

Small Business Finance Markets 2014



Matt Adey

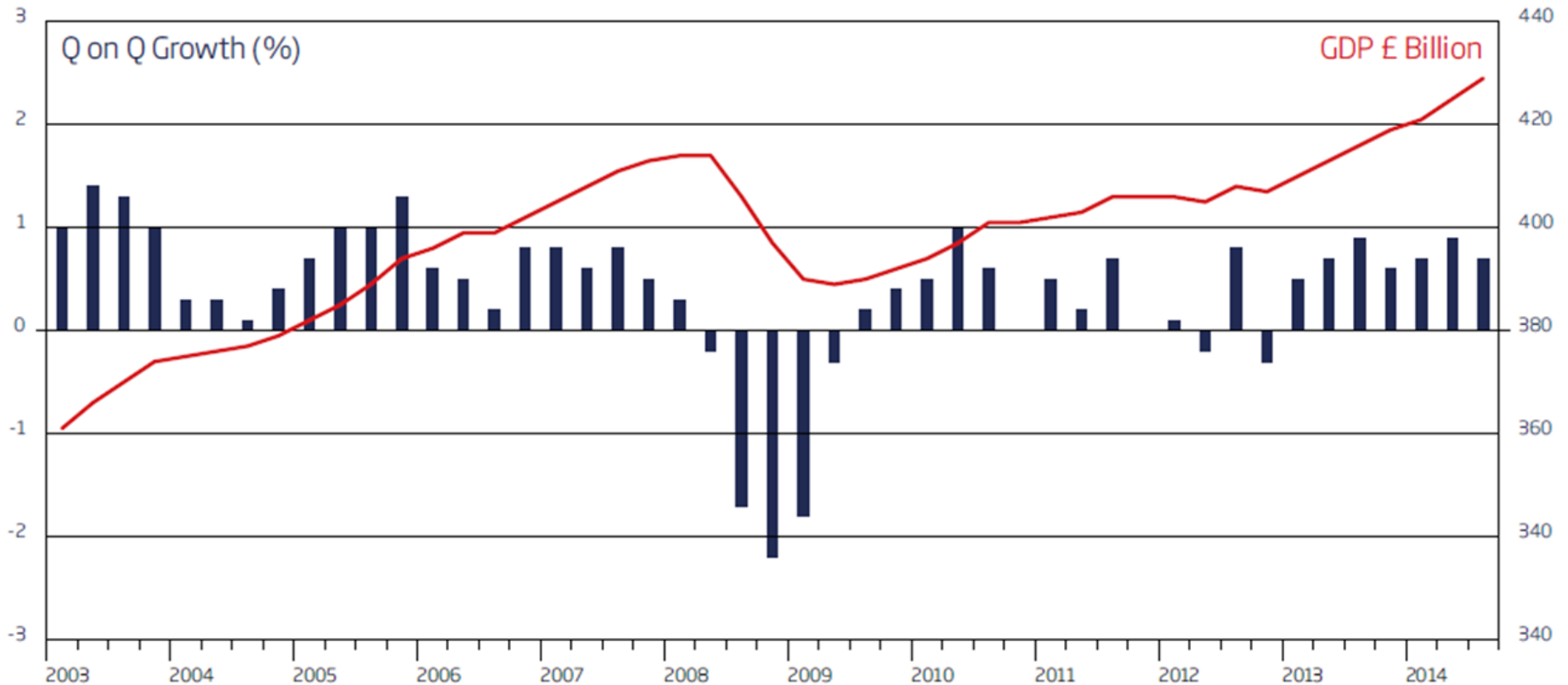
Director, Market Analysis Team

HEADLINE MESSAGES

- **More small businesses will seek finance for growth**
- **A more diverse and vibrant supply of finance is needed**
- **Awareness and understanding of the range of finance options is not yet comprehensive enough**

The economy is now recovering...

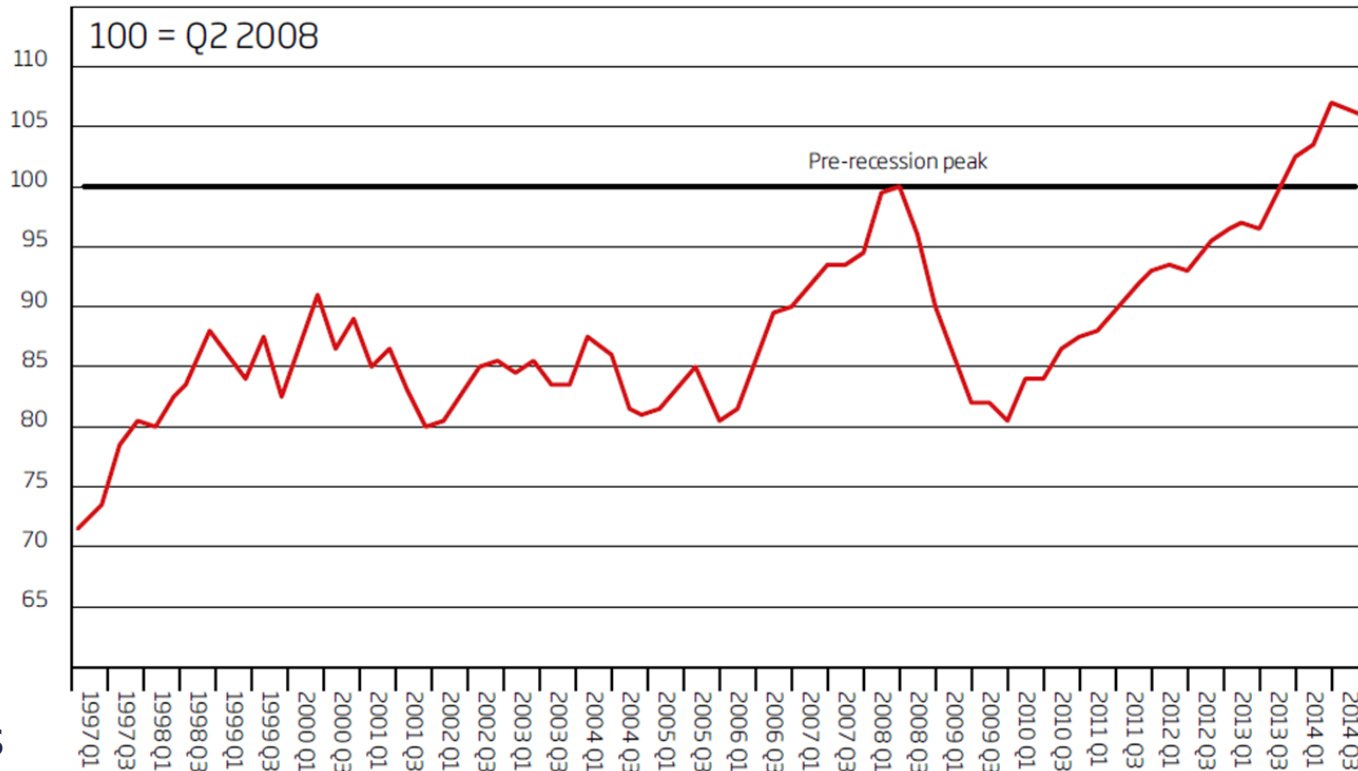
UK REAL GDP GROWTH, QUARTER-ON-QUARTER AND QUARTER ON SAME QUARTER A YEAR AGO, CONSTANT PRICES, SEASONALLY ADJUSTED, %



Source: ONS

Investment has recovered.....

