



Equity Investment into UK Spinouts

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Methodology

35,000+
tracked companies

1,248
academic spinouts

852
spinouts that have
raised equity

WHAT IS AN ACADEMIC SPINOUT?

We define an academic spinout as a company that meets condition 1 and at least one condition out of 2-4:

- The company was set up to exploit intellectual property developed by a recognised UK university (This is broadly in line with the Higher Education Statistics Agency's (HESA) definition of a spin-off)
- The university owns IP that it has licensed to the company
- The university owns shares in the company
- It has the right (via an options or warrants contract) to purchase shares in the company at a later date

METHODOLOGY

To be included in our analysis, any investment must be:

- Secured by an academic spinout (as defined above)
- Some form of equity investment
- Secured by a non-listed UK company
- Issued between 1-January 2011 and 31 December 2019

Summary

INTRODUCTION

Academic spinouts are a key element of the innovation ecosystem. By commercialising the intellectual property created in the UK's universities, they facilitate the application of these technologies in the world. Beauhurst tracks all the UK's spinout companies that have been incorporated since 2011, and will also track those that are older but have shown signs of growth ambition (e.g. have raised equity or have attended an accelerator). We collaborate with all the UK's universities to ensure we have comprehensive coverage of the spinout population at any time. This report focuses in on one area of the activity of these spinout companies: equity investment. We detail the equity investment activity into spinout companies, as well as the source and destination of these investments. Beauhurst captures both announced and unannounced fundraisings by checking through Companies House records as well as across the web. We employ a fusion of artificial intelligence and human data experts to ensure the accuracy of this data.

OVERVIEW

Investment has declined in 2019 compared to 2018, which saw an unprecedented amount of capital invested into academic spinout companies. This contrasts to equity investment in the wider high-growth company population, where the amount of pounds investment more than doubled. The huge growth rounds that are driving the large increase in investment are not being secured by spinouts. There have been far fewer smaller (Less than £500k) deals secured by spinouts also, and mega deals (£50m+) remain rare among this class of companies.

When looking at the regional picture, investment into spinouts based in London, the South-East and the East of England dwarfs that of other regions. Companies with links to Oxbridge universities continue to dominate the investment scene, with deals by these companies accounting for more than half of all pounds invested into spinouts in 2019. Imperial College and UCL spinouts secured the third and fourth most investment in 2019, further reinforcing the prominence of the 'Golden Triangle' in spinout investment trends.

