



IGF
**POWERING
FREEDOM**
REPORT

Bullish UK Businesses
Taking Control of Their Future

EXECUTIVE SUMMARY

Brexit has dominated the political and business headlines for more than two years. Yet still thousands of UK business owners across the country remain unclear on what the economic future holds.

In true British spirit, many UK business leaders are taking control of their own destiny, bullish about the future of their companies. Our research of 500 UK business owners of companies turning over between £1 million to £500 million annually found many are targeting ambitious investment to enable growth. Indeed, more than a quarter (27%) are forecasting double digit growth in 2019.

“

Businesses are optimistic about the opportunities in 2019 – what they need is the right support and funding to make it a reality.”



ALTERNATIVE FINANCE ON THE RISE

▶ While traditional bank funding remains a top source for most organisations (65%), more than a quarter (27%) say they now use invoice financing and 22% asset based lending. Alternative finance is set to rise further, with many businesses open to changing their funding provider. More flexible or bespoke funding options (31%), preferential terms or expertise in their sector (27%), or a quick decision within 48-hours (22%) could all persuade businesses to change their funding source.



British SMEs are the lifeblood of the country. They are resilient and optimistic but can also be fragile. It is encouraging to hear how many are forecasting meaningful growth in 2019. SMEs are refusing to stand still. Instead they are pushing for growth and new, flexible funding avenues to take control of their financial futures.”



7/10

SMEs expect growth in 2019

27%

SME leaders are expecting growth of their revenues to be 10% or more in 2019



▶ Seven in ten (69%) SMEs are expecting to boost their revenue in the year ahead. Twenty seven percent of SME leaders are expecting growth of their revenues to be over 10% in 2019.

To achieve this lift, business leaders are planning to invest across a range of areas. These include technology (37%), staff retention (30%) and acquisition (25%), as well as marketing (27%), product development (23%), and developing new international markets both within the EU (11%) and outside (12%).



71%

SMEs seeking new funding

▶ Just over seven in ten businesses report they will be seeking new funding in 2019. On average, looking to secure more than £1 million over the next 12 months.

However, boardrooms across the country understand that many financial backers become increasingly cautious during uncertain times. That means there is a risk this money could come too late – or not at all – to respond to rapidly changing needs.

In the current climate, our findings show many SMEs are already waiting over two months on average for funding decisions. Evidence suggests that traditional funders aren't providing the flexibility and responsiveness small and mid-sized businesses need to take control of their own future. As businesses look to capitalise on opportunities, the pressure to be faster, more flexible and more efficient will not just be on them, but on their funders, too.

SMES MAKE UP THE BACKBONE OF BRITISH ECONOMY

▶ In the Brexit debate, as with most political discussions, it's the voice of big business that has been most clearly heard. From the banks threatening to leave the UK to the car manufacturers pushing hard for a trade deal, big companies have the resources and profile to get their concerns on the agenda.

Small to medium sized enterprises (SMEs), however, account for the clear majority of businesses in the UK. SMEs account for 99.9% of all private sector businesses in the country, 60% of private sector employment in the UK, and 52% of all private sector turnover.¹ They're the real power behind the UK economy.