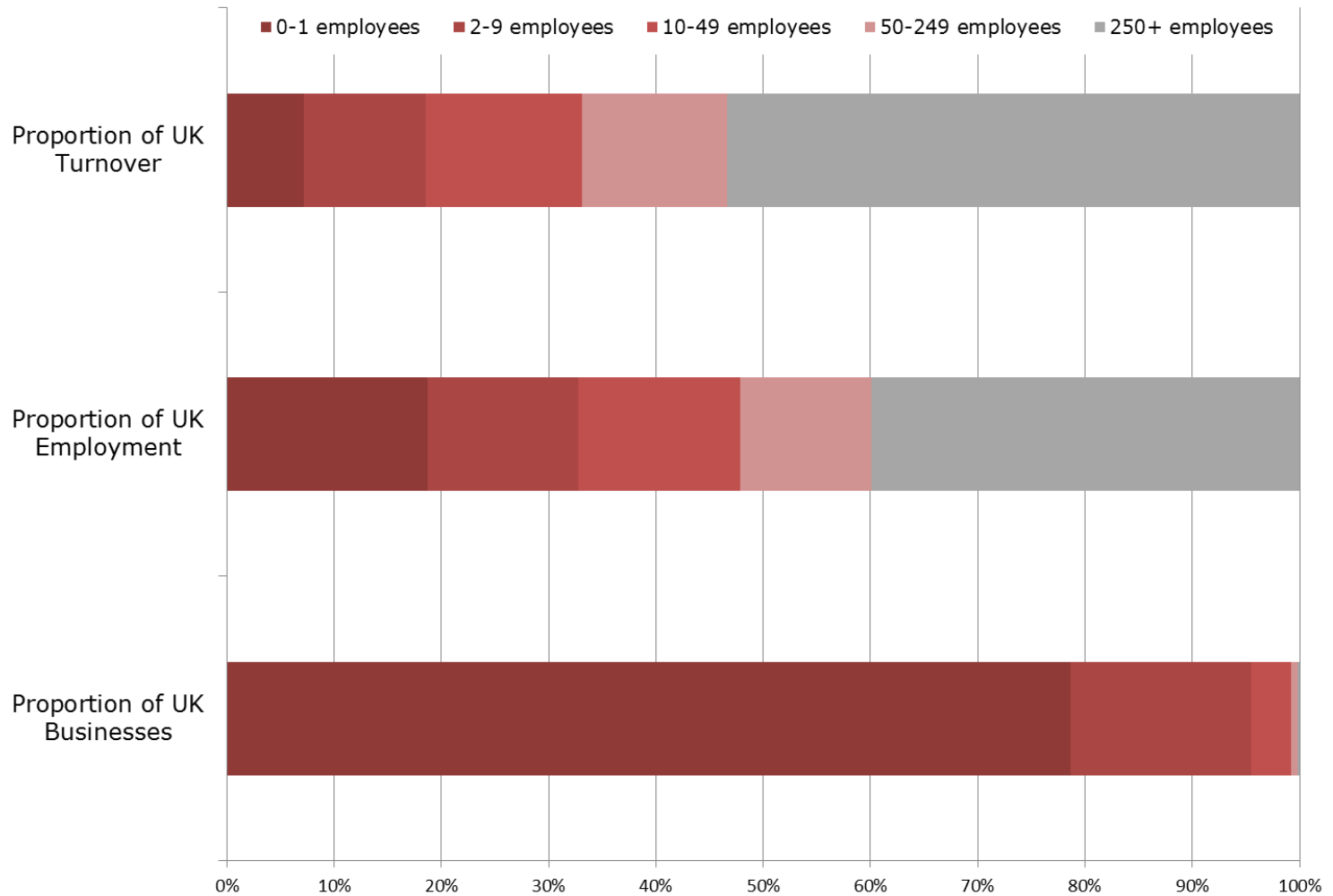
UK BUSINESS INVESTMENT



Source: ONS

- Smaller businesses have accounted for a smaller share of total business investment (38%) in the UK than in other major European economies

