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Pääomasijoittajat
Finnish Venture Capital Association

Venture capital and private equity investors' impact on the growth of Finnish companies

Impact study November 2024

Key insights

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 €26 billion, representing 5% of the total revenue generated by companies in Finland.

Private equity-backed firms grow significantly faster than their peers across all investment categories, with annual revenue growth of 50% over a 3-year period compared to 4% in peer group. In absolute terms, this means average growth of over €11m.

The total employee count in the private equity-backed companies in Finland is approximately 117,000, which represents 8% of the total amount of personnel in all Finnish companies. Private equity-backed firms also grow their personnel significantly faster than peers (31% per year vs. 4%).

Portfolio companies are also highly productive, as they increased productivity by 21% per year, measured in terms of revenue per employee. This can be compared to 4% for peer groups.

Companies that have received private equity investments account for 4% of the Finnish tax base.

Total revenue of private equity-backed companies is €26bn

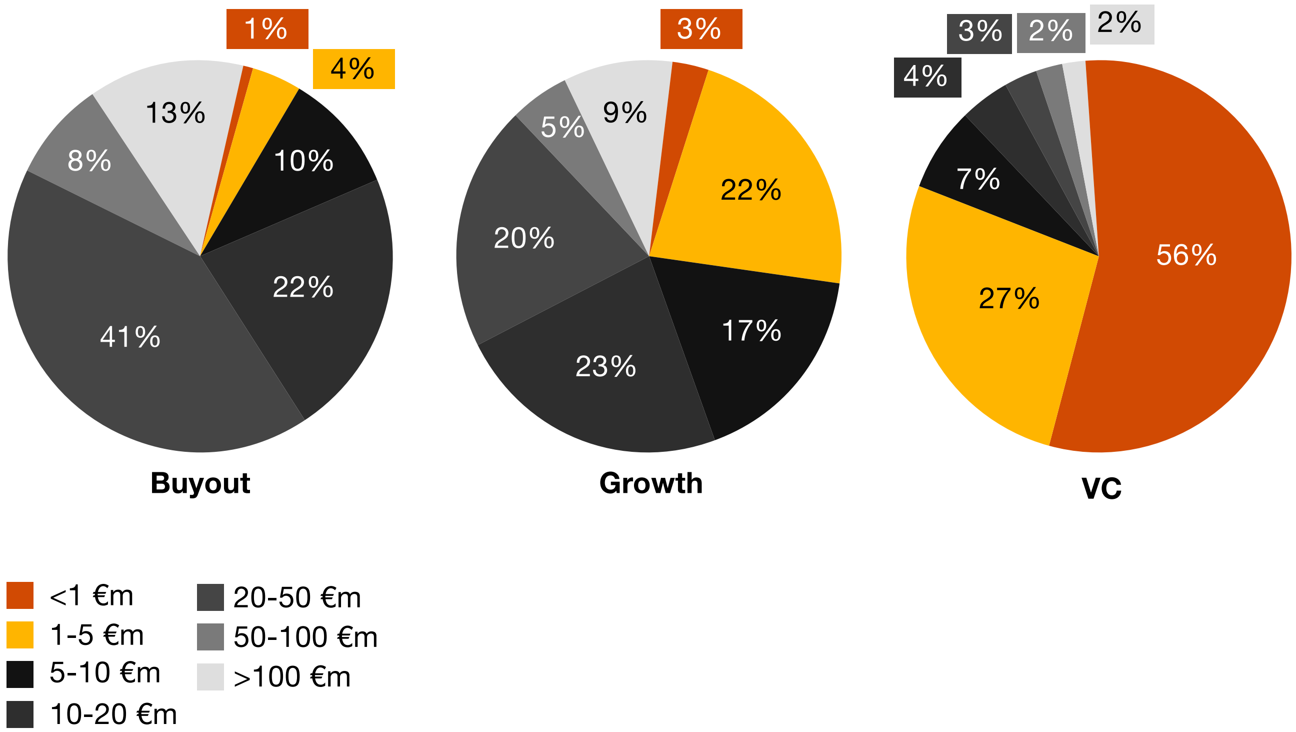
Total revenue of the private equity-backed companies in Finland is €26bn, representing ~5% of the total revenue generated by companies in Finland.

Venture capital 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 85% of the venture capital-backed companies had less than €5m in revenue in 2023. However, successful venture capital investments can grow very fast, which is illustrated by the 3 companies with more than €100m in revenue.

Growth investors target firms with some revenue and a validated business idea that provides opportunity for further growth and profitability improvement. In the sample, 60% of growth -backed firms have €5-50m in revenue.

Buyout investors target more established companies with 60% of the portfolio firms having over €20m in revenue.

