UK Start-up Fundraising Review:

Q1 2021

Spark!®

STRATEGY. INNOVATION. TRANSFORMATION.

Introduction

At Spark! we're producing this report every quarter to give specific insight into the very earliest stages of start-up fundraising, from Pre-Seed to Series A. These early-stage companies showcase cutting-edge innovation and some will form the giant corporations of the future.

Our mission at Spark! is to help as many UK-based start-ups and scaleups win funding as possible, raising the innovation profile and GDP of the UK. We hope that by analysing and sharing this data, we can help start-ups understand which sectors and stages are doing well or facing challenges, so they can learn from the front-runners in those sectors. We also hope that investors will use this information to consider which areas of the UK start-up ecosystem could especially benefit from their support, especially when considering the future socioeconomic development of the UK.

The report is based on data available on 9th April 2021 on Crunchbase. Some companies may submit their Q1 data later in April, which may cause a change in data.

Many thanks go to Crunchbase for the provision of statistical data.

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Summary

After great signs of recovery in start-up funding through Q3 and Q4 2020, Q1 2021 in the UK has been something of a wobble when it comes to volume of deals, although total $value of investments has increased, which is creating a smaller bubble of companies moving forward with more money per round. It's been a strange Quarter, dominated by the post-Christmas lockdown and uncertainty over when it would end, which has certainly contributed to the wobble. Brexit, so far, is mostly making its impact felt through customs costs escalating, which is impacting sales for B2C businesses shipping goods to customers in the UK from outside its borders, and also affecting costs for UK businesses importing goods for sale.

Lack of pre-seed investment over the last year, as investors restricted investments to existing portfolios, or focused on later-stage, lower risk investments, looks to be impacting the flow up to Seed funding already, with the lowest volume of Seed rounds since before 2019. As investment into pre-Seed is the last stage to show real signs of recovery, the risk of the flow up to Seed reducing even further is real. Support from government and big business to help new companies get off the ground and raise their first vital funds is needed - it remains to be seen whether any further support will be provided to these fledgling companies.

Predictions from 6 months ago – How did we do?

Back in our Q3 2020 report, we made some predictions for early 2021. Here's what we predicted, and how things have turned out:

Sectors

We predicted: Construction and SaaS sector fundraising volumes would rise, and FinTech volumes would fall as a potential re-set of FinTech occurs as the market becomes ever more crowded.

What happened?: *We got it wrong!* Another lockdown happened, the market had a wobble and in fact all three sectors have dropped in volume of deals since Q4. The total $value of deals in FinTech has grown though, so clearly the bubble hasn't burst yet.

Crowdfunding

We predicted: Crowdfunding would continue to see its popularity rise with increases in deal volume and total $value.

What happened?: *We got it right!* Well, for Crowdcube at least. Their recently announced Q1 figures were bumper – a new record of 71 businesses successfully raising investment, which is 37% higher than Q1 2020; £51m invested, a 66% increase on Q1 2020 and 56,000 investments made, an astonishing increase of 89% on Q1 2020.

Seedrs are yet to issue figures at the time of writing.

New VC Funds

We predicted: VCs may find raising new funds challenging as institutional investors take a more cautious approach to start-up investment in uncertain times.

What happened?: Funds followed the same trend as start-ups, down slightly on volume to 126 funds raised in 2020, compared with 128 funds in 2019, but higher on $value, raising $16bn, a substantial increase on the $14.9bn raised in fund capital in 2019. We don't yet have data available for Q1 in 2021, so watch this space for further information as we progress through the year.

Pre-seed funding

We predicted: Pre-seed start-ups would continue to find it tougher to raise than later stage companies, as investors focus on existing portfolios and reduce risk.

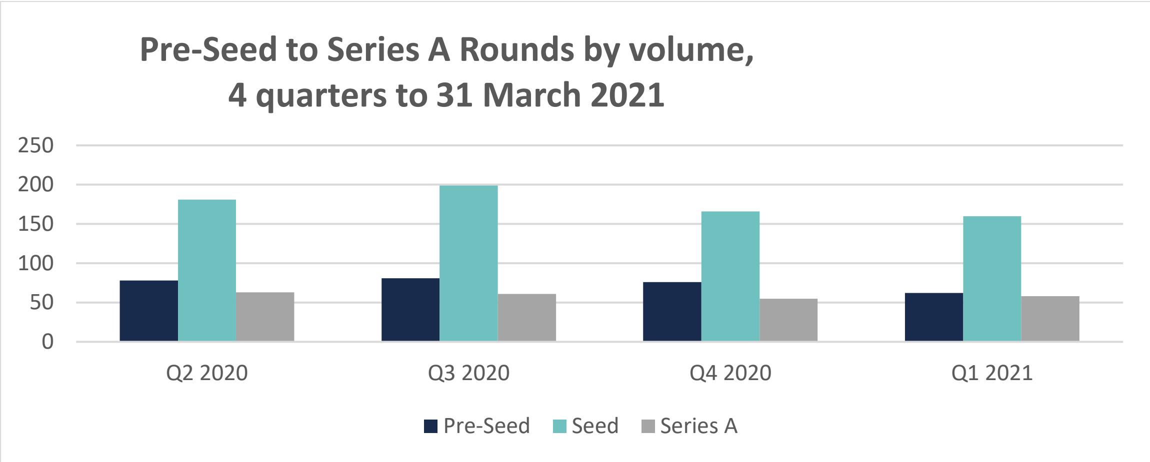
What happened?: Sadly, we were absolutely right. Pre-seed start-ups have suffered on both volume of deals done and total $value, unlike Seed and Series A companies.

