

Small & Mid-cap Sentiment Index

December 2018

**QUOTED
COMPANIES
ALLIANCE**

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What the world thinks

Key findings:

1. Small & mid-caps remain optimistic about their own prospects, despite being muted on the UK economic outlook - 74% expect to increase the number of employees in the next 12 months
2. 47% of small and mid-caps are looking to raise capital in the next 12 months - the highest since March 2016.
3. 67% of companies and 72% of advisors believe the new AIM Rule 26 (requiring companies to adopt a recognised corporate governance code) will improve the integrity of AIM.

105 small/mid-size UK quoted companies and 47 advisory companies completed this survey in October/November 2018.

This survey has been running since 2011 and the results are presented here in comparison to previous waves. All quotes are taken from open-ended responses.

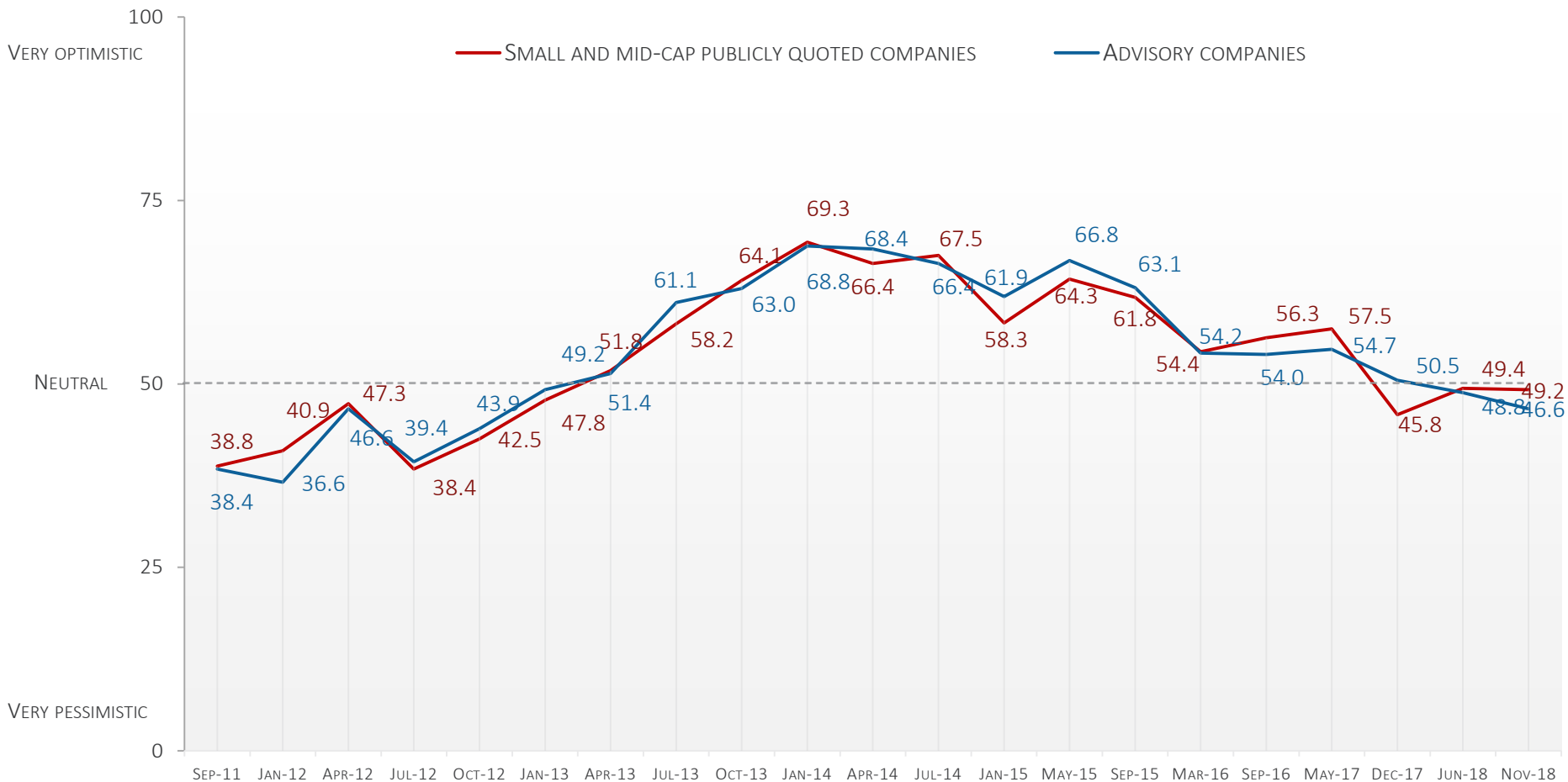
1. Economic & company outlook

Small and mid-caps remain muted on UK economic outlook whilst optimism about companies' own prospects is high.

- Brexit and UK political uncertainty, as well as prospects of increasing global trade friction, remain issues causing outlook to be muted when balanced with companies' continuing optimism about their own prospects
- From seven years of historical sentiment tracking, you can identify three periods that correlate with UK political and economic developments:
 - 2011-2013: Post-financial crisis pessimism
 - 2013-2015: Increasing optimism from economic recovery running up until the General Election in 2015
 - 2015-2018: Decline in outlook to more neutral as the General Election leads to the 2016 referendum and start of Brexit process and resulting uncertainty
- As companies are resolutely optimistic about their own prospects, 74% expect to increase the number of employees and the mean expected employment change is the highest in the history of this survey (9.4%).

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')

