

OCTOBER 2012

BILL OF HEALTH VI

BDC VIEWPOINTS STUDY

BDC Research and Market Intelligence



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INTRODUCTION

BDC surveyed 568 entrepreneur members of its BDC ViewPoints panel to understand their feelings about the current economic situation and their business health. At the time the survey was conducted, most of the entrepreneurs were quite optimistic when it came to evaluating their business health, but their optimism decreased when they considered situations beyond their control. Although a smaller proportion of small and medium-sized enterprises (SMEs) had tried to obtain financing in the past months, approval rates increased. Lastly, hiring intentions remained relatively high, especially among larger firms and, for the most part, entrepreneurs told us they believe that their business components will remain stable in the next year.

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SURVEY HIGHLIGHTS

The purpose of this study was to better understand Canadian entrepreneurs' feelings about the current economic situation and their business health.

To do this, BDC surveyed 568 entrepreneur members of its BDC ViewPoints panel online; this report presents the conclusions of this study.

- > Entrepreneurs evaluated the overall health of their business more favourably than they did the health of their competitors' firms or of the Canadian economy at large.
- Respondents from Western Canada tended to be more optimistic about the economic outlook for their region than their colleagues in Ontario or Quebec were.
- > Few businesses had actually scaled down the number of planned projects and investments over the last six months.
- > The proportion of businesses seeking financing decreased but approval rates increased.
- > Demand for short-term financing still outweighed long-term funding needs.
- > The reasons for denying financing requests varied but were usually associated with the overall health of the business.
- > Respondents anticipated modest growth; most expected their sales to grow by between 1% and 9.9% in the coming year.
- > Businesses with more than five employees were more likely than smaller businesses to plan to hire in the next 12 months.
- > For the most part, entrepreneurs believed that employee salaries, profit margins, and the prices of inputs, products and services will remain stable in the next year.
- > Businesses with fewer than five employees seemed more fragile than larger entities, because a much smaller proportion of them rated the overall health of their business highly. A larger percentage of them indicated having maintained the number intended projects for the year. And, although these businesses tended to seek financing for less than \$250,000, they were the most likely to have had their funding requests declined.



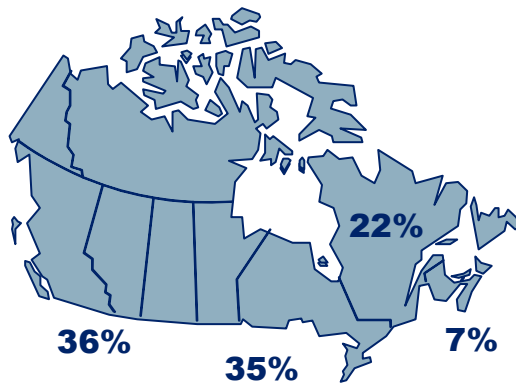
SURVEY METHODOLOGY

BDC emailed 2,642 invitations to the entrepreneur members of the BDC ViewPoints panel on September 25, 2012. The survey was accessible online from September 25 to October 7, 2012. A total of 568 entrepreneurs completed it, for a response rate of 21.5%.

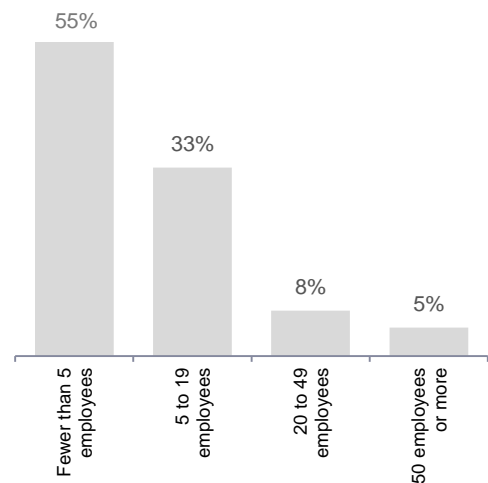
Survey results were weighted based on region and company size. The BDC Research and Market Intelligence team analyzed the final results and prepared this research report.

