SME Finance Monitor

Q1 2015

An independent report by
BDRC Continental, May 2015

The SME Finance Monitor Q1 2015

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 **80,000 SMEs** have been interviewed since the survey started in Q2 2011

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 IMF and EU, the banks, trade bodies and academics

The study covers:

- Overdraft and loan events in the past 12 months
- The appetite for new/renewed facilities
- The outcome of applications made, including rates and fees
- Reasons for not borrowing
- Future plans, including demand for future finance
- Awareness of Taskforce, and other, initiatives such as the Funding for Lending scheme

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

These charts include data up to the end of March 2015

Today’s presentation pack

- Provides the usual key highlights from the Q1 data set
- Updates the standard “dashboard” slides seen in previous presentations
- Where possible focusses on data *over time* to show how this market is evolving
- And also includes reporting on the new questions that were added in Q3 2014, as sample sizes allow

As usual…

- It is not our remit to assert whether the findings are “good” or “bad”
- And these results are the “tip of the iceberg”
- Most analysis is based on the 20,093 interviews YE Q1 2015. Where feasible, data is also shown **over time**. Analysis by *application* date potentially includes all interviews conducted to date but much of the analysis focusses on applications made in the past 18 months (Q4 2013 to Q1 2015)

Today's presentation

- Context
- Borrowing events in the last 12 months
- Outcome of applications and renewals
- The future

Context

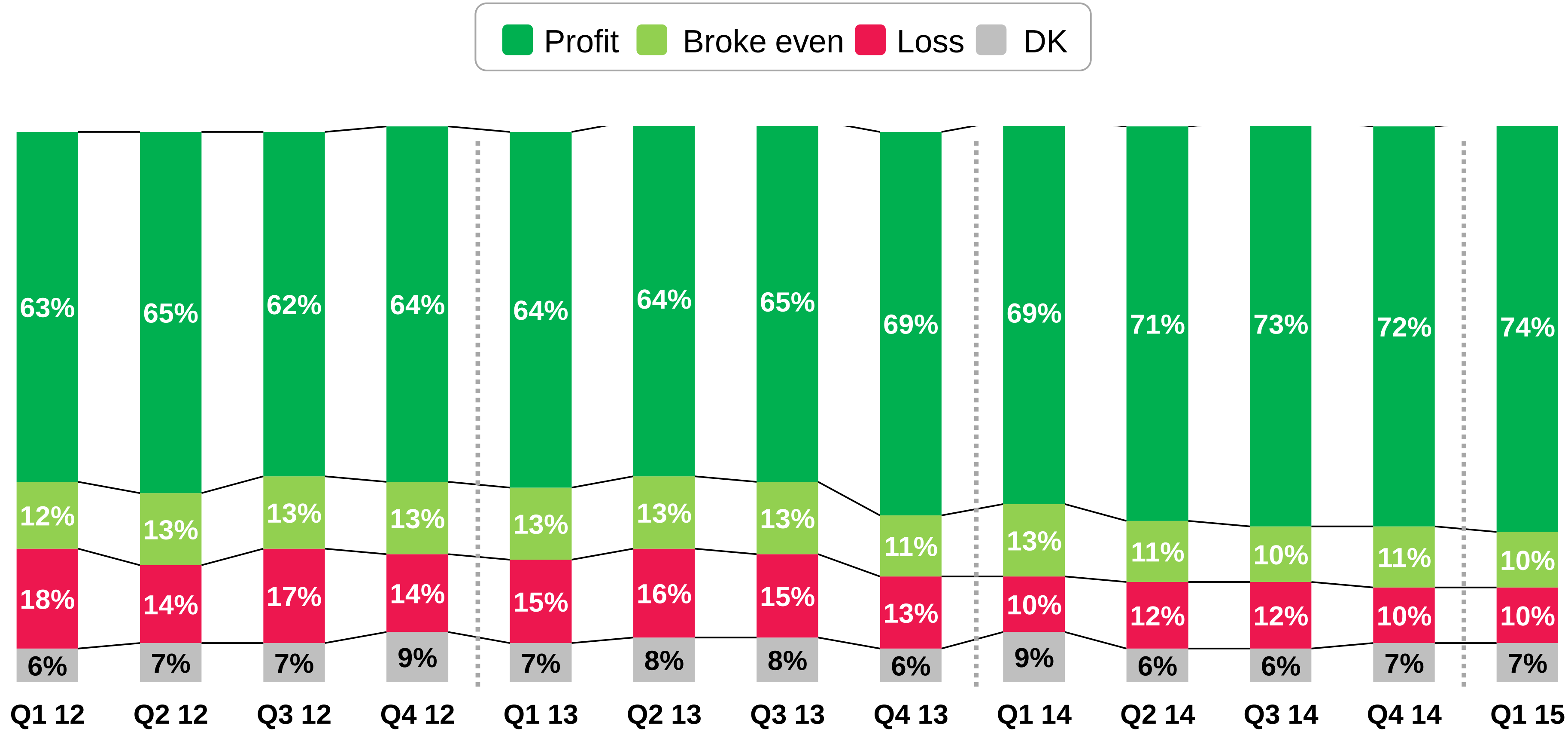
Borrowing events in the last 12 months

Outcome of applications and renewals

The future

The proportion of SMEs reporting making a profit has increased steadily over recent quarters ….

Time series: Reported profitability in past 12 months, per quarter

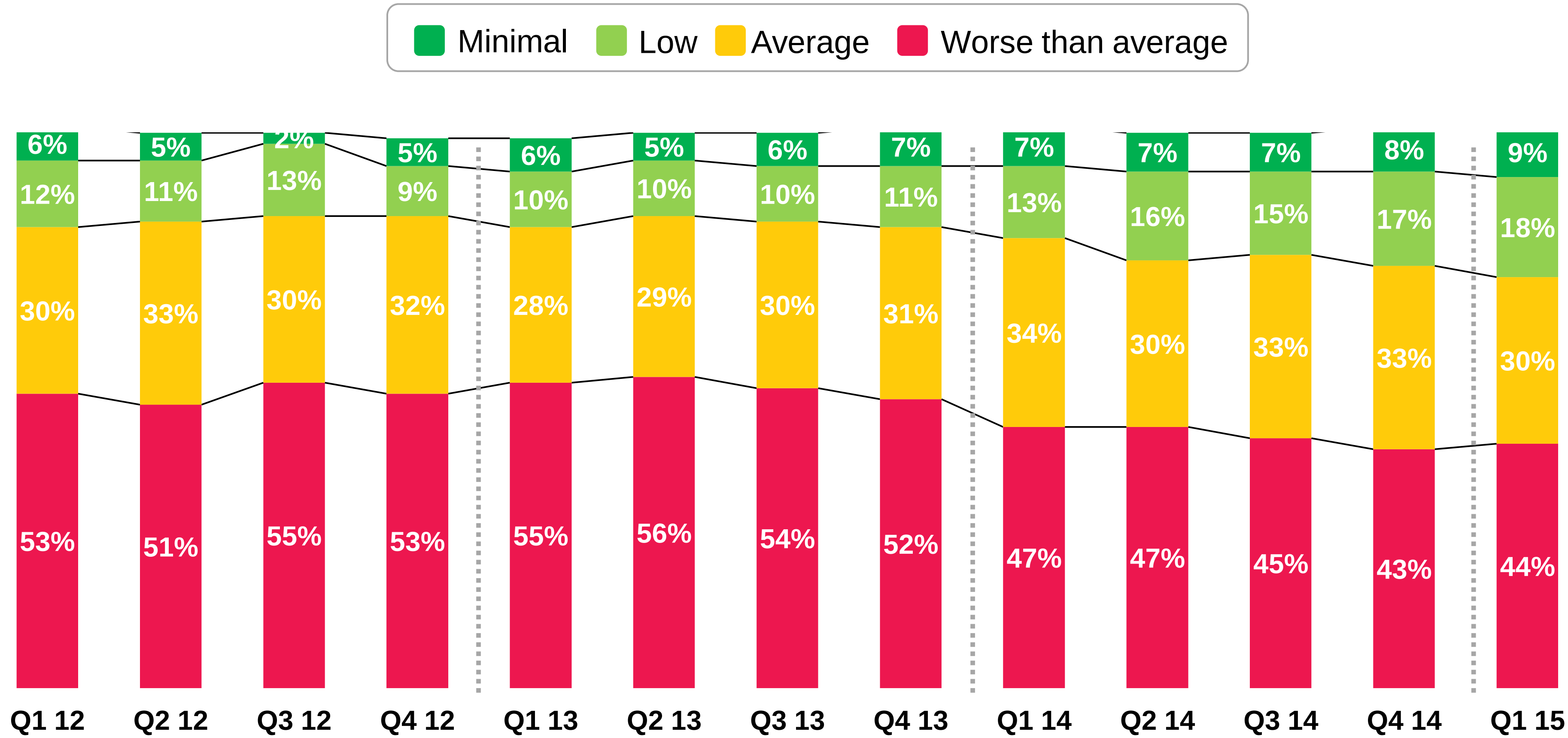


Most SMEs are profitable (73% YEQ1). Once the 'don't know' answers are removed, 79% of remaining SMEs in Q1 2015 reported having made a profit and this proportion is increasing steadily over time, up from 69% in the equivalent quarter of 2013

Q241
Base : All respondents
5023/5000/5032/5000/5000/5000/5008/5028/5000/5008/5023/5024/5038

… and the proportion rated a minimal or low' risk has also increased steadily over time.

Time series: Risk rating per quarter

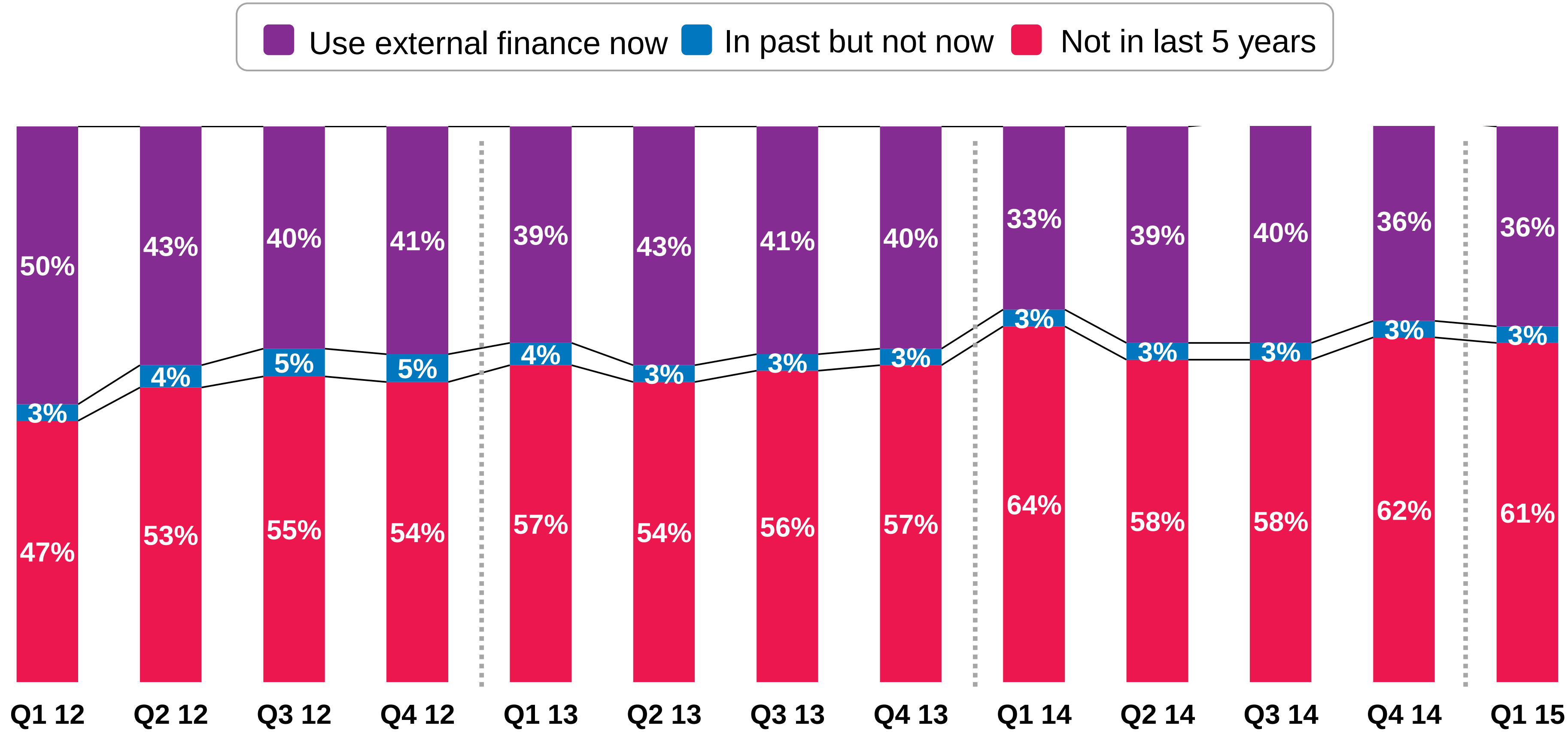


The overall risk rating profile is driven by 0 employee SMEs and whilst they are the most likely to have a worse than average external risk rating (49% in Q1 2015), improvements in their rating in particular have driven improvements overall (61% had this rating at the 'peak' in Q2 2013). Self-reported credit issues remained relatively rare, and declining over time (8% in Q1 2015).

Risk rating
Base : All respondents with rating
4580/4562/4583/4545/4630/4535/4490/4528/4530/4607/4609/4584/4560

Use of external finance was 36% in Q1 2015, in line with 2014 as a whole

Time series: Use of external finance per quarter

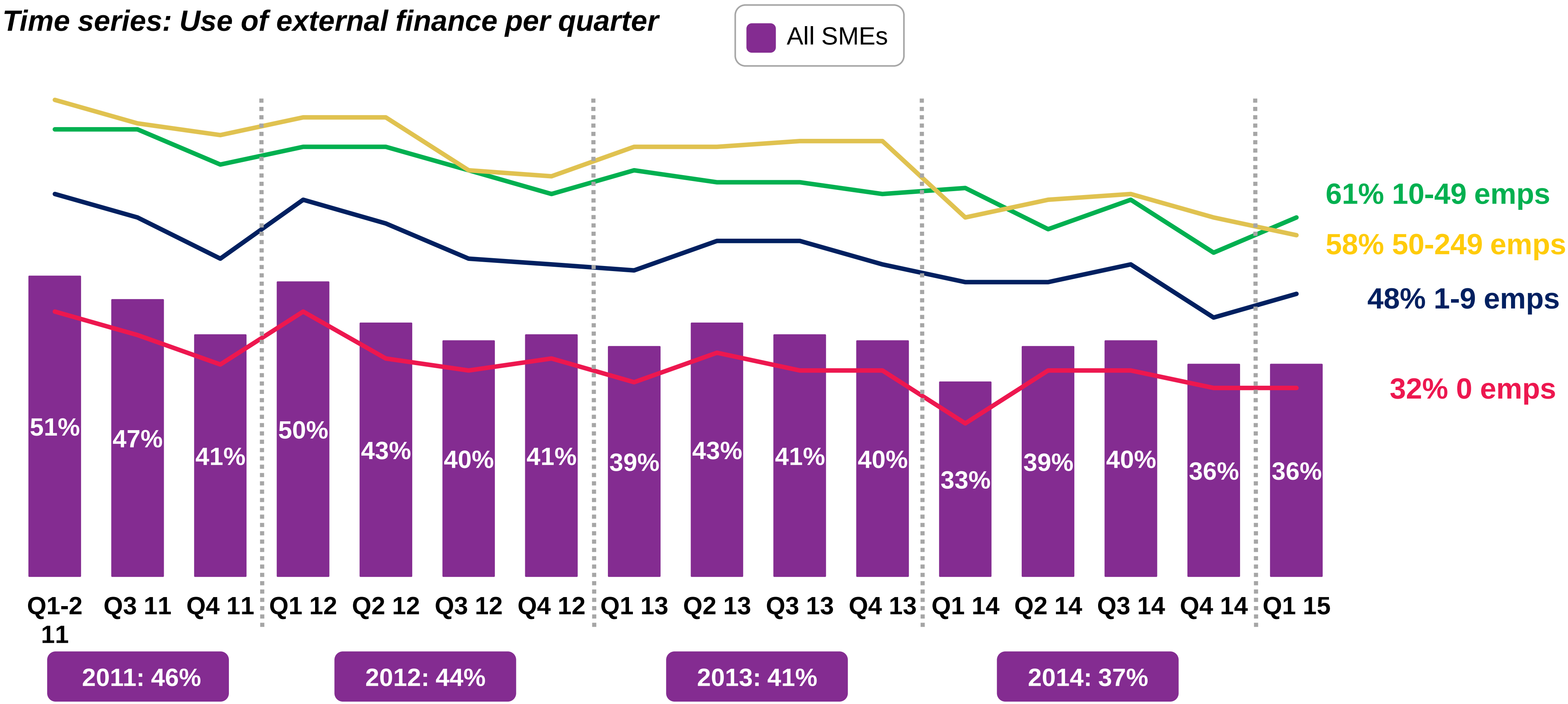


A third of SMEs are using external finance – either “core” loans, overdrafts and credit cards (29% in Q1) and/or other forms of finance including invoice discounting and leasing (16% in Q1)

Q15
Base : All respondents 5023/5000/5032/5000/5000/5000/5008/5026/5000/5008/5023/5024/5038

Over time, there has been declining use of external finance both overall and across all size bands

Time series: Use of external finance per quarter

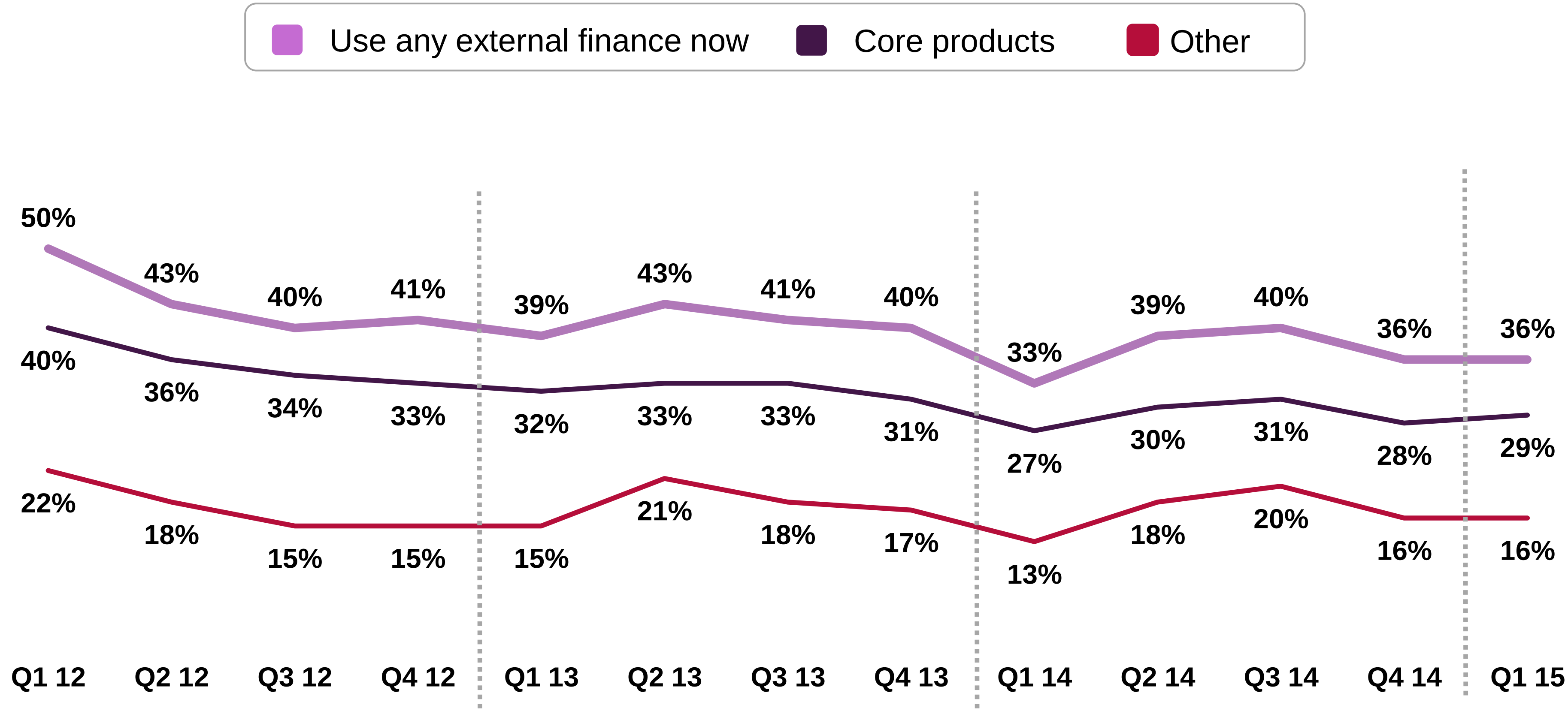


Overall use of external finance is driven by the behaviour of 0 employee SMEs. Their use of external finance has fallen from 41% in 2013 to 37% for 2014 and 32% in Q1 2015, as part of a longer term decline. Amongst those with employees use of external finance also fell, from 57% in 2013 to 51% in 2014 and was 50% in Q1 2015.

