



Hilton-Baird's SME Trends Index

April 2012



Introduction



“WITH the Office for National Statistics confirming that the UK has slipped into its first double-dip recession for the first time since the 1970s, the country’s small and medium-sized businesses continue to contend with a vast array of cash flow challenges.

“A limited access to traditional funding facilities and the endemic issue of late payment are proving particularly restrictive at present, with banks missing their lending targets to SMEs under the Project Merlin initiative by £1.1 billion in 2011 and Bacs Payment Schemes reporting SMEs are currently owed a record £35.3 billion in overdue payments.

“In this context, Hilton-Baird Financial Solutions’ fourth SME Trends Index, which is conducted on a biannual basis, questioned more than 450 business owners and finance directors in April 2012 to ascertain how the UK’s businesses have performed over the past six months, and how they expect to fare in the months ahead.

“Additionally, we looked at the resulting fallout from the recession, and whether our respondents

could report any positives arising from the turbulence. The results pleasantly surprised us.

“I hope that you find this report both interesting and insightful, and I would welcome any feedback or comments you may like to share.

“Finally, a sincere thank you to all who took the time to participate in our research. Your honest feedback in your assessments of the key challenges in today’s economic climate is invaluable in helping us to adapt our offerings in order to best assist the UK’s SME and corporate businesses.”

Evette Orams
Managing Director
Hilton-Baird Financial Solutions

Background to research



HILTON–BAIRD Financial Solutions' research was undertaken among 2,164 owners and finance directors from businesses across a wide variety of sectors, regions and sizes in order to provide a representative sample of the UK's SMEs.

To date, we have conducted four waves of research:

- Wave 1: November 2010 (717 respondents)
- Wave 2: March & April 2011 (576 respondents)
- Wave 3: October 2011 (417 respondents)
- Wave 4: April 2012 (454 respondents)

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

Key findings



THE financial health of the UK's businesses improved in the six months to April 2012, with the overall Business Health Index – which looks at a range of factors including turnover, profitability, Crown arrears and bad debt levels to calculate a score for each business – rising to its highest level since our survey began in November 2010.

This was aided by the decline in the proportion of businesses reporting an increase in operating costs, VAT and PAYE arrears, coupled with a 6% rise in those winning new contracts over the last six months.

In addition, there was a significant increase in the proportion of respondents expecting their business to expand over the next six months, rising to 39% in April 2012 from 31% in October 2011.

Generating and winning new business remains the primary concern amongst respondents (33%).

Yet despite the wide-ranging cash flow challenges arising from the downturn, an encouraging 70% have been able to take positives from it. Two in

five reported the recession helped them to streamline their business and cut unnecessary costs, with one in three now claiming to utilise their resources more effectively.

Of particular concern, given the associated high costs and interest rates, was that business credit cards overtook existing cash flow as the most widely used form of business finance in the six months to April 2012 (51%). Further, bank overdrafts and bank loans are now used by 47% and 25% respectively as UK businesses continue to opt for traditional lending methods to fund their business.

