

Capify SME Business Confidence Survey

Q2 2023

Introduction

I am delighted to present the results once again from our latest Quarterly Business Confidence survey. Over 250 SME business owners took part in our latest research, with responses coming from every sector, industry and region of the UK.

As always, we are enormously grateful to those owners and operators who take the time to complete our survey and tell us how they are feeling about the current business conditions and their outlook for future trading performance. We launched the survey two years ago to better understand the unique mindset of SME owners and the specific conditions they face, and, to date, we have canvassed the views of over 2,500 UK SMEs on a broad range of subjects and topics.

Our latest survey shows a small dip in UK SME confidence. After a modest improvement in confidence in the first quarter of this year, the continued pressure of inflation and rising costs has dampened the spirits of many of our respondents.

Against this backdrop however, our findings reveal modest improvements in those smaller businesses who are reporting turnover and profit stability and/ or growth, and a corresponding decrease in those who are reporting negative quarter-on-quarter turnover and profit performance. Despite this, we are seeing an increase of those reporting they are tracking behind their forecasts for this year – suggesting that business is not rebounding as quickly as the SME community expected.

More optimistically, however, more respondents are predicting revenues and profits to grow in the year ahead than had in the previous quarter.

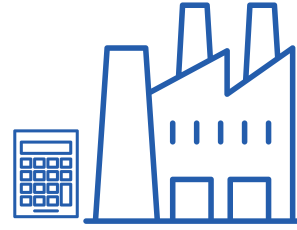
Despite these green shoots, there remain significant challenges facing smaller businesses. The period of inflationary pressure has impacted the flow of cash in and out of businesses and significant concerns about inflation, cash reserves, and unpaid invoices remain.

Understanding how these conditions impact smaller businesses enables us to better serve them. We use these insights to help us tell the SME story; to raise awareness of what help is required from legislators, advisory professionals, and finance providers. Furthermore, the responses help us adapt our own offering and allow us to deliver the best service we can to support and service the specific requirements of smaller businesses.

In keeping with other economic data and confidence research, our survey shows signs the worst of the economy's malaise may soon be over, but it will be some time before confidence returns to average historic levels. SMEs will be the engine room of the UK's economic recovery, and their financial viability is essential for future growth. We were recently awarded SME Lender of the Year (up to £1m) by the UK Credit Awards, and we are proud to work with UK SME owners who, over the course of the past three years, have shown themselves to be world-leaders in adaptability and innovation.

At Capify, we will be there every step of the way to help smaller businesses fund their operations and fuel their growth.

John Rozenbroek
COO/CFO



Most represented sectors:

Business and Professional Services and Manufacturing (non-food)

Average **turnover** of respondents:

£2,929,889

Respondent profile



Average number of **employees**:

24

Nearly **60%** of businesses have been trading for over

15 years



Average **cash** in bank position:

£103,735

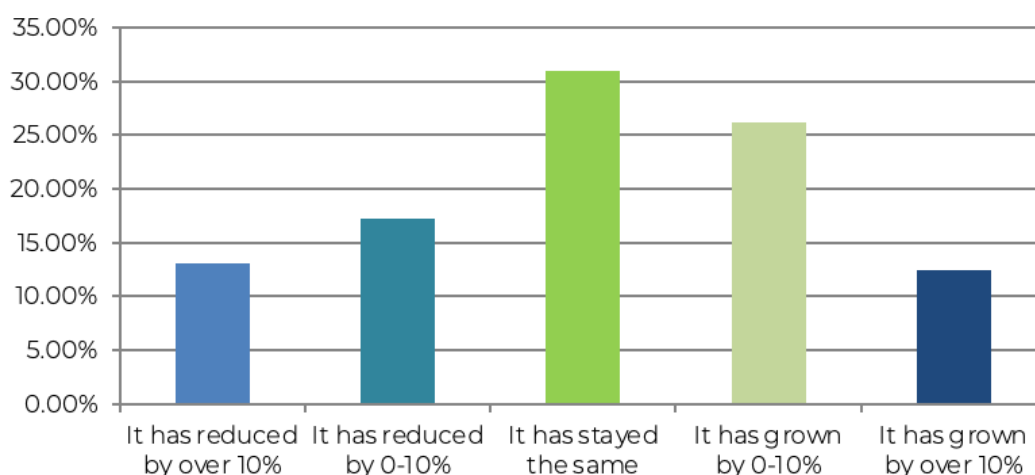
Business Performance

Unsurprisingly, the Q2 2023 Survey discovers a SME community still struggling with the myriad challenges related to economic conditions and consumer confidence. Despite this, more firms reported a stabilising turnover and profit performance, with fewer firms reporting reduced quarterly performance.