Portfolio companies by 2023 revenue, €m



Notes: Includes only firms that reported revenue; Figures 2023;
N = 275/VC, 90/growth, and 98/buyout

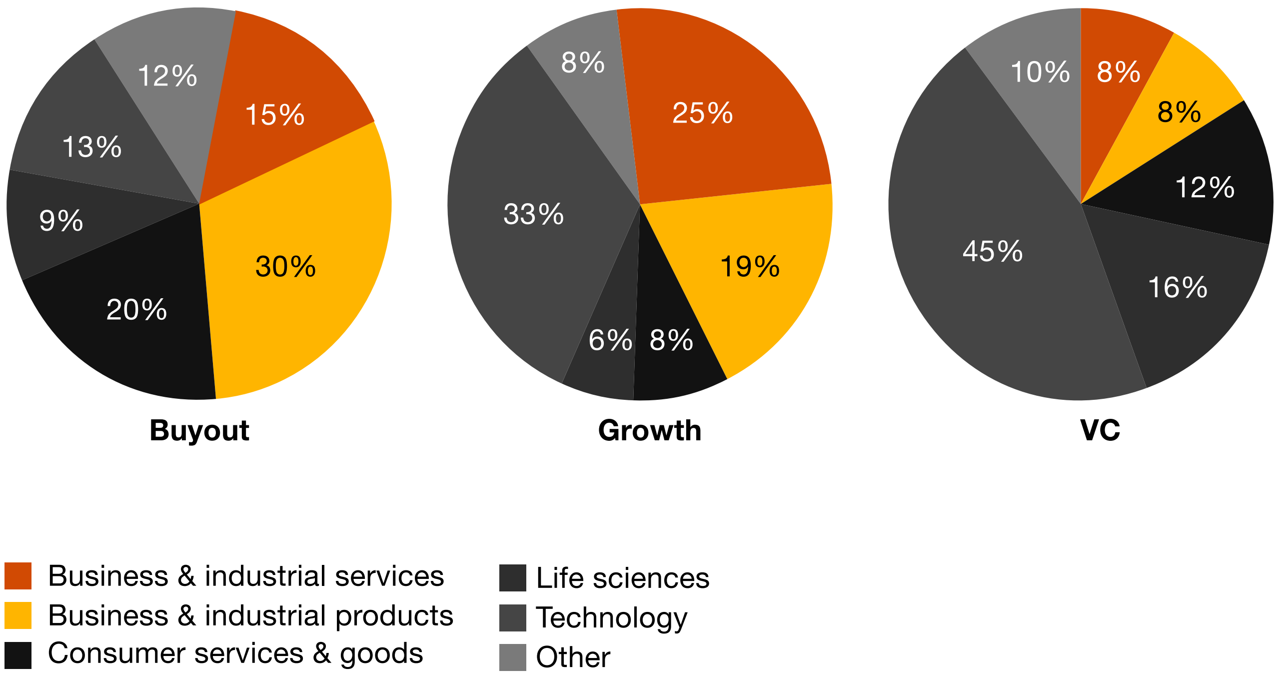
Technology by far most common industry for VC and growth – Buyout investors focus on less risky areas such as industrial products

Business & industrial products/services account for 45% of both buyout- and growth-backed companies – showing the focus on more stable and predictable companies.

VC funds invest more in the fields of technology and life science, which is 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, 163 (33%) of the firms had been in portfolios for more than 5 years.

