

# The Deal

**Q3  
2016**





# About The Deal

## **What does this report cover?**

This report analyses all equity investment in non-listed UK companies between 1 July – 30 September.

## **Why equity investment?**

Beauhurst tracks the UK's non-listed high-growth companies. The majority of these companies have raised equity finance to fuel their growth. By looking at equity fundraising activity across the UK, we're able to see the emerging trends and patterns from the perspective of investors and the businesses themselves.

## **Announced vs Unannounced**

We categorise equity fundraising transactions into two types.

Announced deals are those investments that had an accompanying press release or were mentioned in the news.

Unannounced deals are investments that were uncovered by our in-house researchers. The information about these deals, such as the amount invested and the company's valuation, is not publicly available.

Most of the articles and analysis in this report look at announced deals only.

Our full technical methodology is available at the back of this report.

## **About Beauhurst**

Beauhurst is the leading provider of rich data on high-growth UK companies. Our platform is used by hundreds of organisations around the UK to research and monitor the most ambitious businesses and their backers.

**For more information, including a free demonstration, visit [beauhurst.com](https://beauhurst.com)**

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Methodology



# Foreword

You'll see from this report that the number of equity fundraisings secured by UK companies continues to fall. We've seen the third consecutive quarter of decline, with deal numbers down to those last seen in 2013. What's going on?

We think three related things.

Firstly, Brexit. With many high-growth companies facing questions over access to markets and talent we think that uncertainty is breeding caution and that's impacting both supply and demand for investment across the board.

Secondly, saturation. Apps, breweries, food brands – we think we're getting to the point where the novelty of certain sectors has worn off. We're waiting for the next wave.

Thirdly, the appeal of "certainty". Later-stage, perhaps even profitable businesses who are looking solely to fund scale haven't seen the same decline in investment. But investors are getting warier of startups with just a plan.

Even amidst the doom and gloom, there are positive signs. We've seen huge deals for some of Britain's brightest young stars, indicating that the money is still there – if the idea and model are good enough. But the art of growing startups into scaled businesses has become a little more challenging this year.

As always, I want to take this opportunity to thank our team for putting together this report. This is the most comprehensive review of investment into UK startups and high-growth companies, and I hope that you find it as interesting to read as we did to put it together.

Best wishes,  
Toby Austin

CEO & Co-Founder  
Beauhurst

P.S. If you want to know more about anything featured in this report or have any questions, then do get in touch at [toby@beauhurst.com](mailto:toby@beauhurst.com).

# Headline Findings

The investment slump continues. Deal numbers have again fallen alarmingly - this time by 16% from the previous quarter.

Reinforcing a growing trend, investment amounts have increased by 5%, helped significantly by a giant £210m deal for delivery marketplace specialists Deliveroo. Without this, the picture would not be rosy.

Given the headline figures, it is no surprise that deal numbers fell at all stages of company evolution. Earlier-stage companies were worst off, with their deals dropping 20%.

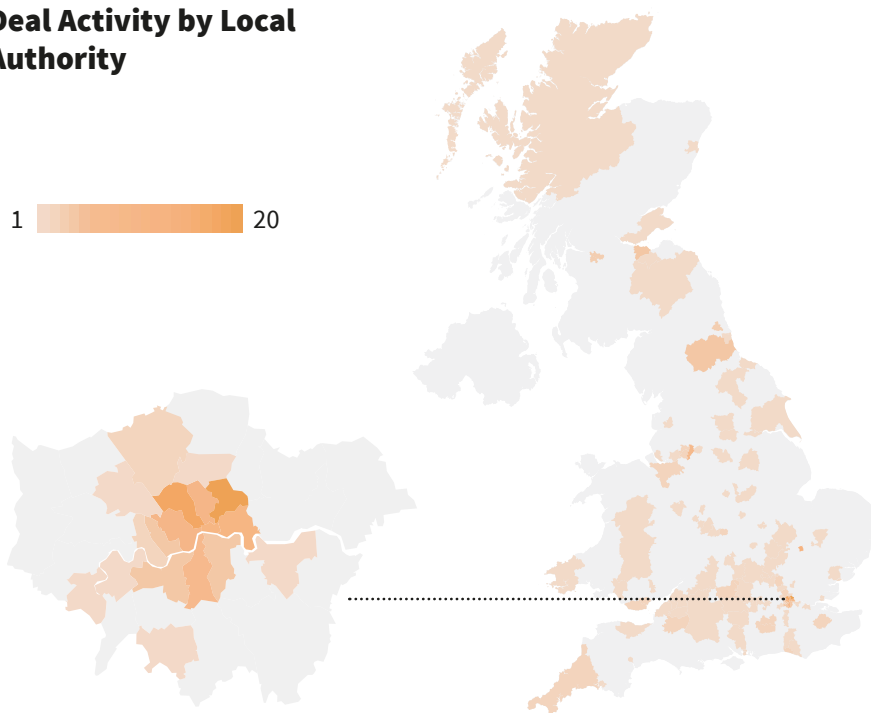
Among investors, despite the equity crowdfunding platforms making the most investments, they fell a significant 20% compared with the previous quarter.

Although deal numbers decreased in most regions, they increased in the East Midlands and North East. Outside of London, the top performing cities were Cambridge, Manchester and Edinburgh.

