EARLY-STAGE EQUITIES: A LONG-TERM STUDY

SYNDICATE ROOM

DESIGN & LAYOUT

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EARLY-STAGE EQUITIES:
A LONG-TERM STUDY
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AN EVIDENCE-BASED APPROACH TO INVESTING IN STARTUPS

FOREWORD

Gonçalo
de**Vasconcelos**
CEO & CO-FOUNDER, SYNDICATEROOM

I must admit that when we decided to re-run the research on the cohort of companies from last year's Rise of the Growth Hunters report, I was nervous.

Shikhar Ghosh from Harvard Business School famously discovered that 75% of venture-backed businesses in the US fail. Seven full years after our cohort of companies raised seed or venture funding, I was worried that our study would be backing up Shikhar's statistics.

When the results from Beauhurst came in, I was delighted to see another stable year of 30% valuation growth for the companies. That's blisteringly fast growth for any asset class and what's even more impressive is that it has sustained this level of value appreciation for seven years running. Let's see if cryptocurrencies can rival that in a few years' time!

The study has also proved that a well-diversified portfolio of early-stage businesses can be very profitable. Had you invested £10,000 into the cohort back in 2011, your holding would now be worth £63,848 and, assuming you're an EIS-qualifying investor, you'd have received net cash returns of £23,745 and still have £38,394 at work.

Admittedly a total of 73 companies – or 14% of the whole cohort – have failed, with the majority throwing in the towel over the last 12 months. But of your £10,000 investment back in 2011, all the failures in the cohort would have cost you only £341, thanks to the generous EIS loss relief.

The data paints a very clear and promising picture for early-stage investors. However, what it doesn't show is the daily grind, the passion, the hair-raising near misses and hard-fought small wins of these fantastic entrepreneurs and their teams.

Enjoy the report and the fascinating insights it reveals. I know I am very hopeful about seeing what the future holds for these companies.

WILL FINTECH CONTINUE TO LEAD ON GROWTH ?

Swen**Lorenz**
CEO, MASTER INVESTOR

With 63% CAGR, financial services tower high above all other sectors, outgrowing even life sciences, which achieved 'only' 32% p.a. What led to this extremely high growth rate among the industry's top performers, and can investors benefit from this trend potentially continuing further into the future?

A quick check of the top five names reveals that what is classed as financial services essentially falls into the red-hot area of 'fintech'. Definitions of what constitutes fintech vary, not least given that, as some are eager to point out, financial technology has been around for as long as the financial industry itself.

It is undisputed, however, that fintech has risen to unprecedented prominence since 2008, when a raft of startups began to actively disrupt and reshape how payments, lending, forex, asset management and other areas of financial services are carried out. What fintech in today's sense boils down to is a group of young companies working hard to develop innovative technologies that help financial services providers improve their customer experience and make their technology platforms more effective.

The five leaders in this sector's growth ranking are without exception companies focusing on improving a single area of the customer experience in fairly conventional parts of the finance industry:

- TransferWise: Peer-to-peer money transfer service and currency exchange
- Funding Circle: Peer-to-peer lending
- Lending Club: Peer-to-peer lending
- SEEDRS: Equity crowdfunding platform
- Kantox: Peer-to-peer currency exchange and international payment solutions

These companies have succeeded – to the extent possible in the space of a few short years – in redefining the direction, shape and pace of change in their markets. Thanks also to the innovative services offered by fintech companies, customers across the board are now expecting seamless digital onboarding, rapid approvals and lower fees. Some of these companies have become household names or are on the cusp of becoming household names, if only among a certain demographic.

Last but not least, they have made stunning amounts of money for some of their early-stage investors. Estimates for the number of unicorns ($1bn+ valuation) in fintech vary depending on the source, but are likely between 30 and 50.

EARLY-STAGE FUNDING

At the same time, the industry experts at TechCrunch recently wrote about an 'implosion of early-stage VC funding' in fintech. Some other analysts have in the meantime published figures that seem to confirm this. It begs the question, where will early-stage fintech funding go from here, and how can private investors with access to such deals best capitalise on the next round of changes?

The drop in early-stage funding noted by TechCrunch is a simple function of the first generation of fintech companies having become later-stage ventures. These companies are in a natural phase of maturation, where winners have emerged that are now raising funds to increase market share. Consequently, VC firms are focusing their funding on a smaller number of companies that are ready for scaling up. Early-stage funding in this part of the industry is less attractive now than it used to be, because new players would have to go up against more established firms.

NEW FINTECH

Investors with interest in early-stage investing now need to look at opportunities outside the traditional fintech areas. The first generation of post-2008 fintech companies attacked 'low-hanging fruit', e.g. through technologies that leveraged the emergence of low-cost cloud computing and the spread of powerful mobile devices. The next generation will attempt to solve some of the more complex and painful problems in the market, such as preventing financial crime, regulatory and compliance applications ('regtech'), and predictive analytics. 'Insuretech' has already taken off in 2017 and saw record amounts of funding, though some say it is still in an early stage given the sheer size of the industry.

Last but not least, there is the much-hyped subject of blockchain. This space has evolved rapidly but has also struggled with the need to move out of the experimental phase and come up with robust prototypes. Some production-capable blockchain solutions are within sight and business use cases will become more common.

Some of the overall market's numbers are staggering and provide a strong indication that more unicorns will emerge:

- 88% of financial services incumbents are concerned about losing revenue to innovators, which also makes buyouts of successful fintech companies likely
- 77% of financial services companies expect to adopt blockchain processes by 2020
- 53% of Millennials do not believe there is any difference between the services offered by large banks and are more likely to take up services provided by web-based challengers

As David Unsworth, Co-founder of Information Ventures Partners, put it: 'There is a confluence of modern technologies, business imperatives and non-traditional competitive pressures in financial services that are creating a perfect environment to build the next billion-dollar venture-backed company. Cloud infrastructure, new analytical techniques and an expectant client base – both consumer and business – will fuel a massive revolution in the business in the next five years.'

During the past five years, approximately $50bn in investments flowed into the sector and provided numerous cases of successful market disruption. No one in their right mind would doubt that cutting-edge fintech companies will continue to change the competitive landscape of the financial services industry. The stage does seem set for a new, dynamic phase for fintech investing. However, as demonstrated, investors need to differentiate between the different sub-sectors and levels of maturity.

Investor knowledge and understanding of the industry has also grown significantly, and for the first time there are now a number of angel investors with a proven track record of identifying trends and winners. Where better to keep an eye out for new deals and opportunities than on the investor-led platform of SyndicateRoom?

SWEN regularly serves as an advisor and board member to public and private companies. His work has been featured in publications like the *Financial Times*, *Private Eye* and *The Economist*.

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CONTENTS

COHORT OVERVIEW: ONE YEAR ON

Last year's Rise of the Growth Hunters report looked at a total of 578 companies that raised seed or venture funding in 2011. We were able to follow up with 519 of these companies, based on data from independent research agency, Beauhurst.

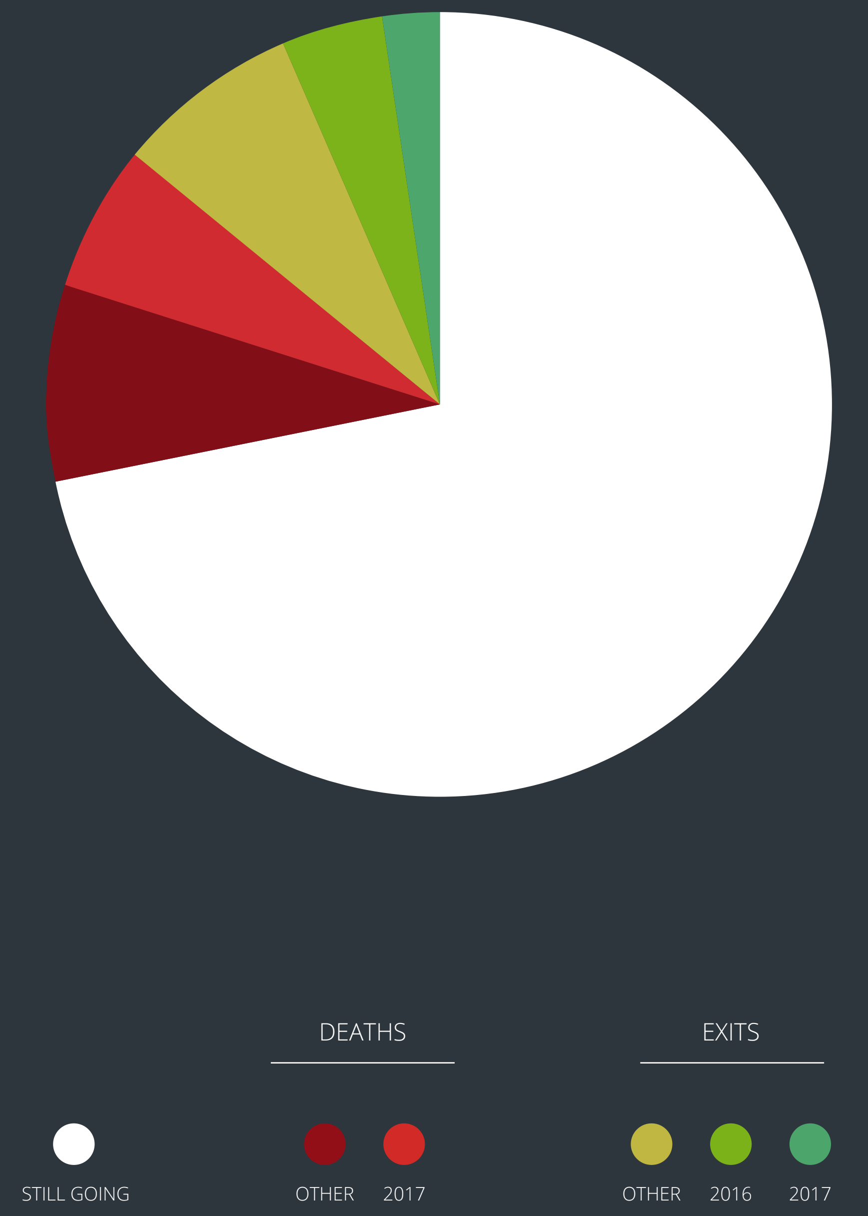
Here's how the new cohort developed over the past 12 months.

HAVE VALUATIONS PLUMMETED?

Surprisingly not. The CAGR for the 519-strong cohort maintained at around 30% between 2016 and 2017 – the same rate as for 2011 to 2016.

> COHORT BREAKDOWN
Since raising seed funding in 2011, 73 (14%) of the 519 businesses have exited and 73 have failed.

12 companies of the exits occured in 2017 and 21 in 2016; 31 companies (5% of the cohort) died in 2017.



