

Hilton-Baird Financial Solutions

SME Trends Index – October 2011



Introduction

“As the UK’s leading commercial finance broker, Hilton-Baird Financial Solutions’ biannual SME Trends Index gauges how UK businesses are faring in the wake of the evolving challenges they face.

“Though the recession is behind us, conditions remain tough with the UK economy growing by only 0.5% during the first two quarters of 2011. This, combined with increases in corporate insolvencies, rising inflation and the well-documented difficulties businesses are facing with regards to accessing traditional bank finance, has placed increased pressure on the UK’s SMEs and corporates – so much so that the Governor of the Bank of England recently declared that that the UK is facing “the most serious financial crisis we’ve seen”.

“Our report explores how businesses have performed over the six months to October 2011 in contrast to the six months to April 2011, with the key focus on an overall score that reflects each individual business’ financial health.

“In addition to the usual questions regarding performance, confidence, funding and trends, we also look at what owners perceive to be their greatest challenges over the next six months and what steps respondents believe the Government could take to help facilitate SME growth.

“I hope that you find this report to be an interesting read and insightful, and look forward to receiving any feedback you may have.

“Finally, thank you to all of you who have taken the time to participate in our research so far and for being so honest in your assessments of the key challenges in today’s economic climate.”

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

Background to research

Our respondents consist of 1,710 owners and finance directors from businesses across a wide variety of business sectors, providing a representative sample of the UK's SMEs.

To date, we have conducted three waves of research:

- Wave 1: November 2010 (717 respondents)
- Wave 2: March and April 2011 (576 respondents)
- Wave 3: October 2011 (417 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

After a sharp decline in business health between November 2010 and April 2011, this latest survey found that UK businesses have seen an encouraging improvement in their financial health during the six months to October 2011.

This is reflected in the Business Health Index, which rose to 0.46 in October 2011 from the 0.35 recorded last April.

Despite this, business confidence continued to fall amid rumours of a double-dip recession and the sustained cash flow pressures SMEs are facing, with just 31% now expecting their business to expand over the next six months.

Our respondents' primary concern for this period is generating and winning new business, as reported by 34%, which is 6% higher than what was reported last April. A further 17% stated managing cash flow as their biggest worry, closely followed by 16% concerned about rising material and fuel costs.

The survey indicates that widespread tax cuts would best facilitate business growth, with 21% suggesting a reduction in Corporation Tax and 19% a cut in VAT as the most beneficial steps the government could take to help their business.

Once again, existing cash flow was most used by respondents to fund their business (51%), but their over-reliance on business credit cards (49%) and bank overdrafts (48%) remains a concern, given the high levels of interest rates associated with the former and the relative availability and limitations of the latter.

Once again, businesses using asset finance (23%) and invoice finance (17%) excelled over the past six months, particularly in terms of turnover, profitability, confidence and financial health.

