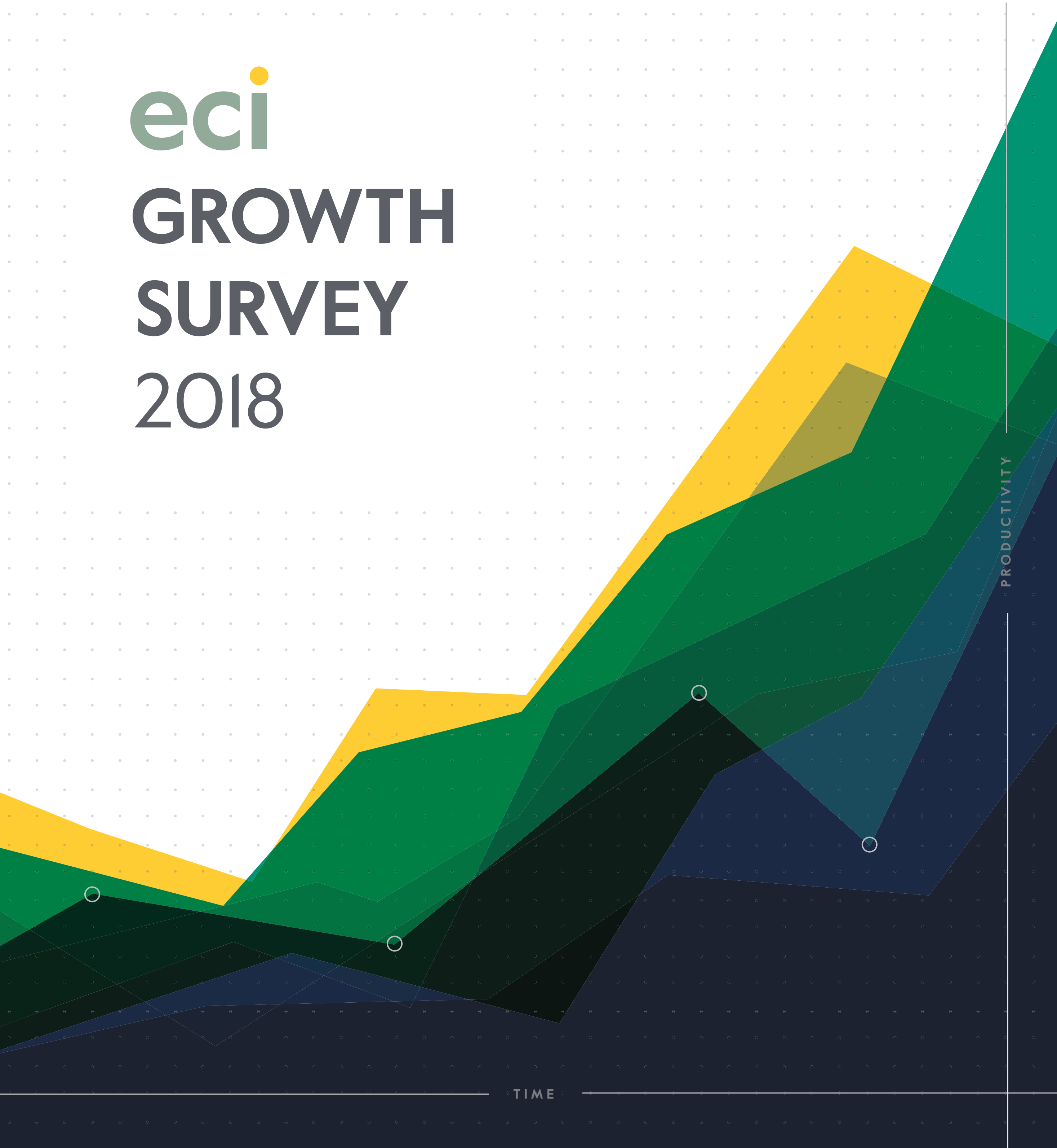
GROWTH SURVEY 2018



About ECI - building successful businesses

ECI is the UK's leading growth-focused private equity firm. We invest in management buyouts and buyins for majority or minority equity investments in medium sized UK growth companies within the business & financial services, consumer, and TMT sectors.

For more than 42 years we've invested across these sectors, gaining a wealth of experience in supporting high growth businesses with an enterprise value of up to £200m. We believe in teamwork and collaboration, supporting ambitious management teams, combining their knowledge and vision with our experience.

260
investments over 42 years

£11bn
total enterprise value of exits

243
exits over 42 years

Foreword

Productivity – can we lift it?

What can we do to raise productivity growth? Until recently, this question was largely considered to be one for pointy-headed economists, not business people. This view could not be more misplaced. Labour productivity growth is the pace at which output per hour worked expands. This is a key factor which determines how quickly an economy can grow over the medium term. Critically of course, it drives the direction of household living standards and company profitability.

Its relevance is that it has slipped since the financial crisis. By the cyclical nature of the economy, productivity trends vary considerably from year to year. But over longer periods clear patterns emerge. Indeed for many decades British productivity growth averaged 2% per annum. This meant that in the run-up to the 2008/09 recession an expanding workforce enabled GDP growth to run at 2.5% or so, without putting pressure on resources.

The post-crisis period has been disappointing. The economy is now 10% bigger than it was at its peak before the recession. But this has largely been achieved through higher employment as unemployment has fallen to a four-decade low; labour participation has risen; and net inward migration has remained positive. Productivity growth meanwhile has been lacklustre. Since 2010 it has only averaged around 0.5% per annum.

Does this matter? Yes it does. With the economy at or close to full employment, its capacity to grow will be very limited if this situation continues. And over a longer-term period, this would have a material effect. Compared with the current environment, a return to pre-crisis productivity growth would result in GDP levels some 16% higher over a decade. Hence the difference is substantial.

A significant proportion of UK households currently feel economically excluded. And limited economic growth looking ahead would only feed these feelings of disenfranchisement. On top of this, the UK's ageing population will mean more resources being directed towards state pensions, healthcare and social care. Put bluntly, if productivity growth fails to strengthen, wages are likely to remain stagnant and living standards will fall. It is therefore imperative that Britain lifts itself out of its current productivity malaise.

Why is productivity growth so weak? There are plenty of questions, but no definitive answers. Is capital investment too low? Is red tape excessive? Do we lack innovation? Are there too many 'zombie' firms? The government has set up a National Productivity Investment Fund, now totalling £31bn, to help provide a solution. But at the end of the day lifting productivity growth will be left to the private sector. A contribution towards solving this puzzle may be to see how companies aim to improve their productivity and what challenges they face.

"In this sense the results from the latest ECI survey offer a degree of hope."

They show that the sampled companies have raised their productivity by an impressive 13.5% over the period of a year. Perhaps unsurprisingly 98% of respondents say that they intend to invest, with 71% planning to spend on IT and 70% on training. These firms are admittedly high growth companies.

Even so, the dynamism reflected in the survey should represent food for thought for both companies in general and the government. Perhaps then the economy will be in a better position to put its productivity malaise behind it and move into a better position to meet the many competing claims that it faces.

