

21 October 2015

1 in every 3 new jobs created by less than 1% of UK businesses¹ last year

- *High growth small businesses generated 4,500 new jobs each week on average in 2014 – three times the number created by the entire FTSE 100*
- *New report shows that the UK's fastest growing smaller companies can be a force for regional revival and help address the North-South divide*

A tiny group of UK companies are punching well above their weight by making a significant contribution to UK economic growth and proving they can be a force for a regional revival, according to a report published today.

One in every three new jobs in the UK and almost 20% of economic growth was created by high growth small businesses (HGSBs) last year. Representing less than 1% of UK businesses and less than 3% of the total UK economy², these 22,470 companies created on average 4,500 new jobs each week in 2014 – three times more than the entire FTSE 100.

The Octopus High Growth Small Business Report 2015, commissioned by Octopus Investments (Octopus) and produced by the Centre for Economics and Business Research (Cebr), highlights the value of HGSBs to the UK economy and the role these companies could play in driving regional growth, addressing the North-South divide and rebalancing the economy. The report, which makes the case for increasing the number of HGSBs by 25% in every region in the next five years, reveals that HGSBs have a disproportionate impact on weaker performing economies.

Regional findings

- Nearly three in every five of these companies are based outside London and the South East
- More than 70% of HGSB turnover comes from outside London
- HGSBs have a disproportionate impact on weaker performing economies
- Northern Ireland, Wales and the North East are most reliant on HGSBs for their economic growth

Simon Rogerson, CEO of Octopus, said: *"High growth small businesses are a national opportunity – they can be found in every region of the UK and across every sector but are all too easily lost within the broader SME universe. Our report aims to shine a spotlight on them and give HGSBs a voice. These are the companies that are making a real difference to people's lives through their innovation and tremendous contribution to our economy. We need to do everything we can to enable them to thrive as they are proving that they are not just a London and South East story. There is a real need for more of these extraordinary businesses to exist across the country to bring prosperity and growth to every region."*

¹ Measured by number of businesses in the UK

² Measured in terms of GVA

The report defines HGSBs as those with more than 20% annual average growth in turnover over three years and a turnover of between £1 million and £20 million.

Graham Brough, CEO of Cebr, said: *“HGSBs continue to make a substantial contribution to our economy, accounting for almost a fifth of total UK economic growth during 2014. There is clear link between the number of HGSBs in a region and its economic growth. This year’s report uncovers the extent of current regional divides and shows the potential for HGSBs to narrow the gap between them, including supercharging the Northern Powerhouse. These businesses could help rebalance our economy and our report includes a number of policy recommendations to enable HGSBs to thrive in all regions of the UK.”*

The policy recommendations focus on empowering HGSBs to drive regional regeneration and include:

- Making sure HGSBs get the support they need wherever they are by expanding the role of Local Enterprise Partnerships (LEPs) in all parts of the UK;
- Improving access to funding by encouraging private and institutional investment in the sector through the continued use of tax breaks, lowering or deferring corporation tax and raising the profile of government funding initiatives;
- Tackling the shortfall in talent by suggesting new measures to recruit skilled workers from within the UK and overseas;
- Solving the missing links in infrastructure and creating a better connected economy, including accelerating the spread of effective mobile and broadband connections to all regions.

Rt Hon Sajid Javid MP, Secretary of State for Business, Innovation and Skills, said: *“Raising our economy’s productivity depends on supporting the growth of new and existing businesses. Government provides access to finance, it is making it easier to start a business and building a strong enterprise culture. The Octopus High Growth Small Business Report 2015 gives us valuable insight into the growth potential of many SMEs.”*

The report calls on Government to target a 25% increase in the number of HGSBs across every region in the UK in the next five years, which would create approximately 170,000 new jobs and around £22.5 billion in additional turnover.

Simon Rogerson added: *“At Octopus we have first-hand experience of seeing the economic and social difference these companies are making. With the right framework, HGSBs can become a real force for regional revival. The Government has done a great job in supporting enterprise in the UK but this year’s report makes a compelling case for doing more. Through driving growth on a local level, HGSBs collectively represent a huge opportunity for the nation.”*

Other key findings include:

- Some 65% of HGSBs come from the services sector, while only one in ten HGSBs is a technology company;
- Only 15% of HGSBs surveyed want the UK to leave the European Union;
- Almost one in four HGSBs said that they find it difficult to secure the funding that they need;
- 64% said a skilled workforce was a driver of growth for their business;
- A significant number cited inadequate broadband as a major obstacle to growth.



The report was launched at an event yesterday evening (20 October) at the House of Commons in front of a select group of policy makers, HGSBs, members of the entrepreneurial community and industry representatives, with speeches from Iain Wright MP, Labour Chair of the Business, Innovation and Skills Select Committee, and John Glen MP, Parliamentary Private Secretary to Rt Hon Sajid Javid MP.

- Ends -

Notes to editors

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About the Octopus High Growth Small Business Report 2015

The Octopus High Growth Small Business Report 2015 provides a unique insight into the economic value of Britain's fastest growing smaller companies, along with their power to drive regional economic revival. These companies, defined in the report as high growth small businesses (HGSBs) with an annual turnover between £1 million and £20 million and with average annual growth greater than 20% over a three-year period, are making a significant contribution to economic growth across all regions of the UK and yet get overlooked all too often. The report seeks to raise awareness about the material impact they are having on employment growth and economic growth, and to ensure that government develops a supportive policy framework to ensure these companies can continue to thrive in the UK.