RESPONDENT PROFILE

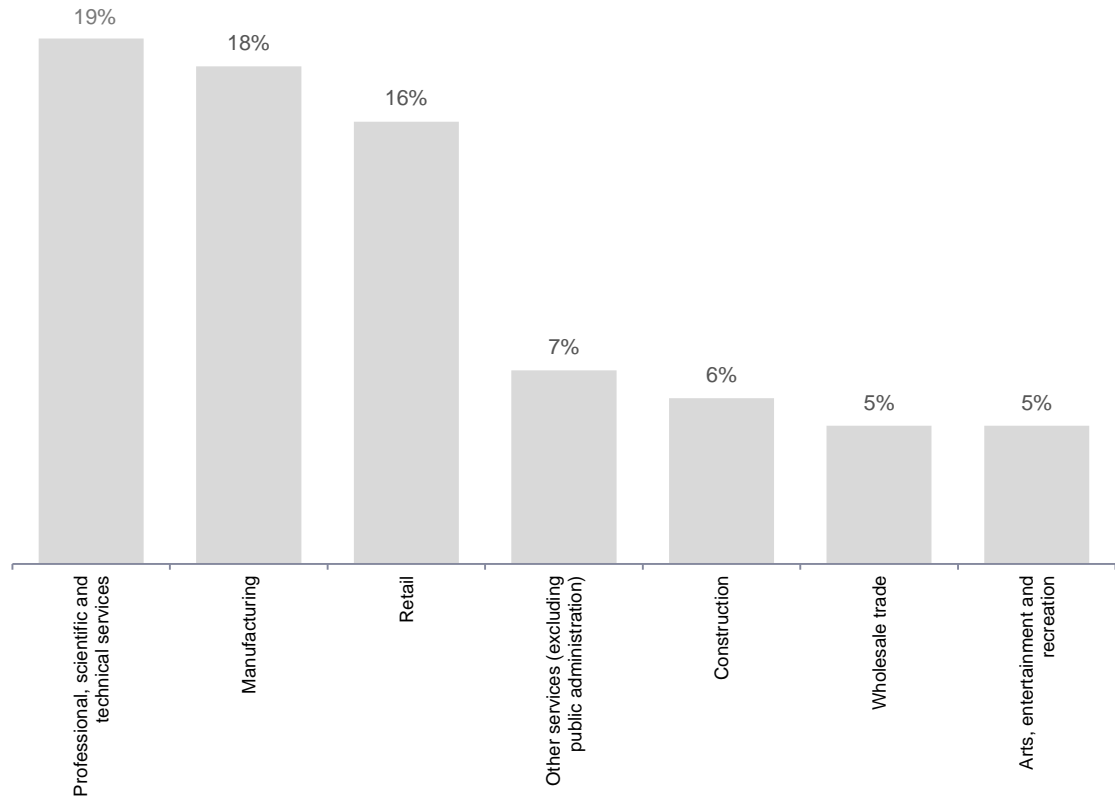
Here are some socio-demographic and company-related details about the entrepreneurs who completed the survey:



