

Results from the 2010 Finance Survey of Mid-cap Businesses

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Vicky Whiting
Associate Director
Tel: 020 7490 9139
Vicky.whiting@bdrc-continental.com
providing intelligence

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1. Background

1.1 Introduction

This research was commissioned by the Department for Business, Innovation and Skills (BIS) to investigate issues around mid-cap businesses raising bank finance, and follows the previous 2009 mid-cap finance survey¹. The previous 2009 survey found that while most businesses could raise finance (85 per cent obtained some finance from the first and subsequent sources approached), there was some evidence of businesses experiencing problems obtaining loans and overdrafts, especially for businesses with turnover higher than £25m. The research was repeated in 2010 in order to assess whether demand for, and access to bank finance has changed compared to a year ago.

The definition of mid-cap businesses was narrowed in the latest 2010 survey to businesses with turnover of between £25m-£500m (compared to £10m-£500m in the 2009 survey). In 2009, these larger mid-cap businesses were more likely to report obtaining finance as an obstacle to their business success. This narrower turnover definition, also avoids overlapping with the widely used SME turnover limit of £25m².

Where comparisons are made to the 2009 survey, comparisons are made to the responses from businesses with turnover of between £25m-500m rather than the wider definition (£10m-500m) used in the previous survey.

No figures are statistically significant unless specifically stated. Significant changes on graphs are highlighted through the use of a bubble.

A sample of mid-cap businesses was again provided by pH Group³, based on Companies House records. The 2010 sample comprised of:

- 439 mid-cap businesses with a secured finance charge on their balance sheet
- Remaining population of 9,874 mid-cap businesses with contact details who did not have a secured finance charge on their balance sheet

Where a secured finance charge was flagged on the sample, this indicated that the business was more likely to be use bank finance than the general background population of mid-cap businesses in order to ensure a high number of finance seeking businesses could be surveyed. This was by no

¹ <http://www.bis.gov.uk/assets/biscore/enterprise/docs/10-635-2009-finance-survey-mid-cap-businesses.pdf>

² <http://www.bis.gov.uk/assets/biscore/corporate/docs/f/10-1081-financing-private-sector-recovery.pdf>

³ Part of Experian.

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means conclusive and so the survey verified whether a finance application had been made in 2010 and the sample was then structured to ensure that a robust number of businesses with experience of applying for finance in 2010 were interviewed (150). The survey results were then weighted to represent the profile of all 14,393 mid-cap businesses⁴ under the revised turnover definition, by sector and turnover, with an additional weighting to account for the oversampling of businesses seeking finance. Further details of the sample frame and fieldwork methodology are contained in the technical appendix at the end of the report.

⁴ All mid-cap businesses including those whose contact details were not available

2. Management summary

2.1 Methodology

The research was conducted through a 20 minute CATI based questionnaire, designed between BDRC Continental and BIS. Core questions repeated from 2009 include:

- Current finance instruments used;
- Demand for new finance and extensions;
- Success of loan and overdraft applications;
- Costs, terms and conditions of finance achieved;
- Perceptions of changes in access to finance;
- Business growth and prospects;
- Late customer payments; and
- Dependency on finance.

Within the latest survey, there is a more extensive section on demand and attitudes towards alternative sources of finance, including equity finance, corporate bonds and mezzanine finance.

401 telephone interviews were undertaken between 22nd September and 21st October 2010. The 2009 research was also conducted during September/October with 223 interviews completed with mid-cap businesses under the new definition. Comparisons between each sample are made throughout this report.

Net figures may differ by one percentage point due to rounding

2.2 Main Findings

Mid-cap businesses current use of external finance is down from 2009 levels...

- 88 per cent of mid-cap businesses use some form of external finance in 2010 compared to 92 per cent in 2009
- In particular, there was a significant decline in the use of asset based finance, whilst use of overdrafts, leasing/ hire purchase and secured loans all declined marginally. However, there was a significant rise in the use of equity finance although only a minority of mid-cap businesses (9 per cent) have used this form of finance in the last year.

Demand for new external finance is also down compared to 2009, mainly due to businesses taking steps to reduce their reliance in order to minimise risk. There is no evidence of significant numbers of mid-cap businesses being discouraged from seeking finance...

- There was a significant decline in the proportion of mid-cap businesses seeking external finance from 41 per cent in 2009 to 32 per cent in 2010
- Significant declines were reported for those in the manufacturing and distribution sectors and also larger mid-cap businesses (£100m - £500m turnover)
- Demand was down across almost all finance instruments, significantly for leasing / hire purchase and secured loans, although there was an increase in the use of equity finance
- As in 2009, the majority of finance was sought for working capital purposes
- The lower demand for finance in 2010 could in part be explained by the range of steps mid-cap businesses have taken to reduce their dependency on finance. One third of mid-cap businesses (31 per cent) took steps to reduce their dependency on external finance in 2010, with two thirds of these cutting costs and over one third reducing employment levels
- There is no evidence of significant numbers of mid-cap businesses being discouraged from seeking finance. The majority (81 per cent) of those not seeking finance stated that they had "no need" for additional finance. Just 1 per cent of mid-cap businesses was discouraged from seeking finance because they thought they would be turned down, and a further 1 per cent did not apply because they were told by their bank they would be rejected.

The availability of bank finance has improved since 2009, with a higher proportion obtaining finance in 2010, and a smaller proportion experienced difficulties...

- The majority of mid-cap businesses can obtain finance. Over nine out of ten (93 per cent) of those seeking finance obtained some finance from either the first source approached or subsequent sources. This is an improvement from 82 per cent last year. 7 per cent could not obtain any form of finance – declining significantly 18 per cent in 2009.
- Loan applications were again more likely to be refused compared to overdraft (8 per cent compared to 5 per cent of overdraft applications) reflecting that most overdraft applications are extensions of existing facilities
- 30 per cent of finance applications were offered some finance, but had experienced some problems in obtaining the finance.
- One third of mid-cap businesses had taken steps to improve their ability to obtain finance – higher among those applying for finance in 2010 (45 per cent), and 29 per cent of mid-cap businesses seeking finance have used external advice when seeking finance.

There are no significant changes in the costs, terms and conditions of loans and overdrafts obtained in 2010...

- There was little change in interest rates or fees charged for loans and overdrafts between 2009 and 2010, although there was some evidence of a decline in the level of security required compared to the high levels seen in 2009
- The only significant difference between 2009 was in loan tenor - 96 per cent obtained the loan at their desired tenor compared to 69 per cent in 2009.

There were also fewer reported changes for existing loans and overdrafts...

- Over half (57 per cent) did not see any changes to the terms and conditions of existing loans in 2010, a significant improvement from 2009 when two thirds experienced changes, with one quarter then receiving worse terms
- Less than one third experienced changes to overdrafts, again a significant reduction from 69 per cent that had seen changes in 2009
- All negative changes (including increased overdraft rates, fees and a reduction in lending limits) seen in 2010 were significantly down compared to 2009 levels.

However, perceptions around the availability of finance remained low...

- 52 per cent perceived that the cost of finance has risen from one year ago and 46 per cent thought that the amount of security required by banks has increased compared to a year ago. This is not seen in the comparison of new finance obtained between 2009 and 2010, where costs and the requirement for security are similar or lower compared to a year ago.
- While perceptions of access to loan and overdraft finance had improved compared to the 2009 results, the net balance (per cent reporting greater availability minus the per cent reporting less availability) remained negative implying that overall, mid-cap businesses perceived finance to be harder to obtain than one year ago. Again this contradicts the proportion of businesses obtaining finance which has increased compared to one year ago, suggesting perceptions are worse than reality
- Fewer mid-cap businesses perceived equity finance and invoice discounting to have become harder to obtain, but a larger proportion (two thirds) did not know (or did not apply).
- A high proportion (77 per cent) of mid-caps reported having a positive relationship with their main bank, which is at a similar level to last year.

Some signs of an improvement in business growth and future prospects...

- 54 per cent of mid-cap businesses reported an increase in sales over the past year. The net balance (percentage reporting increase in turnover minus percentage reporting a decrease) has improved significantly from a negative balance of -25 per cent in 2009 to +31 per cent in 2010, implying a greater percentage of mid-cap businesses are now growing.
- There was greater anticipation regarding future sales for the next 12 months, increasing to +53 per cent from +14 per cent seen in 2009.
- The economy and market conditions remain the biggest obstacle to mid-cap businesses success but far fewer stated 'obtaining finance' in 2010, declining significantly from 17 per cent to 7 per cent.
- Late customer payments were also less problematic in 2010 compared to 2010 with 35 per cent of mid-cap businesses agreeing that late payments by customers were a problem in 2010, declining significantly from 51 per cent of mid-caps in 2009.

Demand for finance is likely to remain subdued with a reduction in anticipated demand for future finance...

- The steps taken to reduce dependency on finance are expected to continue, and mid-cap businesses indicated an overall reduced demand for finance in 2011. Those expecting a greater need for finance were cancelled by those foreseeing a decline leading to a negative balance of -1 per cent
- Only 13 per cent expected to seek new external finance in 2011, with half of all mid-cap businesses planning to use internal finance and one third did not anticipate using either internal or external sources of finance next year.
- There were some indications that businesses may soon require finance for investment rather than cash flow purposes.

Mid-cap businesses had a limited appetite for sources of finance alternative to bank debt ...

- Few mid-cap businesses had sought or considered raising equity or corporate bond finance in the past, typically because the business perceived it does not need that much finance
- If they could not obtain debt finance in the future, only 13 per cent would seek mezzanine finance, while 40 per cent would consider paying a higher fee or interest rate in order to guarantee obtaining a loan.

3. Main Findings⁵

3.1 Current use and dependency on finance

Mid-cap businesses surveyed in 2010 continue to use a wide range of financial instruments, but some types of finance have shown a decline in their use compared to 2009, with less use of leasing / hire purchase (down from 59 per cent to 51 per cent) and asset based finance down significantly from 25 per cent to 15 per cent. Use of secured loans and overdrafts had both declined by 5 percentage points.

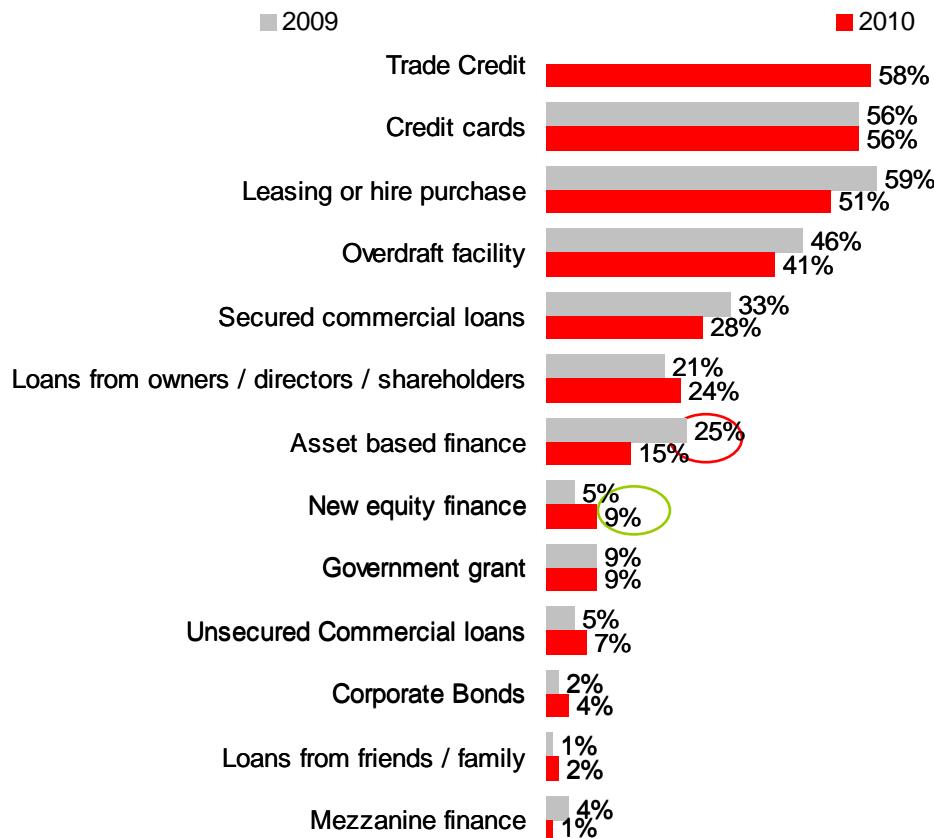
Use of new equity finance⁶ increased significantly from 5 per cent to 9 per cent, and there was also a moderate rise in the use of unsecured loans. Although not a form of external finance that mid cap businesses apply for from a finance provider, 58 per cent of all mid-cap businesses surveyed in 2010 use trade credit⁷. Trade credit (the time between obtaining goods and services and paying for them) can be an important strategy for managing cash flow. Excluding trade credit, 88 per cent of mid-cap businesses are currently using some form of external finance, down from 92 per cent in 2009. For 87 per cent of those mid-cap businesses with a loan or overdraft facility, this was part of an agreed line of credit, which equates to 46 per cent of all mid-cap businesses. The average (mean) size of mid-cap businesses overall credit facility is £30m, compared to £23m for a fixed rate secured loan. Mid-cap businesses generally have more than one provider of banking services, with the average mid-cap business having 2.3 providers of banking services.