Philip Shaw
Chief Economist
Investec Bank plc

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2018 Case studies

Executive summary

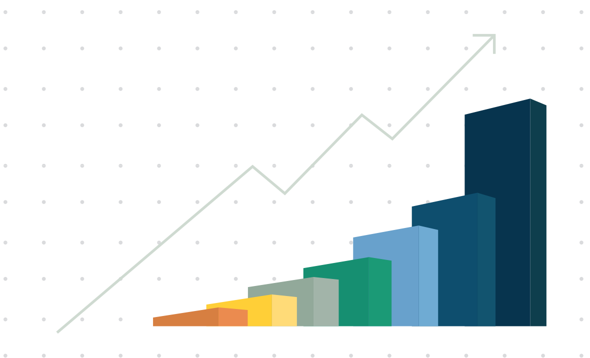
Now in its ninth year, the ECI Growth Survey once again highlights the strength and vitality of the UK's growth companies. Over the past nine years, the survey has proved to be a great opportunity to listen to and learn from the businesses that are the backbone of the UK economy.

"ECI has a four-decade-long history of investing in growth companies and the results of this year's survey serve as yet another example of why we continue to believe that these businesses are the engine room of the UK."

This year's survey covers a number of topics from Brexit to growth ambitions and showcases the remarkable focus and ambition found amongst the UK's 'gazelles', with a record 84% of respondents expecting to grow by 10% or more. This year's main focus is productivity and how UK growth businesses are punching well above their weight in the fight to solve the UK's productivity puzzle.

Philip Shaw has explained why improving productivity is essential for the long-term success of the UK. The results of this year's survey match our own experience of how to drive productivity growth.

"Our own portfolio has shown annual productivity gains of 12% since we invested."



This has mainly been driven by increasing investment in people and technology: capex and investment in R&D have increased by 15% per annum post ECI's investment. Similarly, the respondents to this year's survey are also alive to the importance of investing to drive productivity, with 98% stating their intention to invest for growth.

Training and technology are at the top of their list and the results of this investment are clearly illustrated by the astonishing productivity growth achieved by this sample. We have seen the impact of investment in these areas across our own portfolio, with companies like Citation and Great Rail Journeys transforming their businesses by investing in great people and technology.

The case studies featured in this report further reinforce the achievements of UK growth companies in relation to productivity and innovation: they are putting productivity at the heart of their businesses, eliminating inefficiencies and exhibiting the kind of growth that less agile businesses are incapable of achieving.

"The businesses that took part in the 2018 survey have once again shown their vitality and resilience."

Despite a turbulent year in politics and the imminent impact of Brexit, these companies are well prepared to navigate any bumps in the road and will continue to be the driving force of UK economic growth. As an investor in growth companies, it's fantastic to see such high levels of confidence and a group of businesses that are healthy, hungry and ahead of the game in solving the UK's productivity puzzle.

Suzanne Pike
Director, Head of Origination
ECI Partners

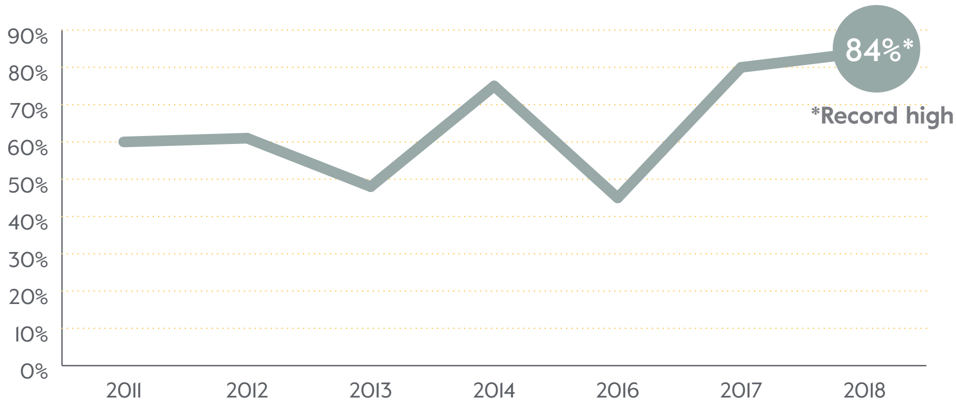
Key findings

From the 2018 Growth Survey

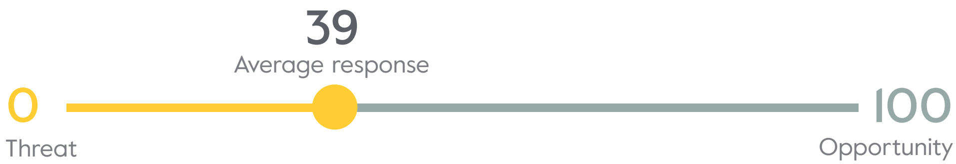
98%
intend to invest to drive growth

79%
expect it to be easy or very easy to obtain growth finance

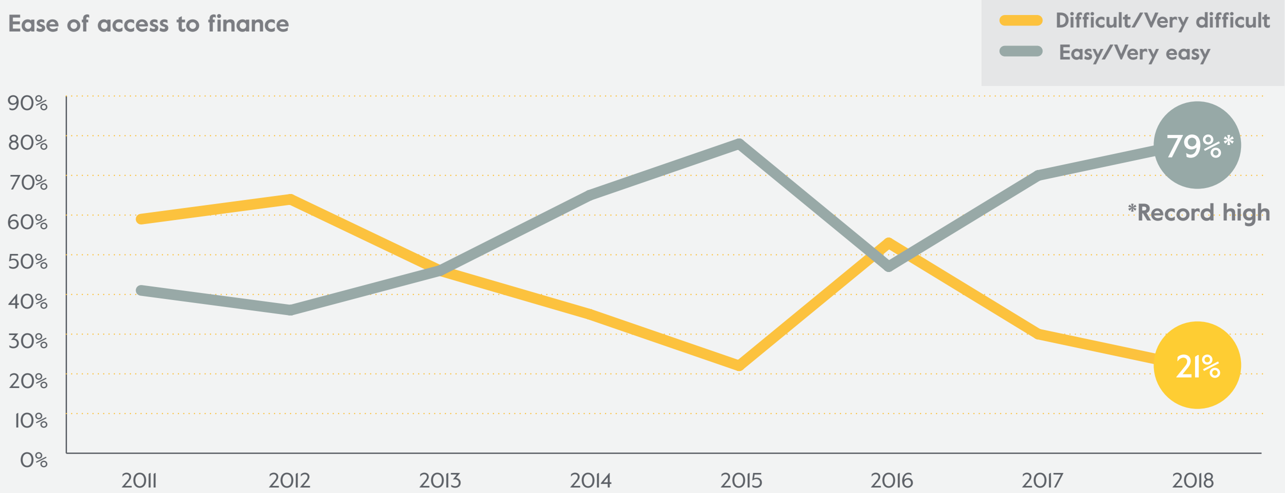
Growth expectations
Proportion expecting growth of 10% or more



