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Crowdfunding and early-stage equity funding in charts
A flip book

About the data set

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From Beauhurst's high-growth database, we retrieved data on 1,075 crowdfunded businesses that have had:

- Their first meaningful crowdfunded round (defined as a round that raised at least £500k),
- Raised funding between the start of FY Q1 2016 and the end of FY Q3 2023.

For comparison purposes, we also retrieved data on the 3,472 Private Equity and Venture Capital (PE/VC) funded businesses that:

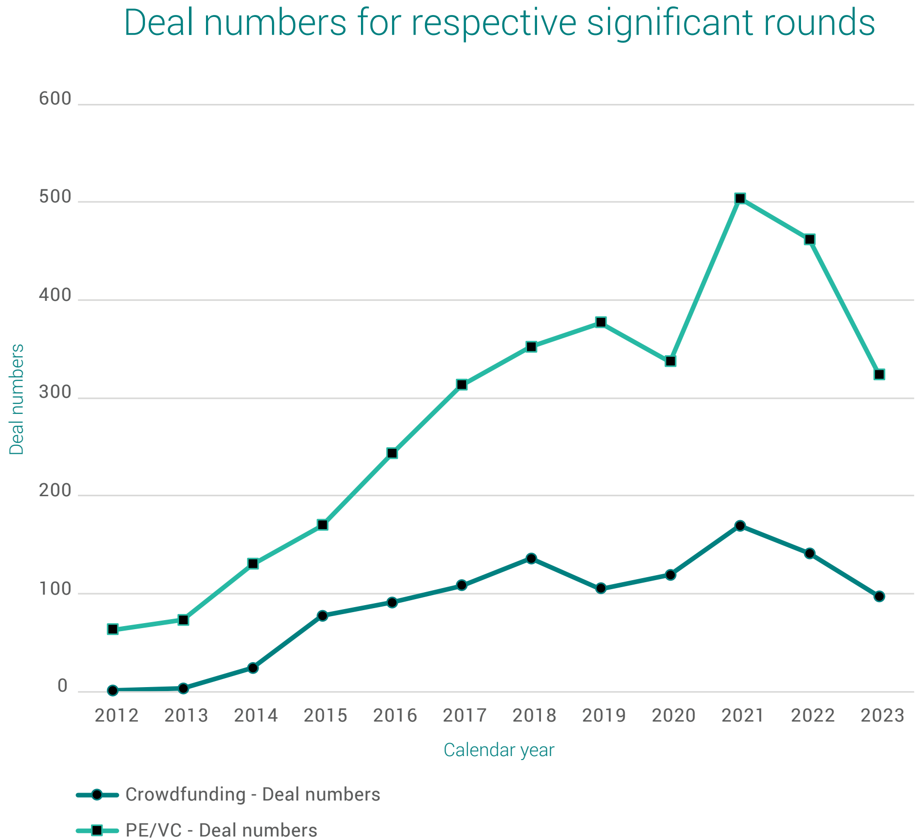
- Had their first meaningful PE/VC round (defined as a round that raised at least £500k),
- Raised funding within the same time frame as on the left,
- Have never received crowdfunding.

Deal volumes

Deal volumes are on the decline.

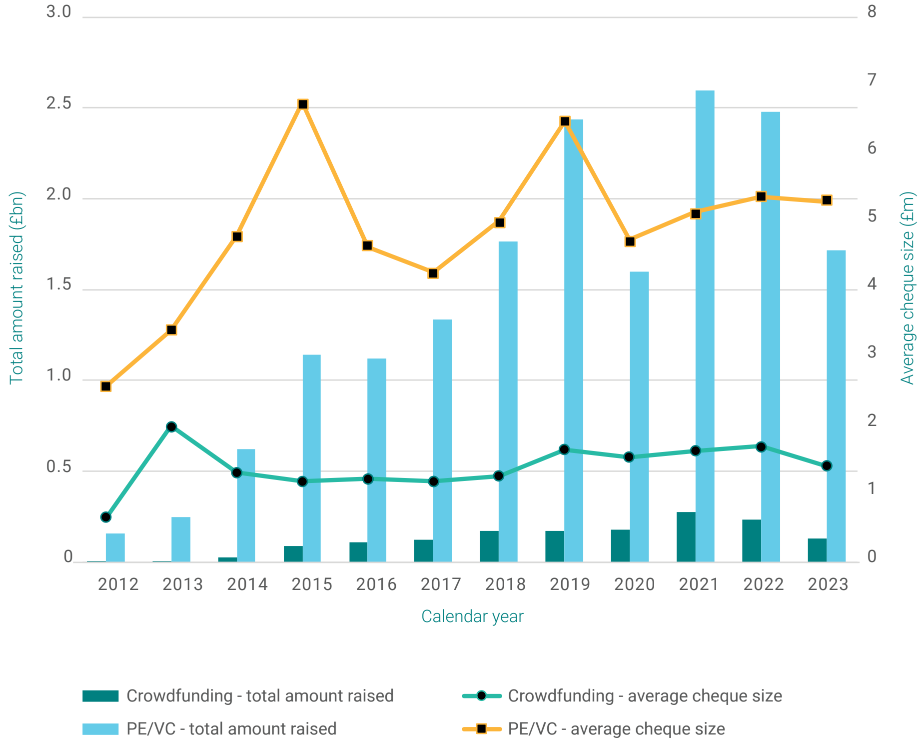
It is currently harder to raise early-stage funding than it has been in the recent past.

