The SME Finance Monitor Q4 2020

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 160,000 SME interviews have been conducted since the survey started in Q2 2011, across 38 waves of interviewing. Major changes were made to the questionnaire for Q1 2018.

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.

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 support and finance initiatives

Find out more at www.sme-finance-monitor.co.uk
A slightly different pack for these “unprecedented” times.....

This pack is designed primarily to explore:

- Data from the new Covid related questions run from Q2 2020
- How SMEs have responded so far to Covid 19 and it’s impact on their business, comparing annual results over time to those for 2020.
- Additional analysis by sector to build understanding of how different parts of the economy have been impacted. Some regional data has also been provided but the majority will be presented in the annual regional report to be published later this Spring.

- The presentation today will introduce you to some key themes from the SME Finance Monitor. Much more detail can be found in the full chart pack and the full report which will be circulated after this session.
A brief timeline to remind us of what was happening in Q4 – vaccines, tiers and the Kent variant that helped to cancel Christmas for many

**April** Lockdown continued. Prime Minister in intensive care

**May** Some easing of lockdown and furlough scheme extended to October

**June** more measures eased, more shops and venues opened

**July** Restrictions eased further but imposed in Leicester and areas around Manchester

**August** Eat out to help out. Countries added to quarantine list

**Sept** R > 1 for 1st time since March – 2nd wave in UK. No gatherings of 6+, 10pm curfew

**Oct** 3 tier system and new JSS scheme announced. National lockdown announced for Nov 5th

**Nov** National lockdown, furlough/ BBL/ CBILs extended again, vaccine success announced

**Dec** Revised tiered system, Kent variant discovered and Tier 4 created, Christmas plans revised/cancelled
Today’s presentation

- The immediate impact of Covid 19
- The trading context
- Use of external funding and alternatives
- Demand for finance and outcome of applications
- Appetite for finance, past and future
Today’s presentation

The immediate impact of Covid 19

- The trading context
- Use of external funding and alternatives
- Demand for finance and outcome of applications
- Appetite for finance, past and future
In Q2, 87% of SMEs had been negatively affected by the pandemic. In a more detailed question in Q3 and Q4, three-quarters had been impacted, a third of them ‘very negatively’.

Impact of Covid – over time

<table>
<thead>
<tr>
<th>Impact of Covid</th>
<th>Q2*</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very positive</td>
<td>6%</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>Positive</td>
<td>16%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Neutral</td>
<td>42%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Negative</td>
<td>33%</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>Very negative</td>
<td>33%</td>
<td>33%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Negatively impacted

<table>
<thead>
<tr>
<th>Size of Business</th>
<th>0 emps</th>
<th>1-9 emps</th>
<th>10-49 emps</th>
<th>50-249 emps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2*</td>
<td>76%</td>
<td>73%</td>
<td>75%</td>
<td>76%</td>
</tr>
<tr>
<td>Q3</td>
<td>73%</td>
<td>71%</td>
<td>70%</td>
<td>75%</td>
</tr>
<tr>
<td>Q4</td>
<td>75%</td>
<td>70%</td>
<td>70%</td>
<td>75%</td>
</tr>
</tbody>
</table>
All sectors have been affected, but especially those in Hospitality. Those in Agriculture were less likely to have been affected, although even in Q4, half of them had been.

Sector summary: Negatively Impacted by Covid – over time by sector
In Q4, half thought the worst was still to come, in line with Q3 and slightly lower than in Q2. Smaller SMEs remained more likely to think the worst was still to come.

Stage reached Q2 to Q4 2020
There are a range of views by sector, with those in Manufacturing and Health the least likely to think the worst is still to come

Sector summary: Worst is still to come
After a marked improvement Q2 to Q3, a stable 3 in 10 SMEs expect their income to be significantly lower or non-existent, decreasing by size of SME

Likely turnover in next few months compared to same time last year Q2 to Q4 2020

None/>50%

Higher

Stable

<50% lower

50%+

No revenue

None or >50% income

Q2 20  Q3 20  Q4 20

None or >50% income

CV4 Base : All SMEs excluding DK 4255/4316/4057
All sectors have been affected, but especially those in Hospitality and Transport, while Agriculture remained less likely to have been affected.

Sector summary: Likely revenue none or more than 50% down
After a significant improvement Q2 to Q3, a stable 4 in 10 SMEs describe their mood about the business as ‘good’ in Q4, increasing by size of SME

Mood about the business Q2 to Q4 2020

<table>
<thead>
<tr>
<th>Mood 7-10</th>
<th>25%</th>
<th>40%</th>
<th>41%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mood 9-10</td>
<td>8%</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Mood 7-8</td>
<td>17%</td>
<td>27%</td>
<td>27%</td>
</tr>
<tr>
<td>Mood 5-6</td>
<td>27%</td>
<td>27%</td>
<td>26%</td>
</tr>
<tr>
<td>Mood 0-4</td>
<td>49%</td>
<td>32%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Q2 2020 | Q3 2020 | Q4 2020

Mood 7-10

- Q2 20: 24%
- Q3 20: 26%
- Q4 20: 34%

0 emps | 1-9 emps | 10-49 emps | 50-249 emps

- 0 emps: 42%
- 1-9 emps: 52%
- 10-49 emps: 55%
- 50-249 emps: 58%

CV1 Base: All SMEs Q4 2020 4252 867/1486/1255/644
Those in Agriculture and Property/Business Services are more likely to be in a good mood. The mood in the struggling Hospitality sector improved in Q3 but declined again in Q4.

Sector summary: Mood 7-10
1 in 4 employers have either made staff redundant or think they may have to, up from 1 in 5 in Q3 2020

How business has been impacted – All employers Q2 to Q4 2020

- Staff on furlough: Q2 61%, Q3 59%, Q4 59%
- Made staff redundant: Q2 5%, Q3 9%, Q4 16%
- May have to make staff redundant (New Q3): Q2 12%, Q3 12%, Q4 12%

Larger SMEs were more likely to have staff on furlough – 54% of those with 1-9 emps compared to 82% with 10-49 emps and 83% with 50-249 emps.

Larger SMEs were also more likely to have made or be contemplating redundancies – 20% of those with 1-9 emps compared to 37% with 10-49 emps and 41% with 50-249 emps.

64% have taken any of these actions in Q4 2020: 59% have staff on furlough and 23% have made, or think they may have to make, redundancies.
A quarter of employers had made, or might have to make, redundancies, increasing to 4 in 10 of larger employers

Made or may make employees redundant Q3 and Q4 2020
1 in 3 employers in the Hospitality sector have/may have to make redundancies, compared to 1 in 10 in Agriculture

Sector summary: Made or may make employees redundant Q3 and Q4 2020
The new barrier “Impact of the pandemic” remained the top barrier in Q4 2020, declining somewhat by size of SME

Main barriers (8-10) to running business in next 12 months – Q4 2020:

- Impact of pandemic: 51%
- The current economic climate: 36%
- Political uncertainty/future govt policy: 27%
- Legislation, regulation, red tape: 23%
- Cash flow / late payment: 14%
- Access to external finance: 9%
- Changes in value of sterling: 8%
- Availability of relevant advice: 8%
- Recruiting and retaining staff: 7%

In Q2 when this question was first asked, 68% of SMEs cited the pandemic as a main barrier. The decline to 55% in Q3 and 51% in Q4 was seen across all size bands, with the largest SMEs less likely to see it as a barrier.

In Q4, concern was highest amongst those in Hospitality and Transport, where 7 in 10 were concerned compared to a third of those in Agriculture.
SMEs in the Hospitality and Transport sectors have the highest levels of concern, notably compared to those in Agriculture, with most seeing a decline over time in 2020.

Sector summary: % “Impact of pandemic” 8-10 barrier over time

7 in 10 SMEs in the Hospitality and Transport sectors rate the effect of the pandemic as a major barrier to their business, with no decline in Q4 2020, compared to 35% in Agriculture.

