PitchBook

2024

UK

Private Capital Breakdown

Contents

PitchBook Data, Inc.

Nizar Tarhuni Executive Vice President of Research and Market Intelligence

Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

Navina Rajan
Senior Analyst, EMEA Private Capital
navina.rajan@pitchbook.com

Nicolas Moura, CFA
Analyst, EMEA Private Capital
nicolas.moura@pitchbook.com

Data

Charlie Farber
Senior Data Analyst

Oscar Allaway
Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Drew Sanders**

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Introduction

Macroeconomic and political changes will be pivotal for UK private market activity. The entrance of a new government brings several relevancies to private markets into the spotlight. With the sunsetting of previous Conservative policies, meaningful developments include changes to the capital gains tax rate and the new National Wealth Fund launched in July. Outside of regulation, in August, the UK followed the European Central Bank (ECB) by issuing its first rate cut of 25 basis points. This came alongside economic growth in May.

Venture capital

As of the end of H1, UK venture capital (VC) deal activity is pacing above last year. The recovery in Q2 in particular was driven by large deals in artificial intelligence (AI) and fintech, two verticals that have been resilient across Europe. Historically, the UK has been a notable fintech hub, and industry bellwethers Revolut and Monzo recently saw increased implied valuations. AI saw £1.8 billion of investment across 282 deals in H1 2024. The UK is the largest hub for AI companies in Europe, ahead of France. The emergence of this hub for the AI boom in Europe is drawing US investors back to the UK market. In H1, 340 deals had US investor participation, and over 80 of these deals were AI related.

In H1, VC exit activity in the UK declined significantly more than in greater Europe. Software as a service (SaaS) still makes up the largest part of the exits pie. Technology, media & telecommunications (TMT), AI, and mobile were other industries in which startups were able to find buyers in H1 2024. It is well-known that exit activity in Europe remains weak; however, listings continued to lag in the UK in particular. 74.4% of UK exits in H1 were acquisitions, and 24.4% were buyouts. Listings concerns are trying to be addressed, with the Financial Conduct Authority (FCA) finalising its listings reforms on 11 July.

UK VC fundraising is pacing at half of last year's level, lagging greater Europe, but trending towards specialisation. 75.0% of the fund closes in H1 were by emerging managers. Traditionally, the UK investor landscape has been made up of mostly vehicles under £50.0 million. Recently, we have seen a move towards specialisation in fund strategy. In H1, several of the top 10 closes showed a specific focus on climate-related solutions. This gives limited partners (LPs) the ability to diversify their exposure to various industries and parts of the market, ensuring they have some hedging in their allocations to VC.

Private equity

As of the end of H1, UK private equity (PE) deal value is pacing for year-over-year (YoY) growth as the wider PE environment starts to recover in anticipation of monetary easing. Deal value in Q2 was the strongest it had been in two years and marked a sharp bounceback following a dismal Q1. We saw a relative uptick in leveraged buyout (LBO) megadeals, with LBOs going from 50.6% of deal value in 2023 to 59.1% at the end of H1 2024. We continue to see a strong flow of take-privates in the UK: Roughly half of European take-private deal activity in H1 came from the UK alone. We will wait to see if the FCA's revamp of listings will help alleviate take-privates and boost exits.

Exits remain the pain point for UK PE and are pacing for a third consecutive YoY drop. Exit value in H1 2024 was 28.6% lower than in H2 2023 and 8.8% lower than in H1 2023. H1 2024 lacked megaexits, especially those above £2.5 billion, which were nonexistent. Instead, we saw a rise in the proportion of exits under £25 million, which represented half of the total exit count in H1, the highest proportion since 2014. This underlines how the current market conditions have been unfavourable to sponsors, which are opting to hold assets for longer. Median holding times increased, going from five years in 2018 to 6.4 years in H1.

UK PE fundraising is pacing for a record year in capital raised. £29.3 billion closed in H1, with two megafunds accounting for two-thirds of the amount. 91.0% of capital raised in H1 went towards buyout funds as opposed to growth funds, which have lost share since 2021, coinciding with the beginning of monetary tightening. Despite the capital raised in H1, it is not all rosy, as fund counts have been dropping since 2021. Furthermore, we are seeing the median time to close funds increase, going from nine months in 2020 to 21 months as of H1 2024.[1]

1: Note that fund counts for these medians are low, ranging from 18 to 29 funds annually.

Macroeconomics and politics

Macroeconomics and politics are front and centre for UK financial markets. The first half of 2024 provided a step change for the UK, namely the introduction of a new government regime. The main topic of debate has been potential changes to the capital gains tax,[2] which could move from 28% on returns to the higher rate of 45%. The trade-off here is between the funds generated from the increase supporting growth investments versus the potential brain drain the increase could cause in the investor landscape. The former is likely to be realised over a longer term.

Outside of taxes, critical government involvement in private markets looks set to continue. This involves pivoting from Conservative initiatives for private markets to new priorities. Previous initiatives included the Mansion House reform to get 5% of pension capital into private markets, and the intermittent trading platform PISCES for private shares. Both initiatives came into play under the previous chancellor, Jeremy Hunt, and it is uncertain if they will remain priorities under the new administration. We think it is unlikely. The new government has shown other priorities in policy: for instance, forgoing the Conservative-led initiative to fund £1.3 billion of tech and AI projects and launching a new National Wealth Fund earlier this month.[3, 4] The fund is aiming to deploy £7.3 billion of public funding to ports, gigafactories, clean steel, carbon capture, and green hydrogen.

Scalability and the capital required to achieve it have been the critical barriers for such technologies to have a meaningful impact on the reduction of UK emissions. We are encouraged by the new initiatives to plug the funding gap. The government also aims to attract three times the amount of private capital for every £1 of public financing, which could further support inflows into UK businesses and private companies, as several of these climate-related solutions can be found in VC-backed companies. Government involvement in UK tech has been pronounced in the past, and it is crucial that it continues to develop if the nation is to maintain its lead, especially in burgeoning ecosystems such as AI.

Outside of regulation, central bank policy has been front and centre globally. In August, the UK followed the ECB by issuing its first rate cut of 25 basis points. This came alongside better-than-expected economic growth in May—and over the past year—driven by the services sector. The questions going forward are how many more cuts will emerge in the following months and where the equilibrium will settle. Policymakers are expecting the level to be around 3.5% in three years.[5] Whilst rates are still high, the peak of the hiking cycle is now in the past, and fundamental macro factors that drive UK asset valuations are favouring a continued recovery.

2: "UK's Reeves Declines to Rule Out Raising Capital Gains Tax," Bloomberg, Tom Rees, Kailey Leinz, and Joe Mathieu, August 5, 2024.
3: "Government Shelves £1.3bn UK Tech and AI Plans," BBC, Zoe Kleinman, August 2, 2024.
4: "What Is the National Wealth Fund and What Will It Invest In?" The Guardian, Kalyeena Makortoff, July 9, 2024.
5: "Don't Be Fooled by the Interest Rate Cut – Higher Rates Are Here to Stay," The Guardian, Phillip Inman and Rachel Obordo, August 2, 2024.

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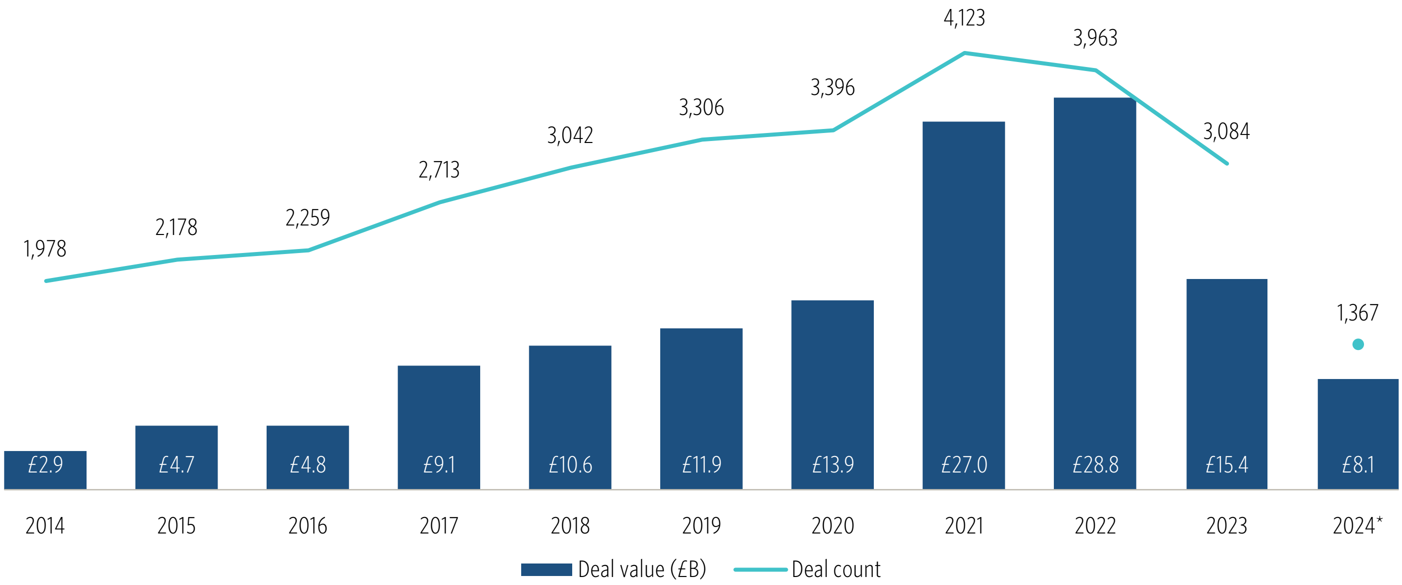
VC deals

VC deal activity

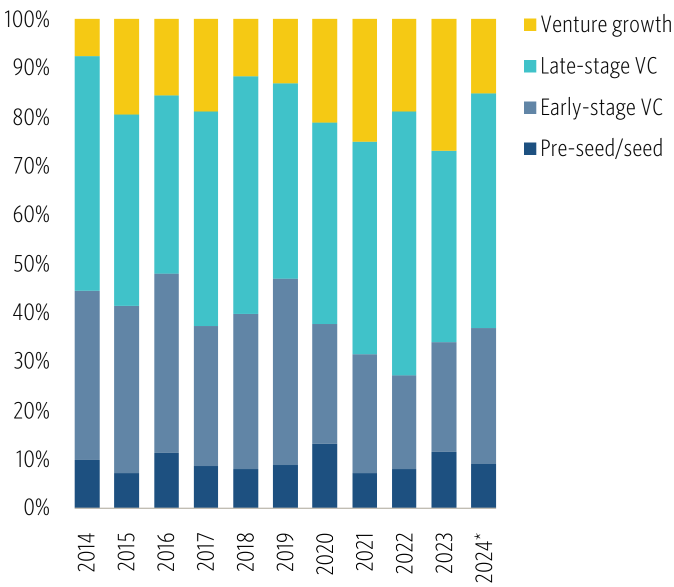


Source: PitchBook • Geography: UK • *As of 30 June 2024

What happened to deals in H1?

