



Venture capital and private equity investors' impact on the Finnish economy

Impact study October 2023

Key observations

Buyout, growth and venture capital (“private equity” or PE) have great significance as an accelerator of economic growth and as an employer in Finland. The aggregate revenue of Finnish portfolio companies owned by both domestic and foreign private equity investors is over 23 billion euro, representing over 5% of the total revenue generated by companies in Finland.

Private equity backed firms grow significantly faster than peers across all investment categories with annual revenue growth of 43% over a 5 year period compared to 4% in peer group. In absolute terms this means average growth of over 20 million euro.

The total employee count in the portfolio companies in Finland is approximately 101,000, which is 7% of the total amount of personnel in all Finnish companies.

In addition, some of the employees, approximately 18,000 of the Finnish private equity investors’ portfolio companies’ headcount, work abroad. Private equity backed firms also grow their personnel significantly faster than peers (41% per year vs. 1%).

Firms analysed in this study are also very international, with over 45% of their revenue coming from exports or foreign subsidiaries. They also become significantly more international during private equity ownership.

During the turbulent years of 2019–2022 private equity backed firms demonstrated their resilience by continuing to grow both their revenue and headcount at significantly higher rates than their peer group.

Companies which have received private equity investment at some point in their history today represent around 11% of Finnish companies’ revenue. They employ a total of 207,000 people, of which 125,000–140,000 are estimated to be based in Finland. This is as much as the entire Finnish ICT industry.

Private equity has also been active in re-energising the Finnish economy with 30% of the firms entering the list of top 500 Finnish companies since 2012 having received an investment at some point in their history.



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 companies that are currently in the portfolio of a Finnish private equity investor. The analysis was implemented by PricewaterhouseCoopers Oy in cooperation with the Finnish Venture Capital Association. Private equity (PE) 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 PE 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 (hereinafter “VC”, including seed companies), Growth and Buyout (hereinafter “BO”).

VC investments are targeted at early stage companies that need funding and experts to develop and grow the company. In this context, a VC company refers to a company that has received a VC investment. BO investments are often directed at medium-sized companies and are, in terms of their profile, less risky than investments made in VC companies. Growth investments are typically minority investments in companies that are beyond the VC stage but still seeking faster growth than BO 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, PE 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 operations. PE 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 personnel, productivity, and export activity.

Total revenue of private equity-backed companies is 23 billion euro

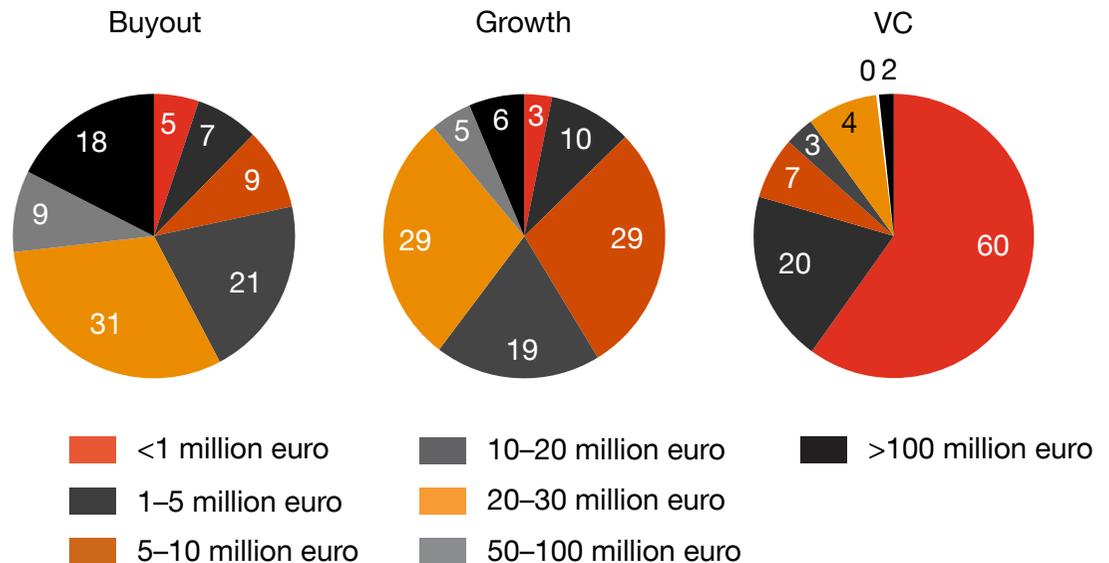
Total revenue of the private equity-backed companies in Finland is 23 billion euro, representing over 5% of the total revenue generated by companies in Finland.