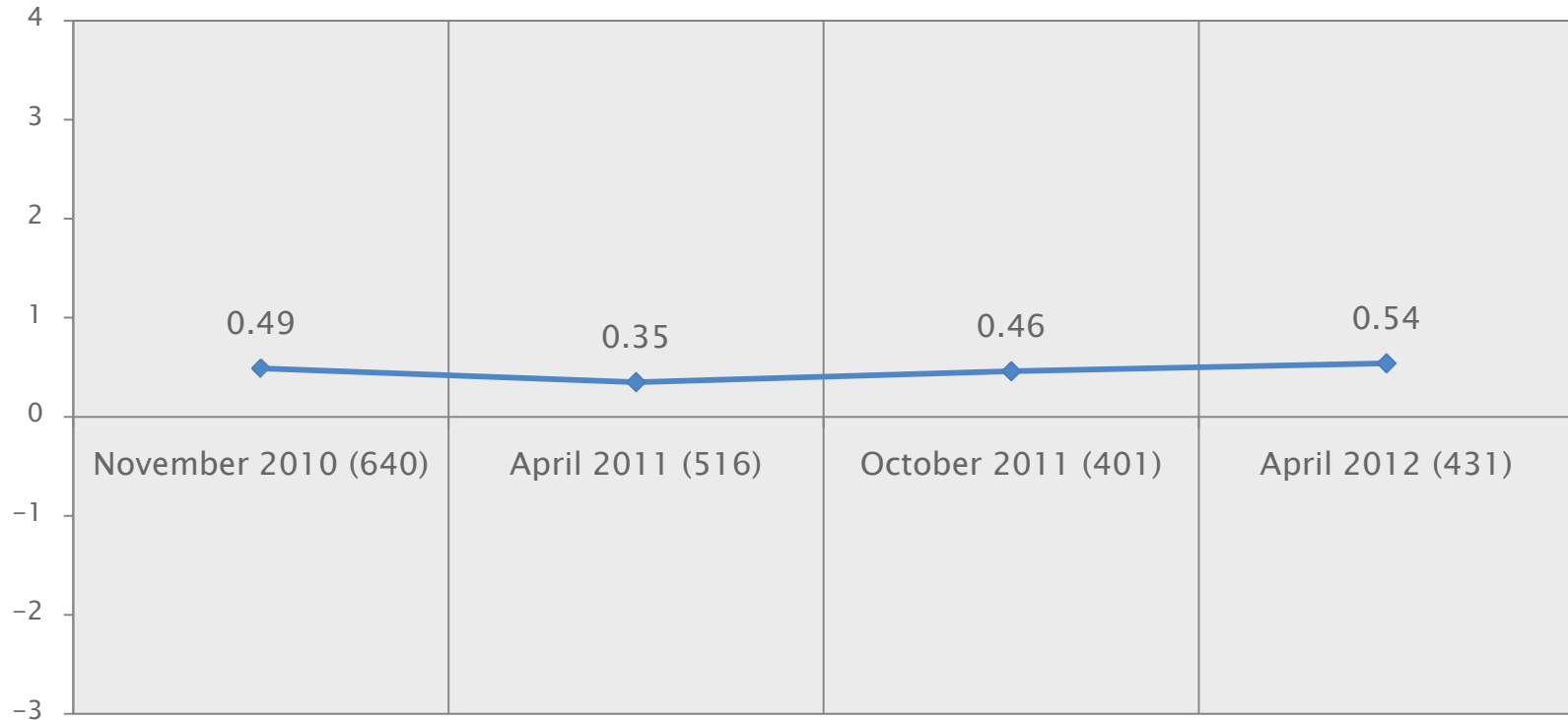
Once more however, the research found that users of tailored, flexible funding solutions such as asset finance and invoice finance have performed better than most over the same period, despite only 20% and 18% of respondents currently using these facilities.

Business Health Index



THE Business Health Index¹, which uses a range of factors such as turnover, profitability, operating costs and bad debts to calculate a true reflection of the financial health of UK businesses, rose in April 2012 to its highest level since our survey began in November 2010.

This Index has now risen for two successive surveys, with invoice finance users (1.90) and companies turning over more than £3 million (1.71) significantly outperforming other businesses.



¹ See Appendix for an explanation of how the Business Health Index is calculated
Base: 1,988 (all answering questions 1 & 2)

