2014

MHA Funding and Finance

Report

Introduction

MHA undertook a survey of companies across the UK to gain an understanding of how they funded their businesses, the issues they have faced in doing so, their outlook going forward and the range and sources of support available to them.

We had a strong response, with over 200 participants based throughout the UK and we believe the results provide a valuable insight into the current funding and finance market.

The survey report is split into 10 sections:

- The survey sample
- Optimism for 2014
- Reasons for raising finance
- Level of funding being sought
- Sources of funding
- Access to funding
- Advice and support
- Barriers to finance and growth
- Sector insights
- Regional insights

Background:

- A national snapshot from nine member firms covering England, Wales and Scotland
- 226 responses
- Respondents work in a variety of sectors including Agriculture, Automobile, Charities, Education, Energy, Food and Drink, Healthcare and Medical, Manufacturing and Engineering, Media, Oil and Gas, Pharmaceuticals, Professional Practices, Property and Construction, Real Estate, Retail, Support Services and Travel and Tourism.

Key findings:

The MHA Funding and Finance Outlook Survey indicated a number of consistent trends:

In comparison to other surveys this report focuses on SMEs. The highlights are:

- There is real optimism for growth in 2014, with 40% of our respondents saying they expect growth of over 10%.
- 58% of respondents found fundraising “very easy,” “easy” or “average”.
- Over a third of funding in 2013 was for investment in property and plant.
- 30% of respondents sought advice from their accountant and 29% from their bank.
- It still seems to be difficult to find funding in the range of £500,000 to £5m.
- Banks and asset based lending accounted for over half of the funding.

Foreword

Laurence Whitehead,
Head of Corporate Finance at MHA

We are delighted with the response to our first MHA funding and financing survey. The respondents operate their businesses across a variety of sectors in England, Scotland and Wales and have provided an invaluable insight from the SME perspective into their finance raising experiences in 2013, as well as their expectations for 2014.

Our findings are consistent with those of the Bank of England's 2013 Credit Conditions Survey in that they highlight increasing optimism amongst business leaders. This increased level of optimism is likely to lead to many owners looking to raise finance to develop new projects, purchase new plant and machinery or to acquire other businesses. With more varied and creative sources of funding available, there may be some exciting developments for those SMEs that are financially strong enough to take advantage of the growth opportunities which present themselves.

We hope that the findings of this report are of interest to you. Please contact your local MHA member firm if you have any queries or if you would like to discuss how we can help you to raise finance to grow your business.

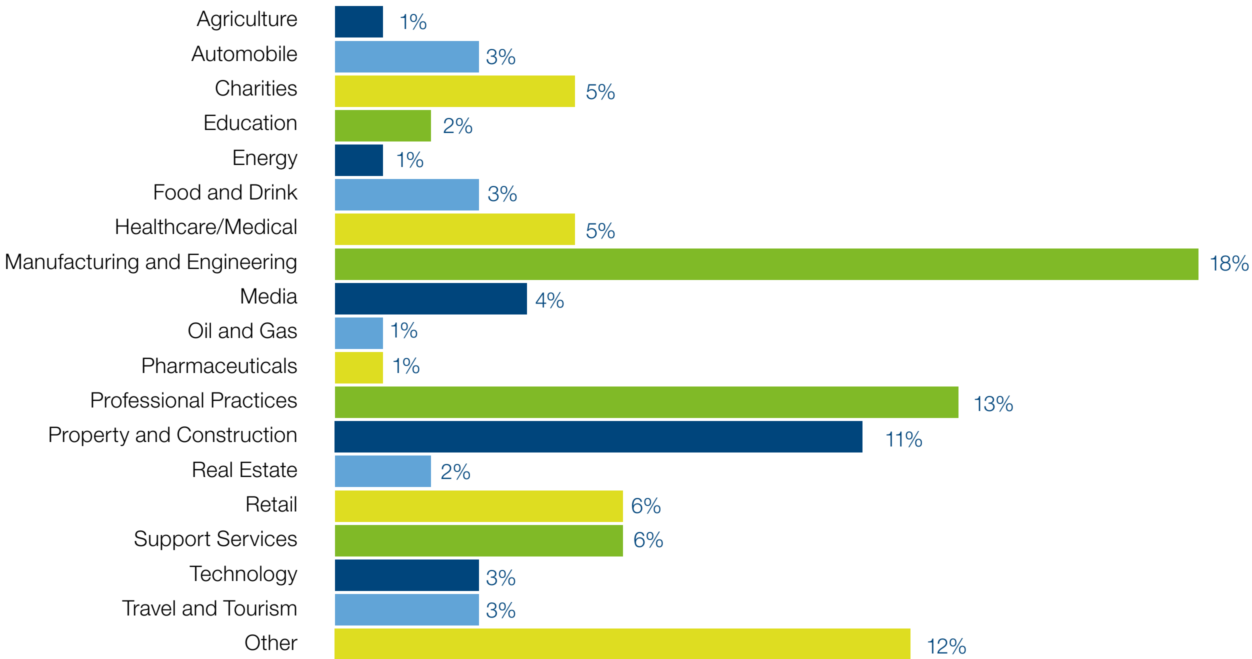
The National View:

The survey sample

The majority of participants in the MHA Funding and Finance survey fall into the SME category and a broad spectrum of sectors and business activities is covered.

Respondents commented on the need for sector focused expertise when looking at funding options for their businesses and we have included sector focused insights in this report for several sectors including: charities, manufacturing and engineering, professional practices, property and construction and healthcare.

Respondents by sector



The National View:

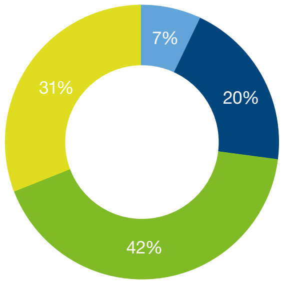
Optimism for 2014

There appears to be real optimism for growth in 2014.

UK business confidence has continued to improve in 2013. In October 2013 the International Monetary Fund gave a boost to George Osborne by raising its growth forecasts for the UK for both 2013 and 2014. The World Economic Outlook predicts output will rise by 1.4% in 2013 and 1.9% in 2014 - more than any other G7 economy. The latest Business Confidence monitor for quarter four 2013 suggests that the UK has had a fifth quarter of rising confidence and suggests the economic recovery is continuing to gain momentum.

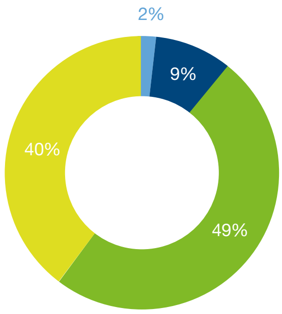
Our survey findings mirror these predictions for growth.

Our research found 89% of respondents were expecting growth in 2014 with 40% expecting moderate to high growth (i.e. 10% or more). In the last 12 months, 42% of respondents had experienced only low to moderate growth and 27% no growth or decline. The positive trend continues in 2014 with only 11% of respondents expecting business to contract or remain flat.



How would you describe 2013 in terms of growth?

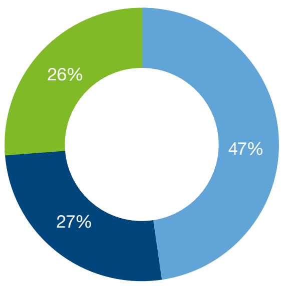
- Decline
- Flat (0% growth)
- Low to moderate (under 10% growth)
- Moderate to high (10% plus growth)



How do you anticipate 2014 will be in terms of business growth?

- Decline
- Flat (0% growth)
- Low to moderate (under 10% growth)
- Moderate to high (10% plus growth)

This optimism for growth is underlined by our findings that 26% of businesses plan to raise finance in the coming year and 27% have yet to decide.



Are you planning on raising finance in the coming year?

- No
- Undecided
- Yes

This suggests that the expectations for growth are supported by plans for investment and that businesses wish to be in a position to be able to capture and finance that growth.

Things to consider when seeking external funding:

We have found that a key consideration when raising finance is to have a detailed business plan that provides potential funders with the information they need to support their discussions with their credit teams and that demonstrates an understanding of the potential funders' requirements. The business plan must include details of the management team, an analysis of both historic and projected financials, areas for growth and key business drivers.

