QUOTED COMPANIES ALLIANCE

HARDMAN & CO.

## Research Report

# Punching above their weight?

### The contribution of small and mid-cap quoted companies to markets, employment and tax revenues

# Contents



The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-sized quoted companies. It is a company limited by guarantee registered in England under number 4025281.



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QUOTED COMPANIES ALLIANCE

**Tim Ward**
Chief Executive, QCA

**Whilst the virtues of public markets are evident, this new report shows some concerning numbers. Our public markets are shrinking**

# Introduction

**Public markets are a vital element of any prosperous economy because they provide the best means to finance companies' growth and for society to share in the resulting wealth.**

For smaller companies, for whom the growth journey is far from complete, each step they take has a positive multiplier effect on the wider economy. They are the engines of growth, fuelling a healthy, diverse and innovative economic ecosystem.

As you will see from this report, produced in conjunction with Hardman & Co, the contribution of small and mid-caps on the UK's public markets in terms of share of employees, economic output and tax take is significant.

For employees at these companies, the benefits of having thriving public markets are similarly significant. Being employed at a publicly listed company means that employees have access to ownership in their place of work and benefit directly from the success of the business. This drives positive outcomes such as better job satisfaction. In addition, these companies are more transparent and are held to higher standards than private companies, due to the external scrutiny from investors and regulators.

Higher standards of governance and transparency create more robust companies and therefore greater job security for the employees. Additionally, the governance standards themselves serve to protect employees as a stated aim. As part of the greater emphasis on Environmental, Social and Governance (ESG) standards, the social element places emphasis on how companies treat their employees.

Whilst the virtues of public markets are evident, this new report shows some concerning numbers. Our public markets are shrinking. Since the last time Hardman & Co. analysed the markets' data, we lost a net of 169 small and mid-cap quoted companies in the three years between 2019 and 2022 (426 left and 257 joined). These companies took 800,000 jobs into the private sector with them, meaning those employees lost many of the extra benefits derived from being employed by a public company. But there is a silver lining to the data cloud in that earlier Hardman & Co research suggests that newly listed companies increase their workforces by some 30% over the first two years after their IPO.

The additional benefits of public markets such as the availability of patient growth capital and the distribution of wealth to wider society are also lost when we have a net decline in publicly listed companies.

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Unfortunately, this has become a long-term, embedded trend. For around two decades the UK has seen the number of companies traded on its stock exchanges decline. Further concern comes from the fact that the majority of this loss is coming from small and mid-caps, where the greatest potential for growth exists.

This report adds to the groundswell of evidence that a new approach to regulation of our markets is needed. The good news is that the government and regulators have been making positive steps. This momentum cannot be lost as the evidence once again shows a need for us to create more attractive markets to enable companies to raise meaningful amounts of finance to truly realise their potential.

I'd like to thank Keith Hiscock and the team at Hardman & Co for working with us on this report.

**Tim Ward**
Chief Executive, QCA

## Introduction from Hardman & Co

Back in May 2019, the Quoted Companies Alliance and Hardman & Co jointly published a paper [1] looking at the importance of small and mid-sized quoted companies (SMQCs) to the markets, and their contribution to tax revenues and employment in the UK. This is a poorly researched area, and that paper helped frame the debate; it has been quoted from by bodies such as the City of London Corporation [2].

Three years have passed since that note, and we felt it was time to update the work. Of course, the economic and business conditions in which we find ourselves today are very different from the pre-pandemic world of 2019. This makes comparisons between then and now particularly troublesome. Nevertheless, we felt the time had come for a review.

Politicians and business leaders often refer to SMQCs as being pivotal to the future of the British economy, but the definition of 'small and mid-sized' 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 shows the massive contribution that SMQCs make to our society, in terms of employment and tax revenues, and to the stock markets.

**SMQCs make substantial contribution to society in terms of employment and tax revenues, and to the stock market**

We have also looked at the net change in the number of employees. It is important to understand this, as there are distinct benefits for the individuals themselves and the wider society when employees work for public companies. Alignment of staff with a company's business objectives and, increasingly, alignment of a company's ESG performance with employees' expectations can better be achieved in the public gaze, with the advantages that, for example, share schemes and transparency can bring. We believe that this is the first time anyone has sought to explore the continuing fall in numbers of companies on the stock market by expressing this in terms of workforce numbers.

