



# Investment & Financing: The Challenges Facing Small And Mid-Sized Companies In The UK

*Summary of findings from the Numis - London Stock Exchange survey of Numis Smaller Companies Index (NSCI) constituents*

December 2012

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# Summary Of Findings

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- Views of the current state of the economy are mixed – although more than half of respondents (56%) have a negative view, more than two-fifths (44%) have a neutral or positive view, suggesting that companies are adapting to the ‘new normal’ in the economy.
- In terms of the direction the economy is moving in, the dominant view, held by almost two-thirds of respondents (64%), is that it is moving in neither the right nor the wrong direction; there is a feeling that we are treading water, or ‘bumping along the bottom’.
- However, there is a sense that some confidence is now returning – or at least an acceptance that the external environment is unlikely to change dramatically any time soon. Almost half of respondents (46%) say that their company has invested more over the past 12 months compared to earlier periods, with larger companies (those with a market cap of more than £50m) leading the way (58% say they have invested more). Looking ahead to the next 12 months, almost nine in ten respondents (86%) expect their company’s investment to be the same as this year or higher.
- Despite this, some companies are still suffering, and it appears that it is the smaller companies (those with a market cap of £50m or less) that are feeling the most pain. Approximately half of all respondents report that the current economic situation is having a significant impact on their company’s ability to invest for future growth (49%) and to access financing (52%) – but this rises to 61% and 59% respectively among smaller firms.

## Summary Of Findings (Cont.)

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- Six in ten respondents (58%) report that their company has sought access to external financing in the past 12 months. Amongst these firms who have sought financing, this is generally for 'positive' reasons such as new investment (41%) and acquisitions (22%), as opposed to being for capital structure reasons such as refinancing (14%) or debt repayment (1%).
- The outlook for the next 12 months is somewhat mixed. Although respondents are more likely to expect their ability to access finance will become easier (27%) rather than more difficult (13%) during the next year, six in ten (60%) expect it to remain the same.
- However, again it appears to be smaller firms who are struggling most to access finance, with 11% of smaller firms (market cap of £50m or less) citing impediments/obstacles as the primary reason for not accessing financing. This is not raised as an issue for larger firms, who point to having sufficient internal resources already as being the key reason for not accessing financing.
- It is also smaller firms for whom the ability to raise finance has the greatest impact on their business activity – 82% of smaller firms (market cap of £50m or less) report that their ability to access finance will have an impact on their general investment levels, and 73% say it will impact on job creation; this drops to 62% and 39% respectively amongst larger firms (market cap of more than £50m).
- Results show that smaller companies are most likely to have to look to foreign or private sources to obtain finance and are also most likely to support the creation of a government-sponsored agency to address financing issues.
- In terms of alternative sources of finance, there is broad support for retail investment in small/mid cap companies; 81% of respondents agree that the Government should encourage this.

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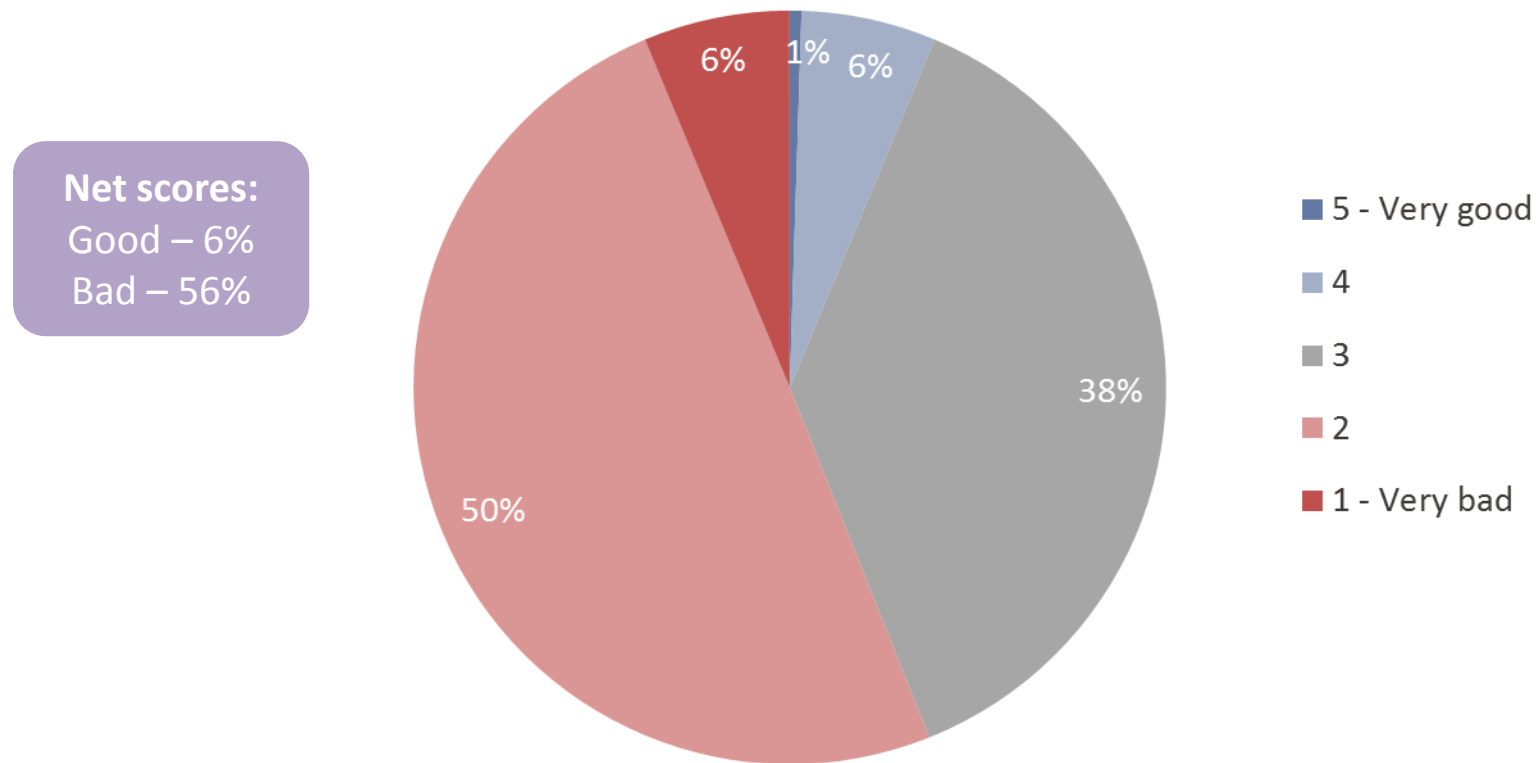
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## Current Economic Situation

# Current Economic Situation

There is still widespread negativity towards the state of the UK economy, with more than half of respondents (56%) rating the current state of the UK economy as 'bad' or 'very bad'; just 6% rate the economy as 'good' or 'very good'.

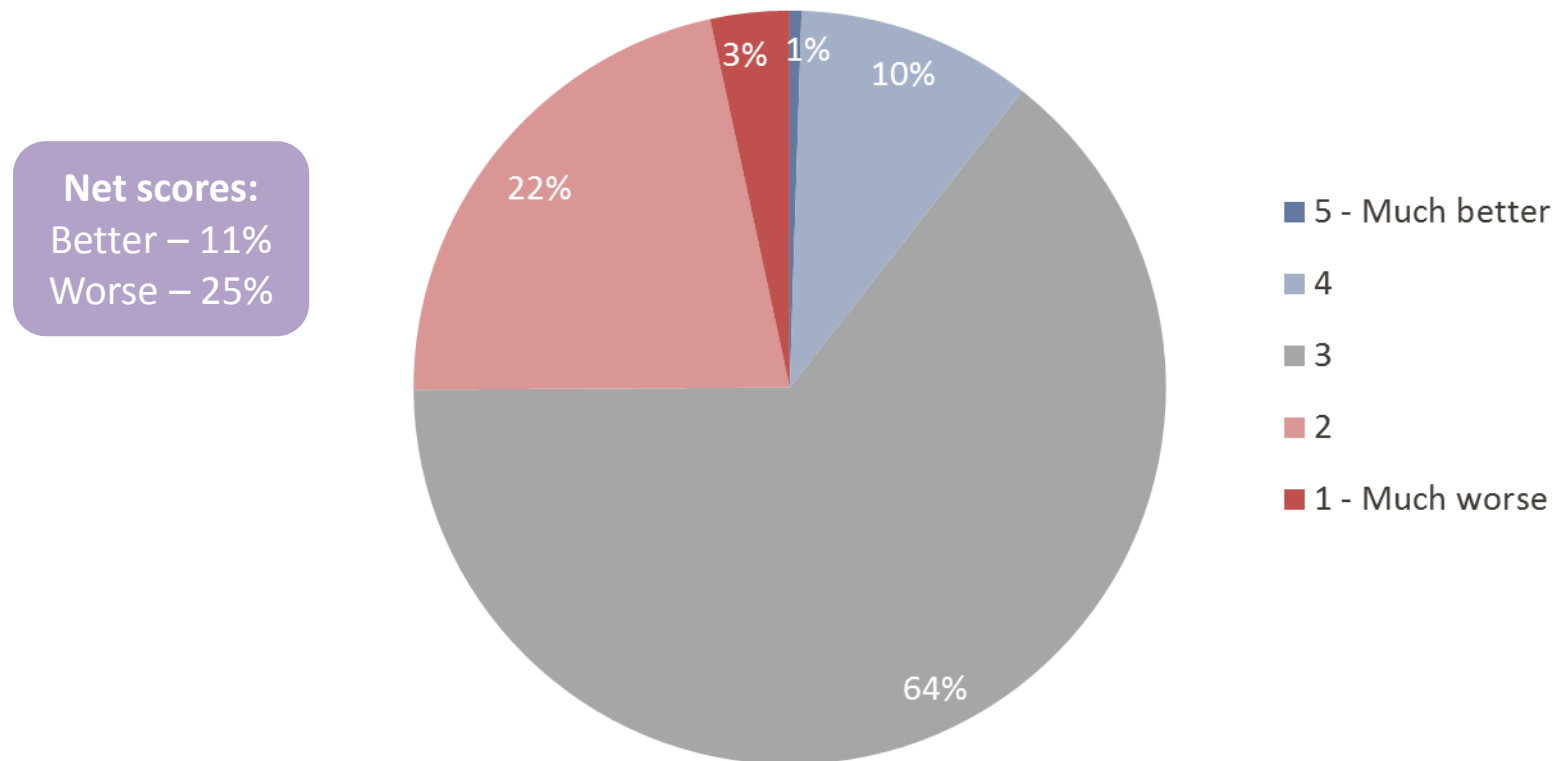


*Q. How would you rate the current economic situation in the UK on a scale of 1-5, where 1 means you think it is very bad and 5 means you think it is very good?*

Base: All answering (207)

## Change In Economic Situation Over Past Year

In terms of economic change over the past year, almost two-thirds of respondents (64%) feel that there has been no change. A quarter (25%) feel that the economic situation has worsened over the last 12 months, with just 11% saying that it has improved.



