



INVESTORS PRESS PAUSE ON CREATech SECTOR, BUT SIGNS SUGGEST THIS IS TEMPORARY

A review of Q3 2020 growth capital investment in the CreaTech sector

According to our research into UK private companies raising between £1 million and £20 million of growth equity capital, 206 British businesses raised a total of £982 million of growth capital in the third quarter of 2020. The Q3 figures for the overall growth capital market illustrated a 28% quarter-on-quarter increase in the number of deals completing and a 26% increase in the amount of growth capital being raised.

This significant increase in activity was underpinned by a new UK government initiative to support direct equity investment in high-growth, innovative firms across the country. The Coronavirus Future Fund launched in May, with an initial commitment from the government of £250 million of funding which would be unlocked by private investment on a match-funded basis. This commitment was later

extended, and in June it was announced that more than £320 million had been invested.

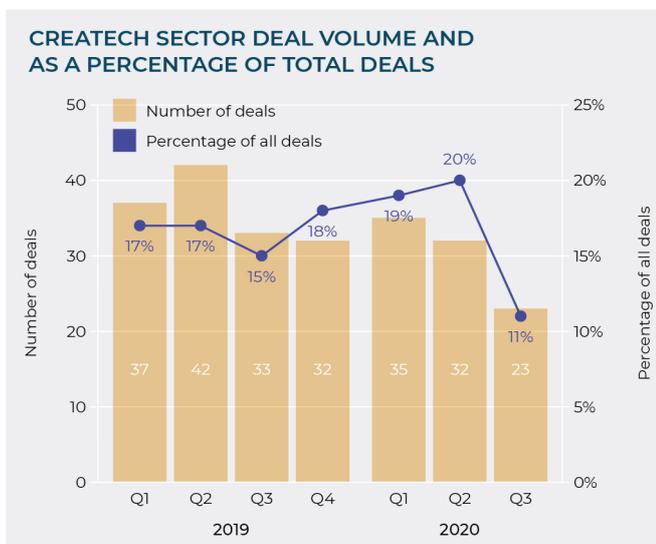
The CreaTech sector has not kept pace with this general increase in activity and, rather than growing, has actually experienced a 28% quarter-on-quarter decline in the number of deals completed, with just 23 deals in the quarter raising a total of £87 million, 42% down on last quarter's £149 million raised. Its overall share of the growth capital market has therefore also decreased significantly this quarter, with CreaTech deals making up just 11% of all deals completed.

The average deal size in Q3 was £3.78 million, which is 19% down on Q2's £4.66 million.

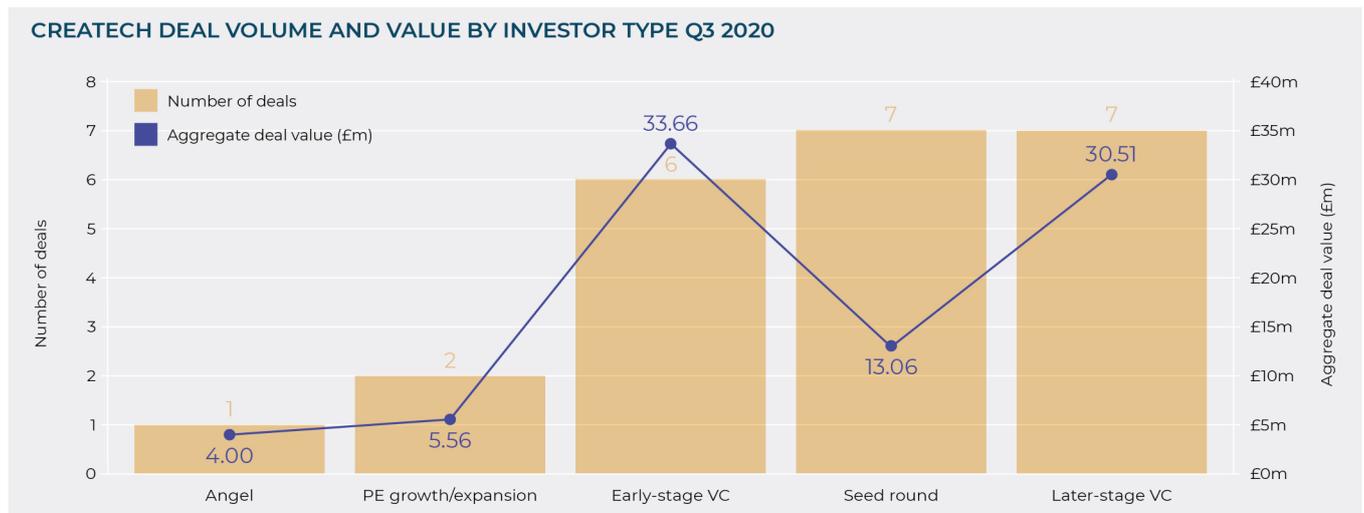
"After a relatively strong Q2, investment in the CreaTech sector was slow over the summer, we suspect partly because of the level of disruption to the entertainment industry," says Paul Winterflood, Corporate Finance Partner at Moore Kingston Smith. "Early signs show that activity has picked up significantly post-summer as disrupters established themselves so we are optimistic of a much stronger Q4 and start to 2021."

As far as the types of CreaTech investment deals that were most common in Q3 2020 are concerned, later-stage VC continues to occupy the top spot for numbers of deals completed, with seed rounds coming second, and early-stage VC third. The most amount of money, however, was raised by early-stage VC deals.