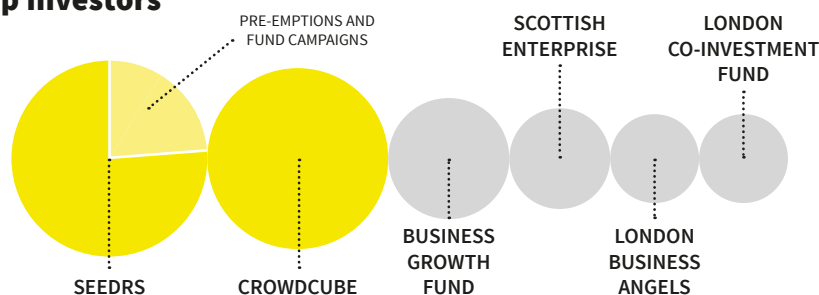
## Key Figures Compared with Q2 2016



## Deal Activity by Local Authority

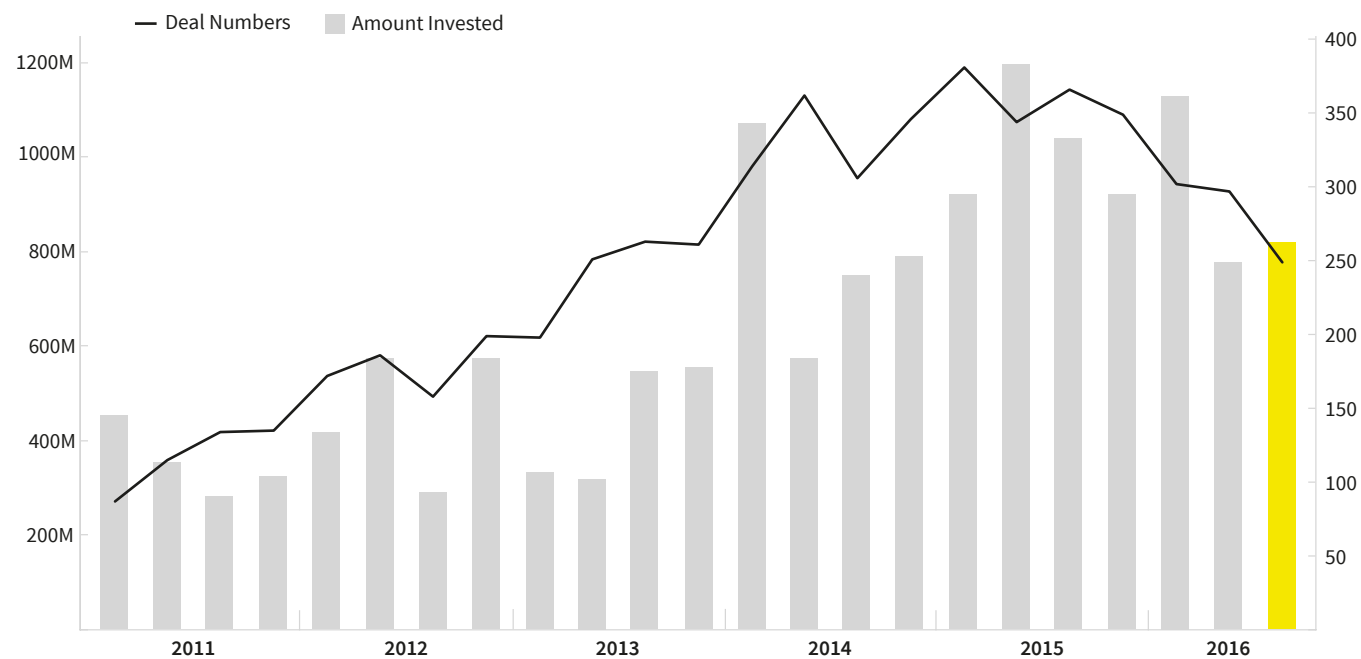


## Top Investors

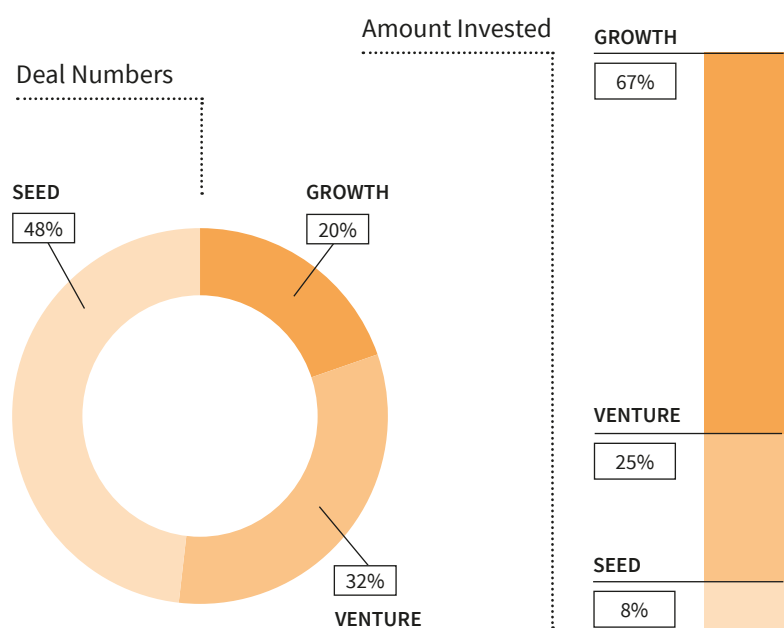




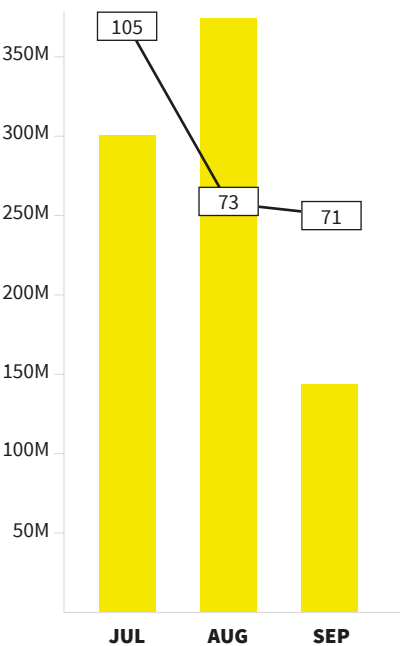
Deal Numbers and Amount Invested by Quarter, 2011 - Q3/16



Company Stage of Evolution



Deals and Investment, Q3



# Biggest Deals

£210m



£50m



**DATE OF FUNDRAISING:**

06/07/2016

**LOCATION:**

London

**FUNDERS:**

KKR&Co., SB ISAT Fund,  
Summit Partners, Ten  
Eleven Ventures



deliveroo

**DATE OF FUNDRAISING:**

05/08/2016

**LOCATION:**

London

**FUNDERS:**

Bridgepoint Development  
Capital, DST Global,  
General Capital Partners,  
Greenoaks Capital  
Management



