

OCTOPUS HIGH GROWTH SMALL BUSINESS REPORT 2014

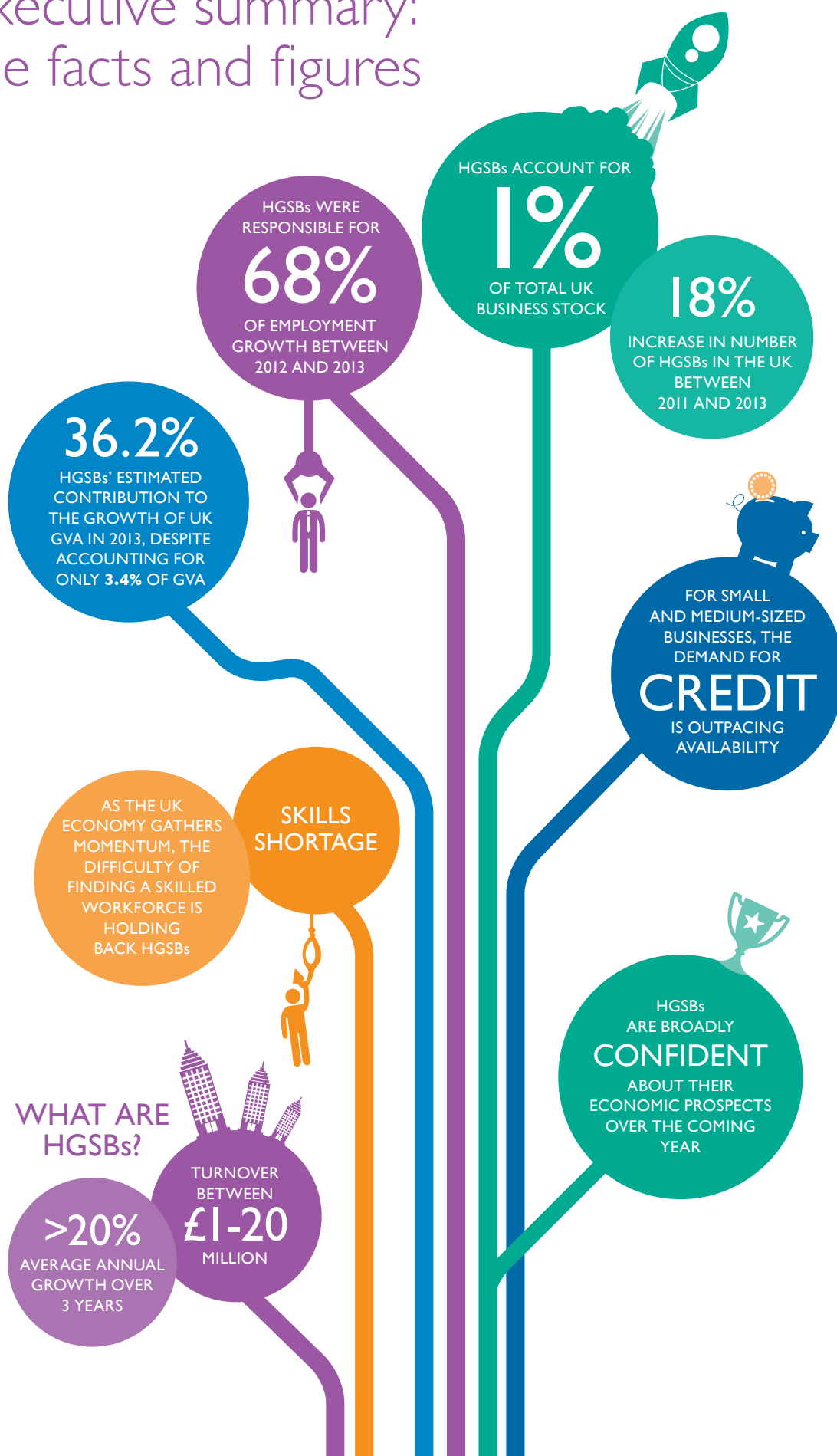
The economic value of Britain's fastest growing smaller companies



Making Business Sense

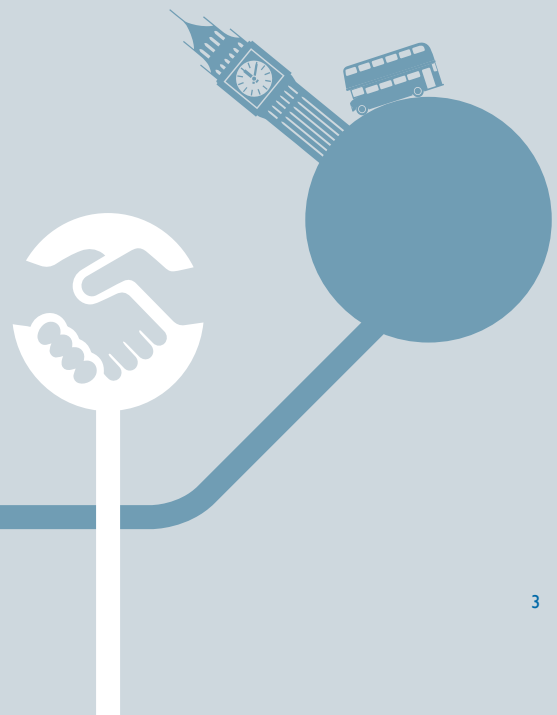
OCTOPUS
INVESTMENTS

Executive summary: the facts and figures



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Foreword by Simon Rogerson, CEO of Octopus Investments

High growth small businesses (HGSBs) represent just 3.4% of the UK economy. On paper, that's nothing to write home about. But HGSBs contribute more than ten times that amount to UK growth. Although we may be talking about a subset within the smaller companies universe, between 2012 and 2013 this group generated more than two thirds of all the jobs created in the UK. The entrepreneurial energy of the UK can be found in this tiny segment of small and fast growing companies, whose impact gets overlooked all too often.



SIMON ROGERSON,
CEO OF
OCTOPUS
INVESTMENTS

HGSBs
GENERATED MORE
THAN
2/3
OF ALL THE JOBS
CREATED FROM
2012 TO 2013

This report, produced for us by The Centre for Economics and Business Research (Cebr), is one of the first to reveal the true contribution of the UK's HGSBs. We often hear about the value and importance of enterprise and fast growing smaller companies to our economy, but for the first time this report quantifies the sheer size of the contribution made by these companies.

The UK's backbone of smaller companies is doing far more than its fair share to keep our economic recovery firmly on course. But it's not all plain sailing for HGSBs. The survey that underpins this report shows that these rapidly growing businesses face a unique set of challenges, including skills shortages and limited access to credit. What's more, the report highlights a clear correlation between underperforming areas of the UK and the absence of HGSBs – a fact made all the more

striking by a stark North-South divide.

That's why it is vital we create the right framework – where access to finance and a supportive, sustainable policy landscape are key ingredients – to enable these high impact companies to be born, realise their potential, and continue to drive growth in the UK economy. We can't afford to ignore the obvious correlation between underperforming areas of the UK and the absence of HGSBs. We need to do our utmost to create a UK-wide ecosystem that can support the birth and development of these high impact companies – right across the nation.

We think the current government has done an excellent job in promoting policies that foster smaller company growth and support UK entrepreneurs. But there's clearly more that can be done. The challenges currently facing

HGSBs have clear implications for policymakers. This report tackles the problems alongside the plaudits and suggests some positive steps to support this vital part of our business community.

HGSBs may represent just a tiny percentage of the business community, but they're critical to our economic recovery and job creation. They also represent superb investment opportunities. Indeed, we're proud to say that several of our portfolio companies feature in this report.

Octopus started life in 2000 with three of us in our early 20s determined to build an investment company that was much more responsive to people, businesses and their needs. We now manage more than £4.7 billion of funds on behalf of over 50,000 customers. We also employ 300 people and have invested in more than 450 small and fast growing companies.

We love working with small companies and we see first-hand the challenges they face. But we also recognise the potential value they have – both to our investors and the broader UK economy. What's more, as an entrepreneurial company ourselves, we understand what it takes to turn a good idea into a successful business.

It's time to start focusing on where the action is. While it's clear that HGSBs – and the talented entrepreneurs at their helm – are a force to be reckoned with, recognition is just the start of the story. It's time to get firmly behind them and help write the next chapter of the UK's great growth story. The success of our HGSB sector is key to the future success of our economy.

WHAT'S A 'HIGH GROWTH SMALL BUSINESS'?

We define high growth small businesses (HGSBs) in this report as enterprises with average annual growth greater than 20% over a three-year period, and with an annual turnover between £1 million and £20 million.

An economist's view

HGSBs with an annual turnover between £1 million and £20 million have a growing influence on the UK economy – much more than one would expect based on their relatively small size. The findings of this new research produced for Octopus Investments speak for themselves: the number of HGSBs rose by 18% between 2011 and 2013, reflecting a strong entrepreneurial environment in the UK.

In contrast, the total number of private businesses in the UK rose by only 8% between 2011 and 2013 – to 4.9 million from 4.5 million.



GRAHAM
BROUGH,
CEO OF CEBR

Our research digs beneath the hard data with a survey of 400 HGSBs in the UK, conducted by ICM Research. The survey reveals a number of interesting insights. Even though HGSBs are, for the most part, more confident in their economic prospects for the coming year, they face some challenges ahead. Many respondents

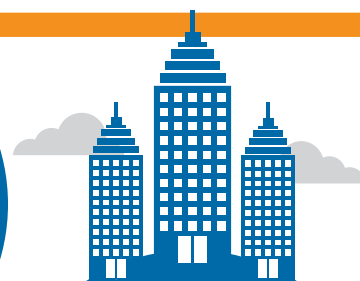
reported difficulties in finding the experienced, qualified employees they need to help their businesses grow.