Business confidence

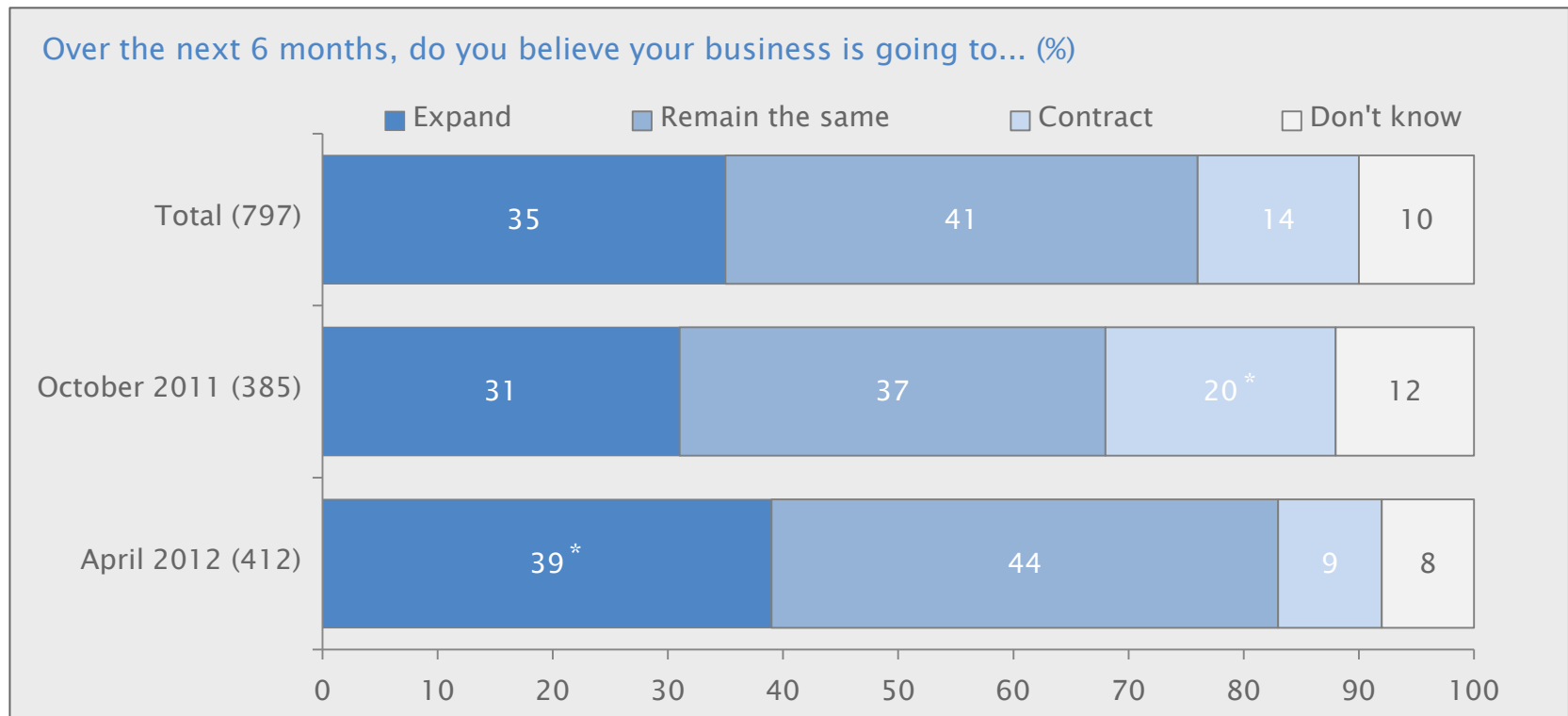


THERE was a significant increase in the proportion of respondents reporting that they expect their business to expand in the next six months.

Almost two in five of the businesses surveyed in April 2012 anticipate growth in the next six