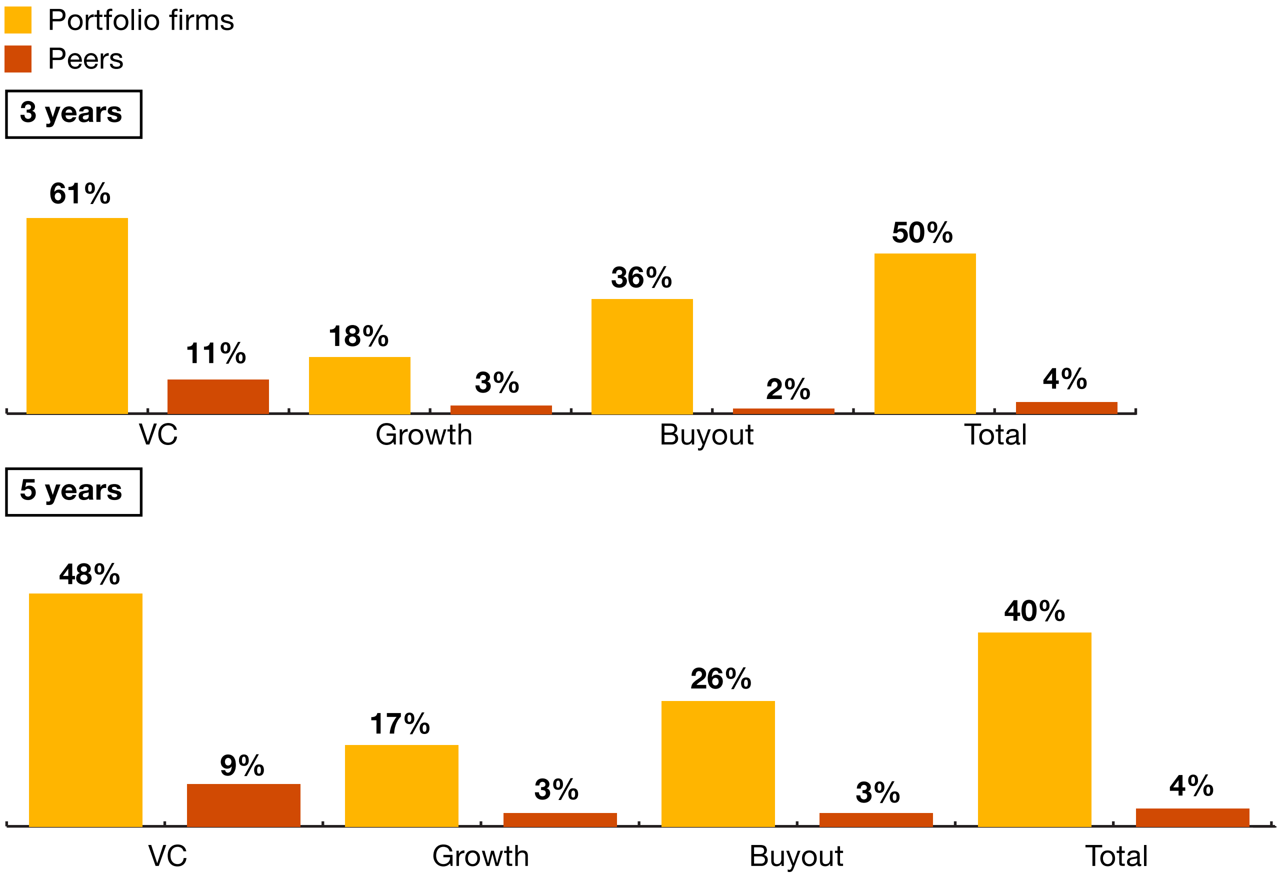
Portfolio companies by industry, %



Notes: N = 353/VC, 96/growth, and 99/buyout

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

Average annual revenue growth from investment year, %



Private equity investors aim for growth and from the results it is clear that they often achieve it. On average, private equity-backed companies have grown 50% and 40% annually over 3 and 5 years from initial investment, respectively. This compares with 4%, both for 3 and 5 years, for peer firms in similar industries and of similar size.

Revenue growth is fastest in venture capital -backed firms. This is explained by their small absolute size, which makes superfast growth easier, as well as by the uneven distribution of growth.

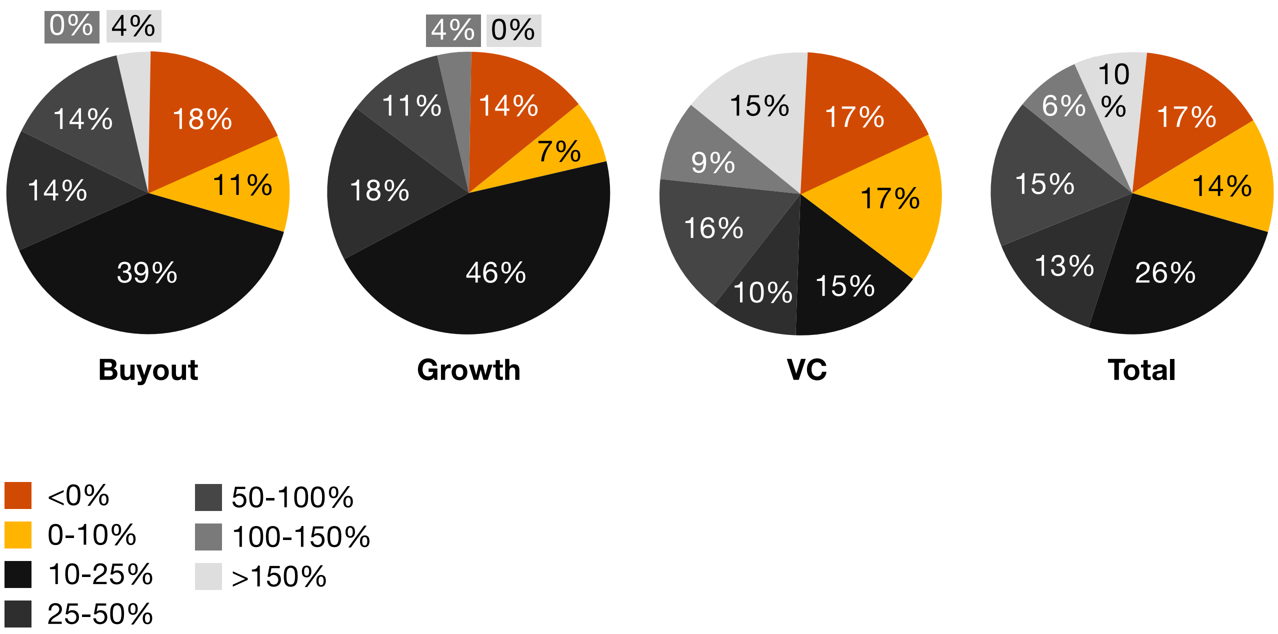
Buyout- and growth-backed firms also grew 5–18 times faster than their peers, which is a significant achievement given their larger size.

The decrease in annual growth from 3 to 5 years is partially explained by individual companies in a relatively small sample.

Notes: Excluding companies with no revenue for investment year or no revenue at the 3 or 5 year mark; N ranging between 14 and 68 per investor type

Growth rates vary widely with fastest-growing firms reaching over 100% per year

3-year annual revenue growth from investment year by category, %



Growth is not evenly distributed, as 24% of venture capital-backed companies are growing over 100% per year over 3 years from investment.

