

Exploring the success of venture capital-backed companies



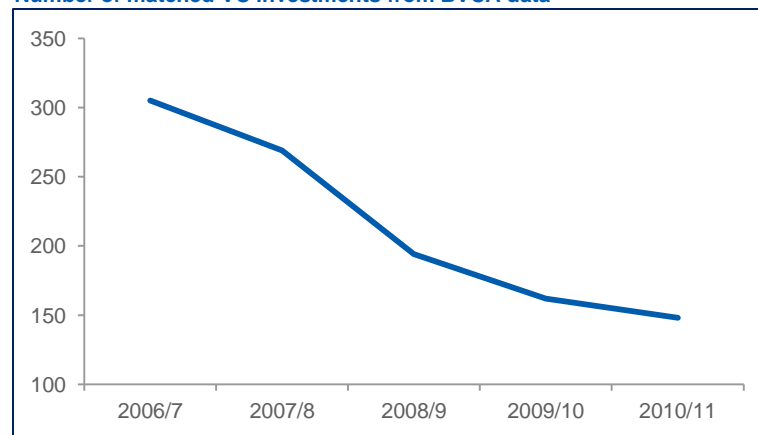
Executive Summary

- At an aggregate level VC-backed companies have significantly outgrown their non VC-backed peers over the last five reporting periods
- This growth has yet to impact on improved margins and productivity, which show similar trajectories to non VC-backed peers
 - We have only looked at investments since 2006 and it may be too early for improvements in these areas
- Venture capital investments appear to be concentrated in some niche areas of the economy
- Recent economic turmoil has had some impact, though in many cases turnover growth has continued upwards
 - The number of VC investments we have matched has halved over the last five years, with potential long term implications
 - Profit growth and employment growth has shown some signs of plateauing over the last reporting period
- As with any analysis of raw company data the ability of outliers to sway the results is possible but do not appear to have been an issue in this research
- We believe however that the results presented here are certainly indicative of the difference between VC and non VC-backed companies
- It should be noted that we are not showing causality. It is likely that the results we see are a symbiosis between business growth/entrepreneurship and venture capital

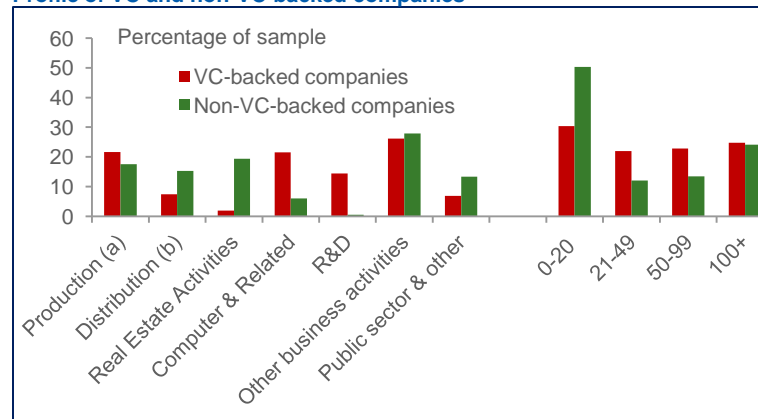
Venture capital Investments

- Matching data provided from BVCA to Experian data on company performance shows differences between the types of companies that see investment and those that do not
- The number of companies that have seen investment has been dipping since 2006
- Venture capital-backed companies tend to be concentrated in a few niche areas
 - In primary and manufacturing industries it is slightly higher than expected but in the business service sector this is a far higher proportion than would be expected
 - The proportion of companies invested in 'computer and related' and R&D are orders of magnitude higher than national distributions
 - These sectors are particularly important for the UK's long-term competitiveness
- Venture capital-backed companies tend to be evenly spread across all company sizes
 - This is different from a normal company distribution that is predominantly found in micro/smaller companies
 - This reflects the stated investment criteria of most VC funds whom tend to not do seed or early stage finance

