

Investment & Financing outlook

SME business investment and
financing outlook survey, wave 19

Research report

Research and Market Intelligence at BDC



October 2023

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Key highlights

CURRENT STATE:

SMEs expect a deterioration in the Canadian economy, but do not foresee significant negative impacts on their own business



We are seeing a mixed bag of information in the economic environment:



52% believe that economic conditions will deteriorate in the next 12 months

(+5pts↑)



29% think that their cash flow situation will improve

(+1pt)



31% say that debt repayment is limiting business activities

(+2pts)

Some improvements occurring

62% Are profitable
(+3pts)

84% Stand below full capacity operation
(+4pts↑)

33% Have used or will use significant resources for growth projects
(+4pts)

SMEs are in a slightly better posture

46% Say that FIs totally meet their needs
(+5pts)

54% Are deemed bankable
(+4pts)

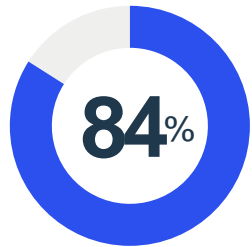
54% Believe that access to financing will be difficult
(-3pts)

INVESTMENT OUTLOOK:

Investment intentions remain stable, despite economic uncertainty and high interest rates



Investment intentions are holding relatively steady



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

Plan to invest about the same amount or more:



Non-residential building

82% (+1pt)



Machinery and equipment

82% (+1pt)



Intangible assets

85% (+1pt)



60%

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

Investment goals remain consistent



Increasing efficiency

42% (+2pts)



Improving sales and marketing

39% (+2pts)



Adopting new technologies

23% (-2pts)

What could limit investments?

42%

High economic uncertainty (+3pts)

35%

Interest rates (+3pts)

20%

High input costs (-5pts)

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

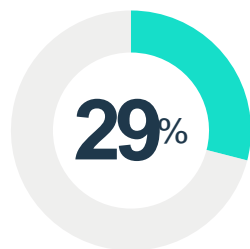
FINANCING OUTLOOK:



Financing requests remain stable, but approval rates are trending downwards and have decreased significantly over a one-year span



While demand is unchanged, use of lenders varied



Those who asked for financing turned to:



A financial institution

72%
(+5pts)



A government program or crown corporation

29%
(-5pts)



A large tech or fintech lender

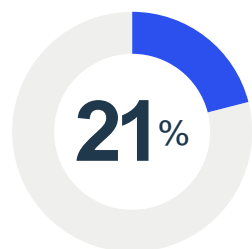
13%
(-4pts)



Private lenders / family offices

10%
(n/a)

Intentions remain stable, so too do amounts required



63% Will need short-term financing
(-10pts↓)

38% For growth-related projects
(-9pts↓)

36% To cover expenses
(-8pts)

43% Will request up to \$100,000
(-1pt)

Perceived access has improved slightly

46% \$

of those planning to request financing believe it will be **easy** to obtain
(+3pts)

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

- October 26 to November 8, 2023.

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 1,005 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

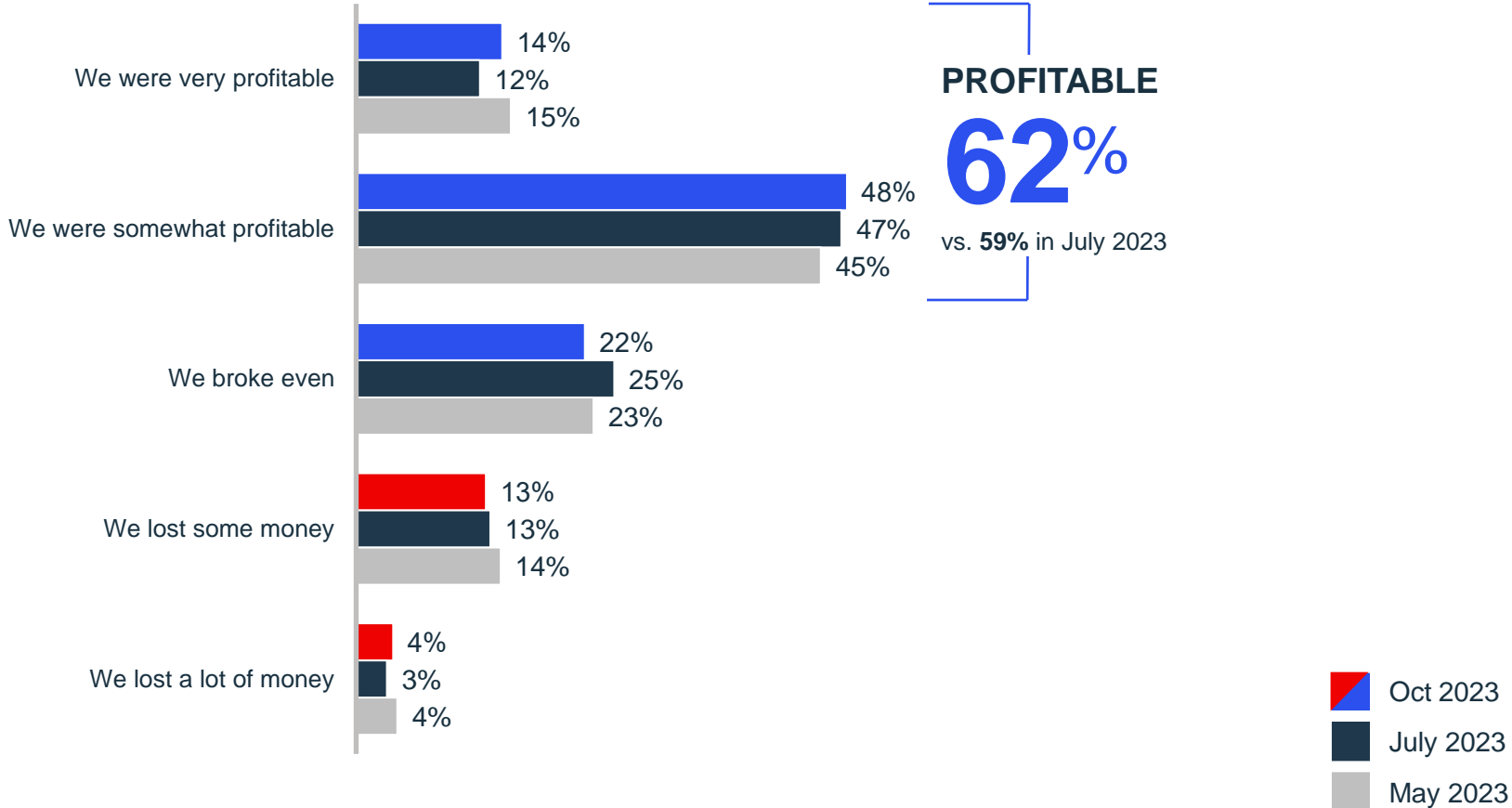


SME current state
and expectations

Fewer than one in five SMEs indicated losing money. SMEs in small population areas are more likely to be struggling than others.



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

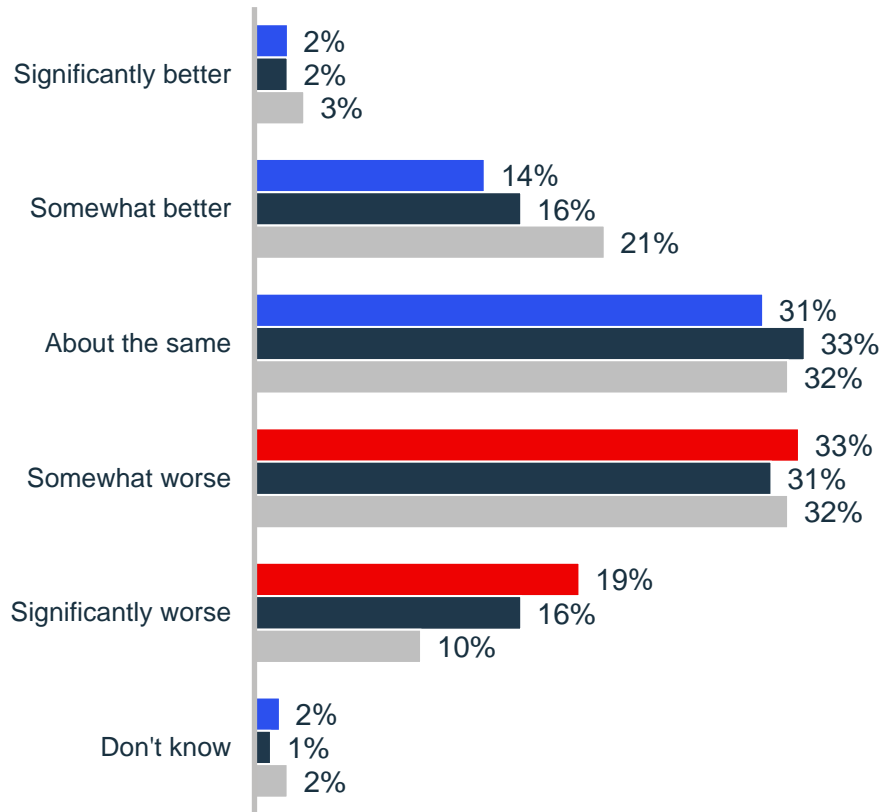


Base: All qualified respondents (n=970). Those who did not know or preferred not to answer were excluded from the calculation base. This question was modified for wave 18 to capture SMEs who broke even. Arrows indicate statistical differences between this wave and the previous one.

