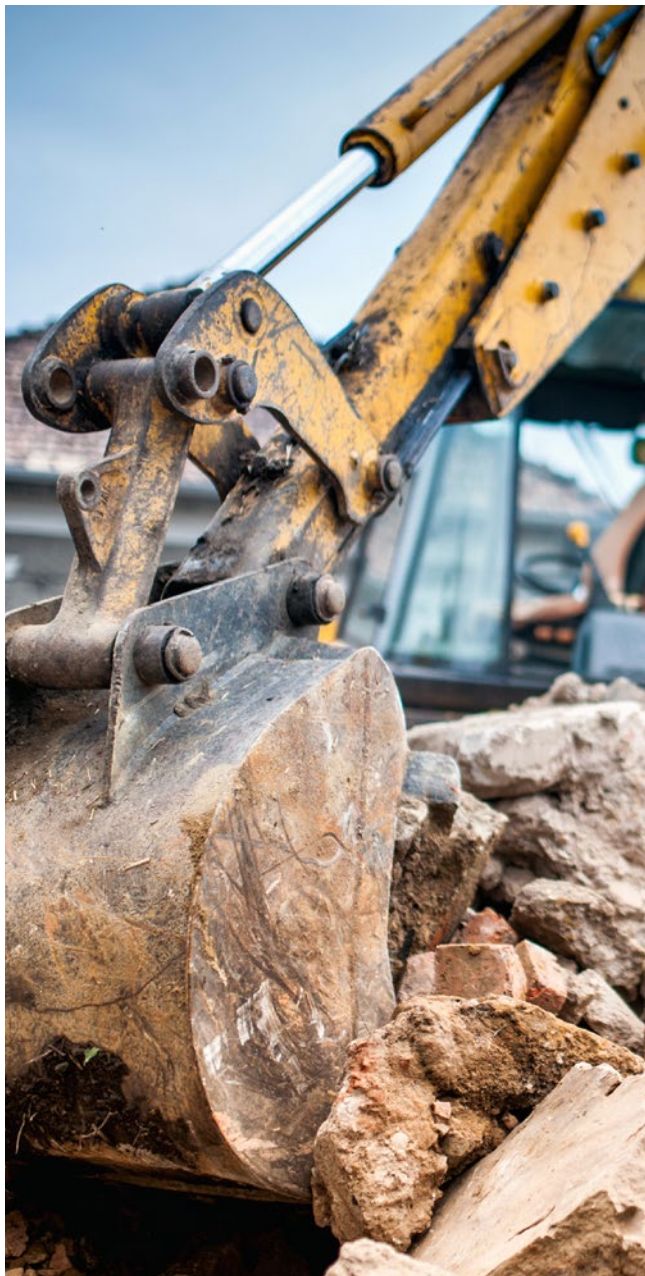


# SME **Q2 2023** Barometer

*An SME Led Recovery*





## A word from **John Phillipou** *Managing Director of SME Lending*

No one should doubt the resilience and forward-thinking of SMEs. After facing challenge after challenge, they are looking to the future and are set to drive economic recovery throughout the UK.

Evidence for this can be found throughout this report. Identifying plans for substantial new investment, Q2 2023: *An SME Led Recovery* finds that businesses are preparing to take full advantage of the opportunities that will arise in the months and years ahead.

This is very encouraging news. Without growth in the SME sector, the wider economy cannot reach its potential. That SMEs are feeling confident, investing, and planning for the future is a positive indicator that, despite the turbulence over recent months, the economy is once again heading in the right direction.

Featuring exclusive new research, commissioned by Paragon from leading polling organisation Opinium of over 500 SMEs, *An SME Led Recovery* looks at what is behind improving SME activity. From increased spending to fresh investment, we find that SMEs are taking proactive steps to prepare their businesses for the future.

For SMEs to be able to invest it is essential that they are supported and have access to the funding necessary to deliver on their plans. As SME lending specialists, Paragon knows and understands the challenges they face and shares their passion for generating economic growth.

*An SME Led Recovery* demonstrates the huge potential for SMEs in the year ahead – and I can't wait to work with businesses to ensure that this potential is delivered.

