THE CONTRIBUTION TO THE UK ECONOMY OF FIRMS USING VENTURE CAPITAL AND BUSINESS ANGEL FINANCE

A PowerPoint report prepared for the BVCA

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INTRODUCTION

• Oxford Economics has estimated the economic impact for the UK of firms using venture capital and/or business angel finance in 2015.
• Estimates of the numbers and characteristics of these firms are based on findings in Small Business Surveys conducted for the former Department for Business, Innovation and Skills.
• Estimates of the contribution of these firms to UK turnover, GDP and jobs have then been derived.
• Finally, further “knock-on” impacts for the rest of UK economy have been calculated, relating to purchases of goods and services by these firms, and by their employees.
THE SIZE OF THE SECTOR

USERS OF VC AND ANGEL FINANCE: NUMBERS AND TURNOVER

Some 24,400 firms were using business angel and/or venture capital finance in 2015, having a combined turnover of £29.2 billion.  

- Users of angel finance were more numerous than VC users, but the latter made a significantly greater contribution to turnover.  
- The turnover value is similar to that of the UK chemical product manufacturing sector, and more than that of the UK hotels and holiday accommodation sector.
Users of VC and Angel Finance: GDP and Jobs

This turnover allowed the sector to generate £15.0 billion worth of Gross Domestic Product, supporting just over 200,000 jobs.

- This GDP is the difference between sales revenues and the cost of purchases from other firms, and is reflected in staff costs and gross profits.
- It is far higher than the annual flow of VC and angel investment sustaining these firms’ activities, which is put at £4.1 billion in 2015.
CHARACTERISTICS OF THE SECTOR

SIZE CHARACTERISTICS OF VC AND ANGEL FINANCE USERS

Large numbers of small firms are already backed by VC and angel finance, but the UK economy would benefit if its use could be extended further up the business size scale.

- VC and angel finance back a very large number of micro firms with fewer than 10 employees, and a fair number of small firms with 10-49 staff.
- However, the contribution to the UK economy would be further enhanced if these forms of finance reached more medium and large operations.

<table>
<thead>
<tr>
<th>Size</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Micro (1-9 employees)</td>
<td>70.8%</td>
</tr>
<tr>
<td>Small (10-49)</td>
<td>21.4%</td>
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<tr>
<td>Medium (50-249)</td>
<td>7.7%</td>
</tr>
<tr>
<td>Large (250+)</td>
<td>0.07%</td>
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</tbody>
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* Excluding businesses with no employees (i.e. having working proprietors only).

Source: Oxford Economics
By broad industrial sector, there is a heavy concentration in digital, financial and health-related fields.

- Around a half of VC users appear to be in digital industries, including media, entertainment, IT-related and telecoms services.
- Around 15% are in the financial services sector.
- Some 10% work in health, pharmaceuticals, biological research, life sciences and related fields.
These characteristics mean that the typical VC-using business is likely to be significantly more productive per employee than average.

- GDP per job is expected to be well above-average due to these sector characteristics.
- In practice, the sector’s productivity could be higher still, due to specific benefits of VC / angel finance use (though any such impact cannot be captured in an analysis of this kind).
HOW THE SECTOR BENEFITS THE REST OF THE UK ECONOMY

Purchases by VC-using firms, and by their employees, provide additional support to economic activity in the UK.

- **Sector turnover**: £29.2 billion
- **Imports**: Purchases from UK suppliers £10.3 billion
- **Sector’s own (“direct”) GDP**: £15.0 billion
- **Staff purchases from UK firms**: £5.0 billion
- **Tax, pensions, capital costs, net profits, staff imports**:
- **UK GDP supported “indirectly” in the supply chain, and “induced” by employee spending**
Taking the “indirect” and “induced” channels into account, the sector’s contribution to GDP is double that suggested by the “direct” impact alone. The contribution to jobs more than doubles to 480,000.

- The total contribution to GDP is close to £30 billion, i.e. more than seven times the £4.1 billion annual flow of VC and angel funding.
- The 480,000 total jobs contribution is broadly equivalent to the number of staff working throughout the UK’s wholesale and retail and sector.
Some 24,400 firms were using venture capital and/or business angel finance in 2015. Between them they had a turnover of £29.2 billion, supporting £15.0 billion of Gross Domestic Product and just over 200,000 jobs.

This turnover is similar to that in the UK chemical products manufacturing sector, and more than that of the hotel and holiday accommodation sector.

The GDP figure is substantially higher than the flow of VC and angel investment into UK companies, of £4.1 billion in 2015.

The vast majority of VC and angel finance users are micro and small firms with fewer than 50 employees.

Compared with the private sector as a whole, these firms are more likely to be in the digital, financial and health-related sectors. As a result they will tend to have higher productivity than the UK average.

Taking supply chain and employee spending impacts into account as well, the sector’s total contribution to UK GDP is close to £30 billion. This is sufficient to support 480,000 jobs, which is broadly equivalent to the total number working across the wholesale and retail sector.
1. Percentages of firms currently relying on equity finance were taken, separately for each employment size band, from the 2015 Small Business Survey. These were translated into absolute numbers of firms using the number of enterprises by size band from the Business Population Estimates (BPE) dataset.

2. These were split between users of business angel finance, venture capital finance and other equity finance, taking into account the split in firms found to have obtained such finance in the past 12 months in the 2012, 2014 and 2015 Small Business Surveys.

3. Turnover and jobs for firms using angel and VC finance respectively were estimated using the BPE dataset and the assumption that turnover per firm and employment per firm were in line with the average for the private sector as a whole, for each size band.

4. The distribution of these firms by broad industrial sector was estimated based on information about firms obtaining VC and angel finance in the 2012-15 Small Business Surveys. However the ‘biotech & health’ sector cuts across the sectors used in those surveys, and this number was estimated with the help of the Pitchbook dataset.

5. Turnover of VC and angel finance users was split by industry taking into account turnover per firm by industry in the BPE dataset, with GDP estimated using GDP-to-turnover ratios from the UK National Accounts and Annual Business Survey.

6. Estimates for a small number of larger firms were added in, based on various sources including accounts filed at Companies House.
7. Purchases from other firms – the difference between turnover and GDP – were split between imports and domestic spending using ratios in the National Accounts, with domestic spending then split by sector of supplier.

8. This procurement spending was combined with ratios in the National Accounts “input-output” table – showing transactions between different UK industries – using a standard statistical technique, to arrive at “indirect” GDP, i.e. GDP in the UK supply chain supported by the finance users’ purchases.

9. GDP supported by the spending of employees in the supply chain – a minor part of the “induced” impact – was worked out as part of the same process.

10. The finance users’ own GDP was split between staff take-home pay and other elements (gross profits, income tax, NICs, pensions) using ratios from the National Accounts, with the resulting staff spending then split between consumer taxes, imports and payments received by UK suppliers. This last element was split by industry of supplier, with the major part of “induced” GDP derived from there using the “input-output” table.

11. Indirect and induced jobs were derived from indirect and induced GDP respectively, using ratios implied by the National Accounts and labour market statistics. This took into account the split in indirect and induced GDP by industry.

12. The figure for the value of VC and angel investment is sourced from the Pitchbook European Venture Report, 2016 Annual.
All data shown in tables and charts is Oxford Economics’ own data, and is copyright © Oxford Economics Ltd, except where otherwise stated and cited in footnotes.

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