COVID-19 Business Impact – 6 months on

Understanding the impact of COVID-19 on ambitious UK businesses

Beauhurst
Introduction

The COVID-19 pandemic has sent shock waves through the economy. We've come out the other side of a countrywide lockdown and are now adjusting to a world guided by one way systems, stripped back offices and social gatherings of no more than six.

Back in April, we set out to measure and track the broad impact of the pandemic, as well as individual government restrictions, on the UK’s most innovative and ambitious businesses. These represent the future of the country’s economy, employing millions of people and securing billions of pounds in investment and grants.

In our first report in this series, we mapped out the most and least affected sections of the economy. Back then, we tracked 28,499 ambitious UK businesses. At the time of writing, we track 30,025. That means that more than 1,500 companies have hit at least one of our eight tracking triggers during the pandemic — a true testament to the strength of our high-growth ecosystem. In this second edition, we’ve compared our initial findings with the current state of the economy, to see how the situation has progressed over the past six months.

We’ve concluded with our updated recommendations for the Government. The support systems implemented by Chancellor Sunak, from furlough to CBILS, have been of great help to those on the receiving end. But more can and should still be done to protect and brace the economy through a second wave, into the winter months and beyond.

If you’re interested in finding out more about the dataset and how you can gain access, please get in touch with us at info@beauhurst.com or by calling us on 020 7062 0060.

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No area of the economy has been untouched by the Government’s response to coronavirus. The Government’s support packages have luckily, for the most part, not neglected the high-growth ecosystem. No solution was going to be perfect but through Innovate UK schemes, the Future Fund, CBILS, furlough and others, many startups and scaleups have received support. And this is visible in the large proportion of companies featured in this report that look set to weather the worst of the recession.

If the Government continues with restrictions that cause substantial economic damage, more support will be needed. Even if all restrictions were lifted tomorrow, many companies would be past the point of no return. Our analysis in the following pages shines a light on those struggling companies, but it also highlights the companies that are succeeding either through luck or through pivot. The UK’s startups and scaleups are a resilient bunch—but they can only take so much more.

Henry Whorwood, Head of Research & Consultancy
Headline findings

1. Just under a third of high-growth businesses are now at risk from the pandemic, down from 53% in April, but we're not out of the woods yet.

2. £11.9b worth of equity investment and £738m of grant funding remains at moderate to critical risk, representing 16% and 23% of their respective markets.

3. Just 32 high-growth companies have folded as a direct result of the pandemic, with a combined headcount of 1.66k. Meanwhile, 843k employees are at at-risk businesses.

4. Although they were initially hit the hardest, companies with large employee counts and a turnover of over £1b are now the most likely to be in recovery.

5. Scaleups are one of the most polarised classes of company. 40% remain in an at-risk category, whilst 21% are in the positive impact or positive recovery categories.

6. Spinout companies have made substantial progress, with 63% of those in negative impact categories in April now operating under low or positive impact. Just 16% are still at risk.

7. London has the highest proportion of positively impacted businesses, followed by the East of England, Northern Ireland and the North West. Scotland is the worst affected area.

8. Seed stage companies have agility on their side, but may not have the resources to weather the storm. These are now the least likely to be in a positive impact category.

9. Companies operating in traditional sectors have shown improvement, but are still vulnerable. Just under half of leisure and entertainment businesses remain under threat.
About this report

Methodology

We’ve undertaken a rigorous approach to this project, manually assessing and then reviewing each of the companies tracked in our database.

Where possible, we’ve drawn on information published on company websites and social media channels. Just under a quarter of companies have shared information about how they’ve been impacted by the pandemic. Where a company has not announced any changes to its activity, we’ve conducted some careful analysis of the business model, target markets and sector of operation to determine the likely impact of government restrictions and the current economic situation.

In our initial report, we introduced six impact statuses, which described the overall condition of companies in the early stages of the pandemic. Now that the situation has progressed — with restrictions eased and select businesses able to get back to a relatively normal operation — some of companies’ situations have improved.