Data sourced from Beauhurst



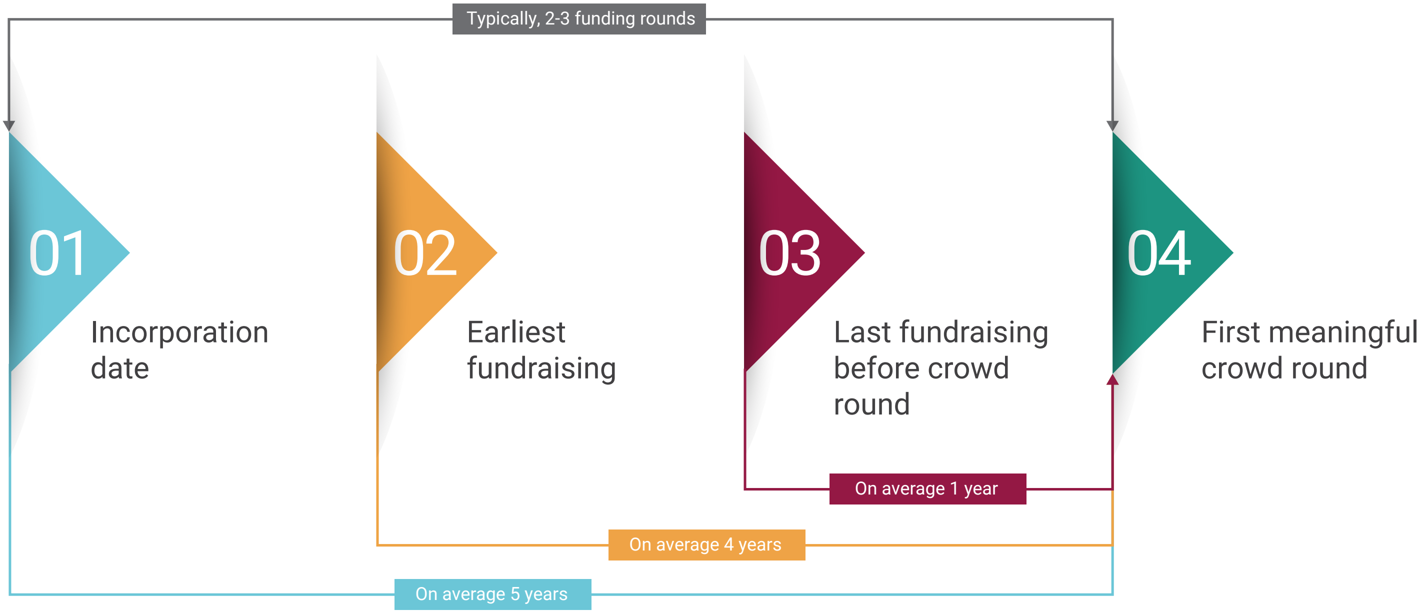
Deal values

Total amount raised and average cheque size for respective significant rounds



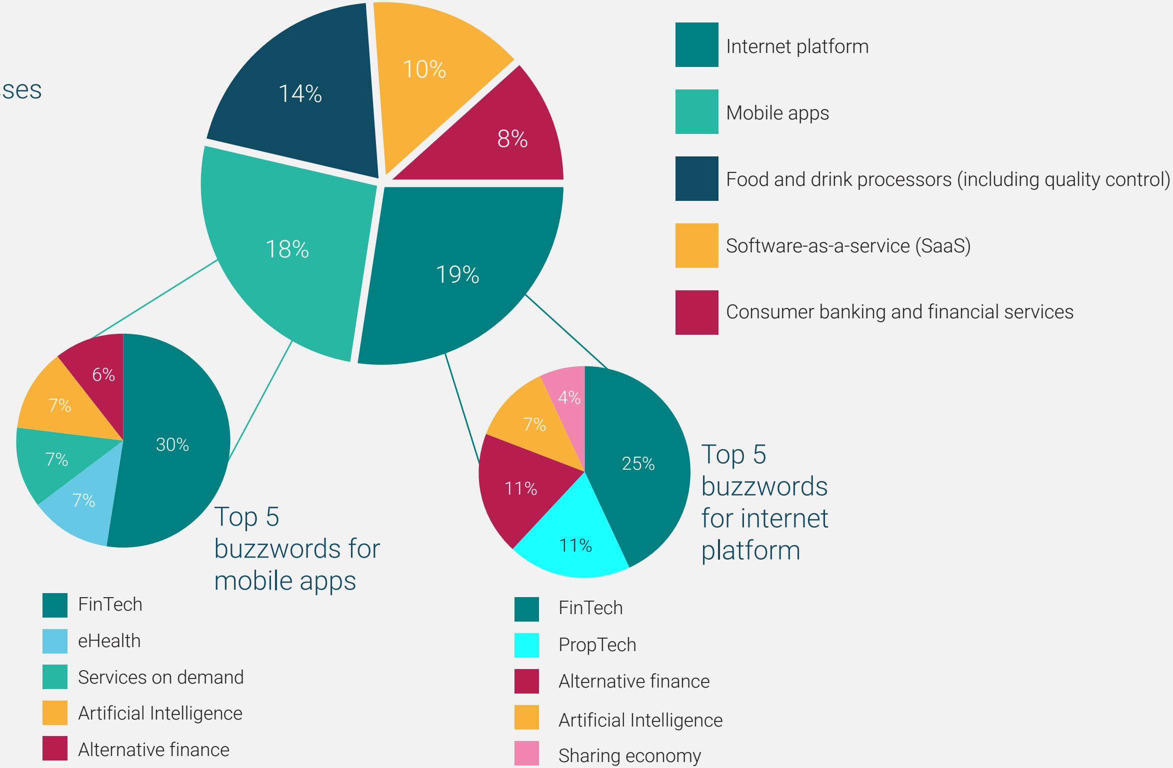
Data sourced from Beauhurst

Timeline to the first £500k+ crowd round



Sectors

Top 5 sectors for
crowdfunded businesses



Data sourced from Beauhurst

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The Crowd vs PE and VC

Pre-rounds

Crowdfunding

Mean Average:

Cheque-size: £1.4m

Total amount raised: £4.1m

Pre-money valuation: £7.0m

Equity stake taken: 17%

PE/VC

Mean Average:

Cheque-size: £1.2m

