

DIT Venture Capital Unit

Access one of the strongest, fastest growing
venture capital markets in the world

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Department for
International Trade



Executive summary

The UK witnessed record venture capital (VC) funding in 2021, going from strength to strength and showing admirable resilience in the face of challenging conditions amid the pandemic.

On the global stage, the UK is a leading country for investment at both a European and international level; this is testament to the wide-ranging and dynamic opportunities for investment, supported by the UK's expertise across many different areas.

The UK is Europe's most developed VC market. 2021 saw unprecedented levels of investment as UK mega rounds rose by 37% and the UK accounted for 53% of Europe's total exit values. This creates a perfect ecosystem for VCs eyeing up an office in Europe.

These factors combine to make the UK the best place for venture capitalists to invest.



Venture Capital in the UK – Key Facts

The UK is an excellent destination for VC investment; momentum is building in the market, and opportunities for investment are abundant across the country.



£35.4B

Total UK VC investment 2021, 4th highest total in the world

105

Current unicorns in the UK, with 51 megadeals in H1'21 alone



2.5M

People in higher education; the UK is home to 5 of the global top 20 universities.

\$1T

Value of the UK tech industry (£764bn), a milestone only reached by the US and China.



1st

Ranked most attractive investment destination in Europe in 2021 EY Attractiveness Survey

Range of expertise

A world leader in fintech, AI, and life sciences, home to 20% of all clean tech start-ups in Europe



International recognition

Sequoia, Sumitomo and Temasek have all set up offices in the UK

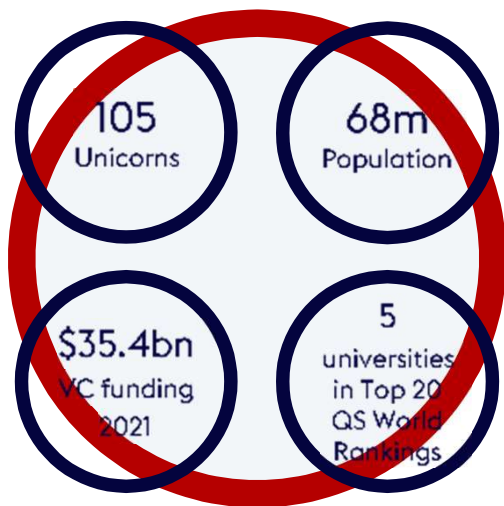
Soaring investment

54% CAGR for total VC investment into the UK since 2014

The UK's offer for venture capital has never been stronger, as investment continues at record-breaking pace

2021 was an extraordinary year for UK VC investment; total funding for the year reached \$35.4 billion, more than double the 2020 total of \$15.3 billion.

The UK is the top location in Europe for VC investment.



UK VC funding 2019-2021



Sources: KPMG Venture Pulse Q4 2021; Tech Nation and Dealroom, 2021 mid-year update of UK tech; QS World University Rankings 2022; Silicon Valley Bank, State of the Markets 2021