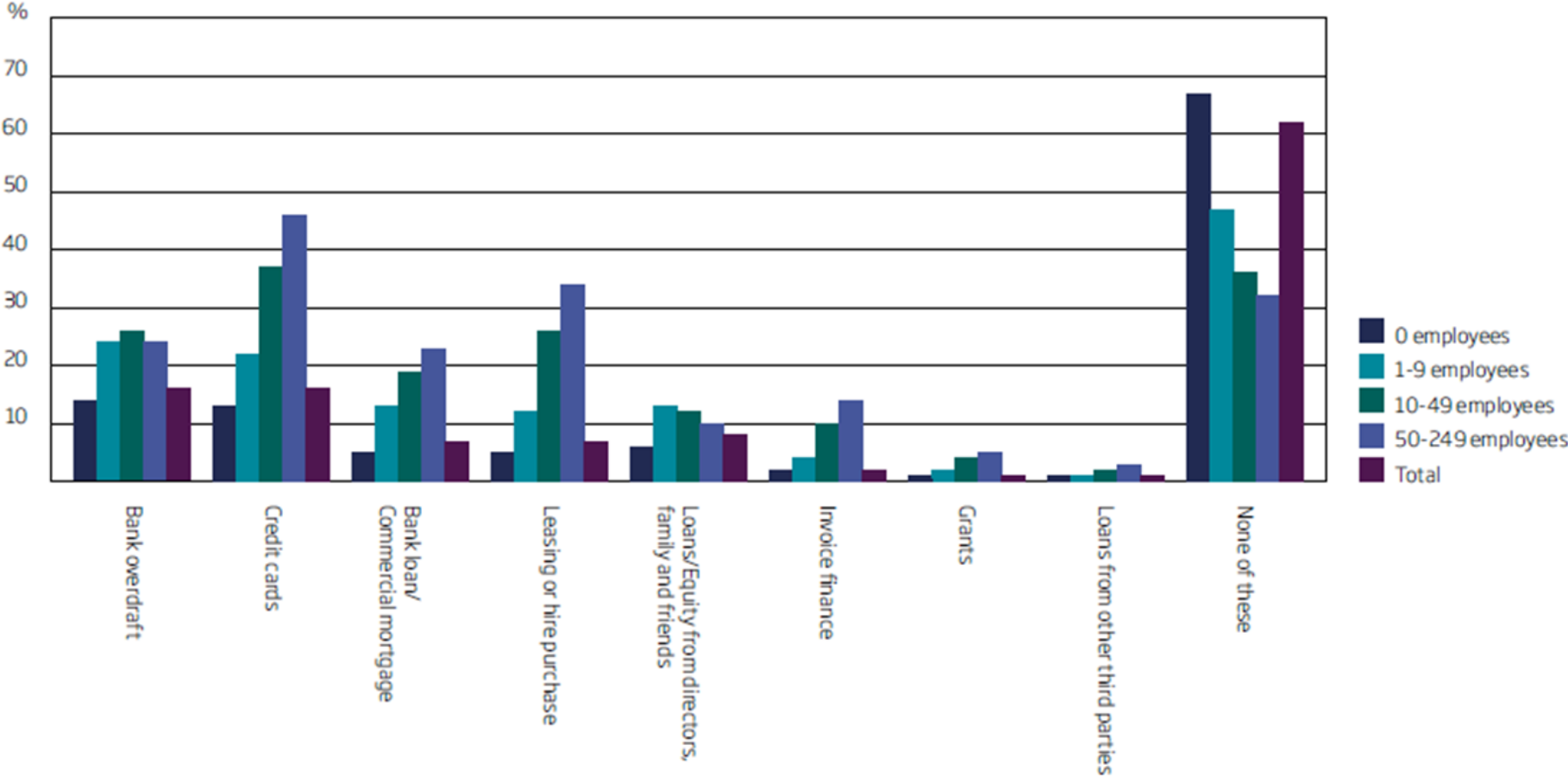
SMEs are important part of the economy



Source: Business Population Estimates, 2014

Most SMEs don't use external finance

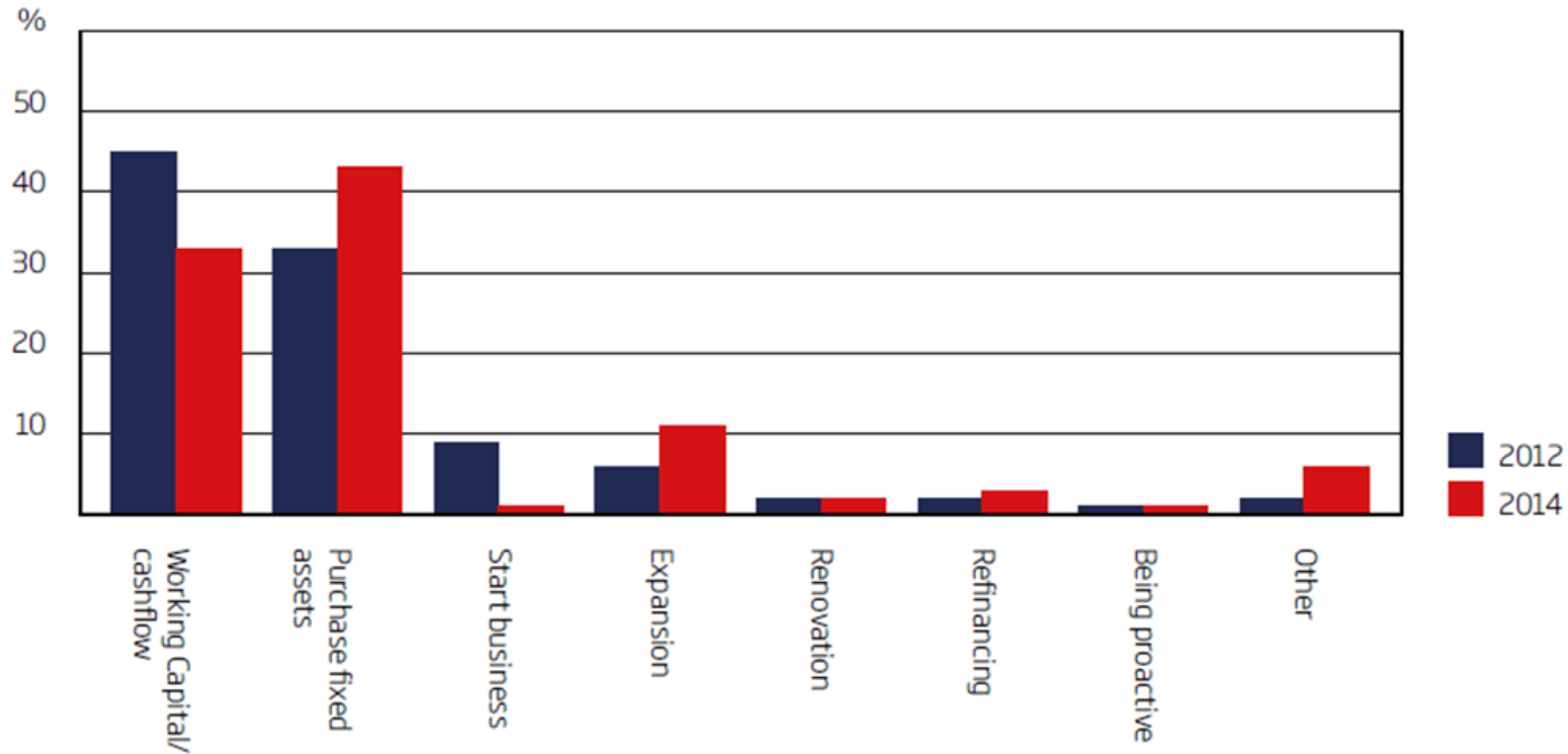
EXTERNAL FINANCE USED BY SMEs



Source: SME Finance Monitor

Finance is increasingly used for growth

MAIN REASON FOR SEEKING FINANCE (LAST OCCASION IN LAST THREE YEARS)

