



Press release

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Subject **Confidence stalls among small and mid-caps, while outdated regulations hamper liquidity**

Confidence stalls among small and mid-caps, while outdated regulations hamper liquidity

The latest QCA/BDO Small & Mid-Cap Sentiment Index today reveals that confidence for the UK economy's prospects among small and mid-cap companies has stalled, dwindling to levels not seen since September 2011.

The report - from accountants and business advisers BDO LLP and the independent membership organisation for small and mid-size quoted companies, the Quoted Companies Alliance (QCA) - uncovers that confidence in the UK economy for the next 12 months has dropped significantly among small and mid-cap quoted companies, from a reading of 47.3 in April 2012 to 38.4 in June 2012¹. Small and mid-cap companies and the advisory companies that support them now expect the UK's economic performance over the next year will be worse than the last.

The findings also expose the equity markets as a major concern for small and mid-caps. A striking 83% believe the equity markets are either having no impact, or are actually hindering, their development. The most common hindrance cited by companies (62%) was a lack of liquidity.

Tim Ward, Chief Executive of the Quoted Companies Alliance, said "BDO and the Quoted Companies Alliance share the view that the double dip recession is now hurting small and mid-cap companies more than in previous quarters. Access to finance and liquidity are areas of concern: more companies are now planning to raise capital in the next twelve months than we have seen previously. We need to ensure that they can do so if we want to see economic recovery."

Scott Knight, Partner, BDO LLP commented: "Small and mid-caps are clearly sensitive to the economic context - we've re-entered recession and the instability in the eurozone is ongoing - so a confidence blip is to be expected, but there is a level of malaise regarding the equity markets and liquidity that is a cause for concern here."

Despite this, 45% of small and mid-caps would use public equity to raise capital if the need were to arise in the next twelve months, compared to 28% who would use bank finance. This points to a preference for the markets, and is evidenced by a groundswell of support for

¹ Where 100 is very optimistic, 50 is neutral and 0 is very pessimistic.

changes to the rules around the issuing of shares that could help address the liquidity problems the sector identifies:

- more than two thirds (69%) of small and mid-cap companies think they should be allowed to raise the amount of share capital they can issue without having to provide a prospectus - from the current 10% legal limit to an average of 24.8%
- on average, small and mid-cap quoted companies and their advisors believe that companies should be able to seek prior shareholder approval annually to disapply pre-emption rights to a maximum of 17.9% of their share capital (currently guidelines suggest this should only be 5%²); and,
- two fifths (39%) think smaller public companies shouldn't have to hold AGMs - poor attendance levels are explained by shareholder apathy (69%) and a lack of new information offered (57%)

Scott Knight, Partner, BDO LLP continued: "There's no silver bullet to solve the liquidity problem, but small and mid-cap companies have outlined a number of steps that could be taken to address the lack of buyers on the markets without posing a risk to private investors. The rules need to be brought into the 21st Century. The application of pre-emptive rights is antiquated - private investors don't need this level of so-called 'protection'; they are savvy enough to make well informed, rational decisions about share purchase.

"When you consider the prohibitive costs of issuing prospectuses and annual reports - whose appropriateness is questioned by companies - and the fact that we're emerging from a very poorly attended AGM season, it's clear the small and mid-cap sector would benefit from a level of liberalisation of current regulations. Otherwise they could stultify growth at a time when small and mid-cap companies clearly need a boost."

Tim Ward, Chief Executive of the Quoted Companies Alliance, noted "We need a focused debate on whether the current pre-emption and prospectus issuance rules are appropriate for small and mid-cap quoted companies. We understand why pre-emption rules are so carefully guarded by institutional investors, but we must balance this with enabling companies to be able to raise money efficiently, to grow and create jobs in this difficult time. Ultimately this will create long-term value for shareholders and the economy."

Other calls for regulatory liberalisation identified by the latest QCA/BDO Small & Mid-Cap Sentiment Index include:

- Three quarters (74%) of small and mid-caps think quarterly reporting leads to short-termism by investors
- Over two-thirds (69%) of small and mid-caps think that company annual reports and accounts are too long, and 61% think they are too complex
- Despite their length, less than half (45%) of advisory companies think that annual reports and accounts convey the key, principle risks facing small and mid-cap companies

- Ends -

Methodological notes The QCA/BDO Small and Mid-Cap Sentiment Index was first published in October 2011 and takes place on a quarterly basis: 204 interviews conducted between 18/06/12 and 29/06/12. 136 small and mid-cap UK quoted companies, 68 advisory companies. This survey has been conducted by independent research company YouGov, on behalf of BDO and the Quoted Companies Alliance, using an online interview administered to members and associates of the Quoted Companies

² Pre-emption Group Guidelines - <http://www.ivis.co.uk/PreEmptionGroupGuidelines.aspx>

Alliance. An email was sent by YouGov to the Quoted Companies Alliance's database, inviting them to take part in the survey and providing a link to the survey. A link to the survey was also posted on the Quoted Companies Alliance website. 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. This sector is defined as those 2,000 companies that are quoted in the UK outside of the FTSE 350. 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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