

Investment & Financing outlook

SME business investment and
financing outlook survey, wave 22

Research report

Research and Market Intelligence at BDC



July 2024

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Key highlights

CURRENT STATE:

Overall landscape stabilized for most SMEs; they appear to feel the worst is behind them. Concern remains for some struggling SMEs.



The economic outlook is trending in the right direction, but unchanged at the SME level



40% believe that economic conditions will deteriorate in the next 12 months
(-3pts)



28% think that their cash flow situation will improve
(unchanged)



25% say that debt repayment is limiting business activities
(unchanged)

SME operations and profitability are stable

81% Stand below full capacity operation
(-2pts)

60% Are profitable
(-1pt)

27% Have used or will use significant resources for growth projects
(+1pt)

SMEs financial health is also stable for now

57% Are deemed bankable
(-1pt)

48% Say that FIs totally meet their needs
(-1pt)

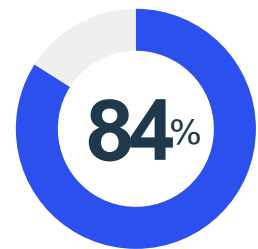
47% Believe that access to financing will be difficult
(+5pts)

INVESTMENT OUTLOOK:

Less than half of SMEs plan to invest in the next year. SME confidence remains precarious, despite lower economic uncertainty.



Investment intentions up in each category but remain subdued



Plan to invest about the same amount or more (+1pt)



Plan to **invest** about the **same amount or more**



Non-residential building

22% 83%
(+2pts) (+1pt)



Machinery and equipment

37% 83%
(+4pts) (+3pts)



Intangible assets

42% 85%
(+2pts) (+2pts)



52%

of those planning to invest are **confident** they will pursue their investment in the next 12 months (+1pt)

What are their main investment goals?



Improving sales and marketing

41%
(+6pts)



Increasing efficiency

35%
(-6pts)



Adopting new technology

22%
(-3pts)

What could limit their investments?

30%

High economic uncertainty
(-7pts)

26%

Interest rates
(-9pts↓)

23%

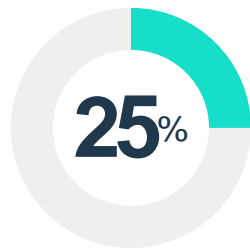
Low demand
(+4pts)

FINANCING OUTLOOK:

Stable approval rates. More SMEs plan to request financing to cover expenses; it may explain lower perceived ease of access to financing.



SMEs who approached FIs is in line with historical average, but we see a slight increase among those who approached alternative lenders



Requested financing in the last 3 months

(-1pt)

Those who asked for financing mainly turned to:



A financial institution

73%

(+1pt)



A government program or crown corporation

26%

(unchanged)



A large tech or fintech lender

16%

(+3pts)

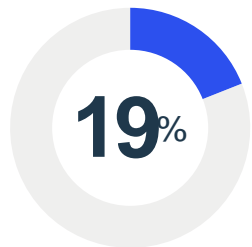


Private lenders / family offices

14%

(+2pts)

More SMEs plan to request financing to cover expenses



Plan to request financing over the next 12 months

(unchanged)



75% Will need short-term financing

(+8pts)

43% For growth-related projects

(-1pt)

41% To cover expenses

(+14pts↑)

37% Will request up to \$100,000

(+5pts)

Perceived access has decreased slightly

53% \$

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

(-5pts)

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

- ➔ July 3rd to 15th, 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 1,000 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.

3_a



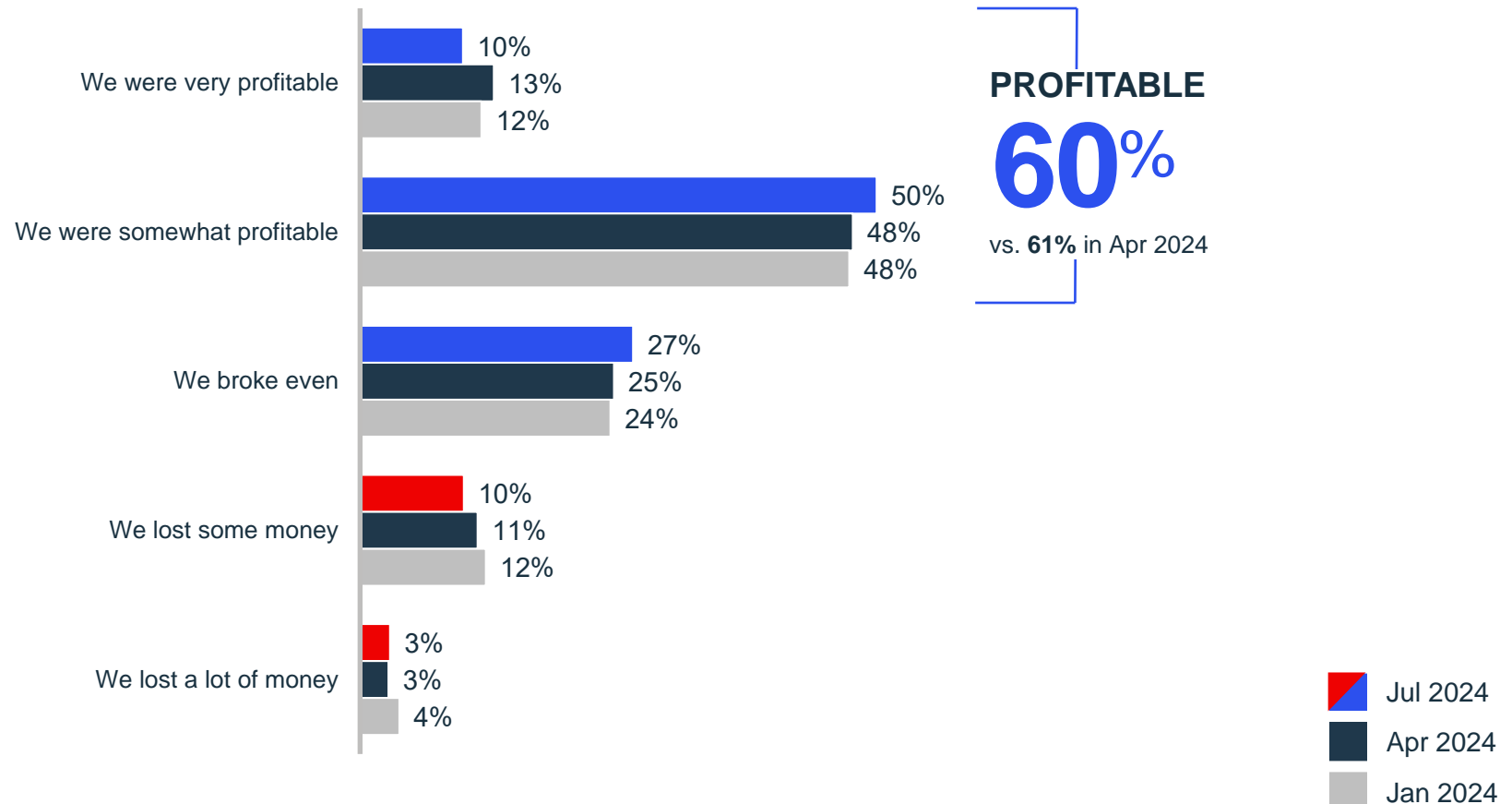
SME current state
and expectations

Business profitability profile

The proportion of SMEs who indicated being unprofitable is trending in the right direction, albeit at a slow pace. Smaller SMEs continue to exhibit the highest proportion of unprofitability.



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



Base: All qualified respondents (n=965).

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.

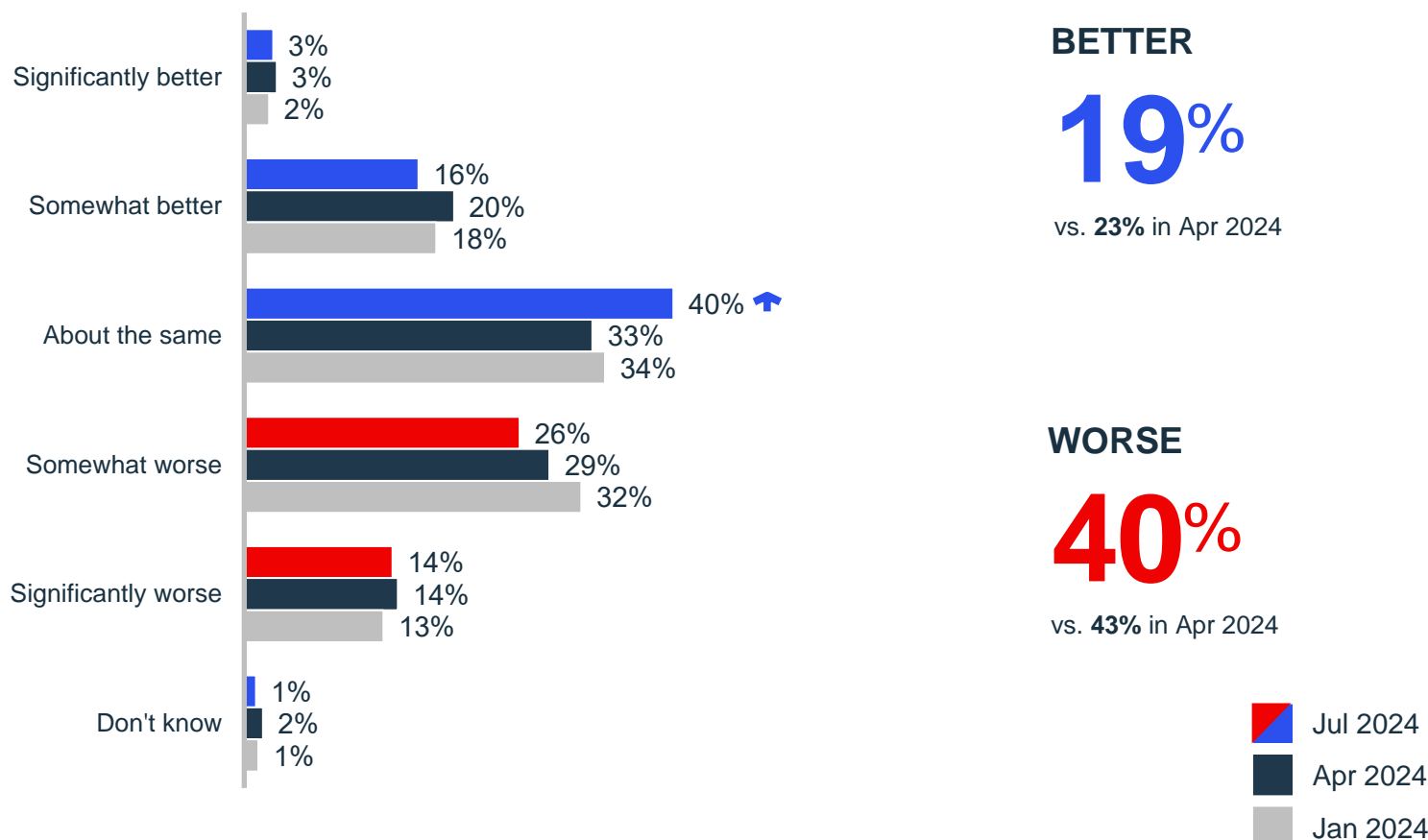
Arrows indicate statistical differences between this wave and the previous one.

Economic condition forecasts

Significantly more SMEs expect economic conditions to remain about the same. Micro-businesses* are more likely to say that things will get worse.



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?



Base: All qualified respondents (n=1,000).

Those who preferred not to answer were excluded from the calculation base.

Arrows indicate statistical differences between this wave and the previous one.

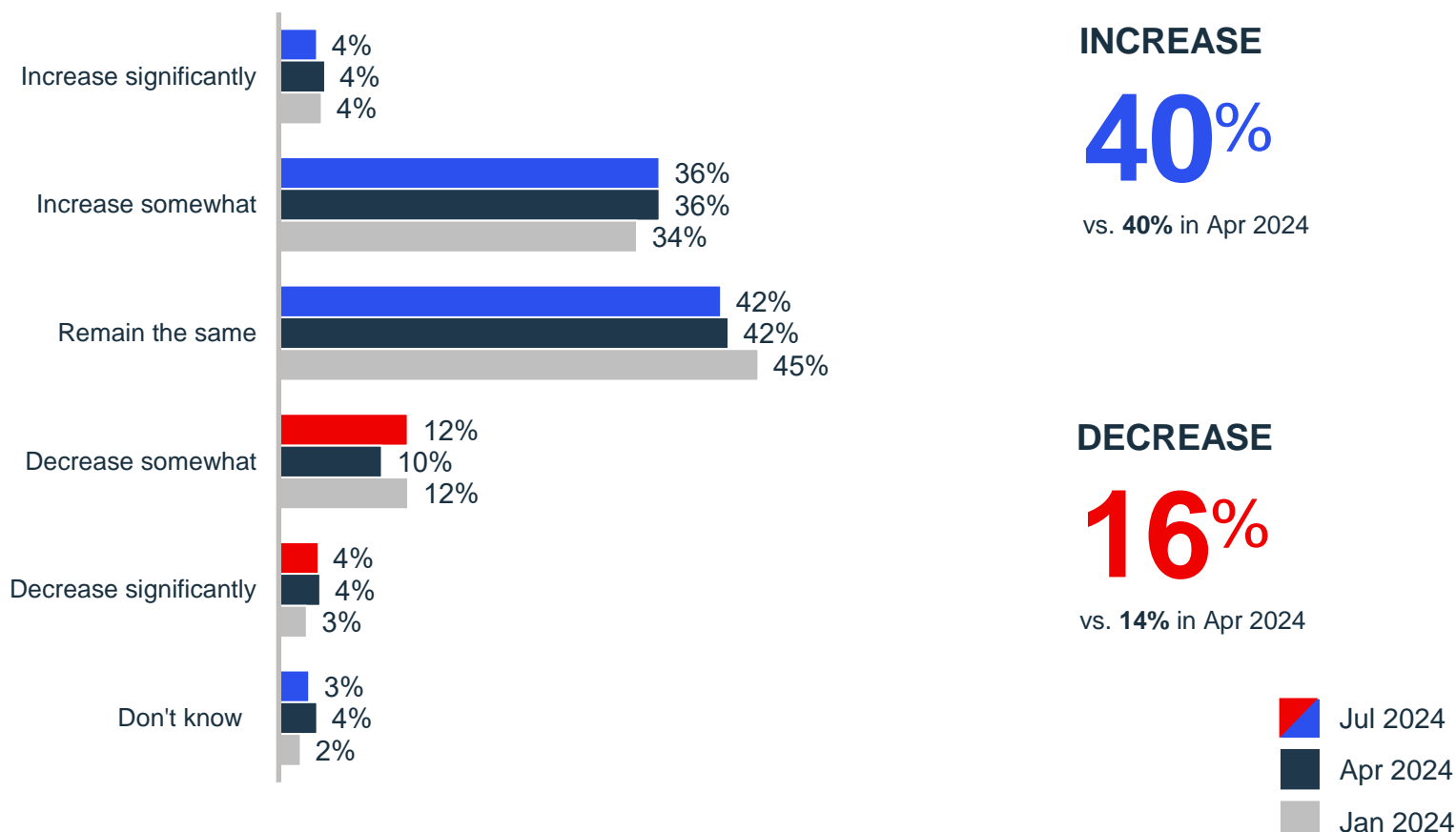
* Micro-businesses are SMEs with fewer than 5 employees and sales under \$500,000.

Sales and revenue forecasts

There are no significant changes regarding SMEs' sales expectations 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?