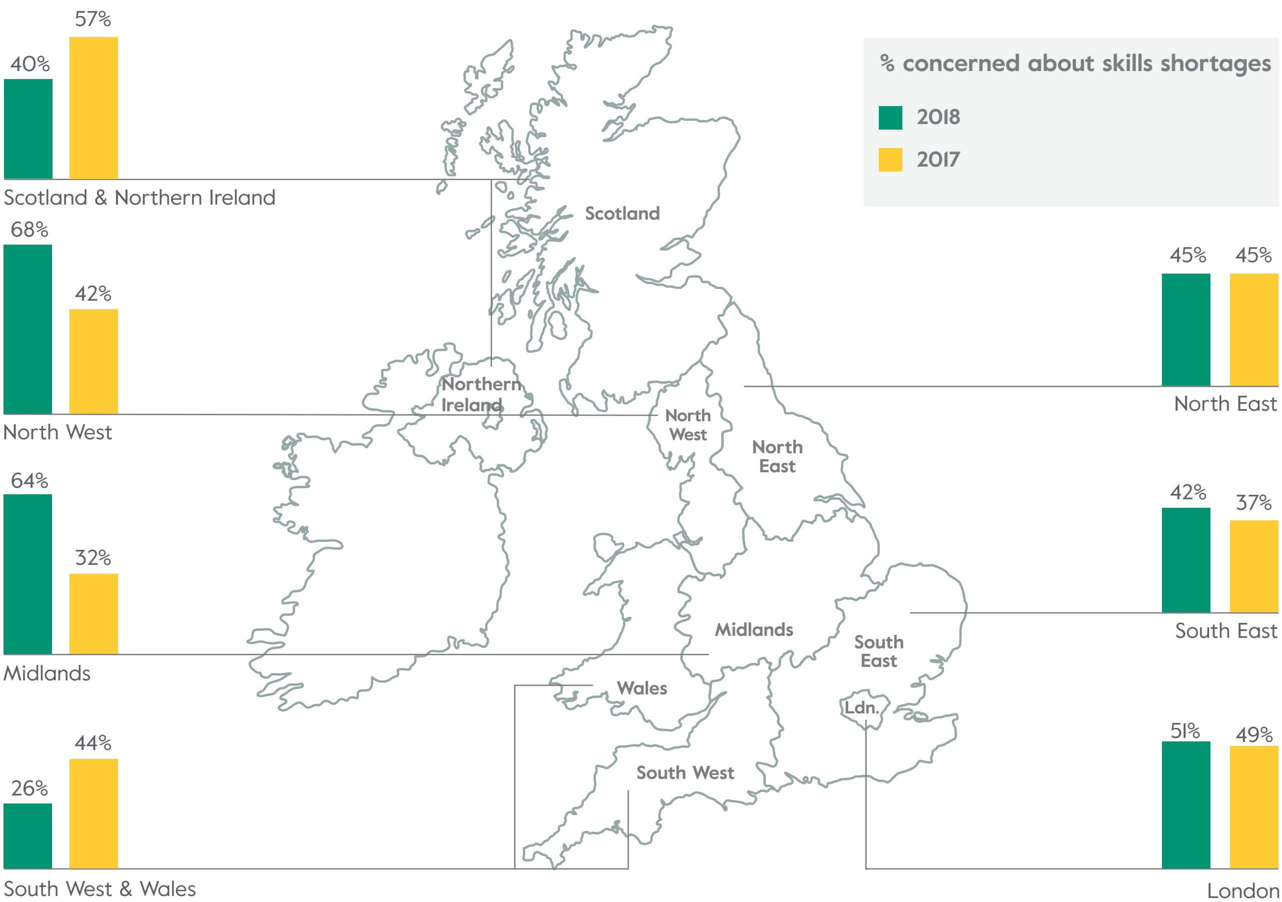
Is Brexit an opportunity or a threat?



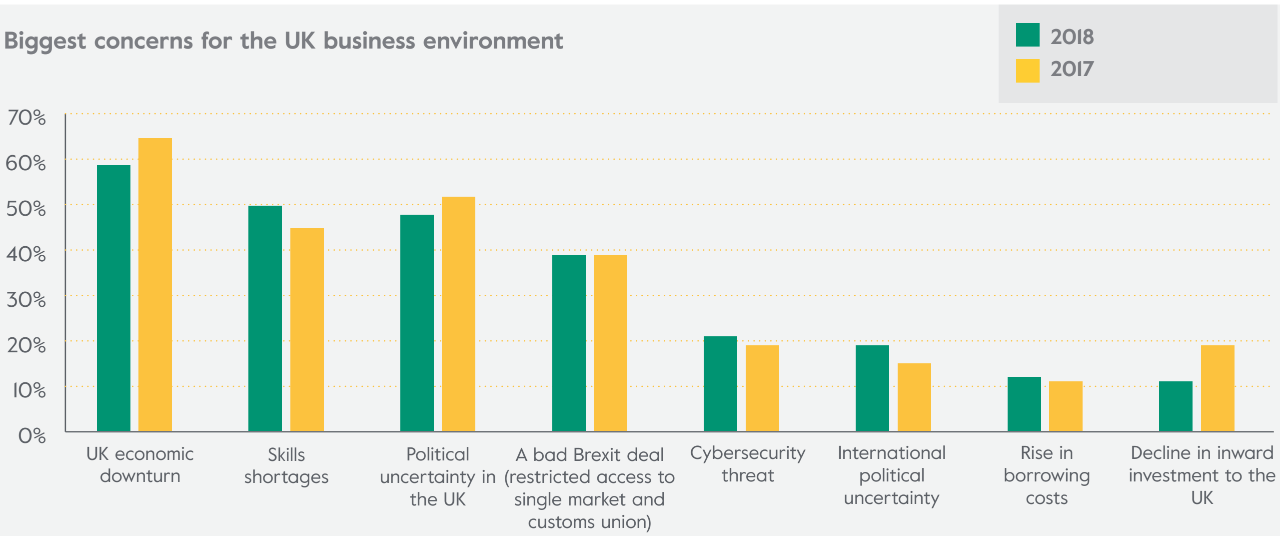
Ease of access to finance



Skills shortages by region 2018 vs 2017



Biggest concerns for the UK business environment



Productivity

70% are investing in training for staff

9% think overseas employees are more productive than UK employees

Where did it all go wrong? In 1960, Britain had the highest productivity levels in Europe, and now we lag behind almost every other nation in the G7, according to the Office for National Statistics. Recent figures suggest that a French worker has completed by Thursday what it takes a UK worker all week to achieve. But there is a bright spot amidst all this gloom.

This year's survey shows that a small but significant segment of the UK economy has solved the productivity puzzle.

