Investment & Financing outlook

SME business investment and financing outlook survey, wave 21

Research report

Research and Market Intelligence at BDC

April 2024

Table of contents

1. Key highlights
2. Methodology
3. Detailed results
4. Respondent profile

1

Key highlights

CURRENT STATE:

The overall situation for SMEs has improved, which could be a prelude to better days ahead.

There is a slight improvement in SMEs' outlook and debt is now an issue for fewer SMEs

43% believe that economic conditions will deteriorate in the next 12 months
(-2pts)

28% think that their cash flow situation will improve
(+1pt)

25% say that debt repayment is limiting business activities
(-5pts↓)

More SMEs are operating below capacity

61% Are profitable
(+1pt)

83% Stand below full capacity operation
(+5pts↑)

26% Have used or will use significant resources for growth projects
(unchanged)

Some key aspects have improved for SMEs

49% Say that FIs totally meet their needs
(+6pts↑)

58% Are deemed bankable
(+6pts↑)

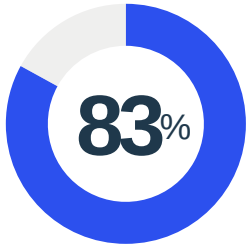
42% Believe that access to financing will be difficult
(-7pts)

Note: Numbers in parentheses and arrows indicate differences between this wave and the previous one.
Numbers = differences in percentage points / Arrows = statistically significant differences.

INVESTMENT OUTLOOK:

Over half of SMEs plan to invest. However, confidence in their ability to pursue those investments remains a point of concern.

Intentions and comparison of amounts to be allocated are down



Plan to invest about the same amount or more
(-2pts)

Plan to invest about the same amount or more

Non-residential building
20% (-2pts) **82%** (-1pt)

Machinery and equipment
33% (-2pts) **80%** (-3pts)

Intangible assets
40% (unchanged) **83%** (-1pt)

60%

of those planning to invest are **not confident** they will pursue their investment in the next 12 months
(+1pt)

Main investment goals are consistent

Increasing efficiency
41% (+2pts)

Improving sales and marketing
35% (+1pt)

Adopting new technology
25% (+3pts)

Investment limitations are stable

37% High economic uncertainty (+1pt)

35% Interest rates (+1pt)

19% Low demand (-1pt)

Note: Numbers in parentheses and arrows indicate differences between this wave and the previous one.
Numbers = differences in percentage points / Arrows = statistically significant differences.

FINANCING OUTLOOK:

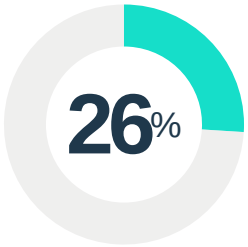
Approval rates have increased once again. Ease of access to financing has also improved and fewer plan to borrow to cover expenses.

79%

of those who requested financing were approved

(+2pts)

Fewer SMEs have turned to gov't programs, Crown Corps and fintechs



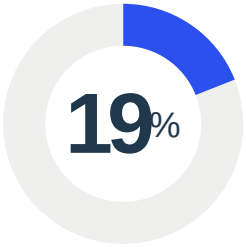
Requested financing in the last 3 months

(-1pt)

Those who asked for financing mainly turned to:

A financial institution	A government program or crown corporation	A large tech or fintech lender	Private lenders / family offices
72%	**26%**	**13%**	**12%**
(+2pts)	(-4pts)	(-3pts)	(+1pt)

Intentions are stable, but intended use of funds has changed



Plan to request financing over the next 12 months

(unchanged)

- **67%** Will need short-term financing (-7pts)
- **44%** For growth-related projects (+5pts)
- **27%** To cover expenses (-9pts↓)
- **32%** Will request up to $100,000 (-9pts↓)

Perceived access has improved slightly

58% $

of those planning to request financing believe it will be easy to obtain

(+7pts)

Note: Numbers in parentheses and arrows indicate differences between this wave and the previous one.
Numbers = differences in percentage points / Arrows = statistically significant differences.

2

Methodology

Methodology

Survey methodology

- Online tracking survey.

Respondent profile

- Business owners and business decision-makers from the Sago (formerly Schlesinger Group) panel.

Survey dates

- April 2nd to April 12th, 2024.

Note: Unless otherwise noted, the bases for calculation exclude respondents who chose not to answer the question. Other appropriate exclusions are detailed on the individual slides.

Margin of error

- For a probabilistic sample of 1,030 respondents, the maximum margin of error is ± 3.1 percentage points, 19 times out of 20. However, as this survey is based on a non-probabilistic sample, this information is provided for reference only.

Data processing and analysis

- Were performed by the BDC Research and Market Intelligence team.

Weighting factors

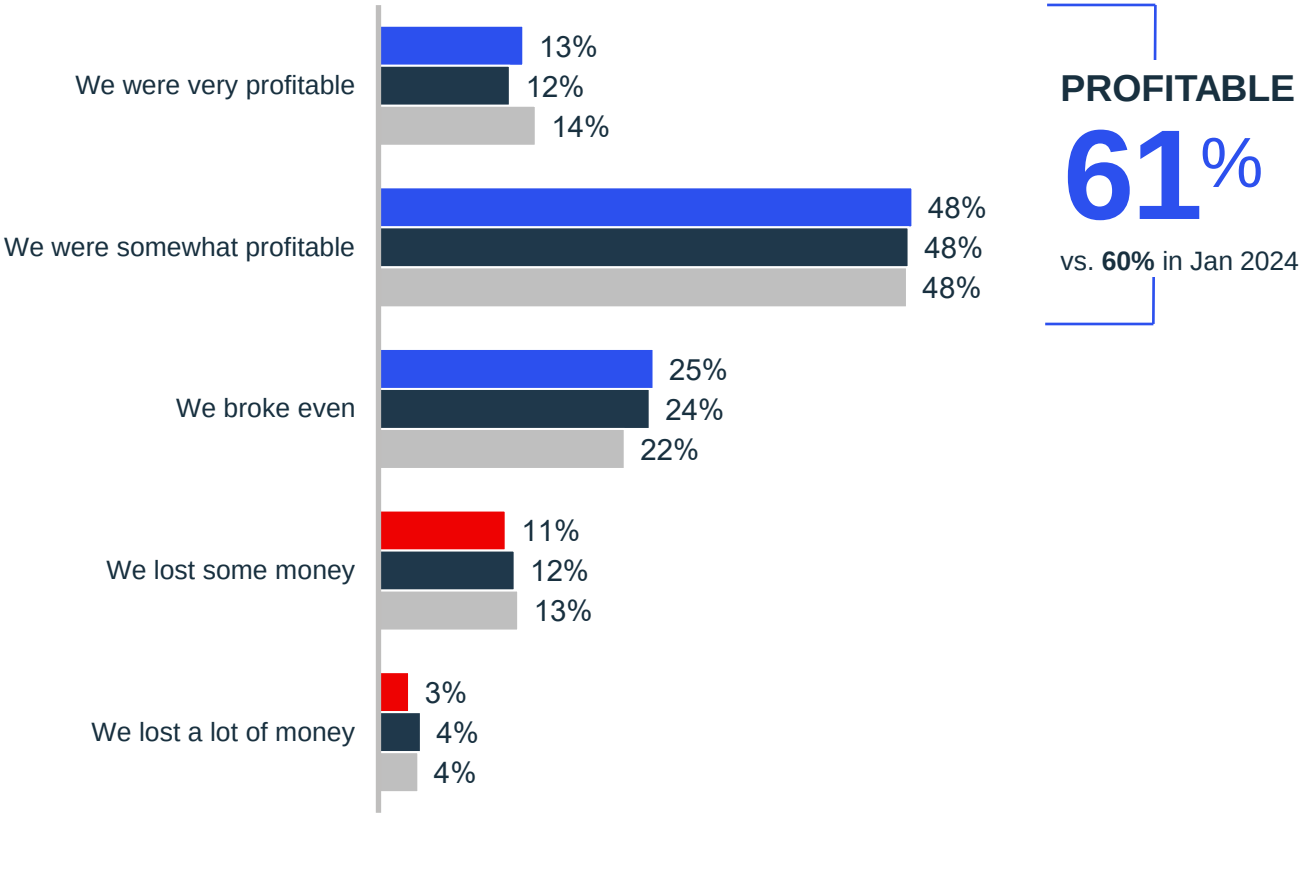
- Results were weighted by region and number of employees to be representative of the Canadian SME population.

3a

SME current state and expectations

Most SMEs indicated being in positive territory. A higher percentage of smaller SMEs indicated being unprofitable. One tenth of this segment is considering closing the business.

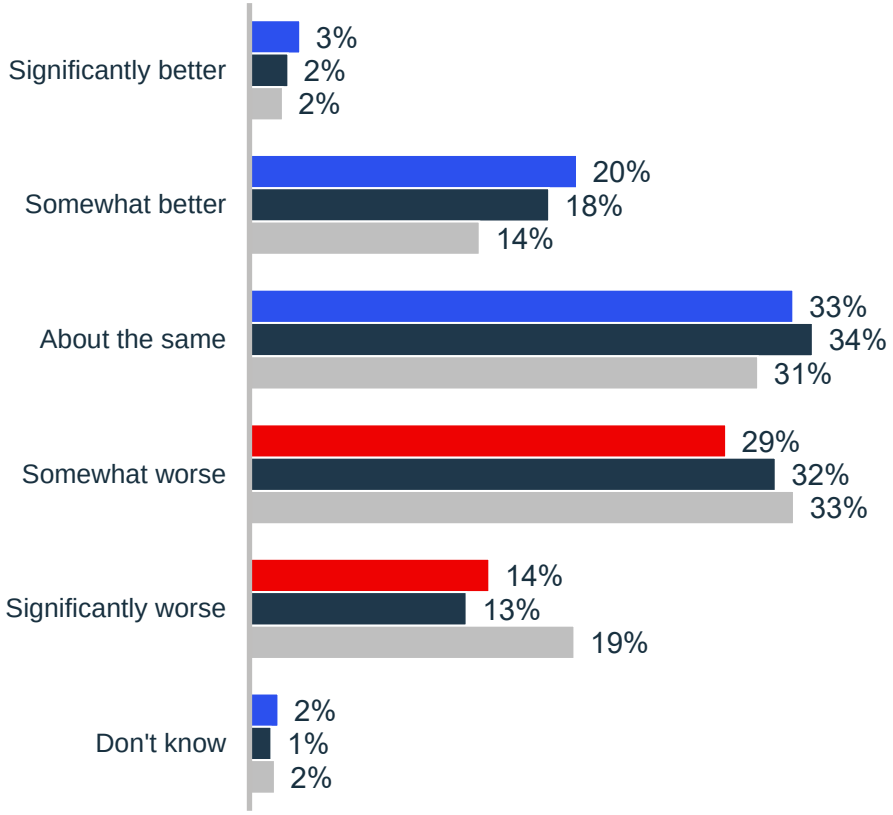
Q4aa. Was your business **profitable in the last 12 months**?



Base: All qualified respondents (n=999).
Those who did not know or preferred not to answer were excluded from the calculation base. This question was modified for wave 18 to capture SMEs who broke even.
Arrows indicate statistical differences between this wave and the previous one.

Optimism towards the economy has slightly improved. It is at its highest in Ontario and significantly lower in Western Canada. A statistically larger percentage of micro-businesses* are pessimistic.

Q59. When you think about the next 12 months, do you expect the **economic conditions in Canada** to be better, the same, or worse than they were in the last 12 months?



BETTER

23%

vs. **20%** in Jan 2024

WORSE

43%

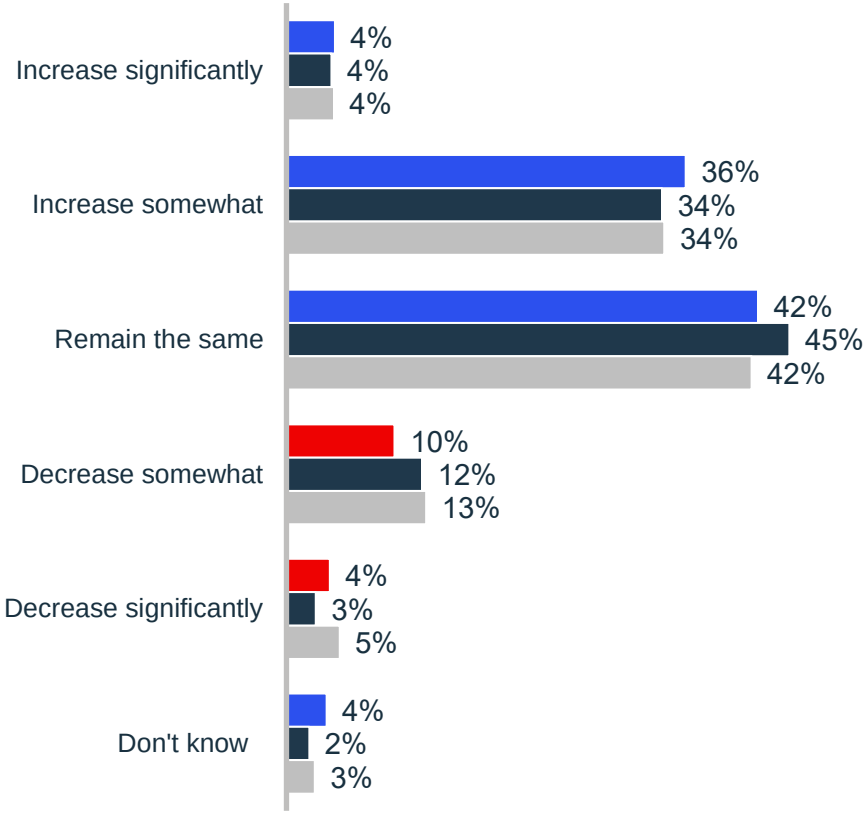
vs. **45%** in Jan 2024

Apr 2024
Jan 2024
Oct 2023

Base: All qualified respondents (n=1,030).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.
* Micro-businesses are SMEs with fewer than 5 employees and sales under $500,000.

SMEs do not expect any significant changes regarding their sales or revenue over the next 12 months.

Q14. Over the next 12 months, do you expect your company's **total sales or revenue** to increase, remain the same, or decrease compared to the last 12 months?



INCREASE

40%

vs. **38%** in Jan 2024

DECREASE

14%

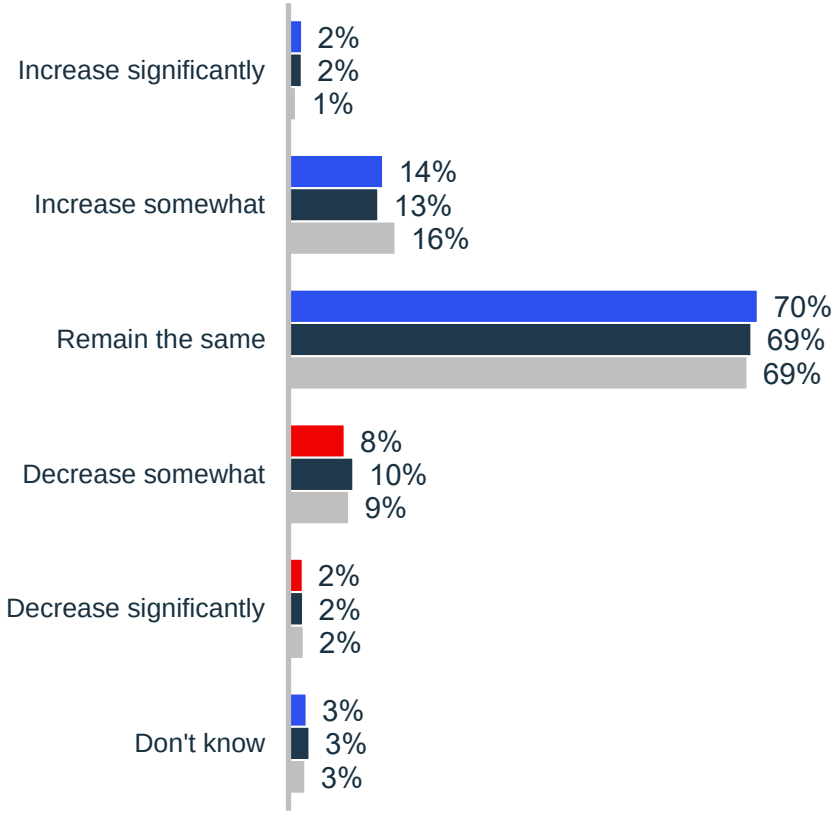
vs. **15%** in Jan 2024

Apr 2024
Jan 2024
Oct 2023

Base: All qualified respondents (n=1,026).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

SMEs' employee count should remain similar over the next year. Hiring intentions are statistically higher among SMEs who plan to invest and to obtain financing.

Q15. Over the next 12 months, do you expect your company's **number of employees** to increase, remain the same, or decrease compared to the last 12 months?