Q93 Base: All SMEs Q4 2020 256/423/683/463/298/443/914/319/453
4 in 10 SMEs are predominantly focussed on the future with little change Q3 to Q4 except amongst the smallest SMEs

Focussed on crisis or planning for the future – Q3 and Q4 only

Focus on future 7+ | 42% | 36%
Planning for future 9-10 | 22% | 19%
7-8 | 20% | 17%
5-6 | 34% | 36%
Focussed on crisis 1-4 | 25% | 28%

Focus on future 7+
- Q3 20
- Q4 20

CV6 Base: All SMEs Q4 2020 4252 867/1486/1255/644
25%
34%
22%
36%
28%
20%
36%
22%
19%
17%
15%
22%
19%
17%
15%
17%
20%
36%
Those in Agriculture and Property/Business Services are twice as likely to be thinking about the future as those in Hospitality or Transport

Sector summary: Focus on future 7+
There has been a slight increase in the proportion expecting the future to offer opportunities rather than threats, both overall and across all size bands.

Does the future offer opportunities or threats – Q3 and Q4 only

<table>
<thead>
<tr>
<th>Size Band</th>
<th>Q3 2020</th>
<th>Q4 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 emps</td>
<td>19%</td>
<td>24%</td>
</tr>
<tr>
<td>1-9 emps</td>
<td>19%</td>
<td>25%</td>
</tr>
<tr>
<td>10-49 emps</td>
<td>17%</td>
<td>26%</td>
</tr>
<tr>
<td>50-249 emps</td>
<td>17%</td>
<td>23%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Size Band</th>
<th>Offers opportunities 7+</th>
<th>Offers opportunities 9-10</th>
<th>Offers opportunities 7-8</th>
<th>Only offers threats 1-4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 2020</td>
<td>8%</td>
<td>11%</td>
<td>19%</td>
<td>32%</td>
</tr>
<tr>
<td>Q4 2020</td>
<td>10%</td>
<td>14%</td>
<td>24%</td>
<td>25%</td>
</tr>
</tbody>
</table>
Those in Property/Business Services and the Other Community sectors are twice as likely to see future opportunities as those in Hospitality or Transport

Sector summary: Future offers opportunities 7+
The overall impact of the pandemic
By sector: Those in the Hospitality and Transport sectors are more likely to be feeling the negative impact of the pandemic, larger SMEs remained less likely to be impacted

Negative impact summary score (100%+ = above average negative impact)
By region: Yorks & Humber were less impacted in Q4 than Q3, as were Scotland to a lesser degree. London was the most likely to have been impacted in Q4

Negative impact summary score (100%+ = above average negative impact)

### By region:

<table>
<thead>
<tr>
<th>Region</th>
<th>Q3 20</th>
<th>Q4 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>99%</td>
<td>99%</td>
</tr>
<tr>
<td>Scotland</td>
<td>119%</td>
<td>106%</td>
</tr>
<tr>
<td>Wales</td>
<td>93%</td>
<td>104%</td>
</tr>
<tr>
<td>NI</td>
<td>100%</td>
<td>99%</td>
</tr>
<tr>
<td>NE</td>
<td>105%</td>
<td>100%</td>
</tr>
<tr>
<td>Y&amp;H</td>
<td>114%</td>
<td>114%</td>
</tr>
<tr>
<td>NW</td>
<td>102%</td>
<td>85%</td>
</tr>
<tr>
<td>W Mids</td>
<td>105%</td>
<td>94%</td>
</tr>
<tr>
<td>E Mids</td>
<td>111%</td>
<td>108%</td>
</tr>
<tr>
<td>East</td>
<td>97%</td>
<td>96%</td>
</tr>
<tr>
<td>SW</td>
<td>84%</td>
<td>90%</td>
</tr>
<tr>
<td>Lon</td>
<td>104%</td>
<td>113%</td>
</tr>
<tr>
<td>SE</td>
<td>85%</td>
<td>98%</td>
</tr>
</tbody>
</table>

Y&H score improved in Q4 as fewer saw future threats and/or limited revenue.
Export-only SMEs were less impacted in Q4 than Q3, the opposite was true for Import-only SMEs and those using finance. PNBs were less affected than their peers.

Negative impact summary score (100%+ = above average negative impact)

<table>
<thead>
<tr>
<th></th>
<th>Exp only</th>
<th>Imp only</th>
<th>Fully int</th>
<th>Domestic</th>
<th>Starts</th>
<th>2-5 yrs</th>
<th>6-9 yrs</th>
<th>10-15 yrs</th>
<th>15+</th>
<th>Use fin</th>
<th>PNB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 20</td>
<td>108%</td>
<td>83%</td>
<td>82%</td>
<td>100%</td>
<td>101%</td>
<td>95%</td>
<td>98%</td>
<td>108%</td>
<td>99%</td>
<td>96%</td>
<td>112%</td>
</tr>
<tr>
<td>Q4 20</td>
<td>83%</td>
<td>89%</td>
<td>83%</td>
<td>101%</td>
<td>103%</td>
<td>95%</td>
<td>93%</td>
<td>100%</td>
<td>97%</td>
<td>105%</td>
<td>87%</td>
</tr>
</tbody>
</table>

In Q4, export only SMEs were less likely to think the worst was still to come or report a very negative impact.

All SMEs: Total score of poor mood / worst to come / very negative impact / limited future income / focussed on pandemic / future is threats indexed against overall score for that quarter. Base score 197 in Q3 and 199 in Q4.
21% of SMEs were “struggling” in H2 2020: both very negatively impacted by Covid and in a poor mood about the business (0-4)

The key factor is sector: Amongst those in either Hospitality or Transport the proportion in this struggling group increases to:

Within these sectors, if they don’t plan the proportion increases to:

And if they also say improving profit margins is a priority:

Within the Hospitality sector, 37% are struggling. If they also have issues around finance (agree it is difficult for a business like them to get finance, and are using finance but unwilling to borrow more to grow) and have an owner aged over 50, this increases to:

Within the Transport sector, 43% are struggling. If they don’t plan, don’t have a mentor, are not a Permanent non-borrower and hold less than £50,000 in credit balances, this increases to:

Excluding sector, the key issues are: If they agree that it is difficult for them to get finance, BUT their plans are NOT based on what they can afford to fund themselves, AND they are being cautious in the face of an uncertain future, this increases to:
The immediate impact of Covid 19- Key findings

Q2 2020 was a shock to the SME system. Sentiment in Q3 was somewhat better and overall there was relatively little change in Q4. Those in Hospitality and Transport have though been the worst affected in H2 2020 and are the best predictors of a ‘struggling’ SME.

The majority of SMEs have been negatively impacted by Covid and around half still fear that the worst is still to come. 1 in 3 describe their mood about their business as ‘poor’, an improvement on the 1 in 2 who felt like that in Q2. A quarter are still focused on coping with the pandemic, with a similar proportion seeing the future as threats, not opportunities and/or making or considering redundancies.

Around 1 in 3 think their turnover will be reduced by 50% or more for the coming months, but this is half the level of Q2 while half see the pandemic as a major barrier to their business (also down from 7 in 10 in Q2).
Today’s presentation

The immediate impact of Covid 19

The trading context

Use of external funding and alternatives

Demand for finance and outcome of applications

Appetite for finance, past and future
Around 4 in 10 SMEs have typically reported having grown, increasing by size of SME. By Q4 2020, 16% reported that they had grown, with little to choose by size.

