

Hilton-Baird Financial Solutions

SME Trends Index – April 2011



Introduction

“A year ago, Hilton-Baird Financial Solutions, the UK’s largest independent introducer to the SME sector, set out to take a temperature check of UK businesses in post-recession Britain. The results revealed the nation’s 4.7 million SMEs to be bruised but unbowed after enduring the worst trading conditions in living memory. Naturally, concerns about access to finance and late payment continued to trouble our sample, but a palpable optimism underpinned our study.

“There have been many changes in the past 12 months which have impacted the landscape. We have a new Government and have officially been out of recession for five quarters. However, January 2011 saw VAT rise to 20% and SMEs have also faced rampant inflation, affecting not only luxury items but also the essentials, such as food and fuel, as well as having to deal with sweeping cuts, which have affected business and consumer demand.

“This latest study provides a fascinating insight into how business sentiment has shifted during this time of intense volatility. Has their optimism persisted?

“The report combines soundings taken in Q4 2010 and Q2 2011, indexing business confidence, concerns and sources of finance against initial findings back in 2010. In addition, a selection of topical questions have been added to tap into a couple of key current issues affecting the UK business community.

“Meanwhile, for the first time the report also features a composite indicator of business health, which should combine to provide a reliable litmus test of business confidence over the years to come.

“I hope you find this report of interest and the insight within it helpful to your business. We welcome and value any feedback you may wish to share.

“Finally, I would like to sincerely thank all of our respondents for taking the time to partake in this insightful and informative study.”

**Evette Orams, Managing Director
Hilton-Baird Financial Solutions**

Background to research

Hilton-Baird's research was undertaken among 1,293 businesses across a wide variety of business sectors, providing a representative sample of the UK's SMEs.

The research was conducted in two waves: Wave 1 took place in November 2010 with Wave 2 undertaken between March and April 2011.

The results provide a snapshot of current business sentiment and a fascinating opportunity to establish a graphic picture of business trends.

Key findings

Whilst the SME Trends Index in Q4 2010 depicted an SME community which appeared to be emerging resiliently from the ravages of recession, the results of the most recent survey (Q2 2011) are more bearish as businesses struggle to deal with the still sluggish economic environment whilst Government spending cuts begin to take their toll.

This underlying anxiety is relayed in the first composite scores for our Business Health Index, which reveals an overall decline in the financial health of UK businesses over the last six months, with the median score declining from 0.49 in Q4 2010 to 0.35 in Q2 2011.

As a result, there was a substantial drop in the proportion of firms expecting their business to expand in the next six months. Just 33% of Wave 2 respondents indicated they expected theirs to do so compared to 45% reporting the same in Q4 2010.

More than a quarter (28%) stated that their biggest

concern for those six months was generating and winning new business, with a further 17% citing the rising cost of raw materials and fuel and 15% worried about managing cash flow.

The survey indicates that this latter concern could be overcome by securing a tailored funding solution that focuses on boosting cash flow. Once again, more traditional sources of funding such as bank overdrafts (44%) and credit cards (42%) were the most popular amongst our respondents, with more focused and flexible solutions such as asset finance (25%) and invoice finance (21%) used by considerably fewer.

Yet, as this SME Trends Index demonstrates, asset based finance users continue to fare better than others as an increased access to working capital enables owners to secure new business and ultimately grow.

