

# SMALL BUSINESS EQUITY TRACKER

2018

**Beauhurst**

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# FOREWORD

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KEITH MORGAN,  
CEO OF BRITISH BUSINESS BANK

The British Business Bank is the UK's economic development bank. Its mission is to make finance markets work more effectively for smaller businesses at all stages of development and across the UK, enabling them to prosper and grow.

As the government's centre of expertise on SME finance, the British Business Bank regularly undertakes extensive research and analysis of specific finance markets. This latest Small Business Equity Tracker provides a unique and comprehensive picture of UK equity finance markets for smaller businesses.

Whether a business is starting out or planning to grow quickly, equity can be an important source of funding. Often, outside equity investors can bring expertise and guidance as well as finance – a combination that, if offered at the right time, can be the key to unlocking rapid growth for companies looking to expand, diversify, or enter new markets. A vibrant and healthy equity finance market to support smaller businesses can therefore make a key contribution to the success of the UK economy.

There is much to find encouraging in this year's report. Following a relatively weak 2016, both the number and value of equity deals bounced back in 2017, with the latter reaching record levels (£5.9bn), exceeding the previous highest year – 2015 – by over 50%. Deal sizes have increased across the whole market and also for the very largest deal sizes, reflecting investor confidence in the growth prospects of these businesses.

Despite this positive news, however, we still see some imperfections in equity markets for smaller UK businesses – for example, in persistent regional imbalances in equity provision and take-up, and in the flatness of deal numbers at the seed and growth stages.

The British Business Bank is continuing to support the market where required. The Angel CoFund and our Enterprise Capital Funds programme support smaller deal sizes at the early stage, while our VC Catalyst programme targets support for scale-up companies at the growth stage. In the regions, our Northern Powerhouse Investment Fund has begun to make an impact, and we expect to see our Midlands Engine Investment Fund and Cornwall and Isles of Scilly Fund start to make similar equity investments in 2018.

This year, we have introduced new equity programmes following HM Treasury's Patient Capital Review. In May, we launched a new £500m Managed Funds Programme to draw in more institutional capital to the UK's venture and growth capital markets, and last month we launched British Patient Capital, a new £2.5bn programme designed to enable long-term investment in high growth potential companies across the UK. We are also establishing a new commercial programme to support developing clusters of business angels outside London later this year.

We will use the comprehensive picture of smaller business equity markets provided by this report to hone our programmes further to focus on the parts of the market which need our support most, as well as to inform our ongoing policy discussions with Government, business and the finance industry more generally.

# EXECUTIVE SUMMARY

Strong equity finance markets are important for ambitious and innovative businesses looking to start up and grow. The provision of equity funding at the right time in the life of a business, combined with expertise that outside equity investors bring can fuel rapid growth when companies are starting up, expanding, diversifying or entering new markets. Equity finance is important for companies developing and commercialising new technologies, which often require investors to be patient with their capital before returns can be fully realised.

This report is the fourth British Business Bank Equity Tracker Report examining equity deals in UK smaller businesses. We continue to use Beauhurst as a source of data on UK deal activity as it covers the widest range of investor types from crowd funders to Private Equity funds. No one data source can capture all equity deals, but Beauhurst has good coverage of SME deals in the UK.

The report identifies a recovery in equity finance markets in 2017 following a weaker 2016, with an overall increase in the number and value of equity deals in the UK.

Equity deal sizes continued to increase but is especially noticeable at the later stages where average deal sizes have doubled in 2017. This is a positive sign that the UK is rising to the challenge of supporting companies with the potential to become global leaders.

There continues to be evidence of persistent regional differences in equity markets. London dominates equity finance in 2017 with 51% of all deals and 68% by investment value going to the capital city, despite high growth businesses being spread out throughout the UK. London's concentration in the number of equity deals has increased since 2011 and it now accounts for over half of all equity deals.

The regional picture is offset by clusters of strong deal activity that are developing around the country including Edinburgh, Manchester, Bristol, Glasgow, amongst others, alongside the existing established equity eco-systems around Oxford and Cambridge.

TABLE 1  
NUMBER AND VALUE OF EQUITY DEALS OVER TIME

	2015	2016	2017
Number of deals	1,498	1,405	1,487
Seed	681	707	705
Venture	542	459	547
Growth	275	239	235
Investment value (£bn)	£3.7	£3.1	£5.9
Seed	£0.36	£0.41	£0.78
Venture	£1.4	£1.1	£1.8
Growth	£1.9	£1.6	£3.3

## KEY FINDINGS

### 1. THE NUMBER AND VALUE OF EQUITY DEALS BOUNCED BACK IN 2017 FOLLOWING A WEAKER 2016.

The flow of equity finance to smaller businesses declined in 2016 for the first time in five years, reflecting a slowdown in equity finance markets worldwide. Equity finance bounced back in 2017 with the number of equity deals increasing by 6% to 1,487 deals and investment value increasing by 89% to £5.9bn. Deal numbers in 2017 are approximately the same level as they were in 2015, but the investment value is over 50% higher than the previous peak of £3.7bn in 2015.

Quarterly investment values were very strong from Q2 to Q4 2017, averaging £1.7bn. The market continues to show strength in 2018 with £1.3bn investment in Q1 2018, the 4th consecutive quarter it has exceeded £1bn. This largely reflects the impact of larger deal sizes, with deal sizes above £10m contributing 70% of the total investment value in 2017, up from 58% in 2016.

### 2. ALL THREE BUSINESS STAGES SHOWED LARGE INCREASES IN INVESTMENT AMOUNTS, WITH THE NUMBER OF VENTURE STAGE DEALS RISING IN 2017.

Beaurost classifies deals into three distinct stages; seed, venture and growth, reflecting the company's underlying position in terms of product development, commercialisation, sales and profitability.<sup>1</sup>

All three business stages have seen large increases in investments values in 2017 with seed stage investments increasing by 91% compared to 2016, venture stage increasing by 72% and growth stage increasing by 100% to reach their highest yearly recorded levels.

The picture on deal activity is more nuanced with the number of seed stage and growth stage deals flat but the venture stage saw deal numbers increasing by 19% between 2016 and 2017.

### 3. DEAL SIZES HAVE INCREASED ACROSS THE WHOLE MARKET AND ARE ALSO AFFECTED BY A SMALL NUMBER OF VERY LARGE DEALS.

Average equity deal sizes have increased from £2.2m in 2013 to £4.9m in 2017, but the increase in deal size is most noticeable at the growth stage, which has more than doubled from £9.1m in 2016 to £18.9m in 2017.

However, there has been a 14% decline in 2017 in the number of the very smallest deals (up to £499k deal size). We will monitor developments in small deal sizes closely to see if this trend continues.

Average deal sizes are affected by a small number of very large deals. There were eight SME<sup>2</sup> deals in excess of £100m in 2017. The ten largest equity deals in 2017 were equal to £1.7bn and formed 28% of the market. This is higher than 2016 when the ten largest deals formed 17% of the market, but similar to the 25% recorded in 2015.

These large multi-million-pound deal sizes are becoming an established feature of the market and reflect investor confidence in the growth prospects of these businesses. Although predominantly covering growth stage businesses from later stage VC backed companies coming through the investment pipeline, they also cover seed and venture stage deals from companies that have the potential to become market leading companies.

### 4. INCREASED DEAL NUMBERS SEEN ACROSS PE/VC INVESTORS AND CROWDFUNDING PLATFORMS.

Investors classified as Private Equity or Venture Capital (PE/VC) were the most active type of equity investor in 2017. They were involved in 596 equity deals in 2017, a 21% increase from 2016. PE/VC investors are especially important at the later business stages forming 43% of all venture stage deals in 2017 and 65% of all growth stage deals in 2017.

The number of crowdfunding deals recovered in 2017, with an 11% increase to 350 deals. Crowdfunding platforms were the most prevalent investor at the seed stage between 2014 and 2016. Recent increases in the number of deals involving PE/VC investors has led to both crowdfunding and PE/VC investors each involved in approximately 30% of seed stage deals in 2017.

### 5. TECHNOLOGY AND IP BASED BUSINESS SECTOR CONTINUES TO ATTRACT THE GREATEST AMOUNT OF EQUITY INVESTMENT.

The UK technology sector has expanded in recent years and the UK has become firmly established as a global leading centre for innovation as evidenced by the UK being ranked in the top 5 in the Global Innovation Index, 2017.<sup>3</sup> Whilst the number of equity deals in technology and IP based businesses in 2017 remained flat, the amount invested in the sector has reached the highest recorded level of £2.1bn in 2017.<sup>4</sup>

In terms of share of the total investment, the technology sector has declined from 49% in 2016 to 36% in 2017, which partly results from large increases in investment in the business and professional services sector. This is predominantly due to a small number of very large deals, although the total number of business and professional services sector deals has increased 5% compared to 2016.

## 6. THE BRITISH BUSINESS BANK HAS A NUMBER OF ESTABLISHED AND NEW EQUITY PROGRAMMES DESIGNED TO INCREASE THE SUPPLY OF EQUITY FINANCE FOR SMALLER BUSINESSES

British Business Bank equity programmes are estimated to have supported around 7% of all equity deals between 2011 and 2017 and these deals formed around 10% of the overall invested equity amount.<sup>5</sup> British Business Bank supported funds have a higher share of deals at the venture and growth stage, but this is beginning to change in 2016 and 2017 with increases in the proportion of seed stage deals.

The newly established Northern Powerhouse Investment Fund (NPIF) is already making a difference to the Business Bank's overall geographic distribution of deals. This will increase going forward, with additional deals in the Midlands as the Midlands Engine Investment Fund (MEIF) begins to make equity investments in 2018.

Our understanding of equity finance markets for smaller businesses as presented in this report, will be used by the British Business Bank to help refine our equity programmes to ensure they are targeted at where funding gaps are greatest. The analysis will also be used by the Bank to inform ongoing discussions with Government, business and finance industry stakeholders to ensure accurate information is available on the funding conditions affecting smaller businesses.

### BRITISH BUSINESS BANK RESPONSE

The Bank received additional funding at Budget 2017 to increase the amount of patient capital to support UK smaller businesses looking to scale-up and realise their growth potential. As a result of this additional resource, the Bank has undertaken the following activities:

- Launched a new £2.5bn Patient Capital programme to invest commercially into venture and growth capital funds and evergreen vehicles. British Patient Capital (BPC) will invest alongside the private sector, to support £7.5bn of investment to British businesses. British Patient Capital is being developed as a separate subsidiary of the British Business Bank with a view to future sale into the private sector with an established portfolio and proven track record.<sup>6</sup>

- British Business Investments (BBI) - the Bank's commercial subsidiary has launched a new £500m Managed Funds Programme designed to increase access to longer-term venture and growth capital. In May 2018, BBI has issued a 'Request for Proposals' for the first phase of these funds (up to £500million).
- Continued to back first-time and emerging fund managers through the established Enterprise Capital Fund (ECF) programme, unlocking at least £1.5 billion of new investment.
- The Bank will also shortly launch a new regional angel programme to further help tackle regional imbalances in the availability of equity finance.

In order to tackle geographic disparities in equity finance, the British Business Bank has launched the £400m Northern Powerhouse Investment Fund, the £250m Midlands Engine Investment Fund, and recently, the £40m Cornwall and Isles of Scilly Investment Fund. A core component of each fund is help to deliver more equity finance to those areas. NPIF has already started investing in businesses in the north with 49 equity deals in 42 businesses, with a total investment value of £21m (as at end of May 2018).

The British Business Bank continues to maintain and expand its equity interventions. The Enterprise Capital Fund (ECF) programme has an investment capacity of £1.1bn and has invested over £530m in growing businesses since its inception in 2006. The bank also continues to support the Angel CoFund. Both programmes are working to address structural issues affecting smaller equity deal sizes.

Tackling supply issues is one part of the Bank's approach to increasing use of equity finance. Alongside those efforts the Bank is addressing demand side issues through raising awareness amongst small businesses of the options for obtaining equity finance. Working with 12 industry leading partners, the British Business Bank has recently launched a new interactive website that offers independent information on finance options for scale-up, high growth and potential high growth businesses. The Information Hub website ([www.financeyourgrowth.co.uk](http://www.financeyourgrowth.co.uk)) contains rich and interactive content to help SMEs identify the best finance option for them.

# INTRODUCTION

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## BACKGROUND

The British Business Bank first collaborated with Beauhurst in 2015 to produce an Equity Tracker report, in response to the lack of reliable and comprehensive data on the number and value of equity deals into UK private companies.<sup>7</sup> The report looked at equity deals made by the full range of equity investors from large multi-million growth deals in established businesses by Private Equity funds, to smaller deals in early stage companies by angel investors and equity crowdfunding platforms.

This is the fourth annual Equity Tracker report. The report focusses on recent trends in SME equity finance using data from Beauhurst covering the full 2017 calendar year. This year the focus of the report returns to looking at equity deal numbers and investment values in detail, but the British Business Bank will also publish a separate research report in autumn providing insights into Venture Capital financial returns.

## BEAUHURST METHODOLOGY

A full description of the data collection and methodology is given in the appendix. Beauhurst's dataset is built from the bottom-up, identifying each individual business receiving equity investment. This focus enables the data to be analysed by company stage, sector and location, or according to the type of investor and equity deal size.

In this report "equity investment" includes any form of external equity finance, excluding transactions on public equity markets, buyouts and family and friends rounds which exclude outside investors. The definition therefore captures the activity of business angels, equity crowdfunding, venture capital funds, corporate venturing, and private equity funds.

The investments reported in the Equity Tracker are all publicly announced deals, which includes deals that are publicly announced via government regulatory organisations, confirmation with the investee or investor or via a press release or news source. Beauhurst also tracks unannounced deals from changes in share ownership certificates.<sup>8</sup> Beauhurst's own data analysis on their dataset shows there were 3,769 unannounced equity deals in 2017 worth a total of £2.42bn. By number these unannounced deals made up 69% of all deals in 2017 but contributed to just 22% of the total value invested. Whilst it is desirable to include as many deals as possible in the analysis, less information is available on these unannounced deals, which at the time of writing are only available from 2015. For instance, in most cases it is difficult for unannounced deals to identify the type of investor. Therefore, this report uses analysis based on announced deals only. It may be possible to include unannounced deals in the future, once Beauhurst have compiled the historic dataset.

There are likely to be differences in the willingness of investors to make their deals publicly known. For instance, angel and private investors could be less likely to formally announce their investments than Private Equity/ Venture Capital investors. The larger the equity deal, the more likely it is to be announced.

For the purpose of this report, Beauhurst applies an “SME filter” so that only companies that were SMEs at the time of receiving funding are included. Companies defined as large under the European Commission definition<sup>9</sup> are excluded from the figures. The SME filter is applied to the accounts filed closest to the date of the equity investment. The data published by Beauhurst in “The Deal” publication<sup>10</sup> does not have an SME filter applied, which explains some of the differences in the figures quoted between these two publications.

This year’s report builds on the previous 2017 Equity Tracker Report and figures published in the 2017/18 Small Business Finance Markets Report. There have been some refinements to the underlying dataset to ensure that this year’s report is the most accurate and complete view of UK equity deals to date. Beauhurst identified additional historic deals in 2015 and 2016, substantially increasing the number of deals in these years from previously quoted figures. The figures in this latest report should be considered to supersede those previously quoted, and comparisons between figures in this year’s report and last year’s report are not recommended.<sup>11</sup>

It is important to acknowledge that other data sources exist which also cover equity deals, including the British Venture Capital Association (BVCA) and Invest Europe. These predominantly measure the investment activities of their members, which are mainly comprised of Private Equity and Venture Capital funds. There are also other commercial data providers which rely on a combination of technology (e.g. web-scrapers), analyst research and self-disclosure by fund managers.

