

PULSE

How much could you afford to lose?

The total value of corporate reputation for all UK listed companies could be worth as much as £1.7tn

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External shocks: Remaining part of the EU seems the most beneficial option for small and mid-cap companies

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Small and mid-cap companies believe that **28% of their value is accounted for by reputation...**

...in this issue we report on what companies are doing **to protect this valuable asset** and to avoid PR and share price disasters.

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THE SMALL AND MID-CAP SENTIMENT INDEX

PULSE

PULSE is a joint publication by BDO LLP and the Quoted Companies Alliance based on research conducted by YouGov

Since January last year, we have seen a gradual decline of confidence in the UK economy - from both companies and their advisers.



SCOTT KNIGHT
Partner, BDO LLP

TIM WARD
Chief Executive, QCA

The trend line is falling and we wonder where this is taking us. Although economic news is relatively positive, the markets are troubled and overseas events are disturbing. All of this leads us to believe that this volatility is likely to continue for some time.

The trend concerning companies' own prospects remains broadly static. This indicates that companies see themselves, understandably, more in control of their own destiny than they can be over the UK economy.

Put another way, they are less affected by the overall UK economy – they are often innovators and with relatively small market shares, working in areas where macroeconomic factors have less influence. All in all, we are living in turbulent times and most of the results of this survey reflect this.

Fewer companies expect to take on new employees. However, the mean expected employment change over the next 12 months is at a record high, with companies, on average, expecting to increase their workforce by 7.6%.

The same companies expect sales to increase by 13.4% – the lowest level since late 2013.

These mixed messages reflect the confusing state of affairs in the UK economy. Fewer companies are looking to raise finance over the next 12 months, with only 42% of companies considering this now. Public equity and bank finance are, as ever, the preferred sources.

We also asked about corporate reputation and received some very interesting views. The total value of all the securities on the London Stock Exchange (excluding debt at the end of August) was £6.1 trillion. Small and mid-cap companies believe that 28% of their value is accounted for by reputation. Extrapolating this, the total value of corporate reputation for all UK listed companies could be worth as much as £1.7 trillion.

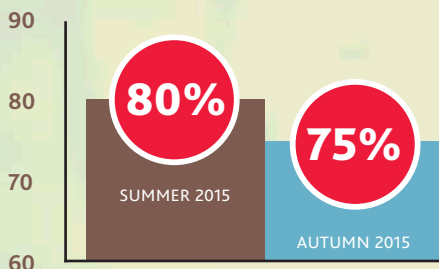
In light of this and the recent issues affecting the German motor industry, UK companies would be well advised to do as much as they can to protect their share of this very valuable asset. Our survey also reports on what companies are doing to protect their corporate reputations.

Finally, we have taken the pulse of companies' and advisers' attitudes towards the forthcoming UK referendum on Europe. Companies remain positive about Europe's impact on their business and would like to remain in the EU. However, many would like the UK to renegotiate the terms of EU membership as part of this.

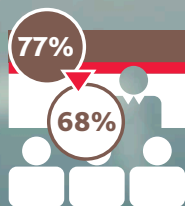
There is much for both companies and their advisers to consider in these turbulent times. We trust this edition of PULSE will help to throw light on some of the issues facing the small and mid-cap quoted community.

If you have other areas you would like us to consider for future editions, please do let us know.

BDO and the Quoted Companies Alliance have created **PULSE** to give you more access to and flavour of the views you and others have expressed through our regular survey of the leaders of the small and mid-cap quoted company sector.



Confidence in the UK economy and business prospects have fallen following a post-election uptick. 75% of small and mid-cap quoted companies are optimistic about the UK economy over the next 12 months, compared to 80% in our summer 2015 issue. 78% of companies are optimistic about their own business prospects for the next year, compared to 83% in our summer 2015 issue.

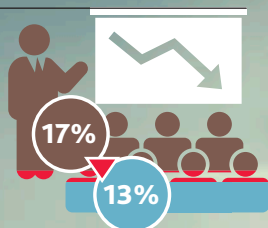


Fewer companies will hire more people. Whilst the number of small and mid-cap quoted companies expecting to hire employees has fallen from 77% in our

Summer 2015 issue to 68%, the mean expected employment change (+7.6%) is at its highest level since our survey began in 2011.

Turnover expectations have fallen.

Small and mid-cap quoted companies now expect their turnover to grow on average by 13.4% compared to 17.4% in our last issue. This is back to the levels we saw in early 2012, when we were in the midst of the recession.



The majority think that corporate reputation is important, but it is unclear what is being done to manage it. 79% of small and mid-cap quoted companies believe that corporate reputation is very important to their company.

Fewer advisers (52%) think that this is actually the case. Furthermore, many advisers tell us that, despite companies believing it is important, very few companies have actually spent time considering corporate reputation in great detail.




£19 million is at stake for an average-sized AIM quoted company when it faces a corporate reputation risk. Small and mid-cap quoted companies

estimate that around 28% of their organisation's market value is based on reputation.



The majority of small and mid-cap quoted companies feel that the UK's membership of the EU is beneficial to their businesses. 55% of companies believe that the UK's membership of the European Union has a positive impact on their businesses – up from 40% in our April 2014 issue.

Advisers follow a similar trend – with 71% stating that the impact is positive, up from 52% in our April 2014 issue.



How much could you afford to lose?

With the possibility of wiping £19m off the value of an average-sized AIM company, small and mid-cap quoted companies should be taking corporate reputation more seriously.

Corporate reputation is something that most agree is important. It is an asset that affects sales, drives share prices, builds employee morale and more. Corporate reputation can make or break a company. However, it is difficult to define, measure, build and control, which leads to companies struggling to manage reputation risks.

With today's lightning speeds of communication, understanding and managing corporate reputation risks is more important than ever. In the UK alone, there have been a number of high profile corporate reputation scandals in recent years – amongst both large and small companies – that have wiped millions off the value of companies, tarnished markets and affected investor confidence.

Company viewpoint

“Reputation is earned over time by consistently ethical and conservative behaviour. It can be affected seriously by an incident of some sort and if that happens it usually takes a long time to recover.”

“[Corporate reputation] should be seen as an opportunity and not just a compliance exercise.”

