PACESETTERS

How Europe's **fastest-growing** companies stay ahead of the pack.

Pinsent Masons

Mergermarket
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Contents

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Foreword

Europe’s fastest-growing companies power the engine rooms of their respective economies. As they scale at pace, these businesses drive job creation, generate additional tax receipts and provide new opportunities for a broad range of stakeholders. In short, they are crucial for any economy or society focusing on wealth creation.

However, despite playing this vital role, we know comparatively little about the make-up of our fastest-growing businesses – specifically, the skills and qualities that enable them to leave the rest of the pack behind.

Pinsent Masons’ *Pacesetters*, published in association with Mergermarket, seeks to investigate that knowledge shortfall. Based on exclusive interviews with 400 senior executives of European fast-growing companies, this research identifies a series of characteristics that are shared by many of the businesses posting the highest growth rates in Europe.

For even though these businesses are pursuing a huge range of different business models and operating in disparate geographies or industry sectors, they have much in common. As advisers to fast-growth companies, we are increasingly seeing collaboration and innovation as key traits among this section of our client base. Indeed, on the latter factor, respondents feel that the next three years will be dominated by the need to invest in technology and utilise it effectively.

Many of them will see similar behaviours in their fast-growth peers or identify with the pervading culture of other businesses that are achieving accelerated expansion.

In identifying these shared characteristics, we offer food for thought to other businesses now plotting a growth strategy for the years ahead. By understanding what has enabled other fast-growth businesses to succeed, companies may be better placed to improve their own prospects. The report also provides valuable insights for mature companies looking for growth through acquisitions of these fast-growing, often disruptive, companies.

Pacesetters also outlines the financing preferences of fast-growth businesses and identifies the barriers that they feel they must overcome to continue their growth.

And, in the closing section of the report, we provide insights from the investors’ perspective as we talk exclusively to four executives who discuss why these fast-growing companies are outperforming their peers.

The companies we have surveyed are vital to the future prosperity of Europe and it is hugely encouraging that the obstacles they perceive do not dent this optimism about their future growth capabilities.

John Tyerman
Head of Corporate UK
Pinsent Masons

Key findings

83%
considered an alliance with a company they subsequently acquired

82%
say they have acquired a minority stake in another company in the past three years

82%
of those who have gone public say going public has been highly important to their growth

76%
say that they are a purpose-led business

72%
expect Brexit to have a negative impact on their growth

58%
believe that investing in and utilising technology effectively will be among the top three most important growth factors over the next three years

49%
acknowledge that acquiring IP or tech/data/data analytics will be among the top two objectives of M&A and alliances with other companies over the next three years

45%
say they will prioritise understanding and enhancing the customer experience over the next three years

40%
say alliances and joint ventures have been among the top three most important factors for the growth of their business over the past three years

31%
say that autonomous R&D teams have delivered the most benefit to their business in terms of fostering innovation

6%
of companies have changed ownership in the past three years

5%
believe that an inspirational leader will be an important factor for growth in the next three years

Methodology

The companies chosen to take part in the survey were drawn from lists of the fastest-growing Western European-based companies in the following sectors: Advanced Manufacturing & Technology, Financial Services, Energy and Infrastructure.

Sector/geographic breakdown

	UK & Ireland	Germany	France	Spain	Other Western Europe	**Total**
Advanced Manufacturing & Technology (AMT)	20	20	20	20	20	**100**
Financial Services	20	20	20	20	20	**100**
Energy	20	20	20	20	20	**100**
Infrastructure	20	20	20	20	20	**100**
Total	**80**	**80**	**80**	**80**	**80**	**400**

The lists were produced by Mergermarket from a variety of public sources of information and company databases. Growth rates were calculated based on turnover reported in accounts for the past three years and, to be eligible for inclusion, companies had to have shown growth in each of the previous two years. There was a minimum turnover threshold for inclusion based on the most recent set of accounts[1].

Company ownership breakdown

	Number of companies
Private equity owned	177
Privately owned	133
Listed	90

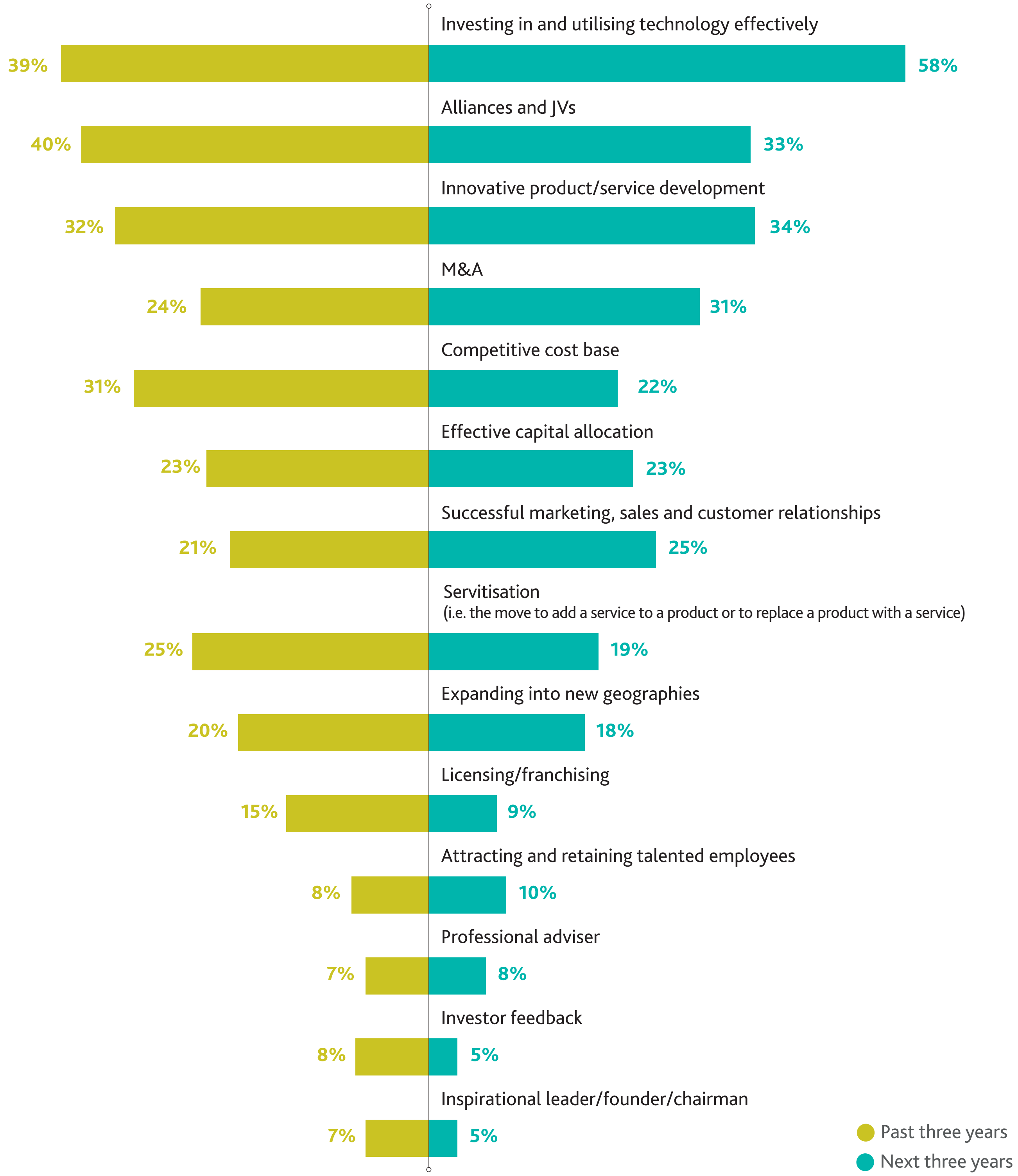
[1] €50 million for AMT, financial services and infrastructure. For energy, the threshold was €30 million.

Chapter 1: Three factors for fast-growth success

Factor 1: Strength through collaboration

Our exclusive survey of 400 fast-growing European companies finds that collaboration, alliances and stake investments are fundamental to growth. And, as companies scale up, consideration of M&A becomes more important.

Which factors have been the most important for the growth of your business over the past three years? And which do you anticipate will be most important for the next three years?



Our survey reveals that fast-growing companies are open and collaborative, willing to look beyond their own boundaries in order to identify the best possible opportunities for growth.

They are exploring a broad range of collaborations as they think about their next stage of growth. They are engaging in informal working arrangements, alliances, joint ventures and investments in their peers as they seek to unlock new routes to growth.

"This is all about seizing the best opportunities in a very broad landscape – and doing so with scale and speed," says Pinsent Masons partner John Tyerman. "Traditionally, businesses needing to get beyond organic growth have looked towards M&A, but the options for collaboration and alliance are much wider today. They often provide a means to experiment with innovation and transformation without making irrevocable decisions."

In fact, 40% of respondents to this survey say alliances and joint ventures have been among the top three most important drivers of the growth of their business over the past three years – the highest percentage among those surveyed. Amongst energy and infrastructure companies, that figure rises to 52% and 51% respectively.

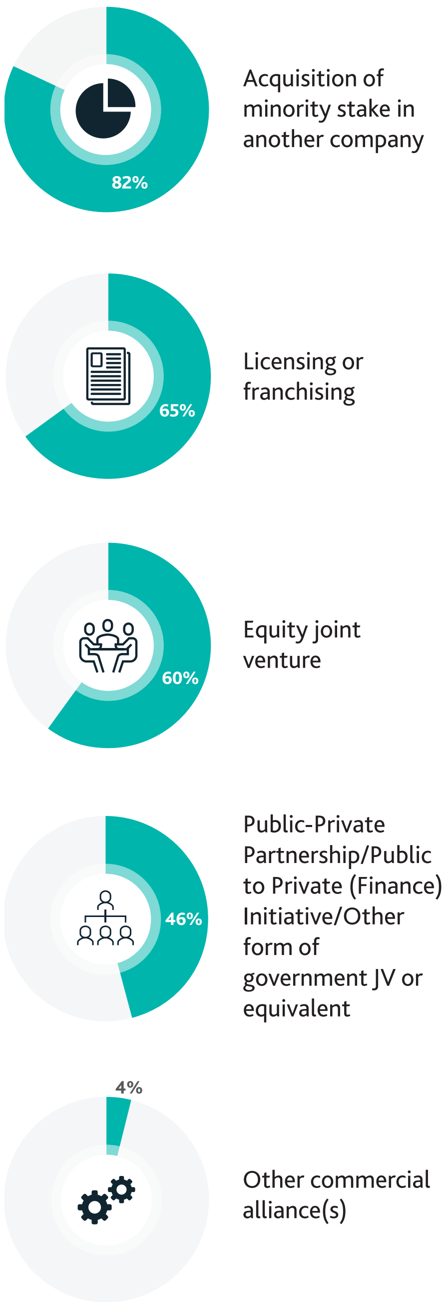
"Alliances and joint ventures are the best way to expand our business in the current market," says the CEO of a British Advanced Manufacturing & Technology (AMT) company. "We use alliances to gain access to technology, new tools and, at the same time, to reduce risks."

Looking forward, slightly fewer fast-growing companies expect alliances and joint ventures to continue to play a significant role in their growth. Nevertheless, a third (33%) still see such collaborations as crucial for expansion. Again, energy and infrastructure companies (48% and 37%) are most focused on alliances and joint ventures.

> Traditionally, businesses needing to get beyond organic growth have looked towards M&A, but the options for collaboration and alliance are much wider today.
>
> **John Tyerman, Head of Corporate UK, Pinsent Masons**

Factor 1: Strength through collaboration

Which of the following types of alliance arrangements have you entered into over the past three years?



Take a stake

Many fast-growing companies are prepared to consider a range of different types of alliance in order to forge the collaborative partnerships they believe are required to power their growth. Their focus is on what will secure them the partnership they need – whether that is skills, technology or market penetration – rather than the nature of the deal itself.