The data sources therefore have different coverage of investors and are not always consistent with one another. The British Business Bank’s 2016/17 Small Business Finance Markets report provides an overview of the differences between these data sources and offers explanations for any differences observed.<sup>12</sup>

Whilst the Beauhurst dataset has good coverage of equity deals involving institutional investors, business angels are less likely to be driven to seek publicity on completing investments, and so are largely missing from the investment numbers. The UK Business Angel Association (UKBAA), which covers 18,000 investors mainly investing through 54 groups, confirms that there are no robust statistics on the annual number of deals undertaken by angel investors in the UK. To address this issue, the British Business Bank and the UK Business Angel Association jointly undertook a survey of angel investors to explore their characteristics.<sup>13</sup> We have recently published more detailed analysis of the survey findings.<sup>14</sup>



# CHAPTER 1: RECENT TRENDS IN SME EQUITY FINANCE MARKETS

## 1.1 TOTAL INVESTMENT

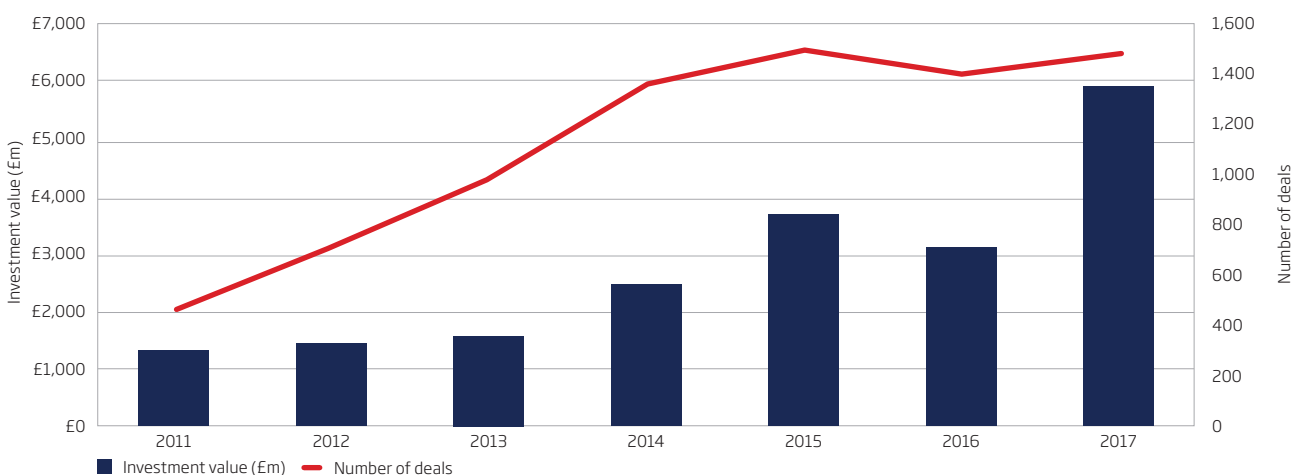
### ANNUAL FIGURES

Annual equity deal numbers and investment values in UK SME equity finance markets had been growing continuously from 2011 to 2015, but 2016 marked the first year there had been an overall decline in both deal numbers and investment value since the series began in 2011. Equity finance bounced back in 2017. Compared to 2016, equity deal numbers increased by 6% and investment value increased by 89%

in 2017 to 1,487 deals (£5.9bn). Deal numbers in 2017 are approximately the same level as they were in 2015, the previous peak, but the investment value (£5.9bn) is over 50% higher than the peak in 2015 (£3.7bn). This largely reflects the impact of larger deal sizes above £10m, which formed 70% of the total investment value in 2017. Larger deal sizes are considered in more detail in section 1.3 and Box 1.

FIG 1.1  
NUMBER AND VALUE OF EQUITY DEALS BY YEAR

Source: British Business Bank analysis of Beauhurst



QUARTERLY FIGURES

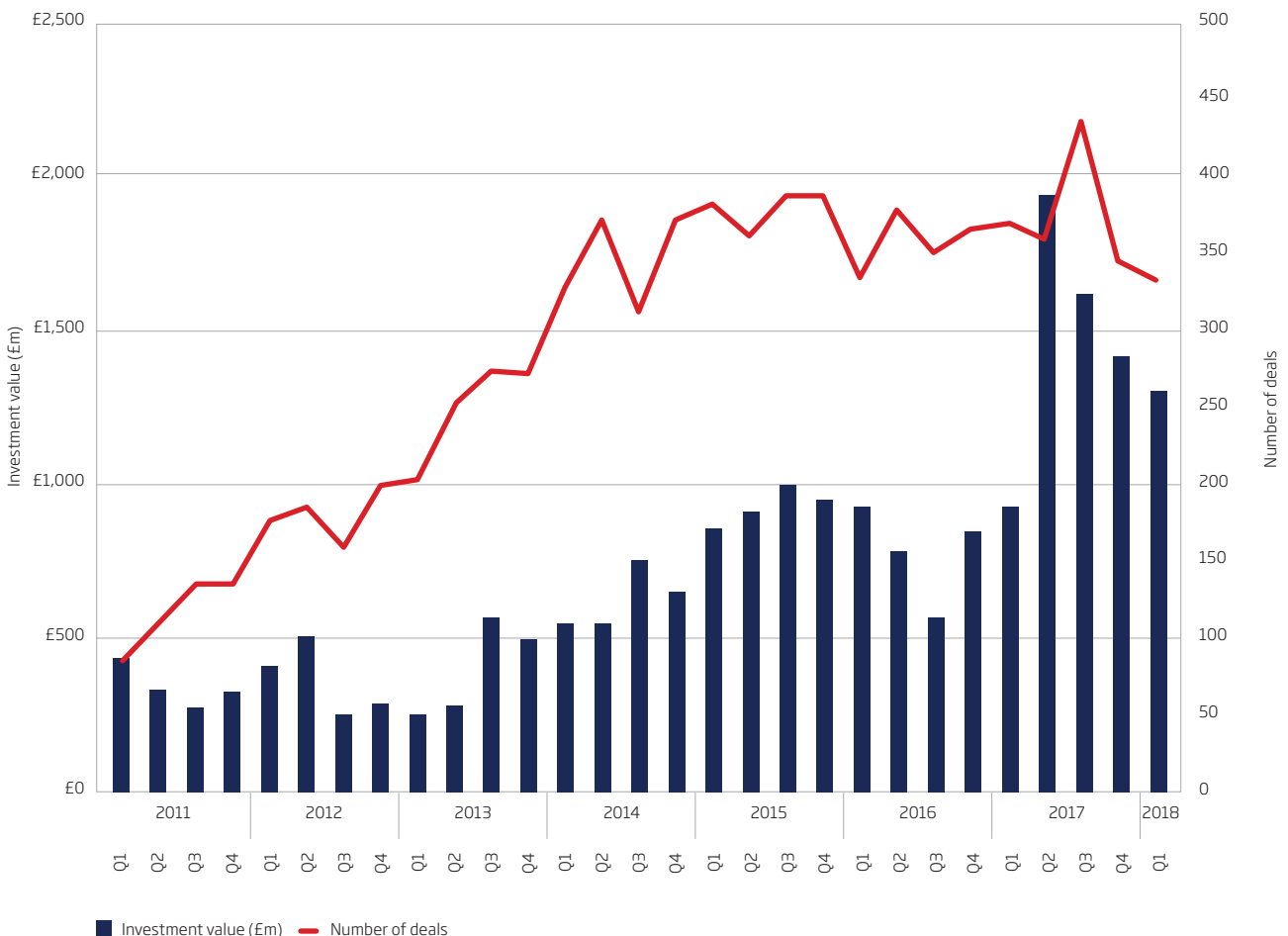
Quarterly figures show more fluctuation than yearly figures, so care is needed in interpreting trends, especially as a small number of very large deals can impact on the overall investment figures (see section 1.3). Investment values were very strong in Q2 to Q4 2017, with investment amounts in these three quarters averaging £1.7bn, which is over twice as high as the same quarters in 2016. Quarterly investment values peaked at £1.9bn in Q2 2017, nearly twice as high as the previous quarterly peak seen in Q3 2015. The market continues to show strength in 2018, with investment values in Q1 2018 continuing to exceed £1bn (£1.3bn), the 4th consecutive quarter they have done so.

The strength of the market is also seen in deal numbers. Deal numbers peaked in Q3 2017 with 430 deals in the quarter, the highest number of announced deals recorded in a single quarter. Deal numbers then declined in Q4 2017 to 339 and 329 in Q1 2018.

The British Business Bank will continue to monitor equity market conditions very carefully, and report market changes in our quarterly update note that is published on the British Business Bank website.<sup>15</sup>

FIG 1.2  
NUMBER AND VALUE OF EQUITY DEALS BY QUARTER

Source: British Business Bank analysis of Beahurst



## 1.2 BUSINESS STAGE

Beauhurst classifies deals into three stages; seed, venture and growth, reflecting the company’s underlying position in terms of product development, commercialisation, sales and profitability. The seed stage generally encompasses young companies being set up or been in business for a short time but have not yet made any commercial sales. The venture stage covers companies that have been in existence for a few years and are in the process of a gaining market traction with sales growing rapidly. The venture stage does not correspond to funding by venture capitalists, as other investor types also provide funding to venture stage companies. Growth stage businesses are more established with multiple offices or branches with substantial revenue streams (some of which may be profitable). The growth stage includes later stage VC backed companies and companies seeking to grow their core market or expanding into new markets or products/ services.

All three deal stages have seen large increases in investment values compared to 2016 but different trends are seen in deal numbers. Trends in the number and value of deals in different business stages can be volatile from year to year as shown in figure 1.3 with deal numbers in the venture stage increasing following a relatively poor 2016.

- **Seed stage:** The overall investment amount going to seed stage has been increasing over recent years showing a positive funding environment for early stage companies. There were 705 seed stage deals in 2017 worth £779m, an increase of 91% compared to 2016 levels. However, deals numbers did not change between 2016 and 2017.
- **Venture stage:** The venture stage has been most volatile of the three stages in recent years. The number of venture stage deals was increasing year on year from 2011 to 2015, before declining 15% in 2016. The number of venture stage deals increased by 19% in 2017 to 547 deals, cancelling out the previous 2016 decline. Investment values increased overall between 2011 and 2015, albeit with a slight decline in 2013. Investment values then fell sharply in 2016 by 25%, before increasing by 72% in 2017 to £1.8bn.
- **Growth stage:** Investment amounts have been very strong in 2017 and are considerably higher than earlier time periods. There were 235 growth stage deals in 2017 worth £3.3bn. While the number of growth stage deals declined by a relatively small 2%, there was a 100% increase in the investment amount compared to the previous year.

FIG 1.3 NUMBER AND VALUE OF EQUITY DEALS BY BUSINESS STAGE

Source: British Business Bank analysis of Beauhurst

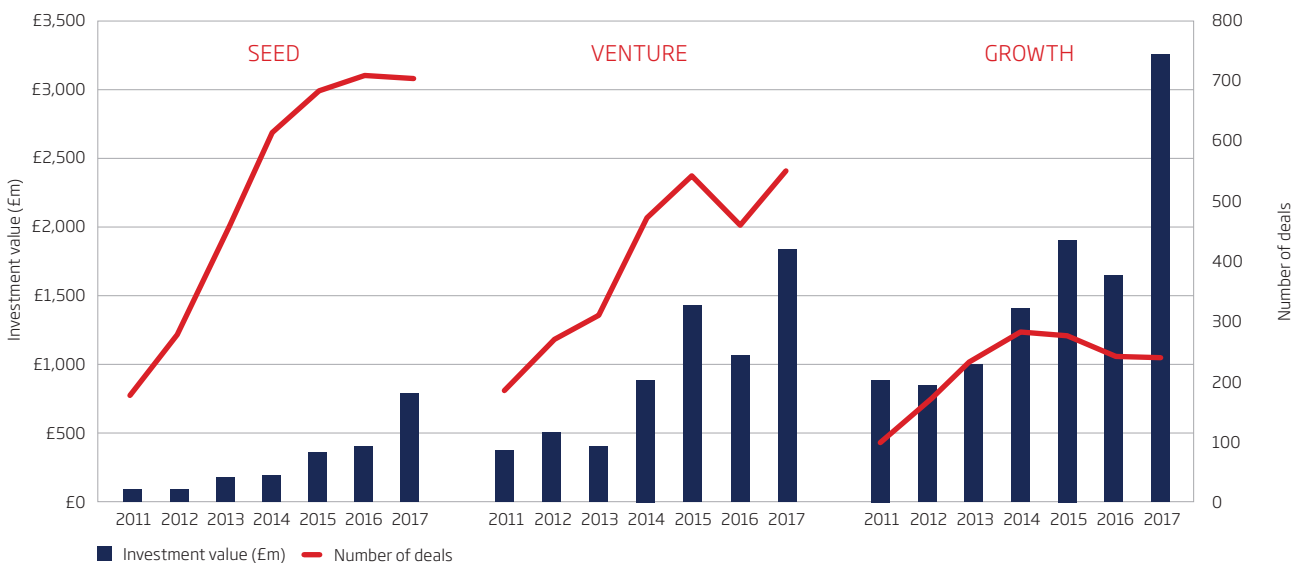


Figure 1.4 and 1.5 show the business stage as a proportion of the total equity market for number of deals and investment value. The seed stage forms the largest proportion of the market by number of deals, forming 47% of all equity deals in 2017. This compares to 39% in 2011, which confirms the positive investment environment for early stage companies that has developed in the UK over the last few years, although there is a slight decline in 2017 from the 50% figure reached in 2016. The number of seed stage deals has remained relatively constant between 2016 and 2017, suggesting the increase in venture stage deals has driven the decline in the proportion of seed deals. Venture stage formed 37% of deals in 2017, up from 33% in the previous year. 16% of all equity deals in 2017 were at the growth stage, slightly down from the year before, but continuing the trend seen since 2013.

In terms of investment value the picture is reversed, with growth stage deals forming the largest percentage of the market (55% in 2017) due to substantially larger deal sizes. While seed stage deals formed just 13% of the market in 2017, the long-term trend has been for it to increase its share over time from 6% in 2011. This is also a positive development, showing equity markets are better able to support early stage companies. The venture stage formed 31% of the market in 2017, down from 34% in 2016 and 38% in 2015.

The Enterprise Capital Fund (ECF) programme and British Business Bank supported Angel CoFund continues to focus on early stage equity deals. The ECF programme has an investment capacity of £1.1bn and has invested over £530m in growing business since its inception in 2006.

FIG 1.4

**PROPORTION OF EQUITY DEALS BY BUSINESS STAGE**

Source: British Business Bank analysis of Beauhurst

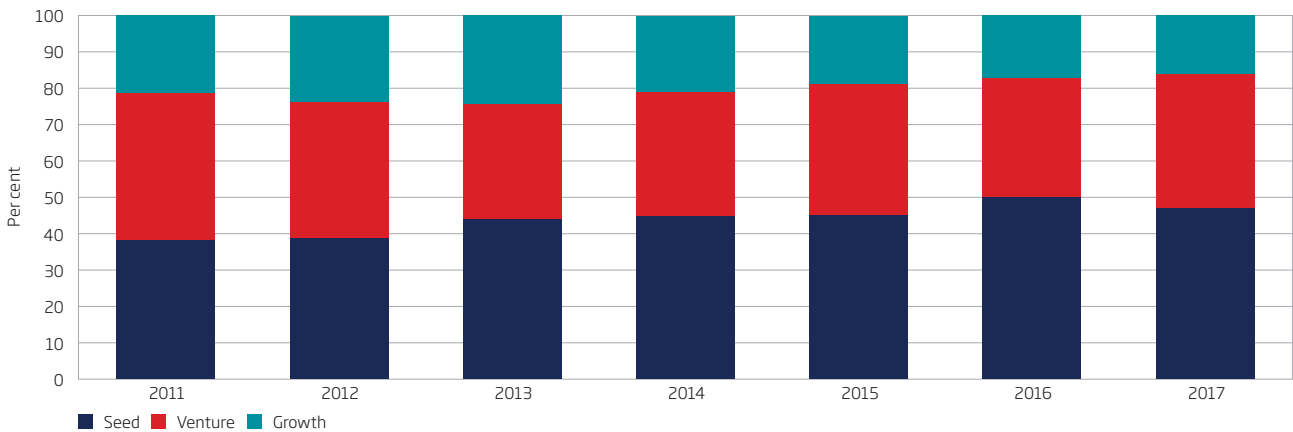
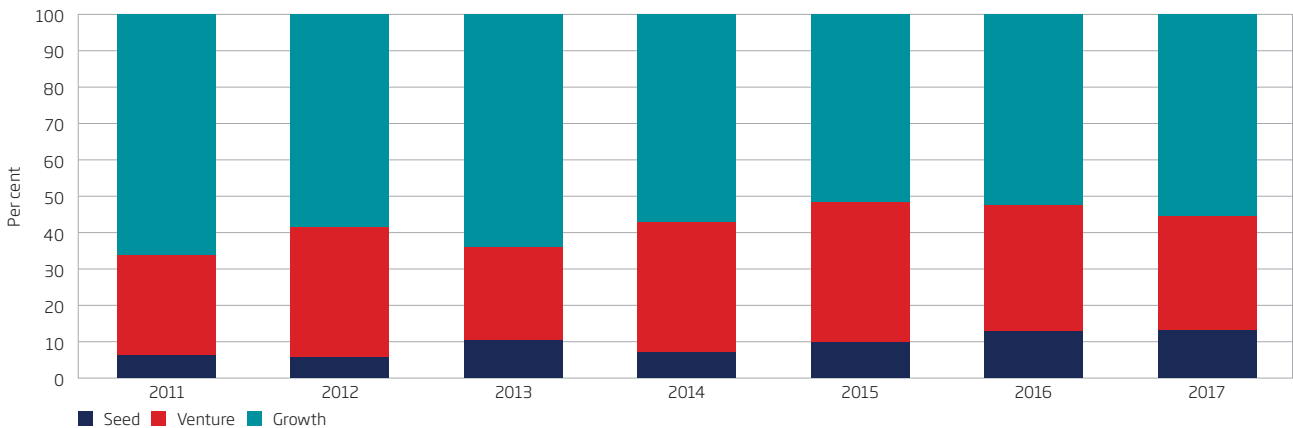


FIG 1.5

**PROPORTION OF INVESTMENT VALUE BY BUSINESS STAGE**

Source: British Business Bank analysis of Beauhurst



## 1.3 DEAL SIZES

Average equity deal sizes have increased over the last few years from £2.2m in 2013 to £4.9m in 2017. This is also seen in the median deal size which has increased from £500,000 in 2013 to £1m in 2017. The median represents the middle deal size of a distribution and so is not affected by a small number of very large deal sizes that can distort the mean average.

