Contents

Equity Tracker Summary (Q4/13 to Q3/14) ............................................. 4
Introduction .................................................................................................. 5

Chapter 1: Trends in overall investment activities ..................................... 6
  Total investment ......................................................................................... 6
  By stage of evolution ................................................................................ 8
  By sector (weighted charts) ...................................................................... 10
  Technology sub-sectors .......................................................................... 12
  By region .................................................................................................. 14
    Business stock and deal numbers .......................................................... 15
    High-growth businesses distribution .................................................... 15
Clusters (Q1/11–Q3/14) ............................................................................ 17
  By investment bracket ................................................................................ 20
  Investors ................................................................................................... 21
  Lorenz Curve, all stages .......................................................................... 24

Chapter 2: Seed-stage ................................................................................ 26
  Sectors, seed-stage .................................................................................. 26
  Technology sub-sectors, seed-stage .......................................................... 28
  Regions, seed-stage ................................................................................ 30
    Seed-stage deals and business stock ...................................................... 31
Investment brackets, seed-stage ................................................................. 32
  Investors, seed-stage ................................................................................. 33
  Lorenz Curve, seed-stage ......................................................................... 34

Chapter 3: Venture-stage .......................................................................... 35
  Sectors, venture-stage .............................................................................. 35
  Technology sub-sectors, venture-stage ..................................................... 37
  Regions, venture-stage ............................................................................ 39
    Venture-stage deals and business stock ................................................. 40
Investment brackets, venture-stage ............................................................. 41
  Investors, venture-stage ........................................................................... 42
  Lorenz Curve, venture-stage .................................................................... 43

Chapter 4: Growth-stage .......................................................................... 44
  Sectors, growth-stage .............................................................................. 44
  Technology sub-sectors, growth-stage ..................................................... 46
  Regions, growth-stage ............................................................................. 48
    Growth-stage deals and business stock ................................................. 49
Investment brackets, growth-stage .............................................................. 50
  Investors, growth-stage .......................................................................... 51
  Lorenz Curve, growth-stage .................................................................... 52

Chapter 5: British Business Bank Equity Funds ........................................ 53
  Introduction .............................................................................................. 53
  By Stage ................................................................................................... 56
  By Sector .................................................................................................. 59
  By Region ................................................................................................ 61
  By Investment amount ............................................................................ 64

Appendix ..................................................................................................... 66
  Cluster data: business start-up rates, 2012 ........................................... 66
Equity Tracker Summary (Q4/13 to Q3/14)

Estimated total market: £2,000m to £2,500m

of which the following activity is visible:

Seed Venture Growth
£208m £548m £1415m

Investment clusters (Q1/11-Q3/14)
1. Westminster (211 deals)
2. Islington and Hackney (184 deals)
3. Camden (124 deals)
4. City of London (107 deals)
5. Cambridge and South Cambridgeshire (101 deals)
6. Edinburgh (98 deals)

7. Newcastle-upon-Tyne and Tyneside (74 deals)
8. Lambeth (49 deals)
9. Glasgow (46)
10. Liverpool (45 deals)
11. Manchester (45 deals)
12. Southwark (41 deals)
13. Oxford (41 deals)

Technology vs non-Technology

Lorenz curve: total investment

Proportion of deals involving UK govt / local govt funding:
24% (35% previous year)
Introduction

The British Business Bank’s equity report, published alongside this document, discusses how a lack of reliable data has represented a perennial problem over the years, hampering analysis of trends in equity markets. Typically, there has been some aggregated data available on venture capital investment\(^1\), some information on investments supported by the EIS, SEIS and VCT tax reliefs, and little else.

To address the lack of data, the British Business Bank and the Department for Business Innovation and Skills (BIS) commissioned Beauhurst\(^2\) to produce a prototype “equity tracker” that brings together investment from different sources (such as funds, angels, and crowdfunding platforms) into a “whole of market” view of early-stage equity investment. The Beauhurst dataset is built from the bottom up, so offers a richness of data and a series of detailed breakdowns by stage, sector, location, investor and size of investment. There is the ability to further interrogate the data for a range of bespoke analyses too, as will be demonstrated by a forthcoming case study on equity crowdfunding.

This publication represents the full results of our first attempt at putting together a “whole of the market” equity tracker. Excerpts from the equity tracker are also included in the British Business Bank’s equity report alongside other market data that is publicly available. Together, we think that these provide a much more thorough view of the market than previously available.

After the initial report the intention is to revise and develop the Equity Tracker, both in terms of data and presentation. To this end, feedback from readers is welcome and encouraged, both about the contents of this tracker and the accompanying analysis in the equity report and its coverage.

In this report, “equity investment” is defined as any form of external equity finance, excluding public markets, buyouts and investment by family or friends. The definition incorporates business angels, equity crowdfunding, venture capital, corporate venturing and, for larger “growth” deals, some activity of traditional private equity funds. The deals reported here involve firms identified as being small or medium sized, according to the definition of “SME” set out by the European Commission\(^3\).

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. Hidden deals are a particular issue at the seed stage and in business angel activity, meaning the coverage is not comprehensive in places; this caveat should be borne in mind when interpreting the data.

\(^1\) For members of the relevant industry body (BVCA/EVCA) only
\(^2\) Beauhurst is a provider of deep data on equity investment into UK companies. For more information visit http://about.beauhurst.com/
\(^3\) http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm
Chapter 1: Trends in overall investment activities

Total investment

Overall annual deal numbers and amounts have been increasing since 2010.\(^4\) Deal numbers have on the whole risen slightly faster than amounts, causing a decrease in average amount invested from 2010 to 2013:

- The number of equity deals completed has grown at a compound annual growth rate of 50% between 2011 and 2013. 2014 shows continued growth so

\(^4\) The time period used to generate the summary page (Q4/13 to Q3/14) is distinct from the one used to generate the body of the text (Q1/14 to Q3/14). Therefore, some figures in this section may appear to be different.
far, with Q1 to Q3 deal numbers exceeding those for same period in 2013 by 23%.

- The **amount invested** increased at a compound annual growth rate of 25% between 2011 and 2013. Investment in the first three quarters of 2014 is up by almost half on the same period in 2013.

- The **average amount invested** has decreased since 2011, reflecting the fact that deal numbers have increased at a faster rate than the total amount invested. However, the figure rose over the first three quarters of 2014 compared with the whole of 2013.
By stage of evolution

Both seed-stage investments and growth-stage investments show continued strong year-on-year increases. In contrast, the venture-stage lags behind, although with signs of increased activity in 2014:

- Most **seed-stage** activity is hidden, without deals being formally announced. The strength of visible seed-stage activity appears to be rooted in an explosion

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5 Beauhurst divides the equity investment 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. 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.
of crowdfunded deals. The figures for deals also seem to reflect wider trends, such as the greater availability of seed-stage capital reported through HMRC’s EIS statistics\(^6\). Notably, the number of seed-stage deals completed by angel networks is on the decline, which may be related to the growth of crowdfunding\(^7\).

- The **venture-stage** saw overall investment decrease in 2013. While conditions seem to have improved in 2014, with £405m invested up to the end of Q3/14, year-on-year trends at the venture-stage still lag behind the increases seen both at the seed- and growth-stages.

- The **growth-stage** has seen year-on-year growth, with total amount invested in 2014 at £1.116bn up to the end of Q3.


