NEW FINANCIAL
Rethinking capital markets

THE VALUE OF CAPITAL MARKETS TO THE UK ECONOMY

ANALYSIS OF HOW UK COMPANIES USE THE CAPITAL MARKETS AND THE ROLE THEY PLAY IN SUPPORTING JOBS ACROSS THE UK

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> This report shows that capital markets have a vital role to play in supporting the UK economy through the Covid crisis and driving a recovery. The report identifies 1,000 large UK companies that use the capital markets to support their day-to-day business, raise capital, or manage their risks. These companies employ nearly six million people in the UK and represent nearly 90% of UK firms with revenues of more than £200m.

What this report is about

Capital markets have a vital role to play in supporting the UK economy through the Covid crisis and in fuelling an economic recovery. In more normal times, capital markets channel investment in the UK economy to help finance companies and drive growth, investment, jobs and prosperity. They diversify the range of funding for companies, complement bank lending, and expand the overall availability of finance to the economy. In the wake of an economic shock like the Covid crisis, this function is even more important: capital markets add flexibility, capacity and fast access to billions of pounds for companies. But to most people outside the industry capital markets can seem remote and detached from the economy they exist to support.

This report shows that capital markets play a central role in the day-to-day functioning of the economy: we estimate that more than 90% of large UK companies use the capital markets to raise capital, invest in their business, or manage risk. These companies have a huge impact on the wider economy and employ nearly six million people across the UK.

The most obvious value of banking and finance to the UK economy is that the industry employs more than 1.1 million people across the UK and generates more than 10% of UK tax receipts. However, this report measures that value in terms of the industry's customers: what proportion of large UK companies use the equity, bond or loan markets, and how much capital have they raised? What proportion of companies have been backed by private equity or been involved in mergers and acquisitions? How many of them use the derivatives market to help manage their day-to-day risks? And how many people do these companies employ in the UK?

The report underlines how relevant capital markets are to the wider economy and measures the direct economic contribution that companies that use the capital markets make to the economy in terms of employment. We think it's the first attempt to analyse the value of capital markets in this way, and we hope it provides a useful starting point for the discussion on how the industry can help support the economy through the Covid crisis, help drive a recovery, and help 'level up' the regional economy across the UK.

Summary methodology

The report analyses the value of capital markets to the UK economy through the lens of how large UK companies with revenues of more than £200m use six core sectors of the capital markets: the stock market and equity capital markets, corporate bonds, leveraged loans, M&A activity, and private equity. It also analyses how they use the derivatives markets and the role they play in pensions.

We built a dataset from the bottom up of UK companies with revenues of more than £200m from a range of sources. We then mapped these 1,160 companies against data from Dealogic and the London Stock Exchange to measure how many firms used capital markets in the five years between 2014 and 2018. For derivatives and pensions, we analysed the annual reports across a sample of nearly one third of these companies.

From this we calculated the relevance of each sector of the capital markets to large UK companies, and their impact on the UK economy in terms of how many people these companies employ in the UK. We also analysed the role that capital markets play for around 14,000 smaller companies (*for a full description of the methodology see page 25*).

William Wright
Managing director, New Financial

John Glen MP, Economic Secretary to the Treasury

'I welcome this timely and insightful report. As City Minister, I know that the health of our capital markets and the real economy are intimately linked, although few people fully realise the impact that our capital markets have on their everyday lives. As the report demonstrates, capital markets provide long-term funding for businesses across all regions of the UK, allowing them to invest and grow. This is particularly important now as we deal with and recover from the impacts of the Covid-19 pandemic. This report offers valuable insight and analysis into the importance of capital markets to the UK economy.'

SUMMARY

Here is a short summary of this report:

1. **The relevance of capital markets to UK companies:** capital markets may seem abstract and remote from the day-to-day business of UK companies but we identified 1,000 large UK companies - or nearly 90% of all UK companies with revenues of more than £200m a year - that used the capital markets between 2014 and 2018 to raise money or help manage their risks. Many of these companies have already received or will rely on funding from the capital markets (in addition to bank lending) in the wake of the Covid crisis.

2. **The value of capital markets to the UK economy**: large UK companies that use the capital markets play a vital role in the UK economy. They employ nearly six million people in offices, factories, plants, shops and outlets across the UK - around one fifth of the private sector workforce - and a further seven million people overseas. Their combined revenues of £3.1 trillion are 50% bigger than the size of the UK economy.

3. **Capital markets and smaller companies:** capital markets are not just for big multinationals. We identified 14,000 smaller UK companies that use the capital markets - including around 900 smaller firms listed on the stock market - who between them employ more than two million people in the UK.

4. **The stock market and the UK economy:** nearly half of all UK companies with revenues of more than £200m are listed on the stock market. These 500 companies employ more than 3 million people across the UK and are worth a combined £2.7 trillion. Over 40% of these companies used the stock market to raise nearly £120bn. Since the middle of March nearly 100 UK companies raised £5bn on the stock market.

5. **The bond market and the UK economy:** more than a fifth of large UK companies (excluding financials) used the corporate bond market to raise £270bn, and these 230 companies employ around 2.3 million people in the UK. Nearly 200 companies used the leveraged loan market to raise another £215bn. Since the middle of March nearly 50 UK companies have raised around £25bn in the corporate bond market.

6. **M&A and the UK economy:** nearly three quarters of large UK companies used the M&A market either to buy another business, or to be acquired by another company, or sell part of their business. These companies employ nearly 5 million people in the UK, and a further 13,000 smaller companies were involved in M&A activity of some form. M&A will be a vital part of company restructuring in the wake of the Covid crisis.

7. **Private equity and the UK economy:** private equity has become an increasingly popular source of funding for UK companies. Nearly a third of large companies in the UK have been involved with private equity in some form over the past five years (either owned by private equity or acquired or sold by a private equity firm) and these companies employ just under two million people in the UK.

8. **Derivatives and the UK economy:** trading floors at big banks in London may seem a million miles away from the 'real' economy in the rest of the country, but more than 80% of large UK companies use derivatives in some form to help manage the risks in their day-to-day business, according to our analysis of annual reports. Derivatives are particularly valuable in the sort of volatile markets we have seen over the past few months.

9. **Pensions and the UK economy:** the most direct connection between the capital markets and individuals is their pensions. Large UK companies contribute around £25bn a year to their employees' pensions with an average company contribution per employee of around £2,400 a year. Large UK companies have combined defined benefit pensions assets of around £750bn, which aggregates the pension savings of millions of people into a valuable pool of capital that can be put to work in the economy.

10. **Framing the discussion:** the banking and finance industry is an important economic sector for the UK in its own right, but its real value is the underlying role that it plays in oiling the wheels of the wider economy and helping companies and individuals raise capital and manage risk. This report underlines the importance of the capital markets to large UK companies - and to thousands of smaller companies - and the vital role they will need to play in supporting the UK economy through this crisis and in driving more long-term investment across the UK to fuel a recovery and boost productivity and growth.

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FOREWORD BY ANNE MARIE VERSTRAETEN, BNP PARIBAS

Anne Marie Verstraeten
UK country head
BNP Paribas Group

The value of capital markets

BNP Paribas has been present in the UK for more than 150 years. We are a long-term partner to British business and very active in the UK capital markets.

Today, our bank in the UK is formed of 10 divisions and employs 9,300 staff based in 21 principal locations across the country.

Our goal is to be long-term partner for our clients and deliver services that have purpose and relevance, both to them and their clients and the world around them.

We ensure that ethics and our commitment to economic, social, civic and environmental responsibilities are integrated into our business operations across all our entities. Our role extends beyond the traditional ways of banking and encompasses product innovation, digital solutions and sustainability risk management.

We commissioned this report in collaboration with New Financial to assess the value of the capital markets to the UK economy.

Having an effective, purpose driven financial services industry is core to the functioning of the UK real economy. This report underscores just how vital access to capital markets is when it comes to supporting our UK companies, providing them with access to liquidity, investors, and to markets across the world.

It shows that more than 90% of large UK companies are regular users of the capital markets to raise capital, invest in their business and manage their risk – and these companies have a big impact on the economy, employing nearly six million people across the country. It also shows that capital markets play an important role in supporting more than 14,000 smaller UK companies.

Most recently, the COVID-19 health crisis has hit the economy hard and the capital markets have had to step up to support the economy and society in an urgent and meaningful way. The report shows during this time of crisis, a high volume of corporates have been active in the debt and equity capital markets, across a range of sectors.

And as we begin to look ahead to what will undoubtedly be an evolving new order it is evident that capital markets will continue to play a fundamental role in ensuring a sustainable and responsible recovery, centred on rebuilding a greener, fairer and more resilient economy.

Anne Marie Verstraeten
UK country head
BNP Paribas Group

TEN KEY TAKEAWAYS

The value of capital markets to the UK economy

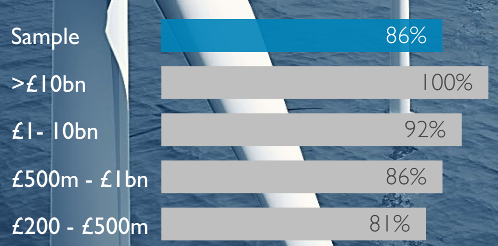
There are a lot of numbers and data in this report, and it would be pretty exhausting to read it all in one go. This section provides 10 key takeaways on the value of capital markets to the economy of the UK and how relevant they are to UK companies.

>>> THE RELEVANCE OF CAPITAL MARKETS

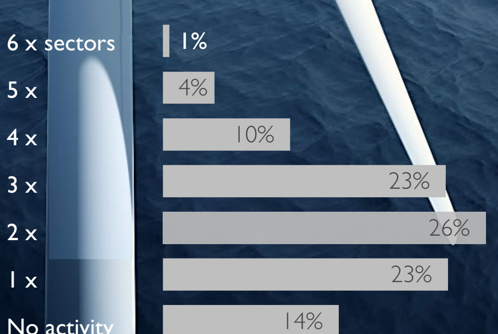
90% of UK companies with revenues of more than £200m use the capital markets

Large UK companies rely on the capital markets to help raise capital to invest in their business and to manage risk. We estimate that nearly 90% of UK companies with revenues of more than £200m use the capital markets (and 100% of the very largest companies do so). More than a third of large companies use at least three different sectors of the capital markets, and two thirds use at least two sectors.