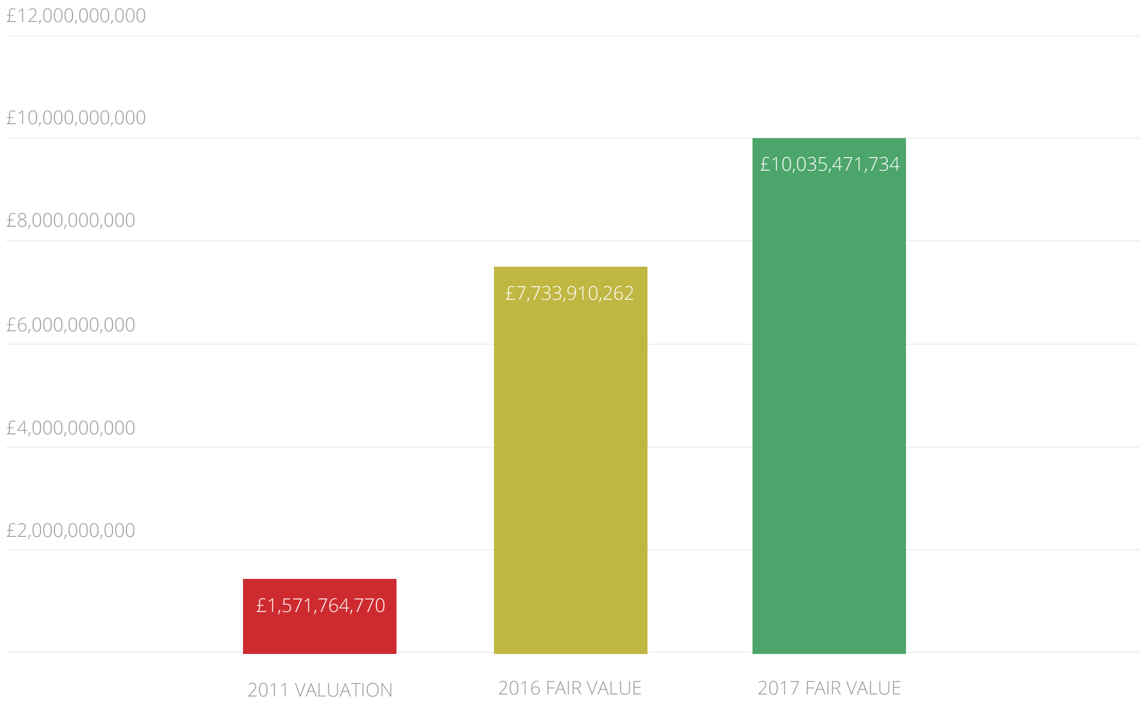
EXITS

The total value of all exits in the cohort is £3,785,896,091.

Twelve (2% of the cohort) of the exits occurred in 2017, yielding a total return of ~£645,137,028 (based on 2017 fair value). Compared to this, the previous year's 21 exits (4% of the cohort) were worth ~£717,522,956.

Averaging these valuations, we find that an exit in 2016 was worth £34,167,760 while an exit in 2017 was worth £53,761,419 – a £20,000,000 increase in value per exit.

This illustrates that while it is possible for relatively short-term exits to be profitable, sometimes early investors will have to wait seven years (or more) before businesses reach valuation inflection points and exit for very large multiples of the original investment.



Exited companies averaged a CAGR of 43%, totalling £645,137,029 in valuation, with the highest-valued exit being life-science company NuCana at £504,663,323 valuation and 84% CAGR.

Companies exiting by acquisition averaged a 31% CAGR, while those IPOing through AIM and NASDAQ earned 33% and 98% respectively. What's interesting here is the difference between the growth of businesses exiting via AIM in comparison to those selling on NASDAQ. While the former hoovers up a lot of smaller fish (16 companies), which together garner a CAGR of 33%, NASDAQ caters for a far smaller number of bigger, faster fish growing at around thrice the speed (2 companies together clocking a 98% CAGR)

DOWN AND OUT

Of the 73 cohort deaths, 31 occurred in 2017, representing a loss of value for investors of £100,283,430.

< COHORT VALUATION
Over the past six years, the cohort has grown to more than 5x its original value

TOP 3
2017 EXITS

NUCANA // NASDAQ // 84% CAGR
Valuations 2011 = £7,144,576, 2017 = £504,663,323
(change in valuation = 6,964%)

COBALT LIGHT SYSTEMS // Acquisition // 49% CAGR
Valuations 2011 = £2,506,572, 2017 = £40,000,000
(change in valuation = 1,496%)

FUSION ANTIBODIES // AIM // 30% CAGR
Valuations 2011 = £4,352,250, 2017 = £27,000,000
(change in valuation = 520%)

LIFE SCIENCES

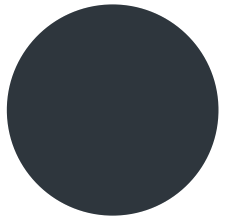
YOUR 2011 EIS PORTFOLIO

In broad, practical terms, these figures suggest that if you had invested £10,000 into the cohort in 2011, by 2017 you would have seen:

- Portfolio increase in value to: £63,848
- Returns from investment: £24,086
- Capital lost through failed businesses: £1,367 (£341 with EIS tax and loss relief)
- Net cash returns: £22,719 without EIS or £23,745 with EIS
- Capital still at work (and appreciating at 30%): £38,394

> YOUR EIS PORTFOLIO TODAY
By 2017, your portfolio would have increased in value to £63,848, generating £24,086 in returns and costing £1,367 through failed businesses, with £38,394 still hard at work

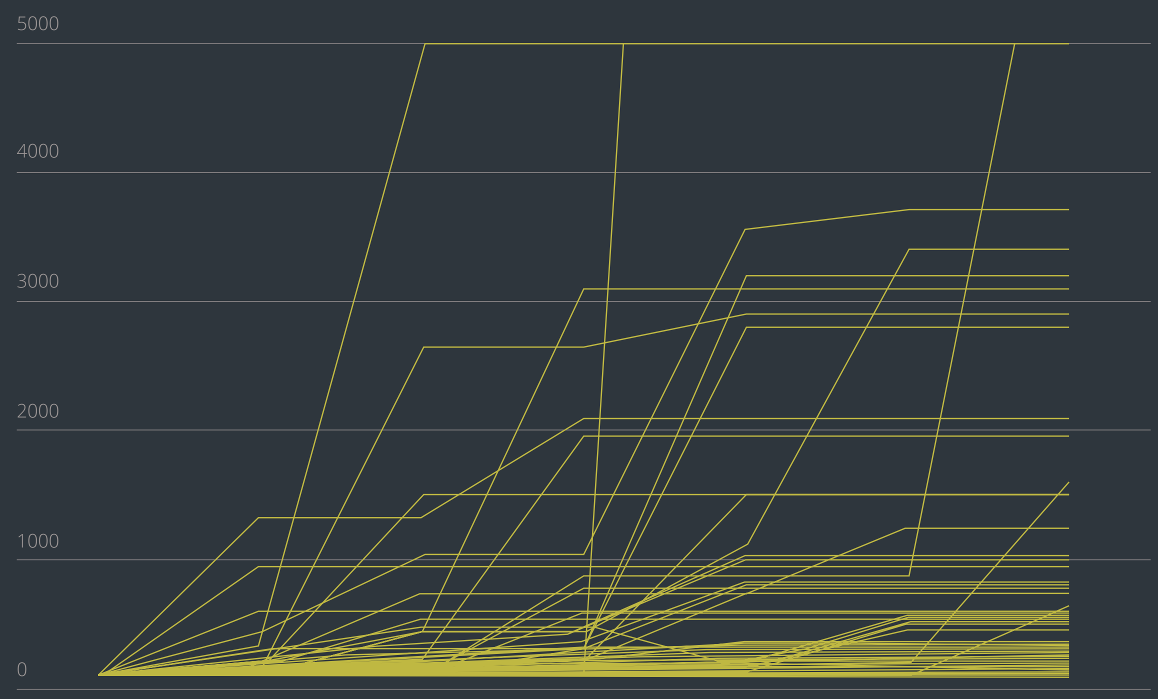
v YOUR 2011 INVESTMENT
Your original £10,000 investment, spread across the 519 companies



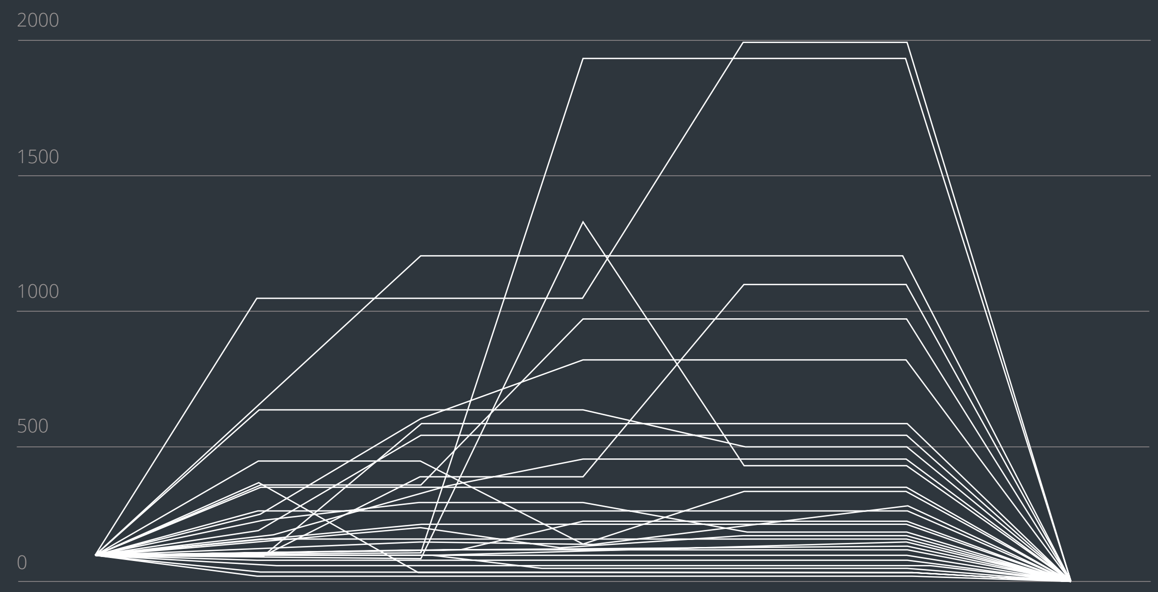
HOW TO SPOT A SUCCESSFUL INVESTMENT

This is of course, the million-pound question, literally. Looking at the data set, there could be some indicators as to whether or not a company will do well.

The graphs on the following page show the valuation history of companies that successfully exited and companies that failed. The valuations are normalised in order to highlight trends.



