PitchBook

2022

UK & IRELAND

Private Capital Breakdown

Contents

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Introduction

Venture capital

UK & Ireland venture capital (VC) deal activity defied macroeconomic uncertainty in H1 2022. The pace set in H1 2022 aligned with the record figures logged in 2021. As evidenced with the VC dealmaking activity this year, capital continued to flow freely into UK- & Ireland-based startups despite anticipated recessions. The shift in monetary policy is notable and its impact on the VC dealmaking environment will be clearer in H2 2022. VC deal activity growth has been considerable YoY during the past decade, and we believe a flattening will take place in 2022, rather than a sharp decline. Within the UK ecosystem, London-based fintech companies have emerged as the most prominent in the region. As witnessed across Europe in H1 2022, UK & Ireland exit activity retrenched from the bumper showing in 2021. Despite a multitude of macroeconomic challenges, fundraising has displayed resilience in this region.

Private equity

The macroeconomic backdrop shifted in H1 2022, with flattening of private equity (PE) dealmaking activity across choppier financial markets. The UK & Ireland—particularly the UK—has been one of the largest European PE deal value generators of the past decade. The development of largescale portfolio companies and PE sponsors with considerable AUM is a major part of the financial industry in the UK, alongside traditional investment banking, management consulting, and accounting services. As witnessed globally, UK & Ireland deal activity has been skewed by outsized deals. Take-privates could become increasingly popular in upcoming quarters as PE firms with high levels of dry powder target undervalued high-growth companies in the current market. In H1 2022, UK & Ireland PE exit value kept pace with 2021's record-breaking total. The pace of PE fundraising in this region was slightly down on figures registered in the past three years.

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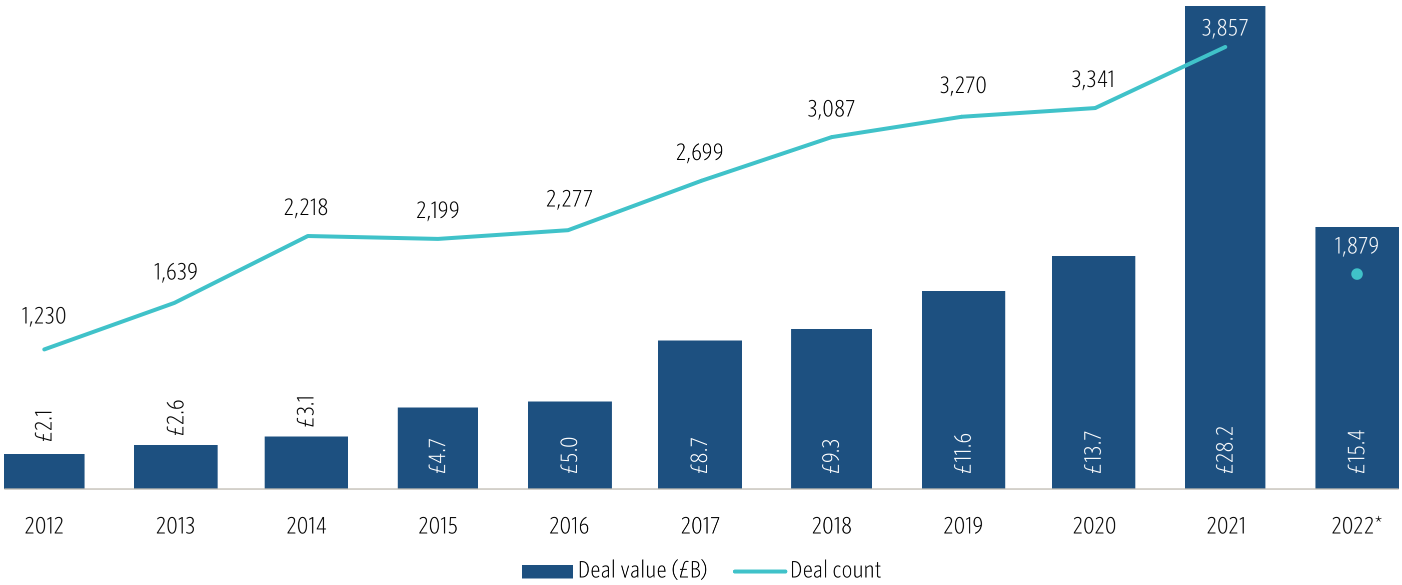
VC deals

VC deal activity



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

UK & Ireland VC deal activity defied macroeconomic uncertainty in H1 2022, with £15.4 billion invested across 1,879 deals. The pace set in H1 2022 aligned with the record figures logged in 2021, which saw £28.2 billion pumped into 3,857 deals. As evidenced with VC dealmaking activity this year, capital has continued to flow freely into UK- & Ireland-based startups despite anticipated recessions. Inflation reached a 40-year high of 10.1% in July 2022 due to rising goods and energy prices, and the Bank of England (BOE) predicts an increase to 13.3% in H2 2022. To curb surging inflation, the BOE raised interest rates by 50 basis points to 1.75%, the sixth consecutive increase and largest hike in 27 years.[1]

The shift in monetary policy from historically low interest rates that promoted growth, spending, and borrowing is notable and its impact on the VC dealmaking environment will be clearer in H2 2022. VC deal activity growth has been considerable YoY during the past decade, and we believe a flattening will take place in 2022, rather than a sharp decline.

As spending tightening and growth becomes challenging, late-stage companies with high burn rates could be the first to rein in costs, adjust aggressive growth targets, and slow hiring sprees. In H1 2022, previously VC-backed companies displayed lower market capitalisations as liquid public markets entered correction territory. UK-based companies including online car retailer Cazoo (NYSE: CZOO),[2] telehealth provider Babylon Health (NYSE: BBLN),[3] and electric vehicle developer Arrival (NASDAQ: ARVL) have reportedly laid off employees in 2022.[4] We believe late-stage companies that require financing in the current climate may face haircuts, especially those who experienced soaring valuations during pandemic-induced lockdowns. Online discretionary spending increased during COVID-19 lockdowns, but with the cost-of-living now surging in the UK, consumer-facing businesses will struggle to maintain growth rates witnessed during the past two years.

One major late-stage deal to close in Q2 2022 was London-based payment company SumUp, which secured £504.2 million in debt and equity at a £6.8 billion post-money valuation. Substantial late-stage deals have continued to close in 2022 thus far, underpinning the UK's position as the largest VC deal value producer in Europe. In H1 2022, 66.3% of deal value was within late-stage deals, equivalent to £10.2 billion.