% OF RESPONDENTS BY REGION



BUSINESS SIZE



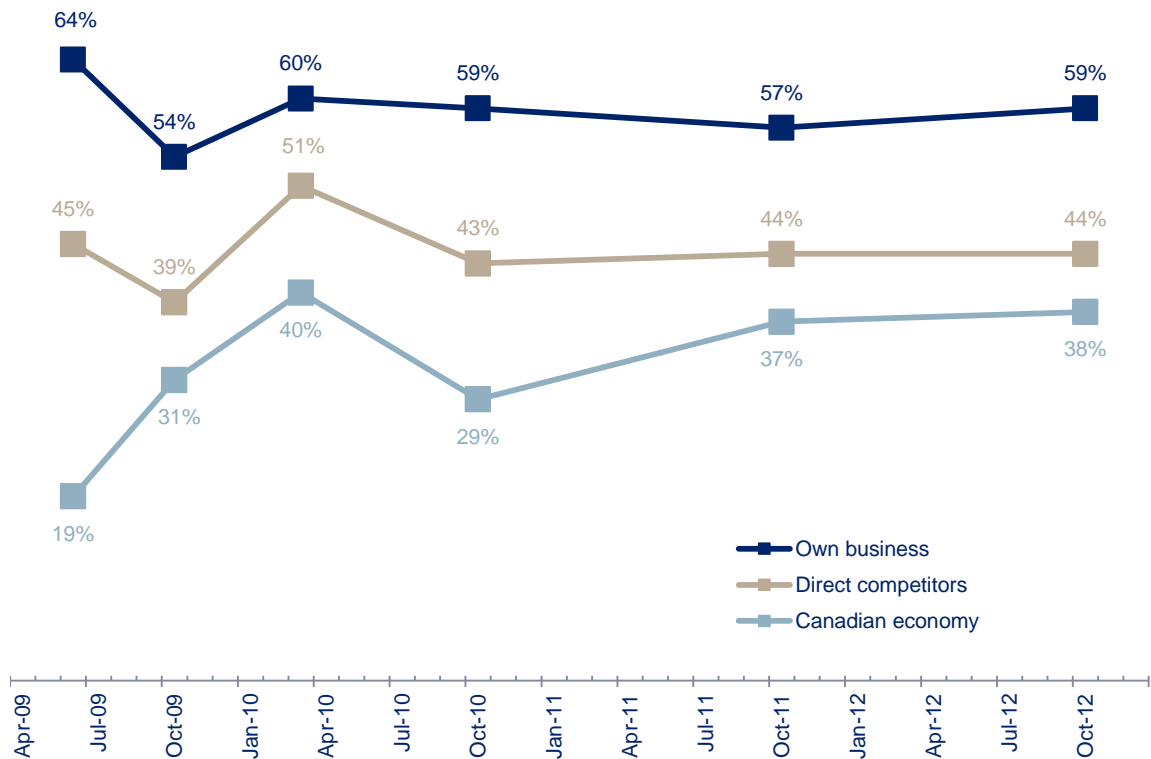
MAIN SECTORS OF ACTIVITY

PERCEIVED OVERALL HEALTH

When asked to rate the overall health of their business, entrepreneurs tended to give more favourable scores to their own company than they gave to their direct competitors or to the Canadian economy as a whole. In fact, optimism decreased when we moved from a micro view to a macro view. This has been the case since BDC first started conducting the Bill of Health survey.

In this survey, three out of five entrepreneurs gave their company a score of 7 or more on a 10-point scale, for an average score of 6.6 out of 10. Less than half of the business leaders surveyed gave their competitors a score of 7 or more (average score: 6.1). With regard to the Canadian economy, the proportion of entrepreneurs who perceived it to be in relatively good health slid under the 40% mark (average score: 6.0).

CHART 1: PERCEIVED OVERALL HEALTH



THERE ARE SOME STATISTICAL DIFFERENCES WORTH MENTIONING:

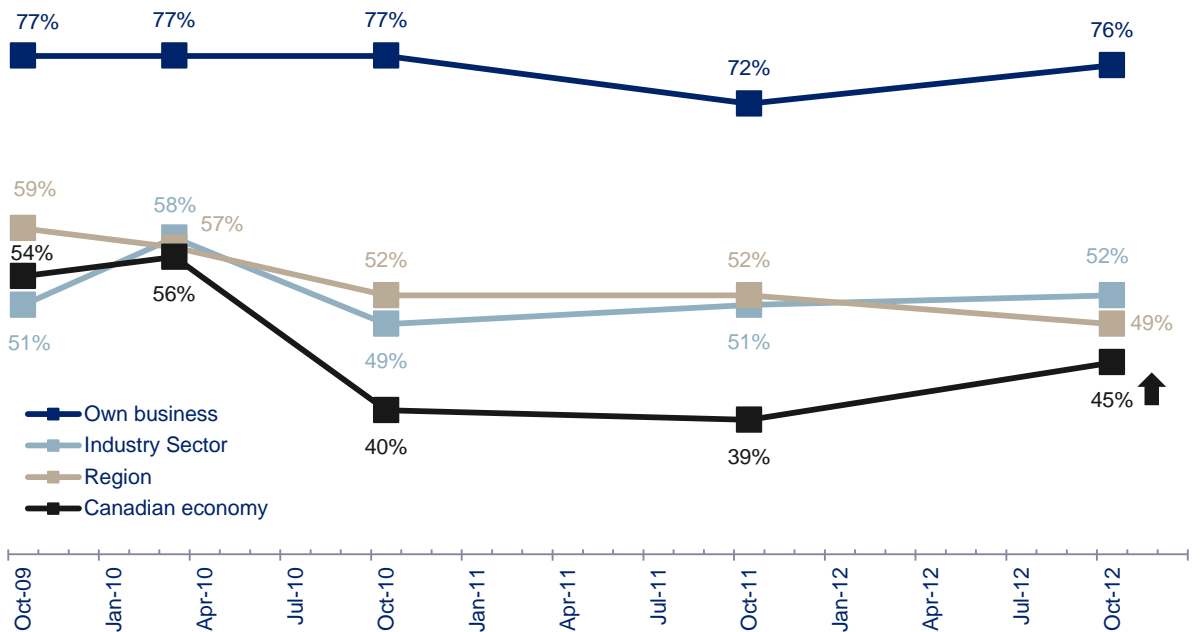
- > Respondents with 20 or more employees evaluated their own company's health more favourably than smaller firms did (70% of businesses with 20 to 49 employees, and 78% of those with 50 or more employees, rated their company at 7 or higher on a 10-point scale).
- > Barely half of the entrepreneurs (52%) with fewer than five employees gave their company a score of 7 or more out of 10 for its overall health.
- > A significantly greater proportion of respondents from Ontario (20%) gave the overall health of the Canadian economy a low score.