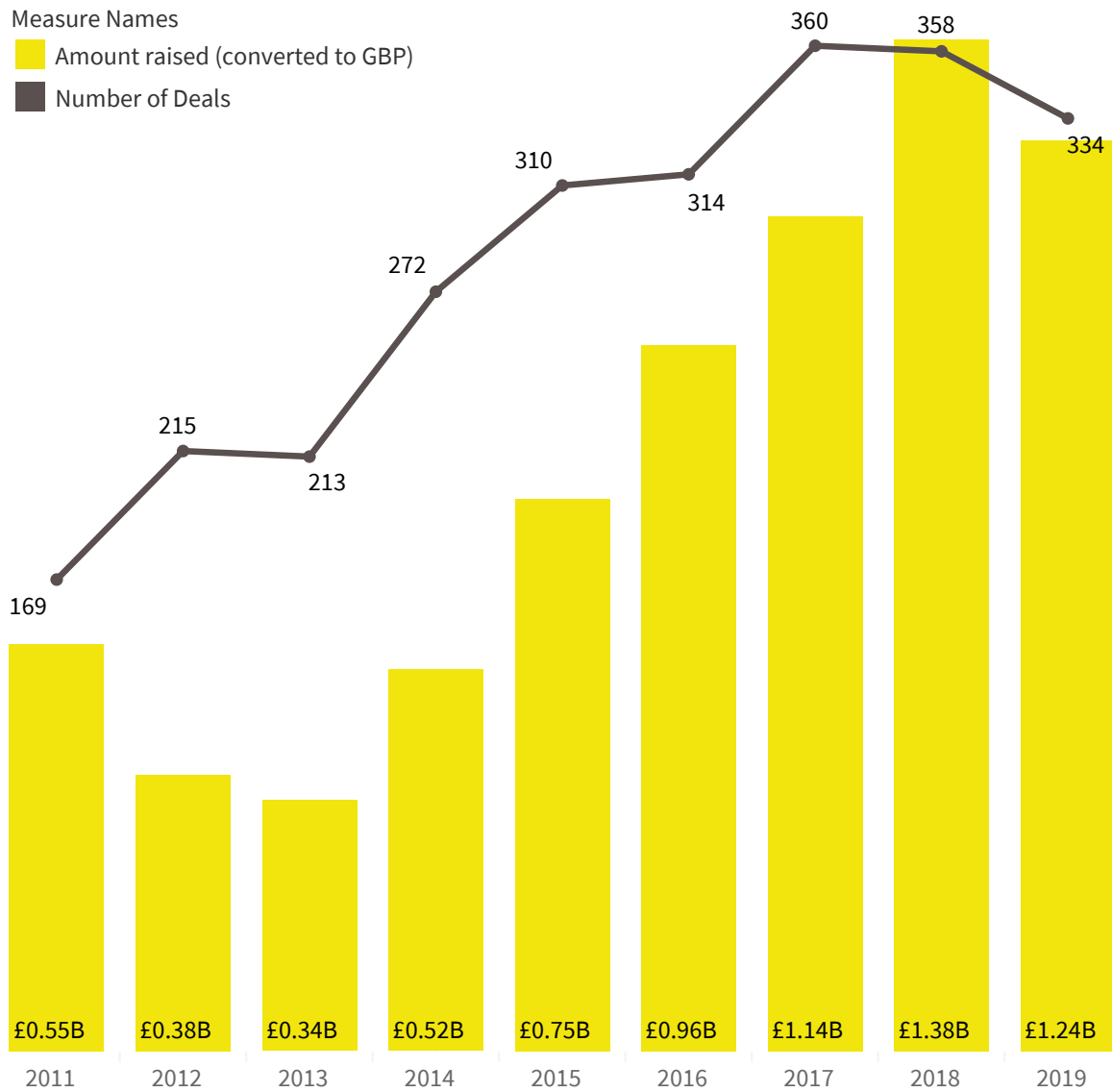
The UK's spinouts secured fewer deals with international investors in 2019 compared to the previous two years, and the value of the deals they were involved also declined. Most foreign-backed deals were backed by US funds, but even these investors halved their deal activity compared to last year. While British investors demonstrated a 20% decline in deal participation with spinouts, foreign investors participated in 30% fewer deals with spinouts. This may indicate that the macro-uncertainty in the British economy deters international investors more than domestic funds.

PARKWALK COMMENTS:

"This report reinforces our view that despite world-leading research, UK "Deep Tech" is still hugely underfunded at the scale-up stage. Time and again we see extremely innovative companies raising early stage funding and then hitting the "Valley of Death" at Series B or C. This leads to huge lost opportunities for the UK: The successful companies often lose their technical lead to better funded international rivals or are sold to international acquirers, losing the benefits to the UK: the knowledge, skill sets, employment and taxes."

Equity Investment into UK Spinouts (2011-2019)

Investment into UK spinouts (2011-2020)