1: "Bank of England's Bailey Warns UK Faces 'Very Big' Inflation Shock, Defends Historic Rate Hike," *CNBC*, Karen Gilchrist, August 4, 2022.
2: "Cazoo to Cut 750 Jobs in UK and Across Europe Amid Recession Fears," *The Guardian*, Julia Kollewe, June 7, 2022.
3: "UK Health App Babylon Plans Job Cuts in Bid to Slash Costs," *Bloomberg*, Olivia Solon, July 12, 2022.
4: "Arrival to Slash Costs, Cut Up to 30% of Workforce to Meet on EV Van Production Target," *TechCrunch*, Kirsten Korosec, July 13, 2022.

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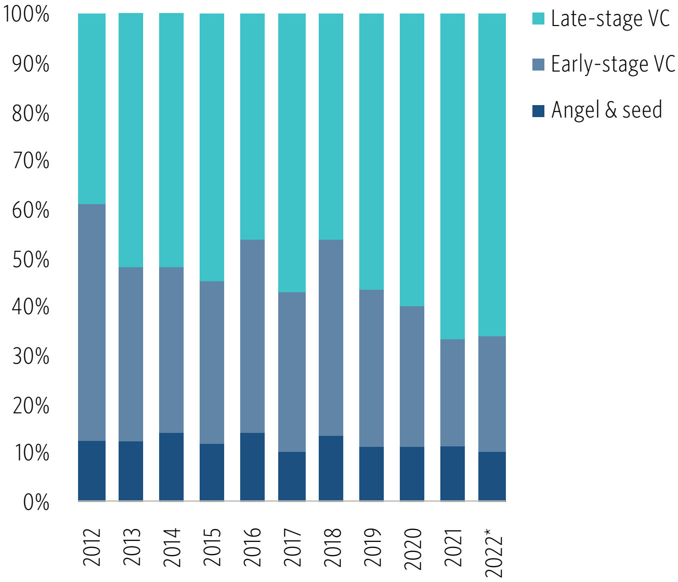
The maturity of UK-based companies has enabled larger rounds to close in the region. As startups have been able to leverage the vast financial resources of investors in Europe, US, and Asian markets, the UK is the natural launchpad for US or Asia-headquartered LPs, GPs, and portfolio companies to expand into Europe. Brexit has complicated certain EU processes; however, in contrast to initial fears, there has not been a mass exodus of companies, funds, or talent from the UK ecosystem in the past few years.

The UK possesses the third largest proportion of national economic output from financial services in The Organization for Economic Cooperation and Development. The financial services sector was estimated to contribute £164.2 billion to the UK economy, 8.6% of economic output in 2020. The sector was largest in London, where half of the sector's output was concentrated.[5] Vast experience in the financial services sector has translated into a burgeoning fintech VC scene. Within the UK ecosystem, London-based fintech companies have become the most prominent in the region. A glut of high-profile companies obtaining sizable backing and reaching lofty valuations including Checkout.com, Revolut, Rapyd, Monzo, Starling Bank, and others have emerged. Top talent has been lured from established financial institutions (FIs) to either carve out their own business or help build companies disrupting incumbents. Furthermore, existing relationships and integrated networks between companies, individuals, and FIs in local clusters such as London have boosted the likelihood of success and investments to be struck.

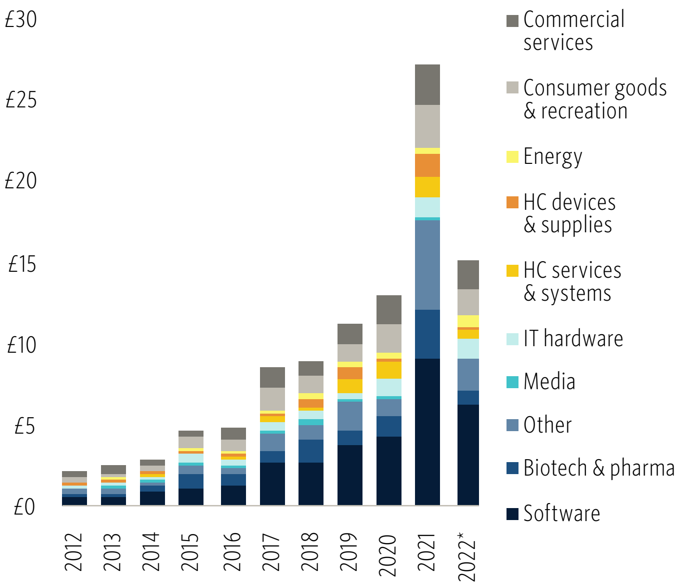
Although high quantities of VC activity take place in London, additional clusters have crystallised in the UK & Ireland region in the past decade. World-class universities in Oxford and Cambridge have drawn international talent to study, research, and develop innovative solutions ripe for investment. For example, Cambridge-based CMR Surgical and previously VC-backed Oxford Nanopore Technologies (LON: ONT) carry multi-billion-pound valuations and have completed some of the largest VC financings witnessed in the UK in the past five years. Both companies have attracted capital from an array of global investors and have established their respective founding cities as VC hubs in the UK.

Share of VC deal value by stage



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

Share of VC deal value (£B) by sector



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

5: "Financial Services: Contribution to the UK Economy," UK Parliament, Ali Shalchi, Georgina Hutton and Matthew Ward, December 8, 2021.

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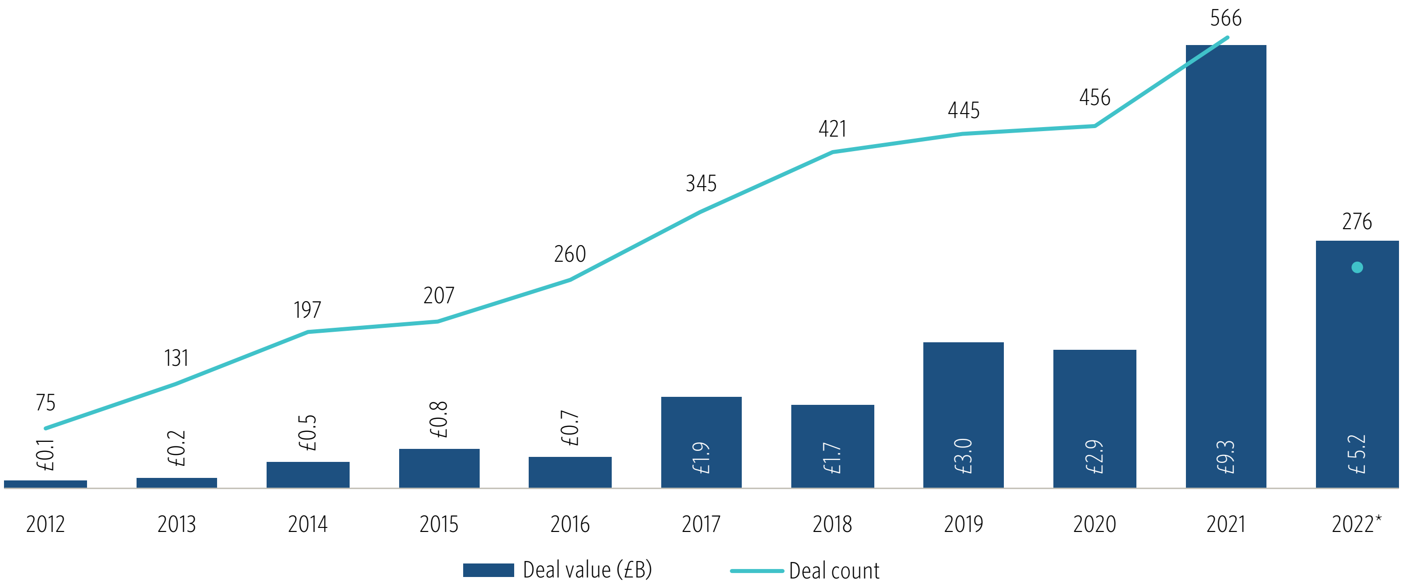
UK & Ireland fintech VC deal activity