In particular, we note the following for SMQCs:

- They represent 91% of all the companies quoted on the London Stock Exchange (LSE) by number (when investment companies and certain other categories are excluded – see section entitled Our sample for more detail).
- There has been substantial turnover since our last survey, with 683 companies leaving or joining the list.
- They collectively have a market capitalisation of £376bn by value, representing 15% of the total market capitalisation of the LSE (with the same exclusions).
- They employ over 2.1 million workers.
- The net reduction in company numbers has taken 800,000 jobs with it. We have demonstrated before how newly listed companies grow their workforce, and the benefits to staff of being listed; so this is an issue that needs addressing.
- They account for more than 75% of the workforce of all quoted companies in several regions of the UK.

They contributed at least £25.1bn in taxes in 2020/21, we estimate, without including Business Rates. On a comparable basis, SMQCs' contribution suffered a modest decline in the face of the most challenging trading conditions this century. Their contribution amounts to approximately 5% of the total tax take for Corporation Tax, Income Tax, National Insurance (NI) and VAT.

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[1] Hardman & Co; How small- and mid-cap quoted companies make a substantial contribution to markets, employment and tax revenues

[2] City of London Corporation paper: London's Equity Capital Markets Ecosystem, May 2021, pages 8 and 9

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# 1: Landscape of quoted companies

**On the last trading day of May 2022, the LSE had a total of 1,957 companies listed on its markets (on both the Main Market and AIM). However, this list includes investment companies and international companies whose London quote is a secondary one; these companies are not relevant for the purpose of this research report.**

After filtering out the latter, we are left with 1,180 companies. This is a 12.5% decrease from the 1,349 companies we had in our paper in May 2019.

**Table 1:** LSE-quoted companies, by number, as at 31 May 2022

| | LSE | | | QCA/Hardman & Co SMQC list | |
|---|---|---|---|---|---|
| | All companies | Excluded | Filtered all companies | Small- and mid-cap | % |
| Main Market | 1,129 | 653 | 476 | 376 | 79.0% |
| AIM | 828 | 124 | 704 | 704 | 100% |
| **Total** | **1,957** | **777** | **1,080** | **1,080** | **91.5%** |

**Note:** Dual-listed companies are grouped under Main Market category.
**Source:** LSE, Quoted Companies Alliance, Hardman & Co Research.

Our 'QCA/Hardman & Co SMQC List' excludes the 100 largest companies by market capitalisation, leaving just SMQCs. The table shows that SMQCs form a critical part of the universe of companies quoted on the LSE. The 376 companies listed on the Main Market (vs. 433 in the 2019 report) represent 79% of all the 'filtered' companies listed, while all 704 AIM companies (vs. 816 last time) are, of course, SMQCs. Adding the two markets together, we find that 91.5% of the companies, by number, in our filtered list are SMQCs.

Of course, looking at the picture in February 2019 and May 2022 gives only a snapshot. In between, there are a lot of moving parts – summarised in the table below.

| Table 2: Change in SMQC list since February 2019 | |
|---|---|
| No. of companies in SMQC list, February 2019 | 1,249 |
| Companies that left SMQC list from 2019 | 426 |
| Remaining 2019 vintage | 823 |
| New names added to 2022 SMQC list | 257 |
| **Total 2022 SMQC list** | **1,080** |

**Source:** LSE, Hardman & Co, Quoted Companies Alliance.

The table shows that, in our last survey, in February 2019, our SMQC list comprised of 1,249 companies. Of these companies, 426 no longer appear in our 2022 list. They have left for many reasons, including delisting, takeover, promotion, etc. After the 426 departures, 823 companies from the 2019 survey remain on our 2022 SMQC list. However, a further 257 names have joined, leaving a 2022 total of 1,080. That is quite a substantial turnover in the period, with a total of 683 leaving or joining the list vs. the base of 1,249.

