

SME Finance Monitor

Key highlights Q2 2018

An independent report by
BVA BDRC, September 2018

The SME Finance Monitor Q2 2018

This survey was commissioned to provide a robust and respected independent source of information on the demand for, and availability of, finance for SMEs in the UK.

Over **140,000 SME interviews** have been conducted since the survey started in Q2 2011, across 29 waves of interviewing.

The report and supporting data is made available to **all** interested parties as a basis for decision making and strategy setting. It is used by Government, the Bank of England, the banks, trade bodies and academics.

Data can also be analysed by sector, region and demographics – and over time

Find out more at www.sme-finance-monitor.co.uk

The study covers:

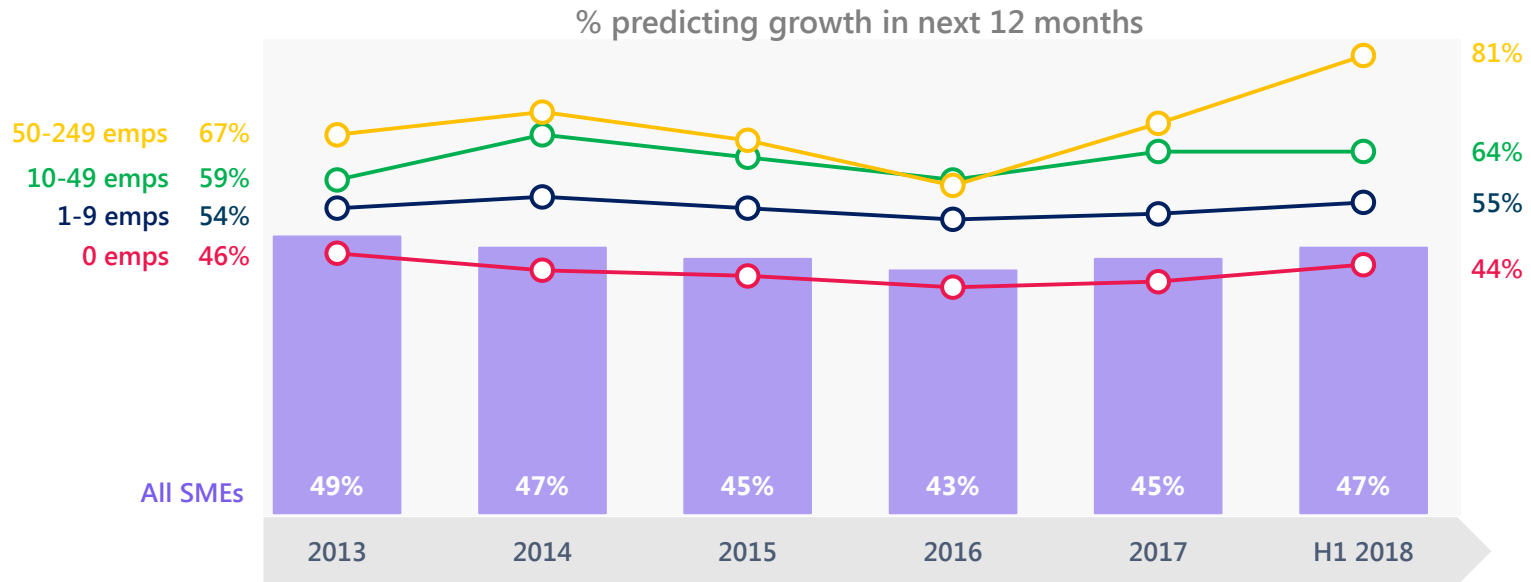
- Borrowing events in the past 12 months
- The appetite for new/renewed facilities
- The outcome of applications made
- Reasons for not borrowing
- Future plans, including demand for future finance
- Awareness of Taskforce, and other initiatives such as the Business Growth Fund

SMEs are not a homogenous group – smaller SMEs in particular can behave very differently from their larger peers.

