



FIN(4)FW056b
Finance Wales Inquiry
Response from PBD Consulting

**Response to 2nd Stage Report Access to Finance
Welsh Assembly Finance Committee
10th January 2014**

PBD Consulting

Marquis House
67/68 Jermyn Street
London, SW1Y 6NY



- PBD are an independent Commercial Due Diligence Firm whom have worked with a number of Welsh SMEs to help support their growth
- We were surprised by the Access to Finance Report as it
 - appeared to focus on organisational solutions (i.e. “re-organising the deck chairs”)
 - did not appear to provide meaningful insight into the barriers for credit for Welsh SMEs
 - appeared to cherry pick some statistics to suit its thesis.
- We reviewed the same BBA regional statistics as the report and believe the picture is more nuanced/complicated than the report brings out
 - lending to Medium sized enterprises is relatively stronger than in many other UK regions
 - The report statement that the decline in lending to Small Businesses in Wales “*accounts for 55% of the total UK fall in loan book balance for small firms*” appears to paint an inaccurate picture of the scale of the decline in lending to Small Enterprises in Wales
 - Other indicators of lending to SMEs (such as % of businesses approved for a loan/overdraft or loans as a % of revenue) highlight that Welsh SMEs appear to be more successful in obtaining loans than their counterparts in other UK regions.
- SME lending in Wales is ~£5,000m. The investment funds (both equity and debt) available to Finance Wales are <5% of this. Focusing solely on Finance Wales role (which we believe is focused on higher risk lending) may not substantially address the challenges of SME lending in Wales
- We recommend that in advance of any structural reforms a more detailed identification of the specific barriers to lending to Welsh SMEs be undertaken. This will help ensure that any reforms or initiatives address the challenges of SME lending.

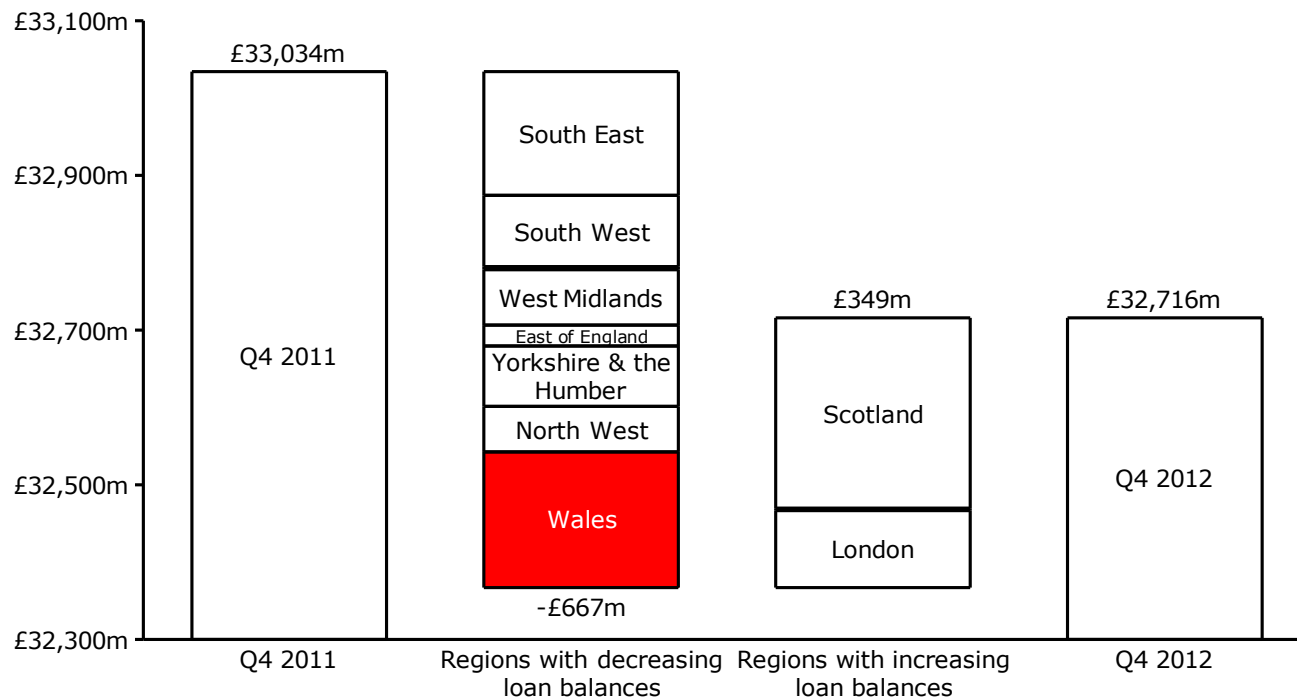
The Change in Loan Balance over Q4 2011 - Q4 2012 for Small Businesses* with Original BBA



Figures

Whilst there is clearly a credit challenge for SMEs in obtaining loans in the UK we were shocked to see the Access to Finance Review (June 2013) state “this decline [for Wales] accounts for 55% of the total UK fall in loan book balance for small firms”. Hence we were keen to bring our Due Diligence skills to understand this situation. On first review it was only 26% of the total decline which is relatively greater than Wales SME as a % of UK SME (4% of SMEs and 2% of SME revenue).

The Change in Loan Balance over FY2012 for SMALL Businesses (<£2MM revenue) by UK Region



* Note: BBA definition of Small Businesses is enterprises with a typical turnover being up to £1m/£2m.