Applying the same criteria to market capitalisations, we find that the QCA/Hardman & Co SMQC List accounts for 15% of the entire capitalisation of the filtered list.

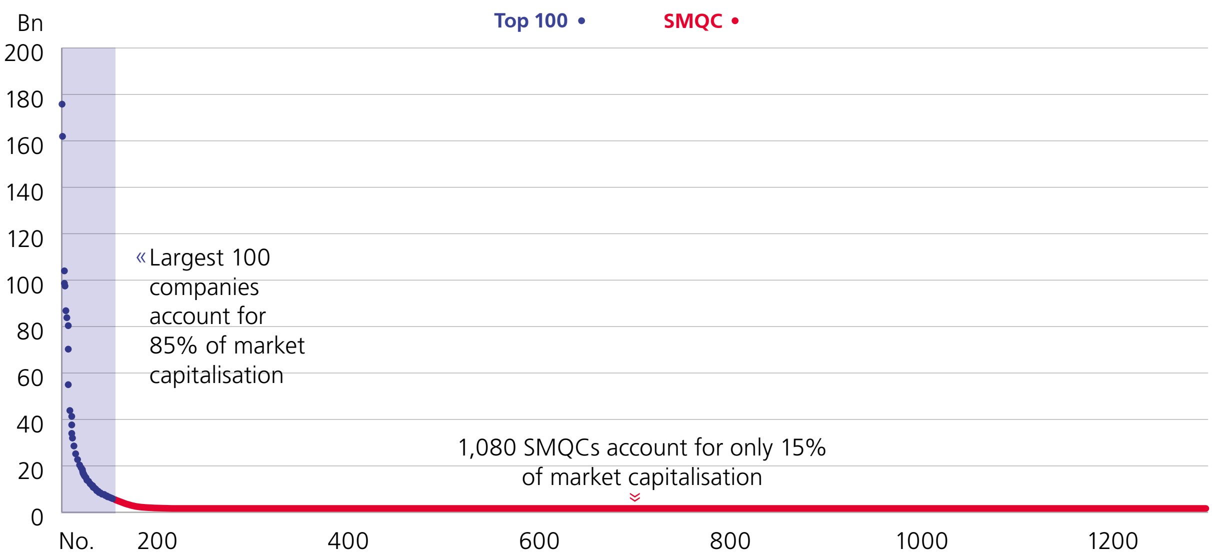
**Table 3:** LSE-quoted companies by market capitalisation (£bn) as at 31 May 2022

| | LSE | | QCA/Hardman & Co SMQC list | |
|---|---|---|---|---|
| | All companies | Filtered all companies | Small- and mid-cap | % |
| Main Market | 3,734 | 476 | 276 | 12% |
| AIM | 116 | 99 | 99 | 100% |
| **Total** | **3,850** | **2,482** | **376** | **15%** |

**Note:** Dual-listed companies are grouped under Main Market category.
**Source:** LSE, Quoted Companies Alliance, Hardman & Co Research.

Another way to illustrate the distribution of companies is to rank them by market capitalisation, as shown in the chart below. The purple dots are the 100 largest companies, and the red are the SMQCs.

