

**QUOTED
COMPANIES
ALLIANCE**

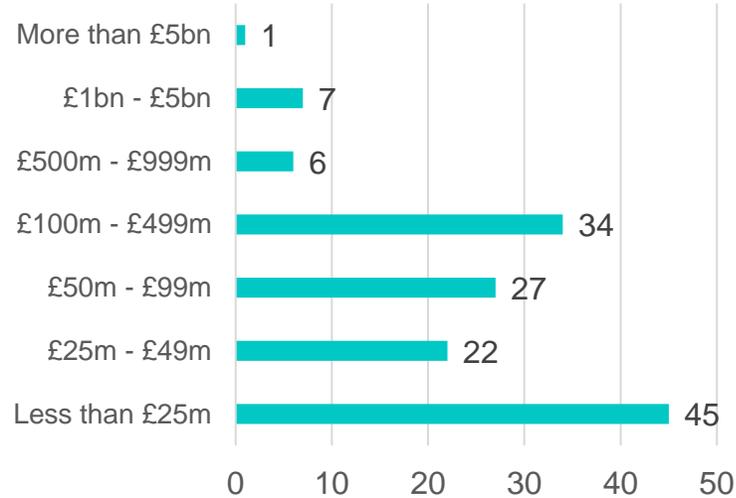
Quoted Companies Alliance Small & Mid-cap Sentiment Index

Wave 25, Q4 2020

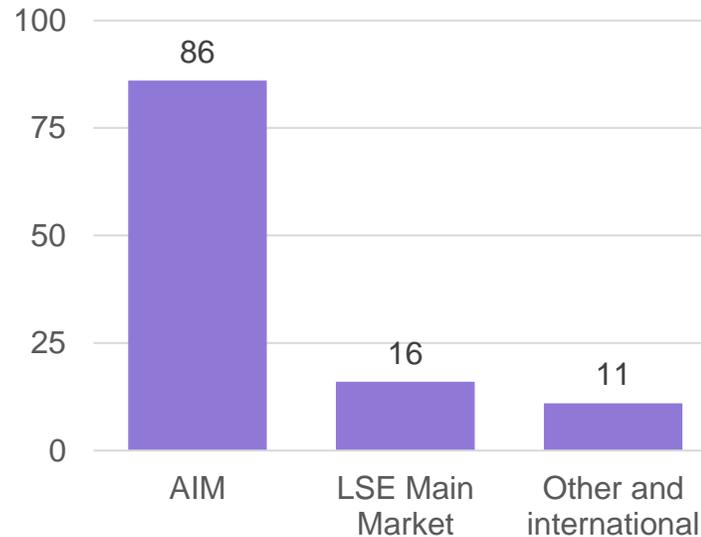
Respondent profile

- Survey conducted between **27 October and 9 November 2020** by YouGov
- **193** respondents: **141** from small and mid-cap UK quoted companies, **52** from advisory companies.

Market cap of quoted company respondents



Market of quoted company respondents



*35 no answer

Profile of advisor respondents



Key findings

Economic & Business Outlook

Uptick in optimism: Optimism in the prospects for the UK economy and small & mid-cap businesses bounces back in Q4 following a stark drop in Q2 2020, although confidence in the economy remains historically low.

Increase in expected job creation: 62% of small and mid-caps predict that they will increase jobs in the next 12 months. An increase from 31% in Q2 2020 and almost recovering to pre-pandemic Q4 2019 levels.

Rebound in expected turnover: Mean expected turnover growth rises to 13.9%. A dramatic turnaround from -5.5% in Q2 and, again, nearly back in line with pre-pandemic levels.

Capital Raising

Nearly half of small & mid-caps looking to raise capital: In the next 12 months, 45% will consider raising capital.

Greater uncertainty in how to raise capital: Jump in companies unsure on how they will raise finance from 0% to 13%. This is something that we've not seen before in the ten-year history of this survey.

Increasing ease in raising public equity finance: Small & mid-sized quoted companies see public equity as the easiest form of finance and regard it as easier now than compared to Q2 2020.

Governance & Audit

What governance committees companies have: Nearly all small & mid-caps have remuneration and audit committees. The majority also have nominations committees and around one in ten now have ESG committees.

What committees should they have? Advisors think that companies should have risk committees as well as RemCo's and NomCo's.

Audit fees have risen: For almost two-thirds, audit fees have increased this year, with an average increase of 26%.

