

SME Market Update

June - November 2011



1. Funding Market

Project Merlin on the backburner?

As we stated in our last report, we weren't convinced Project Merlin that had kick-started bank lending yet. And whilst we are still hearing the message that the banks have funds to lend and not enough demand, in practice our firms are finding that most businesses no longer meet the credit criteria for new facilities and rates are often increasing on existing facilities.

The Chancellor announced several new initiatives in his Autumn Statement in November (see over the page), which is encouraging as it demonstrates some creative thinking, rather than just a continued reliance on the Project Merlin commitments by the major high street banks.

The Enterprise Finance Guarantee Scheme is becoming less popular as only £433m was lent under the scheme for the year to June 2011, compared to £742m in the previous year.

Furthermore, despite the central bank rate remaining stable, research by Syscap shows that businesses are paying ever increasing amounts for their overdraft facilities. They calculate the average rate is currently 3.46% and this is much higher for smaller businesses.

However, The Better Business Finance Appeals Process, which was launched in April, has recently reported that 1 in 3 appeals are successful, according to Russel Griggs, head of the team of independent reviewers. 1,100 appeals have been requested since April, and perhaps rather surprisingly, smaller companies enjoy more success than larger ones.

According to BBA statistics issued in September 2011, net lending has decreased, suggesting that more businesses are paying down their overdrafts and spend their cash reserves, rather than taking out new lending facilities.

Contents

1. Funding Market
2. Deals Activity
3. Future expectations?

Welcome to the 3rd edition of our SME Market Update.

We have once again brought together, for our firms' clients, some key statistics from the world of SME business finance and corporate M&A, and provided some sensible analysis and interpretation to help you run your business.

We hope you find it useful and please don't hesitate to contact us, or your local member firm, if you have any comments.

www.TheCFN.org.uk

**Kirsty McGregor,
Chairman comments:**
"Before your next overdraft review, speak to your advisor about taking our Bank Overdraft Risk Assessment Scorecard.

It's a free service from our firms, and it will give you a very good idea what your bank is likely to do."

SME Market Update

June - November 2011



New Finance Solutions

The Business Growth Fund, backed by HSBC, Barclays, Lloyds, Standard Chartered and RBS, is able to negotiate equity deals of £2m- £10m for companies with turnover up of to £100m. We were highly critical of this announcement which was initially heralded as an answer for SMEs. However we are pleased to now learn that Santander (who chose not to be part of the Business Growth Fund) has created an alternative fund with the Government, based on *Mezzanine Debt Finance* which will initially be unsecured, using Payment In Kind (PIK) Instruments, which roll up the interest until the company is able to convert it to a secured loan based upon a higher asset base. Interest rates are being reported likely be as low as 5%.

Kirsty McGregor, Chairman comments:

"You will need to be able to demonstrate significant growth potential to be able to qualify for mezzanine finance, as it's initially high risk for the lender, and yet the reported interest rate is incredibly low for this type of finance. So businesses will need an excellent, credible business plan to secure this finance. If you think you may be seeking this type of facility, speak to your advisor first for assistance."

The *National Loan Guarantee Scheme* has been announced, which will underwrite borrowing for businesses less than £50m turnover. This will reduce the cost of loans by 1% and is hoped to be active in the next few months.

The *Business Finance Partnership* is aimed at medium-sized businesses & will provide state funding in collaboration with non-bank finance from the private sector.

Get Britain Building Investment Fund is to restart stalled property development projects, particularly for small building firms. The aim is that these sites will be operating by July 2012.

Grants for Deposits of plant & machinery are being funded by RBS & HSBC via the Government's Regional Growth Fund.

Regional Growth Funds are aiming at funding private enterprise in those areas that were particularly reliant on public sector employment, encouraging new businesses where the cuts will have the most impact. For every £1 of state funding, the private sector are funding £6.

Kirsty McGregor, Chairman comments:

"These new initiatives, along with the various new private lenders and peer or crowd lending websites, which we have been using for the past year or so, are now beginning to give viable alternatives to the drought of credit. Traditional bank finance will probably always be the norm for most businesses, but we have recognised that for start-ups or businesses that aren't as credit worthy (perhaps because of recent trading losses or lack of security), we need to offer other solutions. Therefore to keep up with the growing number of options available, we have invested in a market-leading funding database, accessible to all of our member firms. Speak to your local firm if you wish to take advantage of this."