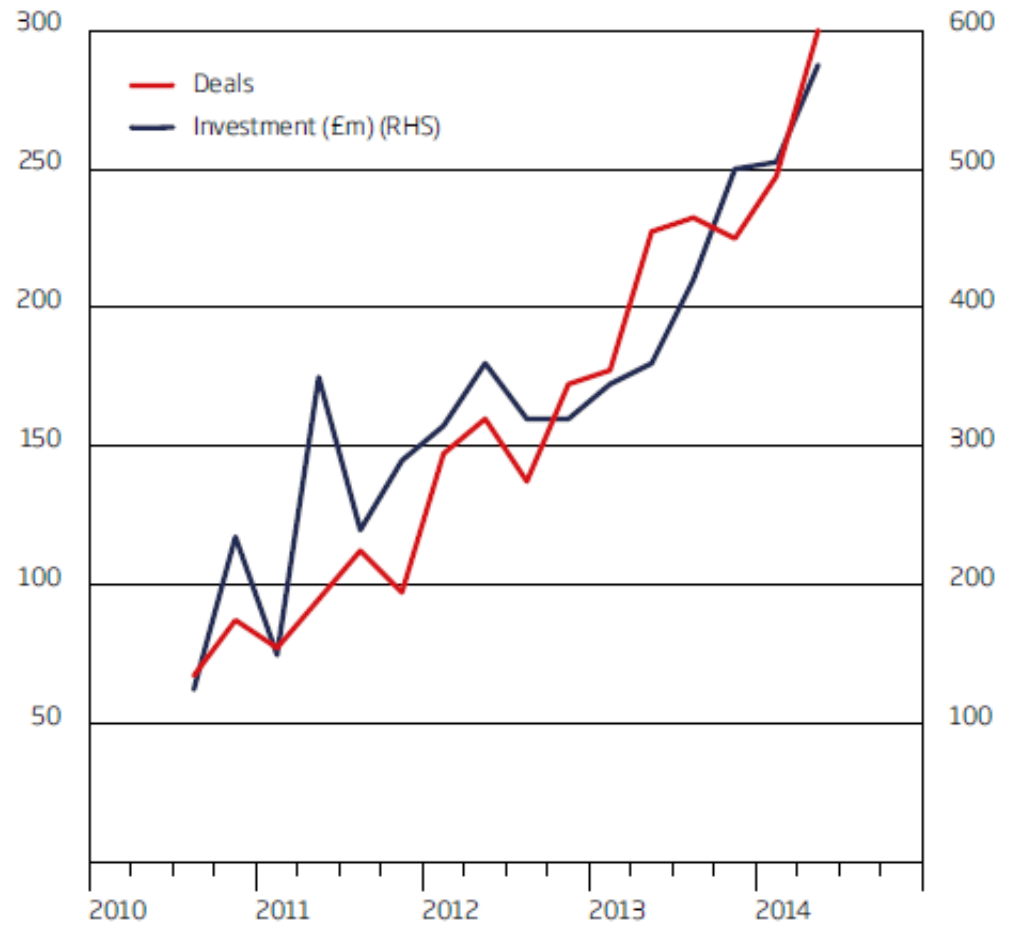


Source: BMG SME Journey Survey

Strong growth in private equity for SMEs

NUMBER OF EQUITY DEALS AND VALUE OF INVESTMENT OVER TIME

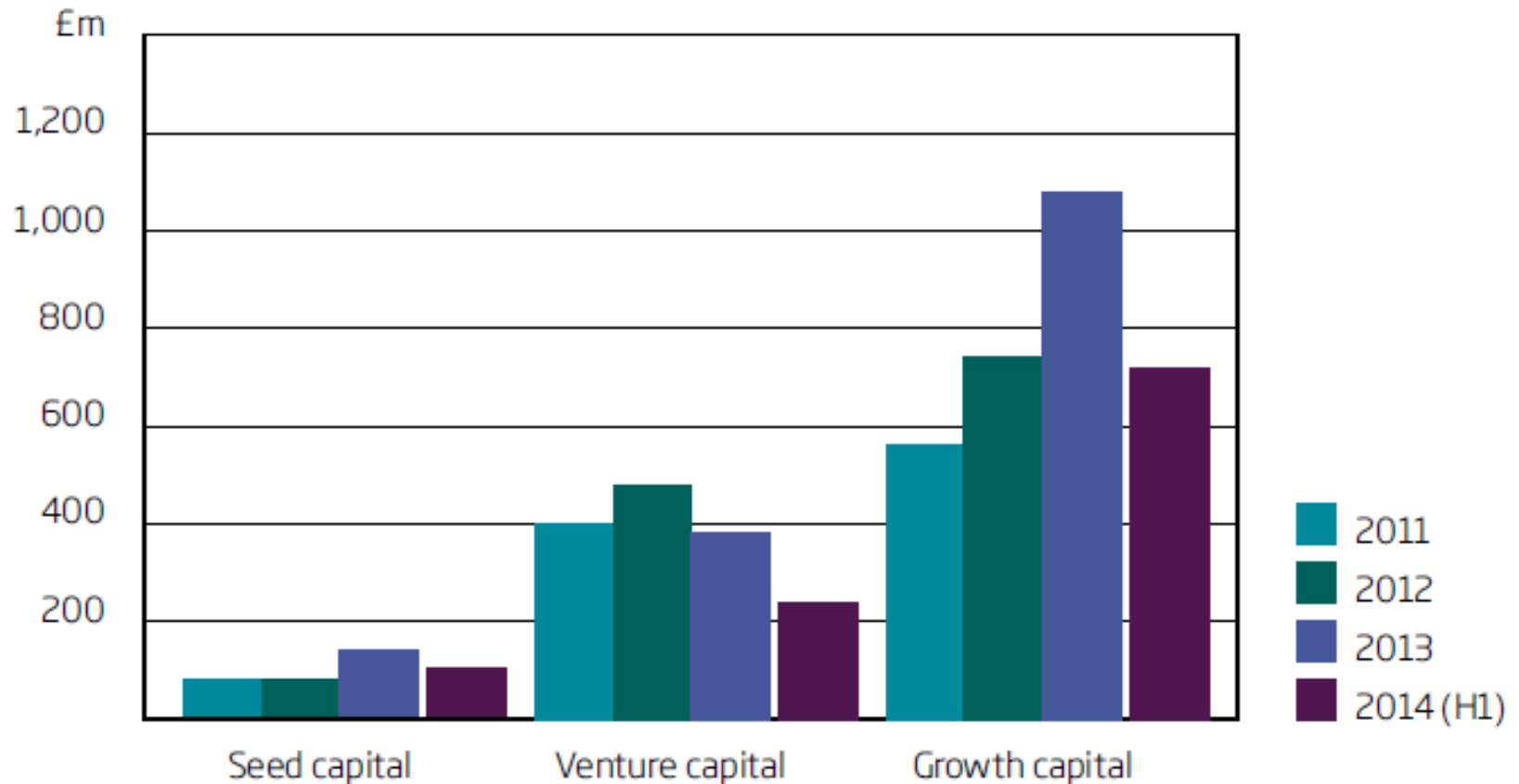
- New data prepared for the Bank and BIS by Beauhurst
- Shows growth in private external equity investment in SMEs since 2010



Source: Beauhurst

Gaps remain - late stage VC flat...