Q15
Base : All respondents
5063/5055/5010/5023/5000/5032/5000/5000/5000/5008/5026/5000/5023/5038

Use of core finance has stabilised over recent quarters, while use of other forms of finance is more varied

Time series: Core and other financial products

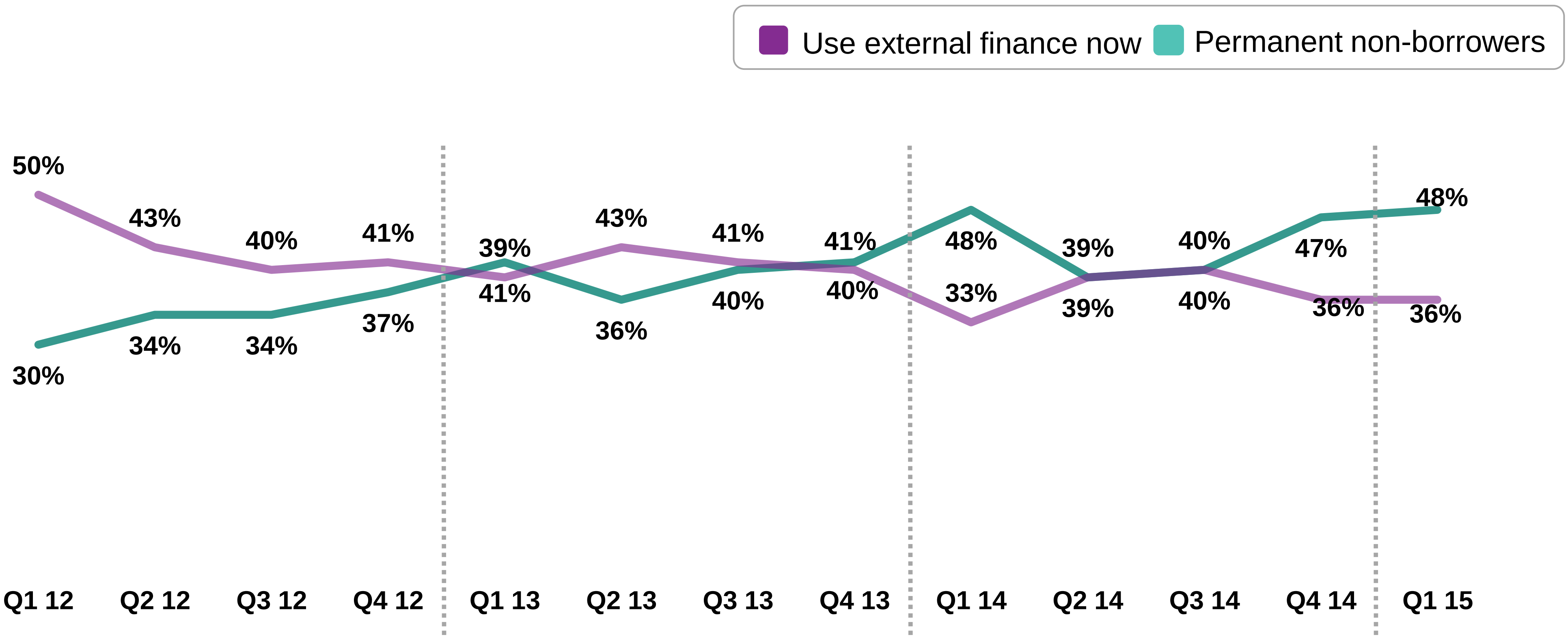


The proportion of SMEs that only use core products (loans, overdrafts and/or credit cards) was 29% in 2011. By 2014 it had fallen to 20% and was 22% for YEQ1 2015.
8% of SMEs only used one of the other forms of finance recorded (9% for 2013 as a whole), while 9% used both (as for 2013 as a whole)

Q15/14 and others
Base : All respondents
5023/5000/5032/5000/5000/5000/5008/5028/5000/5008/5023/5024/5038

The proportion of “Permanent non-borrowers” maintains an upward trend

Time series: Permanent non-borrowers and users of external finance

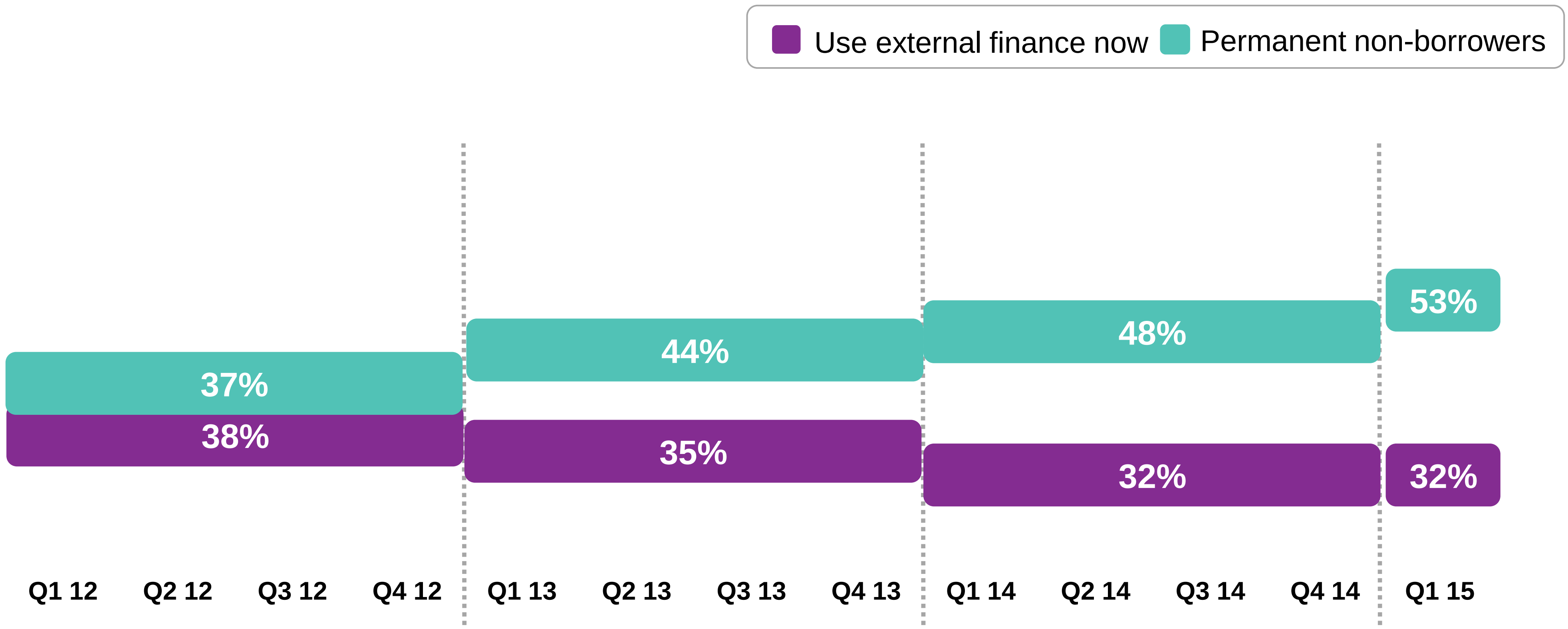


The ‘**Permanent non-borrowers**’ are not using external finance and show no inclination to do so. For 2014 as a whole, 43% met the definition, up from 34% in 2012. Over the same period, the proportion using external finance has fallen from 44% to 37%. In Q1 2015 the gap between the two was 12 percentage points.

Q15/14 and others
Base : All respondents 5010/5023/5000/5032/5000/5000/5000/5008/5026/5000/5008/5023/5024

Amongst those with no employees the "gap" between PNBs and those using finance is widening

Time series: Permanent non-borrowers and users of external finance – 0 employee SMEs

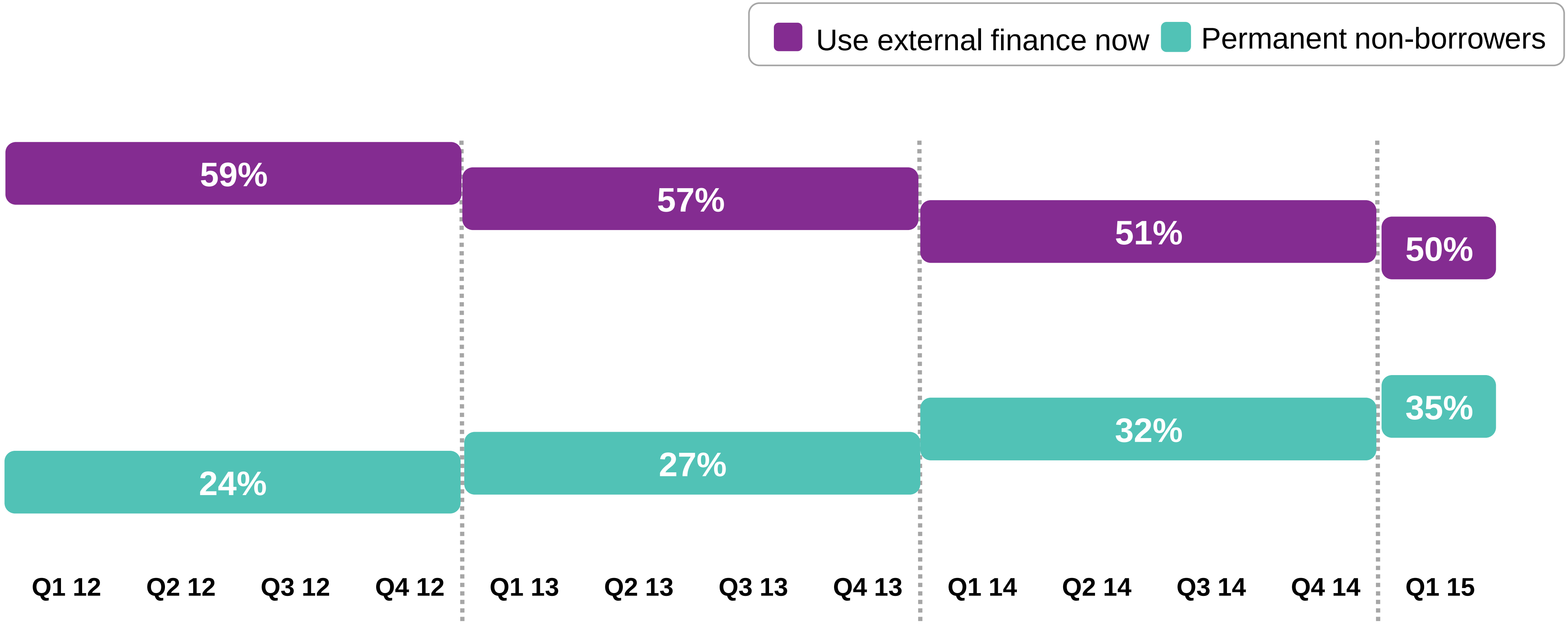


From 2013, SMEs with 0 employees have been more likely to be a PNB than to use external finance, and this gap is widening (from nothing in 2012 to 21 percentage points in Q1 2015)

Q15/14 and others
Base : All respondents with 0 employees

Those with employees are more likely to be using external finance than be a PNB, but the gap is narrowing

Time series: Permanent non-borrowers and users of external finance – SMEs with employees

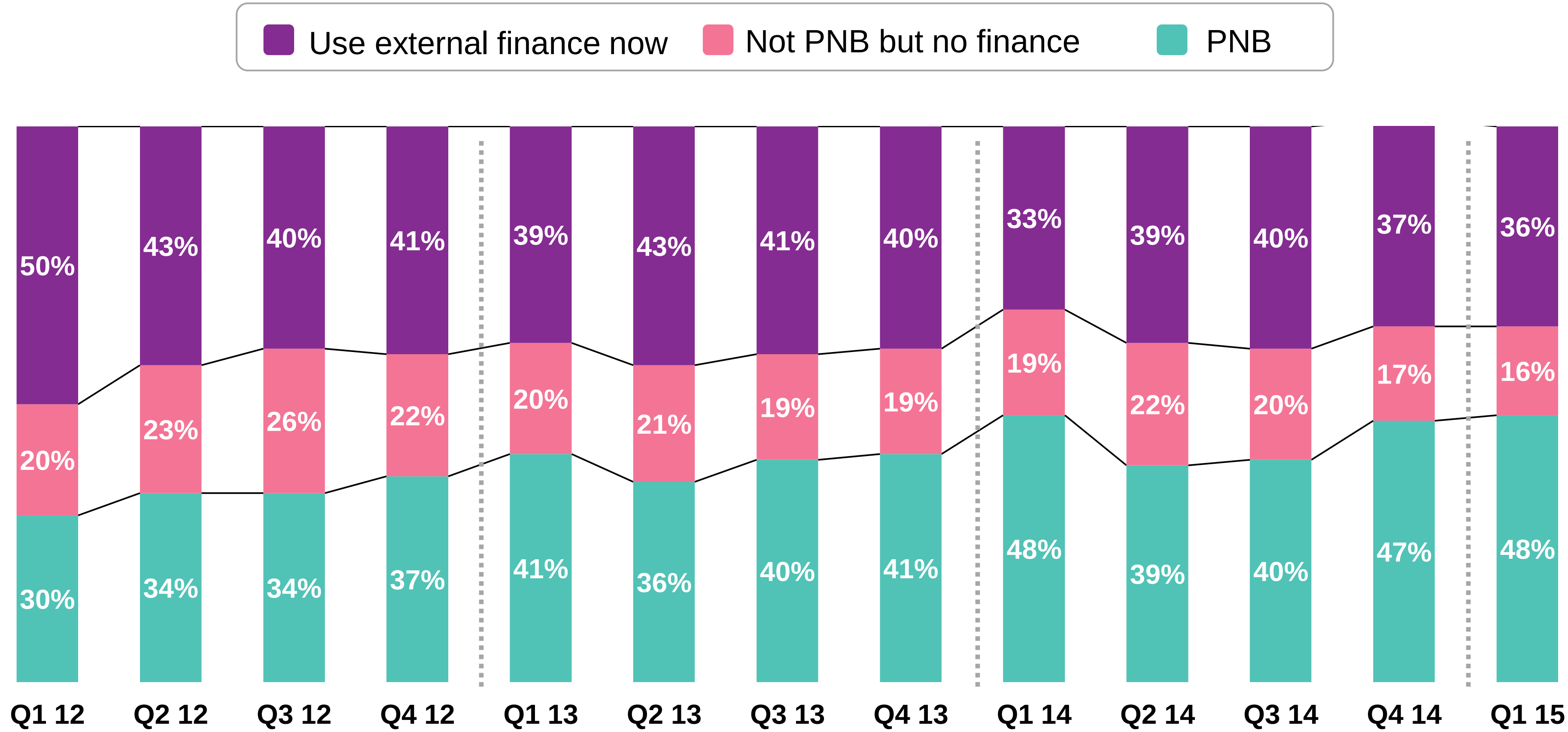


SMEs with employees remain more likely to be using external finance than to be a PNB. However the "gap" has reduced from 35 percentage points in 2012 to 15 in Q1 2015

Q15/14 and others
Base : All respondents with employees

The group of SMEs neither using external finance nor a PNB is getting somewhat smaller

Time series: Use of external finance per quarter



Recently, as the proportion of PNBs has increased, the "middle group" has reduced in size (as the proportion using external finance has stabilised) – this is due to changes amongst 0 employee SMEs

Q15
Base : All respondents 5010/5023/5000/5032/5000/5000/5000/5008/5026/5000/5008/5023/5038

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Just under half of SMEs offer and/or receive Trade Credit. 1 in 6 do both, increasing by size of business

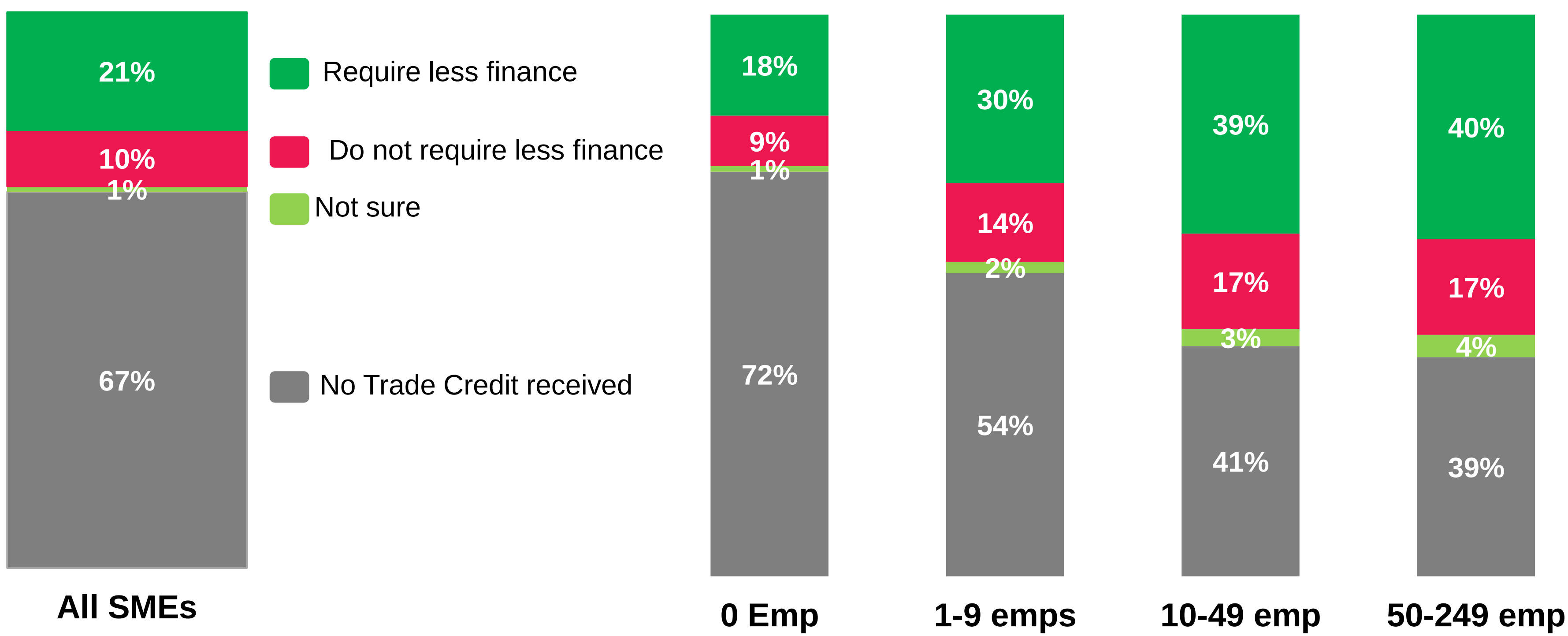
NEW QUESTION: Role of Trade Credit in the business Q3 14 – Q1 15 only

Q14y Does the business offer or receive Trade Credit?
Base : Q314-Q115 15085 3003/4994/4833/2255

1 in 5 of all SMEs say they need less external finance because they receive Trade Credit

NEW QUESTION Impact of receiving Trade Credit– All SMEs Q3 14 – Q1 15 only

21% of all SMEs say that they need less external finance because they receive trade credit from suppliers, increasing by size from 18% of those with 0 employees to 40% of those with 50-249 employees. This is the equivalent of two thirds of those receiving Trade Credit say it reduces their need for external finance, and this varies little by size.

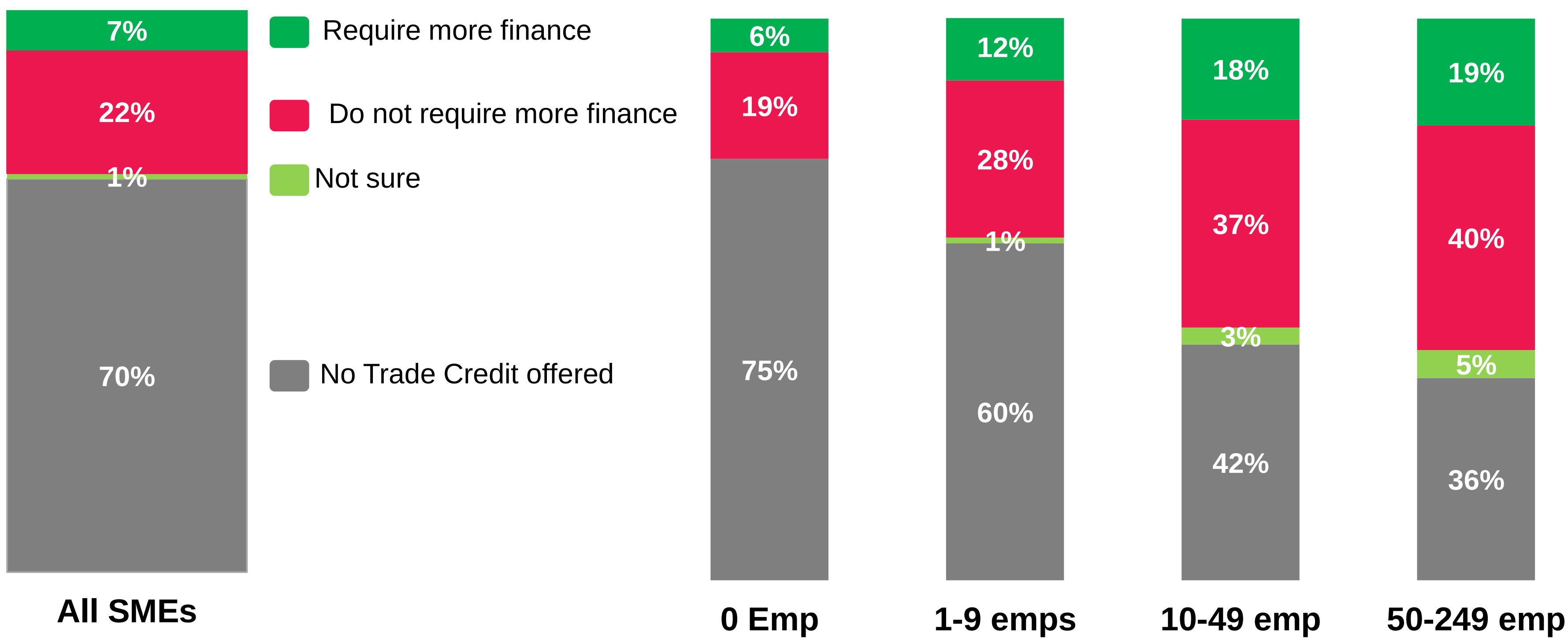


Q14y3-5 Impact of Trade Credit?
Base : All SMEs from Q314

Fewer than 1 in 10 SMEs say they need more external finance because they offer Trade Credit to customers

NEW QUESTION Impact of offering Trade Credit– All SMEs Q3 14 – Q1 15 only

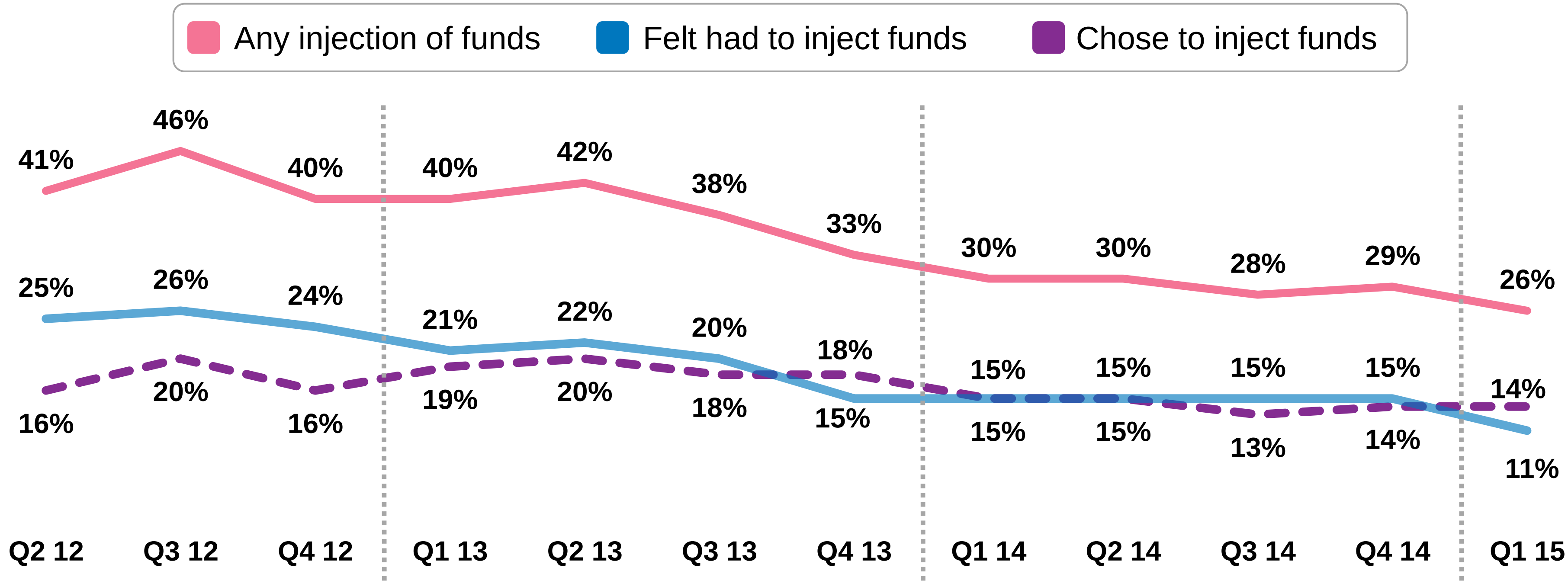
7% of all SMEs say that they need less external finance because they receive trade credit from suppliers, increasing by size from 6% of those with 0 employees to 19% of those with 50-249 employees. This is the equivalent of a quarter of those offering Trade Credit say it increases their need for external finance, and this varies little by size.