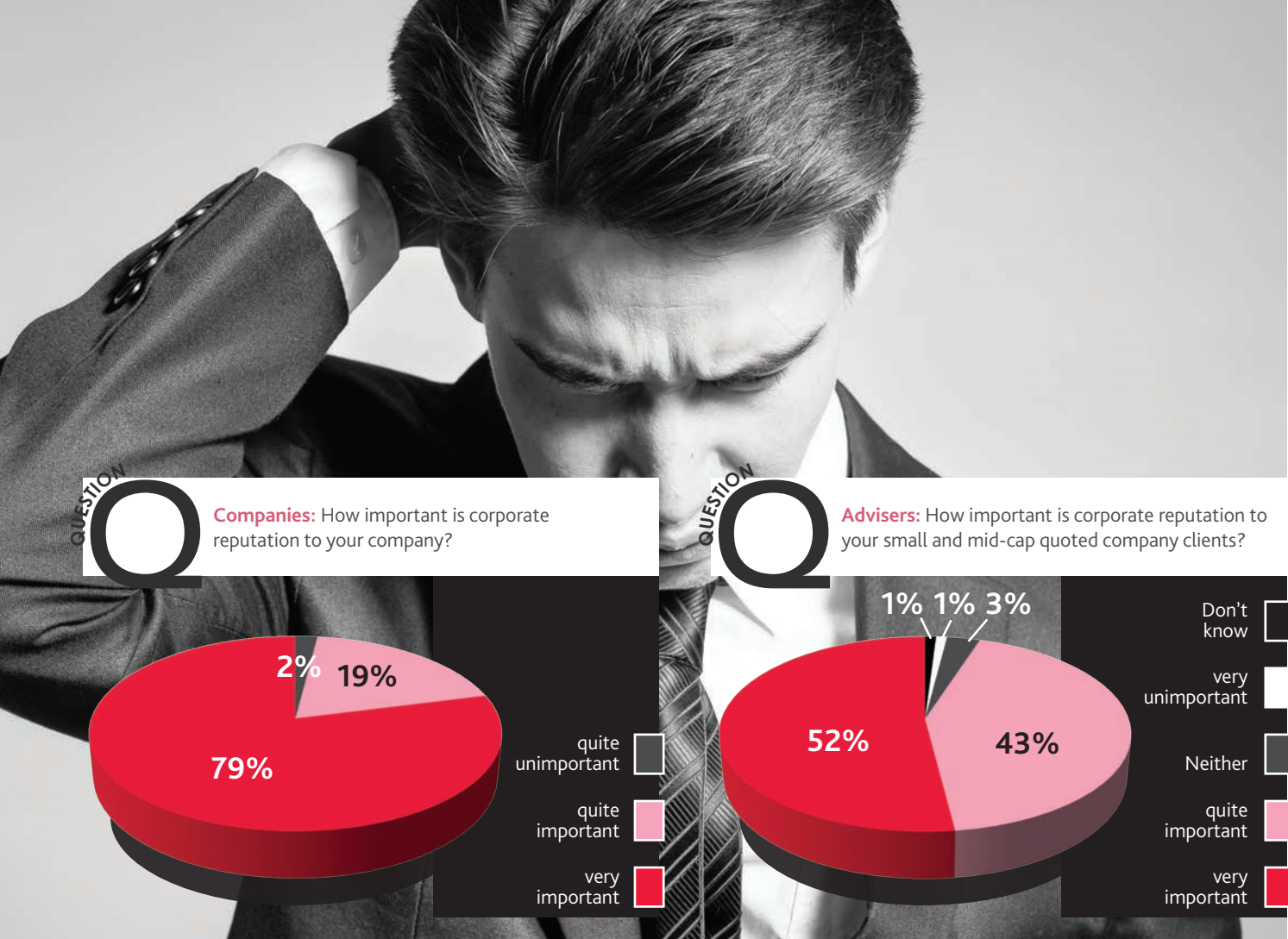
Adviser viewpoint

“Reputation is crucial. It affects the external and internal perception of the business, its creditworthiness, [and] whether it seems an attractive investment or a [good] place to work.”

Company viewpoint

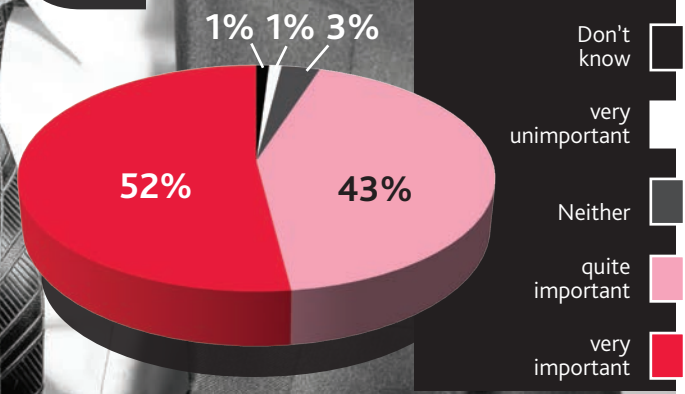
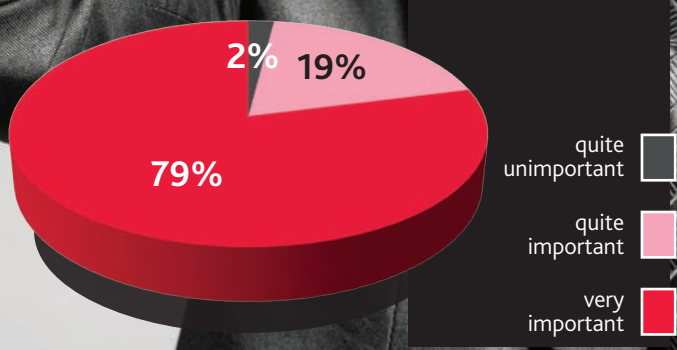
“You read of the results of poor communication every day in the papers and yet many seem to assume reputation issues won't affect them directly. They affect everyone, all the time.”

Adviser viewpoint



QUESTION **Q** **Companies:** How important is corporate reputation to your company?

QUESTION **Q** **Advisers:** How important is corporate reputation to your small and mid-cap quoted company clients?



We wanted to find out what small and mid-cap quoted companies are doing to manage their corporate reputation and the risks it poses to them. The majority of small and mid-cap quoted companies (79%) believe that corporate reputation is very important to their company. However, advisers to the sector suggest that companies may not be as 'on the ball' as they say they are – with just over half (52%) believing that corporate reputation is very important to their small and mid-cap quoted company clients.

OVER A QUARTER OF YOUR MARKET VALUE IS ACCOUNTED FOR BY YOUR REPUTATION

Small and mid-cap quoted companies estimate that, on average, 28% of their market value is accounted for by its reputation. This lines up with other research on the market value of reputation – the 2015 UK Reputation Dividend Report indicates that 30% of the market value of the FTSE 100 is attributable to reputation.

With corporate reputation contributing to a pretty significant proportion of market value, there is a lot at stake for companies to lose and gain. With the average market capitalisation of an AIM company being £66m, AIM companies stand to lose up

to £19m of their market value if they do not actively manage corporate reputation risks. Likewise, given the average market capitalisation of a small and mid-cap quoted company on the Main Market is £332m, these companies stand to lose up to £90m if their corporate reputation is ruined.

PAYING MORE THAN LIP-SERVICE TO REPUTATION

With these amounts at stake, managing corporate reputation risks is key. However, when we dig deeper to see what small and mid-cap quoted companies actually do to identify and manage corporate reputation, things become murkier.

Despite an overwhelming majority of companies thinking that corporate reputation is important, a quarter do not know how much of their organisation's market value is accounted for by its reputation and a similar amount (26%) do little to manage their corporate reputation.

In addition, 52% of advisers believe that the majority of small and mid-cap quoted companies are only a little prepared to manage corporate reputation risks and 40% think that they are not well prepared.

Nonetheless, companies say that they are prepared to manage their corporate reputation risks. 66% of small and mid-cap quoted companies say that they have formal plans in place to manage any issue that could arise and damage their corporate reputation, with nearly three quarters of those (74%) reviewing their plan at least annually.

However, views of advisers to the sector suggest that companies may be overstating what they do, with many indicating that their small and mid-cap quoted company clients do not do much proactively to manage their reputation. Many mentioned that small and mid-cap quoted companies lack internal resources or do not have the skills on the board necessary to address corporate reputation issues effectively.

QUESTION
Q **Companies:** Which of the following best describes your company in terms of how you manage your corporate reputation?

We view corporate reputation as vital to our business and so we measure it and take proactive steps to manage it

31%

We are aware of the risks and have plans in place to manage a variety of corporate reputation issues that may arise

43%

We talk about our corporate reputation but have taken very little proactive action to manage it

17%

We do very little and only react when something comes up that threatens our reputation

9%

QUESTION
Q **Advisers:** How prepared do you think the majority of small and mid-cap quoted companies are to manage corporate reputation risks?

Very much prepared

4%

A little prepared

52%

Not well prepared

40%

Not at all prepared

1%

Don't know

2%

A range of adviser viewpoints

“[Corporate reputation] is highly complex and [small and mid-cap quoted companies] don't have the resources.”

“Risk assessments still tend to be on the business, not always taking into account reputation.”

“Reputation just tends to be ignored until under threat.”

“...[small and mid-cap quoted companies] believe that the risks are either mostly uncontrollable or too small to worry about.”

“I'm not sure if companies - especially the smaller AIM listed ones - have adequately identified the link between audience perception, reputation and their performance. Many still appear to have an insular view with a limited free float, and often don't see the point in communicating beyond simple regulatory concerns.”

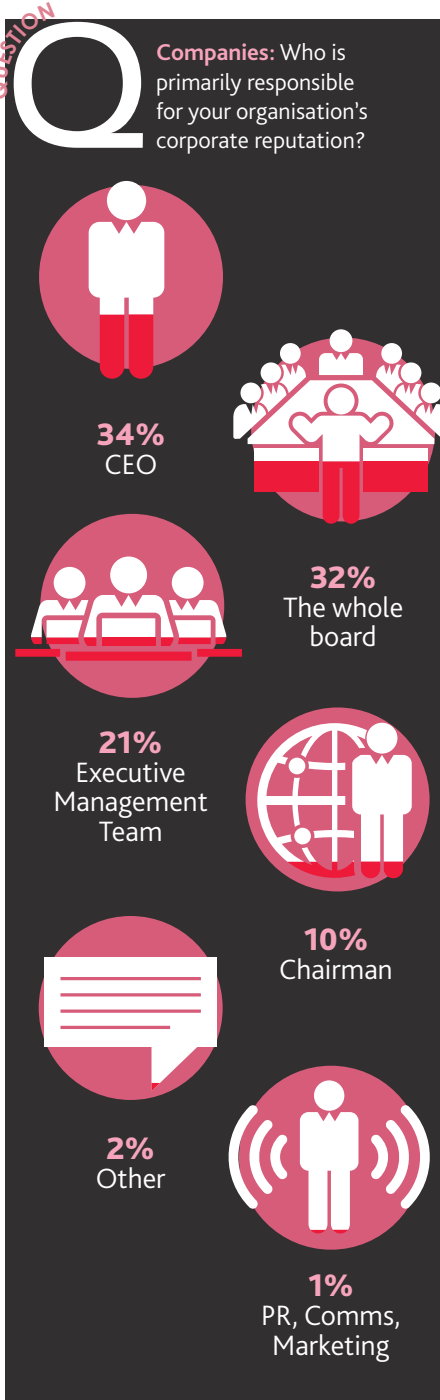
“While much lip service is paid, this is not an area quoted companies spend much real time or resource on.”