As of the end of H1, VC deal activity in the UK is recovering, pacing above last year. H1 deal value came in at £8.1 billion, a run rate that implies a 5.0% increase YoY for 2024. Deal value in Q2 significantly increased quarter over quarter to £5.7 billion. The recovery in the quarter was driven by large deals in AI and fintech, two verticals in which we have seen valuation resilience across Europe, as noted in our Q2 2024 European VC Valuations Report. Some of the top deals in H1 also occurred in the quarter, with the largest round being mobility AI player Wayve's £840.3 million deal led by large firms including NVIDIA and SoftBank. This was followed by an £800.0 million deal from consumer fintech company Abound, which was a mixture of debt and equity (the exact split was undisclosed). Monzo's nearly £500 million deal came in third; it had multiple tranches, including two raised in March and May of this year. Monzo's rival Revolut also appeared in the top 10, securing $110.0 million as a regulatory requirement after receiving its banking license in Mexico.[6] The company also received its UK banking license in July after a three-year wait. Outside of the top three deals, the sector split is varied. In the stage split, we see that the late stage is still the most significant part of UK deal value, gaining share to 48.1% in H1 2024. Half of the top 10 deals in H1 were from late-stage firms. The median deal size and post-money valuation increased the most YoY for late-stage companies. The median deal size sat at £2.8 million in H1 versus £2.4 million in 2023. The median post-money valuation sat at £12.0 million versus £11.8 million last year.

Share of VC deal value by stage



Source: PitchBook • Geography: UK • *As of 30 June 2024

6: "Fintech Revolut Receives Mexican Banking Authorization. The Company Secures $110 Million Capital to Operate in the Country," NoCash, April 12, 2024.

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Top 10 VC deals by deal value in H1 2024*

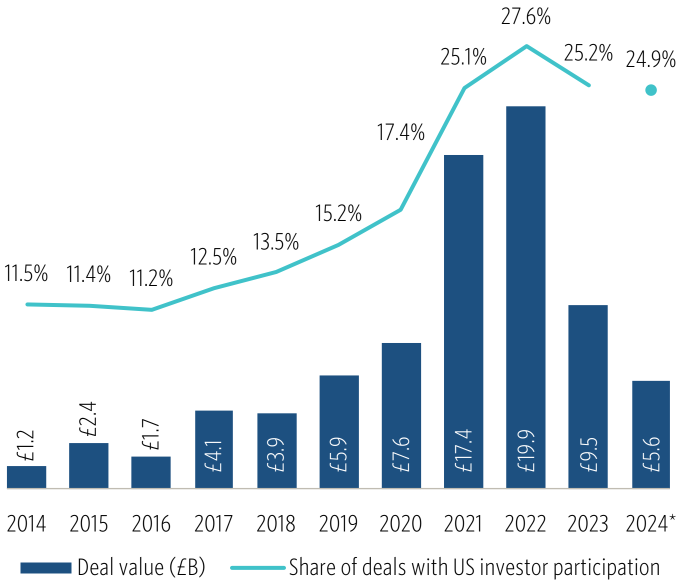
Company	Close date	Deal value (£M)	Deal type	Industry sector
Wayve	May 7	£840.3	Late-stage VC	Information technology
Abound	May 7	£800.0	Early-stage VC	Financial services
Monzo	May 8	£497.2	Venture growth	Information technology
Highview Power	June 13	£300.0	Late-stage VC	Energy
Apollo Therapeutics	January 2	£205.3	Late-stage VC	Healthcare
HarperCrewe	April 24	£200.0	Early-stage VC	Business products & services (B2B)
Pheon Therapeutics	May 21	£95.7	Late-stage VC	Healthcare
Skyports Infrastructure	April 17	£91.3	Late-stage VC	Business products & services (B2B)
Exohood Labs	February 21	£88.7	Early-stage VC	Information technology
Revolut	April 10	£86.8	Venture growth	Information technology

Source: PitchBook • Geography: UK • *As of 30 June 2024

Which verticals are showing resilience?

We rank deal activity in the UK by the top 20 verticals. Of the top three, SaaS is outpacing last year the most, with its H1 run rate implying a 58.4% YoY increase. This outpaces fintech and AI & machine learning (ML). Historically, the UK has been a notable fintech hub, and bellwethers Revolut and Monzo recently saw increased implied valuations.[7] The more nascent but growing industry of AI saw £1.8 billion of investment across 282 deals in the UK in H1 2024, and as noted in our Q2 2024 European Venture Report, the UK remains the largest hub of AI companies in Europe, ahead of France. The previously outlined investment from the government, which has since been pulled, would have helped foster the UK's lead as France catches up. As we noted in our 2024 France Private Capital Breakdown, AI startups, as well as the infrastructure supporting the technology, will be important. On the other hand, mobile commerce ranks as the lowest vertical, behind foodtech, two industries that are more mature in the UK with several larger public players in the space, including Just Eat Takeaway, Deliveroo, Boohoo, and ASOS.

VC deal activity with US investor participation



Source: PitchBook • Geography: UK • *As of 30 June 2024

US participation in the UK on the rise

New industries are fostering US participation in UK venture. The emergence of a hub leading the AI boom in Europe is drawing US investors back to the UK market. In H1, 340 deals with US investor participation amounted to £5.6 billion, a run rate that implies a 17.5% YoY increase in deal value. The growth rate for deals with US investor participation outpaces the recovery seen in the overall venture market so far this year, where the H1 run rate implies a 5.3% YoY increase in deal value. Of deals with US investor participation, over 80 were AI related. Key investors in generative AI, such as Silicon Valley-based Andreessen Horowitz, Sequoia Capital, and Lightspeed Venture Partners, have all opened offices in London in the past few years. The European ecosystem is attracting both domestic and external investor attention again; most recently, UK-headquartered VC firm Balderton Capital raised $1.3 billion for European startups.[8]

7: "Revolut Tells Staff It Is Launching Share Sale at $45bn Valuation," Financial Times, Akila Quinio, August 2, 2024.
8: "Revolut Backer Balderton Capital Raises $1.3bn for European Tech Start-Ups," Financial Times, Tim Bradshaw, August 12, 2024.

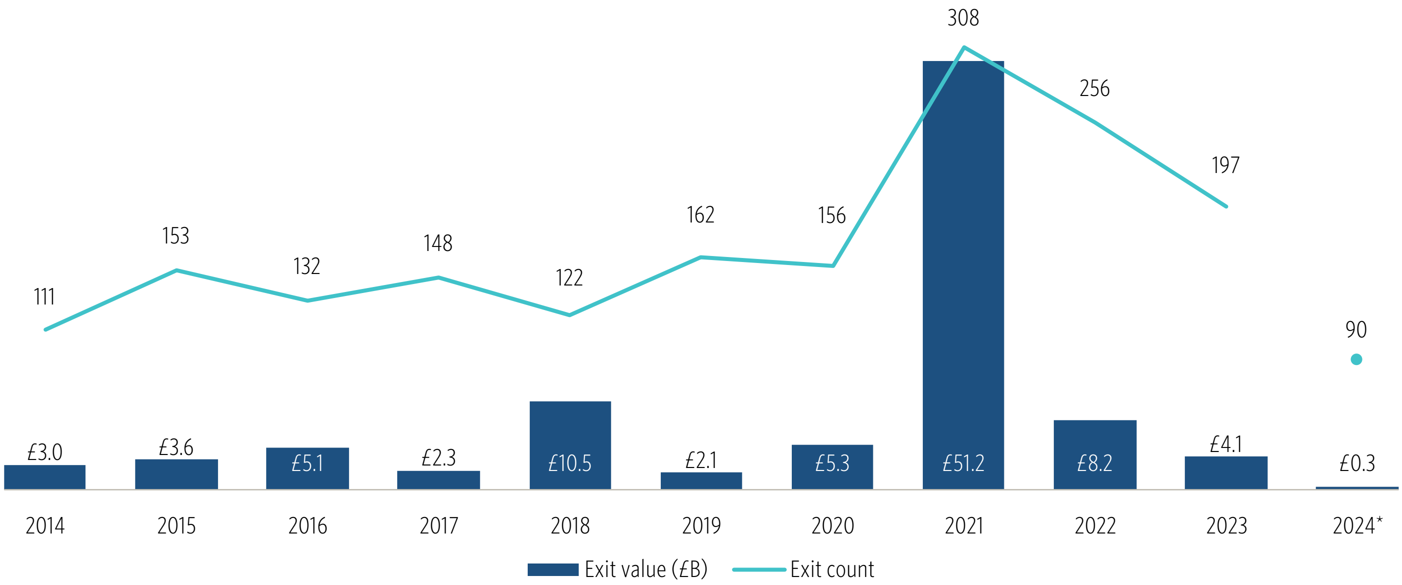
Vertical ranking by VC deal value

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
SaaS	2	4	2	3	3	1	1	2	2	1	1
Fintech	4	3	5	2	4	2	2	1	1	2	2
AI & ML	10	8	6	5	6	5	4	5	5	3	3
Mobile	3	5	3	4	2	4	6	4	3	4	4
Life sciences	5	2	4	7	5	7	5	6	9	7	5
Mobility tech	11	17	9	18	17	16	9	14	16	19	6
Cleantech	14	9	15	17	9	11	13	12	6	8	7
Climate tech	16	16	14	16	11	13	12	16	8	6	8
Oncology	7	6	7	12	13	17	18	15	20	15	9
Manufacturing	8	11	8	11	14	9	8	17	15	14	10
Healthtech	15	12	13	13	12	6	7	7	10	12	11
Cryptocurrency/blockchain	18	20	19	19	15	20	16	11	13	13	12
TMT	1	1	1	1	1	3	3	3	4	5	13
LOHAS & wellness	12	13	16	8	16	12	17	13	12	9	14
Big Data	13	10	11	10	8	8	10	8	7	11	15
E-commerce	6	7	10	6	10	10	11	9	14	10	16
Real estate tech	17	18	18	15	7	18	19	10	18	17	17
Digital health	19	19	17	20	18	15	14	19	17	18	18
Foodtech	20	15	12	9	20	19	15	20	19	20	19
Mobile commerce	9	14	20	14	19	14	20	18	11	16	20