1. Key indicators

Economic and business outlook

Key findings - Economic & business outlook

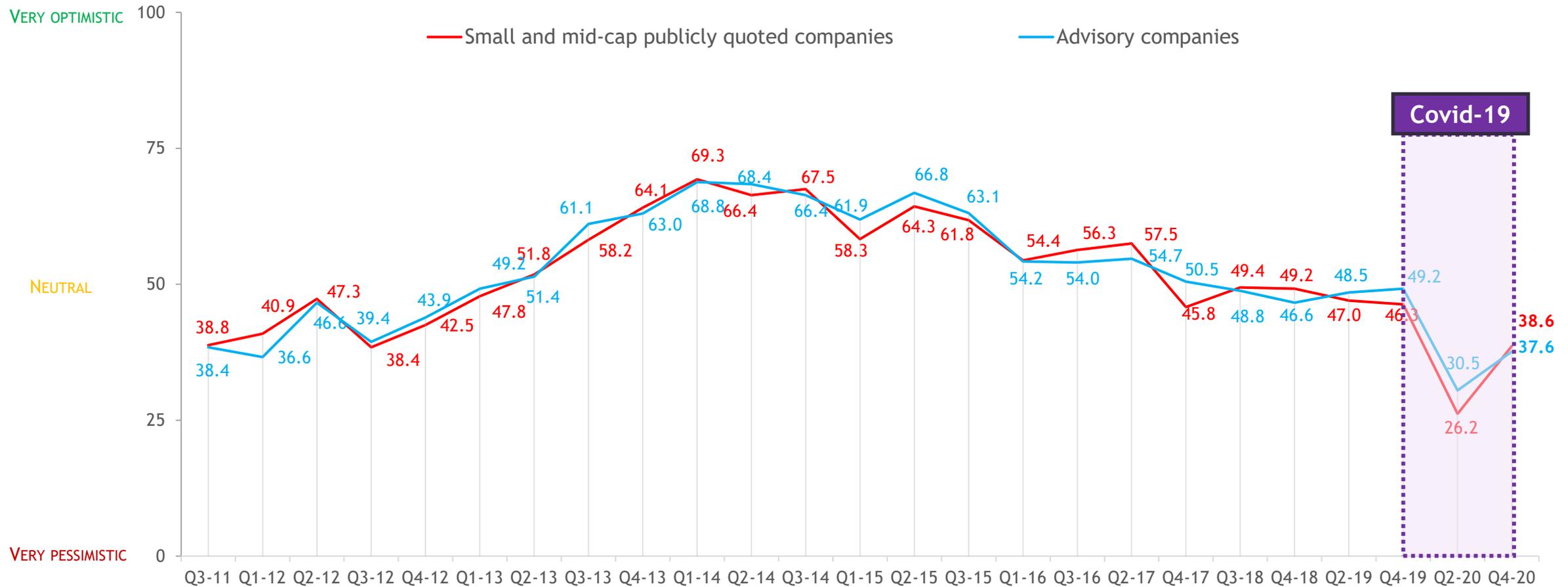
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Rebound in expected turnover: Mean expected turnover growth rises to 13.9%. A dramatic turnaround from -5.5% in Q2 and, again, nearly back in line with pre-pandemic levels.

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

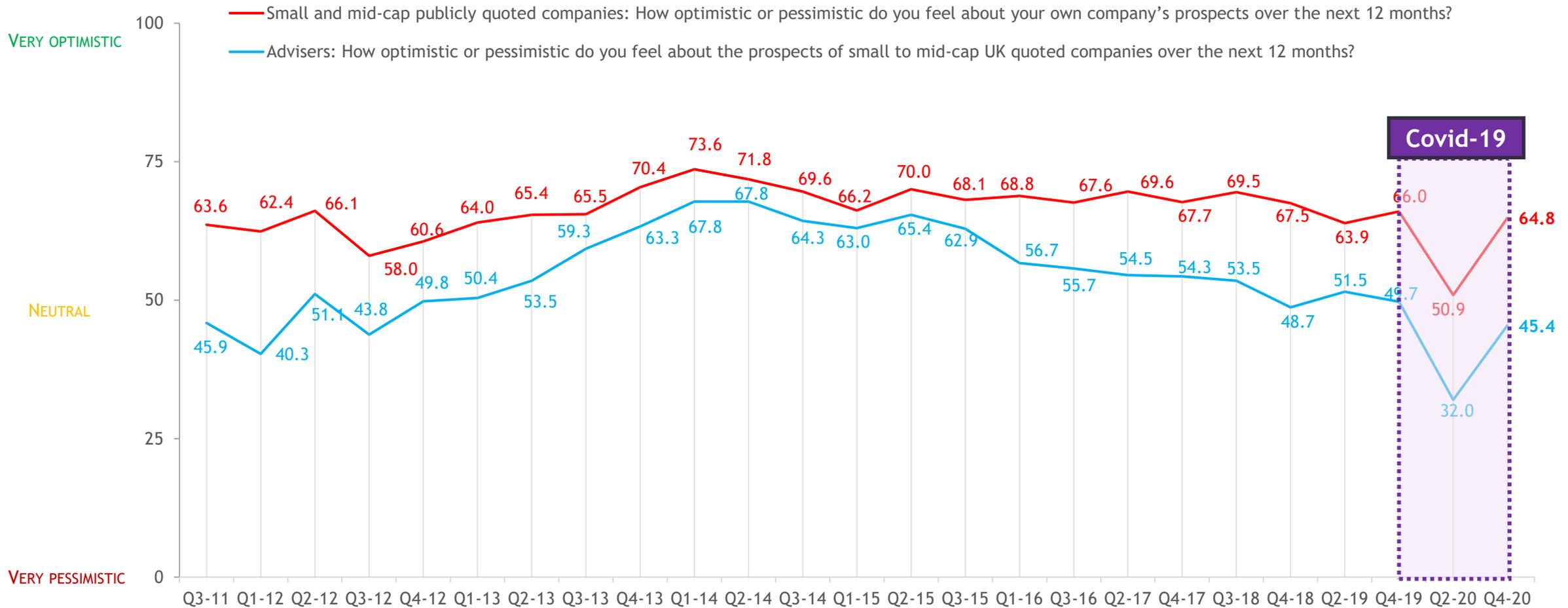
Mean scores (where 0 represents 'very pessimistic', 50 'neutral' and 100 'very optimistic')



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; MAY 17: 105; DEC 17: 109; JUN 18: 111; NOV 18: 105; JUN 19: 78; NOV 19: 110; APR 20: 132; NOV 20: 141; 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; MAY 17: 52; DEC 17: 64; JUN 18: 42; NOV 18: 47; JUN 19: 39; NOV 19: 39; APR 20: 45; NOV 20: 52; ADVISORY COMPANIES