LEVEL OF OPTIMISM

Entrepreneurs are optimistic by nature, a characteristic reflected in their overall optimism regarding the economic outlook for their companies over the next six months. Overall, three quarters of entrepreneurs were optimistic about the economic outlook for their company over the next six months. These results have remained relatively stable over the past three years.

However, the level of optimism dropped when respondents evaluated their industry sector, their region and the Canadian economy. The good news is that optimism about the Canadian economy has risen by a statistically significant 6 percentage points since BDC conducted the previous Bill of Health survey in October 2011.

CHART 2: LEVEL OF OPTIMISM



These aggregated results hide regional differences. A significantly greater proportion of entrepreneurs in Western Canada (62%) were quite optimistic about the outlook for their region, compared with respondents in Quebec (36%) and Ontario (42%).

Moreover, business leaders in Quebec expressed the highest level of pessimism regarding the Canadian economy. Over a third of them (34%) were either somewhat or very pessimistic regarding the outlook for the Canadian economy over the next six months.

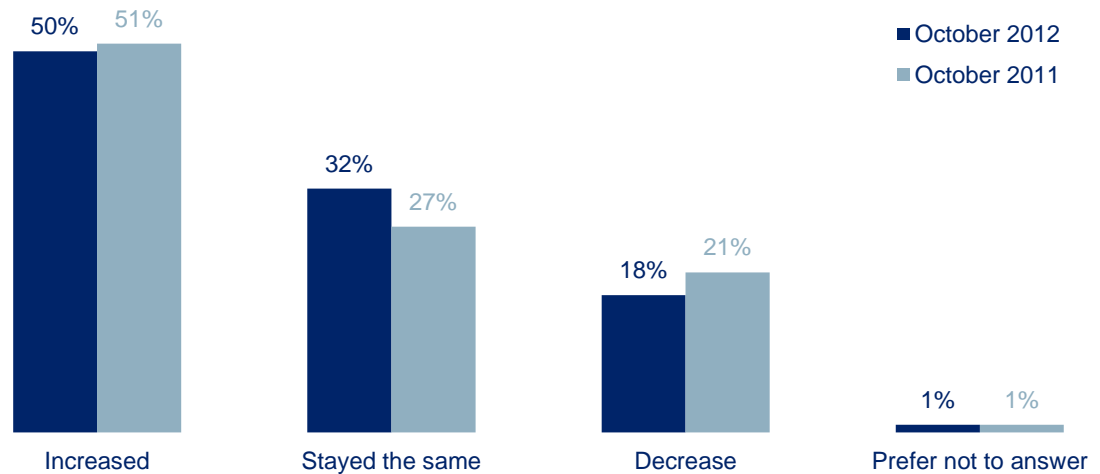


PLANNED PROJECTS AND INVESTMENTS

Although entrepreneurs continued to operate in an environment of economic uncertainty, few of them actually scaled down their number of intended projects or investments in the past year. More important, half of those surveyed actually increased the number of projects and investments. However, this proportion fell below 50% for businesses with fewer than five employees.

These results have remained relatively stable since last year. That is probably due to the fact that the economic context has not changed very much in the past 12 months; many pre-existing problems have lingered. That said, entrepreneurs are probably waiting to see how the situation will unfold before making any further important decisions.

