

2015 Business Finance Survey: Mid-Caps



**A report by BMG Research to
the British Business Bank**

February 2016

Background

- The 2015 Business Finance Survey involved 1,800 interviews with businesses overall, 300 of which were with mid-caps: **Businesses with annual turnover of between £25 million and £500 million**. The results from the SME interviews are presented separately in the SME report.
- Although a survey of mid-caps was undertaken in 2013 and 2010, questions for the latest 2015 survey were largely based on the “SME Journey Towards Raising External Finance” surveys. Most of the questions in the 2015 survey were asked of both SMEs and mid-caps allowing a direct comparison to be made between the two groups.
- Therefore findings from the 2013 and 2010 mid-cap surveys are not directly comparable to the latest survey and caution is recommended when comparing results.
- Statistically significant differences between SMEs and mid-cap businesses (at 95% confidence level) are identified by circles (increases) and squares (decreases). Other changes are not significant, and care should be taken in interpreting these findings.

Survey Methodology

- 300 CATI interviews with mid-cap businesses were conducted between 2nd October and 2nd December 2015. The average questionnaire length was 22 minutes.
- Mid-cap sample structured by turnover band (£25m-£99.9m, £100m-£499.9m), and broad sector (2007 SIC).
- Interviews with person responsible for managing the business finances.
- Data weighted to recent FAME analysis of the profile of mid-caps by sector and turnover band:
 - 232 with turnover of £25m-£99.9m interviewed (weighted to 74%)
 - 68 with turnover of £100m-£499.9m interviewed (weighted to 26%)
- 206 of those interviewed also qualified as SMEs, having fewer than 250 employees. Most of these were in the medium-sized business category (50-249 employees).

Survey Findings

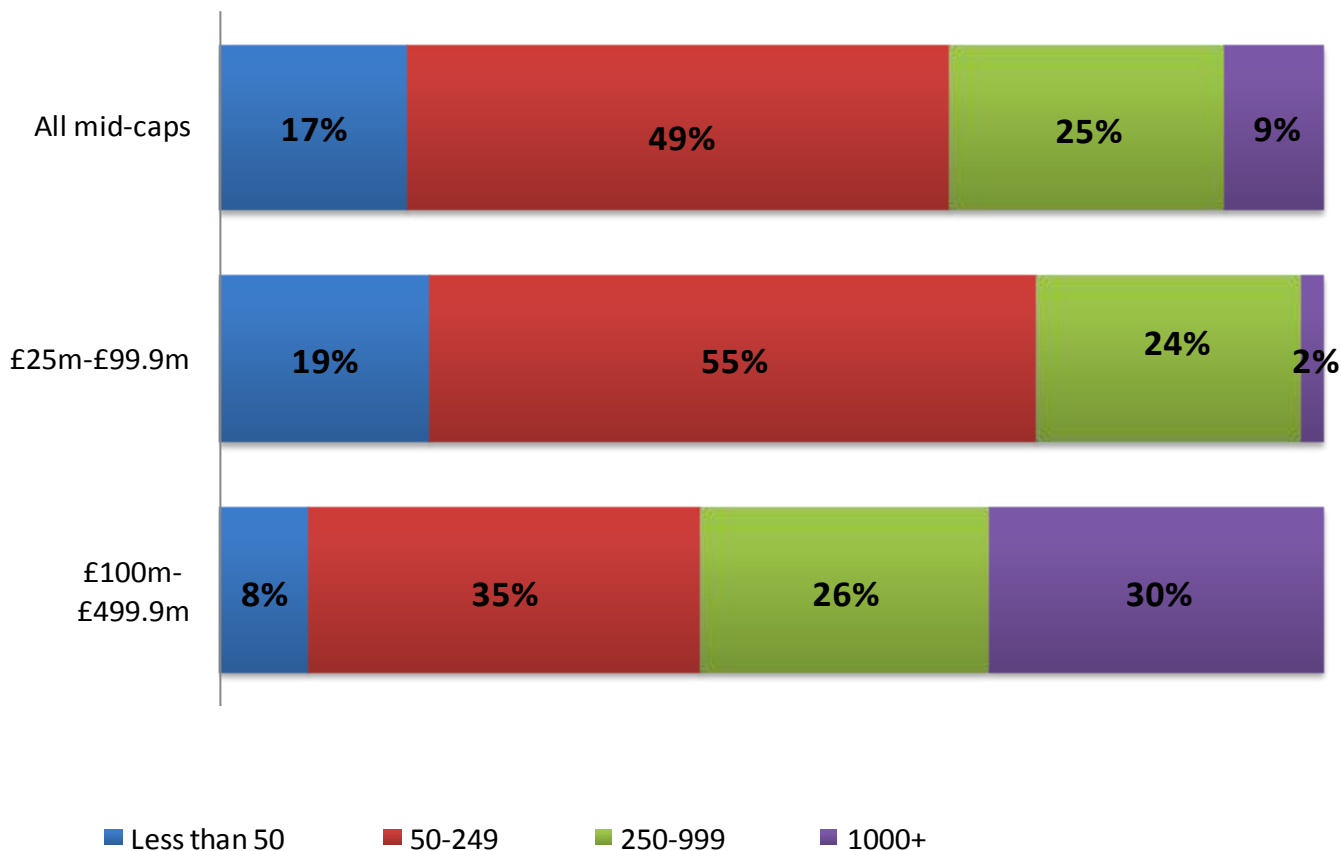
The report is structured into the following sections:

1. Characteristics of mid-cap businesses
2. Finance usage and application
3. Awareness of different types of finance
4. Perceptions of raising finance
5. Use of finance in the future

1) Business characteristics

There is considerable overlap between the mid-cap definition based on turnover and SME definition based on employment

Number of employees within turnover band



% that are SMEs
(have less than 250 employees)

66%

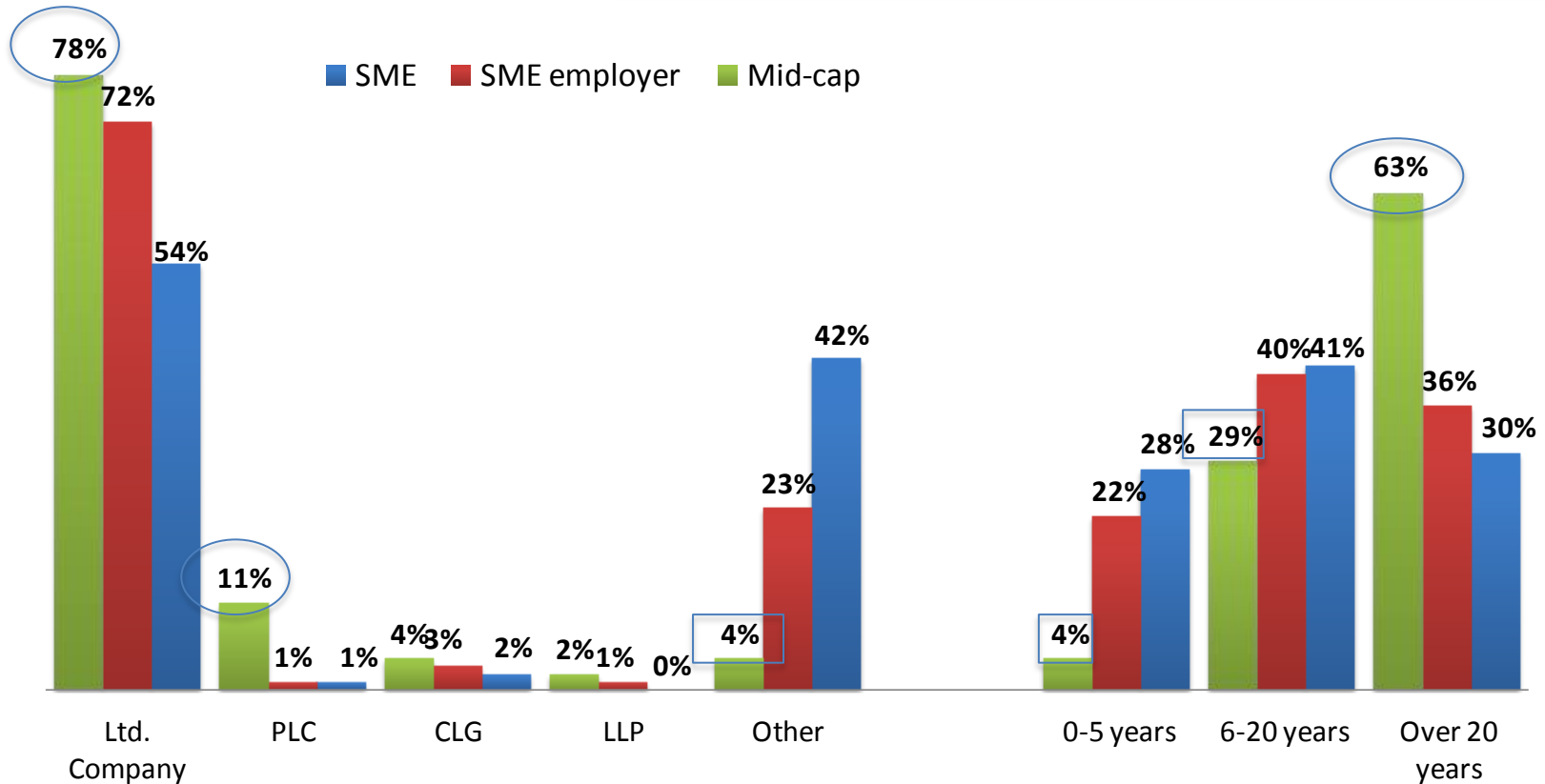
74%

43%

Mid-cap businesses tend to be older than SMEs, and are more likely to be incorporated

Business structure and age

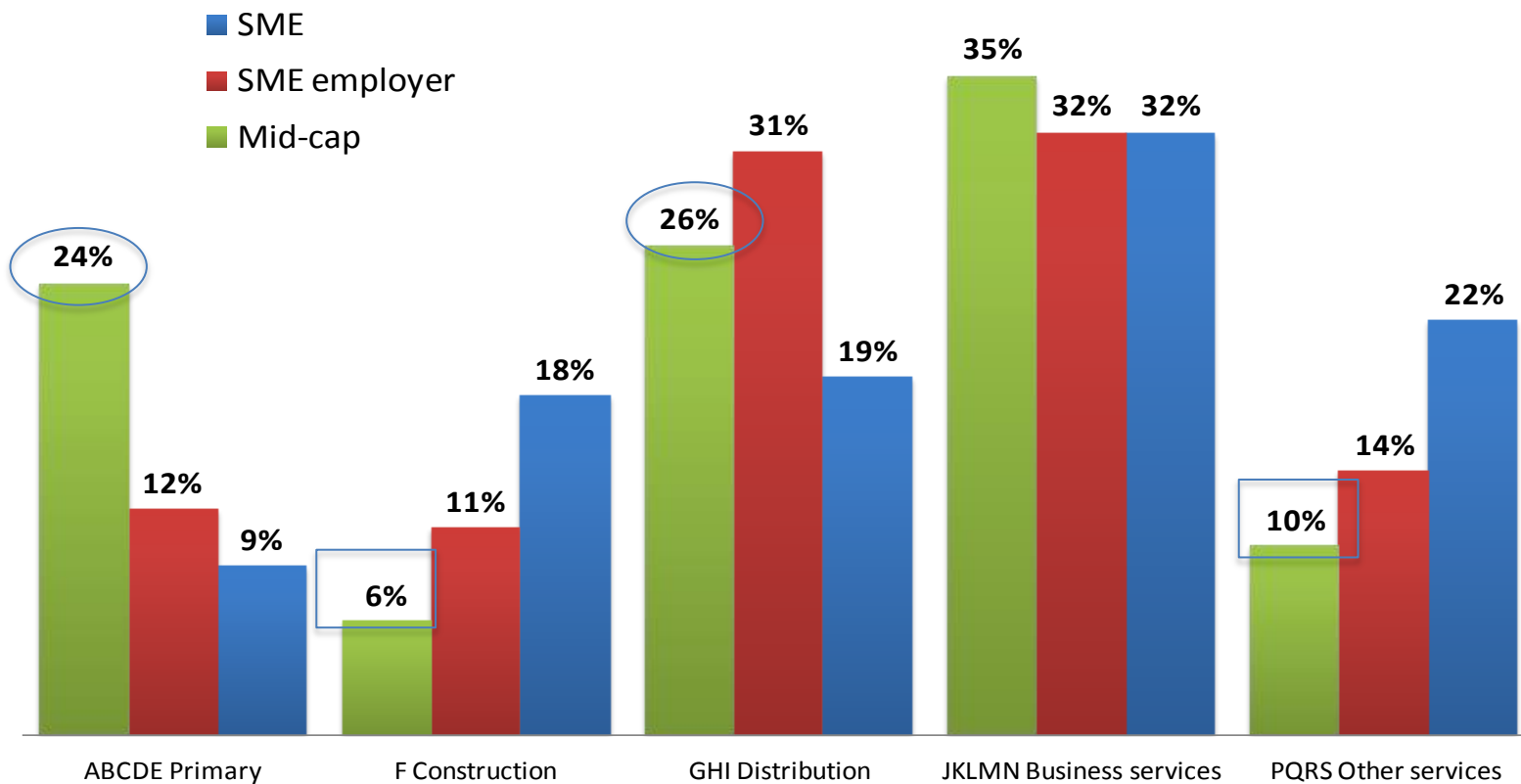
- 54% of mid-caps are subsidiaries (cf. 3% of SMEs)
- 34% are parent/holding companies (cf. 3% of SMEs)
- 21% are independent (cf. 93% of SMEs)



Base = all mid-caps/SMEs (n=300/1,608). Questions S3, S5 (single coded unprompted)

Mid-caps are more likely than SMEs to be found in primary and distribution sectors