VC investors look for new companies with significant growth potential. These firms are often just an idea and a team with no revenue. Thus it is understandable that 80% of the venture capital-backed companies had less than 5 million euro in revenues 2022. However, successful VC investments can grow very fast, which is illustrated by the 5 companies with more than 100 million euro in revenue.

Growth investors target firms with some revenue and validated business idea that provides opportunity for further growth and profitability improvement. In the sample 77% of growth-backed firms have 5–50 million euro revenue.

Buyout investors target more established companies with 58% of the portfolio firms having revenues of over 20 million euros.

Portfolio companies by 2022 revenue
million euro



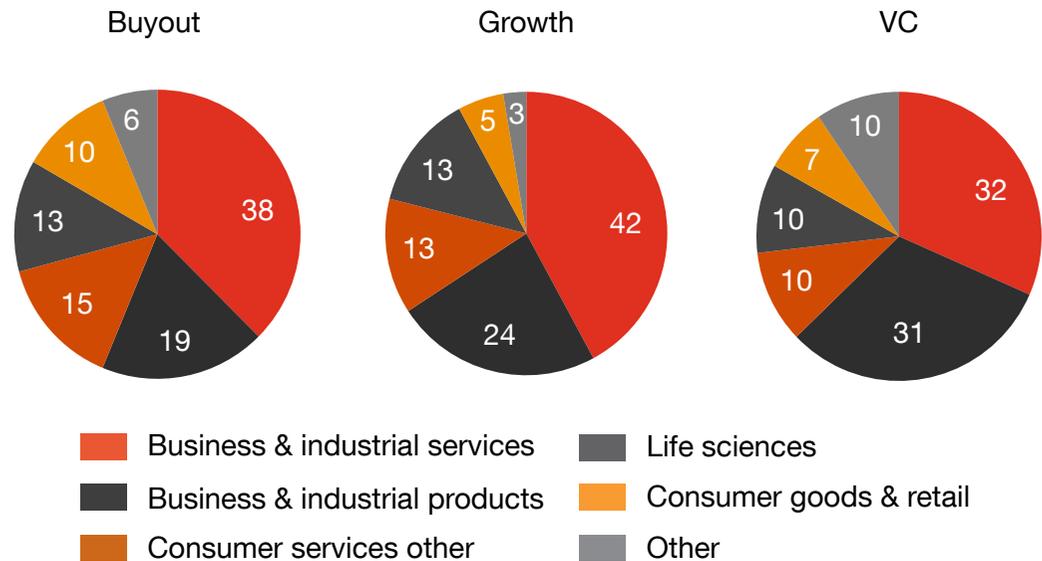
Today, B2B services and products along with consumer services are most common industries

In current portfolio B2B services and products are the most common industries accounting for 66% and 57% of growth and BO portfolio firms, respectively.

VC funds also invest 63% in B2B services and products. However, they invest mostly in companies with potential for faster scaling and international expansion, often involving technology.

Private equity investments typically target ownership period of 3–7 years. In this sample 112 (23%) of the firms had been in the portfolio for more than 5 years.

