

# Investing in Ambition

## Scotland's Risk Capital Market in Context

June 2021

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## About the Report

The availability of early stage equity investment is a measure of a strong business environment. It is a vital source of finance for start-ups and rapidly growing businesses looking to bring new technologies and innovative products and services to the market.

This report is the latest in a series that tracks the flow of equity investment – setting Scotland's performance alongside the other nations and regions of the UK. This analysis, based on Beauhurst data, allows Scotland's performance to be seen in a wider context and informs Scottish Enterprise's interventions which support the growth of the early stage equity investment market.

## About Scottish Enterprise

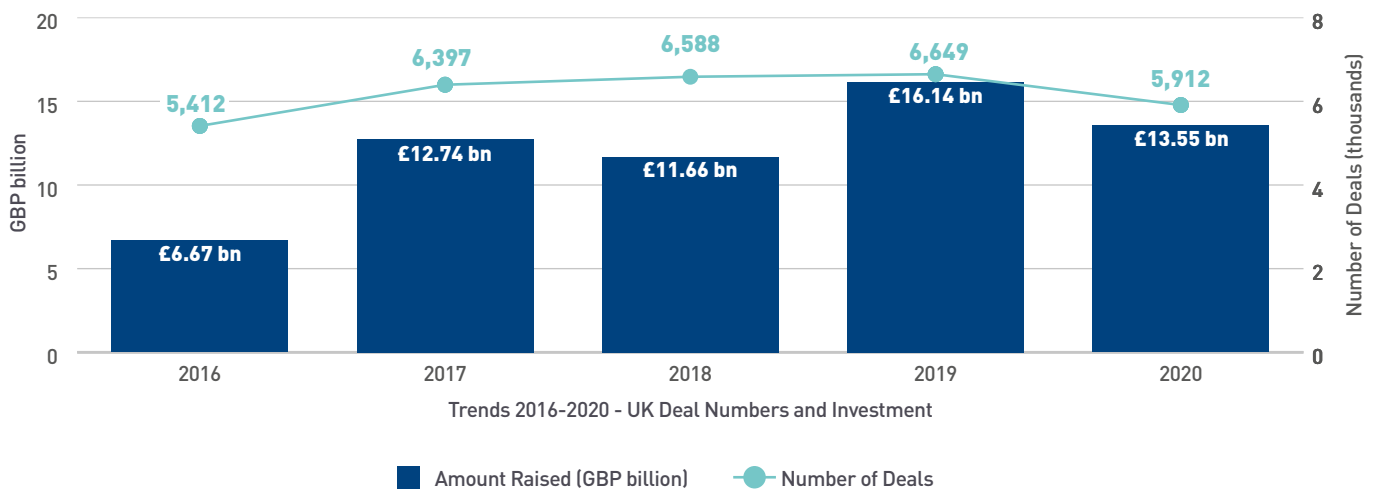
Scottish Enterprise is Scotland's national economic development agency committed to growing the Scottish economy for the benefit of all, helping create more quality jobs and a brighter future for every region.

The Growth Investments team in Scottish Enterprise supports Scotland's SME funding market to improve access to early stage growth capital. The team increases the supply of equity and debt finance in Scotland working closely with private sector investors. These interventions are evidence based and informed by the work of our market intelligence team who benchmark and analyse the performance of the equity market across the UK.

## Review of the UK Investment Market in 2020

Despite the COVID-19 pandemic 2020 was a strong year for equity investment. Since 2017, the UK market has experienced strong growth and although deals were down 11% in 2020 from 2019 and investment was down 16%, investment still saw its second highest year on record.

Trends 2016-2020 - UK Deal Numbers and Investment



## The Impact of Large Deals on the Market

As with previous years large outlier deals of £50 million and above and £100 million and above skew the market and regional totals. Despite only accounting for 0.6% of total deals, deals of £50 million and above represented a 1/3rd of the UK's total investment in 2020 (34 deals equating to £4.5 billion of investment).