Investment Stage Focus

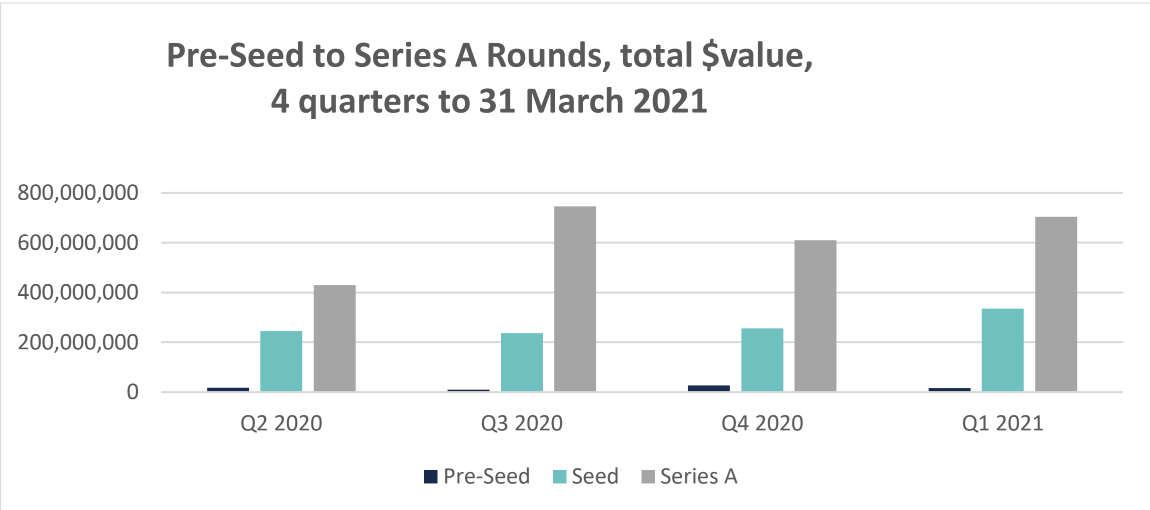
Our focus here is on the trends in rounds from Pre-Seed to Series A, across all sectors.

Twelve months to 31 Mar 2021, by Quarter

First, we're looking over the last twelve months, from the start of Q2 2020, right at the beginning of the pandemic, to the end of Q1 2021.



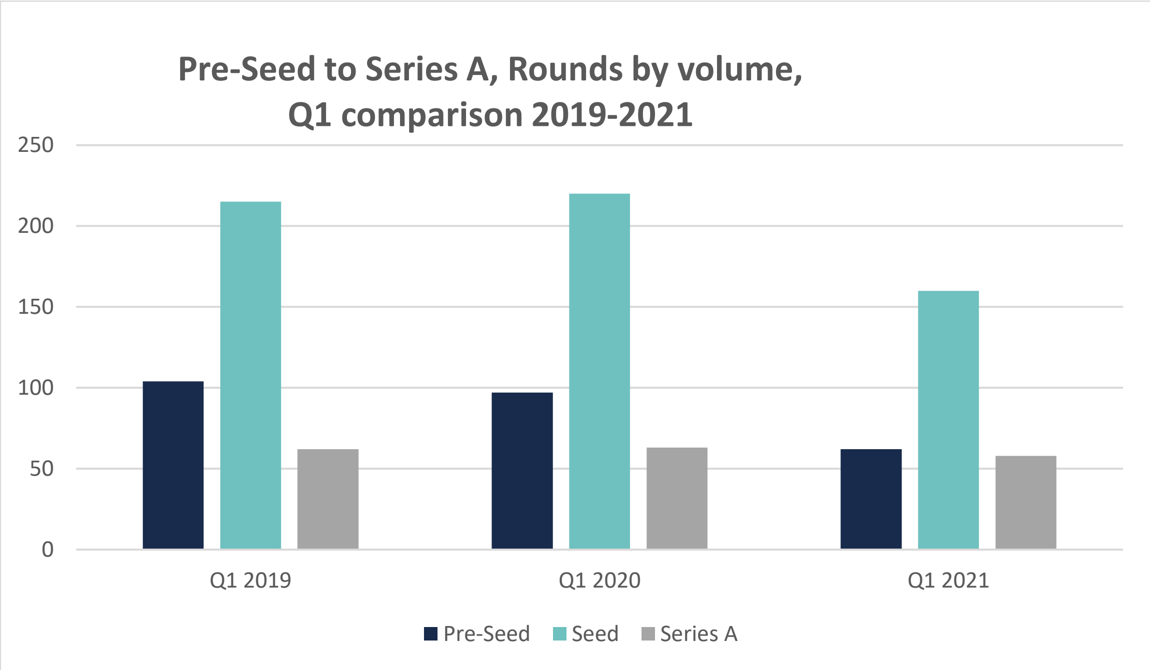
Q1 this year has actually been the lowest volume of rounds for both Pre-Seed and Seed rounds, and the second lowest quarter for Series A as well. As the vast majority of this quarter was dominated by the UK lockdown, and a real sense of 'pandemic fatigue' across the country, this is understandable. Conversely, Q3 2020 showed the strongest performance for Pre-Seed and Seed rounds, and the second strongest for Series A, in the brief period when the country had largely moved out of lockdown status.