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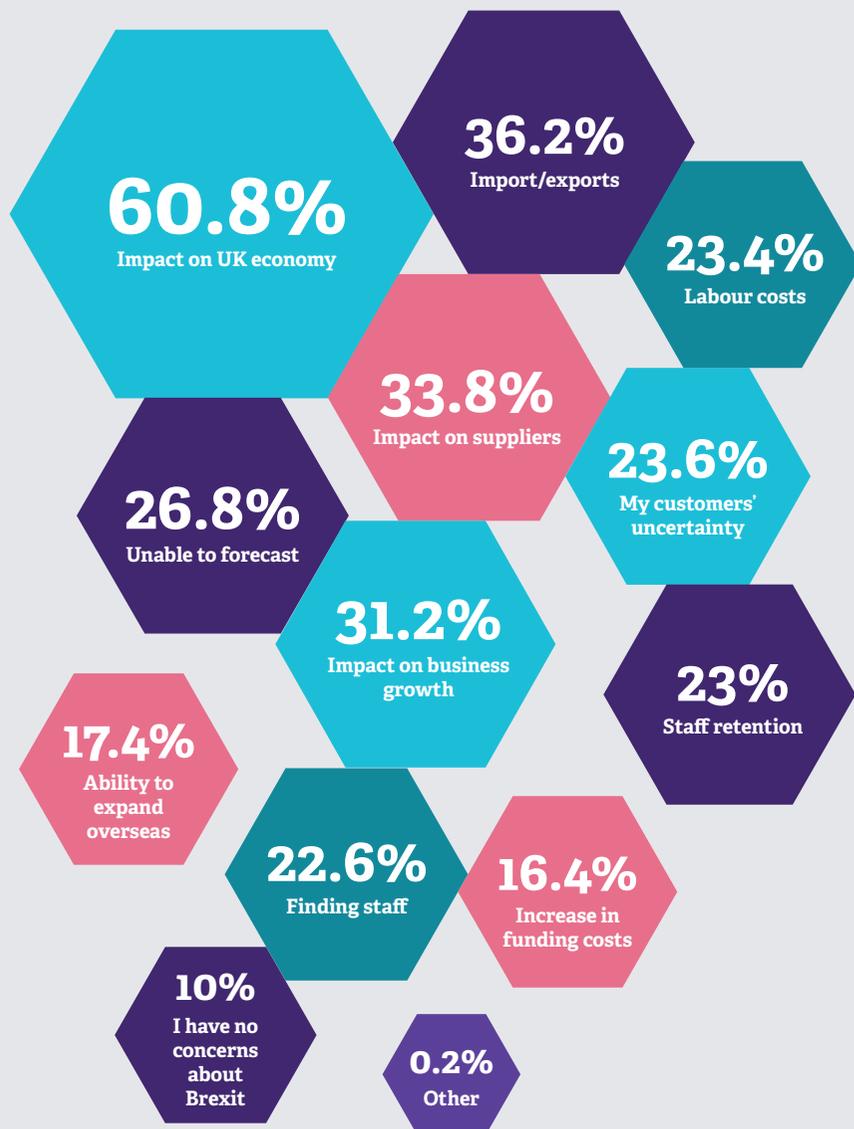
We asked business leaders about their concerns, hopes and plans for their businesses going forward.”

WE ARE LEARNING TO LISTEN TO THEIR CONCERNS, NEEDS AND ASPIRATIONS

▶ Despite their contribution to the UK economy SMEs are often ignored. Only 6% of SME owners felt the government was always listening to their concerns about Brexit, with half doubting it was listening at all.² With the date of the UK's departure from the EU fast approaching, hearing from businesses is more important than ever – not just about Brexit, but about their challenges and goals across a whole range of issues.

It's for this reason that Independent Growth Finance (IGF) surveyed 500 businesses turning over between £1 million to £500 million. We asked them about their concerns, their hopes and their plans for their businesses going forward. Whatever the future holds their success or otherwise will play a large part in determining the fortunes of this country.

WHAT CONCERNS YOU ABOUT BREXIT?



BRITISH BUSINESSES DETERMINED TO OVERCOME BREXIT BRAKES

► On the one hand, SME leaders are significantly more supportive of Brexit than the majority of those leading big businesses. A YouGov study before the referendum found a 42% to 47% split among SMEs, narrowly in favour of remaining in the EU. This compared to 93% supporting remain among big business.³

At the same time, some fear it will be SMEs that are hardest hit by any potential disruption. SMEs are less likely to export than bigger businesses; just 8% of SMEs are estimated to sell goods to the EU, for example.⁴ However, another 15% are in the supply chains of other businesses that are exporting to the EU.⁵ Furthermore, all risk being affected by wider economic disruption resulting from Brexit. The Bank of England's worst-case scenario warnings of an 8% contraction in GDP in one year,⁶ are sobering.

Unsurprisingly, when asked about the challenges facing the future of their business, the most common response was "Brexit". Nine in ten SMEs (90%) have concerns over Brexit while over a quarter (26%) named it as their biggest challenge. Findings suggest architecture (36%),

IT (34%) and manufacturing (32%) companies are the most skittish about Brexit with more than twice as many companies highlighting it as their biggest concern in comparison to HR and education sectors.