£21m



£17.2m



£16.5m



**DATE OF FUNDRAISING:**

28/08/2016

**LOCATION:**

London

**FUNDERS:**

Eight Roads Ventures,  
Hurburt Burda Media, Index  
Ventures, Industry Ventures



**DATE OF FUNDRAISING:**

06/07/2016

**LOCATION:**

London

**FUNDERS:**

DIG Investments, Business  
Angels



**DATE OF FUNDRAISING:**

01/09/2016

**LOCATION:**

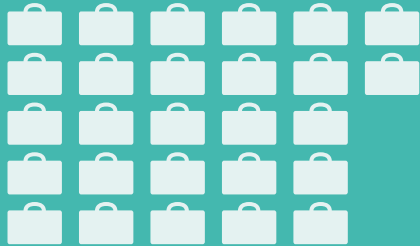
Wakefield

**FUNDERS:**

Lloyds Development Capital

## Focus on Retail

# £75m



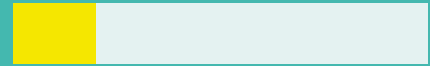
over 27 deals

Top Investor

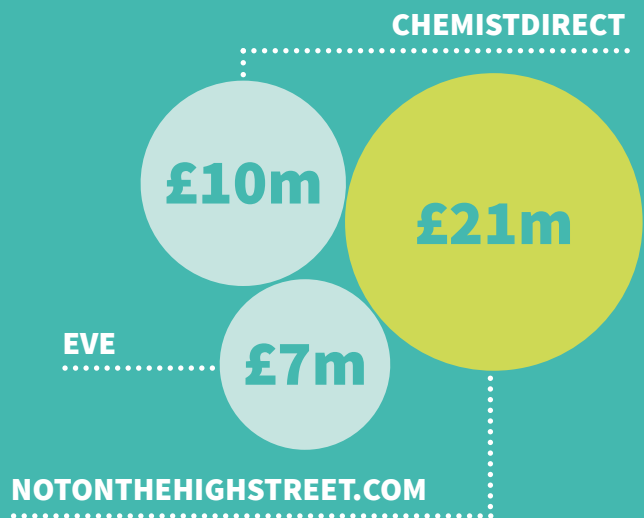


## Average Stake Taken

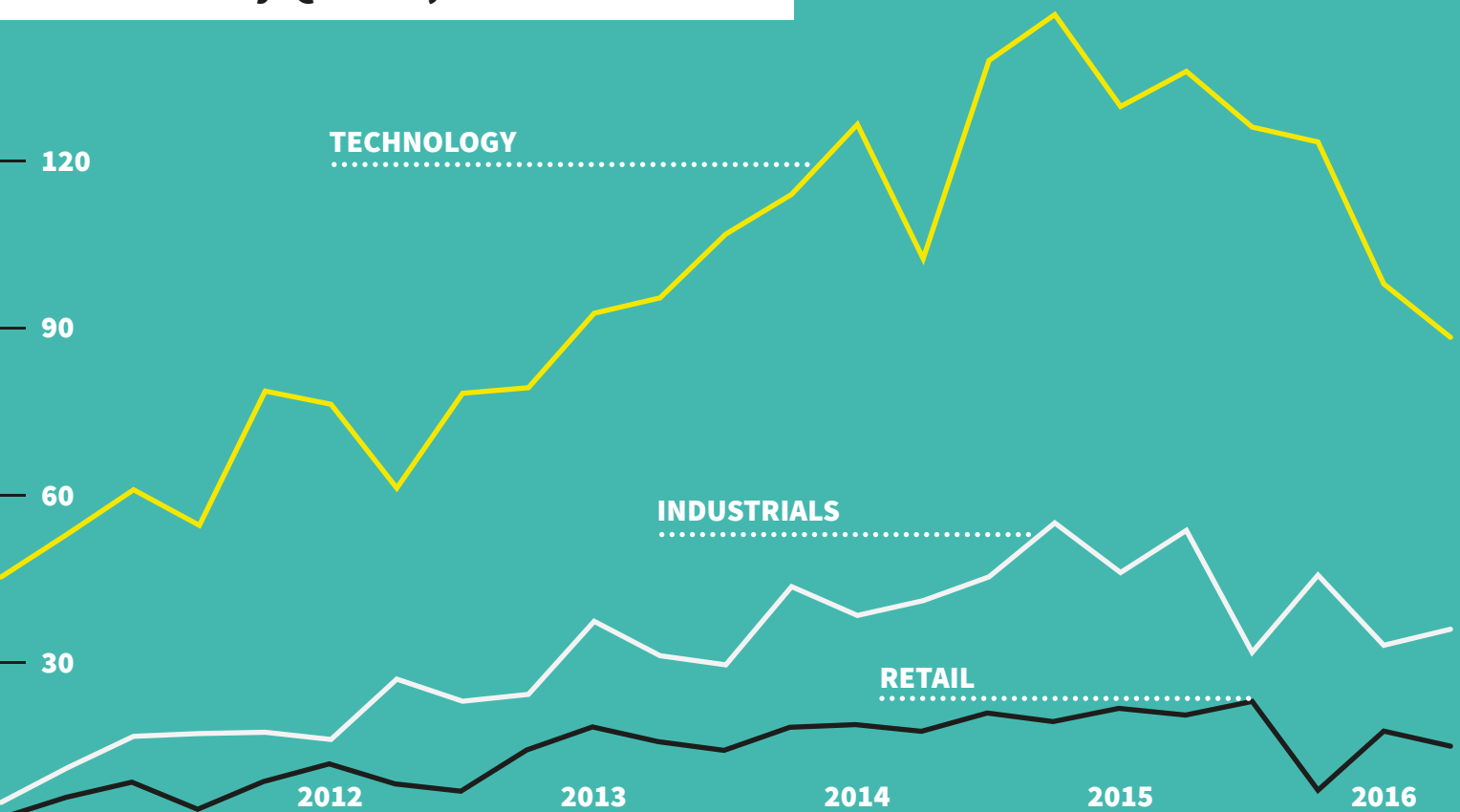
19.8%



## Biggest Deals



## Deals by Quarter, Selected Sectors



# Sectors

## Most sectors saw a fall in deal numbers this quarter, **but some bucked the trend.**

As always, technology was the busiest sector for deal activity. In keeping with the general trend this quarter, the sector saw deal numbers fall by 10% from Q2/16. Other sectors fared better, with deals into Industrials up by 9%. Retail, our spotlight sector this quarter, saw a slump of 15%. Historically, retail deal numbers have been fairly level, but took a nosedive in the first quarter of the year, recovering again in Q2. We suspect uncertainty in the run up to Brexit.

In Q3/16 retail saw £75m invested over 27 deals into 27 companies, ranging from fashion e-commerce to prescription medicine. The biggest deal in the sector went to [notonthehighstreet.com](#), who raised £21m in August. Founded in 2006, the online marketplace has raised £44.5m over four deals. The top retail investor was the Business Growth Fund, with four investments into the sector. Seedrs and Crowdcube tied for second place, investing into three companies each.



