



UK private companies: 2017 findings

Helping ambitious companies grow

Introduction

finnCap advise, promote and provide access to capital for ambitious growth companies. Using our wide range of expertise across multiple sectors, we shape your company and products into an effective investment story. As a modern entrepreneurial business we fuel faster growth, build value and are trusted to deliver success for businesses at every stage of their journey. We inspire confidence, energy and the determination to grow. It is why we are the largest adviser to ambitious growth companies and No. 1 broker on AIM.

As a nation, we are full of entrepreneurs with high aspirations and even more ambitious plans. It's our mission to help them keep growing by making investment more accessible and the financial landscape easy to navigate.

Finding the right investment is a key challenge for businesses looking to scale-up today and finnCap knows that the right investment comes from finding the right investor, those that are passionately engaged with your story.



Sam Smith
CEO, finnCap

► The finnCap private team

Growth Capital: Our Approach

The private company funding market shows remarkable tenacity in the face of today's strong, unpredictable economic headwinds. It's bigger than many might realise; our research suggests that 2017 will prove a record year for private company fundraising. That's why our team of specialists and experts has grown, helping more and more private companies access the right growth capital and achieve their ambitions in this dynamic market.

Our expertise is in our intuitive ability to marry great investment stories with the right investors, and we do this for both public and private companies. Ultimately, all investors and companies want a process that is as efficient as possible, and we provide this. There is a profound difference in the fully structured and regulated public market versus the unstructured private funding arena, in so many ways making this flourishing market all the more exciting.

Our research, based on data from Beauhurst, suggests 2017 will see a massive £4bn raised in around 650 transactions by ambitious British companies with cheque sizes of between £2m and £25m. This is a key fund raising range for established growing companies. By 'established', we generally mean companies with historic annual revenues of at least £1m, that are monetising their business models and have gained traction in a meaningful way beyond start-up or early stage development.



Marrying great investment stories with the right investors

▶ The team



Jonathan Garbett

A private company funding expert, not only has Jonathan been initiating and closing fund raisings for private companies since 1999, he also regularly speaks on and publishes market-leading research. He trained at equity capital markets and the big 4 professional services firms.



Grant Bergman

A serial entrepreneur and founder of a number of start-ups, Grant is a trained investment banker and broker who has been successfully raising funds for companies since 2006. Grant has also raised two VC funds as a designated member.



Philippa Robinson

Philippa's specialist expertise lends itself to developing and nurturing long-term private equity relationships that are built on trust. Philippa has been raising funds for private companies since 1988 and led a regional corporate finance team of a top 20 accountancy business.



Hugo Lough

Hugo has specialist experience in raising funds for private companies and is an expert in project managing all transactions with meticulous attention to detail. Hugo is fully trained in banking and is also a qualified management accountant.

► Growth capital research

Working with Beauhurst, a database of information on the UK's startups, scaleups and high-growth companies, we have produced research on the growth capital market for UK private companies

This research reveals a story of phenomenal activity and growth. Key findings:

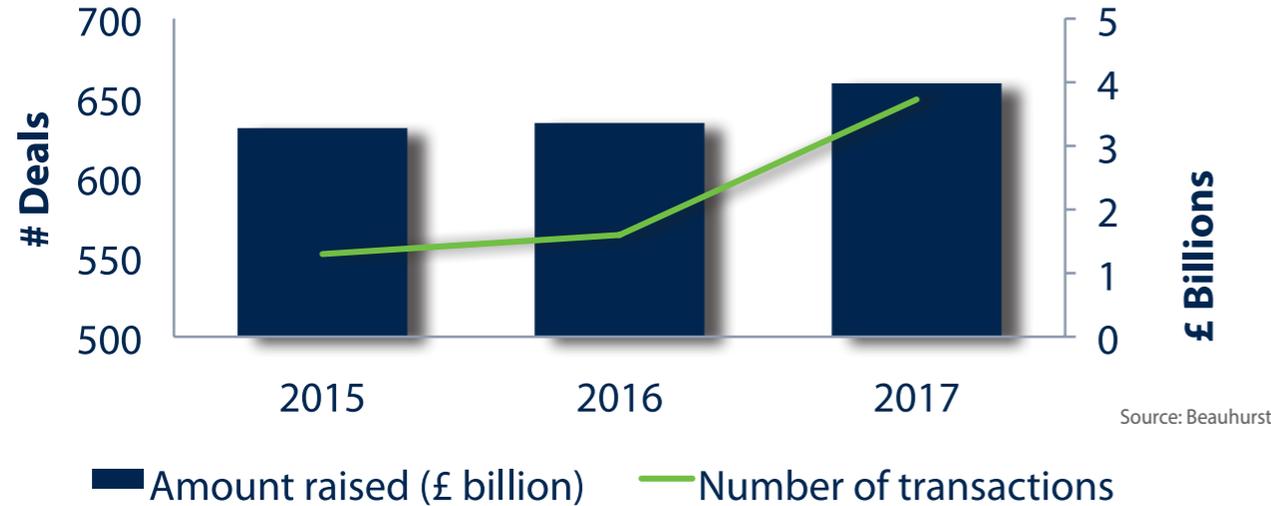
- We predict that 2017 will be significantly ahead of 2015 and 2016 with nearly £4 billion being raised in growth capital in over 600 deals
- Technology businesses account for a majority of the transaction activity
- London accounts for 50% of activity, with the North and East England also substantial
- Venture debt is running at 13% of the market
- Institutions provide over 60% of funds



The UK market in growth capital is extraordinarily healthy and continues to break records

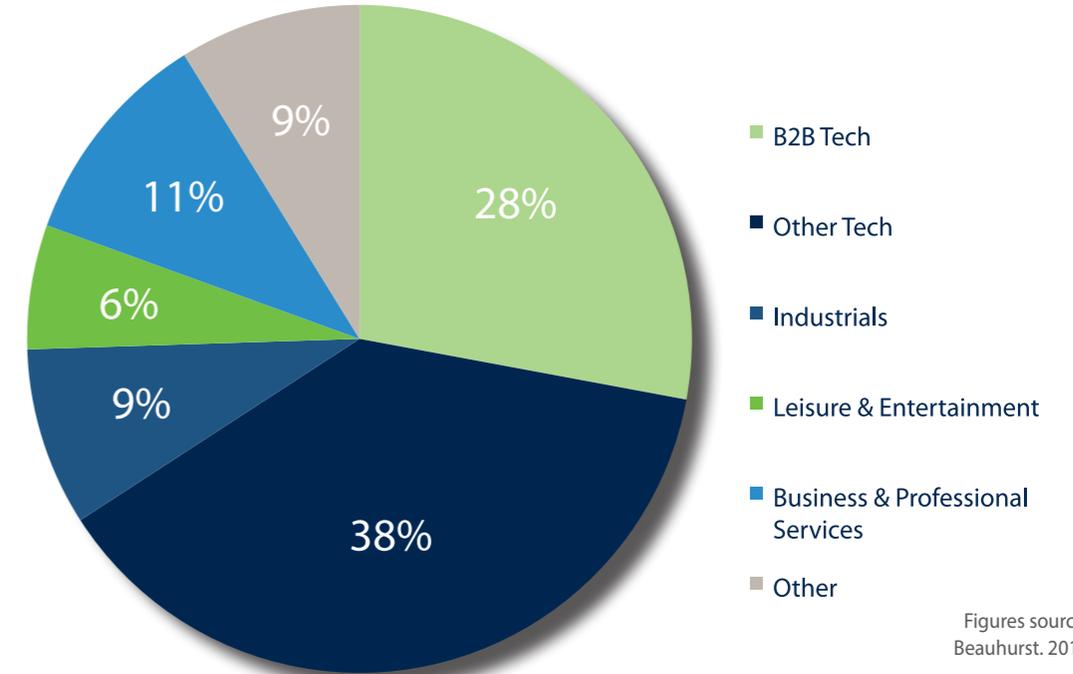
► Growth and sector

This is a big, high volume market that has grown every year since 2015



- Equity and venture debt funding by unlisted UK companies in amounts of £2 million to £25 million
- 2017 year to 1st November is showing 541 transactions and £3.32 billion raised, on an annualised basis 649 transactions and £4.0 billion raised – another record

