

QUOTED
COMPANIES
ALLIANCE

YouGov[®]
What the world thinks

Small and Mid-Cap Sentiment Index Report

Issue 17
Autumn 2016



Resilience and optimism of small and mid-size quoted companies continues beyond Brexit vote

Optimism continues after Brexit vote

On its 17th edition, the QCA/YouGov Small and Mid-Cap Sentiment Index shows that optimism in the economy among small and mid-size quoted companies remains stable at 56.3* when compared with pre-referendum results (54.4). Despite this, comments from companies still suggest that an uncertainty remains following the decision to leave the European Union. It would seem from the results that most companies are forecasting a 'business as usual' outcome over the next 12 months. This is reflected in the sentiment towards their own business prospects, which remains at a similar level of pre-Brexit (67.6 now vs. 68.8 before).

Companies are also organising their businesses to allow for any significant downturn in the economic and political outlook. To prepare for such a downturn in sentiment, fewer companies indicate that they will increase their workforce over the next 12 months and the mean expected rise in employment over the next 12 months is at an all-time low of only 3.2% since the survey began in 2011. Likewise, the number of companies considering raising capital has fallen to just over a third (37%), its lowest point since 2014 where at least two-fifths concurrently said otherwise. Where companies are looking to raise capital, an increased proportion point to public equity as their preferred choice. This has reached an all-time high (59%), whereas bank finance remains static. While companies remain optimistic in their own business prospects overall – the future sales outlook has dropped slightly from a mean expected turnover change of +15.7% to +13.2% - there is an air of caution amongst companies in terms of a much lower expected employment increase and a fall in intention to raise further capital.

Tim Ward, Chief Executive of the Quoted Companies Alliance, said: "The resilience of the small and mid-size quoted sector to big events such as Brexit is going to be severely tested over the next few years. Our evidence suggests these companies are better able to withstand future headwinds than larger, more global companies, though this cautious optimism may change to pessimism as the reality sinks in. On the other hand, our companies could see significant opportunities for growth appearing."

Oliver Rowe, Director of YouGov PLC, added: "The fall in hiring expectations is a significant change in sentiment amongst small and mid-size quoted companies; contrast this with the stability of sales expectations and we appear to be at a crossroads where the performance of smaller quoted companies, financially and operationally, may change dramatically either up or down."

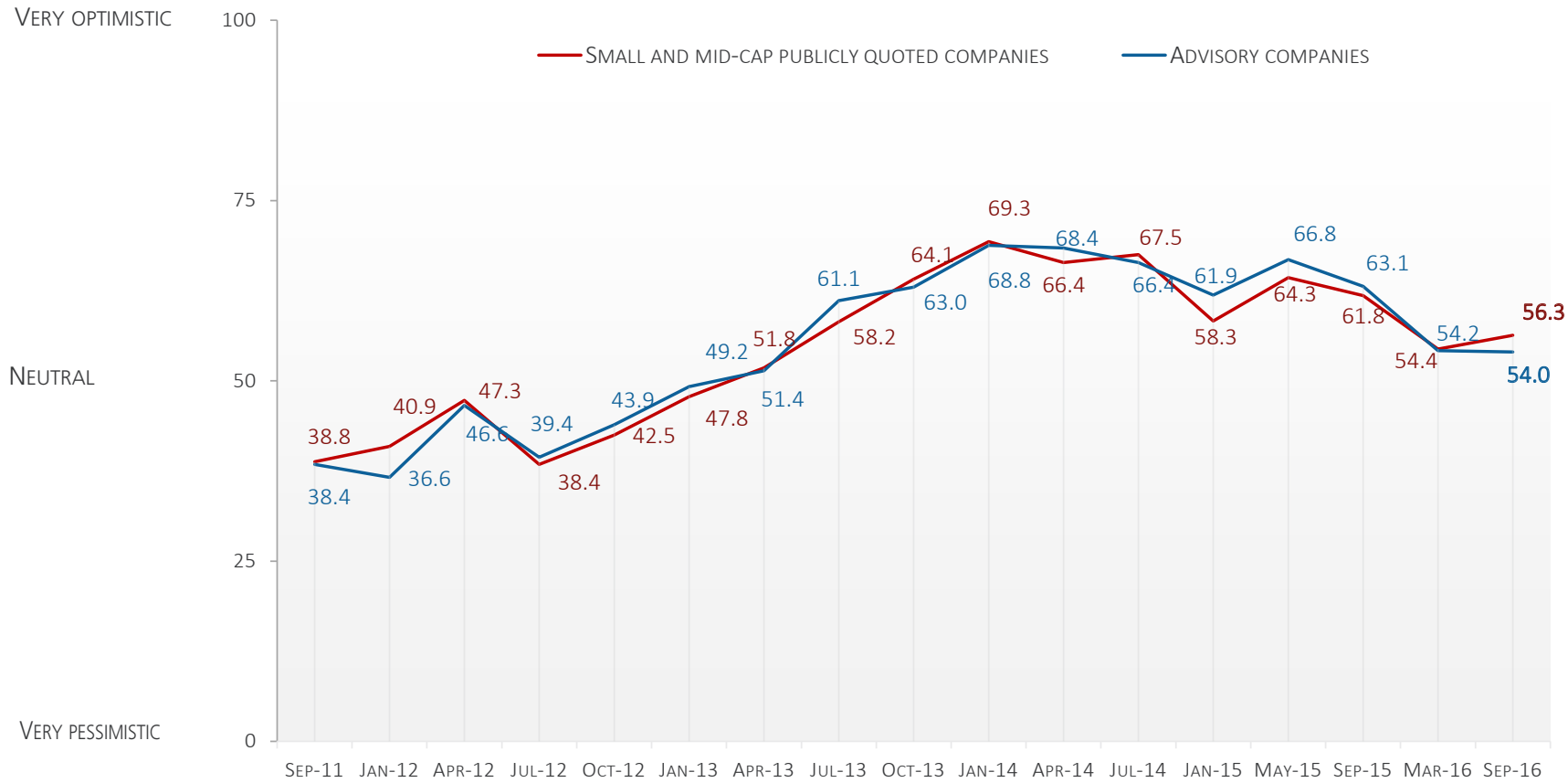
The Brexit vote, before and after

When asked before the UK Referendum how prepared companies were for a leave vote, 12% of companies said that they had made no preparations at all. When asked afterwards how prepared they had been, 23% of companies admitted that, upon reflection, they had not made any preparations. This suggests that many companies who previously thought they had addressed the key issues in some form, had not in fact done so. Advisers to these companies took an even starker view, with 54% thinking that companies were not prepared at all for the leave outcome, compared to 39% who thought that companies were not at all prepared pre-Brexit. The upside of the vote, as far as small and mid-size quoted companies are concerned, has been the fall in the value of sterling, which over half of companies (55%) see as a benefit. In contrast, 21% see it as a negative.

Gervais Williams, Chairman of the Quoted Companies Alliance, commented: "It is impressive – but not surprising – to see that almost 70% of small and mid-size quoted companies remain optimistic about their business prospects over the next 12 months, in a post-Brexit context. There is a habitual optimism amongst smaller quoted companies. They tend to be sheltered from political and economic storms due to their ability to adapt to challenging circumstances and turn any potential threats into opportunities. We hope this continues to be the case."

* Calculated on a scale where 100 represents 'very optimistic', 0 'very pessimistic', 50 'neutral'. This report is based upon 160 online interviews (101 small and mid-cap quoted companies and 59 advisory companies). It was conducted between 19 September and 3 October 2016 by the research company YouGov. Please note that the scores in this report may not add up to exactly 100% due to rounding. The margin for error for the survey is +/- 8%.