## Plans for investment

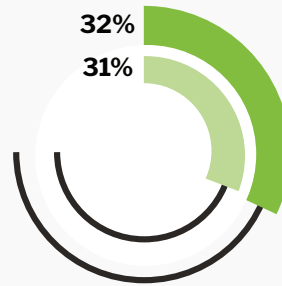
Despite recent economic turbulence, SMEs are planning to maintain investment over the next six months with spending either set to continue or marginally increase across key operational areas.

In contrast, investment in electric vehicles (EV) is to substantially increase – with 22% of SMEs planning to acquire EV assets over the next six months, compared with 14% that did so over the previous six.

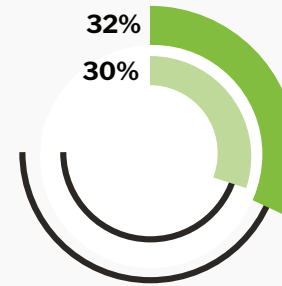


### Past vs. planned investment

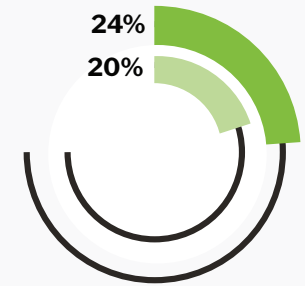
■ Last six months    ■ Next six months



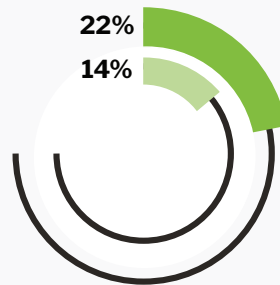
Equipment



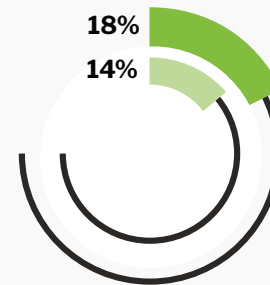
Machinery



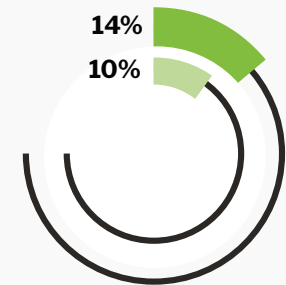
Recruitment



Electric Vehicles



HGVs



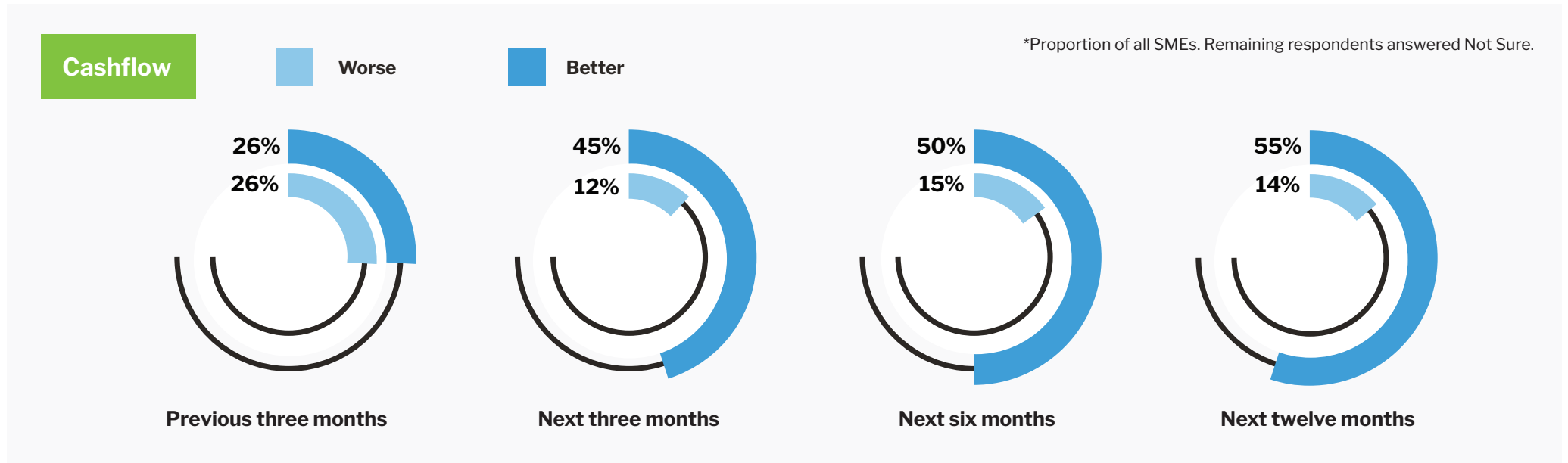