“Many look at regulatory concerns only and aren't really prepared for crisis management. Most have fairly poor levels of communication through their websites and rely too heavily on service providers for advice, which they don't always receive.”

“Many clients fail to appreciate the damage that seemingly innocuous news can do to their share price and ability to raise further funds. High profile failures haven't helped. Lack of liquidity amplifies small changes in shareholder sentiment.”

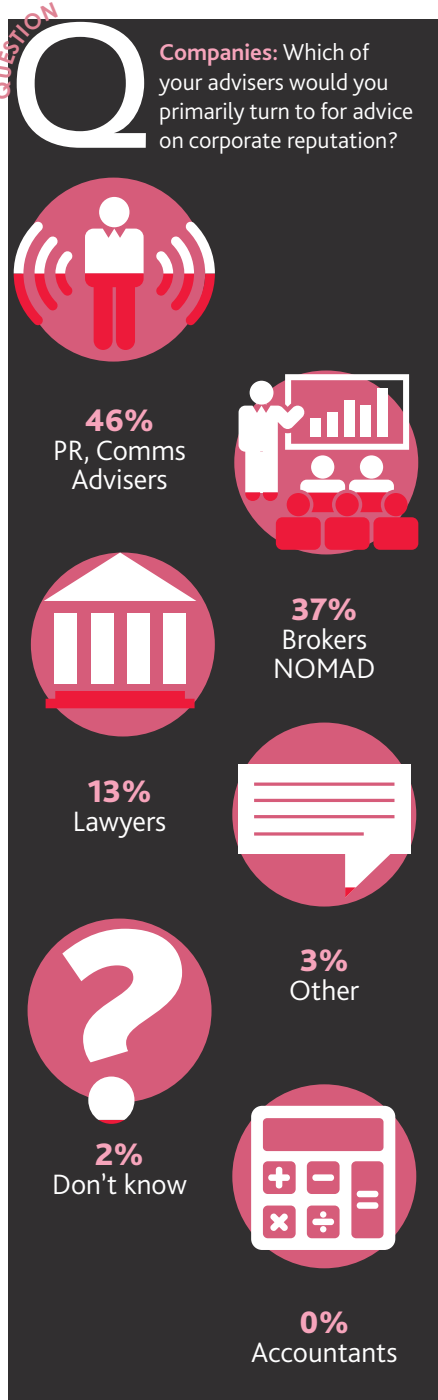
REPUTATION IS A BOARD-LEVEL ISSUE

Regardless of the level of planning in place, the majority of companies (76%) believe that someone at board-level should have primary responsibility for corporate reputation. The Chartered Institute of Management Accountants (CIMA) agrees with this in its report *Corporate Reputation: perspectives of measuring and managing a principle risk*, suggesting that corporate reputation should be the responsibility of 'who stands to lose the most when reputation suffers'.



PR IS KING WHEN IT COMES TO MANAGING CORPORATE REPUTATION

46% of companies primarily turn to their public relations/communications advisers for advice on corporate reputation, whilst a further 37% turn to their brokers/NOMADs. It is felt that public relations/communications advisers have a wide range of experience in dealing with corporate reputation issues. Nonetheless, many companies mentioned that they would consult all their advisers in some capacity if an issue crops up.



IDENTIFYING CORPORATE REPUTATION RISKS

There is no one single corporate reputation risk that companies fear the most – opinion is widely spread and the key risk for any company seems to be dependent upon the particular set of circumstances and the sector.



However, it is difficult to tell to what extent companies have identified the corporate reputation risks that are specific to them. When asked to further elaborate on why a particular risk is feared the most, many were unable to go into much detail. Furthermore, 13% of companies note that they do not know which corporate reputation risk their company fears the most.

“It depends on the size of the company. For a micro-cap which is only lightly traded, I don’t see that aside from financial reporting/forecasting issues that these issues have a significant impact.”

Company viewpoints

“The biggest impact for quoted companies is on those that face consumers directly – reading about an issue in the Daily Mail can have serious consequences for a company’s sales.”

“The danger of responding to unauthorised published corporate messages is that the time you do not respond is immediately taken as an indication of acceptance of the publication, ie you are a hostage to slander. You are damned if you do and damned if you don’t.”

Company viewpoints

“[Corporate reputation] issues impact disproportionately stocks with lower liquidity than larger PLCs (especially rumours on blogs which, more often than not, are unfounded).”

TACKLING CORPORATE REPUTATION ISSUES HEAD ON

31% of small and mid-cap quoted companies claim to have been victims of allegations or rumours being made about them on the internet, which has fallen from when we asked this in July 2014 (44%).

Out of those 39 companies, almost half (48%) ignored the allegation or rumour and just over a third (35%) are uncertain as to what impact their response had on stopping the rumours and helping to rectify the situation.

This perhaps indicates that companies may be applying a blunt instrument, and its effectiveness is difficult to identify and measure.

Nonetheless, the number of companies ignoring allegations and rumours has fallen from when we asked this in July 2014 and more companies believe that that their response did help to stop the allegations or rumours.

This could suggest that companies are beginning to be more aware of corporate reputation issues and how to manage them when they arise.

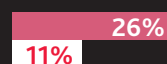
Of those companies that experienced an allegation or rumour, almost half (47%) thought that it had negatively affected the company’s brand and employee morale (46%).

Q **Companies:** How did your company respond to the allegations or rumours?

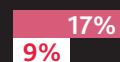
Ignored it



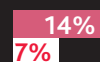
Responded directly where allegation was made



Sought removal of allegations via legal means



Responded via press announcement



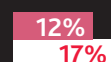
Reported allegation to regulator *



Reported allegation to the stock exchange *



Other



KEY

SEPTEMBER 2015

JULY 2014

Q **Companies:** Did this response stop the rumours and help rectify the situation?

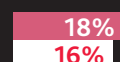
Yes



Uncertain



No



KEY

SEPTEMBER 2015

JULY 2014

*Answer options only offered in September 2015
Base: 38 small and mid-cap quoted companies

GROWING CONCERN OVER CORPORATE REPUTATION

Regardless of the level of action that companies are or are not taking to manage corporate reputation, companies and advisers are more concerned than in our previous survey in July 2014 about the potential impact that allegations or rumours spread on the internet could have on various aspects of their company or clients.

Companies' and advisers' top concerns include the impact on share price, investor confidence, brand and employee morale.

TOP CONCERNS WHEN IT COMES TO THE IMPACT OF RUMOURS ON COMPANIES

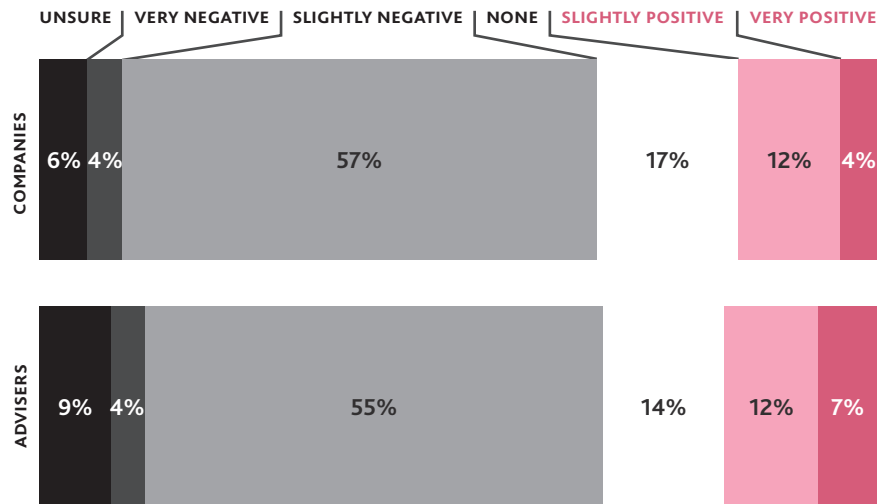
Small and mid-cap quoted companies	
September 2015	July 2014
1. Share Price 90%	1. Employee Morale 80%
2. Investor Confidence 88%	2. Share Price 79%
3. Employee Morale 82%	3. Investor Confidence 70%

Advisers	
September 2015	July 2014
1. Brand 92%	1. Brand 89%
2. Investor Confidence 90%	2. Share Price 88%
3. Share Price 88%	3. Investor Confidence 88%

Furthermore, the majority of companies (60%) and advisers (58%) believe that corporate reputation issues that affect other quoted companies have a negative impact on the overall market.