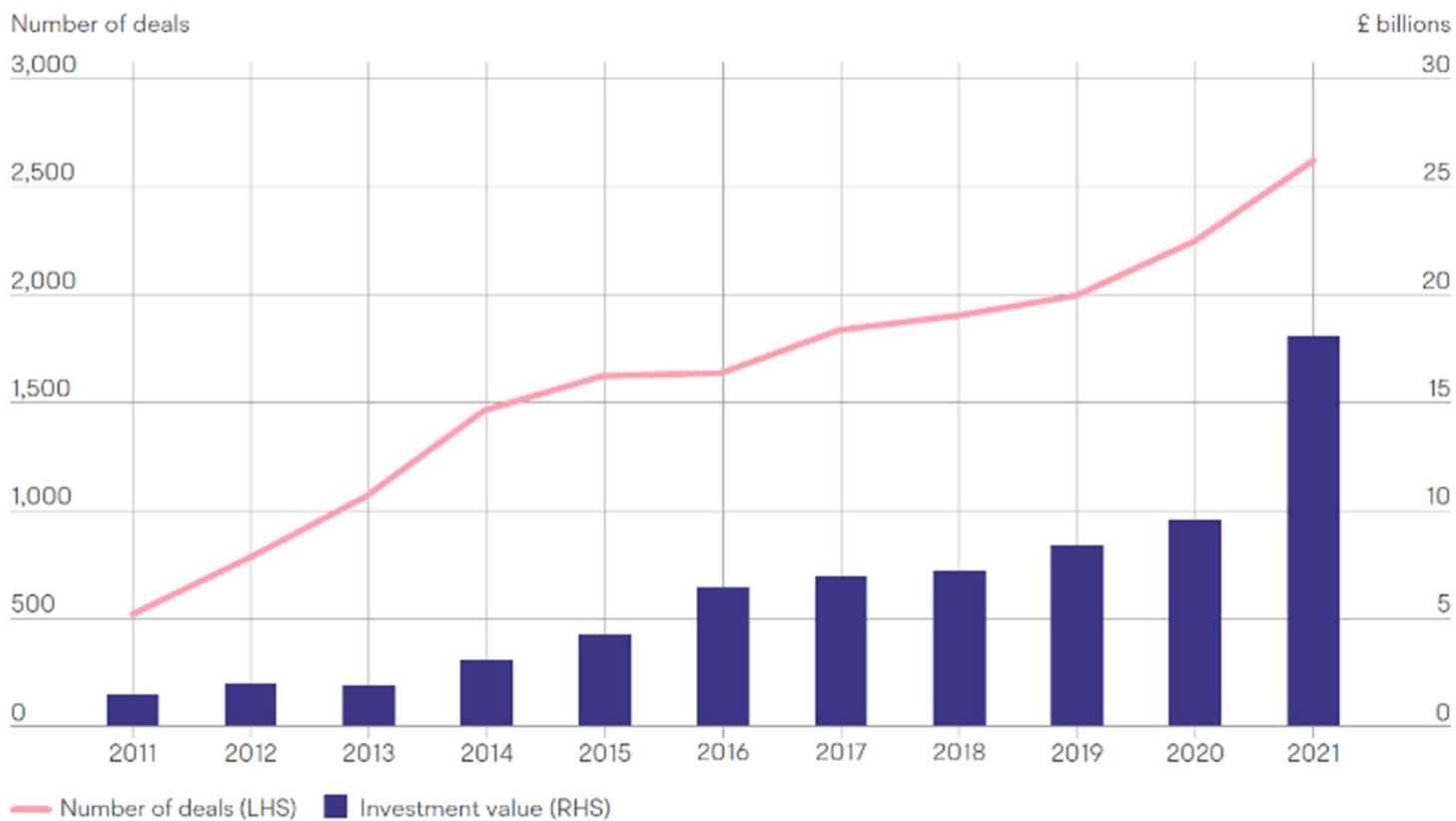


Investments in UK continue to surge

Figure 1.1

Number and value of equity deals over time

Source: British Business Bank analysis of Beauhurst data



Source: British Business Bank

UK dominates European landscape - I

Table 9

Number of VC deals over time by country

British Business Bank user defined search of PitchBook. (Results may differ to PitchBook's own figures)

Country	2015	2016	2017	2018	2019	2020	2021
Canada	510	479	546	658	806	768	1,117
China	5,391	6,311	6,096	6,538	4,773	4,585	6,091
France	657	735	819	866	923	861	945
Germany	487	490	566	662	725	772	1,062
Israel	384	354	430	549	521	550	684
Sweden	264	318	349	315	366	359	494
UK	1,495	1,540	1,867	2,073	2,302	2,332	2,931
US	8,532	7,915	8,796	9,669	10,684	10,662	14,989