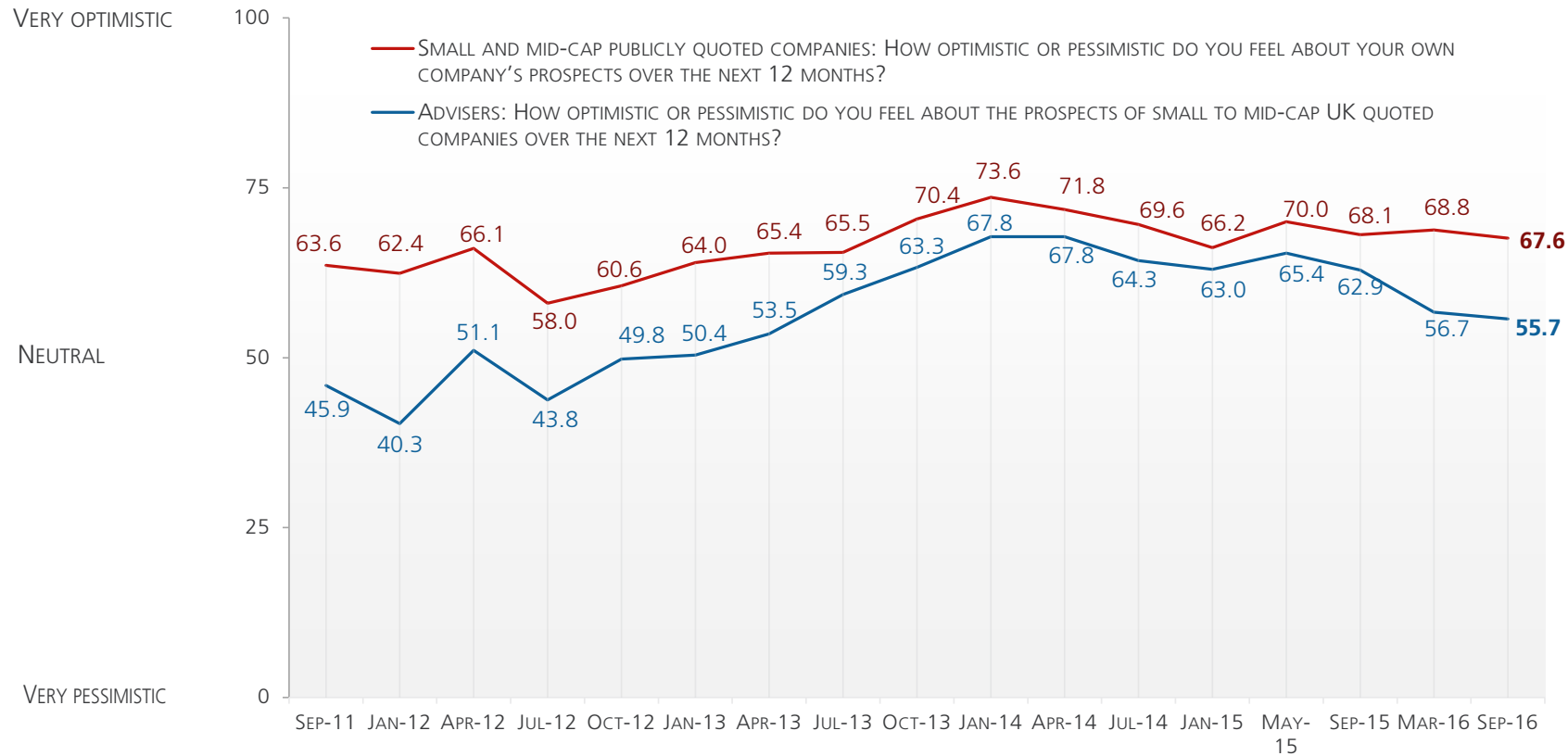
How optimistic or pessimistic do you feel about the UK economy over the coming 12 months?



Base: Sep 11: 100; Jan 12: 150; Apr 12: 132; Jul 12: 136; Oct 12: 114; Jan 13: 137; Apr 13: 125; Jul 13: 113; Oct 13: 133; Jan 14: 127; Apr 14: 107; Jul 14: 119; Jan 15: 133; May 15: 133; Sep 15: 125; Mar 16: 113; Sep16: 101 small and mid-cap publicly quoted companies;
 Sep 11: 64; Jan 12: 87; Apr 12: 103; Jul 12: 68; Oct 12: 86; Jan 13: 112; Apr 13: 97; Jul 13: 76; Oct 13, 89; Jan 14, 88; Apr 14, 73; Jul 14, 78; Jan 15, 69; May 15, 73; Sep 15, 92; Mar 16, 69; Sep 16, 59 advisory companies



Optimism/Pessimism toward business prospects.



Base: Sep 11: 100; Jan 12: 150; Apr 12: 132; Jul 12: 136; Oct 12: 114; Jan 13: 137; Apr 13: 125; Jul 13: 113; Oct 13, 133; Jan 14, 127; Apr 14, 107; Jul 14, 119; Jan 15, 133; May 15, 133; Sep 15, 125; Mar 16, 113 ; Sep 16, 101 small and mid-cap publicly quoted companies;
 Sep 11: 64; Jan 12: 87; Apr 12: 103; Jul 12: 68; Oct 12: 86; Jan 13: 112; Apr 13: 97; Jul 13: 76; Oct 13, 89; Jan 14, 88; Apr 14, 73; Jul 14, 78; Jan 15, 69; May 15, 73; Sep 15, 92; Mar 16, 69; Sep 16, 59 advisory companies



Factors currently driving level of confidence in business prospects in the coming 12 months: Companies

What would you say are the main factors currently driving your level of confidence in your own business prospects over the coming 12 months?

Positive +

"We do not see Brexit as a negative. We are well funded and well backed and we are very confident about the UK."

"We are largely immune to macro economic cycles, but see mainstream banks cutting back lending which provides an opportunity to us."

"We are an investment company with cash. We are looking for opportunities and there are plenty. Brexit has created a positive atmosphere but the government must demonstrate fairly rapid progress or that positive atmosphere may disappear."

"The business is well founded and performing well. Although there are uncertainties over Brexit these do not appear to have affected the economy as much as the shift in reported sentiment would indicate. Therefore one would expect future performance to be adequate."

Negative -

"Uncertainty on Euro and dollar exchange rates which could have a material effect on performance."

"Uncertainty about Brexit. Unpredictable currency markets and change in buying habits in retail sector by consumers."

"Influence of Chinese competition and distortion in the market leading to collapse in spot price for our main product."

"25% of our workforce is Europeans and they are uncertain about their futures."

Base: Apr 14, 107; Jul 14, 119; Jan 15, 133; May 15, 133; Sep 15, 125; Mar 16, 114; Sep 16, 101 small and mid-cap publicly quoted companies;

Factors currently driving level of confidence in business prospects in the coming 12 months: Advisers

What would you say are the main factors currently driving your level of confidence in your own business prospects over the coming 12 months?

Positive +

“Many are in natural resources sector and benefit from dollar-based income and asset valuations. SME’s tend to be less exposed to European market and many appear galvanised by opportunity to exit EU red tape.”

“Competitive exchange rate for Sterling, low inflationary pressures and low financing costs; partially off-set by the uncertainty caused by Brexit and some inflationary pressures on foreign component costs.”

“The current uncertainty over Brexit is a concern but in the short term (12 months) it is unlikely to have a material impact on smaller companies, save, potentially, for those engaged in pitching for public procurement work and those in financial services with significant cross-border activity.”

“Brexit is lulling people into confidence, which though unfounded will keep the positive momentum going for the next 12 months or so. Globally I expect to see a flight from debt investments, a consequent improvement in pension deficits and equity becoming relatively more attractive.”

Negative -

“Uncertainty over trading opportunities and markets due to political issues - Brexit and political instability/lack of direction in the UK.”