Technology businesses account for a majority of the transaction activity



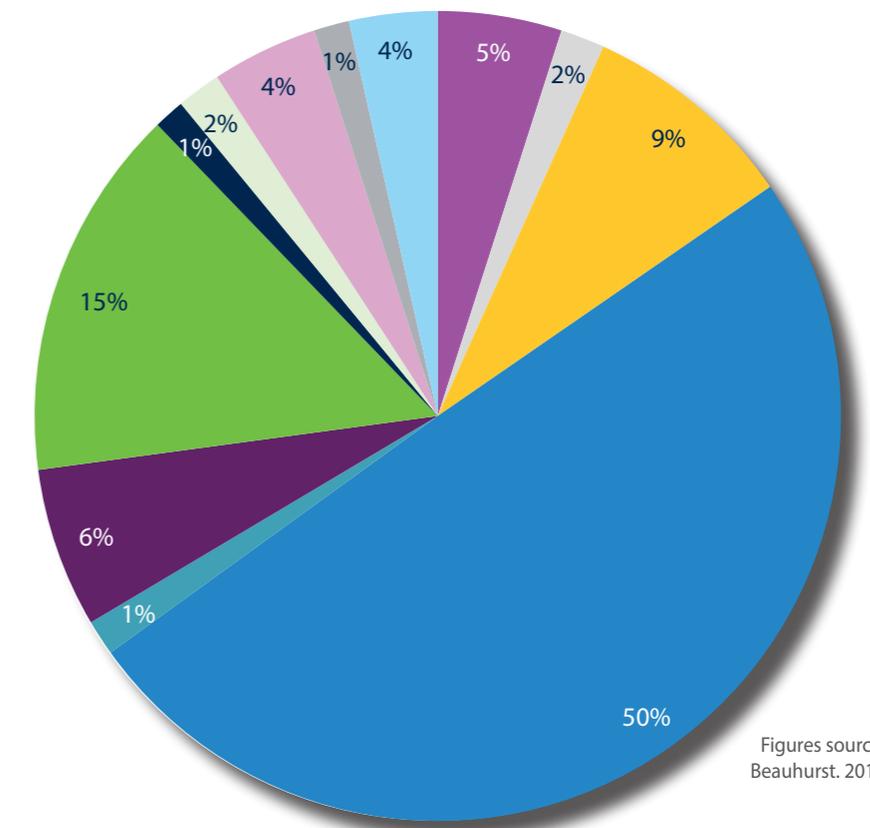
Figures sourced from Beauhurst. 2016 figures

- 2016 private company investments from £2m – 25m, by number of fund raisings
- These figures hold for 2017 YTD – the market is consistent and predictable



Location

- Scotland
- East Midlands
- East of England
- London
- North East
- North West
- South East
- Northern Ireland
- West Midlands
- South West
- Wales
- Yorkshire and Humberside



Figures sourced from Beauhurst. 2016 figures

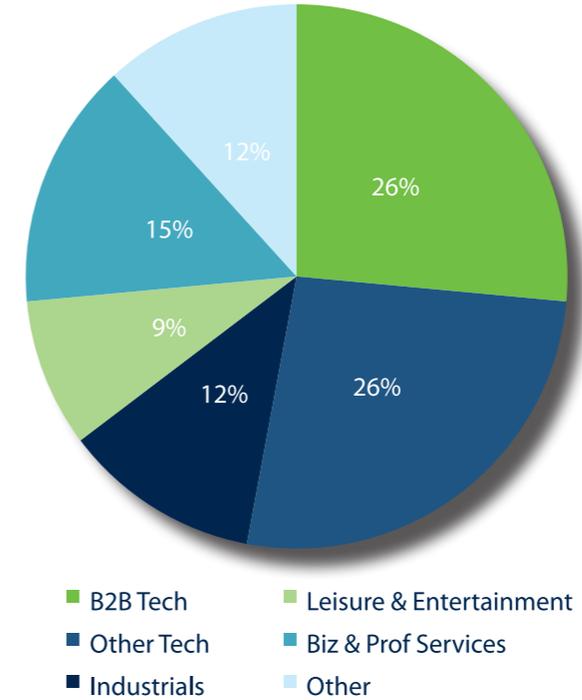
- 2016 private company investments from £2m – 25m, by number of fund raisings
- Location based on headquarters of the company