Number of matched VC investments from BVCA data



Profile of VC and non-VC-backed companies

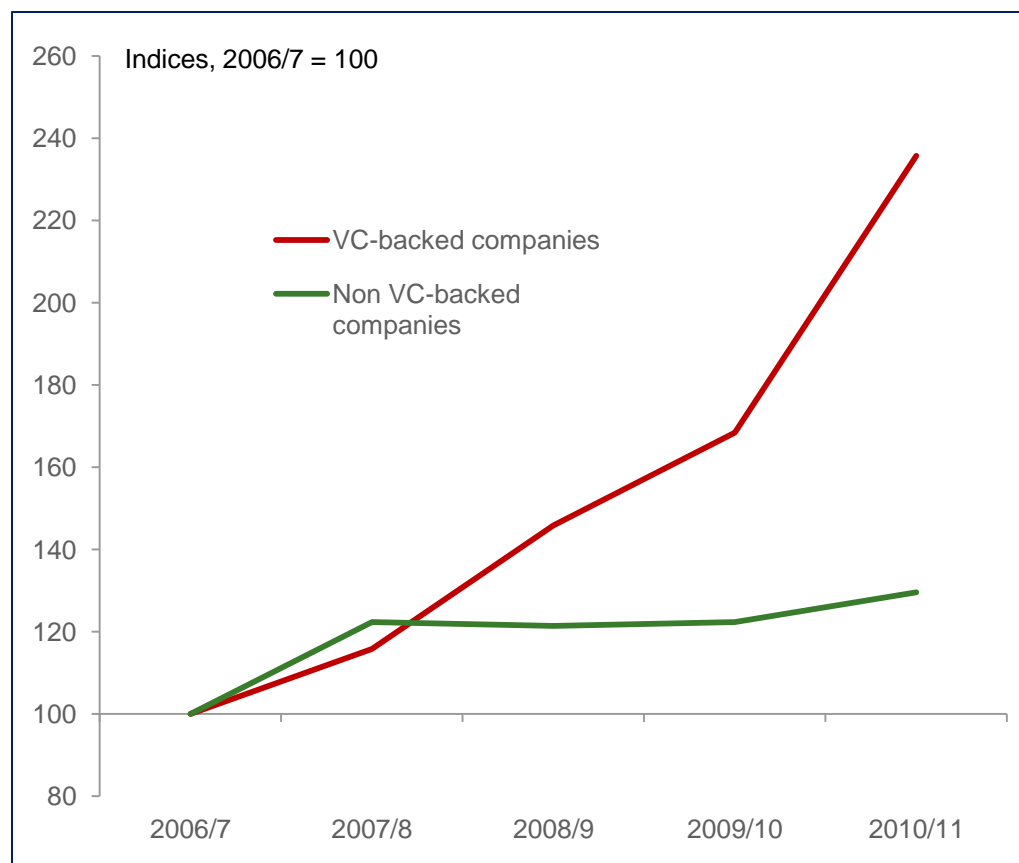


(a) Including manufacturing, agriculture, construction and energy industries.
 (b) Including retail, transport & communication.

Sales Turnover

- Total reported sales of matched VC-backed companies were £3.8bn in 2010/11
- Whilst most non VC-backed companies have seen little growth over the last 5 years, especially since 2007/08, VC-backed companies have nearly trebled sales
- Although the number of companies we can analyse at an industry level is small, indicative analysis suggests:
 - Primary and manufacturing VC-backed companies appear to have grown turnover even further than average
 - Other business activities below this average
 - Similar to recent industry trends seen in the wider economy
- Within this it is the core VC investment market that appears to be the strongest with companies between 50 and 99 employees showing largest turnover growth rate

