British Business Bank

Beauhurst

Small Business Equity Tracker 2024

10 years of impact

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Contents

Foreword

This is the Bank's tenth annual Small Business Equity Tracker report, exploring recent trends in equity finance for smaller businesses in the UK.

Our tenth Small Business Equity Tracker provides a comprehensive assessment of the equity finance market for UK smaller businesses, monitoring the latest trends in investment and the activity of the Bank's equity programmes. In support of one of our strategic objectives, Backing Innovation, this year's report also provides an analysis of the international competitiveness of the UK Venture Capital (VC) market, and where finance gaps remain for innovative UK companies seeking to start and scale.

Building upon its strength in R&D, over the past decade the UK has made significant progress in establishing itself as a world leader in financing innovative businesses. The UK is now the third largest VC market in the world, and its share of global investment has risen from 3.4% in 2014-2016 to 5.8% in 2021-2023 – the largest percentage point increase of any of the top 12 global markets. The size and trajectory of the UK market therefore presents a substantial opportunity for both domestic and international investors.

However, as has been the case globally, 2023 was a challenging year for the UK equity finance market, with investment in smaller businesses declining by 48% to £8.8bn. Higher interest rates and more difficult economic conditions continue to be headwinds for the market, affecting the allocation of capital to the VC asset class and the availability of exit opportunities for UK companies. The Bank's role in supporting smaller businesses is of particular importance during these periods of the economic cycle, and we will continue to invest, while not compromising our underwriting standards.

Despite these ongoing challenges, it is encouraging to see some indications that the equity market for smaller businesses is stabilising. After the significant contraction in activity in the middle of 2022, UK quarterly investment has remained just over £2bn for the past five consecutive quarters. Investment and valuations at the growth stage also showed some signs of recovery during the second half of the year. Overall, the market has returned to more sustainable levels previously seen before the record highs of 2021 and 2022.

The Bank's equity programmes are also fuelling the growth of innovative companies across the UK. For example, between 2021 and 2023, 48% of Bank-supported deals were in the technology/IP-based sector, compared to 42% of deals across the overall equity market. The Bank is also helping university spinouts access the funding they need to develop the breakthrough technologies of tomorrow. These companies account for 13% of Bank-supported deals, compared to 9% of deals across the wider market, and are typically receiving British Business Bank finance in the important early stages of their development.

However, this year's report highlights that the UK market still requires more late stage and specialist investment to close the gap with the US market, particularly in R&D intensive sectors like deeptech and life sciences, where companies face high capital requirements. As the most active late-stage investor in UK life sciences and deeptech, the Bank and its commercial subsidiary, British Patient Capital, will continue to support these kinds of innovative businesses as they navigate their funding journeys – in particular, through the Life Sciences Investment Programme and Future Fund: Breakthrough.

Future Fund: Breakthrough is a £425m programme which co-invests with private sector investors in innovative, R&D intensive UK companies. Some of its latest deals include a follow-on investment into Grey Wolf Therapeutics, a clinical biotech company, as part of its $50m Series B financing expansion. The programme has also recently invested in Manchester-based medical device company Phagenesis and in Pragmatic Semiconductor, a manufacturer of semiconductors based in Cambridge. Last year British Patient Capital also invested in the Series E funding round of Quantexa, an analytics software company, which is now the second unicorn in its direct investment portfolio.

Looking ahead, there are still untapped opportunities for institutional investors in UK unlisted high potential companies. The UK provides fertile ground for innovation to thrive, but a lack of access to patient capital continues to hold back some UK companies from scaling up and fulfilling their commercial potential here in the UK. By unlocking billions of pounds of domestic investment for the UK's high growth businesses, the UK can capture the full commercial potential of its world class breakthrough technology companies. We are seeking to catalyse external institutional capital, including pension fund investment, into UK high potential companies, by leveraging the Bank's scale, networks, and track record.

I hope you find this year's Small Business Equity Tracker informative. As the government's centre of expertise on smaller business finance and the largest domestic investor in UK venture and venture growth capital, this research helps us to provide policy makers, the venture industry and smaller businesses with a trusted source of information on how the market is performing.

Louis Taylor
CEO, British Business Bank

Executive Summary

Equity finance for UK smaller businesses declined in 2023 to levels previously seen in 2019, though there are recent signs that the market is beginning to stabilise. Over the past decade the UK has increased its share of global VC investment and it is now the third largest market in the world.

Key Findings

1. Following the market downturn in the middle of 2022, equity investment for smaller businesses has fallen to levels previously seen in 2019

Full year data shows that equity investment in UK smaller businesses declined by 48% to £8.8bn in 2023, while the number of announced deals fell by 25% to 2,152. Following the particularly strong outlier years of 2021 and 2022, the market has reverted to more sustainable levels of activity previously seen in 2019. As has been the case in other markets, a tighter macroeconomic environment and heightened interest rates continues to affect both the relative attractiveness of the asset class and hamper exit opportunities for UK companies.

Equity investment has remained just over £2bn for the past five consecutive quarters, demonstrating some stability in the market after the sharp contraction in the middle of 2022.

In 2024Q1 smaller businesses raised £2.3bn in equity funding, an increase of 7% compared with 2023Q1 and in line with the 2018-2020 quarterly average. While the number of deals fell by 16% on an annual basis in 2024Q1, they increased by 14% compared with the previous quarter – indicating some initial signs of recovery.

Taking a historical perspective, while the equity market has now seen two consecutive years of contraction, compared to 10 years ago investment values have increased by 182%, with deal numbers 42% higher. Looking cumulatively over the past 10 years a total of 21,631 equity deals have been completed in the UK, collectively providing over £90bn of equity finance to support the growth of innovative smaller businesses.

2. The Bank has supported 15% of UK smaller business equity deals between 2021-2023, with a high proportion in tech companies and university spinouts

Between 2021 and 2023 the Bank supported 15% of equity deals and 18% of total investment through its equity programmes. This represented a slight increase from the 2020-2022 period, when 13% of deals and 15% of investment was backed by the Bank. Over the longer term since 2016-2018 the Bank's market share has grown from 9% of deals and 13% of investment, respectively.

The Bank's programmes have focused on financing innovative high-growth companies. During 2021-2023, 48% of Bank-supported deals were in the technology/IP-based sector, compared to 42% of deals across the overall equity market. The Bank is also more likely to fund academic spinouts. These companies accounted for 13% of Bank-supported deals (compared to 9% across the wider market).

From a geographic perspective, the Bank has a higher proportion of its deals in London (52%) than the wider equity market (49%), largely driven by its focus on technology and innovation. However, compared to the wider market, the Bank allocates a greater share of its deals (i.e. is 'overweight') in eight of the 12 UK nations and regions – demonstrating the impact of regional programmes such as the Northern Powerhouse Investment Fund, the Midlands Engine Investment Fund and the Cornwall and Isles of Scilly Investment Fund.

3. Over the past decade the UK has overtaken India as the third largest VC market in the world, now accounting for 5.8% of global investment

Over the past ten years the UK has established itself as the third largest VC market in the world. Between 2021-2023 UK companies raised £72bn in VC investment, behind only the US and China. The UK is also by far the largest market in Europe, accounting for over a third of investment across the continent and more than France, Germany and Sweden combined.

The UK has also strengthened its international position over the past decade. Its share of global VC investment has risen from 3.4% in 2014-2016 to 5.8% in 2021-2023 – the largest percentage point increase of any of the top 12 global markets. While the UK's standing has improved significantly in investment value terms, its share of global deal numbers has also increased, reaching 7.0% in 2021-2023.

The market share of the US and China has declined over the past decade, demonstrating that the global VC market is becoming more competitive. These two leading markets now account for half of global deals, when ten years ago their share was just under 60%. Emerging markets such as South Korea, Singapore and Sweden have all grown rapidly in recent years and as a result are now beginning to challenge the more established global players.

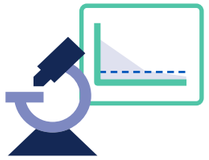
Looking ahead, encouragingly the UK has a large – and growing – pipeline of early stage innovative companies raising finance. During 2021-2023 a total of 4,100 first time VC deals were recorded in the UK, placing it third in the world behind the US (20,200) and China (8,500). The UK's growth in first time deals of 64% over the past decade has also exceeded the global average of 56% – a positive signal for the future trajectory of the UK market.

4. The UK now attracts over 11% of global fintech investment, and has also increased its market share in software, green tech and deeptech sectors

The fintech sector has been a key driver of recent improvements in the UK's international performance. The UK now accounts for 11.3% of global VC investment in this industry (behind only the US) and 48.3% of investment across Europe. Factors driving the UK's specialisation include an innovation-enabling regulatory environment, as well as a strong financial services industry providing talent, networks and a large domestic market for fintech startups.

The UK has also made significant progress in the software sector with its global market share increasing from 2.7% to 6.2% over the past decade. While more modest, the UK's green tech and deeptech sectors have also seen increases in global market share, now accounting for 4.5% and 3.8% of global investment, respectively. Life sciences continues to be a strength of the UK, though its market share of 4.8% has remained static over the last ten years.

Several cities in the UK have developed into important clusters of activity. London is a leading VC hub and has developed a strong fintech cluster, attracting 42.6% of European fintech investment over the past decade. Cambridge and Oxford are also particularly competitive in life sciences, where they raised 7.0% and 5.0% of European investment respectively during 2014-2023. Other UK cities have also developed relative specialisms over this period. Examples include Bristol in R&D intensive sectors (with 1.2% of European investment) and Cardiff in fintech (0.8%).



5. The UK has narrowed its overall market gap with the US, but sectoral gaps remain in life sciences and deeptech industries

Comparing the UK to the US provides a useful benchmark in assessing whether the market is functioning effectively. In absolute terms the US raised eight times more investment than the UK in 2021-2023 – a significant reduction from 14 times more investment in 2014-2016. When adjusting for the size of the economy, however, the UK now raises the same amount of investment as the US (at 0.97% of GDP). Though encouraging the analysis suggests this has largely resulted from cyclical fluctuations since the pandemic, and not necessarily because the UK has closed the gap with the US on a structural basis.

Looking at UK market gaps on a sectoral basis, the UK performs most strongly in fintech where it deploys twice as much as the US in GDP-adjusted terms. The sectors in which the UK has the largest gap with the US include life sciences, where the US raises 59% more investment, R&D intensive sectors (41%) and deeptech (27%). In these sectors VC investment requires specialist technical and scientific knowledge as well as large pools of patient capital, areas which remain challenges for UK companies seeking to scale.

Differences in funding with the US also persist. While UK companies have been as successful in progressing to later funding rounds than their US counterparts, they raise less on average at each round. This gap is most acute for later stage funding, with US companies receiving 2.6 times and 2.3 times more at the fifth and sixth rounds respectively. In total, from a cohort of companies raising their first round in 2015-2016, the average US company received a total of £120m in VC funding by its sixth round, compared to £55m for the equivalent UK company.

Introduction

This year's report provides an assessment of recent trends in UK SME equity finance and British Business Bank activity using Beauhurst data. It also examines the international competitiveness of the UK venture capital market using PitchBook data.

This report provides an in-depth assessment of trends in UK equity finance activity in 2023. It builds on the previous analysis contained in the recently published Small Business Finance Markets 2024 Report that covered equity finance trends up to 2023Q3. Our upcoming Nations and Regions Tracker report will provide more detailed analysis of the geographical distribution of equity deals.

The data source used for this analysis is Beauhurst, with a specific focus on announced equity deals completed by UK-based SMEs. Beauhurst identifies and records equity deals made by the full range of equity investors, from large growth deals in established businesses by VC funds, to smaller deals in early-stage companies by angel investors and equity crowdfunding platforms. Additional information on Beauhurst's methodology and terminology can be found in the report appendix.

This year's report is structured as follows:

- Chapter one provides an overview of equity market activity in 2023, as well as a headline summary of deals and investment in 2024Q1
- Chapter two provides an overview of equity deals made by British Business Bank supported equity funds between 2021 to 2023, making comparisons to the overall equity market by stage, sector, region and gender of founder teams.
- Chapter three provides an analysis of the international competitiveness of the UK venture capital (VC) market, comparing its size, growth and specialisation to other leading countries.
- Chapter four provides a current assessment of the UK's investment gap with the US, comparing VC investment trends while adjusting for the relative size of both economies.

For the third and fourth chapters, data from PitchBook is used to enable international comparisons between the UK and other leading VC markets. PitchBook's industry verticals also allow for analysis of international VC investment across a wide range of technology sectors.

1

Recent trends in UK SME equity finance

- After a strong year in 2022, equity investment in UK smaller businesses declined by 48% to £8.8bn in 2023
- Quarterly investment has now stabilised at just over £2bn per quarter, in line with levels seen before the pandemic
- The number of deals declined across all regions and devolved nations in 2023, though activity in the East Midlands and Wales was the most resilient
- University spinouts raised £1.3bn in 2023, the third highest year on record and equivalent to 15% of total investment across the market
- Companies with at least one female founder accounted for 28% of equity deals in 2023, but continue to receive a smaller share of investment

After a strong year in 2022, equity investment in UK smaller businesses declined by 48% to £8.8bn in 2023

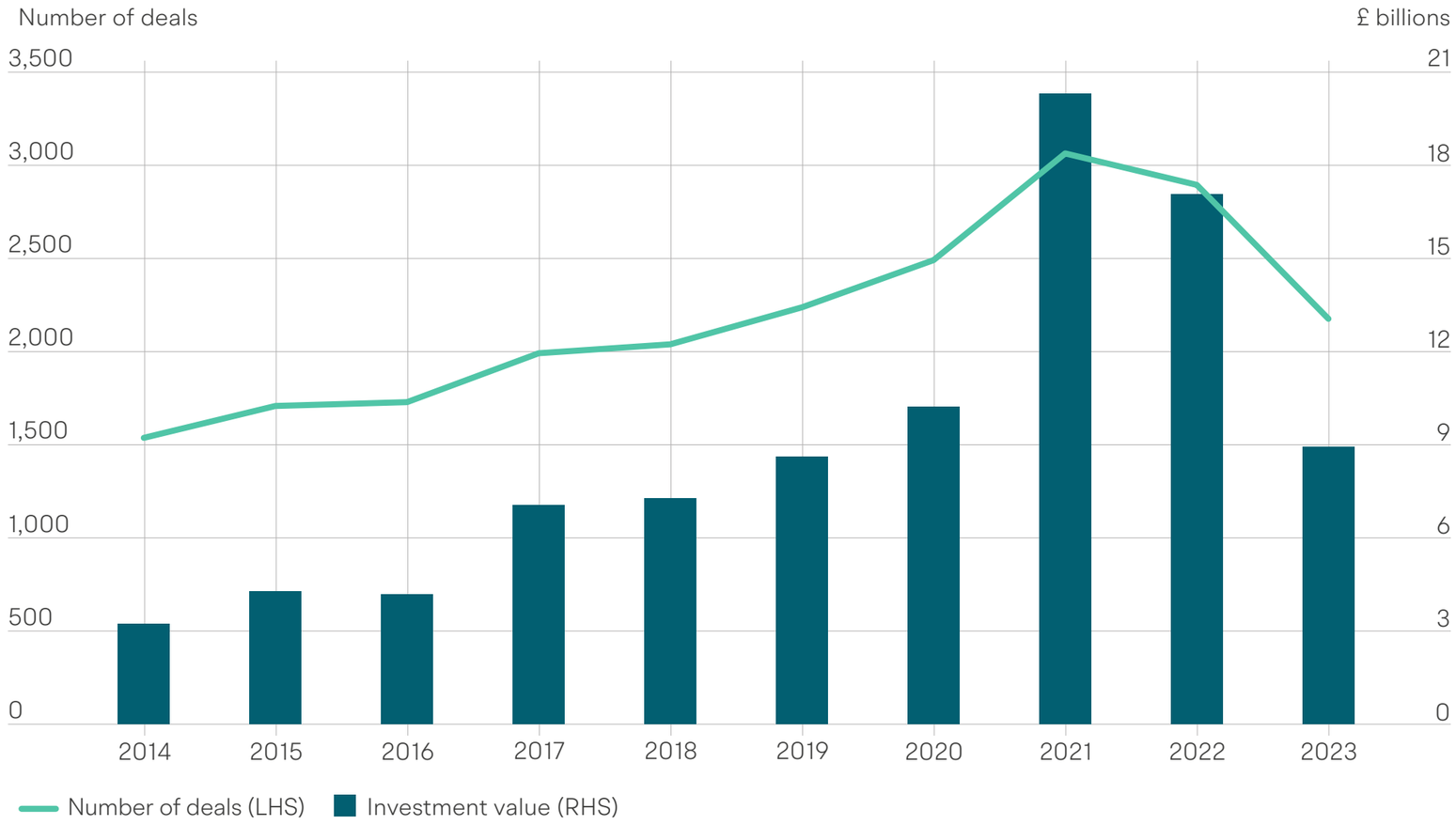
The Bank's recently published Small Business Finance Markets 2024 report indicated that, based on investment trends during the first three quarters of the year, UK equity finance in 2023 was on track to reach levels previously seen prior to the pandemic. The full year data presented in this report confirms that the number of deals and the value of equity finance both declined during the year, reverting to more sustainable levels of activity after the outlier years of 2021 and 2022.

Looking at the full year headline figures, as shown in Figure 1.1, total investment value declined by 48% to £8.8bn in 2023, after a strong 2022 in which £17bn was deployed. The first half of 2022 was characterised by some of the strongest activity on record, with an expansion in capital and types of investors entering the market – particularly at the later stages. However, as has been the trend globally, this activity could not be sustained once economic conditions worsened and higher interest rates reduced the relative attractiveness of the asset class.

Figure 1.1

Number and value of equity deals over time

Source: British Business Bank analysis of Beauhurst data



On a deal numbers basis, there were 2,152 announced equity deals recorded during 2023, a 25% decrease from the 2,868 deals completed in 2022. As with investment values, this is a very similar level of activity to that which took place in 2019 – before the significant market growth which occurred during the pandemic years.

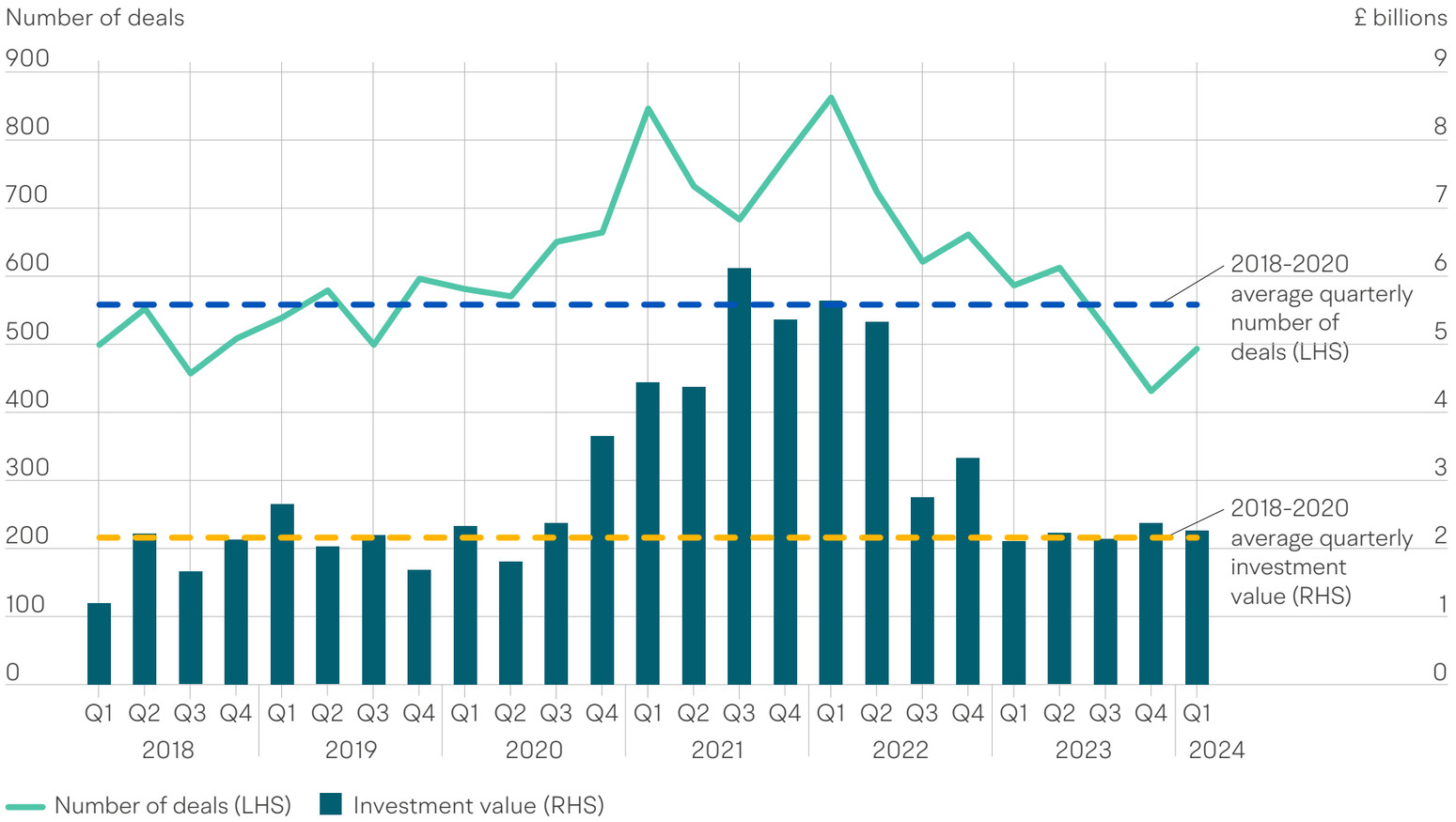
Taking a historical perspective, while the UK equity market has seen two consecutive years of contraction, compared to ten years ago investment values are still up by 182% (in nominal terms)[1] with deal numbers also 42% higher. Since 2014 a total of 21,631 equity deals have been completed in the UK, collectively providing over £90bn of equity finance to support the growth of innovative smaller businesses. A detailed assessment of how the UK market has progressed over the past decade in comparison to other key competitor economies can be found in chapter three.

In its 2023 Report on Investment Activity[2], the BVCA found that venture capital funding decreased by 34% year-on-year for UK-led investments to £3.5bn. Across the wider private equity asset class there was also a 38% annual decline in UK-led investment, indicating that significant falls in investment were a pervasive

Figure 1.2

Number and value of equity deals by quarter

Source: British Business Bank analysis of Beauhurst data



trend in 2023. It should be noted that the BVCA data is based on deals involving UK-based fund managers, or where a UK office was the lead adviser.

The market downturn since 2022 has been mirrored in other leading global markets. In its annual European Venture Report[3], PitchBook reported that overall European VC deal values were down by 45.6% in 2023 – in line with the annual decline seen in the UK. They note that "excluding the prior two years... deal value in 2023 still remains higher than in previous years and the 10-year average. Venture capital activity in Europe therefore still shows structural growth in the long term".[4]

The US market also experienced a significant fall in activity during 2023. PitchBook's US Venture Monitor 2023 report[5] found that the number of US VC deals was down by 23% compared with 2022, with high interest rates, political risk and vulnerable supply chains all cited as factors behind the market uncertainty. Total investment declined by 30% in 2023, which was less severe than in the UK. However, the US market fell further in 2022 (indicating that the two countries are at slightly different points in their market cycles).

Quarterly investment has now stabilised at just over £2bn per quarter, in line with levels seen before the pandemic

Focusing on the underlying quarterly trends, the data in Figure 1.2 shows that the recent market contraction specifically began in the second half of 2022. This was largely due to concerns about potential over-valuations, particularly in the tech sector, brought about by increases in interest rates. Companies that had previously been relying on cheap capital to finance their growth were now being valued at a discount by potential buyers.[6]

As higher interest rates have resulted in fewer initial public offerings (IPOs) and trade sales, this has prevented VC fund managers from realising investments that can then be recycled into new deals. Furthermore, the risk-adjusted return for the VC asset class has also been affected by higher interest rates, pushing capital allocation towards less risky asset classes.

As explored in our Small Business Finance Markets 2024 report, the number of UK VC-backed exits decreased by 29% to 188 in 2023, with the total exit value decreasing by 67% to £2.3bn. Within this, the number of IPOs declined from 31 in 2021 to only three in 2023. While macroeconomic conditions have been the main factor affecting IPOs, the expansion in private equity markets in recent years has also allowed companies to stay private for longer while still meeting their capital requirements.

Since this market downturn in 2022, quarterly equity investment values are now appearing to stabilise and, between 2023Q1 and 2023Q4, investment has remained in a range between £2.1bn and £2.4bn. As shown by the yellow dashed line in Figure 1.2, these recent quarterly investment figures are in line with the 2018-2020 average.

While the number of deals had remained relatively steady at around 600 per quarter up to 2023Q2, during the second half of the year this measure has seen a notable decline to 431 deals in 2023Q4. Unlike with deal values, this is below the 2018-2020 pre-pandemic average of 558 deals per quarter. As explored later in this chapter, these trends show that investors more recently are participating in fewer, larger deals than in the first half of 2023.

Looking at the most recent data, in 2024Q1 smaller businesses raised £2.3bn in equity funding across 493 announced deals. This represented an increase of 7% when compared with 2023Q1, and is in line with average quarterly investment levels throughout 2023. While the number of deals in 2024Q1 fell by 16% on an annual basis, they are up by 14% compared to 2023Q4. This indicates that deal numbers, which have until now been on an overall downward trend since the middle of 2022, could be showing initial signs of recovery.

There was an increase in funding for growth stage companies in the second half of 2023, with investment 25% higher than in 2023H1

This section explores how recent trends in equity finance have varied for companies at different stages of their growth journey. Beauhurst have historically classified UK equity deals into three stages: seed, venture and growth. These are determined by the characteristics of a company's evolution such as product development, commercialisation, sales and profitability.

In 2019 they introduced a new stage called "established", a subset of the original growth stage designed for more mature, commercially secure companies that have existed for longer timespans. To maintain consistency with past Equity Tracker reports and for simplicity, we combine growth and established companies within one single "growth" stage in our current analysis. As a result, our analysis may differ from Beauhurst's own reporting.

A full list of definitions for each growth stage is provided in the appendix of this report. In summary, the seed stage typically refers to early-stage companies that are either in the process of being set up or have been in operation for a short period of time but have not yet generated any commercial sales. The venture stage covers companies that have existed for a few years and are working towards gaining market traction with rapidly growing sales.

Growth stage businesses are likely to have multiple offices or branches and significant revenue streams, some of which may be profitable. This includes later stage VC-backed companies that are seeking to expand their core market, enter new markets, or develop new products/services.

Figure 1.3 breaks down the number and value of deals at each stage by half year periods. In 2023 seed stage companies received £1.5bn in investment through 881 announced deals, which was the first year this stage of the market declined on both measures (by 30% and 29%, respectively). As highlighted in our Bank's Small Business Finance Markets report, evidence from the Bank's intermediaries found that it had remained challenging to raise early-stage equity finance in 2023.

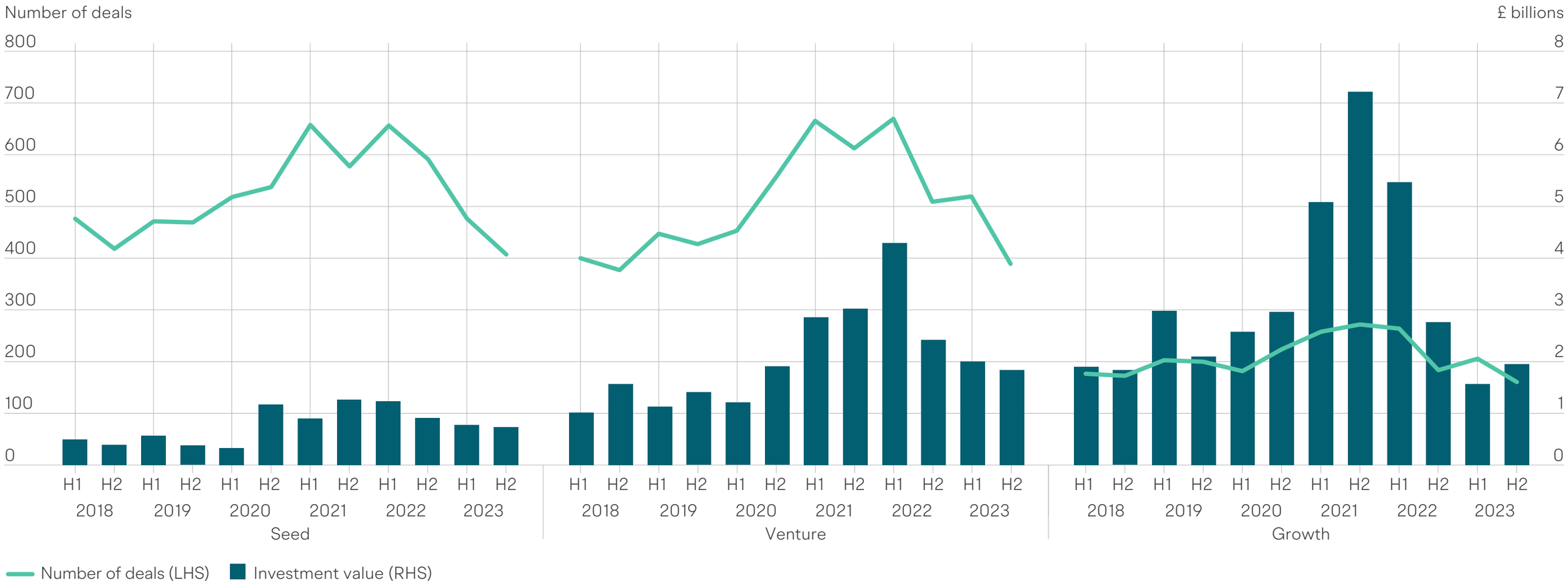
Looking at the underlying half year data, seed stage deal values and volumes did both fall in 2023H2 when compared with 2023H1 – although to a lesser extent (by 5% and 15%, respectively). Comparing this with annual growth rates indicates that the decline in seed stage activity is beginning to slow.

Focusing on venture stage, on an annual basis in 2023 there was a more pronounced reduction in investment of 43% to £3.8bn, alongside a 23% fall in deal numbers to 906. Comparing 2023H2 with 2023H1, though, investment value and deal numbers fell by 8% and 25%, respectively. This shows that there are initial signs that venture stage investment started to stabilise towards the end of the year, around levels seen in 2020H2.

Figure 1.3

Number and value of equity deals over time by stage

Source: British Business Bank analysis of Beauhurst data



At the growth stage of the market, some more nuanced trends are evident from the latest data. 2023 overall has seen a significant fall in funding, with investment declining by 57% to £3.5bn and deal numbers decreasing by 18% to 365 in 2023. A key factor driving this trend has been the retreat of non-traditional investors from the market (e.g. private equity funds, hedge funds and asset managers) who had crossed over from other asset classes during the peak in activity during 2021 and 2022.

However, at least on a value basis, there appears to have been an uptick in growth stage activity during the second half of the year. When comparing 2023H2 to 2023H1, equity finance rose by 25% to £1.9bn. As deal volumes continued to decline in the second half of the year, this indicates that investors are prioritising larger deals in this section of the market.

Figure 1.4 shows the proportion of equity deals involving companies at each stage, and how this has changed in half year periods since 2018. Of the deals that took place in 2023H2, 43% were at seed stage, 41% were at venture stage and 17% were at growth stage.

This breakdown of deal numbers is almost exactly in line with the historical average and, as can be seen from the chart, there has not been a significant change in the overall composition since 2018. On an investment value basis, however, as shown in Figure 1.5 the first half of 2023 saw a notable shift towards seed and venture stage investment – when growth stage finance was still on a sharp downward trend.