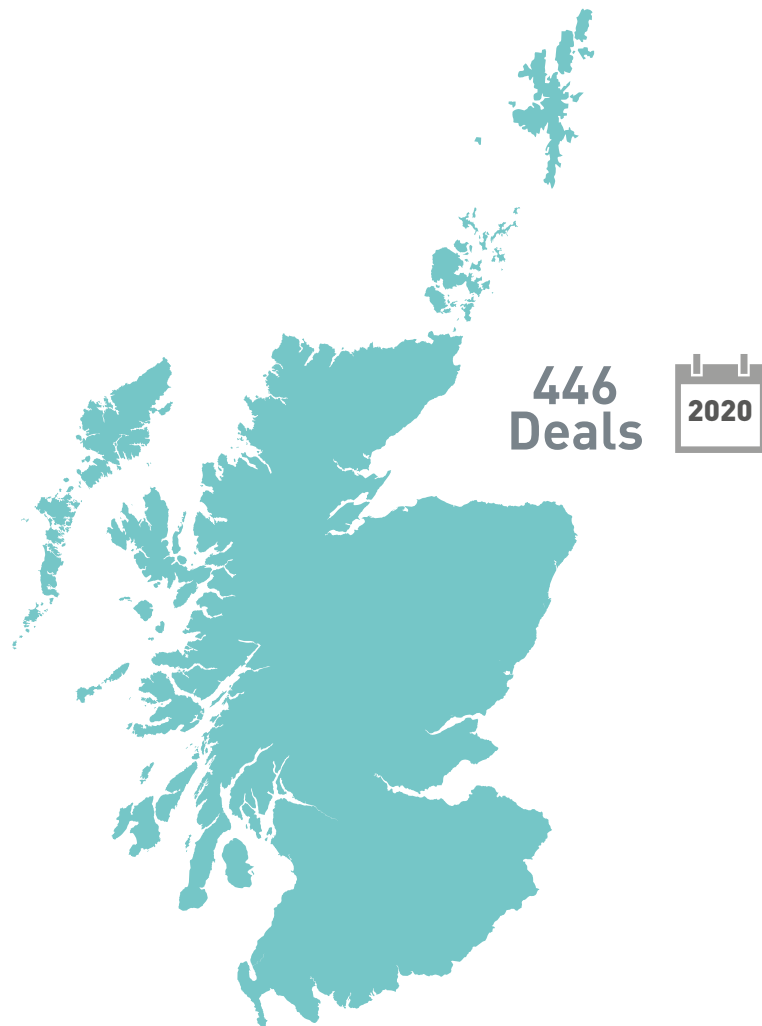
In 2020 most of the deals of £100 million and above took place in London (with 10 of the 14 deals in this category). In 2018 there were 10 deals in the UK of £100 million and above and in 2019 there were 17 deals at this level.

UK Deals £100 million and above			Quarter			
Company	Region	Funds	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Cazoo	London					£240.0m
Cazoo	London		£100.0m			
Checkout.com	London			£121.5m		
Exclaimer	South East					£100.0m
Graphcore	South West		£116.1m			
Gymshark	West Midlands				£200.0m	
Karma Kitchen	London				£252.0m	
OneTrust	London					£223.8m
OneTrust	London		£162.4m			
Revolut	London		£383.3m			
Snyk	London		£115.4m			
Snyk	London				£154.2m	
Zenobe	London					£150.0m
Zzoomm	South East				£100.0m	

## Investment across the UK

The UK investment market is characterised by the continued concentration of activity in London. In 2020, London secured 62% of investment and 51% of deals. When London activity is combined with the South East of England and the East of England (the area collectively known as the Golden Triangle), this increases to 81% of the UK's total investment and 70% of deals.