The report was commissioned by Octopus Investments and produced by the Centre for Economics and Business Research. Surveys were conducted by ICM Unlimited.

Join the conversation: #hgsbreport

For further information, visit www.highgrowthsmallbusiness.co.uk.

Endorsements

Tom Thackray, Head of Enterprise at CBI: *"There is a high amount of growth coming from these businesses - you can see it in the development of clusters across the country, whether it is Tech City in London, medical technology in Cambridge or creative industries in the north west. Inevitably more companies are then attracted to these hubs and connectivity, whether in terms of transport or digital, is absolutely vital to them. Those companies that have access to agencies like UKTI find it extremely useful when looking to expand internationally. However we need to raise awareness about the services and help that they can offer. High growth small businesses have a disproportionate effect on both the economy and community around them. There is a lot of growth coming from these companies, so it's really*



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important to give them a voice. We need to encourage more businesses to grow and create the right ecosystem across the country in which both current and future high growth small businesses can reach their potential."

John Allan, National Chairman at the Federation of Small Businesses: *"This report demonstrates the huge economic contribution made by this small sector of the business community. The research shows that high growth small businesses have the potential to play a key role in narrowing the economic divide between the South East and London, and other areas of the UK. Efforts must therefore be maintained to unlock opportunities for high growth small firms in these regions, and to provide the conditions for them to grow and flourish."*

Philip Salter, Director of The Entrepreneurs Network: *"Once again, Octopus Investments has shown how High Growth Small Businesses (HGSBs) are the lynchpin of Britain's economy. We know this government recognises the importance of HGSBs, but if we want to support these vital businesses – not just in London, but throughout the country – we need to ensure that the policy suggestions outlined in this report are put into force."*

Emma Jones, founder of Enterprise Nation: *"As the UK continues to record historic StartUp rates, attention rightly turns to helping StartUps grow and scale. This report from Octopus is a welcome contribution to gathering evidence on the ideal conditions for growth and shows you don't have to be in London to grow! At Enterprise Nation we feel a key component of helping small businesses grow is through accessing advice, shown by results of the government's Growth Vouchers programme. Whether it's raising capital, accessing advice, growing a team or entering new and international markets, all pointers are in the direction of 2015/16 being a great time to grow a business in Britain."*

Dan Cobley, co-founder and CEO, Brightbridge Ventures. Former MD, Google UK: *"There has always been anecdotal evidence of the importance of high growth small businesses to our economy, but Octopus has been the first to quantify just how important these businesses are to our country as a whole. We need to ensure that the hugely exciting and vibrant entrepreneurial scene that we see in pockets, such as gaming in Brighton and FinTech in Nottingham, is helped to thrive right across the UK. This insightful report clearly highlights a number of critical issues that need to be addressed if we are going to unlock this potential. Encouraging clusters of entrepreneurial activity and increasing connectivity across the UK are just some of the things we need to do. The opportunity for the UK is huge – we must ensure we are doing everything we can, right across the country, to maximise it."*

Sherry Coutu, angel investor and non-executive director: *"The evidence clearly shows the critical role that high growth small businesses can play in job creation and economic prosperity. Britain is a country bursting with potential for growth thanks to these companies and the impact they have. As a nation we should be raising our ambitions and leading the way in creating the right framework for these businesses to flourish in every corner of the country, not just London and the South East."*

Information on methodology and data used in the report

The research quantifies the contribution of HGSBs to the UK economy and employment and growth thereof, on a general, regional, and sectoral level. The research draws upon financial accounts data on HGSBs from Bureau Van Dijk's FAME (FAME) database. HGSBs are identified as those businesses with



turnover between £1 million to £20 million that have enjoyed annual turnover growth of 20% on average in the past three years, as recorded in the FAME database.

Throughout the report, data on HGSBs are complemented by and compared with publicly available official data. In particular, the report draws upon data from the UK's Office for National Statistics on regional and sectoral economic and employment activity and the Department for Business, Innovation and Skills (BIS) on business demography; from the Bank of England's credit conditions survey regarding the availability and demand for credit among SMEs; and from the UK Insolvency Service on company liquidations. It also draws on data from the World Bank's Ease of Doing Business Index, the World Economic Forum's Global Competitiveness Index, and Eurostat's business demography statistics to paint the picture of the UK's business environment in an international context.

The above data analysis has been complemented by a survey of 500 HGSBs (as identified in the FAME database). The survey was conducted by ICM Unlimited and results were quantified and analysed by the Centre for Economics and Business Research.

About Octopus

Octopus transforms industries that really matter – like investments, healthcare and energy. We do extraordinary things so that our customers see change for the better. Octopus is a fast-growing UK fund management business with leading positions in several specialist sectors including smaller company investing, healthcare property, energy and property finance.

Founded in 2000, Octopus manages more than £5.5 billion of funds on behalf of 50,000 investors – both retail and institutional. Over the years we have invested in more than 500 SMEs including household names such as LOVEFiLM, graze.com and Zoopla Property Group. Our investments have helped these businesses to create thousands of new jobs.

www.octopusinvestments.com

About the Centre for Economics and Business Research (Cebr)

Cebr is an independent consultancy which advises some of the world's largest companies. Cebr's reputation for insightful economic analysis, award-winning forecasting and decisive business advice is based on innovative research by a renowned team of macro and micro-economists.

Since its foundation in 1993, Cebr has been 'making business sense' by applying theoretical economics backed by quantitative evidence to real world decision for FTSE firms. It provides analysis, forecasts and strategic advice to major multinationals, financial institutions, government departments, charities and trade bodies.

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