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How small and mid-cap quoted companies make a substantial contribution to markets, employment and tax revenues

*By Hardman & Co
in collaboration with the Quoted Companies Alliance*

Table of contents

Introduction	3
The landscape of quoted companies	3
Employment	5
Tax paid	6
Our sample	8
Methodology and caveats – employment	8
Methodology and caveats – tax.....	9
About Hardman & Co.....	9
About the Quoted Companies Alliance.....	9
Disclaimer	11
Status of Hardman & Co's research under MiFID II	11



SMQC make massive contribution to society and stock market

Introduction

Politicians and business leaders often refer to small and mid-size quoted companies (SMQCs) as being pivotal to the future of the British economy. But the definition of “small and mid-size” can cover a huge range of companies, and the difference between the UK’s largest companies and the rest is stark, as we present in this paper.

In particular, we examine the companies quoted on the UK’s public equity markets to highlight the difference in size between the largest 100 companies and the rest.

We also present data that show the massive contribution that SMQC make to our society and to the stock market.

In particular, we note the following for SMQCs.

- ▶ They represent 93% of all the companies quoted on the London Stock Exchange (LSE) by number (when investment companies and certain other categories are excluded – see ‘Our sample’ for more detail).
- ▶ They collectively have a market capitalisation of £428bn by value, representing 20% of the total market capitalisation of the LSE (with the same exclusions)¹.
- ▶ They employ over 3 million workers.
- ▶ They account for a substantial proportion of the workforce of all quoted companies in many regions of the UK.
- ▶ They contributed at least £26.5bn in taxes in 2017/18, we estimate, considering just Corporation Tax, Income Tax and National Insurance (NI), and ignoring VAT and Business Rates.

The landscape of quoted companies

On the last trading day of February 2019, the LSE had a total of 2,068 companies listed on its markets (the Main Market and AIM)². However, this list includes investment companies and international companies whose London quote is a secondary one, and which are not really relevant for this piece of work. Filtering these companies out leaves 1,349 companies.

LSE quoted companies, by number					
	LSE			Hardman/QCA SMQC List	
	All companies	Excluded	Filtered all companies	Small and Mid-cap	%
Main Market	1,156	623	533	433	81%
AIM	912	96	816	816	100%
Total	2,068	719	1,349	1,249	93%

Source: LSE, Hardman & Co, Quoted Companies Alliance

Our ‘Hardman/QCA SMQC List’ excludes the 100 largest companies by market capitalisation, leaving just SMQCs. The table below shows that SMQCs form a critical part of the universe of companies quoted on the LSE. The 433 companies listed on the Main Market represent 81% of all the ‘filtered’ companies listed, while all 816 AIM

¹ As at the close on 28 February 2019

² LSE: ‘Companies defined by mifir identifiers list on LSE’

<https://www.londonstockexchange.com/statistics/companies-and-issuers/companies-and-issuers.htm>

How small and mid-cap quoted companies contribute to markets

companies are SMQCs. Adding the two markets together, we find that 93% of the companies by number in our filtered list are SMQCs.

Using the same criteria to look at market capitalisations, we find that the Hardman/QCA SMQC List accounts for 20% of the entire capitalisation of the filtered list.

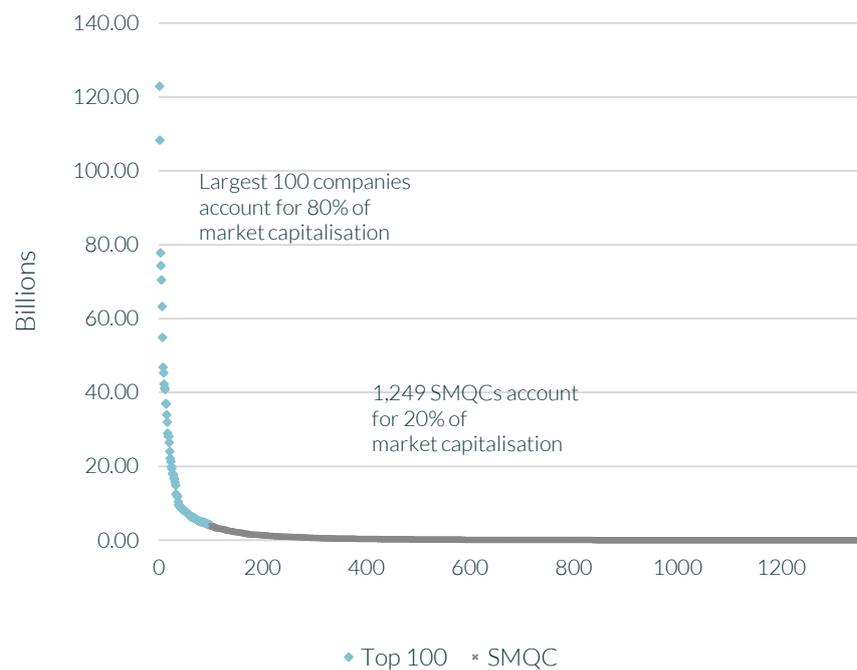
LSE quoted companies by market capitalisation, in £bn

