

May 2021

Quarterly Review

63%

of firms take ESG principles into account when making investment decisions

Life after Brexit - the Funds Review



Creating public value

The economic and social benefits that private investment brings to the UK



International action on climate change

Measures being taken by the industry around ESG compliance

Foreword



It is with pleasure that I welcome you to the latest BVCA Quarterly Review, our regular summary of the latest data and research which demonstrates the value of private equity and venture capital to the UK economy and society.

In this edition we focus on the 'public value' that our industry creates for the country, the fusion of economic and social benefits that private investment brings – for businesses, individuals, and their communities at large.

This message is brought to life in two of our recent reports. '[New Horizons](#)', published in February, highlights the crucial role our industry will play in a post-pandemic economic recovery, as well as its support for other key policy priorities – from maintaining the country's global competitiveness, to spreading

growth across the nations and regions of the UK, to tackling climate change.

We explore these priorities at a regional level in the first of our '[Nations & Regions](#)' reports. In this inaugural edition we shine a spotlight on England's North West, finding out why it is such a hot spot for private investment, how this investment of time, money and experience benefits business, and how these businesses benefit us all. You can read more about these reports on pages 3 and 4 respectively.

Elsewhere in this edition we highlight measures being taken by the industry on issues relating to climate change and diversity and inclusion. As the prominence of environmental, societal and governance issues continue to rise, it is positive to see so many, including 27 BVCA members, sign up to international action on climate change under the Initiative Climat International (iCI). This initiative, featured on page 5, is a first of its kind climate initiative for private equity, supported by the Principles for Responsible Investment.

Offering in-depth insight on the industry's focus on diversity and inclusion is the [BVCA recent report](#) with Level 20. Featured on page 6, this is the first report of its kind to look at ethnicity data as well

as gender, at all levels of seniority, and the message is clear: there is still much more to be done to ensure a properly representative industry and we must work collectively to achieve this. The BVCA is committed to its role in campaigning for this, and in ensuring that data is collected and documented every year to provide transparency and accountability.

Looking more broadly at ESG, I am delighted to present our '[Adapting with Purpose](#)' package on page 7. Produced with the support of Grant Thornton UK LLP, it highlights efficient, agile and exceptional ways in which private capital backed businesses responded to the host of challenges brought on by the COVID-19 pandemic. Broken down into three categories, it looks at those who went above and beyond to support their employees, give something back to the local communities and rapidly adapt their business models to support coronavirus efforts.

Finally, this edition also provides you with a rundown of the latest industry analysis including statistics from the British Business Bank on a record year of fundraising by venture capital funds,

relevant excerpts from Bain & Company's latest report on Global Private Equity and BVCA analysis of the ongoing Funds Review by the Treasury and options for reform post-Brexit. These can be found on pages 8, 9 and 10.

We look forward to working with you across the coming months and presenting another BVCA Quarterly Review in the late summer.

Michael Moore
Director General, BVCA

If you want to know a bit more about how our industry works, see our quick guide at the end of this report.

Creating public value

In February, the BVCA launched its 'New Horizons' report. Comprised of the latest statistics and more than 40 case studies from BVCA members, the report shows how the private capital is focusing on the recovery from COVID, helping small and medium sized companies to recover from the pandemic, supporting regional growth, driving the UK's global competitiveness and setting a course for Net Zero.

Each case study illustrates how private equity or venture capital support and expertise has enabled the company to navigate the pandemic successfully; to scale up to meet the demands of their customers and continually contribute to the UK economy through job creation; to increased productivity, innovative new products and ideas; or to grow international exports.

Key data highlights include that, after the hiatus in investments caused by COVID in spring 2020, activity rallied in the last half of 2020 with each quarter registering 200+ deals with an aggregate value of around £37.4 billion.



Venture capital unicorns

35%

of Europe's 'unicorns' are in the UK, with six of those located in the North West of England.

[READ THE REPORT](#)



Angel and VC-backed businesses

60%

more productive per worker than the UK private sector average, contributing £88,100 per annum to UK GDP compared to £54,700.



ESG principles

63%

of private equity companies take ESG principles into account when making investments and 48% now report, in detail, on the ESG impact of their portfolio companies to institutional investors, like pensions funds or insurance companies.

Investing in the North West of England

Private capital invests in potential – good ideas, good people, good businesses. And potential is found right across the United Kingdom. Our Nations and Regions series highlights private capital's contribution to levelling up across the UK.