\(^7\) The link between angel network and crowdfunded investment is explored in more detail in the forthcoming case study on equity crowdfunding.
The Technology/IP-based businesses sector continues to dominate equity investment in the UK, although most sectors have enjoyed strong increases in deal and investment activity between 2011 and the first three quarters of 2014:

- Technology/IP-based businesses’ deal numbers enjoyed strong year-on-year growth between 2011 and 2013, rising at a compound annual growth rate of 39%. Deal numbers continued to pick up in the first three quarters of 2014, increasing by 14% compared with the same period in 2013. Nevertheless, the proportion of the market taken up by companies in this sector has fallen from 46% in 2011 to 36% in 2014 to date.
- Business and Professional Services investment has expanded by 54% in the first three quarters of 2014 compared with the whole of 2013, rising to a new all-time annual high. Deal numbers increased at a compound annual growth rate of 61% between 2011 and 2013, and have continued to rise so far in 2014.
- Deal numbers in Media have already risen to an annual high in the first three quarters of 2014, with most of the activity recorded at seed-stage. Investment has already exceeded the 2013 total.
• During the first three quarters of 2014, investment in Industrials reached £180m – approximately double the previous yearly peak of 2013. Deal numbers followed a similar trajectory, with a 36% increase compared with the first three quarters of 2013.
Most Technology/IP sub-sectors suffered a fall in deal numbers during the first three quarters of 2014. The picture is somewhat brighter if we consider invested amounts. Still, while Software and Life Sciences are driving the sector’s growth, Clean Technology and Medical Technology have both lost ground in the first three quarters of 2014:

**Software**

- The proportion of Technology/IP deals taken up by Software has increased from 38% in 2011 to 63% during the first three quarters of 2014. There was a 49% increase in deals in Software between Q1/14 and Q3/14 compared with the same period in 2013, causing activity to hit an all-time annual high. Similarly, the first three quarters of 2014 saw investors pour a record £379m into Software businesses.

**Life Sciences**

- Life Sciences forfeited the top Technology sub-sector spot (in terms of investment) to Software in 2013, but has nonetheless been experiencing strong yearly growth since then. Between Q1/14 and Q3/14, Life Sciences deals
decreased by 22% compared with the same period last year, while invested amounts increased by 50%.

**Hardware**

- Deals in Hardware fell by 14% between Q1/14 and Q3/14 compared with the same period last year, while the amount invested increased by 33%.

**Medical Technology**

- Medical Technology deals shrank by 22% between Q1/14 and Q3/14 compared with the same period last year. Invested amounts also went down, by 47%.

**Clean Technology**

- 2014 has so far been a disappointing year for Clean Technology. Between Q1/14 and Q3/14, deal numbers fell by 13% compared with the same period last year. Similarly, the amount invested decreased by 21% to £20m – a long way down from the sub-sector’s £98m peak in 2012.
By region

London has been the main driver of equity activity and investment growth in the UK since 2011. Investment elsewhere in the country has shown more variable performance:

- Wales, the South West and the North West have all seen increases in investment during the first three quarters of 2014. Wales and the North West had previously experienced a drop in investment in 2013.
- Investment in the South East, East of England, and East Midlands in 2013 was around the 2011 level, although the figures for the intervening year varied significantly, with the South East seeing a sharp rise and fall, whilst the opposite occurred in the East of England and East Midlands.
- With the exception of 2013, the North East has seen decreasing levels of investment year-on-year since 2011. The trend appeared still in force between Q1/14 and Q3/14.
Business stock and deal numbers

During the first three quarters of 2014, London came out on top in terms of deal numbers, business stock and ratio of deal numbers to business stock\(^8\). Observing the rest of the UK, it is possible to see that large numbers of deals are not positively correlated with large numbers of businesses. This characteristic also extends down to the local authority level:

- Although the South East was the second busiest region for deal numbers in the first three quarters of 2014, it was actually one of the weaker regions in terms of deal number to business stock ratio (DBR).
- Scotland performed strongly in terms of DBR, coming third after London and the North East despite falling deal numbers in the first three quarters of 2014.
- The North East registered the second highest DBR in the UK. Despite having the second smallest business stock of all regions in the UK, deal numbers in the North East are towards the middle of the regional distribution. A strong DBR is in contrast to other economic indicators: the North East has the highest unemployment rate in Britain\(^9\), and in 2013 (the most recent date available) it had the second lowest GVA per head in the UK\(^10\).

High-growth businesses distribution

By comparing the distribution of high-growth businesses in 2012\(^11\) and the most recent regional investment activity figures, it appears as though London absorbs a large percentage of activity at the expense of other enterprise-rich regions.

- **London**: ONS data shows that 22% of the UK’s high-growth businesses were located in London. The percentage of equity deals completed between Q1/14 and Q3/14 in London was much higher, at 42%.

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• **South East**: According to ONS data, 15% of the UK’s high-growth businesses were located in the South East — the second highest percentage after London. The percentage of equity deals completed between Q1/14 and Q3/14 in the South East was instead 9%, on a par with the East of England.

• **East Midlands**: The ONS data shows that 7% of the UK’s high-growth businesses in 2012 could be found in the East Midlands. There is a wide discrepancy between this figure and the percentage of equity deals completed between Q1/14 and Q3/14 in the East Midlands, which was 1%.\(^{12}\)

• **West Midlands**: The West Midlands was home to 8% of the UK’s high-growth businesses in 2012, whereas the percentage of equity deals completed between Q1/14 and Q3/14 in the region was 4%.

• **South West**: 8% of the UK’s high-growth businesses were located in the South West, whilst the percentage of UK equity deals completed there between Q1/14 and Q3/14 was 5%.

\(^{12}\) It is worth noting that investment activity in the region has historically been low.
Clusters (Q1/11-Q3/14)

Note: activity level detail only available for Great Britain

Cluster legend
- Light activity: 1-5 deals
- Light-to-mid activity: 6-9 deals
- Mid-level activity: 10-19 deals
- Mid-to-high activity: 20-38 deals
- High activity: 39-93 deals
- Highest activity: 94+ deals
In greater detail, the following urban areas are centres of the largest GB clusters for equity investment:

London, top 5 clusters:

1. Westminster: 211 deals.
2. Islington & Hackney, which include Tech City: 184 deals.
5. Lambeth: 49 deals.

There is a notable divide between inner and outer London boroughs. The hottest areas, in terms of investment activity, appear to be in the centre and “inner north” of the city. Investment levels drop suddenly in the outer northern and eastern boroughs, whereas they fade out more gradually in the west and south.