Total amount raised: £2.6m

Pre-money valuation: £6.1m

Equity stake taken: 18%

Data sourced from Beauhurst

Revenue and profit performance pre-crowd

The reality for the average and median business that takes on crowdfunding is that they are probably slightly larger in revenue terms than many entrepreneurs would intuitively expect.

Crowdfunded	Turnover	EBITDA	Cash
Mean	£6.1m	-£3.2m	£1.3m
Median	£1.5m	-£671k	£119k

PE/VC-funded	Turnover	EBITDA	Cash
Mean	£12.4m	-£645k	£855k
Median	£1.2m	-£212k	£117k

Sample size:

Crowdfunded: 60 to 617

PE/VC-funded: 114 to 1,148

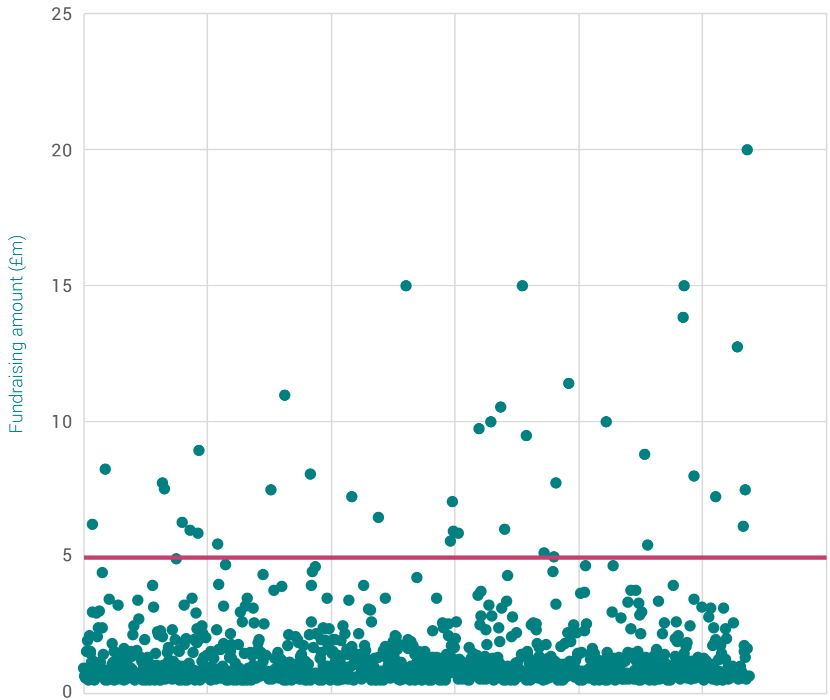
How much is raised from the crowd?