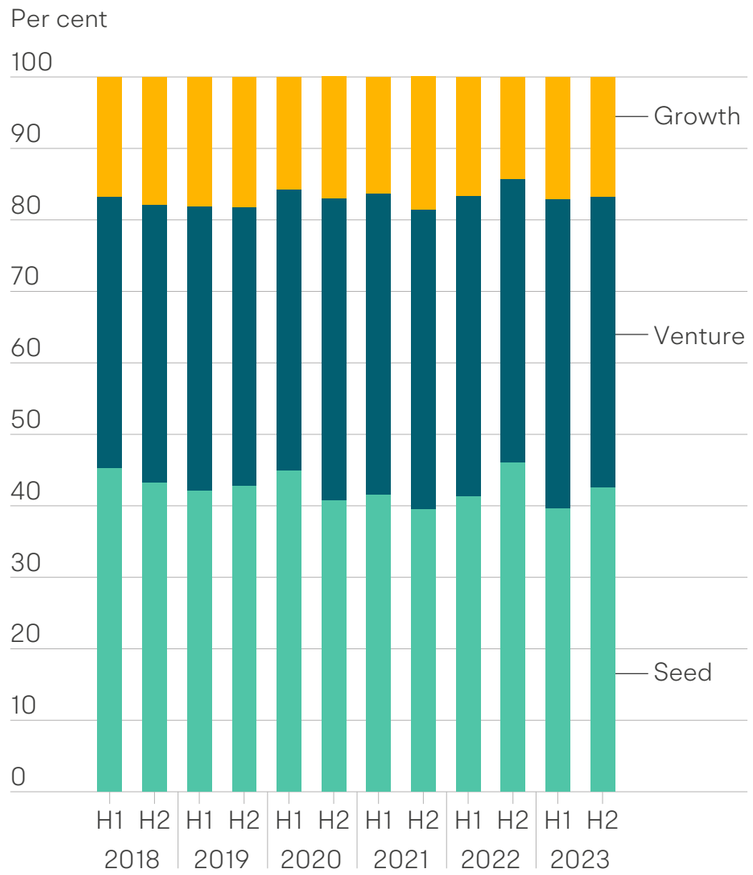
More recently in 2023H2, this data shows a slight recovery in the market share of growth stage investment to 43%. However, this proportion is still significantly lower than the long term average. Overall since the market downturn began 2022, seed and venture stage investment has made up a greater share of overall equity finance in the UK – as investors retreated from high value deal participation and later stage companies that are more exposed to public market conditions and corporate confidence.

In addition to these classifications based on company maturity, we can also analyse investment trends based on the time of fundraising. For example, the number of first-time fundraisings is an indicator for the strength of the company "pipeline", while tracking the number of follow-on fundraisings gives us an idea of the

Figure 1.4

Proportion of equity deals over time by stage

Source: British Business Bank analysis of Beauhurst data



ecosystem's ability to successfully scale innovative businesses. Average deal sizes and valuations are also important measures of a VC ecosystem's maturity, though these are explored in more detail in the next sub-section.

Figure 1.6 shows that the number of first-time fundraisings had remained relatively flat between 2014 and 2019. However, the number of follow-on deals rose at a much faster rate and overtook the number of first-time deals in 2017.

Since then, there has continued to be a greater number of follow-on deals taking place in the market, demonstrating that the market is becoming more mature and developed. In 2023 the number of initial equity deals declined by 30% to 924, while the number of follow-on deals fell at a slower rate by 21% to 1,228.

On a relative basis, investors have retreated from investing in new companies to a greater extent, perhaps due to the greater level of risk involved in these ventures, but also because they increased support to their existing portfolios.

Figure 1.5

Proportion of equity investment over time by stage

Source: British Business Bank analysis of Beauhurst data

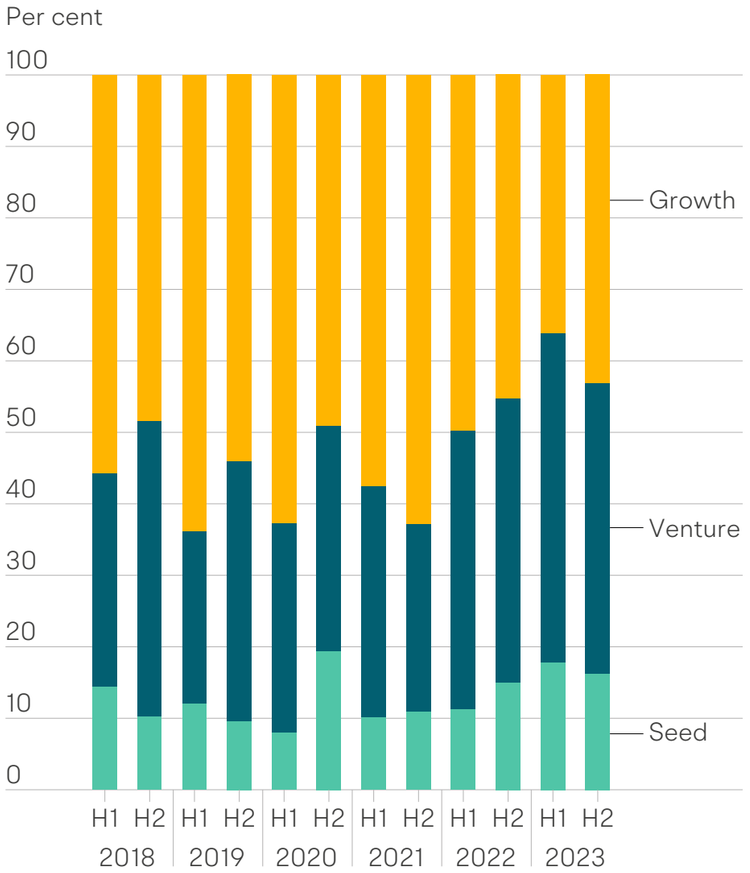
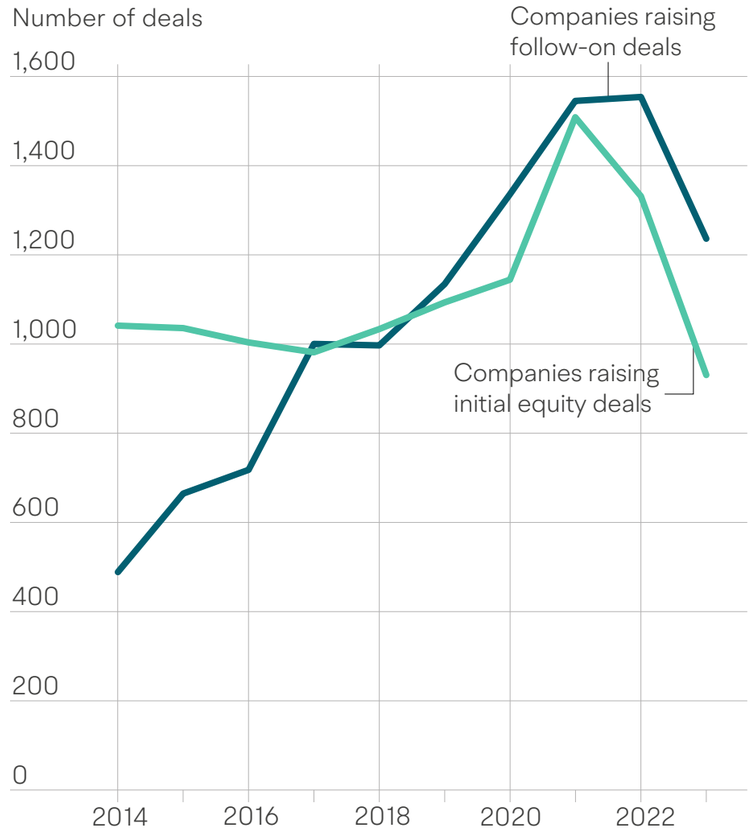


Figure 1.6

Number of equity deals over time for companies raising initial equity deals and follow-on deals

Source: British Business Bank analysis of Beauhurst data



Overall, the deepening of the market also been driven by a wider range of investors participating in UK deals – increasing the total volume of finance supply as well as the types of finance available to businesses at different growth stages. This evolution means the market is in a significantly better position to deal with the current downturn than in previous cycles.

While deal sizes and valuations fell overall in 2023, the second half of the year showed some initial signs of recovery

Full year figures reveal that the overall average deal size decreased to 4.5m in 2023, representing a 29% annual decline, and a decline of 37% from 2021. Breaking up the year into two halves, however, reveals some signs of potential recovery in the market. The average deal size increased by 28% in 2023H2 (to £5.2m) when compared to H1 of the same year.

Growth stage deal figures fell the most both in absolute and percentage terms, with the average growth stage deal being equal to £11.4m in 2023. This is a 47% decline year-on-year, and a fall of 59% from 2021 when the average growth stage deal size was equal to £27.5m.

The average deal size reached its bottom in H1 with a value of £9.2m and has since increased to £14m in the second half of the year. Despite this, the average growth deal size in 2023H2 was still around 35% smaller than the full year average in 2022.

The seed stage of the market remained the most robust, with average deal size increasing by 4% YoY to £1.9m, the highest on record, and 2% higher than the previous peak from 2021. The average deal size also grew by 10% between H1 and H2 in 2023.

The average deal size at venture stage was equal to £4.5m in 2023, down 25% year on year, and only down 6% from 2021. Similarly, to the growth stage of the market, the average venture stage deal size reached the lowest value in 23H1 at £4.2m and has since increased by 19% to £4.9m in the second half of the year. Average deal sizes in the venture stage of the market now track very similarly to average deals across the overall ecosystem.

To adjust for potential outliers that may skew the mean average figure for deal sizes, it is useful to look at trends in median deal sizes as well since that often gives a more representative picture of the typical amount of funding companies receive.

Figure 1.7

Average deal size over time by stage

Source: British Business Bank analysis of Beauhurst data

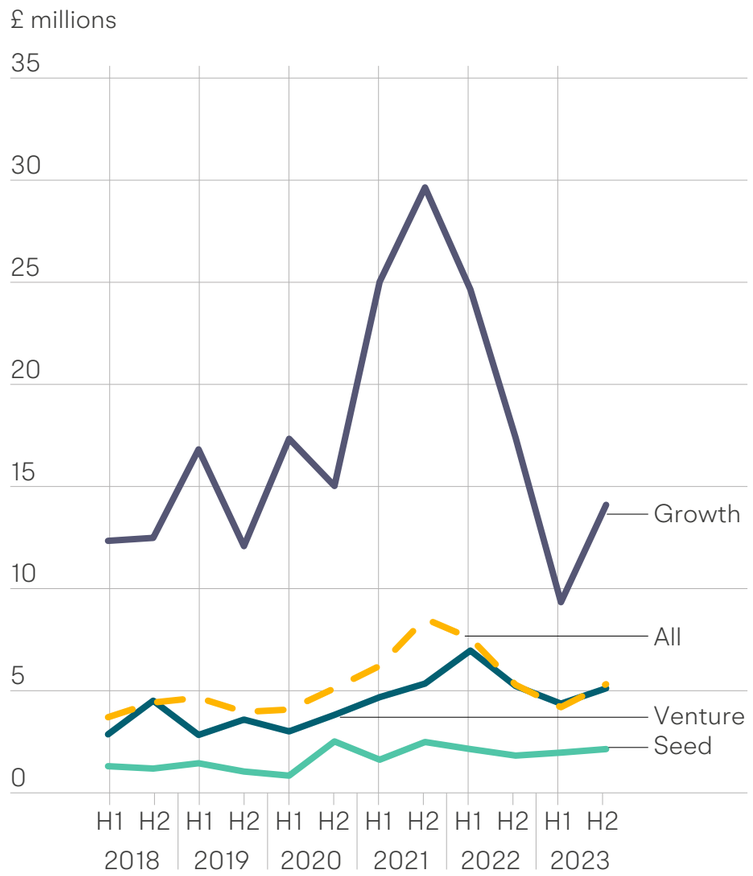


Figure 1.8 shows that the overall median deal size declined by 5% in 2023 to £1.1m, which is on par with the median deal overall deal size in 2021. The median seed stage deal remained unchanged YoY at £500k, while the median venture stage deal fell by 17% to £1.5m. The median growth stage deal size had fallen by 43% to £3.7m.

The marked decline at the growth stage shows that there has been a real reduction in investor appetite for more mature companies, and this trend is not simply due to the influence of a few outlier deals. While the growth stage is more capital intensive, during the peak years of 2021 and 2022 this part of the market was also being driven by non-traditional investors seeking large deals – and these types of investors have since left the market to a greater extent.

The anticipated growth trajectory and future potential, along with investor sentiment in the overall market, are typically well reflected in valuation metrics. Since a company's valuation reflects the amount an investor is willing to pay for a share of the business, the average pre-money valuation of companies raising funding in the market can provide valuable insight when analysing the trends over time.

The average pre-money valuation in 2023 was £19.2m, or 25% lower than the year before. Comparing the first and second half of the year, the trend appeared to be improving in the second half of the year, with average pre-money valuations 24% higher in 2023H2 compared to 2023H1. As with deal sizes however, there were notable differences in these patterns when looking across the three finance stages.

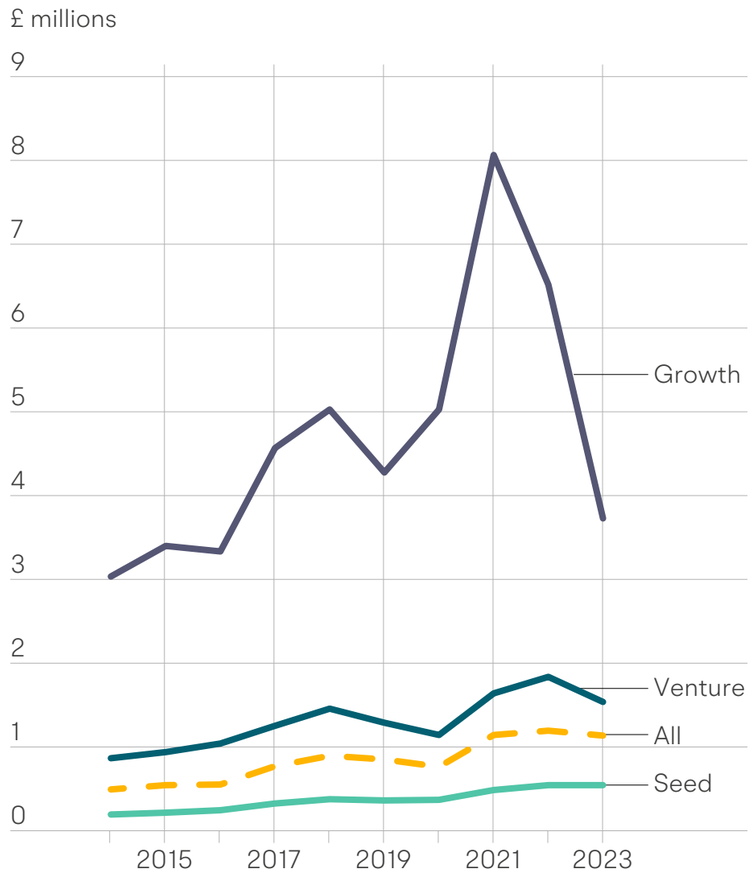
The average growth stage pre-money valuation declined from £113.7m in 2022 to £61.9m in 2023, a 46% decline from 2022, and a 71% decline from 2021. Comparing both halves of the year reveals that average growth stage pre-money valuations reached their lowest point in 2023H1 at £51.6m and have since increased to £75.6m in 2023H2, which is still 34% lower than the full year average in 2022.

Average seed stage valuations been less impacted by the overall market downturn, with the average pre-money seed stage valuation being equal to £5.7m in 2023, only decreasing by about 6% YoY. Average seed stage valuations were at their lowest level in the first half of the year and have since increased to £6.4m in the second half, 5% higher than the in 2022 which was the highest on record. This further demonstrates that

Figure 1.8

Median deal size over time by stage

Source: British Business Bank analysis of Beauhurst data



the valuations of businesses in the earlier stages are more sheltered from changes in public markets and the overall exit environment.

Note that the spike in Figure 1.9 for average pre-money valuation in 2021H2, is largely being driven by one outlier deal raised by Revolut in that timeframe. Without that deal, the average pre-money valuation would have been £157.2m for growth stage deals, and £33.8m for all deals.

Investors typically expect growth-stage companies to be acquired or go public within a much shorter timeframe than venture and seed stage ones. Changes to the exit environment stemming from unfavourable market conditions can therefore have a significant impact on their valuations.

In 2021, late-stage valuations had increased sharply due to greater competition for deals, increased trade sales, and a number of high-profile IPOs. As these exit opportunities dried up in 2022 however, VC fund managers began placing a stronger emphasis on business fundamentals, which led to a further tightening of capital accessibility.

Figure 1.9

Average pre-money valuation over time by stage

Source: British Business Bank analysis of Beauhurst data

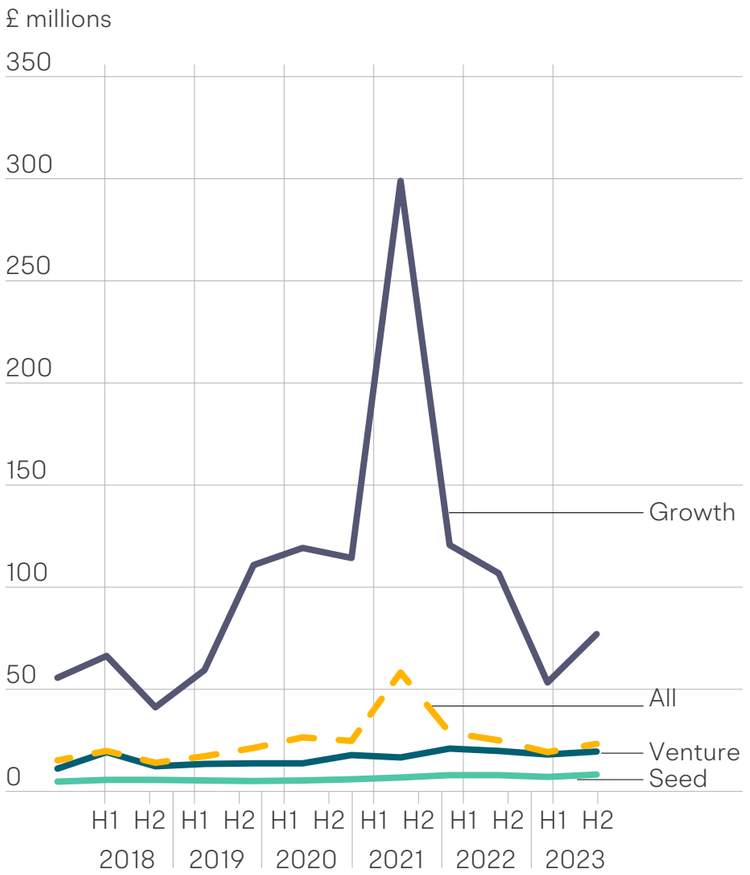
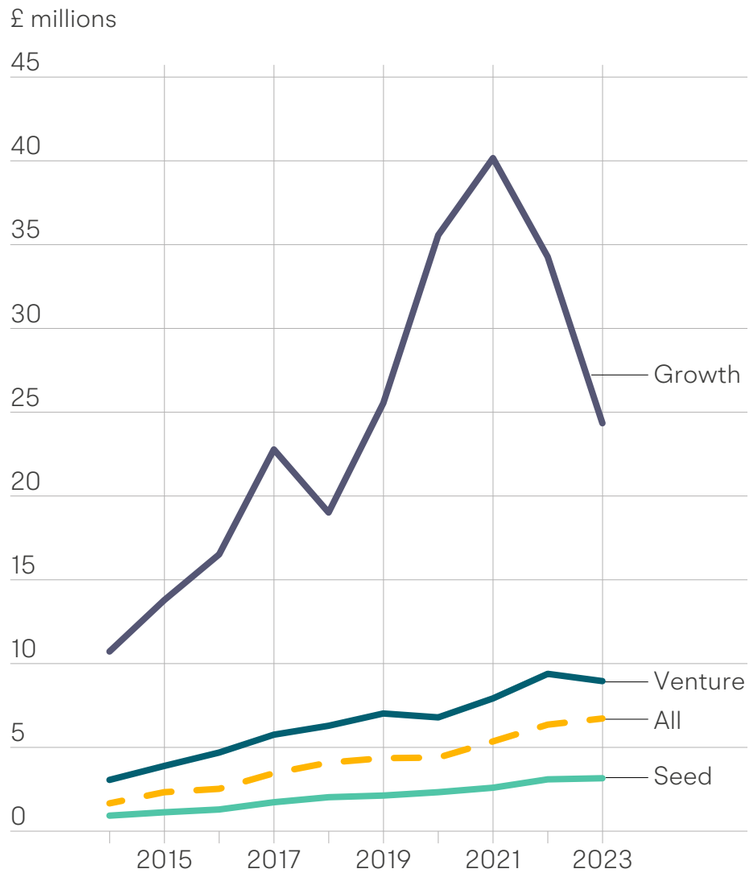


Figure 1.10

Median pre-money valuation over time by stage

Source: British Business Bank analysis of Beauhurst data



As with deal sizes, the mean average valuation can be influenced by distortion from large outliers. It is therefore useful to look at trends in the median, as shown in Figure 1.10. The overall median pre-money valuation in 2023 was £6.49m, reflecting a 6% increase compared to 2022. The fact that the average pre-money valuation in the market fell, while median valuations increased, suggest that the decline in the valuations of a few relatively large companies had an impact on the overall average.

By stage, median pre-money valuations fell fastest at the growth stage, declining by 29% to £24.2m. Venture and seed valuations were much more resilient, with the former falling by 5% and the latter increasing by 2% compared with 2022.

Below we will be taking a closer look at a specific sample of high-growth companies classified as unicorns. To be included in our definition of unicorn companies are required to meet three main characteristics: the companies are privately held, they have received venture capital backing during at least one of their funding rounds, and their valuation has surpassed the $1 billion dollar mark.

Our definition therefore excludes companies such as GymShark which have a valuation over $1bn but have received solely private equity funding. Additionally, we only classify companies as such if we have been able to confirm their valuation through a commercial data provider. Companies whose valuations are only reported by the media and lack verification are not included in our list.

Table 1 shows that as at 4 June 2024, the UK had 39 companies with unicorn status. Almost a third (62%) of these companies had either secured equity finance or had been otherwise supported by the British Business Bank. This demonstrates the crucial role played by the Bank's equity programs in supporting the growth of high-potential scale-up companies.

The rate of unicorn creation has decreased since the second half of 2022, however. PitchBook recorded 626 new unicorns globally in 2021, with this figure falling to 103 in 2023.[7] Several companies previously valued at over $1bn have also seen their valuations fall below that threshold, losing their unicorn status in the process. In the UK, Gousto, Hopin and Tractable all had down-rounds which pushed their valuations beneath the unicorn threshold.

Table 1

Current UK unicorn status businesses (as at 4 June 2024)

Source: British Business Bank analysis of Beauhurst data

Count	Name	Location	Sector	Date of unicorn status	BBB involvement
1	Beamery	London	SaaS	Tuesday, 13 December 2022	Managed Funds
2	Blockchain.com	London	Fintech	Wednesday, 24 March 2021	None
3	Brewdog	Ellon	Beverage manufacturing and distribution	Sunday, 9 April 2017	None
4	Castore	Manchester	Sports equipment and apparel	Wednesday, 20 September 2023	Start up Loans recipient
5	Checkout.com	London	Fintech	Thursday, 2 May 2019	Managed Funds
6	CMR Surgical	Cambridge	Life sciences	Tuesday, 17 September 2019	None
7	Copper	London	Fintech	Monday, 25 July 2022	BPC and Managed Funds
8	ElevenLabs	London	Artificial Intelligence	Monday, 22 January 2024	ECF
9	Gelato	Oslo	Printing	Monday, 16 August 2021	ECF
10	GoCardless	London	Fintech	Monday, 9 May 2022	ECF, BPC, Managed Funds, and UKIIF
11	Graphcore	Bristol	Semiconductor manufacturing	Tuesday, 18 December 2018	ECF, BPC, and Managed Funds
12	Improbable	London	Gaming	Thursday, 11 May 2017	ECF
13	Lendable	London	Fintech	Thursday, 10 March 2022	BPC

Table 1 (continued)

Count	Name	Location	Sector	Date of unicorn status	BBB involvement
14	ManyPets	London	Insurtech	Thursday, 27 May 2021	Managed Funds
15	Marshmallow	London	Insurtech	Thursday, 12 August 2021	ECF
16	Matillon	Manchester	Data integration	Wednesday, 15 September 2021	None
17	Monzo	London	Challenger bank	Wednesday, 31 October 2018	Managed Funds
18	Multiverse	London	Educational services	Wednesday, 8 June 2022	Managed Funds
19	Oaknorth	London	Challenger bank	Thursday, 12 October 2017	Bank Delivery Partner: Help to Grow and Covid loan schemes
20	OneTrust	London	Cyber security	Thursday, 11 July 2019	None
21	Paddle	London	SaaS	Tuesday, 10 May 2022	BPC
22	Quantexa	London	Artificial Intelligence	Tuesday, 4 April 2023	BPC and Managed Funds
23	Rapyd	London	Fintech	Tuesday, 1 October 2019	Managed Funds
24	Revolut	London	Challenger bank	Wednesday, 25 April 2018	BPC, Managed Funds and UKIIF
25	Rezolve	London	Software	Wednesday, 16 November 2022	Future Fund
26	SaltPay (Teya)	London	Fintech	Saturday, 1 January 2022	None
27	Snyk	London	Cyber security	Tuesday, 21 January 2020	Managed Funds
28	Spectrum Medical	Gloucester	Life Sciences	Monday, 18 July 2022	None

Table 1 (continued)

Count	Name	Location	Sector	Date of unicorn status	BBB involvement
29	Stability.AI	London	Artificial Intelligence	Wednesday, 5 October 2022	None
30	Starling Bank	London	Challenger bank	Monday, 19 April 2021	None
31	SumUp	London	Fintech	Thursday, 23 June 2022	None
32	Thought Machine	London	Fintech	Monday, 29 November 2021	ECF, BPC and Managed Funds
33	Tripledot Studios	London	Gaming	Monday, 14 February 2022	None
34	TrueLayer	London	Fintech	Tuesday, 21 September 2021	None
35	Wayve	London	Autonomous cars	Tuesday, 1 February 2022	BPC and Managed Funds
36	Zego	London	Fintech	Wednesday, 10 March 2021	BPC and Managed Funds
37	Zepz	London	Fintech	Monday, 23 August 2021	None
38	Zilch	London	Fintech	Wednesday, 10 November 2021	None
39	Zopa	London	Peer to peer lending	Monday, 11 October 2021	None

The number of deals declined across all regions and devolved nations in 2023, though activity in the East Midlands and Wales was the most resilient

Table 2 shows the number and value of announced equity deals in 2023 across the English regions and devolved nations. The historic trend of equity investment being concentrated in London has remained relatively unchanged. Its share of UK investment value remained at 63%, while the share of deals captured by the region fell by two percentage points to 49%.

Overall, a total of 1,041 deals worth £5.56bn went to companies in London in 2023, which is a 28% decline in the number of deals, and 48% decline in deal value year-on-year.

Table 2

Number and value of announced equity deals by nation and English region

Source: British Business Bank analysis of Beauhurst data

Nations and English regions	Number of deals (2023)	% change vs 2022	Investment value £bn (2023)	% change vs 2022
London	1041	-28%	5.56	-48%
South East	196	-26%	0.87	-56%
Scotland	169	-21%	0.40	-50%
East of England	150	-21%	0.86	-21%
South West	117	-23%	0.27	-67%
North West	114	-31%	0.23	-67%
Yorkshire and the Humber	74	-17%	0.15	-36%
West Midlands	71	-21%	0.12	-48%
Wales	67	-8%	0.11	23%
East Midlands	58	-9%	0.11	-6%
North East	58	-23%	0.09	-40%
Northern Ireland	24	-33%	0.08	-24%

In areas outside of London, the number of deals in 2023 fell by 22% on an annual basis to 1098 deals. The total investment value in the non-London areas fell by 48% during the same timeframe reaching £3.27bn. London experienced a slightly larger decline in deal numbers with a 28% reduction in the number of deals, with investment value declining at the same rate as in other regions and devolved nations.

No region or devolved nation experienced an increase in the number of deals compared to 2022, while investment values only increasing in Wales, which was driven largely by a handful of high value deals.

Regions and nations outside of London witnessed a 35% decrease in the number of seed-stage deals and a 36% decrease in their total value in 2023. In the capital region, the decline in seed stage activity was equal to 25% and 26% respectively.

While the number of growth stage deals in London fell by 35%, the amount raised fell by nearly double the amount (63%). On the other hand, regions outside London only saw a marginal 1% decline in growth-stage deal numbers between 2023 and 2022, the value of these deals however decreased by 45% in total.

University spinouts raised £1.3bn in 2023, the third highest year on record and equivalent to 15% of total investment across the market

Spinout companies offer a crucial pathway for founders and universities to commercialise their advanced academic research. Beauhurst define an academic spinout as a company that was set up to exploit intellectual property (IP) developed by a recognised UK university and then either licences the IP from the university, or the university owns or has the option to purchase shares in the company.[8] It is important to note that staff or students can set up start-ups which would not meet this definition.

Figure 1.11 tracks the number and value of UK equity spinout deals, and how their trends have changed over time. While the number of spinout deals and their value have both fallen, from 249 deals totalling £1.99bn in 2022, to 209 deals totalling £1.3bn in 2023, university spinouts now make up 15% of the total value invested into smaller businesses in the UK (up from 12% in 2012).

Spinout deals also make up 10% of the total annual deal count, an increase of 1 percentage point from 2022, showing the spinout ecosystem has been more resilient to the overall market downturn.

Spinout companies raised deals that were £6.5m on average in 2023, down from £8.1m in 2022. However the average spinout deal in 2023 was still 44% larger than the average deal across the overall UK market. It is important to note that these businesses are also more likely to be capital intensive, and therefore requiring greater amounts of finance.

Breaking down the data by institution, spinouts from the University of Cambridge raised the most deals in 2023 (24 deals), with spinouts from the University of Oxford raising 21. Spinouts from the University of Bristol came third raising a total of 17 deals over the past year, followed by the University of Edinburgh and University of Strathclyde (12 deals for both), and Imperial College London (11 deals).

Investment in the tech sector declined by 47%, in line with the wider market, though funding for the life sciences sub-sector fell to a lesser extent

Companies in the technology sector and the business and professional services sector have historically received the largest proportion of total deals and investment. These sectors have also seen large falls in funding activity in 2023, which can be seen below in Figure 1.12.

A total of 827 investments were made to technology/IP-based businesses in 2023 worth £4.1bn. Compared with the year before, this is a 24% decrease in the number of deals and a 47% decrease in investment. Companies in the business and professional services sector received 520 deals and £2.1bn in investment in 2023, equal to a 25% and 57% decrease in deal numbers and investment compared to 2022 respectively.