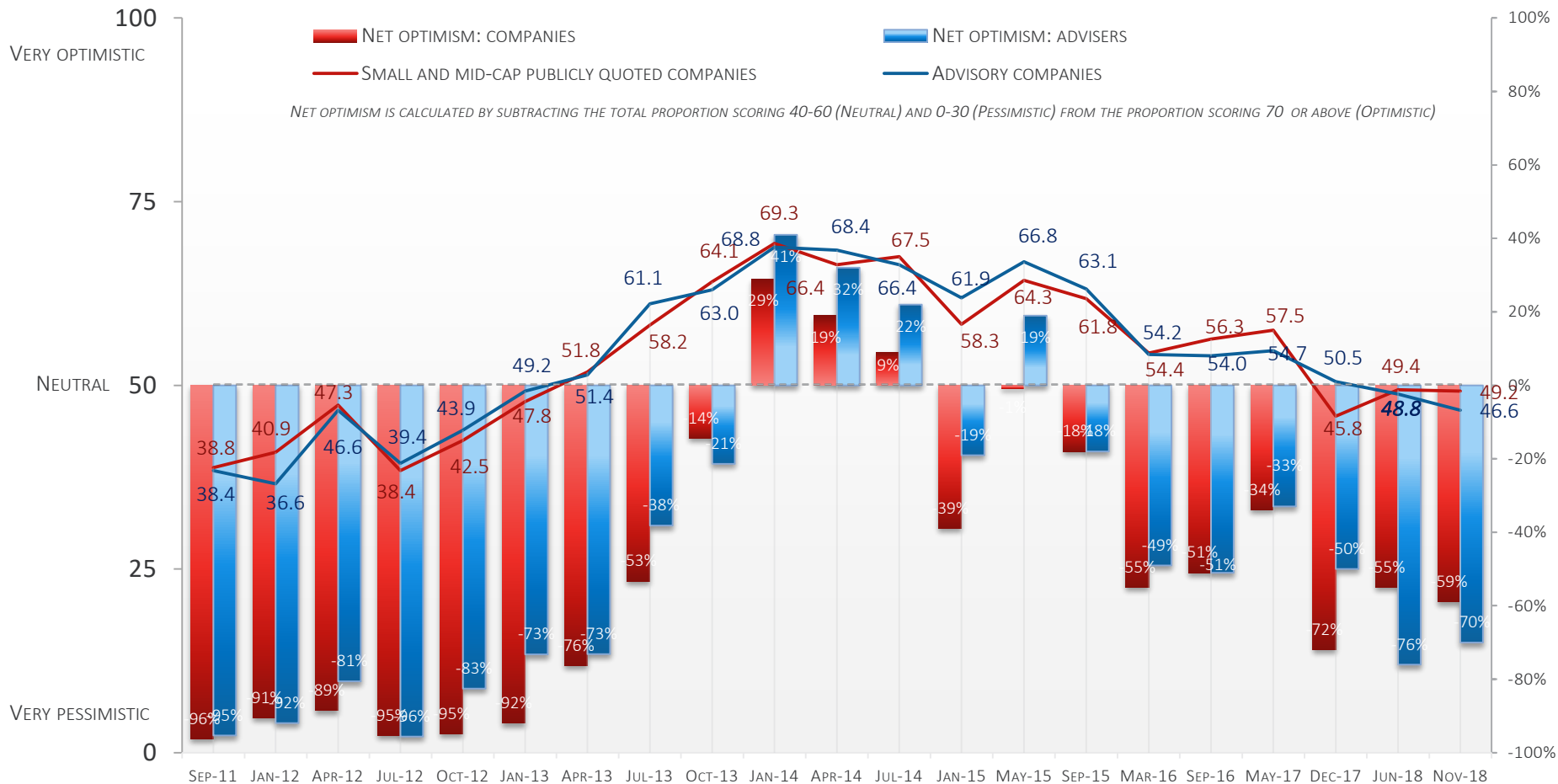


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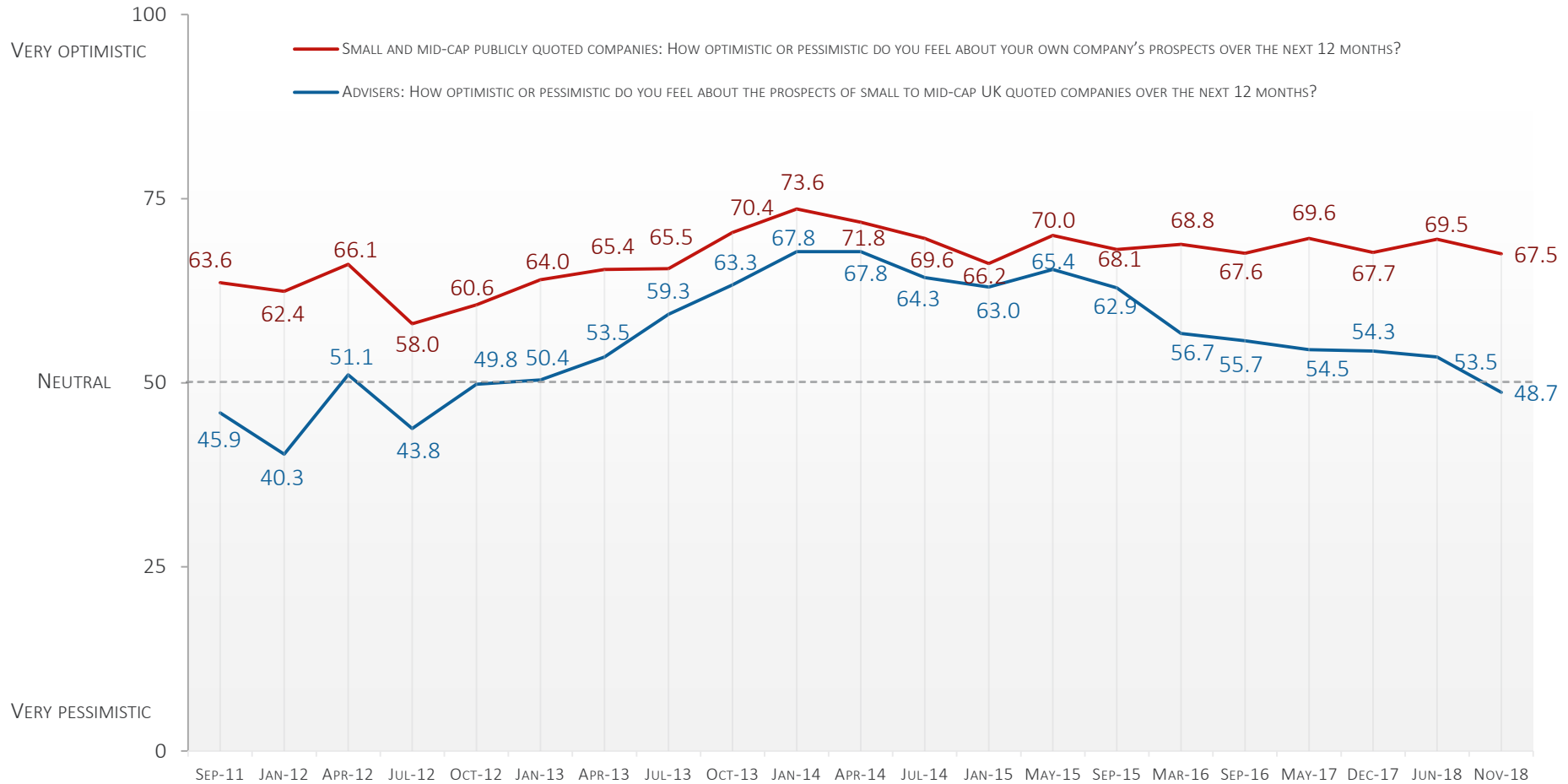


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Optimism/Pessimism toward business prospects.

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

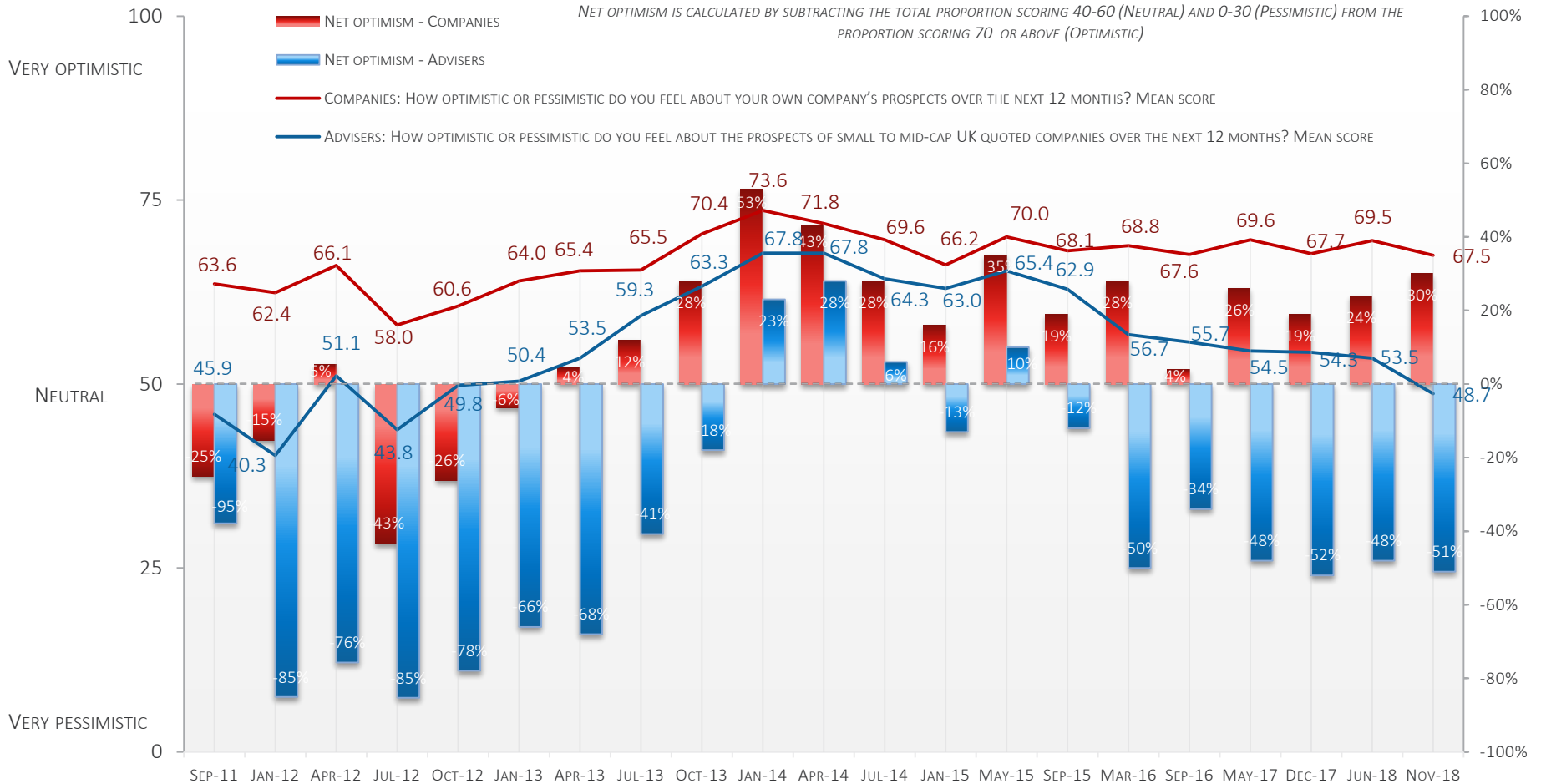


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Mixed outlook on Brexit

Example views from respondent companies

“Brexit is creating investment uncertainty with our UK-based customers. They are holding back on investment due to lack of transparency of UK Government plans. Our global customers meanwhile view us as a supplier risk for the same reasons.”