This scenario is different from the businesses that saw a positive impact when the pandemic was at its peak. So we’ve now implemented an additional tag: positive recovery. Where a business has reached a potentially positive status, after spending more than 14 days in a negative impact category, it has been assigned the positive recovery tag.

We’ve also introduced two new impact tags. “Launch postponed” describes a situation in which a company that has no commercially-released products or services postpones its first launch as a result of the pandemic. “Product/service restricted in some areas” accounts for differing restrictions across the country, such as localised lockdowns.
The impact tags

All companies have been assigned up to 18 of the following “COVID-19 impact tags”:

- Temporary cessation of operations
- Closing most or all physical premises
- Limiting physical services provided
- Restrictions prevent provision of product/service
- Surge in demand
- Creating job opportunities
- Offering product for free/reduced cost
- Reduced operating hours
- Offering online services only
- Take-away only
- Explicit staffing cuts
- Increased lead times
- Loss of key customer group
- Struggling to cope with demand
- Fundamental business model change
- Permanent closure of the business
- Launch postponed
- Product/service restricted in some areas

Based on these tags, we’ve built an algorithm that determines a company’s “COVID-19 status”:

- **Potentially positive impact**
  A company that can potentially grow its operations as a result of these circumstances.

- **Positive recovery**
  A company that has experienced a negative impact of coronavirus, but is now showing signs of recovery and is experiencing a potentially positive impact.

- **Low impact**
  A company that will be able to largely continue normal operations, albeit possibly with safety measures such as working from home in place.

- **Moderate impact**
  A company that has suffered disruption beyond mere inconvenience but is mostly able to continue operations.

- **Severe impact**
  A company that has suffered serious disruption to its ability to operate.

- **Critical impact**
  A company that is facing an existential threat to its ability to continue in operation.

- **Permanent closure**
  A company that has definitively ceased trading as a result of COVID-19.
Fewer than a third of UK companies are now ‘at risk’

Back in April, 53% of high-growth companies were in an ‘at risk’ category, with 17% falling into the severe and critical categories. Now, the majority of businesses (52%) are back up and running, operating under low impact.

A little over 500 have turned a negative situation around, and now reside in our new positive recovery category. We hope to see this number rise at an increasing rate over the coming months. An impressive 15% of companies have remained in the potentially positive category, but there are still a far greater proportion in the moderate risk category (27%).

Just 283 companies remain in critical status. Half of these businesses operate within the leisure and entertainment industry. We’re very pleased to see that only 32 companies have shut up shop as a direct result of COVID-19.

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potentially positive</td>
<td>4,193</td>
<td>15%</td>
</tr>
<tr>
<td>Low</td>
<td>9,098</td>
<td>32%</td>
</tr>
<tr>
<td>Moderate</td>
<td>10,121</td>
<td>36%</td>
</tr>
<tr>
<td>Severe</td>
<td>2,688</td>
<td>9%</td>
</tr>
<tr>
<td>Critical</td>
<td>2,382</td>
<td>8%</td>
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<tr>
<td>Permanent closure</td>
<td>17</td>
<td>0%</td>
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<table>
<thead>
<tr>
<th>Category</th>
<th>Number of Companies</th>
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<tr>
<td>Positive recovery</td>
<td>502</td>
<td>2%</td>
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<tr>
<td>Potentially positive</td>
<td>4,610</td>
<td>15%</td>
</tr>
<tr>
<td>Low</td>
<td>15,723</td>
<td>52%</td>
</tr>
<tr>
<td>Moderate</td>
<td>8,059</td>
<td>27%</td>
</tr>
<tr>
<td>Severe</td>
<td>816</td>
<td>3%</td>
</tr>
<tr>
<td>Critical</td>
<td>283</td>
<td>1%</td>
</tr>
<tr>
<td>Permanent closure</td>
<td>32</td>
<td>0%</td>
</tr>
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</table>
The number of companies hiring increases ten-fold

Many of the Government's most stringent restrictions have been gradually lifted over the past six months, evident in the drastic decline in the number of companies prevented from offering their product or services, and those closing most or all physical premises. But social distancing measures, the requirement to wear a face mask in enclosed spaces, and regulations within business environments mean that 7,746 high-growth businesses are still having to limit physical services.

