
ECI GROWTH SURVEY 2013



About ECI

Building successful businesses

ECI is an expert in building successful growth businesses. Having provided finance to more than 250 companies over the past three decades, our team has a wealth of experience in supporting management teams to maximise the growth potential of their businesses.

ECI is one of the longest established and most successful private equity groups in the UK, specialising in buyouts, buyins and development capital deals valued between £10 million and £150 million.

Growing companies

15%

ECI 9 turnover growth
p.a. since date of investment

18%

ECI 9 EBITDA growth
p.a. since date of investment

Long-term investor

£1.1bn+

Committed capital
over 30 years

Capital to invest

£437m

Value of ECI 9, our current fund

Foreword

Economic growth matters for everyone, but it is driven by relatively few individuals. This is because most economies are powered by high-growth companies. It is this that I believe makes this report (and those ECI has produced in previous years) valuable. These high-growth companies are the exporters and producers who will drive the UK's recovery.

By seeking the views of those running these companies, this survey seeks to build a clearer picture of what can be done to help them achieve their growth objectives. Perhaps the most encouraging finding to come from this report is that it presents clear evidence that confidence is finally returning to the UK economy and indeed to most parts of the global economy.

However this confidence, and the growth that will flow from it, remains fragile. We must all do everything we can to carefully nurture this recovery. That means policymakers and politicians need to listen to the thoughts, views and opinions of business leaders. Research such as this report can be a powerful tool for getting these insights across to those running the economy.

The UK has a great heritage and a proud tradition in creating excellent high-growth businesses. Too often in the past we have been too shy about selling ourselves around the world. We have been too afraid to explain exactly why Great Britain is great. There is plenty of

evidence in this report to show that as confidence returns across all sectors and regions, as faith in the government's achievements and approach to the economy grows, these high-growth businesses are prepared and ready to really put their foot down and accelerate into a new golden era for the UK economy.

We have already created some of the best companies in the world in sectors as diverse as high-technology services and manufacturing, education and business and professional services, in healthcare and medical research. And we have the financial services and investment infrastructure to exploit these companies on a global scale.

It is encouraging to see that so many business leaders in this report are confident that their companies will be able to access the finance they need to grow and expand over the coming year, and I look forward to reading more about their successes as the recovery really takes hold and the UK finally shakes off the last traces of recession and recovers its adventurous, high-growth attitude.

There are signs from all across the economy that we are finally heading in a more positive direction.

Lord Bilimoria CBE, DL
Chairman
Cobra Beer Partnership

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Executive summary

to growing the British economy. Where most surveys look at general business opinion or economic trends, we seek the views, opinions and insights of those in charge of high-growth companies.

Our sample was taken from UK growth companies with turnover of between £10m and £200m growing at 5% or more per their last accounts plus similar growth companies from ECI's own network. These are the businesses that are strong enough to prosper in hard times. These so-called "gazelles" are the drivers of growth, which is why their views matter. So what can we tell about the shape and state of the UK economy from this survey?

What's clear from these findings is that, while a recovery is well and truly underway, it is still in its early phases. In truth there still remains some uncertainty in the market (hence we see a drop in the numbers confident enough to talk about definite plans to fund growth initiatives next year). But there is also good news as well, especially in the increase in ease with which these businesses claim they can access funding and in their approach to doing so. It is particularly pleasing to see so many say they would consider private equity and the public markets.

There is good news here, too, for the Coalition as the early-stage recovery brings with it a bounce in opinions as to the impact their policies are having. Last year the opinion was net-negative for the first time and while they haven't moved to a completely positive view of the government, there has been a net-positive shift (though a majority of business leaders take a neutral view). There is also strong opinion voiced here on the thorny issue of Europe. A major export market for most respondents, the majority see EU membership as a positive thing, but are remarkably sanguine on the issue of a referendum.

Having run this survey for four years, the improvement in confidence about accessing equity capital is the most welcoming from our perspective. Our own portfolio has also become more positive and we have witnessed 20% growth in profits in the 12 months to June 2013.

David Ewing
Managing Partner
ECI Partners LLP

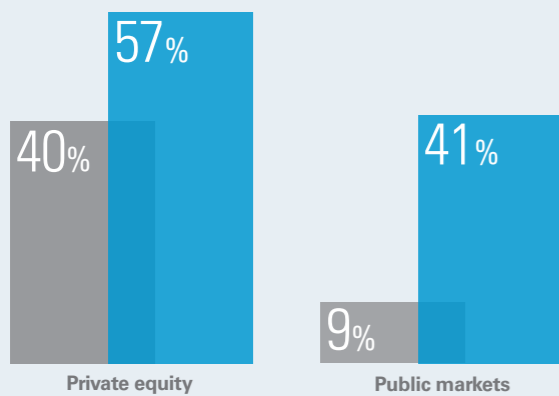
Perhaps an inevitable consequence of the severe recession we have just emerged from is that all eyes - in the media, government and business - are focused on growth. The announcement of the quarterly GDP figures has become something of a set-piece show, with wild swings in the country's mood reported in the media for every slight fractional nudge up or down in the numbers. The latest round of upgrades, mostly to still modest growth rates for the year, even saw some mutterings of boom. We appear to have moved from the unmentionable green shoots back to boom in one leap.

Of course, the true picture is more complex. At ECI, we believe that the best way to really take the pulse of the economy is to talk to those businesses that are its lifeblood, the companies all across the economy that drive economic growth, the "vital 6%" as Nesta called them. Dealing with these growth companies is what ECI Partners has done for nearly four decades and it is this close relationship with this unique group of companies that makes this annual growth survey different. These are not the views of academics or politicians, policymakers or twitterati.

The findings in this report reflect the views and opinions of the people on the frontline of British business, those dedicated to growing their businesses and, as a result,

Key findings From the 2013 Growth Survey

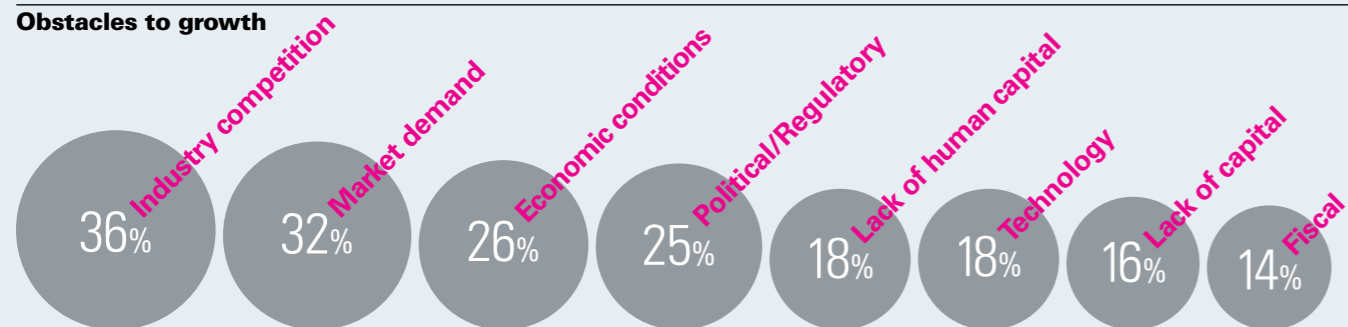
Popularity of funding types 2012 vs. 2013