QUESTION

What impact do you think corporate reputation issues affecting other quoted companies have on the overall market?



case study

Ashley Madison

Ashley Madison, an online dating website for married people, never worried too much about what the press said about its company or those passing ethical judgement on its business. This was the case until its whole business model became threatened when a hacker group revealed the account details of more than 30 million users of the website. Ashley Madison branded itself as 'the world's leading married dating service for discreet encounters' and so its users trusted the company to handle their personal information with the utmost security. This public cybersecurity attack was everything except discreet.

This illustrates the need for all companies to be proactive and identify their corporate reputation risks, even if having a 'good' reputation is not a key concern.

case study

Gowex

WiFi provider Gowex was a rising growth company on the Madrid stock exchange, when Gotham City Research published an analyst report in July 2014 that suggested that over 90% of Gowex's reported revenues did not exist.

This sent the share price falling and led to the founder of the company announcing a week later that he had falsified the accounts of the company.

When that announcement came out, some stocks on the Madrid stock exchange lost as much as 20% of their value.

This illustrates the knock-on effect that reputation scandals can have on a market as a whole.

This begs the question as to what, if anything, needs to be done to prevent online allegations and rumours from potentially damaging quoted companies or even the rest of the market.

Just over half (59%) of companies believe that specific action is needed, whilst 38% think that no action is needed. Advisers have similar views, with 76% thinking that action is necessary and 31% believing that nothing needs to be done.

Some companies and advisers feel the approach of the regulator is key to managing the spread of allegations and rumours. One company noted that some individuals try to report stories as a means of moving the price of shares up or down and that it may almost resemble market manipulation.

As such, greater, more visible attention from the Financial Conduct Authority on this issue may help. Many also commented that those posting the allegations and rumours should not be able to do so anonymously or that there should be a right to identify the person who posts such rumours.



QUESTION

Do you think any of the following would protect small and mid-cap quoted companies from online allegations or rumours?

COMPANIES

No action is needed - current market rules and legislation are sufficient



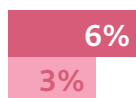
Give stock exchanges/regulators more power to intervene



Specific legislation to improve the chances of successful injunctions



Other



Don't know



ADVISERS

No action is needed - current market rules and legislation are sufficient



Give stock exchanges/regulators more power to intervene



Specific legislation to improve the chances of successful injunctions



Other



Don't know



KEY

SEPTEMBER 2015

JULY 2014

TOP TIPS FOR COMPANIES MANAGING THEIR CORPORATE REPUTATION

1

CORPORATE GOVERNANCE AND CORPORATE REPUTATION GO HAND-IN-HAND

Good corporate governance inspires trust between a public company and its shareholders; it creates and protects value by reducing the risks that a company faces as it seeks to create growth in long-term shareholder value. Without trust, there will be no appetite from shareholders to invest further or remain shareholders.

2

IT IS NOT ENOUGH TO JUST HAVE GOOD GOVERNANCE – YOU HAVE TO REPORT ON IT TOO

Companies need to implement sound governance processes and procedures and then report on them regularly. Whilst institutional investors may get face time with companies and know them well, private investors do not and so need to be able to see what the company is doing to ensure that it is creating and protecting value and being run in the best interests of all shareholders.

3

TREAT CORPORATE REPUTATION AS YOU WOULD ANY RISK

Effective companies view corporate reputation as a strategic risk that should be discussed regularly as part of an overall risk management system. As one adviser said in this survey, “many/most risks can have an impact on the organisation’s reputation, so companies need to consider their risk profile and how it actually manages this.”

4

FIGURE OUT WHO IS RESPONSIBLE FOR MANAGING CORPORATE REPUTATION

Companies need to be clear about who is responsible for corporate reputation within their businesses. The tone should be set from the top – and so a board member or CEO usually takes responsibility for this area. However, organisations also need to identify all the internal stakeholders that help to manage corporate reputation. As one company said, “what’s crucial is to have a named team of individuals – ‘The War Cabinet’ – ready to take control of the situation as soon as it occurs.”

5

CORPORATE REPUTATION PRESENTS RISKS, BUT ALSO OPPORTUNITIES

Understanding corporate reputation and how you can influence it can help to grow your customer base, as well as attract new investors. Good corporate reputation is a great asset that can help contribute to long-term growth. Nonetheless, as one adviser put it, “[it is] hard to earn and easy to destroy.”

“Despite legislation to the contrary, the City is like a village with much informal information sharing... My preference would be to have the NOMAD role in a separate company altogether, as on the Main Market.”

“It may cost more, but I would at least feel more confident that I could trust what is being said will remain confidential. I would also like to see more policing of these bulletin boards.”



“The companies that cop this negativism online typically deserve it. They don’t refute it because they cannot. I don’t feel sorry for them. It (pretty much) NEVER happens to good, proper companies.”

case study

Quindell

Quindell plc, an AIM-quoted insurance outsourcer, is probably the most high profile corporate reputation example for small and mid-cap quoted companies. Quindell’s troubles started when Gotham City Research published a report on the company’s finances in April 2014 that sent its share price tumbling.

Since that report, its Chairman has resigned; the company has been the subject of investigations from the Financial Reporting Council, the Financial Conduct Authority and the Serious Fraud Office; and shareholders have sued the company for investment losses. In February 2014, Quindell was valued at just over £2bn. Its market capitalisation now is just shy of £500m.

This illustrates the extreme loss in value that can occur from both failures in corporate governance and the ineffective management of corporate reputation risks. Quindell has lost over £1.5bn in value from these scandals and it is difficult to see how the company will be able to regain trust and investor confidence.

EXTERNAL SHOCKS

We explore how national and global economic and political risks can affect the UK's small and mid-cap quoted company sector.

This issue of PULSE sees a continued downward dip in confidence in the UK economy. Companies' confidence about their own business prospects remain static, and their forecasts for sales and hiring expectations are decreasing. Major political and economic events have certainly caused companies to pause for thought now that the post-election buoyancy has worn off.

Our survey shows that more companies are positive about the UK's membership of the EU than when asked this in our April 2014 issue.

Over half of companies (55%) think that the impact on their business of the UK's membership of the EU is either slightly or strongly positive, compared to 40% 18 months ago. Advisers show a similarly positive vibe, rising from 52% to 71%.

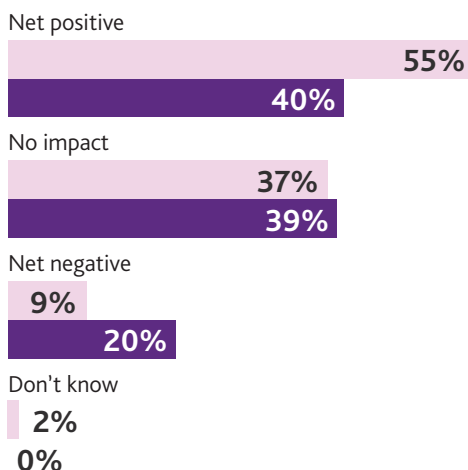
88% of companies want either a renegotiation or for the UK to remain in the EU under the current terms. This is nearly the same figure as 18 months ago (89% in April 2014). However, 25% of companies would be happy to remain under the current terms, compared with 18% in our April 2014 issue.

There seems to be a slight firming of support for the EU without renegotiation.

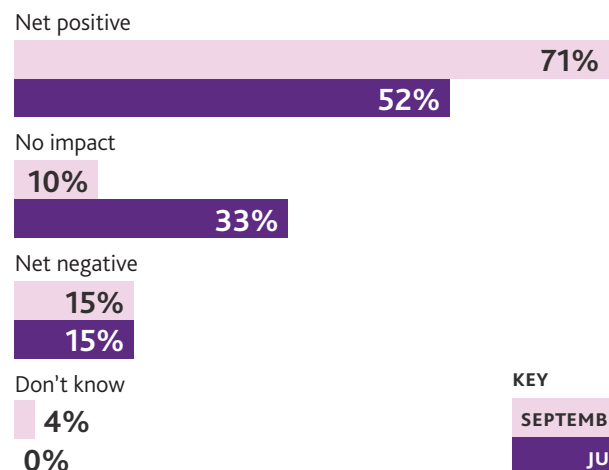
The numbers are similar for advisers. 83% either support renegotiation or remaining under current terms, although there is a fall of those supporting the current terms from 28% to 15%.