# Cash under the mattress

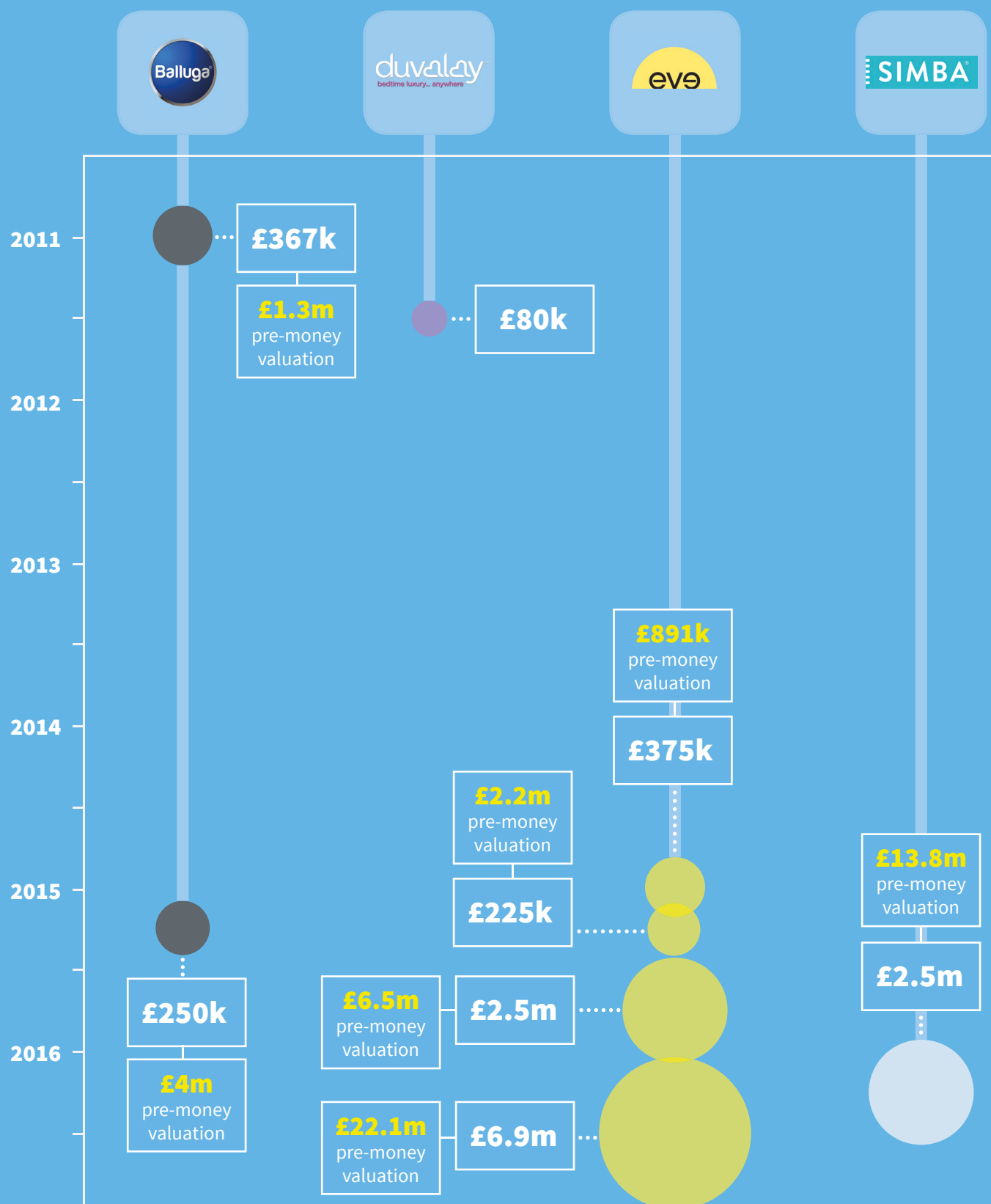
## Bedding is not traditionally an industry associated with rapid growth – **but it's booming.**

It's not a sector traditionally associated with venture capital. But bedding is booming. In 2011, Duvalay – a luxury travel bedding company – raised £80k from Dragons' Den. Duvalay's small market share belies the industry's changes since its genesis. Balluga, advertising 'interactive Smartbeds', emerged as a Kickstarter success, then received £367k in a fundraising in early 2011. In 2014, Eve Sleep cottoned on, and has since accrued £10m in funding. Another player is

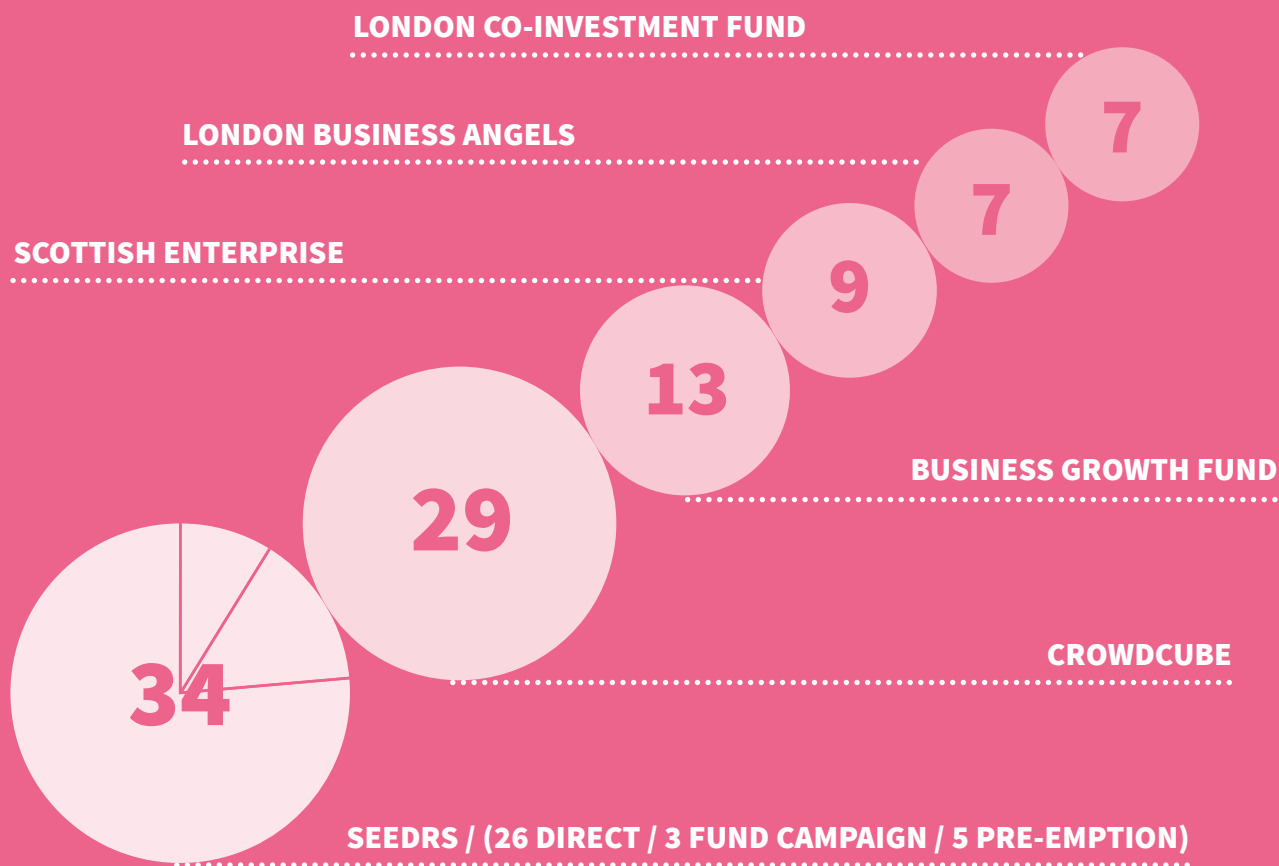
Simba Sleep, registered just last year. Like Eve, Simba offers only one 'perfect' mattress. Receiving £2.5m in a fundraising in May this year, Simba is valued at £21m, outpacing Balluga and Duvalay but dwarfed by Eve (£41m). In the US the industry has bounced to the extent that it was valued at around \$15bn (£12bn) last year – nine times that of the UK. So where have these companies sprung from? There's been a transatlantic boom in retail, and the cost of sale is relatively cheap –

they're sold at considerable markups, and typical price expectations are high. Startups corner the market by selling themselves as innovative: Eve and Simba are growth-hackers. They both sell primarily online: requiring a leap of faith from consumers. As such, the companies sell the brand first, mattress second. And their brands are beautifully crafted. So, mattresses are here to stay. And if the last twelve years are anything to go by, investors in the industry can sleep easy.

