Exits in the UK

IPOs and Acquisitions 2013-H1 2023

Beauhurst

CHARLES STANLEY

Contents

Foreword

Ian Sackfield
Managing Director of Investment Management Services at Charles Stanley

344
exits in H1 2023

406
exits in H2 2022

-15.3%
change in exit activity H1 2022 to H1 2023

It is a tougher time for those looking to exit the entrepreneurial stage in the UK. While the previous years witnessed a spike in exit activity due to economic stimulus measures and an increased appetite for risk among trade and financial buyers, there has been a significant drop off from those highs. Increasing interest rates and the cost of living crisis have contributed to an environment where founders and owners must tread more carefully with day-to-day operations but also with timing exits and handing over the reins.

However, this is a good time to plan, and as the saying goes, "No plan is planning to fail." Entrepreneurs, who are typically on point in many areas of their businesses, are startlingly lacking in exit and succession planning. Our survey of 500 entrepreneurs and business owners revealed that almost half of business owners (48%) have no exit strategy, and 37% lack a succession plan. This gap is surprising, especially considering that these are entrepreneurs and business owners who are accustomed to making plans against the backdrop of an uncertain future, particularly over the last few years.

The current environment offers an opportunity for entrepreneurs to rethink their strategies and make their exit plans and succession plans as robust as possible. Our research shows that 71% of entrepreneurs and business owners are confident that they will be able to engineer liquidity at their company in the most tax-efficient manner.

I can assure you that this is a difficult feat to achieve but worth pursuing because of the outsized impact it can have on outcomes. At Charles Stanley, we believe in seizing this opportunity and employing our expertise to guide business owners through the process. The future might be uncertain, but that does not mean it is unmanageable.

> **Entrepreneurs, who are typically on point in many areas of their businesses, are startlingly lacking in exit and succession planning.**

Founders have options, from acquisitions to other liquidity solutions. Since 2013, there have been 5,899 exits by high-growth companies. The last two and a half years have accounted for 38.9% of that activity. So the reduction in exit activity in 2023 does not signify a dead end; rather, it is an invitation to evaluate, strategise, and align liquidity choices with broader life goals. As detailed in this report, there are more options than ever before for entrepreneurs and owners looking to take some money off the table or diversify their holdings without completely exiting a business. It is a pragmatic move, and, by doing so, founders position themselves favourably, come what may.

Introduction

19.9k
active equity-backed non-exited companies

756k
active companies where >50% of directors are over 60 years old

Exits by high-growth UK companies benefit the individuals and organisations that make up the ecosystem. Early investors like venture capital firms or angel investors realise returns that drive enthusiasm and free capital for reinvestment. Exits also provide liquidity for founders and employees, who can become angel investors to back new entrepreneurs — creating a flywheel effect. Beyond the purely financial redistribution of resources, exits also free individuals to pursue new ventures, channelling their experience into fresh entrepreneurial pursuits. This year's Fortune Favours survey by Charles Stanley showed that 50% of business owners and entrepreneurs have started thinking about their next business opportunity.

> **Founders and leaders of high-growth companies continue to have options for successful exits that reinvigorate the UK's entrepreneurial ecosystem.**

Since 2013, there have been 5,899 exits by high-growth companies, of which a significant majority, 96.3%, were acquisitions, while a minority, 3.71%, took the route of initial public offering (IPOs). There are 19.9k high-growth companies that have taken equity investment, creating a significant pool of companies with investors that will eventually want to realise some of the value of their equity. Much recent activity in the exit market can be traced to the economic stimulus measures unleashed to blunt the impact of the COVID-19 pandemic. Low interest rates and quantitative easing fostered an increased risk appetite and provided affordable capital. As a result, exits for more established high-growth companies witnessed a more than twofold increase between 2020 and 2021. In 2022, even with the headwinds of inflation and rising interest rates, the exit market demonstrated resilience, driven by the pace of the previous year and the depressed value of the pound. Another factor at play is the ageing population of business owners. There are 756k active companies in the UK where 50% of the company's directors are over 60 years old. An increasing number of baby boomers handing over the reins will help keep the exit statistics reasonably buoyant. However, initial figures for H1 2023 suggest a reversion to patterns witnessed before the pandemic.