Source: British Business Bank

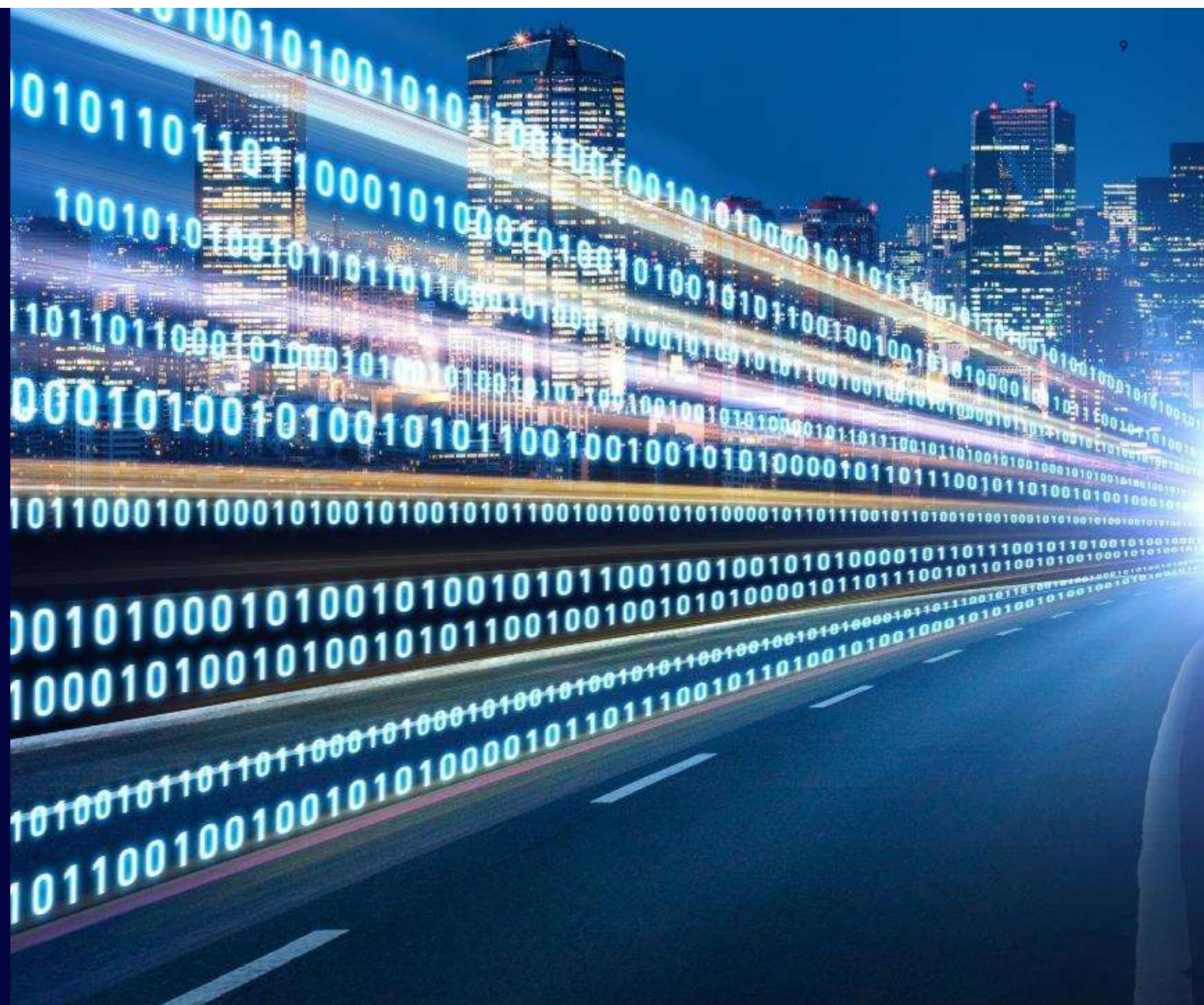
UK dominates European landscape - II

Rank	Nation	# of Deals H1 2019	# of Deals H1 2018	% Change	Round Values (€ Millions) H1 2019	Round Values (€ Millions) H1 2018	% Change
1	United Kingdom	268	258	▲ 3.9%	4,256.1	2,130.3	▲ 99.8%
2	France	178	209	▼ -14.8%	2,243.2	1,418.4	▲ 58.2%
3	Germany	70	108	▼ -35.2%	1,153.9	1,132.6	▲ 1.9%
4	Switzerland	20	24	▼ -16.7%	906.9	292.8	▲ 209.7%
5	Spain	15	13	▲ 15.4%	390.7	294.8	▲ 32.6%
6	Belgium	19	17	▲ 11.8%	363.9	229.9	▲ 58.3%
7	Sweden	14	14	-	239.4	130.6	▲ 83.4%
8	Denmark	13	13	-	184.4	125.1	▲ 47.4%
9	Finland	9	14	▼ -35.7%	149.6	187.3	▼ -20.1%
10	Ireland	20	15	▲ 33.3%	148.0	218.0	▼ -32.1%
11	Italy	17	12	▲ 41.7%	145.7	104.1	▲ 40.0%
12	Netherlands	11	17	▼ -35.3%	105.1	77.4	▲ 35.8%
13	Poland	4	6	▼ -33.3%	92.9	11.0	▲ 746.0%
14	Luxembourg	1	1	-	55.0	1.5	▲ 3,566.7%
15	Norway	4	4	-	51.1	42.6	▲ 20.2%

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Source: British Business Bank

Why invest in the UK?

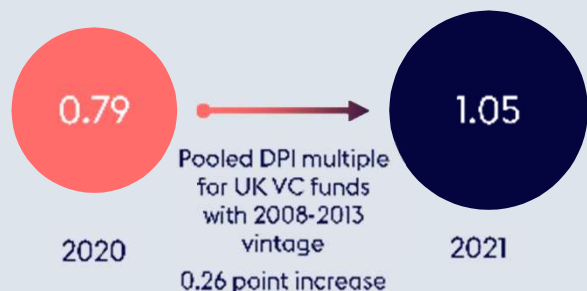


Why invest in the UK?

Returns on investment in the UK are robust

The performance of UK VC funds increased sharply over the course 2021:

- UK VC funds with a 2008 to 2013 vintage saw an increase in their pooled Distributions to Paid-In capital (DPI) multiple of 0.26 points in a single year, from 0.79 in 2020 to 1.05 in 2021.
- Over the same period their pooled Total Value to Paid-In Capital (TVPI) multiple has increased by 0.28 points from 1.81 to 2.09 in 2021.



UK funds performing well compared to US counterparts

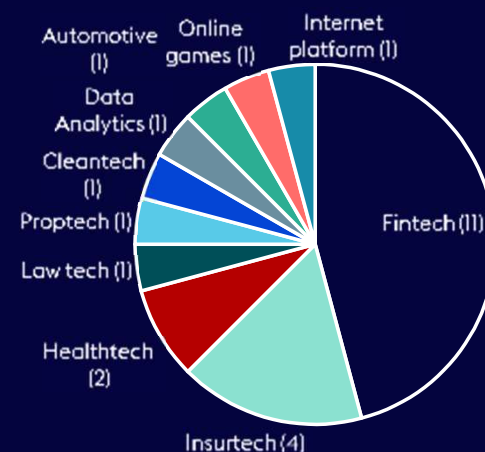
The UK now has a similar distribution of fund returns as the US market. The distribution of UK TVPI largely tracks the US up until the 3rd percentile – an improvement from 2019, suggesting the top performing UK funds are making higher returns.