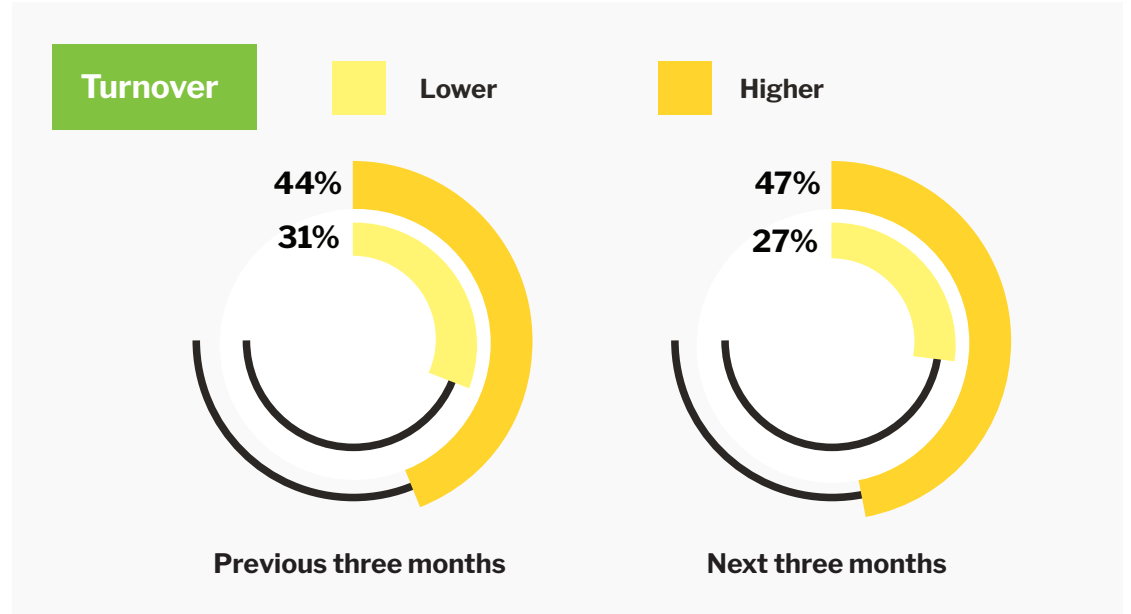
LCVs

## Cashflow and turnover improvements

The turnover of SMEs is set to improve – 44% of businesses reported rising turnover levels during the first quarter of the year, with 47% expecting turnover to improve further during the second quarter, compared to 27% that forecast a fall.

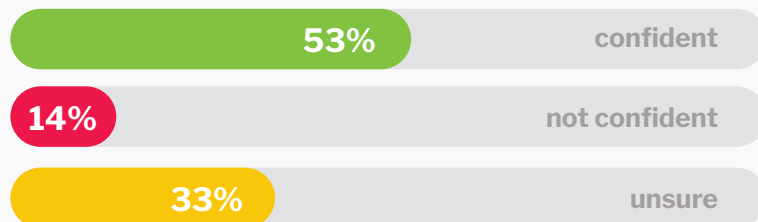
While the same proportion of SMEs (26%) consider their current cashflow to be worse or better than it was three months ago, with a majority reporting that it was unchanged, the following months are expected to see significant growth in the number of SMEs forecasting improvements.

Rising to 50% of SMEs expecting improved cashflow in six months' time, this increases further to 55% in twelve – during which time, the proportion of SMEs predicting a reduction in cashflow falls to 15% and 14% respectively.

