Pääomasijoittajat

Finnish Venture Capital Association

Venture capital and private equity investors' impact on corporate growth 2012–2021

Impact study October 2022

Key observations

Buyout, growth and venture capital ("private equity") have great significance as an accelerator of economic increase and as an employer in Finland. The aggregate revenue of Finnish portfolio companies owned by both domestic and foreign private equity investors is over 20 billion euro, representing over 5% of the total revenue generated by companies in Finland.

The total employee count in the portfolio companies in Finland is approximately 76,000, which is over 5% of the total amount of personnel in all Finnish companies. In addition, Finnish private equity investors' portfolio companies employ approximately 18,000 people abroad (bringing the total employment to 94,000 people).

Private equity-backed firms grow significantly faster than peers across all investment categories with annual revenue growth of 45% over a 3-year period compared to 6% in the peer group. In absolute terms this means average growth of over 20 million euro.

Private equity-backed firms both also grow their headcount significantly faster than their peers (39% per year vs. 2%) and are able to increase revenue per employee at 13% per year, compared to 3% for peer group.

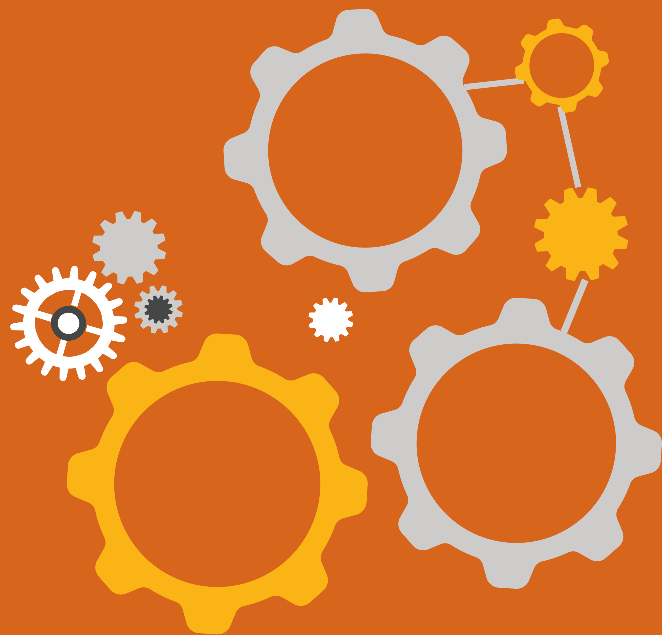
The firms in this study are also very international, with 1/3 of their revenue coming from exports or foreign subsidiaries. Venture capital portfolio firms are most international, with exports and foreign subsidiaries accounting for 76% of their business.

Private equity

The purpose of this report is to provide an overview of the impact of private equity investments, including venture capital, on Finnish business activities. The material in the report consists of 512 companies that are currently in the portfolio of a Finnish private equity investor. The analysis was conducted by PwC/Strategy& in corporation with the Finnish Venture Capital Association. Private equity investment means corporate financing outside the stock exchange, which is often done in the form of equity financing and typically channelled to the marketplace through Private equity investment funds. Private equity investors manage funds whose largest investors include pension funds and other institutional investors.

Investments are, in principle, made for the medium or long term and characterised by active ownership. Active ownership means that the investor engages in close cooperation with the management as a significant shareholder in the company in order to develop its business operations further. In this report, private equity investment is divided into three categories: Venture Capital (including seed companies), Growth and Buyout. Venture Capital investments are targeted at earlystage companies that need funding and experts to develop and grow the company. In this context, a venture capital company refers to a company that has received a venture capital investment. Buyout investments are often directed at medium-sized companies and are, in terms of their profile, less risky than investments made in venture capital companies. Growth investments are typically minority investments in companies that are beyond the venture capital stage but still seeking faster growth than Buyout investments. Private equity investment provides many benefits, for example, by strengthening the financial standing of the company and by enhancing the company's balance sheet, which enables the company to make new investments or find debt financing for growth.