38.69% have seen turnover grow in the past quarter.

30.36% reported a quarterly reduction in turnover, a **3pp** decrease on Q1 2023.

HOW DOES YOUR TURNOVER FOR Q2 (APR-JUN) COMPARE TO THE PREVIOUS QUARTER (JAN-MAR)?



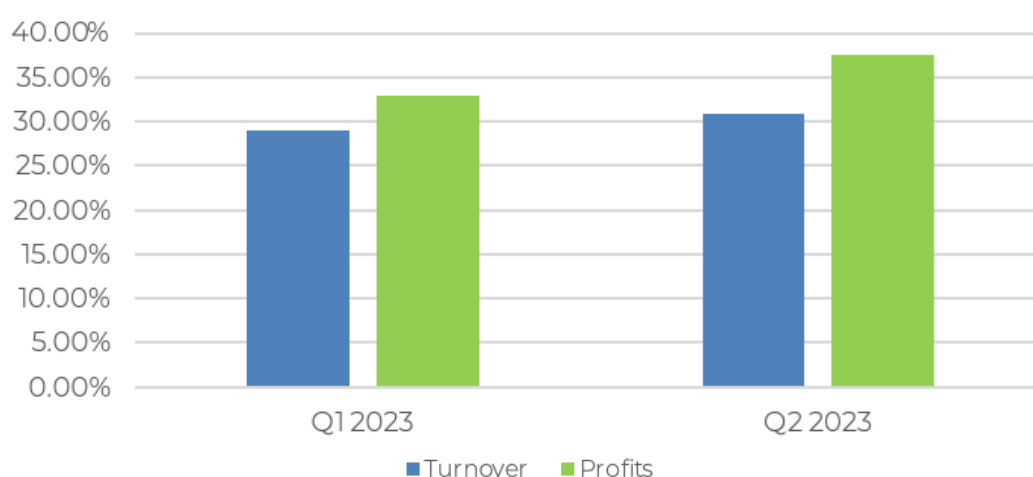
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30%

have seen profits increase in the past 3 months

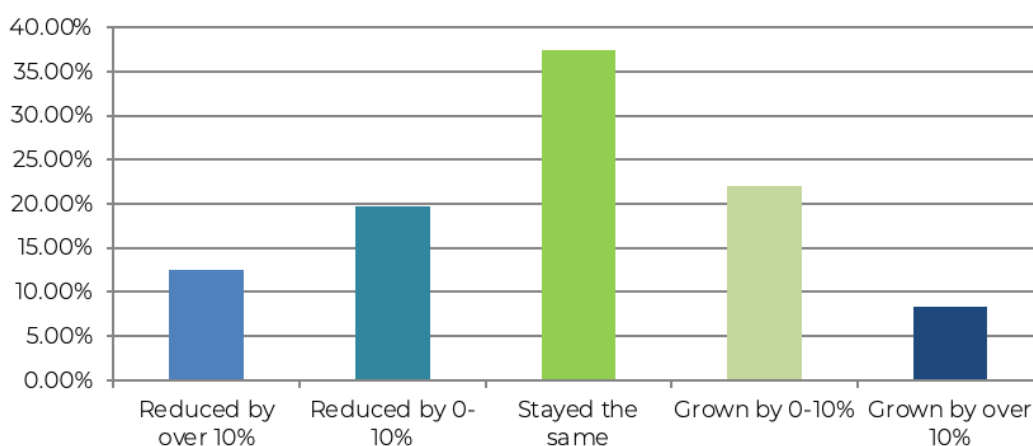
The number of firms reporting consistent quarterly performance in both turnover and revenue has grown over the past three months.