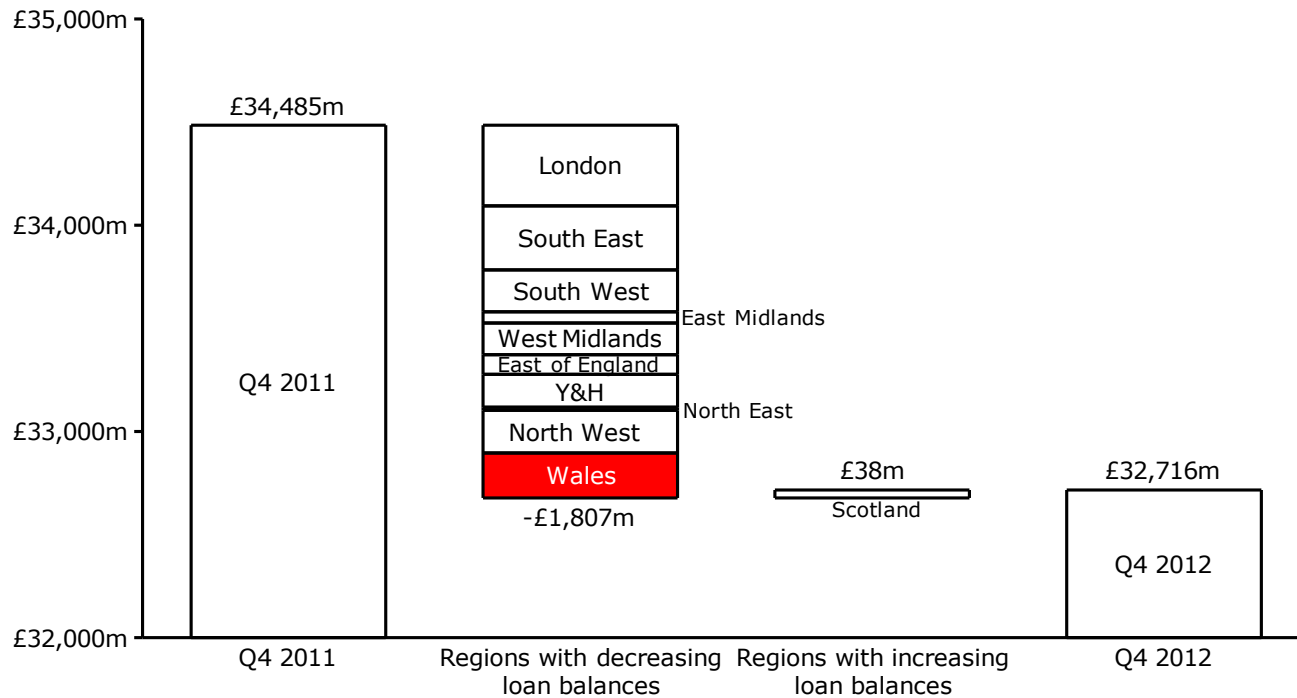
Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 4 2012

The Change in Loan Balance over Q4 2011 - Q4 2012 for Small Businesses* with Latest BBA

Figures

However the figures were revised in December 2013 to show Wales had declined by a larger amount (£218m v. £176m) but it is only 12% of the total decline.

The Change in Loan Balance over FY2012 for SMALL Businesses (<£2MM revenue) by UK Region

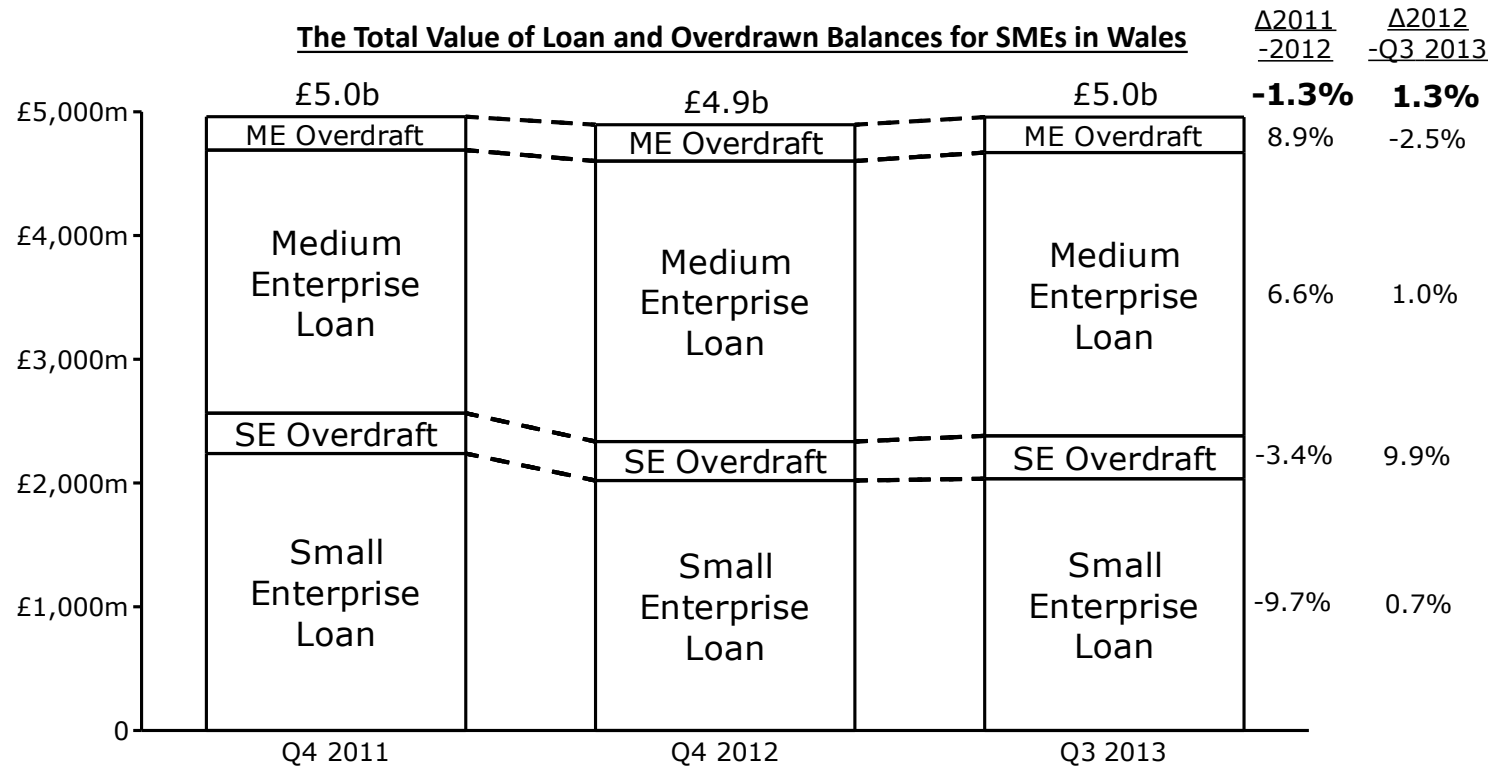


* Note: BBA definition of Small Businesses is enterprises with a typical turnover being up to £1m/£2m.

Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013

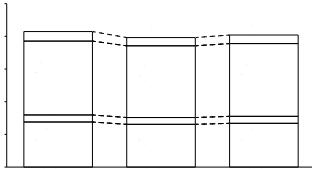


The total value of loan and overdrawn balances for SMEs in Wales declined in 2012 but increased in the first 3 Quarters of 2013



* Note: BBA definition of SMEs is enterprises with a typical turnover being up to £25m.
Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013

... which is similar (and slightly better) performance than UK SME lending in total



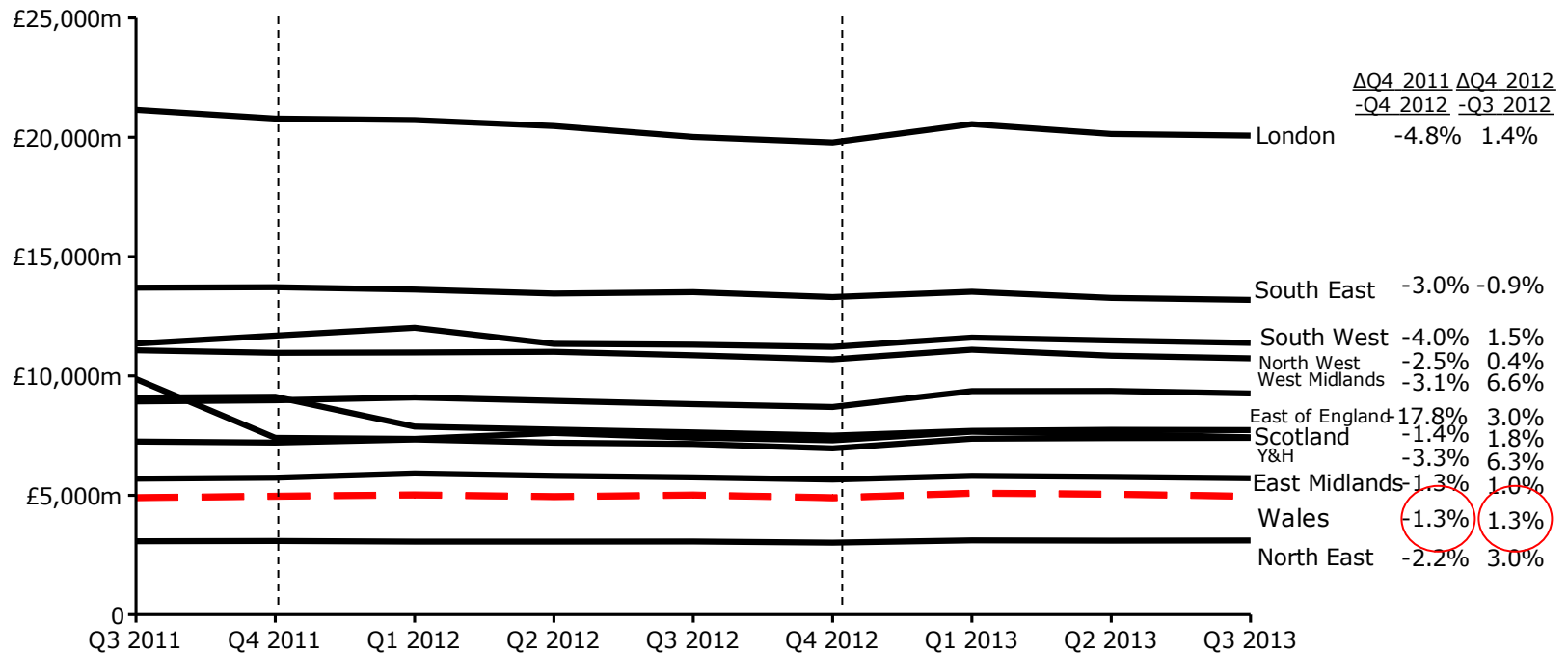
The Total Value of Loan and Overdrawn Balances for SMEs in UK

Value of Loan and Overdrawn Balances for SMEs*



When one reviews the decline of both Small and Medium Enterprise loan and overdraft balances in Wales it is less than other regions in 2012.