The trend in IPOs for high-growth firms shows that public markets were exceptionally active in 2021. This activity was influenced by economic stimulus measures and a "fear of missing out" mentality amidst the pandemic-driven tech boom, further intensified by a surge in retail trading. A remarkable 55 high-growth companies went public in 2021, posting a combined market capitalisation of £20.9b. However, 2022 and the first half of 2023 witnessed notably reduced IPO activity. This lack of companies choosing to list, coupled with a growing enthusiasm for foreign exchanges — 20.1% of high-growth IPOs since 2013 occurred abroad — has fed into debates regarding the attractiveness of the UK's domestic markets. Despite these concerns, founders and leaders of high-growth companies continue to have options for successful exits that reinvigorate the UK's entrepreneurial ecosystem.

Market overview

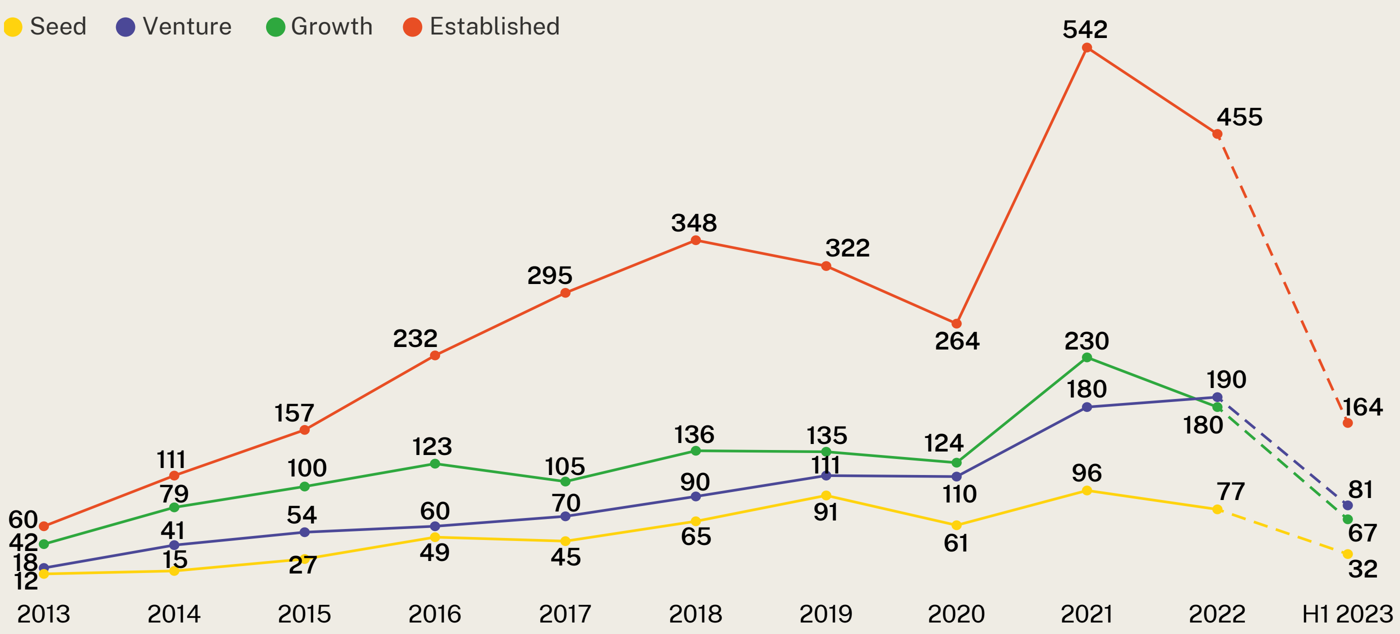
The market for equity in private UK companies was buoyed by affordable capital and increased risk appetite following stimulus measures introduced to combat the COVID-19 pandemic. Exits for established high-growth companies (those with turnover measured in the 10s of millions) more than doubled between 2020 and 2021. Exits by growth businesses (those with revenues measured in the millions) saw a similar trajectory. Part of the story is the depressed exit activity during 2020 as trade and financial buyers adjusted to the new reality of a locked-down world.

Although exits in 2022 fell a little short of the highs of 2021, the market for equity in private UK businesses was still strong despite inflation and rising interest rates. Deals in the first half will have been driven by the momentum of 2021. While in the second half, the depressed pound kept some opportunistic buyers on the front foot. The H1 2023 figures suggest a return to pre-pandemic norms, though against a challenging backdrop. The H2 2023 figures will tell the full story. In the Charles Stanley Fortune Favours survey, 27% of entrepreneurs indicated that rising interest rates had caused them to alter succession plans or their exit strategy.