⁵ Small mid-cap businesses = £25-£100m / Large mid-cap businesses = £100m-£500m (turnover)

⁶ Either private or public equity finance

⁷ Trade credit was a new code added to the 2010 survey

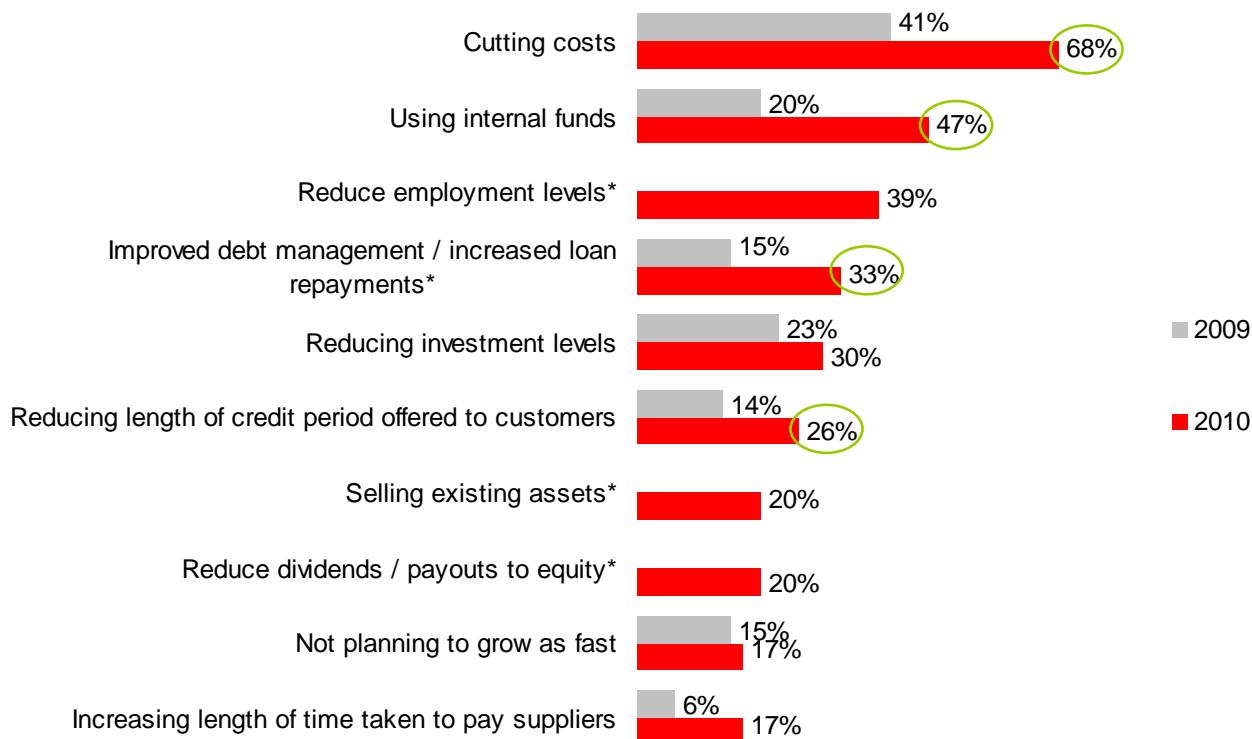
Figure 3.1.1: Current finance used, 2009 – 2010



Q6. Can you tell me for each of the following forms of finances whether your business uses it currently? (Base = 223 / 401)

One third of mid-cap businesses (31 per cent) had taken steps to reduce their dependency on external finance in 2010, a similar percent to 2009 (29 per cent). This was significantly higher for those seeking finance in 2010 (45 per cent) and mid-cap businesses with average or below average credit scores (37 per cent). Two thirds (68 per cent) cut costs and almost half (47 per cent) used internal funds instead of external finance, both increasing significantly from 2009. Reducing employment levels as a way to reduce use of external finance was a new code added to the 2010 survey, and stated by over one third (39 per cent) of those reducing their finance dependency.

Figure 3.1.2: Steps taken to reduce dependency on finance, 2009-2010

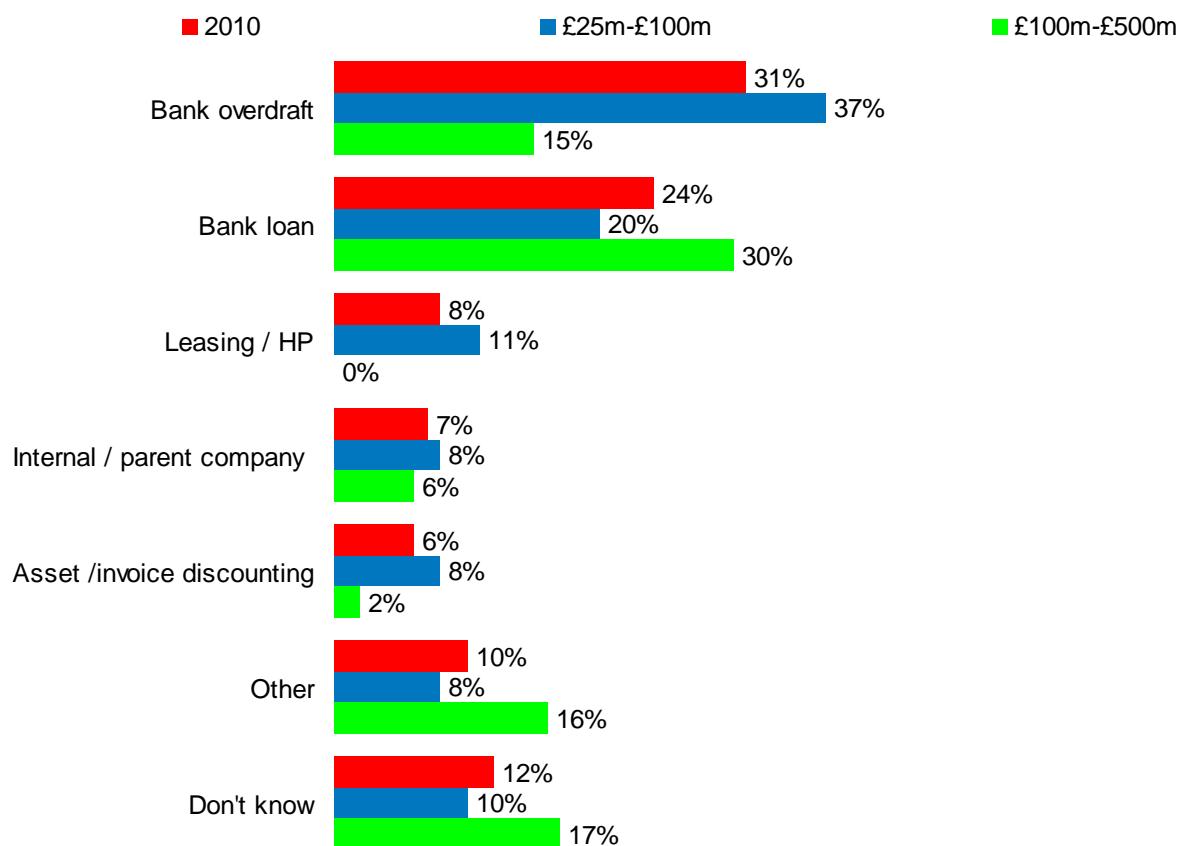


Q91. What steps have you taken? (Base = All who have taken steps to reduce dependency on external finance 78 / 131)

*New codes added in 2010

Overdrafts and loans were the most frequent type of finance instruments being reduced, which was largely reflective of the proportions using these instruments as shown in Figure 3.1.1. While only 8 per cent reduced reliance upon leasing / hire purchase, compared to 51 per cent that use this form of finance. Smaller mid-cap businesses (turnover of £25m - £100m) were more likely to reduce reliance upon overdrafts and leasing / hire purchase while the larger mid-cap businesses (turnover of £100m - £500m) looked to cut reliance on bank loans.

Figure 3.1.3: Type of finance reduce reliance upon, 2010

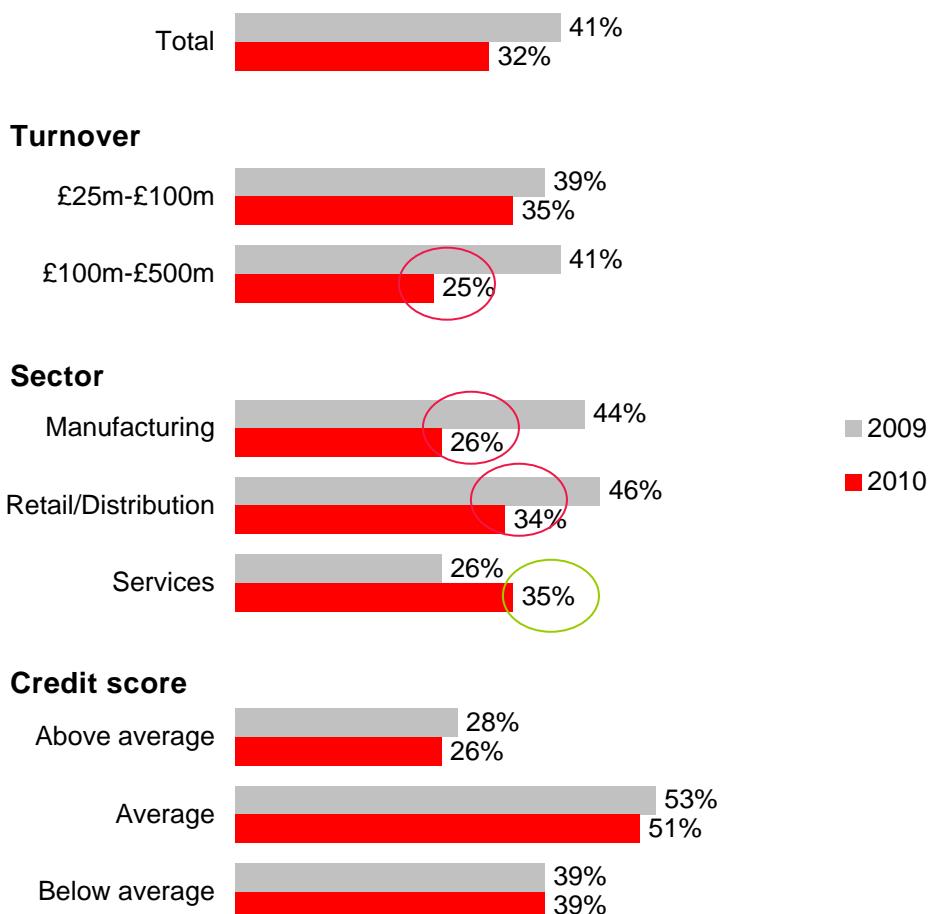


W2.Q16. What type of finance have you reduced your reliance on?? (Base = All who have taken steps to reduce dependency on external finance 131 / 87 / 44)

3.2 Finance demand

Demand for new external finance also declined among mid-cap businesses between 2009 and 2010. Overall, 32 per cent sought finance in 2010, down from 41 per cent in 2009. The subsequent chart shows that demand declined significantly in the manufacturing and distribution sectors and also larger mid-cap businesses with turnover of £100m-£500m.