Overall optimism regarding economic conditions in Canada has decreased once again in October. Media coverage may be contributing to a more negative economic outlook for the year ahead.



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

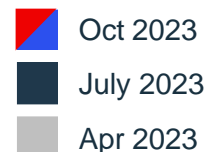
16%

vs. 19% in July 2023

WORSE

52% ↑

vs. 47% in July 2023

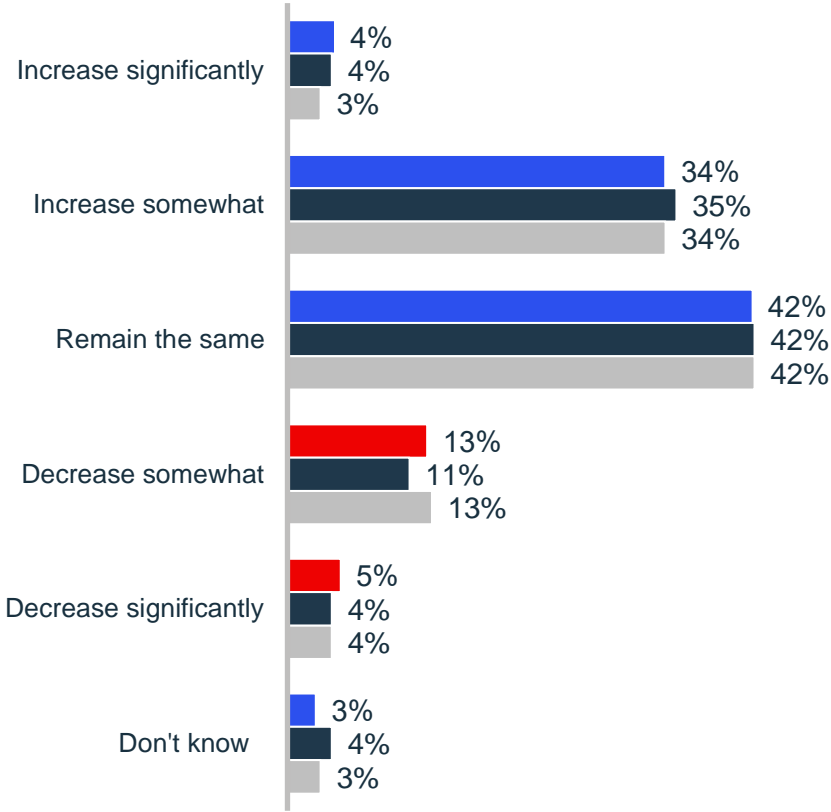


Base: All qualified respondents (n=1,005).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

Despite more SME leaders expecting a deterioration in the Canadian economy, there are no significant changes in terms of SMEs' sales expectations for 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

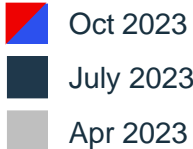
38%

vs. 38% in July 2023

DECREASE

17%

vs. 16% in July 2023

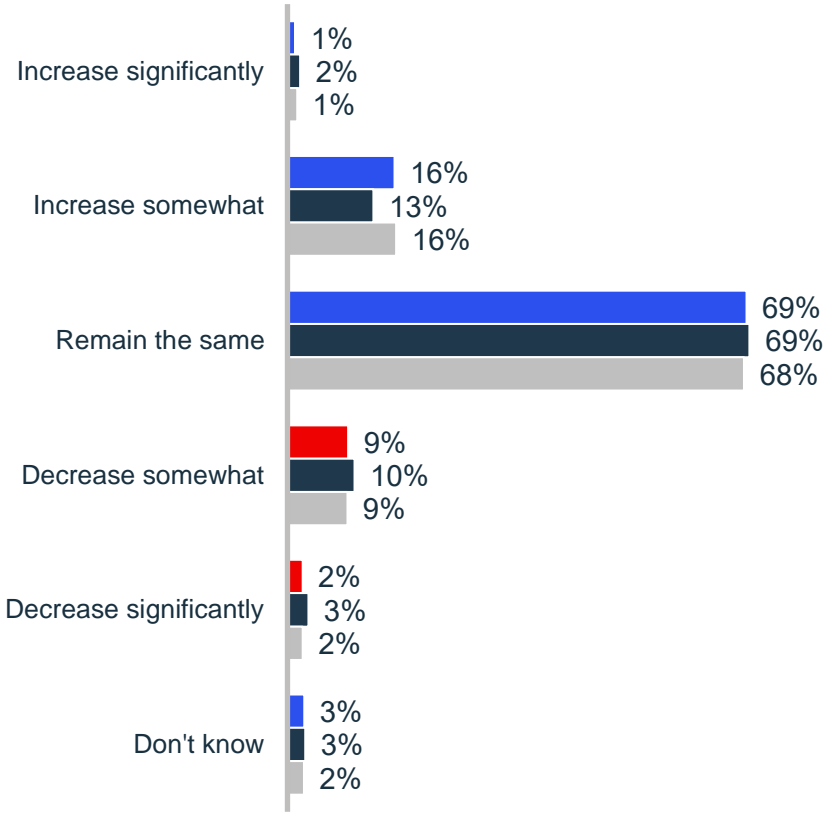


Base: All qualified respondents (n=996).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

SMEs expect their employee count to remain relatively similar. Hiring intentions are statistically higher among SMEs with 5 or more employees.



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

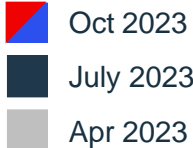
17%

vs. 15% in July 2023

DECREASE

11%

vs. 13% in July 2023

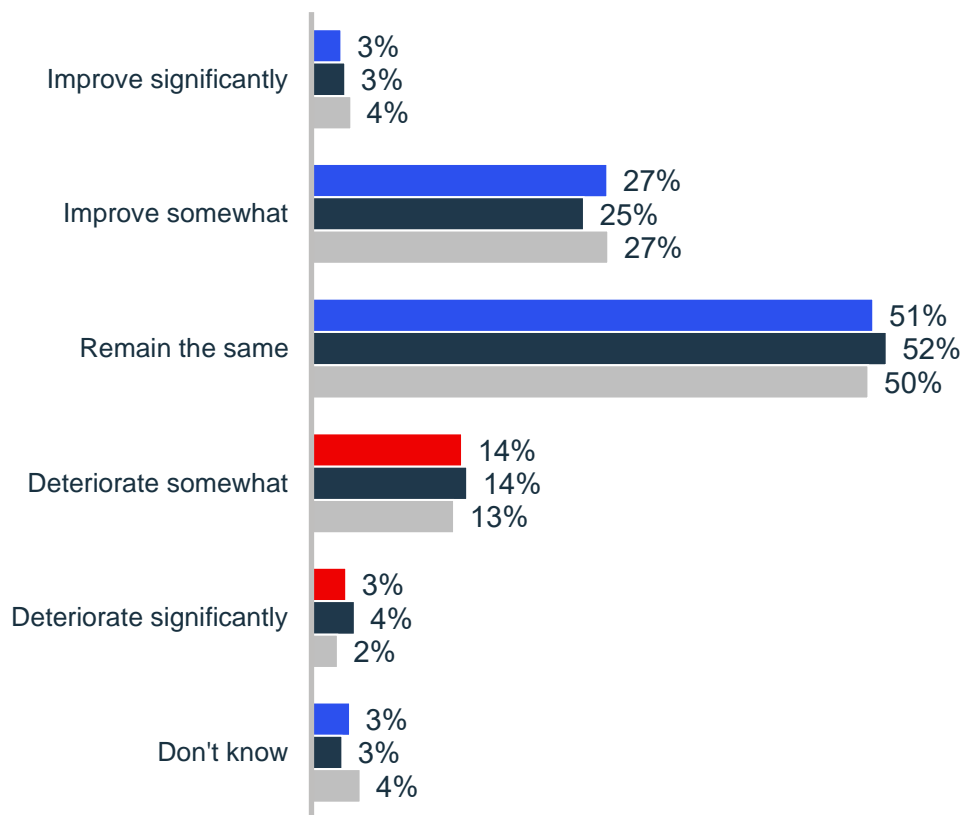


Base: All qualified respondents (n=1,000).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

While the outlook for the Canadian economy may not be particularly rosy, we find that the proportions surrounding various expectations have remained stable, most SMEs expecting much of the same.



