

Investment & Financing outlook

SME business investment and
financing outlook survey, wave 20

Research report

Research and Market Intelligence at BDC



January 2024

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Key highlights

CURRENT STATE:

SMEs are less pessimistic about the year ahead, but they do not foresee any significant improvements in their sales and cash flow.



Fewer SMEs expect economic conditions to deteriorate, but debt is an issue



45% believe that economic conditions will deteriorate in the next 12 months
(-7pts↓)



27% think that their cash flow situation will improve
(-2pts)



30% say that debt repayment is limiting business activities
(-1pt)

SMEs are treading carefully

60% Are profitable
(-2pts)

78% Stand below full capacity operation
(-6pts↓)

26% Have used or will use significant resources for growth projects
(-7pts↓)

Many are in a precarious position

43% Say that FIs totally meet their needs
(-3pts)

52% Are deemed bankable
(-2pts)

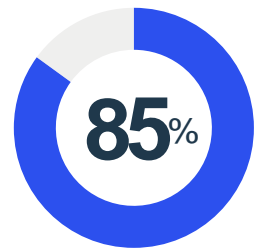
49% Believe that access to financing will be difficult
(-5pts)

INVESTMENT OUTLOOK:

Similarly to the last wave, just over half plan to invest in one of three categories. However, fewer plan to invest in each given category.



Investment intentions slightly down, but nothing significant



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

35% 83%
(-2pts) (+1pt)



Intangible assets

40% 84%
(-3pts) (-1pt)



59%

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

What are the main investment goals?



Increasing efficiency

39%
(-3pts)



Improving sales and marketing

34%
(-5pts)



New

Introducing new products or services

25%
(+3pts)

What could limit investments?

36%

High economic uncertainty
(-6pts)

34%

Interest rates
(-1pt)

20%

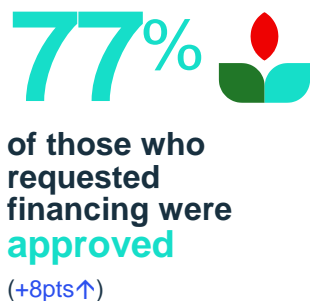
Low demand
(unchanged)

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

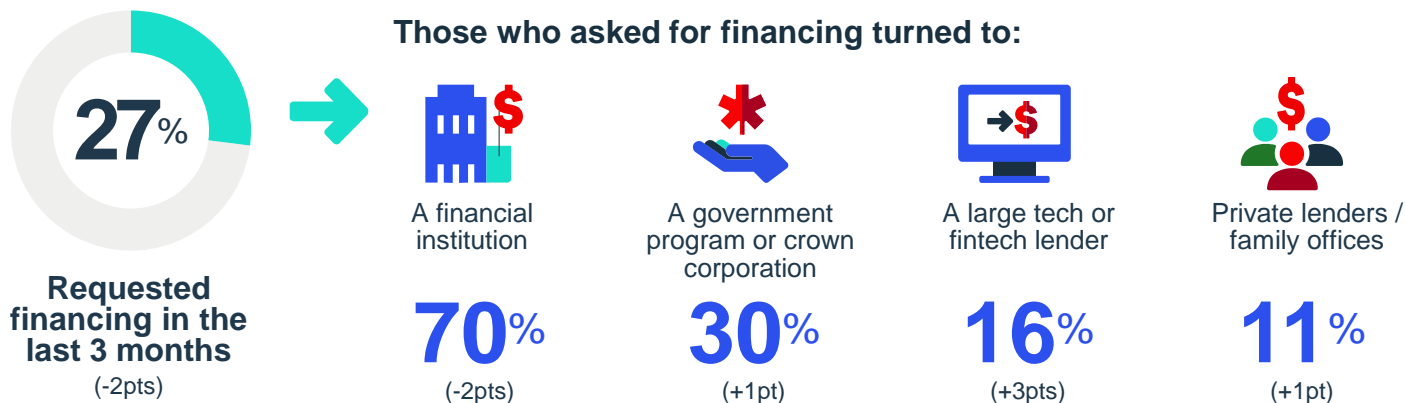
FINANCING OUTLOOK:



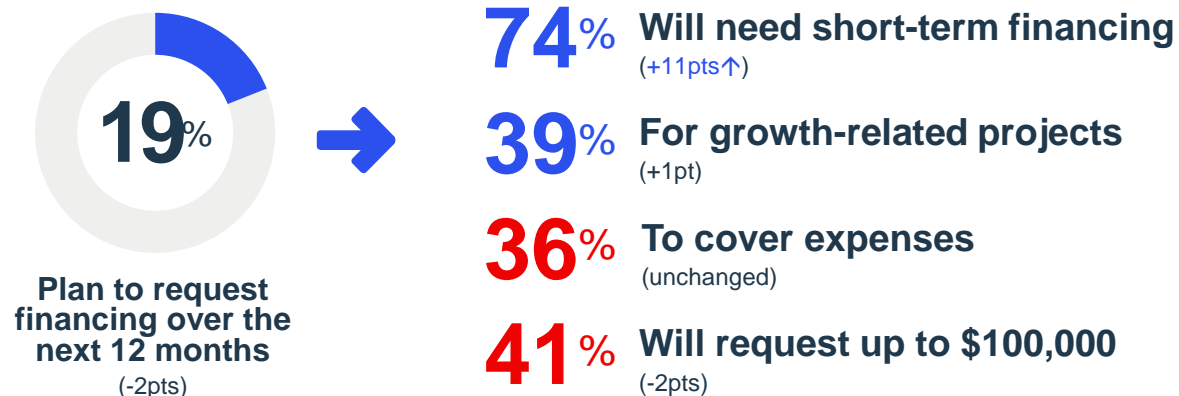
Financing requests have decreased minimally but approval rates are up, which is good news for businesses.



Along with FIs, other lenders continue to provide SME support



Demand for short-term has increased significantly



Perceived access has improved slightly



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

- ➔ December 12, 2023, to January 8, 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 1,056 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

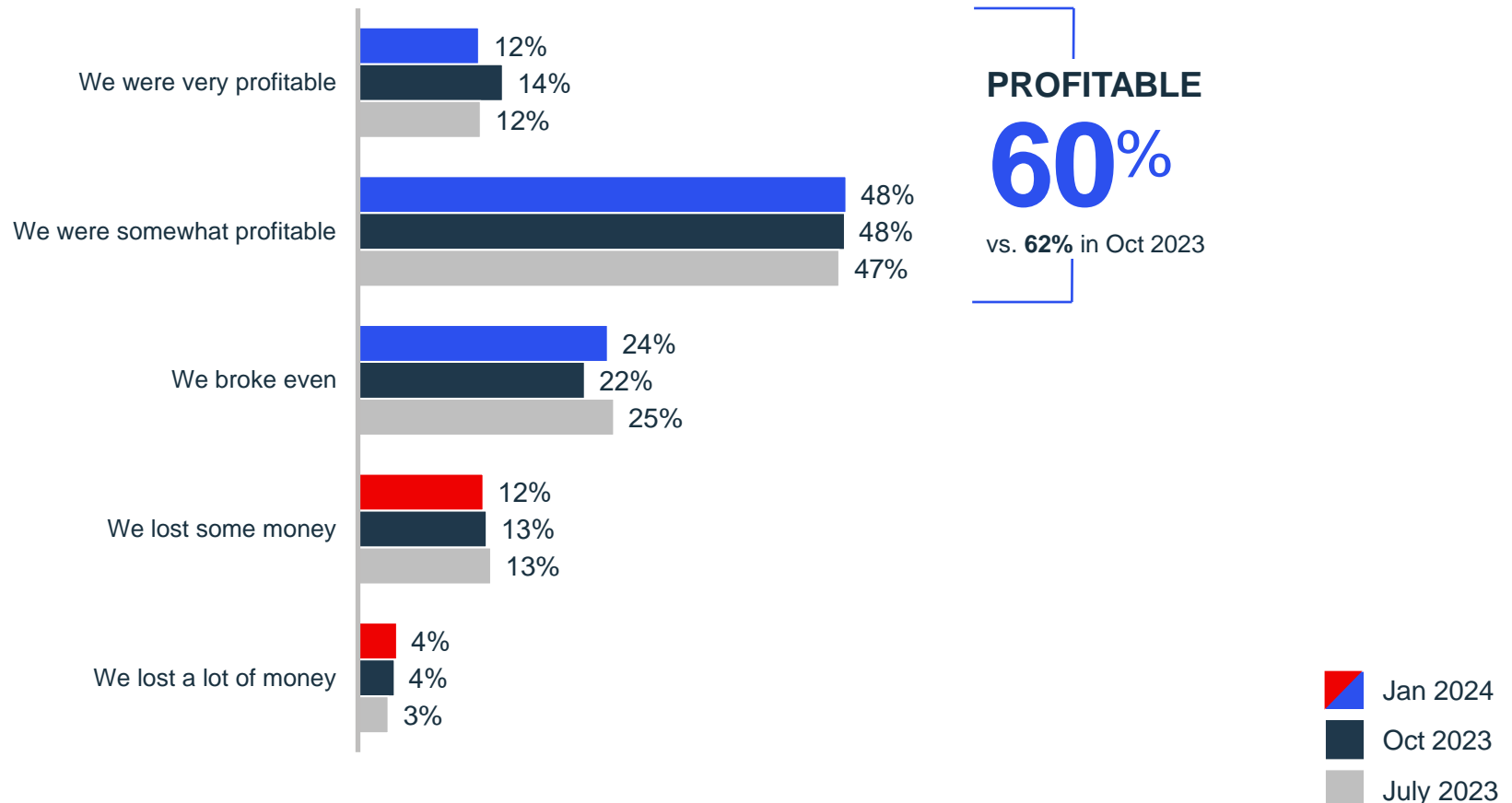


SME current state
and expectations

Most SMEs indicated being profitable or having broken even. However, there is a higher percentage of smaller SMEs that indicated being unprofitable.



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

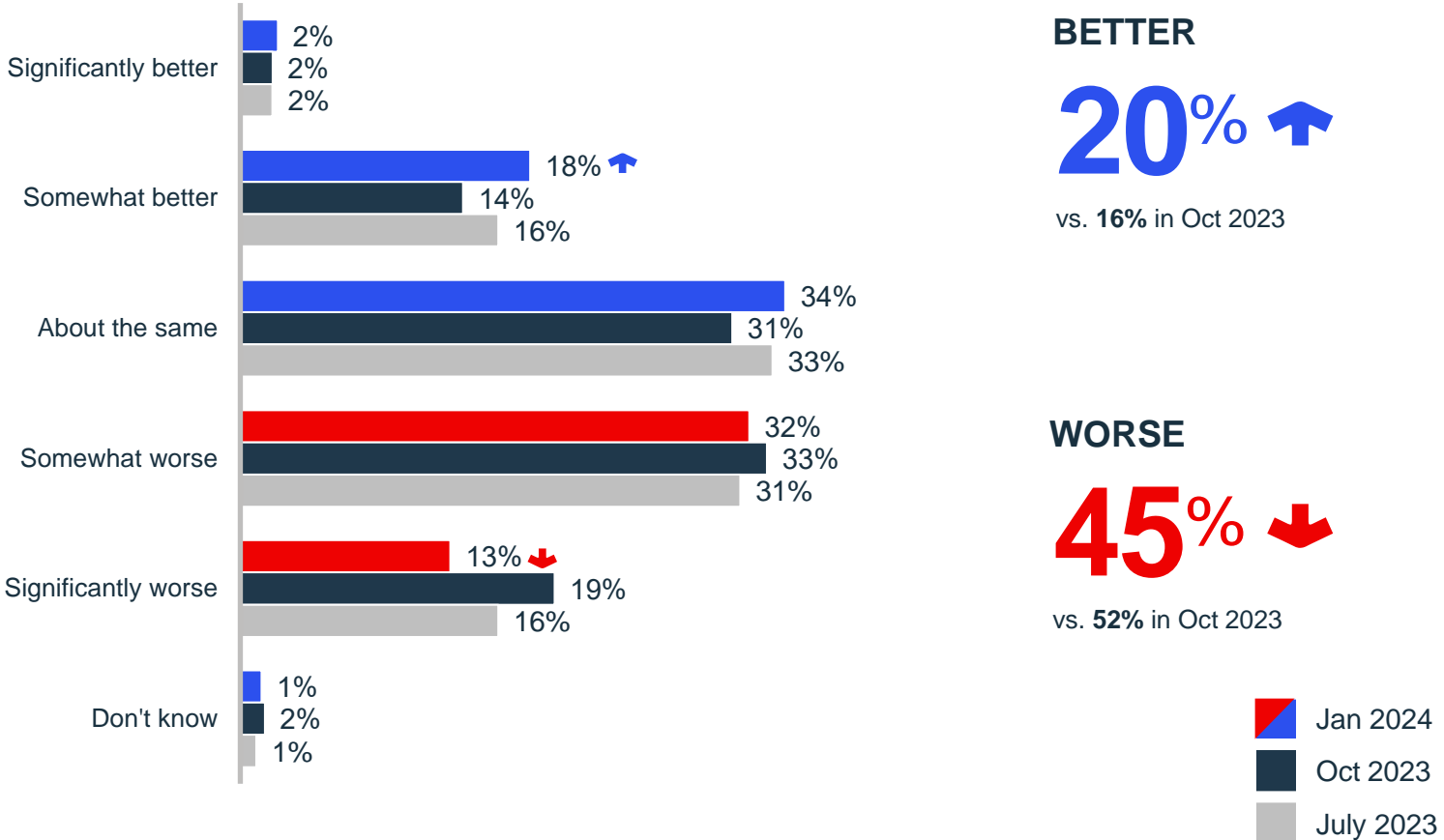


Base: All qualified respondents (n=1,022). Those who did not know or preferred not to answer were excluded from the calculation base. This question was modified for wave 18 to capture SMEs who broke even. Arrows indicate statistical differences between this wave and the previous one.

Statistically fewer SMEs are pessimistic about the upcoming year. Significantly more expect better conditions. However, most unprofitable SMEs and SMEs in rural areas expect further deterioration.



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?

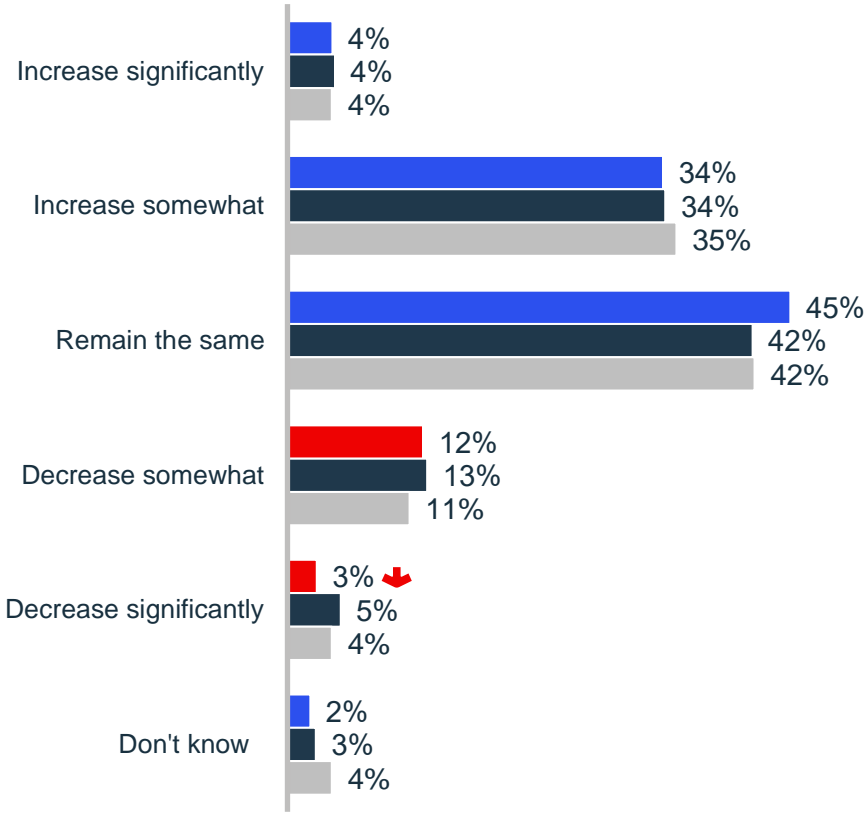


Base: All qualified respondents (n=1,056). Those who preferred not to answer were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one.

Slightly fewer SMEs expect their sales to decrease. Most expect their sales to remain the same or increase somewhat. Growing SMEs are more optimistic than their peers.