months (39%), up from 31% in October 2011.

Invoice finance users were the most optimistic about their business' prospects for the months ahead, with 50% expecting their business to expand in the next six months.



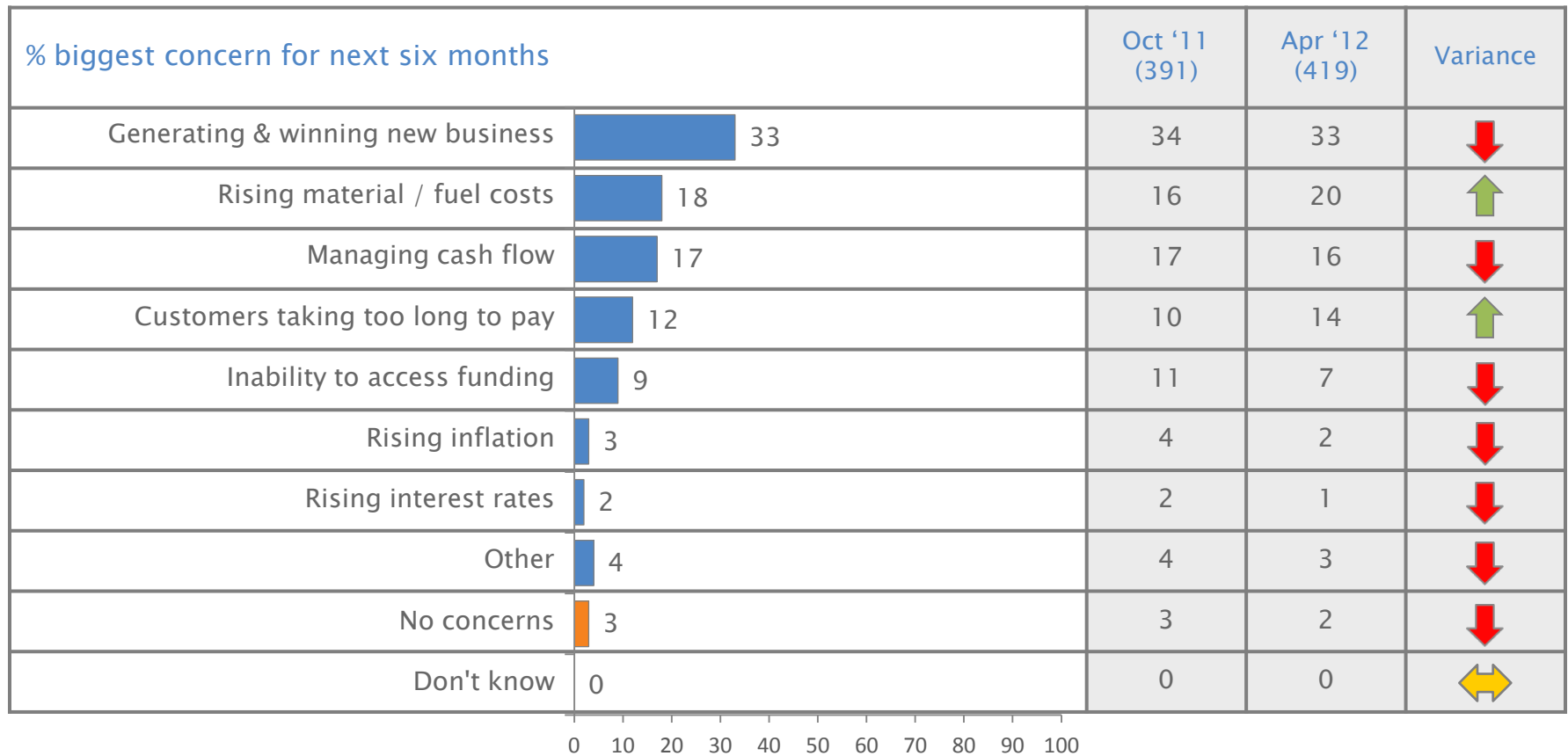
* Significantly different from the total score at 1% significance level
Base: 797 (all)