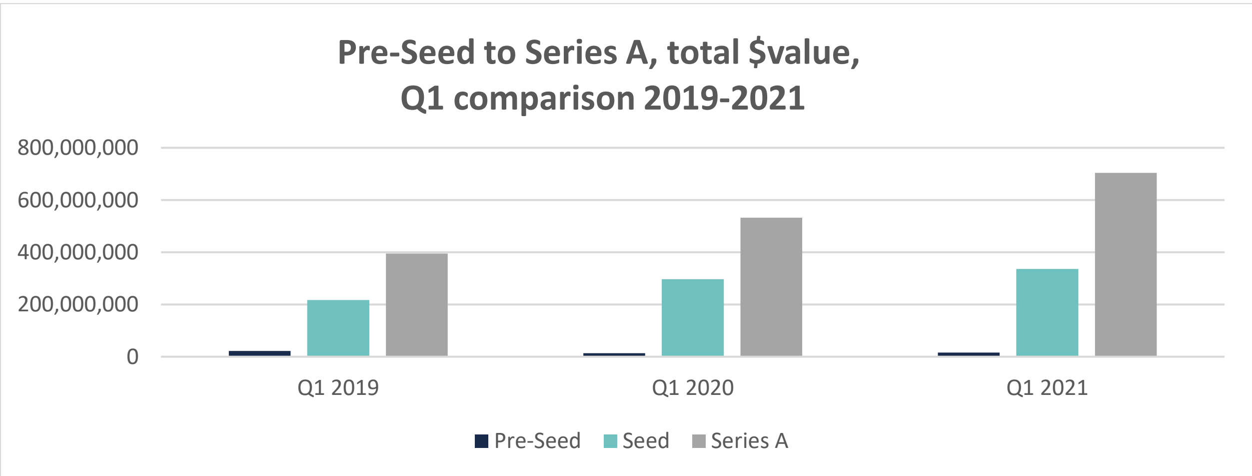
If we move away from number of rounds, to total $value invested at each stage, we see a slightly different picture, with Seed rounds having their strongest quarter in Q1 2021 at a total $value of £335.6m, meaning those who did raise, managed to raise more, on average, than their compatriots in prior Quarters.

Pre-Seed investment had an exceptionally good quarter (for the circumstances) in Q4, hitting a total $value of £26.9m, but in Q1 this slumped back to £15.9m, matching the lower volume of deals as well. Throughout the pandemic, Pre-Seed investment, considered the riskiest stage, has suffered the most out of all the stages, with investors choosing to support existing portfolios and avoid higher risk.

Comparison of Q1 results 2019-2021



If we compare Q1 in the last three years, the volume of deals in 2021 is smaller at every stage. Seed deals had managed to have a bullish quarter back in 2020, despite the pandemic slowly unravelling, but haven't been able to recover to those levels – perhaps attributable to the lack of pre-Seed funding available last year, which has led to a shortage of companies coming through for Seed funding now.