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

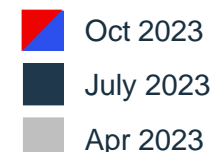
29%

vs. 28% in July 2023

DETERIORATE

17%

vs. 18% in July 2023

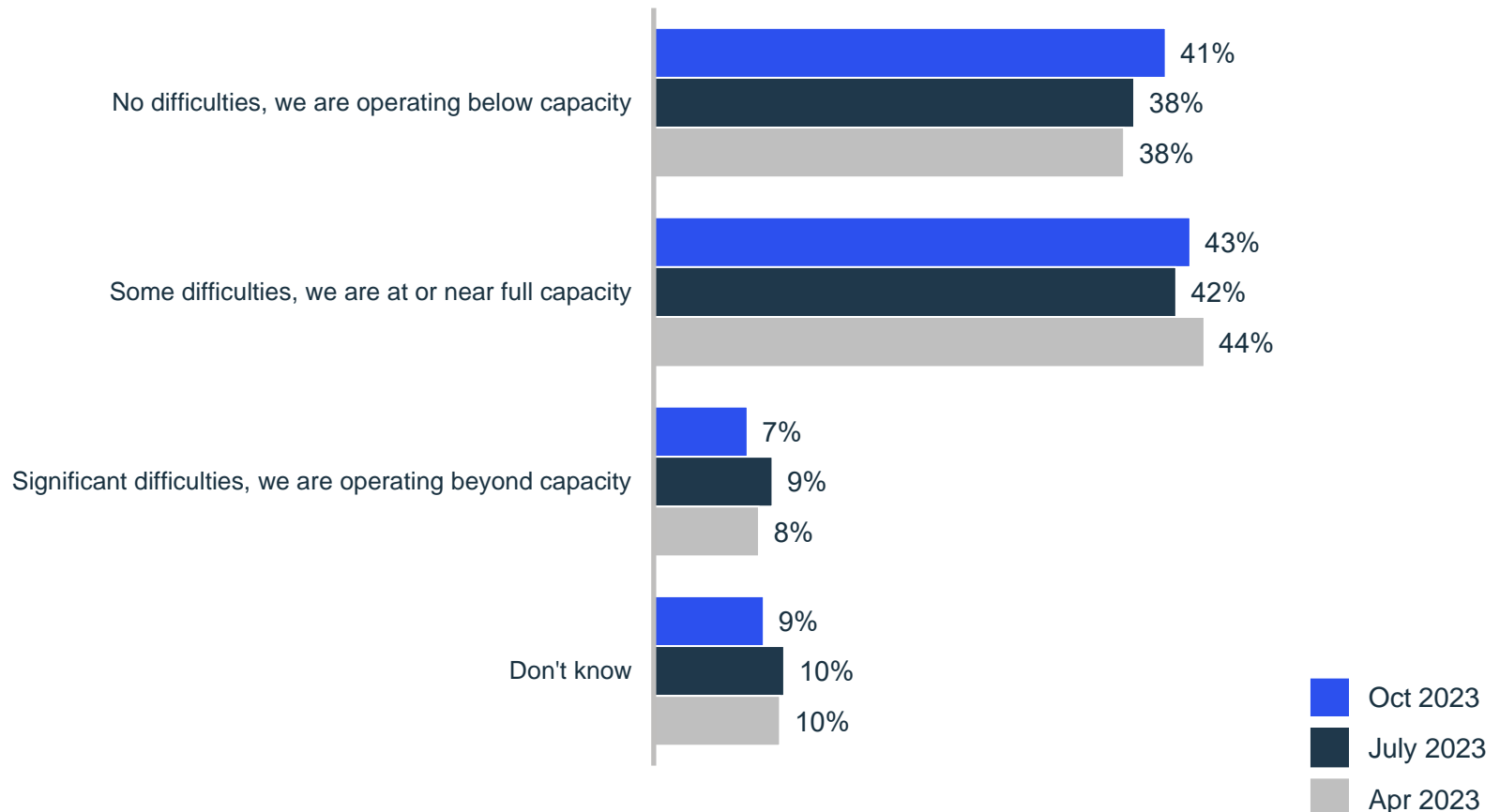


Base: All qualified respondents (n=996).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

Overall demand has receded slightly. Fewer SMEs are operating beyond capacity. Interestingly, a larger percentage of non-profitable SMEs said they would struggle to meet demand.



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

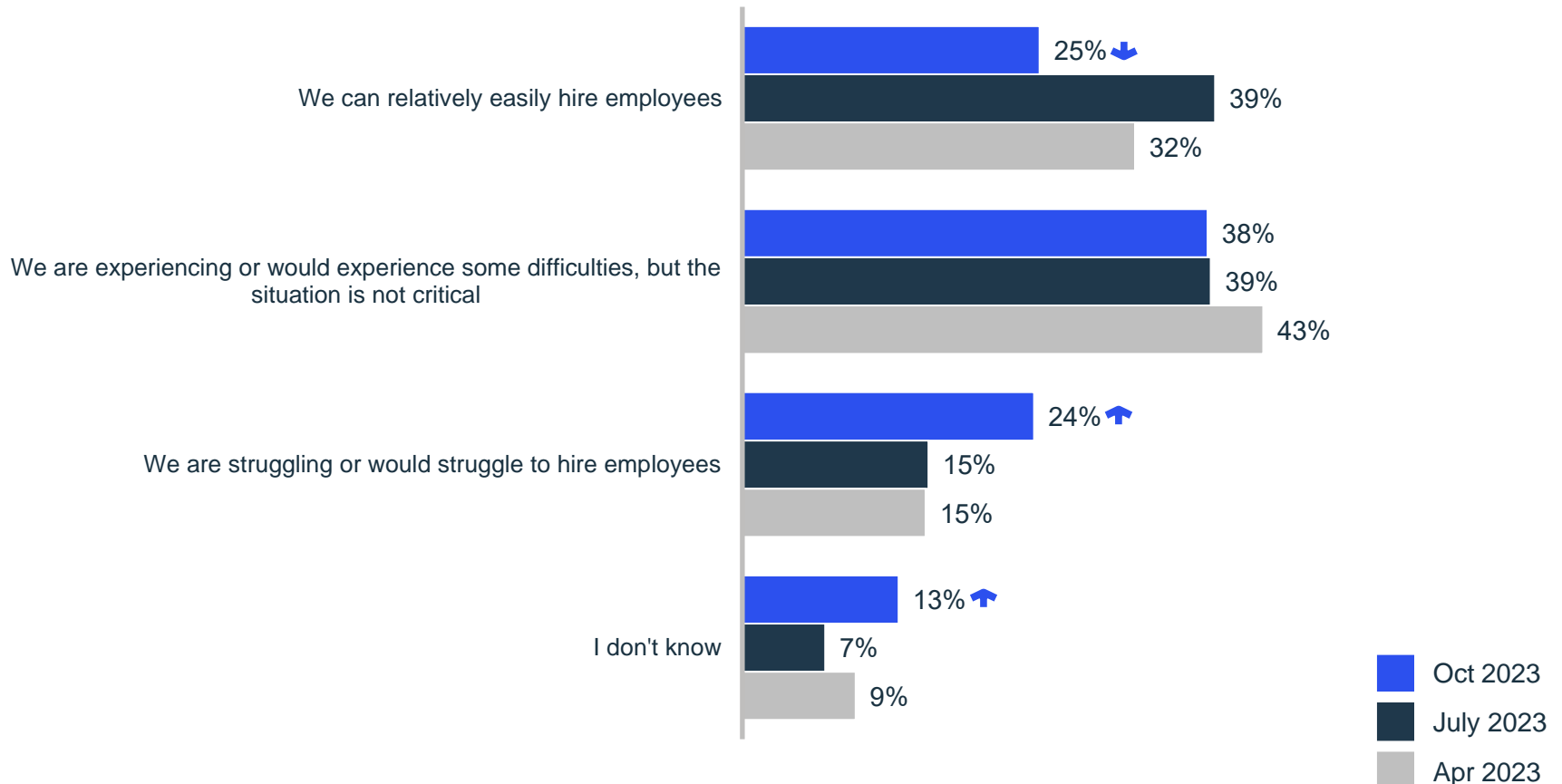


Base: All qualified respondents (n=984).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

Labour concerns seem to have resurfaced. Significantly fewer SMEs can easily hire employees, and more are struggling or would struggle to hire employees.



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



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.