Of particular importance, we've seen the number of companies creating job opportunities increase ten-fold, with 3,022 offering new roles.
Employees

Less than 30% of jobs are at risk

Whilst unemployment rates across the country continue to rise, the number of jobs at risk in high-growth companies has now dropped from the worryingly high levels recorded back in April.

Only 3% of employees at high-growth companies are working for critically or severely impacted businesses. This is a dramatic reduction from April, when that figure was 22%. Just over a quarter (26%) work at moderately impacted businesses, down from 39% in April.

So far, 1,655 jobs have been lost from the 32 companies that have gone under as a direct result of the pandemic. It is likely that this figure would be much higher, if we were to take the number of redundancies from active but struggling businesses into account. And as Sunak’s furlough scheme starts to wind up, we expect to see a sudden spike in job losses over the coming months.

Companies with larger employee counts are more likely to have bounced back

At the beginning of the pandemic, businesses with larger employee counts were the most likely to be at risk. In April, 28% of high-growth companies with an employee count between 500 and 999 were facing severe or critical risk. These tend to be older and operating in more traditional sectors which require customer footfall or in-person work, which were restricted and in many cases prohibited.

But it seems that these businesses have also been the most likely to bounce back post-lockdown. An impressive 45% of companies with an employee count of over one thousand are in the potentially positive or positive recovery categories. This compares with just 8% of businesses that have fewer than five employees. Reassuringly, most of the discrepancy here seems to lie within the low impact category, with a similar proportion of critical and severely impacted companies in each employee bracket.
### Figure 7.
Proportion of impact classifications across companies split by employee bracket, April 2020.

<table>
<thead>
<tr>
<th>Employee Bracket</th>
<th>Number of Companies</th>
</tr>
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<tbody>
<tr>
<td>&lt;5 employees</td>
<td>6,459</td>
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<tr>
<td>5–9 employees</td>
<td>4,712</td>
</tr>
<tr>
<td>10–24 employees</td>
<td>5,344</td>
</tr>
<tr>
<td>25–49 employees</td>
<td>3,405</td>
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<tr>
<td>50–99 employees</td>
<td>2,910</td>
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<td>100–249 employees</td>
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<tr>
<td>250–499 employees</td>
<td>987</td>
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<tr>
<td>500–999 employees</td>
<td>528</td>
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<tr>
<td>&gt;1000 employees</td>
<td>443</td>
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<table>
<thead>
<tr>
<th>Impact Classification</th>
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</thead>
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<tr>
<td>Positive recovery</td>
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<tr>
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</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td>Moderate</td>
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<tr>
<td>Severe</td>
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<tr>
<td>Critical</td>
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<tr>
<td>Permanent closure</td>
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</tbody>
</table>

### Figure 8.
Proportion of impact classifications across companies split by employee bracket, September 2020.

<table>
<thead>
<tr>
<th>Employee Bracket</th>
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</tr>
</thead>
<tbody>
<tr>
<td>&lt;5 employees</td>
<td>7,014</td>
</tr>
<tr>
<td>5–9 employees</td>
<td>4,712</td>
</tr>
<tr>
<td>10–24 employees</td>
<td>5,735</td>
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<td>25–49 employees</td>
<td>3,473</td>
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<td>50–99 employees</td>
<td>3,074</td>
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<td>100–249 employees</td>
<td>3,008</td>
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<td>250–499 employees</td>
<td>1,029</td>
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<tr>
<td>500–999 employees</td>
<td>554</td>
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<tr>
<td>&gt;1000 employees</td>
<td>461</td>
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</tbody>
</table>

<table>
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<th>Impact Classification</th>
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<tr>
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<tr>
<td>Low</td>
</tr>
<tr>
<td>Moderate</td>
</tr>
<tr>
<td>Severe</td>
</tr>
<tr>
<td>Critical</td>
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<tr>
<td>Permanent closure</td>
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</table>
Turnover

Companies with a turnover of £1b or more are the most likely to be in recovery

Following a similar trend as employee count, companies with larger turnover were more negatively impacted in April, but are the most positively impacted in September. Although these companies are operating at a greater scale, and will therefore need more damage control, they also have a greater pool of resources to draw from.