	LSE			Hardman/QCA SMQC List	
	All companies	Excluded	Filtered all companies	Small and Mid-cap	%
Main Market	3,768	1,712	2,056	342	17%
AIM	96	9	87	87	100%
Total	3,864	1,721	2,143	429	20%

Source: LSE, Hardman & Co, Quoted Companies Alliance

Another way to illustrate the distribution of companies is to rank them by market capitalisation, which the following figure does. The blue dots are the 100 largest companies, the grey the SMQCs.

Market capitalisation as at end-February 2019



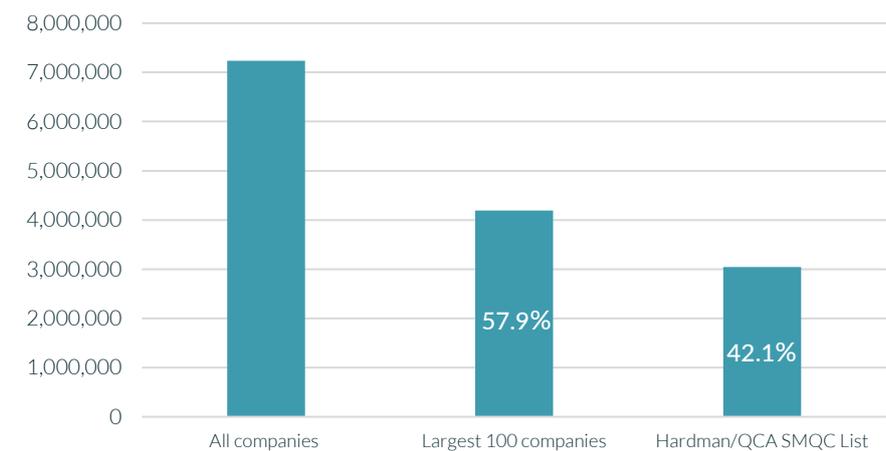
Source: LSE, Hardman & Co, Quoted Companies Alliance

Employment

SMQCs represent 42.1% of all quoted company employees

We have carried out an intensive exercise regarding employment using Thomson Reuters data, with samples of that data cross-checked against published accounts, and the figures from annual accounts used where Thomson Reuters is missing data. We collected data for all companies for their years ending during calendar 2019. For more detail, and the caveats to this data, see our methodology section later.

Employees by quoted company universe



Source: LSE, Hardman & Co, Quoted Companies Alliance, company accounts

Our survey showed that, excluding investment companies and international companies whose London quote is a secondary one, quoted LSE companies had 7,235,156 employees (N.B. we have excluded companies whose registered offices are not in the United Kingdom; these companies employ an additional 642,249 staff, some of whom may be in the United Kingdom).

Clearly, not all these 7.2m employees are in the UK, but, unfortunately, there is no way of getting a definitive answer as to what that proportion might be. Nevertheless, employees in quoted companies must represent a large part of the labour force. Data from the Office for National Statistics show total employment in the United Kingdom at December 2018 of 32,714,000.³ Of these, 83.6% (27,341,000) work in the private sector and 16.4% (5,373,000) in the public sector.

If we exclude the 100 largest companies by market capitalisation and just consider the Hardman/QCA List of SMQCs, we find the number of employees falls to 3,045,747. Again, we cannot know the proportion of these in the UK, but it is likely to be much higher than the figure for the 100 largest companies. It is significant that SMQCs represent 42.1% of all employees in our filtered list.

Employment by region

Understanding how the quoted company labour force is distributed by region in the UK is a difficult exercise, because companies are not required to publish such data. Some do; most do not. Thus, we have used the location of the head office as a proxy. Some companies have workforces spread across the country, while others have a very strong regional bias. We have had to use the location of the headquarter (HQ) as a proxy and assume all employees work in that region. This will inevitably exaggerate the importance of London. For example, Rolls-Royce is headquartered in Buckingham

In many regions, SMQCs account for the bulk of quoted company employees

³ Source: Office for National Statistics, Labour Force Survey

How small and mid-cap quoted companies contribute to markets

Gate, London, but probably only a few hundred of its 23,435 UK workforce are based there.

The table below shows the distribution by region, using the HQ as the locator. Despite all the caveats outlined above, one aspect strikes us: in many regions, SMQCs account for the bulk of quoted company employees.