Key drivers of growth



Obstacles to growth



Membership of the EU

59%

Of respondents say the UK's membership of the EU is important or vital

Effect of a referendum

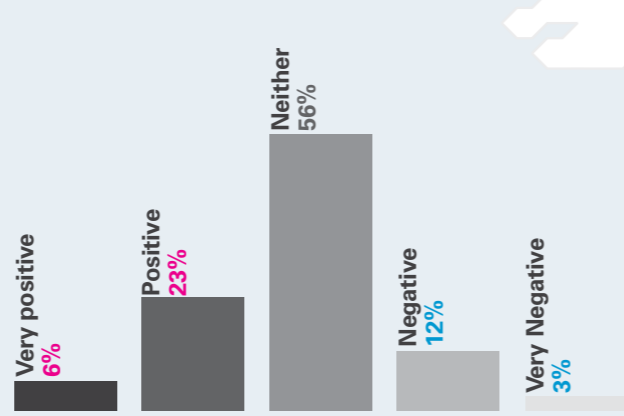
79%

Think that a referendum on EU membership will be neutral or positive

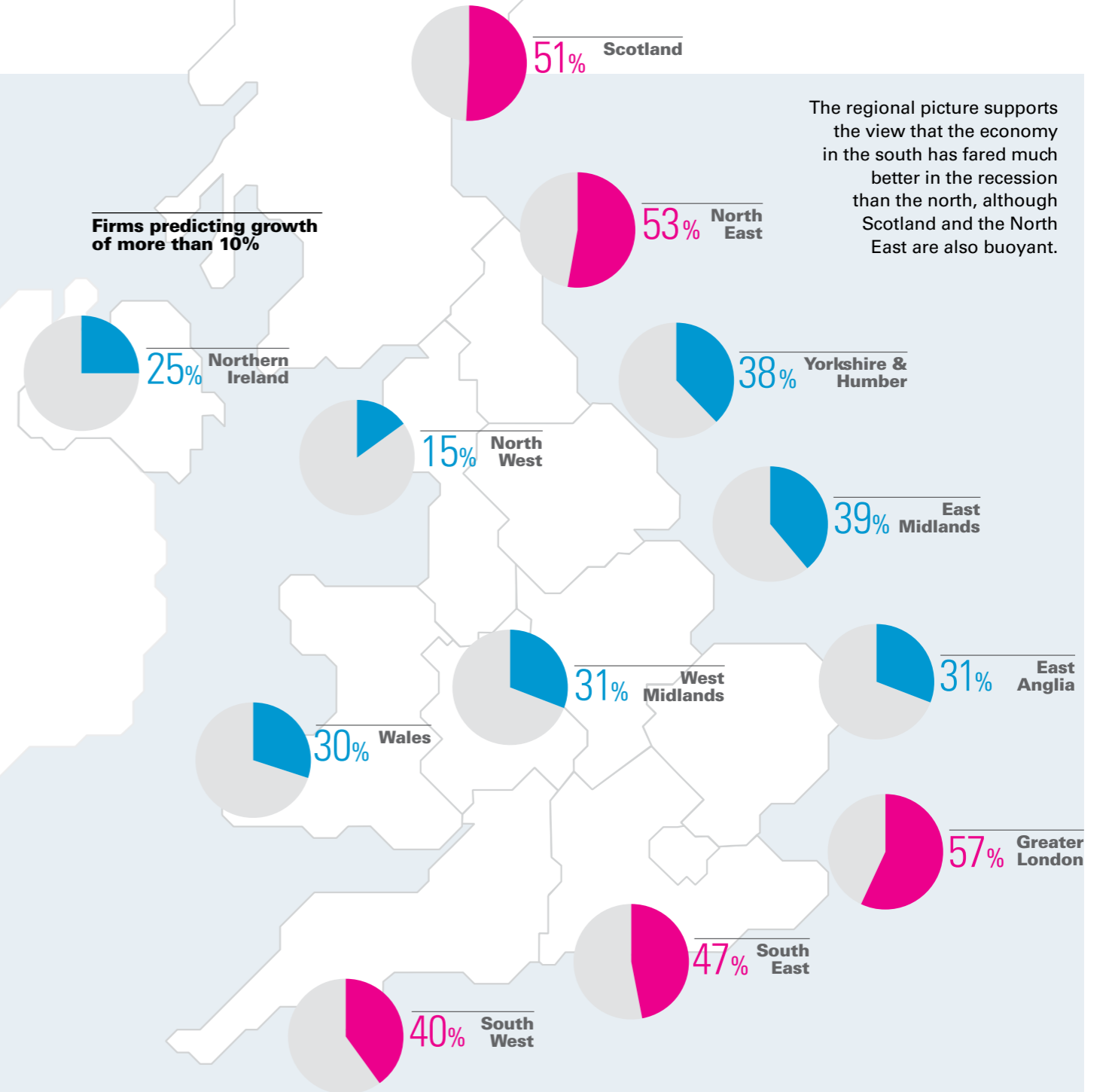
Ease of accessing finance

Over half of respondents say they expect to experience no problem raising finance, with **54%** claiming it will be **easy or very easy**. Many more companies are prepared to consider funding through **private equity** and the **public markets** compared to last year.

How have government policies affected your business?

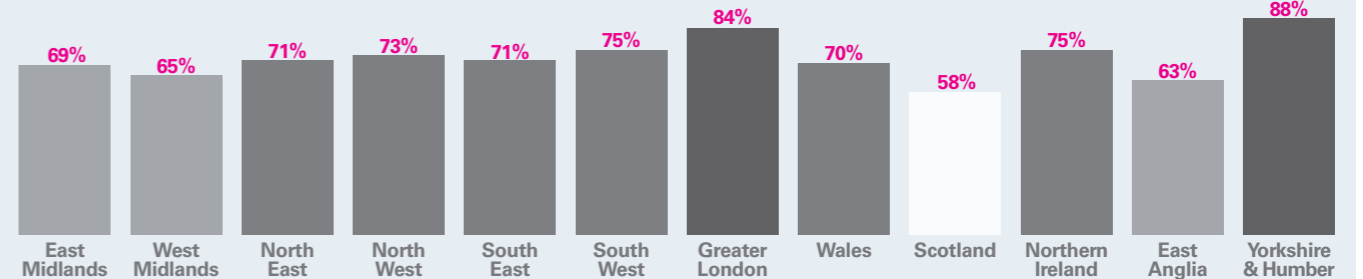


Firms predicting growth of more than 10%



The regional picture supports the view that the economy in the south has fared much better in the recession than the north, although Scotland and the North East are also buoyant.

Likelihood of funding growth initiatives, by region



Funding for growth

For the first time since the survey launched, a majority of respondents feel it will be easy to access finance

54%

Of growth companies believe it will be easy to access finance

“It is encouraging to see an increase in Equity Culture among growth businesses”

David Ewing, Managing Partner, ECI

Asked to identify their top priorities for the coming year, finance, and especially how to access the funds to support growth, ranked second for most respondents.

