Beauhurst

The Deal 2023

Equity investment market update

Methodology

Data for the report was collected by Beauhurst and finalised on 26 January 2024. The report looks at all announced equity investments received by private companies headquartered in the UK, in all sectors. Equity rounds are found by monitoring thousands of investment sources; Beauhurst also maintains relationships with hundreds of investors to receive information about their portfolio companies. In this context, equity investment refers to the issuance and sale of new shares by a company to fund its growth.

To be included in the analysis, an investment must be:
Dated between 1 January 2013 and 31 December 2023
Publicly-announced
Some form of equity investment
Secured by a non-listed UK company

The following types of companies are not covered in this report:
Non-UK companies
Purely not-for-profit companies
Companies whose shares have been listed on a stock exchange
Companies that are majority-owned by a fund or another company
'Project companies', like those formed to create a film, stage play, solar farm, or to undertake a property project

Foreword

Henry Whorwood

Managing Director
Research & Consultancy

In introducing our latest edition of The Deal I've set myself the task of trying to summarise last year's investment trends, without being or sounding like a pessimist. So for every stat that's down or stagnant, I'm going to try to give the silver lining.

Firstly, funding is down. That much you knew already. The number of announced deals is down by a quarter; the amount raised is down by almost a half. It's a big drop. But although we present these deals as one group, there's actually a lot of heterogeneity in the asset class. One reason the numbers have dropped is because we've seen tourist investors leave the market. These aren't specifically funds from abroad (although many were), but rather the funds for whom startups were an excursion from their normal territory. These funds had a lot of money to invest, so their departure is keenly felt in the statistics.

Another reason the numbers are down is because we've seen the disappearance — in the UK at least — of the capital-as-moat strategy. Few companies are raising at the moment to burn their cash to acquire market share (although some companies are having to raise significant sums to secure computing power for AI models).

Overall, this slowdown in funding doesn't mean companies are dying. Although there's widespread news that insolvencies are at record levels, one has to remember that it's a natural corollary with a higher number of companies in the UK that insolvencies and dissolutions should be at record levels in absolute terms.

That's not to say that we won't yet see it. A recurring theme I'm hearing from entrepreneurs and investors is about hunkering down to survive what looks to be a tough year. George Whitehead, of ACF Investors, put it succinctly as 'Survive to 25.' With 11 months to go, it's not actually as bleak as it sounds.

But readers of this report want to know what might bring deal activity back up? As much as one hears about 'dry powder', that simple term neglects the complicated realities of the pressure on the wallets of many if not most Limited Partners (LPs).

For the UK's startups and scaleups the key consideration at the moment (to my mind) is liquidity. Far and away the most common route to exit for equity-backed entrepreneurs and their investors alike is a trade sale. Until we see more of these, and at good valuations, the investment landscape for private companies is going to stay gummed up. From a wider macroeconomic view, election year giveaways could materially boost consumer confidence and unlock the cheque books of big corporations at the same time.