Q14y3-5 Impact of Trade Credit?
Base : All SMEs from Q314

There has been a steady decline in injections of personal funds (from a peak of 46% in Q3 2012)

Time series: Injections of personal funds in previous 12 months

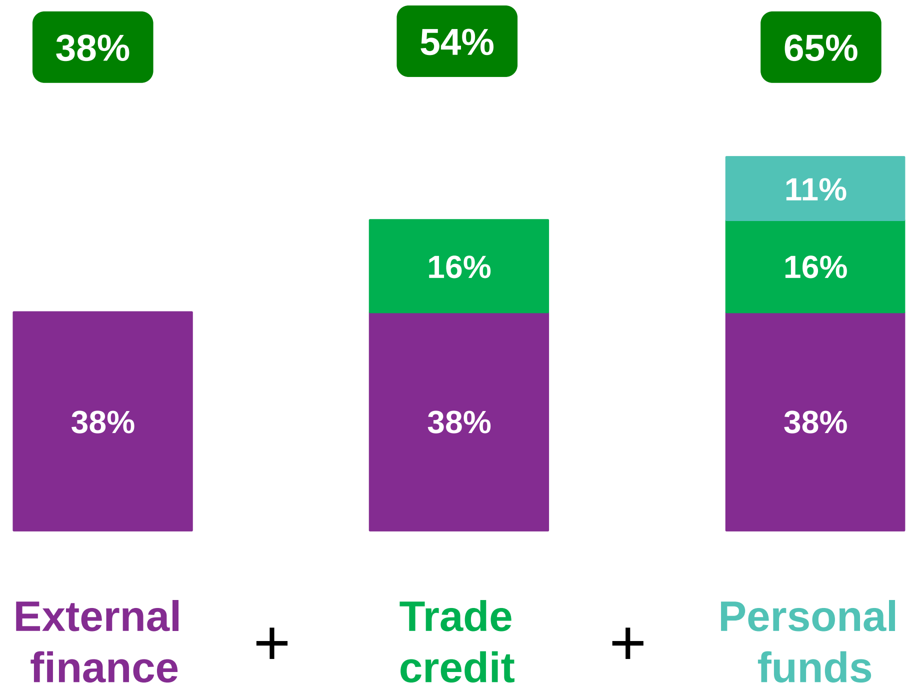


The proportion of SMEs injecting funds has fallen from a peak of 46% in Q3 of 2012 to 26% in Q1 2015. There has been a reduction in those saying they “had” to inject funds (26% to 11%), with a smaller reduction in those choosing to inject funds (20% to 14%) – and separately fewer SMEs plan to inject funds in future

Q15d and others
Base : All respondents
5000/5000/5000/5008/5026/5000/5008/5023/5024/5038

Including trade credit and personal injections increases net use of 'business funding' from 38% to 65% for SMEs overall

Use of business funding (net) YEQ1 2015

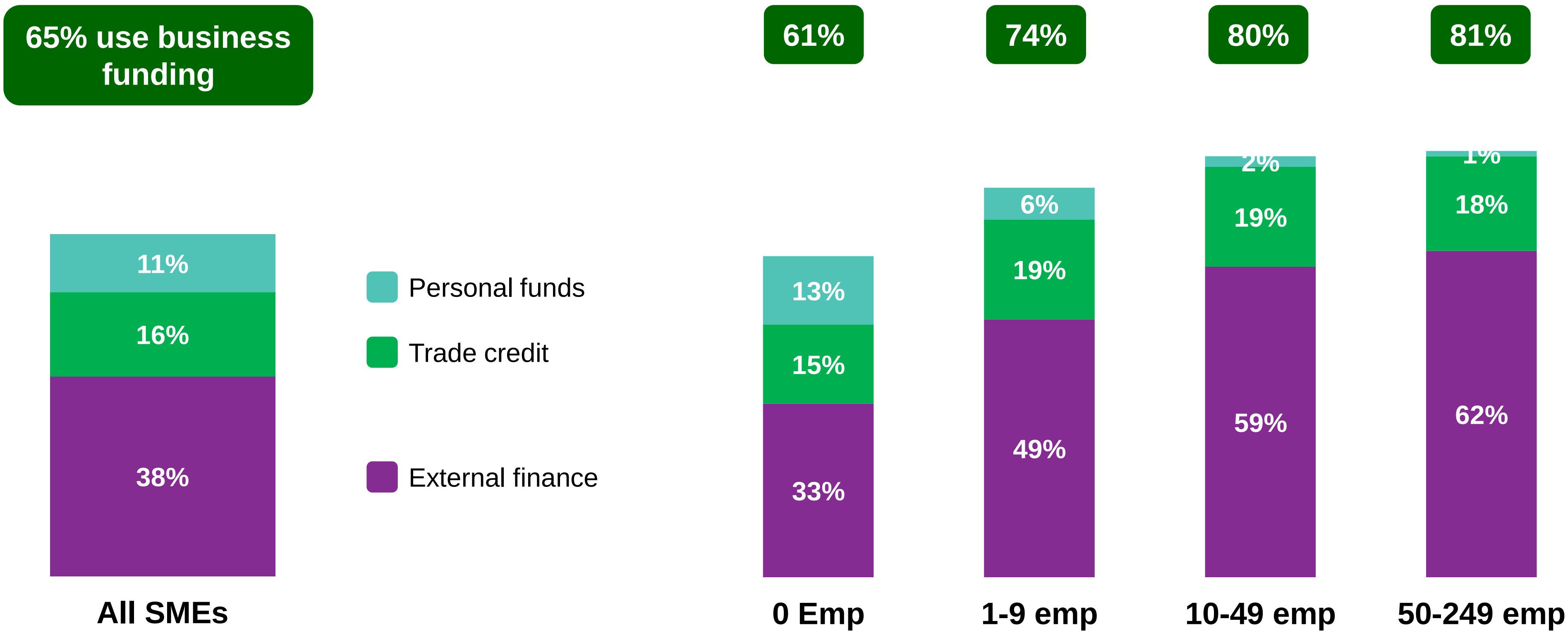


The chart shows the incremental effect of including different types of funding, over and above the types of external finance detailed in the Monitor. 16% of SMEs do not use external finance but do use trade credit, while 11% do not use either external finance or trade credit but have injected personal funds into the business in the previous 12 months

Base : YEQ1 15 All respondents 20,093

Broadening the definition of “business funding” has most impact on the smaller SMEs

Use of business funding (any) YEQ1 2015

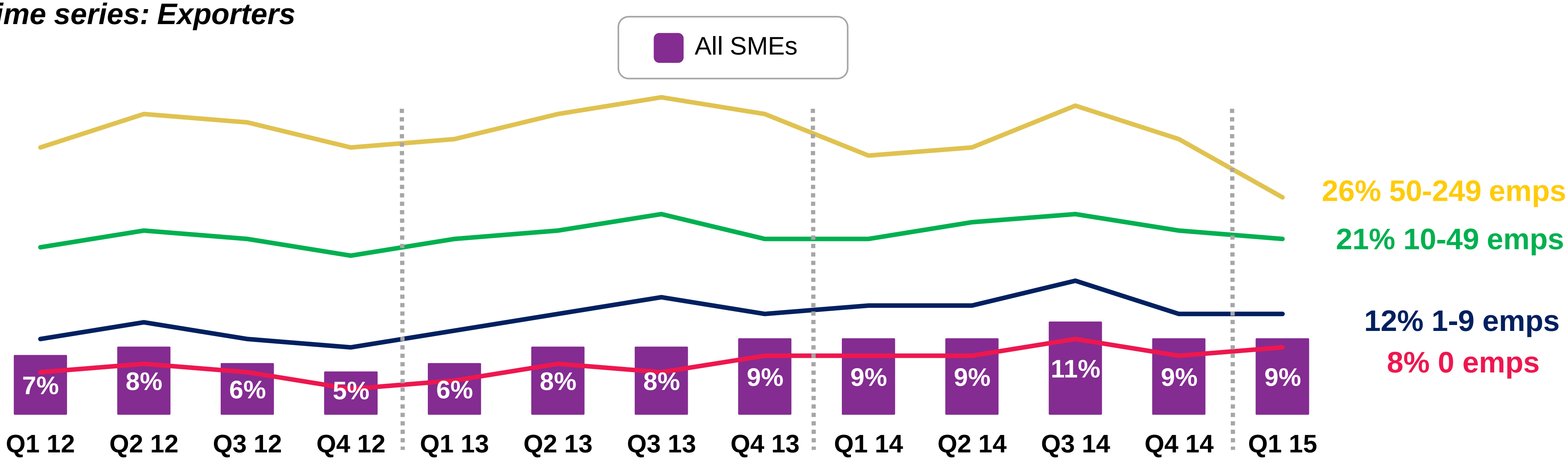


Including trade credit and personal injections of funds boosts the proportion of 0 employee SMEs using “business funding” from 33% to 61%. The uplift is less marked for larger SMEs who are more likely to be using a range of sources of external finance.

Q15/14y/26d Base : YEQ1 15 All respondents 20,093 4008/6647/6433/3005

The proportion of SMEs that export has stabilised, with fewer now saying it accounts for 50% or more of their turnover

Time series: Exporters



The proportion of exporters has increased somewhat over time, from 6% of all SMEs in 2012 to 10% in 2014. This is due to more of the smaller SMEs exporting (0 employees from 5% to 8%, 1-9 employees from 9% to 14%). The proportion of larger SMEs that export has been more stable (22% for 10-49 and 33% for 50-249 emps for 2014). Q1 figures in line, albeit with a reduction in exporting amongst the largest SMEs

In 2013, around a quarter of exporters said that exporting made up half or more of their turnover. This had dropped to 13% for Q1 2015, for both larger and smaller SMEs.

In Q1 2015, the equivalent of 5% of <u>all</u> SMEs planned to grow by selling (more) into overseas markets and this was more common amongst larger SMEs (12% of those with 10-249 employees) than amongst smaller SMEs (5% of those with 0-9 employees).

Q223
Base : All respondents 5055/5010/5023/5000/5032/5000/5000/5000/5008/5026/5000/5023/5024

Context

Borrowing events in the last 12 months

Outcome of applications and renewals

The future

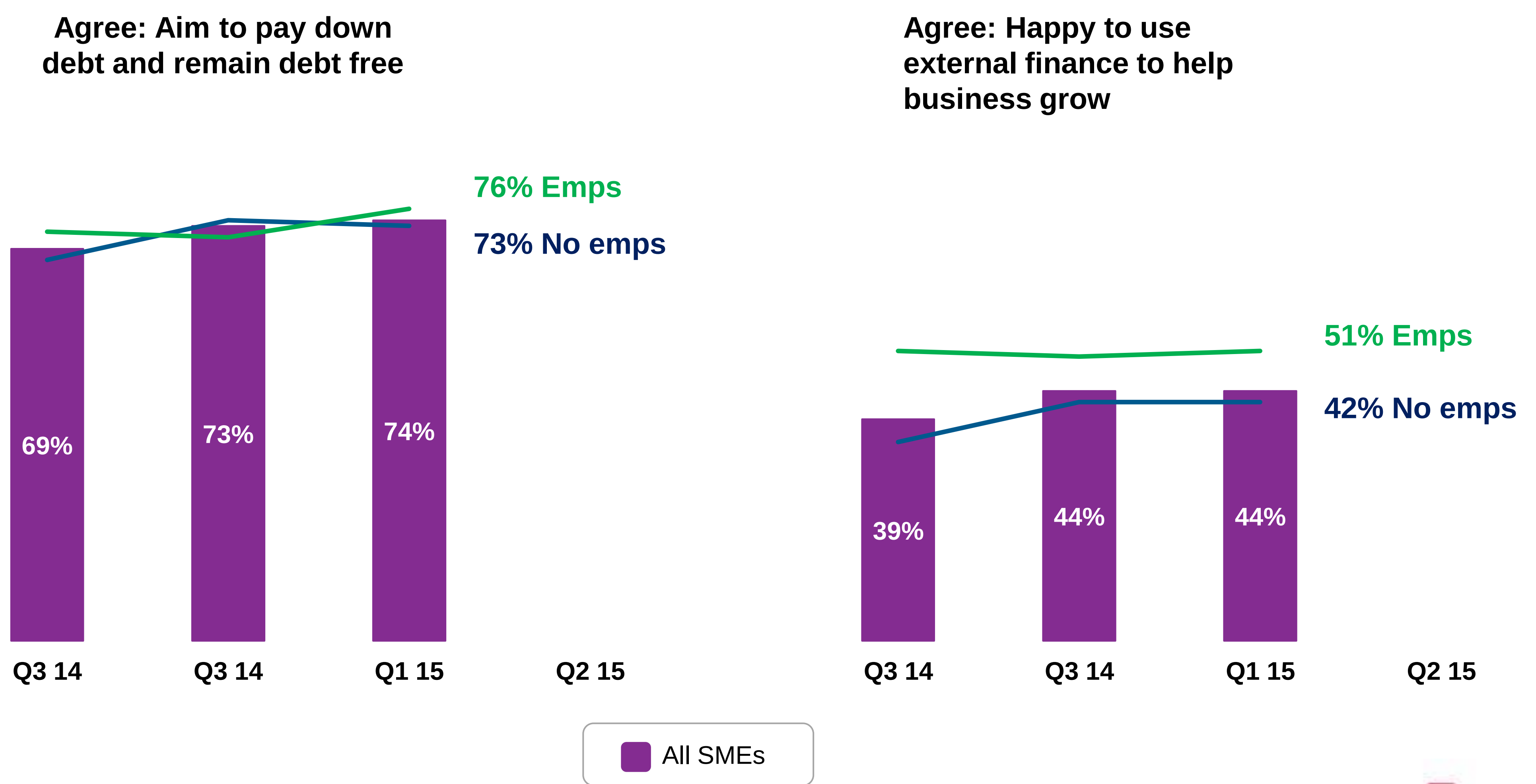
7 in 10 SMEs agree that they are looking to be debt free if possible

NEW QUESTION Attitudes to finance– Q3 14 – Q1 15 respondents only:

Q238a5
Base : All SMEs Q314-Q115 15,085

There has a slight increase in the proportion prepared to borrow to grow, due to the 0 employee SMEs

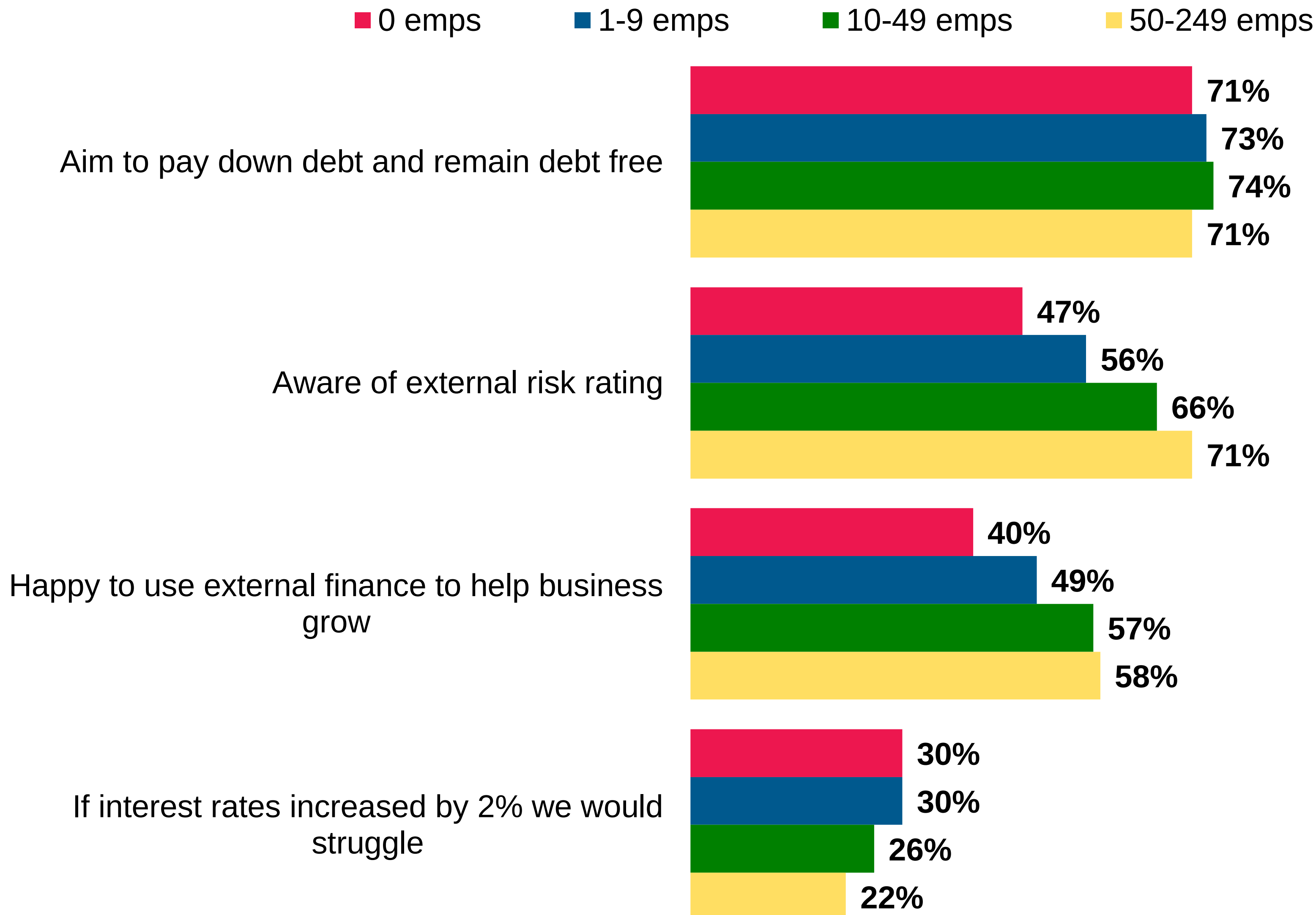
Time series: Attitudes to finance



Base : All respondents 5008/5023/5038

Larger SMEs are more likely to know their risk rating and to be happy to use external finance in the business

NEW QUESTION Attitudes to finance– Q3 14 – Q1 15 respondents only:

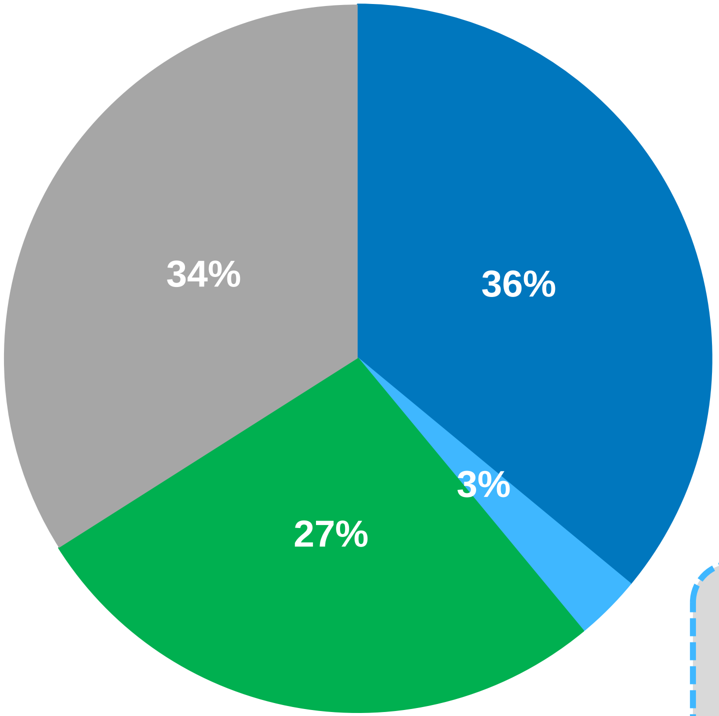


Q238a5
Base : All SMEs 15,085

1 in 3 SMEs agree they prefer to be debt free but would also be happy to use finance to help the business grow

NEW QUESTION Attitudes to finance– Q3 14 – Q1 15 respondents only:

All SMEs



34% gave some other combination of predominantly "neutral" answers

36% of SMEs aim to be debt free but would be happy to use external finance to help the business grow (42% if have employees)

3% are not looking to be debt free and would be happy to use external finance to help the business grow (4% if have employees)

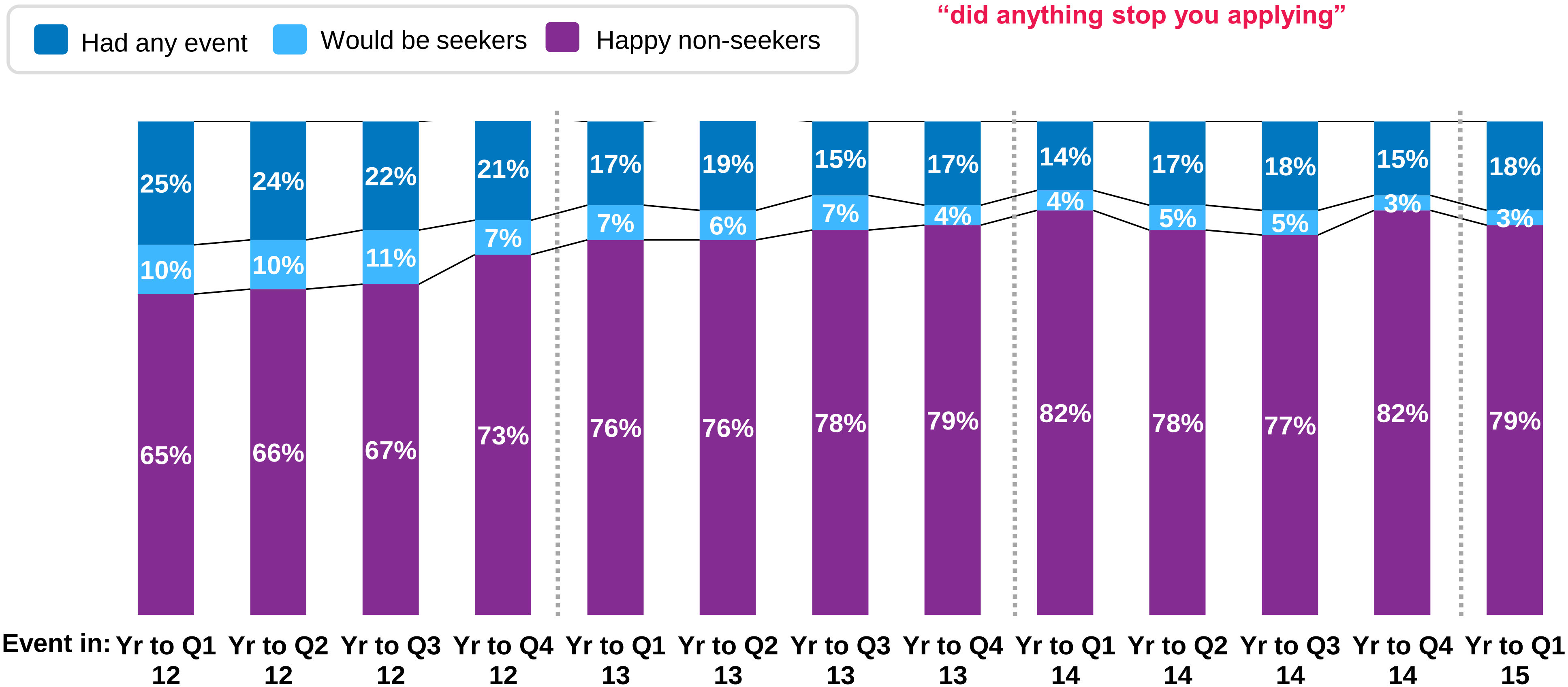
27% aim to be debt free and would not be happy to use external finance to help the business grow (22% if have employees) – the 'debt averse'

Q238a5
Base :All SMEs Q314-Q115 15,085

The majority of SMEs continue to meet the definition of a ‘Happy non-seeker’ of finance

Time series: Borrowing profile in 12 months prior to interview

New definition from Q4 2012: “did anything stop you applying”

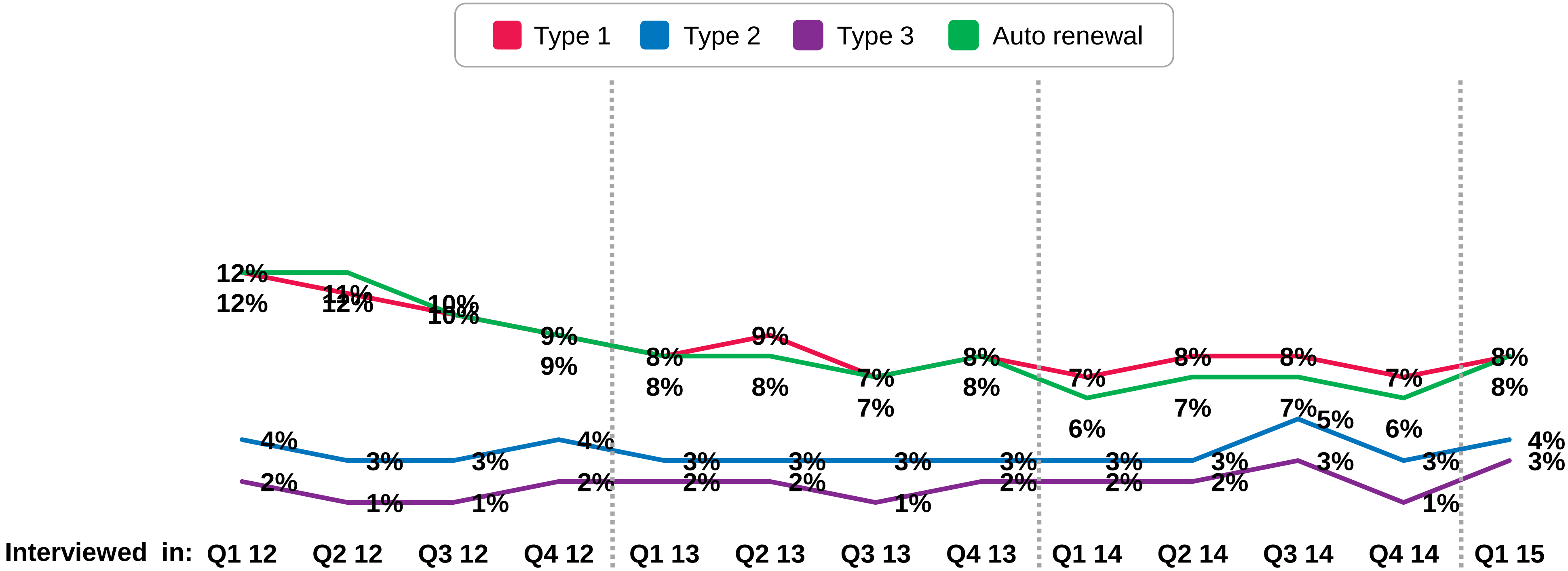


The proportion of Happy non-seekers has increased over time, from 68% for 2012 to 79% for 2014 as a whole. Over the same time period, the proportion reporting a borrowing event has declined from 1 in 4 to 1 in 6 SMEs. Q1 2015 saw the proportion of Happy non-seekers stable and a slight increase in the proportion reporting a borrowing event.