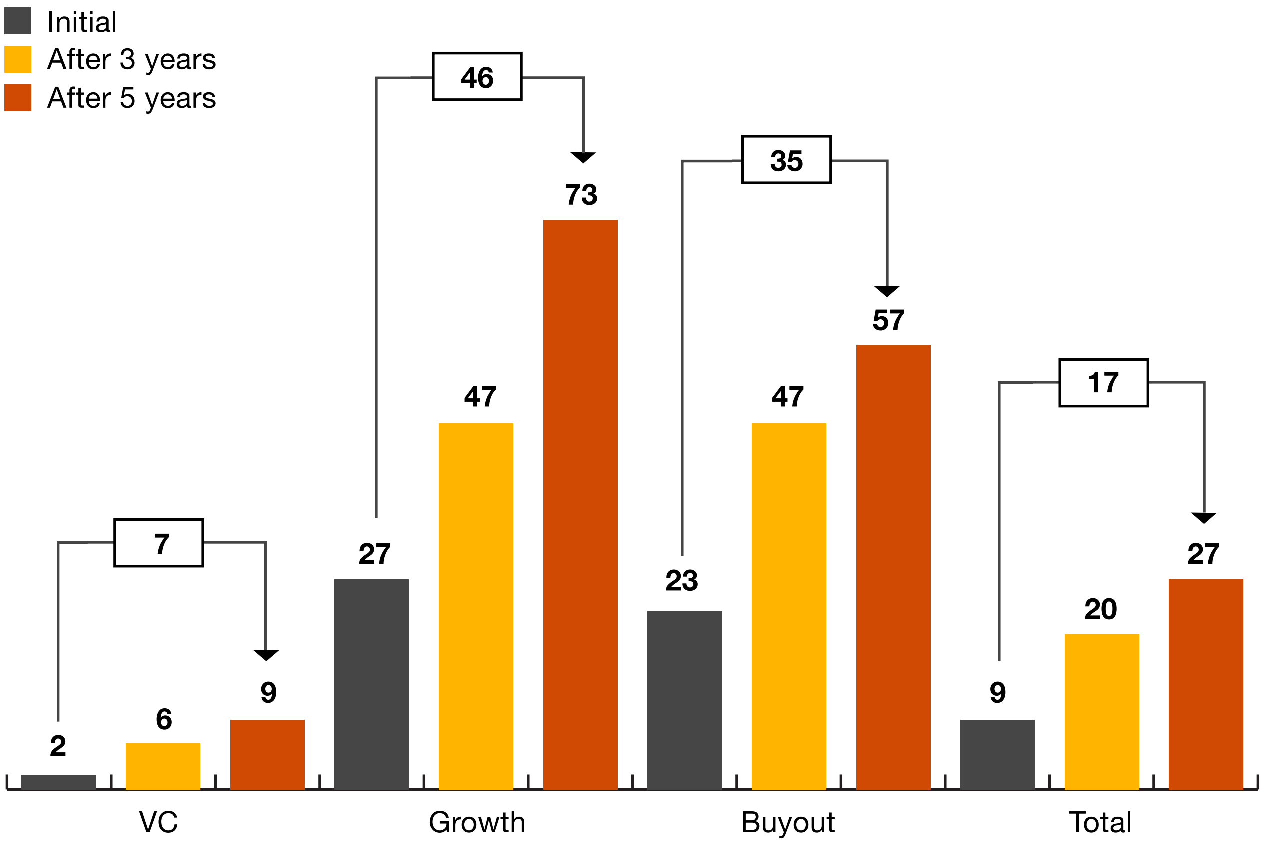
As growth- and buyout-backed firms are more mature, their growth rates are naturally lower. However, more than 30% of the firms grow by more than 25% per year.

Private equity always involves an element of risk-taking, which is shown by the 14–18% of firms with decreasing revenue over a 3 year period. Compared to last year, this number has gone down (13–21%). These cases also include e.g. divestments so they do not necessarily represent a decline in the business itself.

Notes: Excluding companies with no revenue for investment year or no revenue at the 3-year mark; N ranging between 28 and 87 per investor type

Revenue increases in absolute terms for all investor types – difference especially large in growth investments

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



In absolute terms private-equity backed firms are growing rapidly – the average growth in 5 years ranges from €7–46m depending on the investor type

The increase in revenue is quite stable both for VC- and growth-backed companies over the two time periods – increasing by €4m and €3m and by €20m and €26m for 3 and 5 years respectively.

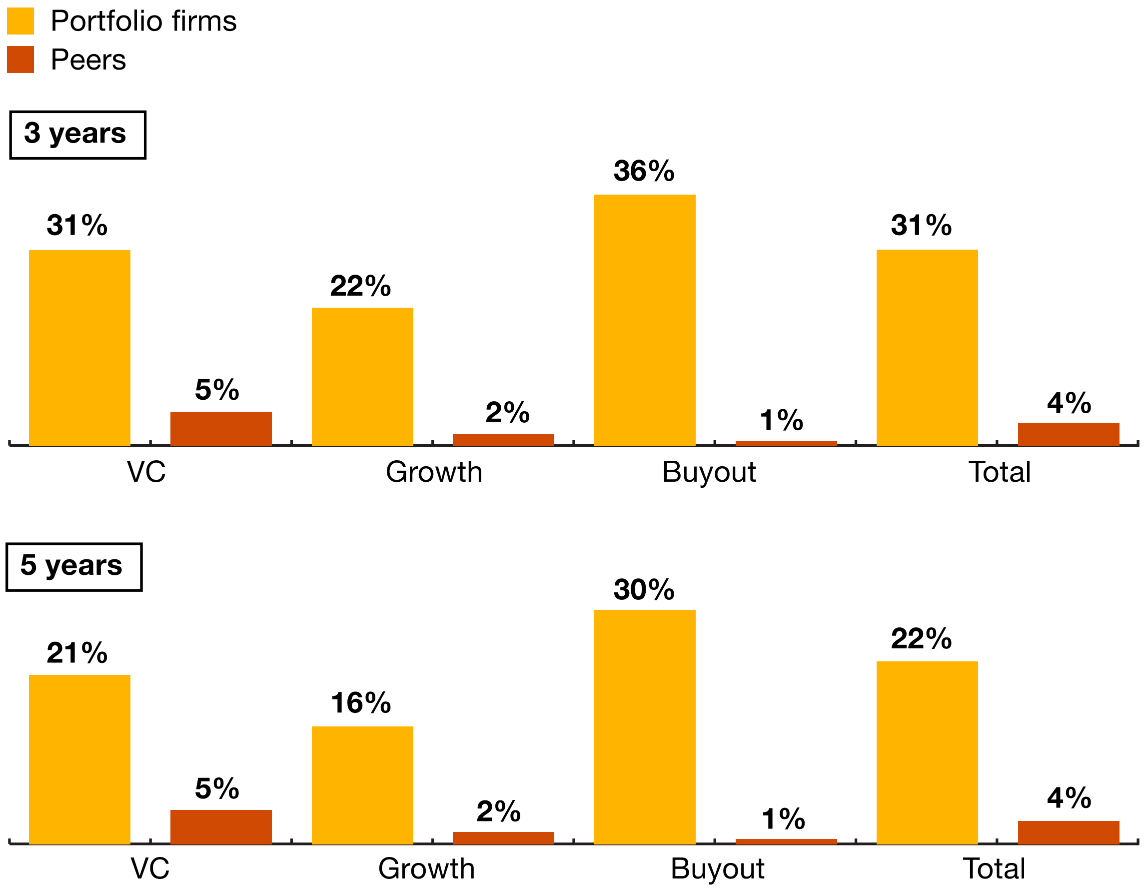
Notes: Excluding companies with no revenue for investment year or no revenue at the 3- or 5-year mark; N ranging between 14 and 68 per investor type