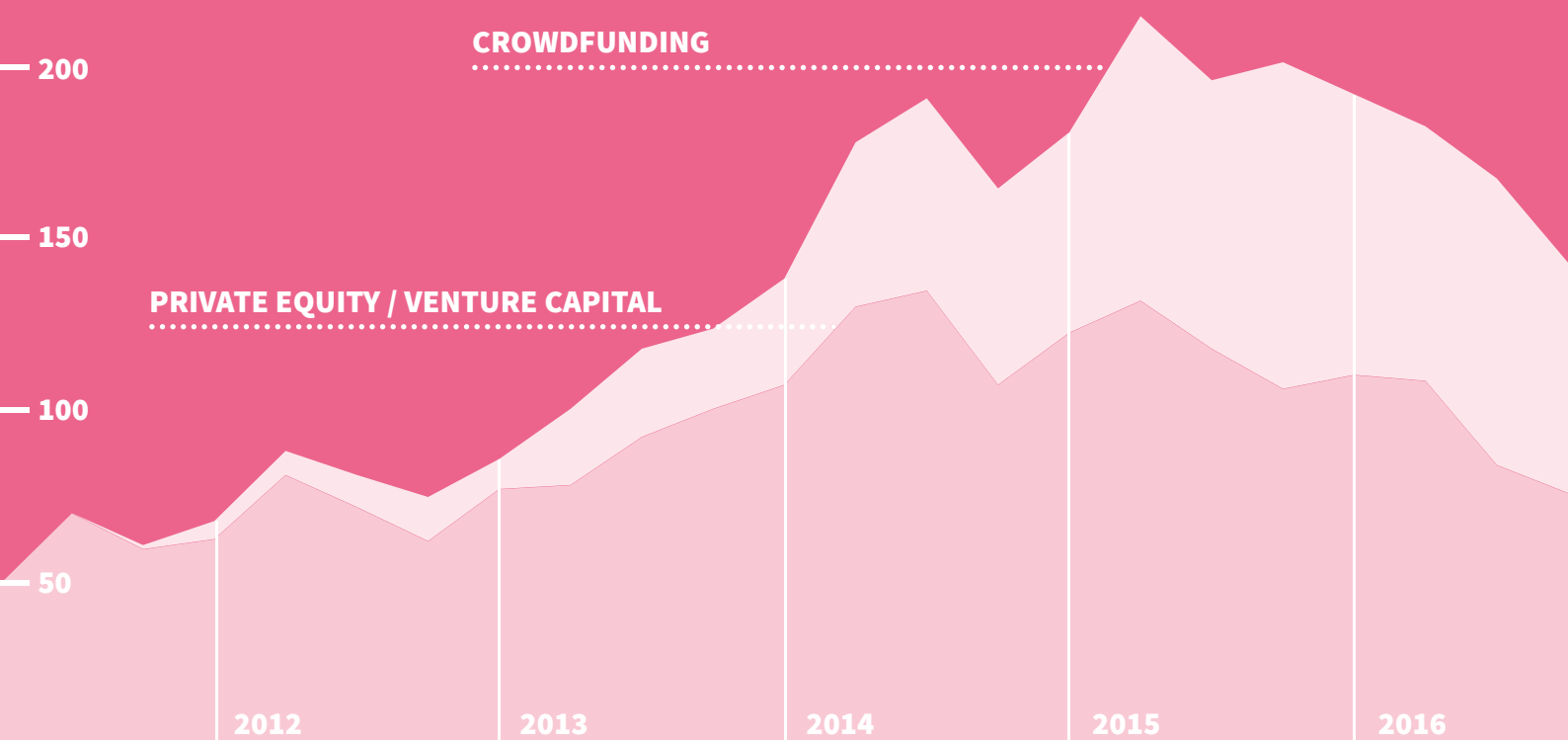
## Timeline of investment in high-growth mattress companies



## Top Investors by Deal Numbers



## PE/VC and Crowdfunding Deals by Quarter





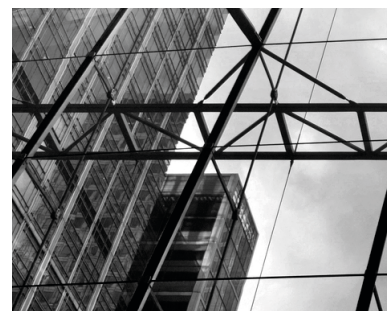
# Investors

## Crowdfunding platforms lead in the investor rankings, but their deal numbers are in decline.



Once again, crowdfunding platforms top the investor rankings for number of deals completed. Seedrs completed the greatest number of investments when including the execution of crowd pre-emption rights, as well as fund campaigns executed through the Seedrs platform<sup>1</sup>. Crowdcube completed the most direct investments from the crowd. The Business Growth Fund, a regular in the top investor charts, makes the list in third place as the top institutional investor in the period.

Crowdfunding platforms saw a 20% fall in deal numbers in Q3/16 compared with the previous quarter. Crowdfunding deal numbers have been in decline since the beginning of the year, reflecting the broader slump in deals across the UK. Private Equity and Venture Capital deal numbers also reflect this trend, and have fallen significantly from the beginning of the year. However, they only saw a decline of 10% when comparing Q3/16 with the previous quarter.



1. See Methodology for full explanation.

# Mind the Gap

**With a drastic decline in venture-stage funding, we are seeing the re-emergence of the equity gap.**

Every stage of evolution has suffered. Seed-stage deals are down 37%, and growth-stage by 41%, from their peak in Q1/15. We were optimistic about the venture-stage, but in under a year, the numbers have plummeted by 44% from their peak in Q4/15. Such a drastic decline cannot be solely due to a post-referendum recession. Investors have also had a role in this retreat. Mercia and Octopus, who were comfortably in the top ten investors in Q4/15, only