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

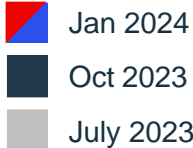
38%

vs. 38% in Oct 2023

DECREASE

15%

vs. 17% in Oct 2023

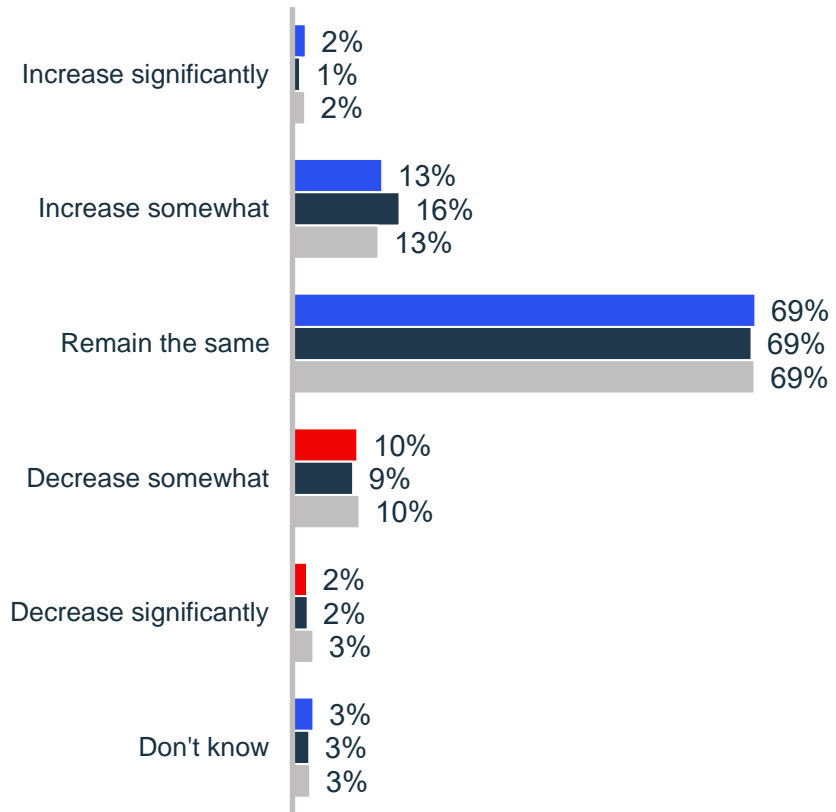


Base: All qualified respondents (n=1,045). Those who preferred not to answer were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one.

Hiring intentions remain relatively unchanged. They are statistically higher among SMEs among those with 5 or more employees and those in large urban areas.



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

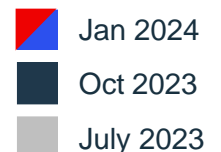
16%

vs. 17% in Oct 2023

DECREASE

12%

vs. 11% in Oct 2023

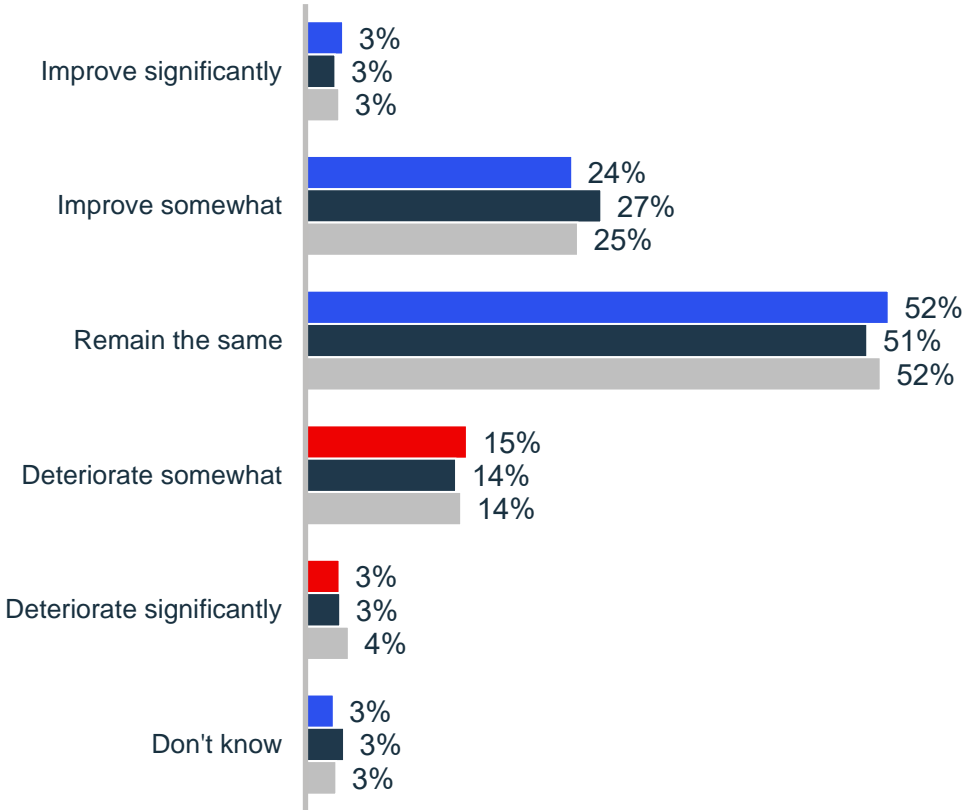


Base: All qualified respondents (n=1,048).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

Despite SMEs being more optimistic, they do not foresee any significant changes regarding their cash flow situation in the next year.



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

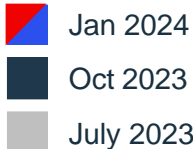
27%

vs. 29% in Oct 2023

DETERIORATE

18%

vs. 17% in Oct 2023

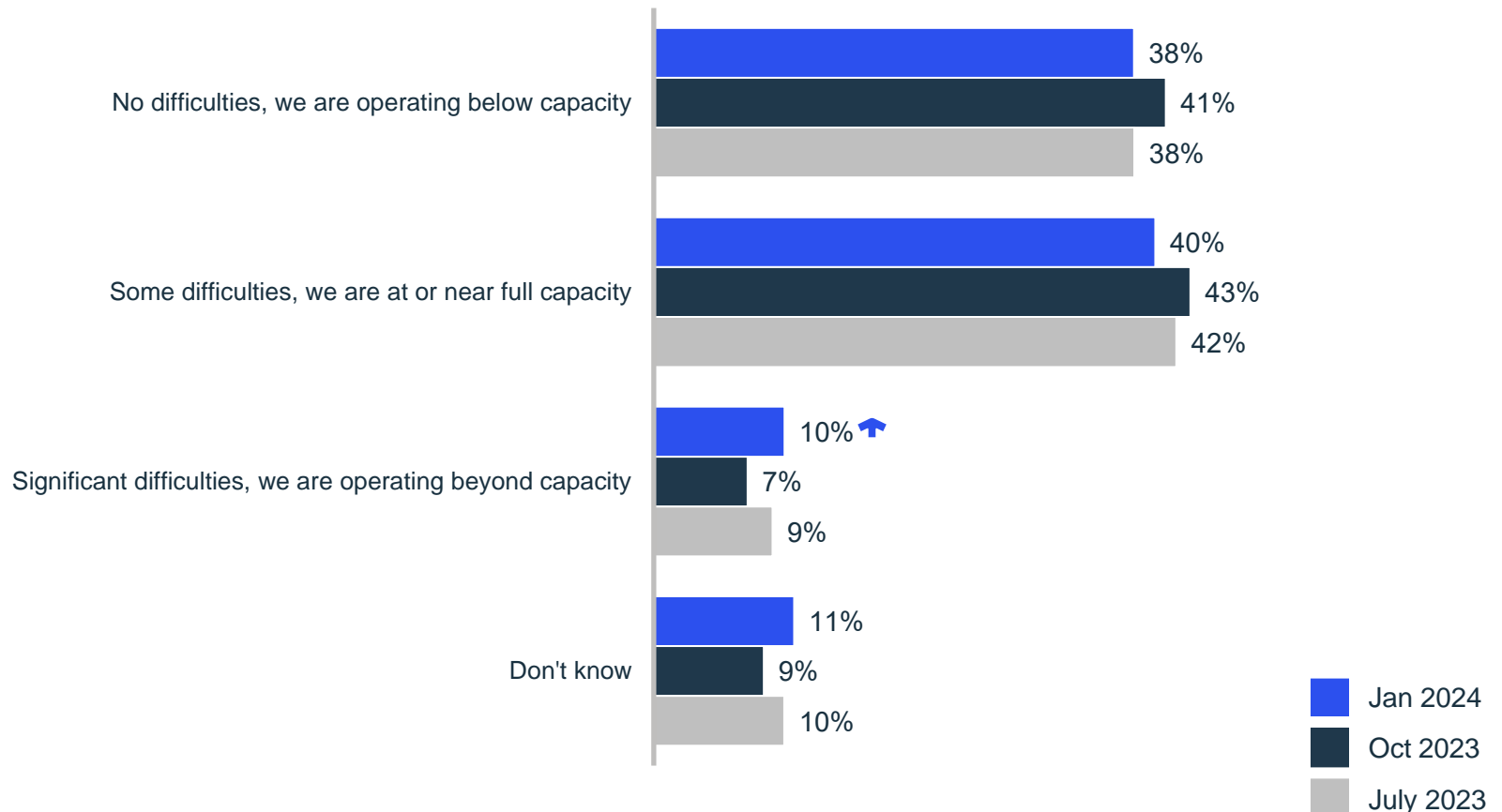


Base: All qualified respondents (n=1,048).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

There is a significant increase in the proportion of SMEs who indicated that they would have significant difficulties in meeting an unexpected increase in demand or sales.



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

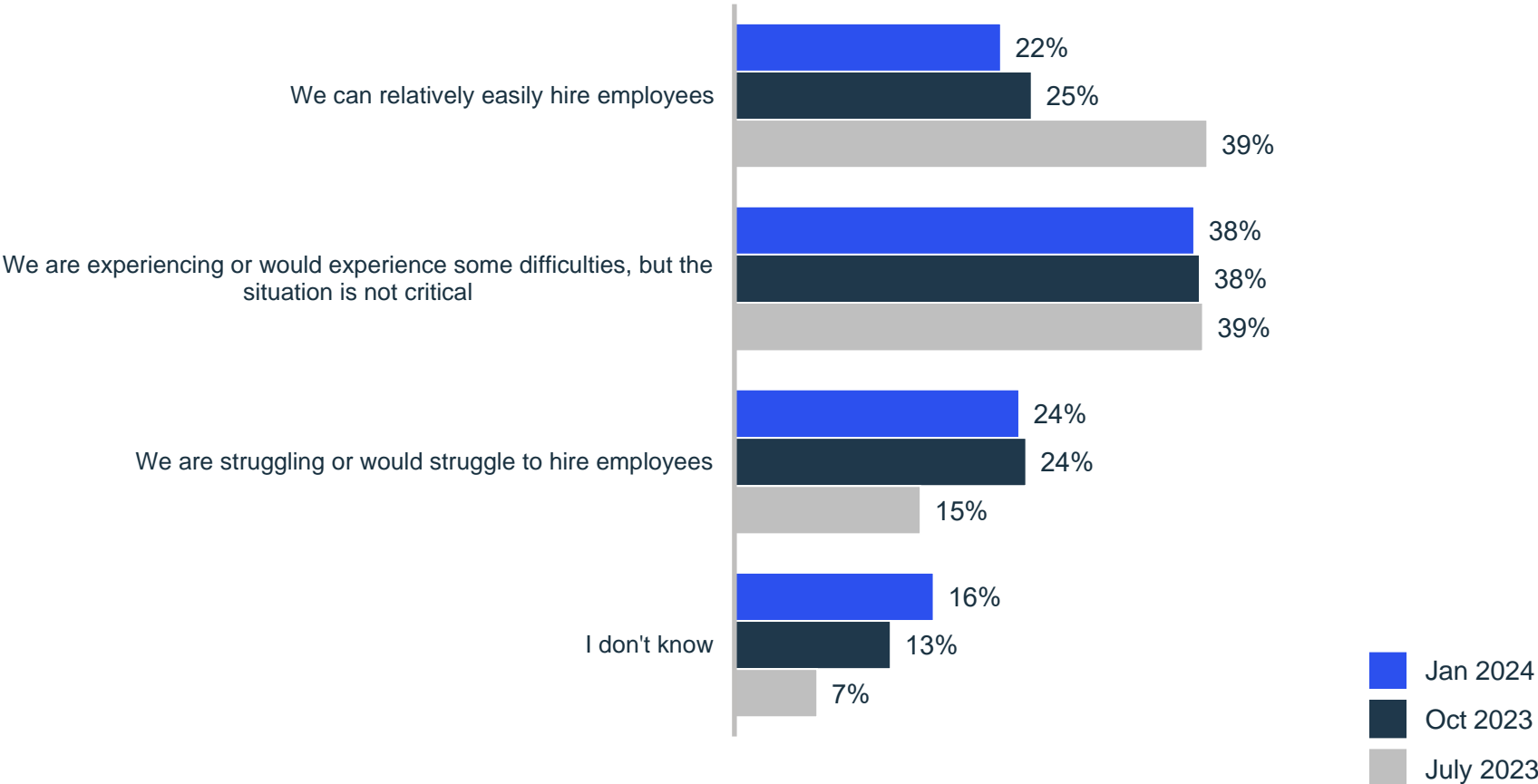


Base: All qualified respondents (n=1,041).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

SMEs who said they can easily hire is trending downwards while the percentage who don't know is increasing. Labour concerns are more prevalent in rural areas.



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



Base: All qualified respondents (n=1,041).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

SMEs are treading carefully: a quarter of them have or plan to use significant resources for growth projects. Debt repayment issues may have peaked for now but are still high among consumer-facing SMEs.

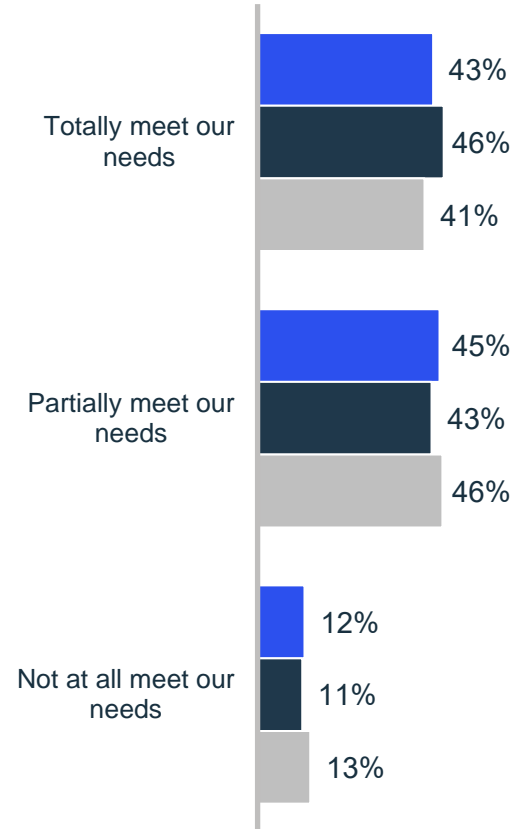
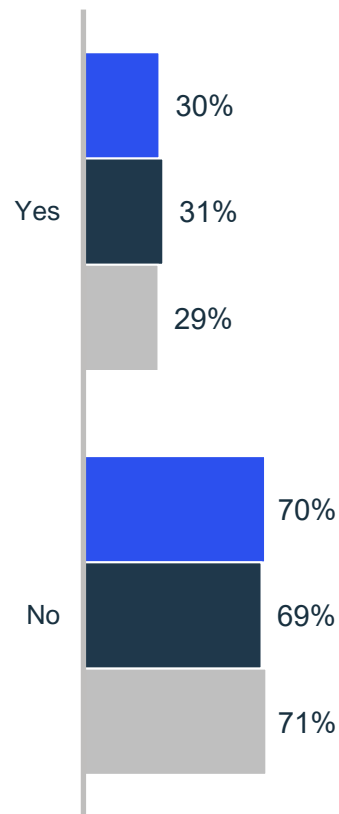
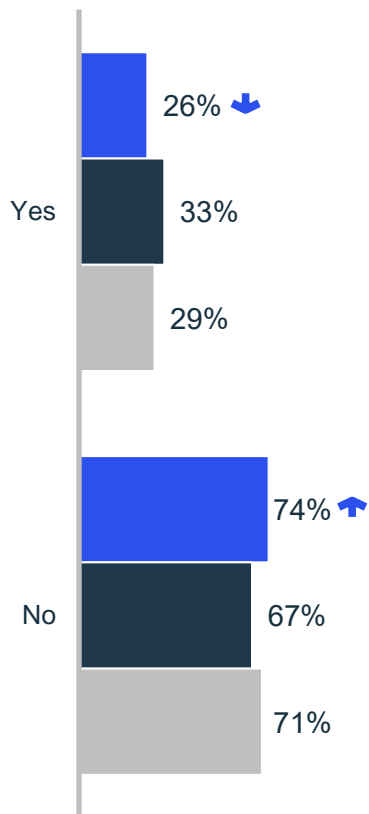


BA1. In the past or next 12 months, has your business used or will use **significant resources** for **growth projects**?

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**?

Jan 2024
Oct 2023
July 2023



Base: BA1 (n=1,056). Those who preferred not to answer at BA2 (n=1,002) and BA3 (n=986) were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one.