Source: PitchBook • Geography: UK • *As of 30 June 2024

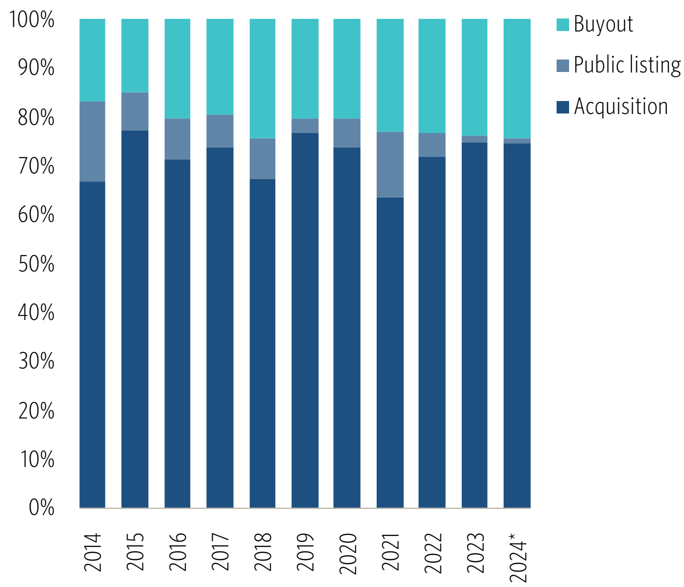
VC exits

VC exit activity



Source: PitchBook • Geography: UK • *As of 30 June 2024

Share of VC exit count by type



Source: PitchBook • Geography: UK • *As of 30 June 2024

UK exit activity lags Europe

In H1, VC exit activity in the UK declined significantly more than in greater Europe. H1 exit value came in at £0.3 billion, pacing significantly below last year's £4.1 billion figure. Although disclosure of exit values continues to be sparse, we tracked 90 exits in H1. This evidences that exits are happening, but they are continuing to take place at distressed values. In H1, the top 10 exits spanned a variety of verticals. The largest exit was the acquisition of mobility tech player Gett by Pango for £138.6 million. Gett had fallen out of unicorn status, and its lower valuation provided acquisition opportunities, a trend we often see in times of valuation rationalisation. This top exit was followed by HR tech firm Perkbox with an exit of more than £100 million, where the firm merged with Vivup, alongside an investment from growth equity PE firm Great Hill Partners. The third-largest exit was a step down in magnitude: the £31.6 million acquisition of payroll tech platform Pento by Israeli human resources tech incumbent HiBob. Looking at UK exits by sector, SaaS still makes up the largest part of the pie. TMT, AI, and mobile were other industries in which startups were able to find buyers in H1 2024.

Lacklustre listings activity continues to be a primary concern

It is well-known that exit activity in Europe as a whole remains weak; however, a peppering of public listings in Q2 2024, as well as more resilient exit valuations, shows more signs of optimism in greater Europe than in the UK. Public listings continue to be the UK market's weak point, where the inability to crystallise investments in VC-backed entities could hamper LP capital flows into UK-headquartered vehicles. Only one UK-headquartered VC-backed company listed publicly in H1. There have been a few new issues on AIM, but only from firms that are not domiciled in the UK. As such, 74.4% of UK exits in H1 were acquisitions and 24.4% were buyouts. The initial public offering (IPO) of

Raspberry Pi garnered attention in H1 with an exit size of £541.6 million, a small step for the market, but the company was not VC backed and therefore is not included in our data. Given the recovery in other areas of Europe, as well as in the US, the lack of activity in the UK continues to raise structural concerns.

Such concerns are trying to be addressed, with the FCA's listings reforms, which it set out last year, finalised on 11 July and put into effect on 29 July. In a nutshell, the reforms appear to aim for more flexibility to increase the exchange's competitiveness and sector diversity. One reform around the latter concerns the use of dual-class share structures (DCSS) in attracting tech companies to the exchange. According to the FCA, there is a higher prevalence of DCSS in the US. This is particularly important for tech/venture-backed firms; according to the FCA consultation paper, in 2021, around 45% of tech companies listing in the US had DCSS, and close to 25% of non-tech US IPOs did.[9] However, outside of internal structural changes, cultural attitudes among investors will also have to shift in favour of tech IPOs, especially in a market that has underperformed other world indices, as noted in our UK market snapshots. Cultural attitudes are often the slowest to shift, and it is a "chicken or the egg" story, where more tech listings are required to move the index away from its value-income-based weighting, but returns for tech listings need to compete with traditional Financial Times Stock Exchange (FTSE) constituents to make up a key part of the index. As noted in our IPO market outlook, several stars have to align for an IPO window in any market, let alone one with a limited track record of successful tech listings. We believe the potential listing of SHEIN is also unlikely to bring much respite if it does proceed.

Vertical ranking by VC exit count

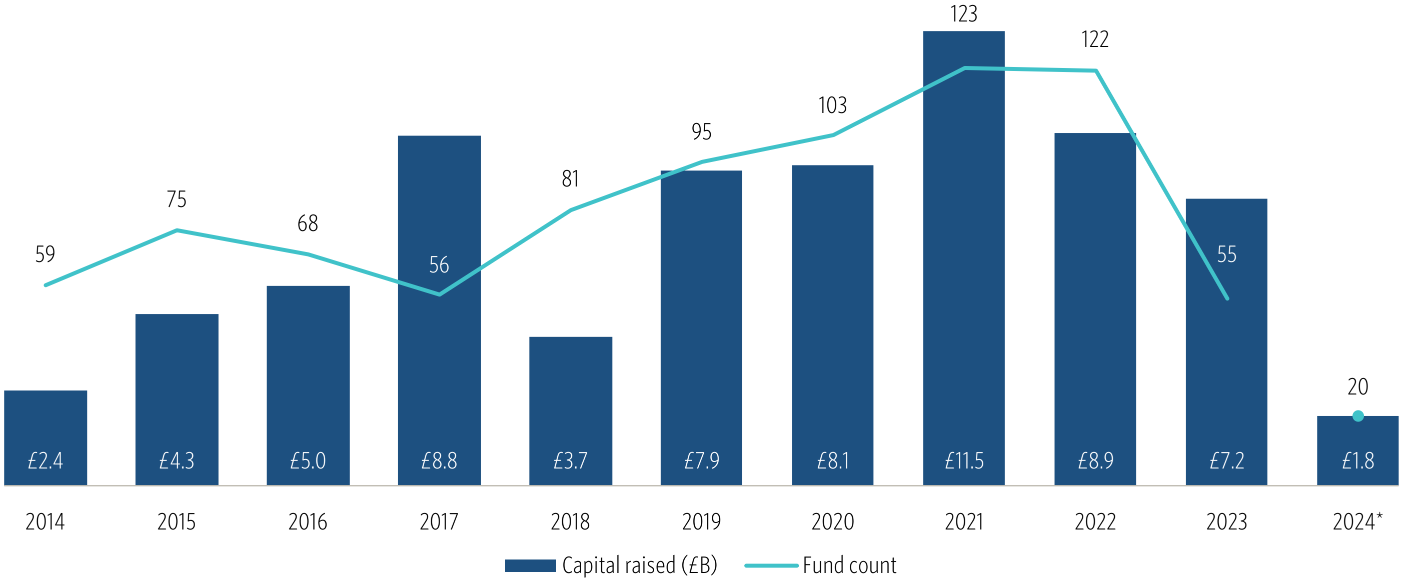
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
SaaS	2	2	2	2	2	2	2	2	2	1	1
TMT	1	1	1	1	1	1	1	1	1	2	2
AI & ML	10	14	6	8	8	4	5	5	3	5	3
Mobile	5	4	3	3	3	3	4	3	5	3	4
Fintech	11	9	6	6	4	7	3	4	4	3	5
Big Data	7	14	9	9	7	9	6	7	6	6	6
E-commerce	4	7	9	6	6	4	8	7	8	7	7
Healthtech	13	8	12	13	12	14	9	10	11	8	8
Life sciences	3	5	5	5	5	12	7	5	7	10	9
Manufacturing	7	3	4	4	9	7	9	9	9	13	10
Digital health	14	14	15	17	19	16	15	16	10	17	10
Cybersecurity	14	12	12	12	12	16	13	16	15	13	10
Restaurant tech	18	14	17	18	19	16	19	19	18	19	13
Foodtech	14	14	17	18	16	13	17	13	17	10	13
Cleantech	6	6	6	10	12	6	9	12	13	10	13
Mobility tech	12	10	12	13	9	10	15	10	12	13	16
Mobile commerce	14	20	16	18	18	16	17	18	18	18	16
Oncology	7	11	9	10	9	15	9	13	15	16	18
Nanotechnology	18	12	17	13	16	20	19	20	18	19	18
Climate tech	18	14	17	13	12	10	13	13	14	9	18

Source: PitchBook • Geography: UK • *As of 30 June 2024

9: "Initial Public Offerings: Dual Class Structure of IPOs Through 2023," University of Florida, Jay R. Ritter, April 11, 2024.