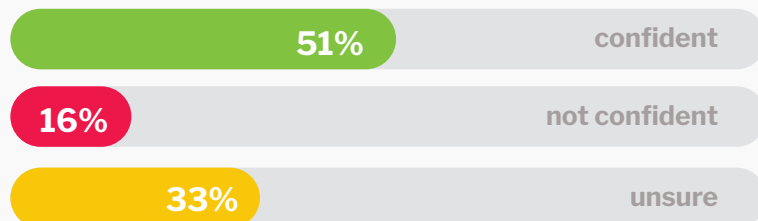


## Confidence in the next three months

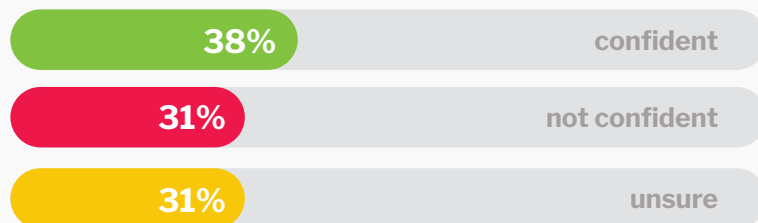
### Own Business



### Own Sector (agriculture, transport, manufacturing & construction)



### UK Economy



## Renewed confidence

A majority of SMEs are confident regarding both the future of their own business (53%) and the sector in which they operate (51%). Whilst doubts remain for a significant proportion of firms, with a third unsure about the performance of both over the next three months, only a small minority (14%) are not confident for the time ahead.

Confidence was less strong in the UK economy, with 38% of SMEs expressing confidence.



## Staffing increases

While a majority of SMEs plan to maintain current staffing levels, the proportion of businesses planning to expand their workforces over the next three months is to increase in comparison to the previous three - with a third (33%) planning to recruit and only 18% set to reduce their current number.

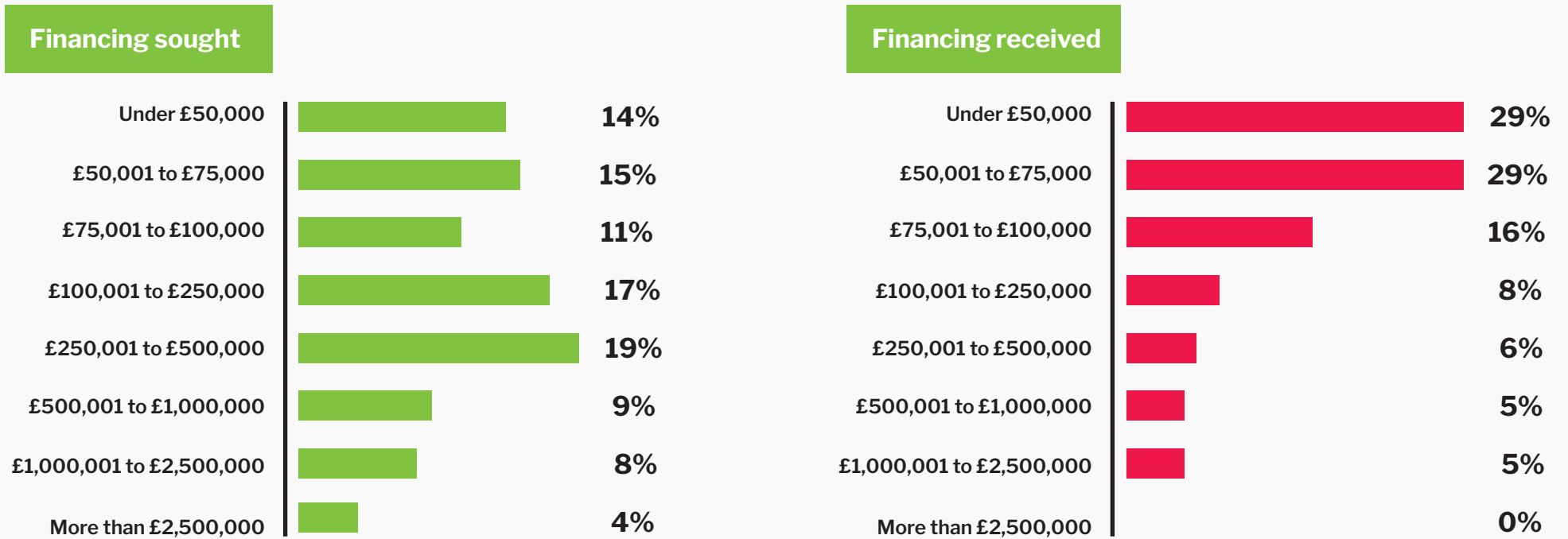
The proportion of businesses seeking to increase their workforces may reflect a skills shortage, with SMEs seeking to fill gaps in their operations in the months ahead.