Where Brexit isn't viewed as the biggest challenge, concern remains ubiquitous. Asked for their worries about the UK's departure from the EU, just 10% said they didn't have any. Much of the talk has been over trade terms post-Brexit, and 36% said they had worries over exports and imports. Most commonly, though, small business owners worry about the wider impact on the UK economy (61%).

John Onslow, CEO of Independent Growth Finance (IGF), the leading independent asset based lender comments, "If the UK leaves the EU, few expect their businesses to entirely escape the consequences. We hear our clients' frustrations every day. The lack of planning and slow, drip-feeding of information from the government impacts their ability to make decisions. SMEs don't have the resource to prepare for a number of circumstances that may never happen."

“If the UK leaves the EU, few expect their businesses to entirely escape the consequences.”

TUSSLE FOR TALENT REMAINS A TOP CONCERN

► However, Brexit is not the only issue facing small and medium sized business leaders. Staffing is a key concern. In fact, if you add together concerns about finding the right staff (17%) and retention of existing staff (also 17%), these outweigh Brexit when it comes to SME priorities.

Much of this may be due to the likely effect on free movement of leaving the EU, but skills gaps have

been a concern for SMEs for some time. In July 2018, Open University research showed that 94% of SMEs had struggled to find workers with the right skills over the previous 12 months.⁷

These findings are a useful reminder that Brexit isn't the only challenge SME leaders have to contend with, even if it continues to dominate the political and business news agenda.

WHAT IS THE BIGGEST CHALLENGE FACING THE FUTURE OF YOUR BUSINESS?



Staff

Finding the right staff (17%) and retention of staff (17%) outweigh Brexit when it comes to priorities



BRITISH BUSINESSES BULLISH ABOUT BREXIT

► If SMEs see challenges ahead, they also see significant opportunities. Despite undeniable uncertainty in the economy and gloomy forecasts if the UK and EU do not cement a deal, many small businesses are surprisingly bullish.

Our research finds that seven in ten (69%) expect growth in revenues this year. Of those, more than a third (38%) expect growth of over 10%, with another third (37%) expecting growth of at least 5%. In fact, on average SMEs expect revenues to be 14% higher in 12 months than they are today.

For businesses in key sectors such as IT and finance, growth forecasts are even higher (19%), as it is for the larger businesses in the SME community. Those with turnovers between £50 million and £500 million expect to grow their revenue by almost a fifth (19%).

While there's little evidence of SMEs being in denial about the challenges of Brexit, there's also little sign of despondency. Most leaders are facing these changing times head-on.

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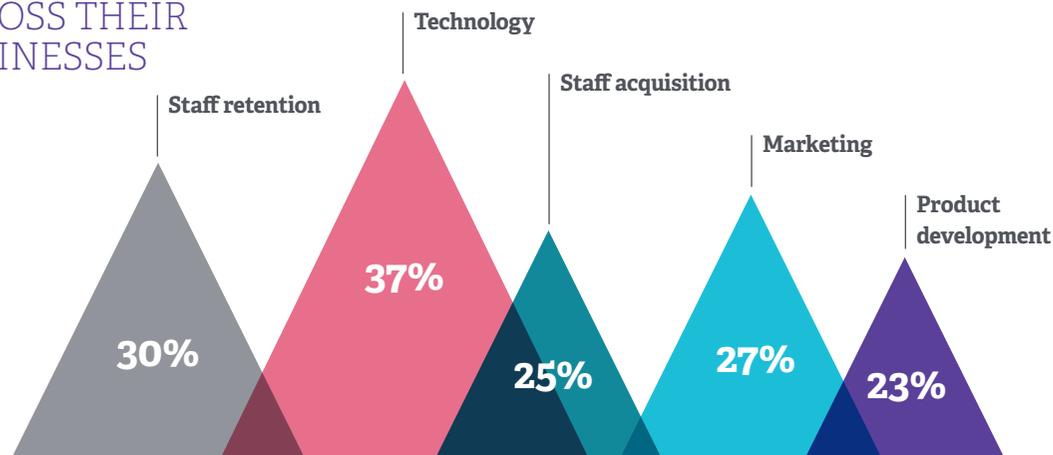


“SMEs can be fragile but also resilient,” continues John Onslow. “It is encouraging to hear how many are forecasting meaningful growth in 2019. Against the odds, they are optimistic – a perfect example of the entrepreneurial approach taken by many British businesses. In our experience, SMEs don’t stand still; they persevere and look forward.”