Business Health Index

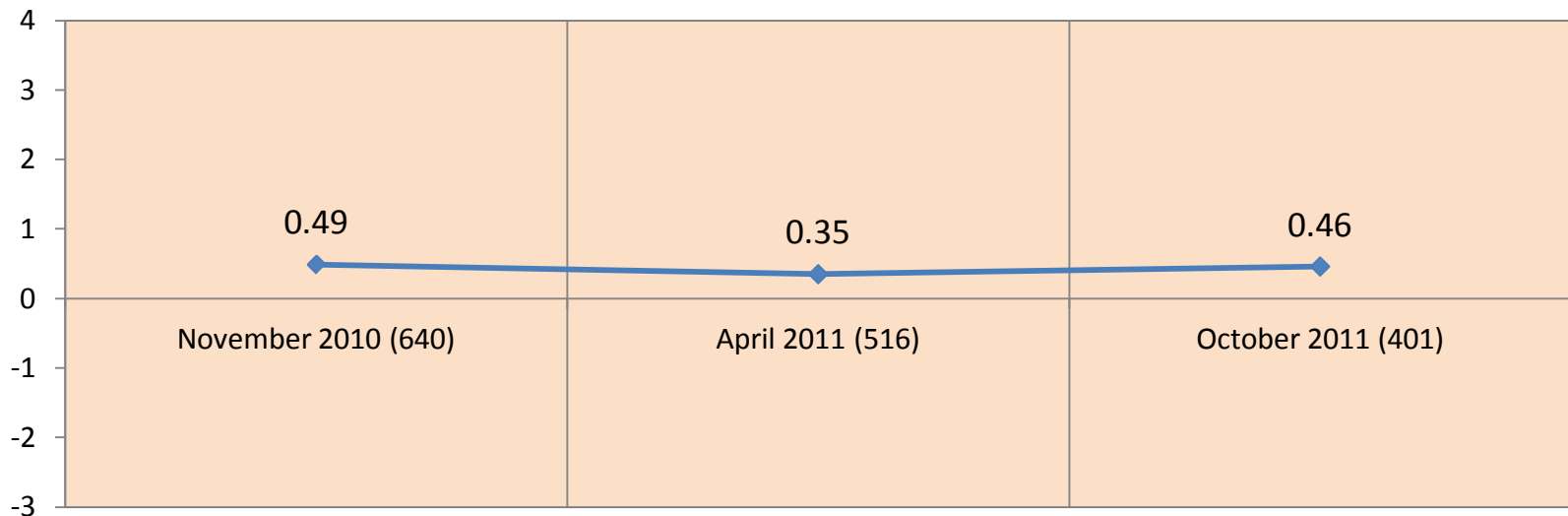
The Business Health Index¹, which uses a range of factors such as turnover, profitability, operating costs and bad debts to calculate a true reflection of the financial health of UK businesses, demonstrates that business health has improved over the past six months.

This is encouraging following the sharp fall recorded between November 2010 and April 2011, with invoice finance users (2.24) significantly outperform-

ing bank overdraft users (0.05) and those using loans from family and friends in particular (-0.41).

Recruitment firms (1.47) were the strongest of any industry, followed by the wholesale (1.05) and printing/publishing/packaging sectors (0.96).

Firms with a turnover of over £3m (1.85) were significantly stronger than their smaller counterparts.



