

January 2021

Quarterly Review

10.5 million

people employed
in Europe by
companies backed
by private equity
and venture capital



British
Private Equity &
Venture Capital
Association

UK Venture Capital

A record-breaking year of investment despite the COVID-19 crisis.

European tech investment

Venture capital investment in European tech is set to surpass US\$41 billion in 2020, the highest total on record.



Michael Moore
Director General, BVCA

Welcome to the second edition of the BVCA's Quarterly Review, our regular publication designed to demonstrate the impact of private equity and venture capital on the UK economy using the latest data and research.

At their core, private equity and venture capital are simple concepts. They provide businesses with the capital and operational expertise they need to grow and succeed, creating jobs, driving economic growth and building stronger, more sustainable companies.

It is precisely these attributes the UK economy will need in 2021 and beyond as we seek to rebuild from the damage wrought by COVID-19. The roll-out of the coronavirus vaccines is undoubtedly a cause for celebration, and with attention now turning to what life will look like post-pandemic, our industry is poised to play a significant role in the recovery.

In this issue, we explore just how significant. Research published last year by Invest Europe shows the economic footprint of venture capital and private equity across all of Europe (including the UK), revealing that our industry supports more than 22,600 businesses – 14,500 of which are small and medium-sized enterprises – which in turn employ a total of 10.5 million people. These same companies reported an average job creation rate of 5.5%, far in excess of the European private sector average of 1.1%.

These impressive figures are complemented by an equally striking set of numbers from two reports looking at how venture capital is fuelling the technological revolution, both here in the UK and throughout Europe. Atomico's annual report - *The State of European Tech* – illustrates in great detail how important venture capital is to powering those companies operating at the cutting edge of innovation

across a range of sectors, not least climate change. Since 2016, US\$11 billion has been invested into European tech companies targeting climate action.

Closer to home, Dealroom and Tech Nation's 2020 review finds that not only is the UK leading the way as the European home of tech investment, but this investment is occurring right across the country. Over the course of 2020, it was not London that saw the largest percentage increase in funding, but Oxford, Newcastle and Glasgow.

As the "innovation nation", home to some of the most exciting and dynamic tech businesses in the world, the UK is attracting significant international attention. In 2020, venture capital investment here reached US\$15 billion, the highest total in Europe and more than Germany and France combined. Much of this came from venture capital funds based in North America, and to a lesser extent Asia, who now see the UK as one of the leading tech hubs in the world.

In a post-Brexit world, ensuring we remain a global destination for investment is vital to the long-term success of our economy, and as all of the data in this edition of the Quarterly Review shows, the private equity and venture capital industry is well placed to play its part.

The next edition, out in April, will feature two upcoming reports from the BVCA. The first, using a combination of our own statistics, case studies and interviews, will showcase the role our industry is playing in supporting businesses and entrepreneurship in the North West of England. The second will be a new study into diversity and inclusion, an issue which, as you can see from the research featured here on pages 7 and 8, remains a challenging one.

In the meantime, we look forward to working with you in 2021.

Private equity at work

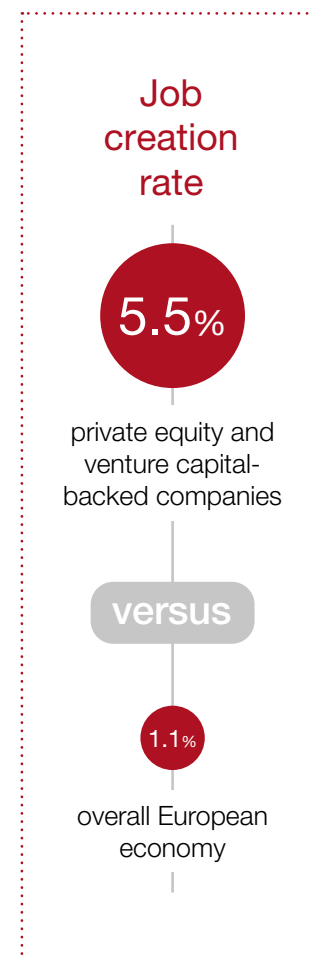
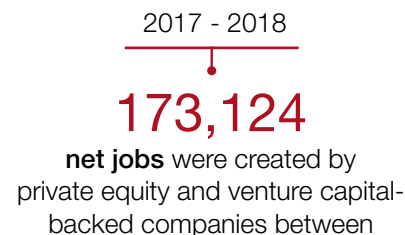
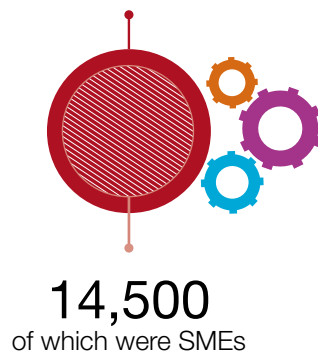
A total of 10.5 million people in Europe¹ were employed by companies backed by private equity and venture capital in 2018, representing 4.5% of the continent's total workforce, finds a new report by Invest Europe.