VC fundraising

VC fundraising activity

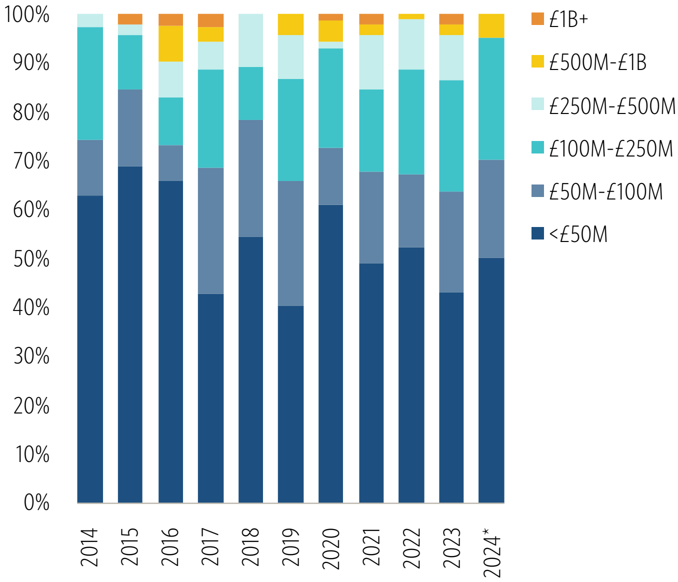


Source: PitchBook • Geography: UK • *As of 30 June 2024

UK VC fundraising is pacing at half of last year's level of capital raised. Fundraising in H1 2024 came in at £1.8 billion over 20 vehicles. Using this run rate for the rest of the year would imply that fundraising for the full year will decline by 51.4%, a significant step down from 2023, which had showed more resilience YoY. Half the fund closes were under £50 million, with seven being from first-time managers. Furthermore, 75.0% of the closes were from emerging managers. Trends towards smaller and emerging firms echo those seen in wider Europe. Traditionally, the UK investor landscape has been made up of mostly vehicles under £50.0 million. Amid a tougher environment, smaller vehicles are likely able to hit their targets.

The narrative around fund strategy specialisation is gaining momentum. Apart from the trend towards smaller firms, we are also seeing one towards specialisation in fund strategy and away from a general approach to venture industries or stages. Smaller vehicles tend to have more specific approaches, with larger players participating in a broader remit in the market but still having some geographic focus. This was evident in H1; for instance, the top close was Accel London's eighth fund, the only vehicle so far this year to sit above £500 million. The firm has an early-stage focus on startups in Europe and Israel. This was followed by Environmental Technologies Fund IV at £244.5 million and North East Fund at £120.0 million. It is encouraging to see capital being deployed outside of London; the latter fund is located in Newcastle and focused on startups in the North East of England.

Share of VC fund count by size bucket



Source: PitchBook • Geography: UK • *As of 30 June 2024

Top 10 closed VC funds by fund value in H1 2024*

Fund	Close date	Fund value (£M)	Fund type	Fund status	City
Accel London VIII	May 14	£520.6	Early-stage VC	Closed	London
Environmental Technologies Fund IV	May 21	£244.5	VC	Closed	London
North East Fund	January 1	£120.0	VC	Closed	Newcastle upon Tyne
Pollination Venture Capital Fund	June 5	£118.4	Early-stage VC	Closed	London
Giant Ventures Climate-Focused Growth Fund	February 6	£118.1	VC	Closed	London
Cibus Enterprise Fund II	March 4	£106.9	Late-stage VC	Closed	London
Smedvig Capital Fund	January 24	£99.1	VC	Closed	London
Giant Ventures Seed Fund	February 1	£78.7	Early-stage VC	Fully invested	London
Episode 1 Investments 3	February 6	£76.0	Early-stage VC	Closed	London
Ada Ventures Impact Fund	March 12	£63.0	Early-stage VC	Closed	London

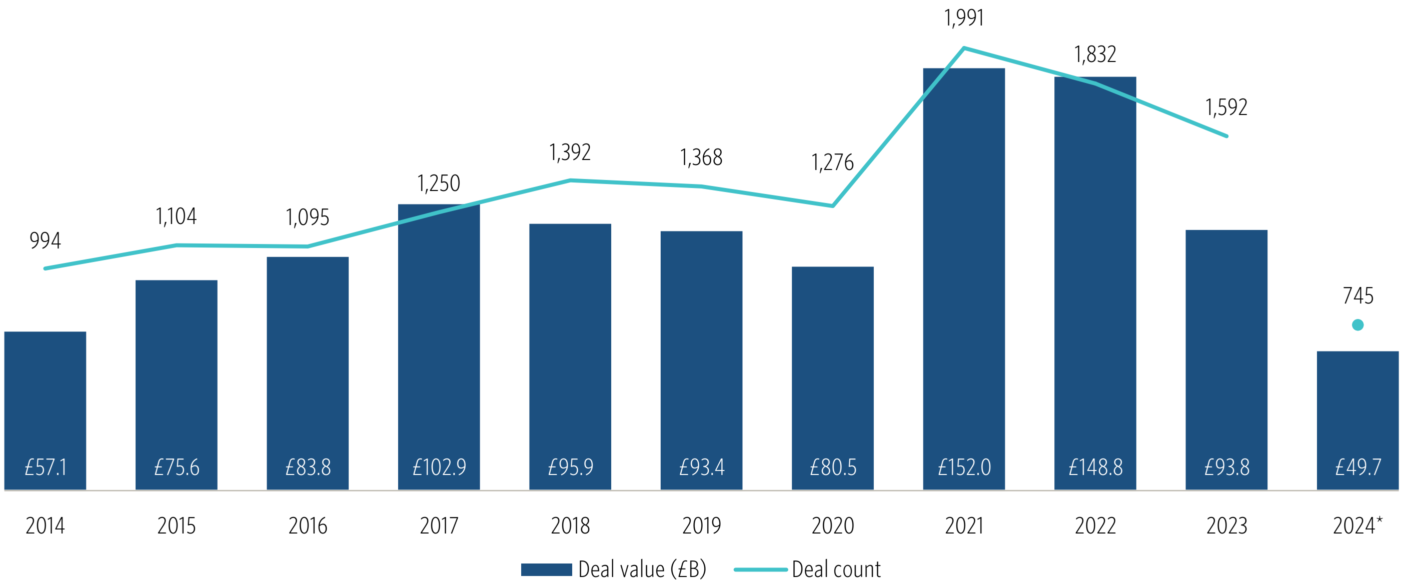
Source: PitchBook • Geography: UK • *As of 30 June 2024

Several of the top 10 closes in H1 show a specialised approach to investing, particularly with a climate focus. For instance, Giant Ventures closed its Climate-Focused Growth Fund at £118.1 million, which will finance Series B climate funding and provide scale-up capital.[10] Cibus Capital closed £106.9 million for its second fund, which is focused on sustainable food and agriculture. Ada Ventures announced its £63.0 million close to finance 10 to 12 investments annually in climate tech, economic empowerment, and healthy aging. Pollination Group also closed an early-stage fund focused on Australian climate solution startups. These are just a few examples that speak to wider industry trends; as the market matures, we are seeing that general partners (GPs) that show more specialisation in strategy are able to secure LP capital. This is especially true for smaller, emerging firms. This gives LPs the ability to also diversify their exposure to various industries and parts of the market, ensuring they have some hedging in their allocations to VC.

10: "Virgin Group Joins Giant Ventures' New Purpose-Driven Tech Fund," Virgin, Natalie Clarkson, January 30, 2024.

PE deals

PE deal activity

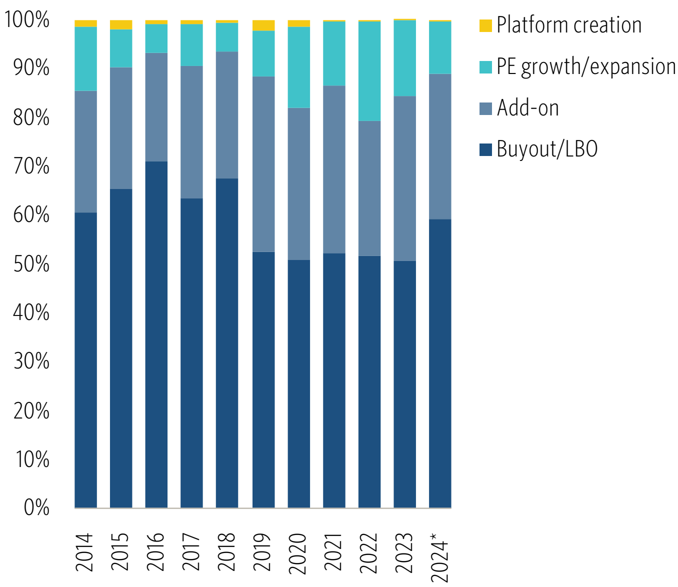


Source: PitchBook • Geography: UK • *As of 30 June 2024

LBO resurgence as PE deal value begins recovery

Historically, the UK has accounted for roughly a quarter of PE deal activity in Europe and represented the top country for private market activity in Europe. As of the end of H1, UK PE deal value is pacing for YoY growth as the wider PE environment starts to recover in anticipation of monetary easing. On a more granular level, Deal value in Q2 was the strongest it had been in two years and marked a sharp bounceback following a dismal start of the year. The six largest deals year to date (YTD) all came in Q2 as appetite for dealmaking intensified. Most notably, we saw a relative uptick in LBO megadeals: LBOs went from representing 50.6% of deal value in 2023 to 59.1% as of the end of H1 2024, while megadeals went from 25.6% of deal value to 29.1% across the same time frame. This came at the expense of growth/expansion deals, which have experienced more pressure in a high-interest-rate environment. In Q2, Audiotonix was sold for £2.0 billion in a sponsor-to-sponsor buyout transaction with PAI Partners acquiring a majority stake from Ardian. We are particularly encouraged by the strong traction in buyouts given that deals closed in H1 had not benefitted from the recent interest rate cut by the Bank of England. From this, we infer that higher borrowing costs have not interfered with a burgeoning landscape of deals, and we remain confident that H2 will continue on this path to deal recovery as rates start their descent.