> EXITED COMPANIES
This graph illustrates the valuation history of companies that had a successful exit



> FAILED COMPANIES
This graph illustrates the valuation history of companies that failed

VALUATION AS PREDICTOR OF SUCCESS

Are sharply increasing valuations during private funding rounds an indicator of success?

Raising consequent funding rounds at increasing valuations was a trait of companies that failed, as well as companies that went on to successfully sell up or IPO. As you can see from the graph on page 21, there were some companies that raised at very high valuations the year before failing.

In the group of successful companies, there were a number of companies that raised capital either at a flat or steadily increasing rate before experiencing a large valuation inflection at exit.

PREDICTING AN EXIT

There is a marked difference between growth rate of companies that exit (42% CAGR) and those that haven't yet exited (30% CAGR).

Does a growing difference between two valuations – and therefore higher CAGR – signal increasing odds of a successful exit? Is it possible to predict the probability of an exit based on a company's range in valuations between funding rounds?

It seems so.

The valuations on the x-axis have been normalised, whereby each company raised its 2011 seed or venture round at 100 points. The y-axis shows the percentage likelihood of a company from the cohort going on to exit.

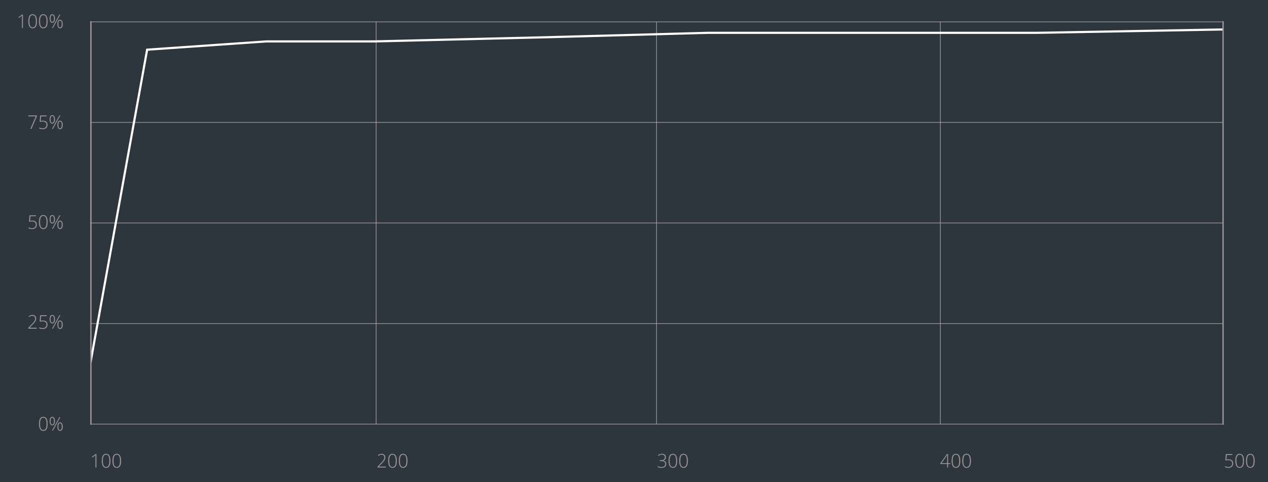
While the results are interesting and give our discussion a good starting point, it's very important to point out that this analysis takes into account a sample of 519 companies of which 73 have exited. Of those exits, not all would have been profitable for investors. Significantly, more data points over a longer period of time need to be used for this analysis to be used as a predictive model.

What this graph shows, perhaps surprisingly to many, is that if a company in this cohort raised a subsequent round of finance at a 1.2x multiple of its original seed or venture valuation, then there was a 93% chance of it going on to exit.

The odds of an exit dropped significantly when companies in the cohort were raising subsequent funding rounds at valuations lower than 1.2x of the original 2011 valuation.

Interestingly, the probability of an exit didn't increase significantly if a company raised finance at a multiple greater than 1.2x of its original valuation.

If a company raised again at 2x of its 2011 valuation, the chances of it going on to exit was 96%, while a raise at 3x of its original valuation saw a 97% likelihood of an exit.



> PROBABLY OF EXIT
This graph illustrates the likelihood of an exit against an index of a company's valuation history. This is based on the cohort of 519 companies and is not a predictive model

THE CURSE OF THE DOWN ROUND

Should you still invest in a company that is decreasing its valuation to raise more cash?

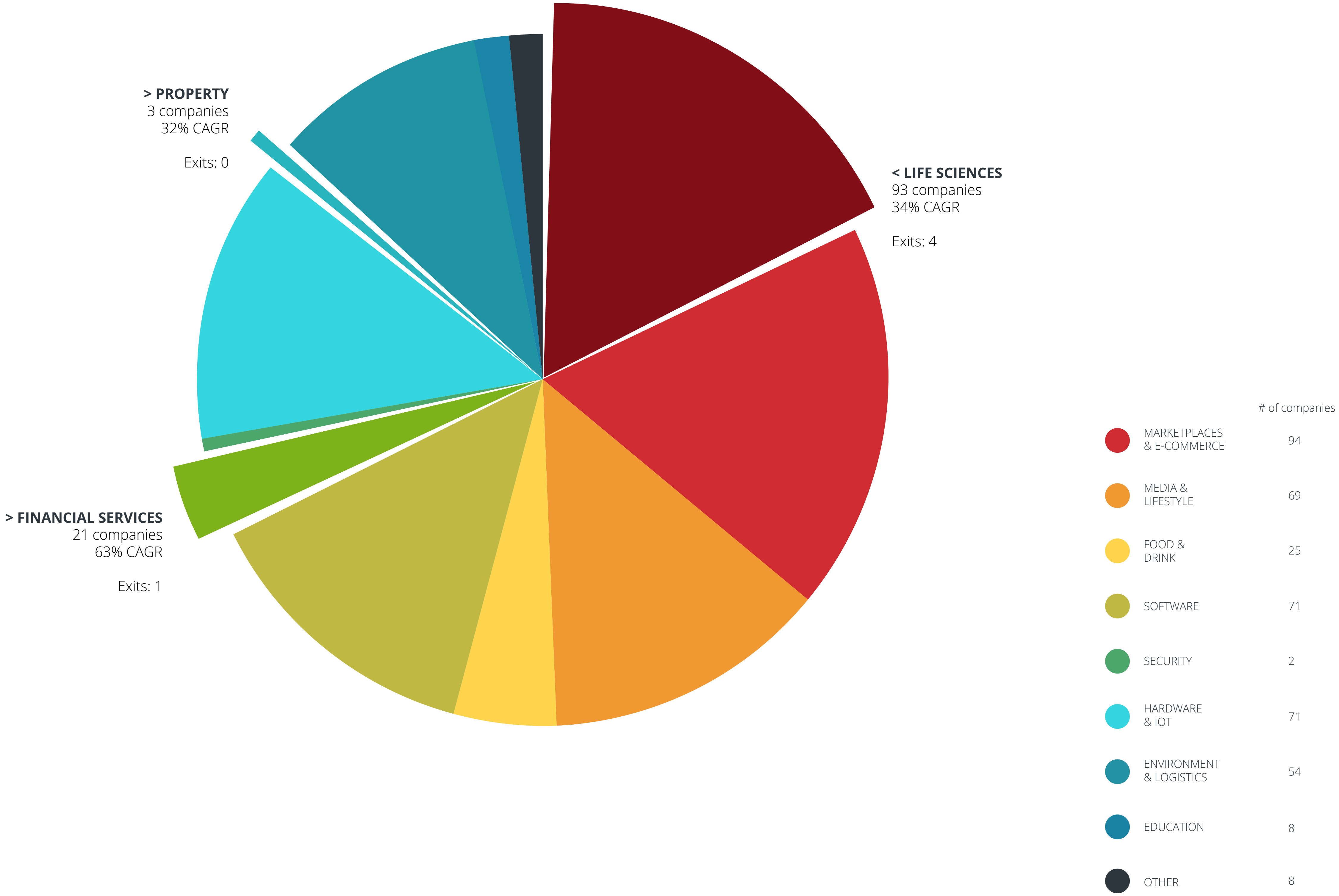
Of the 73 companies that failed, 15 (20%) only raised once before being written off. Of the remaining 58 companies, 23 (31.5%) experienced a down round before failing.

On the flip side, of the 73 companies that successfully exited, only 10 (13%) experienced a down round. Interestingly, the average CAGR of all the companies that exited was 42%, while the average CAGR of a company that exited and experienced a down-round was a sluggish 6.53%.

So if you're looking to invest in company that is experiencing a down round, there's a 15% chance (based on our data set) that the company will fail. Given that 14% of the companies in the cohort have died, a down round isn't a strong indicator of impending failure.

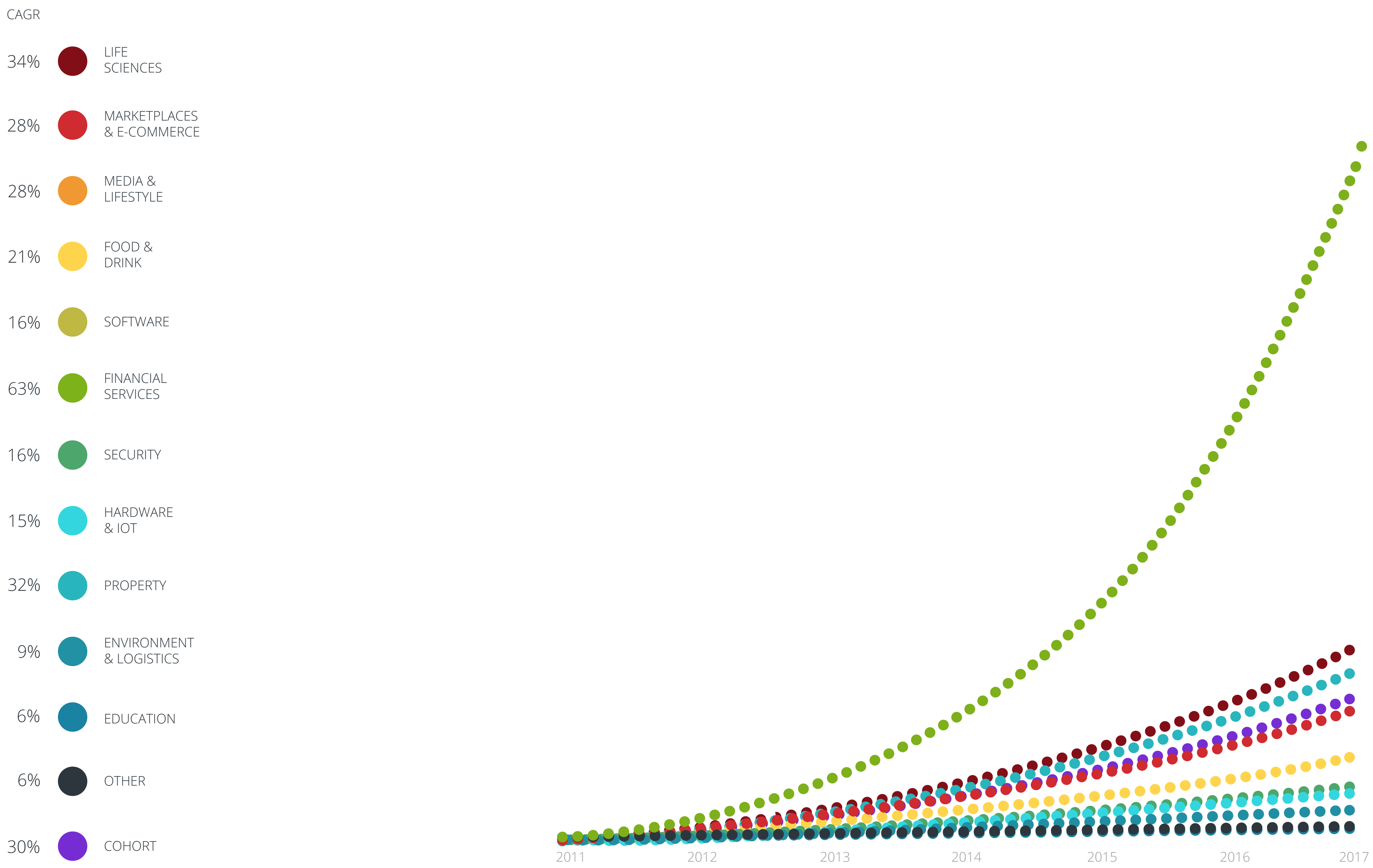
However, while they're not strong indicators of a forthcoming failure, down rounds do signal a lowreturning investment, if it goes on to exit.