8 in 10 SMEs are profitable, 4 in 10 have grown and almost half plan to grow. The larger the SME, the more likely these events

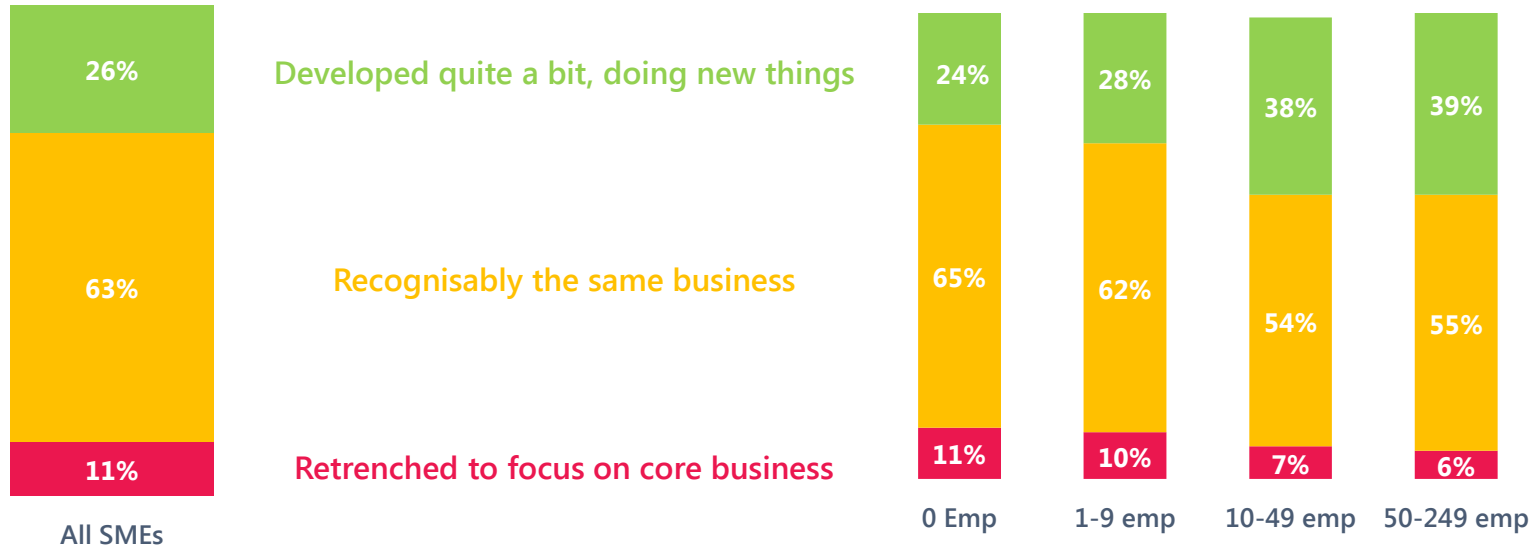


- Since 2015, a stable 8 in 10 SMEs reported making a profit (78%-87% by size of SME)
- A stable 4 in 10 SMEs have grown (39% - 64% by size of SME)
- The proportion planning to grow has improved somewhat since 2016 to 47% currently (44%-81% by size of SME)



Looking at growth another way, a quarter of SMEs say the business has developed quite a bit in the last 3 years, while 1 in 10 has retrenched to the core business

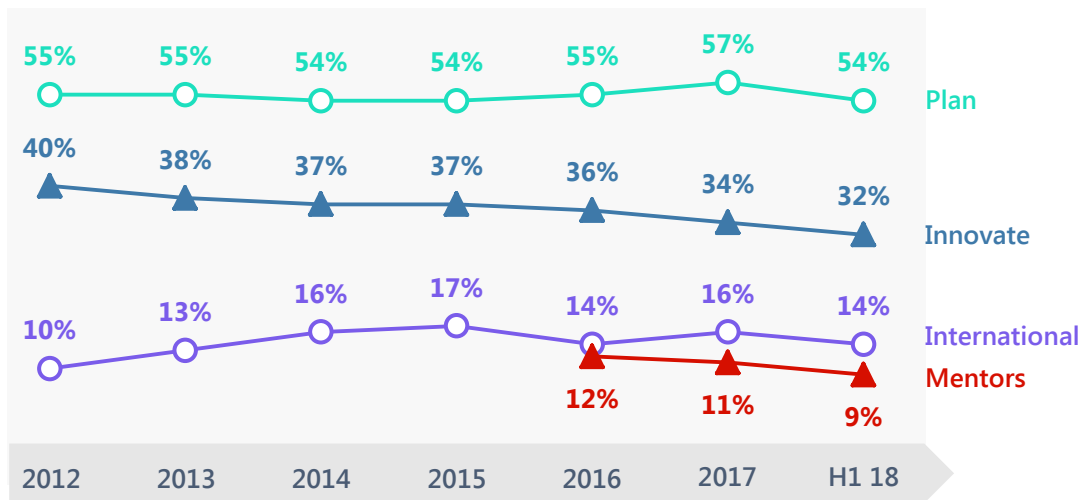
NEW: Way business has changed in last 3 years H1 18



