

SME Market Update

April - October 2010

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1. Funding Market

Are Banks Lending to SMEs Yet?

Despite statistics from the British Bankers' Association that banks are approving more and more new facilities, we are finding that it is still incredibly hard to raise new finance for most SMEs. Banks are insisting on full security, a good track record, and trying to access the Enterprise Finance Guarantee Scheme if you are a smaller business, is tough.

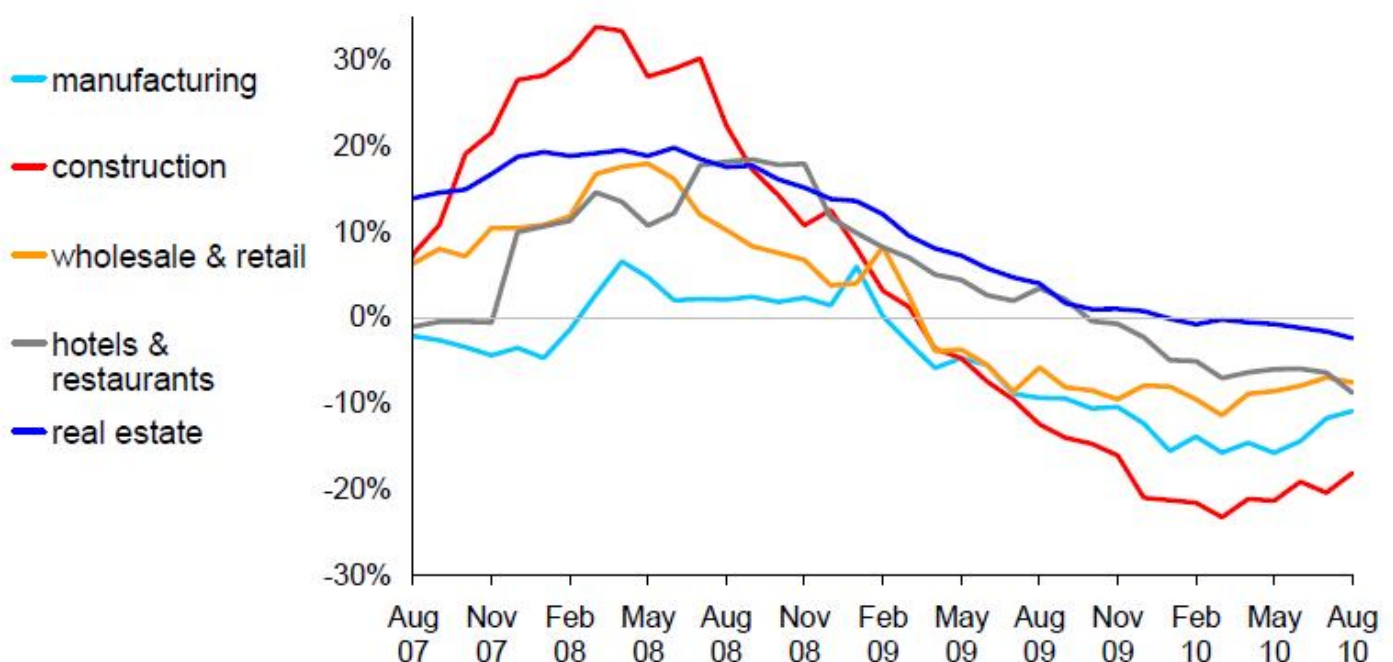
The BBA reported in August 2010 that "Lending to non-financial companies remains weak" - see the chart below.

The requirement for a well researched business plan and projections is more important than ever. The plan needs to be well laid out, be written with the particular reader in mind, and should pack a punch!

Kirsty McGregor, Chairman comments:

"Don't forget the importance of being prepared for your bank overdraft renewal meeting. Bank relationship managers will be re-assessing your existing lending facilities at this point, and because their own internal requirements for calculating lending risk are now much stricter, they will be focusing on your business intently."

company borrowing annual growth rates



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What about the ABL market?

The Asset Based Finance Association (ABFA) reported at the end of Q2 that there had been a growth in advances by their members of 2%, compared with this time last year, and they were now advancing more than they were at any time in the last year.

