

Blue skies not January blues, a COVID Diary from NOTWICS

Over a month into 2021 and it is shaping up to be an interesting year. NOTWICS have spent the start of the year consulting with leading VCs and Angels in the UK to understand and report on the sentiment around the early stage tech scene in the UK. Unlike the doom and gloom of the previous reports compiled during lockdown, there are now some very clear and bright signs emerging in the seed, Series A and bridge stages.

The year has started with lots of activity, opportunities and deals being done, Series A has been particularly active with some investors stating that they have been busier than ever. A NOTWICS survey always shows that sentiment is just as important as data in driving markets and this latest report gleans great insight identifying 5 keys areas to highlight.

Series A is superhot

US VC invasion is in full flow

Bridge and Seed are strong

The Angels are waking up

Will September be the pinnacle and a rally in all Early stage Tech?

The views and thoughts collected for this survey were supplemented by some of the amazing observations from the “Fundstars” in the forthcoming podcast, “Fundstars and Foundstars”, which sees NOTWICS in conversation with many fantastic VC minds, potential UK unicorn founders and other leading luminaries from the Tech industry and will launch later this month.

Series A is superhot

Here are the key points from some very busy investors in the Series A space.

Some of the more popular rounds were seen to be like dogfights, with one investor highlighting that she would tear limbs off other investors to get into some of the “hotter” rounds

There was also wide acceptance that Series A rounds are now in general, becoming much larger, with £20M – £25M now seen to be the growing norm amongst some UK Tech Funds

Reference this to 3 or 4 years ago, a Series A was £5M-£6M, which is now lauded to be the Seed round

The larger Series A's is purely a function of more funds with more capital, higher investment inflows in private Tech in 2019 /2020 and also more international (mainly US investors) becoming increasingly active in the UK Early Stage space, driven by zoom and other factors highlighted later

Another point of note, is that UK based VC's were also looking to deploy capital right across Europe, with some founders choosing to stay put in their home market with zoom again enabling cross border investing and Brexit deterring a need to be physically present in the UK

Virtual/Zoom investing is now the norm and the majority of funds highlight they hadn't recently met up with founders to do deals with in late 2020, early 2021, but most had met them before. Zoom is a firm fixture in the future of work for VCs

Another interesting trend was how quickly the most popular startups were moving from Seed almost straight into Series A. Some VC's highlighted this

is on hyper-speed now, sometimes three to six months!

On the verticals, there was little change from the hot verticals of 2020, suited to the changing digital world, with comments centred around Tele-Health, Cybersecurity, EdTech platforms, Big Data / Analytics, Livestreaming, Deep-Tech & Fintech (Open Banking). These all seemed to be at the front and centre of the majority of the most active investors we spoke to in the Series A space

However this Series A focus could further exacerbate the impending founder gap NOTWICS have been highlighting - more below!

“The market has never been busier. There are so many amazing companies, valuations are going through the roof, competitiveness between investors has never been higher... [I say this from a Series A perspective]”

US VC invasion is in full flow

Another notable theme was that American VC's were seen to becoming a-lot more active in the UK Early Stage scene,

This has been talked about over the last 18 months, but several respondents felt it is much more a reality now and a number of US VC's were becoming very present in the UK Series A space

US VCs have been drawn in by the strength of the UK in scientific research, biotech and health-tech, accentuated by our global leadership in these fields during the pandemic, which was seen to continue to accelerate even more. This factor alone, alongside much better/lower valuations than US businesses and weakening macro/\$ domestic factors, were identified as the kickers to activity in 2021

The Americans were seen to be ever more present in the rounds of leading

UK Tech companies. Consequently it was noted that they were driving up the size and price of the rounds and were happy to do this all via zoom, in some cases

It's also becoming clearer that the UK is now becoming skilled at attracting US investors by publicising our Global Technological leadership in many areas. This marked change from conservatism of the old "keep this quiet and in the University, just for local angels!!" to "look at us", amongst the new league of emerging founders and practitioners

This has not just been driven by founders, but also UK based funds and also other business organisations like Futureworlds, the Commercial arm of the University of Southampton, where the management team are pushing to drive wider awareness of their founders by building links with many leading funds and individuals in the US West Coast in 2021

With the arrival of US funds in a number of rounds for many VCs in 2020 continuing, this has in some circumstances led to an American approach to valuation and terms, by some UK VC's, This represents a shift away from the traditional UK stance of conservatism when investing. Albeit this was on the margin, rather than a massive trend!