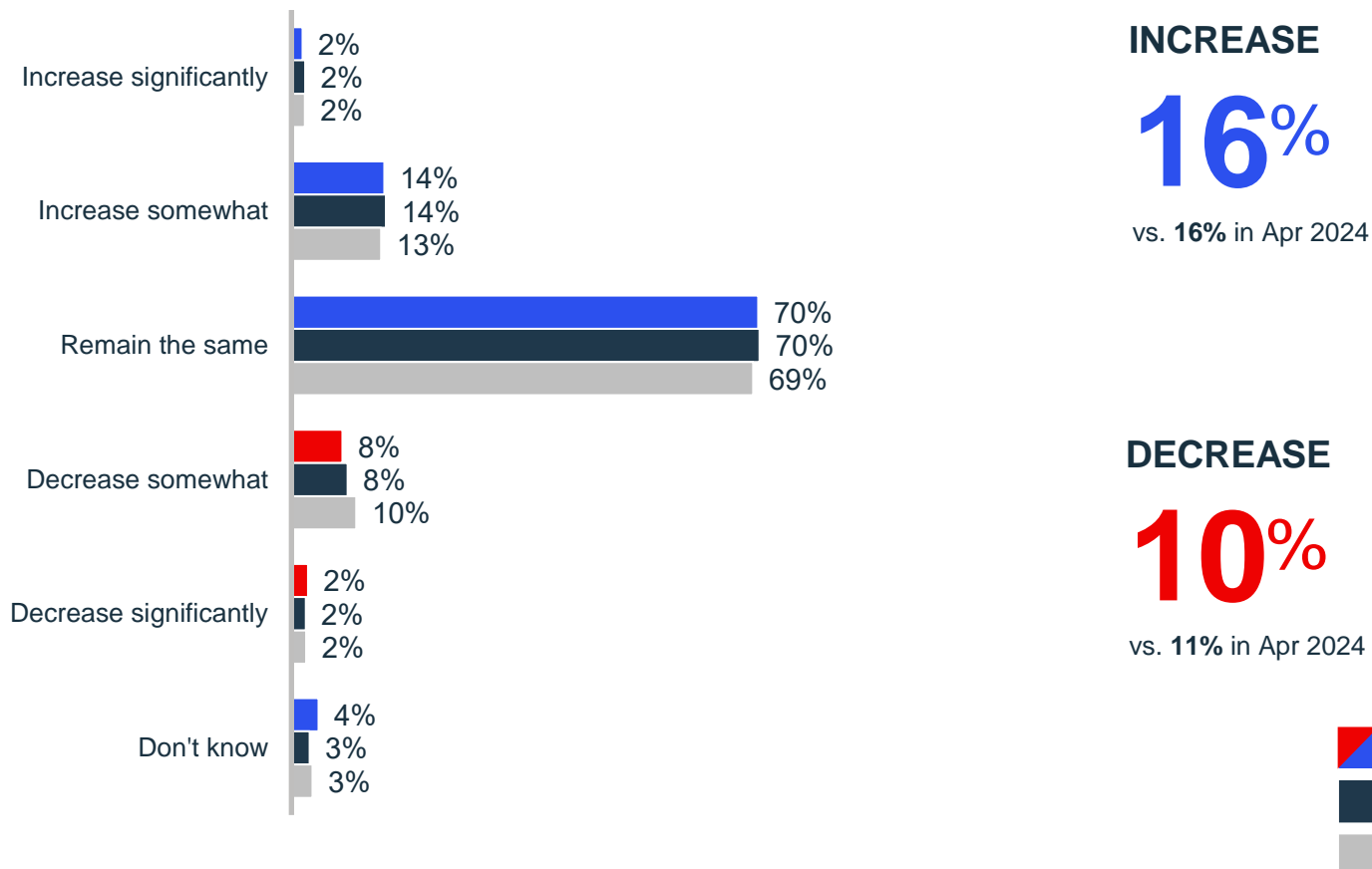
Base: All qualified respondents (n=987).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Forecasts employee count

There is little movement in hiring intentions. SMEs with higher borrowing/investing intentions are more likely to hire.



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?



Base: All qualified respondents (n=989).

Those who preferred not to answer were excluded from the calculation base.

Arrows indicate statistical differences between this wave and the previous one.

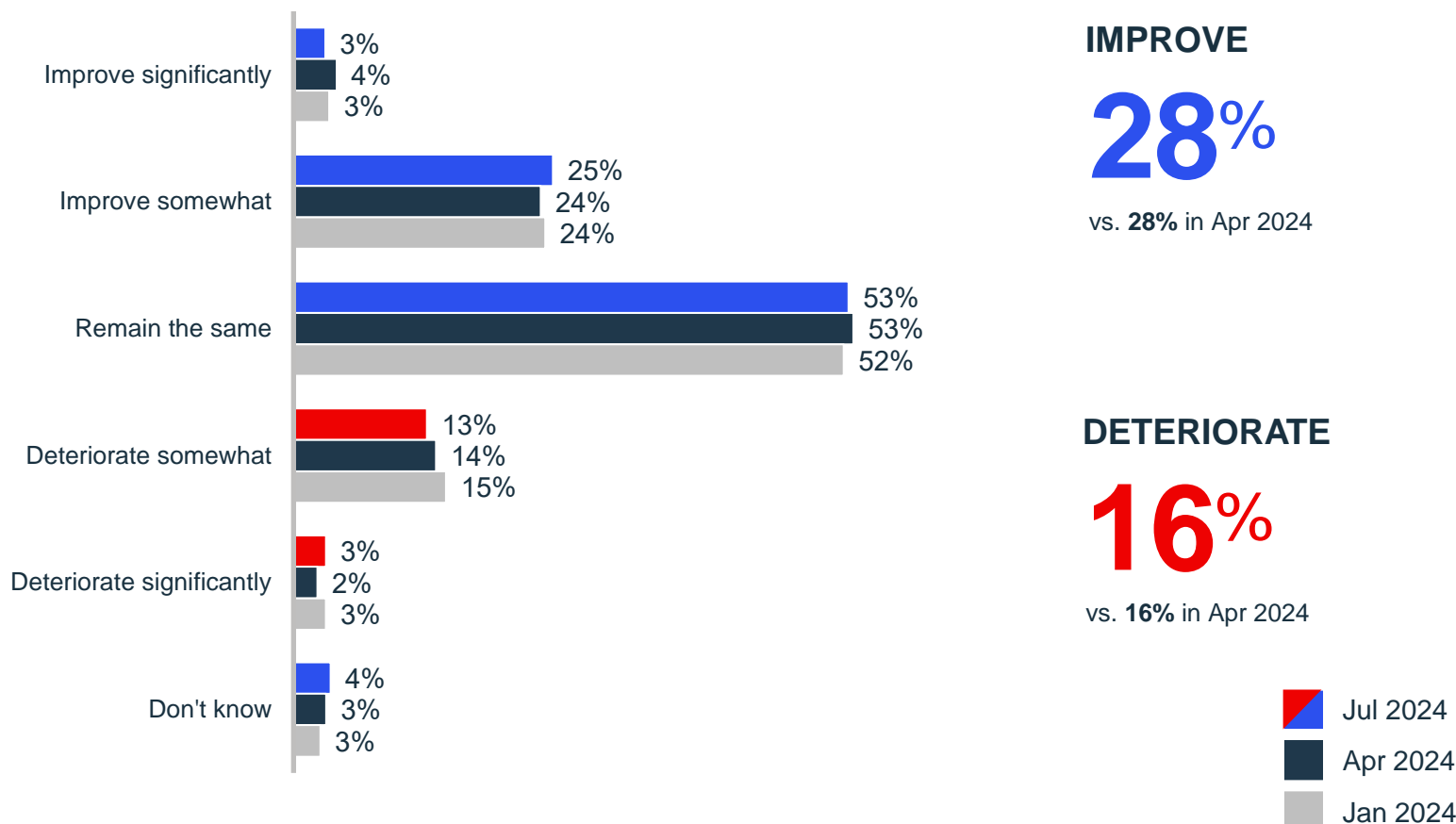
*G&TC's target market is defined as SMEs with \$5M or more in sales or Tech and \$3M or more in sales.

Cash flow situation forecasts

Cash flow expectations are at a stand still, which in the current context is not surprising.



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?



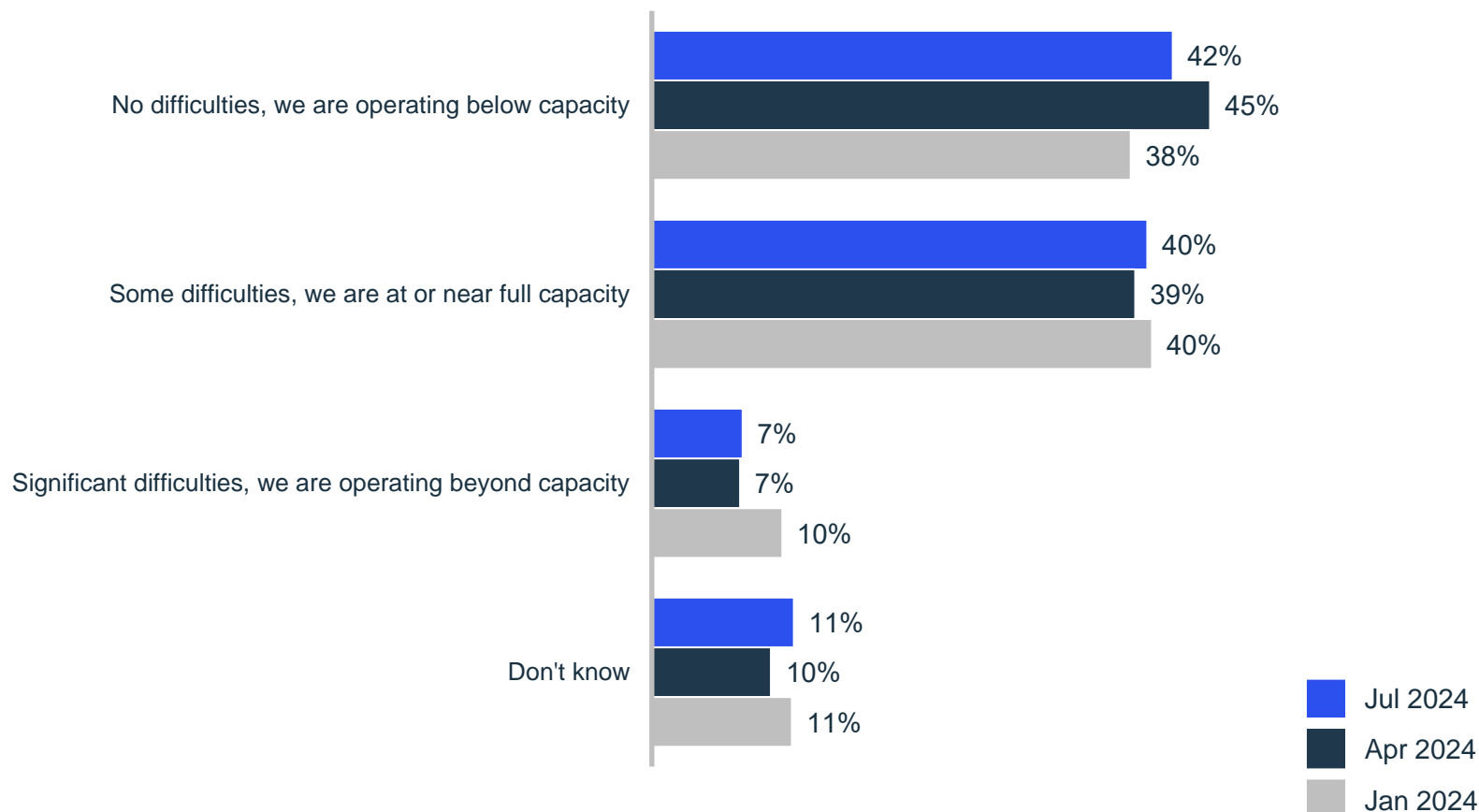
Base: All qualified respondents (n=984).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Ability to meet unexpected demand

Most SMEs are operating below or near full capacity. SMEs tend to invest in their business when operating beyond capacity which is not the case currently.



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



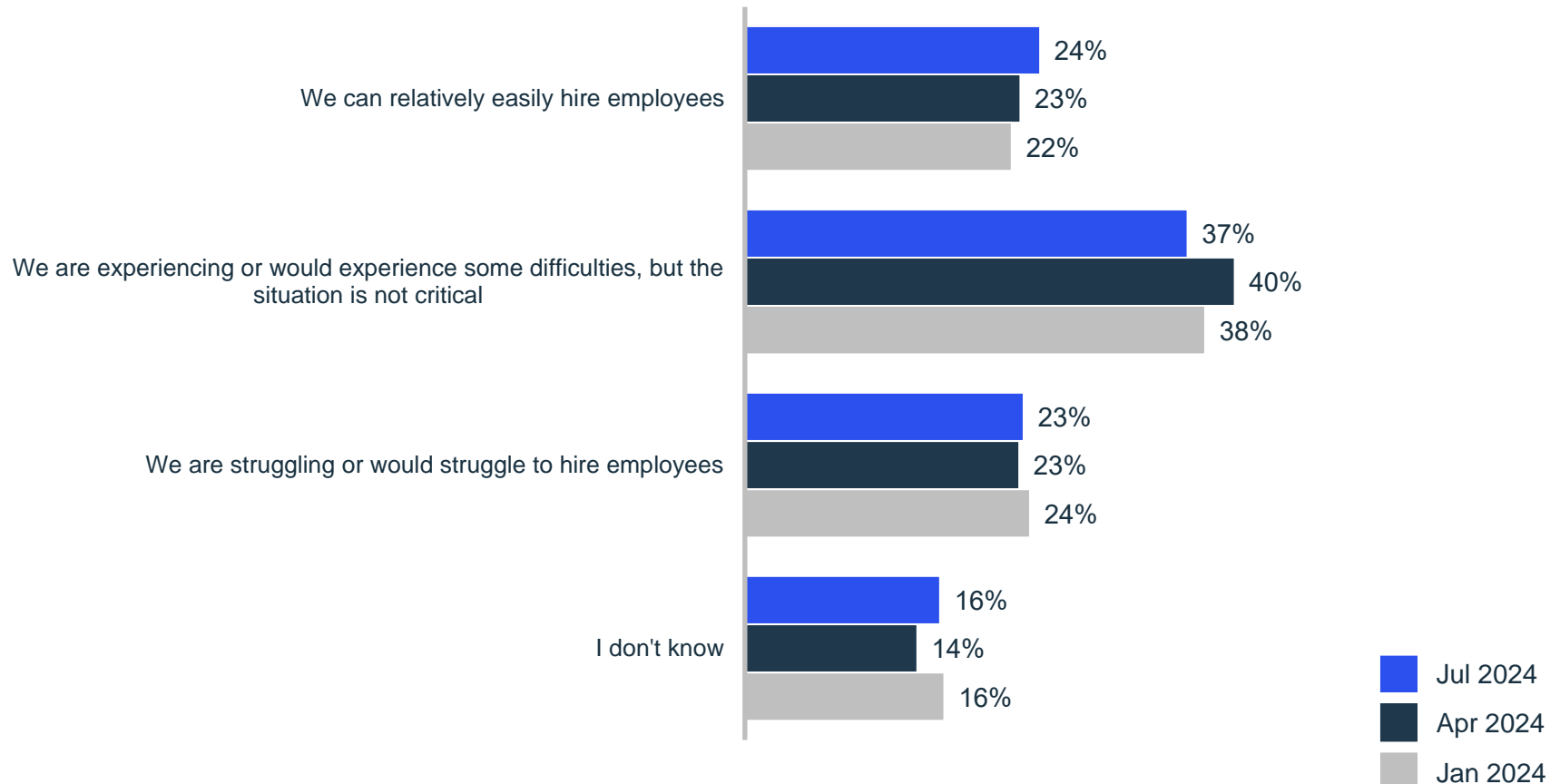
Base: All qualified respondents (n=978).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Ability to hire qualified workers

While most SMEs can hire relatively easily or with minimal difficulty, small SMEs and those in small and rural areas are significantly more likely to be struggling to hire or would struggle to hire.



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



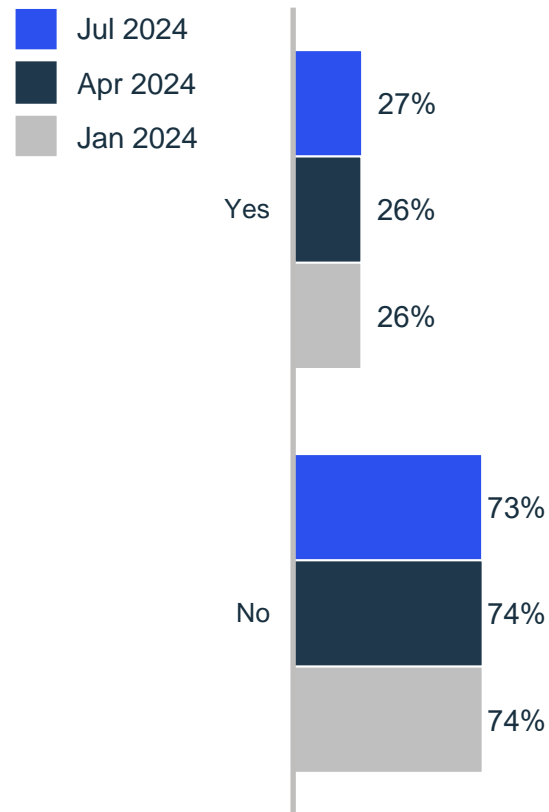
Base: All qualified respondents (n=977).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Current financial and project situation

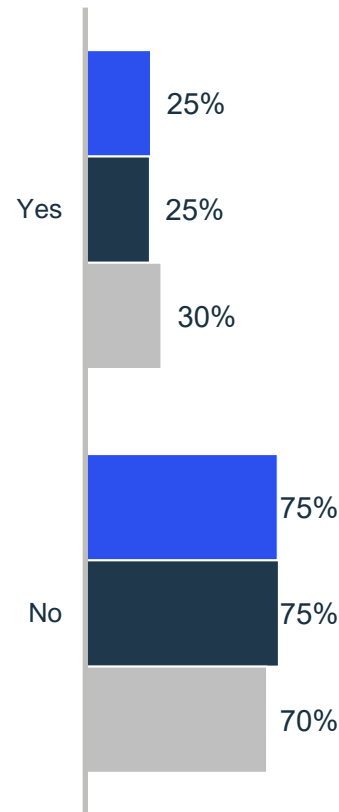
Results for use of resources, debt repayment and financial support are stable.