Outside this area Scotland is one of the most active investment markets. In 2020, Scotland was the third best performing region for number of deals (446 deals), after London (2986 deals) and the South East of England (725 deals). In terms of amount of investment, the North West and West Midlands (West Midlands total includes £200 million investment into GymShark) were the next best performing regions after the golden triangle, followed by Scotland ([Geographical breakdown p7](#)).



## Geographical breakdown (£ million)

North West		
	Deals	£m
2018	344	477
2019	379	981
2020	307	468

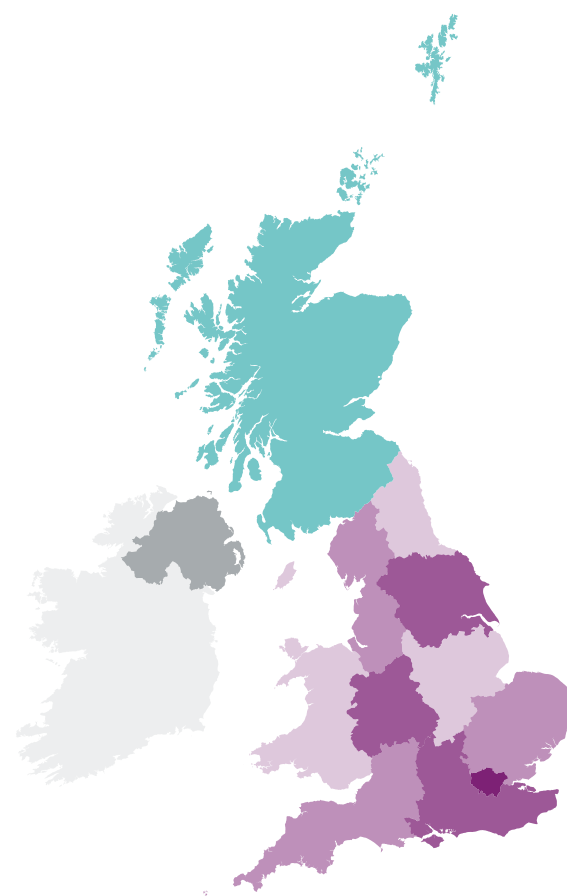
N Ireland		
	Deals	£m
2018	64	28
2019	78	54
2020	46	38

West Midlands		
	Deals	£m
2018	191	261
2019	179	158
2020	180	464

Wales		
	Deals	£m
2018	147	77
2019	138	99
2020	131	142

South West		
	Deals	£m
2018	369	429
2019	393	532
2020	291	393

Scotland		
Year	Number of deals	Amount invested £m
2018	374	400
2019	428	485
2020	446	430



UK Total		
Year	Number of deals	Amount invested £m
2018	6,588	11,660
2019	6,649	16,140
2020	5,912	13,550

North East		
	Deals	£m
2018	141	298
2019	107	162
2020	108	214

York & Humber		
	Deals	£m
2018	192	261
2019	179	158
2020	180	209

East Midlands		
	Deals	£m
2018	139	107
2019	115	231
2020	119	210

East of England		
	Deals	£m
2018	458	1,118
2019	457	1,193
2020	403	902

London		
	Deals	£m
2018	3,335	6,407
2019	3,407	10,759
2020	2,986	8,452

South East		
	Deals	£m
2018	830	1,770
2019	766	1,320
2020	725	1,585

## Growing the Pipeline

An important indicator of the health of the market is a growing pipeline of early stage opportunities securing investment.

Looking at the very early stage of the market across the UK deals below £500K fell by 12% and investment was down by 14%.

In 2020 the UK saw the lowest level of deal and investment activity in deals under £2 million since 2016, with a 12% decrease in deals from 2019 and a 12% decrease in investment. Despite this, deals at this level still equated to 81% of the total number of UK deals.