Deals announced in 2023

2,179

Deals announced in 2022

2,917

-25% since 2022

£12b

Invested in 2023

£20.6b

Invested in 2022

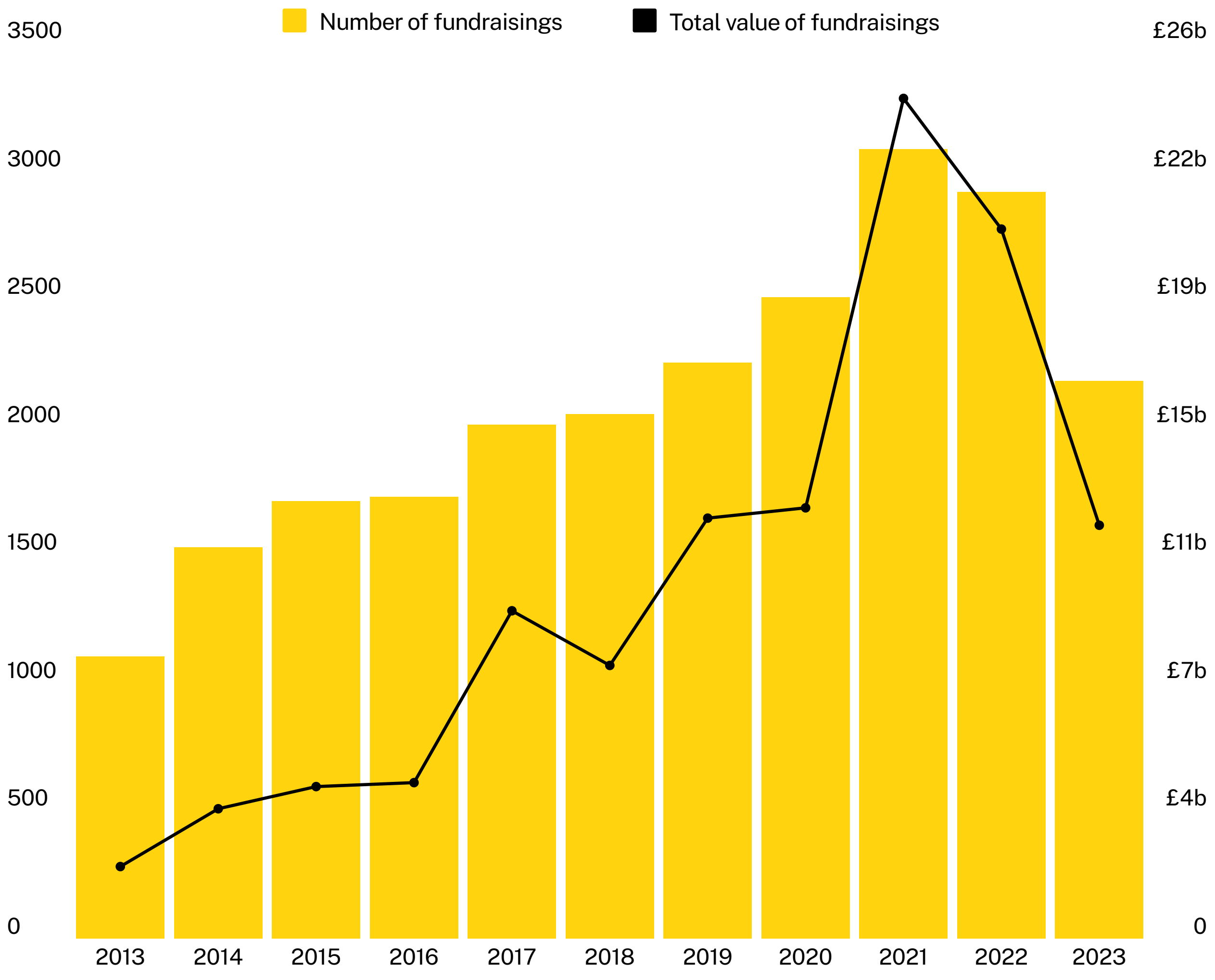
-42% since 2022

Headline Funding Figures

2021 set a high standard, and it's been difficult to live up to that record-breaking year since. The equity investment market saw a decline in 2022, and this has continued into 2023. It might not be the news we were hoping for, but there's still backing for early-stage companies — and from looking at the data, it's likely that sectors such as cleantech, SaaS, and AI will see significant investment in 2024.

Across the year, we've seen fluctuations in the number of deals closed. Like in 2022, most of the deals were signed in the last half, but the drop off was significantly higher — and we saw a lower number of deals in Q1 than we would normally. Just 593 deals signed in Q1 2023 compared to the 878 deals signed in Q1 2022. This could reflect the uncertainty of the UK economic