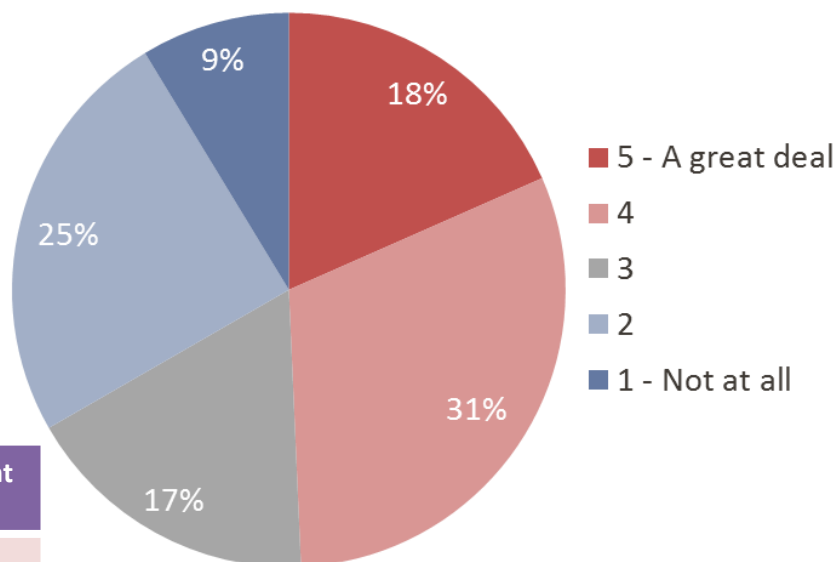
*Q. How would you rate the change over the past year in the economic situation in the UK on a scale of 1-5, where 1 means you think it has become much worse and 5 means you think it has become much better?*

Base: All answering (207)

# Impact Of Economic Situation

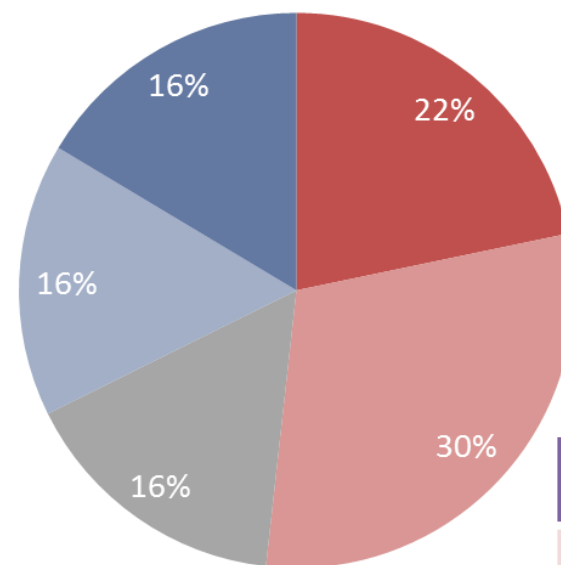
Approximately half of respondents report that the current economic situation is having a significant impact on their company's ability to invest for future growth (49%) and to access financing (52%). Smaller companies – those with a market cap of £50m or lower – are most likely to feel an impact in these areas.

**Invest for future growth**



Market cap (£m)	% Significant impact
0-10	63%
11-50	60%
51-200	29%
201+	24%

**Access financing**



Market cap (£m)	% Significant impact
0-10	58%
11-50	60%
51-200	41%
201+	35%

Q. On a scale of 1-5, where 1 means not at all and 5 means a great deal, how does the current economic situation impact your company's ability to: a) Invest for future growth? b) Access financing?

Base: All answering (207)

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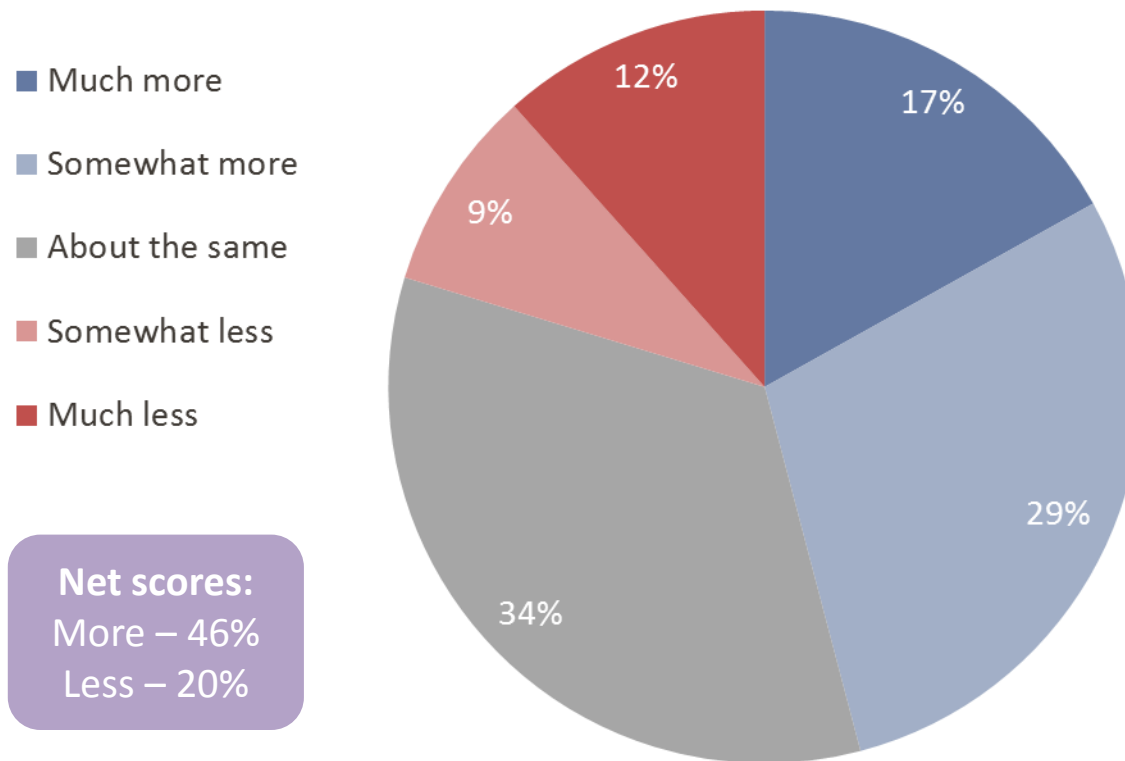


Investment



# Investment Over Past 12 Months

Confidence to invest appears to be returning, albeit slowly; almost half (46%) of respondents say that their company has invested more over the last 12 months, compared to earlier periods. Three in ten (34%) say that their company has invested about the same amount as in earlier periods, while two in ten (20%) say their company has invested less.



*It is larger companies (with a market cap of more than £50m) that are most likely to report that they have been investing more over the past 12 months*

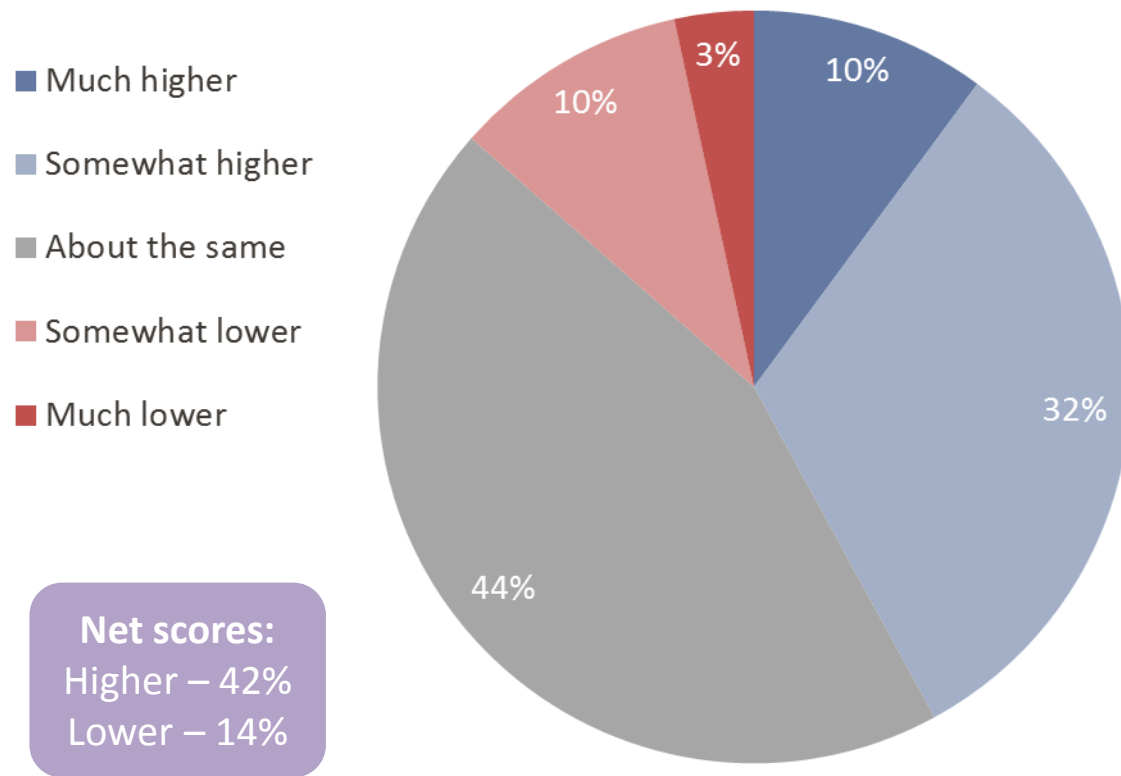
Market cap (£m)	% Investing more
0-10	32%
11-50	46%
51-200	56%
201+	60%

Q. Over the last 12 months, compared to earlier periods (including pre-financial crisis, if applicable), is your company investing...? [Investment activity defined broadly, to include property, premises, plant and equipment, R&D, IT, branding, intangibles, acquisitions and other investments]

Base: All answering (207)

# Investment Over Next 12 Months

Looking ahead to the next 12 months, 44% of respondents expect their company's investment to be about the same, while 42% expect it to be higher. Just 14% think that their company's investment will be lower next year.