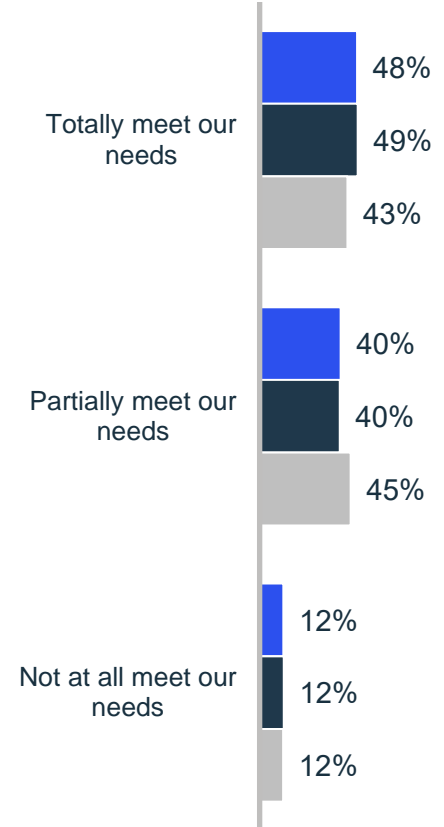
BA1. In the past or next 12 months, has your business used or will use **significant resources** for **growth projects**?



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**?



3_b



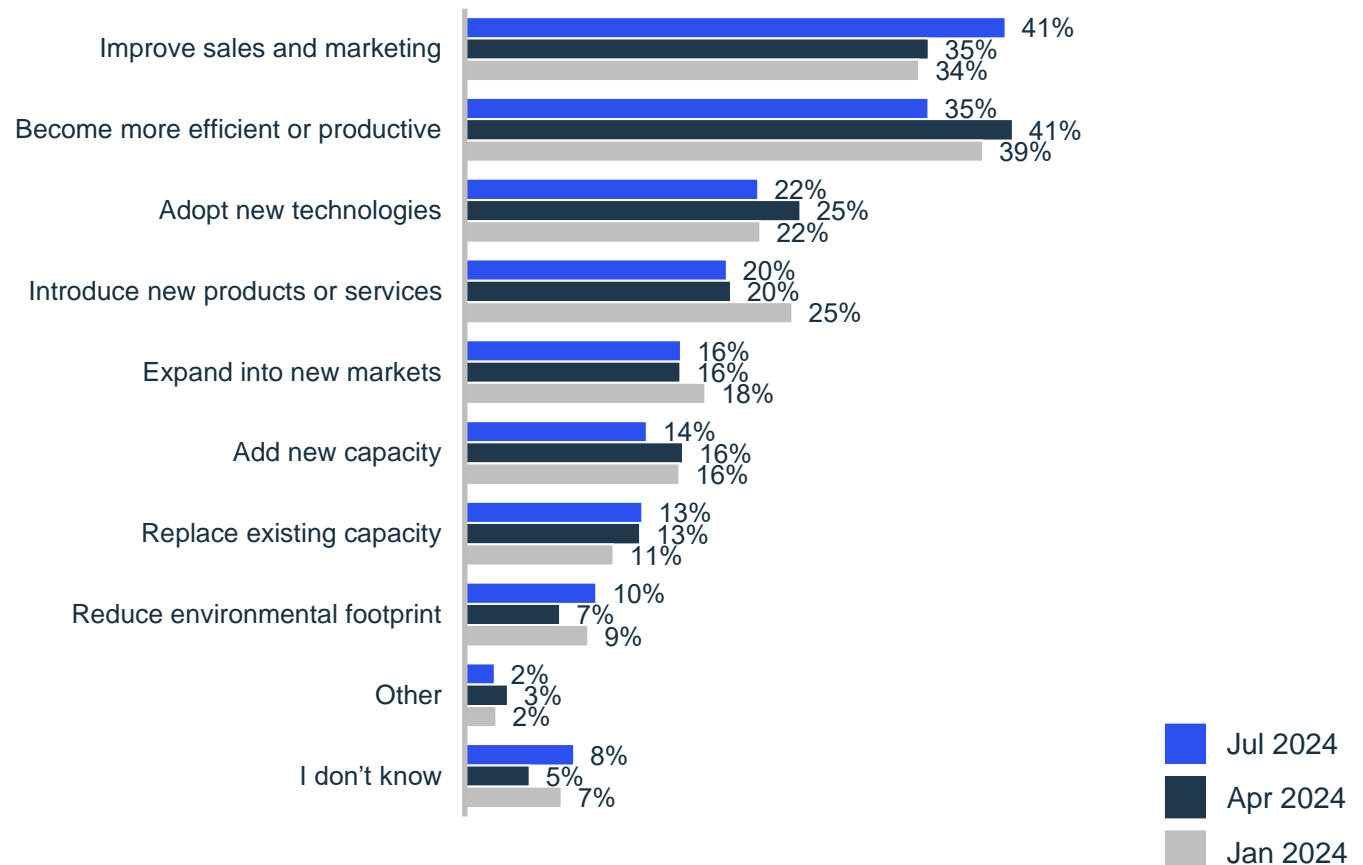
Investment outlook

Investment goals for the next 12 months

SMEs continue to prioritize improvements in their sales and marketing, as well as efforts to become more efficient and productive.



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



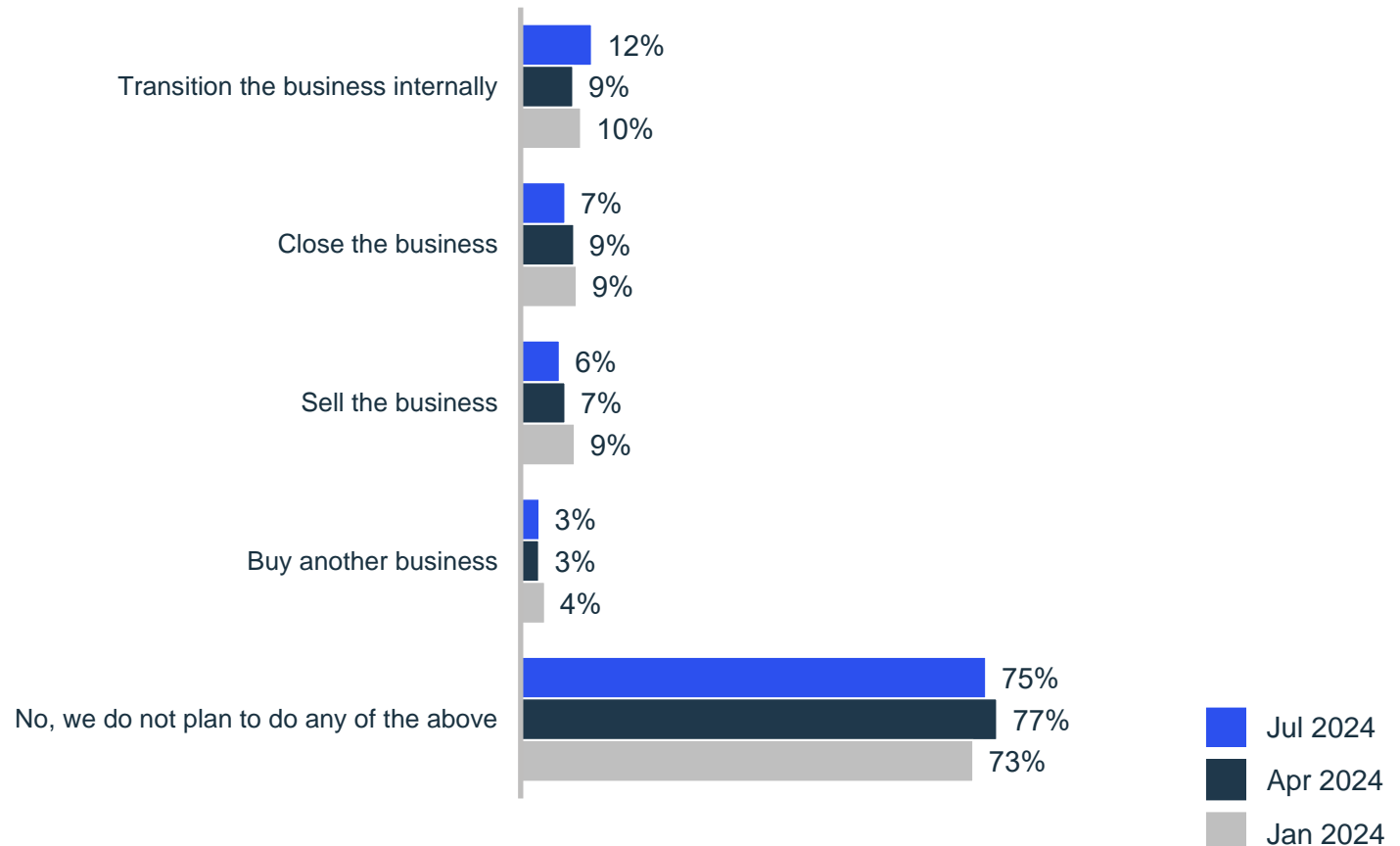
Base: Respondents planning to invest (n=507). Those who preferred not to answer were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

Transition plans

SMEs with 20 or more employees are significantly more likely to be considering a transition or an acquisition.



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

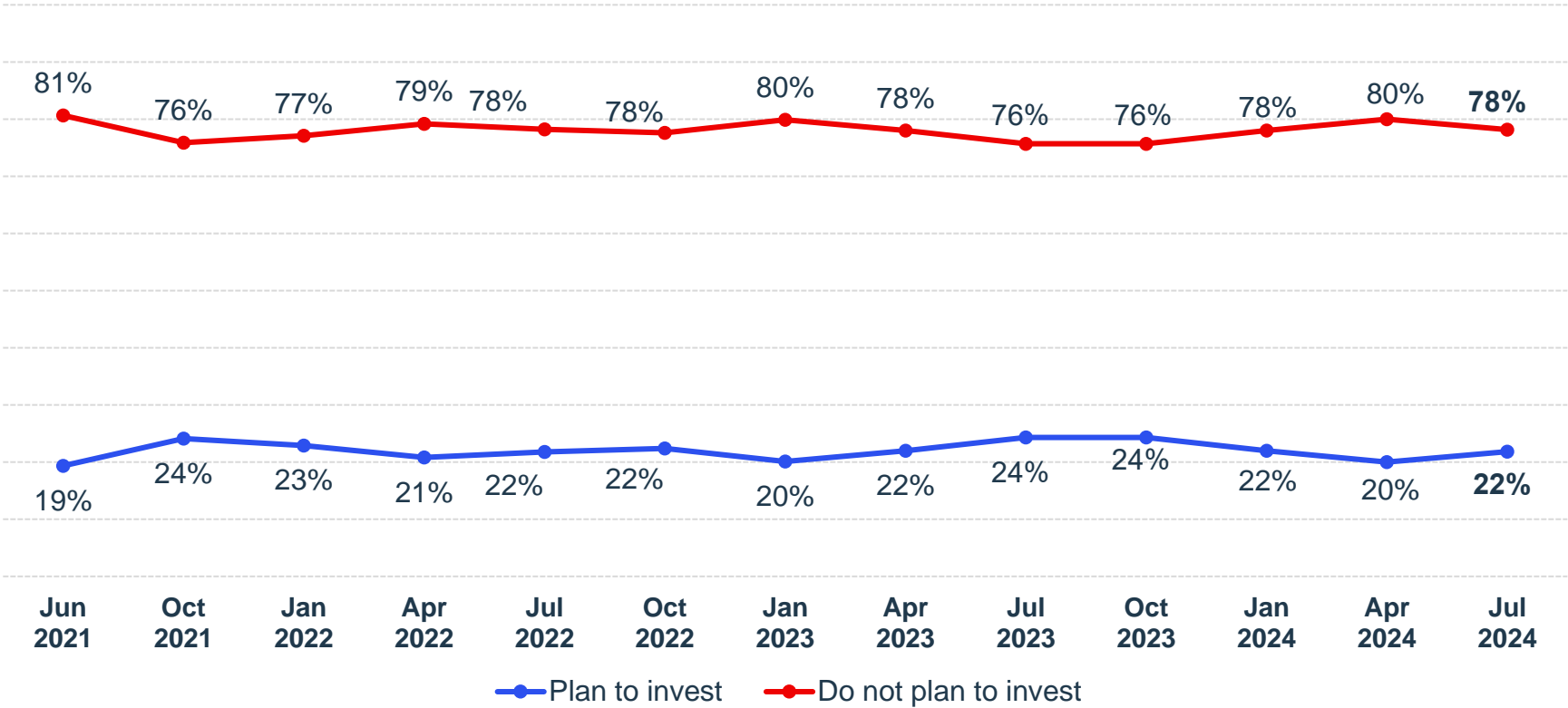


Investment intentions in non-residential building

One in five SMEs plans to invest in this category. The percentage may increase as interest rates decrease.



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



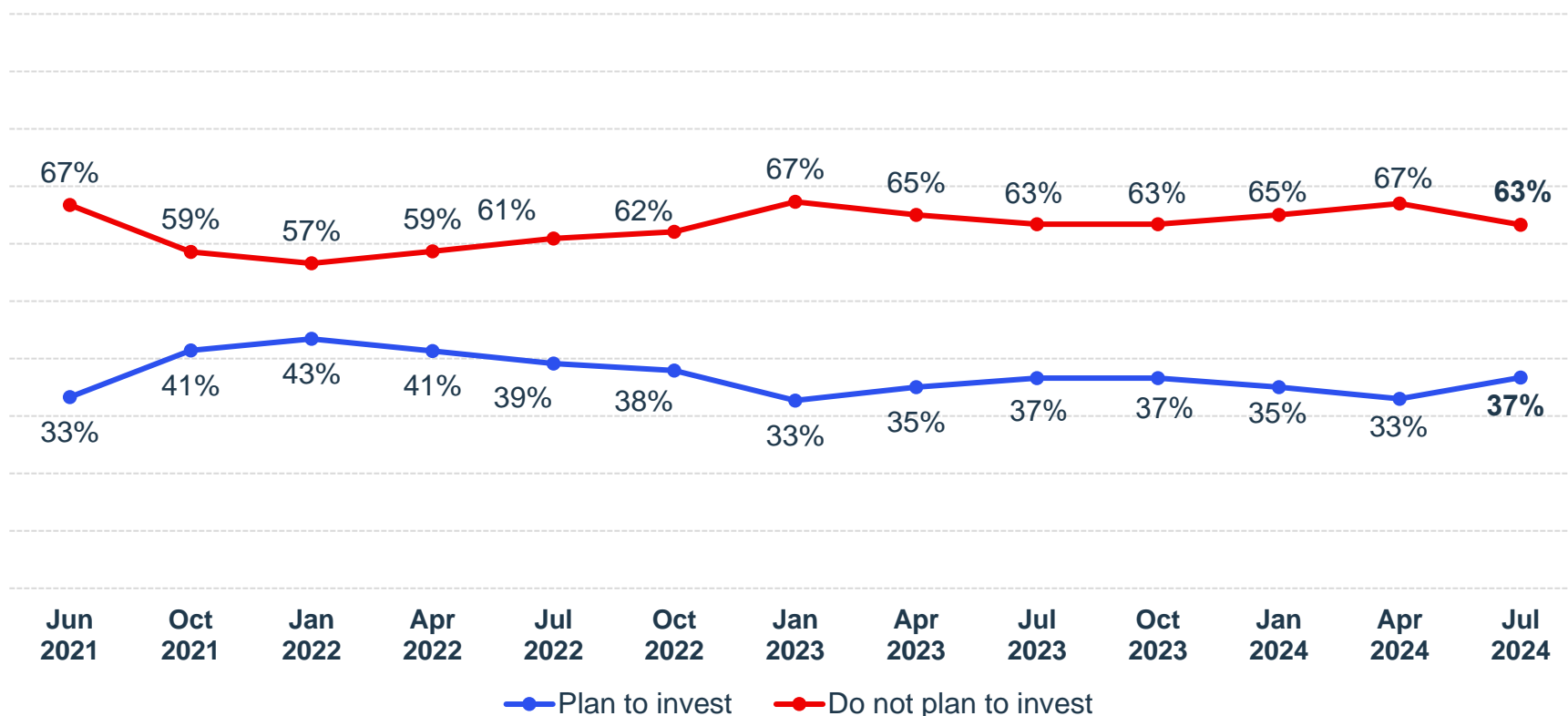
Base: All qualified respondents (n=891).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one
*G&TC's target market is defined as SMEs with \$5M or more in sales or Tech and \$3M or more in sales..

Investment intentions in machinery and equipment

They are back up slightly. A strong business case is often needed to invest significant amounts in machinery and equipment.