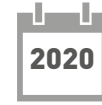
While the fall in investment above £2 million was 17% this was largely down to reduced investment going into a small number of deals at £100 million and above. The British Business Bank's activity through the Future Fund (£1.12 billion invested across 1140 deals) will have contributed strongly to maintaining overall investment activity in deals above £2 million, with most of these deals taking place at this level. However, again this was concentrated with 61% of deals occurring in London based companies and 3% into each of the Devolved Administrations.



## Spotlight on Scotland

For the fourth year in a row, Scotland attracted over £400 million of equity investment. Although it is important to note that year to year investment totals can vary substantially depending on the presence (or absence) of very large single investments. In 2020 £430 million was invested across 446 deals, the highest year on record for number of deals. This is a 11% decrease on investment totals from 2019 but a 4% increase in deals since 2019.

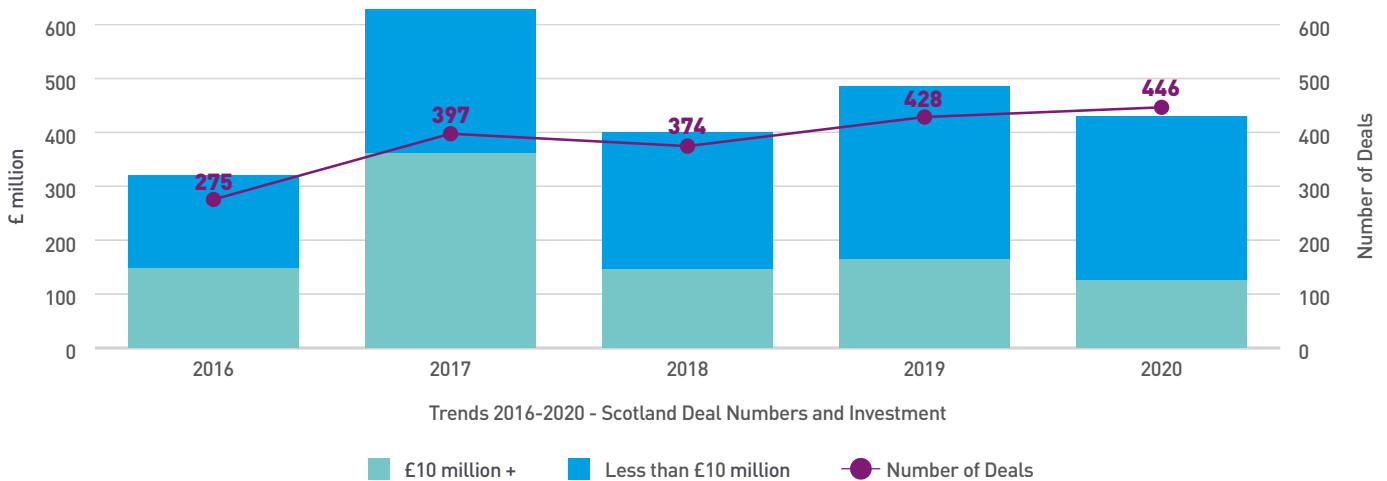
2020 started off well with a strong Q1 and as the pandemic unfolded in Q2 there was a reduction in the amount invested. This did not correlate with a substantial dip in deals which points to smaller, bridging round investments being made to support companies as the impacts of the pandemic started to be felt. Deals remained relatively stable across all quarters, apart from Q3 which saw a spike in deal activity, which included Scottish Enterprise's COVID-19 early stage market response, the Early Stage Growth Challenge Fund, which accounted for 90 deals.



**£430M**  
invested

**446**  
Deals

### Trends 2016-2020 - Scotland Deal Numbers and Investment



## Scotland's Underlying Market

Encouragingly the underlying market (deals under £10 million) held up well in 2020, with £305 million invested across 440 deals. This compares to £320 million across 419 deals in 2019, a reduction of 5% in overall investment. This is marginally better than the pattern across the UK, with total underlying investment below £10 million falling in the region of 10% and deals falling by 12%.