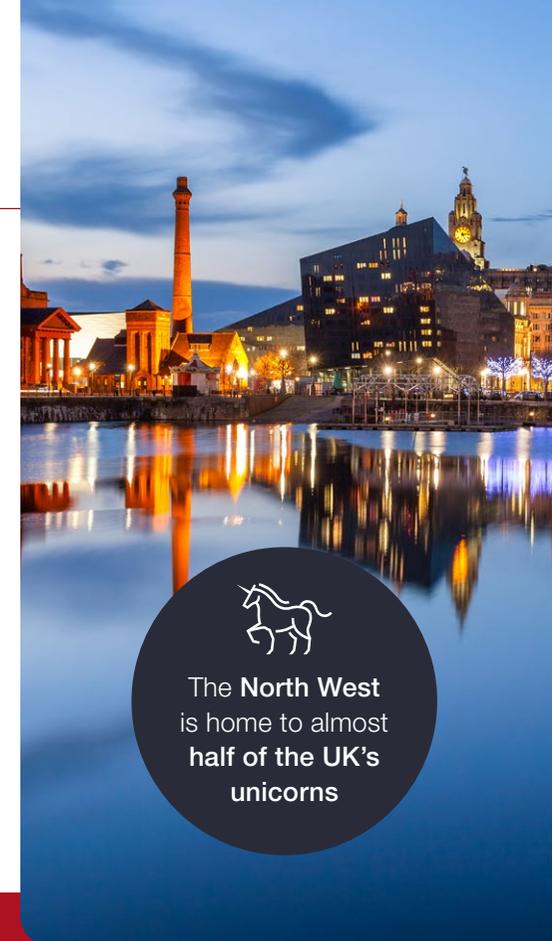
Our first report focuses on the North West, the second largest hub for private capital investment in the UK.

The original research and 15 case studies demonstrate the exciting and dynamic business landscape, with 12 universities collectively attracting £12.4m in spin out investments in 2019.

The report includes a focus on Blackpool, where Merlin Entertainments (backed by Blackstone) worked in partnership with the local council to deliver an almost ten-fold increase in employment through sustained and successful investment in the city's cultural landscape.

It also showcases how private equity helped Vital Energi to support clean energy generation right across the country from Edinburgh University to Heathrow Terminal 5. And how investment during the pandemic helped Back2Work support almost 5,000 job seekers since March 2020 to get back into employment.

[READ THE REPORT](#)



The **North West** is home to almost **half of the UK's unicorns**

Investment

£2.6bn

invested in **210 North West businesses** by **BVCA members** between **2017-2019**

Support for startups



The **region** is a **hub** for **startups**, with **investors supporting** up and coming **tech** and **healthcare** companies

Tech and healthcare investment



In 2019 **31 tech businesses** received an average investment of **£2.8m**; **14 healthcare businesses** received an average investment of **£0.7m**

Employment

80,000

people are **employed** by **420 companies** currently backed by **private equity** and **venture capital** in **North West England**

International action on climate change

Nearly 90 private equity firms representing over US\$700 billion in Assets Under Management have signed up to the [Initiative Climat International \(iCI\)](#), a first of its kind climate initiative for private equity, supported by the [Principles for Responsible Investment](#).

27 BVCA members are participating and supporting iCI in the race to net zero. Members of iCI commit to recognising the risks and opportunities that climate change presents to their investments, contribute to the Paris Agreement's objectives, and actively engage with portfolio companies to reduce their greenhouse gas emissions.

More information on iCI and how to join can be found [here](#).



Transparency on diversity

New research from the BVCA and Level 20 published in March 2021 shows that the private equity and venture capital industry still has a long way to go to achieve anything close to equal numbers of men and women in senior roles. Ethnic diversity is also lacking.

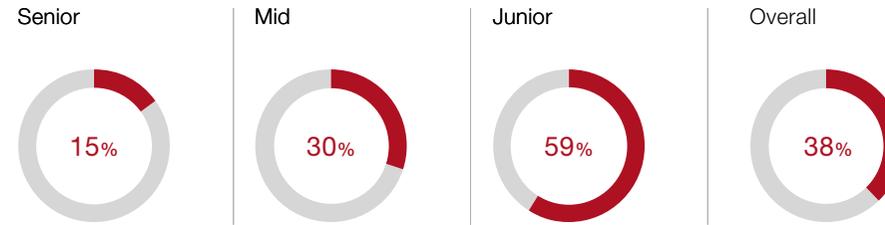
Our study covered over 8,700 individuals across 186 private equity and venture capital firms. Despite an increasing proportion of women in the private equity and venture capital workforce, women remain severely underrepresented, particularly in investment teams.