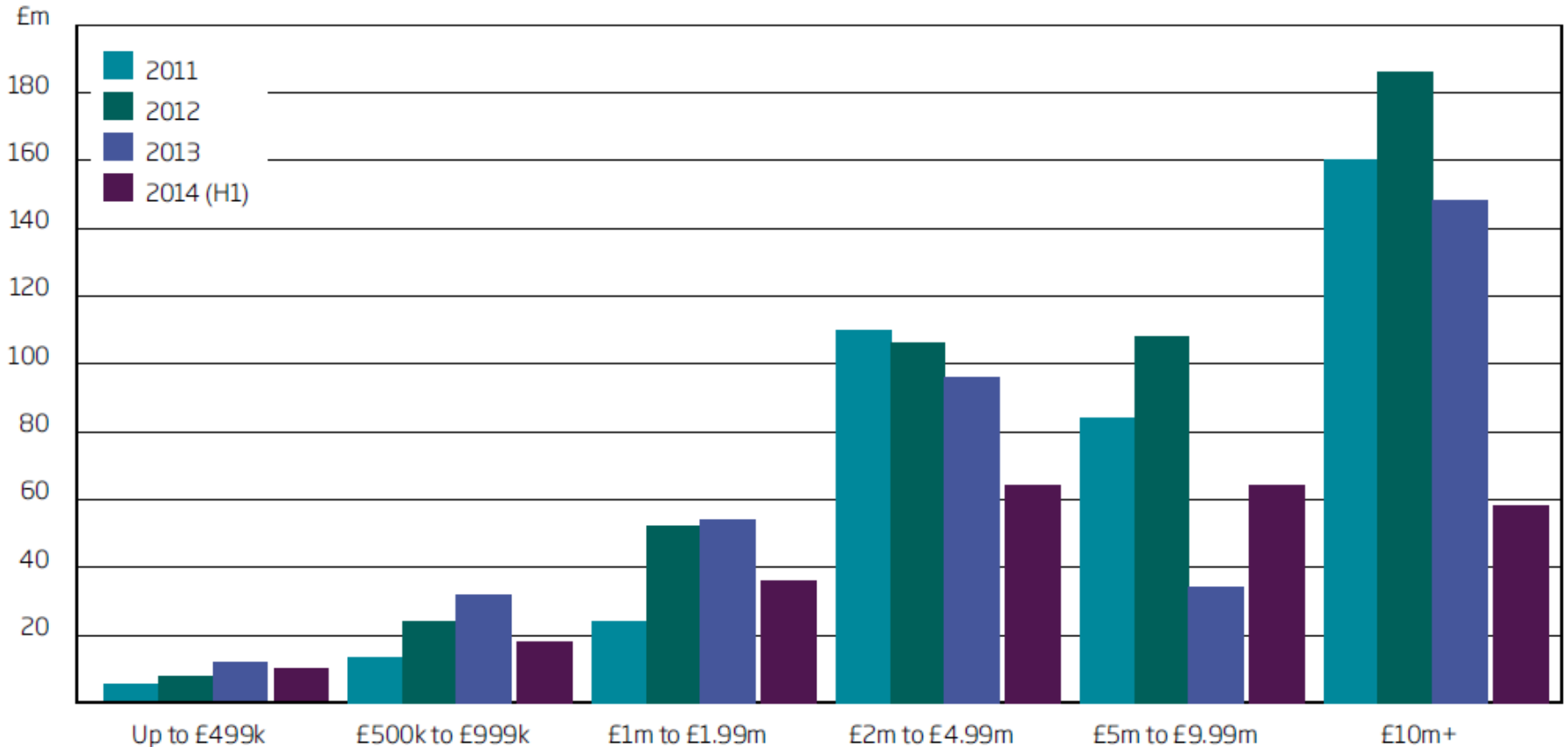
INVESTMENT BY STAGE



Source: Beauhurst

With falls in £2-5mn range in 2012 & 2013

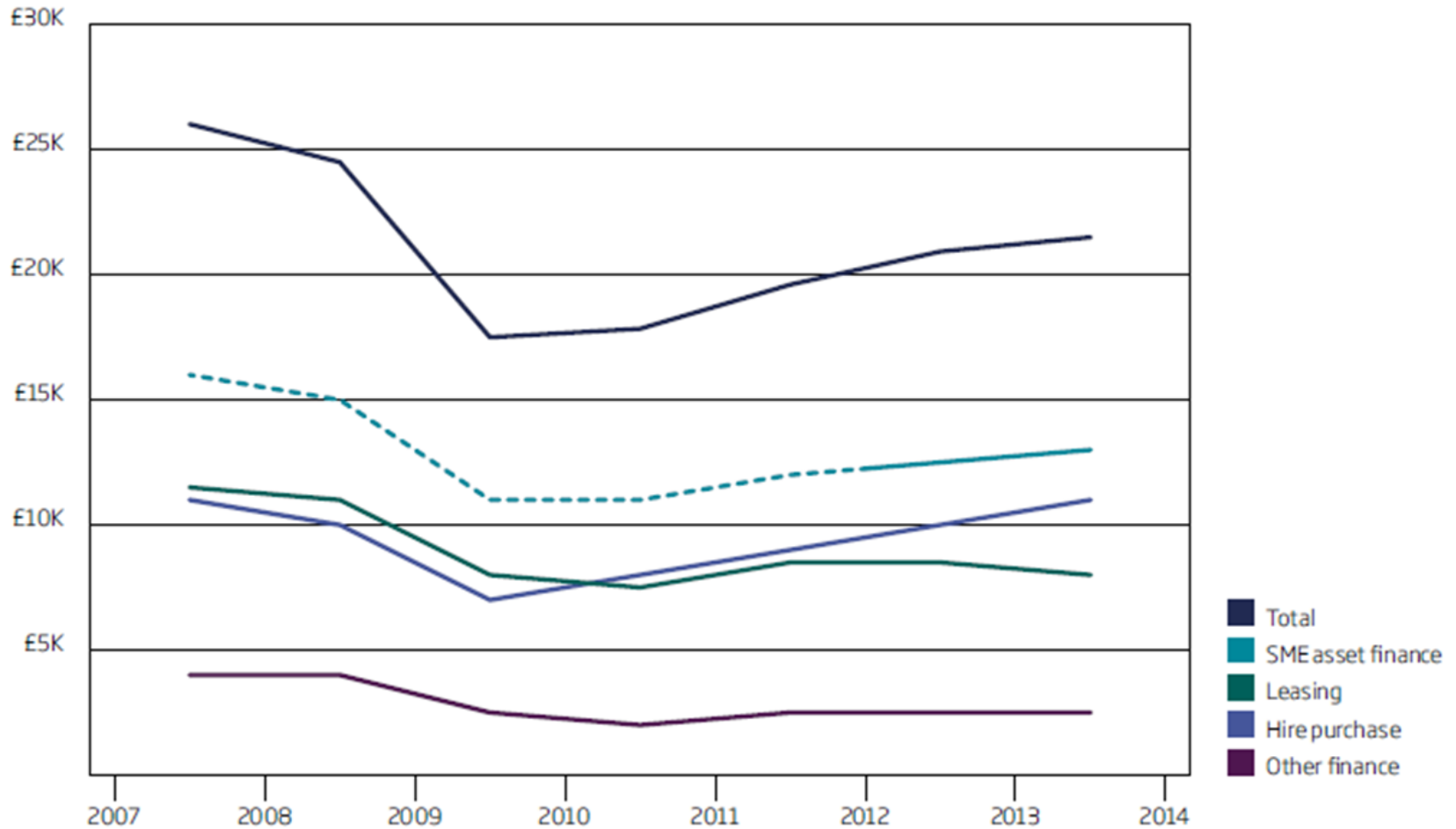
VENTURE INVESTMENT BY DEAL SIZE



Source: Beauhurst

And for those seeking to invest in assets, we have seen some recovery in the SME asset finance market