SMEs that have developed their business are more likely to have been innovative (44%), to be planning to grow (63%) and planning any growth activities (57%)

Since 2012, fewer SMEs of all sizes have innovated, with fewer new products/services developed and fewer improved business processes

Annual time series: Business management



Innovation	2012	H1 2018
New product	17%	14%
Improved process	35%	27%

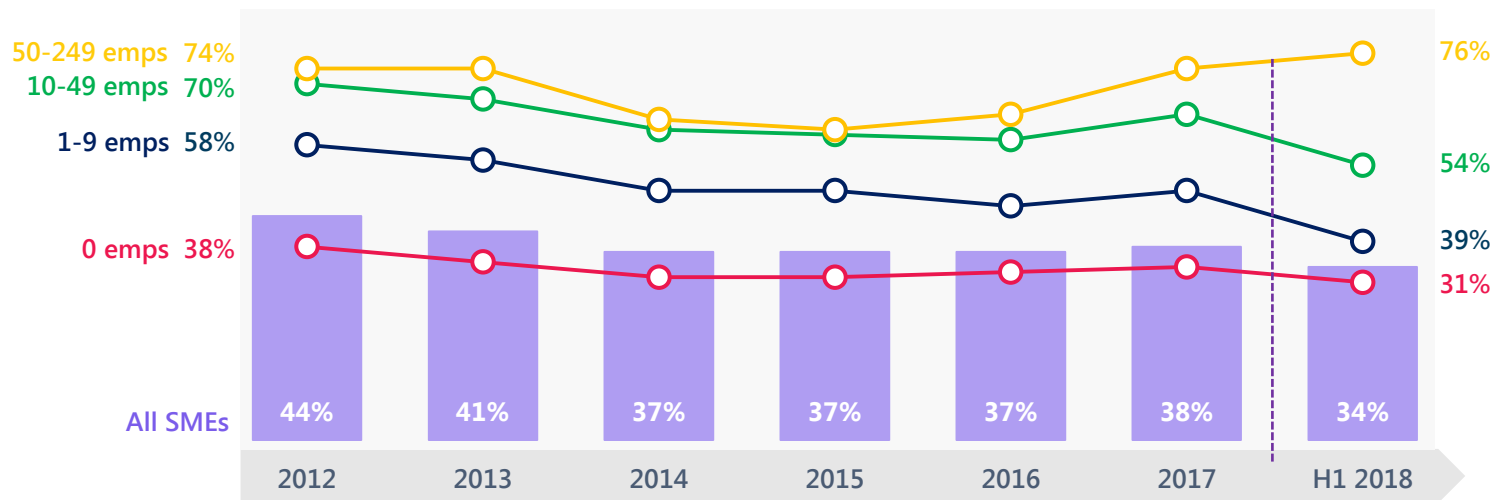
Any innovation	2012	H1 2018
All	40%	32%
0 employees	36%	28%
1-9 employees	49%	39%
10-49 emps	60%	48%
50-249 emps	70%	55%



In 2012, 40% of SMEs innovated, ranging by size from 36% with 0 employees to 70% with 50-239 employees. Since then the proportion has declined, to 32% in H1 and 28-55% by size of SME

34% of SMEs use external finance. Most (23%) only use core forms of finance (loans, overdrafts and credit cards)