Annual time series: % reporting growth in previous 12 months

<table>
<thead>
<tr>
<th>Year</th>
<th>0 emps</th>
<th>1-9 emps</th>
<th>10-49 emps</th>
<th>50-249 emps</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>37%</td>
<td>42%</td>
<td>40%</td>
<td>54%</td>
</tr>
<tr>
<td>2013</td>
<td>40%</td>
<td>42%</td>
<td>48%</td>
<td>54%</td>
</tr>
<tr>
<td>2014</td>
<td>42%</td>
<td>42%</td>
<td>48%</td>
<td>54%</td>
</tr>
<tr>
<td>2015</td>
<td>39%</td>
<td>40%</td>
<td>42%</td>
<td>39%</td>
</tr>
<tr>
<td>2016</td>
<td>40%</td>
<td>40%</td>
<td>42%</td>
<td>39%</td>
</tr>
<tr>
<td>2017</td>
<td>42%</td>
<td>42%</td>
<td>37%</td>
<td>39%</td>
</tr>
<tr>
<td>2018</td>
<td>39%</td>
<td>37%</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Q1 20</td>
<td>34%</td>
<td>34%</td>
<td>25%</td>
<td>16%</td>
</tr>
<tr>
<td>Q2 20</td>
<td>34%</td>
<td>34%</td>
<td>25%</td>
<td>16%</td>
</tr>
<tr>
<td>Q3 20</td>
<td>25%</td>
<td>18%</td>
<td>18%</td>
<td>15%</td>
</tr>
<tr>
<td>Q4 20</td>
<td>16%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
</tr>
</tbody>
</table>

All sectors were less likely to report having grown, with the most marked decline in Hospitality (3% in Q4 v 40% in 2019). Growth in Agriculture was though only slightly lower than in 2019 (33% in Q4 v 37% in 2019).
All sectors except Agriculture have seen fewer SMEs reporting growth, with notable reductions in Q4 for Hospitality and Manufacturing.

Sector summary: Grown – over time

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cv3 all SMEs excl Starts and DK Q4 2020 243/389/618/423/281/424/834/291/418
In Q4 2020, as fewer SMEs reported having grown (16%) or breaking even (23%), there was another sharp increase in the proportion that had declined in size to 61%.

As the effect of the pandemic continues to be felt, more SMEs are reporting an impact on their growth in the previous 12 months. 16% had grown, the lowest levels seen on the Monitor and over half, 61%, had declined, the highest level seen to date.
There has been a further sharp increase in the proportion reporting a decline in Q4 2020, across all size bands, to levels not previously seen.

Annual time series: % reporting decline in previous 12 months

There was another sharp increase in declines in Q4 2020, led by the 0 employee SMEs (from 49% to 63%) but seen across all size bands and markedly higher than anything reported on SMEFM to date. In Q4, 86% in the Hospitality sector reported a decline.
In Q4 2020, all sectors were more likely to report a decline than previously, with more marked increases Q3 to Q4 in Hospitality, Construction and Manufacturing.

### In Q4 2020, almost 9 in 10 Hospitality SMEs and 7 in 10 in Transport reported that they had declined in size. As on other metrics, those in Agriculture were less affected, with a third reporting a decline.

<table>
<thead>
<tr>
<th>Sector</th>
<th>2019</th>
<th>Q2 20</th>
<th>Q3 20</th>
<th>Q4 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agric</td>
<td>14%</td>
<td>20%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Mfg</td>
<td>33%</td>
<td>36%</td>
<td>40%</td>
<td>48%</td>
</tr>
<tr>
<td>Constr</td>
<td>37%</td>
<td>62%</td>
<td>62%</td>
<td>56%</td>
</tr>
<tr>
<td>Whole/Retail</td>
<td>15%</td>
<td>18%</td>
<td>20%</td>
<td>34%</td>
</tr>
<tr>
<td>Hotel/Rest</td>
<td>59%</td>
<td>62%</td>
<td>74%</td>
<td>86%</td>
</tr>
<tr>
<td>Trans</td>
<td>19%</td>
<td>58%</td>
<td>58%</td>
<td>74%</td>
</tr>
<tr>
<td>Prop/Bus Serv</td>
<td>24%</td>
<td>44%</td>
<td>55%</td>
<td>52%</td>
</tr>
<tr>
<td>Health</td>
<td>16%</td>
<td>51%</td>
<td>63%</td>
<td>63%</td>
</tr>
<tr>
<td>Other Comm</td>
<td>29%</td>
<td>21%</td>
<td>29%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Sector summary: Declined – over time
The proportion of SMEs planning to grow halved between 2019 and Q2 2020, but there has been something of an improvement in Q3 and Q4 2020, with more growth activities planned.

Annual time series: % predicting growth in next 12 months

In Q2 2020 the proportion of SMEs planning to grow declined markedly and across all size bands. There was something of an improvement in Q3 and Q4 but the proportion planning to grow remained below previous years. 47% of all SMEs were planning any growth related activity in Q4 2020, increasing to 68% of those planning to grow (v 31% with no such plans), including 38% planning to take on staff and 33% planning to launch a new product or service.
There has been a further clear increase in growth ambition in Q4 in Wholesale/Retail and Health, but a decline in Manufacturing.

Sector summary: Plan to grow – over time

Those in Wholesale/Retail were much more likely to be planning to grow in Q4 2020, almost back to 2019 levels. Otherwise, most sectors were broadly in line or just slightly more ambitious in Q4 than Q3, but those in Manufacturing were now less likely to expect to grow.
The proportion of SMEs reporting a profit was somewhat lower at 70%, back to levels seen in 2013. Over half of SMEs said improving profit margins was a key priority.

Annual time series: % making a profit (excl DK)

Improving profit margin a key priority: over time

Most SMEs are profitable. The median profit made was £12,000 in Q4 and has been £10-12k in 2020 compared to £8-9k in 2019. In 2020 as a whole, 52% of SMEs said improving profit margins was a key priority for them and this proportion has increased over time (from 30% in 2018) overall, and for all sizes of SME.
In 2020, there has been more innovation reported (across all size bands), and more use of business mentors

Annual time series: Business management

All sectors were more likely to have been innovative in Q4 2020 than in 2019, notably those in Hospitality (60% from 43% in 2019). Those in Construction remained the least likely to have innovated (33% from 25% in 2019) with other sectors 45-55%.
All sectors saw an increase in innovation in 2020 compared to 2019, notably Health and Hospitality. Levels of planning improved for most in Q4 2020.
There continued to be notably higher concern for the current economic climate in 2020 and a slight increase in concern re political uncertainty.

Time series: % Rating ‘The economic climate’, ‘political uncertainty’ or ‘cash flow/late payment’ 8-10 a major obstacle for next 12 mths.
The marked increase in concern about the economic climate in Q2 was not maintained. Concern about political uncertainty increased somewhat during 2020.

Levels of concern about the economic climate were stable overall in Q1 2020 but then increased markedly to Q2 2020 (47%) and across all size bands. This was not maintained, but the 36% concerned in Q4 2020 is still higher than previously seen.

Concern about political uncertainty on the other hand declined slightly in Q1 2020 (post election), was back to 2019 levels for Q2 2020 and then increased slightly to 27% in Q4 (pre Brexit deal) for all but the largest SMEs.
SMEs in the Hospitality and Transport sectors have the highest levels of concern, notably compared to those in Agriculture.

Sector summary: % 8-10 barrier Q4 2020

7 in 10 SMEs in the Hospitality and Transport sectors rate the effect of the pandemic as a major barrier to their business, compared to 35% in Agriculture.
After some variation in the first half of 2020, trust in main bank was closer to levels seen in 2018-19 for Q3 and Q4. Trust in the banking industry remained at lower levels.