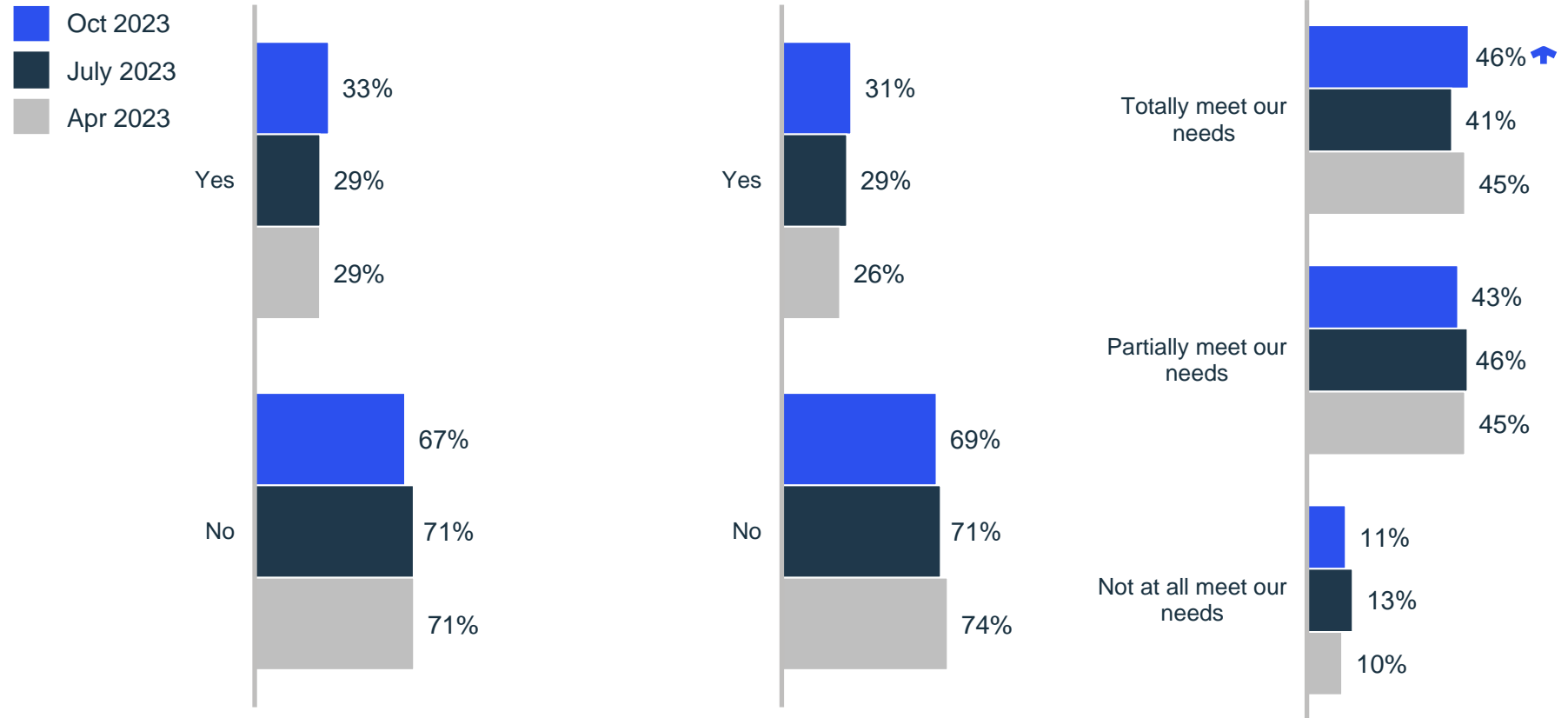
Debt repayment issues is trending upwards, but a statistically larger proportion of SMEs feel that their short-term financing needs are totally met by FIs with which they deal.



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=1,005). Those who preferred not to answer at BA2 (n=950) and BA3 (n=933) were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one.

3_b

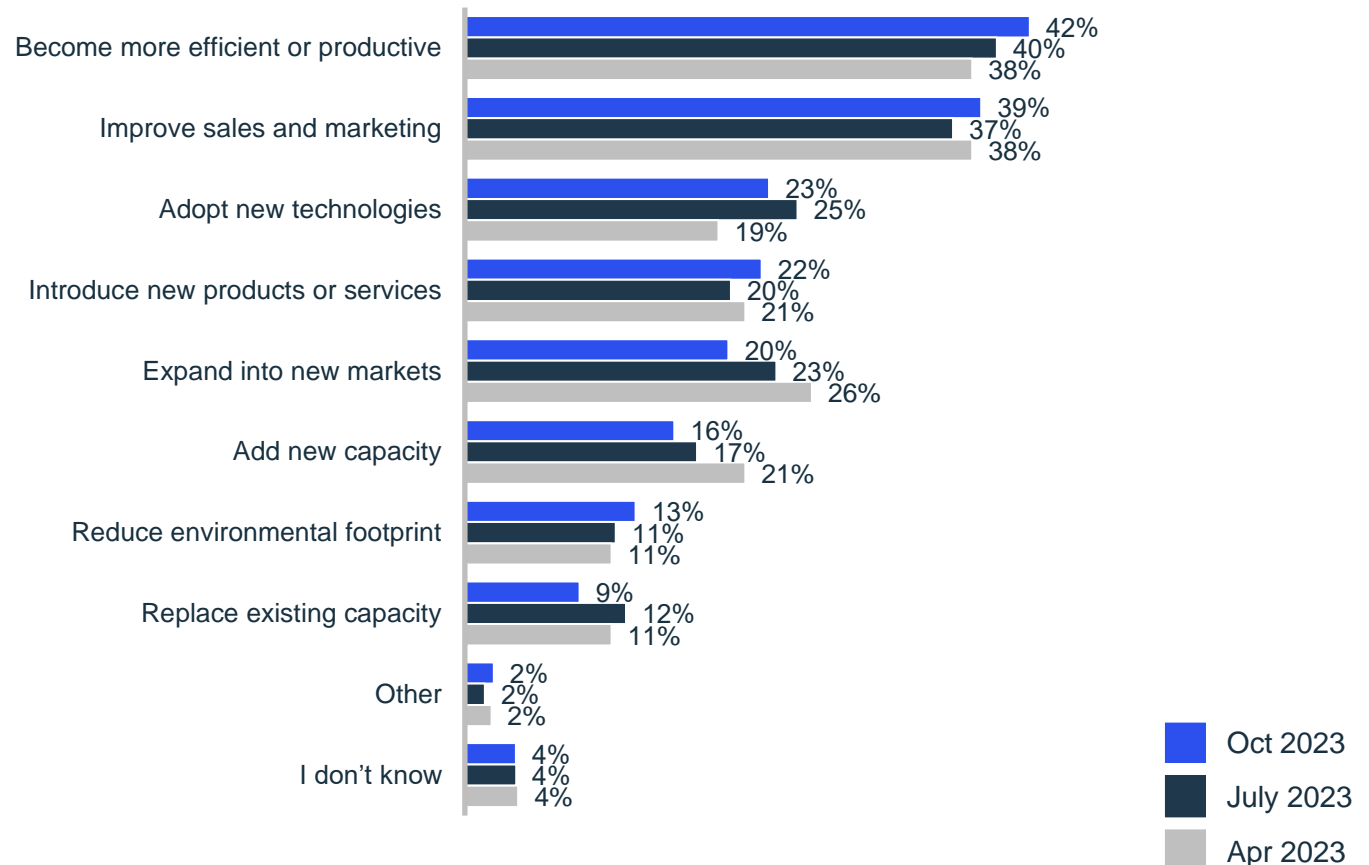


Investment outlook

Top investment goals remain consistent: becoming more efficient and improving sales and marketing. Adopting new technologies is limited to fewer than one in four SMEs. However, its impact can be tremendous.



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

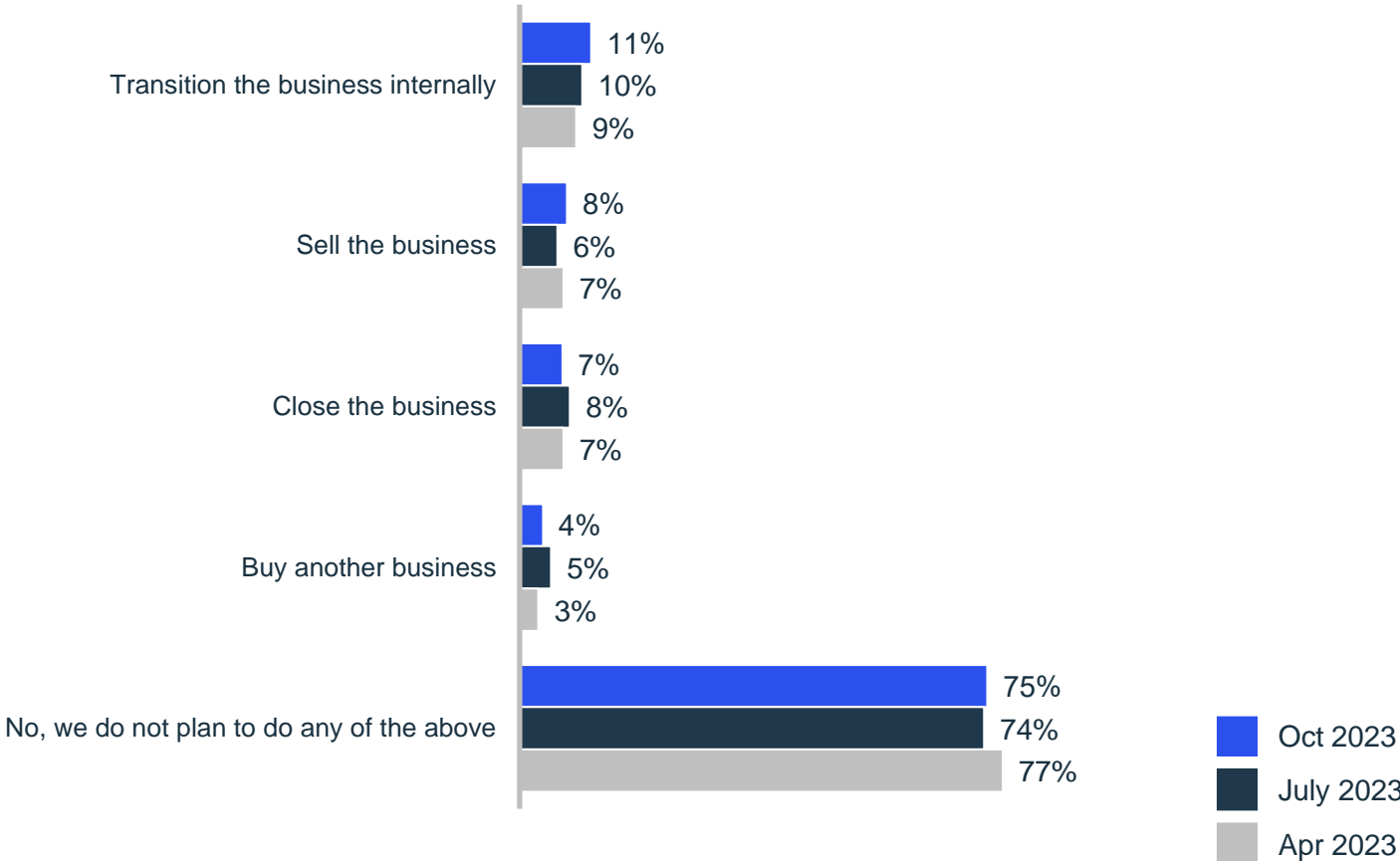


Base: Respondents planning to invest (n=508). Those who preferred not to answer were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