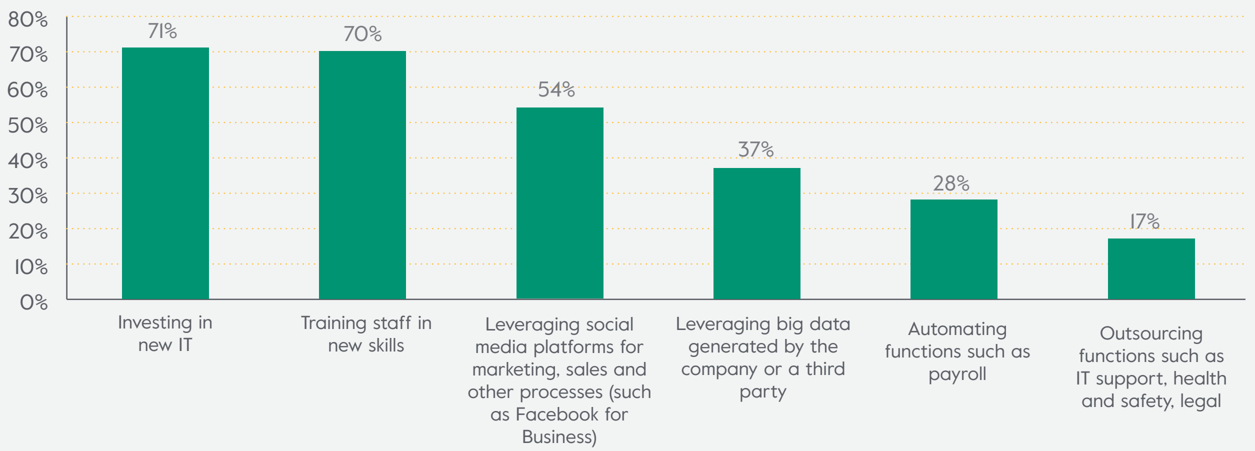
> **These fast-growth firms have driven up their productivity – revenue per employee – by 13.5% over the past year, outstripping their peers by some margin.**

When we asked these efficient firms how they did it, they revealed that most had invested heavily in technology and people. Some 71% are investing in new IT systems and 70% have made staff training a priority. On people, the CEO of a London-based consulting company said:

> **We have introduced real-time feedback and continuous performance management, giving employees more ownership of their careers. When people are in the 'flow' they are far more productive.**

The IT spend has been very targeted: no more splashing out on expensive hardware. Instead, technology investment has a clear and defined return, such as automation – the mechanisation of production lines, for example, as well as the use of machine learning and artificial intelligence to handle various operational tasks. Just over a third (37%) of fast-growth firms now use big data to generate efficiencies. Staff training too has been given a modern makeover: "We use e-learning to avoid downtime in travel to training venues," commented the chief executive of a London-based high-street food retailer. Brilliant

Means of increasing productivity



people – especially sales people – have been crucial to boosting productivity, as many bosses reveal that a hiring spree is behind their progress. These business owners are spurning many of the recent strategies favoured by larger companies in Britain. Just 17% are outsourcing key functions, preferring to keep talent and control in-house; many have actively "insourced" areas of the business that they previously farmed out.

There has been a surprise driver of productivity this year: over half (54%) of the bosses surveyed claim that leveraging social media has helped to improve unit economics. It is not just the consumer-facing firms that are finding new customers via social platforms; 51% of TMT companies, 48% of business services companies and 42% of financial services firms are also tapping into social media marketing channels.

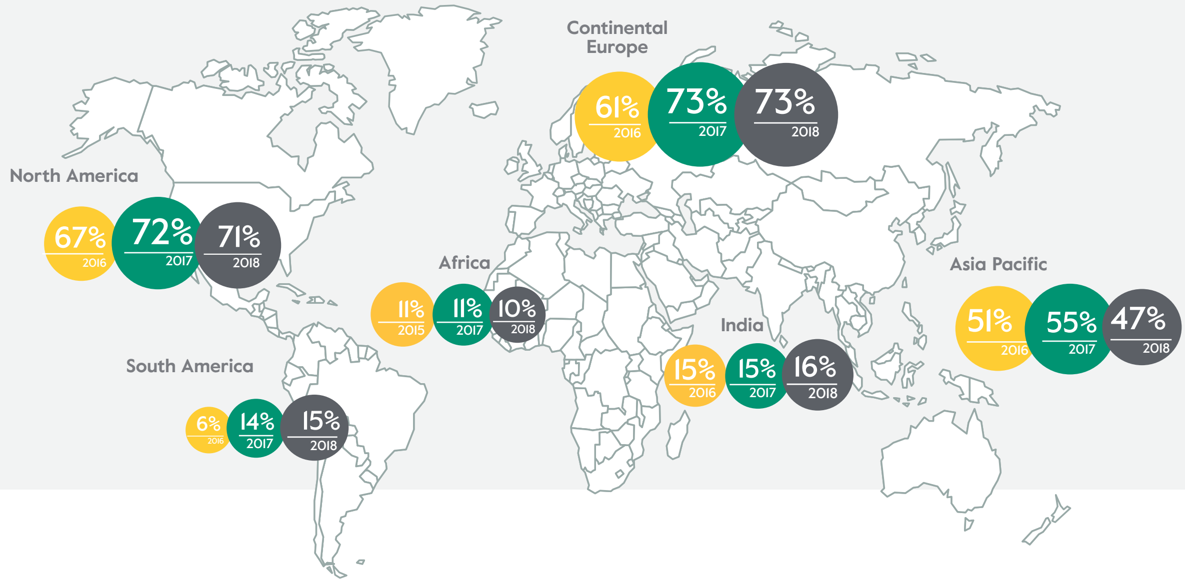
The most productive sectors this year are TMT and business services, which have both delivered efficiency increases of 18%. This has helped to drive the UK's increase in trade in services of £111.6bn in 2017. Innovation is a major theme this year, as fast-growth firms pour resource into launching new products or services, and diversifying their customer offering; the chief executive of a professional services company based in the South East comments:

“We heavily invest in building our own automation platform to automate our service to customers.”

These entrepreneurs are sanguine about their access to finance. They know it's there, should they require it, but are mostly funding expansion using internal cashflow. Last year, the Bank of England's chief economist Andy Haldane claimed that the UK's sagging productivity was down, in part, to "snails" – the slow-moving and clumsy firms that fail to adopt new technologies, cling to backwards management practices, fail to invest and balk at exporting. The firms we polled for our survey show none of the characteristics of a snail. In addition to their ongoing investment in growth and adoption of cutting-edge systems, they are highly internationalised – two-thirds of those surveyed stated that they plan to export, and a significant majority of these expect to grow their overseas sales.

This year's survey also goes some way towards debunking the myth that British workers deliver less bang for your buck than those in Europe or beyond. Only 9% of respondents believe that their overseas workers are more productive than domestic employees. The majority of these believe this is down to "work ethic", according to their comments. Some 7% claim they are actually less productive, also citing work ethic

Most attractive regions for export growth



as a cultural difference, as well as the distance from company headquarters. Some respondents admit that automation is reducing the need for certain kinds of roles altogether: robots are replacing people, as media headlines have been suggesting.