In contrast, 7% of companies want the UK to leave the EU completely. 11% of advisers want the UK to leave, which is broadly similar to last time.

QUESTION **Q** **Companies:** How would you describe the impact on your business of the UK's membership of the European Union?



QUESTION **Q** **Advisers:** How would you describe the impact on small and mid-cap UK quoted companies of the UK's membership of the European Union?



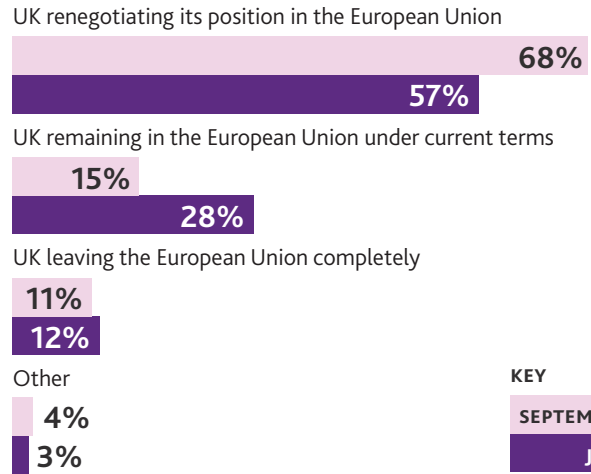
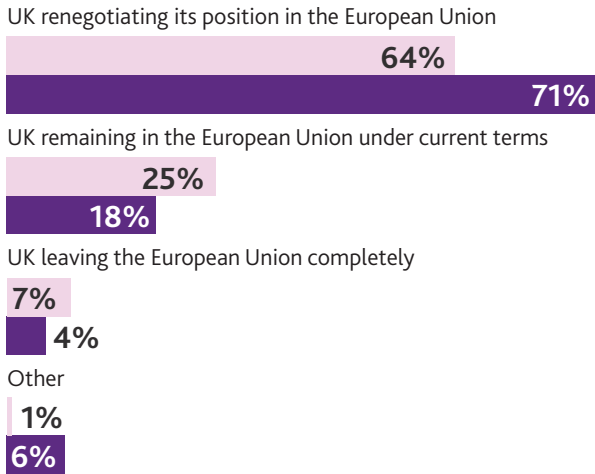
KEY
SEPTEMBER 2015
JULY 2014

QUESTION

Companies: Which of the following scenarios do you feel would be most beneficial to your business?

QUESTION

Advisers: Which of the following scenarios do you feel would be most beneficial to small and mid-cap businesses listed in London?



KEY
 SEPTEMBER 2015
 JULY 2014

"[The] UK leaving the EU is just political PR nonsense. It always seems that only the UK is 'suffering'. Do we hear other member states moan on the same level? To me it is all about leadership. We elect our political leaders to lead and change, not to just run a daily popularity contest."

Company viewpoint

Adviser viewpoint

Higher UK interest rates would increase our costs. 35% of our business is in the Eurozone, so a weaker economy there, and stronger sterling, negatively impact our markets and reporting, respectively.

Company viewpoint

"The [issues that make the] biggest impact on smaller quoted companies are economic rather than regulatory. Regulation can create an environment; however the broader economy has to support that environment for things to move in a positive direction."

"The current state of the UK economy is heavily consumer spending & confidence dependent, and so anything which impacts this such as prolonged rate rises and/or a housing market sell-off would impact badly. For the remainder of the economy, high sterling will be a drag on international trading."

Adviser viewpoint

"These are external issues which directors cannot control and current world government leadership has no answers which business can latch onto."

Adviser viewpoint

Measuring the risk of external shocks

Small and mid-cap quoted companies are unable to agree on a particular shock or event that they fear.

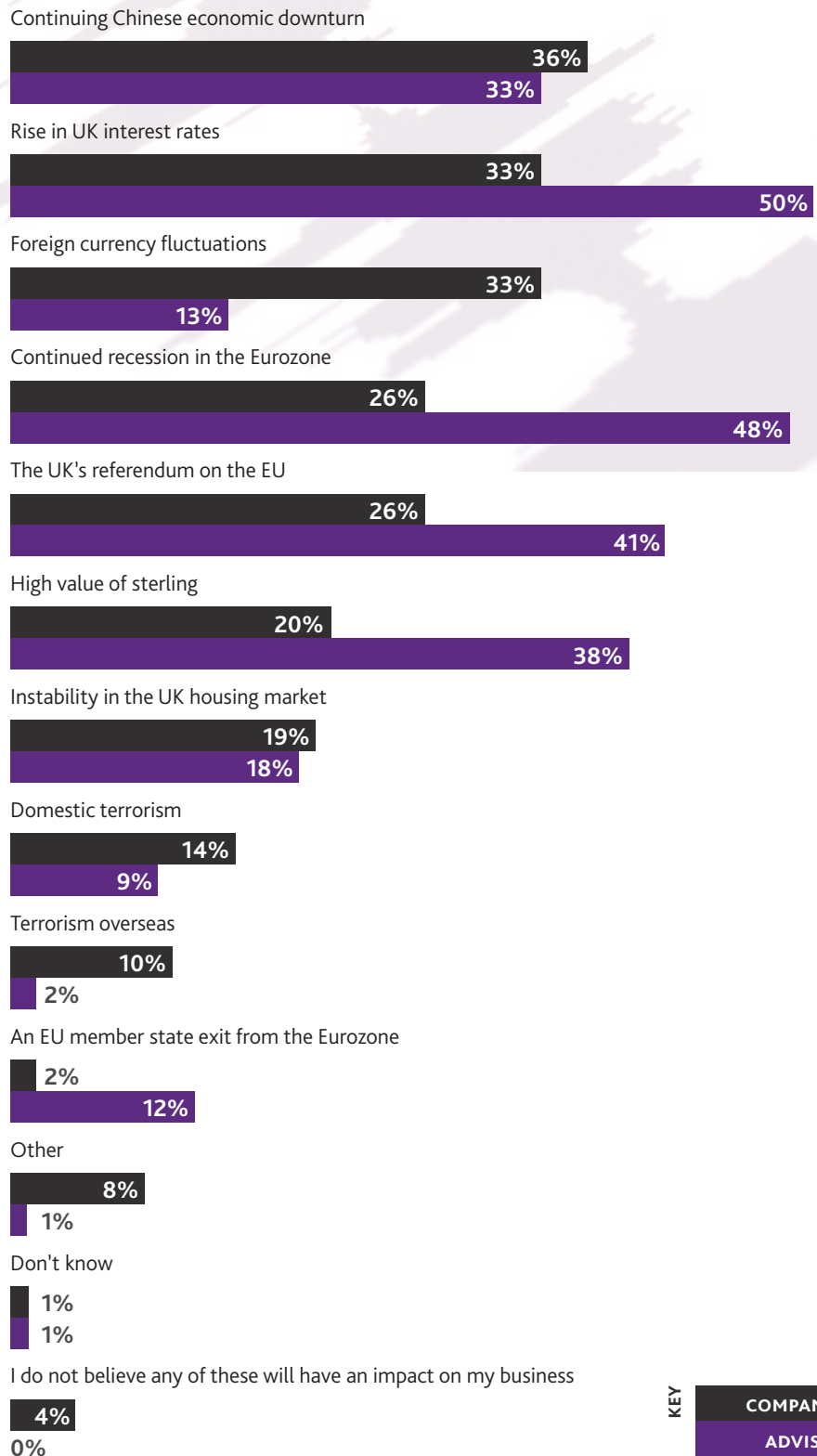
For companies, the most feared shocks are the continuing Chinese economic downturn, a rise in UK interest rates and foreign currency fluctuations.

For advisers, their general concern over the impact of political and economic events continues. 50% fear a rise in UK interest rates, followed by continued recession in the Eurozone and the UK's referendum on the EU.

QUESTION



Which of the following external shocks or events, if any, do you think pose the greatest potential risk to your business/small and mid-cap quoted companies?