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



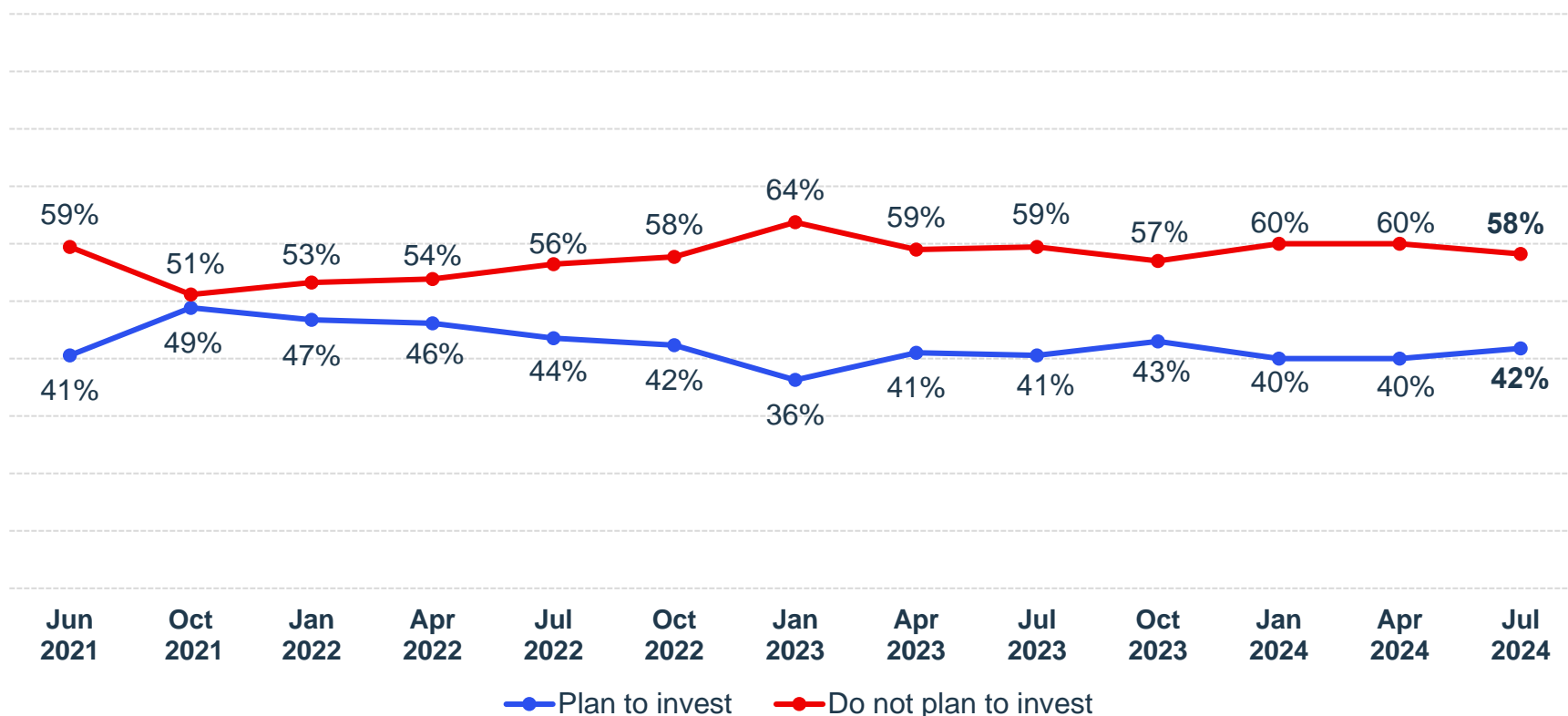
Base: All qualified respondents (n=886).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Investment intentions in intangibles

They remain in the same range and continue to be the category of investments where we see the largest proportion of SMEs planning to invest.



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



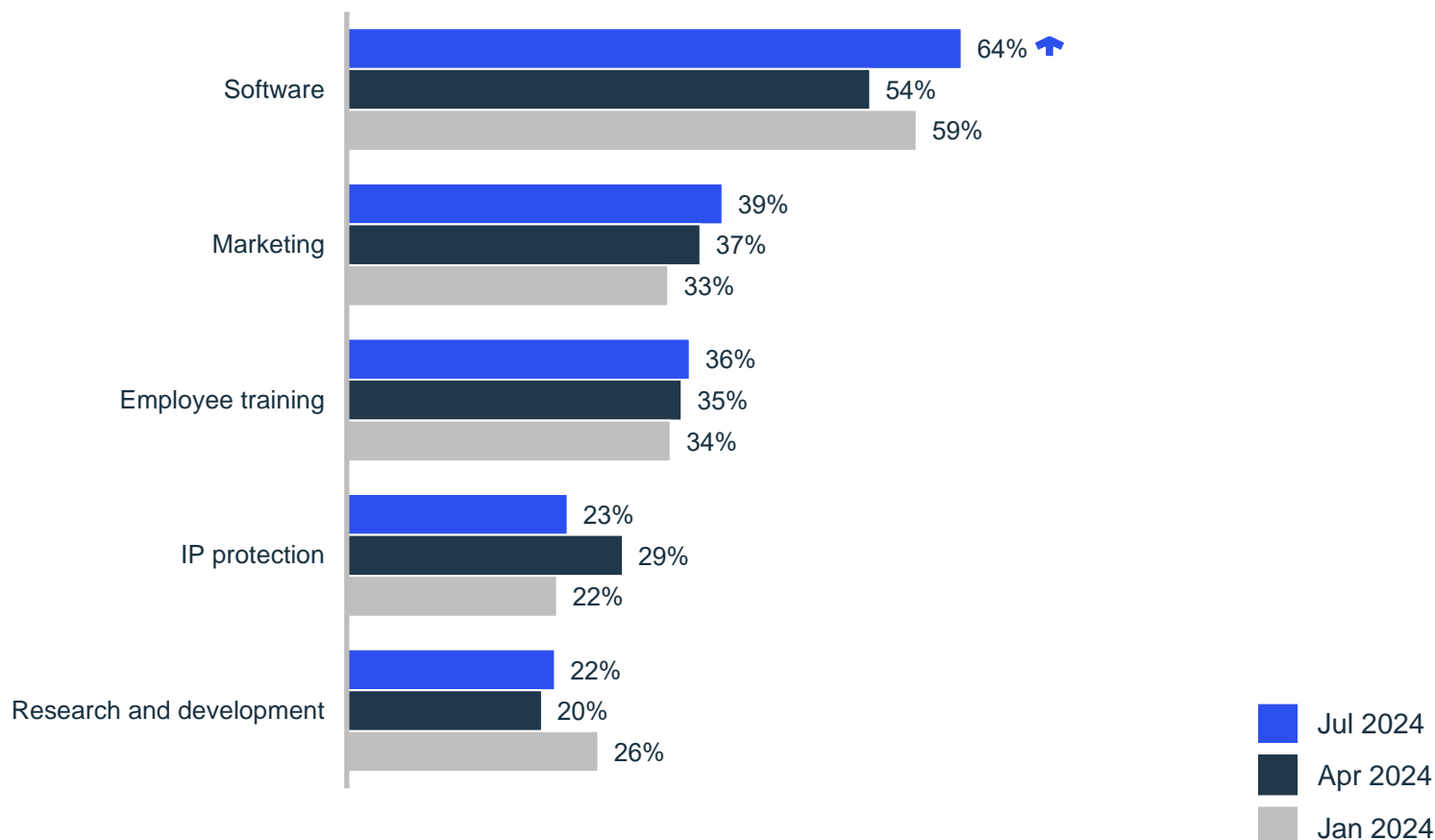
Base: All qualified respondents (n=880).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Intangible investment categories

Among those planning to invest in intangibles, software investments remain the most popular and have increased significantly. Both marketing and employee training investments are trending upwards.



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=426).
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

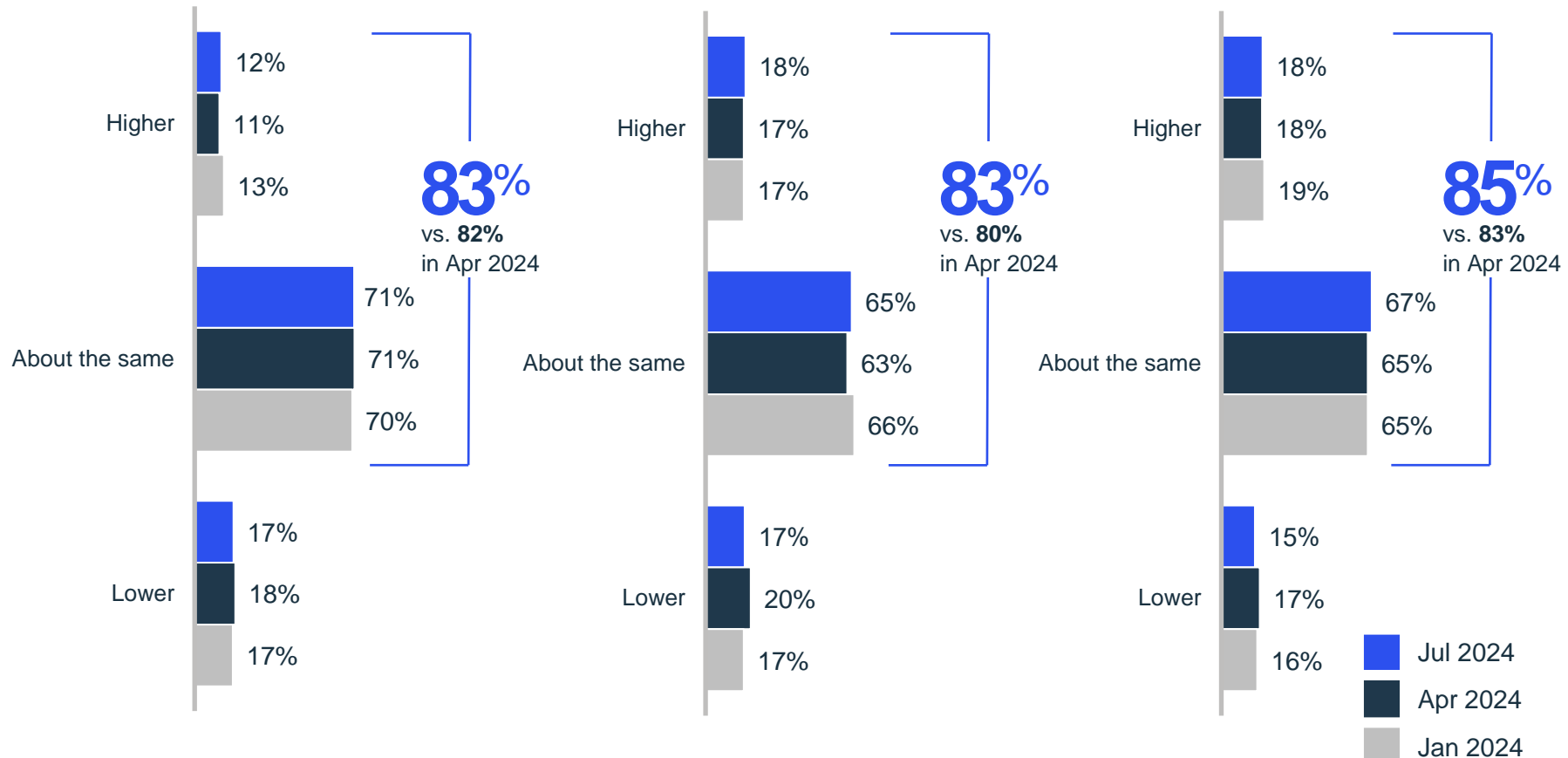
Amounts remain relatively stable but may evolve over the next 12 months.



Q58a. Non-residential building, including renovations

Q58b. Machinery and equipment

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



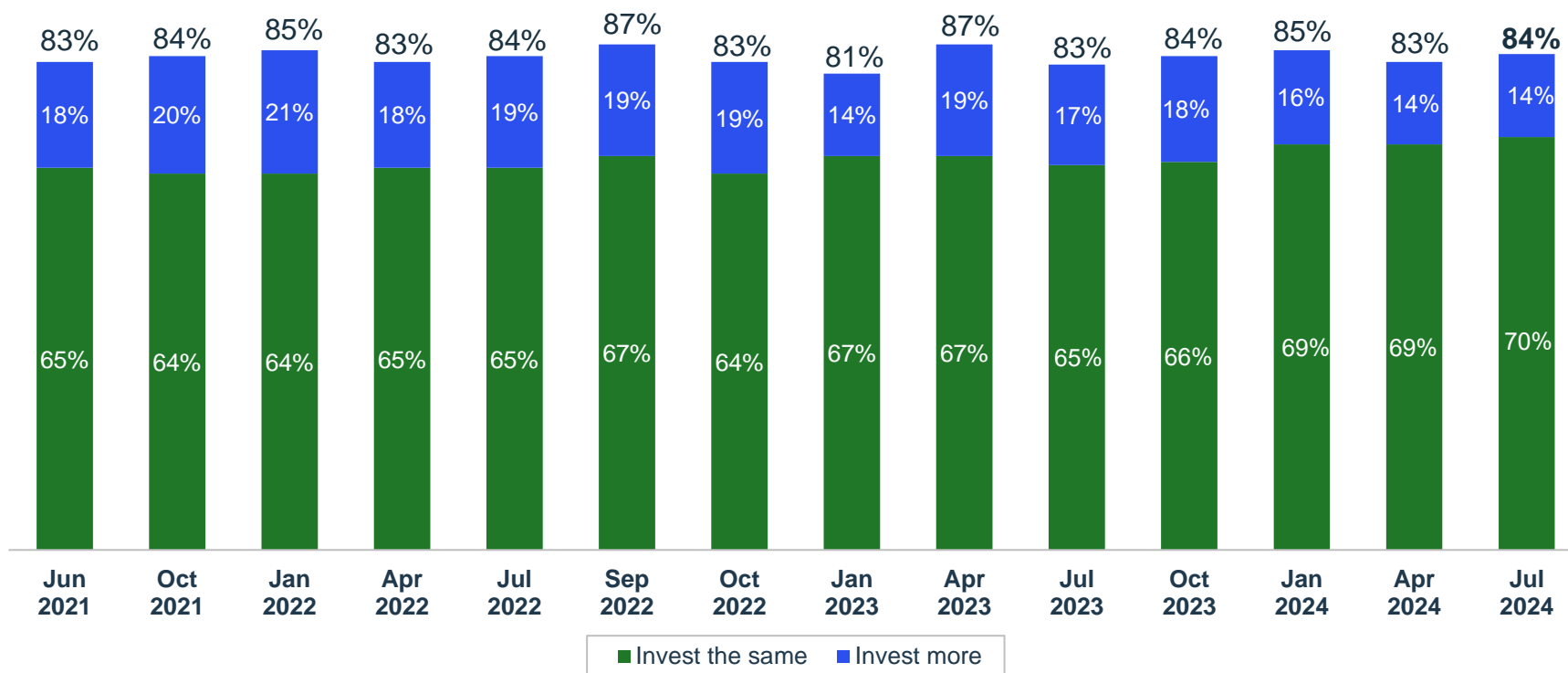
Base: All qualified respondents (n=902-929).
Those who did not know were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Investment plans (aggregate average)

Most SMEs plan to invest the same amounts.



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



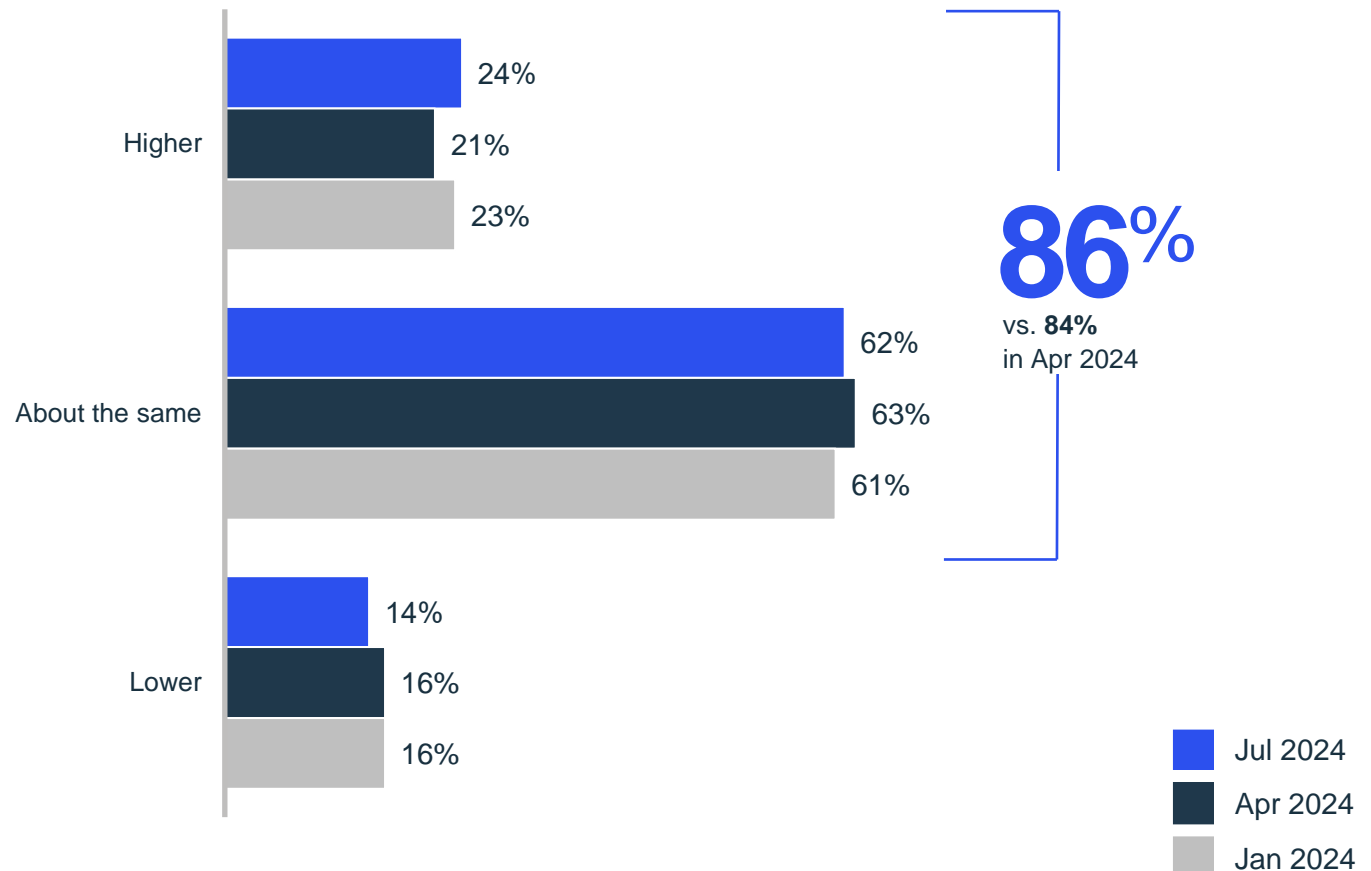
Base: All qualified respondents (n=942).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Investment plans (direct question)

When asked directly, one quarter of SMEs expect to invest more than in the last 12 months.