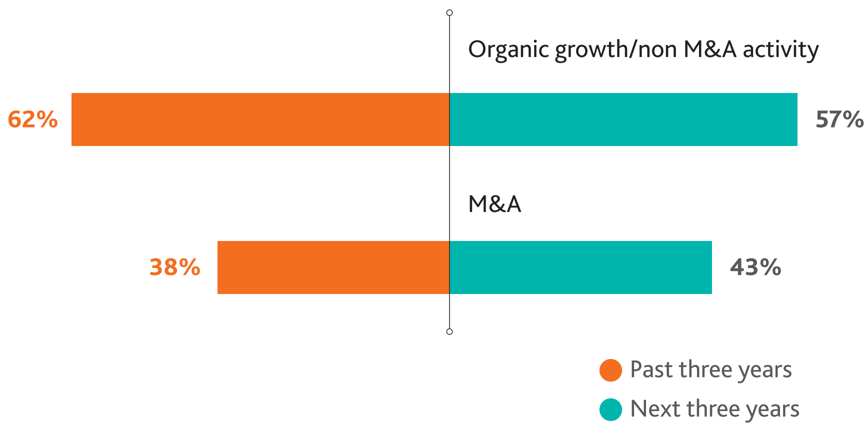
"Alliances have been crucial to our development," says the CEO of a €70m revenue Norwegian AMT company. "We operate by identifying and developing partnerships that prioritise solutions for the development of our products."

So, for example, 82% of respondents say that, among the alliances they have explored, they have acquired a minority stake in another company over the past three years; this rises to 89% for the AMT businesses surveyed. This may reflect the increasing focus on partnership rather than control, suggests Pinsent Masons partner Edward Stead. "It's a growing part of the market," he says. "These are partnership capital deals conducted on a grown-up basis where both sides are looking to work together, rather than the acquirer taking control."

In addition, some 60% say they have engaged in at least one equity-based joint venture; 72% of financial services businesses have done this.

However, other types of alliance have been popular too, with almost two-thirds (65%) of fast-growing companies surveyed engaging in licensing or franchising arrangements. Meanwhile, 46% of respondents have worked with public sector partners. Among infrastructure respondents this rises to 99%, while 74% of energy companies have done this.

What proportion of your firm's revenue growth over the past three years is attributable to organic growth/non-M&A activity and what proportion to M&A activity? And what do you anticipate for the next three years (mean shown)?



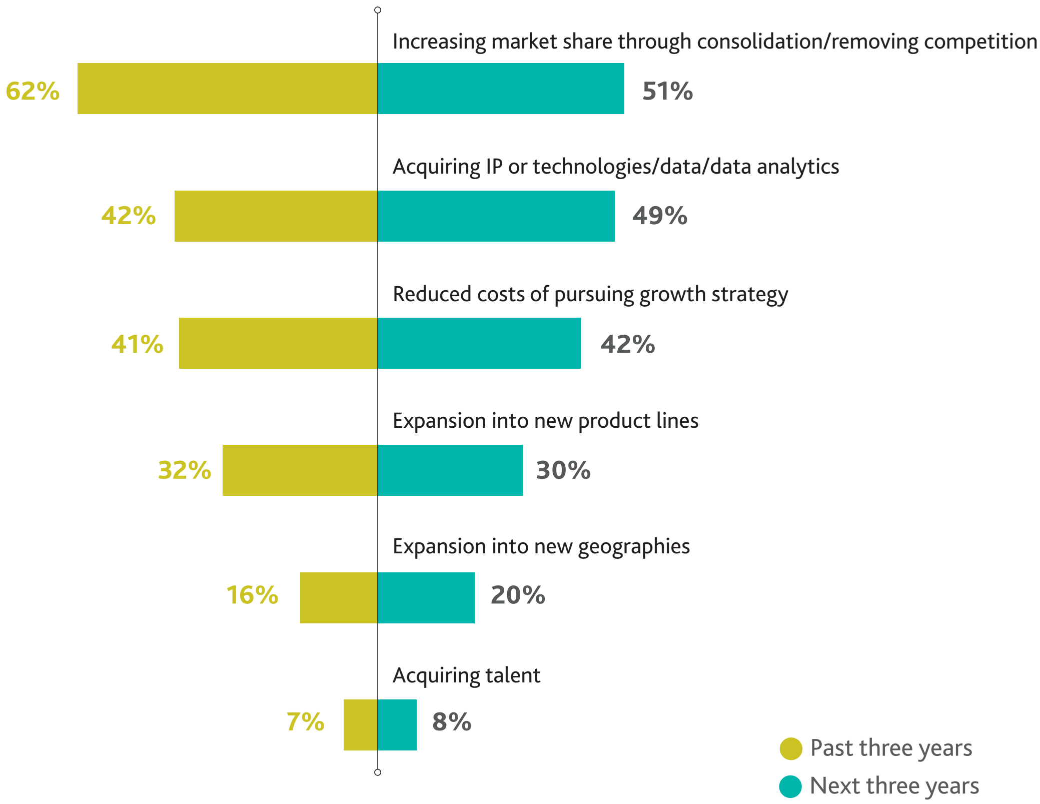
Deal drivers

The research also suggests that full-blown M&A is an important part of the collaboration story and is set to become even more so. On average, fast-growing companies attribute 38% of their revenue growth over the past three years to dealmaking, and they expect this to rise to 43% over the next three years.

Their motivations for pursuing M&A activity centre on a number of key growth drivers. Some 51% expect to do deals in order to increase their market share through consolidation, while 49% are focused on acquiring intellectual property or new technology. The need for expansion into new product lines or geographies is also prompting many companies to think about M&A opportunities.

“We are shifting our attention towards M&A activity to bolster our position in the market,” says the CEO of an Irish healthcare and life sciences business. “However, there will be no change in the fact that alliances will be given a higher preference over M&A.”

What have been the most important ways that M&A and alliances with other companies have contributed to your growth over the past three years? And what will the most important objectives of your M&A and alliances with other companies be over the next three years?



Factor 1: Strength through collaboration

Weigh up your options

In many cases, fast-growing companies are considering a number of options before making a final decision about collaboration. For example, 83% of companies making an acquisition said they had also considered exploring some form of alliance with the target company instead. Even among companies opting for alliances, 48% had considered acquiring the business with which they ended up working. This rises to 60% for those companies based in the UK and Ireland, reflecting a more deal-driven culture.

There is no one-size-fits-all approach. Rather, fast-growing companies are forging the collaborative relationships that best suit their purposes as they focus on growth opportunities. The varied deal structures that they are adopting reflect the need to move quickly to gain market advantage while taking a commercial approach to risk.

As the CEO of a life sciences business in Germany points out, different types of deal suit different types of objective. "If we feel we can collaborate and develop something that has better profit and cost synergies, we will seek to negotiate an alliance," the executive says. "However, if we feel we have a more strategic interest in the target, we will pursue an acquisition."

Collaboration for innovation

Fast-growing companies see new partnerships as key to driving the innovation they require to scale up their businesses at pace. As shown in the figure on page 13, forming alliances with other companies has delivered greater innovation benefits for fast-growing companies than almost any other model.

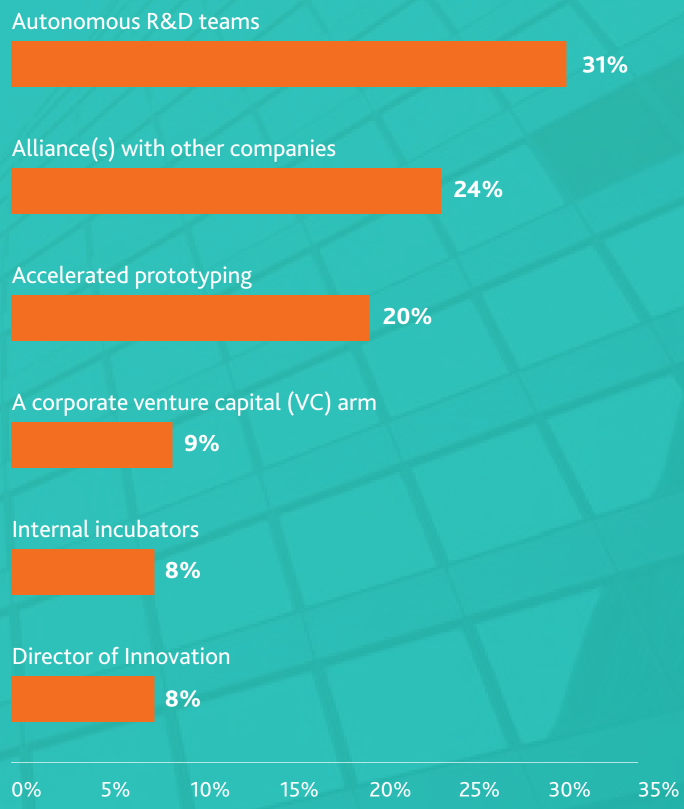
However, this is not to discount the importance of in-house, organic innovation effort. Indeed, 31% of respondents cite their autonomous R&D teams as the most important element of their efforts to foster innovation. As we shall see, collective endeavour

When your company last formed an alliance with another company, had you previously considered an acquisition of that company instead?

When your company last announced an acquisition, had you previously considered an alliance with the target company instead?

> If we feel we can collaborate and develop something that has better profit and cost synergies, we will seek to negotiate an alliance.
>
> **CEO of a life sciences business in Germany**

Which of the following models for fostering innovation has delivered the most benefit for your business?



and purpose are also crucial characteristics of fast-growing companies. The CEO of an AMT company in France puts it succinctly: "The business has been running successfully thanks to the R&D team. They are the lifeblood of the business."

Nevertheless, external collaborations give fast-growing businesses rapid access to skills, experience, technologies and processes that their own organisations do not yet have. In many sectors, this is crucial – 30% of energy businesses surveyed, for example, say alliances have delivered the greatest innovation benefit, while 27% of infrastructure companies say the same.

"There is a strategic advantage for both mature businesses and smaller businesses," says Pinsent Masons partner Dr. Thomas Peschke. "Many of the new technological developments or creative business models with the potential to be disruptive have been created by smaller companies, but in many cases such companies lack the financial power to fully exploit their potential. An alliance between a smaller high-growth business and a mature one can be a perfect fit in order to combine financial fire power and creativity."

> The business has been running successfully thanks to the R&D team. They are the lifeblood of the business.
>
> **CEO of an AMT company in France**

Factor 2: Innovation leads the way

Our exclusive survey shows that tech is driving growth and that those that do not innovate are at risk of being left far behind.

Our research finds a clear link between innovation and growth, with many of the fast-growing companies in this study emphasising their commitment to investment in innovation – both in new technology and other areas. That investment may take different forms, says Pinsent Masons' Dr. Thomas Peschke. "Straightforward M&A is not the only option," he says. "Often we're seeing development taking place in start-up or accelerator programmes, where investors can help start-ups develop these potentially disruptive technologies – and get access to them."

In fact, investment in technology and its subsequent use has been a top three driver of growth for 39% of respondents over the past three years (see figure on page 8). And for some sectors, the figure is much higher – 54% of financial services businesses surveyed, for example, take this view.

Moreover, the role of technology is set to be even more important: 58% believe this factor will be a top three growth driver over the next three years, the most important factor by some margin. Among financial services companies, the figure rises to 83%. As the Head of Finance at a financial services firm in Ireland says: "Growth was fostered by investing in technology that will bring us up to par with disruptive fintech companies."

Even businesses less inclined to have identified technology as a key growth driver to date expect this to change. While only 26% of energy companies in the research say technology has driven their growth over the past three years, more than twice as many (54%) expect it to do so in the next three years.

58%

predict investing in and utilising technology effectively will be among their top three drivers of growth over the next three years.