“The fundamental uncertainties triggered by Brexit. This damages our capital markets and makes fundraising more difficult. Tantamount to shooting ourselves in both feet.”

“Uncertainty as a result of Brexit, lack of investment and poor basic education in UK and complacency. There may be some opportunities but there are big hurdles to get over and it is difficult to see how there will be much investment over the next 12 months.”

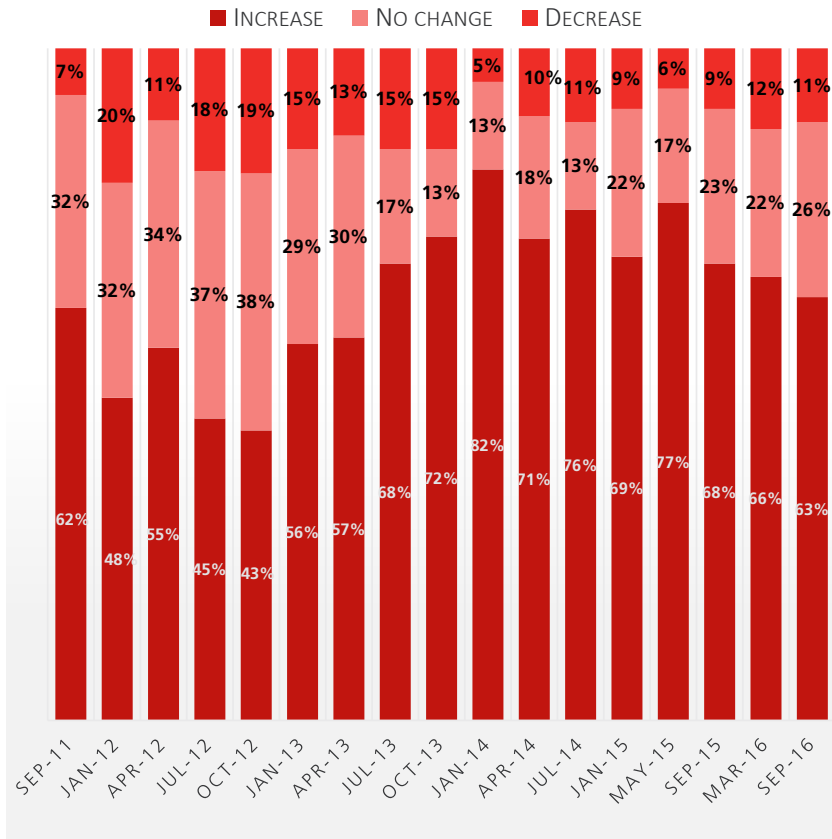
“World economy - China, Europe still uncertain and also Brexit uncertainty overhang will impact UK.”

Base: Apr 14, 73; Jul 14, 78; Jan 15, 69; May 15, 73; Sep 15, 92; Mar 16, 70; Sep 16, 59 advisory companies

Expectations regarding job growth

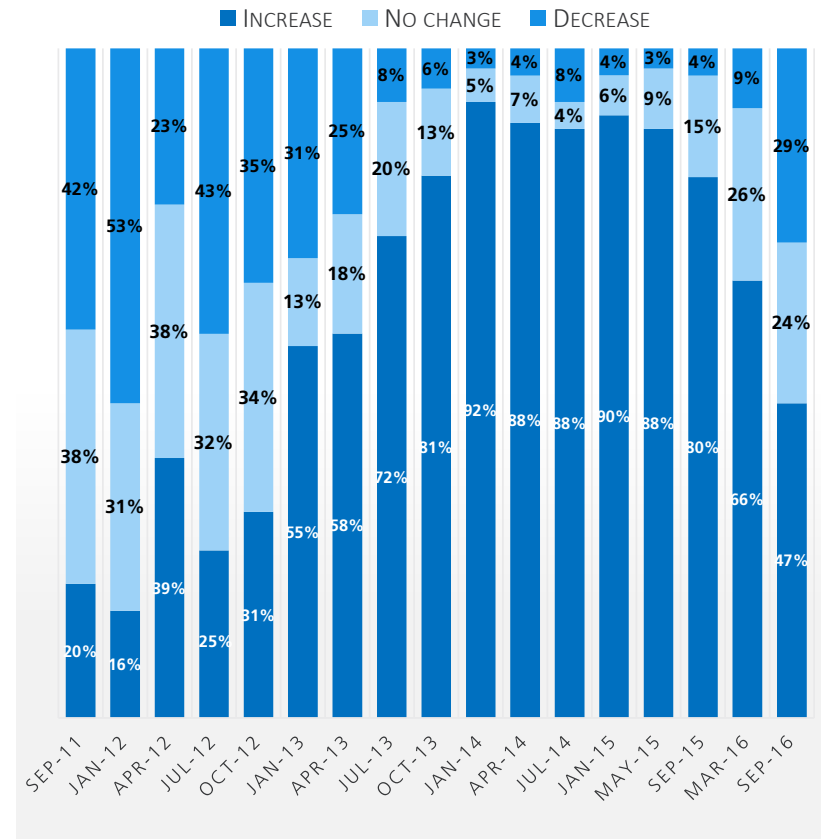
Companies:

Do you expect the number of full time employees in your business to increase or decrease over the next 12 months?



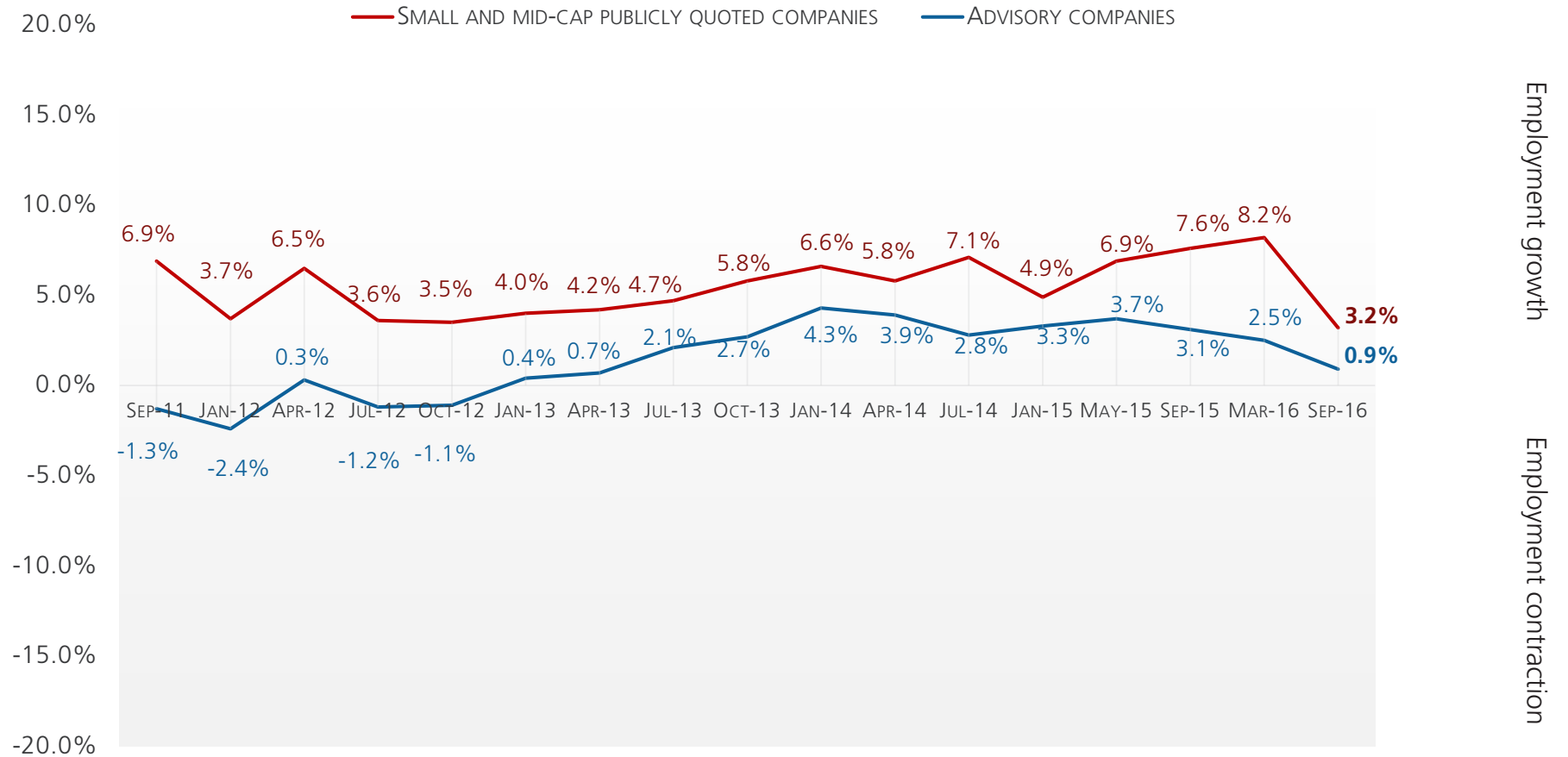
Advisers:

Do you expect the number of full time employees in small to mid-cap UK quoted companies to increase or decrease over the next 12 months?



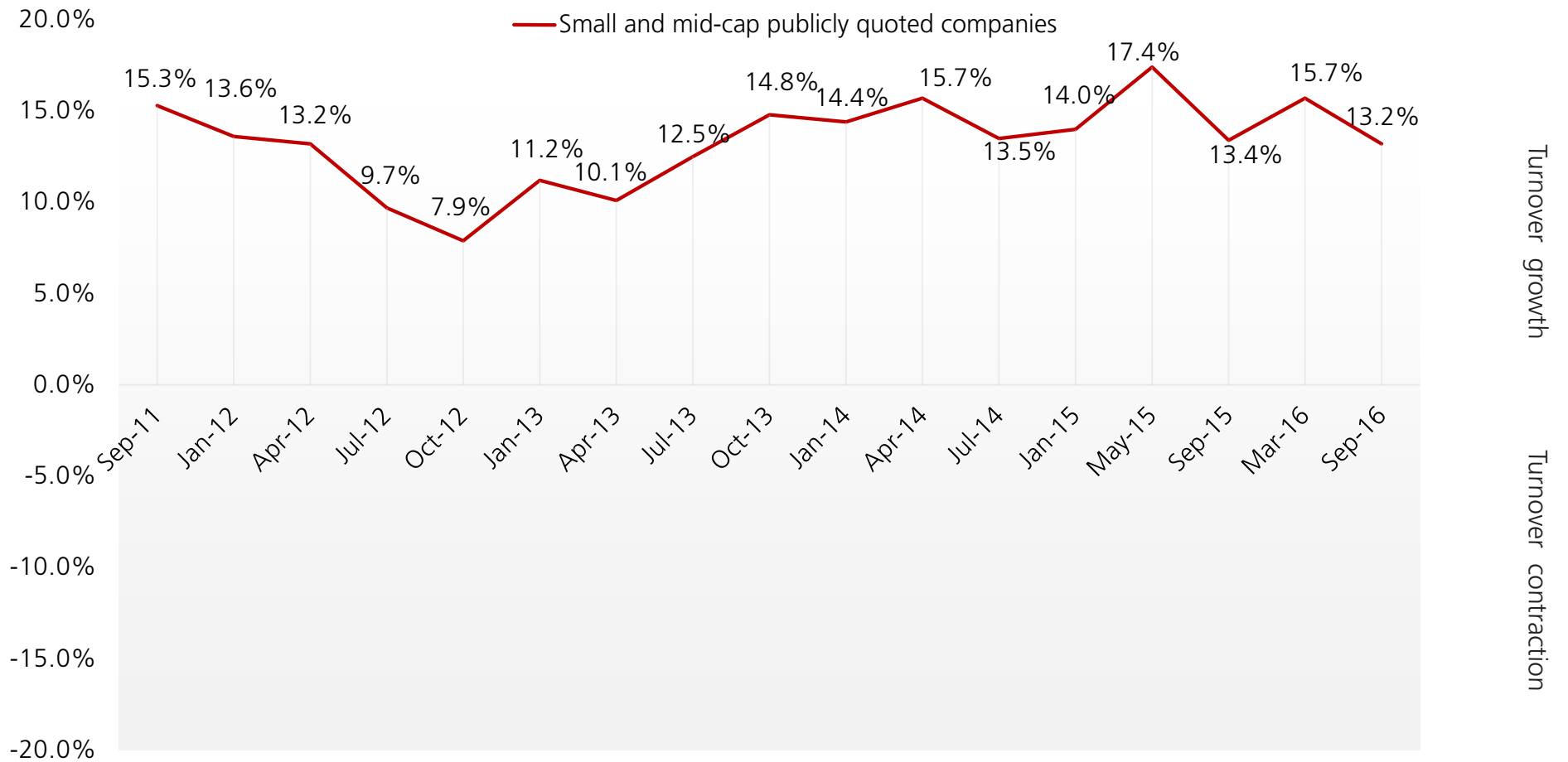
Base: Sep 11: 100; Jan 12: 150; Apr 12: 132; Jul 12: 136; Oct 12: 114; Jan 13: 137; Apr 13: 125; Jul 13: 113; Oct 13, 133; Jan 14, 127; Apr 14, 107; Jul 14, 119; Jan 15, 133; May 15, 133; Sep 15, 125; Mar 16, 113 ; Sep 16, 101 small and mid-cap publicly quoted companies;
 Sep 11: 64; Jan 12: 87; Apr 12: 103; Jul 12: 68; Oct 12: 86; Jan 13: 112; Apr 13: 97; Jul 13: 76; Oct 13, 89; Jan 14, 88; Apr 14, 73; Jul 14, 78; Jan 15, 69; May 15, 73; Sep 15, 92; Mar 16, 69; Sep 16, 59 advisory companies

Expectations regarding job growth: Mean expected employment change over the next 12 months



Base: Sep 11: 100; Jan 12: 150; Apr 12: 132; Jul 12: 136; Oct 12: 114; Jan 13: 137; Apr 13: 125; Jul 13: 113; Oct 13, 133; Jan 14, 127; Apr 14, 107; Jul 14, 119; Jan 15, 133; May 15, 133; Sep 15, 125; Mar 16, 113 ; Sep 16, 101 small and mid-cap publicly quoted companies;
 Sep 11: 64; Jan 12: 87; Apr 12: 103; Jul 12: 68; Oct 12: 86; Jan 13: 112; Apr 13: 97; Jul 13: 76; Oct 13, 89; Jan 14, 88; Apr 14, 73; Jul 14, 78; Jan 15, 69; May 15, 73; Sep 15, 92; Mar 16, 69; Sep 16, 59 advisory companies