*Some differences stand out by sector here, with those in the basic materials and healthcare sectors most likely to say they expect their investment to be higher in the next 12 months*

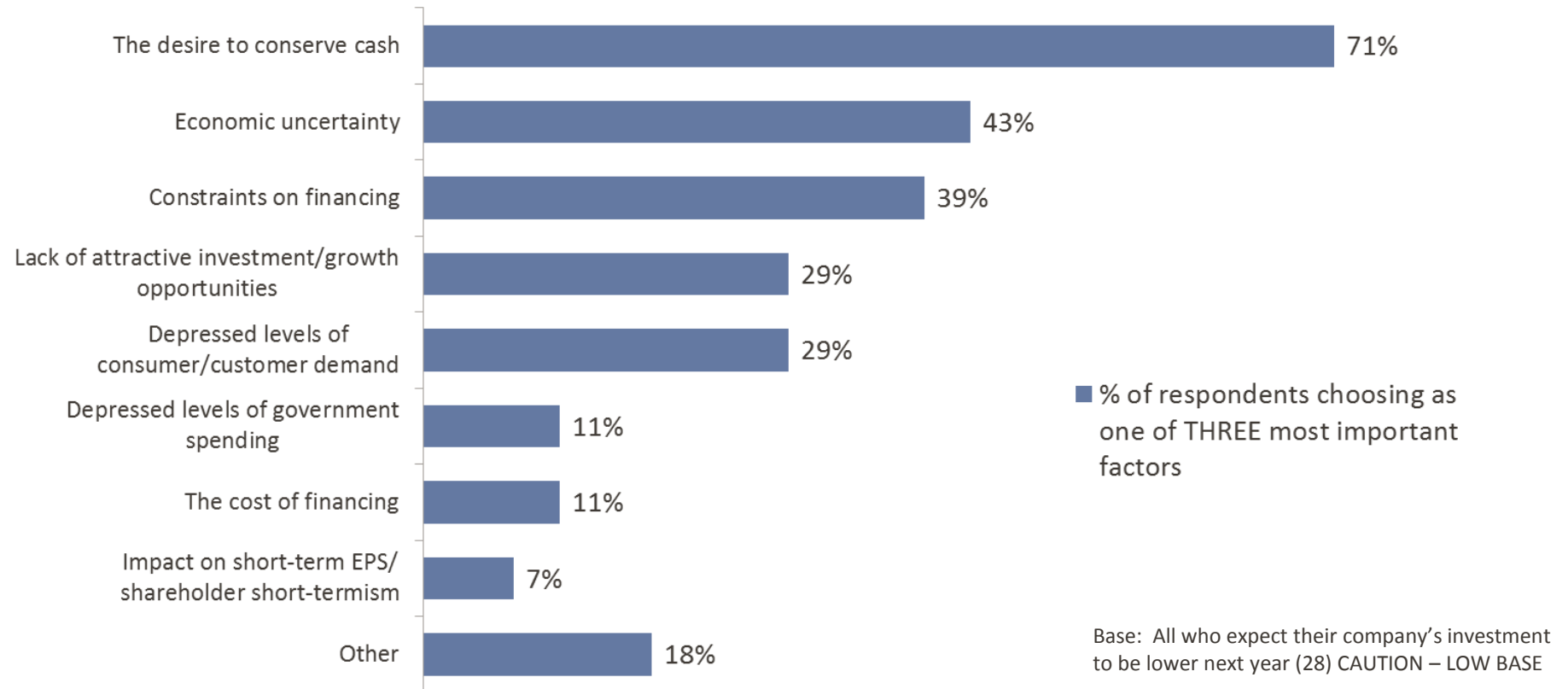
Sector	% Higher investment
Basic Materials	62%
Healthcare	60%
Technology	48%
Consumer Services	41%
Industrials	40%
Financials	31%
Oil & Gas	24%

Base: All answering (207)

*Q. Looking ahead to the next 12 months, compared to this year, do you expect your company's investment to be...? [Investment activity defined broadly, to include property, premises, plant and equipment, R&D, IT, branding, intangibles, acquisitions and other investments]*

# Reasons For Lower Investment

Amongst those who expect their company's investment to be lower next year, the desire to conserve cash stands out as the most important reason contributing to this, followed by economic uncertainty and constraints on financing.



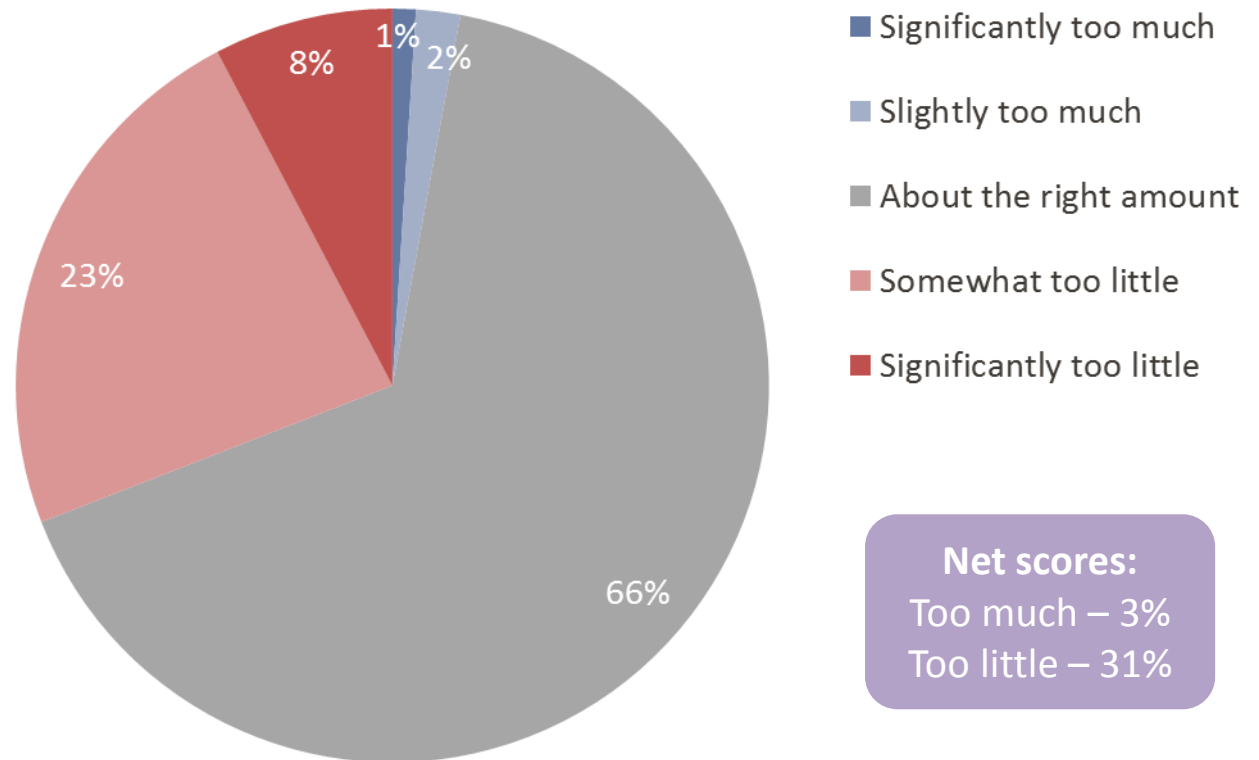
*Q. You answered that you expect your company's investment to be lower next year. Please indicate the three most important factors that are contributing to this. [Investment activity defined broadly, to include property, premises, plant and equipment, R&D, IT, branding, intangibles, acquisitions and other investments]*

# Investment For Future Growth

In terms of future growth, two-thirds (66%) of respondents feel that their company is investing the right amount. 31% think that their company is investing too little, and only 3% think it is investing too much.

*Respondents from smaller companies (with a market cap of £50m or lower) are most likely to report that their firm has been investing too little over the past 12 months*

Market cap (£m)	% Investing too little
0-10	34%
11-50	39%
51-200	15%
201+	24%



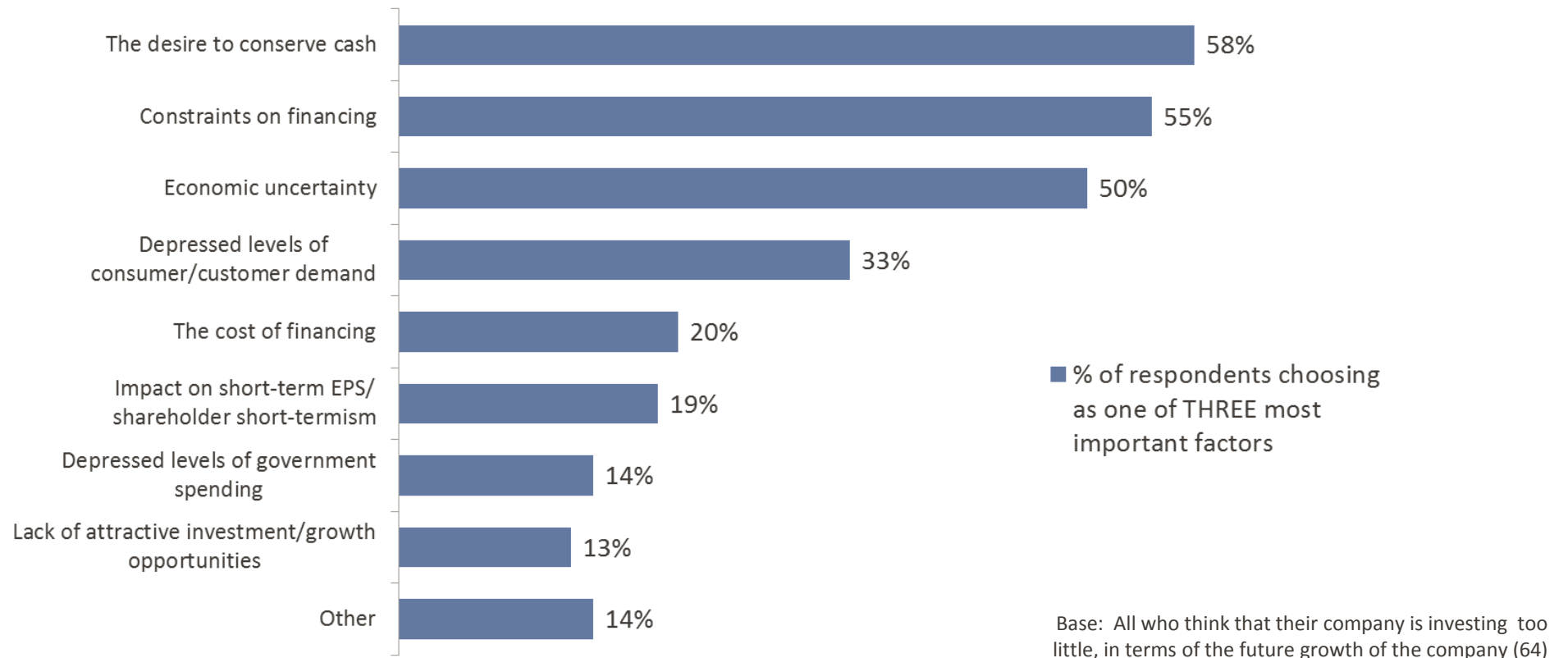
**Net scores:**  
Too much – 3%  
Too little – 31%

Base: All answering (207)

Q. In terms of the future growth of your company, do you believe your company is investing...?

# Reasons For Under-investment For Future Growth

Amongst those who think their company is investing too little, in terms of future growth, the desire to conserve cash, constraints on financing and economic uncertainty stand out as the main reasons for this.