## Planned financing

The research found that 49% of SMEs sought additional financing over the last three months, with 57% of those businesses seeking over £100,000.

Around a tenth of this group (5% in total) received no additional financing, nearly half of this group (22% in total) received some of the finance they were seeking, and the remaining (21%) received all of the financing they were looking for. On average, business that sought financing looked for just under £473,000.



\*Proportion of all SMEs. Remaining respondents answered Prefer not to say.

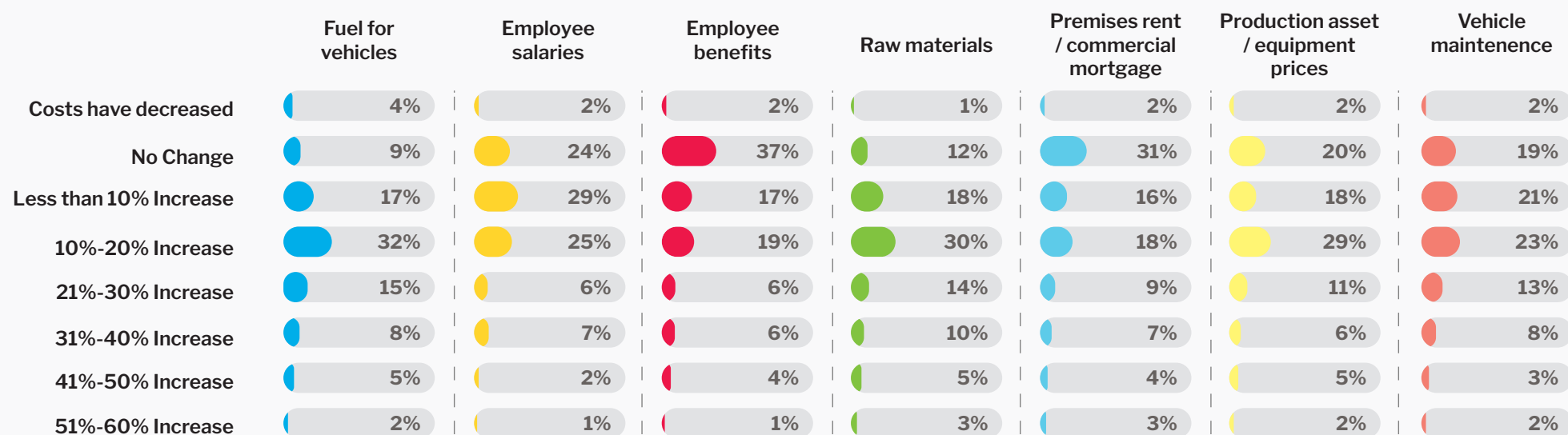


## Business costs

Over seven in ten SMEs (72%) have recorded increases to key operating costs over the last three months. Only 3% of SMEs reported that their costs had fallen across the same period, with 25% recording no change.

That 28% of businesses did not report increases to their operating costs may be a result of their benefiting from prior fixed-pricing agreements with suppliers covering the period in question.

Fuel cost rises have been the most significant impact on costs, with 83% of businesses reporting spending increases – followed closely by the cost of raw materials, with 82% reporting rises. Almost three quarters (74%) of all SMEs also reported increases to both vehicle maintenance and employee salaries.