“Brexit and the increasing prospect of a ‘no deal’ exit has yet to affect our business but the increases in unemployment and inflation which I expect will do so. I’m already concerned about falling corporate investment.”

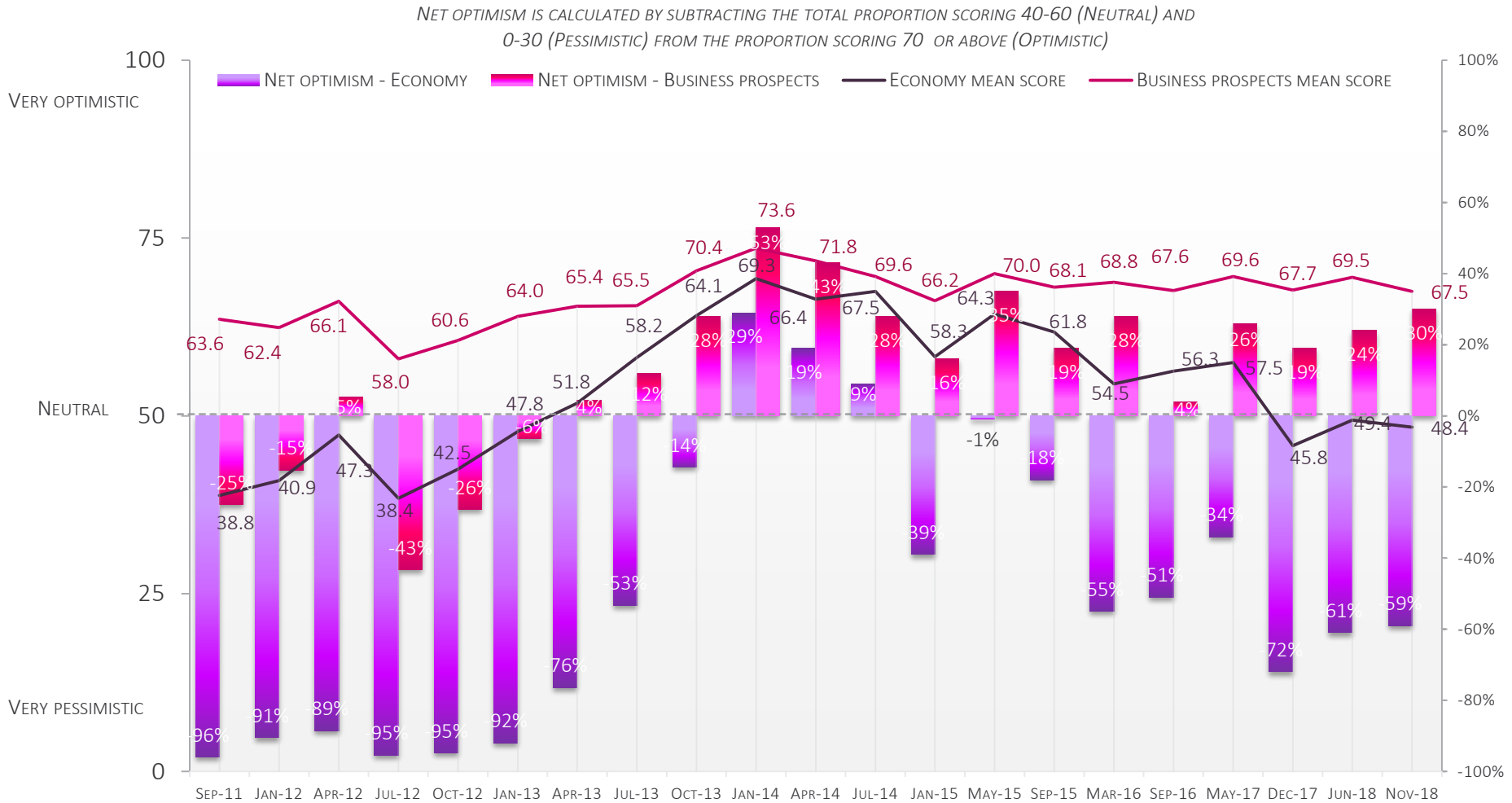
“We have a significant export business so depreciating sterling should assist, regardless of Brexit impacts. We are seeking to grow also by acquiring companies and Brexit uncertainty may yield some opportunities.”

“The UK remains a deep capital market so unless Brexit is an absolute catastrophe, which I do not expect it will be, sensible small and mid-cap companies will continue to attract funding. There may be a wobble leading up to March but I expect it will have righted itself by the second half of 2019”

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



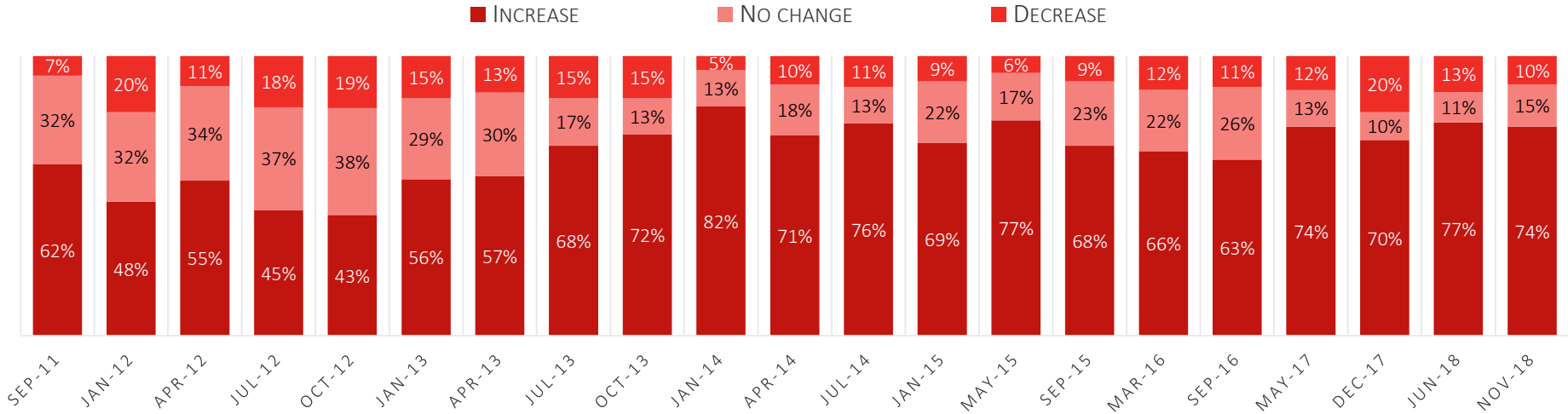
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Expectations regarding job growth