SECTOR BREAKDOWN



While CAGRs for most of the sectors range from 6% (education and 'other') to 34% (life sciences), financial services distinguishes itself with an impressive compound annual growth rate of 64% – more than double the 30% CAGR average for the entire cohort.

The following pages look deeper into each sector, giving a short industry overview and plotting the trajectory of each sector's CAGR against that of the entire cohort (30%) as well as each sector's fastest-growing businesses.



LIFE SCIENCES

18% OF COHORT // 93 COMPANIES // 34% CAGR

High early-stage costs and long lead times can put investors off investing in life sciences; even the 'Facebook's of the medtech and biotech world can take decades, rather than the more usual three to seven years, to get to a multi-billion-pound valuation.

It may come as a bit of a surprise then that all three of 2017's top exits from the cohort – NuCana, Cobalt Light Systems and Fusion Antibodies – are life-science businesses. Overall, 18% of the cohort is made up of businesses operating within the life sciences, and these exhibit a CAGR of 34% versus 30% CAGR for the entire cohort.

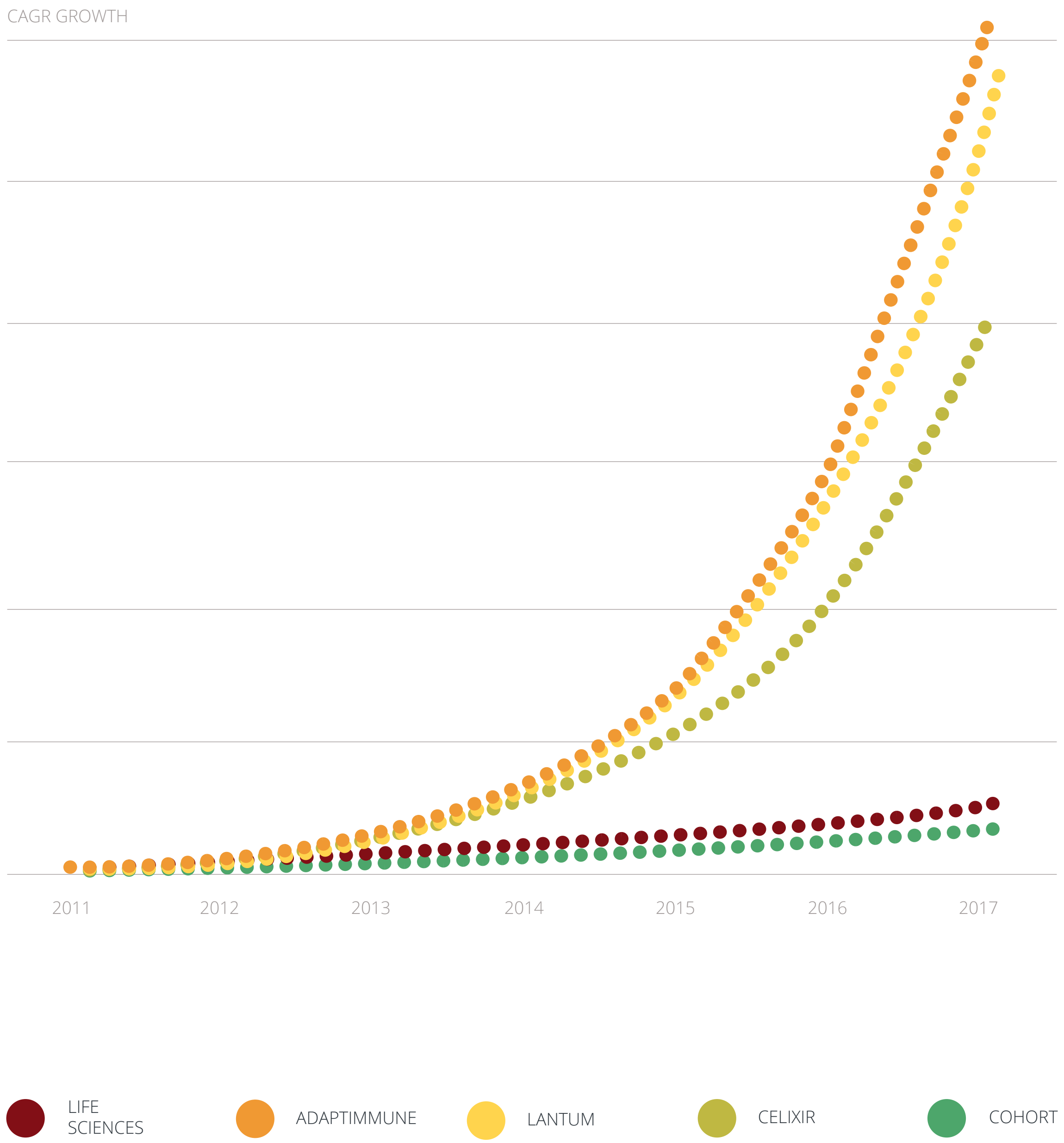
In 2015, SyndicateRoom was named Europe's leading online platform for life-science investment in a report by Biocom, having funded 16 of the 42 life science projects up to that date. Today, around one-third of the SyndicateRoom portfolio is made up of businesses specialising in life sciences.

TOP 3 COMPANIES BY CAGR

ADAPTIMMUNE // 107% (exited NASDAQ 2015)
SMART MATRIX // 105%
CELIXIR // 93%

SUM VALUATION

2011 £600,695,658
2017 £4,625,956,185



MARKETPLACES & E-COMMERCE

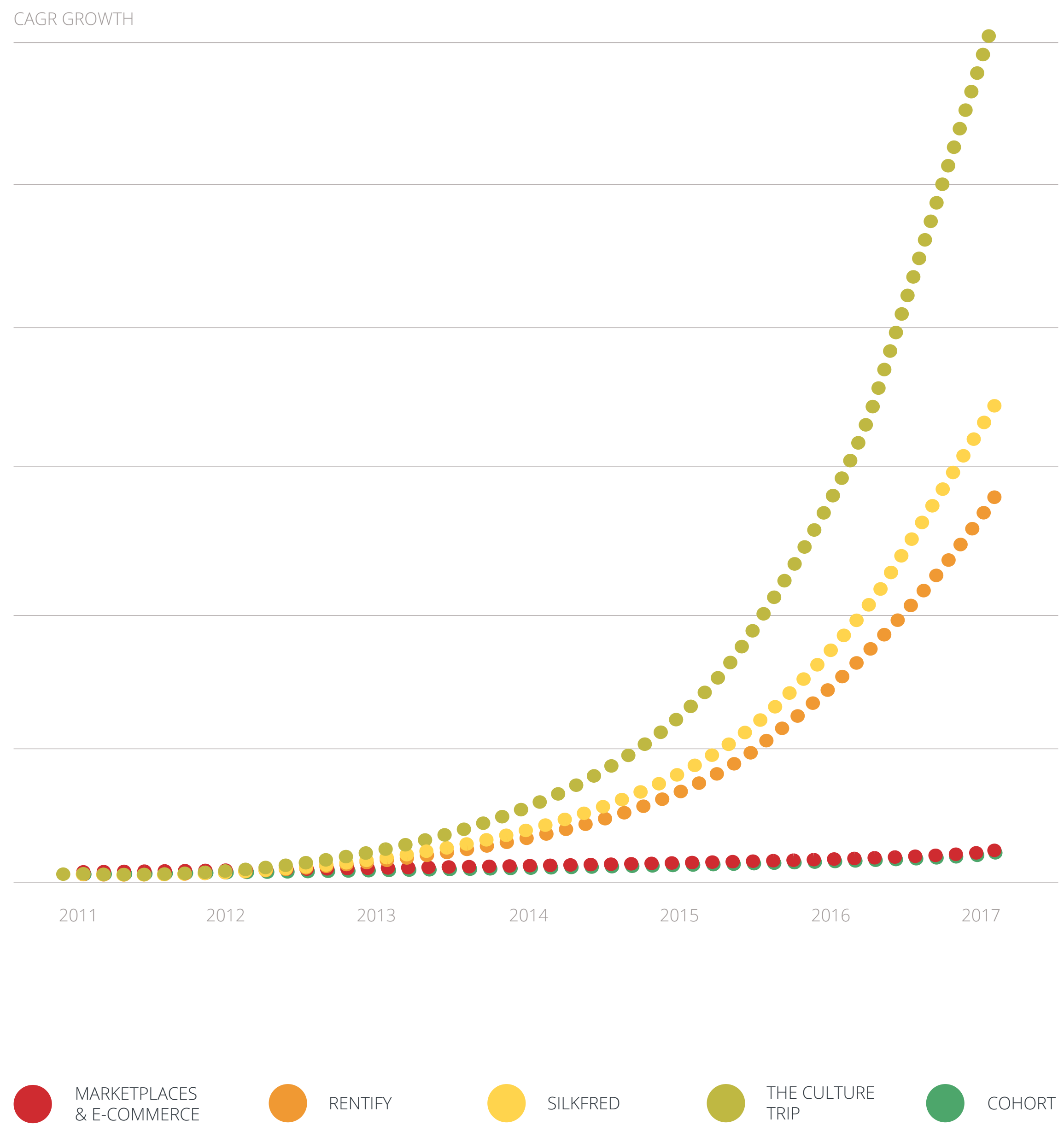
18% OF COHORT // 94 COMPANIES // 28% CAGR

In 2018, many businesses identify as e-commerce within their primary or secondary sectors, so it can be difficult to divide these by sector. We've included B2C websites (e.g. clothing lines), online platforms and betting shops in this category.