Portfolio companies by industry
%



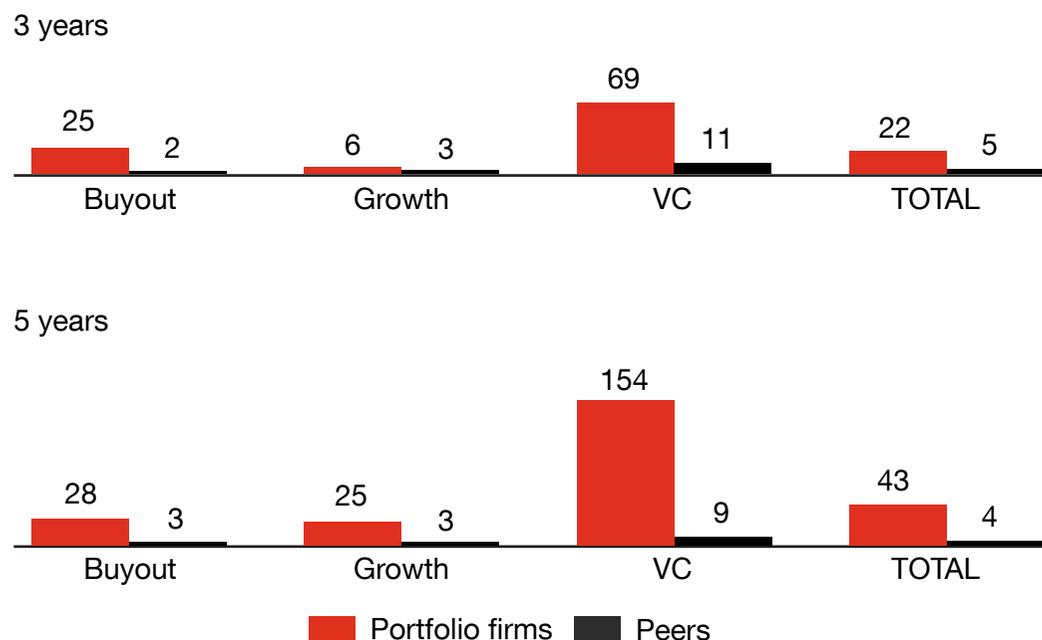
Private equity-backed firms grow significantly faster than peers across all investment categories

Private equity investors target growth and from the results it is clear that they often achieve it. On average, private equity-backed companies have grown 22% and 43% per annum over 3 and 5 years from initial investment, respectively. This compares with 5% and 4% for peer firms in similar industries and of similar size.

Revenue growth is fastest for VC-backed firms. This is explained, on one hand, by their small absolute size which makes highly rapid growth easier and, on the other hand, by the uneven distribution of growth. Furthermore, BO and growth firms also grew 2–12 times faster than their peers which is a significant achievement given their larger size.

The increase in annual growth from 3 to 5 years is partially explained by the individual companies in a small sample. Best performing companies in this group have achieved very rapid growth and thus raise the average.

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 7 and 50 per group.

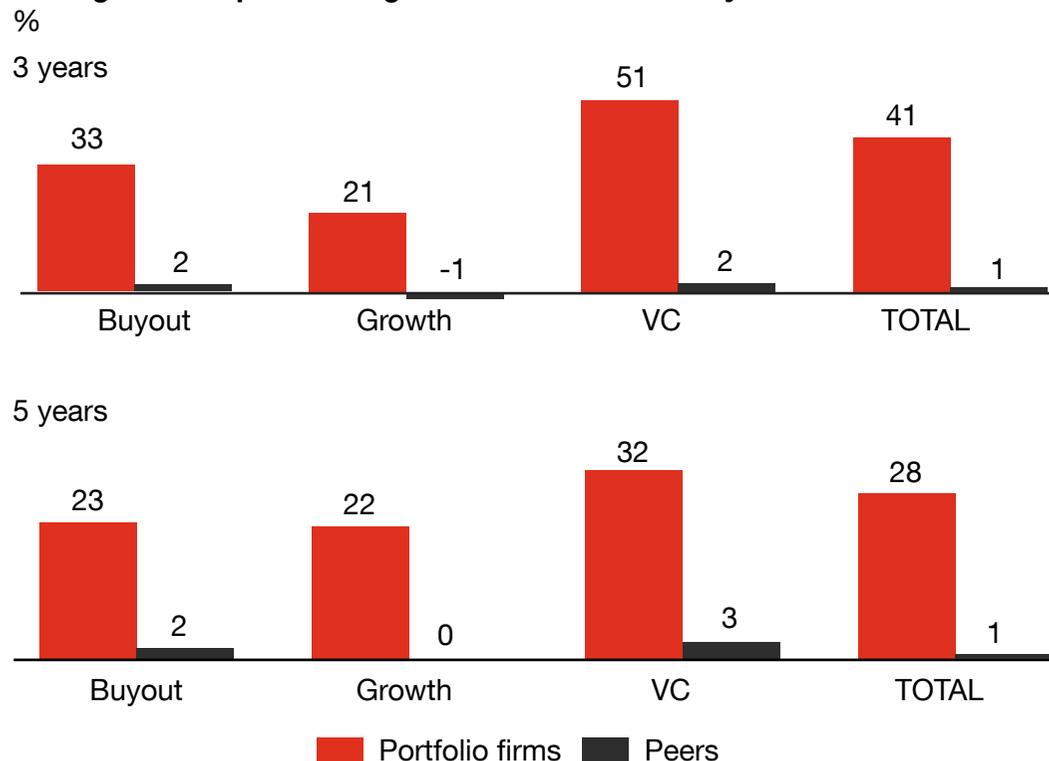
All categories of private equity-backed firms grow their personnel significantly faster than peers