Share of PE deal value by type



Source: PitchBook • Geography: UK • *As of 30 June 2024

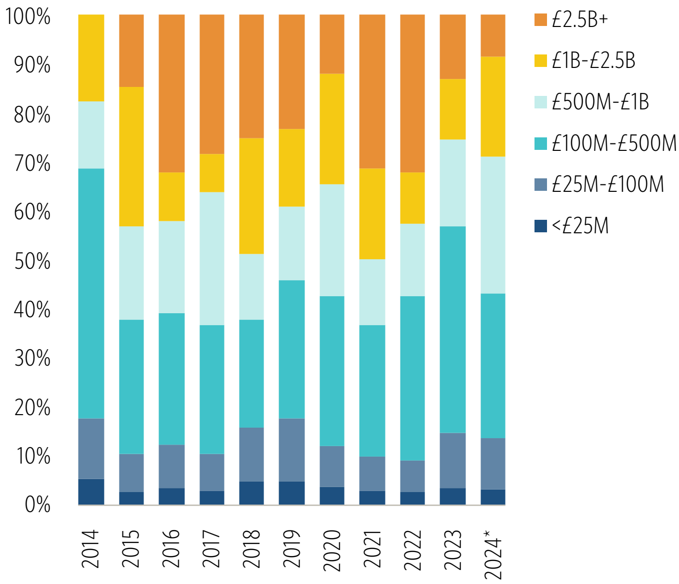
UK continues to attract take-privates

Public markets have rallied in 2024, with the FTSE 100 up 7.9% in H1. In theory, a rise in public equities should make it less attractive for PE firms to take companies private, yet we continue to see a strong flow of take-privates in the UK: Roughly half of European take-private deal activity in H1 came from the UK alone. We have seen eight take-privates in the UK YTD, worth a combined £8.2 billion. Over the past two years, the London Stock Exchange (LSE) has been scrutinised for its cumbersome and costly rules that resulted in an outflow of companies and many more choosing to list elsewhere despite being headquartered in the UK, such as Arm.

Darktrace, the British cybersecurity company, was taken private by US-based PE firm Thoma Bravo, which specialises in software companies, for £4.2 billion in Q2. Darktrace listed at the height of the bull market in 2021 and has been trading at a discount to US peers such as Cloudflare, CrowdStrike, and Palo Alto Networks. Hipgnosis Songs, Atlantica Sustainable Infrastructure, and more recently Hargreaves Lansdown (which closed in Q3) are all further examples of UK take-privates by US PE firms. In fact, non-European investors (usually made up of mostly US investors) participated in 33.3% of the UK deal count in H1 2024, a 1.7% increase from the proportion in 2022. Ultimately, this led the UK regulator, the FCA, to make changes and introduce new rules to make it easier, quicker, and cheaper for companies to raise money.[11]

Key changes include the introduction of DCSS, which would give more shareholding rights to founders and initial investors. The FCA also dropped its profits test and minimum track record requirements, which will encourage younger and pre-profit companies to consider listing in the UK. These new rules seem significant, but only time will tell if they will slow down UK take-privates and attract more listings.

Share of PE deal value by size bucket



Source: PitchBook • Geography: UK • *As of 30 June 2024

Top 10 PE deals by deal value in H1 2024*

Company	Deal date	Deal value (£M)	Deal type	Industry sector	Industry group
Darktrace	April 26	£4,246.4	Public to private	IT	Software
Atlantica Sustainable Infrastructure	May 27	£2,027.5	Public to private	Energy	Other energy
Audiotonix	April 3	£2,000.0	Secondary buyout	IT	Computer hardware
M Group Services	June 27	£1,494.1	Secondary buyout	B2B	Commercial services
Superstruct Entertainment	June 21	£1,300.0	N/A	B2C	Media
Hipgnosis Songs	June 3	£1,264.7	Public to private	Financial services	Capital markets/institutions
All3Media	February 1	£1,150.0	Add-on	B2C	Media
Specialist Risk Group	May 21	£1,000.0	Management buyout	Financial services	Insurance
Jagex	February 9	£910.0	Secondary buyout	IT	Software
Village Hotels	June 26	£850.0	Secondary buyout	B2C	Restaurants, hotels & leisure

Source: PitchBook • Geography: UK • *As of 30 June 2024

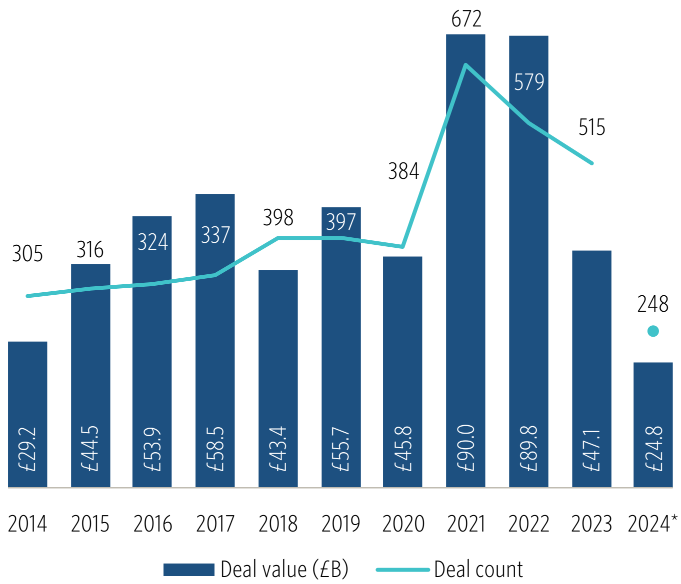
11: "FCA Sets Out Rules and Proposals to Build Up UK Wholesale Markets," Financial Conduct Authority, July 26, 2024.

![PitchBook]

UK tech deals rising

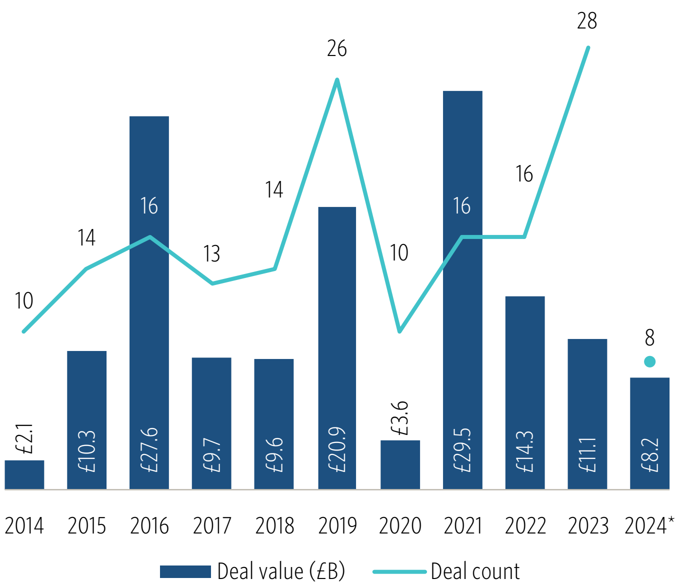
The IT sector is pacing for one of its strongest years for PE deal activity in the UK: It represented 29.4% of deal value in H1, its highest percentage since 2016. Most notably, we saw strong traction in software companies, including deals for Darktrace, Jagex, IQGeo, QBS, and Synectics Solutions. This subsector went through a period of valuation volatility when interest rates increased, but as interest rates start decreasing, software valuations will benefit strongly. Software companies can be at the centre of the investment strategy for certain firms, including Thoma Bravo. They are often high-margin companies that are light in capital expenses and have recurring and predictable revenues. Plus, they can easily be integrated as an add-on to a platform company.

PE deal activity with non-European investor participation



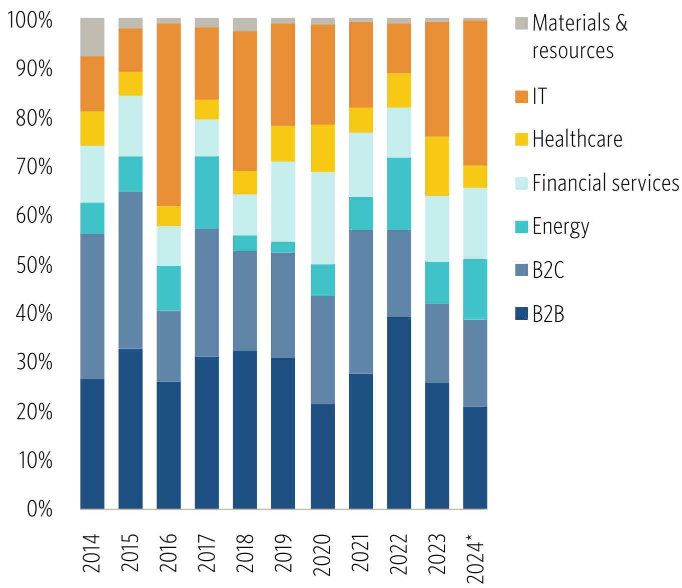
Source: PitchBook • Geography: UK • *As of 30 June 2024