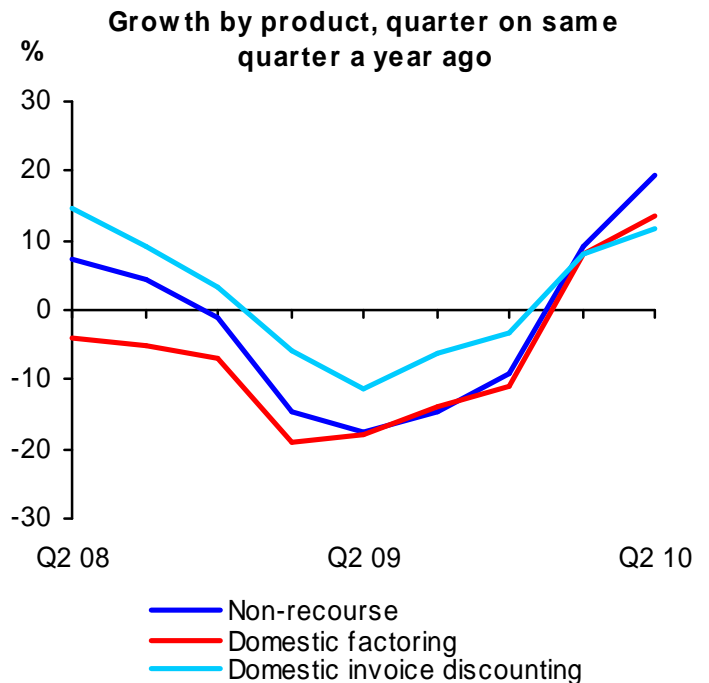
Asset Based Lending, when you borrow against your trade debtors or 'receivables', is an extremely flexible form of finance. And for businesses that are well managed, it's ideal, as it matches your working capital requirements.

You can usually obtain a larger facility than a bank would offer you, using the same security. The market is large and diverse, with many players. The length of time it takes to get a decision from credit is often also much quicker than a bank.

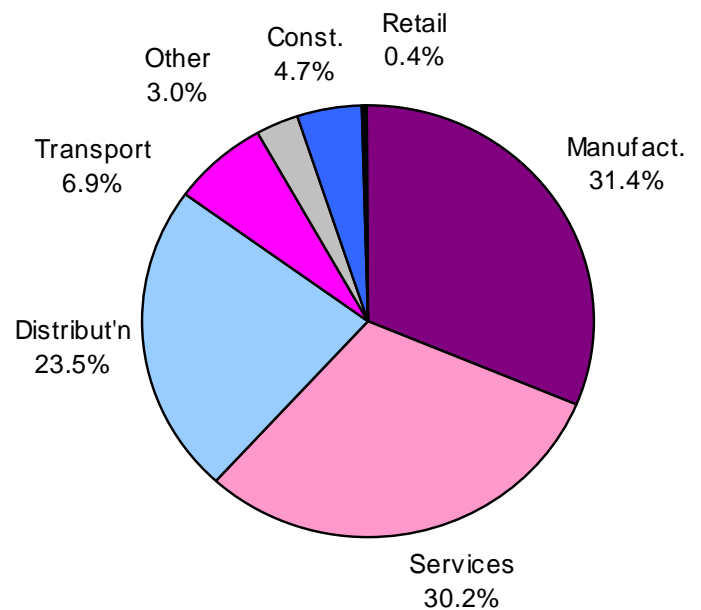
Kirsty McGregor, Chairman comments:

"Unfortunately the availability of any stock finance products for SMEs has virtually disappeared from the market. So besides commercial property mortgages and asset finance (HP and finance leases) for fixed assets, the only other asset you can borrow against is your trade debtors.

But there are many different clauses you need to watch out for when negotiating a debtor finance facility - don't go it alone, make use of the experience of your corporate finance advisor."



Distribution of clients by industry sector at the end of June 2010



Source - ABFA September 2010

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So how else are businesses being funded?

HMRC is still operating its Time To Pay Scheme. However, it appears that they are now getting stricter, and a 9 month repayment agreement, rather than 18 months or longer, is more likely. But woe betide you if you can't make the agreed repayments - HMRC aren't holding back from taking action if you default.