Importantly, the market data suggests the package of early stage support in Scotland helped bolster the market and safeguard the pipeline of early stage companies securing investment in 2020.

Without this support deals under £500k would have fallen away significantly. Investment and deals at the under £500k band increased slightly between 2019 and 2020. Without the Early Stage Growth Challenge Fund delivered by Scottish Enterprise, investment would have been 42% lower and deals would have dropped 26%, similar to levels last seen in 2016.

## First vs Subsequent Deal Activity

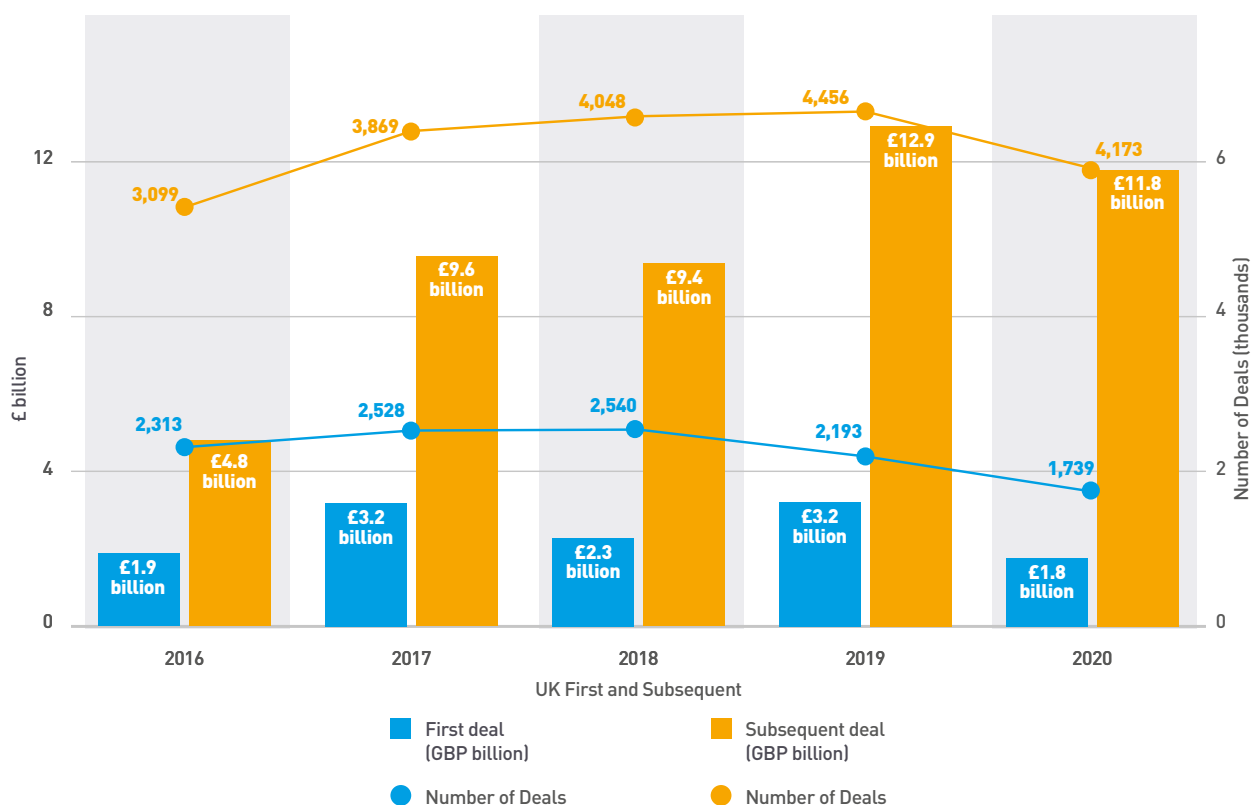
Another indicator of the strength of the early stage market is the number of companies securing investment for the first time (although it is important to remember that more established companies can also secure equity for the first time later in their development).