Level of trust by size over time

- **Trust in main bank**
  - **High level of trust 8-10**
    - 2018: 55%, 2019: 55%, Q1 20: 48%, Q2 20: 54%, Q3 20: 63%
  - **Medium level of trust 5-7**
    - 2018: 37%, 2019: 36%, Q1 20: 31%, Q2 20: 38%, Q3 20: 36%
  - **Low level of trust 1-4**
    - 2018: 9%, 2019: 8%, Q1 20: 7%, Q2 20: 14%, Q3 20: 10%

- **Trust in banking industry**
  - **High level of trust 8-10**
    - 2018: 25%, 2019: 25%, Q1 20: 35%, Q2 20: 22%, Q3 20: 26%
  - **Medium level of trust 5-7**
    - 2018: 53%, 2019: 55%, Q1 20: 48%, Q2 20: 50%, Q3 20: 51%
  - **Low level of trust 1-4**
    - 2018: 22%, 2019: 21%, Q1 20: 17%, Q2 20: 28%, Q3 20: 23%

A low level of trust in main bank was seen more often amongst SMEs with 0 or 1-9 employees (11%), those in Transport (18%) or in Health (17%)

A low level of trust in banking was seen more often amongst SMEs with 0 employees (27%), Transport (29%) and Construction (28%)
Levels of trust, in both the main bank and banking generally, increase by size of SME

Level of trust by size Q4 2020

Trust in main bank

- **High level of trust 8-10**
  - All: 53%
  - 0 Emp: 36%
  - 1-9 emp: 11%
  - 10-49 emp: 32%
  - 50-249 emp: 30%

- **Medium level of trust 5-7**
  - All: 52%
  - 0 Emp: 37%
  - 1-9 emp: 11%
  - 10-49 emp: 34%
  - 50-249 emp: 6%

- **Low level of trust 1-4**
  - All: 67%
  - 0 Emp: 6%
  - 1-9 emp: 6%
  - 10-49 emp: 3%
  - 50-249 emp: 3%

Trust in banking industry

- **High level of trust 8-10**
  - All: 24%
  - 0 Emp: 51%
  - 1-9 emp: 27%
  - 10-49 emp: 22%
  - 50-249 emp: 14%

- **Medium level of trust 5-7**
  - All: 23%
  - 0 Emp: 51%
  - 1-9 emp: 27%
  - 10-49 emp: 22%
  - 50-249 emp: 14%

- **Low level of trust 1-4**
  - All: 28%
  - 0 Emp: 50%
  - 1-9 emp: 50%
  - 10-49 emp: 52%
  - 50-249 emp: 58%

Q24b Base : All SMEs Q4 2020 4252   867/1486/1255/644
Those in Wholesale/Retail had the highest level of trust in their main bank

Sector summary: Level of trust in main bank  Q4 2020

- Agric: High 58%, Medium 31%, Low 11%
- Mfg: High 54%, Medium 34%, Low 12%
- Constr: High 49%, Medium 40%, Low 11%
- Whole/Retail: High 65%, Medium 31%, Low 4%
- Hotel/Rest: High 56%, Medium 33%, Low 11%
- Trans: High 45%, Medium 37%, Low 18%
- Prop/Bus Serv: High 57%, Medium 35%, Low 8%
- Health: High 48%, Medium 35%, Low 17%
- Other Comm: High 51%, Medium 39%, Low 10%
Those in Agriculture had the highest level of trust in the banking industry.

Sector summary: Level of trust in banking industry Q4 2020
The economic climate remained a key barrier (36%) but somewhat lower than in Q2 (47%) and was mentioned less than the impact of the pandemic as a key barrier (51%) also lower than in Q2 (68%).

Concern around political uncertainty rose slightly to Q4 to 27%.

As the impact of Covid extends over time, reported growth in the last 12 months declined again to 16% in Q4 with little variation by size of SME (but just 3% in Hospitality). 6 in 10 reported a decline, three times the level reported in Q1 and Q2, with smaller SMEs and those in Hospitality the most likely to report this. There was also a drop in the proportion making any profit (70%), but an increased emphasis on improving profit margins (52% in 2020 v 39% in 2019).

The proportion planning to grow halved from 52% in 2019 to 24% in Q2 2020 and across all size bands, but showed an improvement in Q3 at 38%, and Q4 at 42%, with again less variation by size than seen in previous years. Ambition in Wholesale/Retail (58%) was almost back to 2019 levels (61%) and those in Health were also more ambitious than their peers (54% v 62% in 2019). Half of SMEs (47%) were planning any growth related activities and in Q4 46% reported having been innovative, up from 35% in 2019, including 60% in Hospitality.
Today's presentation

- The immediate impact of Covid 19
- The trading context
- Use of external funding and alternatives
- Demand for finance and outcome of applications
- Appetite for finance, past and future
Overall use of finance was 44% in Q4 2020, boosted by increased use of bank loans and grants

Annual time series: Currently using any external finance

After a period of overall stability, use of external finance increased in 2019 to 45% but then dropped to 30% in Q2 2020 and across all sizes. In Q3 and Q4, use of finance increased (to 44% overall), as the Government backed support schemes kicked in. Use of loans increased from 9% in 2019 to 16% in Q4 2020 and Grants to 14% from 1% in 2019.
The struggling sectors, Hospitality and Transport, saw a marked increase in use of finance in Q4 to above 2019 levels but there was no clear pattern overall.

Sector summary: Use of external finance over time

There is no clear pattern by sector over time – some sectors ended 2020 less likely to be using finance than in 2019, some were broadly in line with the previous year and some were ahead.
In Q4 2020, use of core finance was stable, while use of other forms of finance increased due to more use being made of grants.

Use of core finance dropped from 39% for 2019 as a whole to 25% in Q2 2020, but recovered somewhat in Q3 and Q4 to 31-32% due to higher use of loans. Use of ‘other’ forms of finance was boosted by more use being made of grants (14% in Q4).
There has been a marked increase in use of loans/commercial mortgages in H2 2020. Use of ‘other’ forms of finance was boosted by an increase in grants (from 4% to 14%).

Annual time series: Main forms of finance used

The proportion of SMEs using 2 or more forms of finance fell from 17% in 2019 to 11% in Q2 2020, but recovered by Q4 to 19%. Amongst those using any finance, the proportion using 2 or more forms was 43%, slightly higher than the 38% reported in Q2.

<table>
<thead>
<tr>
<th>Use of finance</th>
<th>2019</th>
<th>Q2 20</th>
<th>Q3 20</th>
<th>Q4 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>No finance</td>
<td>55%</td>
<td>70%</td>
<td>60%</td>
<td>56%</td>
</tr>
<tr>
<td>1 product</td>
<td>28%</td>
<td>19%</td>
<td>23%</td>
<td>25%</td>
</tr>
<tr>
<td>2 or more products</td>
<td>17%</td>
<td>11%</td>
<td>17%</td>
<td>19%</td>
</tr>
</tbody>
</table>
The proportion of SMEs using finance who were borrowing more than £25,000 in total has increased steadily over 2020 across all size bands.

Borrowing £25,000 or more—over time

Over the course of 2020, an increasing proportion of SMEs using any external finance reported borrowing more than £25,000. Those in the Hospitality sector were most likely to be borrowing £25k+ in Q4 (49%) followed by those in Agriculture (43%), both up from 1 in 4 in Q1 2020. Overall, 11% of all SMEs are borrowing more than £25,000, increasing by size of SME from 7% of those with 0 emps to 41% of those with 50-249 emps.
Half the SMEs using finance in Hospitality are borrowing more than £25k, compared to 1 in 6 in the Health and other Community sectors.

Sector summary: Borrowing £25,000 or more – over time

As with use of external finance, there is no consistent pattern by sector – those in Agriculture and Hospitality have seen a more marked increase in the proportion borrowing more than £25,000 but most sectors have seen some increase except those in Health and the Other Community sector.

In H2, 22% of all SMEs in Hospitality were borrowing more than £25,000, along with 19% in Agriculture. The least likely were those in Health and the other Community sector, both 7% (other sectors 9-16%).
The proportion of SMEs using finance who were concerned about their ability to repay doubled between Q1 and Q2 2020, but was somewhat lower in H2 2020.

Concerned about ability to repay finance over next 12 months – over time

<table>
<thead>
<tr>
<th></th>
<th>Q1 20</th>
<th>Q2 20</th>
<th>Q3 20</th>
<th>Q4 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>14%</td>
<td>29%</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>0 emps</td>
<td>14%</td>
<td>30%</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td>1-9 emps</td>
<td>15%</td>
<td>30%</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>10-49 emps</td>
<td>8%</td>
<td>27%</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>50-249 emps</td>
<td>4%</td>
<td>19%</td>
<td>11%</td>
<td>10%</td>
</tr>
</tbody>
</table>

SMEs using external finance remained more concerned in Q4 2020 than they had been in Q1, but less concerned than in Q2 when 3 in 10 were worried about repaying existing facilities. In Q4, 40% in the Hospitality sector were concerned about their ability to repay, compared to 10% in Property/Business Services and 15-27% of other sectors.
4 in 10 SMEs using finance in Hospitality are concerned about their ability to repay, while those in Agriculture and Wholesale/Retail are less concerned in Q4 than they were in Q1.