PE take-private deal activity



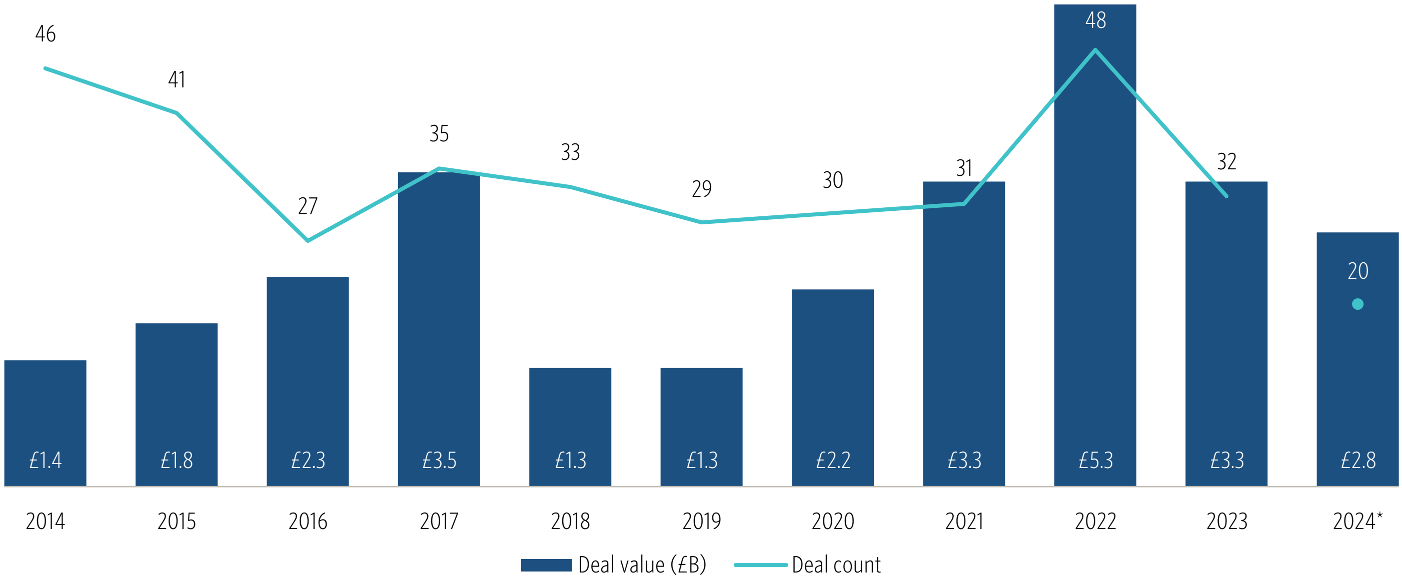
Source: PitchBook • Geography: UK • *As of 30 June 2024

Share of PE deal value by sector



Source: PitchBook • Geography: UK • *As of 30 June 2024

Cleantech and climate tech PE deal activity



Source: PitchBook • Geography: UK • *As of 30 June 2024

Cleantech, a priority for the new government

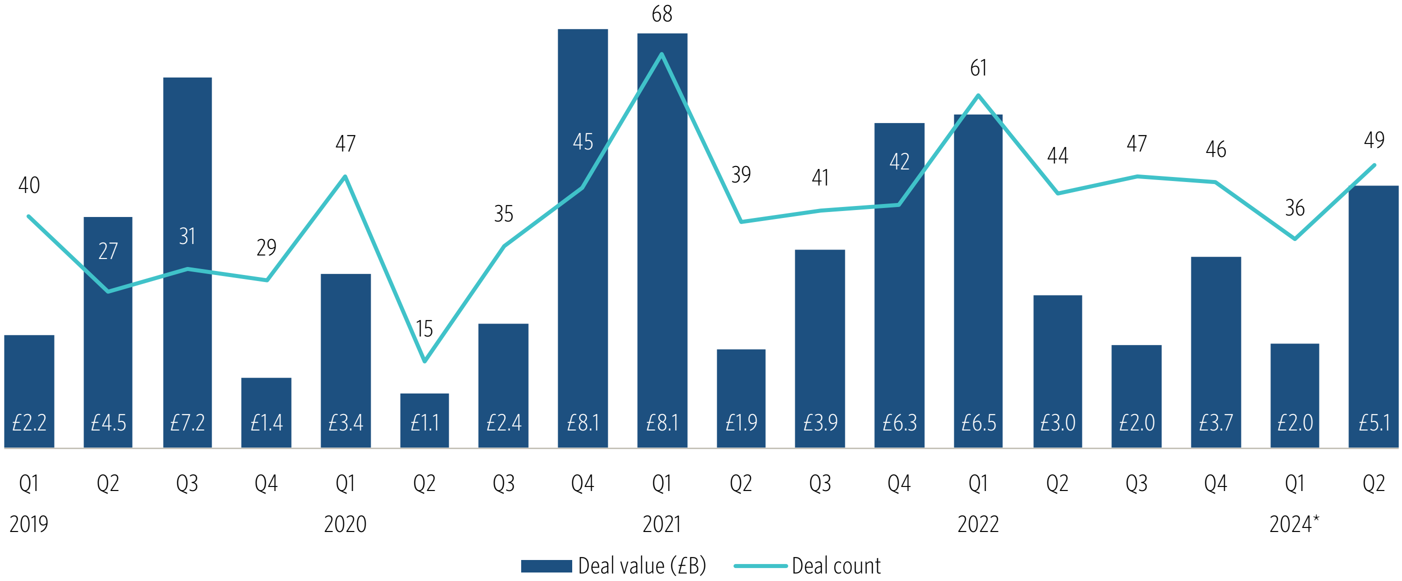
The energy sector is pacing for YoY growth in terms of both deal value and deal count thanks to the strong traction in cleantech deal activity, which is pacing for a record year. We saw 20 deals worth a combined £2.8 billion in H1, and we expect this vertical to continue attracting sponsors. As mentioned earlier, the new government in the UK has launched the National Wealth Fund, which seeks to deploy "£1.5bn for gigafactories (including for electric vehicles), £2.5bn to clean steel, £1bn for carbon capture and £500m to green hydrogen," according to The Guardian.[12] And for every £1 of public money spent, it is hoping private sponsors will put up £3. The new Labour government has made a pledge to make the UK a "clean energy superpower," so we expect an increase in deal flow in the next few years.[13]

Financial services still the beating heart of the UK

The final sector to highlight is the financial services sector, which has seen increased deal activity in recent years and was particularly buoyant in Q2 with 49 deals and £5.1 billion in deal value. London is still the financial hub of Europe, even post-Brexit, and as such remains the headquarters for numerous financial institutions, including investment banks, insurance companies, and fintech businesses. The rise in interest rates in the past two years has left certain companies more vulnerable than others, which has allowed for dealmaking opportunities within certain financial institutions, as we explained in our 2023 UK Private Capital Breakdown. We continue to see strong traction in UK financial firms and expect this to continue. An important question at the forefront of GP minds in the past few years was whether PE in the UK would be under threat post-Brexit or whether deal volume would slowly migrate to France, Europe's second-largest market. In the "PE deal value (£B) by country" chart, we can see that not only did UK deal value grow, but the gap with France also increased in recent years, peaking in 2021. The new question from this summer onwards will be whether GPs will move out of the UK if the new government decides to start taxing carried interest as income instead of capital gains. In our view, this is looking increasingly likely as a new policy. We will report back when Rachel Reeves, the incumbent chancellor, delivers the Autumn Budget on 30 October 2024.

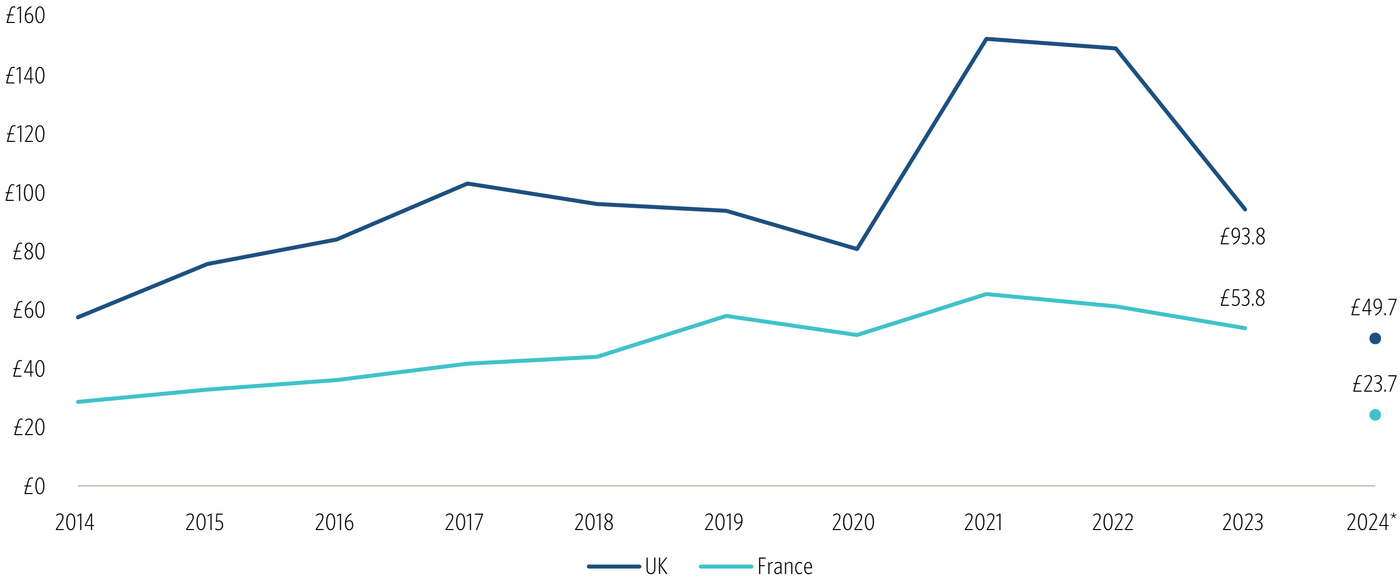
12: "What Is the National Wealth Fund and What Will It Invest In?" The Guardian, Kalyeena Makortoff, July 9, 2024.
13: "Make Britain a Clean Energy Superpower," The Labour Party, n.d., accessed August 20, 2024.