The growth of this sector is roughly on par with the average for the entire cohort: 30%; however, the top three businesses within marketplaces and e-commerce well outstrip this average, coming ahead of 100% CAGR since their seed funding round back in 2011.

TOP 3 COMPANIES BY CAGR
THE CULTURE TRIP // 134%
SILKFRED // 112%
RENTIFY // 104%

SUM VALUATION
2011 £166,693,591
2017 £945,446,081



FOOD & DRINK

5% OF COHORT // 25 COMPANIES // 21% CAGR

Recent years have seen an uptick in the popularity of vegan brands and popups – and no wonder, with around one-quarter of millennials choosing to cut meat out of their diet. But it's alcoholic drinks that, perhaps unsurprisingly, steal the show. The number of UK craft brewers has grown 65% from 1,026 in 2011 to around 1,700 in 2017, according to the Guardian – more per capita than any other nation in the world.

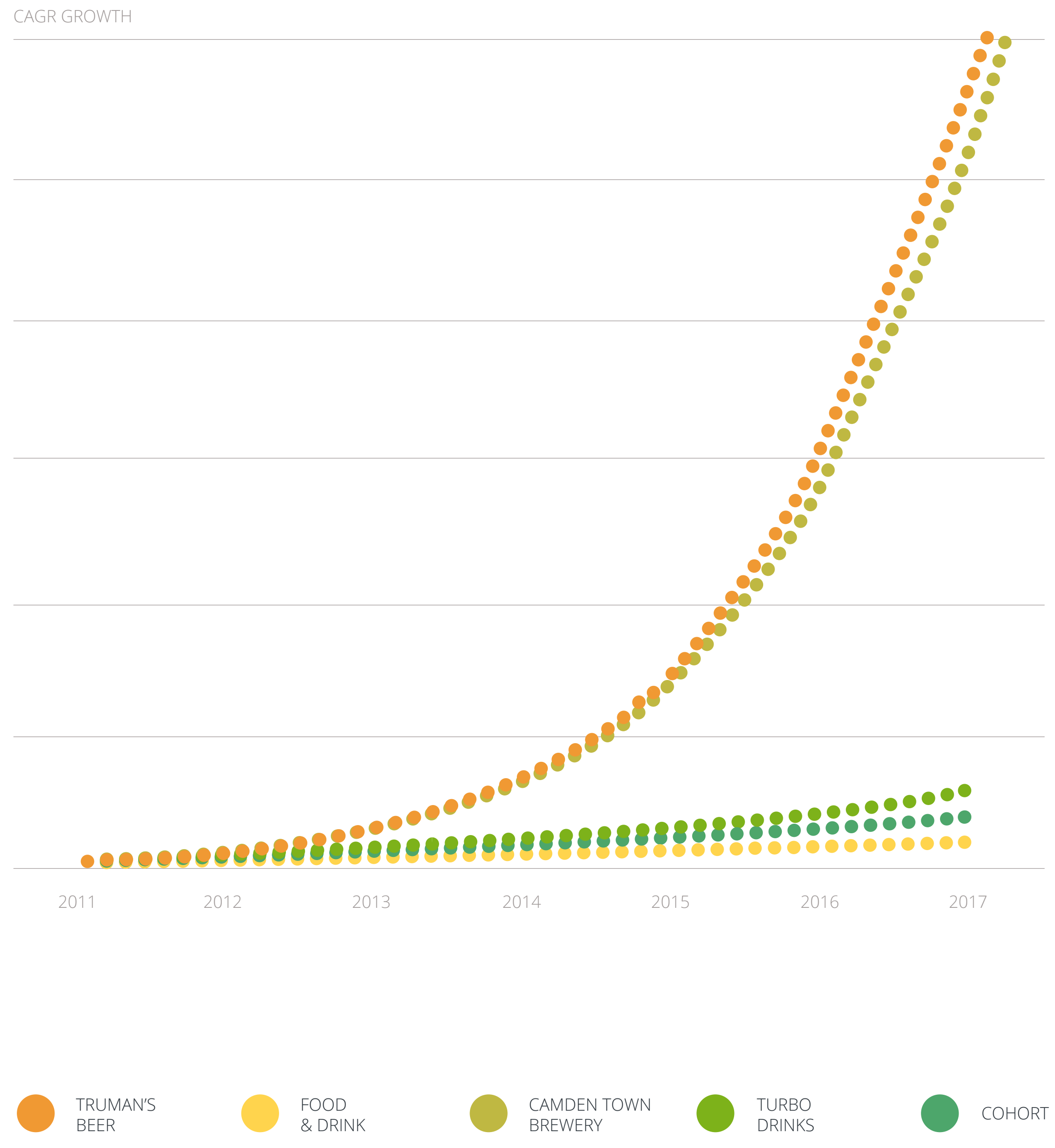
This is despite food and drink startups facing massive challenges, from the necessity of production and the storage of highly perishable goods to funding and cash flow (or lack thereof). Nevertheless, two breweries in the cohort have managed to display an admirable rate of growth.

TOP 3 COMPANIES BY CAGR

TRUMAN'S BEER // 114%
CAMDEN TOWN BREWERY // 113%
TURBO DRINKS // 38% CAGR (acquisition 2012)

SUM VALUATION

2011 £39,187,803
2017 £152,289,176



SOFTWARE

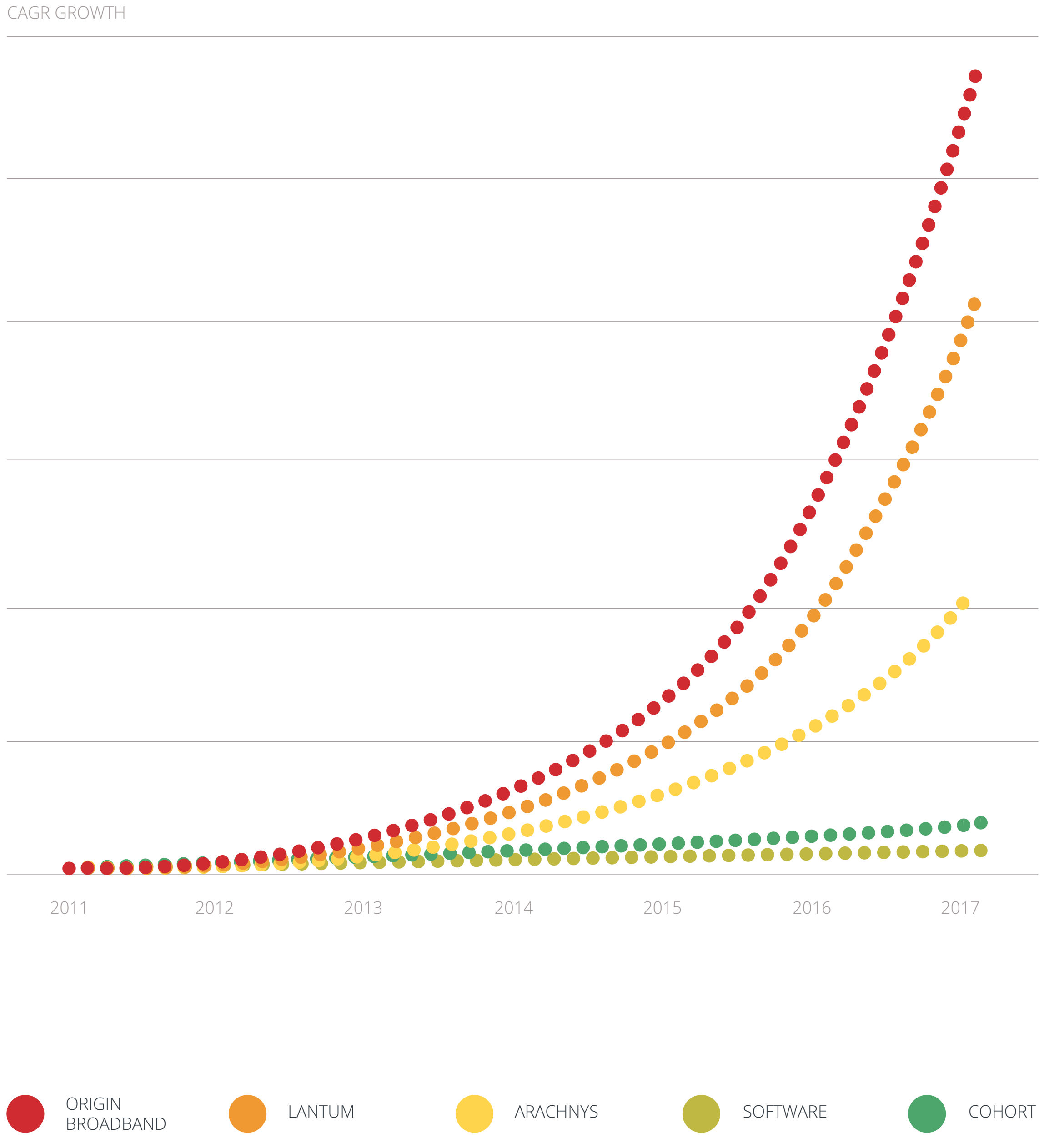
14% OF COHORT // 71 COMPANIES // 16% CAGR

Software-as-a-Service (SaaS) startups have been popping up everywhere in recent years due to increasing advances in technology making development easier, aided by the rapid growth of the larger cloud computing market.

These businesses allow people to license a piece of software via a subscription model and access it remotely, adding flexibility and freedom for clients.

TOP 3 COMPANIES BY CAGR
ORIGIN BROADBAND // 121%
LANTUM // 108%
ARACHNYS // 85%

SUM VALUATION
2011 £197,573,183
2017 £568,409,329



The NHS is under increasing pressure and patterns of patient demand are getting ever more difficult to predict. Lantum exists to help release that pressure by making it easier for healthcare providers and sessional doctors to connect and build long-lasting professional relationships – without the need for expensive and bureaucratic, third-party agencies.

“

Our industry is backward; old technology dominates. This can make it hard to enter. However, these days there is a need for NHS organisations to find efficiencies, and organisations are willing to look at new approaches and adapt.