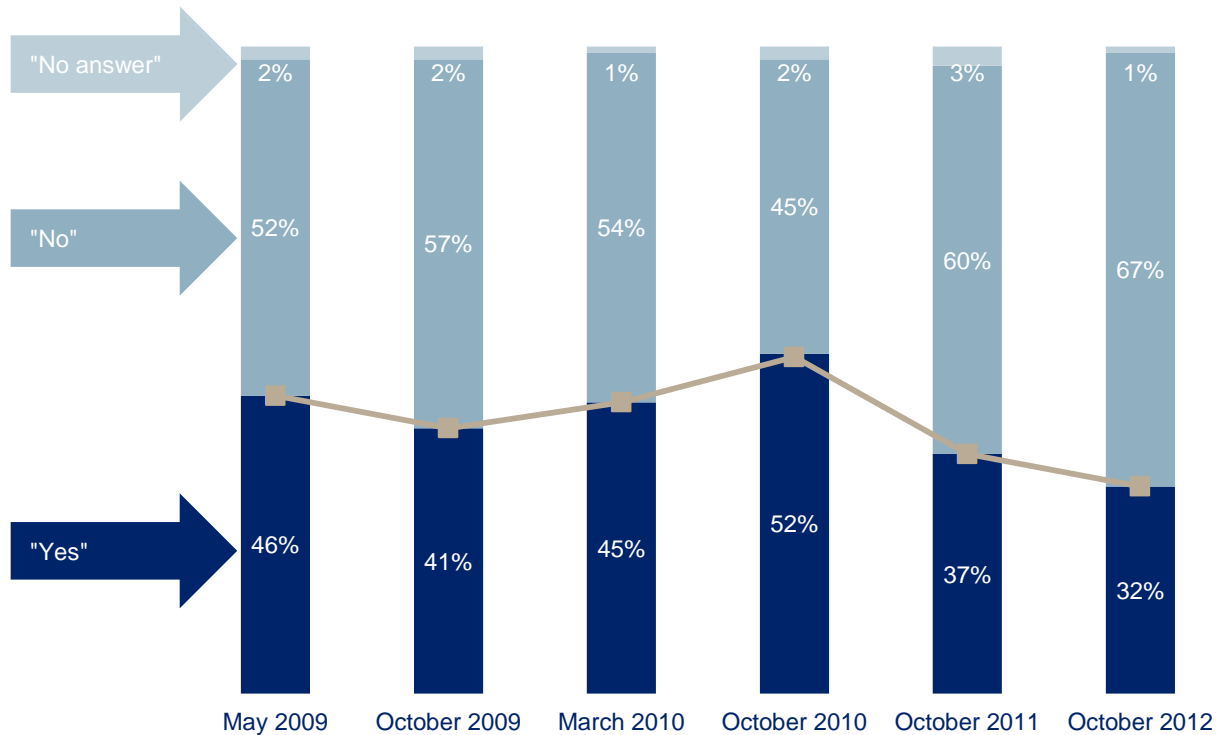
CHART 3 : PLANNED PROJECTS AND INVESTMENTS



FINANCING SOUGHT

Why did fewer businesses seek financing? And were businesses seeking funding in a better financial position than they were before, or were financial institutions simply more willing to lend?