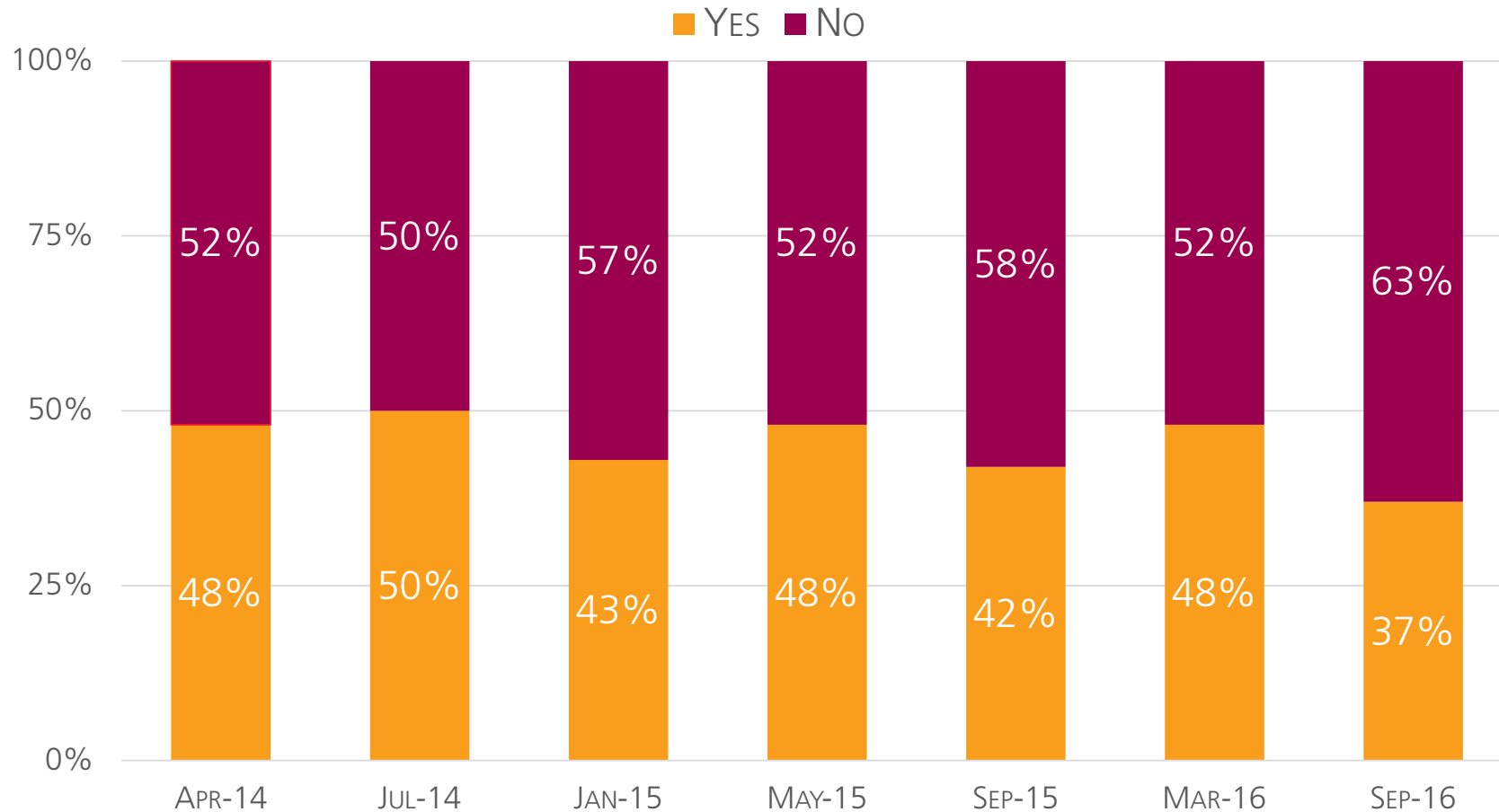
Expectations regarding turnover: Mean expected turnover change over the next 12 months Small and mid-cap companies only



Base: Sep 11: 100; Jan 12: 150; Apr 12: 132; Jul 12: 136; Oct 12: 114; Jan 13: 137; Apr 13: 125; Jul 13: 113; Oct 13, 133; Jan 14, 127; Apr 14, 107; Jul 14, 119; Jan 15, 133; May 15, 133; Sep 15, 125; Mar 16, 113; Sep 16, 101 small and mid-cap publicly quoted companies

Raising capital for small and mid-caps

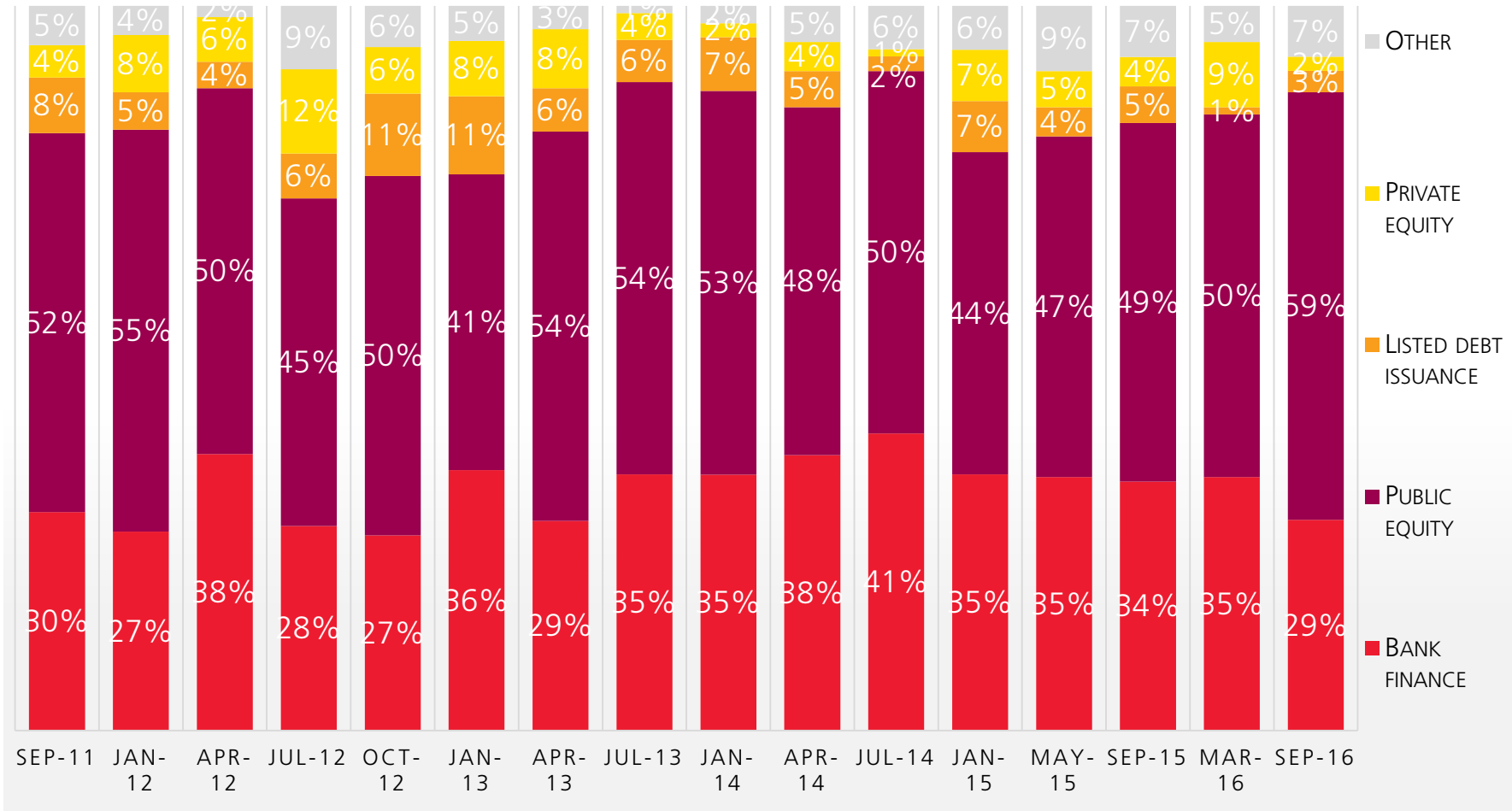
Are you considering raising capital for your company in the next 12 months?



Base: Apr 14, 107; Jul 14, 119; Jan 15, 133; May 15 133; Sep 15, 125; Mar 16, 113; Sep 16, 101 small and mid-cap publicly quoted companies;

Raising Capital

What would be your preferred way of raising capital, if the need arose in the next 12 months?