In addition to capital, private equity investors provide companies with strategic expertise, develop the reporting and management systems, create modern incentive and commitment models, and make their own contact networks available to the company for rapid development of the operations. private equity investors enable companies to access new markets through their extensive networks, both at national and international levels.
This report focuses on the impact of private equity investors on four different subject areas in corporate operations: growth of companies, increase in headcount, productivity and export activity.



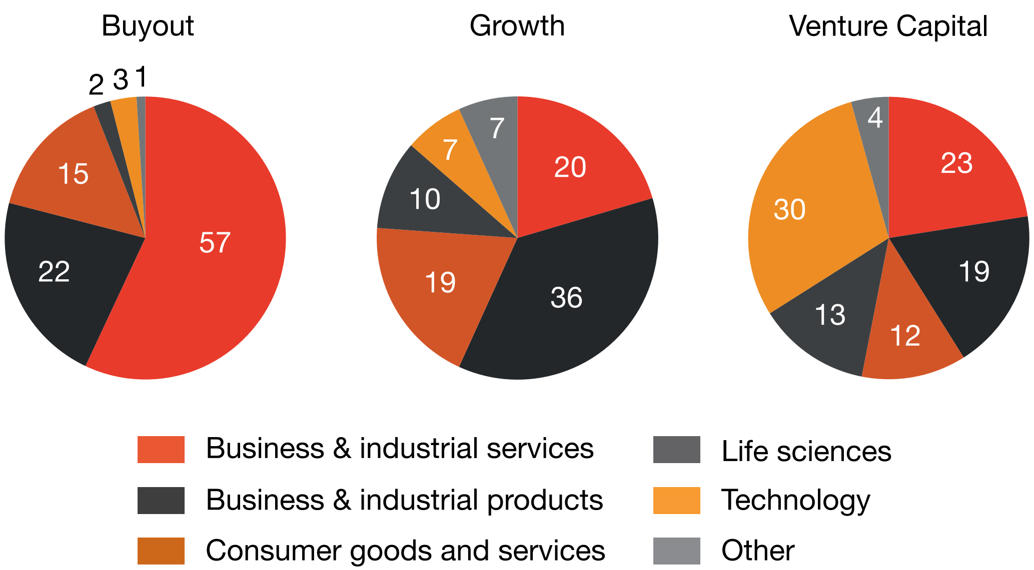
Technology, B2B services and products most common industries

B2B services and products are the most common industries accounting for 56% and 79% of growth and buyout portfolio firms, respectively.

Venture capital funds invest more in technology and life science companies driven by the potential for faster scaling and international expansion.

Private equity investments typically target an ownership period of 3–7 years. In this sample 98 (19%) of the firms had been in the portfolio for more than 5 years.

Portfolio companies by industry
%



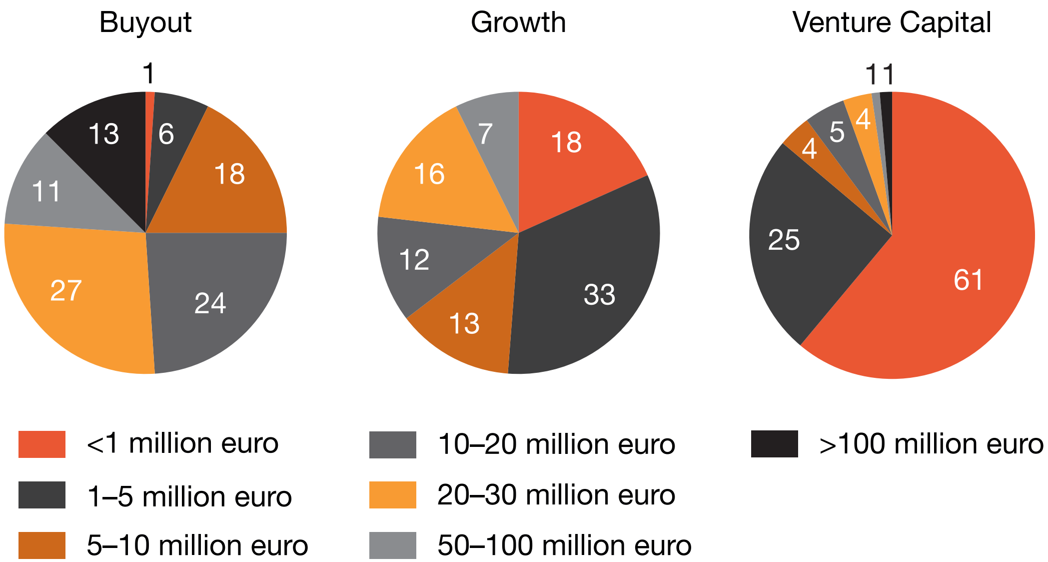
Venture capital targets smaller firms while buyout-backed companies tend to be more mature