Q115/209
Base : All respondents
5023/5000/5032/5000/5000/5000/5008/5026/5000/5023/5024/5038

Applications for new/ renewed facilities and automatic overdraft renewals have been stable over recent quarters

Time series: Borrowing events in 12 months prior to interview



In Q1 2015, 8% of SMEs reported having applied for new/renewed facilities (ie a Type 1 event) in the previous 12 months. As many SMEs had experienced the automatic renewal of an overdraft (8%). These figures have changed very little across 2013 or 2014, but remain at lower levels than were seen in 2011-12.

Q26
Base : All respondents 5023/5000/5032/5000/5000/5000/5008/5026/5000/5008/5023/5024/5038

"Discouragement" and the "Process" of borrowing remain the key barriers to applications for loans or overdrafts

***Main* reason for not seeking borrowing – All "Would be seekers" YEQ1 2015**

4% of SMEs were "Would be seekers" of finance

Main reason for not applying	**3% of SMEs wanted to apply for an overdraft , but didn't– why not?**	**2% of SMES wanted to apply for a loan but didn't – why not?**
Discouraged: had asked informally but felt put off, or assumed would be turned down	**35%** of Would-be overdraft seekers (25% indirect v 11% direct)	**44%** of Would-be loan seekers (32% indirect v 12% direct)
Process: think it's too expensive, too much hassle, needs security	**38%** of Would-be overdraft seekers	**34%** of Would-be loan seekers
Principle: prefer not to lose control, or can get funds elsewhere: **no longer includes "prefer not to borrow"**	**14%** of Would-be overdraft seekers	**12%** of Would-be loan seekers
Climate: felt it was not the right time to borrow in the current economic climate	**5%** of Would-be overdraft seekers	**3%** of Would-be loan seekers

Q116a/210a
Base : YEQ1 215 All "would be seekers" 443/321

Context

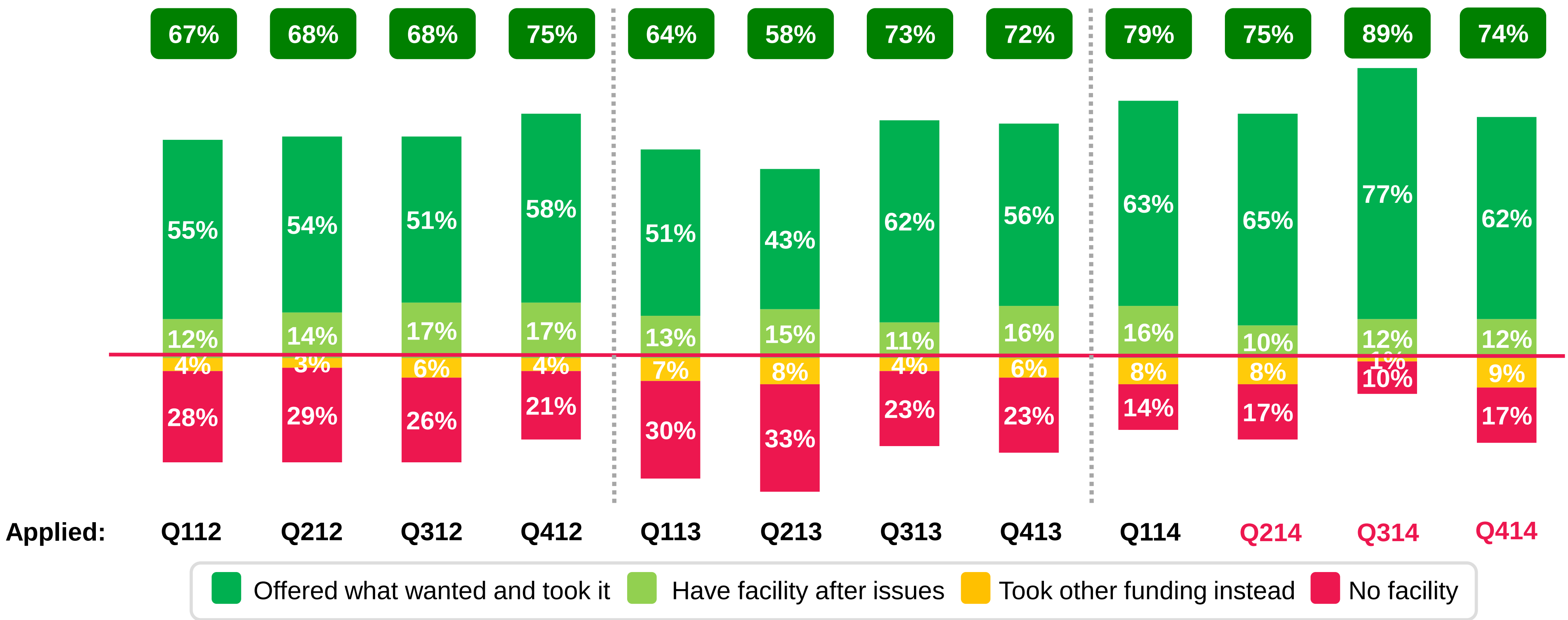
Borrowing events in the last 12 months

Outcome of applications and renewals

The future

76% of applications made in the last 18 months were successful, with improving success rates in recent quarters

Time series: Outcome by application date – ALL applicants / renewals (loans and overdrafts)

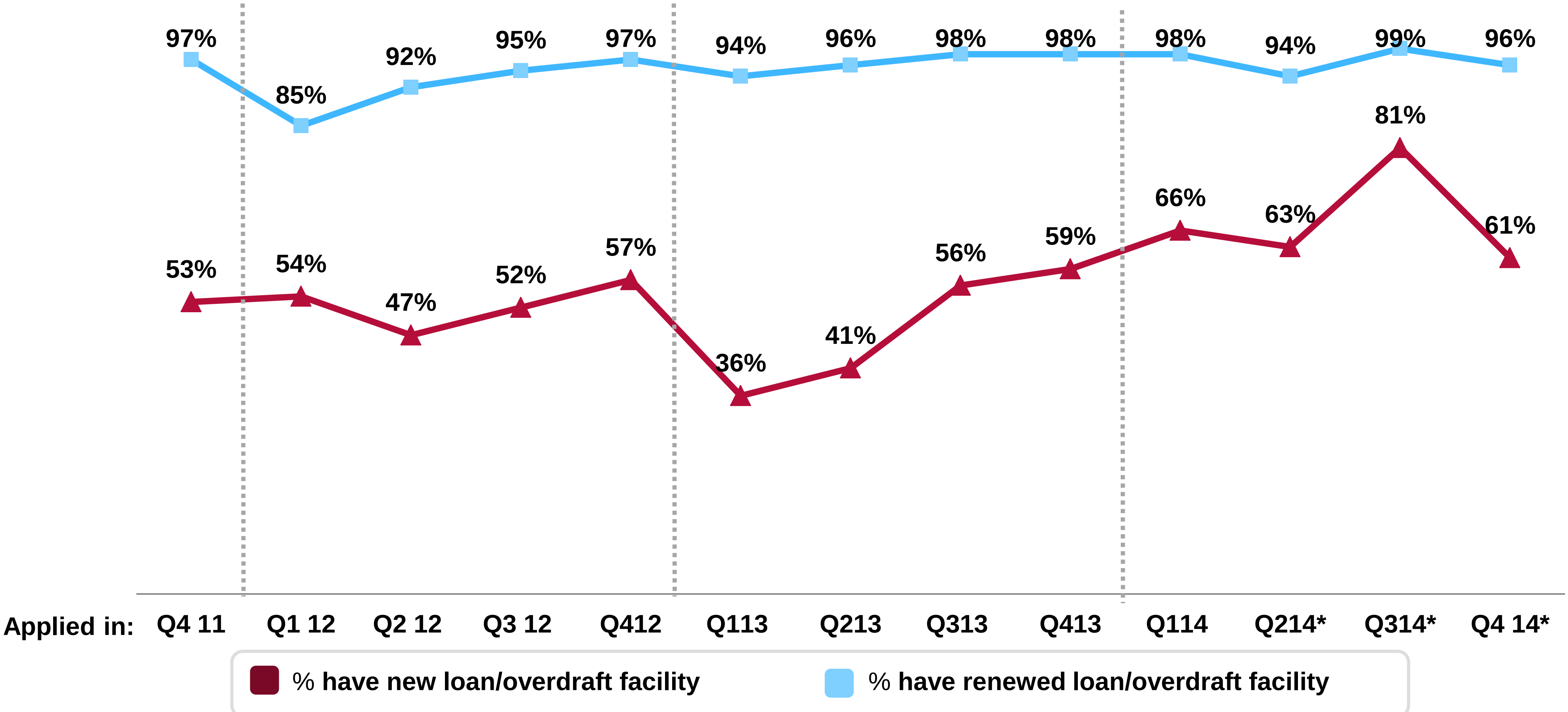


76% of applications made in the last 18 months (Q4 2013 to Q1 2015) were successful. Initial data for applications made in Q1 2015 suggests that 71% were successful.

Q64/66/81/92/97
Base : All interviews to Q2 2013 All respondents who have had response from bank
From Q4 13: 589/537/538/323/282 INTERIM DATA

Almost all renewals are successful. Applications for new money have become increasingly likely to be successful

Time series: Outcome by application date – ALL renewed v new money (loans and overdrafts)



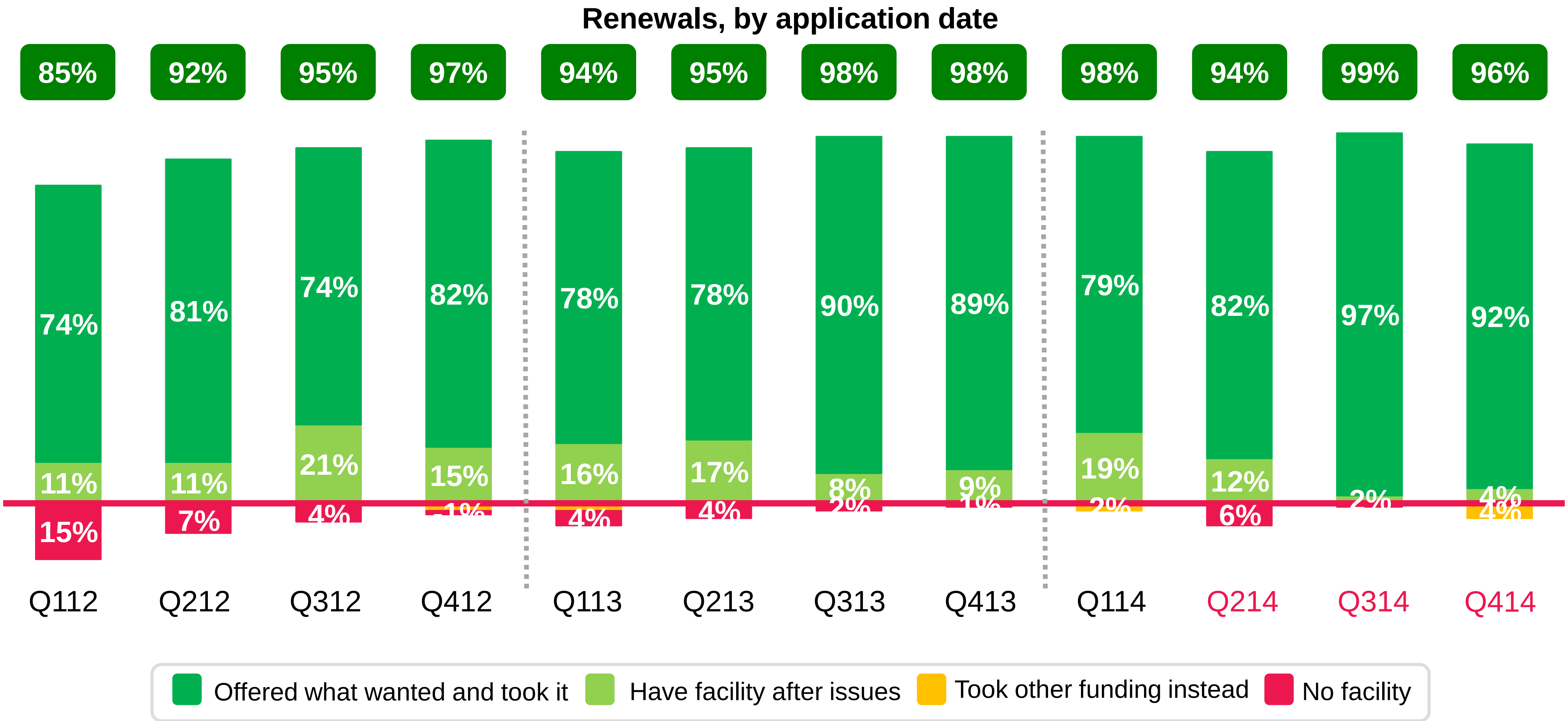
Those who have borrowed before remain more likely to be successful with an application for new money (73% in 18 months to Q1 2015) than FTAs (55%) but success rates for both have improved since 2013

Base : All applicants
Renewals: 242/244/ 238/144/134 INTERIM DATA ***New money*** *304/262 282/164/136 INTERIM DATA*

bdrc continental

Taking both loans and overdrafts together, almost all <u>renewals</u> have been successful…

Time series: Outcome over time – all <u>applications</u> made in each quarter (loan or overdraft)



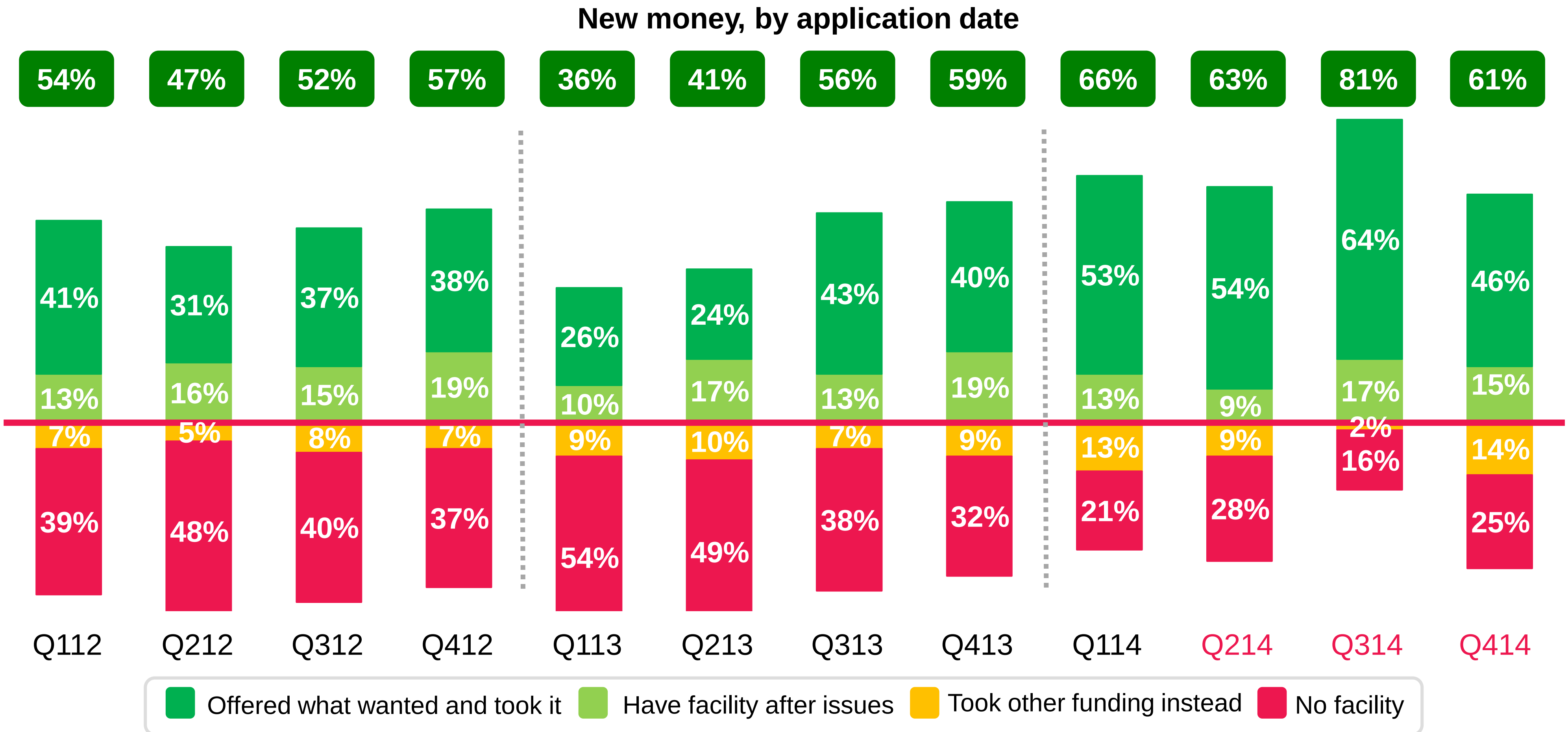
98% of renewal applications made in the last 18 months (Q4 2013 to Q1 2015) were successful. This has changed relatively little over time

All respondents who have had response from bank **Renewals** From Q413: 242/244/ 238/144/134 INTERIM DATA

bdrc continental

Applications for new money have been more likely to be successful in recent quarters

Time series: Outcome over time – all applications made in each quarter (loan or overdraft)

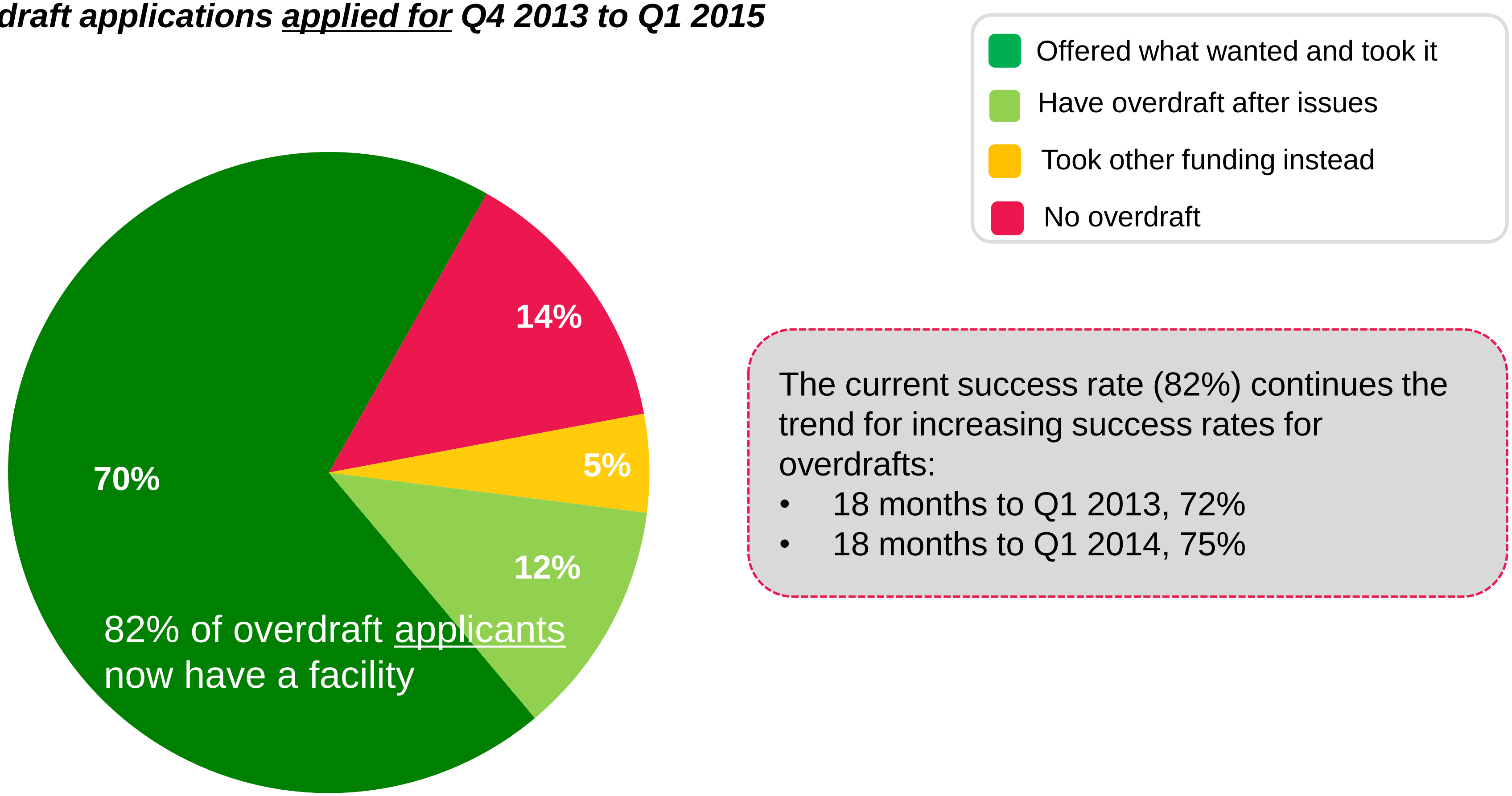


65% of new money applications made in the last 18 months (Q4 2013 to Q1 2015) were successful, and this proportion is increasing steadily over time

*All respondents who have had response from bank **New money** From Q413: 304/262 282/164/136 INTERIM DATA*

Across the most recent 18 month period, 8 in 10 of those who applied now have an overdraft.