Sector summary: Concerned about ability to repay finance over next 12 months – over time

As with use of external finance, there is no consistent pattern by sector – those in Agriculture, Wholesale/Retail and the Other Community sector saw little change over the course of the year while those in Hospitality in particular saw some big increases.

In H2 2020, 19% of all SMEs in Hospitality and 18% of all SMEs in Transport were worried about their ability to repay the finance they had, compared to 7-10% in other sectors.
In Q4 there were more SMEs using external finance than meeting the definition of a PNB, as potential future appetite for finance increased from Q2, reducing the proportion of PNBs.

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

The ‘Permanent non-borrowers’ are not using external finance and show no inclination to do so. There were fewer PNBs in 2019 and more SMEs using finance, closing the ‘gap’ previously seen between the two groups, and whilst this opened again in Q1 and Q2 2020 as use of finance fell, it closed again in Q3 and in Q4, more SMEs were using finance than met the definition of a PNB.
The relationship between PNBs and users of finance varied by size of SME. In Q4 no SMEs were more likely to be a PNB than use finance.

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

Q15 all SMEs Q4 2020 867/1486/1255/644
All sectors except Health, are more likely to be using finance in Q4 2020 than to meet the definition of a PNB

Sector summary: Use finance and PNBs Q4 2020

<table>
<thead>
<tr>
<th>Sector</th>
<th>Use finance</th>
<th>PNB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agric</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td>Mfg</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>Constr</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>While/Retail</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>Hotel/Rest</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Trans</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Prop/Bus Serv</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Other Comm</td>
<td>42%</td>
<td></td>
</tr>
</tbody>
</table>

Those in Property/Business Services remained more likely to be a PNB, along with the Health sector, which was the only sector as likely to be a PNB as to be using finance.
Attitudes to finance
SMEs are still being cautious, and self-reliant, but 3 in 10 can be described as “Ambitious risk takers”

All attitudes to finance over time- % agree

In 2020 there has been a small but steady increase in the proportion planning based on what they can afford and willing to grow more slowly rather than borrow, and a more marked increase in the proportion being cautious because the future feels uncertain. The proportion of SMEs that agree that they are prepared to take risks and want to significantly bigger was 29% in H2 2020, up slightly from a quarter in H2 2019 2019– the “Ambitious risk takers”
As growth aspirations increased somewhat in H2 2020, so too did the proportion happy to borrow to grow

Annual time series: Happy to borrow to grow

The proportion of SMEs happy to borrow to grow has improved somewhat and across all size bands. In Q4, 48% of those in Wholesale/Retail were happy to borrow to grow, up from 36% in 2019, compared to 29% of those in Health (unchanged from 27% in 2019) and 33-41% in other sectors.
All sectors, except Manufacturing, were happier to borrow to grow in H2 2020 than in 2019, notably those in Wholesale/Retail.

Sector summary: Happy to borrow to grow, over time

Half of those in Wholesale/Retail are happy to borrow to grow, compared to a third of most other sectors (4 in 10 in Agriculture)
During 2020, there was a decline in the group “not using and not willing to borrow to grow”, and no further decline in those willing to borrow to grow

Annual time series—use of, and appetite for, external finance

Previous analysis has shown that using finance is a good predictor of applying for more. The previous increase in use of finance in 2019 saw more SMEs in the “using finance but not willing to borrow to grow” group (28%) which then declined in size as use of finance declined in 2020. When use of finance increased again in the second half of 2020, there was some increase in those also willing to borrow to grow to 21%.
Smaller SMEs have become more likely to meet the definition of an Ambitious risk taker, the largest SMEs somewhat less likely

Ambitious risk takers, over time

In challenging trading conditions, more smaller SMEs have met the definition of an Ambitious risk taker – an SMEs that wants to be significantly bigger and is prepared to take risks to be successful. Those in Wholesale/Retail (37%) and the Other Community sector (36%) were the most likely to meet the definition of an Ambitious risk taker, both higher than in 2019.
Most sectors, except Manufacturing and Construction, were slightly more likely to meet the definition of an Ambitious risk taker in H2 2020.

Sector summary: Ambitious risk takers, over time

<table>
<thead>
<tr>
<th>Sector</th>
<th>H1 20</th>
<th>H2 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agric</td>
<td>22%</td>
<td>28%</td>
</tr>
<tr>
<td>Mfg</td>
<td>27%</td>
<td>29%</td>
</tr>
<tr>
<td>Constr</td>
<td>26%</td>
<td>37%</td>
</tr>
<tr>
<td>Whle/Retail</td>
<td>22%</td>
<td>25%</td>
</tr>
<tr>
<td>Hotel/Rest</td>
<td>20%</td>
<td>22%</td>
</tr>
<tr>
<td>Trans</td>
<td>30%</td>
<td>24%</td>
</tr>
<tr>
<td>Prop/Bus Serv</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Health</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>Other Comm</td>
<td>29%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Those in Wholesale/Retail (37%) and the Other Community sector (36%) were the most likely to meet the definition of an Ambitious risk taker, both higher than in 2019.
In a new statement, 3 in 10 SMEs are worried about whether they have enough funding in place for their business, declining by size of SME.

NEW Q4: Agree that worried will have enough funding in place to fund the business in next 6 months

Those already using external finance were more concerned about whether they had enough funding in place (38%) than those who are not currently using external funding (23%). Levels of concern for both groups declined by size of SME. Concern was highest in the Hospitality and Transport sectors plus the Other Community sector, and notably for those who were already using external finance.
Half of the Hospitality and Transport sectors currently using finance are worried about whether they have enough funding in place.

NEW Q4: Agree that worried will have enough funding in place to fund the business going forward.

Concern was highest in the Hospitality and Transport sectors plus the Other Community sector, and notably for those who were already using external finance. There was no difference in levels of concern amongst SMEs in Agriculture by whether they were using finance or not.
Alternative sources of funding
Use of any business funding has increased since Q1 2020. For 2020 as a whole 68% were using business funding, in line with 2019.

Use of business funding (any) Over time

Use of any “Business Funding” dipped in Q1 and Q2 when use of external finance was lower. In Q3 and Q4 use of external finance increased and so too did the proportion neither using finance nor trade credit but reporting an injection of personal funds.
Larger SMEs remained more likely to be using external finance and trade credit, while smaller SMEs were more likely to have seen an injection of personal funds.

Use of business funding (any) Q4 2020

- **74% use business funding**

  - **44%**
    - Personal funds: **13%**
    - Trade credit: **17%**
    - External finance: **16%**

  - **17%**
    - Personal funds: **17%**
    - Trade credit: **55%**
    - External finance: **39%**

  - **13%**
    - Personal funds: **7%**
    - Trade credit: **19%**
    - External finance: **55%**

  - **87%**
    - Personal funds: **21%**
    - Trade credit: **65%**
    - External finance: **1%**

  - **81%**
    - Personal funds: **27%**
    - Trade credit: **53%**
    - External finance: **1%**

---

<table>
<thead>
<tr>
<th>Business funding</th>
<th>0 emps</th>
<th>1-9</th>
<th>10-49</th>
<th>50-249</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>67%</td>
<td>77%</td>
<td>84%</td>
<td>91%</td>
</tr>
<tr>
<td>2020</td>
<td>64%</td>
<td>78%</td>
<td>86%</td>
<td>87%</td>
</tr>
</tbody>
</table>
Use of any business funding was boosted by trade credit for those in Wholesale/Retail and they were the most likely to be using any business funding.

87% of SMEs in Wholesale/Retail were using Business Funding, with more use being made of Trade Credit. By comparison, just two thirds in Property/Business Services were using Business Funding.
4 in 10 SMEs had injected personal funds, back to levels seen in 2013, but with more SMEs feeling that they *had* to inject the funds rather than choosing to.