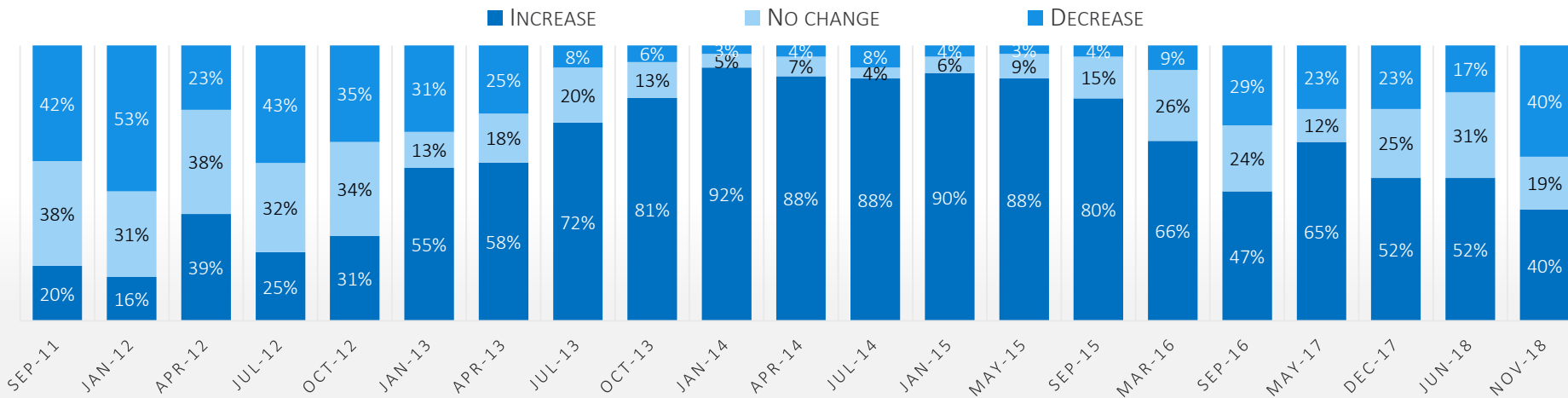
SMALL AND MID-CAP PUBLICLY QUOTED COMPANIES

DO YOU EXPECT THE NUMBER OF FULL TIME EMPLOYEES IN YOUR BUSINESS TO INCREASE OR DECREASE OVER THE NEXT 12 MONTHS?



ADVISORY COMPANIES

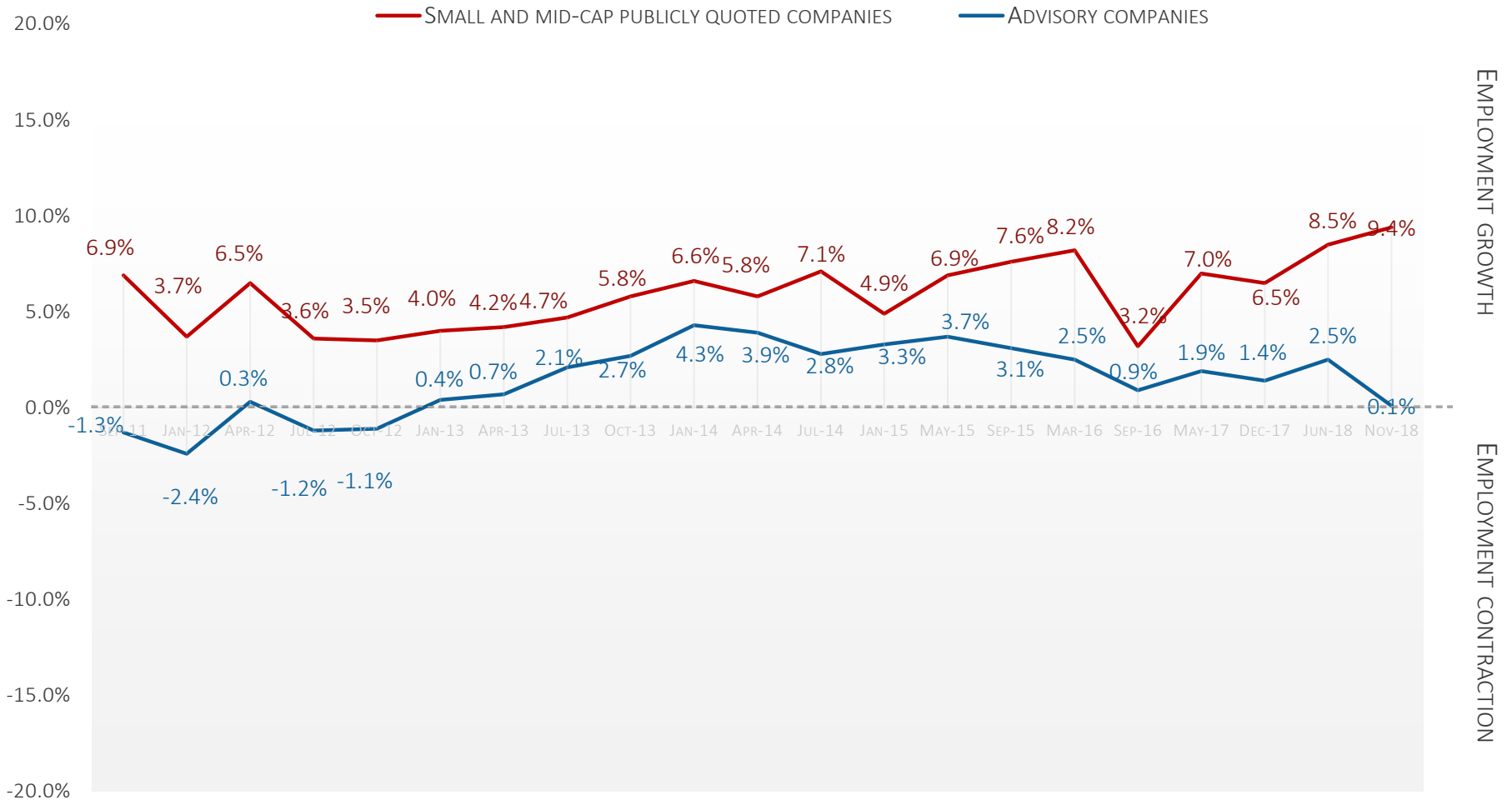
DO YOU EXPECT THE NUMBER OF FULL TIME EMPLOYEES IN SMALL TO MID-CAP UK QUOTED COMPANIES TO INCREASE OR DECREASE OVER THE NEXT 12 MONTHS?



