



United Kingdom

The UK has consolidated its position as a major international centre for venture capital and private equity firms. This is despite significant uncertainties caused by Brexit and a global trend towards greater protectionism. Europe's buoyant technology sector, with a high number of exciting start-ups, underpins investment confidence.

Qodeo spoke to 29 senior professionals representing funds of more than £26.3 billion funds under management across the VC and PE spectrum, primarily based in London, the south east and in Cambridge. Firms interviewed ranged from pre-seed to late stage investors.

Here we share their unique insight into industry trends and their medium and long term outlook. These insights are featured in Qodeo's investor : entrepreneur matching service.



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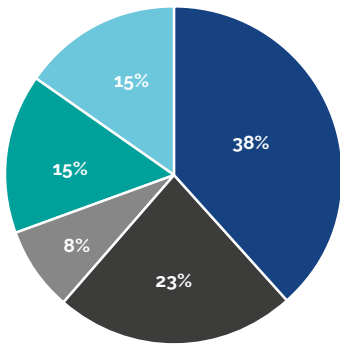
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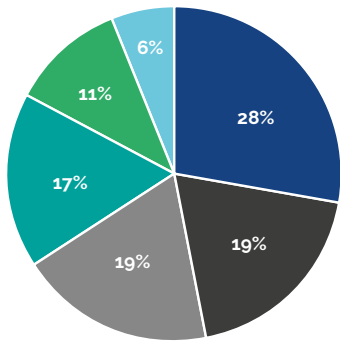
Market overview

Financial technology (fintech) is the hottest sector in private equity, followed by healthcare and consumer brands. Venture capital has identified artificial intelligence as its most promising sector, followed by cyber security and fintech. In venture capital, there is caution over valuation of some technology sub-sectors, such as Blockchain and mobile wallets, and VCs are looking increasingly to Asia to find better value.



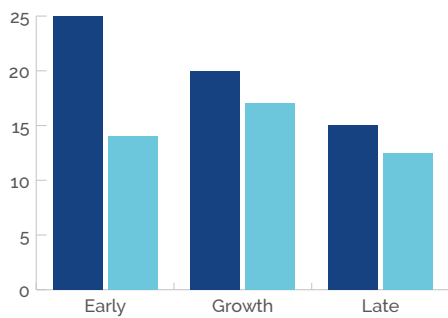
PE Hot Sectors

- Financial technology
- Healthcare
- Real Estate
- Renewable Energy
- Consumer Brands



VC Hot Sectors

- Artificial Intelligence
- CyberSecurity
- Financial Technology
- VR/AR
- Healthcare
- Renewable Energy



IRR's

- Expected
- Actual

LESS THAN 1%

VCs review 1,200 proposals a year but invest in less than 1%

“

Currently there are too many funds focused on early stage (seed) and less in the later stages.”

Senior partner of large VC

Time to Exit Accelerates

Private equity and venture capital firms are seeing shorter exit times as the pace of technological innovation increases and start-ups mature more quickly in a globalized economy. This trend looks set to continue, whilst fund life extends. More than half (65%) of all firms interview by Qodeo say exit times will decrease. Just 22% said exit times would be unchanged. The expectation is that the average exit time for early stage investment set to fall to seven years from nine years; for growth firms to five years from six; and for late stage investment to two years from three. The COO of a mid-sized VC firm said: "We will look back to this time as the golden era in human history, and Tech is at the core driving this."