The Total Value of Loan and Overdrawn Balances for SMEs



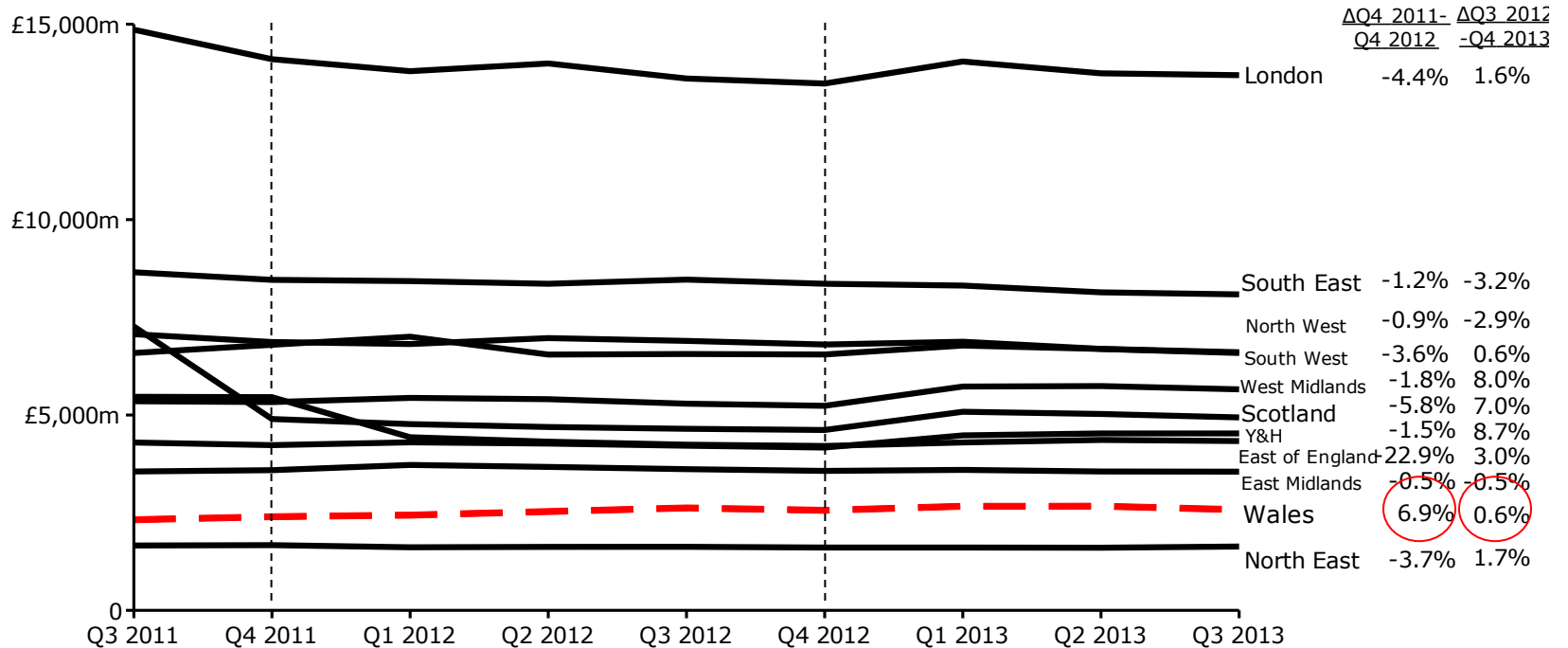
* Note: BBA definition of SMEs is enterprises with a typical turnover being up to £25m.

Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013

Value of Loan and Overdrawn Balances for Medium Businesses*

This is driven by lending to Medium Business which has performed well

The Total Value of Loan and Overdrawn Balances for MEDIUM Businesses



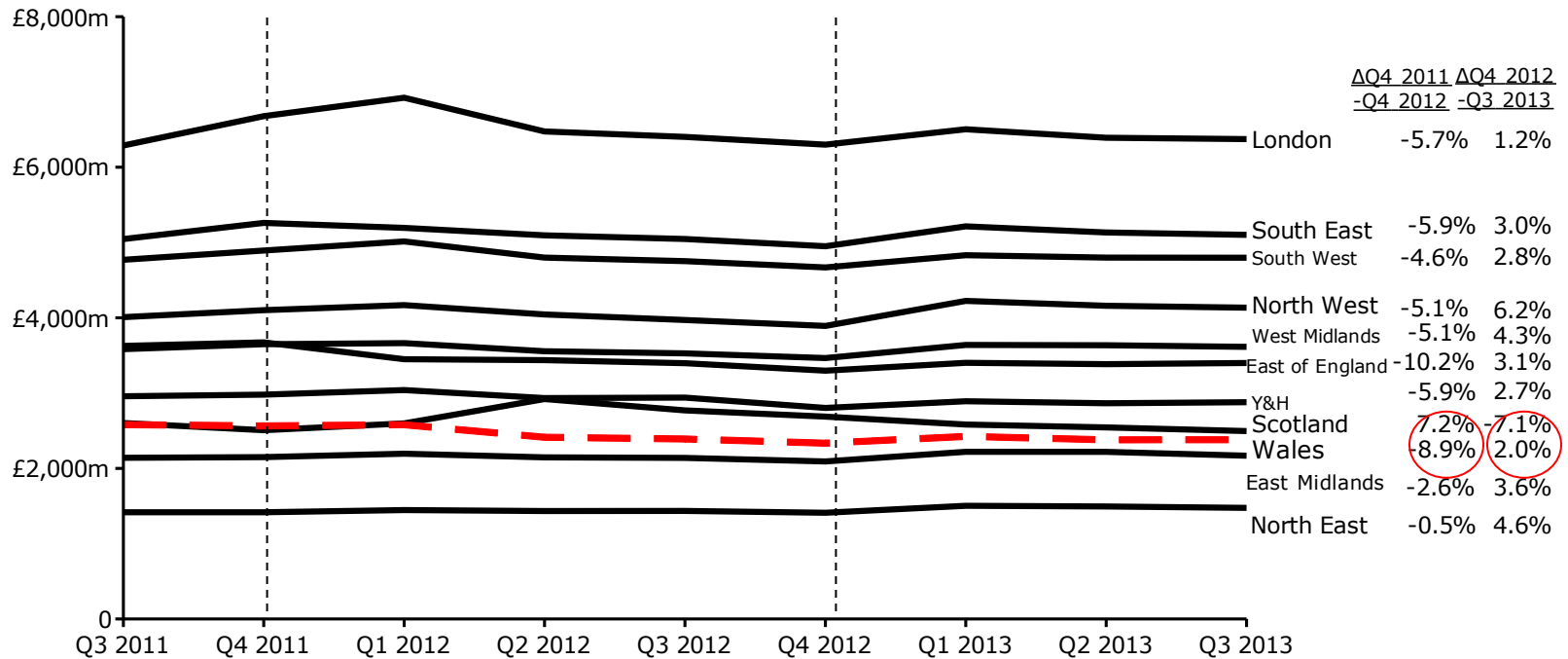
* Note: BBA definition of Medium Businesses is enterprises with a typical turnover being between £1m/£2m and £25m.

Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013

Value of Loan and Overdrawn Balances for Small Businesses*

... but Small business have 'performed' poorly

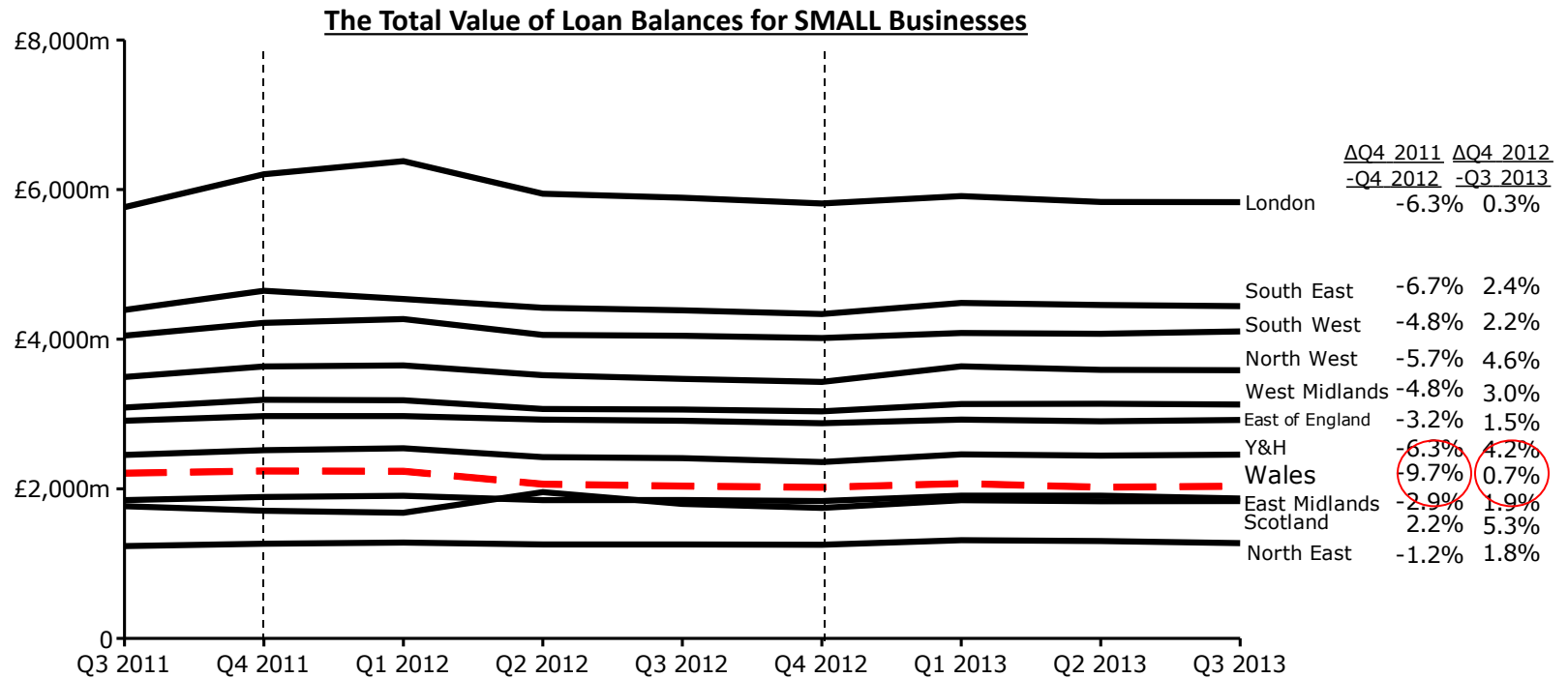
The Total Value of Loan and Overdrawn Balances for SMALL Businesses



* Note: BBA definition of Small Businesses is enterprises with a typical turnover being up to £1m/£2m.

Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013

The decline in SMALL enterprise loan balances in Wales seems to have reversed somewhat over the last year...