SIZE OF UK ASSET FINANCE MARKET FOR BUSINESSES 2007-2013

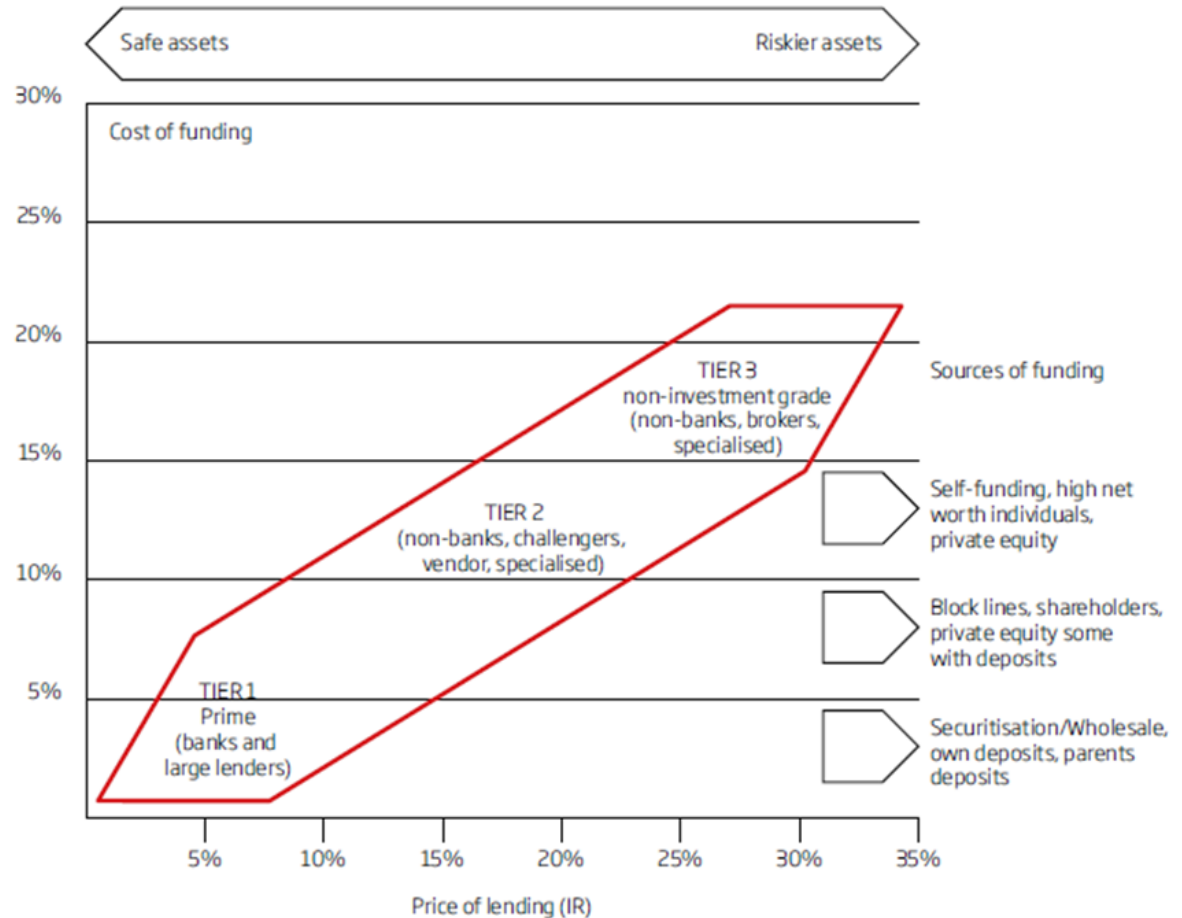


Source: FLA, British Business Bank

Diversity of supply in asset finance

- But small asset finance providers are more likely to face funding constraints

STYLISTED REPRESENTATION OF THE ASSET FINANCE MARKET



Source: British Business Bank

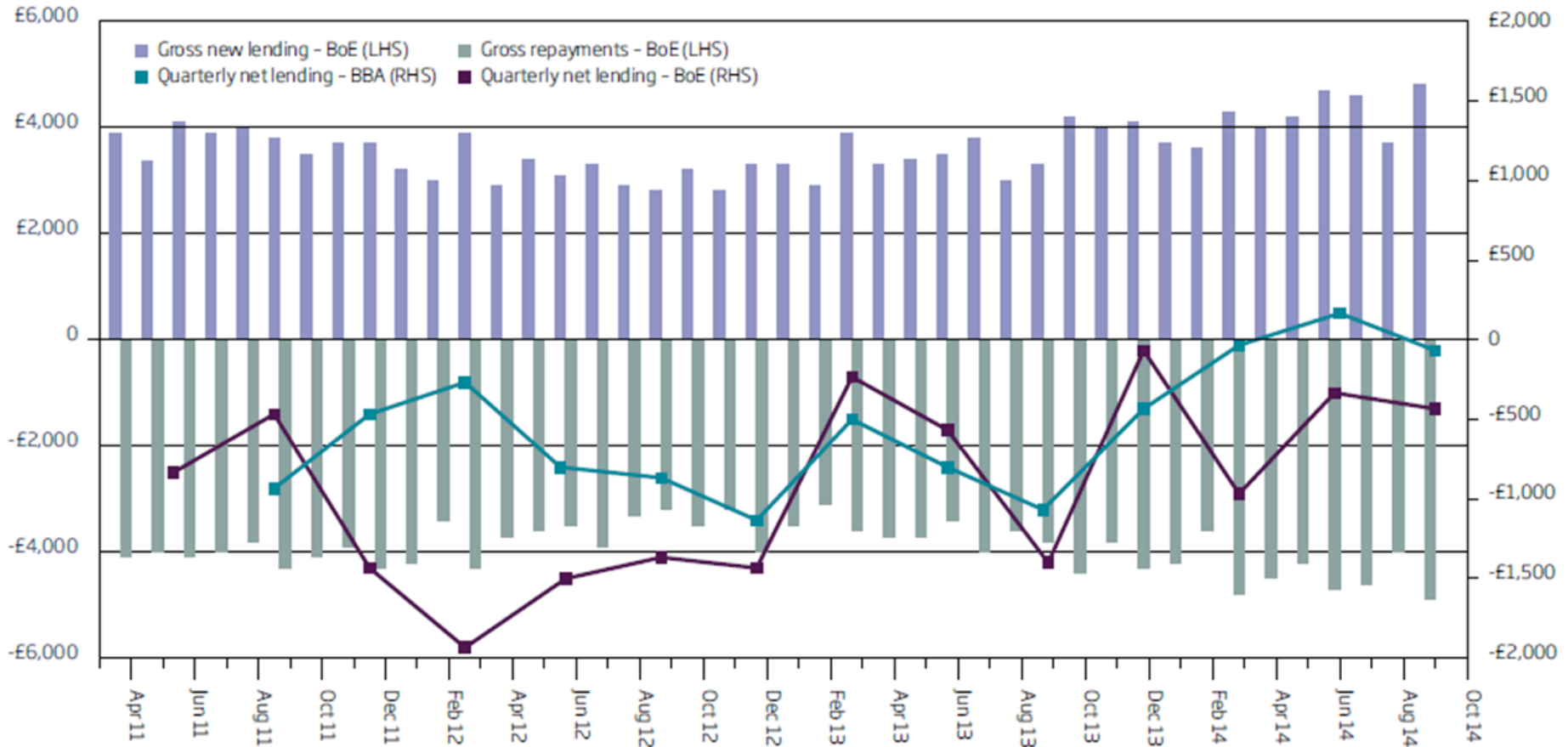
Traditional lending largest finance flow to SMEs

ESTIMATES OF THE FLOWS OF SELECTED TYPES OF EXTERNAL FINANCE FOR UK SMES ^(a)

		2011	2012	2013	2014	
Bank Lending Stock	Outstanding Amount ^(c)	189	176	166	171	to Sept
<i>Source: Bank of England^(b)</i>						
Bank Lending	Net flows £ billions ^(d)	-	-8	-4	-3	to Sept
<i>Source: Bank of England^(b)</i>						
	Gross flows £ billions ^(e)	-	38	43	38	to Sept
Other Gross Flows of SME Finance						
Private external Equity £ billions		1	1.3	1.6	1.1	H1 only
<i>Source: Beauhurst^(f)</i>						
	of which Equity Crowdfunding	0.0016	0.0027	0.019	0.024	H1 only
	No. of Reported Deals	383	619	860	545	H1 only
	No. of Deals (Known Amounts)	277	432	611	418	H1 only
Asset Finance £ billions		-	12.5	13.1	-	
<i>Source: FLA^(g)</i>						
Peer-to-Peer Business Lending £ billions		0.02	0.06	0.25	0.55	to Oct 14
<i>Source: AltFi Data^(h)</i>						
Peer-to-Peer Invoice Financing £ billions		0.003 ⁽ⁱ⁾	0.04	0.10	0.22	to Oct 14
<i>Source: AltFi Data^(h)</i>						