Optimism/Pessimism toward business prospects

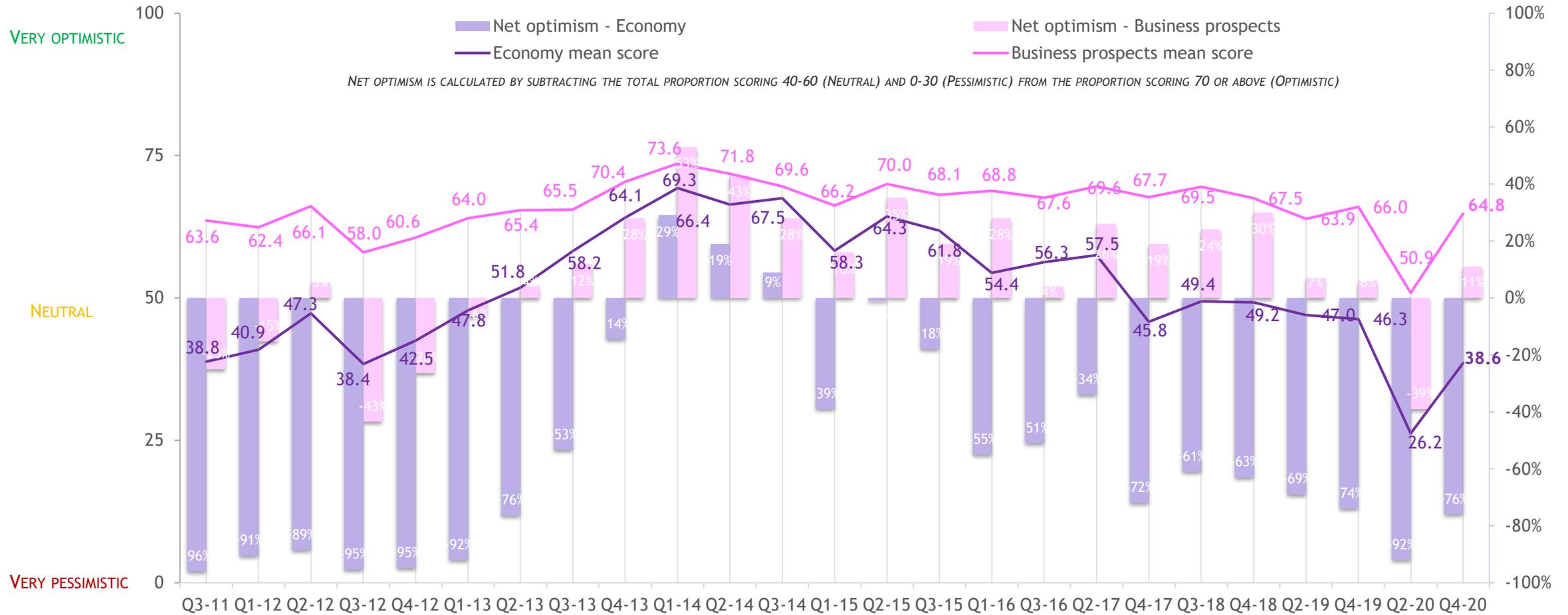
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Optimism/Pessimism: UK economy vs. Business prospects.

Mean scores (where 0 represents 'very pessimistic', 50 'neutral' and 100 'very optimistic')
Small and mid-cap quoted companies only



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

Example/representative small & mid-sized quoted company responses

“Great management team that has handled COVID-19 very well and has strengthened cash position and enhanced business efficiency even in very difficult times. While COVID-19 further waves and Brexit transition present headwinds, UK govt support for business and our management team are real positives.”

“Negative: COVID, Brexit, dysfunctional politics in general.”

“The Government response to the two macro-economic issues of COVID-19 and Brexit are having a very negative impact on business, jobs and the UK economic position in an increasingly competitive world.”

What would you say are the main factors currently driving your level of confidence in small and mid-cap UK quoted companies over the coming 12 months?

Example/representative advisory firm respondents

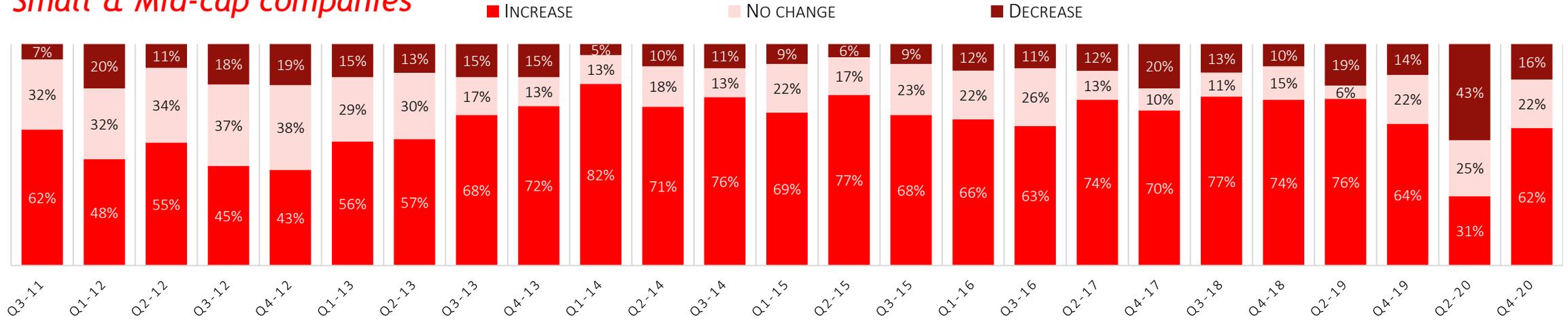
“An astonishing number of S/M cap quoted companies have been able to be agile and pivot into alternative lines of business to maintain trade and some aspect of profitability. The reasons for the reduced confidence are (a) some businesses trading in hard hit sectors will not be in a position to recover and (b) the strain on management and the drain on reserves for prolonged COVID restrictions are likely to reduce opportunities and profits in the next 12 months.”

“1. COVID - negative; 2. Brexit - negative; 3. overall health of the UK economy - positive 4. low interest rates - positive; 5. growing employee ownership sector - positive.”