The crowd raises up to £1.5m relatively frequently.

Raising above £5m is rare

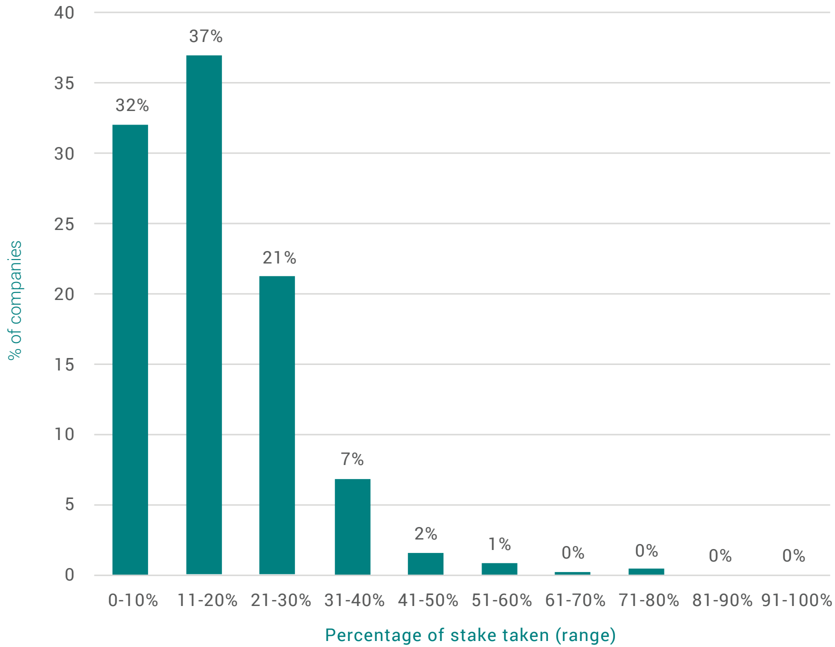
Data sourced from Beauhurst

Amount raised from the meaningful crowdfund round



Entrepreneurs should expect up to 30% dilution in their first meaningful investment round.

Stake taken for the first meaningful crowd round



Data sourced from Beauhurst

Based on a sample of 890 crowdfunded companies with available data.

Crowd investee companies were able to generate value growth between their last pre-round and their crowdfunded round...

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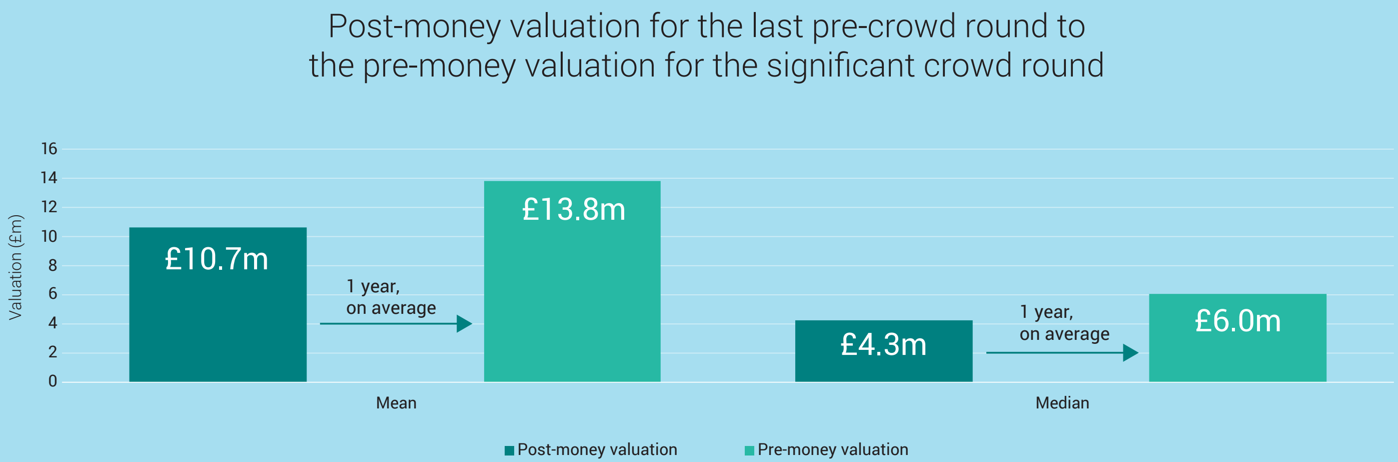

... but will it stick in the future? We have seen a lot of 'overvalued' crowdfunded businesses accept down rounds and even struggle to raise capital at any value.