To help realise these growth aspirations, SMEs are looking to invest across their businesses. Particularly investing in technology (37%), staff retention (30%) and acquisition (25%) – addressing their skills gaps, as well as the need to digitise⁸ that experts say are essential to growth. They are also putting money into key growth-orientated areas such as marketing (27%), product development (23%), and exploring new markets with international expansion, both inside (11%) and outside (12%) the EU.

“**It is encouraging to hear how many are forecasting meaningful growth in 2019. Against the odds, they are optimistic. A perfect example of the entrepreneurial approach taken by many British businesses. In our experience, SMEs don’t stand still, they persevere and look forward.**”

WHERE BUSINESSES ARE GOING TO INVEST ACROSS THEIR BUSINESSES



COMPANIES LOOKING FOR £1 MILLION PLUS BOOST

▶ Not only are many companies bullish about their prospects this year, they are willing to put their money where their mouth is. Funding will be central to supporting this investment and, consequently, the growth SMEs are targeting.

looking to secure at least £1 million, and up to £5 million.

The average across all companies is £1.15 million.

“These are significant sums, reflecting SMEs’ optimism,” explains John Onslow. “If it is to be warranted, however, small businesses will need quick and flexible funding that responds to their needs. Businesses want to seize control of their financial futures, but our findings suggest many struggle to find the right support, adding another layer of frustration.”

With most looking to invest in at least one area in the current year, the majority (71%) are also looking for new funding. Of these, almost three quarters (73%) are looking for more than £250,000 and 37% for more than £500,000. A quarter (24%) of companies with an annual turnover of at least £100 million are

Of the 71% SMEs looking for new funding:

73% are looking for more than **£250,000**

26% are looking for more than **£500,000**

£1m-5m

A quarter of companies with an annual turnover of £50-£100 million are looking to secure up to **£1 million**

24% of companies with a turnover above £100 million are looking for up to **£5 million** in funding.



SLOW FUNDING IS FAST BECOMING A DEAL BREAKER

► Both slow funding decisions and rejections are big problems. 16% of businesses see them as their equal biggest challenge in securing funding.

On average, SMEs say they currently face a wait of over two months for a decision from their funders. Of those that have sought funding before, over

half of SMEs (53%) have had to wait at least a month for a decision, and almost a third (31%) three months or more.

That's an age at any point in the economic cycle, but it could be catastrophic in an environment where the inability to forecast is among the top Brexit challenges for SMEs (27%).

On average, SMEs wait over **two months** for a funding decision



53%

of SMEs have waited at least a month for a funding decision

31%

of SMEs have waited three months or more for a funding decision

“

More and more businesses are looking to entrepreneurial lenders because they empathise with their entrepreneurial needs and approach. Clients like us because we look and act like they do and a decision maker is always in the room. This allows us to provide quick and flexible funding solutions based on a deep understanding of each business.”

FLEXIBLE FINANCE IS SET TO WIN IN FUTURE

► There is a greater need among SMEs for flexibility than ever before. However, evidence suggests that most funders are not providing finance to meet this requirement and businesses are feeling the effects of slow decision making. Not surprisingly, SMEs are looking to broaden their funding options.

For example, over a quarter (26%) of sales, media and marketing businesses have waited more than three months for a funding decision, while almost three quarters (70%) waited a month. As a result, 91% of SMEs within the sector would consider changing their funding provider.

It's also a similar story for IT & telecoms, with over a third (35%) waiting over a month for a response to a funding request; and

96% of businesses within the sector open to changing their funding provider.

As a decision-maker at the leading alternative finance provider, John Onslow is seeing this shift first-hand. "More and more businesses are looking to entrepreneurial lenders because they empathise with their entrepreneurial needs and approach. Clients like IGF because we look and act like they do and a decision maker is always in the room. This allows us to provide quick and flexible funding solutions based on a deep understanding of each business. We also have the freedom to choose when, and how, to go outside our credit policy. The result? Businesses can rapidly respond to risks and opportunities that may arise in the coming days, weeks and months."

QUICK FINANCE? DON'T BANK ON IT

► It's not just speed and flexibility that businesses need. Most need good advice, too. More than nine out of ten (92%) say they would seek advice when it came to choosing funding options, with close to half (49%) looking for professional guidance from an accountant (26%) or financial advisor (23%).