1.1 Number of announced deals and amount raised by year

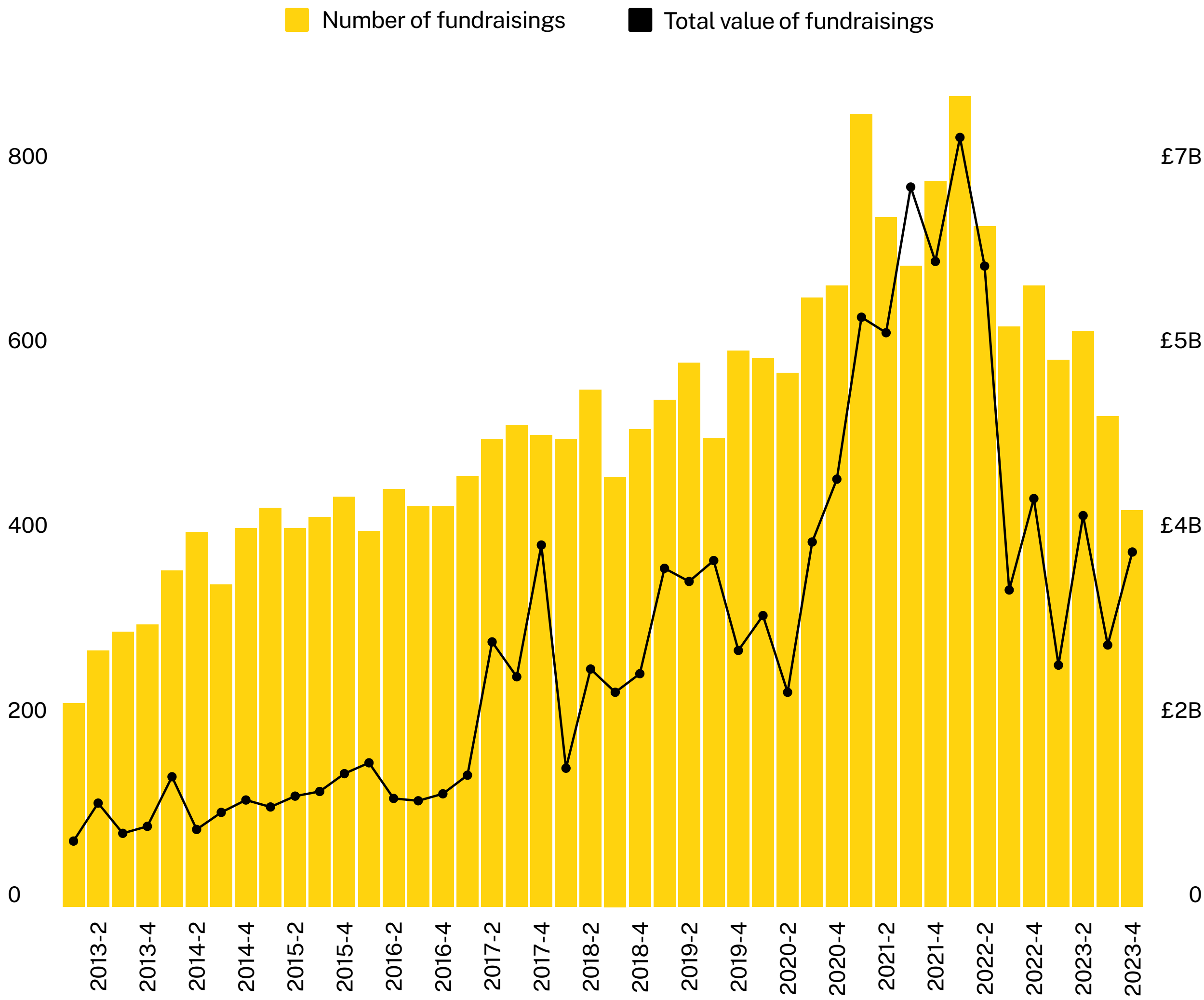


landscape. As change seems to be inevitable, investors aren't sure if now is the right time to invest, or hold back.

One thing is clear, with elections in 50 countries this year, we're likely to see more change in 2024.

> **"One thing is clear, with elections in 50 countries this year, we're likely to see more change in the new year"**

1.2 Number of announced deals and amount raised by quarter



Regional Trends

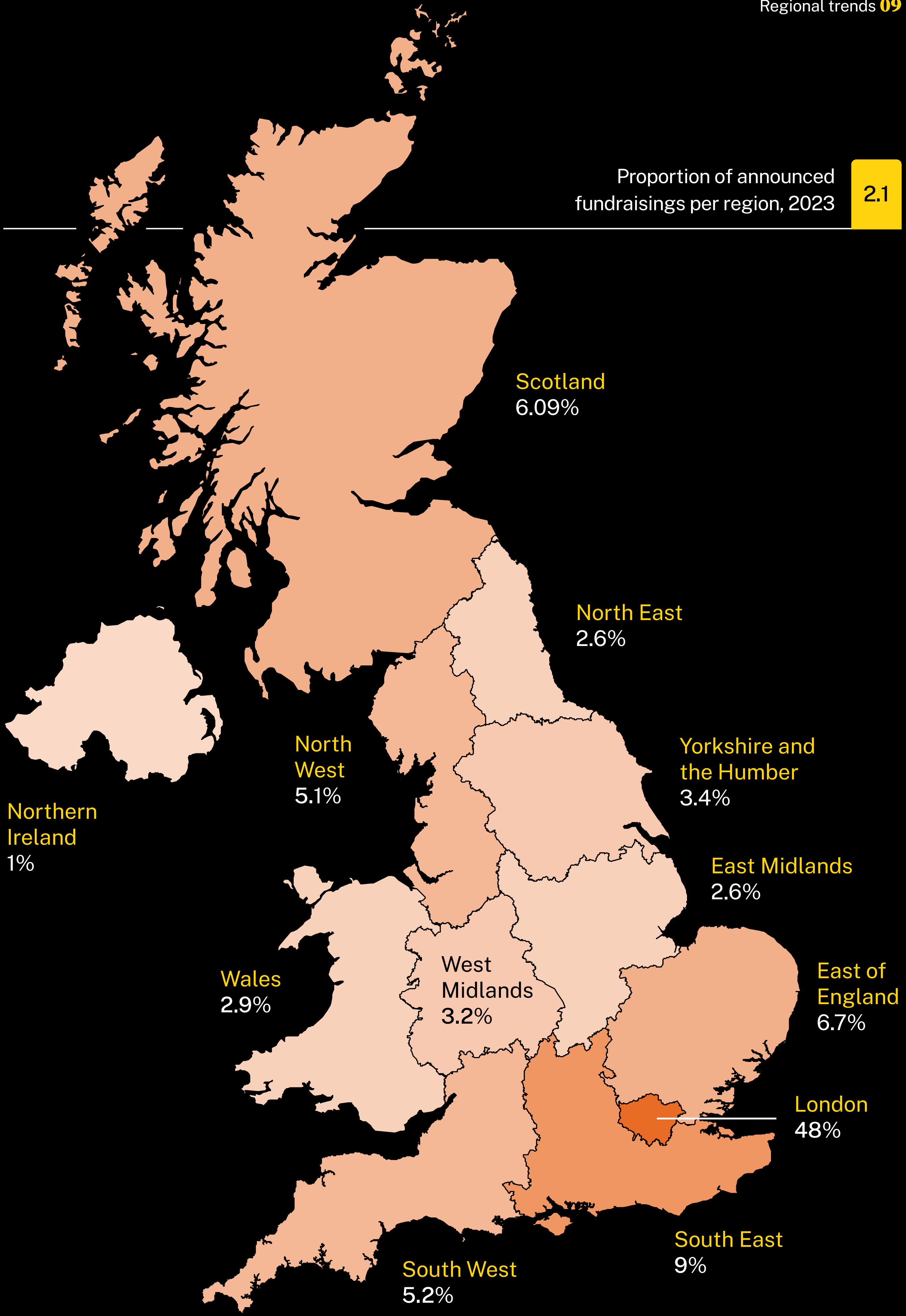
It comes as no surprise that London has, once again, secured the top spot, with a huge 1040 deals made in the capital. This accounts for 48% of the total deals in 2023. The South East (198) made up 9% of the year's deals, followed by the East of England (146) at 6.7%. This closely reflects the 2022 numbers, where London secured 49% of deals.