Lantum has built an end-to-end system for the industry. We do workforce management for organisations and also provide tools for clinicians to manage their workflow. This is completely new and creates efficiencies across the entire supply chain. Whilst it takes a long time to build a system like that, once you have it, getting customers and growing is not so hard.

Melissa**Morris**

CEO AND FOUNDER, LANTUM

FINANCIAL SERVICES

4% OF COHORT // 21 COMPANIES // 63% CAGR

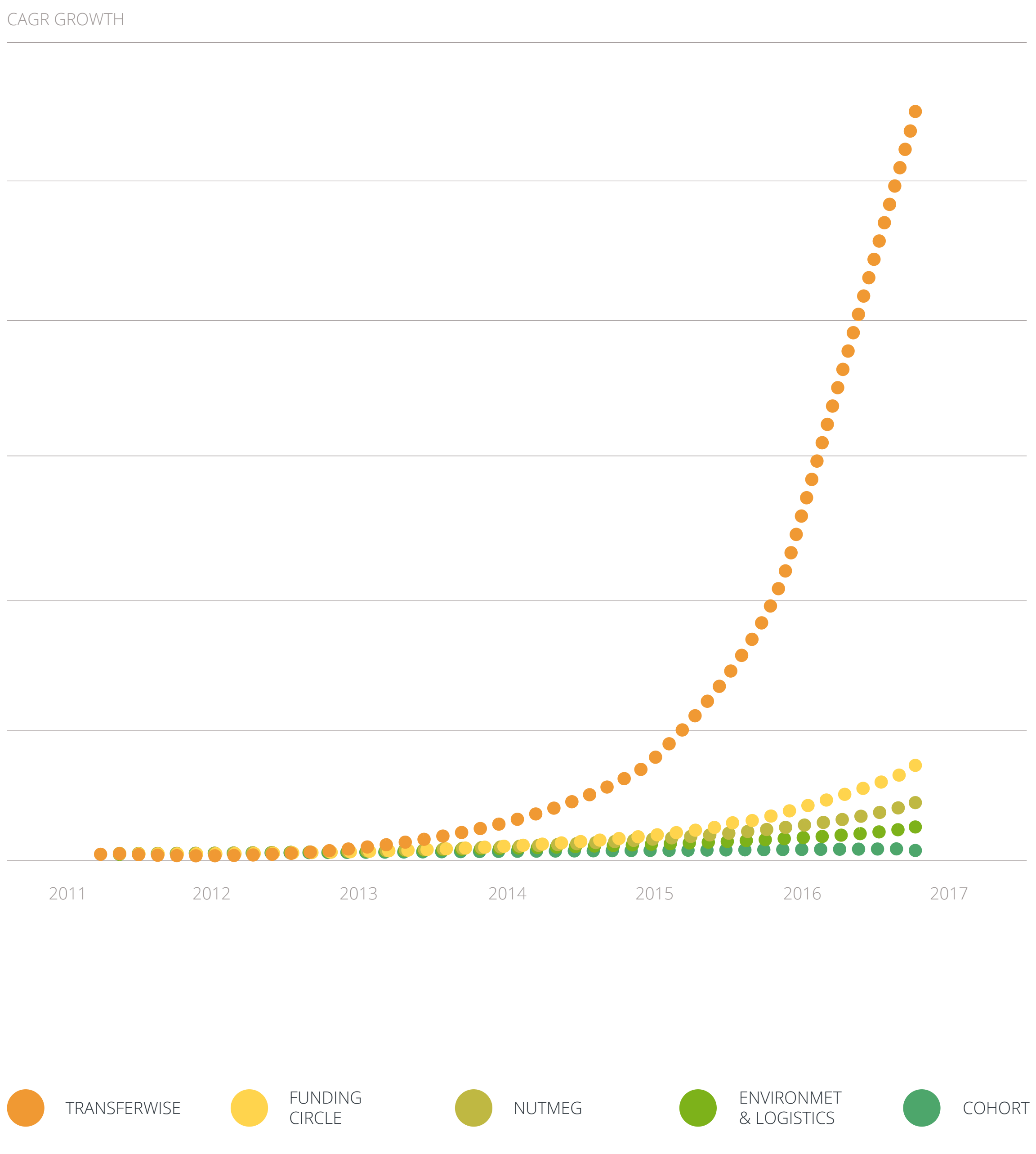
The UK – and London in the very particular – has long been heralded the fintech capital of the world, a title that's persisted through even the Brexit furore of yesteryear. In fact, according to Pitch-Book, the UK's fintech sector attracted £1.34bn of venture capital funding in 2017 – almost half of the £2.99bn that was invested across all UK tech companies. So, the future looks bright.

Our cohort data appears to agree, with financial services emerging as the sector with the highest rate of growth, 63% CAGR – more than double the CAGR of the cohort as a whole.

Little wonder then that at 183%, TransferWise's CAGR tops not only the table of financial services businesses, but the entire cohort.

TOP 3 COMPANIES BY CAGR
TRANSFERWISE // 183%
FUNDING CIRCLE // 100%
NUTMEG // 81%

SUM VALUATION
2011 £73,956,740
2017 £2,298,803,053



SECURITY

~0% OF COHORT // 2 COMPANIES // 16% CAGR

The Cybersecurity Market – Global Forecast to 2022 report by marketsandmarkets.com estimated the value of the global cybersecurity market at $137.85bn for 2017, anticipating it would grow at a CAGR of 11% to hit $231.94bn by 2022.

Compared to that projection, our figures for the UK look promising. The overall CAGR for security businesses in the cohort is 16%, putting the sector ahead of education, environment & logistics and hardware & IoT, but below everything else in terms of growth.

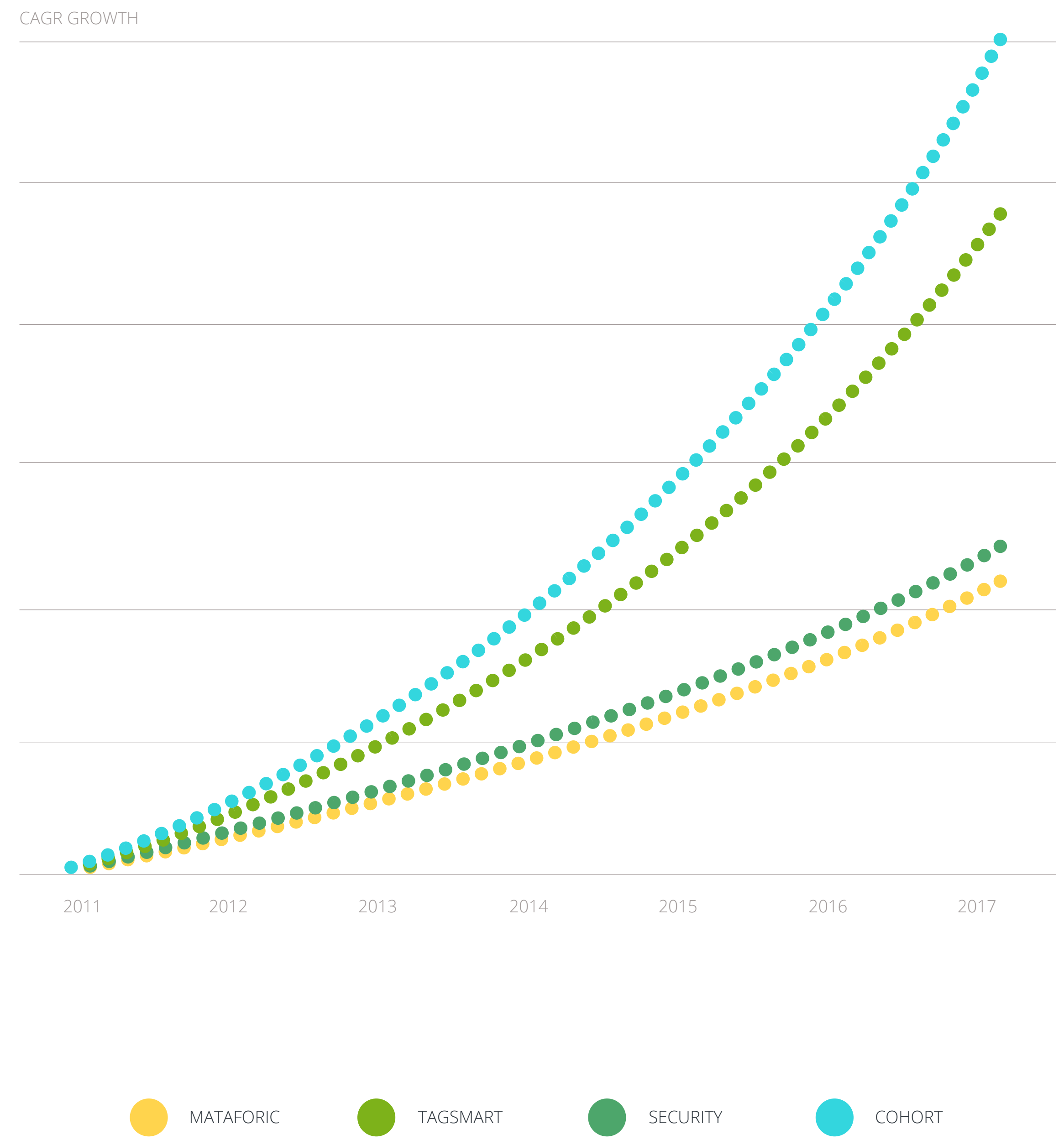
And with the GDPR enforceable in EU countries from May 2018, cybersecurity businesses could soon be on the up.

TOP 2 COMPANIES BY CAGR

TAGSMART // 26%
METAFORIC // 15% (acquisition 2014)

SUM VALUATION

● **2011** £4,917,737
●●● **2017** £14,096,258



HARDWARE & IOT

14% OF COHORT // 71 COMPANIES // 15% CAGR

IoT – Internet of Things – was a big buzzword back in 2016–17, and in 2018 that excitement progresses to machine learning and artificial intelligence. The opportunity here is around collaboration, whether that's combining IoT with blockchain and logistics, augmenting skilled and manual labour through tracking and learning, or growing the understanding between man and machine via deep learning, natural language processing, image recognition and neural-network-driven decision-making.

It's a bit surprising, then, that the sector for hardware and IoT isn't among the best performing overall.