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

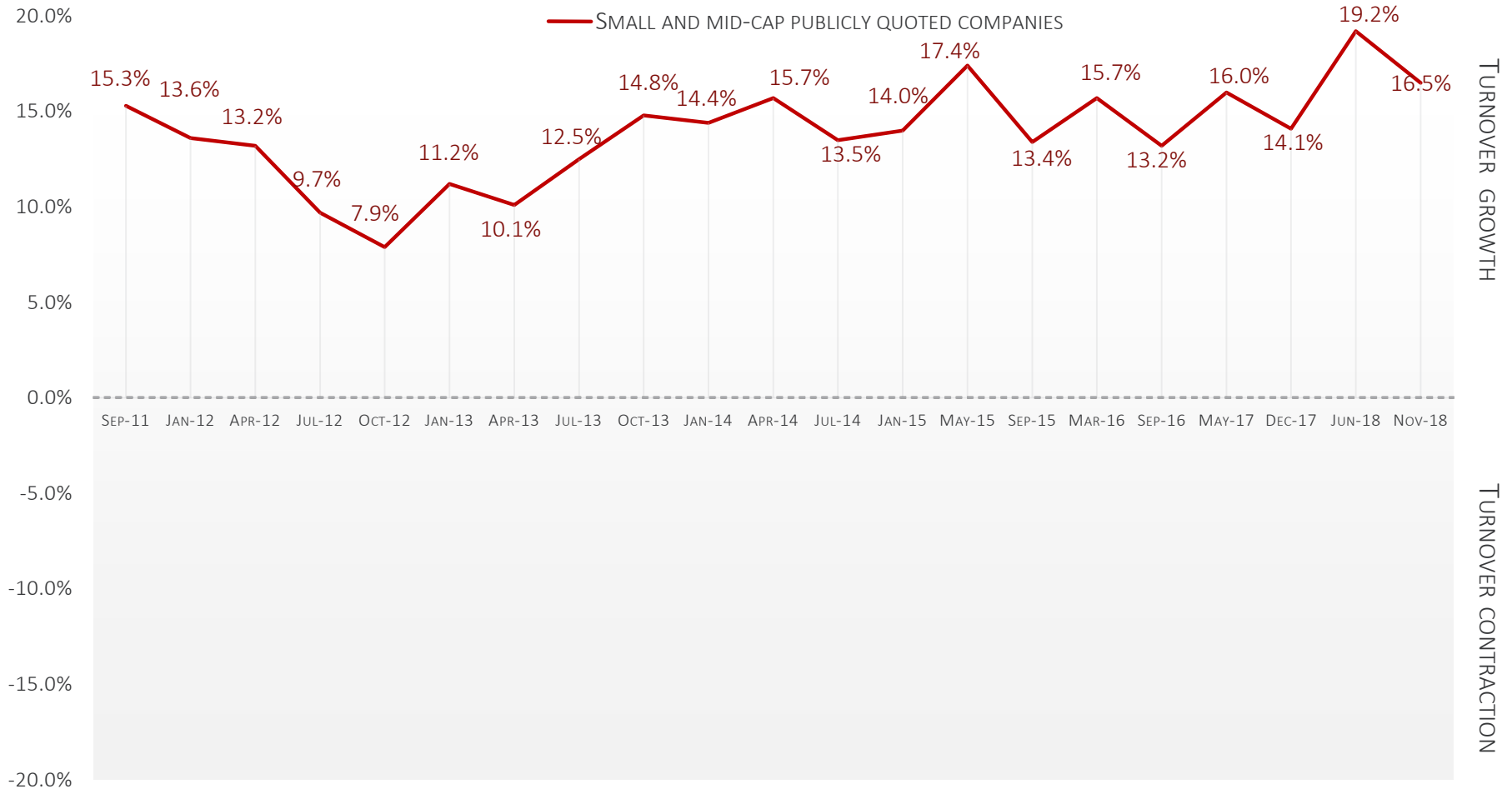


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Expectations regarding turnover: Mean expected turnover change over the next 12 months

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



12 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 SMALL AND MID-CAP PUBLICLY QUOTED COMPANIES;



2. Access to capital

47% of small and mid-caps companies are looking to raise capital in the next 12 months - an increase from 28% in December 2017, and the highest since March 2016.

The majority (62%) prefer to raise finance via public equity, albeit from a sample of publicly listed companies. This majority has stayed consistently above 60% in the last three surveys after being lower in previous years (for example, 44-47% in 2015).

Example quotes from respondent companies on why they would prefer to raise capital via public markets

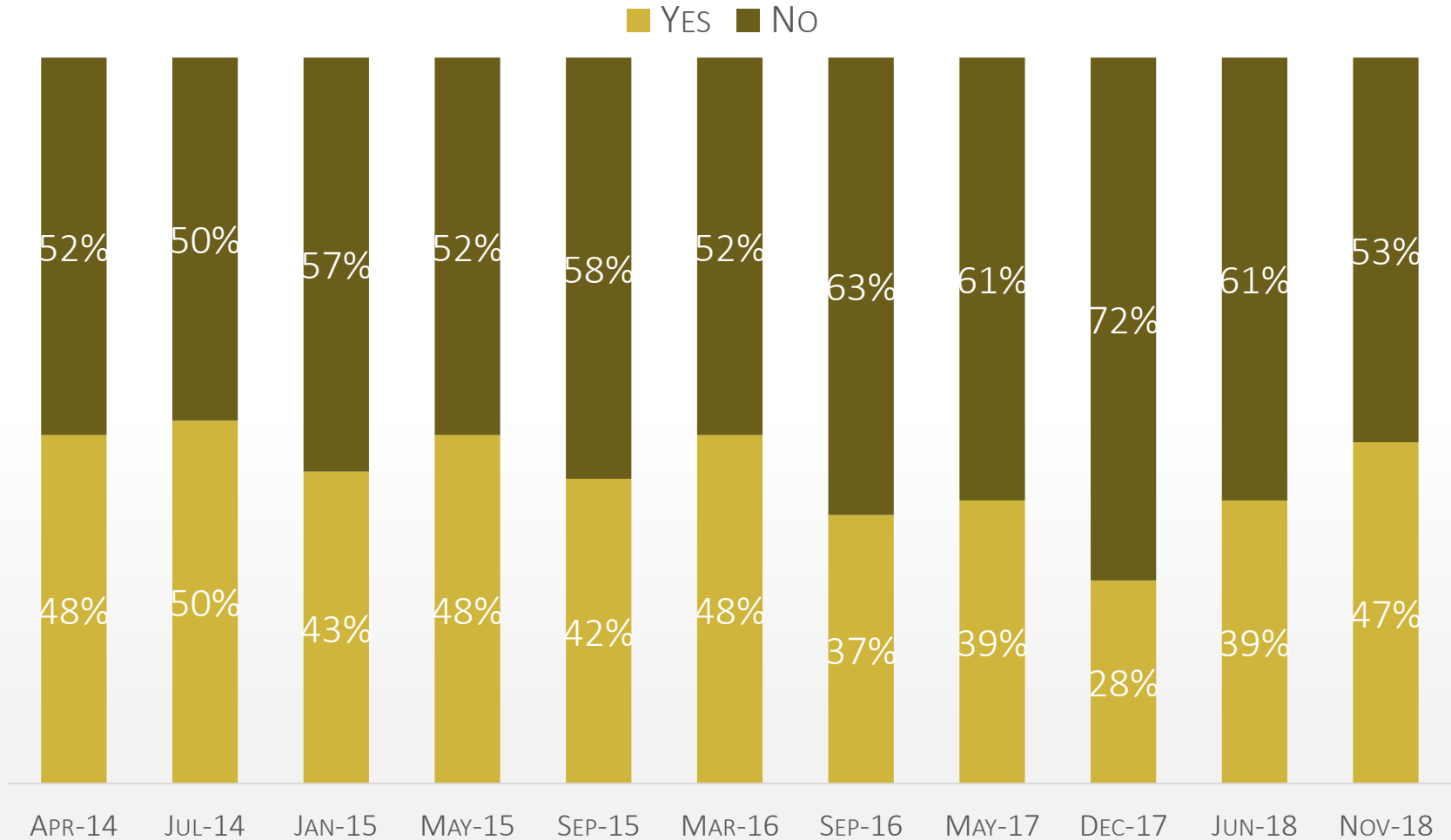
“Small amounts could be raised by bank finance but as an AIM company raising equity would be a preferred way to raise for ambitious projects.”

“We would only seek to raise capital to support an acquisition. Given the risks associated with acquisitions, equity funding would be preferable. If we were unable to raise funds through the equity market we would most probably decide not to pursue the acquisition.”

“We are a listed company and it should be our cheapest form of capital having gone to the trouble to list. It will depend on our market valuation though and debt could well end up being cheaper.”