**Table 4:** Market cap as at end-May'22




**Source:** LSE, Quoted Companies Alliance, Hardman & Co Research.

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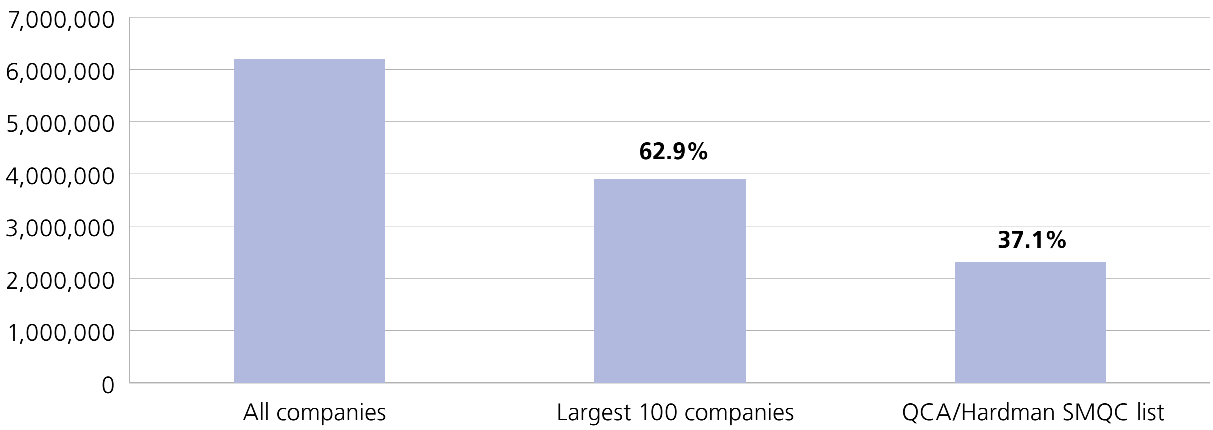
**SMQCs represent 37.1% of all UK employees in our filtered list (i.e. excluding companies whose registered offices not in UK)**

## 2: Employment

**We have carried out an intensive exercise regarding employment using Refinitiv data, with samples of that data cross-checked against published accounts, and the figures from annual accounts used where Refinitiv is missing data.**

We collected data for financial years ending during calendar 2021. For more detail, and the caveats to this data, see our Methodology and caveats section later in this note.

**Table 5:** Number of employees by quoted company universe




**Source:** Hardman & Co

Our survey showed that, excluding investment companies and international companies whose London quote is a secondary one, quoted LSE companies had 5,930,008 employees (N.B. we have excluded companies whose registered offices are not in the United Kingdom; these companies employ an additional 248,594 staff, some of whom may be in the United Kingdom).

Clearly, not all these 5.9m employees are in the UK, but, unfortunately, there is no way of getting a definitive answer as to what that proportion might be, since there is no requirement for companies to publish this information. Nevertheless, employees in quoted companies must represent a large part of the labour force. Data from the Office for National Statistics (ONS) show total employment in the United Kingdom of 32,569,000 3[3] in May 2022; of these, 82.9% (26,999,000) work in the private sector and 17.1% in the public sector [4].

[3] ONS Employment in the UK: May 2022
[4] ONS dataset EMP02: Public and private sector employment

If we exclude the 100 largest companies by market capitalisation and consider just the QCA /Hardman & Co List of SMQCs, we find that the number of employees falls to 2,177,048. Again, we cannot know the proportion of these in the UK, but it is likely to be a much higher percentage than the figure for the 100 largest companies. It is significant that SMQCs represent 37.1% 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.**

Some companies have workforces spread across the country, such as retailers, while others have a very strong regional bias, such as most manufacturers. We have had to use the location of the headquarter (HQ) as a proxy, and we assume that all employees work in that region. This will inevitably exaggerate the importance of London. For example, Rolls-Royce is headquartered in London N1, but possibly as few as 100 of its 19,700 UK workforce are based there.

The table below shows the distribution by region, using the HQ as the locator. We have also shown the number of employees for quoted companies whose HQ is not in the UK.