Companies that are now at severe or critical risk have a combined turnover of £15.8b. This figure has reduced by £84b since April.

There are currently no high-growth businesses reporting a turnover of £100m or more that have permanently closed as a direct result of the pandemic.
Yet again, the Capital comes out on top

London is still home to the highest proportion of positively impacted and recovering companies (20%), with the East of England coming in second at 18%. This is no doubt due to the high density of tech companies in each of these regions. Northern Ireland and the North West also fare well. Scotland remains one of the worst hit regions, with 5% of companies at severe and critical risk.

Figure 11.
Map showing percentage of positively impacted companies in each region, September 2020.

Figure 12.
Figure 13.

Scotland 2,097 companies
North East 856 companies
Wales 1,050 companies
East Midlands 1,182 companies
Yorkshire & The Humber 1,652 companies
South West 1,984 companies
North West 2,288 companies
West Midlands 1,561 companies
East of England 2,082 companies
South East 3,680 companies
Northern Ireland 655 companies

Positive recovery Potentially positive Low Moderate Severe Critical Permanent closure

Figure 14.

Scotland 2,223 companies
North East 902 companies
Wales 1,097 companies
East Midlands 1,228 companies
Yorkshire & The Humber 1,731 companies
South West 2,118 companies
North West 2,384 companies
West Midlands 1,665 companies
East of England 2,146 companies
South East 3,952 companies
Northern Ireland 705 companies

Positive recovery Potentially positive Low Moderate Severe Critical Permanent closure
**Equity and grant-backed businesses are more likely to have improved**

Businesses that have received either equity investment or public grants are still less likely to be negatively affected, and more likely to be positively impacted by coronavirus. They are also more likely to have progressed from negative to positive impact stages than other businesses.

An impressive 55% of equity-backed companies that were at risk in April are now in a low or positive impact category. This figure stands at 52% for grant-backed businesses and 50% for all companies.

Despite large increases in the amount of funding in the market since April, the proportion of equity investment and grant funding at risk has reduced massively. Of the equity-backed businesses that were at risk in April, 45% are now in the low impact category. Companies that remain at moderate, severe or critical risk have collectively secured £11.9b of equity and £734m of grant funding.

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**Figure 15.** Impact of COVID-19 on equity-backed businesses and grant recipients, April 2020.

**Figure 16.** Impact of COVID-19 on equity-backed businesses and grant recipients, September 2020

**Figure 17.** Percentage of equity and grant funding severely, critically and moderately at risk, April 2020.

**Figure 18.** Percentage of equity and grant funding severely, critically and moderately at risk, September 2020.

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**Equity and grant-backed businesses**

- **Equity-backed businesses**
  - 14,378 companies
- **Grant recipients**
  - 3,165 companies
- **All businesses**
  - 28,499 companies

**Positive recovery**

- **Equity-backed businesses**
  - 14,378 companies
- **Grant recipients**
  - 3,165 companies
- **All businesses**
  - 28,499 companies

**% of equity funding at risk**

- £58.4b invested of which £18.9b at risk
  - 32%

**% of grant funding at risk**

- £2.54b grant funding of which £1.30b at risk
  - 51%

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**Equity and grant-backed businesses**

- **Equity-backed businesses**
  - 15,190 companies
- **Grant recipients**
  - 3,375 companies
- **All businesses**
  - 30,025 companies