Annual time series: Currently using external finance

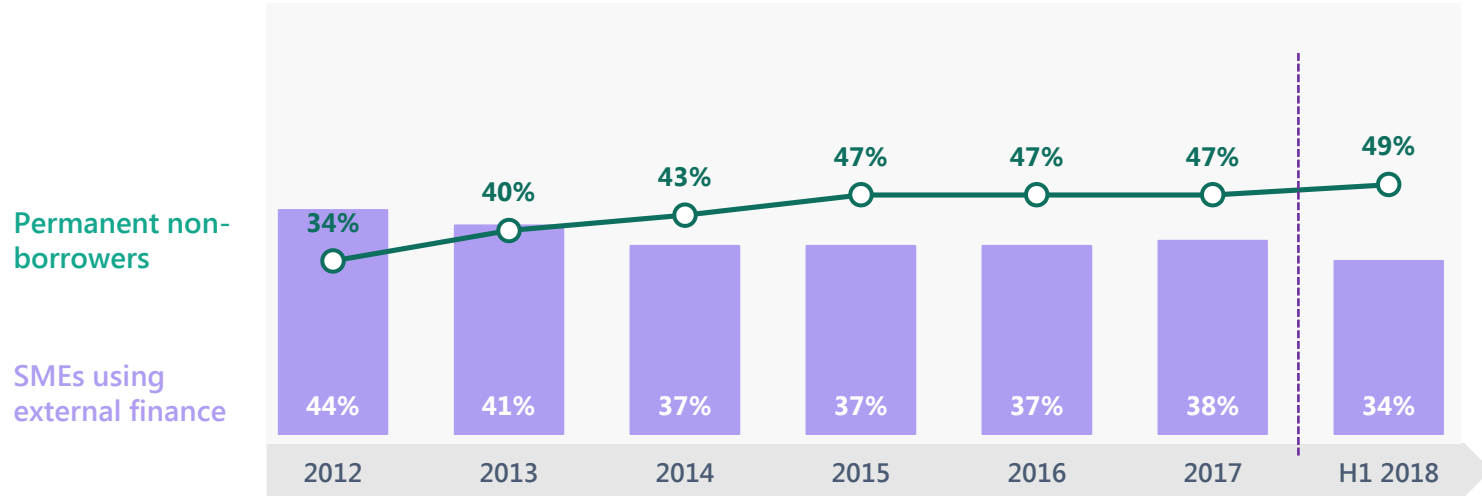


Overall use of external finance is driven by the behaviour of 0 employee SMEs. Their use of external finance fell from 38% in 2012 to 32% in 2014 and has been stable since (32% Q2 18). Fewer than 1% of SMEs reported using crowd funding/peer to peer lending or single invoice finance

Use of finance for the 3 months to August 2018 is 39%, back to previous levels

Half of SMEs met the definition of a Permanent non-borrower, with no apparent appetite for finance, ranging from 51% of 0 employee SMEs to 21% of those with 50-249 employees

Annual time series: Currently using external finance and Permanent non-borrowers



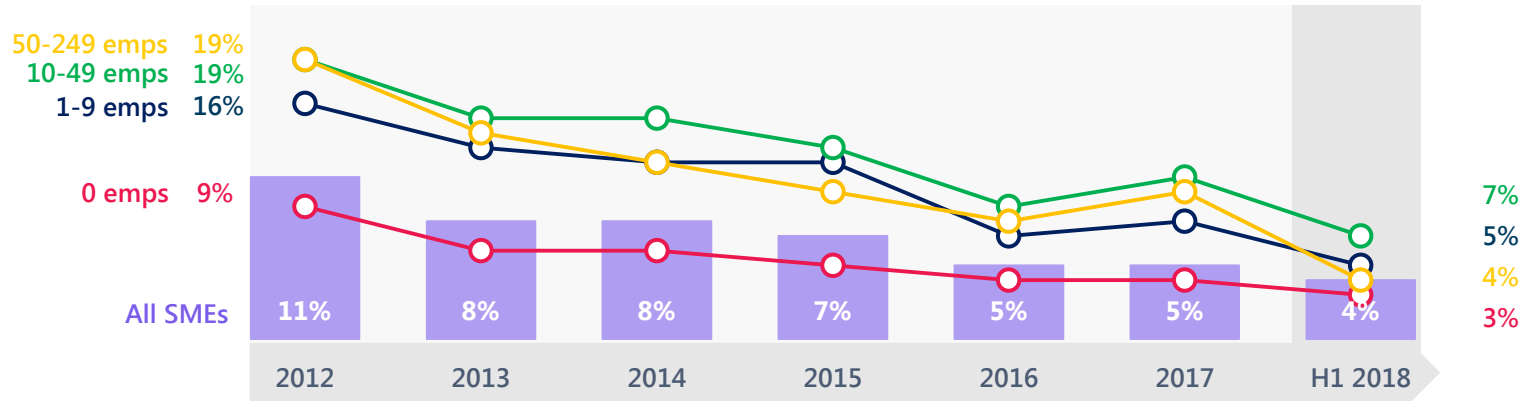
- 51% of 0 employee SMEs are PNBs
- 42% of SMEs with 1-9 employees
- 31% of SMEs with 10-49 employees
- 21% of SMEs with 50-249 employees

PNBs are:

- As likely to be profitable or hold £10k+ of credit balances
- Less likely to plan to grow or to be innovative

A minority of SMEs had applied for new/renewed finance and the proportion has declined over time

