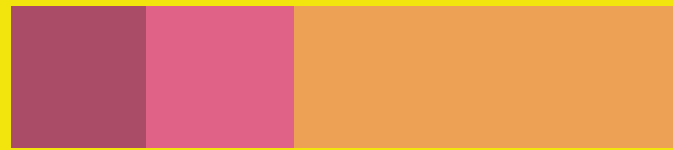


COVID-19 Business Impact



Understanding the impact
of COVID-19 on ambitious
UK businesses

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Introduction

The COVID-19 pandemic has sent shockwaves through the economy, with the 28,499 ambitious companies we track—and the UK's 3.8m SMEs in general—being particularly badly affected. These smaller companies can't afford to keep large reserves of cash, meaning they're especially vulnerable to sudden economic shocks. And with 2.8m employed by ambitious companies—and 16m by SMEs more broadly—this goes well beyond being simply a “business problem”. It's a problem for society and, for millions of households, a very personal problem too.

However, there's been a lack of clarity over the extent of this problem. So, over the past few weeks, our incredible Data team has been hard at work determining the precise effects of COVID-19 on the companies tracked on the Beauhurst platform. This unique dataset allows us to measure and map the broad impact of the pandemic on the UK's high-growth economy, as well as the individual measures that are being taken to limit the spread and consequences of coronavirus. In this preliminary report, we've highlighted particularly vulnerable areas as well as the very fortunate categories of companies that may perform well under these circumstances.

We've concluded this report with our recommendations for the Government. The policies we've set out would help protect our current cohort of fast growing companies, and maintain the UK's enthusiastic entrepreneurial spirit, which has been so carefully nurtured over the past few decades. We've already been working with local authorities across the country, as well as various government departments, to make sure that these insights are acted upon as quickly and effectively as possible.

If you're interested in finding out more about the dataset and how you can gain access, please get in touch with us at info@beauhurst.com or by calling us on 020 7062 0060.

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The companies we track are the UK's economic powerhouse. They employ millions of people, have received billions in investment and grants, and operate in sectors as diverse as AI and catering. It's therefore crucial to understand how the Covid-19 epidemic is impacting these businesses. Our data, analysed in the following pages, show just how much is at stake. These firms will be integral to the UK's productivity as we enter recovery, so it's crucial to make sure the interventions proposed by the Government reach these companies.

Henry Whorwood, Head of Research & Consultancy



Headline findings

- 1** Investment capital is on shaky ground, with **£18.9b of equity investment and £3.2b of public grant funding at moderate to critical risk.**
- 2** **22% of jobs in the high-growth economy are immediately under threat**, with 615k startup and scaleup jobs at severe or critical risk. Another 39% are moderately at risk.
- 3** **£320b of turnover across the high-growth economy is at moderate to critical risk.** The loss of these businesses poses a huge threat to the country's economy.
- 4** **The UK's scaleup companies are especially vulnerable**, with almost a quarter (22%) already at severe or critical risk and a further 43% at moderate risk.
- 5** **The country's extremities**, notably the South West and devolved nations, **have the highest proportion of critically impacted businesses** of all UK regions.
- 6** **London has the highest proportion** of positively impacted businesses, no doubt due to the large number of tech businesses in the capital.
- 7** Seed stage companies are the least likely to be negatively affected by coronavirus, whilst **later stage businesses are most at risk.**
- 8** As expected, **sectors that rely on customer footfall** such as leisure and entertainment and retail are the **most significantly affected.**
- 9** Tech driven **sectors that enable remote working**, such as VoIP, EdTech, eHealth and Digital security, have the highest proportion of **positively impacted businesses.**

About this report

Methodology

We've undertaken a rigorous approach to this project, manually assessing and then reviewing each of the 28,499 companies tracked in our database. Where possible, we've drawn on information published on company websites and social media channels. Just under a third of tags were assigned based on explicit evidence. Where a company has not announced any changes to its activity, we've conducted some careful analysis of the business model, target markets and sector of operation to determine the likely impact of the lockdown rules and current economic situation.

Of course, every company will face some kind of disruption to their business, whether that be a new remote working set up, having to furlough employees or experiencing changes to demand. As such, companies that have no known impact have been assigned a 'low impact' rating.

The impact tags

All companies have been assigned up to 16 of the following "COVID-19 impact tags":

- Temporary cessation of operations
- Closing most or all physical premises
- Limiting physical services provided
- Restrictions currently prevent provision of product/service
- Surge in demand
- Creating job opportunities
- Offering product for free/reduced cost
- Reduced operating hours
- Offering online services only
- Take-away only
- Explicit staffing cuts
- Increased lead times
- Loss of key customer group
- Struggling to cope with demand
- Fundamental business model change
- Permanent closure of the business

Based on these tags, we've built an algorithm that determines a company's "COVID-19 status" from the following selection:

- **Potentially positive impact**
A company that can potentially grow its operations as a result of these circumstances.
- **Low impact**
A company that will be able to largely continue normal operations, albeit possibly with safety measures such as working from home in place.
- **Moderate impact**
A company that has suffered disruption beyond mere inconvenience but is mostly able to continue operations.
- **Severe impact**
A company that has suffered serious disruption to its ability to operate.
- **Critical impact**
A company that is facing an existential threat to its ability to continue in operation.
- **Permanent closure**
A company that has definitively ceased trading as a result of COVID-19.

Summary

More than half of the UK's ambitious companies are 'at risk'

53% of high-growth companies are in an 'at risk' category, and 17% are facing a high level of risk, falling into the severe or critical categories. Just under a third lie within the low impact group, whilst 15% of companies may experience a positive outcome, with a new wave of customers and increased demand. So far, just 17 high-growth businesses in the UK have closed their doors due to COVID-19.

