

Numis Corporation Plc

Numis announces findings of Numis Smaller Companies Index research “Investment & Financing: the challenges facing UK small and mid-cap companies”

- *97% of respondents believe access to capital is critical for economic growth*
- *Public equity has been a key source of financing for small and mid-cap companies in the past 12 months – reflecting the difficulty of obtaining bank finance*
- *Over 80% of respondents agree that the Government should encourage retail investment in small and mid-cap companies*

Wednesday 5 December 2012: Numis Corporation Plc (“Numis”), a leading independent investment banking and stockbroking group, today announces the results of research it has undertaken jointly with London Stock Exchange Group (LSEG) on the attitudes to financing and investment among the constituents of the Numis Smaller Companies Index (NSCI).

The survey was conducted during November 2012 among over 200 CEOs and Finance Directors of companies in the Numis Smaller Companies Index (NSCI). The NSCI is the definitive benchmark for monitoring the performance of UK small and mid-sized companies. At the start of 2012, the NSCI had 803 constituent companies and the NSC+AIM Index had 1,932 constituent companies.

It is well established that small and medium-sized companies are the prime job creators in most economies including the UK. The survey sought to understand these companies’ views of the economic outlook, their financing needs, their financing plans and the extent to which companies’ investment in growth and job creation are impacted by accessibility to new finance, and to enable their voice to be heard on these issues.

When asked for their views on the current state of the UK economy, responses 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 trading water.

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. When responding to questions about investment, 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. The majority believe that the current economic situation is having a significant impact on their company’s ability to invest for future growth (61%) and to access financing (59%) – but this falls to 49% and 52% respectively across the survey base as a whole.

When asked about external financing, 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 twice as many respondents 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 needing to access new 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 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 and mid-cap companies; 81% of respondents agree that the Government should encourage this.

Oliver Hemsley, Chief Executive of Numis, said:

"Today's research clearly demonstrates the need for UK small and mid-cap companies to have access to financing in order to invest and to grow. Companies surveyed by Numis and London Stock Exchange Group would like to see access to new finance made easier with the single largest suggestion being for the banks to be willing to lend more. In the absence of bank finance, we are seeing capital markets playing a crucial role in the economy with 97% of all respondents saying that access to finance is critical to economic growth. Over 80% of all respondents agree that the Government should encourage retail investment in small and mid-cap companies."

The full results of the survey can be viewed at: <http://www.numiscorp.com/x/NSCIhome.html>

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About the survey

The survey was 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. It was a quantitative survey, lasting approximately 15 minutes. Fieldwork took place between 7th and 23rd November 2012 and 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

The overall aim of the research was 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

About the Numis Smaller Companies Index

The Numis Smaller Companies Index (NSCI), formerly the RBS HGSC Index, is produced by Professors Elroy Dimson and Paul Marsh of London Business School. It is the definitive benchmark for monitoring the performance of small- and mid-sized companies in the United Kingdom. The main version of the NSCI covers the bottom tenth by value of the main UK equity market. It is unique in having been calculated on a consistent basis over a 57 year period, from 1955 to date. The second member of the NSCI index family is the NSC plus AIM Index (NSC+AIM) which, at each rebalancing date, adds in all AIM stocks that fall below the NSCI market capitalisation limit. At the start of 2012, the NSCI had 803 constituent companies and the NSC+AIM Index had 1,932 constituent companies. If the NSCI were to have been rebalanced at the end of November 2012 to cover the bottom tenth of the market, the largest constituent company would have had a market capitalisation of £1,399 million.