What % of large UK companies use capital markets?*
By company revenues £m



What % of large UK companies use different sectors of the capital markets?*



* note: excludes derivatives & private placements

>>> LARGE COMPANIES

1,000 large UK companies with revenues of more than £200m use the capital markets

Just under 1,000 large UK companies with revenues of more than £200m a year used the capital markets at least once in the five years from 2014 to 2018. Nearly 500 large companies used at least three different sectors of the capital markets.

>>> SMALLER COMPANIES

14,000 smaller UK companies with revenues of less than £200m use the capital markets

Capital markets are not just for large companies. We estimate that around 14,000 smaller UK companies with revenues of less than £200m used the capital markets in the same five year period. For example, nearly 900 smaller UK companies are listed on the stock market, representing two thirds of all listed UK companies.

>>> SUPPORTING JOBS

5.5 million people employed in the UK by large companies that use capital markets

Capital markets help support millions of jobs in the UK: we estimate that the large UK companies that use the capital markets employ 5.5 million people across the UK - roughly a fifth of the UK private sector workforce - and they employ nearly 13 million people worldwide.

>>> FUELLING THE ECONOMY

£3.1 trillion combined revenues of large UK companies that use the capital markets

Capital markets help fuel the UK economy: we estimate that the large UK companies that use the capital markets have combined revenues of £3.1 trillion - around 50% bigger than the size of the entire UK economy.

>>> RAISING CAPITAL

£750 bn of capital raised by companies in the capital markets in the UK between 2014 and 2018

Capital markets provide a vital source of funding for UK companies. In the five years between 2014 and 2018, companies raised nearly £750bn in the UK capital markets to invest in their business (£180bn from equity markets, £320bn in the corporate bond market, and £250bn in the leveraged loan market). That's equivalent to roughly half the total amount of money that banks lent to all UK companies over the same period.

>>> MERGERS & ACQUISITIONS

5,500 UK companies used the M&A market to buy another business between 2014 and 2018

The most common way in which UK companies use the capital markets is buying other companies to grow their business, expand overseas or move into new markets. Around 5,500 UK companies used M&A to buy at least one other company in the five year period that we analysed, and 70% of large UK companies acquired another business.

>>> PRIVATE EQUITY

41% of large privately-held UK companies are owned or backed by private equity

Private equity has grown rapidly as a source of funding and investment for UK companies. We estimate that 41% of large privately-held UK companies (ie. companies not listed on the stock market) are owned or part-backed by private equity, and nearly a third of all large UK companies have been involved with private equity in some way in the past five years.

>>> MANAGING RISK

80%+ of large UK companies use derivatives to help manage risk in their day-to-day business

Trading floors at big banks in London may seem a million miles from factories in Birmingham, Manchester or Newcastle. But our analysis of hundreds of annual reports shows that at least 80% of large UK companies use derivatives to help manage their day-to-day risk. The most common risk that companies use derivatives for is foreign exchange, followed by interest rates, which minimises the impact of changes in rates on their core business.

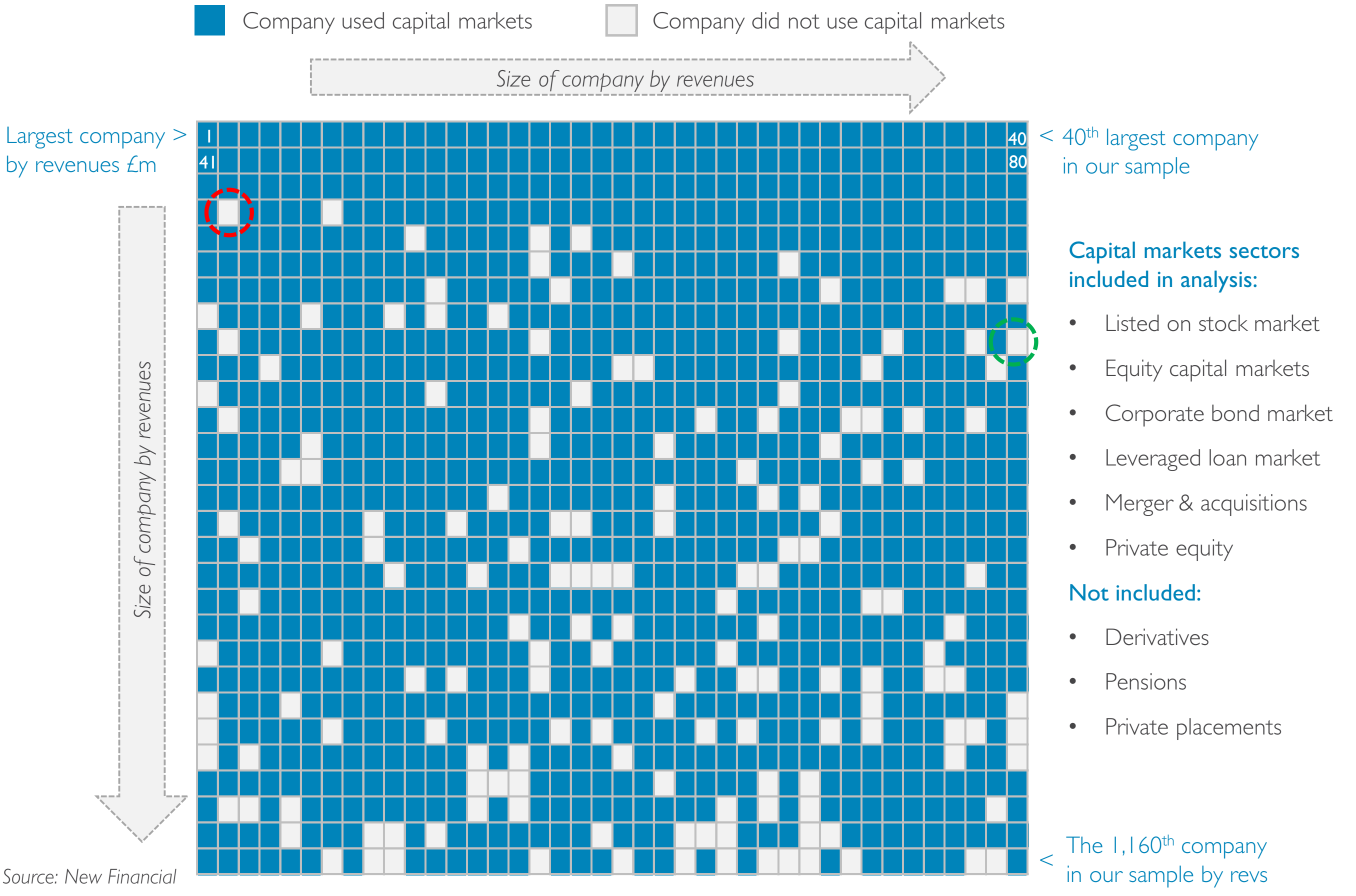
>>> SAVING FOR RETIREMENT

£2,400 average contribution per employee each year to staff pensions by large UK companies

The most direct connection between individuals in the UK and the capital markets is pensions. On average, large UK companies pay about £2,400 per employee a year into their staff pensions, according to our analysis of hundreds of annual reports. That's about 8% of staff wages and adds up to around £25bn in pension contributions a year. Most of this money is managed on behalf of individuals by fund managers.

Fig.1 The relevance of capital markets to UK plc and UK Ltd

UK companies with revenues of more than £200m that used the capital markets in the five year period 2014 to 2018. Capital markets includes: being listed on the stock market; raising money in equity markets; corporate bond issuance; leveraged loan borrowing; mergers & acquisitions activity (as acquiror or seller); private equity activity (acquired by, owned by or sold by a private equity firm). Excludes use of derivatives, pensions, and private placements.



Source: New Financial

Driving growth

The huge numbers involved in the capital markets mean that they can seem abstract and remote from the day-to-day operations of individual companies in the UK. But our analysis shows that capital markets play a vital role in supporting the everyday business of the vast majority of large UK companies.

Fig.1 is a heatmap that shows that nearly 90% of the 1,160 UK companies that we identified with revenues of more than £200m a year use the capital markets. The largest UK company by revenues (Royal Dutch Shell) is in the top left hand corner of the chart, and the smallest company by revenues in our sample is in the bottom right hand corner. Companies shaded in blue used at least one of six core sectors of the capital markets in the five years between 2014 and 2018 and companies in light grey did not. Overall, we found nearly 1,000 large UK companies that used the capital markets, representing 86% of our sample of large companies. If you include companies that used of derivatives and sectors such as private placements, we think it is closer to 95%.

We think this is an underestimate: some companies that didn't use the capital markets in the five year period did so before 2014 or have used them since 2018. For example, car dealership group Arnold Clark (with revenues of £4.2bn - the largest company in our sample not to use the capital markets - marked in a red circle) used the M&A market in January 2019; and the University of Manchester (circled in green) raised £300m in the bond market in 2013. .

Fig.2 The value of capital markets to the UK economy by sector

A summary of how large UK companies use different sectors of the capital markets and the impact each sector has on the UK economy in terms of jobs and investment

Sector	Number of companies with revenues >£200m using this market	% of large companies	Value of activity £bn	Jobs in UK (million)
Derivatives*	900+	79%	-	5.0+
Mergers & acquisitions	817	70%	1,140	4.8+
Stock market	503	43%	2,700	3.3+
Private equity	365	31%	260	1.8+
Equity capital markets	232	20%	115	1.7+
Corporate bonds**	230	22%	270	2.4+
Leveraged loans	186	16%	215	0.9+

** Notes: Derivatives is minimum estimate based on annual reports / company accounts of 340 companies; ** corporate bonds excludes financial companies*

Source: New Financial

Investing in jobs

The sheer scale of activity in capital markets can be confusing: to make the huge numbers more tangible Fig.2 summarises the activity of large UK companies in each sector of the capital markets broken out by the number and proportion of companies that use it, the value of activity, and how many people in the UK these companies employ.