Meanwhile, just under a fifth of the companies surveyed report difficulties accessing credit. The survey also reveals that the terms of lending set by banks in the post-crisis period have been a major

hindrance to their ability to access credit. Bank of England data suggest that demand for credit is growing at a faster rate than availability for small and medium-sized businesses, of which HGSBs are a subset, and with the threat of rising interest rates in the near future, access to capital could prove challenging.

**"THE GLOBAL
ECONOMY IS
INCREASINGLY BEING
SHAPED BY NEW, YOUNG
AND FAST GROWING
FIRMS"**

GEORGE OSBORNE
APRIL 2013



**"WE NEED
TO GUARANTEE
THAT SMALL BUSINESSES
ARE ALWAYS AT THE
HEART OF GOVERNMENT
DECISION MAKING"**

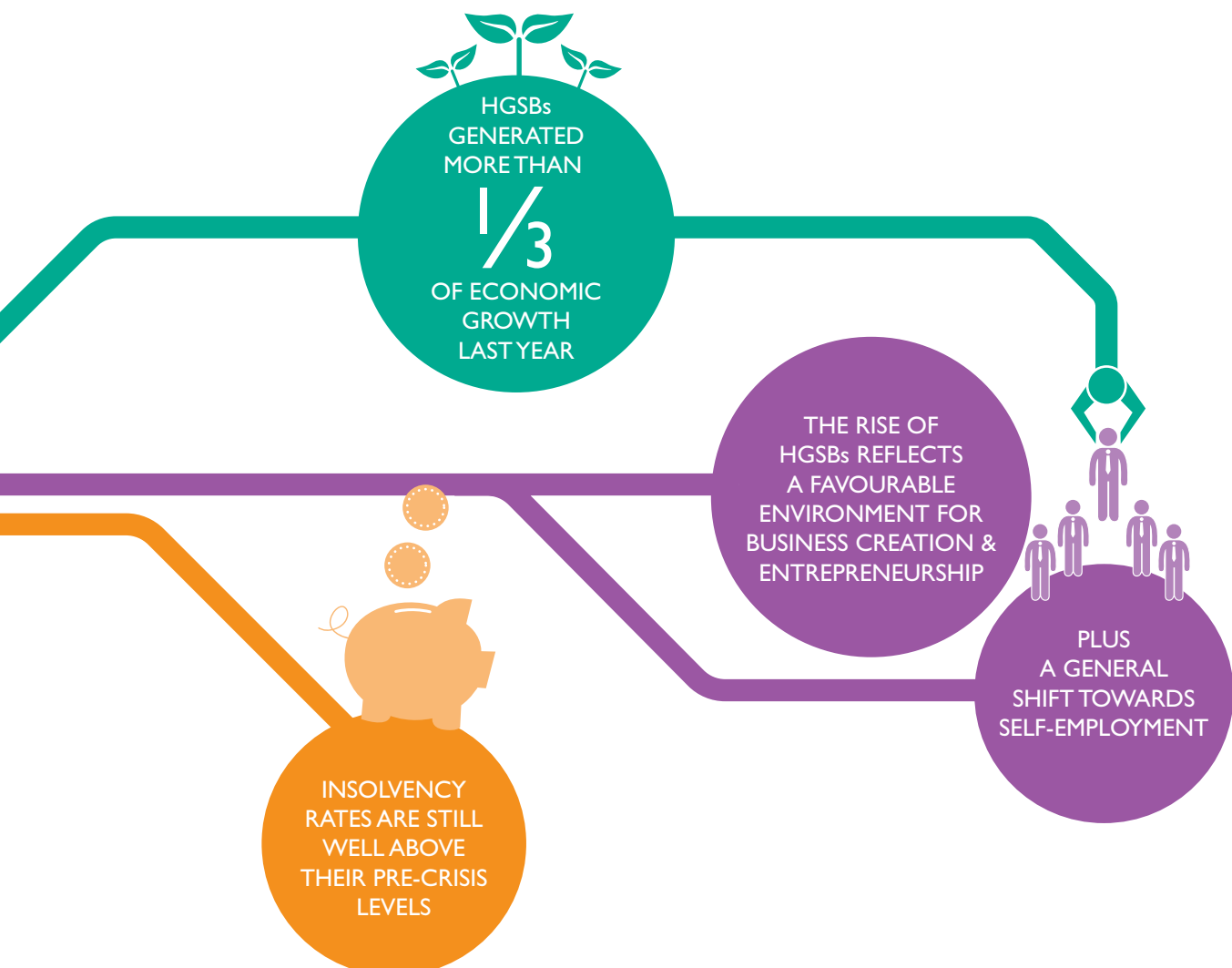
ED MILIBAND
MARCH 2014

Business survival rates also tell their own story, with a decline across most industries in the wake of the financial crisis. The economic recovery has undoubtedly improved the fortunes of UK businesses. Compared with the 2009 peak of more than 5,000 liquidations in the first quarter of the year, liquidations have plummeted to just 3,500. Yet insolvency rates are still well above their pre-crisis levels, indicating that the business environment remains tough compared with the longer-term norm.

The implications for policy flowing from this research are wide: skills shortages are clearly the biggest issue for HGSBs and policymakers need to ensure that the education system in the UK

provides individuals with the skills in demand. Our survey findings suggest HGSBs are relatively uninformed about the wide range of ways of accessing capital. With some businesses struggling to raise the capital needed for expansion, raising awareness of alternative channels of funding could help businesses who face difficulties in dealing with banks.

What's clear is that we need to do all we can to support this vital part of our economy. Many people recognise that enterprise and HGSBs are great for our economy, but few realise just how big a deal they really are.



A snapshot of the UK's HGSBs

GOOD THINGS COME IN SMALL PACKAGES

We define high growth small businesses (HGSBs) in this report as enterprises with average annual growth greater than 20% over a three-year period, and with an annual turnover between £1 million and £20 million.

HGSBs can be found all around the UK. In 2013, the UK played host to around 30,000 HGSBs, an increase of 18% from the number recorded in 2011.

THE DATA SUGGESTS THAT, IN ECONOMIC GROWTH TERMS, HGSBs DO A HUGE AMOUNT OF HEAVY LIFTING

18%

INCREASE IN NUMBER OF HGSBs IN THE UK BETWEEN 2011 AND 2013

TOTAL NUMBER OF HGSBs IN THE UK: ANNUAL % CHANGE BETWEEN 2011 AND 2013

2011

2013

APPROXIMATELY

30,000

HGSBs IN THE UK

HGSBs generated an estimated annual turnover of £114.4 billion in 2013. And their gross value added (GVA), which measures the economic contribution of these businesses, is estimated at £55 billion.

As a proportion of the UK economy, HGSBs are a drop in the ocean. But estimates suggest that they were responsible for a sizeable 36.2% of UK economic growth in 2013, despite accounting for just 3.4% of the UK economy. What's more, in the same year, HGSBs boosted employment by an estimated 256,000, accounting for more than two thirds of the UK's total annual job creation.

GROSS VALUE ADDED (GVA) AND EMPLOYMENT IN 2013: WHOLE ECONOMY VS HGSBs

The numbers are also encouraging in terms of company profits. Around 6,500 HGSBs gave us financial information on their profits for the year to August 2014. Only 213 of the HGSBs we surveyed reported a negative gross profit value (i.e. a loss). Meanwhile, total turnover for these 6,500 HGSBs was £43 billion over this period, compared with £30 billion the previous year.