Venture capital investors look for new companies with significant growth potential. It is thus understandable that 86% of the venture capital-backed companies had less than 5 million euro revenues in 2021. They also have lower headcount, with almost 50% of the sample firms employing fewer than 10 employees. However, successful venture capital investments can grow very fast, as shown by the 3 companies with revenue of more than 100 million euro.

Buyout investors target more established companies, with 51% of the portfolio firms having revenues between 10 and 50 million euro and employees between 50 and 500.

Growth investors are similar to venture capital in that they target smaller companies, but here the focus is on firms which already have some revenue, with 1–5 million euro and 21–50 employees being the biggest bracket.

Portfolio companies by 2021 revenue
%



Note: Includes only firms which reported revenue figures. 118 firms provided no revenue figures.

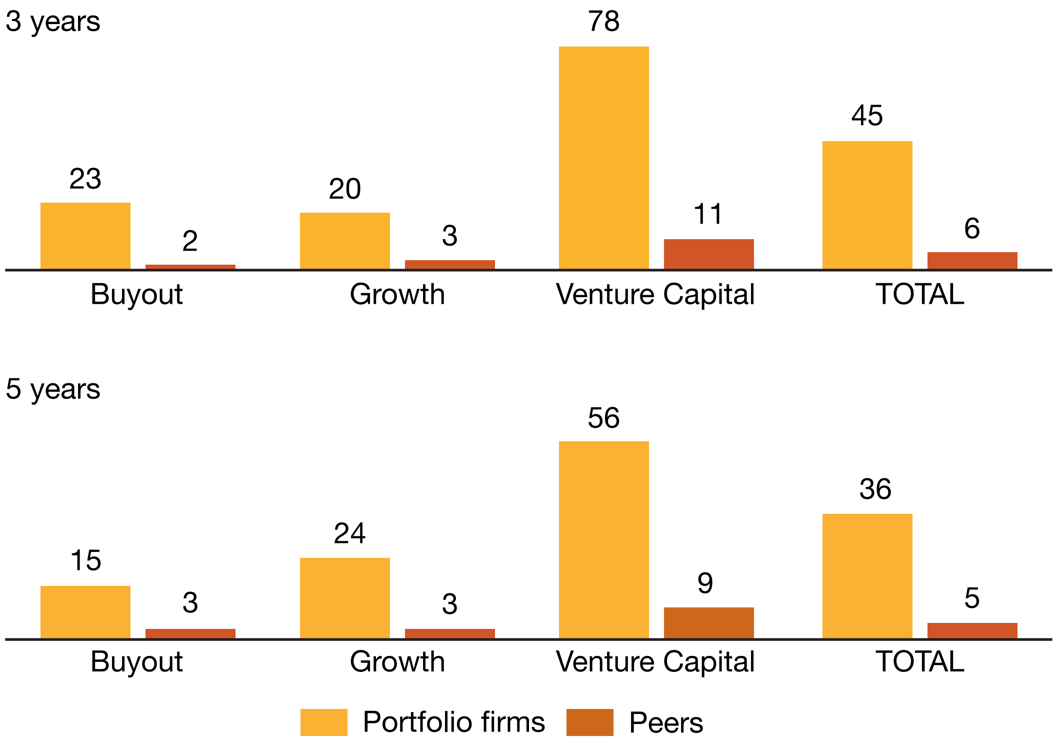
Private equity-backed firms grow significantly faster than peers across all investment categories

Private equity investors target growth and from the results it is clear that they often achieve it. On average, private equity-backed companies derive annual growth from initial investment of 45% and 36%, respectively. This compares to 6% and 5% for peer firms in similar industries and of similar size.