60% of all growth capital deals recorded in Q3 2020 involved companies headquartered in the Greater London area. This percentage increases when we look at CreaTech deals in isolation to 70%, indicating that London is the centre of CreaTech innovation.



A REVIEW OF Q3 2020 GROWTH CAPITAL INVESTMENT IN THE CREATECH SECTOR



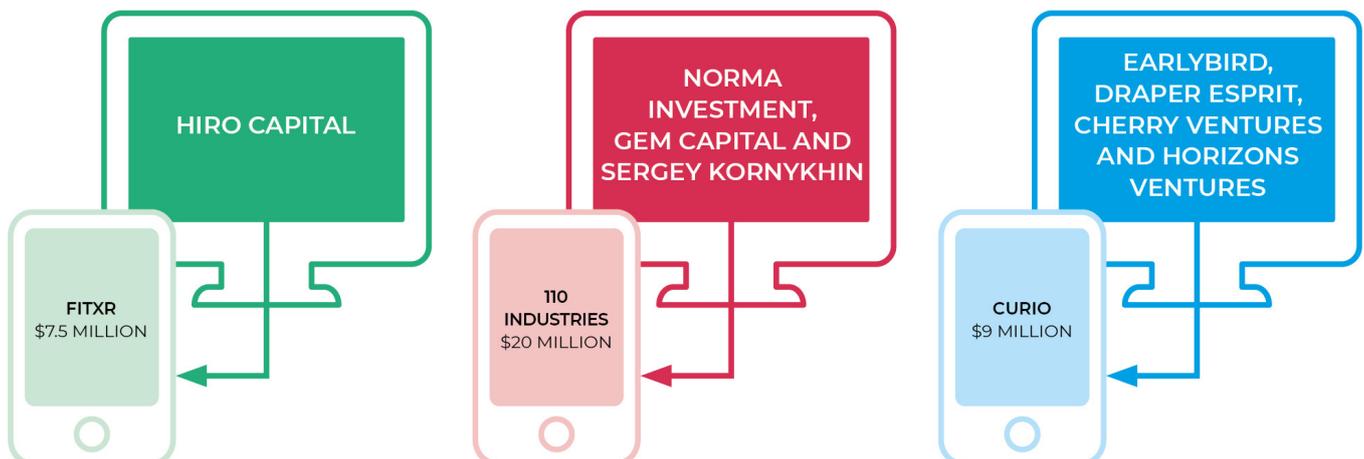
NOTABLE DEALS

In July 2020, UK-based virtual reality fitness developer FitXR secured US\$7.5 million in a series A venture round led by Hiro Capital. FitXR has produced award-winning games and services for popular virtual reality, augmented reality and mixed reality platforms such as Oculus, Steam and PlayStation VR. FitXR will use the new investment to expand its operations in Europe and North America, and to accelerate the launch of several new products and services for people to keep fit in virtual reality.

In August 2020, UK gaming company 110 Industries announced that it had raised US\$20 million from Roman Abramovich’s investment company Norma Investment, GEM Capital and film producer Sergey Kornykhin. 110 Industries creates a game script, develops concept art for characters and then

outsources production to a third-party development studio. 110 Industries intends to work with top foreign studios focusing on premium single-player titles for consoles and streaming game services.

In September 2020, London-based media platform Curio announced it had raised US\$9 million in a series A investment round. The money was provided by European investors led by the German VC Earlybird, and including contributions from Draper Esprit, Cherry Ventures and Horizons Ventures. Curio aggregates content from news media and other publications and transforms it into pieces of audio content, offered to its own audience via a mobile app. The funds raised will be used to consolidate Curio’s market position both in the US and the UK and to expand to other English-speaking regions.



OUTLOOK

Having performed relatively strongly in the first half of this year, it is disappointing to see the CreaTech sector stumble in Q3, particularly when the growth capital market as a whole has shown a significant improvement in levels of activity, underpinned by government support and intervention.

Hopefully this quarter's numbers represent just a pause in activity, while investors take stock of their existing commitments to the sector and calculate their existing levels of exposure and appetite for risk. We remain bullish about the long-term prospects for the CreaTech sector. However, we acknowledge that short-term factors as the UK heads into winter, with a rise in Coronavirus cases anticipated and more lockdown measures in place, may lead to a few more bumps in the road ahead.

"It is possible that CreaTech has suffered this quarter as investors have directed more of their attention to sectors such as healthtech and edtech, which provided urgently required solutions to the deprivations of lockdown," says Esther Carder, Partner at Moore Kingston Smith. "But, we're optimistic for an increase in activity again in Q4 and early indicators are showing this could be the case."

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Esther Carder, Partner at Moore Kingston Smith

MARKETING SERVICES AND MEDIA SECTORS

We produce a quarterly analysis of M&A activity in the marketing services and media sector in the UK. Our research shows the shortfall in UK M&A activity continued into Q3. However, we did see a slight increase in activity, and are hopeful the final three months of the year will present a better picture. Find out more in our latest report [here](#).

CONTACT US

If you're looking to scale your CreaTech business and it has revenues of at least £1 million, get in touch for an initial discussion. We can work together to assess the best plan of action and assist with finding the right funding partner.

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Moore Kingston Smith is a commercial partner of www.thecreativeindustries.co.uk, the official website of the Creative Industries Council (CIC), and an associate partner of CreaTech, a flagship event in the CIC calendar.



METHODOLOGY

The data is from analysis conducted by Moore Kingston Smith on data extracted from Pitchbook on UK private companies raising £1 million to £20 million each of growth equity capital.