Base: Sep 11: 100; Jan 12: 150; Apr 12: 132; Jul 12: 136; Oct 12: 114; Jan 13: 137; Apr 13: 125; Jul 13: 113; Oct 13: 133; Jan 14: 127; Apr 14: 107; Jul 14: 119; Jan 15: 133; May 15: 133; Sep 15: 125; Mar 16: 113; Sep 16: 101 small and mid-cap publicly quoted companies

Factors currently driving sources of capital funding

Why do you prefer to raise capital in this way? - Companies

"A function of the current state of our balance sheet and the easy availability of equity financing." – Public Equity

"Extension of existing facilities so relatively simple to do, and with current low gearing raising further bank finance would not dilute existing shareholders ownership." – Bank Finance

"It's why we are listed, we have a supportive shareholder base and we have potential new investors who may come in on a new issue." – Public Equity

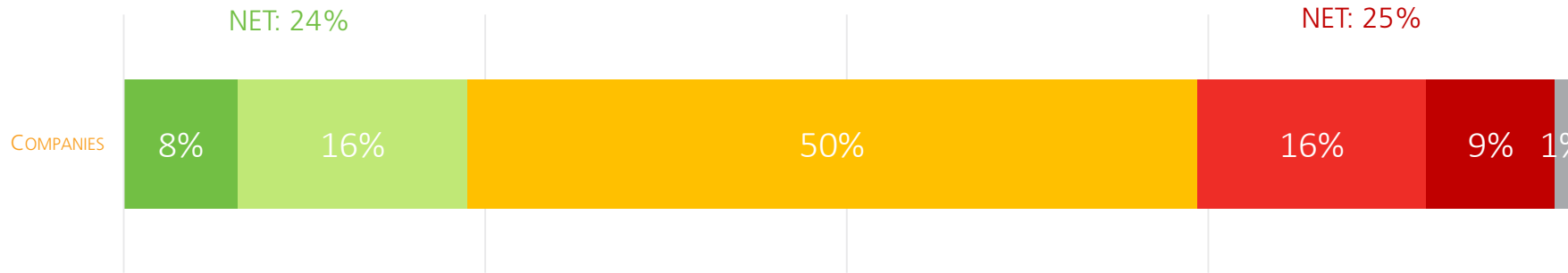
"Need to keep an efficient balance sheet but keep leverage below level where it impacts rating." – Public Equity

"Most likely to be successful. We can't get other types." – Listed Debt Issuance

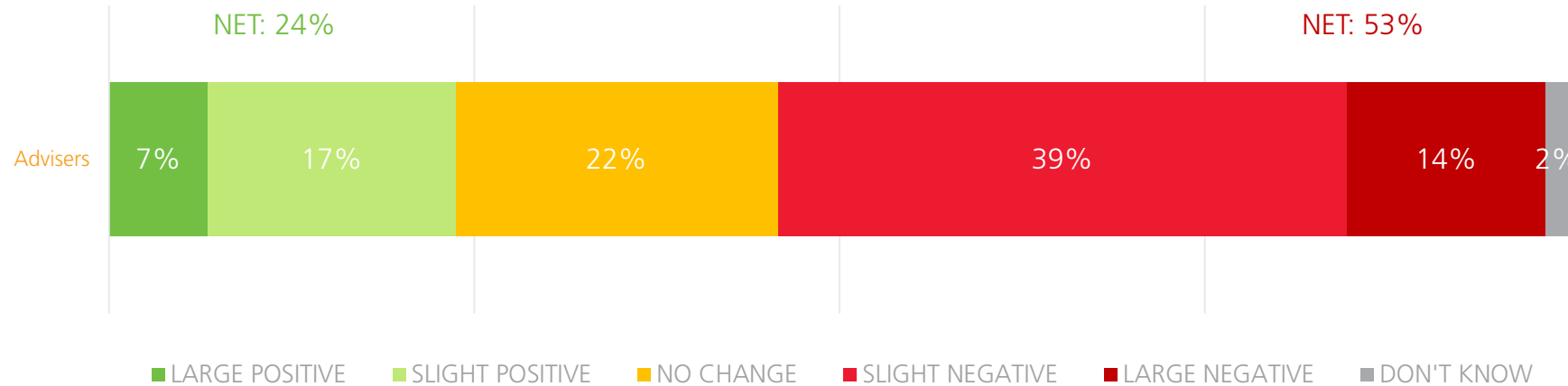
"If we raise capital it will be for new R&D and this is high risk so equity needed to fund." – Private Equity

Perceived impact of UK's decision to leave the European Union

How would you describe the impact of the UK's referendum decision to leave the European Union on your business so far? - **Companies**



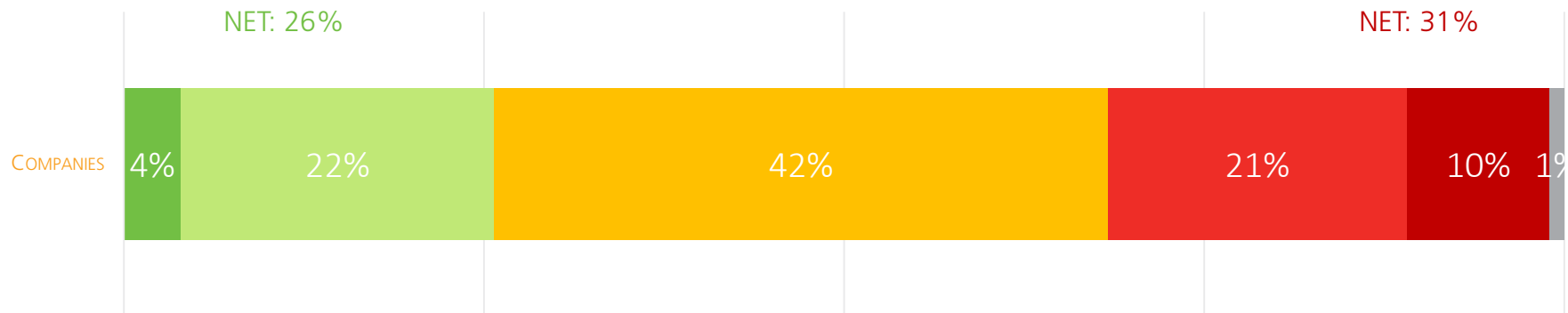
How would you describe the impact of the UK's referendum decision to leave the European Union on small to mid-cap UK quoted companies so far? - **Advisers**



Base: Sep 16, 101 small and mid-cap publicly quoted companies; 59 Advisers

Perceived impact of UK's decision to leave the European Union over the next year or two

How would you describe the expected impact of the referendum vote on your business's prospects over the coming year or two? - Companies



How would you describe the expected impact of the referendum vote on small to mid-cap UK quoted companies' prospects over the coming year or two? - Advisers