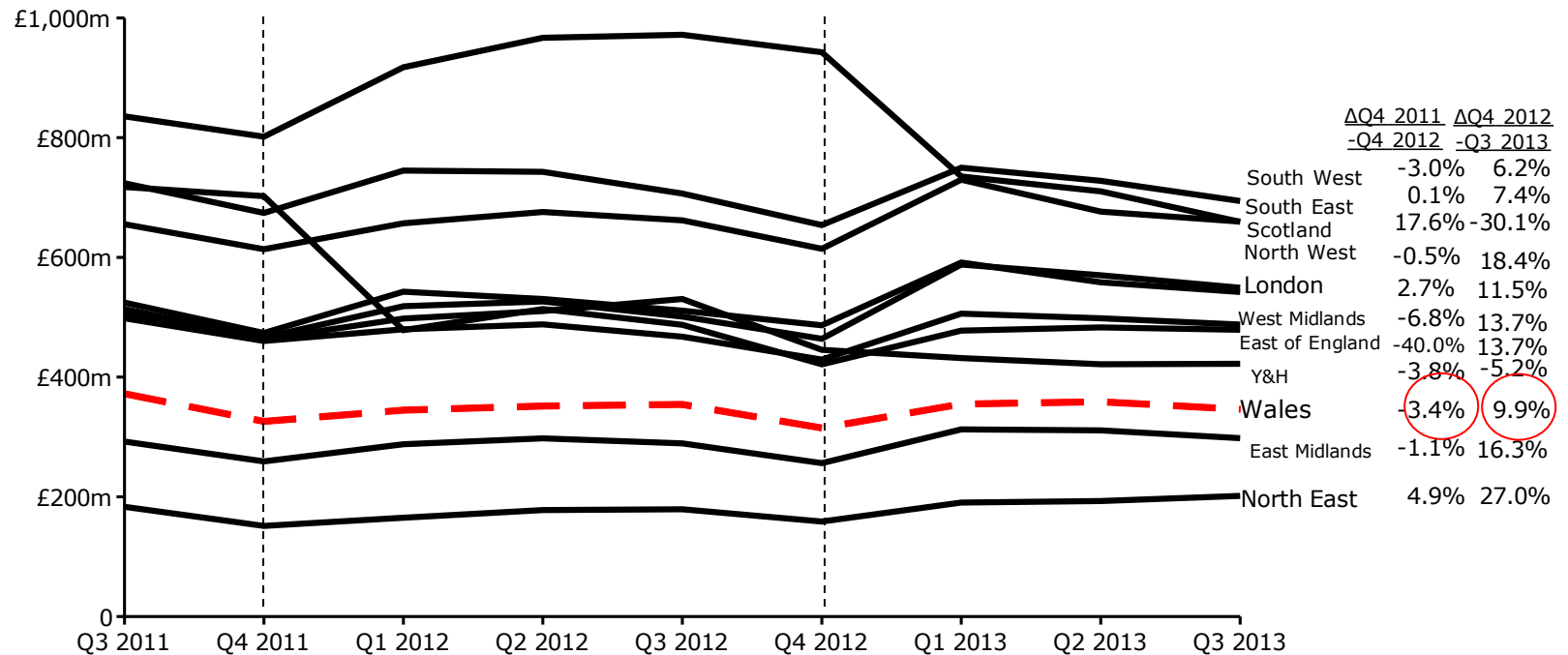


* Note: BBA definition of Small Businesses is enterprises with a typical turnover being up to £1m/£2m.
 Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013

Value of Overdrawn Balances (Small Businesses*)

...and this effect is even stronger for the overdrawn balances in Wales.

The Total Value of Overdrawn Balances for SMALL Businesses



* Note: BBA definition of Small Businesses is enterprises with a typical turnover being up to £1m/£2m.

Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013



Whilst SME lending has been challenging for Wales, other key indicators (listed below) suggest that Wales has had relatively stronger access to lending than other regions in the UK.

Hence we believe barriers to funding is a complicated picture that the Access to Finance report does not address effectively.

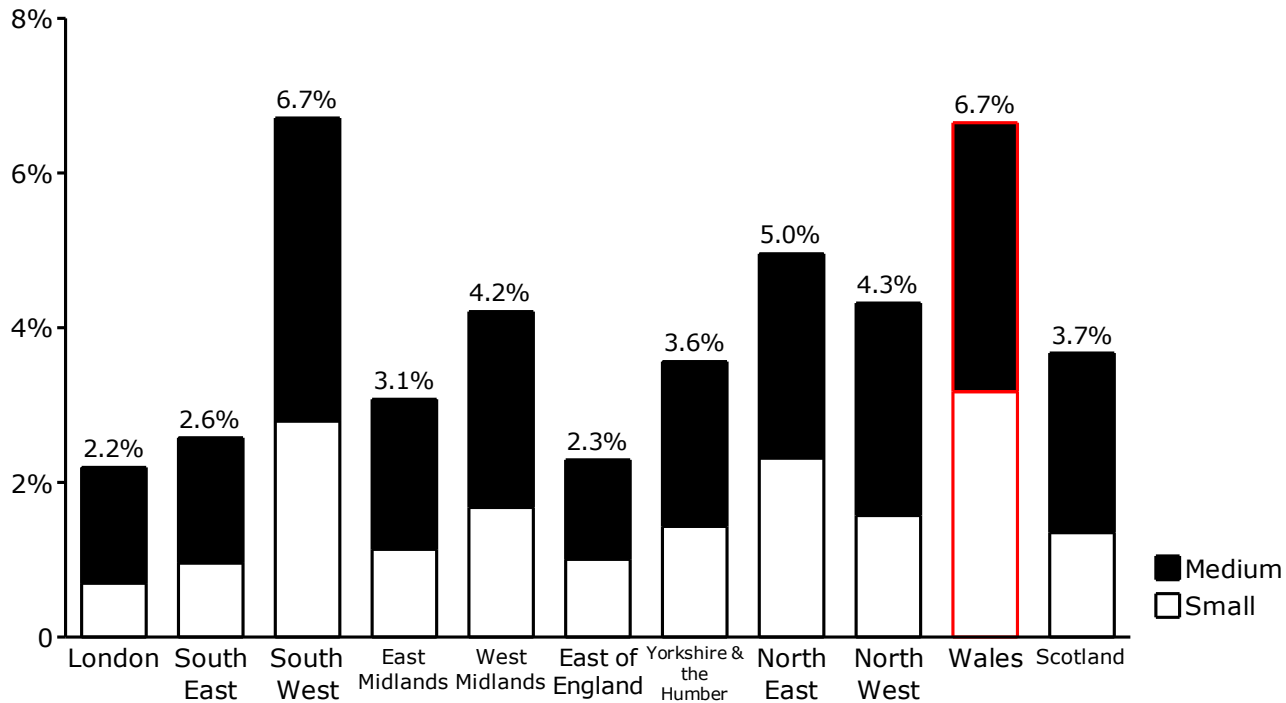
Lending Availability Key Indicators	Wales	UK
Total value of loan and overdrawn balances as % of SME turnover	6.7%	3.2%
Value of new loans as % of SME revenue for FY 2012	1.44%	0.69%
Value of overdraft facilities approved as % of SME Revenue for FY2012	0.48%	0.18%
The no. of loan facilities approved as % of all enterprises for FY2012	5.8%	3.3%
The no. of overdraft facilities approved as % of all enterprises for FY 2012	8.9%	5.2%

Value of Loan and Overdrawn Balances as % of Turnover of All Enterprises (SMEs*) for Q4 2012



As a % of turnover the value of loan and overdrawn balances in Wales has been relatively high...