3_b

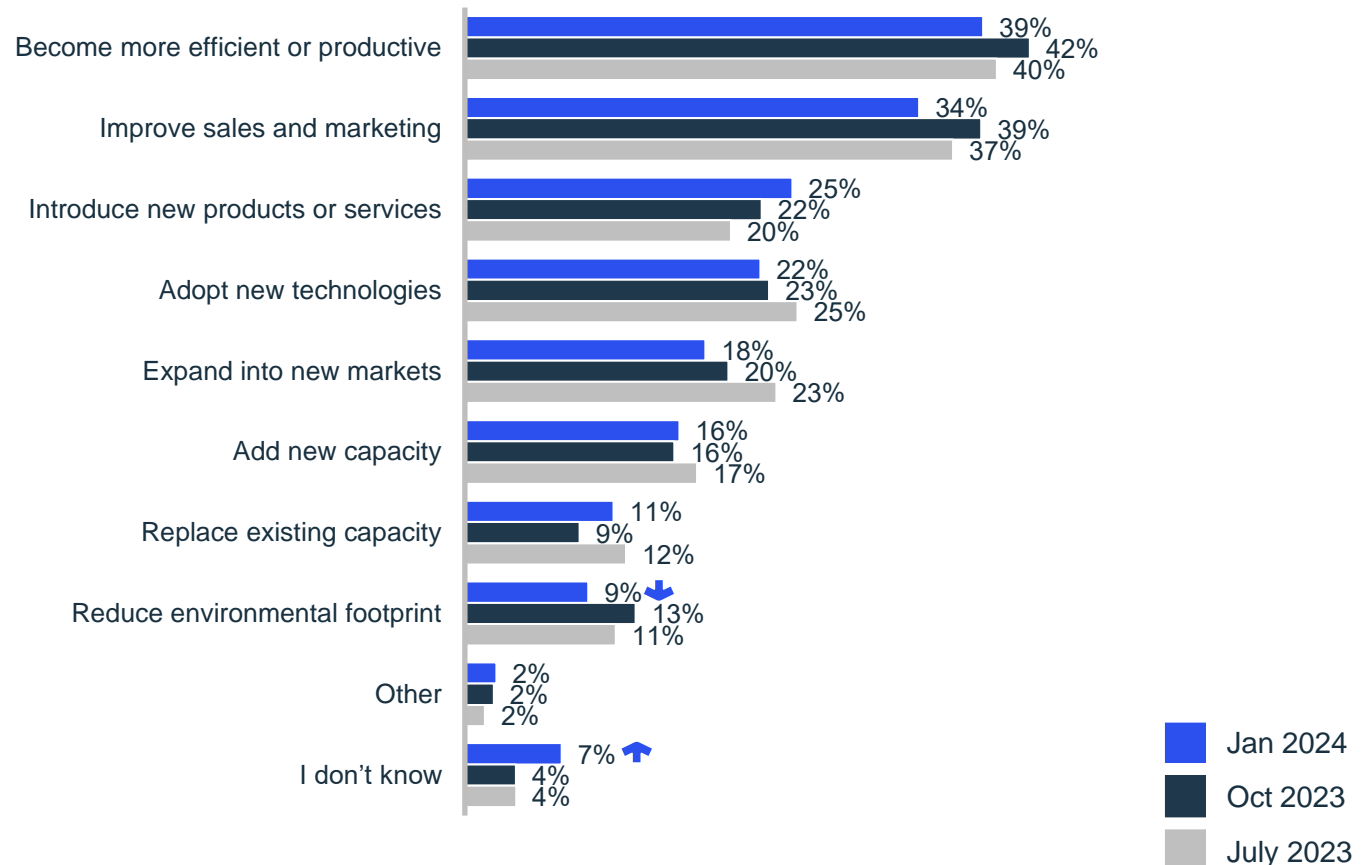


Investment outlook

Top goals are stable: becoming more efficient and improving sales and marketing. Introducing new products or services has been gaining traction for a few waves now.



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

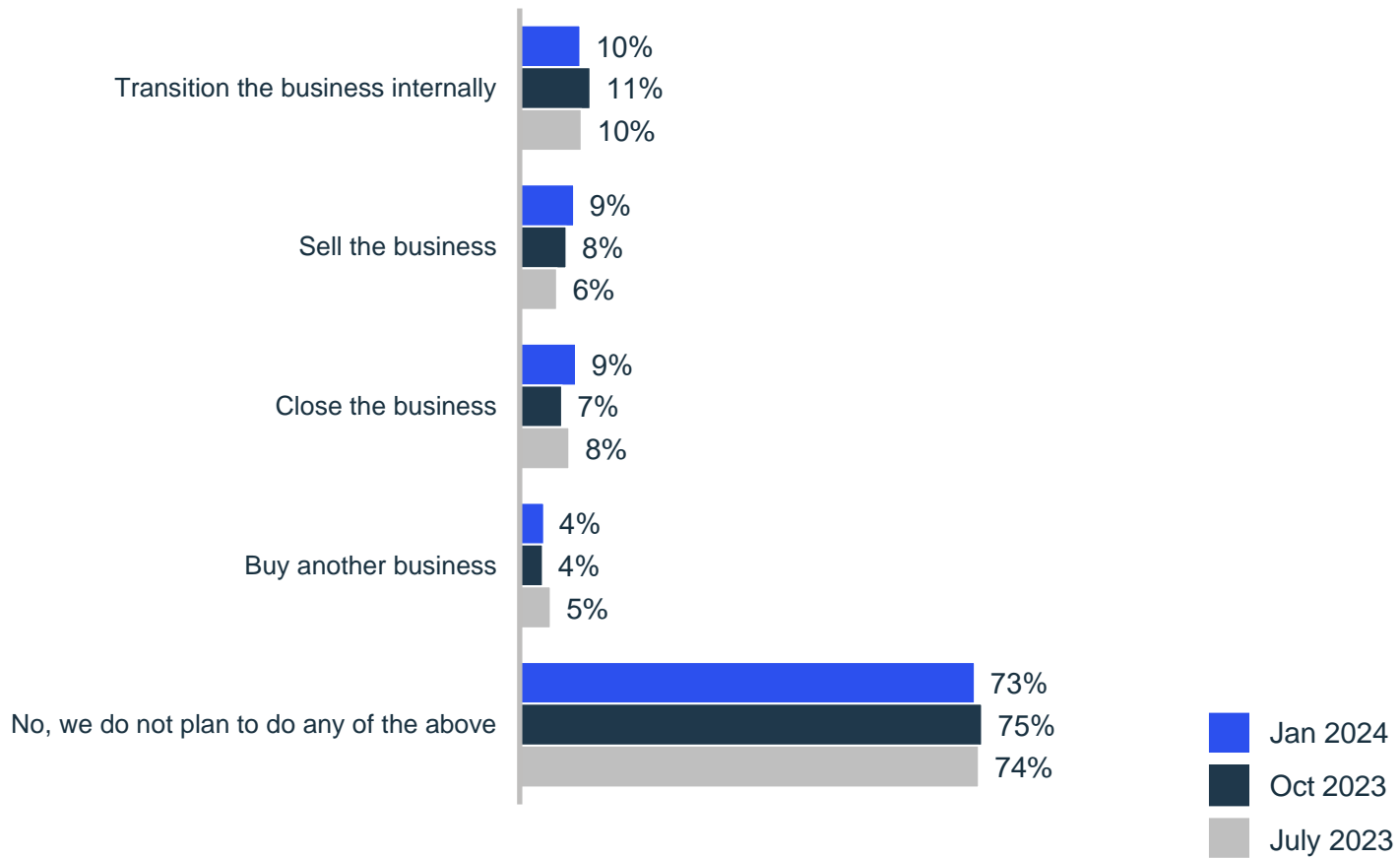


Base: Respondents planning to invest (n=501). Those who preferred not to answer were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

Three quarters 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?**

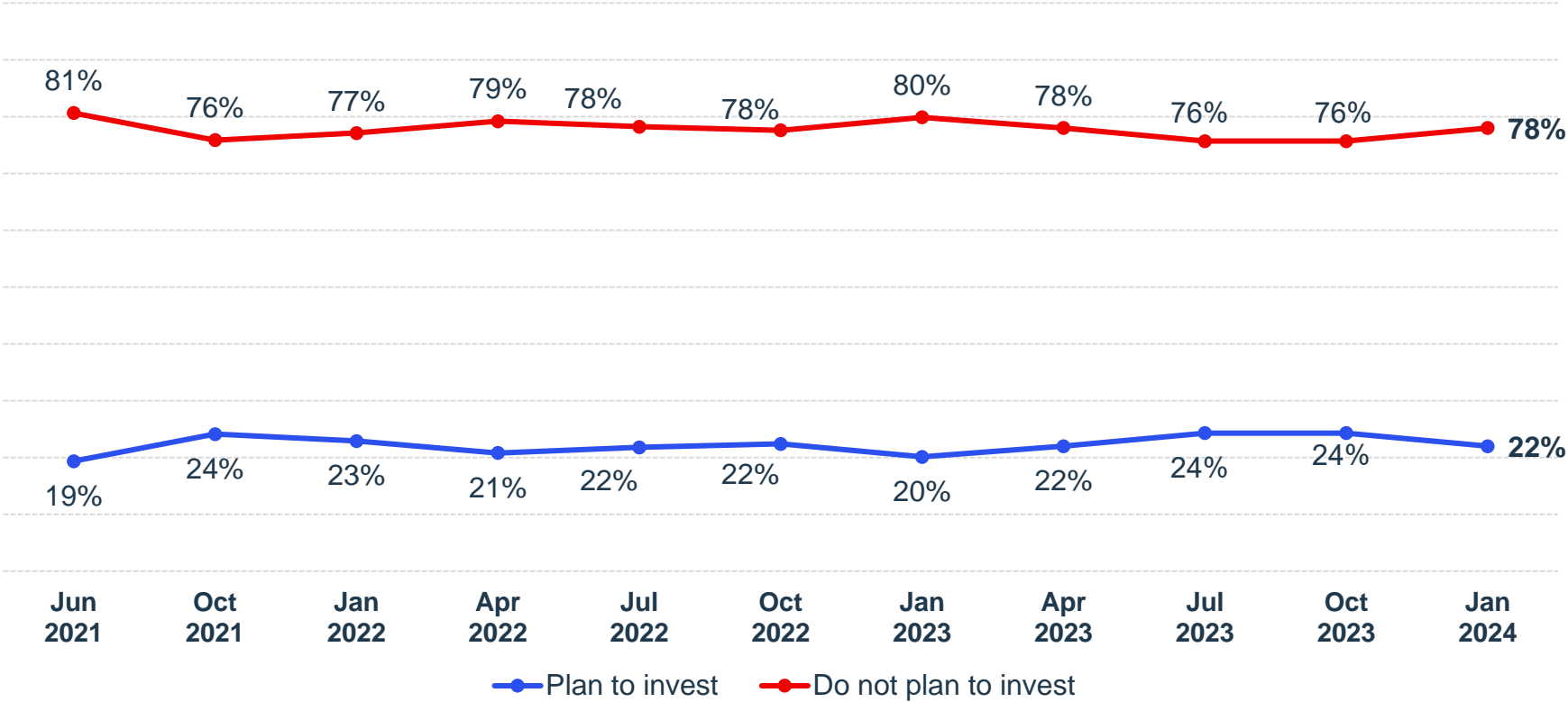


Base: All qualified respondents (n=944). Those who did not know or preferred not to answer were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

Investment intentions in non-residential buildings decreased minimally but have not been ruled out.



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

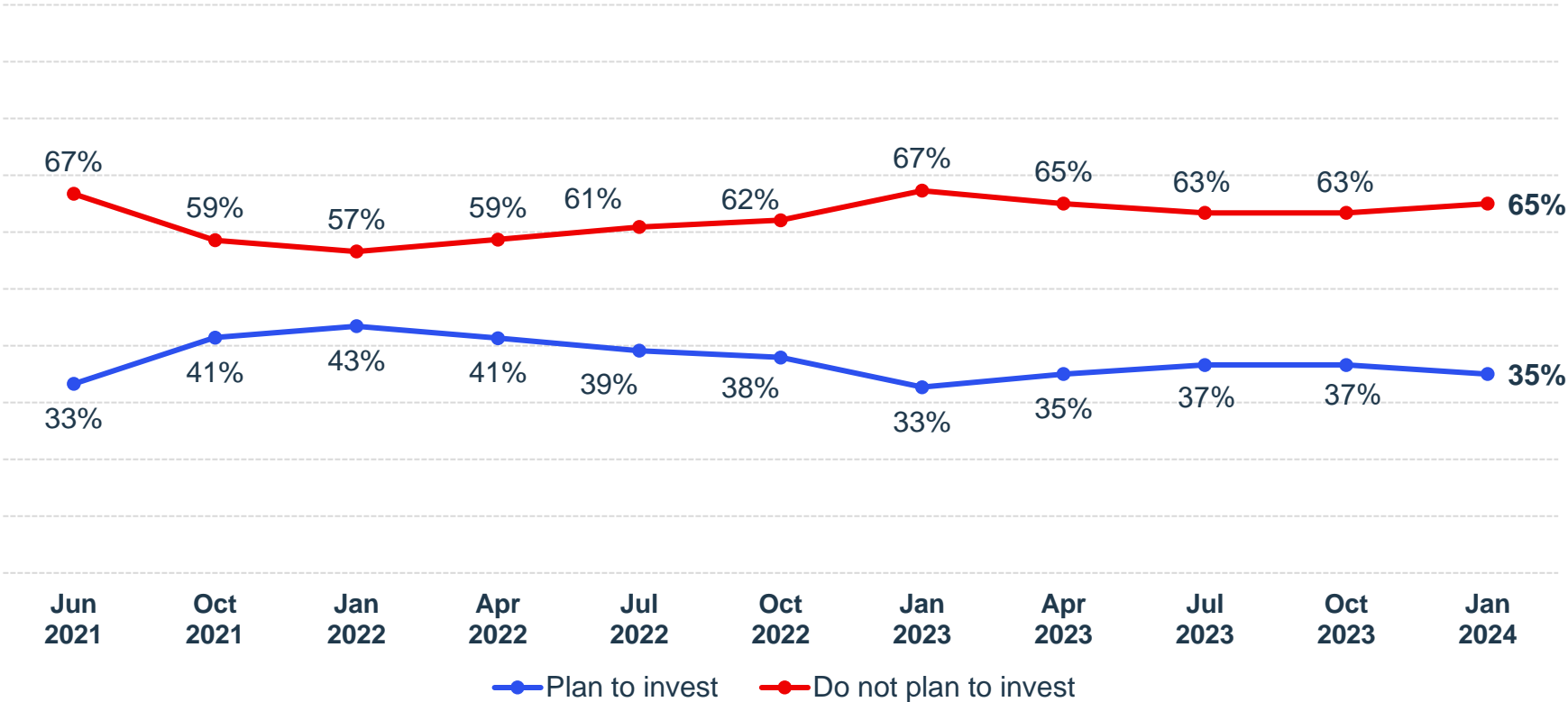


Base: All qualified respondents (n=943).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

Investment intentions in machinery and equipment are also down slightly. However, given the focus on improving productivity and output over a third of SMEs have machinery and equipment investment plans.