Result of overdraft applications <u>applied for</u> Q4 2013 to Q1 2015



The current success rate (82%) continues the trend for increasing success rates for overdrafts:

- 18 months to Q1 2013, 72%
- 18 months to Q1 2014, 75%

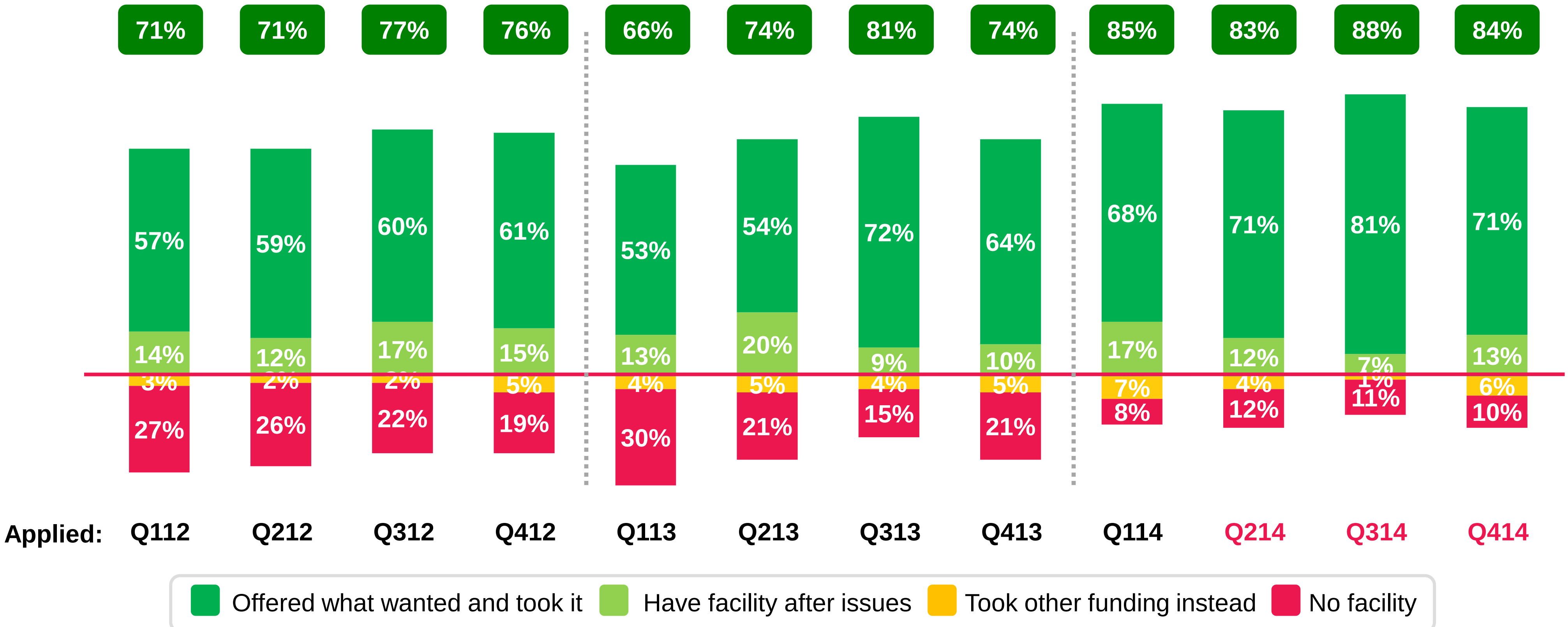
All analysis of applications is now made by *application* date rather than *interview* date. To ensure robust base sizes for sub-groups, analysis is based on all applications made in the last 18 months, that is Q4 2013 to Q1 2015

Q64/66/81/92/97

Base : All applicants Q413 to Q115 who have had response from bank 1550

In 2014 to date, more than 8 in 10 overdraft applications have been successful

Time series: Outcome by <u>application date</u> – ALL <u>overdraft</u> applicants / renewals

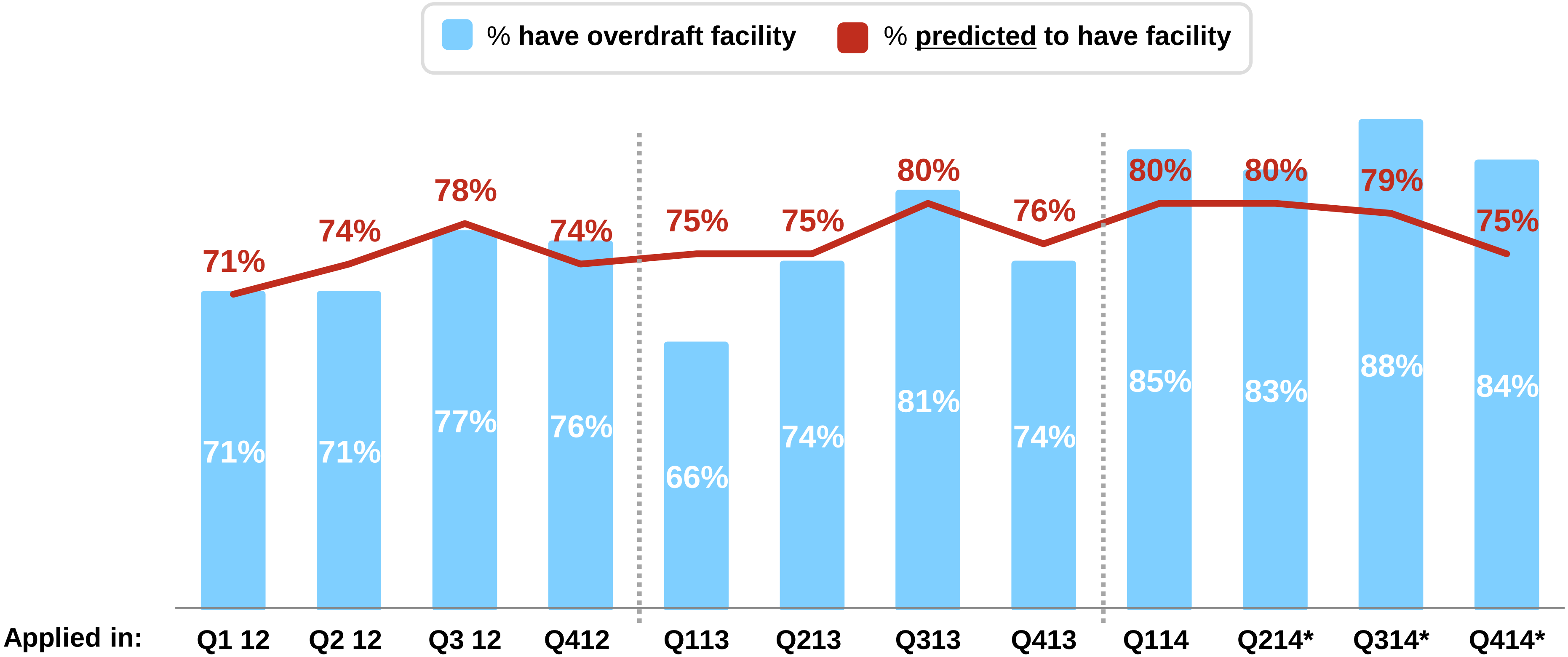


Typically the proportion who end the process with an overdraft is very similar to the proportion offered one (including those that had issues with the offer). Current data for 2014 to date shows higher initial success rates translating into higher success rates overall.

Q64/66/81/92/97
Base : All applicants interviewed to Q1 2015 All respondents who have had response from bank
From Q1 2014: 356/347/216/180 SMALL BASE interim data

Overdraft success rates for 2014 to date are higher than predicted by the profile of applicants

Time series: Outcome by application date – overdrafts compared to predictive model

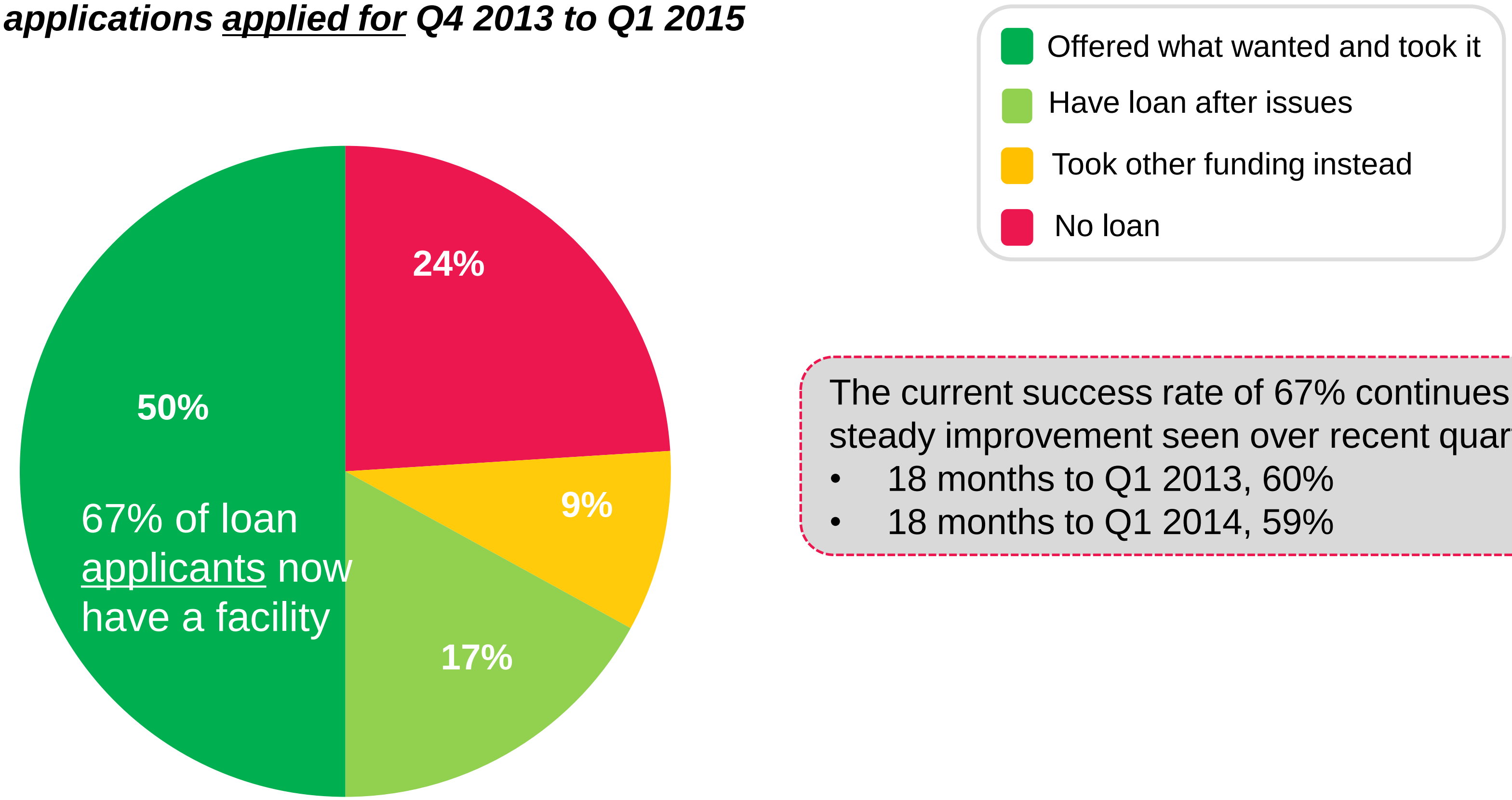


The model has predicted slightly higher success rates for most of the quarters since Q3 2013. Success rates for 2014 have been above those predicted by the model.

Q64/66/81/92/97
Base : All applicants interviewed to Q4 2013 All respondents who have had response from bank
527/656/425/355/452/466/372/348/379/315/298/165 SMALL BASE interim data

Across the most recent 18 month period, two thirds of those who applied now have a loan.

Result of loan applications applied for Q4 2013 to Q1 2015



The current success rate of 67% continues the steady improvement seen over recent quarters

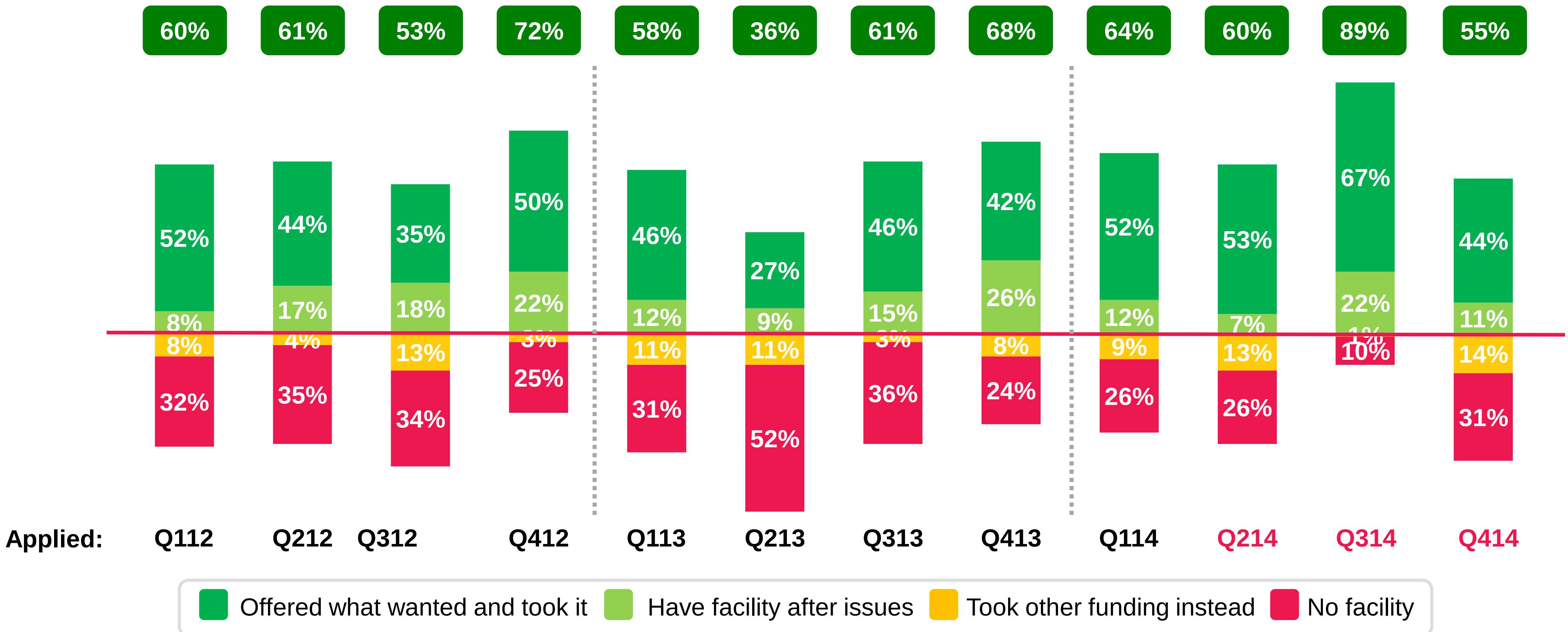
- 18 months to Q1 2013, 60%
- 18 months to Q1 2014, 59%

All analysis of applications is now made by *application* date rather than *interview* date. To ensure robust base sizes for sub-groups, analysis is based on all applications made in the last 18 months, that is Q4 2013 to Q1 2015.

Base : All applications made Q4 2013 to Q1 2015 who have had response from bank 838

There is no clear pattern for loan success rates, but they have been somewhat higher in more recent quarters

Time series: Outcome by application date – ALL loan applicants / renewals

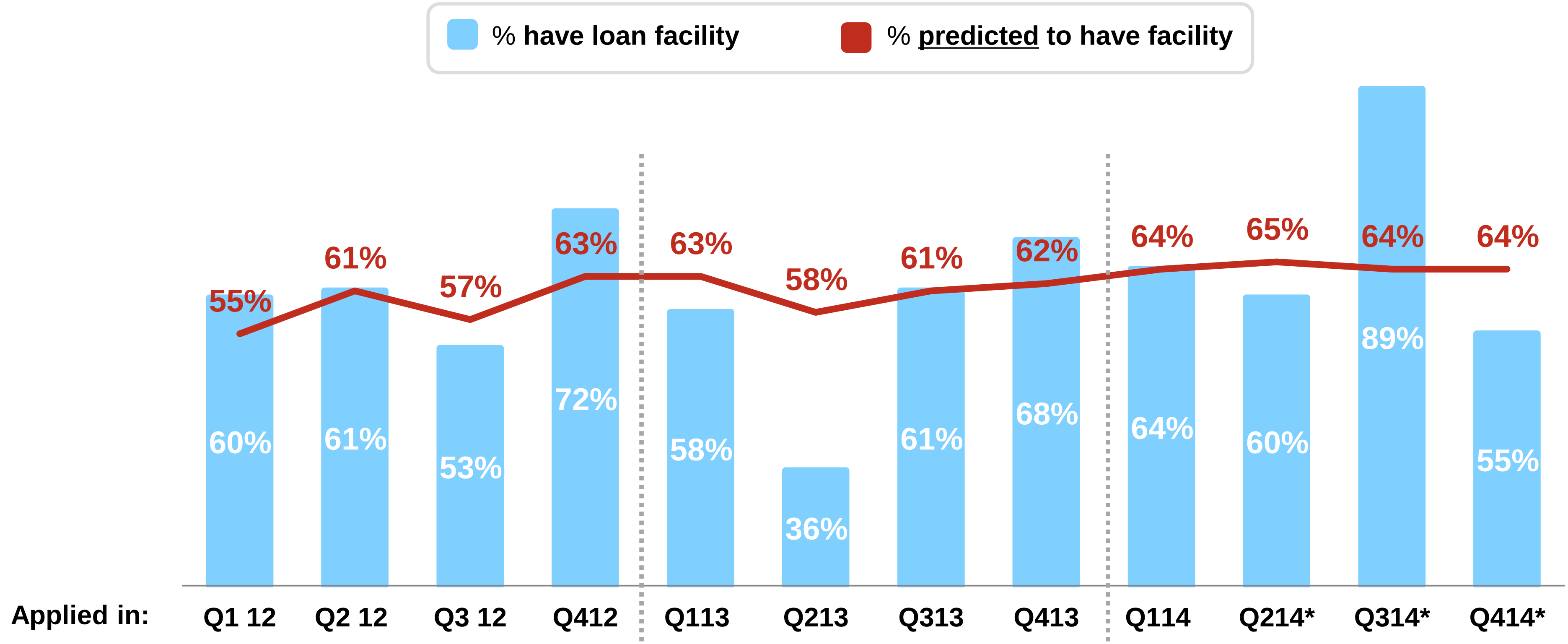


Final success rates typically mirror the initial response from the bank. The higher success rate in Q3 2014 reflects the initial response from the bank in that quarter.

Base : All interviews to Q1 2015 All respondents who have had response from bank
From Q4 2013 210/181/191/107/102 SMALL BASE interim data

The model suggests a gradual improvement in loan success rates, while actual results are more variable

Time series: Outcome by application date – loans compared to predictive model



Loan success rates to date have typically been close to those predicted (with Q2 2013 and Q3 2014 as obvious exceptions). The model for loan success rates explains less of the variance in success rates than the model for overdraft success rates.

Base : All interviews to Q2 2014 All respondents who have had response from bank 1
267/293/287/225/189/222/212/176/183/182/123/125 SMALL BASE interim data

Context

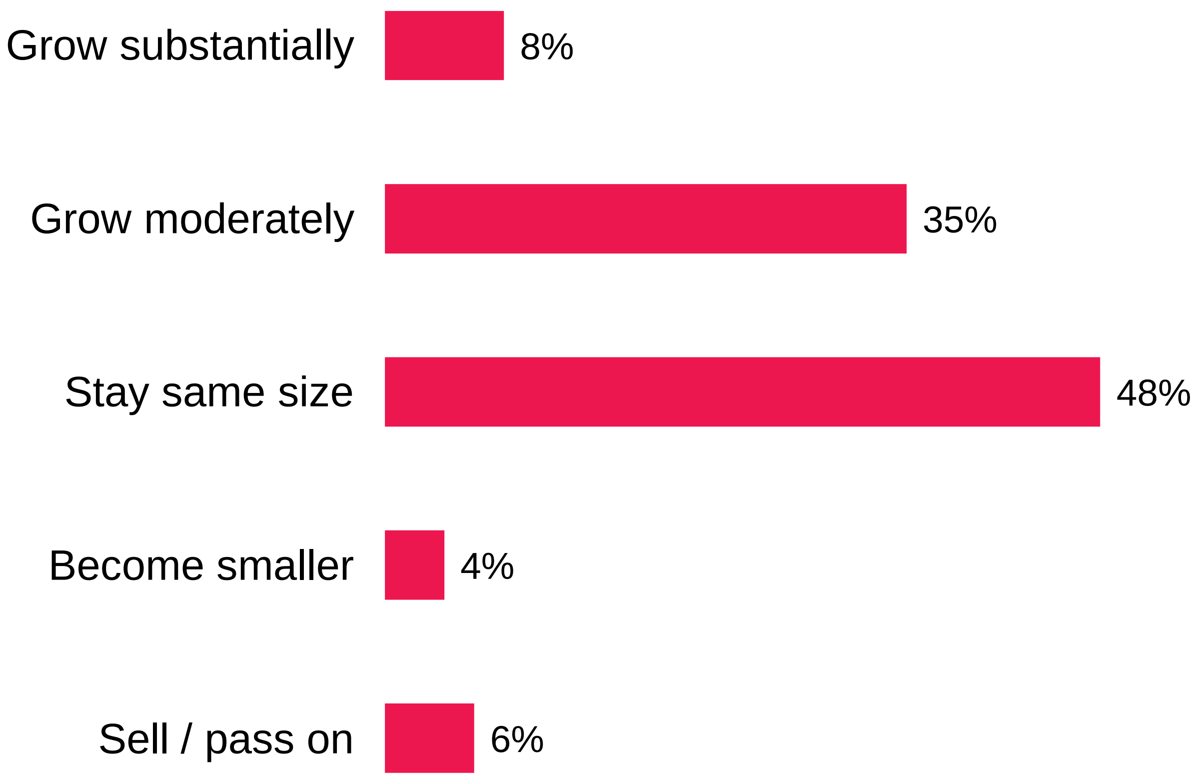
Borrowing events in the last 12 months

Outcome of applications and renewals

The future

4 in 10 SMEs (43%) said they plan to grow, in line with Q4 2014, but lower than previous quarters

Growth objectives for next 12 months – Q1 2015 respondents:

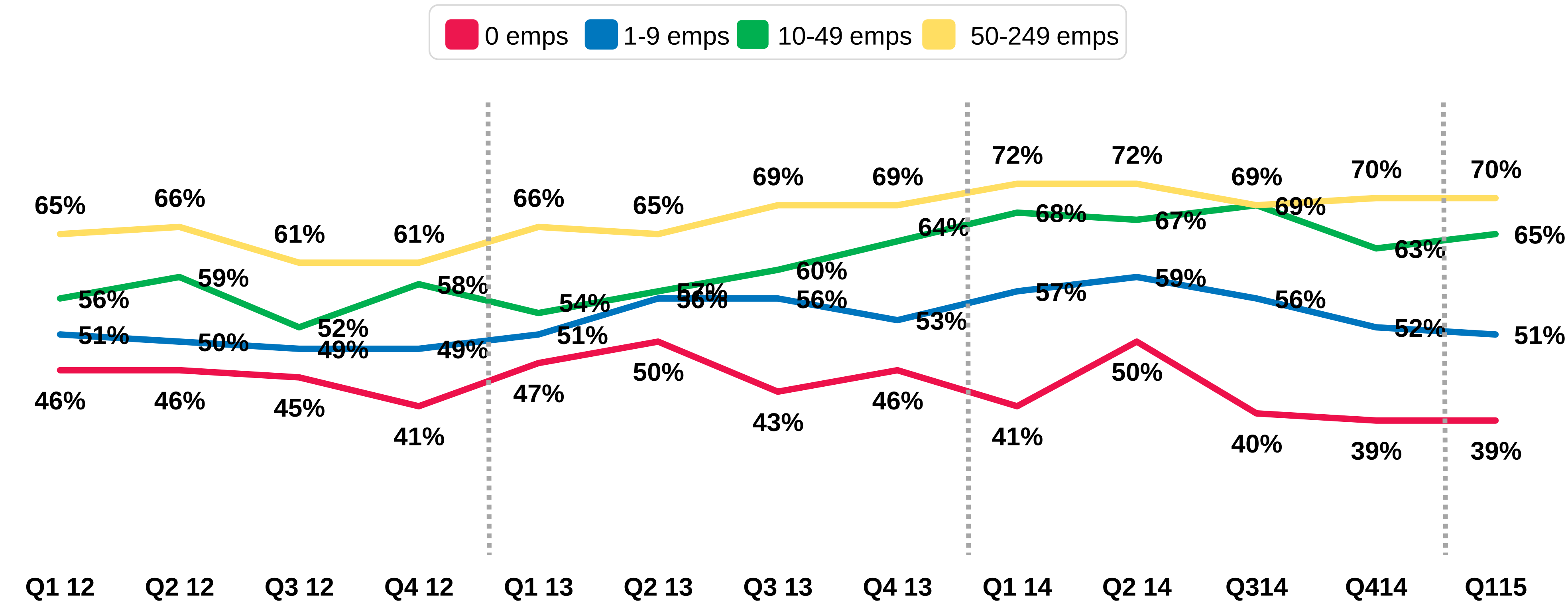


Plan to grow (over time)	
Q1 2013	48%
Q2 2013	51%
Q3 2013	47%
Q4 2013	48%
Q1 2014	45%
Q2 2014	53%
Q3 2014	46%
Q4 2014	43%
Q1 2015	43%

Q225 Growth plans in next 12 months
Base : All SMEs Q1 5038

Appetite for growth amongst the larger SMEs is more consistent, unlike the smaller SMEs

Time series: Have plans to grow

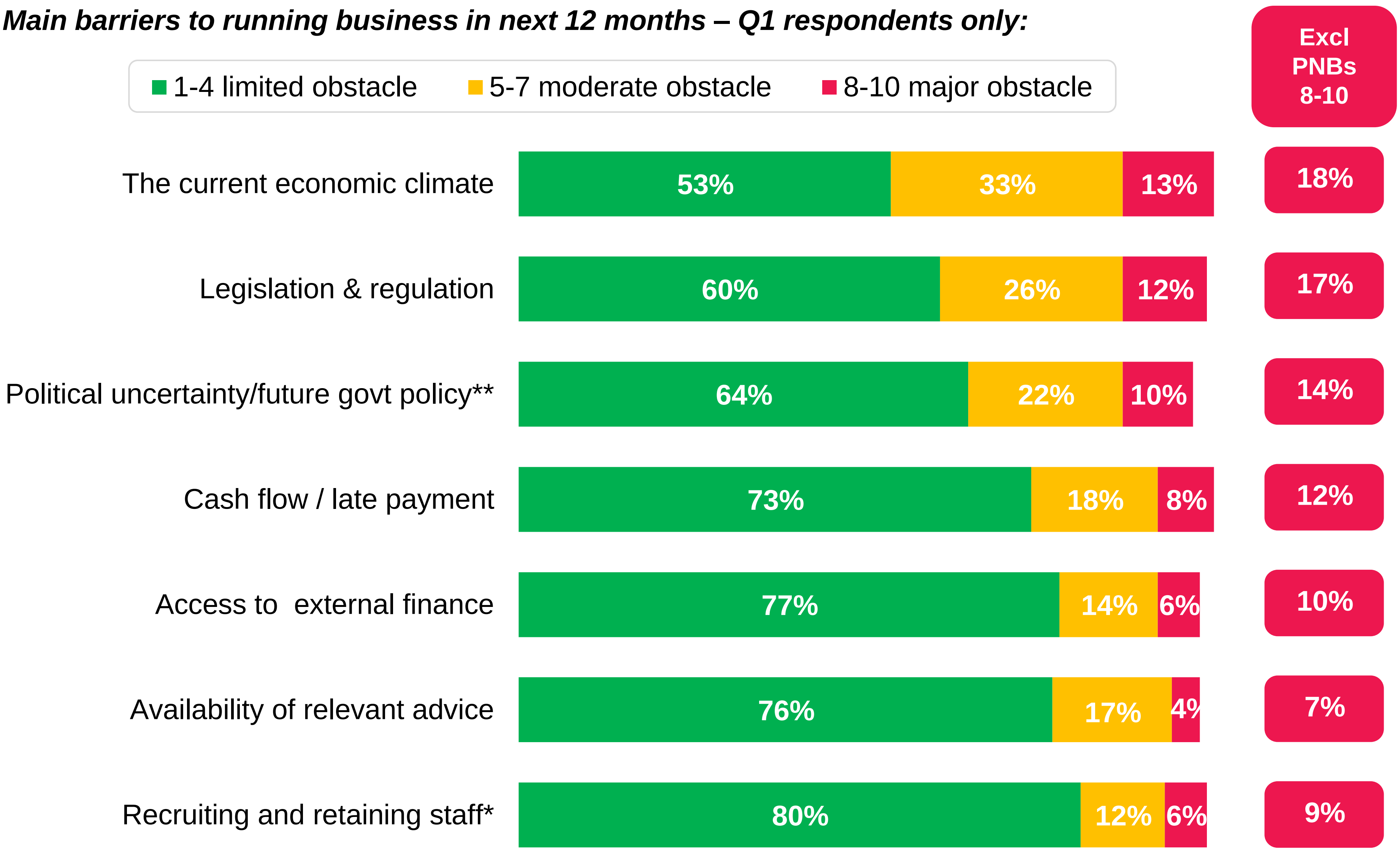


Since 2012, SMEs with 10-249 employees have become increasingly likely to be planning to grow and have maintained most of those gains in recent quarters. Those with 1-9 employees appear to have lost the gains made since 2012. The appetite for growth amongst those with 0 employees has always been more volatile, but is currently lower than in 2012.