Figure 1.11

Number and value of university spinout deals over time

Source: British Business Bank analysis of Beauhurst data

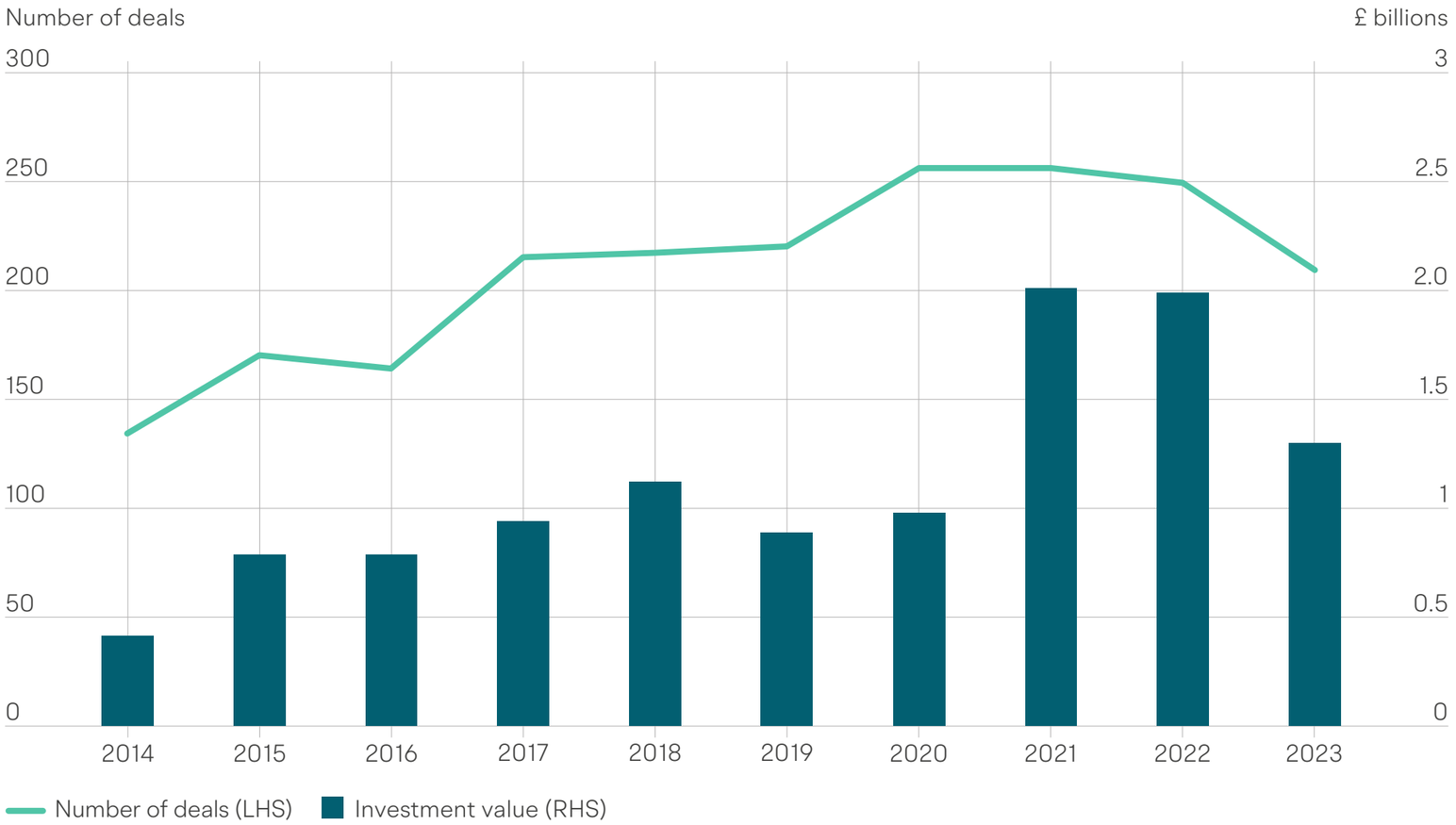
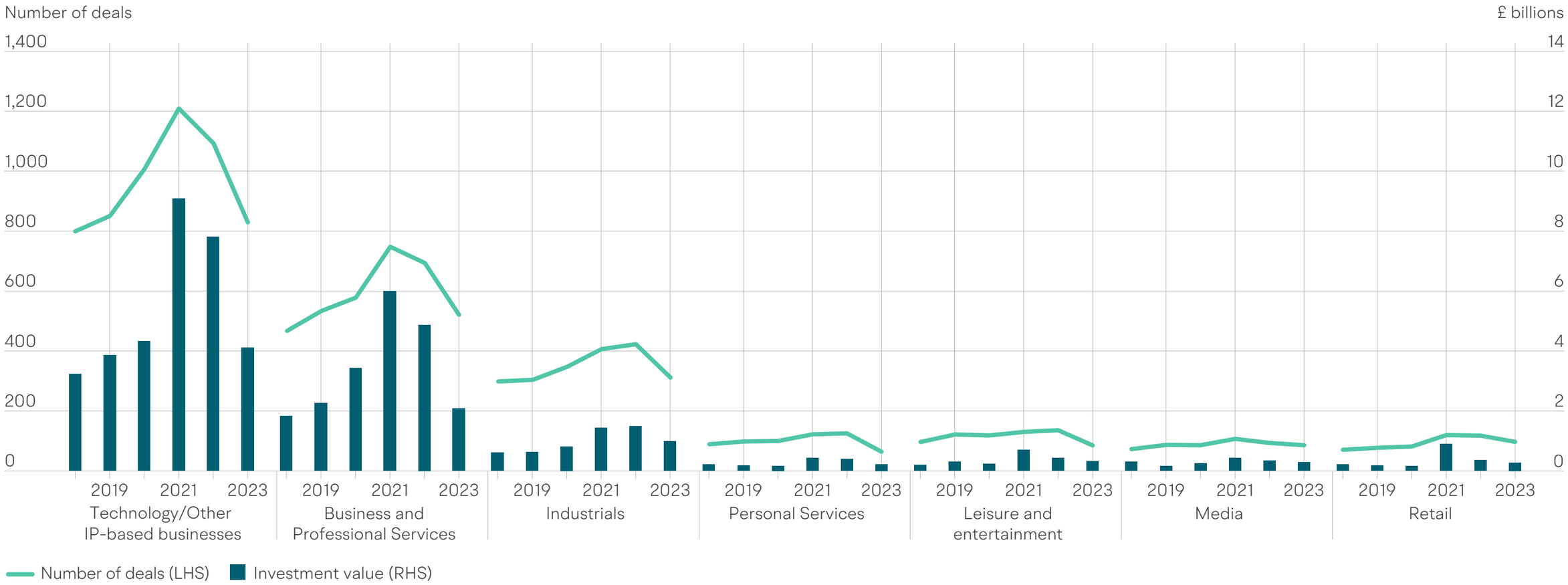


Figure 1.12

Equity deals and investment over time by sector

Source: British Business Bank analysis of Beauhurst data



The media sector performed the strongest on a relative basis, with an annual decline of 9% in the number of deals and 16% in investment value. The total number of deals fell from 93 in 2022 to 85 in 2023, with the investment value falling from £331m to £279m during the same timeframe. No sector saw an annual increase in either deal value or volume in 2023.

Beauhurst further divides the technology/IP sector into sub-categories which give a more granular indication of the underlying activities of these tech companies. Of these sub-sectors, software has historically attracted more deals than all the others combined, a trend that remains unchanged.

In 2023, 56% of all deals and 47% all investment in the technology/IP sector were raised by software companies. The sub-sector attracted a total of 465 deals worth £1.7bn, which is 30% fewer deals and 56% less in deal value compared to 2022.

Clean tech is a sub-sector that historically achieved consistent year-on-year growth, however in 2023, deal and investment value both fell for the first time in over 5 years. The number of deals declined by 11% YoY to 99 with investment value falling by 30% to £768m during the same timeframe.

Because the number of clean tech deals declined less than the market however, the market share in deal terms increased by 1 percentage point, reaching 5% in 2023. All technology sub-sectors experienced a decline in the number of deals and investment amounts, with the hardware sub-sector seeing YoY investment value falling the most, by 70%.

Sub-sectors that were notably more resilient than the overall market in 2023, in terms of annual changes in investment value, included life sciences (with a fall of 30%), medical technology (29%), materials technology (13%) and the ‘other tech/IP’ sub-sector (5%).

Companies with at least one female founder accounted for 28% of equity deals in 2023, but continue to receive a smaller share of investment

Promoting diversity and fostering an inclusive equity ecosystem is vital, especially because women and individuals from ethnic minority groups have historically been underrepresented in the VC industry. In their tracking of UK companies, Beauhurst provides data on the gender makeup of founding teams and key employees.

As illustrated in Figure 1.13, looking at the latest data on the gender diversity of UK companies raising equity deals, all-female founder teams raised 8.2% of deals in 2023. This represented a slight decrease from 8.9% 2022 and, in terms of improvement over the past decade, only one percentage point higher than in 2014.

On an investment value basis, the share of equity investment raised by all-female founder teams increased from 2.0% to 2.8% in 2023 – in line with the ten year average of 2.5%. In absolute terms all-female founder teams raised 162 deals worth £232m in 2023. All-male founder teams, on the other hand, raised 1413 deals worth £6.5bn during the same time frame.

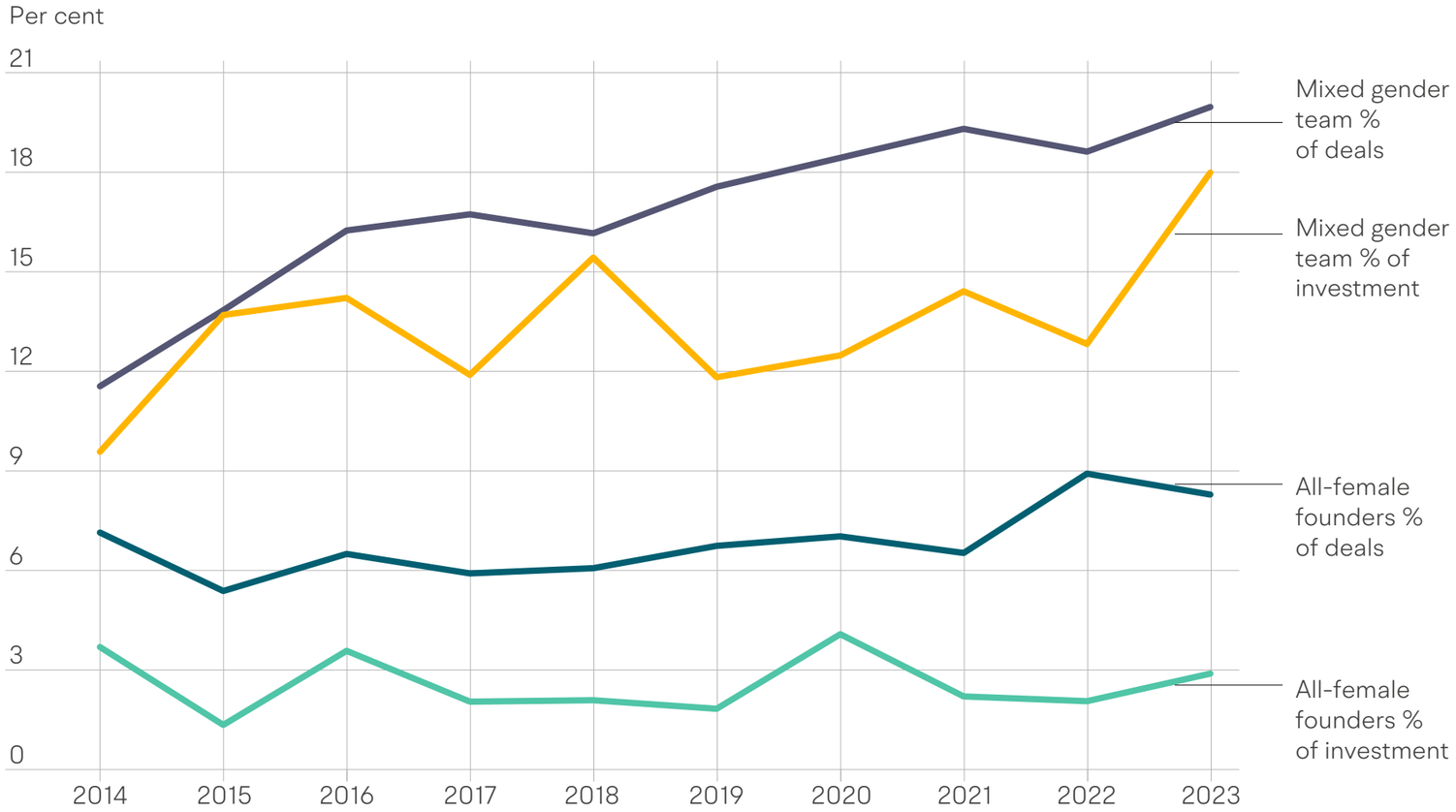
As can be seen in Figure 1.13, the share of equity deals, and funding raised by all-female teams has remained relatively flat across the past decade. However, there has been more of an improvement for mixed gender teams during this period. These teams raised 20.0% of all deals in 2023 and 18.0% of total investment – with both of these figures the highest on record and up from 11.5% and 9.5% in 2014, respectively.

While these figures are encouraging, it is still important to note that since 2014, companies with all-female founder teams have raised a total of 1,376 announced deals to date. All-male founder teams in 2023 alone, have raised 1,413 announced deals. To re-phrase, all-male founder teams raised more deals during a single year, than all-female founder teams have during the last 10 years combined.

Figure 1.13

Proportion of equity deals and investment received by all-female and mixed gender founder teams

Source: British Business Bank analysis of Beauhurst data



When focusing on the amount of capital raised, all-female founder teams raised £2.0bn in announced equity funding over the last 10 years. All-male founder teams in 2023 alone, have raised £6.5bn in announced equity funding. i.e. All-male founder teams have raised over 300% more funding in the last year alone, than all-female founder teams have raised over the last 10 years.

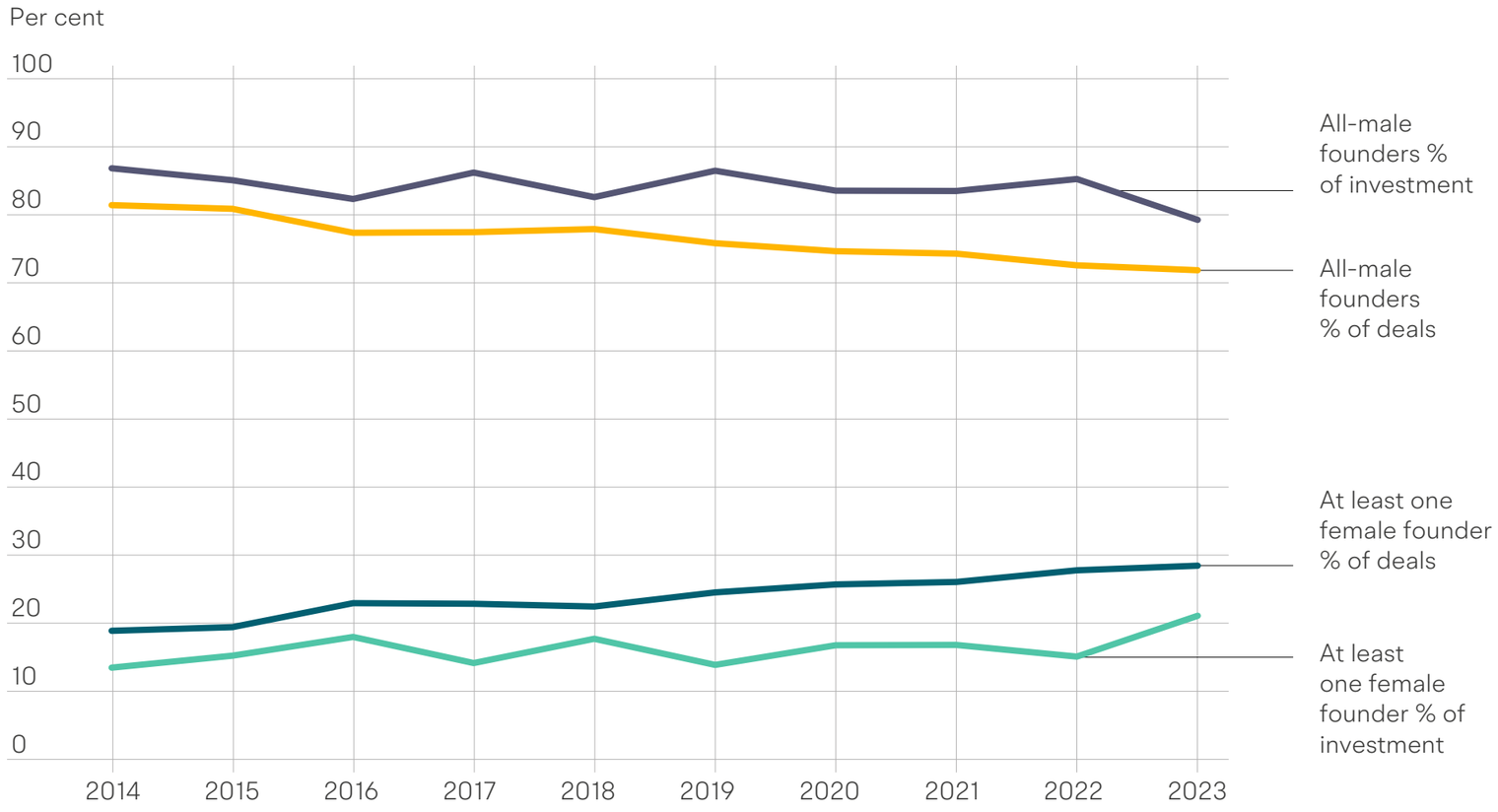
Figure 1.14 breaks down the proportion of deals and investment raised by teams with at least one female founder (all-female and mixed gender teams combined). In 2023, 28.2% of deals were raised by founder teams with this gender composition, the highest share on record, and around ten percentage points higher than ten years ago in 2014.

Companies with at least one female founder also raised 20.8% of the total funding in 2023, eight percentage points more than in 2014, and six percentage points more than in 2022.

Figure 1.14

Proportion of equity deals and investment received by all-male teams and teams with at least one female founder (combining all-female and mixed gender teams)

Source: British Business Bank analysis of Beauhurst data



Despite some progress being made over the last ten years, all-male founder teams still raised 1413 deals in 2023, making up 72% of all deals and more than double the number of deals raised by all-female and mixed gender teams combined. On amount of funding raised, all-male founder teams raised £6.5bn in 2023, 79% of the total, and nearly triple the amount raised by all-female and mixed founder teams combined.

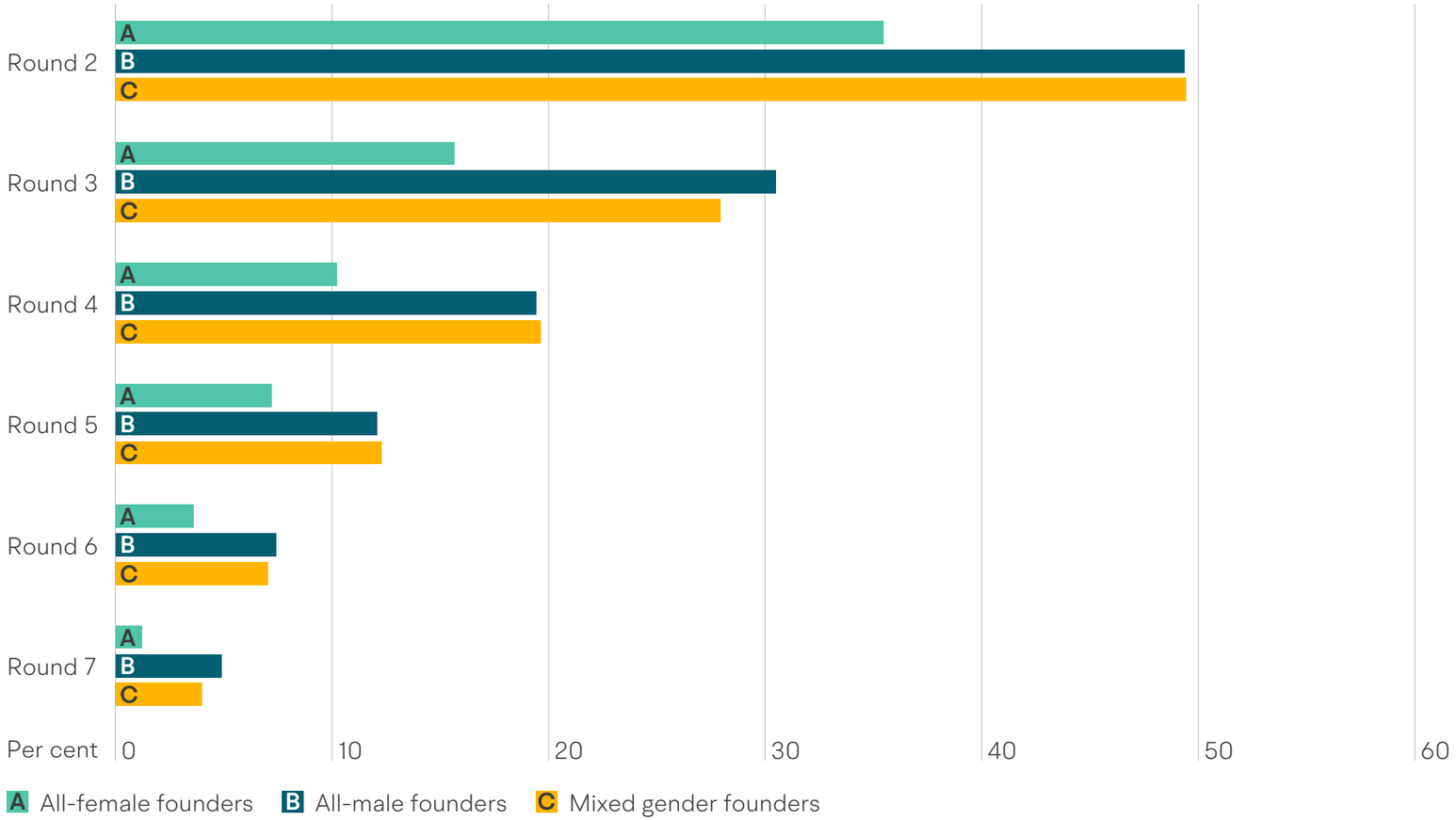
Female-founder teams raise smaller average deal sizes at all stages and are also less likely to receive follow-on funding. Follow-on rates are consistently lower for all-female teams compared to all-male or mixed gender ones. These differences do not appear to be entirely driven by sector variations. Figure 1.15 shows the round progression rates for a cohort of companies that raised their first equity deal in the three-year period between 2013-2015. A total of 196 first-time deals were recorded in this period for all-female founder teams.

The analysis shows that only around one third (36%) of all-female founder teams that raised their first round of funding between 2013-2015 went on to raise a subsequent round of funding after their initial round, compared to half of mixed gender and all-male founder teams (50% and 49% respectively). On average,

Figure 1.15

Proportion of companies raising a follow-on round by gender of founder team

Source: British Business Bank analysis of Beauhurst data



all-female founder teams also raised fewer subsequent rounds – while 5% and 4% of all-male and mixed gender teams raised a seventh round, the figure is only 1% for all-female founder teams.

Figure 1.16 breaks down the proportion of deals by sector and gender of founder team for the 2021-2023 period. For all-female founder team deals 28% of deals were in the tech/IP-based sector, though this is lower than the corresponding share of 41% for all-male and 39% for mixed gender founded businesses. Investments involving all-female founder teams are still more likely to take place in outside of tech and business & professional services industries.

All-female founded company deals are instead more represented in industrials (19% of deals), retail (10%), personal services (9%), leisure & entertainment (5%) and media (5%) – when comparing to the proportion of all-male and mixed team deals.

Given the recent equity finance trends set out in this chapter, it is clear that the Bank's programmes will continue to have a key role in supporting innovative smaller businesses through the market's future recovery.

The sharp reduction in capital for venture and growth stage companies suggest that British Patient Capital (BPC) supported funds will be as important as ever in supporting later stages of the VC ecosystem – including through the Future Fund: Breakthrough programme and the Life Sciences Investment Programme.

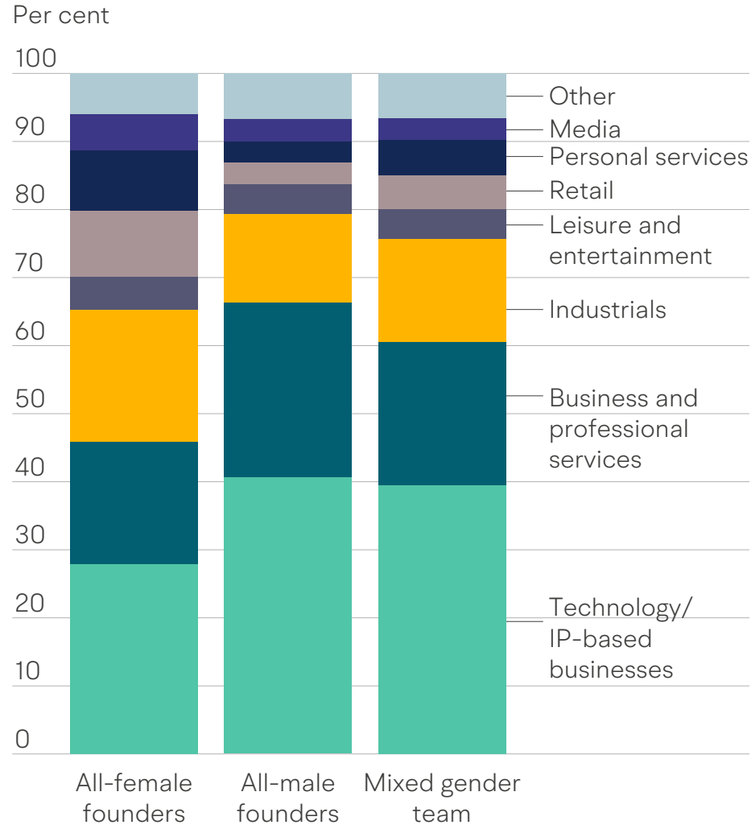
With the continued decline in seed stage deal numbers through 2023, the Enterprise Capital Funds (ECF) programme will also seek to increase the availability of early-stage equity finance to high potential UK companies. The continued high concentration of deals and investment in London in 2022 highlights the continued market need of the Bank's regionally focused programmes including the Regional Angel Programme (RAP) and recently launched Nations and Regions Investment Funds (NRIF).

These programmes play an important role in increasing the supply of finance in all areas of the UK. The Bank will continue to monitor these changing equity finance conditions carefully, and stands ready to adapt its programmes to support the efficient functioning of the market for SMEs.

Figure 1.16

Proportion of deals by sector and gender of founder team (2021-2023)

Source: British Business Bank analysis of Beauhurst data



2

British Business Bank activity

- British Business Bank equity programmes supported around 15% of all equity deals between 2021 and 2023
- British Business Bank supported funds were more likely to invest in companies at the seed and venture stage compared to the overall market
- Funds supported by the British Business Bank were more likely to invest into technology/IP-based businesses compared to the overall equity market between 2021 and 2023
- British Business Bank programmes are more likely to fund academic spinout companies than the overall equity market
- The proportion of Bank-supported deals involving female founder teams is in line with the overall equity market

Introduction

This chapter explores the characteristics of equity deals completed by equity funds supported by the British Business Bank. Deal characteristics are compared against deals completed by other VC investors as well as the wider UK equity market. As a government-owned financial institution, the British Business Bank's primary objective has been to reduce market inefficiencies in the area of small business finance and to increase the supply of funding. This is done mainly by investing in VC funds as a Limited Partner,[9] alongside other private sector investors through programmes such as ECF and BPC.

The Bank also has a fund of funds programme, Managed Funds. This programme makes cornerstone investments in a number of large-scale, private sector managed funds of funds that invest in venture and growth capital funds backing innovative, high-growth businesses. Supplementary to these, the Bank coinvests into companies alongside other equity investors through Future Fund: Breakthrough and the Regional Angels Programme.

The Bank also delivers a number of region-specific programmes,[10] which make both debt and equity investments in an attempt to reduce regional imbalances in the ability of finance. These are:

- Northern Powerhouse Investment Fund (NPIF)
- Midlands Engine Investment Fund (MEIF)
- Cornwall and Isles of Scilly investment Fund (CIoSIF)

While the Bank's recently launched Nations and Regions Investment Funds – which also seek to provide finance in Northern Ireland, Scotland, Wales – have only recently started deploying capital, in future editions of the Small Business Equity Tracker we will also monitor deals supported by these new programmes.

Table 3 provides a detailed overview of the British Business Bank's equity programmes included in this analysis. This section focuses on the Bank's structural equity programmes, and therefore does not include deals made by the Future Fund programme. While Beauhurst captures the subsequent funding rounds where the Future Fund Convertible Loan Agreements convert to equity, the Bank is not providing any additional funding into the funding round. Therefore, these deals are not counted as Bank-supported deals in this section, although they will be captured in the overall market figures presented in Chapter 1.

Table 3

Description of British Business Bank equity programme activity

Source: British Business Bank

British Business Bank Programme	Description	Year programme started	Currently investing in SMEs?
ECF (Enterprise Capital Fund)	The Enterprise Funds programme helps fund managers looking to operate in the UK VC market raise venture capital funds ultimately increasing the supply of equity finance within the UK market. The Bank invests in VC funds specifically targeting early-stage businesses with high growth potential alongside private investors.	2006	Yes
UKIIF (UK Innovation Investment Fund)	UKIIF supports the creation of viable investment funds as one of the two fund of funds programmes operated by the British Business Bank. It primarily targets funds investing in strategically important sectors such as digital technologies, life sciences, clean technology, and advanced manufacturing. To date £159 million has been committed into underlying funds.	2009	No
ACF (Angel CoFund)	The Angel CoFund was established with an objective to increase the supply of business angel finance available to small businesses with high growth potential. Since its inception in November 2011, the Angel CoFund has enabled smaller businesses to secure over £280 million in investment. Every £1 invested by the Angel CoFund has leveraged around £5 from business angel syndicates.	2011	Yes
NPIF (Northern Powerhouse Investment Fund)	The NPIF provides commercially focused finance through funds investing in the North of England in collaboration with ten Local Enterprise Partnerships (LEPs). The £540 million programme utilises ERDF and EIB funding to unlock the region's potential for economic growth and transform the finance landscape for smaller businesses.	2017	Yes[11]
Managed Funds Programme	The Managed Funds Programme is part of the Government's response to the Patient Capital Review and helps address the UK's patient capital funding gap. This £500m programme makes cornerstone investments in a number of large-scale, private sector managed fund of funds that invest in venture and growth capital funds backing innovative, high-growth businesses. The programme aims to draw in institutional capital into the UK's venture and growth capital markets.	2018	Yes

Table 3 (continued)

British Business Bank Programme	Description	Year programme started	Currently investing in SMEs?
CIoSIF (Cornwall and Isle of Scilly Investment Fund)	The £40m programme was established in partnership with the Cornwall & Isles of Scilly LEP to support access to debt and equity finance for businesses in the area.	2018	Yes
MEIF (Midlands Engine Investment Fund)	MEIF provides over £300m of investment to boost small and medium business (SME) growth in the Midlands and is a collaboration between the British Business Bank and LEPs in the West Midlands and East and South East Midlands utilising ERDF and EIB funding.	2018	Yes
RAP (Regional Angels Programme)	The £100m Regional Angels Programme is established to help reduce regional imbalances in access to early stage equity finance for smaller businesses across the UK. It aims to raise the profile and professionalism of angel investment activity and to attract further third-party capital alongside business angels while generating a market rate of return.	2018	Yes
BPC (British Patient Capital)	British Patient Capital manages a £2.5bn investment programme designed to unlock an additional £5bn of institutional capital to support UK businesses with high growth potential to access the long-term financing they need to scale up. BPC invests on a commercial basis to demonstrate that a long-term patient capital investment strategy can produce commercially attractive returns. BPC was seeded with investments from the VC Catalyst programme which was established in 2013.	2018	Yes
FF:B (Future Fund Breakthrough)	Future Fund: Breakthrough is a £425m UK-wide programme which encourages private investors to co-invest in high-growth, innovative firms. The programme makes equity co-investments with private sector investors in growth stage R&D-intensive British companies operating in breakthrough technology sectors. The minimum total investment round size is £30m. The maximum Future Fund: Breakthrough share of an investment round is 30%.	2021	Yes
LSIP (Life Science Investment Programme)	The Life Sciences Investment Programme (LSIP) is a £200m initiative managed by British Patient Capital designed to address the growth equity finance gap faced by high-potential UK life sciences companies. This is expected to attract at least a further £400m of private investment. Through LSIP, we make cornerstone commitments to later stage life sciences venture growth funds with a strong UK focus, typically investing between £50m and £100m in each successful fund.	2021	Yes

Overall, our analysis finds that the Bank, together with its subsidiary British Patient Capital (BPC), was the largest UK based LP investor in UK VC funds between 2017 and 2023, based on the amount of capital committed and the number of commitments made to funds. Since the Bank's creation in 2014, the Bank has committed £3.1bn into 136 equity funds.[12]

To break down the activity of the Bank by individual programme, deals completed by the Bank and their supported funds are matched to deals in the Beauhurst dataset using their Company House ID (CHID). Only deals that have the name of the supported fund manager listed in the named investors list are classified as being backed by the Bank.

To avoid capturing deals made by fund managers before they became part of a British Business Bank programme, the Beauhurst investment date must also be within one year of the first recorded deal date on the British Business Bank MI data. Finally, the matching is undertaken at the programme level as one fund manager can be funded across several Bank programmes.

This approach underestimates the actual coverage of deals involving Bank-supported funds, as not all deals have complete investor information. It does however minimise the chance of wrongfully including deals that were not supported by the Bank.