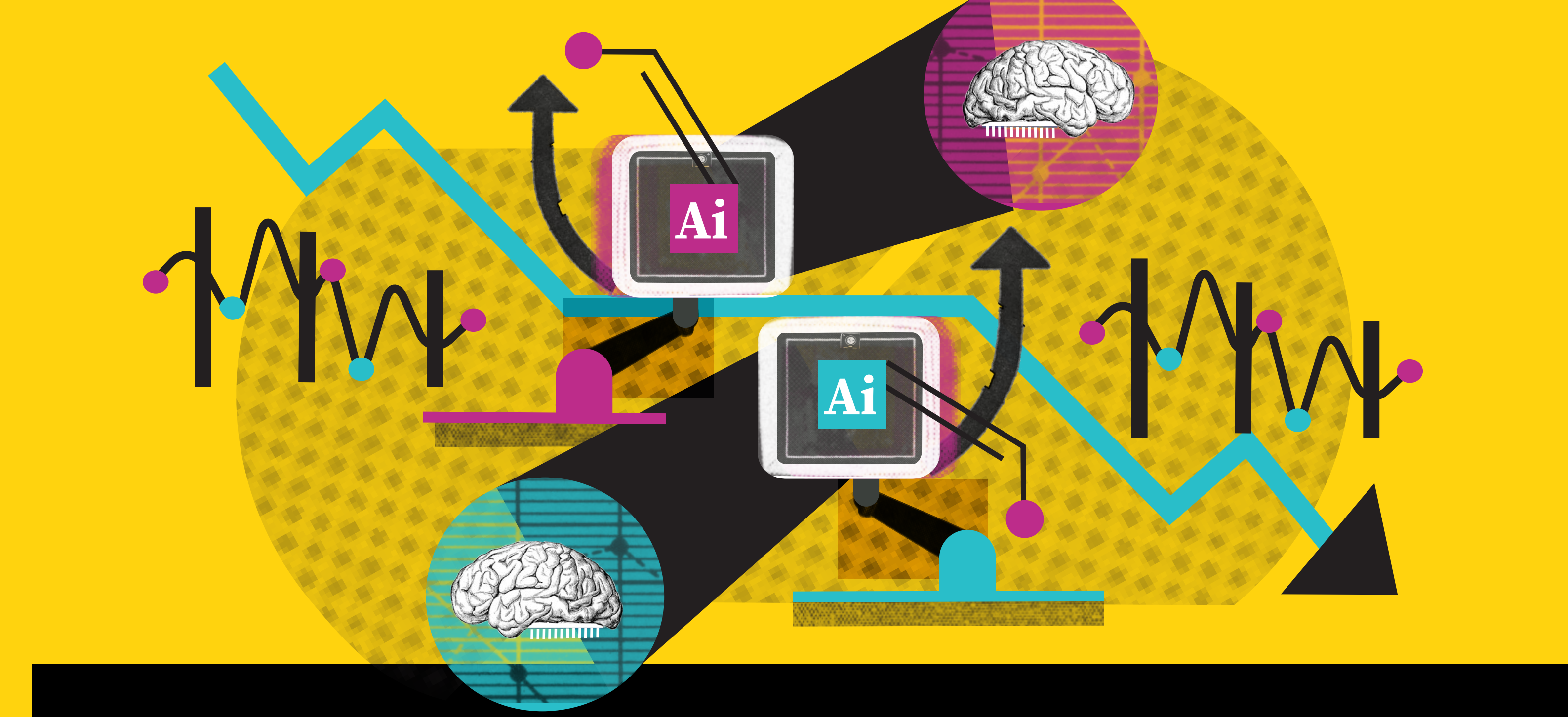
Scotland accounted for 6% of all the deals, with the East of Scotland (76) securing 3.5%. A marginal difference from last year, where Scottish deals amounted to 6.3% of the total. There was a drop in deals in Aberdeen, from 24 deals in 2022, down to six deals secured in 2023.

Wales had 64 deals, 2.9% and Northern Ireland had 23 deals, 1%. This isn't a significant difference from previous years, and Northern Ireland remains at approximately 1% of deals secured since 2021.

"It comes as no surprise that London has, once again, secured the top spot"

Proportion of announced fundraisings per region, 2023 2.1





The UK Artificial Intelligence Market Potential in a Year of Overall Decline


Elizabeth Ryan


Alejandro Giacometti

When The Deal 2022 came out in February 2023, generative AI was still a niche topic. Certainly not something you gathered around a pub table to discuss with your mates, unless you worked in the industry. When OpenAI introduced ChatGPT at the end of November 2022, everything changed.

Reuters reported that ChatGPT reached 100m users in just two months. It took TikTok nine months to reach that milestone. Now, you'd be hard-pressed to avoid the topic — even if you really wanted to.

That there was no dedicated AI section just one year ago shows how the development of this sector has hit lightspeed. It truly boggles the mind to consider where we might be in one, five, or 50 years from now.

Much of the conversation is currently dominated by American companies, but what of the UK AI industry? Where do we sit on the global playing field — are we change-makers, or are we mere electric sheep, blindly following Silicon Valley's shepherds?