QUARTER-ON-QUARTER TURONVER AND PROFIT STABILITY



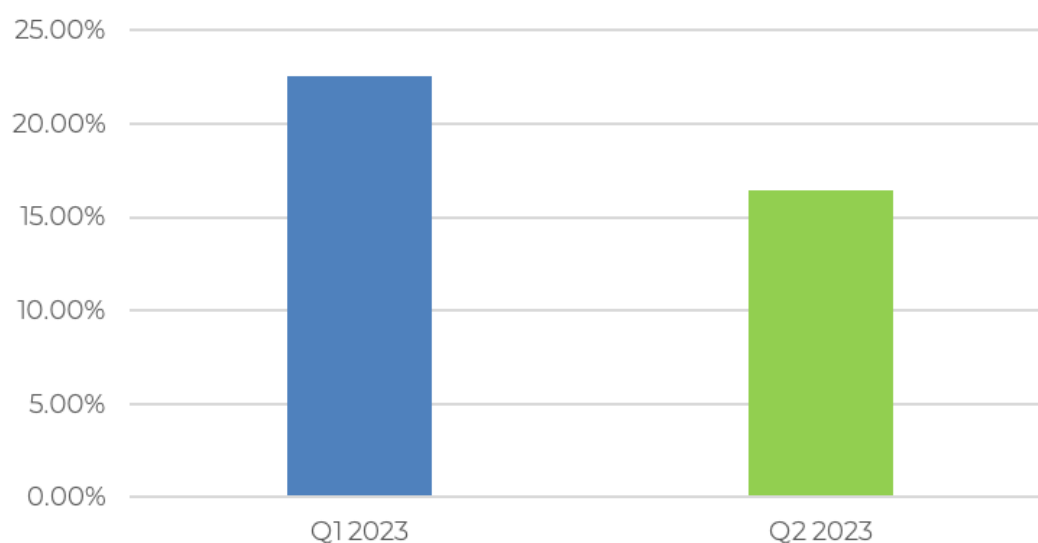
Reflecting the difficulty in overarching trading conditions and the cost increases in the supply chain, only **30%** have seen profits increase in the past 3 months, whilst **32%** have seen profits reduce.

HOW DOES YOUR PROFIT FOR Q2 (APR-JUN) COMPARE TO THE PREVIOUS QUARTER (JAN-MAR)?



The number of SMEs reporting that they were on target for their quarter fell by **6pp** on the Q1 2023 number. Equally concerning was the increase in the number of SMEs reporting that they were currently tracking behind their targets – **47%** compared to 42% in the previous quarter.

% OF SMES REPORTING AS 'ON TARGET' AGAINST FORECAST

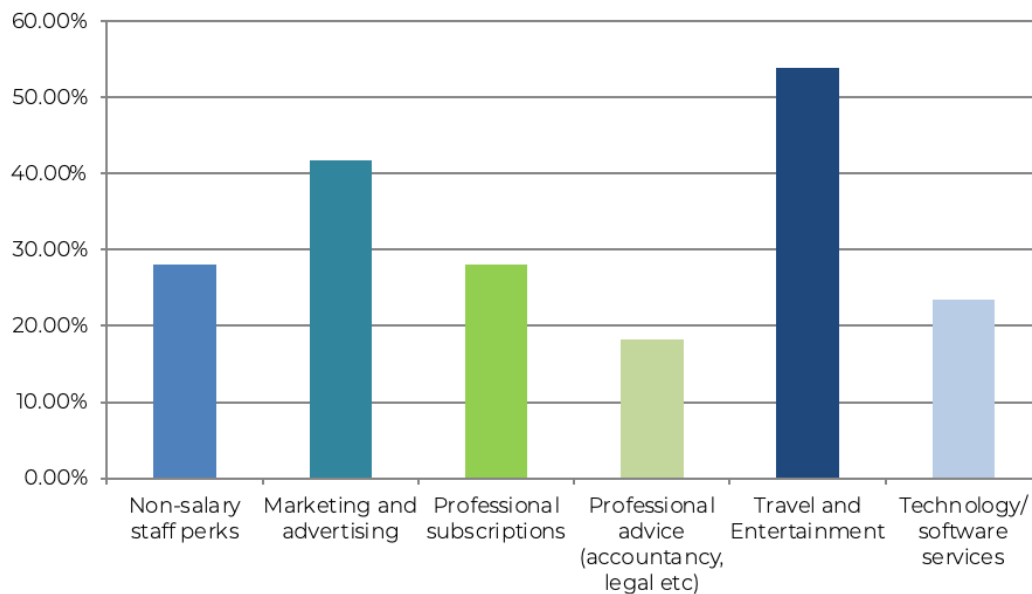


An integral part of keeping to business forecast is ensuring that discretionary costs are under control. In response to mounting inflationary pressure, the majority of firms (**54%**) have reduced spend on travel and entertainment and **42%** have reduced marketing and advertising outlays.