28% of companies have limited physical services

Unsurprisingly, the most common impact to operations across all companies is a limitation on essential physical services. Meanwhile, 12% are completely prevented from providing their products or services. It's encouraging to see that the second most common impact is a surge in demand for goods and services, with 19% of companies assigned this tag.

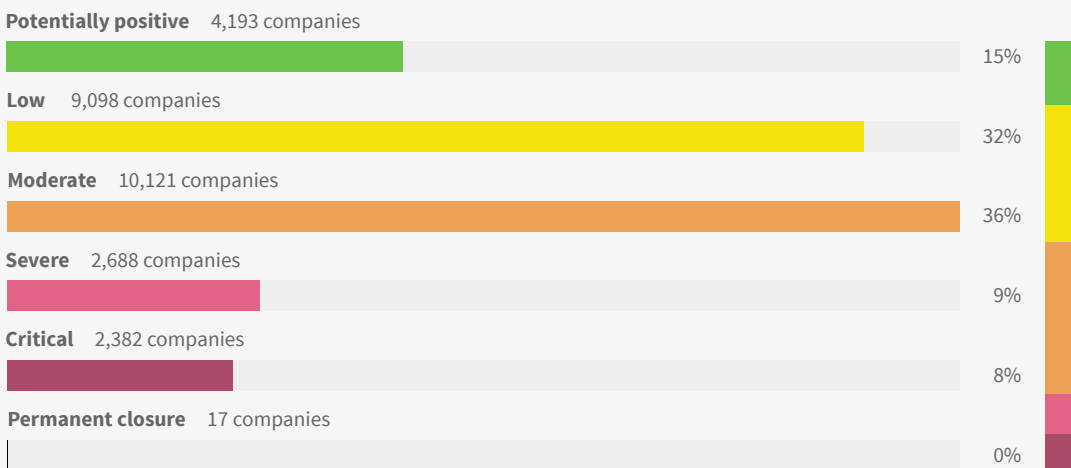


Figure 1. Beauhurst-tracked companies by impact of COVID-19 on their operations.

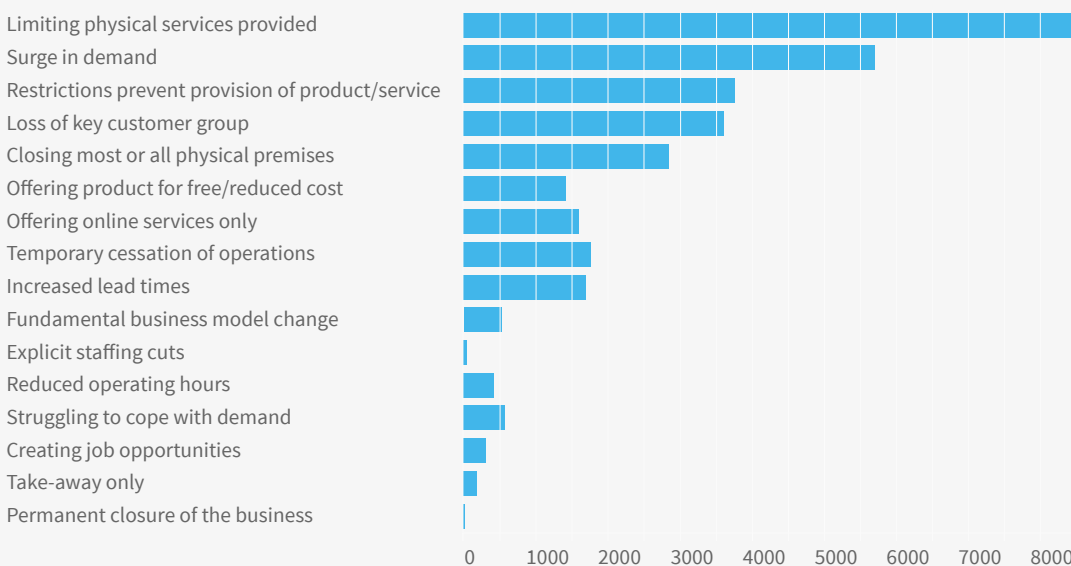


Figure 2. Number of Beauhurst-tracked companies with each impact tag.

Employees

Employees at risk

22% of jobs in the high-growth economy are immediately under threat, with 615k startup and scaleup jobs at severe or critical risk. A further 1m jobs are at moderate risk.

Larger companies are significantly more at risk than those that employ single or double digit numbers. Those companies that have an employee count between 500 and 999 are most likely to be severely (12%) or critically impacted (16%). It's interesting to note that the proportion of positively impacted companies remains fairly similar across all employee brackets, with those over 1000 employees only slightly more likely to fall into this category.



Figure 3. Percentage of high-growth jobs at risk.