However, technology is not the only way in which respondents are innovating. For a third (32%) of the companies surveyed, innovative product or service development has been a top three growth driver in the last three years, while slightly more (34%) expect this to be the case in the three years to come. AMT businesses are especially focused on product innovation: 54% expect this to be a crucial factor in their growth in the next three years.

Tech is driving deals

Frequently, technology and intellectual property are crucial elements of M&A, with many fast-growing companies engaging in dealmaking in order to acquire new skills and capabilities. Some 42% of businesses that have done deals over the past three years say acquiring technology was one of the top two factors, while 49% see this as a driver for M&A in the years to come (see figure on page 11). Among financial services businesses, those numbers rise to 58% and 70% respectively.

In part, this explains why so many fast-growing companies expect to attribute an increasing proportion of their revenue growth to M&A over the years ahead. The technology and intellectual property they expect to acquire will help them secure higher sales and enhance cost efficiency. "Our M&A strategies for the next three years are going to revolve around the acquisition of IP and technologies that will enhance our current operations," says the CEO of an energy company in Spain. "We will seek opportunities to upgrade our current systems and use tech that will not only help us produce more energy but will also assist in cost maintenance."

This move towards buying in technological expertise has also given acquirers the opportunity to examine their existing systems. As Pinsent Masons' Andrew McMillan says: "It has long been a mantra among disruptors – particularly in fintech – that, in order to be successful, start-ups need only focus on one service that incumbent players offer, but provide it better than they do. Perhaps as a direct result of this, we're seeing businesses of all shapes and sizes increasingly willing to take a long, hard look at their existing technology and processes to see how they can improve their services. In short, this is technology as a disruptor, encouraging the use of technology as a facilitator."

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>
> **Andrew McMillan, Partner, Pinsent Masons**

Back office, front office and beyond

Fast-growing companies understand that the power of technology and innovation will deliver benefits in many areas of their organisations. Indeed, the businesses in this research are seeing a broad range of impacts from technology investment. While 37% say the greatest impact has been on product and service development, almost as many (35%) cite the customer experience, with a further 28% having seen operational benefits.

The Head of Finance at a UK bank says the key is to focus on what the technology can achieve, rather than on the technology itself. "Over the last three years, investing in technology has helped bring us up to par with disruptive fintech companies," the executive says. "Now that we have achieved that, for the next three years we need to continue improving on these technologies, entering new markets and working on cost structures that will help us enhance the revenue we generate from them."

Looking ahead, the focus of many fast-growing companies is set to shift. While 32% surveyed say their priority with technology investment over the past three years has been to understand and enhance the customer experience, this will rise to 45% over the next three years (see figure on page 16). Other types of technology investment, meanwhile, are set to slip down the pecking order.

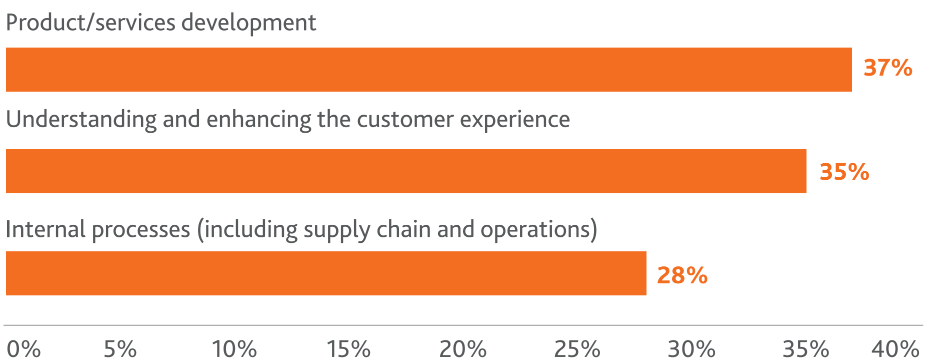
This is not to downplay the potential of technology to deliver gains throughout organisations. Nevertheless, the customer-centricity of fast-growing companies is an important element of their competitive edge. This is particularly prevalent in the financial services arena – as the CEO of a French financial services firm says: "Customer experience and related financial behaviours are really important for a business like ours. Technology has helped us understand this by statistically analysing data and then allowing us to focus on products and services that customers really want."

Head in the clouds

Cloud computing is out in the lead among the technologies being prioritised for investment over the next three years, with 42% picking this out (see figure on page 17). For fast-growing companies, cloud structures offer crucial benefits, enabling them to scale and flex quickly and efficiently, overcoming the IT limitations that can represent a brake on growth.

Data management capacity is also a crucial benefit of cloud infrastructure, explains the CEO of a German energy business. "Cloud will be a great tool for us as we deal with additional data traffic," the CEO says. "Cloud computing provides an efficient way of managing and controlling the wealth of business data that we are now creating."

In which of the following areas has new technology had the greatest impact over the past three years in your market?



Factor 2: Innovation leads the way

Automation, cited by 40% of respondents, represents an opportunity to drive efficiency and productivity throughout the organisation, enabling fast-growing companies' workforces to step back from manual processes and concentrate on value-additive tasks. "The benefits of automation will definitely outweigh the costs," says the Chief Operating Officer of a UK infrastructure company. "We are looking for functional improvements in all areas through automation with a focus on cost reduction, efficiency, better space utilisation and a significant reduction in downtime."

Elsewhere, big data analytics (32%) offers a wide range of potential benefits, from improving internal effectiveness to driving new business opportunities and identifying new customers (see figure opposite, page 17). Mobility and the Internet of Things tools are also of interest to many fast-growing companies, with 26% citing both technologies.

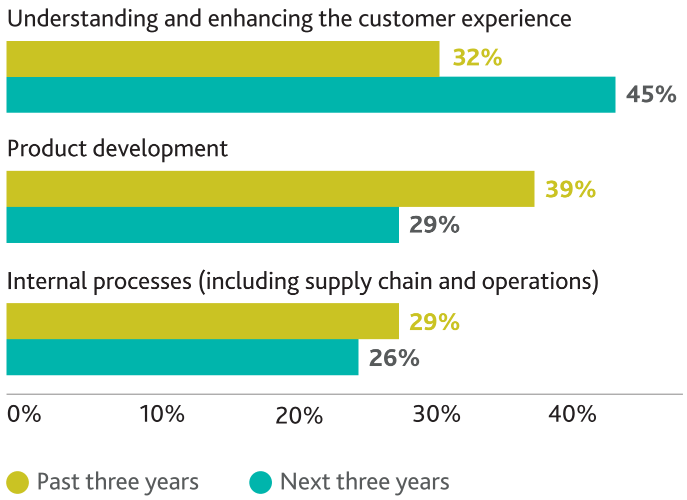
Some sectors have a different lens on technology. For example, 55% of energy businesses say they are prioritising cloud computing, while 49% of AMT companies are focused on automation (the number one answer among these respondents). However, only 13% of all the fast-growing companies surveyed picked out cybersecurity as a priority. While clearly respondents are focused on the growth potential of technology implementation, it is surprising that investment in cybersecurity appeared a low priority given that cybersecurity is seen as a growing challenge by fast-growing companies (see page 26). However, given the likelihood that cybersecurity will climb up the corporate agenda in the next few years, the level of investment is likely to increase in the future.

Tech risk

It is also worth noting that fast-growing companies see technological change as a potential threat as well as an opportunity. Indeed, 25% of respondents pick this out as one of the top two risks posing a threat to their continued growth.

This sense of realism is important. New technologies offer competitors, including new entrants to an industry, a means with which to disrupt the growth of incumbents. Moreover, the pace of change means this disruption may occur very quickly. Fast-growing businesses that are complacent about this threat, or make the wrong decisions on emerging technologies, may see their growth rapidly disappear.

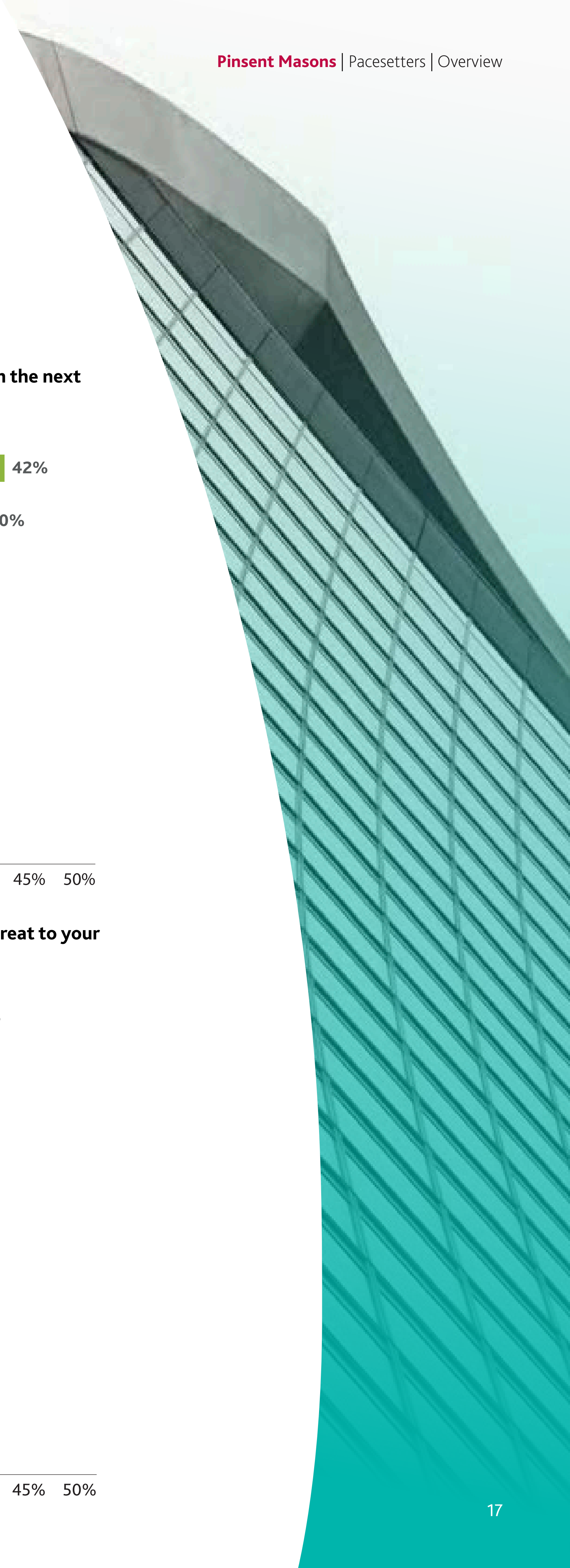
Over the past three years, in which of the following areas have you prioritised investment in technology? How will you prioritise investment over the next three years?



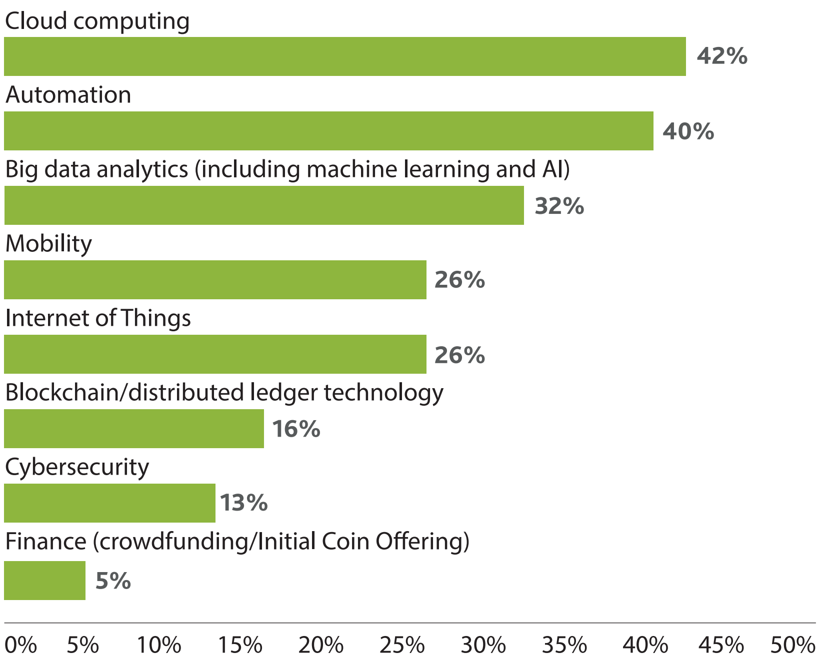
Another potential problem, says Pinsent Masons' Dr. Thomas Peschke, is that fast-growing companies lacking governance controls find themselves in trouble. "These businesses are well prepared to deal with changing business models and new technologies," he says. "But they may not be so well prepared for compliance requirements and regulation – that can become a major issue."

