



Press release

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Subject **Small and mid-cap companies' confidence improves, but access to funding deteriorates**

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Lack of knowledge on alternative funding sources could threaten growth

Small and mid-cap quoted companies' confidence has improved but access to funding has deteriorated, according to the latest quarterly QCA/BDO Small & Mid-Cap Sentiment Index. The Index reveals that the sector finds it increasingly difficult to raise capital from the main sources of funding¹, and that a lack of knowledge about alternative funding sources such as corporate bonds could impede growth.

Companies' optimism about their own prospects has increased substantially, rising to 64.0 from 60.6 last quarter. Companies' confidence in the UK economy is at its highest level since the survey began 18 months ago, but at 47.8 is still just below the 50.0 level that would indicate optimism.

In addition, over half (56%) of small and mid-cap companies expect the number of their full-time employees to increase over the next 12 months - the highest level seen on the index. Turnover expectations have also improved, with the mean expected turnover growth now at 11.2%, up from 7.9% last quarter.

Despite improving confidence, access to funding has deteriorated. Both companies and advisors are reporting that all the main sources of funding are becoming more difficult to access. Ease of raising finance through private equity fell the most from the previous quarter, with companies rating the ease of raising finance through this channel at 4.2 out of 10, down from 5.0 last quarter.²

Scott Knight, Partner, BDO LLP commented: "The critical issue at present is the availability of capital. Companies have auspicious prospects but need capital to convert these into growth. A liquid capital market is a prerequisite for the small and mid-cap sector to remain as the crucial engine for UK growth."

Tim Ward, Chief Executive of the Quoted Companies Alliance, said: "Confidence among small and mid-cap companies is creeping up but if finance is not available, then we will not see

¹ Through bank finance, public equity, private equity, listed debt issuance channels.

² Where 10 is 'extremely easy' and 0 is 'impossible'

long-term growth - it's as simple as that. Government needs to be alive to this and ensure that these engines of growth have access to all the fuel they need.”

Compounding the threat that the lack of access to capital poses to growth plans, the report also exposes a worrying blindspot - among both small and mid cap companies and their advisors - regarding potential alternative sources of funding that could expedite growth. The Index uncovers a widespread lack of knowledge about corporate bonds as a potential alternative source of funding. More than one fifth (22%) of small and mid-cap businesses did not know what the main benefit of issuing corporate bonds was, and nearly two thirds (62%) either would not be interested or could not specify if they would be interested in issuing a corporate bond as an alternative source of finance.

Similarly, a quarter (23%) of advisors admit they do not know whether they would recommend issuing a corporate bond to clients as an alternative source of funding and only 16% of advisors believe that there is sufficient information available for companies to evaluate the market effectively for corporate bonds. Half of advisors (49%) were not aware of the London Stock Exchange's electronic Order Book for retail bonds.

Tim Ward, Chief Executive of the Quoted Companies Alliance, said: “It's worrying that a lack of knowledge around corporate bonds extends to advisors as well as small and mid-cap companies. Public debt is not suitable for every company, but there is a clear need for the market to educate and inform, and advisors have a role to play in opening up this dialogue. Advisors continue to be ambivalent about small and mid caps' prospects and this quarter's report reveals that they continue to sit on the knife edge of neutrality - a painful place to be.”

Scott Knight Partner, BDO LLP continued, “Our research highlights a widespread lack of knowledge about the corporate bond market among companies and their advisors. Companies that are capital constrained are in a holding pattern; they see opportunities for growth but feel reluctant to invest if it stretches the working capital too far. But there are options out there for small and mid-caps.”

- Ends -

Methodological notes The QCA/BDO Small & Mid-Cap Sentiment Index by BDO and the Quoted Companies Alliance (QCA) is an online quarterly survey across the small and mid-cap quoted sector.

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 249 adults. 73% of the small and mid-cap quoted company respondents were employees in a board level position, while 46% of advisor respondents were in a senior management position. Fieldwork was undertaken between 15/01/13 and 31/01/13. The survey was carried out online. The figures have been weighted by industry.

The sample definition is “small and mid-cap UK quoted companies and advisory companies”. The responding sample of small and mid-cap quoted companies is weighted by industry to be representative of all small and mid-cap UK quoted companies, as derived from London Stock Exchange data, but the advisory companies are not weighted in any way.

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The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies. We campaign, we inform and we interact to help our members keep their businesses ahead. Through our activities, we ensure that our influence always creates impact for our members. For more information, please visit www.theqca.com.

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Contacts

Charlie Eccleshare, John Davies, or Orla Swindells at Blue Rubicon on behalf of BDO LLP
Tel: 0207 260 2700
Fax: 0207 260 2701
Email: bdo@bluerubicon.com

<http://bdoqcasentimentindex.co.uk/>
<http://www.bdo.uk.com/>
<https://twitter.com/QCAandBDO>

Kate Jalbert at the Quoted Companies Alliance
Tel: 020 7600 3745
Email: kate.jalbert@theqca.com

www.theqca.com