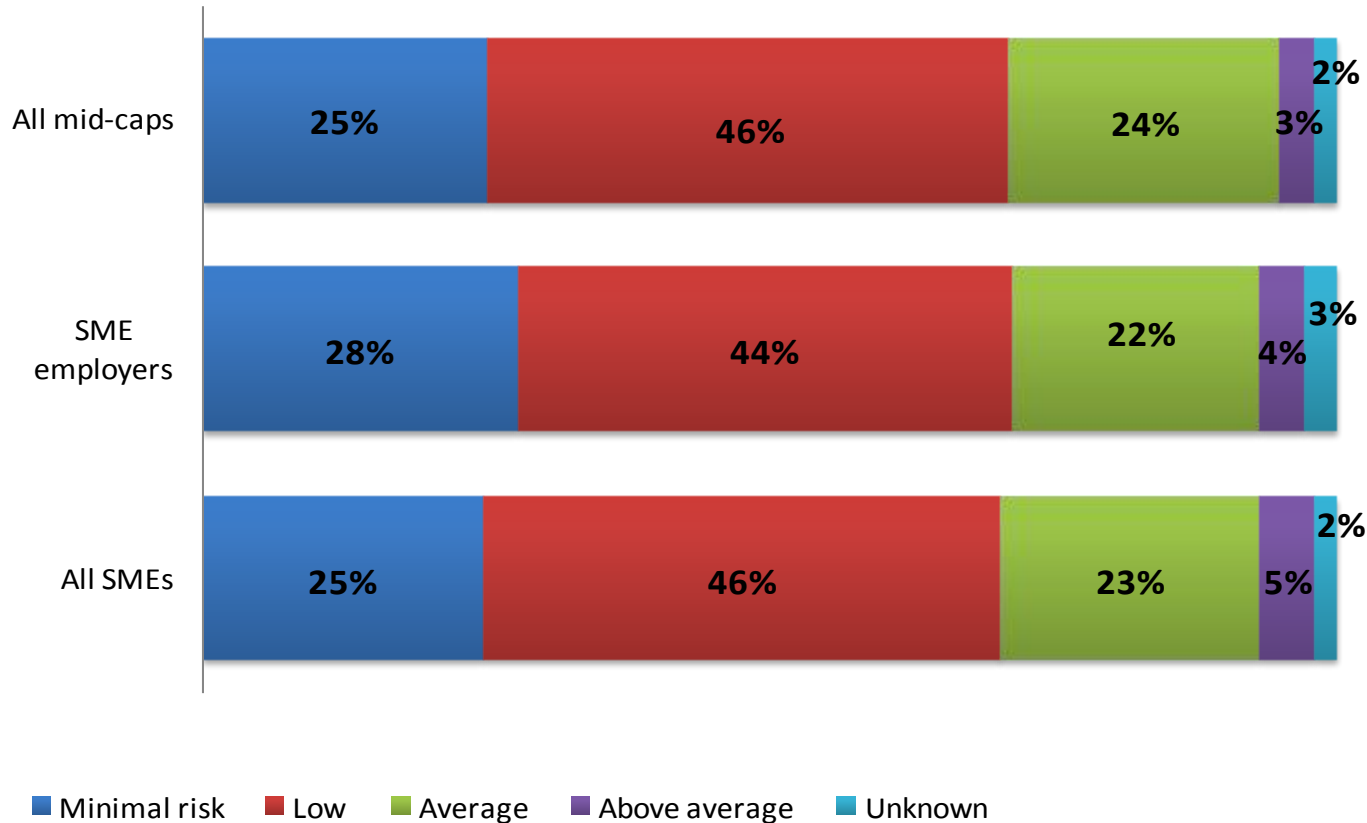
Sector



Base = all mid-caps/SMEs (n=300/1,608). Question S4 (open ended, unprompted)

No significant differences in the risk profile between mid-caps and SMEs

Dun & Bradstreet credit scores



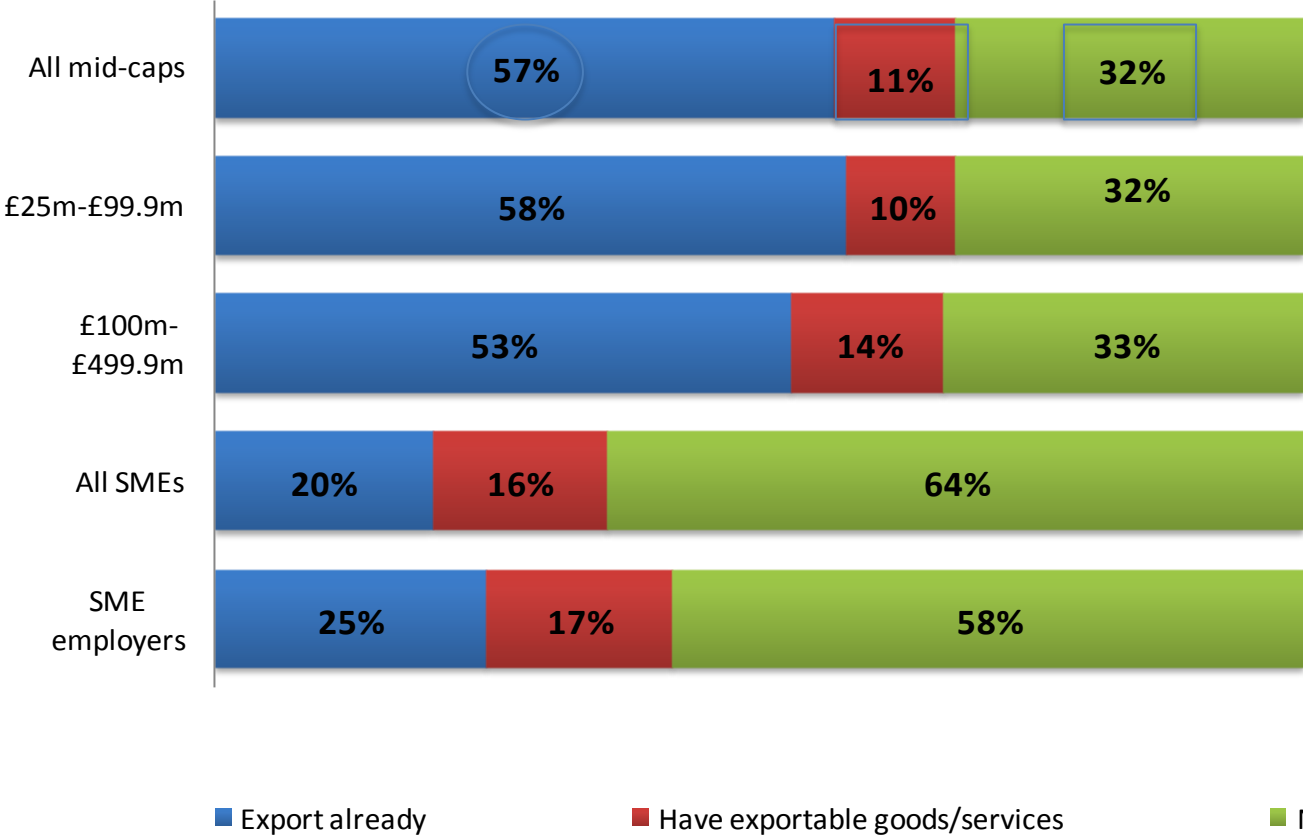
Base = all mid-caps/SMEs (n=300/1608)

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Mid-caps are more likely to export...

Whether export/ have potential to export



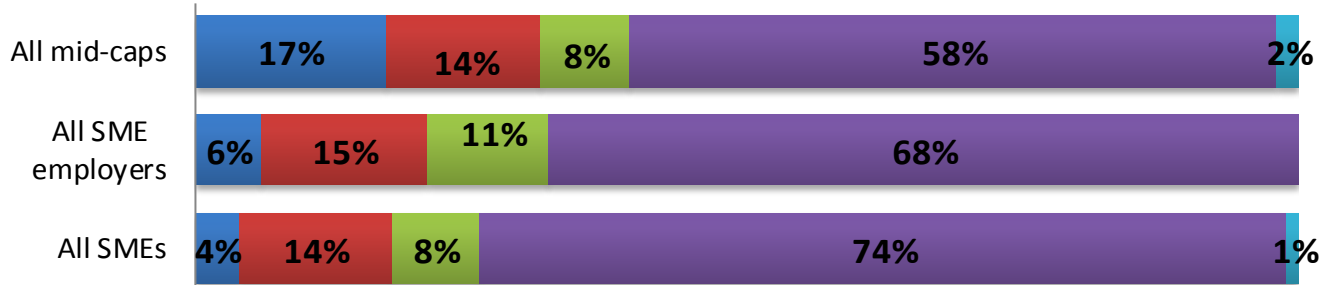
Export % of turnover (mean)	Mean years as exporter
29%	15
31%	15
21%	17
23%	9
28%	11

Base = all mid-caps/SMEs (n=300/1,608). Questions C10/C10b/C10c/C17 (single coded, unprompted)

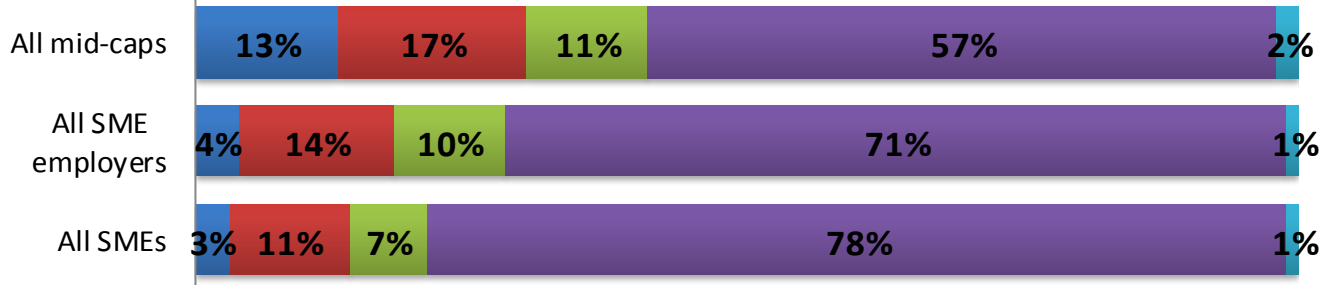
... and innovate

Innovation

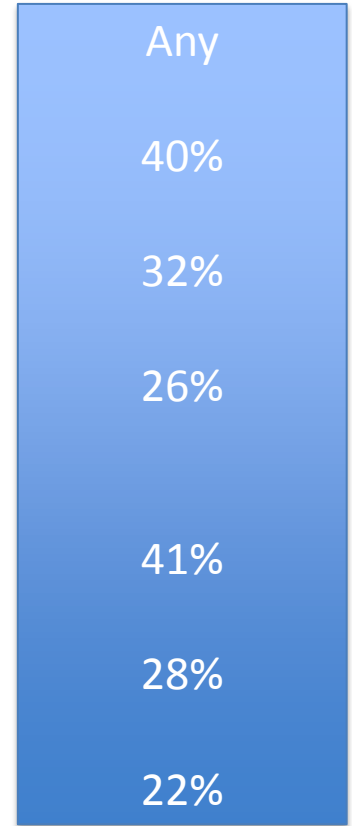
Any new or significantly improved goods/services in last 12 months



Any significantly improved processes in last 12 months

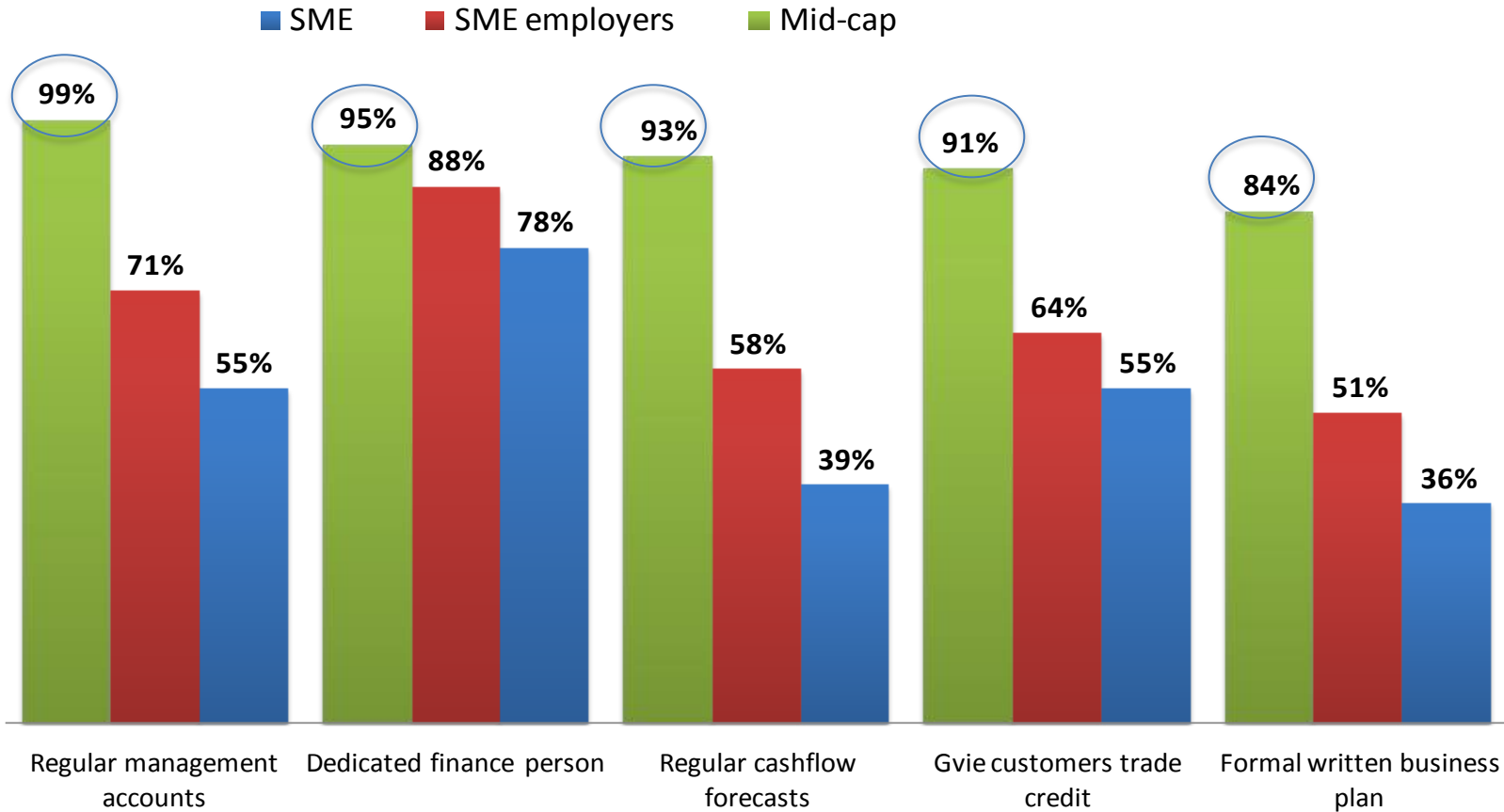


■ Goods only
 ■ Services only
 ■ Both goods and services
 ■ Neither
 ■ Don't know