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AREAS WHERE SMES HAVE REDUCED SPENDING AS A RESULT OF INFLATIONARY PRESSURES



Cash collection is also a vital tactic in maintaining healthy cash flow. Our survey found that the average SME is currently sitting on **£46,138** of unpaid invoices.

Evergreen and cyclical challenges

Consistent with previous surveys, we find SME owners being kept awake at night by a range of different worries. Some are directly linked to the economic cycle and others are more evergreen.

The top five concerns for SME owners were:



1. Rising cost/ inflation

43%

(+1% on Q1 2023)



2. Finding new customers

44%

(+4 % on Q1 2023)



3. Work life balance

33%

(-6% on Q1 2023)



4. Cash flow

33%

(-1% on Q1 2023)



5. Staffing/ resource

32%

(-1% on Q1 2023)

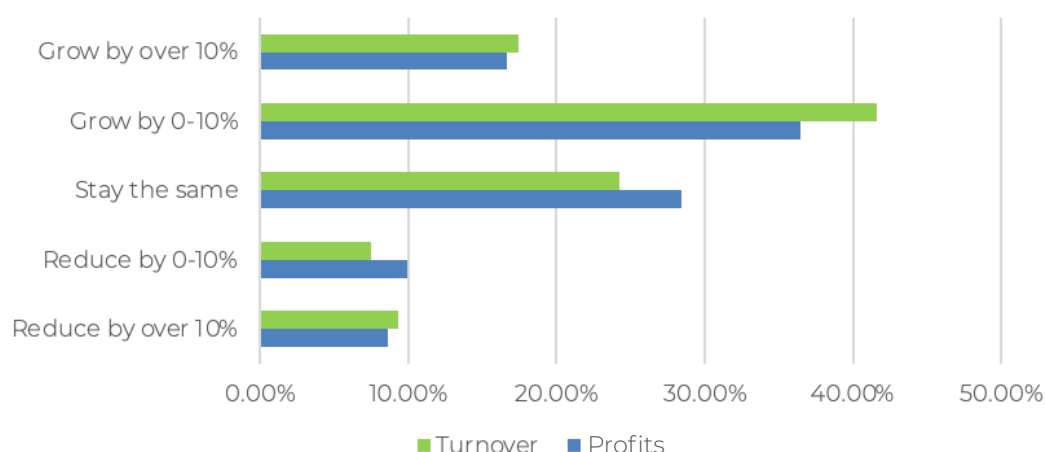
Capify has produced some practical guidance for how owners can overcome some of these evergreen challenges. You can access the article [here](#).

Business Outlook

Despite the ongoing challenges in current trading conditions, the survey found an increase in optimism around turnover and profitability in the coming year.

Just under **60%** of SME owners expect turnover to grow over the coming year, with **53%** expecting profits to grow over the same period.

PROFIT AND TURNOVER EXPECTATIONS FOR THE YEAR AHEAD



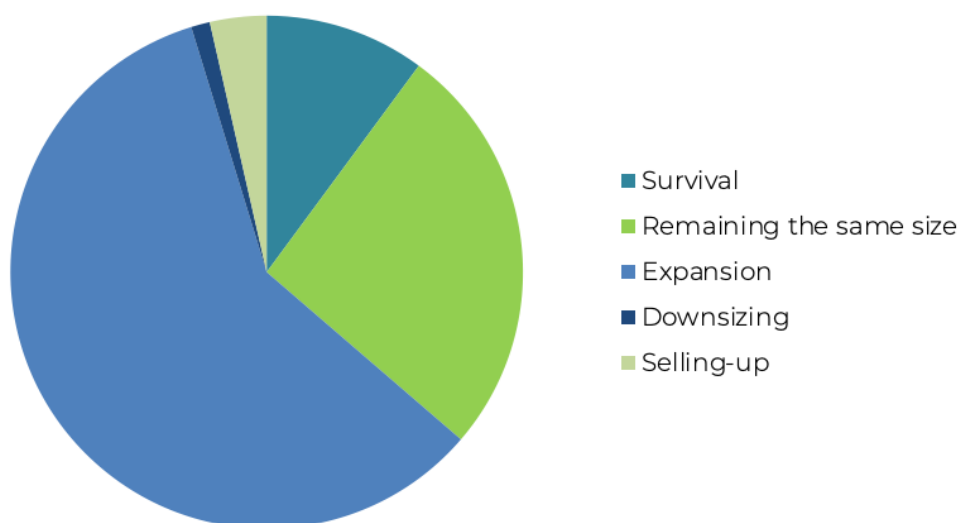
This optimism about forthcoming business performance continues into an expected increase in hiring: **40%** of firms expect to increase their headcounts over 2023, although this is a **2pp** drop on Q1 2023 forecasts.