Revenue growth is fastest for venture capital-backed firms. This is explained, on the one hand, by their small absolute size, which eases very rapid growth, and on the other hand by the uneven distribution of growth. Buyout and growth firms also grew 6–10 times larger than their peers, a significant achievement when considering those peers' larger size.

The slight slowdown in annual growth from 3 to 5 years is explained by the growth in absolute size. As the companies grow, it becomes more difficult to maintain the same rate of growth.

Average annual revenue growth from investment year
%



Note: Excluding companies with no revenue for investment year or no revenue at the 3 or 5 year mark. N ranging between 16 and 56 per group.

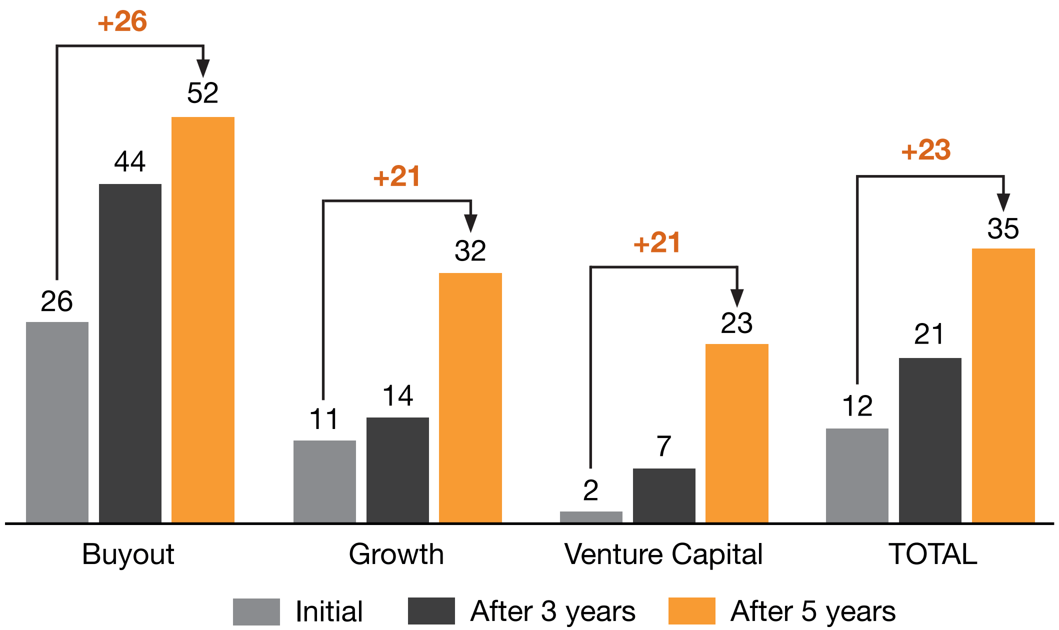
Growth also very fast in absolute terms: companies growing by >20 million euro in all categories

Private equity-backed companies also grow rapidly in absolute terms. In all categories, revenue grows by an average of 20–30 million euro in the five years following the initial investment.

In both venture capital and growth-backed firms there is a significant acceleration in growth from the 3 year to 5 year marks. This is again due to the extraordinary success of the best performers. For these firms, most of the growth comes from international expansion, which can take a few years to realise.

For buyout the picture is different: the fastest growth take place in the first 3 years, when steps such as major acquisitions or other expansions are taken.

Average absolute revenue in investment year and in 3 and 5 years
€m



Note: Excluding companies with no revenue for investment year or no revenue at the 3 or 5 year mark. N ranging between 16 and 56 per group.