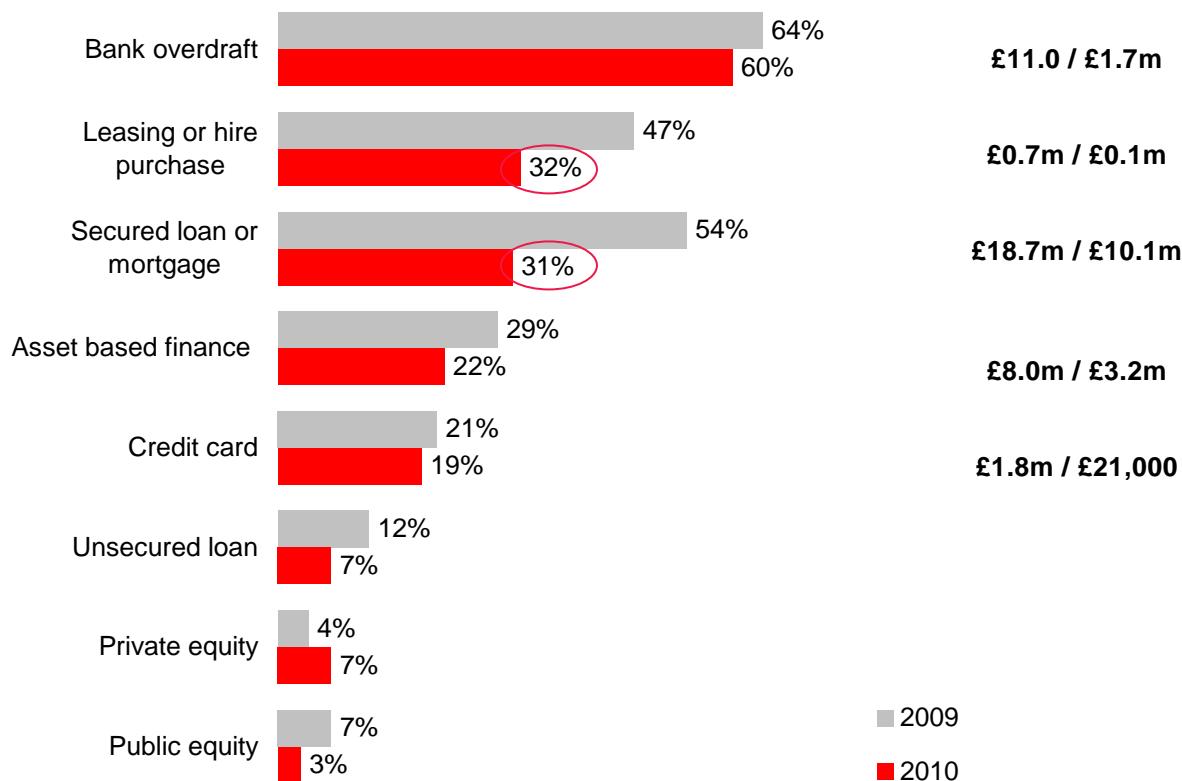
Figure 3.2.1: Demand for external finance, 2009 - 10



Q7. Have you tried to obtain new finance or extend existing credit facilities this year? (Base = 223 / 401)

Demand was lowest for mid-cap businesses in the manufacturing sector in 2010 and highest for service-based mid-cap businesses, which is in reversal from 2009. There was little change in demand for finance by credit score, with above average credit score businesses showing lowest overall demand at 26 per cent.

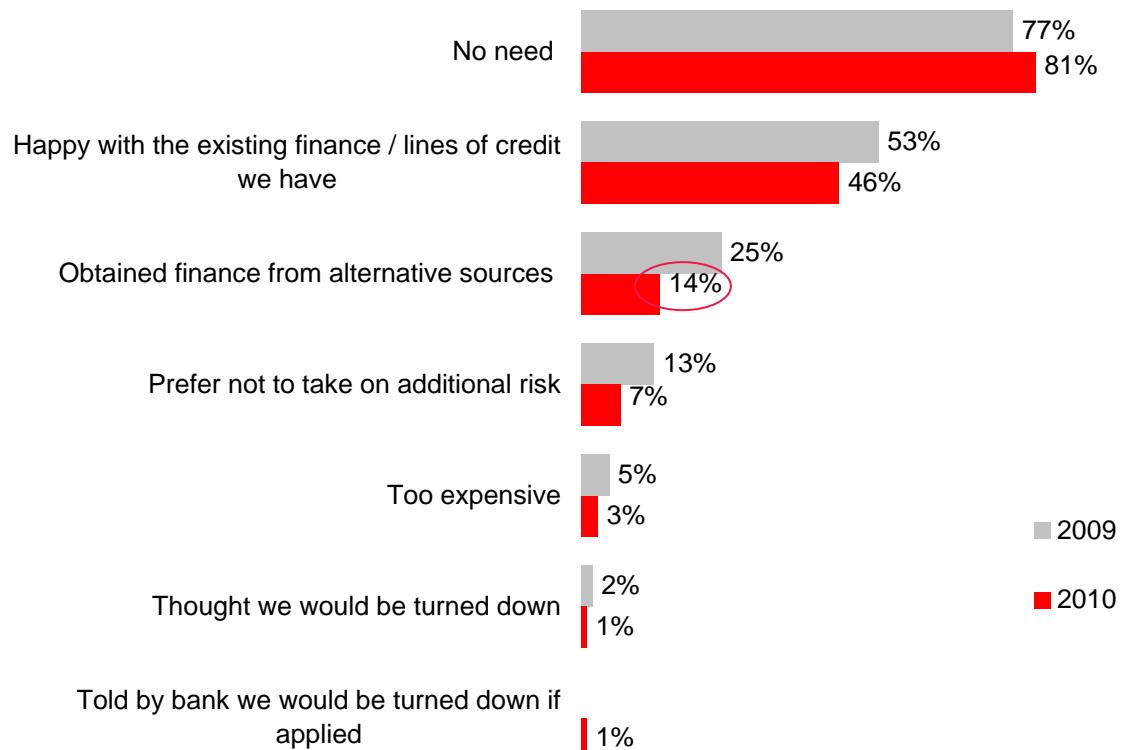
In particular, demand had significantly declined for secured loans and leasing / hire purchase, mirroring the declining trend seen in the use of finance. Demand for overdraft extensions or new facilities had not declined as greatly, but were also lower, reflective of the general downward trend for finance.

Figure 3.2.2: Type of finance sought, 2009 - 2010

Q10. Which of the following types of finance have you sought in 2010 (including all those you sought, regardless of the outcome)? (Base = All who have applied for finance 120 / 160)

Mid-cap businesses gave similar reasons to last year for not seeking finance. The majority (81 per cent) stated simply that they had "no need" for additional finance. Fewer mid-cap businesses were deterred as they did not want to take on additional risk (7 per cent) or because they thought finance would be too expensive (3 per cent). However, fewer also stated that they were happier with existing finance facilities (46 per cent). Just 1 per cent of mid-cap businesses was discouraged from seeking finance because they thought they would be turned down, and a further 1 per cent did not apply because they were told by their bank they would be rejected (just one of these respondents stated both).

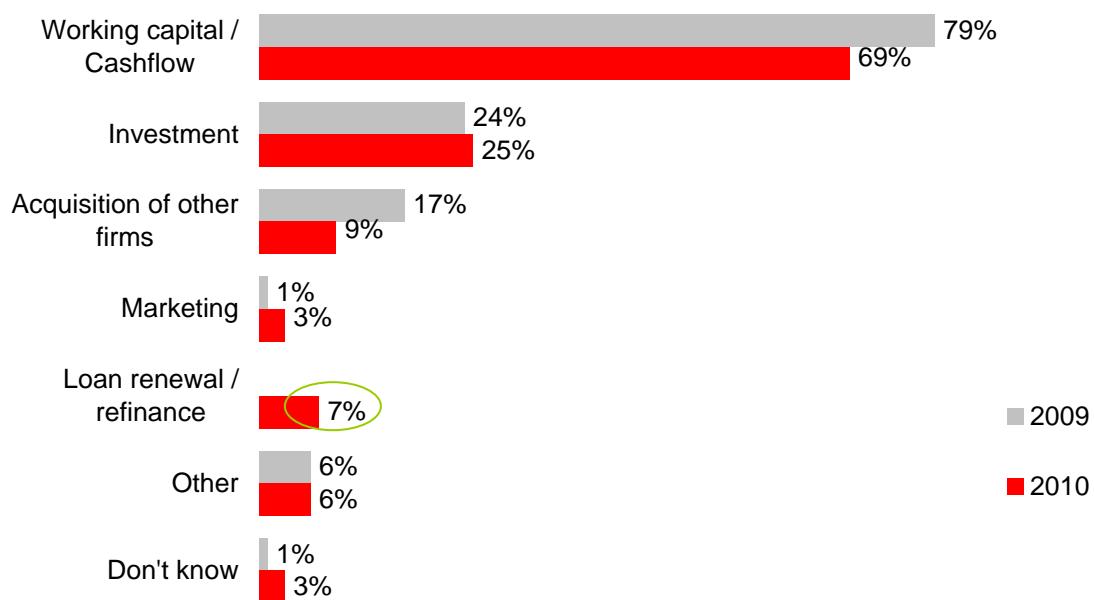
Figure 3.2.3: Reasons for not seeking finance, 2009 - 2010



*Q56. Which of these are reasons why you have not applied for a new loan or overdraft this year?
(Base = All not seeking finance 195 / 251)*

As in 2009, the majority of finance sought was needed to meet working capital requirements (69 per cent), which had reduced from 79 per cent in 2009. A similar portion stated investment needs (25 percent), such as to purchase or improve land or buildings, or to buy new equipment. More mid-cap businesses were seeking finance to acquire other firms in 2009, reducing from 17 per cent to 9 per cent in 2010, and there was also a small increase in marketing.

Figure 3.2.4: Reasons for seeking finance



Q8. For which reasons have you needed new finance this year? (Base = All who have applied for finance 205 / 150)

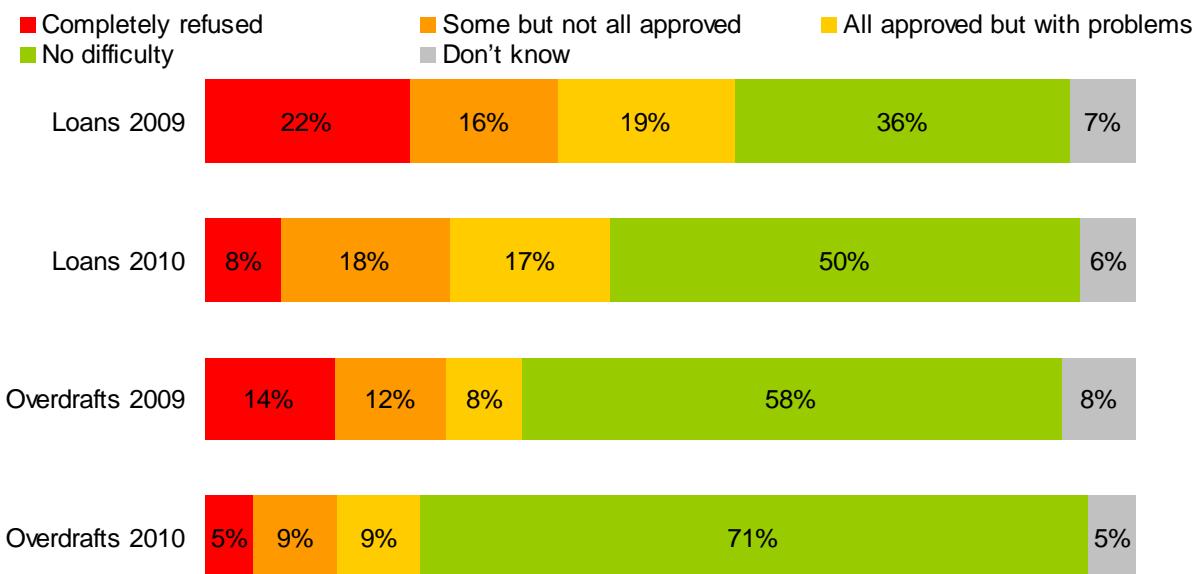
3.3 Outcome of finance applications

The majority of mid cap-businesses were able to obtain bank finance. 93 per cent of those seeking finance had obtained some finance from either the first source approached or subsequent sources. Among the mid-cap businesses that did seek loan and overdraft finance in 2010, fewer problems and rejections were experienced than had occurred in 2009. Loan applications were again more likely to experience difficulties than overdraft applications, reflecting most overdraft applications are extensions of existing facilities.

First source approached

Half of loan applications were successful in 2010 experiencing no problems from the first source approached, increasing from 36 per cent in 2009. Comparatively, the proportion of mid-cap businesses seeking overdrafts experiencing no problems increased from 58 per cent in 2009 to 71 per cent in 2010. Just 8 per cent of loans and 5 per cent of overdraft applications were refused any finance from the first source approached.

Figure 3.3.1: Initial outcome of loan and overdraft applications, 2009-2010



Q13. Did you have difficulties in having this loan approved from the first source approached (Base = 71 / 58) / Q40. Did you have difficulties in having this overdraft approved from the first source approached? (Base = 81 / 92)

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83 per cent of loan seekers approached their main bank, similar to 2009 and 56 per cent were refinancing existing loans (compared to 70 per cent in 2009). 89 per cent of overdrafts were extensions compared to 78 per cent in 2009 and the majority of overdraft applications (98 per cent) were made at the main bank.

Subsequent sources approached

Of those that had difficulty obtaining loan finance from the first source approached, a small proportion of finance seekers tried other providers, and two thirds of these were successful (low sample size of 19). Of those that did not succeed in obtaining overdraft finance, none went on to obtain from another provider (as seen in 2009).