Financial services PE deal activity by quarter



Source: PitchBook • Geography: UK • *As of 30 June 2024

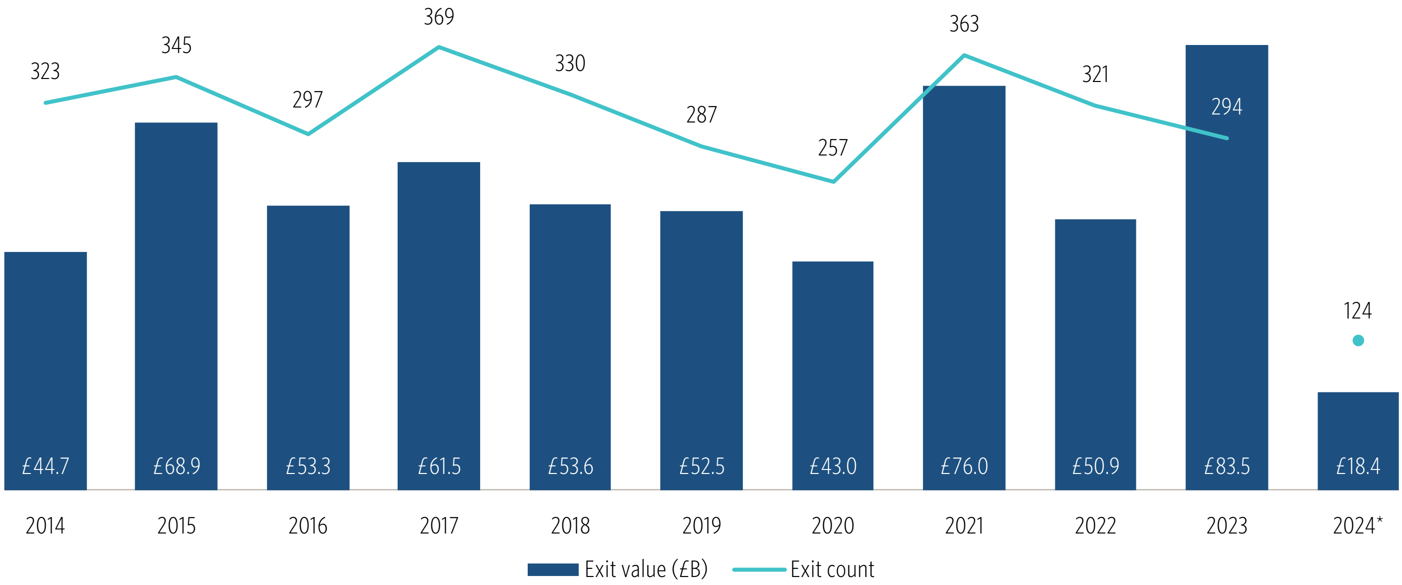
PE deal value (£B) by country



Source: PitchBook • Geography: Europe • *As of 30 June 2024

PE exits

PE exit activity

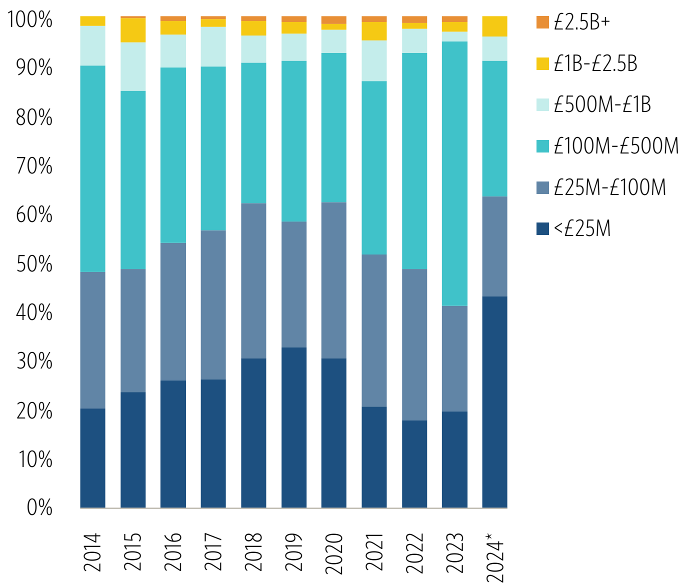


Source: PitchBook • Geography: UK • *As of 30 June 2024

Muted exits

Exits remain the pain point for UK PE and are pacing for a third consecutive YoY drop. Exit value in H1 2024 was 71.0% lower than in H2 2023 and 8.8% lower than in H1 2023. A similar pattern for exit counts meant H1 2024 decreased by the teens compared with the previous two half years. H1 lacked megaexits, especially those above £2.5 billion, which were nonexistent. Instead, we saw a rise in the proportion of exits under £25 million, which represented almost half of the total exit count, the highest proportion since 2014. This underlines the current market conditions for exits, which have been unfavourable to sponsors. We are seeing less exit activity in the UK as sponsors are holding on to their assets for longer. Median holding times have increased in recent years, going from five years in 2018 to 6.4 years in H1 2024. There is a plethora of reasons for the lack of exits, from uncertainty around government leadership and what the new government will bring to the industry, to higher interest rates diminishing potential returns for investors as less leverage can be taken, to fragile markets not knowing how many rate cuts to expect and whether a soft landing will materialise, to a closed IPO market that everyone has seemed to avoid in the past two years.

Share of PE exit count by size bucket



Source: PitchBook • Geography: UK • *As of 30 June 2024

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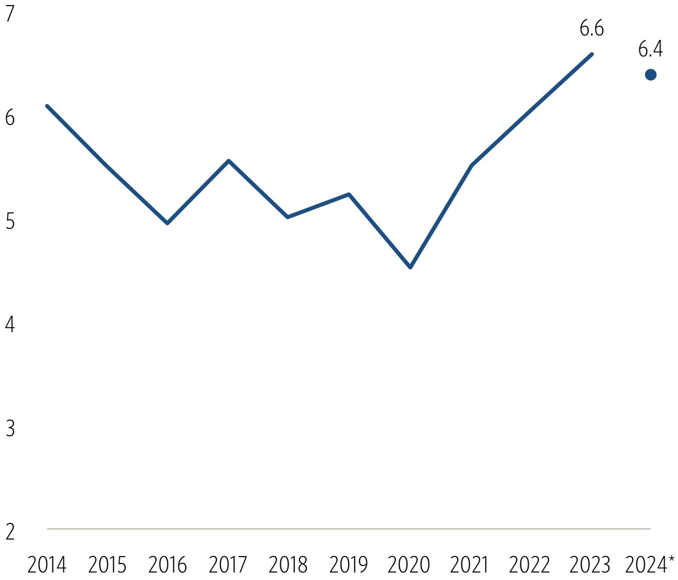
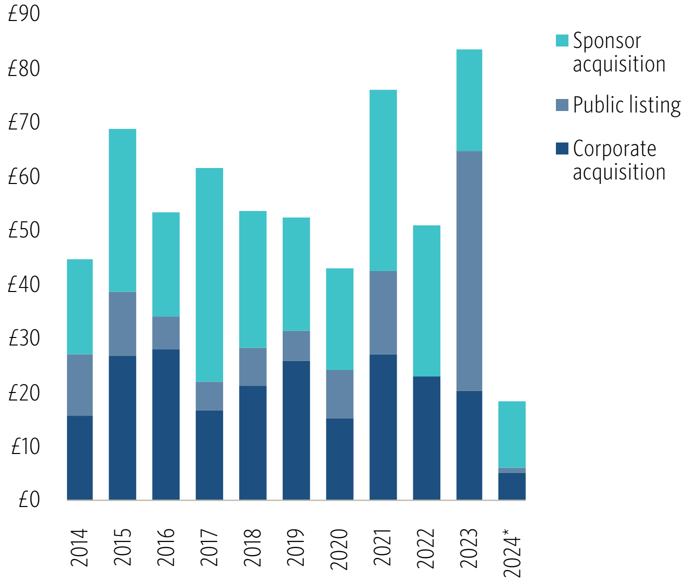
Median PE exit holding time (years)



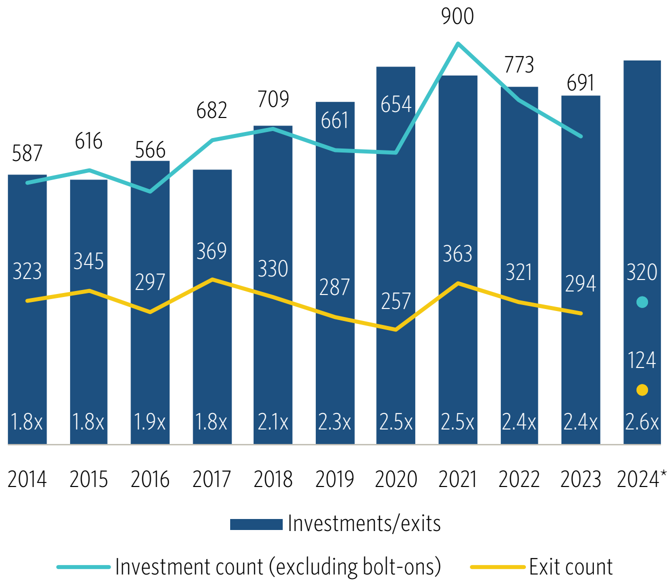
Source: PitchBook • Geography: UK • *As of 30 June 2024

PE exit value (£B) by type



Source: PitchBook • Geography: UK • *As of 30 June 2024

PE investment/exit ratio



Source: PitchBook • Geography: UK • *As of 30 June 2024

No public listing recovery in sight

In our recent Q2 2024 European PE Breakdown, we noted the bounceback in exits across Europe with the IPO pipeline finally opening up. However, most of those PE-backed public listings happened on the continent. In the UK, we had only the small-capitalisation IPO of Marex Group, which itself also shunned the LSE to list on the Nasdaq Global Select Market in the US. The only other public listing was the reverse merger of OpSec Security, which was acquired by Crane NXT, which itself trades on the New York Stock Exchange. We currently await the potential listing of SHEIN, the Chinese-founded and Singaporean-domiciled fast fashion group seeking to list on the LSE for a reported £50 billion. The company counts numerous growth investors and VC firms among its shareholder base. SHEIN has seemingly trimmed its valuation twice before, having been valued at a post-money valuation of over $100 billion in 2022 and then $66 billion in 2023. Nonetheless, this IPO would be the largest ever on the LSE, a record held by Glencore since 2011. In the meantime, the UK remains a buyers' market as we wait for more monetary easing from the Bank of England and the materialising of the FCA's new listing rules.