Mid-caps are more likely to use formal business processes than SMEs

Formal business processes

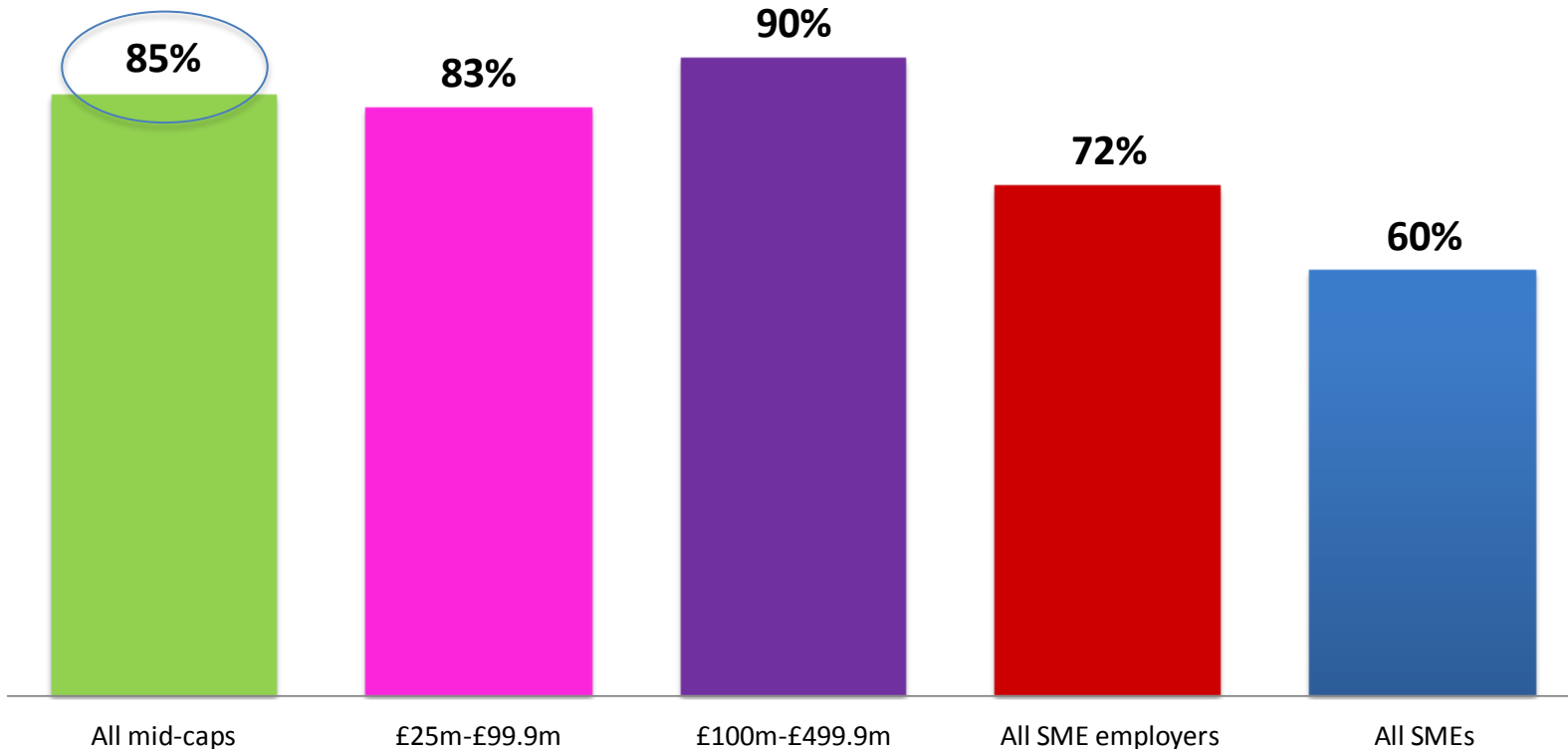


Base = all mid-caps/SMEs (n=300/1,608). Question E2 (multicode, prompted)

2) Finance usage and application

Mid-caps are more likely to use external sources of finance compared to SMEs

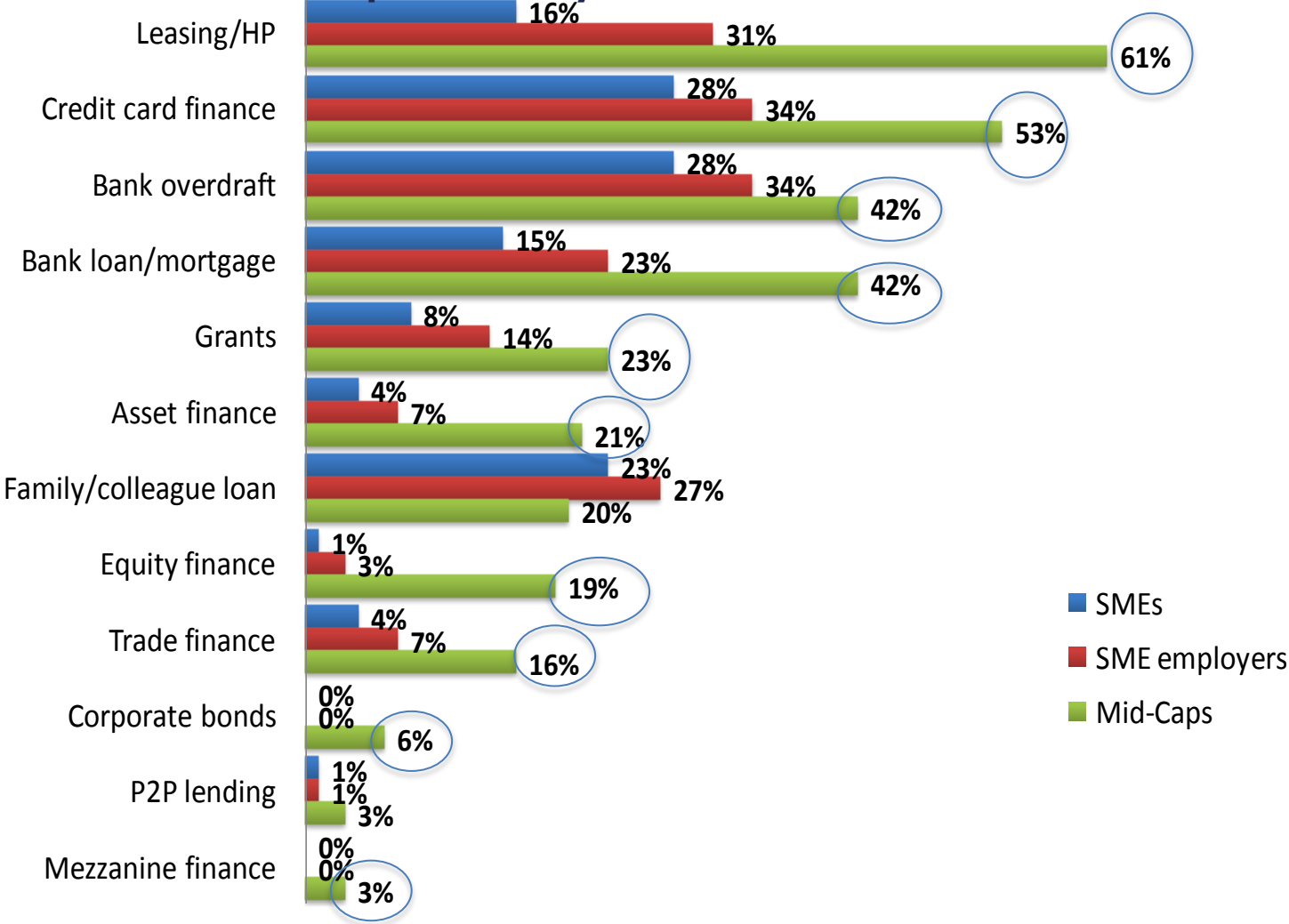
Used external finance in the last 3 years



Base = all mid-caps/SMEs (n = 300/1,608). A5a (single code, prompted)

Mid-caps use a variety of finance products with leasing/ HP, credit cards and bank overdrafts being the most widely used products (similar to SMEs)

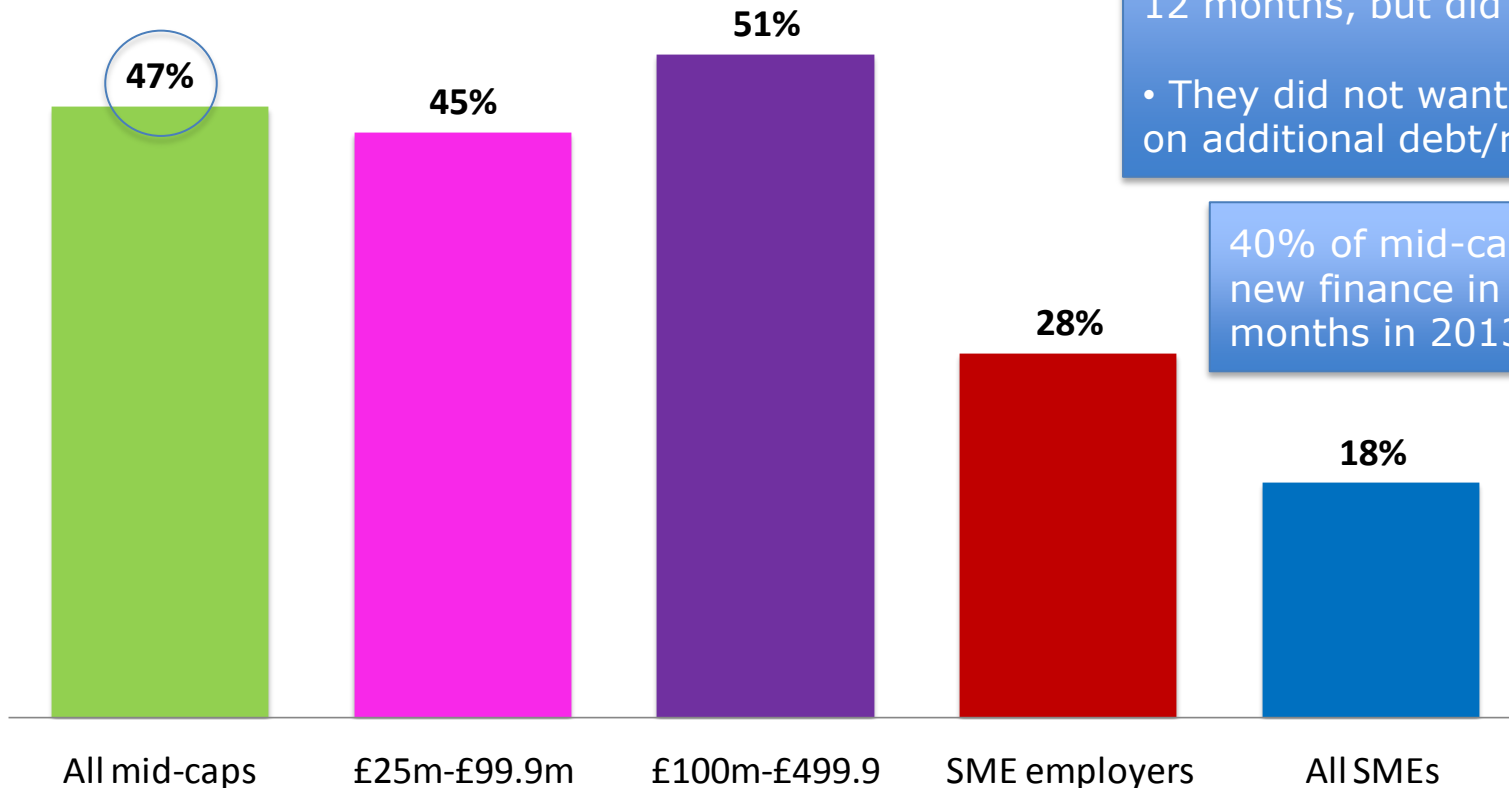
Types of finance used in the previous 3 years



Base = all mid-caps/SMEs (n=300/1,608). Question A5a (multi-code, prompted)

Mid-caps are over twice as likely to seek external finance compared to SMEs

Sought finance in the last 12 months

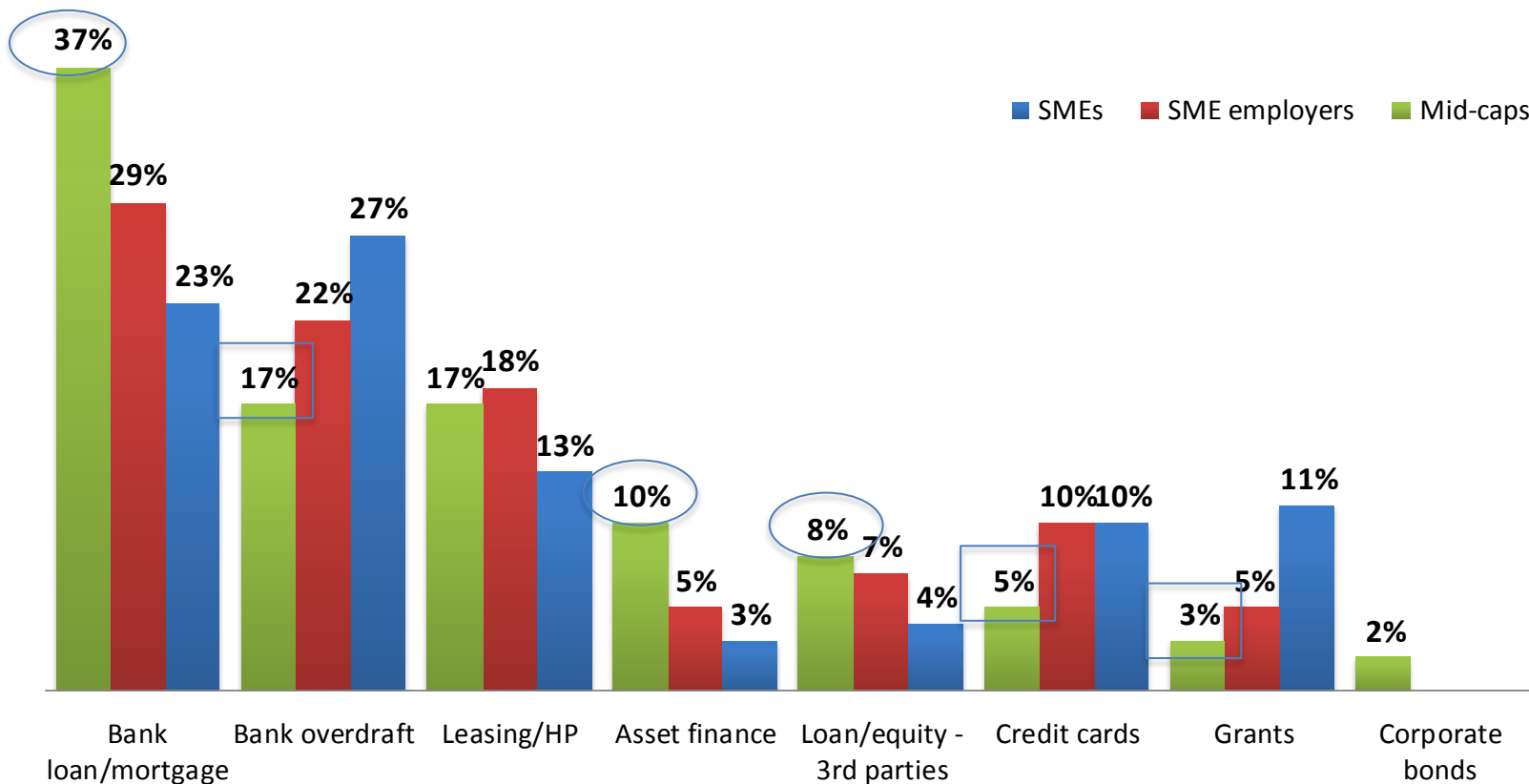


- Only 1% of mid-caps (2 respondents) had a need for external finance in the last 12 months, but did not apply
- They did not want to take on additional debt/risk