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?**

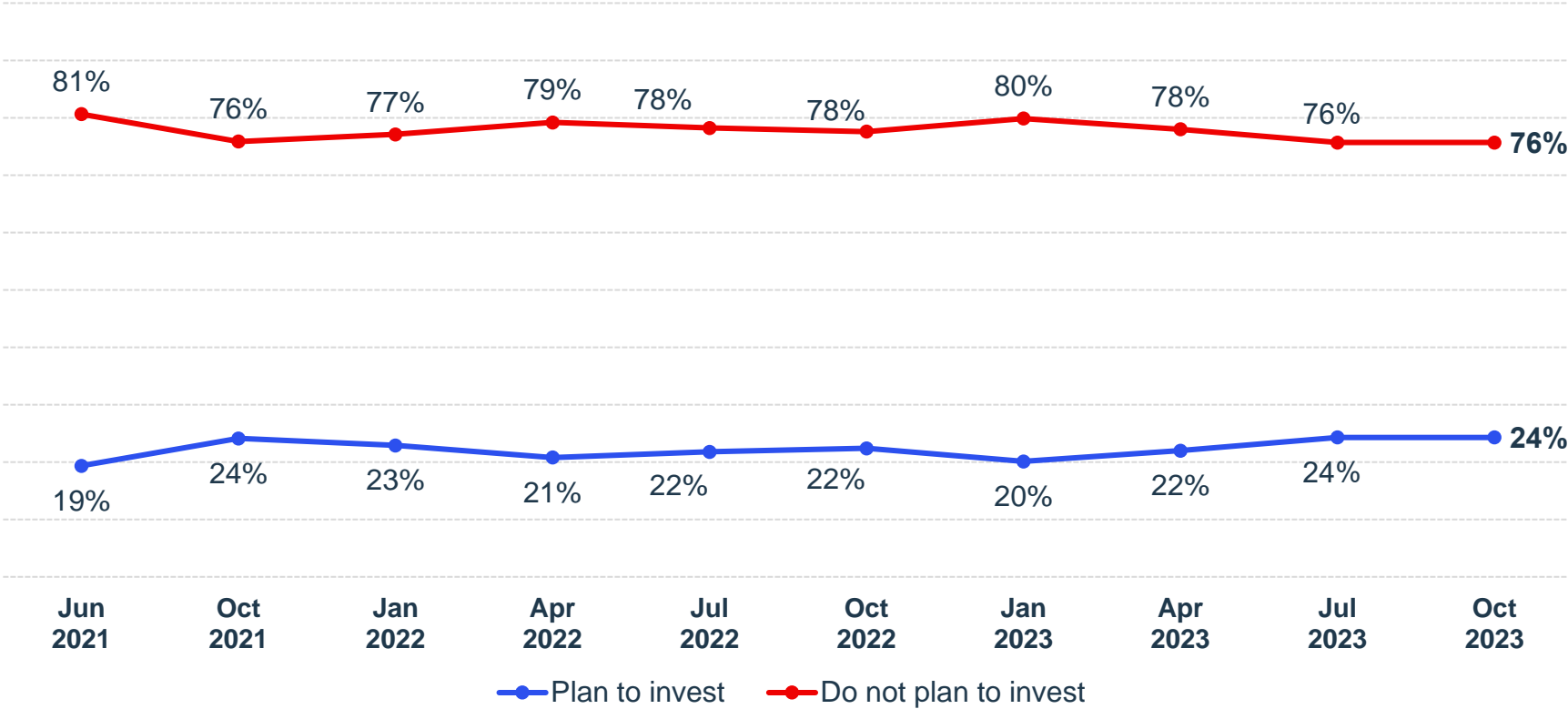


Base: All qualified respondents (n=904). Those who did not know or preferred not to answer were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

Investment intentions in non-residential buildings have held steady despite high interest rates.



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

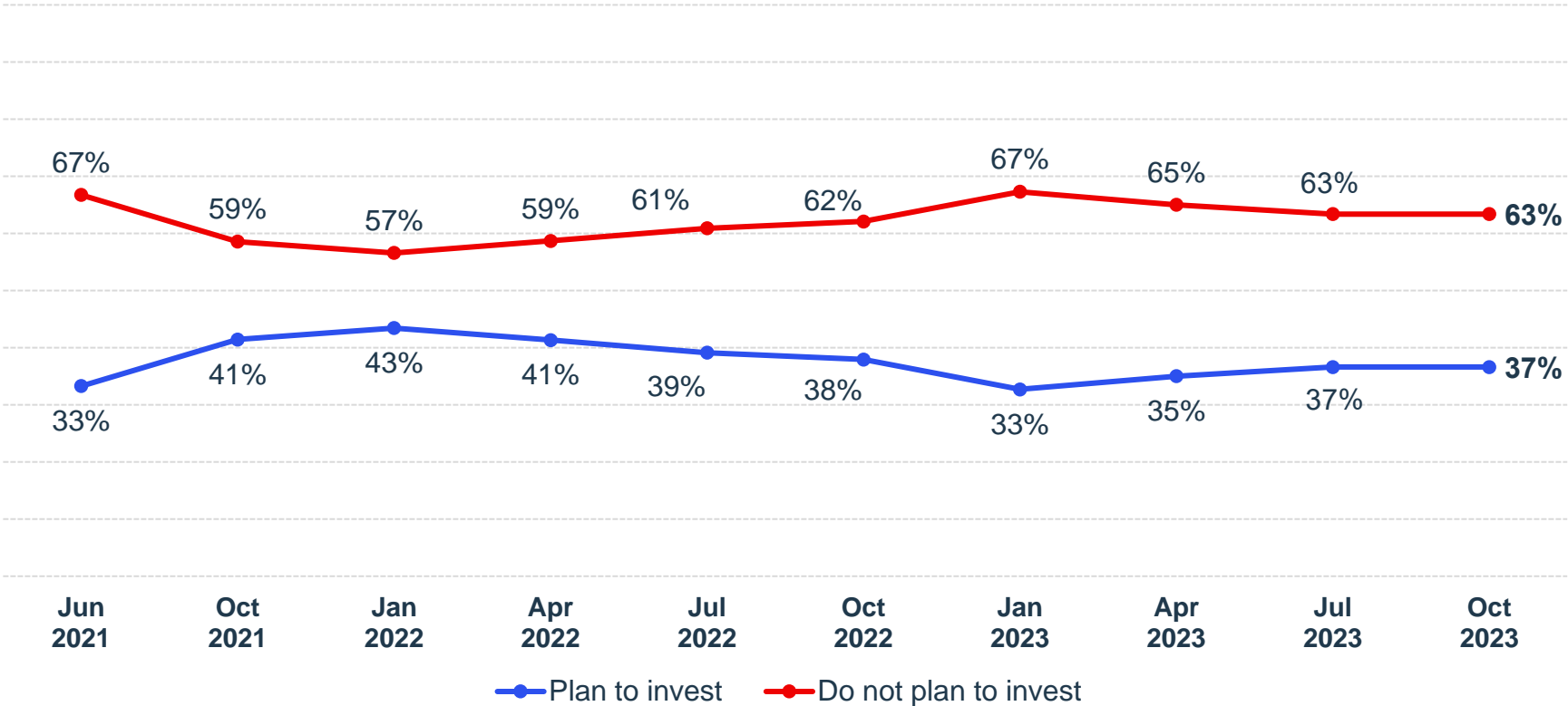


Base: All qualified respondents (n=907).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

Investment intentions in machinery and equipment are stable.