*Q. You answered that you believe your company's investment is too little, in terms of future growth. Please indicate the three most important factors that are contributing to this.*

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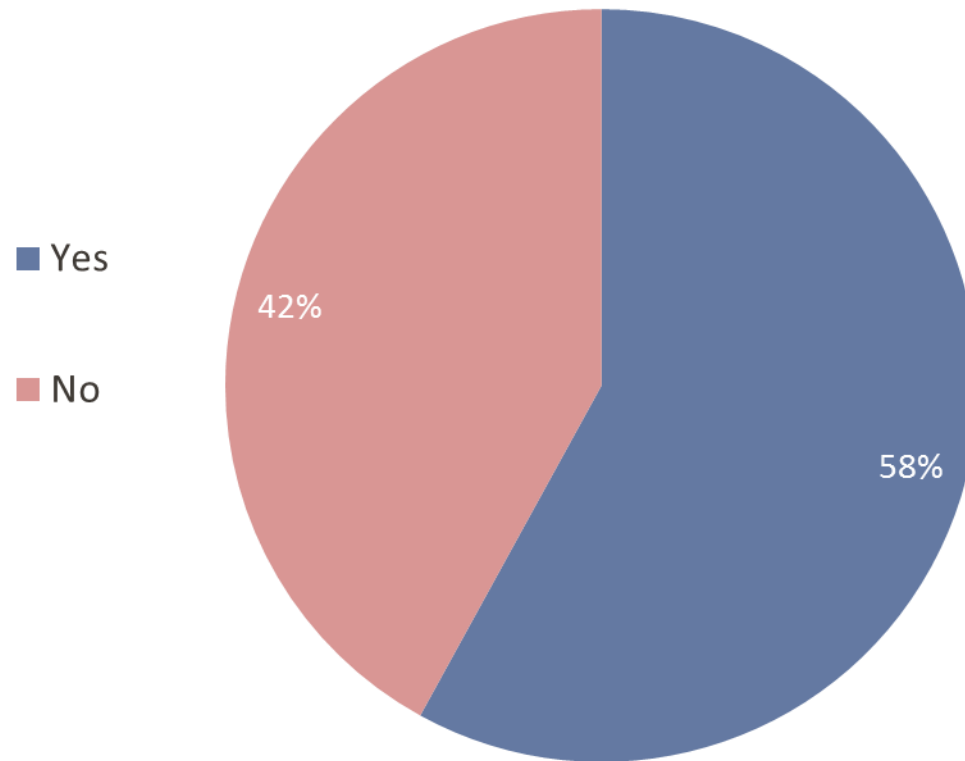
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## External Financing

# Access To External Financing

Six in ten respondents (58%) report that their company has sought access to new external financing in the past 12 months.



*Companies in the oil and gas and basic materials sectors are most likely to report that they sought external funding in the last 12 months*

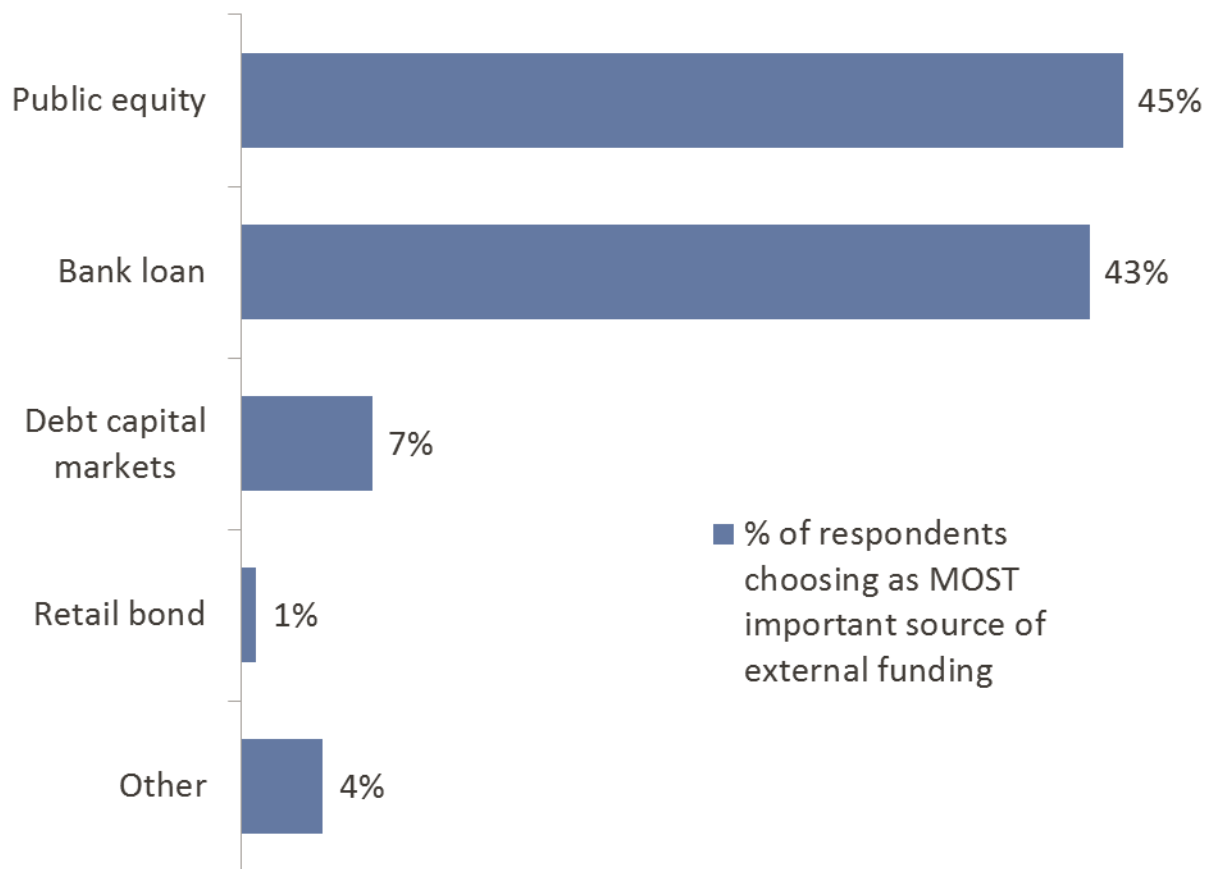
Sector	% Sought external finance
Oil & Gas	82%
Basic Materials	76%
Healthcare	67%
Consumer Services	59%
Financials	52%
Industrials	50%
Technology	41%

Base: All answering (207)

Q. Has your company sought access to new external financing in the past 12 months?

# Sources Of External Financing

Amongst respondents who have sought external funding, two main sources stand out – public equity (45%) and bank loans (43%).



*Companies with a market cap of £51-200m appear to be more reliant on bank loans, in contrast to both smaller and larger firms, who state that public equity is the most important source*

Market cap (£m)	% Public equity most important	% Bank loan most important
0-10	46%	37%
11-50	55%	43%
51-200	11%	63%
201+	53%	37%

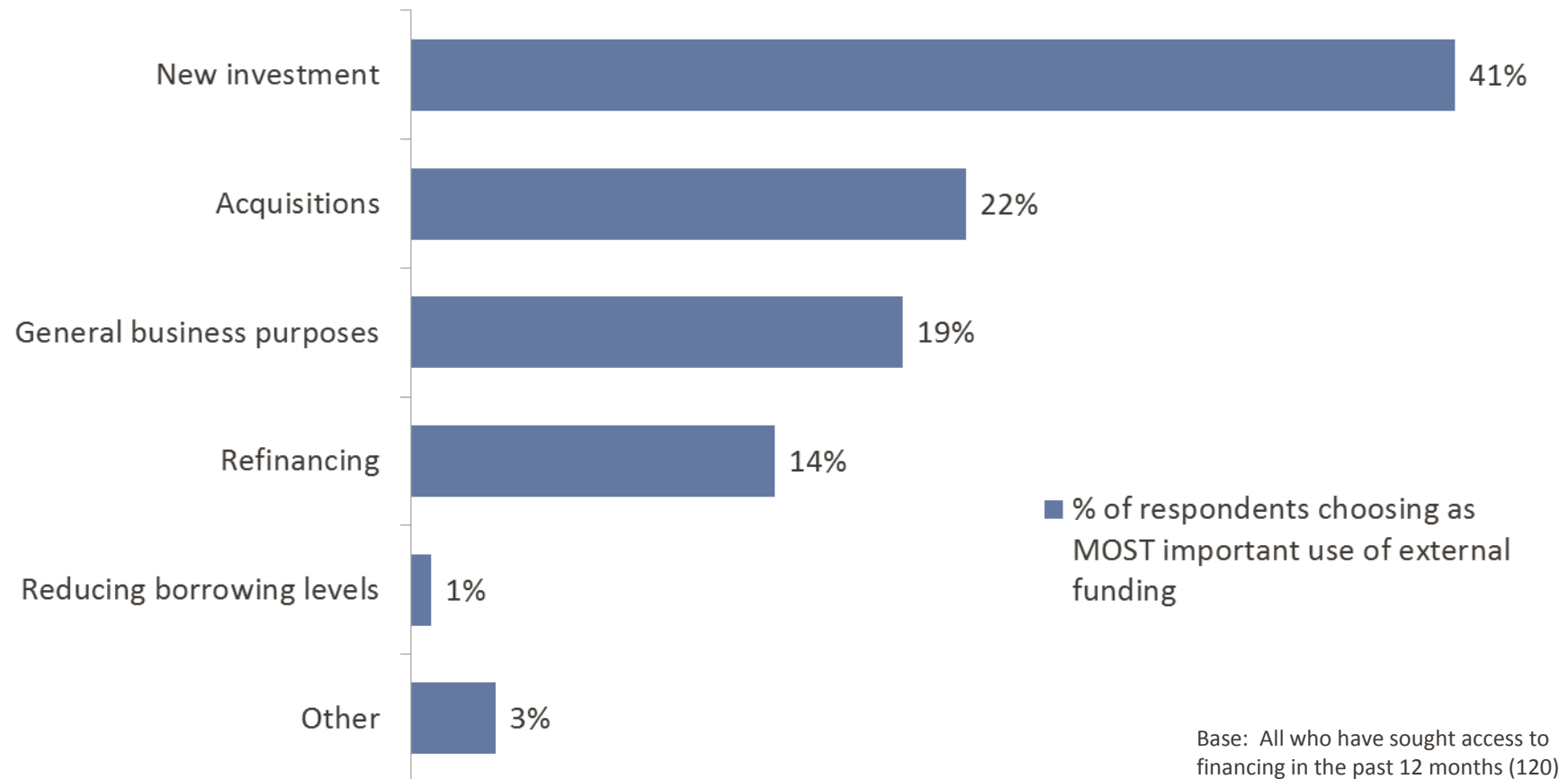
Base: All who have sought access to financing in the past 12 months (120)

*Q. You answered that your company has sought new external financing. Please indicate the three most important sources of financing that you have sought to utilise.*