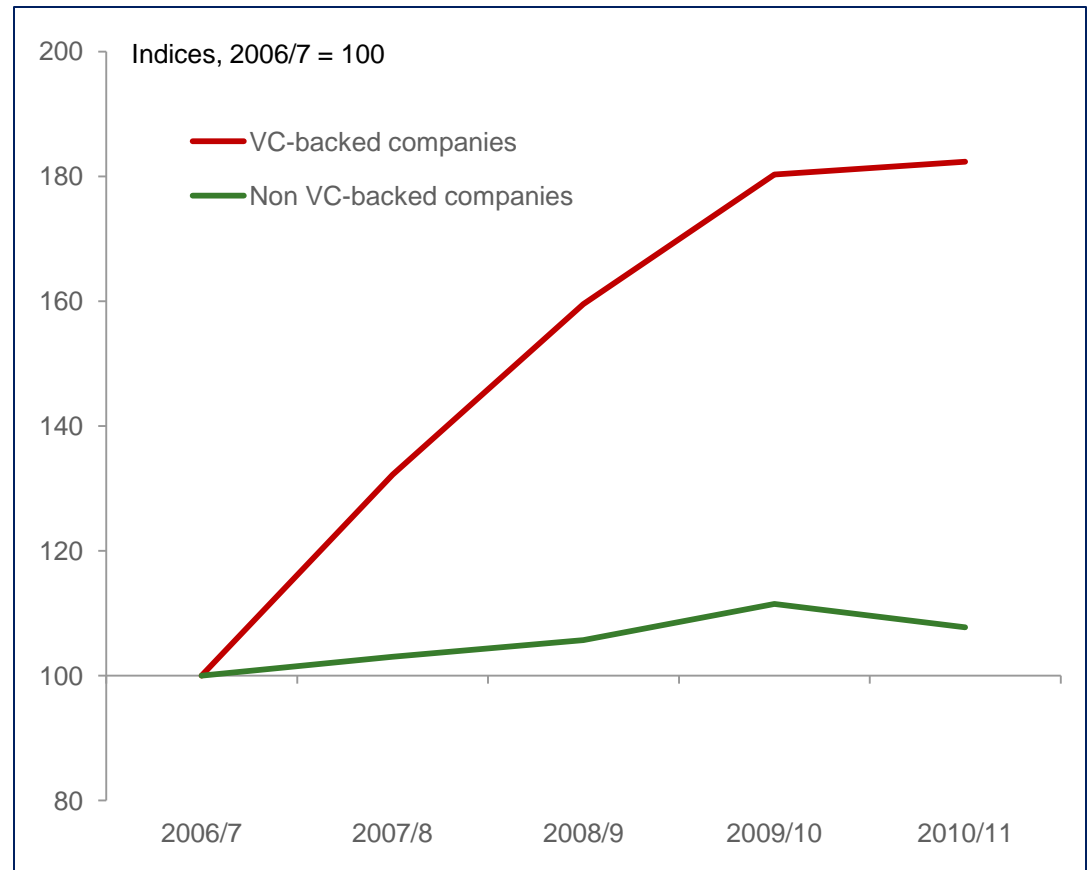
Indexed turnover trends



Employees

- Total reported employment, from filed accounts, in matched VC-backed companies for 2011 was 20,801
- This was an 80% rise from 4 years ago
 - Though there was a noticeable flattening in employment growth over the last reporting period
- In a similar time period the comparison group of companies has more or less seen no change in employment numbers
- However, looking ONLY at those VC-backed companies who had more than 20 employees in the latest reporting period: they did continue to see employment growth