Key figures (2013-H1 2023)

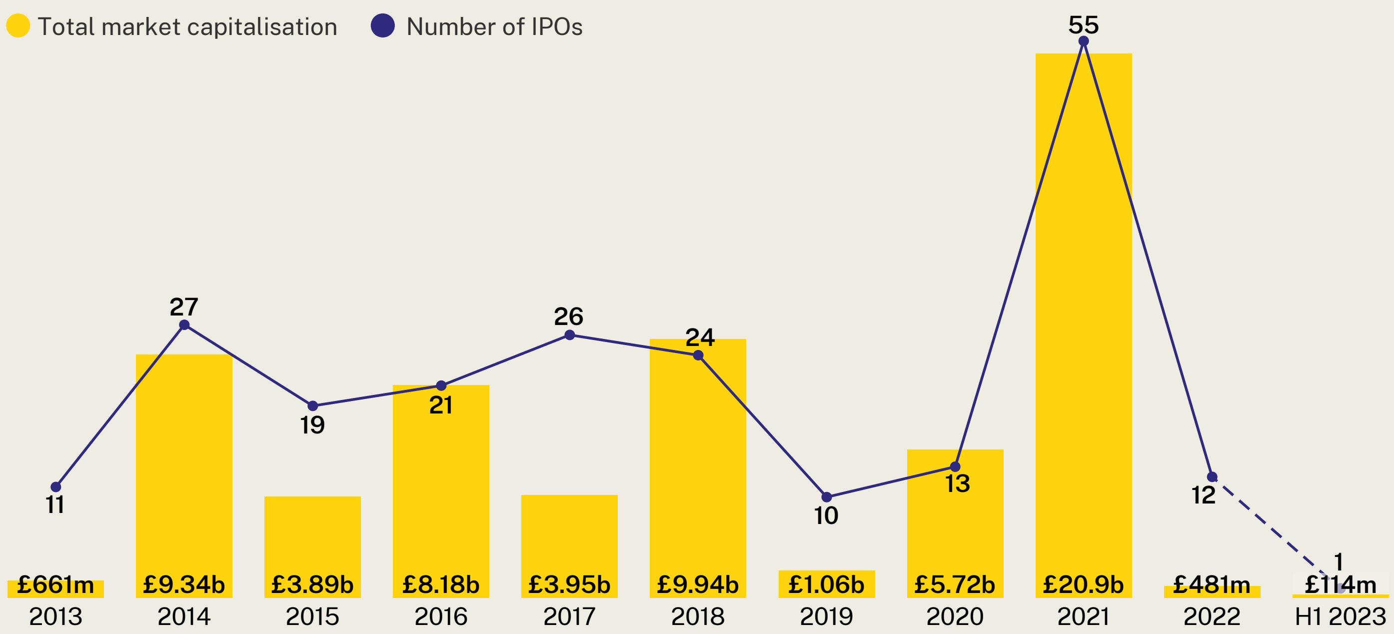
5,899 number of exits by high-growth companies	**3.71%** proportion of exits that were IPOs	**96.3%** proportion of exits that were acquisitions

Exits by UK high-growth companies by stage of evolution (2013-H1 2023)



IPO trends

Number and total value of IPOs completed by high-growth companies (2013-H1 2023)



Key figures (2013-H1 2023)

219
number of IPOs completed by high-growth companies

£64.2b
total value of IPOs completed by high-growth companies

£340m
average value of IPOs completed by high-growth companies

In 2021, the UK witnessed a significant surge in IPOs as 55 high-growth companies opted to float on the public markets for a total market capitalisation of £20.9b. This activity can be attributed to a confluence of multiple factors, including the COVID-19 pandemic-induced stimulus measures and the rise of retail traders, empowered by user-friendly trading platforms and increased time at home.

However, the narrative has since shifted in the subsequent years. As macroeconomic conditions have declined, 2022 and H1 2023 witnessed a substantial drop in IPO activity.

There has been just one IPO by a high-growth UK company in 2023 — renewable fuel supplier ReFuels listed on the Oslo Stock Exchange in May 2023.