Kirsty McGregor, Chairman comments:

"Two AIM companies (1st Dental Laboratories and Archial) hit the press headlines recently as they have both called in the Administrators because of pressure from HMRC. Although HMRC said they hadn't changed their policies under the Time to Pay Scheme, they said they would take a 'dim view' of businesses who didn't meet their agreed repayment schedule. Plan ahead!"

Suppliers are also bearing the brunt of customers' poor cashflow according to Experian. Although the payment performance statistics in 2009 (20.88 days after agreed terms) were not as bad as in 2008 (23.54 days after agreed terms).

Directors' remuneration packages have inevitably taken a battering over the last couple of years, as for owner-managed businesses, the buck stops with them. If you are seeking bank finance, don't wait until you've exhausted your own personal resources. Banks like to see personal net worth too. So apply for new business facilities before you get to that stage.

Are there any other sources of finance out there?

High Net Worth Individuals (HNWIs) are coming into their own in this market. As bank rates remain incredibly low, people are looking elsewhere for their returns. And some astute entrepreneurs have spotted the gap and companies are springing up, aimed at matching HNWIs with business owners, who need either loans or equity investors.

Kirsty McGregor, Chairman comments:

"Our member firms have direct, personal contacts with many, many alternative and specialised lending sources. One client of our member firm in Surrey, TWP Accounting, recently obtained a £40k loan in a matter of a few days, using one of these new lending services, at an interest rate of just over 7%.

Make sure you let your accountant know in good time if you may need any further lending, and they can advise you on the various options you have.

We're good, but we can't work miracles overnight!"

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2. Deals Activity

Source - Experian Corpfin October 2010

SME Deals

Experian Corpfin reported that SME deals (values between £500k-£5m) had increased in the Q2 and Q3. If you extrapolate the numbers to an annual basis, this equates to an uplift of 17% on the previous year. Good news for potential buyers and sellers!



Kirsty McGregor, Chairman comments:

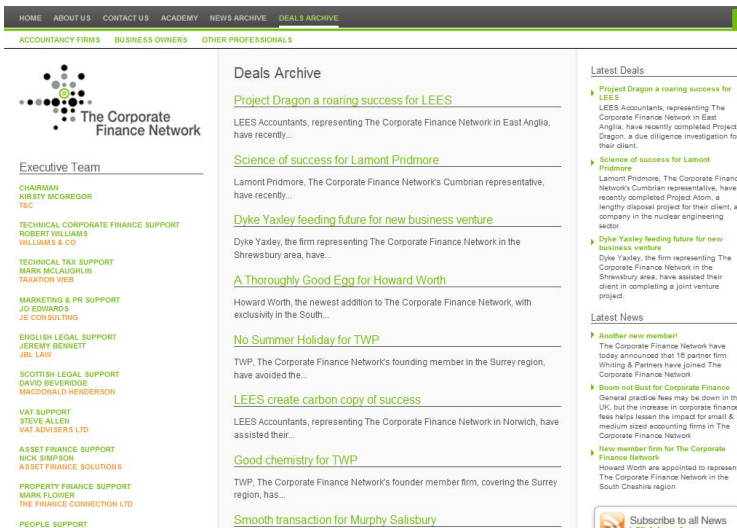
"Most of the smaller deals aren't listed on Experian Corpfin, as their details are not announced in the public domain. But it's still a very useful research tool for us. Most of our firms have access to this deals database, so ask them if you'd like to find something out about your sector."

Deal Activity within The Corporate Finance Network

Eight of our firms have listed 25 deals between them since April 2010, ranging in value from £60k to £6m.

Kirsty McGregor, Chairman comments:

"The pipeline for future potential deals appears to be quite good, and our new developments (see next section) are likely to increase this still further."



The screenshot shows the website's navigation menu at the top, including 'HOME', 'ABOUT US', 'CONTACT US', 'ACADEMY', 'NEWS ARCHIVE', and 'DEALS ARCHIVE'. Below the menu, there are sections for 'ACCOUNTANCY FIRMS', 'BUSINESS OWNERS', and 'OTHER PROFESSIONALS'. The main content area is titled 'Deals Archive' and lists several deal announcements with brief descriptions and dates. For example, 'Project Dragon a roaring success for LEES' and 'Science of success for Lamont Pridmore'. There is also a 'Latest Deals' section on the right side of the page.