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

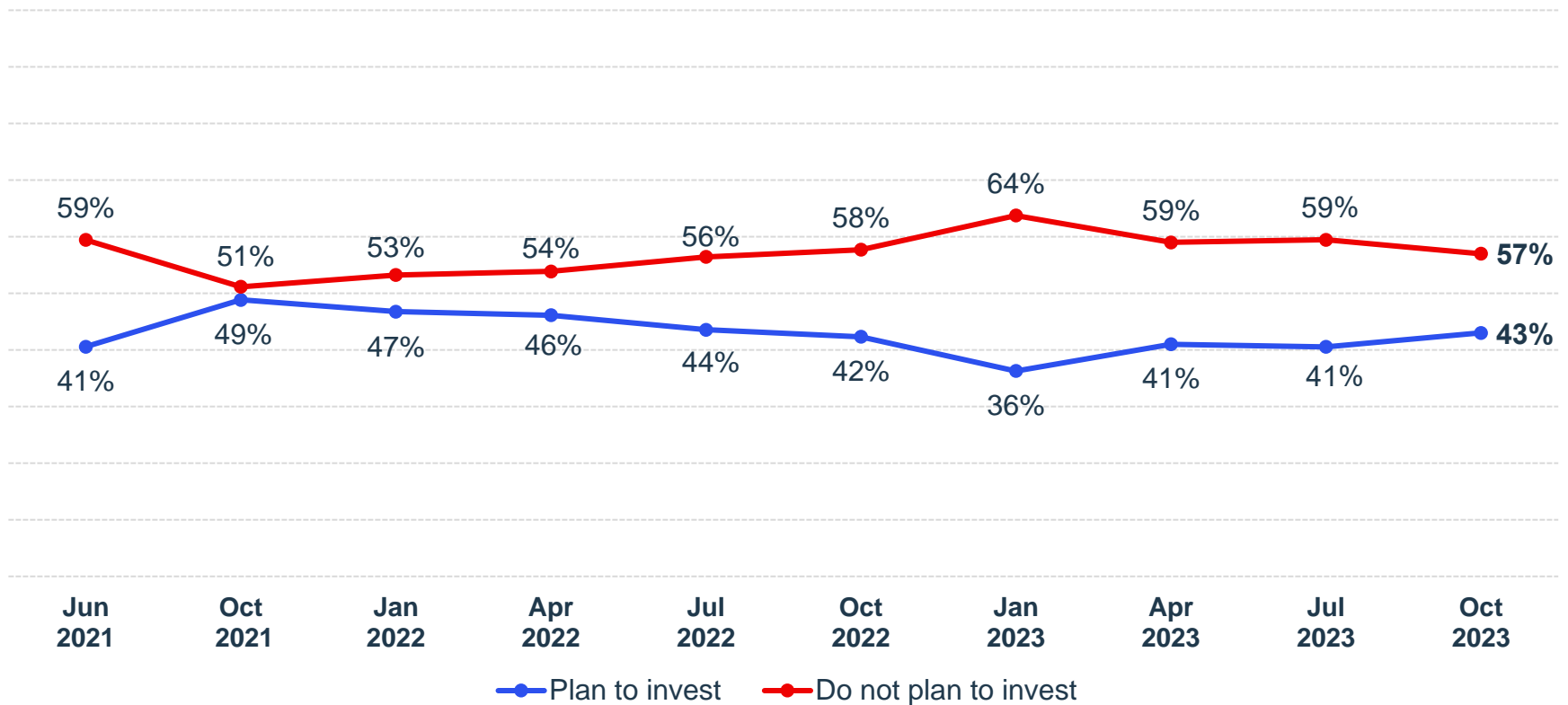


Base: All qualified respondents (n=899).
 Those who preferred not to answer were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

Investment intentions in intangibles increased minimally. Intentions are statistically higher among SMEs planning to request financing.



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

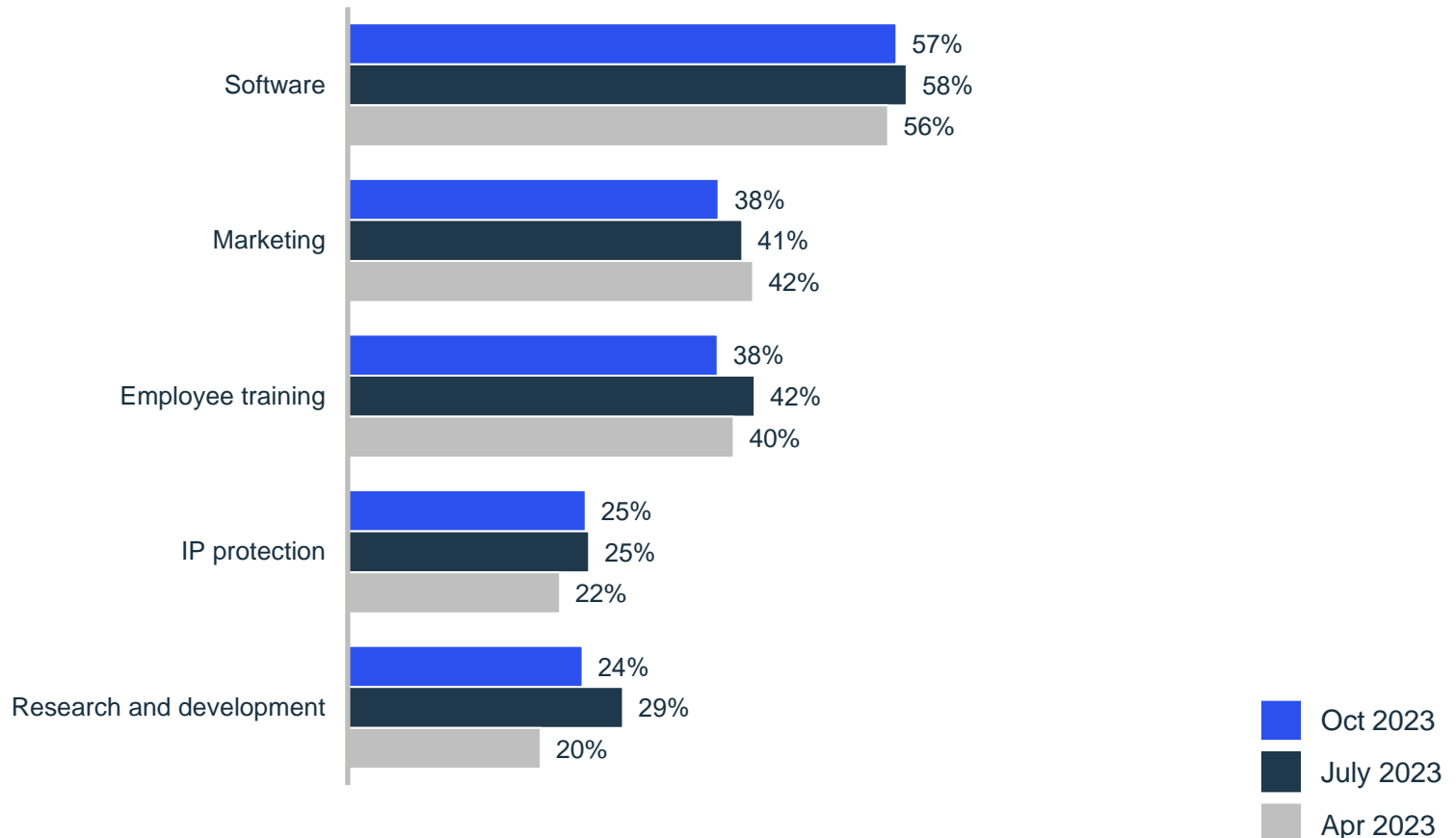


Base: All qualified respondents (n=892).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

Among those planning to invest in intangibles, software investments remain the most popular. Other intangible investment 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=418). 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%.