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Furthermore, the improved confidence in operating conditions, means that **59%** of firms are planning business expansion over the next 12 months (compared to 51% in Q1 2023).

WHAT ARE YOUR AMBITIONS FOR THE BUSINESS OVER THE NEXT 12 MONTHS?



Of those who aren't expecting expansion, **20%** cite cashflow and working capital as a barrier to growth.

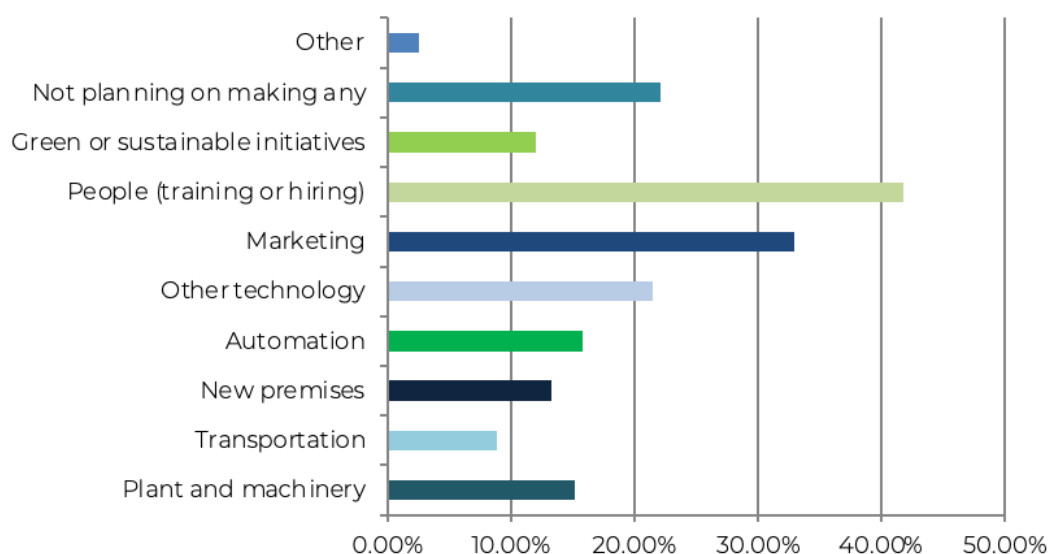
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Investment

Overall, the number of areas in which respondents were looking to invest has increased quarter-on-quarter. Our survey found that SMEs, were looking to invest in **1.84** areas across their business (compared to 1.72 in Q1 2023). The survey reports that, on average, SMEs will commit **£40,854** to areas of investment this year, an increase on the £33,558 estimated in Q1 2023.

Perhaps in recognition of continuing issues with the labour market, investing in people (training and hiring) was the most frequently cited area of planned investment.