Time series: Injections of personal funds in previous 12 months

- **Any injection of funds**
  - 2012: 43%
  - 2013: 38%
  - 2014: 29%
  - 2015: 27%
  - 2016: 28%
  - 2017: 29%
  - 2018: 29%
  - 2019: 24%
  - Q1 20: 24%
  - Q2 20: 29%
  - Q3 20: 29%
  - Q4 20: 38%

- **Felt had to inject funds**
  - 2012: 25%
  - 2013: 20%
  - 2014: 15%
  - 2015: 20%
  - 2016: 17%
  - 2017: 13%
  - 2018: 13%
  - 2019: 12%
  - Q1 20: 12%
  - Q2 20: 18%
  - Q3 20: 23%
  - Q4 20: 25%

- **Chose to inject funds**
  - 2012: 17%
  - 2013: 19%
  - 2014: 14%
  - 2015: 13%
  - 2016: 11%
  - 2017: 13%
  - 2018: 13%
  - 2019: 13%
  - Q1 20: 11%
  - Q2 20: 13%
  - Q3 20: 15%
  - Q4 20: 13%

**Injections of personal funds Q4 2020:**
- By **size**, 41% with 0 employees and 35% with 1-9 employees (both up from a quarter in Q2), decreasing by size to 21% with 50-249 employees.
- By **sector** more likely in Hospitality (49%) and Other Community (45%) Transport or Wholesale/Retail (both 44%), compared to 27% in Agriculture and 30-37% elsewhere.
The proportion with £10,000 or more in credit balances increased to a third in Q4, with all except the largest SMEs more likely to be holding such sums than previously seen.

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

Holding £10k+ of credit balances Q4 2020:
- By size, from 24% 0 employee SMEs to 93% with 50-249 employees
- By sector from 49% in Wholesale/Retail and 46% in Hospitality to 23% in the Other Community sector and 26% in Health
Use of any trade credit is stable overall. Larger SMEs have become somewhat more likely to be using trade credit in 2020, albeit with a drop in Q4

Annual time series: Using trade credit

Using trade credit Q4 2020:
• By size, from 3 in 10 of the 0 employee SMEs to two thirds with 10-49 or 50-249 employees
• By sector it was used much more by those in Wholesale/Retail (60%) and Manufacturing (58%), compared to a fifth in Health or the Other Community sector
Between 7 and 8 in 10 in most sectors use one or more of these additional forms of funding, with trade credit much more prevalent in certain sectors than others.

Sector summary: Alternative funding Q4 2020

Use of any of these alternative forms of funding varied from 64% in Property/Business Services to 87% in Wholesale/Retail with large variations in the use of trade credit in particular.
34% of all SMEs said their need for finance was reduced by either the £10,000+ of credit balances they held or by trade credit, increasing by size of SME and little changed from Q3.

1 in 3 SMEs that either received trade credit and/or held £10,000 of credit balances said that this reduced their need for external finance and this is little changed over time (34% for 2019). SMEs in Wholesale/Retail (50%) and Manufacturing (42%) were the most likely to see their need for funding reduced.
SMEs in Wholesale/Retail were the most likely to say their need for finance was reduced by either the £10,000+ of credit balances or trade credit.

The equivalent of a third of SMEs said their need for finance was reduced, little changed over time. Those in Hospitality have become somewhat less likely to say their need for finance has been reduced, as have those in Agriculture, Transport and Health.

Q84 Base: All SMEs H2 2020 551/833/1437/938/626/921/1842/633/971
The potential financial impact of the pandemic
Those in the Hospitality and Transport sectors are more likely to be feeling the potential negative impact of the pandemic, larger SMEs less likely to be impacted

Potential negative finance summary score (100%+ = above average potential negative impact)

All SMEs: Total score of use finance / use £25k+/ worried ability to repay / worried have enough finance / No trade credit / no £10k+ Credit balances indexed against overall score for that quarter. Base score 241 in Q4
There was less variation by region - SMEs in Wales were more likely to be using £25k+ in finance and, with those in the North West, less likely to have £10k in credit balances.

Potential negative finance summary score (100%+ = above average potential negative impact)

<table>
<thead>
<tr>
<th>Region</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>99%</td>
</tr>
<tr>
<td>Scotland</td>
<td>98%</td>
</tr>
<tr>
<td>Wales</td>
<td>112%</td>
</tr>
<tr>
<td>NI</td>
<td>92%</td>
</tr>
<tr>
<td>NE</td>
<td>98%</td>
</tr>
<tr>
<td>Y&amp;H</td>
<td>91%</td>
</tr>
<tr>
<td>NW</td>
<td>107%</td>
</tr>
<tr>
<td>W Mids</td>
<td>98%</td>
</tr>
<tr>
<td>E Mids</td>
<td>102%</td>
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<tr>
<td>East</td>
<td>97%</td>
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<tr>
<td>SW</td>
<td>97%</td>
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<tr>
<td>Lon</td>
<td>102%</td>
</tr>
<tr>
<td>SE</td>
<td>99%</td>
</tr>
</tbody>
</table>

All SMEs: Total score of use finance / use £25k+/ worried ability to repay / worried have enough finance / No trade credit / no £10k+ Credit balances indexed against overall score for that quarter. Base score 241 in Q4.
Use of external funding - Key findings

Use of external finance increased again to 44% in Q4 2020 (in line with the 45% using finance in 2019) with more use of loans and grants, and bigger increases for those sectors that are struggling. Over the course of 2020, more SMEs using any finance reported borrowing £25,000 or more (18% in Q1 to 28% in Q4) and concerns about ability to repay doubled Q1 to Q2 (14% to 29%) but was 24% of SMEs using finance by Q4. There were fewer PNBs (36%) as more SMEs used finance or met the definition of a Future would-be seeker of finance.

Attitudes to finance are broadly stable. After an increase in the proportion being cautious because the future felt uncertain (from 55% in 2019 to 77% in Q2) it was somewhat lower in H2 2020 (71%). 30% were worried they did not have enough funding in place for their business going forward, increasing to 38% if they were using external finance already with smaller SMEs, those in Hospitality, Transport or the Other Community sector the most concerned.

As use of external finance increased, so too did injections of personal funds (38% in Q4 v 24% in 2019) and particularly those where they felt they had to inject the funds (25% from 11% in 2019). Use of trade credit was stable while there was further increase in the proportion holding £10k+ in credit balances to 33% (from 23% in 2019). A stable 1 in 3 SMEs said that their need for finance was reduced either by trade credit or the £10k+ of credit balances they held.
Today’s presentation

The immediate impact of Covid 19

The trading context

Use of external funding and alternatives

Demand for finance and outcome of applications

Appetite for finance, past and future
Need for finance increased to 14% in Q3 2020, and across all sizes of SME. The largest SMEs reported a lower need for finance than in Q3, but still ahead of 2019.

Had a need for external funding (whether applied or not) – over time

In Q4, 14% of SMEs reported having had a need for finance in the previous 12 months. Whilst still a minority, this is more than 4 times the level seen in 2019, with an increase across all size bands.
In H2 2020 there was an increased need for funding across almost all sectors, notably in Hospitality and Transport, then Wholesale/Retail and Health.

Sector summary: Had a need for external funding (whether applied or not) – over time

Although still a minority of SMEs, most sectors saw an increased need for finance in H2 2020. Those in Agriculture saw no increase H1 to H2 but the level of need remained higher than in 2019.
In Q2-4 2020, there was a focus on funding for cash flow, more applications and a greater role for the main bank.

Behaviour in the 12 months prior to interview – 6% of all SMEs applied for finance as a result of a funding need.

