



Current trends in the SME funding market

The 2018 Small Business Finance Market report prepared by the British Business Bank focuses on funding conditions for SME businesses in the UK. The report considers both the supply and demand for finance and the report makes the following key observations:

- The stock of bank loans and overdrafts with UK SME's increased slightly by £1bn, with the total stock of bank loans and overdrafts standing at approximately £165bn.
- Asset finance has continued the rapid growth seen in prior years with new lending growth of £18.6bn in 2017 (12% growth on the prior year).
- Peer to peer lending & crowdfunding (both equity and debt) grew by an estimated £1.78bn in 2017 (51% growth on the prior year).
- Equity investment by value has increased by 89%, with deal volumes increasing by 5%. The sharp increase in overall value being mainly driven by a small number of large deals.
- The demand for finance has decreased with only 1.7% of SME businesses applying for finance in 2017. This continues the decline seen in every year since the survey began in 2012. This decline has been matched to some extent by a build up of cash reserves over the same period.

The above suggests that the supply of finance, and particularly the supply of alternative sources of finance has improved, and this should be welcomed.

The decline in the demand for finance is more complex. If the reduction indicates that businesses are able to manage their growth aspirations without requiring external finance, for example through improved working capital management this should be welcome.

However if the reduction in demand indicates that many SME's perceive that the likelihood of successfully raising finance is low, or they are unaware of the alternative funding options available to them this is more concerning. There is some evidence to suggest that both of the above are still relevant. For example recent surveys have suggested that when faced with a decline from their incumbent funder, the majority of SME's are not considering alternative funding options.

With the growth in alternative finance, and the increasing pace of change in the funding market, it has never been more important for businesses to use Corporate Finance advisor to navigate through the funding options available, and who will work with management to provide the business plan and other key information required by funders.

The Corporate Finance team at MHA Moore & Smalley has significant experience in assisting SME's across a wide range of sectors to raise finance. Our work involves raising finance from both high street funders and alternative finance providers.

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 www.mooreandsmalley.co.uk

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 Offices in: Preston, Blackpool, East Midlands, Kendal, Kirkby Lonsdale, Lancaster, Liverpool, Manchester and Southport



Ian Waddingham

Corporate Services Manager

01772 821021

ian.waddingham@mooreandsmalley.co.uk