The National View:

Reasons for raising finance

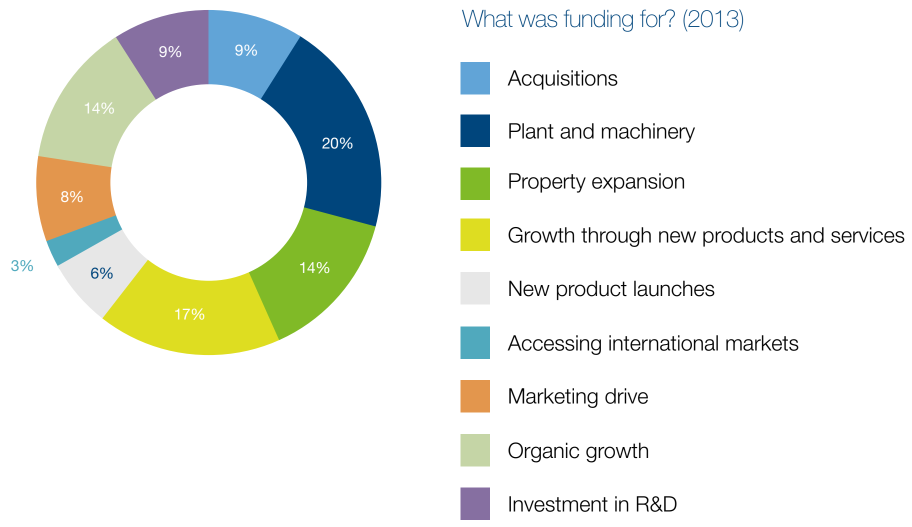
There was a wide range of reasons given for seeking funding in 2013. The majority was for investment in the business with a view to growth. Plant and machinery investment was the largest element at 20% with a further 14% looking to invest in new premises.

Additionally however, investment in new products and research and development (R&D) represented a large proportion of the funding utilised with a further 9% of respondents raising money to support acquisitions.

Only 3% of the funding raised was to access international markets. Expenditure on property and plant and machinery is to be expected as companies invest in their infrastructure. The added element of R&D and new product development is encouraging as it points to greater innovation and technological improvement within UK businesses. Some of this latter expenditure is likely to have been encouraged through government tax incentives and specialist grants. An increasing number of companies are taking advantage of these tax incentives to undertake R&D.

The National View:

Ensuring that the funding sought is appropriate for its end use is essential. It is also important to recognise that if a business is seeking funding in any of the areas shown opposite then the type of funding required should be carefully considered. Investment in infrastructure such as plant and machinery and property improvements should be through term debt such as mortgages, hire purchase loans and term loans. Funding for R&D or to market newly developed products can often be derived from working capital sources, but it often also requires equity or mezzanine funding depending on the financial position of the business. Similarly, M&A funding may include an element of working capital debt alongside term debt and new equity. Confidential invoice discounting and other asset-backed sources of funding are popular mechanisms used.



In certain regions of the UK there are grants available for investment in plant and equipment, although these are often also linked to job creation or safeguarding. Whilst these can be a valuable source of funding for companies seeking to invest, there are other measures currently available which are designed to support investment in this area.

Capital allowances are a specific form of tax relief available for companies investing in plant and equipment and also, in certain circumstances, property improvements.

Currently, enhanced annual investment allowances are available to companies for investments made in 2013 and 2014. These allowances often reduce the effective cost of the investments by providing an increased level of tax relief.

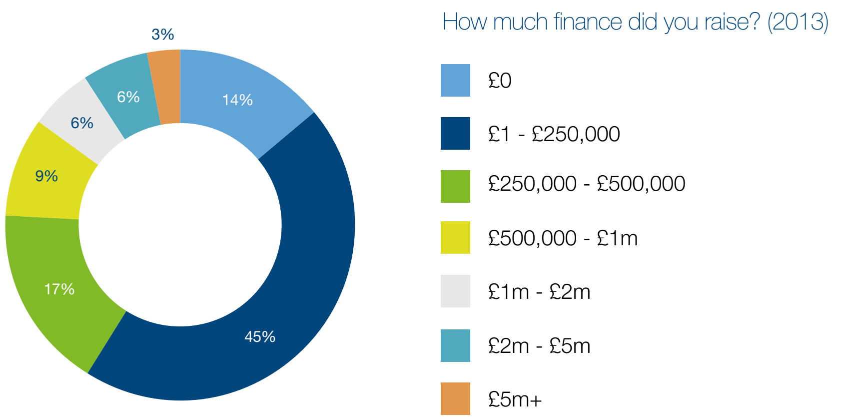
Working capital funding has traditionally been more difficult to raise and never more so than now. This is due to its often unsecured nature (given that it is for new staff or other revenue expenditure).

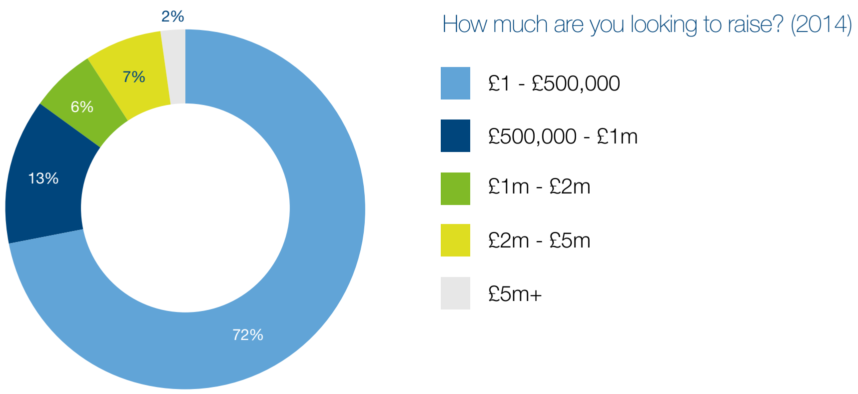
The key to any successful fundraising exercise is the presentation of a robust business plan, with well thought out financial projections and a clear strategy showing what the funds raised will be used for. This makes the funding proposal far easier for potential funders to champion when discussing it with their internal credit teams.

The National View:

Level of funding being sought

We asked respondents how much funding they had sought when raising finance in the last 12 months and the majority, 62%, had raised a sum of less than £500,000. 45% raised funding up to £250,000 and a further 17% raised between £250,000 and £500,000. This picture does not change significantly when looking at the amount of funding people are likely to seek in 2014, with 72% aiming to raise less than £500,000.





Respondents found that sourcing funding in the £500,000 to £5m range was most challenging.

The National View:

The infamous equity gap still appears to be a major concern for a number of business owners. Although raising low levels of equity funding, say below £500,00, can sometimes be relatively easy and the same can be said for larger amounts, say above £5m, it is the sourcing of the amounts in between that creates problems for our respondents.

For banks, the position can be somewhat different and it is important to understand the difference between debt funding from a bank and equity funding from private or institutional investors.

For banks, the main areas of focus are the asset base of the business and its ability to generate sufficient cash to service its debt requirements.

Whereas for equity investors, whose return comes from an increase in the capital value of the business, the main focus is on growth opportunities and the future exit strategy.

A robust and consistent business plan is therefore an essential tool if business owners wish to secure the appropriate level of funding they need in order to reach their longer term goals.

When MHA Member firm, Broomfield & Alexander, recently raised £2m for a business in the recycling sector the funding was raised from the bank, an asset finance house, regional funding agencies and local investment grants.

The company now has an invoice discounting facility, mortgage finance, HP finance and medium term loans from three different organisations. Whilst this funding package was more complex to put together, it turned out to be the best solution achievable. The key to determining how you raise finance via the different levels of funding is to have a very clear strategic and financial plan that demonstrates how much funding you need, the different types of funding required and how this funding will be serviced or maintained. For example, an invoice discounting line does not necessarily require capital repayments as the facility will grow with the business as turnover and the debtor book grows.