For more on the risks faced by fast-growing companies, please turn to *Chapter 2: Barriers to growth*, page 22.

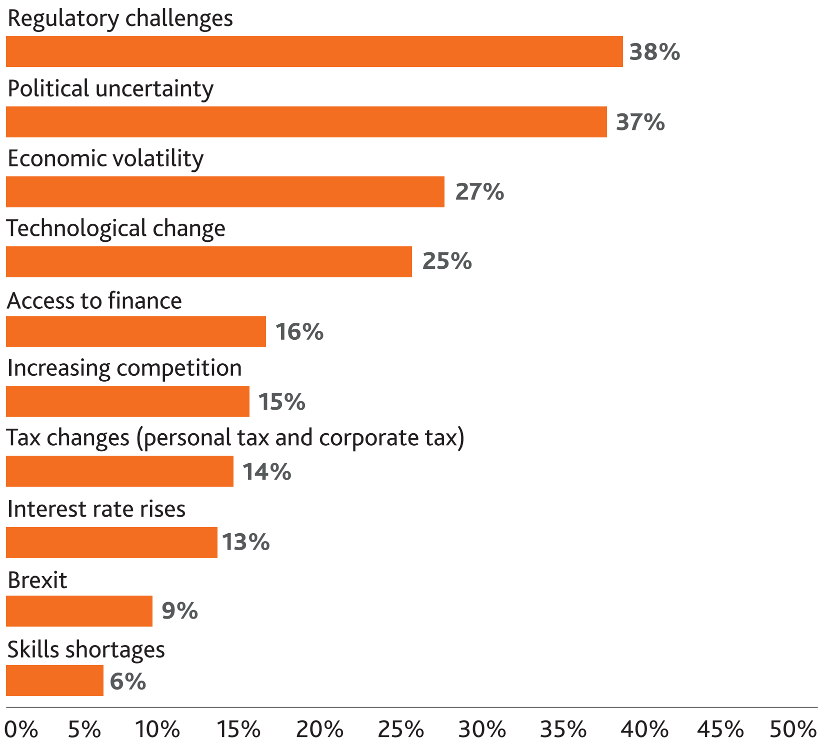
> Another potential problem is that fast-growing companies lacking governance controls find themselves in trouble.
>
> **Dr. Thomas Peschke, Partner, Pinsent Masons**



Which technologies are you prioritising for investment in the next three years?



Which of the following risks do you see as the biggest threat to your growth?



Factor 3: A sense of purpose

Our survey reveals that fast-growing companies are confident in their ability to achieve outstanding revenue growth, drive their strategy and continue to grow and, in part, this is because they possess a collective spirit and are purpose-led.

Our research concludes that there is a third factor – or, more precisely, a collection of behavioural factors – that set fast-growing companies apart from the herd. The firms in our study are confident about their prospects, focused on collective endeavour rather than hierarchy, operate from a stable base, and are purpose-led.

This confidence is evidenced by the growth expectations of many fast-growing companies. The typical company in this research anticipates growth in excess of 50% in each of the next three years, which would represent a remarkable achievement.

Many businesses, moreover, are optimistic that their growth rates are set to accelerate. While 39% of respondents look forward to growing more quickly over the next three years, just 17% anticipate slower growth. Financial services and infrastructure businesses are most optimistic about their growth prospects, with 42% of each of these groups expecting to see an acceleration.

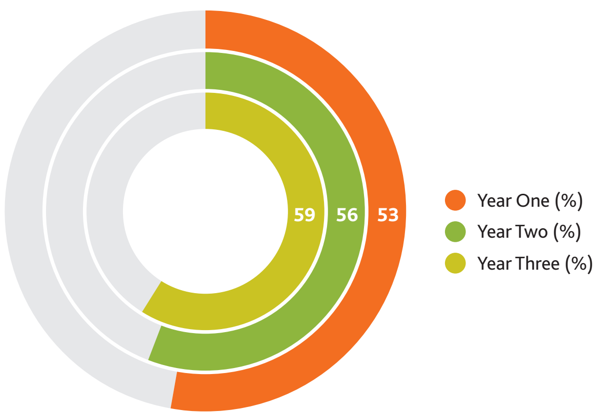
The reasons that respondents cite for these optimistic growth rates depend very much on the sector and the business itself. For some, the rationale is 'increased product demand' or 'expansion outside their own geography'; for others, it is 'M&A' or 'innovative products'.

However, a common thread that runs through many of the answers is the disruptive power of technology. "Our business model is well appreciated in the countries where we operate," says the CFO of a European insurance firm. "It was a transformative technology that eliminates risk between buyers and sellers in online transactions and we are continuously improving on this technology, which will guarantee better and faster growth."

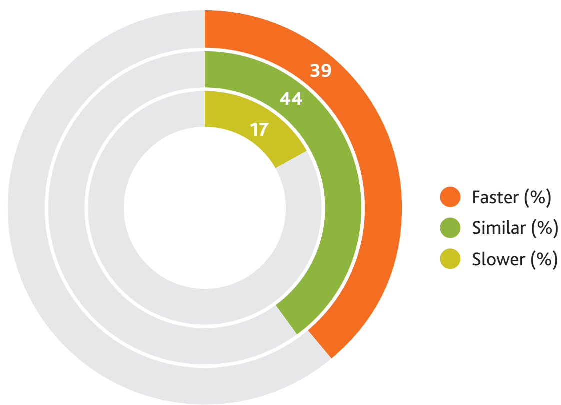
Stable ownership

It is important that this confidence is built on solid foundations. Notably, only 6% of the fast-growing companies surveyed have experienced a change of ownership over the past three years. This is surprising when one considers the huge efforts made by private equity houses and investment banks to find suitable targets.

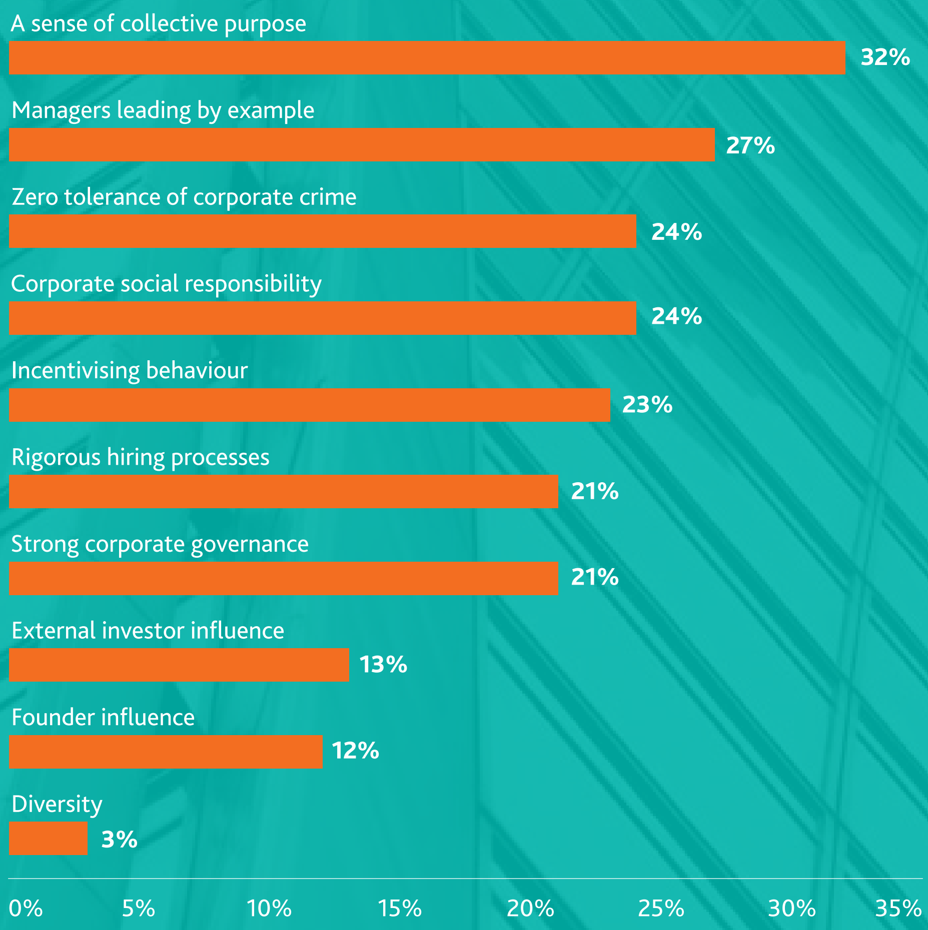
What are your company's target rates of average annual revenue growth in the next three years, including acquisitions (mean shown)?



How does this compare to the previous three years?



Which of the following would you say are most important to your company's corporate culture?



One consequence of this ownership stability at the top is that many businesses have been able to develop distinctive cultures and behaviours, often building a sense of inclusivity and collective purpose that can help to drive the business forward.

For example, 32% of these fast-growing companies believe that a sense of collective purpose is one of the two most important elements of their corporate culture. Similarly, 27% of respondents point to the importance of having managers who lead by example. The sense here is of businesses working as a team with shared goals, rather than at the behest of a leadership that is remote and unconnected from the broader workforce.

Indeed, only 5% of respondents say an inspirational leader will be an important factor in driving growth over the next three years, while only 12% say the founder's influence is one of the most important elements in their corporate culture. "This may well be

down to differences between European and US businesses," says Pinsent Masons partner John Tyerman. "The public has an image of fast-growing US companies such as Facebook and Amazon, which are headed by very hands-on figureheads. Indeed, fast-growing companies would not be expected to have the luxury of collective decision-making agility and speed of response, but our survey of European businesses says just that."

Whether or not these fast-growing companies are young enterprises or well-established, they take a mature approach, focusing on collective endeavour rather than fostering a cult of personality.

This requires everyone in the organisation to take responsibility for its growth and success. For example, only 8% of fast-growing companies believe that having a Director of Innovation is among the most beneficial models for encouraging the organisation to be more innovative.

For the Chief Technology Officer of a French AMT firm, such ideas are at the very core of the business's success and must be sustained over time, even as firms develop in different ways. "Our corporate culture is driven by dedication," the executive explains. "All the employees have shown dedication to our core values: even when we were acquired by a private equity firm, the desire to perform was not compromised and this dedication led to the organisation achieving even better results."

The purpose-led approach

"Today's businesses need to be able to articulate their purpose if they are to be successful and sustainable over the long term," argues Pinsent Masons partner Tom Leman. "The idea is that you have the confidence to tell everyone – your customers, your employers, your suppliers and the person in the street – what you stand for."

It is notable that more than three-quarters (76%) of the fast-growth businesses in this survey believe they are purpose-led. Among the infrastructure companies in the research, this rises to 87%. Moreover, some 80% believe this is an important driver of their company's growth.

But how exactly can one define a purpose-led business?

In years gone by, profit defined the decision-making processes of most corporates. And, to some extent, it still does. However, in the era of social media, the internet and millennials, the most successful companies understand that the power to make or break your business has shifted from the old guard of the board and shareholders to the customers, employees and the world at large. Those that understand this paradigm shift will be more profitable on a long-term and sustainable basis.