Annual time series: Type 1 applications for new or renewed funds



Using the new questions, 4% of SMEs reported a Type 1 borrowing event, with relatively little variation by size of SME. 2% made an application as the result of having a need for funding and a further 2% had another new/renewed application in the last 12 months

Applications were typically to the main bank and for a loan or overdraft. 85% of applications were successful

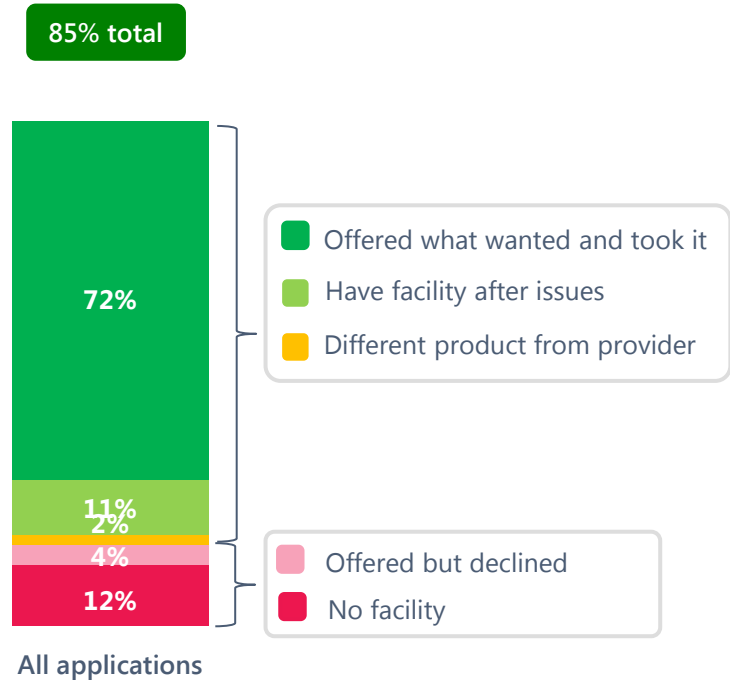
All Type1a/b applications reported in H1 2018



- 67% applied to their main bank
- 17% to another existing provider
- 7% to a new provider
- 4% to an online platform
- 5% elsewhere

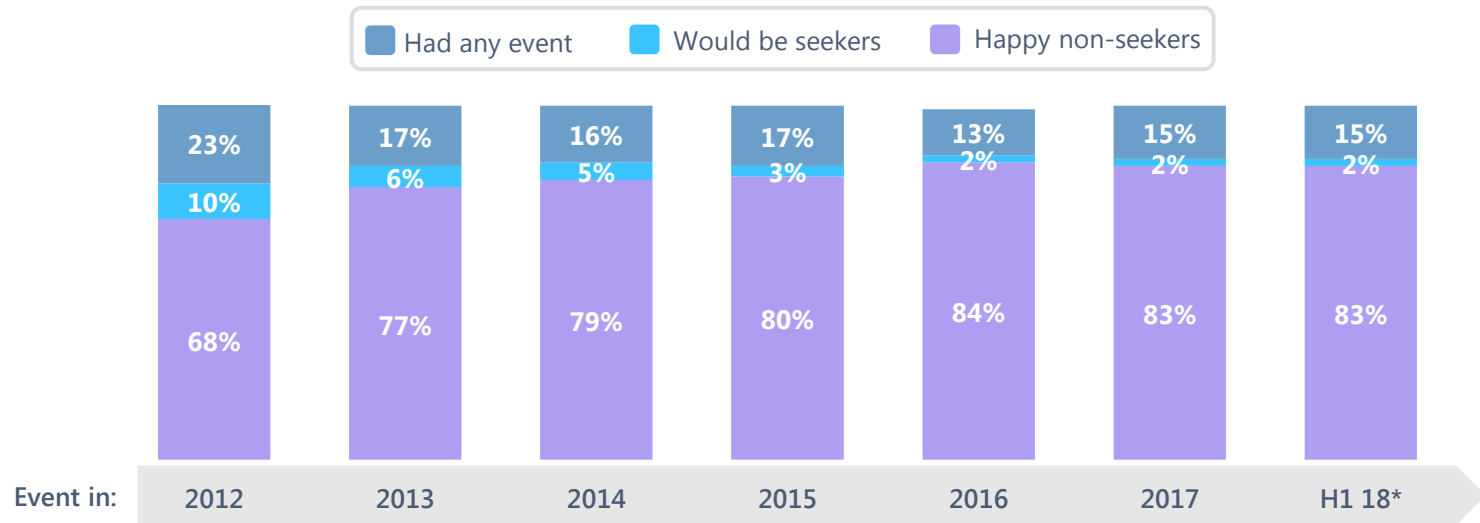


- 30% applied for a bank overdraft
- 30% for a bank loan
- 8% for leasing
- 7% for a commercial mortgage
- 6% for a credit card



Demand issues: Very few SMEs had been “Would-be seekers” who had wanted to apply for finance but felt something had stopped them.