Q225
Base : All respondents Q1 2015 5038

The economic climate remains (just) the main barrier to running their business for the next 12 months

Main barriers to running business in next 12 months – Q1 respondents only:

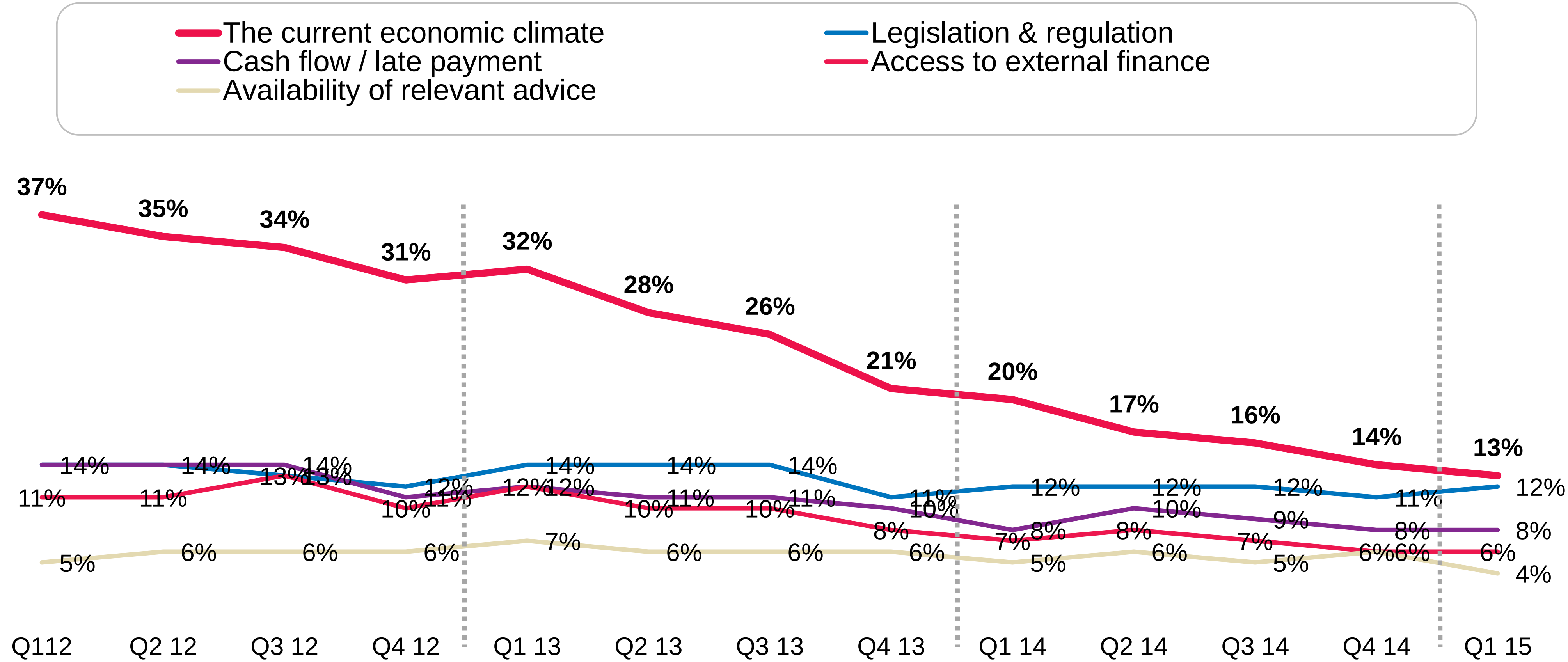


Q227 Barriers to running business as would want in next 12 months
Base : All SMEs Q1 5038 Excluding pnb 3220
**** Revised code Q3 14 ** New code Q3 2014***

“The current economic climate” is less of a barrier, and two thirds do not see any of these as main barriers in Q1 2015

Time series: 8-10 Main barriers to running business in next 12 months

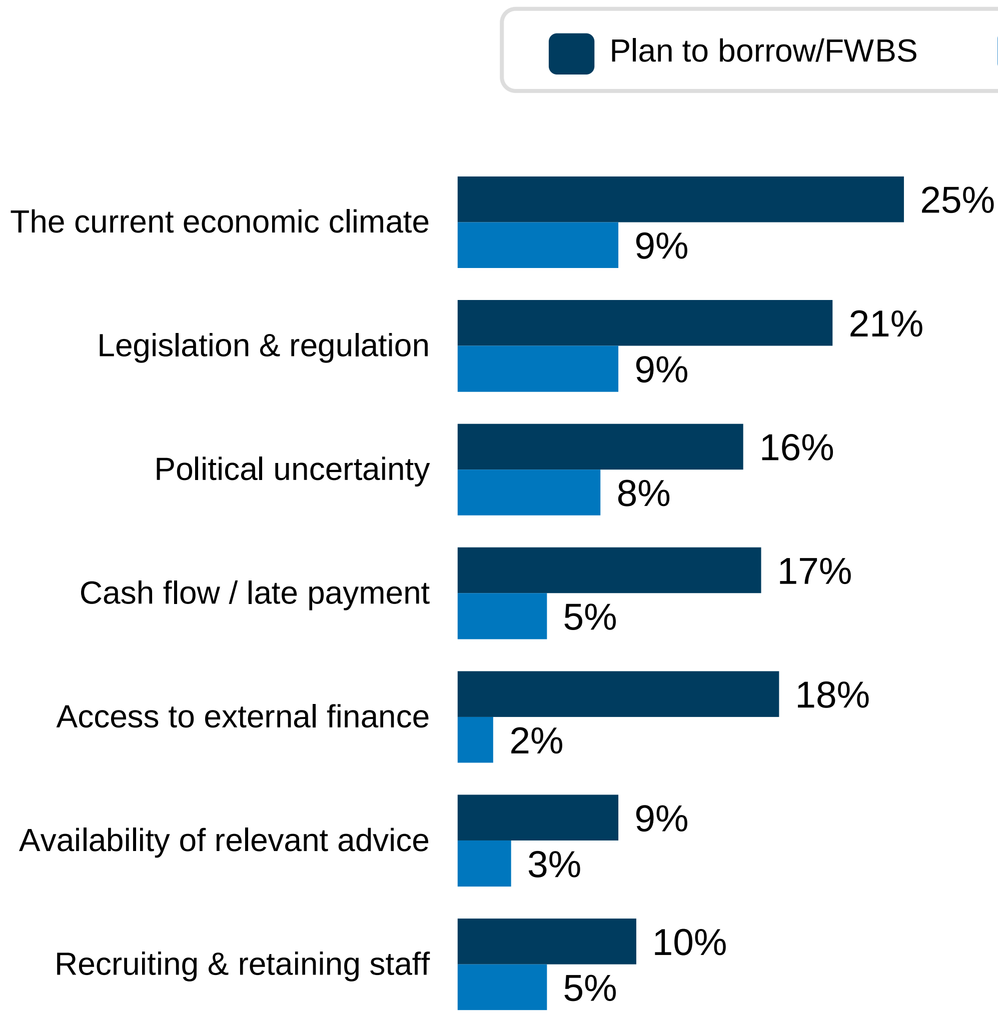
The proportion saying <u>none of these</u> are major barriers has increased from half in 2012 (52%) to two thirds in Q1 2015 (68%) despite adding an extra factor (political uncertainty 10%). Those who did not identify any of these as major issues did not consistently identify any other barriers when asked



Q227 Barriers to running business as would want in next 12 months
Base : All SMEs 5032/5000/5000/5000/5008/5026/5000/5008/5023/5024/5038

The economy, and all other issues, continue to be mentioned more by those with any appetite for future borrowing

Main barriers to running business in next 12 months – by plans for next 3 months (Q1 2015)



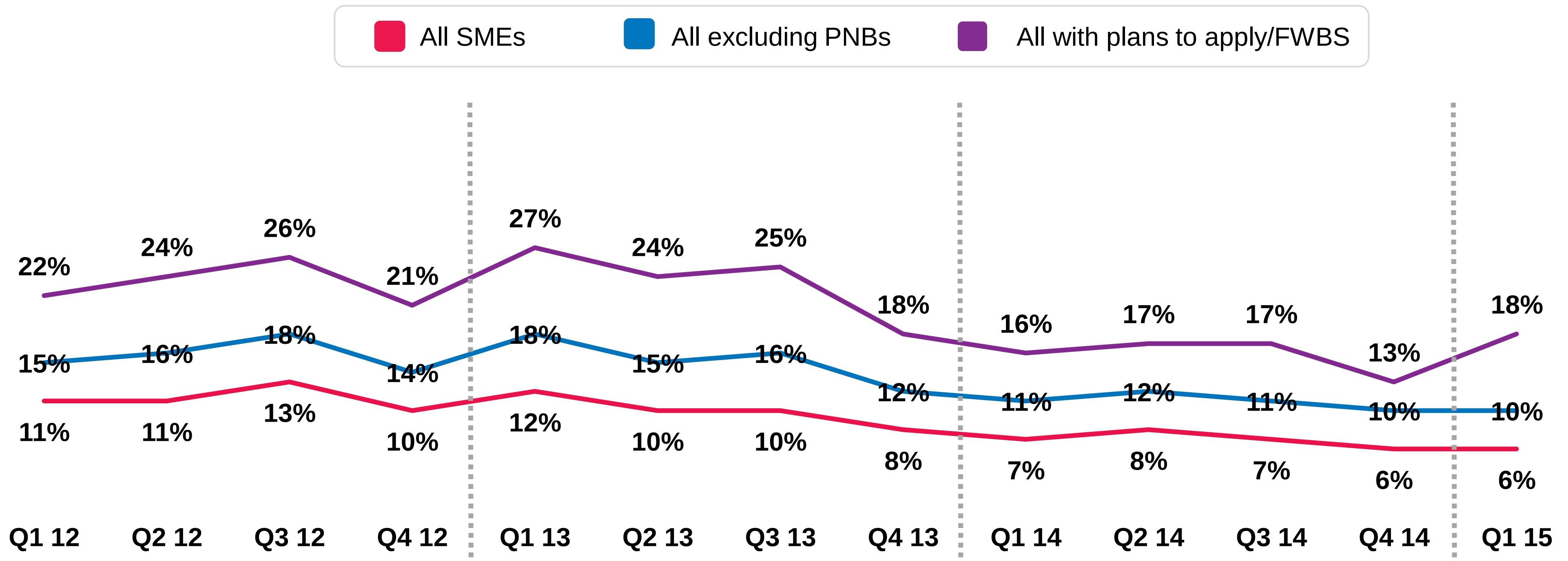
76% of Future happy non-seekers did not rate any of these as major obstacles, compared to 44% of those with any appetite for future borrowing

Q227 Barriers to running business as would want in next 12 months
Base : Q1 All SMEs 1374/3664

Access to finance has been somewhat less of a barrier since 2014, especially for those with any appetite for finance

Time series: % Rating 'Access to Finance' a major obstacle for next 12 months

The proportion of SMEs rating access to finance as a major obstacle has declined somewhat over time. Those with plans to apply, or defined as 'Future would-be seekers' are more likely than others to see Access to Finance as a major obstacle, but this has fallen from a high of 27% in Q1 2013 to 18% in Q1 2015. These SMEs are also more likely to rate all the other barriers tested as 'major obstacles'

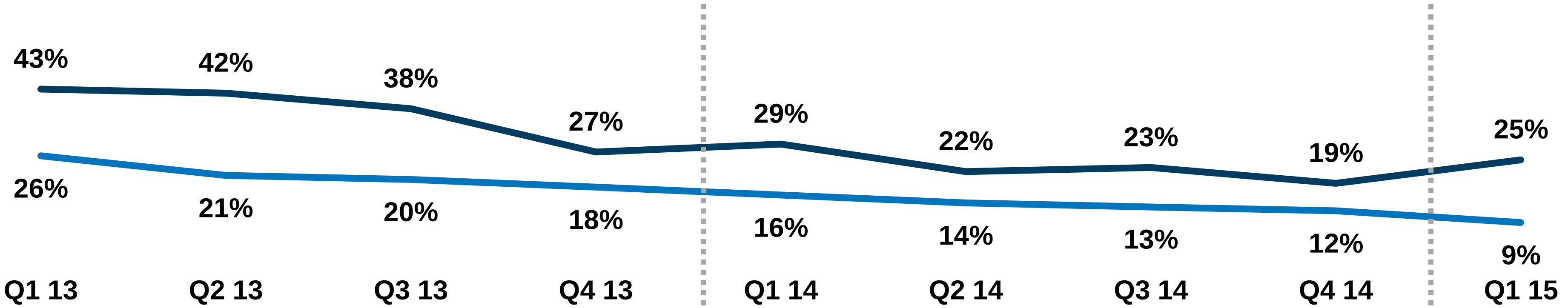


Q227a
Base : All 5000/5032/5000/5000/5000/5008/5026/5000/5008/5023/5024/5038

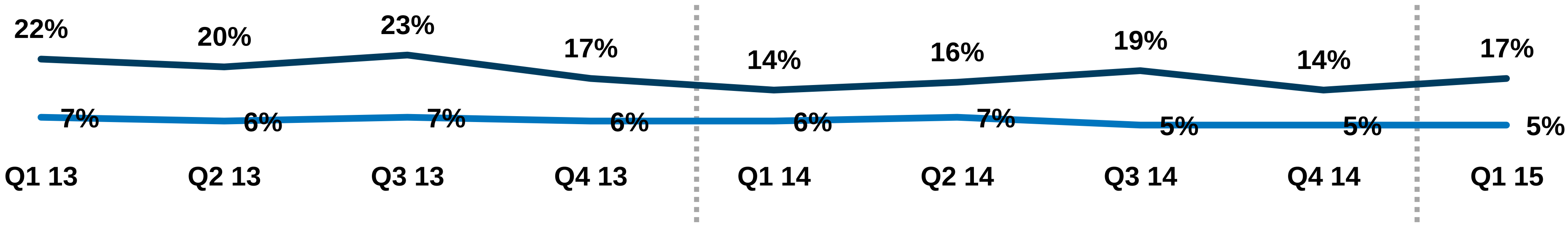
The economy remains something of a barrier for those planning to apply for finance

All with plans to apply/FWBS   All HNS

Time series: % Rating 'The economic climate' a major obstacle for next 12 months



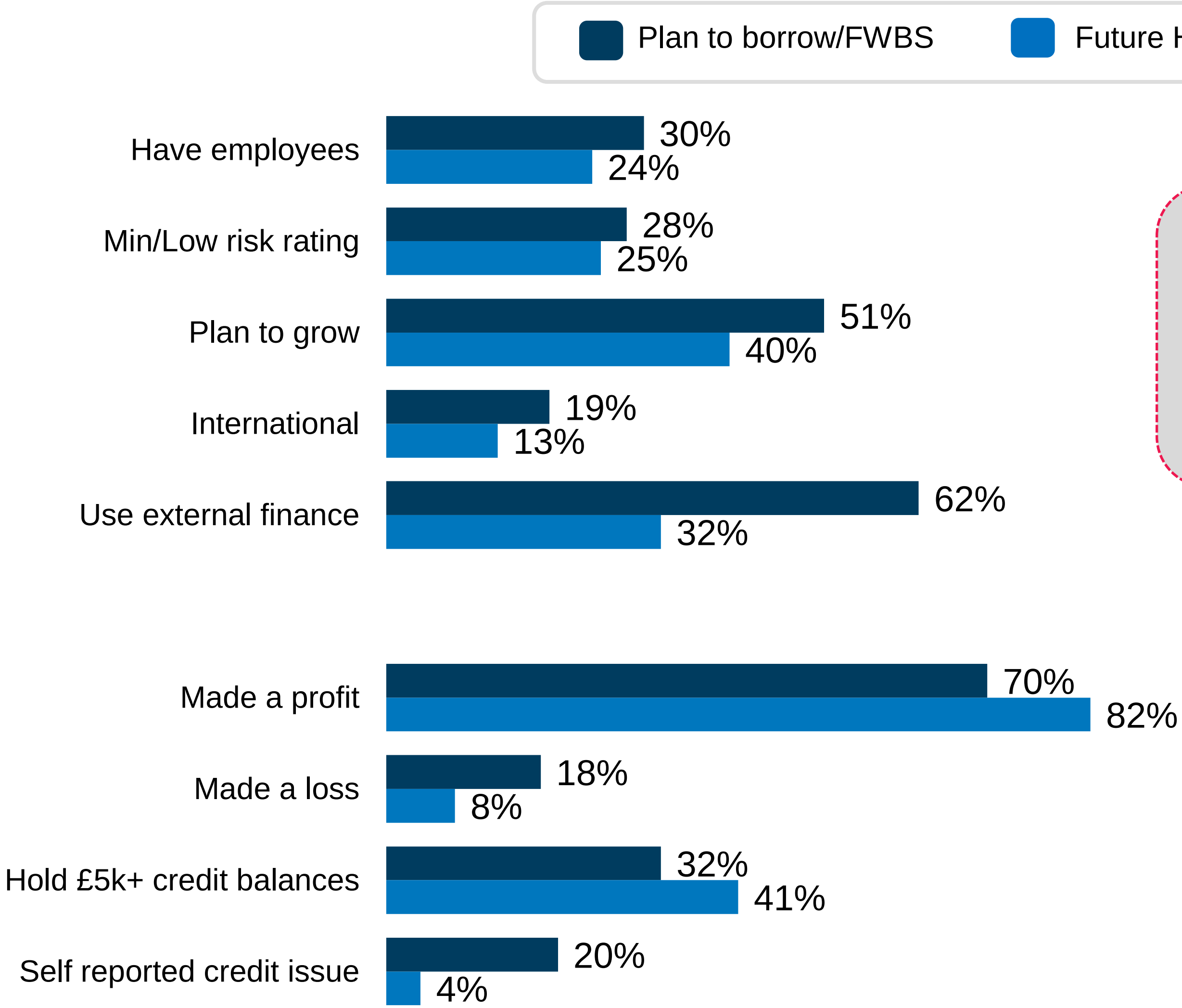
Time series: % Rating 'Cash flow/late payment ' a major obstacle for next 12 months



Q227a
Base : All 5000/5032/5000/5000/5000/5008/5026/5000/5008/5023/5024/5038

There is some evidence that these increased concerns are due to circumstances within the business

Key demographics– by plans for next 3 months (Q1 2015)



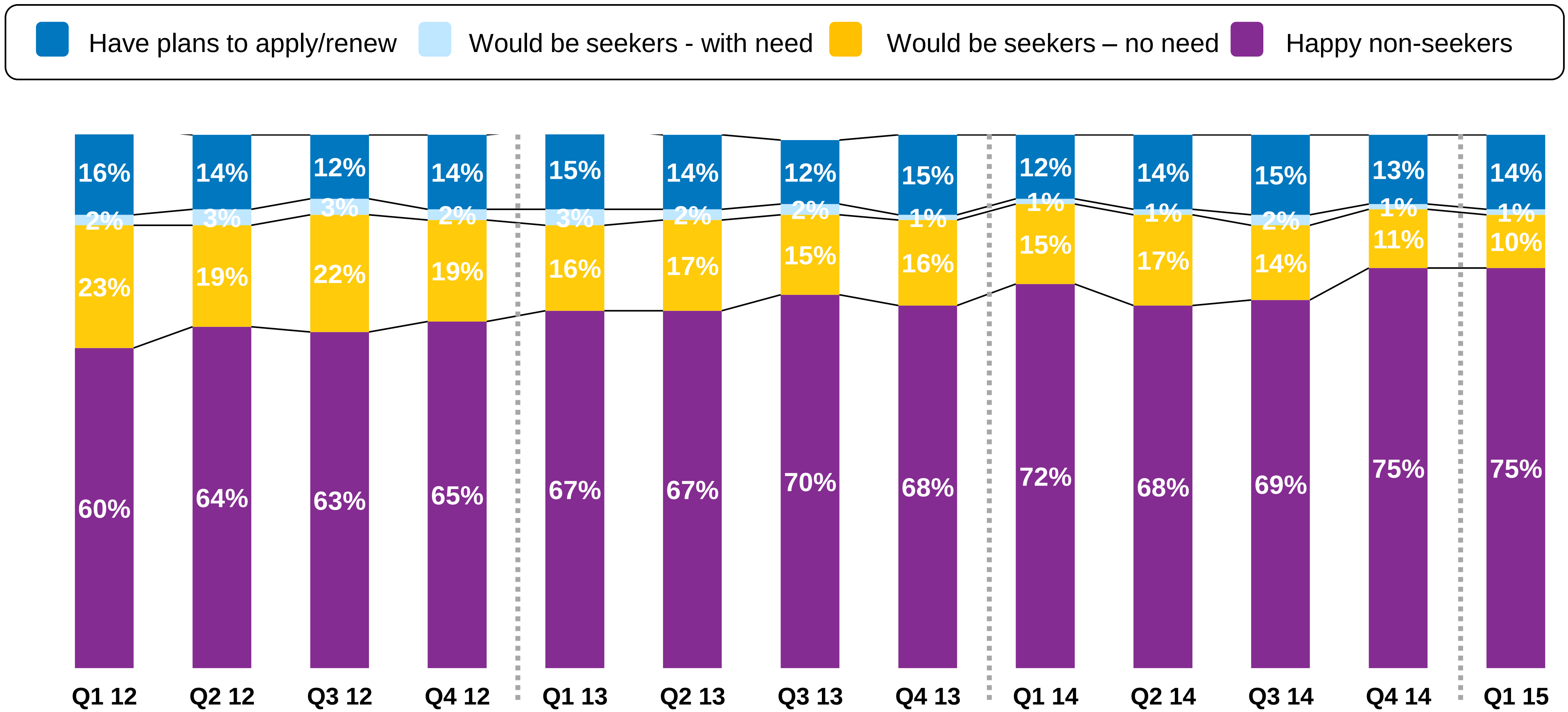
Those with <u>any appetite for finance</u> are more likely to be already using finance, planning to grow, and to be international. They are also more likely than WBS to have made a loss or had a self reported credit issue.