The Total Value of LOAN and OVERDRAWN Balances as % of SME Turnover Q4 2012



Change Q4 2011- Q4 2012	-0.2%	-0.1%	-0.4%	-0.1%	-0.2%	-0.5%	-0.3%	-0.3%	-0.4%	-0.2%	-0.4%
Change Q4 2012- Q3 2013	-0.1%	-0.1%	-0.2%	-0.2%	-0.2%	0.0%	0.1%	0.0%	-0.3%	-0.2%	0.0%

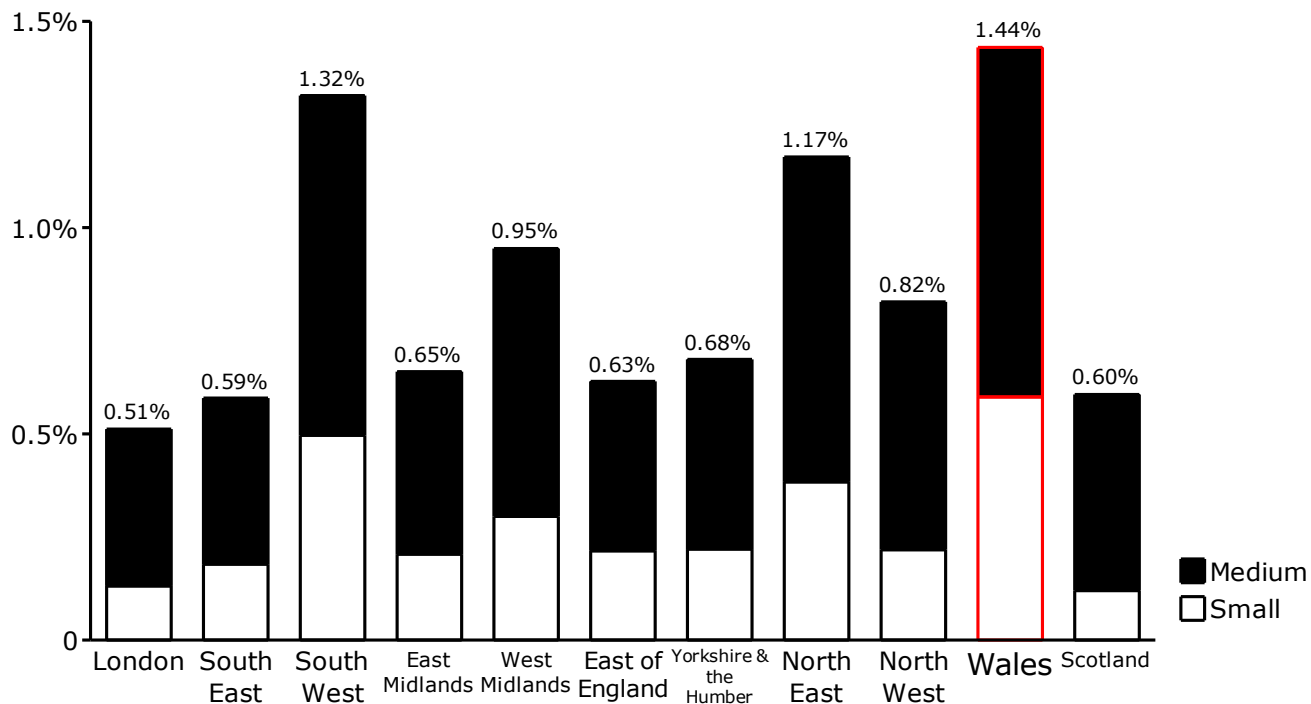
* Note: BBA definition of SMEs is enterprises with a typical turnover being up to £25m.

Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013

The Value of New Loans as % of Revenues for SMEs* for Q4 2011 - Q4 2012

The value of new loans as % of SME revenue in 2012 is highest in Wales...

The Value of New LOANs as % of SME Revenue for FY2012



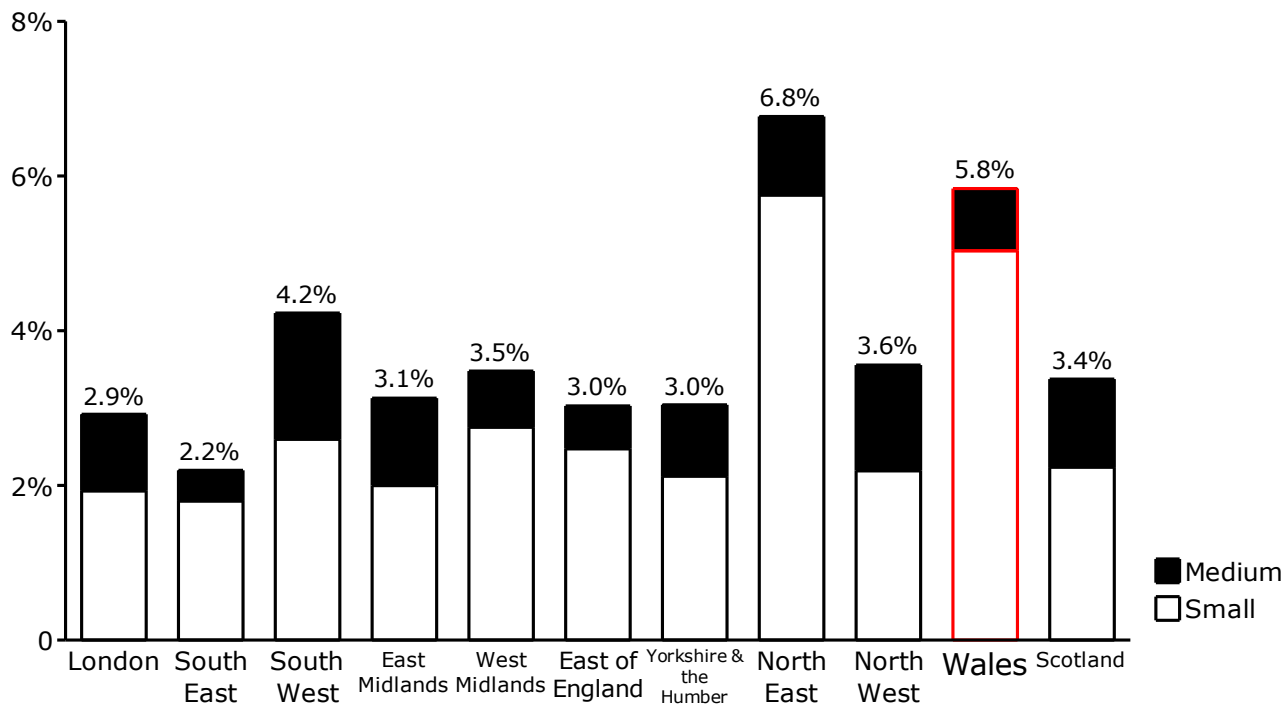
* Note: BBA definition of SMEs is enterprises with a typical turnover being up to £25m.
Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013

The no. of Loan Facilities Approved to SMEs* as % of All Enterprises for Q1 2012– Q4 2012



The no. of loan facilities approved in 2012 as % of all SME enterprises has been relatively high to other regions...