The table below shows the overall proportion of loan and overdraft applications that were successful in raising finance. Of those seeking finance, a 93 per cent of mid-cap businesses managed to obtain some finance from either first or subsequent sources approached. This compares to 82 per cent last year – a statistically significant improvement.

Figure 3.3.2: Final outcome⁸ of loan and overdraft applications

Loan or overdraft Outcome	% of 2010 loan and overdraft applications	% of 2009 loan and overdraft applications
No problems	63%	47%
Offered some finance but with problems	30%	34%
No finance obtained	7%	18%
TOTAL	100%	100%

Base = 58 loan + 91 overdraft = 149 (2010) / 71 loan + 81 overdraft = 152 (2009)

On average, mid-cap businesses loan applications were completed in less than two months (1.6) with the majority (69 per cent) completing within three months. 80 per cent of overdraft applications obtained the full amount required, comparable to 2009.

⁸ Includes first and subsequent sources approached

Reasons for difficulties⁹

As in 2009, mid-cap businesses with lower credit scores were more likely to experience difficulties although sample sizes are too low to give more than indicative findings. Of those experiencing difficulties in raising loan and overdraft finance the most frequent reasons reported by the businesses themselves were the 'current economic climate' (loans) and 'business sector too risky' (for overdraft applicants). Fewer loan problems were owing to risky business sector than in 2009 and fewer also stated that 'they didn't have enough money to lend'. Overdraft problems were less likely to be owing to 'insufficient security' in 2010. There was, however, a marked increase in the proportion stating 'insufficient security' as the reason for problems obtaining loan finance in 2010.

Whilst there is an acknowledgement that finance conditions have changed since 2007, it is not clear whether businesses have adapted to these conditions. 80 per cent of businesses have not taken any steps to improve their ability to obtain bank finance. Furthermore, 29 per cent of those seeking finance had used external sources of advice when seeking finance. Of those seeking advice, accountants, banks and consultants are the most favoured sources of advice.

Impact of not being able to raise finance

Of those not being able to raise loan finance in 2010 (just 9 businesses) almost all said it had some impact on the business leading to a reduction in working capital and not able to grow the business as quickly as wanted. A wider range of reasons were given in 2009, reflective of the larger sample sizes unable to obtain loan finance then, including the cancelling or scaling back investment plans and a minority that had reported getting into serious financial difficulties – not seen in 2010 survey.

71 per cent of mid-cap businesses drew down the loan offered, compared to 67 per cent in 2009. Reasons given for not taking the loan at this time were due to respondents no longer needing the extra finance or putting the loan offer on hold. A minority stated that the rates were too high, fees too expensive or that the application process was too slow.

⁹ This will be explored in more detail in the follow up research undertaken by CEEDR.

3.4 Costs, terms and conditions

The following analysis is based on respondent's knowledge of loan and overdraft finance obtained in 2010. **It is recommended that caution is taken in interpreting the figures due to very low sample sizes**, which leads to wide margins of uncertainty around the true figure, and few statistical significant differences. It is also important to acknowledge that the 2007 analysis from the research conducted in 2009 relies on the ability of respondents to accurately recall the terms and conditions of loan and overdrafts taken out two years prior¹⁰.

Figure 3.4.1: Analysis of loan costs and terms, 2007-2010

	2010	2009	2007	Change (09-10)	Bases
Amount of <u>loan finance</u> applied for	£18.7m (£3.7m)	£13m (£4.6m)	-	-	51 / 71
Average loan tenor	3.6 (2.5)	4.3	7.0	Down	39 / 42 / 47
% achieving desired tenor	96%	69%	-	Up	37 / 34
% at variable rate	58%	57%	78%	-	39 / 42 / 47
% at fixed rate	38%	42%	25%	-	39 / 42 / 47
Average interest rate charged	3.9% (3.5%)	4.1% (3.9%)	4.6%	Down	39 / 42 / 47
% who had to pay arrangement fees*	82%	80%	90%	-	39 / 42 / 47
Fee amount	£53,000	£37,000	£25,000	Up	34 / 35 / 38
% had to offer security / % with covenants built in / % none	49% / 39% / 25%	51% / 46% / 3%	48% / 38% / 21%	Down	39 / 42 / 47
% value of security taken	78%	100%	79%	Down	22 / 21 / 23
% at least 100% as security	21%	46%	34%	Down	22 / 21 / 23

[Key: Mean (Median)]

Overall loan interest rates declined between 2009 and 2010, but only very slightly. The average loan amount obtained increased notably owing to a bigger number of very large loans reported in 2010. This is felt to be due to the bigger sample of very large mid-cap businesses surveyed in 2010 compared to 2009, as a proportion of the low overall sample size, rather than a definitive market led trend. Similarly, the fee increase was largely in line with the increase in loan amount, which is likely to be directly linked to the increased loan amount, rather than a market driven increase in fees. There is no evidence to suggest an increase in the level of security or covenants required in 2010 from 2009 (albeit on low sample sizes).

¹⁰ In particular, it is felt unlikely that average loan and overdraft rates would have been below 5 per cent in 2007 given Bank of England interest rates were on average 5.5 per cent in 2007

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The average length of the loan appeared to have decreased slightly although again the sample size is too low to be conclusive. 96 per cent obtained the loan at their desired tenor compared to 69 per cent in 2009, a statistically significant improvement.

The comparison with overdrafts obtained in 2010 compared to last year also showed a tendency for significantly higher amounts, although the value of fees did not increase comparatively suggesting a reduction in fees as a percentage of overdraft amount obtained. The percentage of mid-cap businesses paying fees on their overdrafts also declined slightly. The data indicates that average interest rates had increased compared to 2010 rather than decreased and that the proportion paying security or the value of security taken was lower. This apparent rise in overdraft interest rates could be owing to the steady rise LIBOR rates between September 2009 and June 2010¹¹ or could reflect the reduction in security taken. Caution is recommended in interpreting this result due to small sample sizes.

Figure 3.4.2: Analysis of overdraft costs and terms, 2007 - 2010

	2010	2009	2007	Change (09-10)	Bases
Overdraft limit applied for	£11m (£1.6m)	£5.6m (£0.9m)	-	Up	92 / 81
% variable rate	70%	67%	98%	-	81 / 68 / 44
% fixed rate	26%	26%	2%	-	81 / 68 / 44
Average interest rate charged	3.2%	2.7%	5.1%	Up	81 / 68
% of those who had to pay arrangement fees	62%	70%	70%	Down	81 / 68
Fee amount	£28,000	£27,000	£16,000	-	52 / 47 / 27
% had to offer security / % covenants built in	28% / 22%	44% / 24%	38% / 22%	Down	81 / 68 / 44
% value of security taken	64%	97%	97%	Down	26 / 28 / 18
% at least 100% as security	6%	17%	28%	Down	26 / 28 / 18

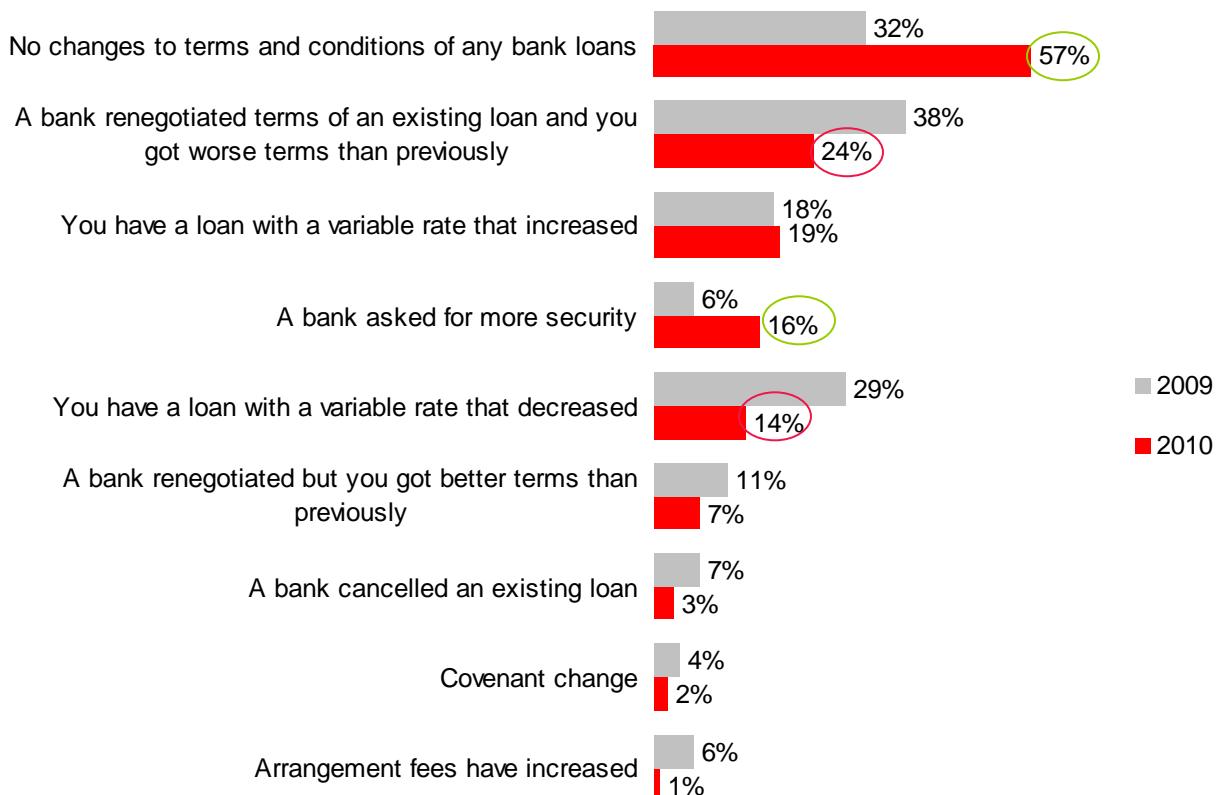
[Key: Mean (Median)]

¹¹ Bank of England interest rates remained at the all time low of 0.5 per cent throughout this period

3.5 Existing finance

The survey also asked businesses about whether the bank had made any changes to their existing loans and overdrafts. Fewer mid-cap businesses experienced changes to the terms and conditions of their existing finance products in 2010 compared to 2009. Overall 43 per cent of mid-cap businesses with existing loans experienced some changes to their terms and conditions compared to 68 per cent in 2009, and fewer still reported changes to existing overdrafts (29 percent in 2010 compared to 69 per cent in 2009). Mid-cap businesses with loans were significantly less likely than in 2009 to report that the bank had renegotiated worse terms (38 per cent to 24 per cent). The positive changes to loans that had occurred in 2009 were also down with fewer reporting reduced rates and improved terms.

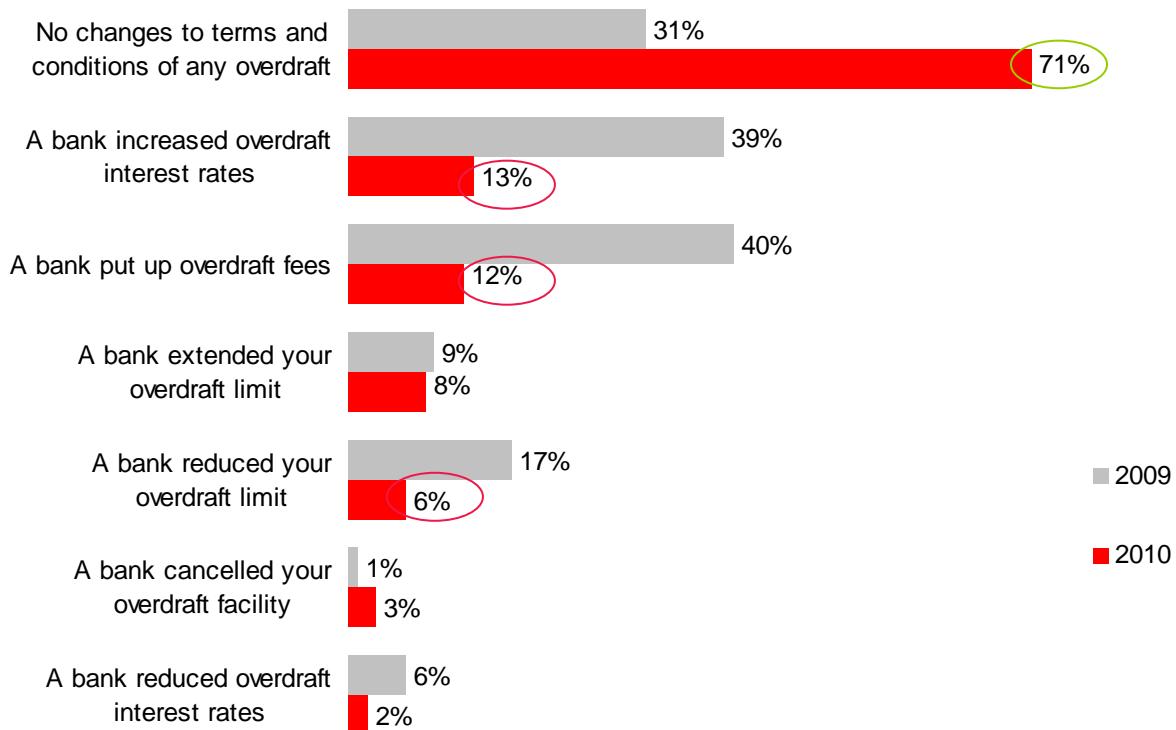
Figure 3.5.1: Changes to existing terms & conditions – loans



Q93. Has your business experienced any of the following changes to the terms and conditions of your existing bank loans over the last 12 months? (Base = All with current bank loan 103 / 129)

Mid-cap businesses in 2010 were far less likely to report that banks had put up overdraft rates or fees or reduced the limit than seen in 2009.