INCREASE

16%

vs. **16%** in Jan 2024

DECREASE

11%

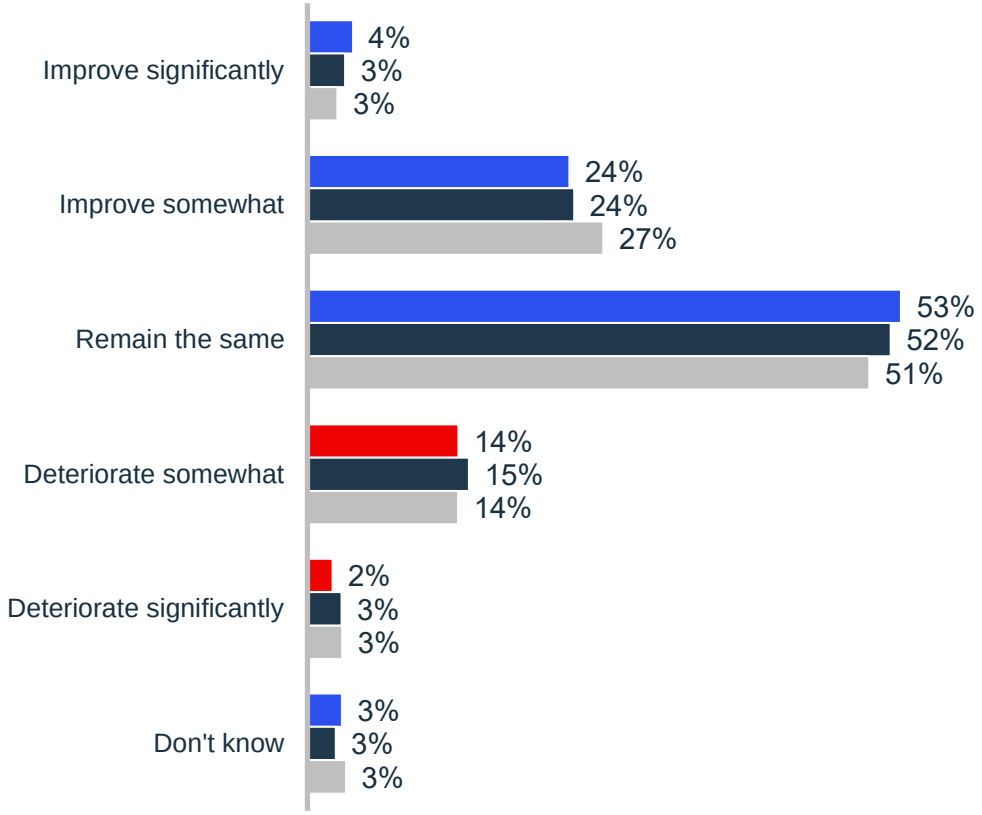
vs. **12%** in Jan 2024

Apr 2024
Jan 2024
Oct 2023

Base: All qualified respondents (n=1,027).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Given that sales expectations are not on the rise, it is normal to see that cash flow expectations have not changed very much either.

Q40. Over the next 12 months, do you expect your company's **cash flow situation** to improve, remain the same, or deteriorate compared to the last 12 months?



IMPROVE

28%

vs. **27%** in Jan 2024

DETERIORATE

16%

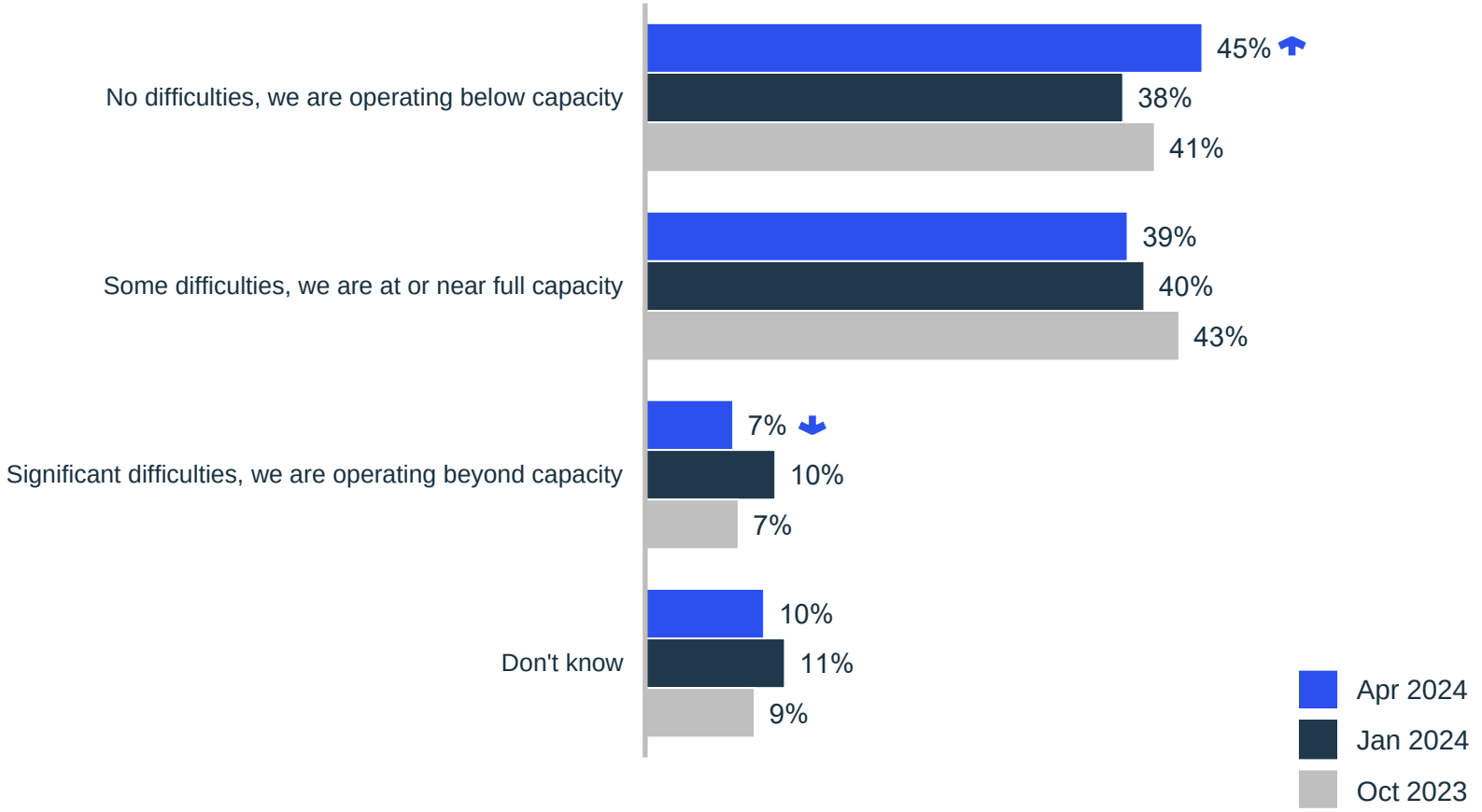
vs. **18%** in Jan 2024

Apr 2024
Jan 2024
Oct 2023

Base: All qualified respondents (n=1,026).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Current state of SMEs' operations echo the economic slowdown we have seen in the market. Statistically more are operating below capacity and, conversely, significantly fewer are operating beyond capacity.

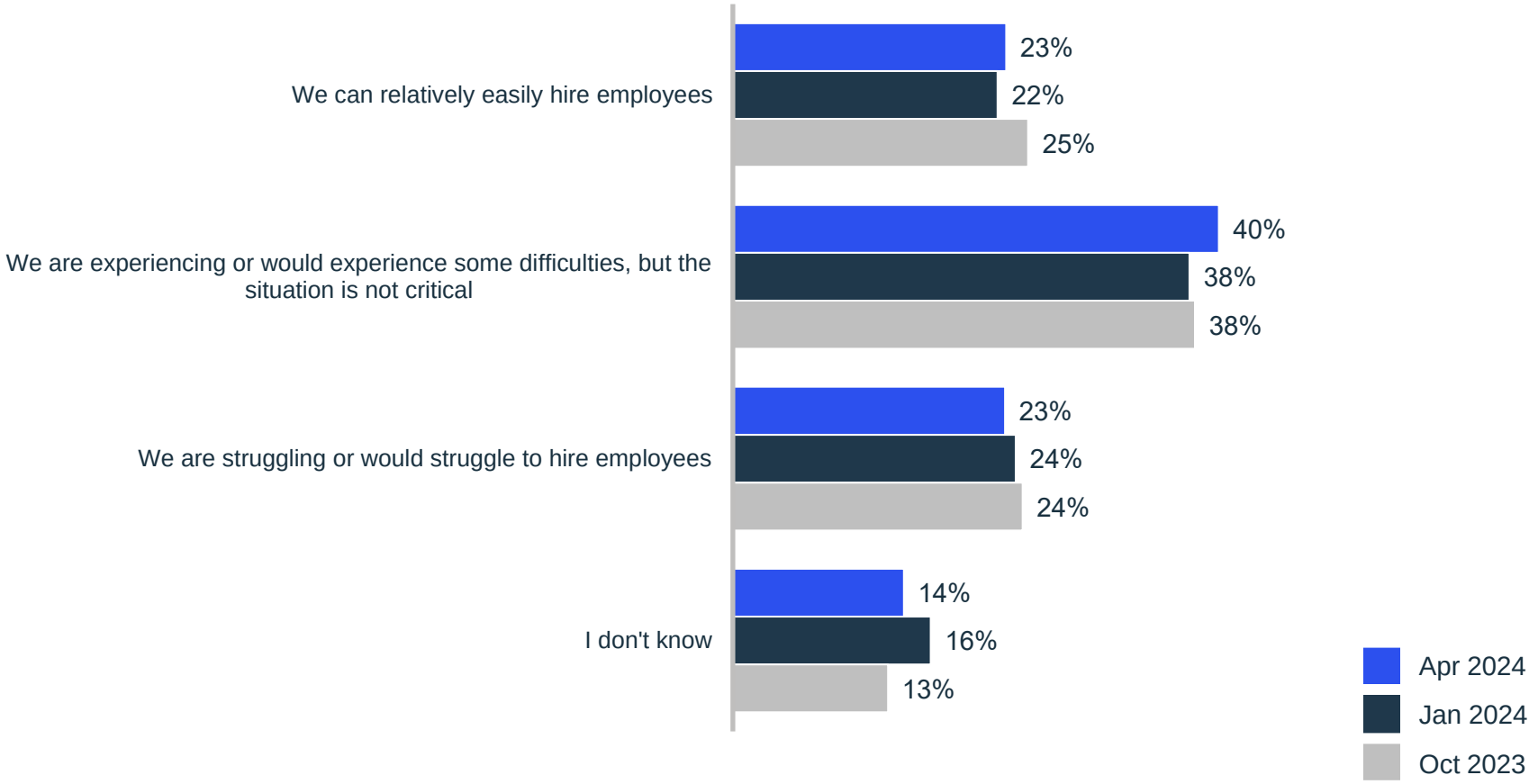
Q16. How would you assess your company's current **ability to meet an unexpected increase** in demand or sales?



Base: All qualified respondents (n=1,023).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

SMEs' ability to hire qualified workers remains stable. Labour issues are a concern for fewer than one quarter but are more prevalent in Quebec and among unprofitable SMEs.

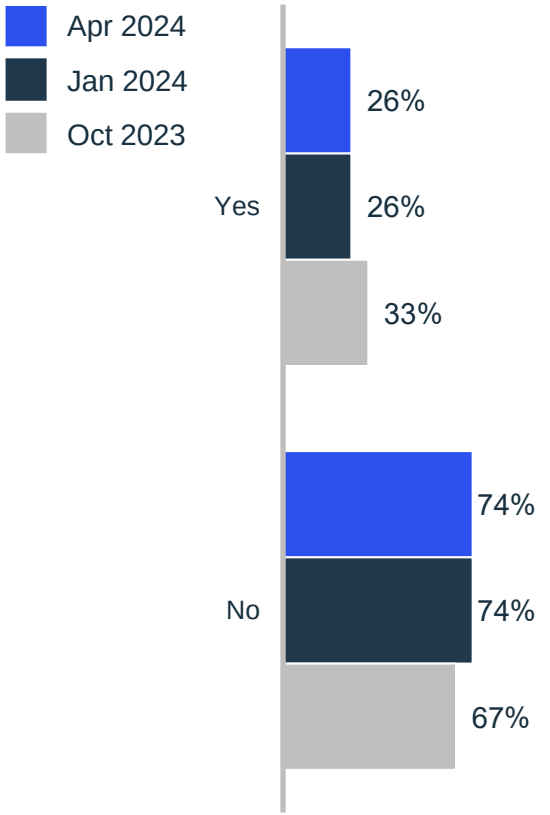
Q42. How would you assess your company current **ability to hire qualified workers**?



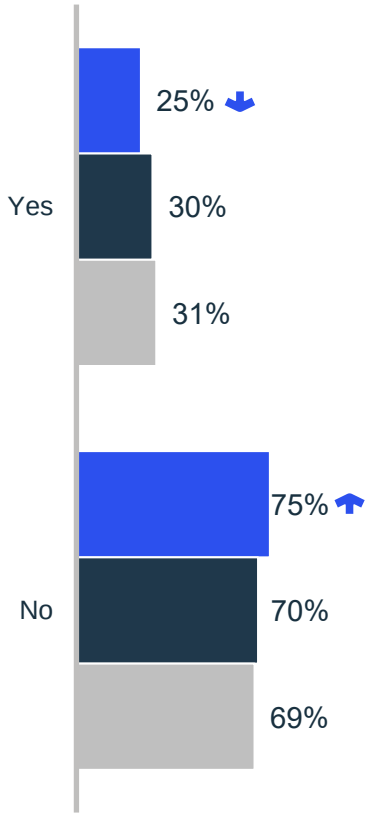
Base: All qualified respondents (n=1,021).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

These results bode well for SMEs. Statistically fewer say that debt repayment is limiting business activity and significantly more of them indicated that their needs are totally met by the FIs they deal with.

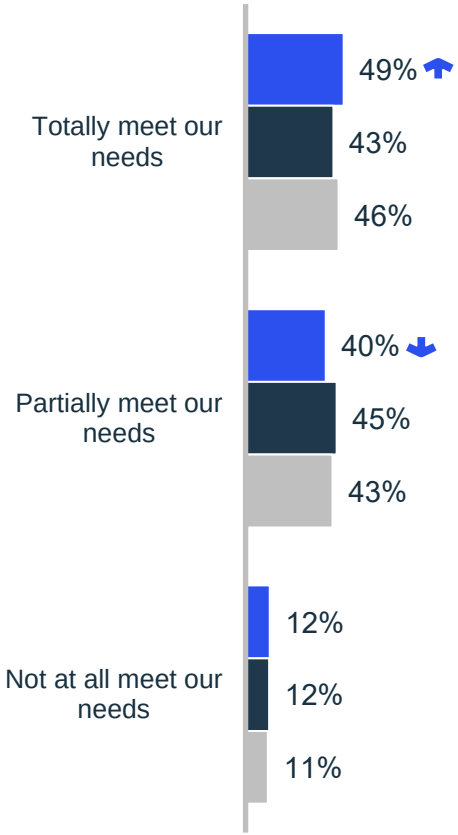
BA1. In the past or next 12 months, has your business used or will use **significant resources** for **growth projects**?



BA2. Does the **repayment** of your company's debts **limit its activities, growth or borrowing capacity**?



BA3. To what extent do the financial institution(s) you are currently dealing with effectively **meet your financing needs in the short -term**?



