

Business Working Life

‘We want to see firms thrive, not just survive’

GOING FOR GROWTH

Ten years on BGF’s boss says its support for companies is more important than ever, writes **Richard Tyler**

Stephen Welton, the cerebral chairman of BGF, Britain’s most active private company investor, has just signed off its 2020 accounts in what turned out to be its busiest ever year.

During the pandemic BGF, formerly the Business Growth Fund, backed 61 growing mid-sized companies, taking its deal-making total over the last ten years to 422. The pace of investment has picked up further this year. In the first quarter of 2021 it invested £215 million: three quarters in 21 new companies and £60 million into its existing portfolio.

“Given we invested £384 million in the whole of 2020, it shows you the strength of the recovery in parts of the economy,” Welton said. Very little of the new money was to help firms recapitalise amid the economic fallout of Covid-19, he added, despite the pressures placed on private companies by the pandemic.

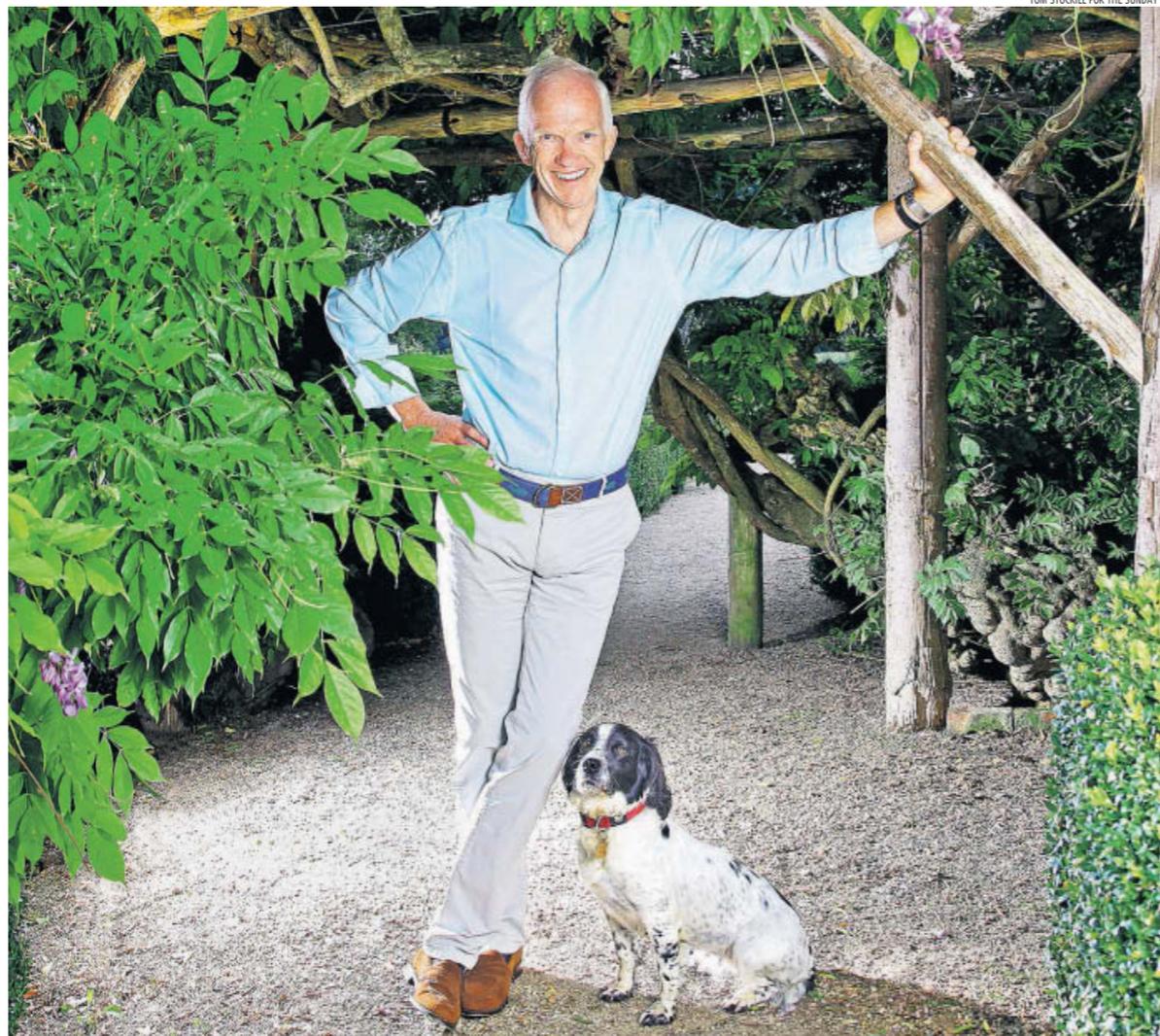
BGF marks its tenth anniversary tomorrow. In that time it has backed entrepreneurs with £2.8 billion of capital and sold its stakes in 110 companies, including 28 last year.

Not all its exits were a success. Some companies ceased trading, while others restructured and are operating under new owners, such as Barburrito last December.

Welton said BGF had kept a close eye on its diverse portfolio, which includes the potter Emma Bridgewater and Giggling Squid, the Thai restaurant chain. Its investment teams now conduct weekly updates with their companies rather than monthly board meetings.