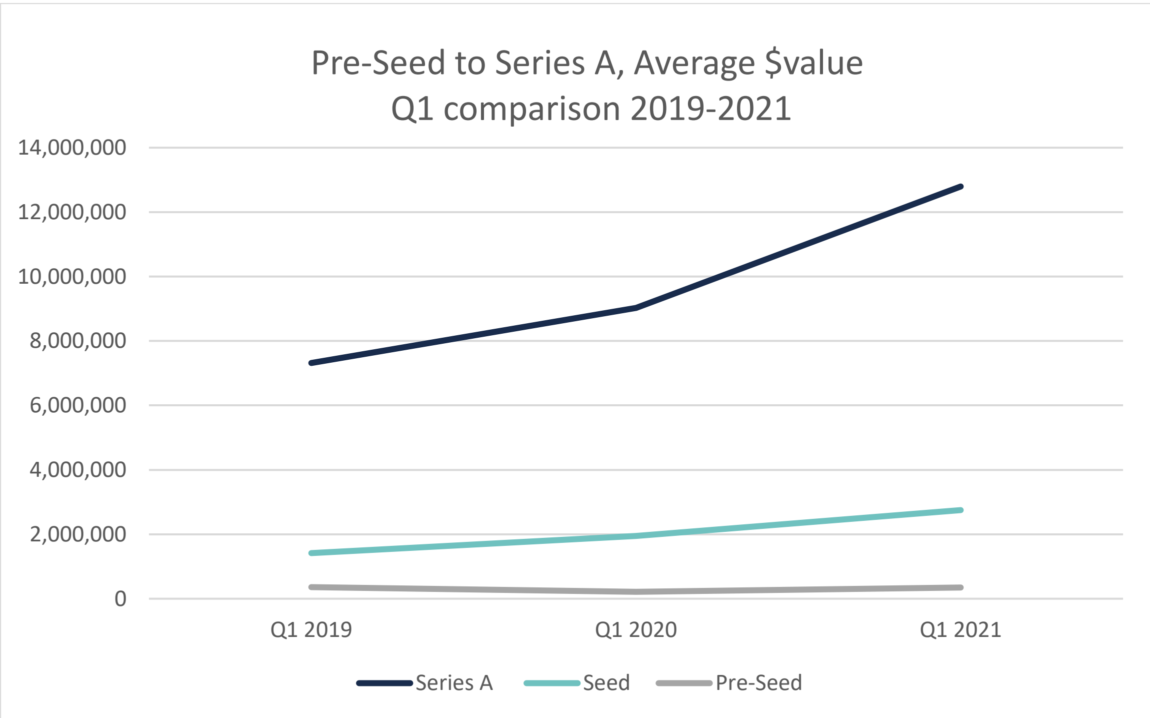


However, the total $value view provides a very different perspective, with Seed rounds jumping 36.7% between 2019 and 2020 and then showing a further 13.3% increase to 2021. Series A round total $value increases are even more impressive, with a 34.8% increase from 2019 to 2020 and a 32.1% increase from 2020 to 2021. Pre-Seed, however, is a very different picture, with a 42.1% drop in total $value between 2019 and 2020, and only a 23% recovery between 2020 and 2021.

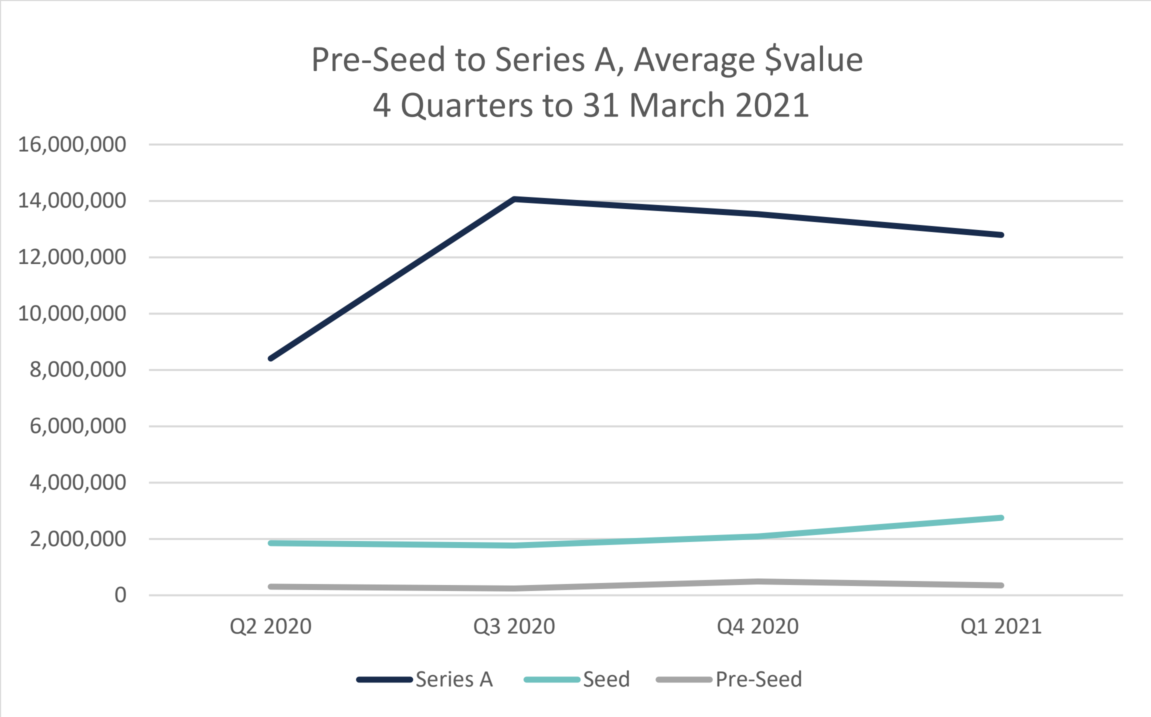
So while deal volumes fell for everyone over the last three years, it's clear that the money that *is* being invested is going to the later stage companies, while pre-Seed companies are suffering on both volume and total $value fronts. As we're already seeing a drop in Seed companies coming forward for funding, potentially tied to lack of pre-Seed funding last year, it's concerning that the pre-Seed stage is not making a better recovery. This could lead to longer term lower throughput of companies, which will soon start to affect Series A numbers as well, having a negative impact on economic growth in the UK.