Growth rates vary widely: fastest growing firms achieve over 100% per year

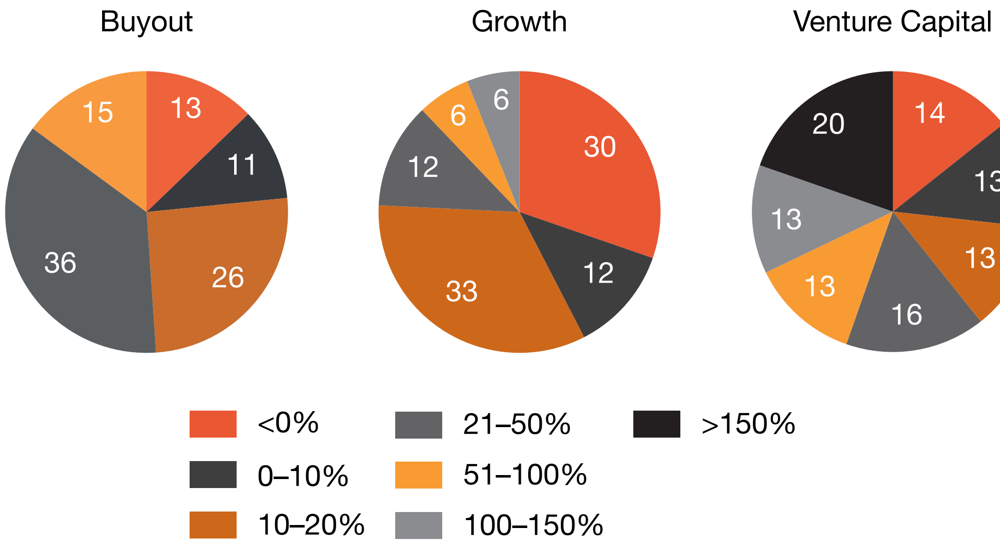
Growth is unevenly distributed: 6% of growth-backed companies and 33% of venture capital-backed firms grow over 100% per year over 3 years from investment.

As buyout firms are more mature, their growth rates are naturally lower. However, here too more than half of the firms grow by more than 20% per year.

Private equity always involves an element of risk, as demonstrated by the 13–30% of firms with decreasing revenue over a 3 year period. However, these also include divestments so they do not represent necessarily a decline in the business itself.

3-year annual revenue growth from investment year by category and investment class

%



Note: Excluding companies with no revenue for investment year or no revenue at the 3 or 5 year mark. N ranging between 16 and 56 per group.

pwc

Pääomasijoittajat
Finnish Venture Capital Association

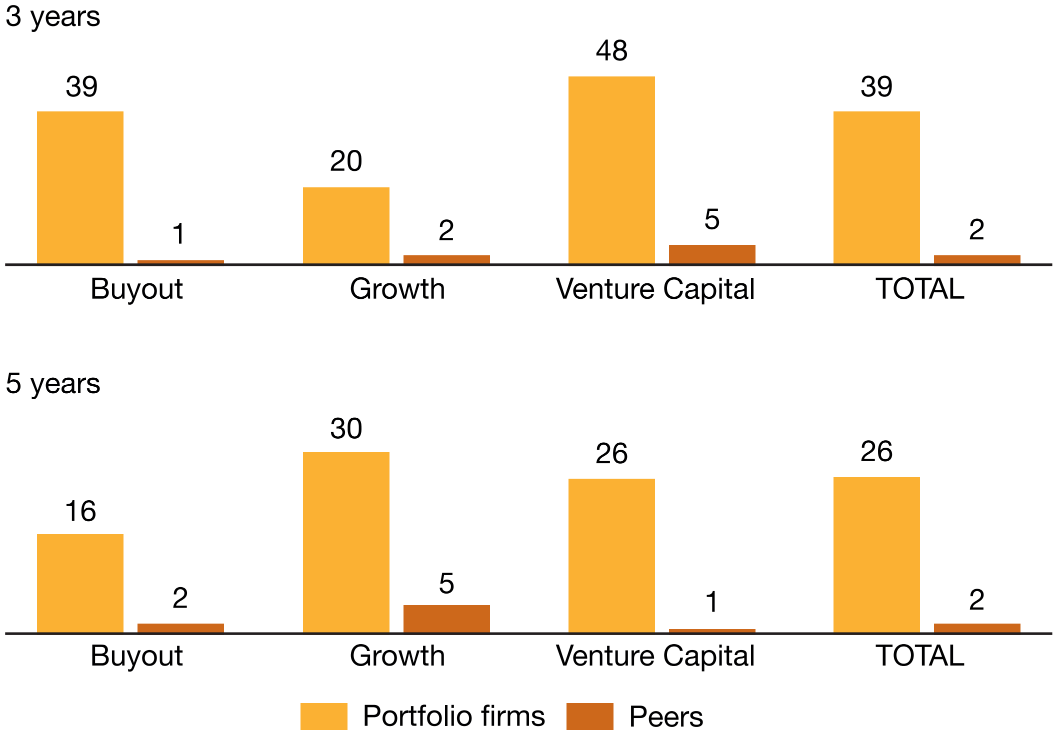
All private equity-backed firms increase headcount significantly faster than peers