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



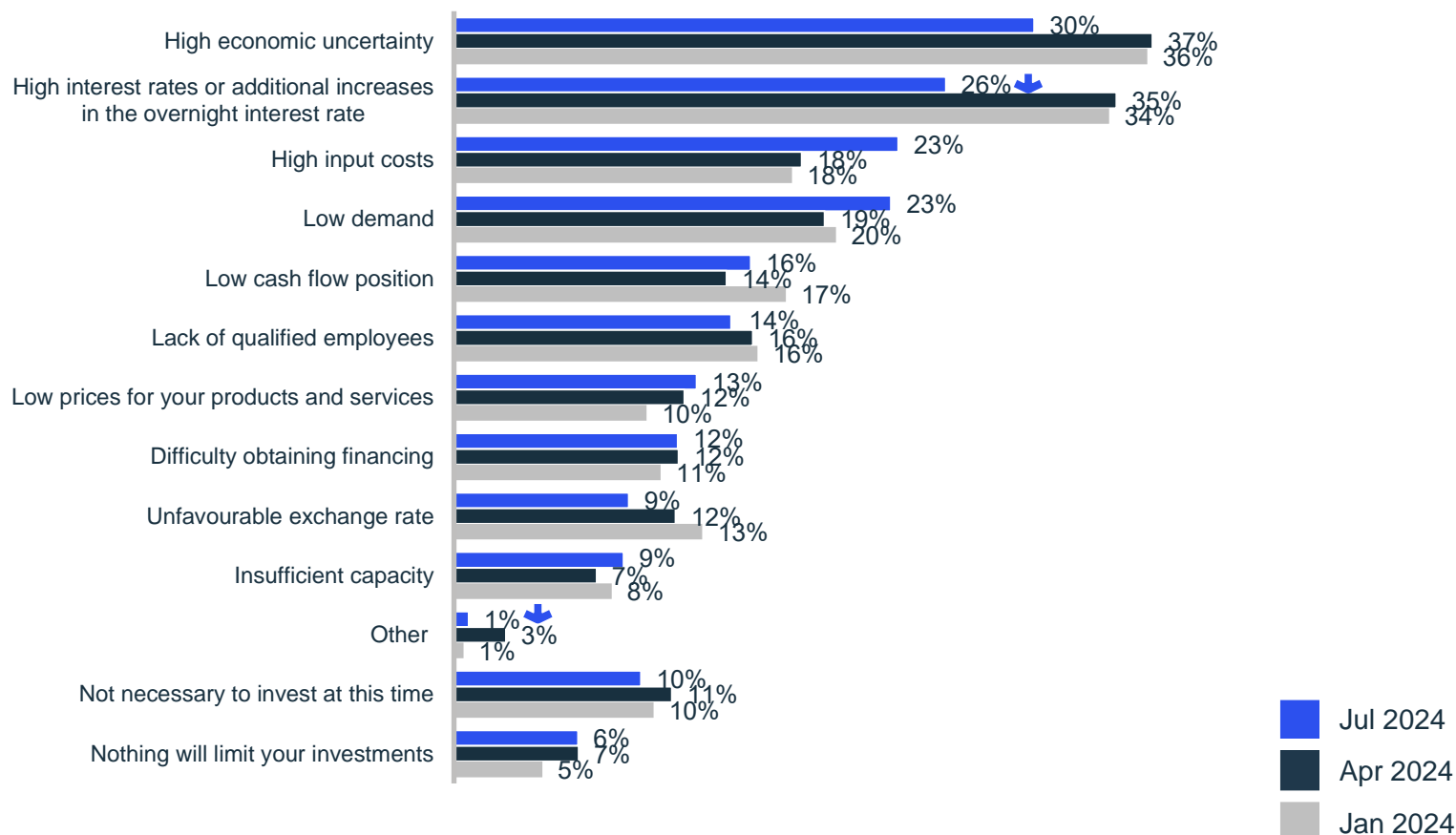
Limiting factors of those who plan to invest

The main factors limiting investments – economic uncertainty and high interest rates – are less of a concern but remain atop. However, concern is on the rise about lower future demand and higher input costs.



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



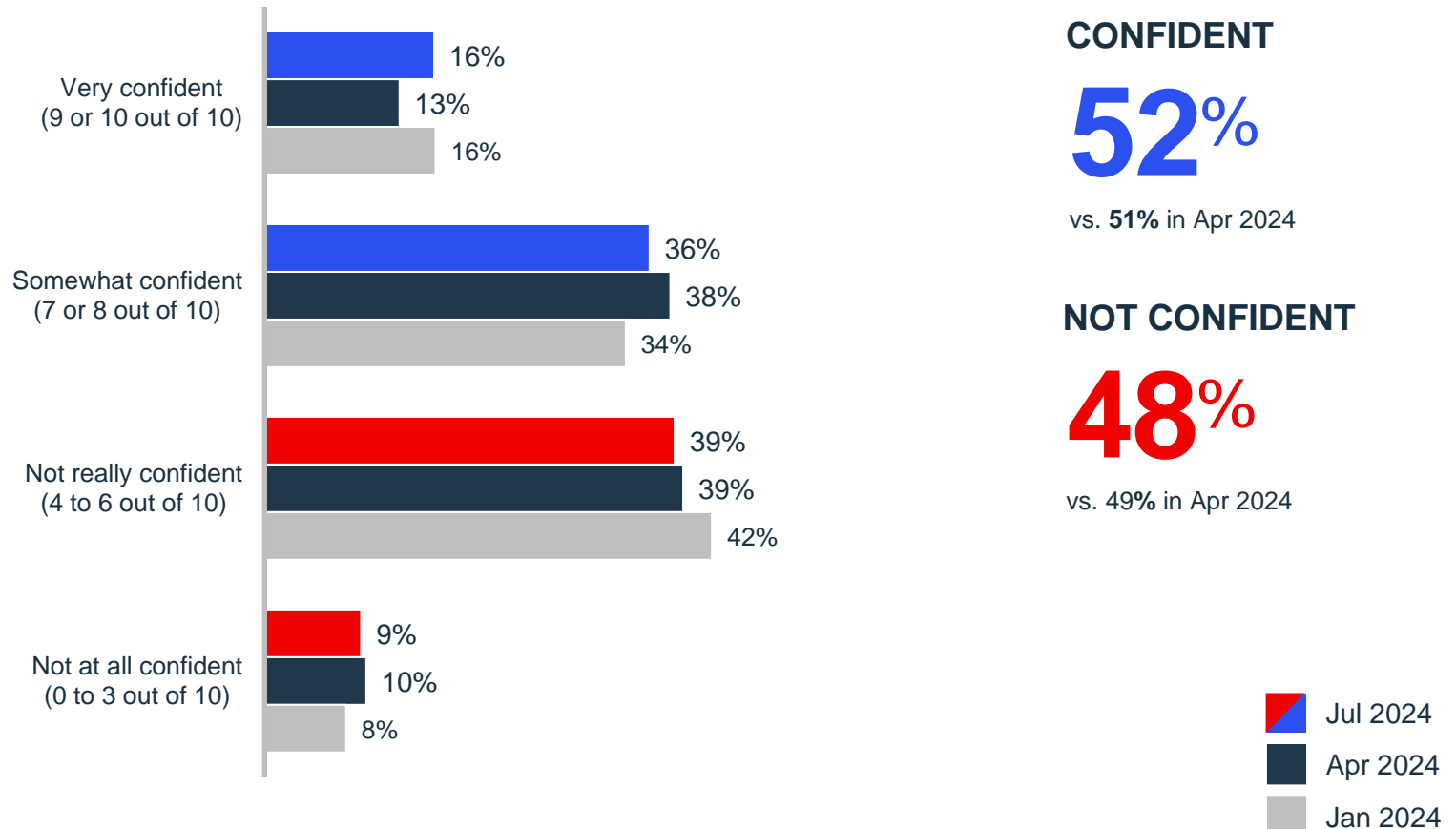
Base: Those planning to invest (n=500). Those who did not know or preferred not to answer were excluded from the calculation base. A maximum of three mentions was allowed, therefore total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

Confidence in pursuing investments

SME confidence remains barely above the 50% mark.



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



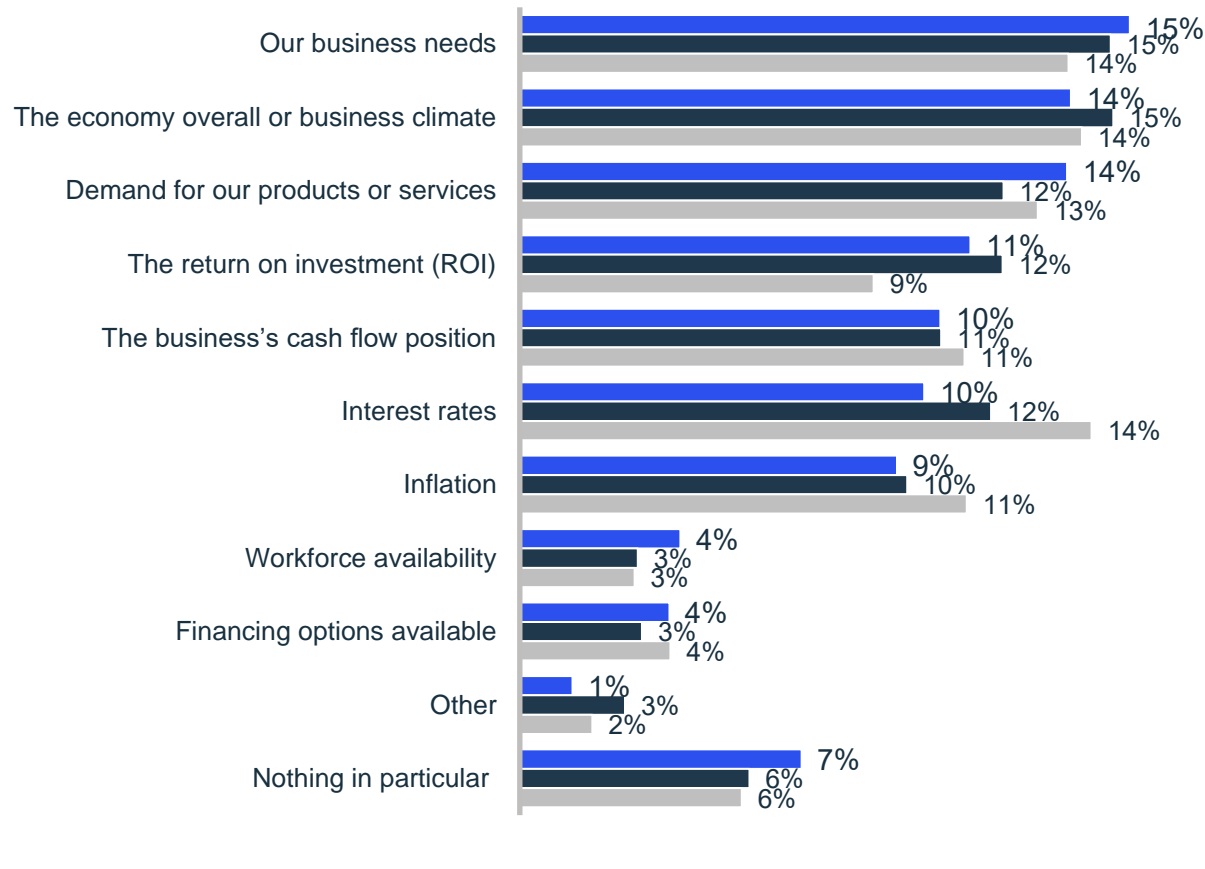
Base: Respondents planning to invest (n=497).
Those who did not know or preferred not to answer were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one.
A correction to results of the previous waves was made in July 2024.

Investment decisional factors

With interest rates and inflation gradually coming down, other factors such as business needs, demand, ROI and cash flow position become more important. However, the overall business climate remains a decisive factor.



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=958).

Those who did not know or preferred not to answer were excluded from the calculation base. Multiple mentions was allowed; therefore, total exceeds 100%.

3_c



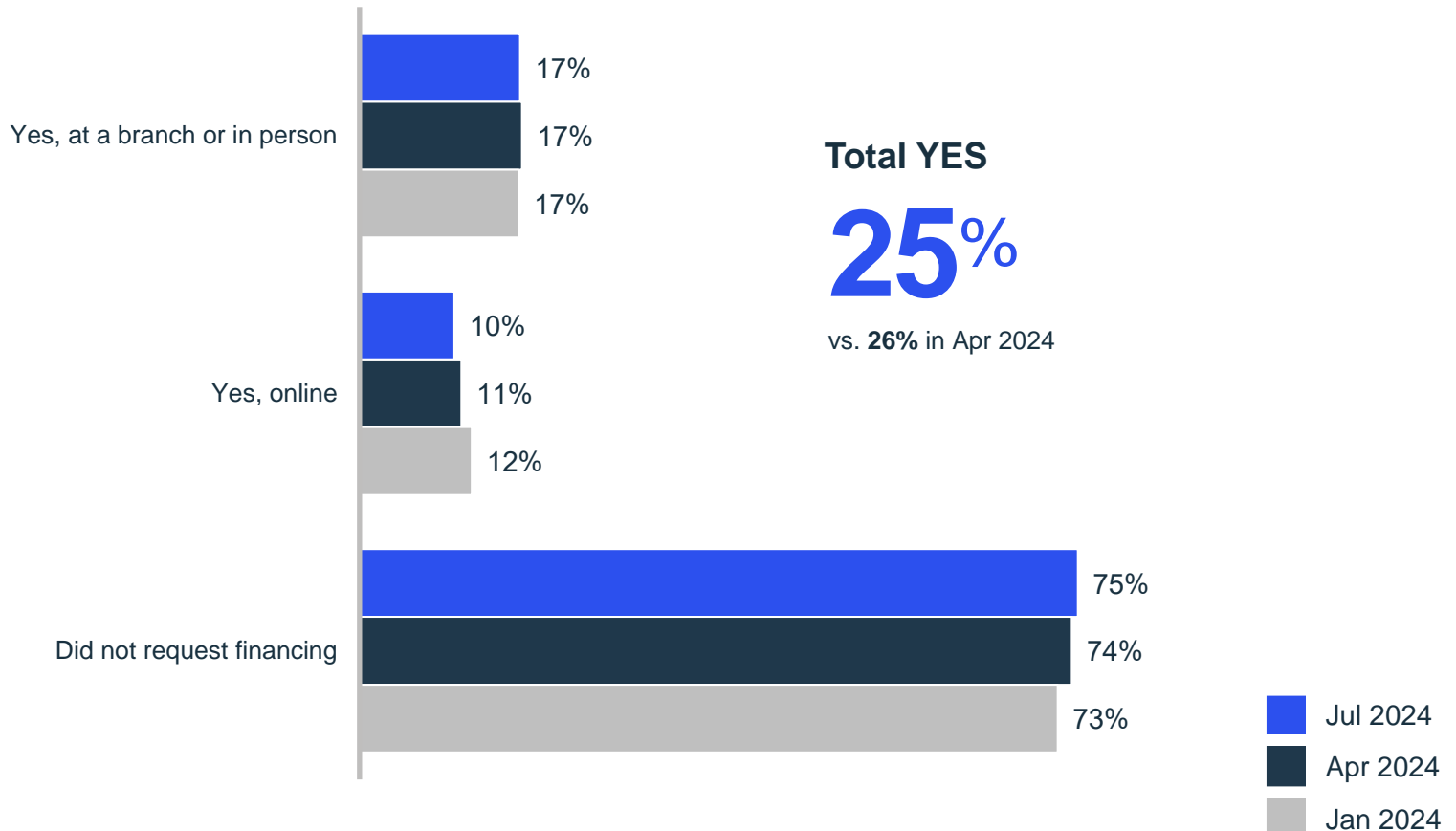
Financing supply

Past financing requests

Requests remain relatively stable and within the historical average range.