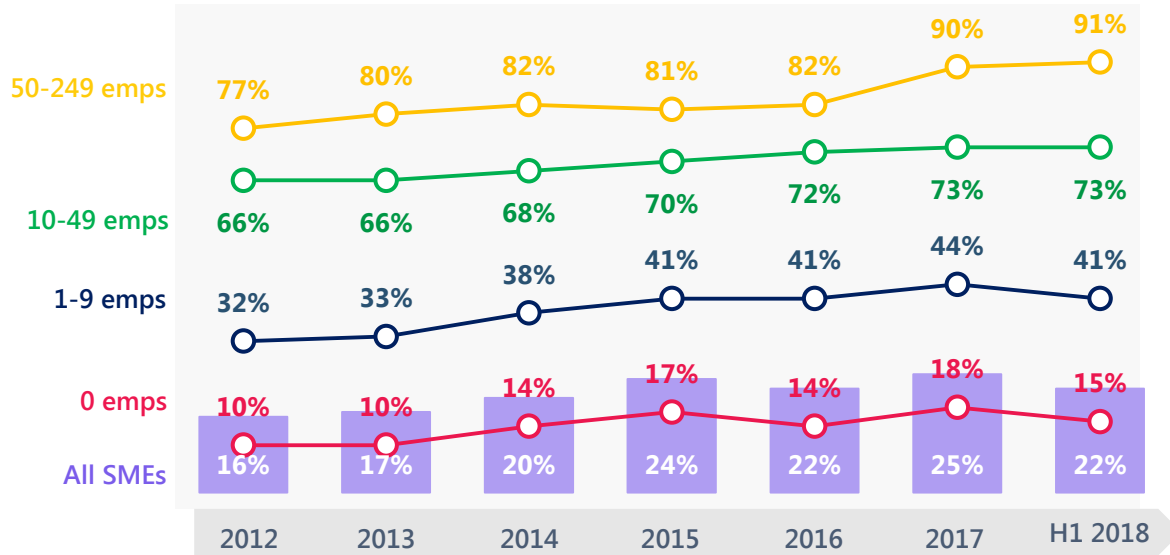
Annual time series: Borrowing profile in 12 months prior to interview



Would-be seekers are typically either discouraged from applying, or put off by the process of borrowing. A quarter of Happy non-seekers are using finance, but haven't wanted to apply for any (more) in the last year

Demand issues: SMEs have other ways of accessing funds – through credit balances, trade credit and injections of personal funds

Annual time series: £10k or more of credit balances held over time



22% of SMEs hold £10k or more of credit balances, 36% receive trade credit and 28% reported an injection of personal funds