Private equity-backed firms also grow headcount much faster than their peers. On average their personnel has grown annually 39% and 26% over 3 and 5 years from initial investment, respectively. This compares with 2% and 2% for peer firms in similar industries and of similar size.

Venture capital and buyout portfolio firms display the strongest growth. For the former, this is driven by their small size and rapid expansion, while for the latter it may be caused by such events as acquisitions.

Not all headcount growth is an increase in net employment, as many employees are moving from other firms, but it is clear that private equity-backed firms are driving significant change in the Finnish labour force.

Average annual personnel growth from investment year
%



Note: Excluding companies with no employees for investment year or no employees at the 3 or 5 year mark. N ranging between 17 and 78 per group.

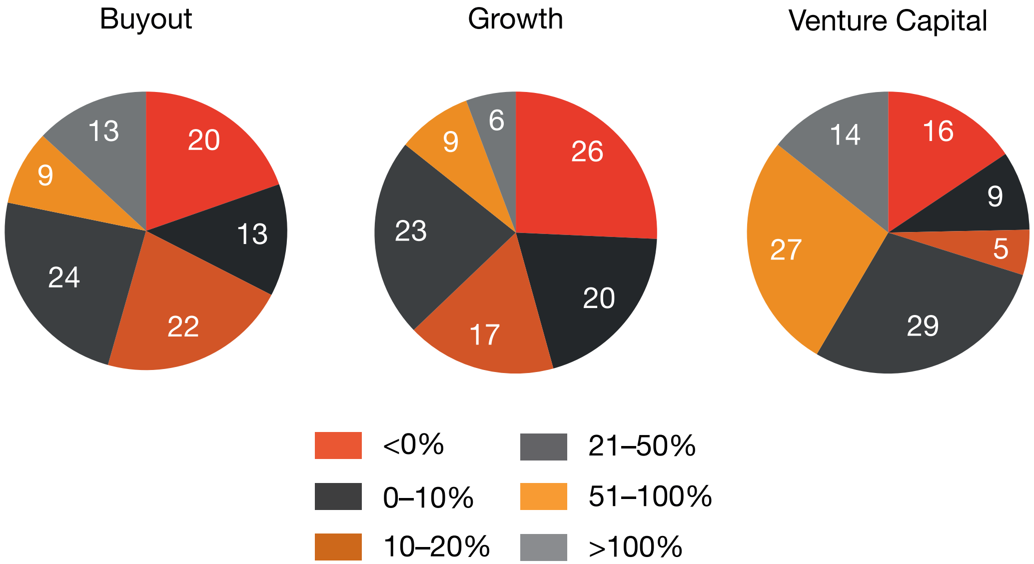
Over 50% of portfolio firms in all investment classes increase headcount by more than 10% annually

Compared to revenue growth, headcount increase is more similar across investment classes. The biggest growth bracket for both buyout and growth-backed firms is 21–50% annual headcount increase, a very rapid rate.