**Positive recovery**

- **Equity-backed businesses**
  - 15,190 companies
- **Grant recipients**
  - 3,375 companies
- **All businesses**
  - 30,025 companies

**% of equity funding at risk**

- £76b invested of which £11.9b at risk
  - 16%

**% of grant funding at risk**

- £3.26b grant funding of which £734m at risk
  - 23%
Spinouts and scaleups

Scaleups remain polarised, spinouts show great improvement

Scaleups are one of the most polarised classes of company. 40% remain in an at-risk category, down from 65% in April. Thankfully, most of these are at moderate risk (36%) rather than severe (3%) or critical (1%). Meanwhile, 18% are in the positive category and 3% are in recovery.

Spinout companies have made substantial progress, with 63% of those in negative impact categories in April now operating under low or positive impact. Just 16% are still at risk.

Spinouts have been less affected by restrictions on products or services, as they are unlikely to be consumer-facing, instead focussing on high-tech research with a long-term vision. These companies are also very likely to have received some variety of funding, giving them resources to adapt to the changing situation. A staggering 70% have secured equity investment and 45% have been awarded grant funding (compared with 54% and 17% of all high-growth companies, respectively).

Figure 19. Impact of COVID-19 on scaleup and spinout businesses, April 2020.

Figure 20. Impact of COVID-19 on scaleup and spinout businesses, September 2020.
## Sectors

**eHealth gets even fitter, traditional sectors improve but are still vulnerable**

It will come as no surprise that eHealth companies have gone from strength to strength as the drive for a vaccine and demand for remote healthcare options continues to rise. Just 3% are in an at risk category, and a hefty 50% are positively impacted.

Leisure and entertainment companies were the worst hit at the beginning of the pandemic. Some of these businesses have made a comeback, with 4% in positive recovery and 43% in the low impact category. On top of this, an additional 199 have met at least one of our eight tracking triggers during the pandemic, showing that there are still plenty of opportunities for growth.

But 14% of this sector is still at severe or critical risk, and a third remain in the moderate category. Their survival will depend heavily on the effects of a second wave and further lockdown measures.

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### Figure 21.
Proportion of impact classifications across selected sectors, April 2020.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>eHealth</td>
<td>338</td>
</tr>
<tr>
<td>Digital security</td>
<td>464</td>
</tr>
<tr>
<td>Technology</td>
<td>10,068</td>
</tr>
<tr>
<td>Industrials</td>
<td>8,291</td>
</tr>
<tr>
<td>Retail</td>
<td>2,357</td>
</tr>
<tr>
<td>Leisure and entertainment</td>
<td>2,876</td>
</tr>
<tr>
<td>Potentially positive</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Moderate</td>
<td></td>
</tr>
<tr>
<td>Severe</td>
<td></td>
</tr>
<tr>
<td>Critical</td>
<td></td>
</tr>
<tr>
<td>Permanent closure</td>
<td></td>
</tr>
</tbody>
</table>

### Figure 22.
Proportion of impact classifications across selected sectors, September 2020.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>eHealth</td>
<td>361</td>
</tr>
<tr>
<td>Digital security</td>
<td>491</td>
</tr>
<tr>
<td>Technology</td>
<td>10,807</td>
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<tr>
<td>Industrials</td>
<td>8,766</td>
</tr>
<tr>
<td>Retail</td>
<td>2,514</td>
</tr>
<tr>
<td>Leisure and entertainment</td>
<td>3,075</td>
</tr>
<tr>
<td>Positive recovery</td>
<td></td>
</tr>
<tr>
<td>Potentially positive</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
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<tr>
<td>Moderate</td>
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<tr>
<td>Severe</td>
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<tr>
<td>Critical</td>
<td></td>
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<tr>
<td>Permanent closure</td>
<td></td>
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</tbody>
</table>
Company stage

**Growth stage leads on positive impact, Established leads on positive recovery**

In the first edition of our COVID-19 Business Impact report, we asserted that Established stage businesses should be the most robust companies in the country, generating more turnover, more tax, and employing more people than earlier stage businesses.