Table 2 shows deal sizes vary by business stage with seed stage deals being the smallest (£1.4m on average in 2017) and growth stage deals being the largest (£18.9m) reflecting the financing needs of the business.<sup>16</sup> Average deal sizes in 2017 have increased across all three business stages, but there have been large increases in growth stage deals in 2017. The average growth stage deal has more than doubled compared to 2016 and is now at £18.9m. This is also seen in the median deal sizes which have increased across all business stages in 2017 compared to the previous year (table 3).

TABLE 2  
AVERAGE DEAL SIZES OVER TIME BY BUSINESS STAGE

	Seed	Venture	Growth	All business stages
2011	£635,000	£2.5m	£11.4m	£3.7m
2012	£496,000	£2.6m	£6.3m	£2.8m
2013	£583,000	£1.7m	£5.9m	£2.2m
2014	£431,000	£2.5m	£7.0m	£2.5m
2015	£731,000	£3.2m	£9.3m	£3.2m
2016	£763,000	£3.0m	£9.1m	£2.9m
2017	£1.4m	£3.9m	£18.9m	£4.9m

Source: British Business Bank analysis of Beauhurst

The increase in the mean and median average deal sizes reflects changing deal size composition, with a decline in the number of the very smallest deals (up to £499k) but an increase in the number of larger deals (Figure 1.6). While the number of deals up to £499k fell 14% in 2017 compared to 2016 continuing the decline seen since 2015, the number of deals greater than £10m increased in 2017 by 34%. Deals between £5m to £9.99m also increased by 51% over the same period, suggesting a general upward shift in deal sizes from the smallest deal size categories.

Further analysis suggests the fall in deal numbers seen in 2017 in the up to £499k deal size category, is largely a result of a decline in the very smallest deals of less than £100,000 in size. Whilst the decline in the very smallest deals may be a result of time lags before these deals are identified, the number of deals less than £499k has been declining on a quarterly basis since its peak in Q3 2016. The British Business Bank will continue to monitor this trend.

TABLE 3  
MEDIAN DEAL SIZES OVER TIME BY BUSINESS STAGE

	Seed	Venture	Growth	All business stages
2011	£ 300,000	£ 1.5m	£3.4m	£983,000
2012	£ 249,000	£1.2m	£3.5m	£900,000
2013	£ 160,000	£ 865,000	£2.8m	£500,000
2014	£ 150,000	£940,000	£3.4m	£500,000
2015	£ 200,000	£1m	£5m	£600,000
2016	£ 198,000	£1.2m	£ 5.3m	£628,000
2017	£ 342,000	£1.6m	£7.2m	£1m

Source: British Business Bank analysis of Beauhurst

It is important to recognise that most equity deals are relatively small, reflecting the early nature and size of the underlying company, but there is a large variation in deal sizes. For instance, 34% of deals (with disclosed investment amounts) are below £500k. However, the largest equity deals can be very large, in the region of several hundreds of millions of pounds. This is explored further in Box 1.

There are large variations in deal size by stage of business:

- Seed stage:** The majority of seed stage deals with disclosed investment amounts are less than £500k in size, although the proportion has fallen over the last few years from 81% in 2014 to 58% in 2017, suggesting seed stage deals are getting larger across the board. This was especially seen in 2016, with the proportion of deals under £500k fell 15%- points from 73% of all deals in 2016 to 58% of all deals in 2017. The proportion of deals in the next deal size categories increased from 2016 to 2017, with a 5%-point increase in deal sizes between £500k to £999k from 12% to 17% of the market and 5%-point increases in deal sizes between £1m to £1.99m from 8% to 13%. Deals greater than £5m deal size remain a minority of seed deals in 2017 (forming just 4% of all seed deals), and only slightly higher than 3% in 2016. There were just 9 seed-stage deals greater than £10m in 2016 and again in 2017, suggesting they are relatively rare.

- Venture stage:** Deal sizes are more evenly spread between the different size categories, with the largest deal size category by percentage being the £2m-£4.99m deal size category forming 27% of all disclosed deals. Again, the smaller deal size categories (less than £2m) have declined compared to 2016 as a proportion of all deals (from 61% to 54%). There has been a 7%-point increase in the proportion of deals greater than £5m from 12% of all in 2016 to 19% venture deals in 2017. Deal sizes greater than £10m have become more prevalent from 18 deals in 2016 to 38 deals in 2017, with these deals forming 8% of all venture deals in 2017.
- Growth stage:** Growth stage deals are larger than the other deal stages with 81% greater than £2m deal size in 2017 (61% are greater than £5m in size). The share of larger growth stage deals has increased since 2012. As a result of this, deal sizes less than £2m have declined from 42% of the market in 2012 to 19% in 2017. The number of deals greater than £10m have increased from 58 deals in 2016 to 67 deals in 2017. 39% of all growth stage deals in 2017 are greater than £10m in size.

FIG 1.6  
NUMBER OF DEALS BY DEAL SIZE

Source: British Business Bank analysis of Beauhurst

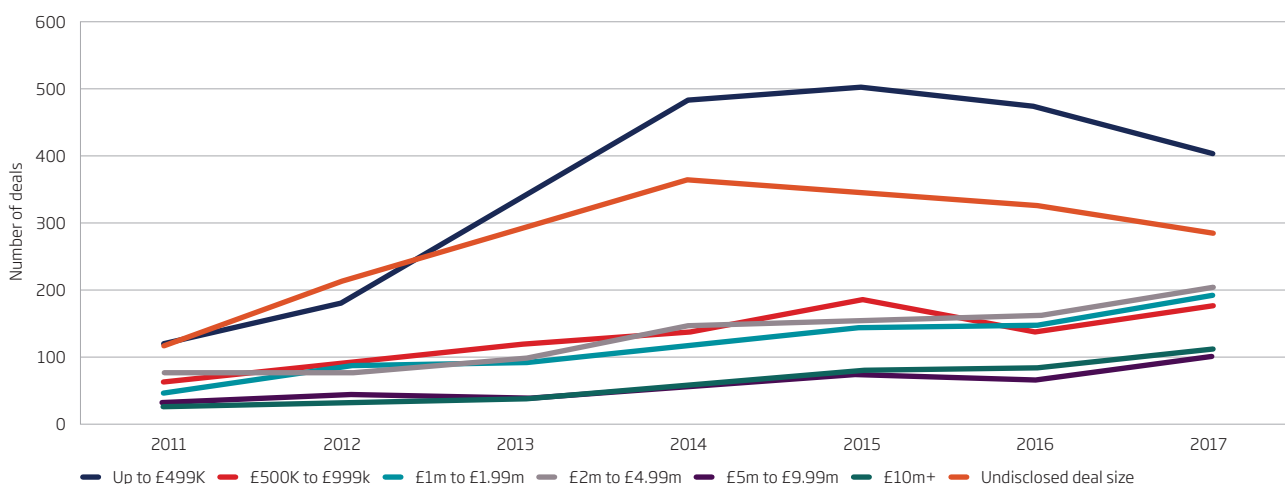


FIG 1.7  
**PROPORTION OF SEED STAGE EQUITY DEALS BY DEAL SIZE**

Source: British Business Bank analysis of Beauhurst

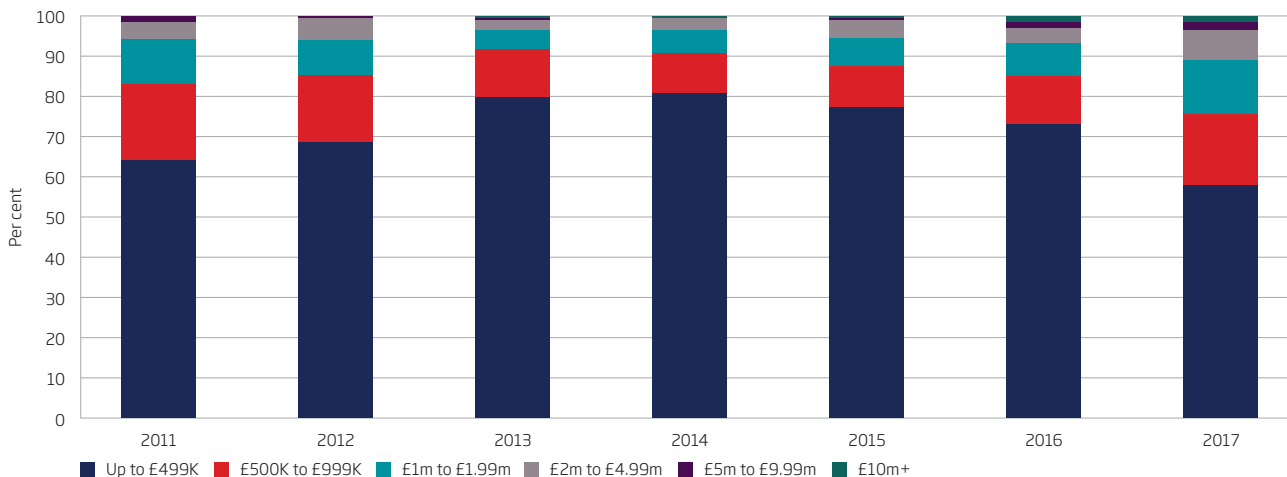


FIG 1.8  
**PROPORTION OF VENTURE STAGE EQUITY DEALS BY DEAL SIZE**

Source: British Business Bank analysis of Beauhurst

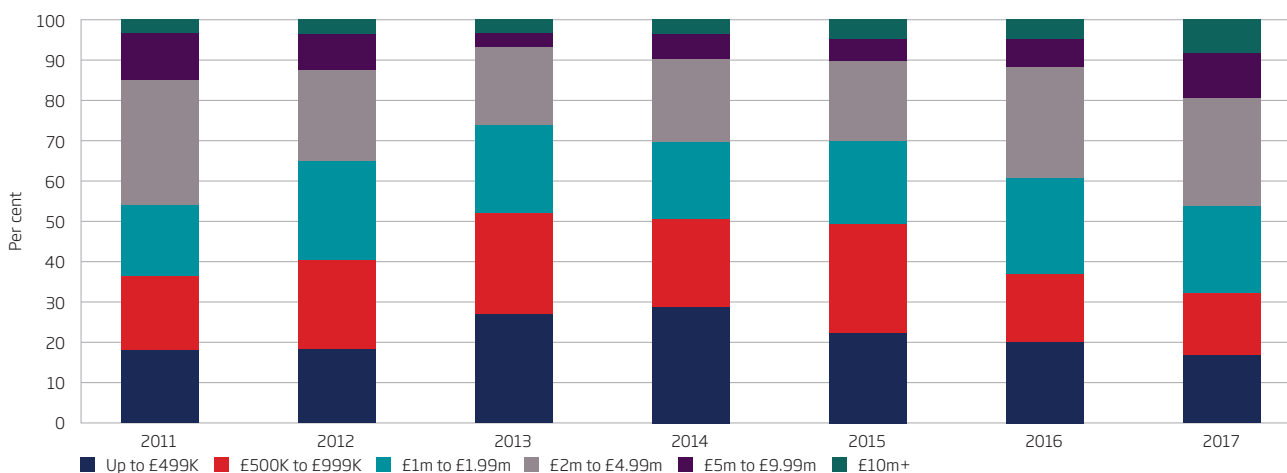
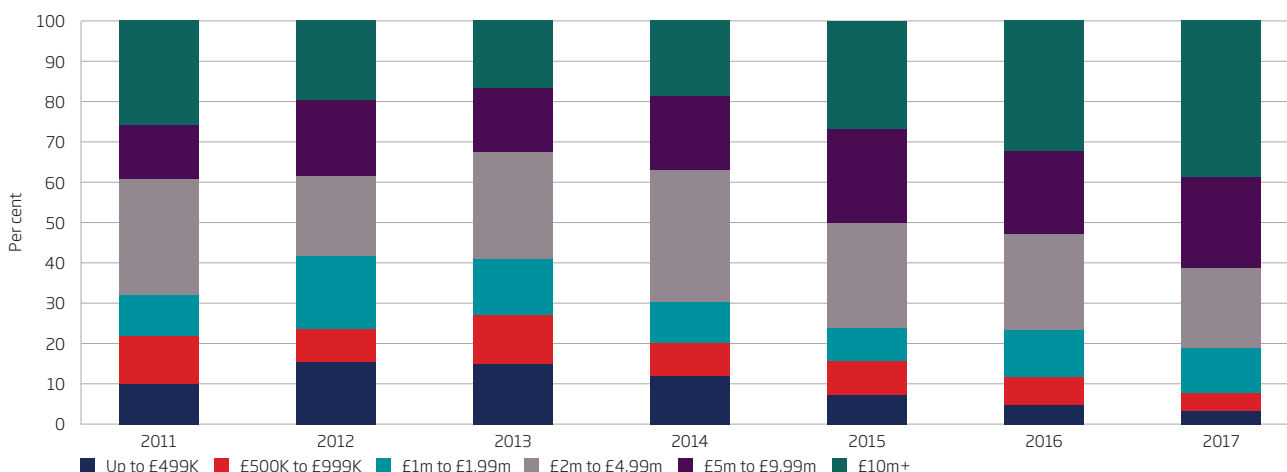


FIG 1.9  
**PROPORTION OF GROWTH STAGE EQUITY DEALS BY DEAL SIZE**

Source: British Business Bank analysis of Beauhurst



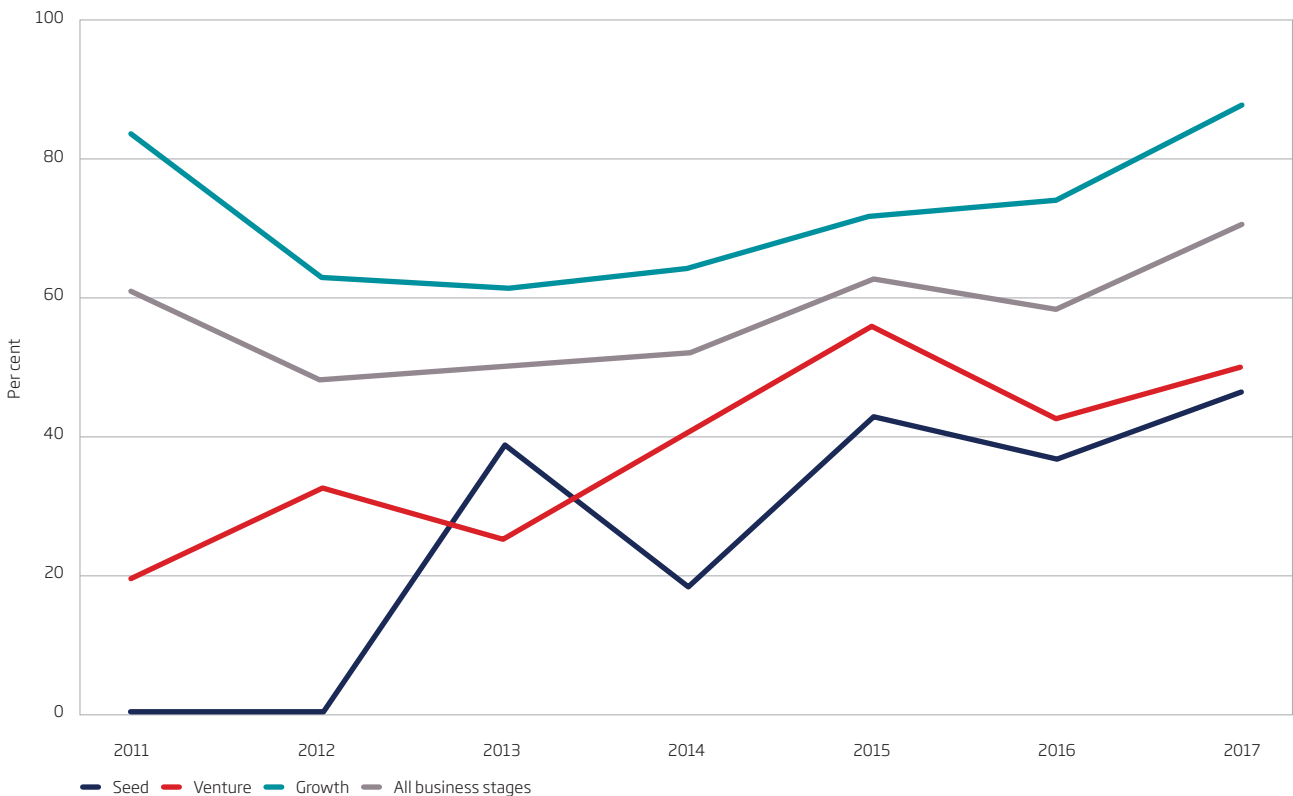
Average deal sizes are affected by a small number of very large deals, with some deal sizes in the region of several millions of pounds. For instance, the largest recorded deal size in 2017 was £389m. Figure 1.10 shows the proportion of total investment value from deals greater than £10m in size. 70% of the total equity investment in 2017 is from deals larger than £10m, up from 58% in 2016. In 2015, deal sizes greater than £10m contributed 63% of the total investment amount, and so the decline in overall market investment amount seen in 2016

(£3.7bn in 2015 to £3.1bn 2016), could be driven by the decline in the very largest deals. Therefore, changes in overall equity investment values are highly affected by a small number of very large deals.