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

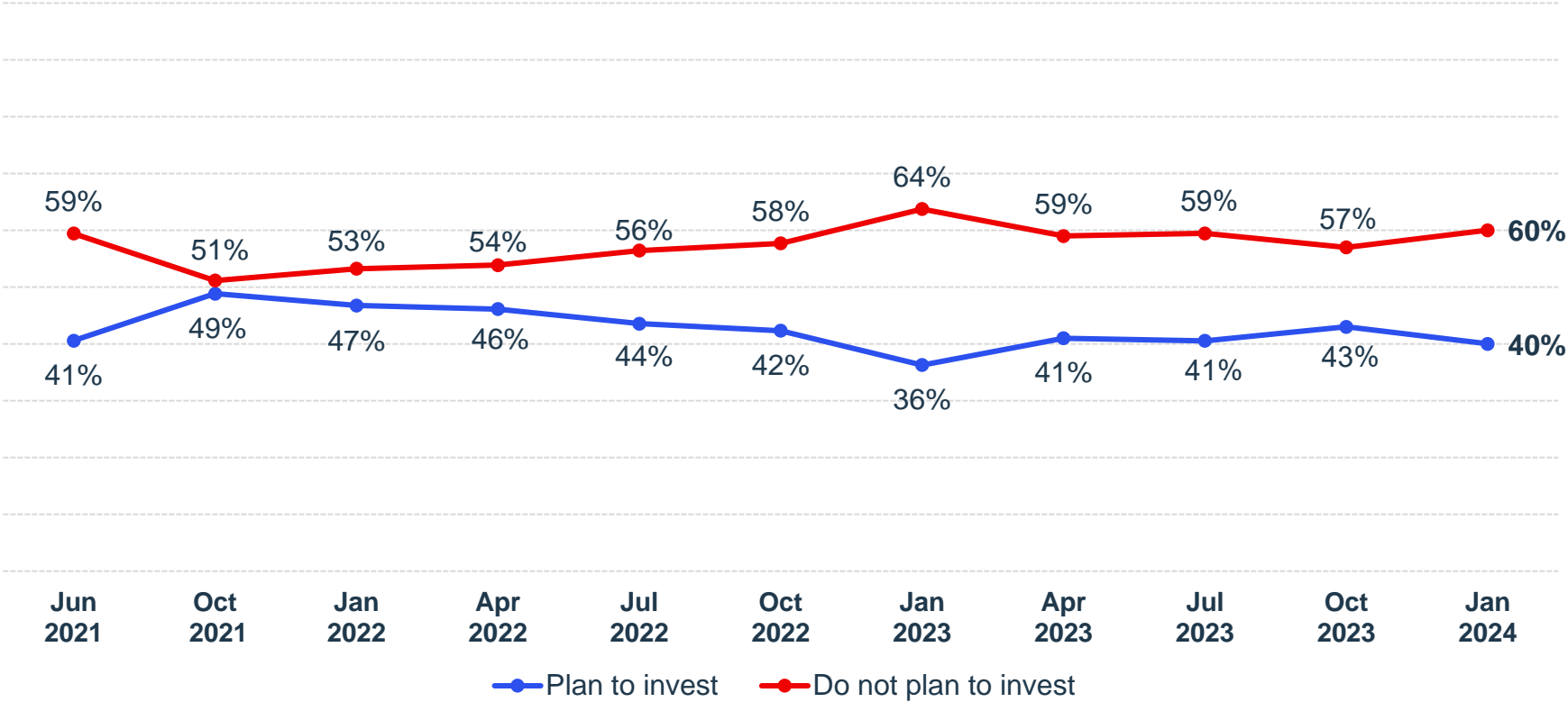


Base: All qualified respondents (n=939).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

Investment intentions in intangibles decreased as well. Investments in intangibles are the highest of the three investment categories measured.



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

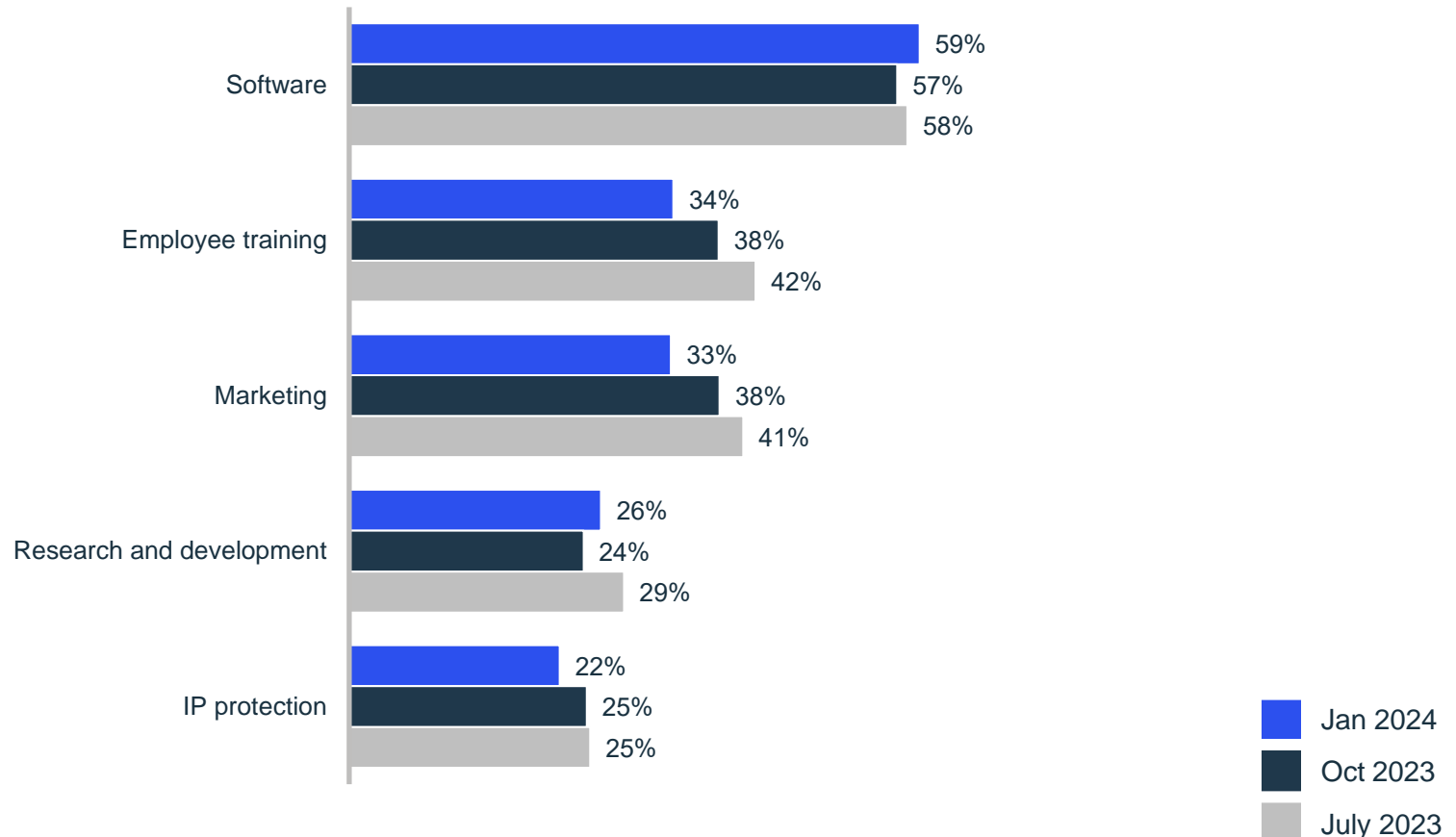


Base: All qualified respondents (n=930).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

Among those planning to invest in intangibles, software investments remain the most popular. Aside from R&D, other intangible investments have decreased but remain on the agenda for many SMEs.



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=412). 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%.

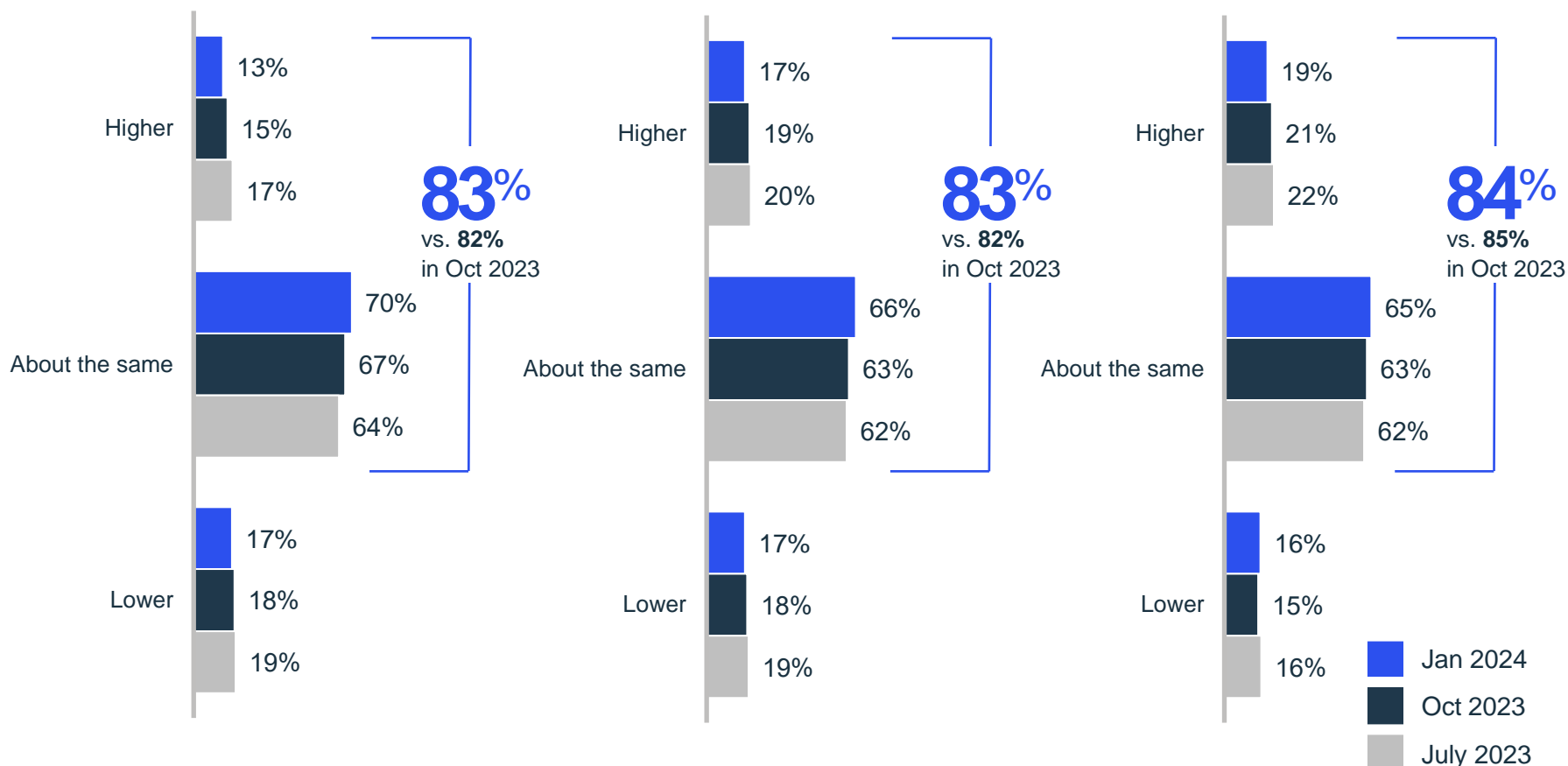
Just over half of SMEs plan to invest in at least one of three categories (+4 points vs. Oct.), and nearly the same exact proportion plan to invest the same amount or more for each of the different categories.



Q58a. Non-residential building, including renovations

Q58b. Machinery and equipment

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

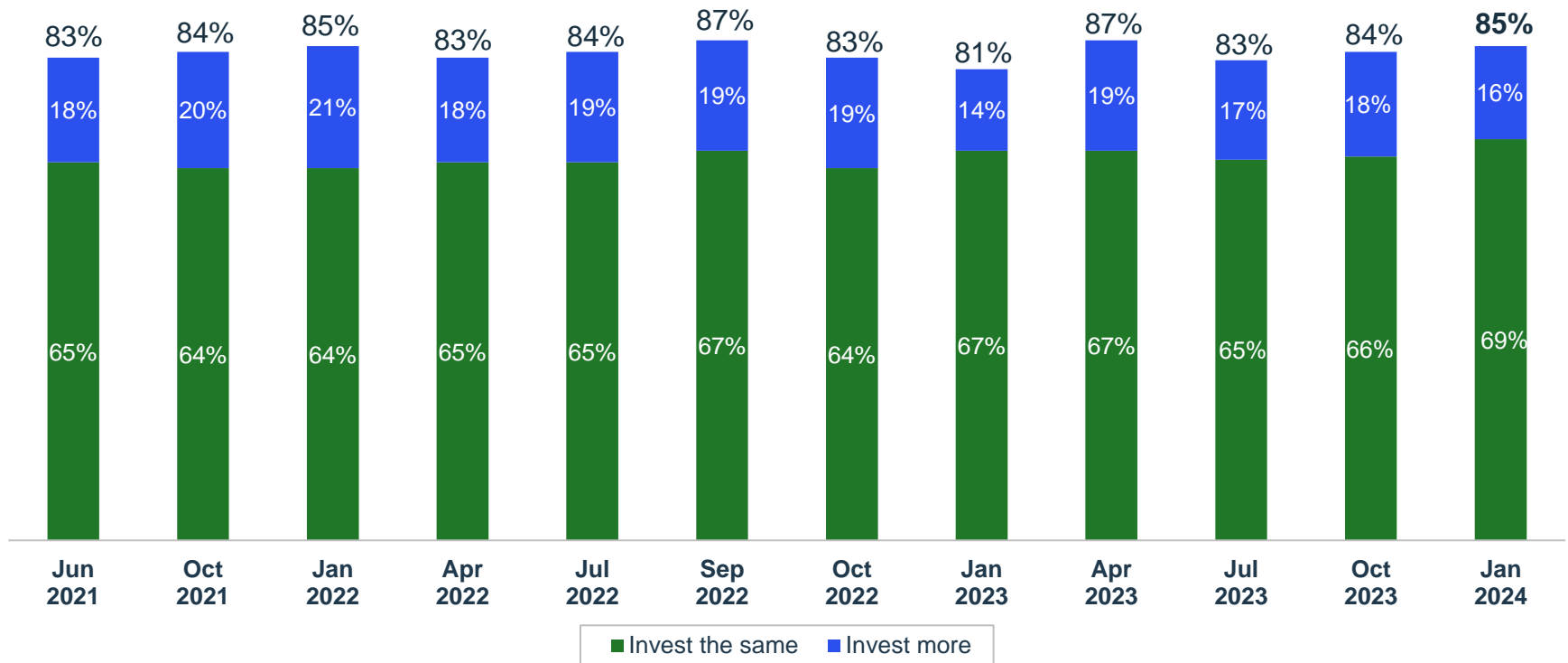


Base: All qualified respondents (n=960-991).
 Those who did not know were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

Overall, nearly the same proportion of SMEs plan to invest the same amount or more, despite an uncertain economic environment.



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

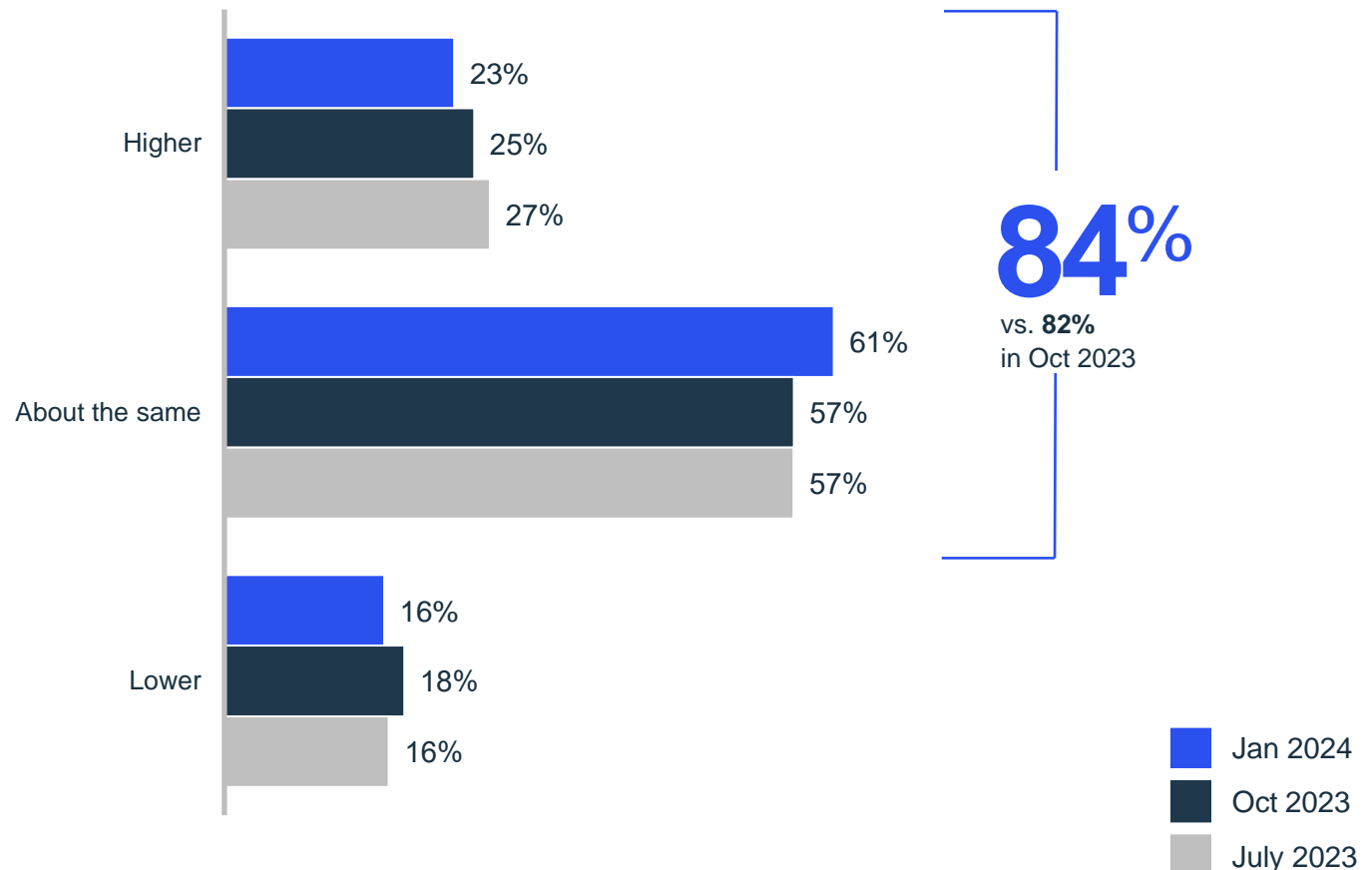


Base: All qualified respondents (n=1,007). Those who preferred not to answer were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one.