Figure 3.5.2: Changes to existing terms & conditions – overdrafts



Q94. Has your business experienced any of the following changes to the terms and conditions to any of your existing bank overdrafts over the last 12 months? (Base = All with current overdraft 124 / 177)

As seen in 2009, mid-cap businesses that were applying for new finance were more likely to see a (mainly detrimental) change in existing loan or overdraft arrangements. Manufacturing businesses were most likely to report that overdraft fees or rates had increased.

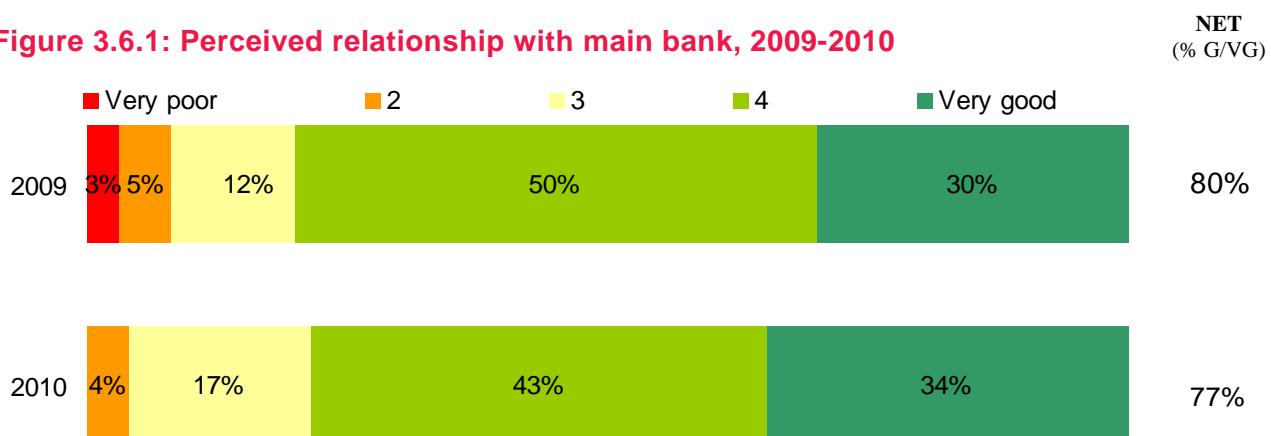
A new question in this year's survey was to examine the incidence of loan repayments. One quarter (26 per cent) of mid-cap businesses with current bank loans have made repayments over the agreed repayment levels within the past 12 months, the main reason given to reduce reliance on bank finance and minimise business risks.

3.6 Perceptions

Similar to the previous 2009 survey, the 2010 survey also investigated perceptions around the availability of finance. Firstly, the relationship mid-cap businesses have with their main bank is examined. The 2009 survey found that mid-cap businesses generally have a positive perception of their relationship with their main bank, and this impression improved in 2010, with fewer mid-cap businesses giving a poor rating. A high proportion (77 per cent) of mid-cap businesses reported having a good or very relationship with their main bank.

In 2009, mid-cap businesses with below average credit scores were more likely to report having a poor relationship with their bank, but this was not seen in 2010, leading to no differences in average rating by credit score.

Figure 3.6.1: Perceived relationship with main bank, 2009-2010



Q81. How would you describe your business' relationship with its main bank? (Bases = 401 / 223)

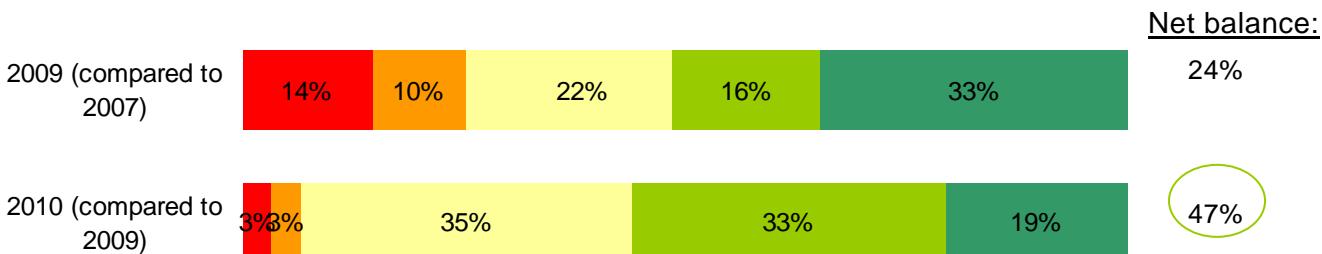
The subsequent chart shows that perceptions of the costs of finance have not improved from 2009, when such negative perceptions contrasted with evidence showing a reduction in costs due to falls in the Bank of England Base rate. This indicated that that perceptions were generally more worse than reality. There was a net balance¹² of 47 per cent of mid-cap businesses that perceived the costs of finance to have increased since one year ago, increasing significantly from a net 24 per cent in 2009 (when the comparison was to mid-2007, a period of when the Bank of England interest rates had declined). Although the net balance perceiving the level of security to have risen over the same periods fell significantly, it still remains high at 45 per cent.

¹² Percentage reporting higher costs minus percentage reporting lower costs

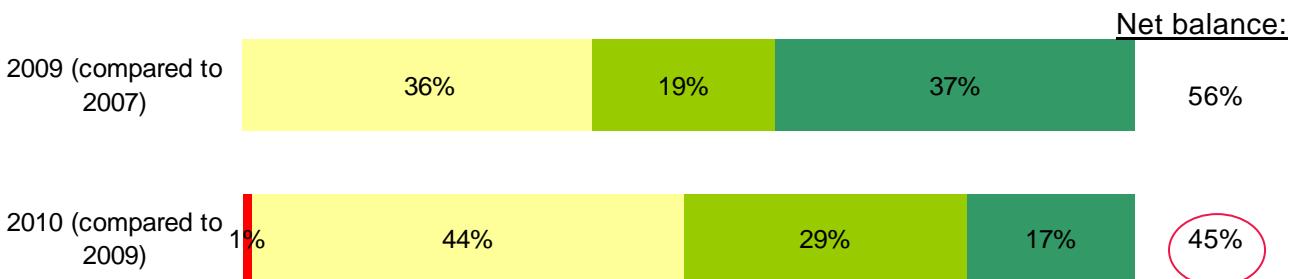
Figure 3.6.2. Perceived costs of finance and security required, 2009 - 2010

Cost of bank finance

■ Decreased significantly ■ Decreased slightly ■ Stayed the same ■ Increased slightly ■ Increased significantly



Level of security required



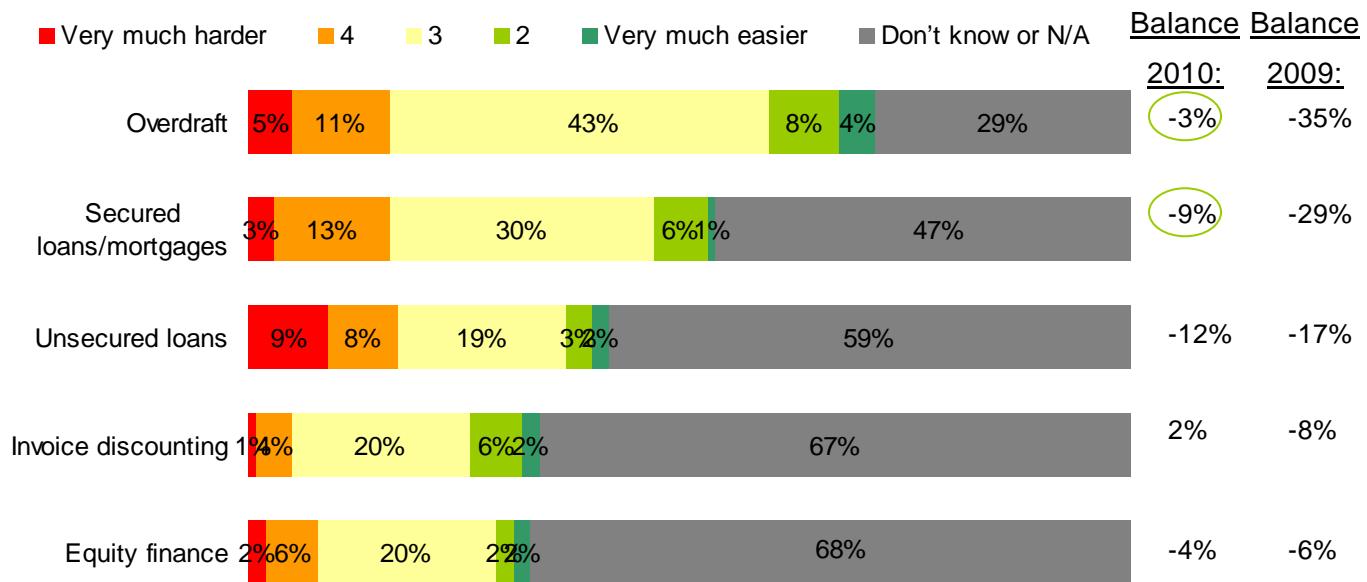
Q96. Thinking specifically about bank finance, would you say that the overall cost of bank finance has increased, decreased or stayed the same compared to the middle of 2007 (2009 survey) / this time one year ago (2010 survey)? / Q97. And would you say the level of security or covenants required by the banks has increased?) (Bases = 223 / 401)

(Net balance is the per cent saying increase – per cent saying decrease)

On balance, there was little difference between mid-cap businesses perceiving finance to be harder to obtain in 2010 than those saying 'easier', which was a marked improvement from perceptions in 2009. A net balance of -3 per cent perceived overdraft finance to be harder to obtain, compared to a net balance of -35 per cent in 2009 (vs 2007). The net balance for secured loans also reduced significantly. There was a less significant decline seen for perceptions of availability of unsecured loans which resulted in the lowest balance in 2010, with the highest proportion perceiving that this type of finance is harder to obtain in 2010 than it was in 2009. The

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net balance for availability of invoice discounting improved marginally, while there was little change in perceived availability for equity finance.

Figure 3.6.3: Perceptions of access to finance – 2009 compared to 2007



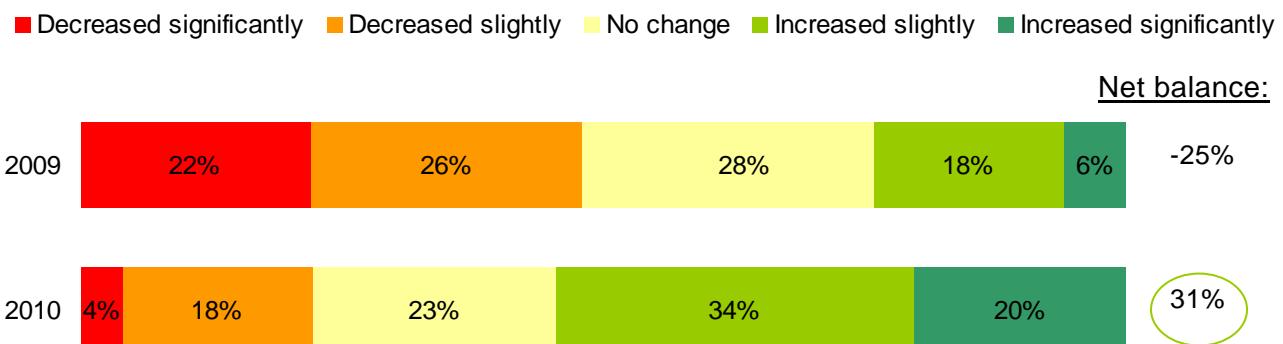
Q95. Compared to this time one year ago, would you say that it is now easier or harder for your business to obtain the following forms of finance, or has it remain unchanged? (Base = 223 / 401)

Those who had applied for finance in 2010 were significantly more likely to perceive that availability of loans and overdrafts was harder compared to one year ago, a trend also seen in 2009 (among those with experience of applying for finance that year). There was no significant difference in perceptions of access to finance between turnover bands in 2010.