HGSBs CREATED 68% OF EMPLOYMENT GROWTH BETWEEN 2012 AND 2013



WHILE ACCOUNTING FOR JUST 2% OF TOTAL EMPLOYMENT



DESPITE HGSBs ONLY
ACCOUNTING FOR

3.4%

OF UK ECONOMY
IN 2013

ESTIMATES
SUGGEST THAT HGSBs
WERE RESPONSIBLE FOR

36.2%

OF UK ECONOMIC
GROWTH IN 2013

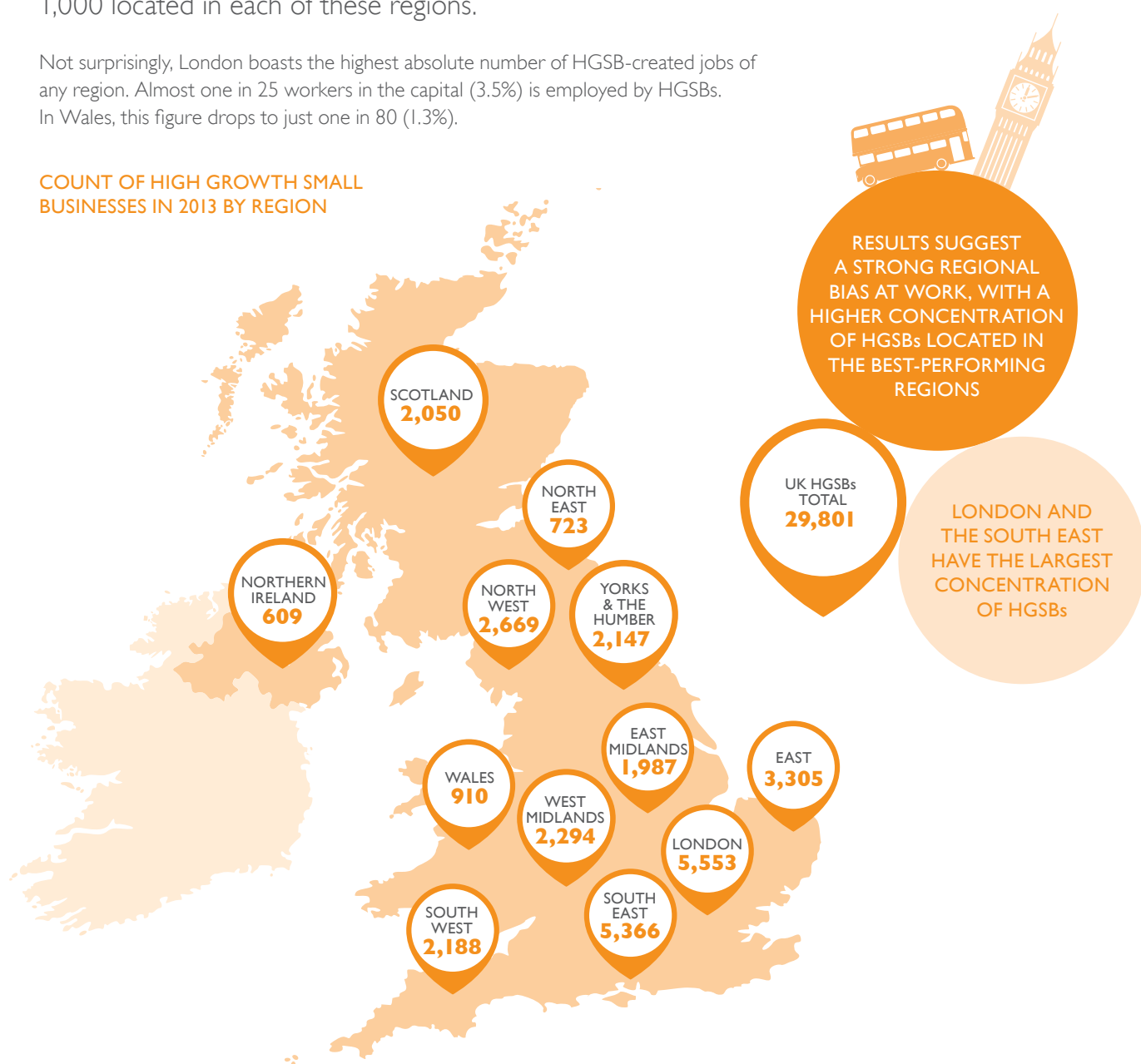
Analysis by UK region

The best-performing regions have more HGSBs

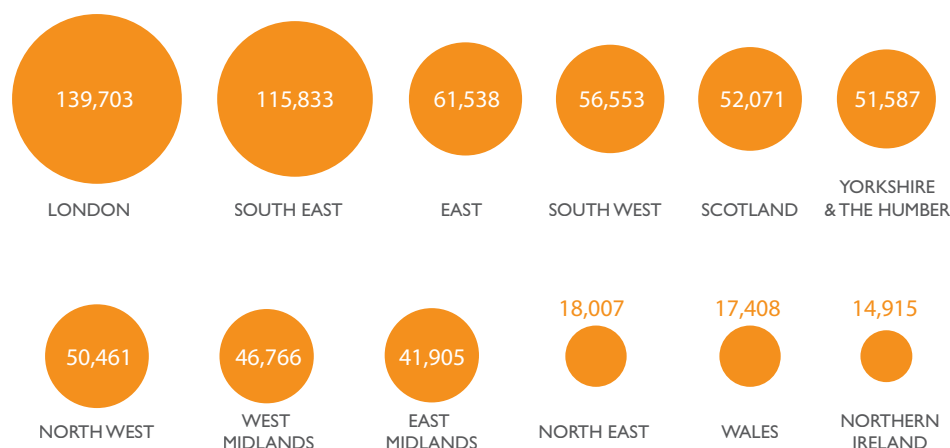
More than one third of HGSBs are gathered in just two of the UK's regions: London and the South East. Wales, Northern Ireland and the North East have the fewest HGSBs, with less than 1,000 located in each of these regions.

Not surprisingly, London boasts the highest absolute number of HGSB-created jobs of any region. Almost one in 25 workers in the capital (3.5%) is employed by HGSBs. In Wales, this figure drops to just one in 80 (1.3%).

COUNT OF HIGH GROWTH SMALL BUSINESSES IN 2013 BY REGION



JOBS PROVIDED BY HGSBs IN 2013 BY REGION



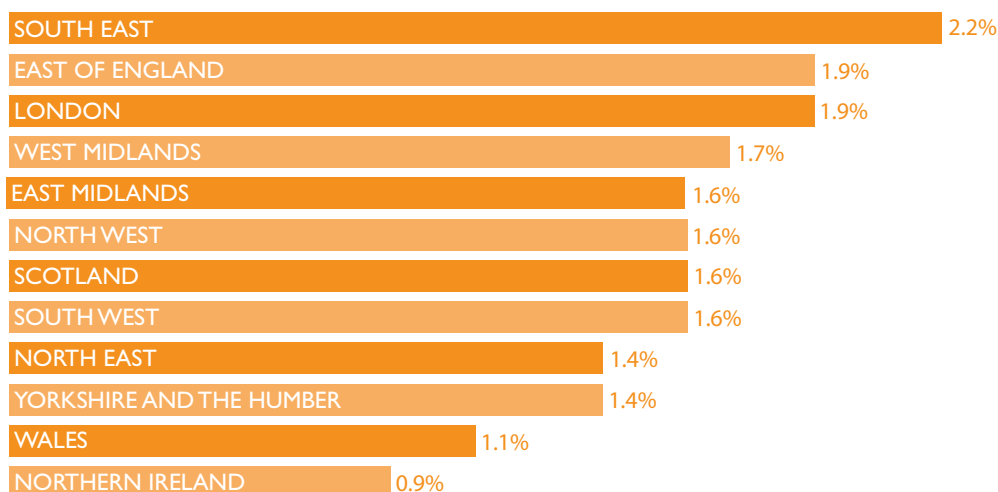
666,747

WORKERS EMPLOYED
BY HGSBs IN THE UK

We also found a strong link between the economic performance of the UK's regions and their concentration of HGSBs. Regions with the best-performing economies, namely London and the South East, are also the ones with the greatest number of HGSBs.

The reverse is also true: regions with weaker-performing economies, such as Wales and Northern Ireland, have a lower concentration of HGSBs. What's more, there's a clear correlation between employment creation and HGSBs presence: regions with more HGSBs tend to enjoy higher job creation rates.

ANNUAL GVA PERCENTAGE GROWTH OF BUSINESSES IN 2013 BY REGION

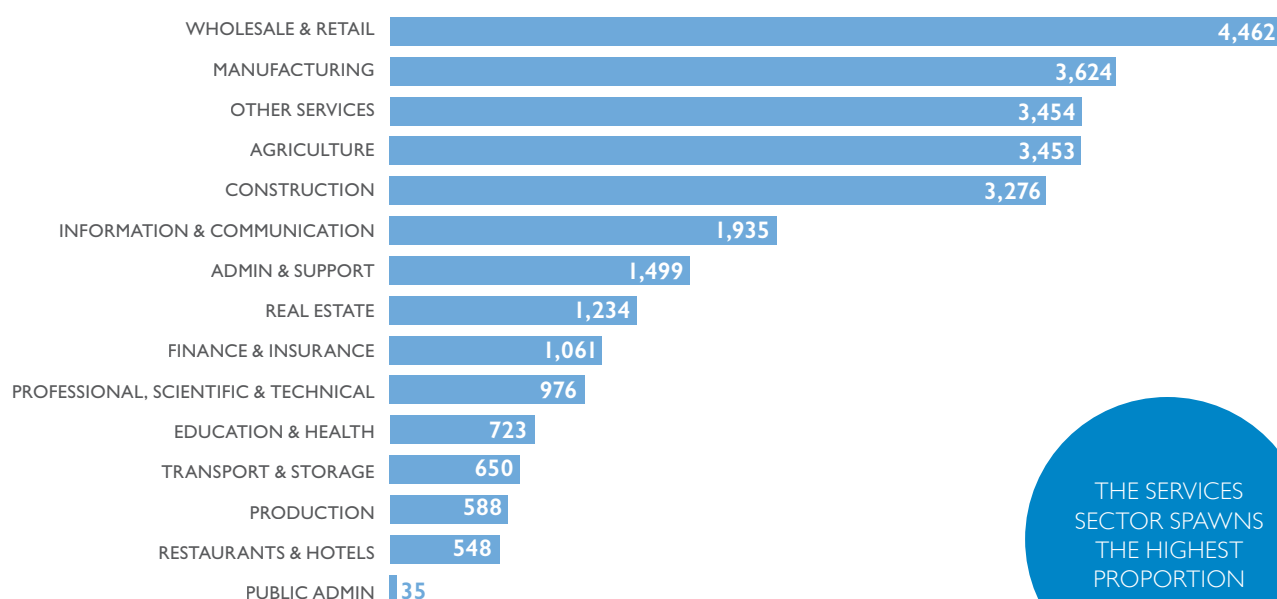


Policy recommendations aimed at promoting HGSBs beyond the South East can be found later in this report.

Analysis by industry

The services sector as a whole has the most HGSBs, with 61% of the total share. The wholesale and retail and manufacturing industries feature the highest density of HGSBs across the UK; a total of 16% of HGSBs are in wholesale and retail while 13% are in manufacturing.