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

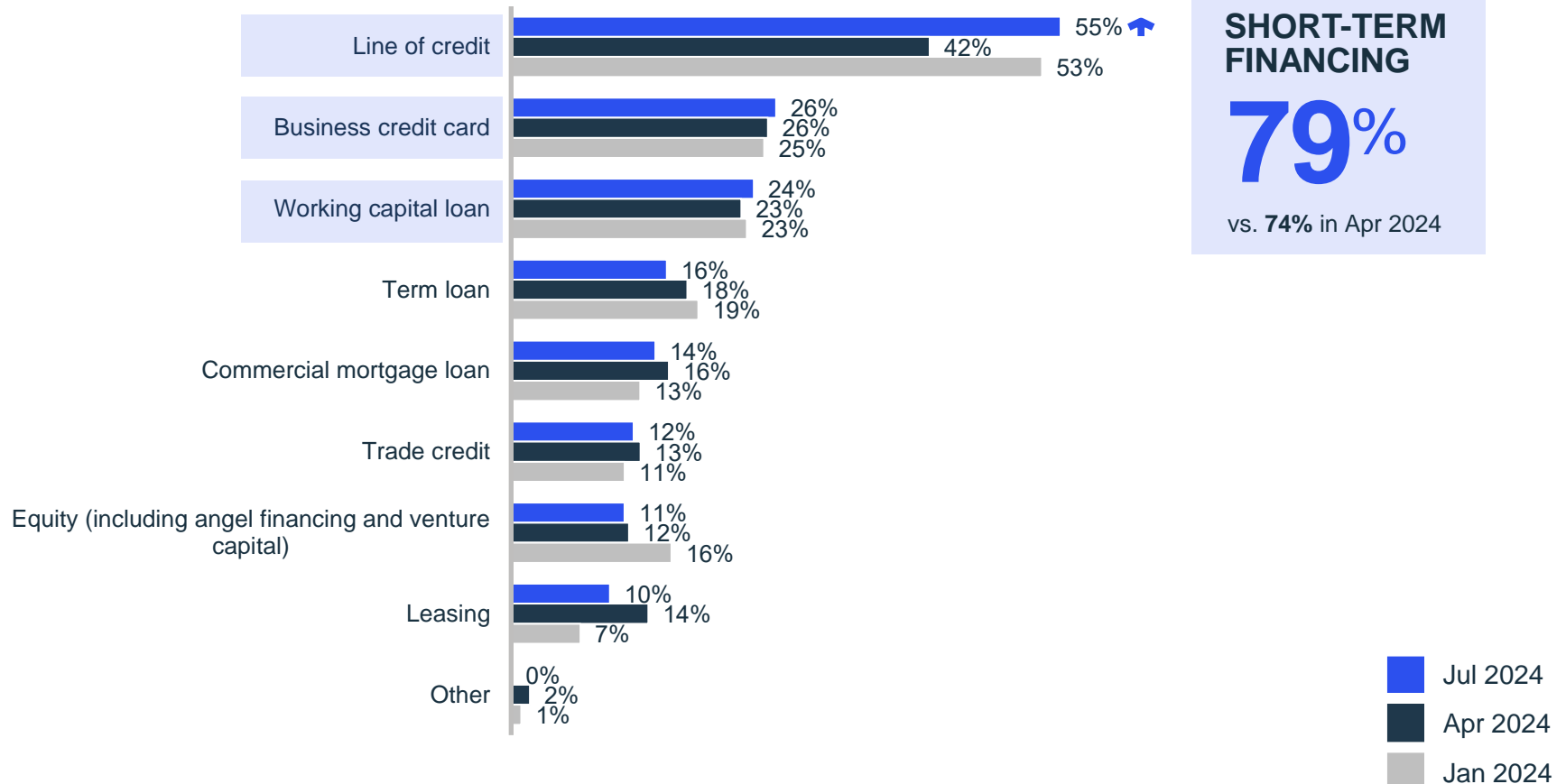


Type of financing requested

Demand for short-term financing has gone back up with LOC seeing a significant increase. Credit cards and WC loans complete the top 3 most requested financial instruments. Term loans are trending downwards.



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



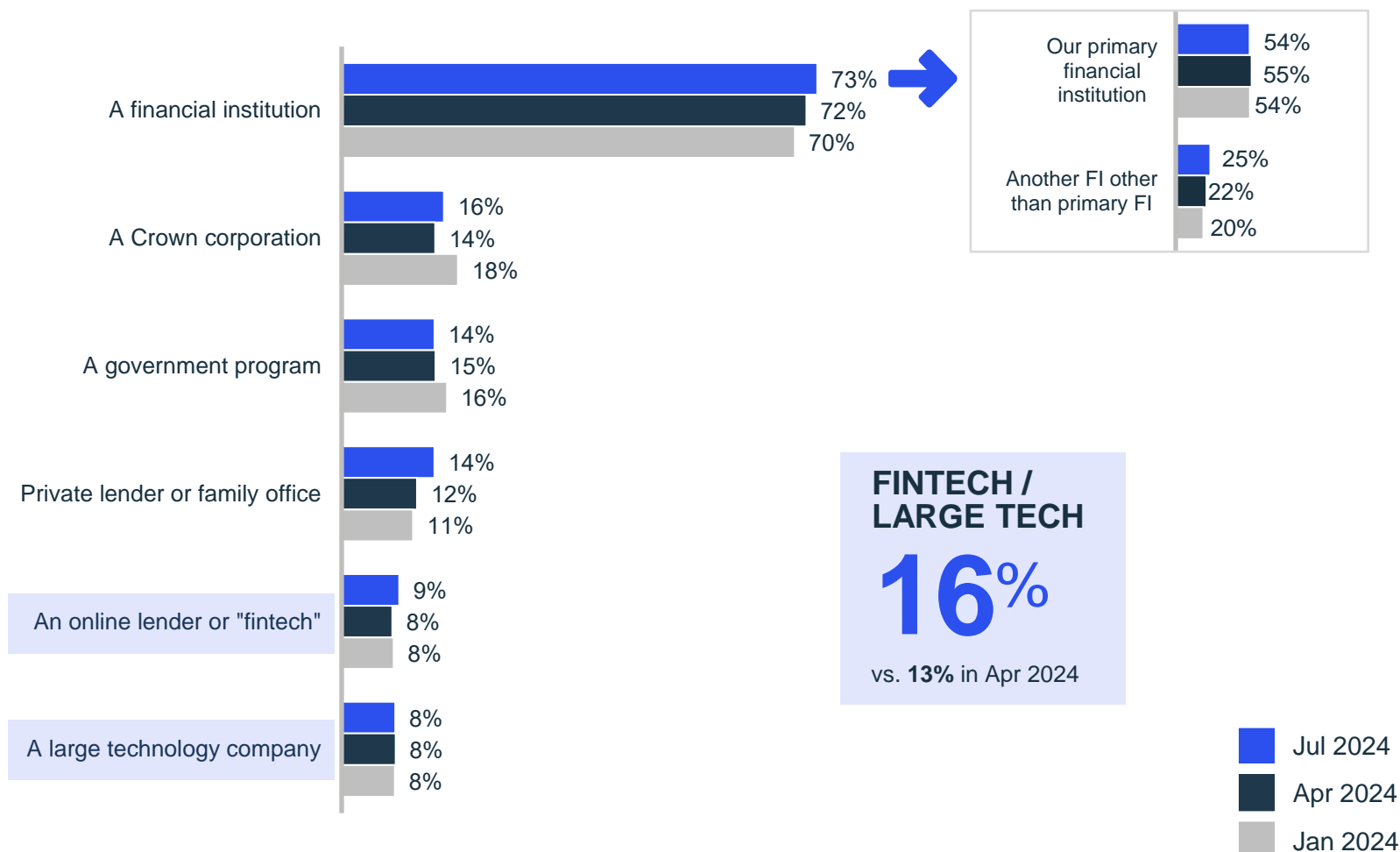
Base: Respondents who requested financing (n=333). Those who did not know were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Short-term options are highlighted in blue in the graph. Arrows indicate statistical differences between this wave and the previous one.

Sources of financing

Other traditional lenders are trending upwards.



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



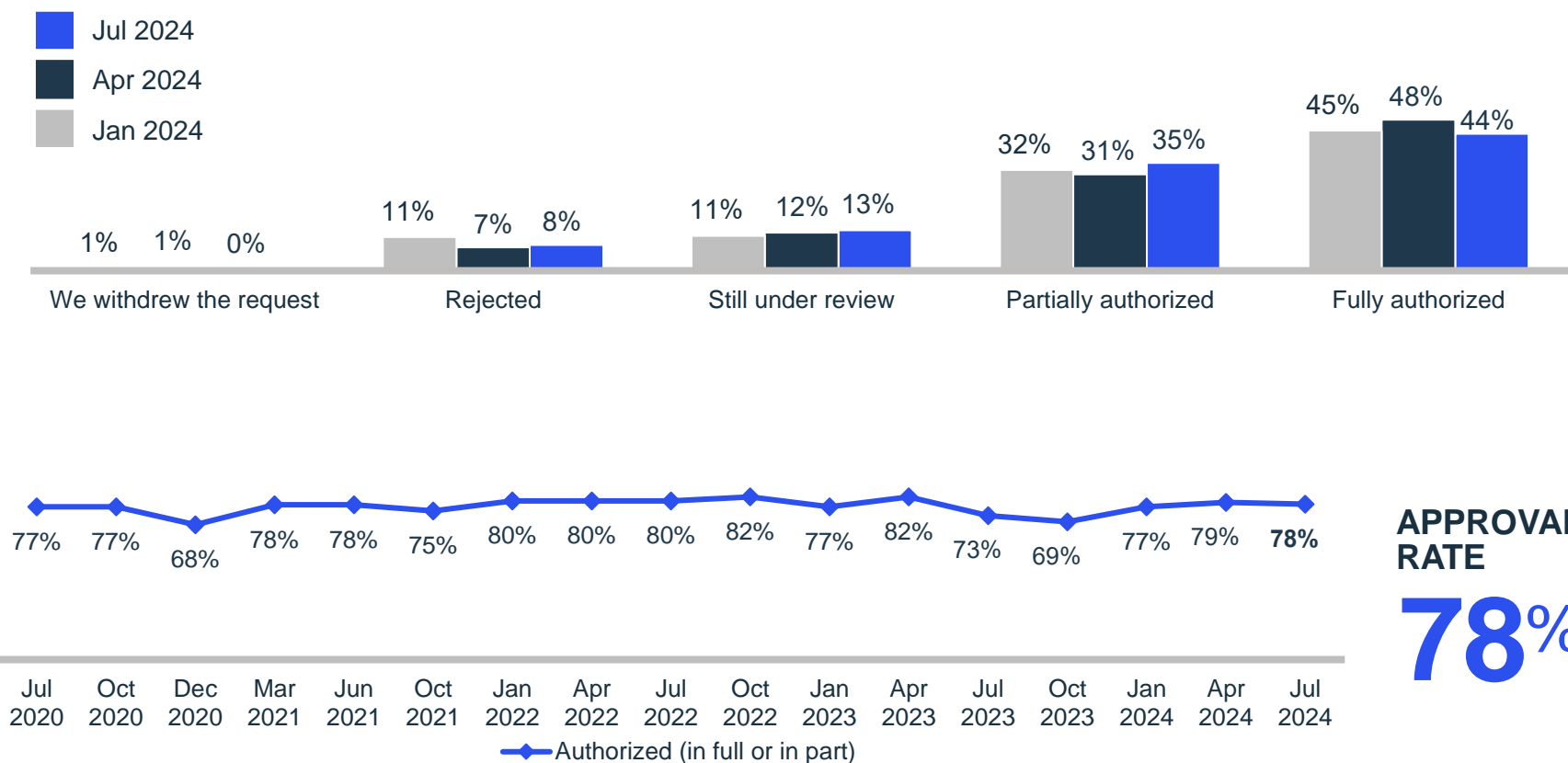
Base: Respondents who requested financing (n=331). Those who did not know were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

Financing request outcome

More than three quarters of SMEs saw their request approved at least in part.



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



Base: Respondents who requested financing (n=335).
Those who did not know were excluded from the calculation base.

3_d



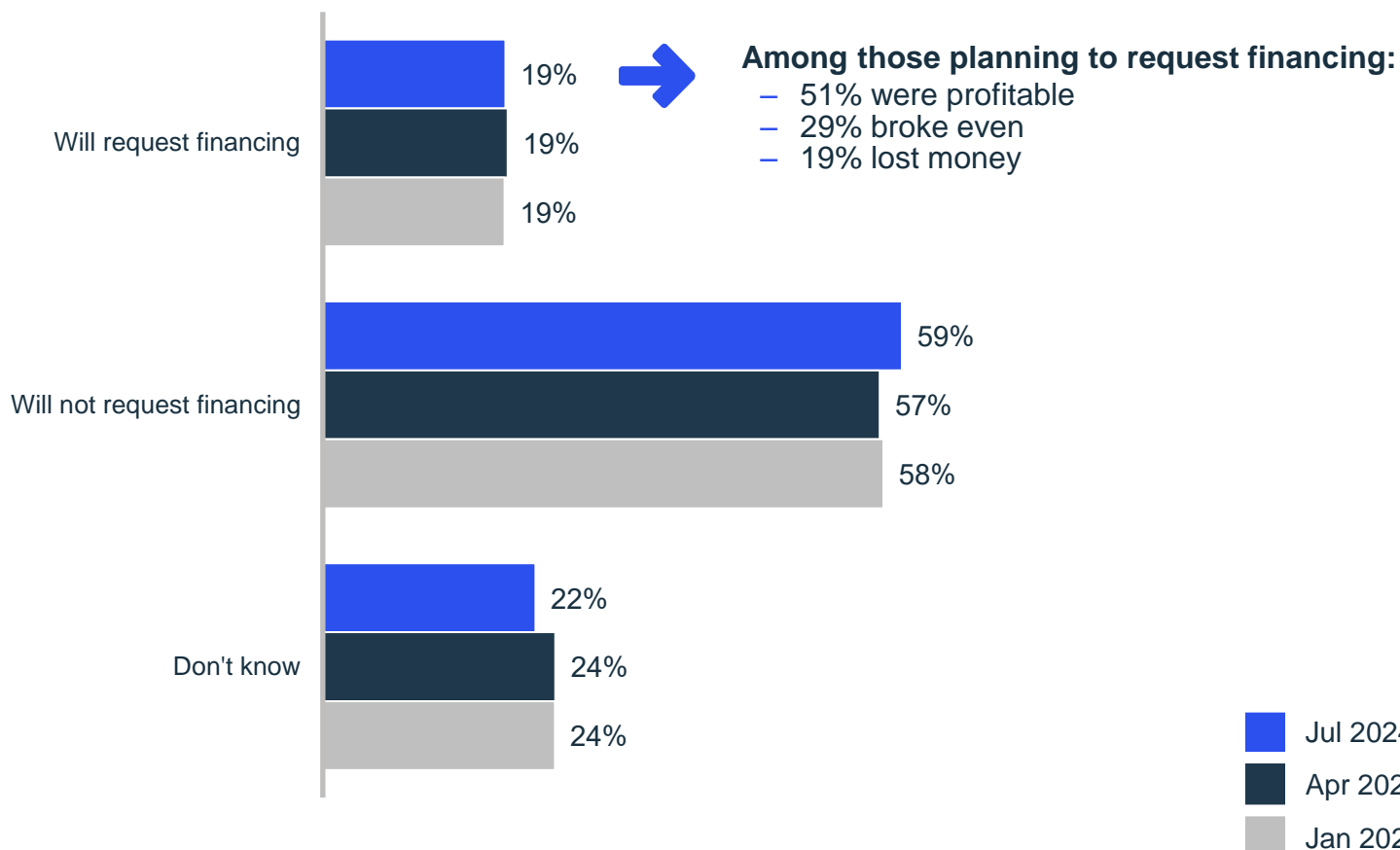
Financing demand

Planned financing requests

Demand remains unchanged. Compared to the last wave, more SMEs wanting financing indicated having broken even in the last 12 months. Demand is higher among SMEs with 5+ employees and those in technology.