In 2023, 291 UK AI companies raised £1.4b through 311 announced fundraisings. That's around 50% fewer than in 2022, when there were 342 fundraisings worth £2.9b.

However, 11.6% of the overall investment in 2023 was in artificial intelligence companies. In a year that saw a significant downturn in overall deals, more than 10% of total investment in the UK AI ecosystem illustrates the opportunities developing on home soil.

Of these 291 AI companies, 189, around 65%, are London-based. The East of England boasts the second-highest, at 21 companies. This confirms that the capital city remains the top artificial intelligence hub of the UK, by a mile. Outside of England, Scotland had 11 AI equity investment deals, Wales had 6, and Northern Ireland had one. 268 of those 291 companies have known founder information. This helps us to determine that 18 (6.7%) companies were founded by an all-female team. A further six companies (2.2%) had a majority-female founding team, while 36 (13.4%) had an even split of male and female founders. 208 (77.6%) AI companies receiving funding in 2023 were founded by either all-male or majority-male teams.

To put this into perspective, 9% of all companies that received funding in 2023 were female-founded, so the AI industry is lagging behind in this respect. Tech, in general, has long had a diversity problem, and the boom in AI businesses doesn't appear to buck the trend.

Deals aside, there are several camps when it comes to AI. 'The robots are going to destroy us all' is the shoutiest one. 'AI is just a hype that won't last' is the naive one. 'AI will improve humanity, if we regulate it properly' is where we stake our pitch.

Where you utter AI, 'regulation' often follows. The AI Safety Summit held late last year brought together nations from around the world to ensure that the benefits of AI technology can be harnessed responsibly for good and for all. The discussion around whether regulation restricts innovation is pertinent, particularly in the AI startup space. It's been said that AI is going to be the first industry to be regulated before it's even fully established.

How EU and UK regulation develops will have an enormous impact on the AI industry in this country, and how we carve out our seat at the table. With a general election looming, the decisions made at Number 10 will undoubtedly impact AI's ability to flounder or flourish in the UK.

Forget governments, regulators, and investors for a minute. What about the human side of AI? Who are the people working with it? What do they think the future holds?

I spoke to Alejandro Giacometti, Head of Machine Learning at Beauhurst, to find out some answers. A last little ponder from me. AI's impact on the world is vast, and to a large extent, unknowable. Where will we be in 2025? Only time will tell. This is history, people — we're in it.

Q&A: A Conversation with Alejandro on the Evolution and Future of AI

How AI has transformed

'AI has drastically evolved over the last few years. It used to be the purview of a relatively small group of tech companies and universities. But in the last few years, the floodgates have opened, and even more so in the last year with the explosion of large language models and specifically, OpenAI's GPT.'

'There are, of course, many areas where AI has been established as a standard tool for years, particularly as companies have become better at collecting and analysing data. These are well known, even if they're not associated with the current discourse around AI: forecasting, fraud detection, avoiding churn, customer segmentation, recommendations, translation, and classification of a million different types. There are so many business applications already utilising AI.

'However, generative AI seems to be radically different. We're seeing AI being used for more ambiguous or creative tasks, like writing blog posts, brainstorming, and image editing, as well as performing ad-hoc analysis of data, synthesising documents, and assisting software programming. This was unthinkable just a few years ago. There are older systems that performed these tasks before generative AI, but they required specialised development and high-quality task-specific training data. These new generative AI models seem to be at least adequate at performing these tasks without much context.

'Another exciting, but potentially disruptive, aspect is who's using these tools. Chat interfaces and an array of accessible web-based tools have given many non-technical users access to these models. They're now creatively applying them to their jobs in new and interesting ways. It's impressive, the enthusiasm with which a whole new group of people have adopted this technology. On the other hand, It is not clear whether it presents a challenge to the reliance on knowledge workers or an enhancing tool to make them more productive. Has automation progressed from taking jobs in factories to coming after us next? Or — is it the opposite? Is AI creating a wider divide between specialists and non-specialists? Or, does it allow non-specialists to compete with people who have skills that typically require years of training to master?

'I suspect that this technology will increasingly become immensely useful in the hands of skilled workers, with the power to make us even more productive. Eventually, knowledge workers who don't know how to leverage AI will have a difficult time trying to catch up.'

How AI has influenced day-to-day work

'Previously, we were always careful to create the simplest possible model that solved the problem. This keeps systems tractable and more easily interpretable. Now, LLMs offer a shortcut. It offers a basis that you can build upon rather than starting from scratch, opening the door to rapid experimentation. You can get from an idea to decent results very quickly. But it obviously makes systems more complex. They also bring up other issues, such as how to evaluate the results of these experiments in an effective and consistent way. It isn't easy.

'It's also a fact that everyone has access to the same technology. So, we have to think about what makes Beauhurst special — we strongly believe that what differentiates our platform is the quality of our data. We are, of course, experimenting with how AI can improve our offering, with the knowledge that our highly curated data is what sets us apart. Quality input equals quality output, right? We have a decade of experience with company data, so we have carefully developed our methodology and processes, and are constantly improving them. We also have a rich set of high-quality hand-curated data that we base our models on.

'At some level, though, the day-to-day work is the same. We have to understand the data that we're using, what our customers need, and how well the different sets of challenges that they have can be solved by machine learning and artificial intelligence. That's the same as always, but now I have another set of tools that help us to experiment more. That's exciting.'