Of course, it may be possible that more pre-Seed companies are bootstrapping and will emerge onto the funding ladder at a later stage, but this remains to be seen.

The US, by contrast, has had a record-breaking quarter. In the [Pitchbook Q1 review] they revealed investment into venture-backed companies had topped $69billion, although again there was an emphasis on the bulk of the money going to later stage companies.



When we turn to look at average $value per deal, comparing Q1 across 2019, 2020 and 2021, again we're seeing substantial increases for Series A (from 2019 to 2021 is a 74.8% increase), and a massive 94% increase in average $value for Seed deals from 2019 to 2021. Pre-Seed, by contrast, has seen a 3.6% drop in average $value over the same period.



If we take a slightly different lens on average $value, and look at the 12 months leading up to 31 March 2021, there is a different trend, with Series A peaking during Q3 2020, which was dominated by healthcare, fintech and online working and communication solutions, all sectors which benefited from the pandemic.

Sector focus

We've previously examined six sector groups in our deeper sector focus. However, this quarter we've added AI and Hospitality. We felt it was incredibly important to include Hospitality as a sector in this quarter's report, given the massive impact on the industry during the pandemic. This means our total list of sectors is now as follows:

- Clean Energy & Sustainability
- Construction & Property
- E-Commerce
- Financial Sales & FinTech
- Medical Health
- SaaS
- AI
- Hospitality

Within the Hospitality sector, we have specifically gathered information on:

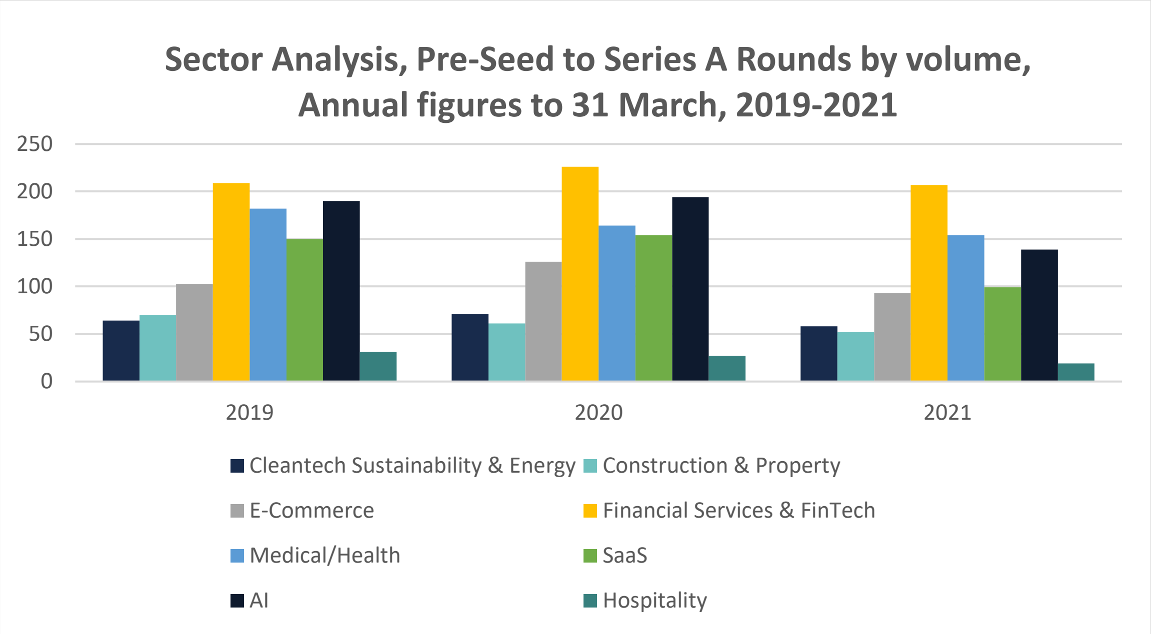
- Food Trucks
- Restaurants
- Concerts
- Event Management
- Event Promotion
- Events

- Music Venues
- Nightclubs
- Nightlife
- Performing Arts
- Theatre

For Sector analysis, we have not broken down data by Pre-Seed, Seed and Series A, instead gathering information from across all three stages as one, to provide an overview of each sector.