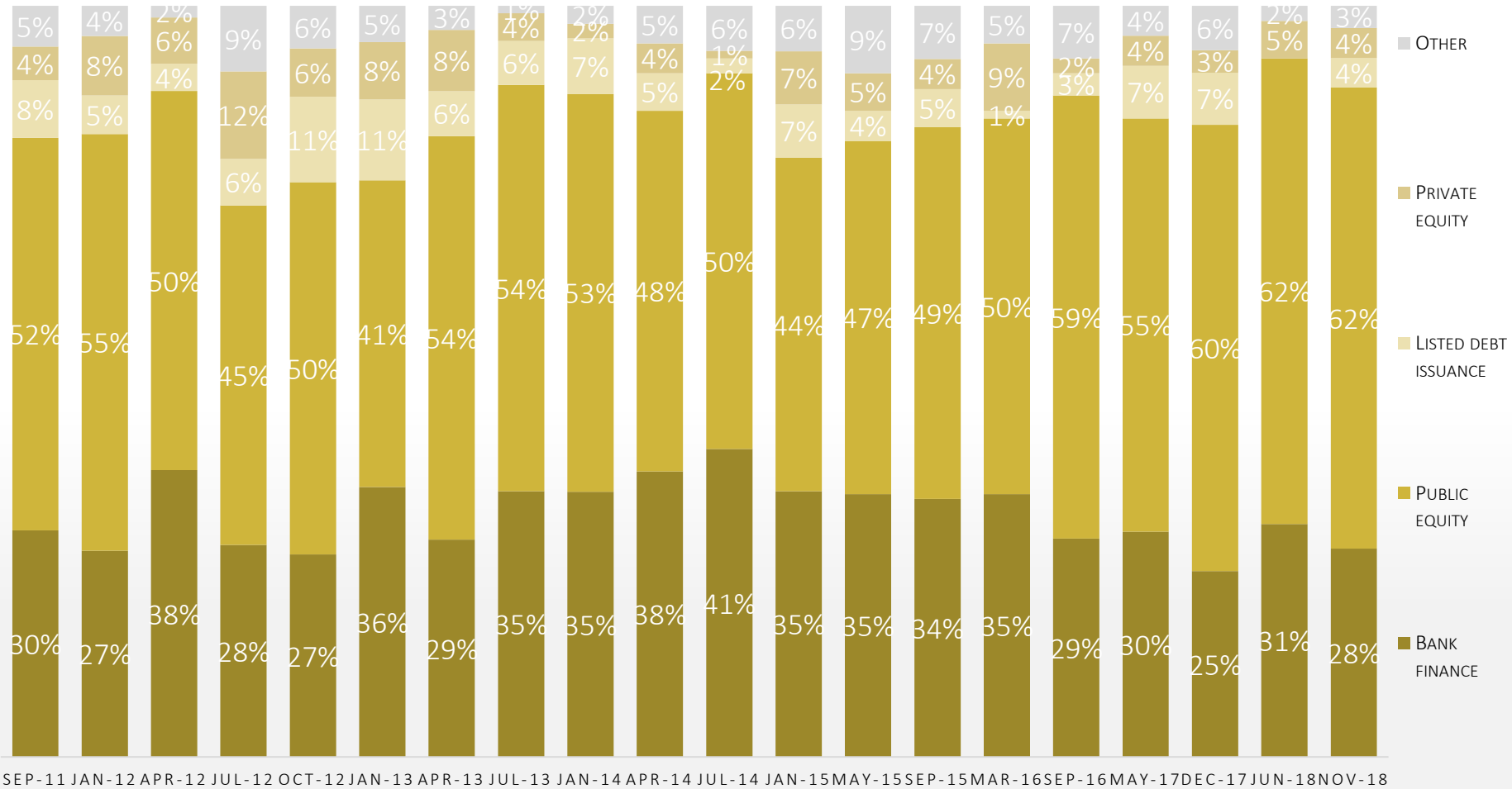
Raising capital for small and mid-caps

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?



SEP-11 JAN-12 APR-12 JUL-12 OCT-12 JAN-13 APR-13 JUL-13 JAN-14 APR-14 JUL-14 JAN-15 MAY-15 SEP-15 MAR-16 SEP-16 MAY-17 DEC-17 JUN-18 NOV-18

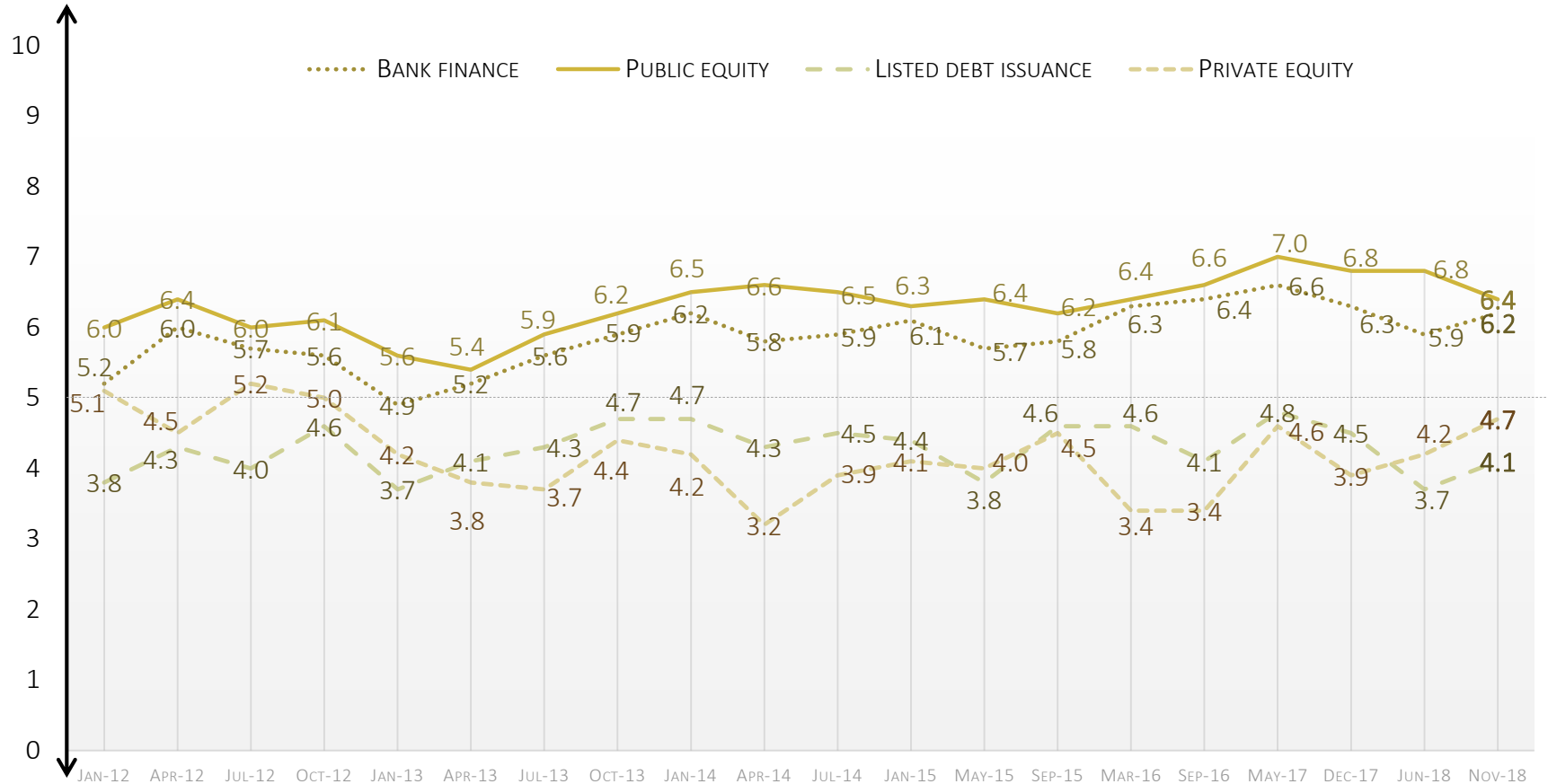
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Ease of raising capital for small and mid-caps

HOW EASY OR DIFFICULT WOULD YOUR COMPANY CURRENTLY FIND IT TO RAISE FINANCE THROUGH THE FOLLOWING CHANNELS?