"I think - as Brits - we always could do a better job of 'bigging up' our home-grown companies. It's quite contrary to our natural inclinations but it has such an incredible impact when we do. For example, during the pandemic, I learned that the UK has the best genome sequencing tech in the world. It's a shame it took a pandemic to find that out"

Bridge and Seed are strong

Moving on to the Seed or Bridge round space where responses were still

bullish, however there was a wider mix of responses:

On the positive side

Activity was high and looks likely to continue to be strong in 2021, with many good companies securing funding if they reach the funding dynamics of lead investors

There appears to be a willingness as well as some initiatives to ensure continuing funding into early stage tech in the UK, both from government, as well as private capital providers

For businesses in spaces where revenues have been depressed by COVID-19, there is an expectation that 2021 could see a rebound in their fortunes that could ignite a good level of fundraising

On the concerns

Some felt Seed was becoming over-priced already with one VC comment of “Yep – Just been offered another £5m Seed opportunity, at a Pre-Money valuation of £20M”

It was also clear that investors still want better stats or traction at seed level or bridge, as explained by the comments below by a leading family office.

The bar still remains high to get the funding you need

There were some fears of continuing headwinds as a result of COVID-19 combined with Brexit (lack of EU equity funding and R&D grants/loans)

Also – it was highlighted by a couple of funds to be careful as we come out of COVID-19 lockdowns, to avoid “fools gold” & be careful to avoid companies who looked like they had a good lockdown, but in reality COVID-19 just didn't affect them – they may not accelerate out as anticipated

One debt focused VC also highlighted an interesting trend right from Seed / Bridge to Series A

“I think deals are still highly competitive and tech is still hot. Our first term sheets of the year are hotly

contested. That's a view from inside the trenches though, might be different if I stuck my head above the parapet"

The Angels are waking up

Turning to the segment that is the laggard .. Pre-Seed! It was good to report an increasing amount of optimism here but it's fair to say this will be a gradual re-acceleration that only really gathers full pace until September. But there are signs of optimism and green shoots of investment are starting to re-emerge:

Positives first

The crowdfunding space appears to be chugging along, with retail being joined still by the more risk averse smart money angels

The majority of UK angels "still on snooze" till Q2 and the new financial year, where it's hoped for a significant recovery

It is also mooted by some angels that they will be closely watching the Chancellor of the Exchequer & hope he will not extinguish any potential optimism by implementing rumoured radical changes to Capital Gains Tax and EIS / SEIS assurance

If the latter happens this could quickly pour "piss on the fire" said one less than articulate angel!

Back to the positives, and it was accepted that active angels are being less prickly over valuation and are joining later stage rounds, where there has been a specific allocation for Angels, put aside in a bridge or Series A, by a particularly hot name

Finally on lockdown, Angels have adapted to the current WFH scenario. but on the whole don't like it

Angels are waiting for the community to open up, as they don't like the limitations it's created in getting to know founders and trust them. Once lockdown fully ends (80% vaccination in the UK), an uptick in activity should

emerge more broadly, claimed a number of leading angels

On the negative tip

With the environment somewhat lukewarm for pre - seed, this is predicated by the angels been viewed to still be treading water and still not tempted to dip their toes en masse into the pre-seed space

One Seed VC perfectly summed up the angels of the moment:

“At the moment excess cash is spent, everyone is fragile & those with cash will probably indulge a la 20’s versus invest. Once that’s sorted they may take more risks as they wont get a return elsewhere. Maybe Q1 ’22 will be a good place to get some of the tax biased money”

Whilst the majority of the more professional angels remain focused on managing and re-investing, or saving funds to re-invest in their portfolio

There was a clear message that Pre-Seed investment will be far more selective now and throughout 2021, with the pain of the last 18 months taking a long time to forget !

I also think at Pre-Seed - let’s not forget about the fact that Angels and Family Offices are human and are also struggling themselves through this constant stream of grim news - one perfectly summed it up and i single this first quote in relation to this theme...

“I think it’s fair to say the relentless nature of the pandemic means that everyone is less enthusiastic about everything. Yes the ecosystem has evolved in 8 years but this year specifically, will be recorded and taught in history for however long humanity lasts”

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Finally, on what we all crave, a return to more normalised working, living and investing..

With the wider world looking to apparently normalise back to some semblance of life pre-COVID-19 by September 2021, there was lively debate on this being an inflection point for investment into the wider Technology space

As this diary shows, the majority VC's pooped on this idea - saying they were already busier than ever and felt confident this would be the case for the rest of the year

The Angels we spoke to felt this could be a more realistic expectation, with the whole or 80% of the UK vaccinated, economy on kick-starter mode and a general feel good factor about moving back to proper life brings them back en masse, to the Pre-Seed Tech stage

The Future Fund backed names were pinpointed to likely to come back to the market to raise again in September, as it's predicted that either a need or a desire, will predicate this

Several VC's commented that once events slip back into our schedules I'd expect the pace to really pick up, which we are all looking forward to

“It has never been a better time to start a company than today, with the underlying tech maturing and inexpensive tools available, as well as an abundance of talent looking to change careers”