Life after the Crowd round

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No further funding

30%* – No further funding (yet)

- 16%** Zombie/Dead
  - **Amount raised:** £1.1m
  - **Pre-money valuation:** £14.3m
- 84%** Trading
  - **Amount raised:** £1.4m
  - **Pre-money valuation:** £16.2m

1.8%* – Straight to exit

- 74%** Good
  - **Amount raised:** £2.0m
  - **Pre-money valuation:** £33.5m
- 26%** Bad
  - **Amount raised:** £1.7m
  - **Pre-money valuation:** £6.2m

Further funding

23%*** – Return to the crowd
- **Amount raised:** £1.0m
- **Pre-money valuation:** £13.8m

6.5%*** – Mixed round (crowd and professional)
- **Amount raised:** £3.4m
- **Pre-money valuation:** £13.9m

12%*** – Professional investors
- **Amount raised:** £1.3m
- **Pre-money valuation:** £18.4m

* Of all crowdfunded companies; ** Of companies on that path; *** Of companies who raised post-crowd.
Amount raised and pre-money valuation figures are mean averages.

Those businesses that fail post-crowd raised up to 77% less at crowd at a 48% lower valuation than peers.

It is a tough environment that shows, in aggregate, success breeds success.

		Fundraising amount	Pre-money valuation
Zombie /dead	Mean	£1.1m	£14.3m
	Median	£738k	£4.6m
Trading	Mean	£1.4m	£15.6m
	Median	£920k	£7.5m

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Does revenue and profit matter to the Zombie and Dead businesses that raised crowdfunding?

Yes… but, on average, they are not sufficient standalone indicators to suggest why a business succeeds or fails.

Zombie/dead	Turnover	EBITDA	Cash
Mean	£7.9m	-£3.2m	£789k
Median	£5.9m	-£301k	£144k

Trading	Turnover	EBITDA	Cash
Mean	£12.8m	-£3.5m	£685k
Median	£7.5m	-£601k	£188k

Sample size:

Zombie/Dead: 4 to 38

Trading: 18 to 194

* Performance in the tables above is considered as stated in the latest filed accounts going into the crowd round.

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Businesses that have above average pre-money valuations at crowd make stronger acquisition targets.

		Fundraising amount	Pre-money valuation
Good exits	Mean	£2.0m	£24.4m*
	Median	£1.5m	£9.8m
Bad exits	Mean	£1.7m	£6.2m
	Median	£1.0m	£6.7m

'Good' exits are companies that have exited via acquisition or IPO and are still actively trading.

'Bad' exits are companies that have also exited via acquisition or IPO but are no longer trading.

* Extreme outlier of £215m removed.

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After the Crowd, follow-on funding comes from a mix of sources:

Return to the crowd

Average Amount raised: £1.0m

Median amount raised: £636k

Timing between crowd and post-crowd: 1 year

Mixed round

Average Amount raised: £3.5m

Median amount raised: £1.3m

Timing between crowd and post-crowd: 1 year

Professional investors

Average Amount raised: £1.3m

Median amount raised: £808k

Timing between crowd and post-crowd: 1 year

PE/VC cohort

Average Amount raised: £5.9m

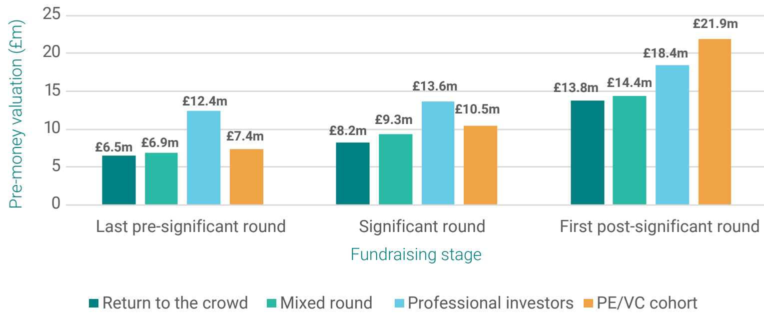
Median amount raised: £1.9m

Timing between sig. round and post-sig.: 3-4 years

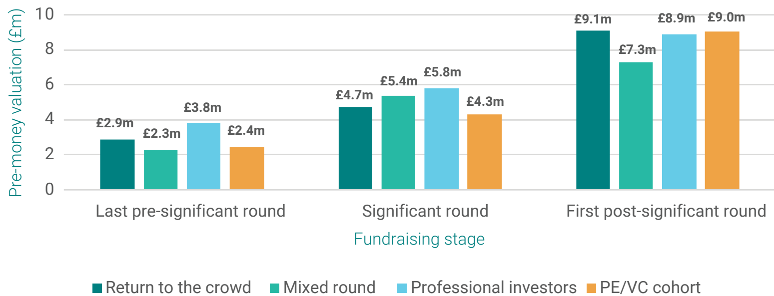
Mixed rounds post-crowd provide greater access to capital but at a 21% lower valuation than other routes.