Gross lending has increased but so have repayments

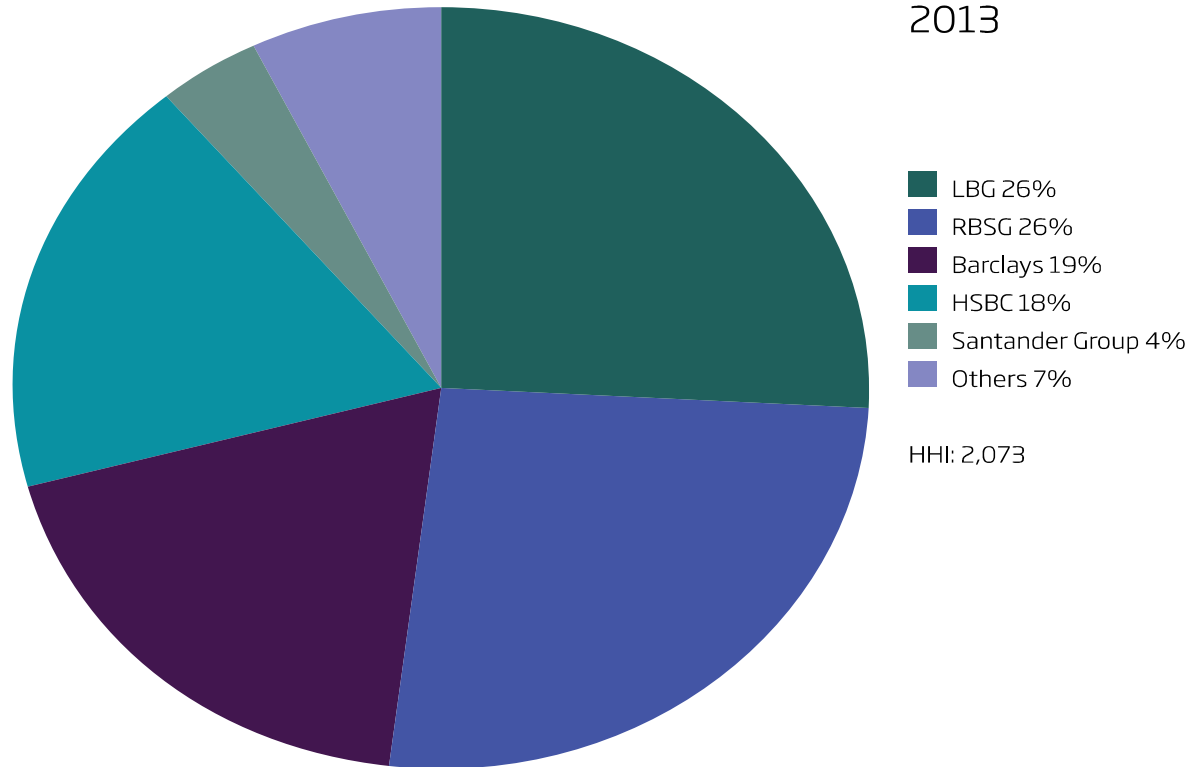
GROSS AND NET FLOWS OF BANK LOANS TO SMES (£MILLIONS)



Source: Bank of England Bankstats and BBA SME Statistics

CMA investigation on SME banking

VOLUME SHARES OF BUSINESS LOANS IN ENGLAND AND WALES, YEAR TO Q1 2013



Source: CMA
Market Study

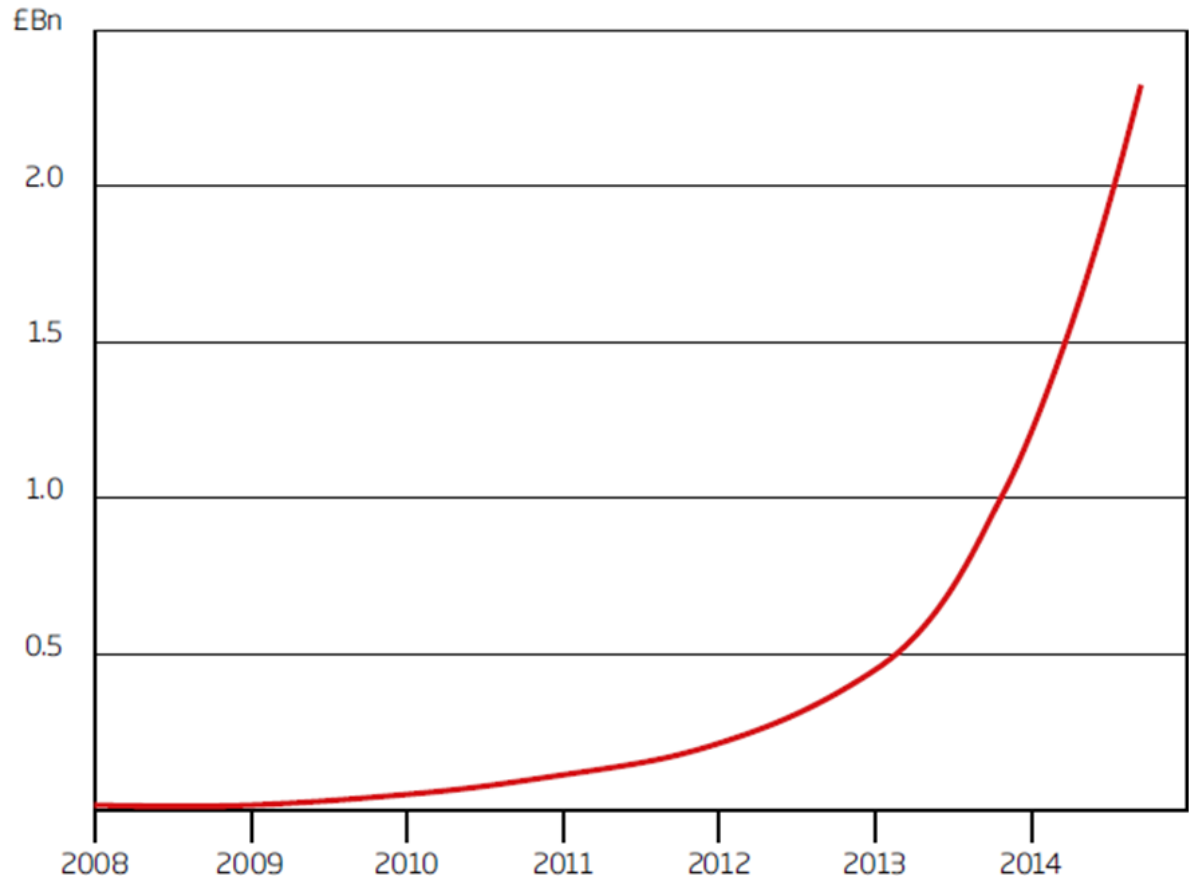
- Latest CMA study suggests that market is concentrated among a small number of large banks

Online platforms have seen rapid growth...