This suggests some caution is needed when looking at trends in investment value over time, as these are likely to fluctuate due to a small number of deals. Box 1 and the corresponding table illustrates the types of companies receiving these large deals.

FIG 1.10  
**PROPORTION OF INVESTMENT FROM DEAL SIZES GREATER THAN £10M**

Source: British Business Bank analysis of Beauhurst





### BOX 1: UNICORN BUSINESSES AND LARGE DEAL SIZES

There were eight SME<sup>17</sup> deals in excess of £100m in 2017 and a further ten deals larger than £50m in size showing large multi-million pound deals are becoming more prevalent in the UK market. The ten largest equity deals in 2017 were equal to £1.7bn and formed 28% of market. This is higher than in 2016 when the ten largest deals formed 17% of the market, but similar to 2015 (25%).

Beauhurst themselves described 2017 as the year of the “megadeal”.<sup>18</sup> Over the last few years, there has been a continued trend towards larger deals sizes due to higher company valuations and maturing of companies coming through the investment pipe line. This shows a picture of investor confidence in the market potential for UK scale-up businesses.

The UK currently has 13 companies with unicorn status (private VC backed businesses valued over \$1bn) with the number of UK unicorn companies continuing to increase over time.<sup>19</sup>

Table 4 provides a more detailed assessment of the ten largest UK equity deals in 2017. The companies receiving these large equity deals cover a diverse range of sectors from fin-tech, software, e-commerce to biotechnology. Nearly all these companies are young, being less than 10 years old, the exception being Options, which was established in 1993, but is now expanding rapidly. Although these companies are predominantly at the growth stage, they also cover seed and venture stage deals from companies that have the potential to become market leading companies in the future. All but two of the deals are in companies based in London, but it is encouraging to see a fin-tech company (Atom Bank) located outside of London and based in the North East (Durham).

Three of the companies on the ten largest deal list currently have unicorn status (Improbable, Farfetch and OakNorth Bank). These companies have also raised large amounts of funding in previous funding rounds, showing the need for an interconnected patient capital eco-system able to support companies from start-up to scale-up.

TABLE 4  
TEN LARGEST EQUITY DEALS IN 2017

Rank by largest deal size in 2017	Company name	Deal size	Stage	Sector	Incorporation year	Region	Local Authority District	Total fundraising to date (as at June 2018)	Unicorn status
1	Improbable	£389m	Growth	Business and professional services/ software	2012	London	Camden	£423m	Yes
2	FarFetch	£313m	Growth	Fashion/ E-commerce	2007	London	Islington	£516m	Yes
3	Gryphon Group	£180m	Seed	Insurance services	2016	London	Westminster	£180m	
4	OakNorth Bank	£154m	Growth	Business banking and financial services	2013	London	Westminster	£220m	Yes
5	The Ink Factory	£136m	Growth	Media, film and TV	2009	London	Camden	£141m	
6	Neyber	£115m	Growth	Consumer banking and financial services	2014	London	Hackney	£150m	
7	Atom Bank	£113m	Growth	Consumer banking and financial services	2013	North East	Durham	£432m	
8	Gigaclear	£111m	Growth	Telecommunications services	2010	South East	West Oxford	£213m	
9	Orchard Therapeutics	£82m	Venture	Research tools/ services Personal healthcare	2015	London	City of London	£103m	
10	Options	£78m	Growth	IT support and consultancy	1993	London	Wandsworth	£78m	

Source: British Business Bank analysis of Beahurst platform and CB insights<sup>20</sup>

To summarise, average deal sizes have increased overall driven by both the changing profile of deals to larger deals, and also increases in the size of the very largest deals.

Despite this strong performance driven by larger deals, there is still a need for more businesses to get scale up finance. The Patient Capital Review identified a range of measures for the British Business Bank to undertake

to strengthen its support for businesses with scale up potential. The British Business Bank has launched a new £2.5bn Patient Capital programme to invest commercially into venture and growth capital funds and evergreen vehicles. British Patient Capital (BPC) will invest alongside the private sector, to support £7.5bn of investment to British businesses.

# 1.4 ENGLISH REGIONS AND DEVOLVED ADMINISTRATIONS

London continues to receive the greatest amount of equity investment with large increases seen from 2014 onwards. London received (£4.0bn of funding) in 2017, up from £1.7bn in 2016.

Trends in equity deals at the regional level have been more varied, with seven areas experiencing an increase in deals numbers in 2017. These include London,

North West, Northern Ireland, South West, Wales, West Midlands and Scotland. Equity deal numbers declined in the East Midlands, East of England, North East, South East and Yorkshire and the Humber. Year on year changes in investment amounts can be volatile, due to the impact of a small number of large deals.

FIG1.11 NUMBER AND VALUE OF DEALS BY ENGLISH REGION AND DEVOLVED ADMINISTRATION  
 Source: British Business Bank analysis of Beauhurst

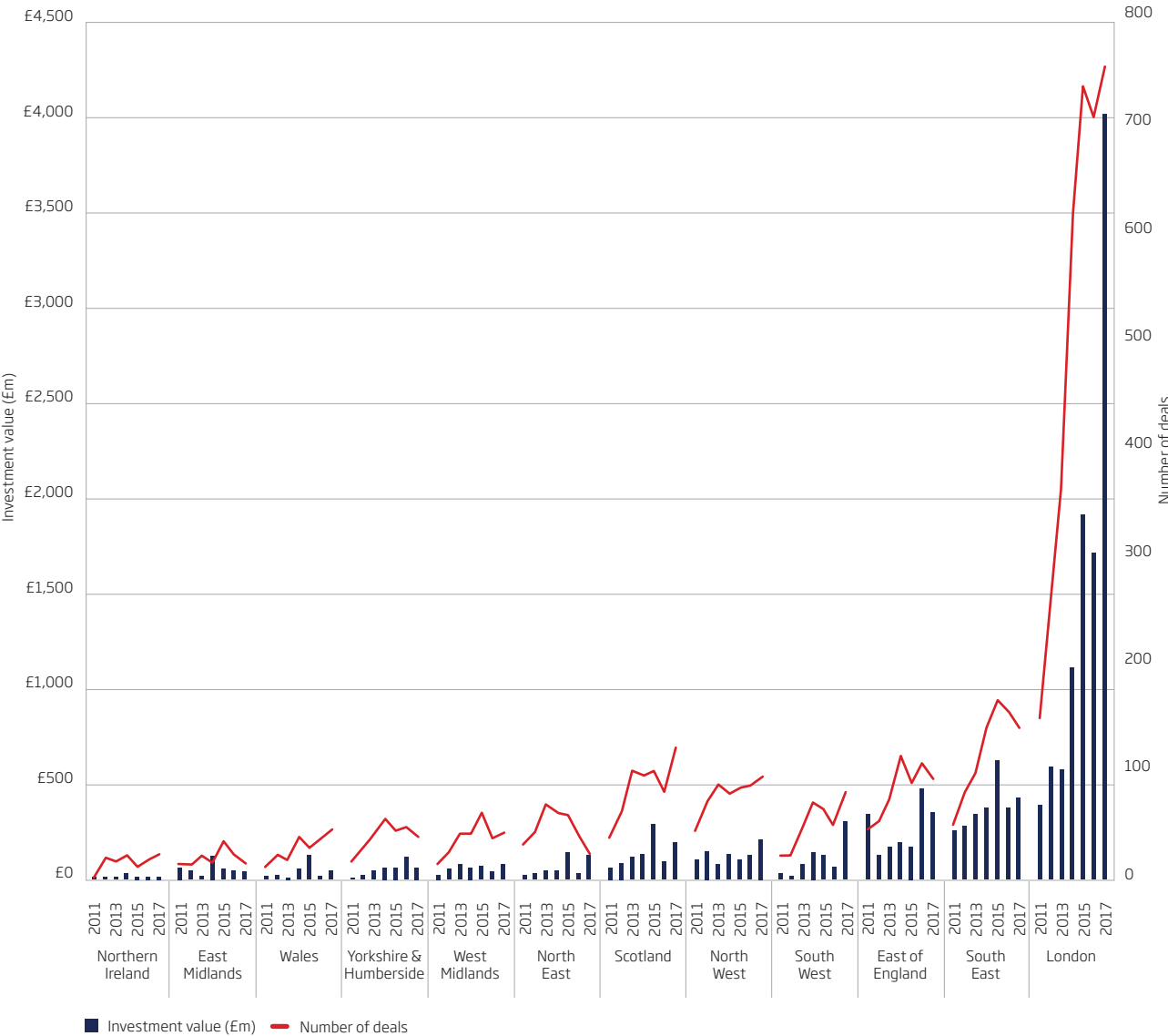


Table 5 shows London received the greatest amount of funding (51% by deal number, 68% by investment amount) in 2017, yet the region accounts for only 20% of high growth businesses.<sup>21</sup> This may suggest equity deals are underrepresented in other regions relative to the share of high growth businesses. Only a small proportion of high growth businesses are likely to be using equity finance, but for some high growth potential businesses, equity finance is the only funding source that can enable them to achieve their growth potential.

London's concentration is even greater if Government funds<sup>22</sup> are removed from the figures. Most deals (64%) in Wales in 2017 involved Government backed funds, followed by 53% for Scotland and 50% in North East. Excluding Government funds from the deals shows London's share of all UK deals increases from 51% to 56% in 2017. There appears to be no reported deals involving Government funds in the East Midlands in 2017, but this is likely to change in 2018 as the Midlands Engine Investment Fund (MEIF) makes equity investments.

TABLE 5

**PROPORTION OF EQUITY INVESTMENT, DEALS AND HIGH GROWTH BUSINESSES BY REGION AND DEVOLVED ADMINISTRATION**

	<b>% of total value of UK equity investments (2017)</b>	<b>% of total number of UK equity deals (2017)</b>	<b>% of total number of UK high growth businesses (2016)</b>
London	68%	51%	20%
South East	7%	10%	15%
East of England	6%	6%	9%
South West	5%	6%	9%
North West	4%	6%	10%
Scotland	3%	8%	7%
North East	2%	2%	3%
West Midlands	1%	3%	8%
Yorkshire and Humberside	1%	3%	7%
Wales	1%	3%	4%
East Midlands	1%	1%	7%
Northern Ireland	0%	1%	2%

Source: British Business Bank analysis of Beauhurst and ONS count of high growth enterprises

The concentration of deals in London has increased over time, especially from 2014 onwards. Prior to this, London formed 32% of equity deals in 2011, but this increased to 45% in 2014 before continuing to increase to 51% in 2017. 2017 is the first year, the proportion has tipped over the 50% mark. Deal numbers in London increased by 395% between 2011 and 2017, compared to 129% for the rest of the UK.

London’s increasing share of equity deals may be linked to positive externality effects creating a sustainable funding eco-system in the Capital city. A critical mass of financial expertise with a large pool of skilled labour, entrepreneurs and supporting services all combine to create positive networking environment. Whilst the effect has been greater in London, clustering effects are also seen in cities outside of London, and this is explored further in section 1.5.