Back in April, these companies had the highest proportion of critically and severely impacted businesses. This was likely down to common sectors of operation, which include retail, industrials and leisure and entertainment, all of which were massively restricted under initial lockdown rules. Now, Established stage businesses are the least likely to be at critical risk and the most likely to be in positive recovery. However, they are also the most likely to be at moderate risk.

Seed stage businesses (which are small, young and usually tech-based) have agility on their side, but some may lack the resources to weather the storm. These are now the most severely and critically impacted businesses (although not by much), and least likely to be in a positive category.

**Figure 23.** Proportion of impact classifications across companies by their stage of evolution, April 2020.

**Figure 24.** Proportion of impact classifications across companies by their stage of evolution, September 2020.
Recommendations

Our proposals for supporting SMEs in a time of crisis

We are by no means out of the woods yet: the second wave notwithstanding, it is still unclear what kind of recession the first wave has caused. As our report has shown, companies’ performance and viability during the lockdown — and the semi-lockdown we now find ourselves in — has varied considerably. Although the majority of companies will survive, too many could yet fail. But we must turn our thoughts from preservation and survival to recovery. To allow companies to plan for the future and ultimately prosper — realistically in 2021 — two things are needed: stability and innovation.

Stabilising the economy

Provide stability by continuing existing schemes

1.1 Furlough
The premise of the furlough scheme could not be sustained indefinitely, at some point workers need to be productive for their employers. The Chancellor’s job retention scheme, which replaces the furlough scheme at the end of October, significantly scales back the state’s support of jobs. This is the right move for high-skilled jobs whose benefit to the economy will be felt later, but will be harder on lower-skilled jobs. Many jobs an employer feels could be easily replaced if demand picks up will be lost in the short term. But the clarity of this scheme is admirable.

1.2 Funding schemes
CBILS, BBLS and the Future Fund have helped businesses during the lockdown. If the Government continues these schemes, this will offer support and reassurance to businesses. Deadline extensions are useful: companies that didn’t think they’d need the schemes when they were introduced may feel differently now.

1.3 Tax holidays
HMRC has provided useful support to businesses of all stripes by providing VAT payment deferrals and flexible repayment schemes. The continuation of this kind of support would be welcome.

Promote innovation

A lot of the companies in our report have adequate prospects for the future, but the first thing that businesses stop at times like this is investment in innovation. Yet that is precisely what we need right now if the economy is going to bounce back strongly instead of entering a prolonged
depression. And we need it from the high-growth, highly-productive companies that feature in our report.

We propose that the Government doubles down (quite literally) on incentivising investment in innovation. A doubling of R&D tax credits for claims during this tax year would provide a significant reduction in costs for profitable businesses and a very welcome additional grant for loss-making ambitious companies. Using the existing mechanism of R&D tax credits will allow the Government to target the businesses that need help the most and won’t burden them with debt when the UK enters recovery.

This measure could be used to support the Government’s existing industrial strategy, a recommitment to which would provide clarity and direction to the entirety of the high-growth ecosystem.

If you’d like to explore the data behind this report, whether to help inform policy, determine your organisation’s strategy, or better understand risk and opportunity in your sector, you’ll need access to the Beauhurst platform.

Want to target individual companies based on their current impact status, or see the overall effects on operations? We’ve now introduced historical COVID data on our platform, so you can get the full picture for each business you’re interested in, as well as each category of company mentioned in this report.

Want to see it for yourself?

Get in touch at info@beauhurst.com or by calling us on 020 7062 0060.

“The COVID-19 Impact dataset has been invaluable to me and my team of researchers. We’ve used these impact statuses as a measure of resilience, and been able to look at the top-performing companies to identify the characteristics that help them overcome the effects of the pandemic.”

Maksim Belitski, Associate Professor in Entrepreneurship and Innovation
Henley Business School

Hannah Skingle
Author

Ella Halmari
Design & graphics