The no. of LOAN Facilities Approved as % of All Enterprises for Q1 2012 – Q4 2012



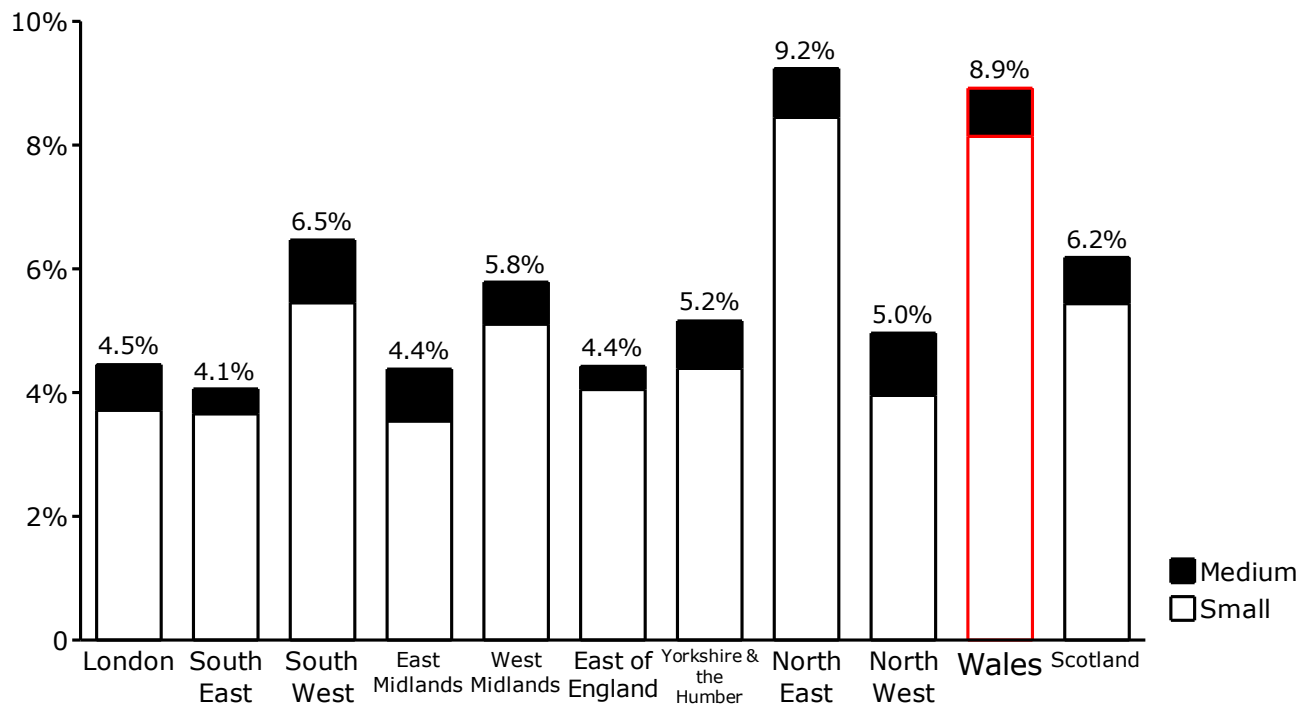
* Note: BBA definition of SMEs is enterprises with a typical turnover being up to £25m.
Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013

The no. of Overdraft Facilities Approved to SMEs* as % of All Enterprises for Q1 2012– Q4 2012



...and additionally the no. of overdraft facilities approved in 2012 as % of all SME enterprises is also relatively high to other regions.

The no. of OVERDRAFT Facilities Approved as % of All Enterprises for Q1 2012 – Q4 2012



* Note: BBA definition of SMEs is enterprises with a typical turnover being up to £25m.
 Source: British Bankers' Association (2013) Bank's support for SMEs – Quarter 3 2013



SME lending in Wales is ~£5,000m. The investment funds (both equity and debt) available to Finance Wales are <5% of this. Focusing solely on Finance Wales role (which we believe is focused on higher risk lending) may not substantially address the challenges of SME lending in Wales.

Table 4: Finance Wales funds

	No of firms invested	Total investment per fund	Average investment per firm
Creative IP Fund	34	£11,939,064	£351,149
Interim Fund	152	£30,222,498	£198,832
Jeremie	479	£108,262,032	£226,017
Objective 1 equity	36	£18,078,310	£502,175
Objective 1 Loan	614	£14,733,886	£23,997
Objective 1 Mezzanine	73	£10,005,806	£137,066
Objective 2 equity	13	£6,204,161	£477,243
Objective 2 LIF	94	£676,662	£7,199
Objective 2 loan Fund	111	£5,940,522	£53,518
Objective 2 mezzanine	23	£4,919,562	£213,894
Rescue and recovery	28	£4,318,724	£154,240
Small Loan Fund	487	£28,524,187	£58,571
Sptn Off Fund	143	£2,744,450	£19,192
Transitional equity	1	£855,359	£855,359
Transitional LIF	41	£317,082	£7,734
Transitional loan	51	£1,886,300	£36,986
Transitional mezzanine	3	£1,080,438	£360,146
Micro business loan fund	26	£388,530	£14,943
Wales SME Fund	18	£5,836,366	£324,243