Other GB areas:

2. Edinburgh: 98 deals - it also sits close to other clusters of activity in Glasgow and West Lothian and North Lanarkshire Council areas.
3. Newcastle-upon-Tyne: 54 deals, with a further 20 deals in the North Tyneside Metropolitan Borough Council and its South Tyneside counterpart.
4. Glasgow: 46 deals.
5. Liverpool: 46 deals.
6. Manchester: 45 deals – it also sits close to other clusters comprising most of Cheshire and Liverpool.
7. Oxford: 38 deals, although Oxford arguably sits in a wider cluster extending from the city of Bristol in the west to the Guildford Borough council in the east.
8. Leeds: 30 deals – the city is also part of a tight cluster comprising mid-level activity areas like the councils of Bradford, Calderdale, Kirklees and Wakefield.
10. Birmingham: 28 deals – the city forms a compact cluster with Coventry, a mid-to-high level activity hub with 20 deals, and the less-active Warwick District and Solihull Metropolitan Borough Council.
There seems to be a strong correlation between total deal numbers and urban or university cities, but not with metrics for innovative activity or business start-up rates\textsuperscript{13}:

- There appears to be a strong correlation between urban centres with large populations and deal numbers. The 15 clusters with the highest number of deals feature 10 of the largest GB cities\textsuperscript{14}. Liverpool is a strong example: while it is one of the UK cities with the lowest ratios of both new patents and number of businesses per head, it is the sixth largest cluster outside of London for deal numbers. However, Leicester poses an exception as it has a large population but sits in a “dead zone” of low-level investment activity.
- There is a second correlation between the number of deals and the presence of established universities and research centres in a cluster. Again, population size seems to play a role: excluding London’s multiple universities, a majority of the largest higher education institutions by student population are located among the first 15 clusters. Oxford and Cambridge are also part of the list. A conspicuous exception to this trend is provided by Nottingham, which is both one of the largest student centres and the ninth largest city in GB, but features low levels of equity investment.
- In contrast, business start-up rates and ratios of new patents over the total population do not seem to hold a strict correlation with the investment clusters. Hubs like Brighton and Milton Keynes - respectively the third and fourth GB cities in terms of business start-up rate back in 2012 - feature only as mid- to low-level clusters, with 11 and 6 deals respectively.

\textsuperscript{13} Source data for this analysis can be found in the Appendix (section 5).

\textsuperscript{14} This and the following analyses consider London as a single cluster.
The smallest investment band, up to £499k, has accounted for the largest proportion of total deal numbers in each year since 2011 whereas the investment bands in the range over £5m accounted for the smallest share of total deals. Deal numbers recorded in the investment bands ranging from £500k and up to £4.99m tend to be relatively similar each year\textsuperscript{15}.

\textsuperscript{15} Investment band analysis considers a subset of total deal numbers because investment amounts were not disclosed for all deals. Consequently, 189 deals were excluded from consideration out of a total of 779 between Q1/14 and Q3/14, i.e. 24\% of the total.
Private equity investors have been the busiest type of investors by far in every year since 2011. Crowdfunding activity has surged at both the seed- and venture-stage. While local, regional, and devolved government deal numbers have fallen slightly in 2014, devolved administrations have invested larger amounts:

- Crowdfunding activity expanded by 1171% between 2011 and 2013. The first three quarters of 2014 have already seen an increase of 64% in activity compared with the whole of 2013. The number of crowdfunded seed-stage deals increased by a compound annual growth rate of 234% between 2011 and 2013, and seed-stage activity has already almost doubled compared with last year’s figures.
- In the first three quarters of 2014, angel networks have seen deal numbers fall by around one-fifth compared with the same period in 2013. Most of the shortfall occurred at the venture- and growth-stages.
- In 2011, private equity funds participated in 56% of the overall deals, but by the first three quarters of 2014 this percentage was down to 40%.
• The available figures\(^\text{16}\) for 2014 show that the British Business Bank\(^\text{17}\) has been active at all investment stages, with year-on-year increases both in deal numbers and amounts committed:
  o Since H2/10, the British Business Bank is identified as supporting 147 equity deals in the Beauhurst database, raising a total of £383m alongside participating funds.
  o British Business Bank deal numbers increased by 56% in H1/14 compared with the same period in 2013.
  o The British Business Bank was involved in 6% of deals, accounting for 7% of total investment, between H2/10 and H2/14.
• A more detailed exploration of British Business Bank activity can be found in chapter 5.

Percentage of market accounted for by the British Business Bank
Deals, 2010 H2–2014 H1

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\(^\text{16}\) The British Business Bank disclosed data about 244 unique investments in which it has participated between H2/10 and H1/14. Only 150 British Business Bank deals were publicly announced; of these, Beauhurst selected the 147 involving relevant equity transactions.

\(^\text{17}\) There is a time lag between the production of British Business Bank investment data and Beauhurst data, meaning that information on the former is only complete up to end of H1/14. Therefore, equity investment and activity supported by the British Business Bank is analysed in half yearly periods.
Percentage of market accounted for by the British Business Bank
Investment amount, 2010 H2–2014 H1

- Other investments: 92.9%
- BBB investments: 7.1%
A Lorenz curve is a graphical representation of the proportion of wealth associated with a proportion of a population. In this case, population (x-axis) is represented by the percentage of individual UK investors monitored by Beauhurst, and wealth (y-axis) is represented by the percentage of deals concluded. The curves in each graph are thus obtained by plotting the percentage of total investors against the cumulative percentage of all deals for a year.

The black line in these plots represents a situation of perfect equality where each fund type or share of the population concludes an equal number of deals. The further away the Lorenz curve is bowed, the more unequal the situation is. The Gini coefficient or index is a descriptive measurement by which different Lorenz curves can be compared. It is equal to the ratio of the area between the Lorenz curve and the equality line, and the total area below the equality line. A Gini coefficient that is close to 1.0 represents a situation of maximal inequality, where all deals were completed by a single investor.
UK early-stage equity activity has been “democratising” since 2011, edging away from a situation where a small percentage of investors account for the vast majority of deals. Back in 2011 the final quintile of the investor population was responsible for approximately 85% the deals completed. Fast-forward to 2014 and the percentage of deals completed by the final quintile of the investor population had dropped to approximately 75% of the deals completed. Significantly, between 2011 and 2014 the percentage of investors responsible for a negligible level of deal activity fell from just over 70% of the population, down to just over 50% of the population.

For companies seeking to raise equity investment, these movements entail a greater degree of choice as more investors either enter the market, or become more active. Of course, for investors these movements mean that the levels of competition are on the rise. However, it must be noted that the market is far from pluralistic or perfectly competitive. Furthermore, most of the shift towards a more decentralised distribution of deal activity occurred between 2011 and 2012, with each year since registering an incrementally weaker shift.
Chapter 2: Seed-stage

Sectors, seed-stage

Many seed-stage sectors have already seen growth in deal numbers and investment amounts over the first three quarters of 2014 compared with the whole of 2013:

- Media deal numbers and investment figures have increased to annual highs, even before the start of the final quarter.
- The amount invested into Retail in the first three quarters expanded by 49% compared with the figure for the whole of 2013. Deal numbers have been broadly flat when compared with the same period in 2013.
- Over the first three quarters of 2014, the amount invested into Business and Professional Services has increased by 47% compared with the whole of 2013. Although Business and Professional Services deal numbers recorded for the first three quarters of 2014 were very close to those recorded during the whole of 2013, the proportion of the market taken up by the sector was constant across both time periods, holding at 18%.
• Industrials deal numbers have already achieved annual growth but the same cannot yet be said for the amount invested, which saw figures for the first three quarters of 2014 in line with those from the same period in 2013.