The chief executive of a London-based healthcare company comments:

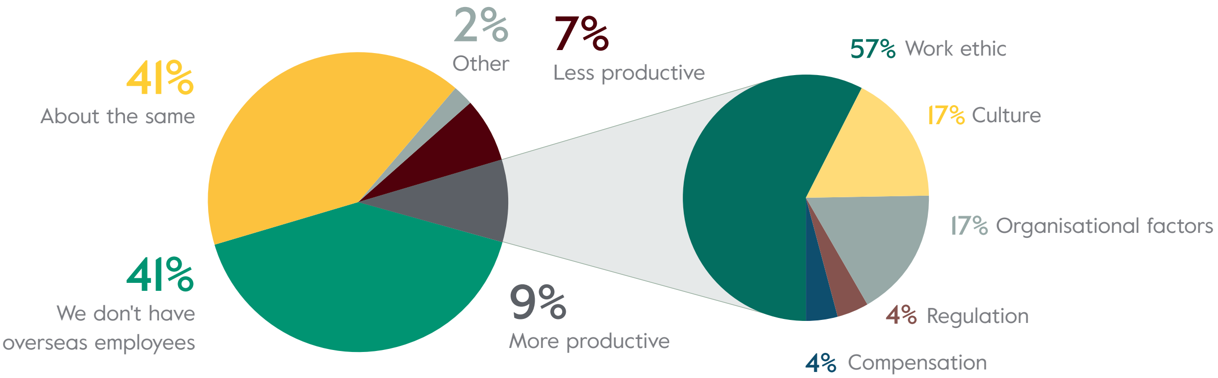
> **“We are making all employees more productive by eliminating their input where an algorithm or software can replace them.”**

However, overall they are creating jobs, with 6,000 created by the 154 that published accounts in their last financial year.

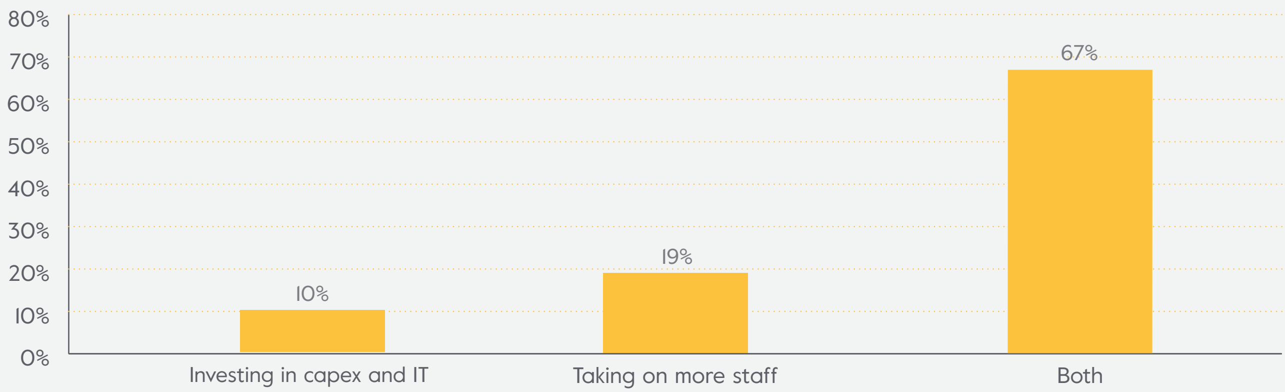
The 2018 Growth Survey paints a positive picture of the productivity of our top firms. These high achievers make a proportional difference to the wider UK economy. Perhaps by sharing their strategies and experience, their ability to drive efficiencies will inspire many other business owners to be less “snail-like" too.

Are your overseas employees more productive than your UK employees?

If so, why do you think they are more productive?



How do you intend to invest to drive growth?



Quotes from the case studies

Pageant Media page 17

“The key is focus. If you try and execute too many things, you’ll fail”

Charlie Kerr, Founder of Pageant Media

Cawston Press page 14

“You can achieve great productivity by unlocking people who feel frustrated and inefficient in big companies”

Mark Palmer, Co-founder of Cawston Press

CM2000 page 19

“Our people spend every day thinking about the problems we are trying to solve in this industry”

Mick Crosthwaite, Executive Chairman of HAS Technology Group

Minesoft page 18

“Patents filed today can reveal what technology will be released over the next five or 10 years and people are waking up to the power of that information”

Ann Chapman, Co-founder of Minesoft

Investis Digital page 15

“We’ve taken a hard look at the business and eliminated inefficiencies that leak cost and profit”

Don Scales, CEO of Investis Digital

Trak Global Group page 16

“Twice a year we stand up and tell everyone what we’re planning. I think it helps to instil a sense of purpose”

Nick Corrie, Founder of Trak Global Group

Going for growth

98%
intend to invest for growth

53%
expect to grow revenues by 20% or more

One word that accurately describes the attitude of the bosses behind Britain's fast-growth companies in 2018 is "bullish". Growth expectations have hit record highs this year, with more respondents forecasting revenue increases of 20% or more than ever before. From the record lows of 17% in 2016, confidence has rebounded strongly and 53% of business owners now expect to boost turnover by a fifth or more in 2018.

This tops last year's record high of 50%. Almost a third (31%) believe they can increase sales by 10%-20%; only 1% believe there will be any discernible decrease. Northern Ireland, Scotland, Wales and the South West are the most ambitious regions in the UK. An extraordinary 73% of entrepreneurs in Northern Ireland and Scotland forecast bumper growth over the next 12 months.

Cashflow constraints certainly aren't putting the dampers on ambition. A record 97% of business owners have easy access to the internal funds or bank debt they need to meet their growth goals. A further 79% claim that it will be "easy" or "very easy" to access growth finance over the next 12 months, rising to 84% of consumer companies. Some 56% of firms would consider tapping into private equity. The public markets have lost their lustre, however.

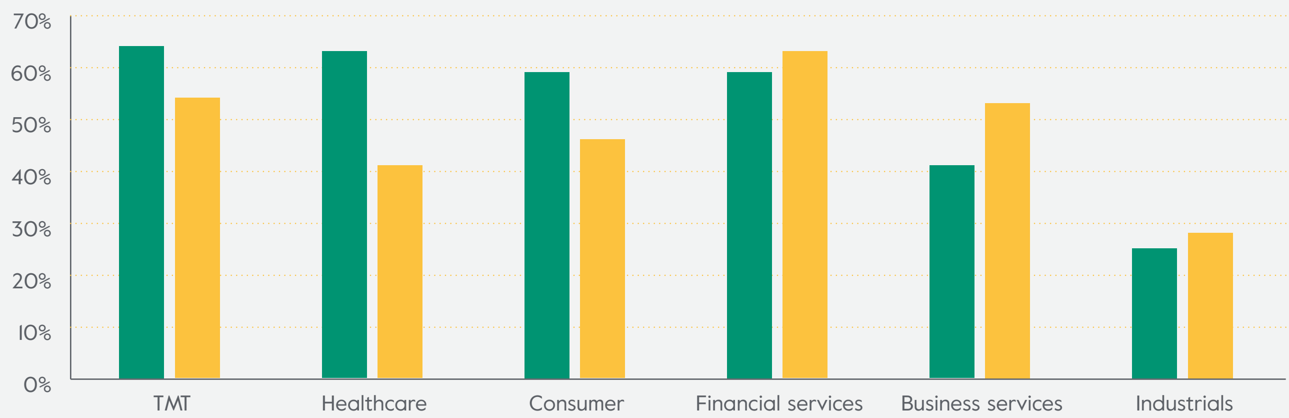
> **"Just 10% see an IPO as a likely source of funds, compared to 14% last year."**

Only 2% of respondents aren't planning to invest for growth. Export ambition is usually a good barometer for confidence, and this year three-quarters of business leaders are upping their international sales.