- Volumes have grown significantly but remain less than 2% of bank lending

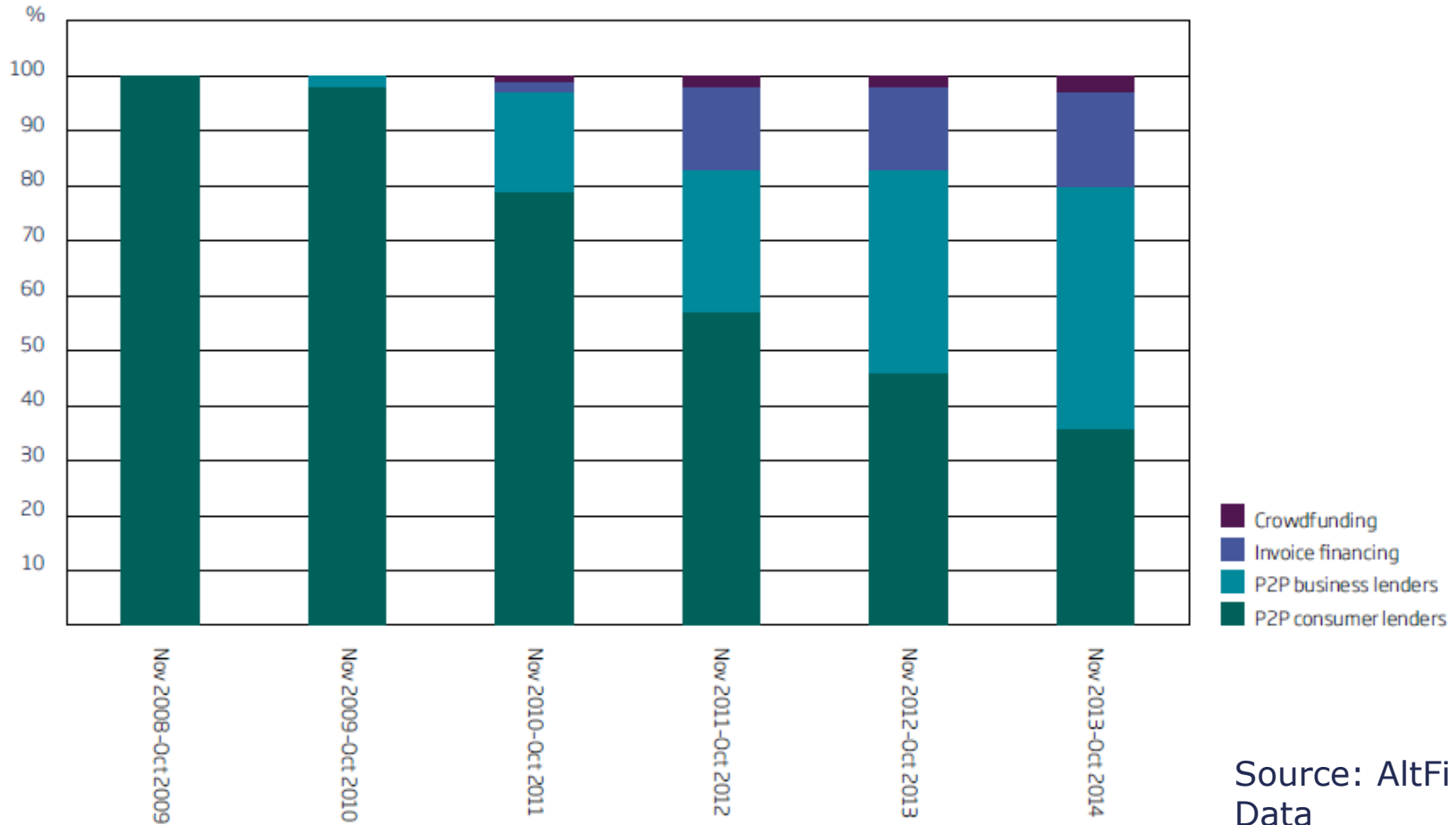
Source:
Liberium AltFi

LIBERIUM ALTFI VOLUME INDEX (CUMULATIVE FINANCING VOLUMES)



P2P lending to business > consumer

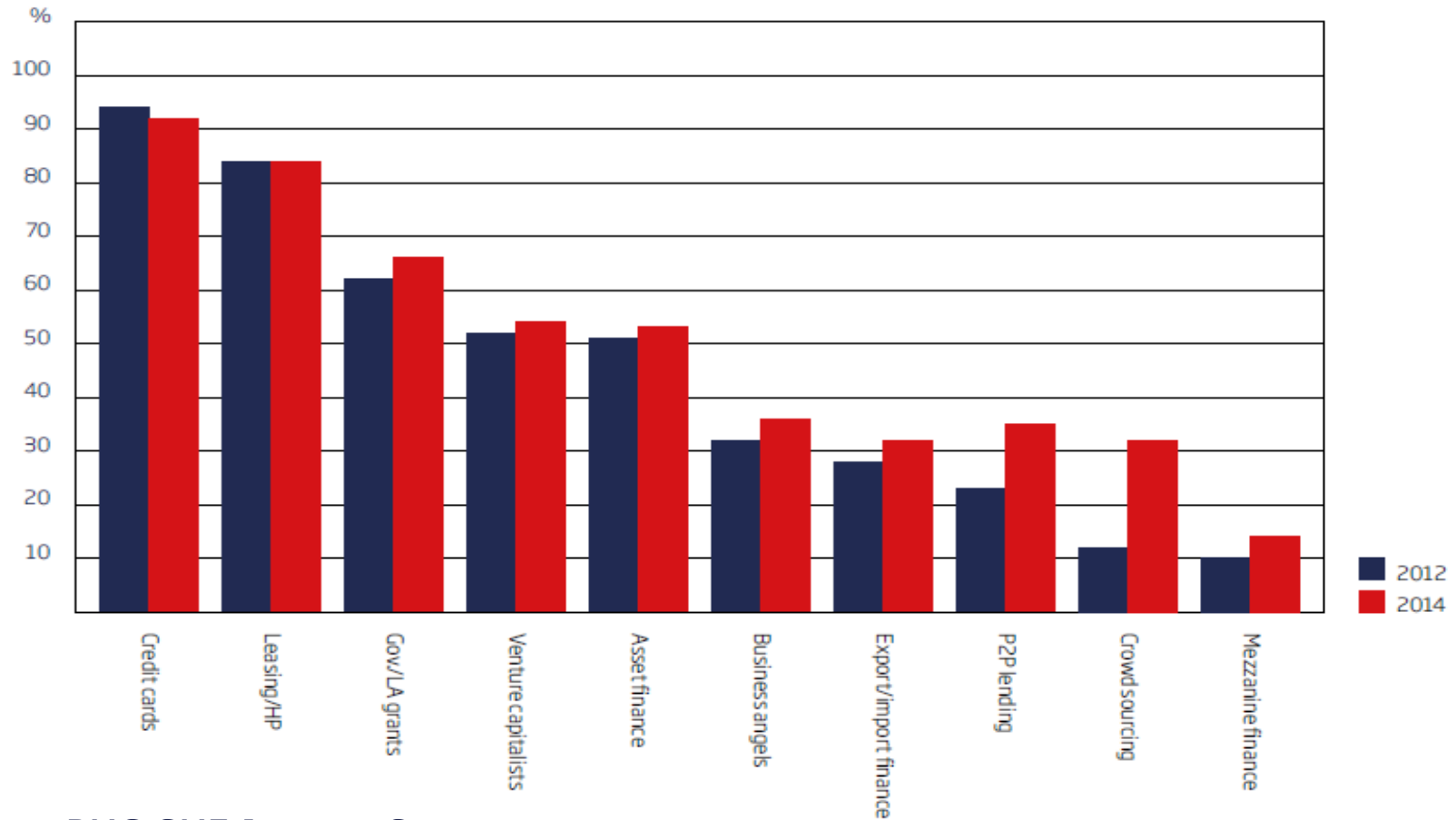
**ALTFI DATA SHOWING MARKET SHARE BY PLATFORM TYPE
(BASED ON 12-MONTHS TO OCTOBER)**



Source: AltFi
Data

Awareness of alternative forms increased

AWARENESS OF DIFFERENT FORMS OF EXTERNAL FINANCE



Source: BMG SME Journey Survey

Small proportion of SMEs are discouraged

- 58% of SMEs perceive that it is fairly, or very difficult to obtain funding
- SMEs perceive that on average 42% of those that apply for bank finance were successful in getting it
- BUT the majority of SMEs that actually applied for finance get the full amount requested from the first provider approached
- SME Finance Monitor estimates around 3% of SMEs are discouraged from applying for finance

CONCLUSIONS

- **More small businesses will seek finance for growth**
- **A more diverse and vibrant supply of finance is needed**
- **Awareness and understanding of the range of finance options is not yet comprehensive enough**

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