Venture capital-backed firms experience faster growth, with 41% of them growing at more than 50% per year. This is due to their smaller initial size (16 people on average vs 183 for buyout-backed firms).

16–26% of firms have experience a drop in headcount over a 3-year period from initial investment. This compares with 31% of peer group companies that experience a drop in headcount in personnel over a 3-year period.

3-year annual headcount growth from investment year by category and investment class
%



Note: Excluding companies with no employee data for investment year or no employees at the 3 or 5 year mark.
N ranging between 17 and 78 per group.

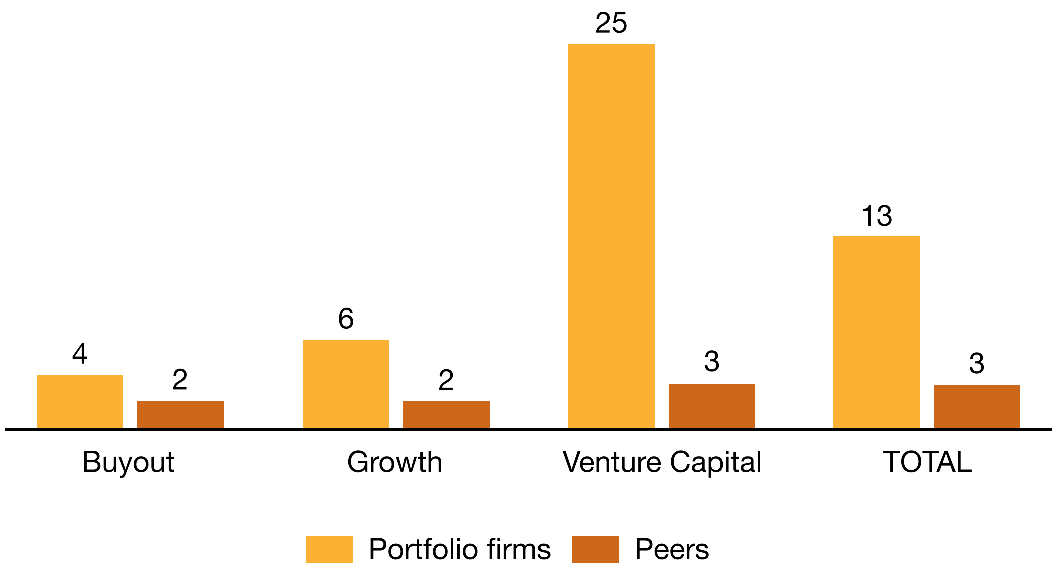
Private equity improves productivity: revenue/ employee grows 13% annually at private equity-backed firms

Private equity aims to create value through productivity improvement. This is visible in revenue per employee, which has grown significantly faster for private equity-backed firms than their peers.

The difference is biggest in venture capital, where portfolio firms have grown revenue per employee 25% per year in the three years from investment. This is partially as the firms initially may have very little revenue and the business models are more scalable.

However, both growth and buyout-backed firms grow productivity 2–3 times as fast as their peers. The slower growth for buyout portfolio firms is also due to the difference in industry mix, where the higher share of services requires greater headcount for growth.

Average annual growth in revenue per employee over 3 years from investment
%



Note: Excluding companies with no employee or revenue data for investment year or no employees or revenue at the 3 year mark, N for VC 48, growth 32 and buyout 41.