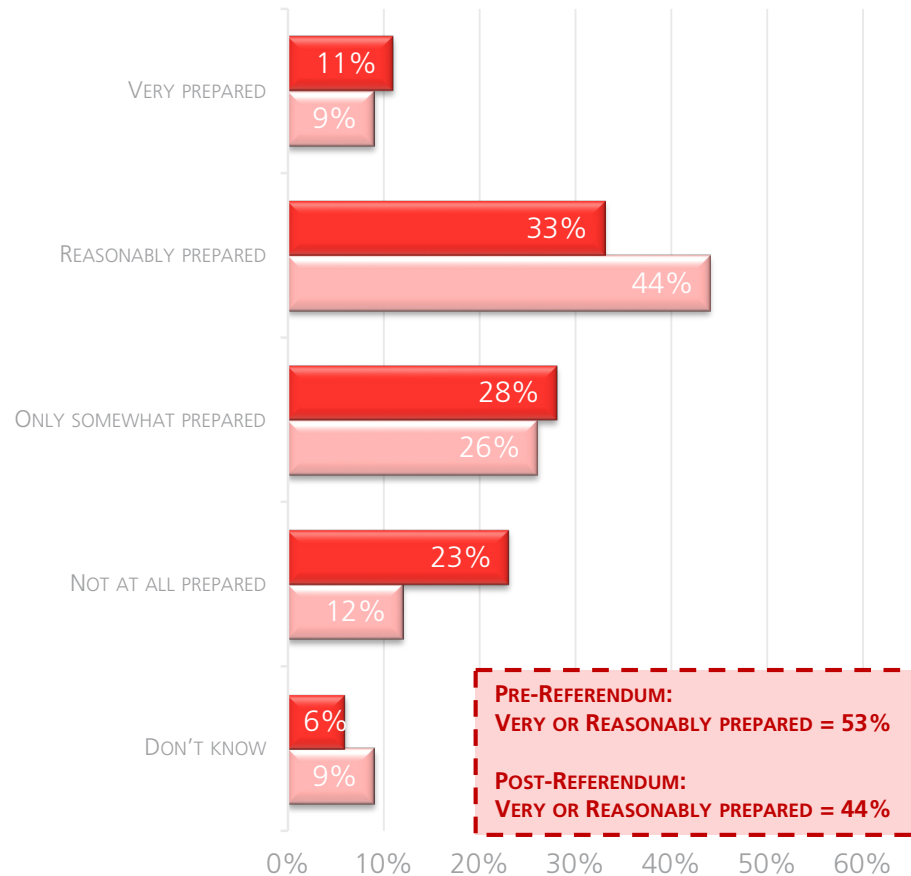
■ LARGE POSITIVE
 ■ SLIGHT POSITIVE
 ■ NO CHANGE
 ■ SLIGHT NEGATIVE
 ■ LARGE NEGATIVE
 ■ DON'T KNOW

Base: Sep 16, 101 small and mid-cap publicly quoted companies; 59 Advisers

Preparation for Brexit

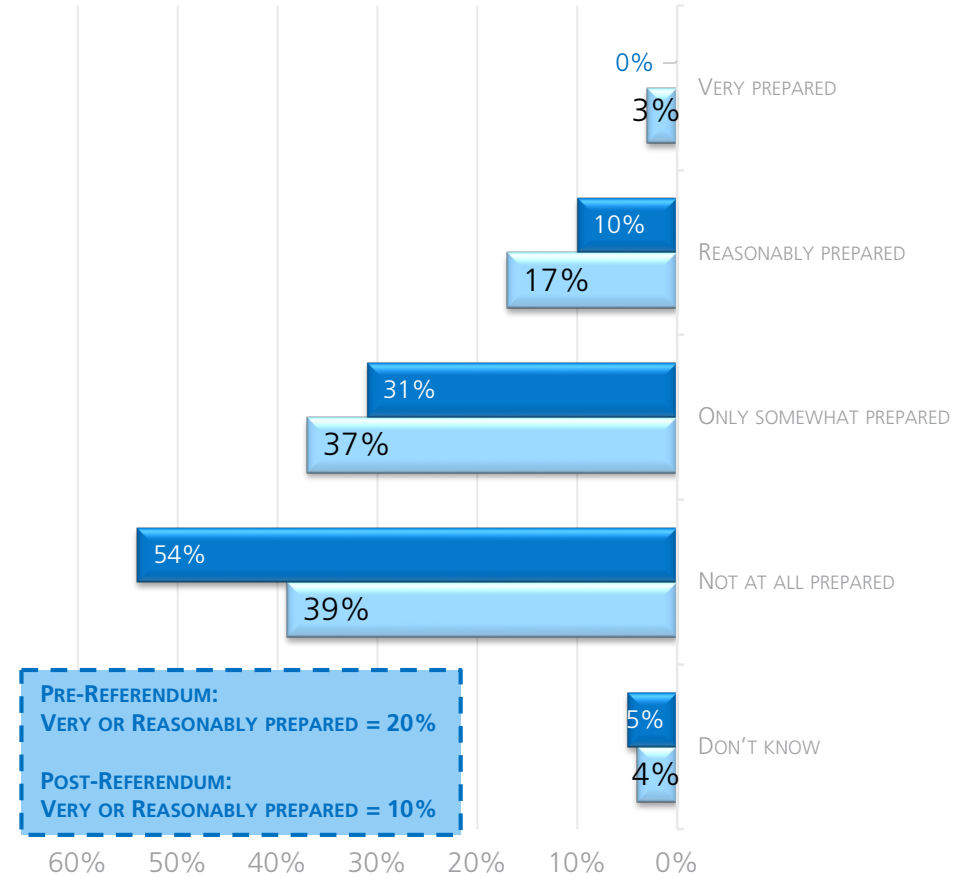
Companies

- **POST-REFERENDUM (SEP 16):** IN RETROSPECT, HOW PREPARED WAS YOUR BUSINESS FOR THE REFERENDUM DECISION?
- **PRE-REFERENDUM (MAR 16):** HOW PREPARED IS YOUR BUSINESS SHOULD THE UK VOTE TO LEAVE THE EUROPEAN UNION?



Advisers

- **POST-REFERENDUM (SEP 16):** IN RETROSPECT, HOW PREPARED DO YOU THINK SMALL AND MID-CAP UK QUOTED COMPANIES WERE FOR THE REFERENDUM DECISION?
- **PRE-REFERENDUM (MAR 16):** HOW PREPARED DO YOU THINK SMALL AND MID-CAP UK QUOTED COMPANIES ARE SHOULD THE UK VOTE TO LEAVE THE EUROPEAN UNION?

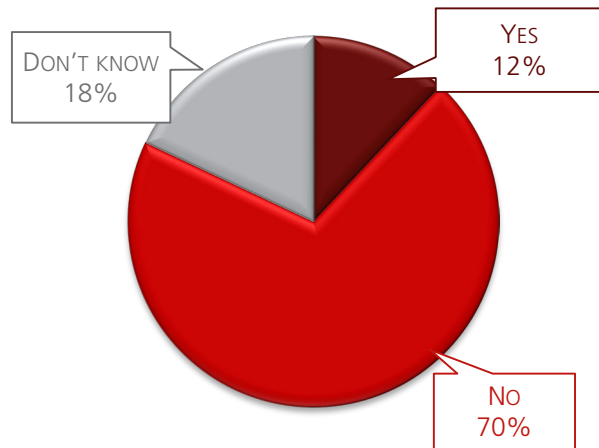


Base: Mar 16, 113; Sep 16, 101 small and mid-cap publicly quoted companies; Mar 16, 69; Sep 16, 59 Advisers

Impact on company listing in the Stock Market

Companies:

Will Brexit have an impact on your company listing in the stock market? If so, what?