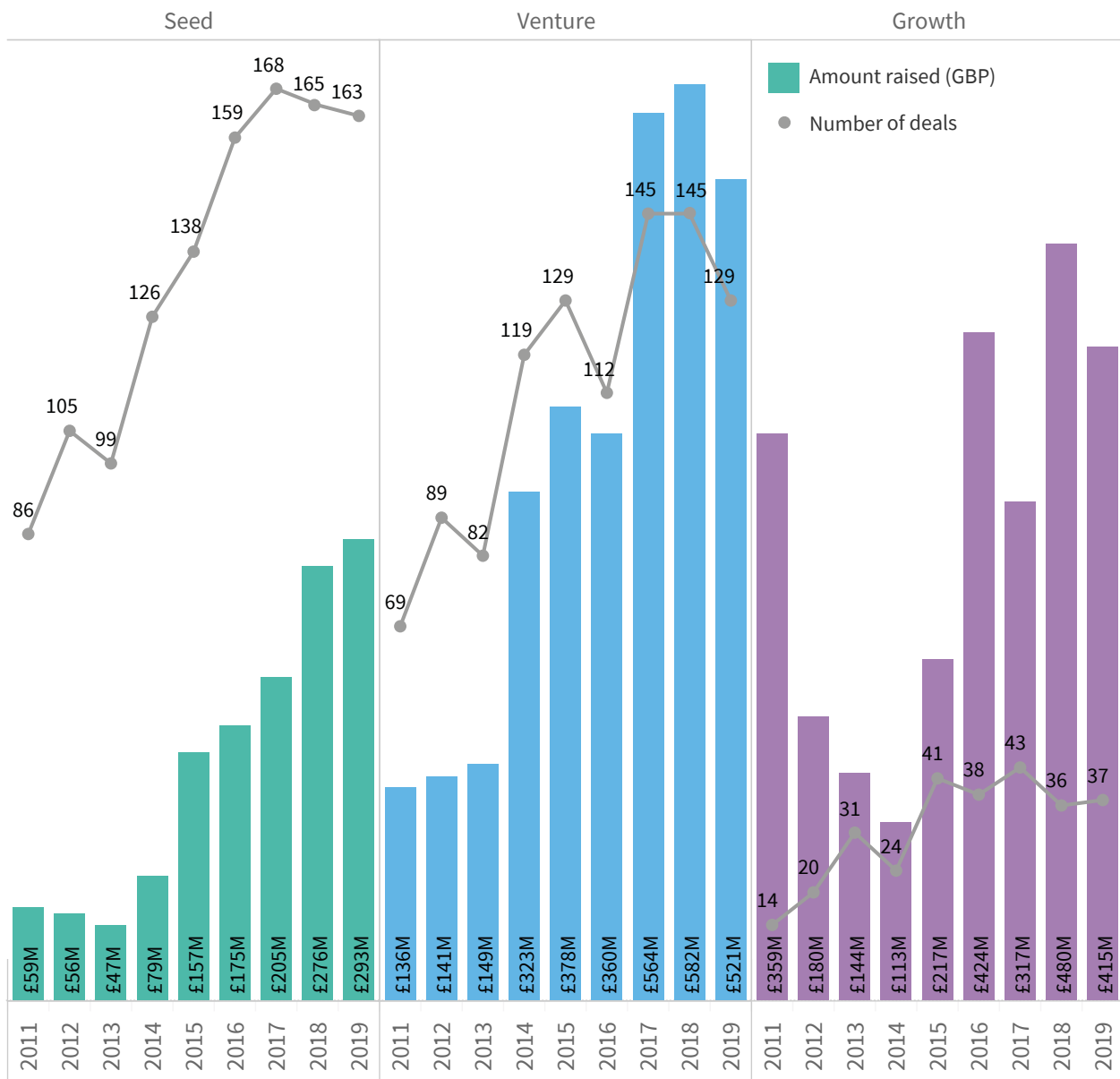


Unlike the rest of UK, spinouts did not secure a larger amount of investment in 2019 compared to 2018. This growth was largely driven by a rise in large deals (£10m+) by later-stage companies; these deals are not yet going to spinouts.

The drop-in deal numbers seen since 2017 reflects that seen across the rest of the UK's high-growth companies, and shows that risk-averse investing is affecting the UK's spinout population also.