In 2020 Scottish figures suggest that 24% of deals (15% of investment) went into companies securing equity investment for the first time, this compares to 29% in 2019 and 33% in 2018. This signals some movement away from investing into companies for the first time and emphasises the importance of supporting the early stage of the market.

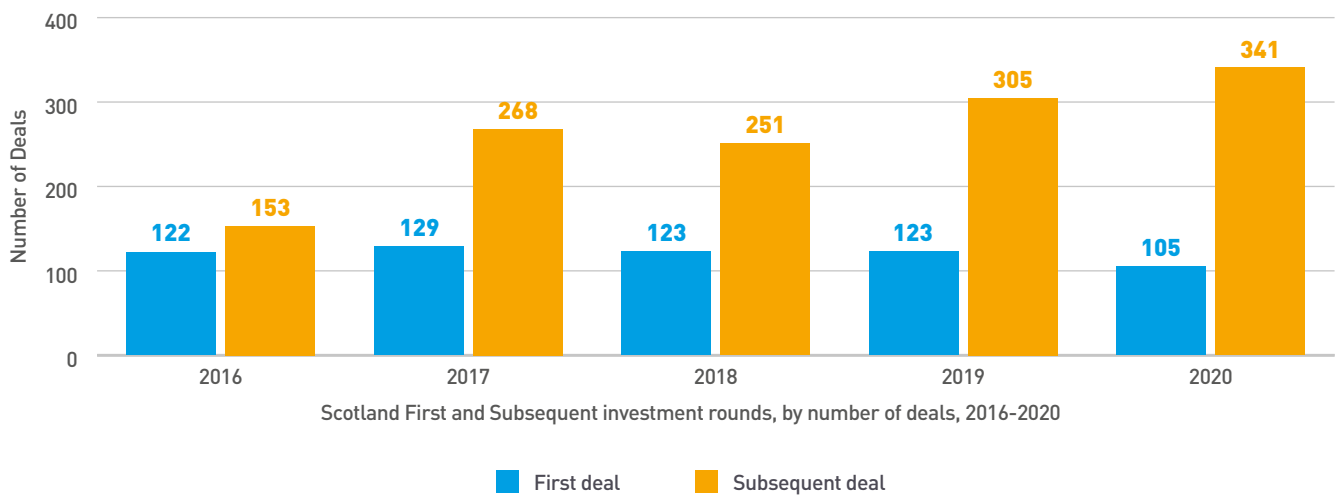
Over the previous 4 years (2016 – 2019) the average number of companies securing investment for the first time was 124 per year, this compares to 105 in 2020.

Across the UK there was a similar drop in first time investments, an acceleration of a trend seen in earlier years. In 2020 29% of all deals were first time equity investments (compared with 33% in 2019) providing further evidence of investors concentrating time and resources on their existing portfolios.