CHART 4: SEEKING FINANCING

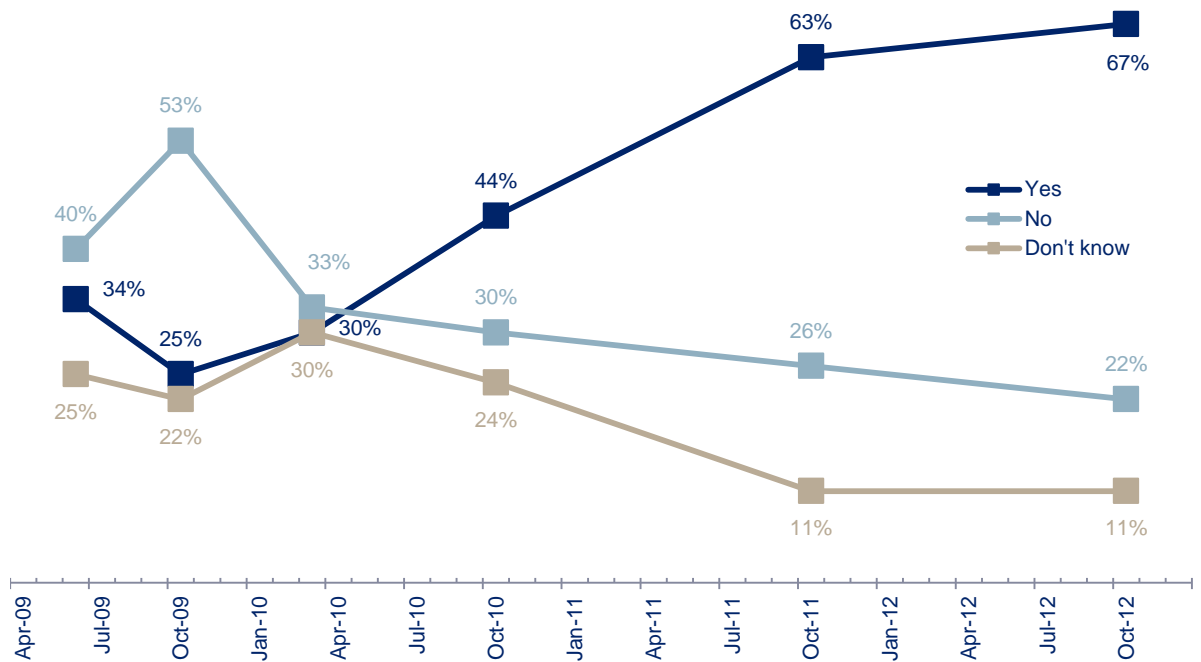


The fact that a smaller proportion of businesses sought financing over the last six months may reflect the uncertainty in which Canadian businesses operate. Again, this leads us to believe that businesses are waiting to see what is going to happen (regionally, nationally and internationally) before further engaging in various projects. Furthermore, firms may be sitting on capital, which may also explain the relatively low percentage of businesses looking for financing. In our survey, larger businesses (those with more than five employees) were more likely to have requested financing recently. Only one out of four businesses with fewer than five employees had recently requested funding.



However, approval rates for financing requests have gone up. Overall, two thirds of respondents who applied for financing received either all (39%) or part (28%) of the funding requested. On average, those who received partial funding obtained 65% of the funding requested. Overall, approval rates increased with the number of employees. The approval rate was lowest for businesses with fewer than 5 employees (53%) and highest for those with more than 50 employees (89%).

CHART 5: FINANCIAL APPROVAL RATES

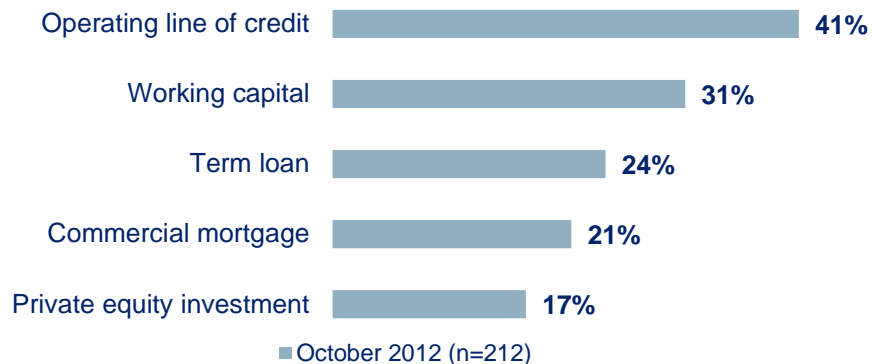


Did approval rates go up because better-qualified businesses submitted requests, or are Canadian financial institutions now less risk averse than they were a few years ago? Generally speaking, larger firms may be more financially sound than smaller ones and, thus, more likely to be approved.

TYPES OF FUNDING SOUGHT

Among the types of funding available, short-term financing—such as an operating line of credit or working capital—remained the most sought-after option. Smaller proportions of entrepreneurs sought term loans, commercial mortgages and private equity financing.

CHART 6: TOP FIVE TYPES OF FUNDING



In terms of the amounts requested, three out of five entrepreneurs requested less than \$250,000 in financing. Although the percentage of those seeking less than \$250,000 remained stable, we saw a greater percentage of requests in the \$50,000 to \$250,000 bracket. Businesses with 20 employees or fewer made the vast majority of funding requests under \$250,000.

Respondents most frequently cited poor debt-equity ratios, unacceptable collateral, industry sector risk and an unproven company track record as the reasons they did not receive all or part of the funding they requested.

Although I have been in business for 12 years, the business switched from a sole proprietorship to incorporated 3 years ago. In the eyes of the bank, it is still considered a young "unproven" company.

Banks are unwilling to take any risks... They want complete and full guarantees, and that's just not how entrepreneurs grow and thrive!

Chartered banks are still not in a mood to help small manufacturing/export business. Unless you have 4-1 debt to equity, you're done.