FIG 1.12  
**PROPORTION OF EQUITY DEALS INVOLVING GOVERNMENT FUNDS (2017)**

Source: British Business Bank analysis of Beauhurst

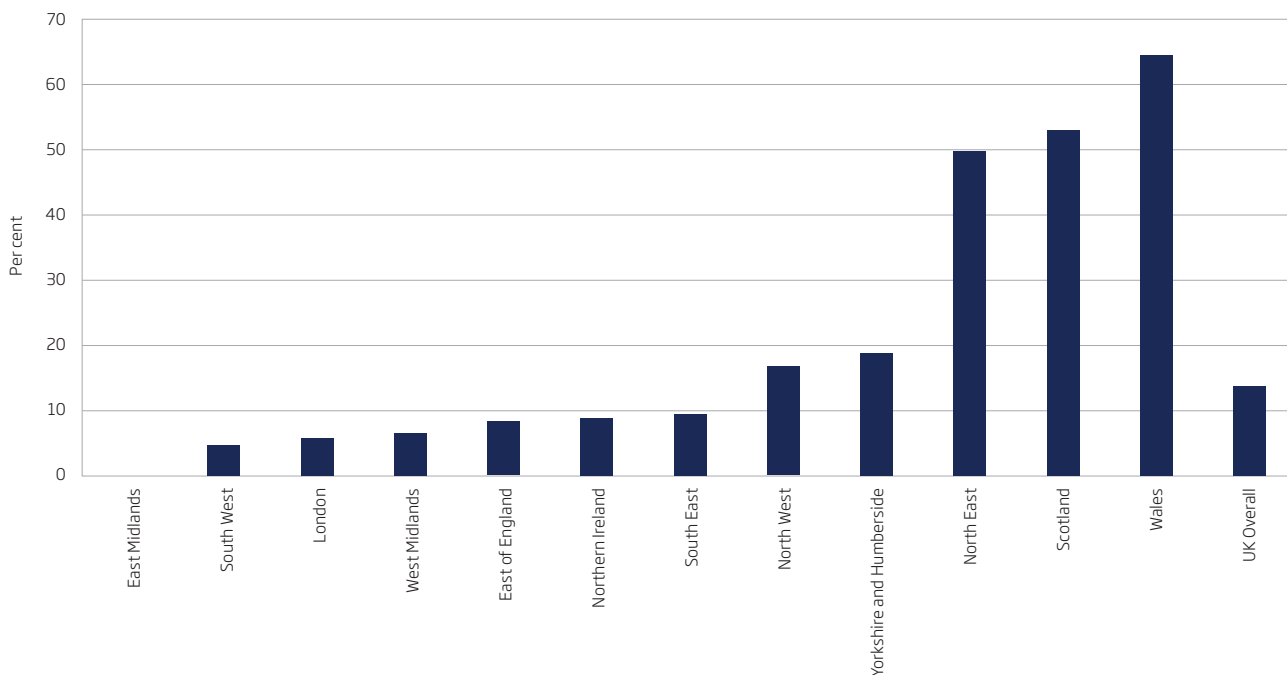


FIG 1.13  
**NUMBER OF EQUITY DEALS IN LONDON COMPARED TO THE REST OF THE UK**

Source: British Business Bank analysis of Beauhurst

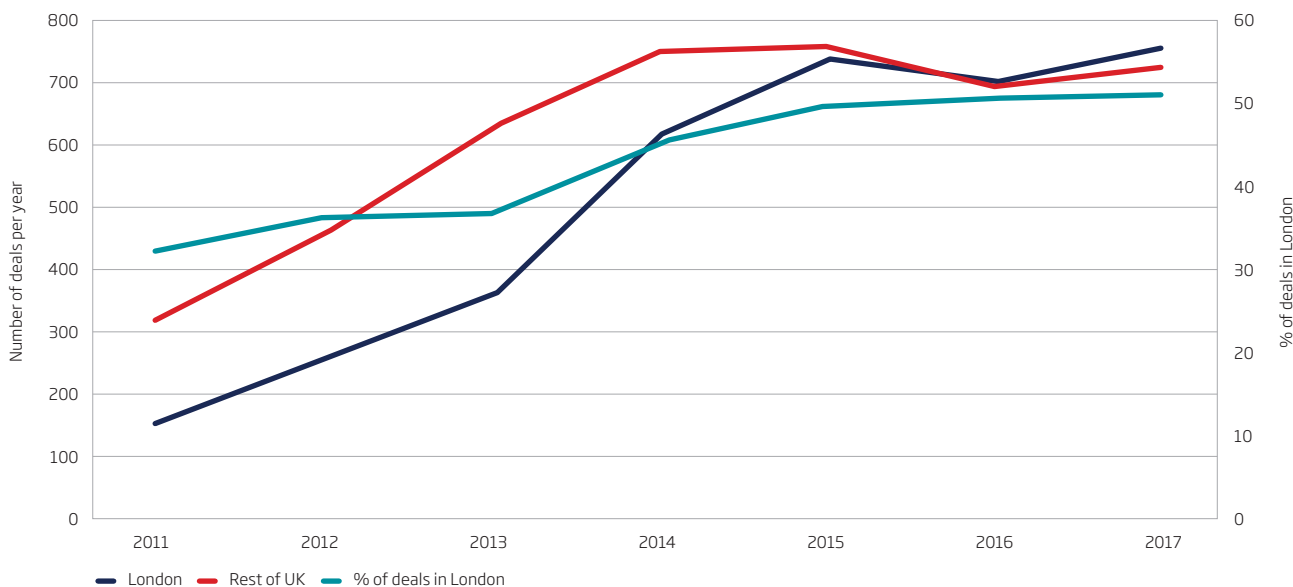
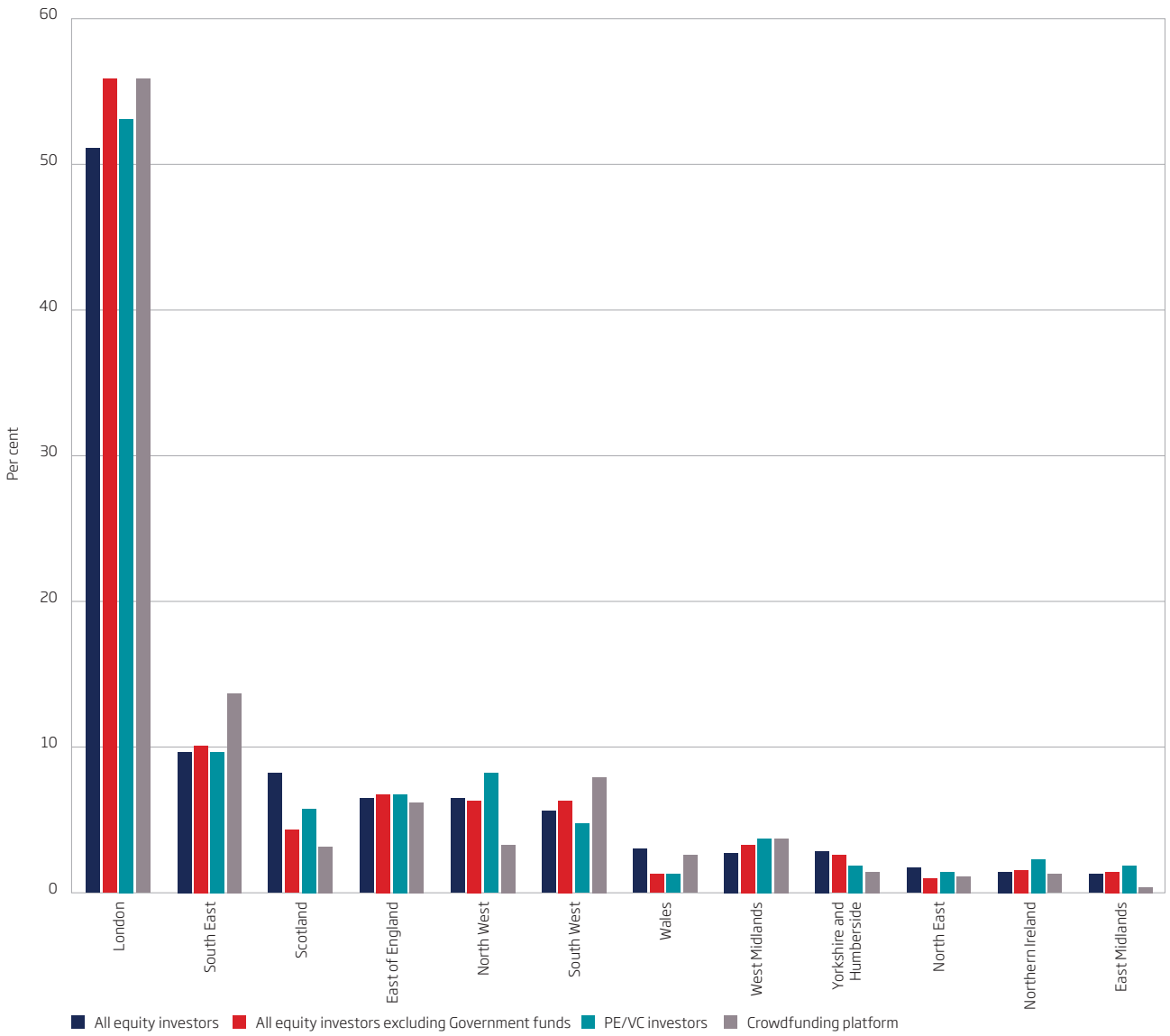


FIG 1.14  
 DISTRIBUTION OF EQUITY DEALS BY TYPE OF INVESTOR (2017)

Source: British Business Bank analysis of Beahurst



Whilst 51% of all equity deals overall are in London in 2017 (56% if deals involving government funds are excluded), the proportion of crowdfunding deals in London is also high (56%). This is higher than the share of deals involving PE/VC investors which is 53%. Further evidence of location effects can be seen at the regional level. Crowdfunding is higher in the South West (8% of crowdfunding deals are in the South West compared to just 5% of PE/VC investor deals). This may be due to one large crowdfunding platform (Crowdcube) being located in the region. In theory, technology should reduce the costs of under taking equity deals. This regional concentration that is observed in practice may show investors prefer to undertake deals closer to their own location (because they understand local markets better), or the presence of funders in the area increases business awareness of providers which increases uptake of equity finance.

The business stage composition of equity deals varies by region and devolved administration (Table 6). Whilst proportions of deals between seed, venture and growth stages are broadly similar between London and the rest of UK overall, there is larger variation in individual areas. Some regions have a higher than average proportion of seed stage deals in 2017 including Northern Ireland, Wales, West Midlands, Yorkshire and Humber and the North East. The North East and East Midlands have a high proportion of growth stage deals. In the case of the East Midlands this is driven by the small number of seed stage deals in the region. Scotland has a higher proportion of venture stage deals than the overall UK market, but a relatively low proportion of growth stage deals.

TABLE 6  
PROPORTION OF EQUITY DEALS BY BUSINESS STAGE (2017)

	<b>Seed</b>	<b>Venture</b>	<b>Growth</b>
London	47%	37%	16%
South East	49%	39%	12%
Scotland	43%	48%	9%
East of England	47%	36%	17%
North West	49%	33%	18%
South West	49%	37%	15%
Wales	51%	38%	11%
West Midlands	51%	37%	12%
Yorkshire and Humberside	52%	33%	14%
North East	50%	15%	35%
Northern Ireland	64%	14%	23%
East Midlands	29%	24%	47%
UK	47%	37%	16%

Source: British Business Bank analysis of Beahurst

## 1.5 GEOGRAPHIC CLUSTERS

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Equity deal numbers and investment figures for the English regions and devolved administrations disguise the large variations that occurs within areas as equity deals tend to be grouped into geographic clusters where innovative companies, skilled labour and equity investors locate close together. To provide further granularity to the picture, the following map shows the number of equity deals in 2017 by Local Authority District (LAD). Whilst equity deals are concentrated in London, it reveals there are clusters of deal activity outside of London.

This is confirmed by table 7 which lists the 25 Local Authority Districts with the highest number of announced equity deals in 2017. It is important to acknowledge that equity eco-systems are wider than individual Local Authority Districts and by looking at individual Local Authority Districts in isolation this misses the overall strength and depth of an eco-system. For instance, Manchester is made up of 10 Local Authority Districts and overall had 48 equity deals in 2017. Whilst only Manchester City Local Authority District is included in the table with 30 deals in 2017, there were also strong deal activity in Salford (9 deals) and Trafford (5 deals). There were no reported equity deals in Bury, Oldham and Wigan in 2017, showing the deal activity is highly clustered around specific areas.

Boroughs in London form nearly half of the 25 Local Authority District areas with the highest number of announced deals in 2017 (with 12 boroughs) but represents 8 of the 10 highest areas by number of deals in 2017. Cambridge and Oxford are also in the list (10th and joint 18th position respectively), due to the established communities of angel investors and VC funds that have developed around the universities over a period of time. Cities including Edinburgh, Manchester, Cardiff, Bristol, Glasgow, Leeds and Birmingham are also important equity hotspots where deals are clustered.

There appears to be little change in the areas showing strong deal activity in 2017 compared to a year ago, with most of the areas identified as having a high deal count in 2017 also had a high deal count in 2016.<sup>23</sup> This is especially the case for areas with the highest number of deals, as London boroughs continue to form the five highest areas by numbers of deals. Three new Local Authority Districts are included in the 2017 list, including Richmond upon Thames (22nd up from joint 41th position last year), Birmingham City (23rd from joint 28th last year) and Reading Borough (25th up from joint 41st position a year ago). A number of Local Authority Districts have dropped out of the 2017 list, but were in the 2016 list including South Cambridgeshire (18th in 2016), Newcastle upon Tyne (19th in 2016) and Sheffield (joint 22nd in 2016).



NUMBER OF ANNOUNCED EQUITY DEALS  
BY LOCAL AUTHORITY DISTRICT (LAD)

Source: Beauhurst

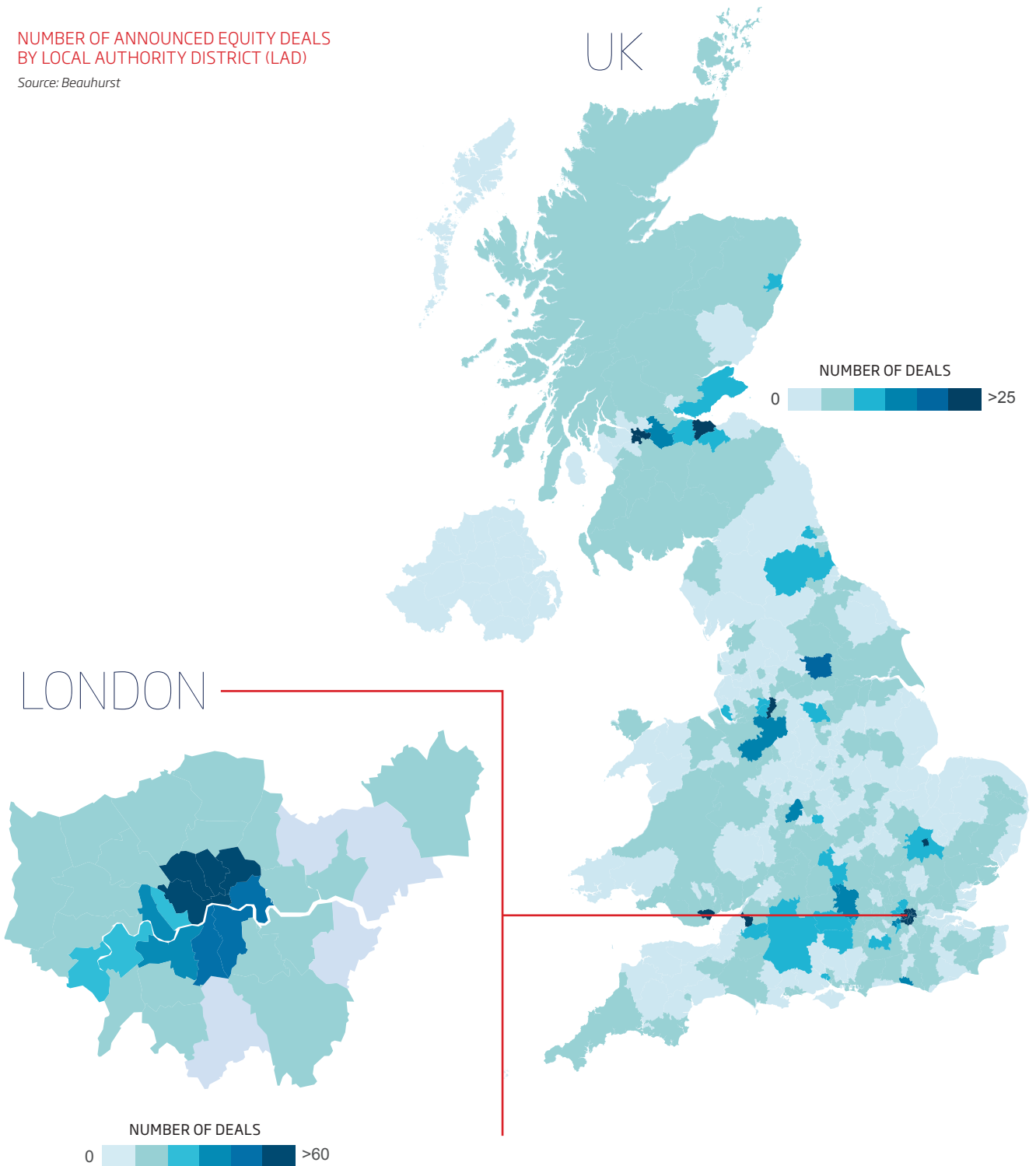


TABLE 7  
TOP 25 LOCAL AUTHORITY DISTRICTS FOR DEAL ACTIVITY IN 2017

Rank	Local Authority District	Number of announced in deals 2017	Sector with highest number of deals	Sector with second highest number of deals	2016 Rank (Latest data)	Number of announced deals in 2016 (Latest data)
1	Westminster City Council	111	Business and professional services	Software	2	96
2	Hackney London Borough Council	108	Software	Business and professional services	1	106
3	Camden London Borough Council	92	Software	Business and professional services	3	83
4	Islington London Borough Council	85	Software	Business and professional services	5	74
5	City of London	75	Software	Business and professional services	4	78
6	Edinburgh City Council	46	Software	Business and professional services	10	30
7	Southwark London Borough Council	44	Software	Business and professional services	8	43
8	Hammersmith and Fulham London Borough Council	36	Software	Personal services	11	27
9	Tower Hamlets London Borough Council	35	Business and professional services	Software	6	50
10	Cambridge City Council	31	Life science	Software	7	45
=11	Manchester City Council	30	Business and professional services	Software	13	23
=11	Lambeth London Borough Council	30	Software	Business and professional services	9	35

Rank	Local Authority District	Number of announced in deals 2017	Sector with highest number of deals	Sector with second highest number of deals	2016 Rank (Latest data)	Number of announced deals in 2016 (Latest data)
13	Bristol City Council	29	Software	Industrials	=16	16
14	Wandsworth Borough Council	26	Industrials	Business and professional services	=16	16
15	Glasgow City Council	25	Life science	Software	14	19
16	Kensington and Chelsea Royal Borough Council	21	Software	Business and professional services	=20	13
17	Cardiff Council	19	Business and professional services	Software	15	17
=18	Cheshire East Council	15	Life science	Retail	25	10
=18	Belfast City Council	15	Business and professional services	Software	=22	12
=18	Oxford City Council	15	Industrials/ software		12	25
=18	Leeds City Council	15	Software	Business and professional services	=20	13
22	Richmond upon Thames London Borough Council	14	Business and professional services/ software		=41	6
23	Birmingham City Council	13	Software	Business and professional services	=28	9
24	South Cambridgeshire District Council	12	Software/ medical technology		=18	15
25	Reading Borough Council	11	Software	Business and professional services	=41	6

Source: British Business Bank analysis of Beahurst

To help further develop clusters of equity deal activity outside of London, the Bank will shortly launch a new regional angel programme to tackle regional imbalances in equity deals.

## 1.6 INVESTORS

Figure 1.15 shows the number of equity deals over time by type of equity investor.<sup>24</sup> Private Equity/ Venture Capital (PE/VC) investors were involved in 596 equity deals in 2017, a 21% increase from 2016. PE/VC investors continue to be the most active type of investor in 2017 in terms of number of deals participated in and this does not look likely to change. Figure 1.16 shows PE/VC investors are involved in 40% of all equity deals in 2017, reversing some of the decline in its share between 2011 and 2015 as the UK equity market became more diverse with other types of equity investor emerging. PE/VC investors are especially important at the later business stages forming 43% of all venture stage deals and 65% of all growth stage deals in 2017.