Investment by stage of evolution (2011-2019)

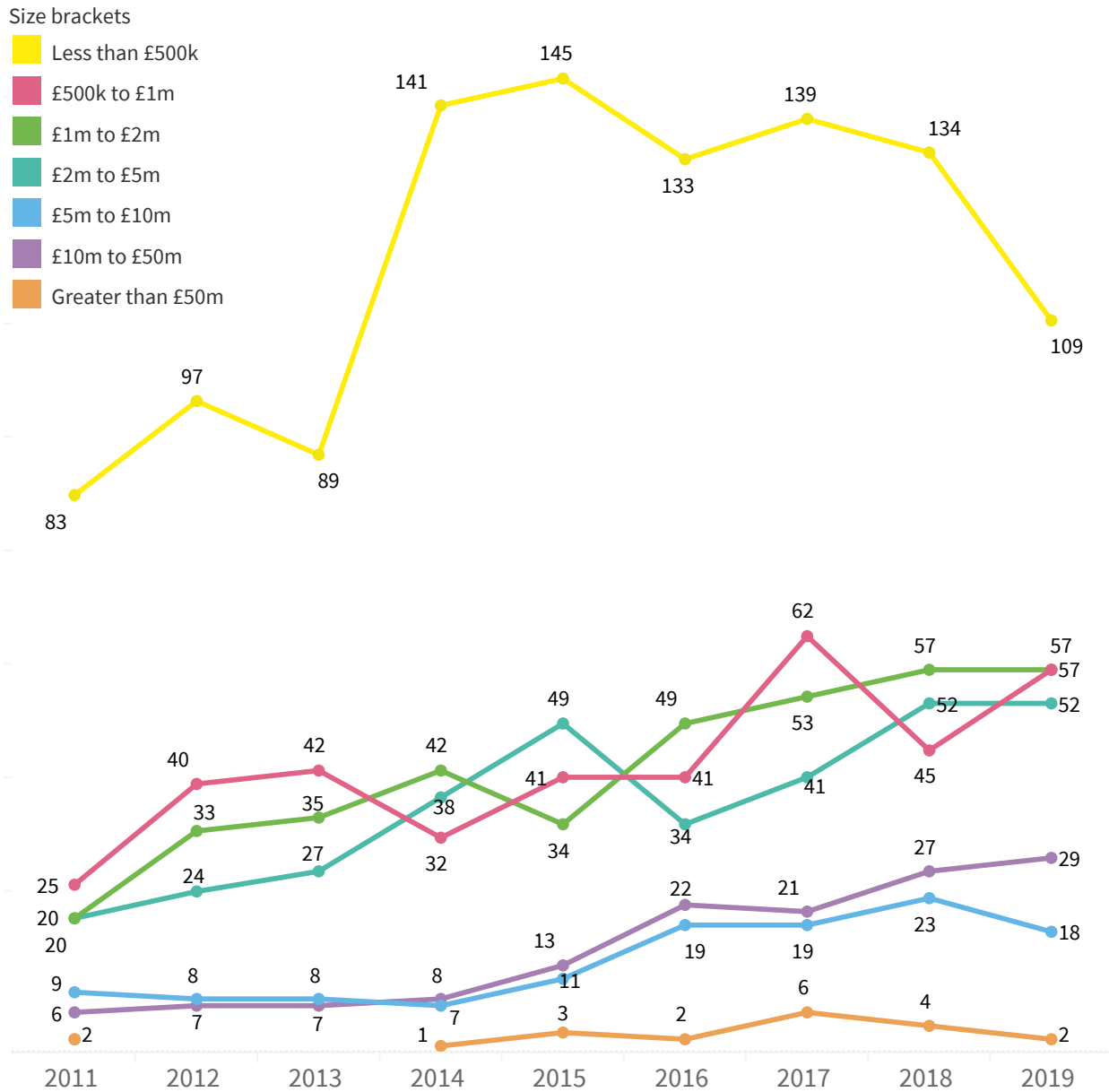
Investment into UK spinouts by stage (2011-2020)



Spinouts at the Seed stage and Venture-stage both secured fewer deals in 2019 compared to 2018, which is an echo of the decline seen across high-growth companies. However, unlike in the broader ecosystem, there was not a large jump in the number of Growth-stage deals, or an unprecedented increase in their value.

Investment by size (2011-2019)

Number of deals into UK spinouts by investment size



Smaller deals (<£500k) were far less frequent in 2018 than in 2018. However, deals between £500k and £1m jumped, suggesting larger amounts of capital are needed at even the earliest stages of spinout development. Also notable in this chart is the relative absence of megadeals (£50m+), which is perhaps surprising considering the rich IP that spinouts develop, and the capital it requires to develop this.