AI regulation & development

'Regulation in AI is something that we'll be hearing a lot about. As exciting as AI advancements are, there are lots of unresolved issues. We've also realised some limitations of AI, and addressing these will be a significant focus in the future. We need to consider who gets to control this technology and who gets to use it, what kinds of safety mechanisms are applied to them, what data is used to train it, and who owns the intellectual property of training data and the model output. Geography matters quite a bit, as this is an expensive industry.

'I think regulation, funding, and development go hand-in-hand, so you can't just regulate it without getting involved in the innovation. That's why the government needs to be actively involved in the conversation around AI, so they understand its capabilities and potential risks fully.

'This involvement should include people in decision-making roles who understand the industry and can look after the public's interest. They must be interested in understanding and reacting to the societal impact, as well as having enthusiasm for being part of its development. We can't expect the government to only step in every few years and make impactful decisions; they need to be part of the ongoing development and innovation process, otherwise, they'll always be playing catch-up.

'However, there's a balance to be struck. Over-regulation could potentially hinder the development of AI. However, if we don't attempt to regulate it, and create our own AI models and businesses in the UK and Europe, we risk defaulting to the American or Chinese view of things. It's not just about access, but also about ensuring that the technology is built to our standards on privacy, intellectual property, and safety. '

Final thoughts

'AI is an exciting field with immense potential. It's transforming the way we work and live. There is currently a lot of energy, creativity and enthusiasm. However, it's equally important to recognise its risks and limitations and address them. We need to approach AI with a balanced perspective, fostering innovation while safeguarding public interests. The future of AI holds much promise, and I'm excited to see where it takes us.'

5 biggest AI deals of 2023

Causaly

Head office location: London
Date of raise: July 2023
Deal size: £45.7m

Participating funds: European Bank for Reconstruction and Development Venture Capital (EBRD VC), ICONIQ Growth, Index Ventures, Marathon Venture Capital, Pentech Ventures, Visionaries Club, and undisclosed angel investors.

Causaly has developed software that uses AI to analyse large datasets for biomedical researchers.

Tractable

Head office location: London
Date of raise: July 2023
Deal size: £49.9m

Participating funds: Georgian Partners, Insight Partners, and SoftBank Vision Fund 2.

Tractable has developed AI software designed to analyse photos of damage from car accidents and natural disasters for data-based estimations of repair costs.

Synthesia

Head office location: London
Date of raise: June 2023
Deal size: £71.4m

Participating funds: Accel, Firstmark Capital, GV (Google Ventures), Kleiner Perkins, MMC Ventures, and NVIDIA.

Synthesia has developed AI technology designed to accurately model the intricate details of the human face in motion for the purposes of enhancing virtual storytelling.

Infogrid

Head office location: London
Date of raise: April 2023
Deal size: £72.4m

Participating funds: ACommitted Capital, JLL Spark, Northzone Ventures, Original Capital, Pictet Private Equity, SoftBank Vision Fund 2, TVC Capital, and undisclosed investors.

Infogrid has developed a buildings intelligence platform that analyses Internet of Things (IoT) technology, with the aim of making buildings more efficient and sustainable.

Quantexa

Head office location: London
Date of raise: April 2023
Deal size: £104m

Participating funds: BN AMRO Ventures, AlbionVC, BNY Mellon, British Patient Capital, Dawn Capital, Evolution Technology Fund, Government of Singapore Investment Corporation (GIC Private Limited), HSBC Enterprise Fund, and Warburg Pincus.

Quantexa has developed a decision intelligence platform using big data and artificial intelligence, designed to help companies grow with confidence.