Importantly there is little or no change in the likelihood of respondents wanting to fund new growth initiatives, with almost three-quarters (73% vs 72% last year) claiming they are likely to fund growth this year. Although only 29% say they will definitely fund growth (down from 37% in 2012), those stating that they definitely will not has dropped from 8% last year to 5% this year.

For many growth businesses, expansion will require them to access external funding. While difficulty obtaining finance remains a problem for some, this survey shows a big positive swing in sentiment amongst growth companies. Over half of respondents say they expect to experience no problem raising finance, with 54% claiming it will be easy or very easy, a sign things are improving. And while 46% still expect it to be difficult or very difficult this represents a significant drop from 64% last year.

While most companies (92%) will first look to their internal cashflow when considering how to fund growth initiatives, when it comes to sourcing external finance, 58% will likely use bank debt, 49% other private investors and 41% will go to the public markets. The continued resurgence in the financial sector is shown by the growing faith in the use of private equity (57% are likely to use it, compared to 40% last year and the year before).

Faith in the markets

41%

Say they are likely to use public markets, up from just 9% last year

How to boost funding

“Speed up the process, improve the knowledge of those making the decisions and judgements”

Owner of a private company

Growth finance

73%

Are likely to need to raise funds to grow, of these 29% say they will definitely be funding growth over the coming 12 months

This chimes with the recent experience of ECI, which has seen a lift in activity and deal flow over the last year.

There has also been a dramatic leap in the proportion of respondents who say they are likely to access funding via the public markets (41% compared to just 9% last year). This again seems to fit the evidence of increased activity across all the main fundraising markets in recent months, with several high-profile successful flotations.

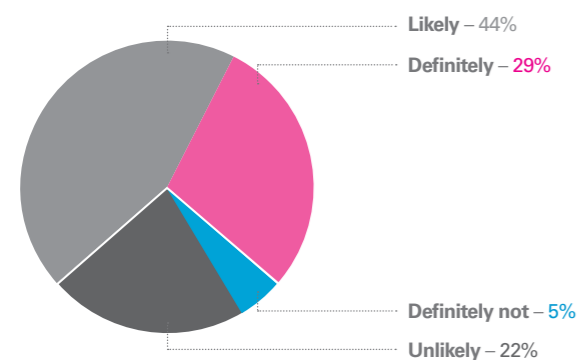
Despite all the changes in the market, and regardless of all the criticism the banks receive, bank lending remains the most popular external route to getting finance and across the four years of this survey there has been no significant shift in attitudes to bank debt.

However, two of the biggest challenges to raising finances remain the lack of supply of finance and the amount of due diligence required by lenders. On the other hand, it is perhaps understandable that lenders may have adopted more responsible attitudes to lending since 2008. A further 15% reported they were held back from accessing finance by fear of a loss of control to a bank or other lender. Other challenges cited include a lack of knowledge of funding sources, which is surprising as this is a financially literate survey population.

“ECI experienced the opening of the public markets this summer, floating Conviviality Retail”