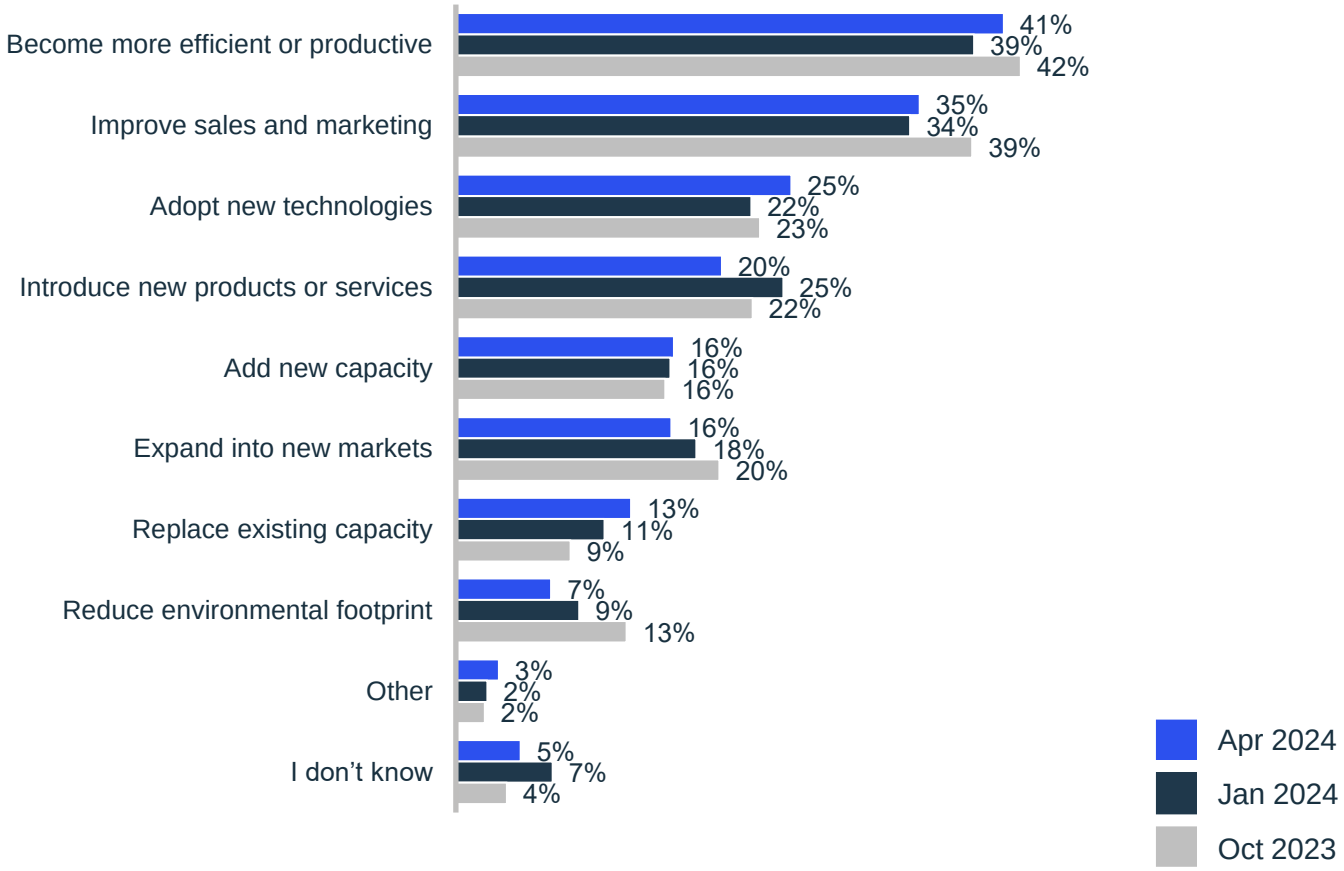
Base: BA1 (n=1,030). Those who preferred not to answer at BA2 (n=984) and BA3 (n=971) were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

3b

Investment outlook

Investment goals focus on improving the top and bottom line of SMEs' income statement. Given the current economic context and Canada's lagging productivity, SMEs seem to be focusing on the right elements.

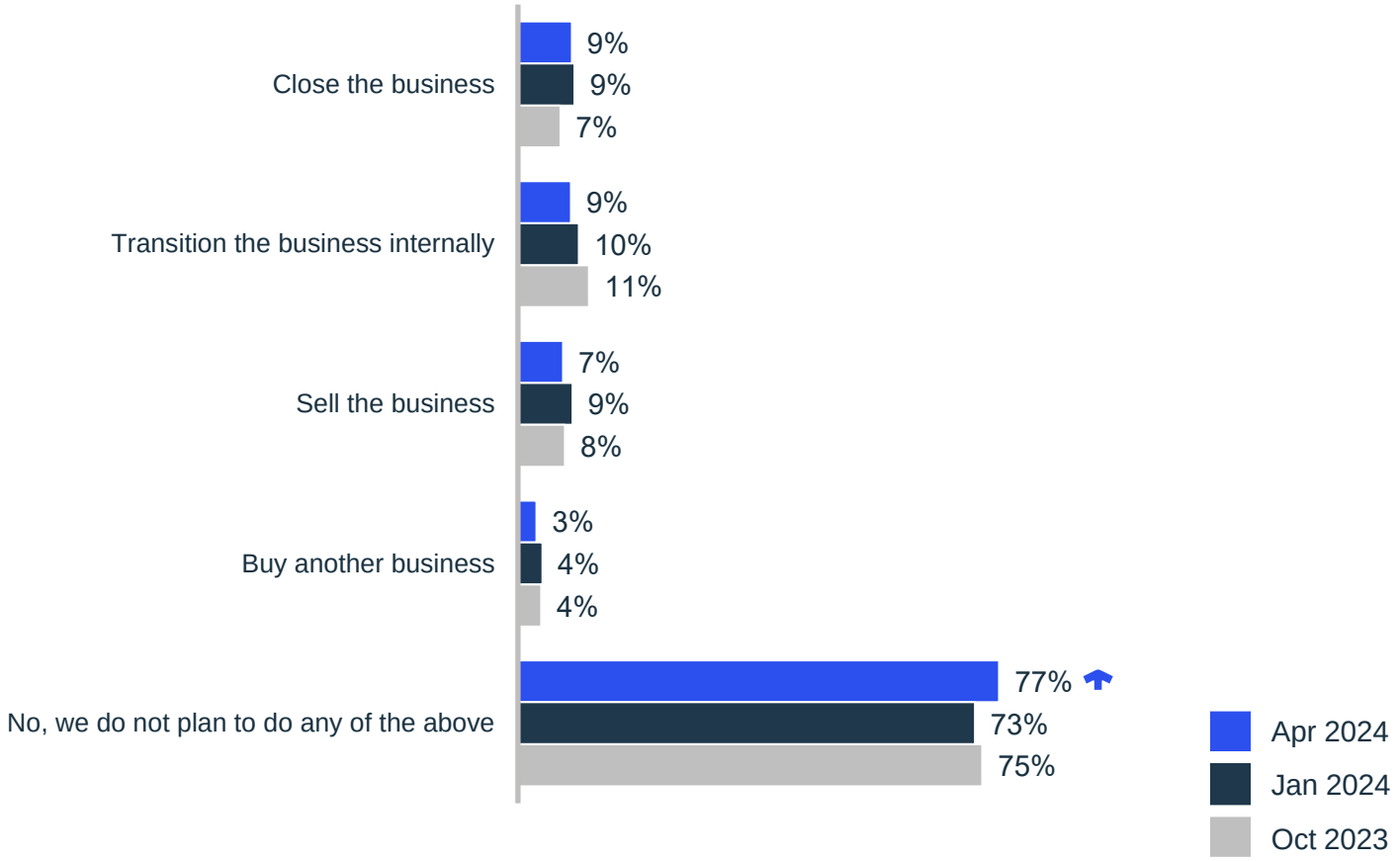
Q55. What are your main **investment goals** for the next 12 months?



Base: Respondents planning to invest (n=500). Those who preferred not to answer were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

A statistically larger percentage of SMEs have no plans to transition, sell, close or buy a business.

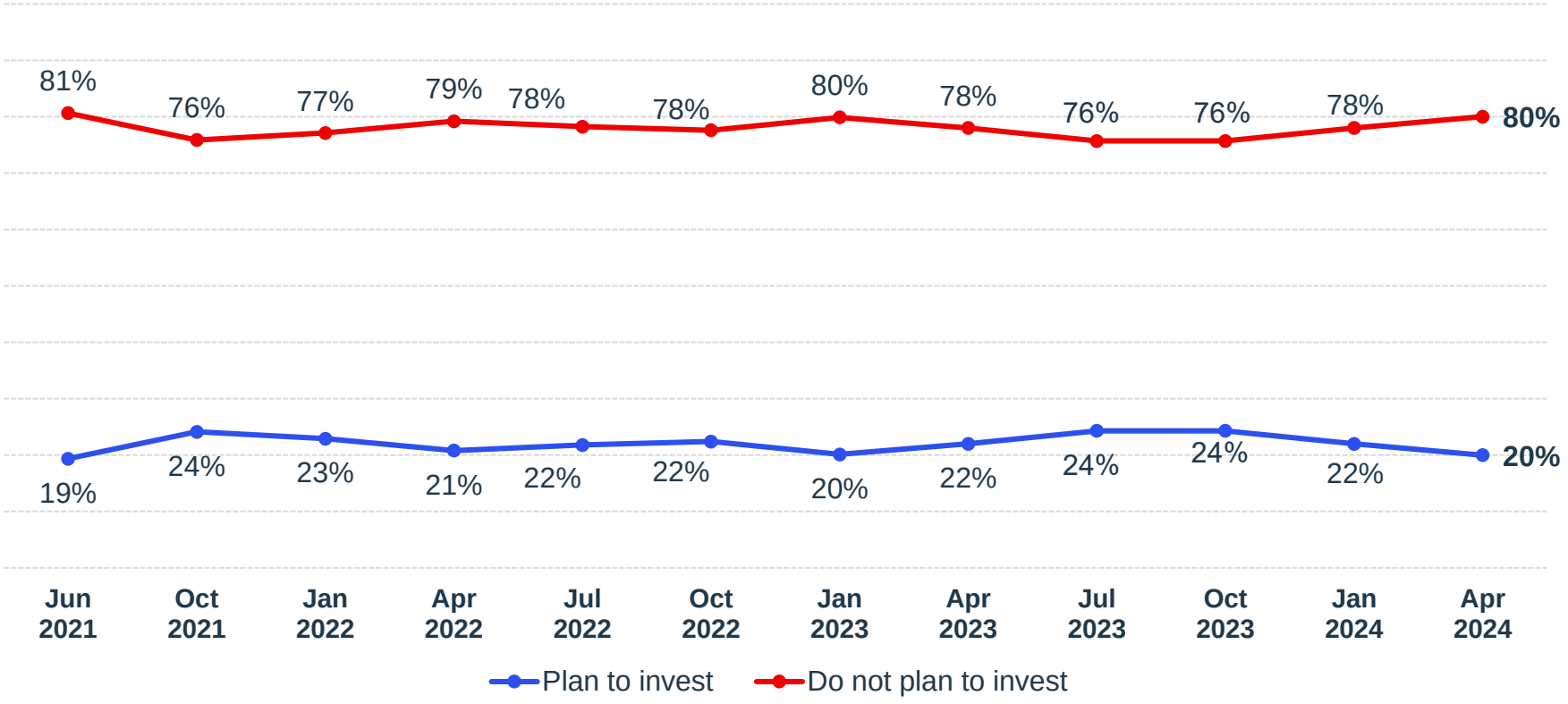
Q80. Over the next 12 months, do you **plan to pursue any of the following actions**?



Base: All qualified respondents (n=914). Those who did not know or preferred not to answer were excluded from the calculation base.
Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

There is a slight decrease in investment intentions in non-residential buildings.

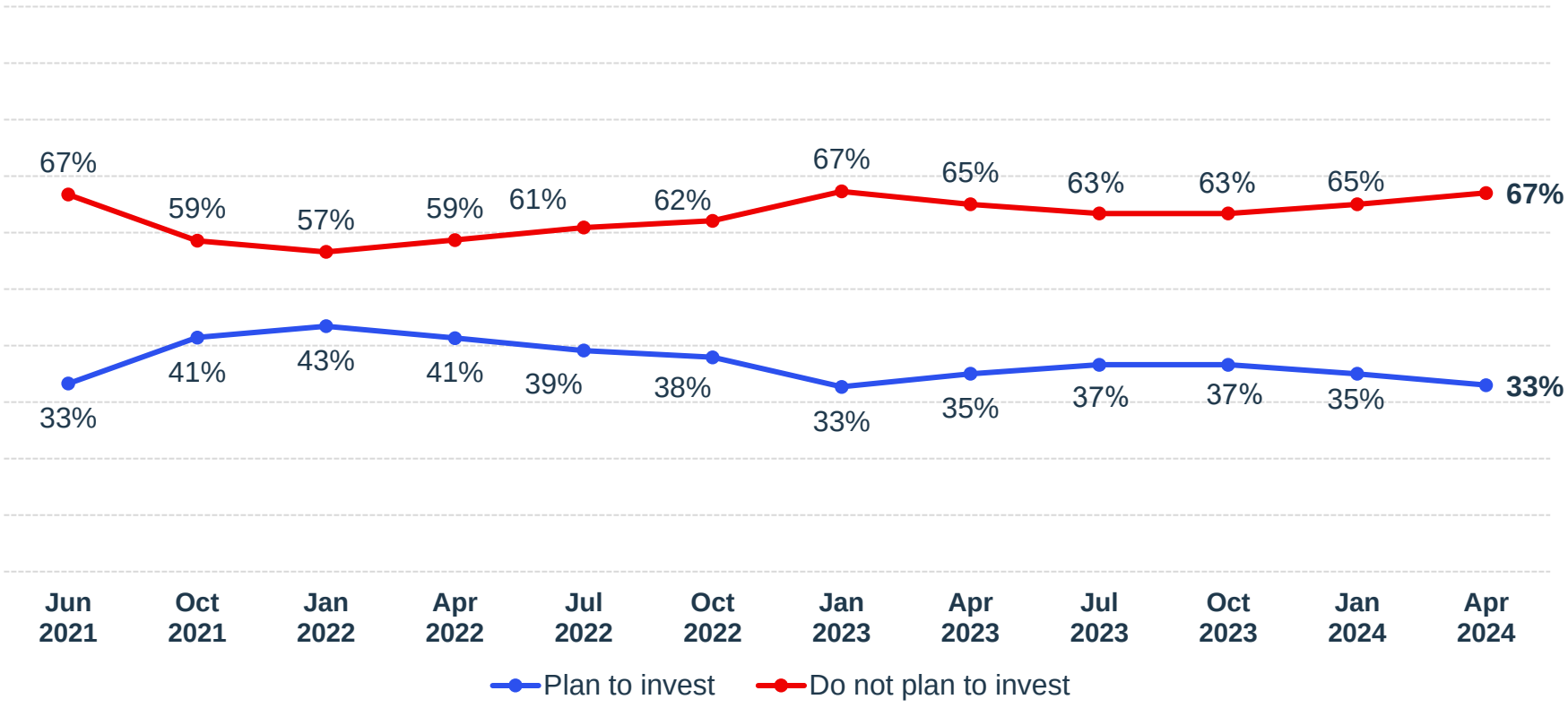
Q57a. Investment intentions in **non-residential building, including renovations** over the next 12 months.



Base: All qualified respondents (n=911).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one

Investment intentions in machinery and equipment are also down slightly.

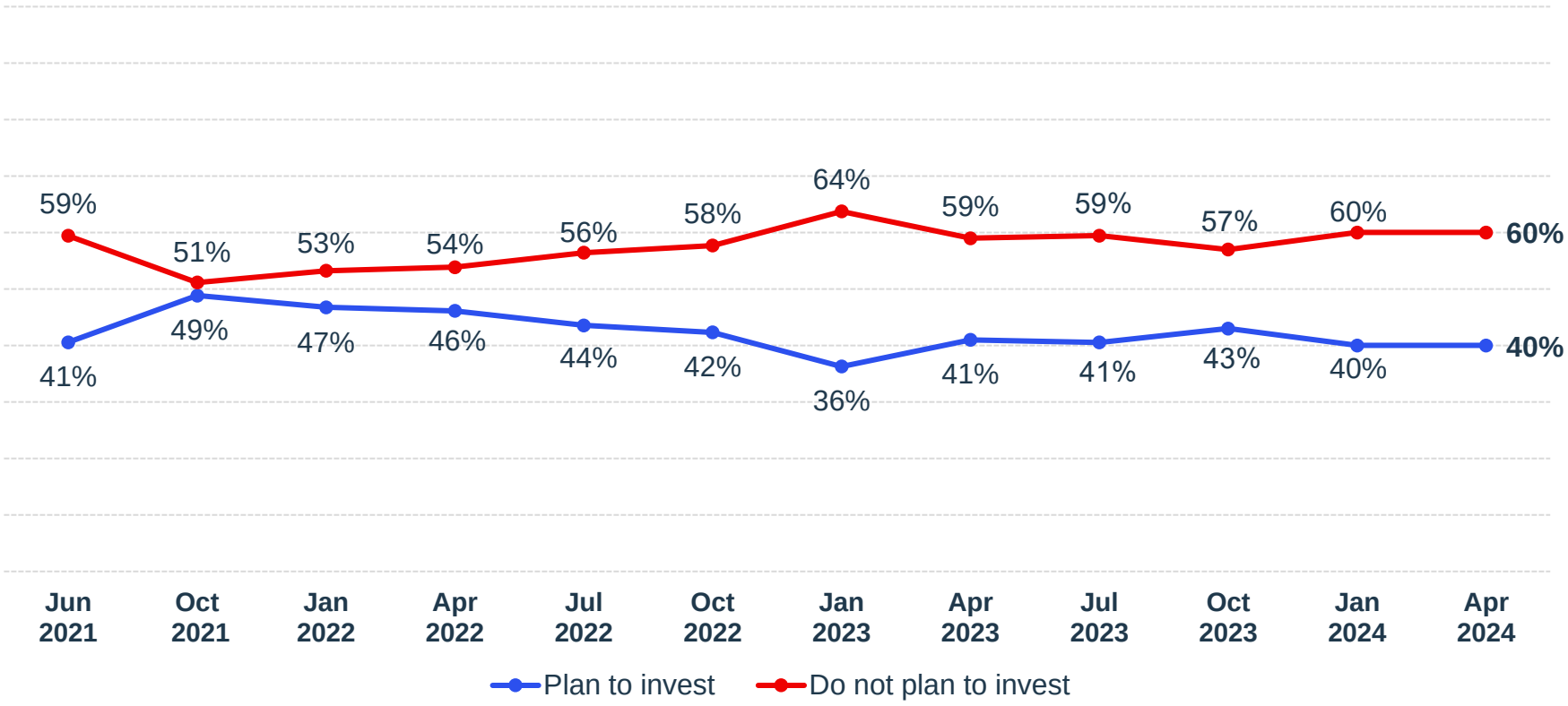
Q57b. Investment intentions in **machinery and equipment** over the next 12 months.