“The vast majority of our portfolio has been incredibly robust and resilient through the pandemic,” he said. “We had a combination of some of them using the furlough scheme, some of them using the loan schemes, and some of them focusing on cash generation. That is where entrepreneurs are particularly good. They are practically minded. If you have a problem tomorrow you deal with it, you don’t just think about it.”

This cautious, hands-on approach appears to have paid dividends. BGF’s



Stephen Welton is chairman of BGF, whose investment portfolio includes the potter Emma Bridgewater; top right, Carlton Cummins and Amrit Chandan, co-founders of the green tech firm Aceleron



net assets were £2.3 billion at the end of 2020, up from £1.7 billion in 2019, and it made a record pre-tax profit of £346 million, up from £113 million the previous year. “Our shareholders are very happy with what we are doing,” Welton said with a grin.

BGF formally launched as the Business Growth Fund in Birmingham on May 18, 2011 in the wake of the financial crisis. The five banks that supported it with £2.5 billion of capital — Barclays, HSBC, Lloyds, NatWest and Standard Chartered — only signed on the dotted line the night before. In its first year BGF managed just three investments as it struggled with the internal challenges of opening offices and recruiting staff. It now has 16 regional offices, including in Ireland.

One of its most valuable current

investments is its minority stake in Gousto, the meal kit subscription firm valued at more than £1 billion last November when it raised £25 million in new equity, including from BGF — the eighth time it had backed the company. Welton is keen for the UK to produce more innovative, tech-savvy companies such as Gousto. His challenge to the government is to raise its ambition on public and private sector research and development spending.

The Treasury wants it to reach 2.4 per cent of GDP by 2027 with two thirds expected to come from the private sector. But that rate would only match the average for the G7. “Why shouldn’t the UK be ahead of the G7?” Welton said.

He is also wary of the amount of debt sitting on private company

balance sheets after the lockdowns, made available through government-backed loan schemes. “The risk is there are thousands, perhaps tens of thousands, of companies that are over-indebted. They are able to survive but they are unable to grow.”

He acknowledged that the flood of expected bankruptcies has yet to materialise, but he still expects them to hit. “As companies come out of recessions and they need working capital, that is when they typically go bankrupt. We know those companies, particularly in the harder hit sectors, are going to be hobbled by debt. We think there remains an urgent need for much greater growth capital.”

For its part, BGF would like “to play the role of the stock market for private companies”, Welton said. “That’s the gaping hole in the UK’s

financial armoury. How are these tens of thousands of companies going to recapitalise if they don’t have access to public markets, because they can’t rely on bank debt?”

Last year BGF lobbied hard for the Treasury to help to create a £15 billion fund that would invest in Britain’s mid-sized companies to help them recapitalise and grow. That hasn’t happened yet, but was building a head of steam, he said.

He pointed to the chancellor’s commitment to set up a scheme to allow pension funds to invest in companies and infrastructure assets. The industry hopes to see action before November. “We have a consensus now. It’s more of a possibility than it’s ever been, but the devil is in the detail,” Welton said.

The government has also become a

significant backer of private companies through the British Business Bank. Its Future Fund, launched last May, has disbursed more than £1.1 billion of convertible loan agreements to 1,140 companies.

At least 52 loans — from £125,000 to £5 million — have already been converted into equity stakes in the companies, the *Financial Times* said. A £375 million follow-on scheme was launched by the chancellor in March.

BGF has been co-investing with other sovereign and institutional funds in Ireland and Canada, and thinks this model could be replicated in the UK. It is already working with Coutts, the private bank, to see if wealthy individuals will buy into a fund that co-invests with BGF. The aim is for the fund to raise between £50 million to £100 million.

Scaling the heights

How much British companies and the government invest in research and development is one of several topics that will be chewed over by experts during BGF’s first “ScaleUp Week”. It runs from tomorrow until Thursday and is supported by organisations such as the ScaleUp Institute, the not-for-profit company that is focused on making the UK the best place in the world for businesses to grow, or “scale up”.

“[During the pandemic] there has been a shift in technology and the way that businesses operate that I think plays to the strengths of the UK economy,” said the BGF boss Stephen Welton. “We wanted to bring together all the people interested in this, whether they be in business, entrepreneurs, policymakers, academics or investors, to practically debate what we are going to do to capitalise on the opportunities.”

Other topics include how growing companies can play their part in “levelling up” regional economies — a debate that Kwasi Kwarteng, the business secretary, will contribute to — how they might make a bigger impact internationally, and tackling the lack of funding provided to growing companies led by women and people from ethnic minorities.

BGF has invested in 40 companies with female founders or CEOs, 10 per cent of its total. Only 17 companies have a chief executive of black, Asian or other minority ethnic background, Welton said.

“They are small numbers but they are also better than anyone else and we are determined to do more,” he added.

Private companies’ contribution to reducing carbon emissions is also on the agenda. BGF is diverting more of its funds to companies developing green technologies or which are focused on sustainable business models, such as Aceleron, which makes reusable lithium-ion batteries.

A year ago this cohort of companies only represented 5 per cent of its portfolio. It has grown to 10 per cent today, Welton said, and he wants that to double again, although he is aware of the “danger of a bubble”, with lots of private money chasing green investments.

Other speakers include the former Google and Facebook executive Baroness Shields, Noel Quinn, chief executive of HSBC, and the business minister Paul Scully. The debates are being streamed online and are free to access.