SME Market Update

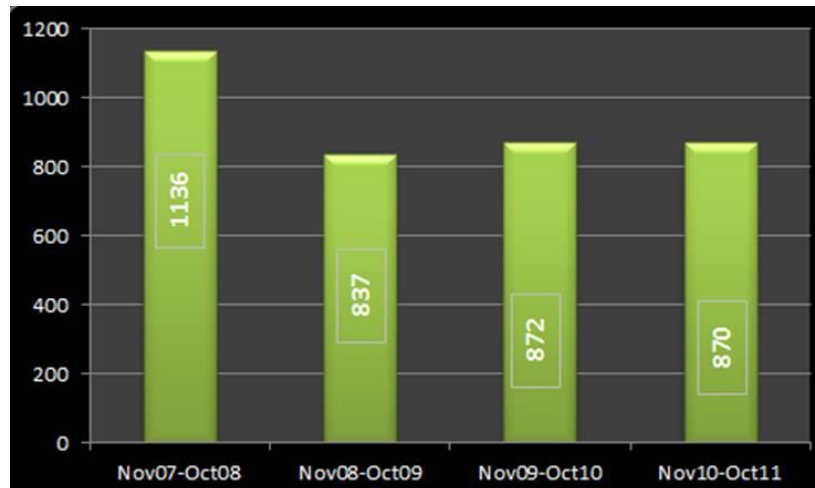
June- November 2011

2. Deals Activity

Source - Experian Corpfin November 2011

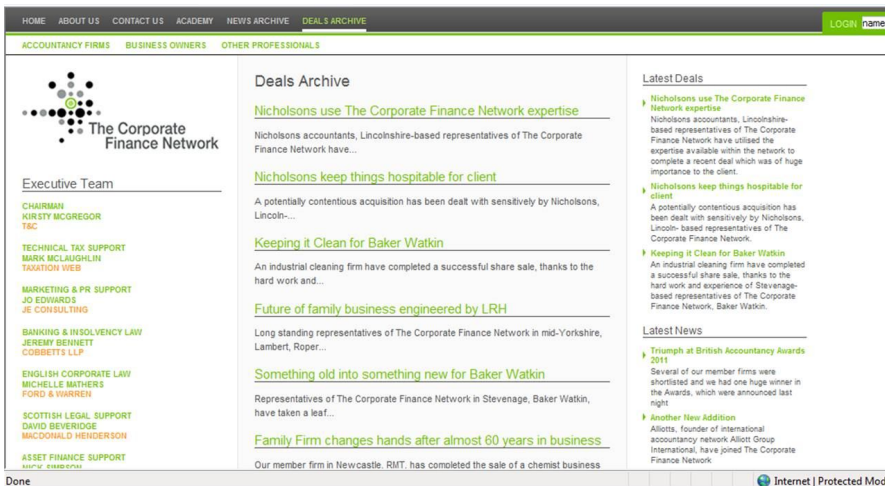
SME Deals

Rather unsurprisingly, SME deal volumes have remained fairly static over the past few years. This graph depicts the number of deals in the range of £500k to £5m as included on Experian Corpfin. There was a slight upturn during 09/10 but the national picture is that this growth hasn't continued this year.



Kirsty McGregor, Chairman comments:

"Understanding the deal activity in your sector is valuable information. Our CF Researcher can identify the most active acquirers, provide a round-up of the businesses currently advertised for sale, and we even have a scoring system to rank the most attractive acquisition targets. In this climate, buying a business (possibly for little or no cash up front) could be a great solution for an ambitious company."



The screenshot shows the website's navigation menu with 'DEALS ARCHIVE' selected. The main content area is titled 'Deals Archive' and features several articles with green headlines. The left sidebar lists various support services like 'Executive Team', 'Technical Tax Support', and 'Marketing & PR Support'. The right sidebar has a 'Latest Deals' section with more article snippets.

Source - www.TheCFN.org.uk/deals.php

Deal Activity within The Corporate Finance Network

We were delighted to announce recently that, within our own network of accountancy firms, we have completed 27 deals in the last six months. Around 50% of these deals represented disposals or part-disposals, and the rest were evenly split between acquisitions and fundraising assignments.

Kirsty McGregor, Chairman comments:

"It's not surprising that many of our assignments are now focusing on disposals or exit planning for our SME clients. It's been a tough few years and some businesses owners are calling it a day. Many more will be thinking the same, and I'd urge every company to focus on their suitability for sale. Running a business for your own lifestyle is fine, but if you're targeting potential purchasers, it will need to be 'groomed for sale'. Our firms have access to a 'Sellability Score' and some fantastic exit planning tools. Ask them!"

SME Market Update

June - November 2011



3. Future expectations?

Economic Outlook

The growth of the economy is still fairly static and the National Institute for Economic and Social Research (NIESR) has predicted there is a 50:50 chance of a double dip recession occurring in 2012. Growth isn't likely to return to peak levels until the end of 2013. The OECD is also forecasting a similar situation. So with the general economy still looking gloomy, businesses will need to look at more innovative ways to fuel their own growth and buck the trend.

Kirsty McGregor, Chairman comments:

"There are a growing number of finance solutions in the market which can help SMEs fund growth. Vendor finance (offering your customers 3rd party loans to purchase your products) are growing in popularity, the range of Invoice Finance businesses in the market is continuing to grow, and the government has assisted in several ways with businesses who wish to start exporting overseas. The *National Export Challenge* has several initiatives and the government's Exports Credit Guarantee Department provides two different finance products to aide cashflow between UK businesses and foreign purchasers. So talk to your advisor about ways to stimulate growth in your business. "

New Banks?

It has been announced that Virgin has agreed to purchase the Northern Rock portfolio. This is expected to be funded by Virgin Money, the US investor, Wilbur Ross, and an Abu Dhabi investor. The deal is due to complete on 1st January 2012.

Shawbrook Bank (funded by RBS Equity Finance) has been formed to 'simplify the loan process' and was heralded by its creators as being set up to lend to small businesses. So far, however, their website only extends to property loans for developers and businesses. It appears to be a rebrand of previous RBS entities Whiteaway Laidlaw, Commercial First and Link Loans.

Kirsty McGregor, Chairman comments:

"The message we are trying to convey to our firms' clients is that there are huge possibilities for growth, for those business owners who are prepared to invest some time considering the options. Whether an SME decides to export, purchase another business or use some less traditional finance solutions to provide cash for growth, we can help. And if you're struggling at present, get organised and ask our firm to carry out a Financial Healthcheck on your business. This will identify some focused areas that can be improved, providing some objectivity and helping you stand back from the daily grind of running your business. And let's go for growth!