Pre-Seed to Series A Rounds, annual figures to 31 March, 2019-2021

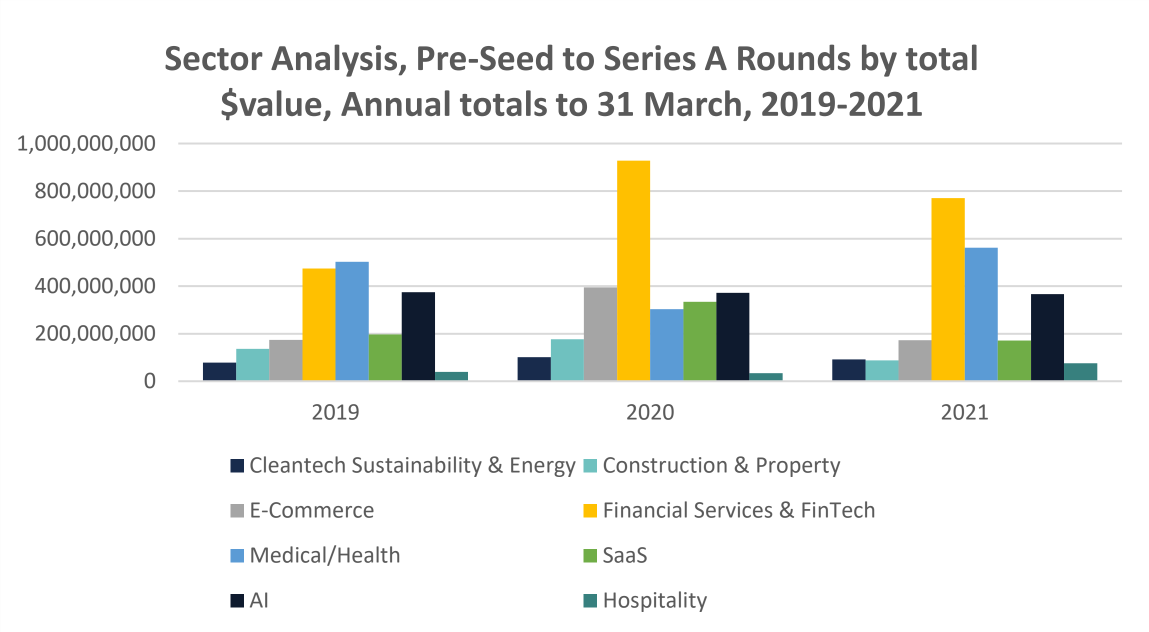
From a deal volume perspective, every sector we have analysed has seen a dip in the year to 31 March 2021, but some sectors are significantly more affected. Conversely, in the year to 31 March 2020, five out of the eight sectors saw an increase in volume, excluding only Construction, Health and Hospitality. Pre-pandemic, the hospitality sector was already struggling as more and more well-known restaurant chains shut down branches or closed altogether, so a different trend for Hospitality deals is no surprise.



Despite the constant news about Health & Wellness start-ups throughout the pandemic, the Health sector has seen a repeated fall in deal volume across the three years, ending March 2021 15.4% down on 2019 figures. Of all the sectors, Financial Services & FinTech has maintained the steadiest profile, only dropping 8% from it's strong high in the year to 31 March 2020, and less than 1% below its' Year to March 2019 figures.

The winner for 'greatest drop in volume of deals between 2019 and 2021' is unsurprisingly the Hospitality sector, dropping 39% across that period, closely followed by SaaS at 34%, which seems surprising given the remote nature of working and the way software has helped many businesses to maintain momentum over the last year.

Turning now to compare sectors by total $value, we see a very different picture.



Where FinTech was vying for first place against Medical & Health in the year to 31 March 2019, in 2020 and 2021 it has clearly broken free of the pack and is bringing in the highest total $value. As we saw in the previous graph, it does also have the highest volume, which will obviously contribute to a higher total.

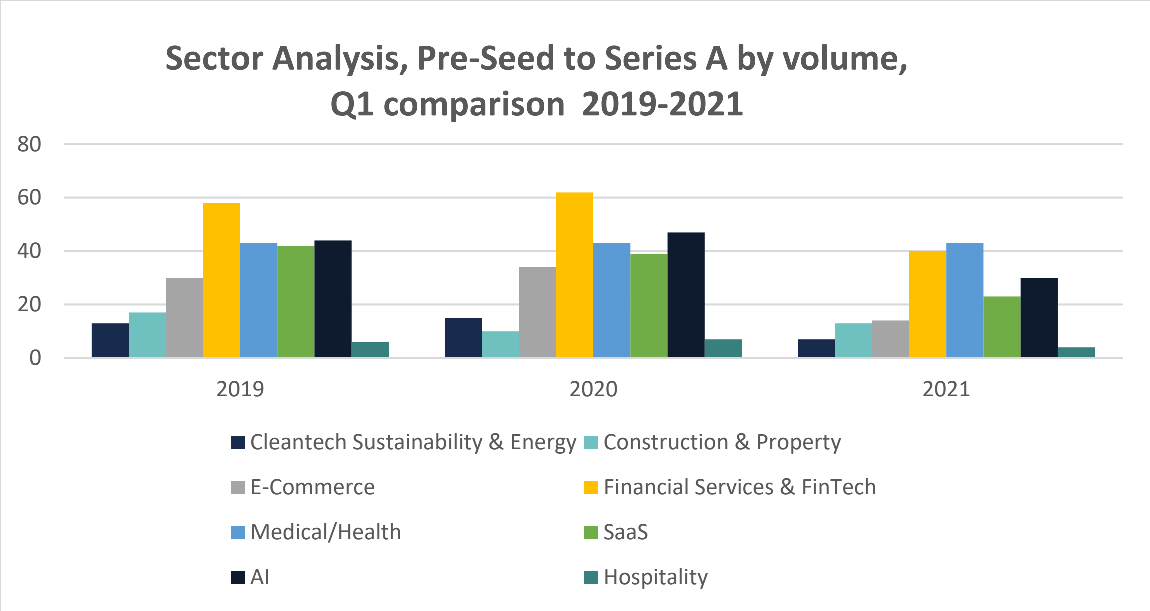
Medical & Health, in comparison, has a lower ratio of $value to volume, as does SaaS. AI, one of the sectors we have newly added to our analysis, is exceptionally static in total $value across the three years, with a difference of only £2-8million between the years. This seems very surprising given the current zeitgeist of AI and Machine Learning, and the constant drive toward greater personalisation. This could be attributed to a lack of productised AI solutions, indicating the market is currently tending to use more bespoke proprietary solutions to achieve their AI goals. Volume of deals was also static between 2019 and 2020 and there is now a marked drop-off in 2021. This is an area to watch over the next couple of years, as bespoke solutions become standardised and a productised approach surfaces with more frequency.