# Uses Of External Financing

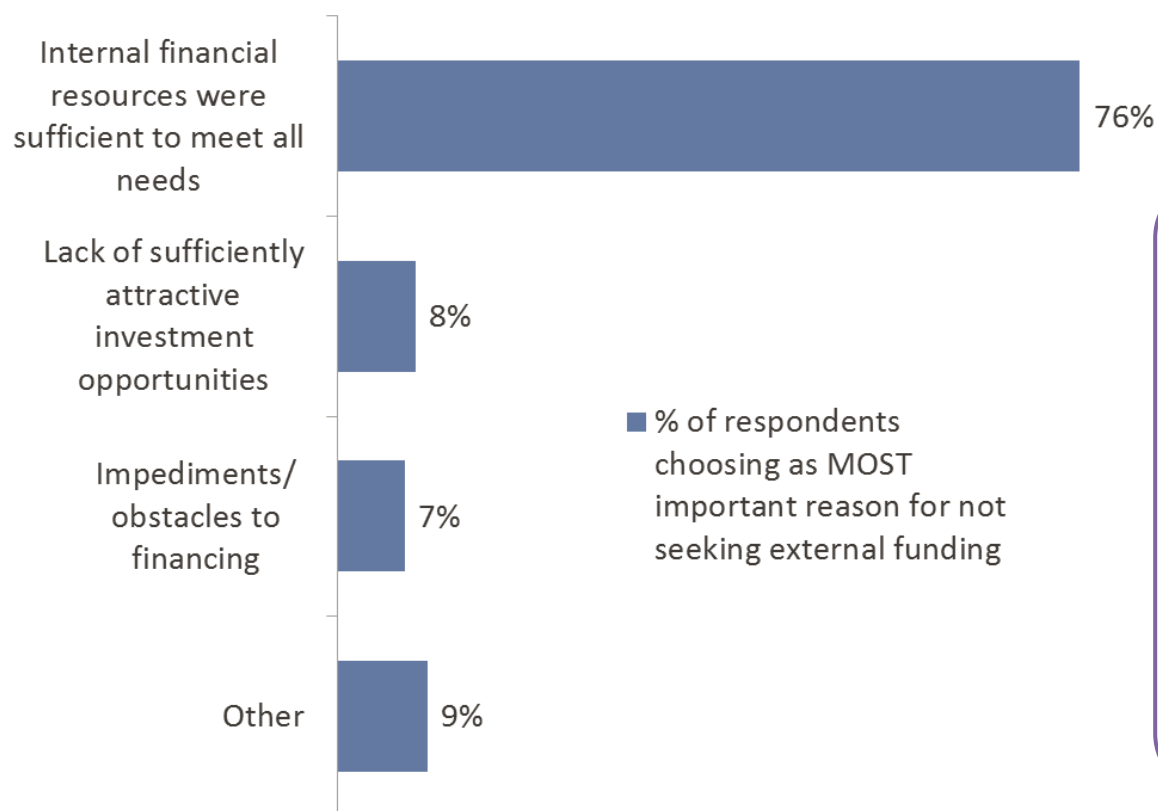
In terms of what this external funding is used for, the most important reason is for new investment (41%), followed by acquisitions (22%) and general business purposes (19%).



*Q. Please indicate the three most important uses of this external financing.*

# Reasons For Not Seeking External Financing

Amongst those who have not sought new external financing in the past 12 months, there is one primary reason for this – that internal resources were sufficient to meet all needs.



*Smaller companies are less likely to have not sought financing as a result of having sufficient internal resources – more respondents cite a lack of suitable opportunities and impediments to financing*

Market cap (£m)	% Internal resources sufficient	% Lack of attractive opportunities	% Impediments/obstacles
0-10	58%	21%	17%
11-50	77%	3%	7%
51-200	87%	7%	-
201+	89%	-	-

Base: All who have not sought access to financing in the past 12 months (87)

*Q. You answered that your company has not sought new external financing in the past 12 months. Please indicate the three most important reasons for this.*

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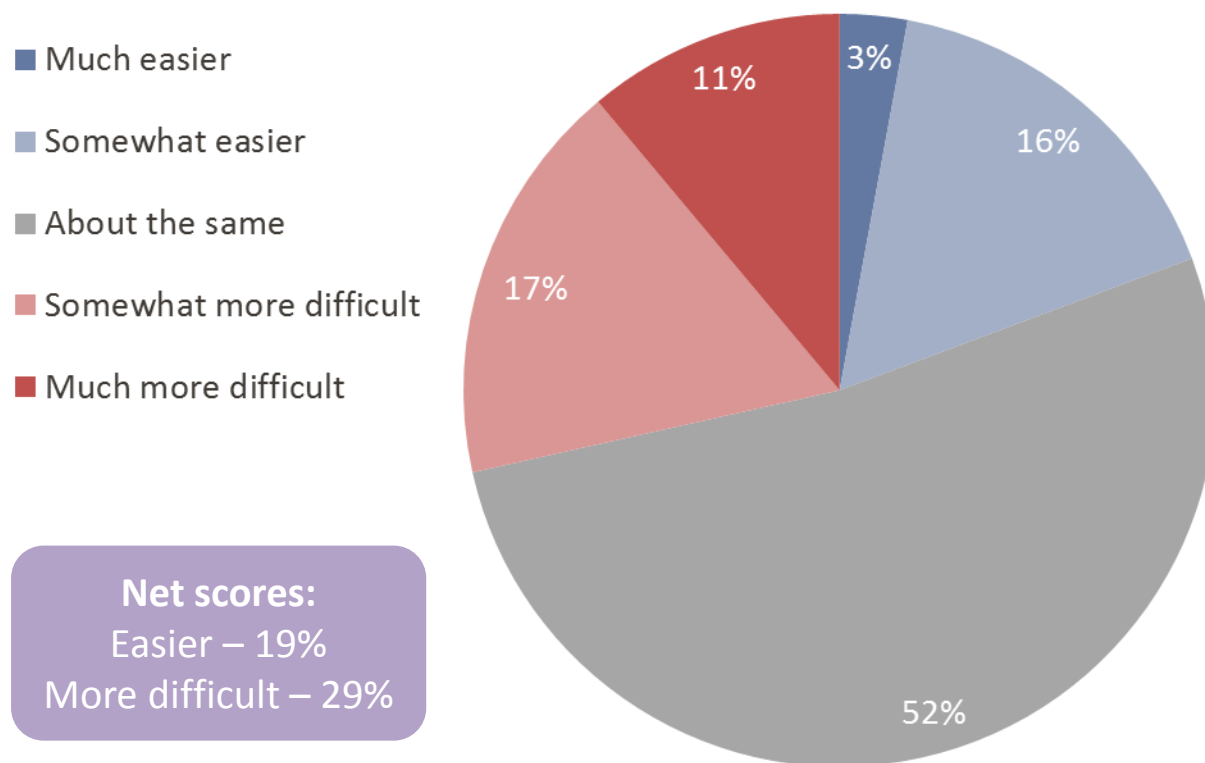
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Ability To Access Finance

## Access To Finance – Change In Past Year

Just over half of respondents (52%) feel that their ability to access finance has remained the same over the past 12 months. Three in ten (29%) report that it has become more difficult to access finance, with two in ten (19%) saying that it has become easier.



*Respondents from companies in the basic materials, oil & gas and consumer services sectors are most likely to report that their access to finance has deteriorated in the last year*

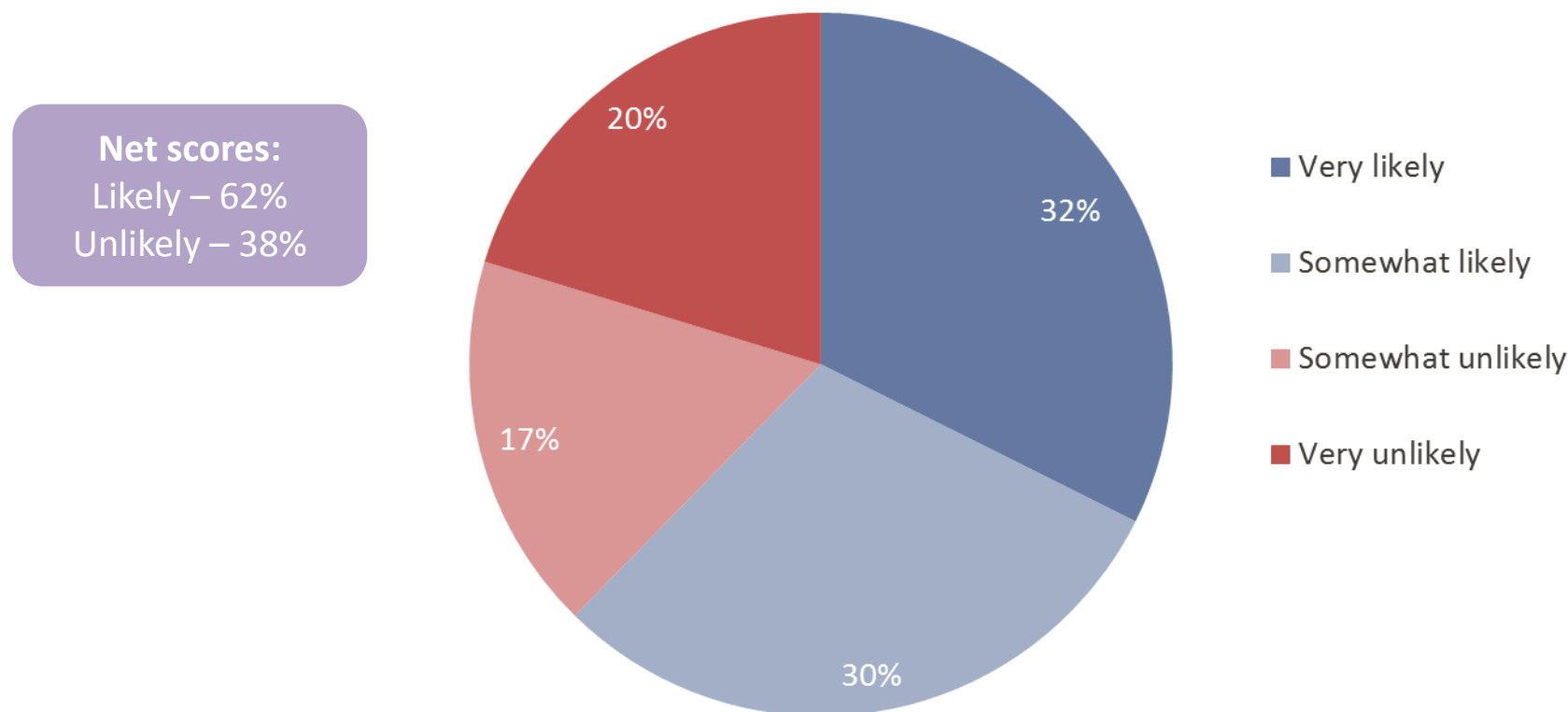
Sector	% More difficult
Basic Materials	57%
Oil & Gas	41%
Consumer Services	41%
Financials	26%
Industrials	25%
Healthcare	7%
Technology	7%

Base: All answering (207)

*Q. To what degree has your ability to access finance improved or deteriorated in the past 12 months?*

# Likelihood Of Seeking Financing In Next Year

62% of respondents say that they are likely to seek new financing in the next 12 months, while 38% say that they are unlikely to do so.



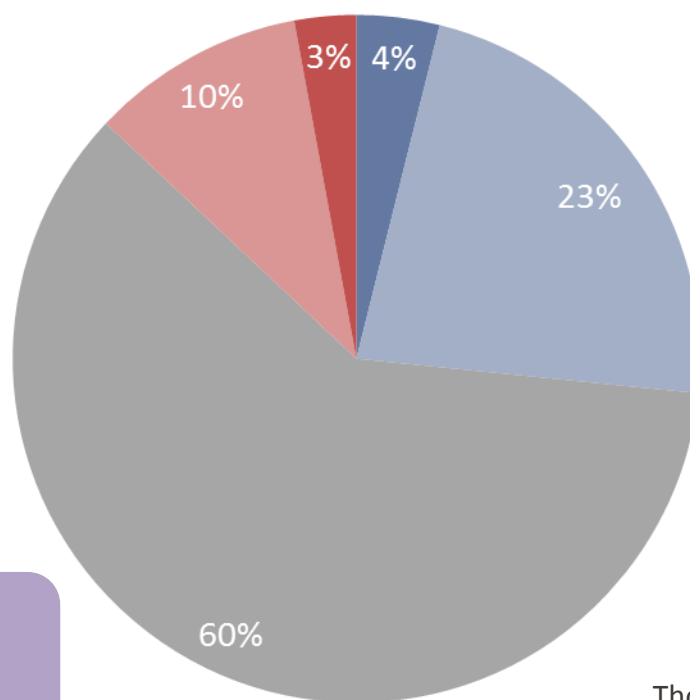
Base: All answering (207)

Q. How likely are you to seek new financing in the next 12 months?

## Access To Finance – Change In Next Year

Looking ahead to the next 12 months, three-fifths of respondents (60%) feel that their ability to access new financing will remain the same. 27% think that it will become easier to access finance, while just 13% think it will become more difficult. Those who sought finance in the past year are more likely that those who did not to expect it to become more difficult.