KEY

COMPANIES

ADVISERS



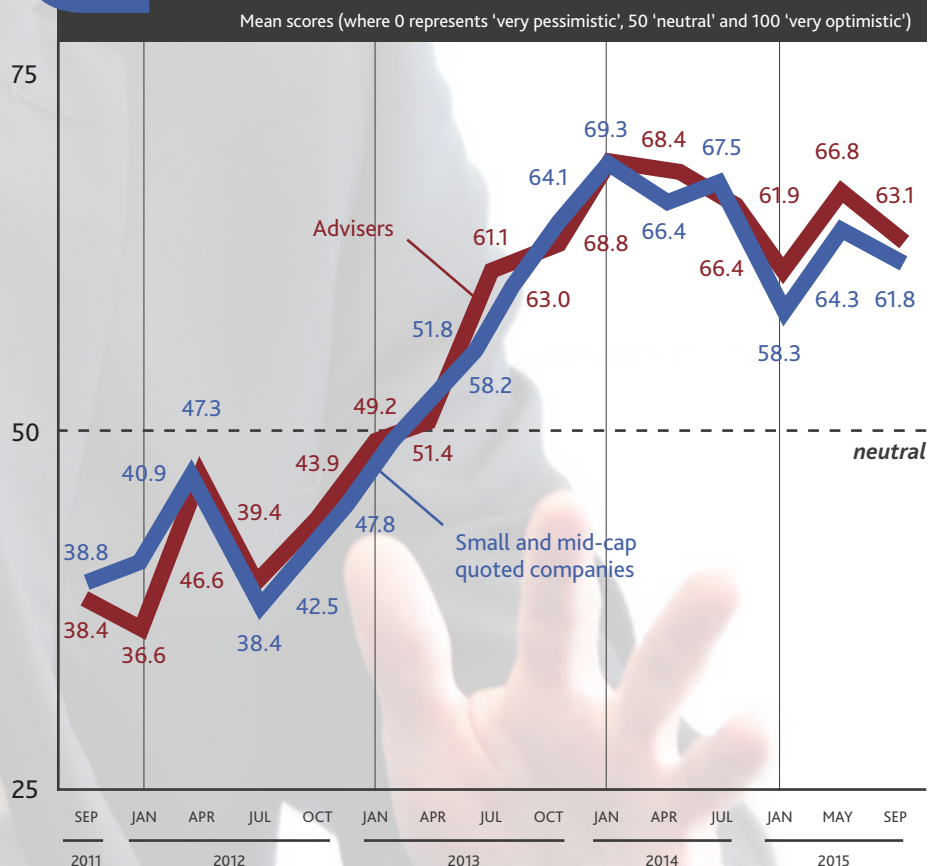
POST-ELECTION BLUES?

As we enter the closing months of 2015, confidence about the economy has waned since our last issue

With the exception of January when the upcoming election was causing jitters amongst businesses, small and mid-cap quoted companies' and advisers' confidence in the UK economy is now at its lowest level since July 2013.

QUESTION

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

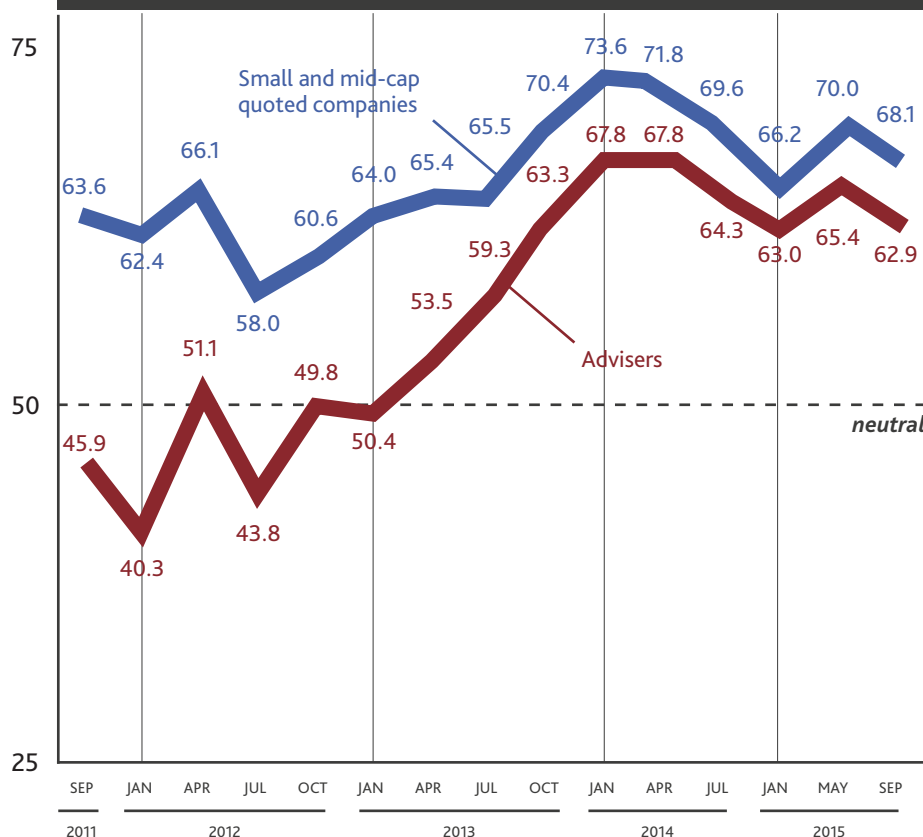




QUESTION

How optimistic or pessimistic do you feel about your own company's/small and mid-cap quoted companies' prospects over the next 12 months?

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



Concerns about the unfavourable global economic climate are affecting confidence levels in the UK economy for small and mid-cap companies. The slowdown in Asia is causing concerns for companies who trade with, or have operations within, the region, whilst the continuing strength of sterling continues to create challenging export conditions within the Eurozone. A recent survey by ECI Partners discovered that 34% of businesses are currently struggling to export due to the strength of sterling against the Euro, whereas the figure stood at just 24% in 2014. Continuing low commodity prices also are affecting the margins of natural resources companies and others reliant on the trade of commodities.

Nevertheless, there are some positives: domestic conditions for business growth remain favourable and many companies continue to enjoy strong organic growth.

Companies are finding that they are able to reinvest money back into areas within their businesses which have been starved of funds over recent years, such as sales and marketing.

Whilst advisers are marginally more confident about the economy, the mean scores still represent the lowest figure since July 2013 (January 2015 excluded).

The views of advisers are similar to those of companies: concerns about the global economic climate and volatile stock markets are serving to dampen advisers' confidence. Many do, however, welcome the arrival of the new majority Conservative government, believing it will provide stability to businesses going forward.

Companies' optimism in their own business prospects has also fallen, from 70.0 in May to 68.1 in September. Advisers' optimism in small and mid-cap quoted companies' prospects follow a similar trend, with their mean score dropping from 65.4 to 62.9. It appears that post-election optimism is wearing off.



-ve

FACTORS CURRENTLY AFFECTING UK BUSINESS CONFIDENCE

+ve

- Lack of availability of sensibly priced capital
- Strength of GBP against the Euro
- Economic weakness of Europe, Asia and the Middle East
- Potential instability of emerging markets
- “Wobbly” equity markets
- Illiquid credit markets
- Regulatory bureaucracy and increasing regulation
- Fragile UK economy
- Chinese economic slowdown
- Skills shortage
- Commodity prices
- UK debt levels
- Potential UK interest rate increase
- Slim conservative majority in UK government
- EU referendum
- Bank finance remains difficult to obtain
- National living wage
- Low interest rates
- Favourable real estate market
- Perceived consumer confidence
- Absence of election or referendum in next 12 months
- Energy prices remain low
- Relatively strong balance sheets should enable investment and/or M&A
- Lower rates of corporation tax
- Improving productivity
- Use of cash stockpiles built up over time due to lack of corporate activity
- Level of innovation
- Strong UK economy
- Wage growth in the UK
- Surging US and Indian economies
- Single party UK government
- Increasing employment
- Well defined business targets
- Strong flow of funds