¹ See Appendix for an explanation of how the Business Health Index is calculated

Base: (1,557) all answering questions 1 and 2

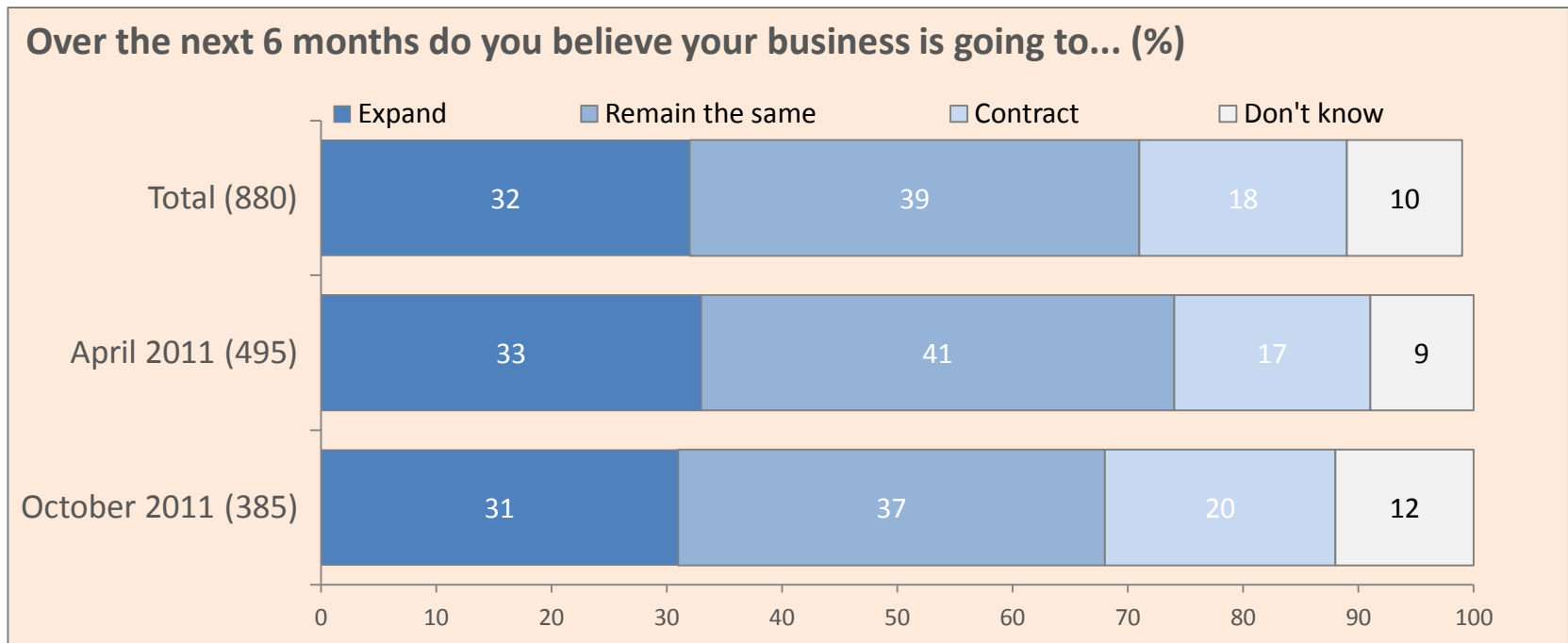
Business confidence

Despite the improvement in business health, respondents are concerned about what lies ahead, with fewer respondents expecting their business to expand over the next six months in October 2011 than in April.

Invoice finance users were the most optimistic, with

50% expecting their business to expand over the next six months compared to 32% of bank overdraft users.

Businesses in the recruitment sector were also positive about the future (53%), as were those turning over £1-3m (38%) and those turning over in excess of £3m (36%).



Base: (880) all answering the question

Business concerns

Generating and winning new business remains our respondents' primary concern for the coming six months, as reported by 34% of firms in October 2011 – 6% higher than in April (28%).

Managing cash flow became the second largest concern in October (17%), though the rising cost of materials and fuel remains the second highest concern over the past 12 months.