**Table 6:** Quoted company employment by region, 2021

| Region | All companies | % of UK employment | Small- & mid-cap companies | % of UK employment | Small- & mid-cap as % of all companies |
|---|---|---|---|---|---|
| Northern Ireland | 2,274 | 0.0% | 2,274 | 0.1% | 100% |
| Wales | 19,571 | 0.3% | 8,846 | 0.4% | 45.2% |
| North East | 62,377 | 1.1% | 50,592 | 2.3% | 81.1% |
| Yorkshire and The Humber | 99,060 | 1.7% | 87,804 | 4.0% | 88.6% |
| South West | 130,640 | 2.2% | 87,804 | 4.0% | 88.6% |
| North West | 148,717 | 2.5% | 102,787 | 4.7% | 69.1% |
| East Midlands | 174,917 | 2.9% | 57,301 | 2.6% | 32.8% |
| West Midlands | 188,219 | 3.2% | 145,212 | 6.7% | 77.2% |
| Scotland | 228,133 | 3.8% | 142,122 | 6.5% | 62.3% |
| East of England | 612,855 | 10.3% | 139,003 | 6.4% | 22.7% |
| South East | 1,140,541 | 19.2% | 323,852 | 14.9% | 28.4% |
| London | 3,122,704 | 52.7% | 1,029,632 | 47.3% | 33.0% |
| **Sub-total** | **5,930,008** | **100.0%** | **2,177,048** | **100.0%** | **36.7%** |
| EMEA | 177,926 | | 76,042 | | |
| UK offshore territories | 60,966 | | 35,412 | | |
| APAC | 2,189 | | 2,189 | | |
| AMER | 7,513 | | 154 | | |
| **Total** | **6,178,602** | | **2,290,845** | | |

**Source:** Refinitiv, Quoted Companies Alliance, Hardman & Co Research, company accounts.

The numbers shown here are lower than in our previous report. Our survey in 2019 showed that small and mid-cap companies headquartered in the UK employed 3,045,707 workers. This is partly because our SMQC list is shorter than it was last time (1,080 companies vs. 1,249 in 2019), but also because we have been able to find data for a smaller percentage of this list (80% vs. 90%).

**Table 7: The 'lost' SMQC employees**

| | |
|---|---|
| **The 'lost' 2019 employees** | **1,247,794** |
| The 'gained' 2022 employees | 265,444 |
| No. of 2022 new SMQCs with data | 167 |
| Avg. no. of employees | 1,589 |
| Total no. of 2022 new SMQCs | 257 |
| Multiply by 2022 average | 1,589 |
| Estimated total new employees | 408,498 |
| **Net employees 'lost' between 2019 and 2022 from SMQCs** | **839,296** |

**Source:** Refinitiv, Quoted Companies Alliance, Hardman & Co Research, company accounts.

The table above gives more detail. The 426 companies that left the 2019 SMQC list took 1.2m employees with them. We should not get carried away with averages here, because G4S was one of those companies, and it had 573,672 employees in the 2019 survey.

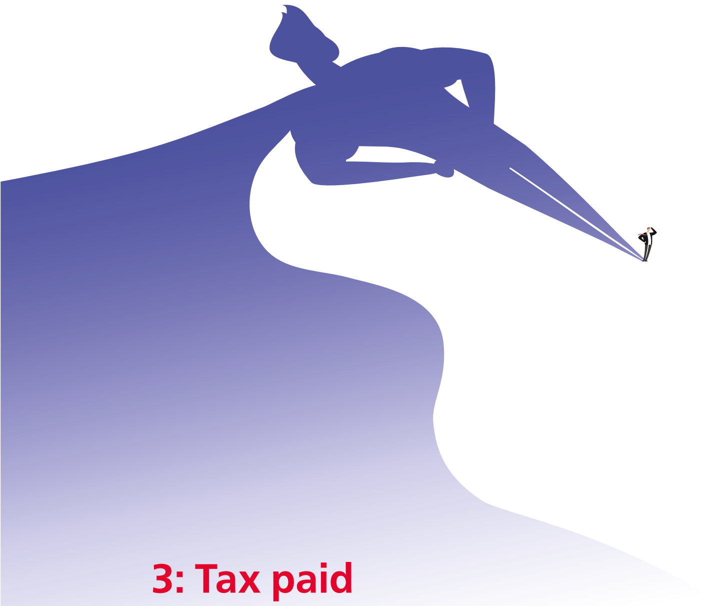
We have data for 167 of the 257 2022 joiners; the joiners may be from IPOs, and have yet to report numbers. However, if we pro-rata the data, we do have for the 167 to 257 (there is no reason to believe the average number of employees is any different), then the joiners brought 0.4m with them. In net terms, the SMQCs employ 0.8m fewer staff.