Data sourced from Beauhurst

Average pre-money valuation for the different fundraising routes at each investment stage



Median pre-money valuation for the different fundraising routes at each investment stage



Mixed rounds post-crowd also experienced the greatest proportion of down rounds.

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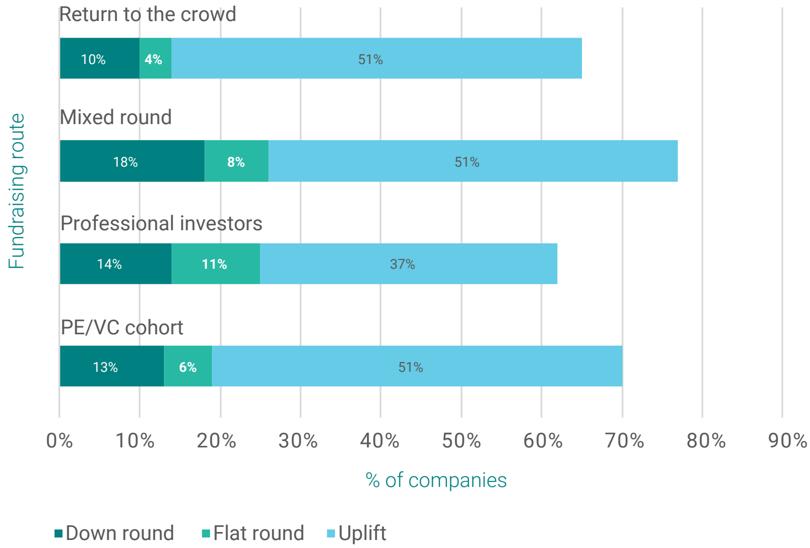
Split of valuation changes from the significant crowd or PE/VC round to the follow-on round by route pursued



Data sourced from Beauhurst

The financial performance of crowdfunded businesses illustrates that there is no 'typical' business for crowdfunding.

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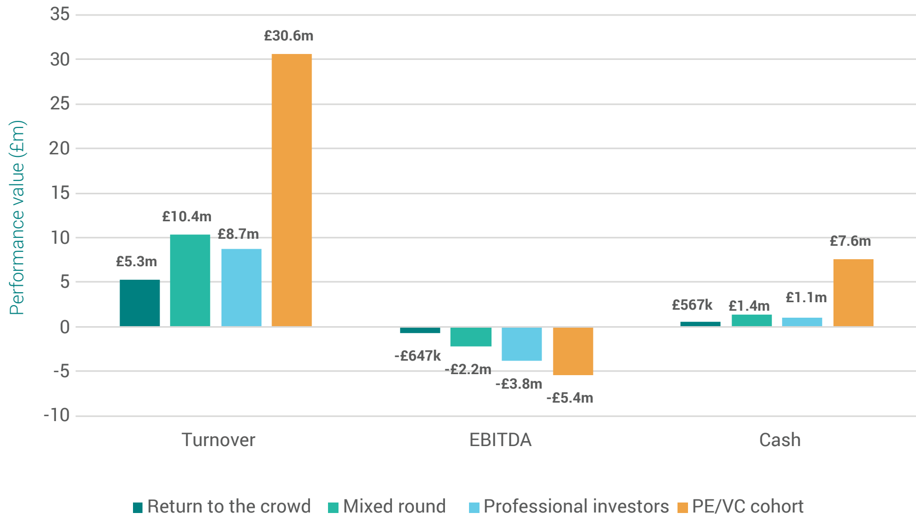
Average financial performance at the first post-significant round for each fundraising route



Data sourced from Beauhurst

Crowdfunded businesses have a 1 in 3 chance of being valued above £50m within three years of crowdfunding.

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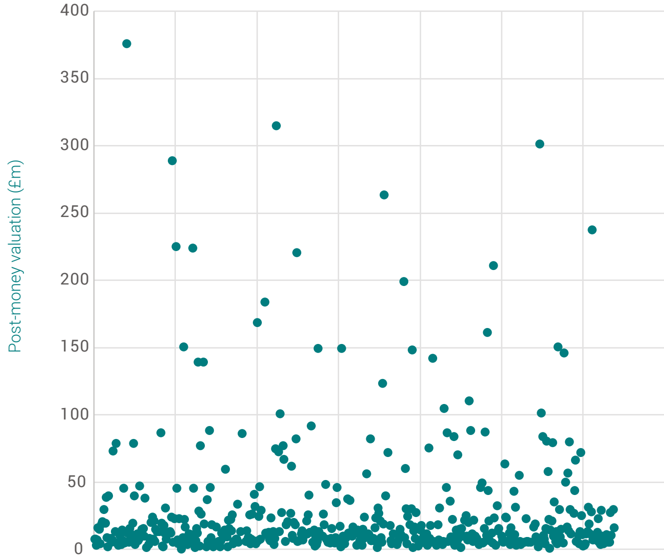
66% of businesses were valued below £50m at their last round of investment.