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

Private equity-backed firms grow their personnel count much faster than their peers. On average, their personnel has grown annually 31% and 22% over 3 and 5 years from initial investment, respectively. This compares with 4% for peer firms in similar industries and of similar size.

The growth is fastest for venture capital- and buyout-backed firms. For the former, the growth is driven by their small size and rapid expansion while for the latter it can be caused by acquisitions, for instance.

Average annual personnel growth from investment year, %



Notes: Excluding companies with no employees for investment year or no employees at the 3- or 5-year mark; N ranging between 11 and 70 per investor type

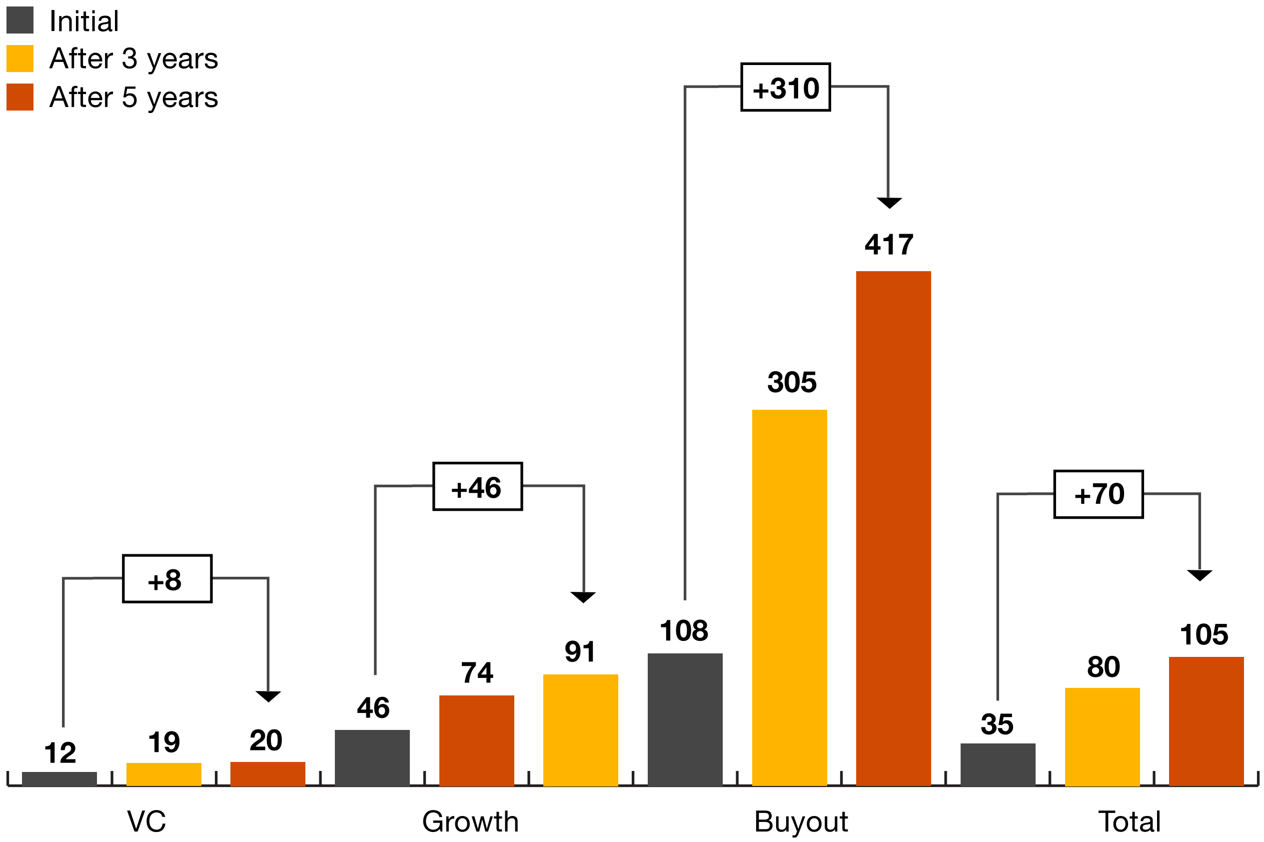
Employee growth also significant in absolute terms – in 5 years private equity-backed companies increase personnel by 70 people on average

Growth is significant in buyout-backed companies, which on average increase staff size by 310 people over 5 years.