While most plan to invest about the same amount, fewer SMEs plan to allocate more funds than they did last year. The current economic uncertainty and high interest rate environment is influencing plans.



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



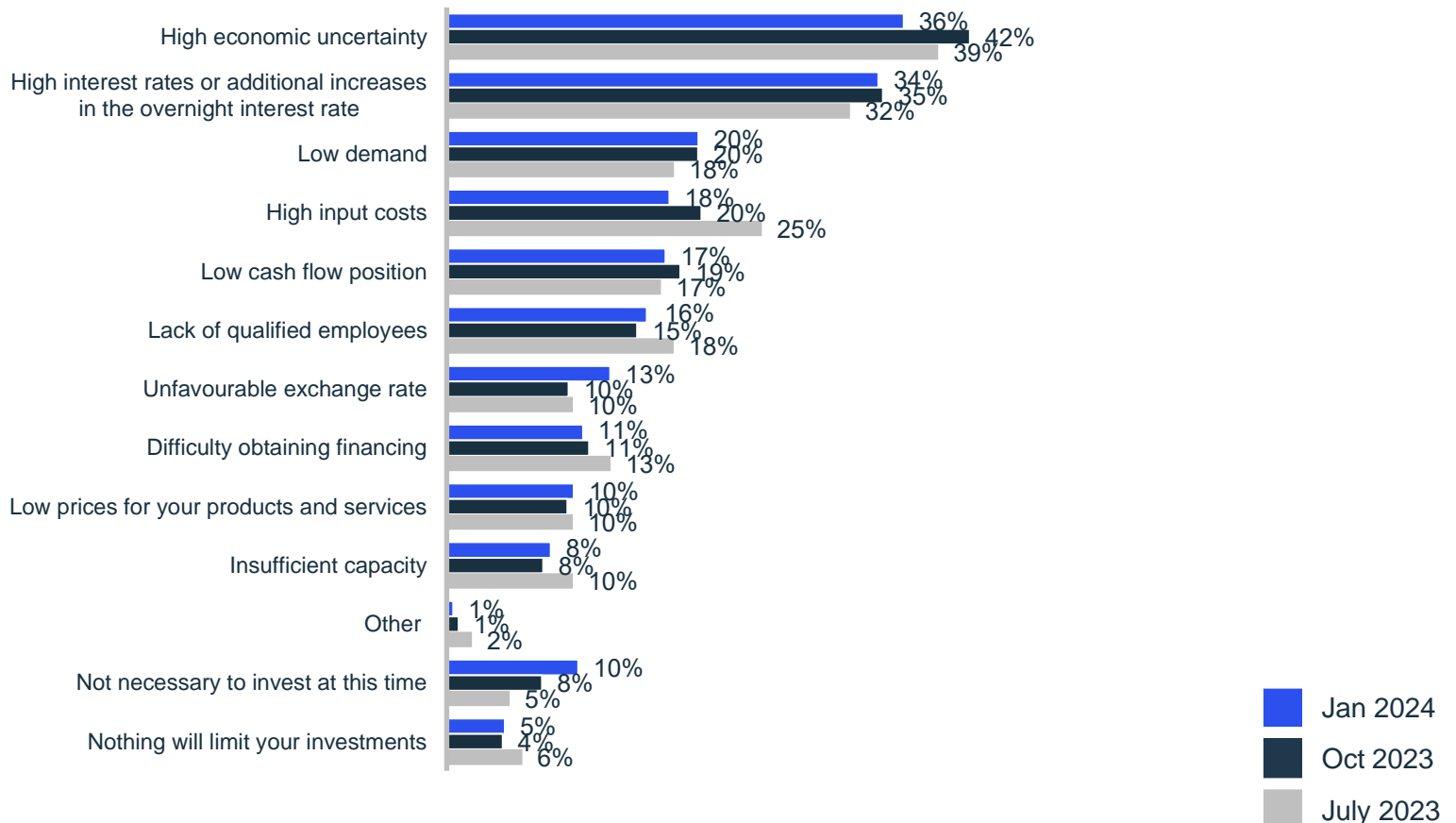
Base: All qualified respondents (n=1,008). Those who did not know were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one. Totals may not equal 100% due to rounding.

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: high input costs are trending downwards.



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

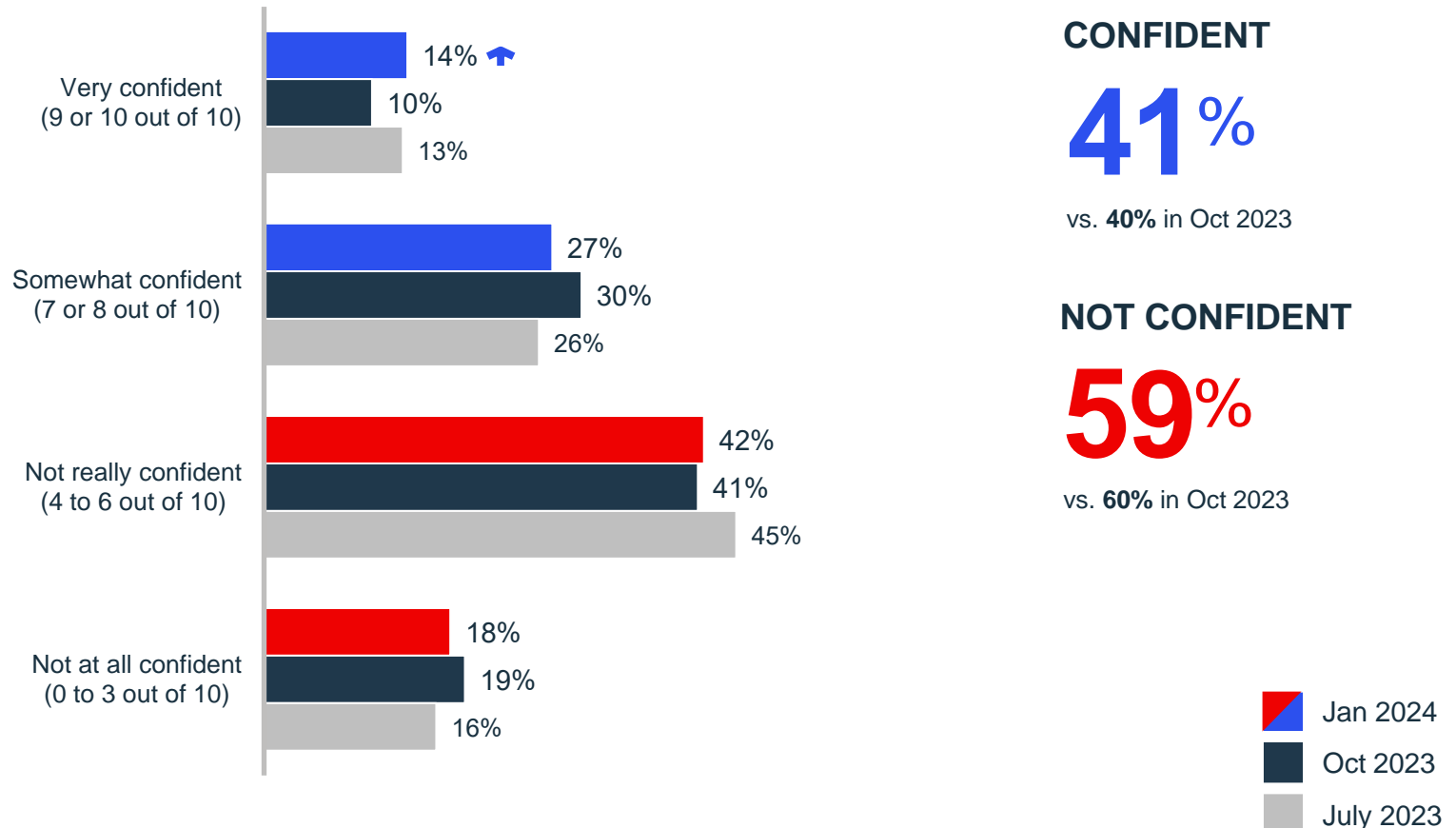


Base: Those planning to invest (n=484). Those who did not know or preferred not to answer were excluded from the calculation base. A maximum of three mentions was allowed, therefore total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

SMEs' confidence in pursuing intended investments remains fragile. Although we see a significant increase in the proportion of very confident, most SMEs are not confident in their ability to pursue them.



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



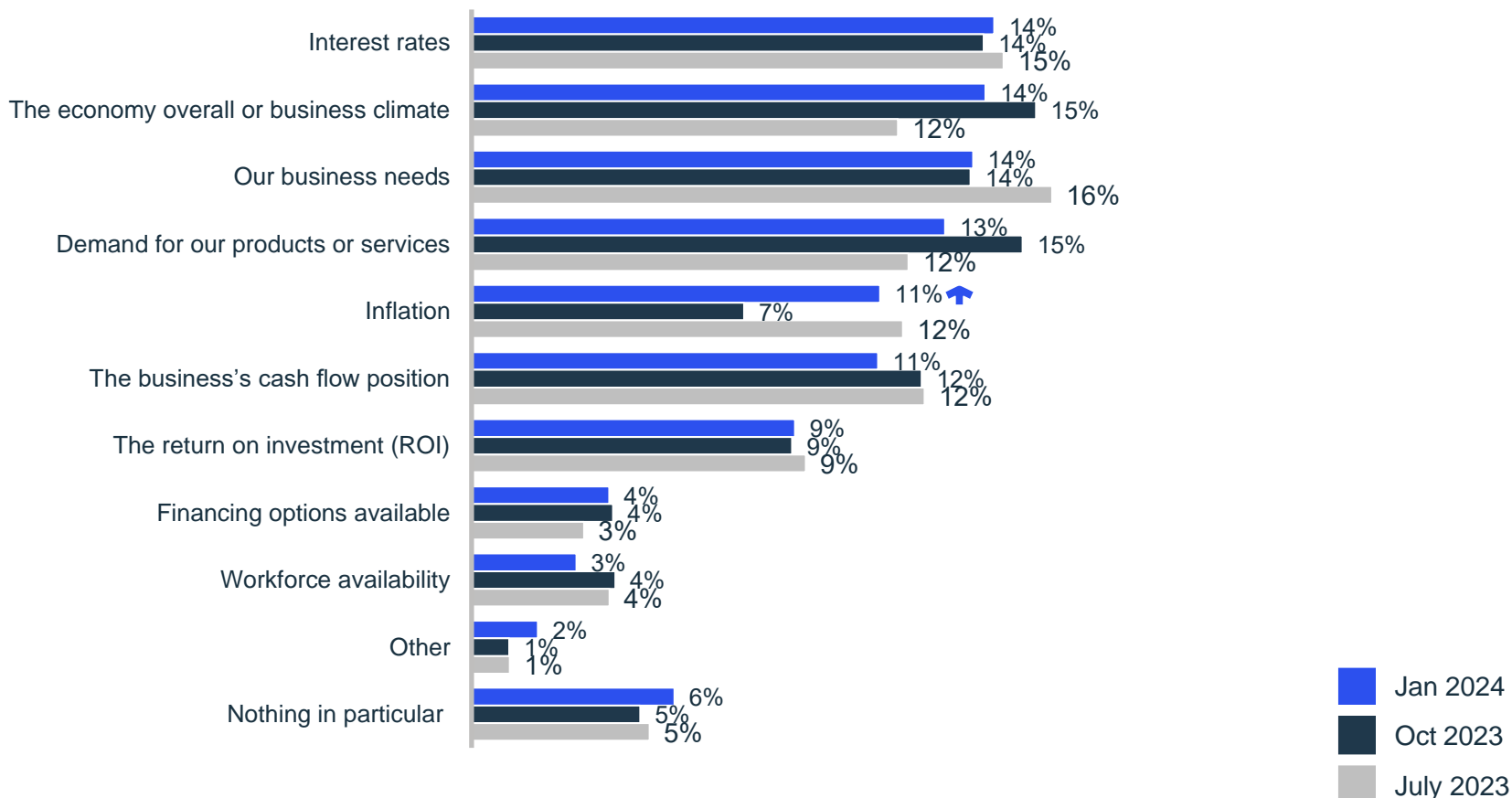
Base: Respondents planning to invest (n=949).

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.

Most SMEs' investment decisions remain driven primarily by external factors. Concerns regarding inflation have resurfaced after having diminished significantly in October 2023.



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=997).

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

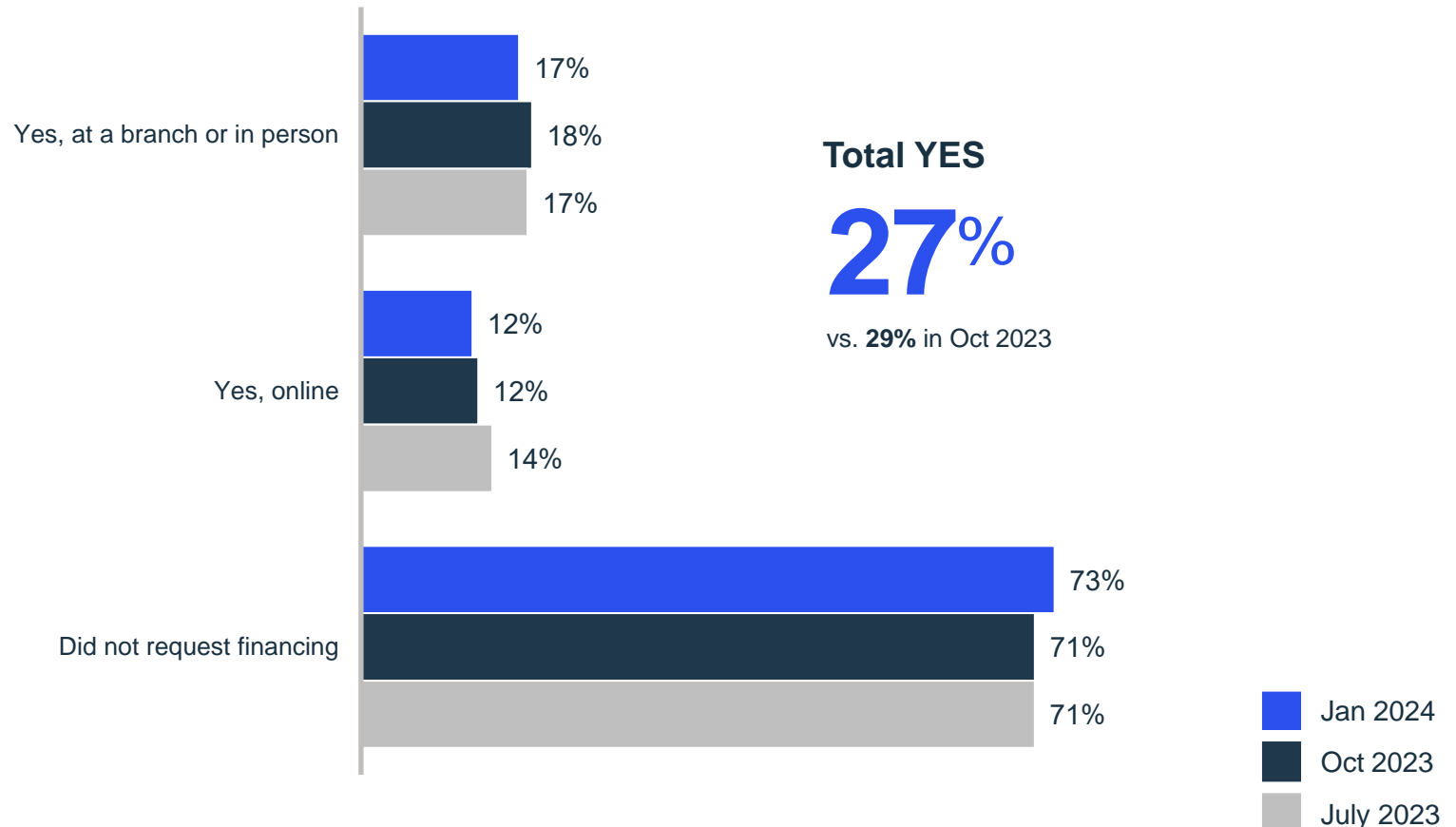


Financing supply

Slightly fewer SMEs requested financing in the three months leading up to the survey. Despite high interest rates, demand for financing remains relatively sustained.