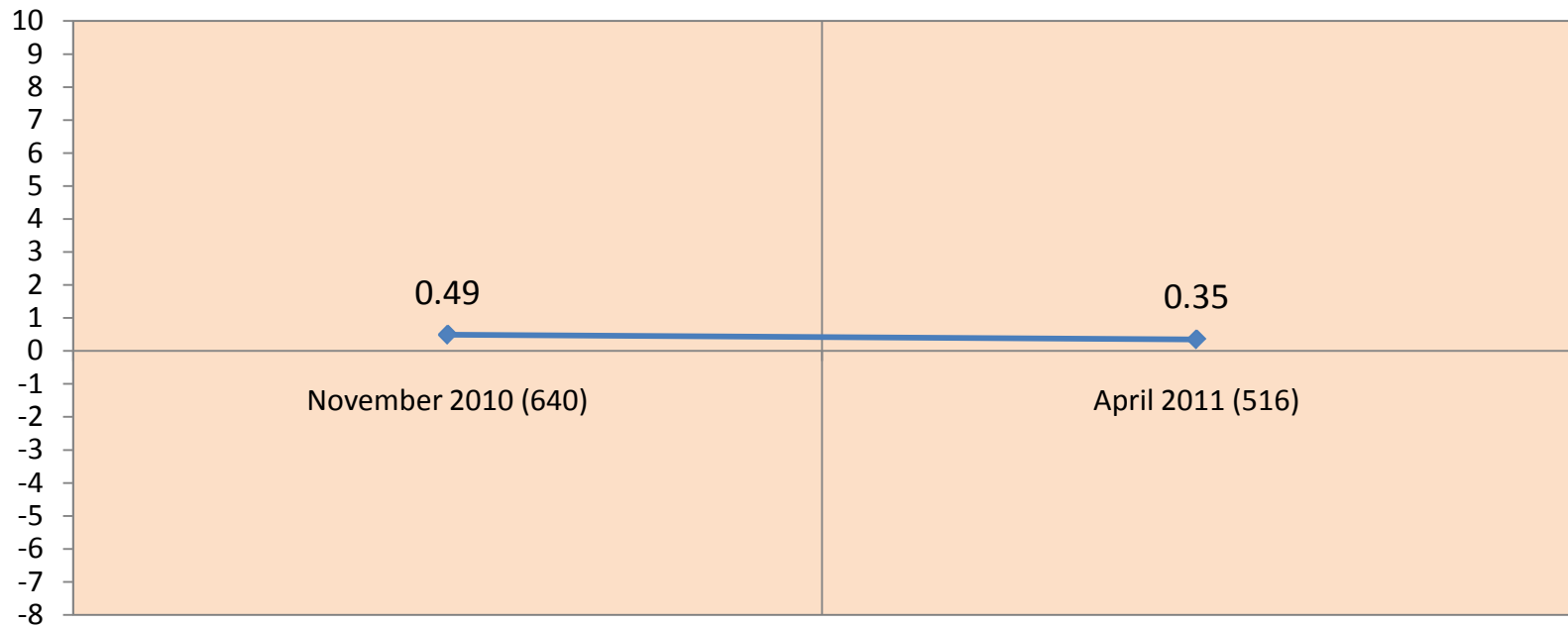
Business Health Index

The Business Health Index, which uses a range of factors including bad debt levels, tax arrears, turnover and profitability to generate a true reflection of the financial health of UK firms, fell to 0.35 from the 0.49 recorded in November 2010.

Companies using asset finance (0.70) and/or invoice finance facilities (0.62) fared better than businesses

using other forms of funding, as did those with a turnover of more than £3m (1.48). Likewise, firms in Wales (1.10), eastern England (0.91) and those operating in the wholesale sector (1.38) are showing the most promise.