MEAN SCORES - COMPANIES

EXTREMELY EASY



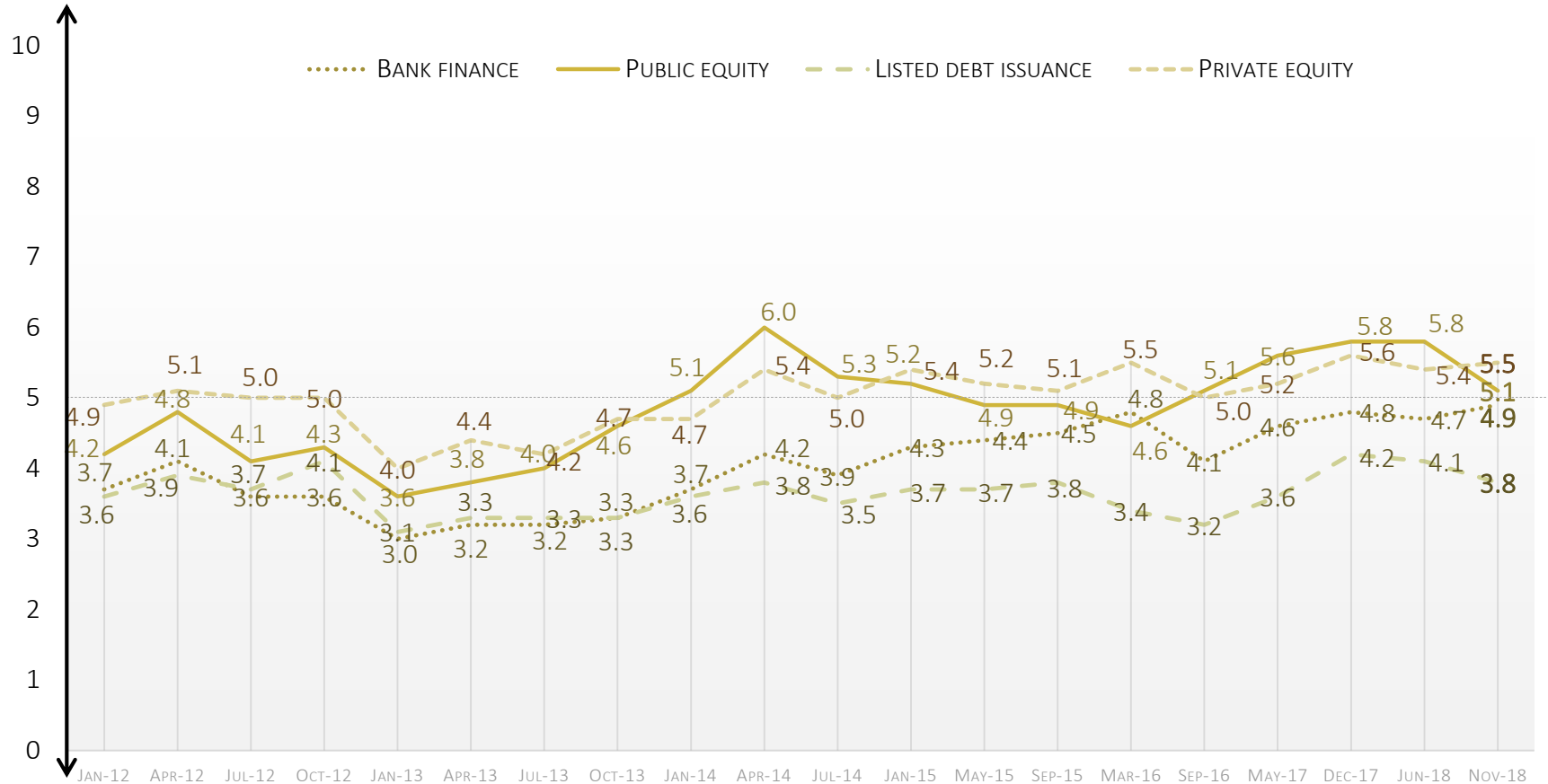
IMPOSSIBLE

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Ease of raising capital for small and mid-caps

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 - ADVISERS

EXTREMELY EASY



IMPOSSIBLE

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?

NOVEMBER 2018 (SCALE: 0 IMPOSSIBLE - 10 EXTREMELY EASY)

		HARD (0-3)	NEUTRAL (4-6)	EASY (7-10)	DON'T KNOW	MEAN
BANK FINANCE	SMALL/MID CAPS	22%	19%	56%	3%	6.2
	ADVISERS	32%	34%	21%	13%	4.9
PUBLIC EQUITY	SMALL/MID CAPS	10%	30%	57%	2%	6.4
	ADVISERS	23%	49%	23%	4%	5.1
LISTED DEBT ISSUANCE	SMALL/MID CAPS	29%	23%	17%	31%	4.1
	ADVISERS	32%	38%	6%	23%	3.8
PRIVATE EQUITY	SMALL/MID CAPS	29%	22%	25%	25%	4.7
	ADVISERS	15%	45%	28%	13%	5.5

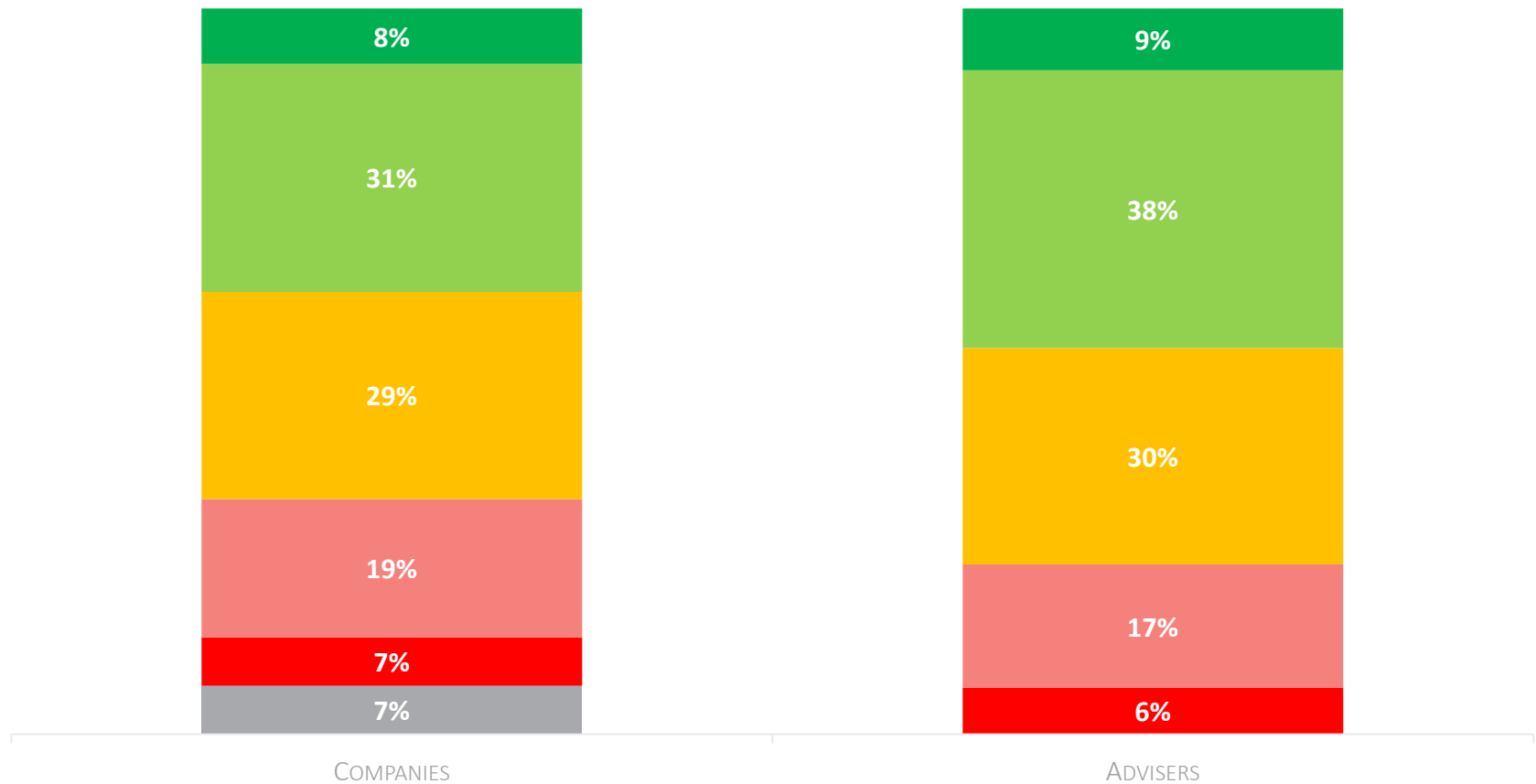
3. AIM and Corporate Governance

Views on whether the credibility of AIM has improved in the past two years are mixed, but the new AIM Rule 26 (requiring companies to adopt a recognised corporate governance code) is anticipated to improve the market's integrity going forward.