- Much easier
- Somewhat easier
- About the same
- Somewhat more difficult
- Much more difficult



**Net scores:**  
Easier – 27%  
More difficult – 13%

*Respondents from companies in the oil & gas and basic materials sectors are most likely say they expect their access to finance to deteriorate in the next year*

Sector	% More difficult
Oil & Gas	35%
Basic Materials	24%
Financials	19%
Consumer Services	14%
Industrials	8%
Technology	4%
Healthcare	-

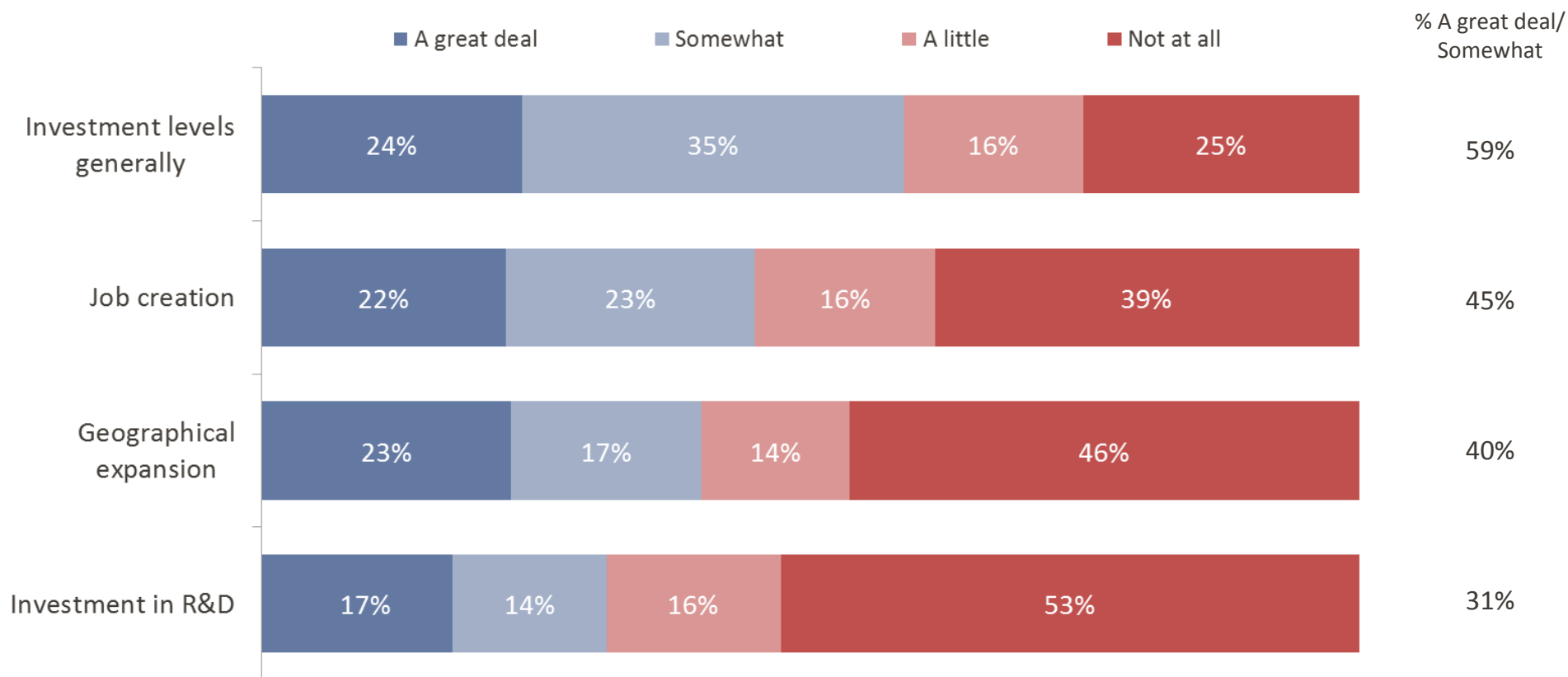
Those who have **sought finance in the past year** are more likely to expect **their ability to access finance to become more difficult in the next year** (19%) than those who have not sought finance (4%)

Base: All answering (207)

*Q. To what degree do you expect your ability to access finance will improve or deteriorate in the next 12 months?*

# Impact Of Ability To Raise Finance

In terms of how the ability to raise new finance will impact on companies, general investment levels and job creation are identified as the areas in which the impact will be greatest; 59% of respondents say that their ability to access new finance will affect their general investment levels, while 45% state that it will impact their company in terms of job creation.

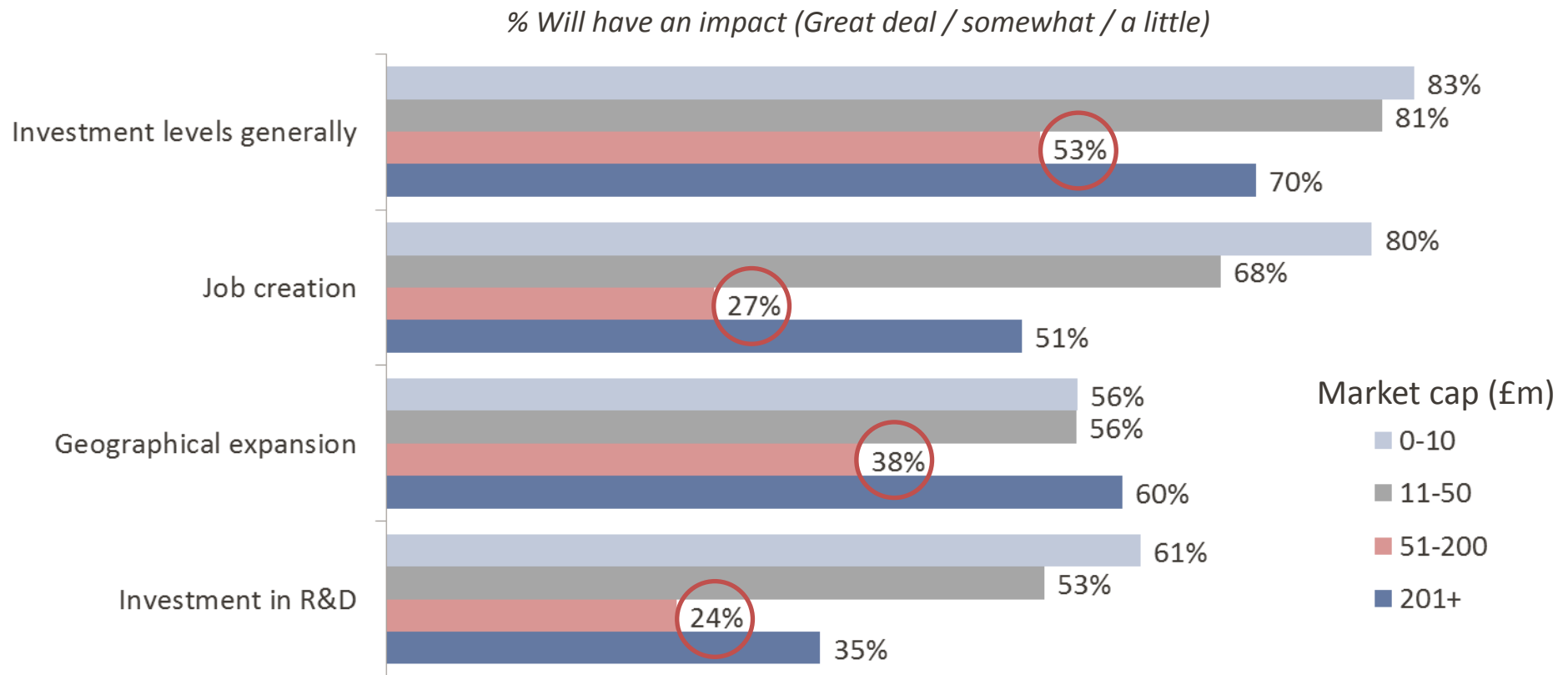


Q. How will your ability to raise new finance in the next 12 months impact the following for your company?

Base: All answering (207)

# Impact Of Ability To Raise Finance

The impact of the ability to raise finance appears to vary by size of company – with those with a market cap of £51-200m significantly less likely to feel this will impact them.



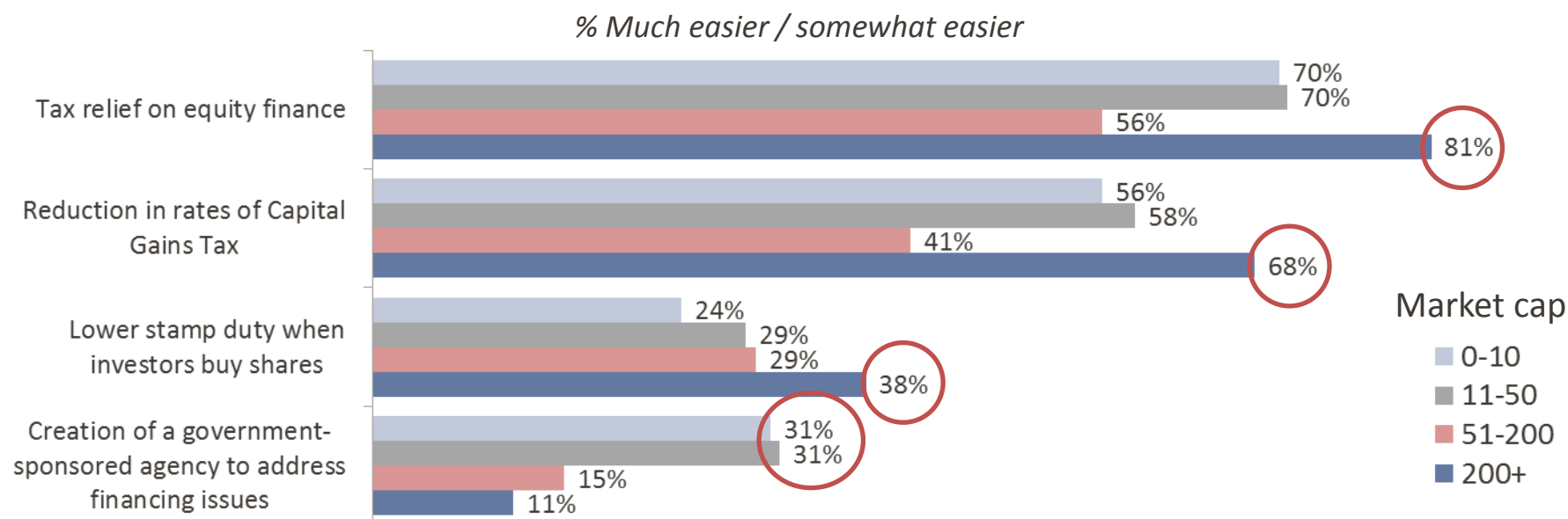
Base: All answering (207)

*Q. How will your ability to raise new finance in the next 12 months impact the following for your company?*



# Factors Affecting Ability To Raise Finance

It is respondents from larger companies – those with a market cap of more than £200m – who are most likely to feel that tax relief, reduction in CGT and lower stamp duty will make it easier to raise new finance. By contrast, smaller firms (market cap of £50m or lower) are most likely to support the creation of a government-sponsored agency to address financing issues.