**Reported a funding need 2018: 4%**
- To fund Cash flow: 42%
- To fund Bus Devlp: 58%
- Spoke to bank/advisor: 41%
- Spoke to main bank: 21%
- Considered applying: 67%
  - To main bank: 48%
- Applied: 63%
  - To main bank: 40%
  - Self funded element: 13%

**Reported a funding need 2019: 3%**
- To fund Cash flow: 49%
- To fund Bus Devlp: 58%
- Spoke to bank/advisor: 43%
- Spoke to main bank: 18%
- Considered applying: 63%
  - To main bank: 37%
- Applied: 57%
  - To main bank: 29%
  - Self funded element: 29%

**Reported a funding need Q2-4 20: 10%**
- To fund Cash flow*: 81%
- To fund Bus Devlp: 24%
- Spoke to bank/advisor: 55%
- Spoke to main bank: 38%
- Considered applying: 81%
  - To main bank: 67%
- Applied: 80%
  - To main bank: 65%
  - Self funded element: 12%

Base varies, those who took no action excluded after each stage. * from Q2 this includes “Coping with impact of Covid 19”
Analysis by **application period** showed a decline in overall success rate to the end of 2019, but an increasing success rate for applications made during 2020.

Global success rate: all applications reported from Q1 2018 to date, occurring in the 18 mth application periods shown.

There have been 1638 applications made in 2020 with a success rate of 86%.
By product, applications for loans and leasing/HP were the most likely to result in a facility, those for a credit card the least likely (but on a small base).

Product success rate: all applications Q319 to Q420 with a response

- All applications: 81%\(\text{Offered what wanted and took it}\), 15%\(\text{Offered but declined}\), 2%\(\text{No facility}\)
- Bank overdraft: 71%\(\text{Offered what wanted and took it}\), 23%\(\text{Offered but declined}\), 1%\(\text{No facility}\)
- Bank Loan: 83%\(\text{Offered what wanted and took it}\), 13%\(\text{Offered but declined}\), 3%\(\text{No facility}\)
- Leasing/HP: 86%\(\text{Offered what wanted and took it}\), 9%\(\text{Offered but declined}\), 9%\(\text{No facility}\)
- Credit cards: 52%\(\text{Offered what wanted and took it}\), 3%\(\text{Offered but declined}\), 7%\(\text{No facility}\)
- Commercial Mortgage: 70%\(\text{Offered what wanted and took it}\), 8%\(\text{Offered but declined}\), 15%\(\text{No facility}\)
Success rates for bank loans have increased markedly for more recent applications, those for overdrafts are broadly stable and now lower than for bank loans.

Success rates for key products

<table>
<thead>
<tr>
<th>Product</th>
<th>Q117-Q218</th>
<th>Q118-Q219</th>
<th>Q119-Q220</th>
<th>Q319-Q420</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Overdraft</td>
<td>77%</td>
<td>77%</td>
<td>76%</td>
<td>74%</td>
</tr>
<tr>
<td>Bank Loan</td>
<td>65%</td>
<td>61%</td>
<td>80%</td>
<td>85%</td>
</tr>
<tr>
<td>Leasing HP</td>
<td>99%</td>
<td>95%</td>
<td>88%</td>
<td>87%</td>
</tr>
</tbody>
</table>

Around three quarters of applications for bank overdrafts were successful. Success rates for loans initially dipped but recent applications have been much more likely to be successful, moving them ahead of bank overdrafts and boosting the overall success rates.
Pandemic related funding
By Q4 2020, 9 in 10 SMEs were aware of one or other of the two main Government backed loan schemes

Awareness of BBL and CBL– over time

Aware of BBLs
- Q2 2020: 65%
- Q3 2020: 81%
- Q4 2020: 85%

Aware of CBILs
- Q2 2020: 75%
- Q3 2020: 78%
- Q4 2020: 83%

Aware of either
- Q2 2020: 65%
- Q3 2020: 81%
- Q4 2020: 85%

Awareness of the new loan schemes was initially high compared to other initiatives and increased further over time:

<table>
<thead>
<tr>
<th>Aware of either</th>
<th>0 emps</th>
<th>1-9 emps</th>
<th>10-49 emps</th>
<th>50-249 emps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 2020*</td>
<td>79%</td>
<td>84%</td>
<td>85%</td>
<td>83%</td>
</tr>
<tr>
<td>Q3 2020</td>
<td>86%</td>
<td>91%</td>
<td>91%</td>
<td>88%</td>
</tr>
<tr>
<td>Q4 2020</td>
<td>89%</td>
<td>93%</td>
<td>93%</td>
<td>92%</td>
</tr>
</tbody>
</table>

In Q4 2020, awareness by sector ranged from 85% in the Agriculture and Other Community sectors to 93% in Hospitality.
A consistent quarter of SMEs had done something re funding in relation to Covid 19 – over time more of them had approached a provider for funding, typically the main bank.

Specific approaches re funding for pandemic impact lending – over time

Most SMEs approached their main bank for funding. The proportion making any approach increased from 14% in Q2 to 20% in Q3 and 23% in Q4 2020:

<table>
<thead>
<tr>
<th>Any approach</th>
<th>0 emps</th>
<th>1-9 emps</th>
<th>10-49 emps</th>
<th>50-249 emps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 2020*</td>
<td>12%</td>
<td>21%</td>
<td>27%</td>
<td>21%</td>
</tr>
<tr>
<td>Q3 2020</td>
<td>18%</td>
<td>26%</td>
<td>27%</td>
<td>23%</td>
</tr>
<tr>
<td>Q4 2020</td>
<td>20%</td>
<td>31%</td>
<td>30%</td>
<td>15%</td>
</tr>
</tbody>
</table>

In H2 2020, 13% of those who had not reported a borrowing event earlier went on to say they had approached a provider for Covid related funding. This would boost the proportion of all SMEs with any borrowing event to 29%.
4 in 10 SMEs in the Hospitality sector had approached a lender for pandemic related finance as had 3 in 10 in Transport and Wholesale/Retail

Sector summary: Pandemic impact lending – Any approach Q3 and Q4 2020

SMEs in the Hospitality, Transport and Wholesale/Retail sectors remained more likely to have made an approach for Covid related funding. Those in Health were less likely to have made an approach for finance in Q4.
Far fewer SMEs were awaiting a response from their bank than in Q2, and 9 in 10 of those who had received a response had been successful.

Result of approach to main bank:— over time

- Agreed a new facility: 54% (Q2 20), 81% (Q3 20), 87% (Q4 20)
- Agreed to restructure: 1%
- Offered but chose not to accept: 1%
- Declined by bank: 6% (Q2 20), 6% (Q3 20), 5% (Q4 20)
- Applied and waiting to hear: 27% (Q2 20), 5% (Q3 20), 4% (Q4 20)
- Not applied yet: 9% (Q2 20), 6% (Q3 20), 3% (Q4 20)

Of those who applied to their main bank and received a response:
- 95% were successful
- 98% said the funding was related to a Government backed scheme

A much smaller group had applied to another funding provider. Of those who had received a response Q2-4:
- 84% had been successful
- They were less likely to say that this was a Government backed scheme (66%). Amongst those who said it was, 88% had been successful.
35% of successful applicants said that most or all of the funds they received have been spent, down slightly from the 41% in Q3

How much of facility has been spent– all who were successful at main bank over time

Smaller SMEs were more likely to have spent most of the funds already:

<table>
<thead>
<tr>
<th>All/most spent</th>
<th>0 emps</th>
<th>1-9 emps</th>
<th>10-49 emps</th>
<th>50-249 emps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 2020</td>
<td>46%</td>
<td>35%</td>
<td>25%</td>
<td>21%</td>
</tr>
<tr>
<td>Q4 2020</td>
<td>35%</td>
<td>36%</td>
<td>23%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Whilst those in Hospitality have struggled more with the pandemic, and were more likely to have sought funding, 30% had spent all or most of the funding obtained (v 52% in the Other Community sector and 44% in Wholesale/Retail)
SMEs with funding in Health or Property/Business Services were somewhat less likely than other sectors to have spent all or most of the funding received

Sector summary: Spent all or most of funding received from main bank H2 2020

Whilst those in Hospitality have struggled more with the pandemic, and were more likely to have sought funding, they were no more likely than their peers to have spent all or most of the funding obtained
Two thirds of SMEs were aware of the changes to the repayments terms and most thought they would be helpful

Impact of changes to repayments - all who were successful at main bank Q4 2020

Aware of changes and will be helpful 53%

Aware of changes but won’t make a difference 14%

Not aware but sound helpful 25%

Not aware and don’t think will help 8%

Smaller SMEs were slightly less likely to be aware of the changes but there was no difference in the proportion thinking they would be useful:

<table>
<thead>
<tr>
<th></th>
<th>0-9 emps</th>
<th>10-49 emps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aware</td>
<td>66%</td>
<td>75%</td>
</tr>
<tr>
<td>Useful</td>
<td>78%</td>
<td>75%</td>
</tr>
</tbody>
</table>
Almost all SMEs were aware of BBLs and/or CBILS (90% in Q4) and 23% had made an approach to a lender for pandemic related funding, typically to the main bank (21%) where 95% of applications had been successful and almost all (98%) said they were borrowing via a Government backed scheme. A third had spent all or most of the funds they had received from their main bank, with smaller SMEs more likely to have done so. The much smaller group applying to another provider were less likely to have been successful (although 84% were Q2-4) but also less likely to say it was Government backed borrowing (66%).

