sector level within the more significant sectors, again looking at totals between 2011 and H1 2014.

Technology/IP

Most of the deals in Technology/IP were for companies with a software component, namely Internet Platforms and Mobile Apps. Consumer Electronics Hardware tech also had a noteworthy number of deals, in line with the performance of manufacturers of consumer electronics in Industrials.

There were a few deals in the Life Sciences sub-sector – not a significant number when looking at crowdfunding as a whole, but it is surprising to see any in this space given the specialist nature and the unique growth cycle of such companies (usually they are high risk, capital-intensive, and have long exit horizons). This may in part be due to deals in which experienced angels anchor the round, or may indicate a heightened interest in Life Sciences among crowd investors.

Business and Professional Services

There has been a strong preference for the Business Banking and Financial Services sub-sector, which is way ahead in terms of investment, as well as for Consumer Banking and Financial Services.

This can be attributed in part to several large deals for crowdfunding and peer-to-peer lending platforms themselves, which fall into these sub-sectors. For instance, Crowdcube has raised £6.8m over several rounds using its own platform; its deals are much larger on average than typical crowdfunded deals. The sub-sectors' performance cannot be attributed to this alone, however. Many other companies that have their own take on the 'crowd' idea appear to have had success in crowdfunding campaigns, such as Hubbub, Landbay and Crowdfunder, which is perhaps unsurprising if investors are already on board with the 'crowd' concept.

There appears to be a preference for easy-to-understand, non-capital intensive, agency-style service businesses among crowd investors. Advertising and Branding

Services had the most deals within Business and Professional Services (which, as a sector, took a large portion of all crowdfunded deals), while Recruitment Agencies and Personnel Supply Services also took a significant portion of deals. Estate Agency Services, Legal Services and Marketing Services also did well in this regard.

Security Services also took a fairly large share of deals – the majority of the funded companies in this sub-sector have a software element.

Industrials

Within Industrials, Food and Drink Processors led the way in terms of both deals and investment, accounting for 33% of deals in the sector. Companies producing and retailing alcohol, particularly breweries, were notably the most popular, as were artisanal and health-conscious products. Deals for manufacturers of consumer goods such as electronics and clothing also significantly boosted the Industrials total.

A surprising Industrials micro-trend is the success of Aerospace companies, which took a sizeable portion of the Industrials investment total – the sector is typically quite small in the wider equity investment market, and is usually regarded as the reserve of established big players due to high capital costs and insurance premiums.

Leisure and Entertainment

Within Leisure and Entertainment, Restaurants and Cafes took the most deals, with Takeaways and Pubs and Clubs close behind. Interestingly, Theatre (in this case mainly musicals) did fairly well – theatre is unlikely to be on the radar of many mainstream equity investors, in part due to its risk profile, so the sub-sector may benefit from the extra attention crowdfunding brings.

Media

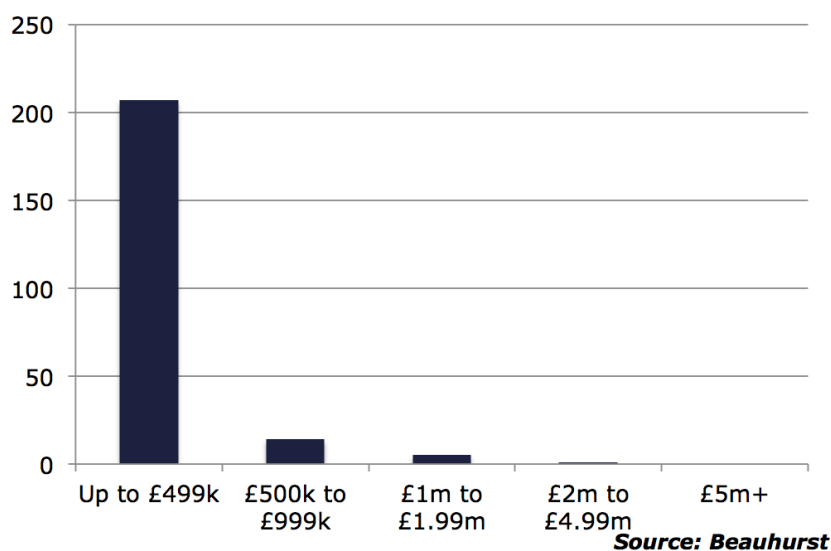
Within the Media sector, online publishing had the most deals, consisting mainly of companies with B2C (Business-to-Consumer) Websites and Social Networks, while Online Games Publishing companies also had several deals.

Retail

Retail was almost completely made up of E-commerce deals, which is in line with the rise of E-commerce deals and investment seen in the UK equity investment market – it seems likely that crowd investors, themselves already internet-savvy, spotted opportunities in online retail and have looked to make returns from them.