Table 4 shows the number of unique, UK based companies that received funding from a fund supported by one of the Bank's equity programmes during at least one funding round. Coverage varies by programme and is mainly dependent on whether the majority of deals in the programme are announced either by the Bank or the fund manager's website, or if they are unannounced.

Out of 2,817 companies supported by the Bank's equity programmes, 59% of them have a matchable announced deal that meets our criteria described above. In total the analysis identified 2,287 announced equity deals in the Beauhurst dataset that were undertaken by funds supported by the Bank's equity programmes between 2014 and 2023. The total funding value of these deals was equal to over £13.5bn.

The Bank's regional programmes (NPIF, MEIF, CIoSIF), have some of the highest deal coverage due to the majority of the deals being announced via the programmes' or fund managers' websites. The coverage of deals is lower for BPC (63%) and ECF (57%). The British Business Bank encourages all fund managers, supported or not, to disclose their equity deals publicly and improve the quality of data available.

Beauhurst also tracks deals made by other Government funds, funds delivered by the devolved nations like the Development Bank of Wales and Scottish National Investment Bank, and local government funds. British Business Bank funds delivered by private sector fund managers involving private sector sources of capital, such as the ECF and BPC programmes, are not included in Beauhurst's definition of Government funds.

Table 4

Beauhurst coverage of British Business Bank supported fund equity deals by programme

Source: British Business Bank analysis of Bank MI data and Beauhurst data

British Business Bank Programme	Number of matched UK companies	UK company population	Relevant coverage
Angel CoFund/Aspire	94	125	75%
BPC	407	646	63%
Future Fund: Breakthrough (FFB)	14	16	88%
Life Science Investment Programme (LSIP)	4	5	80%
Enterprise Capital Fund (ECF)	451	791	57%
UK Innovation Investment Fund	72	142	51%
NPIF	117	154	76%
MEIF	88	111	79%
CIOS	26	33	79%
Regional Angels Programme (RAP)	410	543	76%
Managed Funds (MF)	339	818	41%
Overall	**1671**	**2817**	**59%**

In 2023 government funds supported 59% of all announced equity deals in Scotland, and 40% in the North East. In Wales the proportion was lower, and equal to 33%, partly because Beauhurst classifies some Development Bank of Wales (DBW) deals as private equity. Reclassifying these deals as government funds increases the percentage to 53%, showcasing the government's significant contributions in making equity finance available to small businesses across devolved nations. Overall, local and national governments funds supported 14% of all announced equity deals across the UK in 2023.

In recent years, governments have been playing a more important role in VC across Europe. In 2023, government agencies contributed 37% of the total new funding raised by VC funds from limited partners, more than double the year before (16%).[13]

British Business Bank equity programmes supported around 15% of all equity deals between 2021 and 2023

Figure 2.1 shows the number of annual deals supported by the British Business Bank that were successfully identified in the Beauhurst dataset.[14] The number has grown from 67 deals in 2014 to 497 in 2021, before declining to 428 and 275 in 2022 and 2023 respectively. Because additional deals tend to get identified by Beauhurst over time as companies and funds make more announcements, the 2023 figure should be treated as preliminary.

In this year's edition of the Equity Tracker, for example, we were able to increase the match rates for nearly all of our programmes compared to the year before. The coverage of companies in the Managed Funds programme increased by seven percentage points, whereas the coverage of our core equity programmes, ECF, and BPC, increased by six and three percentage points respectively. The overall coverage of the entirety of the Bank's equity portfolio increased from 55% to 59% YoY.

The figures presented only include deals that we were able to identify in the Beauhurst dataset of announced deals and therefore differ from those on the British Business Bank's Management Information (MI) system which has full coverage. Follow on deals, while tracked through SH01 forms submitted at Companies House by Beauhurst, are also less likely to be announced compared to first time funding rounds and are therefore captured less frequently.

The remaining analysis in this chapter compares the characteristics of deals supported by the Bank to those backed by the overall equity market over a three-year period (2021-2023). This removes yearly volatility from the presented numbers allowing for a more accurate assessment to be made.

Figure 2.1

Number of announced equity deals involving British Business Bank supported funds over time by programme[15]

Source: British Business Bank analysis of Bank MI data and Beauhurst data

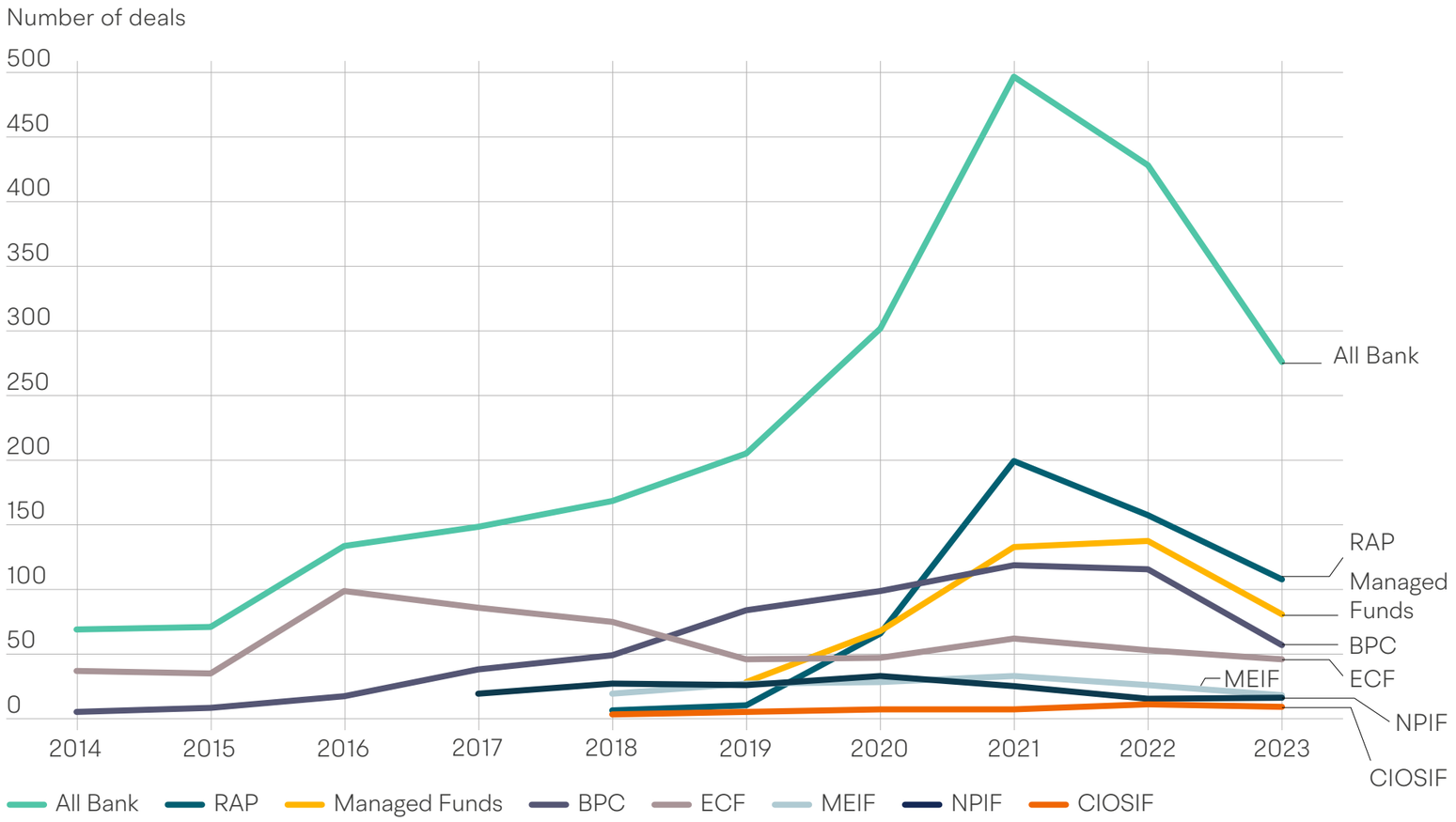


Table 5

British Business Bank market share in 2021-2023 by stage

Source: British Business Bank analysis of Bank MI data and Beauhurst data

Stage	By number of deals	By investment value
Seed	16%	26%
Venture	16%	21%
Growth	11%	15%
Total	**15%**	**18%**

The British Business Bank's equity programmes are estimated to have supported 15% of all UK equity deals between 2021-2023, with these making up 18% of the total amount invested into the UK equity market during the period. This represents a slight increase from the 2020-2022 period, when 13% of deals and 15% of investment was backed by the Bank. Over the longer term the Bank's market share has grown from 9% and 13%, respectively, in 2016-18.

The Bank has a greater market share at the seed stage, supporting around 16% of all announced equity deals in the market and 26% of the total investment value. The Bank's share at the venture stage was equal to 16% in terms of the number of deals, and 21% by deal value. At the growth stage, Bank supported funds participated in funding 11% of all deals between 2021 and 2023, which made up 15% of the total value.

British Business Bank supported funds were more likely to invest in companies at the seed and venture stage compared to the overall market

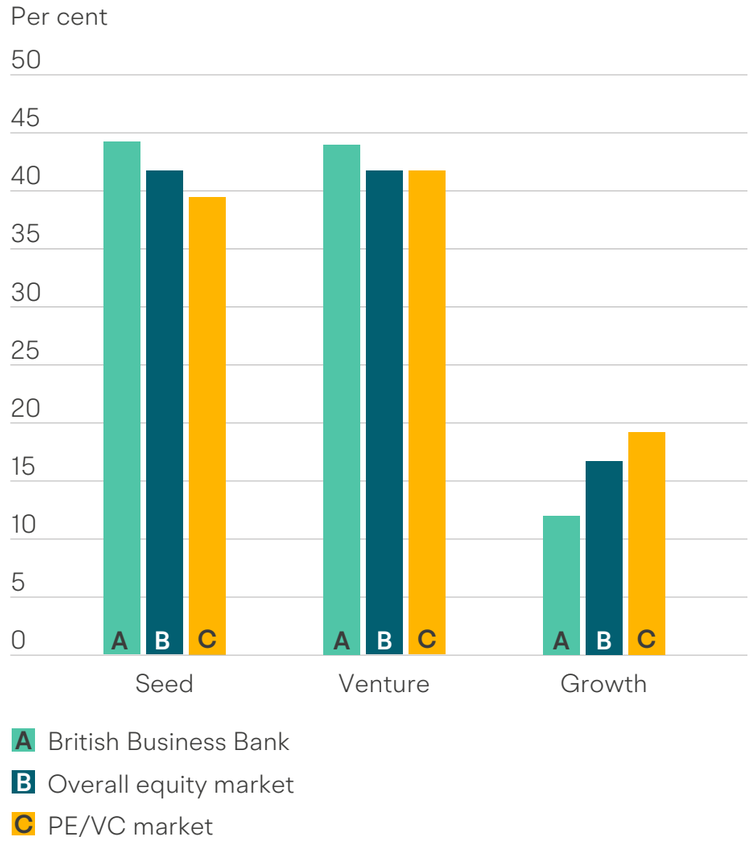
The majority of British Business Bank supported deals were in the seed and venture stage part of the market with each stage accounting for 44% of total deals. Figure 2.2 shows that the proportion of the Bank's deals going to seed stage companies is two percentage points higher than the overall equity market, and five percentage points higher than the PE/VC market.

For venture stage companies, the Bank's deal proportion is two percentage points higher than both the overall equity market and the PE/VC market. Given that most of the Bank's programmes operate by investing through commercial VC funds, these comparisons with other market segments are particularly insightful.

Figure 2.2

Proportion of equity deals by stage in 2021-2023

Source: British Business Bank analysis of Bank MI data and Beauhurst data



Throughout the years, the share of deals the Bank allocated funding to has been subject to change as shown in Figure 2.3. Seed stage deals made up around 19% of the Bank's deals in 2014, a ratio that reached its peak in 2016 at 58%, largely due to the ECF programme investing in Entrepreneur First in 2016, an accelerator fund backing a relatively high number of early-stage businesses. The proportion of deals allocated to seed stage companies has remained relatively stable between 2018 – 2023 at an average of 43%.

The proportion of deals allocated to venture stage companies, while representing 58% of all the Bank's deals in 2014, has also been relatively stable since 2018 at an average of 44%. Growth stage deals represent the smallest proportion of the Bank's activity in terms of number of annual deals with the average being around 13% per year between 2018 – 2023.

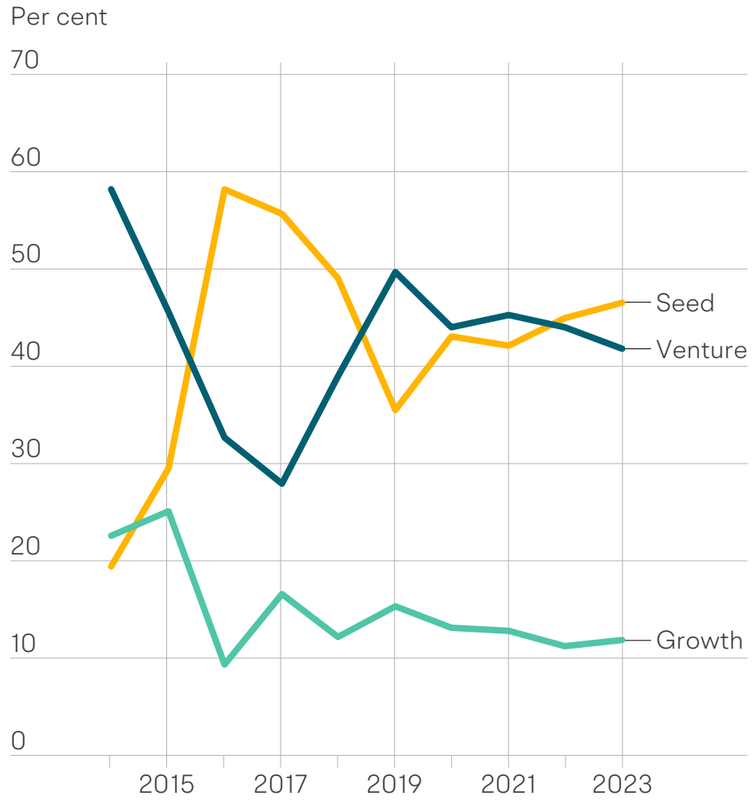
The average size of deals completed by British Business Bank supported funds varies widely by stage:

- Seed: The average size of British Business Bank supported fund seed stage deals in 2021-23 was £3.0m compared to £1.8m and £2.8m for the overall equity and PE/VC market, respectively.
- Venture: The average size of British Business Bank supported fund venture stage deals in 2021-23 was £6.5m, compared to £5.2m and £7.4m for overall equity and PE/VC market respectively.
- Growth: The average size of British Business Bank supported fund growth stage deals in 2021-23 was £25.2m, compared to £21.1m and £27.2m for overall equity and PE/VC markets, respectively.

Figure 2.3

Proportion of British Business Bank supported equity deals by stage over time

Source: British Business Bank analysis of Bank MI data and Beauhurst data



Funds supported by the British Business Bank were more likely to invest into Technology/ IP-based businesses compared to the overall equity market between 2021 and 2023

Figure 2.4 shows that funds supported by the British Business Bank were more likely to invest in technology/ IP-based businesses than the broader equity market between 2021-23. Approximately 48% of deals backed by the Bank during this time period fell within the technology/IP sector, compared to 42% for the overall equity market.

Deals supporting companies in the business and professional services sector constituted 28% of all British Business Bank deals which aligns closely with the overall equity market's proportion of 26%. Around 11% of Bank-supported deals went to companies in the industrials sector.

Figure 2.4

Proportion of British Business Bank supported equity deals by sector in 2021-2023

Source: British Business Bank analysis of Bank MI data and Beauhurst data

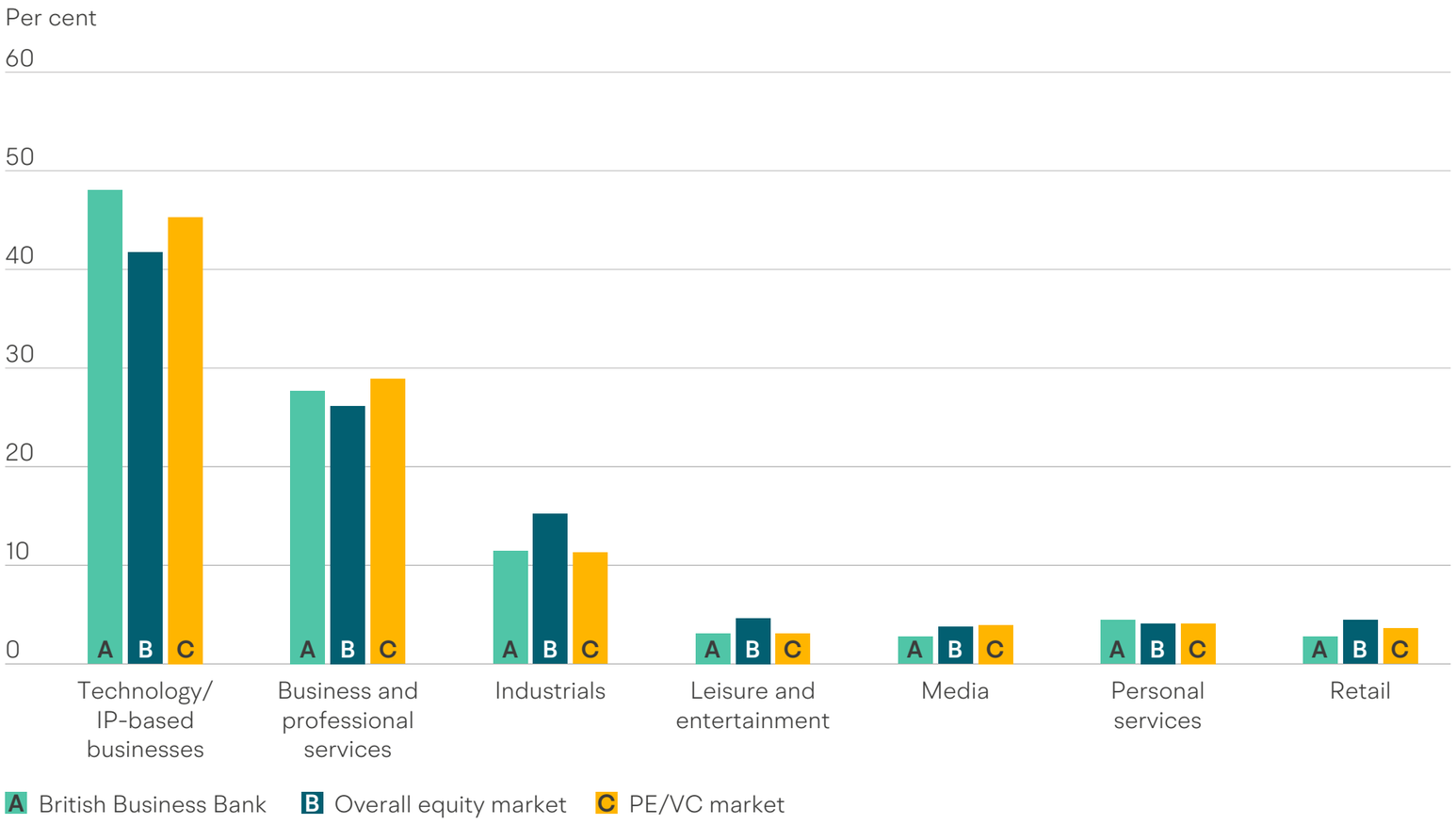


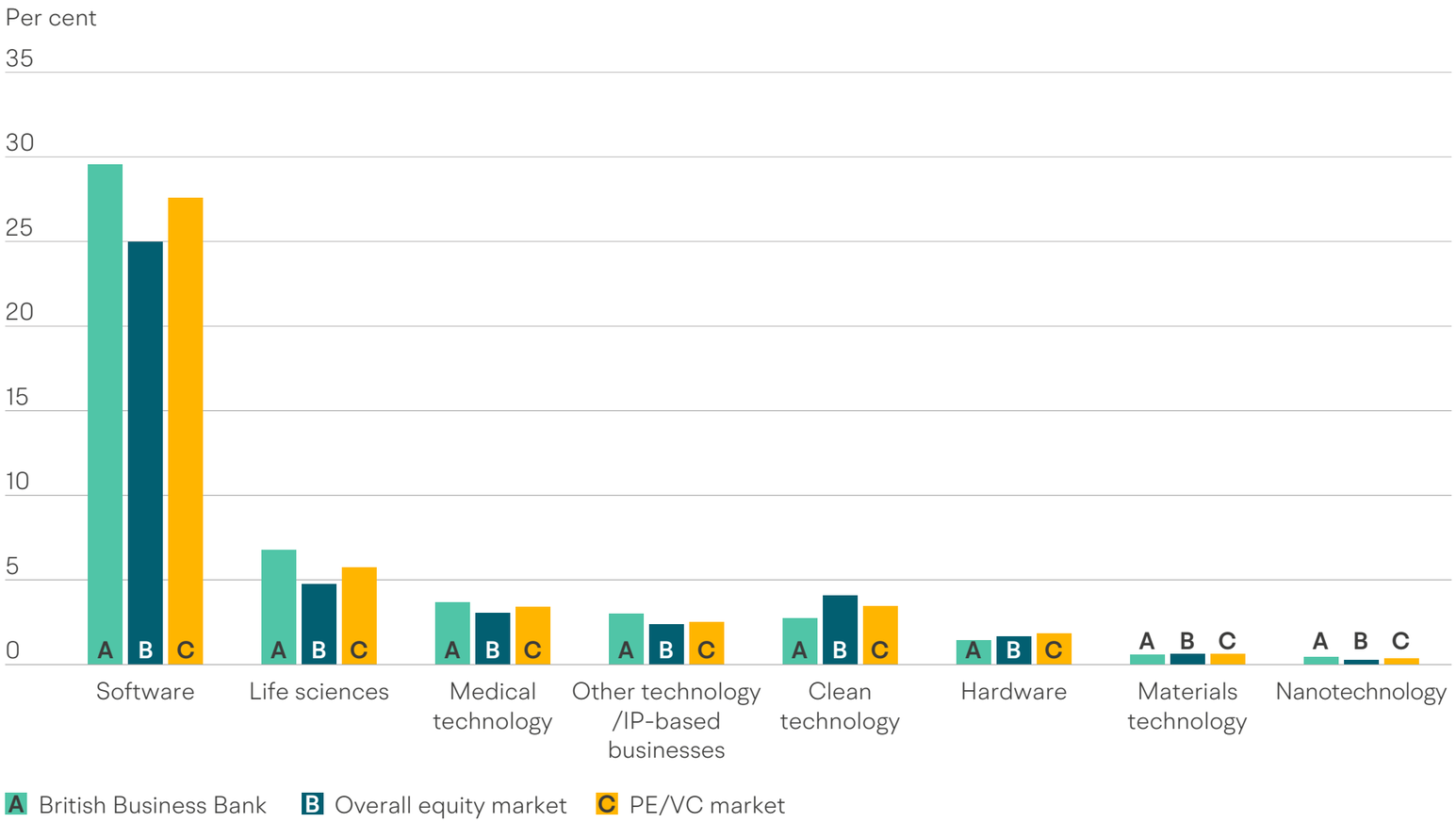
Figure 2.5 disaggregates the technology/IP-based businesses sector into the seven component sub-sectors within the Beauhurst data. This shows that 29.5% of Bank-supported deals in 2021-2023 were in the software sector, which is higher than the overall equity market (25.0%) and the PE/VC market (27.6%).

The Bank has a slightly higher proportion of deals invested in the life sciences sector (6.7%) compared to the overall market (4.7%). The data also shows that 2.7% of the Bank's deals are in the clean tech sector, compared to 4.0% of deals across the overall equity market.

Figure 2.5

Proportion of British Business Bank supported equity deals by technology sub-sector in 2021-2023

Source: British Business Bank analysis of Bank MI data and Beauhurst data



British Business Bank programmes are more likely to fund academic spinout companies than the overall equity market

Universities act as the country's centres of innovation, and the UK has some of the best universities in the world. These universities produce a large amount of research, and one way for them to commercialise this research is through the creation of university spinout companies.

During 2021-2023, the Bank supported 160 equity deals into companies classified as academic spinouts. As a proportion of all deals made by the Bank and Bank supported funds during the three-year period, this is equal to 13%. This is higher than the proportion of deals allocated to spinouts in by the overall equity market (9%) and the PE/VC market (11%).

BPC, the Regional Angel programme and Managed Funds were the largest contributors to spinout companies, together making up 83% of the Banks deals into university spinouts. The two regional programmes, NPIF and MEIF, also made important contributions, together making up 17% of the Bank's deals into spinouts.

As a percentage of all deals made by the programme, 57% of all the Future Fund: Breakthrough deals went to university spinout companies. While this is only based on 14 FF:B deals, it still reflects these programmes' objectives of funding R&D intensive companies.

The percentage of spinout deals for other programmes are 21% for MEIF, 15% for RAP, 10%for NPIF, 8% for ECF. One out of the first five LSIP deals also went into a spinout company. The high proportion of spinout deals across these equity programmes highlights the Bank's strategic objective to back innovation.

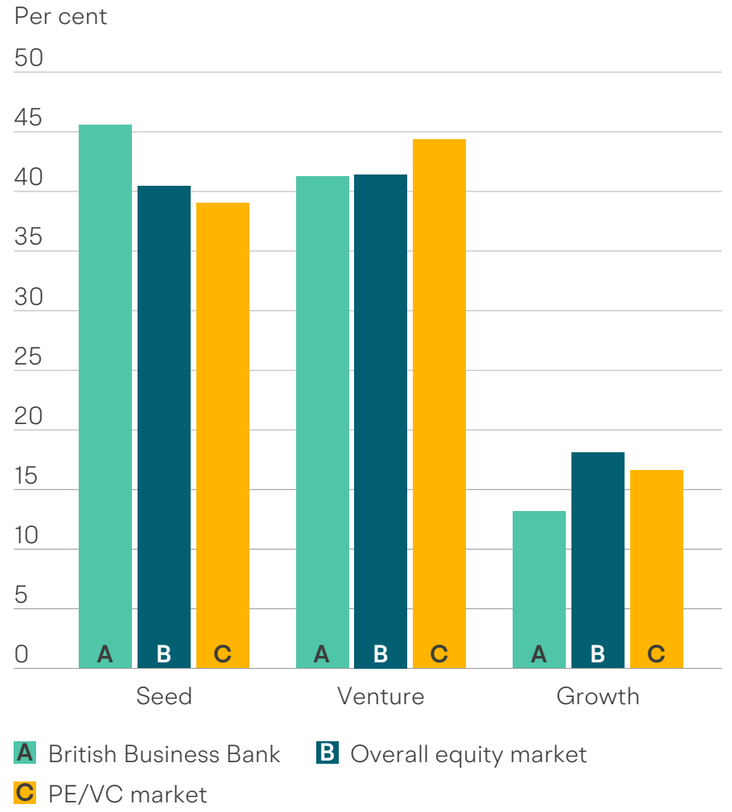
Because spinouts are classified as such through their entire life span, irrespective of whether they are raising their first round of funding or have raised multiple rounds of funding before, looking at which stage of the market the Bank supports these companies provides valuable insights.

British Business Bank supported funds allocate a greater proportion of deals to spinouts at their earliest stage (46%), compared to the overall equity (41%) and PE/VC (39%) market. This shows that the Bank's programmes are targeting spinouts in their earliest rounds, helping build the pipeline of these innovative companies directly out of university.

Figure 2.6

Proportion of British Business Bank supported spinout deals by stage in 2021-2023

Source: British Business Bank analysis of Bank MI data and Beauhurst data



Compared to the overall equity market, the Bank invested a higher or proportion of its equity deals in eight of the twelve UK regions and devolved nations

Between 2021-23, compared to the overall equity market the Bank invested a higher proportion of its equity deals in London, East of England, North West, South West, West Midlands, Yorkshire and The Humber, Northern Ireland, and East Midlands.

On the one hand the Bank's deals being concentrated in London reflects the strategic focus on the technology sector across some of the Bank's key products, particularly BPC, as well as the focus of the overall market. However, the activity of the Bank's regional programmes, including NPIF and MEIF, is also highlighted through its higher concentration of deals in the North West, the Midlands and Yorkshire and The Humber compared to the wider market.

Table 6

Proportion of equity deals by nation and English region in 2021-2023

Source: British Business Bank analysis of Bank MI data and Beauhurst data

Nations and English regions	British Business Bank	Overall equity market	PE/VC market
London	52.1%	49.5%	53.9%
East of England	7.6%	6.9%	7.2%
South East	5.9%	9.4%	8.9%
North West	6.4%	5.9%	5.6%
South West	5.3%	5.2%	4.7%
Scotland	5.9%	7.9%	6.6%
West Midlands	4.7%	3.2%	2.4%
Yorkshire and The Humber	4.3%	3.3%	3.1%
Northern Ireland	2.8%	1.2%	1.5%
North East	1.1%	2.7%	2.1%
Wales	1.3%	2.5%	2.0%
East Midlands	2.6%	2.4%	2.1%

The Bank's NPIF and MEIF programmes began investing in 2017 and 2018 respectively. Beauhurst picked up 30 deals made by these two funds in 2023, contributing 4.1% and 9.3% of the total deal number in the Midlands and the North respectively.

Whilst CIoSIF has a smaller number of deals identified in the Beauhurst dataset (nine in 2022 and seven in 2023), the number of wider marked deals in the Cornwall and Isles of Scilly Local Enterprise Partnership is lower than in other areas. CIoSIF therefore had a significant 33% market share in the number of deals in 2022, which has since declined to 17% in 2023, likely because fewer programme deals were identified this year.[16]

Looking ahead, the Bank's Nations and Regions Investment Funds will continue to drive sustainable economic growth by supporting innovation and creating local opportunity for new and growing businesses across the UK. These programmes will further expand the Bank's footprint across the UK's Devolved Nations, the North, the Midlands and the South West.

The proportion of Bank-supported deals involving female founder teams is in line with the overall equity market

Beauhurst's coverage of the gender of company founders and key people has increased over time. The records for the gender composition of founder teams are recorded for 93% of deals between 2021-23, and 94% of deals for the gender of key people in the company. The figures quoted in the analysis below are quoted for companies where the gender composition could be fully determined. Companies with insufficient information are excluded from the denominator to allow for robust comparisons.

Between 2021-23, 27% of the British Business Bank supported deals went to a company with at least one female founder (the sum of deals going to all-female founder and mixed gender teams). This is in line with the overall equity market, and slightly higher than the PE/VC market (26%).

While a company's founding team composition tends to not change significantly, as companies grow and develop, they are likely to take on additional people. It is therefore also important to assess the current composition of their key people.[17] By its nature, this should lead to the proportion of mixed teams increasing, and all-male and all-female teams decreasing assuming companies are just as likely to employ a man or a woman within its key functions.

Figure 2.8 shows that 65% of Bank supported deals between 2021 and 2023 went to an all-female or mixed gender team (when using key people as the broader measure of gender diversity), compared to 64% for the overall equity market and 68% for PE/VC funds.

The British Business Bank is one of the founding signatories of the Investing in Women Code, and manages its venture capital arm on behalf of the Department for Business and Trade. The Code helps drive the change necessary to improve venture capital markets for female founders, so they can raise the capital they need for their businesses to reach their full potential. The findings presented in this section of the report provide valuable market-wide data that complements the information gathered from Code signatories on investment in female founders.

The Investing in Women report is due to be published in autumn 2024. The premise behind both is to increase transparency across the industry, help identify whether measures to address the gap are working, and determine if further support is needed.