Does the reduction in headcount matter? Well, being a public company brings many benefits to the company and staff. For the company, being public raises your profile, and generally makes you more appealing to customers and financiers. For the staff, the more successful the company, the better life is likely to be – plus you get other benefits, such as share schemes. The QCA and Hardman & Co jointly published a paper in August 2021 demonstrating that companies that IPO'd grew their staff headcount in the following two years by up to 34% per annum [5].

It is also worth noting that, in many regions, SMQCs account for the bulk of quoted company employees; in the cases of the West Midlands, the North East, Yorkshire and Northern Ireland, the figure is more than 75%.

**Employment by SMQCs has shrunk by 800,000 which means their employees miss out on the benefits of working for a public company**

[5] Hardman & Co Good jobs come to those who IPO, August 2021



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## 3: Tax paid

**In 2020/21, we estimate that SMQCs in the UK contributed at least £25.1bn to the public purse. About 5% of Income Tax and NI must come from SMQCs, and 9% of Corporation Tax, we estimate. We have not included Business Rates in the total because, although SMQCs clearly pay them, we cannot find a reliable way to estimate the contribution.**

In our last survey, in 2019, we estimated that SMQCs contributed £26.5bn to the public purse. This survey suggests that the comparable figure for 2021 was £21.5bn (if VAT is included, which we did not estimate in 2019). The reduction must be described as remarkably modest, given the very different economic conditions in the two years.

### Corporation Tax

In 2020/21, HMRC collected £51.0bn in Corporation Tax [6]. Our data suggest that £48.3bn in corporation taxes was paid by the entire quoted sector. Much of this will not be to HM Treasury (HMT), but rather to its overseas equivalents, and companies are not required to disclose the identity of recipients. The figure for SMQCs is probably more likely to be to HMT, given their greater UK-centric focus. If we assume all of the tax line was paid in the UK (admittedly a large assumption), then SMQCs contributed £4.6bn in Corporation Tax to the public purse. This amounts to 9% of all Corporation Tax collected.

Please read our Methodology and caveats section later in this note for more detail on how we collected this data.

### Income Tax and NI

Income Tax and NI are the largest generators of tax revenue for HMRC. In 2020/21, Income Tax receipts totalled £193.7bn [7], while NI (from employers and employees) contributed a further £143.4bn. Data showing what proportion of this is derived from UK quoted companies and, in particular SMQCs, are not available.

[6] gov.uk – HMRC Tax Receipts and National Insurance Contributions for the UK New Annual Bulletin
[7] gov.uk – HMRC Tax Receipts and National Insurance Contributions for the UK New Annual Bulletin

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 (2,177,048).
- We assume only 75% of these employees are in the UK (1,632,786).
- We divide 1,632,786 into the ONS number for all UK employees (32,569,000 [8]), remembering that public and private employees/employers pay Income Tax and NI).
- We multiply the ratio generated in the fourth bullet above by the totals for Income Tax and NI collected.

Thus, we estimate that SMQCs must generate £9.7bn in Income Tax and £7.2bn in NI.

## VAT

Value-added tax (VAT) generated £101.6bn in 2020/21 [9]. The figure was deflated by the schemes to relieve the impact of the pandemic. In this year's report, we make an estimate of VAT paid by SMQCs.

We know that, broadly, VAT is paid on the difference between the sales and cost lines in a company's accounts; thus the figure for pre-tax profits is a good proxy for the taxable base. Obviously, this is a broad-brush approach, and can be criticised because:

- We have to assume that VAT is levied at the standard rate of 20%...
- ...but some sales to overseas countries are free of VAT...
- ...and some sales within VATable countries, including the UK, are also free of VAT (brokers' commission, for example!), or attract a lower-than-standard rate (5% on fuel is an example).
- We also have to assume that, if a company makes a loss, it can reclaim VAT.
- Finally, we assume that all the profit is made in the UK.

