

## COMMENTARY

THE RT HON THERESA MAY MP  
PRIME MINISTER OF THE UNITED KINGDOM

## THIS IS AN EXCITING TIME FOR OUR COUNTRY'S HIGH GROWTH BUSINESSES – OLD AND NEW



**“I WELCOME LSEG’S FOCUS IN THIS PUBLICATION ON THE UK’S MOST DYNAMIC AND FASTEST GROWING BUSINESSES”**

Britain’s small and medium-sized businesses are the cornerstone of our economy. From dynamic start-ups to established family firms, they showcase the UK as an entrepreneurial and versatile place to do business.

Businesses play a crucial role in creating jobs, training staff, generating wealth and supporting a stronger economy and fairer society.

So I welcome London Stock Exchange Group’s focus in this publication on the UK’s most dynamic and fastest growing businesses, and I want to congratulate all of the 1,000 high growth and innovative companies across the UK featured in this year’s report.

Those businesses and many more like them are going to be a crucial part of our mission to build a stronger, fairer country. They are the ones who will help deliver prosperity that is shared by everyone, helping to command the public trust that is needed to maximise the opportunities that free markets and free trade bring.

And this is an exciting time for our country’s high growth businesses – old and new. There are brilliant inventions and innovations being created in every part of the UK – and there is huge untapped potential, as highlighted in this report, which we must do our best to nurture.

Across all sectors and all parts of the country, small businesses need to have the opportunity to turn from

bright start-ups into successful scale-ups, we need to back these innovators with long-term investment and patient capital.

London Stock Exchange Group does important work in promoting non-bank finance to growth and scale-up companies across the UK. This report is a great example of that, as well as its ELITE business education programme for high-growth firms. LSEG also provides the UK with a key and unique asset: the AIM market – the world’s most successful stock market for high growth companies.

The Government’s work in producing a Modern Industrial Strategy is important to this, too. As part of our Plan for Britain we will encourage and support the key sectors of our economy, spreading jobs, prosperity and opportunity around the whole of the United Kingdom. We will do everything possible to make sure that Britain is one of the most competitive places in the world to found or grow a business. We will work to break down the obstacles to getting long-term investment into innovative firms, including through our Patient Capital Review.

And we will make sure that Britain leads the world in the industries of the future – and that our children and grandchildren are equipped to do the high-skilled, high-paid jobs these industries will provide.

## INSIDE THE REPORT



**“These companies are our greatest prospect for building a resilient and productive economy that works for everyone”**

Xavier Rolet KBE, CEO,  
London Stock Exchange Group

Welcome to the fourth edition of our annual report highlighting *1000 Companies to Inspire Britain*. This pioneering publication continues to identify the United Kingdom’s most dynamic SMEs and high growth potential companies across sectors and regions, highlighting the best of British small business.

When we launched the inaugural edition of *1000 Companies to Inspire Britain* in 2013, we said our aim was to bring to life what we instinctively knew to be true: that these companies are the lifeblood of the UK economy.

Four years on, this report not only shows that continues to be the case, but also that – in these times of global macro-economic and geo-political uncertainty – these companies are our greatest prospect for building a resilient and productive economy that, in the words of the Prime Minister, ‘works for everyone’.

Combined with the fact the UK created a record number of 650,000 start-up firms in 2016, this report starkly illustrates the economic potential of the UK’s SMEs. As I’ve written before, their impact is to create an ‘anti-fragile’ SME economy: more robust, more flexible and less prone to boom and bust, an idea that was first put forth by economist Naseem Taleb, author of *The Black Swan*. Our independent research validates that view.

This report gives a platform to companies growing at exceptional rates – 70 per cent on average. Our selection criteria (full details on p115) also require these firms to have out-performed their sector peers. And the composition of companies continues to show a community of UK businesses more rich and varied than we believe has been identified in any other similar exercise.

# £38<sup>bn</sup>

The amount a 1% increase in the number of high-growth businesses would add to GDP

And because these companies tend to grow through innovation – either offering new services or reimagining the provision of existing business models – the jobs they create are more productive, addressing another major structural problem in our economy.

#### The right kind of growth finance

So their potential is clear. The question is: how do we realise it?

In their Green Paper on creating a Modern Industrial Strategy, the Government identified a growing number of startups as a positive thing, but pointed out it will also mean there will be more firms in need of later stage growth funding in the coming years.

The overwhelming majority of fast growing companies in this report are micro-companies, with annual revenues between £6 and £50 million. We need to help more of these smaller companies to scale-up to the next level and beyond.