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

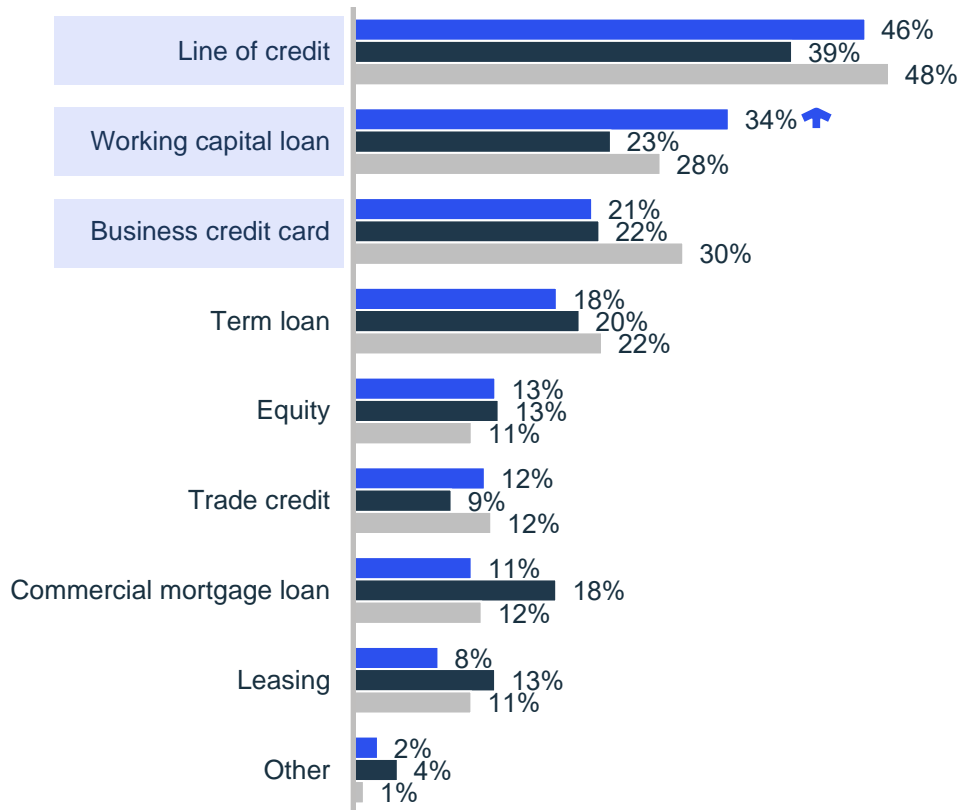


Type of financing SMEs will request

Three quarters of SMEs seeking financing need short-term financing. WC loans increased significantly but will be requested by a higher percentage of unprofitable SMEs.



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



SHORT-TERM FINANCING

75%

vs. 67% in Apr 2024



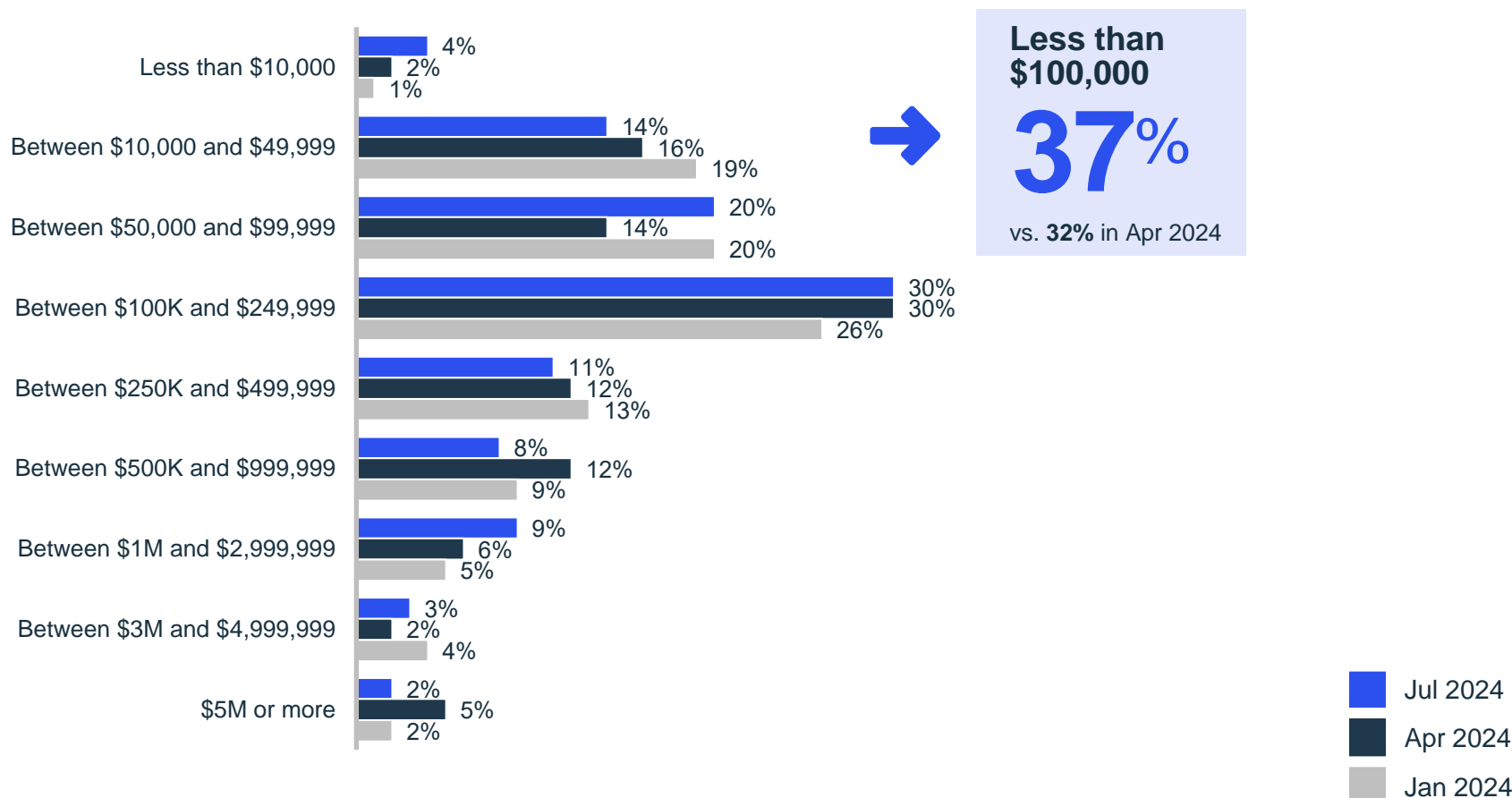
Base: Respondents who will request financing (n=247). Those who did not know were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one. Multiple mentions were allowed; therefore, total exceeds 100%. In this graph, short-term options are highlighted in blue.

Amount of financing SMEs will request

Demand for up to \$100K is back up. Demand for \$1M+ is statistically higher among larger firms.



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



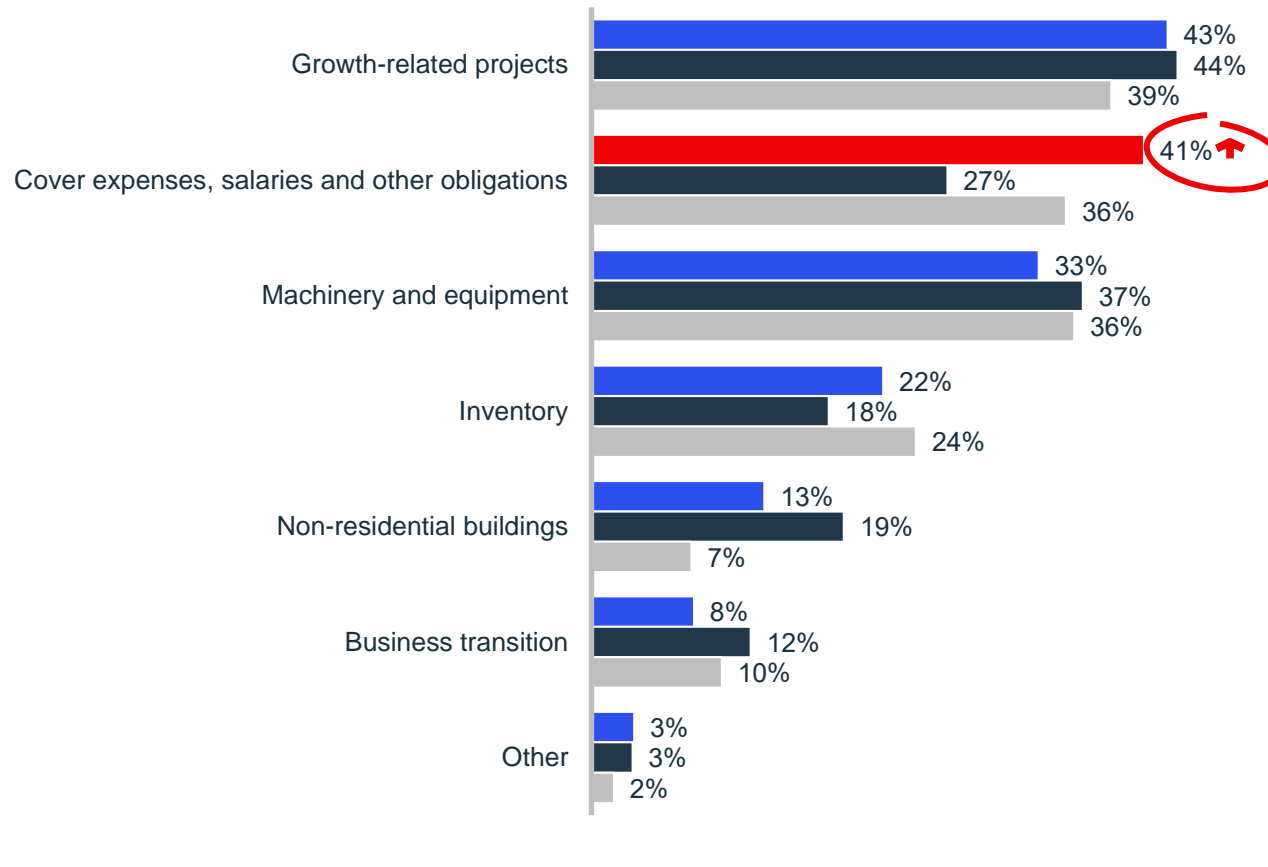
Base: Respondents who will request financing (n=247).
Those who did not know or preferred not to answer are not presented on this slide.
Arrows indicate statistical differences between this wave and the previous one.

Usage of financing SMEs will request

While more SMEs plan to borrow for growth-related projects, a resurgence in those planning to borrow to cover expenses is noted. Many SMEs making a request will not come from a position of strength.



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



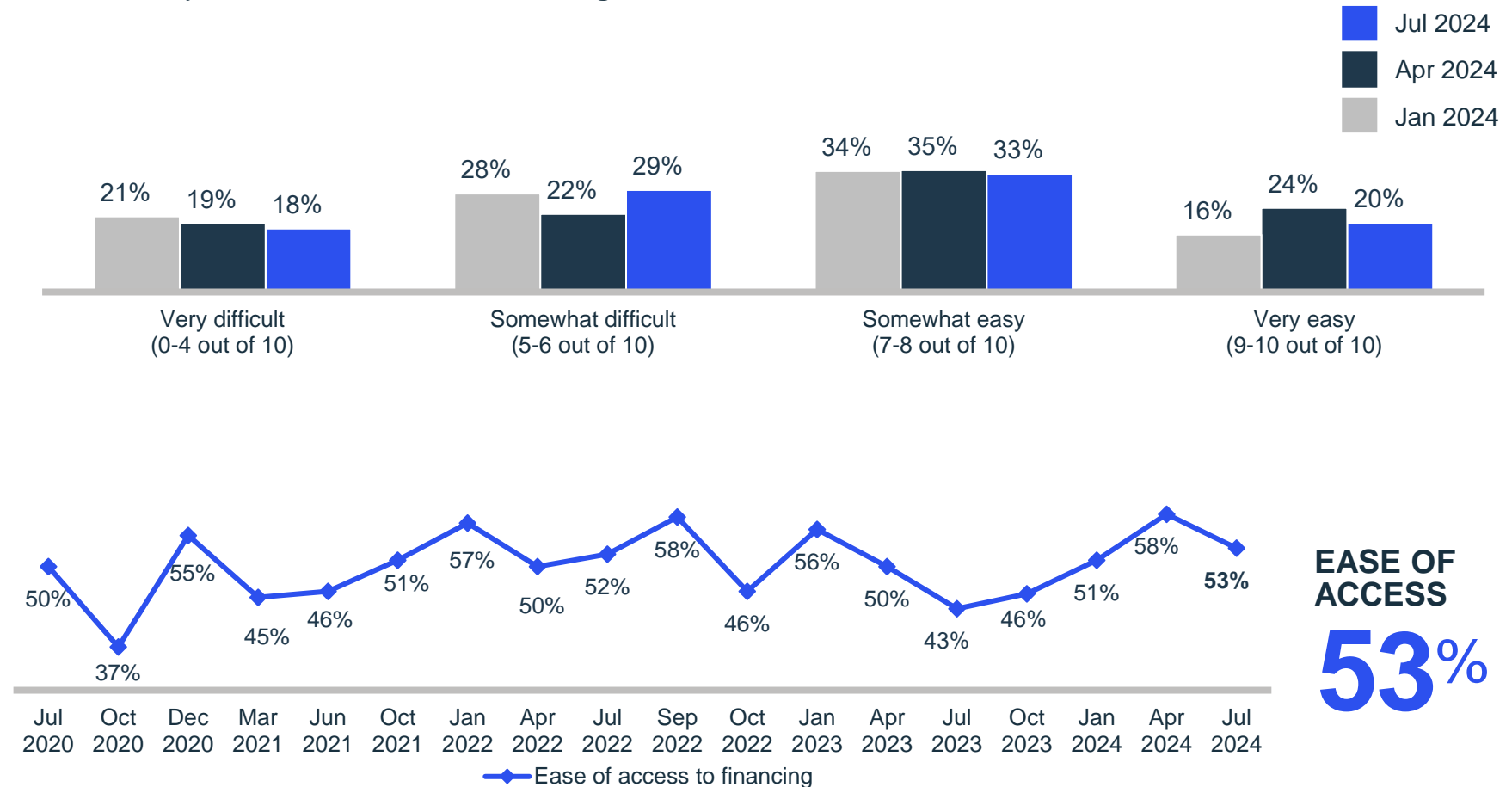
Base: Respondents who will request financing in the next 12 months (n=249). Multiple mentions were allowed; therefore, total exceeds 100%. Those who did not know or preferred not to answer are not presented on this slide. Arrows indicate statistical differences between this wave and the previous one.

Predicted ease of getting financing

Despite easing credit conditions, fewer SMEs planning to request financing believe that access will be easy. These SMEs' weaker financial position may explain why access is expected to be more difficult.



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



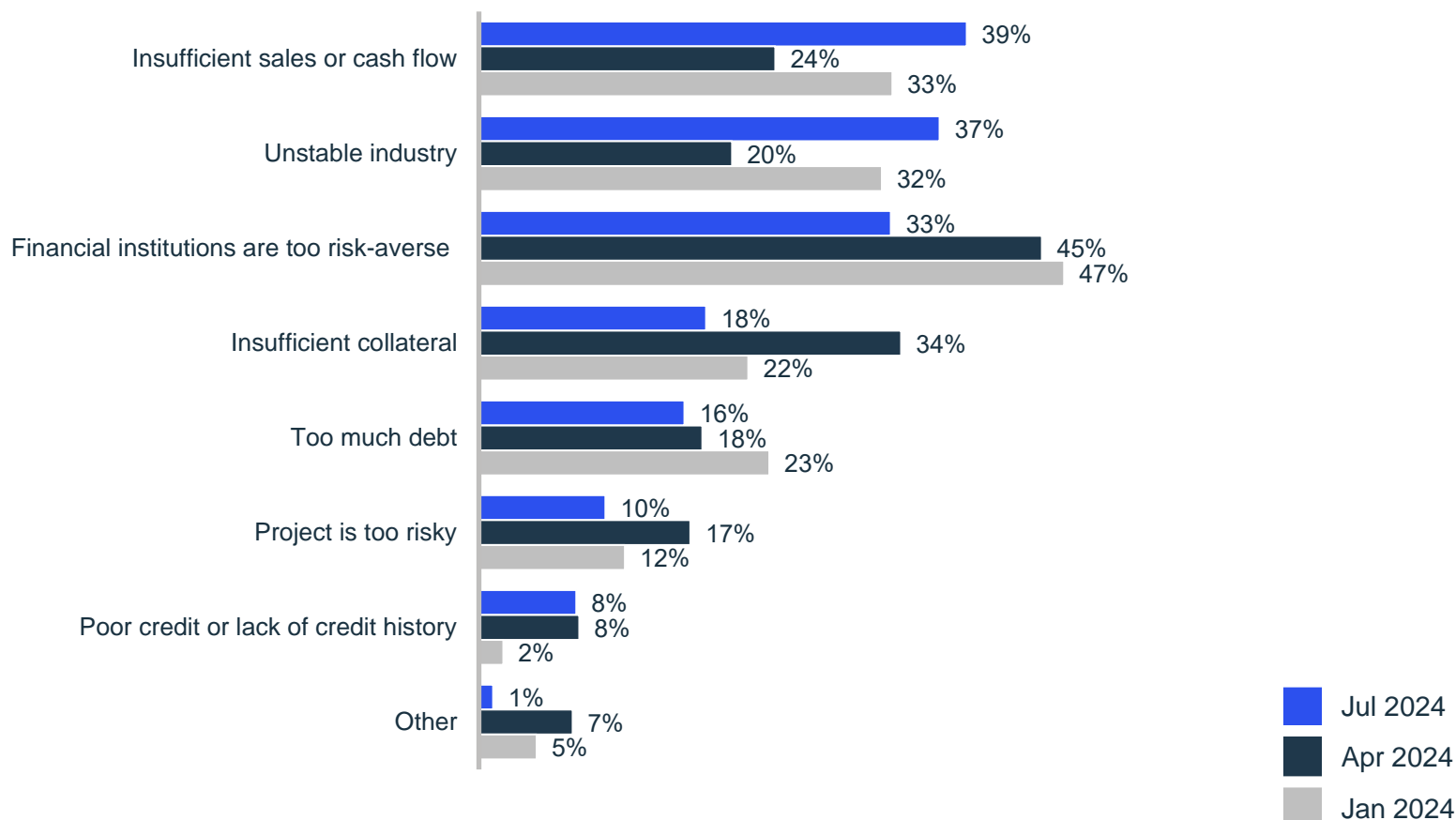
Reasons explaining a perceived difficult access

FIs' perceived risk aversion is no longer the main reason evoked by those who believe access to financing will be difficult. SME sales, cash flow and industry are now the main factors stated.