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

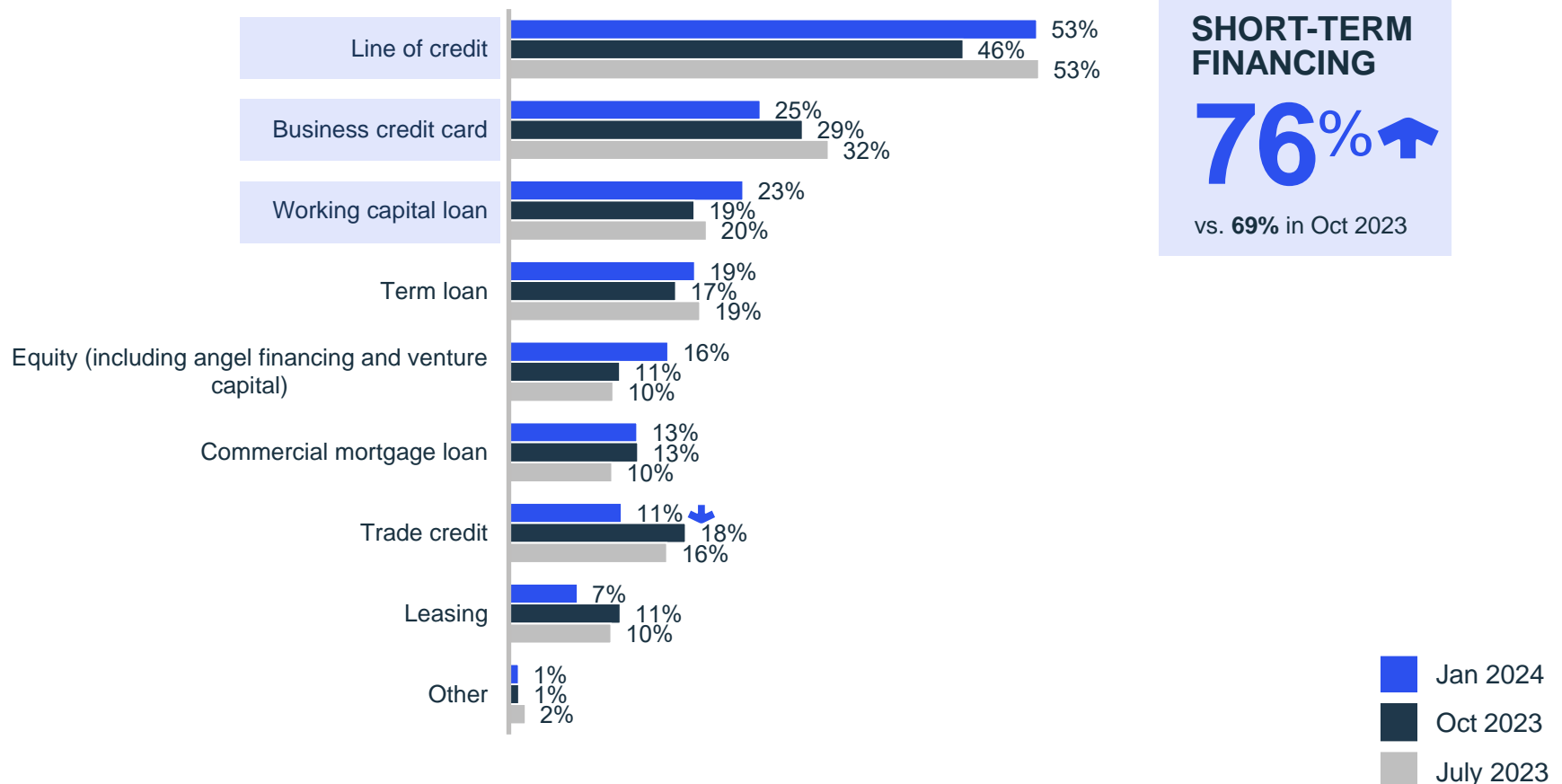


Base: All qualified respondents (n=1,014). Those who did not know were excluded from the calculation base. Multiple answers allowed for the "Yes" response.

Demand for short-term financing has bounced back after having decreased temporarily. Demand for both lines of credit and working capital loans have increased since the last wave.



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

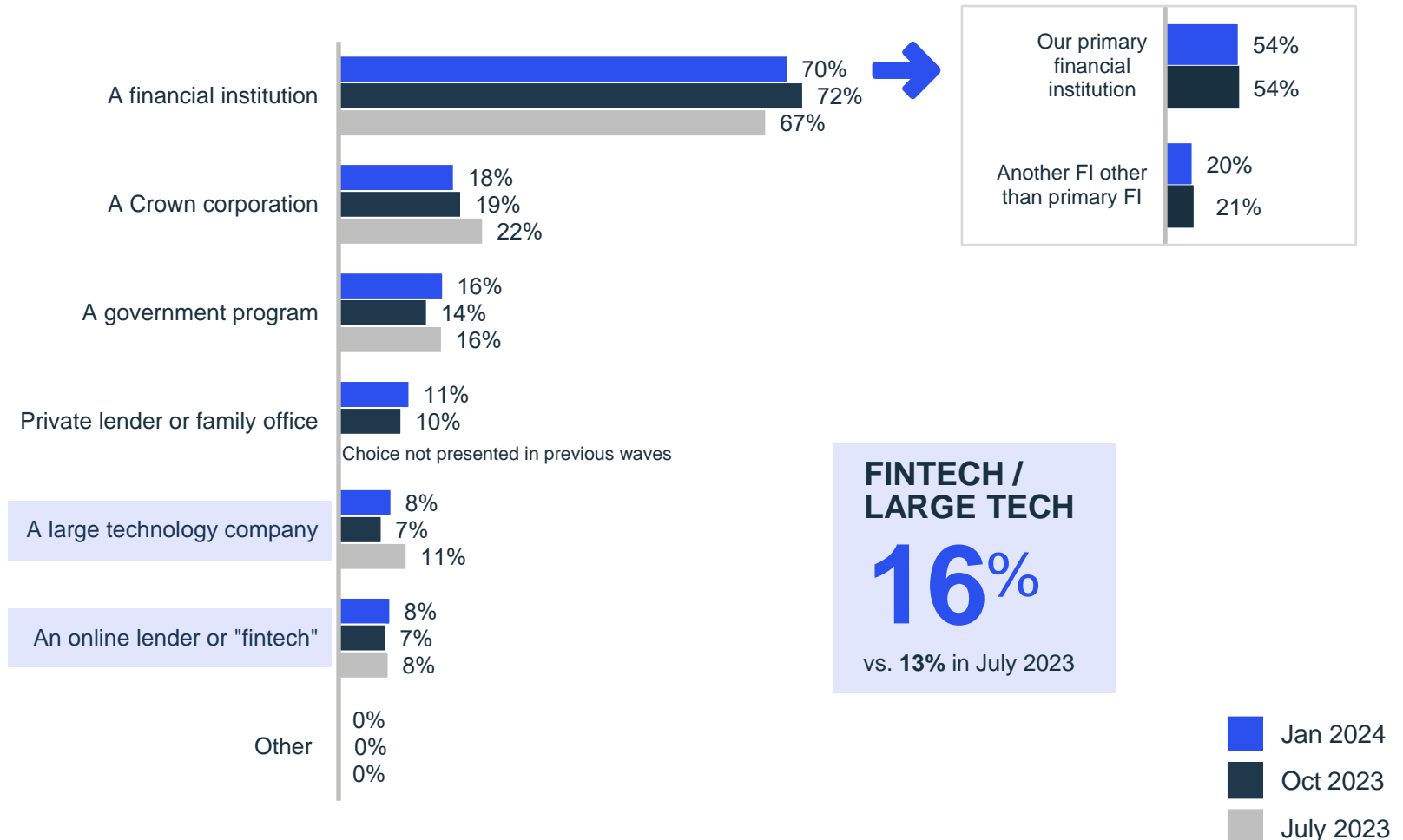


Base: Respondents who requested financing (n=332). Those who did not know were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Short-term options are highlighted in blue in the graph. Arrows indicate statistical differences between this wave and the previous one.

FIs remain the main purveyors of financing. Alternative lenders such as Crown corporations, private lenders as well as fintech and large tech companies continue to provide key support to SMEs.



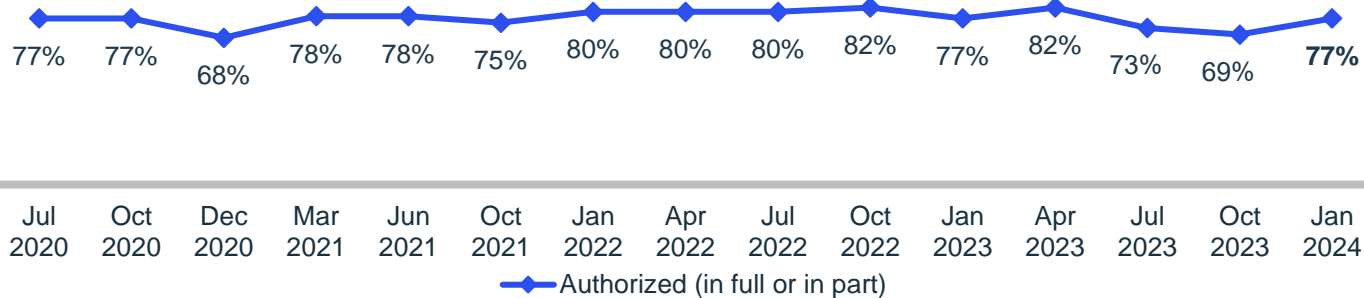
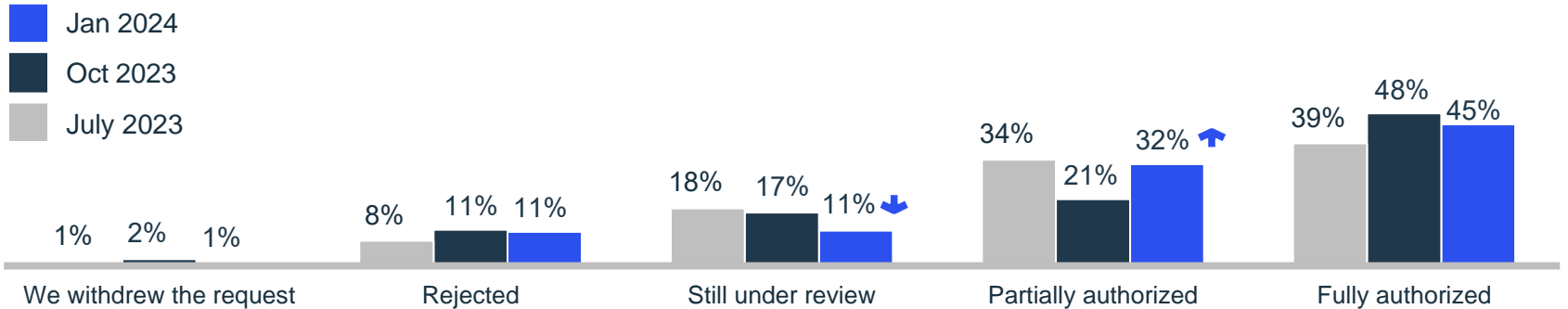
Q30b. **Who** did you apply to for financing?



Base: Respondents who requested financing (n=330). 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 have ticked back up thanks to more SMEs being partially authorized and fewer cases that were still under review.

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



APPROVAL RATE
77% ↑

Base: Respondents who requested financing (n=332). Those who did not know were excluded from the calculation base.

3_d

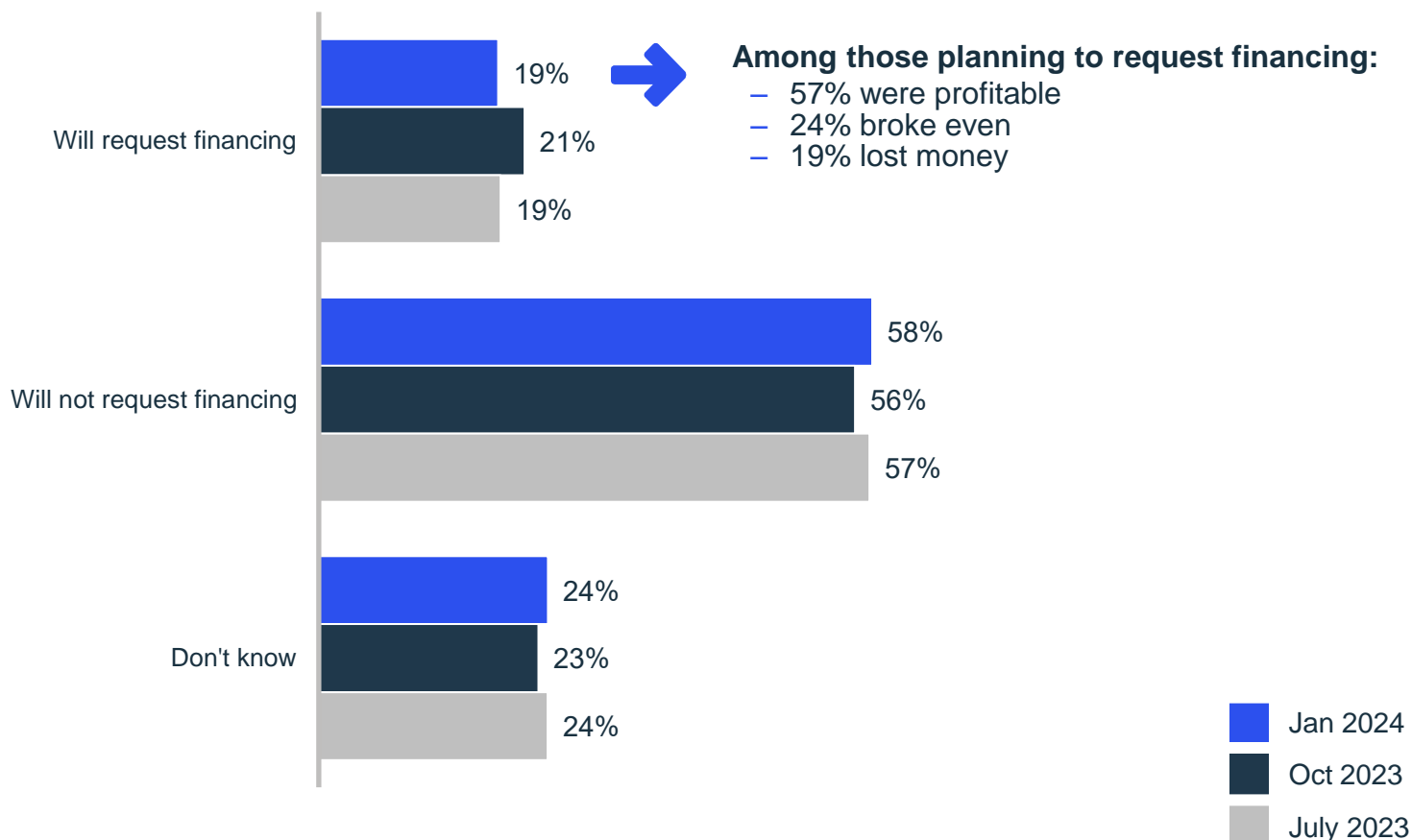


Financing demand

Demand for financing is sustained, albeit at the low end of the spectrum. Unless the policy rate starts decreasing, we should expect more of the same.



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

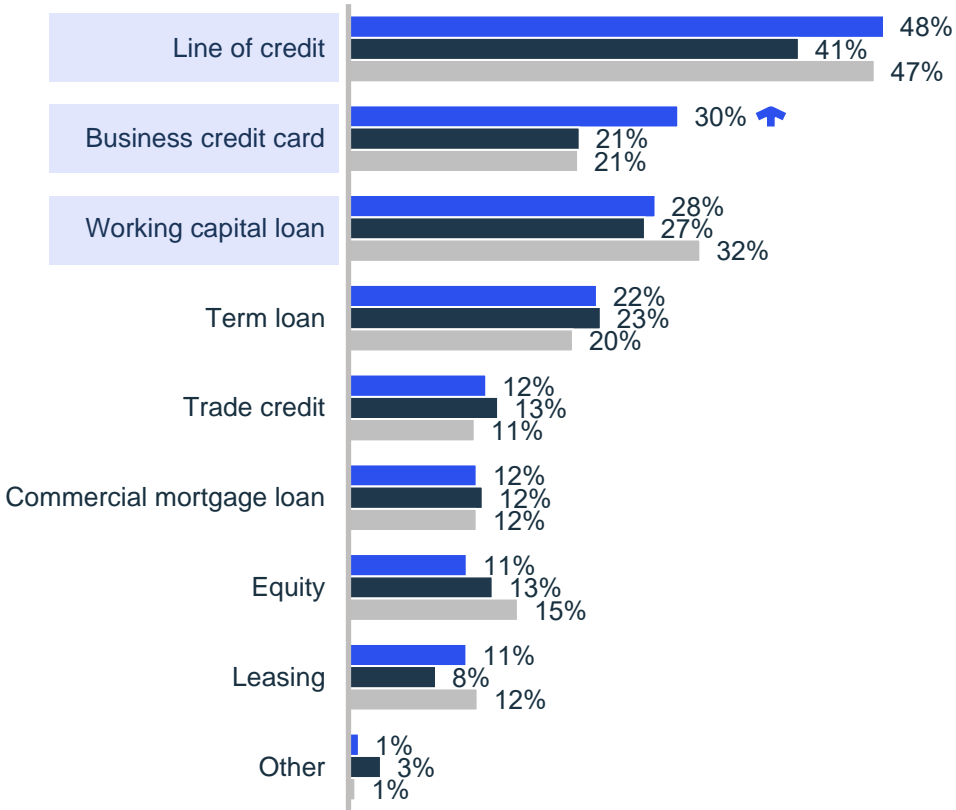


Base: All qualified respondents (n=1,044).
Those who preferred not to answer were excluded from the calculation base.