Published in September, *Private Equity at Work* is the first study of its kind to provide detailed evidence and analysis of our industry's contribution to employment and job creation in Europe.

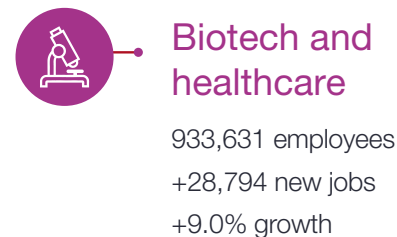
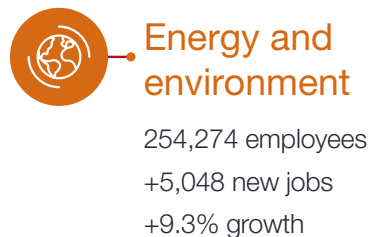
The research revealed that between 2017 and 2018, private equity and venture capital-backed businesses created 173,124 new jobs (net), a job creation rate five times higher than the wider European economy.

[Read the report here.](#)

For a UK-only focus, see the BVCA's Report on Investment Activity [here](#).



Sector highlights



 **Sources:** [Invest Europe](#) and Eurostat

European tech investment 2020 – on course for record-breaking year

Venture capital investment in European tech is likely to have surpassed US\$41 billion in 2020, the highest total on record according to Atomico's annual report on the sector, *The State of European Tech* published in December.

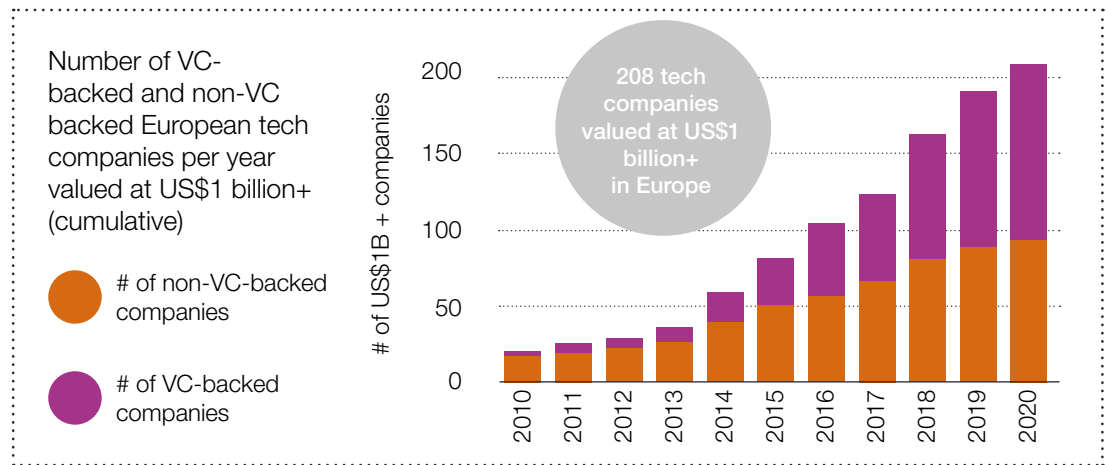
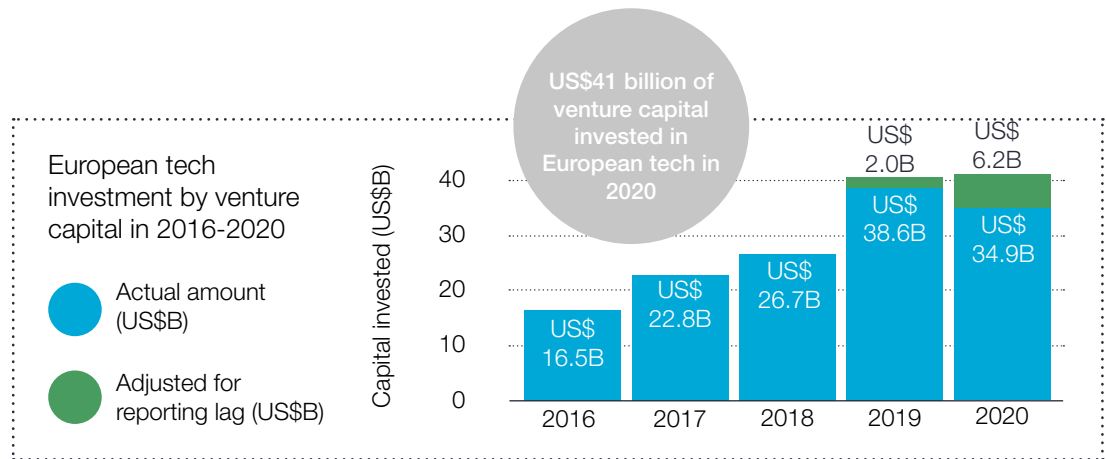
While the research shows that many companies found it harder to raise capital in 2020 due to the COVID-19 pandemic, there was a significant increase in the number of businesses raising between US\$100 million and US\$250 million "mega-rounds", driven largely by the corporate shift to digital and Europe's robust innovation eco-system.