Source - www.corporatefinance.org.uk

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3. New developments

The CFN Investors' Register

The Corporate Finance Network's Investors' Register will record preferences of our clients and contacts for investments in property, unlisted businesses, fine wine, art, antiques, racehorses and anything else you can think of! We intend to help our contacts find suitable investments and have some fun at the same time! Ask your local firm for a Registration Form - it's free and your contact firm will list you confidentially.

Property Fund

Following the launch of the Investors' Register, we intend to follow-up with a Property Fund for those clients & contacts who are interested in being part of a syndicate for property developments. We will be working with a fund manager, to take care of the regulatory aspects of such a fund. More details shortly.

Collaboration with Authors

As deal activity in the SME market has slowed right down, we know our clients need to have other options for exiting their business. Very few will be lucky enough to attract offers from large corporates. But we believe we have the best Exit Planning process for owner-managers on the market, and we have collaborated with John Warrillow, author of 'Built to Sell' and Andy Nash, author of 'The MBO Guide for Management Teams' to provide our clients with tips and inspiration from gurus who've been there & done that.

Catalyst Groups

There's no doubt that in this economic climate some businesses are suffering. And despite cutting all costs possible, the business still isn't working. It often just needs more critical mass. We are working with CMR to develop "Catalyst Groups" where we will attempt to form a group of companies from several small and struggling businesses, who are probably in the same sector or have the same customer base. This is a common sense solution in theory, but you imagine, it's a very tricky thing to do in practice. Wish us luck!

Kirsty McGregor, Chairman comments:

"We are continually looking at new and innovative ways to help our member firms to advise their clients on growing, financing, and ultimately exiting their business. We are very proud of our offering for owner-managed businesses, and with these additional new initiatives, we truly believe our firms make up the best SME corporate finance advisors across the UK"

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4. Where to from here?

How will an owner exit their business?

Astonishingly, the UK has over 99% of its private enterprises that are classed as SMEs. A significant proportion of those will be owned by individuals who are looking to exit their business in the next 5-10 years. Vendor finance (also known as deferred consideration), whether it's to support an external purchaser, or a management team (now called the 'VIMBO' - Vendor Initiated Management Buy-Out) is going to be the order of the day for most businesses, if they want to walk away with a capital sum when they exit. And with the very advantageous Capital Gains Tax regime at present, with 10% tax available for the first £5m of gains under Entrepreneurs' Relief, it's worth seriously thinking about. How long will this low CGT last? In my view, not very long at all. Business owners should make the most of it whilst it lasts. And getting organised as soon as possible is critical.

Return to growth? Double Dip? Insolvency Lag?

Whilst we are now enjoying modest growth rates in the economy, there is still concern about the reduction in public sector spending and the impact that will also have on the private sector. But whether we suffer from a 'double dip' or not, R3, the association of insolvency practitioners, is warning us of the Insolvency Lag. Typically, following recessions, the highest rate of insolvencies occur 18 months after the return to growth, so businesses aren't out of the woods just yet. And that leads onto...

Cashflow Management

"Cash is King" they say. Business owners need to obsessively monitor their working capital requirement. Sharpen up the credit control, reduce the need to hold stock, and agree favourable terms with suppliers. SMEs need to know exactly what cash they're going to require and when. Having reliable cashflow forecasts is one of the key tools required to manage a company effectively. Use them!

Kirsty McGregor, Chairman comments:

"It's not all doom & gloom. There are some fantastic opportunities in this market for savvy business owners, who can be more flexible than larger companies. And with a lack of buyers for distressed or tired businesses, perhaps SMEs could look to grow by acquisition and pick up a bargain? The slow-down in traditional bank finance is slowly being plugged by other institutions and who knows, we may also have a new high street bank (and not just in London) over the coming months?"

We hope you've enjoyed reading this update. These are the general views of The Corporate Finance Network (GB) LLP and business owners should always seek advice for their own specific circumstances. For more information regarding The Corporate Finance Network, see www.corporatefinance.org.uk or email info@corporatefinance.org.uk