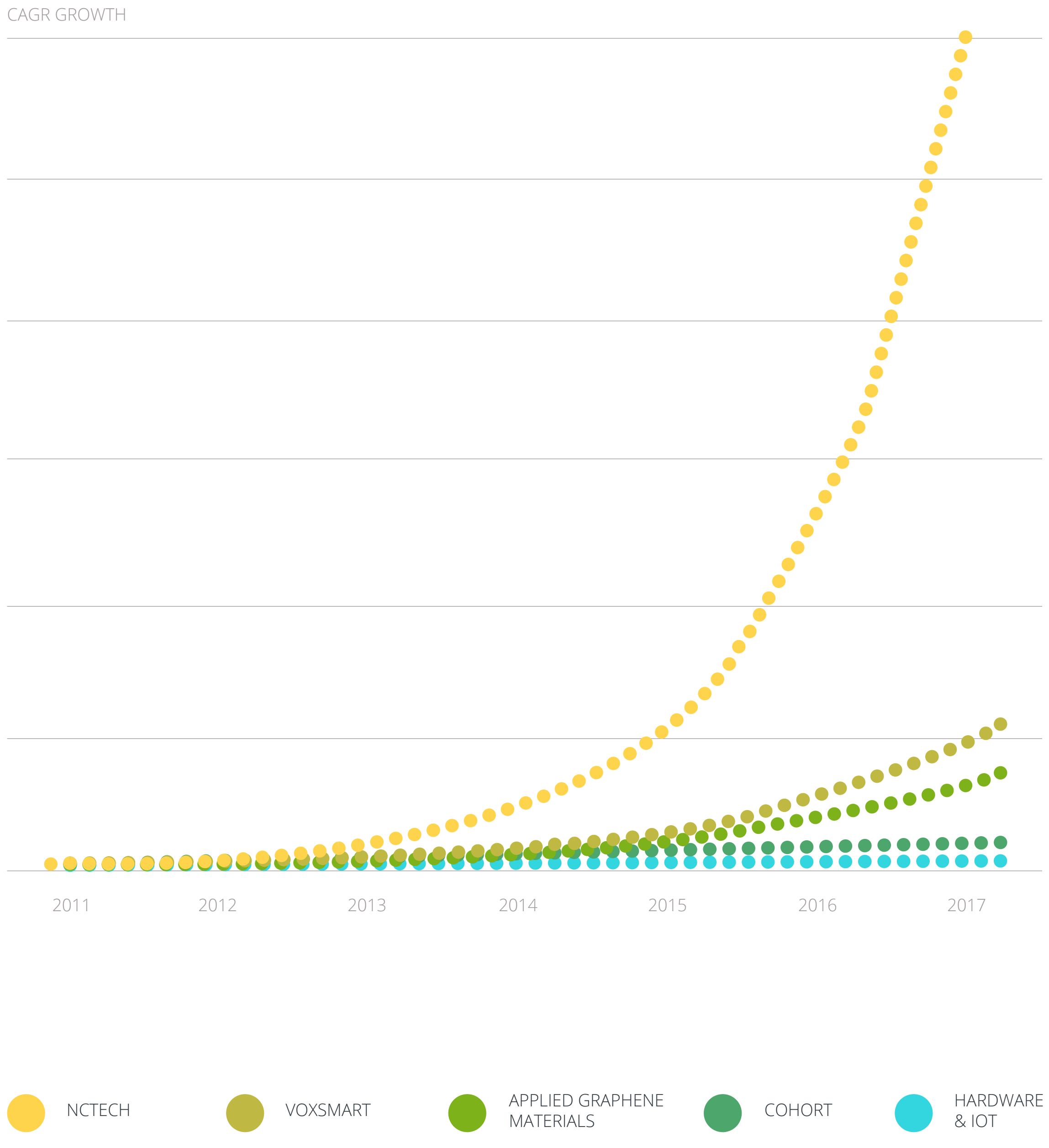
NCTech, a pioneer of innovative hi-tech cameras and software, and the top company in this sector within our cohort, broke out far ahead of the rest with a CAGR of 156%.

TOP 3 COMPANIES BY CAGR

NCTECH // 156%
VOXSMART // 87%
APPLIED GRAPHENE MATERIALS // 75% (exited AIM 2013)

SUM VALUATION

2011 £170,200,614
2017 £442,055,507



PROPERTY

1% OF COHORT // 3 COMPANIES // 32% CAGR

The UK's multi-billion-pound property sector has for a long time been dominated by large, established high-street estate agents, which can often prove expensive, outdated and arduous to deal with whether you're looking to rent, sell or buy.

The opportunity, as is the case with all new ventures, isn't to try to beat the incumbents at their own business – it's to redesign the business altogether. That's exactly what's happening with the rising tide of proptech: a new generation of tech-savvy entrepreneurs with ideas of how to rebuild the property sector and bring it into the digital age.

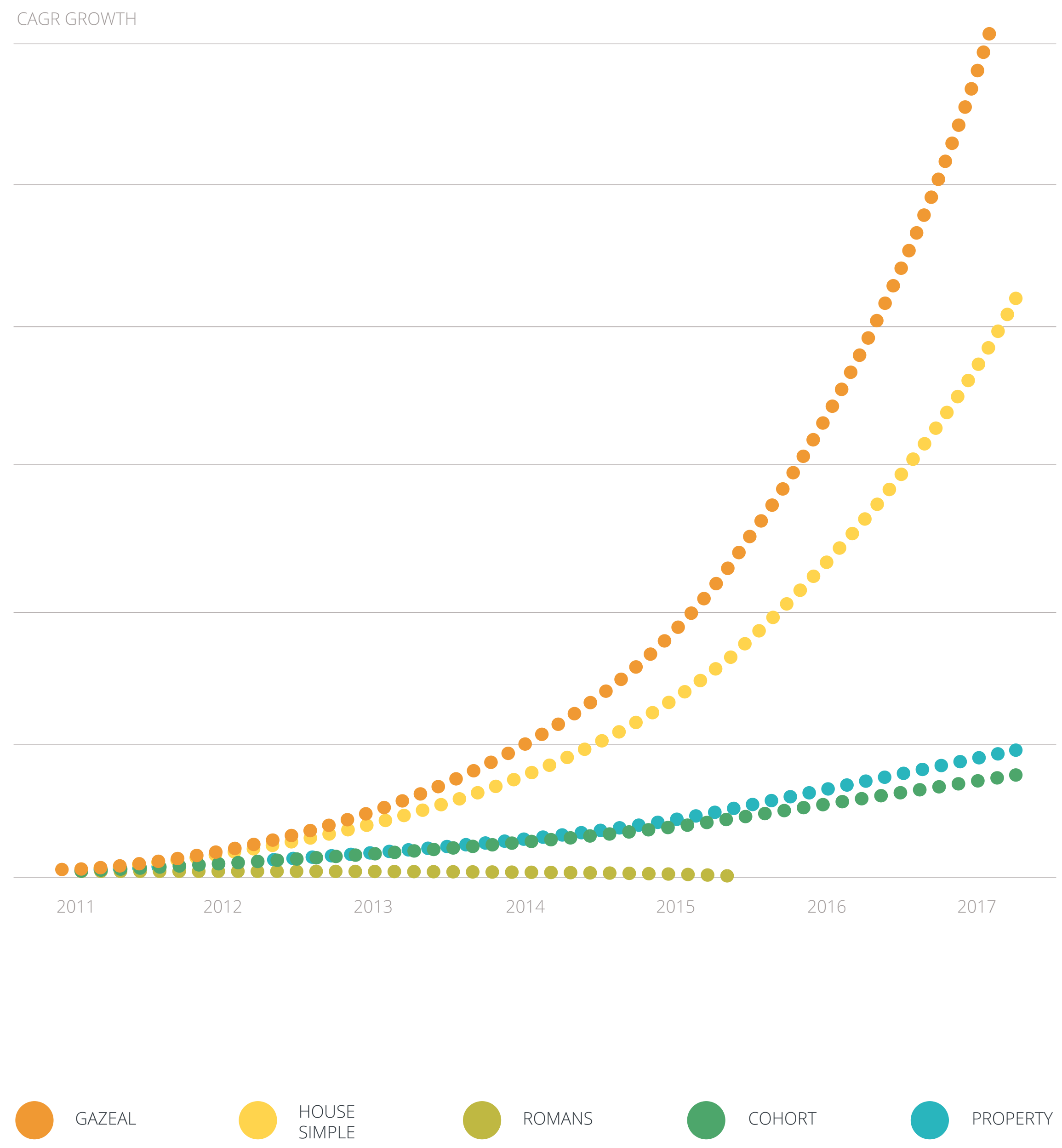
According to real estate company Savills, the UK's private rental sector was worth around £1.3trln in 2016, having grown 55% in the previous five years, presenting a significant opportunity for innovation. The property businesses within this report have clearly spotted the opportunity: although they make up just 1% of the cohort, their combined CAGR surpasses the average for the cohort at 31.83%.

TOP 3 COMPANIES BY CAGR

GAZEAL // 79%
HOUSESIMPLE // 66%
ROMANS // -3%

SUM VALUATION

2011 £4,356,178
2017 £30,139,732



ENVIRONMENT & LOGISTICS

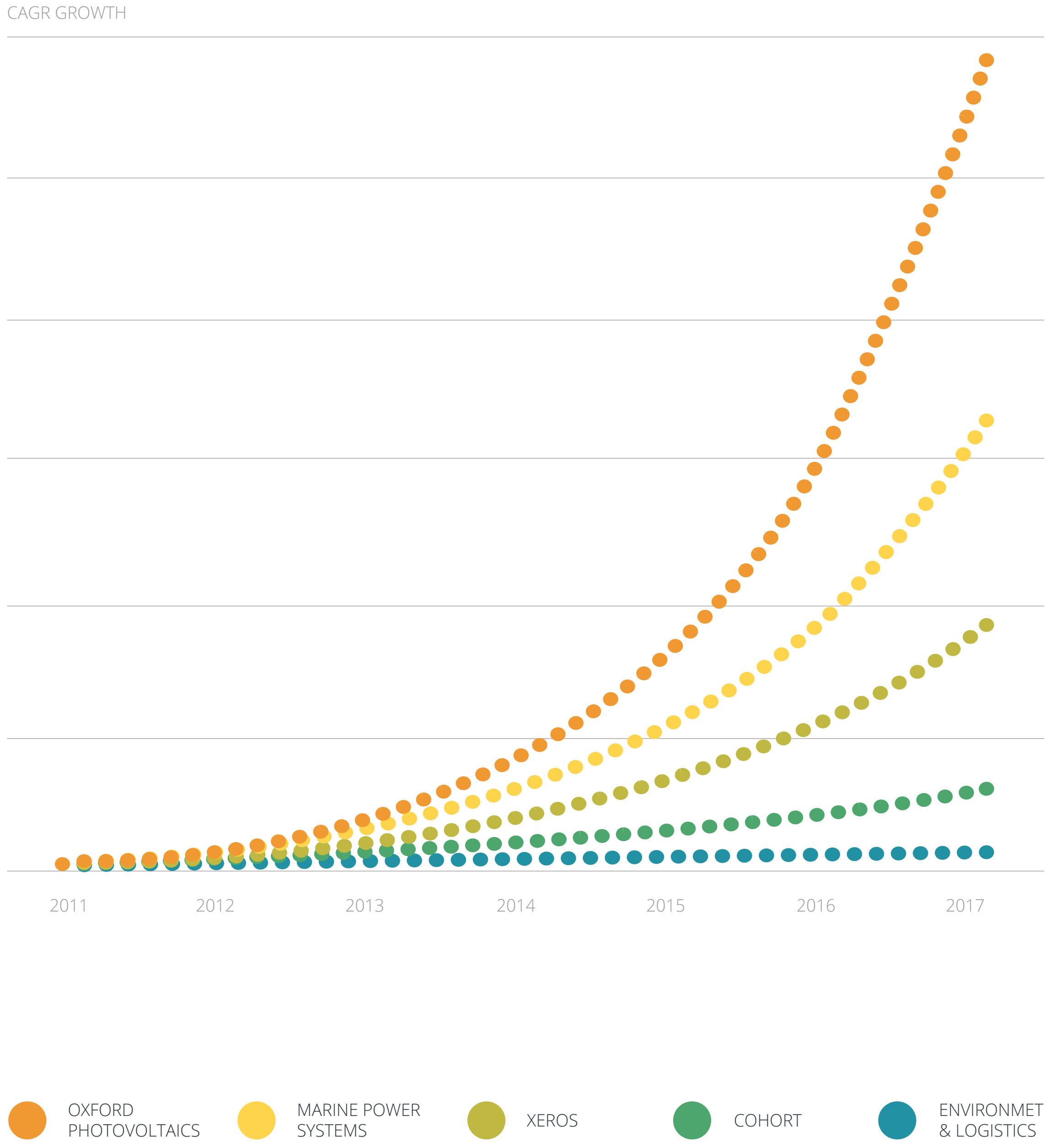
10% OF COHORT // 54 COMPANIES // 9% CAGR