Base: All qualified respondents (n=906).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Investment intentions in intangibles are stable.

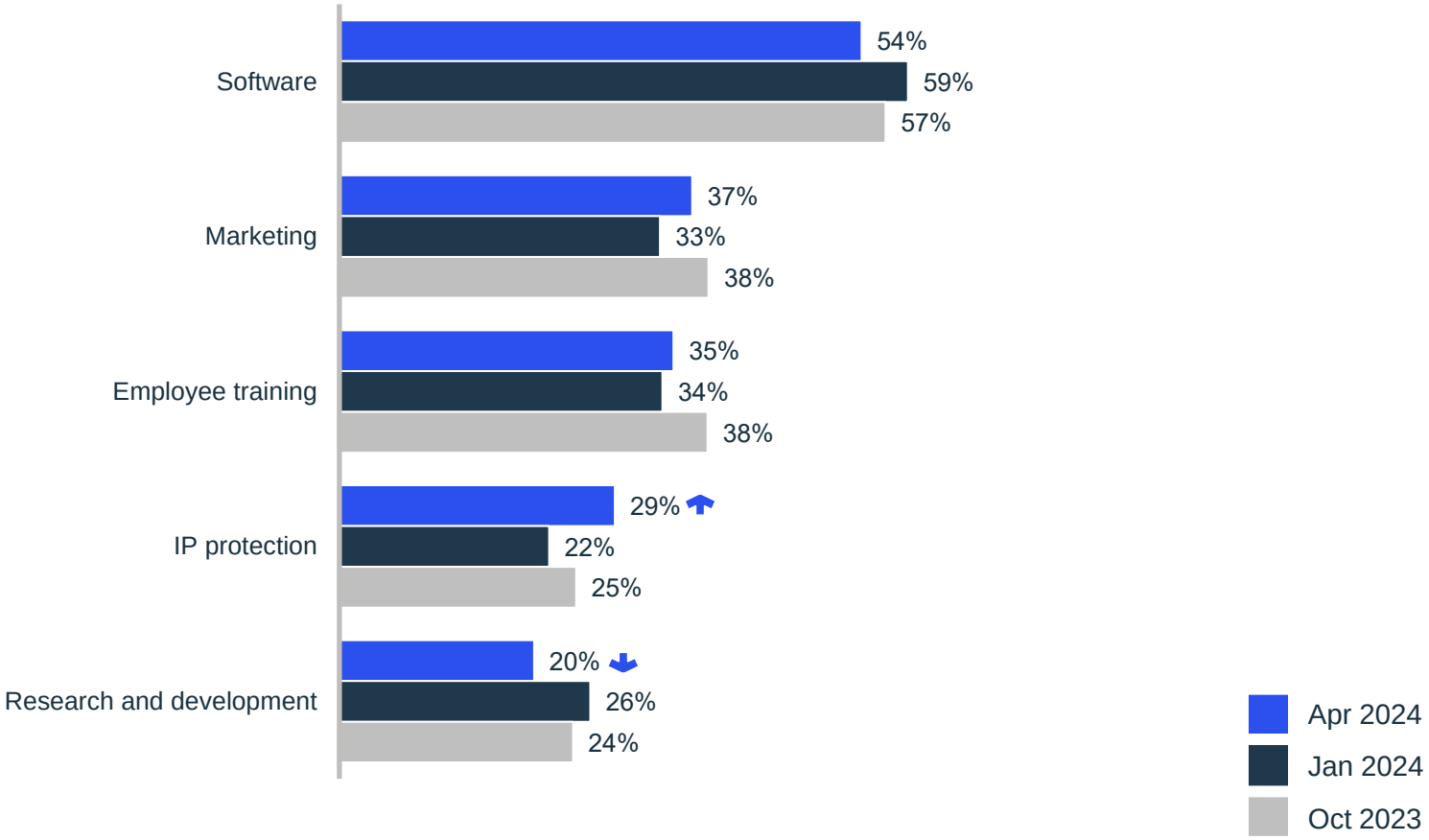
Q57c. Investment intentions in **software, IP protection, R&D, marketing, and employee training** over the next 12 months.



Base: All qualified respondents (n=902).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Among those planning to invest in intangibles, software investments remain the most popular, but have decreased. Marketing investments are on the rise, so too is IP protection, while R&D is down significantly.

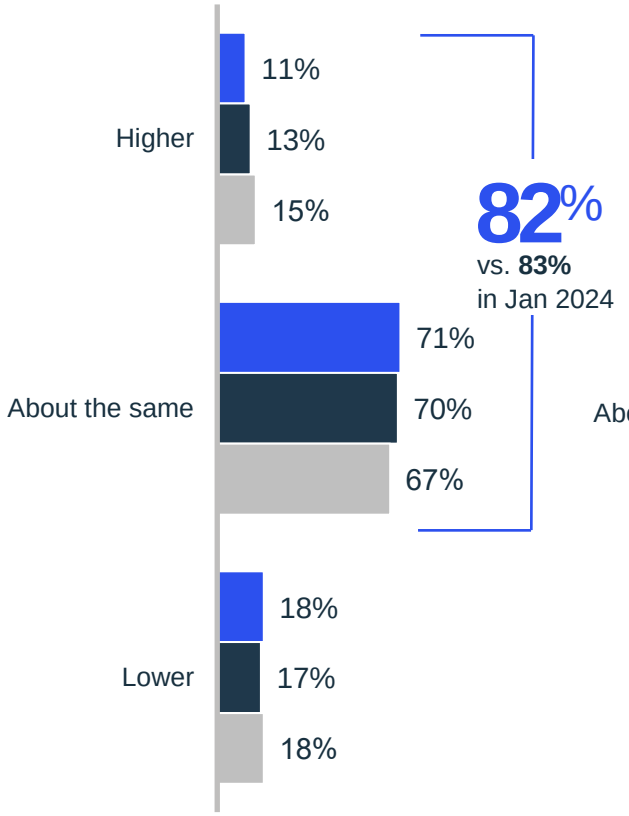
Q57d. Your company will invest in software, IP protection, R&D, marketing and employee training. More specifically, in which **category will you spend money**?



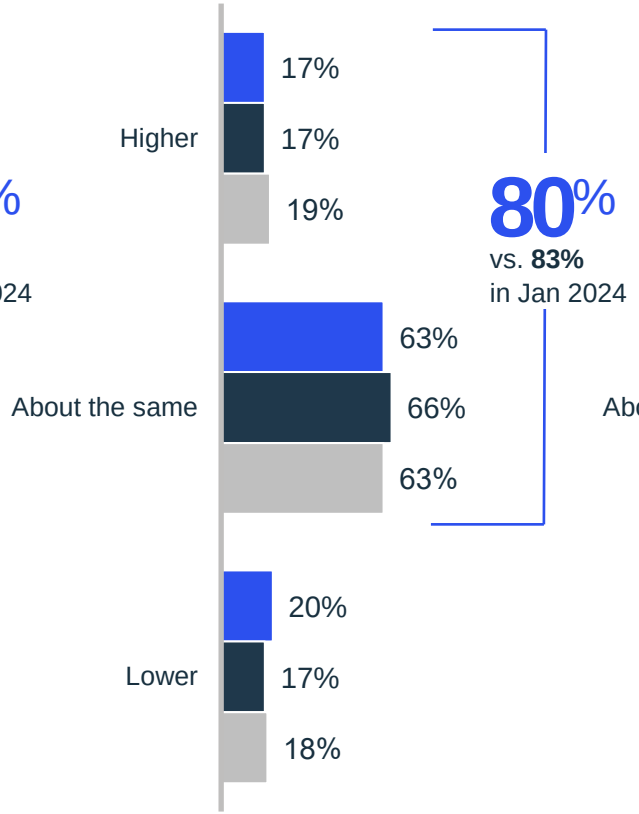
Base: All qualified respondents planning to invest in intangibles (n=404).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.
Multiple mentions were allowed; therefore, total exceeds 100%.

Amounts to be invested have decreased slightly since Jan. 2024. We notice a small uptick on those planning to allocate less than they did last year.

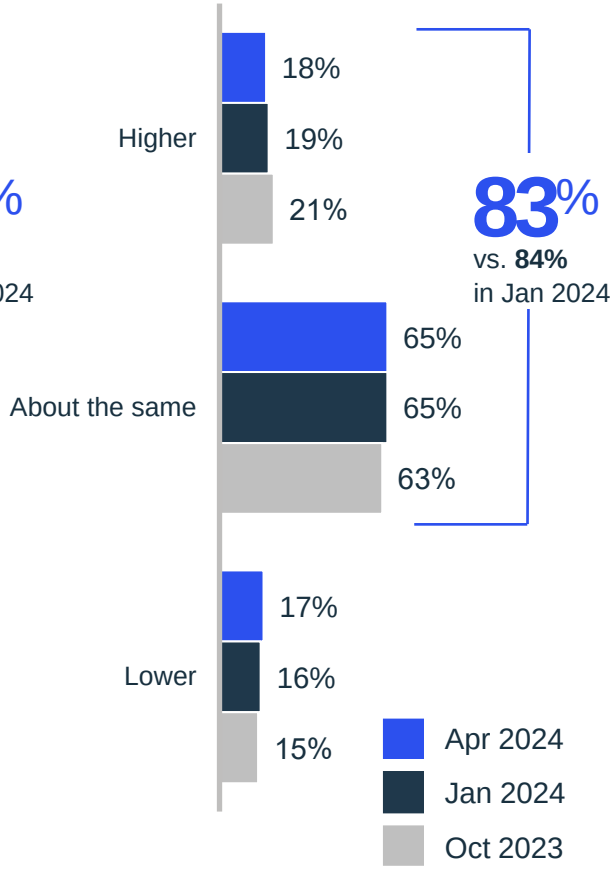
Q58a. Non-residential building, including renovations



Q58b. Machinery and equipment



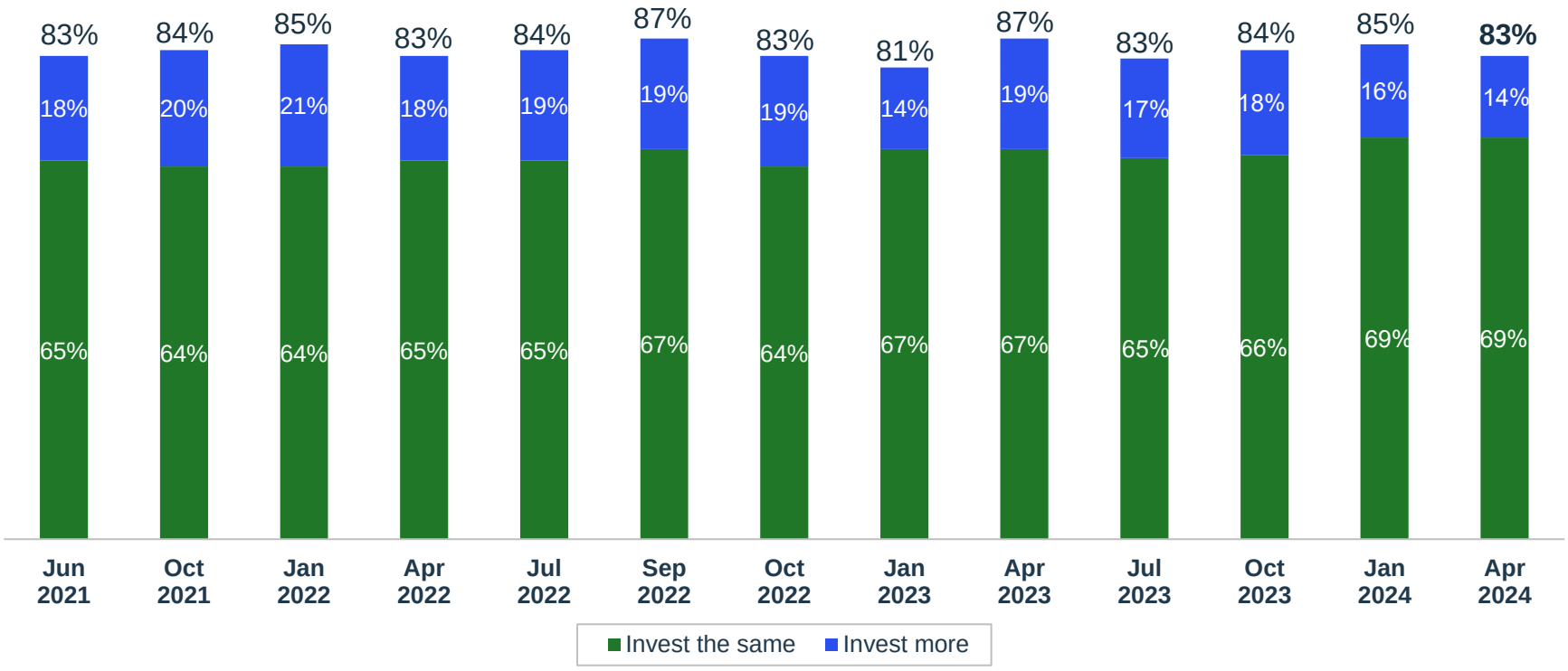
Q58c. Software, IP protection, R&D, marketing, and employee training



Base: All qualified respondents (n=918-950).
Those who did not know were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Our aggregated average of investments points to fewer SMEs planning to invest more.

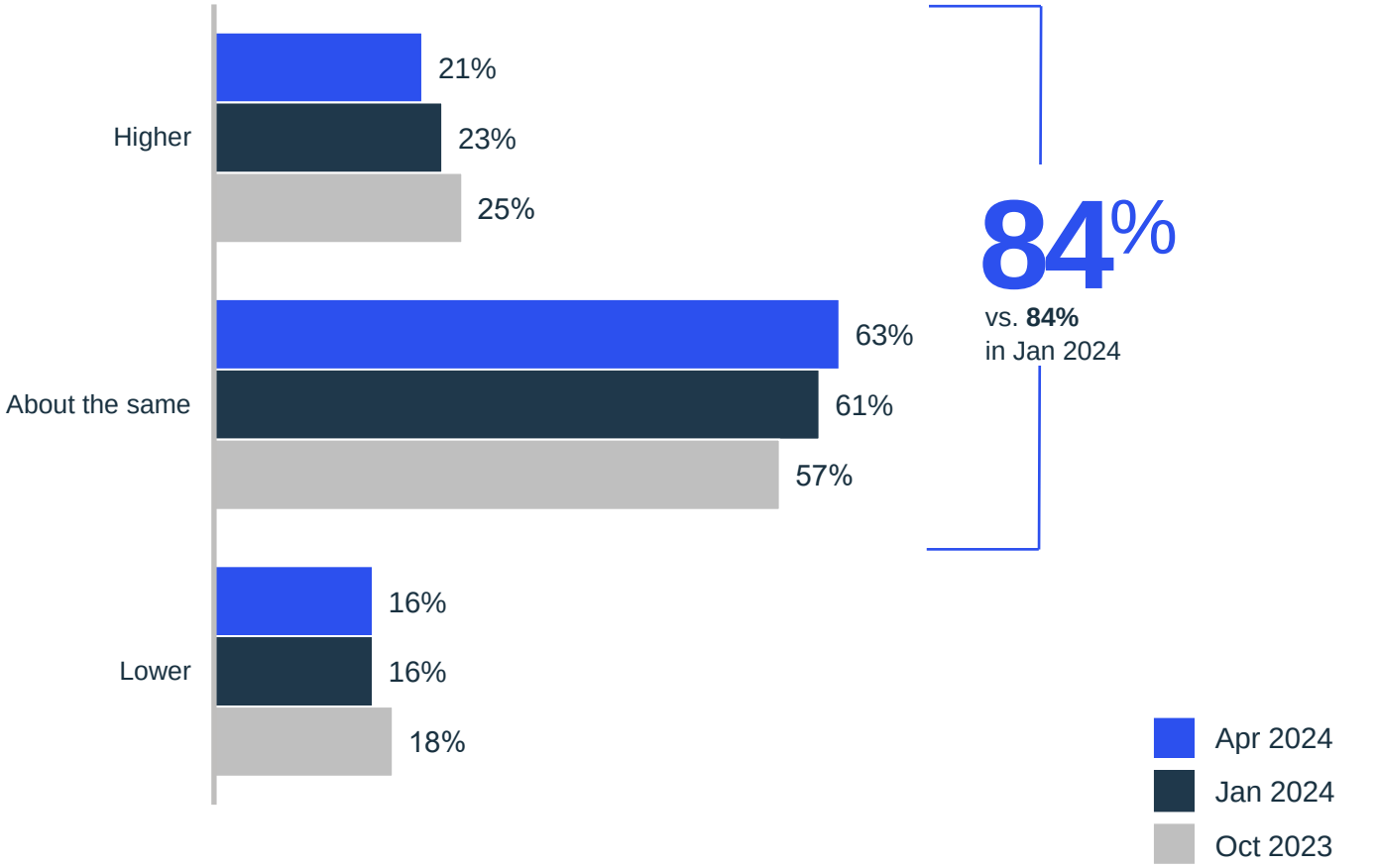
Q58. Percentage of SMEs planning to invest **“about the same amount or more”**.
This variable is based on an aggregate average of investment intentions.