Bank said no to term loan and no to increasing operating line of credit. The usual problems with Banks they want to have your house and then they will lend you what you want. I will not sign over my home.



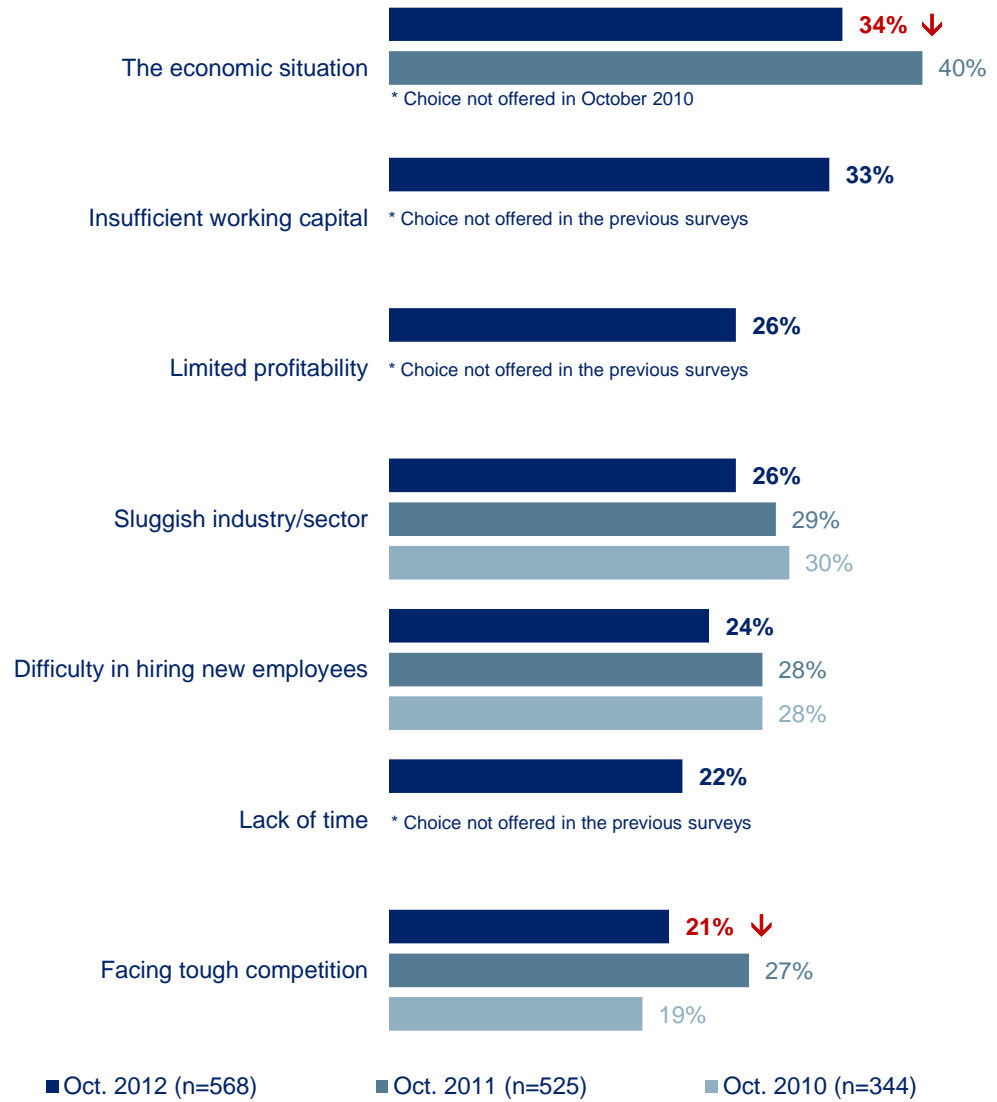
GROWING THE BUSINESS

One in ten businesses did not expect their sales revenues to increase over the next 12 months. Almost half of the businesses expected their sales to grow by between 1% and 9.9%. However, two out of five anticipated significant sales growth of over 10%.