Using Dealroom data, Atomico also revealed that a seed-funded company in Europe has the same probability of scaling to a valuation

of US\$1 billion or more as a similar company in the US (about 1 in 100). Looking at a cohort of 1,064 companies that raised a seed round between 2010 and 2013, 13 of them are now worth more than US\$1 billion, including the UK's Transferwise and Germany's Hello Fresh.

The importance of the funding eco-system is further underlined with the growing activity of private equity in the tech space. Since January 2019, there have been 17 buyouts of European tech companies with an enterprise value in excess of US\$1 billion, and in 2020, 57% - 4 out of 7 – of these deals involved VC-backed companies.

[The full report can be found here.](#)



US\$1 billion
capital invested into European tech companies targeting climate action since 2016

 Source: *The State of European Tech 2020*, Atomico

UK venture investment hits new high of US\$15 billion

In the face of unprecedented and extremely challenging macro-economic conditions, UK venture capital recorded its best ever year in 2020 according to a new report from Tech Nation and Dealroom.co, with investment reaching US\$15 billion.

That figure is more than France and Germany combined. And not only is the UK leading the way in the amount invested, it is also top of the European table when it comes to funds raised, with US\$8.2 billion raised last year by UK VCs, again more than France and Germany together.

International investors are taking notice. As the research shows, VC firms from across the world, especially those from the US, are now heavily involved in the funding and growing of UK start-ups and scale-ups, particularly at the larger end of the spectrum.

Importantly, this success is not purely a London phenomenon; it is one which is reaching right across the country. From Oxford and Cambridge, to Manchester, Newcastle, Edinburgh and Belfast, there are cities and hubs around the UK which are specialising in a range of sectors and cutting-edge technologies, powered by venture capital.

The full report can be found [here](#).

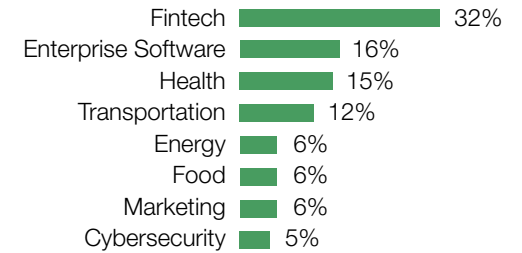
Venture capital investment by country (2020)



Venture capital investment by city (2020)



Venture capital investment in UK by sector (2020)