Top universities by the number of deals secured by their spinout companies (2019)

Top universities by deals secured by spinouts (2019)

| | |
|-----------------------------|----|
| University of Cambridge | 56 |
| University of Oxford | 56 |
| Royal College of Art | 21 |
| University of Bristol | 19 |
| University of Strathclyde | 17 |
| University of Edinburgh | 17 |
| Imperial College London | 16 |
| University College London.. | 14 |
| University of Warwick | 10 |
| University of Southampton | 10 |
| University of Manchester | 8 |
| University of Birmingham | 7 |
| Queen's University Belfast | 6 |
| University of Nottingham | 5 |
| University of Leeds | 5 |

Oxbridge spinouts continue to dominate the investment scene, with the two elite universities coming joint first for the number of deals secured by their spinouts in 2019. The Royal College of Art, who has the largest number of active spinouts, comes in third place, but with less than half the number of deals than the Oxbridge duo.

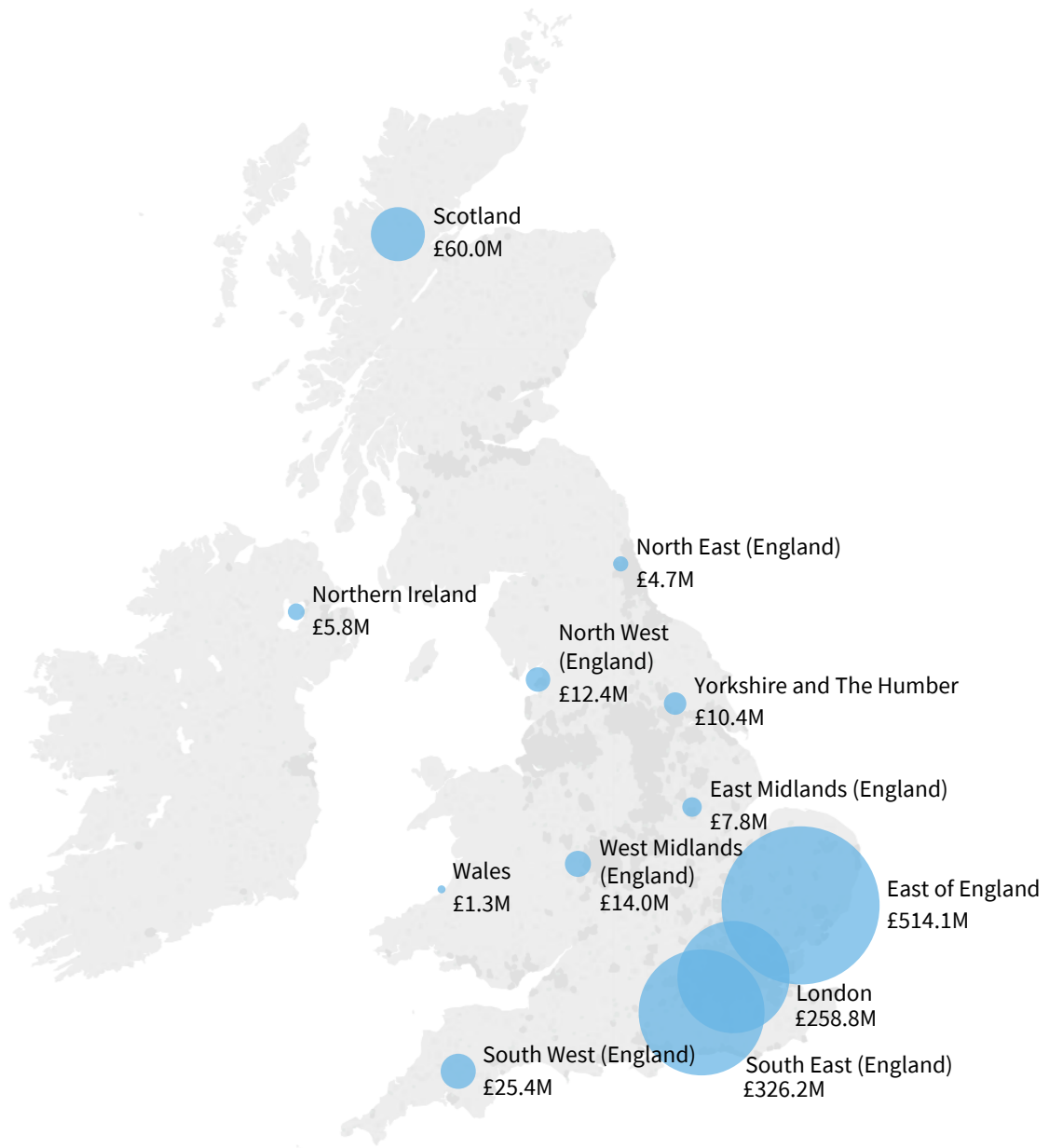
Top universities by investment raised by their spinout companies (2019)