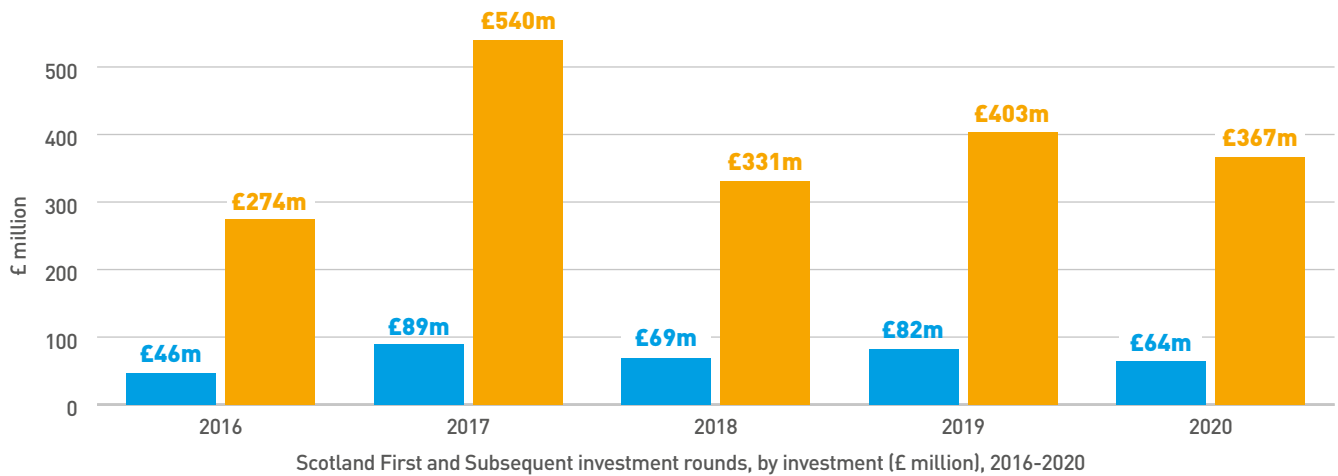
### UK First and Subsequent



Scotland First and Subsequent investment rounds, by number of deals, 2016-2020.



Scotland First and Subsequent investment rounds, by investment (£ million), 2016-2020.



## Sectors

There is no single way of allocating companies to market sectors which paints the whole picture, because companies usually have multiple activities and multiple target markets for their sales. For this report deals have been allocated to more than one sector where information is available. The sectors chosen for analysis are a combination of those representing a core activity (digital & IT, business services) and/or a target market (fintech, food & drink, oil & gas).

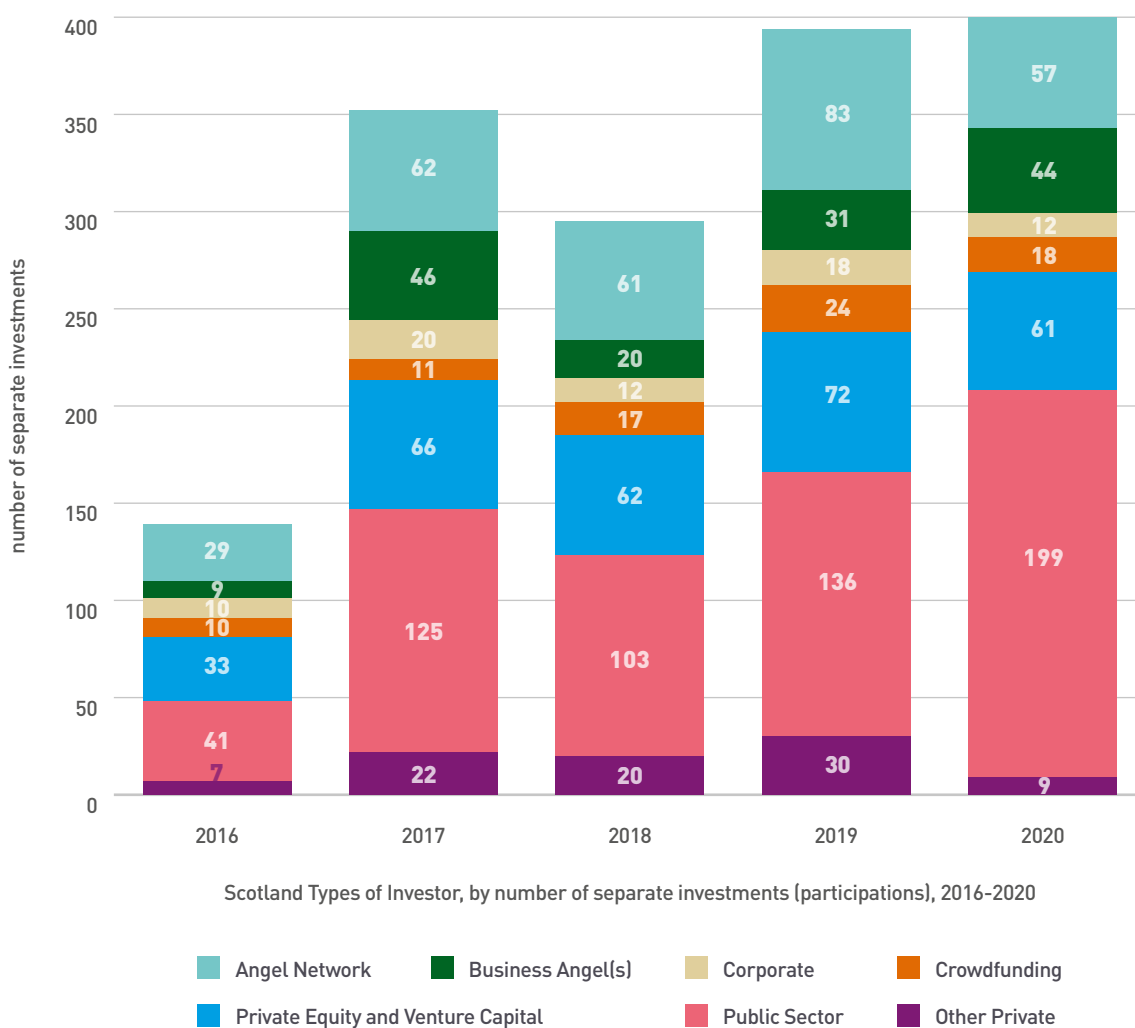
Digital and IT accounted for the largest share of deals at 30%, followed by Business Services (21%) and Technology and Engineering (19%). The remaining deals were spread across a range of sectors with Life Sciences and Food and Drink well represented alongside emerging areas such as Renewables, Fintech and Aerospace and Satellites.

