Building Business backed by Business Relief

Entrepreneurship is a messy, unpredictable business.

Designing products, winning customers, breaking into new markets, hiring the best staff: beyond devising that first brilliant idea there are challenges at every turn.

Which is why having a base of supportive, long-term investors behind them is worth its weight in gold to the UK's growth companies.

Over several decades, business relief has crowded in the capital to build thousands of enterprises, across industries and based in every part of the UK.

The benefits have been widespread, generating tax receipts as well as creating jobs. Business relief is one of the most vital and cost-effective tax incentives offered by the UK government.

Without it, young companies that could go public would remain private, be forced to look abroad for investment, or simply founder.

Without it, billions of pounds of capital would likely be invested unproductively.

We need to retain business relief in its present form so today's growth companies trading on the AIM and Aquis markets have the best chance of becoming the UK's blue-chip stocks of tomorrow.

What is Business Relief?

Business relief encourages dependable, long term investors to put their wealth to productive use by backing exciting, growing companies.

It enables investors to pass on investments upon their death without incurring tax. To take advantage of it, they must invest in certain companies – including most of those that trade on the growth markets AIM and Aquis – as well as having held those shares for at least two years when they die.

Investments that do not qualify for business relief are otherwise liable for inheritance tax at a rate of up to 40%.

Business relief was introduced in the 1976 Finance Act to ensure a family-owned business could survive the death of its owner without having to be sold or broken up to pay an inheritance tax liability.

Over time, it has been adapted by successive governments to encourage people to invest in businesses regardless of whether they run the business themselves.

How Much is Deployed?

Currently, almost £6.5 billion [1] is deployed in funds that help investors capitalise on business relief – about one in every ten pounds invested in qualifying AIM stocks. Specialist providers include Octopus, Canaccord Genuity, Investec Wealth, Downing and Unicorn.

However, the total amount underpinning these growth companies because of business relief is likely to be far more, perhaps £10 billion, because of individuals that have invested directly and founders that have retained an investment in their company post-IPO. It is impossible to be precise because the tax relief is applied retrospectively.

We estimate that another £400 million is deployed in these specialist funds every year – a steady, reliable stream of investment in a market that has suffered from a prolonged period of outflows.

Much of this money is deployed for longer than the requisite two years - perhaps 10 years on average [2], making it one of the most patient sources of capital, supporting companies regardless of market ups and downs.

Who Invests via Business Relief?

Investors planning for the future. Most have taken financial advice before going ahead.

Without the option of business relief to encourage them to support growth companies that are often regarded as risky, these investors would be likely to keep their wealth in cash, bonds or property – or make lifetime gifts to loved ones as part of efficient estate planning.

Even if they ventured into shares, they would be expected to focus their investments on larger, more liquid stocks to ensure they could exit more easily when the time comes.

What are the Benefits of Business Relief...

For Growth Companies?

Business relief provides companies with access to capital that they wouldn't otherwise have. These companies have often grown too large to benefit from investment via Venture Capital Trusts (VCTs) and the Enterprise Investment Scheme (EIS), two more fiscal incentives designed to help young companies prosper.

Business relief ensures companies have access to a diverse range of investors – both institutional and retail – and face fewer barriers to capital raising. While they are growing, it incentivises long-term investment, decreases volatility, enhances liquidity in their stock and supports their valuation. It helps to bridge a funding gap often encountered on the way to becoming bigger, more successful companies.

1: Source: Micap
2: Source: Intelligent Partnership

For Markets?

AIM, part of the London Stock Exchange, has developed into the world's most successful and established market for high-growth companies over 30 years.

As of June 2024, there were 718 companies listed on AIM [3]. Over 75% of these companies have a market capitalisation of less than £100 million; their median market capitalisation is £25 million. They have immense potential but can struggle to raise capital.

AIM companies make a significant contribution to the UK economy. In 2020, they contributed £33.5 billion of Gross Value Added to GDP, and when adding in wider economic activity through supply chains and expenditure by employees, this figure increases the economic contribution to nearly £70 billion [4].

AIM companies are also considered to be more productive than the national average, as measured by GVA per filled job. The AIM average is £77,000 [5] GVA per employee compared with the national average of £56,387.

However, despite its important economic contribution, AIM has suffered from a significant number of company departures, declining from a peak of nearly 1,700 companies in 2007. Company directors are concerned about the cost and complexity of public company life, as well as the challenge of low liquidity and difficulty accessing fresh capital.

Analysts say that many AIM stocks are trading at a significant discount to their intrinsic value, leaving them vulnerable to international and private-equity backed takeovers that transfer value overseas and into the hands of few.

Against this backdrop, business relief remains a bright spot, a vital incentive that is more important than ever.