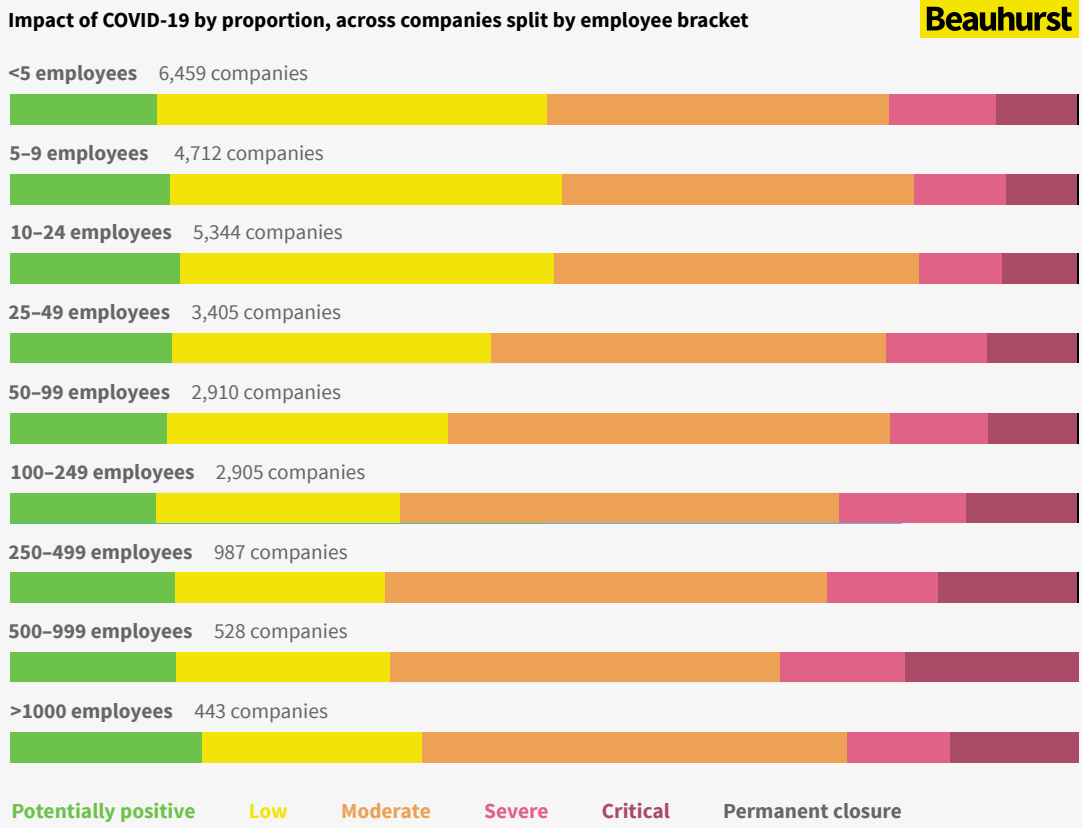


Figure 4. Proportion of impact classifications across companies split by employee bracket.

Turnover

Turnover at risk

Of particular concern, our data shows that the companies with the largest turnover are more likely to be at risk. Fortunately, most of the higher value businesses fall into the moderate impact category, but the number in the severe and critical categories is not insignificant.

Companies that are at severe or critical risk have a combined turnover of £99.8b, whilst those facing moderate risk have a joint turnover of £219b. These huge figures illustrate the significance of the high-growth ecosystem on the country's economy as a whole. Losing this portion of businesses, many of which are currently not adequately served by public interventions, would have massive implications for GDP.

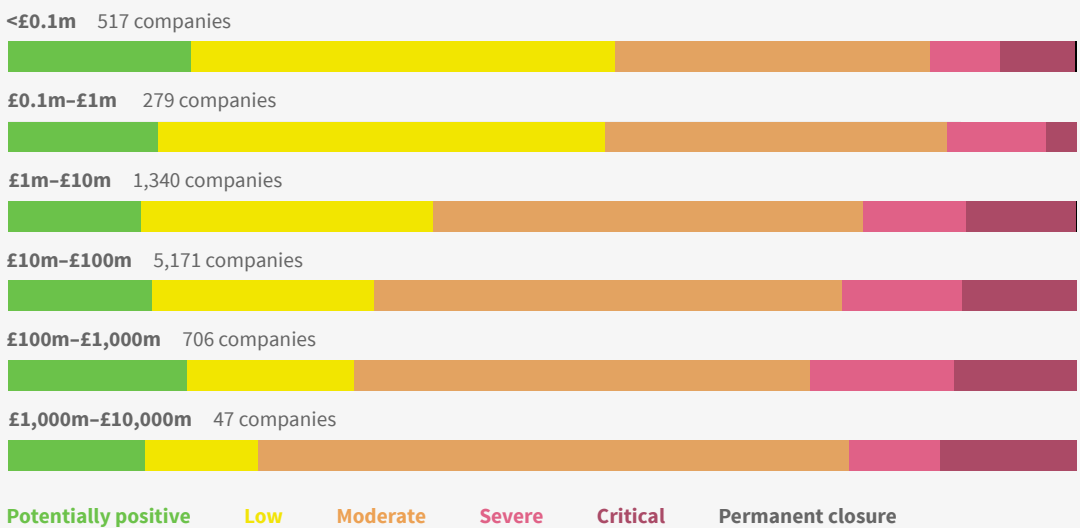


Figure 5. Proportion of impact classifications across companies with known turnover bracket.

Region

Yet again, the Capital fares the best

London is home to the highest proportion of potentially positively impacted companies (17%), with the surrounding regions of the South East and East of England also doing well. This is no doubt due to the high density of tech companies in the southern regions. But interestingly, it's Northern Ireland that comes in second place with 16% of companies.