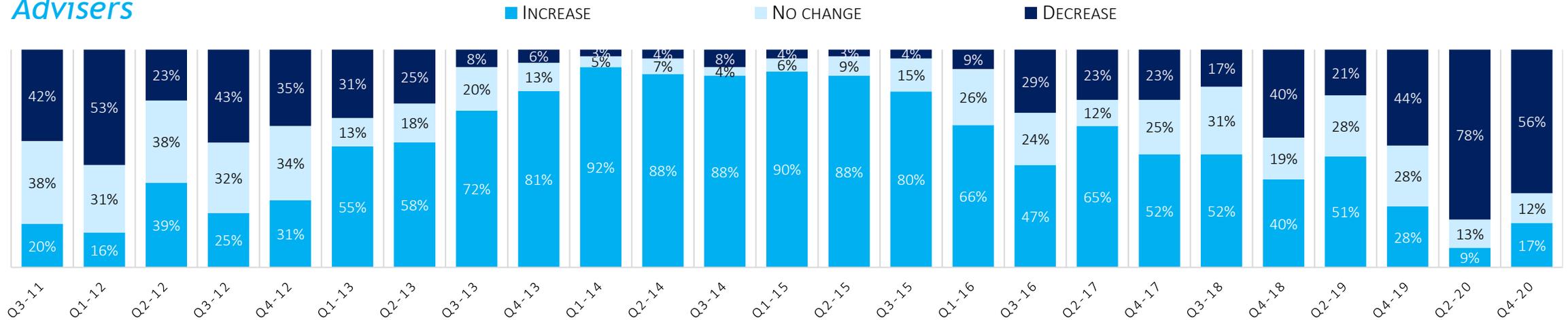
“Nimble companies should be able to weather the COVID storm so on balance should do better than the economy as a whole.”