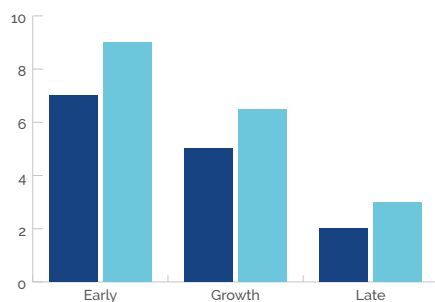
85%

of VCs set aside funding for future rounds

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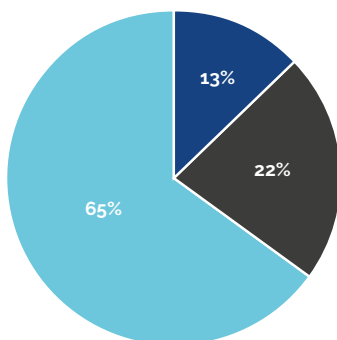
"The UK is a good market. Brexit will have an impact but not so big that good start-ups can't expand quickly."

Senior partner at mid-sized VC



Exit Period (years)

■ Expected
■ Actual

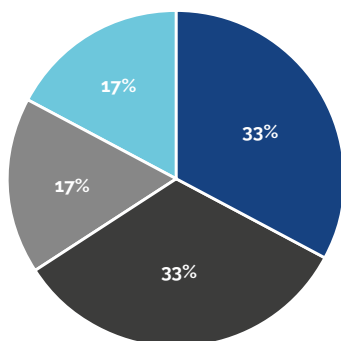


Exit Times in Future

■ Increase
■ Remain same
■ Decrease

PE Investment Strategies

- PE firms are reviewing 30% fewer deals annually than VCs.
- PE firms follow diverse investment strategies. However, all are focused on growth or expansion stage investment, and invest only in post revenue companies.
- Fund of fund investment has reduced considerably since the 2008 crisis.
- PE firms give much more focus to financials and much less to team than VCs.
- PE firms prefer to hold majority stakes. However, most PE firms interviewed hold minority stakes in most of their investments
- PE firms prefer not to invest in partnership with other firms.
- Finance is the most common background for people before joining PE.
- 75% of PE firms interviewed feel exit timelines in the UK will accelerate. Technological innovation will fuel revenue growth, resulting in quicker exit times.
- A partner in a mid-sized PE firm said: "Financial reconfiguration has almost disappeared since the 2008 crisis. Companies understand this and are focusing on running operations well, not on financial wizardry."
- An expert in the industry said: "Too many people have started overusing EIS [Enterprise Investment Scheme] as a tax advantage and the authorities are becoming aware of this."



PE Investment Criteria

- Team
- Potential Market
- Turnaround Potential
- Financials

30%

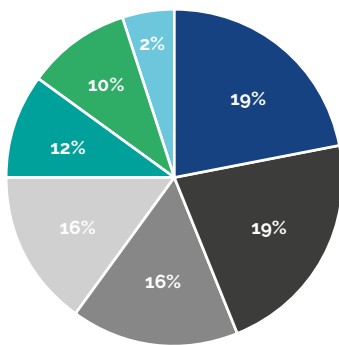
PEs review 30% fewer deals annually than VCs

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“We will look back at this time as the golden era in human history, and tech is at the core driving this.”

COO of mid-sized VC

- PE firms are increasingly recruiting people with entrepreneurial and operational experience, although finance and consulting expertise are also of significant importance in the recruitment process.



PE Career Backgrounds

- Finance
- Entrepreneurship
- Marketing
- Operations
- Consulting
- IT General
- Software

75%

of PEs feel exit times are accelerating.

VC Investment Strategies

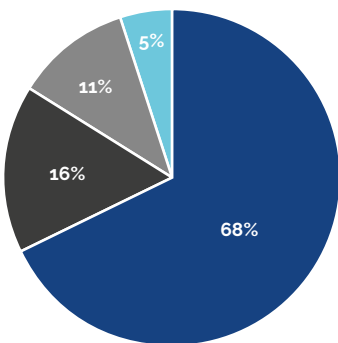
- VC firms expect 5-20x returns depending on stage, with higher expectations for earlier stages.
- VCs review an average of 1,200 proposals a year but invest in less than 1% of them.
- A majority of VCs feel there are bubbles forming in the tech startup ecosystem in sub-sectors like Blockchain and mobile wallets. VCs are reducing exposure to these sub-sectors.
- Hottest sectors identified by VCs are Cybersecurity, AR, VR, Machine Learning and B2B Software.
- 90% of VC firms focus solely on technology firms.
- 80% say they are generally the lead investors in their investments.
- 85% always make capital provision for follow-on rounds.
- Sourcing and placement agents are rarely used were used by VCs.
- All VCs currently source their dealflow primarily through networks. Many VCs also source deals through incubators, tech hubs and universities