**Respondents who are most pessimistic about accessing finance** (those who feel it has become more difficult over the past 12 months, AND that it will remain the same or worsen further in the next 12 months) are **particularly supportive of the creation of a government-sponsored agency to address financing issues:**

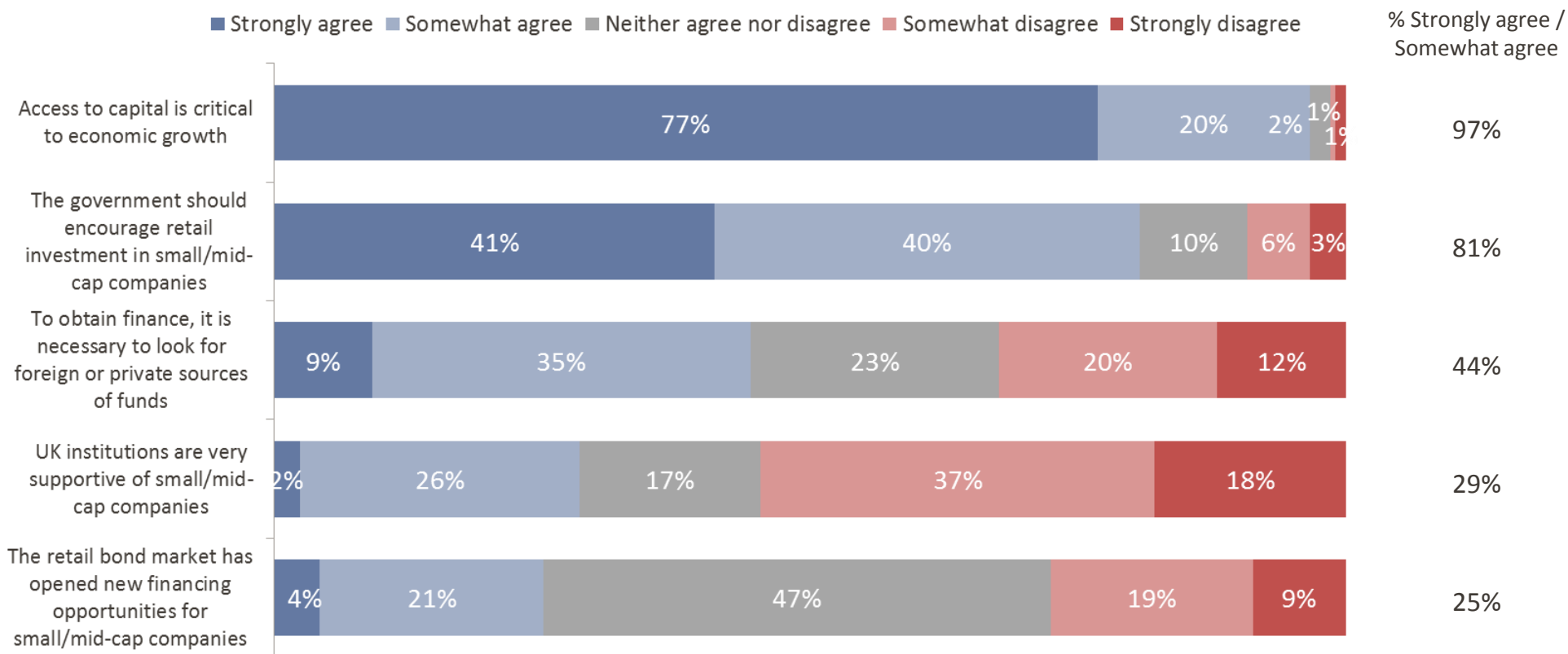
- **43%** feel this would make accessing finance much/somewhat easier (vs. **25%** overall)

Q. Would the following make it easier or more difficult for you to raise new finance?

Base: All answering (207)

# Broader Perspectives On Growth And Finance

There is consensus that access to capital is critical to economic growth, with 97% of respondents agreeing that this is the case. Just 29% agree that UK institutions are very supportive of small/mid-cap companies, while 55% disagree. Four in five (81%) think that the government should encourage retail investment in small/mid cap companies.

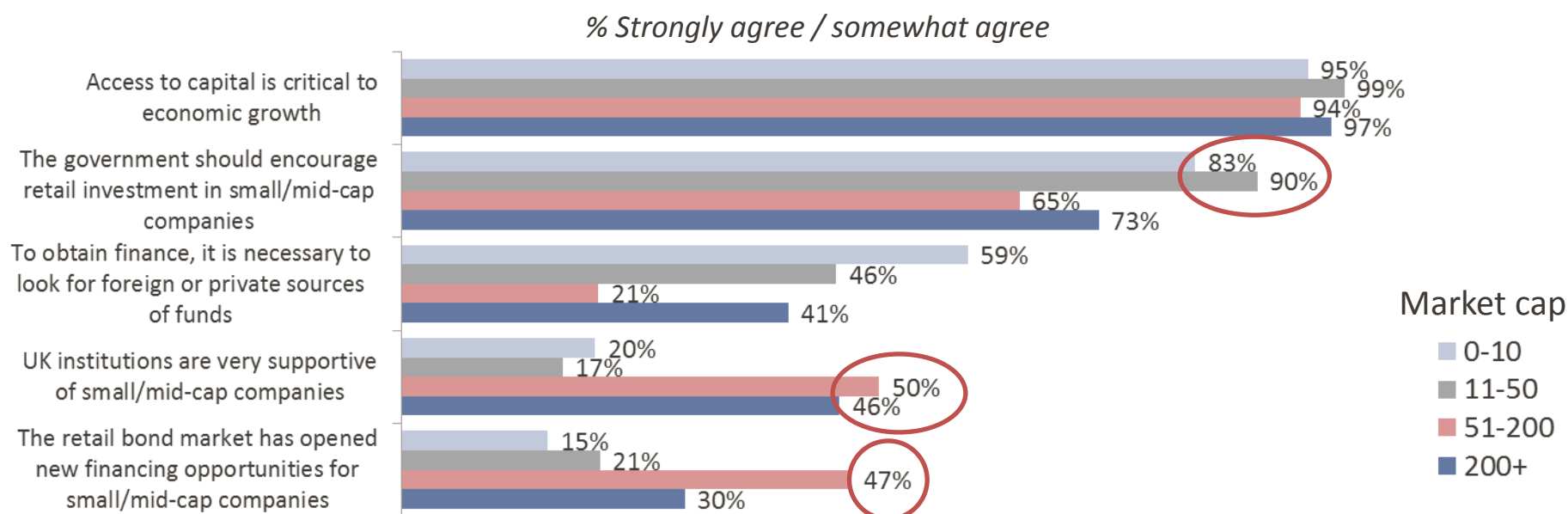


Base: All answering (207)

Q. To what extent do you agree or disagree with the following statements?

# Broader Perspectives On Growth And Finance

Smaller firms (market cap <£50m) are most likely to agree that the government should encourage retail investment in small/mid cap companies, while larger firms (market cap +£50m) are most likely to say UK institutions are very supportive of such companies. Firms with a market cap of £51-200m are most likely to say the retail bond market has opened new financing opportunities.



**Respondents who are most pessimistic about accessing finance** (those who feel it has become more difficult over the past 12 months, AND that it will remain the same or worsen further in the next 12 months) are **most likely to agree that to obtain finance, it is necessary to look for foreign or private sources of funds**:

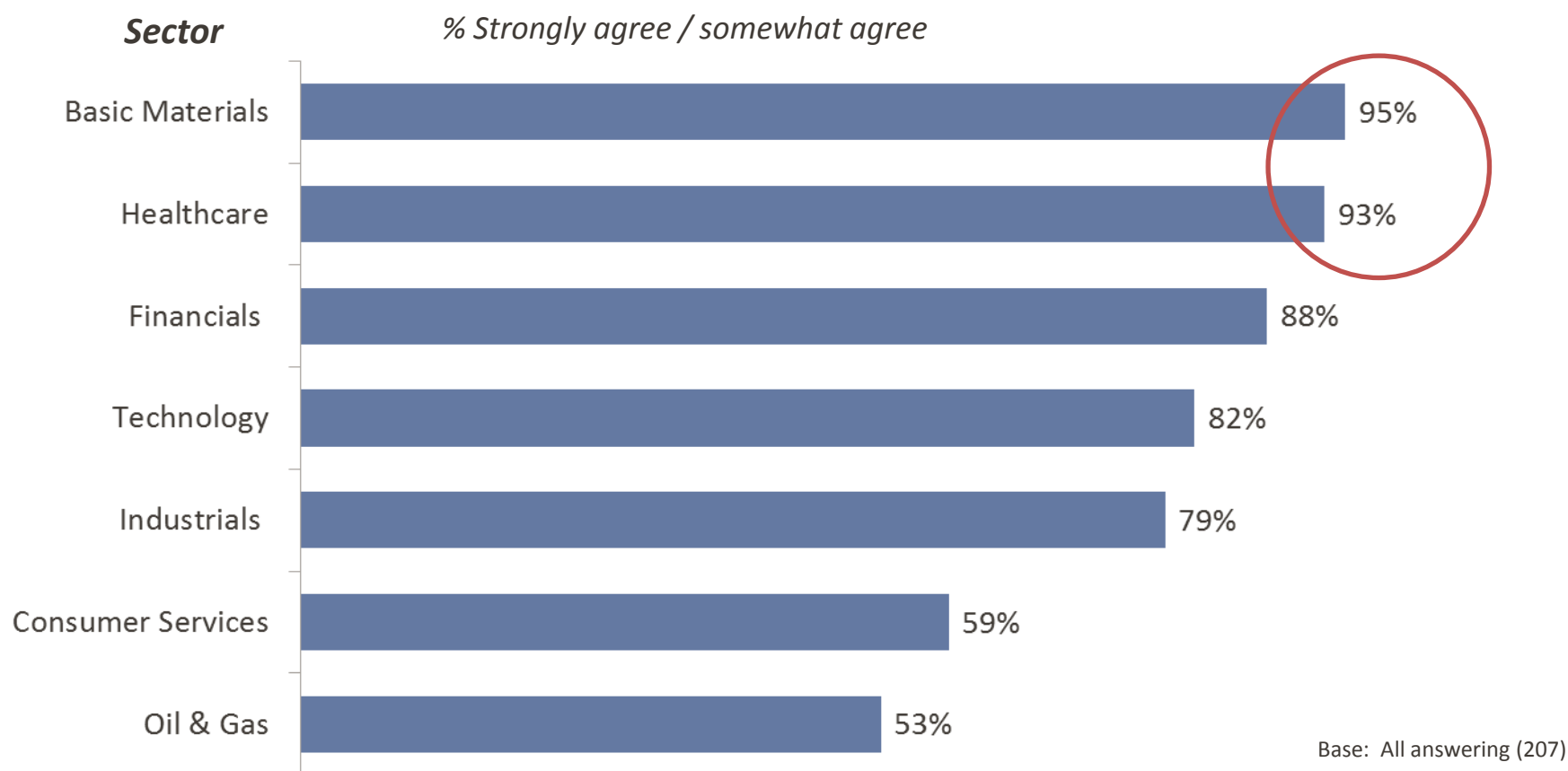
- **69%** of these respondents agree with this (vs. **44%** overall)