Figure 2.7

Gender composition of company founders receiving an equity deal in 2021-2023

Source: British Business Bank analysis of Bank MI data and Beauhurst data

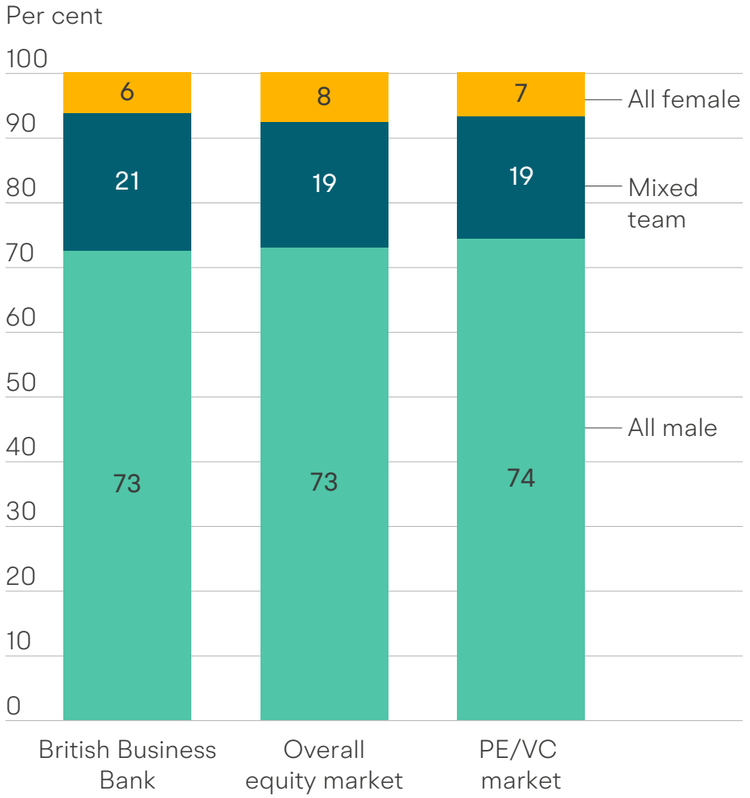
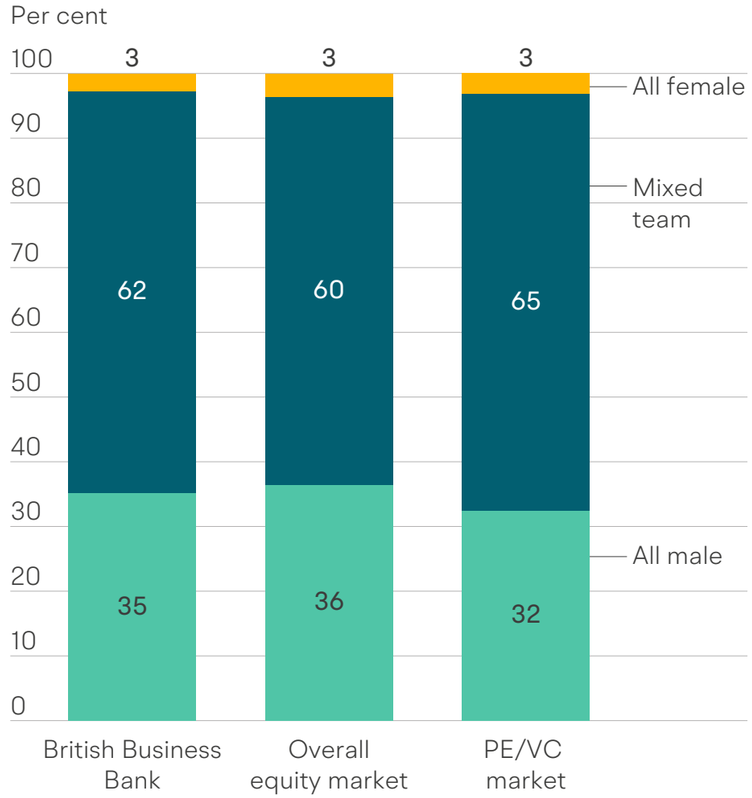


Figure 2.8

Gender composition of key people at companies receiving an equity deal in 2021-2023

Source: British Business Bank analysis of Bank MI data and Beauhurst data



3

International competitiveness of the UK VC market

- Over the past decade the UK has overtaken India as the third largest VC market in the world, now accounting for 5.8% of global investment
- During this period the UK has increased its share of global VC investment by more than any of the top twelve markets worldwide
- While fintech remains its biggest strength, the UK has also improved its market share in software, green tech and deeptech sectors
- The UK's pipeline of early-stage innovative companies is the third largest in the world, and is growing faster than the global average
- Cambridge and Oxford are competitive in life sciences, while other UK clusters also specialise in R&D intensive sectors

Introduction

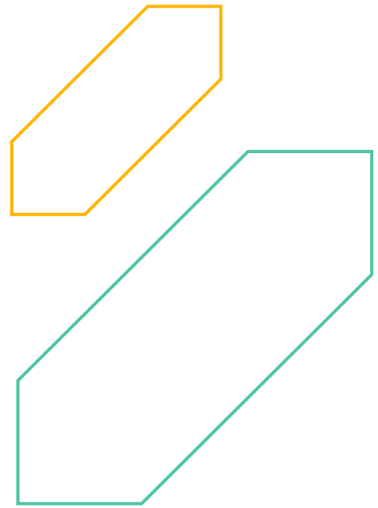
This chapter provides a current assessment of the international competitiveness of the UK venture capital (VC) market, comparing its size, growth and specialisation to other leading countries. The analysis predominantly draws upon international PitchBook data on recent trends in VC deal volumes and investment values (where our definition of VC includes seed, early stage and late stage VC deals).[18]

The analysis first looks into the UK's current position in the global VC market, before assessing the progress it has made over the past decade, whether other key competitors are catching up with the UK, and in which areas it has developed a comparative advantage – for example across industry sectors and VC stages.

The analysis also focuses on the relative strength of the UK in producing scale-ups (looking at later funding rounds and unicorn creation), and includes a section on the competitiveness of the UK's top city clusters for VC investment.

The twelve countries used for this analysis are broken down into two groups – key established competitors that have significant global market share in absolute terms, and emerging markets that have grown quickly over the past 5-10 years. Together (and including the UK) these twelve countries accounted for around 90% of global VC investment between 2021 and 2023, and 80% of deal numbers.

The Appendix of this report provides a more detailed summary of these individual competitor countries, including the characteristics and strengths of their innovation ecosystems, how they have developed over time, and some examples of key policy initiatives.



The UK is one of the most innovative countries in the world, though other competitors are more R&D intensive when adjusting for the size of the economy

VC funding is a key driver of innovation in an economy, enabling companies to commercialise solutions which solve societal problems and generate long-term productivity growth. Some of today's largest and most successful companies in the world – such as Google, Amazon & Tesla – have drawn upon VC finance to support the early stages of their growth journey.

To assess the competitiveness of the UK's VC market, it is therefore useful to understand the characteristics and strengths of its wider innovation ecosystem. The Global Innovation Index (GII) [19] is one of the most comprehensive evidence sources globally on the innovation performance of leading economies. The GII ranks 132 countries' innovation capacity based on key pillars such as research, infrastructure, market sophistication and innovation outputs.

The latest edition places the UK as the fourth most innovative country globally in 2023. Compared to the other top VC markets globally, with a score of 62.4 the UK sits behind Sweden (64.2) and the US (63.5).

The UK's underlying innovation strengths in the GII continue to centre around research capability, including citation impact and top university rankings. Separate data from the OECD also confirms this, using a measure of the share of research publications that are in the top 10% most-cited globally. Of the top 12 VC markets in 2020-2022,[20] on this metric Singapore (19.1%), the UK (14.1%) and the US (13.4%) are the most internationally competitive countries.

However, countries' innovation performance on these metrics is also driven by the size and development of their economies. When adjusting for differences in GDP (using OECD data on gross domestic expenditure on R&D), other competitor countries are more R&D intensive than the UK.

Israel (5.9% of GDP), South Korea (5.0%) and the US (3.5%) spent the most on R&D as a proportion of GDP during 2020-2022, while the UK (2.9%) ranked seventh of the top 12 VC markets. For Israel and South Korea this intensity is partly driven by their sectoral composition, which includes a strong focus on capital intensive industries like defence and manufacturing, as well as high levels of government R&D investment in recent years.

Over the past decade the UK has overtaken India as the third largest VC market in the world, now accounting for 5.8% of global investment

The UK has established its position as a global leader in VC investment over the last ten years. Today the UK VC market is the third largest in the world, deploying £72bn of investment across the 2021-2023 period, behind only the US (£580bn) and China (£221bn).[21]

Although a significant gap remains with these top two markets which are eight times and three times larger respectively – the UK is the biggest market in Europe by a significant margin. It attracted more investment during the past three years than France, Germany and Sweden combined.

The UK has also strengthened this position when compared to the beginning of the past decade, as shown in Figure 3.1. Its share of global VC investment value has risen from 3.4% in 2014-16 to 5.8% in 2021-23 – the largest percentage point increase of any of these top 12 countries. Its share of European VC investment value has also increased from 32.5% to 33.7% in 2021-23.

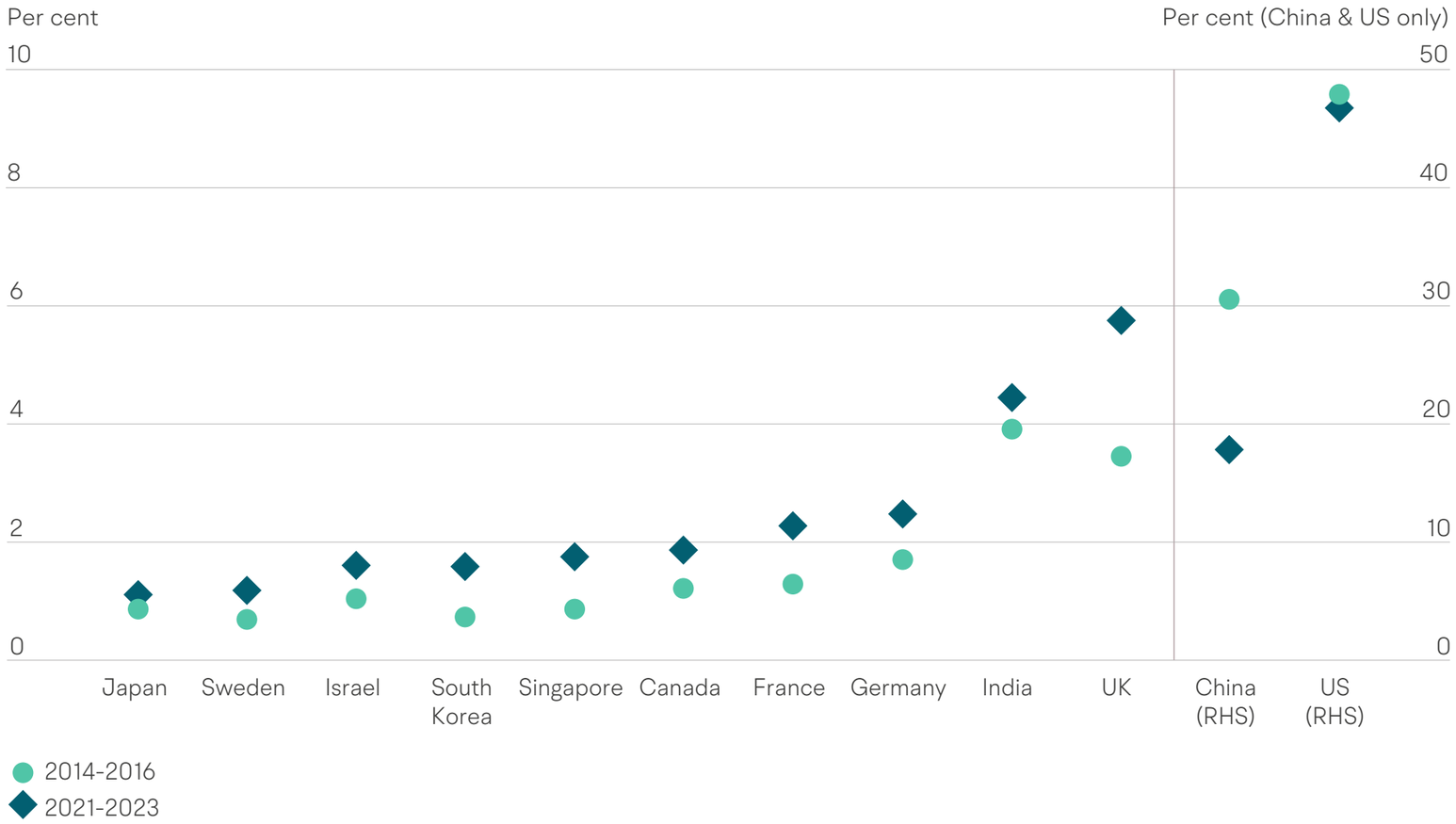
In terms of the UK's established competitors, the US has retained its position as the leading destination for VC investment. It accounted for 46.7% of global deal value, only a slight decline over the ten year period from 48.0% in 2014-16. While China is the second largest market in the world, it has seen a substantial reduction in its global market share from 30.6% to 17.8%.

India has only seen a small increase in its share of investment, from 3.9% to 4.4%, resulting in the UK taking its place as the third largest VC market in the world. France and Germany have retained their positions as the fifth and sixth largest markets, with investment shares of 2.3% and 2.5% respectively. While Israel was previously next in the global rankings, significant market growth from Singapore and South Korea has seen these two countries overtake it in value terms.

Figure 3.1

Share of global VC investment by country, 2014-2016 vs 2021-2023

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures



Breaking down this market share data by stage, the UK's share of global investment in 2021-2023 was highest at seed stage (6.8%). At this stage of the market the UK is second only to the US (53.8%) and ahead of China (4.8%). The UK performs less strongly at early stage VC, where it received 4.5% of global investment over the past three years, but is more competitive at later stage VC (with a market share of 6.1% in 2021-2023).

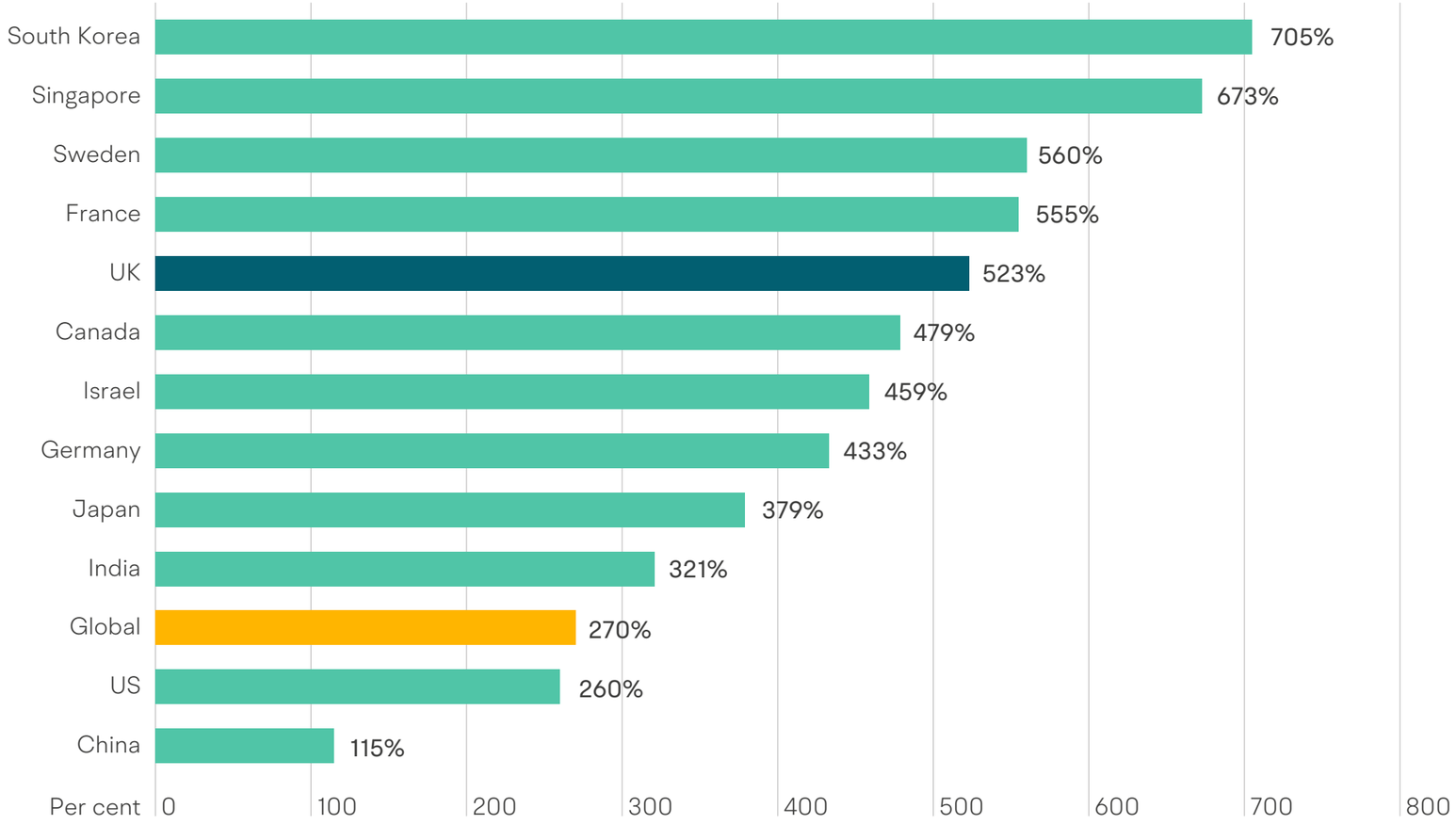
Looking at the growth trajectories of the UK's competitors in more detail in Figure 3.2, over the past decade only the US and China have lagged behind global growth in VC investment. The UK has performed strongly, with an increase in investment of 523%, growing at nearly twice the rate of the global average (270%). When removing the US and China, the UK has still grown faster than the average of other competitor countries (of 507%).

The fastest growing countries over the past ten years have been South Korea, Singapore and Sweden. This is partly due to their smaller size, meaning they are starting from a lower base – all three are emerging markets that have only began to compete globally in recent years.

Figure 3.2

Growth rate of VC investment by country, 2014-16 to 2021-23

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures



However, these countries are also some of the world's top innovation economies. Sweden ranked second in the GII in 2023 and has produced a number of unicorns in recent years such as Spotify, Skype and Klarna. Singapore ranked fifth in the GII in 2023 and first for its R&D institutions, with world class digital infrastructure and connectivity. It is now one of the most recognised startup hubs in southeast Asia and provides access to the fast-growing ASEAN market.

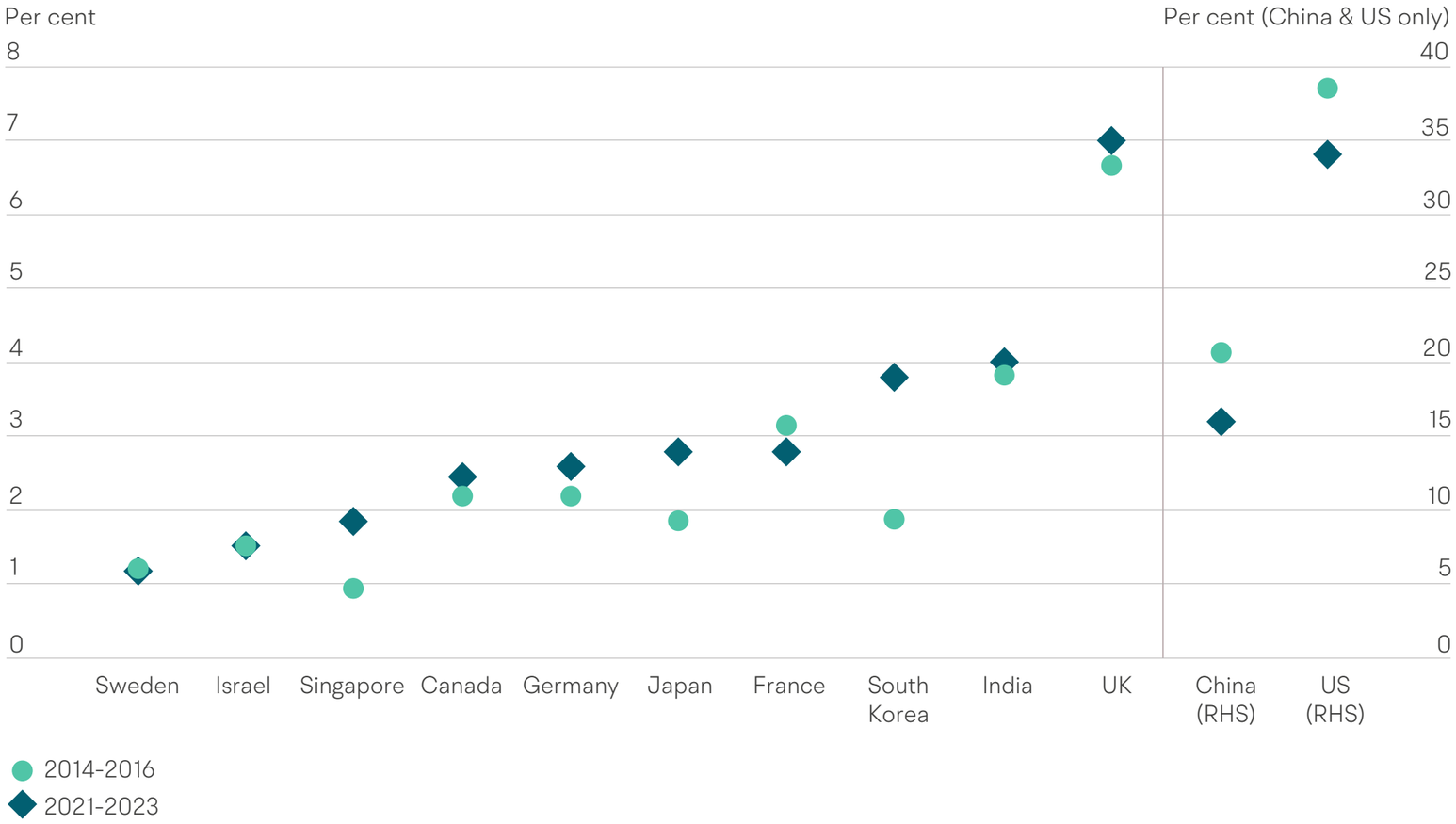
Focusing on more recent growth in VC investment, comparing values in 2021-2023 against 2018-2020, the UK has demonstrated the strongest performance of any of the top twelve global markets. Its three-year growth of 205% (equal to more than doubling the level of activity), was significantly higher than Sweden (150%), Canada (113%) and Germany (109%).

While the UK has made significant progress over the past decade on an investment value basis, it remains more globally competitive when using the number of VC deals as the key metric. As shown in Figure 3.3, during the 2021-2023 period it accounted for 7.0% of VC deals in the world market, up from 6.7% in 2014-2016.

Figure 3.3

Share of global VC deal count by country, 2014-2016 vs 2021-2023

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures



This places the UK as comfortably the third largest market in the world on a deal numbers basis, ahead of India (3.8%), South Korea (3.7%) and France (2.8%). As the UK's share of investment has risen to a greater extent, this highlights that the UK is now funding larger deals on average compared to ten years ago.

South Korea has seen the biggest improvement on this measure, with its deal share increasing from 1.9% to 3.7% over the ten year period. Other emerging markets such as Japan and Singapore have also made significant strides in their proportion of global deal numbers. While a significant proportion of these deals are likely to be early stage given the relative immaturity of these markets, in future this progress will likely be reflected in increased investment value share, as companies scale up through the funding rounds over time.

The US and China are the two countries that have seen the largest contraction in their share of global deal numbers – to 34.3% and 16.0% respectively. These two leading markets now account for a half of deals that take place across the world, when ten years ago this proportion was just under 60%. This trend highlights how global market activity is becoming much more widely distributed, with smaller countries and clusters gaining comparative advantage in specific sectors and industries.

While fintech remains its biggest strength, the UK has also improved its market share in software, green tech and deeptech sectors

Looking at the underlying drivers of the UK's increase in market share, this section assesses where the UK VC market has developed a comparative advantage in certain sectors – including fintech, software, life sciences, deeptech, the green technology sector, and the R&D intensive sector. The Bank's Small Business Equity Tracker 2023 report[22] included a more granular analysis of the UK's strengths and opportunities within specific technologies.

The report appendix (table 11) provides a full list of PitchBook verticals included in the deeptech and R&D intensive sectors. The life sciences sector includes PitchBook's 'life sciences', 'healthtech' and 'pharma & biotech' verticals, while the greentech sector includes the 'cleantech' and 'climate tech' verticals.

Greentech covers any technology that has been created to contribute to a better environmental outcome. This captures a broad range of environmental benefits including decarbonisation, resource efficiency, pollution control and nature preservation.

Figure 3.4 shows how the UK's global market share in each sector has changed over the past decade (from 2014-2016 to 2021-2023). While the UK's biggest strength was fintech ten years ago, it has significantly strengthened this position recently.

The UK now accounts for 11.3% of global investment in the fintech sector, and 48% of European fintech investment, making this industry a success story for the UK VC ecosystem. Some of the largest fintech deals globally over the past ten years have involved UK companies, such as Checkout.com and SumUp.

The UK's position in green tech sectors has also improved significantly in recent years, with its share of the global market increasing from 2.6% to 4.5% over the past decade. It is now more competitive on this measure than in R&D intensive and deeptech sectors, and has a similar market share to life sciences.

In deeptech and R&D intensive sectors, where VC investment requires specialist technical and scientific knowledge, as well as large pools of patient capital, the UK market is less internationally competitive. However, its global position has still improved over the past decade, with the UK now accounting for 3.8% and 4.0% of total investment in these sectors, respectively, in 2021-23.

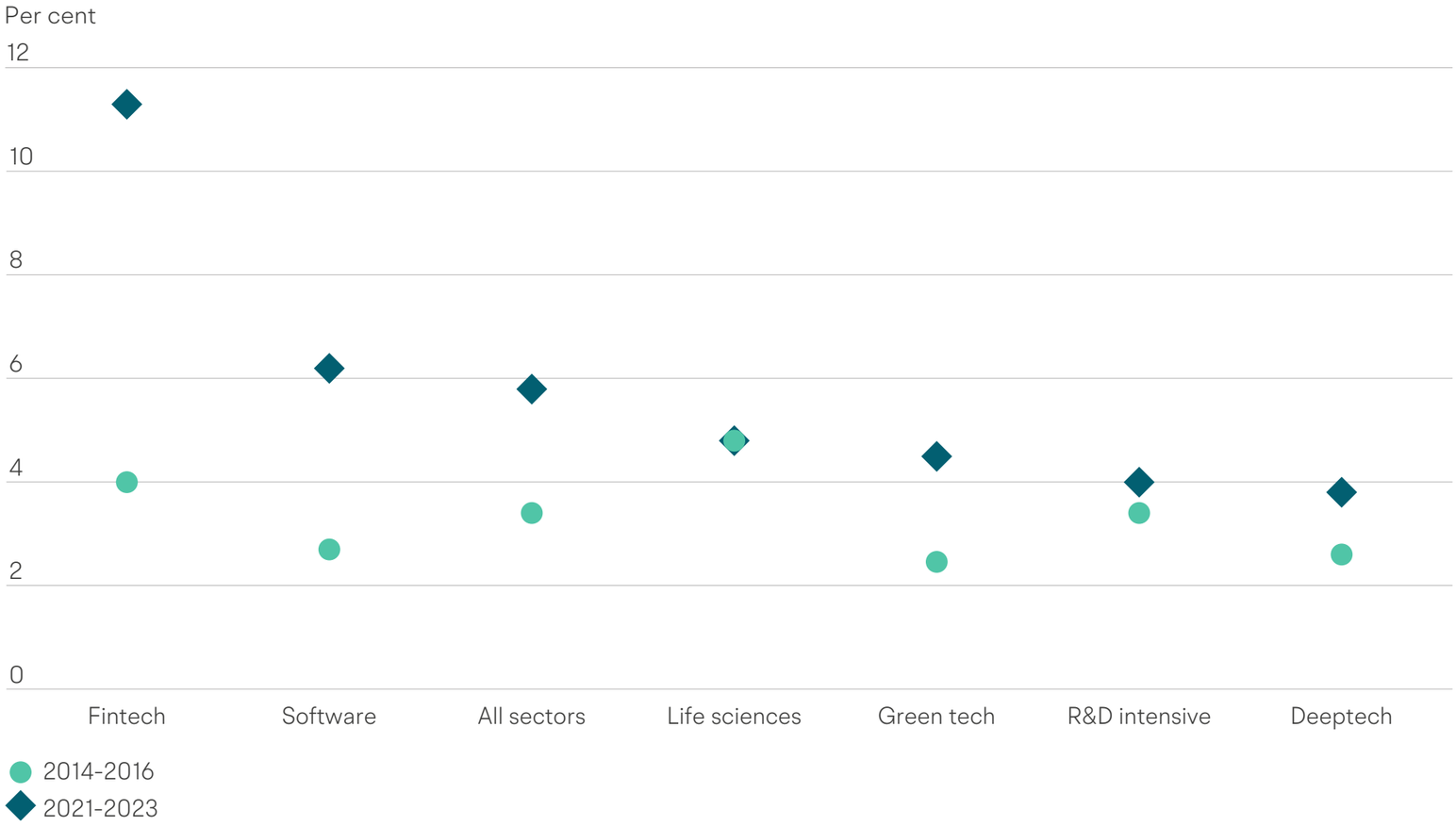
The life sciences sector is the only industry where the UK has experienced a lack of progress over the past decade, with its share of global investment value equal to 4.8% in both time periods.

The UK has world class underlying research capability in this field and is home to established pharma industry players. However, it lacks the large specialist VC funds of countries like the US, or the European market which has active investors such as Forbion, EQT life Sciences, Sofinnova, Jieto and Andera.

Figure 3.4

UK share of global VC investment by sector, 2014-2016 vs 2021-2023

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures



The closest competitors in France, Germany and Canada have made limited progress in catching up with the UK, except in parts of the green tech and deeptech sectors

Of the comparator countries that sit behind the UK in terms of VC market size, Canada, France and Germany have been the closest competitors. This section takes a deeper dive into recent trends to assess whether these economies are closing the gap with the UK, either in aggregate or in specific segments of the market.

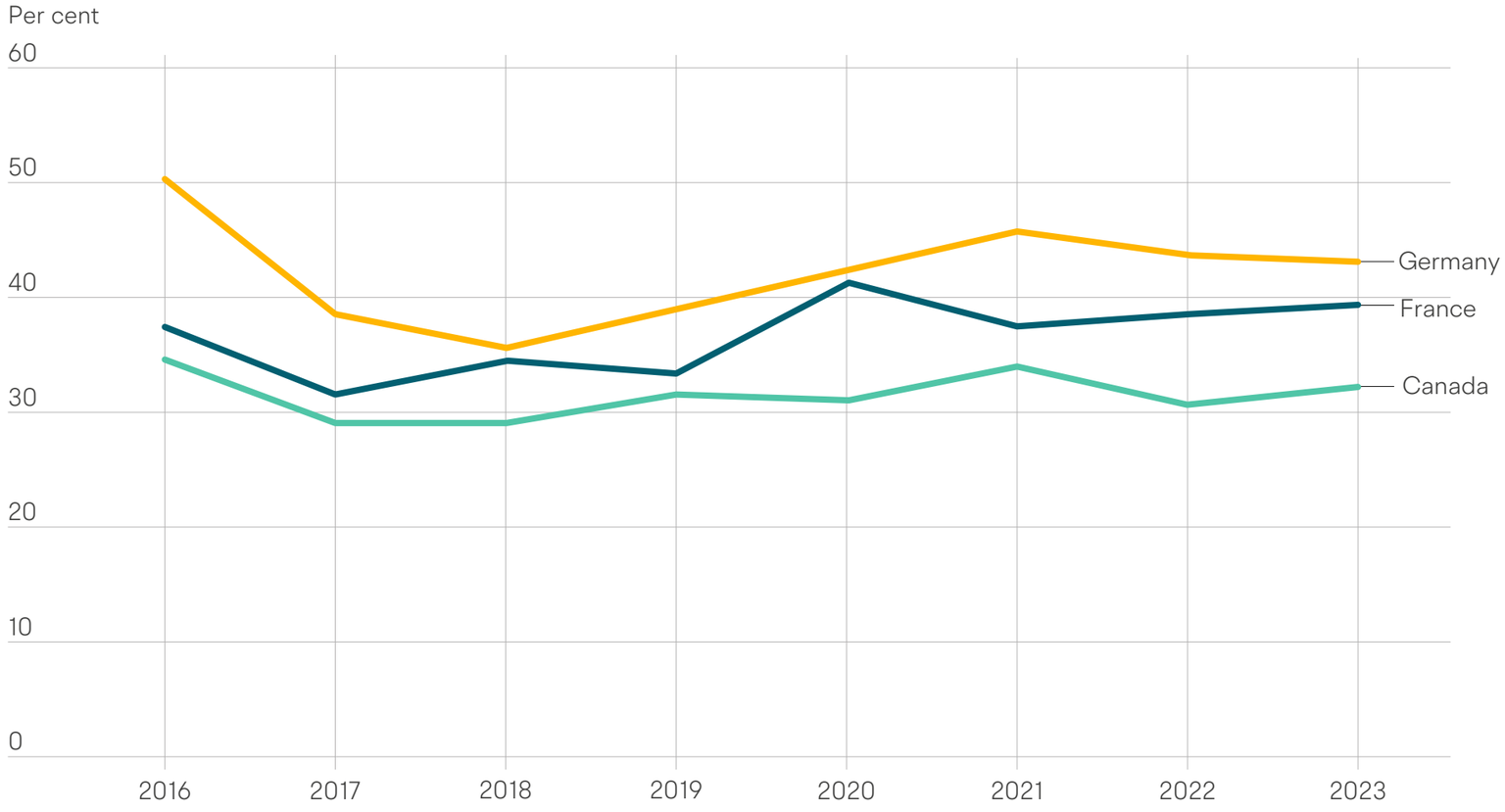
Afterwards, the next chapter of the report will explore further what the UK needs to do to reach the global frontier, focusing on the gap with the US as the most globally developed VC market.