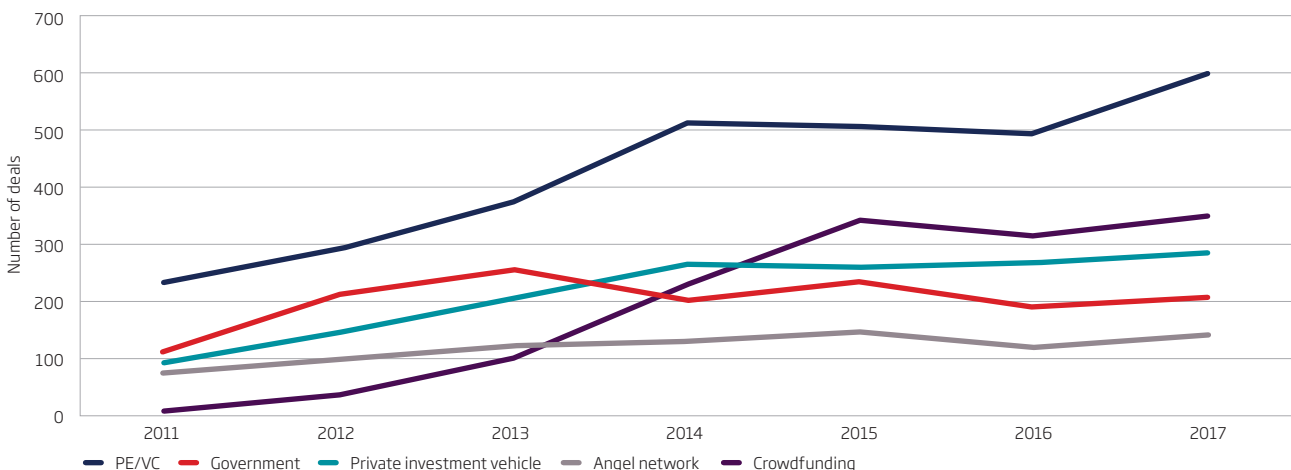
Crowdfunding has become an important source of equity finance in recent years for smaller businesses with crowdfunding becoming the second most active equity investor type from 2015 onwards. There were just 8

deals involving crowdfunding in 2011, but by 2015 this has increased to 341. Crowdfunding experienced its first yearly decline in 2016 (in line with the wider market decline), with the number of deals reducing to 315 deals. The number of crowdfunding deals recovered in 2017, with an 11% increase to 350 deals. This reconfirms crowdfunding platforms were involved in 24% of all equity deals in 2017, but crowdfunding platforms have a larger share of seed stage deals, forming 30% of seed stage deals in 2017. Crowdfunding platforms were the most prevalent investor at the seed stage by number of deals between 2014-2016, but recent increases in deals involving PE/VC investors has led to both crowdfunding and PE/VC investors each forming approximately 30% of the market by number of seed stage deals. Crowdfunding platforms undertook 213 seed stage deals in 2017 compared to 210 for PE/VC investors.

FIG 1.15

### NUMBER OF EQUITY DEALS PER YEAR BY INVESTOR TYPE

Source: British Business Bank analysis of Beauhurst



Private investment vehicles were the third most prevalent investor overall, involved in 285 equity deals in 2017, with a 6% increase in deal numbers compared to 2016.

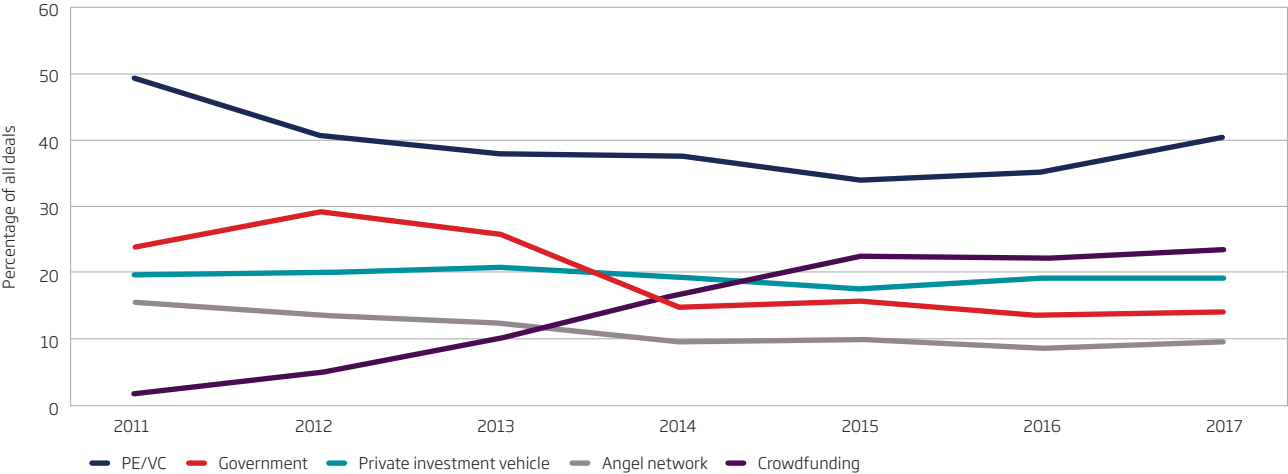
Government funds were involved in 206 deals in 2017, an increase from 190 in 2016, but lower than its peak at 255 deals per year in 2013. Government deals include deals made by the devolved administrations (Scottish Enterprise and Finance Wales), as well as JEREMIE backed funds and other local Government funds. It excludes private sector funds supported by the British Business

Bank, for example through the ECF programme. See chapter 2 for a detailed assessment of deals involving funds supported by the British Business Bank.

To enable institutional investors to make greater investment into UK venture capital markets, British Business Investments (BBI) - the Bank's commercial subsidiary has launched a new £500m Managed Funds Programme designed to increase the amount of venture capital and growth capital in the UK.

FIG 1.16  
PROPORTION OF DEALS PER YEAR BY INVESTOR TYPE

Source: British Business Bank analysis of Beauhurst



# 1.7 SECTORS

A strong sectoral theme continues with the technology and IP<sup>25</sup> based business sector receiving the most deals and investment in 2017, similar to previous years. Overall there were 567 technology and IP based business deals in 2016, receiving £2.1bn of funding.<sup>26</sup> Technology and IP based business sector forms 38% and 36% of total market by number and value respectively.

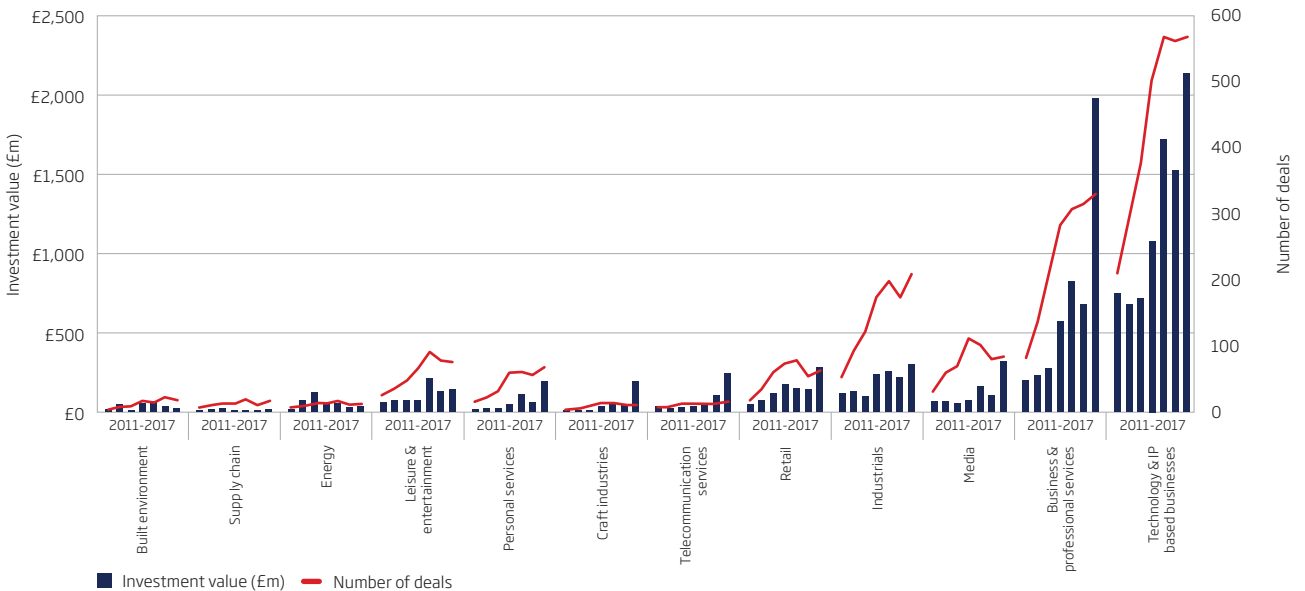
The number of technology deals in 2017 (567), is at a similar level to 2016 (562) and 2015 (567). The technology sector as a proportion of all equity deals has been around 40% since 2012. In terms of investment value, the technology and IP based business sector has declined from 49% in 2016 to 36% in 2017 despite overall investment values increasing from £1.5bn in 2016 to £2.1bn in 2017. This is partly a result of large

increases in the business and professional services sector whose share of investment value has increased from 22% in 2016 to 34% in 2017 due to a 190% increase in investment value. The business and professional services sector received £2.0bn of funding, up from £680m a year before. This is predominantly due to a small number of larger deals as six of the top ten largest equity deals in 2017 (see box 1) are classified within the business and professional service sector.<sup>27</sup>

Business and professional services formed the next largest sector by number of deals with 330 deals in 2017, followed by industrials (208 deals). Both these sectors experienced an increase in the number of deals between 2016 and 2017.

FIG 1.17  
NUMBER AND VALUE OF EQUITY DEALS BY SECTOR

Source: British Business Bank analysis of Beauhurst

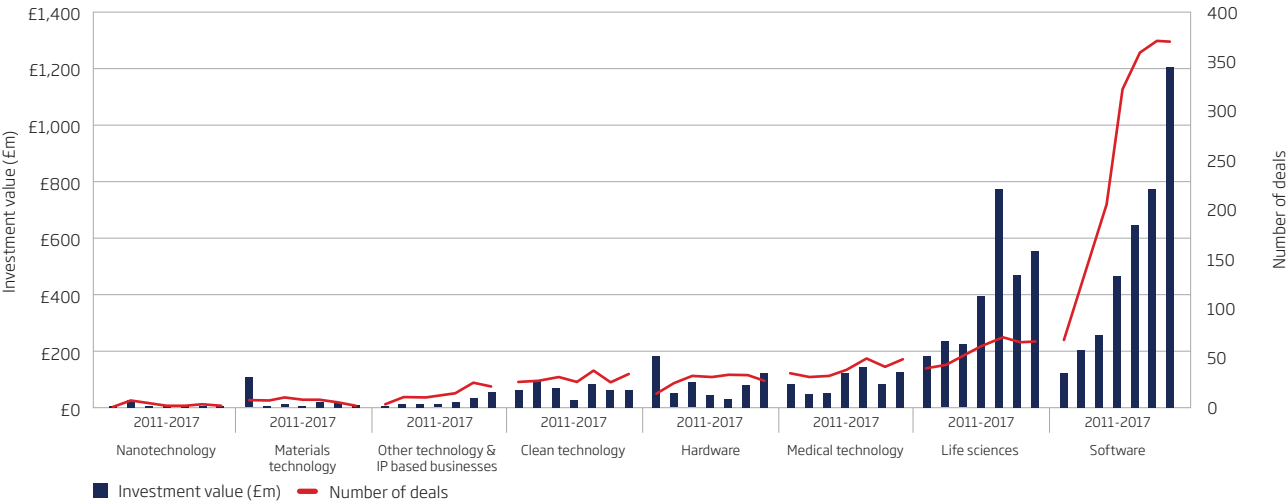


# 1.8 TECHNOLOGY SUB-SECTORS

Technology and IP based businesses can be subdivided further into numerous sub-sectors reflecting the underlying activities the businesses are undertaking. Two sub-sectors form the bulk of the market:

- Software continues to form the largest technology sub-sector, with 367 deals in 2017 (£1.2bn). Investment amounts in software increased by 56% compared to 2016, although the number of deals was flat (0%).
- Life sciences formed the next largest sector, both in investment amount and number of deals. There were 67 life science deals in 2016 (£557m). Life science deals tend to be larger than software deals reflecting the capital-intensive nature of this sub-sector. The number of life science deals increased by 3% between 2016 and 2017 but the investment amount increased by 19%.<sup>28</sup>
- The third largest technology sub-sector in 2017 by deal number was medical technology (48 deals, £125m), followed by clean technology with 32 deals (£62m).

FIG 1.18  
**NUMBER AND VALUE OF EQUITY DEALS BY TECHNOLOGY SUB-SECTOR**  
 Source: British Business Bank analysis of Beauhurst



## CHAPTER 2:

# BRITISH BUSINESS BANK ACTIVITY

### 2.1

## INTRODUCTION

---

This chapter explores the characteristics of equity deals made by equity funds supported by the British Business Bank and compares the characteristics of these deals to those made by the overall equity market.

As a Government owned financial institution, the British Business Bank has an objective of increasing the supply of finance to smaller businesses in areas of the market that are not working as effectively as it could. The rationale for the Bank's equity programmes are based on addressing market failures affecting the supply of equity finance.

The Bank does this by working through VC funds as a Limited Partner (LP) investor to the funds, through co-investment alongside business angels or by establishing programmes such as the Northern Powerhouse and Midlands Engine Investment Funds. Equity funds supported by the British Business Bank's programmes combine private and public money to make commercially focused equity investments.

Table 8 provides an overview of British Business Bank activity, but further information on British Business Bank programmes, including their design and investment criteria can be found on the British Business Bank website.<sup>29</sup>



TABLE 8

## DESCRIPTION OF BRITISH BUSINESS BANK ACTIVITY

British Business Bank Activity	Description
British Patient Capital	British Patient Capital is a new £2.5bn programme designed to enable long-term investment in high growth potential companies across the UK. Investing alongside the private sector, British Patient Capital will support £7.5bn of investment for British businesses.
VC Catalyst	The VC Catalyst was announced in 2013 and invests in commercially viable venture capital funds that might otherwise fail to reach a satisfactory “first close”. The programme was retargeted in 2016 to target the later stage VC funding gap.
NPIF (Northern Powerhouse Investment Fund)	NPIF is a £400m programme launched in February 2017, in collaboration between the British Business Bank and 10 LEPs in the North West, Yorkshire and Humber and Tees Valley.
MEIF (Midlands Engine Investment Fund)	MEIF is a £250m programme that is a collaboration between the British Business Bank and 10 LEPs in the East and South East Midlands and West Midlands.
CloSIF (Cornwall and Isles of Scilly Investment Fund)	The Bank has established the CloSIF in partnership with the Cornwall & Isles of Scilly LEP. The £40m investment Fund will support access to finance for SMEs in the area.
ECF (Enterprise Capital Fund)	The ECF programme was 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”.
Angel CoFund	The British Business Bank supported Angel CoFund was established in 2011 to increase the supply of business angel finance to 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.
UKIIF (UK Innovation Investment Fund)	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.

British Business Bank deals are matched to deals in the Beauhurst dataset using the Company Registration Number (CRN) in the first instance, or by the name of the company if CRN is not available. British Business Bank deals are then only included if the name of the fund manager is included in the list of investors for that specific deal. **This will underestimate the actual coverage of deals involving British Business Bank supported funds** as information on investors is not available for all deals, but this approach avoids capturing deals made in companies previously funded by British Business Bank supported funds.

Between 2011 and 2017 there are 579 visible equity deals undertaken by funds financially supported by the British Business Bank in the Beauhurst dataset. This relates to 383 unique companies, with a total investment value of £1.9bn.<sup>30</sup> This includes investments made by the following British Business Bank programmes:<sup>31</sup>

TABLE 9

## BEAUHURST COVERAGE OF BRITISH BUSINESS BANK SUPPORTED FUND DEALS BY PROGRAMME

	Number of unique companies	Company population	Relative coverage
ACF/ Aspire	72	90	80%
ECF	224	405	55%
UKIIF	73	132	55%
VC Catalyst	26	63	41%
NPIF	15	26	58%
All	383	687	56%

Source: British Business Bank analysis of MI data and Beauhurst

Beauhurst captures 56% of British Business Bank supported fund deals<sup>32</sup>, but coverage varies by programme.

## 2.2 MARKET SHARE

Figure 2.1 shows the number of announced deals involving British Business Bank-supported funds over time as identified in the Beauhurst dataset. The number of identified British Business Bank programme deals increases gradually over time from 33 in 2011 to 136 in 2016, before declining to 123 in 2017. The ECF programme has made the largest number of identified deals, followed by UKIIF over the last three years.

Care should be taken in interpreting these figures as they are based on a sample of deals involving British Business Bank supported funds that Beauhurst have identified. Figures will differ to British Business Bank Management Information which is based on the full population of deals.