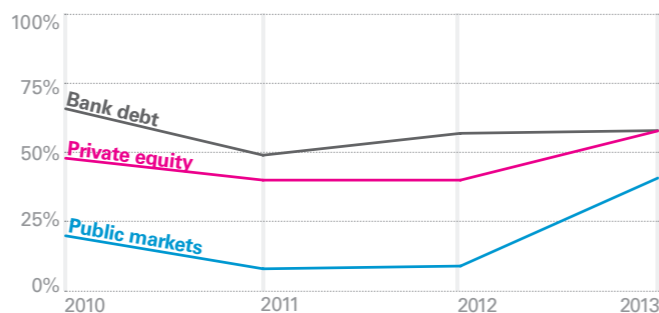
David Ewing, Managing Partner, ECI

Likelihood of funding growth

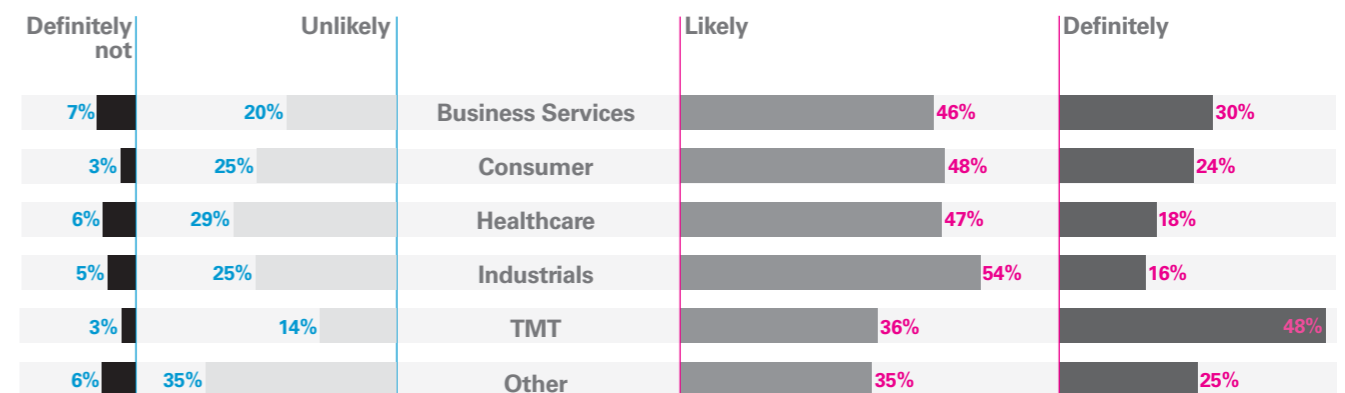


Popularity of external funding types

Proportion of companies considering following external means to fund growth



Likelihood of funding growth, by sector



International expansion

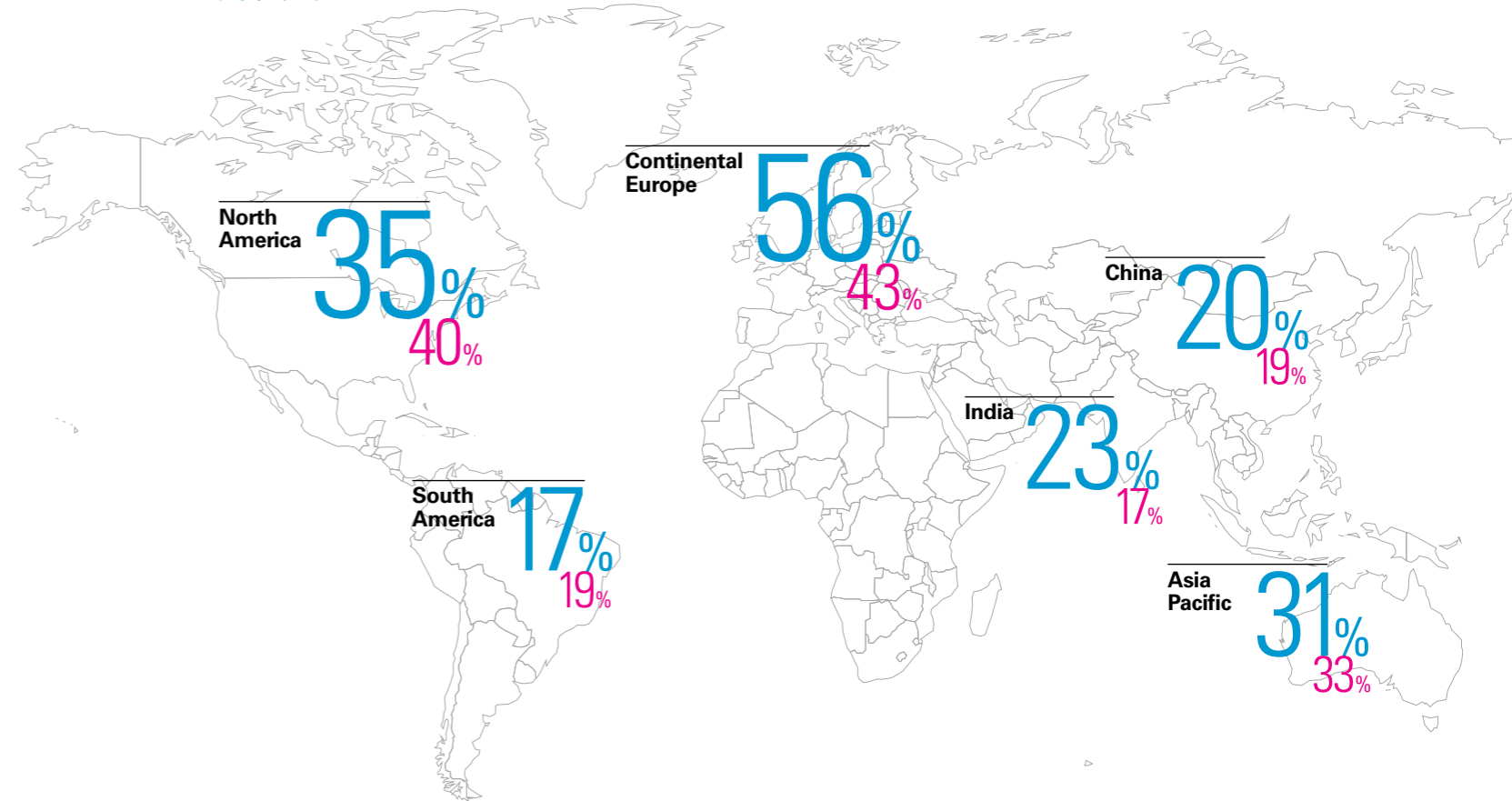
Europe remains the most important export market for growth firms, although they will also seek growth in many new markets

There's been plenty of talk since the recession started in 2008 that the recovery, when it came, would have to be export-led. With the UK economy back into recovery mode, but still only growing slowly, it is likely that many UK businesses will need to find sales growth overseas.

For all the talk of the rapid growth and expansion of exports to emerging economies, respondents to this survey are clear that they see their immediate future in more established markets. The biggest international market for UK growth firms remains Continental Europe and the evidence here suggests it is becoming more, not less, important. This helps to explain the strong feelings about the UK's relationship with Europe and in particular our place within the European Union. When asked whether the UK's membership of the EU mattered, 59% said it was important or vital (see page 15 for more details on questions about the EU).

Europe remains the most important market for respondents again this year, with 56% expecting to grow their business there in the next year (compared to 43% in 2012 and 45% in 2011). It shows that for all the fear and uncertainty caused by the crisis in the eurozone, and for all the attempts to promote the drive to emerging, fast-growth markets in Asia and South America (notably the BRIC economies), established patterns and trade routes are hard to break down.

Where do you expect to expand overseas?
2013 and 2012



International rescue

63%

Of current ECI portfolio companies have international operations

120+

ECI's portfolio companies do business in over 120 countries

“As a growth investor we have found an increase in demand from our portfolio companies to help them grow globally. We often back market leaders so once they dominate their domestic market, the next natural step is to seek overseas customers. In the last year, our portfolio has opened new offices in France, Germany and Spain and made acquisitions in Asia and North America”

Lewis Bantin, Partner, ECI

For all the dependence on old, established markets, there is however growing interest in the opportunities offered by the Indian market, with India increasing in importance this year. Almost a quarter (23%) expect to grow there this year (compared to just 19% in 2011 and 17% in 2012).

When it comes to using international markets to help them achieve their growth plans, respondents to this survey claimed the most popular route is by increasing international sales (67%).

Another popular route to export is to find a suitable partner to assist in the development of new markets, with 48% of respondents planning to grow by through

a joint venture or alliance. When combined with those seeking to expand via acquisition (31%), the total of firms seeking to enter new markets through some kind of deal with an incumbent firm increases to 79%.

A further 45% plan to increase the use of overseas suppliers, with 39% planning to open a new sales office and 29% expecting to open another, non-sales operation in international markets.

Challenges for the future

An optimistic outlook for many business leaders means they no longer see the economy as the biggest obstacle

The most striking shift in sentiment from last year's survey is the drop in the number who claim the economy is holding them back.

This is one of the strongest indicators that confidence in the UK economy is returning. Where last year 46% cited the economy as a major barrier to growth, this has fallen to 26% this year. This is a clear sign that growth companies think the economy is on the up.

Other indicators that the economy is getting healthier are the slight increase in those citing industry competition as a barrier (up from 32% to 36%) and a switch in the focus of concern of respondents away from the broad economic issues towards more specific issues such as regulatory burdens (political and regulatory concerns have increased in importance from 19% to 25%).

There was also a marked increase in those predicting that technology will be more of a challenge, with 18% citing this as a factor this year, compared to just 8% last year. This naturally increases to 35% for firms that operate in the TMT sector.

Industry competition is cited as the biggest obstacle to growth, with 36% agreeing this is their major concern. Market demand was cited by 32%, while the

Challenging times

36%

Of respondents say that industry competition is the biggest obstacle to growth

75%

Of respondents don't feel the political or regulatory environment is holding growth back, only 25% do

18%

Of those running growth firms are concerned that they might have difficulties recruiting and retaining staff

political and regulatory burden was cited by just a quarter of respondents. With many employers having kept hold of skilled staff during the recession (even if they had to reduce hours) there has been talk that the recovery could refocus attention on the skills shortage, as demand for skilled employees outstrips supply. However, there is little evidence that this is on the minds of business leaders yet, with only 18% of respondents citing "a lack of human capital" as their biggest challenge, with the same proportion citing technology as a challenge.

The exceptions to this are the business services and TMT sectors, where 23% and 21% of respondents report staffing as an issue, a reflection perhaps of the people-focus of the former and the high demand for skills in the latter.