• Technology/IP-based businesses remains the largest sector at the seed-stage in terms of both deal numbers and the amount invested. However, the percentage of deals accounted for by the sector has fallen from 50% in 2011 to 39% in 2014. Still, 49% of all seed-stage investment went into the sector over the first three quarters of 2014.
The first three quarters of 2014 saw the number of seed-stage deals decrease compared with the same period in 2013 in several sub-sectors of Technology/IP-based businesses. The outlook is considerably brighter in terms of the amount invested, especially due to significant growth in Software and Medical Technology:

**Software**
- Both the amount invested and the deal numbers for Software have climbed to annual all-time highs, even before the start of the final quarter. The amount invested has almost doubled since 2013 and deal numbers have increased by 15% compared with the whole of last year.

**Life Sciences**
- Life Sciences deal numbers have fluctuated widely over the course of the last four years. The first three quarters of 2014 saw deals fall by 35% compared with the same period in 2013. The amount invested into the sector has followed a similar, fluctuating pattern and over the first three quarters of this year has fallen by 15% compared with the same period in 2013.
Medical Technology
- Deals increased by 14% between Q1/14 and Q3/14 compared with the same period last year, while the amount invested increased rapidly, posting a gain of 257%.

Clean Technology
- Clean Technology activity has increased at relatively low rates since 2012. Deal numbers between Q1/14 and Q3/14 contracted by 10% compared with the same period in 2013, although the amount invested increased by 28%.

Hardware
- Deals were down by 43% between Q1/14 and Q3/14 compared with the same period in 2013, while the amount invested also fell by 13%.
London is still at the forefront of seed-stage investment, which is hardly surprising given that the capital is generally the hottest location for equity investment. Other regions have seen increases in equity investment and activity, in particular the South West and the East of England:

- After three years of stagnation, Welsh seed-stage deal numbers reached an annual high in just the first three quarters of 2014. However, the amount invested between Q1/14 and Q3/14 fell by 82% compared with the same period in 2013.
- The East of England saw seed-stage deal numbers in the first three quarters rise to an all-time annual high. The amount invested is also up on the first three quarters of 2013.
- The North West has endured a period of stagnation in terms of the amount invested since 2012. Annual deal numbers also appear to be falling for the first time since 2011.
- The South West is experiencing a boom in investment and activity in the first three quarters; deal numbers and invested amounts were up by 50% and 634% respectively compared with the same period in 2013.
Seed-stage deals and business stock

London led the way in the first three quarters of 2014 in terms of seed-stage deal numbers, business stock and the ratio of deal numbers to business stock (DBR), which is in line with the general trend. Scotland and Wales enjoyed a strong seed-stage DBR, suggesting greater access to seed-stage equity compared with other parts of the UK.

- The North East enjoyed the second highest ratio of deal numbers to business stock, after London, because seed-stage deal numbers were comparatively strong, given a relatively small business stock.
- Scotland and Wales ranked third and fourth respectively in seed deals as a proportion of business stock.
- The region with the lowest DBR was the East Midlands, which recorded the joint-lowest number of seed deals alongside Northern Ireland.
- The North West had the second lowest ratio of seed-stage deal numbers to businesses in the UK.
The smallest investment band, up to £499k, has accounted for the largest number of seed-stage deals in each year since 2011. Conversely, the largest investment band, £10m+, has accounted for the smallest number of seed-stage deals in each year since 2011. This is unsurprising because seed-stage companies generally require smaller amounts of capital to grow compared with venture- and growth-stage companies. The number of seed-stage deals completed always falls as the investment band becomes larger, with the sharpest drop off in activity occurring between the first investment band, up to £499k, and the second, £500 to £999k.
Investors, seed-stage

A strong rise in seed-stage crowdfunding activity and a fall in angel network investment were the major features of the first three quarters of 2014:

- The proportion of seed-stage deals involving angel networks has fallen from 25% in 2011 to 9% in the first three quarters of 2014. Deal numbers peaked in 2012.
- Crowdfunders were the busiest seed-stage investors in the first three quarters of 2014, increasing their participation in the seed-stage market to 31%, up from just 4% in 2011. Deal numbers have been growing at a compound annual growth rate of 234%.
- Private equity funds\(^{18}\) were the second most active funders at the seed-stage in the first three quarters of 2014, accounting for 25% of deals. Private equity funds have been displaced by crowdfunders as the most active funder in 2014 to date, although the value of investments they are involved in remains considerably larger.

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\(^{18}\) Beauhurst classifies as “private equity” any independent investment fund. This includes venture capital funds; at the seed stage (as well as venture) most of the recorded investment is likely to come from VC funds rather than pure private equity, as the deal sizes are generally too small for the latter.
The above chart shows that the “democratisation” of investment described in Chapter 1 is also noticeable at the seed stage. In 2011, the final quintile of the investor population completed approximately 90% of seed-stage deals; by 2014 the final quintile saw its share of the market contract, down to below 80% of the market. Furthermore, despite the fact that almost 60% of investors were responsible for a negligible percentage of seed-stage deals in 2014, the situation has changed markedly from four years ago when nearly 80% of investors collectively accounted for a negligible proportion of deals.

However, 2014 has bucked the recent trend. The period between 2011 and 2013 saw more funds completing a higher percentage of deals, whereas in the first three quarters of 2014 the seed-stage market became more concentrated, as observed from the rightward shift in the Lorenz curve and increase in the Gini coefficient.
Chapter 3: Venture-stage

Sectors, venture-stage

The fortunes of the venture-stage have seemingly improved over the first three quarters of 2014, after a relatively poor 2013, as some sectors have exhibited annual growth in deal numbers or invested amounts:

- Media investment more than doubled in the first three quarters of 2014, compared with 2013 as a whole. Deal activity during the first three quarters was on a par with the recording for the whole of 2013.
- Both Industrials deal numbers and the amounts invested have increased annually – 8% and 1% respectively – before the start of the final quarter of 2014.
- Business and Professional Services investment was up by 57% in the first three quarters of 2014, compared with the same period in 2013. Deal numbers were up by 19% in the first three quarters compared with the same period in 2013.
- The amount invested into Retail over the first three quarters was greater than the figure for the whole of 2013. Moreover, deal numbers were stronger than those witnessed during 2012.
• Technology/IP-based businesses investment in the first three quarters has increased by 17% compared with the whole of 2013, but 2013 represented the lowest recorded venture-stage investment in this sector, with only £223m invested.
Technology sub-sectors, venture-stage

The main sub-sectors driving the growth of venture-stage Technology investment during the first three quarters of 2014 were Life Sciences and Software, while Clean Technology appears to be still trending downwards:

**Life Sciences**
- The amount invested into Life Sciences over the first three quarters of 2014 increased by 260% compared with the same period last year, which caused annual figures to more than double before the start of the final quarter. Deal numbers in the sector have increased by 25% in the first three quarters of 2014 compared with the same period last year.

**Software**
- 2014 has already been a record year for Software investment as the amount invested between Q1/14 and Q3/14 expanded by 43% compared with the figures for the whole of 2013. The annual number of Software deals has almost doubled since 2011 and there was a 39% rise in deals between Q1/14 and Q3/14 compared with the same period last year.

**Clean Technology**
- Clean Technology deal numbers have been trending down since 2012, after surging by 158% between 2011 and 2012. Deals declined again by 29%
between Q1/14 and Q3/14 compared with the same period in 2013. Investment was also highest in 2012 and has fallen since; however, the first three quarters of 2014 saw figures dropping by only 2% compared with the same period in 2013\(^\text{19}\).