3.7 Business growth and barriers

The results gave some grounds for optimism. Mid-cap businesses are currently experiencing a recovery from the adverse economic conditions experienced in the middle of the recession. A high proportion of businesses have reported positive growth in turnover over in the last year and many are also more optimistic regarding the future compared to the levels seen in 2009. 54 per cent of mid-cap businesses have experienced an increase in their sales during 2010, compared to just 24 per cent in 2009. The net balance for past sales growth was +31 per cent, increasing significantly from -25 per cent in 2009, showing more businesses are now growing rather than declining. Larger mid-cap businesses (£100-£500m turnover) and those not seeking finance in 2010 were most likely to report increased sales during 2010.

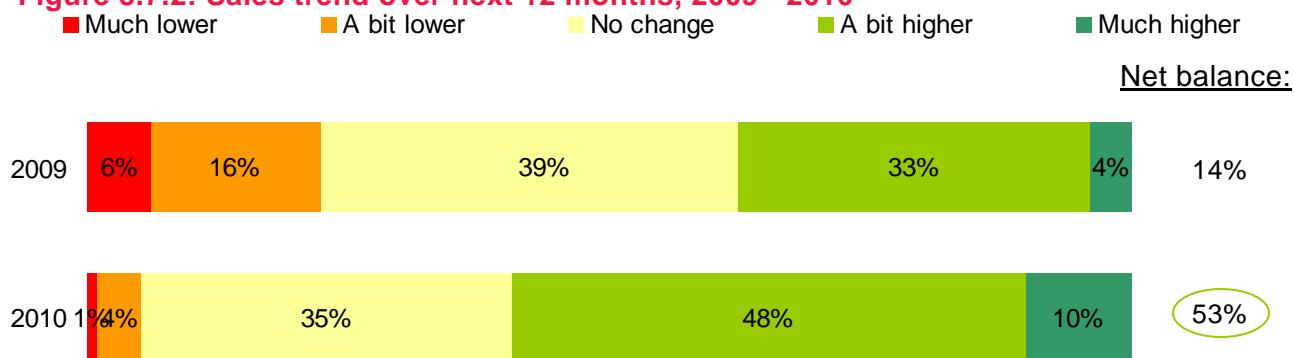
Figure 3.7.1: Sales trend over past 12 months, 2009 - 2010



Q100. Has your business increased or decreased its turnover (sales) in the past 12 months, or has there been no change? (Base = 223 / 401)

Looking towards the future, mid-cap businesses were significantly more likely to expect sales to increase in 2011, with a net balance of +53 per cent compared to +14 per cent in 2009. There were no significant differences regarding future prospects by size, sector or need for finance in 2010.

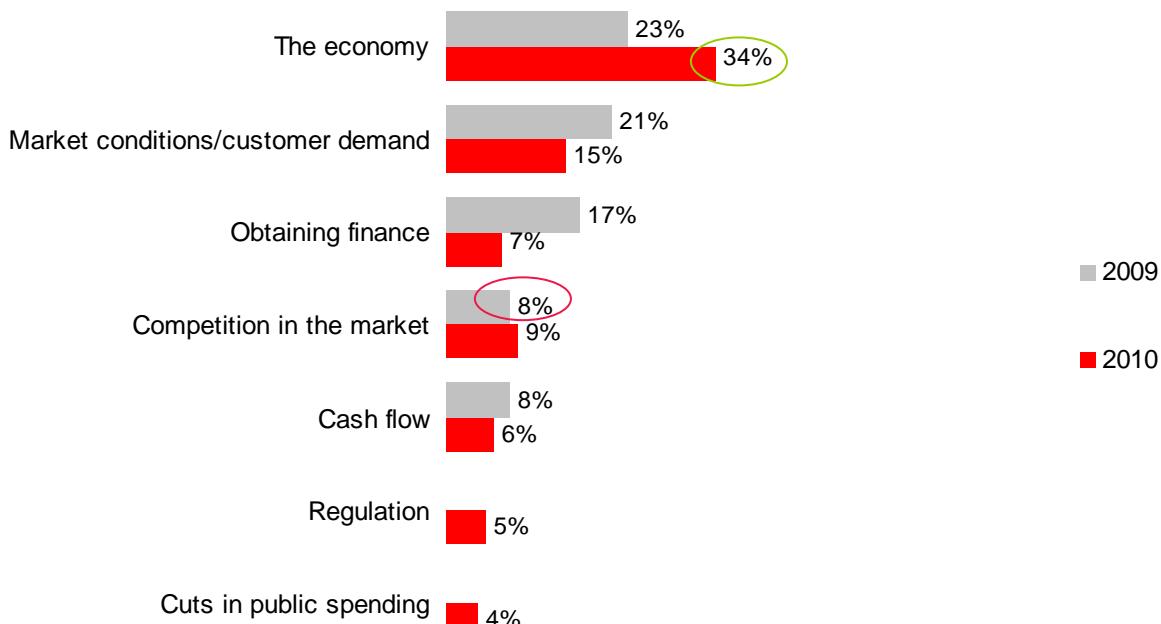
Figure 3.7.2: Sales trend over next 12 months, 2009 - 2010



Q101. And how do you expect business turnover in the next 12 months to compare to current levels? (Base = 223 / 401)

The highest obstacle reported by mid-cap businesses in 2010 was the state the economy, which remained as the biggest obstacle to business success, followed by market conditions / customer demand. Fewer businesses stated 'obtaining finance' as the main obstacle in 2010, declining significantly from 17 per cent to 7 per cent. Other key obstacles to mid-cap businesses business success were similar to 2009, including competition in the market, cash flow, regulation and public spending cuts.

Figure 3.7.3: Obstacles to business success, 2009 - 2010

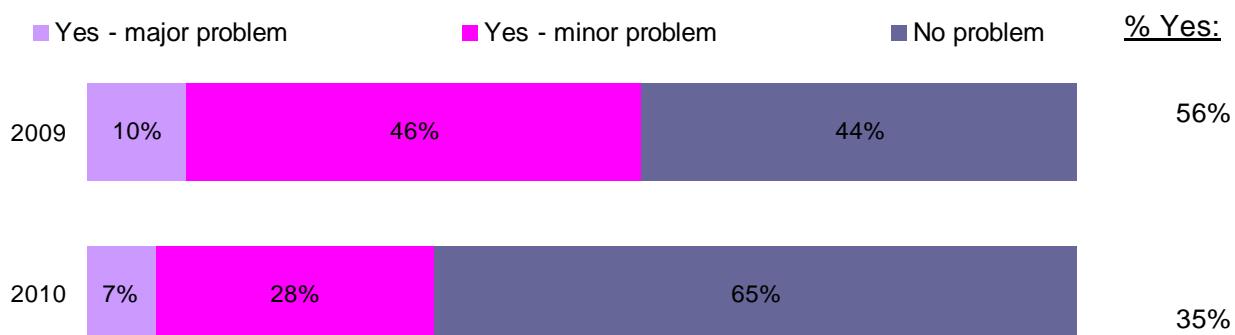


Q99. Now thinking more generally about the current challenges for UK business, what would you say is the biggest obstacle to the success of your business? (Base = 223 / 401)

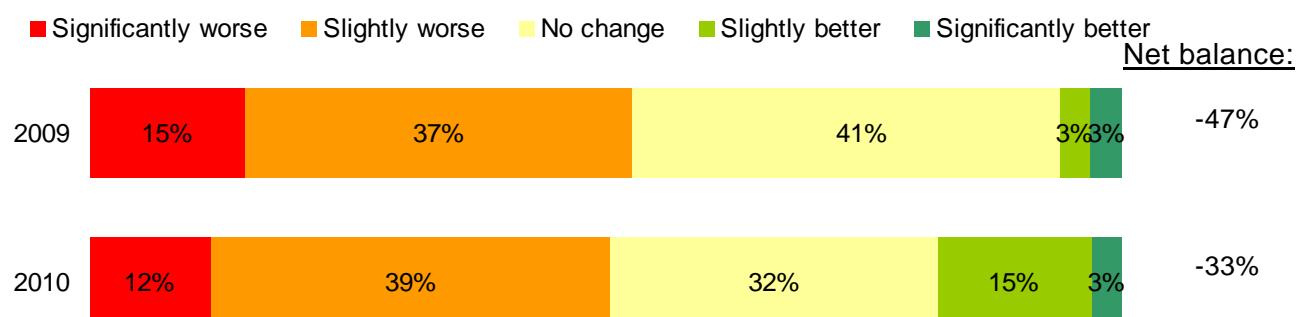
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Late customer payments were also less problematic in 2010 compared to 2009. When questioned specifically about this, 35 per cent of mid-cap businesses agreed that late payments by customers were a problem in 2010, declining significantly from 51 per cent of midcaps in 2009. Of those reporting this to be a problem, fewer felt it had got worse in 2010, with the net balance reducing significantly from -47 per cent in 2009 to -33 per cent. However, the balance is still negative showing that late customer payments remain a problem for mid-cap businesses in 2010. Smaller mid-cap businesses were most likely to agree this is a problem and state the problem had got worse in 2010.

Figure 3.7.4: Problems with late customer payments, 2009 - 2010



Q102. Does your business have a problem with customers paying you later than you require them to in your normal terms of business? (Base = 223 / 401)



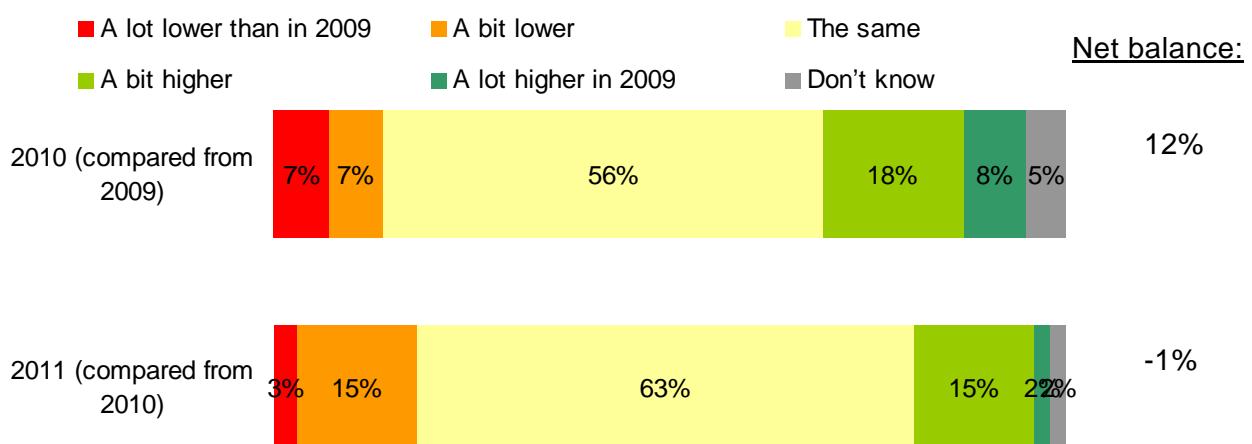
Q103. Has this problem got better or worse in 2009? (Base = 108 / 135)

3.8 Future finance needs

Respondents to the 2009 finance survey had reported an expected moderate increase in their future demand for finance in 2010, which did not occur as the actual percentage of businesses seeking external finance fell. However, looking forward to 2011, a greater proportion of mid-cap businesses anticipated a lower need for finance, and fewer expected they would need more finance, leading to a net balance that declined year on year from +12 per cent to -1 per cent.

Bigger mid-cap businesses were slightly more likely to expect a greater need for finance in the next year as also seen in 2009. Almost one third (31 per cent) of £250m - £500m mid-cap businesses expected their need to be higher in 2011, leading to a positive balance of +17 per cent. Those seeking finance in 2010, with below average credit scores, and growing mid-cap businesses also had greater anticipated demand for finance.