40% of mid-caps sought new finance in last 12 months in 2013 survey

Mid-caps are more likely to seek bank loans than SMEs, but less likely to seek overdrafts

Products sought on the last occasion

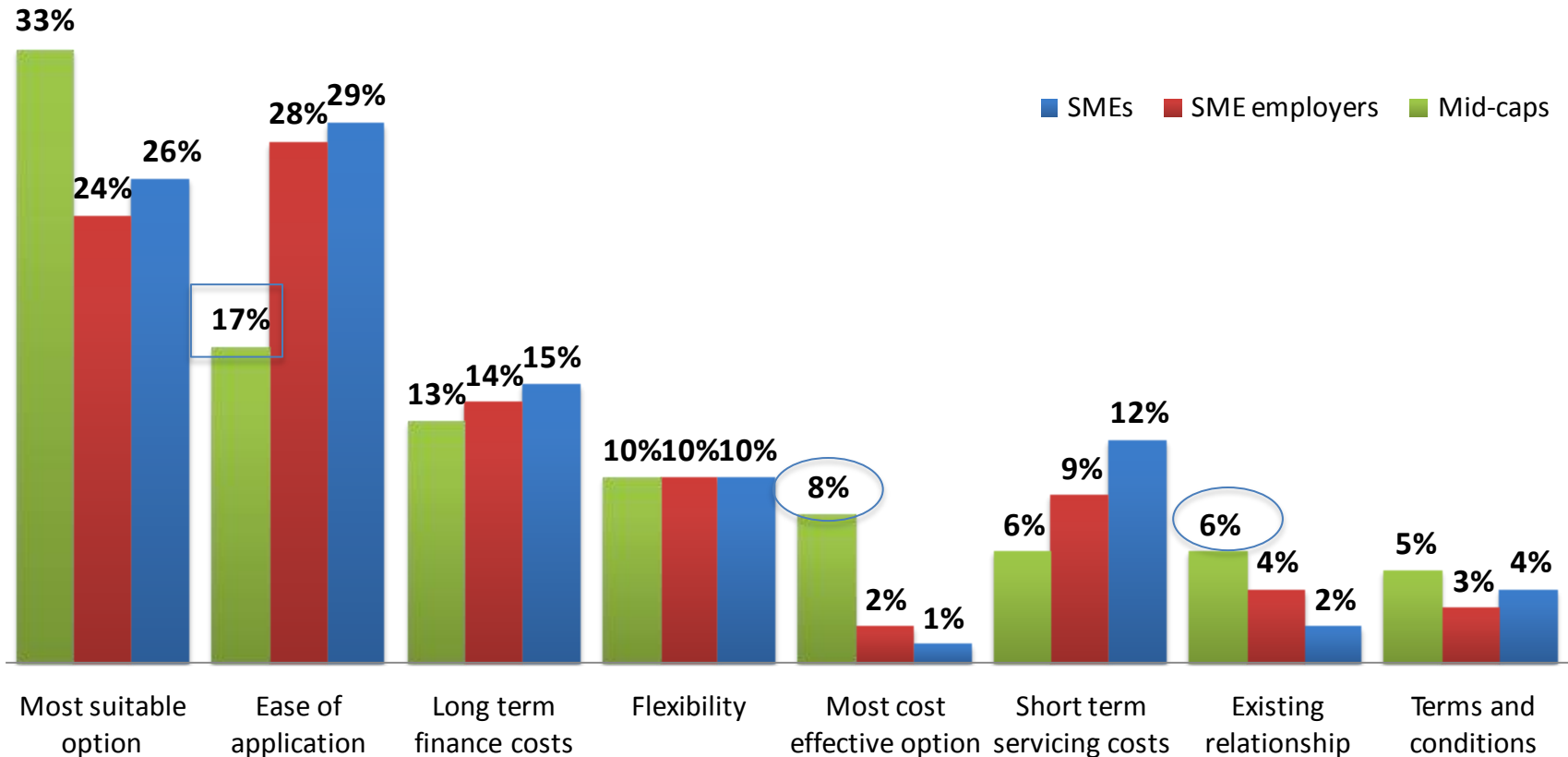


Others = Government scheme finance (1%); trade finance, mezzanine finance (both less than 0.5%)

Base = all mid-caps/SMEs that sought external finance in the last 3 years (190/715). Question A17a (multi code, unprompted)

Mid-caps are less likely than SMEs to choose a type of finance because of the ease of application

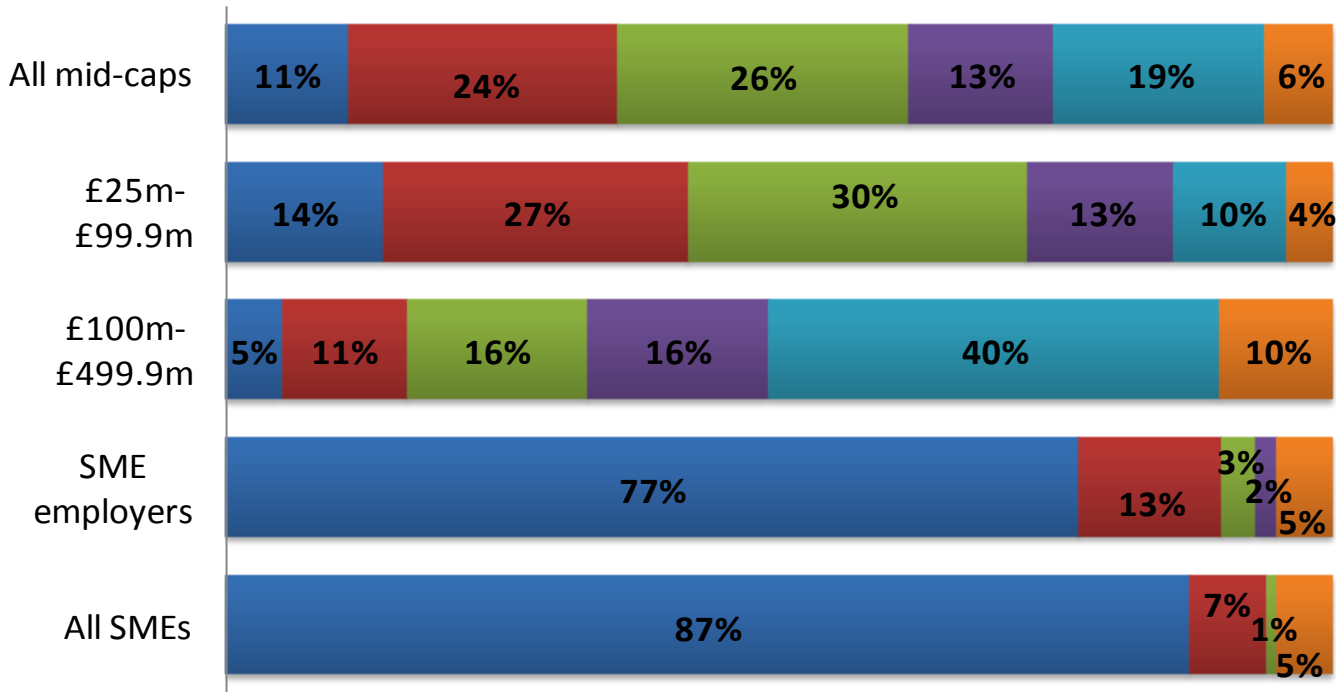
Main reason for seeking particular type of finance



Base = all mid-caps/SMEs that sought external finance in the last 3 years (190/715). Question A17b (multi code, unprompted)

Mid-caps seek a greater amount of finance compared to SMEs

Amount of finance sought on last occasion

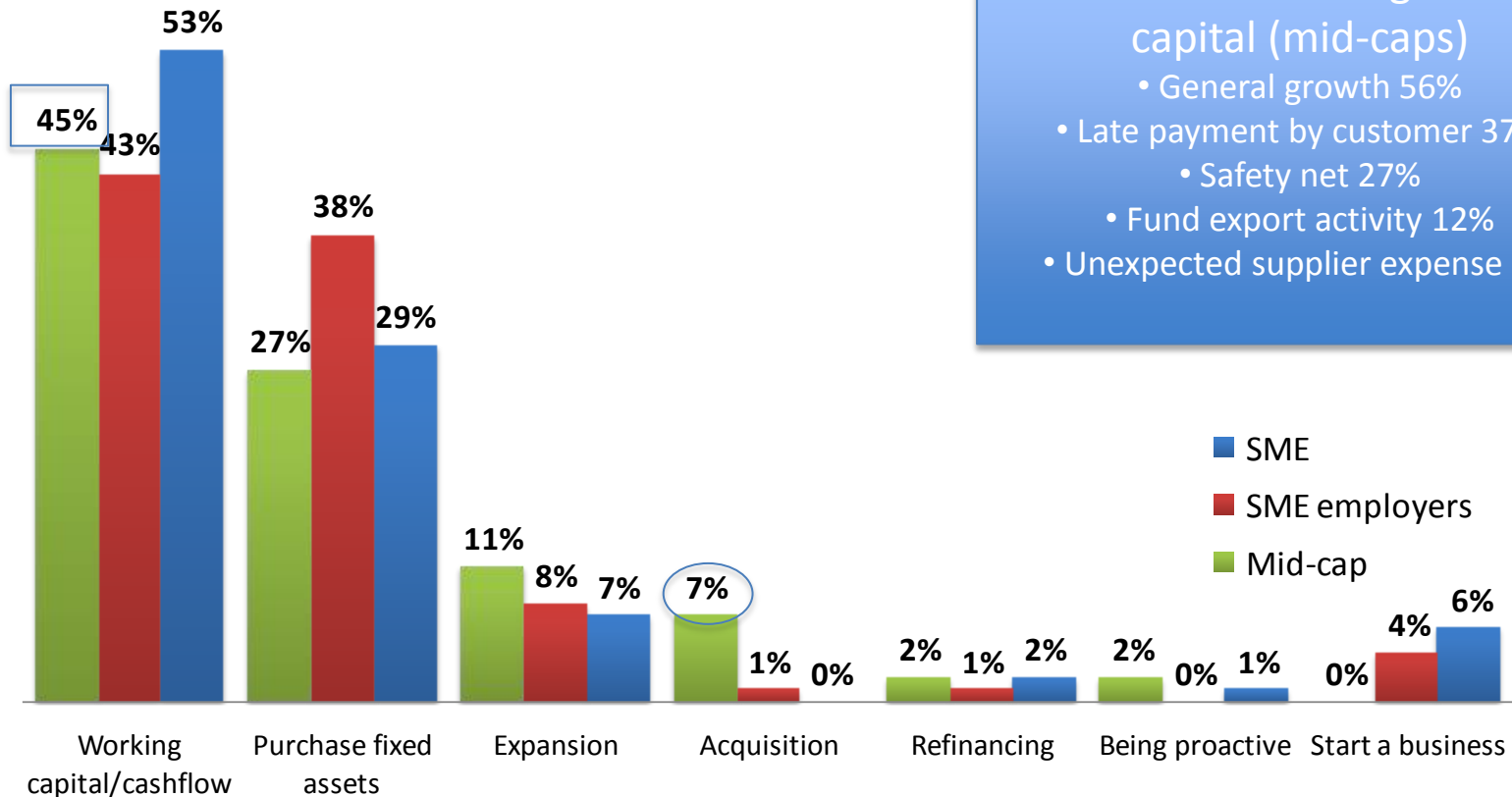


Mean amount	Median amount
£29.2 m	£2.78 m
£19.1 m	£1.71 m
£57.4 m	£13.6 m
£880,000	£20,200
£320,000	£12,030

■ Under £100k
 ■ £100k-£999k
 ■ £1m-£4.9m
 ■ £5m-£19.9m
 ■ £20m+
 ■ DK/Ref

Mid-caps are less likely to be seeking finance for working capital than SMEs

Main reason for seeking finance – last occasion in the previous 3 years



Reasons for needing working capital (mid-caps)