3.4 Investment sizes

Figure 12. Crowdfunding deals by investment size
(total 2011 to H1 2014)



The seed-stage focus within crowdfunding has a marked effect on the spread of investment sizes: 91% of crowdfunded investments are smaller than £500k and 97% are below £1m. However, deal sizes are smaller in general, even when accounting for the seed-stage bias. In general, the average seed-stage deal size is £612k; crowdfunded seed deals are an average of £147k (when looking at deals between 2011 and H1 2014).

The average deal size for the venture- and growth-stages was also comparatively small. The majority of crowdfunded deals at these stages were below £1m; in the wider market the average venture-stage deal size was £2.6m and the average growth-stage deal size was £6.4m.

Conclusions

Crowdfunding, although still a relatively small part of the equity investment ecosystem, is showing rapid growth.

The strength of the seed-stage compared with venture and growth is probably the most significant, if not the most surprising, discovery from our analysis. It is possible that the rise of equity crowdfunding combined with the now-permanent Seed Enterprise Investment Scheme (SEIS) may boost the availability of seed-stage funding – and it seems that instead of diverting funds from other stages, crowdfunding is supplementing the seed-stage.

The relationship of angels/angel networks with crowdfunding platforms is hard to discern at this stage, but early signs indicate that some angels may be choosing to invest through crowdfunding platforms, which could have some interesting knock-on effects within the funding industry.

The regional pattern of deals and investment shows London to be far ahead, followed by the South East and the South West. For some regions, namely the South West, the West Midlands and Northern Ireland, equity crowdfunding had a disproportionate impact on investment, accounting for a high proportion of total deals and/or investment.

The location of crowdfunding platforms seems to have had an impact on the regional spread of deal activity, mainly being located in London and the South in general. As more crowdfunding platforms open for business around the country and see their first deals completed, it is possible, even likely, that the regional spread will come to mirror that of the wider equity investment market more closely.

A look at sectors revealed a number of interesting patterns in behaviour, likely to primarily emanate from investor preference, particularly for easy to understand, consumer-facing products and services.

Technology taking the top spot comes as no surprise, and is in line with the wider equity market. The interest in Life Sciences is noteworthy because of its specialist nature, and has benefitted from platforms like SyndicateRoom that harness the expertise of angel investors, partly de-risking the investment in the mind of the 'crowd' investors.

Consumer-facing designs and products proved popular, lending weight to the idea that running a crowdfunding campaign has the significant secondary benefit of creating a dedicated base of enthusiastic customers/shareholders.

Deals for companies that run with the 'crowd' concept in various forms, which themselves have raised money on crowdfunding platforms, boosted the success of the Business/Consumer Banking and Financial Services sub-sectors. It seems logical that investors already sold on the idea of crowdfunding would be on board with other 'crowd' model businesses (such as Crowd Property, a property crowdfunding platform).

The disruptive impact of equity crowdfunding is being felt across the UK, as we have discovered. Its steep growth trajectory since 2011 would suggest that it will continue to transform the UK investment landscape in future years. We are certain that as the industry finds its feet and trends are consolidated, there will be plenty more questions raised about equity crowdfunding – company bankruptcy rates and the risks faced by retail investors, for example, plus the issue of returns on crowdfunded investments will become more prominent as more exits are made. A recent paper by Wilson and Testoni¹¹ suggests equity crowdfunding may be significantly riskier than business angel or venture capital finance, due to a "*lack of adequate pre-investment screening and due diligence, weaker investment contracts and poorer post-investment support and monitoring*", arising from relatively inexperienced investors lacking the required investment know-how. The scale of these potential risks will become better known over time as we observe the performance of a range of crowdfunded investments.

This report opens up many possibilities for further investigation. These might include more detailed analysis of investment returns – in particular, the extent to which actual returns differ from those expected – or of the risks faced by retail investors, and their ability to comprehend them. As outlined in chapter 2, a potential area to explore might be the profile of angels investing through crowdfunding platforms, and how they might differ in background, experience or deal sizes to those investing through angel networks.

Other options for further investigation could include: whether seed-stage crowdfunded companies will continue to use crowdfunding platforms as they grow; whether the increased availability of seed capital will deepen the venture-stage gap; and whether the distinction between angel networks and crowdfunding platforms will become more grey as investment activity moves increasingly online.