Business concerns



GENERATING and winning new business remained the primary concern for the next six months amongst respondents in April 2012, as reported by 33%.

The rising cost of fuel and materials (20%), managing cash flow (16%) and customers taking too long to pay (14%) are also of particular concern to UK business owners.



Base: 810 (all)

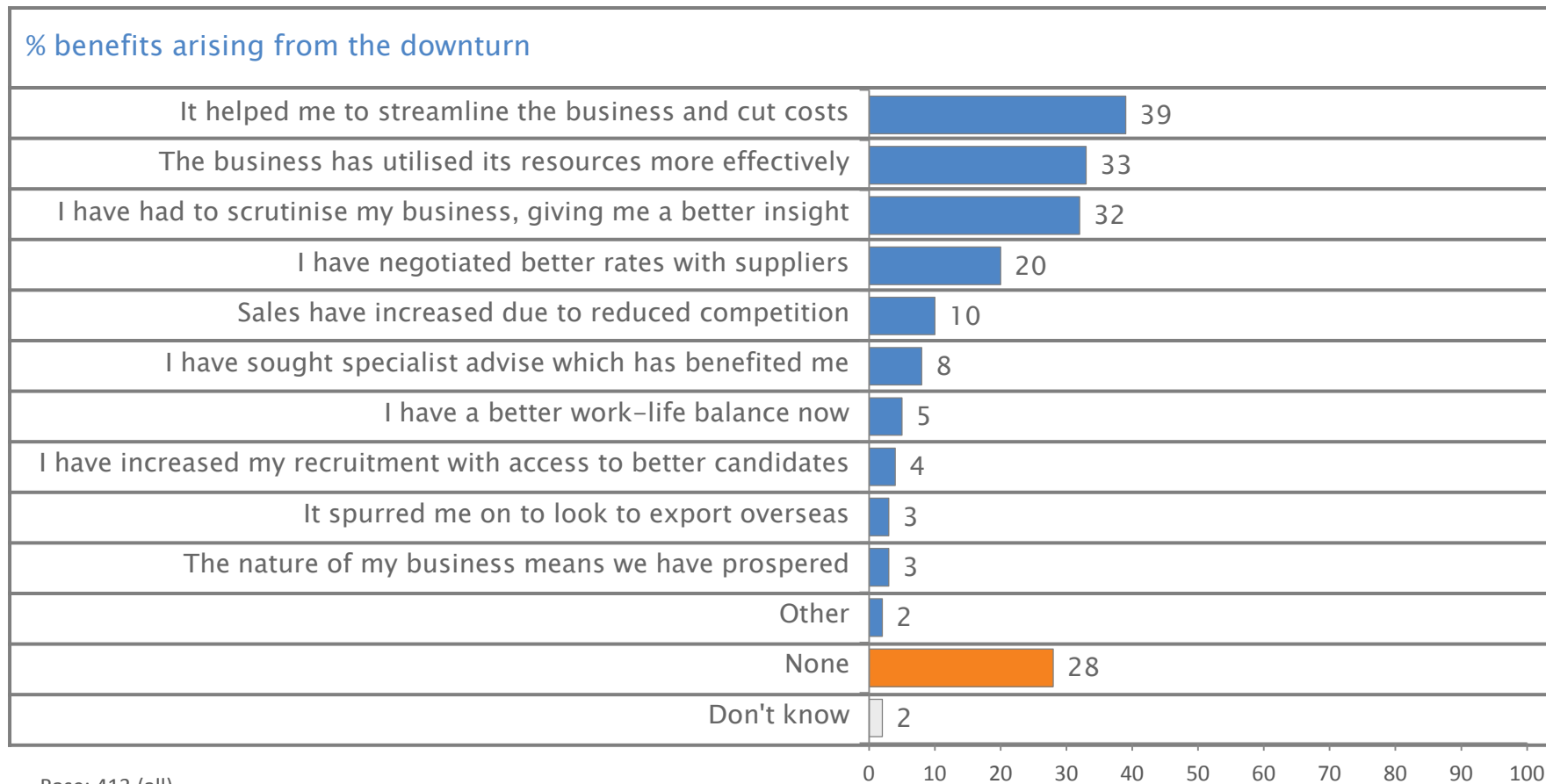
Positives from the downturn



ONLY 28% of respondents failed to identify a single benefit for their business that has arisen from the downturn.

Two in five have been able to streamline the business and cut costs (39%), with 33% utilising its resources more effectively and 32% gaining better insight into the way their business is run.

% benefits arising from the downturn



Base: 413 (all)

Routes to finance



| % types of finance currently used by business | | Oct '11 (395) | Apr '12 (424) | Variance |
|---|----|------------------|------------------|----------|
| Business credit cards | 50 | 49 | 51 | ↑ |
| Existing cash flow | 48 | 51 | 45 | ↓ |
| Bank overdraft | 48 | 48 | 47 | ↓ |
| Bank loans | 25 | 24 | 25 | ↑ |
| Asset finance (including HP & Leasing) | 21 | 23 | 20 | ↓ |
| Personal credit cards | 18 | 18 | 18 | ↔ |
| Invoice finance (Factoring & ID) | 17 | 17 | 18 | ↑ |
| Loans from family & friends | 16 | 20 | 13 | ↓ |
| Credit insurance | 7 | 7 | 7 | ↔ |
| Government schemes | 4 | 3 | 4 | ↑ |
| Venture capital funding | 2 | 2 | 1 | ↓ |
| Export finance | 1 | 0 | 1 | ↑ |
| Other | 2 | 3 | 2 | ↓ |
| None of the above | 7 | 7 | 7 | ↔ |
| Don't know | 1 | 0 | 2 | ↑ |

Base: 819 (all)

About Hilton–Baird



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.

Appendix



1 The Business Health Index incorporates the answers from two questions for each respondent:

| Q1 Over the last 6 months, what shift have you seen in the following... | | | |
|--|-----------|-----------|-------|
| | Increased | Decreased | Other |
| Bounced cheques from your debtors | -1 | +1 | 0 |
| Level of bad debts | -1 | +1 | 0 |
| VAT arrears | -1 | +1 | 0 |
| PAYE arrears | -1 | +1 | 0 |
| Profitability of your business | +1 | -1 | 0 |
| Turnover of your business | +1 | -1 | 0 |
| Q2 In the last 6 months, what activities has your business undertaken... | | | |
| | Yes | No | |
| Won new contracts | +1 | 0 | |
| Entered new markets | +1 | 0 | |
| Launched new products | +1 | 0 | |
| Increased number of employees | +1 | 0 | |
| Reduced number of employees | -1 | 0 | |
| Closed or contracted premises | -1 | 0 | |

Best score: +10

(e.g. a company has grown and increased its profitability whilst reducing debt and/or VAT/PAYE arrears)

Worst score: -8

(e.g. a company has contracted in size and its profits decreased but debt and/or VAT/PAYE arrears increased)

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