UK VC firms are breaking funding records

UK venture capital firms have also had a record year raising £7 billion, with record-breaking fundraisings from firms including Index Ventures, Balderton Capital, 83North and Eight Road Ventures.

UK startups are reaching unicorn status faster than ever, producing high value investment opportunities across a range of sectors.

UK unicorns 2021 by sector



Examples of UK startups that achieved unicorn status in 2021 include Zopa, Britishvolt, Causeway, Marshmallow, Blockchain.com and Starling Bank.

Sources: Beauhurst, UK Unicorn Companies; British Business Bank – UK Venture Capital Financial Returns 2021; Tech Nation and Dealroom, 2021 mid-year update of UK tech; European Commission JRC, Venture Capital in Europe

Why invest in the UK?

Megadeals are driving the UK's superstar status, providing high-value investment opportunities.

2021 was a landmark year for megadeals. The first half of the year saw a record 51 megadeals an increase of tenfold over the last decade, already surpassing annual records.

Join international investors getting in on the action in the UK

- Project A – Berlin, Germany
- Sequoia – Menlo Park, USA
- Sapphire Ventures – Palo Alto, USA
- Sumitomo Corporation – Tokyo, Japan
- OMERS – Toronto, Canada
- Optum Ventures – Boston, USA

Top megadeals* 2021



*equity deals of £50 million or more

Sources: Shoosmiths and Beauhurst, UK Megadeals September 2021, Silicon Republic, 'European venture capital firm Project A to open London office' (14/07/21); Forbes, 'Why VC Firm Sequoia broke with tradition to put roots in Europe's startup scene' (17/11/20); Financial News, 'Japanese bank Sumitomo takes new City office space' (13/02/18);

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We want to give founders all the benefits of having a local partner, whilst allowing them to work with our operational team. London has been fertile ground for us in terms of our existing partnerships, the density of tech talent and the opportunity cost is now too great for global firms not to be here.

Sam Cash, Principal at VC firm Project A on why company expanded to the UK

VC participation in UK deals of such value size, is a function of the growing maturity and therefore conviction investors have in the European startup scene that is now producing more sustainable long term investment opportunities than ever before.