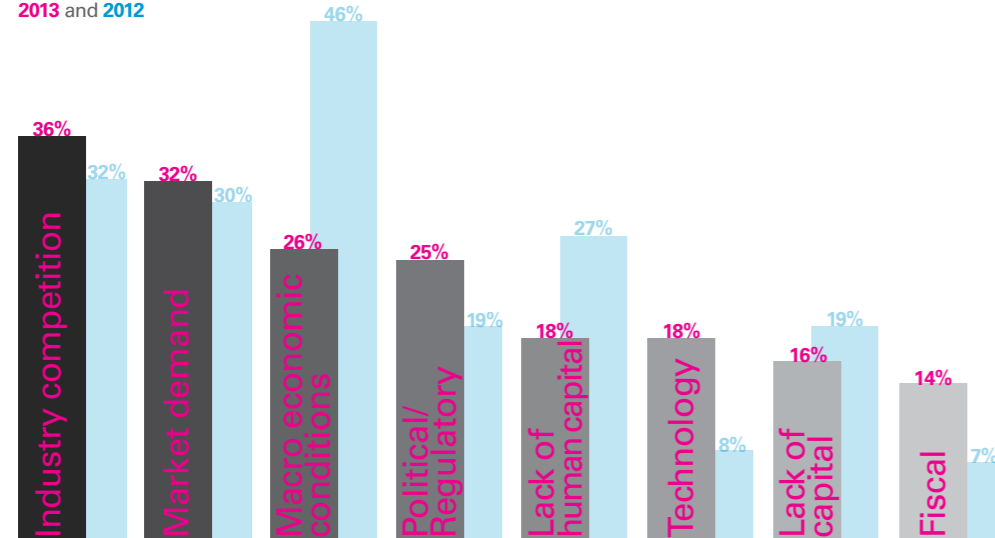
For all the talk of a funding gap, a lack of financial capital is cited as an obstacle by only 16% of respondents, a figure that remains relatively steady across all sectors. Fiscal and tax issues are cited by 14% of respondents, a reflection perhaps that there is widespread support for the government's drive to keep corporate taxes low. However, there is plenty that the government needs to do. Not surprisingly, the healthcare sector likes the government least, with 47% claiming the political and regulatory burden is holding back growth.

A year of growth

19%

Employment growth p.a. of ECI 9 since date of investment

Major challenges to growth 2013 and 2012

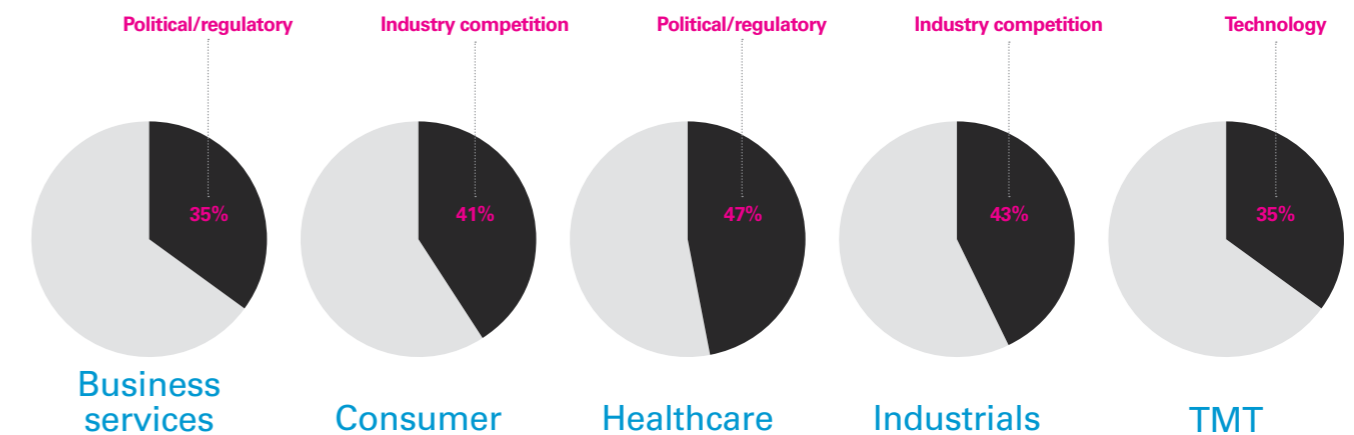


Comment

"Despite signs that things are picking up across the economy, conditions remain tough for many firms and there are major obstacles to growth"

David Ewing, Managing Partner, ECI

Biggest challenge by sector



The relationship between government and business

Growing firms matter to the government, but how are its policies perceived by businesses?

“It’s the economy, stupid” has become something of a political mantra around the world in the 20 years since Bill Clinton’s campaign team first used it to such devastating effect in 1992. And here in the UK, the economy seems to be the dominant factor in determining how the leaders of growth companies view government policy.

In light of the improving UK economy, it is not surprising that respondents to this year’s survey feel slightly warmer towards the Coalition and its policies than last year. In fact, this thawing of attitudes towards the Coalition has the vast majority feeling either positive or neutral (85%) towards the government. While 56% still claim to be neutral on the issue (down from 65% last year), perhaps withholding a more definite decision until they see the recovery take hold, 23% are positive about its performance (up from 17% last year).

The significant shift in attitude to the Coalition’s policies is marked in comparison with previous years. In 2011, there was an overwhelmingly positive attitude to the year-old Coalition government, with 47% viewing them as positive or very positive (5%).

This fell off dramatically last year, with just 16% feeling positive or very positive (2%). This year has seen a recovery in the positive feeling toward the government’s policies, it would seem largely coinciding with the economic recovery, with 29% viewing them positively. While only 6% rate the government as very positive, this is higher than any previous year.

While there are variations across the regions, it is noticeable that respondents in London and the South East give the government a net positive approval rate of 30%, while in the rest of the UK there is a net negative of 3%. This possibly reflects the fact that the worst effects of the recession have been felt outside the South East and the recovery is less well geographically spread than hoped for.

“Banks need to be more flexible in their approach to finance. The government should also put pressure on to increase lending”