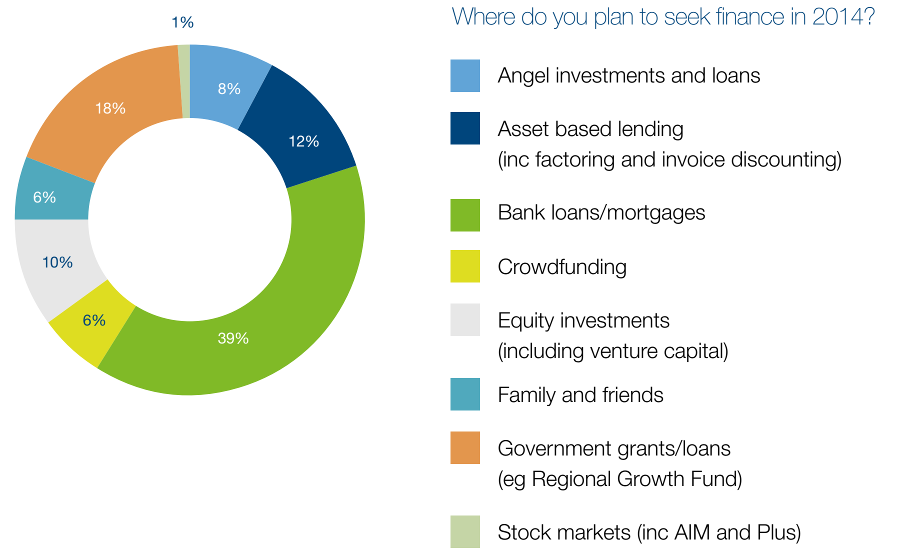
The National View:

Sources of funding

The sources of funding used by our respondents were varied but at the core were bank loans, mortgages and asset financing, with some funding through local grants or soft loans depending on the geographic location of the business.

These forms of funding together represented over 75% of the funding sourced. The other funding came from more niche areas such as equity investments including venture capitalists, individual investors through angel investments and own resources through family and friends.

This clearly shows that despite the perception that the banks are not open for business or lending, they still represent the bedrock of available funding for SMEs in the UK. Not surprisingly, we would expect to see traditional funding sources such as banks and asset finance remain essential and indeed this is what is reflected by respondents when detailing where they anticipate securing funding in 2014; again, those sources used in previous years continue to represent over two thirds of the sources expected to be used.



The National View:

Sources of funding have a degree of logic in that, where there is security through a building or some other tangible asset, banks are prepared to lend, provided they can see visibility on the repayment. What has been missing from bank funding during the recession has been any element of what is called “unsecured” or “cash flow” lending where the business has a demonstrable ability to generate cash but has no unencumbered assets to provide as security. Before the recession, the banks were prepared to provide an element of cash flow lending.

With the onset of the credit crunch that willingness disappeared, but in recent months it does seem that unsecured lending based on cash generation may be making a welcome return for asset-poor, but cash-rich, businesses.

With a wide mix of sources of funding, the key for the SMEs is to ensure that they fully understand the requirements of the particular funder they are approaching. If it is intended to approach more than one funder and put a syndicated package together, the business plan needs to be carefully drafted so that all of the potential funders’ requirements are met.

Over the last couple of years the government has sought to encourage banks to free up their lending through the introduction of the Enterprise Finance Guarantee (EFG) scheme and the Funding for Lending Scheme (FLS) and it would appear that a large number of businesses responding to the survey have actually been aware of these new initiatives, even if they have not necessarily been successful in raising funding using them.

Focus on: Crowd Funding

Crowd funding is anticipated to grow in 2014. Providers such as Crowd Cube, Funding Circle and a range of others are bringing together large groups of small investors who are prepared to invest in SMEs through these collective schemes.

It will be interesting to see how the role of crowd funding develops when the banks increase their levels of funding. The question is whether crowd funding has sufficiently established itself in the market and will be able to maintain its share, or whether the banks will squeeze these new sources so that they are pushed out of the market over a period of time.

For those considering crowd funding The Federation of Small Businesses (FSB) and the UK Crowdfunding Association have released advice on how to access finance through crowd funding. The advice includes:

1. **Proper preparation prevents poor performance**
   Having a clear business plan will demonstrate the business’s potential to the crowd by showing them you’ve done your homework and researched the market and competitors.

2. **Make your pitch compelling**
   Keep the pitch simple and avoid using jargon. This will help potential investors understand who and what they are backing. Consider using visual media rather than just a written pitch.

3. **Market potential, the entrepreneurs and the idea**
   Investors will want to see you have a good idea that will give them a good return, but also that you have a team that will deliver the end product.

4. **Promote you and your venture today**
   Begin warming up the crowd with the idea so they are eager to invest when the pitch goes live.

5. **Be realistic**
   Don’t be overly ambitious with the funding target and don’t over value the business as this can put the crowd off. Set realistic targets which you can back up when questioned.

Other sources of finance noted by respondents for 2013 included charitable sources and local authorities, active fundraising, the European Commission, existing directors and Finance Wales.

Focus on: Welsh Funding

Finance Wales are a specialist funder in Wales, providing development capital to companies. Originally established with European Regional Development Funding in partnership with Barclays, their funds have expanded in recent years to also enable them to support business to consumer operations and areas they would not have historically been able to consider such as property.

Their experience in Wales and expertise in building funds for regional development has also resulted in them establishing managed funds in the north east and north west of England.

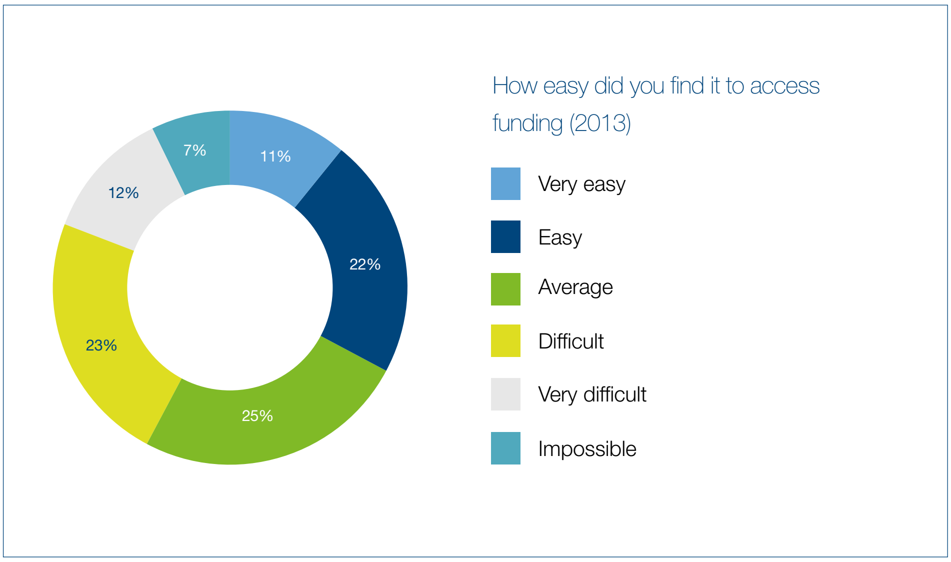
The interest rates charged are more expensive than the banks but the debt is often unsecured and in Wales particularly, they have provided a valuable source of funding where banks have been unable or unprepared to support.

The National View:

Access to funding

We asked respondents whether they found it easy to raise funding in 2013 expecting that the response would be that it was difficult, if not impossible, to do so.

However, the response was more encouraging than anticipated. Although 42% of businesses did find it either difficult, very difficult or impossible to raise funding, more than 50% were successful, with 33% of respondents saying that they found it easy or very easy. This comes as a surprise given the generally negative press coverage on the subject.



Given the easing of economic conditions in 2013 and the publicity surrounding government schemes such as Funding for Lending and Help to Buy, it may be that the renewed appetite to look at funding options reflects a certain amount of pent up demand in the market so that companies are now prepared to consider investing in the future and making use of external finance to fund this investment. Amongst respondents there is an underlying confidence that businesses have growing confidence about the short to medium term future and that this will filter down into a higher level of investment.