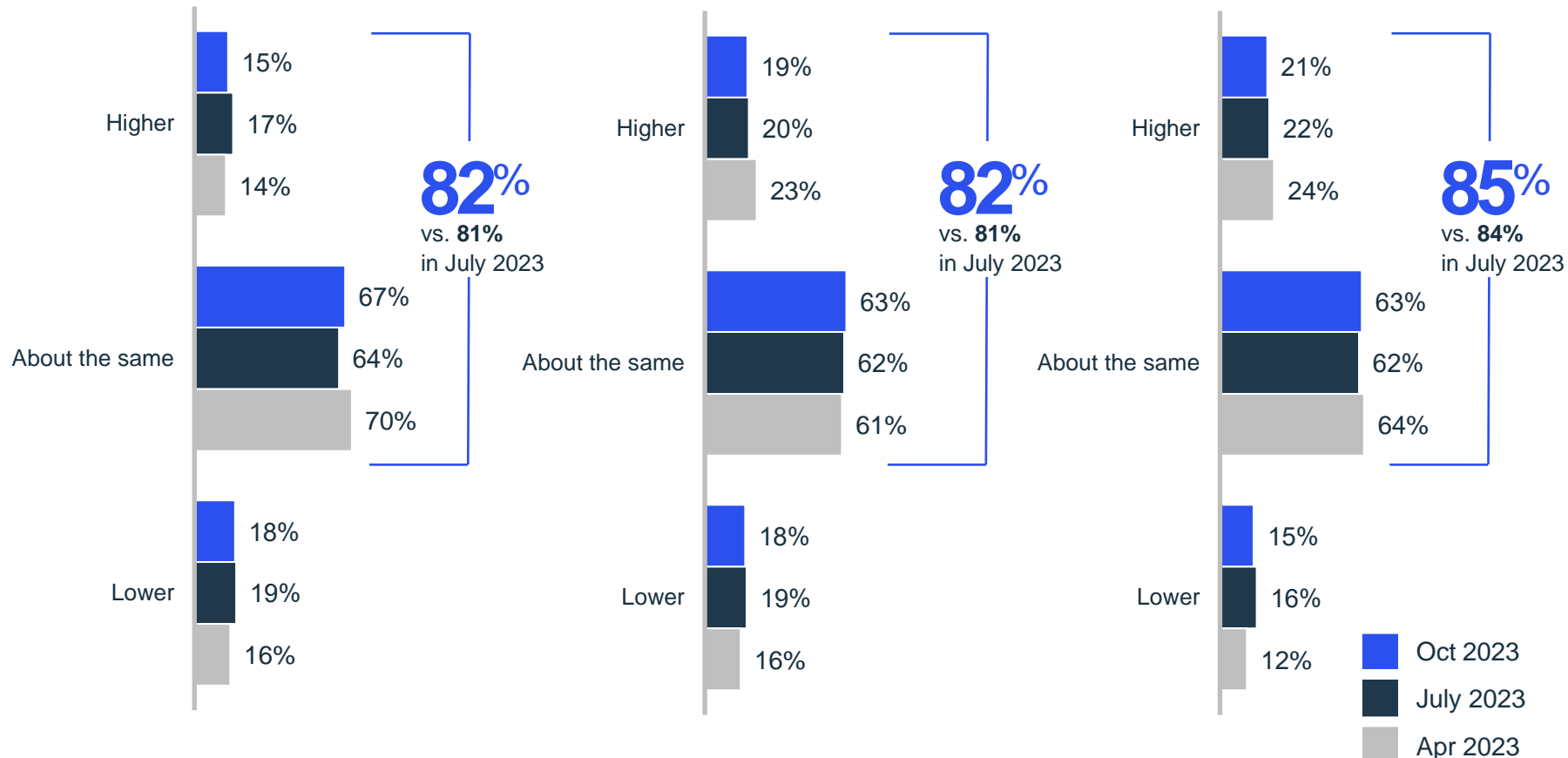
Half of SMEs plan to invest in at least one of three categories identified (-3 points vs. July), and nearly the same exact proportion plans to invest the same amount or more for each of the different categories.



Q58a. Non-residential building, including renovations

Q58b. Machinery and equipment

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

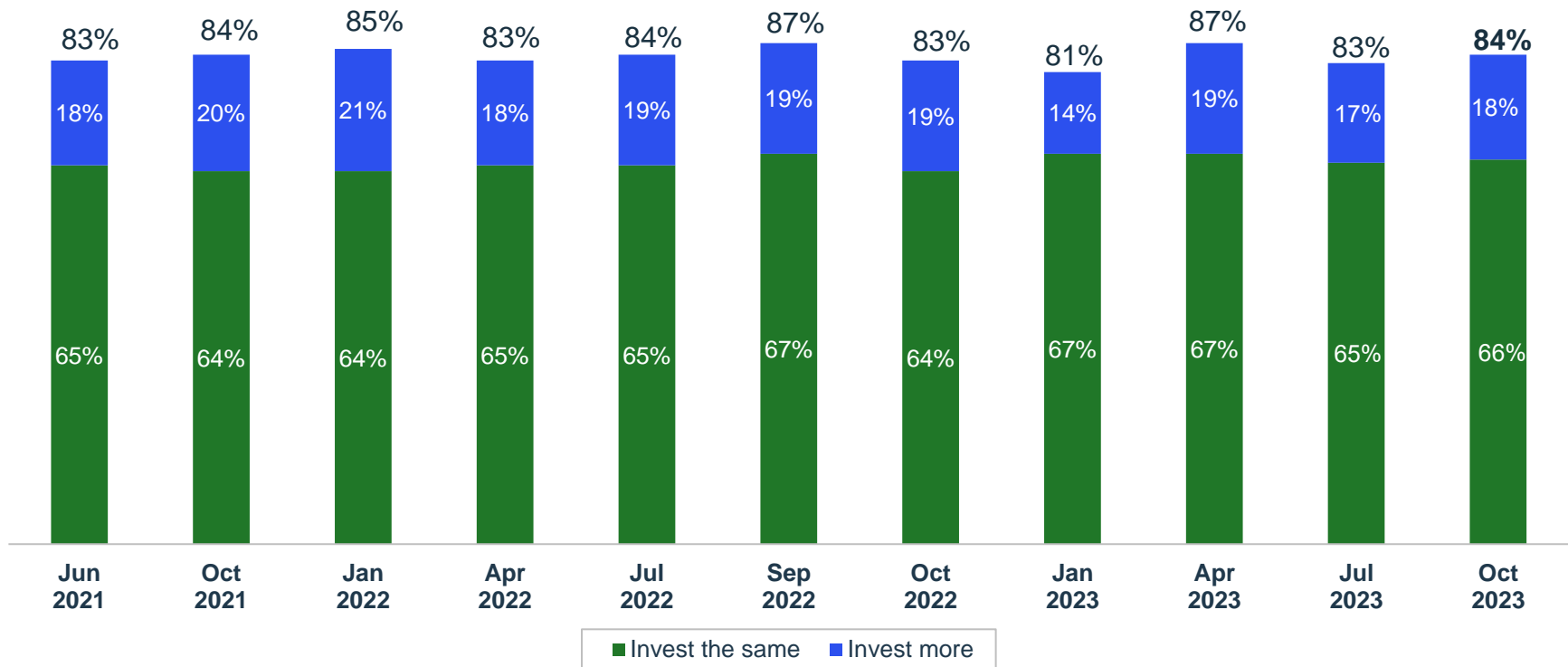


Base: All qualified respondents (n=899-927).
 Those who did not know were excluded from the calculation base.
 Arrows indicate statistical differences between this wave and the previous one.

One may have expected that SME leaders would refrain from investing in a high uncertainty and high interest environment, but SME leaders remain unwavering with their investment intentions.



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

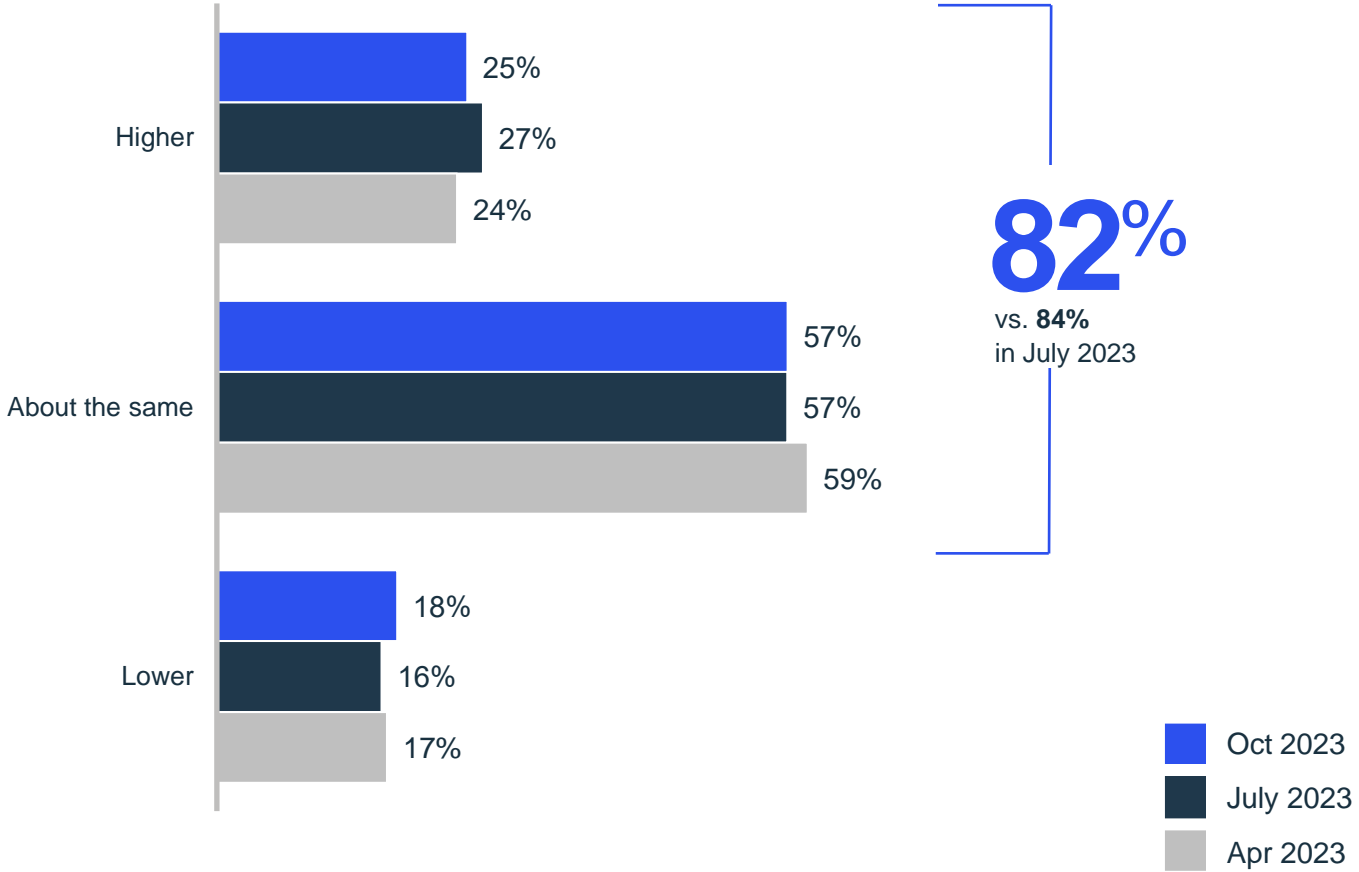


Base: All qualified respondents (n=953).
Those who preferred not to answer were excluded from the calculation base.
Arrows indicate statistical differences between this wave and the previous one.