NUMBER OF HIGH GROWTH SMALL BUSINESSES BY MAJOR INDUSTRY IN 2013



THE SERVICES
SECTOR SPAWNS
THE HIGHEST
PROPORTION
OF HGSBs

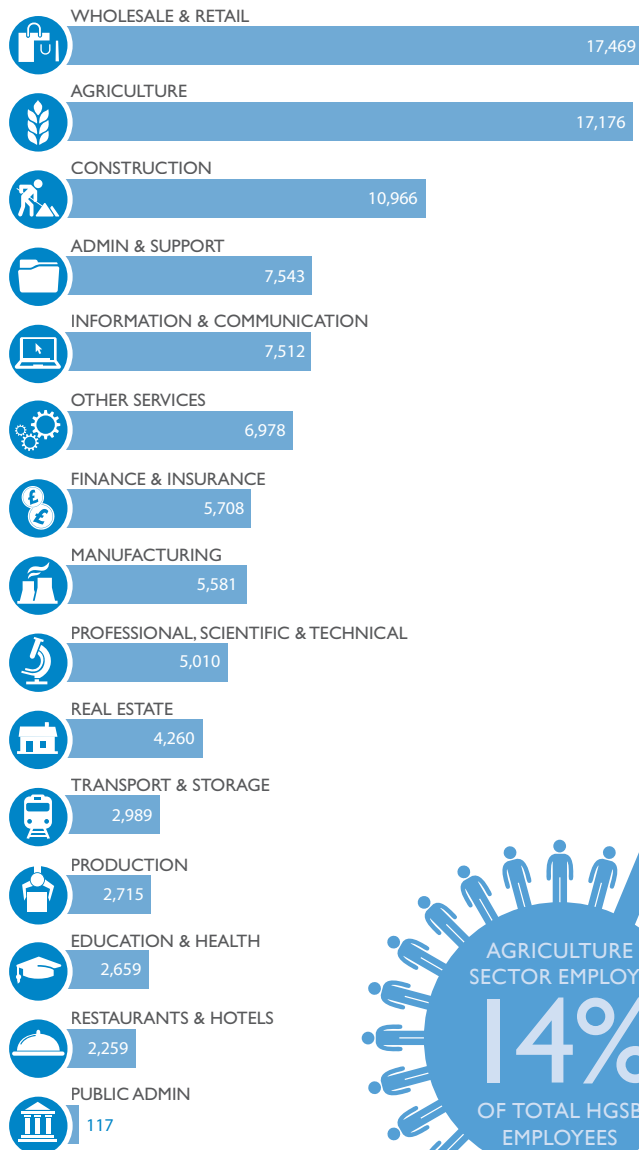
The agricultural sector employs 14% of total HGSB employees, compared with a share of just 2% of total UK employees. The production sector is less well represented among UK HGSBs, with a 6% share of total employment – half of the amount it employs in the UK as whole.

Within the services sector, wholesale and retail trade is the biggest employer among HGSBs, but it only accounts for a 10% share of overall employment compared with 20% in the economy as a whole.

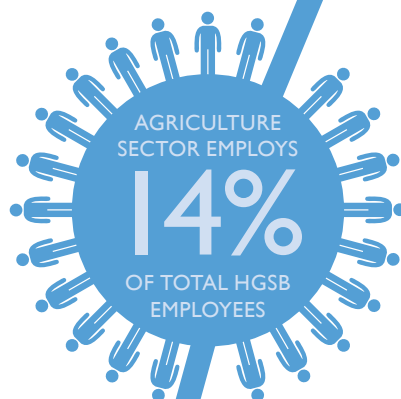
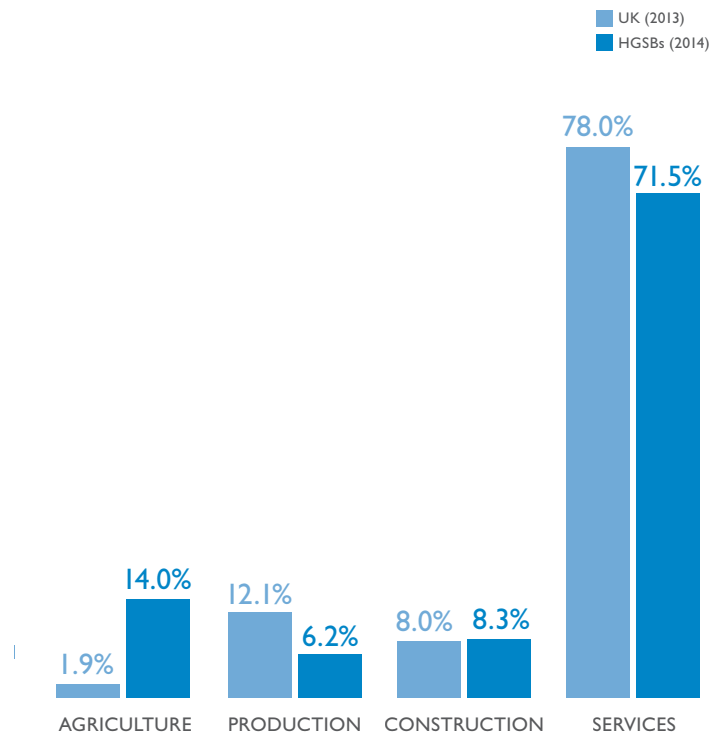
Conversely, real estate activities are better represented within HGSBs, with a share of 9% of employment compared with 2% of the UK's total employment.



TOTAL TURNOVER OF HIGH GROWTH SMALL BUSINESSES BY MAJOR INDUSTRY IN 2013 (£ BILLION)



EMPLOYMENT BY MAJOR SECTOR: TOTAL UK ECONOMY VERSUS HGSBs



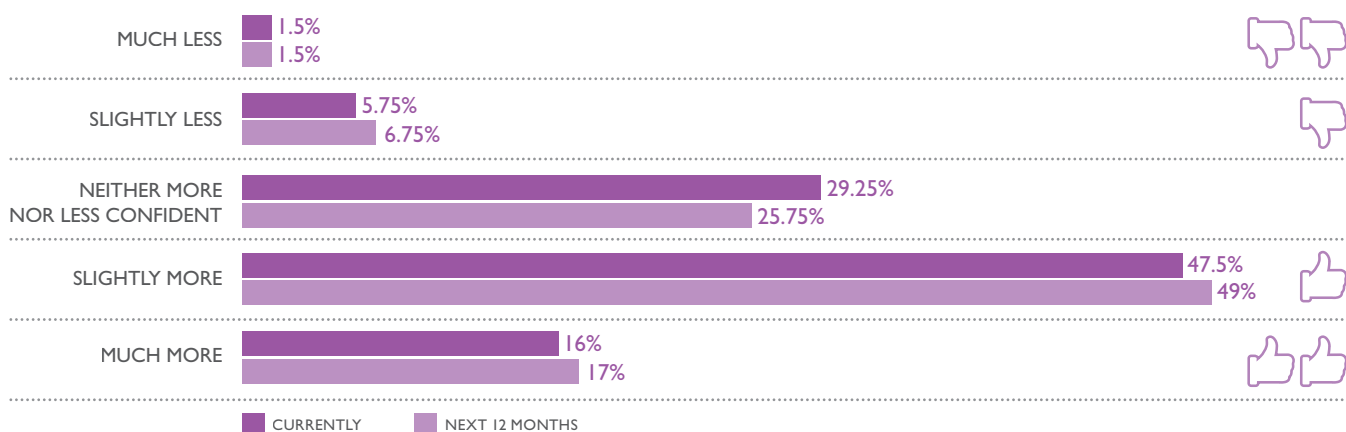


The voice of HGSBs

BROAD CONFIDENCE ON ECONOMIC PROSPECTS

HGSBs are feeling more confident about economic prospects. About two thirds of HGSBs (66%) are more confident about economic prospects for the next twelve months compared with the previous year.

HOW WOULD YOU DESCRIBE YOUR CONFIDENCE IN THE ECONOMIC PROSPECTS FACING YOUR ORGANISATION OVER THE NEXT TWELVE MONTHS



LESS THAN
50%
OF THE HGSBs
SURVEYED EXPORT
THEIR PRODUCTS
ABROAD

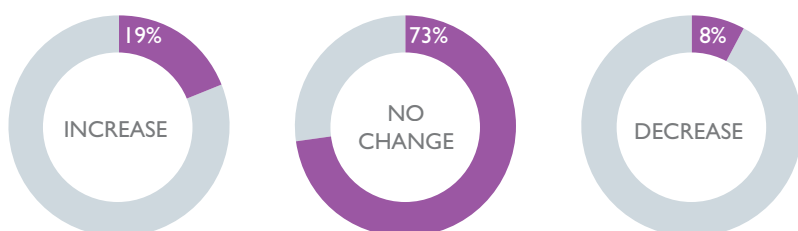
19%
OF HGSBs PLAN TO
EXPAND THEIR SALES
TO NEW COUNTRIES
IN THE NEXT
12 MONTHS



EXPORTING AND EXPANDING INTO NEW MARKETS IS NOT A STRATEGIC PRIORITY FOR MANY

Less than half of the HGSBs surveyed export their products abroad. What's more, just under a fifth (19%) of HGSBs surveyed plan to expand their sales to more countries over the next twelve months. Meanwhile, 73% of the HGSBs intend to sell to the same number of countries, while 8% anticipate selling to fewer countries.