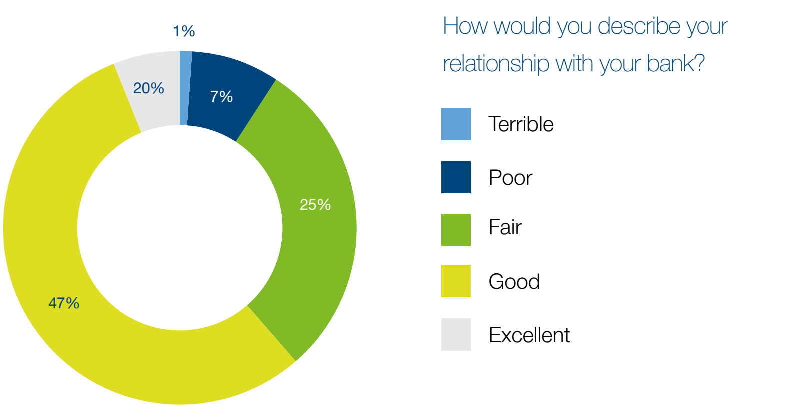
The National View:

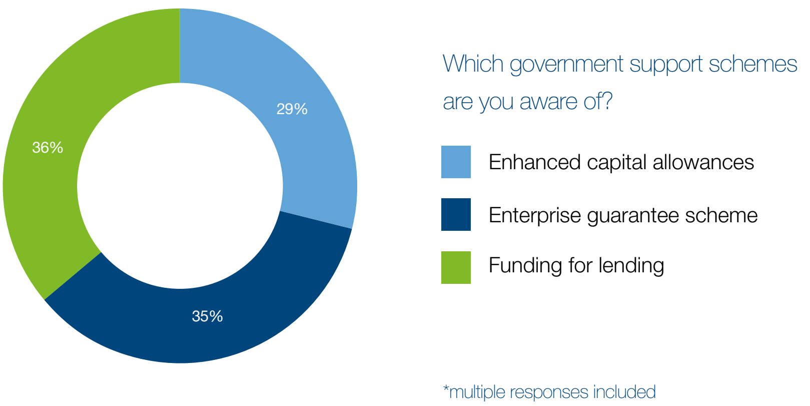
Advice and support:

When we turned the questioning to the relationship businesses have with their existing funders the responses were somewhat surprising.

The survey demonstrated that only 8% of businesses felt that they had a terrible or poor relationship with their bank, 25% felt the relationship was fair and 67% believed they had a good or excellent relationship with their bank. What this effectively means is that high street banks continue to play a significant role in the funding of businesses. However, the extent to which banks can support growing businesses depends very much on the strength of those businesses and the extent to which they are able to communicate their funding requirements to their bank. This is the key to a successful business banking relationship.

After their bank, the second most popular source of funding came from government grants. This is not so surprising, given that the government has introduced various schemes to stimulate business growth. Encouragingly, respondents did express an awareness of these schemes, which include Enhanced Capital Allowances, the Enterprise Guarantee Scheme, Help to Buy and Funding for Lending.





The National View:

Respondents were given the chance to comment on other schemes they were aware of. A number of these are localised and may not apply nationally. It is always worth considering the local options which might be available when looking for external finance. This is particularly true when considering a syndicated approach to project funding as the other sources can provide your "match funding" and the grants can reduce risk, both for the company and the other external funders, which can enable a project to secure the overall package required. Some of the schemes respondents expressed an awareness of included: EIS and SEIS tax reliefs, the Growth Accelerator scheme, Social Impact bonds and the Wales Economic Growth fund.

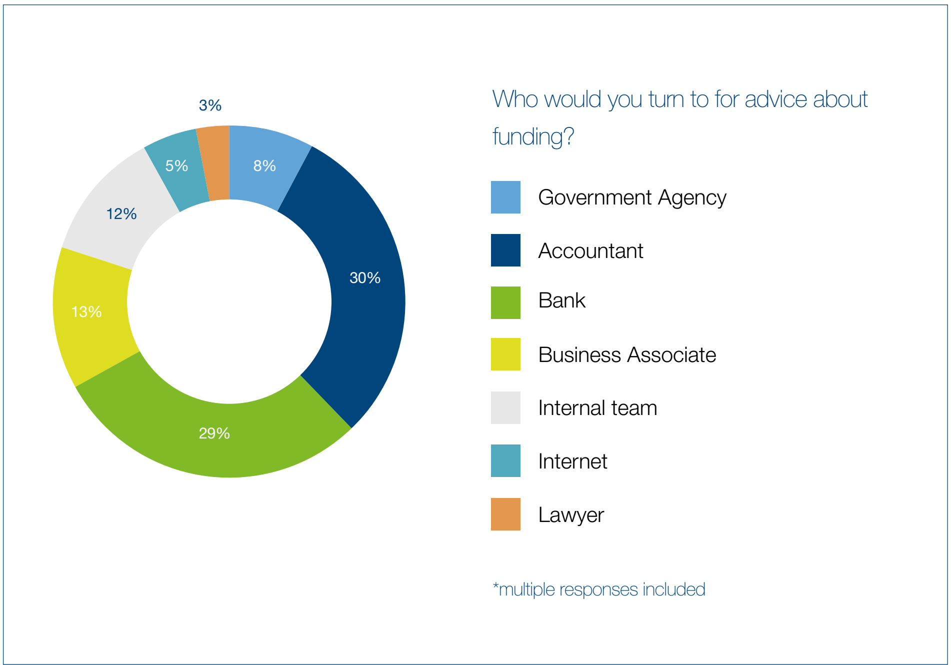
Despite expressing some awareness of the schemes available, respondents nevertheless expressed some concerns including:

- Complexity of access to funding through government administered grants
- Fitting a funder's specific criteria for a market sector
- Funders require 100% security for the value of a loan
- Only short term funding is available in many instances so there is a reduced opportunity for long term planning.

Advice

Banks proved a popular source of advice on funding for 29% of respondents. However, accountants were the most popular choice for advice and support at 30%. Other sources included business associates (13%), the internal management team (12%), local agencies (8%), the internet (5%).

It is important that business owners seek professional support when they are looking to raise funding. Expert advice helps to cut through the jargon so that business owners understand terms such as interest cover, debt service cover, EBITDA and free operating cash flow and leverage. Professional advisers can focus on getting business owners the best funding deal, while the business owners themselves can focus on running their business.



The National View:

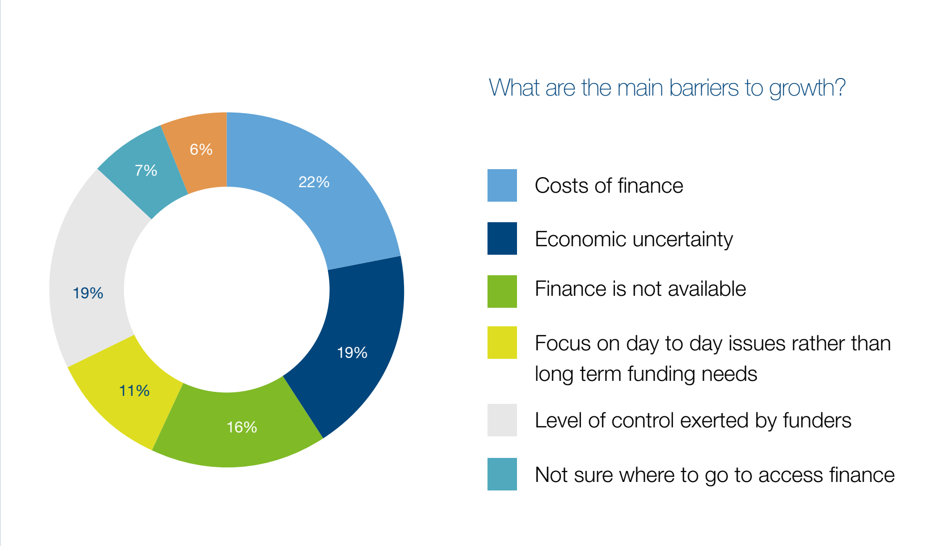
Barriers to finance and growth

The respondents identified a number of barriers they face when seeking to raise the funding needed to grow their businesses.

These include:

- Economic uncertainty
- Lack of time to focus on strategic issues
- Lack of appetite amongst funders
- Scarcity of investment opportunities
- Unacceptably high funding costs

To be successful, business owners require perseverance and the ability to focus on key business drivers. Engaging experienced advisers with strong negotiation skills is also a must.



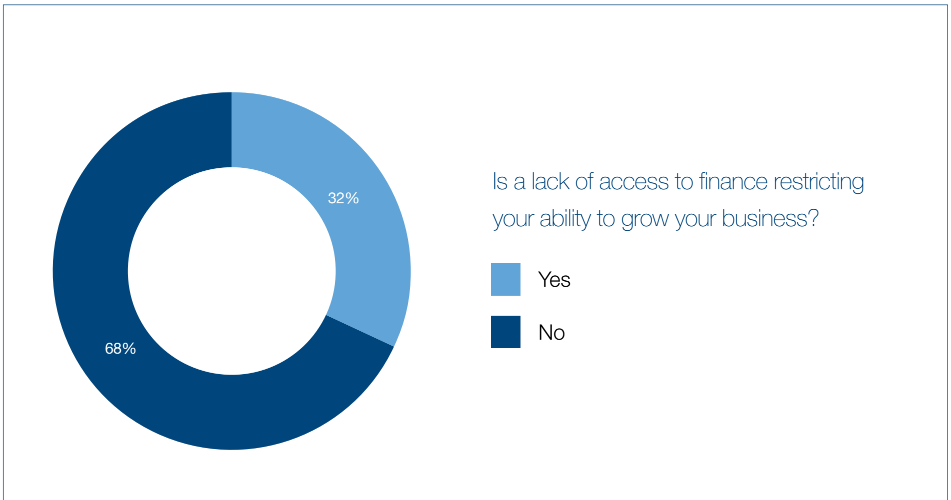
Seeking support at an early stage in the process can aid in raising funding. MHA member firms deal with a significant number of applications across a wide range of funders which means that we understand and can adapt to the changing market and credit requirements.