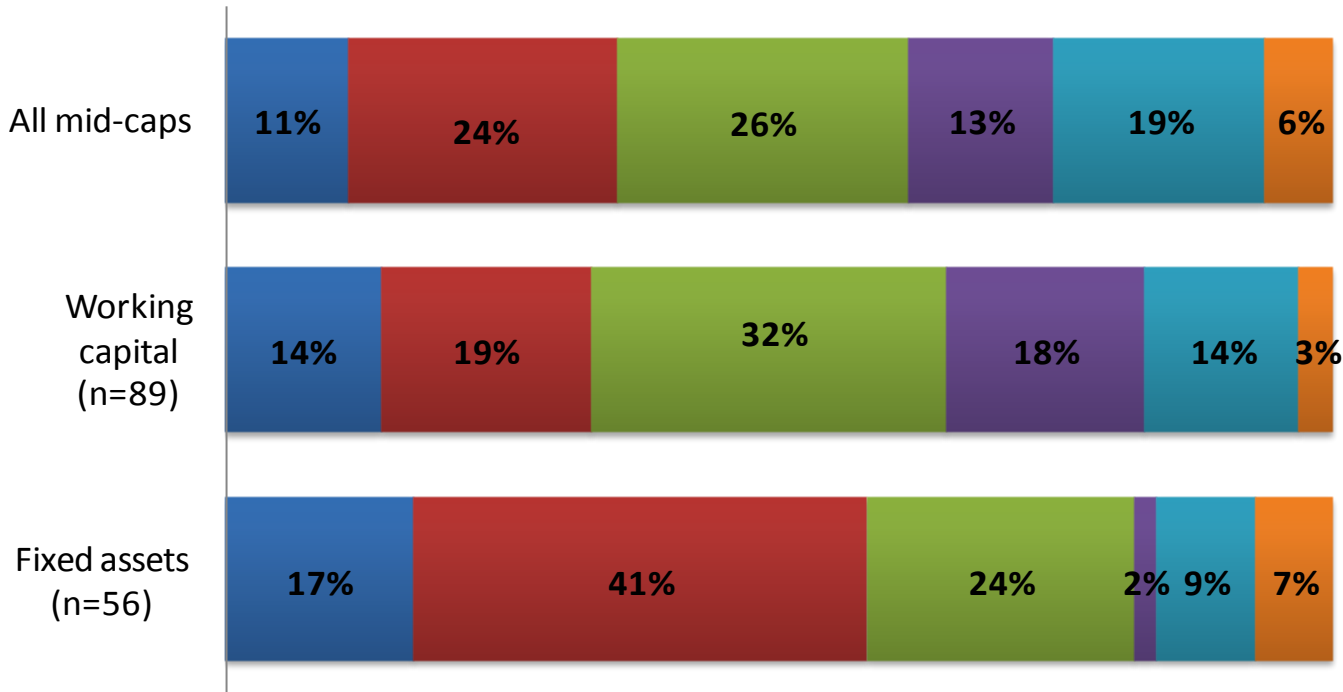
- General growth 56%
- Late payment by customer 37%
- Safety net 27%
- Fund export activity 12%
- Unexpected supplier expense 8%

In 2013 survey 60% sought finance for working capital, 48% for capital expenditure, 17% entering new market and 12% new product or service

Base = all mid-caps/SMEs that sought finance in the last 3 years (190/715). Question A15a (single code, prompted)

Amount of finance sought for working capital greater than for purchasing fixed assets for Mid-Caps

Amount of finance sought on last occasion – by main reason for seeking finance



Mean amount	Median amount
£29.2 m	£2.78 m
£24.9 m	£2.92 m
£14.1 m	£530,000

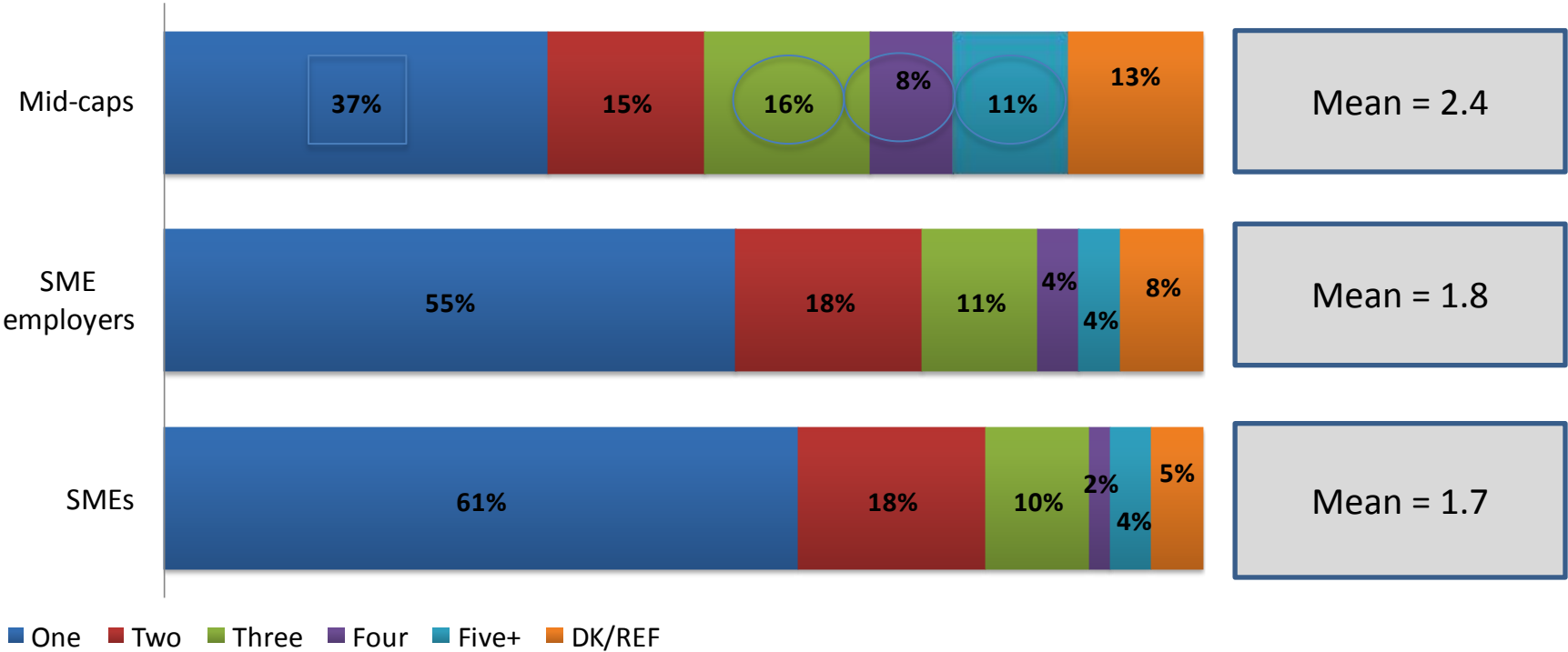
■ Under £100k ■ £100k-£999k ■ £1m-£4.9m ■ £5m-£19.9m ■ £20m+ ■ DK/Ref

Base = all mid-caps that sought finance in the last 3 years (190). Question A21a (single coded, unprompted)

Mid-cap businesses are more likely to shop around for finance than SMEs

Number of providers contacted

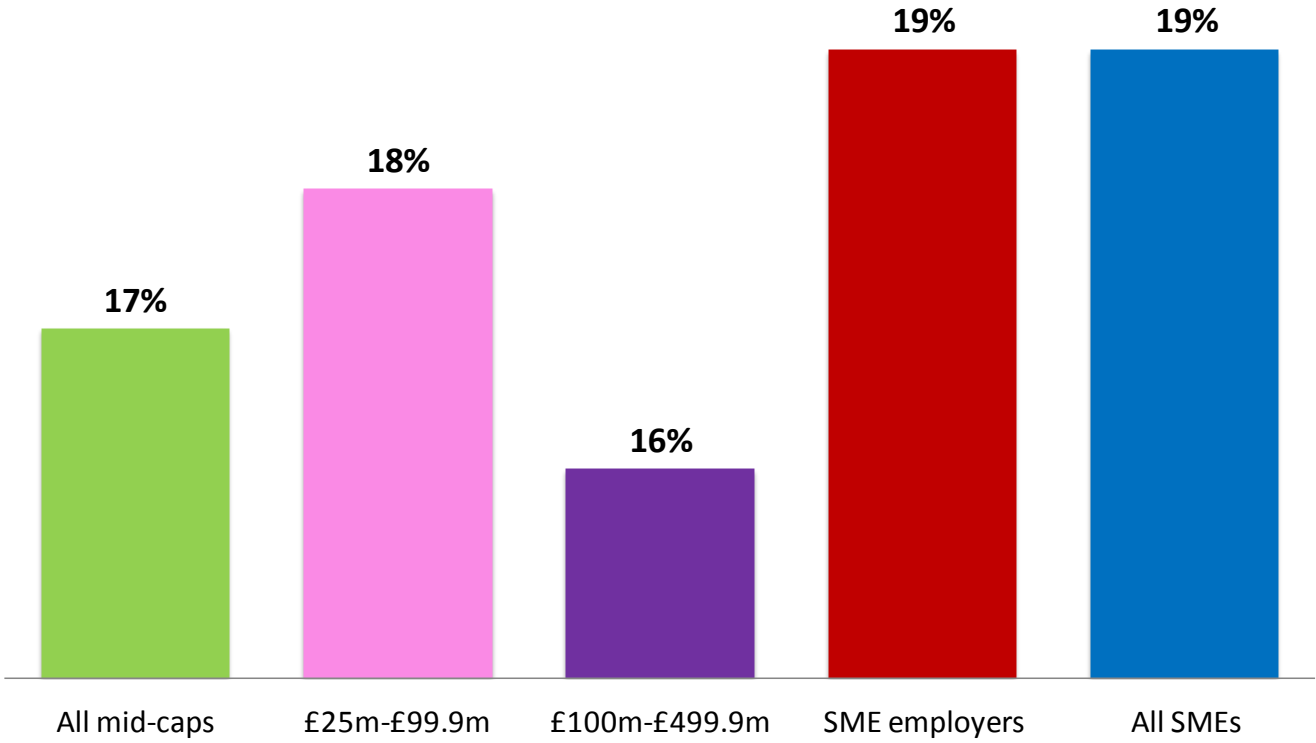
51% of mid-caps only sought finance from the largest four UK banks (cf. 50% of SMEs)



Base = all mid-caps/SMEs that sought finance in the last 3 years (190/715). Question A17d1 (single code, unprompted)

Mid-caps are no more likely than SMEs to use external advice when seeking finance

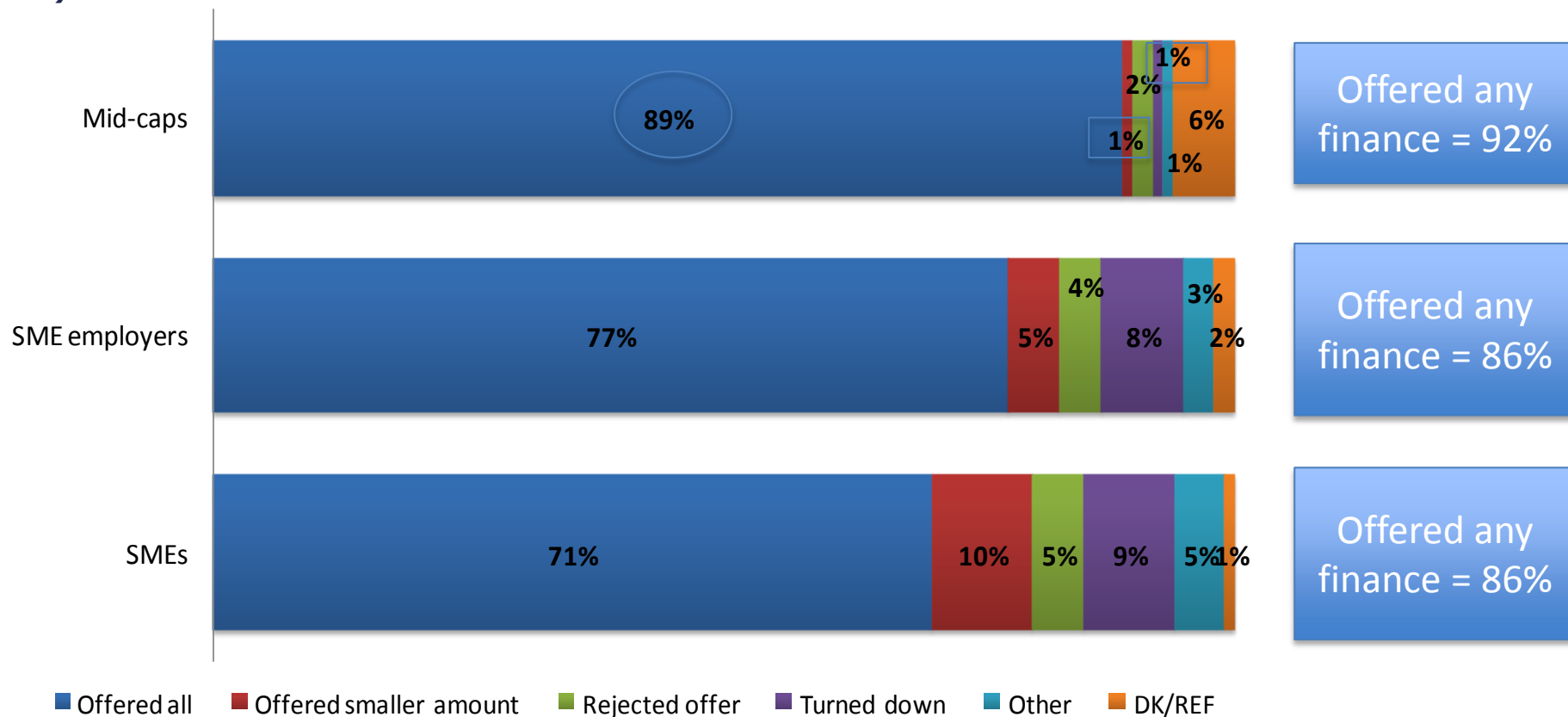
Sought external advice when applying for finance on the last occasion



Base = all mid-caps/SMEs that sought finance in the last 3 years (190/715). A24 (single code, unprompted)

Mid-caps are more likely to obtain finance than SMEs

Whether successful in obtaining finance from first provider (on the last occasion in the previous 3 years)