Stephen Nundy, Partner at VC firm Lakestar

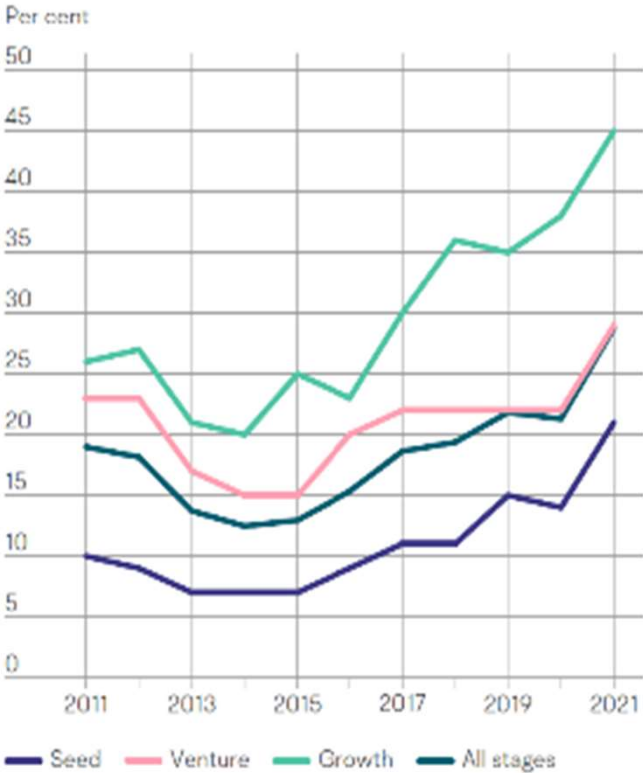
Returns now on par with US Funds



Growing interest from international investors

Figure 4.4
Proportion of deals involving overseas investors over time by stage

Source: British Business Bank analysis of Beahurst data



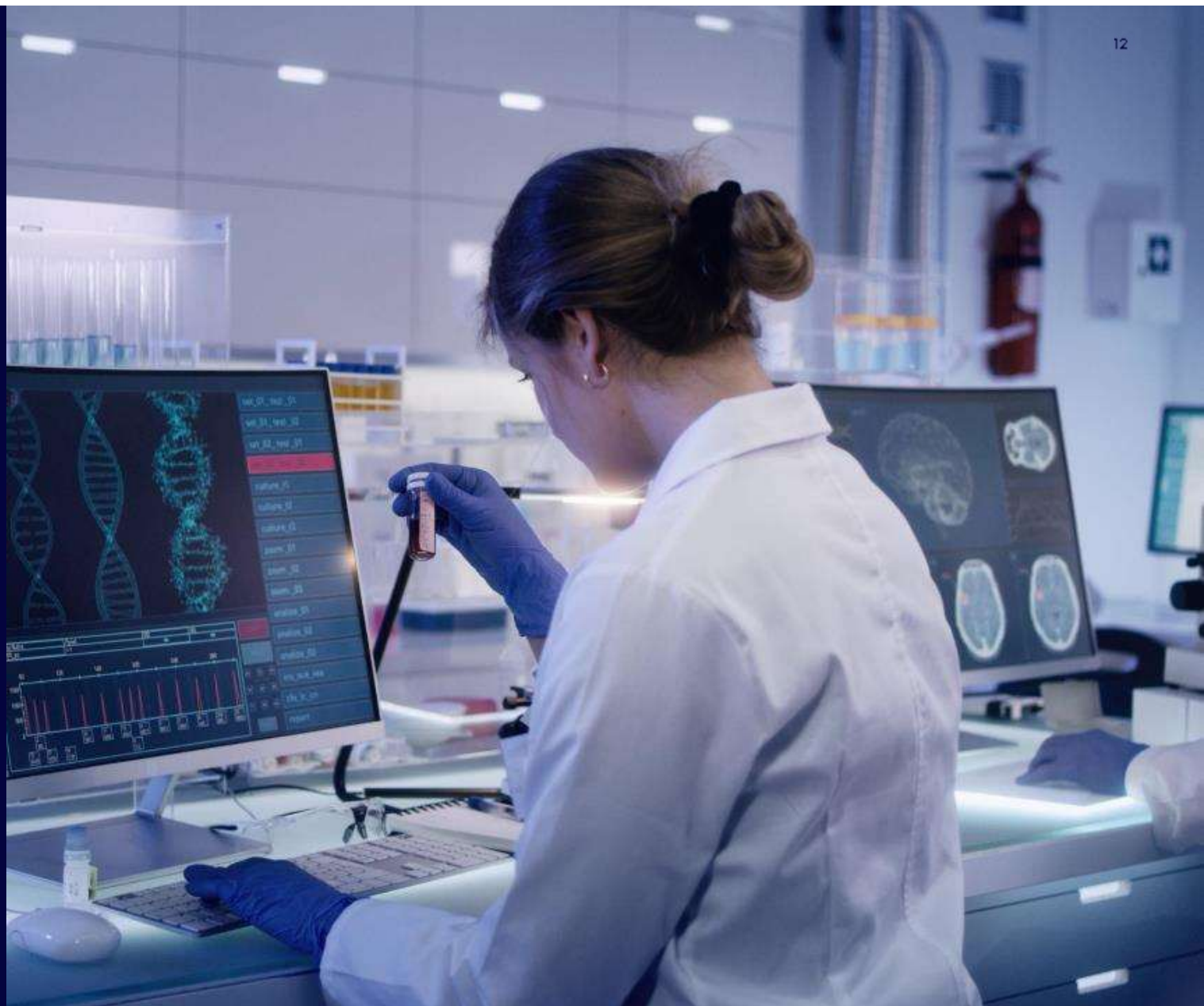
Source: British Business Bank

Figure 4.6
Number of deals involving overseas investors over time by stage

Source: British Business Bank analysis of Beahurst data



UK Tech and Sector opportunities



UK tech

UK tech captured more than a third of investment into Europe in 2021; the £29.4bn raised by UK startups and scaleups was double the figure raised in Germany (£14.7billion) and almost three times that raised by France companies (£9.7 billion).

The UK tech scene is thriving; tech investment grew 2.3x in 2021, the highest growth since 2013 to 2014 when it grew from £1.5 billion to £3.5 billion. UK tech investment accounted for a third of the total £89.5 billion that flowed into the European tech ecosystem this year.

More funding means more unicorns, with 29 created this year including the e-commerce platform Depop, car selling platform Motorway, insurance disrupter Marshmallow, and the challenger bank Starling Bank. This takes the UK's total unicorn figure to 115 meaning 25% of the UK's total unicorns were created in 2021 alone.

Sources: GOV.UK - UK tech sector achieves best year ever as success feeds cities outside London (20/12/2022)

1st in Europe

UK is the top country in Europe for tech VC investment

£29.4B

Amount raised by UK tech startups and scaleups in 2021

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The UK's track record as the leading tech hub in Europe is so consistent that we are delighted to be here on the ground... The UK is forging a reputation for itself in many sectors, not least cloud computing, financial technology and DeFi, and we think that many more outstanding global companies will be born here.