MD of a public company

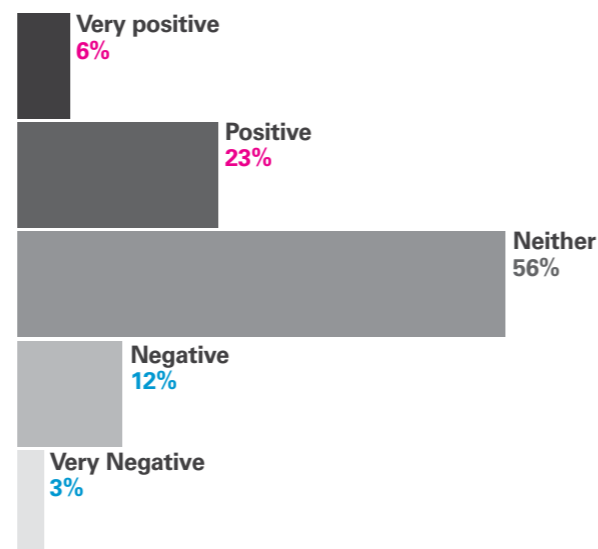
30%

Net positive approval rate in London and the South East

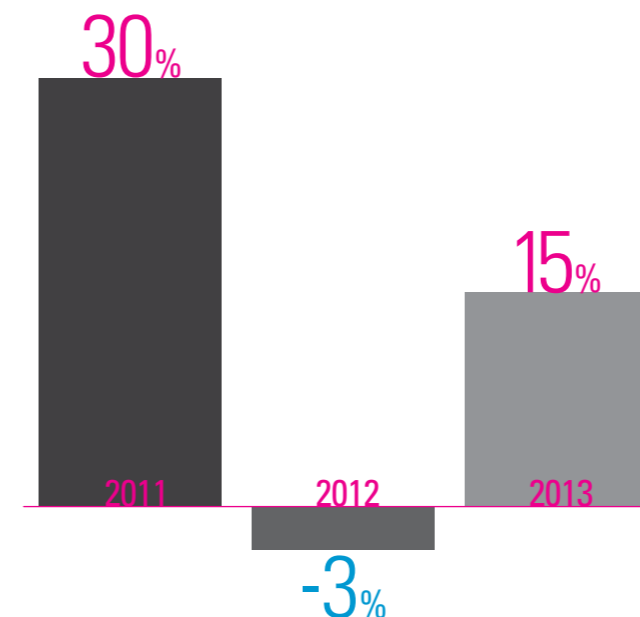
3%

Net negative score in the rest of the UK

How have government policies affected your business?



Net government approval score



“They [the government] have a tight rein on debt, which has kept interest rates down. A strong position on re-balancing the economy and long-term policies, mean they are tough and focused”

CEO of a private listed company

Attitudes to Europe

EU membership is important to business leaders, a referendum less so

59%

Regard EU membership as important or vital

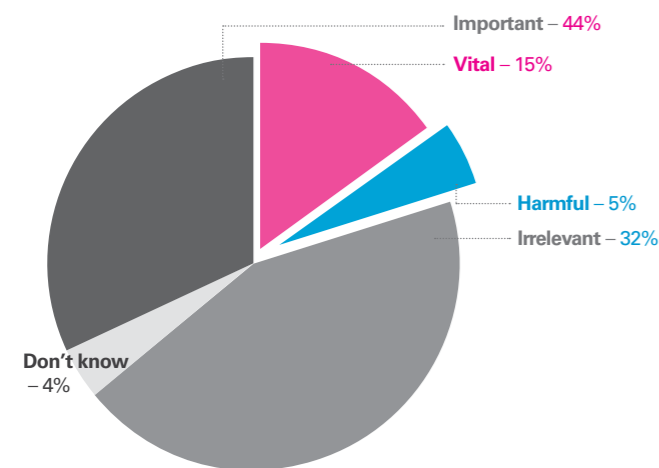
If one topic is guaranteed to get the “Westminster village” (and the associated Lobby media) buzzing other than the austerity economy, it’s Europe and the UK’s troubled relationship with the EU in particular.

This research confirms that a lot is at stake. It is clear that Europe is (and is expected to remain) the most significant export market for UK firms. And it appears that many accept that membership of the EU makes exporting to Europe easier. Hence the UK’s membership is regarded by 59% as positive, with 15% regarding it as vital and 44% rating it as important. For a further third of respondents (32%) it is completely irrelevant. Only 5% feel that membership is harmful, while 4% don’t know.

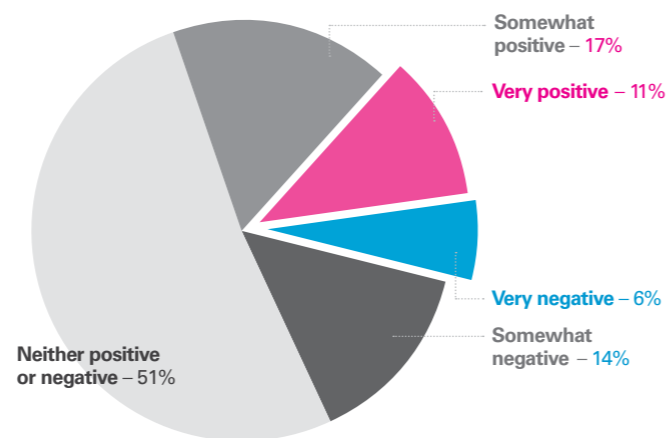
Perhaps more telling is the feeling of indifference towards a referendum on Europe among those running growth businesses. We hear much from politicians on the importance of resolving the EU issue and allowing the people to have a say.

Indeed, a central part of the Conservatives’ position on Europe is that it will offer voters such a direct say. But most respondents feel less engaged with this issue. Over half

How important is EU membership?



Impact of referendum on business



(51%) of respondents felt the decision to hold a referendum would be neither positive nor negative to their business.

This undermines some of the focus on the issue across Westminster and suggests that for those running growth companies, the details of the UK’s relationship with the EU is less significant. Of those who feel the referendum would have an impact on their business, 28% feel the decision would have a positive effect, with 11% feeling it would be very positive. Equally 20% feel it would be negative or very negative (6%).

When combined with the neutrals, there is a feeling among respondents that a referendum would have a net positive impact, which belies the argument that the referendum would introduce uncertainty for businesses and therefore be a negative factor for high-growth firms and adversely affect the economy more generally.

Referendum impact

79%

Think that a referendum on EU membership will be neutral or positive

Attitudes to EU membership by sector

44%

Of TMT firms think EU membership is positive

20%

Of those in consumer businesses agree

6%

Of healthcare firms think it is very negative

18%

Of those in consumer firms think it is negative

	Very positive	Positive	Negative	Very negative
Business Services	9%	20%	10%	4%
Consumer	1%	19%	14%	4%
Healthcare	0%	24%	6%	6%
Industrials	3%	24%	16%	1%
TMT	13%	31%	7%	3%
Other	2%	21%	17%	4%

Sector analyses

TMT

To the delight of many a politician, the UK's technology sector has become a powerful symbol of the country's ability to develop new creative sectors. The success of local technology hubs such as London's "Silicon Roundabout", along with the development of new capabilities and expertise, generates plenty of positive news opportunities as much as it creates new jobs and growth.

By a long stretch this is the most upbeat sector in the economy, with 38% expecting to increase turnover by over 20% this year. They are also the firms most likely to access and use all types of external finance, with 77% likely to use private equity, 62% likely to access the public markets, 73% likely to use bank debt and 65% turning to other private investors. This optimism flows into their confidence about how easy it is to access finance (60% said it would be easy or very easy).

If politicians are fond of the Silicon Roundabout photo opportunity, then those running TMT businesses are equally fond of government, with 44% rating their policies positively (compared to an average of 29%). They also feel that EU membership is important, but are more sanguine than some others about the impact of a referendum. Throughout this survey, what shines through about TMT businesses is the innate entrepreneurial optimism of those running businesses in the sector.

A year of growth

90%

Of TMT businesses feel neutral or positive towards the Coalition's policies

Expert view

"The high multiples being paid for tech businesses reflect a wider confidence in the sector's growth prospects, which exceeds that seen in most other sectors. This, combined with often very resilient revenue streams that have enabled many TMT businesses to record robust performance through the downturn, has increasingly driven private equity to compete strongly with strategic buyers on both price and deliverability.