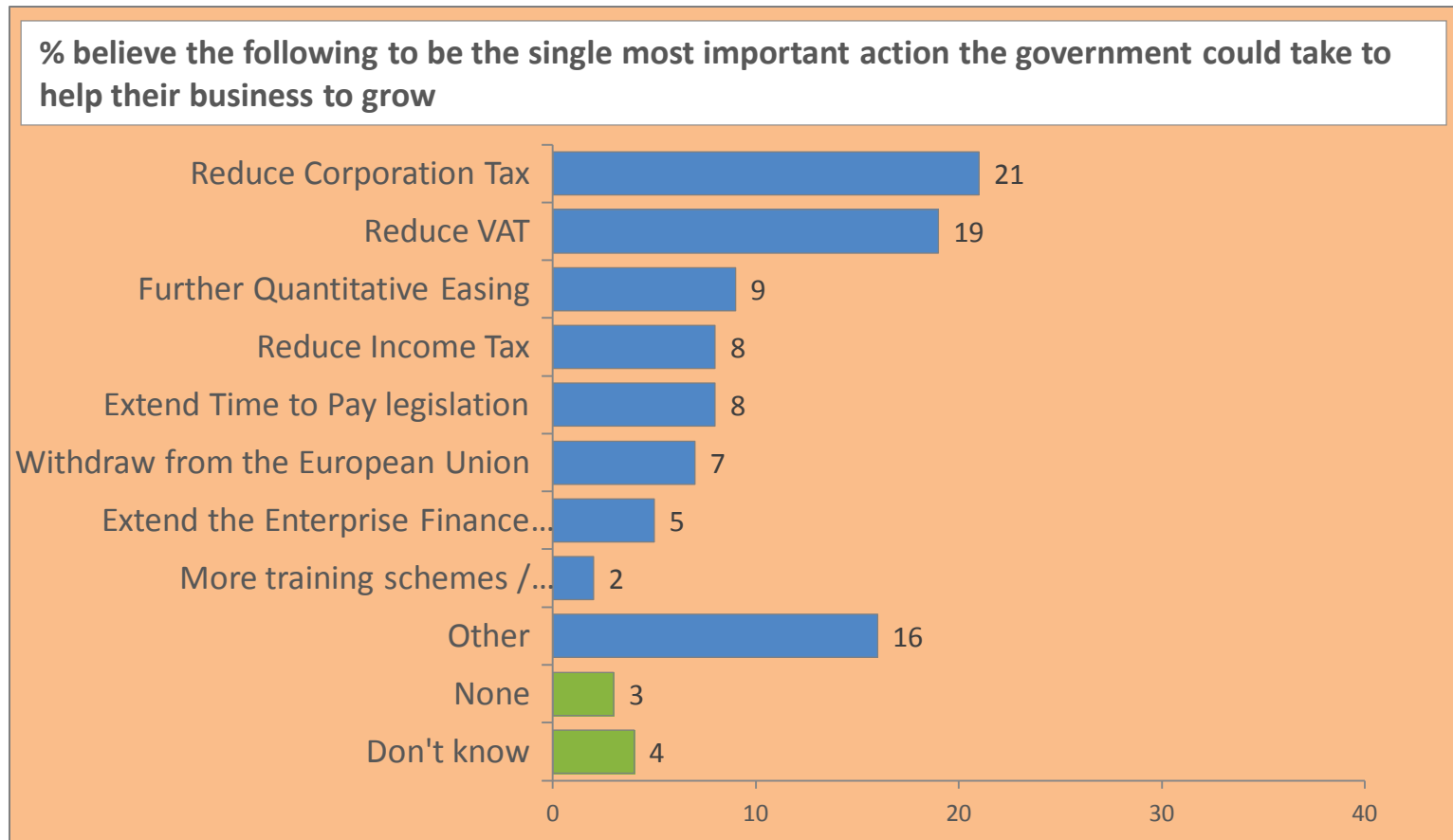
% biggest concern for next six months	April '11 (498)	Oct '11 (391)	Difference
Generating & winning new business	28	34	↑
Rising material / fuel costs	17	16	↓
Managing cash flow	15	17	↑
Customers taking too long to pay	11	10	↓
Inability to access funding	10	11	↑
Rising inflation	3	4	↑
Rising interest rates	3	2	↓
Other	7	4	↓
No concerns	3	3	↔
Don't know	1	0	↓

Base: (889) all answering the question

Government action

Tax cuts dominated our respondents' wish-list for Government action, with more than one in five suggesting a reduction in Corporation Tax would be

the single most important action the Government could take to help their business to grow, closely followed by a reduction in VAT.



Base: (387) all answering the question

Routes to finance

% types of Finance currently used by business		April '11 (502)	Oct '11 (395)	Difference
Existing cash flow	50	49	51	↑
Business credit cards **	49	N/A	49	
Bank overdraft	46	44	48	↑
Bank loans	24	24	24	↔
Asset finance (including HP & Leasing)	24	25	23	↓
Loans from family & friends	20	20	20	↔
Invoice finance (Factoring & ID)	19	21	17	↓
Personal credit cards **	18	N/A	18	
Credit insurance	6	5	7	↑
Government schemes	4	4	3	↓
Venture capital funding	1	1	2	↑
Export finance	1	1	0	↓
Other	3	3	3	↔
None of the above	8	9	7	↓
Don't know	1	1	0	↓

** Introduced in October 2011

Base: (897) all answering the question

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.

Appendix

¹The 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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