Alex Ferrara, partner at Bessemer Venture Partners

With such a record tech investment year, it's becoming increasingly evident that the UK is very good at rearing and cultivating startups and scale-ups into successful global companies right across the UK

Gerard Grech, founding Chief Executive, Tech Nation

The UK is 2nd in the world for fintech VC investment

UK fintech investment soared to \$37.3bn in 2021 – up sevenfold from 2020

- The largest fintech deals for the UK in 2021 included Genesis Digital Assets (\$431 million) and DivideBuy (\$413 million)
- 5 of the top 10 EMEA fintech deals were UK-based in 2021
- Revolut is the highest valued startup in the UK at \$33 billion

A diverse and active fintech scene

Payments: Revolut, Monzo, Paysafe group, Wise
 Insurtech: Honcho, DeadHappy, GoCo Group
 Regtech: Rapyd, ComplyAdvantage, Onfido
 Wealth tech: Nutmeg, MoneyFarm, Scalable

Rocketing valuations

Buy now, pay later (BNPL) startup Zilch is valued at \$2 billion*, 4x its \$500 million valuation at the start of 2021.

Zilch sets itself apart by enabling users to pay at any merchant that accepts Mastercard rather than using a checkout option on select websites.

Its latest \$110 million round was led by Ventura Capital (backer of Alibaba and Spotify), and Gauss Ventures.

*As of November 2021

Fintech areas for the future



Revenue-based financing for SME's



ESG solutions for financial inclusion



Carbon tracking and offsets

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The world-class talent, progressive regulator and renowned financial services heritage found in the UK means the country retains its title as one of the leading global destinations for fintech teams to launch and scale their businesses.

Tim Levene
 CEO, Augmentum Fintech

Artificial Intelligence (AI)

The UK has a long and exceptional history in AI; from codebreaker Alan Turing's early work through to tech powerhouse DeepMind's pioneering research which will enable quicker and more advanced drug discovery.

The National AI Strategy aims to make the UK a **global AI superpower**, kickstarting a National AI Research and Innovation Programme to support R&D and establishing a pro-innovative regulatory environment for AI

Top UK AI companies (amount raised):

1. OneTrust - £699 million
2. Graphcore - £528 million
3. Thought Machine - £270 million
4. BenevolentAI - £253 million
5. Patsnap - £251 million

Sources: Tech Nation report 2021, GOV.UK, National AI Strategy September 2021;

Case Study: Darktrace

Cyber-attacks surged globally against the backdrop of the pandemic; Darktrace had to innovate ahead of this new world, with adoption of their services soaring.

Based in Cambridge, with over 1,500 employees across 44 global offices; first company to apply AI to cybersecurity.

It protects over 4,500 organisations against sophisticated and stealthy threats.

Listed on LSE in April 2021 valued at \$2.3 billion; it raised \$200 million in the IPO.

“

Darktrace is a strong example of the homegrown, cutting edge technology that the UK holds in its arsenal – breakthrough defensive technology that is the enabler of our digital future... (it) might be one of the UK's first AI-native companies but we can't wait to see what comes next.

Dave Palmer, Chief Product Officer at Darktrace



©VisitBritain/Petra

Clean tech

The UK's commitment to net zero and the hosting of COP26 in November 2021 has ignited UK clean tech and climate-related investment.

The UK ranks top in Europe for total clean tech venture capital funding between 2013 and the first half of 2021 and saw investment levels in excess of £6.5 billion.

3rd in the world

The UK ranks third for clean tech investment behind only the US and China

\$2.0B

Record level of over \$2.0 billion invested from H2'20 – H1'21 in UK clean tech.

Current unicorns

- OVO
- Arrival
- Britishvolt

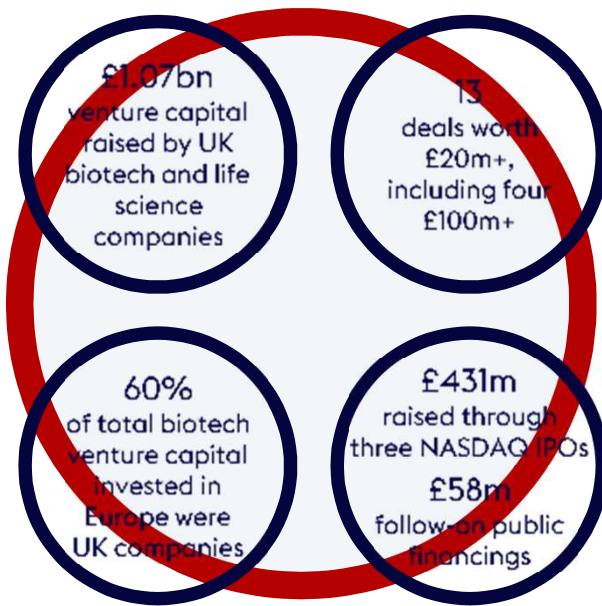
Potential future unicorns

- Tokamak
- Olio
- Zenobe

Sources: Beauhurst, UK Unicorn Companies; The PwC Net Zero Future 50, January 2022

The UK life sciences sector is entering a 'golden age', with £1.6 billion raised in Q2'21 alone

In 2021, large biotech deals in the UK included Artios (\$153 million), ViroCell Biologics (\$118 million), and Exscientia (\$82.8 million).



The government plans to cement the UK as a 'Science Superpower', with aims to increase investment in science, engineering and technology, and to join up research efforts.