Figure 3.5 shows the extent to which these key competitors have closed the gap with the UK in VC investment value over the past ten years (using a three-year moving average). India is not included in this analysis given it has been ahead of the UK in investment value terms for the majority of the past decade.

Figure 3.5

VC investment over time by country, as a proportion of UK total (three-year moving average)

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures



The data shows that, having initially fallen further behind the UK in 2017, France and Germany have seen some steady improvement in the years since. French VC investment has increased from 31% of the UK total in 2017 to 39% in 2023, while German investment has risen from 38% to 43%. However, their investment levels as a proportion of the UK's still remain less than 50% in 2023.

While the UK has maintained a significant gap over these key competitors in aggregate, the relative specialisations of these economies means that they could be more competitive with the UK in certain stages and sectors of the market. Table 7 provides data on the sectors and underlying stages in which these countries have raised similar amounts of VC investment over the past three years from 2021-2023 – where 100% indicates an equal amount of funding as the UK.

Table 7

VC investment levels as a proportion of UK total, by sector and stage (2021-2023)

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures

Sector	Stage	Canada	France	Germany
Life sciences	Seed	37.3%	29.2%	29.2%
	Early stage VC	11.5%	33.8%	32.0%
	Late stage VC	26.9%	**52.8%**	20.6%
Deeptech	Seed	36.5%	41.5%	**53.3%**
	Early stage VC	17.8%	**72.8%**	**88.9%**
	Late stage VC	**53.8%**	**62.9%**	46.8%
R&D intensive	Seed	34.9%	38.4%	45.1%
	Early stage VC	13.5%	**55.6%**	**63.4%**
	Late stage VC	42.9%	**58.2%**	41.0%
Green tech	Seed	33.7%	31.5%	**71.4%**
	Early stage VC	13.0%	**89.5%**	**57.2%**
	Late stage VC	**80.3%**	**76.9%**	**71.4%**
Fintech	Seed	34.4%	21.3%	31.9%
	Early stage VC	9.8%	26.0%	16.4%
	Late stage VC	15.4%	16.6%	30.6%

Values of 50% or above are highlighted, to show where competitors receive over half of the UK's total.

The data shows that, overall, these economies are most competitive with the UK in deeptech and green tech sectors. In deeptech, for example, France and Germany raise comparable amounts of finance at the early stage of the VC market – attracting 72.8% and 88.9% of UK investment levels, respectively.

In green tech sectors, France is also particularly competitive in early stage VC, raising 89.5% of the UK total in 2021-23. At the later stage of the green tech market, on the other hand, both Canada (80.3%) and France (76.9%) perform relatively strongly. Overall, when compared to these countries' overall investment gap with the UK (of more than 50%), it is evident that they are making more significant strides to close the gap in certain segments of the market.

From a policy perspective, the European Green Deal has accelerated the mobilisation of private capital in Europe towards addressing its long-term climate goals. At COP28, for example, the European Investment Fund announced €200m of new commitments to four equity funds, investing a total of €2bn to drive climate action and innovative technology developments across Europe.[23]

Development banks such as BPI France and KfW in Germany are also taking a more active role in targeting capital towards green tech and deeptech sectors. France launched a Deeptech Plan in 2019 to advance its nascent deeptech industry,[24] including a headline target of creating 500 deeptech startups a year. In Germany, up to €1 billion is expected to be available for its DeepTech Future Fund in the coming ten years, with the aim for attracting additional private investors alongside.[25]

The UK's pipeline of early-stage innovative companies is the third largest in the world, and is growing faster than the global average

Looking ahead, to maintain a future-facing view of the UK's competitiveness it is also helpful to assess the size and growth of the pipeline of early stage innovative companies. One way this can be measured with available equity data is using the number of first-time VC deals that are taking place in each country, and how this variable is changing over time.

During the period 2021-2023, a total of 4094 first time VC deals were recorded in the UK. This is compared with 20,157 in the US and 8,518 in China – meaning that the UK's gap in first time deals with these leading markets is broadly in line with the gap in overall deal numbers. Looking at the UK's other competitors, however, a number of these economies (such as Singapore, South Korea and Germany) are closer to UK levels of activity on this measure.

This is further illustrated by Figure 3.6, which displays growth rates over the past decade in the number of first time deals (comparing 2014-16 with 2021-23). The UK's growth rate of 64.2% has exceeded the average global growth rate of 55.6% over this period, indicating that it is maintaining a relatively strong pipeline of innovative companies on an international basis.

However, other competitor countries are growing more quickly – in particular Singapore (202.7%), South Korea (150.7%) and Japan (108.6%). This is partly to be expected seeing as these are smaller, more emerging VC markets that are starting from a smaller base.

Germany and Canada have also experienced faster growth in first time deals, though, at 103.6% and 71.5% respectively. If this growth is sustained, this will support the competitiveness of these markets in future as companies scale and move through the VC pipeline.

Figure 3.6

Growth in number of first time deals, 2021-2023 vs 2014-2016

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures

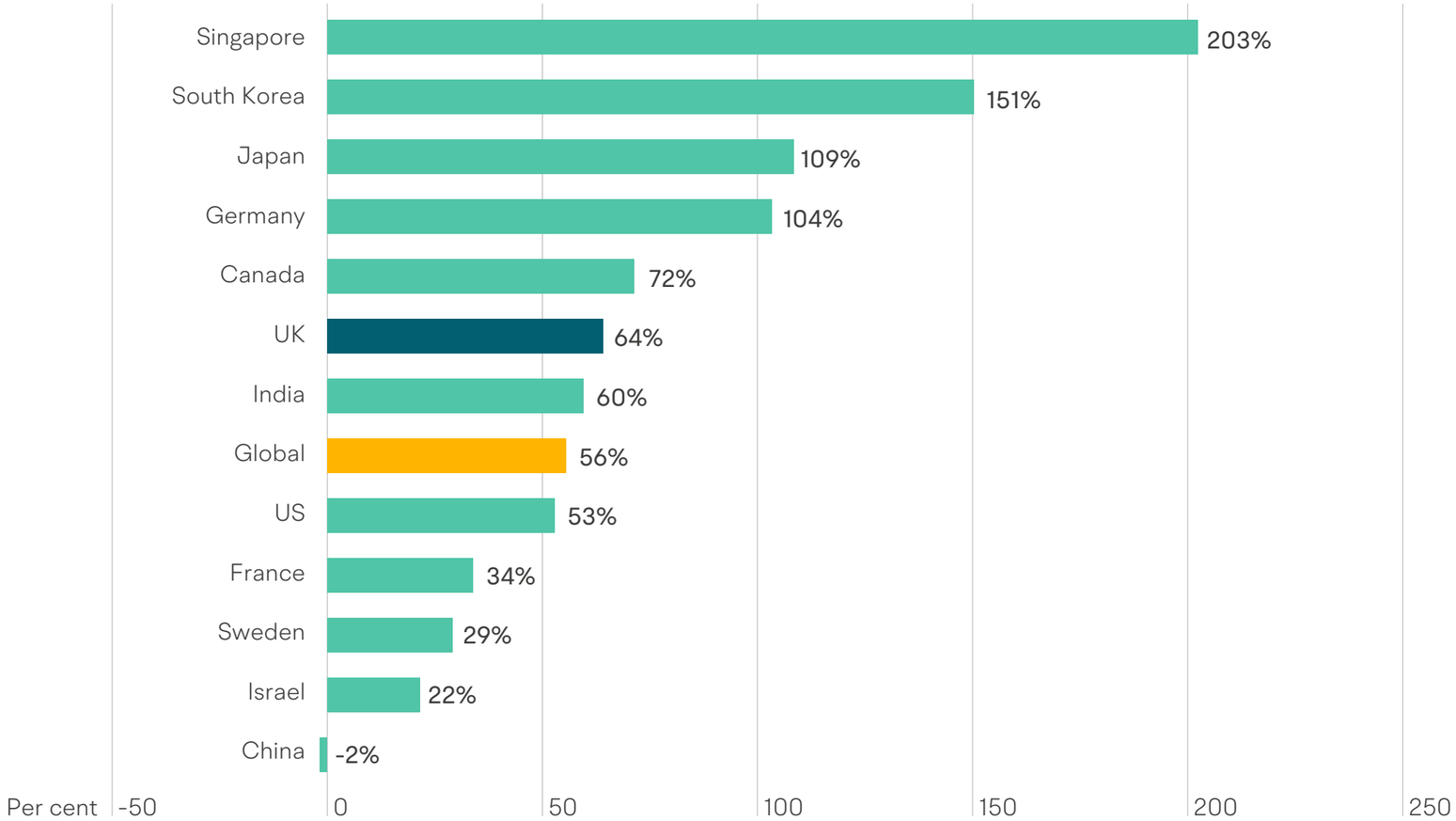


Figure 3.7 shows, for each of these key competitor countries, the cumulative total of average round sizes between rounds one to six (across the 2019-2023 period). Germany performs particularly well on this measure – by the fourth round, for example, German average deal sizes totalled £58.5m. From the fifth round onwards average deal sizes continue to scale up quickly in Germany (with a cumulative total of £165.8m by round six).

Germany does not register as many VC deals as other countries, ranking eighth out of the top twelve markets for its share of global deals. However, the deals that are completed in Germany tend to be larger on average. The industries in which this has been particularly evident over the past three years are financial services, materials & resources and the energy sector.

Across the other competitor countries shown here, companies all follow a similar funding trajectory between their first and fourth rounds. However, French deal sizes scale up much more quickly at the later stages, leading to a cumulative average deal size of £112.0m by the sixth round.

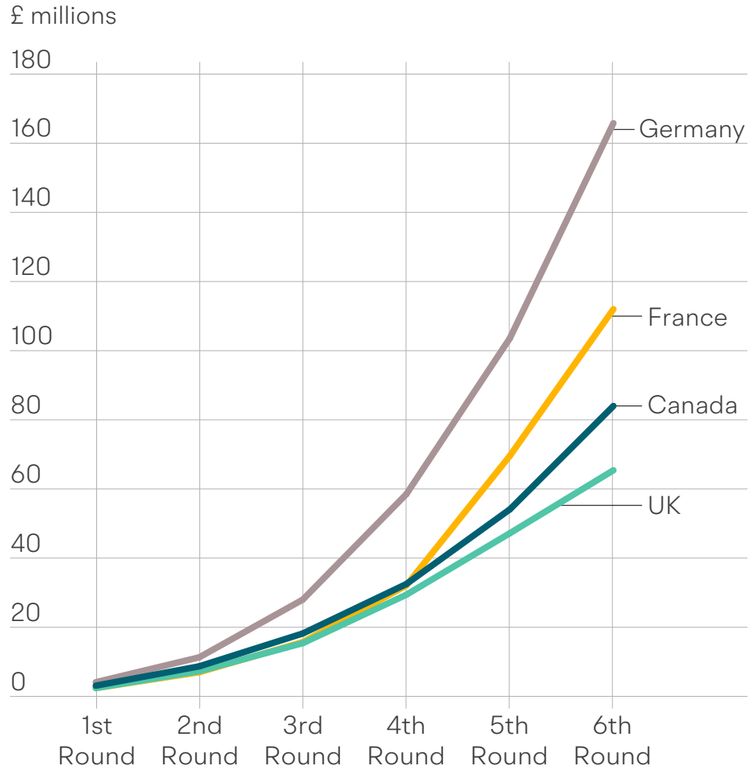
The UK follows a closer path to Canada, performing comparatively poorly at enabling VC-backed companies to raise large amounts of capitals in later funding rounds. The UK's cumulative average deal size during this period was £65.4m, which was 42% less than France and 61% less than Germany.

Following this through to the later stages of a company's growth journey, we can compare the relative strength of each economy in producing successful scale up businesses. The UK was the fourth leading market globally in 2021-2023 for unicorn creation. It accounted for 3.6% of the unicorns created globally during this period, producing more than France and Canada combined (and by far the most in Europe). However, its share of unicorns is relatively low when compared to its share of VC deals (7.0%) and investment value (5.8%).

Figure 3.7

Cumulative average deal size by round number, 2019-2023

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures



In addition, we can also analyse the number of private unicorn businesses per 1,000 VC-backed companies (as shown in Figure 3.8). This adjusts for the size of each country's market (as larger markets are generally more able to produce scale up companies) and gives an indicator of how efficient each economy is in creating unicorns. On this measure the UK sits just behind Canada and France (with 6.1 unicorns per 1,000 companies) – and ahead of only Sweden, Japan and South Korea.

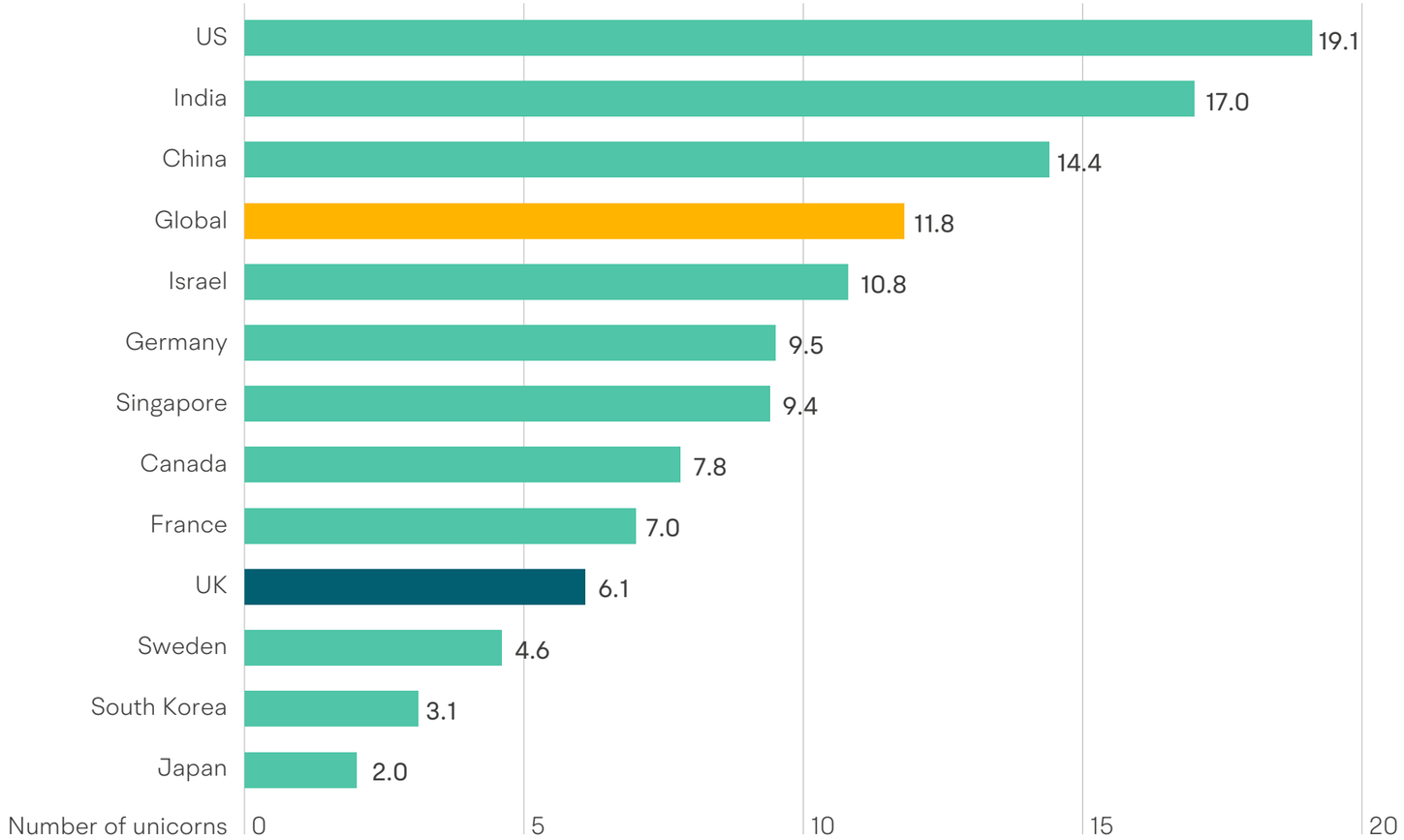
This indicates that the UK could be more efficient in translating innovative companies into world-class players. The US (19.1 unicorns per 1,000 companies), India (17.0) and China (14.4) have been by far the most successful markets on this measure.

It should be noted that this analysis does not factor in the relative maturity (rather than size) of each market, nor the market competition dynamics and policies at play which can either support or hinder unicorn creation.

Figure 3.8

Number of unicorns per 1,000 VC-backed companies, 2021-2023

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures



Cambridge and Oxford are globally competitive in life sciences investment, while a number of other UK clusters specialise in funding R&D intensive companies

In addition to these overall international comparisons, from a policy perspective it is also helpful to investigate the UK VC market's competitiveness at a sub-national level. This section assesses which UK city clusters are globally competitive and in which sectors they specialise.

Table 8 shows the top 10 UK cities for VC investment over the past ten years, and the share of European VC investment they have attracted over this time period. For each city, the sector in which it accounted for the largest share of European investment is highlighted, to indicate the relative specialism of each cluster.

Table 8

UK cities' share of European VC investment, by sector (2014-23)

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures

City	All sectors	R&D intensive	Life sciences	Green tech	Fintech
London	22.9%	10.8%	12.1%	6.99%	**42.6%**
Cambridge	1.76%	3.41%	**6.96%**	0.34%	0.04%
Oxford	1.04%	2.34%	**5.04%**	0.46%	0.01%
Edinburgh	0.34%	0.49%	**0.55%**	0.31%	0.15%
Bristol	0.61%	**1.19%**	0.10%	1.15%	0.16%
Leeds	0.13%	**0.23%**	0.07%	0.10%	0.05%
Manchester	0.40%	0.42%	**0.47%**	0.12%	0.16%
Cardiff	0.20%	0.09%	0.15%	0.04%	**0.76%**
Belfast	0.17%	0.17%	0.18%	**0.19%**	0.04%
Birmingham	0.22%	0.42%	0.03%	**1.10%**	0.14%

For each city, the sector in which it accounts for the largest share of European investment is highlighted in green, to indicate the relative specialism of each cluster.
Birmingham's green tech figure is skewed by an outlier £500m deal in PitchBook for autonomous vehicle company Conigital. However, it is not yet clear whether this investment has materialised.

London is the UK city which attracts the greatest share of European VC investment – and by a significant margin. Its overall market share of 22.9% is more than ten times higher than the next most competitive city, Cambridge, which has a share of 1.8%. Its real strength is in fintech where it accounts for 43% of VC investment in Europe, making it nearly twice as competitive in this sector than on an overall basis.

Cambridge and Oxford both particularly competitive in the life sciences sector, accounting for 7.0% and 5.0% of European VC investment respectively. Taken together with London, the Golden Triangle cluster as a whole has received almost a quarter (24.1%) of European life sciences investment over the past decade. Edinburgh (0.5%) and Manchester (0.5%) also specialise in the life sciences sector on a relative basis when compared to other industries.

Table 9

UK cities' revealed comparative advantages in VC investment, by sector (2014-23)

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures

City	All sectors	R&D intensive	Life sciences	Green tech	Fintech
London	1.00	0.47	0.53	0.30	**1.86**
Cambridge	1.00	1.94	**3.96**	0.20	0.02
Oxford	1.00	2.25	**4.86**	0.44	0.01
Edinburgh	1.00	1.44	**1.60**	0.90	0.45
Bristol	1.00	**1.95**	0.17	1.88	0.26
Leeds	1.00	**1.79**	0.55	0.75	0.40
Manchester	1.00	1.04	**1.16**	0.29	0.40
Cardiff	1.00	0.47	0.75	0.19	**3.86**
Belfast	1.00	1.01	1.06	**1.13**	0.23
Birmingham	1.00	1.94	0.15	**5.03**	0.63

For each city, the sector in which it accounts for the largest share of European investment is highlighted in green, to indicate the relative specialism of each cluster.
Birmingham's green tech figure is skewed by an outlier £500m deal in PitchBook for autonomous vehicle company Conigital. However, it is not yet clear whether this investment has materialised.

The competitiveness of these cities in this field is reflected by the strength of their universities in life sciences research. The QS World University Rankings for 2024[26] places the University of Oxford first in Europe, the University of Cambridge third, Imperial College London fourth, University College London fifth, The University of Edinburgh sixth and the University of Manchester eighth.

In green tech industries, the largest UK clusters in London, Cambridge and Oxford have performed comparatively poorly over the past decade. Cities that have attracted a relatively high share of European VC investment include Bristol and Birmingham (though for the latter this has been driven by a mega deal in the autonomous vehicle start-up Conigital). In addition to these cities, while Belfast has a lower absolute market share in green tech sectors, it is slightly more competitive in this area of the market than across all sectors together.

The relative specialisations of each cluster are further indicated by revealed comparative advantage (RCA) estimates, which are calculated as a ratio of a city's share of European investment in a specific sector versus its share of investment across all sectors. An RCA of above one, for example, is evidence that the city has a positive specialisation in a particular sector.

These RCA estimates indicate that a number of cities have a comparative advantage in financing R&D intensive companies. Cambridge, Oxford, Bristol and Birmingham in particular are all around twice as competitive in attracting VC investment in R&D intensive sectors, when compared to investment across all sectors. Edinburgh also has a positive specialisation in both R&D intensive sectors and the life sciences sector, with RCA estimates of 1.4 and 1.6 respectively.

The highest RCA estimates across this analysis are Oxford (4.9) and Cambridge (4.0) in the life sciences sector – indicating that these clusters are four times more competitive in funding life sciences companies, than funding businesses across all sectors. Birmingham also has an RCA of 5.0 in the green tech sector, though as mentioned previously this has largely been driven by one large outlier deal in the autonomous vehicles sub-sector.

Across other parts of the UK, Cardiff is nearly four times more competitive in the fintech sector (where it accounts of 0.8% of European investment) than on an overall basis. Bristol and Belfast also have positive specialisation in funding green tech companies, with RCAs of 1.9 and 1.1 respectively. In 2023 Bristol deployed £219m of VC investment in this industry (behind only London and Birmingham), and since 2018 it has raised half a billion pounds in green tech finance.

4

Assessment of UK equity market gaps

- The UK has narrowed its VC investment gap with the US, though this has partly been driven by cyclical factors
- While the UK outperforms the US in fintech, investment gaps remain in life sciences and deeptech sectors – particularly beyond the seed stage
- UK companies raise considerably less than US companies as they progress through VC funding rounds, with the gap widening at later stages
- Green tech-focused companies are not scaling up in size to the same extent as businesses across the overall equity market

Having analysed the UK's competitiveness against a range of comparator countries, this chapter provides an up to date assessment of the UK's investment gap with the US, as a benchmark of an efficiently working market that is the most developed globally. For this analysis we compare VC investment trends in both countries and adjust for the relative size of the economy through GDP measures.

This gives an indication of how much additional finance is required for the UK to be at the same relative level as the US, and therefore how much more capital the UK market might be able to absorb.

The chapter firstly assesses the scale of the UK's overall 'investment gap' with the US market and how this has changed over time, before seeking to identify in which areas of the market this gap is most and least acute. For example, the analysis includes different breakdowns by stage and sector (including R&D intensive, green tech and software-based industries), as well as exploring the extent to which UK companies are successfully scaling up through VC rounds in comparison to their US counterparts.

The chapter also includes a detailed assessment of trends in equity finance for green tech-focused companies in the UK, using Beauhurst equity data. This analysis compares investment trends for green tech companies against the wider UK SME equity market, including a detailed breakdown of the sector composition of these companies and their delivery model (e.g. hardware, software and service-based businesses).

The UK has narrowed its VC investment gap with the US in 2021-2023, though this has partly been driven by cyclical factors

Given that the US is home to the largest and most developed VC industry globally, it is unsurprising that the UK has a significant investment gap with this market in absolute terms.

In 2023 this gap stood at £120bn, equivalent to the US raising 8.5 times more VC funding than the UK. The scale of this absolute gap has declined over the past decade, though, from a multiple of 16.6x in 2014 to 10.5x in 2019. In 2022 the US raised 6.8 times more investment than the UK – the lowest multiple on record.

Firstly taking a look at the UK's overall VC investment gap with the US, and how this has changed over recent years, Figure 4.1 displays aggregate estimates of VC investment as a proportion of GDP for both countries between 2018 and 2023. This data shows that, between 2018 and 2021, the UK had a significant investment gap of around 0.2-0.3 percentage points.

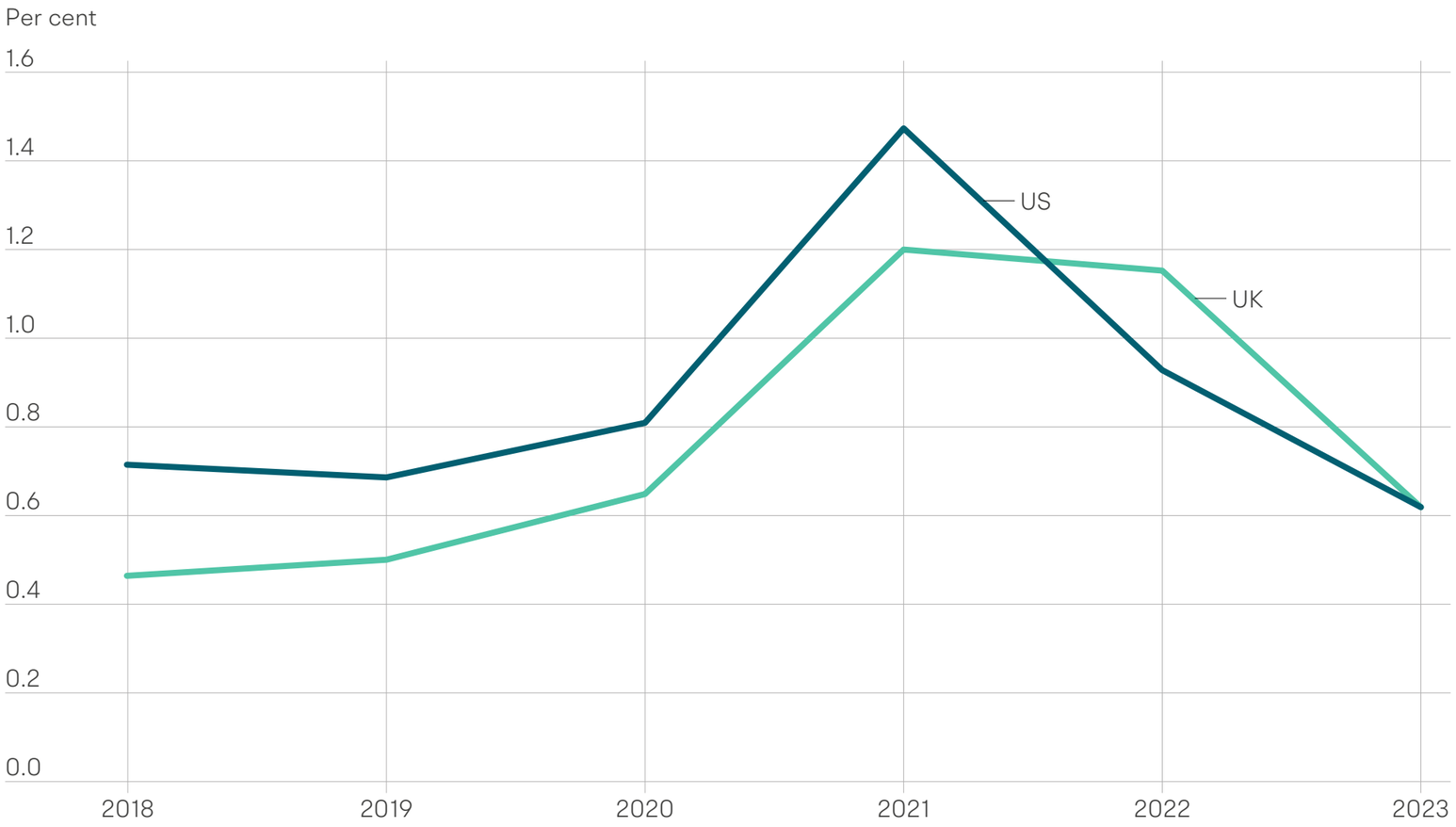
However, this gap has since narrowed and, as of the 2021-2023 period, the UK and the US both raised VC investment equivalent to 0.97% of GDP. The reduction in this gap is largely due to a particularly weak year for the US in 2022, when it had a VC-GDP ratio of 0.93% in comparison to 1.15% for the UK. In absolute terms US VC investment declined by 24% in 2022, while UK funding rose slightly by 5%, and the US economy also grew comparatively strongly in this year which further affected the GDP ratio.

Therefore, when interpreting these estimates it is important to bear in mind that UK and US market cycles have moved at different speeds since the pandemic, and that the two countries are also likely to recover from the recent downturn at varying rates. Due to these fluctuations, it should not yet be concluded that the UK has fully closed the gap with the US on a structural basis.

Figure 4.1

UK and US VC investment as a proportion of GDP over time

Source: British Business Bank analysis of PitchBook, Office for National Statistics and Bureau of Economic Analysis data.