Source: PitchBook | Geography: UK & Ireland
*As of June 30, 2022

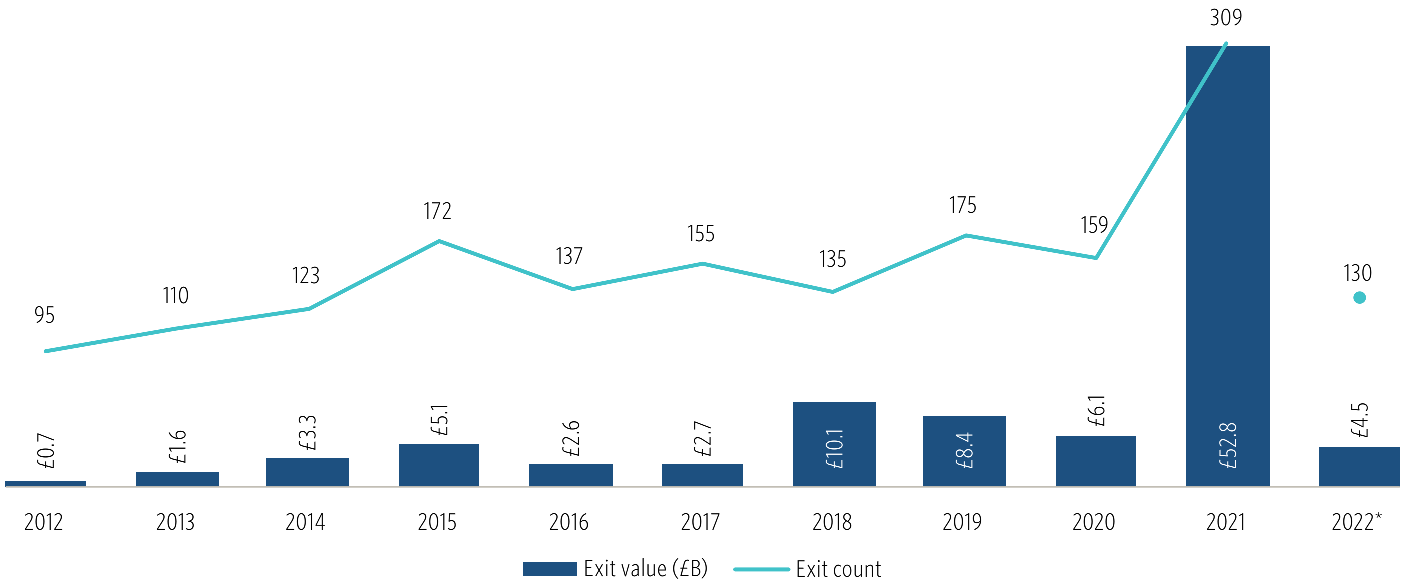
Five largest UK & Ireland VC deals in Q2 2022*

Company	Deal size (£M)	Post-money valuation (£B)	Industry	HQ location (UK)
SumUp	£504.2	£6.8	Payments	London
Newcleo	£254.8	£0.5	Energy	London
GoCardless	£244.5	£1.6	Payments	London
Matillion	£169.3	£1.1	Database software	Manchester
Multiverse	£169.3	£1.3	HR tech	London

Source: PitchBook | Geography: UK & Ireland
*As of June 30, 2022

VC exits

VC exit activity



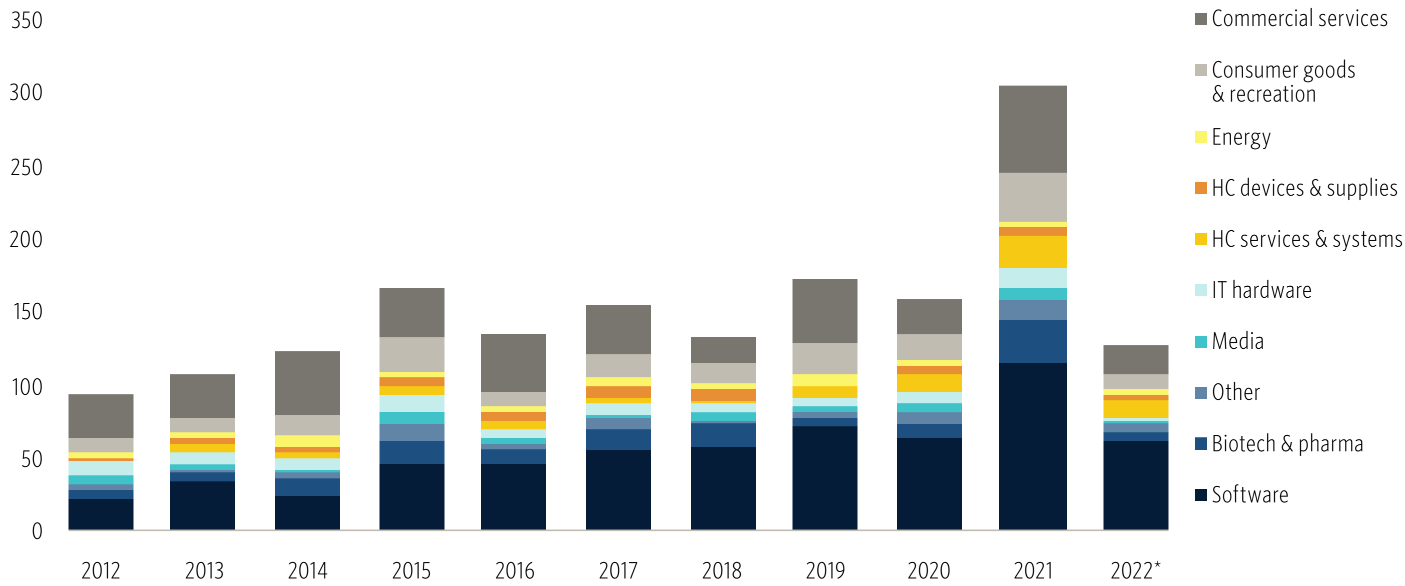
Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