**Hardware**
- Between Q1/14 and Q3/14 deals increased by 37% compared with the same period in 2013, putting 2014 activity in line with 2012. The amount invested into Hardware has been trending upwards since 2011, although there was a 1% decrease in investment between Q1/14 and Q3/14 compared with the same period in 2013.

**Medical Technology**
- Deal numbers shrank by 31% between Q1/14 and Q3/14 compared with the same period last year, and the amount invested dropped by 71%.

\(^{19}\) Though the chart might imply a larger decrease in investment, this is because the 2013 total is driven mainly by a strong Q4.
The year-on-year rise in venture-stage investment registered between Q1/14 and Q3/14 was driven by exceptional growth in London, Scotland and the South East:

- Scottish deal numbers decreased considerably between Q1/14 and Q3/14, falling by 35% compared with the same period in 2013. However, the amount invested has already surpassed the previous record observed back in 2011. This goes against the general trend for the country, which saw deal numbers and investment amounts for both seed- and growth-stage decreasing during the first three quarters of 2014 compared with the same period in 2013.
- West Midlands deal numbers enjoyed three years of steady rises since 2011, with the pace of growth picking up in 2014. Investment appears to have fallen sharply in the first three quarters of 2014, but it is in fact higher than in the same period of 2013 – the overall 2013 investment figure is driven by a very strong Q4.
- London-based deal numbers and investment increased by 102% and 115% respectively in the first three quarters of 2014 compared with the same period last year.
- The East Midlands has so far experienced a “venture gap” in 2014, with no venture-stage deals completed between Q1/14 and Q3/14.
Venture-stage deals and business stock

In line with the general trend, London had the highest ratio of venture-stage deal numbers to business stock in the first three quarters of 2014. Otherwise, the venture-stage DBR was generally higher in the northern regions than the southern regions.

- Although Wales sat in the top five for the seed-stage ratio of deal numbers to business stock, it was third from bottom in terms of the venture-stage DBR. This might suggest that Welsh companies struggle to get venture investment.
- The North East, North West and Yorkshire and Humberside all sat in the top five for the ratio of deal numbers to business stock. As at the seed stage, the North East was second to London.
- Scotland enjoyed the third highest DBR, the same position it held at the seed-stage. This implies Scottish companies have relatively healthy access to early-stage funding.
- The East Midlands had the lowest DBR as no venture-stage deals were completed in the first three quarters of 2014.
Investment brackets, venture-stage

The number of venture-stage deals is generally not concentrated in any single investment band. The majority of deals were completed in the investment range up to £4.99m. Activity tends to drop off in the range above £5m. The £10m+ band generally sees the lowest number of deals, but the largest amount of investment.
Investors, venture-stage

Only six investor categories experienced an increase in deal numbers during the first three quarters of 2014 compared with the same period in 2013:

- 2014 so far has been a record year for venture-stage investment by devolved government bodies. The amount invested between Q1/14 and Q3/14 was up by 14% compared with the figure for the whole of 2011, which was the previous high point.
- There was a significant rise in venture-stage crowdfunding activity. Invested amounts and deal numbers during the first three quarters of 2014 went up respectively by 482% and 329% compared with the same period in 2013.
- It appears that, after a fall in 2013, venture-stage investment by private equity funds is again on the rise.
The venture-stage has seen little change in the distribution of deals since 2012. Between 2011 and 2012, however, there was shift towards a less concentrated distribution of deals among the investor population. The lack of movement since then sets the venture-stage apart from the seed- and growth-stages, which have both been in a greater state of flux over the same period. Moreover, it implies that, overall, the diversity of supply has not increased since 2012.
Chapter 4: Growth-stage

Sectors, growth-stage

During the first three quarters of 2014, Business and Professional Services overtook Technology for the first time in the contest for the top growth-stage sector:

- In the first three quarters of 2014, Business and Professional Services accounted for 27% of deals and 32% of investment; Technology/IP-based businesses made up 26% of deals and 30% of investment.
- Industrials investment increased significantly during the first three quarters of 2014 compared with the same period last year, with deal numbers also rising by 44%.
- While Media deal numbers have stayed relatively constant since 2011, the sector’s share of the market has declined from 9% in 2011 down to 4% during the first three quarters of 2014. The amount invested into Media has jumped by 132% comparing the first three quarters of 2014 and 2013.
- Retail growth-stage investment showed signs of a slowdown during the first three quarters of 2014. While investment amounts went up by 5% compared
with the same period in 2013, deal numbers are on course to fall year-on-year for the first time.
**Technology sub-sectors, growth-stage**

**Growth investment and deals by technology sector**

Growth-stage deal numbers fell in almost every Technology/IP-based businesses sub-sector during the first three quarters of 2014. Nevertheless, a record performance by Software was sufficient to drive a growth in activity compared with the same period in 2013.

**Software**
- Software deal numbers have been on the rise since 2011 – annual deal numbers more than trebled between 2011 and 2013. Deal numbers also increased by 28% between Q1/14 and Q3/14 compared with the same period in 2013. 2014 is already a record year for the amount invested into Software, which expanded by 23% over the first three quarters compared with the whole of 2013.

**Life Sciences**
- The overall amount invested into growth-stage Life Sciences increased by 540% between 2011 and 2013, but dropped by 42% between Q1/14 and Q3/14 compared with the same period in 2013. The number of deals has been trending upwards since 2011, but also slipped back between Q1/14 and Q3/14, decreasing by 53% compared with the same period in 2013.
**Clean Technology**

- Clean Technology deal numbers have increased since 2011 and the first three quarters of 2014 outperformed the same period in 2013 by 12%. However, the amount invested into Clean Technology has fallen by 45% between Q1/14 and Q3/14 compared with the same period last year, after fluctuating annually since 2011.

**Hardware**

- Hardware deal numbers had been steadily growing since 2011, but fell by 25% between Q1/14 and Q3/14 compared with the same period in 2013. Investment has been trending downwards since 2011 but figures for the first three quarters of 2014 have outperformed the same period in 2013 by 99%, suggesting a rebound is taking place.

**Medical Technology**

- The number of deals completed in Medical Technology more than trebled between 2011 and 2013. Between Q1/14 and Q3/14, deals fell by 43% compared with the same period in 2013. The amount invested between Q1/14 and Q3/14 represented a 56% decrease compared with the same period in 2013.
Regions, growth-stage

Growth-stage investment amounts appeared to be trending upwards in most UK regions during the first three quarters of 2014:

- Welsh investment figures for the first three quarters of 2014 were more than double those recorded in 2012, which represented an annual high for the amount invested.
- Investment in the North West and South West was also up significantly, almost trebling between Q1/14 and Q3/14 compared with the same period in 2013.
- Scottish deal numbers and investment figures recorded between Q1/14 and Q3/14 fell by 14% and 45% respectively, in comparison to Q1/13-Q3/13.
- The amount invested into the West Midlands declined sharply between Q1/14 and Q3/14, falling by 88% compared with the same period in 2013.
Growth-stage deals and business stock

Unlike the general trend, London has failed to come first in terms of the ratio of growth-stage deal numbers to business stock (DBR). The remaining regions of the South, along with the Midlands, have also performed relatively poorly when compared with the northern regions:

- The region with the highest ratio of growth-stage deal numbers to business stock in the first three quarters of 2014 was the North East, pushing London off the top spot.
- Scotland claimed third place in terms of growth-stage DBR, with the North West in fourth and Northern Ireland in fifth spot.
- The West Midlands had the lowest ratio of growth-stage DBR, having seen deal numbers fall by more than 50% in the first three quarters of 2014 compared with the same period in 2013.
Investment brackets, growth-stage

The £2m to £4.99m investment band has accounted for the greatest number of growth-stage deals every year since 2011. Activity registered especially sharp increases in the up to £499k, £2m-£4.99m and £10m+ investment bands between 2011 and 2013, and 2014 is shaping up to be another record year.
Investors, growth-stage

The dominance of private equity within growth-stage investment appeared to be strengthening during the first three quarters of 2014, while crowdfunding and corporate investors also gained ground:

- Private equity funds contributed to almost half of all the growth-stage activity during the first three quarters of 2014, with invested amounts increasing by 84% compared with the same period in 2013.
- Investment by corporates\(^{20}\) has been trending upwards since 2011; the first three quarters of 2014 saw invested amounts almost double compared with the equivalent period of 2013 and reaching a new annual record. However, deal numbers fell by 33% over the same time frame.
- Crowdfunding appears to be slowly making its way into the growth-stage market. The first three quarters of 2014 saw deal numbers and invested amounts rising by 267% and 355% respectively compared with the same period in 2013. The proportion of the market serviced by crowdfunding was 4%.

\(^{20}\) For the purpose of this report, “investment by corporates” includes both the activity of full-fledged corporate venturing arms and strategic investment.
Lorenz Curve, growth-stage

Growth-stage investment broadly reflects general funding trends. Each year between 2011 and 2014 saw a higher percentage of funds completing a larger percentage of deals, suggesting the market is becoming less concentrated. Indeed, the growth-stage was the most equal stage of evolution, based on the distribution of deals among investors during the first three quarters of 2014. The biggest effects occurred between 2011 and 2012 and between 2012 and 2013, with the rate of change slowing markedly during the first three quarters of 2014.
Chapter 5: British Business Bank Equity Funds

Introduction

This chapter explores the characteristics of investments made by equity funds supported by the British Business Bank and compares the investment characteristics to the wider equity market. Chapter 1 identified 145 visible equity investments undertaken between the start of 2011 and Q2/14 by funds financially supported by the Bank, with a total value of £370m. Based on the number of visible investments, British Business Bank programmes are estimated to have supported around 6% of all deals and contributed to 7% of the overall invested amount.

This, however, does not represent the full extent of Government activity. There are a range of funds with Government backing that invest in the different regions and countries of the UK; these include funds run by the Devolved Administrations in Wales, Scotland and Northern Ireland, and JEREMIE funds\(^\text{21}\), which make investments in northern England. These funds represent a significant proportion of the market.

The British Business Bank has taken on the role of the former Regional Development Agencies in supporting the three JEREMIE Funds in the North East, North West and Yorkshire and Humberside. Data on JEREMIE fund investments is included in the “Local and regional government” investor category within the Beauhurst database\(^\text{22}\), but is not generally included in the analysis for this chapter, due to their having a different focus compared to the Bank’s programmes. Specifically, the JEREMIE funds are designed to address economic disadvantage in the English regions and have social and economic objectives.

As a result, the focus for the majority of this chapter is on the British Business Bank’s own programmes, with the regional and devolved funds only covered in the discussion of regional activity.

The Beauhurst dataset includes investments made by the following British Business Bank programmes:

- Angel CoFund\(^\text{23}\)
- Aspire\(^\text{24}\)
- Enterprise Capital Funds (ECFs)\(^\text{25}\)
- UK Innovation Investment Fund (UKIIF)\(^\text{26}\)

\(^{21}\) 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](http://ec.europa.eu/regional_policy/thefunds/instruments/jeremie_en.cfm) for more information.

\(^{22}\) Strictly speaking, JEREMIE funds are a central government intervention (using EU funds) with regional investment criteria, but classifying them as “regional government” is a helpful simplification, given their regional focus.

\(^{23}\) 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.

\(^{24}\) The Aspire fund is a £12m co-investment fund established in 2008 to support greater awareness of equity finance options amongst women-led businesses.

\(^{25}\) 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”.


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

A key aspect of the British Business Bank schemes is that they are established as complements rather than substitutes to fully private investment. They do this either by building the capabilities of private investors and fund managers, or by being active where investment by others is lacking. The latter point is a reference to the well-known “equity gap”, which arises as the relatively fixed costs of doing deals (such as due diligence) incentivise fund managers to make larger investments in later stage companies, whilst the deal sizes in question remain out of the reach of most smaller investors.

It is important to acknowledge that the figures presented here are based on a sample of the activity of British Business Bank-supported funds, as some deals are not publicly announced and hence are not included in the Beauhurst dataset due to methodological differences. Table 1 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.

**Table 1: Coverage of Beauhurst investments against administrative data, Q1/11 – Q2/14**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Number of visible British Business Bank-supported investments</th>
<th>Total number of British Business Bank-supported investments</th>
<th>Coverage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel CoFund &amp; Aspire</td>
<td>43</td>
<td>52</td>
<td>83%</td>
</tr>
<tr>
<td>ECF</td>
<td>67</td>
<td>98</td>
<td>68%</td>
</tr>
<tr>
<td>UKIIF &amp; VC Catalyst Fund</td>
<td>35</td>
<td>60</td>
<td>58%</td>
</tr>
<tr>
<td>Total</td>
<td>145</td>
<td>216</td>
<td>67%</td>
</tr>
</tbody>
</table>

26 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.

27 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”.

28 A more detailed discussion of the equity gap can be found in the British Business Bank’s equity report, published alongside this document.

29 The Beauhurst dataset does not include MBOs, M&As, buy-and-build deals, and all deals that were not announced publicly through some form of media such as a press release.

30 Only 5 investments, of which 3 are included in the Beauhurst dataset, were made through the Aspire Fund in the time period under consideration. Given the small sample, the Aspire investments have been included with those of the Angel CoFund as the programme that is most similar in nature.

31 As with the Aspire Fund, too few VC Catalyst Fund investments had been made by Q2/14 to merit a separate category, so they have been included with UKIIF as the most similar programme.
In addition, 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. 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 British Business Bank-supported investments over time. Care should be taken in interpreting the 2014 figures as they only cover the first half of the year. The Angel CoFund (plus the Aspire investments) edged in front of ECFs in 2013 and remained slightly ahead in the first half of 2014, whilst UKIIF/VC Catalyst Fund have made fewer investments each year.
By stage of evolution

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

- 76% of visible investments undertaken by British Business Bank-supported funds between Q1/11 and Q2/14 are at the seed- or venture-stage. This is slightly more than the wider equity market, where 73% of deals are at the seed- or venture-stage over the same 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 with the wider market.
- Despite forming a minority of activity, growth-stage deal sizes are larger than seed-stage and venture-stage deals, and so the growth stage accounts for 53% of British Business Bank-supported deals by value. However, 62% of investment in the wider market is at the growth stage, suggesting an even greater concentration than observed in funds supported by the Bank.

32 There are a small number of very large deals (£20m+), mainly from UKIF supported funds, which distort the growth-stage figures for British Business Bank-supported funds.
British Business Bank-supported funds were involved in 6% of all deals, but there is some variation by stage: funds supported by the Bank account for 5% of the seed- and growth-stage deals, but 8% at the venture stage. It is a similar picture when looking at investment, although British Business Bank funds form a slightly higher percentage of the market (7%) overall.