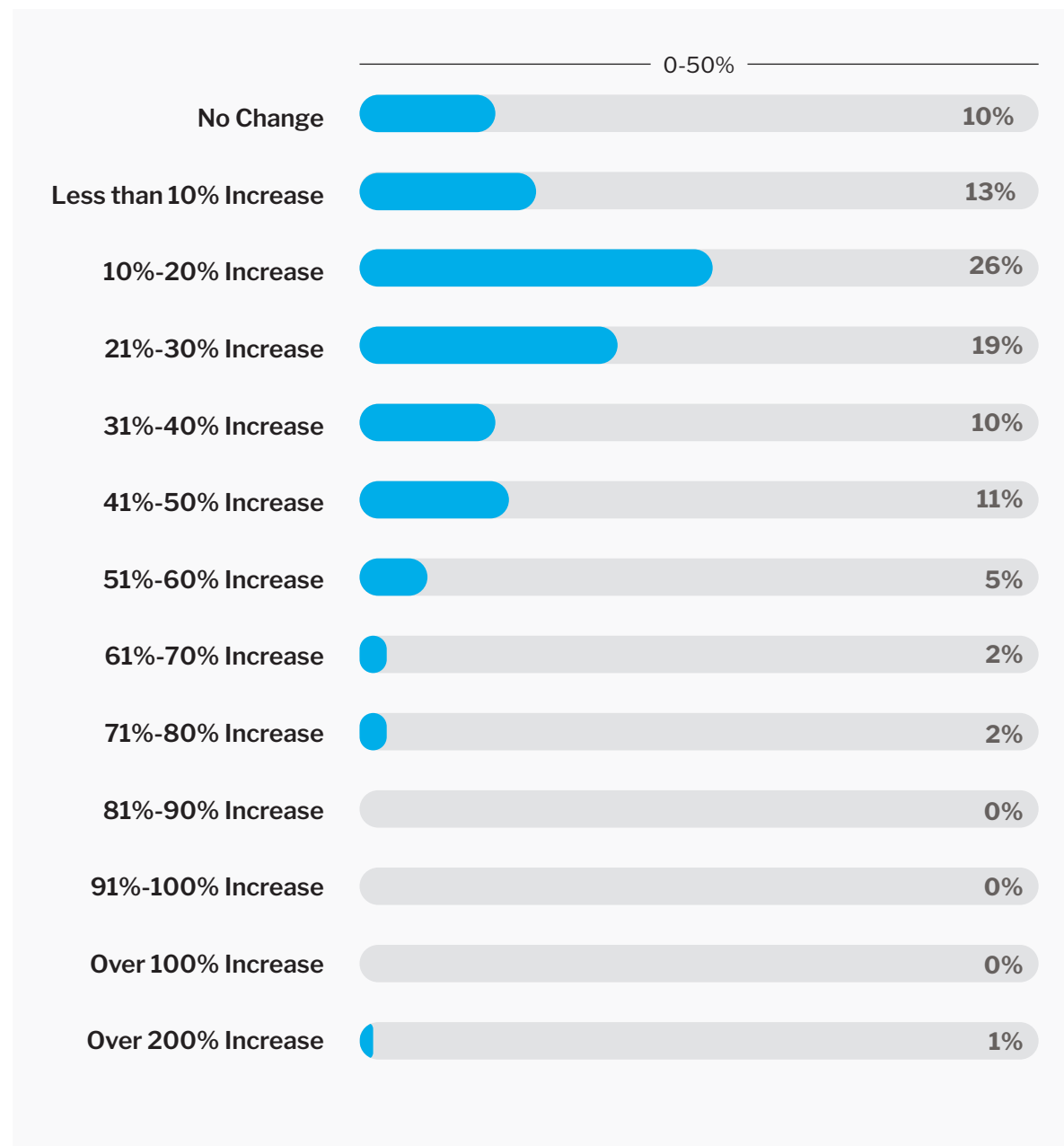


## Energy costs

Nine in 10 UK SMEs have reported increases in their energy costs in 2023. Four in 10 (41%) companies reported an increase of between 20% and 50%, with one in 10 recording an energy bill hike in excess of this.