These negative trends have been exacerbated by net investment outflows in recent years from UK equities, which has been particularly evident in small-cap funds. As of the end of July 2024, the UK has experienced net outflows for 35 consecutive months [6].

This has significantly impacted liquidity, with average daily trading volumes (ADTV) declining in recent years.

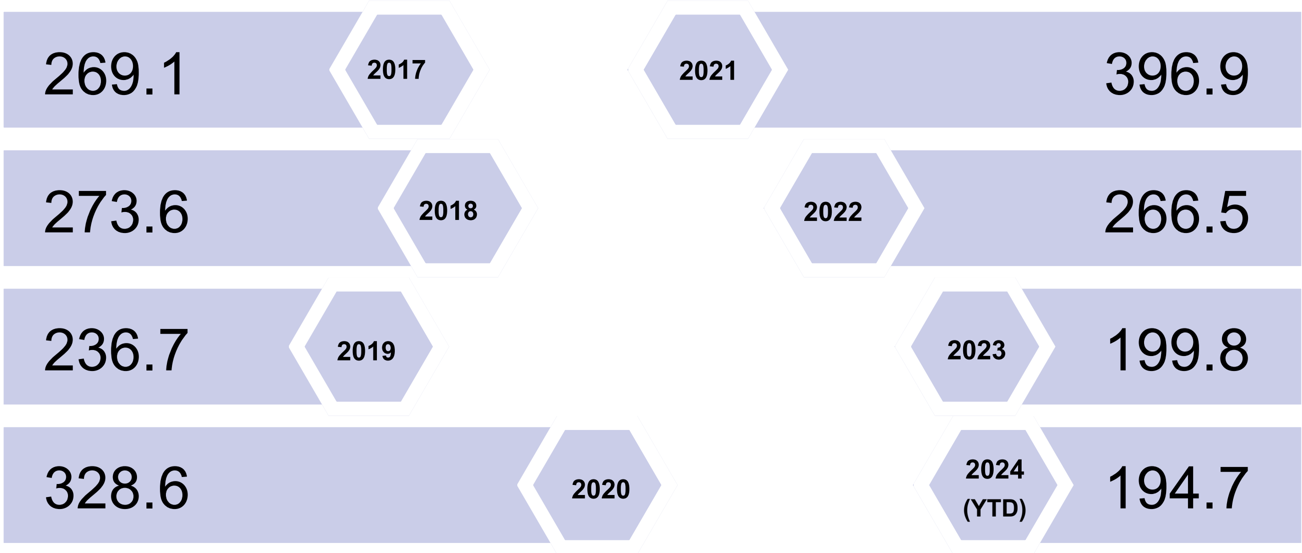
3: Source: LSE Website

4: Source: Grant Thornton

5: Source: Grant Thornton

6: Source: Calastone August 2024

Liquidity (ADTV (£m)) vs Year [7]



Business relief is also one of the tax incentives applicable to eligible stocks trading on the Aquis Growth Market, an important challenger to AIM.

For The UK?

When capital is mobile and companies increasingly are too, business relief advertises the UK's belief that patient capital should be channelled into promising, growing companies.

This has a knock-on effect: with international companies that choose to trade their shares in London, and with international investors that choose to invest here too.

The UK's public market infrastructure is based in London but serves companies across the country. However, when the City of London thrives – because of domestic or international transactions that keep busy its community of brokers, lawyers, accountants and consultants – the UK economy thrives.

It is difficult to calculate the precise number but estimated that the cost of business relief is paid back many times over through the substantial, long-term tax revenues that are generated by the very companies that it funds.

The annual cost to the Exchequer of business relief is currently £1.3bn. Internationally, the incentive's existence demonstrates the UK's eagerness to back growing businesses. The importance of business relief was highlighted in the government's 2017 Patient Capital Review.

It is also a useful tool in encouraging broad retail participation in the public markets – connected capitalism. Some 24% of shares in AIM companies are in retail hands, compared with less than 11% for the London market overall in 2022.

7: Source: LSE Website

COHORT PLC

THE INDEPENDENT TECHNOLOGY GROUP

In 18 years on AIM, Cohort has grown from one defence technology division to six. From its Reading headquarters and bases across the UK, its activities include supplying surveillance and systems that can deflect or divert incoming missiles or aerial drones. Customers include the UK government and overseas security forces.

Cohort's management believe that SME-size businesses can prosper by being part of a larger group, where they benefit from financial oversight, executive support and shared best practice.

UK Locations

Reading, Plymouth, Wokingham, St Neots, Redhill, Frome, Bristol, Barnstaple.

Int. Locations

Portugal, Germany, US, Canada.

Andrew Thomis
Chief Executive,
Cohort

"Cohort has benefitted immensely from our AIM listing. As a small but ambitious company in 2006 it enabled us to access long-term supportive investors and has helped to give our customers and suppliers confidence in our reliability and financial stability."