“While debt may be a suitable funding tool to help established blue-chip firms, it is ill-suited to help SMEs, entrepreneurs and high growth potential companies”

Regrettably, UK corporate finance has traditionally been skewed towards supporting larger established blue chip companies who, in the last decade, have grown slowly and created few net new jobs. These large companies mainly rely on debt to manage and re-finance their obligations. In fact, last year the UK and European Governments spent £570bn of taxpayers' money subsidising corporate debt.

But while debt may be a suitable funding tool to help established blue chip firms, it is ill-suited to help SMEs, entrepreneurs and high growth potential companies. Small companies in receipt of a bank loan must prioritise managing that debt or risk default, instead of using all their financial and human capital to innovate and grow.

# 80%

The proportion of UK SME lending that's still in the form of debt

What they need is long-term 'patient' capital, like equity, where people seek investment to grow their business either through individual investors, on capital markets, or through crowdfunding and peer-to-peer platforms. They need capital to flow directly from investors to risk-takers, innovators, entrepreneurs and small business owners up and down the country, instead of being concentrated through a few big banks. Finance must come from the bottom up, not the top down.

However, 80 per cent of UK SME lending is still in the form of debt. Why does this bias against innovative high growth potential companies persist? Because debt is tax deductible, whilst every pound of equity income is taxed up to four times – through corporate income tax, capital gains tax, dividend tax and the financial transaction tax also known as 'stamp duty'.

Yet the economic potential of patient equity capital is so clear: when the Government previously made shares on AIM (the UK growth market which has raised £100bn specifically for 3,600 high growth companies) eligible for ISA inclusion, over £4bn flowed into these companies, practically overnight, helping them to grow and invest.

So the Government's focus on supporting businesses to start and grow in their Industrial Strategy Green paper is very welcome – especially their review into long-term patient capital. As they continue to rebalance our economy so it works for everyone, they should recalibrate our tax system to give equity – and the SMEs that depend on it – a chance.

Additionally, they are also correct to note that these companies do not just need appropriate growth capital to scale-up, but also leadership and management skills to make the right decisions for a business. I am delighted that London Stock Exchange Group's very own ELITE initiative – a bespoke business support and capital raising programme to develop high growth private companies – now supports over 700 global firms, including over 90 in the UK.

#### Our supporters

I would like to sincerely thank all of our sponsors. The Business Growth Fund, Cenkos and HSBC have been supporters of this report for a number of editions, together with DueDil, and were instrumental in making this publication possible.

“I am delighted that London Stock Exchange Group's very own ELITE initiative now supports more than 700 global firms, including over 90 in the UK”

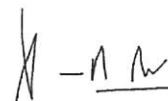
All these businesses have distinguished themselves as champions of SMEs at key stages of their funding and development process.

Our media partner, *The Telegraph*, continues to be committed to supporting entrepreneurs and the vital role companies like these play within the UK economy.

The breadth of expert contributors: the UK BAA, BCC, BVCA, CBI, British Business Bank, EEF, FSB, QCA, ScaleUp Institute, Scottish Chambers of Commerce and Tech City UK are testament to the quality of this report.

Last but not least, I would like to extend my personal gratitude to The Rt Hon Theresa May MP, The Prime Minister of the United Kingdom, The First Minister of Scotland, The Rt Hon Nicola Sturgeon MSP, Rebecca Long Bailey MP, Shadow Secretary of State for Business, Energy and Industrial Strategy and other senior politicians who have contributed to this report. Their support underlines the cross party support for, and commitment to, advancing policies to help UK SMEs grow, which is so vital for the country's economic future.

I hope you enjoy reading the report and exploring the list of these fantastic companies that are doing so much to inspire Britain.



Xavier Rolet KBE  
CEO, London Stock Exchange Group

“It is important to highlight companies with the potential to ‘scale-up’ – those which have an astonishing impact on our economic output”

For example, the biggest sector represented by number of companies this year – engineering and construction – is closely followed by financial services, demonstrating that the UK has great promise for both our traditional and more recent economic success stories.

And over half of the companies come from outside London and the South East with over 35 per cent coming from the Northern Powerhouse and Midlands Engine regions.

It is important here to highlight companies with the potential to ‘scale-up’ – those which have an astonishing impact on our economic output.

The CBI have previously confirmed how just 3,000 scale-up medium sized businesses contributed a vital £59bn to the UK economy over three years when the UK economy was fighting to stave off recession. A mere 1% increase in the number of high growth businesses would create 230,000 new jobs and add £38bn to UK GDP.

# 35%

Over a third of this year's companies come from the Northern Powerhouse and Midlands Engine regions