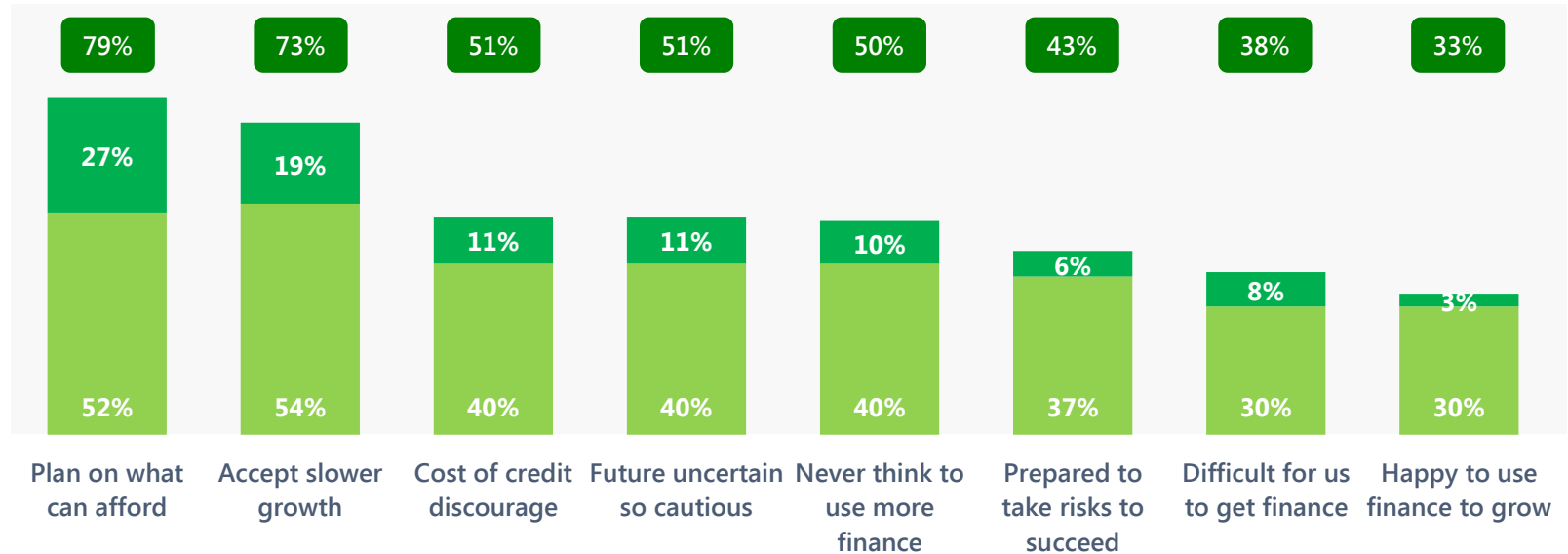
36% of SMEs receive trade credit:

- 31% of 0 employee SMEs
- 48% of 1-9 employees SMEs
- 63% of 10-49 employee SMEs
- 73% of 50-249 employee SMEs

31% of SMEs said that their need for external finance was reduced by either trade credit and/or £10k+ of credit balances (25%- 67% by size of SME)

Demand issues: Attitudinally, SMEs are twice as likely to make plans based on what they can afford (79%) as they are to be happy to borrow to help the business grow (33%)

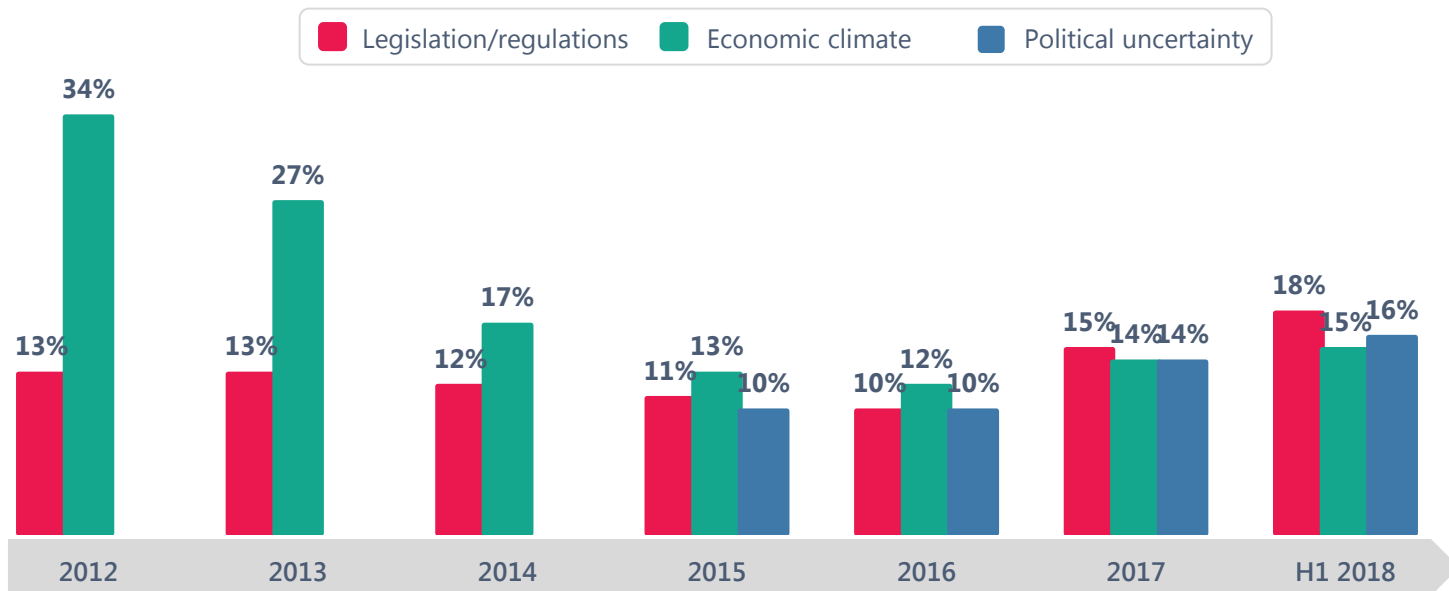
All attitudes to finance H1 2018 - % agree