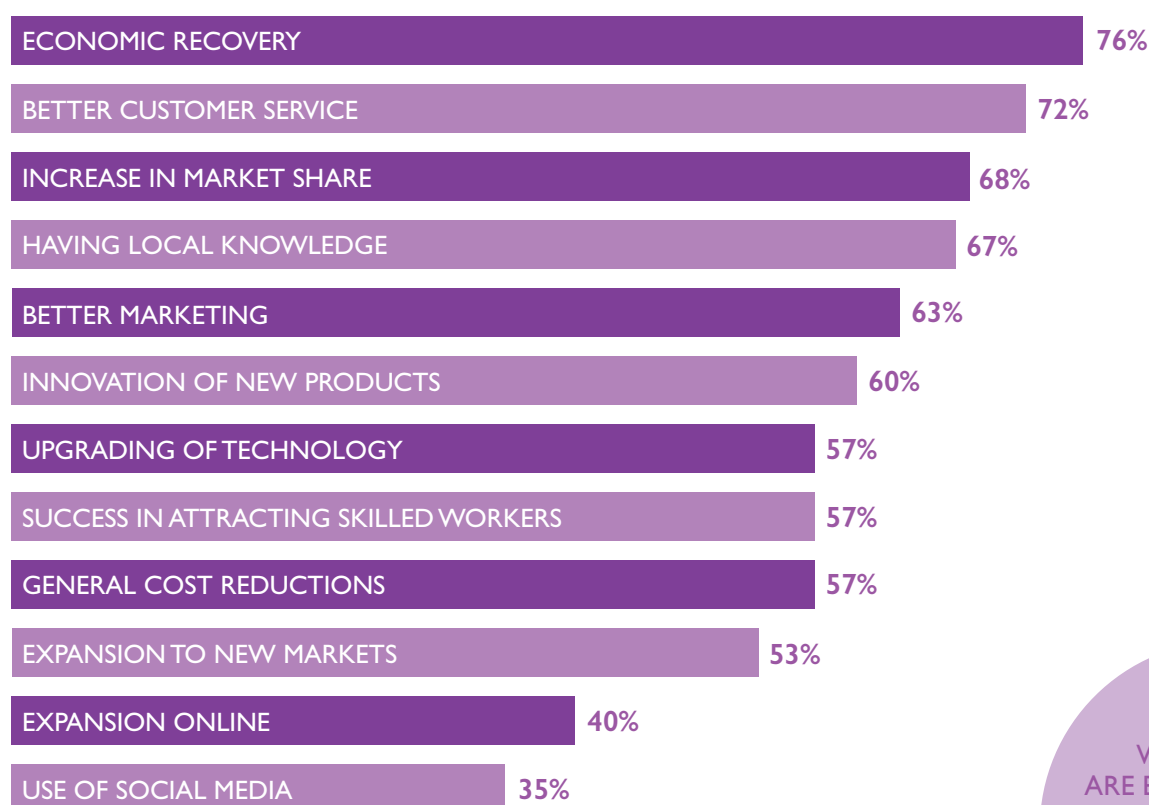
% OF HGSBs EXPECTING AN INCREASE, DECREASE OR NO CHANGE IN THE NUMBER OF COUNTRIES THEY EXPORT TO IN THE NEXT 12 MONTHS



MOST HGSBs ATTRIBUTE GROWTH TO ECONOMIC RECOVERY

Over three quarters (76%) of HGSBs say the economic recovery has contributed to the growth of their business. More than 50% cited the upgrading of technology as a driver of their growth, while more than a third pointed to online expansion and the use of social media to drive growth.

WHICH OF THE FOLLOWING, IF ANY, CONTRIBUTED TO THE GROWTH OF YOUR BUSINESS? PLEASE SELECT ALL THAT APPLY



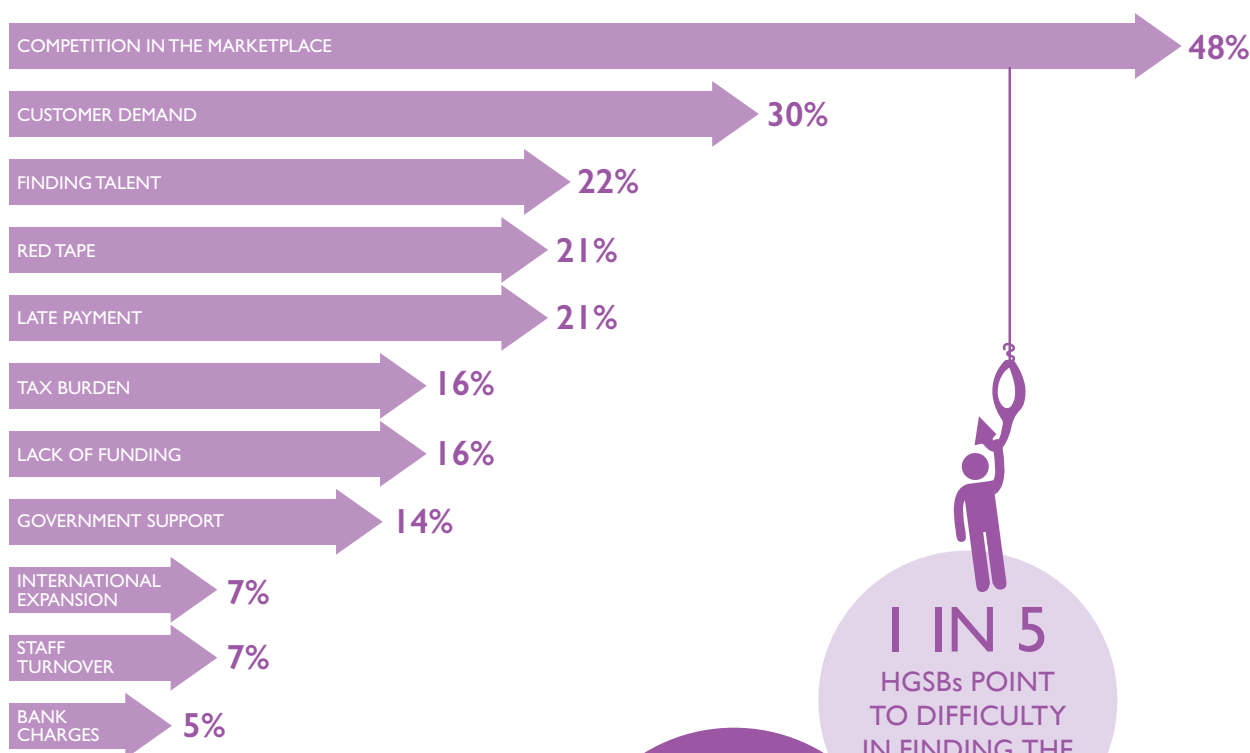
THE HGSBs WE SURVEYED ARE BROADLY UPBEAT ON THEIR FUTURE PROSPECTS, BUT RECOGNISE SOME OF THE CHALLENGES THEY FACE



UNDERLYING ECONOMIC CONDITIONS AND SKILL SHORTAGES HAMPER GROWTH

Customer demand and competition in the marketplace are the most common obstacles to HGSB growth, as cited by 30% and 48% of businesses, respectively.

WHAT ARE THE MAIN FACTORS, IF ANY, HOLDING YOUR GROWTH BACK?
DISTRIBUTION OF SURVEY RESPONSES



1 IN 5
HGSEs POINT
TO DIFFICULTY
IN FINDING THE
RIGHT TALENT

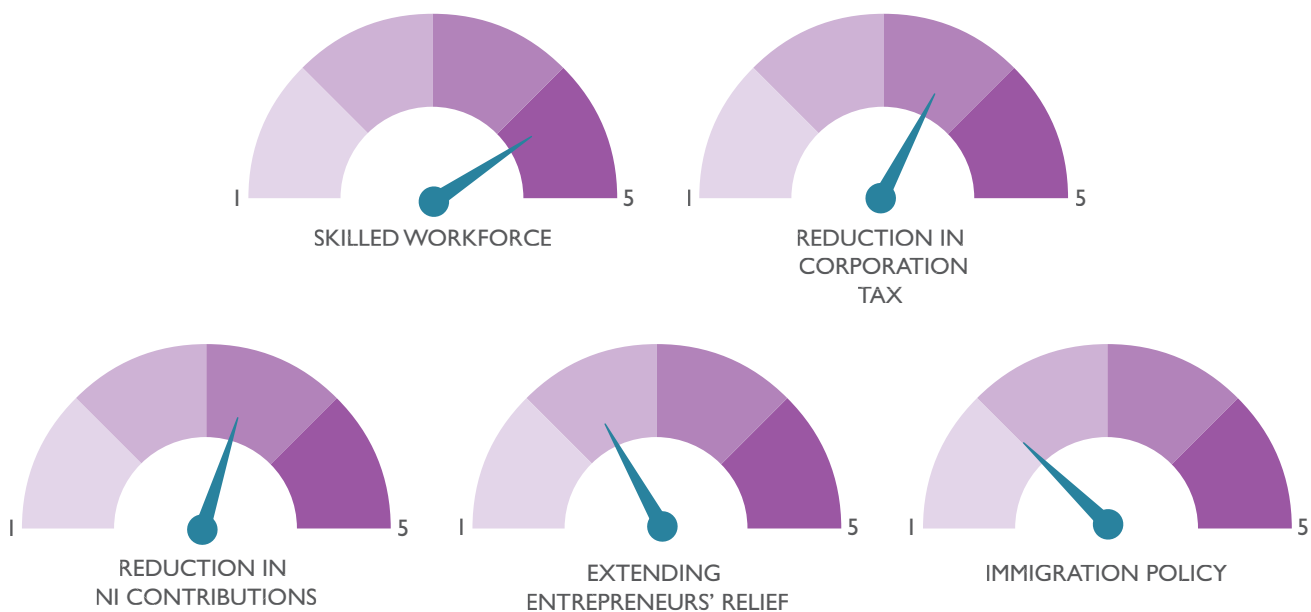
SKILLS SHORTAGE
AND COMPETITION
IN THE MARKETPLACE
ARE PUTTING
THE BRAKES ON
GROWTH

SKILLS AND TAX CUTS TOP THE HGSB POLICY WISH LIST

HGSBs point to policies aimed at creating a more skilled workforce as the most vital to their businesses. This is in line with our finding that a significant share of HGSBs report skills shortages as a factor holding back their growth.

Following skills shortages, tax cuts – reductions in National Insurance contributions and Corporation Tax – are the most important policies. Reforms to immigration policy, on the other hand, are a fairly low priority among HGSBs.

THE IMPORTANCE OF DIFFERENT POLICIES TO HGSBs WHERE 1 IS NOT AT ALL IMPORTANT AND 5 IS VERY IMPORTANT (AVERAGE SCORES)



SELECTED QUOTES FROM HGSBs IN RESPONSE TO “DO YOU FIND IT DIFFICULT OR EASY TO SOURCE THE AMOUNT OF FUNDING YOU NEED ON TERMS THAT YOU FIND ACCEPTABLE? WHY DO YOU SAY THIS?”

“WE ARE IN THE CHEMICAL SECTOR WHICH IS NOT IN VOGUE AND AT THE MOMENT BANKS ARE NOT INTERESTED IN LENDING TO US.”