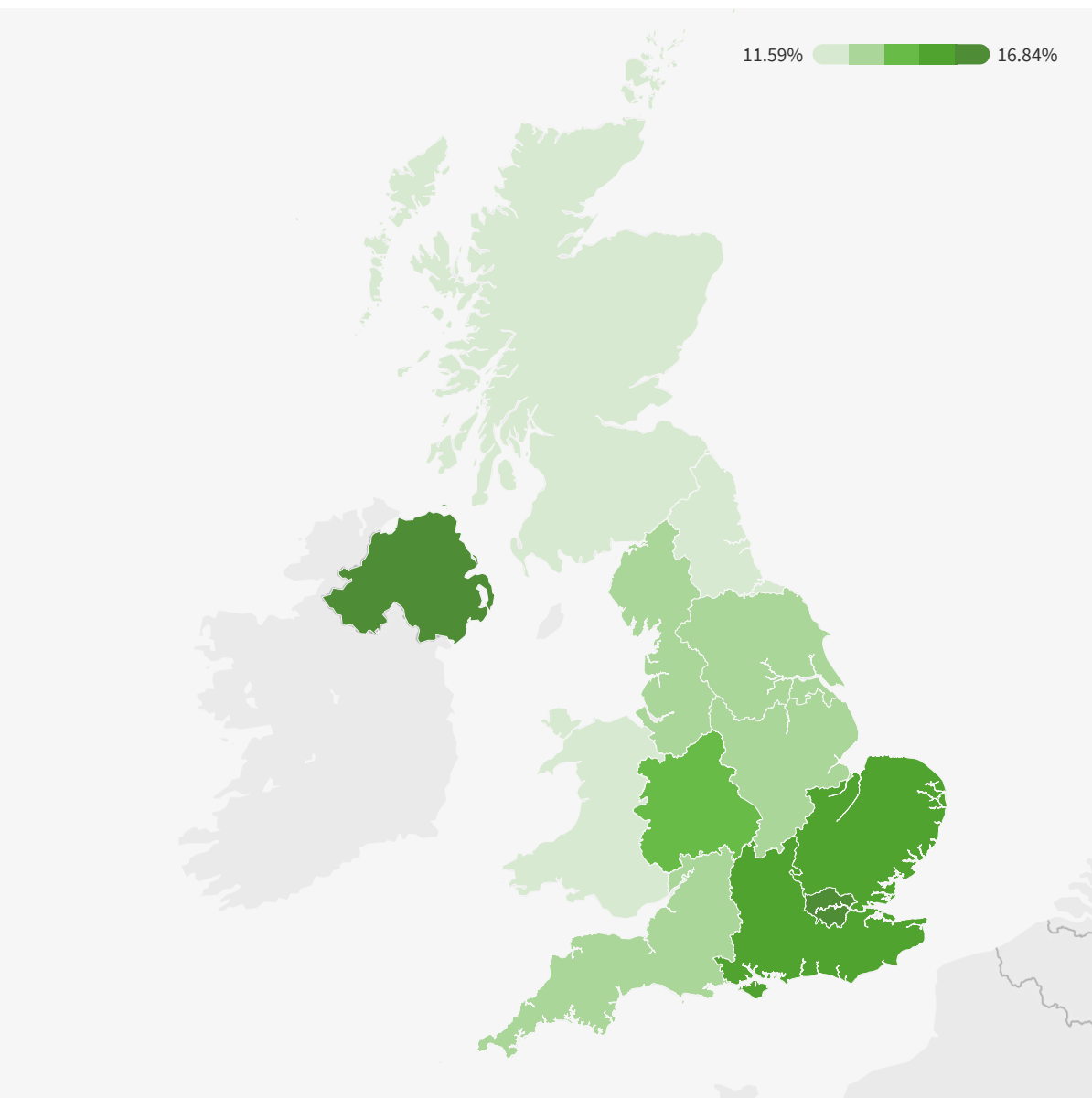


Figure 6. Map showing percentage of positively impacted companies in each region.

The country's extremities are most at risk

Northern Ireland also features prominently on the map of severe and critically impacted companies, leaving few businesses in the low and moderate impact categories. Regional inequalities are clear, with a significant proportion of companies in the South West region and devolved nations facing a particularly difficult road ahead.