Demand for short-term financing has climbed back up. Diminished economic activity has SMEs treading carefully.



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



SHORT-TERM FINANCING

74% ↑

vs. **63%** in Oct 2023

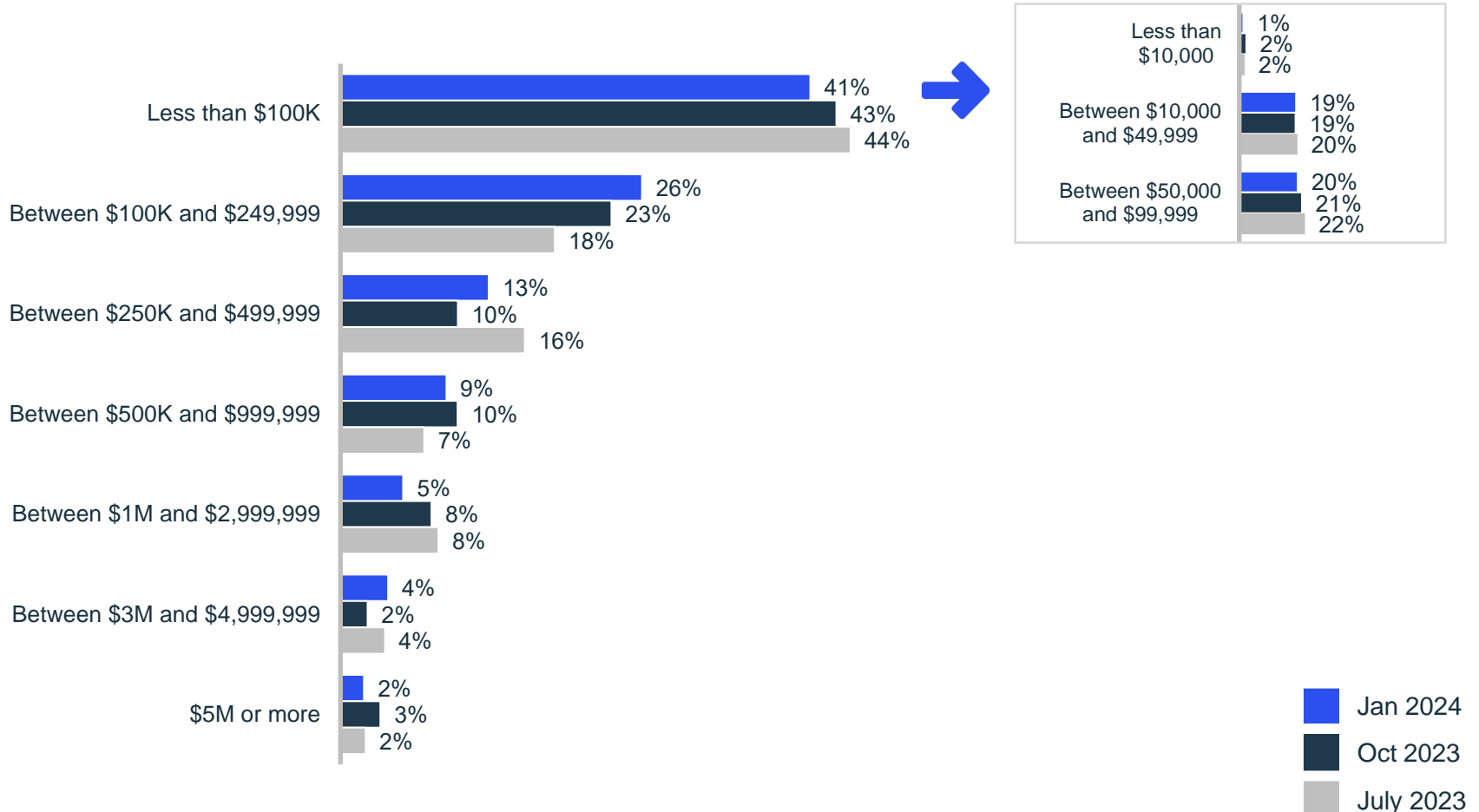


Base: Respondents who will request financing (n=229). Those who did not know are not presented in the graph. Arrows indicate statistical differences between this wave and the previous one. Multiple mentions were allowed; therefore, total exceeds 100%. In this graph, short-term options are highlighted in blue.

There is still high demand for loans under \$100,000. Few SMEs are confident enough to take on significant debt.



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

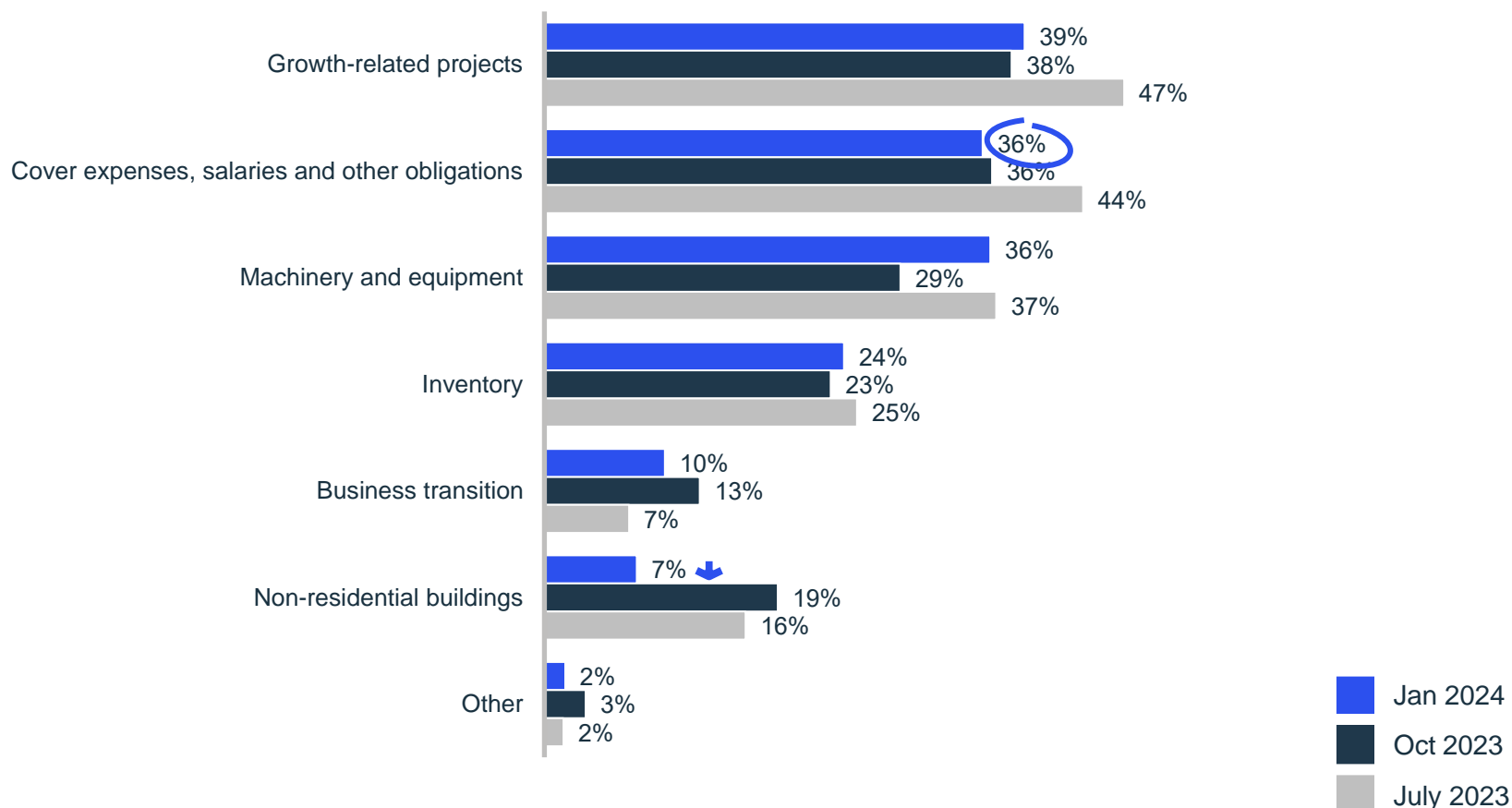


Base: Respondents who will request financing (n=229).
 Those who did not know or preferred not to answer are not presented on this slide.
 Arrows indicate statistical differences between this wave and the previous one.
 * Micro-businesses (sales <\$500K, 1 to 4 employees)

Compared to the previous wave, we see a small uptick in funds for machinery and equipment. The percentage of SMEs who plan to borrow for non-residential buildings has decreased significantly since Oct. 2023



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

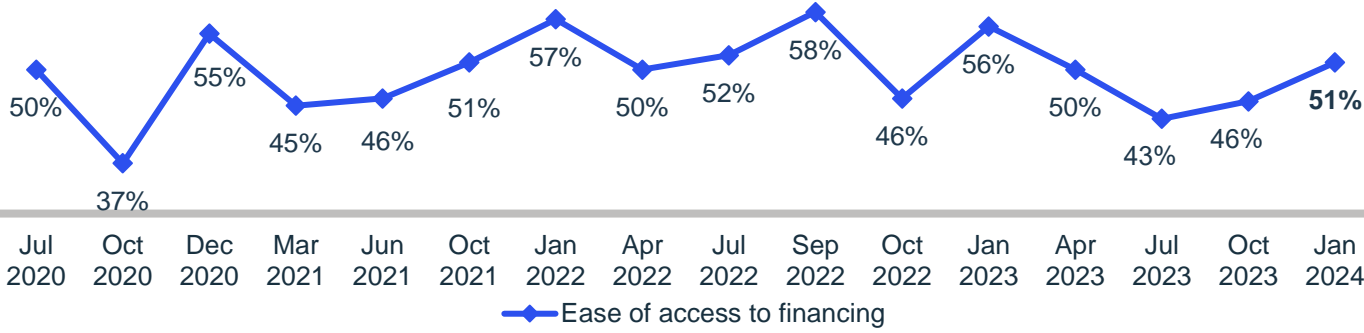
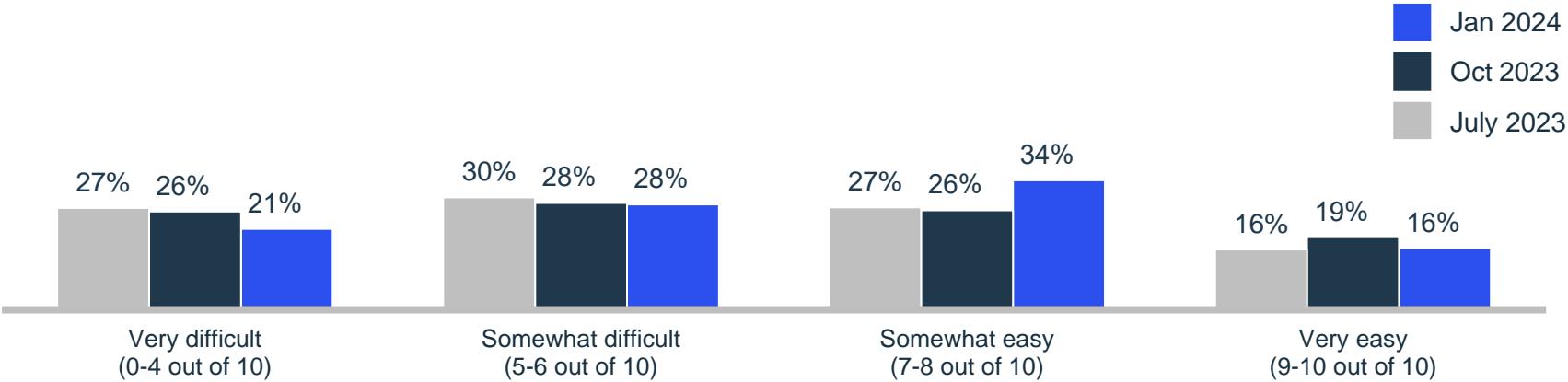


Base: Respondents who will request financing in the next 12 months (n=230). Multiple mentions were allowed; therefore, total exceeds 100%. Those who did not know or preferred not to answer are not presented on this slide. Arrows indicate statistical differences between this wave and the previous one.

Ease of access has improved. More than half of SMEs think it will be easy to obtain financing.



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



EASE OF ACCESS
51%

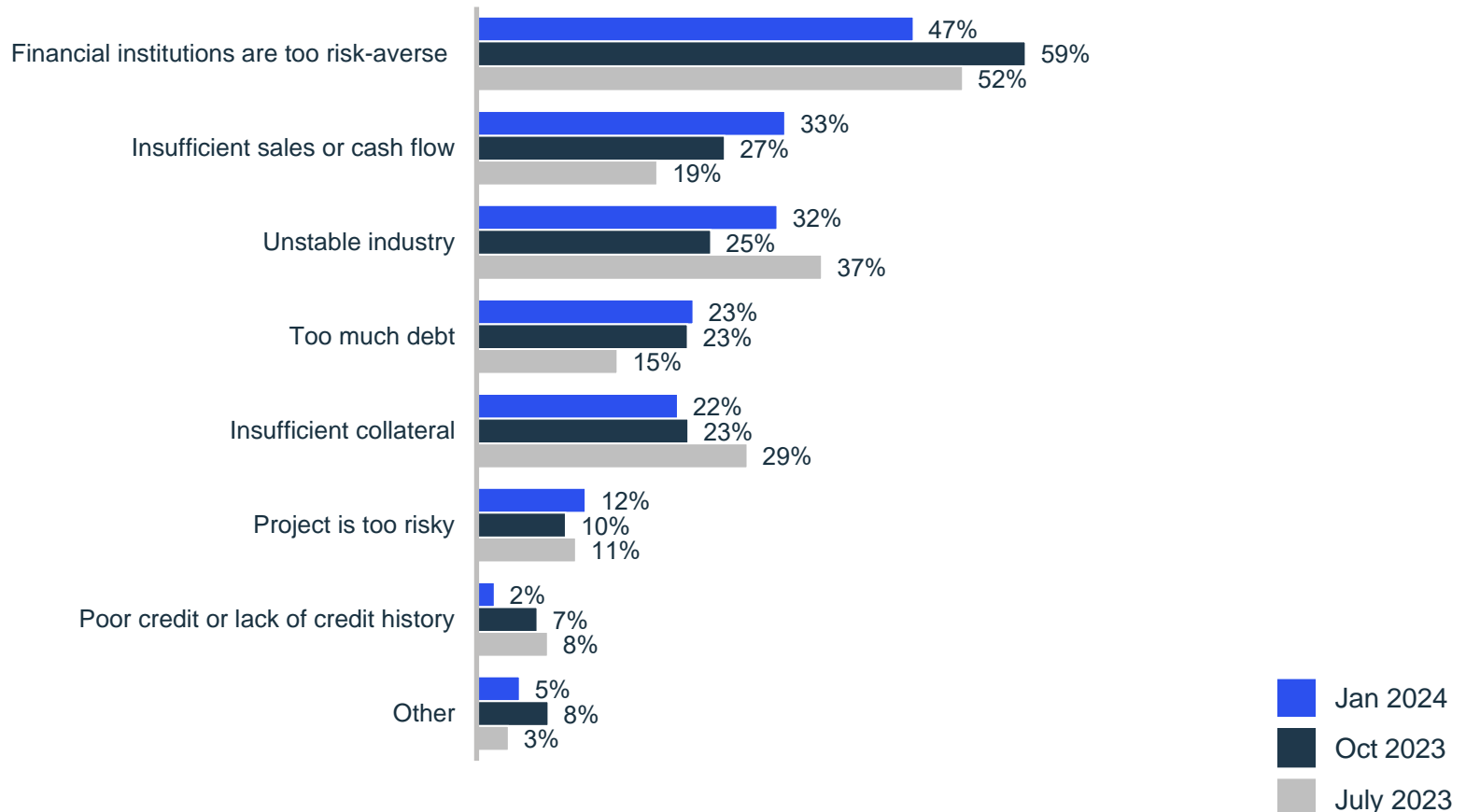
Base: Respondents who intend to request financing in the next 12 months (n=224). Those who did not know or refused to answer were removed from the calculation base. Arrows indicate statistical differences between this wave and the previous one.

Perceived FIs' risk aversion continues to be the main reason why access to financing is deemed difficult, but more SMEs are mentioning their sales expectations and industry sector dynamics as a reason.