Private equity-backed firms also grow personnel much faster than their peers. On average their personnel has grown 41% and 28% per annum over 3 and 5 years from initial investment, respectively. This compares with 1% and 1% for peer firms in similar industries and of similar size.

The growth is fastest for venture capital and buyout portfolio firms. For the former, this is driven by their small size and rapid expansion while for the latter it is caused partly by acquisitions.

Altogether the 232 companies reporting for both 2021 and 2022 grew their headcount by 5,829 people last year. Not all personnel growth is an increase in net employment as many of them 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 10 and 54 per group.

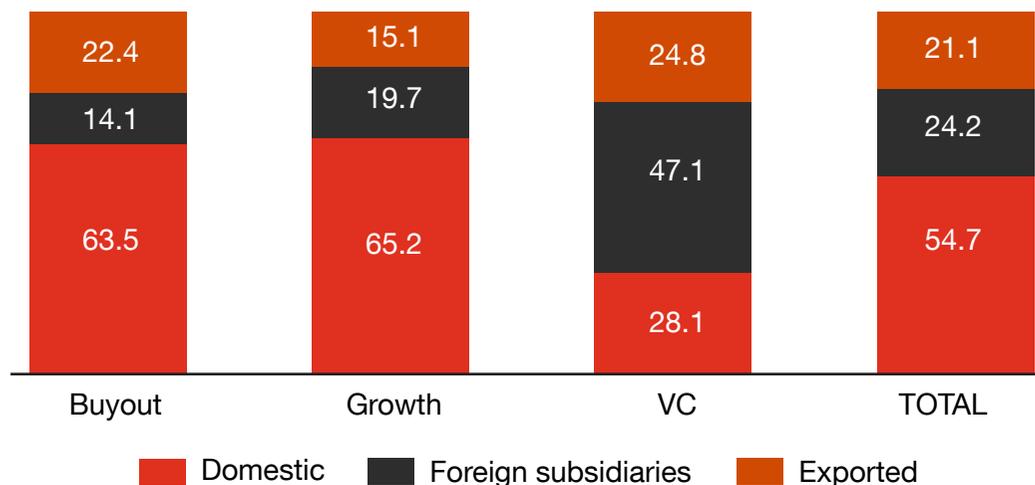
Private equity-backed firms are internationally oriented and they clearly become more international during PE ownership

Finnish private equity backed firms have a strong international presence with 21% of revenue coming from exports and 24% from foreign subsidiaries. The 1.7 billion euro of exports is over 1% of total Finnish exports.

Venture capital-backed firms are more international with less than 30% of revenue oriented with only a quarter of revenue coming from domestic business. For BO-backed firms the focus is more on domestic business but also for these companies, foreign subsidiaries and exports generated almost 35% of revenue. This is also 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 clear impact on internationalisation with the share of international revenue (exports + foreign subsidiaries) growing from 36% to 43% between 2018–2022 for the 67 firms reporting figures for both years.