The most widely-used sector of the capital markets by large UK companies is the derivatives market: 79% of the companies in our sample use derivatives to help manage their day-to-day risks, according to our analysis of their annual reports and company accounts. The second most commonly used sector of the capital markets - by a considerable margin - is mergers and acquisitions. Over 800 UK companies with revenues of more than £200m, which between them employ more than 4.8 million people in the UK, either bought or sold businesses between 2014 and 2018, with a combined value of at least £1.1 trillion.

More than 40% of all large UK companies (503 in total) were listed on the stock market at some point in the five years period we analysed and they have a combined market value of £2.7 trillion and employ more than 3.3 million people in the UK. More than 230 of these listed companies used the equity market to raise £113bn. Private equity is not far behind: 365 large companies (31%) were involved in some way with private equity (either owned by private equity, or acquired by or sold by a private equity firm between 2014 and 2018).

Companies raised more than twice as much in the corporate bond market as the equity market over the five years: 230 large companies employing 2.8 million people in the UK raised £268bn from bond issuance. Companies also raised almost £215bn from the leveraged loan market.

Fig.3 The value of capital markets to smaller companies by sector

A summary of how large UK companies use different sectors of the capital markets and the impact each sector has on the UK economy in terms of jobs and investment

Sector	Number of companies with revenues <£200m using this market	Value of activity £bn	Jobs in UK
Mergers & acquisitions	13,000+	420	2m+
Private equity	3,900	100	800k+
Stock market	868	150	145k+
Equity capital markets	748	55	140k+
Corporate bonds	100	20	50k+
Leveraged loans	72	18	30k+

Source: New Financial

Supporting growth

Capital markets are not just for big multinationals: while large companies tend to grab the headlines, thousands of smaller companies across the UK use the capital markets to support their everyday business. We found more than 14,000 UK companies with revenues of less than £200m employing an estimated 2.2 million people in the UK that used capital markets between 2014 and 2018.

More than 13,000 small companies were involved in mergers and acquisitions - either acquiring another firm or selling all or part of their business to another company - between 2014 and 2018, with a combined value of activity of at least £240bn. Nearly 4,000 smaller companies were involved in some way with private equity (either owned by a private equity firm, or acquired or sold by a private equity firm) between 2014 and 2018.

Nearly 900 smaller UK companies are listed on the London Stock Exchange with a combined market value of more than £100bn. They represent around two thirds of the total number of listed UK companies and employ some 150,000 people in the UK. More than 700 of these companies have taken advantage of the flexibility of listing on AIM, the dedicated market for smaller and high growth companies, to raise capital. And more than 900 smaller companies employing nearly 200,000 people in the UK raised nearly £90bn across the equity, corporate bond and leveraged loan markets to invest in their growth.

While the value of the money raised is rarely big enough to make the headlines, the impact of the investment contributes directly to growth in the everyday economy. For example, The Gym Group, with revenues of £124m in 2018, was backed by private equity firm Phoenix, raised £40m in leveraged loans, listed on the stock market in an IPO worth £125m in 2015, and has since raised another £130m in the equity market and acquired two other gym groups. Over the five year period its revenues increased six fold and the number of employees more than quadrupled to 438.

The wider context of UK capital markets

In this section we take a step back to analyse the size and depth of UK capital markets compared with other developed markets and the distribution of the size of companies in the UK. We also summarise the role and benefits of capital markets and look at what types of funding different companies can access at different stages of their growth and development.

For a full methodology, see page 25.

For a detailed appendix of how UK companies use different sectors of the capital markets, see page 29 of the online / PDF version of this report.

Leading the pack

To help underline the importance of capital markets to UK companies and the wider economy, it is useful to frame them in an international context.

The UK has the largest capital markets in Europe by a significant margin and the most developed capital markets in Europe relative to GDP. This means UK companies have access to a wider range of sources of funding and deeper pools of money to invest in their business. This provides the UK economy with greater diversity of capital to complement bank lending, adding capacity and flexibility for UK companies.

Fig.4 compares the depth of capital markets in the UK with the US (which has the largest and deepest capital markets in the world) and the EU27. For example, companies in the EU rely on bank lending for three quarters of their borrowing, compared with just a quarter in the US. Bank lending in the UK accounts for roughly half of all corporate borrowing (see Fig.4a).

The value of bank lending to non-financial companies in the EU27 is much higher relative to GDP than in the US or UK (see Fig.4b). But when you add in the value of the corporate bond and stock market, the total amount of funding from bank lending and capital markets is significantly higher in the UK (135% of GDP) than in the EU27 (101% of GDP).

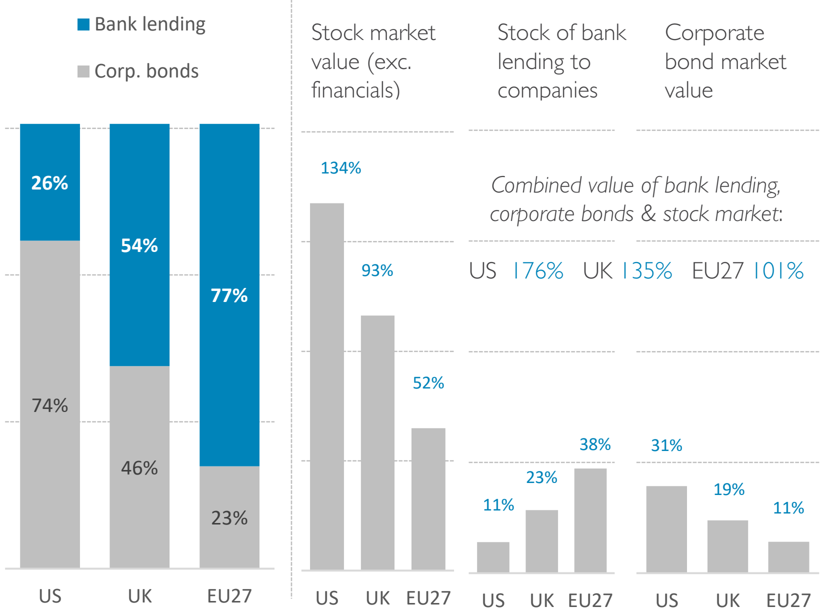
The starting point for deep and effective capital markets is deep pools of long-term capital such as pension funds, and again the UK is more developed than the EU but not as developed as the US. Fig.5 shows how households in the UK, US and EU27 invest their money. More than half of financial assets in the UK are invested in pensions or life insurance - significantly more than in the EU27, where one third of financial wealth is sitting in the bank (see Fig.5a).

Fig.5b shows the total size of financial assets in the UK, US and EU27 relative to GDP. Total UK financial assets are 50% bigger than in the EU27 relative to GDP. This difference is mainly explained by pensions, which are nearly four times bigger relative to GDP than in the EU27.

Fig.4 The reliance on bank lending

a) Corporate bonds as % of total corporate debt in the US, UK and EU27

b) Stock market value, bank lending to non-financial corporations, and corporate bond market value as % of GDP in the US, UK and EU27

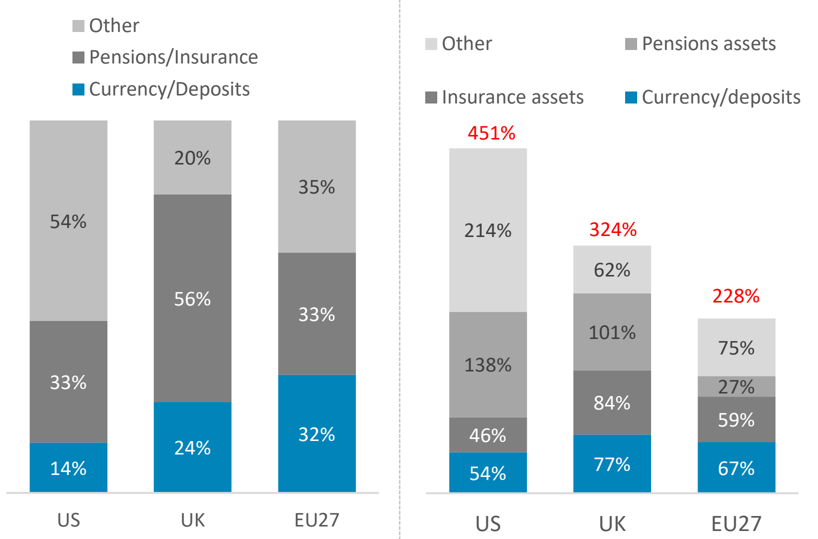


Source: New Financial

Fig.5 Pools of capital

a) The allocation of household financial assets in the US, UK and EU27

b) The size of potential long-term capital as a % of GDP in the US, UK and EU27



Source: New Financial

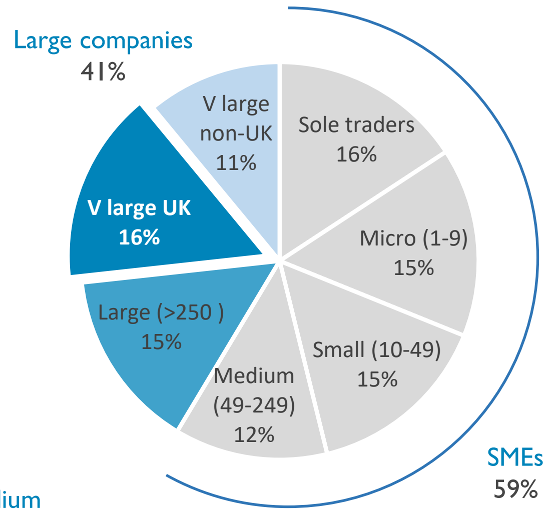
Fig.6 The distribution of companies by size in the UK economy

a) Number of companies in UK plc and UK Ltd by number of employees

5.7 million - total number of companies in the UK

Type of company	Number
Sole traders	4,278,000
Micro	1,138,000
Small	210,000
Medium	35,000
Large	8,000
- of which:	
Very large - UK	900
Very large - ex UK	800

b) Estimated share of UK private sector employment by size of company



Source: New Financial analysis of data from BEIS, ONS, and gender pay gap reporting

A wide range

Capital markets play a disproportionate role in the UK economy given that the large companies that are most likely to use them represent such a small number of the overall number of companies in the UK. Fig.6 shows the distribution of companies in the UK by the number of people they employ and the relative contribution of those companies to overall employment in the private sector.