“WE ARE A NICHE INDUSTRY SO IT IS DIFFICULT TO QUALIFY FOR FUNDING.”

“NOBODY WANTS TO LEND US THE MONEY ON TERMS THAT ARE ACCEPTABLE TO US.”

DEMAND FOR CREDIT OUTPACING AVAILABILITY

The latest Bank of England data show that overall net borrowing by UK small to medium-sized enterprises (SMEs), of which HGSBs are a subset, fell by £300 million in the second quarter of 2014. However, we’d expect greater appetite for debt among SMEs as the economic recovery continues.



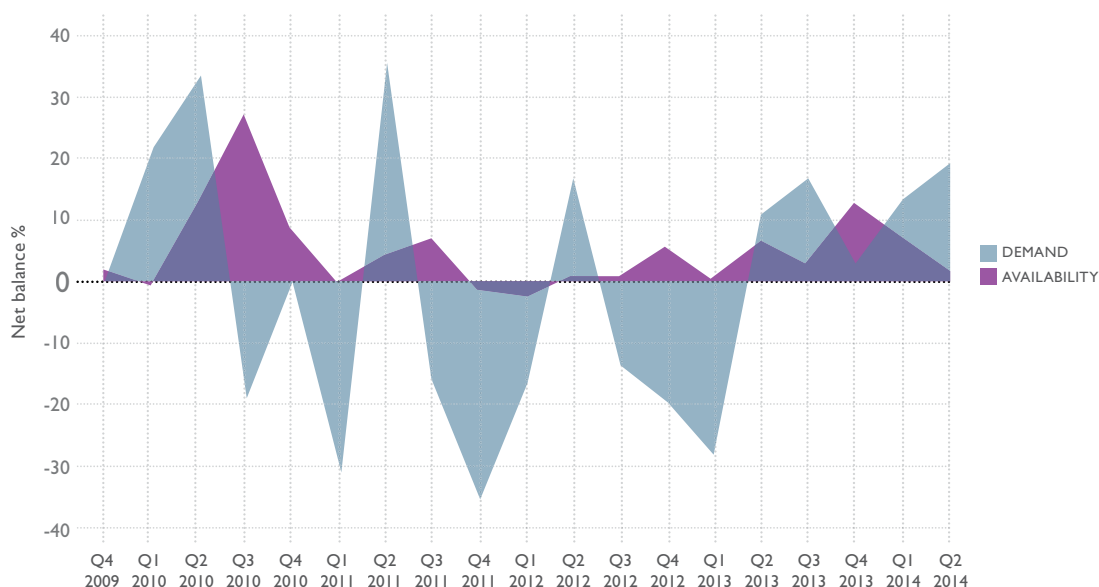
“THEY SAY THAT WE ARE A RISK BUT WE’VE NEVER MISSED A PAYMENT.”

GREATER APPETITE FOR DEBT EXPECTED AS ECONOMY CONTINUES TO RECOVER

Access to credit has been improving for UK SMEs since mid-2012. However, it continues to be outflanked by growth in credit demand, according to Bank of England data.

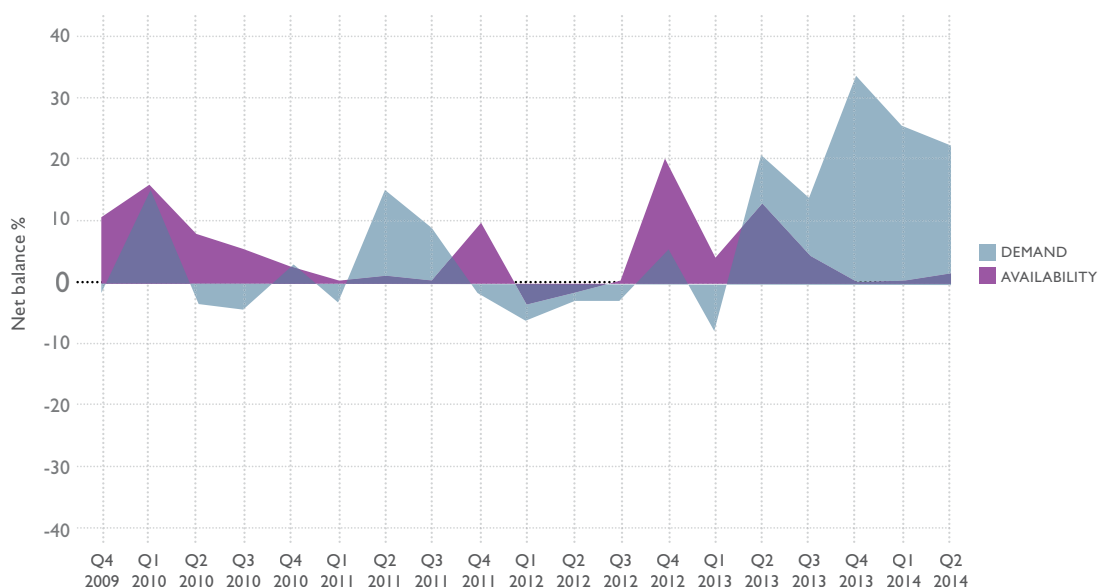
The net balance data below measure the share of bank and non-bank lenders surveyed reporting an increase in credit demand, less those reporting a decrease, giving a feel for the dominant trend across the lending community.

CHANGES IN CREDIT DEMAND AND AVAILABILITY FOR SMALL BUSINESSES, NET % BALANCE



FOR UK SMEs, THE
DEMAND FOR
CREDIT
IS OUTPACING
AVAILABILITY

CHANGES IN CREDIT DEMAND AND AVAILABILITY FOR MEDIUM BUSINESSES, NET % BALANCE



CASH RESERVES ARE KING, BUT LOANS LANGUISH

The most important sources of business funding for HGSBs are cash reserves, existing funds and savings. The traditional channels of bank credit and bank overdrafts are the next most important sources, with newer sources of funding such as crowdsourcing bringing up the rear.

The higher ranking of cash reserves over bank credit suggests that entrepreneurs are still relatively more reluctant to go to the bank to raise capital, compared with dipping into their own cash pile.

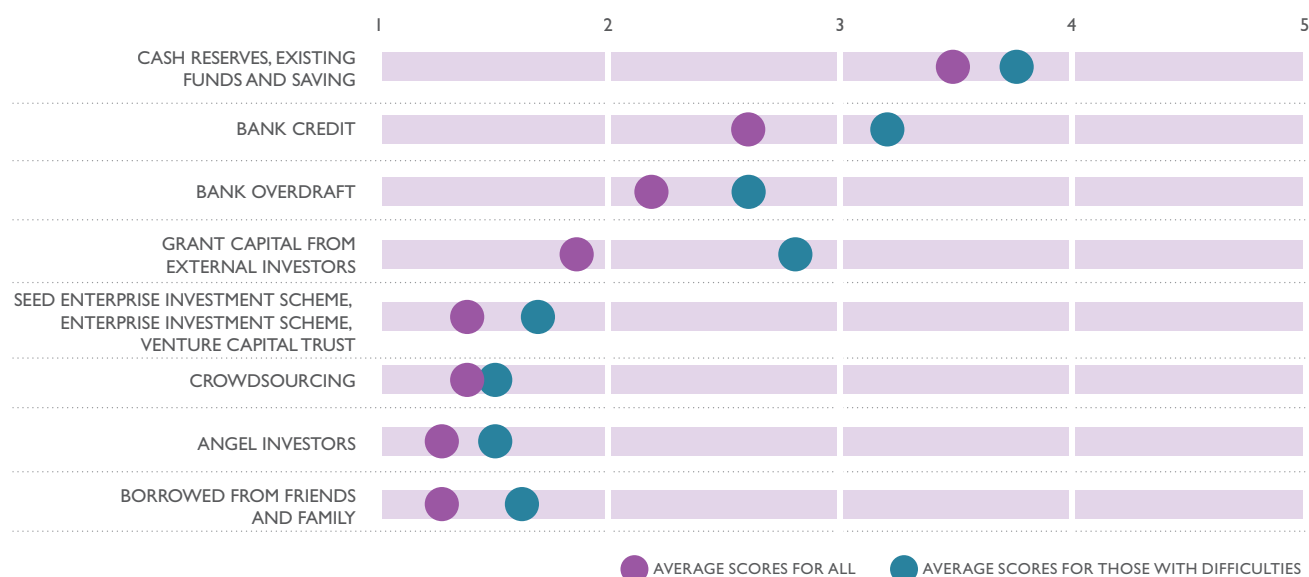
Although just under half (42%) of HGSBs reported little difficulty in sourcing the funding they needed on acceptable terms, a fifth (20%) stated that they found it difficult or very

difficult. Those HGSBs that reported difficulties in accessing capital placed higher importance on all channels of funding, but cash reserves and bank credit still remained the most important sources of funding.

For HGSBs who find accessing capital on good terms difficult, three quarters (75%) say it's a significant barrier to the growth of their business.

RED TAPE AND BUREAUCRACY LEAVES BANK FUNDING LANGUISHING

HOW IMPORTANT ARE THE FOLLOWING SOURCES OF FUNDING FOR STARTING A BUSINESS? PLEASE RATE ON A SCALE OF 1 TO 5, WHERE 1 IS NOT AT ALL IMPORTANT AND 5 IS VERY IMPORTANT (AVERAGE SCORES)



FUNDING IS DIFFICULT

BANKS ARE RELUCTANT TO LEND TO SMALL AND NICHE BUSINESSES

Bank funding is still difficult to secure, with just under a quarter of the businesses surveyed describing access to bank credit as 'difficult' or 'very difficult'. Many pointed to the banks' reluctance to lend to small and niche businesses, especially when these are growing from a low base and have no assets.