Q. To what extent do you agree or disagree with the following statements?

Base: All answering (207)

# Government Support For Retail Investment

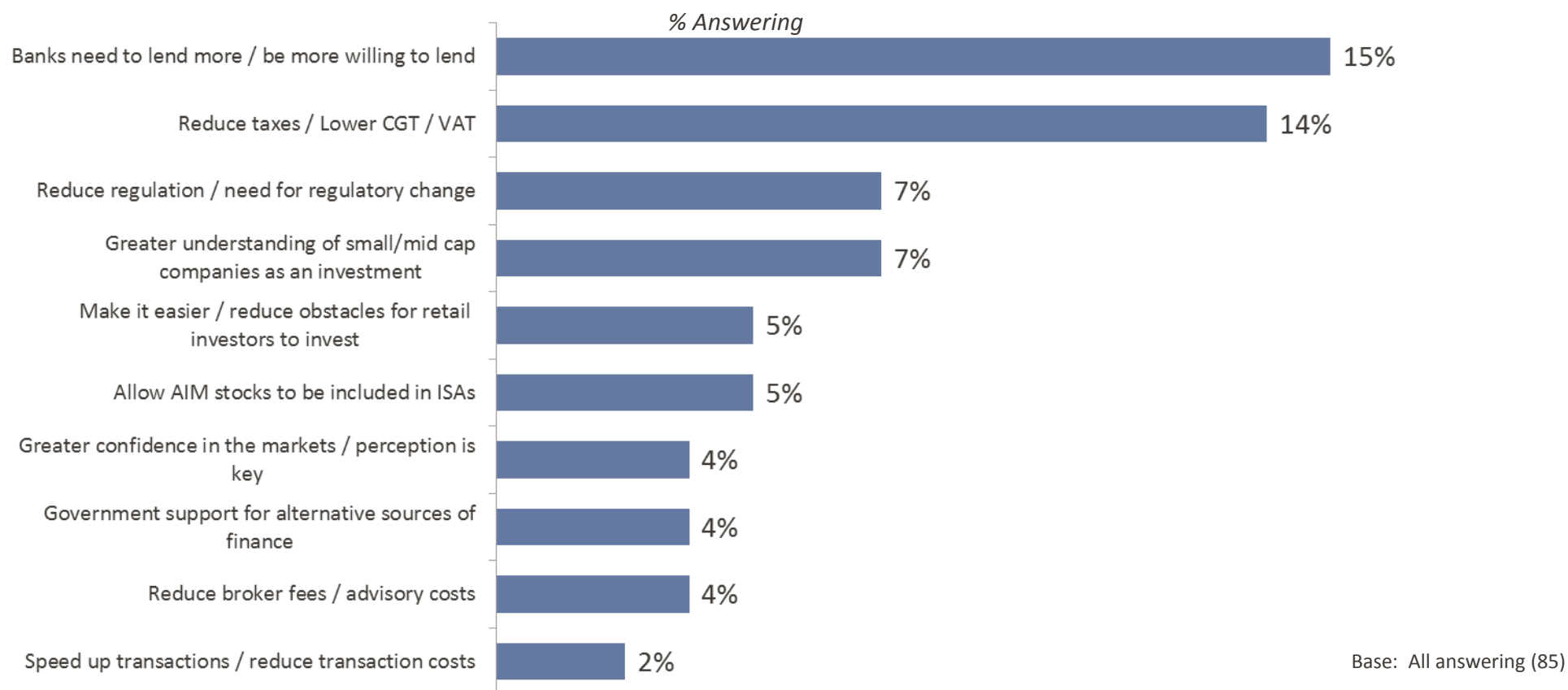
Respondents from firms in the basic materials and healthcare sectors are most likely to agree that the government should encourage retail investment in small/mid cap companies.



*Q. To what extent do you agree or disagree with the following statements? – ‘The government should encourage retail investment in small/mid-cap companies’.*

# Making Finance Easier/Cheaper To Access

When asked for suggestions as to how to make access to finance easier or cheaper, the most common responses were a need for a change in attitude of the banks – to be more willing to lend – and also calls for a reduction in taxes.



*Q. What, if anything, would you like to see happen to make access to finance easier or cheaper for your business?*

# Making Finance Easier/Cheaper To Access

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*"I would like to see banks playing a much bigger role in providing term loans and working capital facilities for SMEs."*

*"The tax policy is ridiculous and it's very hard to invest for the future as things are so uncertain."*

*"To encourage liquidity in the financial markets, the Government should provide tax incentives for retail investors. Small/mid-cap companies require the support of retail investors."*

*"Given the contribution made by the small/mid cap sector to GDP, it would be helpful for the Government to pursue policies in relation to investor taxation and encouragement to tip the balance more towards investment in this sector."*

*"Make it easier to allow retail investors to invest in equity stocks, and make it easier for retail investors to lend to companies."*

Q. What, if anything, would you like to see happen to make access to finance easier or cheaper for your business?



## Appendix 1: Approach & Objectives

# Approach

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## Summary of survey approach

- Survey conducted online among CEOs and Finance Directors of companies in the Numis Smaller Companies Index (NSCI), which covers all UK small and mid-cap companies
  - Quantitative survey, lasting approximately 15 minutes
- Fieldwork took place between 7th and 23rd November 2012
- 207 respondents completed the survey
  - A total of 1,791 email invitations were issued, giving a response rate of 12%
- All numbers shown are percentages
  - Where responses do not add up to 100% this may be due to multiple responses or computer rounding



# Objectives

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The overall aim of the research is to better understand investment and financing challenges facing small and mid-sized companies in the UK – and how these can be addressed

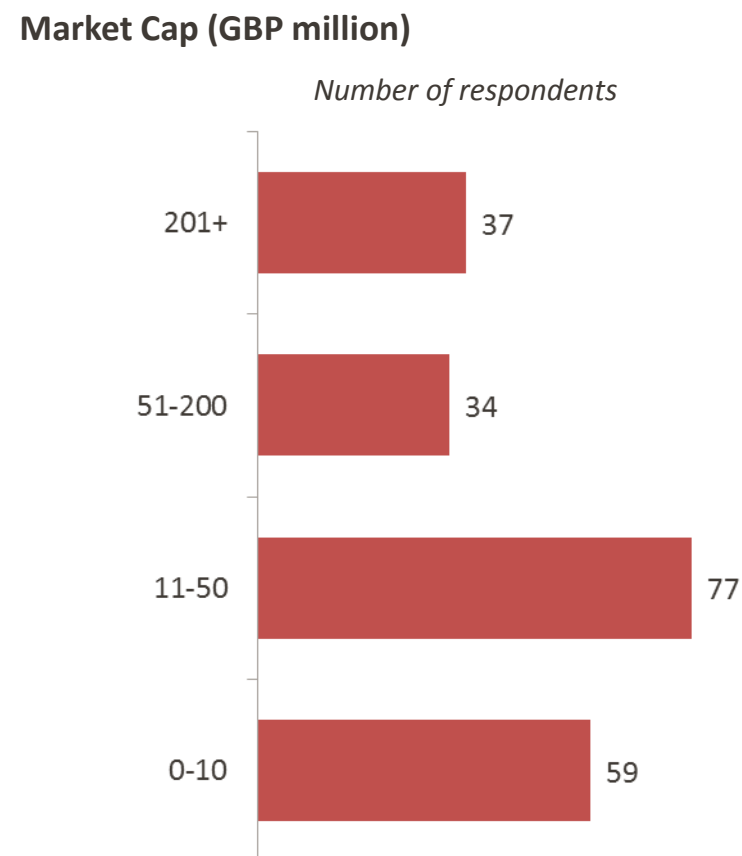
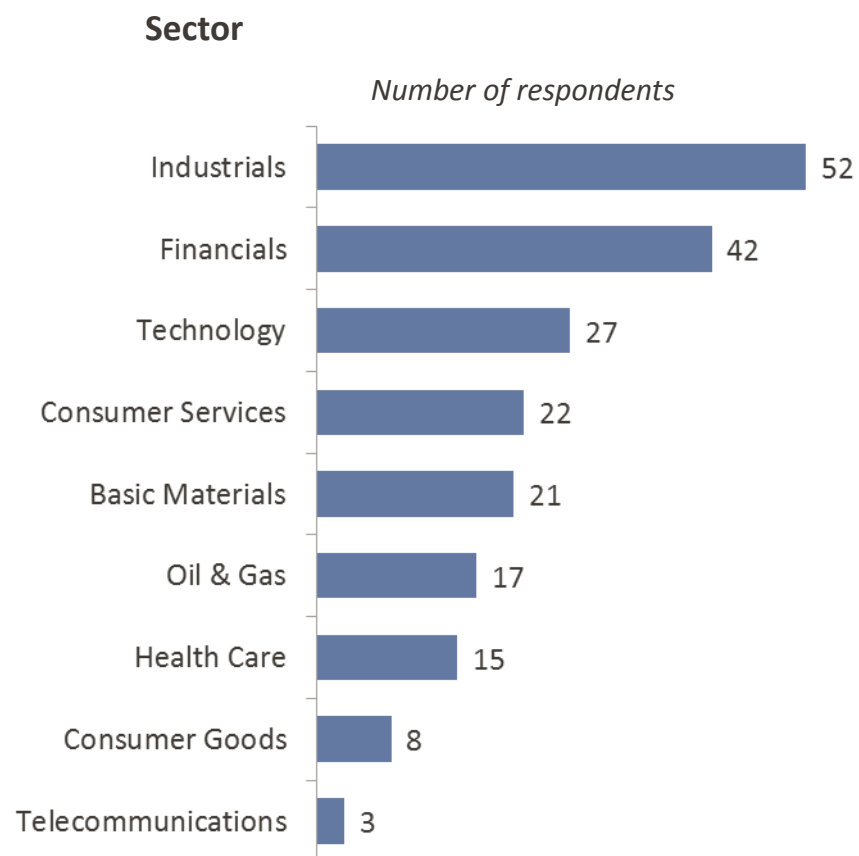
- Participants were asked for their views on –
  - The current economic situation in the UK
  - Levels of investment – over the past year, and in the year ahead
  - Use of external financing – and reasons for doing so
  - Ability to access external finance – and how this has changed
  - What should be done to improve access to finance
- The broader aim of the survey is to support Numis' championship of small and mid-sized companies in the UK
  - To underpin Numis' guidance to the Government on the UK's immediate economic and financial priorities
  - For submission to the Chancellor, ahead of the Autumn statement on Wednesday 5<sup>th</sup> December



## Appendix 2: Profile Of Respondents

# PROFILE OF RESPONDENTS

## Respondent profile by sector and market cap



Base: All answering (207)

# Brunswick Research Contacts

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