More than a quarter (26%) of those seeking finance would just go to their bank. Not surprising, then, that two thirds (65%) name bank funding as one of their top three sources of funding, with another 29% using loans and one in five (19%) relying on overdrafts. Nevertheless, SMEs are already looking at a range of different sources. More than a quarter (27%) say they use invoice financing, and 22% asset based lending. Both can offer potentially faster, more flexible financing decisions.

"What we've witnessed over the last decade is a growing frustration with big banks due to a lack of flexibility," comments John Onslow. "Too many banks say yes to funding only for it to turn into a no because the decision maker wasn't involved from the start. We can't say yes to everything, but, if we can't say yes, we will say no quickly. This approach comes down to genuine empathy for British business owners."

Manufacturing (83%) and travel/transport (83%) remain most reliant on using banks, but even in these sectors one in five (18% and 20% respectively) have adopted asset based lending. More than a quarter of IT & telecoms companies (28%), meanwhile have invoice financing as a top three funding source, and one in five (21%) asset based lending.

Across all sectors many say they're open to considering a change of funding provider:

31% 

Would consider changing their funding provider for **more flexible or bespoke funding options**

27% 

Would consider switching for preferential terms of **expertise in their sector**

22% 

Would look at switching if a funding provider offered them a **decision within 48-hours**



“

What we've witnessed over the last decade is a growing frustration with big banks due to a lack of flexibility. We can't say yes to everything, but, if we can't say yes, we will say no quickly. This approach comes down to genuine empathy for British business owners.”

“

Most SMEs continue to target growth, and many at significant levels. Notably, they are willing to make the investments to achieve it. To do that, though, they need support and funding that will enable them to take control of their own future.”

UK BUSINESSES TAKING CONTROL OF THEIR FUTURE

The success of the UK economy in the coming years – whatever the Brexit negotiations bring – will in large part depend on the success of business backbone, our small and mid-sized enterprises. It's encouraging then to see that they are both realistic about the challenges they face, but also ambitious and progressive about the future. Most SMEs continue to target growth, and many at significant levels. Notably, they are willing to make the investments to achieve it.

To do that, though, they need support and funding that will enable them to take control of their own future: Not just finance that will be responsive to an unknown environment, but advisers giving them the guidance they need to navigate a fast-changing future. It's in all our interests that they can find both.

Case studies



Case study: Axminster Carpets

Royal Warrant holder Axminster Carpets secures £3.375m from IGF to support growth

250-year old business continues to grow with new re-finance structure

Axminster Carpets Ltd, the carpet manufacturing company known for its fine quality carpets, has secured £3.375 million of funding from Independent Growth Finance (IGF) as it continues to develop a strategy which meets the needs of the modern customer, both domestic and overseas.

The Devon-based business originally formed in 1755, was family owned until 2013 and is a proud recipient of the Royal Warrant of Appointment for service, quality and excellence in carpet making. In addition to royal residences, carpets from Axminster can be found in stately homes, first class hotels across the world, trains, aircrafts and in thousands of homes across the UK.

Diversifying to stay relevant

As demand from consumers continued to change the senior management team at Axminster recognised that it needed to modernise but lacked the support from

its existing funder to make the changes required. IGF stepped in to provide an asset based lending facility including funding against receivables, inventory as well as plant and equipment. The deal has given the business the funding it needed to implement a number of changes. This includes a refresh of the brand, the creation of new point of sale outlets and has enabled further expansion across US, Europe and the Far East.

A partnership built on a genuine relationship

Axminster Carpets approached IGF with a vision for a prosperous future. It required a refinance solution to support its growth plans. IGF expressed a genuine interest from the start.

Jonathan Young, managing director of Axminster Carpets, explains, "IGF lived up to its promises. This deal is based on a strong understanding of our business and the IGF team assisted in getting the deal done quickly. The team recognised the partnership went past the deal itself and expressed genuine interest in our business, providing an extra level support."

Paul Edmeades, ABL Director at IGF, added "We are delighted to support the team at Axminster as they continue on their growth path. This company has a long British heritage but also has a renowned global reputation. We are proud to be backing one of Britain's oldest, best known and most prestigious carpet designer and manufacturers.