These differences are also evident for 2013 and 2014 as a whole

Q227 Barriers to running business as would want in next 12 months
Base : Q1 All SMEs 1374/3664

Most SMEs are 'Future happy non seekers' as fewer meet the definition of 'would-be seekers'

Time series: Anticipated borrowing profile for <u>next 3 months</u> after …

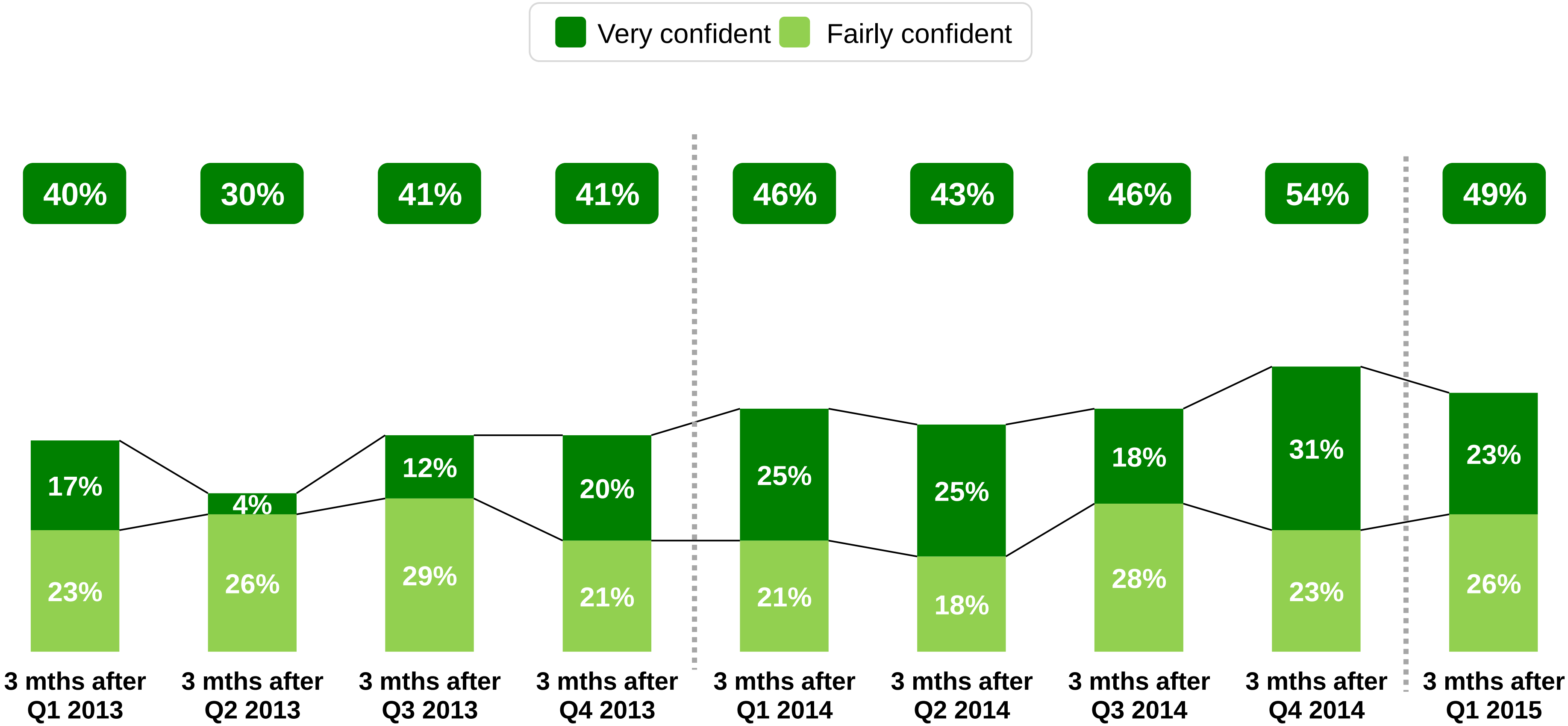


Each quarter, the majority of SMEs have expected to be **"happy non seekers".** Over time, this proportion has increased slightly, as the proportion of 'future would-be seekers' has declined

Q229
Base : All respondents 5023/5000/5032/5000/5000/5000/5008/5028/5000/5023/5024/5038

SME confidence that their bank will agree to a future lending request remains higher than in 2013

Time series: Confidence bank will agree to facility <u>next 3 months</u>



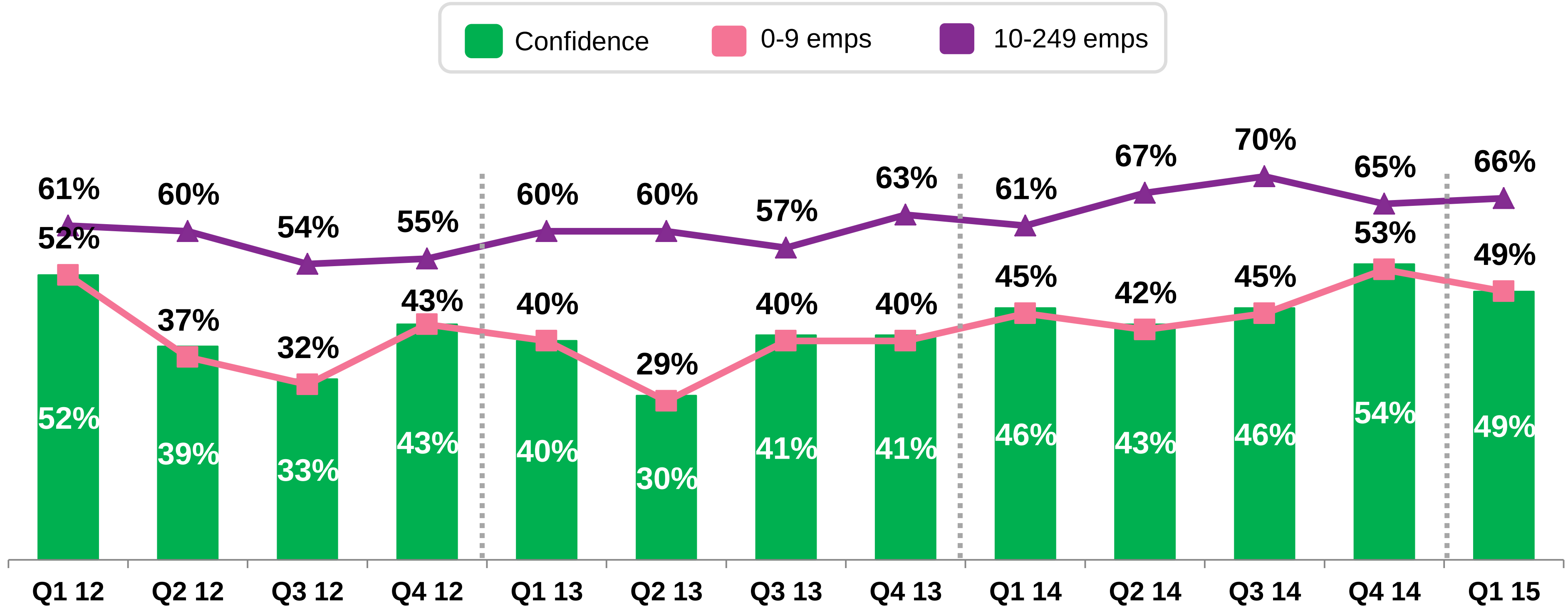
Although improving, levels of confidence remain below the actual success rates (which are also improving). In the last 18 months success rates for renewals have been 98% compared to current confidence levels of 57%, and for new facilities success rates are 65% against a confidence level of 36%

Q238

Base : All planning to apply for new/renewed facilities 669/713/547/607/610/574/538/699/526/592

From Q2 2013, increasing confidence amongst smaller potential applicants has driven the increase overall

Time series: Confidence (very/fairly) bank will agree to facility <u>next 3 months</u> – by size

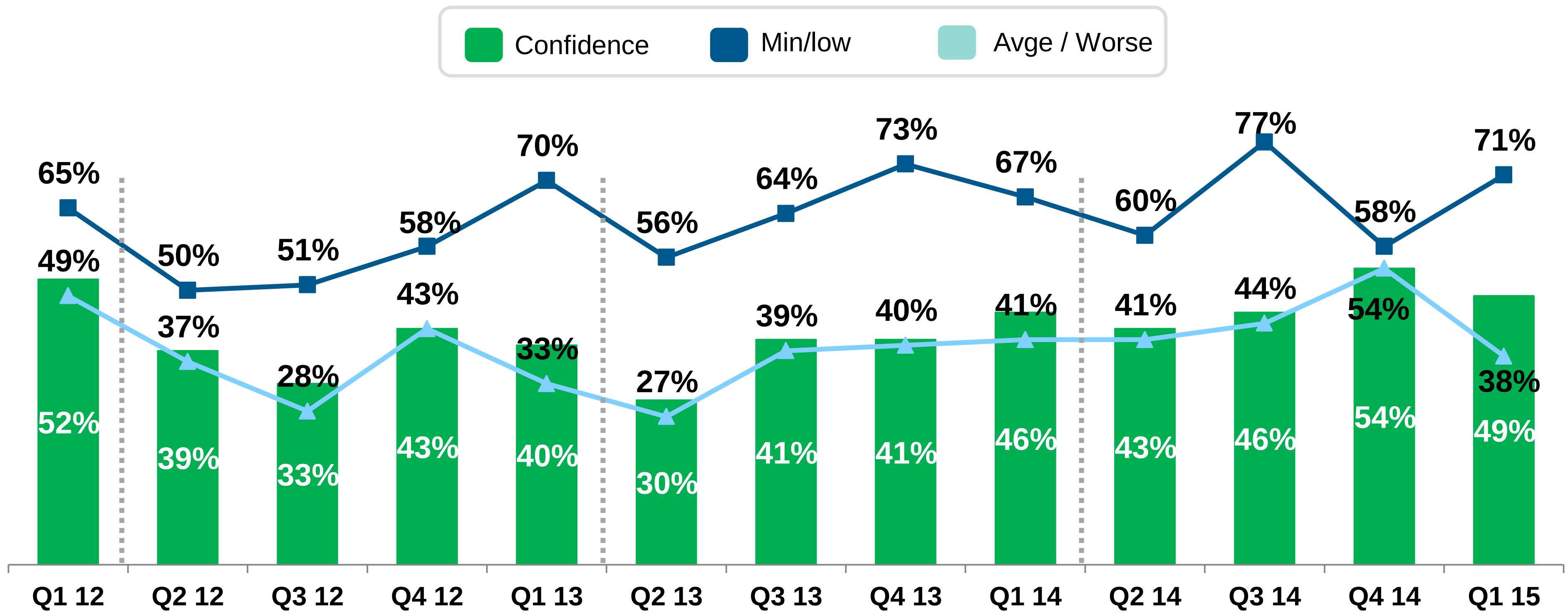


Confidence amongst smaller potential applicants with 0-9 employees has been more volatile over time, but has improved in recent quarters. Confidence amongst larger potential applicants is higher, and has been increasing fairly steadily since the second half of 2012. Both are lower than actual success rates.

Q238
Base : All planning to apply for new/renewed facilities Q1 2015 592

Those with an average/worse than average rating have seen some improvement in confidence levels from Q2 2013

Time series: Confidence (very/fairly) bank will agree to facility next 3 months – by external risk rating

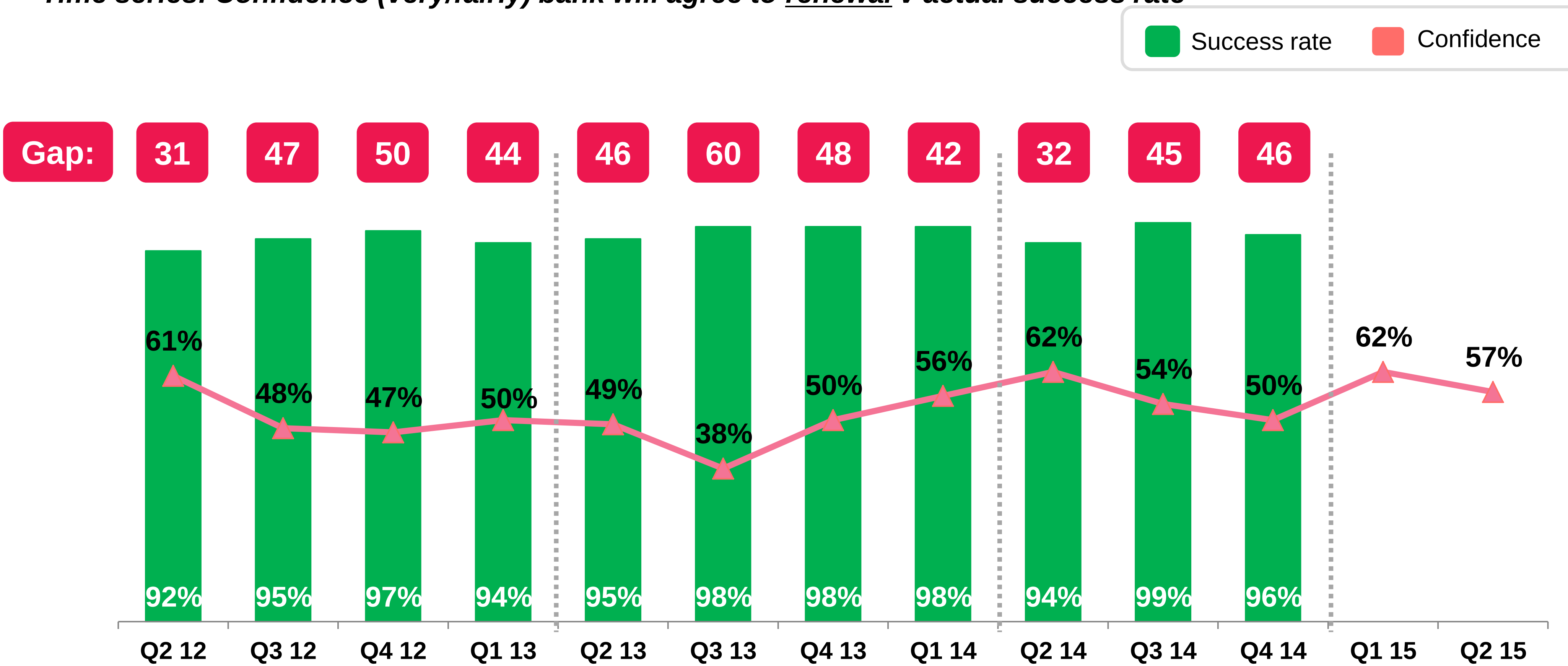


Confidence amongst potential applicants with a minimal or low risk had recovered from a low of 50% in Q2 2012, but is not consistent over time, with an increase in Q1 2015 back to one of the higher levels seen. Confidence amongst potential applicants with an average or worse than average risk rating has always been somewhat lower, and lower confidence in Q1 2015 sees the gap between the two groups re-established

Q238
Base : All planning to apply for new/renewed facilities Q1 2015 592

The “confidence gap” for renewals has narrowed recently but remains below actual success rates

Time series: Confidence (very/fairly) bank will agree to <u>renewal</u> v actual success rate

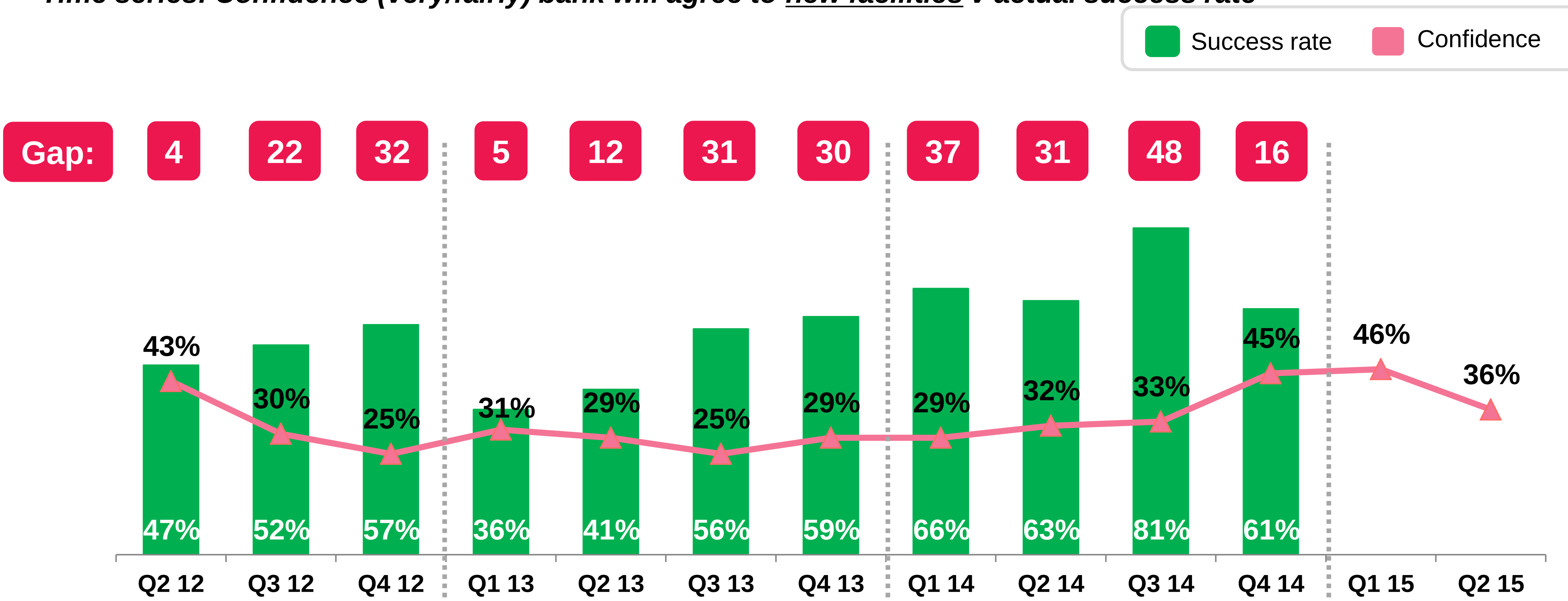


The chart shows actual success rates for loan and overdraft <u>renewals</u> in each quarter. <u>Confidence</u> is measured amongst those planning a renewal borrowing event in the 3 months after interview – this data has been aligned to the quarter when the event is due to occur (ie confidence for Q1 2015 was collected in Q4 2014 from SMEs looking ahead to their future renewal)

Q238
Base : All planning to apply for renewed facilities and all who renewed existing facility

Confidence for new money improved during 2014, narrowing the gap (except in Q3 with a very high success rate)

Time series: Confidence (very/fairly) bank will agree to new facilities v actual success rate



The chart shows actual success rates for loan and overdraft applications for new facilities in each quarter.
Confidence is measured amongst those planning to apply for new facilities in the 3 months after interview – this data has been aligned to the quarter when the event is due to occur (ie confidence for Q1 2015 was collected in Q4 2014 from SMEs looking ahead to their future renewal)

Q238
Base : All planning to apply for new facilities and all who applied for new facility

The economic climate remains the main barrier to future borrowing amongst 'would-be seekers'

Time series: Main reason for not seeking borrowing – All future "Would be seekers" Q1 2015

In Q1 2015, 11% of SMEs were "Future would-be seekers" (500,000). What was their main barrier?

Main reason for not applying

Reluctant to borrow now: felt it was not the right time to borrow / business performance did not merit

54% of Future would-be seekers: 270,000 SMEs

37% said not right time in current climate, 17% mentioned their own performance

Process: think it's too expensive, too much hassle, needs security

16% of Future would-be seekers: 80,000 SMEs

Discouraged: had asked informally but felt put off, or assumed would be turned down

13% of Future would-be seekers: 65,000 SMEs

This remains more likely to be indirect discouragement (12%) rather than being put off directly by the bank (1%)

Principle: prefer not to lose control, or can get funds elsewhere: **no longer includes "prefer not to borrow"**

10% of Future would-be seekers: 50,000 SMEs

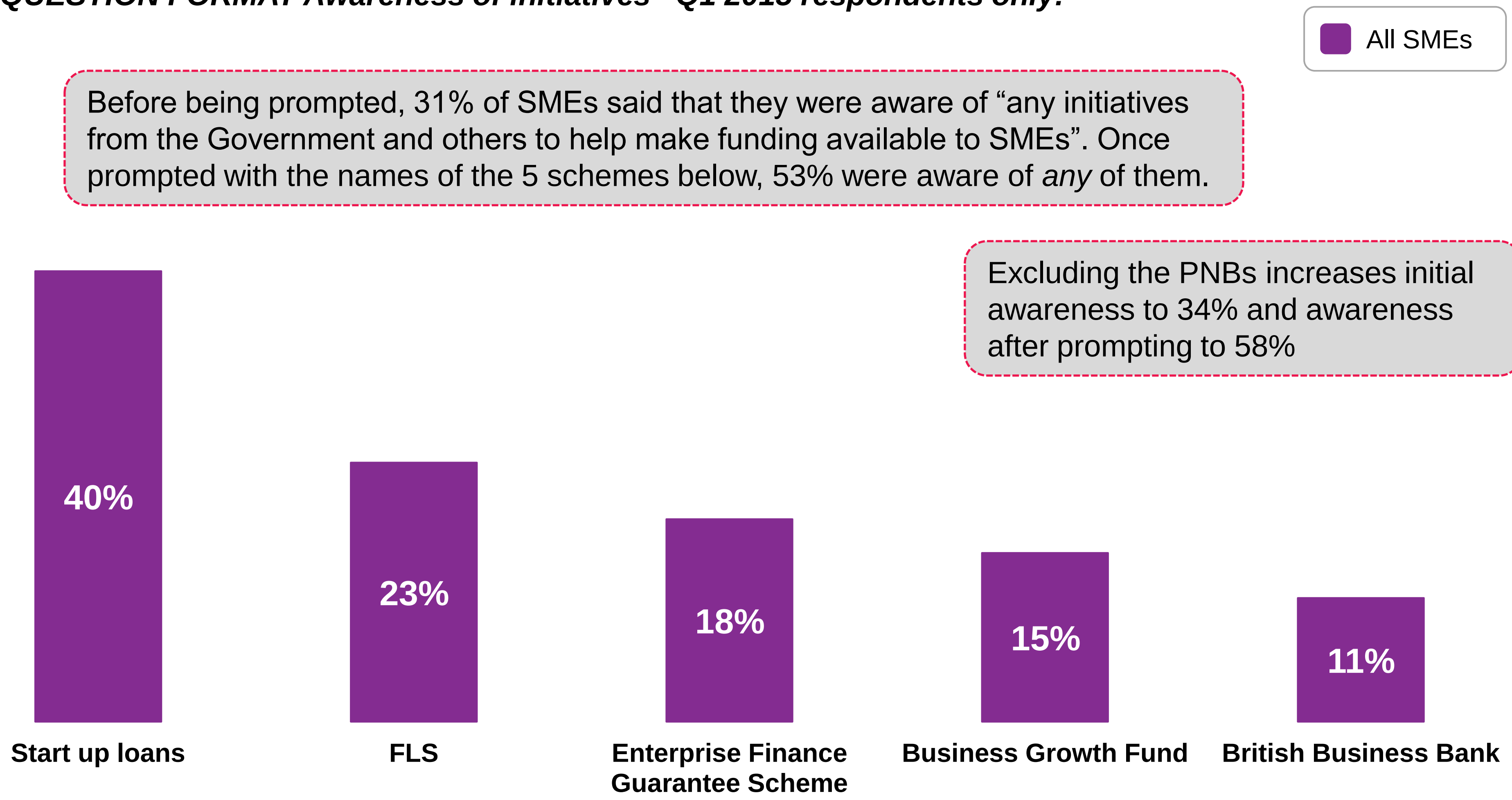
Q239a
Base : Q1 15 All future "would be seekers" 514

Half of SMEs were aware of any of the five specific initiatives tested

NEW QUESTION FORMAT Awareness of initiatives– Q1 2015 respondents only:

Before being prompted, 31% of SMEs said that they were aware of “any initiatives from the Government and others to help make funding available to SMEs”. Once prompted with the names of the 5 schemes below, 53% were aware of *any* of them.