The staff size in growth-backed companies increases only by 46 over a 5-year period, which can partially be explained by a relatively small sample size (n=11), where many companies were excluded due to data reporting.

Although the number of employees in VC-backed firms “only” increased by 8 people in a 5-year period, this represents an almost 100% increase from the investment year.

Average number of employees in investment year and in 3 and 5 years, number



Notes: Excluding companies with no employees for investment year or no employees at the 3- or 5-year mark; N ranging between 11 and 70 per investor type

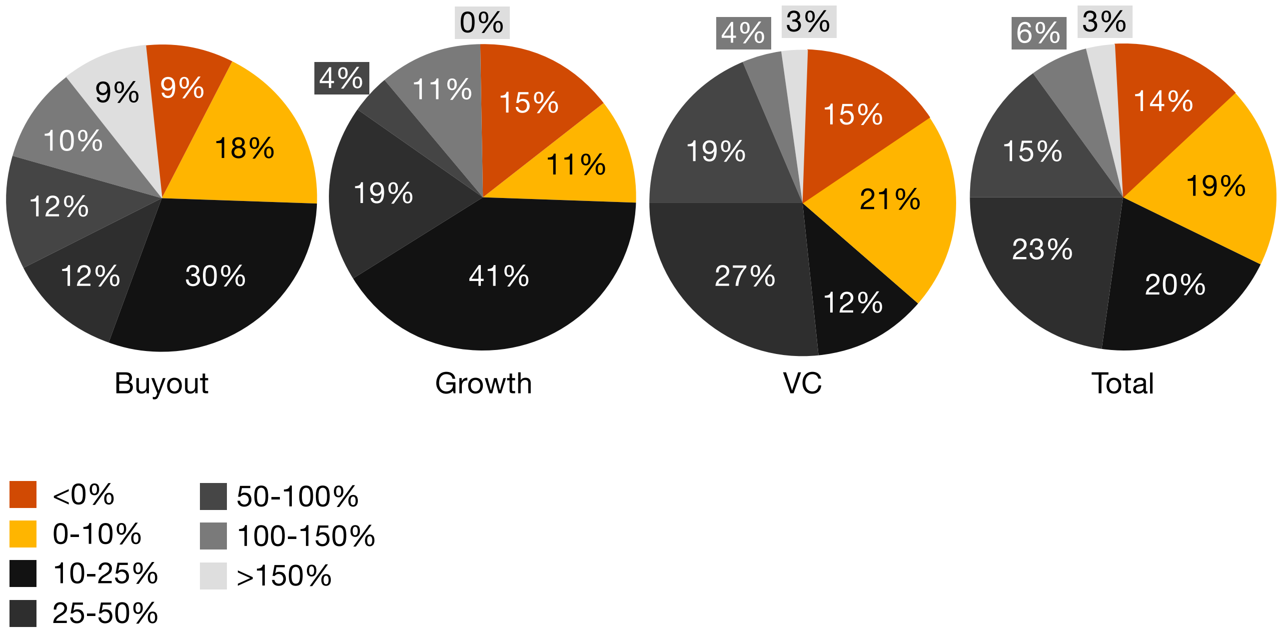
More than 65% of all portfolio companies growing their employee count by more than 10% annually

Compared to revenue growth, personnel growth is more similar across investment classes. For both buyout- and growth-backed companies, the biggest growth bracket is 10–25%, which is high compared to peer groups.

VC-backed companies are growing even faster, with 50% of all companies growing faster than 25% per year. This can likely be explained by the smaller sizes of firms in absolute terms.

The employee count in 9–15% of portfolio companies has decreased over a 3-year period from initial investment.

3-year annual employee growth from investment year by category, %



Notes: Excluding companies with no revenue for investment year or no revenue at the 3-year mark; N = 173 companies/total, 113/VC, 27/growth, and 33/buyout

