Press release

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Subject	**Small and mid-caps stuck in a holding pattern** Increase in confidence fails to translate to growth plans

Small and mid-caps stuck in a holding pattern

Increase in confidence fails to translate to growth plans

Small and mid-cap companies are stuck in a holding pattern that is preventing growth in the sector, despite demonstrating improved confidence over the last quarter. While those firms' optimism about their own prospects has increased to 60.6 from 58.0, this has not translated into greater intentions to hire, nor improved turnover expectations that equate to growth plans, according to the latest quarterly QCA/BDO Small & Mid-Cap Sentiment Index.

The index - from accountants and business advisers BDO LLP and the independent membership organisation for small and mid-size quoted companies, the Quoted Companies Alliance (QCA) – shows that hiring intentions decreased in the last quarter, with only 43% of companies expecting to grow their workforce in the next 12 months. Meanwhile, expectations for turnover growth among companies weakened, with the mean expected turnover growth dropping to 7.9% from 9.7% in July.

Companies' reluctance to pursue growth plans despite confidence in their own prospects is explained by the fact that nearly half (46%) of small and mid-sized quoted companies believe that a general lack of confidence in the market is the key blocker to growth in the sector.

Scott Knight, Partner, BDO LLP commented: "Confidence is not translating into action so small and mid-cap companies are in a state of stasis - wary of hiring and protecting working capital. There's precious little confidence at the moment – small and mid-caps are merely looking to survive and not thrive and these are traditionally seen as growth stocks."

Tim Ward, Chief Executive of the Quoted Companies Alliance, said: "We need to re-fuel and kick-start our stalling economy – at the moment companies are stuck in a holding pattern. This sector is a crucial engine for growth and has identified the best incentives to achieve that – now we need incisive policy decisions to turn them into a reality. We hope the Chancellor will be presenting just that in the forthcoming Autumn Statement."

Ahead of the Autumn Statement, the index reveals a range of structural economic changes and fiscal policies that small and mid-cap companies believe could improve sector sentiment and incentivise growth:

- **National Insurance holidays** - more than one fifth (22%) identified subsidised employment for UK companies through 'National Insurance holidays' as a key growth initiative, when asked about the single most effective structural economic change to encourage growth in the sector;

- **Large infrastructure projects** – the same amount (22%) favour the development of large infrastructure projects as the single most effective structural economic change to drive growth; and
- **Include AIM and PLUS shares in ISAs** – more than one third (34% of companies and 37% of advisors) think allowing AIM and PLUS shares to be included in ISAs is the fiscal policy with the largest potential positive impact on the sector. Small and mid-cap companies have consistently called for this change, including in the February 2012 wave of the QCA/BDO Small & Mid-Cap Sentiment Index, when they also cited it as the most popular reform needed.

In addition to fiscal policy reform and structural economic change, the report reveals that two in five (41%) companies chose equity market regulation as the top reform needed to encourage investment. Significantly, more than half (59%) also admit they see greater growth prospects for their company overseas than domestically.

Tim Ward, Chief Executive of the Quoted Companies Alliance, added: "The UK lags behind other countries in terms of delivering incentives to stimulate growth in the small and mid-cap sector. If equity market regulation and other red tape do not reduce, we will start to see an exodus from our equity markets and headquarters moving to a more welcoming environment."

Scott Knight, Partner, BDO LLP, continued: "Equity market regulation tops the list of areas for reform, which suggests it's thwarting companies' growth aspirations and therefore isn't fit for purpose. Some commonsense easing of market regulations could incentivise growth, guard against loss of investment overseas, and neutralise any perception that UK equity market regulation makes the UK a closed shop for foreign investors."

- 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 200 adults. Fieldwork was undertaken between 12/09/12 and 03/10/12. 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. 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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