Table 2: British Business Bank fund investments as a proportion of the wider equity market, by stage, Q1/11 – Q2/14

<table>
<thead>
<tr>
<th>Stage</th>
<th>Proportion of wider market: deals</th>
<th>Proportion of wider market: investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Venture</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>Growth</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Total</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>

There are some differences by programme, with the Angel CoFund and ECFs having the highest share of seed-stage investments. UKIIF (as well as the VC Catalyst Fund) is focused on slightly more developed firms, and therefore does less seed-stage investment.
British Business Bank programme deals by stage, Q1/11 to Q2/14

Note: ACF includes Aspire; UKIIF includes VC Catalyst Fund
By sector

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

- The Technology/IP based sector accounts for 49% of deals and 55% 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 23% and 17%, by number and value respectively.
- This is similar to the wider equity market, where the Technology/IP-based sector is also the largest by number and value (40% and 46% respectively), although these shares imply British Business Bank-supported funds are dedicating a larger proportion of their funding towards the Technology sector than other investors.
- Within the Technology/IP sector the Software sub-sector leads the way, forming 29% by number and 24% by value of all British Business Bank programme investments. Life Sciences firms received 19% of investment from only 6% of deals, suggesting larger deal sizes, which may be a result of this sector being more capital intensive than other Technology sub-sectors. The breakdown of the Bank’s activity by Technology sub-sector is in line with that of the wider market, suggesting no specific differences in investment patterns.
Among the British Business Bank programmes, UKIIF has the highest share of investments in Technology sub-sectors (61%), with a strong focus in Software (27%), Clean Technology (14%), and Life Sciences (14%). Over half (51%) of visible ECF investments are in the Technology sub-sectors, with the programme having a particularly high share of investments in Software businesses (35%). 54% of Angel CoFund investments are in the Technology/IP sector, with a relatively high proportion in Medical Technology compared with other British Business Bank-supported funds.
By region

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

- Around half of all investment made by British Business Bank programmes occurs in London (50% by number and 52% by value), which is slightly higher than the wider equity market where the share is 36% by number and 45% by value. The remaining distribution of investments by region approximately follows that observed in the wider equity market.
- British Business Bank programmes do not generally have any geographic restrictions or mandates in their investment activities, and so invest according to quality of deal flow. As outlined in this chapter’s introduction, Devolved Administration and JEREMIE funds are not included in this breakdown, which underestimates the true extent of public investment in northern England, Wales, Scotland and Northern Ireland.
To demonstrate the effect of sub-national funding sources on the overall availability of equity finance, the following chart shows the proportion of deals that involve local, regional or devolved government investors by region and country of the UK. The chart shows 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 78% in the case of the North East). This emphasises the fact that British Business Bank investments are only part of the regional picture.

The East Midlands is the one exception, sitting between the two groups with around one-third of deals involving regional or local government investors.
The regional breakdown by British Business Bank programme shows that the Angel CoFund is the most widely used around the country, with relatively high usage in the East of England, North East, the South West and Wales. ECF and UKIIF/VC Catalyst Fund deals are, by contrast, more concentrated in London and the South East.
By investment bracket

British Business Bank-supported funds are targeted significantly more than the wider market at the mid-range of deal sizes, where the equity gap is thought to be:34

- The average reported deal size for British Business Bank-supported funds is £3.4m (median £1.4m). 32% the Bank’s fund investments are in the £1m to £1.99m band, with 25% in the £500k-£999k bracket and 23% between £2m and £4.99m.
- 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 6% of British Business Bank-supported fund investments, compared with 39% from the wider market. The Bank’s funds are noticeably more active in the bands between £500k and £5m, above which there is little difference with other investors.

![Proportion of deals by investment amount, Q1/11 to Q2/14]

- 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 large deals. In contrast, the wider market figures include a broader range of investors, many of which – such as crowdfunders – are mainly involved in smaller deals.

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34 It is important to acknowledge that a significant proportion (25%) 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.
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\textsuperscript{35}. British Business Bank funds are intended to address the equity gap by investing where fully private capital is relatively lacking. Therefore, their greater activity in deals between £500k and £5m is largely by design.

Table 3 shows there is a wide degree of variation in average investment size between British Business Bank programmes and also between different investment stages. For instance, the average UKIIF investment size is £8.7m, reflecting a focus on later-stage and/or capital intensive firms, whilst ECFs until recently had a maximum investment size of £2m\textsuperscript{36}. Average deal size also varies by investment stage, with seed-stage deals worth less than £1m, venture-stage firms receiving around £2.6m, and growth deals averaging £6.8m.

Table 3: Average investment size by British Business Bank programme and investment stage, Q1/11 – Q2/14

<table>
<thead>
<tr>
<th>Programme</th>
<th>Average investment size</th>
<th>Stage</th>
<th>Average investment size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel CoFund\textsuperscript{37}</td>
<td>£1.4m</td>
<td>Seed</td>
<td>£900k</td>
</tr>
<tr>
<td>ECF</td>
<td>£1.7m</td>
<td>Venture</td>
<td>£2.6m</td>
</tr>
<tr>
<td>UKIIF &amp; VC Catalyst Fund</td>
<td>£8.7m</td>
<td>Growth</td>
<td>£6.8m</td>
</tr>
</tbody>
</table>

\textsuperscript{35} See the British Business Bank’s equity report, published alongside this document, for a more detailed exploration of the equity gap.

\textsuperscript{36} Following new state aid approval, the investment limit for ECFs was increased to £5m in Autumn 2014.

\textsuperscript{37} Average investment size is for Angel CoFund alone, as deal sizes are not known for the Aspire investments.
Appendix

Cluster data: business start-up rates, 2012

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Business start-ups per 10,000 population, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>London</td>
<td>75.5</td>
</tr>
<tr>
<td>2</td>
<td>Aberdeen</td>
<td>57.1</td>
</tr>
<tr>
<td>3</td>
<td>Brighton</td>
<td>54.5</td>
</tr>
<tr>
<td>4</td>
<td>Milton Keynes</td>
<td>54.5</td>
</tr>
<tr>
<td>5</td>
<td>Reading</td>
<td>51.9</td>
</tr>
<tr>
<td>6</td>
<td>Aldershot</td>
<td>48.5</td>
</tr>
<tr>
<td>7</td>
<td>Grimsby</td>
<td>46.6</td>
</tr>
<tr>
<td>8</td>
<td>Southend</td>
<td>45.7</td>
</tr>
<tr>
<td>9</td>
<td>Northampton</td>
<td>45</td>
</tr>
<tr>
<td>10</td>
<td>Warrington</td>
<td>44.9</td>
</tr>
<tr>
<td>11</td>
<td>Edinburgh</td>
<td>44.4</td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>60</td>
<td>Swansea</td>
<td>25.3</td>
</tr>
<tr>
<td>61</td>
<td>Mansfield</td>
<td>24.7</td>
</tr>
<tr>
<td>62</td>
<td>Stoke</td>
<td>24.5</td>
</tr>
<tr>
<td>63</td>
<td>Sunderland</td>
<td>22.5</td>
</tr>
<tr>
<td>64</td>
<td>Belfast</td>
<td>21.7</td>
</tr>
</tbody>
</table>