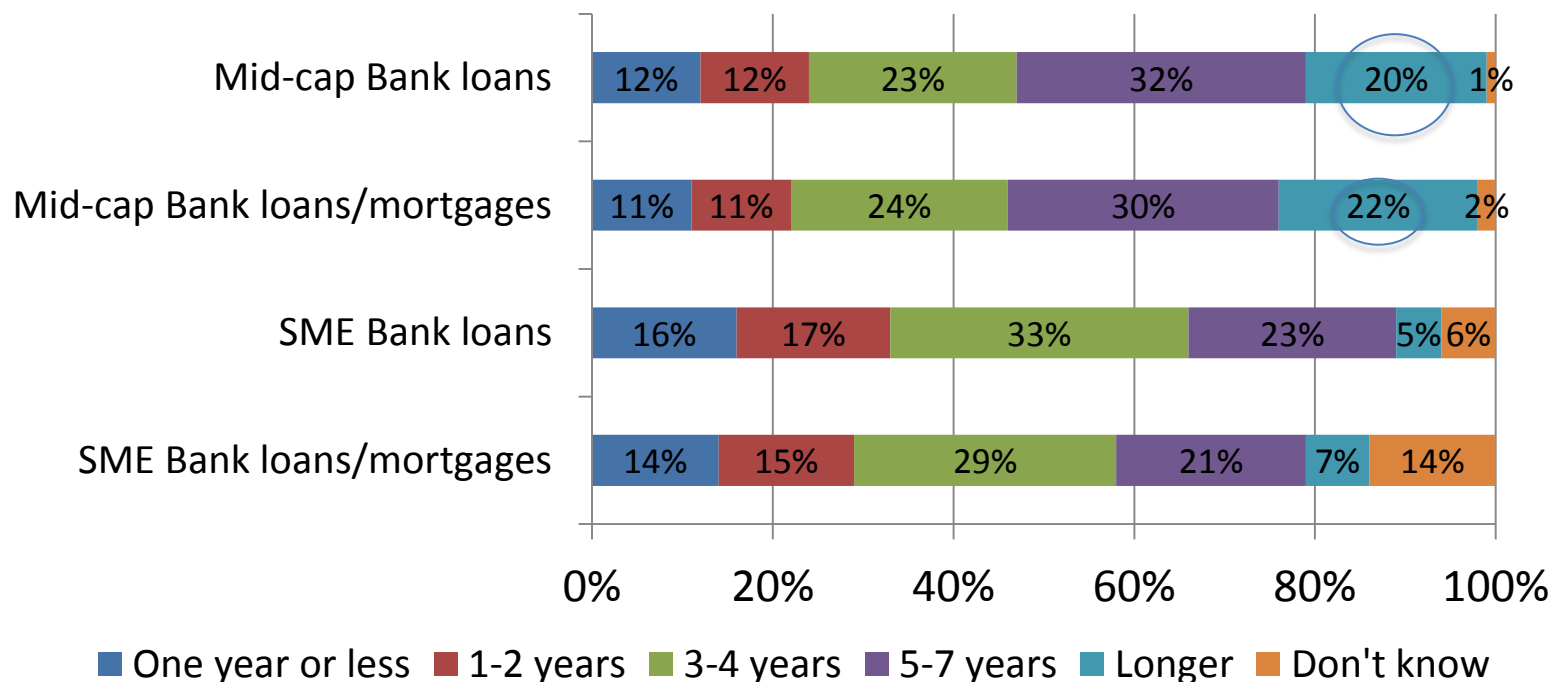


Base = all mid-caps/SMEs that sought finance in the last 3 years (190/715). Question A23a (single code, prompted)

Mid-caps seek loans with a longer tenor than SMEs

- 23% of mid-caps sought a bank loan or commercial mortgage in the previous 3 years.
- Mean tenor sought was 5.8 years (median 5.3 years). For SMEs mean tenor was 4.2 years (median 4.0 years).
- 97% of mid-caps got the tenor they sought, 3% got a longer tenor (cf. with 81% of SMEs getting the tenor they sought, and 9% each getting longer or shorter tenors)

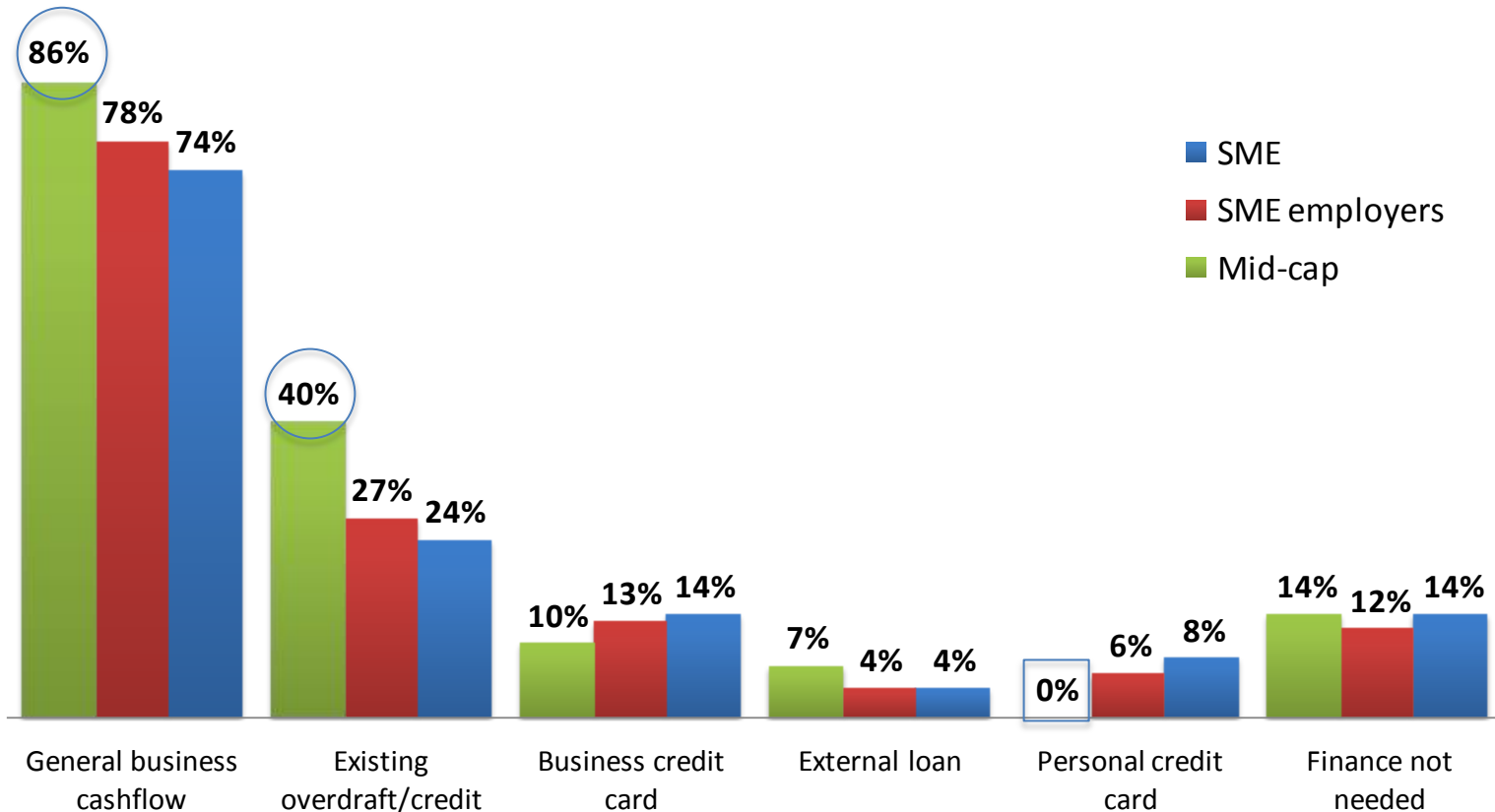
Loan Tenor sought



Base = all mid-caps/SMEs that sought bank loans or mortgages (67/208). A22b. Single code, unprompted.

Mid-caps are more likely than SMEs to use general business cashflow or existing credit lines to finance exports

How working capital for export contracts is financed

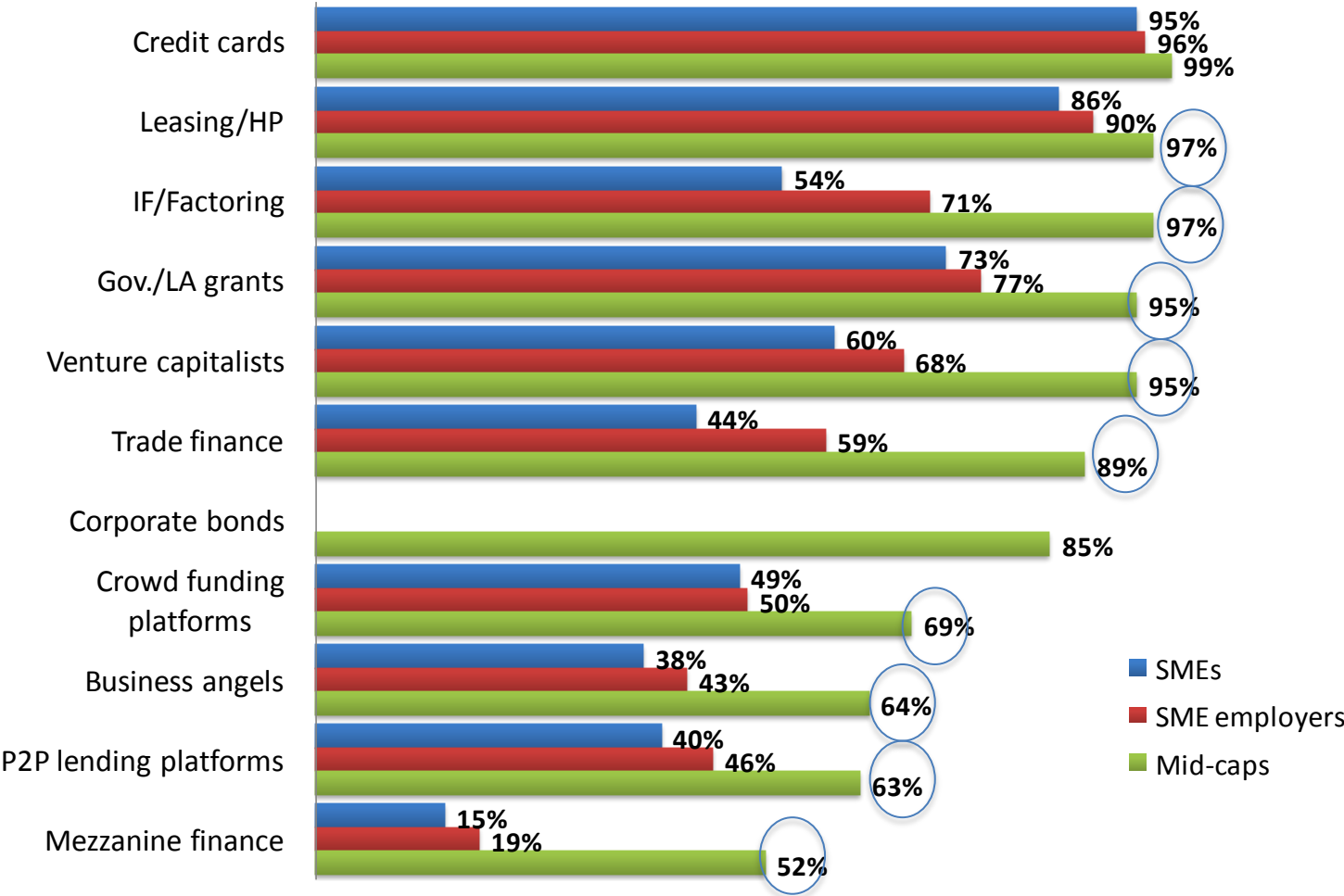


Base = all mid-cap/SME exporters (178/437). Question C16 (multi-code, prompted)

3) Awareness of different types of finance

Mid-caps have higher awareness of different types of external finance than SMEs...

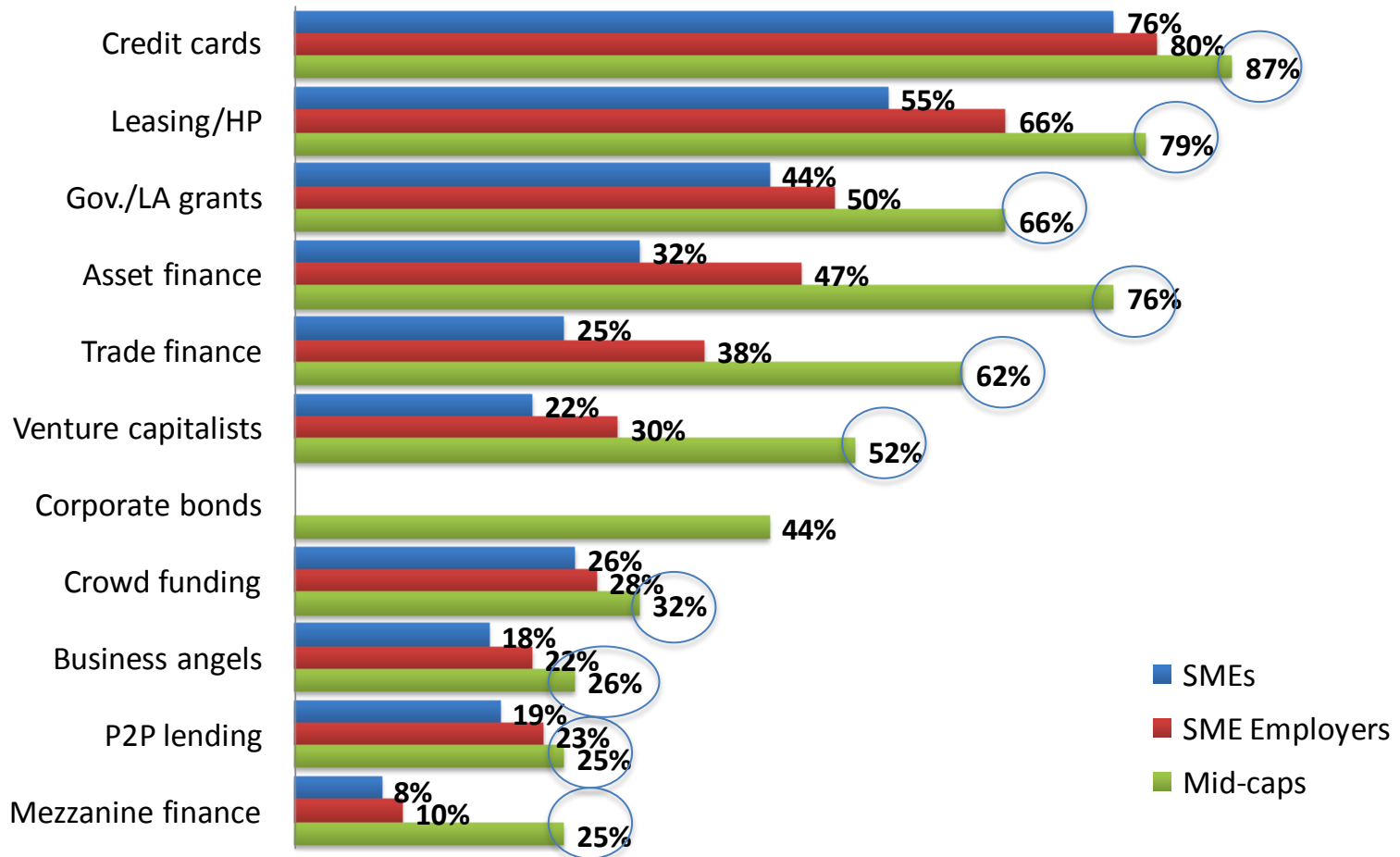
Awareness of forms of external finance



Base = all mid-caps/SMEs (300/1,608). Question A1 (multi-code, prompted)

