

Founders and investors expect a revival in private markets activity, but set against unique dynamics and challenges - Numis research

- Both founders and growth investors expect a pick-up in capital raising this year.
- 77% of founder-led companies have a cash runway of between one and two years, and 10% have less than 12 months to run.
- Financing risks in current portfolios is the greatest challenge facing investors, highlighting expectations for a testing fundraising market.
- Investor fit is more important than ever, with elevated board involvement one of the biggest challenges for founder-led companies.

LONDON – 19 May 2023: Private market activity could reaccelerate in the latter half of 2023, according to research from Numis, the leading investment bank (**LON: NUM**). The findings of its *State of Growth Capital: European Founders & Global Investors* report also underlines a marked shift in the balance of power towards investors, as more founders look to raise capital in order to extend their runway after subdued deal activity in the last twelve months.

Numis surveyed 205 senior executives at high-growth private companies across Europe and 200 GP private growth and venture investors globally. Despite a more challenging macroeconomic backdrop, 95% of executives at founder-led companies are either slightly positive (51%) or very positive (44%) about their companies' outlook for growth in 2023 compared to last year.

Following more than 12 months of slower fundraising, nine in ten (96%) executives from founder-led companies expect to raise capital in the next 18 months and nearly two thirds (63%) expect the timeline to be within 6-12 months. Almost nine in ten (87%) private market growth investors also expect to increase the volume of their investments over the next six months compared to the last six, with 84% foreseeing private companies raising a greater volume of capital. Eight in ten (80%) investors say they will offer increased valuations to private companies compared to the previous 6 months, with 84% either significantly more (27%) or more (57%) optimistic about the opportunity for the growth sector in 2023 versus the previous year.

Changing dynamics: While activity is expected to pick up, the market reset presents nuances and shifts as companies navigate benchmarks established during 2021 amidst heightened investor selectivity.

Despite optimism, growth investors view financing risks in their current portfolio as their most significant challenge today. This indicates that some growth investors may lack the ability to participate in follow-on funding rounds for their current portfolio companies, and more importantly points to a potentially more challenging fundraising environment as companies navigate benchmarks established during 2021.

Challenges persist for founder-led companies, especially in the near term. Access to capital followed by access to talent, which are deeply interrelated as funding helps to attract talent, are the two most significant challenges identified by European founder-led companies. When considering new investment, founders are seeking investors with strong commercial networks (55%), operating expertise (54%) and sector expertise (42%) to optimise performance in a tighter economy.

However, dynamics are shifting as investors are becoming even more selective in the companies they choose to invest in and are increasingly hands-on with the running of the business. 87% of executives at founder companies stated board involvement has either somewhat increased (57%) or significantly increased (30%) over the last year. Executives indicate that the greatest pressures from this increased involvement are pushing to implement changes to corporate strategy in light of weaker economic conditions (61%), pushing for more aggressive cost cutting (60%), and pushing for management changes (40%).

Alex Ham, Co-CEO at Numis, said: *"After more than a year of subdued activity following record levels of private capital raised in 2021, the market is resetting to a somewhat healthier, but altered, state. Both founders and investors share a sense of cautious optimism, as they gear up for revived capital raising and increased levels of investment activity later this year. While activity could reaccelerate, fundraising dynamics likely remain nuanced and potentially challenging."*

IPO ambitions still on founders' radars, alongside an increasing M&A focus

The lack of activity in the IPO market over the last year hasn't put founder-led companies off the idea of listing in the medium term. Eight in ten (80%) executives from founder-led companies surveyed said they have plans to list, with 88% of those planning to do so in the next three years, but only 12% within the next year. Furthermore, 75% of founders report pressure to provide liquidity for employees.

In the short-term, this softer exit environment means both founders and investors are seeing value through M&A activity. More than half of those surveyed from high-growth private companies are increasingly considering M&A as an accelerator to growth (54%) and as an exit strategy (49%). Nearly two-thirds (65%) of investors are viewing M&A activity as a viable exit for portfolio companies, while 45% are actively or increasingly considering selling secondaries and 39% have extended potential investment horizons.

ESG considerations are becoming more central

Considerations around ESG are becoming more prevalent on both the founder and investor sides of the market. More than half (56%) of executives from founder-led companies surveyed said they aim to improve sustainability over the next two years, with 42% focusing on sourcing more sustainable suppliers. For investors, 91% say ESG considerations are either very important (30%) or somewhat important (61%) when considering investing in private companies.

Alex Ham, Co-CEO at Numis continues: *"There is a sense that the balance of power has shifted, and investors are becoming increasingly disciplined in their processes. With many founder-led companies needing an injection of capital over the next year or so, as they look to extend their cash or IPO runways, the market could become crowded. Despite this, high-quality growth companies with the right cost efficiency profiles remain highly attractive."*

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Notes to editors

Methodology

Numis commissioned two surveys, both of which were completed online in February 2023:

- A global survey with 200 GPs who invest directly in private growth or venture companies, working for private equity, venture capital and cross-over funds.
- A global survey with 205 senior executives at high growth private companies that have estimated valuations of over \$50 million

About Numis growth capital solutions

Numis' growth capital solutions team enables the world's most ambitious private companies to change the face of their industries by supporting them with primary capital raises, secondary share sales, strategic partnerships and M&A. Since 2021, Numis has raised \$5billion for the likes of Wiz, Nord Security and Rapyd, with an average round-on-round valuation uplift of 2.7 times.

About Numis

Numis (LON: NUM) is a leading investment bank that partners with the most ambitious companies and investors, offering strategic advice, unique insights and connectivity to the capital markets.

Already a leader in the UK market, Numis is the adviser of choice for listed companies, including one-fifth of the FTSE 350 index, with an average market capitalisation of £1bn, and has acted on the most UK IPOs over the past decade.

Since 2016, Numis has diversified its strategy to grow its UK M&A franchise, expand internationally and develop its private markets business, which combined now account for almost half of investment banking revenues.

Numis is listed on London's AIM and has offices in London, New York and Dublin.