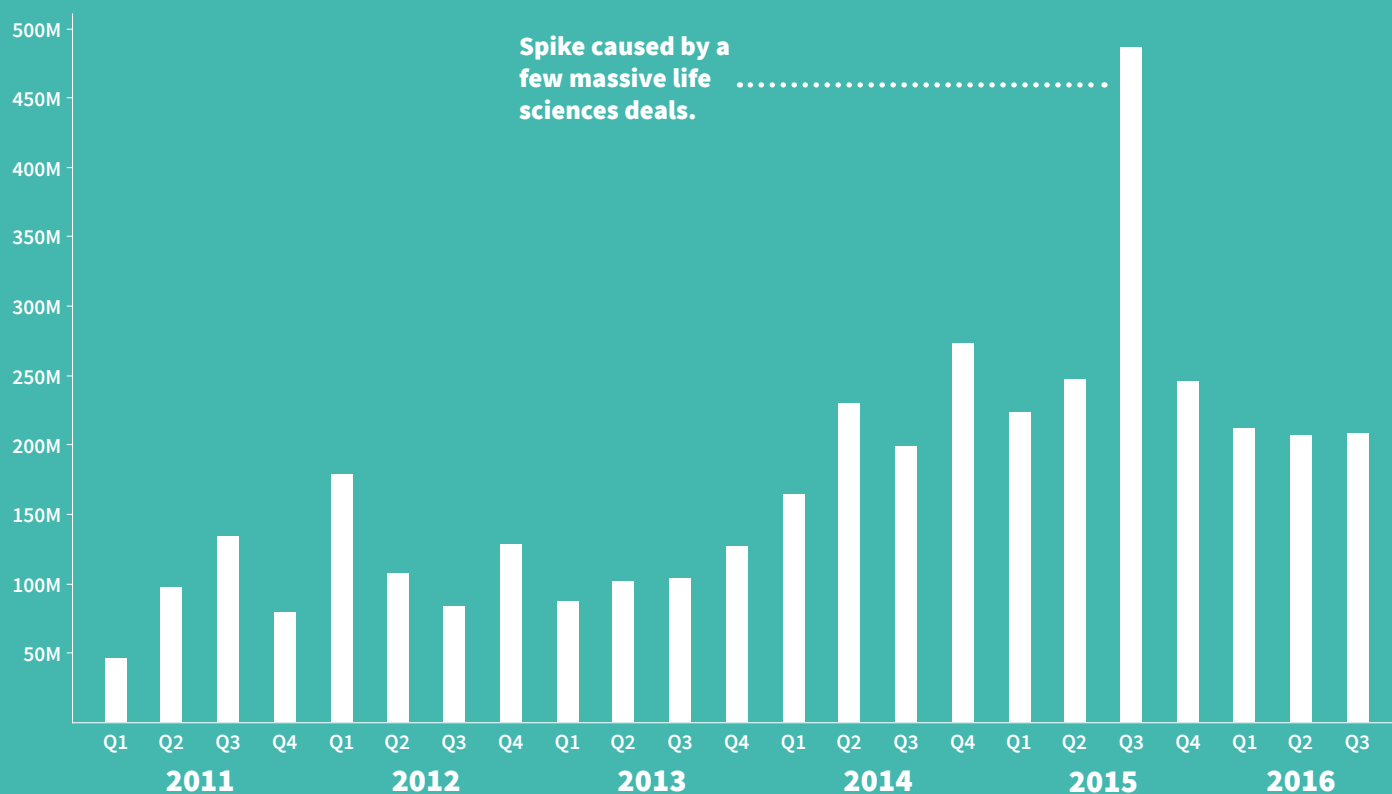
completed 1 and 3 deals respectively last quarter. This is perhaps unsurprising: Octopus' Head of Ventures was a signatory to an open-letter to the Evening Standard warning of Brexit's impact on VC activity. But it's more complicated than VCs simply thinking it too risky a time to invest. The total amount of money invested at the venture-stage has remained fairly level, and the average investment size is climbing – by 51% between Q4/15 and Q3/16. Investors commit

more money to deals because they are taking fewer risks overall – a larger investment provides the company more runway for success. But what's the cost of bigger ticket sizes? For the recipients, not much. For the rest of the ecosystem, it's the re-emergence of the dreaded equity gap. A lack of finance for venture-stage businesses now does not bode well for the future. Careful decisions must be made, otherwise Brexit uncertainty may become a Brexit calamity.