Base: All qualified respondents (n=966).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

When asked directly, a growing percentage of SMEs are planning to invest about the same amount as the previous year. As for investing higher amounts, we see a decreasing trend.

Q58b. Overall, over the next 12 months, what do you expect your company's **investment spending** to be compared to the last 12 months?

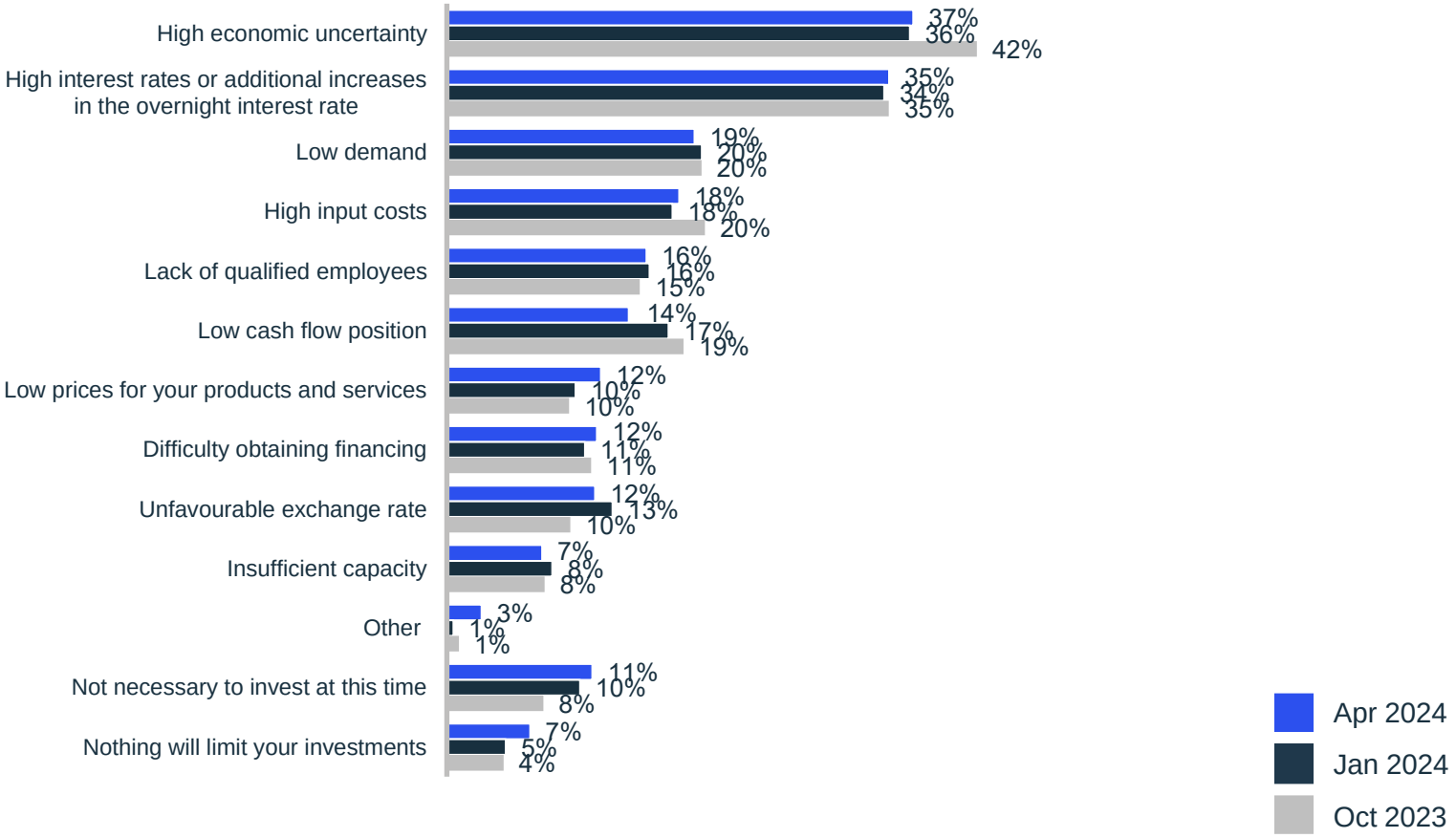


Base: All qualified respondents (n=978). Those who did not know were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.
Totals may not equal 100% due to rounding.

The top factors that could limit SME investments in the next 12 months remain unchanged: high economic uncertainty, high interest rates and low demand. Good news: low cash flow position is less of a concern.

Q56. Whether or not you plan to invest in the next 12 months, **what could limit your investments** in the current context?

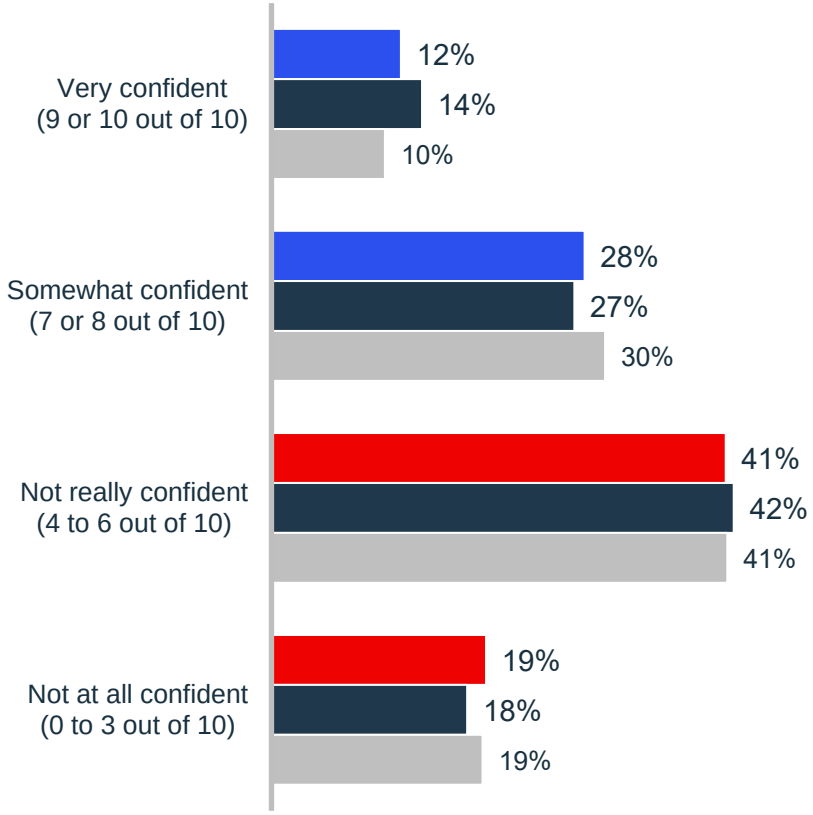
Limiting factors among those planning to invest



Base: Those planning to invest (n=491). Those who did not know or preferred not to answer were excluded from the calculation base. A maximum of three mentions was allowed, therefore total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

SMEs' confidence in pursuing intended investments remains fragile. Micro-businesses* tend to be the least confident.

Q60. How **confident** are you that your business will pursue its investments in the next 12 months?



CONFIDENT

40%

vs. **41%** in Jan 2024

NOT CONFIDENT

60%

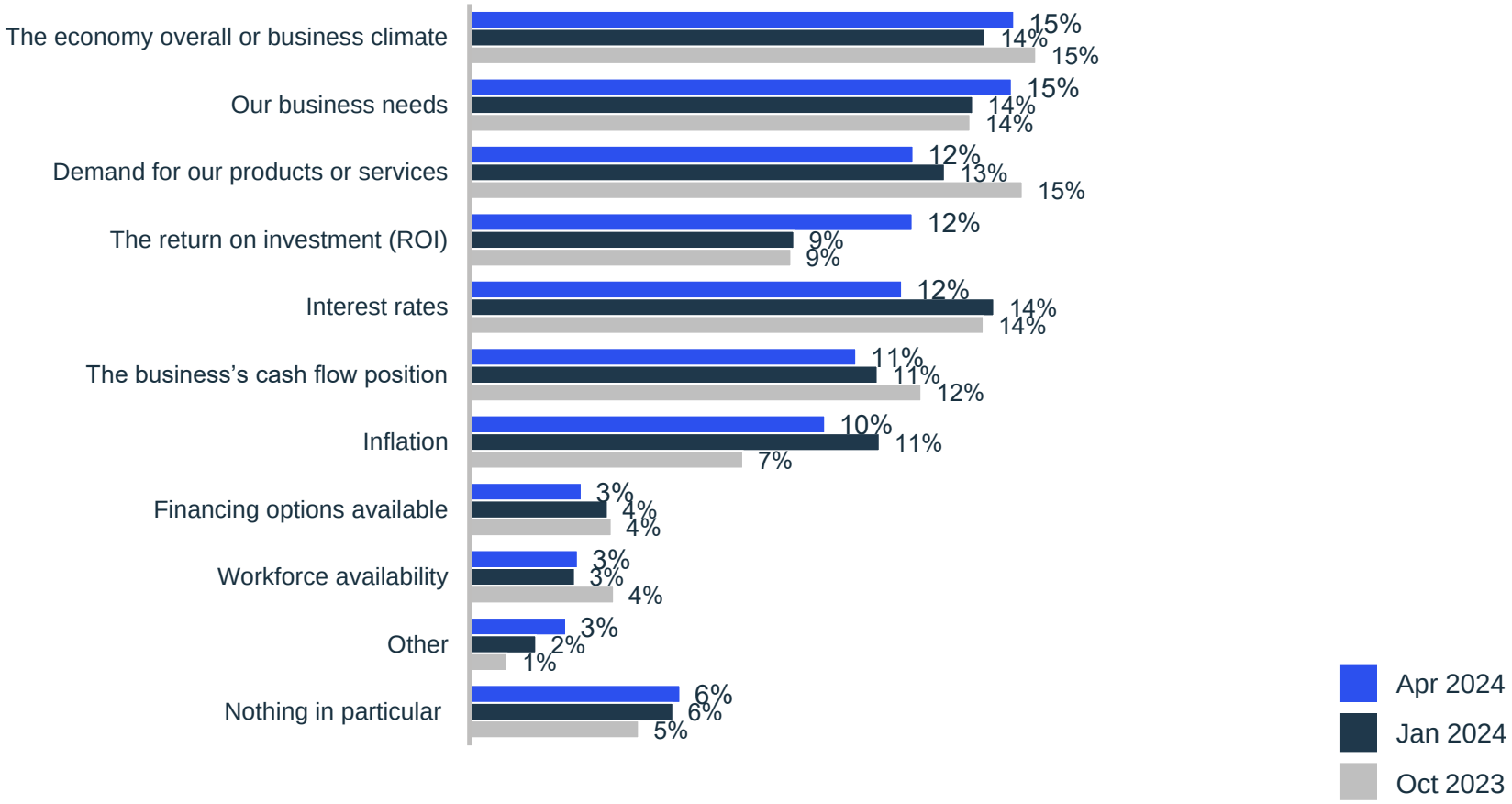
vs. **59%** in Jan 2024

Apr 2024
Jan 2024
Oct 2023

Base: Respondents planning to invest (n=920).
Those who did not know or preferred not to answer were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one.
* Micro-businesses are SMEs with fewer than 5 employees and sales under $500,000.

The overall economy, business needs and demand for their offering are the main factors upon which SMEs will base their decision to invest. SMEs in real estate are the ones most likely to be influenced by rates.

Q61. **On what do you** or **will you primarily base your final decision** to invest or not to invest as you had planned?



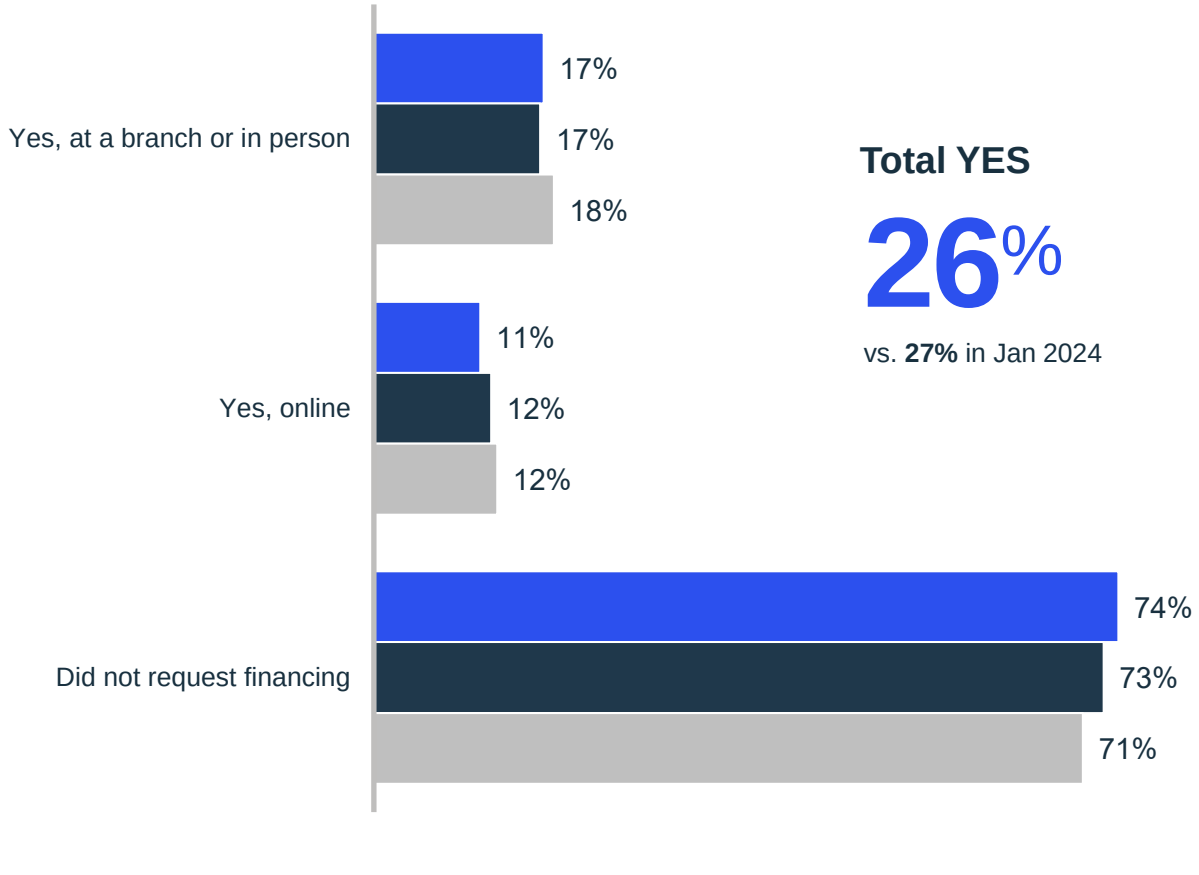
Base: Respondents planning to invest (n=984).
Those who did not know or preferred not to answer were excluded from the calculation base. Multiple mentions was allowed; therefore, total exceeds 100%.

3c

Financing supply

Past financing requests remain stable.

Q30. Over the **last 3 months**, has your company **requested financing**?