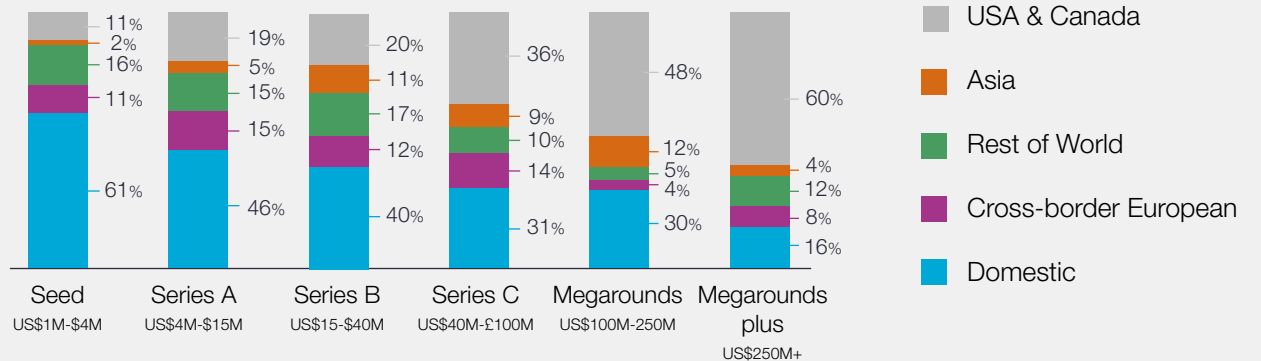


New funds raised

by European VCs (2020 until 14 December)



% of investment in UK (2020) by source and round size



Source: [UK Tech Ecosystem update](#), Tech Nation and Dealroom.co

UK venture capital financial returns

Analysis from the British Business Bank released in November shows that early-stage UK VC funds have the potential to generate higher returns than their later stage counterparts.

The research, which uses BVCA data alongside other sources, found that early-stage vehicles with a 2002-2015 vintage generated a pooled DPI (Distributions to Paid In) multiple of 1.43 and a TVPI (Total Value to Paid In) multiple of 1.99. This compares to later stage funds DPI of 0.70 and TVPI of 1.28.

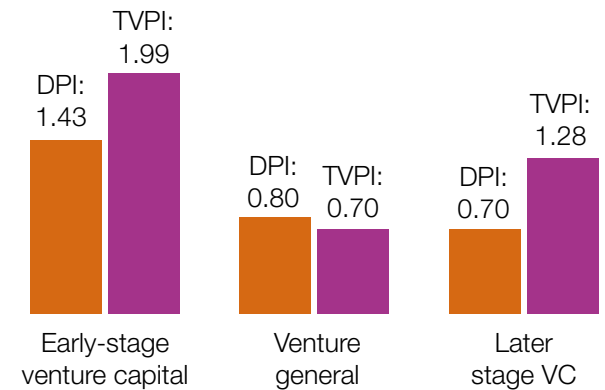
The British Business Bank also looked at regional return variations and revealed that 2002-2015 funds located outside of the 'Golden Triangle' of London, Cambridge and Oxford returned a DPI of 1.65 and TVPI of 2.02, higher than those based within it, which generated a 0.85 DPI and 1.74 TVPI.

[Read the full report here.](#)

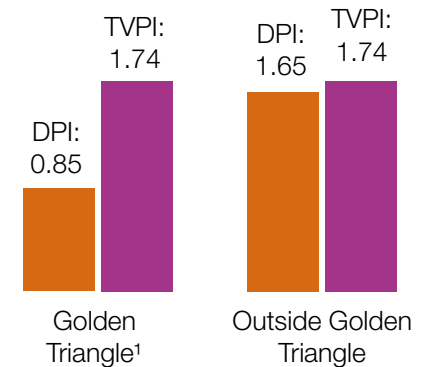


Source: *UK Venture Capital Financial Returns 2020*, British Business Bank

UK venture capital (2002-2015 vintage years) performance multiples by **investment stage**



UK venture capital (2002-2015 vintage years) performance multiples by **fund manager location**



¹ London, Cambridge, Oxford

Diversity

To coincide with Black History Month, a number of reports were published in October 2020 examining the levels of diversity within the UK start-up community. Here we showcase three of those reports, which demonstrate, very starkly, just how much work needs to be done to address the lack of funding directed at Black, Asian and other Ethnic Minority entrepreneurs. We take this very seriously, which is why we are continually discussing diversity with our members and showcasing the work of groups like Diversity VC, which alongside Diversio, are helping venture capital and private equity firms with guidance and examples of best practice. Further publications are expected soon under the work the Rose Review into Female Entrepreneurship.