**Table 8:** Estimated VAT paid by SMQCs (£bn)

| | Data available | SMQC profit/loss | VAT @ 20% |
|---|---|---|---|
| Sum of all pre-tax profit | 578 | 29.1 | 5.8 |
| Sum of all pre-tax loss | 489 | -11.2 | 2.2 |
| **Total for calculation** | **1,067** | **17.9** | **3.6** |

**Source:** Refinitiv, Quoted Companies Alliance, Hardman & Co.

The table above suggests that, for those companies where we have data, VAT of £3.6bn was collected. We have been able to gather data only for 1,067 of the 1,080 companies in our 2022 SMQC list. Of course, this is only an estimate, but it is probably the best that we can make, given the available data.

**We estimate 5% of Income Tax and NI comes from SMQCs, and 9% of Corporation Tax and that SMQCs generate £9.7bn in Income Tax and £7.2bn in NI**

[8] ONS Employment in the UK: May 2022
[9] gov.uk – HMRC Tax Receipts and National Insurance Contributions for the UK New Annual Bulletin

## Business Rates

Income from non-domestic rates for England in the fiscal year 2020/21 was £12.9bn [10]. This is significantly below the amount normally seen, due to the retail discount relief of £11.1bn, which the government introduced to ease the impact of the COVID-19 pandemic. 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.

**Table 9:** UK tax revenue by source (£bn), 2020/21

| | UK total | SMQC estimate | % |
|---|---|---|---|
| Income Tax | 193.7 | 9.7 | 5.0% |
| NI | 143.4 | 7.2 | 5.0% |
| Corporation Tax | 51.0 | 4.6 | 9.0% |
| VAT | 101.6 | 3.6 | 3.5% |
| Business Rates | 12.9 | n/a | 0.0% |
| **Total** | **502.6** | **25.1** | **5.0%** |

**Source:** HMRC, Refinitiv, Quoted Companies Alliance, Hardman & Co Research.

## Our sample

The LSE's Companies defined by MiFIR identifiers list on LSE, published at the end of May 2022, totals 1,957 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 1,180 companies listed on both the Main Market and AIM.

[10] ONS National non-domestic rates collected by councils in England: 2020 to 2021

# Methodology and caveats

## Employment

Quoted companies are required to report employment numbers. Hardman & Co has used a combination of searches on Refinitiv (verified by sample cross-references with company accounts) and manual collection where the data are missing to produce employment numbers. Nevertheless, there are still some companies where we have been unable to find reliable data.

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 2021. Thus, some data will be based on the reports to January 2021, but none will be to January 2022.

The ONS produces employment data, but, unfortunately, they 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, as noted earlier, Rolls-Royce is headquartered in London N1; it has 44,000 employees worldwide, but only 19,700 (45%) are in the UK, and the vast bulk of these are outside London [11]. The nearest guess as to how many are based in London is the 'Corporate' line in the employment report, which numbers just 100.

## Tax

- Corporation Tax: to calculate Corporation Tax collected, we used the same data collection methodology as for employee numbers. The figure used is that for tax paid, i.e. the amount paid across in the year, which may differ from the tax charged, because tax is generally paid in arrears. 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 have used the assumption that only 75% of SMQC employees were based in the UK.

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[11] Rolls-Royce Holdings plc, Annual Report 2021, page 46, People and culture

# About Hardman & Co

Hardman & Co are a rapidly growing, innovative corporate research and consultancy business, based in London, serving the needs of both public and private companies.

Their 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, they help companies disseminate their investment message to interested investors, and also advise them on strategy.

Their smaller, boutique structure allows them 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 QCA

**We are the Quoted Companies Alliance. We bring small and mid-sized quoted companies together to build one voice to help create an environment where these businesses can grow and deliver sustainable long-term benefits for investors and wider society.**

We believe that our members have huge potential, but they need a public market environment conducive to growth to allow them to attain it. We enable this environment by influencing policy and regulation, informing our members through surveys, research and guides and creating interaction through workshops, webinars, networking events and exclusive meetings.

Our members are quoted on the Main Market, AIM and the Aquis Stock Exchange. Informed by our seven Expert Groups, we campaign to ensure that regulation is proportionate and encourages growth, whilst maintaining the necessary protections for investors.

**theqca.com**

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**Quoted Companies Alliance**

**T** +44 (0)20 7600 3745
mail@theqca.com

**theqca.com**