

Analysis

Strategic investment in UK and Irish technology

In the UK and Ireland, trade and strategic investors (TSI) are a significant part of the venture scene in the technology sector. According to Ascendant, TSIs have made up about a fifth of the UK and Ireland technology investment pool since 2007.

Last year, there were 214 tech investments, excluding life sciences, worth an aggregate £621m in private UK and Irish companies, down from 255 worth £1bn in 2008. By way of comparison, the all-time peak of the UK and Irish market came in 2001 when £3.5bn was invested in 482 companies.

The chart sets out the deals Ascendant has tracked which have involved a TSI. The actual size of a TSI's investment in a particular deal is not always disclosed so the numbers indicate the total value of the transaction rather than the TSI's contribution.

The chart shows that TSIs have participated in a growing number of deals over the period – some 13% of all deals in 2010. As both volumes and the value of investment in the market as a whole has dropped over this period, this makes TSIs a significant investment group of investors in technology. However, the average deal size of the transactions in which TSIs have been involved has halved from about £9m in 2007 to £4.5m last year. This latter figure is much more in line with the average deal size of £2.9m for the market as a whole.

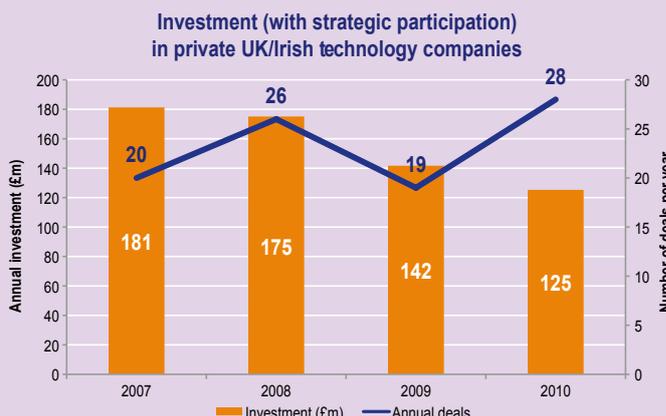
Largest deals involving TSIs in the UK and Ireland 2007-2010

Date	Company	Activity	Round size (£m)	Trade/strategic investor
Jan 07	Plastic logic	Plastic chip developer	51	BASF Venture Capital, Dow Chemical, Intel Capital, Mitsubishi, Siemens, Yasuda
Sep 09	Ocado	Online retailer	30	John Lewis
Mar 08	Realtime Worlds	Gaming software	25	WPP
Feb 07	Picisel Technologies	Embedded software	23	DoCoMo.com
Feb 10	Oxford Nanopore	Technology platform for DNA sequencing	17	Illumina UK
Jan 07	Frontiers Silicon	Semiconductors	16	Mitsui
Jun 10	Picochip	Semiconductors	14	Intel Capital, Samsung Ventures
Aug 07	Solarcentury	Photovoltaic and solar thermal solutions	13	Scottish and Southern Energy
Jul 07	UbiquiSys	Femtocell technology	12	Google
Nov 10	Aquamarine Power	Wave and tidal power	11	ABB, Scottish and Southern Energy

NB in most cases the TSI was a co-investor with a financial VC.



Stuart McKnight, managing director, Ascendant Corporate Finance



When the data is examined by sector it indicates the hot areas for TSIs are clean-tech and software. As might be expected, they are also keen on investing in non-specific but specialised technologies relevant to their core businesses. One blind spot is digital media – internet trading, wireless services and so on.

The relative lack of investment in digital media companies results from the dynamics of that market. Ascendant believes large internet, publishing and mobile companies prefer to acquire early-stage businesses outright rather than take minority stakes. The causal factors for this behaviour are ultra-high growth rates of the investable assets, the declining markets of the media TSIs and the relative sizes of the two parties. As always, investment by TSIs is dependent on their performance in their core markets. If that falters, the rate of investment changes – sometimes dropping quickly, sometimes cranking up to full acquisition.

TSIs are a vital part of the UK and Irish tech investment market. They invest in all the key investment areas but favour sub-sectors closely related to their core business. While they have historically given preference to larger deals, this trend has diminished in recent years and companies looking for smaller amounts of finance have been successful in securing funds from TSIs. Ascendant expects TSIs to have a growing influence on venture finance.