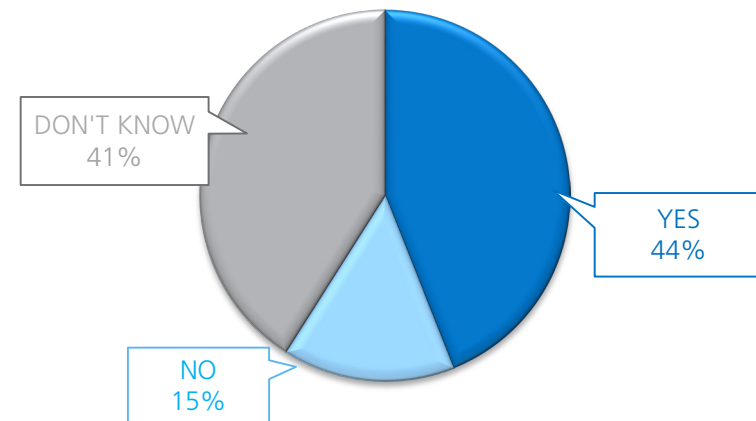
"TO DATE OUR SHARE PRICE HAS SUFFERED FROM INVESTOR MISCONCEPTIONS ABOUT THE IMPACT OF BREXIT ON OUR BUSINESS, AND SOME OF THAT HAS BEEN CORRECTED BY OUR EXPLAINING THE POSITION NOW THAT WE ARE OUT OF CLOSE PERIOD" (ANSWERING 'YES')

"UNLIKELY. THE UK IS A GOOD PLACE FOR A TAX DOMICILE, AND WE VIEW THE LONDON EXCHANGE AS A VIABLE PLACE TO RAISE CAPITAL IN AND OUTSIDE THE EU" (ANSWERING 'NO')

"ABSOLUTELY NONE...THE ACCESS TO FINANCE, AND THE REPUTATION AND SKILLS IN THE CITY AND OF THE LSE ARE STILL SECOND TO NONE" (ANSWERING 'NO')

Advisers:

Will Brexit have an impact on small to mid-cap UK quoted companies' listing in the stock market? If so, what?



"YES - IT PUTS A HOLE THROUGH THE DESIRABILITY OF OUR CAPITAL MARKETS AS THEY DIS-INTEGRATE FROM THE WIDER EUROPEAN PLATFORM MONUMENTALLY STUPID DECISION." (ANSWERING 'YES')

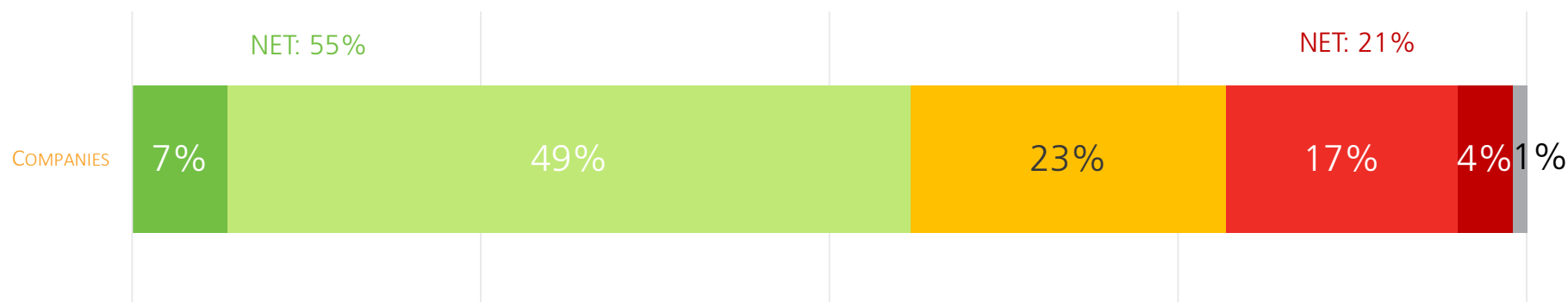
"STOCK EXCHANGES WILL BECOME MORE REGIONAL. THE EFFECT OF THIS WILL MAKE IT HARDER FOR SMALLER COMPANIES TO WANT TO GO PUBLIC AS THE ADVANTAGES OF BEING IN THE PUBLIC ARENA WILL DIMINISH AND THE ABILITY TO RAISE EXTERNAL PUBLIC MONEY WILL DIMINISH." (ANSWERING 'YES')

"I THINK MAINLAND EUROPEAN COMPANIES WILL FIND LONDON A LESS ATTRACTIVE PLACE TO LIST. I DON'T THINK IT SHOULD AFFECT UK COMPANIES IF THEIR TRADING PERFORMANCE IS NOT AFFECTED." (ANSWERING 'NO')

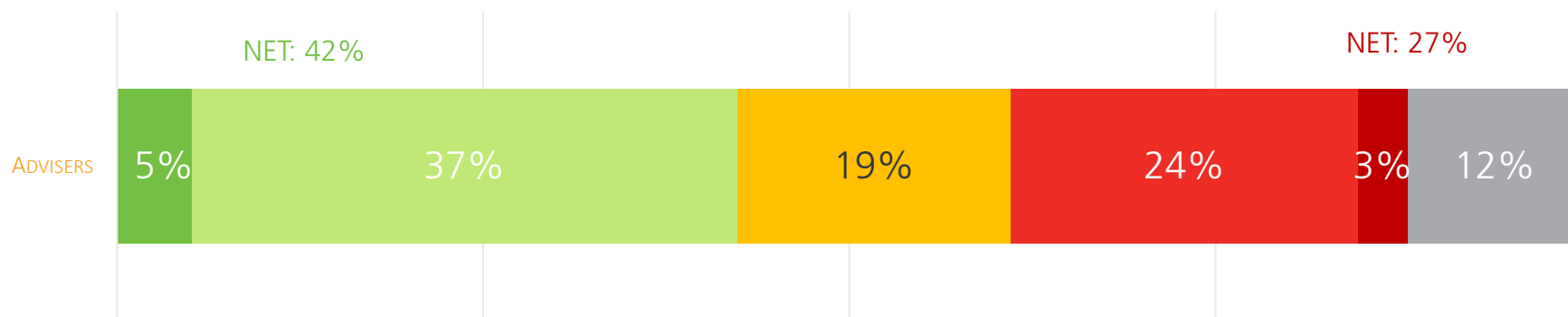
Base: Sep 16, 101 small and mid-cap publicly quoted companies; 59 Advisers

Impact of fall in the value of Sterling post-Referendum

Do you expect the fall in the value of sterling against many major currencies such as the US dollar and the Euro to be positive or negative for your business? - Companies



Do you expect the fall in the value of sterling against many major currencies such as the US dollar and the Euro to be positive or negative on small to mid-cap UK quoted companies? - Advisers



■ VERY POSITIVE
 ■ SLIGHTLY POSITIVE
 ■ NO CHANGE
 ■ SLIGHTLY NEGATIVE
 ■ VERY NEGATIVE
 ■ DON'T KNOW

Base: Sep 16, 101 small and mid-cap publicly quoted companies; 59 Advisers

Methodology

The QCA/YouGov Small and Mid-Cap Sentiment Index by the Quoted Companies Alliance (QCA) and YouGov is a biannual survey across the small and mid-cap quoted company sector. This is a report of the survey results.

This report is based upon 160 online interviews (101 small and mid-cap quoted companies and 59 advisory companies). It was conducted between 19 September and 3 October 2016 by the research company YouGov. Please note that the scores in this report may not add up to exactly 100% due to rounding. The margin for error for the survey is +/- 8%. Thank you to everyone who supported and participated in this survey.

If you would like further information on any of the issues covered in this report, please contact:

Tim Ward

Quoted Companies Alliance
6 Kinghorn Street
London
EC1A 7HW

+44 (0)20 7600 3745
tim.ward@theqca.com

Oliver Rowe

YouGov
50 Featherstone Street
London
EC1Y 8RT

+44 (0)20 7012 6000
oliver.rowe@yougov.com

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact the Quoted Companies Alliance (QCA) to discuss these matters in the context of your particular circumstances. The QCA, do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

This report relies on data, conclusions and recommendations from primary and secondary sources (including third parties) that were gathered in good faith. Although believed to be accurate, this information is not guaranteed and, as such, The Quoted Companies Alliance and YouGov can accept no liability for action taken based on any information in this report.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies. It is a company limited by guarantee registered in England under number 4025281.

YouGov Plc a company registered in England and Wales with company number 03607311 whose registered office is at 50 Featherstone Street, London, EC1Y 8RT.

© 2016 the Quoted Companies Alliance and YouGov. All rights reserved.

www.theqca.com

www.yougov.co.uk



Small and Mid Cap Sentiment Index