16% of SMEs were happy to use finance to grow but thought it might be difficult for them to get finance. There was little variation by size, but amongst Would-be seekers, 37% agreed with both statements

Demand issues: 3 in 10 SMEs (31%) rated one or more of these Top 3 factors as 'major obstacles' in H1 2018, up from 22% in 2016

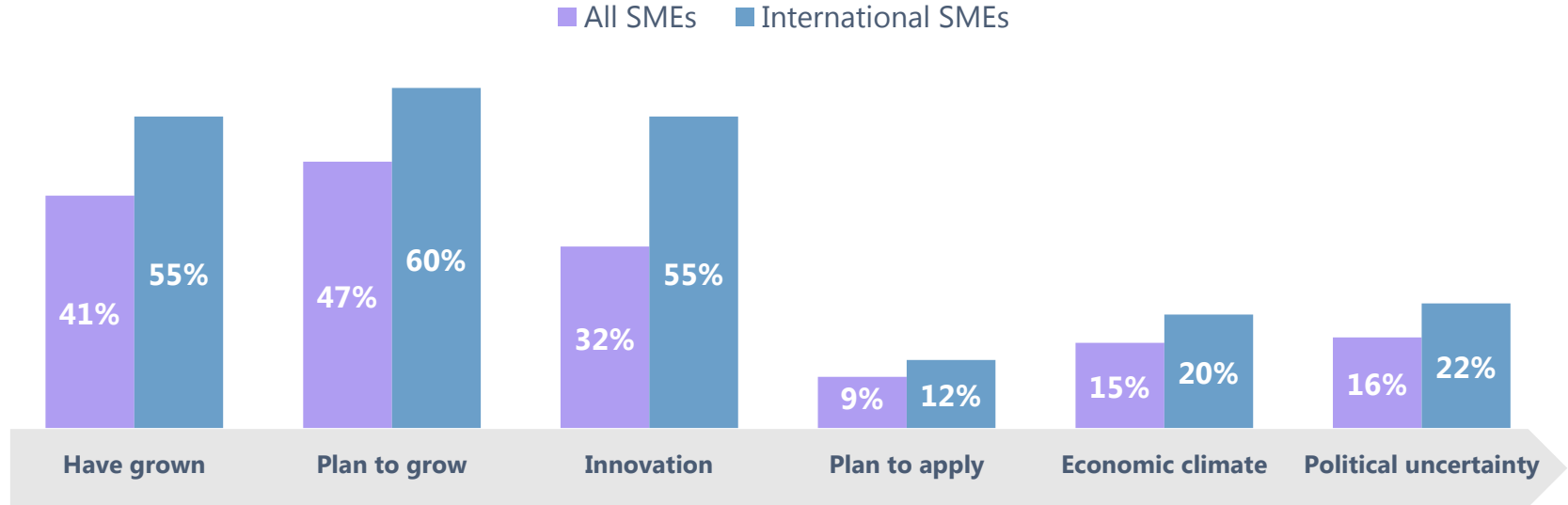
Time series: % Rating each a major obstacle for next 12 months



All three issues were mentioned more individually in H1 2018 than in 2016 with net mentions of any of the three increasing from 22% to 31%.

14% of SMEs trade internationally. These SMEs are more likely to be innovative and growing, but also have concerns and their appetite for finance has declined

Characteristics of international SMEs H1 2018



International SMEs are more ambitious and more likely to be innovative. Since the referendum, they have become more concerned about the economy and political uncertainty, and their appetite for finance has declined from 21% in 2016 to 12%

SME Finance Monitor - Key findings

SME performance and sentiment has not changed dramatically overall since 2016, albeit there are some signs of concern, especially for international SMEs

Finance applications are typically to the main bank and for a "traditional" product . Most resulted in a facility.

Access to finance has become increasingly a demand rather than a supply issue. There is no single "silver bullet" to explain it, but credit balances, a self-reliant attitude and low awareness of some financial products could all be playing a part



BVA BDRC

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