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“Too many people have started over-using EIS as a tax advantage and the authorities are becoming aware of this.”

Industry expert

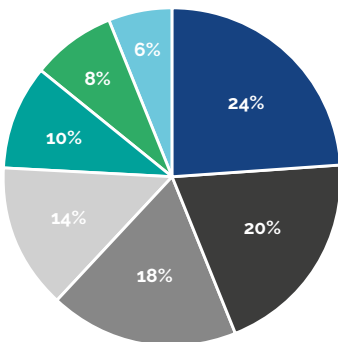
- VCs are opening up to providing patient capital (more than 10 years to exit). The partner of a mid-sized fund says: "It's not about return percentages, but can we make a huge company"
- VCs are increasing investments in consumer-focused startups. The trend is growing rapidly as new technologies emerge. Almost all industry experts told us there is a growing risk of overvaluations.
- VC firms give more emphasis to team composition than PE firms, mainly due to investments being early stage.



VC Investment Criteria

- Team
- Technology
- Potential Market
- Defensible IP

- VCs are increasingly creating 'low-cost' funds with greater profit-sharing with LPs and lower management fees. The shift is moving towards higher linkages of VC salaries with performance. The old 20-2 structure is changing.
- All VCs have diverse teams, with employee backgrounds ranging from Arts Majors and investment professionals to deep science majors.



VC Career Backgrounds

- Entrepreneurship
- Consulting
- Marketing
- Operations
- Finance
- IT General
- Software

“

Financial reconfiguration has almost disappeared since the 2008 crisis. Companies are focusing on running operations well, not on financial wizardry.”

Partner in mid-sized PE firm

Outlook

Qodeo's assessment, based on interviews with key decision makers in the private equity and venture sectors, is that London remains optimistic about the outlook. Despite the headwinds caused by Brexit, the European technology sector continues to look to London to provide the financial resources required to fund innovation across all sectors, including financial, healthcare and consumer brands.

With demand for capital remaining strong, exit times are likely to fall further over the next two to three years. The fast-paced investment environment will require increasingly sophisticated market intelligence, as competition for the most promising assets intensifies.

About qodeoview market snapshot reports

qodeoview market snapshots are reports written by qodeo-MBA researchers from 30 leading Business School alliance members about key venture/private equity and entrepreneurial trends and markets. These cover EMEA, North America & Asia. Insights gleaned are used by qodeo's investor:entrepreneur matching service and to assist corporate advisors build related pipelines. Register at www.qodeo.com to receive these as part of our service.

Matching investors with entrepreneurs

Qodeo monitors the venture ecosystem, identifies the best opportunities automatically, and brings entrepreneurs, investors and corporate advisors together to make it work. This is a brand new service for a new generation of entrepreneurs and investors who expect to be able to behave differently, and to do business differently.

Organisations interviewed:

Adapt Cocoon
Apposite Capital
Atlantic Bridge Capital
Asset Match
Augentius Group
BP Ventures
Bridges Ventures
CDC Group
Cambridge Innovation Capital
Draper Esprit
ET Capital
EY
Hausbanc
IP Group
IQ Capital Partners
Imperial Innovations
L Marks
MerciaTech
Nauta Capital
Oxford Capital
Palmer Capital Partners
Par Equity
RLC Ventures
Station 12
Seedrs
Syndicate Room
UK Business Angels Association
WPP Ventures
White Star