In great news for Hospitality, this year has seen a more than 100% increase on the year ending March 31 2020, and almost exactly a 100% increase on what was considered a fairly bullish year ending in March 2019.

Pre-Seed to Series A Rounds, Q1 analysis across 2019-2021

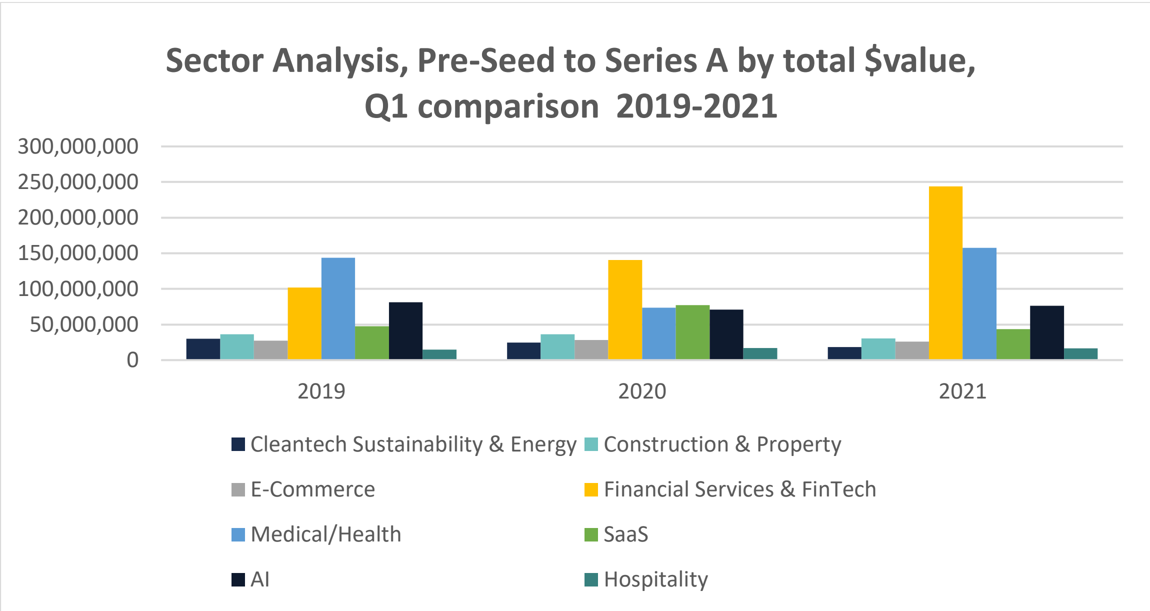
As we focus more specifically on Q1 2021, and the same quarter in the prior two years, a slightly different picture emerges against the annual figures we compared earlier.

Where SaaS presents an almost identical picture to the annual figures, FinTech is showing a significant slump in Q1, as is AI. Health & Medical, as well as Construction, are showing a fairly static picture across the 3-year period. When you delve into the detail, Health & Medical is also very static across the different stages, with pre-Seed staying between 8-12 rounds, Seed very closely grouped between 23-25 rounds and Series A following Pre-Seed in grouping between 8-12 rounds.



Announced Hospitality volumes remain very low and sitting at two thirds the volume of 2019.

The picture created by a total $value view of the same period is very different to the volume picture above:



If the Financial Services & FinTech sector completes the rest of 2021 on its current trajectory, the sector will come within whispering distance of breaking the $1billion barrier for total $value for the year. Health is also showing stronger figures than the heights of 2019, but cannot match the Financial Services & Fintech sector's strength.

The Cleantech, Sustainability & Energy sector is the worst performing, falling from $30m total $value in 2019, to £25m in 2020 and now £18m in 2021 – again, somewhat surprising given the increased interest over the last 2-3 years in environmental issues, renewable energy and sustainable business.