Scotland Sectors Deals (yearly)	2016	2017	2018	2019	2020
Aerospace and Satellites	3	6	1	2	7
Business Services	101	159	137	174	160
Digital & IT	147	200	201	223	230
Energy – other	19	20	20	20	21
FinTech	11	16	13	19	24
Food & Drink	40	50	64	50	56
Life Sciences	34	58	47	61	59
Oil & Gas	9	20	15	24	25
Other	24	32	26	29	36
Renewable Energy	16	21	15	22	16
Technology & Engineering	82	141	109	156	144

## Investor Participation

When looking at the overall mix of investors participating in Scottish deals, Angel Networks participated in 56 deals, higher than any other part of the UK. While Scotland does stand out as having well-established Business Angel Networks (also described as Business Angel Groups or Syndicates), the market does benefit from a diverse mix of other investor types participating in deals. For example, Private Equity and Venture Capital investors participated in 62 Scottish deals in 2020, again placing Scotland as the next best performing market after the Golden Triangle for this type of investment.

Scotland also has strong public sector participation through Scottish Enterprise and Scottish Government investment activities, in the below chart public sector participation for 2020 includes the awards made through Early Stage Growth Challenge Fund.



Investor types are counted in as many deals as they participated in but each investor type is only counted once per deal. For example, a company receiving investment from an angel network and a VC would be counted as one deal each for 'Angel Network' and 'Private Equity and Venture Capital'. A company receiving investment from two angel networks would be counted as one deal only for 'Angel Network'. The category 'Business Angel(s)' only counts deals that involved a disclosed individual.

## Summary

Given the overall economic challenges, the Scottish early stage equity market is holding up well, and in many respects mirroring performance across the UK. In terms of the ongoing influence of the pandemic, the very early stage is most impacted alongside investor appetite for new deals. As the term patient capital implies, equity investment is based on a long-term horizon and this may help to explain why investment appetite was not as suppressed as might be expected. With funds having significant capital to deploy, the prospects for 2021 look promising, with the caveat that the early stage of the pipeline is the most fragile and in need of ongoing public and private support.

[www.scottish-enterprise.com/investment](http://www.scottish-enterprise.com/investment)