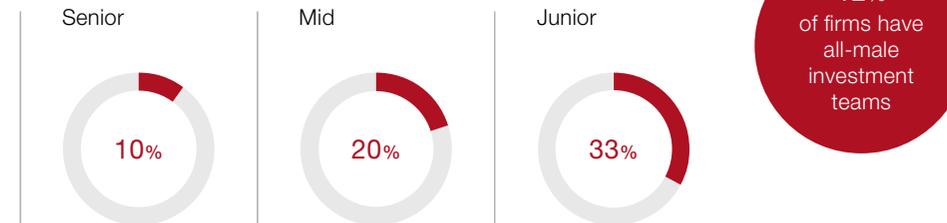
"I am a huge advocate for diversity of thought within venture capital firms, founders and their teams in order to avoid 'group think' in investment decisions and to provide a strong culture of inclusion within both VCs and our portfolio companies. Gender and ethnic diversity are important measures towards delivering diversity of thought - alongside measures such as diversity of background and experience. This report highlights progress in some areas, but also shows there is a need for further improvement. Continuing to capture and monitor this data is essential."

Kerry Baldwin, BVCA Chair 2021/2022, Co-Founder and Managing Partner, IQ Capital

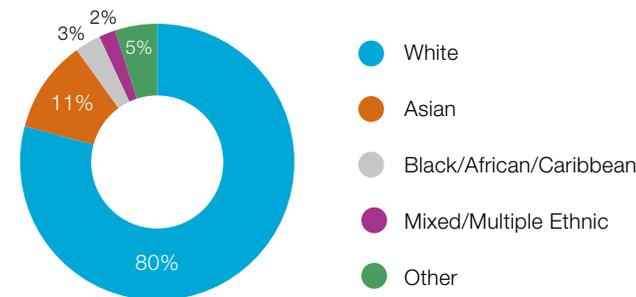
Percentage of women by seniority



Percentage of women in investment roles



Ethnicity representation – total PE and VC, all functions & levels



Source: [BVCA Diversity & Inclusion Report](#)
Numbers may not total 100% due to rounding

So, what needs to be done?

- 1 Continue to collect data and be transparent about the challenges. View our data collection template [here](#).
- 2 Recruit people from a diverse range of backgrounds – and then help them stay, progress and succeed in their careers.
- 3 Create a genuinely inclusive culture where everyone feels welcomed.

More information and analysis plus practical solutions and resources can be found in our [report](#).

[READ THE REPORT](#)

Adapting with Purpose

//// A selection of case studies from the industry frontline, 2020

From the beginning of the COVID-19 crisis, companies across the UK responded in diverse ways to navigate the challenging and uncertain climate. Whether it was digitally transforming services, ensuring teams were safe and well in their new working environments, or supporting local communities, the crisis required businesses to take rapid decisions to keep things going and to do the right thing for their employees, customers and wider communities.

BVCA members actively invest in over 4,000 companies in the UK, and there are numerous examples of how private equity and venture capital have supported their businesses to adapt in 2020. This report, supported by Grant Thornton, captures a range of case studies which showcase how management teams navigated the pandemic.

Every company features in the report adapted to the crisis on multiple fronts. Our report focuses on examples in the following areas:



Adapting business models

[View video >](#)



Community impact

[View video >](#)



Team support

[View video >](#)

Demonstrating private equity and venture capital's investment nationwide, the report includes stories from across the United Kingdom and examples stem from a wide range of sectors and business sizes. Private equity and venture capital firms were able to pool and share knowledge and learnings with companies across their portfolios to support these businesses in taking key decisions in response to the pandemic.

As we emerge from lockdown, adapting to the crisis continues with businesses facing the task of navigating the recovery period. The private equity and venture capital industry is well-placed to support these businesses. We look forward to highlighting further examples of this in the coming year.

[READ THE PUBLICATION](#)

Recent industry analysis



In March, the British Business Bank (BBB) highlighted the record fundraising in 2020 by Venture Capital (VC) funds, which in turn provides capacity to invest in high growth companies in 2021 and beyond.

In 2020, 44 UK-based VC funds reached their latest close, up 26% from 2019 when 35 funds closed. The total value of VC funds closed in 2020 was £4.8bn, the highest amount raised by UK VC funds in a single year. This is 39% higher than 2019, showing continued confidence in the UK VC industry.

The report also found that 94% of investors in funds (that responded to a 2020 survey) have either increased or maintained their appetite to invest in the European venture asset class. 70% of investors in venture capital thought the European technology sector will gain ground compared to the US and China in the next decade.

BBB analysis shows that private equity and venture capital funds remain the most active type of equity investor in UK SMEs.

[READ THE REPORT](#)



The Bain & Company report on Global Private Equity found that the third and fourth quarters of 2020 saw global private markets investment recover with impressive speed.

The industry generated \$592 billion in deal value, up 8% from 2019 and 7% higher than the five-year average of \$555 billion. COVID did result in a reduction in the number of deals but this impact is thought to be temporary.

Unspent private capital (referred to as “dry powder” in the industry), including that committed to venture, growth and infrastructure funds, has grown to almost \$3 trillion, with around a third of it attributed to buyout funds and special-purpose acquisition vehicles/SPACs.