The vast majority of the 5.7 million companies in the UK are sole traders or SMEs: sole traders account for 75% of the total number of companies while SMEs, which have between one and 250 employees, account for another 24% (see Fig.6a). There are around 8,000 large companies in the UK - defined as having more than 250 employees - and they represent less than 0.2% of the total number companies, according to our analysis of government data. We estimate that there are around 1,700 very large companies in the UK with revenues of more than £200m a year, of which 800 are overseas companies operating in the UK and 900* are UK companies (the focus of this report). To put that in context, large companies are shown in Fig.6a as the small black square, and very large UK and overseas companies as the two small blue dots.

While large companies are a tiny percentage of the number of companies, we estimate that they employ just over 40% of the 27 million people in the UK private sector workforce. The 5.7 million sole traders and SMEs in the UK employ around 16 million people between them or 59% of the private sector workforce. Companies with more than 250 employees employee another 11 million people or 41% of all private sector jobs. Around two thirds of the people employed by large companies in the UK work at very large companies with revenues of more than £200m: we estimate that very large UK companies account for 16% of total private sector employment, while very large non-UK companies account for a further 11% of employment.

** Note: this number is different from our sample of 1,160 UK companies with revenues of more than £200m. We have stripped out universities, government-owned companies, and around 100 companies that were UK-owned at some point between 2014 and 2018 but which have since been acquired by an overseas company or ceased trading.*

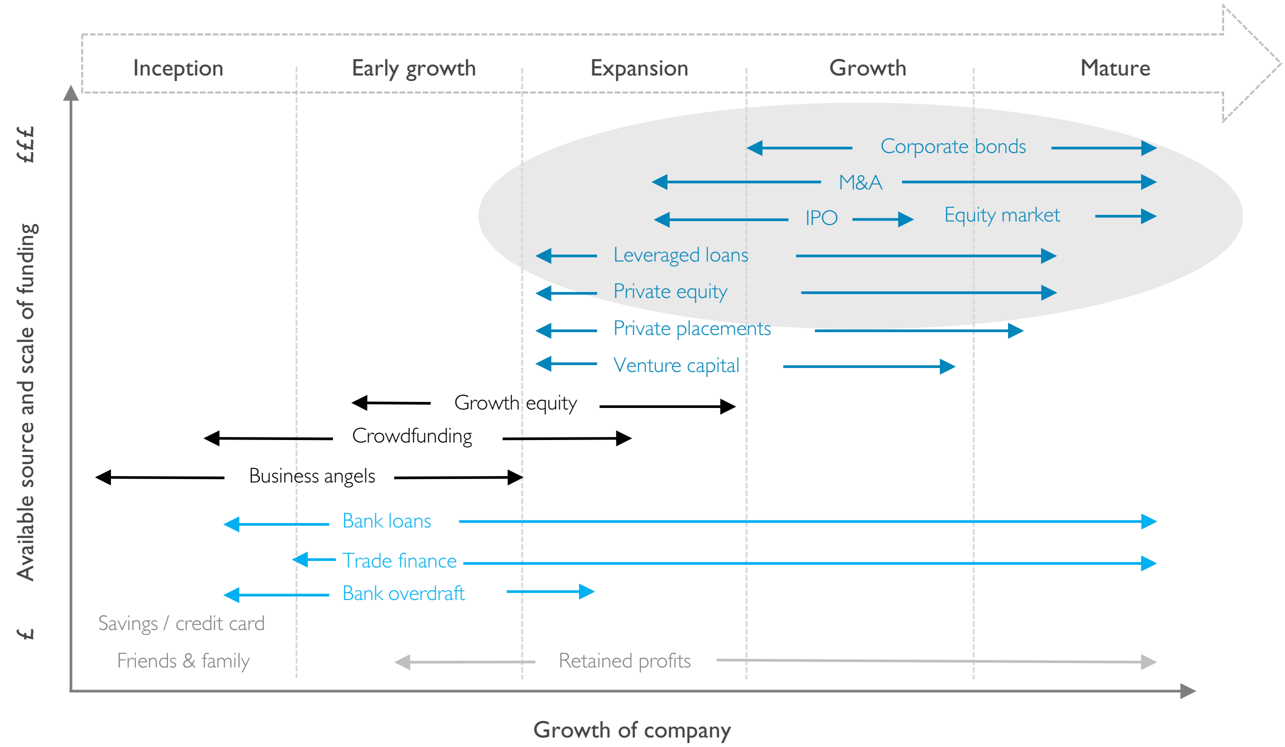
Driving growth

Before diving into how companies in the UK use the capital markets and the impact they have on the wider UK economy, it is worth pausing to ask why companies in the UK and around the world use the capital markets and what benefits capital markets offer to companies, individuals and the wider economy in terms of investment, jobs and growth. Here is a summary of some of those benefits:

1. **A wider range of funding:** capital markets provide a valuable additional source of financing for UK companies that complements traditional bank lending and provides companies with a wider range of sources of potential funding. This reduces the economy's reliance on bank lending, and allows companies to diversify both the sources of the capital they use and the term over which they borrow, reducing risk in their capital structure.
2. **Economic resilience:** capital markets help increase what economists call the 'shock absorption' capacity of the wider economy. The impact of an economic downturn is transmitted less quickly and directly to individuals in economies with more developed capital markets, such as the UK, than those that rely more heavily on bank lending (such as EU27 countries), and they tend to recover more quickly.
3. **Access to capital:** capital markets offer the right companies the ability to raise a larger amount of capital at a lower cost and for a longer period than borrowing from their bank. Through equity financing, they provide companies in the UK with risk capital to support innovation and growth that banks are not designed to provide.
4. **Increase bank lending capacity to SMEs:** capital markets are not a realistic option for most small and medium-sized companies (SMEs) in the UK, but wider use of capital markets by companies that are large enough to access them can help free up bank balance sheets and enable banks to focus on lending to smaller companies that need it the most. Freeing up banks to support SMEs, with government support – is more vital than ever.
5. **Capital allocation & standards:** capital markets improve what economists call the 'allocative efficiency' of capital, by effectively crowdsourcing decisions about value and potential to a wide range of investors and channelling investment to those companies that can make the best use of it. The need to compete for capital and be accountable to investors helps improve discipline, operational standards, corporate governance, performance and transparency at companies (or governments) that use capital markets.
6. **More flexible:** while capital raising can come to an abrupt halt in the wake of market disruption, capital markets rebound faster than bank lending. In the UK, the decline in bank lending after the financial crisis was offset by an increase in capital markets activity. From the middle of March to the end of April more than 140 UK companies have already used the capital markets to raise around £30bn in the corporate bond and equity markets.
7. **Long-term returns:** the past few months have shown how volatile markets can be in the short term but investing in capital markets across a range of assets over the long term generates higher returns than keeping your savings in the bank, providing a better future income in retirement. Long-term pension savings also reduce the future economic burden of pensions on UK taxpayers, government budgets and employers.
8. **Longer-term investing:** capital markets provide long-term investors such as pension funds and insurance companies with a wider range of assets to invest in that better match their liabilities. Annual pension contributions by employers and employees add up to billions of pounds a year that can be put to work supporting the economy in much needed areas such as investment in infrastructure and investment.
9. **Wealth creation:** capital markets help democratise wealth creation by enabling a wider range of people to invest in high growth and successful companies through their investments and pensions, particularly in equity markets. Over time, money that it is invested in capital markets grows faster than money that is deposited in the bank.
10. **Addressing climate change:** public money and bank lending are not enough to finance the projects needed to reach the targets set by governments to reduce CO^2 emissions and to support a transition to a more sustainable economy. Capital markets can close this gap by providing capital through a wide range of innovative instruments.

Fig.7 The funding escalator

A summary of the different sources of funding available and appropriate to companies at different stages of their growth and development



Source: New Financial

Climbing the ladder

Capital markets are not a panacea and are not suitable for all companies. Different companies need access to a wide range of different sources of funding at different stages in their growth and development, as shown in the 'funding escalator' in Fig.7. Broadly speaking, capital markets provide funding in the tens or hundreds of millions of pounds for larger and more mature companies, or for smaller companies with high growth potential. This report focuses mainly on core capital markets activity shaded in grey above.

At the inception stage, when companies first get going, they are likely to be financed by the savings or credit card of their founders, perhaps backed by money from friends and family (in the bottom left corner of the chart). If they are lucky, they may get backing from a business angel or a start-up bank loan or grant. As they begin to grow, companies can use their bank overdraft, bank loans or trade finance to fund their growth. And high potential companies may be able to raise a few hundred thousand to a few million pounds from crowdfunding or growth equity.

Capital markets begin to kick in as a source of funding once companies reach the expansion stage, where they have a clear business proposition and track record, as well as growing revenues that point to high growth potential and a path to profitability. At this stage, companies might get backing from venture capital (usually in the millions or tens of millions of pounds). As they get bigger they may also begin to use the capital markets to raise larger sums of money from a wider pool of investors. Established but high growth firms such as technology companies will by this stage be regular users of the capital markets, as are more mature large companies.

But capital markets are not just for high growth tech firms or big multinationals: in the UK IPO market, where companies raise money by listing on the stock market, two thirds of companies raised less than £100m between 2014 and 2018, and over a quarter of all IPOs raised less than £10m.

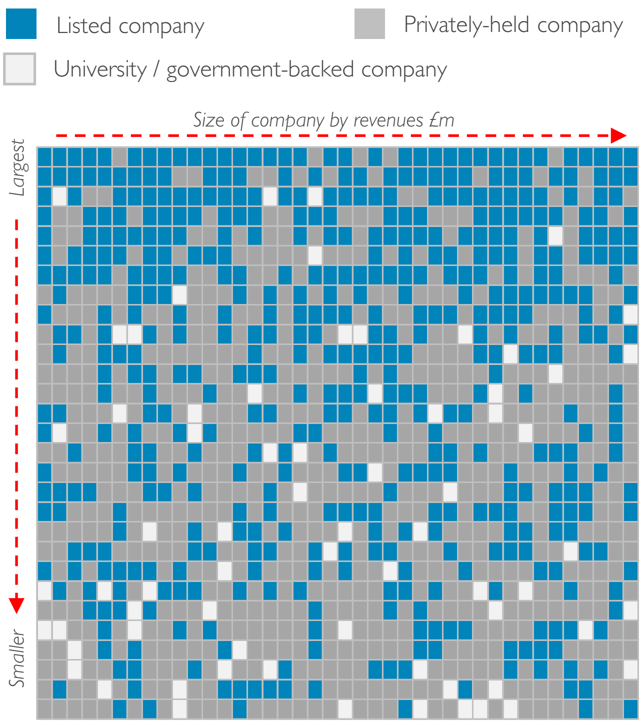
Analysis of the impact of capital markets on the UK economy by sector

In this section we analyse the impact of capital markets on the UK economy across eight core sectors of the capital markets - and how companies in the UK use these different sectors to raise capital for different purposes.