We can also take away from the business owner the burden of preparing the detailed documents required by the funder and we can act as project manager on the owner's behalf, liaising with all parties to ensure the process moves ahead smoothly to completion.

MHA member firms have a wealth of experience advising clients during the funding process. Our involvement can therefore bring a number of benefits. For example, we can often reduce the level of control the funders wish to exert and the overall cost of the funding provided. In such circumstances, this leads to tangible benefits such as improved terms and reduced fees.

Is a lack of access to finance affecting your business growth?

Despite concerns about business growth and the barriers to funding there remains a sense of optimism amongst the majority of respondents with 68% reporting that lack of access to finance is not restricting their ability to grow.



Sector Insights:

Property and Construction

The recent funding and finance survey attracted a number of respondents operating in the property and construction sector.

88% of respondents expressed optimism that their businesses will grow in 2014, with 48% anticipating growth of more than 10%. Government initiatives such as funding for lending and help to buy are playing a large role in this optimism. Overall this is in keeping with the positive national picture across all sectors, with business confidence appearing to improve across the UK.

Based on survey responses, 40% looked to raise finance in 2013 but over half of the property and construction respondents are not planning to raise finance in the coming year with a further 25% being undecided. Survey findings would suggest that of those who sought to raise finance in 2013, 60% found it either difficult or very difficult to access funding. When asked where finance was sought, it was found that 60% came from traditional sources, such as bank loans and mortgages with 50% suggesting this would be the most likely form of finance to be pursued in 2014. However, certain property and construction projects remain difficult to fund via these traditional sources of finance.

When looking for access to finance obtaining the right advice for your business is important. It is highly recommended that businesses operating in the sector talk to their professional advisers as it is unlikely that one funding source will provide a solution for the businesses requirements with an arrangement of multiple sources likely to be required. It is also important that the costs of financing products are built into project appraisals and business forecasting.

Overall, as well as the non-specific incentives such as Enterprise Finance Guarantee, there are some funding products on the market which are specifically aimed at the construction sector. However these are highly specialist and tend to be a little more expensive than the traditional sources. Generally finding funding for SME property developers continues to be challenging unless they have a strong track record, good security and an ongoing relationship with a lender.

Sector Insights:

Manufacturing

For manufacturing and engineering businesses across the UK, economic data indicates a mood of buoyancy and optimism around the sector and indeed, this is borne out of the results of the survey.

Drilling down into the SME segment of the sector, which accounts for around 76% of the UK's manufacturers, does however highlight continuing difficulties in accessing the funding needed to unlock the true potential of many of the UK's smaller manufacturing and engineering businesses.

Of the manufacturing and engineering respondents to this survey 56% have sought external finance in the last 12 months with investment in new plant and machinery being cited as the reason in 48% of examples, financing R&D in around 22% of the responses and funding acquisitions in 13%. Growth through new products and services accounted for 17% of funding requests.

Government and quasi governmental help

There are a multitude of schemes available, some administered through the banks (including the new Business Bank in 2014), some through the RDF, through MAS and UKTI and the Local Enterprise Partnerships (LEPs) to name but a few. The major problem for SMEs is understanding what is available and how to access it. They are not management heavy and consequently miss opportunities or do not have the time to deal with the bureaucracy attached to the schemes.

SMEs are at the core of the UK economy and it is important they receive easy access to the funding options they need to support growth. This survey flags up some real positives, but also some areas where more work needs to be done.

Routes to funding

Traditionally and unsurprisingly the banks are the first port of call and 40% of our respondents cited bank loans and mortgages as their route to finance. Of the remainder 30% raised cash through asset based lending including factoring and invoice discounting, with 26% being able to access funding through government grants such as the Regional Growth Fund. Angel investors and venture capital accounted for a very small proportion of the total responses.

Of those that attempted to access external funding, 20% were unable to do so – a worrying statistic and evidence of the continuing problems for SMEs in the sector. For 44% of those responding, the cost of finance remains the biggest issue. This is particularly concerning when interest rates are as low as they are and there is a view that arrangement and renewal fees are deterring potential borrowers. Worryingly, almost 22% of respondents cited a focus on day to day issues rather than looking at the long term as a barrier to their looking at raising finance. This lack of strategic vision probably relates to the difficult trading conditions seen over the last five years. Hopefully, businesses will take the time to plan for their future as we come out of recession.

The crash of the banks in 2008 saw them essentially closing the doors to many of the routes to finance that had previously been the norm – overdrafts being the major example. The major excesses were of course in relation to lending on property and construction. However, all sectors including manufacturing and engineering fell victim to a banking culture that became so risk averse as to stifle the day to day running of many businesses, let alone in terms of funding capital projects such as new machinery and premises. A second and just as serious effect was the fact that the banks shed many of their most experienced commercial managers, leaving businesses with new relationship managers who had no real knowledge of the sector.

Encouragingly, many of the banks are now looking specifically at manufacturing and engineering as areas they want to open their books to and some are engaging in sector training to build up the skill set of their commercial teams so that they have a good understanding of how the sector works. Banking contacts all over the country continue to report that too many decisions have to be referred to risk teams with a tick box culture, so much remains to be done to increase access to and the price of bank funding.

Sector Insights:

Healthcare

For medical practices the demand for finance is generally limited. The tendency is for practices to finance working capital through the partners' capital accounts.

This is mainly due to the fact that they are paid monthly or quarterly by the NHS for services provided. The NHS also finance surgery premises by way of notional rent. However, on occasions there is a need for finance to deal with the pay out of leaving partners and the buy in of incoming partners. This tends to be short term and specialist bankers are normally keen to undertake these transactions.

Best rates are usually achieved by using the practice's normal day to day bankers, but competition is strong in the sector. Good deals may be achieved from other banks with an eye on obtaining the overall practice's banking arrangements.

Where larger finance is required, it is normally when a practice takes a leading role in a new healthcare development. This could be minor in scale if the practice is the only occupier, but it could also be major in scale if other tenants are involved, such as a dentist, pharmacy or other healthcare professionals. The viability of the scheme is of fundamental importance whereby rents and new services provided must cover the cost of borrowing. At present the banks with specialist healthcare teams are keen to provide finance, but the sector is becoming attractive to others. The market is obviously restricted due to the shortage of suitable land and lack of relevant funding in the NHS (for notional rent).

Specialist brokers are available for larger projects, usually a specialist bank manager, who is able to scour the market and obtain the most attractive rates from all lenders. They will also work with project managers and specialist accountants to ensure the financial viability of the project.

This is the area we can assist clients with – financial viability and business cases and introduction to the specialist intermediaries.

An interesting development in the sector is the formation of limited company federations of practices who get together to bid for the provisions of medical services. Each member practice normally makes a contribution to the company to finance administration costs. However, it is envisaged that "start up" capital might be required to get the company up and running.

Another area for finance could be where a practice or group of doctors join together to provide a specialist service using sophisticated equipment. In the circumstances asset finance might be required.

For the vast majority of medical practices overdraft finance will normally surffice.

Sector Insights:

Charities

The recent funding and finance survey attracted a number of respondents operating in the Not-for-Profit sector.

This sector continues to experience challenging conditions and respondents did not reflect the overall improvement in 2013 that was indicated by the majority of the survey respondents. For 2013, two thirds of respondents specifically said that operations had been flat or declined, however the expectation was for conditions to improve with this reducing to 50% when looking forward to 2014.

This sector is one that is constantly seeking funding from various sources such as grant income, trading and more recently loan finance. The proportion of organisations in the Not-for-Profit sector that responded to say that their main funding source was through grants is more than twice that of the overall sample at 50%, but we would expect this given the nature of the sector.

However, these represented grants for specific projects rather than for ongoing operations and were supplemented in those cases with other funding such as fundraising activities and loans. This reflects the results in the overall survey but also demonstrates a need for organisations in the sector to be more commercial and broader thinking in their approach to funding.