Total North West fund raisings



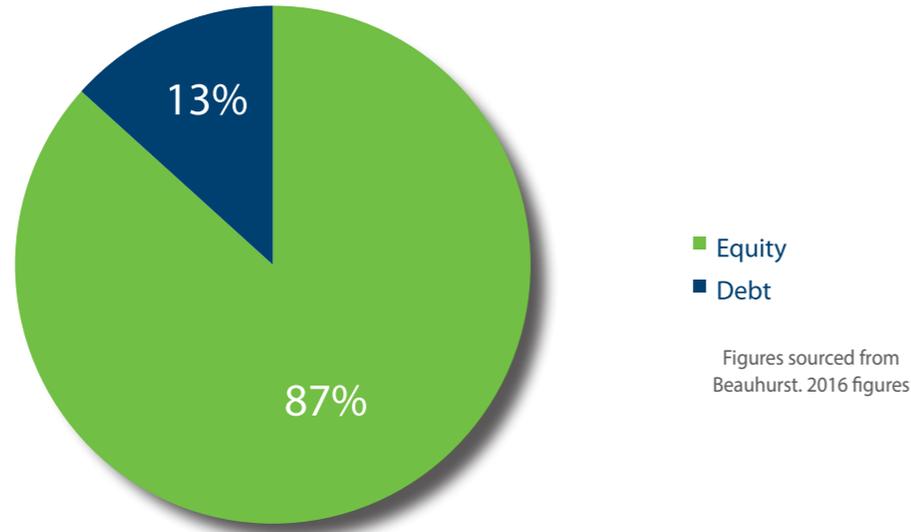
*2017 figures reflect run rate
 Figures sourced from Beauhurst. 2016 figures

2017 North West fund raisings by sector



► Equity vs debt

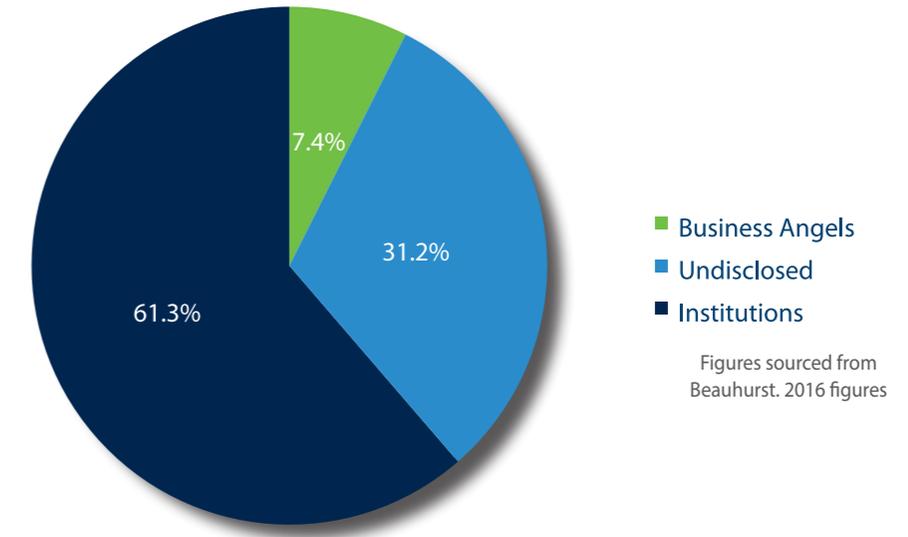
Debt is a significant part of the overall growth capital market



- 2016 private company investments from £2m – 25m, by number of fund raisings
- Debt that is included in this analysis is mezzanine debt, convertible debt, debt provided by angel networks or venture capital firms