As witnessed across Europe in H1 2022, UK & Ireland exit activity retrenched from the bumper showing in 2021. Exit value was £52.8 billion in 2021, nearly nine times larger than the £6.1 billion logged in 2020. In H1 2022, exit value topped £4.5 billion, which was comparable to exit levels pre-2021. As the year has progressed, it is clear that 2021 was an outlier year due to a mixture of VC-backed companies rushing towards an exit to take advantage of heightened valuations and beneficial market conditions. Pandemic-driven growth curtailed in H1 2022 and companies focusing on growth at all costs are increasingly looking to improve capital efficiency in the current bear market. As a result, exits have declined, with founders, companies, and investors unwilling to test out their private market valuations in public markets out of fear of damaging their long-term returns.

Only six public listings of companies from the UK & Ireland took place in H1 2022. In comparison, 44 chose to publicly list in 2021. It must be emphasised only six public listings took place in 2019 and in 2020, respectively, and the previous high of 20 was in 2014, further illustrating that 2021 was an anomaly. Without enormous multi-billion-pound exits for companies including Wise (LON: WISE), Deliveroo (LON: ROO), and Darktrace (LON: DARK) in 2021, exit value in 2022 would not appear as a considerable YoY collapse. Given the declines in 2022, it could be argued that favourable market conditions and demand from investors may have had greater impact on public listings in the UK, rather than regulatory reforms of listing rules on the London Stock Exchange.

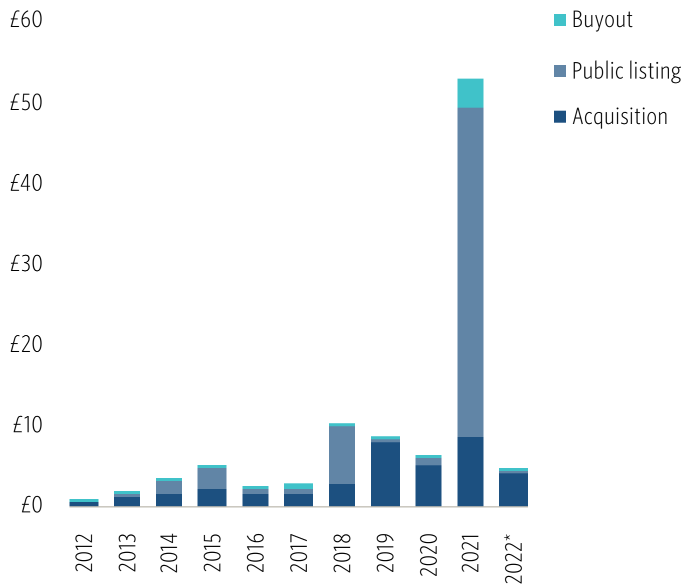
While public listings declined from 2021 figures, acquisitions and buyouts reflected softer falls. We believe alternative exit routes to public markets will proliferate in upcoming quarters as nimble PE firms and corporates armed with capital seek out cut price targets. Companies could be facing lower valuations in coming months and rather than risking a costly and lengthy public debut, an acquisition or buyout could be more appealing for founders and management teams. Corporates via corporate venture capital (CVC) arms and PE firms have both increased their exposure as nontraditional investors in VC deals in recent years and could look to take controlling stakes in VC-backed companies. CVCs could identify targets to merge with existing operations and bolster revenue streams. Meanwhile, PE firms could identify companies to diversify existing portfolios and add to their AUM.

Share of VC exit count by sector



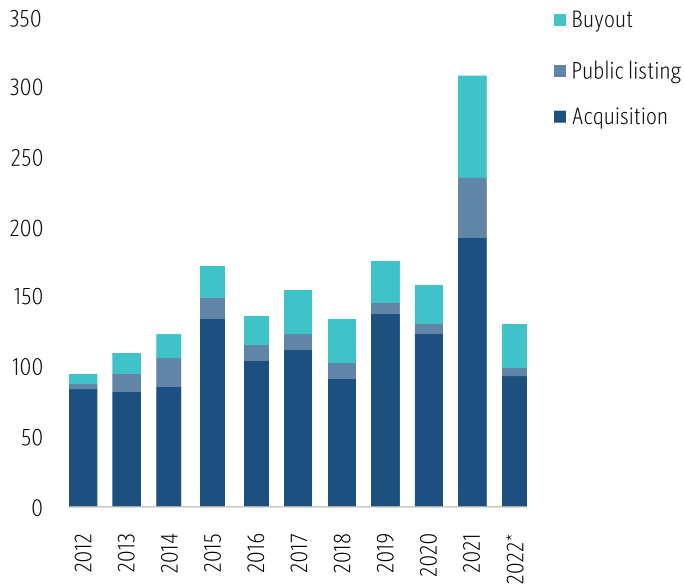
Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