... and also of specific providers

Awareness of specific supplier of type of external finance



Base = all mid-caps/SMEs (300/1,608). Question A2 (multi-code, prompted)

4) Perceptions of raising finance

Mid-caps are more confident in their ability to assess different finance options and applying for finance

Confidence in the ability to raise finance

Net confident/
unconfident

82%/3%

61%/12%

56%/18%

64%/8%

42%/25%

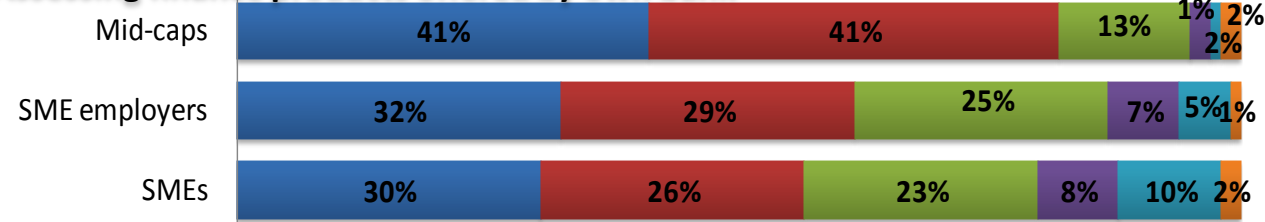
33%/35%

65%/9%

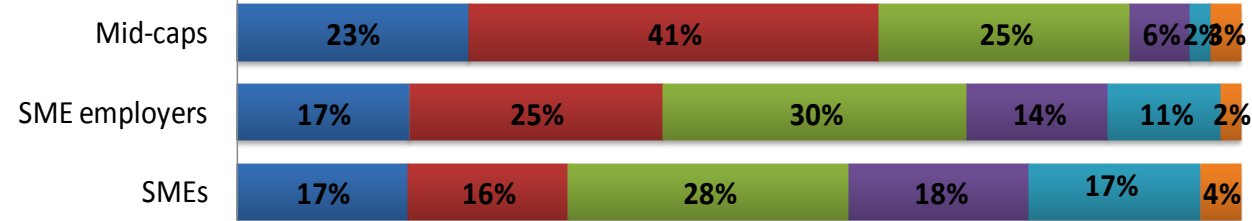
44%/26%

34%/37%

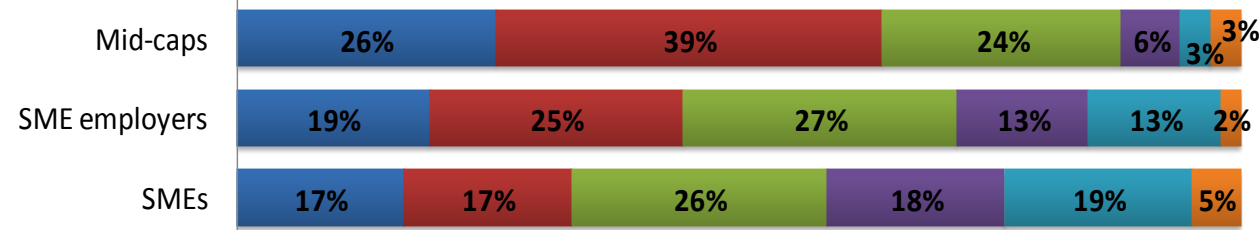
Assessing finance products offered by own bank



Assessing finance products offered by other providers



Applying for external finance

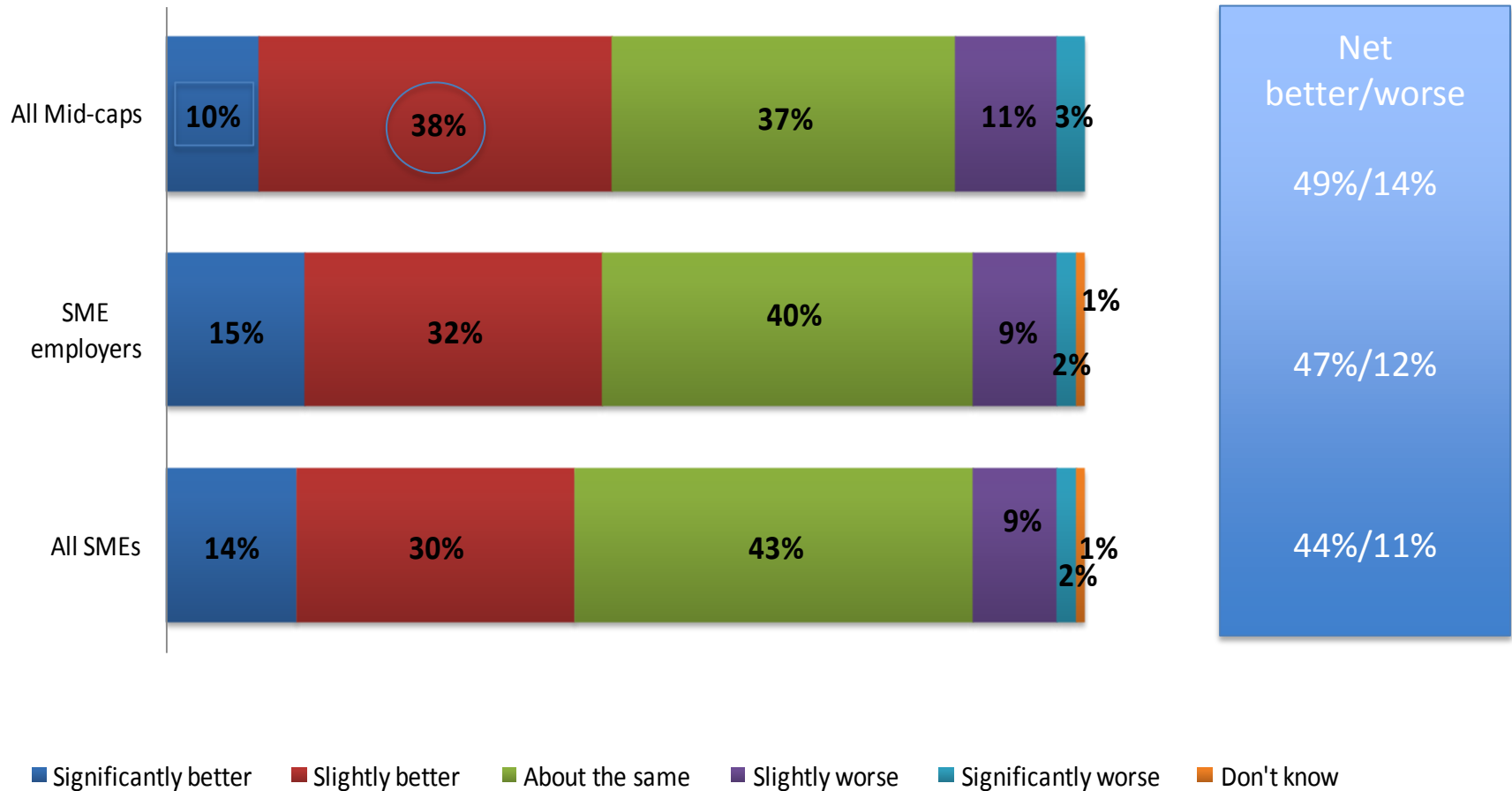


Very confident Somewhat confident Neither Somewhat unconfident Not at all confident DK

5) Use of external finance in future

Mid-caps have fairly similar expectations about future trading conditions as SMEs

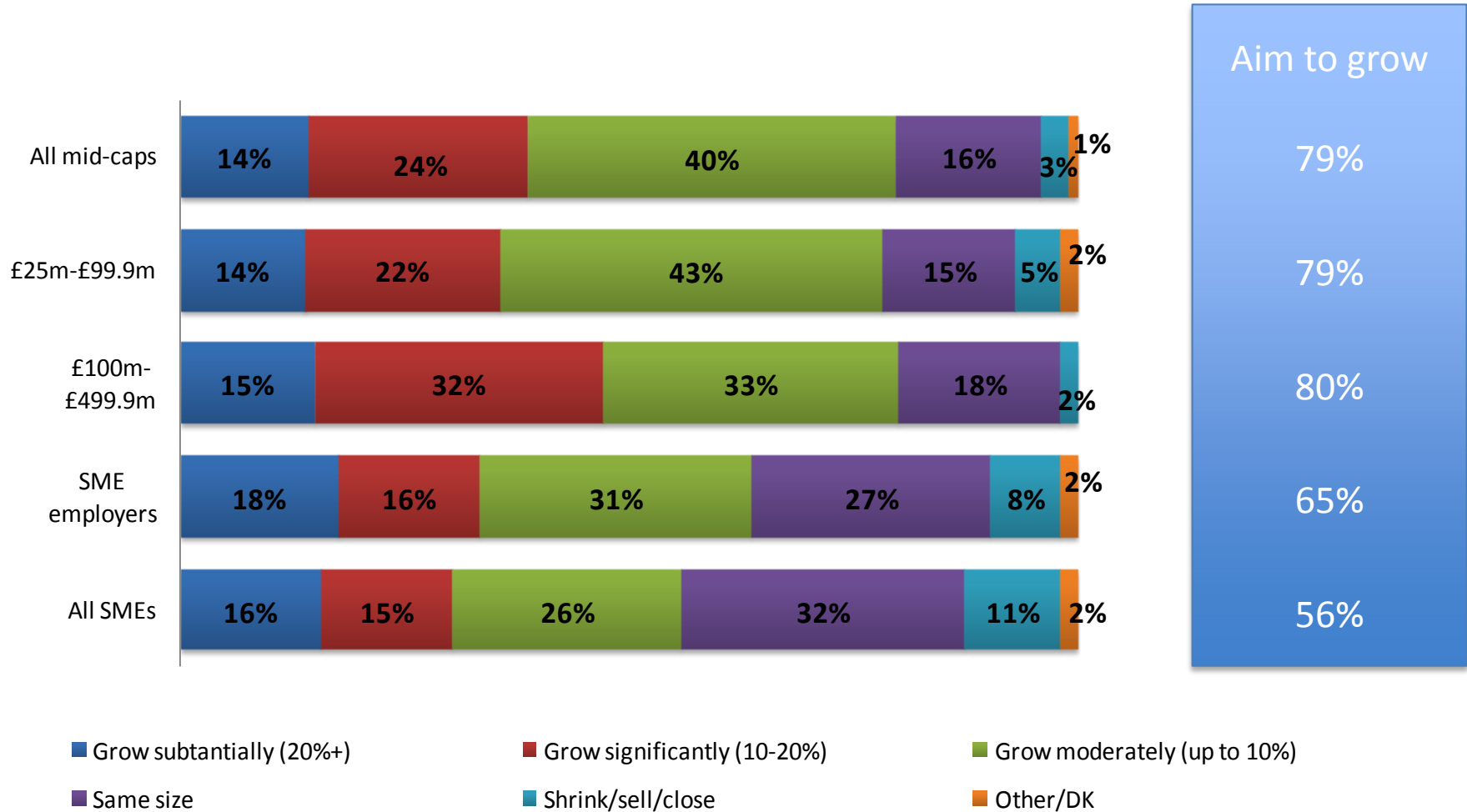
Whether trading conditions will be better or worse in the next 12 months



Base = all mid-caps/SMEs (300/1,608). Question B3h (single code, prompted)

But a greater proportion of mid-cap businesses are aiming to grow

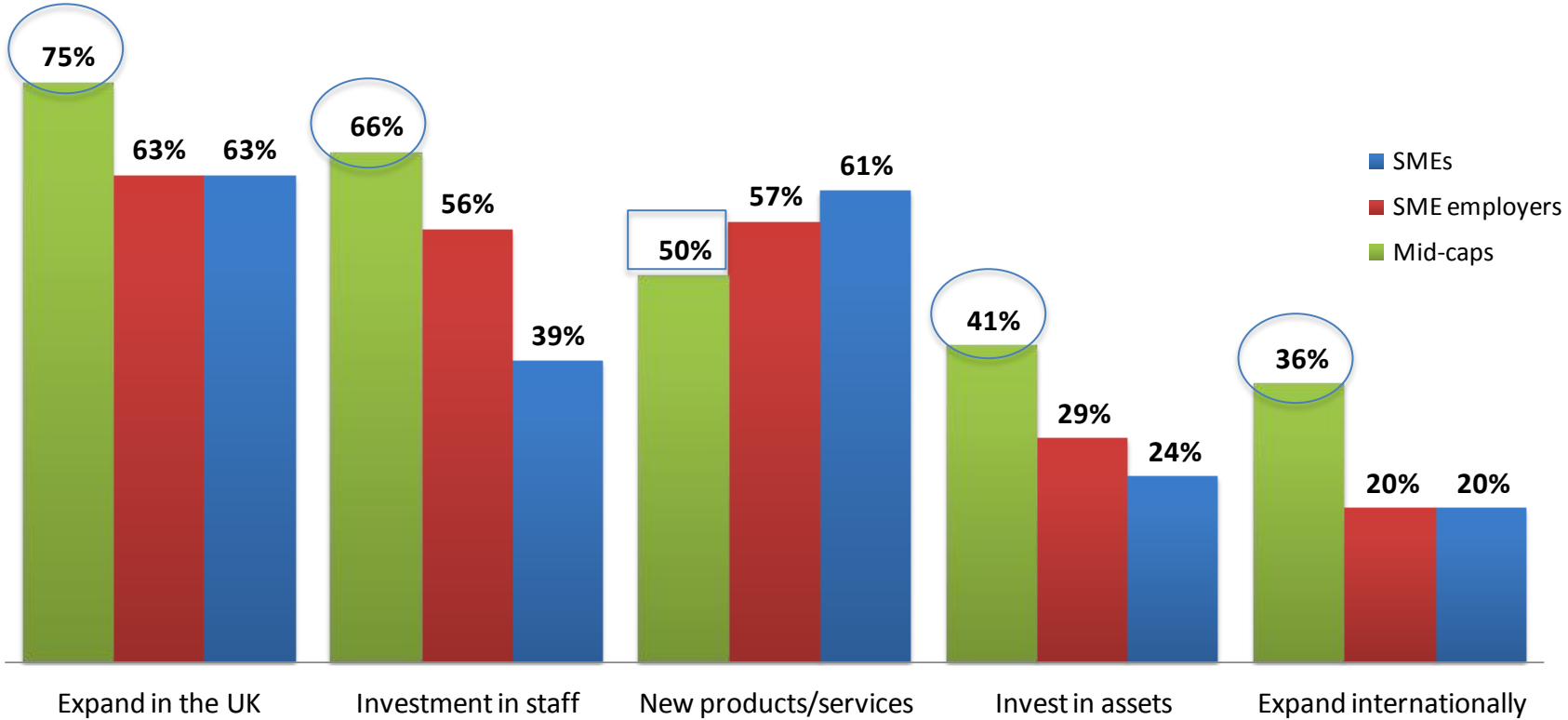
Growth ambitions (increase turnover in next 12 months)