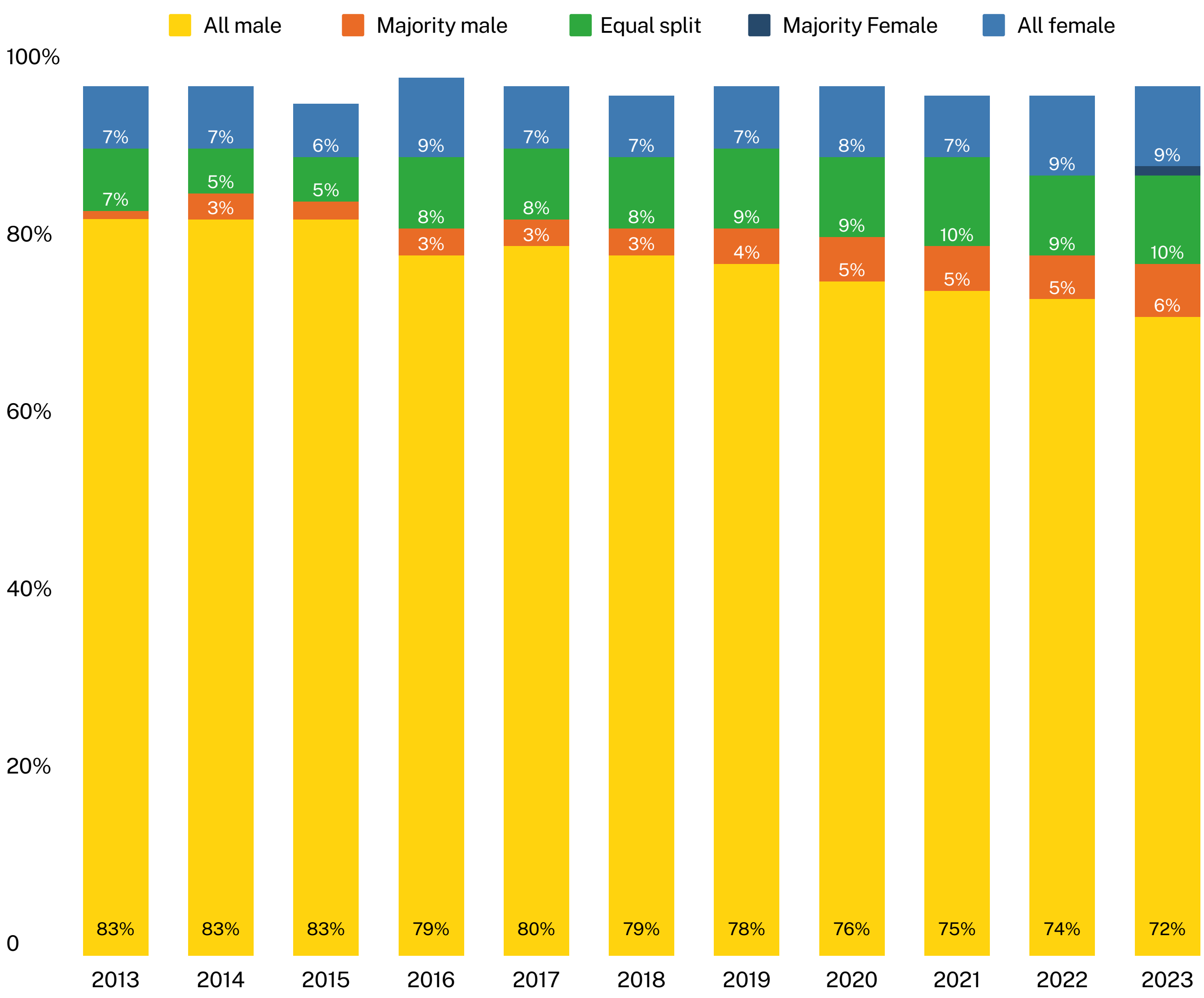
Founder Gender

Similar to last year, the majority of deals went to all-male founded companies (72.6% of companies). In 2023, we saw a marginal increase of 0.3% in funding for all-female founded companies and while only a small incline, it's still record-breaking support for female entrepreneurs. We've seen a 1.8% increase in the last decade, meaning with this continued trajectory, we could be well over 10% by 2033.

Companies with majority female founders saw the lowest investment in both number of deals and amount invested, at just 1%. Majority male companies followed at 6%.

Our numbers are based only on companies where the gender is known (1670 companies out of 1898).