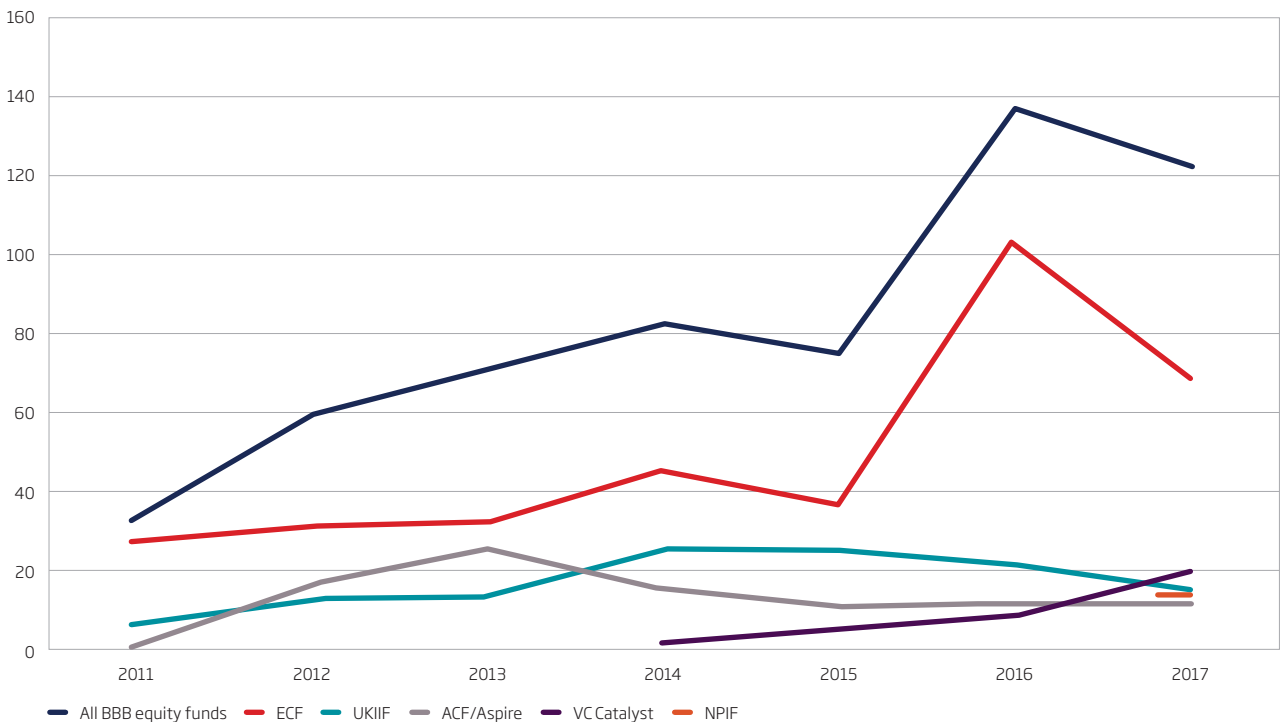
Based on the number of announced deals, British Business Bank programmes are estimated to have supported around 7% of all equity deals between 2011 and 2017 and these deals formed around 10% of the overall invested equity amount.<sup>33</sup>

There are some differences by stage with British Business Bank supported funds involved in:

- 6% of seed-stage deals (5% by value)
- 9% of venture-stage deals (12% by value)
- 9% of growth-stage deals (9% by value)

FIG 2.1 NUMBER OF ANNOUNCED EQUITY DEALS INVOLVING BRITISH BUSINESS BANK SUPPORTED FUND MANAGERS

Source: British Business Bank analysis of Beauhurst



## 2.3 BUSINESS STAGE

Figure 2.2 shows the majority (77%) of British Business Bank-supported fund deals between 2011 and 2017 take place at the seed or venture stage, with the Bank's funds having a focus on venture stage deals which form 42% of all the Bank's deals. This is because the British Business Bank is targeted at increasing the supply of equity finance by addressing identified market gaps.

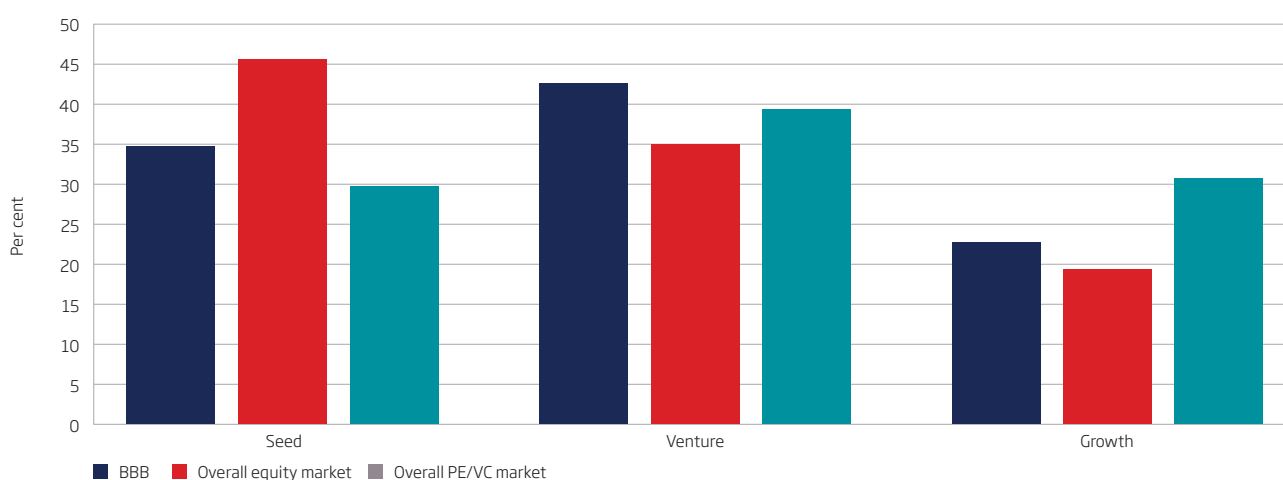
It should be noted that British Business Bank programmes largely operate through VC funds set up as Limited Liability Partnerships. Therefore, the overall market comparison is not necessarily "like with like", as the Beahurst data includes a wider range of investors beyond VC funds – such as private investors, crowdfunding and local/regional government – which may have different investment behaviour. Therefore, comparisons are also made to the PE/VC market.

- In comparison to the overall equity market, British Business Bank supported funds invest in relatively fewer seed stage deals (35% compared to 45%), but a higher proportion in venture stage deals, (42% compared to 35%). The Bank's funds also target a higher share of growth stage deals than the overall equity market (23% compared to 19%). The growth stage covers later stage venture capital companies scaling up, as well as established companies seeking growth capital.
- Overall equity markets are distorted by the inclusion of crowdfunding deals which tend to focus on earlier stage deals. This activity of British Business Bank supported funds is more in line with overall PE/VC market activity as 30% of PE/VC investor deals occur at the seed stage, 39% at the venture stage and 31% at the growth stage. This shows the Bank is more targeted at the earlier funding stages of seed and venture stage compared to PE/VC investors overall, with a lower share of deals at the growth stage.

FIG 2.2

### PROPORTION OF DEALS BY STAGE (2011-2017)

Source: British Business Bank analysis of Beahurst



- Fig 2.3 shows the composition of British Business Bank supported funds deals has changed over time, with a shift from venture to seed stage deals occurring in 2016 and 2017. Seed stage deals as a proportion of all British Business Bank deals declined between 2011 to 2014 from 30% to 17%. From 2016 onwards, the number of seed stage deals undertaken by British Business Bank funds in the Beauhurst database has increased from 16 deals in 2015, to 76 in 2016 and 55 in 2017. As a result of this seed stage deals formed 56% of the deals in 2016 and 45% in 2017. It is important to note that this change is down to one fund only - Entrepreneur First which became an ECF in 2016. Its investment model is to fund a large cohort of early stage businesses, and it plans to invest in over 100 businesses over the life of the fund.<sup>34</sup>
- When looking at investment value, most British Business Bank supported fund investment (54%) is at the growth stage reflecting growth stage deals being substantially larger than seed stage and venture stage deals on average. This is slightly lower than the overall equity market (56%) and lower than PE/VC investors where the growth stage forms 60% of total investment value. British Business Bank has a higher share of venture stage investments (41%) than the

overall equity market (33%) and PE/VC investors (32%), but a lower share of seed stage investments. Seed stage investments formed 6% of British Business Bank fund deals, compared to 11% for the overall equity market and 8% for PE/VC investors.

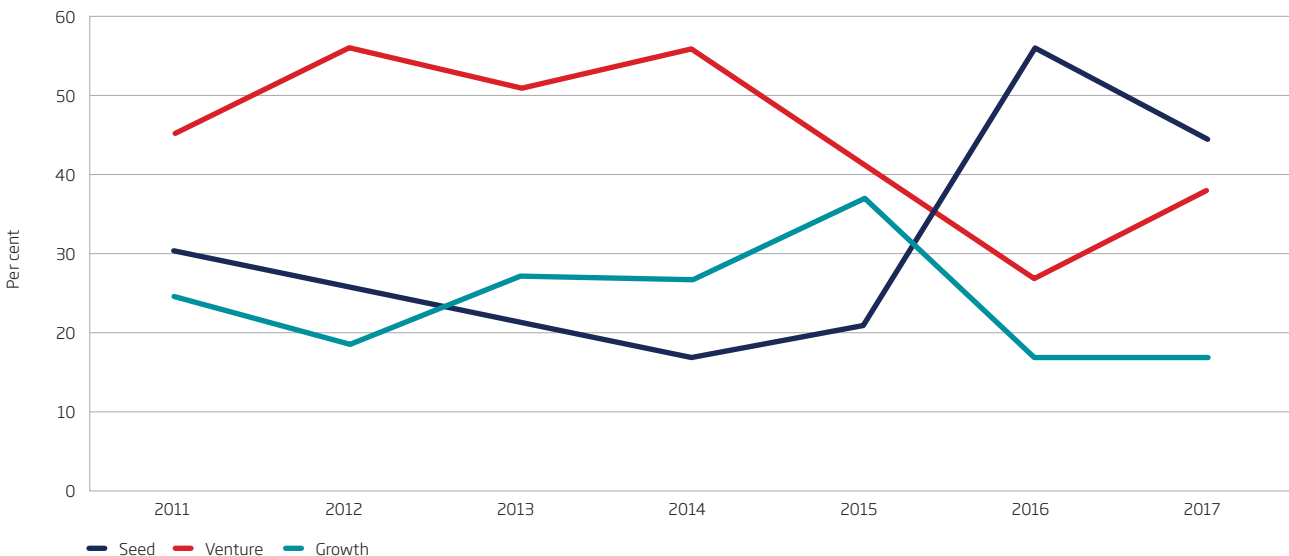
British Business Bank supported funds' seed and venture stage deals are smaller than the overall PE/VC market, showing these funds are targeted at addressing the equity gap where private sector fund managers by themselves are less likely to target. British Business Bank supported funds growth stage deals are also smaller than the overall market and overall PE/VC market (£8.5m compared to £9.6m and £11.4m respectively), again showing the focus on targeting areas of the market that are not working as effective as they could be.

TABLE 9  
AVERAGE DEAL SIZE

Stage	British Business Bank	Overall equity market	Overall PE/VC market
Seed	£760,000	£790,000	£1.9m
Venture	£3.5m	£2.9m	£4.5m
Growth	£8.5m	£9.6m	£11.4m

FIG 2.3  
PROPORTION OF BRITISH BUSINESS BANK FUND DEALS BY STAGE OVER TIME

Source: British Business Bank analysis of Beauhurst



## 2.4 SECTOR

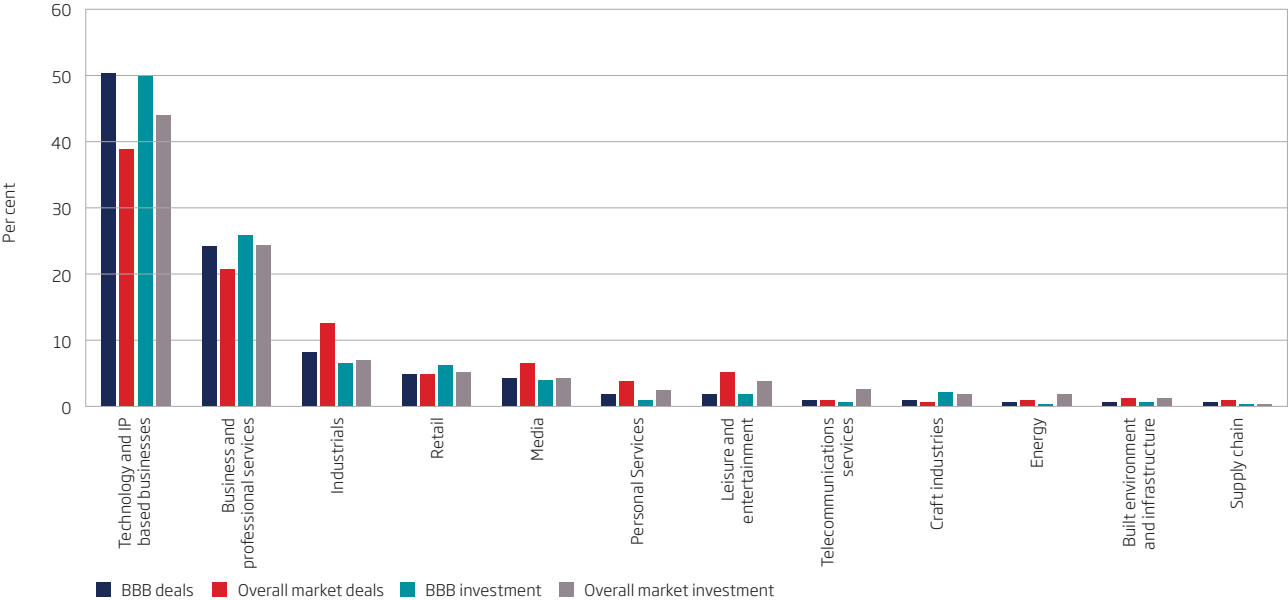
Funds backed by the British Business Bank are more likely to invest in Technology and IP based businesses than the overall equity market. 51% of deals were in this sector compared to 39% in the overall equity market. The next highest sector was business and professional services (forming 24% of all British Business Bank supported fund deals) and industrials (8%), with these sector rankings being similar to the overall equity market. By investment amount, British Business Bank funds invested 50% in technology and IP based businesses, higher than the overall equity market figure of 44%.

The proportion of British Business Bank funding going to the technology and IP based sector is higher than for PE/VC investors where 42% by number of deals and 46% by value went to this sector between 2011 and 2017.

A possible explanation for this finding is due to the British Business Bank having a higher proportion of deals at the venture stage, which is associated with a higher proportion of deals and funding going to the technology and IP based sector.<sup>35</sup>

Of the 292 Technology and IP based businesses deals undertaken by British Business Bank supported funds over 2011 to 2017, 63% are in software and 12% are in life sciences, similar proportions to the overall equity market. On a values basis, software forms a larger proportion of the technology based deals in the British Business Bank portfolio forming 58% of the total value of technology deals (£8.6bn over 2011 to 2017) compared to 43% for the overall equity market.

FIG 2.4 PROPORTION OF TOTAL DEALS AND INVESTMENT VALUE BY SECTOR (2011-2017)  
 Source: British Business Bank analysis of Beauhurst



## 2.5

# ENGLISH REGIONS AND DEVOLVED ADMINISTRATIONS

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Deals involving British Business Bank supported fund are more concentrated in London than the overall equity and PE/VC market with 61% of all deals (62% by value) located in the capital. In comparison, London's share by number and value of deals is 45% and 53% respectively over 2011 to 2017. Whilst this is distorted to some extent by the inclusion of Government backed funds, removing these gives London a 53% share of deals. Nevertheless, even if Government backed funds are removed, the British Business Bank funds still have a higher share of deals in London than the overall equity market.

This may be due to 32% of British Business Bank funds' deals being in the software sector, which is higher than the overall market figure of 23%. As highlighted in the 2017 Equity Tracker report, software deals are more likely to be in London. The majority of British Business Bank programmes included in this analysis do not have

geographic restrictions on their deals, and are instead designed to work with the market by focusing on specific market failures. For instance, ECFs are targeted at the equity gap affecting smaller deal sizes.

NPIF deals are currently included in the British Business Bank deal numbers for 2017, but as the programme makes further investments, and the inclusion of MEIF and Cornwall Isles of Scilly (Clos) Investment Fund deals are likely to provide a more geographically balanced picture for British Business Bank deal activity in the future. Figure 2.6 shows this is already starting to occur with the Bank's share of deals in London declining from 71% in 2016 to 59% in 2017. This is expected to continue in the future as NPIF continues to make investments and MEIF equity fund managers make equity investments in 2018. The new Regional Angel programme will also increase the geographic spread of British Business Bank deals further.