The US, traditionally the graveyard for British firms, remains a major target – second only to our closest trading partner, the European Union, where 73% of respondents who export expect to grow their revenue.

Which sectors have the most positive outlook?
% of respondents expecting 20%+ growth

2018
2017



Who's afraid of Brexit?

The sheer scale of this year's ambition may seem incongruous, set against a backdrop of economic uncertainty and media coverage of Brexit. The outcome of Brexit is still unknown, skills shortages continue to bite, and costs are rising. These company bosses are not naïve about these barriers to growth. When asked about the challenges they face, 62% said that recession was the greatest threat posed by Brexit.

"Overall, however, confidence in the economy seems to be recovering."

Last year, 65% of respondents feared the spectre of recession, down from 69% in 2016. The only concern that has deepened year-on-year regards skills shortages. Half of all respondents are worried they won't be able to source the right talent, compared to 45% in 2017. This explains the heightened investment in training: if you can't find new staff, you need to make the most of the people you have.

Interestingly, Brexit remains low on their list of immediate priorities. Just 39% of company bosses are worried about the impact of a bad deal, which is consistent with the last two years. Just a third (31%) of bosses are losing sleep over tariffs or other trade restrictions. The same number, interestingly, who are expecting an export uplift because of the weakened pound. So, Brexit is not quite the bogeyman the mainstream media would have us believe.

Continental Europe remains a major export target for fast-growth firms, with 73% of respondents expecting to increase sales to the bloc.

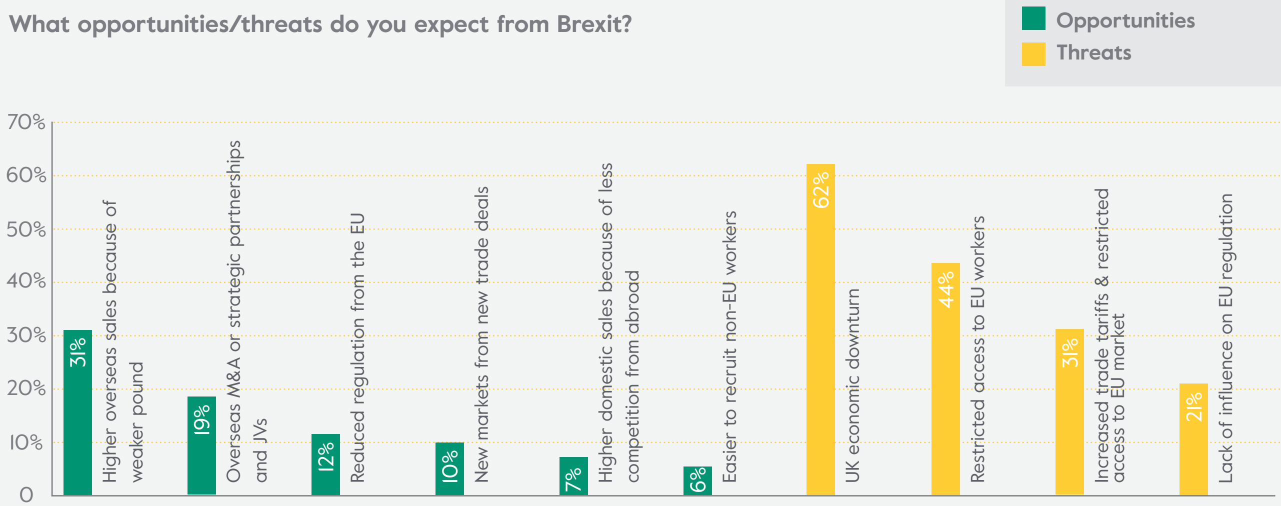
The one aspect of Brexit that is worrying our ambitious leaders is tied to their ultimate bugbear: the skills shortage. Will our fast-growth firms be able to access European talent as easily as before? Some 44% fear not; in London, that figure rises to 52%.

But this resilient cohort is determined to succeed despite these pressures.

"We plan to extend our continental European office base to stay ahead of the risk,"

comments the CEO of a London-based recruitment firm. "Regulatory change and sector competition have a greater impact than macro-economic factors for our business," says the director of an insurance company based in London. It's business as usual for these chief executives, and no challenge or barrier is insurmountable.

What opportunities/threats do you expect from Brexit?



Case study
Cawston Press

Soft drinks brand Cawston presses its natural advantage.

Cawston Press has done the unthinkable. It has become a nationwide success story, winning shelf space from the drinks giants of the world despite limited marketing funds.

All of this has been achieved through two things, according to Co-founder Mark Palmer: good ingredients and charming eye-catching packaging. The brand, originally named Cawston Vale, was born 30 years ago, when a Norfolk farm began selling its delicious natural pressed apple juices. The business has since evolved, moved to London, and outsourced all its manufacturing processes. However, one thing has remained constant: “Pressed apple juice remains at the heart of all our recipes, not least as a lead ingredient in our fast-growing sparkling drinks range. We choose not to use syrups, sweeteners, preservatives or concentrates,” says Palmer.

With a team of just 25 people, Cawston Press has productivity at its heart. “We put all our spare capital into developing new recipes and improving the presentation and availability of our drinks,” explains Palmer. “Once people try us, they want to buy us again.” Many of its people come from larger drinks companies. “People often get fed up with the bureaucracy and lack of speed in those environments,” says Palmer. “You can achieve great productivity by unlocking people who feel frustrated and inefficient in big companies.”

The brand commands less than 1% market share of the UK soft drinks market but is growing fast. “We are just getting started,” says Palmer. “We want to treble the size of the business over the next five years.” Cawston, which exports its products overseas, is also hoping to increase overseas sales from 20% to more than 30% of turnover.