Share of portfolio firm 2022 revenue by location %



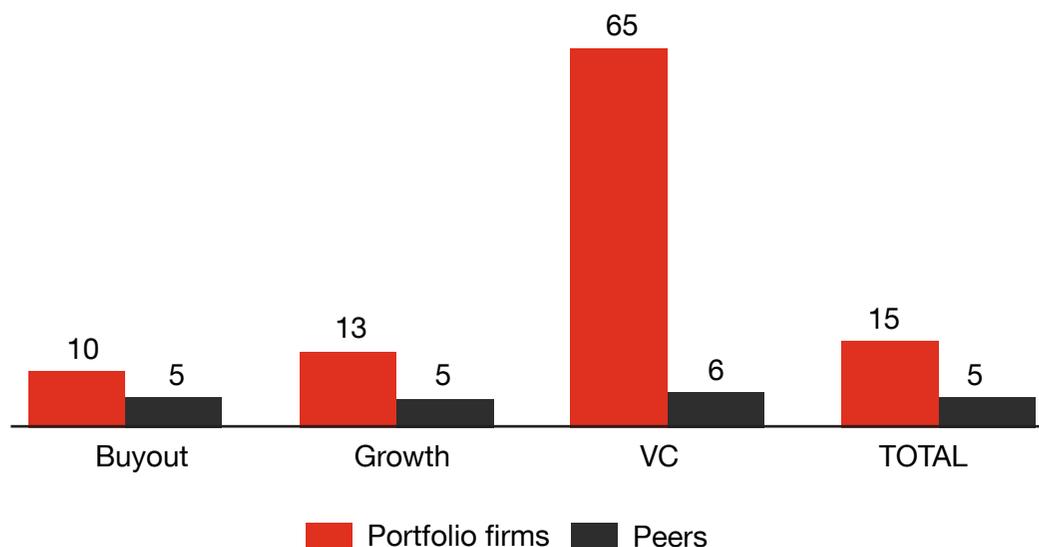
Note: Includes only companies which have reported figures for exports and domestic revenue.

Companies in all investment categories also grew rapidly during the turbulent period of 2019–2022

Private equity-backed companies in all investment categories grew rapidly during the turbulent years of 2019–2022. Venture capital-backed firms stand out with their growth rate at 65%, which is almost the same as the annual growth rate for three years after the investment, which is 69%.

For growth and buyout backed firms the growth is lower at 13% and 10%, respectively but still clearly faster than for the peer group.

Average annual revenue growth between years 2019–2022
%



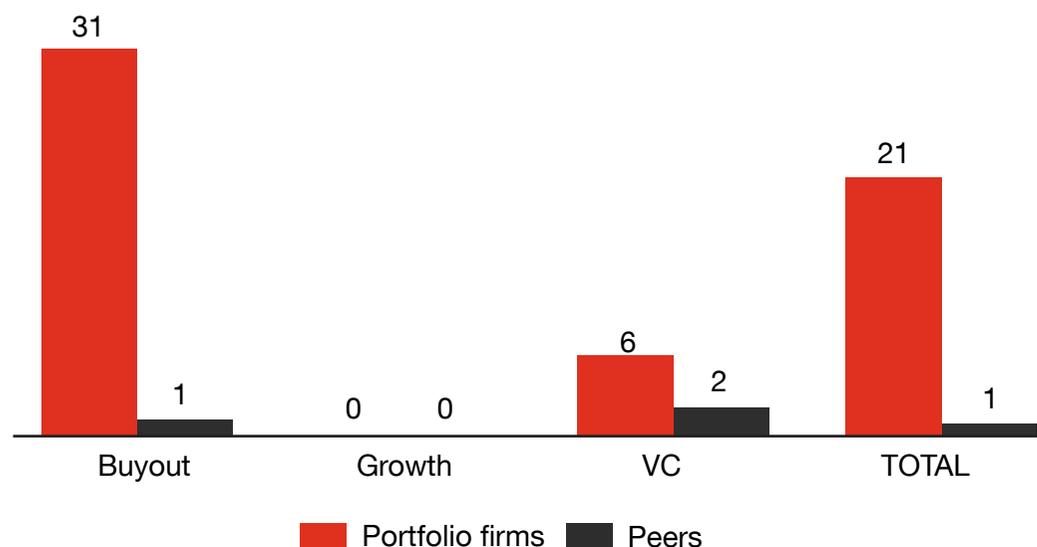
Note: N for VC is 98, 34 for growth and 39 for buyout.

Buyout and venture capital, in particular, managed to grow employment during the turbulent period

The growth in average employees during the turbulent 2019–2022 period is driven mostly by BO-backed firms, as they have managed to hold their annual growth rate at 31%, compared to the rate of three years after the investment of 33%.

VC and Growth have not been able to grow their employee levels as significantly as buyout. However, venture capital backed firms have still grown three times as fast as their peer group.

Average annual employee growth between years 2019–2022
%



Note: N for VC is 98, 34 for growth and 39 for buyout.