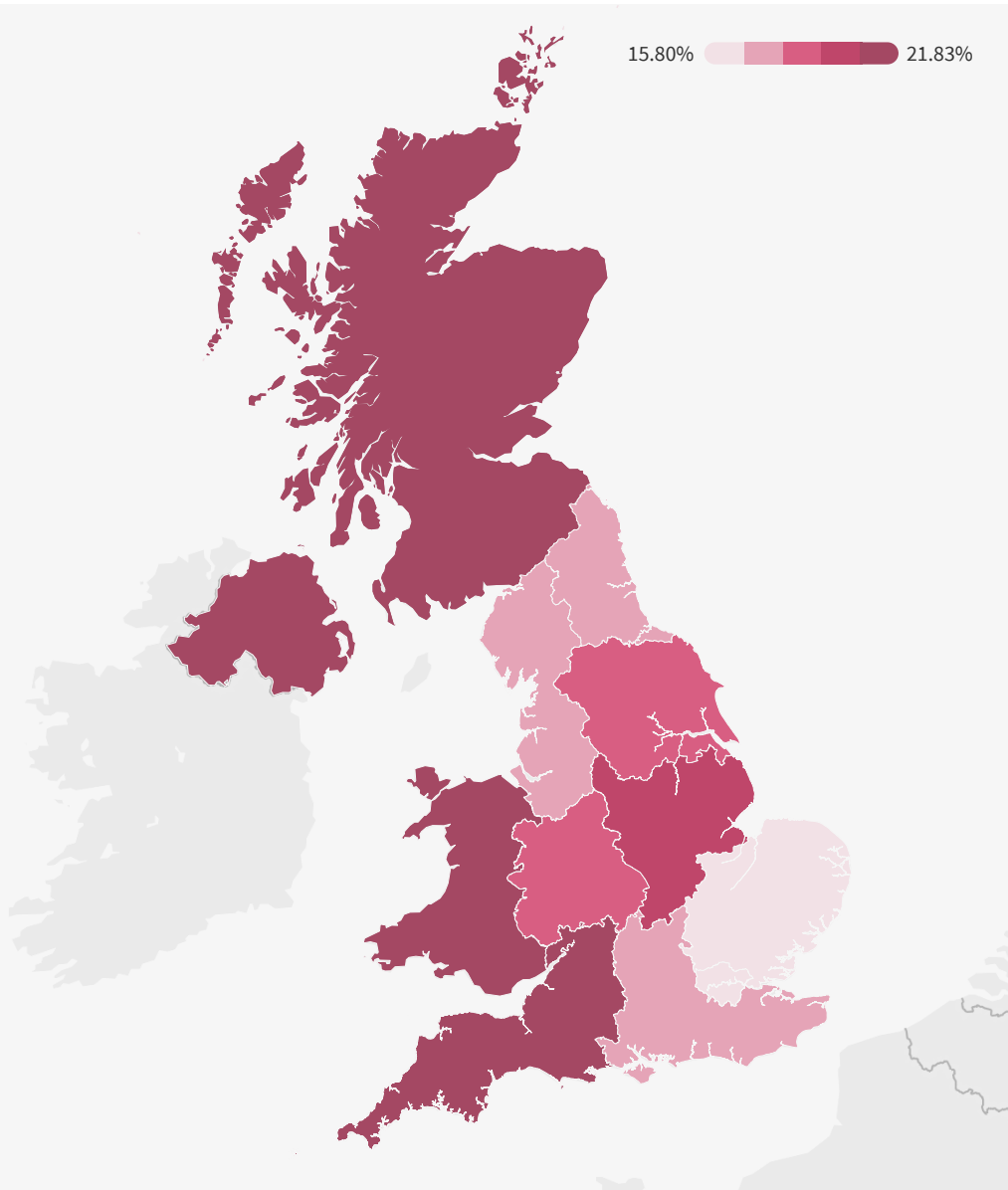


Figure 7. Map showing percentage of severely and critically impacted companies in each region.

Equity and grant-backed businesses

Equity and grant capital at risk

Businesses that have received either equity investment or public grants are overall less likely to be negatively affected by coronavirus. However, there is still a large amount of equity investment (£18.9b) and grant funding (£3.2b) that has been deployed to companies that are now at moderate to critical risk. If these companies default, then their funders won't see a return on investment. This is likely to have a knock-on effect on future trends, with less invested into the ecosystem.

Grant recipients are half as likely to have lost key customer groups than equity-backed and non-funded companies. Companies that receive grants are more likely to sell to other business and healthcare organisations, rather than operating customer-centric goods and services, such as restaurants and clothing stores.

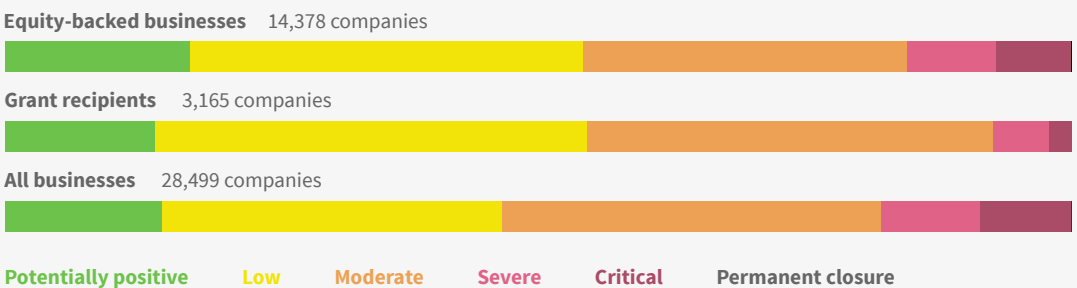


Figure 8. Impact of COVID-19 on equity-backed businesses and grant recipients.

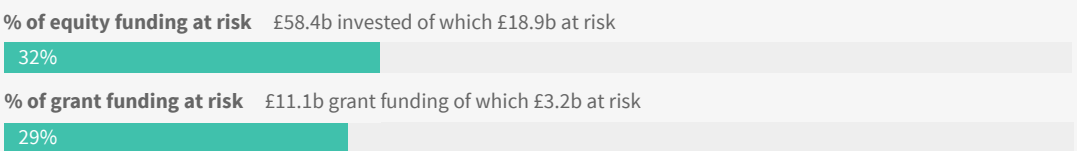


Figure 9. Percentage of equity and grant funding severely, critically and moderately at risk.



Figure 10. Percentage of companies with 'loss of key customer group' tag.

Spinouts and scaleups

Scaleups at risk while spinouts prove to be a safer bet

Scaleup companies are especially vulnerable during the pandemic. Almost a quarter (22%) are already at critical or severe risk, with most at moderate risk (43%). Scaleups tend to operate in sectors that require physical interaction and have many employees, which decreases their agility in responding to the pandemic. By definition, these are some of the fastest growing companies in the UK, and the disproportionate impact on them is another indication of massive economic harm.

On a more positive note, just 6% of spinouts are at severe or critical risk, with 49% in the low risk category. This is indicative of their focus on technology and, for the most part, small and agile teams. Spinouts are comparatively less affected by restrictions on providing their products or services, as they are less likely to be consumer facing. Instead, they tend to focus on high tech research with a long term vision.

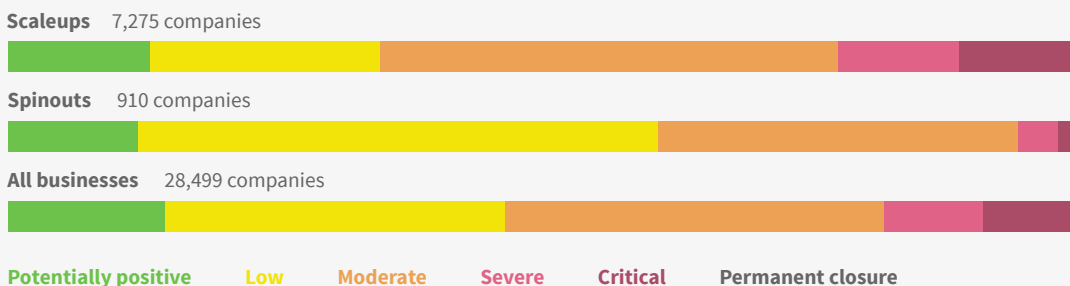


Figure 11. Impact of COVID-19 on scaleup and spinout businesses.