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

Small sample, interpret with caution

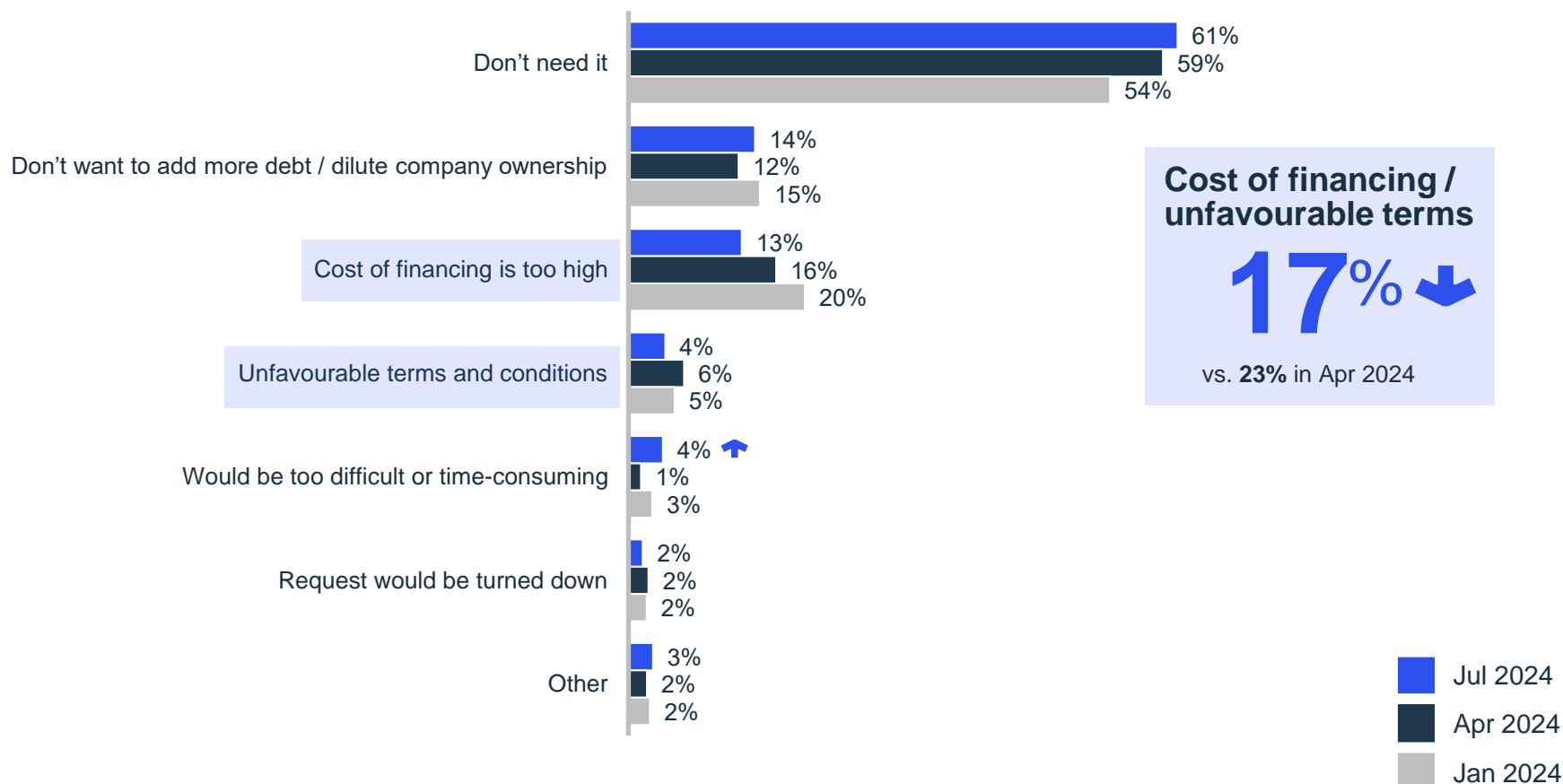


Reasons for not requesting financing

Statistically fewer SMEs said that cost of financing or unfavourable terms and conditions were preventing them from making a financing request. For the most part, SMEs just don't need additional funding.



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

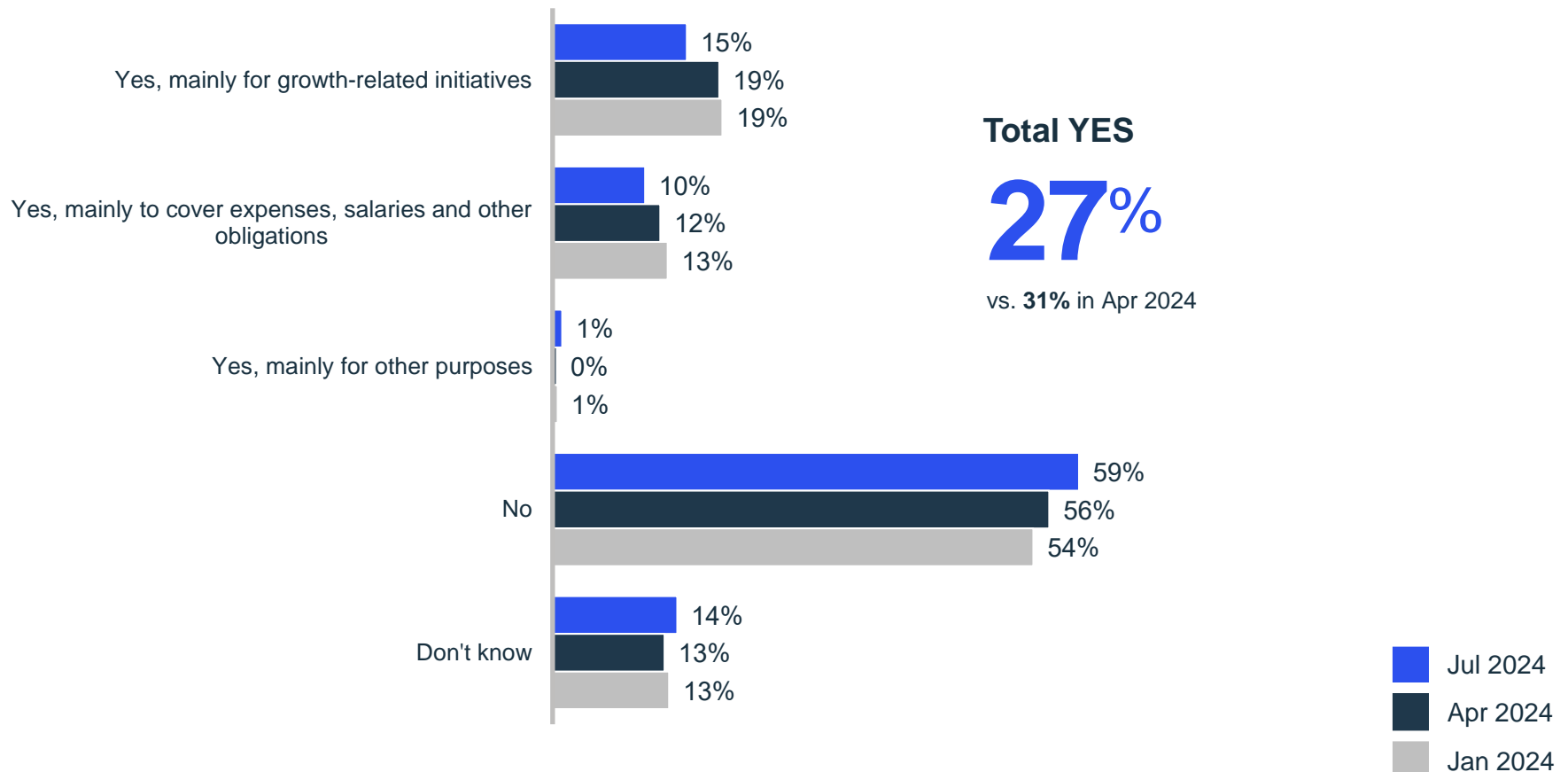


Helpfulness of obtaining financing

Fewer SMEs indicated that financing would be useful.



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



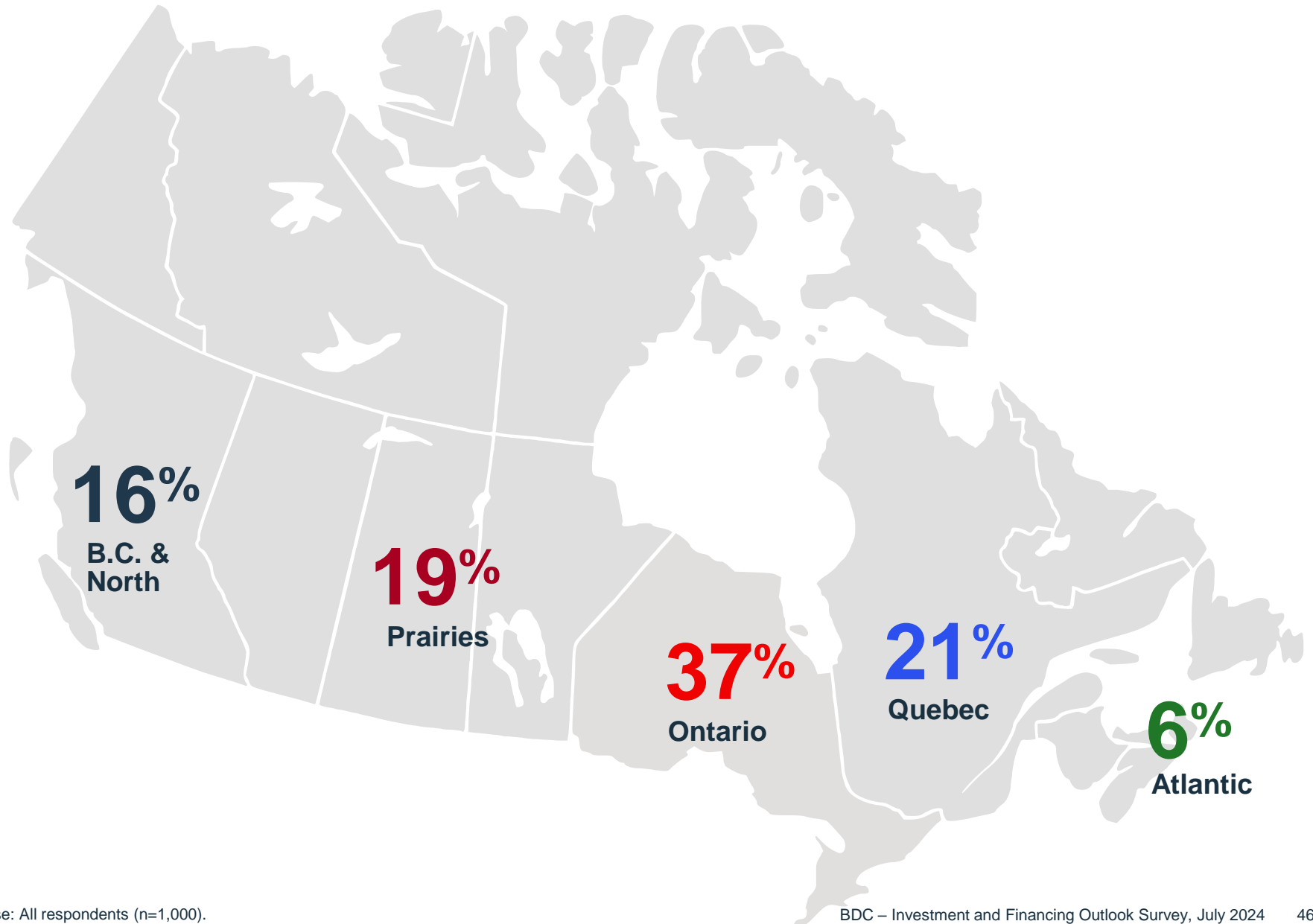
Base: Respondents who will not or don't know if they will request financing in the next 12 months (n=723). Those who did not know or preferred not to answer were excluded from the calculation base.

4



Respondent profile

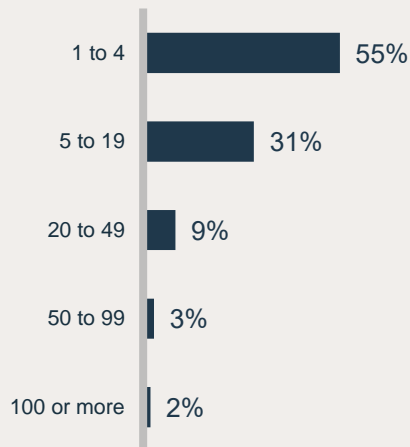
Region



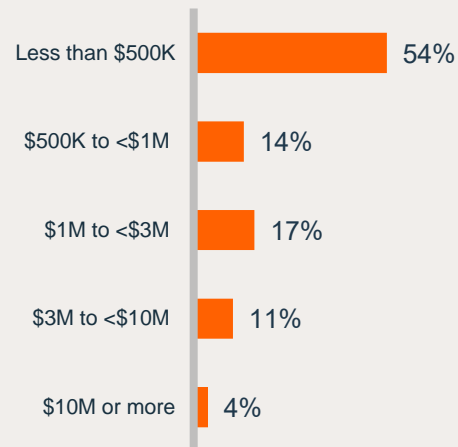
SME respondent profile



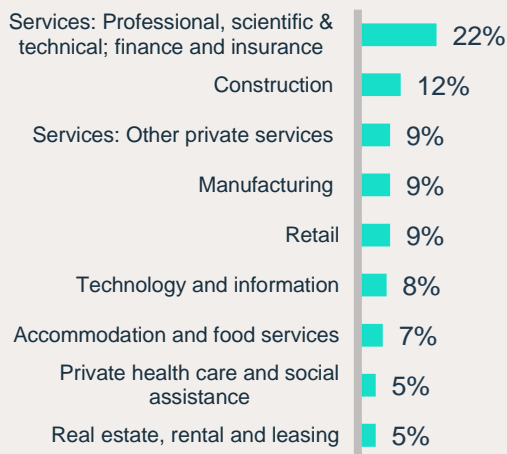
Number of employees



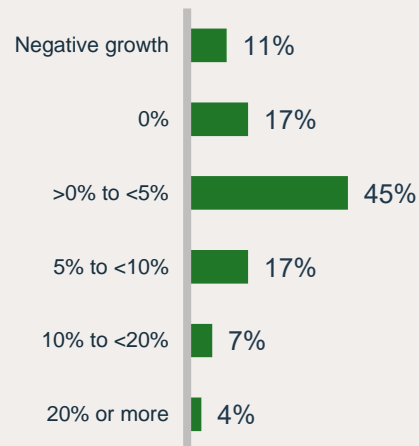
Annual sales



Sector of activity



Revenue growth

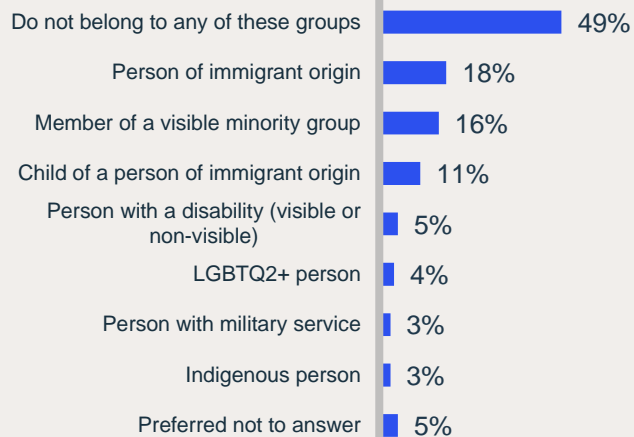


Base: Number of employees (n=1,000). For annual sales (n=926). For the sectors (n=989) only those with 5%+ respondents are presented. For revenue growth = Respondents for which company existed last year (n=930). Those who didn't know were excluded from the calculation base.

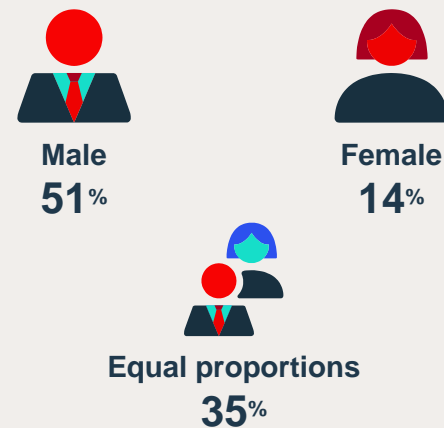
SME respondent profile



Diversity*



Gender ownership



Thank you

Research and market intelligence team