EXPECTED EMPLOYMENT CHANGE IS HIGH

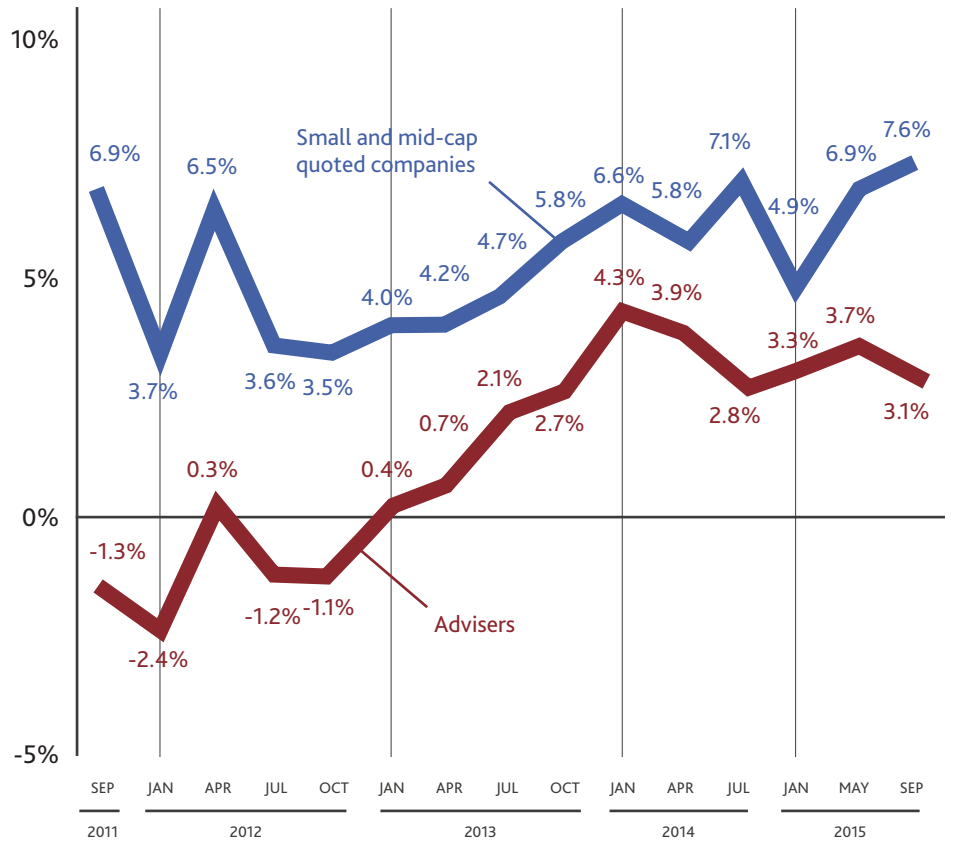
The number of companies that expect the number of full time employees to grow over the next 12 months has declined from 77% in May 2015 to 68% in September, which is the lowest since July 2013.

Similarly, advisers are downgrading their hiring expectations of small and mid-caps – 80% now believe that there will be an increase in the number of employees in small and mid-cap quoted companies over the next 12 months compared to 88% in our last issue of PULSE.

Whilst fewer companies are planning on hiring more employees, the mean expected employment change over the next 12 months rose from 6.9% in May to 7.6% – the highest figure noted since the survey began in 2011. So, it is not all doom and gloom for employment in the small and mid-cap space.



Mean expected employment change in small and mid-cap quoted companies over the next 12 months





QUESTION

Mean expected turnover change in small and mid-cap quoted companies over the next 12 months

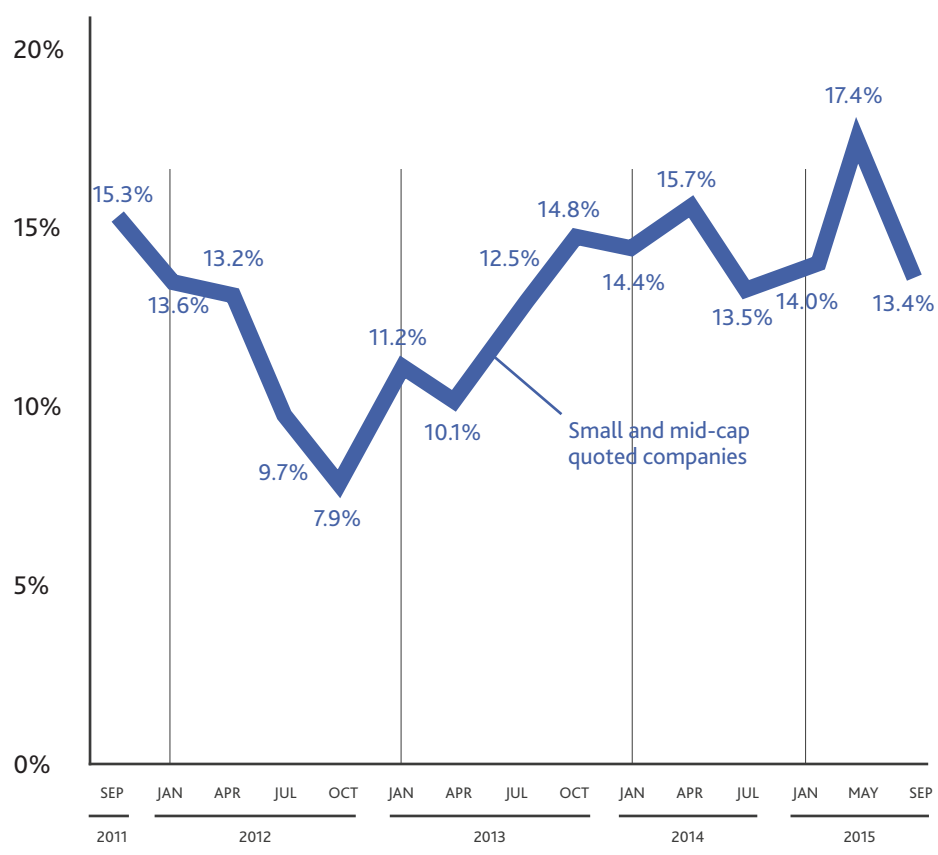
TURNOVER EXPECTATIONS FOLLOW THE DOWNWARD TREND

The dip in confidence has been accompanied by a downgrade in turnover forecasts. Companies now believe that their turnover will increase, on average, by 13.4% this year, compared to 17.4% in our last issue of PULSE.

Despite this, sales growth expectations remain relatively high and it seems that expectations are reverting to the levels we saw pre-election.

Our all-time high turnover expectations (+17.4%) of the last issue of PULSE may just have been companies experiencing high levels of confidence post-election.

Macroeconomic issues may indicate why companies are stepping back and re-evaluating their growth prospects.



RAISING CAPITAL IS NOT HIGH ON THE AGENDA

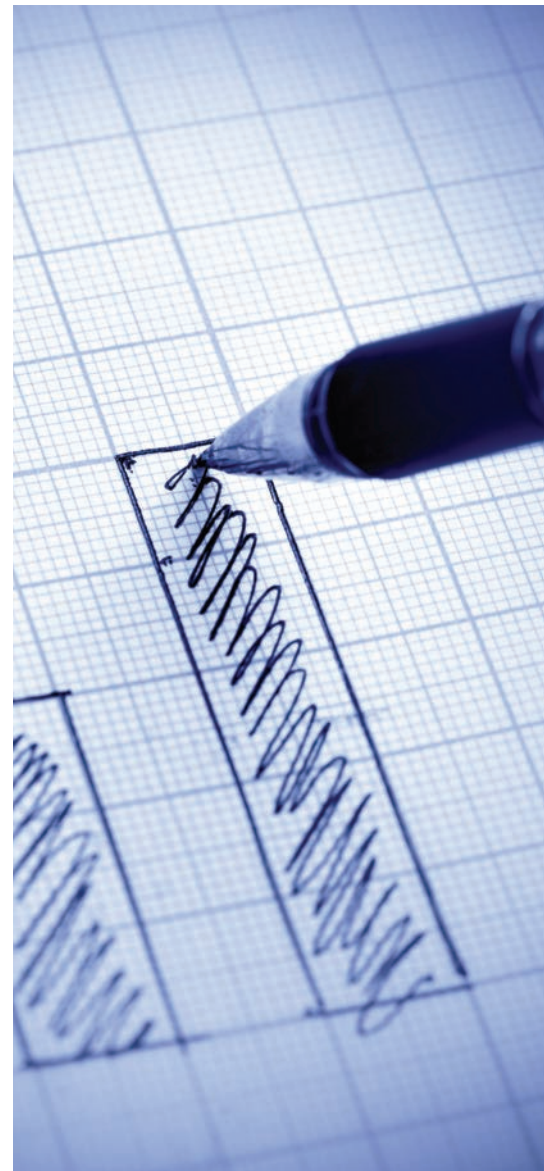
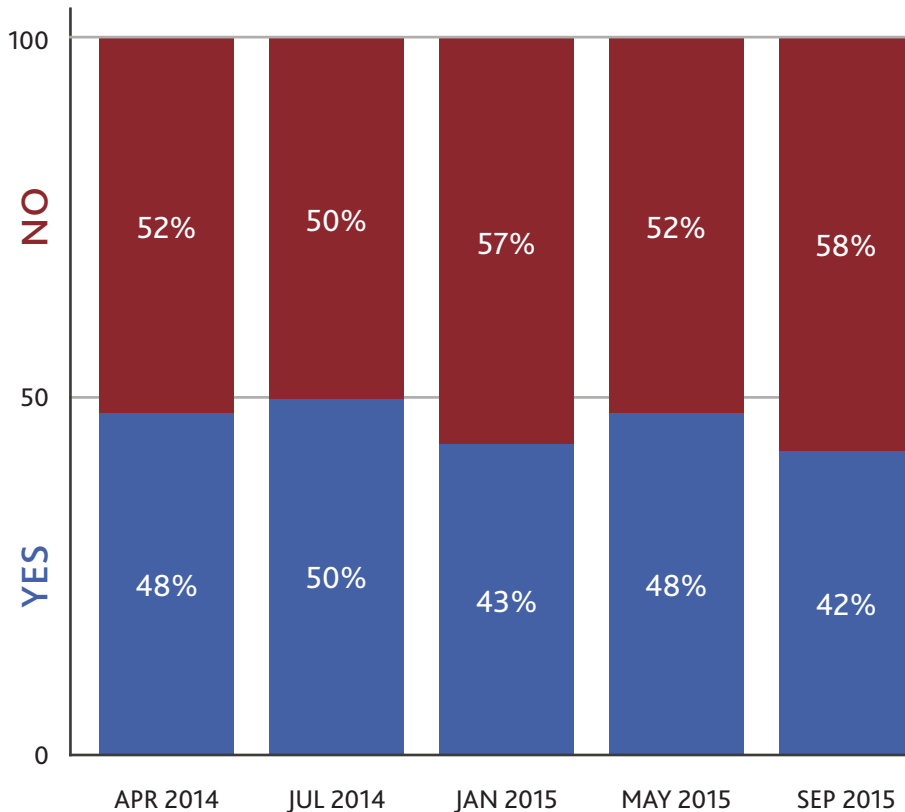
Only 42% of companies are considering raising capital over the next 12 months, which is at the lowest level since our April 2014 issue. The preferred methods of obtaining finance remain similar to the previous quarter, with public equity remaining the most popular (49%) method for quoted companies – perhaps unsurprising as they want to use the public equity markets to raise permanent capital and get the full value from the cost of being a public company. Others are concerned about diluting equity and so are selecting bank finance (34%) as their desired method.