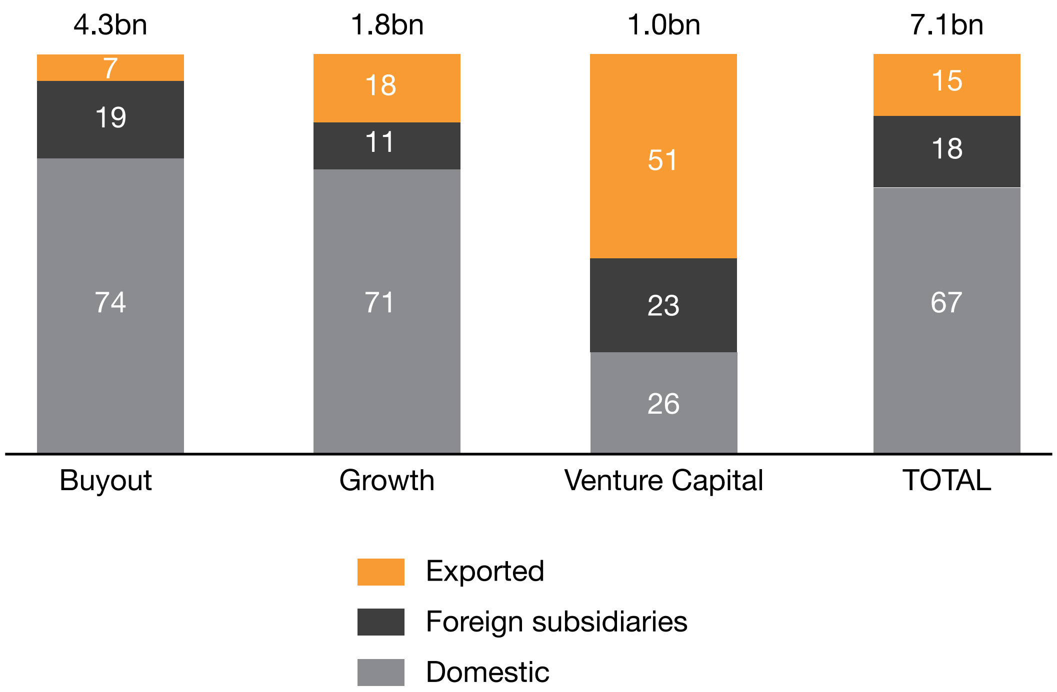
Private equity-backed firms are internationally oriented: 1/3 of revenue comes from exports or foreign subsidiaries

Finnish private equity-backed firms have a strong international presence, with 15% of revenue coming from exports and 18% from foreign subsidiaries. The 1 billion euro of exports is 1% of total Finnish exports.

Venture capital-backed firms are more internationally oriented, with only a quarter of revenue coming from domestic business. Buyout-backed firms focus more on domestic business, but foreign subsidiaries also generate almost 20% of revenue for these companies. This is partially due to the different business mix, with the service-oriented buyout portfolio firms being better suited for growth through subsidiaries.

Private equity also had a significant impact on international expansion, with the share of international revenue growing from 48% to 58% between 2018–2021 for the 52 firms reporting figures for both years.

Share of portfolio firm 2021 revenue by location
%



Methodology

This study by PwC/Strategy& and the Finnish Venture Capital Association (FVCA) examines the impact of private equity on growth of Finnish private equity-backed companies.
The data was gathered through a survey of Finnish private equity investors on companies currently in their portfolio.
The sample covers 44 investors and 512 portfolio companies, 100 of which were categorised into buyout, 88 into growth and 324 into venture capital, and represents a significant share of Finnish private equity portfolio firms. The data was collected from the investors via survey with self-reported answers. Apart from simple cleansing it has not been validated by PwC/Strategy& or Finnish Venture Capital Association.

For each of the investment classes, a peer group was built through collecting data from similar-sized companies in the same industries to compare their performance.

Contact

Pia Santavirta
Managing Director
Finnish Venture Capital Association
+358 (0)40 546 7749
pia.santavirta@fvca.fi

Jussi Lehtinen
Partner
PwC/Strategy&
+358 (0)20 787 8756
jussi.lehtinen@pwc.com

pwc

Pääomasijoittajat
Finnish Venture Capital Association

PwC's purpose is to build trust in society and solve important problems. We help companies to improve their efficiency, promote growth and to report reliably in a constantly changing environment. In Finland, we have 1,200 experts working around the country. Our services include consulting, deals, tax, legal, risk assurance, audit and other assurance services. More information: www.pwc.fi/en. Twitter: @PwC_Suomi.

PwC operates in 155 countries and employs more than 327,000 experts worldwide. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.