People now demand that corporates stand for something beyond mere profit – a purpose. A truly purpose-led business can attract and retain the best people; it can create a loyal and resilient customer base; and the world at large will become brand promoters.

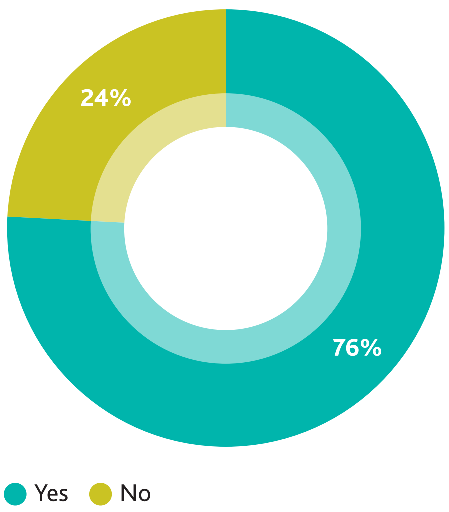
If companies are not purpose-led, then people will assume that their only purpose is profit. This risks consumers being cynical about the brand, companies not being able to hire the best people, and employees not being engaged.

However, saying that your business is purpose-led is not enough – it is what you do, rather than what you say, that counts.

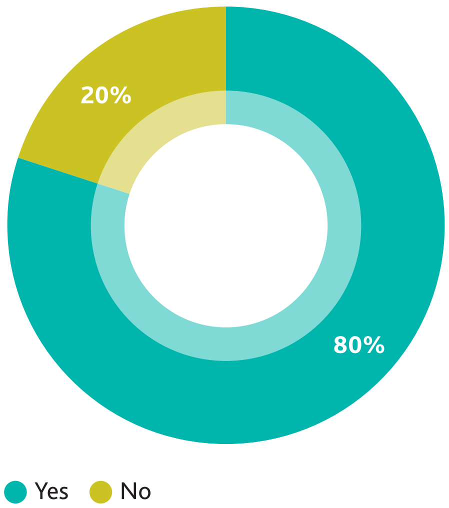
If a business can succeed in becoming truly purpose-led, the benefits are exponential. Hierarchy is reduced and individuals within the business know what they have to do in order to help take the business to the next level.

The CEO of a French healthcare company articulates the importance of a purpose-led approach: "Being purpose-led has made us more engaged with our clients and customers and helped us galvanise our relationship with them; they are our ultimate source of success and these relationships have brought long-lasting, positive change to our business."

Are you a 'purpose-led' business?



Is being a purpose-led business an important driver of your company's growth?



Chapter 2:
Barriers to growth

Barriers to growth

The biggest risk factors threatening growth are political instability and over-regulation. Plus we discover how fast-growing companies feel about Brexit – and it is not good news for the UK.

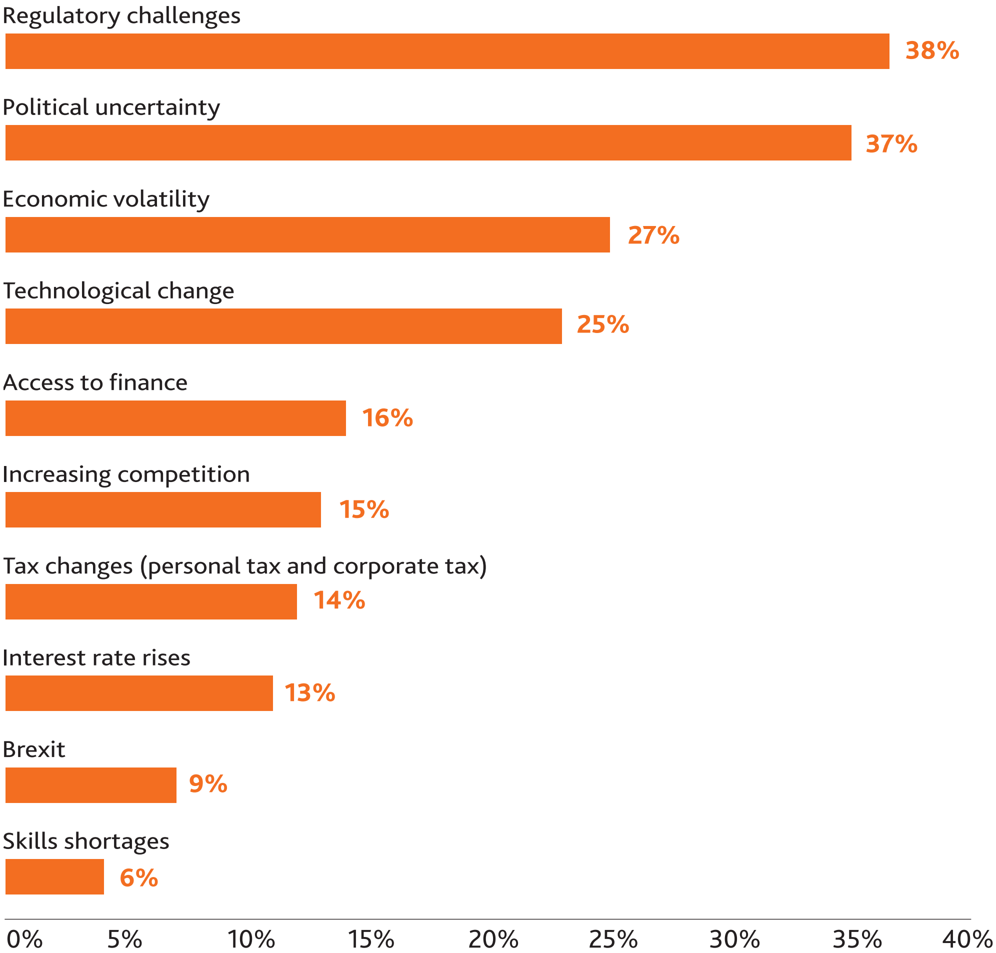
Fast-growing businesses recognise that the battle to retain competitive edge is a constant – and that they must be vigilant about the risks that could derail their progress. Those risks vary in nature – some are established while others are emerging, some are internal while others are external – but each one could potentially derail fast-growing businesses.

According to our research, two risks stand out for fast-growing companies, with 38% picking out regulatory challenges as one of their top two biggest worries and 37% citing political uncertainty.

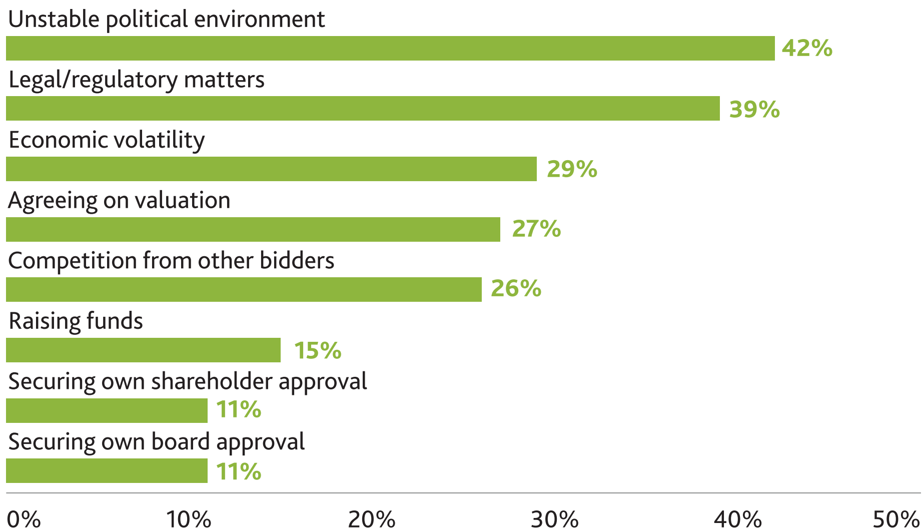
Businesses in different sectors will be affected in different ways by these issues. For example, the financial services industry is still facing regulatory upheaval more than ten years after the financial crisis. Energy businesses face a growing slew of environmental legislation. Meanwhile, data protection laws, including the EU's General Data Protection Regulation (GDPR), are becoming even more stringent as data itself becomes an even more valuable commodity.

On political uncertainty, meanwhile, the spectre of Brexit looms large, both for British businesses and their European counterparts. But other factors are significant too: the rise of nationalism and populism; potential trade wars after the imposition of a variety of cross-border tariffs by President Trump and retaliation from allies and opponents; and the demands in many countries for businesses to shoulder a greater share of the tax burden.

Which of the following risks do you see as the biggest threat to your growth?



What have been the most important strategic barriers to M&A activity over the past three years?



Risks threaten common behaviours

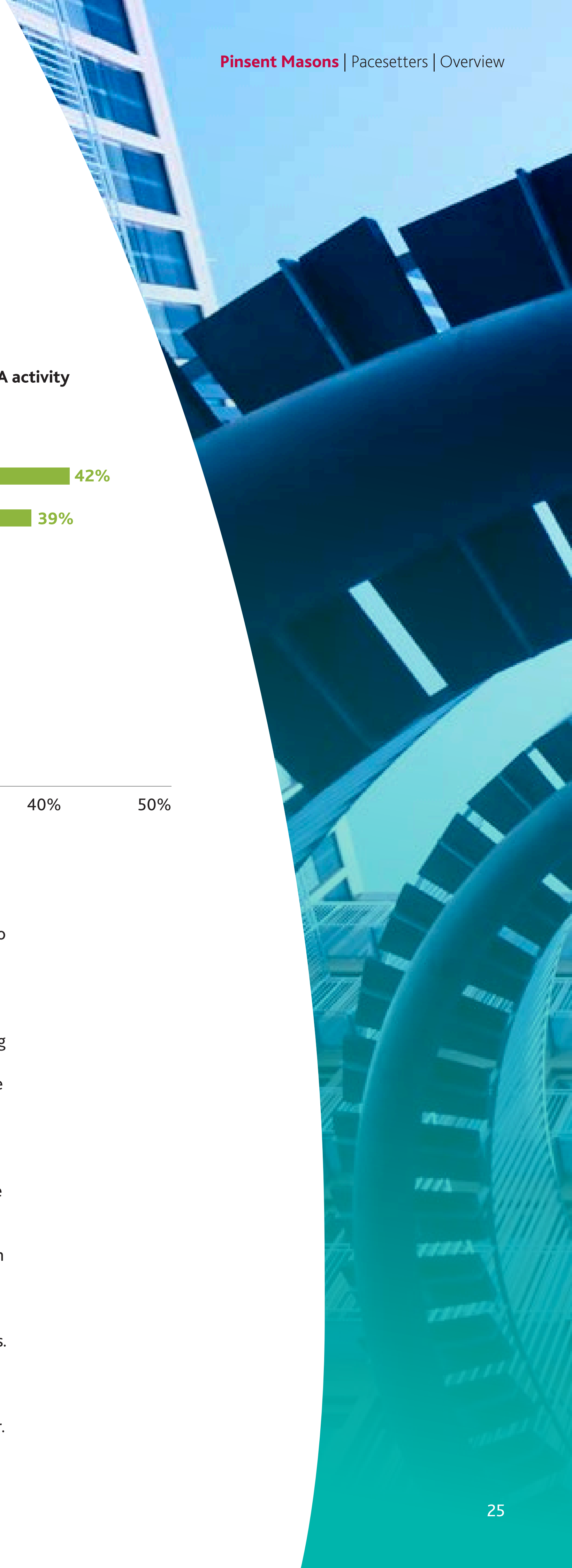
Many of these challenges are seen by fast-growing businesses as inhibiting their ability to pursue the behaviours identified as common to fast-growing companies. In an uncertain environment, it is harder to make long-term strategic decisions about collaboration, for example, or to make significant investments in innovation or technology.