Expectations regarding job growth

Small & Mid-cap companies

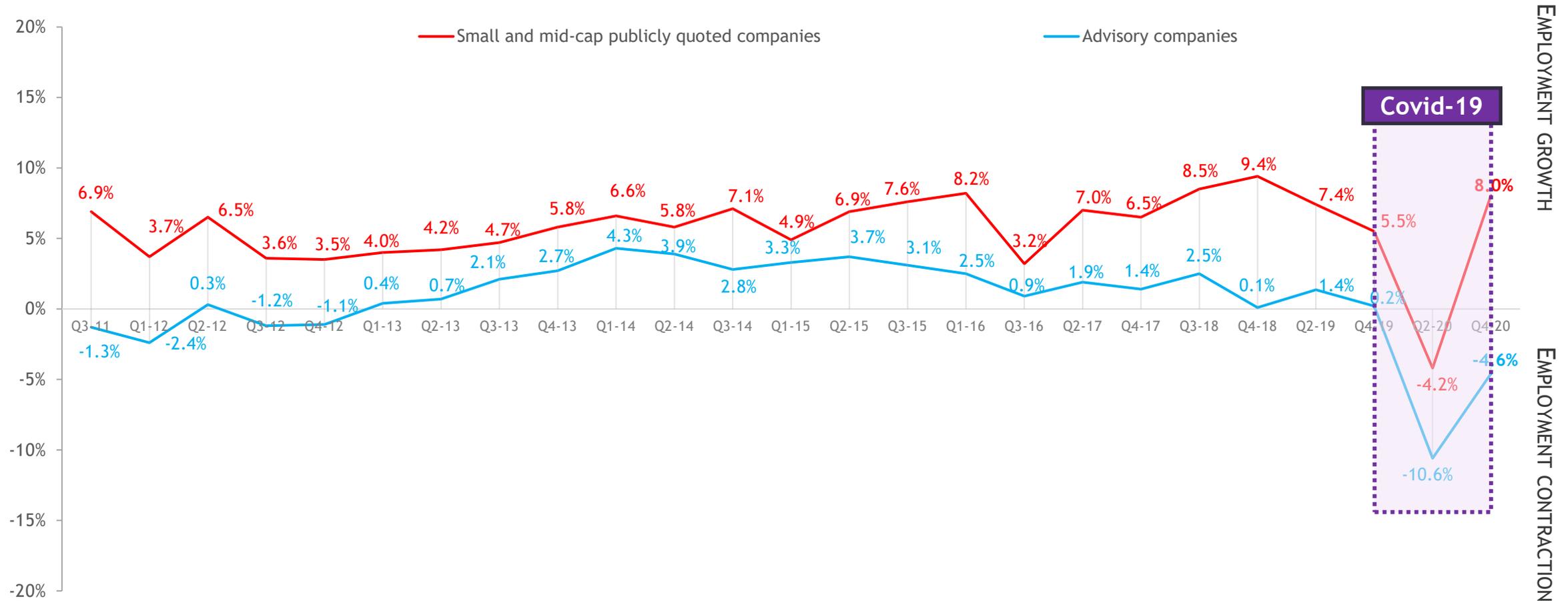


Advisers



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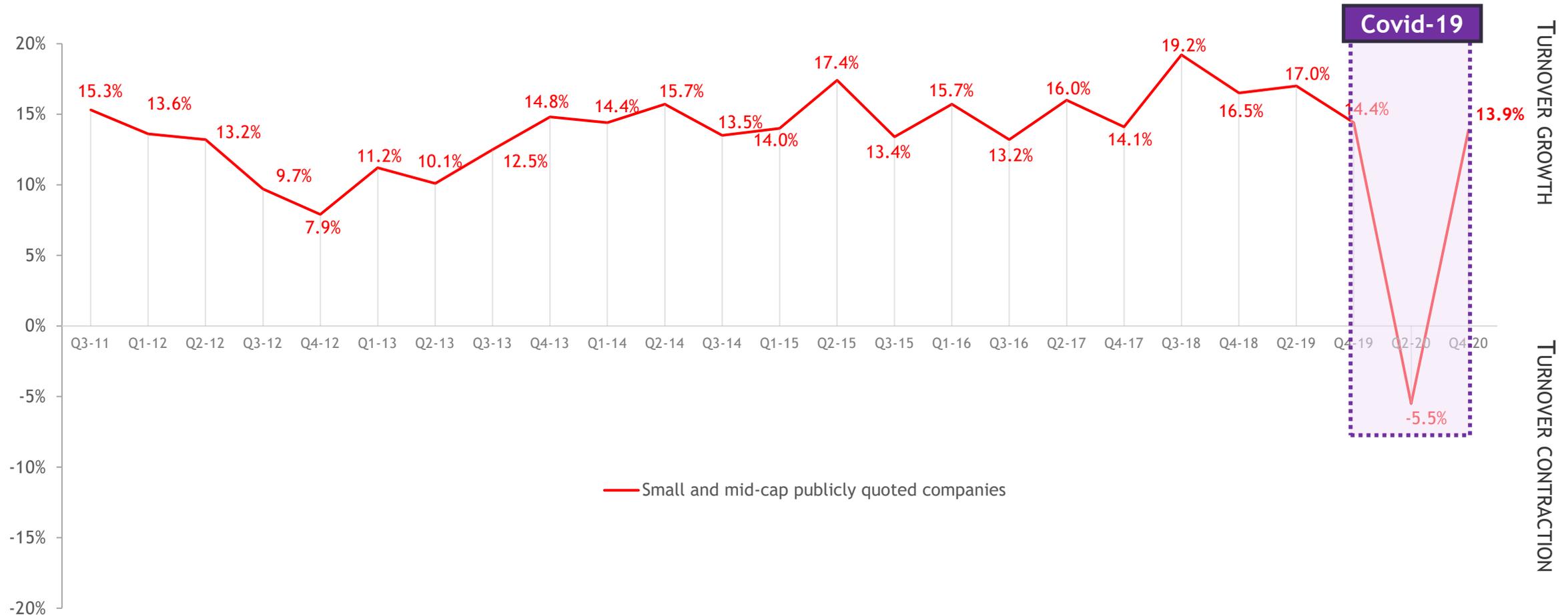
Expectations regarding job growth: Mean expected employment change over the next 12 months



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Expectations regarding turnover: Mean expected turnover change over the next 12 months

Small and mid-cap companies only (not asked to advisers)



2. Access to Capital

Fundraising plans and challenges

Key findings - Capital raising

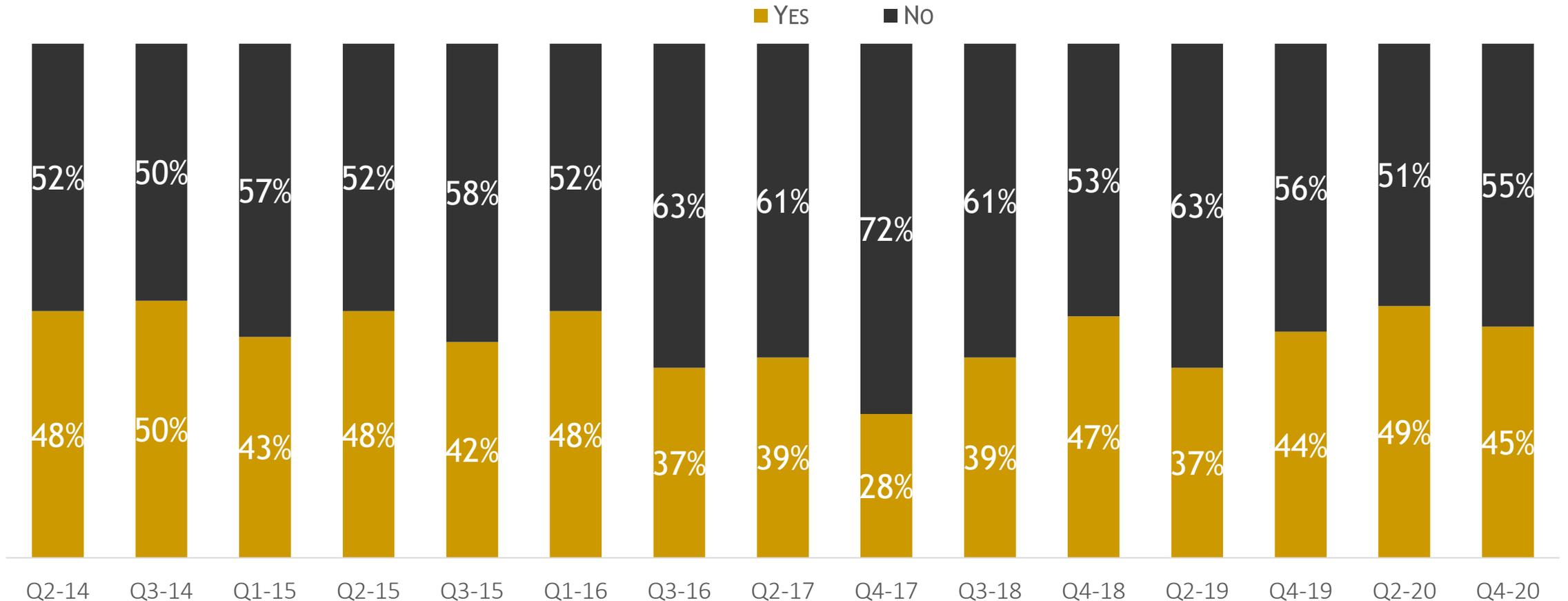
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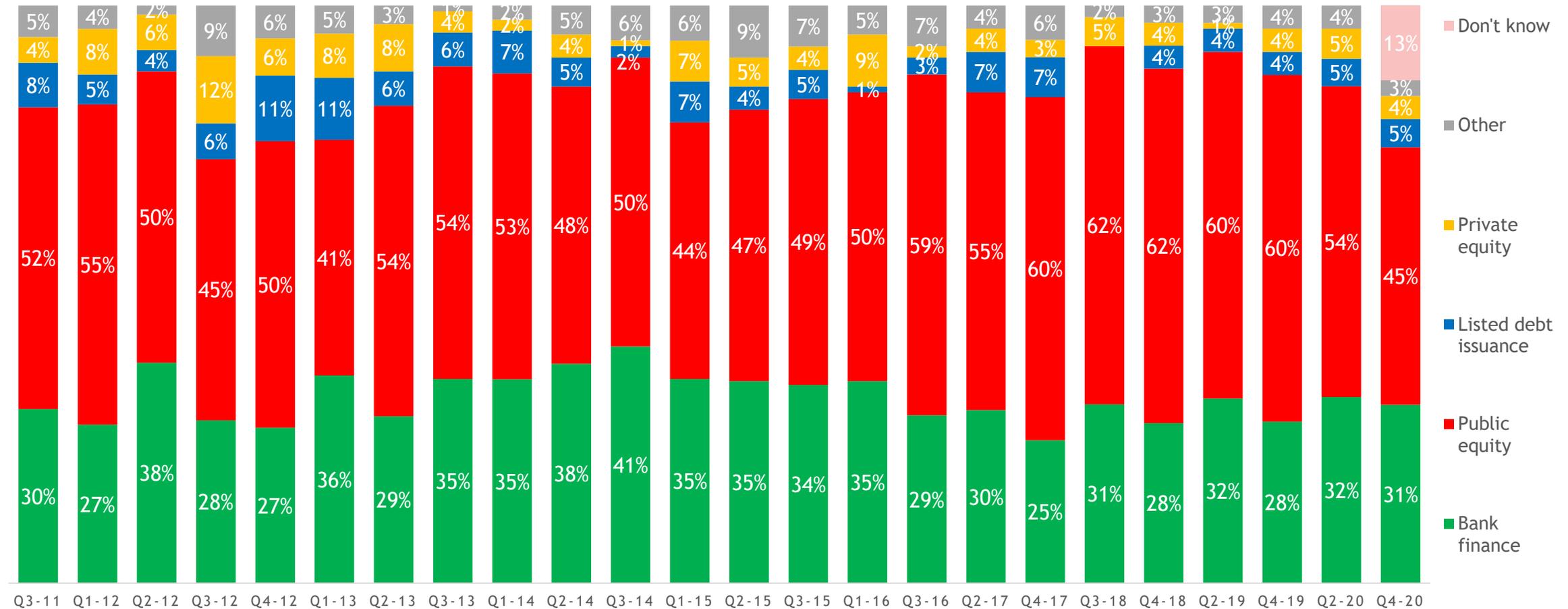
Raising capital for small and mid-caps