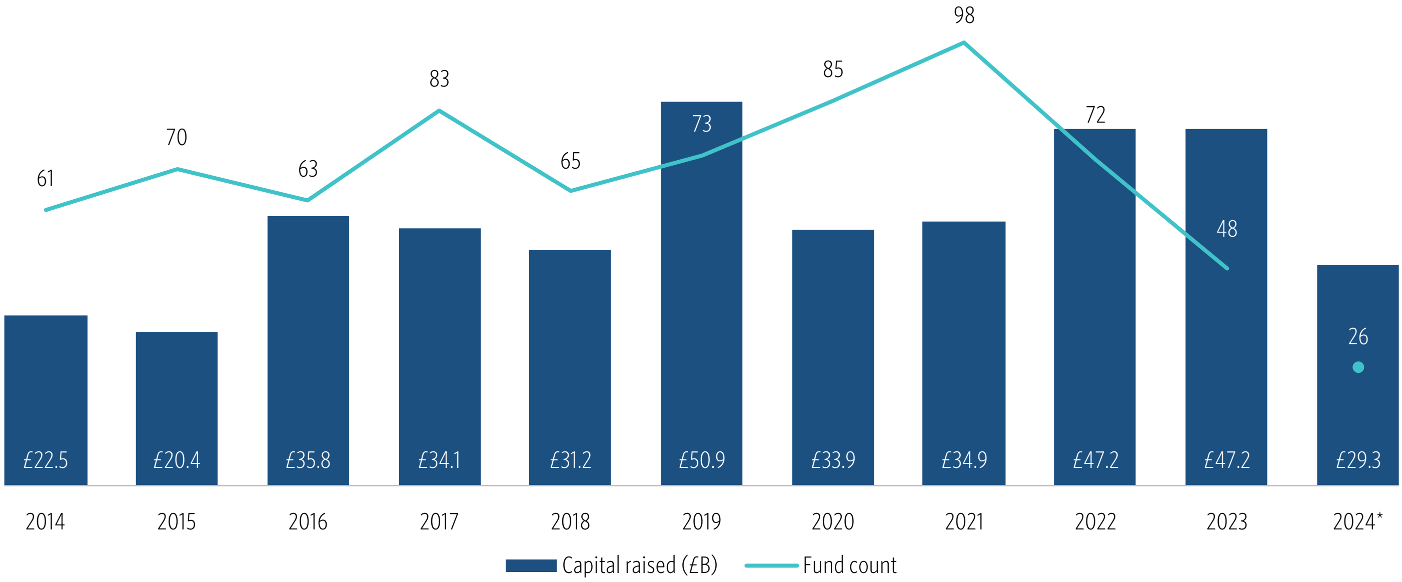
Investment/exit ratio rising

Exits are an important step in the circular ecosystem of PE, as they crystallise performance and free up capital for later use in fundraising. However, the "PE investment/exit ratio" chart allows us to track exits relative to investments. In H1 2024, the ratio hit an all-time high of 2.6x in the UK, showing that the drop in exits is more pronounced than that of deals, thus creating a backlog in exits.[14] We expect the ratio to continue rising in H2 until we see real green shoots in the exit market. In the meantime, sponsors will continue deploying capital, driving the ratio higher.

14: Note that this ratio looks only at exit counts, not exit value.

PE fundraising

PE fundraising activity

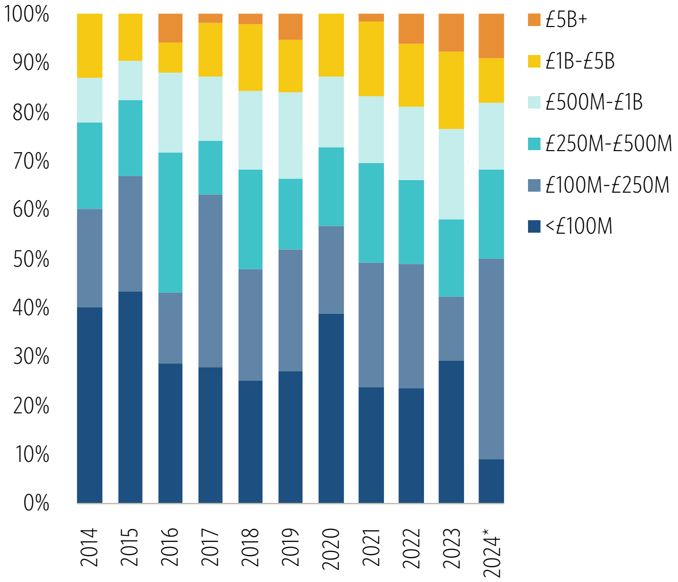


Source: PitchBook • Geography: UK • *As of 30 June 2024

2022 and 2023 were surprisingly strong years for PE fundraising in the UK despite capital availability decreasing globally due to tighter monetary policy. Now, we are moving towards more capital availability as the Bank of England begins to lower interest rates, and 2024 is pacing for a record year of capital raising by UK funds. £29.3 billion closed in H1, with two notable megafunds accounting for two-thirds of the amount: Cinven closed its eighth flagship fund for £11.4 billion while Apax closed its 11th flagship fund for £9.4 billion. 91.0% of capital raised in H1 went towards traditional buyout funds, the bread and butter of the industry, as opposed to growth funds, which have lost share of the capital raised since 2021, coinciding with the beginning of monetary tightening. Interestingly, we have seen a rise in the proportion of emerging firms raising funds, going from 33.3% of fund count in 2023 to 46.2% in H1 2024. During periods of market distress, we often see investors flock to the most experienced funds, as was the case in 2022 and 2023. The fact that we are seeing emerging firms rise in share is an encouraging sign of confidence for the UK PE industry. We also saw three first-time managers raise nascent funds in H1. However, it is not all rosy in UK fundraising, as fund counts have been dropping since 2021, when they peaked at close to 100 new funds. Furthermore, we are seeing an increase in the median time to close funds, going from nine months in 2020 to 21 months as of H1 2024.[15]

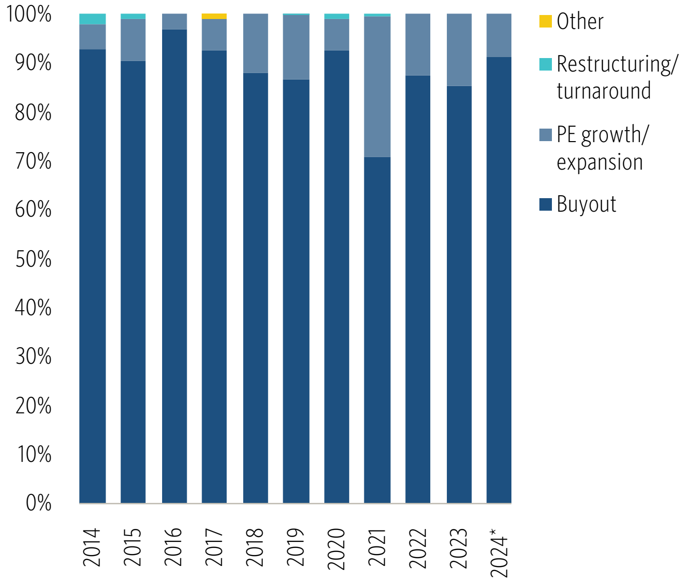
15: Note that fund counts for these medians are low, ranging from 18 to 29 funds annually.

Share of PE fund count by size bucket



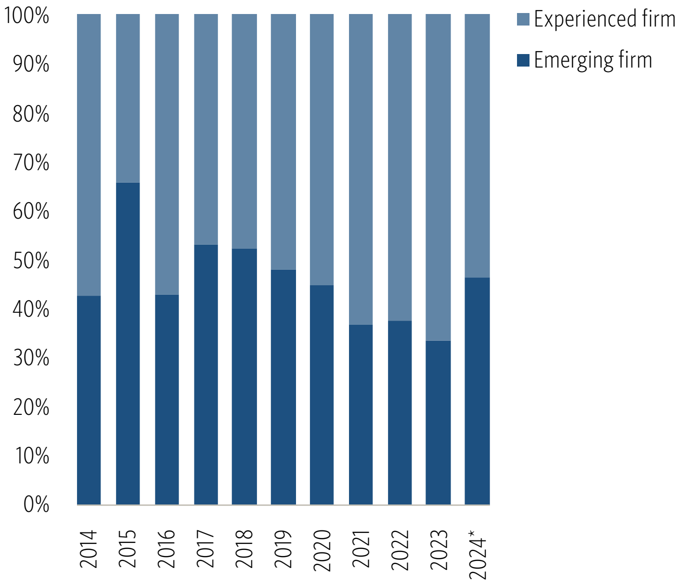
Source: PitchBook • Geography: UK • *As of 30 June 2024

Share of PE capital raised by fund type



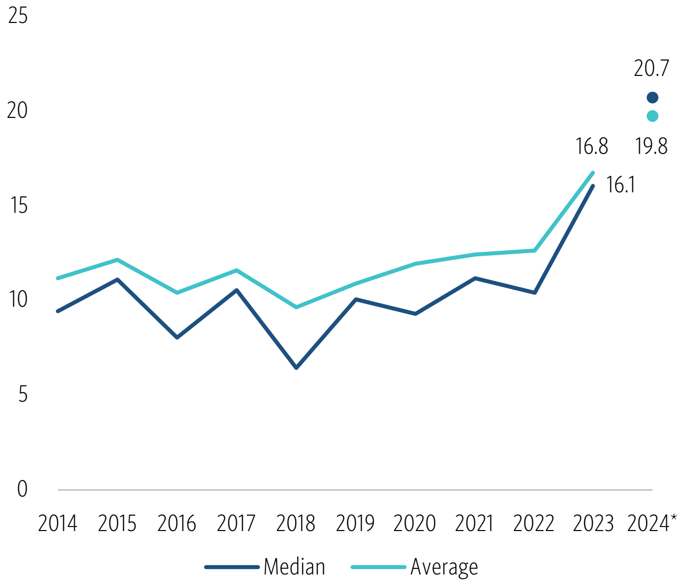
Source: PitchBook • Geography: UK • *As of 30 June 2024

Share of PE fund count by firm experience



Source: PitchBook • Geography: UK • *As of 30 June 2024

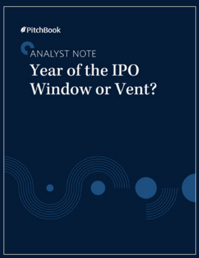
Median and average time (months) to close a PE fund



Source: PitchBook • Geography: UK • *As of 30 June 2024

Additional research

Private markets



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