>>>

Fig.8 The value of the stock market to the UK economy

a) A heatmap showing how many large UK companies were listed on the stock market between 2014 and 2018



Source: New Financial

b) Key data points on the impact of the stock market on the UK economy and its relevance to UK companies

500 Number of UK companies with revenues of more than £200m that are listed on the stock market

3.3 million - estimated employees in the UK at these companies
8.8 million - total number of employees

43% % of large UK companies that use the stock market

£2.7 trillion Combined value of companies

875 Estimated number of UK companies with revenues of less than £200m that are listed on the stock market

150,000 estimated employees in the UK at these smaller companies

The heart of the capital markets

For many people, the most visible aspect of capital markets in the UK is the stock market. Just over 500 large UK companies with revenues of more than £200m a year were listed on the stock market in the five-year period that we analysed, representing 43% of all large UK companies, and between them they have a combined value of £2.7 trillion.

These large listed companies make a huge direct contribution to the UK economy: they have combined annual revenues of £2.4 trillion - slightly larger than the GDP of the UK - and they employ an estimated 3.3 million people across the UK and another 5.5 million people around the world. They include some of the UK's largest and most recognised employers, such as Barclays, BP, BT, Marks & Spencer and Tesco. For example, UK supermarket chain Sainsbury's has £29bn in revenues, employs more than 115,000 people in the UK and has a market value of about £4.5bn. And global pharmaceuticals firm AstraZeneca is worth nearly £100bn and employs 64,500 people globally with 7,400 staff at its UK research and manufacturing facilities in Luton, Cheshire and Cambridge.

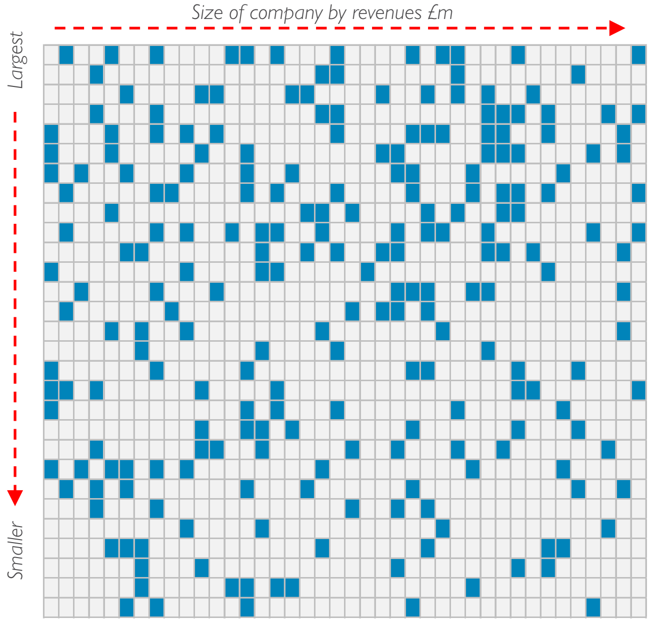
But the stock market is not just about large companies: nearly 900 smaller UK firms with revenues of less than £200m are listed on the stock market. They account for two thirds of listed companies in the UK by number, but only 5% of the combined value of listed companies. We estimate that these smaller companies employ nearly 150,000 people in the UK. Many are listed on AIM, the stock market in London that helps small and high growth companies access capital.

Plenty of large companies choose not to list on the stock market, including chemicals group Ineos, the sixth largest company in our sample and the UK's largest privately-held company. Other large non-listed companies include retailer John Lewis and the mutually-owned Co-operative Group. Not all UK companies choose the London Stock Exchange when deciding to list their shares: we identified 34 UK companies that are listed on stock exchanges overseas, including football club Manchester United (listed in New York) and IT firm Dialog Semiconductor (listed in Frankfurt).

Fig.9 The value of the equity capital markets to the UK economy

a) A heatmap showing how many large UK companies issued equity between 2014 and 2018

Company issued equity | Company did not issue equity



Source: New Financial

b) Key data points on the impact of the equity markets on the UK economy and its relevance to UK companies

230 Number of UK companies with revenues of more than £200m that issued equity

1.7 million - estimated employees in the UK at these companies
3.0 million – total number of employees

20% % of large UK companies that used the equity market

£115 billion Combined value of equity issuance

750 Estimated number of UK companies with revenues of less than £200m that used the equity market

140,000 - estimated employees in the UK at these smaller companies

Raising equity

One of the most accessible and transparent parts of the capital markets for investors is the equity market, where companies raise money to finance acquisitions or invest in the business by selling shares when they list on the stock market (known as an IPO, listing or 'going public') or by selling additional shares once they are listed.

Just over 230 UK companies with revenues of more than £200m a year used the equity market in the five years we analysed to raise nearly £115bn. They represent a fifth of the largest UK companies and between them they have combined annual revenues of £825bn and employ more than 1.7 million people in the UK (plus a further 1.3 million overseas). More than 45% of companies listed on the stock market have used their listing to raise money: in the wake of the Covid crisis, nearly 100 UK companies have raised £5bn on the stock market in the past few weeks, including household names like online fashion retailer Asos and retail chain WH Smith. Post-crisis there is likely to be huge demand for more equity issuance as companies seek to restructure their balance sheets and raise cash.

Among the biggest users of the equity market over the five years was Liverpool-based discount retailer B&M, which raised more than £2.6bn from its IPO in 2014 and four additional share sales. It employs an estimated 27,000 people across the UK, mostly in the North of England, Midlands and Wales, has annual revenues of £3bn and a market capitalisation of £4bn.

While large companies account for two thirds of the total £167bn raised by UK companies in the equity market, by far the most frequent issuers of equity are smaller companies. Three quarters (750) of all companies using the equity market had annual revenues of less than £200m and they raised £54bn between them. For example, Manchester-based travel retailer On The Beach Group, which employs more than 500 people mostly in the UK, raised £100m from its private equity-backed IPO in 2015 and a further £135m from four equity issues between 2016 and 2017.

Long-term borrowing

The corporate bond market is an increasingly popular way for companies to borrow larger sums of money over a longer period of time than a bank can typically offer.

Almost £270bn was raised by 230 non-financial UK companies with revenues of more than £200m between 2014 and 2018. They represent just over a fifth (22%) of large UK companies and between them account for 93% of the total £317bn raised on the bond market by all UK companies. We excluded financial companies for this analysis.

Many of the most active users of the bond market are also the UK's biggest employers. These 230 large companies have combined revenues of £1.6 trillion a year and employ more than 2.4 million people in the UK and 3.4 million people overseas. The seven biggest users of the corporate bond market - BP, Vodafone, GlaxoSmithKline, BT, AstraZeneca, BAT and Diageo - raised £94bn between them.

In the wake of the Covid crisis, more than 25 UK companies have raised £25bn in the corporate bond market, including household names like consumer goods group Unilever and drinks group Diageo.

Investment grade bonds - issued by larger companies with lower credit risk - accounted for three quarters of bond market activity across 170 companies. One of the largest was Sky, which employs nearly 14,500 people in the UK (29,000 globally) and raised £5.6bn from six investment grade bonds.

High-yield bonds - which tend to be issued by higher growth or riskier companies - were used by 106 large UK companies to raise £67bn.

While the UK's largest companies are the most active users of the corporate bond market, around 100 companies with revenues of less than £200m raised around £20bn in the bond market. This suggests there is significant scope to develop the bond market for smaller UK firms and widen access to funding, which will be particularly valuable in the next few years.

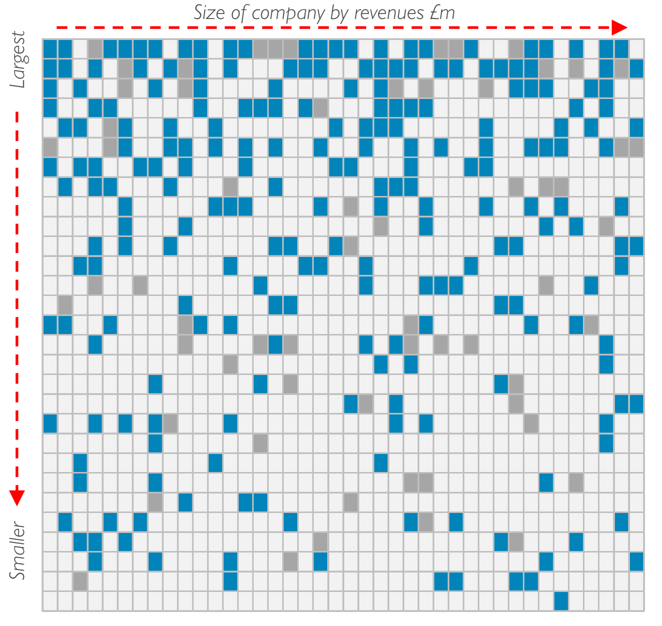
Fig.10 The value of corporate bond market to the UK economy

a) A heatmap showing how many large UK companies used the corporate bond market between 2014 and 2018

Company issued bond

Financial company issued bond

Company did not issue bond



b) Key data points on the impact of the corporate bond market on the UK economy and its relevance to UK companies

230 Number of UK non-financial companies with revenues of more than £200m that used the corporate bond market

2.4 million - estimated employees in the UK at these companies
5.8 million - total number of employees

22% % of large UK non-financial companies that used the corporate bond market

£270 billion Combined value of non-financial corporate bond issuance by large UK companies