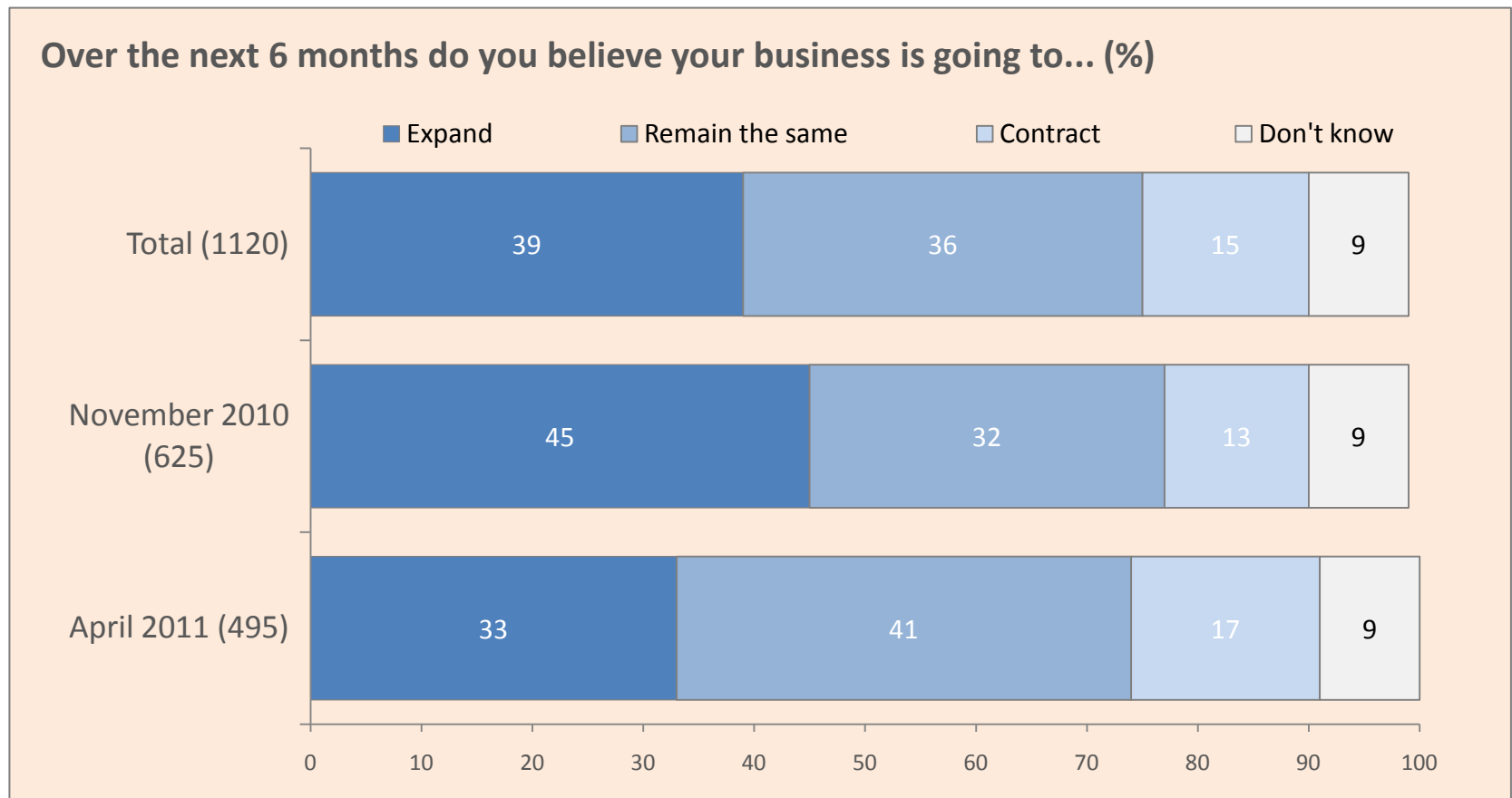
But, in general, trading conditions appear noticeably more challenging this time around.



Business confidence

In the first study, almost half (45%) believed their business would expand in the next six months.

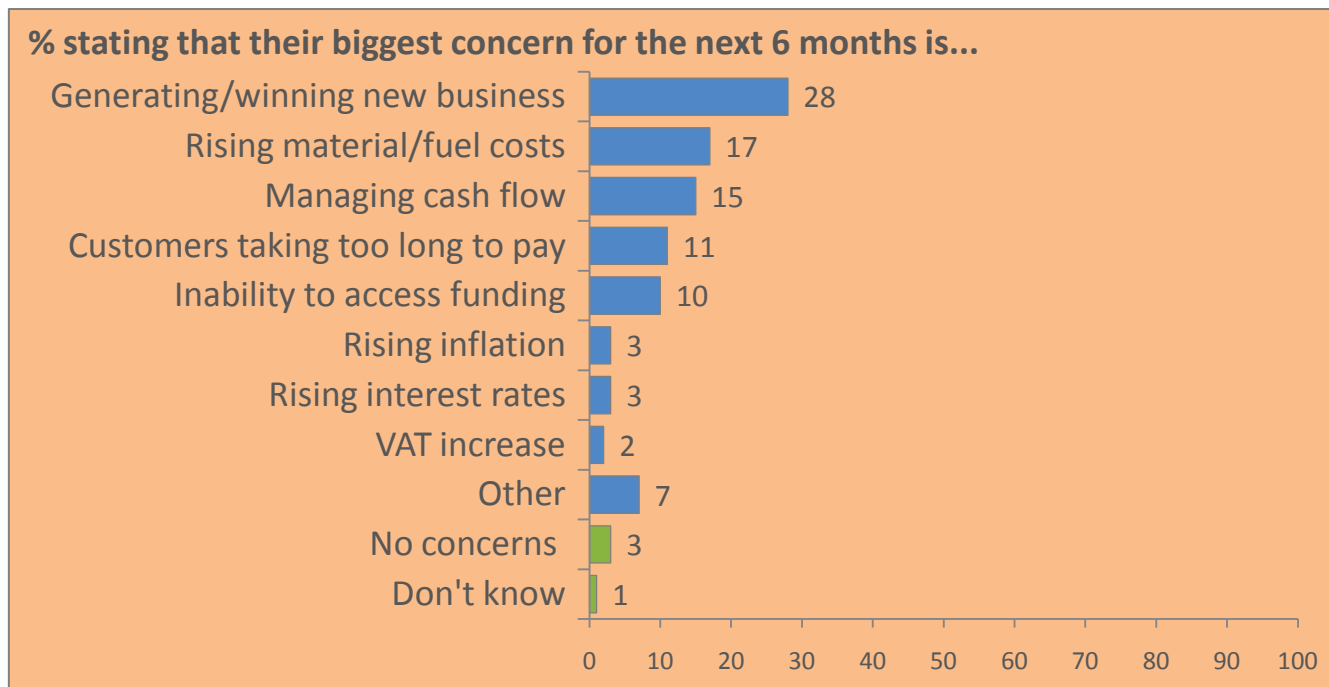
Six months on, however, the picture is somewhat less optimistic with only 33% reporting the same.