While the UK outperforms the US in fintech, investment gaps remain in life sciences and deeptech sectors – particularly beyond the seed stage

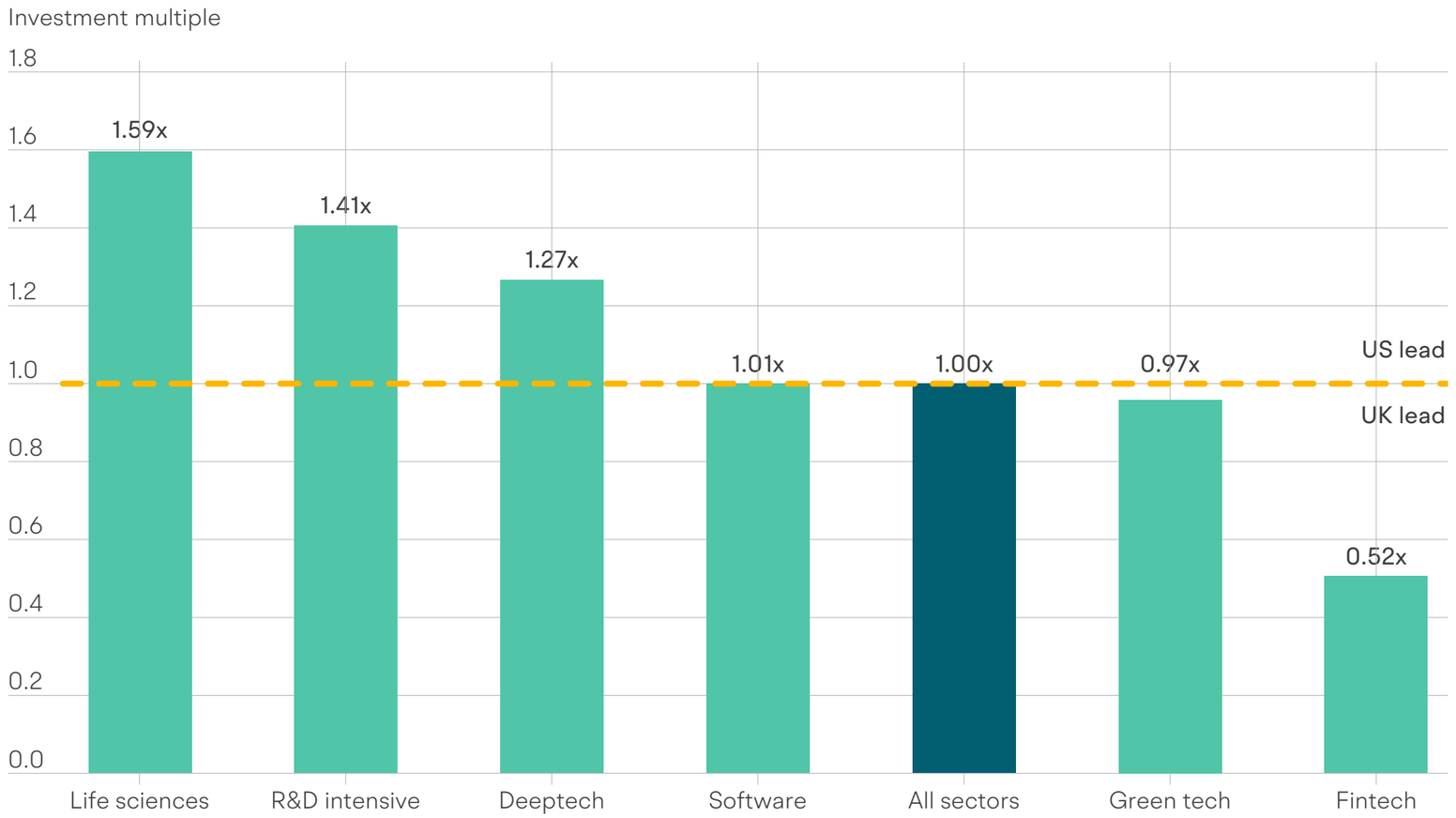
For the UK to be globally competitive in attracting VC investment in specific sectors, it needs to go further than reaching parity with the US in relative terms. To explore whether the UK is achieving this, Figure 4.2 presents the UK's GDP-adjusted investment gap in 2021-2023 broken down by industry. A value above one indicates that the US deploys more investment than the UK on a GDP-weighted basis, and vice versa.

The UK performs most strongly in the fintech sector – where it raised twice as much as the US in 2021-2023 after controlling for the size of the economy (giving a multiple of 0.52). Historically the UK has performed in line with the US in this sector, but in the last few years it has demonstrated stronger growth.

Figure 4.2

US-UK VC investment multiples by sector, GDP-adjusted (2021-23)

Source: British Business Bank analysis of PitchBook, Office for National Statistics and Bureau of Economic Analysis data.



Beyond the fintech sector, other industries where the UK now performs in line with the US also include green tech (0.08% of GDP) and software (0.54%). The sectors in which the UK has the largest gap with the US include life sciences, where the US raised 1.59 times more investment in 2021-2023, R&D intensive sectors (1.41 times) and deeptech (1.27 times).

However, as shown in Figure 4.3 – which illustrates how these GDP-weighted multiples have changed over time – even in these sectors there has been a notable narrowing of the gap since 2018-2020.

In R&D intensive sectors the gap has reduced from 1.83 times to 1.41 times, while in deeptech it has narrowed from 1.57 times to 1.27 times. Life sciences is the only sector where the gap has remained relatively stable since the 2019-2021 period.

As the largest domestic investor in UK VC, BPC will continue to focus on addressing finance gaps in these sectors to build a patient capital ecosystem for innovative companies. The Future Fund: Breakthrough programme, for example, is funding later stage R&D intensive companies across a range of deeptech sectors, while the Life Sciences Investment Programme is making cornerstone commitments in later stage life sciences venture growth funds with a strong UK focus.

Figure 4.3

UK-US VC investment multiples (GDP-adjusted) by sector over time

Source: British Business Bank analysis of PitchBook, Office for National Statistics and Bureau of Economic Analysis data.

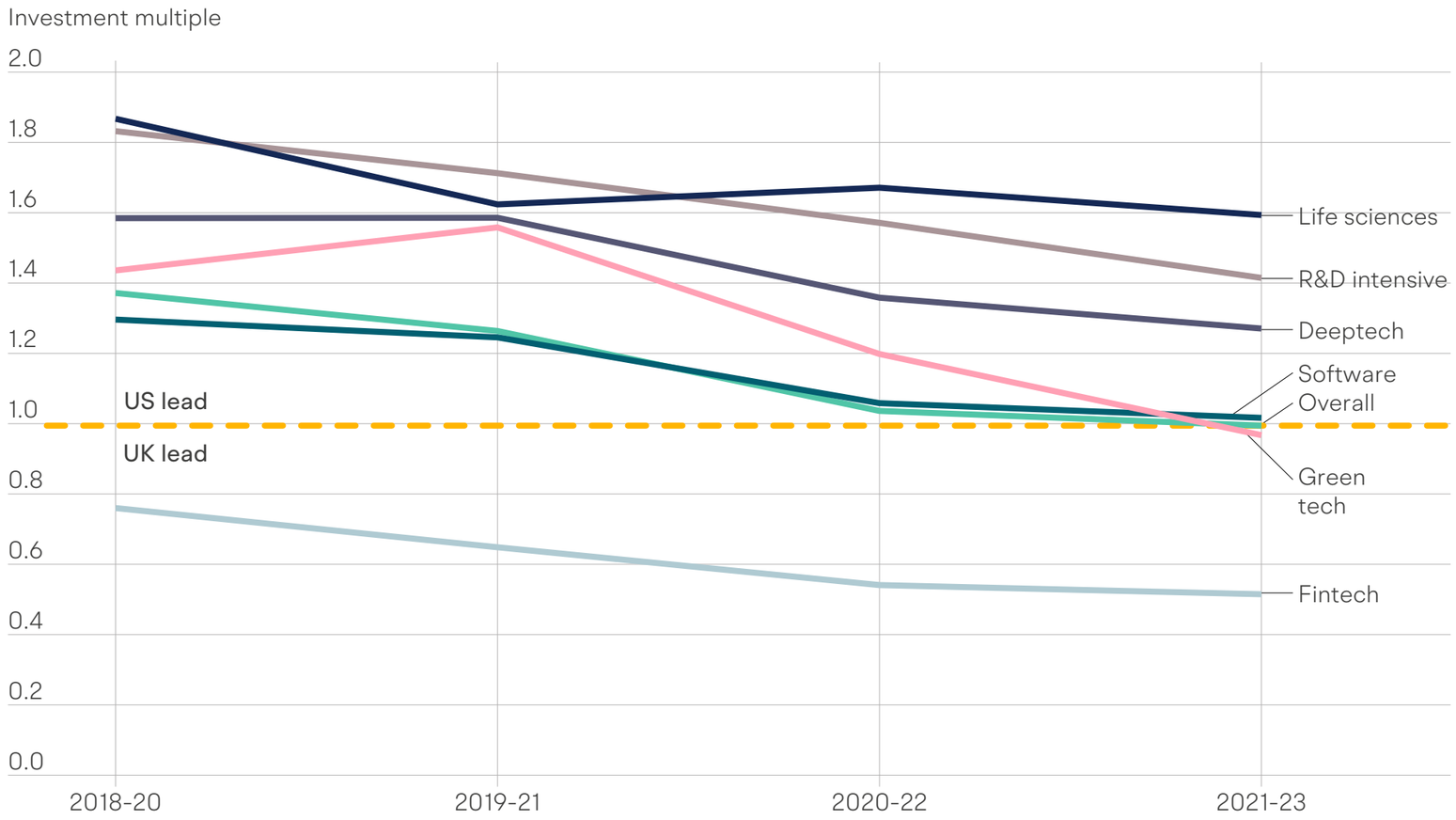


Table 10

US-UK VC investment multiples (GDP-adjusted) by sector and stage, 2021-23

Source: British Business Bank analysis of PitchBook, Office for National Statistics and Bureau of Economic Analysis data.

	Overall	Seed	Early Stage VC	Late Stage VC
Life sciences	1.59	1.03	2.05	1.47
R&D intensive	1.41	0.86	1.63	1.41
Deeptech	1.27	0.78	1.27	1.35
Software	1.01	1.05	1.07	0.99
All sectors	1.00	0.98	1.20	0.97
Green tech	0.97	0.44	0.82	1.10
Fintech	0.52	0.72	0.66	0.46

Looking ahead, the Bank's Growth Fund and Long Term Investment for Technology & Science (LIFTS) programme will seek to catalyse institutional funding in the UK's growth economy as part of the Mansion House reforms.

Table 10 summarises the UK's gap with the US at both the sector and stage level, again using US-UK VC investment multiples for 2021-2023 (adjusted for GDP). At this level of granularity, this analysis indicates that the most significant gap is in funding early and late stage VC deals in the life sciences sector – with multiples of 2.05 and 1.47 respectively.

A notable gap also exists at these stages in the wider R&D intensive sector, where early stage US companies raised 1.63 times more finance in 2021-2023, and late stage US companies raised 1.41 times more.[27]

In green tech sectors the UK market has performed more strongly than the US over the past three years, particularly at seed stage where UK companies raised more than twice as much after controlling for the size of the economy. However, a small gap with the US at late stage (with a multiple of 1.1) means that the recent performance of the UK and the US has been broadly equal in this sector.

In general the UK has seen significantly improved performance at seed stage over the past decade, driven by a wider range of investors participating in the market. As explored in the Bank's Small Business Finance Markets 2024 report, crowdfunding platforms have opened up seed investing to a much larger pool of public retail investors.

Angel investors have also become more professional and formalised, working in networks and syndicates to collaborate and source deals. As of 2021-23, 24% of UK smaller business equity deals were backed by an angel investor, while 19% were supported by a crowdfunding platform.

UK companies raise considerably less than US companies as they progress through VC funding rounds, with the gap widening at later stages

In addition to the above analysis comparing the latest aggregate trends in VC investment, we can also look at gap between the UK and the US by tracking the funding journeys of specific cohorts of companies. This analysis gives a real indication of how businesses in each market have progressed when seeking to scale up.

For this analysis we isolate a group of companies that raised their first VC funding round in the two year period 2015-2016. This time period has been chosen to give at least eight full years for the companies' investment journeys to be observed between their first and sixth VC rounds.

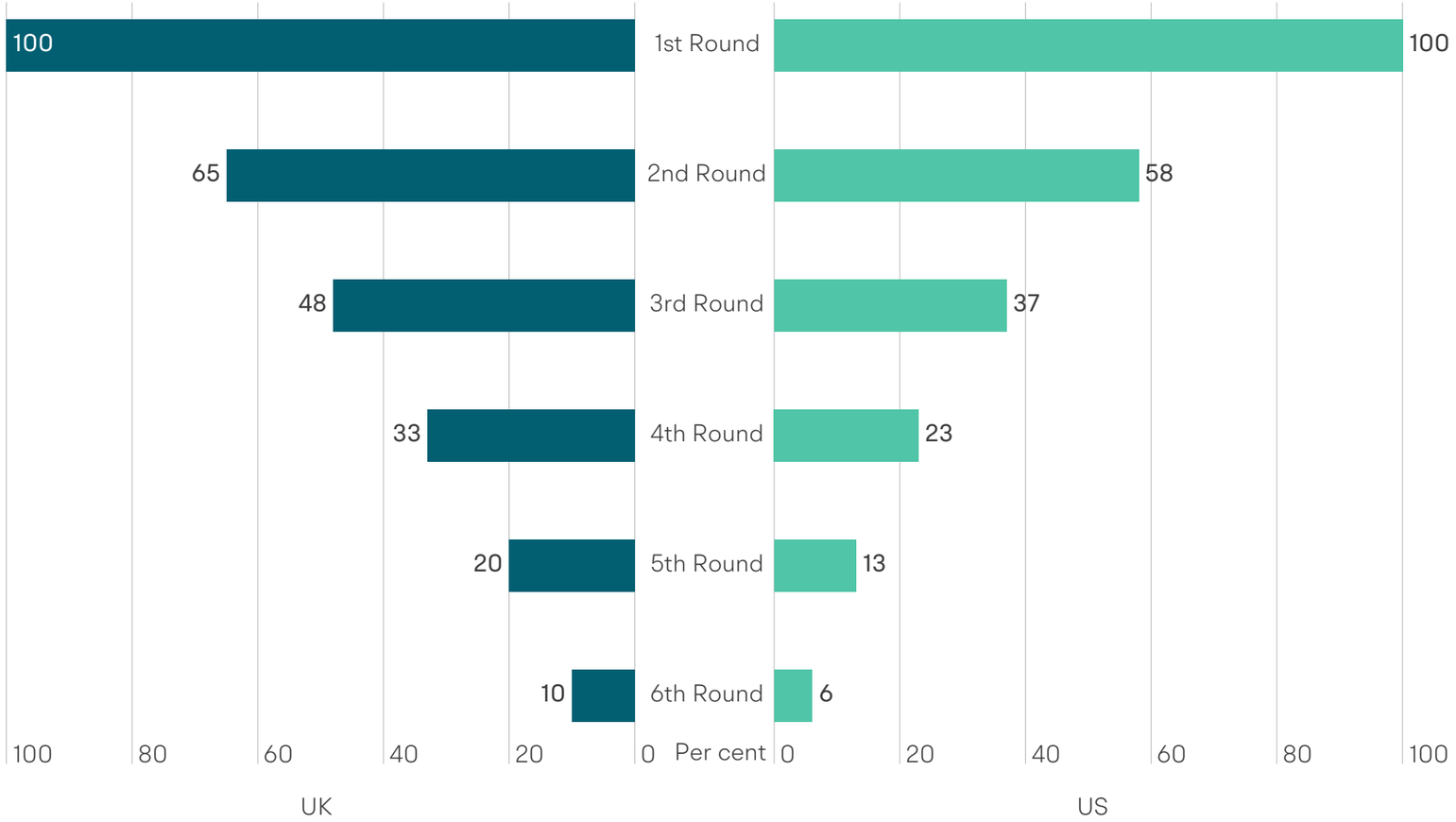
Tracking these companies it is then possible to measure what proportion have either died or exited before each subsequent round, and the investment they raised.

While UK companies have been more successful in progressing to later funding rounds than their US counterparts, as shown in Figure 4.4, analysis of this same cohort shows that they still do not raise the same

Figure 4.4

Proportion of companies raising first VC round in 2015-2016 raising subsequent rounds

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures.



amounts of finance on average at each round. As shown in Figure 4.5, UK companies raised £1.5m and £3.2m on average in their first and second rounds, compared to £2.9m and £7.0m for US companies. This means that average US rounds were 1.9 times and 2.2 times higher than for equivalent UK companies at these early stages of the funding journey.

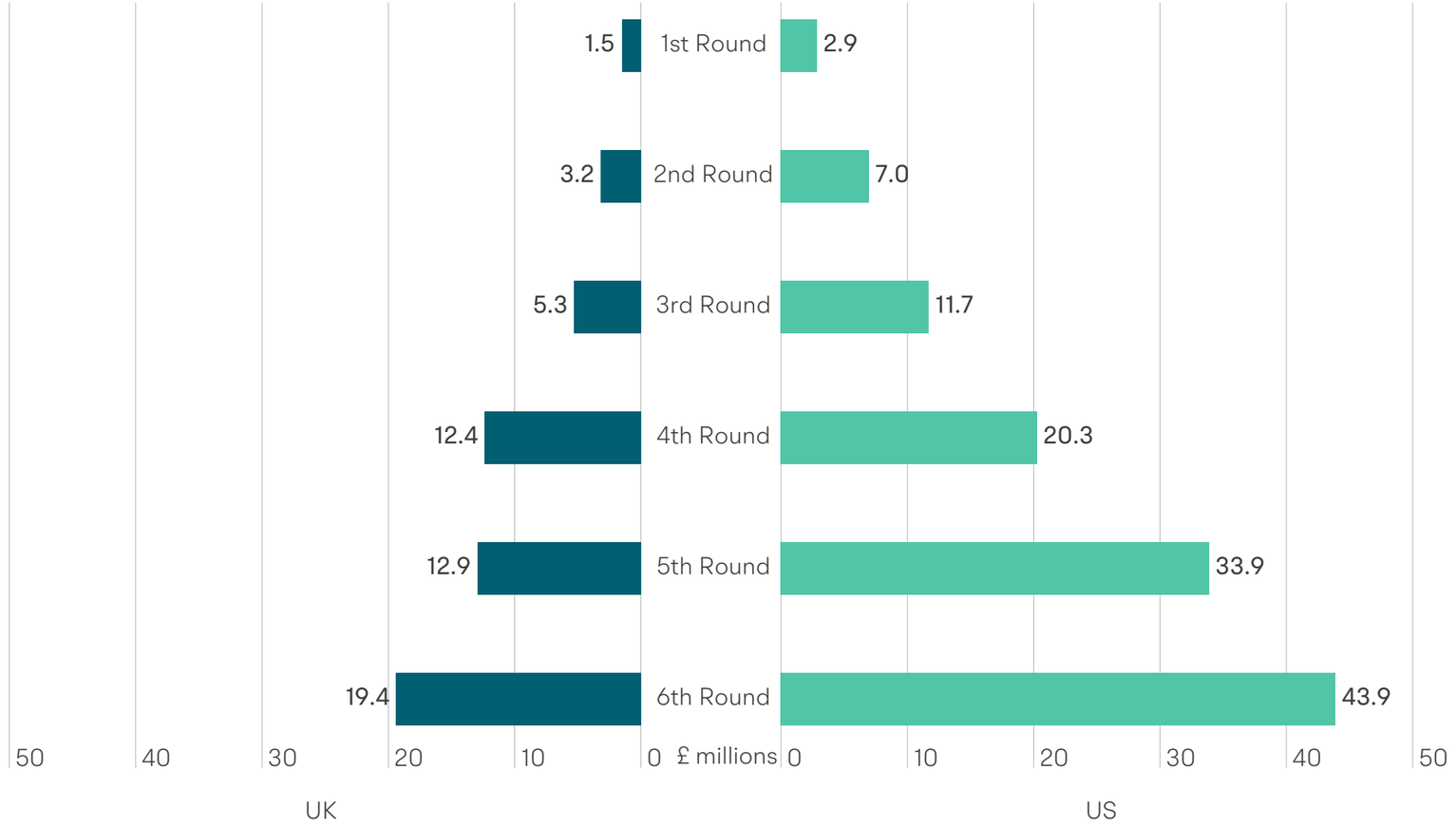
This gap widens by the fifth and sixth rounds, however. On average US companies raised £33.9m and £43.9m in these rounds, respectively – 2.6 times and 2.3 times higher than average UK round sizes. Adding these round sizes together a cumulative basis, this equates to US companies from this cohort raising a total of £119.7m in VC funding by their sixth round, compared to a total of £54.8m for equivalent UK companies (a multiple of 2.2 times).

Another metric which can give an indication of companies' access to VC finance is the average time between their individual funding rounds. Figure 4.6 shows the mean number of years that this cohort of businesses have taken between completing each subsequent round after 2015-16. The comparative position of UK and US companies appears to reverse on this metric as they progress to later rounds.

Figure 4.5

Average subsequent round sizes for companies raising their first round in 2015-2016 (£ million)

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures.



For their first round, on average UK companies spend 5.3 fewer months securing funding compared to US companies, and 2.8 fewer months at their second round. For their third and fourth rounds when companies are generally starting to scale, UK and US businesses in this cohort experienced very similar timespans when completing funding rounds.

However by their sixth round, for example, US companies took only 14.8 months on average to secure funding – compared to 17.5 months for UK businesses (a difference of 2.8 months).

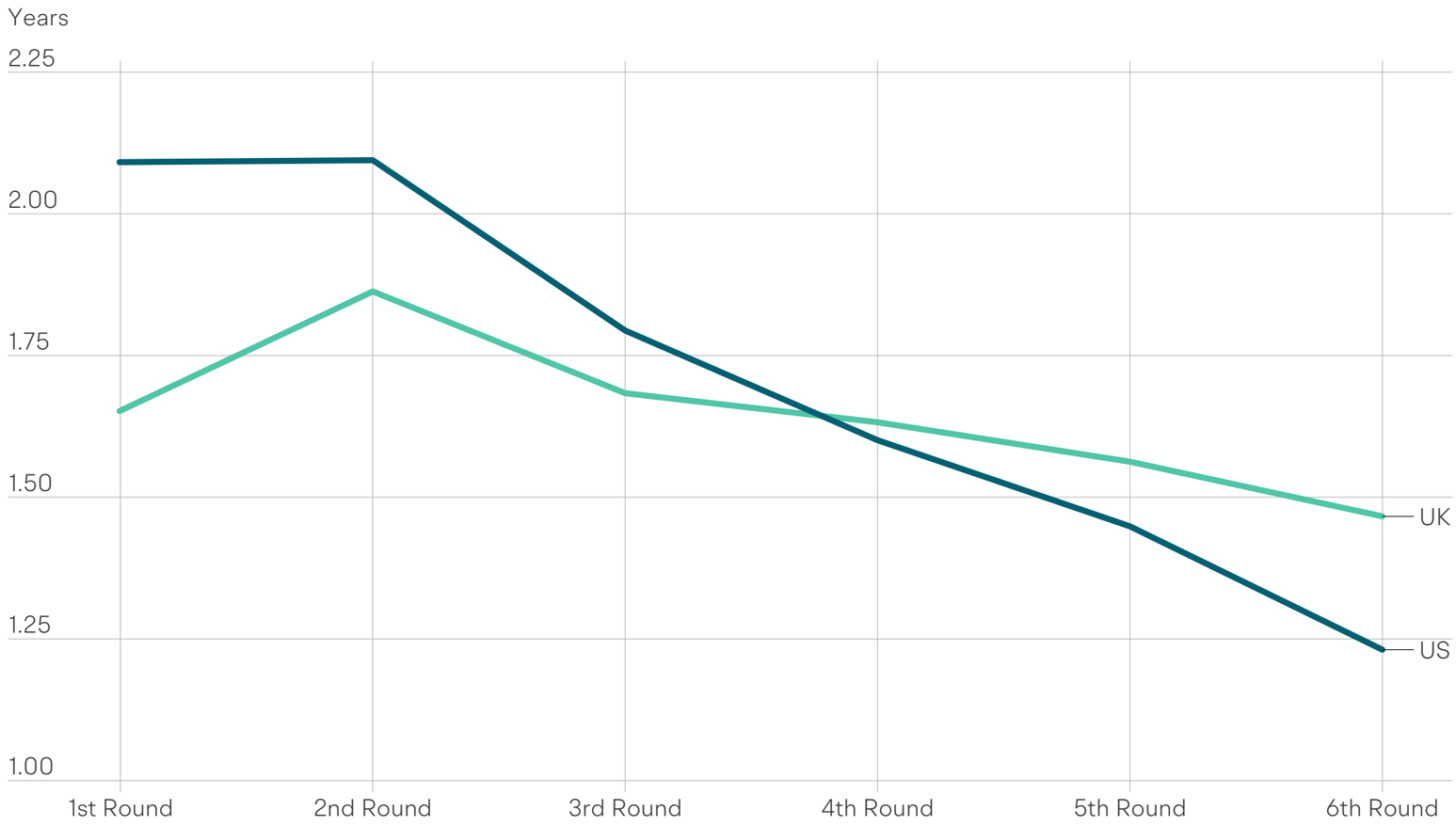
Taken together with the previous data on funding round progression rates, this analysis indicates that UK companies do not necessarily have a problem in simply raising VC finance at later funding rounds – i.e. on average they do not die or exit earlier than their US counterparts.

However, when scaling up to growth stage businesses, they do suffer from a comparative lack of capital they are able to raise at later funding rounds, and also from the longer amount of time they generally have to spend on securing this finance.

Figure 4.6

Average years between subsequent VC rounds, for companies raising their first round in 2015-16

Source: British Business Bank analysis of user defined PitchBook search. Results may differ from PitchBook's own published figures.



Within the UK, green tech-focused companies are not scaling up in size to the same extent as businesses across the overall equity market

This section provides an assessment of the specific funding issues affecting UK green tech-focused companies. It uses data from Beauhurst to provide a novel breakdown of green tech-focused companies[28] by their delivery model. Companies can be classified by whether they are hardware-based, software-based or service-based using a combination of Beauhurst key word and sub sector searches.[29]

This can indicate the types of green tech focused companies where funding issues for are most acute. It is widely perceived that hardware based companies have specific funding needs as a result of their high capital requirements, long lead times and additional technology risks.[30]

The definition of green tech-focused companies used in this section is wider than Beauhurst's clean technology sub-sector classification and allow greater coverage of companies contributing to green tech objectives. For instance, artificial meats do not fall in the typical clean tech definition but is included in the wider definition used in this section. [31]

The number of equity deals going to green tech-focused companies has increased by 336% from 2014 to 2022, reaching 301 deals per year. Over the same period, investment increased by 1,373% to £2.3bn in 2022. Green tech-focused companies have not been immune from the wider slowdown in UK equity markets. The number of green tech-focused company equity deals in 2023 fell by 12% to 265 deals and investment fell by 47% to £1.2bn.

This is a lower decline than the overall number of equity deals (-25%), but similar decline by value (-48%). As a result green tech deals now form 12% of the total UK equity market in 2023, up from 10% in 2022, but investment remains at 14% of total equity investment in 2023.

Figure 4.7 shows hardware based companies form the majority of green tech-based companies, and have increased from 48 deals per year in 2014 to 202 deals per year in 2022, before declining 22% to 157 deals in 2023. The decline in deal numbers in 2023, may be a result of hardware companies having a higher risk profile than other delivery models, so being particularly affected by the wider market slowdown where investors focus their activities on perceived lower risk sectors and companies.

Deals in green tech software companies have become more prevalent over the last decade, increasing from 8 deals in 2014 to 73 deals in 2022, before declining to 68 deals in 2023. This shows how technology has developed and software-based solutions can have an important role in reducing climate change by increasing efficiency in existing processes.

The number of service based green tech company deals have increased more slowly compared to the other delivery models increasing from 13 deals in 2014 to 40 deals in 2023. Service based companies have not seen a decline in deals in 2023, unlike other green tech delivery models, which might reflect the level of maturity of these companies.

The average deal size for green tech companies overall between 2021 and 2023 was £6.8m, but hardware based companies and service based companies have larger deals sizes than the sector average (£7.1m and £9.2m respectively). Hardware companies have greater capital requirements, whilst service based companies are likely to be more later stage companies that are already generating revenues. Software based green tech companies have the smallest deal size on average (£9.2m).

The picture is reversed when look at the growth stage in isolation, where software based companies had the largest deal sizes (£26.3m) followed by hardware based companies (£20.8m). Service based companies at the growth stage raised £16.4m. It would be expected that hardware based companies would have the largest deal sizes overall, so it is unclear whether the smaller observed deal sizes compared to software based companies is due to funding shortages.

Hardware based green tech companies may have similar funding issues to other R&D intensive companies as a result of their high capital intensity and long technology lead times. To assess the availability of funding to these companies, a cohort approach was taken for companies raising their first equity round between 2014 and 2016.

Figure 4.7

Number of equity deals into green tech-focused companies by delivery model type

Source: British Business Bank analysis of Beauhurst.

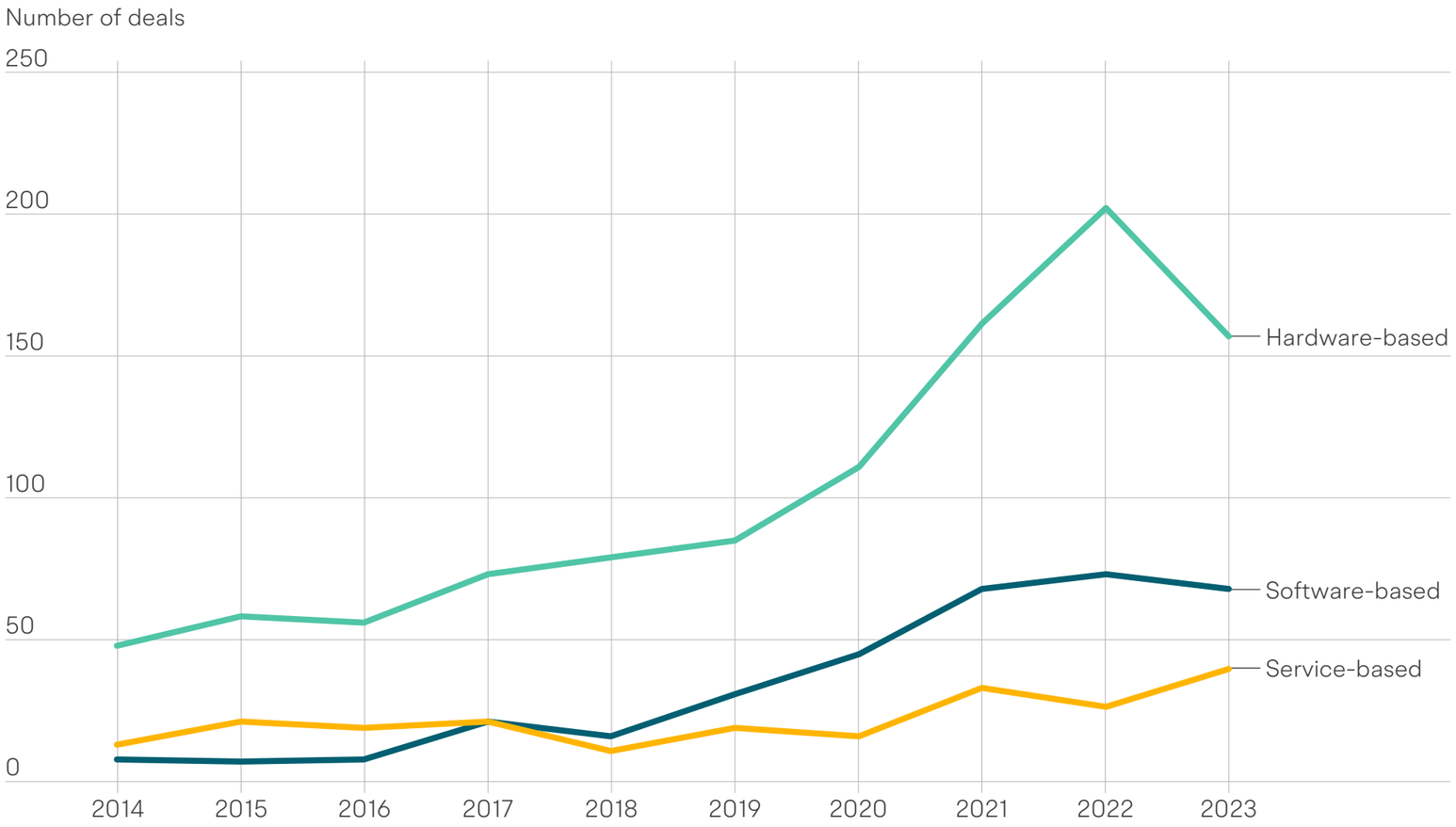


Figure 4.8 shows green tech-focused companies are more likely to raise follow on funding than companies in the overall UK equity market. 49% of green tech focused companies raised a second round of funding compared to 45% for the overall market.