These concerns loom particularly large for businesses that have been considering M&A over the past three years. Some 42% of fast-growing companies say the unstable political environment has been a barrier to such activity. Notably, 56% of infrastructure businesses – which are often focused on especially long-term objectives – say the same.

"We have witnessed economic volatility across Europe in the past five years," says the Group Director of a UK digital communications business. "With this level of volatility, we need to be vigilant about the acquisitions we make, as a wrong move could cost the company."

Equally, 39% of respondents say legal and regulatory issues have been a barrier to M&A. Here, it is energy firms that are most concerned, with 44% citing this risk. The highly regulated nature of Europe's energy industry is clearly a difficulty in this regard. Indeed, each individual sector has this issue as the top or second top barrier to deals.

"The regulatory frameworks of some of our targeted countries are tough to handle and we need longer timeframes to complete deals," adds the Director of Operations at a Spanish manufacturer.



Barriers to growth

Pinsent Masons partner Martin Webster feels that regulation is a matter of balance. “Too little and there can be a risk to consumers and the public; too much and the entrepreneurial spirit, vital to business success, is stifled,” he says. “Getting that balance right is ever more difficult when the instant reaction of politicians and the media to every corporate failure is to call for more regulation. And the burden for business is further increased as Brexit and related pressures lead to greater fragmentation, with different jurisdictions pursuing their own regulatory agendas.”

The changing face of risk

The nature of legal/regulatory risk ebbs and flows over time. For example, 28% of fast-growing companies believe labour and employment regulation is set to be one of their two most challenging legal issues over the next three years, up from 15% in recent times. Energy sector businesses are especially concerned, with 42% now focused on this danger, up from 19% in the past three years.

Against this, environmental regulation is a constant. More than a third of respondents (36%) believe this will be one of their two most pressing legal issues in the next three years, a higher proportion than for any other concern. The energy (55%) and infrastructure (also 55%) sectors are particularly concerned, with their often carbon-intensive activities now an almost constant focus for policymakers and campaigners.

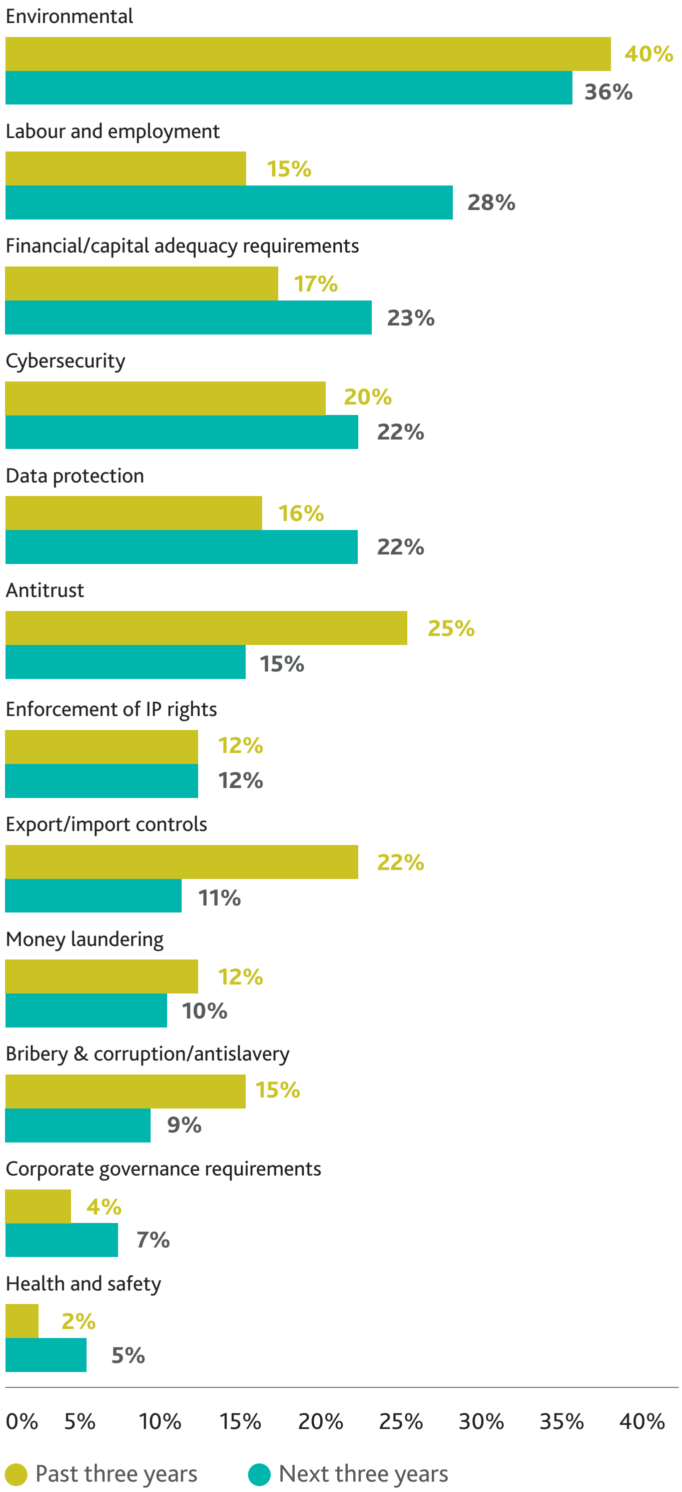
However, all sectors acknowledge the pressures. “We are a globally expanding business and have had difficulty establishing a policy around environmental regulations as we don’t know exactly what standards to adopt,” says the CEO of a Swedish life sciences business. “We are committed to environmental responsibility but a lack of clear information and regular changes in policies are affecting our business.”

Elsewhere, cybersecurity has been a pressing challenge for 20% of fast-growing companies over the past three years, and this is now set to rise to 22% as businesses look forward. Similar numbers (16% and 22%) cite data protection concerns.

As the issue of cybersecurity climbs the corporate agenda, these numbers are likely to rise in the future. Already, the World Economic Forum cites cyber as one of the key risks facing corporations today. The CEO of a UK-based AMT company says: “Over the past three years, we have been quite concerned about cybersecurity challenges. Cybersecurity is a dynamic that needs to be handled with care. It’s just fundamental that we need to safeguard the intellectual assets of the organisation.”

Some sectors are especially alert to the threat. Almost three-quarters (72%) of financial services companies warn that cyber will be a top two legal issue over the next three years.

Which legal/regulatory matters have you found most challenging over the past three years? Which regulatory burdens or challenges do you see as most likely to impact your firm’s growth over the next three years?



The impact of Brexit

The UK's pending departure from the EU is widely seen as a negative by the fast-growing companies in this research, with 72% warning Brexit is likely to have a negative impact on their growth; this rises to 82% amongst financial services firms. UK and Ireland-based businesses are even gloomier – 85% expect the exit from the EU to have a negative impact. Just 1% overall look forward to a positive impact.

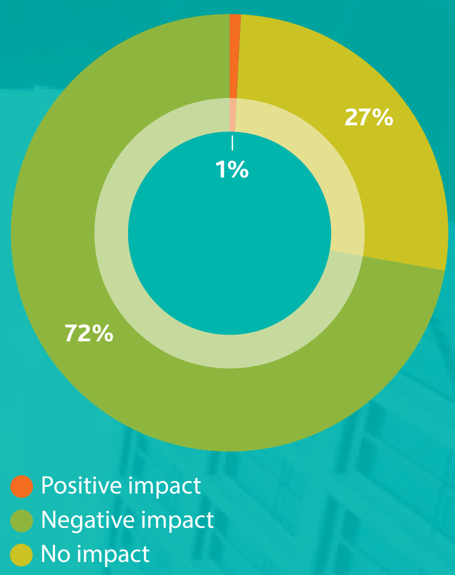
This is not just an issue for UK businesses. "Europe, which was our biggest market, is likely to shift its focus away from UK companies," warns the Head of Technology at a British insurance company, while the Chief Data Officer of a payments business in the Netherlands adds: "The UK moving away from the EU and the addition of trade barriers will increase the cost of managing clients in the UK, which will reduce profit."

Despite such fears, however, relatively few businesses have made significant progress with their planning for Brexit. Just 18% of respondents describe themselves as in an advanced state of planning, and this rises to 30% for those based in the UK and Ireland. A further 20% have not even begun preparations.

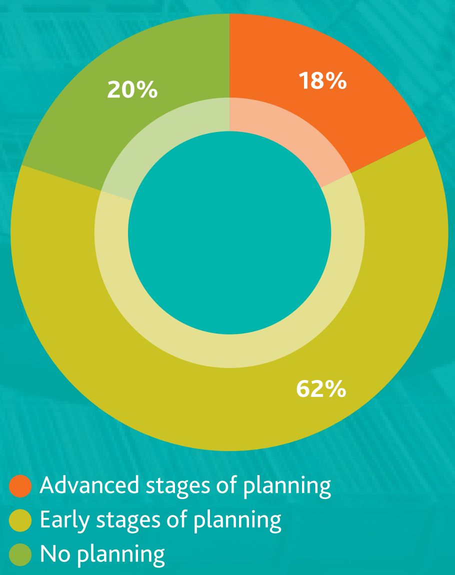
In part, this must reflect the continuing uncertainty over what the post-Brexit landscape will look like, with negotiations between the UK and the EU set to go down to the wire. In the infrastructure sector, which needs long-term certainty in order to plan and invest, 29% of respondents have made no plans at all.

"In the current climate, businesses making structural changes that are both expensive and difficult to implement or reverse need to ensure that they understand all the relevant risks," says Pinsent Masons partner and Brexit lead Guy Lougher. "We recommend that businesses enhance their risk assessments before undertaking major change. Being aware of the potential impact of Brexit on things like the movement of goods and services, employee retention, supply chain stability and data flows means that you're making these changes with your eyes open."

Do you expect Brexit to have an impact on your growth?



Have you put in place plans to deal with the impact of Brexit?



Chapter 3:
Financing fast growth

Financing fast growth

The majority of fast-growing companies in our survey see debt funding as their main source of financing – both now and over the next three years. Meanwhile, many are looking at PE/VC investment in the next three years. Plus the survey gauges respondents' views on the capital markets and the prospects for IPOs.

Fast-growth companies are built on a solid financial base and may need external funding to get them to the next stage in the scale-up process. Our research suggests many such businesses currently prefer debt to equity as they weigh up the different funding options. But many businesses are open to the idea of private equity or venture capital investment – and for some the public markets now represent a potentially attractive opportunity.