John Phillipou, Paragon Bank SME Lending Managing Director, said: “The cost of energy has negatively impacted the majority of business throughout the UK, even with the Government support package.

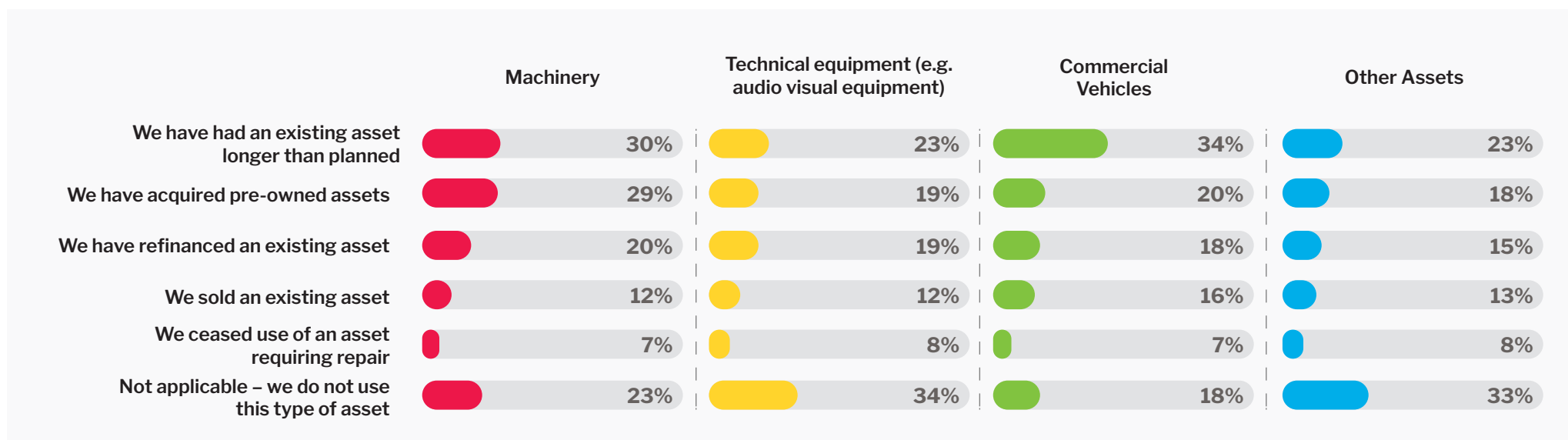
“However, it’s also positive that companies have been looking at ways they can reduce their energy bills by making themselves more efficient. We have seen businesses invest in their operations with the addition of more energy efficient equipment, whilst we have also funded changes to premises, such as the addition of solar panels. These are positive steps towards a greener future.”



## Supply chains

SMEs have been forced to extend the life of their existing assets as global supply chain issues reduce the availability of new assets. Nearly a third of SMEs (30%) had operated existing machinery longer than planned in the past 12 months, with 29% acquiring pre-owned machinery due to the unavailability of new assets. A fifth of companies reported that they had refinanced an existing machinery asset.

A similar story was reported with commercial vehicles, with 34% of SMEs running these for longer than planned and 20% acquiring pre-owned equipment.



## Case study

**Greater Manchester-based waste management specialists SED Services has expanded its operations with the acquisition of a state-of-the-art composting site, thanks to funding from Paragon Bank.**

Based in Ashton-in-Makerfield, SED Services offer cost effective, environmentally friendly, and safe recycling solutions for non-hazardous wastes that can be spread back on the land as feed for the soil - recycling the nutrients and reducing greenhouse gas emissions.

Located in Kirkby, the freshly acquired facility has recycled more than a million tonnes of green waste that would have previously gone to landfill and will support SED Services deliver contracts secured with the Greater Manchester Waste Authority and five of the six Merseyside Authorities.

The site was successfully secured after SED Services approached Paragon to inspect, value, and refinance existing, unencumbered assets.

Recognising both the potential for the new facility and the strength of SED services operations, Paragon was pleased to fund the remaining capital necessary to acquire the Kirkby site.