Sources: BIA, UK life sciences on the cusp of a golden age as £1.6bn raised in just 3 months' (05/07/21); Tech Nation report 2021;

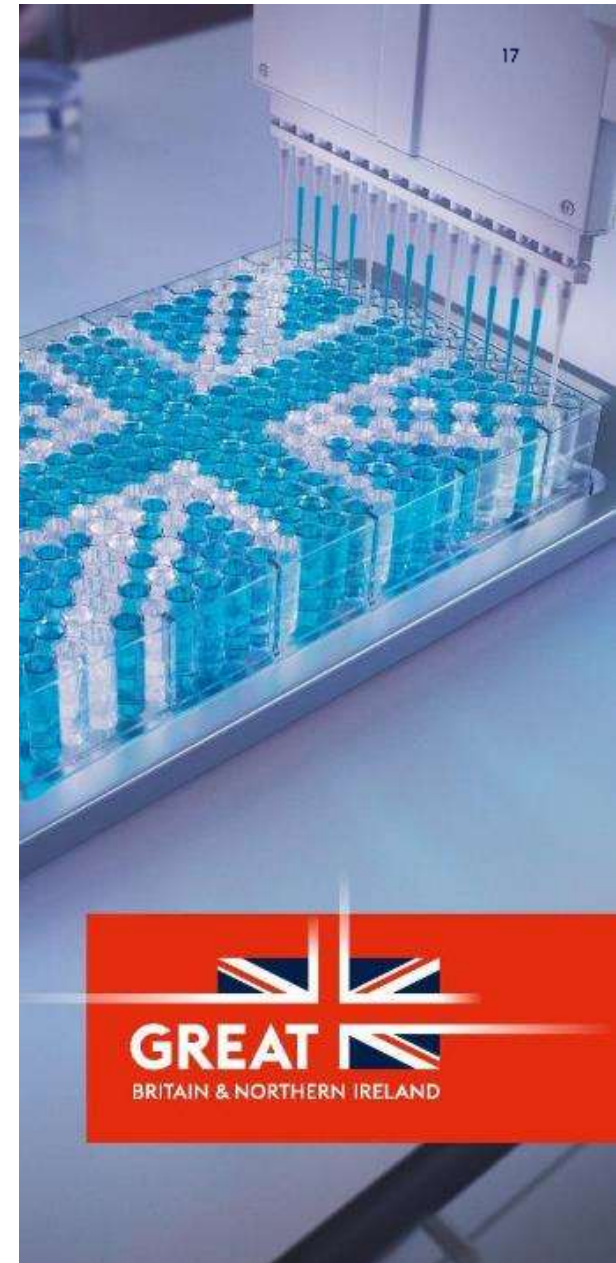
Case study

Exscientia is an AI-driven pharmatech company committed to discovering, designing and developing the best possible drugs in the fastest and most effective manner.

Formed in 2012, Exscientia was the first company to automate drug design and have AI designed molecules entering clinical trials; growing into a market leader in AI-driven drug design.

Valued at \$2.9 billion when it listed on the NASDAQ in October; in Spring 2021 the company announced a \$225 million Series D round that provided \$300 million in equity commitment from SoftBank.

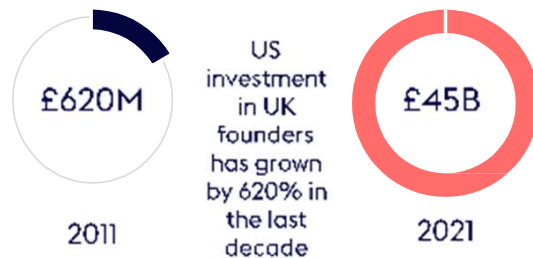
US Pharma company, Bristol Myers-Squibb, paid up to \$1.2 billion to enter a drug discovery collaboration with the start-up. Exscientia Chief Executive, Andrew Hopkins, said the deal was an 'endorsement' of the company's technology.



The UK is more open and attractive to international investors than ever before

Investors are welcomed by the UK's regulatory infrastructure.

- The UK's independent financial regulatory body, the Financial Conduct Authority (FCA), is one of the world's most innovative regulators
- Five of the 15 largest global 100 law firms have their main base of operations in the UK and all of the top 50 law firms have offices in the UK
- 72% of investment in UK tech came from overseas in 2021