Total YES

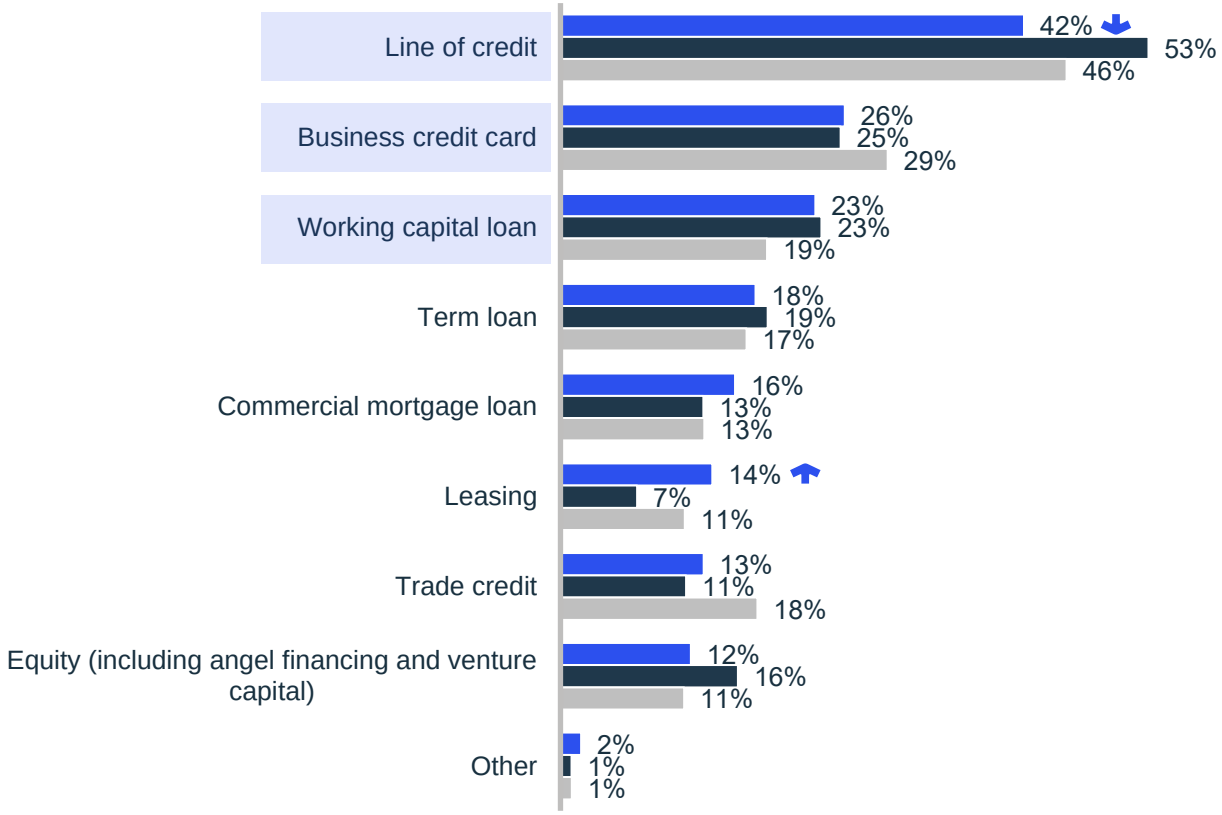
26%

vs. **27%** in Jan 2024

Base: All qualified respondents (n=992).
Those who did not know were excluded from the calculation base. Multiple answers allowed for the “Yes” response.

After several waves of strong demand, lines of credit were the most requested, but by a statistically smaller percentage of SMEs. Conversely, demand for leasing increased significantly.

Q30a. What **type of financing** did you request?



SHORT-TERM FINANCING

74%

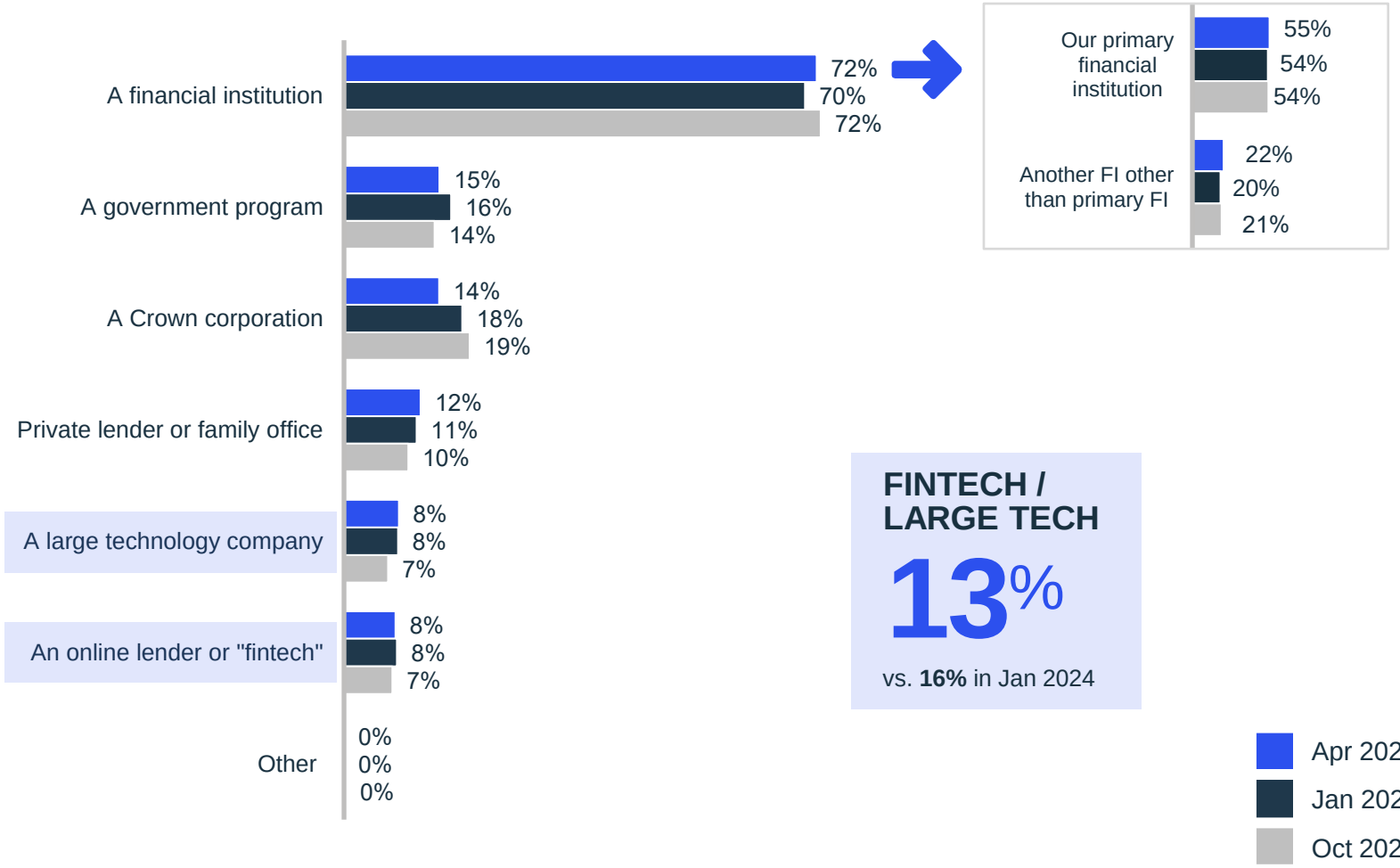
vs. **76%** in Jan 2024

Apr 2024
Jan 2024
Oct 2023

Base: Respondents who requested financing (n=328). Those who did not know were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Short-term options are highlighted in blue in the graph. Arrows indicate statistical differences between this wave and the previous one.

Half applied at their main financial institution, while 1 in 5 went to another FI. Crown Corps are trending downwards.

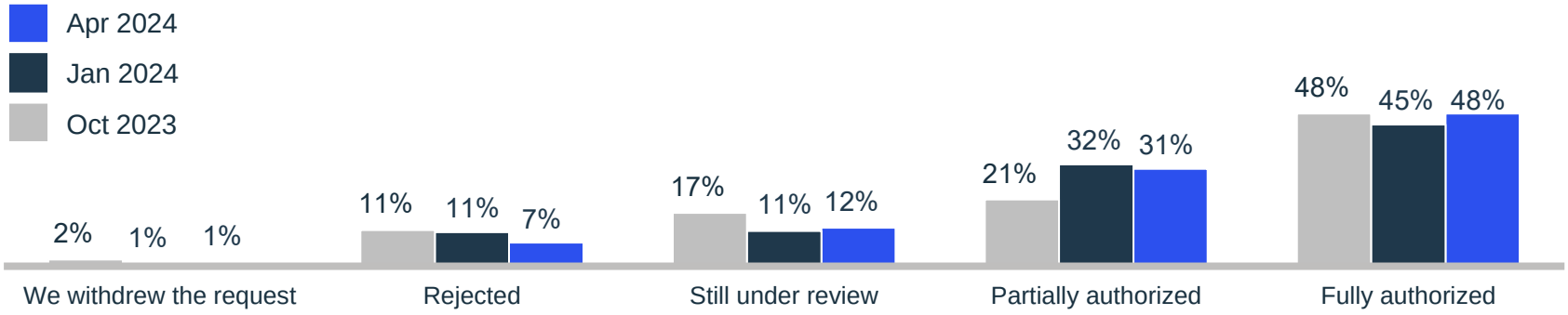
Q30b. **Who** did you apply to for financing?

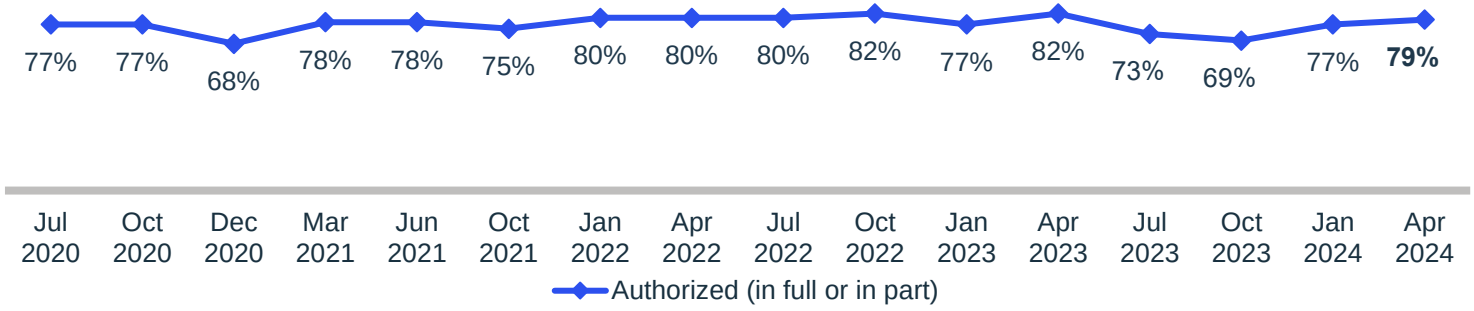


Base: Respondents who requested financing (n=323). Those who did not know were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one. The answers to this question were modified in wave 19 to better understand primary FIs vs other FIs and to account for the contribution of private lenders and family offices.

Approval rates are up, thanks to fewer SMEs being rejected and a small increase in those who were fully authorized.

Q31. What was the **outcome** of this financing request?





APPROVAL RATE

79%

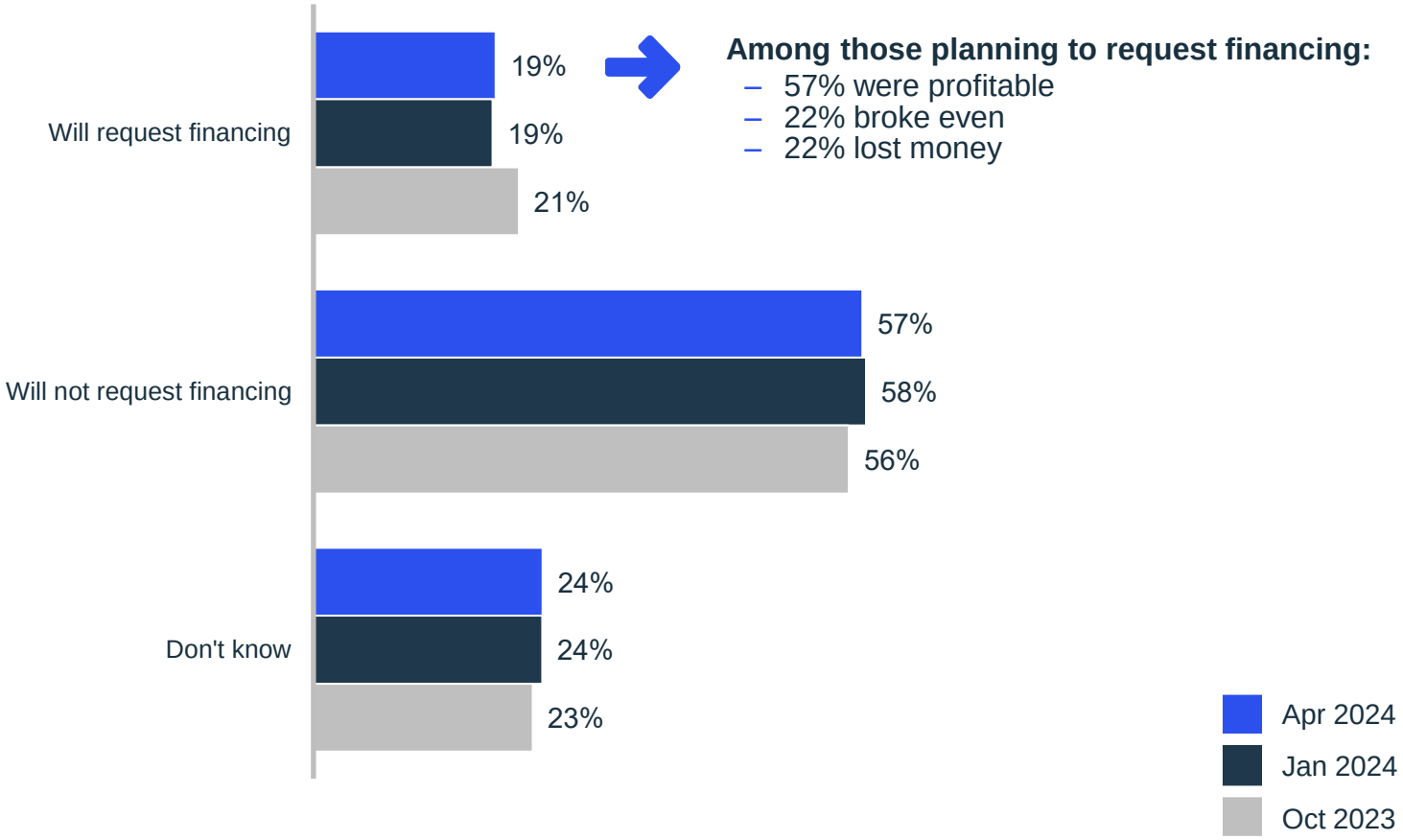
Base: Respondents who requested financing (n=326).
Those who did not know were excluded from the calculation base.

3d

Financing demand

Demand for financing is stable, albeit at the low end of the spectrum.

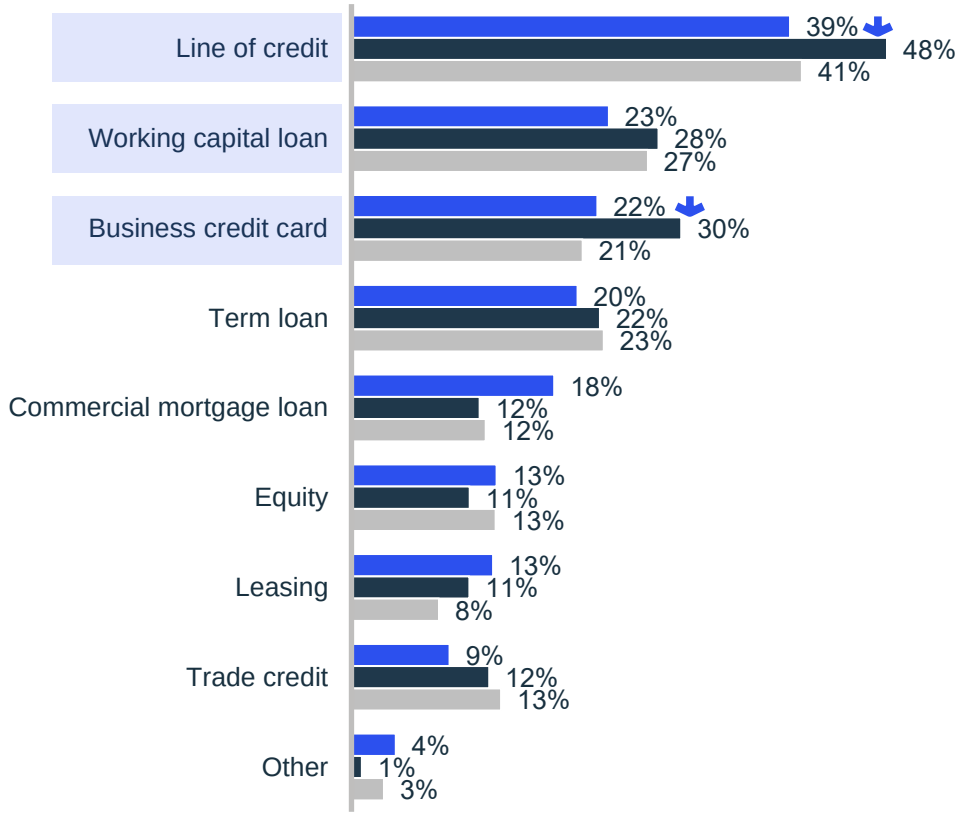
Q32. Over the **next 12 months**, is your company planning to **request financing**?



Base: All qualified respondents (n=1,022).
Those who preferred not to answer were excluded from the calculation base.

Significantly fewer SMEs plan to request revolving credit (i.e., lines of credit, credit cards). Demand for mortgages is up.

Q33. What **type of financing** will you request?