Red tape and bureaucracy were also identified as a key obstacle to HGSBs' efforts to access credit from the banks. The time

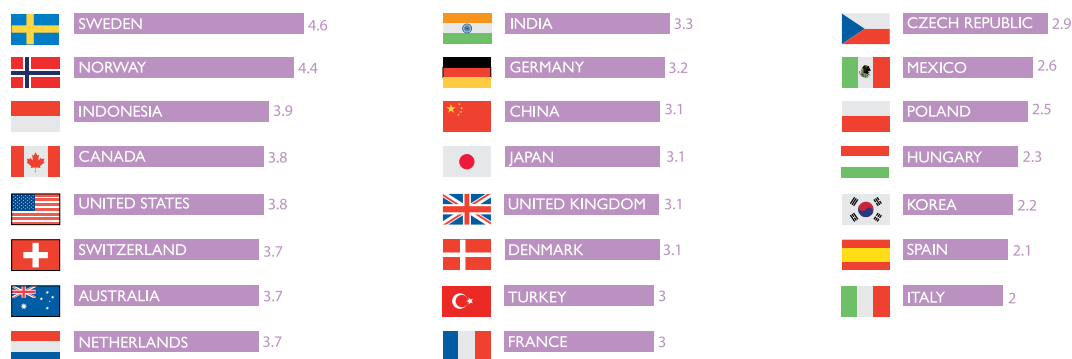
needed to go through the necessary hoops to secure bank funding usually translates into considerable costs for small businesses.

Some businesses reported that agreeing to the terms of funding was a greater issue than the funding itself, with banks often offering credit on very unfavourable terms to small businesses and with many strings attached.

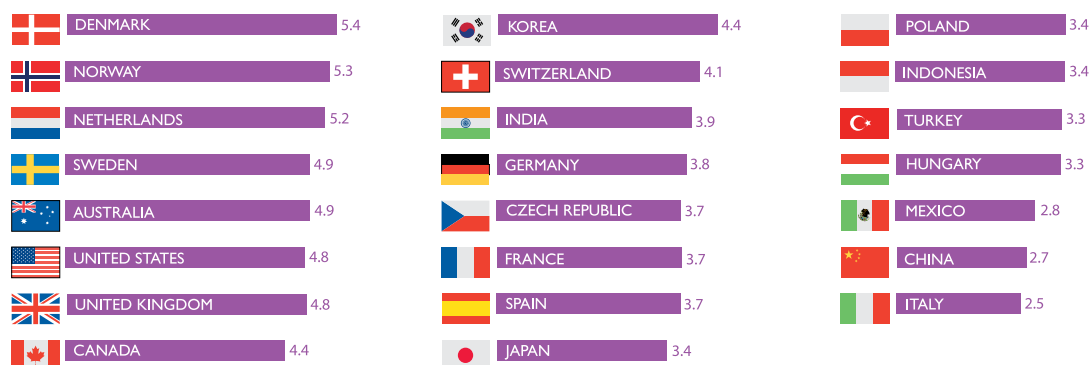
EASE OF ACCESS TO LOANS

RATED ON A SCALE OF 1 TO 7 WHERE 1 IS IMPOSSIBLE AND 7 IS EASY

2011 TO 2012



2007 TO 2008



In most countries, access to loans has become tougher in the wake of the financial crisis. Among the countries shown above, only China and Indonesia have benefited from easier access to loans since the financial crisis.

"ACCESS TO BANK FUNDING HAS BECOME A TIME-CONSUMING AND PAINFUL PROCESS."

"THESE DAYS, LOANS COME WITH EXTRA STRINGS ATTACHED. EVEN WORSE, THE BANKS KEEP MOVING THE GOALPOSTS."

Policy recommendations

Great progress has been made by the Government in promoting policies that (a) foster smaller company growth and (b) support UK entrepreneurs. But there's clearly more that can be done. The challenges currently facing HGSBs have clear implications for policymakers.

Below are some joint policy recommendations from Octopus Investments and Cebr. We believe these are positive steps that if taken would offer further support to this vital part of our business community.

I. TACKLE THE TAXING ISSUES

An ongoing reduction in Corporation Tax, or better still a deferral, combined with National Insurance holidays (for example, for hiring long-term unemployed people), should help stimulate job creation and expansion among HGSBs.

I. ALLOW CORPORATION TAX DEFERRAL

Permit fast growing companies to temporarily defer their payment of Corporation Tax in order to ensure they have more capital to invest while the company grows. By allowing this money to be invested, rather than paid out immediately in tax, the Exchequer is likely to get a higher return from these companies in the medium term. HM Treasury could set interest payments at higher levels than gilt yields. It could even add an interest charge to the original tax bill in return for deferment of payment. The overall benefits would be:

- Retention of capital, leading to improved jobs creation and higher tax receipts over time
- Revenue-neutral for HM Treasury, with the potential to deliver an overall gain in Exchequer revenues
- Levied interest charges would cover potential losses from companies unable to pay their tax liabilities
- Loans could prohibit any dividend or share capital reduction during the life of the loan to deter fraud or frivolous use
- Prevention of capital distributions, as well as attracting an interest charge in excess of cash interest rates from banks



ALLOW
FAST GROWING
COMPANIES TO DEFER
THEIR PAYMENT OF
CORPORATION TAX
IN ORDER TO
RETAIN CAPITAL
TO SUPPORT
GROWTH

CREATING A
ECOSYSTEM ACROSS
THE UK TO SUPPORT
THE BIRTH AND
DEVELOPMENT OF
THESE HIGH IMPACT
COMPANIES

PENSION FUNDS,
WITH THEIR
LONG-TERM
INVESTMENT
HORIZONS, CAN BE
COMPLEMENTARY TO
VENTURE CAPITAL
INVESTMENT

2. IMPROVE ACCESS TO FUNDING

As this research shows, access to funding remains a critical need for many HGSBs. However, bank funding is often not the most suitable form of financing for these companies; they need access to a diverse range of funding options.

In this respect, we need to acknowledge the Government's positive efforts to promote funding for smaller companies through tax-efficient investments such as Venture Capital Trusts (VCTs) and Enterprise Investment Schemes (EIS). We believe that continued support for these schemes is vital, not least in terms of promoting these initiatives more strongly to the companies that could benefit directly from them. Among HGSBs struggling to access capital through bank loans, we found a lack of awareness of alternative funding channels. These businesses need to be informed about alternative channels for securing the finance they need. If these businesses fail to access finance to support their growth, the implications are huge given HGSBs' contribution to job creation and economic growth.



**REFORM
CURRENT ISA
RESTRICTIONS
TO ALLOW PRIVATE
COMPANY SHARES
TO BE HELD**

2A. REFORM CURRENT ISA RESTRICTIONS TO ALLOW PRIVATE COMPANY SHARES TO BE HELD

- Smaller companies are most often private, and always looking for additional capital to support growth
- Thanks to the new higher ISA allowance, the rate of growth in ISA investments is likely to increase
- Loosening restrictions further would be viewed as an unequivocal sign of the Government's support for the private investor
- Opens up the vast ISA investment market to an area of economy most in need of investment
- Changes would not require new legislation and are likely to generate support among businesses and investors

2B. CHANGE TIER I (INVESTOR) VISA REQUIREMENTS

- Tier I (Investor) visa requirements can and should be channelled into approved VCTs and EIS, both of which have a proven record of supporting HGSBs and enabling them to deliver growth
- Much more beneficial to UK economy than current policies
- Highly tax-efficient investment vehicles
- Direct link to UK job creation
- Reward investors for investing in UK smaller companies
- Require very little additional oversight
- Already regularly reviewed by Treasury
- Investors would not be eligible for income tax relief

2C. GRANT UK PENSION FUNDS A TAX CREDIT

- Pension funds, with their long-term investment horizons and efforts to create a stable savings base, can be complementary to venture capital investment
- Ironically, investment in venture capital by UK pension funds has declined sharply in recent years
- This is due to a lack of understanding of the asset class and the closure of many final salary pension schemes
- Granting UK pension funds a tax credit on their UK dividend income, equal to 30% of any amount invested in accredited UK venture capital funds, or offering Loss Relief at a similar 30% rate, would encourage greater investment
- This is the same level of tax incentive currently available to retail VCT and EIS investors. These investors are required to hold shares for a minimum period of five and three years respectively to claim the tax credits.
- We recommend increasing the minimum holding period to 10 years for pension funds, which should be encouraged to take a longer-term view than retail investors

**INVESTOR VISA
REQUIREMENTS SHOULD
BE CHANNELLED INTO
APPROVED VCTs AND EIS,
BOTH OF WHICH HAVE
A PROVEN RECORD OF
SUPPORTING HGSBs AND
ENABLING THEM TO
DELIVER GROWTH**