Buyout funds have outperformed public markets around the world over the long term, especially in Europe. European investors lead the world in committing to global standards for responsible and sustainable investment and have embraced ESG much more eagerly than those in North America, but there's still room to grow.

[READ THE REPORT](#)

HMT review of UK funds regime

In the 2020 Budget, the Government committed to a review of the UK funds regime, covering tax and relevant areas of regulation. The review recognises that asset managers sit at the heart of the UK's financial services industry, supporting sectors from insurance to banking, channelling capital into productive investments and at the same time helping millions of individuals save and invest.

The UK limited partnership regime (English and Scottish Limited Partnerships) is the legal bedrock of the UK private funds industry, and the inspiration for numerous similar vehicles around the world.

The UK's private equity and venture capital industry attracts significant flows of

international capital into the UK, along with talented individuals from across the globe. The industry delivers significant public value to the UK, as evidenced by several case studies in our 'New Horizons' report.

The BVCA has put forward recommendations to the review of the UK funds regime, which aim to enhance the UK's positioning as an attractive place to establish a private equity or venture capital firm and for leading funds domicile.

There is a premium on jurisdictions where there can be co-location of functions, i.e. where fund management businesses, funds and asset holding vehicles (where required) can all be based. The UK should be well placed (in some ways better placed than obvious competitors) to facilitate this and there are also clear economic and operational advantages to co-location.

[READ OUR RESPONSE](#)

BVCA recommendations:

1

International investors are familiar with the UK limited partnership regime. Therefore, legal and tax enhancements can be implemented with relative ease, especially now that the UK is no longer bound by EU law.

2

A clear and competitive UK Asset Holding Company regime will reinforce the UK's positioning as a centre for co-location.

3

The existing BEIS corporate governance reform project should be concluded as soon as possible, with only essential changes being made.

4

To encourage capital to continue to be deployed in large volumes in the UK, it needs to remain a competitive and attractive location for asset managers and individuals in their firms to be based. This will retain the UK's position as a global investment hub. It will also help HMT to realise the full benefits of its wider reforms to asset management and asset holding companies.

5

The UK regulatory regime must also facilitate access to fund investors, transactions and talent, whilst providing appropriate protections to investors. An excellent example of this is the work underway to enable direct contribution pension schemes to invest into illiquid asset classes.

6

Competition and change mean that the future of UK financial services regulation must be dynamic, especially in respect to regulation related to sustainability matters, which are of increasing importance to private equity and venture capital, and their investors.



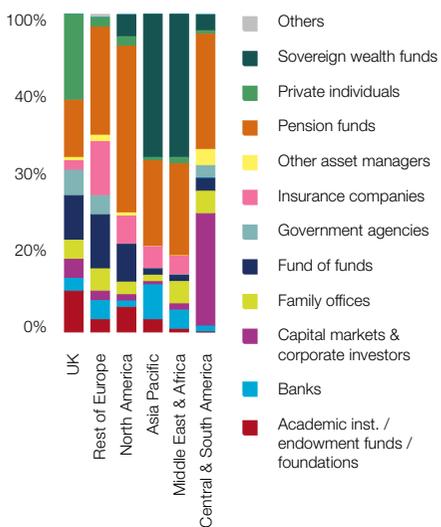
Explainer: private equity and venture capital fund lifecycle

1

Fundraising: different types of investors are more common from different parts of the world

Pension funds play a very important investor role across all geographies, with the largest proportion of funding coming from continental Europe and North America. UK funding is more evenly diversified.

2019 - Incremental amount raised during the year - % of amount



Source: BVCA Report on Investment Activity 2019

2

Investment: which sectors are receiving investment?

The greatest number of businesses receiving investment in 2019 were in the tech, consumer goods and biotech / healthcare sectors. This is a consistent picture over the past three years.

Proportion of companies receiving investment in 2019, by sector



3

Portfolio management: helping businesses invest and grow

Private equity and venture capital provide expertise and networks as well as funding, to support businesses to invest and grow. Our New Horizons and Nations & Regions – North West England collectively showcase more than 50 companies backed by our members. See the following pages for the highlights of these reports.

4

Divestments: how do investors realise value?

There are many exit routes available, from listing in public markets, to selling to other companies. Some exits are write-offs, particularly in venture, given the greater risk profile of their early-stage investments. This doesn't necessarily mean that the business has failed, but it does mean the equity investment no longer has any value. Once investments are realised, capital is returned to investors.

Divestments at cost by exit route - venture capital / private equity (growth and buyout)

% of number of companies





The private equity and venture capital industry's contribution to public value in the UK can be explored further in these reports:



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For more information on this report, get in touch with the team at bvca@bvca.co.uk



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