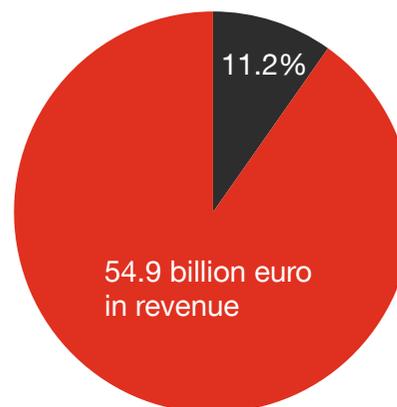
Companies which have received private equity investment today represent 11% of Finnish companies' revenue

Companies which have received private equity investments in their history have a significant role in the Finnish economy.

Today they account for more than 1 euro in 10 of all Finnish companies' revenue with a total revenue of almost 55 billion euros.

Not all of these employees are based in Finland but based on the split of current portfolio companies, we estimate that 125,000-140,000 of them are Finnish employees. This is as much as the entire Finnish ICT industry.

Portion of PE-backed companies compared to Finnish economy in 2021 %



Source: Statistics Finland

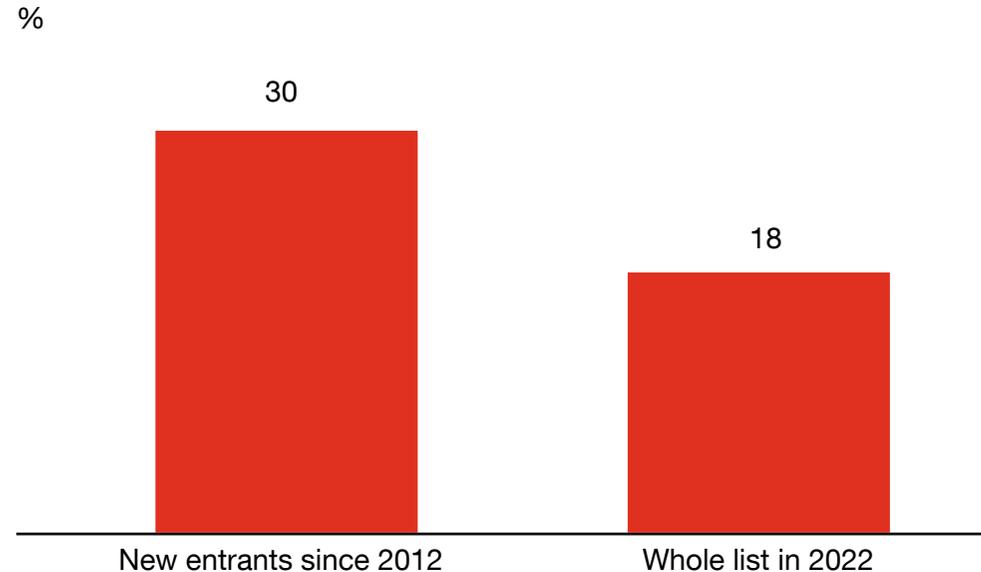
Private equity regenerates Finnish economy: 30% of new Top-500 firms in last decade receive investment

Companies which have or have had private equity investments made up 18% of the list of 500 biggest companies in 2022 published by Finland's leading business magazine Talouselämä.

Of the 179 companies that have entered the list since 2012, 30% had received private equity investment at some point in their history.

Private equity backing has nurtured many current mid-sized public companies supplemented by successes from the startup field.

Portion of PE-backed companies in the list of 500 biggest Finnish companies, 2012 and 2022



Absolute: 53 out of 179 (New entrants since 2012) | 90 out of 500 (Whole list in 2022)

Source: Talouselämä (TE 500)

Methodology

This study by Strategy& / PwC and the Finnish Venture Capital Association (FVCA) examines the impact of private equity on growth of Finnish private equity-backed companies. For current portfolio companies the data was gathered through a survey from Finnish private equity investors on companies currently in their portfolio. The sample covers 58 investors and 483 portfolio companies, 322 of which we re-categorised into VC, 64 into growth and 97 into BO and represents significant share of Finnish private equity portfolio firms.

The data was collected from the investors via a self-reported survey. Apart from simple cleansing, it has not been validated by 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.

For the overall impact, the FVCA compiled a list of all Finnish companies that have been the target of a private equity investment. The sample consisted of 3,216 companies, with the oldest investments being from 1986. Of those, data for 2021 or 2022 (at least partial) was found for 1,260 companies.



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