In *Alone Together*, the British Business Bank and Oliver Wyman look at the effects of ethnicity, gender and economic background on entrepreneurial opportunities and outcomes. *The Black Report*, published by 10x10 and Google for Startups, is the first qualitative report on Black start-up founders in the UK, and looks at a range of issues, from social mobility and education of Black entrepreneurs, to team composition and funding sources. The third report, *Diversity Beyond Gender by Extend Ventures*, takes a detailed look at how ethnicity, educational background and gender affect access to venture capital.

All three are vital pieces of work, providing crucial evidence on the current funding environment, as well as presenting tangible recommendations for change.

The BVCA is conscious of the concerns surrounding the acronym 'BAME' and is aware of discussions about moving away from its usage. We would like to note that, for the purpose of this report, use of this terminology is directly taken from the quoted reports.



Source: *Alone together: Entrepreneurship and diversity in the UK*, British Business Bank and Oliver Wyman, October 2020

Note: Entrepreneurs includes Aspiring Entrepreneurs and Business Owners. Aspiring Entrepreneurs are currently developing an idea that has business potential, or previously did so in the last five years. Business Owners are self-employed or running a business that they started themselves in the past ten years, or previously did so in the last five years.

Median turnover for business owners, by race

Black	Asian & Other Ethnic Minority	White
£25,000	£40,000	£35,000

Business owners reported making no profit, by race

Black	Asian & Other Ethnic Minority	White
28%	38%	16%

Entrepreneurs that met their non-financial aims, by race

Black	Asian & Other Ethnic Minority	White
49%	53%	69%

Female business owners that reported no profit last year, by race

Black, and Asian & Other Ethnic Minority	White
36.5%	15%

Business owners with household income of more than £75,000 have a median turnover 12 times that of those with an income of under £20,000.

49% of Asian and Other Ethnic Minority entrepreneurs cite 'difficulties getting finance' as the reason for stopping work on their business idea.

Disparities explained by:



Access to finance



Education



Deprivation



Under-representation in senior roles



Systemic disadvantage

Black-founded start-ups

The statistics:

43%
in the UK are self-funded

22%
raised capital from friends & family

£166,000
average amount raised

5.4
average number of jobs created by Black-founded start-ups

46%
have female team members

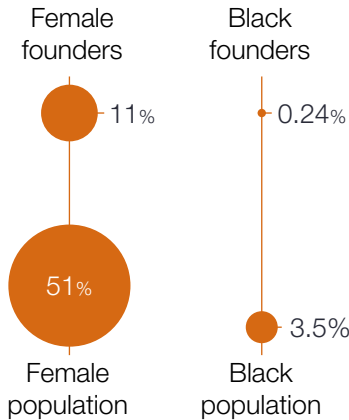
77%
are generating revenue

38 Black entrepreneurs in the UK received venture capital funding in the last 10 years

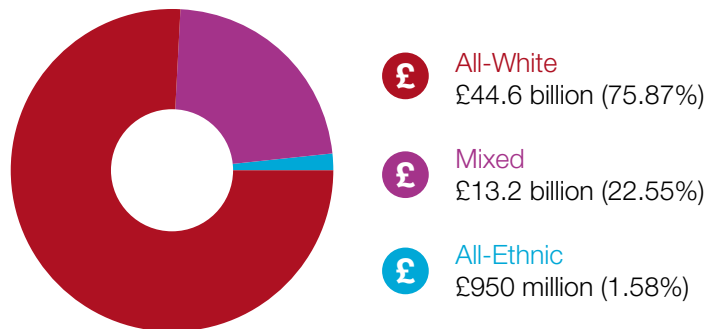


Black founders received just **0.24%** of venture funding and **female founders** only **11%** of venture funding in the last 10 years.

However, **Black people** and **women** represent **3.5%** and **51%** of the UK population respectively.



Totals raised across all venture capital stages by ethnicity of the founding team:



A total of **10** black female entrepreneurs

received venture capital investment, 0.02% of the total amount invested in the last 10 years, with none so far receiving late-stage funding.

42.72% of UK venture capital invested

at seed stage during the period was invested in founding teams with at least one member from an elite³ educational background.

³ 'Elite' classified as Oxford, Cambridge, Harvard, Stanford and their respective business schools.



Source: *The Black Report*, 10x10 and Google for Startups, October 2020



Source: *Diversity Beyond Gender*, Extend Ventures, November 2020



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