Navigating what happens next is the new challenge

Top Track 100 companies are reviewing their priorities for a post-Covid world

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There is much for the chief executives of the country's biggest private companies to consider as the impact of the pandemic on the economy becomes clearer.

Many can be rightly proud of their teams' instinctive response to this health and social crisis, and their willingness to be mindful of all their stakeholders. Decisions made in March and April need to stand the test of time, and it is encouraging to see how measured most company chiefs have been.

As they enter the next phase, chief executives will be trying to anticipate what changes to make to continue to protect their employees and customers, as well as their sales and profits.

We should not rush past that first point. One of the most edifying aspects of the past few months has been the response of private organisations to public need.

The likes of Mott MacDonald (No 35), Wates (No 40) and Bibby Line Group (No 91) acted swiftly in response to calls for extra capacity in the NHS, from building Nightingale hospitals to converting existing space for patients and creating drive-through testing centres. Others, such as hi-tech engineering groups Cobham (No 30) and McLaren (No 42), worked to address the country's shortage of ventilators.

These are examples of the private sector working at its best. Having clarity about their organisation's purpose and responsibilities as a good corporate citizen can only help a chief executive when deciding the right response in difficult circumstances.

Bosses of the Top Track 100 companies acted quickly in the face of the crisis, engaging with banks, taking advantage of government schemes and mitigating costs where possible. But how do they plot a way ahead now? The following five observations emerge from conversations that we have had with clients.

First, the crisis has brought into sharp focus the question of corporate resilience. Companies with weaker balance sheets were in the greatest need of government support, the forbearance of their banks or emergency investor support. We know that investors are alive to the idea that less leverage can mean lower returns, but there is growing acceptance that resilience has been undervalued.

Our second observation is on ownership. Private companies may not have the advantage of access to the stock market to raise new capital, but they often have the benefit of owners who are able to take longer-term views. However, there are likely to be more reasons for family and entrepreneur-owned companies to consider attracting outside investment. For the Top Track 100 as a whole, minority investment has been rare, with private equity only holding minority stakes in five companies. We see the natural process of ownership maturity and the consequential sale of minority stakes accelerating because of the financial pressures created by the crisis and its economic repercussions.

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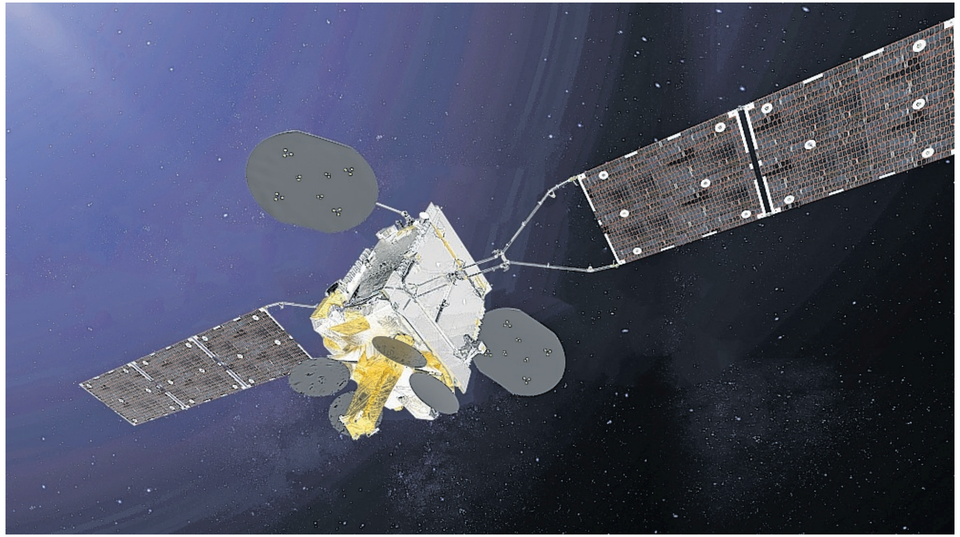

Inmarsat's (No 63) 14th satellite was launched from French Guiana last November

These changes in capital structures are likely to coincide with increased sector consolidation – our third observation. So far, financial investors such as private equity firms have supported their portfolio companies and have largely held off from new acquisitions, but they will increasingly be ready to compete with well-capitalised corporates for deals. Ranjit Boparan, founder of 2 Sisters Food Group (No 22), has already acquired Carluccio's, the café chain that fell into administration in March.

Fourth, Britain's large technology companies will emerge even stronger. All Top Track 100 firms are tech-enabled, but only a few primarily trade on their proprietary tech IP. They include the likes of Dyson (No 9), Cobham (No 30), THG (No 59) and Paysafe (No 61).

Cobham was acquired by Advent International in January – a move that took the company off the stock market. So too Inmarsat (No 63), the satellite communications group, which expects the UK space industry to grow significantly. In May it launched Athena, a space-technology service, in partnership with Serco, Lockheed Martin UK and CGI UK. The government's space strategy aims to increase the value of space to wider industrial activities to £500bn, generate an extra £5bn in UK exports and attract £3bn in additional inward investment – so this move seems well timed.

Finally, public trust in companies is likely to continue to be an important focus. When boards are tested in difficult times, they need to hold true to their values while balancing the interests of stakeholders. One of the consequences of the pandemic may be to speed up the changes in governance and board decision-making to take account of all stakeholders – a process that had begun well before Covid-19 struck.

As the approach of our private companies during the peak of the pandemic shows, they have the right values, the resilience and the flexibility to emerge from this crisis stronger.

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