Companies have recognised this, as the survey shows, with 77% of TMT growth businesses likely to

consider private equity funding in the next 12 months – well above the sample average. Additionally, the high profile nature of many tech fundraisings has fostered an awareness of the value of external finance in growing a business, and a recognition that a smaller percentage of an ultimately larger number can be more rewarding than the whole of a much smaller pie."

Tom Wrenn
ECI TMT team

Business services

The business services market has undoubtedly been one of the UK's success stories in recent years. This survey shows that growth in this sector continues to be strong, with firms in this sector among the most positive in terms of future growth plans (with 74% likely to fund growth initiatives).

When it comes to drivers of this growth, it is natural that for such a people-centric sector, investment in staff is the number one driver (36%). As with the wider sample other main drivers are entry into new product markets (36%) and growth in the UK economy (34%).

Firms in the sector are slightly less positive than average in terms of the perceived benefits of the UK's EU membership, but do not feel any more or less strongly about a referendum. When it comes to sources of external finance, the pattern is not dissimilar to the overall survey, with 51% likely to use private equity; 45% turning to bank debt; 43% using other private investors and 35% accessing the public markets.

A year of growth

74%

Of business services respondents said they are likely to fund growth initiatives in the next 12 months

Expert view

"The Business Services sector has been performing consistently well since the start of the recovery, even against a sometimes less encouraging wider economic backdrop, with many companies benefiting from the trend towards outsourcing and businesses using technology to enable them to offer services at a lower cost.

Now, as markets are becoming more highly penetrated, ECI is increasingly seeing the market leading companies in this sector capitalise on new growth opportunities such as introducing new service

offerings to existing clients, broadening their customer base and pursuing overseas expansion. They are doing this organically and through acquisitions (as we have witnessed in our portfolio with Clarke Energy and Citation both making bolt-on acquisitions in the summer of 2013).

These initiatives are continuing to drive strong top line growth and, for this reason, the Business Services sector is, and will continue to be, a key sector of interest for ECI."

Richard Chapman
ECI business services team

"Firms in the business service sector are among the most positive in terms of future growth plans"

David Ewing,
Managing Partner, ECI

Healthcare

The UK remains a global leader in healthcare, both through its pharmaceutical sector and through its innovation in healthcare services and products.

Whilst respondents anticipate revenue and EBITDA growth over the coming year in line with other sectors, they are significantly more cautious in their approach – not expecting to increase headcount as much and being far less likely to seek debt financing.

This may reflect continuing uncertainty over government policy and regulation (47% cited this as their biggest barrier to growth) and over the UK's position in the EU (membership is seen to be vital for business in a way not seen in other sectors – 35% say it is vital compared to an average of 15% – and there is significantly more concern over the planned EU referendum).

Expert view

“There continue to be strong drivers for growth in the healthcare sector over the longer-term, given a number of well-documented trends such as the ageing population and advances in medical technologies.

However, the environment has been tough in recent years given public sector funding constraints, structural reform in the UK healthcare system and pressures on the pharmaceutical industry, and growth opportunities have centred on those

companies that can help deliver efficiency gains (eg technology businesses such as Clinisys and Ascribe, both of which we recently sold).

Therefore, it is encouraging to see that this year many respondents are positive about future growth prospects.”

Eleanor Blagbrough
ECI healthcare team

Consumer

This is a wide-ranging sector, covering all types of consumer-facing businesses. Clearly, it is tied closely to the health of the UK economy and to the levels of consumer confidence in particular.

In a sign that there is increasing anticipation that the current upswing might turn into a sustained recovery, there is apparent confidence in the consumer sector, with 72% likely to fund growth initiatives. Better still, well over half of respondents in this sector (56%) are confident they would have little or no difficulty in securing funding for this expansion.

This is the sector least likely to access the public markets, with just over a fifth citing it as a likely route to funding (21%). However ECI's recent experience of floating Conviviality Retail is evidence that this is, nevertheless, a source of eternal financing that strong growth businesses in the consumer sector can access.

Expert view

“Despite a bumpy few years for the UK industrials sector, there continue to be many reasons for optimism.

As well as there being a good number of subsectors, such as oil & gas and aerospace, that are benefitting from strong market growth drivers currently, we at ECI also continue to see many industrial products and services businesses that are using world class technology to thrive globally.

Given the capital intensity of many such businesses in this sector and the international

markets across which they operate, there can be more complex funding challenges for them. It is therefore particularly pleasing to see such increased positivity in this sector towards accessing external finance, with 45% of respondents in the industrials sector expecting it to be easy or very easy to access finance up from just 31% in 2012.”

Ken Lindsay
ECI industrials team

Industrials

Another broad category, and one that remains more muted, despite the early evidence of economic recovery, than many other sectors. A lower proportion of respondents in this sector said they would definitely be funding growth initiatives than did respondents in any other sector.

Respondents in this sector are much less likely to predict as high growth in turnover, profit or headcount than other firms. Nevertheless it is not all doom and gloom in the sector and it is worth remembering that over a fifth (21%) of firms in the sector expect turnover growth in excess of 16%. Similarly, while the sector is the least positive in terms of ease of accessing finance, 45% expect it to be easy or very easy.

Perhaps their less positive assessment of growth prospects is because they see growth having to come from the hard work of entering new product markets or new geographic territories, all of which takes considerable time and effort.

A year of growth

41%

EBITDA annual growth rate of ECI companies in the consumer sector

56%

Of consumer sector businesses believe they would have little or no difficulty in securing funding for growth initiatives

Expert view

“One of the key themes we are seeing in the consumer sector currently is the polarisation of spend towards premium goods on the one hand and value propositions on the other. This trend has played out in different ways by subsector.

In some subsectors, such as retail and health and fitness, much of the growth and innovation driving M&A activity and PE investment is occurring at the value end, whereas in the branded consumer goods and food and beverage subsectors the premium end has

seen more activity. ECI, as a specialist growth investor, is continuing to see a large number of high-quality growth assets at both ends of this spectrum and our portfolio companies in this sector are also performing impressively with an average annual EBITDA growth of 41%.”

Chris Watt
ECI consumer team

Key findings in more detail

Resilient and quick to bounce back from tough times, high-growth businesses are already on the up

High-growth companies are more confident about the immediate future than they have been for years. They expect successful growth strategies to continue to help their businesses thrive and prosper. Over three-quarters (77%) expect to grow turnover by more than 6% in the next year, with 73% expecting profits to grow by more than 6%. Where they appear less upbeat is in headcount growth, with less than half (44%) expecting to grow headcount by more than 6%.

This demonstrates the significant investment that employing extra staff represents, but it also reflects the pattern from this recession, where many businesses looked to retain talent as much as they could and only laid off people as a last resort. Keeping people employed, even on short-hours contracts during the worst of the slowdown, was preferable to losing skills. In essence this is the story of the UK's apparent loss of productivity, as falling GDP during the recession wasn't accompanied by a spike in unemployment. There is also a genuine resilience on display in these findings, with 16% of companies expecting to grow headcount by more than 16% in the next year.