Figure 12. Percentage of companies with 'restrictions currently prevent provision of product/service' tag.

Sectors

Most tech sectors dodge a bullet

Across the board, tech sectors and verticals are the most likely to experience a positive or low impact. VoIP, EdTech and eHealth have fared particularly well, with very few companies at risk. PropTech is one of the few exceptions to this, with most companies falling within the moderate impact category, due to the current freeze on the property market.

A drop in footfall endangers less technology driven sectors

Most notably, the leisure and entertainment industry is massively under threat, with 20% of companies severely impacted and 34% critically impacted. Other traditional sectors, including retail and industrials, are far more likely to be moderately impacted. The survival of these companies will heavily depend on the length of time that lockdown measures remain in place.

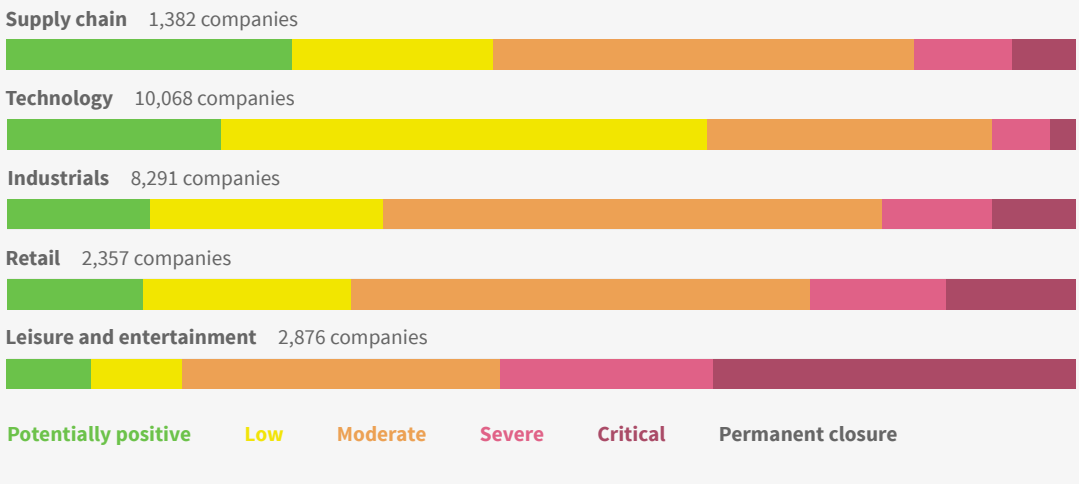


Figure 13. Proportion of impact classifications across top-level sectors.

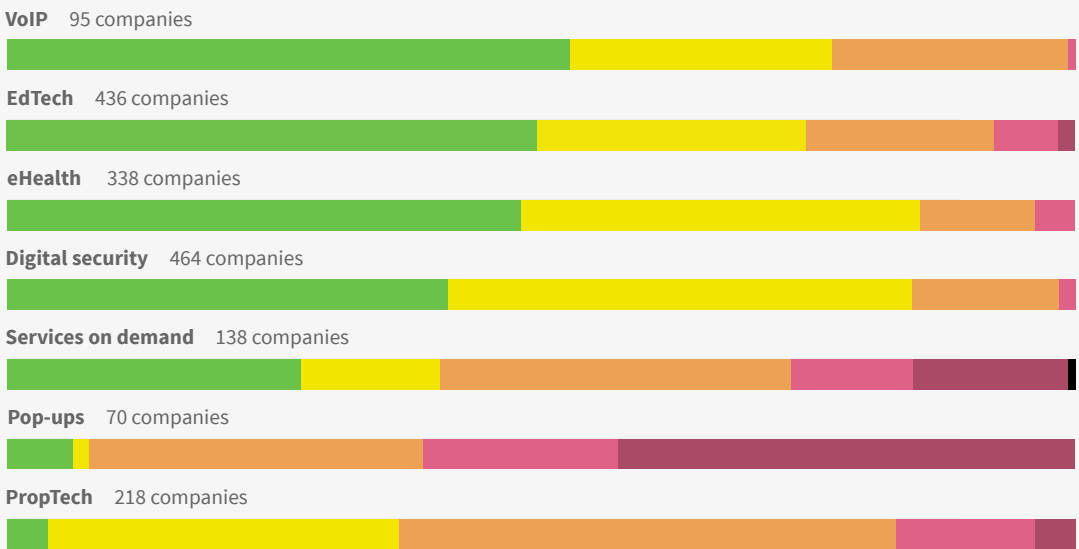


Figure 14. Proportion of impact classifications across selected verticals.

Company stage

Later-stage companies take the biggest hit

Given earlier findings, it's not surprising to see that established stage businesses are seeing the biggest impact, with 11% at severe risk and 10% at critical risk. Like scaleups, most operate within industrial or leisure and entertainment sectors, which require in person interaction, and have many employees, decreasing their agility. Established businesses should be the most robust companies in the country, generating more turnover, more tax, and employing more people than earlier stage businesses. The loss of even a handful could have a devastating economic impact.

Although they're the most financially volatile classes of companies, the seed and venture stages have the highest proportion of low (38%, 37% respectively) or potentially positively impacted companies (15%, 18% respectively). A large proportion operate within tech industries such as SaaS and AI, which better lend themselves to remote working and won't require physical customers.