100 Estimated number of UK companies with revenues of less than £200m that used the corporate bond market

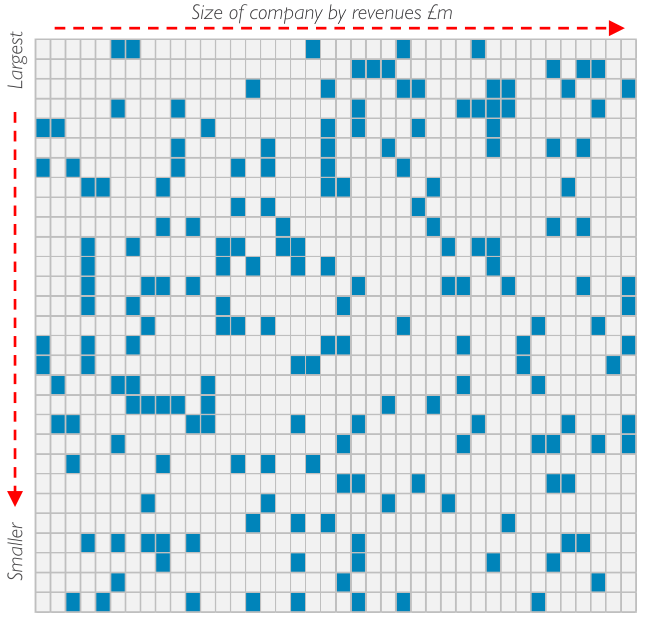
50,000 - estimated number of employees in the UK at these smaller companies

Fig.11 The value of the leveraged loan market to the UK economy

a) A heatmap showing how many large UK companies used the leveraged loan market between 2014 and 2018

Company used leveraged loans

Company did not use leveraged loans



Source: New Financial

b) Key data points on the impact of the leveraged loan market on the UK economy and its relevance to UK companies

185 Number of UK companies with revenues of more than £200m that used the leveraged loan market

900,000 - estimated employees in the UK at these companies
1.6 million - total number of employees

16% % of large UK companies that used the leveraged loan market

£215 billion Combined value of leveraged loan issuance by large UK companies

75 Estimated number of UK companies with revenues of less than £200m that used the leveraged loan market

30,000 - estimated employees in the UK at these smaller companies

A stepping stone

Companies typically use leverage loans - often seen as a stepping stone to the capital markets - to refinance existing debt or to finance acquisitions and buyouts. We counted 186 large UK companies with revenues of more than £200m a year that used the leveraged loan market to raise £215bn between 2014 and 2018 . Although they represent just 16% of large UK companies - the lowest usage by large companies across any of the capital markets sectors analysed - they employ 1.65 million people globally, including 900,000 in the UK, and have combined annual revenues of £83bn.

They include Coventry-based automotive group Jaguar Land Rover, Blackburn-based Euro Garages operator EG Group and London-based chemicals manufacturer Ineos - three of the most frequent users of the leveraged loan market. These three companies alone raised more than £28.6bn between them from 21 separate leveraged loans over the five years and employ 50,000 people in the UK.

Leveraged loans are particularly popular with private equity-backed companies. At the smaller end the scale, train and ticketing platform Trainline - which had two different private equity owners during the five years of analysis, has revenues of £210m a year and around 500 employees - used the leveraged loan market in March 2015 to raise £260m. Staffordshire-based childcare provider Busy Bees Nurseries - which is backed by private equity investors including Canada's £200bn Ontario Teachers' Pension Plan - used the leveraged loan market five times to raise a total of £1bn. It generates annual revenues of around £330m and employs roughly 10,000 people, mostly in the UK.

While leveraged loans are used by a wide range of large companies (see the heatmap in Fig.11), our analysis shows that a further £18bn was raised by roughly 75 UK companies with revenues of less than £200m year, which collectively employ more than 30,000 people in the UK. Post-crisis, leveraged loans will play an important role in helping companies restructure their debt and raise capital for acquisitions.

Impacting everyday lives

The mergers and acquisitions market is the most high profile area of capital markets, with big company takeovers frequently hitting the headlines because of their direct impact on local economies and people's everyday lives.

Nearly 820 large UK companies - 70% of those with more than £200m in annual revenues - used the M&A market to either acquire other companies over the five years or to sell all or part of their own business in deals worth a combined £1.2 trillion. These companies have combined revenues of £2.7 trillion and employ 4.8 million people across the UK.

Overall, 580 large UK companies - employing 3.7 million in the UK - used the M&A market to acquire another business. The combined value of these acquisitions was more than £460bn. Nearly 500 large companies sold all or part of their business, in deals valued at more than £680bn. Half of these companies' six million employees work in the UK.

The M&A market also acts an important conduit for cross-border investment. Almost three quarters (£820bn) of the combined value of M&A activity involved large UK companies either selling or acquiring overseas. More than 260 UK companies sold all or part of their business (total value of £510bn) to overseas companies, and 350 UK companies made overseas acquisitions (worth £313bn).

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For example, UK cereal maker Weetabix, which is based in the town of Burton Latimer in Northamptonshire (close to the locally harvested wheat used for its products) and employs roughly 2,000 people, was taken over by US cereal company Post Holdings in a £1.4bn deal in 2017.

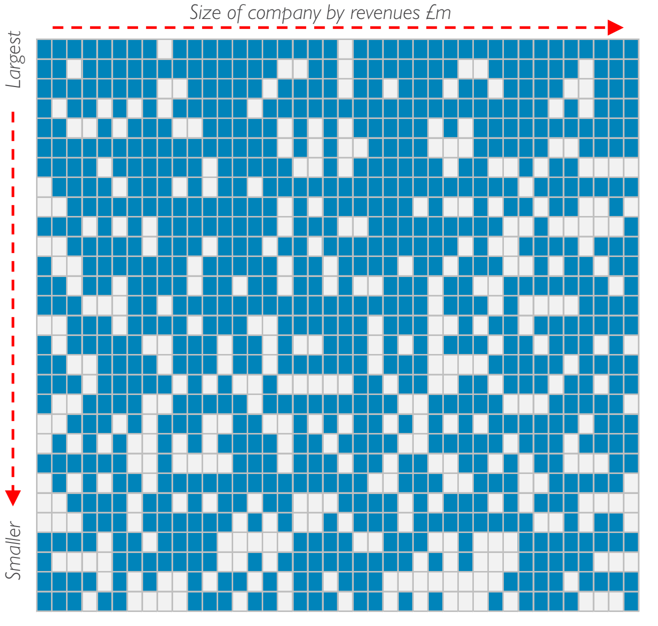
On the other side of the Covid crisis the M&A market will play an important role in corporate restructuring and supporting a recovery. Many companies will use M&A to realign their business once the wider economic impact of the crisis is more clear, sell parts of their business to raise capital, or buy other firms.

Fig.12 The value of mergers & acquisitions to the UK economy

a) A heatmap showing how many large UK companies used the mergers & acquisitions market between 2014 and 2018

Company used M&A

Company did not use M&A



b) Key data points on the impact of mergers & acquisitions on the UK economy and its relevance to UK companies

820 Number of UK companies with revenues of more than £200m that used M&A

4.8 million - estimated employees in the UK at these companies
10.4 million - total number of employees

70% % of large UK companies that used M&A

£1.14 trilion Combined value of mergers and acquisitions by large UK companies

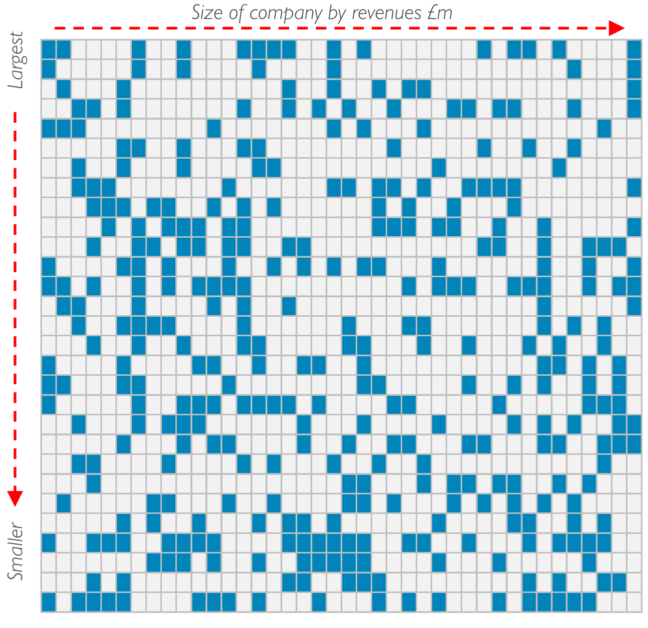
10,000 Estimated number of UK companies with revenues of less than £200m that had something acquired by another company

£185 billion Combined value of acquisitions of companies with revenues of less than £200m

Fig.13 The value of private equity to the UK economy

a) A heatmap showing how many large UK companies were either acquired, owned or had a PE-backed IPO between 2014 and 2018

Company used private equity
Company did not use private equity



Source: New Financial

b) Key data points on the impact of private equity on the UK economy and its relevance to UK companies

365 Number of UK companies with revenues of more than £200m that have been involved with private equity

1.8 million - estimated employees in the UK at these companies
3.1 million - total number of employees

31% % of large UK companies that used private equity

£260 billion Combined value of private equity deals involving large companies

50 Number of UK companies with revenues of more than £200m that had a private equity-backed IPO

3,900 Estimated number of UK companies with revenues of less than £200m involved in private equity deals

Growth potential

Private equity has become an increasingly significant source of investment and activity in capital markets over the past decade. Our research shows that 365 UK companies (31%) with revenues of more than £200m have been involved in the private equity market during the five years of analysis (that is, were owned by a private equity firm, were acquired or sold by a private equity firm, or sold at least part of their business to a private equity firm). This amounts to more than £260bn of deals in which large UK companies were involved with private equity. We estimate that 41% of the 600 privately-held companies in the UK (ie. companies not listed on the stock market) with revenues of more than £200m are owned or backed by private equity.

Large UK companies backed by private equity employ more than 1.8 million people across the UK and a further 1.4 million around the world. For example, Reading-based utilities firm Thames Water, which employs 6,000 people in the UK, was acquired by private equity firms and pension fund investors through a series of deals worth nearly £1.4bn.