Top universities by investment received by spinouts (2019)

| | |
|--|---------|
| University of Cambridge | £346.6M |
| University of Oxford | £319.9M |
| University College London (UCL) | £176.9M |
| Imperial College London | £92.9M |
| University of Bristol | £41.0M |
| MRC/Cancer Research UK/BHF Clinical Trial Service Unit & Epidemiological Studies Unit (CTSU) | £39.9M |
| University of Southampton | £33.8M |
| University of Edinburgh | £26.9M |
| University of Dundee | £26.3M |
| Royal College of Art | £16.0M |
| University of Strathclyde | £13.4M |
| King's College London | £12.7M |
| University of Birmingham | £12.5M |
| University of Warwick | £8.6M |
| University of Manchester | £7.9M |

Cambridge spinouts secure the most investment in 2019, up from third place in 2018. Oxford spinouts drop from first to second place, and UCL companies from second to third. Spinouts from the University of Bristol secured the most investment outside of the 'Golden Triangle', but still secure less than half of Imperial, who came fourth this year.

Investment into UK regions (2019)



Regional investment in spinouts largely reflects the location of major research universities in the UK. Spinouts in the East of England and the South-East secured the most investment in 2019, followed by spinouts in the capital. Scottish spinouts brought in £60m through 47 deals.