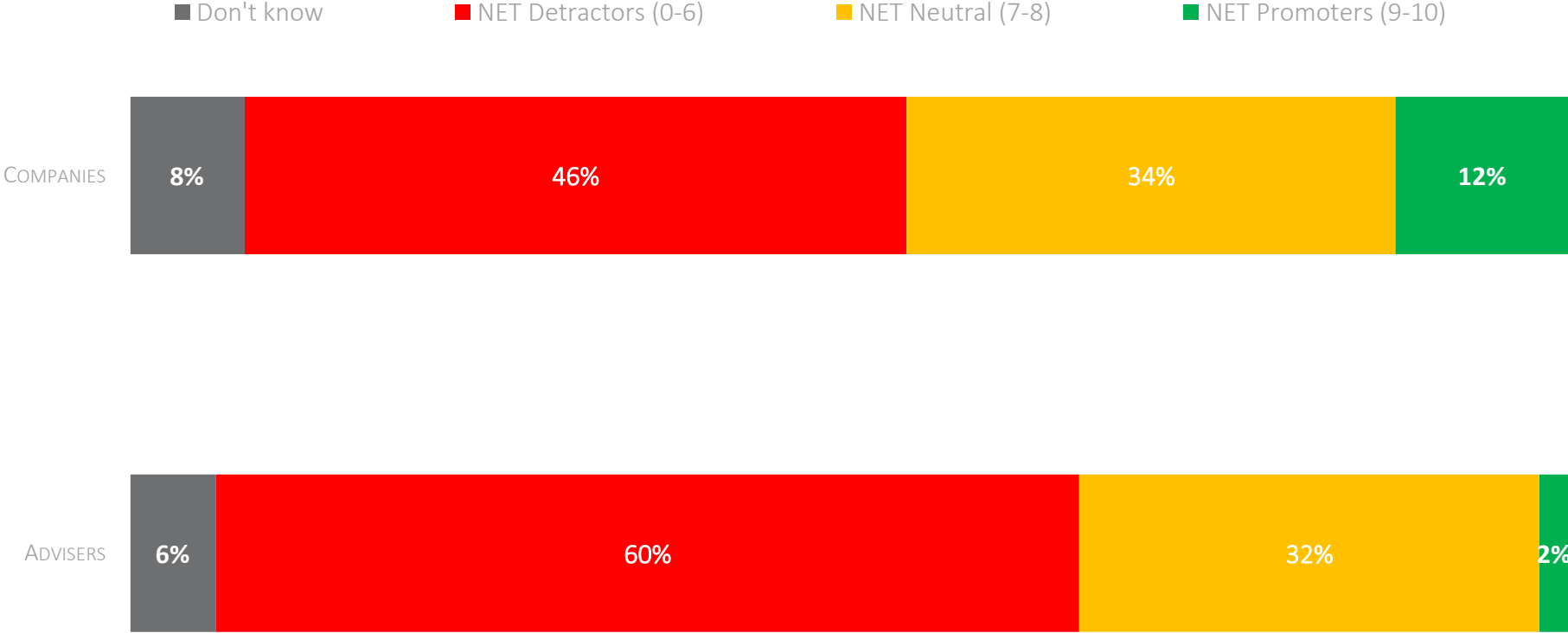
- Respondents from small and mid-size companies were fairly neutral on how the credibility of AIM has changed in the past two years, with 39% saying it has improved either slightly or significantly, 29% said it had stayed the same, and 26% said it had declined either slightly or significantly.
- Advisory firms were more positive, with 47% saying it has improved either slightly or significantly in the past two years.
- However, views on the attractiveness of AIM to companies thinking of floating is more negative than positive – only 12% of companies and 2% of advisors it rated either 9 or 10 out of 10 in terms of “attractiveness”.
- 67% of companies and 72% of advisory firms believe that the new AIM Rule 26 will improve the integrity of AIM in the future.

Over the last two years do you think the credibility of AIM has improved or declined?

■ DON'T KNOW ■ DECLINED SIGNIFICANTLY ■ DECLINED SLIGHTLY ■ STAYED THE SAME ■ IMPROVED SLIGHTLY ■ IMPROVED SIGNIFICANTLY

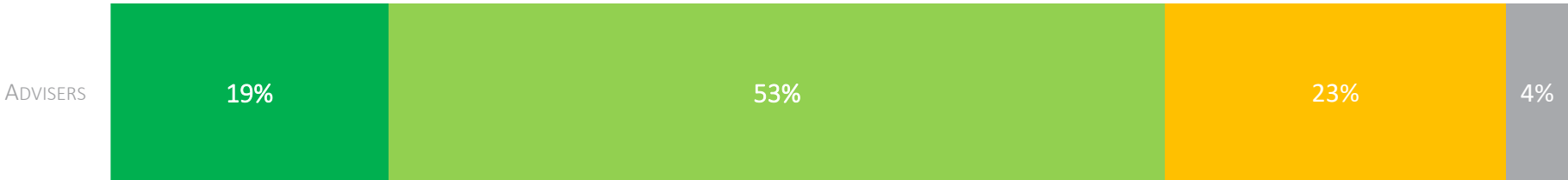
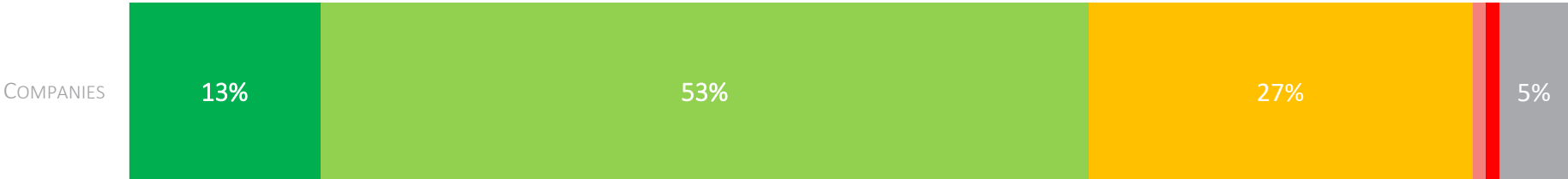


Currently, how would you rate the attractiveness of AIM for companies thinking of floating? On this scale, 0 represents 'Not at all attractive' and 10 represents 'Very attractive'.



The new AIM Rule 26 requires all AIM companies to adopt a recognised corporate governance code from September 2018. Do you think this will improve or degrade the integrity of AIM?

- GREATLY IMPROVE THE INTEGRITY OF AIM
- SOMEWHAT IMPROVE THE INTEGRITY OF AIM
- WILL HAVE NO IMPACT ON THE INTEGRITY OF AIM
- SOMEWHAT DETERIORATE THE INTEGRITY OF AIM
- GREATLY DETERIORATE THE INTEGRITY OF AIM
- DON'T KNOW



How will the new AIM Rule 26 impact companies?

Example views from respondent companies

“If our company is a good indicator then it will encourage AIM companies to implement more rigorous corporate governance than they would have chosen to do previously.”

“I doubt it will change any company culture. If good governance was in place than the information and process was in place, so more a question of making it available and transparent.”

“Too early to tell. But I suspect it will make little difference in respect of those who have been less compliant in the past. The key, for me, is whether institutional investors will pick up this ball and run with it – they usually show little interest in corporate governance compliance when stocks are performing well.”

“It forces companies to actually deal with issues which are usually swept under the carpet and plastered over with boilerplate platitudes when it is time to write the annual report and accounts.”

How will the new rule 26 impact AIM IPOs?

Example views from respondent companies

“It should be positive as institutional investors already want to see AIM companies aiming for higher standards of governance and reporting.”

“Probably makes it easier for investors to access key information and have confidence that governance is being adhered to.”

“I believe boards and their advisors will need to start the planning process earlier and activate corporate governance arrangements before IPO rather than document what the board plans to do after IPO. NEDs will have a more active role to play in the preparations.”

“Ever increasing governance for small companies promotes a sense of expensiveness post-float relative to income and will promote alternative avenues of finance.”

Background & methodology

- 152 interviews were conducted between 30/10/18 and 13/11/18.
- 105 from small and mid-cap UK quoted companies, 47 from advisory companies.
- 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.

Sponsor this survey

- The QCA/YouGov Sentiment Survey has been running since 2011 and is an established source of information about the small and mid-sized quoted company sector. Opportunities are available to sponsor future editions of this survey.
- The survey is distributed to an audience of over 5000 individuals working in the small and mid-sized quoted company space – including the companies themselves, advisors (investors, brokers, NOMADs, lawyers, accountants), as well as regulators and policymakers.
- The survey runs with a set number of fixed repeated questions and then a number of different topical questions in each wave. As sponsor, you can help decide these topical questions and so ask the questions to which you want the answers.
- For more information, please contact QCA Head of Operations, Hayley Zeff (hayley.zeff@theqca.com / 0207 397 8142).

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