Many private equity firms sell all or part of their investment in a company through the equity market in an initial public offering (IPO). Nearly 50 of the UK's largest companies went public in private equity-backed IPOs during the period, raising a combined £40bn. For example, the private equity owners of High Wycombe-based waste management company Biffa (previously part of Severn Trent), raised £190m from its listing in 2016. Biffa has nearly 8,000 UK employees and annual revenues of £1bn.

While large companies account for roughly 70% of private equity activity by value, nearly 4,000 UK companies with annual revenues of less than £200m were involved with private equity during the five year period in deals worth more than £100bn combined.

Managing risk

The complex world of trading floors at big banks in the City of London may seem a million miles away from a factory in Birmingham or a shopping centre in Newcastle. But the vast majority of large UK companies use derivatives that are traded in the financial markets to help manage day-to-day risk in their business.

Derivatives can be particularly valuable for companies in the sort of volatile markets we have seen over the past few months because of the Covid crisis. For example, the sterling / dollar exchange rate dropped 12% in March before rebounding by around 8% within a few weeks: derivatives can help smooth the impact on companies of these price movements.

At least 80% of large UK companies with revenues of more than £200m use derivatives, according to our analysis of the annual reports or company accounts of more than 300 companies. Just under 80% of firms that we analysed explicitly mentioned their use of derivatives in their accounts (see Fig.14a). Another 18% made no mention of derivatives, while just 4% said they don't use them.

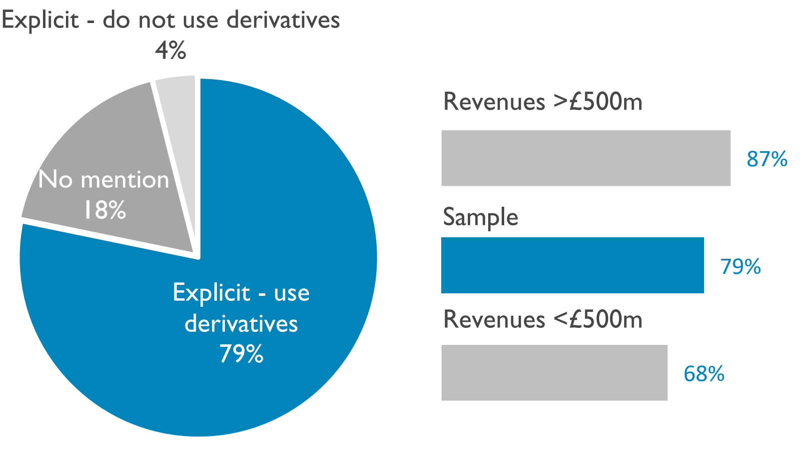
The larger the company and more complex its business, the more likely it is to use derivatives: nearly 90% of the companies with revenues of more than £500m use derivatives, compared with just over two thirds of companies with revenues of less than £500m.

For example, retailer John Lewis uses more than £450m of derivatives contracts to help manage the risk of future changes in foreign exchange rates, interest rates, and the price of fuel. Luxury car manufacturer McLaren Group uses derivatives with a notional value of £300m to hedge against changes in US dollars, Japanese yen and Chinese renminbi.

The most commonly used derivatives are foreign exchange with 80% of firms that said they use derivatives mentioning FX (see Fig.14b). Nearly two thirds of firms use interest rate derivatives, and one in five use derivatives to protect against price future price movements in commodities such as energy or foodstuffs.

Fig.14 The impact of derivatives on the UK economy

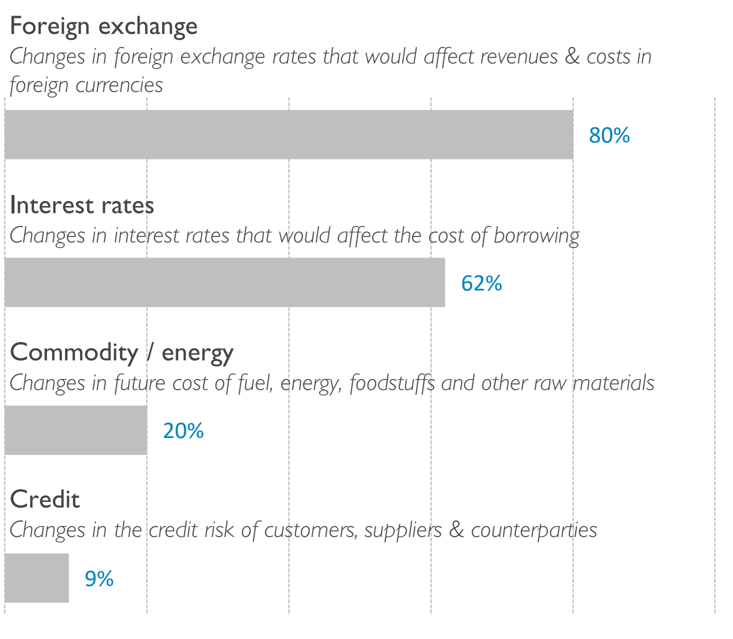
a) The proportion of UK companies with revenues of more than £200m that use derivatives to help manage their risks



Note: based on analysis by New Financial of annual reports / company accounts of 330 companies with revenues of more than £200m in our sample (just under one third of our total sample)

Source: New Financial

b) Specific types of derivatives mentioned by companies (as a % of companies that said they use derivatives) and the risk they help manage



Source: New Financial

Saving for retirement

The most direct connection that most people in the UK have with the capital markets is through their pensions - and large UK companies play a significant role in helping their employees save towards their retirement. Under UK law every company in the UK that employs anyone has to contribute towards their pension but these contributions vary hugely depending on the size of the company, the number of employees and the type of pension scheme that they operate.

Large UK companies make average pension contributions of £2,400 per employee per year or 7.8% of their employees' wages, according to our analysis of 325 annual reports and company accounts. Across our sample of more than 1,100 companies that adds up to employer pension contributions of around £25bn a year that can be put to work in the economy.

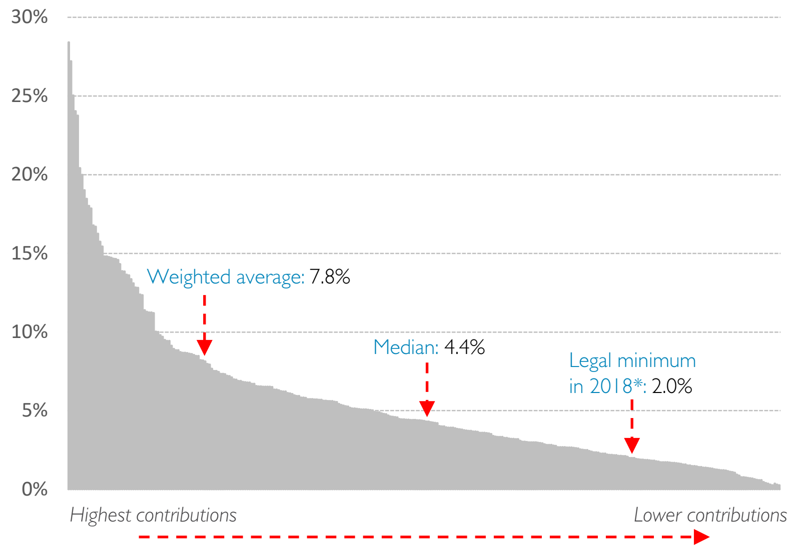
We estimate that the combined assets of defined benefit pension schemes at large UK companies are around £750bn. Of course, many individuals will be concerned at the impact of this crisis on the value of their pension, but in the longer term they are likely to recover and pensions will provide a valuable pool of capital to help support the UK economy.

Most private sector employees in the UK have a defined contribution scheme under which employer contributions are less generous. We found that median employer contributions at companies with a defined benefit scheme were 5.6%, more than double the 2.4% rate at companies with just defined contributions. Companies with revenues of more than £500m in revenues are more generous with their pension contributions (4.9% vs 3.2%), and listed companies are more generous than privately-owned companies (5.1% vs 3.2%).

Most of the money in people's pensions is looked after by asset managers and invested in capital markets around the world. A full analysis of this connection between asset managers and millions of individuals across the UK is beyond the scope of this report.

Fig.15 The impact of pensions on the UK economy

a) The distribution of employer pension contributions as a % of wages at a sample of 325 large UK companies



Note: based on analysis of annual reports or company accounts of 325 companies in our sample
** One fifth of companies paid less than the legal minimum of 2% of wages in 2018 (now 3%). This is not because they are breaking the law but reflects companies with high staff turnover, high numbers of staff overseas, high numbers of part-time staff or high numbers of lower paid staff who may not qualify for pension contributions.*

Source: New Financial

b) Key data points on large UK companies and pensions

£2,400 Weighted average annual employer contribution to each employee's pension fund at large UK companies

13.8 million - estimated private sector employees in the UK with a pension
5.7 million - estimated public sector employees with a pension

72% % of private sector employees who are members of a pension scheme

£750 billion Estimated combined value of defined benefit pension schemes of large UK companies

7.8% Average employer contribution to employees' pensions as a % of wages

£25bn Estimated value of annual contributions to employee pensions by large UK companies

METHODOLOGY

Our sample:

We mapped the usage of different sectors of the capital markets by large UK companies with revenues of more than £200m a year over a five year period from 2014 to 2018. We built a sample of 1,160 large UK companies using data from the London Stock Exchange Group for listed companies, and the TopTrack 100 and 250 rankings of privately-owned companies. We also checked the revenues of all UK companies with more than 1,000 employees included in the UK government dataset for gender pay gap reporting (which includes all companies operating in the UK with more than 250 employees). This gave us an initial sample of 845 companies. We subsequently added 315 UK companies that had used the capital markets according to Dealogic and for which we verified their revenues as being more than £200m.

We excluded funds, trusts and foreign companies from our sample. We included 955 large UK companies (of which 886 are private sector companies and 69 are universities, government-owned or other companies); 167 large UK companies that were active during the five year period we analysed but which had either ceased trading or been acquired; and 38 companies which are technically UK subsidiaries of foreign companies but which use the capital markets in their own right (for example, Jaguar Land Rover or Santander UK).

Company data:

We used the most recent annual reports or Companies House accounts to find revenues and total employee data for our sample and for every company that we identified as active in the capital markets. For more than one third of our sample we found a precise number for UK employees, and for the remaining companies we estimated the number of UK employees based on the company's UK revenues, size and sector.