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Case study: Benross

IGF Financing Fits Golf Business

Benross Down to a Tee!



How equipment manufacturer refinanced for ambitious European growth

In 1997 Benross's CEO Jon Everitt set out with a singular vision: to launch a sports brand that would produce top quality golfing equipment, without the prohibitive price tag. Twenty-one years later, the golf brand has grown to become the largest golfing manufacturer in the UK. It remains privately owned and has become synonymous with quality and appeal. Now it is poised for European growth with a £2M boost to working capital funds from Independent Growth Finance, IGF.

Funding for European growth

Benross has spent two decades establishing itself in the European market and gathering a loyal following. The much-admired brand closed 2017 with 45 percent revenue growth that has continued into 2018. This has fuelled the management's ambition to seize and cement the company's position as the largest independently owned golf manufacturer in Europe. Significant investment has already been made in new product development, sales and marketing, workshop and head office talent. But more funding was needed to

continue to grow at speed and work towards the objective of European market leadership.

Bespoke crafted financing

Benross has built a reputation for delivering pro-quality bespoke golfing equipment. It uses only the very best components and the most intelligent engineering techniques. From inception, the company was set up as a challenger brand. Strategically positioned in the market to give the golfing public access to outstanding golf equipment at a competitive price. This approach has drawn admiration from retailers and competitors alike. As the market becomes ever more divided with the penetration of super premium priced products, Benross will continue to stay true to delivering for the everyday golfer.

Trusted mid-market partner

"As an equipment manufacturer working capital is paramount," Jon Everitt continues. "Ernst & Young helped us look for a working capital funding partner. IGF stood out. We chose IGF as they offered the best combination of stock levels and invoice discount financing, £2m in total, with consideration of fee rates.

Previously we only had invoice discounting with Barclays, but at less favourable rates. IGF took their time to understand our business, our challenges and opportunities and importantly our ethos."

John Hughes, commercial director ABL, IGF, comments, "Benross is one of the UK's most established sporting brands. Their unique commitment to crafting high-quality products at affordable prices has cemented their name in the game and earned them a national following. Our funding will help support significant expansion and replicate their success across Europe. All while continuing to focus on the needs of the British golfing community."

Increasing market footprint

As well as selling its own brand golf equipment, from 2017, Benross obtained the exclusive distribution for the UK and Ireland of the globally recognised Bridgestone balls and accessories. This has proved to be a significant pillar for the business, resulting in increased market footprint for both brands in Europe. Making up part of the future expansion plans.

Play through!

Everitt concludes, "IGF has given us a flexible combination of inventory and receivables financing. This will help the business gear up our stock holding ahead of the important Christmas and pre-season drive. It has provided a sound financial base from which we will focus our European growth ambitions. Our focus remains on delivering outstanding quality service and equipment. Well that and of course enjoying this wonderful sport!"

“

IGF has given us a flexible combination of inventory and receivables financing.”

Case study: The History Press

Relationships That Deliver Outstanding Results - £650,000 Asset Based Lending Facility

“

IGF took the time to get to know us and came up with a superb solution, the results of which are clear to see in our stellar performance.”

Ambitions

The History Press is the UK's largest dedicated history publisher covering the exceptional people, places and events that have shaped our lives today. 2017 has been a game changing year for the Stroud based independent publishers that can trace its roots back to 1897.

Following a successful MBO the company has enjoyed a huge hit with Victoria and Abdul. Also a critically acclaimed movie, the book tells the story of an assistant clerk at Agra Central Jail who rises quickly to become Queen Victoria's teacher, or Munshi, instructing her in Urdu and Indian affairs at a time of high tension. At its heart, it is a tender love story between an ordinary Indian and his elderly queen, a relationship that survived the best attempts to destroy it.

The book has sold in excess of 50,000 copies, creating a year that has exceeded expectations. The ability of an independent publisher to ride this wave of success is itself a story of a close relationship between the company, its distributors, Macmillan Distribution, and IGF.

Solutions

The History Press approached IGF as part of the MBO. Following a selection process that included both high street and specialist lenders it became clear that IGF could provide the best asset based lending facility, including Invoice finance and stock, to support both the MBO and provide the headroom for growth going forward.