> “We put all our spare capital into developing new recipes and improving the presentation and availability of our drinks”
>
> **Mark Palmer, Co-founder**

Case study
Investis Digital

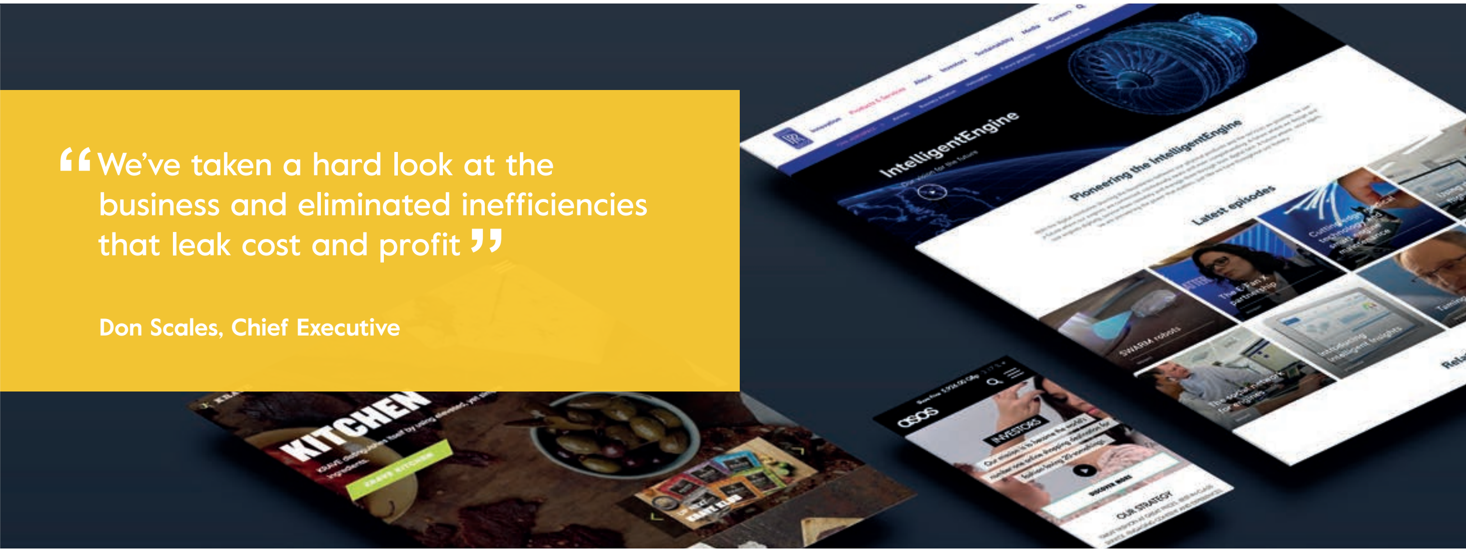
Redefining how the world's biggest brands communicate online.

Rolls-Royce, ASOS, RBS, Unilever and HP all have one thing in common: they rely on Investis Digital, the London-based digital communications specialist, to build meaningful connections with their audiences across all channels.

Founded in 2000, Investis Digital started out building share price graphs and investment feeds for client websites. But soon the fast-growth firm took on the breadth of investor relations needs and today works with more than 2,000 businesses across the world. Its suite of services connects marketing, investor and public relations, robust corporate messaging and ground-breaking, automated technology solutions, all customised to meet its clients' needs.

Chief Executive Don Scales, who took the helm at the start of 2017, is now focusing on growing the brand in the US, where revenues are rising 30% year-on-year, and upselling that suite of services to existing customers. "We acquire companies that help us expand our product range," he says.

A chemical engineer by training, Scales says that "process" is key to achieving productivity. "We've taken a hard look at the business and eliminated inefficiencies that leak cost and profit," he says. "We've made good progress already, but it's an ongoing effort." Investis Digital has also built a suite of hi-tech tools to soup up its offering. For example, its software automatically scans for client competitors and pinpoints what they are doing well - or badly - to help improve a client's digital performance.



> "We've taken a hard look at the business and eliminated inefficiencies that leak cost and profit"
>
> **Don Scales, Chief Executive**

Case study

Trak Global Group

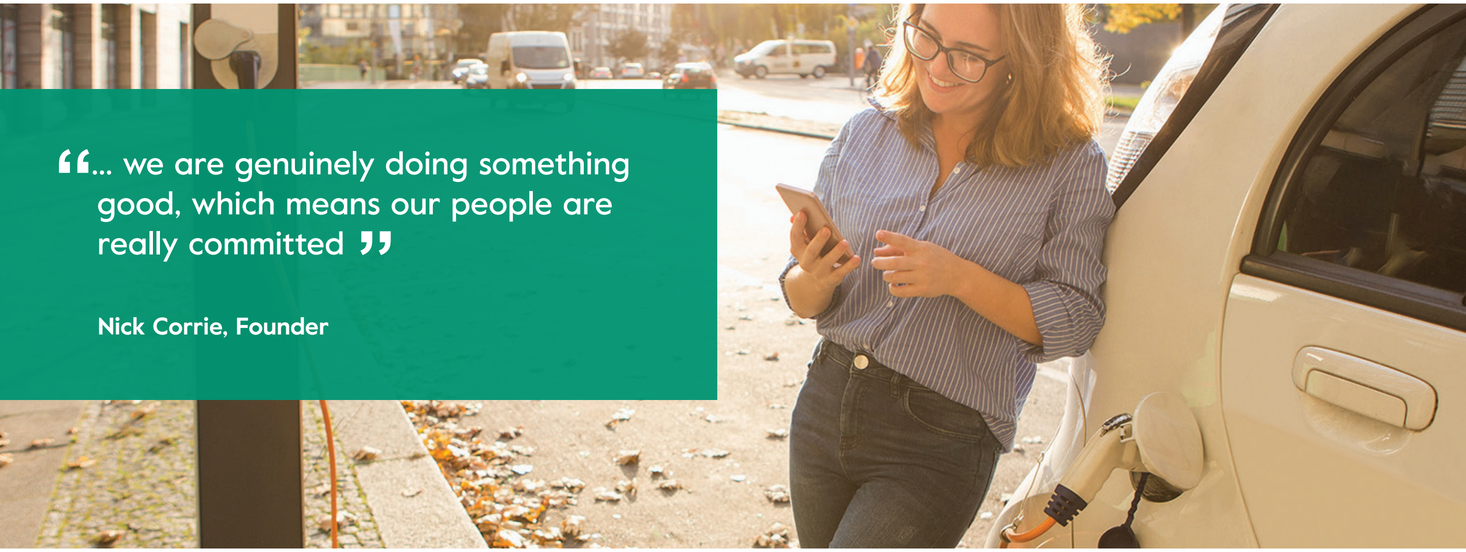
Trak Global Group has combined purpose and profit to create an international telematics success story.

Driverless cars and ride-sharing have shaken up the automotive industry but this innovative telematics firm is still motoring towards growth.

“I was mulling over the idea for this business for years but I didn’t have the bottle to start it until I was 40,” says Nick Corrie. “That’s when I thought, ’It’s now or never’.” In 2009, he quit his job in insurance claims to launch telematics business Trak Global, which monitors driver behaviour through a black box in the car or via a mobile application. The company also has its own insurance firm, Carrot, which rewards safer drivers with cheaper premiums.

Almost 10 years later, Trak Global employs more than 200 people and the Group turns over close to £30m, posting double-digit growth each year.

To drive productivity at the Crewe-based firm, Corrie incentivises management with share options and ensures all staff are clear about Trak Global’s strategic direction. “Twice a year we stand up and tell everyone what we’re planning and go over the previous six months of trading,” he explains. “I think it helps to instil a sense of purpose.” This “sense of purpose” has helped Trak Global to expand beyond the UK, winning customers across Europe, Canada, the US and the Middle East. Nothing does wonders for productivity like the core ethos of the business, Corrie claims. “Ultimately, we help people to crash their cars less, which means fewer people get hurt. We’re not issuing payday loans or running an online casino, we are genuinely doing something good, which means our people are really committed.”