Since 2013, 44 or 20.1% of high-growth companies that have undergone IPOs have been listed on foreign stock exchanges. This trend raises concerns for the UK markets, potentially leading to reduced capital inflows and signifying the declining appeal of domestic stock exchanges. To curb these outflows, the UK's Financial Conduct Authority proposed simplifying listing rules to attract more companies.

Exit and succession planning

A concerning lack of foresight emerges among UK business owners regarding exit and succession strategies, as unveiled by the recent Fortune Favours survey from Charles Stanley. The research, encompassing insights from over 500 entrepreneurs, shows that 48% of participants are without an exit strategy and 37% have no succession plan. Delving into the reasons, a noteworthy 24% deemed it premature for such plans, a viewpoint that contrasts the 41% of respondents aiming to relinquish their business roles within the upcoming 10 years. The reasons for this disconnect are multifaceted. For some, the novelty of their entrepreneurial journey (8%) or a belief in the redundancy of such plans (14% for exit and 10% for succession) dominate. Another significant chunk (21%) resists the idea of selling.

The last few years have posed plenty of challenges for entrepreneurs and business owners, however, the focus on the immediate term may have come at a cost to longer-term strategic planning around liquidity events. Despite a lack of planning, an impressive 71% of entrepreneurs and owners are confident that they can exit or hand over their business in the most tax-efficient way. For those without a plan in place, this may be an optimistic assessment given the complexities involved.

Biggest concerns around exit and succession planning (Charles Stanley, August 2023)

21%
seeing the business fail

20%
valuation downgraded due to current environment

18%
concerns about employee welfare

Reasons that entrepreneurs and business owners do not have exit and succession plans (Charles Stanley, August 2023)

Exit strategy		Succession plan
24%	It's too early to think about it yet	24%
21%	I don't want to sell my business	13%
14%	I don't think I need one	10%
10%	I'm not going to exit/hand over the business	10%
8%	I've only just taken over the business / started the business	8%
8%	I don't know what to do about the future / who to leave my business to	10%
5%	I don't want to pass my business to my children	7%
5%	I don't know what my plan/strategy might be	11%
4%	My children don't want to take over the business, so I don't know what to do	5%

Acquisition trends

Corporate buyers have emerged as increasingly prevalent acquirers of high-growth companies in the UK compared to financial institutions. Corporate buyers are established companies that are focused on acquiring assets that complement or enhance their existing operations, while financial buyers, such as private equity firms, are investment-oriented, usually seeking high returns rather than operational synergies. The prevalence of corporate buyers reflects strategic acquisitions by companies looking to expand their market presence, diversify offerings or gain an edge through the acquisition of innovative businesses.

The number of acquisitions peaked for both corporate and financial buyers in 2021, representing a similar increase for both buyer types from 2020. It is noteworthy that while these figures have decreased in the subsequent years, they are still on track to surpass pre-pandemic levels. It may be that companies facing challenges may be inclined to accept acquisition offers at more favourable valuations. Conditions may also be driving companies to seek strategic mergers or acquisitions for survival or to stimulate growth. In the Charles Stanley Fortune Favours survey, 42% of entrepreneurs indicated the cost of living crisis is a significant threat to their business in the next 12 months and 36% said the same of rising inflation.