Share of VC exit value (£B) by type



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

Share of VC exit count by type



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

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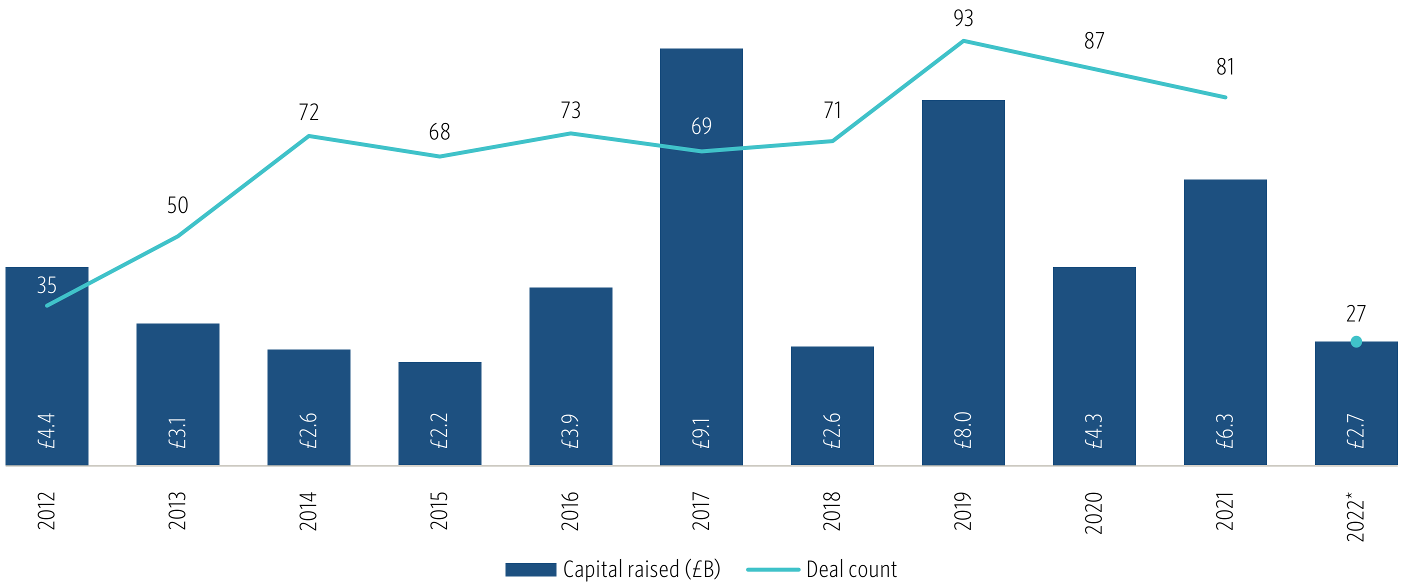
VC fundraising

VC fundraising activity



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

UK & Ireland VC fundraising reached £2.7 billion in H1 2022, slightly down on the pace set during 2021 which saw £6.3 billion raised. Despite a multitude of macroeconomic challenges in 2022, fundraising has displayed resilience in the UK & Ireland. Several funds closed in H1 2022 may have been launched prior to the shifting financial markets during the past few months. Nonetheless, capital commitments have remained healthy. It is worth noting fundraising processes can take months with open funds concurrently raising funds. Figures are typically lumpy and skewed towards a limited number of outsized funds. Therefore, major changes in activity can take several quarters to feed into data.

The UK & Ireland has consistently been one of the largest capital raising regions in Europe during the past decade. Notable GPs to close funds in H1 2022 included Felix Capital, Blossom Capital, and Eight Roads. Similar to deal value, capital raised by VC funds has been largely concentrated in London. In 2021 and H1 2022, nine out the 10 largest VC funds to close were in London. Established managers have raised fund families in the capital city, with domestic and international LPs clambering to commit to bigger funds offered by GPs with impressive track records.

Generally, closed UK-based funds have continued to attract commitments from global LPs and have shown infinitesimal declines in size in the past six months. As 2022 progresses, the fundraising landscape is expected to tighten and mirror wider financial markets. However, given the strong and consistent fundraising efforts across regions—including UK & Ireland—in the past five years, dry powder levels have elevated in the VC ecosystem. Thus, even if fresh capital availability falls, GPs should be able to deploy significant amounts of capital into investments without having to raise substantial funds in the near-term. Obviously, a one-size-fits-all approach is inaccurate and specific GPs have their own considerations regarding funding cycles. Nonetheless, strong dry powder figures should help buffer from the impending market downturn in H2 2022.

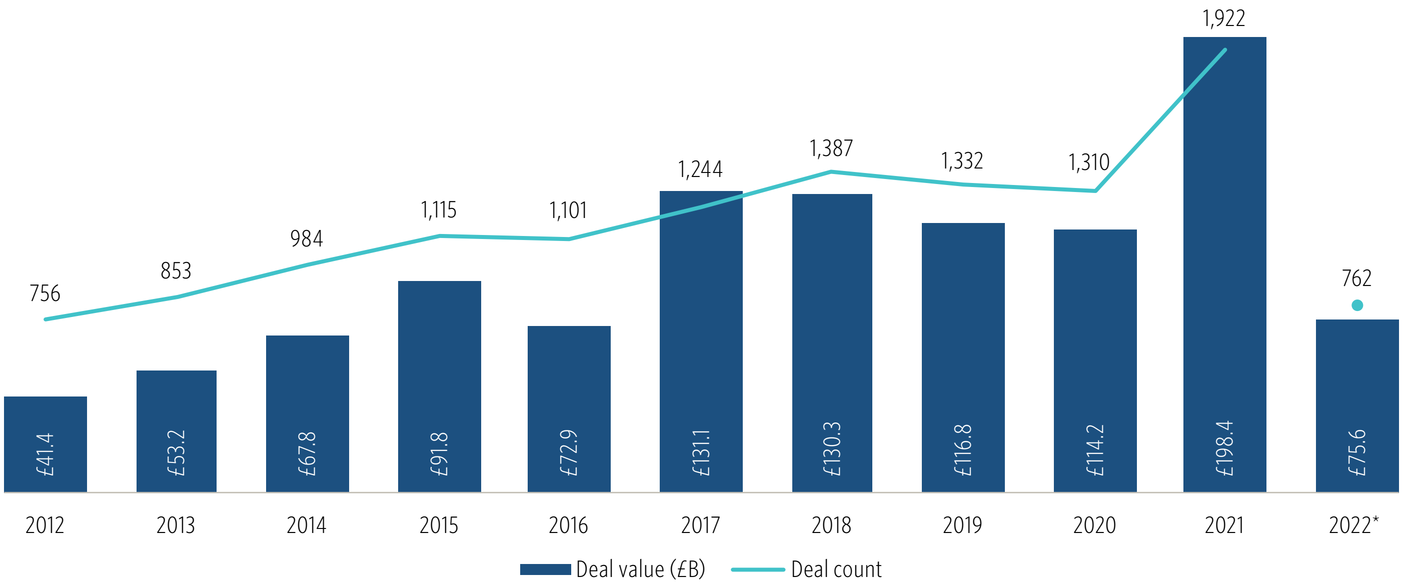
Five largest VC funds to close in H1 2022 by fund size

Investor	Fund name	Fund size (£M)*	Fund location (UK)
Felix Capital	Felix Capital Fund IV	£478.5	London
Blossom Capital	Blossom Capital III	£347.9	London
Eight Roads	Eight Roads China Technology Fund V	£264.1	London
Hiro Capital	Hiro Capital II	£251.3	London
Synthesis Capital	Synthesis Food Technology Fund	£241.1	London

Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

PE deals

PE deal activity



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

UK & Ireland PE deal activity reached £75.6 billion across 762 deals in H1 2022, which is on pace to drop below the £198.4 billion recorded by 2021's conclusion. UK & Ireland PE deal value jumped 73.7% YoY in 2021 as PE deal activity ballooned with highly capitalised investors and portfolio companies conducting several high-profile deals. However, the macroeconomic backdrop has shifted in H1 2022, and we have seen flattening of PE dealmaking activity across choppier financial markets. The UK & Ireland, and in particular the UK, has been one of the largest European PE deal value contributors during the past decade. The UK's position as a financial services and PE hub has grown impressively. The development of largescale portfolio companies and investors with significant AUM now forms a major part of the financial industry in the UK, alongside traditional investment banking, management consulting, and accounting services.