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



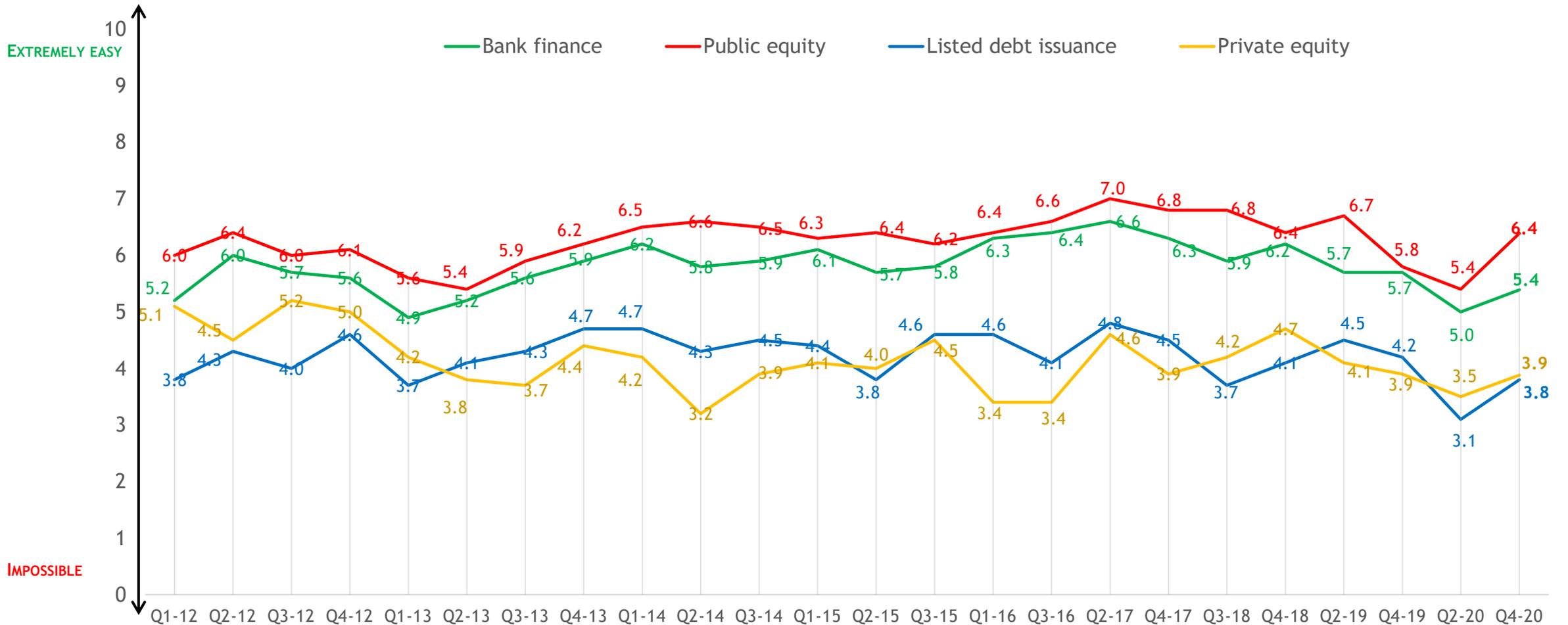
Raising capital (small and mid-caps only)

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



Ease of raising capital for small and mid-caps

How easy or difficult would your company currently find it to raise finance through the following channels? **Mean scores - Companies**