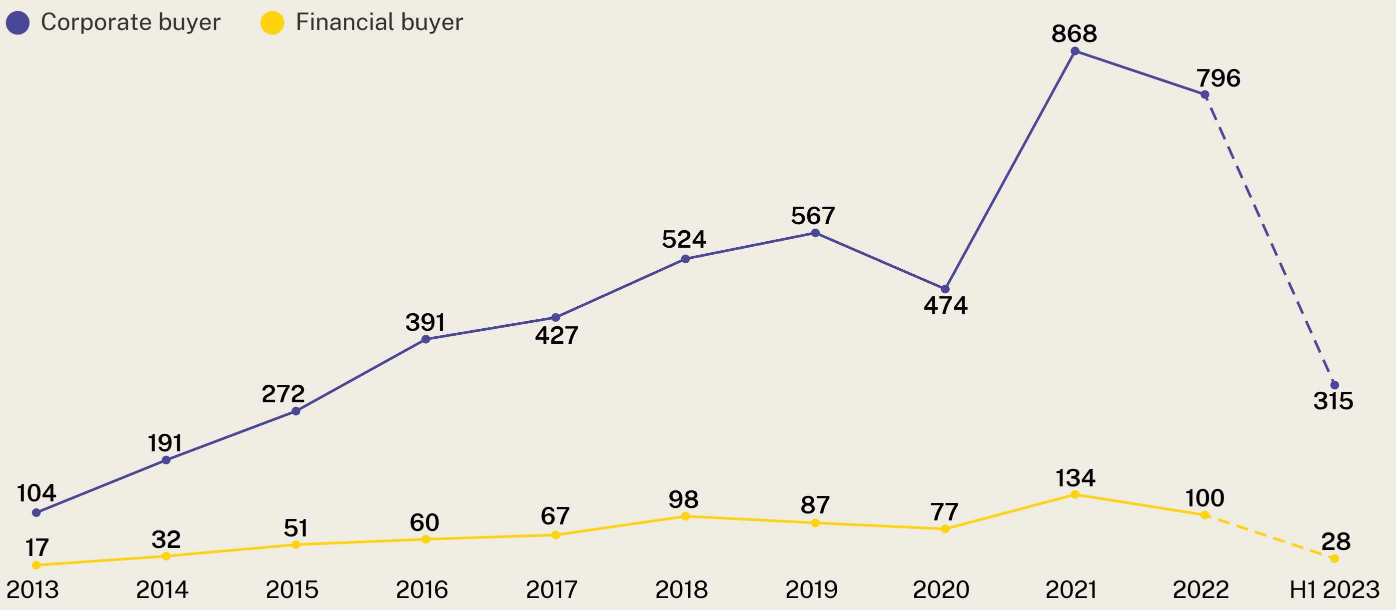
Key figures (2013-H1 2023)

4,929
number of acquisitions by corporate buyers

751
number of acquisitions by financial buyers

40.6%
proportion of acquisitions by foreign buyers

Number of acquisitions of high-growth companies by corporate and financial buyers (2013-H1 2023)

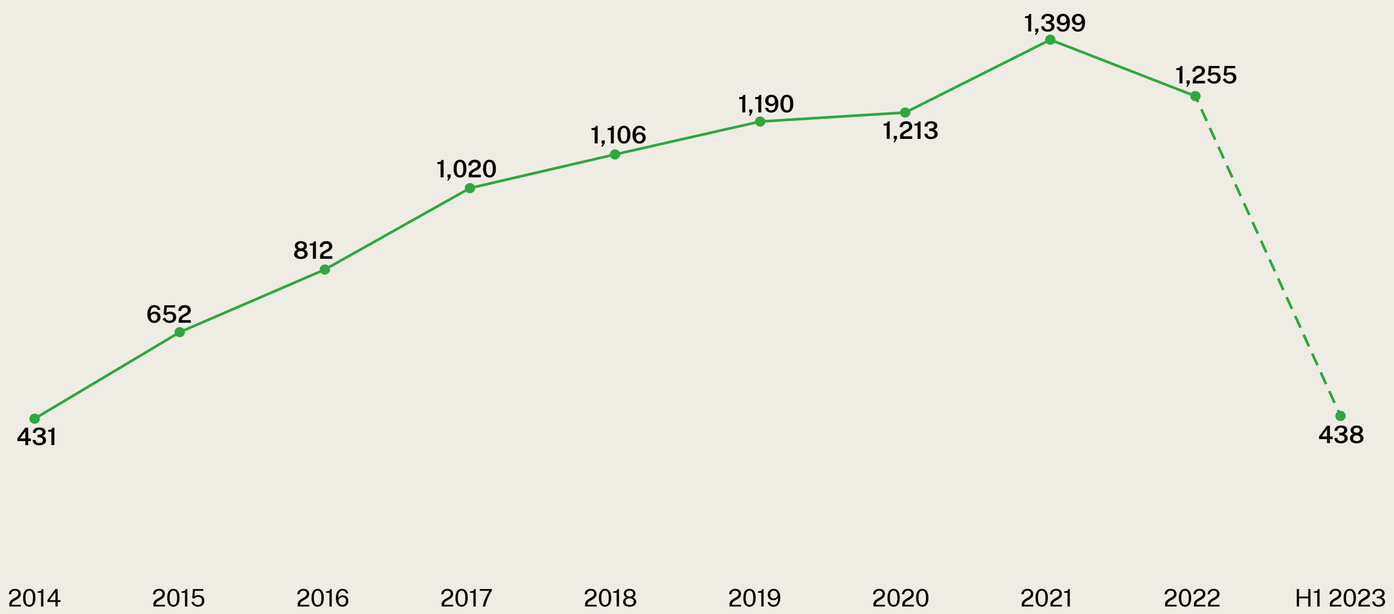


Secondary transaction trends

Key figures (2014-H1 2023)