Not-for-Profit organisations mentioned raising funds in 2013 as being more difficult than the total sample, with economic uncertainty being the main barrier.

This reflects the impact of public sector austerity on the sector and the difficulty in demonstrating match funding now increasingly required for grants. In addition, serviceability and long term projections for debt funding are proving difficult, given the cyclical nature of many funding structures. However, with positive relationships with the bank being reported, this is likely to be more of a structural sector issue generally. These conditions are therefore reflected in a high proportion of Not-for-Profit sector respondents reporting that lack of access to funding is restricting their ability to grow.

Sector Insights:

Professional Practices

Professional practices was a group well represented in our funding survey with 40 firms responding, including law firms, financial services, consultancies and property advisors.

The key common messages coming out from the professional practices respondents were as follows:

- Most had seen low to moderate growth in the current financial year, with a number reporting business to be flat. Looking forward into 2014, most were seeing growth and quite a number were expecting growth to be moderate or high which meant more than 10% growth.
- The typical reasons for funding being raised for professional practices appear to be growth through investment in acquisitions or expansion of existing practices or acquiring new properties. A number of firms were borrowing money to invest in marketing initiatives to achieve greater organic growth.
- Respondents typically used mainstream funding including loans and mortgages with asset based lending being the key element, however additionally some firms had approached angel investors and a couple had used the crowd funding sources which have recently come onto the market.
- Typically firms were borrowing less than £500,000, although some of the larger firms were raising in excess of £2m and in some cases in excess of £5m.
- Many respondents believed that the continued economic uncertainty experienced in 2013 had acted as a significant obstacle to raising finance. This might be expected to change given the better outlook the respondents have for 2014.
- Perhaps surprisingly, given the difficulty that a number found in raising funding and their view that funding was not available, most of the professional practices have a fair, good or excellent relationship with their bank. This may be due to the attractiveness of firms, particularly those in the legal sector, holding client monies.
- Also, perhaps not surprisingly, professional practices tended to have a good understanding of the funding initiatives available, such as Funding For Lending and Enterprise Finance Guarantee.
- They tended to approach other professionals, including their accountant and bank manager, when considering raising funding. A number of respondents in this sector would like to see increased government initiatives in the area of enhanced tax allowances and tax incentives to support businesses to grow.

The Local View:

Regional insights from the member firms.

Scotland

Henderson Loggie

In line with the national outlook, there is optimism for growth north of the border in 2014, albeit at a somewhat lower rate. Of Scottish respondents 82% (89% UK) expect growth in 2014, with 27% (40% UK) expecting moderate to high growth.

The Scottish respondents consisted of 52% microbusinesses (fewer than 10 employees), 40% were SMEs, (between 10 – 250 employees) and the remaining 8% were large businesses (250 employees or more).

59% of Scottish respondents reported growth in 2013 while 20% reported moderate to high growth, reflecting recent GDP and labour statistics, which show employment levels at a 5 year high and the economy growing cautiously over the past four quarters in Scotland.

In the last 12 months 38% of Scottish respondents (43% UK) sought external finance. Finance was raised from a variety of sources with government grants, banks, asset based lending and equity investments being the most popular, albeit, no single source accounted for more than 23% of the total.

Notably, just over half (54%) of Scottish respondents state they have an excellent or good relationship with their bank, compared to 72% in the UK as a whole.

This, together with the fact that the number of Scottish respondents sourcing finance from their banks is less than half the UK level (19% compared to 40%), may indicate a deeper seated issue in accessing bank funding north of the border.

The plans for 2014 however are more in line with the national picture as 39% of respondents plan to raise finance through their bank.

Economic uncertainty, at 35% notably higher than the UK wide equivalent of 19% was given as the main barrier to raising finance in Scotland. While no question on the influence of the Scottish referendum was asked in the survey, it is possible that this is an influencing factor amongst the Scottish based respondents.

We are happy to report that Scottish respondents sought advice on funding mainly from their accountant (50% compared to 30% UK) followed by the bank (40%, 29% UK).

North East

Tait Walker

The recent funding and finance survey attracted a range of respondents in the North East region. Companies replying ranged in size from under £1m turnover to over £40m and operated in a variety of sectors, including manufacturing and engineering, food and drink, oil and gas, and healthcare / medical.

For participants in this region, most respondents (82%) expressed optimism compared with 89% nationally. 47% reported low to moderate growth (under 10%) in 2013 and 35% reported moderate to high (10% plus) growth in 2013. This echoes what we have seen with our North East clients in manufacturing, particularly in the oil and gas, subsea, automotive and energy supply chains.

Over half of the respondents had raised finance in 2013. For 2014 the picture is similar, with 27% planning to raise finance and 26% who are still undecided at this point. This indecision could be down to a number of factors:

- They are mindful of not growing too quickly after spending a long period "tightening their belts."
- They were focused on operational issues and providing a great service to their customers rather than looking forward more strategically and planning for expansion.
- They are still unsure as to whether recovery is permanent.
- They anticipate finding other ways to manage their working capital.

Reasons for raising finance were predominantly focused on purchasing plant and machinery (20%), property expansion (14%) and funding for working capital and organic growth (14%). Interestingly, new product launches, marketing campaigns and investment in R&D were also quoted. This supports the view that many raising finance are involved in manufacturing and are seeking funds in a planned and considered way after first making the most of their existing assets and properties.

One in ten respondents had sought funding for corporate acquisitions, suggesting that the market for UK mergers, acquisitions and disposals amongst the SME sector had continued to recover.

Over 70% of respondents in the North East region stated that they had requested finance in 2013, with the average amount raised being around £500,000. This reflects both the combination of steady expansion and a considered approach to fundraising from business owners and the proliferation of local support available at this level from banks, the Let's Grow grant campaign and from the regional private equity funds, e.g. FW Capital, NEL, NorthStar and IP Group.

When looking for funding, most participants in the North East region looked to government grants or loans in 2013. In 2014 the picture is similar, with 41% intending to find it from the same source, 29% from bank loans and 17% from equity or venture capital investment. However, business owners are still likely to struggle to secure funding, particularly in some under-performing sectors (for example retail and leisure) or if they are not able to demonstrate that they have control of their management information or of their future growth.

When looking for access to finance, getting the right advice for your business is important. Nationally most respondents indicated that they would seek advice from their accountant. It is important to consider professional advice and local insight as important, to ensure that you are aware of the options available to you and the accountant was seen as the best and most trusted adviser in this respect. The second most trusted source of advice was from the banks – this may come as a surprise to some and perhaps a relief to the local banking community that, despite the many mistakes made by banks at a national and global level, 68% of respondents said that they had a good or excellent relationship with their bank.

North West

Moore and Smalley

The recent funding and finance survey attracted a range of respondents in the North West region. Companies responding ranged in size from less than £1m to up to £8m and operated in a variety of sectors; but with the largest cohorts being leisure and tourism and manufacturing.

For participants in this region most respondents (80%) expressed cautious optimism for 2014 and no respondents are expecting a contraction. This is in keeping with the national picture within recent quarterly surveys carried out by the Chambers of Commerce.

Many respondents had sought finance in 2013; although at this stage, the outlook for 2014 is a little different with more respondents undecided whether or not they will seek funding.

Reasons for raising finance were predominantly focused on investment in plant and machinery. That in itself might be a suggestion that business confidence is improving; the reason being that investment in plant and machinery, if third party funded, brings with it future financial commitments. It could be argued that a business must have a certain level of confidence in the future in order to take on such commitments.

Requests for finance in the North West region are similar to the national picture with the majority looking to raise up to £500,000. When looking for funding, most participants in the North West region looked to bank funding first and foremost in 2013.

In 2014 the picture is similar, although there are increasing numbers who are planning to access angel funding, crowd funding and government grants and similar.

When looking for access to finance getting the right advice for your business is important. Nationally most respondents indicated that they would seek advice from their accountant and this is also the picture regionally.

It would seem that businesses recognise that it is important to seek out professional advice and local insight to ensure that businesses are not only fully aware of the funding options available to them but also as prepared as they can be to access those options.

Midlands

Bloomer Heaven

The recent funding and finance survey attracted a range of respondents in the Midlands region. Companies responding ranged in size from those with turnovers of £1m to those SMEs with turnovers in excess of £20m. Respondents operate in a variety of sectors including manufacturing and engineering, retail, hotel and tourism, property investment and development.