As is the case globally, UK & Ireland deal activity has been largely skewed by outsized deals. Despite a softening in activity in H1 2022, substantial deals continued to close. For example, Permira's £4.6 billion take-private of London-based cloud cybersecurity provider Mimecast was one of the largest deals in the first half of the year. Mimecast was delisted after debuting on the tech-heavy Nasdaq in 2015. Tech stocks have enjoyed a bull run for several years, characterised by an insatiable appetite from investors, strong growth metrics, and an increasing reliance on technology in everyday life. Furthermore, UK- and Europe-based tech companies have often listed on established US exchanges to increase their exposure to new markets and leverage wider investor bases.

2022 has seen numerous public tech companies struggle below their historically high multiples of the past two years. Although the Mimecast take-private was announced prior to severe depressions in tech stock market capitalisations in H1, further take-privates could occur in upcoming months. PE firms with high levels of dry powder will be targeting undervalued high-growth companies in the current market. Lofty valuations tied to soaring revenue multiples have fallen, as investors have turned to value instead of growth in recent months. US-based tech companies are scattered among the largest company market capitalisations in the world, and UK-based counterparts have constantly looked to bridge the gap. Instead of risking an IPO to promote growth or struggling with a lowly share price, companies may look to PE firms for take-privates to focus on long-term growth efforts and avoid the noise, financial reporting, and scrutiny facing public companies.

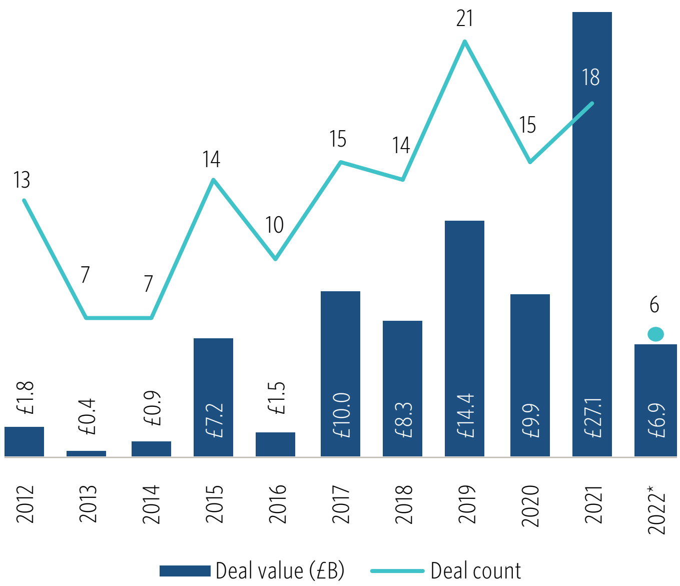
In H1 2022, UK & Ireland take-private deal value reached £6.9 billion, down on the pace set in 2021 which saw £27.1 billion logged. Another major deal in H1 2022 was the £1.3 billion take-private of pharmaceutical services & products company Clinigen by UK-headquartered Triton. Healthcare is a core sector of Triton's investment strategy and PE firms in search of returns have continued to branch out into new areas beyond traditionally popular sectors such as information technology (IT), financial services, consumer products & services, and business products & services. In H1 2022, 11.6%—equivalent to £8.7 billion—was within the healthcare sector. By comparison, £17.6 billion was invested into IT companies in H1 2022.

The public healthcare system in the UK is heavily reliant on the free-to-use National Health Service (NHS). Stress placed on the NHS system has been discussed for decades by politicians, and COVID-19 created huge backlogs for patients requiring treatment. Healthcare privatisation has been a longstanding point of contention in the UK with NHS employees and patients increasingly forced to move towards private service providers. According to the think-tank IPPR, the proportion of healthcare spending from people paying for private healthcare rose from 0.46% in 1980 to 1.77% in 2020, the biggest increase in the G7 nations.[6]

In 2020/21, the Department for Health and Social Care spent £192 billion on the NHS.[7] Moreover, the NHS is the largest employer in Europe and the world's largest employer of highly skilled professionals.[8] The size and scope of the NHS provides opportunities for talented individuals, innovative companies, and knowledgeable investors to help improve efficiency and the quality of services. PE firms are opportunistic, and greater levels of investment or acquisitions through privatisation may be unpopular with the public but may be necessary to sustain stretched services. Therefore, we could see an increase in UK healthcare PE dealmaking in coming years.

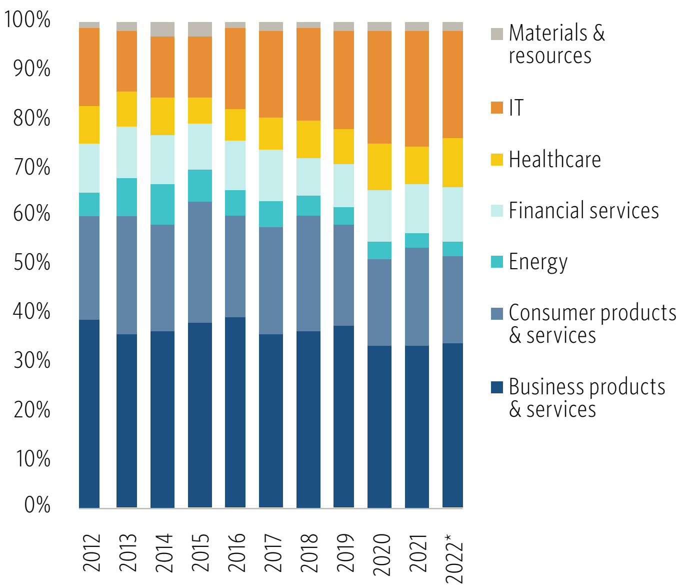
Looking ahead, PE dealmaking could be further stimulated by the uncertainty facing global markets and special situation teams could move for assets. One notable deal to close in H1 2022 was the sale of Chelsea Football Club for £2.5 billion to Clearlake Capital Group. Russian oligarch Roman Abramovich bought Chelsea in 2003 and was forced to sell due to sanctions from his ties to Vladimir Putin. The war in Ukraine has been a devastating humanitarian disaster, and as it rages on, wider impacts are evolving.