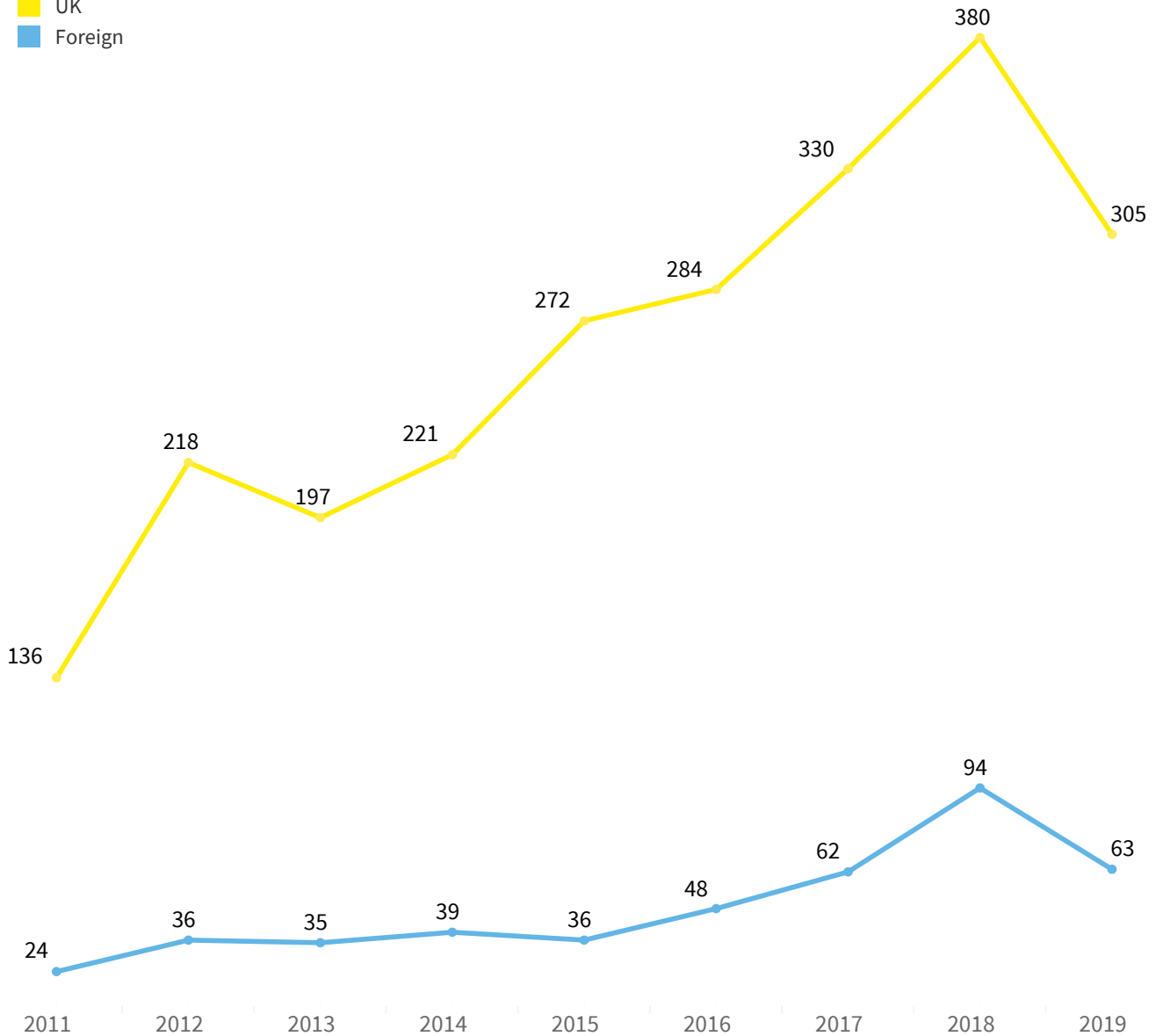
UK and non-UK investor participations (2011-2019)

Foreign and UK investor participations in UK spinout funding rounds

Foreign v abroad investor

UK

Foreign



Both foreign and domestic investors participated less in spinout funding rounds in 2019 than 2018. This reflects the drop in the number deals seen across the ecosystem. Foreign investors tend to prefer larger rounds compared to domestic investors in the UK; potentially the low levels of mega-deals among spinouts in 2019 has also contributed to the decline in international investment activity.

Top nationalities of foreign investors (2019)

Top nationalities by number of participations in spinout funding rounds (2019)

| | |
|----------------------|----|
| United States | 22 |
| Japan | 6 |
| Canada | 6 |
| Netherlands | 5 |
| Hong Kong | 3 |
| United Arab Emirates | 2 |
| Switzerland | 2 |
| Ireland | 2 |
| Germany | 2 |
| China | 2 |
| Sweden | 1 |
| South Africa | 1 |
| Singapore | 1 |
| Norway | 1 |
| Mauritius | 1 |
| Luxembourg | 1 |
| Italy | 1 |
| France | 1 |
| Estonia | 1 |
| Denmark | 1 |
| Belgium | 1 |

The most active international investors into UK spinouts are those from the USA, by a clear margin. North American and Asian investors are prominent, with Dutch investors being the most active European investors into UK spinouts. Australian investors did not participate in any deals this year, despite backing seven funding rounds in 2018.

About the authors

Beauhurst

Beauhurst is a searchable database of the UK's high-growth companies.

Our platform is trusted by thousands of business professionals to help them find, research and monitor the most ambitious businesses in Britain. We collect data on every company that meets our unique criteria of high-growth; from equity-backed startups to accelerator attendees, academic spinouts and fast-growing scaleups.

Our data is also used by journalists and researchers who seek to understand the high-growth economy, and powering studies by major organisations – including the British Business Bank, HM Treasury and Innovate UK – to help them develop effective policy.

For more information and a free demonstration, visit beauhurst.com

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