2,000+ new jobs created in 2023

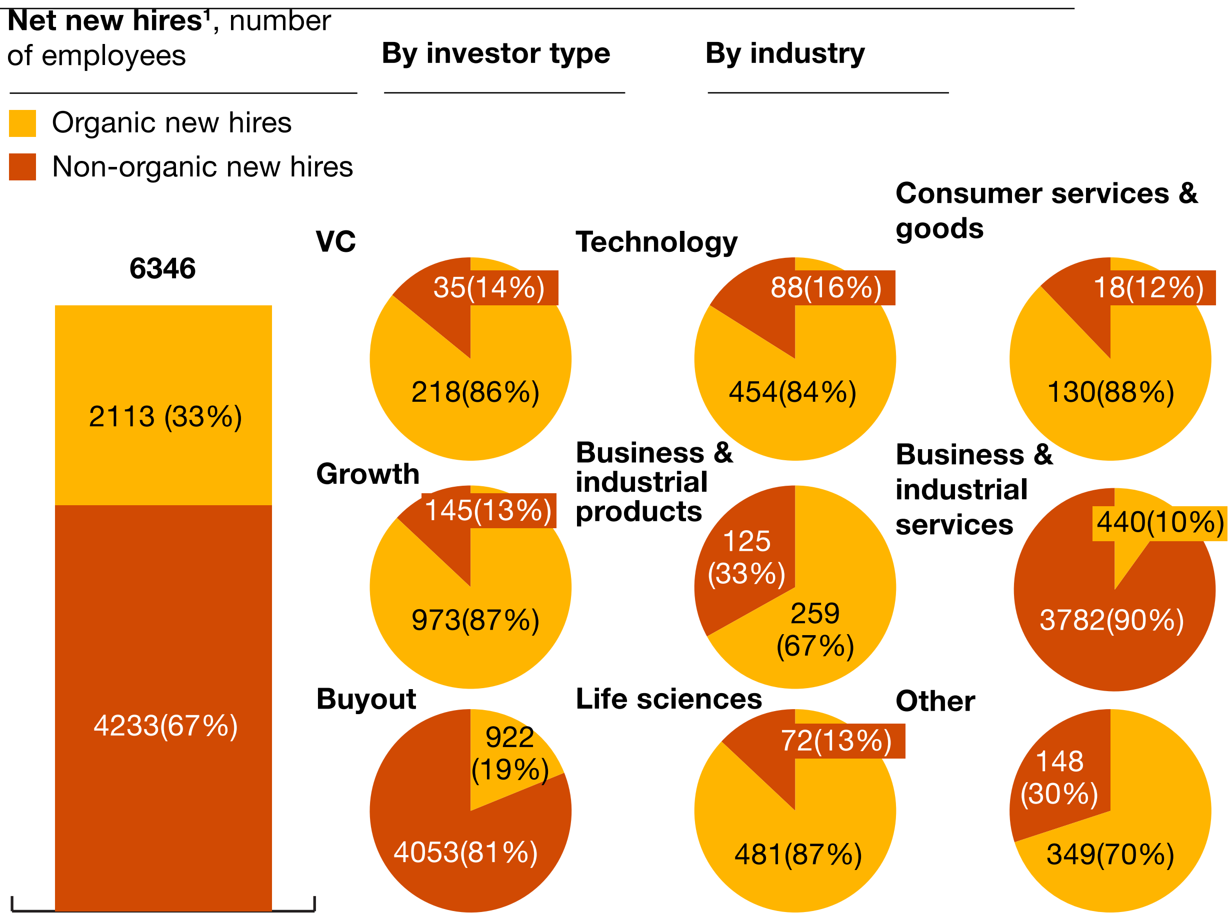
On average, 33% of all new hires are made organically (i.e., not through acquisitions).

Both VC-backed and growth-backed firms grow organically, which can be seen in their 85%+ organic new hire rates – this makes sense as companies in the startup/growth phase do not tend to acquire other companies.

Buyout-backed companies make more acquisitions, which can be seen in 81% of their headcount growth coming inorganically.

Employee counts in most industries mainly grow organically, except for in business & industrial services where a buy-and-build strategy is more common.

New hires by investor type and industry, 2023, number of employees

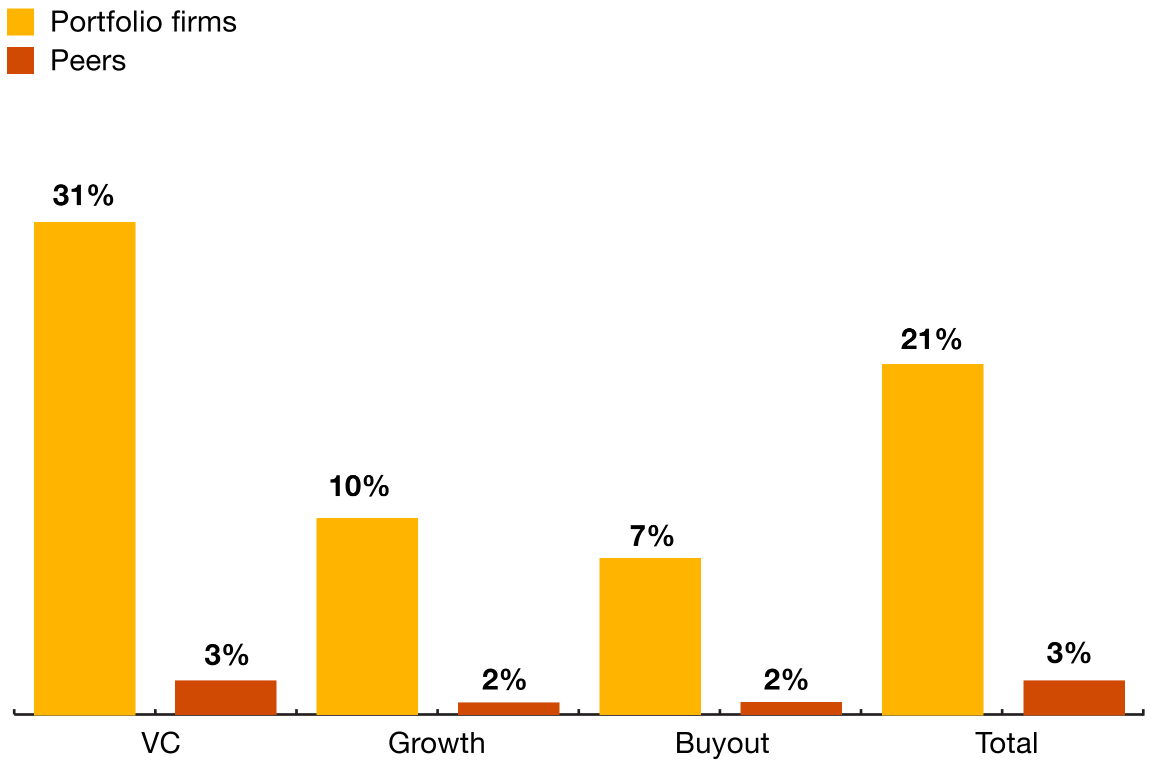


1) Total new hires – Total number of terminations (employees leaving).