Business concerns

When asked about their key concerns for the following six months, 28% of respondents cited generating and winning new business as their primary concern. Perennials such as managing cash flow concerned 15% of respondents and 11% highlighted late payment as a concern.

However, day-to-day concerns such as rising material and fuel costs (17%) were much more of an issue than macro factors. Only 3% were worried about inflation in the abstract and a similar number found a potential rise in interest rates a cause of anxiety.



Routes to finance

Managing finance and an over-reliance on highly leveraged forms of finance are troubling. Bank overdrafts remain SMEs' preferred method of securing credit (44%), whilst credit cards (42%) emerge as the second most commonly used method of finance.

Promisingly, 21% of respondents in Q2 2011 enjoyed the flexibility provided from invoice finance solutions, freeing the cash from their sales ledger. Meanwhile 25% of the sample used asset finance, though this figure is down 10% on Q4 2010.

% types of Finance currently used by business	Nov '10 (630)	April '11 (502)	Difference
Existing cash flow**	N/A	49	
Bank overdraft	49	44	↓
Credit cards	44	42	↓
Asset finance (including HP &...)	35	25	↓
Bank loans	22	24	↑
Invoice finance (Factoring & ID)	19	21	↑
Loans from family & friends	17	20	↑
Credit insurance	4	5	↑
Government schemes	5	4	↓
Export finance	1	1	↔
Venture capital funding	2	1	↓
Other	5	3	↓
None of the above	17	9	↓
Don't know	1	1	↔

0 10 20 30 40 50 60 70 80 90 100

About Hilton-Baird Financial Solutions

As the UK's leading independent commercial finance broker, Hilton-Baird Financial Solutions specialises in identifying the exact funding needs of businesses and matching them with suitable funding providers in the UK and overseas.

Hilton-Baird's independent status has enabled the company to foster strong relationships with more than 70 dedicated lenders, ranging from major banking groups through to smaller boutique funders. This objective approach and market expertise delivers real benefits for clients, enabling the right business solution to be sourced and ensuring that Hilton-Baird always delivers positive and innovative financial solutions allied to exact business requirements.

Established in 1997, Hilton-Baird Financial Solutions has helped in excess of 3,000 businesses during its 14-year history. It is part of the Hilton-Baird Group, one of the UK's leading independent business finance groups consisting of a team of 50 professionals with expertise in all aspects of commercial fundraising and

risk management across a wide range of industries and sectors.

The emphasis Hilton-Baird places on delivery of a tailored service that meets all of our clients' needs is central to its business proposition and has played a large role in the company's growing success. As a member of the Asset Based Finance Association (ABFA), Finance and Leasing Association (FLA) and the National Association of Commercial Finance Brokers (NACFB), the company maintains the highest service standards at all times.

Hilton-Baird also recognises that its highly trained team is its true strength and is fully committed to supporting them, creating a vibrant working environment with a team that is dedicated to delivering beyond expectations.

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