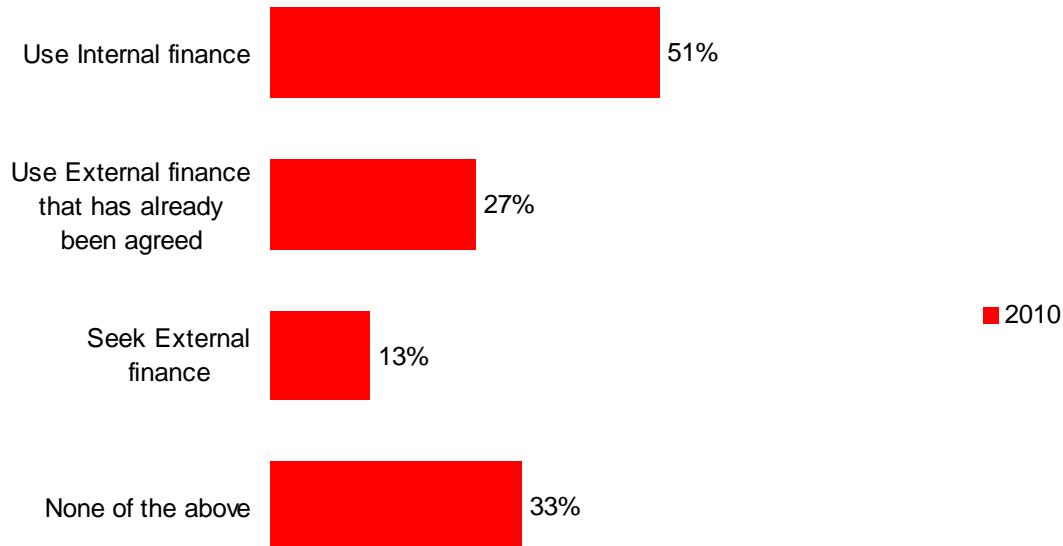
Figure 3.8.1: Finance demand in next year, 2009 - 2010



Q92. If at all, how do you think your need for external finance will change in 2011 compared to 2010 / 2010 compared to 2009? (Base = 401 / 205 / 135)

In 2010, a new section was added to the survey to further investigate future finance needs. One third of mid-cap businesses did not anticipate requiring either internal or external finance next year. One quarter (27 per cent) had already secured external finance and just 13 per cent expected to seek new external finance. Half will use internal sources of funding.

Figure 3.8.2: Anticipated finance for 2011

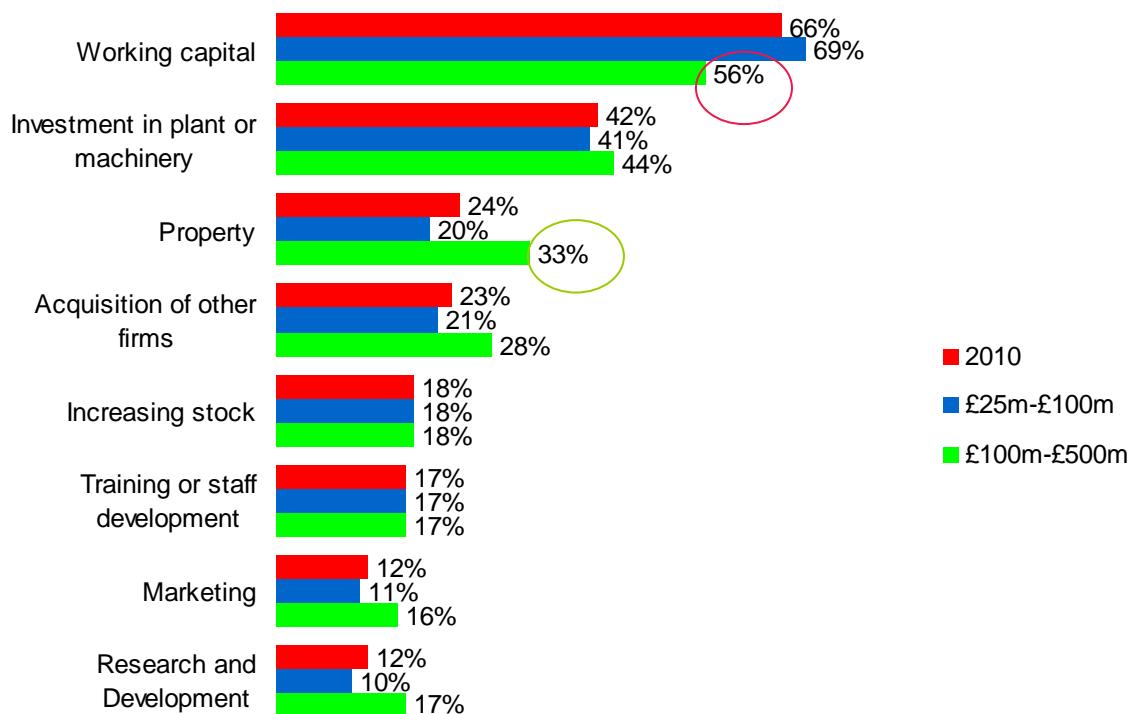


QW2.Q32. Are you planning to do any of the following in the next 12 months? (Base = 401)

Of those planning to use finance in 2011, two thirds require for working capital, which was the highest reason given for needing finance in both 2010 and 2009. Late customer payments were an issue believed to be playing a role in the heightened demand for finance to meet working capital requirements in 2009.

42 per cent of mid-cap businesses require finance to invest in plant or machinery, and one quarter would need for acquisitions and property (increasing significantly from 20 per cent in 2009 to 33 per cent this year among larger mid-cap businesses with turnover of £100m-£500m). These requirements were more commonly stated by larger mid-cap businesses while smaller mid-cap businesses, which were also more likely to suffer from late customer payments, showed the greatest need for working capital. Larger mid-cap businesses were also more likely to require finance for acquisition of other firms, research and development and marketing, compared to smaller mid-cap businesses, but the difference was not statistically significant.

Figure 3.8.3: Requirements for future finance

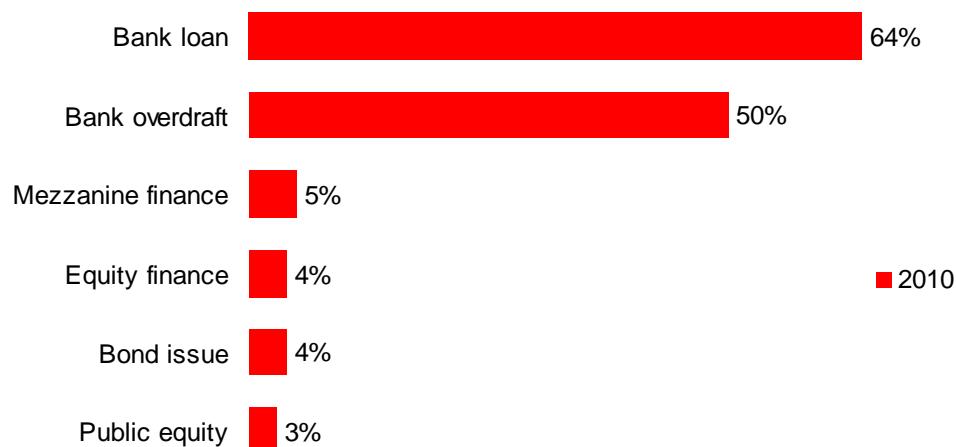


QW2.Q33. Which of the following will you require finance for? (Base = All planning to seek further finance in 2010: 258 / 169 / 89)

Whilst the proportion of those planning to seek finance for working capital was at a similar percentage to those currently seeking finance for working capital (Figure 3.2.4), the proportion intending to seek finance for investment was higher than current levels. This may suggest that external finance will become more important to finance investment next year.

Those planning to seek external finance, or with external finance already in place, were most commonly seeking bank loans at 64 per cent, and bank overdrafts (50 per cent). 5 per cent stated mezzanine or equity finance. Again, a tendency to seek bank loans instead of overdrafts may indicate businesses are beginning to consider undertaking investment rather than looking to cover short term cash flow issues.

Figure 3.8.4: Type of external finance acquired or planned

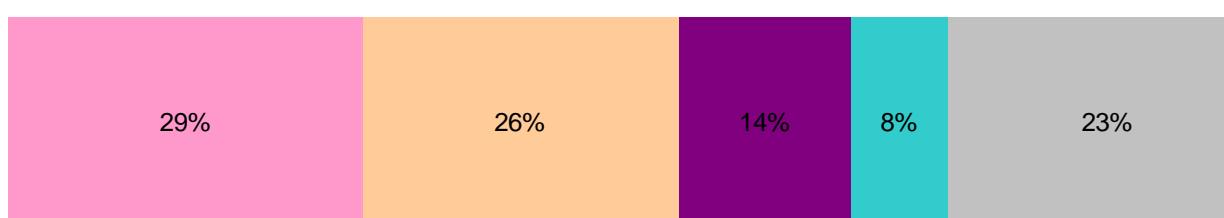


W2.Q34. What type of external finance would you seek / have you sought? (Base = All planning to seek external finance in 2010: 131)

30 per cent of midcap businesses had an existing loan or credit facility, with an average (mean) size of £29m (£10m median). Over half (51 per cent) of these credit facilities are due for renewal in 2013 or later. One third of mid-cap businesses (29 per cent) with an existing loan or credit facility in place plan to voluntarily refinance before it expires. Just over one quarter intended to keep their credit facility with their existing provider when it comes to an end, whilst 14 per cent plan to pay off the finance and close the credit facility. 8 per cent plan to switch to another provider when the loan or credit facility comes to an end.

Figure 3.8.5: Intentions for existing finance

■ Voluntarily re-finance ■ Continue as is ■ Close - finance paid off ■ Switch to another provider ■ Don't know



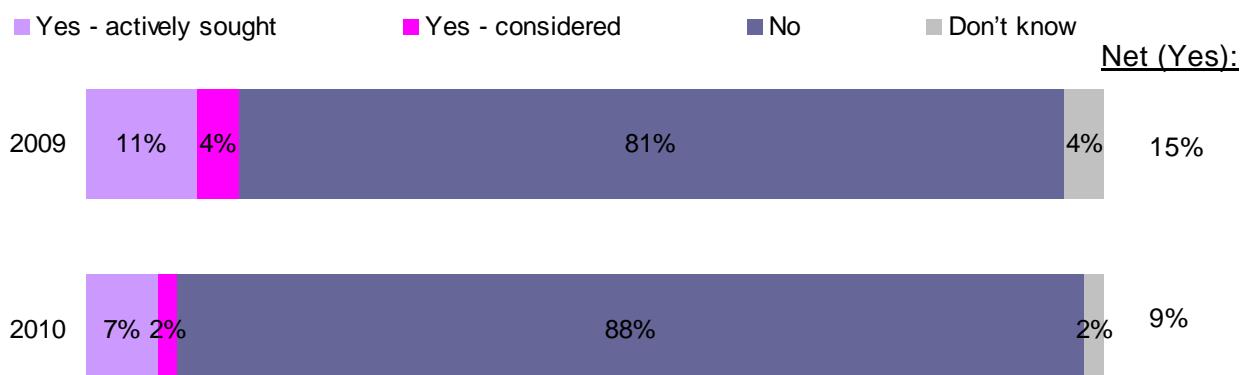
QW2.Q32. Are you planning on voluntarily refinancing it before it is due to expire? / If not, when it is up for renewal, which of the following do you plan to do (Base = All with loan finance/ credit facility (129)

3.9 Alternative finance

The survey investigated mid-cap businesses appetite for alternative sources of finance, including equity finance, corporate bonds and mezzanine finance, and other potential steps they would be willing to take in order to ensure they had access to finance.

Only 10 per cent of mid-cap businesses (excluding PLC's) stated that that have actively sought or would consider seeking equity finance¹³. A range of reasons were given for not seeking equity finance, with the majority (74 per cent) stating that the business did not need that much capital investment / money, and 20 per cent did not want to cede control of the business to investors.

Figure 3.9.1: Demand for equity finance, 2009-2010



Q.85. Thinking now about other financial issues, has your business ever actively sought or considered raising equity finance? (Base = All excluding PLCs 201 / 355)

This year, a similar question was asked around corporate bond finance, which found that only 6 per cent have sought or would consider seeking this form of finance. Larger mid-cap businesses were significantly more likely to have sought corporate bonds in the past (7 per cent of £100-£500m mid-cap businesses compared to only 1 per cent of smaller mid-cap businesses with turnover £25 - £100m).

72 per cent of all mid-cap businesses have not considered raising either corporate bond or equity finance in the past, mostly because the 'business does not need that much investment'.