SHORT-TERM FINANCING

67%

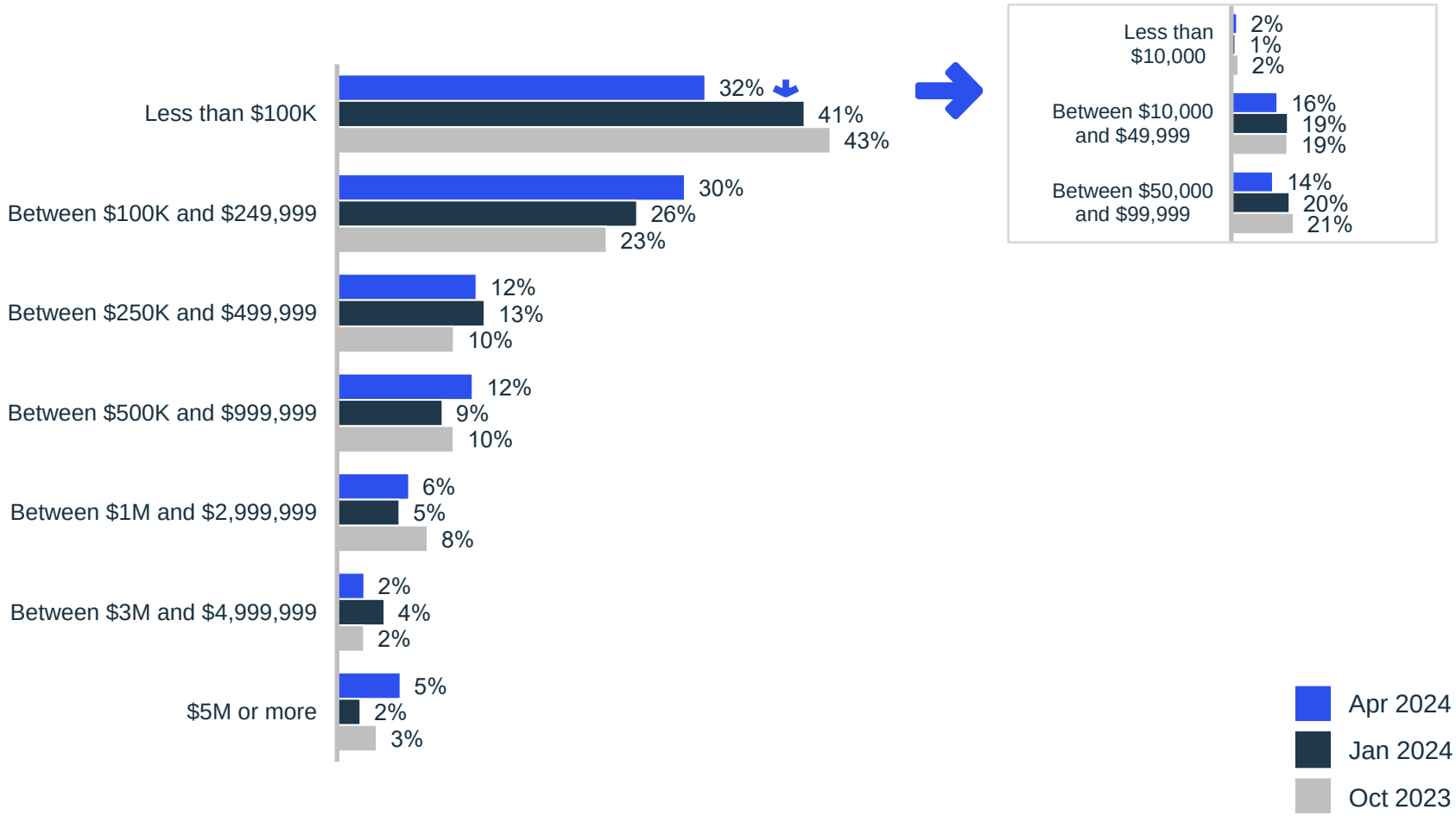
vs. **74%** in Jan 2024

Apr 2024
Jan 2024
Oct 2023

Base: Respondents who will request financing (n=249). Those who did not know are not presented in the graph. Arrows indicate statistical differences between this wave and the previous one. Multiple mentions were allowed; therefore, total exceeds 100%. In this graph, short-term options are highlighted in blue.

There is a significant decrease in those seeking up to $100K.

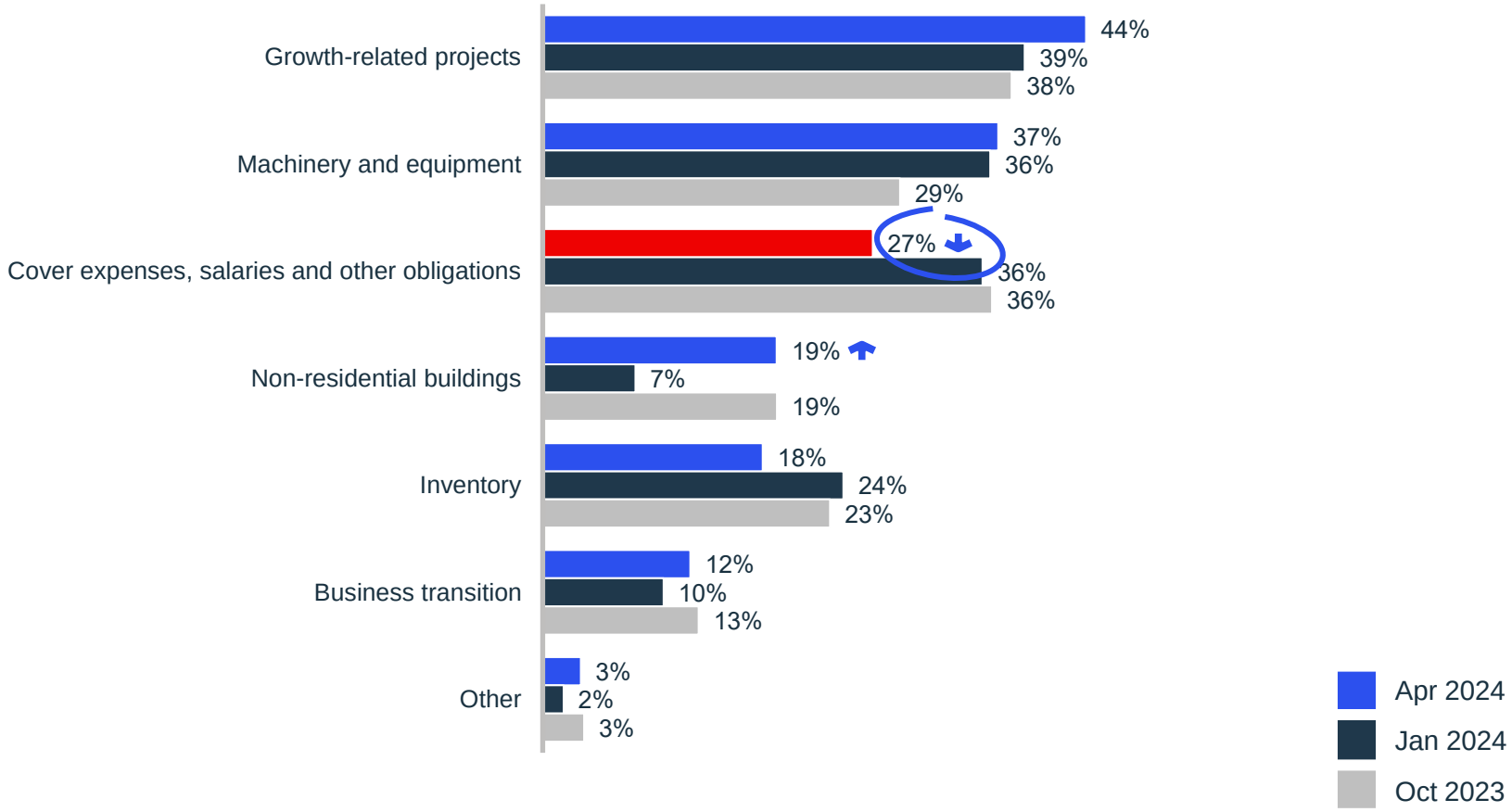
Q34. Approximately, what is the **amount of financing** you are seeking?



Base: Respondents who will request financing (n=249).
Those who did not know or preferred not to answer are not presented on this slide.
Arrows indicate statistical differences between this wave and the previous one.
* Micro-businesses (sales <$500K, 1 to 4 employees)

It is good news to see that significantly fewer SMEs plan to borrow to cover expenses. Furthermore, we see that aside from inventory, all other purposes have risen, including for non-residential buildings.

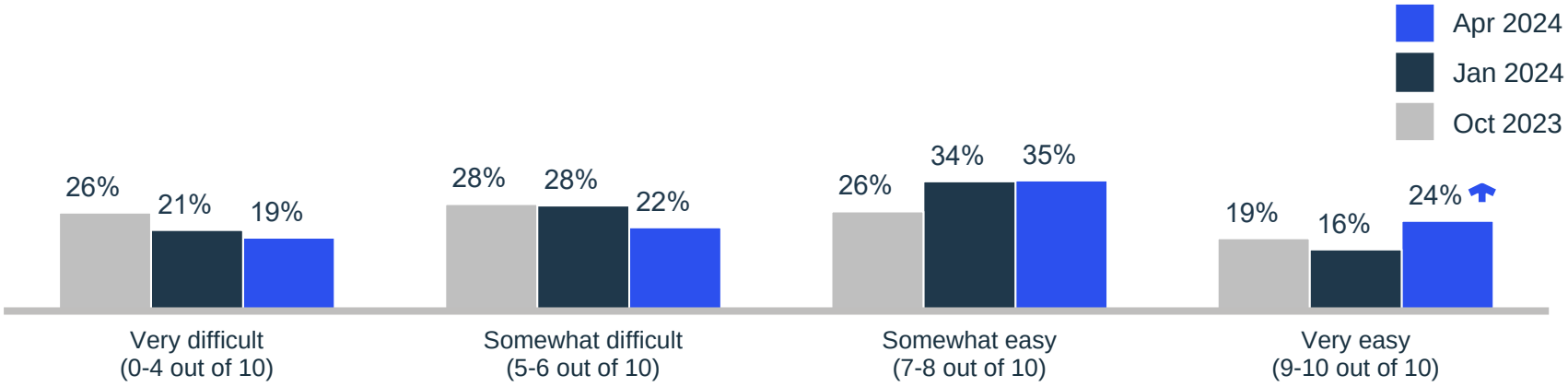
Q34b. What would this financing be **used for**?

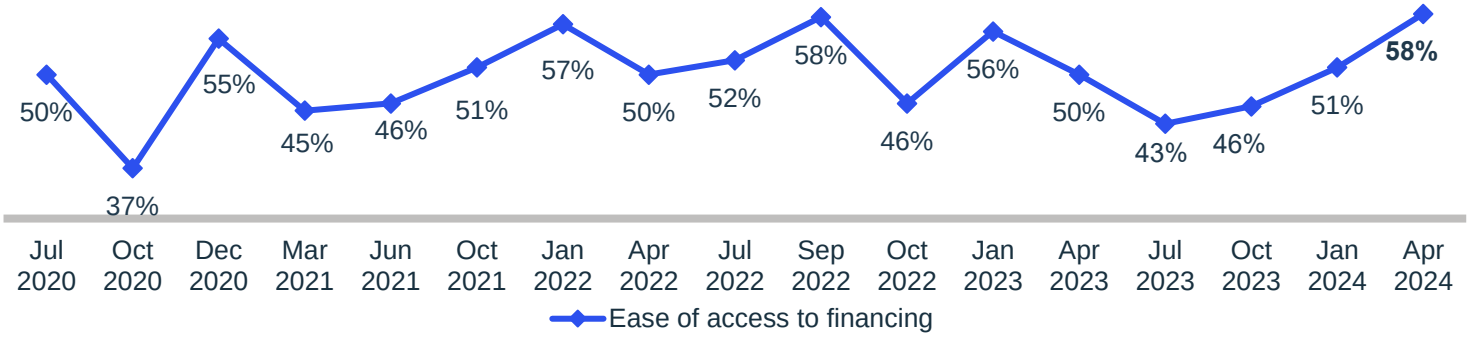


Base: Respondents who will request financing in the next 12 months (n=251). Multiple mentions were allowed; therefore, total exceeds 100%.
Those who did not know or preferred not to answer are not presented on this slide. Arrows indicate statistical differences between this wave and the previous one.

Perceived ease of access to financing has improved considerably. Nearly three out of five SMEs think it will be easy to obtain financing.

Q35. How easy will it be to **obtain this financing**?





EASE OF ACCESS

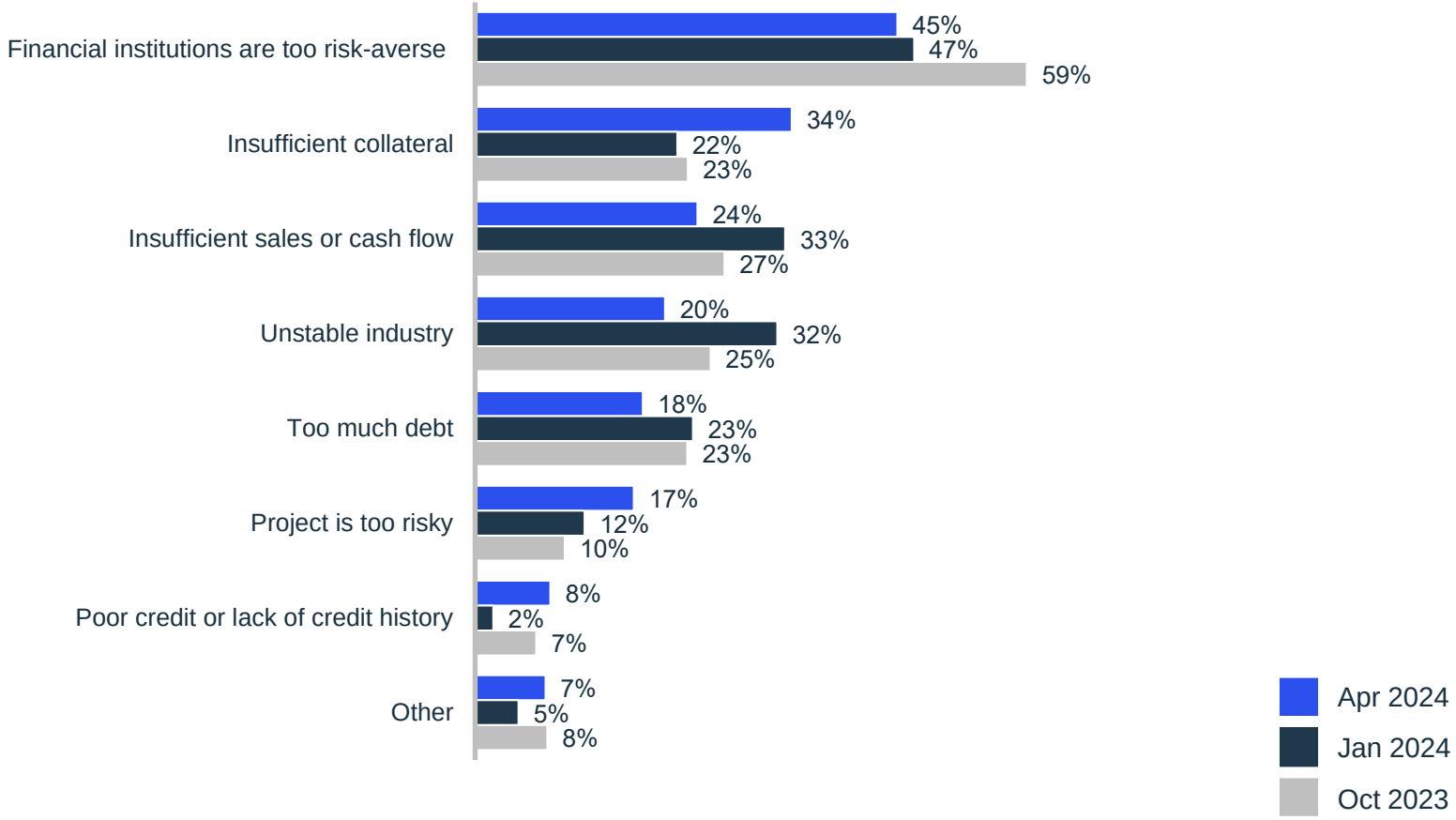
58%

Base: Respondents who intend to request financing in the next 12 months (n=240). Those who did not know or refused to answer were removed from the calculation base. Arrows indicate statistical differences between this wave and the previous one.

Perceived FIs' risk aversion remains the main reason why access to financing is deemed difficult, but it is trending downwards. Insufficient collateral and/or insufficient sales are among other reasons provided.

Q36. What makes you believe that it will be **difficult** to obtain financing for your company?