Quoted company employment by region, 2018						
Region	All companies	% of UK employment	Small- and mid-cap companies	% of UK employment	Small- and mid-cap as % of all companies	
Northern Ireland	3,194	0.0%	3,194	0.1%	100.0%	
Wales	20,791	0.3%	11,455	0.4%	55.1%	
North East	56,632	0.8%	42,972	1.4%	75.9%	
North West	128,412	1.8%	90,240	3.0%	70.3%	
South West	167,238	2.3%	112,848	3.7%	67.5%	
West Midlands	176,902	2.4%	170,637	5.6%	96.5%	
East Midlands	194,197	2.7%	109,549	3.6%	56.4%	
Yorkshire and The Humber	212,784	2.9%	98,453	3.2%	46.3%	
Scotland	330,071	4.6%	220,425	7.2%	66.8%	
East of England	795,682	11.0%	199,455	6.5%	25.1%	
South East	1,330,994	18.4%	350,993	11.5%	26.4%	
London	3,818,259	52.8%	1,635,526	53.7%	42.8%	
Sub-total	7,235,156	100.0%	3,045,747	100.0%	42.1%	
EMEA	565,109		143,364			
UK Offshore Territories	52,901		52,901			
AMER	18,973		11,285			
APAC	5,266		5,266			
Total	7,877,405		3,258,563			

Source: LSE, Hardman & Co, Quoted Companies Alliance, company accounts

We have also shown the number of employees for quoted companies whose HQ is not in the UK.

Tax paid

SMQCs in UK contributed at least £26.5bn to public purse in 2017/18, we estimate

In 2017/18, we estimate that SMQCs in the UK contributed at least £26.5bn to the public purse – about 5% of the total. This figure includes estimates of Corporation Tax, Income Tax and NI. It does not take into account VAT and Business Rates.

Corporation Tax

In 2017/18, HMRC collected £54.4bn in Corporation Tax⁴. Of this, £1.8bn was paid by offshore companies, leaving a net figure of £52.6bn. Our data suggest that £43.7bn in corporation taxes was paid by the quoted sector. Much of this will not be to HM Treasury, but rather to its overseas equivalents, and companies are not required to disclose the identity of recipients. The figure for SMQCs is probably more reliable, given their UK-centric focus. If we assume all of the tax line was paid in the UK (admittedly a large assumption), then SMQCs contributed £4.8bn in Corporation Tax to the public purse.

To produce our estimates, we collected data for tax paid by every company quoted on the LSE. See our methodology section later for more detail.

Income Tax and NI

Income Tax and NI are the largest generators of tax revenue for HMRC. In 2017/18, Income Tax receipts totalled £180bn⁵, while NI (from employers and employees)

⁴ HMRC TAX & NIC RECEIPTS 21/3/19

⁵ HMRC TAX & NIC RECEIPTS 21/3/19

contributed a further £130.9bn. Data showing what proportion of this is derived from UK quoted companies and, in particular SMQCs, are not available.

Nevertheless, we can make an educated guess:

- ▶ we assume average remuneration is the same for the total UK workforce and quoted companies;
- ▶ we take the total number of employees reported by SMQCs whose HQ is in the UK (3,045,747);
- ▶ we assume only 75% of these employees are in the UK (2,284,310);
- ▶ we divide 2,284,310 into the ONS number for all UK employees (32,714,000, remembering that public and private employees/employers pay Income Tax and NI); and
- ▶ we multiply the ratio generated in the fourth bullet above by the totals for Income Tax and NI collected.

Then, we calculate that SMQCs must generate £12.6bn in Income Tax and £9.1bn in NI, a full 7.0% of those taxes collected.

VAT

Value-added tax (VAT) generated £125.3bn in 2017/18⁶. As it is based on value-added and as tax paid on inputs by a company is deducted from tax collected on sales, it is difficult for us to calculate. Sales by all quoted companies in our survey year amounted to £1,737bn, of which £408bn came from SMQCs. Clearly, a portion of these sales was outside the UK and would not attract UK VAT. The difficulty of estimating is shown if we multiply quoted sales by 20% – the result is £348bn, nearly three times the total VAT generated. Thus, we cannot produce a reliable figure.

Business Rates

Business Rates generated £27.8bn in 2017/18⁷. Quoted companies will pay Business Rates, like every other property occupier in the UK. However, there is, again, no reasonable basis on which to apportion the total figure between quoted and unquoted companies.

Tax paid in summary

£bn UK tax revenue by source 2017/18			
	UK total	SMQC estimate	%
Corporation Tax	54.4	4.8	8.8%
Income Tax	180.0	12.6	7.0%
NI	130.9	9.1	7.0%
VAT	125.3	N/A*	N/A*
Business Rates	27.8	N/A*	N/A*
Total	518.4	26.5	5.1%

Source: Office for National Statistics, Hardman & Co, Quoted Companies Alliance, company accounts
*data not available

⁶ HMRC TAX & NIC RECEIPTS 21/3/19

⁷ HMRC TAX & NIC RECEIPTS 21/3/19

Our sample

1,349 companies in our sample

The LSE's 'Companies defined by MiFIR identifiers list on LSE', published at the end of February 2019, totals 2,068 companies.