The Midlands region has always generally suffered from the FILO syndrome when looking at recessions. That is to say that the region is characterised by being the “first in and last out”. Therefore it may not be surprising to find that the optimism found elsewhere in this survey is not necessarily reflected in the Midlands feedback.

Few respondents had raised finance in 2013 and for 2014 the picture is similar reflecting a lack of confidence in any material growth in business. Those that are looking at raising finance are predominantly focused on refinancing existing debt with few looking at taking additional borrowings.

When looking for funding, most participants in the Midlands region looked to the main clearing banks in 2013 and for 2014 the picture is similar. Interestingly there is an expression of interest in crowd funding opportunities which reflects a growing national awareness of the benefits of this source of funding.

When looking for access to finance getting the right advice for your business is important. Nationally most respondents indicated that they would seek advice from their accountant. It is important to consider professional advice and local insight is important to ensure that you are aware of the options available to you. Locally, in the Midlands region, there are a number of bodies business owners can consider such as Finance Birmingham, Local Enterprise Partnerships and the Midlands Regional Innovation Fund.

Wales

Broomfield & Alexander

Companies responding ranged in size and the vast majority were SMEs. The respondent companies operated in a variety of sectors with the three industries most commonly represented being manufacturing and engineering, property and construction and professional practices.

In keeping with the national picture most respondents expressed optimism in relation to the growth prospects for 2014. Whilst this is the same percentage as the national picture, more businesses are expecting growth of less than 10% than the proportion expecting more than 10%. In line with the experiences our clients were reporting to us during 2013, whilst optimism is growing, it is considered that it takes time to work from the South and East of England across the rest of the country and therefore reflects a more cautious view.

The presence of Finance Wales and public grant schemes (including the time limited Wales Economic Growth Fund), means a higher proportion of Welsh businesses answering the survey raised money in 2013 than the national picture. These may have encouraged businesses to bring forward investment plans.

Reasons for raising finance were predominantly focused on investment in property or equipment, new products and services and the ability to grow organically by supporting working capital.

Interestingly, a higher proportion of respondents in Wales indicated that they had a good or excellent relationship with their bank compared with the national picture. However, a higher proportion also said they had a poor relationship with them. This may reflect the higher reliance on the banks in Wales for funding (or match funding for grants), causing a polarisation of the opinion of the relationship. Whilst it is positive that more businesses find their bank supportive, the higher proportion of businesses reporting a poor relationship supports some of the views we heard from companies in our recent roundtable event.

This suggests that where the relationship has broken down, this hinders a business's ability to grow and this reflects in the higher proportion of businesses in Wales reporting that a lack of finance is restricting their ability to grow.

When looking for funding, most participants in Wales looked to bank and asset based lending, supplemented by grants in 2013. In 2014 the picture is similar in terms of the largest sources, but with a movement away from the banks and towards grants, equity and other sources. The movement towards grants may be due to the advance publicising of the next round of Wales Economic Growth Fund. However, the increase of sources such as equity, crowd funding and other sources suggests a wider appreciation of the need to syndicate sources and the increasingly creative approach of businesses.

East Anglia

Larking Gowen

The companies in the East Anglia region that responded ranged in size greatly, with turnovers from under £1m to in excess of £20m and employee numbers from 1 to 250. Respondents operated in a variety of sectors such as manufacturing and engineering, retail, healthcare, agriculture, property and construction, food and drink and automotive.

Most (78%) expressed optimism in growth expectations for 2014 – with anticipated growth rates varying from 1% to 10%+. This is consistent with the national picture (with 80% expecting growth) and encouragingly, this demonstrates a more optimistic outlook when contrasted with the experience of respondents in 2013 (where 22% reported a decline in business, 23% no growth and 55% low growth).

Unsurprisingly, those who reported a decline in business or no growth in 2013 were also more cautious in their growth expectations for 2014, with these respondents falling into the food and drink, retail and healthcare sectors.

Of the respondents, 33% raised finance in 2013 and the picture looks the same for 2014. The reasons for raising finance were predominantly focused on investment in plant and machinery, property expansion, research and development and organic growth. It therefore appears that most investments are directed towards increasing output.

When seeking funding in 2013, most respondents in the East Anglia region approached banks for loans and/or angel investors.

In 2014 a similar pattern can be expected, with the aforementioned being the preferred sources of funding; however, alternative sources of funding such as crowd-funding and equity investments will also be considered by all companies looking to raise funds. One obvious reason for the consideration of these alternative means of funding is that these methods seemingly circumvent the red tape and bureaucracy some respondents cited as being prevalent within the banking industry. Indeed, 33% of respondents said such matters were prohibitive to securing funding (compared with 31% nationally), while 67% of respondents cited the need for changes to various government policies in order for businesses to grow and prosper. Examples of such changes include reducing red tape and licensing, removing regulation, lowering business rates and controlling utility costs.

Requests for finance in the East Anglia region were higher than the national average, where most respondents raised less than £500,000. Regionally funds raised were between £250,000 to £5 million. In 2014, respondents in the region will be looking to raise between £500,000k to £5 million.

When looking for access to finance, getting the right advice is vitally important. Nationally, most respondents indicated that they would seek advice from their accountant. This differs in the East Anglia region, where respondents said they would seek the advice of their bank (44%), accountant (33%), and discuss matters internally (23%).

In summary the results from the region indicate a sense of optimism for the year ahead. This is a sentiment echoed by the region's business leaders, who have recently highlighted the mounting strength of the local economy following the third consecutive quarter of GDP growth (October 2013). Consequently, as both the economy and business confidence continue to strengthen the outlook for the region appears bright.

London and the South East

MHA MacIntyre Hudson

The recent funding and finance survey attracted a range of respondents in the London and South East, East Midlands and Northern Home Counties regions of the UK. Respondents range in size from £1m turnover to over £40m and operate in a variety of sectors, including inter alia support services, aerospace, automotive, property and construction and manufacturing and engineering.

In this region most respondents stated at least cautious optimism in the economy. 78% of respondents have seen sales grow during 2013. Only 6% had seen sales fall, with the remainder responding that growth had been flat. This appears to be very much in line with the national picture across most of the UK.

Just less than 30% of respondents sought to raise finance in 2013, of which 80% had actually succeeded. For 2014 the picture appears to be similar, with 22% of respondents expecting to raise finance and around 17% undecided. Most respondents cited the lack of availability of finance, the costs of finance, economic uncertainty and the level of control required by potential equity investors as the main barriers to raising funding. Some also cited a lack of trust in finance providers, probably as a result of the various banking scandals which have occurred in recent years.

Reasons for raising finance in 2013 were predominantly focused on M&A (11%), investment in premises or plant and machinery (6%), product development (6%), organic growth (6%) and investment in research and development (3%).