14% of SMEs in Q4 reported a need for funding in the previous 12 months (up from 3% in 2019), which almost all acted on. Compared to 2019, the need was much more related to cash flow (81% v 49% in 2019) than business development (24% v 58% in 2019) and there was more consideration of, and then applications to, the main bank (65% v 29% in 2019).

83% of all applications made from Q3 2019 to date were successful, up from 71% in the 18 months to Q4 2019. New borrowing in 2020 was more likely to have been successful and success rates for bank loans increased from 60% Q318-Q419 to 85% Q319-Q420, moving them ahead of bank overdrafts where success rates were more stable (74% in the current period).
Today’s presentation

- The immediate impact of Covid 19
- The trading context
- Use of external funding and alternatives
- Demand for finance and outcome of applications
- Appetite for finance
There has been a steady increase in past events during 2020. Looking forward, the increase in Future would-be seekers in Q2 has been maintained in Q3 and Q4.

Annual time series: Borrowing profile past and future

Looking back over the past 12 months, most SMEs have been “Happy non-seekers” of finance, as they have in previous years, but that proportion has declined back to 2013 levels. Looking forward, from Q2 2020 more SMEs shown an appetite for finance and in particular expect to be a “Future would-be seeker” of finance, than has typically been the case.

Past & Base: All SMEs Q4 2020 4252

Future plans

Past & Base: All SMEs Q4 2020 4252
SMEs with 1-9 or 10-49 emps were more likely to report a past borrowing event. A quarter of those with 0 or 1-9 emps expected to be Future would-be seekers of finance.

Borrowing profile past and future by size of SME Q4

<table>
<thead>
<tr>
<th>Past events</th>
<th>Future plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Had any event</td>
<td>Would be seekers</td>
</tr>
<tr>
<td>All 0 emps</td>
<td>All 0 emps</td>
</tr>
<tr>
<td>19%</td>
<td>14%</td>
</tr>
<tr>
<td>3%</td>
<td>25%</td>
</tr>
<tr>
<td>77%</td>
<td>60%</td>
</tr>
<tr>
<td>All 1-9 emps</td>
<td>All 1-9 emps</td>
</tr>
<tr>
<td>18%</td>
<td>14%</td>
</tr>
<tr>
<td>4%</td>
<td>26%</td>
</tr>
<tr>
<td>79%</td>
<td>60%</td>
</tr>
<tr>
<td>All 10-49 emps</td>
<td>All 10-49 emps</td>
</tr>
<tr>
<td>25%</td>
<td>17%</td>
</tr>
<tr>
<td>3%</td>
<td>24%</td>
</tr>
<tr>
<td>72%</td>
<td>59%</td>
</tr>
<tr>
<td>All 50-249 emps</td>
<td>All 50-249 emps</td>
</tr>
<tr>
<td>27%</td>
<td>17%</td>
</tr>
<tr>
<td>1%</td>
<td>19%</td>
</tr>
<tr>
<td>72%</td>
<td>65%</td>
</tr>
<tr>
<td>All 50-249 emps</td>
<td>All 50-249 emps</td>
</tr>
<tr>
<td>12%</td>
<td>17%</td>
</tr>
<tr>
<td>1%</td>
<td>19%</td>
</tr>
<tr>
<td>87%</td>
<td>79%</td>
</tr>
</tbody>
</table>
Hospitality and Transport were the most likely to have had a borrowing event and also more likely than their peers to have a future appetite for finance, with the Other Community sector.

Borrowing profile past and future by sector Q4

All sectors showed a higher future appetite for finance in Q4 2020 than past appetite, with many more Future would-be seekers than seen in the past year, notably in Hospitality, Construction and the Other Community sectors.
Past Would-be seekers cited the process of borrowing as the main barrier. Looking forward, FWBS mainly mention the current climate as a barrier.

**Main reason for not seeking borrowing** – All “Would-be seekers” 2020 and Q4 2020

- **Discouraged**: had asked informally but felt put off, or assumed would be turned down
- **Process**: think it’s too expensive, too much hassle, needs security
- **Principle**: prefer not to lose control, or can get funds elsewhere: no longer includes “prefer not to borrow”
- **Climate**: felt it was not the right time to borrow in the current economic climate

**2% of SMEs were “Would be seekers” of finance**

- 29% (24% indirect v 6% direct)
- 46%
- 28%
- 11%

**25% of SMEs were “Future would be seekers” of finance**

- 4% (4% indirect v <1% direct)
- 8%
- 6%
- 76% (62% economic climate, 15% performance)
‘Reluctance to borrow now’ remained the key barrier for future applications

Annual time series: Main reason for not seeking borrowing amongst future “would-be seekers”

A ‘reluctance to borrow now’ was the main barrier for 76% of FWBS in Q4 2020 somewhat higher than the 50% in 2017 and 63% in 2019, albeit down slightly from 82% in Q2 2020. It remained ahead of discouragement which has been mentioned slightly less over time (22% in 2017 to 12% in 2019 and 4% in Q4 2020) as more people focussed on the economic climate.
After a period of stability 2018-19, confidence declined in Q2 2020 and has been stable at this level since. Happy non-seekers of finance remained the most confident of success.

Annual time series: Confidence (very/fairly) bank would agree to facility next 3 months – by appetite for finance

Those planning to apply, whether to their bank or elsewhere, have seen a decline in confidence since 2019 which is at odds with the improving success rates for applications. Confidence amongst Future would-be seekers has been more stable and so is now in line with those planning to apply.
Amongst those with plans to apply (to the bank or elsewhere), confidence of success remained stable at 4 in 10 albeit lower than the 54-56% in 2019 and now in line with Future would-be seekers (41% unchanged from 40% in 2019). Appetite had been strongest amongst those with 1-9 or 10-49 employees and those in Hospitality.

Looking more broadly, past appetite for finance has improved somewhat over the course of 2020 and by Q4, 19% reported a borrowing event, 3% had been a Would-be seeker and 77% a Happy non-seeker of finance, compared to the equivalent figures of 13%, 1% and 85% in 2019. Appetite had been strongest amongst those with 1-9 or 10-49 employees and those in Hospitality.

Looking forward, appetite for finance increased in Q2 and remained higher in H2 2020, with a sharp increase in the number of Future would-be seekers (23% in Q4 v 11% in 2019) as well as a smaller increase in those planning to apply (16% v 11% in 2019). 3 in 4 Future would-be seekers cited the economic climate as the main barrier to an application, compared to the process of borrowing which was the main barrier to a past application, followed by discouragement and the principle of borrowing.

Amongst those with plans to apply (to the bank or elsewhere), confidence of success remained stable at 4 in 10 albeit lower than the 54-56% in 2019 and now in line with Future would-be seekers (41% unchanged from 40% in 2019). Overall confidence amongst all SMEs (irrespective of plans) was stable Q2 to Q4 2020 (48-52%) but lower than in 2019 (59%) – Happy non-seekers remained the most confident (53%) but this was also lower than in 2019 (63%).
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- Adherence to the standard is independently audited once per year.
- Where subcontractors are used by BDRC, they are assessed to ensure any outsourced parts of the research are conducted in adherence to ISO 20252 and 27001.

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