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

Small sample, interpret with caution

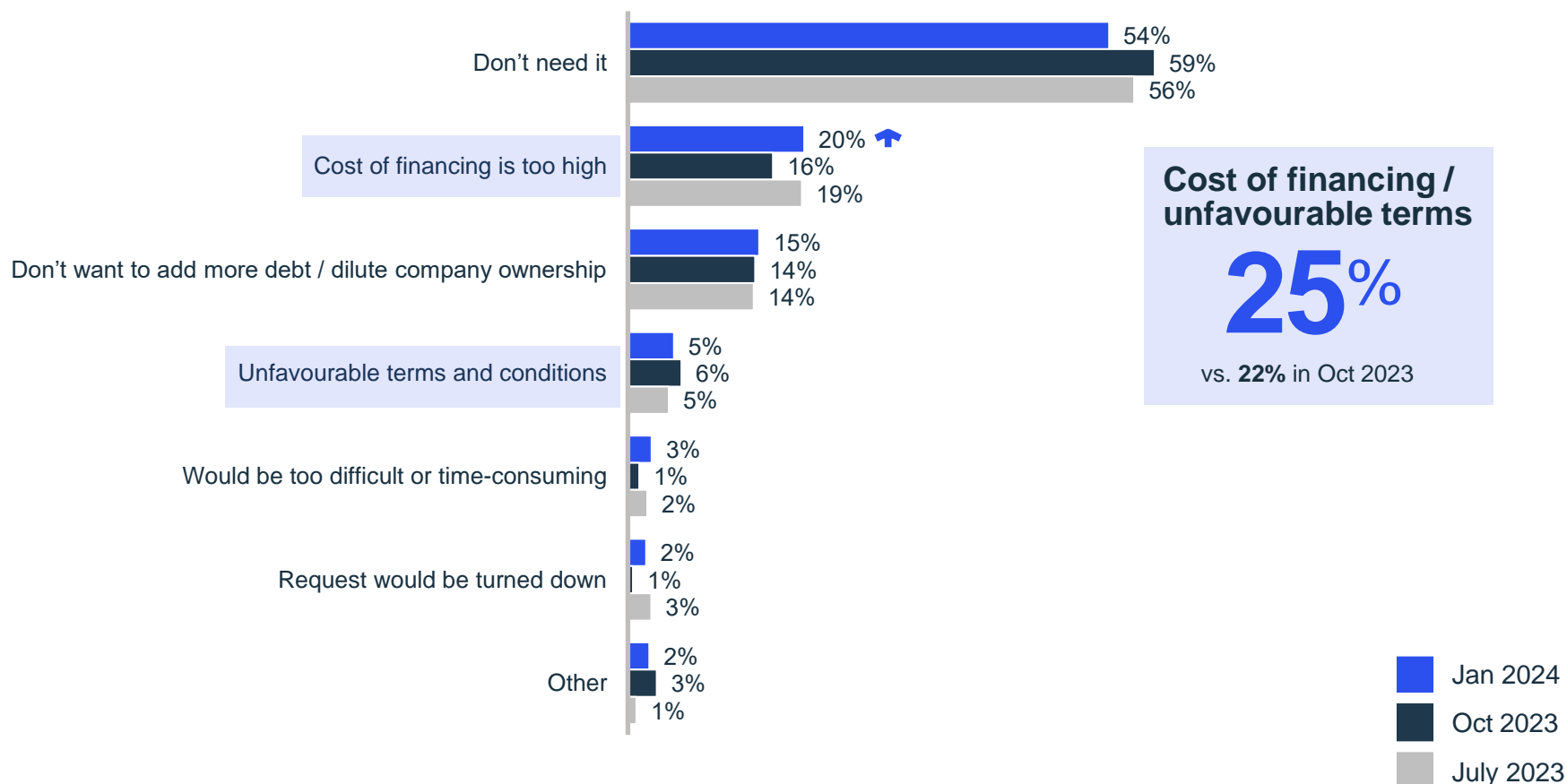


Base: Respondents who believe it will be difficult to obtain financing (n=36). Those who did not know were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

One quarter of SMEs mentioned that the cost of financing is too high or that terms and conditions are unfavourable. There is just no need for half of those who do not plan or don't know if they will request funding.



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

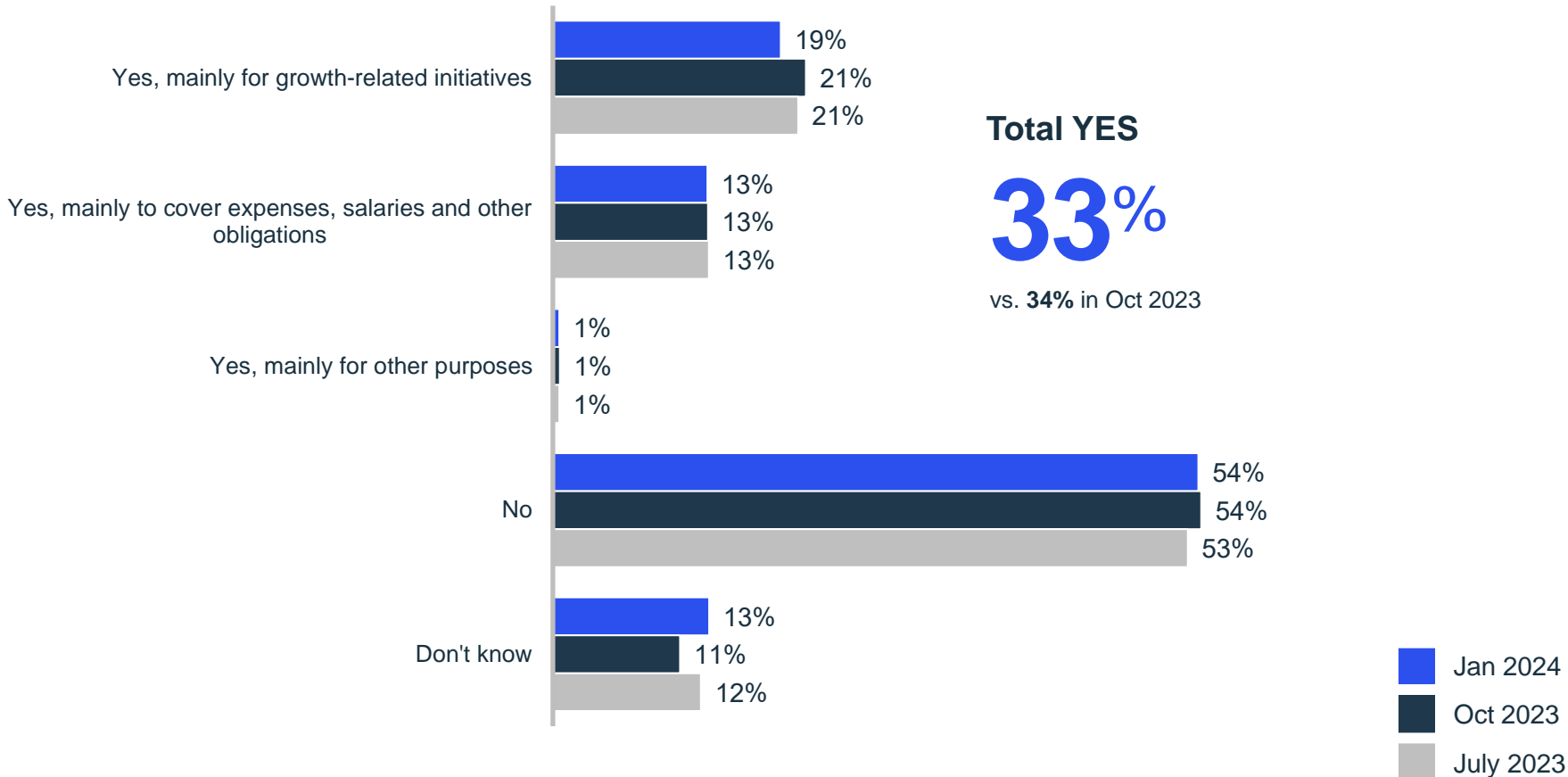


Base: Respondents who will not or who don't know if they will request financing in the next 12 months (n=756). Those who did not know or preferred not to answer were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one. Multiple mentions were allowed; therefore, total exceeds 100%.

There continues to be a third of SMEs for whom financing would be useful.



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



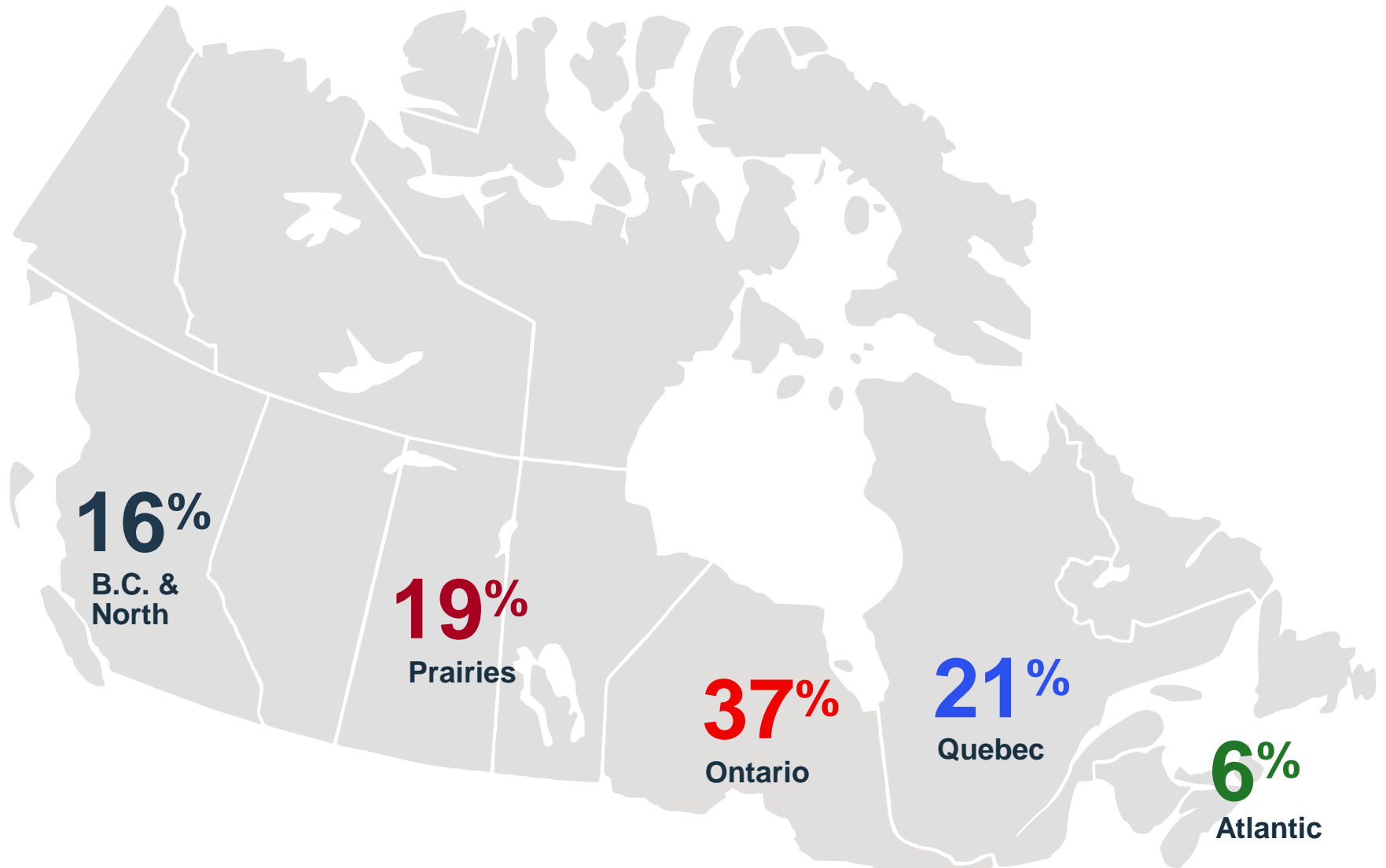
Base: Respondents who will not or don't know if they will request financing in the next 12 months (n=807). Those who did not know or preferred not to answer were excluded from the calculation base.

4



Respondent profile

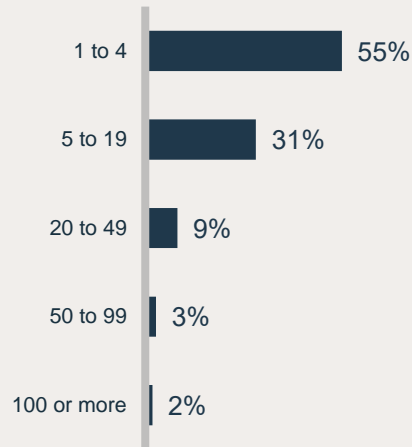
Region



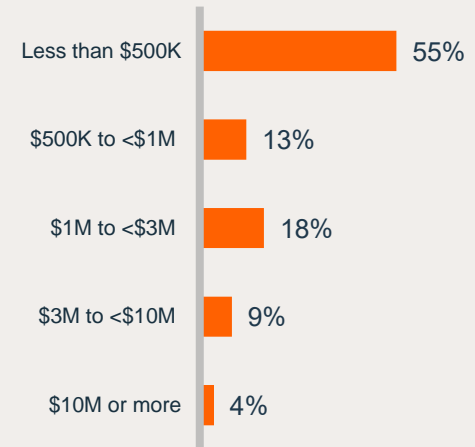
SME respondent profile



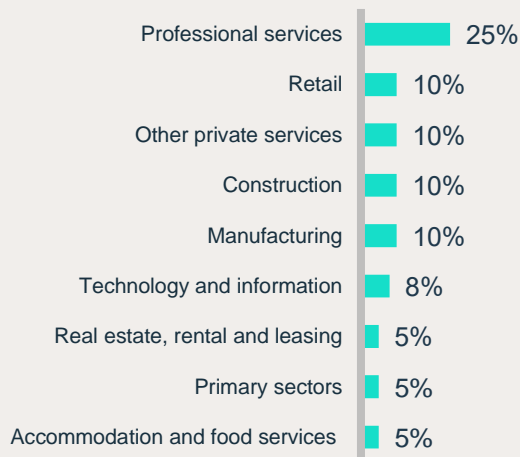
Number of employees



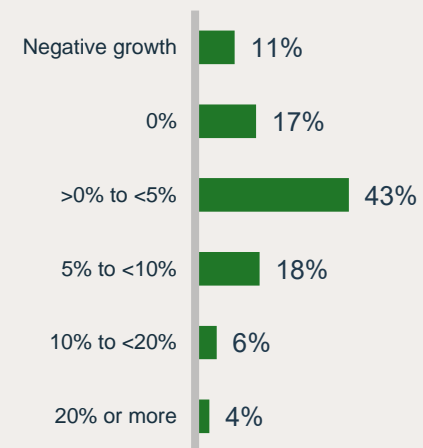
Annual sales



Sector of activity



Revenue growth

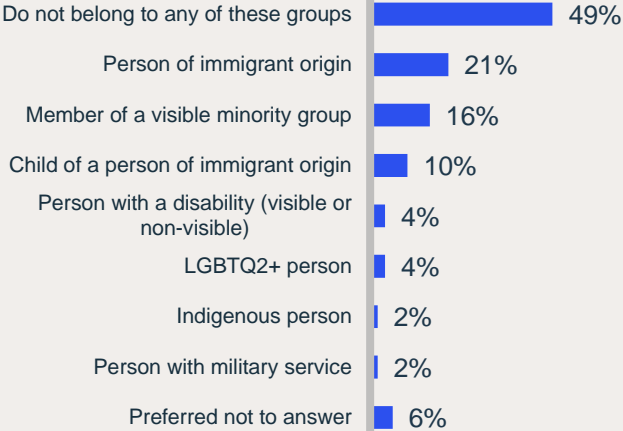


Base: Number of employees (n=1,056). For annual sales (n=981). For the sectors (n=1,040) only those with 5%+ respondents are presented. For revenue growth = Respondents for which company existed last year (n=974). Those who didn't know were excluded from the calculation base.

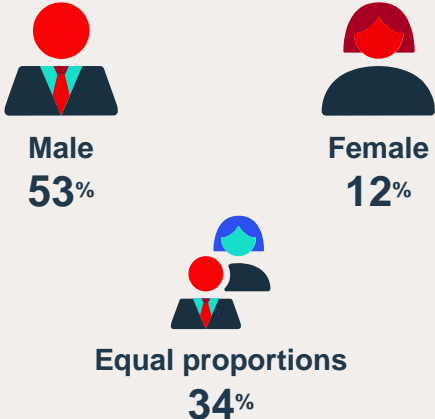
SME respondent profile



Diversity*



Gender ownership



Base: For diversity(n=1,056). *Multiple mentions were allowed; therefore, total exceeds 100%. For gender ownership (n=999). Those who did not know or preferred not to answer were excluded from the calculation base.

Thank you

Research and market intelligence team