For our analysis in this paper, we have excluded the following:

- ▶ Investment companies (equity investment instruments and non-equity investment instruments). They have very few employees, and would probably be excluded by the casual observer.
- ▶ Companies whose main listing is elsewhere, such as Boeing and Honeywell.
- ▶ REITs, for the same reasons as investment companies.
- ▶ Companies that are listed in the 'Admission to trading only' segment.
- ▶ Companies that are suspended.

After applying these filters, we are left with 1,349 companies listed on both the Main Market and AIM.

Methodology and caveats – employment

Quoted companies are required to report employment numbers. Hardman & Co has used a combination of searches on Thomson Reuters (verified by sample cross-references with company accounts) and manual collection where the data are missing, to produce employment numbers.

Not all companies report to the same year-end. To construct our data, we have used annual accounts for the year ending at some month in 2018. Thus, some data will be based on the reports to January 2018, but none will be to January 2019.

Unfortunately, the data produced by the Office for National Statistics (ONS) are not directly comparable with those for quoted companies, for a number of reasons:

- ▶ Quoted companies are not required to specify whether an employee is full- or part-time; some do, but most do not.
- ▶ Quoted companies are not required to specify the geographical location of employees; again, some do, and some do not. We would suggest that the larger the company, the greater the proportion of employees outside the UK.
- ▶ ONS measures employment as the number of people in paid work, which differs from the number of jobs, because some people have more than one job.
- ▶ ONS statisticians survey employees by geographical distribution in the UK. Quoted companies have no requirement to disclose data in this way. Thus, the nearest proxy we can use is to allocate employment to a region based on the location of the head office. This is necessarily arbitrary. It will tend to exaggerate employment in London, since many companies whose workforce is outside London base their HQ there. For example, Rolls-Royce is headquartered at Buckingham Gate, London; it has 54,500 employees, but only 43% are in the UK, and the vast bulk of these are outside London.

Methodology and caveats – tax

- ▶ Corporation Tax: to calculate Corporation Tax collected, we used the same data collection methodology as for employee numbers. Companies have no requirement to specify in which country the tax was paid.
- ▶ Income Tax and NI: we used the data collected on employees and divided these numbers into total UK employees to produce a ratio to apply to total tax collected. We assumed that only 75% of SMQC employees were based in the UK.

About Hardman & Co

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Our expert team of nearly 35 sector analysts and market professionals collectively has over 400 years of experience. This depth of knowledge and a reputation for integrity have built trust with investors. With effective communication and precision distribution, we help companies disseminate their investment message to interested investors, as well as advise them on strategy.

Our smaller, boutique structure allows us to provide first-class customer service and to deliver a wide range of ad-hoc services for multiple clients with different needs.

www.hardmanandco.com

About the Quoted Companies Alliance

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small and mid-size quoted companies (SMQCs).

We campaign: we campaign on issues that matter to small and mid-size quoted companies to influence policy and regulation. We run seven [ExpertGroups](#) that bring together individuals from companies and advisory firms in the market around specific issues to help shape our policy work.

- ▶ **We inform:** through our guides, events, newsletters and other communications, we arm our members with all the information their businesses demand, allowing them to make the best decisions for their companies.
- ▶ **We interact:** we provide a forum for small and mid-size quoted company directors to network and share ideas with other directors, fund managers, brokers and advisors. Through our [events](#), we help put small and mid-size quoted companies in touch with leading players in the market.

www.theqca.com

About the authors

Keith Hiscock is the Chief Executive of Hardman & Co.

He is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate.



Keith has more than 35 years' stockbroking experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith has also advised companies, large and small, on their relationships with the capital markets.

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Yingheng joined Hardman & Co in 2008. She holds the Chartered Financial Analyst Level 2 qualification, together with a BSc in Economics from the London School of Economics.

Ben Calvert, intern at Hardman & Co

Ben was awarded a First-Class Honours Maths degree from the University of Warwick in 2018. He made a substantial input to the collection and analysis of data for this report.



Tim Ward, CEO of Quoted Companies Alliance

Tim is CEO of the Quoted Companies Alliance, the independent membership organisation championing the interests of small to mid-size quoted companies. His past roles have included Head of Issuer Services at the London Stock Exchange, Finance Director at FTSE International, the index company, and various management roles at a smaller quoted company. Tim is a Chartered Accountant, has a MBA from Henley Business School and is a qualified executive coach and mentor



Anthony Robinson, Head of Policy & Communications at Quoted Companies Alliance

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In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public...'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

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