► Institutional investor activity

Most growth capital activity is institutional in some form



- 2016 private company investments from £2m – 25m, by number of fund raisings
- In the institutions category we have included funds, companies, crowdfunding platforms and investor clubs with investment professionals involved



► Selection of deals in the North West

| Company | Funders | Raised (£m) | Sector |
|---------------------|---|-------------|---------------------|
| afforditNOW | Undisclosed | 24.5 | FinTech |
| AJ Bell | Woodford | 21 | Investment Platform |
| Push Doctor | Led by Accelerated Digital Ventures and Draper Esprit | 20.2 | Healthcare |
| Cubic Motion | NorthEdge | 20 | Technology |
| Lowri Beck Services | Santander | 16.25 | Energy |
| RSK Group | BGF | 15 | Consultancy |
| Daisy Group | Oakley Capital | 14 | TMT |
| MPP Global | Albion Ventures & Grafton Capital | 12 | Technology |
| Woodall Nicholson | BGF | 10 | Manufacture |
| Wejo | Seneca Partners & Undisclosed | 5.2 | Technology |

Prolific Investors in the North West include:

BGF Foresight Group Seneca Partners NVM Private Equity Oxford Capital



A good team
gives you the best
chance of success

▶ Looking ahead to 2018

After several years of successful fund raising there is a large supply of capital available in the North West to invest in private companies in 2018. The North West is now the third most active area of the UK for private equity investment, and with the local economy remaining robust, more capital has been attracted to target investments in the area.

As a result, for private companies seeking to raise finance next year, the challenge will be trying to navigate through the myriad of options available to find the right type of investment, and the right type of investor, to help their business fulfil its potential. At YFM we see an investment as the start of a partnership, and it's important that all parties feel there is a good cultural fit, over and above the specific commercial and legal terms of the investment.

Investors will be mindful of the economic and geo-political uncertainty that will remain in 2018 when making their investment decisions. Companies seeking to raise funding should anticipate challenges from investors as to how their business, market and plan can thrive despite this backdrop. The key feature we'll be looking for in a potential investment though is a strong management team. It's a truism, but a good team gives you best chance of success, regardless of the climate you're operating in.

We've been delighted to find a good fit with our recent investments in Matillion, a cloud-based data integrator, e2e Engineering, a satellite communication business, and 4Net Technologies, a telecoms and call centre solutions provider. These businesses evidenced an exciting and robust growth plan, and are run by passionate and experienced management teams. YFM provided bespoke investment structures that worked for these businesses and we're excited to partner with them to help them achieve their growth aspirations.



YFM is an independent private equity business that invests £2m to £10m in growth capital, buy-out and equity release opportunities across a wide range of sectors. We have £100m of available funds and are keen to invest across the region.



Andy Thomas
Investment Director, YFM Equity

▶ A market that is growing despite headwinds

Faced with the looming challenges of Brexit, a possible economic slowdown, increasing regulatory burdens and other cost base challenges for growing companies, that the private company fund raising market is in such significant growth is a great achievement for the UK. I think there are two factors at play:

1. An increasing supply of funds, with VCT and EIS funds invested at record levels and more institutional funds flowing into this investing activity.
2. The ongoing success story of UK entrepreneurialism, business growth and value realisation, and the ambition it inspires. High-profile cases like Skyscanner, ARM and ASOS are bolstered by an immense number of mid-market success stories.

Despite the buoyancy, investors and companies are frustrated. Not surprising, perhaps, given there are well over 100,000 growing companies in the UK, hundreds of investing institutions, companies and family offices, each with different investing criteria, and vast numbers of individual investors. Precious resources are wasted on meetings about transactions that do not fit the investor's criteria.

Too often the investment story is not developed enough for an investor to commit or the right data is unavailable to do due diligence. This is where finnCap can help. Our process is uniquely designed to ensure companies only meet investors that are engaged with their story, are fully funded and are ready to deploy, as we continue to be a leader of the exhilarating private market.



Jonathan Garbett
Corporate Finance Director,
finnCap

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Data provided by:

Beauhurst



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