5.1 Percentage of deals by gender distribution

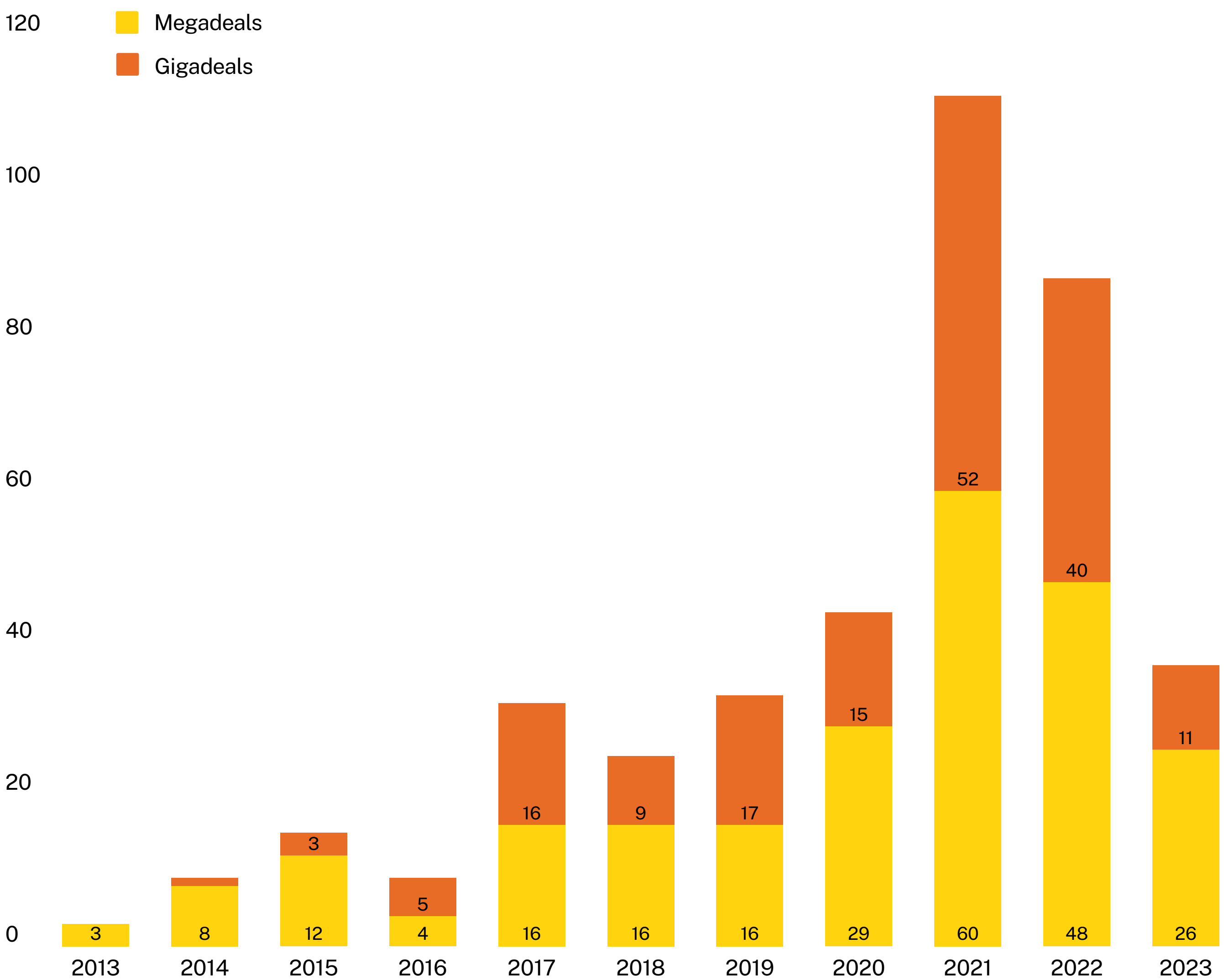


Deal Sizes

Unsurprisingly, we've seen a decline in megadeals (rounds worth £50m-100m) and gigadeals (rounds worth £100m+) in 2023. There were 11 gigadeals in 2023, and 26 megadeals, meaning gigadeals accounted for just 0.5% of all deals made in 2023, and megadeals were just 1.1%.

However, we've still seen an increase in mega and gigadeals compared to 2013 (just three megadeals, and no gigadeals) — showing that although there was less investment in the past year, we've still come a long way in the past decade. It opens up the question, where will we be in another 10 years? In theory, on that course, we could see more and more £50m+ deals.

6.1 Number of megadeals and gigadeals by year



Over and Out: Is the Smart City Industry Dying?

Josephine Suthesh

Since 2010, smart cities as an industry has raised a staggering £553m through fundraisings.

However, with a clear peak in 2021, the trajectory for active companies in this space over time seems to have entered a decline. 67% of the companies within this space are now no longer active. What's going on here? How can this trend be explained, when the need for smarter urban environments is only growing?

Yes — the smart cities industry is dying

One contributing factor is the increase in companies' cessation of business. In fact, 2023 saw the highest number of company cessations in this space to date. Furthermore, fundraising events have been decreasing since 2019, with a temporary increase in 2021, but also remain lower today than ever.

The Beauhurst definition of a smart city is:

A smart city implements technological solutions to modernise an urban area with the aim of increasing efficiency and improving government services and citizens' welfare. This includes digitising and sustainably improving homes, transport, healthcare, water supply, public spaces, and all else that concerns the inhabitants and businesses of a municipality.

The lifecycle of Shepherd, a company which sells a monitoring system to identify events such as leaks, burglaries, and equipment failure, beautifully embodies this decrease in success, the data shows. Shepherd launched in 2015, and between the period of 2017 and 2021, it received a total of £5.9m through equity investment. However, by September 2023, it had ceased trading — a business once full of potential, now dead and no longer contributing to the increased quality of life that smart city businesses promise to improve.

No — the smart cities industry is not dying

What is dying is the term 'smart city'.

There are a plethora of think pieces out there about how smart cities as a concept are over. This includes an MIT Technology review warning that by focusing purely on how smart a city is, policies risk turning an urban environment into a flashy technology project, without taking into account the genuine livelihoods of its inhabitants. As our urban environments grow, technology cannot be the only focus, but sustainable and inclusive development, too.

With this in mind, there are many industries receiving investments that contribute towards the overall prosperity of urban spaces, while not falling under the 'smart city' umbrella. Sectors such as artificial intelligence, automation, medtech etc.

If we go back to the Beauhurst definition of a smart city, any industry that contributes to modernising an urban area could be included in this category. Artificial intelligence raised £111m in fundraising in the first month of 2024 alone, and many of those businesses, whilst not directly working on smart cities, are developing innovations that will improve cities.

An illustration relevant to this argument would be the development of Integrated Environmental Solutions Limited (IES), a company that provides 3D analysis software and consultancy to clients involved in developing sustainable buildings. Since its incorporation in 1994, IES has been recognised for its innovative approach. It spun out of the University of Strathclyde, has patents to its name, and has raised over £6m in total through fundraising and grants (the most recent secured at the end of 2023).

But, would we call IES strictly a 'smart city company'? IES is considered an IT consultancy service, or even a SaaS business. However, what the company does at the core, is support the creation of sustainable buildings — which is a part of creating a smarter city.

Conclusion

Following the 'all companies are tech companies' adage of the past few years, an enormous quantity of growing firms are working towards solutions that make our cities more efficient and sustainable — the term 'smart cities' has simply fallen out of favour.

As more and more companies seek to improve their green credentials and technological solutions, industry definitions become increasingly blurred. In the same way that we humans so dislike being put into a box, perhaps it's time to embrace how today's business sector trends are often multifarious.

While the investment world no longer focuses heavily on 'smart cities' as a term, there is certainly no shortage of excitement around mobility, AI, and green energy firms. And have no doubt — these intelligent solutions are making our cities smarter than ever before.

Beauhurst