PLANNED AREAS OF INVESTMENT

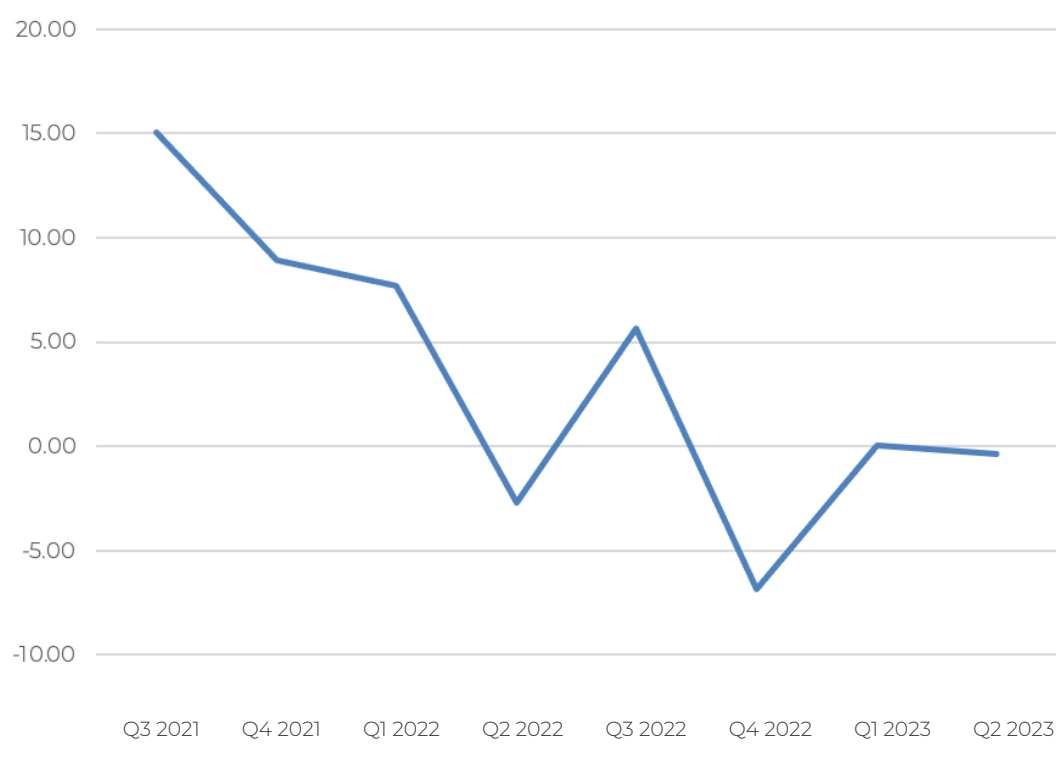


The Q2
Confidence Score
now sits at
-0.35%

Despite this increase in investment intention, the Survey's overall outlook score showed a slight decrease on the previous quarter. The Q2 Confidence Score now sits at **-0.35** compared to 0.01 in the previous quarter.

The Survey uses business owners' responses on business performance, confidence, and investment intentions, to produce an overall confidence score between -10 (very unconfident) and +20 (highly confident).

CAPIFY CONFIDENCE SCORE



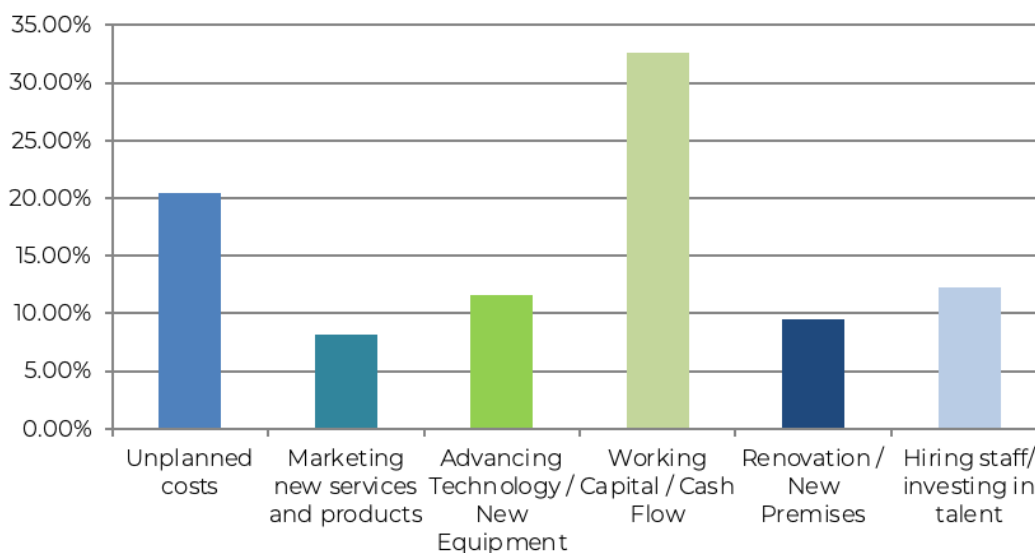
Finding funding

SME access to finance continues to be problematic. **37%** of firms are currently not confident of being able to secure external finance from their existing banking partners.

One in three owners reported having required external funding to help cash flow issues and/or working capital shortfalls in the past. Only **27%** of those individuals secured that funding from a bank (down from 52% of borrowers in Q1), whilst 50% found financial support through an alternative lender or other, non-traditional, sources.

For those who are expected to require external funding in the near future, **33%** feel that that working capital or cash flow challenges would be the reason they would need an injection of finance.

REASON FOR NEEDING EXTERNAL FINANCE



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