Notable rounds this quarter

As we look across the sectors, several rounds stand out in Q1:

CleanTech, Sustainability & Energy

Treecard, a wooden payment card funding reforestation and Better Origin, focused on sustainability, raised respectable Seed rounds of $5m and $3m respectively. Nyobolt, a developer of automotive battery technology, brought home a very solid Series A of $10m.

Construction & Property

In this sector, two companies stood out. Swapp, focused on disrupting planning with AI, landed a $7m Seed round and nPlan's Series A of $18m will support expansion of their AI-driven project scheduling software.

E-Commerce

Yoello and Wi5 Technologies managed the two largest Seed rounds in E-Commerce, raising $4.2m and $6m respectively. Both companies are focused on the payments arena, Yoello providing connective infrastructure and Wi5 Technologies focusing on mobile payments.

Financial Services & FinTech

Monument Bank led the Series A charge in Financial Services & FinTech, bringing in a substantial $39m to drive growth at their bank focused on professionals, property investors and entrepreneurs.

At Seed level, three companies vied for the top spot: Bottlepay (an app company providing mobile payment, mobile banking and financial services), Invstr (a commission-free investment app) and Perenna (a new mortgage lender), all in the $10-15m bracket.

At Pre-Seed, only one start-up topped the £1million mark, which was BondAval, a digital platform for B2B credit security.

Medical/Health

At Series A, SpyBiotech and Manual dominated the field, raising $33m and $30m respectively. SpyBiotech is creating a biotechnology platform focused on vaccine creation and Manual is a mental health start-up offering diagnostic tools to inform health decisions.

SaaS

At Series A, proSapient led with a £10m raise to grow their survey- and consultation-based research platform. Capdesk, the equity management platform used by many start-ups also raised a healthy £5m for the next stage of their journey.

Seed rounds in the SaaS sector were fairly low in comparison to other sectors, with only six out of eleven raises that reported their data making it over the $1million mark, and of those, only two, Ben, an employment benefits solution, and Ember, an accounting platform, raised over $2million.

AI
Apart from nPlan, which classifies in both Property and AI, Ad-Lib.io raised $6m at Series A for its AI-powered digital advertising technology.

At Seed, apart from Swapp, which is also in the Property category, Blippar, an augmented reality company brought in $5m to drive their next stage of growth.

Cord, an interesting company that allows you to create training data for your AI models, raised it's first round of $125k at pre-Seed.

Hospitality
In the Hospitality sector, Grip's engagement platform, used to create live and virtual event experiences, bagged them $13m at Series A, while PixelMax, an immersive communications platform, raised $2.7m.

The Big News in Q1

Two events have dominated in Q1 – the blocking of the proposed Crowdcube and Seedrs merger, which would have created the largest UK Crowdfunding platform, and the release of the Kalifa Review of UK FinTech, an Independent Report on the UK FinTech sector by Ron Kalifa OBE.

The Crowdcube/Seedrs merger, which was originally announced in Q3 last year, was very close to finalising, but an assessment by the CMA found a risk of monopoly which resulted in them blocking the transaction. Charlotte Crosswell, the CEO of Innovate finance, was quoted as saying that the decision is 'short-sighted and risks hampering innovation'. Both companies are now driving forward on their own, with strong comms campaigns about their ability to manage this, while a future merger is not entirely off the cards, subject to further discussion with the CMA.

The Ron Kalifa review was largely well received, although has faced some questions over whether it has gone far enough. It covered:

- What is needed to help UK start-ups scale up, with a focus on environment (performance clusters) and freeing up capital for scaleup investment (potentially through newly available pension capital)
- The importance of ensuring the UK supports growing businesses to drive UK economic growth
- How the FS industry can support the unbanked and the underbanked
- How FinTechs and incumbent banks need to work together to further innovation in financial services
- How financial services must take account of needs according to geographical location, age and socioeconomic status of customers
- Enabling Fintech recruitment in the UK including fast-tracking of visa

You can read the full report here.

What will the rest of 2021 bring?

With strong vaccination rates in the UK, and the government's plan for easing restrictions so far going to plan, 2021 is certainly looking more promising than 2020 in that respect. However, with the furlough scheme tapering off over the next few months, there may be fallout for start-ups who can no longer afford to keep some staff on. On the positive side of the coin, for those start-ups who are thriving in the current climate and looking to hire, it is an employer's market at the moment, with the opportunity to hire a calibre of people that might not previously have been available. However, smart recruitment solutions will be needed, as the number of applications may be overwhelming.

The new recovery loans offered by the government give most start-ups the opportunity to access affordable growth capital without losing equity, so we expect to see significant uptake of these, particularly for companies who need bridge funding before their next major round, or who wish to push that round out until their circumstances are steadier. For those taking the equity route, we're expecting to see more money moving into the market as confidence grows (barring any further setbacks). For some sectors badly affected by the pandemic, such as hospitality and gyms, we're also expecting some new and hybrid business and revenue models appearing, providing more sustainable businesses going forward.

Finally, we hope to see significantly more deal volume for pre-Seed start-ups, encouraging that flow of innovation and creating more jobs and opportunities within the UK and beyond.