6,663 companies that have completed founder secondaries	**9,723** number of founder secondaries by equity-backed companies	**291%** percentage increase in companies completing founder secondaries

Number of equity-backed companies completing founder secondary transactions (2014-H1 2023)



A secondary transaction is the sale of existing shares in a company by a current shareholder to a new party, without the issuance of new shares by the company. The funds go to the selling shareholder, allowing them to realise some of the value of their equity in the company. This analysis is focused on secondary transactions by founders who are shareholders.

The number of equity-backed companies engaging in founder secondary transactions has increased significantly, rising from 431 in 2014 to a peak of 1,399 in 2021. This growth partially reflects the growing number of equity-backed businesses in the UK and underscores the nation's maturing entrepreneurial ecosystem. In 2014, 3.45% of the active high-growth companies had some secondary activity, while 2021 saw a peak with 5.84% of companies completing a founder secondary.

These figures are derived from annual confirmation statements filed with Companies House, which provide a snapshot of a company's shareholder information. This results in an inherent time lag in this data and means these snapshots may not capture interim changes to shareholdings between filings.

New liquidity solutions

As the UK's high-growth ecosystem matures, founders and leaders are looking for new ways to achieve liquidity that do not necessarily involve a full exit. The impetus for this search hinges on a desire to reduce some of the risk associated with having so much of their net worth bound to the fortunes of a single company. Of course, investors want founders to be incentivised to grow the company by having skin in the game — in the form of a significant shareholding. However, many investors are also pragmatic about the need for founders to realise some of the value created by the company prior to a full exit (page 7 shows founder secondary transactions since 2014). A range of new models are emerging that allow founders to realise some liquidity, or at least diversification, without undergoing a full exit. Some companies offering solutions in this space are outlined on this page. The London Stock Exchange Group is also exploring alternative approaches to liquidity for private companies, announcing plans to launch a stock market for private companies as soon as 2024.

Asset Match

Asset Match operates a platform that facilitates buying and selling of shares in private UK companies. Since starting in 2011, the London company has raised £3.44m via 11 deals to allow investors, shareholders, and companies access to price discovery and liquidity via periodic share auctions. The company estimates that there is more than £300b worth of value locked up within the UK's private markets. To date, it has facilitated over £110m worth of trades via more than 650 transactions.

Kindred

London-based venture capital firm Kindred operates on an "equitable venture" model, where every entrepreneur it invests in becomes a co-owner of the fund. This approach helps create alignment between Kindred and the founders it backs. Regardless of a company's outcome, founders remain co-owners, creating a network where founders are incentivised to support their peers over the long term. The firm was founded in 2015 and is focused on investing in seed-stage companies.

Floww

Floww's data-driven platform supports companies, venture capital firms, and individual investors to effectively manage private market transactions. Since launching in 2016, Floww has raised £38.2m via six rounds, including a £10.0m round in March 2013 with the London Stock Exchange Group. In March 2023, the London-based company received authorisation from the Financial Conduct Authority for its FlowwMarkets offering, which aims to be a global private market investment platform.

Collective Equity

Launched in 2017, Collective Equity allows founders with large shareholdings in a single company to diversify their shareholdings and allows them the opportunity to benefit from liquidity events at other companies. Founders can contribute up to 10% of their shares into a fund managed by the London firm. This gives founders exposure to a VC-like portfolio of other high-growth companies and access to a network of founders incentivised by the success of each other's ventures.


Helping clients build secure financial futures since 1792
At Charles Stanley we recognise that a business is a life's work and we will act as careful stewards of the wealth you have built. Not just for you but for your families and those that follow.
To find out how we can support you, scan the QR code.
CHARLES STANLEY
Wealth Managers
Call 020 3918 3411
The value of investments can fall as well as rise. Investors may get back less than invested.
Charles Stanley & Co. Limited is authorised and regulated by the Financial Conduct Authority.