Even among a population of high-growth businesses, those operating in the fast-moving TMT sector are much more positive about their prospects for the year ahead than companies in other sectors, with 49% expecting turnover growth in excess of 15% and over a fifth (21%)

expecting turnover to grow by more than 26% in the same period. Business services firms are also expecting to see considerable growth with 29% expecting turnover growth of more than 15% and 11% expecting it to grow by more than 26%.

It is striking the extent to which the projected growth rate slows as organisation size increases. Naturally, the smaller a company is, the easier it is to grow. Thus the smallest firms here (between £5m and £10m) were more likely than average to expect growth of over 26% next year, while the largest (£100m to £200m) were less likely than average to be expecting to do so.

The regional picture is more complex, with fears of a "multi-speed" recovery potentially realised, as firms within the Greater London area are far more positive than the rest. Whereas across the whole country 29% of respondents expect to grow turnover by 16% or more, in London 41% expect to achieve this growth rate.

Asked to identify the top priority for their organization over the next year, the overwhelming majority of respondents identified growth as their key focus. The owner of one fast-growing private company spoke for many when asked about the challenges he faced in the year ahead. "Successful completion of growth strategies that are focused on entry into new markets. Completing identified acquisitions," he said.

Another said, "Continued growth of revenue in the UK market (and potentially overseas) through organic growth and new business opportunities."

Other popular concerns, also reflecting healthier economic conditions, were the recruitment, retention and training of key skilled staff and the funding of new products through investment in R&D, and the development of new markets. But underlying all these was a concern about the ease of access to the funds required to generate sufficient growth momentum.

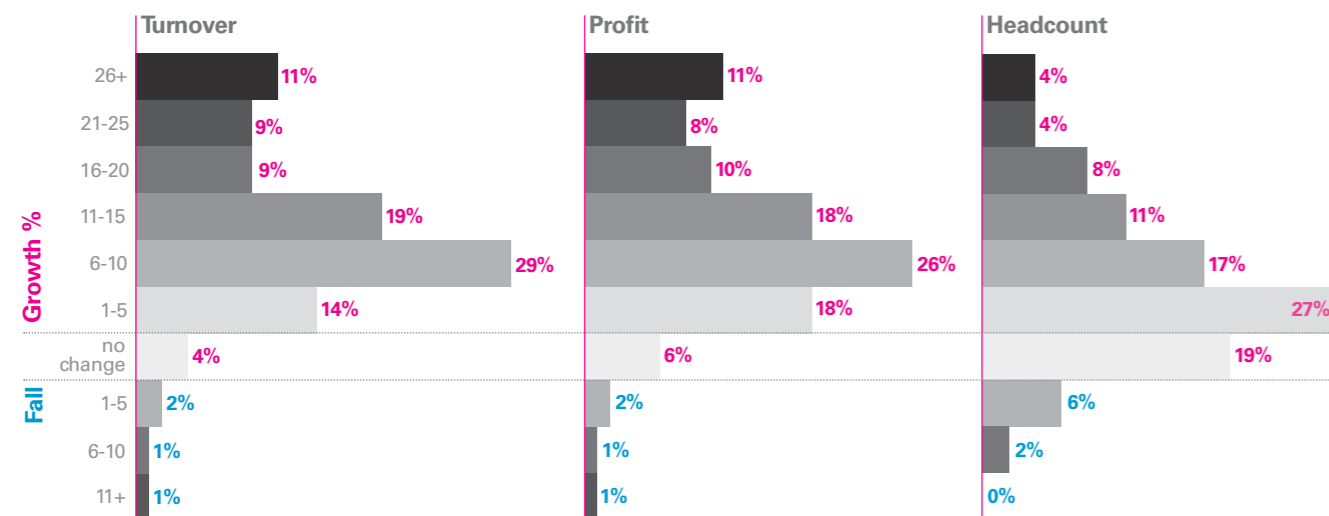
"Asked to identify the top priority for their organization over the next year, the majority of respondents identified growth as their key focus"

The positive and adventurous nature of those running growth firms is highlighted when they are asked to identify drivers of growth. The biggest driver is entry to new product markets (38%), with 36% selecting entry to new geographic markets (go to page 16 for more on international expansion). Just under a third (31%) expect investment in staff (hiring and training) to drive growth, while 26% think that the UK's improving economy will also help them achieve these demanding growth ambitions.

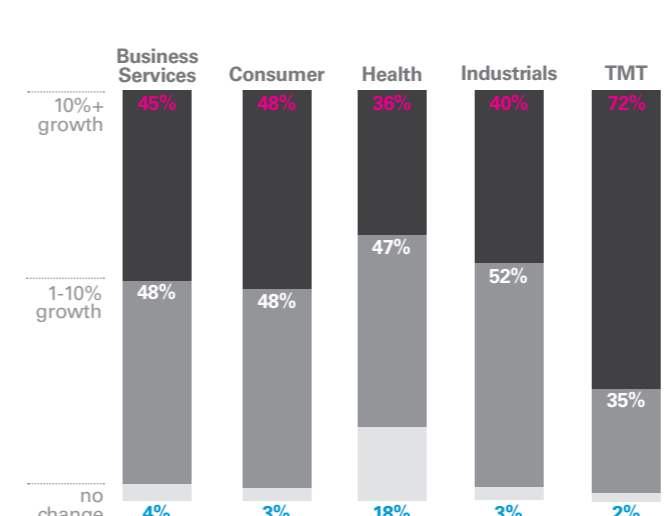
The respondents

The sample included just under 700 leaders of companies with turnover of between £10m and £200m growing at 5% or more in the last year, plus similar growth companies from ECI's network.

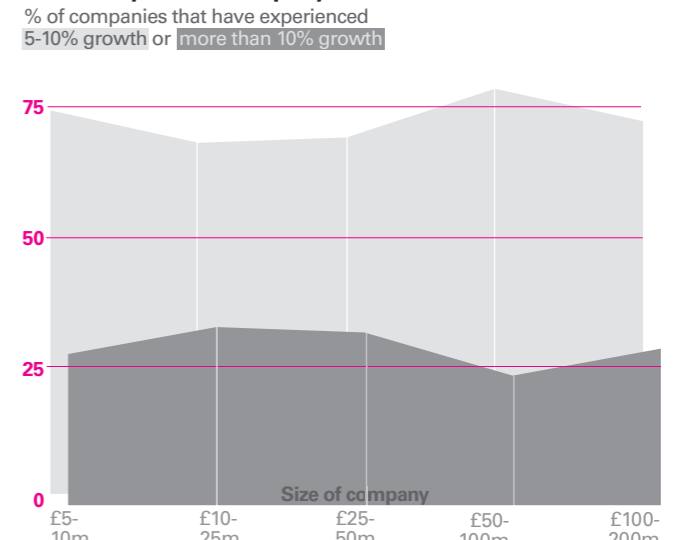
Predicted growth



Growth by sector



Growth by size of company





London
Brettenham House
(South Entrance)
Lancaster Place
London
WC2E 7EN

Telephone
+44 (0) 20 7606 1000
Facsimile
+44 (0) 20 7240 5050

Manchester
Centurion House
129 Deansgate
Manchester
M3 3WR

Telephone
+44 (0) 161 819 3160
Facsimile
+44 (0) 161 819 31 61