Clean power gathered unprecedented momentum last year, with a particular refocus on electric vehicles such as the Tesla Model 3. With climate change problems on the rise, most governments the world over are pushing for an increase in renewable energy. Clearly this is an area in which young and nimble businesses have the opportunity to shine.

Despite this, the 'environment and logistics' part of our cohort exhibits one of the lowest sector growth rates, coming in at just 9% CAGR.

TOP 3 COMPANIES BY CAGR
OXFORD PHOTOVOLTAICS // 86%
MARINE POWER SYSTEMS // 69%
XEROS // 53% (exited AIM 2014)

SUM VALUATION
● **2011** £189,644,774
●● **2017** £352,119,389



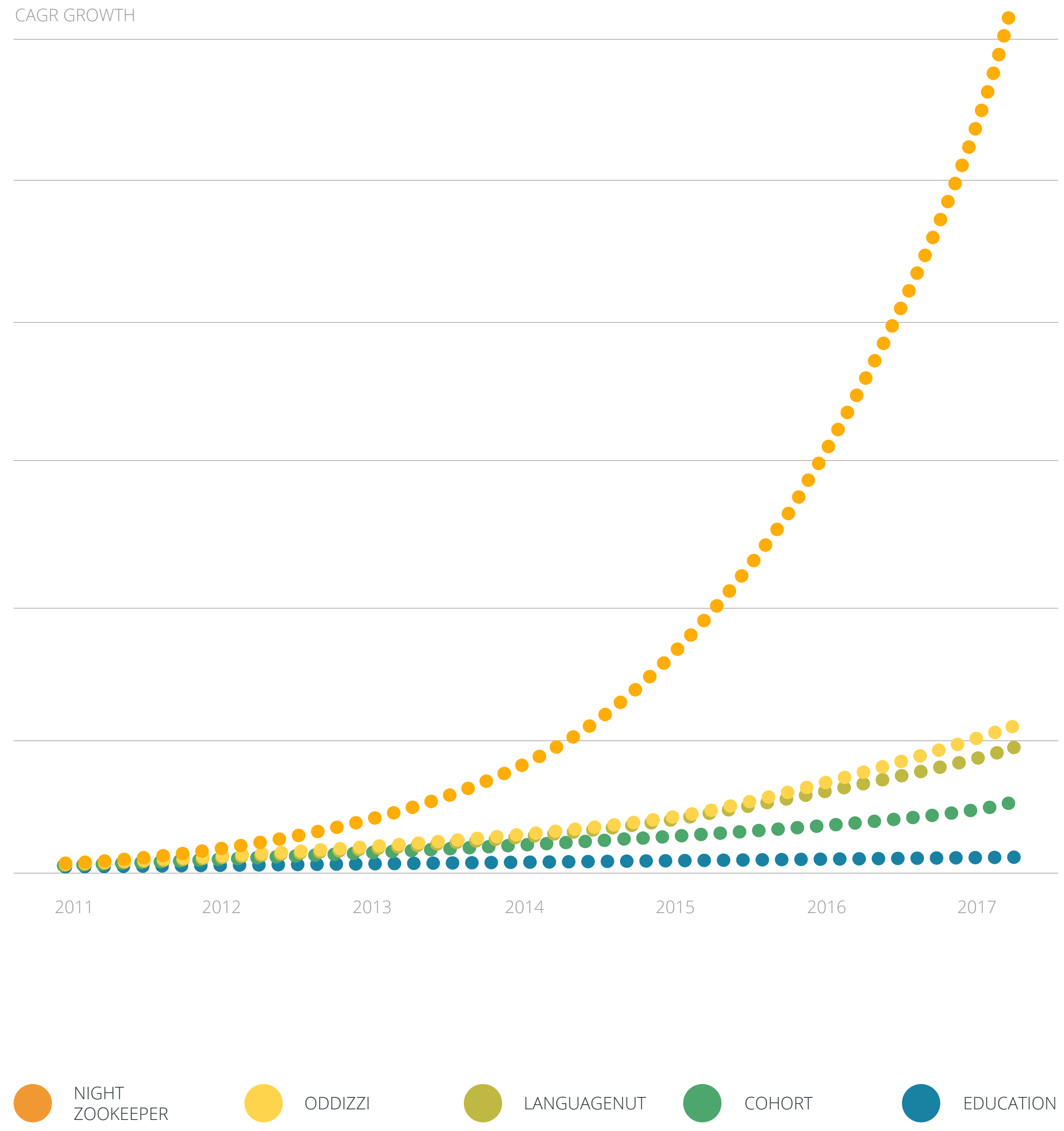
EDUCATION

2% OF COHORT // 8 COMPANIES // 6% CAGR

At 6.32% CAGR, education is by far amongst the worst-performing sectors within our cohort. Given how much value education holds for every person's development, this may come as a shock; for anyone familiar with the education sector, however, it is only a harsh truth. Value and profit, it turns out, are not the same thing.

TOP 3 COMPANIES BY CAGR
NIGHT ZOOKEEPER // 93%
ODDIZZI // 43%
LANGUAGENUT // 41%

SUM VALUATION
● **2011** £9,646,871
●● **2017** £14,814,708



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I do think it is tough to raise money for a pure education technology business, especially if it is UK centric. Everyone knows that school funding in the UK is incredibly tight and there are a lot of very large incumbent companies, each operating with a big sales force and lots of existing customers. This contributes to the industry’s very low churn rate.

It is also true that there are lots of edtech startups, many claiming to have the “next big idea”, but ultimately trying to solve the same or similar issues. It must be hard for investors to look at that space and pick a winner.

All that said, the education market is a big beast, and companies that can sell and find a userbase globally are starting to get the support they need from angel investors and venture capital funds. This is because the startups that do win, can go on to become huge.

Thankfully, Night Zookeeper has stood out in a highly competitive market so far. I think this is because of our commitment to excellence both in design and educational content and a child-centric vision that focuses on delivering highly creative and empowering products to schools and parents.

Joshua**Davidson**
FOUNDER AND MD, NIGHT ZOOKEEPER

APPENDIX
EIS CHEAT SHEET

WHAT IS EIS?

The Enterprise Investment Scheme (EIS) was introduced in 1994 to help smaller, higher-risk unquoted companies raise finance by offering a series of tax reliefs to new investors, thereby helping lessen the amount of investor capital at risk.

At its core, EIS is one of the most generous tax relief schemes in existence.

WHAT DOES IT DO?

EIS lets you invest up to £1m in any tax year and receive 30% tax relief on your initial investment. It offers additional loss relief (as per the example below), while allowing investors to roll over existing capital gains tax and give wealthier investors the chance to delay or even avoid inheritance tax.

*At a tax bracket of 45%, the loss relief would be £7,000 x 45% = £3,150. Therefore, for £10,000 invested, your real loss is £7,000 - £3,150 = £3,850

METHODOLOGY

Beauhurst monitors and tracks every equity investment into private UK companies and has been doing so since mid-2010. Wherever possible, Beauhurst calculates the valuation of the company at the time of the investment.

This dataset has enabled Beauhurst to analyse the growth in valuation of a cohort of UK companies from 2011 to present.

COHORT SELECTION

Beauhurst selected a cohort of 676 companies that received equity investment in 2011 and for which Beauhurst has been able to calculate a valuation at the time of investment.

Beauhurst has been sector-agnostic in selecting this cohort. Beauhurst further refined this cohort by limiting it to companies that were seed or venture-stage at the time of their 2011 raise. Where a company has exited or died, it remains part of the cohort and is valued on the basis below.

Note: for the report, a subset of 519 companies was used to draw a comparison between valuation data from 2011, 2016 and 2017. The subset (referred to as 'the cohort' throughout the body of the report) was chosen based on which companies had reliable data available for all of these years.

VALUATION CALCULATION

All Beauhurst's valuations are transactional valuations based on the price paid per share in the round and the total number of shares in the company.

In some instances, valuations cannot be reliably calculated, because of the use preference/deferred shares, and these companies have been excluded from the cohort. All valuations are based on data that are in the public domain.

VALUATION TIMING

Each member of the cohort's starting valuation is based on the pre-money valuation of the company at the time of the first fundraising they completed in 2011 (where they completed more than one). Subsequent valuations are based on the last fundraising completed in that year.

VALUATION GROWTH

To analyse the change in valuation of the full cohort of companies (676 businesses) between 2011 and now, Beauhurst determined the fair value of each company as at the end of 2017.

This process takes into account the following:

1. Where the company has ceased trading or wound up, it has been valued at zero
2. Where the company has had a successful IPO, the company has been valued based on the share price at the point of listing
3. Where the company has been acquired, the company has been valued at either the sale price, where disclosed; or
   a. the value of the latest known valuation,
   b. where the sale price is undisclosed
4. Where the company has raised subsequent round(s) of investment, the company has been valued at the valuation of the most recent investment
5. Where the company has not raised any subsequent investment, but has not ceased trading or wound up, the company has been valued at the same value as its initial round of investment

LEGALS

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