FIG 2.5  
**PROPORTION OF TOTAL DEALS AND INVESTMENT BY REGION (2011-2017)**

Source: British Business Bank analysis of Beauhurst

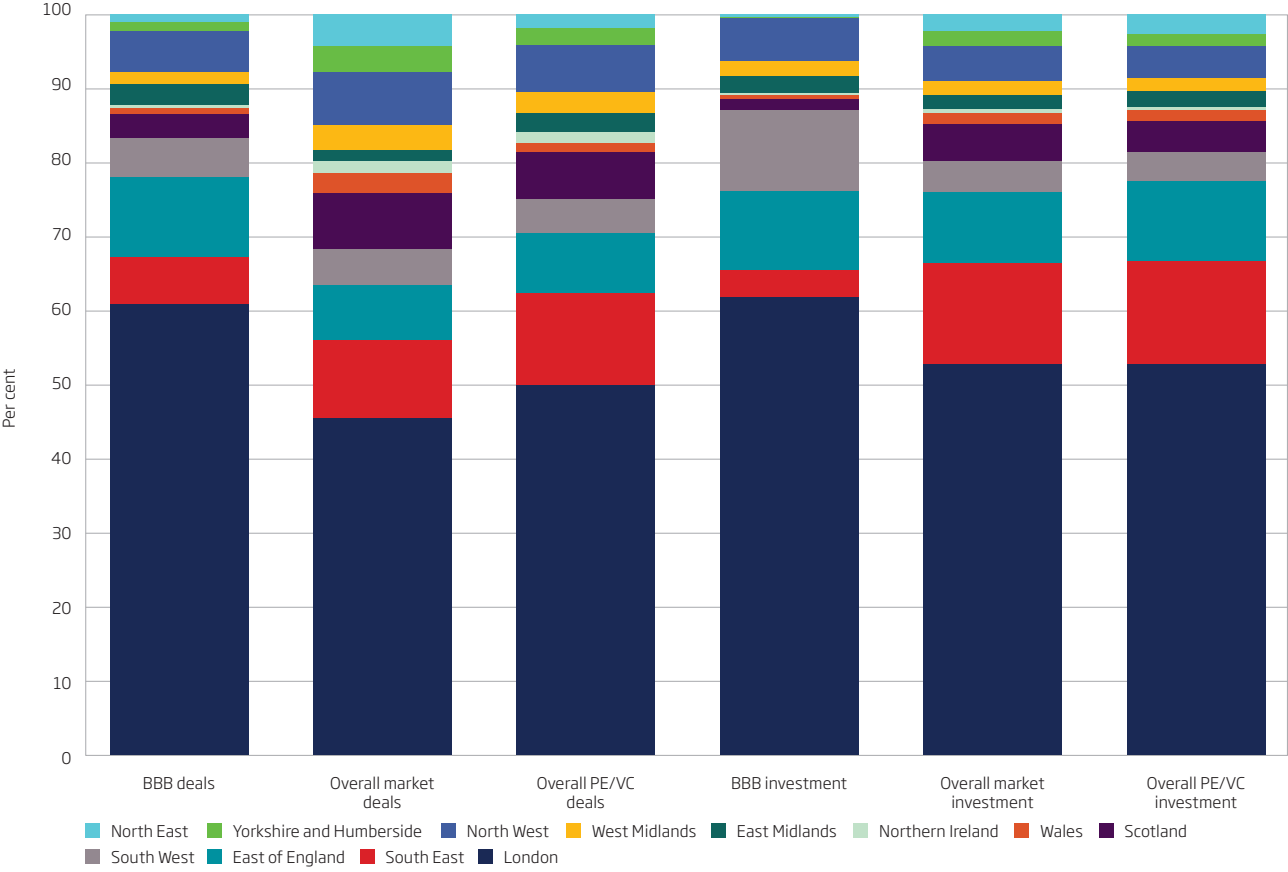
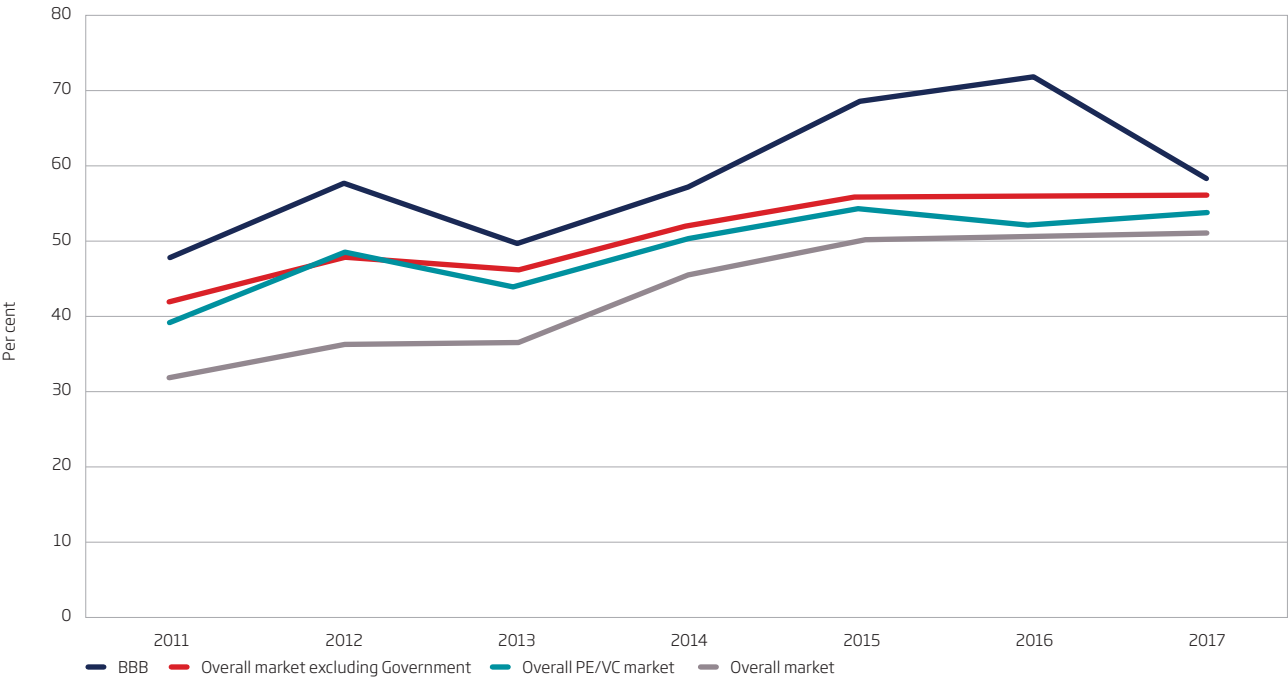


FIG 2.6  
**PROPORTION OF DEALS IN LONDON OVER TIME**

Source: British Business Bank analysis of Beauhurst



# APPENDIX

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## BEAUHURST

Beahurst was founded in 2010 and provides in-depth data on the UK's fastest growing companies. The Beahurst research team identifies a range of company events that indicate high growth. When a company meets one of these triggers it is tracked, and a broad range of data about it and its transactions is collected. The triggers are as follows; receipt of equity investment, securing venture debt, undergoing an MBO/MBI, attending a recognised accelerator programme, or scaling up according to the OECD's definition of high growth. Beahurst data on these events is comprehensive from the start of 2011, with the exception of unannounced equity deals, for which Beahurst have comprehensive coverage from 2015.

This report focuses solely on announced equity deals for UK companies. However, Beahurst also picks up on unannounced deals by monitoring Companies House filings. These deals make up over half of all UK equity investments, although less information is available on these deals. In cases where a deal is announced but the value is undisclosed, the value of the investment can sometimes be worked out using the Companies House filing that corresponds to the deal.

The announced equity deals included in this report 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 investment is visible, meaning that it has been publicly announced via press release or some other media; (4) The recipient of investment is a small or medium-sized business as defined by the European Commission.<sup>36</sup>

When analysing cross-sector data, for example deals across all seed-stage companies, Beahurst weights deal numbers and investment amounts across all the sectors the investee is in. For example, a seed-stage company in the internet platform and theatre sectors will be counted as half a deal in each of these two sectors. Unless otherwise stated, this report omits single sector analysis to avoid double counted figures.

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

The relatively simple breakdown by stage used by Beahurst differs from organisations such as Invest Europe 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 Beahurst taxonomy and the more detailed classifications of investment stage used by Invest Europe and BVCA, and offers some broad descriptors of the types of activity and company supported in each case.

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

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

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



## BUSINESS STAGE CLASSIFICATION

<b>Beahurst Classification</b>	<b>Invest Europe Classification</b>	<b>BVCA Classification</b>	<b>Broad Description</b>
Seed	Seed	Seed	Young companies in the process of being setup or been in business for a short time, but have not yet made any commercial sales. Likely to have uncertain product-market fit or just started with regulatory approval process.
		Start-up	Company likely to be seeking finance to establish itself/ develop product/ service further.
Venture	Start-up	Other Early stage	Company that has been around for a few years and is in the process of gaining significant market traction or progressing with regulatory approval. Sales are growing rapidly but unlikely to be profitable.  Company has high cash burn rate and is seeking finance to scale-up rapidly.
	Later stage venture	Later stage venture	
Growth	Growth		More established company that has been around for at least 5 years. Likely to have multiple offices or branches with substantial revenue streams (some of them may be profitable).
		Expansion or 'Growth Capital'	Company likely to be seeking finance to grow core market further or expanding into new markets or products/services.  Company may be getting ready to exit shortly (e.g. Pre-IPO).

## INVESTOR CLASSIFICATION

<b>Investor classification</b>	<b>Description of investor type</b>
<b>Family Office</b>	Wealth management firms that manage the investments of wealthy individuals, families, or multiple families.
<b>Government</b>	Equity programmes managed by central, devolved, regional or local governments. British Business Bank programmes delivered by private sector fund managers are not included in this classification.
<b>Bank</b>	Institutions that also provide commercial loans to businesses alongside equity investors.
<b>Corporate</b>	Companies making equity investments into smaller companies directly or through a separate fund, often with a strategic purpose.
<b>Incubator</b>	Provide a variety of benefits to early stage businesses including mentorship, office space, and funding, often in exchange for an equity stake.
<b>Angel</b>	Individuals that invest their own wealth into growing companies. Angels may invest as an individual or as part of a syndicate involving other angels.
<b>Private Investment Vehicle</b>	Individuals or a small group of individuals that invest in growing companies. PIVs are similar to angel investors but the equity shares are held by a fund or other structure rather than directly held by the individual(s).
<b>Crowdfunding</b>	Online platforms enabling retail investors to invest into private companies.
<b>Private Equity/ Venture Capital</b>	Fund structures that invest institutional funding into private companies. Venture Capital funds typically invest in early stage, high growth businesses; whilst Private Equity funds invest in later stage established businesses.

## BEAUHURST METHODOLOGY

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**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 the data.

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

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

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

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

**Investment only into private companies:** Publicly-listed companies on any exchange are excluded from the 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:** The 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, the data only reflect the headquarters.

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

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

# ACKNOWLEDGEMENTS

This report was written by Dan van der Schans in the British Business Bank's Economics Team, with guidance from Matt Adey and Alice Hu Wagner.

We are grateful to the team at Beauhurst for all their support and guidance including Henry Whorwood and Jake Ford.

## ENDNOTES

- For further information on the individual stages, please see the appendix.
- The Beauhurst data for the Equity Tracker report has an SME filter applied to it, which removes large companies. These numbers will therefore be smaller than the numbers Beauhurst publishes through The Deal publication.
- <https://www.globalinnovationindex.org/gii-2017-report>
- Throughout this report, deal number and investment value calculated across industry sectors is based on weighted counts. This reflects the weighting Beauhurst attaches to the sectors an investee company covers. For example, a company in the internet platform and theatre sectors will be counted as half a deal in each of these two sectors, rather than being counted twice under each sector.
- Based on the number of visible equity deals.
- <https://www.british-business-bank.co.uk/2-5bn-british-patient-capital-programme-launched-enable-long-term-investment-innovative-companies-across-uk/>
- I.e. equity investments into unlisted companies
- SH01s filed at Companies House
- The EC defines an SME as a business with less than 250 employees and either a turnover of less than €50m or balance sheet total of less than €43m. <https://ec.europa.eu/docsroom/documents/15582/attachments/1/translations/en/renditions/pdf>
- <https://www.beauhurst.com/analysis/publication/>
- The SME filter can also affect reported investment values over time, as it is based on the company accounts files at the closest date to when the deal was undertaken. The nearest company accounts may be filed after the equity deal has been reported. The current 2016 equity investment value reported in this report (£3.1bn) differs from the figures reported in the previous published 2017 Equity Tracker report (£3.6bn) for 2016 due to a few very large equity deals dropping out of the database. Under the latest accounts filed at Companies House, which are the closest accounts to the deal date, the underlying companies are no longer classified as an SME.
- <http://british-business-bank.co.uk/wp-content/uploads/2017/02/BBB-SBFM-REPORT-2016-17-web.pdf>
- <https://www.british-business-bank.co.uk/wp-content/uploads/2017/12/Business-Angels-2017-Research-Findings-compressed-FINAL.pdf>
- <https://www.british-business-bank.co.uk/wp-content/uploads/2018/06/Business-Angel-Reportweb.pdf>
- <https://www.british-business-bank.co.uk/markets-update-march-2018/>
- Differences are also likely to exist across sectors, with some sectors requiring larger deal sizes due to being more capital intensive.
- The Beauhurst data for the Equity Tracker report has an SME filter applied to it, which removes large companies. These numbers will therefore be smaller than the numbers Beauhurst publishes themselves through The Deal publication.
- "The Deal: Equity Investment in the UK-2017"
- <https://www.cbinsights.com/research-unicorn-companies> (Accessed 21 June 2018)
- <https://www.cbinsights.com/research-unicorn-companies> (Accessed 21 June 2018)
- There are numerous ways to measure high growth. The definition of high growth businesses used in this instance is based on the employment approach for measuring high growth, and includes "All enterprises with average annualised growth greater than 20% per annum over a three year period". Only enterprises with 10 or more employees at the start if the period are included. "High growth enterprises 2013 to 2016" ONS user requested data 20th December 2017 Source data: <https://www.ons.gov.uk/businessindustryandtrade/changetobusiness/businessbirthsdeathsandsurvivalrates/adhocs/007887highgrowtherprises2013to2016>
- Government funds include ERDF backed JEREMIE funds, as well as funds delivered by the devolved administrations (Finance Wales and Scottish Investment Bank) and local Governments (for instance, London Co-investment Fund). British Business Bank funds delivered by private sector fund managers involving private sector capital are not included in the definition of Government funds.
- Comparisons to 2016 deal figures are used using the latest dataset. It is not recommended to compare back to the previous published 2017 Equity Tracker report due to Beauhurst continuing to identify additional equity deals. The number of equity deals undertaken and reported fluctuates each year, especially when looking at small geographic areas. Movement from one year to another should not be interpreted as a long-term trend.
- Equity deals can involve multiple investor types (for instance, a business angel and a PE/VC fund), and so it is not recommended to aggregate investor types together.
- Intellectual Property
- Throughout this report, deal number and investment amounts are calculated across industry sector based on weighted sectors. This reflects the weighting Beauhurst attaches to the sectors the company covers. For example, a company in the internet platform and theatre sectors will be counted as half a deal, rather than being counted twice under each sector.
- Based on unweighted count
- This trend contrasts with the decline seen in VC investment values for the bio-tech sector as reported in the BIA report. However, it is worth noting the BIA 2017 report data only goes up to November of that year, and so the observed decline may be partly a result of 1 month's missing data: <https://www.bioindustry.org/uploads/assets/uploaded/72cf4dd2-4b0e-4f5a-a9ac4712a652b60e.pdf> December 2017 to February 2018 figures are strong suggesting an increase in the latest quarter. <https://www.bioindustry.org/uploads/assets/uploaded/d9509b5d-8c95-4308-8cb44e45ccea301d.pdf>
- <http://british-business-bank.co.uk/>
- This does not specifically relate to the amount contributed by the British Business Bank fund.
- Equity deals involving the MEIF programme were not included as the programme had not made any equity deals by the end of 2017.
- For announced equity deals, where the specific British Business Bank supported fund is named in the investor category.
- This cannot be interpreted as total value of British Business Bank funding, as the figure includes funding amounts from other investors in deals involving multiple investors.
- <https://www.british-business-bank.co.uk/7295-2/>
- For the overall equity market between 2011 and 2017, 43% of venture stage deals were in the technology and IP based business sector compared to 40% for seed stages deals and 30% for growth stage deals. By investment amount, 57% of venture stage investment went to the technology sector compared to 51% at the seed stage and 35% at the growth stage.
- The EC defines an SME as a business with less than 250 employees and either a turnover of less than €50m or balance sheet total of less than €43m. <https://ec.europa.eu/docsroom/documents/15582/attachments/1/translations/en/renditions/pdf>

## Legal Notices

British Business Bank plc is 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). The British Business Bank operates under its own trading name through a number of subsidiaries, one of which is authorised and regulated by the FCA. British Business Bank plc and its subsidiary entities are not banking institutions and do not operate as such. Accordingly, none of the British Business Bank group of companies takes deposits or offers banking services.

A complete legal structure chart for British Business Bank plc can be found at [www.british-business-bank.co.uk](http://www.british-business-bank.co.uk)



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