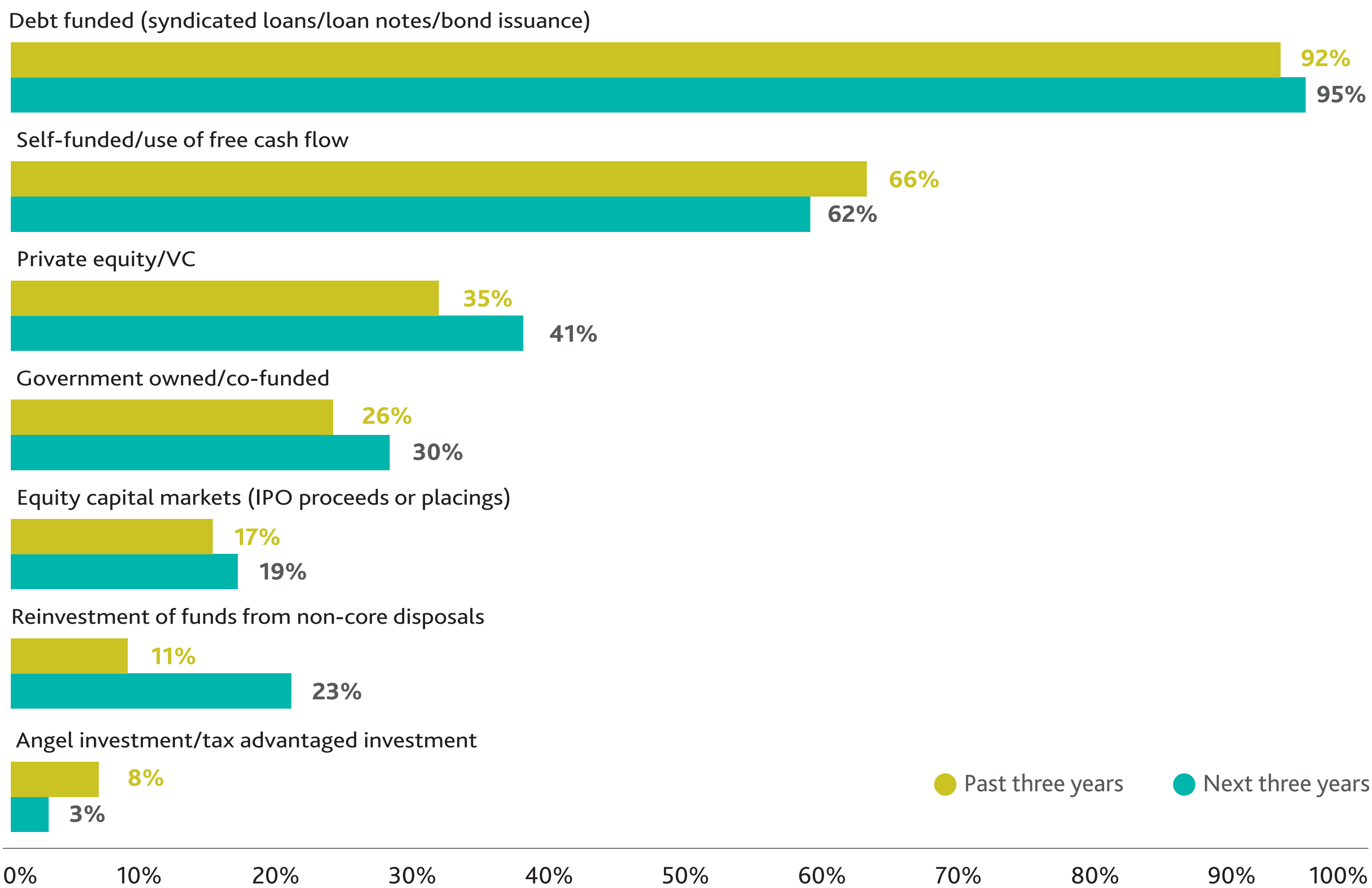
Overall, debt is some way ahead of equity as the funding route of choice for fast-growing companies, with 92% having funded their growth this way over the past three years and 95% expecting to borrow in the next three years. The number of businesses describing debt as their most important type of funding is roughly twice as high as the number selecting any other option.

One reason for that is simply that many businesses are not keen to dilute existing ownership structures, says Pinsent Masons' Edward Stead. "Founders and entrepreneurs are reluctant to cede potentially valuable equity to a third party," he says. "And right now, they don't need to – the debt market is fiercely competitive, with lenders vying for the best businesses in a borrowers' market."

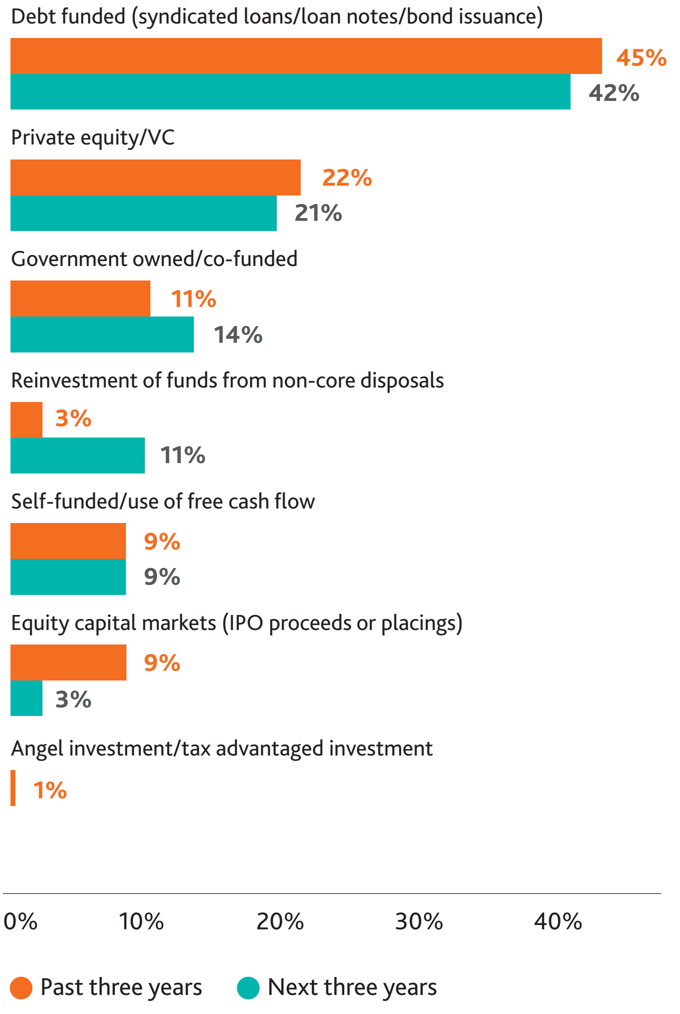
In addition, says the Head of Operations at a UK energy business, there may be other reasons to consider taking on debt. "This type of funding will give us certain advantages when it comes to taxation and stability in our financing," the executive explains.

Nevertheless, significant numbers of businesses are using equity funding to underpin their growth, looking for support from private equity and venture capital partners as they scale up. Some 41% of businesses expect to be at least partially funded via this route over the next three years; 21% anticipate private equity being their most important form of funding.

How have you funded your growth over the past three years? And how will you fund it over the next three?



What has been the most important way you have funded your growth over the past three years? And what will be the most important over the next three years?



> Founders and entrepreneurs are reluctant to feed potentially valuable equity to a third party.
>
> **Edward Stead, Head of Private Equity, Pinsent Masons**

Financing fast growth

PE progress

Moreover, among businesses yet to receive private equity or venture capital investment, appetite for such funding appears to be growing – 27% say they are are likely to accept such funding over the next three years, while just 2% have considered this type of investment in the past three years. This increased confidence in private equity funding appears to be supported by investors – data from Invest Europe reveals 2016 and 2017 were the two strongest years for private equity fundraising in Europe since the financial crisis, with €174bn raised in total and the €73bn of invested capital second only to the €78bn invested in 2007.

In part, this may reflect the broader appeal of private equity and venture capital investment, which offers more than just funding. Growing businesses often need access to broader support, including business mentoring, introductions to networks and contacts, and governance assistance, which equity investors are well placed to provide. Some may offer formal arrangements such as placing non-executive directors on the board of the business funded, while others offer less structured support.

"Strategic support is a key benefit of equity funding," says Pinsent Masons' Edward Stead. "That kind of input is of massive value to a fast-growing firm that may not have people who have been through this experience before."

Still, some businesses are wary. "Investments from private equity provide capital more quickly than other market sources; they help distribute risk and provide additional support in strategic planning," says the CEO of a private equity-owned TMT business in Spain. "The disadvantage lies in the period for which PE firms stay invested – it is just too short for companies like ours."

However, universally limited hold periods may be something of a misconception. Pinsent Masons' 2018 Private Equity IPOs report found that there was no typical hold prior to an exit by initial public offering (IPO) on the UK markets. The longest hold period was over 12 years – although the average for 2017 was just under four years. For more from Pinsent Masons' IPO report, visit www.pinsentmasons.com

Going public

Indeed, for businesses focusing on equity investment, an IPO can respresent the next stage in the business's development.

However, among the fast-growing companies in this research, fewer than one in ten (7%) have considered an IPO over the past three years. Despite the advantages that a stock market listing can offer, including access to capital, higher profile and increased credibility with a broad range of stakeholders, many fast-growing businesses appear to be daunted by the prospect of an IPO. That is despite the existence of more junior markets in many countries, where exchanges have made efforts to ease the journey into public listing. In the UK, for example, the London Stock Exchange rules for listing on the Alternative Investment Market are less exacting than those of the Main Market.

> Investments from private equity provide capital more quickly than other market sources; they help distribute risk and provide additional support in strategic planning.
>
> **CEO of a private equity-owned TMT business in Spain**

Has your firm considered investment from PE or VC to expand growth in the last three years?

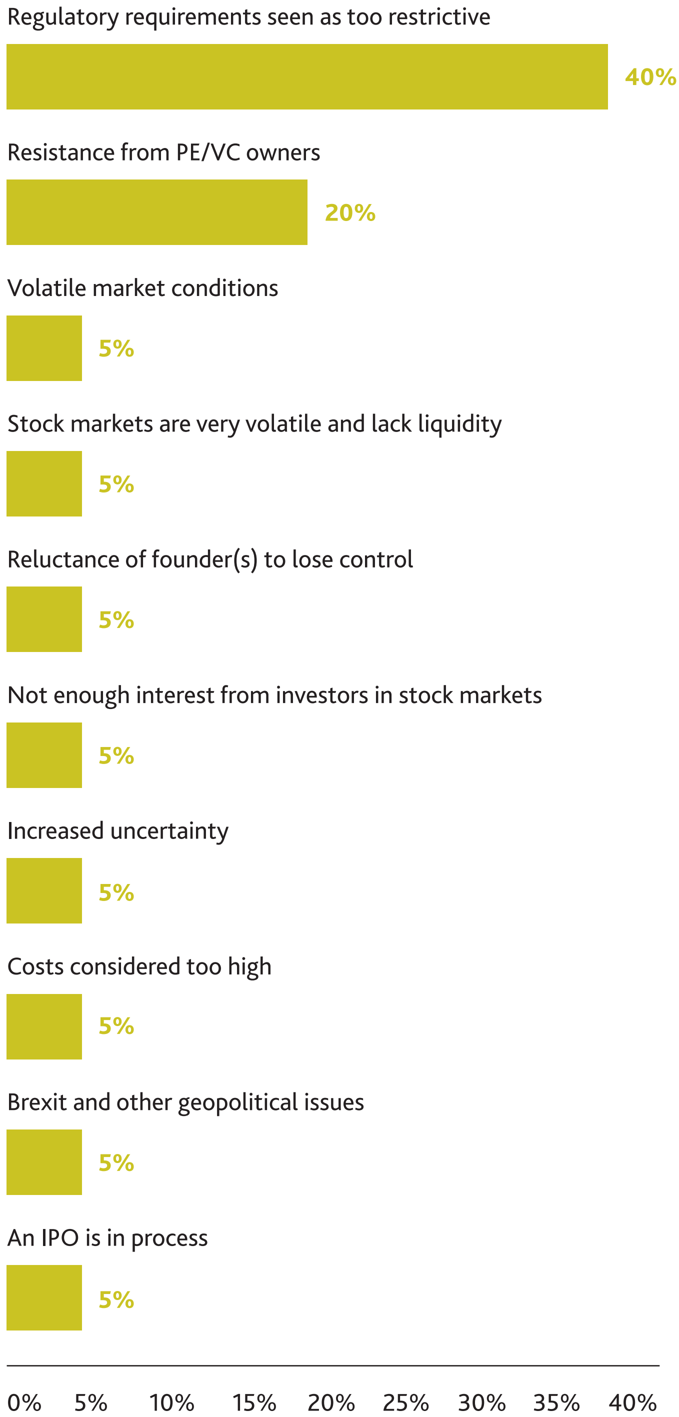
Is your firm likely to accept investment from PE or VC to expand growth in the next three years?

Has your firm considered an IPO over the past three years?*

Has your company gone public in the last five years?**

* Asked to privately-held companies only
** Asked to public companies only

What is the most important reason why this has not happened?