Independent publishers gain immense competitive advantage by working through a main distributor. In this case the company benefits from a close relationship with Macmillan Distribution, who take care of logistics and sales order fulfilment whilst The History Press focuses on sales and marketing. This scenario can create a number of practical challenges for some invoice finance houses.

IGF saw things differently.

It was precisely this combination of The History Press' commercial prowess, matched with Macmillan Distribution's logistical and order fulfilment expertise, that allowed IGF to create a flexible facility capable of funding the demand surge created by a best seller like Victoria and Abdul.

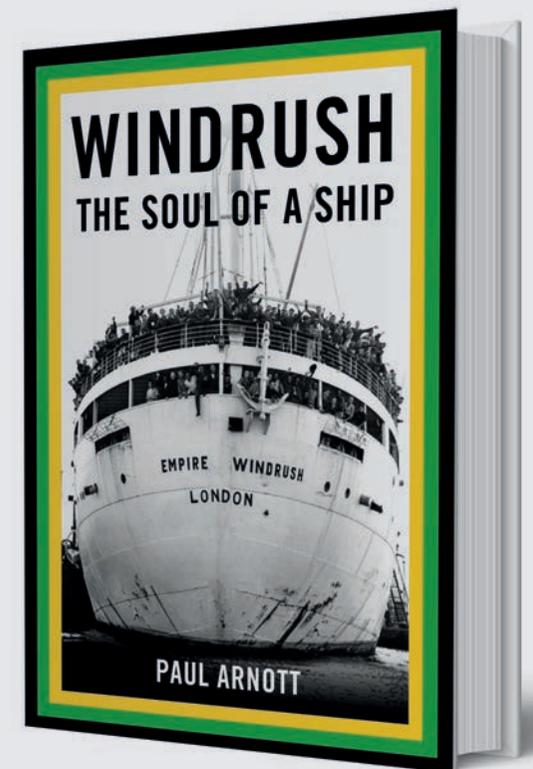
Reflections

Gareth Swain, Managing Director, The History Press, said;

“IGF extended what I like to describe as ‘the hand of friendship’ to us. They are business people who see the world through their clients' eyes. They solve problems, not apply formulas and sell unwanted product. They took the time to get to know us and came up with a superb solution, the results of which are clear to see in our stellar performance.”

Matthew Hogg, Director of Publisher and Customer Services, Macmillan Distribution, said;

“By combining the collective strengths of independent publishers like The History Press, we create a fast and modern supply chain that delivers sustainable competitive advantage. The ease with which the relationship with IGF came together and has been sustained, in our view, sets the benchmark for how the finance community can create outcomes that really fuel business success.”



APPENDIX

1. <https://www.fsb.org.uk/media-centre/small-business-statistics>

2. [https://www.moorestephens.co.uk/sectors/owner-managed-businesses/owner-managed-business-report/powered-by-people-and-technology-\(2018\)/brexit-the-omb-view](https://www.moorestephens.co.uk/sectors/owner-managed-businesses/owner-managed-business-report/powered-by-people-and-technology-(2018)/brexit-the-omb-view)

3. <https://yougov.co.uk/topics/politics/articles-reports/2016/01/25/eu-referendum-small-businesses-more-eurosceptic>

4. <https://www.gov.uk/government/publications/small-and-medium-enterprises-in-the-supply-chains-of-exporters>

5. *ibid*

6. <https://uk.reuters.com/article/uk-britain-eu-boe/worst-case-brexit-more-painful-than-global-financial-crisis-bank-of-england-warns-idUKKCN1NX263>

7. <http://www.open.ac.uk/business/apprenticeships/blog/business-barometer>

8. <https://www.virginmediabusiness.co.uk/insights/transforming-business-whitepaper/>

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About Independent Growth Finance Ltd (IGF)

Independent Growth Finance (IGF) has been funding the working capital and growth aspirations of UK SMEs since 1997, and works with businesses with a turnover of £1m to £100m.

Founded on expertise, IGF is a leading independent asset based lender with a national presence, and strong entrepreneurial culture. Its deep understanding of SMEs and the challenges they face means it knows what it takes to build and grow a successful business.

IGF funds businesses that want to grow and seek to be the best they can be, whether through MBO/MBI, Acquisition, Growth, Refinance or Turnaround. It achieves this through a range of flexible asset based lending funding solutions.

IGF believe lending is a tool to enable businesses to achieve their objectives and ambitions.