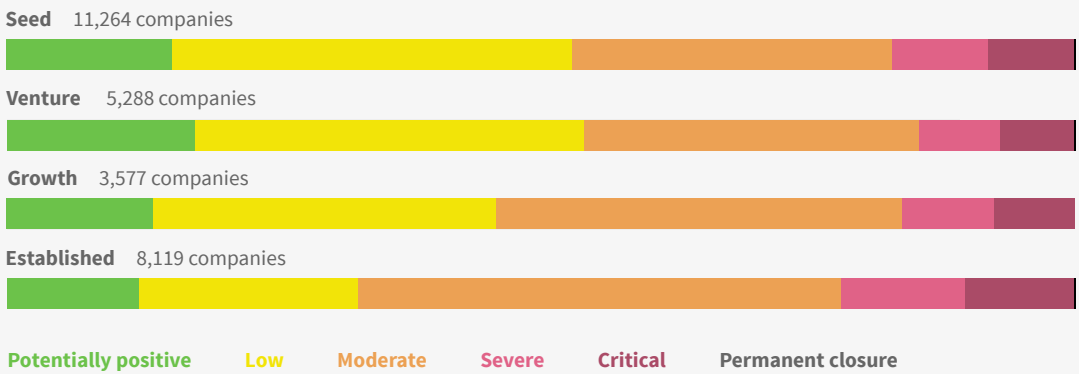


Figure 15. Proportion of impact classifications across companies by their stage of evolution.

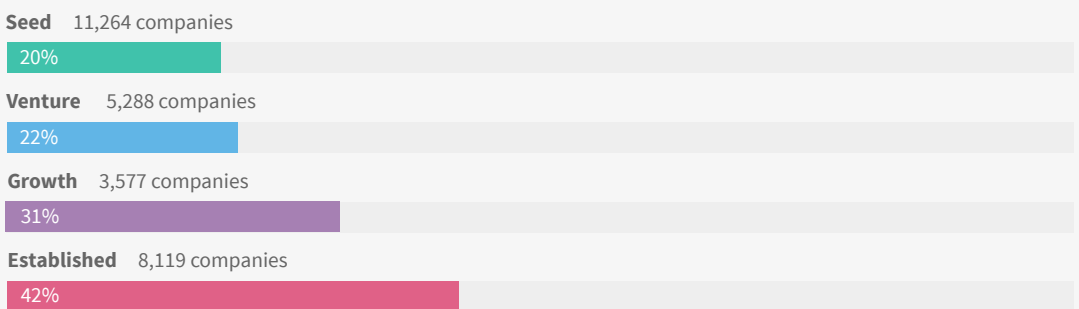


Figure 16. Percentage of companies with 'limiting physical services provided' tag.

Recommendations

Our proposals for supporting SMEs in a time of crisis

The Government's announcement of support for ambitious, innovative companies this morning (20th April) is a step in the right direction. However, based on our analysis, and from anecdotes across the ecosystem about the limited support available to fast growing and highly innovative loss-making businesses, we don't believe that these measures go far enough.

To briefly recap, there are two key strands to the Government's intervention:

1. A "Future Fund" providing convertible loan funding, matched to that provided by private investors, to companies that have raised over £250k in equity investment over the past five years (see full details [here](#)).
2. A series of measures delivered through Innovate UK designed to increase and speed up delivery of the organisation's grant and loan funding to small and medium sized businesses. At the time of writing it's unclear exactly what is being provided under this package, although of note a substantial proportion of the headline amount is merely a commitment to speed up the delivery of already committed grants and loans.

The issue—as demonstrated in this report—is that companies which have previously received equity investment or grant backing are less severely impacted than those ambitious companies who have received neither. Sadly, this set of measures does almost nothing to assist this latter category, and is still lacking in its assistance to the former.

Getting into the detail, the Future Fund is an interesting innovation and will be useful to some businesses, but it has a few significant downsides which limit its usefulness for the majority of startups and scaleups. Firstly, the requirement for matched private sector funding will, we believe, make it difficult to access for most firms. Investors are already wary of putting money into ambitious companies in return for equity right now—see the [collapse in deal numbers](#) we've seen over the past few weeks. We're also skeptical whether there's much investor appetite to provide cash now in return for debt, and potentially receive an unknown level of equity later upon conversion. If you're an investor, why not just negotiate hard on terms and take a large, known, equity stake today? The capital leverage is useful, but equity gives you control.

From the company's point of view things are also difficult. Firstly, the requirement to have previously raised £250k from investors is probably fair, but it does mean that two thirds of the 28,499 ambitious companies we track are ineligible. Secondly, an unnoticed aspect of the scheme is that loan repayment comes with a 100% premium —i.e. you have to pay back double what you borrowed, plus interest, to avoid conversion. So companies borrowing cash under the scheme will be met at maturity with the option of either repaying a quite frankly extortionate amount of cash (which they are very unlikely to have), or taking a Government fund (or another unknown fund—because the terms allow the Government to sell on packages of these bridging loans) on the cap table possibly for the rest of the company's existence. Though, of course, this is still better than being out of business.

We will comment further on the Innovate UK part of the measures in due course when details become clear. But whatever these details hold, we're already convinced that this set of measures as a whole doesn't go far enough in helping the businesses we track, or the UK's 3.8m SMEs more generally. We believe that there's a much broader response required to stave off mass bankruptcies and set the country up for a rapid recovery.

We have three key recommendations:

1. Keep economic activity up by rewarding employers for retaining people in active employment
2. Radically reform the coronavirus loan scheme (CBILS) to allow SMEs to access cash fast
3. Promote continued investment in innovation through temporary changes to R&D tax credits.

Rewarding employers for keeping people in active employment

The Coronavirus Job Retention Scheme is a fantastic invention and is rightly helping millions of businesses who have been forced to cease operations. However, it presents a predicament for businesses that are technically (and safely) able to continue operating.