Alternative sources of funding are the preferred choice of a minority of companies (7%). According to Nesta, an innovation charity, peer-to-peer business lending increased by nearly fourfold between 2013 and 2014 to nearly £800m.

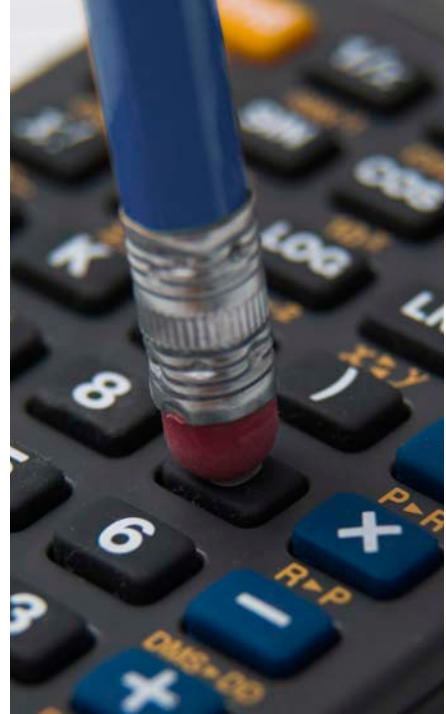
The ease of obtaining each source of finance has remained similar to what we found in our last issue of PULSE. Companies remain more positive about their prospects of obtaining finance than advisers: 50% of companies believe it is 'easy' to access bank finance compared to just 10% of advisers.

QUESTION

Are you considering raising capital over the next 12 months?



A similar trend is seen for public equity, with figures of 48% and 19% respectively. Private equity is now perceived as being slightly easier to access by companies, with the mean score on ease of access rising from 4.0 to 4.5. Listed debt issuance has seen an even greater jump from 3.8 to 4.6.



Advisers tend to have a closer overview of the capital markets. So, it may be that accessing finance is getting tougher, with the perception of companies lagging behind reality.

We will see over the next few months whether economic conditions improve, leading to a re-opening of the equity markets for both IPOs and further fundraisings.

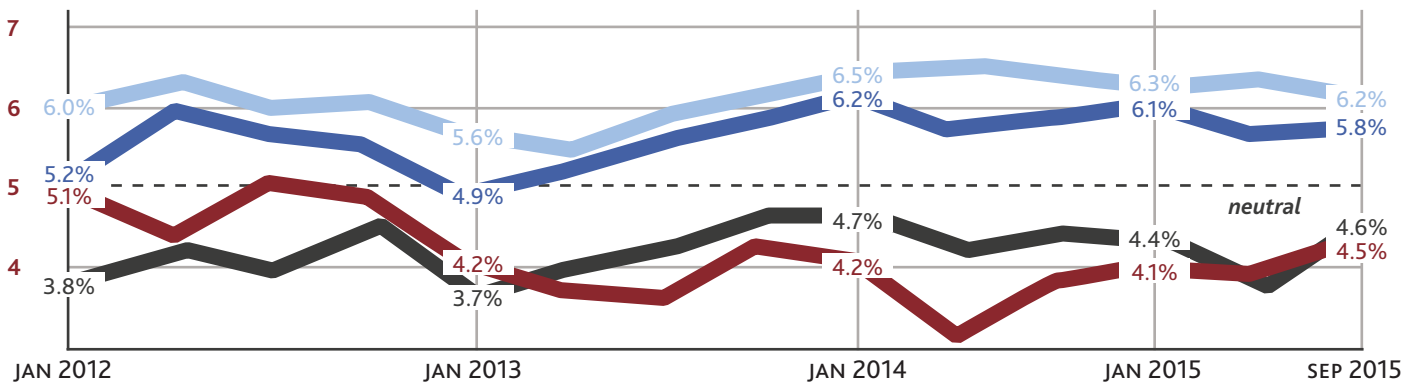
Since January last year we have seen a gradual decline in confidence about the UK economy from both companies and their advisers.

The trend line is falling and we wonder where this is taking us. The markets are troubled and overseas events are disturbing.

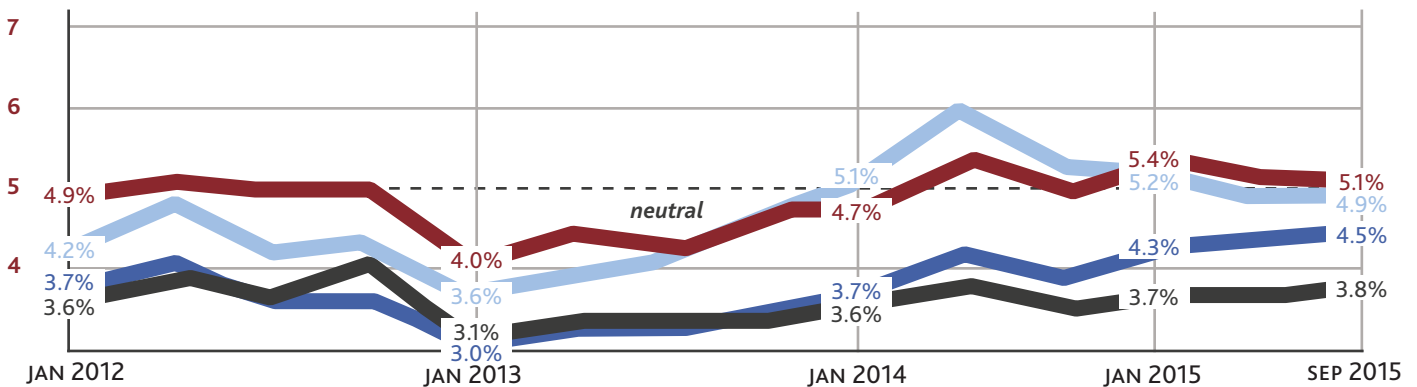
If this volatility is to continue for some time and limited access to capital markets that we are currently experiencing persists, then the potential for further economic growth could be hamstrung.

- Public Equity
- Bank finance
- Listed debt issuance
- Private Equity

QUESTION Companies: How easy or difficult would your company currently find it to raise finance through the following channels?
 Mean scores (where 0 represents 'impossible', 5 'neutral' and 10 'extremely easy')



QUESTION Advisers: How easy or difficult do you believe small to mid-cap UK quoted companies are currently finding it to raise finance through the following channels?
 Mean scores (where 0 represents 'impossible', 5 'neutral' and 10 'extremely easy')





METHODOLOGY

The QCA/BDO Small and Mid-Cap Sentiment Index by BDO and the Quoted Companies Alliance (QCA) is a triannual survey across the small and mid-cap quoted company sector. PULSE is the report of the survey's results.

The PULSE report is based upon 217 online interviews (125 small and mid-cap quoted companies and 92 advisory companies). It was conducted between 7th and 21st September 2015 by research company YouGov. Please note that scores in this report may not add up to exactly 100% due to rounding. The margin of 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 the issues covered in this report please contact:

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