Take-private PE activity



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

Share of PE deal count by sector



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

For example, the cost of energy in Europe is soaring due to its reliance on Russia. With inflation at record highs, businesses may be forced to seek new owners or carve out assets to raise capital, which could encourage PE activity in the near-term.

6: "Private Healthcare Boom Adds to Fears of Two-Tier System in UK," *The Guardian*, Denis Campbell, March 1, 2022.
7: "Key Facts and Figures about the NHS," The King's Fund, January 13, 2022.
8: "Chapter 4: NHS Staff Will Get the Backing They Need," NHS, n.d., accessed August 22, 2022.

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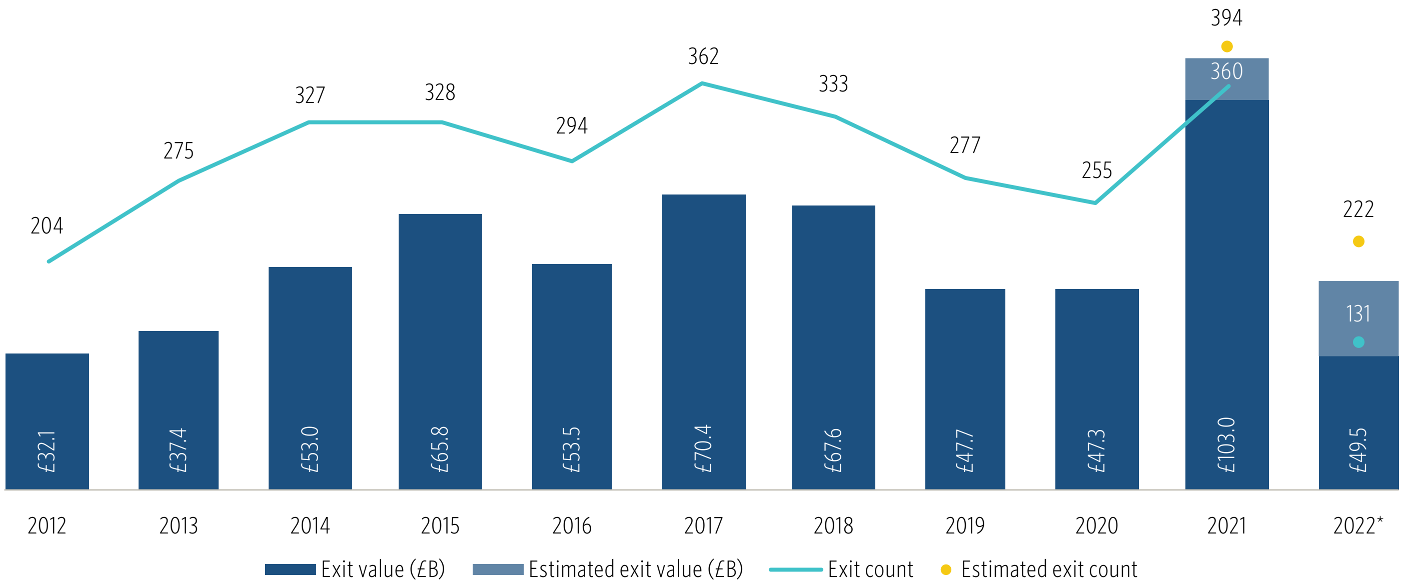
PE exits

PE exit activity



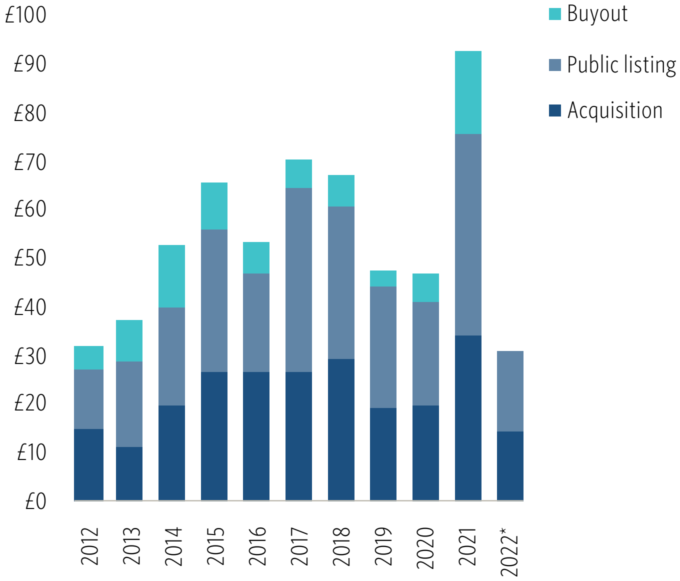
Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

In H1 2022, UK & Ireland PE exit value reached £49.5 billion and kept pace with 2021's record-breaking total of £103.0 billion. Meanwhile, exit volume is pacing higher through H1 2022 and if sustained throughout the year, it could eclipse 2021's figure. Exit markets often reflect near-term challenges facing companies and economies first; however, PE exits remained surprisingly resilient in H1 2022. Major exits tend to skew exit value and a selection of high-profile exits closed in H1 2022. Further, as public listings have declined in popularity, buyouts and corporate acquisitions have continued to take place at a rapid clip despite market uncertainty. Exit agreements in place prior to financial market volatility in H1 2022, as well as elevated dry powder levels, have been key drivers of exit activity in the first half of the year.

The £4.0 billion sale of UK-based famed luxury retailer Selfridges to Thailand-based Central Group and Austria-based SIGNA Holding was one of the largest exits in H1 2022. The Selfridges Group comprises 18 stores, e-commerce platforms, and associated properties. Selfridges will become part of the collective Central and Signa group of high-end retailers, including Italy-based Rinascente, Denmark-based ILLUM, Switzerland-based Globus, and Germany-based KaDeWe Group. Near-term impacts on discretionary spending caused by global inflation generally slow growth in luxury markets; however, economies of scale, strong brands, and new fashion lines can protect profit margins in the industry. The long-term shift to online spending creates challenges for established stores such as Selfridges and Harrods that have been present for decades in the UK. Therefore, investment into physical stores alongside digital marketing, modern applications, and user-friendly websites is essential to ensure established companies remain relevant with younger generations.