Subsidiaries typically said it would be handled at parent company level. A minority (6 per cent) felt

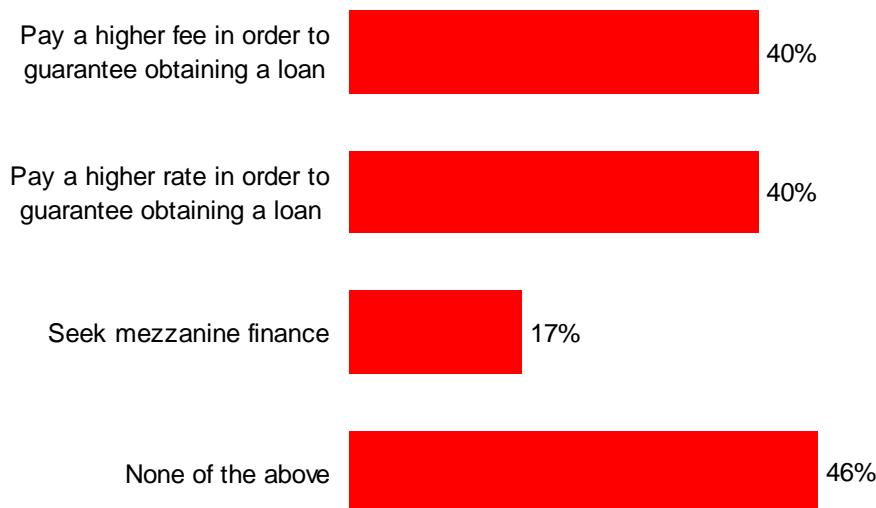
¹³ Public or private equity

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the associated fees were too much or that it would take too much time / effort to arrange corporate bond finance, and 5 per cent did not know how or where to obtain corporate bond finance, (4 per cent did not know how to obtain equity finance).

If they could not obtain debt finance in the future, 40 per cent of all mid-cap businesses and half of finance seekers, would consider paying a higher fee to guarantee obtaining a loan. An equivalent proportion would also be willing to pay a higher interest rate in order to obtain a loan.

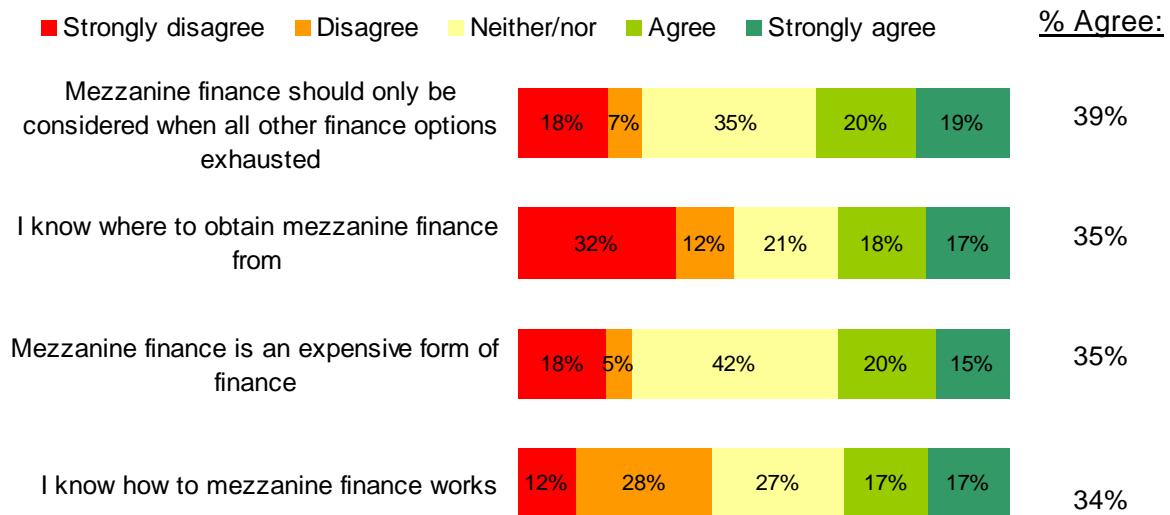
Figure 3.9.2. Potential ways to secure finance, 2010



W2.Q24. If you could not obtain debt finance in the future, would you be willing to consider any of the following, in order to obtain finance? (Base = 401)

17 per cent of mid-cap businesses would seek mezzanine finance if they could not obtain debt finance in the future (24 per cent among 2010 finance seekers). The following attitudinal statements show that mezzanine finance is neither well known nor likely to be considered as an alternative to conventional debt finance.

Figure 3.9.3 Mezzanine finance: Attitudinal statements



W2.Q27. How strongly do you agree with the following statements? (Base = 401)

Technical Appendices

A. Sample

401 interviews were conducted between 23rd September and 21st October 2010, using Computer Assisted Telephone Interviewing (CATI). The average interview length was 20 minutes, and followed very closely to the survey design from 2009, with some new questions added to replace the section that had covered 2007 finance obtained. The 2009 survey was conducted between 22nd September and 29th October 2009 also via CATI. 223 interviews were achieved then with mid-cap businesses with turnover of £25m - £500m (400 interviews with a turnover of £10m - £500m).

The following table shows the sample composition, by size, sector, region for 2009 and 2010.

Figure A.1: Sample composition (Unweighted and Weighted)

	Unweighted		Weighted & grossed (2010)	
Turnover	2009	2010	n=	%
£25m - £100m	175	263	10,444	72.6
£100m-£250m	38	82	2,089	19.5
£250m - £500m	10	56	1,140	7.9
Sector				
Manufacturing	73	130	4,260	29.6
Distribution	74	142	4,311	30.0
Services	76	129	5,822	40.4
Region				
North	57	125	4,221	29.3
Midlands	52	80	2,838	19.7
South	114	196	7,334	50.9
Total	223	401	14,393	100.0

Weighting was applied by size and sector. Statistical significance testing in this reported was conducted at the 95 per cent confidence limit.

Weighting

The results were weighted to match the original profile of mid-caps according to the profile of mid-cap businesses on pH Group database, by turnover band and broad industry sector. The following table details the weighting profile used, and compares the interviews achieved to demonstrate that the interviews were achieved in line with the population profile.

Sample initially weighted to represent pH profile by size and sector with minimal weighting required:

Figure A.2 Mid-caps weighting profile by size and sector

	£25-100m	£100-250m	£250-500m	Total
Manufacturing	21.8%	5.5%	2.2%	29.6%
Distribution	21.4%	6.0%	2.5%	30.0%
Services	29.3%	7.9%	3.2%	40.4%
Total	72.6%	19.5%	7.9%	100.0%

Figure A.3 Interviews achieved by size and sector

	£10-25m	£25-100m	100-500m	Total
Manufacturing	21.2%	5.7%	5.5%	32.4%
Distribution	24.2%	7.5%	3.7%	35.4%
Services	20.2%	7.2%	4.7%	32.2%
Total	65.6%	20.4%	14.0%	100.0%

Base = 401

Businesses with ‘finance charge’ were deliberately over-sampled and screening on Q7 (seeking finance) was introduced into latter stage of fieldwork to ensure robust sample sizes on finance obtained. This was then corrected by weighting to the original pH Group population by sample type & by finance penetration at Q7. This was necessary to ensure that overall results reported were representative of the target population and not skewed towards finance seekers. The overall weighting efficiency was 83 per cent.¹⁴

¹⁴ A weighting efficiency is also known as the research ‘design effect’. It provides an estimate of the loss in efficiency of the profile required compared to the profile obtained through weighting.

Fieldwork

Prior to interviewing, there was a short warming up period. Businesses with a finance charge¹⁵ and those with turnover above £100m were prioritised for the warming up phase – whereby potential respondents were telephoned in advance of interviewing, and a research verification letter was offered and appointments made. This process helped respondents better able to prepare for the survey, ensuring that they had the information about their loan or overdraft applications to hand.

Interviewers were fully briefed and monitored throughout fieldwork to maintain high quality standards. Supervisors, interviewers and the project manager regularly met to discuss fieldwork progress and address any issues that arose. A minimum of 10 per cent of all interviews were back checked to ensure Interviewer Quality Control Standards (IQCS) were adhered to.

Non response

401 interviews were completed from a database of 10,313, yielding an overall response rate of 4 per cent. This was highest among those with a finance charge (14 per cent) that has been prioritised throughout fieldwork. Overall, 12 per cent of the sample refused to participate in the survey – equating to 11 per cent of all productive calls made, which was higher than 2009 when 8 per cent of productive phone calls made were refusals.

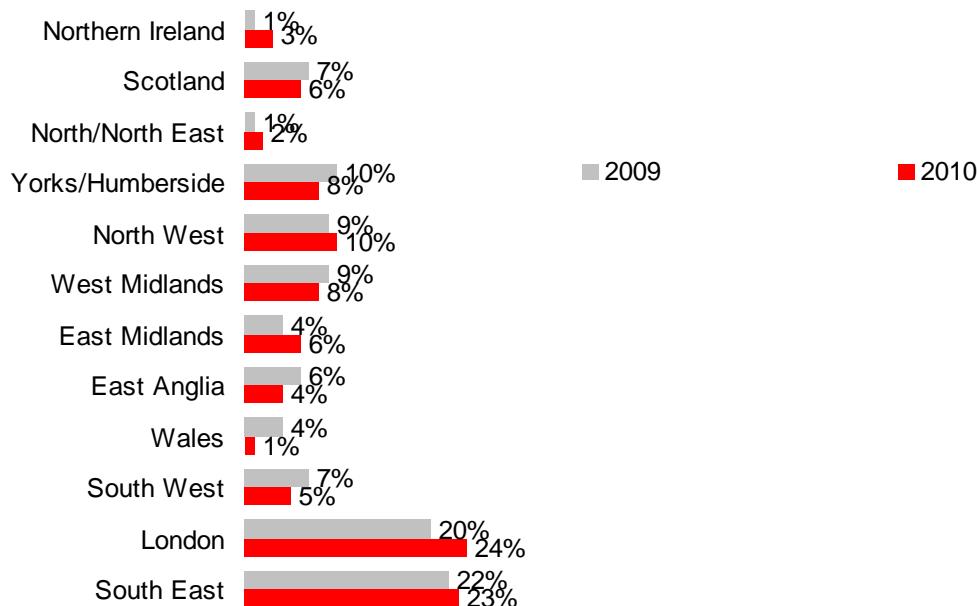
There were 26 incomplete interviews and 141 that failed quotas or screening. In total, 48 per cent of calls made during fieldwork were ‘unproductive’ (no reply / engaged, etc) – higher than in 2009 when the unproductive rate was 34 per cent. On average, 28 productive phone calls were made per interview achieved – matching the same rate seen in 2009.

The rate of don’t know answers on the survey improved from 2009, where questions that asked the respondent to refer back to 2007 had a lower response rate. Comparable questions about recent loans and overdrafts had a ‘don’t know’ rate of 3-20 per cent (similar to 2009).

¹⁵ Where a secured finance charge was flagged on the sample, this indicated that the business was more likely to be use bank finance than the general background population of mid-cap businesses in order to ensure a high number of finance seeking businesses could be surveyed.

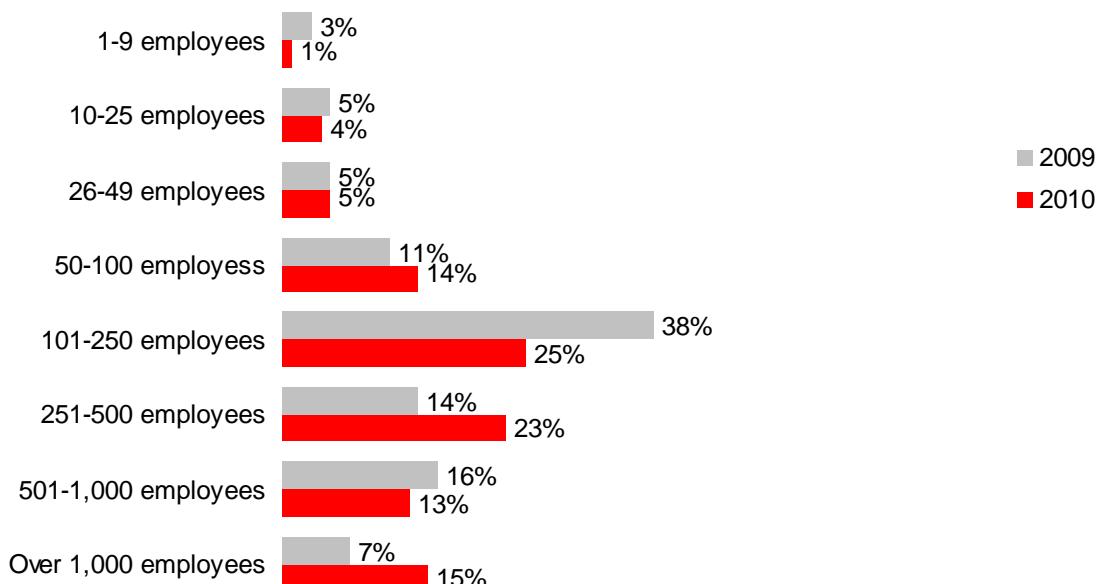
Sample profile

Figure A.4: Sample by government region (Weighted)



Region taken from postcode (Base = 223 / 401)

Figure A.5: Sample by number of employees (Weighted)



W2Q1. How many employees does your business currently employ across all sites, excluding owners and partners? (Base = 223 / 401)