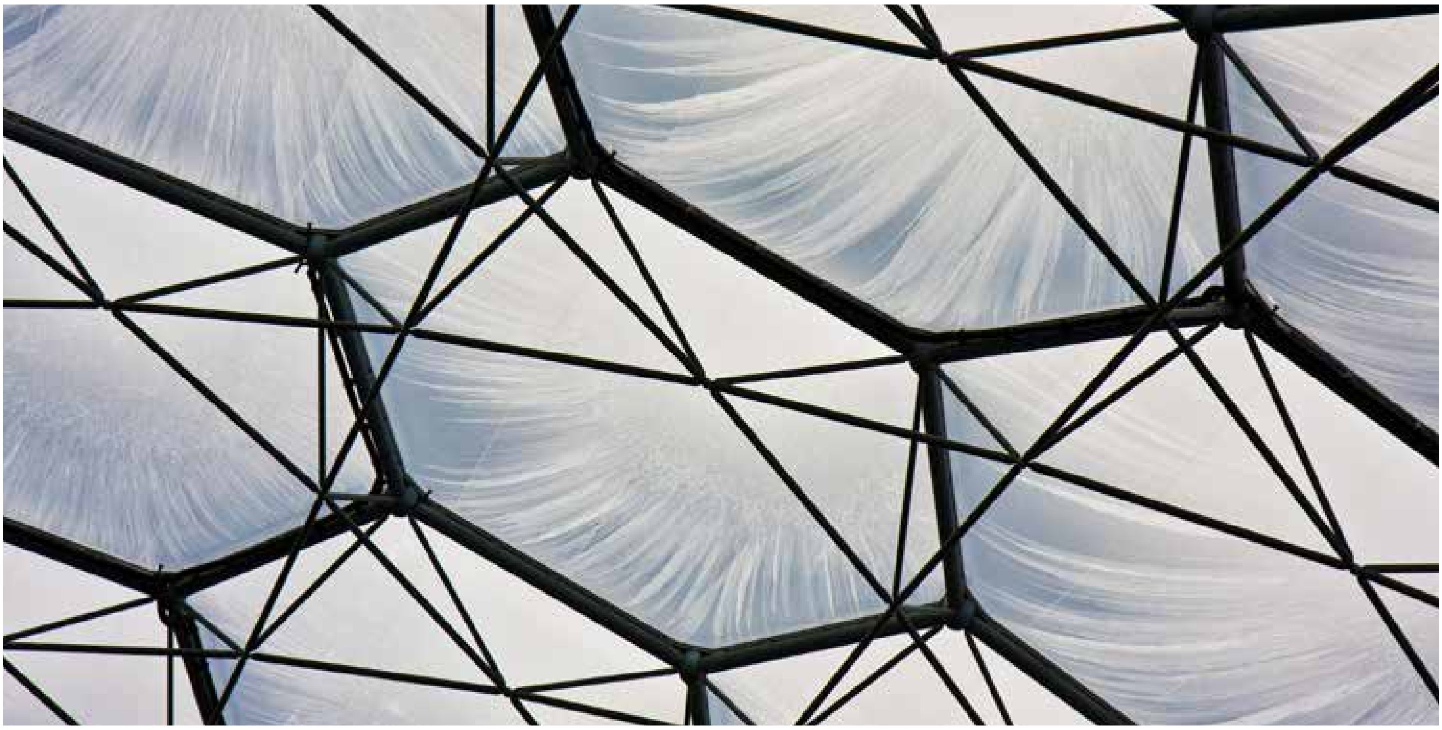
When looking for funding in 2013, most participants in the region turned to a variety of sources, including private equity and/or venture capital houses, angel investors, asset-backed lenders, high street banks and crowdfunding platforms. Levels of funding sought were commonly around the £250,000 to £1m level, although a smaller percentage sought funding beyond this level.

Those business seeking to raise finance in 2014 in the London, South East, East Midlands and Northern Home Counties regions are higher than the national average, with the majority looking to raise between £500,000 and £5m.

Most of those intending to raise finance in 2014 appear to be looking to their bank or asset-backed lenders. A smaller percentage plan to source funding from business angel networks, private equity and/or venture capital houses or crowdfunding platforms.

The planned regulation of crowdfunders by the FCA in 2014 could lead to this source of funding becoming more attractive to those who wish to know the market is regulated, although this may make it less attractive to those sophisticated investors who prefer to provide finance to businesses without the red tape attached to the FCA regulations.

When looking for access to finance, it appears that getting the right advice is important to most respondents. In the region most respondents indicated that they would seek advice from their bank and their accountant. Some also stated that they would seek advice from business associates. Insight from local advisers on the ground is important to ensure that business owners are aware of the options available to them and that they are talking to the right people in the funding community. Respondents quoted several sources of funding which may not be commonly well known, including the Enterprise Guarantee Scheme, Funding For Lending and the enhanced capital allowances for investment programme.



South West

Monahans

The recent MHA funding and finance survey attracted a range of respondents in the South West region. Companies responding ranged in size from smaller owner managed businesses to larger SMEs with an established local brand, operating in a variety of sectors including professional practices, support services, retail and manufacturing.

For participants in this region, most respondents (47%) expressed guarded optimism in keeping with the national picture. These businesses have experienced low to medium growth in 2013 with a further 35% of respondents reporting medium to high growth levels over the same period.

29% of respondents had successfully raised finance in 2013 and for 2014 the picture is expected to be similar with 23% planning to raise finance.

Reasons for raising finance were predominantly focused on growth and investment in infrastructure with 6% of respondents accessing international markets and 12% launching new products and services. As an example of this, Monahans Corporate Finance recently assisted a start up business raise £350,000 specialist working capital finance.

40% of those who were successful in their requests for finance found it relatively easy to access. However, only 17% considered that the lack of regional finance was restricting their ability to grow with the most common barriers to finance being cited as economic uncertainty and cost.

Requests for finance in the South West region from this survey are lower than the national average with the majority looking to raise up to £500,000. The majority of respondents were aware of Government schemes designed to stimulate lending such as Funding for Lending, Enterprise Finance Guarantee Scheme and enhanced capital allowances for investments.

When looking for funding, most respondents in the South West region looked to the banks and angel investors in 2013. In 2014 the picture is similar, with all respondents intending to find finance from bank loans and asset based lending but some would also consider accessing government grants and relying on friends and family.

When looking for access to finance getting the right advice for your business is important. Nationally most respondents indicated that they would seek advice from their accountant. It is important to consider professional advice and local insight is key to ensuring awareness of the options available. Locally, in the South West region, there are a number of schemes you may wish to consider and Monahans Corporate Finance Team would be happy to advise.

South Coast

Carpenter Box

The recent funding and finance survey attracted a range of respondents in the South Coast region. The majority of companies responding, 62%, had a turnover of under £1m but respondents also included larger companies with a turnover between £21m-£41m. Respondents covered a broad range of sectors including those in automotive, financial services, healthcare, logistics, manufacturing and engineering, pharmaceuticals, property and construction, real estate and retail.

For participants in this region most respondents, 90%, expressed optimism for growth in 2014 with 40% anticipating more than 10% growth in the coming year. Overall this is in keeping with the positive national picture, with business confidence appearing to improve across the UK.

However, few respondents had raised finance in 2013 and although more appear to be considering raising finance in 2014 most indicated that they are currently undecided on this for the coming year, and 40% responding that they are not planning to do so. This appears to be due to the perceived barriers to raising finance, with many respondents citing the current cost of finance or finance not being available as the main barriers.

Reasons for raising finance were predominantly focused on acquisitions and property expansion in the region, with requests for finance in the South Coast region being at a lower level than the national average, with the majority looking to raise under £250,000, although this reflects the size of the respondent businesses.

When looking for funding, most participants in the region looked to traditional bank loans and mortgages in 2013. In 2014 the picture is similar, with 56% considering raising finance from the same sources. This is not surprising considering 80% of respondents described their relationship with their bank as good or excellent, however, respondents on the South Coast were also considering crowd funding and equity investment as alternative sources of funding.

When looking for access to finance getting the right advice for your business is important. Nationally most respondents indicated that they would seek advice from their accountant. It is important to consider professional advice and local insight is important to ensure that you are aware of the options available to you. Locally, in the South Coast region, the picture is similar with most respondents indicating they would turn to their accountant for funding advice and the MHA member firms have good contacts with local banks, asset finance providers as well as less traditional sources such as grants and crowd funding.

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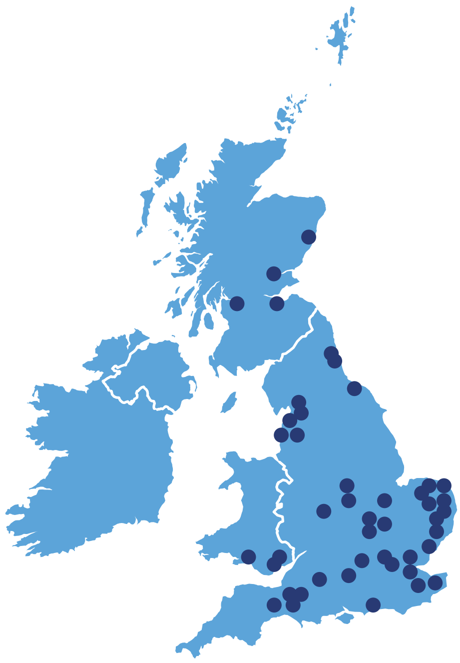

About MHA

MHA is a UK wide association of progressive and respected accountancy and business advisory firms. As well as dedicated corporate finance expertise, each MHA firm offers a broad range of services including accountancy, tax, business advisory and sector specialisms.

MHA's corporate finance group is made up of a number of leading practitioners with many years' experience advising owner managers on their funding requirements and other M&A activities. The members of our award winning teams have the ability and the expertise to fully understand the complex needs of your business and to provide a level of advice that you would both expect and deserve.

Across the group more than 40 M&A transactions were completed in 2013. In addition, and demonstrating the high levels of expertise in the group, two members, Laurence Whitehead of MHA MacIntyre Hudson and Michael Smith of Tait Walker, were recognised in 2013 when they won their respective regional Insider 'Dealmaker of the Year' awards.

Thank you

MHA 2014 Funding and Finance Report