Those that did not have angel investors among their shareholders, had an average valuation of 50% less than peers with angel or high net-worth (HNW) investors. This reinforces the need for a solid base of HNW and angels who believe in your business case or have a solid understanding of your industry to bolster access to meaningful capital and drive value.

Latest post-money valuation for companies that raised post-crowd and are still actively trading



Data sourced from Beauhurst

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Only 7% of crowdfunded businesses have exited in the last seven years.

81 businesses that raised crowdfunding have exited. Of these, 79% are classified as 'good' exits (i.e. companies that have exited via IPO or acquisition and are actively trading). This is in comparison to 429, or 12%, exited PE/VC-backed businesses, with 85% being classed as 'good' exits. Therefore, businesses that pursued crowdfunding as their first significant funding round are 42% less likely to exit and 7% less likely to achieve a 'good' exit compared to their PE/VC funded counterparts.

On average, crowdfunded companies took three to four years to exit after the final crowd round and completed between five to seven funding rounds pre-exit. For PE/VC, their good exits took around five years from their respective round to exit and, on average, completed four rounds of funding.

For the total amount raised through fundraising, 'good' crowdfunded exits have an average of £16.8m (median of £7.0m). Their average latest pre-money valuation is £30.0m (median is £9.9m). In comparison, 'good' PE/VC exits have an average total amount raised through fundraising of £37.0m (median of £9.3m). Their average latest pre-money valuation is £97.0m (median is £15.4m).

The 'bad' exits have an average total amount raised through fundraising of £6.5m (median of £4.4m). The average latest pre-money valuation is £10.3m (median of £7.9m). Comparably for 'bad' PE/VC exits, the average total amount raised through fundraising was £17.7m (median of £5.1m) on a pre-money valuation of £21.5m (median of £6.1m).

Companies that never raise crowdfunding typically access higher exit values.

This is a chart showing exit values where over 50% of the share capital has been transferred.

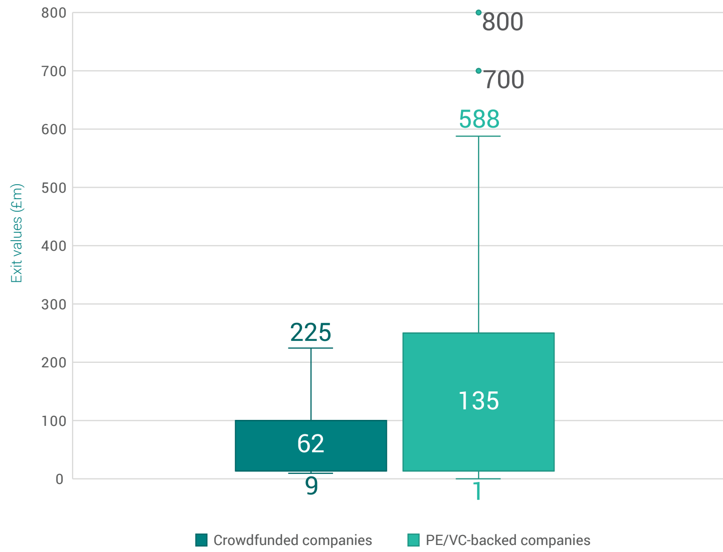
The left bar shows a sample of businesses that have raised crowdfunding and mixed crowd funding with other sources (angels, PE, VC) over time.

The right bar shows PE and VC backed businesses only.

We have three thoughts on this:

1. These results are intuitive and what we and most corporate financiers, investors and M&A teams would expect.
2. PE/VC have had longer to improve value creation than the Crowd – in time perhaps the crowd exit values will increase.
3. So long as pre-money valuations at the crowd round are sensible, the average returns are still attractive to most EIS or SEIS investors even after additional dilution from further funding rounds and share options. A big caveat to this is that they are frequently not sensible, and when we advise on rounds that involve professional PE/VC coming in, we have to spend significant time and effort designing deal terms that bridge the false crowd valuation.

Acquisition values after funding



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Outliers
Premium Businesses

What makes a premium business?

- Premium businesses are those that are achieving above mean pre-money valuation at the crowd round.
- Premium businesses, on average, raise 67% more capital at the crowd round.
- The top three sectors that attract premium businesses at the crowd round are mobile apps (24%), internet platform (22%), and consumer banking and financial services (19%).

Premium businesses are characterised by above average turnover at the point of their first crowd-funded round.