¹¹ "Improving the Role of Equity Crowdfunding in Europe's Capital Markets"

Methodology

- The data presented here are based on Beauhurst's independent monitoring of hundreds of organised and institutional equity investors.
- Only investments into private limited companies are included.
- Only investments into companies that are small or medium-sized businesses (SMEs), as defined by the European Commission¹², are included.
- Equity deals completed on equity crowdfunding platforms are included, as well as crowdfunded deals organised by individual companies (i.e. bypassing equity crowdfunding sites) when the companies meet the above criteria.
- Equity crowdfunding platforms are here defined as:
 - allowing for very small investment contributions (as an estimate, below £1000)
 - allowing lots of people participate (as an estimate, more than 20)
 - attracting investors who are not already angels and/or high-net worth individuals (but does not necessarily exclude them)
 - having an online presence.
- Deals included are exclusively those that are publicly announced.
- Only equity investments are included, not loans, donations, mini-bonds or cash-for-rewards.
- Only investments into UK-registered companies are included, although they may have made use of non-UK-based equity crowdfunding sites.
- We do not necessarily include all deals completed on UK-based equity crowdfunding platforms, taking a deal-centric rather than a platform-centric approach.
- Comparisons with the wider UK equity investment market include deals that are: publicly announced; equity or part-equity; into UK-registered companies; and into SMEs.
- Quarterly figures fluctuate widely within crowdfunding (due to the relatively small number of deals) so to tell a coherent story, annual figures were used instead.
- By 'crowdfunded deal' we mean a deal that has participation from at least 1 crowdfunding platform and/or an independently organized campaign (in practice, the 'crowd' usually invests without participation from other funds).
- By 'angel network deal' we mean a deal in which an angel network participated (potentially alongside others).
- When analysing cross-sector data, for example deals across all seed-stage companies, we weigh 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.
- The location of a company is taken to be the trading address.

¹² 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.

References

Enterprise Research Centre, January 2015. *A Nation of Angels - assessing the impact of angel investing across the UK.*

<http://www.centreforentrepreneurs.org/campaigns/13-nation-of-angels>

Nesta, November 2014. *Understanding alternative finance.*

<http://www.nesta.org.uk/sites/default/files/understanding-alternative-finance-2014.pdf>

British Business Bank, December 2014. *SME Journey towards Raising Finance 2014 Survey.* <http://british-business-bank.co.uk/wp-content/uploads/2014/12/Final-BMG-SME-Journey-Research-Report.pdf>

Wilson, C and Testoni, M, August 2014. *Improving the Role of Equity Crowdfunding in Europe's Capital Markets.* <http://www.bruegel.org/publications/publication-detail/publication/844-improving-the-role-of-equity-crowdfunding-in-europes-capital-markets/>

Acknowledgements

This report was written by Jennifer Glover of Beauhurst with significant contributions from the rest of the Beauhurst research team, namely Pedro Madeira, Jagdish Lall, Jamie White, Bernard Stockermans and Valerio Campanella. Invaluable guidance and feedback was offered by Alex Turvey and Matt Adey of the British Business Bank and Matthew Wicks of BIS.

Appendix: Investment stage classifications

Beauhurst divides the market into three stages: seed, venture and growth. Buyouts and public market deals are not included, as the focus is on early stage, growing companies. The classification of deals by stage is a matter of judgement rather than specific rules: each deal is looked at by a Beauhurst analyst, who reaches a decision with the help of a set of proprietary guidelines. These guidelines consist of a set of around 50 criteria which are believed to provide an indication of the company's stage, such as age, trading status, revenues, development and use of intellectual property. They are not used as a decision tree, but require intensive human input to interpret.

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.

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

Source: Beauhurst; EVCA; BVCA

Legal Notices

British Business Bank plc is a public limited company registered in England and Wales registration number 08616013, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. As the holding company of the group operating under the trading name of British Business Bank, it is a development bank wholly owned by HM Government which is not authorised or regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). BBB operates under its own trading name through a number of subsidiaries, one of which is authorised and regulated by the FCA.

British Business Finance Ltd is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales registration number 09091928, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. It is not authorised or regulated by the PRA or FCA.

British Business Bank Investments Ltd is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales, registration number 09091930, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. It is not authorised or regulated by the PRA or FCA.

British Business Financial Services Ltd is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales registration number 09174621, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. It is not authorised or regulated by the PRA or FCA.

Capital for Enterprise Fund Managers Limited is a wholly owned subsidiary of British Business Bank plc, registered in England and Wales, registration number 06826072, registered office at Foundry House, 3 Millsands, Sheffield, S3 8NH. It is authorised and regulated by the FCA (FRN: 496977).

British Business Bank plc and its subsidiary entities are not banking institutions and do not operate as such.

A complete legal structure chart for British Business Bank plc and its subsidiaries can be found at www.british-business-bank.co.uk.

© British Business Bank plc (March 2014)

This publication is available from british-business-bank.co.uk.

Any enquiries regarding this publication should be sent to:

British Business Bank plc
Foundry House
3 Millsands
Sheffield S3 8NH