Conclusion

The exit data for high-growth UK companies highlights the transformative impact of economic stimulus measures taken at home and abroad during the COVID-19 pandemic. The spike in acquisitions and IPOs during 2021 reflected increased activity at all company stages, particularly for established and growth businesses. While 2022 witnessed reasonably high acquisition activity due to the combination of momentum from 2021 and a depressed pound, the data from the first half of 2023 suggests acquisition numbers returning to pre-pandemic levels.

> **The trend for founder secondary transactions also speaks to the maturing entrepreneurial ecosystem, signifying an increased desire by founders to gain liquidity without full exits.**

The fluctuating IPO trends reveal a more nuanced narrative. The surge in 2021 is again a testament to a temporary confluence of factors, including the pandemic-induced tech boom and the rise of retail trading. However, the significant drop since then, along with the rising inclination of high-growth companies to list abroad, is a cause for reflection. While the UK remains an attractive hub for entrepreneurs, this shift could imply the need for recalibration to offer more favourable listing conditions and enhance the appeal of domestic exchanges.

Emerging liquidity solutions, such as those offered by Asset Match, Floww, Kindred, and Collective Equity (see page 8), spotlight the adaptability and innovation within the UK's high-growth ecosystem. These alternatives offer new avenues for liquidity and hint at a deeper evolution in thinking around ownership and risk diversification. The trend for founder secondary transactions also speaks to the maturing entrepreneurial ecosystem, signifying an increased desire by founders to gain liquidity without full exits.

To conclude, the data shows that while exit activity is more muted than during 2021 and 2022, companies can still exit via acquisition at similar rates to 2018 and 2019. The story is quite different for public markets, where IPO activity for high-growth companies is at a decade low. This aligns with the overall trend since 2013, though punctuated by the outlier of 2021. Beyond acquisitions and public markets, other options are emerging for founders seeking liquidity and diversification. The breadth of choices available to founders bodes well for the future, ensuring that liquidity options remain dynamic and competitive for founders and leaders of high-growth companies.

> **The breadth of choices available to founders bodes well for the future, ensuring that liquidity options remain dynamic and competitive for founders and leaders of high-growth companies.**

Methodological note

High-growth companies
This report focuses on the exit activity of high-growth companies in the UK. Beauhurst identifies ambitious businesses using eight triggers that we believe suggest a company has high-growth potential. More detail on Beauhurst's tracking triggers is available at beauhurst.com.

Acquisitions
An acquisition occurs when a company sells the majority (>50%) of its existing shares to another company or a fund.

Initial public offerings (IPOs)
An IPO occurs when the shares of a private company are first listed on a stock exchange.

Secondary transactions
A founder secondary transaction occurs when founder-shareholders of a company sell existing shares. This report uses confirmation statements of equity-backed businesses to determine the occurrence of founder secondary activity. Confirmation statements are filed once a year with Companies House, providing a snapshot of a company's shareholders when filing, but do not capture interim changes to shareholding between filings. To be included in this analysis, the confirmation statements had to have been filed between 1st January 2014 and 30th June 2023.

About us

Beauhurst

Contact

4th Floor, Brixton House
385 Coldharbour Lane
London
SW9 8GL

www.beauhurst.com
+44 (0)20 7062 0060
consultancy@beauhurst.com

Beauhurst is a searchable database of the UK's high-growth companies.

Our platform is trusted by thousands of business professionals to help them find, research and monitor the most ambitious businesses in the UK. We collect data on every company that meets our unique criteria of high-growth; from equity-backed startups to accelerator attendees, academic spinouts and fast-growing scaleups.

Our data is also used by journalists and researchers who seek to understand the high-growth economy. It also powers studies by major organisations — including the British Business Bank, HM Treasury and Innovate UK — to help them develop effective policy.

For more information and a free demonstration, visit beauhurst.com

CHARLES STANLEY

Contact

55 Bishopsgate
London
EC2N 3AS

www.charles-stanley.co.uk
+44 (0)20 3918 3411

Charles Stanley is one of the UK's leading wealth management firms, providing a wide range of financial planning and investment services.

With over 20 offices across the UK you are never far from one of our experts. Our focus on clients has endured since our founding in 1792 and we have created financial security for many tens of thousands of people.

Editor Henry Whorwood
Production Dan Robinson, Advone Katsande, Ethan Yip, Blanca Valencia
Design Freya Hyde