3. Topical questions

Governance committees and audit fees

Key findings - Governance & Audit

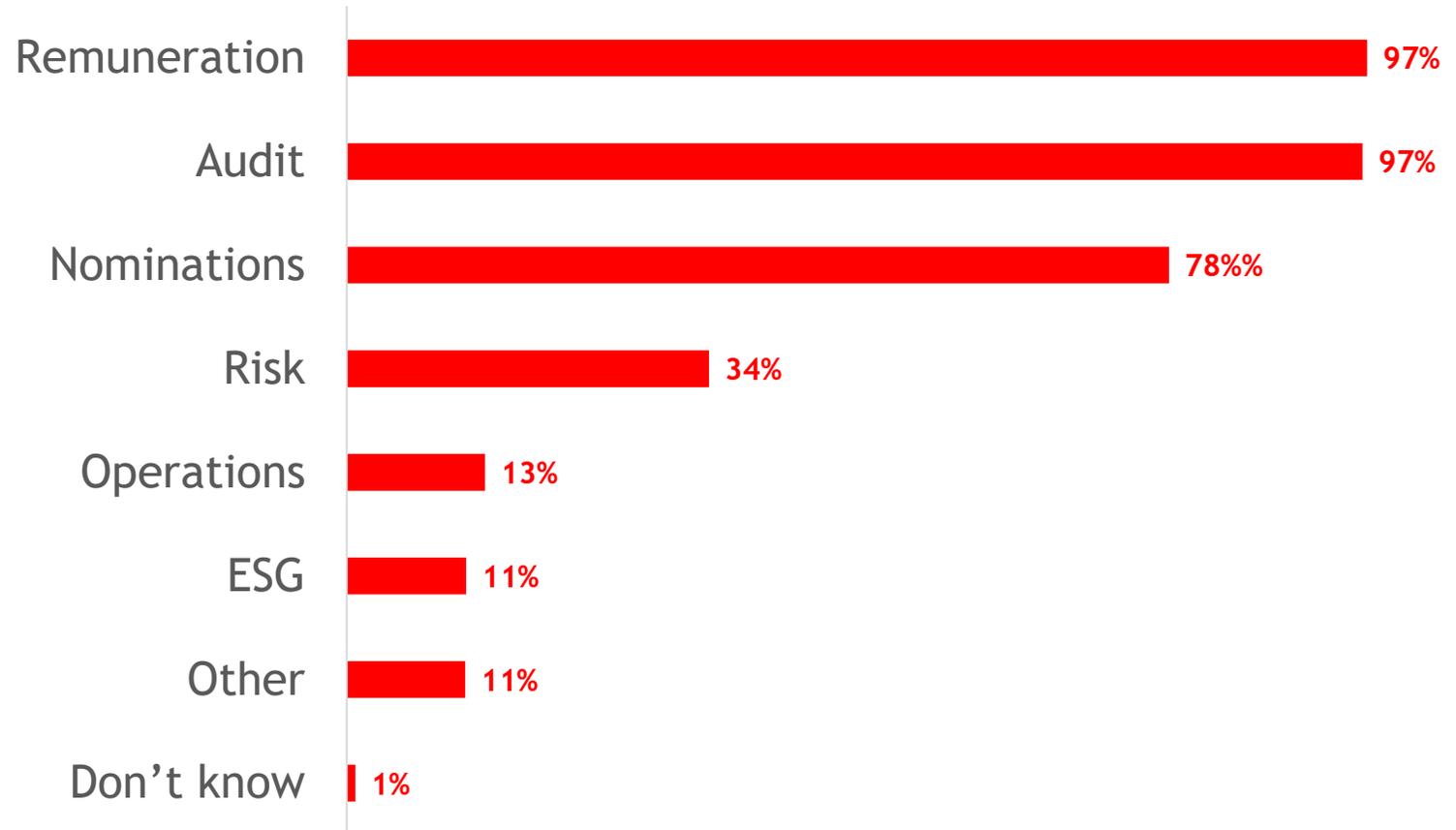
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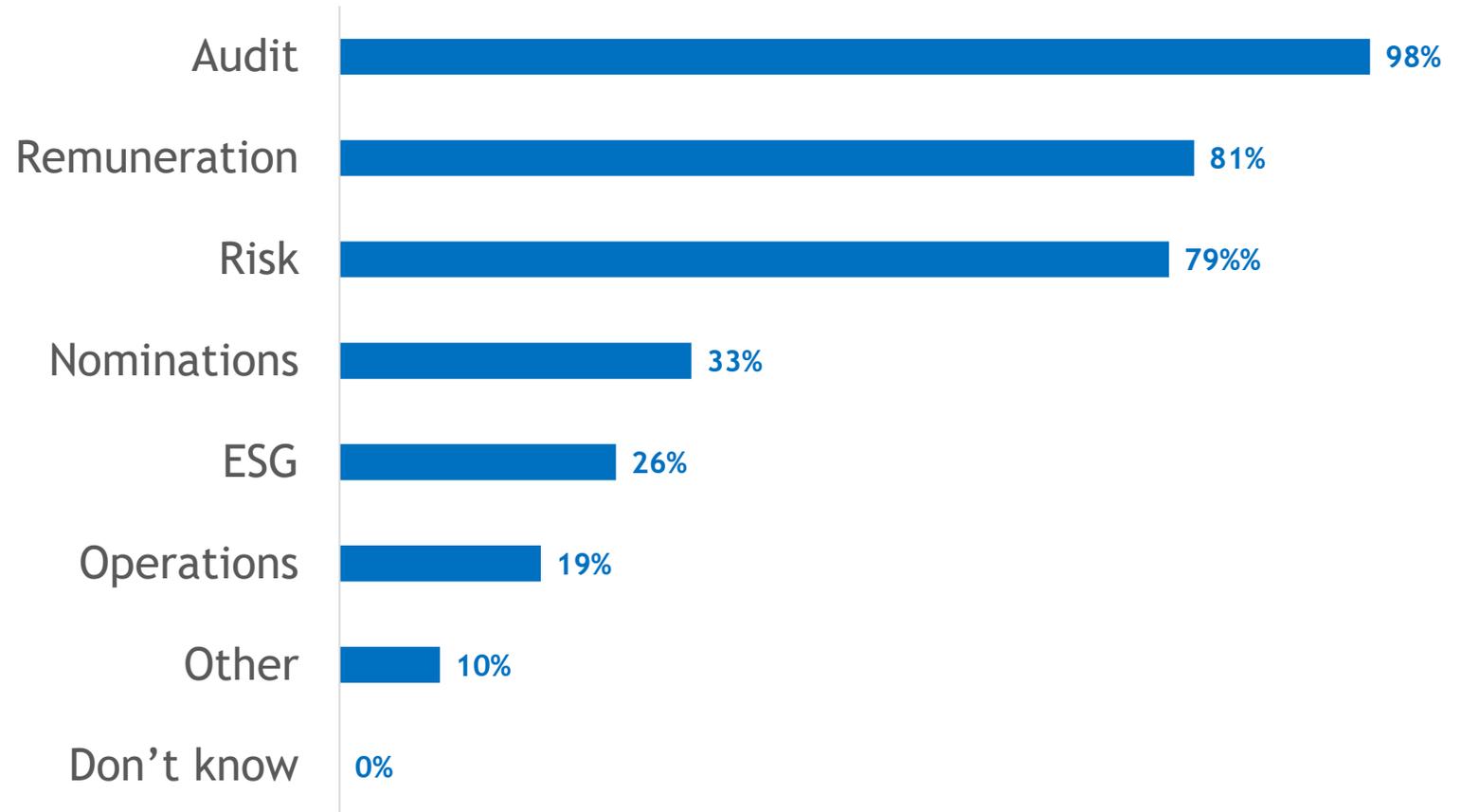
Which governance committees do small & mid-caps have?