Despite not being shut down, these businesses are seeing significant short-term dips in revenue and massive increases in uncertainty about the long-term. They're having to decide whether to shut up shop in order to preserve their cash and receive what is, in effect, a government grant for stopping work, or whether to take the risk and carry on work. We believe that too many business owners and operators are feeling like they have to choose the former option, with the result being too many employees taken out of productive employment.

Our view is best described by Howard Marks in his [recent letter](#) to Oaktree Capital clients:

“The Treasury can make up for people’s lost wages, but people need the things wages buy. So replacing lost wages and revenues will not be enough for long; the economy has to produce goods and services.”

We believe that the solution is to incentivise continued productive employment. The Government must reward SME employers for taking on the economic risk and for declining to pass the burden of their employees to the state.

The simplest way of doing this would be to offer a 20% wage subsidy for all those employed by SMEs who aren’t furloughed, up to a cap of £625 per month. This would mirror the 80% of employee costs up to £2500 per month covered by the CJRS. The grant could be claimed easily through the same system that HMRC is putting in place for furlough claims. This would be a strong incentive for employers to keep employees in productive work (where safe and legal to do so) and would significantly limit the incoming fall in GDP, all at very limited cost to the Government.¹

¹Latest estimates are that a third of the UK workforce will be furloughed. Let’s consider a sample set of 30,000 employees. Currently 10,000 of these are likely to be furloughed at a maximum cost to the Government of £25m per month (we’ll ignore employer’s NI and pension contributions for simplicity here). Just 20,000 people are left in productive work. We’d therefore expect to see a 33% drop in GDP contribution from this sample set.

Were the Government to implement our proposal, we believe employers would be given the comfort and assistance they need to move a significant proportion of furloughed employees back onto their payroll—let’s assume 40%. We’d now have just 6,000 furloughed employees in our sample set and 24,000 productive employees. Furlough costs would fall to at most £15m per month; subsidy for employees in productive work would be up to £15m per month. The maximum cost to the Government would therefore rise by £5m to £30m a month. But in the process we’ve both limited the fall in GDP to 20% and given employers the cash and reassurance they need to continue producing and investing in the future of their businesses and their staff. We’d also expect to see fewer businesses go into administration and therefore fewer people out of work in the medium-term, further reducing the net cost to the Government.

Ensuring SMEs can access loans fast

Despite recent tweaks to the CBILS scheme, and today's launch of the Future Fund, it's clear that many SMEs are still going to struggle to access the capital they need in the timeframe necessary. SMEs are still facing the prospect of undertaking a full loan application, an assessment of viability (albeit slightly relaxed), high interest rates, personal guarantees for larger loans and more. We'd be extremely surprised if the scheme, as currently formed, delivers for SMEs in general; it definitely won't work for the majority of ambitious companies we track.

The solution is actually relatively simple: copy the Swiss.

The [Swiss scheme](#) allows companies to access lower value loans—up to 10% of annual revenues—pretty much immediately with almost no caveats. These smaller loans are fully guaranteed by the Government. Larger loans are 85% government guaranteed, interest rates are capped and processing is fast. Banks are the conduit for this cash, but decisions are quick and based on the bare minimum of due diligence. At the very least we should copy, and copy fast.

In addition, the ideas set out by Thomas F Huertas in his [letter in the FT](#) are worthy of consideration. In particular, the proposal for opening up a one-year revolving line of credit for up to six months' revenue—government backed and at a low rate of interest—specifically for use on qualified expenses (wages, rent, utilities, suppliers, insurance and interest) could be transformational. With the Government being the lender of record, and refinancing on commercial rates offered down the line, this could inject significant capital directly to SMEs and aid with a rapid recovery.

Promote innovation through R&D Tax Credits

In a crisis like this, the first thing that businesses stop is investment in the future. Yet that is precisely what we need right now if the economy is going to bounce back strongly instead of entering a prolonged depression.

We propose that the Government doubles down (quite literally) on incentivising investment in innovation. A doubling of R&D tax credits for claims during this tax year would provide a significant reduction in costs for profitable businesses and a very welcome additional grant for loss-making ambitious companies. Using the existing mechanism of R&D tax credits will allow the Government to target the businesses that need help the most and won't burden them with debt when the UK enters recovery.

In addition, reassurance needs to be given by HMRC that R&D tax credit payments won't be netted off against the Q2/20 VAT bills that the Government has deferred payment of. For a start, it's unfair to penalise firms that are investing in R&D by reducing their ability to benefit from one of the Government's flagship measures. Such reassurance would also allow companies to make use of the burgeoning market for borrowing against future R&D claims to access the cash they need even sooner than HMRC can deliver. Finally, the Government needs to relax the requirement for the business to be a going concern at the time of making a claim, which was already a difficulty for loss-making companies before coronavirus.

We also wholeheartedly agree with the call made by the Save Our Startups campaign and elsewhere for these payments to be fast-tracked and are encouraged to see that today's Government announcements have noted this issue. We look forward to seeing the details.

Closing thoughts

We believe that these policies enacted as a whole will enable all SMEs to make better decisions about their businesses and their employees. Furthermore, they would allow the UK's most ambitious and innovative firms to carry on investing at a time when the need for innovation, jobs, and growth has never been greater. And last, but by no means least, they would significantly limit the impact on GDP, society, individuals and households up and down the country at this time of national emergency. We urge the Government to look at implementing such measures as a matter of urgency.



Toby Austin
CEO & Co-founder



Henry Whorwood
Head of Research & Consultancy

If you'd like to access the data behind this report, whether to help inform policy, determine your organisation's strategy, or better understand risk and opportunity in your sector, please get in touch at info@beahurst.com or by calling us on 020 7062 0060.

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