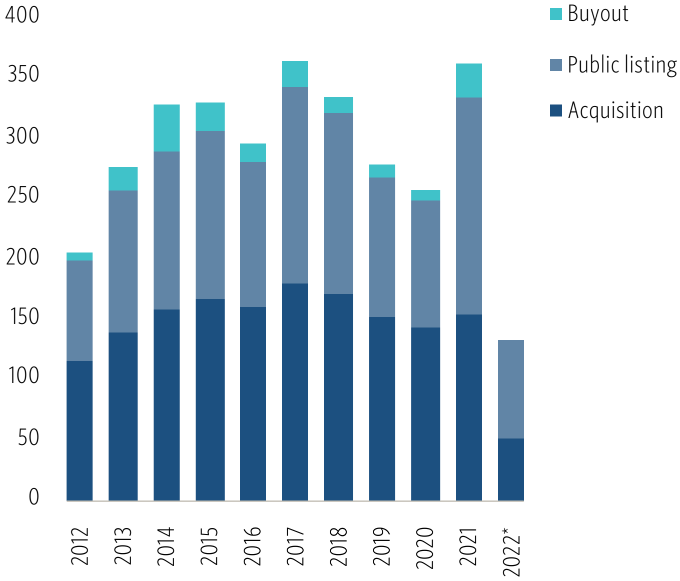
In H1 2022, there were no PE-backed public listings of UK- & Ireland-based companies. By comparison, 27 public listings took place in the entirety of 2021. Public market activity has dried up in H1 2022 as unease about recessions, weak economic growth, and rising inflation have dampened appetite. The public market valuations of several international companies, particularly in the technology sector, have taken huge hits in 2022 thus far. As a result, management teams and investors have been extremely cautious about listing in the current climate. We expect public listing activity to remain depressed in the near-term as uncertainty persists. Exits via corporate acquisitions and buyouts will form the majority, if not all, of the exits from UK & Ireland-based companies in the next three to six months.

Share of PE exit value (£B) by type



Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

Share of PE exit count by type



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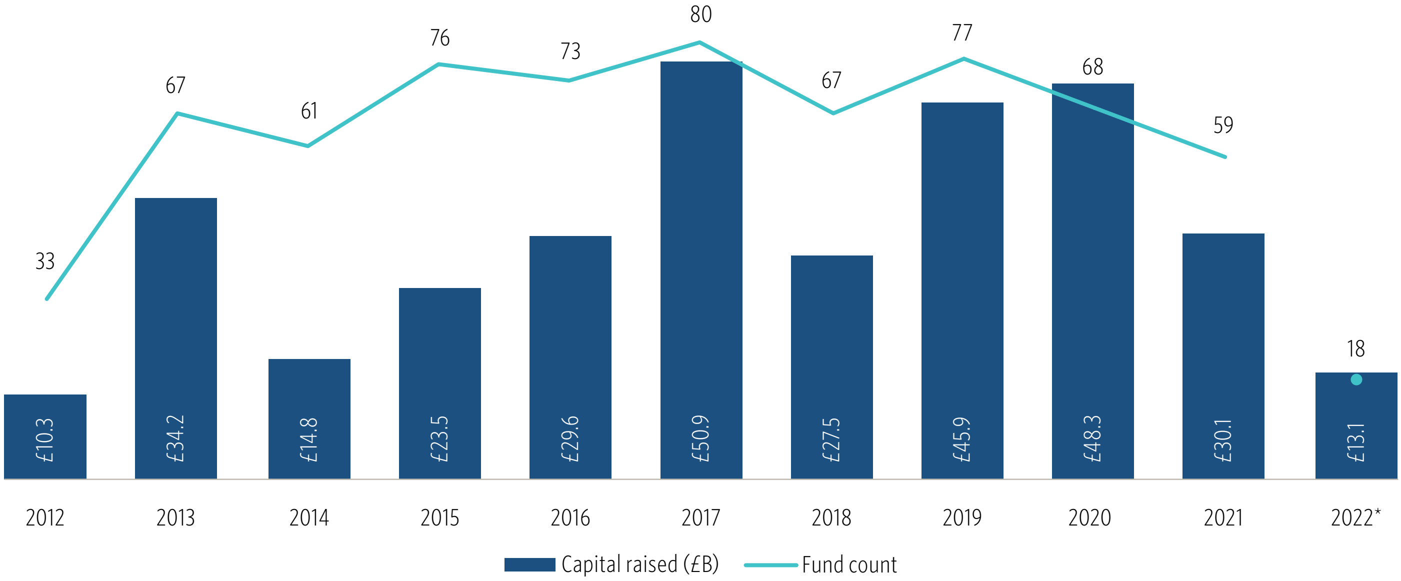
*As of June 30, 2022

PE fundraising

PE fundraising activity



Source: PitchBook | **Geography:** UK & Ireland
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In H1 2022, the pace of PE fundraising in the UK & Ireland was slightly down on figures registered in the past three years. £13.1 billion was raised across 18 funds in H1 2022 and is on track to land below the £30.1 billion raised across 59 funds in 2021. Although fundraising figures are lumpy and skewed by outlier funds, capital raised at the year's conclusion could reach its lowest total since 2015 if the current pace continues. During the past decade, fundraising totals have oscillated, indicative of figures that are dictated by mega-funds closing in the region.

Naturally, factors including tentative financial markets, rising interest rates, political instability, and inflationary pressure are likely to impact adversely on multi-billion-pound fundraising efforts. In contrast, established PE fund managers with strong track records and vast networks combined with deep-pocketed LPs seeking returns can help commitments flow into funds based in the region. Notable funds to close in H1 2022 included BC European Capital XI at £5.8 billion and Inflexion Buyout Fund VI at £2.5 billion. It is worth mentioning that fundraising processes can take several months. Although it is too early to discern if recently closed or open funds are feeling the impacts of shifting market dynamics, fundraising figures were relatively healthy in H1 2022. Nonetheless, a prolonged recession and deep market depression could affect fundraising in the long run.

Five largest PE funds to close in H1 2022

Investor	Fund name	Fund size (£M)*	HQ location (UK)
BC Partners	BC European Capital XI	£5,763.3	London
Inflexion Private Equity Partners	Inflexion Buyout Fund VI	£2,500.0	London
Generation Investment Management	Generation IM Sustainable Solutions Fund IV	£1,356.0	London
Pollen Street Capital	PSC IV	£983.3	London
Sprints Capital	Sprints Capital International Fund IV	£442.7	London

Source: PitchBook | **Geography:** UK & Ireland
*As of June 30, 2022

Additional research

European private capital

Q2 2022 European Venture Report

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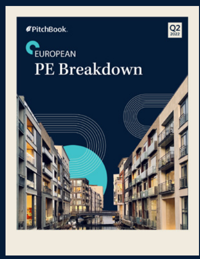

Q2 2022 European PE Breakdown

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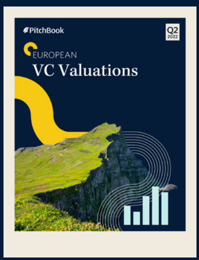

Q2 2022 European VC Valuations Report

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Analyst Note: 2022 European Private Capital Outlook: H1 Follow-Up

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