## Venture-Stage Deal Numbers



## Venture-Stage Amount Invested



## UK Investment Heat Map

1  20

### Edinburgh

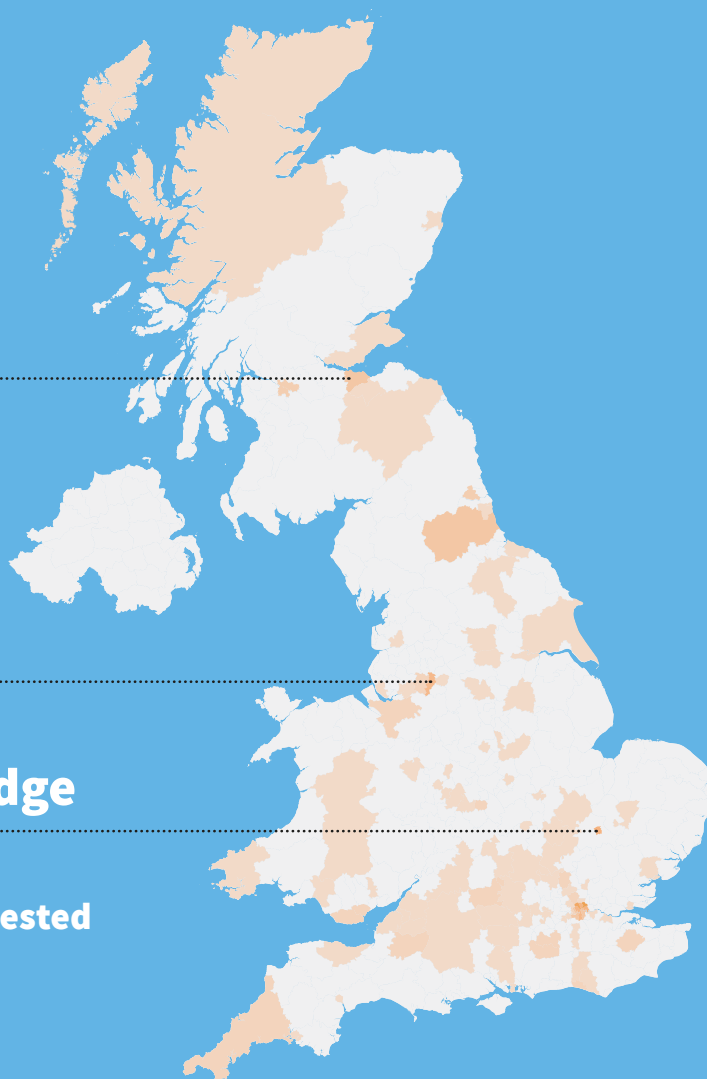
4 deals  
£5.6m invested

### Manchester

8 deals  
£24.8 invested

### Cambridge

13 deals  
£33.5m invested



## London Investment Heat Map

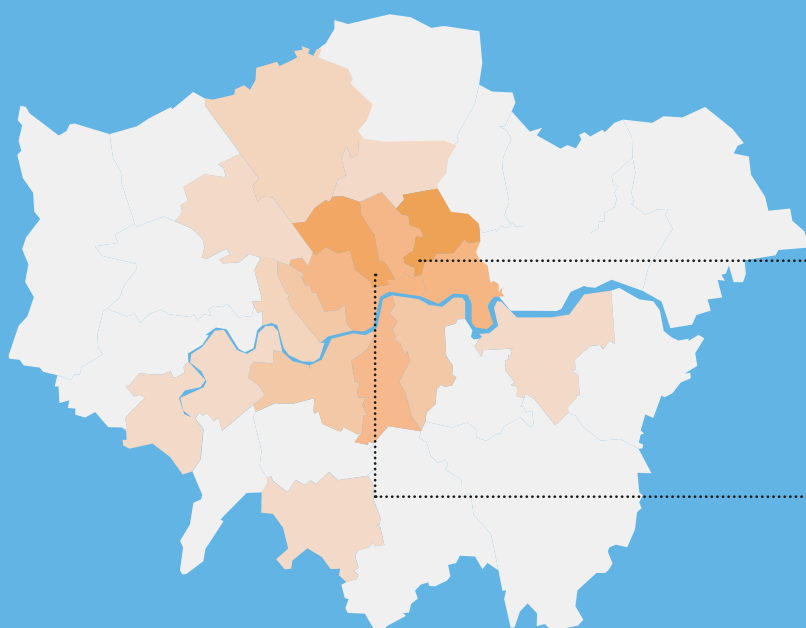
1  20

### Hackney

20 deals  
£40.6m invested

### Camden

18 deals  
£41.1m invested



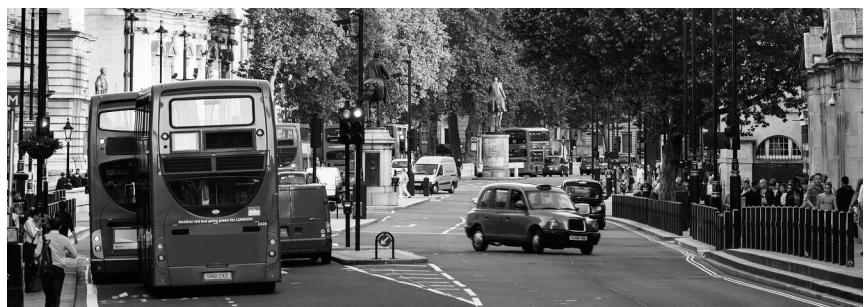
# Geography

## Cambridge was the leading city outside London by deal numbers in the third quarter of 2016.

Most regions saw deal numbers fall between Q3/16 and the previous quarter<sup>2</sup>. The greatest fall was felt in Yorkshire and Humberside, where deal numbers were down 69%. However, not every region suffered from a decline. Deal numbers were up by 133% in the East Midlands, 100% in the North East, and remained fairly level in the East of England and the West Midlands. It will come as a no surprise that the greatest number of deals were completed in London – 109 in Q3/16.

The top performing cities outside London were also consistent with previous quarters – Cambridge, in first place, with 13 deals, followed by Manchester in second place (8 deals), and Edinburgh in third (4 deals).

Within London the top borough was Hackney, with £40.6m invested over 20 deals. Camden came in second place, with 18 deals worth £41.4m. Islington saw £235m over 10 deals, thanks to Deliveroo's £210m raise.



2. Geography refers to a company's Head Office location.

# Delivering Growth

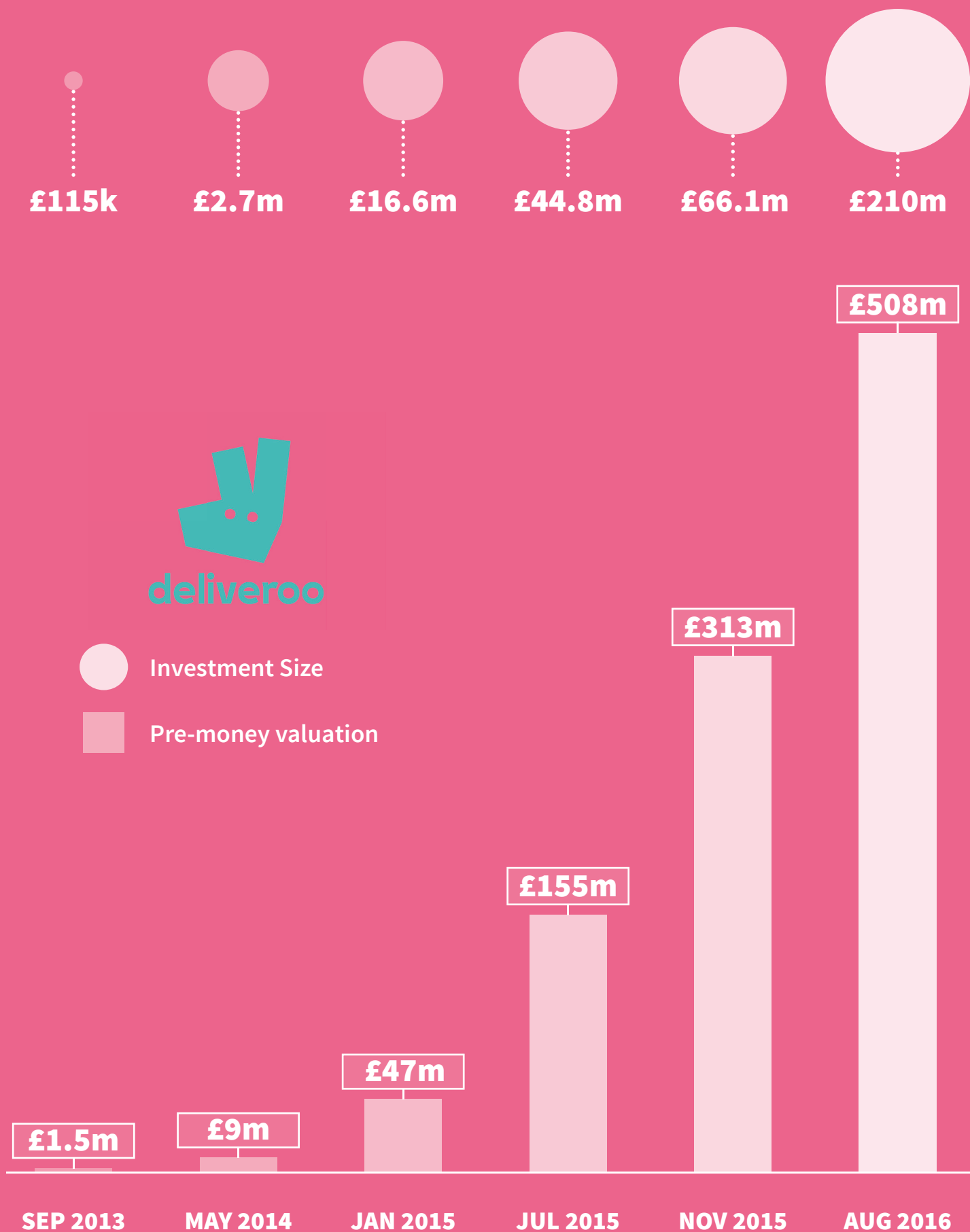
## Taking £210m in the quarter's biggest raise, **Deliveroo is a real startup success story.**

Founded in August 2012, Deliveroo began life as a venture between food-passionate friends Will Shu and Greg Orlowski. Shu worked in finance, and Orlowski as a developer, and the two see themselves as providing a logistics service more than a food business. The platform allows users to order takeaway food online, connecting them to restaurants that don't offer delivery or online ordering themselves. Deliveroo now has 800+ employees, offices throughout Europe

and several in Asia, and is valued at more than £717m as of August 2016, having received a huge £210m from Bridgepoint Development Capital, DST Global, General Catalyst Partners, and Greenoaks Capital Management in its sixth funding round to date. This takes Deliveroo's total raised through funding rounds up to £341m. Its meteoric rise has not, however, been without the occasional fall. In August, Deliveroo's London drivers staged extended strikes

over proposed changes to their contract, seeking collective bargaining power. The striking workers axed Deliveroo's planned changes, although failed in their demands for a pay rise. The affair did, however, do significant damage to Deliveroo's image as a friendly, empathetic startup. Although the scaleup has had its ups and downs, they end this quarter firmly on the sparsely-populated pantheon of British unicorns. We're hungry to see what Deliveroo do next.