Financing fast growth

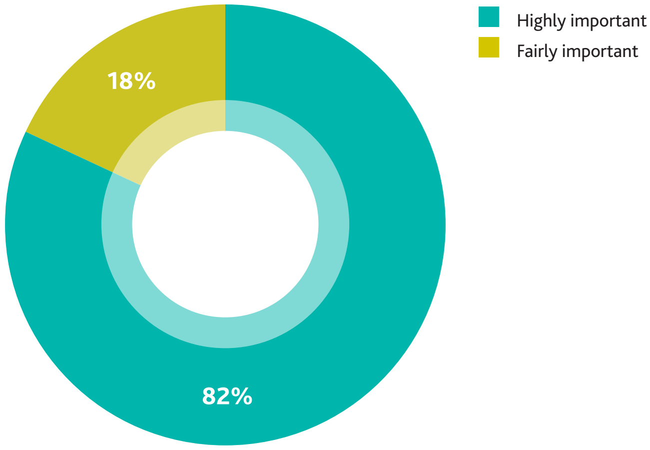
Still, for the majority of respondents, the regulatory restrictions on publicly-owned companies, which include increased reporting requirements and minimum standards of governance, are off-putting: some 90% say this is one reason they have chosen not to explore an IPO and for 40% it was the most significant factor. This may require further regulatory review. In the UK, for example, a market study by the Financial Conduct Authority warned: "A number of stakeholders raised concerns about the effectiveness of the UK's primary equity markets in providing growth capital, particularly for early-stage science and technology companies."

The other key IPO concern for fast-growth companies is the cost of going public, a worry for 60% of respondents.

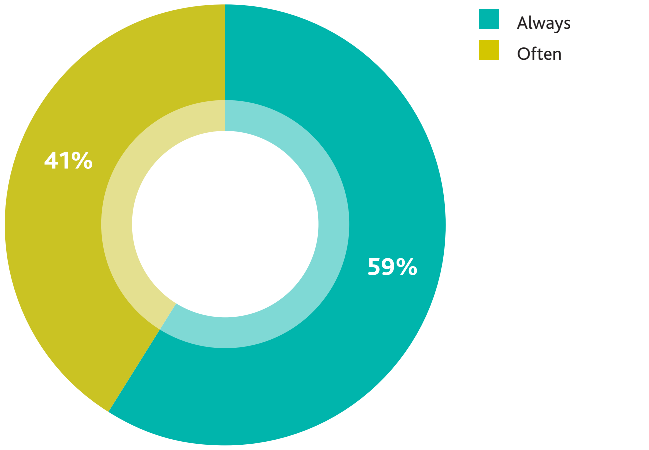
Many of these fears are understandable. But while a move to public ownership certainly brings new challenges – greater scrutiny, investor input and loss of control – the experience of those businesses that have made the leap is very positive. Notably, 82% of public companies say going public has been an important part of their growth story. More than half (59%) say they have had no problems meeting market expectations since their flotation. This tallies with research from Pinsent Masons' 2018 Private Equity IPO report, which states that: "Overall, private equity-backed IPOs raised £3.1 billion on listing comprising exit proceeds to private equity houses and management teams, and new money for the companies themselves to fund future growth. This is more than double the amount raised in private equity IPOs in 2016, and represents 40% of all new money raised in IPOs on the London markets in 2017."

Pinsent Masons partner Rosalie Chadwick says there are widespread misconceptions about the IPO process. "High-growth companies often feel as if it is too early for them to go the market because they need to achieve that transformational growth first," she says. "In fact, investors are looking to get in early to support that high growth and benefit from it, particularly on the junior markets." Chadwick also points out that considering an IPO does not tie firms into going ahead. "The process itself involves a useful health check and does not always end in an IPO – it may open up other avenues," she says. "Far from being a cul-de-sac, we often see companies being acquired for full value just before they go onto the market."

To what extent is your public market status important to your growth?



Has your company met market expectations for growth since going public?



> The IPO process itself involves a useful health check and does not always end in an IPO – it may open up other avenues. Far from being a cul-de-sac, we often see companies being acquired for full value just before they go onto the market.

Rosalie Chadwick, Head of Corporate Finance, Pinsent Masons

The investor vision

Our *Pacesetters* research offers a compelling vision of how Europe's fast-growing companies are outperforming their peers. We asked four investors in such businesses for their insights.

Garri Jones, Venture Broking Lead of Numis Securities

Ben Luckett, Managing Director of Aviva Ventures

Russ Mould, Investment Director of AJ Bell

Martin Wygas, Director of Hg

Our research suggests that three particular attributes characterise fast-growing companies in particular: their spirit of collaboration, their focus on technology and their sense of collective purpose. Have you seen those attributes in practice?

Garri Jones (GJ): This idea of collaborative and open working is something we see a great deal in start-up and scale-up companies. The only way to execute well and quickly amid pretty ferocious competition from incumbents is to be very open and collaborative in how these start-ups and scale-ups work together. And I think this has been accelerated by the ability to work in the cloud; that is changing the way people work.

Russ Mould (RM): Your technology and intellectual property are what, in the end, bring you pricing power. Most companies are going to be using technology in some way to serve their customers and this is what will bring them competitive advantage. But it's the third idea that strikes a chord with me: at organisations where everybody is pulling together and on the same side, and where everybody has bought into strategy and capital allocation decisions, you can feel the difference.

Martin Wygas (MW): Yes, the third characteristic is really important to me too. If the only reason you are there is to make money, then that may work for a short period, but it doesn't give you a long-term vision for the business or inspire your people. Whereas if you have a business with a strong sense of 'why', that's where you get the incredibly engaged and collaborative behaviours.

Ben Luckett (BL): I agree. It's really the first and the third attributes that stand out for me, because the ability to collaborate and that sense of purpose are really linked to being able to execute at pace – that's what fast growth requires.

What dangers do investors need to be wary of with fast-growing companies?

BL: The question I always look at is whether the business has the right balance of people to sustain its growth – do they have the right leadership team in place, bearing in mind that the founding team may not have the right capabilities to grow the business to the next stage, and can they recruit the best people?

RM: One thing we look for is good governance. You need a board that is able to hold management to account, you need a succession plan and you need integrity in the company. That may sound pious but it comes back to having a sense of purpose.

MW: I agree with that, but I think you also need to look at the market context – does the total addressable market provide room for growth, or is there one player in the market which is going to dominate, because it's tough to go up against that.

GJ: Yes – people think that as long as you have a great product and you can get that to market, the product will sell itself, but actually it's very difficult to beat an incumbent because they have so much power. People also think there is an unlimited supply of capital, but actually there is a real battle for funding.

What are the big risks facing fast-growing companies in Europe right now?

MW: There are obviously some big-picture macroeconomic dangers but one issue I'd pick out is how these businesses handle data. The winners in these markets are going to be the companies that use their data most effectively to drive sales and also efficiency within their businesses. Doing that in a way that is compliant with legislation such as GDPR is going to be a tough challenge. Then you have the related area of cyber.

> The only way to execute well and quickly amid pretty ferocious competition from incumbents is to be very open and collaborative in how these start-ups and scale-ups work together.

Garri Jones, Numis Securities

BL: Some of the risks are going to be sector-specific but one challenge we see is with raising later-stage growth capital. There's a great deal of tax support for early-stage investors, but that isn't necessarily the case later on and that means the appetite can sometimes be lessened.

GJ: There is also a real risk around talent: there is a shortage of people with the appropriate skills, and particularly of people who are prepared to take the appropriate risk. Some of these companies are not going to find it possible to recruit the people they need and that will be a brake on growth.

RM: For me, it's always the same dangers with fast-growing companies. If you're making very good returns on capital then eventually you will attract competitors who want a slice of the pie – or, if that doesn't happen, there's a good chance the regulator will come and stick their oar in.

What about Brexit?

GJ: Do I think the start-ups and scale-ups talk about Brexit a lot? No, or at least nowhere near as much as the incumbents. The one thing that could be a problem is funding, particularly for UK companies: you have to believe Brexit will reduce the flow of capital despite the best efforts of the UK Government and the British Business Bank.

BL: I do think it's becoming more challenging, though one quality of many fast-growing companies is that they are able to manage ambiguity. Still, I spoke to one fast-growing financial services company from Germany recently that had been poised to expand into the UK but their thinking had changed on the back of Brexit uncertainty.

MW: I've genuinely not seen anyone pull a technology investment because of Brexit. I think people do think it's ridiculous that there is no plan with so little time left, but they have to rise above the political stuff and focus on executing their own growth strategies.

The investor vision

RM: That's right but from a corporate perspective, Brexit does make life harder. You're looking at investment. You're looking at the availability of staff. You're looking at which rule book will apply. These are all legitimate issues that make planning more difficult – you could understand why companies would temporarily put any major capital project on hold, or draw up plans for locating staff elsewhere.

The majority of companies have funded their growth through debt and intend to continue to do so. Are you wary of companies taking on too much debt?

MW: Even in this market, where it's relatively easy to raise debt, it is about doing it with the right people and on the basis of a long-term relationship. For some businesses, this is their biggest risk – if there's never a downturn it won't matter, but at some point, the cycle will shift.

GJ: That's certainly true for some companies because leverage is always a problem when the cycle turns, but it's also the case that many businesses, particularly at a later stage, are getting much better terms on debt than, say, five years ago and it makes sense to exploit that.

RM: Agreed. Debt is not inherently bad but it needs to be appropriate for your business. I would certainly be reluctant, for example, to mix financial gearing with a business that is substantially operationally geared.

BL: We sometimes come across companies that are too leveraged, but we do support debt funding when it's the right thing to do for the business – for working capital and cash flow, for example. It needs to be a balance.

At what point does an IPO make sense? Our research suggests relatively few fast-growing companies have initiated IPOs in the past three years, but those that have gone public say it has boosted their growth.

MW: Many small businesses have the view that the barriers to going public are incredibly high and opaque. There's also a perception that once you're on the public markets, you will have to deliver quarter-on-quarter growth and that you can't invest or take risks in the way that you could. The question is going to be whether you can get that public market money from another source – a debt or equity investor – and I think you can in the current market.

RM: That's all true and there are certainly downsides to an IPO. On the upside, a public listing does give you an imprimatur: it helps you develop brand profile, reassuring customers that you're sound and trustworthy. In some cases, that may help convince companies that an IPO is a source of growth capital that provides good value.

BL: I guess it really depends on strategy and why you're looking to raise capital. I also think there's a certain level of maturity and stability needed before you go through that process. It's a time-consuming and tricky process which you don't go into lightly.

GJ: I think most businesses still see the IPO as a very satisfactory endpoint for the long term. However, whilst this might be their ultimate goal, there has been more capital available privately, which allows one to IPO a little later.

Even in this market, where it's relatively easy to raise debt, it is about doing it with the right people and on the basis of a long-term relationship.

Martin Wygas, Hg

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Pinsent Masons

Pinsent Masons is a leading international law firm, specialising particularly in the energy, infrastructure, financial services, advanced manufacturing and technology and real estate sectors. Our clients instruct us because we are not afraid to do things differently. That's just one of the reasons why we were recently named one of the **Most Innovative Law Firms in Europe** by the *Financial Times* and the **Law Firm of the Year** at *The Lawyer Awards 2018*. With over 1,500 lawyers operating from 24 locations throughout the UK, Europe, Asia Pacific, the Middle East and Africa, we are well-placed to advise on complex multi-jurisdictional matters across a full range of legal disciplines.

Our award-winning international Corporate practice goes from strength to strength, with a sector-focused reputation for helping companies in their growth agenda globally through strategic acquisitions including overseas expansion. We have been recognised as the **M&A Team of the Year** (*Legal Week: British Legal Awards 2017*) and we are ranked as the **No. 2 law firm by total number of Stock Market clients*** (*Adviser Rankings 2018*).

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