COMPANIES: Which of the following committees, if any, does your company have?



Which committees do advisors think companies should have?

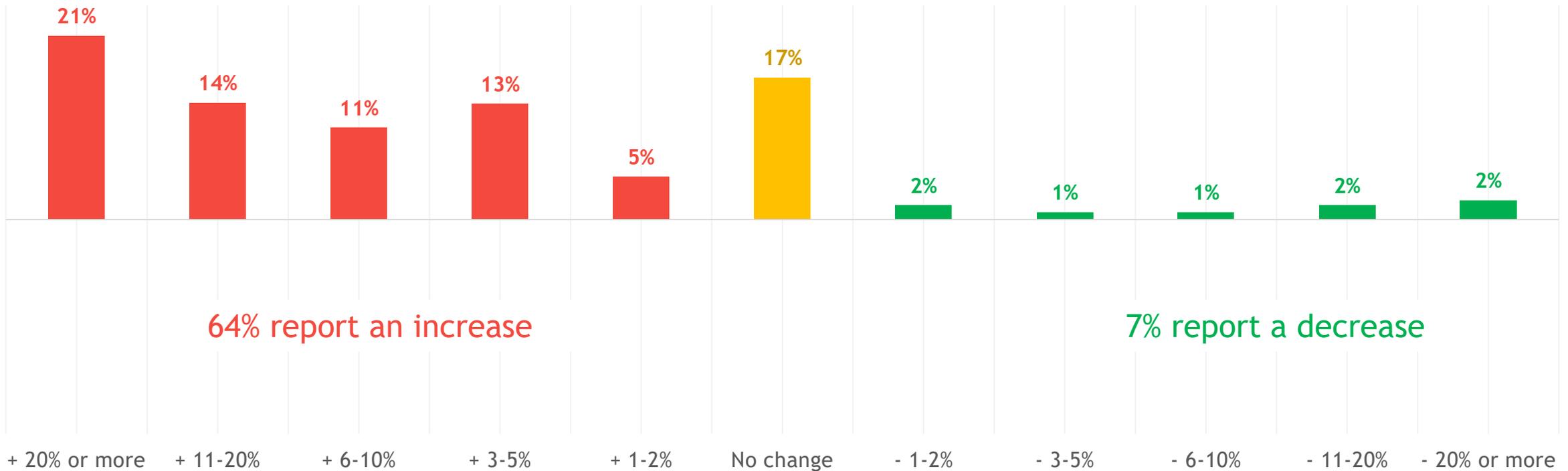
ADVISORS: Which of the following committees, if any, should small and mid-sized quoted companies have?



Audit fees

The average annual audit fee of small and mid-cap quoted companies = £138,000

By how much did this change from the previous year?



Don't know = 12%

Comments in relation to audit fees

“Audit fees for listed companies are out of control. The ability to change is restricted by major investors wanting a top 4 even though in our experience they often add little value. IFRS rules get more complex and more ridiculous every year, rendering statutory accounts now completely meaningless to the average investor. Much of the front end of the accounts are probably never read but auditors and the FRC are making them longer and longer.”

“Auditors are now beginning to price AIM listed SMEs out of the market, with little capacity in other firms to pick up these companies as the regulator is recruiting heavily from the audit profession. There is the potential for an audit crisis for AIM listed SMEs in the next 18-24 months.”

“Audit fee inflation appears also to be driven by increasing PLC regulation and audit environment.”

“Audit is becoming less and less effective as a result of the audit regulator who has lost sight of what and how an audit should be done in the real world. They are driving a box ticking approach with statistical transaction testing that will virtually never find issues. This decreases the value of the audit to all stakeholders.”



Background

- 193 interviews conducted between 27/10/20 and 09/11/20.
- 141 from small and mid-cap UK quoted companies, 52 from advisory companies.
- Methodology: This survey has been conducted using an online interview administered to members and associates of the QCA. An email was sent to the QCA database, inviting them to take part in the survey and providing a link to it. A link to the survey was also circulated by the QCA to their contacts. The sample definition is "small and mid-cap UK quoted companies and advisory companies". The responding sample is weighted by industry to be representative of small and mid-cap UK quoted companies, as derived from London Stock Exchange data, but the advisory companies are not weighted in any way.
- Note: Where the percentages for a chart are calculated on bases fewer than 40 respondents these must not be reported as they do not represent a wide enough cross-section of the target population to be considered statistically reliable. These questions and figures will be italicised.