Base = all mid-caps/SMEs (n=300/1,608). Question B3c (single coded, prompted)

Mid-caps are more likely to be taking active steps to achieve growth but less likely to introduce new products/ services

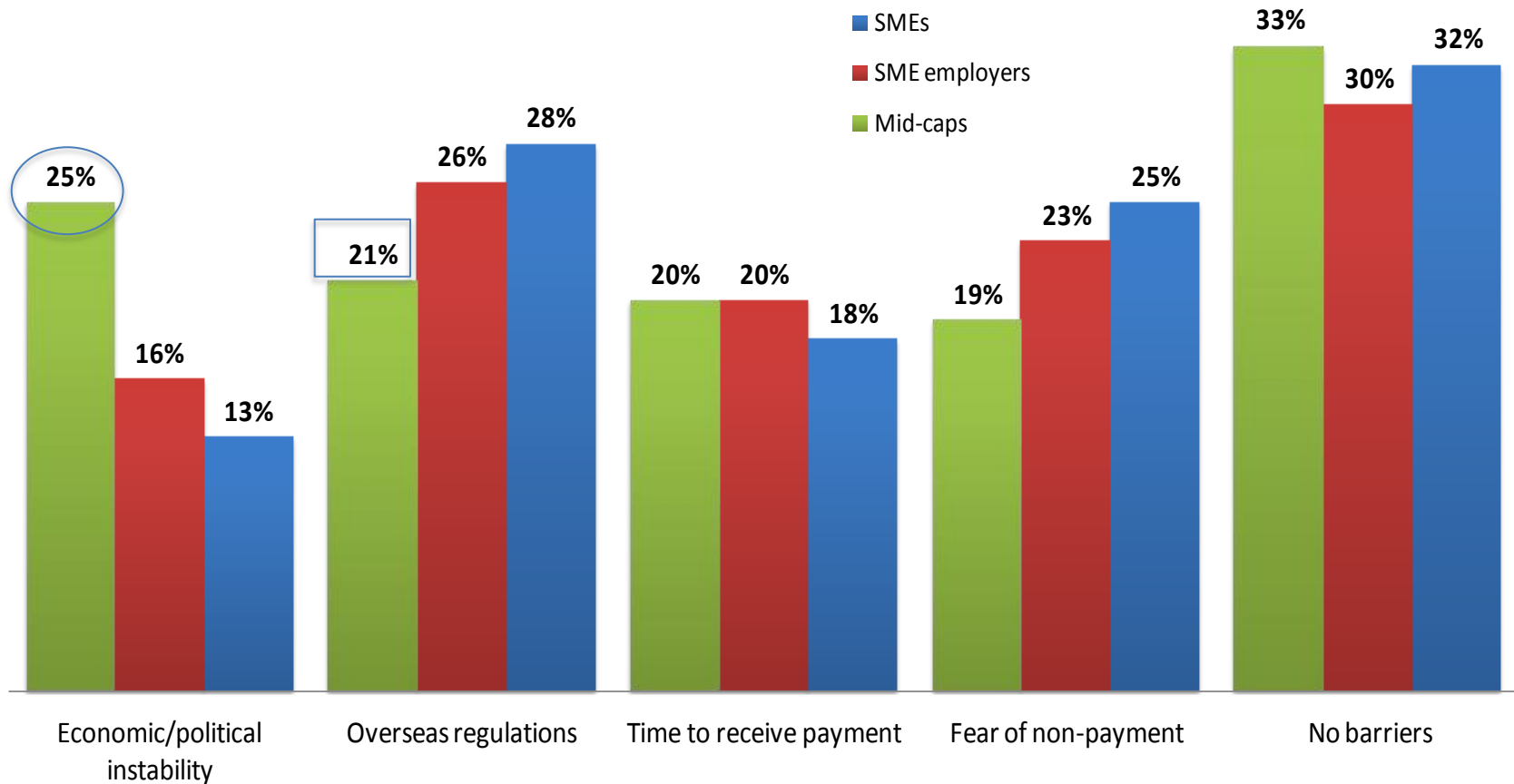
Ways in which growth will be achieved



Base = all mid-caps/SMEs that intend to grow (237/1043). Question B3d (multi code, prompted)

Overseas regulations are perceived to be less of a barrier to exporting than for SMEs

Main barriers to exporting



Base = all mid-caps/SMEs that export or have exportable goods/services (213/707). Question C20

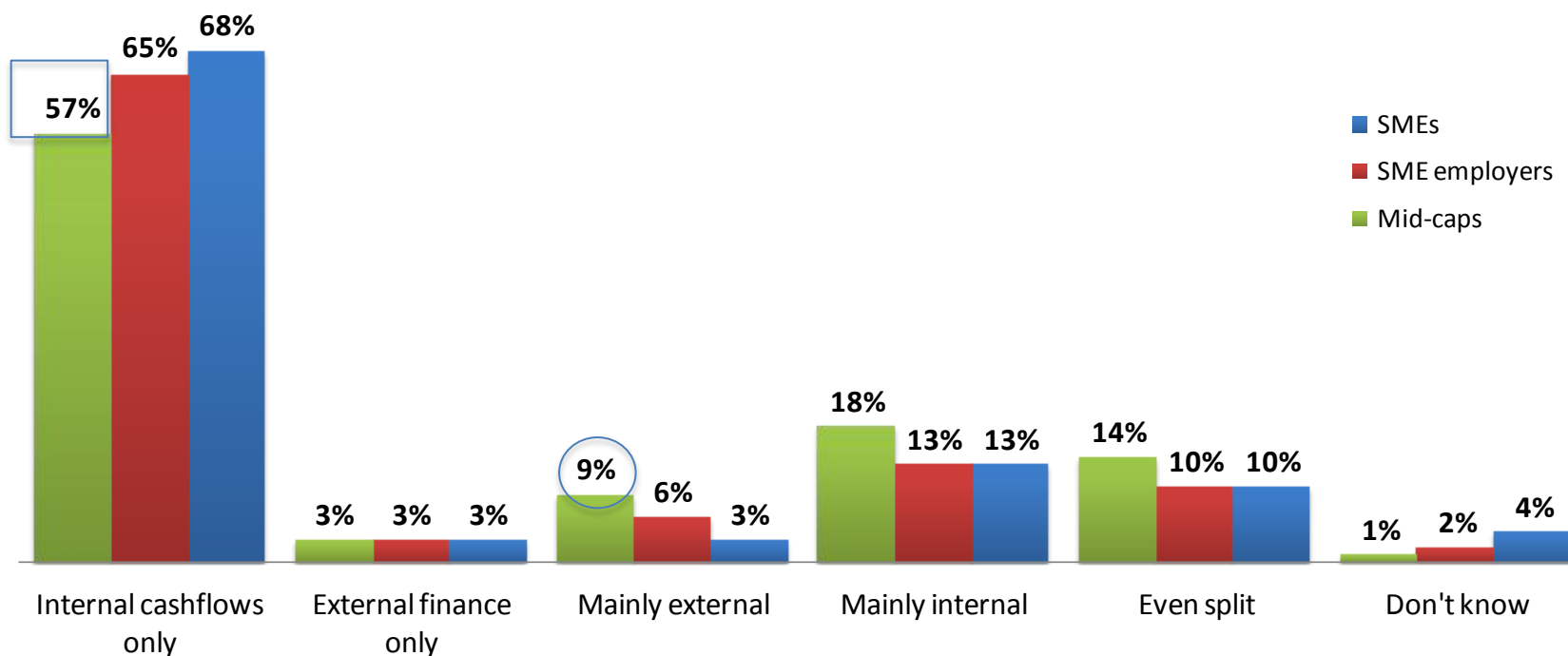
(multi code, prompted)

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Mid-caps are more willing to consider using external finance to fund growth

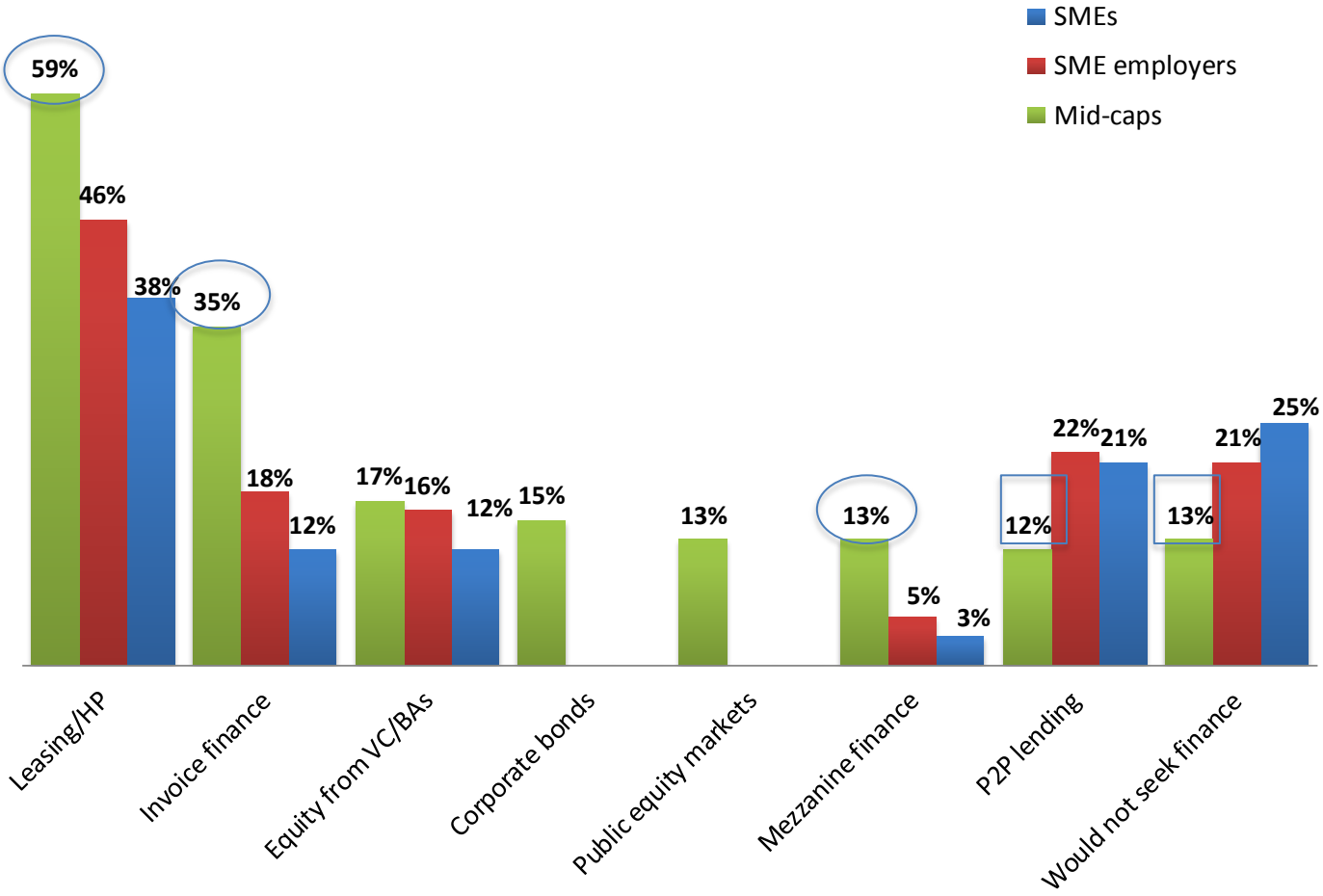
How future growth will be funded



Base = all mid-caps/SMEs that intend to grow (237/1043). Question B3e (single code, prompted)

Mid-caps are more willing than SMEs to use alternative sources of funding and less likely to be put off seeking finance

If had difficulties raising finance in future from a bank, which other forms of finance would be considered



Base = all mid-caps/SMEs (300/1,608). Question B8 (multi code, prompted)

Conclusions

- Although there is considerable overlap between the mid-cap definition based on turnover and the SME definition based on employment, mid-cap businesses are older, more likely to be incorporated and more likely to use formal business processes compared to SMEs.
- Mid-cap businesses are more likely to be using and seeking external finance than SMEs. Mid-cap businesses also seek larger amounts of finance with bank loans, bank overdrafts and leasing/ HP being the main types of finance sought.
- Mid-cap businesses are more likely to obtain finance compared to SMEs, with 92% obtaining some finance from first provider contacted.
- Mid-cap businesses are confident in their ability to assess different finance options, with higher awareness of different finance types and suppliers and are also more likely to shop around for finance than SMEs.
- A high proportion of mid-cap businesses (79%) are aiming to grow in the next 12 months.

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