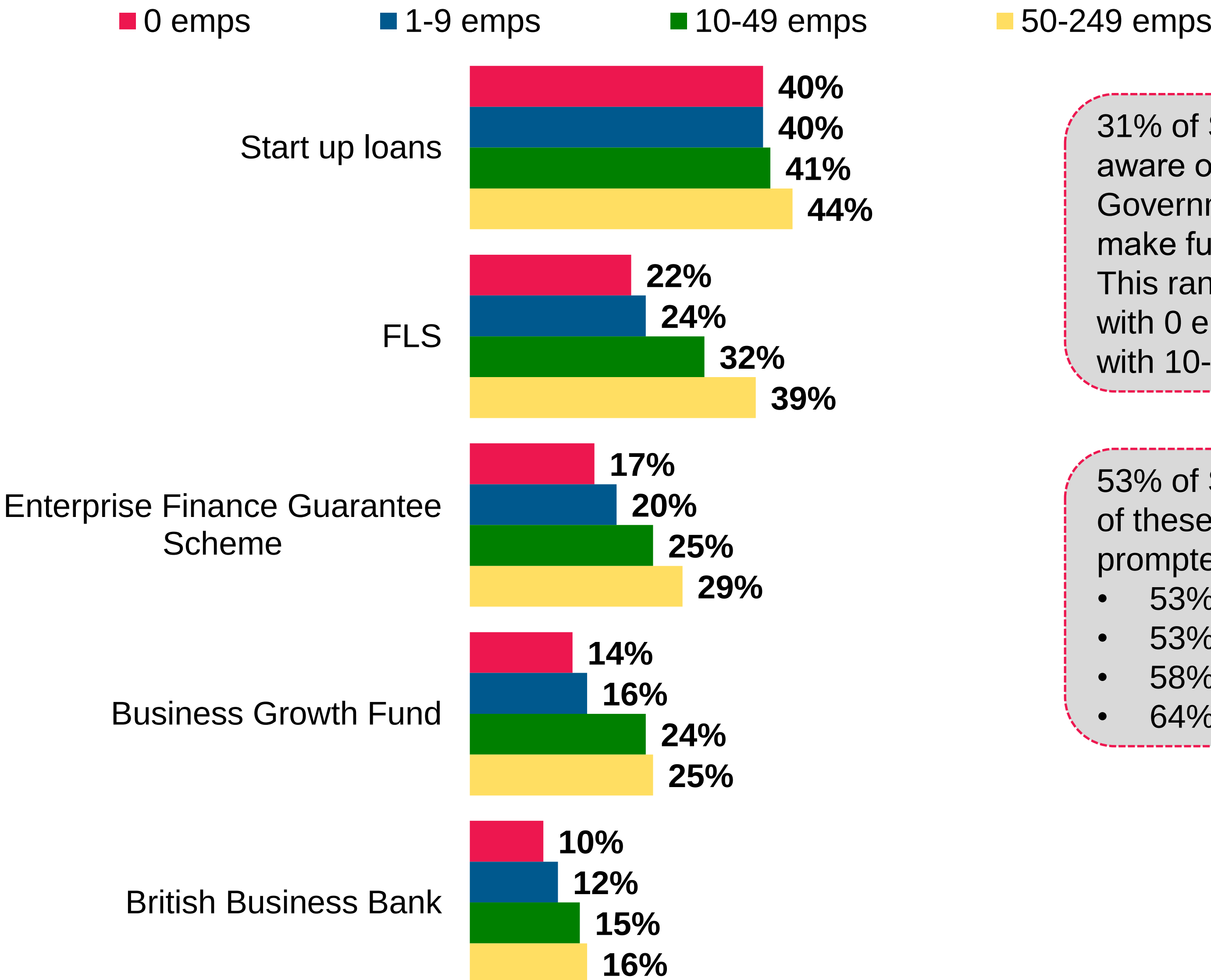
Excluding the PNBs increases initial awareness to 34% and awareness after prompting to 58%



Q240bx
Base : All respondents Q1 2015

Larger SMEs remained somewhat more likely to be aware of the initiatives tested

NEW QUESTION FORMAT Awareness of initiatives– Q1 respondents only:



31% of SMEs said that they were aware of "any initiatives from the Government and others to help make funding available to SMEs". This ranged by size from 30% with 0 employees to 39% of those with 10-49 employees

53% of SMEs were aware of any of these 5 initiatives when prompted:

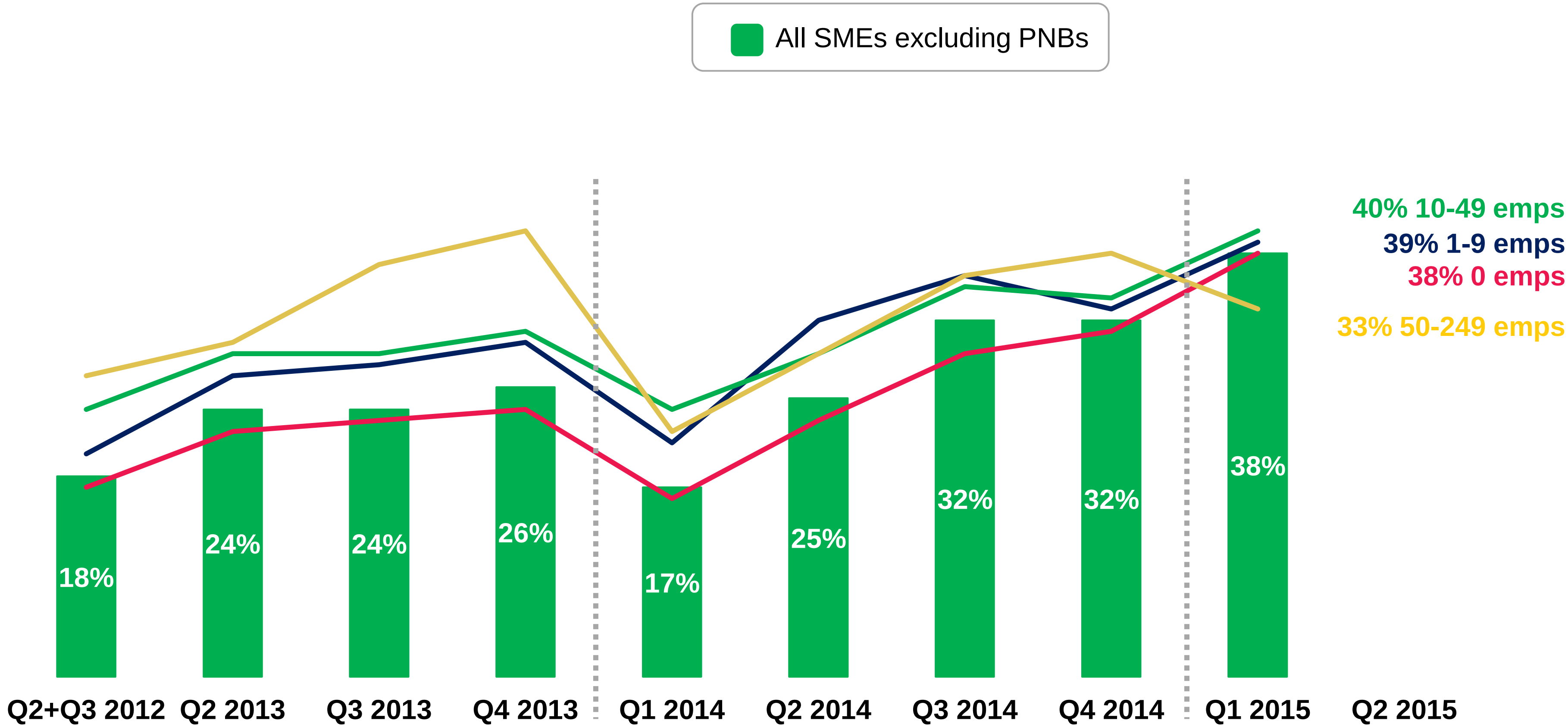
- 53% if 0 emps
- 53% 1-9 emps
- 58% 10-49 emps
- 64% 50-249 emps

Q240bx
Base : All SMEs Q1 1001/1679/1608/750

bdrc continental

Awareness of crowd funding has improved since the start of 2014, to the highest level seen to date

Time series: Awareness of crowd funding – excluding PNBs. Question structure revised for Q1 2014



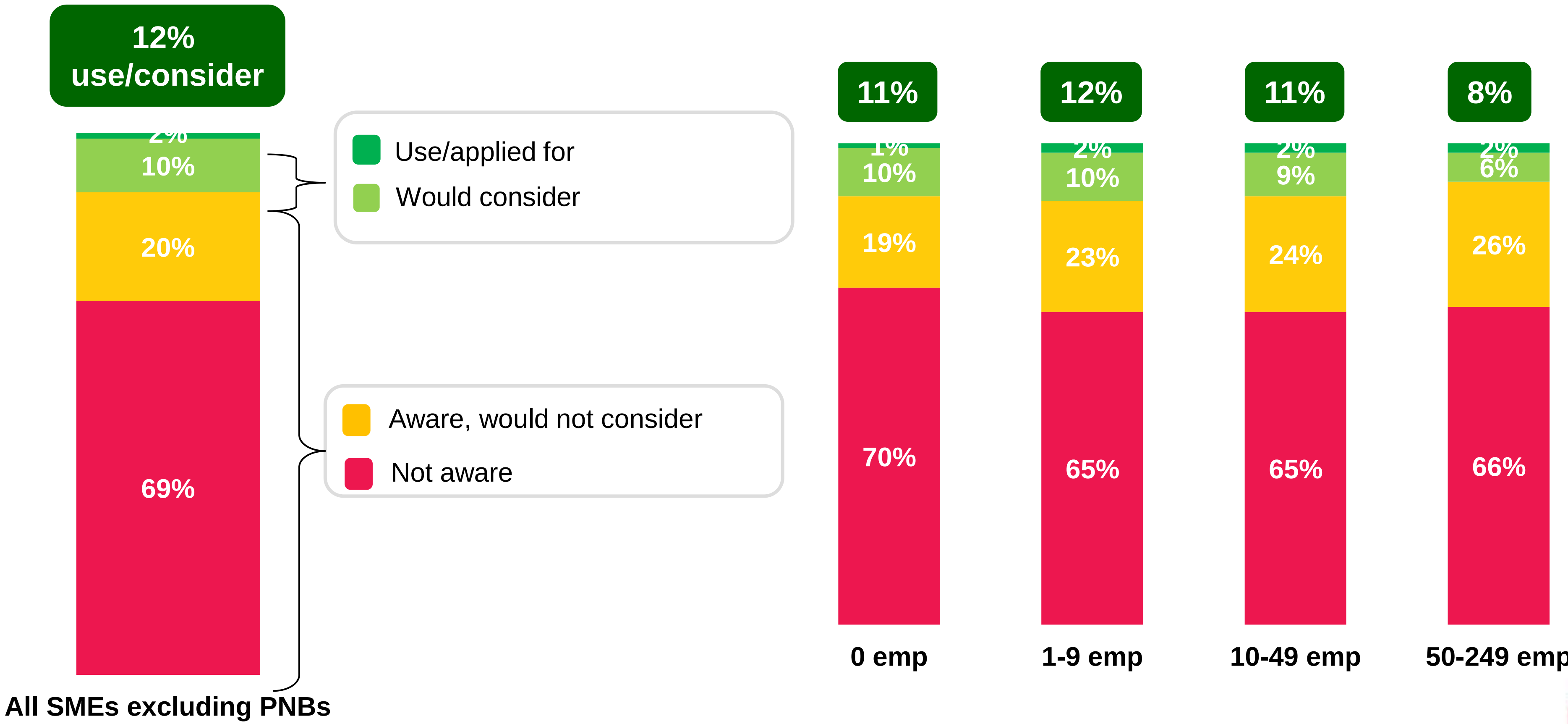
Since the start of 2014, the proportion of SMEs (excluding PNBs) aware of crowd funding has increased. The proportion of those aware who would consider applying for crowd funding was 37% for 2014 overall, and 32% in Q1 2015

Q238a2
Base : All respondents excluding PNBs Q1 2015 3220

SMEs with employees were slightly more aware of 'crowd funding' but no more likely to consider it as a form of funding

Awareness & consideration of crowd funding – YE Q1 2015 excluding PNBs question structure revised for Q114

Excluding the PNBs, who appear unlikely to borrow, awareness of crowd funding was 31% for YEQ1 2015. SMEs with employees were slightly more likely to be aware of crowd funding but not necessarily to consider using it. Use/consideration varied very little by age of business with the exception of those trading for over 15 years where 8% use/would consider v 13% for Starts and other younger businesses



Q238a2
Base : All respondents excluding PNBs YE Q1 2015 13463 2095/4459/4687/2222

The “finance” conundrum – an overview

The finance “conundrum”

Over the last few quarters we have seen a range of positive indicators for SMEs around growth, profitability etc. This optimism had not translated into a clearly increased appetite for finance, despite increasing success rates and improving confidence amongst those planning to apply.

Data for the latest quarter was gathered January – March 2015, ahead of the General Election campaign proper, at a time when the most likely result seemed another coalition. There are still positive indicators:

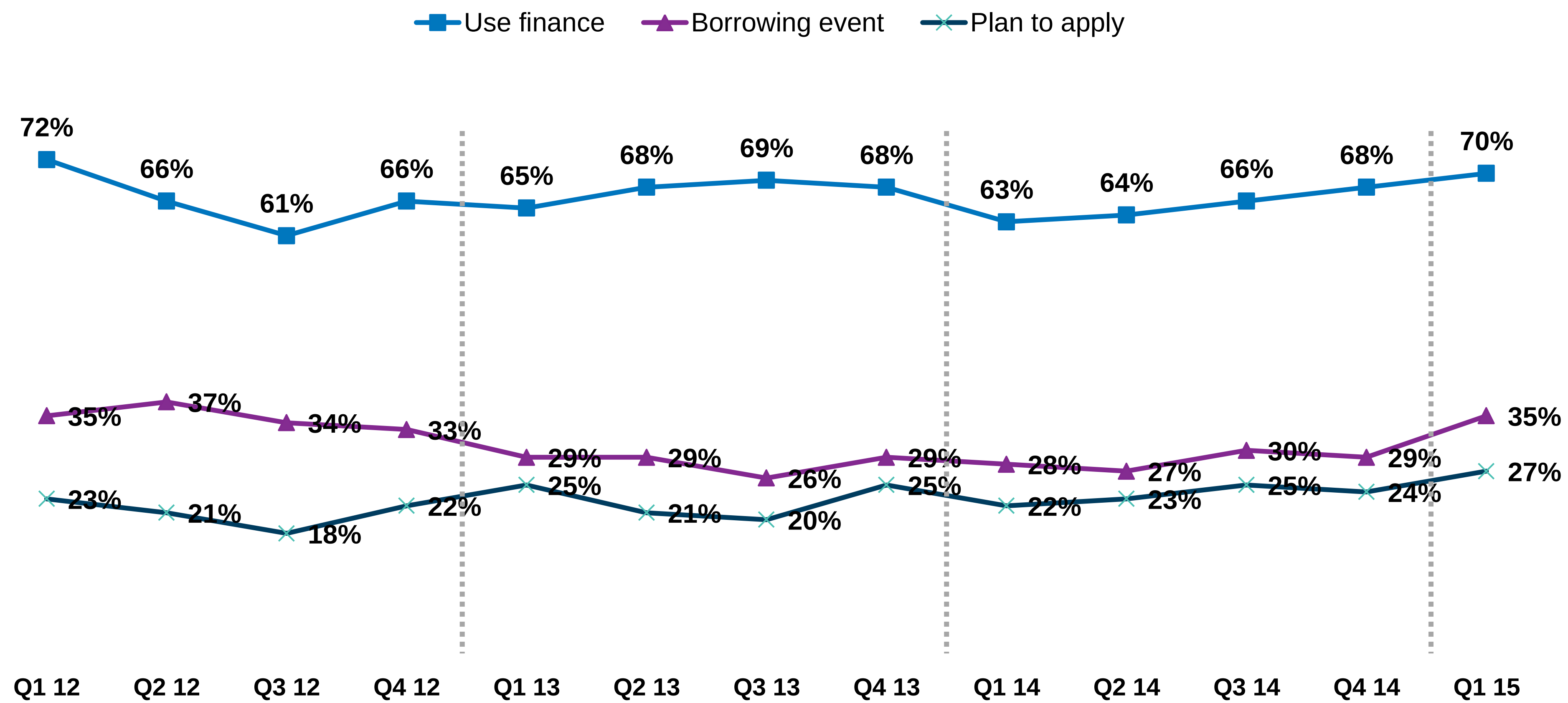
- 79% reported a profit – the highest figure to date
- Fewer injections of personal funds (especially of “distress” injections)
- An increasing proportion with a minimal/low risk rating
- The continuing decline of the economy as a barrier (unless planning to apply)

Predicted growth has stabilised (at a relatively low level for the 0 employee businesses). Those planning to grow are twice as likely to be planning to applying for finance (20% v 9%) and that is stable over time

Success rates are at the highest levels seen to date on the Monitor. However, there is still only limited evidence of any increased appetite for finance, the proportion of PNBs continues to increase and many SMEs want to be debt free if possible.

Excluding the PNBs shows use of and appetite for finance potentially starting to increase amongst the remaining SMEs

Time series: Past/ Anticipated borrowing profile– <u>excluding PNBs</u>



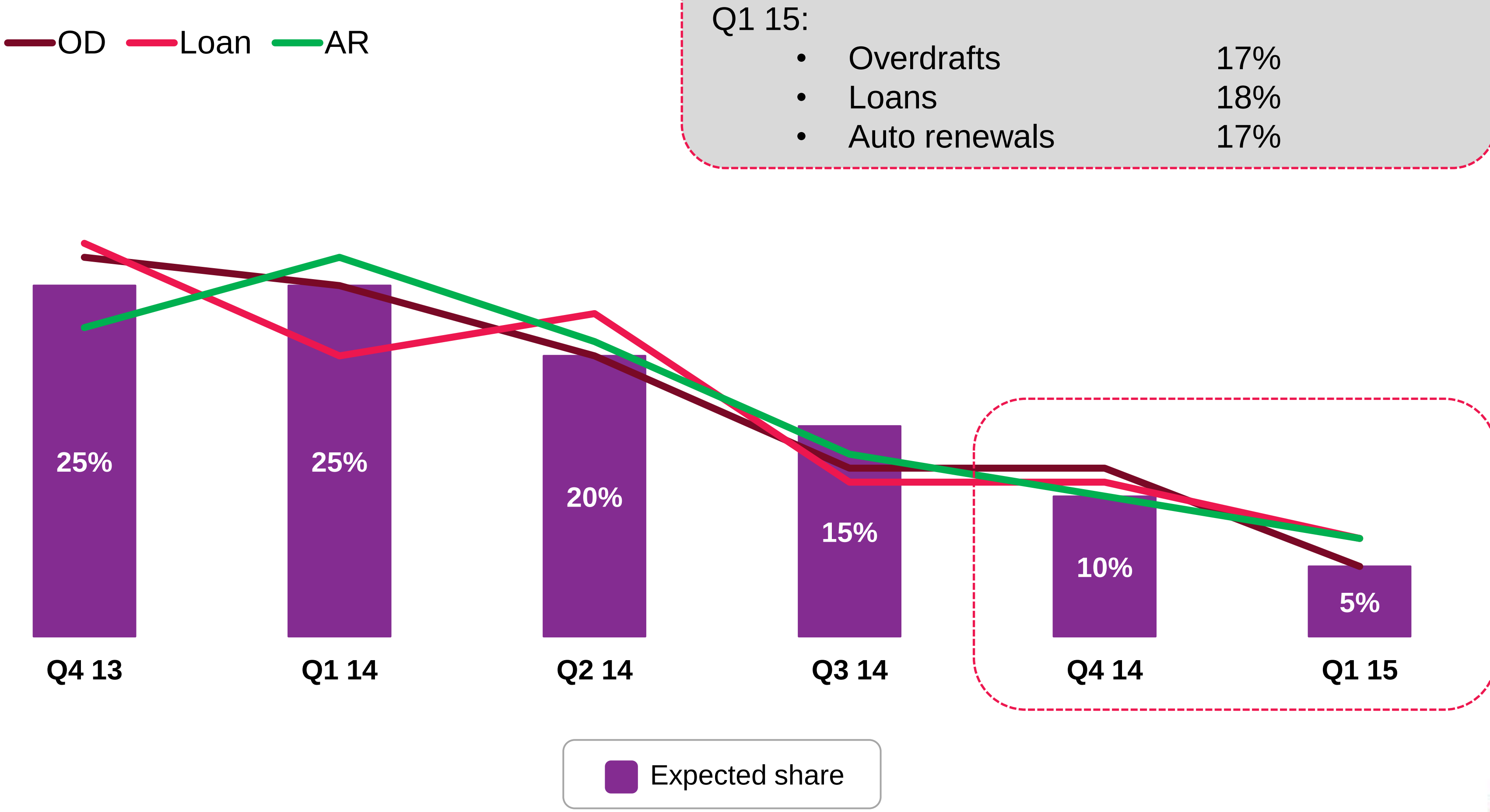
Q229
Base : All respondents excl PNB
4022/3894/3732/3664/3649/3637/3585/3370/3514/3576/3153/3220

An analysis of *when* they applied shows a potential uplift in applications in recent quarters

Time series from Q4 2013: when application for new/renewed/auto renewed facility made

An equal distribution would see **15%** of all applications in this period being made in Q4 14 or Q1 15:

- Overdrafts 17%
- Loans 18%
- Auto renewals 17%



Base : All respondents applying

The finance ‘conundrum’ – what other evidence can the SME Finance Monitor provide?

Over the last few quarters we have seen a range of positive indicators for SMEs around growth, profitability etc. This optimism had not translated into clearly increased appetite for external finance, despite a low interest rate environment and increasing success rates– why?

They don’t perceive a need for finance?

Since H2 2011 between 10% and 12% of SMEs have identified a “need” for (more) external finance. The proportion of SMEs using external finance has declined steadily (notably core finance) while the proportion of PNBs has increased steadily (now 48%)

They have cash/other reserves?

95%+ of SMEs hold some credit balances, and an increasing proportion hold £5k+ (38% in Q1 2015) – ranging from 27% of 0 emps to 85% of 50-249 emps. 33% have access to Trade Credit (increasing to 63% of 50-249 emps) and two thirds with access say this reduces their need for external finance

They are still worried about the future?

13% say the current economic climate is a major barrier, down from a peak of 37%. However, amongst those with <u>any</u> future appetite for finance, a quarter cite the economy as a barrier and this has not dropped recently. Such SMEs are more worried about all the barriers tested (including political uncertainty) and potentially about their business

The finance ‘conundrum’ – what other evidence can the SME Finance Monitor provide? (2)

They believe the bank will say no?	76% of applications are agreed, and success rates for new money (including first time applicants) are improving. Meanwhile there is a confidence “gap”, with 49% of potential future applicants thinking the bank will agree to their request and (indirect) discouragement remaining a key issue for would be seekers
They don’t like debt?	27% of SMEs are ‘debt averse’ while 36% would prefer to be debt free but would use finance if it will help the business grow. The small group “ever” turned down remain less likely to apply in future. As already mentioned, the proportion of PNBs is increasing, overall and across size bands
They are looking at other options?	Loans, overdrafts and credit cards remain the most common forms of lending (but at lower levels over time). A stable minority of SMEs are aware of other initiatives (EFGS/ BGF.) Awareness of crowd funding is increasing (currently 38% excl PNBs): 2% of SMEs are using and a further 10% would consider it

It is unlikely that one of these is “the reason” in isolation – it is more likely to be a combination of reasons, with varying degrees of importance for different types of SME

Key findings

The positive indicators from SMEs are still present: more are making a profit, more hold £5k+ of credit balances, the risk profile is improving, the economy is less of an obstacle and fewer SMEs have felt that they 'had' to inject personal funds

Application success rates are at the highest levels recorded to date, due to more success for new money generally, including FTAs. Access to finance is seen as less of a barrier and confidence amongst those planning to apply that the bank would agree to lend has improved, but is still below actual success rates

This is not currently being translated into a clear increase in use of/appetite for external finance. Fewer SMEs use external finance, 7 in 10 aim to pay down debt and remain debt free and 8 in 10 were Happy non-seekers of finance. Appetite for future finance is also stable overall

The PNBs make up an increasing proportion of all SMEs. If they are set aside, past and future appetite for finance is starting to show some signs of improvement amongst remaining SMEs, and recent quarters have seen a slightly higher share of applications

Contact

For more information please feel free to contact the author of the report, Shiona Davies: shiona.davies@bdrc-continental.com or 0207 400 1000.

The next full report from the SME Finance Monitor, covering data up to the end of Q2 2015, will be published in late August 2015.