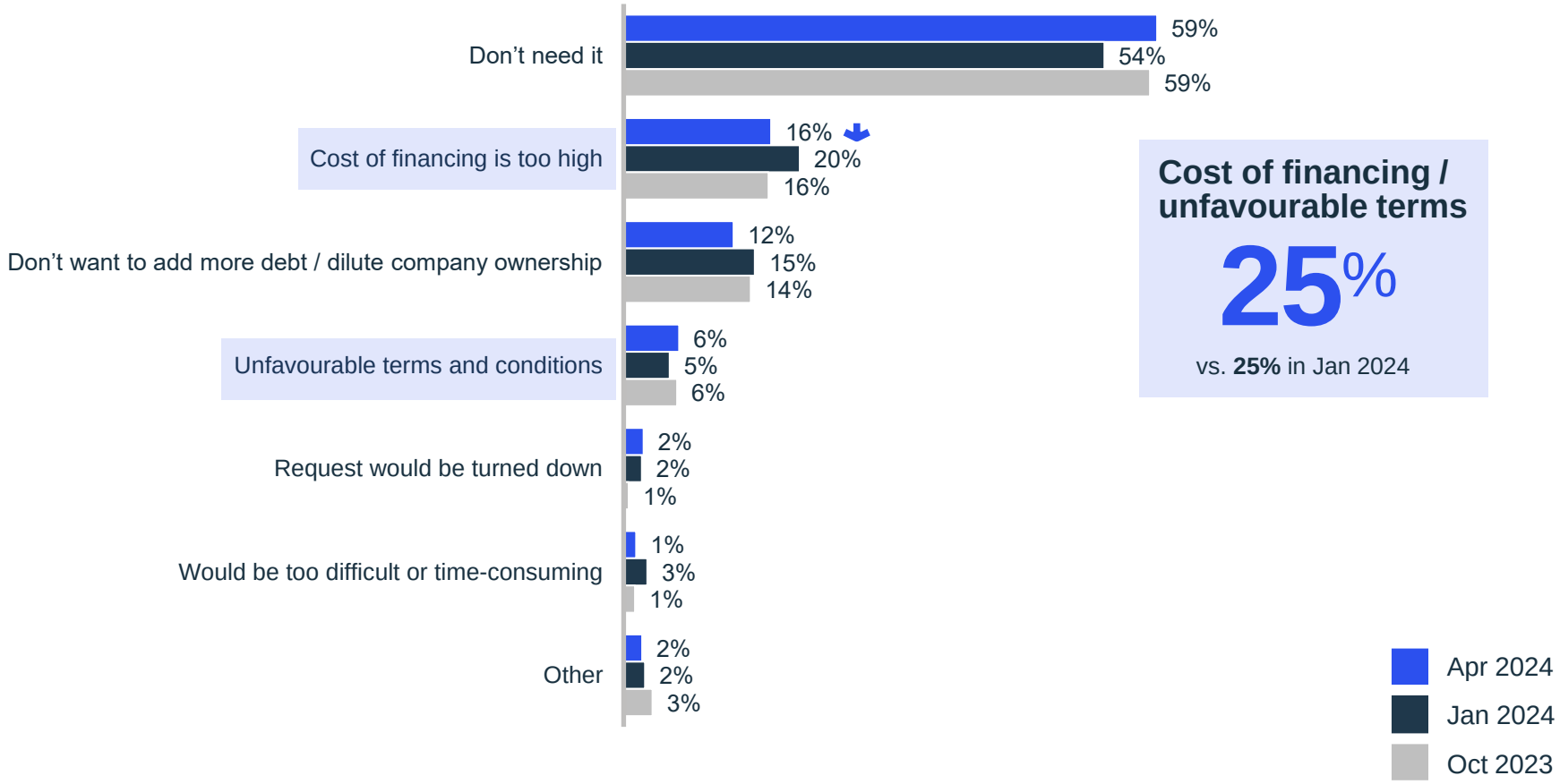
Small sample, interpret with caution



Base: Respondents who believe it will be difficult to obtain financing (n=33). Those who did not know were excluded from the calculation base.
Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

A quarter of SMEs said that the cost of financing is too high and/or that terms and conditions are unfavourable. The proportion of SMEs saying they do not need financing is up slightly, to three out of five.

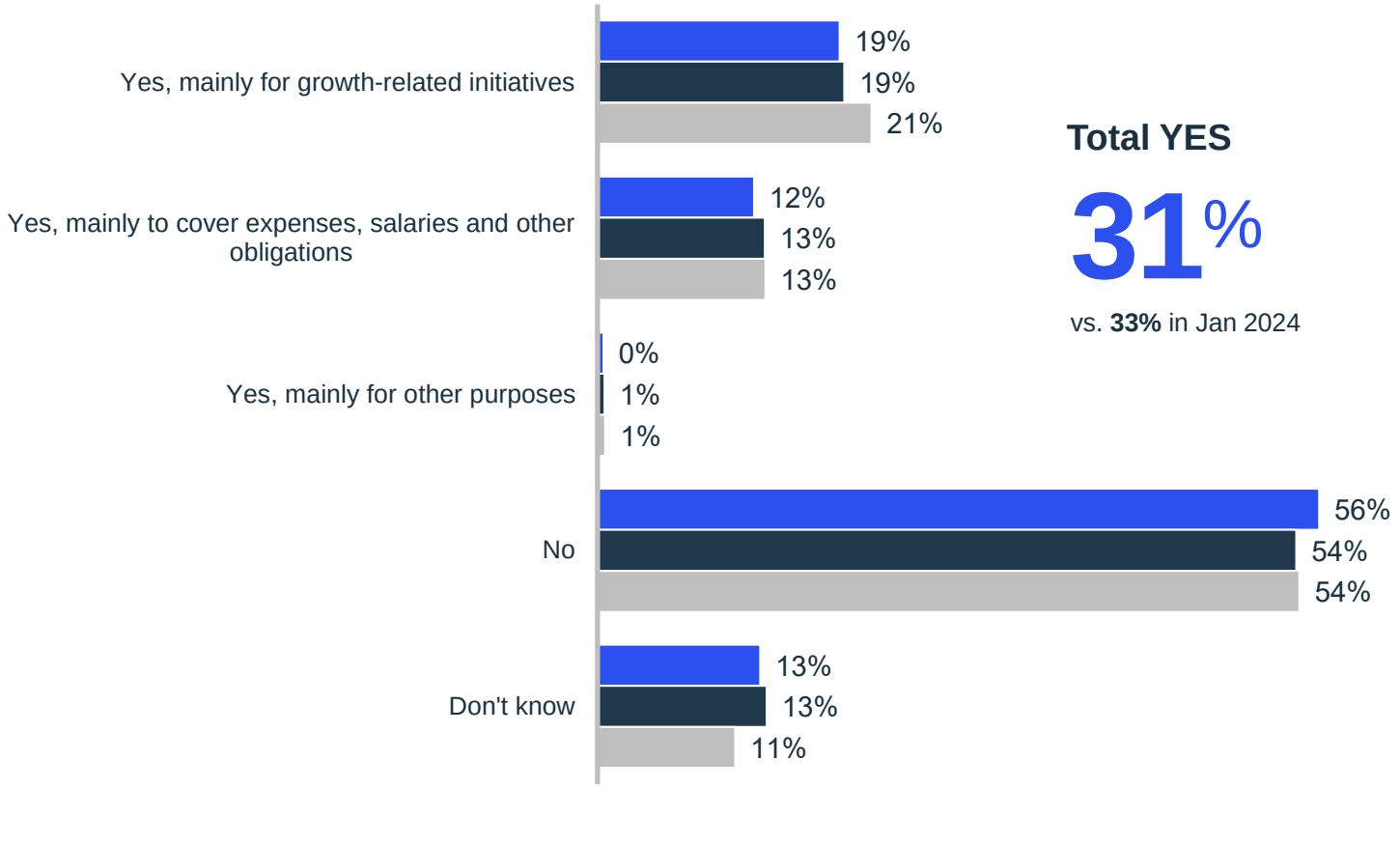
Q37. Why do you **not intend to request financing** or **would not request financing** over the next 12 months?



Base: Respondents who will not or who don't know if they will request financing in the next 12 months (n=716). Those who did not know or preferred not to answer were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one. Multiple mentions were allowed; therefore, total exceeds 100%.

Fewer than one third of SMEs said that financing would be useful.

Q37b. Would it be **helpful** for your company **to obtain financing** over the next 12 months?

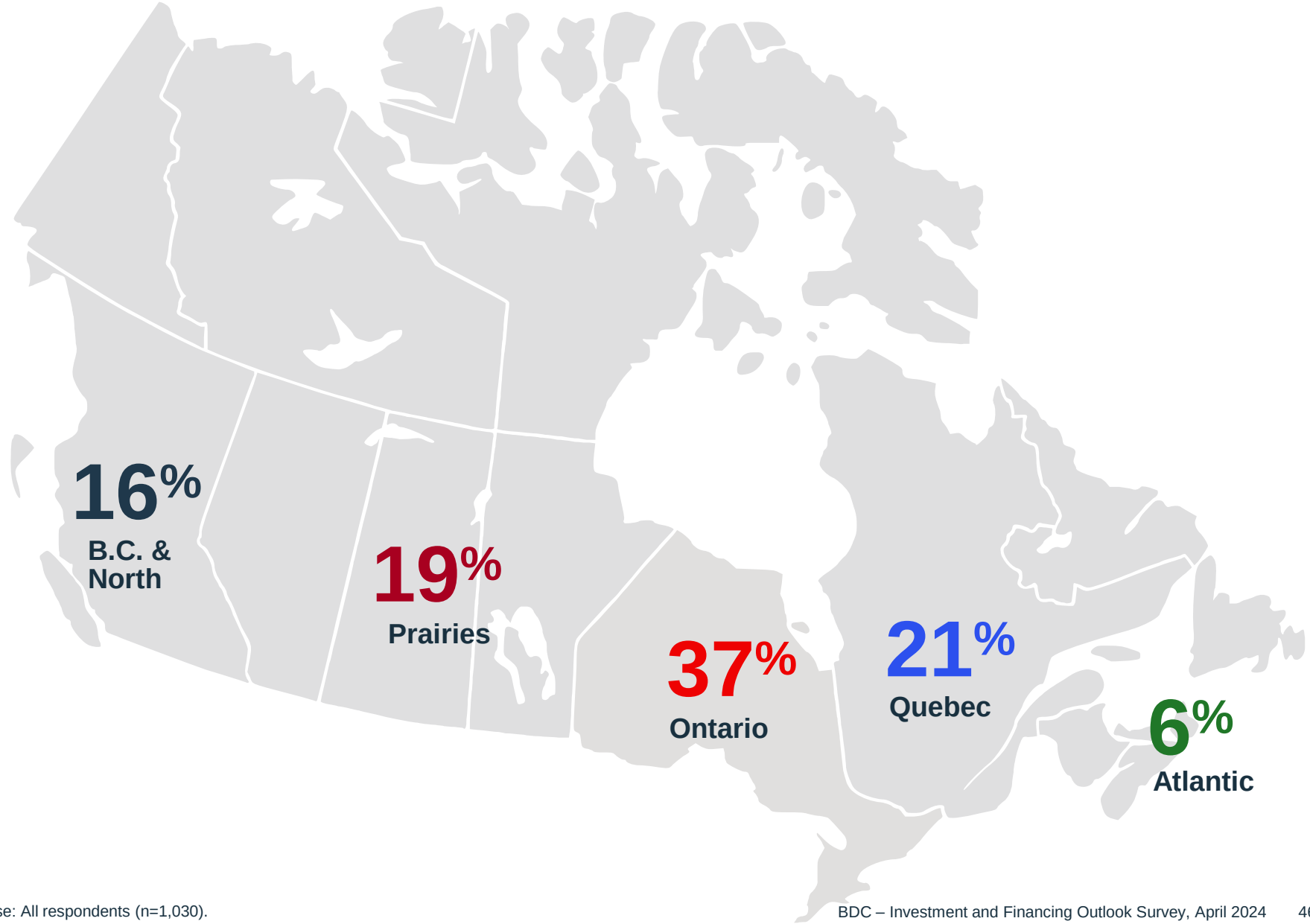


Base: Respondents who will not or don't know if they will request financing in the next 12 months (n=761).
Those who did not know or preferred not to answer were excluded from the calculation base.

4

Respondent profile

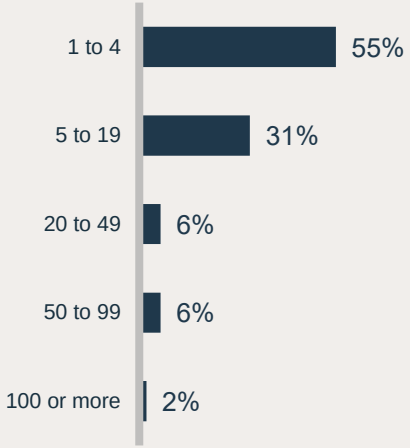
Region



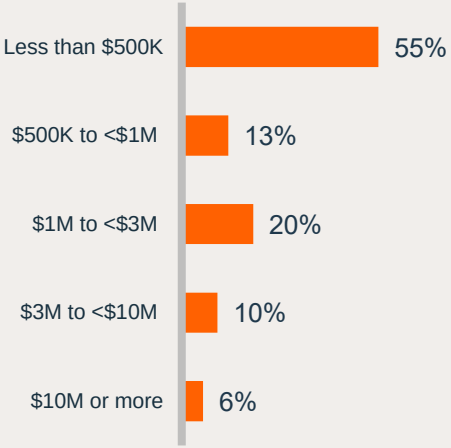
Base: All respondents (n=1,030).

SME respondent profile

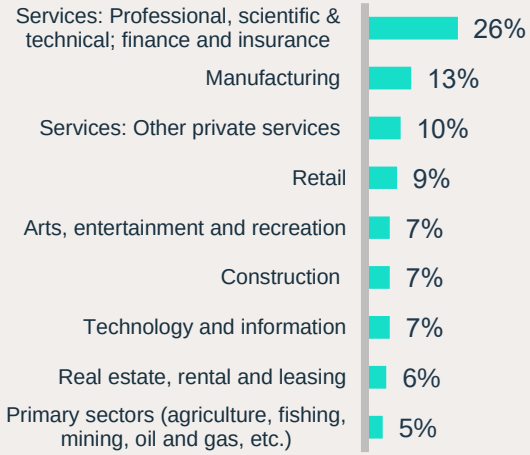
Number of employees



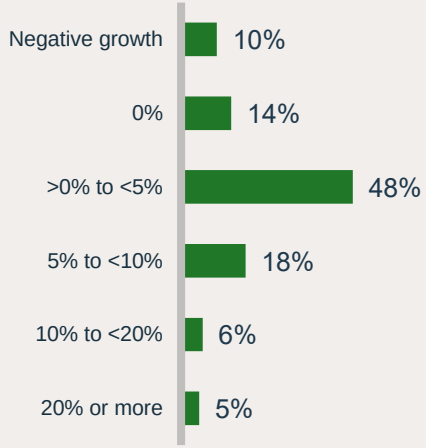
Annual sales



Sector of activity



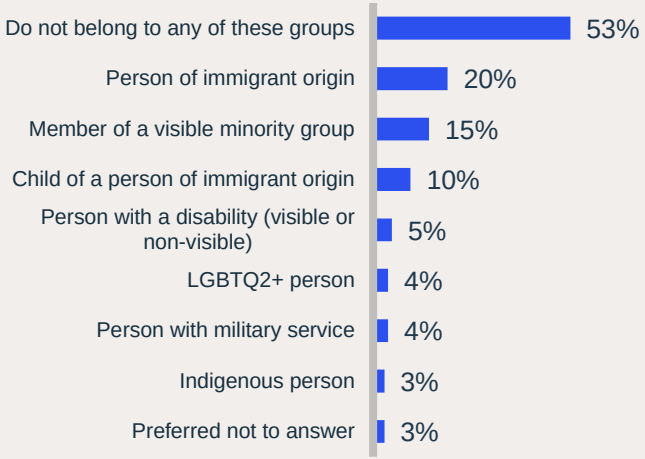
Revenue growth



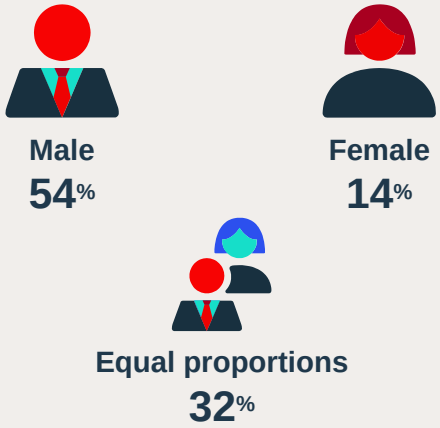
Base: Number of employees (n=1,030). For annual sales (n=960). For the sectors (n=1,017) only those with 5%+ respondents are presented. For revenue growth = Respondents for which company existed last year (n=959). Those who didn't know were excluded from the calculation base.

SME respondent profile

Diversity*



Gender ownership



Base: For diversity(n=1,030). *Multiple mentions were allowed; therefore, total exceeds 100%. For gender ownership (n=989). Those who did not know or preferred not to answer were excluded from the calculation base.

Thank you

Research and market intelligence team