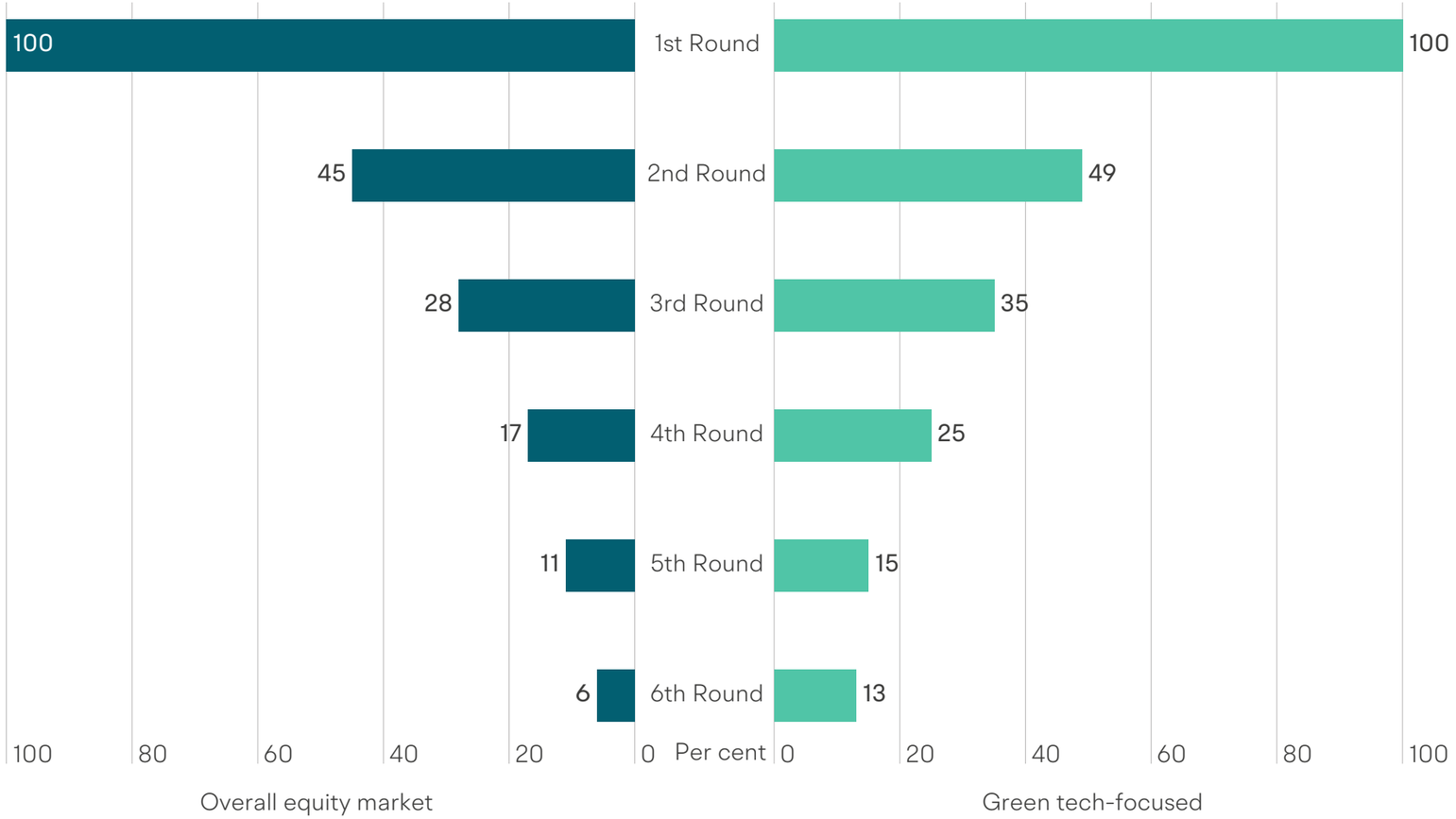
This continues in all subsequent rounds of funding. This may be at least partly due to the software and service-based companies included in scope being more cash generative than the average equity-backed UK firm.

Previous analysis on an earlier 2012 to 2014 cohort showed green tech companies were just as likely to raise a second round of funding as the overall equity market (43% compared to 45%), so there has been a relative improvement over time, which may reflect the green tech sector becoming more mature.

Figure 4.8

Proportion of companies raising follow on funding after raising first equity round in 2014-2016

Source: British Business Bank analysis of Beauhurst.



When examining average deal size by funding round, Figure 4.9 shows average deal sizes for green tech focused companies are larger than the overall equity market over the first three funding rounds. Over rounds four to six, green tech-focused deals are smaller than comparable deals in the overall equity market which could signify possible funding gap as this sector is generally more capital intensive than other sectors.

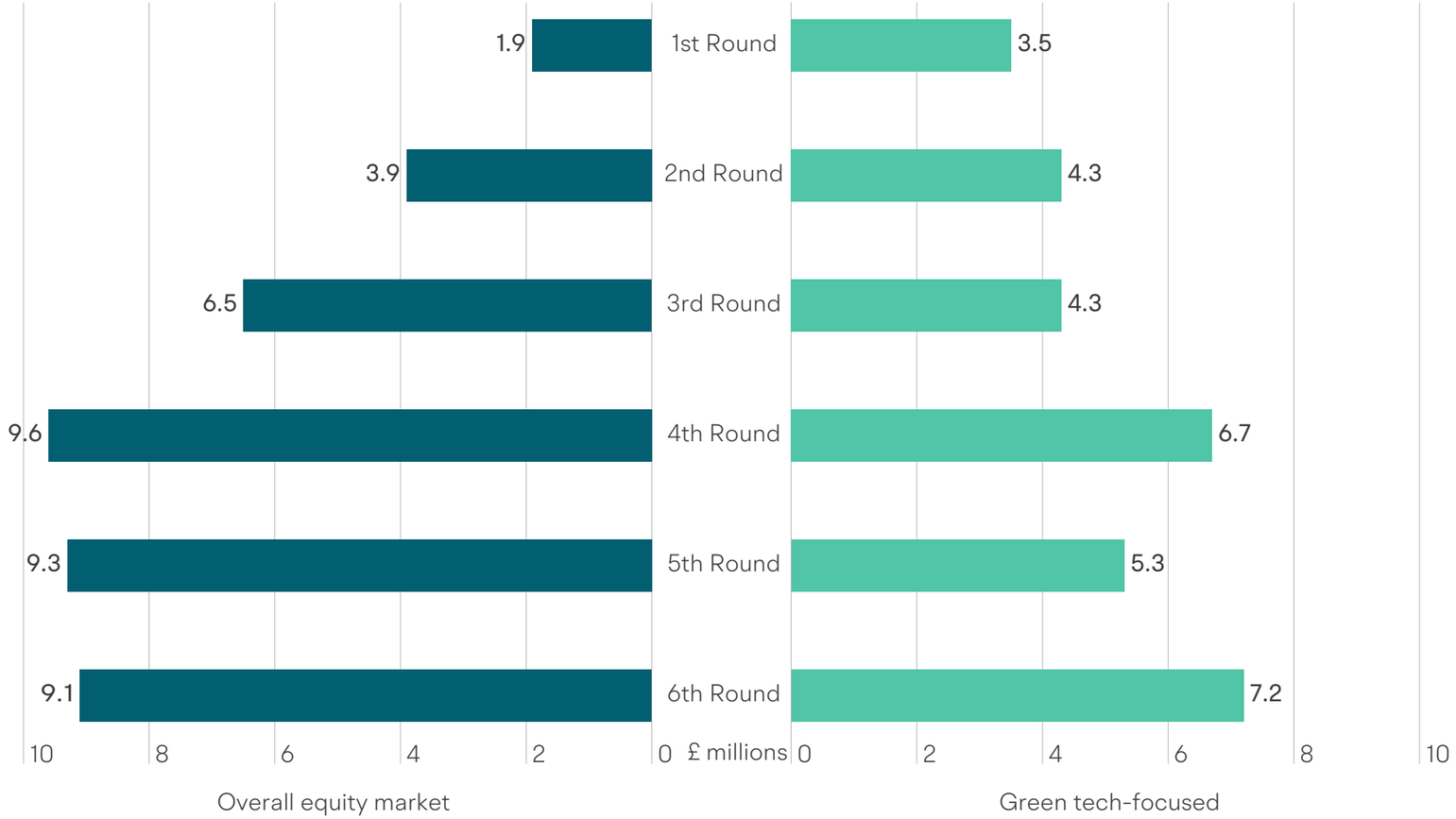
Splitting green tech focused companies between hardware and other (software and service-based companies combined), shows hardware-based companies are almost as likely to raise a second follow on rounds than software and service-based companies (48% compared to 50%).[32]

As shown in Figure 4.10, hardware-based companies are more likely to raise a third round of funding compared to software and service-based companies (37% compared 30%). Compared to the wider software sector, the green tech service and software companies are less slightly less likely to raise a second (50% compared to 53%) or third round of funding (30% compared to 34%).

Figure 4.9

Average deal size per funding round for companies raising first equity round in 2014-2016

Source: British Business Bank analysis of Beauhurst.



For hardware-based green tech companies that received their first round of equity funding in 2014 to 2016, equity deal sizes appear to increase over the first four funding rounds. However, the fourth round is affected by a single large £123m deal in Carbon Clean. Removing this deal leads to average deal size falling to £3.6m. Average deal sizes remain fairly low in rounds five and six (between £5.6 to £6.7m) and do not significantly increase suggesting a lack of capital for scaling.

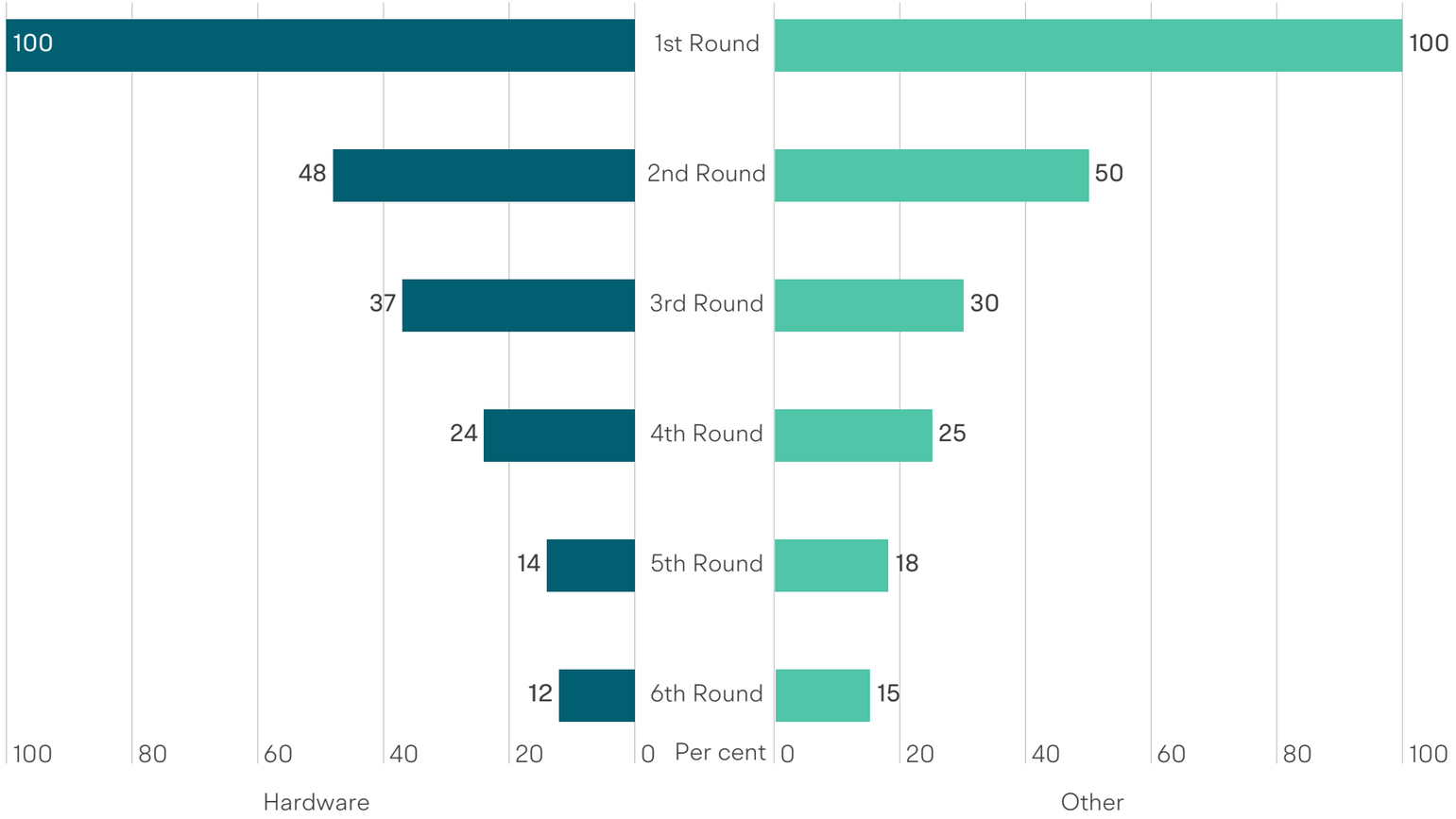
Deal sizes for green tech software and service-based companies also appear to not scale up smoothly, with the second largest deal size being reported at the first round. This volatility could be due to a small number of companies in the cohort (40) and also combining software and service-based sectors which differ to one another in terms of their capital requirements.

The wider UK software sector shows deal sizes scale up more smoothly with average deal sizes scaling up over each successive funding round, so that by round six, software companies have an average deal size of £15.3m. Whilst this maybe due to larger number of companies in the cohort (1,008), which reduces the impact of individual outlier companies, it does signify a more viable funding journey for software-based

Figure 4.10

Proportion of green tech companies raising follow on funding after raising first round in 2014-2016

Source: British Business Bank analysis of Beauhurst.



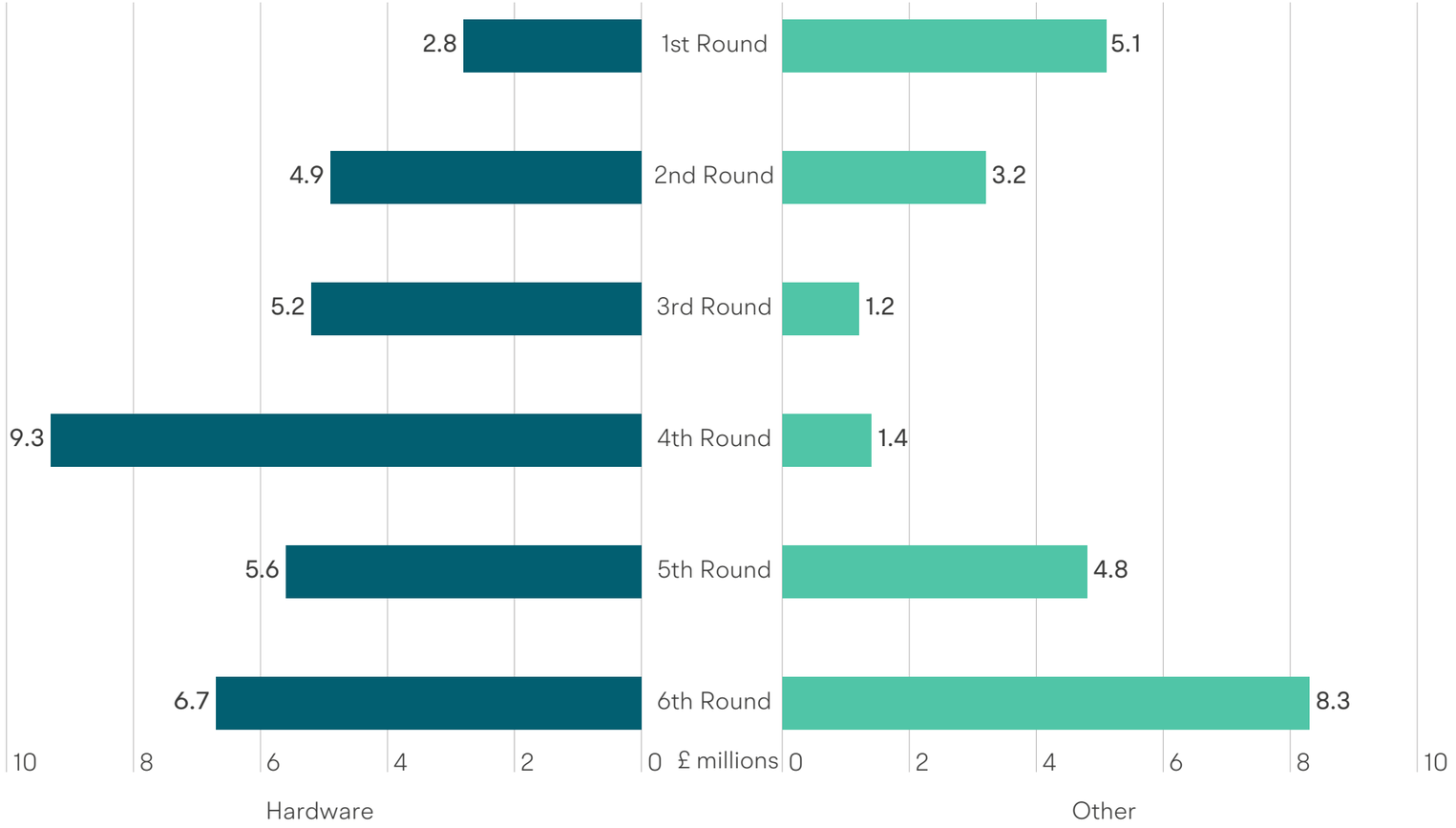
companies with deal sizes increasing in scale at each stage compared to green tech-based companies.

Whilst it appears green tech focused companies are just as likely to raise follow on rounds as the overall UK equity market, average deal sizes particularly at later rounds are smaller than the overall market. This may suggest deal sizes for green tech focused companies are not scaling up, which may indicate a lack of later stage funding available to these companies. This affects both hardware and software-based green tech focused companies.

Figure 4.11

Average deal size per funding round for green tech companies raising first round in 2014-2016

Source: British Business Bank analysis of Beauhurst.



Appendix

Summary of competitor countries

US

The US is one of the most innovative economies in the world, ranked third in the latest 2023 Global Innovation Index (GII) and home to 827 of the top 2,500 R&D investing companies globally – with Alphabet, Meta and Microsoft at the top of the list. Drawing upon this innovation, the US VC market is the most developed globally and benefits from a deep pool of private capital and experienced specialist fund managers. As a result, global trends in VC markets often follow trends first seen in the US VC market.

China

The Chinese economy is ranked 12th in the world in the GII, though it ranks first in its income group and specialises in knowledge and technology outputs (where it ranked 6th in 2023). China's VC market has reached significant scale in recent years and is the second largest in the world, drawing upon large government and state-backed funds playing an active role providing finance. Chinese tech giants BAT (Baidu, Alibaba and Tencent) have also invested in hundreds of companies through their corporate VC funds.

India

While India is not at the global forefront in terms of its overall innovation performance, ranking 40th in the 2023 GII, its rapidly expanding economy has provided start-ups with a range of growth opportunities in recent years. It has the fourth largest VC market in the world on an investment value basis, with major hubs in cities like Bangalore, Mumbai and Delhi. Key investors such as Sequoia Capital, Accel and Nexus Venture Partners have been active in India for many years, and the Indian government has actively promoted entrepreneurship through initiatives like Startup India (which offers tax benefits and funding support) as well as the Atal Innovation Mission to foster innovation and startup growth. Notable companies that have reached unicorn status recently include e-commerce platform Flipkart and edtech solution provider BYJU'S.

France

France is ranked 11th in the world in the GII and is the fifth best performing country in producing top R&D companies (with 54 companies in the global top 2,500). In terms of its VC market, France is the third largest country in Europe behind the UK and Germany. The French government has taken significant steps to build upon this position and cultivate its startup ecosystem, through industry collaboration initiatives such as La French Tech, the Tibi initiative which seeks to attract further institutional investment, and large scale investment from its development bank BPI France (e.g. through its EUR 1bn Large Venture Fund).

Germany

Germany is one of the world's leading innovation economies – ranked 8th in the GII and, within this index, 4th for human capital and research. It is also fourth globally for the number of top R&D companies (113), with more than twice the total of any other EU country. Germany has the second largest VC market in Europe, with a strong tech cluster in Berlin and active support from its development bank KfW Capital. In 2023 KfW announced that its target of EUR 1bn had been reached for its VC fund of funds 'Growth Fund Germany', backed by 20 major institutional investors.[33]

Canada

Canada's VC market is the 7th largest in the world, despite being ranked 15th globally in the GII and 12th for the number of top R&D companies it has produced. Canada has a diverse funding landscape, with a mix of domestic and international investors, and its proximity to the US has resulted in significant participation from US-based VC funds. It has startup hubs in Toronto, Vancouver and Montreal, while recent Canadian government support initiatives aiming to stimulate the VC ecosystem have included the Venture Capital Action Plan and the Strategic Innovation Fund.

Emerging VC markets

As well as providing an assessment of how the UK compares to these established markets, it is also useful to consider which smaller countries are growing quickly, and therefore could be on a path to close the gap with the global leaders. For this analysis a further five emerging VC markets are used as comparator countries – including Israel, Japan, Singapore, South Korea, Sweden.

Israel is a highly R&D intensive country and attracts a disproportionately large amount of VC investment for the size of its economy. Public interventions since the 1980s have leveraged in large amounts of overseas capital and international VCs setting up Israeli offices. Sweden is also one of the world's top innovation economies – with a GII ranking of second in 2023 – and has a rapidly growing VC market. It has produced a number of globally recognised unicorns in recent years such as Spotify, Skype and Klarna.

Singapore also shares similar characteristics, having ranked fifth globally in the GII in 2023 and first globally for its R&D institutions, with world class digital infrastructure and connectivity. It is one of the most recognised startup hubs in southeast Asia and provides access to the fast-growing ASEAN markets. In addition, South Korea and Japan are the fourth and fifth largest VC markets in Asia, with both markets benefitting from strong domestic tech industries and now starting to develop globally competitive startup ecosystems.

Overview of sector definitions

Table 11

Definitions of deep tech and R&D-intensive companies

	Deep tech	R&D-intensive
Definition	Companies founded on tangible scientific discoveries or meaningful engineering innovation	Companies attempting to commercialise technologies with long and costly processes
PitchBook Verticals	– 3D Printing – Advanced Manufacturing – AgTech – Artificial Intelligence & Machine Learning – Augmented Reality – Autonomous Cars – CleanTech – Climate Tech – Infrastructure – Manufacturing – Nanotechnology – Robotics and Drones – Space Technology – Wearables and Quantified Self Excluding any companies in SaaS and fintech verticals	In addition to deep tech sectors listed to left: – HealthTech – Life Sciences – LOHAS & Wellness – Oncology Excluding any companies in SaaS and fintech verticals

Overview of Beauhurst announced equity deal data

In this report, the term "equity investment" encompasses any form of external equity finance, excluding transactions conducted on public equity markets, buyouts, and rounds involving only family and friends without external investors. This definition therefore captures the activity of business angels, equity crowdfunding platforms, venture capital funds, corporate venture capital, and private equity funds.

The Equity Tracker report only includes investments and deals that have been publicly announced. This includes deals that have been announced via a government regulatory organisation, a press release, a news source, or have been confirmed with investees or investors. Although equity deals involving family and friends are not explicitly excluded, they are typically not publicly announced, and therefore not captured by our figures.

Another way Beauhurst identified unannounced deals is using share allotment filings. When a company allocates its shares, an SH01 form is submitted to Companies House. The identities of the new shareholders are not included in the SH01 form. Whilst it is desirable to include as many deals as possible in our analysis, less information is available on unannounced deals, which is why this report focuses on announced equity deals only.

We also filter the Beauhurst data for the Equity Tracker report using an SME filter, removing large companies. The filter is based on the EC definition of an SME. It covers businesses with less than 250 employees and either a turnover of less than €50m or balance sheet total of less than €43m.

Only a small proportion of equity deals are announced, showing UK equity finance is larger in practice than the announced deal and investment figures contained in this report. In 2023, there were 2152 announced deals and 4176 unannounced equity deals giving a total estimated market size of 6328 equity deals. By number, announced deals made up a minority of all equity deals, in 2023 (34%), which is slightly lower than in previous years, where the figure was around 40%.

There is some variation in the proportion of deals that are announced by region and devolved nation. Almost half of the deals in Wales (48%), and the North East (47%) were announced in 2023. Contrary to that, in the South East, West Midlands, East Midlands and London only 26%, 34%, 40%, and 32% of deals were announced, respectively. This may be a result of differences in the investor type active in each region and their relative likelihood to publicly disclose deals.

By investment value the picture is reversed, with announced deals making up 66% of the total value invested in 2023, supporting the robustness of our results as unannounced deals tend to be very small.

Angel and private investors are less likely to formally announce their investments than PE/VC investors, with larger equity deals having a greater likelihood of being announced. Investments made through the process of equity crowdfunding on the other hand, tend to get announced most of the time due to the investment opportunity being open to the public. This year's report builds on the previous 2023 Equity Tracker Report, as there have been continued refinements to the underlying dataset to ensure that this year's report is the most accurate assessment of the UK SME equity market at this point in time. The figures in this new report supersede those previously quoted due to the inclusion of new equity deals since the previous reports were undertaken. Comparisons between figures in this year's Equity Tracker and last year's report are not recommended due to revisions in the number of historical deals.

For more information on the methodology Beauhurst used to collect this equity data, please see previous Equity Tracker reports or Beauhurst's own website.

It is important to acknowledge that other data sources exist which also cover equity deals, including the British Private Equity and Venture Capital Association (BVCA), which measures the investment activities of its members, which are mainly comprised of Private Equity and Venture Capital funds. There are also other commercial data providers which gather data through a combination of technology (e.g. web-scrapers), analyst research and self-disclosure by fund managers. These data sources will therefore have coverage of different types of investors and are not always consistent with one another. No single data source captures all equity deals in the market.

Whilst the Beauhurst announced deal dataset has good coverage of equity deals involving institutional investors, business angels are less likely to seek publicity on completed investments and are therefore less likely to be captured in the investment numbers. The UK Business Angel Association (UKBAA), which covers 18,000 investors investing through 60 groups, confirms that no robust statistics exist on the annual number of equity deals undertaken by angel investors in the UK.

Beauhurst classifies equity deals into four stages; seed, venture, growth and established. These stages reflect product development, commercialisation, sales, and profitability levels in the recipient company. As in previous reports, we combine the growth and established stages for simplicity, which we refer to as the 'growth' stage.

Beauhurst use a wide range of criteria for classifying companies between stages, but the following definitions give a guide to the types of companies included in each stage:

- Seed stage encompasses young companies with a small team, and low valuation that have received lower levels of funding relative to the sector. There is a degree of uncertainty in their product-market fit or they are just getting started with the process of getting regulatory approval. Funding is likely to come from grant-awarding bodies, equity crowdfunding, and business angels.
- Venture stage covers companies that have been in existence for a few years and are in the process of gaining market traction rapidly growing sales. The venture stage does not solely correspond to funding by venture capitalists, as other investor types also provide funding to venture stage companies.
- Growth stage businesses are more developed with multiple offices or branches and substantial revenue streams (some of which may be profitable). The growth stage includes later stage VC-backed companies seeking to grow their core market, expand into new markets, or create new products/services.

Beauhurst also reports deals that are only partly funded by equity capital. Venture debt, loans, or grants issued to private companies are therefore reported if they have come in conjunction with equity finance in the specific funding round. The total reported investment may also therefor include a share of debt finance.

Beauhurst only includes deals involving the creation of new shares (injection of new capital into the company) and excludes buyout or merger and acquisition deals resulting in a change of ownership.

Acknowledgements

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Endnotes

1. Is it important to note that these increases are in nominal terms, and that the last couple of years have seen high levels of inflation – reducing real increases in investment.
2. BVCA (2024) Report on Investment Activity 2023, https://www.bvca.co.uk/Research/BVCA-Publications/Details/BVCA-Report-on-Investment-Activity-2023#:~:text=Key%20findings%20from%20the%202023,the%20United%20Kingdom%20in%202023.
3. PitchBook (2024) European Venture Report 2023, https://pitchbook.com/news/reports/2023-annual-european-venture-report.
4. https://files.pitchbook.com/website/files/pdf/2023_Annual_European_Venture_Report.pdf#page=1.
5. PitchBook (2024) Q4 2023 PitchBook NVCA Venture Monitor.
6. An assumption used in financial models to value many of these companies was that interest rates would remain low. Once that changed, companies that were relying on cheap capital to finance growth, were now being valued at a discount by potential buyers but not immediately by the owners of these assets. This price mismatch has made initial public offerings (IPOs) and trade sales less frequent – preventing VC fund managers from realising investments and returning that capital to Limited partners.
7. https://pitchbook.com/news/articles/unicorn-startups-list-trends.
8. A company has to meet the first condition and at least one of the remaining three conditions to be classified as an academic spinout.
9. Limited Partners are predominantly institutional investors that invest in private equity and venture capital funds. British Business Bank funds delivered by private sector fund managers including private sector sources of capital are not included in Beauhurst's definition of Government funds.
10. These regional programmes also provide debt finance, but this is excluded from the analysis.
11. From 31st December, NPIF can only make equity investments into existing portfolio companies.
12. MI data as at 30th April 2024.
13. Sifted (2024), VCs increasingly reliant on government money in 2023. Available at: https://sifted.eu/articles/government-funding-for-vc-rises-amid-tech-sovereignty-push.
14. Companies that are supported by multiple programmes during the same investment round are counted as 1 deal in the "All Bank" data series. Similarly, if multiple fund managers supported by the same programme invest in the same deal, it is only counted as 1 programme supported deal as well.
15. To make the chart easier to read, we removed the data series for ACF/Aspire, UKIIF, LSIP, and FF:B, which together raised 191 announced deals during the 2014-2023 period.
16. These market share figures are calculated on the region or LEP area only, relating to the region or LEP area Beauhurst allocated the company to. There are incidences of NPIF, MEIF, and CIoSIF backed companies with their headquarters outside the regions or LEPs. This can be the case when companies are pending relocation or where significant investment activity takes place within the respective areas while the company is headquartered outside of them.
17. Beauhurst define a key person as someone with a c-suite or department head level role.
18. This analysis uses PitchBook as the leading data source on global VC deals. Beauhurst is used for the analysis in chapters one and two given the specific focus on equity finance raised by UK SMEs. It is not possible to apply this same SME filter to the PitchBook data across countries.
19. WIPO (2023) Global Innovation Index 2023.
20. OECD Main Science and Technology Indicators (MSTI) database. The latest data is up to 2022.
21. The quality of VC data for China is likely to be more variable in quality. This is because it is more difficult to verify the completion/details of deals, and whether they occurred through private VC fund managers or as a result of state-backed investors.
22. British Business Bank (2023) Small Business Equity Tracker 2023.
23. EIF (2023) https://www.eif.org/what_we_do/equity/news/2023/eifmobilises-eur-2-billion-to-drive-energy-efficiency-and-climate-action-investments-at-cop28.
24. Bpifrance (2022) 'The Deeptech Plan Shows Successful Results in 2021' https://www.bpifrance.com/2022/04/29/the-deeptech-plan-shows-successful-results-in-2021/.
25. German Federal Ministry for Economic Affairs and Climate Action (2024) https://www.bmwk.de/Redaktion/EN/Artikel/Economy/future-fund.html.
26. QS World University Rankings 2024.
27. It is important to note that there are many wider ecosystem factors that may be influencing these gaps, beyond just problems with the UK VC finance market.
28. The Beauhurst data in this section is not directly comparable to the green tech PitchBook data presented earlier in the chapter, but captures similar types of companies.
29. Hardware based companies are involved in researching and developing new physical products, with the intention of commercialising these products at scale. These companies are identified as a residual from the green tech focused software and service-based companies. Software based green tech companies use Software-as-a-Service (Saas) and are identified using the Beauhurst software technology sub-sector variable for companies that are classified as green tech. Service based SMEs involve building, installing, operating, distributing, or supplying goods and services, and are identified using a key word search of these terms. Whilst there is a chance of companies being wrongly classified by their delivery type, a visual review of the data found it to be very effective at attributing companies to the correct delivery model.
30. https://www.cleantech.com/a-framework-for-evaluating-cleantech-innovation-ecosystems/.
31. The definition is consistent with the analysis presented in Small Business Finance Markets 2022/23- See page 47 Box 2 for the specific definition and coverage of companies used. This latest analysis uses the same definition of green tech focused companies.
32. Some caution is needed on these findings as it relates to just 94 hardware companies and 40 software and service-based companies.
33. https://www.kfw.de/About-KfW/Newsroom/Latest-News/Pressemitteilungen-Details_787712.html.

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