“... we are genuinely doing something good, which means our people are really committed”

Nick Corrie, Founder

Case study
Pageant Media

Technology, culture and focus help publisher Pageant build a sustainable business model.

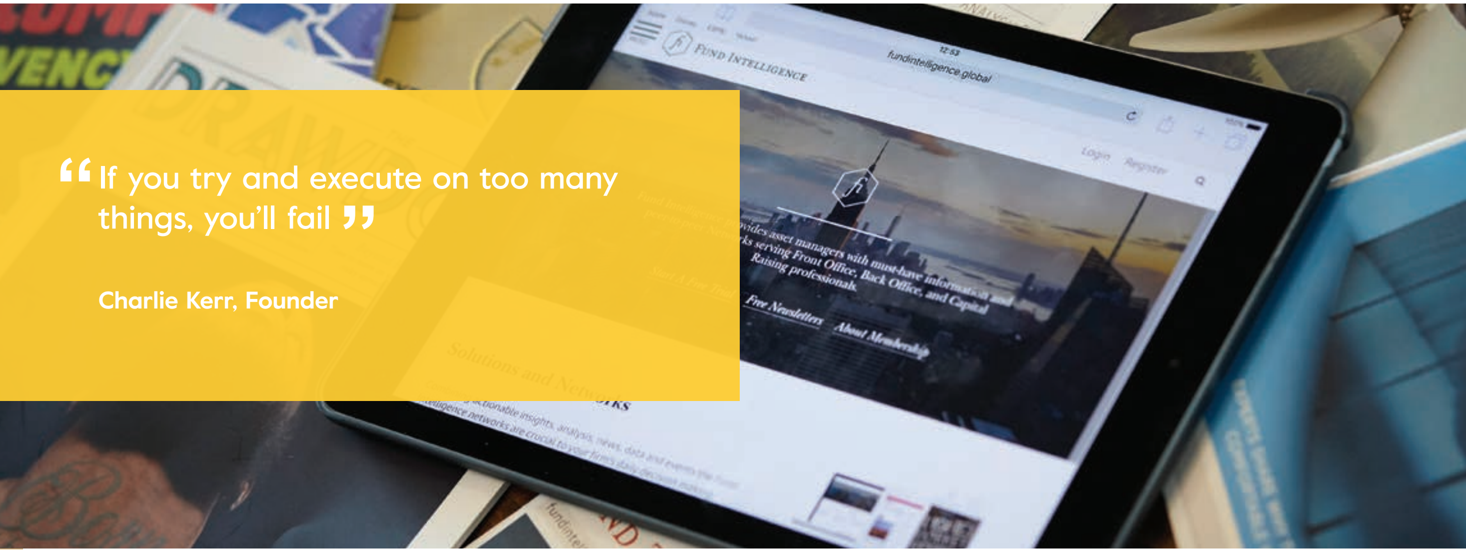
When eyeing up a lucrative opportunity, fund managers and institutional investors turn to Pageant Media for the data and insight to ensure they're truly making a smart bet.

The B2B publisher produces a whole host of different products that track investment activity, fund performance, and more.

"We've evolved from a traditional media company into a business information business," explains Founder Charlie Kerr. "Today, if you operate in this space and you're still relying on print ads, you're in a scary place." Instead, around 60% of Pageant's revenues come from subscriptions, with 5,000 fund managers logging in to its platform. "We double in size every three to four years," says Kerr. "Most of our growth is organic but if a company makes strategic sense, we may buy it."

Technology has been key to boosting productivity at the business, which has offices in London, New York, Frankfurt and Hong Kong. "We've invested heavily in that area," Kerr says. Pageant also recently opened a dedicated data centre in Cardiff, where 35 people focus on research. "It was the right place for our data centre and that's been massive for productivity," he says. "London is very noisy, and Cardiff has all the right skillsets for us."

The last piece of the productivity puzzle is focus, he explains. "If you try and execute on too many things, you'll fail," says Kerr.



> "If you try and execute on too many things, you'll fail"
>
> **Charlie Kerr, Founder**

Case study
Minesoft

The small London firm powering ideas worldwide.

FTSE 100 and Fortune 500 companies rely on Minesoft's searchable patent database to bring their ideas to life.

The Richmond-based firm helps its customers to search more than 100m patents worldwide, and innovators, intellectual property specialists and lawyers can use search terms as obscure as a chemical formula or the specific weight of a mineral. "Innovation takes place in all areas of science and technology every single day around the world," says Ann Chapman, who founded the business with her husband, Ophir Daniel, in 1996. "We are adding millions of new patents to the database each year."

This is a niche industry, but a competitive one, and Minesoft stays ahead of rivals by ensuring all its data sets are of unimpeachable quality: "the quality of the data and the language translations are the highest calibre available today," Chapman says. The business is truly international; just 10% of revenue is generated in the UK, and the firm translates 2 million Chinese patent documents each year. Minesoft is dedicated to boosting customer productivity. "A customer can ask us to tweak a feature and often our IT department will make the change on the same day," says Chapman. This "can do" attitude has seen the business grow consistently every year for the last two decades. Over the last five years, revenue per employee has grown by 32%.

"Patents filed today can reveal what technology will be released over the next five or 10 years and people are waking up to the power of that information."

"A customer can ask us to tweak a feature and often our IT department will make the change on the same day"

Ann Chapman, Co-founder

Case study
CM2000

Caring for the elderly gets a hi-tech helping hand.

Millions of elderly and vulnerable people need help with basic domestic tasks, or require home medical assistance.

UK councils spend 38p in every pound on adult social care each year. Before CM2000 was created, it was very difficult to keep track of these visits.

In 1999, Pete Longman, a former commissioner of adult social care in Birmingham, started CM2000 from his kitchen table. The social care specialist, which is owned by HAS Technology Group, gave carers a simple 0800 phone number to call, which timestamped the beginning and end of each visit. “Today, we work with more than 75 local authorities, logging 3 million visits each week,” says Mick Crosthwaite, Executive Chairman of HAS Technology Group. Over the years, the technology has evolved to include RFID (radio-frequency identification) tags, mobile apps and GPS, but the ethos remains the same: “We help bring transparency to adult social care, which helps make local authorities more productive and cuts costs,” explains Crosthwaite.

CM2000’s developers are given three hours each week to spend on independent learning to help them come up with innovative ideas to drive the business forward. A range of assistive technologies, including wearable devices, are being introduced to help keep track of people’s health between visits, for example. This helps boost productivity at CM2000, which now generates revenue of £15.5m a year. Crosthwaite says: “Our people spend every day thinking about the problems we are trying to solve in this industry.”

“Our people spend every day thinking about the problems we are trying to solve in this industry”

Mick Crosthwaite, Executive Chairman of HAS Technology Group

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