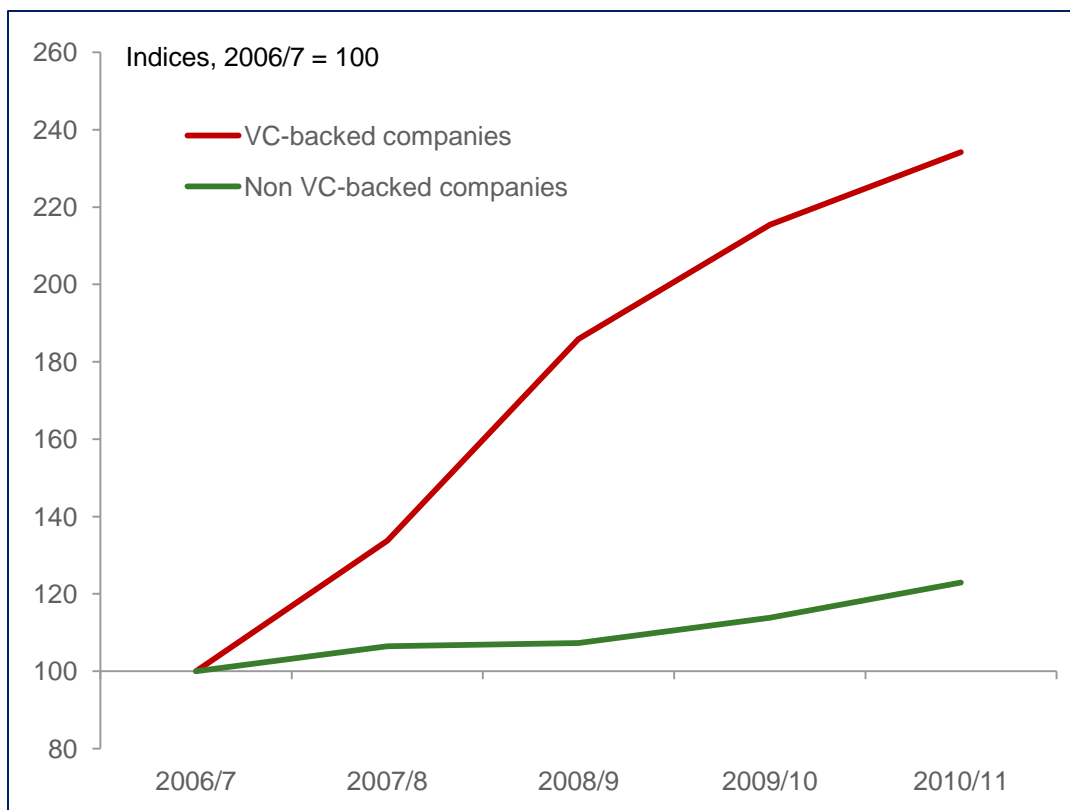
Indexed employee trends



Gross Profits

- Total reported gross profit in matched VC-backed companies for 2011 was £970m
- This was nearly a 150% rise from 4 years ago
 - The rate of increase in profits has been slightly impacted by recent economic conditions over the last reporting period
- In a similar time period the comparison group of companies has seen only a 25% rise
- Indications are that it is the smaller companies (<20 employees in most recent reports) that have been hit hardest. Other VC-backed companies have continued to grow profits

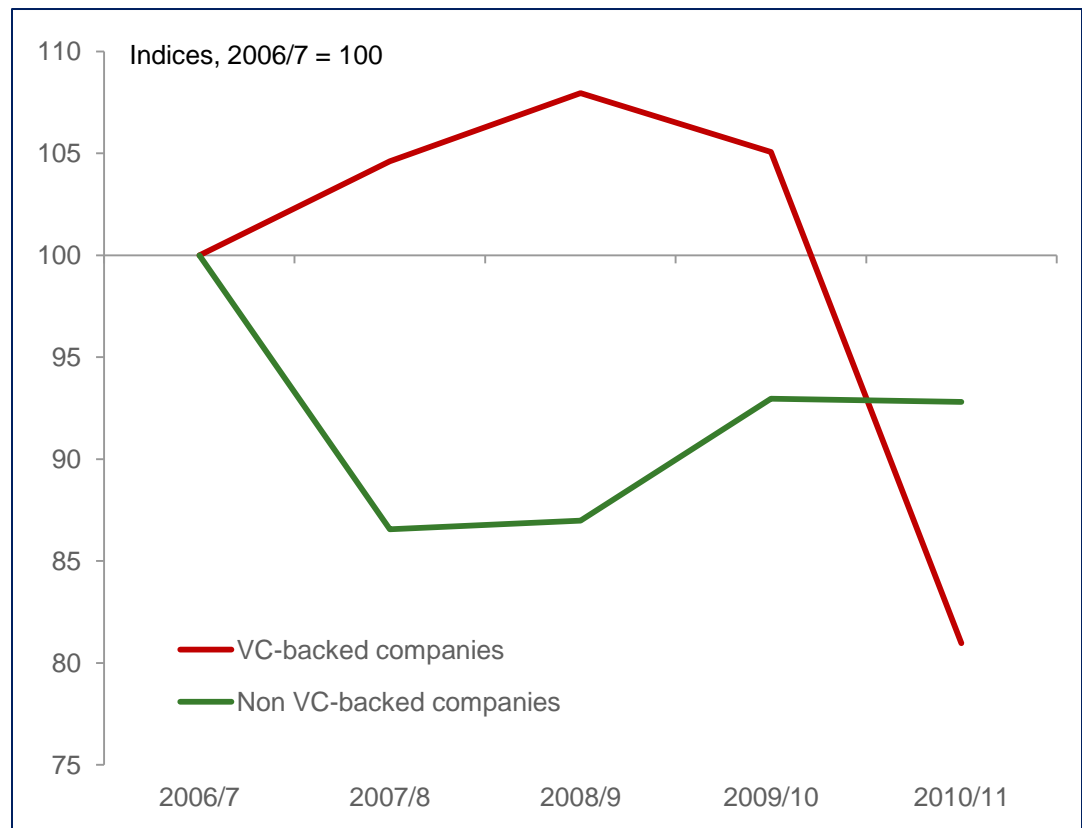
Indexed gross profit trends



Gross Profit Margins (Gross Profit / Sales Turnover)

- Gross profit margin in VC-backed firms at 24.5%, in the latest reporting period, are 9% higher than in other comparative firms
- This has recently dipped sharply as profit growth has slowed relative to turnover growth
- Given the relative newness of investments it is perhaps not surprising the growth in margin has yet to be seen
 - With most VC-backed companies looking to grab market share in these early years
- The year of investment does not seem to have made an impression yet on increasing margin