Notes: Excluding all companies with less than 10 employees; N = 149/VC, 81/growth, and 86/buyout; N = 43/Consumer services & goods, 37/Other, 45/Business & Industrial products, 46/Business & Industrial services, 111/Technology, and 33/Life sciences

Productivity growth is significantly higher in private equity-backed firms compared to peer groups

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



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

The total growth in productivity is 21% in private equity-backed companies, which can be compared to 3% in peer groups.

The difference is biggest in venture capital-backed companies, which have grown revenue per employee 31% per year in the three years from initial investment. This is partially because the firms may initially have very little revenue, and the business models are more scalable.

Notes: Excluding companies with no employee or revenue data for investment year or no employees or revenue at the 3-year mark; N = 92 companies/total, 52/VC, 18/growth, and 22/buyout

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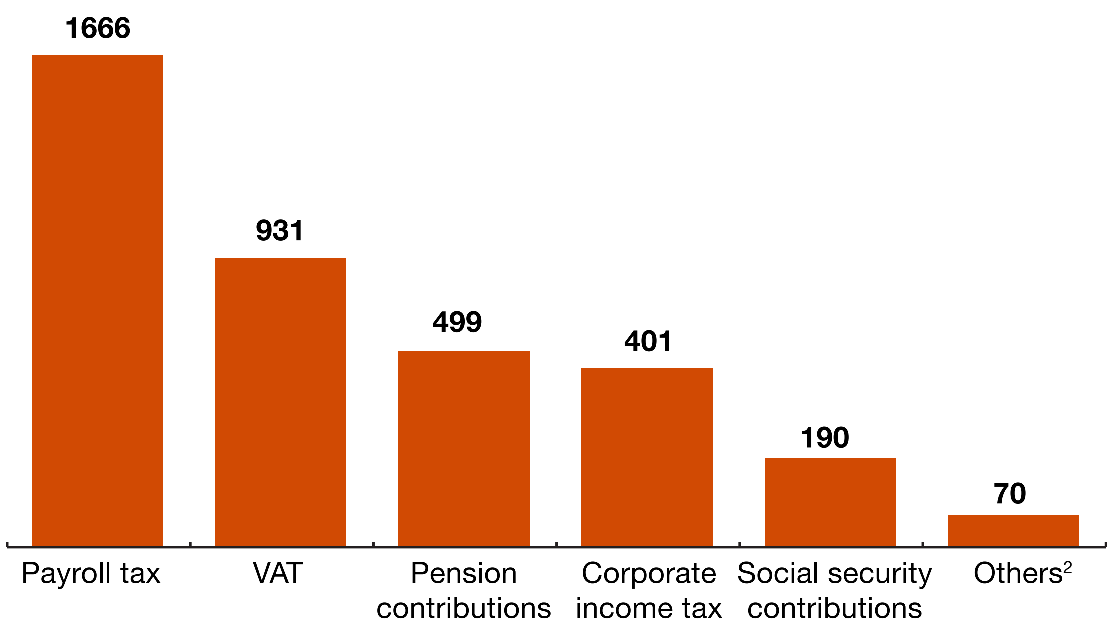
Tax footprint of private equity-backed companies was €3.8 billion in 2022, accounting for 4% of the Finnish tax base

Companies that have received private equity investments in their history paid a total of €3.8 billion in tax and social security contributions in 2022.

Overall, they accounted for 4% of the total tax payments of €90 billion in Finland[1].

The biggest contributor is payroll tax, which private equity -backed companies paid a total of €1.7 billion, 5% of the total sum.

Tax payments by companies backed by private equity, €m, 2022



1) The total excludes employee social security contributions, taxes on specific goods and services and e.g. vehicle tax
2) Others includes real estate tax, withholding tax, and tax on dividends

On private equity

The purpose of this report is to provide an overview of the impact of private equity (including venture capital, growth and buyout investments) on the growth of Finnish companies. The analysis was conducted by PricewaterhouseCoopers Oy together with the Finnish Venture Capital Association.

The material in the report consists of companies that are currently in the portfolio of a Finnish private equity investor.

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 is divided into three categories: venture capital ("VC", including seed companies), growth and buyout (“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-backed company refers to a company that has received a VC investment.

Buyout investments are often directed at medium-sized companies and are, in terms of their profile, less risky than VC investments.

Growth investments are typically minority investments in companies that are beyond the VC stage but still seeking faster growth than buyout investments.

Private equity investments provide 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 networks available to the company for rapid development of the 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: revenue growth, increase in personnel, productivity, and tax footprint.

On methodology

This study by Strategy& / PwC and the Finnish Venture Capital Association (FVCA) examines impact of private equity on the sustainability 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 56 investors and 479 portfolio companies, 300 of which were categorised into venture capital, 85 into growth and 94 into buyout and represents a significant share of Finnish private equity portfolio firms.

The data was collected from the investors via a survey that was self-reported. Apart from simple cleansing, it has not been validated by Strategy& or the Finnish Venture Capital Association.

For each of the investment classes, a peer group was built through collecting a wealth of data from companies of similar sizes and in similar industries as the portfolio companies to ultimately compare their performance over chosen metrics.

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