"At the time of our IPO, we were far too small for the main market, and without the business relief offered by AIM (which we believe over half of our current shareholders benefit from) it would have been questionable whether we could have launched ourselves as a public company at all."

	2006	2024
Market Capitalisation	£27.2m	£349.5m
Revenue	£17.8m	£182.7m
Operating Profit	£1.8m	£19.1m
No. of Employees	115	1,300
Corporation Tax	£0.4m	£6.4m

FINTEL

Fintel is a fintech that has become a connecting force in retail financial services. It provides compliance and regulation services to independent financial advisers and mortgage brokers, marketing and promotion support to financial institutions and proprietary advice technology. The Huddersfield-based company also owns the Defaqto ratings brand.

Since listing on AIM in 2018, its value has grown by over 170% in just six years. Fintel's employees are at the centre of its success. In 2021, the company established a Save As You Earn scheme. It has been voted one of the "Best Companies to Work For" in financial services and in 2023 won "Employer of the Year" at the FT Adviser Diversity in Finance Awards.

The company estimates about one-fifth of its shareholders will benefit from business relief.

UK Locations

Huddersfield, Cwmbran, Haddenham, Epsom, Teddington.

Neil Stevens
Joint Chief Executive, Fintel

"In building Fintel over many years and investing in our people we have been supported by some long-term investors who we know benefit from business relief. It continues to be a vital incentive for our share register."

	2018	2024
Market Capitalisation	£120.8m	£327.1m
Revenue	£50.7m	£64.9m
Operating Profit	£6.8m	£16.9m
No. of Employees	417	501
Corporation Tax	£865k	£2.3m

Tristel™

Over several decades Tristel has worked to become a global player in a key healthcare niche, saving lives in hospitals everywhere. Through its expertise with chlorine dioxide, its products are used to manually decontaminate many diagnostic tools, including ultrasound probes and small endoscopes. It also sells a surface disinfectant to hospitals under the Cache brand.

Soon after floating its shares on AIM in 2005, the company opened a manufacturing plant close to its headquarters in Cambridgeshire. Almost all of its goods exported to 40 countries are still made here. Its international journey continues, with overseas revenues rising from one-half to two-thirds of Tristel's total in five years.

UK Location
Snailwell.

Int. Locations

New Zealand, China, Germany, Switzerland, Belgium, France, Italy, US, Singapore.

Paul Swinney
Founder & Former CEO, Tristel

"As founder, and during my time as CEO of Tristel, it has been essential to have the support of long-term investors following our listing on AIM in 2005. With the support of these investors the exceptional team at Tristel have been able to create a great UK success story, and in return those investors have seen the value of their investment increase by over 12 times as well as receiving cash returns via dividends. "We know that the business relief associated with AIM shares has enabled so many investors to support our business as we've grown, and our success is a testament to the positive impact that this business relief has on smaller growing companies."

Market Capitalisation: 2005 £8.8m — 2024 £223.5m

Revenue: 2005 £3m — 2023 £30.8m

Operating Profit: 2005 £0.44m — 2023 £5.3m

No. of Employees: 2005 10 — 2024 250

CorporationTax: 2005 £184k — 2022 £1m — 2023 £313k

What if Business Relief was Withdrawn?

The UK Listings Review, launched in 2020, and subsequent initiatives have sought to futureproof London's capital markets for companies of all sizes.

It is hugely encouraging to hear the new government say it is eager to offer stability and certainty to investors.

In addition, exploring how the UK can back itself by encouraging UK pension funds to be deployed productively in growing companies is an important step.

But the impact of many of these pro-growth measures would suffer greatly without one of the most effective tax incentives operating alongside them.

Quoted companies, their advisers and investors, require clarity as soon as possible on the continued deployment of business relief.

Without clarity, companies risk losing patient capital that could be withdrawn from them;

Ongoing outflows would subdue the markets, causing other investors to depart;

New investment would be less likely to be deployed;

And companies, suffering from depressed valuations, would be less willing or able to raise fresh funds to invest, recruit, expand, export.

Growth would suffer.

Business relief has supported thousands of UK companies over decades, as well as the wider economy.

The next generation of growth stocks deserve the same support.

For further information and case studies please contact the QCA: mail@theqca.com.

About The QCA

The Quoted Companies Alliance champions the UK's community of 1000+ small and mid-sized publicly traded businesses and the firms that advise them.

We believe the public markets can be the best place for companies to source the funds to grow, operate transparently and distribute wealth, fairly.

The QCA seeks to inform policy in dialogue with regulators and government, showcase the latest thinking on leadership, investment, technology and governance through our events and research, and to provide a forum to share good practice among members, who are quoted on the Main Market, AIM and the Aquis Stock Exchange.

For more information, please visit www.theqca.com.