Entrepreneurs faced a multitude of challenges that prevented them from further growing their business. Challenges rested upon four main axes: economic environment, competitive context and internal dynamics, human resources, and financing needs

- > The economic situation, bureaucratic red tape, regulatory compliance and the strength of the Canadian dollar were challenging areas over which entrepreneurs had little or no control.
- > The competitive environment in which businesses operated also created challenges. For example, entrepreneurs mentioned sluggish industry sectors, limited profitability, long sales cycles and the need to acquire new technology.
- > Many entrepreneurs faced human resources issues, such as difficulties in hiring new employees, lack of time, limited marketing expertise and difficulties in retaining employees.
- > Last but not least, entrepreneurs indicated that insufficient working capital and problems accessing additional financing were impeding their expansion.

CHART 7: TOP CHALLENGES PREVENTING SMES FROM GROWING THEIR BUSINESS



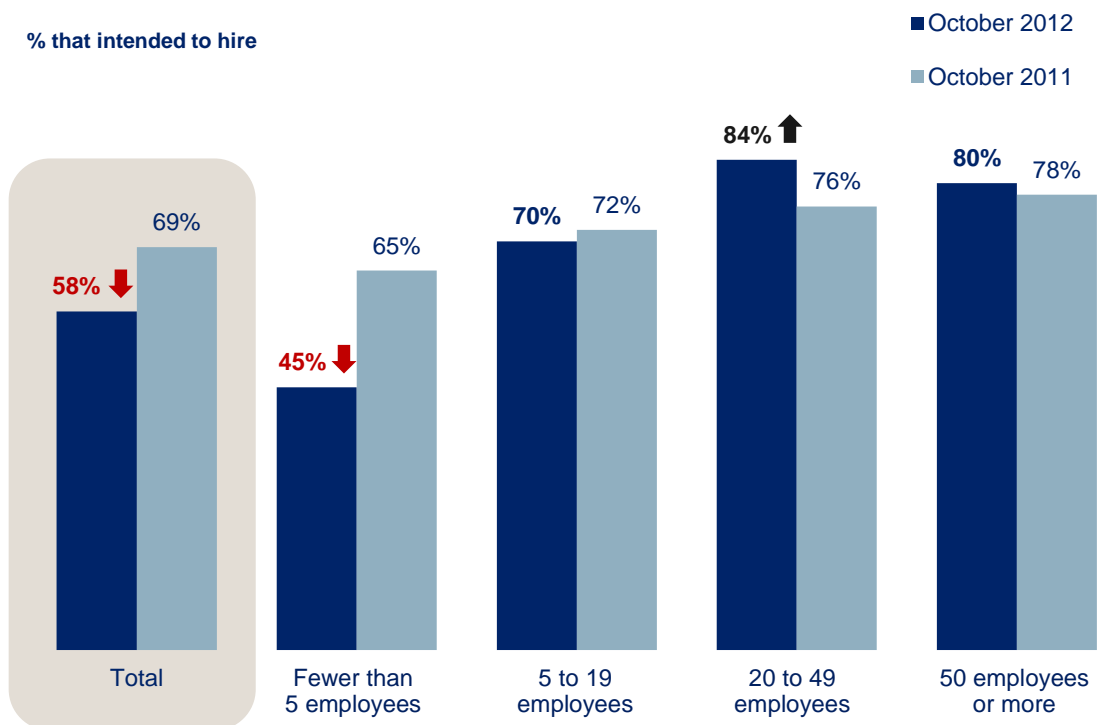
A relatively limited percentage of entrepreneurs did not face any particular challenges at the moment and believed their business was growing well (11%). Another 6% of entrepreneurs said they were not trying to grow their business at the moment.

HIRING NEW EMPLOYEES

Although nearly three out of five businesses planned to hire part-time or full-time employees over the next 12 months, most of these were firms with more than five employees.

The intent to hire has dropped significantly since we conducted the last Bill of Health survey in October 2011. Moreover, only 45% of businesses with fewer than five employees planned to hire. This may be cause for some concern, since firms with fewer than five employees account for over 50% of all businesses with employees in Canada.

CHART 8: HIRING INTENT, BY COMPANY SIZE





EVOLUTION OF BUSINESS COMPONENTS IN THE NEXT YEAR

Over half of the entrepreneurs surveyed believed that their employee salaries (56%), their profit margin (53%), the prices of their inputs (53%), and the prices of their products and services (58%) would remain stable over the next six months.

The proportions of entrepreneurs who believed these components would increase over the next six months varied significantly. Over one third thought the prices of their inputs (37%) and their products and services (37%) would increase. One quarter felt employee salaries (26%) would rise; this view was particularly common among companies with more than five employees.

The good news is that four out of ten business leaders thought their profit margin would increase over the next six months.