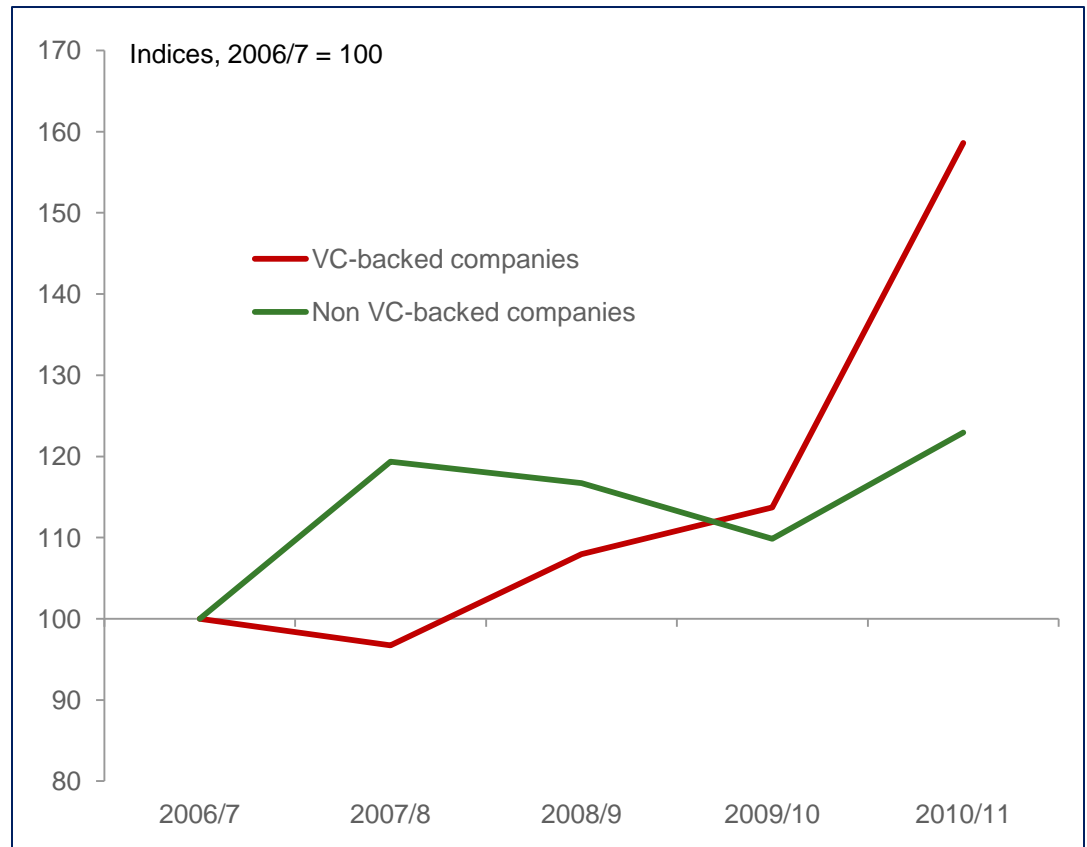
Indexed gross profit margin trends



Productivity (Sales Turnover/ Employee)

- At £190000 turnover per employee in the most recent reporting period VC-backed companies have better productivity than non VC-backed companies (£177000 per employee)
- This metric has improved recently. In the first period VC-backed firms had worse productivity than non VC-backed firms
- The industrial differences are likely to have an impact when comparing productivity at a national level
- The strongest rises have been in VC-backed companies employing 20 – 50 employees in the most recent period

Indexed productivity trends



Methodology

- Using Experian Corporate Finance data to match those companies which have received VC funding between the years 2006 and 2010 from a list of companies provided by the BVCA
- Segment the companies by size and/or sector and then compared to the whole universe of companies in similar sizes and sectors
 - The sector segmentation was driven by the company list provided by BVCA
- Where full accounts have been filed, provide turnover, profit margin (gross profit/turnover), number of employees and productivity (revenue per employee) for each accounting period pre and post-investment
 - Many smaller companies file exemptions and can either file nothing or only limited information
 - We have attempted to compare like with like across the years
 - As with all groups of companies some will have dissolved over time, most financial analysis is done on companies registered as 'Active' and filing accounts in the last 18 months
 - These filters mean that there were around 300 companies in the BVCA comparison group
 - All figures for employees are based on financial accounts
- All of the financial analysis excludes those who are no longer active, for whatever reason
 - Overall around 30% of matched companies are no longer active and not included in the comparator group
- Compare these records to those of all companies in order to identify key trends and potential impact of VC to a company
 - To compare like with like we only used companies that had filed accounts consistently for the last 5 years, this means
 - It is not a direct comparison to the overall economy – though will be more similar to the VC base we are using