## The Rise of Deliveroo



# Methodology

When discussing UK investment totals and deal numbers in our blogs, articles and reports, we use the following methodology, unless we state otherwise. The deals we include in this report are equity investments into UK-based businesses. The majority of articles and analysis contained herein are based only on announced equity investment. Wherever unannounced deals are being mentioned or analysed, it will be explicitly mentioned within that article.

This data is based on our own independent monitoring of fast-growth UK companies, their deals and their investors. We have comprehensive coverage of announced equity deals from Q3 2010 to present, and comprehensive coverage of unannounced equity deals from Q1 2015 to present.

## What we include when analysing UK equity investment

### Equity financing

Funding from either “organised” or “unorganised” investors. The former include institutions such as private equity firms, corporate venturing arms or formal networks such as business angel groups. The latter include business angels that are not investing through an angel network.

### Crowdfunding investment

Investments of money in return for equity from crowd funding intermediaries are included.

### Deals where third-party funders raised their cash from equity crowdfunding platforms

We include these if crowd investors either retained the power to allocate their money, after making a commitment to the funder, or if they (or the platform as a nominee) directly own shares in the investee companies.

### Investor participations

We attribute each deal to however many investors were involved in the deal provided they received new shares, regardless of the number or value of shares received.

### Pre-emption participations

We include all participations by investors, even if their contribution to a given round only represents the exercise of pre-emption rights.

### Deals only partly equity

Venture debt, loans or grants issued to non-listed companies are included only if they have come alongside equity financing. The entire round (including debt) is included in the data.

### Investment only into non-listed companies

Publicly listed companies of any kind that are actively traded on any exchange are excluded from our numbers.

### Announced vs. unannounced deals

We categorise equity fundraising transactions into two types. Announced deals are those investments that had an accompanying press release or were mentioned in the news. Unannounced deals are investments that were uncovered by our in-house researchers. Information about these deals, such as the amount invested and the company's valuation, is not publicly available.



## What we do not include

### Buyouts, mergers and acquisitions

These transaction types involve the change in ownership of existing shares (to buy out existing shareholders) rather than the creation of new shares (and the injection of new money into the company).

### Private placements

Private investment in public equities even if made by a venture capital or private equity arm.

### Solely debt/grant funding

Venture debt or grants issued to growing companies without any equity in the funding round.

### Cash for rewards

Investment into companies for non-financial rewards, e.g. Kickstarter.

### Project finance

Equity funding for individual films, construction projects and other individual projects.

### Fund commitments

When a fund manager raises a new fund from which to disburse investments, it is not per se giving away equity in itself (though it might do that separately as well). This fundraising by the fund does not constitute equity investment. Therefore fund commitments are excluded from our analysis.

## Further details

### Sectors

We have developed our own sector matrix that we believe more accurately reflects the way in which investors and others in the industry think about fast-growth companies.

### Cross-sectors

When analysing cross-sector data, i.e. comparing sectors, we weigh deal numbers and investment amounts across all of the investee's sectors. For example, a company in the Internet Platform and Theatre sectors will be counted as half a deal in each of these two sectors.

### Single-sectors

When analysing single-sector data we do not apply weighting. For example, when looking at the Mobile Apps sector in isolation we count fully all deals and investment amounts related to all investee companies with Mobile Apps as one of their sectors. That same deal may also be counted fully when looking at the E-commerce sector in a different section of the report if the company is in both the Mobile Apps and E-commerce sectors.

### Currencies

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

### Seed/Venture/Growth

We categorise businesses as being at the seed-stage, venture-stage, or growth-stage based on proprietary research and criteria. A deal is a seed-stage deal if the company was at the seed-stage when it received the investment.

### Location

This information is based on the head office location of the company receiving investment. For example, if a company has offices in multiple cities or was founded in a particular city but has moved its headquarters, our data only reflects this headquarters address.

### Second closing of a round

If, for example, a company completes a second closing of its Series B round for £5m this quarter having previously closed £2m last quarter (for a £7m total), only the £5m second closing is included in our data this quarter with the £2m first closing counting towards the previous quarter's figures.

### Overfunding

If a company sets out to raise a certain amount of money (via e.g. equity crowdfunding), but continues its fundraising after it has reached that amount, and then does manage to raise that second amount, we would count this as one deal, placing it at the date on which the second amount of money was raised.

### Close deals

If a series of similar deals are announced for the same company within a short time period and these in our opinion actually form one single deal then we will count these in aggregate as one deal.

### Ongoing fundraising

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

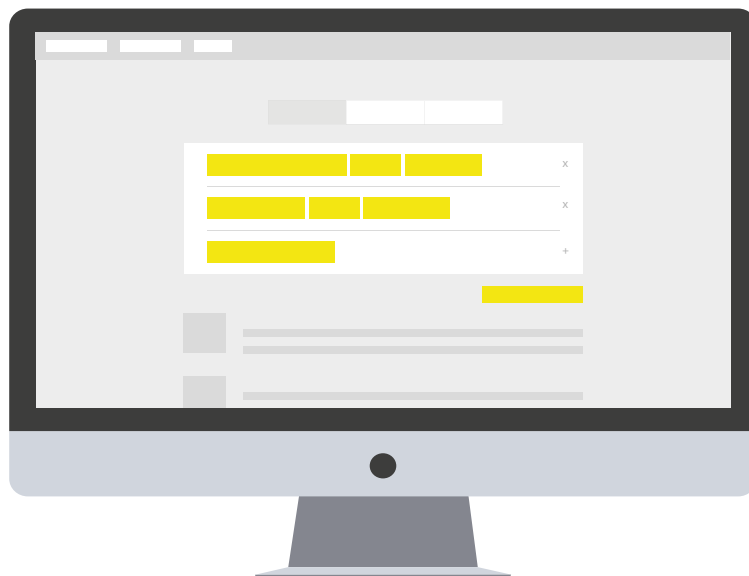
### Contingent funding

If a company receives a commitment for £10m subject to certain milestones being achieved but first gets £5m, the entire £10m is included in our data.

### Timing

Investments are allocated based on the date given in the announcement of the deal. This may differ from the date on which the deal legally closed. On occasion we see deals announced later than the date given, for example, a press release may be distributed in May that discloses that a deal happened in March. In this case we will take March as the deal date.

Data for this report was finalised on 01/10/16 – deals disclosed after this date are not included.



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