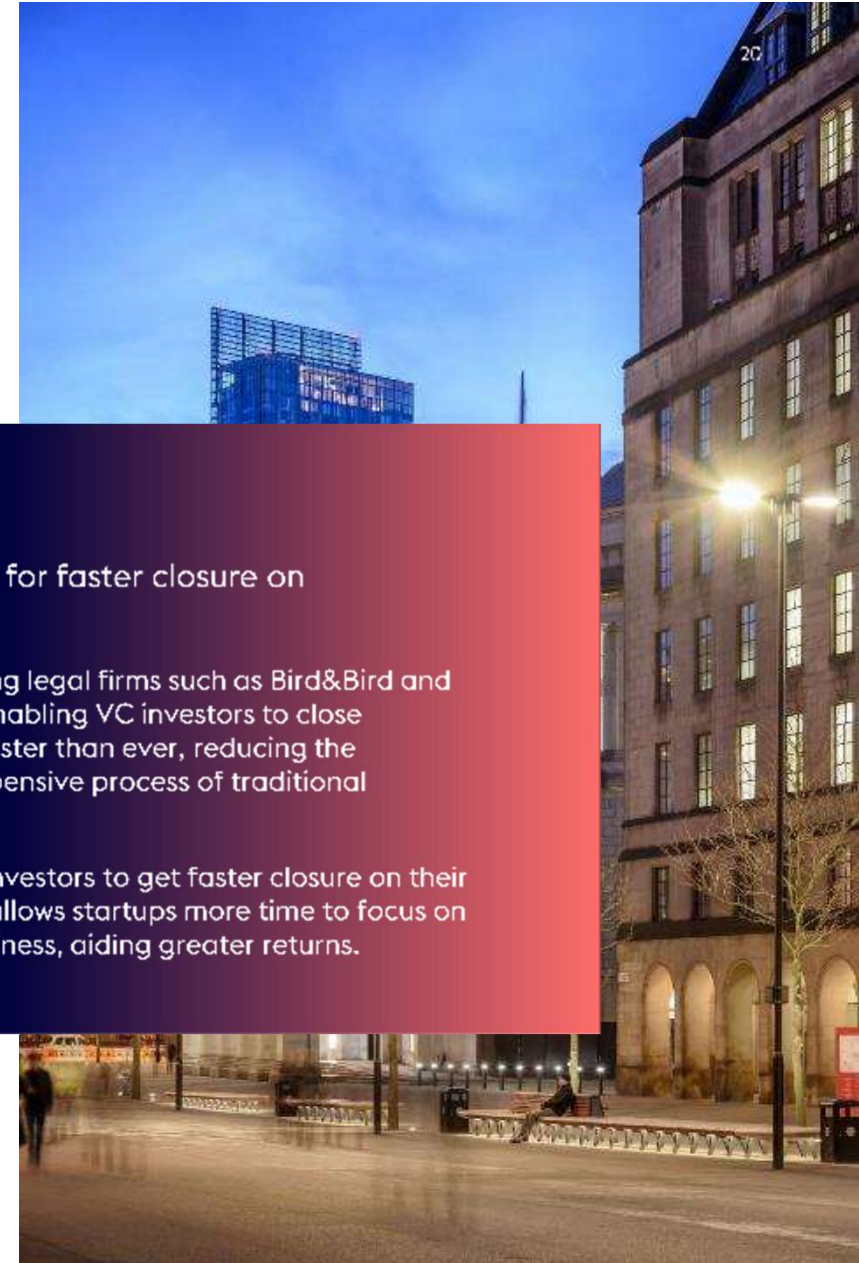


Sources: Project Innovate, Financial Conduct Authority; City of London, The Global City Fact Sheet; Barclays and Beauhurst, Trading Places: Global Opportunities for UK Entrepreneurs, August 2021

Choose the UK for faster closure on investment

Innovative, leading legal firms such as Bird&Bird and Shoosmiths are enabling VC investors to close funding rounds faster than ever, reducing the laborious and expensive process of traditional closing.

This enables VC investors to get faster closure on their investment, and allows startups more time to focus on growing their business, aiding greater returns.



DIT support



Curating high-potential investment opportunities...

Making screened, selective introductions for funds & investors

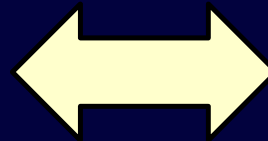
Access one of the strongest, fastest growing venture capital markets in the world

Deal Origination

Identify and curate innovative, high potential UK companies...
...across a range of sectors, including:

- **Life Sciences**
- **AI**
- **Deep Tech**
- **Clean Tech**

The VCU matches investors to the most appropriate UK companies



The VCU showcases UK companies and investment opportunities, making investor introductions and organising pitching events

Investors

We work with over 200 leading global CVCs and VCs, sharing relevant company profiles. This group includes:

- **NEA**
- **Intel Capital**
- **Global Brain**
- **Utec Japan**
- **Vida Ventures**
- **Samsung**
- **Summit Partners**



VCU Lookbooks



DIT Venture Capital Unit (VCU)

The VCU supports the UK's unprecedented growth across VC sectors, helping start-ups secure international investment.

We do this by securing long-term relationships between the UK and Corporate and Venture Capital investors around the globe. If you'd like to learn more about how we can support your inward investments into the UK please do get in contact.

The VCU has secured:

£660M

of VC investment for FY ending March 2022; 400 introductions made over the year.

£5BN

brought into the UK economy, with at least 50 VC investments annually over the last 5 years.

"We are very grateful for the continued support of the DIT VC arm over the last years... we really appreciate the expertise of the DIT VC team – Thank you as always for your support."

Project A

"I want to say how impressed we are with the speed and the quality of potential investors that you have introduced us to... You are doing a fantastic job."

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