3. BOOST REGIONAL ECONOMIC PERFORMANCE BY INCREASING CONCENTRATION OF HGSBs IN UNDERPERFORMING AREAS

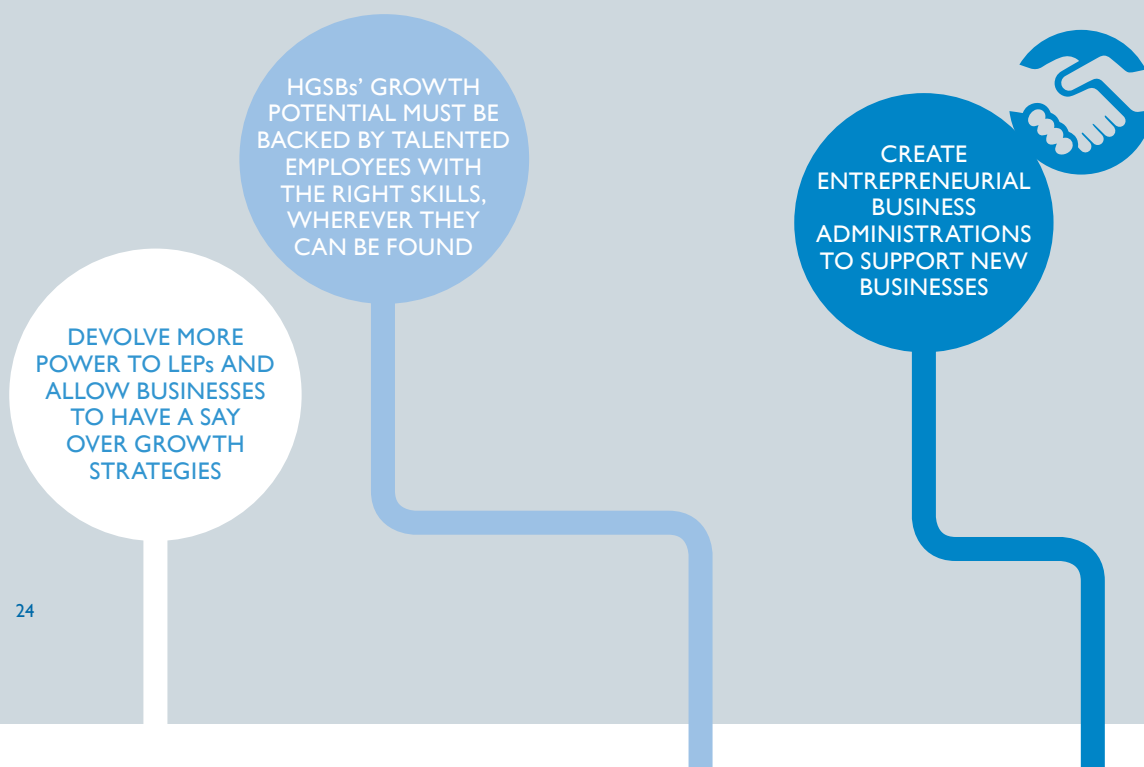
There is a clear correlation between underperforming areas of the UK and the absence of HGSBs. More needs to be done to create an ecosystem across the UK to support the birth and development of these high-impact companies.

3A. DEVELOP A NEW APPROACH TO ALLOCATING REGIONAL FUNDING

- Devolve more powers to Local Enterprise Partnerships (LEPs). Allow businesses to have direct say over growth strategies and priorities. Encourage appointment of 'business angels' by LEPs and consider new models of public and private collaboration, exemplified by the Angel CoFund, as a way to encourage practical support that genuinely meets the needs of HGSBs.
- Devolve funding for business and infrastructure to Combined Authorities and LEPs
- Introduce long-term policy frameworks to give small innovative firms better access to government research and procurement contracts
- Establish 'Entrepreneurial Business Administrations' to create a dedicated support network for new businesses

3B. PRIORITISE INFRASTRUCTURE AND INTERCONNECTIVITY

- Establish an independent, cross party infrastructure commission to examine regional development issues and the long-term needs of each region. The commission would also report on the economic implications of the high-speed railway HS2 for the North of England.
- Improve interconnectivity in the North of England by building new train links directly between the North West and North East. Connecting Leeds and York to Manchester and Liverpool will encourage regional clusters of entrepreneurship and the businesses that supply them. As it stands, the proposals for HS2 do not solve this problem.
- Long-term strategic targeting of further foreign direct investment to roll out development projects.



4. ENCOURAGE EXPORTS AND EXPANSION INTO NEW MARKETS

Overseas trade currently generates too little growth. Exports need to grow significantly to underpin a sustained, balanced economic recovery in the UK. UK Trade & Investment does a good job of working with many UK businesses to ensure their success in international markets, but is there more that could be done for the sort of dynamic high growth companies we've described in this report? We need government delegations to send the very best of what the UK has to offer to fast-growing economies in order to encourage trade with these countries. Entrepreneurs from HGSBs could create the ambassadorial leadership we need to gain influence and greater commercial traction.

5. ENSURE COMPANIES PAY UP ON TIME

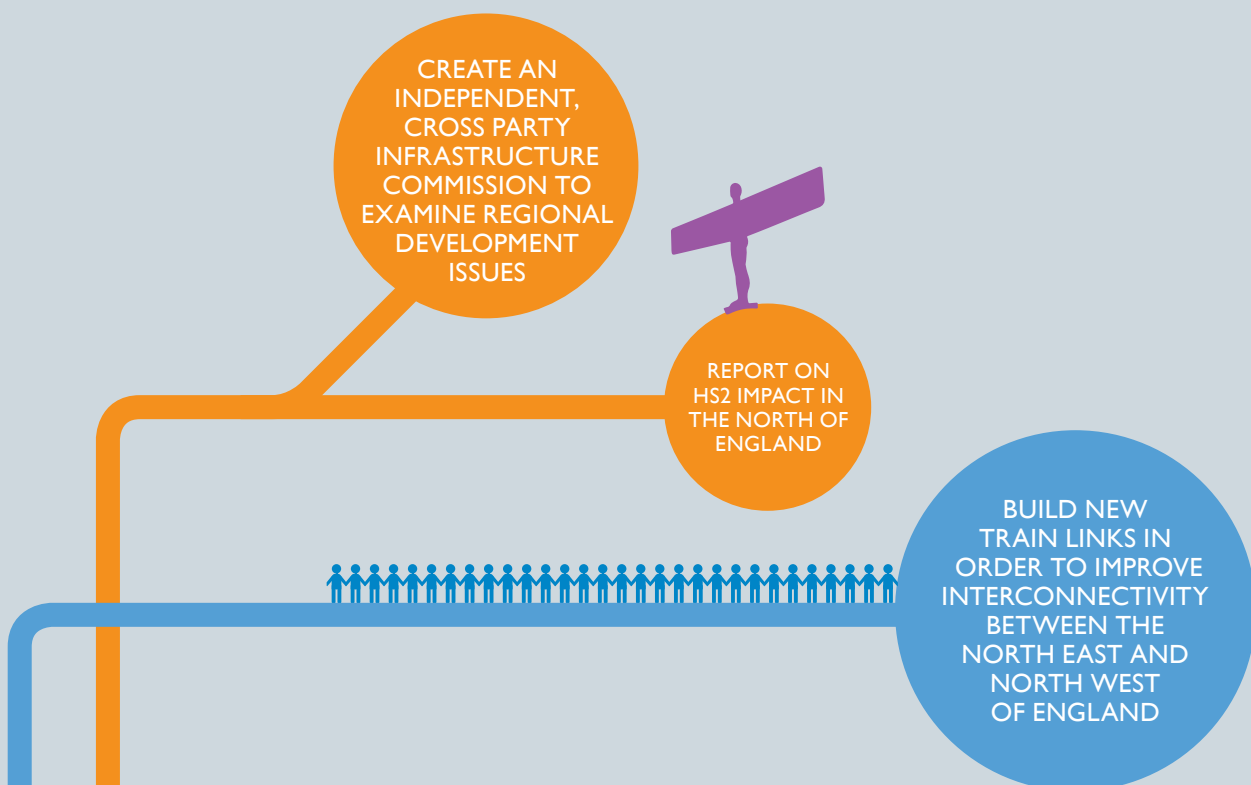
Government and (especially) large businesses in the UK need to commit to paying businesses on time. This is particularly important for fledgling HGSBs.

6. KEEP THE UK ECONOMIC RECOVERY ON TRACK

We believe the Government and the Bank of England must ensure a sustainable economic recovery. Monetary policy should be tightened gradually, with interest rates kept low in the short term. For policymakers, the emphasis will be on spotting property market bubbles and other shocks that could derail growth.

7. INVEST IN HUMAN CAPITAL TO ADDRESS SKILLS SHORTAGES

HGSBs' growth potential must be backed by talented employees with the right skills, wherever they can be found. This can be achieved by extending apprenticeship schemes, ensuring people are studying for degrees in appropriate subjects and offering retraining opportunities to older individuals. Ensuring that the UK continues to nurture talent and retain skilled employees is essential to its ability to remain a world-leading enterprise hub.



Conclusion

This report is one of the first to identify the formidable contribution made by high growth small businesses to the British economy. But despite doing more than their fair share to help keep the UK recovery on course, many of these companies are facing significant obstacles to success.

The Government therefore still has a vital role to play in implementing policies designed to help HGSBs thrive. This includes ensuring employees have the appropriate skills to help drive growth and innovation as well as addressing the tax issues facing businesses. Furthermore, policymakers could do more to encourage HGSBs' expansion into new markets, and educate management teams on the diversity of smaller company funding which is available but as yet untapped. Finally, encouraging regional growth and investment remains vital to ensuring a stronger economic future for the whole of Britain.

At Octopus Investments, we know that HGSBs – and the talented entrepreneurs at their helm – are a force to be reckoned with. We recognise the vital role they play for the UK economy, and we know from experience that they also offer tremendous investment potential. That's why we're committed to helping these companies grow and making sure their voice is heard. But recognition is just the start. Now it is time to help our HGSBs write the next chapter of the UK's great growth story.

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HGSBs WERE
RESPONSIBLE FOR
68%
OF EMPLOYMENT
GROWTH BETWEEN
2012 AND 2013

HGSBs
GENERATED
MORE THAN
1/3
OF ECONOMIC
GROWTH
LAST YEAR

Contacts

For further information about the methodology and research data included in this report please contact Danae Kyriakopoulou at **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.

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Making Business Sense

If you would like to talk to **Octopus Investments** about this report or our support for smaller companies, please contact Georgina Turner or Sophia Winfield on our PR team.

Octopus Investments is a fast-growing UK fund management business with leading positions in several specialist sectors including healthcare, energy and smaller company investing. Founded in 2000, Octopus manages more than £4.7 billion of funds on behalf of 50,000 investors. Over the years we have invested in more than 450 SMEs including household names such as LOVEFILM, graze.com and Zoopla Property Group. Our investments have helped these businesses to create hundreds of new jobs.



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