Beyond the numbers, in our experience when working with Premium businesses and their shareholders, the roadmap to joint scale and profitability is critical. The expectation is that there is less ‘hope’ and more ‘grounded reality’ in these road maps.

Latest filed accounts before first crowd funded round

		Turnover	EBITDA	Cash
Mean	Premium	£14.9m	-£1.8m	£747k
	Non-premium	£898k	-£701k	£230k
Median	Premium	£4.4m	-£1.4m	£348k
	Non-premium	£327k	-£619k	£97k

Sample size: Premium: 38 to 170 Non-premium: 28 to 512

Latest filed accounts

		Turnover	EBITDA	Cash
Mean	Premium	£18.1m	-£7.1m	£41.1m
	Non-premium	£8.2m	-£3.1m	£909k
Median	Premium	£5.9m	-£3.2m	£1.1m
	Non-premium	£2.5m	-£1.2m	£256k

Sample size: Premium: 50 to 128 Non-premium: 52 to 457

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Premium businesses are valued at 23% higher on exit compared to their peers.

Key takeaways

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1. The last two years have seen both crowdfunding and PE/VC deals in sharp decline due to the prevailing economic uncertainty which has resulted in a reduced appetite to take on new risk on the part of investors, both professional and retail.

2. The sectors that have experienced the greatest popularity and completed funding rounds from the crowd are internet platform (19%), mobile apps (18%), food and drink processors (14%), SaaS (10%), and consumer banking and financial services (8%).

3. Businesses generally struggled to raise north of £5m in their first crowd round, with average investments tending to fall between £909k and £1.5m. This is important for founders to understand, as the well-publicised success stories of the few do not reflect the reality of the many. A £1.5m investment is still significant for a business in its early stages of development.

4. Pre-money valuations going into the crowd round over the last ten years varied significantly, demonstrated by a median pre-money valuation of £6m and a mean average of £13.8m. The median better reflects what 50% of crowdfunded businesses experienced, and perhaps is a more reasonable measure of what businesses should expect. Furthermore, between the last funding prior to the crowd round and the pre-money valuation for the crowd round, 41% of businesses were unable to justify uplifts in valuation.

5. The financial performance of crowdfunded businesses illustrates that there is no 'typical' business for crowdfunding. Management teams should not rely on aggressive turnover growth alone to improve their ability to attract investors, both at the point of raising from the crowd and in follow-on rounds. The data identified that those who failed post-crowd were generating above median average turnover compared to their peers. In addition, shifts in investor preferences in the last few years have seen clear pathways to profitability ahead in the priorities.

6. That said, businesses that exited straight after their crowd round were achieving 65% higher turnover than all crowdfunded peers at the time of investment, indicating that in these instances, the acquirer had sufficient infrastructure to facilitate profitability, making revenue a key value driver in these deals.

7. Follow-on funding post-crowd is best coming from a mix of crowd investors and professional investors in terms of the amount raised but at a 21% lower valuation than other routes, which is close to 1 in 5 instances. This meant the capital invested was on a valuation lower than the valuation in the crowd round (known as a down round). These findings match our experience in that there is a level-up to go from between raising from the crowd and raising from institutions. Challenges arise when a PE/VC investor unpicks the value expectations set at the crowd round, with the result often being value destructive to founders.

8. Following the crowd round, fewer than 1 in 3 businesses go on to secure funding from a pure professional investor and continue to require the additional support of angels or other early-stage sources of investment to raise the capital required to grow. This indicates that business angels or HNW investors are a prerequisite for access to further funding for crowdfunded businesses.

9. Of premium businesses (i.e., those that raised above-average cheque sizes on above-average pre-money valuations), 52% raised their first crowd round in the last two years. Perhaps this indicates that, in tandem with a reduction in the number of deals taking place, more is being invested into fewer, higher-quality businesses, reflecting the increased expectations and heightened scrutiny of investors.

10. The only identifiable difference from the data between businesses that raised investment through crowdfunding compared to PE/VC in their first significant funding round appears to be that those pursuing PE/VC investment had proven the viability and commerciality of their business model and reached product/market fit with their target audiences. This is demonstrated through greater average turnovers, large proportions of businesses in the 'growth' stage and the 21% of businesses that raised £5m+ in their first significant PE/VC funding round.

How we can help

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We have a comprehensive set of services to help early-stage, high potential businesses scale:

- Company valuations
- Raising equity and debt funding
- Financial Due Diligence for investors.
- Vendor Due Diligence for founders
- Designing option schemes and growth shares
- EIS, SEIS and VCT tax and advisory matters
- Financial forecasts and models
- R&D tax credits
- Group structuring
- Tax compliance
- Management accounting
- Outsourcing your finance team
- Payroll
- Audit

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Be sensible and certainly do not base financial promotions or business strategy on this information.

We recommend that professional advice is sought by those interested in the contents of this document.

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