Usage of capital markets:

We then mapped the activity of these large companies in the capital markets during the five year period between 2014 and 2018 in the following sectors by addressing the following questions:

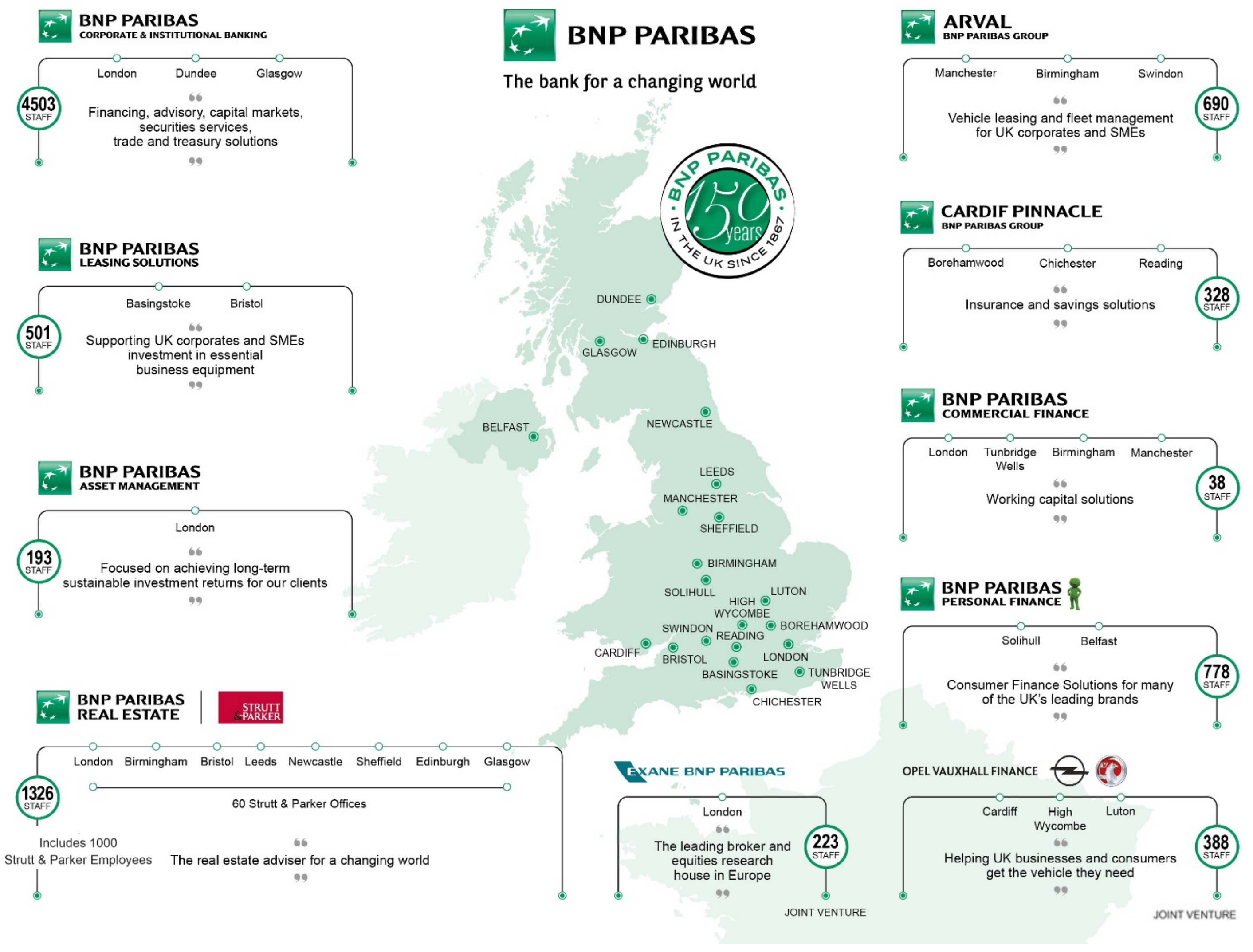
- Stock market: was the company listed on a stock exchange during the period? *(source: LSEG, exchanges, companies)*
- Equity capital markets: did the company raise money in the equity markets during the period? *(source: Dealogic)*
- Corporate bonds: did the company issue corporate bonds during the period? *(source: Dealogic)*
- Leveraged loans: did the company raise money in the leveraged loan market during the period? *(source: Dealogic)*
- M&A: was the company active in the M&A market either as a buyer or seller during the period? *(source: Dealogic)*
- Private equity: was the company owned or backed by private equity / acquired by a private equity firm, or sold by a private equity firm during the period? *(source: Dealogic, TopTrack, BVCA, company reports)*
- Derivatives: does the company explicitly say in annual report or accounts that it uses derivatives and if so what type of derivatives? *(source: sample of 340 annual reports and company accounts on Companies House)*
- Pensions: how much does the company contribute to its employees' pensions as a % of wages? Does it have a defined benefit pension scheme and if so what is the value of its assets? *(source: sample of 325 annual reports and company accounts on Companies House)*

Presenting the data – heatmaps:

We presented the usage of capital markets between 2014 and 2018 across our sample in the form of a heatmap. Companies are sorted by revenues with the largest company by revenues in the top left corner and the smallest company in our sample in the bottom right. Each row contains forty firms in descending order left to right.

In each heatmap for each sector of the capital markets. a blue square shows that a company was active in that sector during the five years period. The position of each company is fixed through all heatmaps so that you can track the activity of a single company throughout the report. Our overall estimate of the relevance of capital markets to large UK companies (the heatmap on page 8) is a result of combining the activity of all our sector heatmaps.

About BNP Paribas in the UK



A partner with UK business since 1867

As one of the world's pre-eminent banking groups – and the first ever French bank to set down roots in the UK in 1867 – the breadth and depth of our presence across the country means BNP Paribas is able provide UK companies and investors access to a full global suite of products and solutions in Europe and worldwide. This, combined with our long-term commitment to the UK, is what truly distinguishes BNP Paribas from other international banks operating in the country.

Today, the Group is formed of 10 divisions and employs 9,300 staff based in 21 core locations right across the country. Our goal at BNP Paribas in the UK is to be long-term partner for our clients and deliver services that have purpose and relevance, both to them and the world around them. In so doing, we seek to make a positive, sustainable contribution to both the UK economy and society.

About New Financial

New Financial is a think tank that believes Europe needs bigger and better capital markets to help drive growth and prosperity.

We think this presents a huge opportunity for the industry and its customers to embrace change and rethink how capital markets work. We work with market participants and policymakers to help make a more positive and constructive case for capital markets around four main themes: unlocking capital markets; rebuilding trust; driving diversity; and the impact of Brexit.

We are a social enterprise funded by institutional membership from different sectors of the capital markets industry. For more information on our work, please contact us:

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Our research on capital markets:

Here is a selection of some of our recent reports on capital markets:

- *The Crisis of Capitalism*
- *A new sense of urgency: the future of capital markets union*
- *What do EU capital markets look like on the other side of Brexit?*
- *Unlocking the growth potential of European capital markets*
- *Brexit & the City: the impact so far – March 2019*
- *The New Financial Global Capital Markets Growth Index – January 2019*

Driving growth across the UK

One of the key messages in this report is that capital markets have a vital role to play in supporting the day-to-day functioning of the UK economy: at least 90% of large companies use the capital markets to raise capital, invest in their business and manage risk, and these companies employ nearly six million people across the UK. Thousands more smaller companies that support more than two jobs also use the capital markets. Here are some suggestions as to how the industry can build on this to develop a clear strategy of helping to drive more investment in jobs and growth across the UK

1. **Supporting a recovery:** capital markets support the day-to-day business of thousands of companies that employ millions of people in every corner of the UK. How can the industry use this as a starting point in the debate about the role it can and should play in supporting the economy through this crisis, helping fuel a recovery, and supporting the government's 'levelling up' agenda across the regional economy of the UK?

2. **A new social contract:** the banking and finance industry can and should be part of the solution to the Covid crisis – a sharp contrast to being seen as part of the problem in the decade since the financial crisis . How it responds in the coming months will define its relationship with society for the next decade. What should that new social contract look like and how can the industry help shape it?

3. **A decentralised approach:** around two thirds of the 1.1 million people who work directly in financial services in the UK are based outside London. What can firms that are heavily centralised in London and the South East do to spread their operations more evenly across the UK and help support local government and local businesses to create bigger and more sustainable clusters of economic activity around the country?

4. **Know your customer:** a good starting point in any business is to know your customers. How can firms in the capital markets develop a better understanding of the regional footprint of their customers and the economic impact that they have in those regions? A big company with its headquarters in London will have thousands of staff working at locations all over the country.

5. **Taking the lead:** what can central and local government do to improve the data and analysis on the location of economic activity and employment at companies across the UK? If the government wants to drive more investment in the regional economy, a good starting point would be to better understand the profile of local economic activity with high quality and consistent data.

6. **A new narrative:** banking and finance is a vital industry in its own right but the industry often talks about the value of what it does in terms of itself (how many people it employs and how much tax it pays). A new narrative based around how its supports the wider economy and expressed in terms of its customers would help underline the importance of the sector, improve understanding, and help it reconnect with society.

7. **A local perspective:** how can the industry make the case for what it does at a local and concrete level in terms that people across the country can relate to? What case studies and stories can the industry use to support this message?

8. **A different mindset:** how can the industry change the mindset of many of the people who work in it and encourage them to focus on the underlying purpose of their role? Helping a manufacturing company in the West Midlands finance its growth or helping millions of people in the North East save for their retirement may seem a long a way from the City but is ultimately what the capital markets exist to do.

9. **A smaller company market:** this report underlines how they help support thousands of smaller companies across the UK. How can the industry help widen access to capital markets for smaller companies - particularly in the equity and corporate bond markets - which will be more vital now than ever before?

10. **A direct connection:** how can the industry collectively use structural changes such as auto-enrolment pensions and the rise of ESG and sustainable investment to drive more engagement with individuals across the country, improve their products and services, and help develop deeper and more efficient pools of capital that can be put to work in more creative ways?