Cluster data: patent/population ratios, 2012

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Patents granted per 100,000 population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cambridge</td>
<td>68.7</td>
</tr>
<tr>
<td>2</td>
<td>Swindon</td>
<td>19.3</td>
</tr>
<tr>
<td>3</td>
<td>Edinburgh</td>
<td>12.2</td>
</tr>
<tr>
<td>4</td>
<td>Aberdeen</td>
<td>10.7</td>
</tr>
<tr>
<td>5</td>
<td>Aldershot</td>
<td>9.9</td>
</tr>
<tr>
<td>6</td>
<td>Gloucester</td>
<td>8.9</td>
</tr>
<tr>
<td>7</td>
<td>Bristol</td>
<td>8.3</td>
</tr>
<tr>
<td>8</td>
<td>Hastings</td>
<td>7.8</td>
</tr>
<tr>
<td>9</td>
<td>Worthing</td>
<td>7.6</td>
</tr>
<tr>
<td>10</td>
<td>Reading</td>
<td>7</td>
</tr>
<tr>
<td>58</td>
<td>Liverpool</td>
<td>1.5</td>
</tr>
<tr>
<td>60</td>
<td>Grimsby</td>
<td>1.3</td>
</tr>
<tr>
<td>61</td>
<td>Belfast</td>
<td>1.2</td>
</tr>
<tr>
<td>62</td>
<td>Wigan</td>
<td>0.9</td>
</tr>
<tr>
<td>63</td>
<td>Blackpool</td>
<td>0.9</td>
</tr>
<tr>
<td>64</td>
<td>Sunderland</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Cluster data: students by HE institutions, 2012-2013

<table>
<thead>
<tr>
<th>Rank</th>
<th>University</th>
<th>Student population, 2012-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Combined London universities)</td>
<td>375980</td>
</tr>
<tr>
<td>2</td>
<td>The University of Manchester</td>
<td>38430</td>
</tr>
<tr>
<td>3</td>
<td>The University of Nottingham</td>
<td>35530</td>
</tr>
<tr>
<td>4</td>
<td>Sheffield Hallam University</td>
<td>34720</td>
</tr>
<tr>
<td>5</td>
<td>Manchester Metropolitan University</td>
<td>32625</td>
</tr>
<tr>
<td>6</td>
<td>University of Birmingham</td>
<td>30700</td>
</tr>
<tr>
<td>7</td>
<td>University of Leeds</td>
<td>30385</td>
</tr>
<tr>
<td>8</td>
<td>Cardiff University</td>
<td>30060</td>
</tr>
<tr>
<td>9</td>
<td>University of Central Lancashire</td>
<td>28720</td>
</tr>
<tr>
<td>10</td>
<td>Plymouth University</td>
<td>28625</td>
</tr>
<tr>
<td>11</td>
<td>Northumbria University at Newcastle</td>
<td>27815</td>
</tr>
<tr>
<td>12</td>
<td>University of Edinburgh</td>
<td>27690</td>
</tr>
<tr>
<td>13</td>
<td>University of the West of England, Bristol</td>
<td>27430</td>
</tr>
<tr>
<td>14</td>
<td>Coventry University</td>
<td>27270</td>
</tr>
<tr>
<td>15</td>
<td>Nottingham Trent University</td>
<td>26870</td>
</tr>
<tr>
<td>16</td>
<td>University of Glasgow</td>
<td>26635</td>
</tr>
<tr>
<td>17</td>
<td>University of Warwick</td>
<td>26150</td>
</tr>
<tr>
<td>18</td>
<td>Leeds Metropolitan University</td>
<td>25805</td>
</tr>
<tr>
<td>19</td>
<td>Oxford University</td>
<td>25670</td>
</tr>
<tr>
<td>20</td>
<td>University of Sheffield</td>
<td>25540</td>
</tr>
<tr>
<td>21</td>
<td>University of Hertfordshire</td>
<td>25135</td>
</tr>
</tbody>
</table>

Source: Students by Higher Education institution, HESA tables, 2012-2013, accessed in November 2014 (https://www.hesa.ac.uk/free-statistics). This list excludes London-based universities, institutions focusing on distance learning (such as the Open University), and Northern Ireland-based universities.
Cluster data: UK primary urban areas by population,\textsuperscript{38} mid-2012 estimates

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Population, mid-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(London)</td>
<td>9629600</td>
</tr>
<tr>
<td>2</td>
<td>Birmingham</td>
<td>2439600</td>
</tr>
<tr>
<td>3</td>
<td>Manchester</td>
<td>1892500</td>
</tr>
<tr>
<td>4</td>
<td>Glasgow</td>
<td>1056600</td>
</tr>
<tr>
<td>5</td>
<td>Newcastle</td>
<td>832500</td>
</tr>
<tr>
<td>6</td>
<td>Sheffield</td>
<td>815700</td>
</tr>
<tr>
<td>7</td>
<td>Liverpool</td>
<td>791700</td>
</tr>
<tr>
<td>8</td>
<td>Leeds</td>
<td>757700</td>
</tr>
<tr>
<td>9</td>
<td>Bristol</td>
<td>698600</td>
</tr>
<tr>
<td>10</td>
<td>(Belfast)</td>
<td>673800</td>
</tr>
<tr>
<td>11</td>
<td>Nottingham</td>
<td>646300</td>
</tr>
<tr>
<td>12</td>
<td>Bradford</td>
<td>524600</td>
</tr>
<tr>
<td>13</td>
<td>Portsmouth</td>
<td>524200</td>
</tr>
<tr>
<td>14</td>
<td>Edinburgh</td>
<td>482600</td>
</tr>
<tr>
<td>15</td>
<td>Leicester</td>
<td>482300</td>
</tr>
<tr>
<td>16</td>
<td>Middlesbrough</td>
<td>466100</td>
</tr>
<tr>
<td>17</td>
<td>Reading</td>
<td>428800</td>
</tr>
</tbody>
</table>


\textsuperscript{38}This version of the Equity Tracker report uses Primary Urban Areas (PUAs) as proxies for UK cities, as detailed in the Cities Outlook Report, 2014, p. 11.
Data

The information in the report is based on a combination of data collected by Beauhurst, the British Business Bank, 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, increasingly 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 evolution, 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 (although an exception to this is data on British Business Bank-backed equity activity, which also includes invisible, or unannounced, deals); (5) The recipient of investment is a small or medium-sized business as defined by the European Commission[^39].

When analysing **cross-sector data**, for example deals across all seed-stage companies, Beauhurst weighs 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. Double counted figures are not weighted. For example, when looking at the Medical Technology sector Beauhurst counts fully all deals and investment amounts related to all investees with Medical Technology as one of their sectors. That same deal may also be counted fully when looking at the Life Sciences sector in a different section of the report if an investee is in both the Medical Technology and Life Sciences sectors.

Where investment amounts have been provided in **foreign currencies**, these have been converted to GBP at the average exchange rate for the quarter in which they were completed.

The relatively simple **breakdown by stage** used by Beauhurst differs from organisations such as EVCA and BVCA, which tend to distinguish between seed and

[^39]: 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](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm) for more information.
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.

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

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.
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 date 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. A third category is also present, comprising of funding from investors that have not been publically disclosed but Beahurst understands to have provided equity.

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 of any kind 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 Beahurst 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

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