One quarter of SMEs plan to invest more. However, nearly one in five SME plans to reduce its investment budget.



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



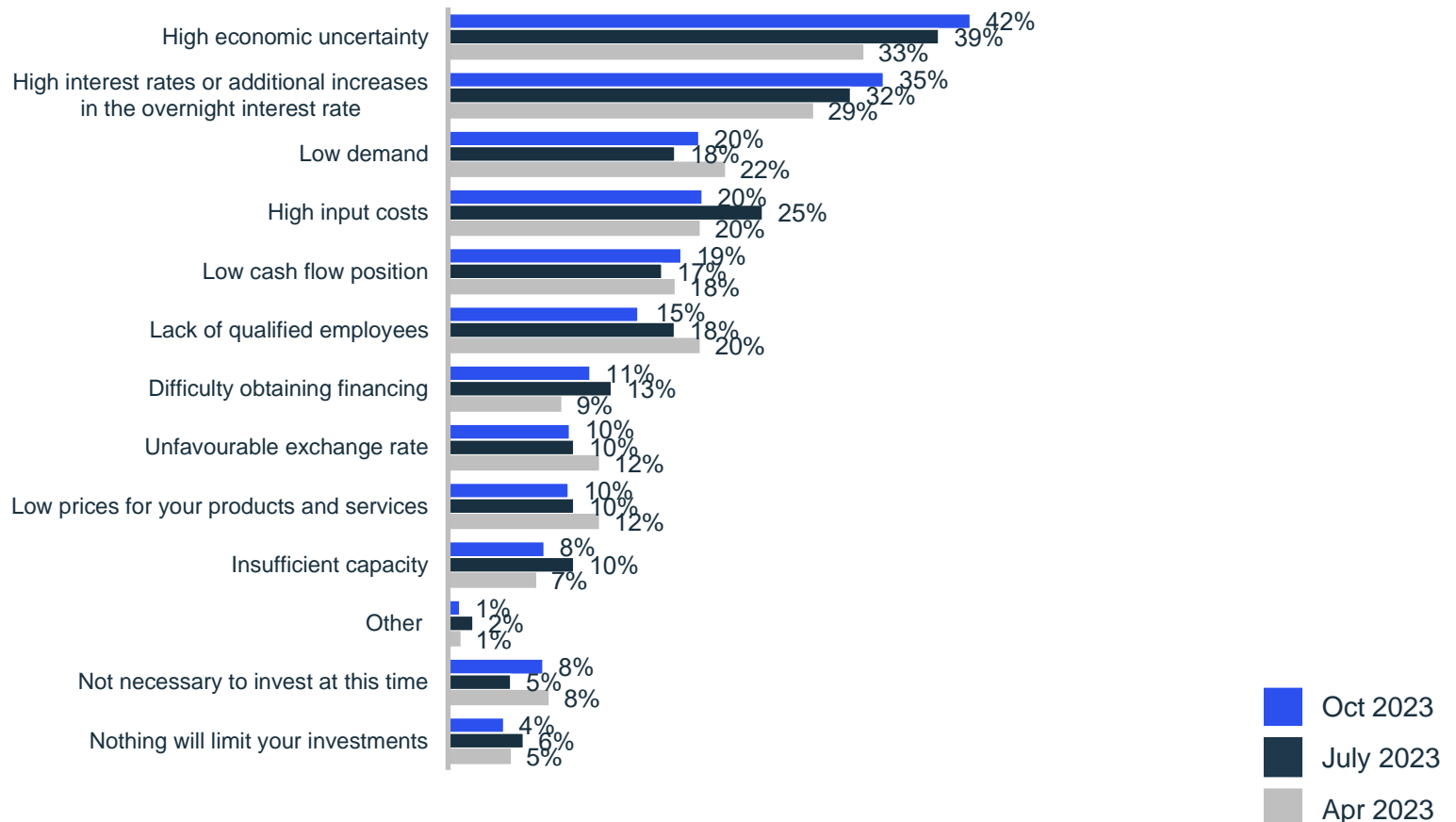
Base: All qualified respondents (n=954). Those who did not know were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one. Totals may not equal 100% due to rounding.

High economic uncertainty and high interest rates are the two main factors that could limit SME investments in the next 12 months. Low demand could also prevent SMEs from investing in their projects.



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

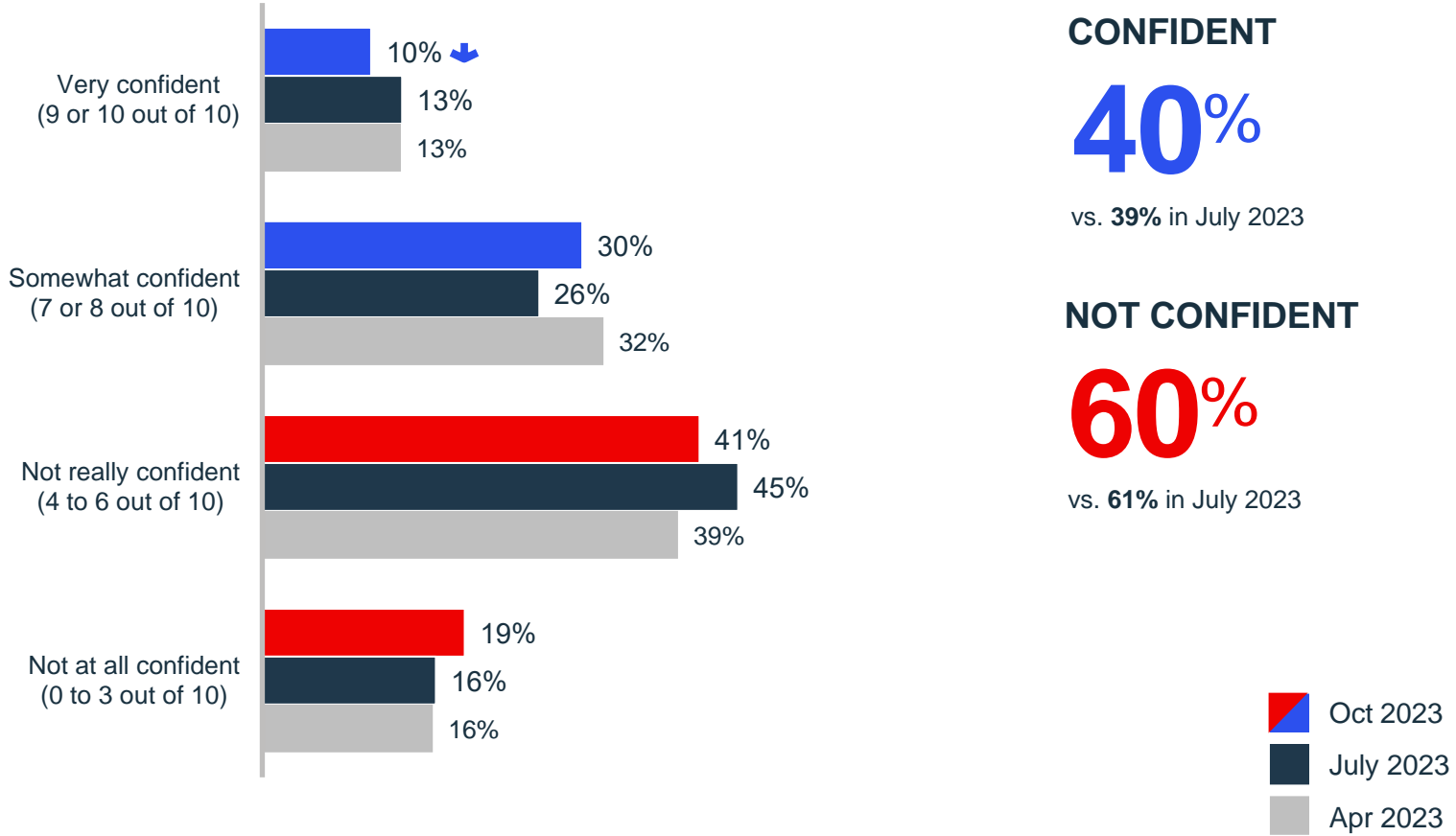


Base: Those planning to invest (n=505). Those who did not know or preferred not to answer were excluded from the calculation base. A maximum of three mentions was allowed, therefore total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one.

SMEs' confidence remains precarious, given omnipresent uncertainty. Most SMEs are **not** fully confident they will pursue their investments.



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

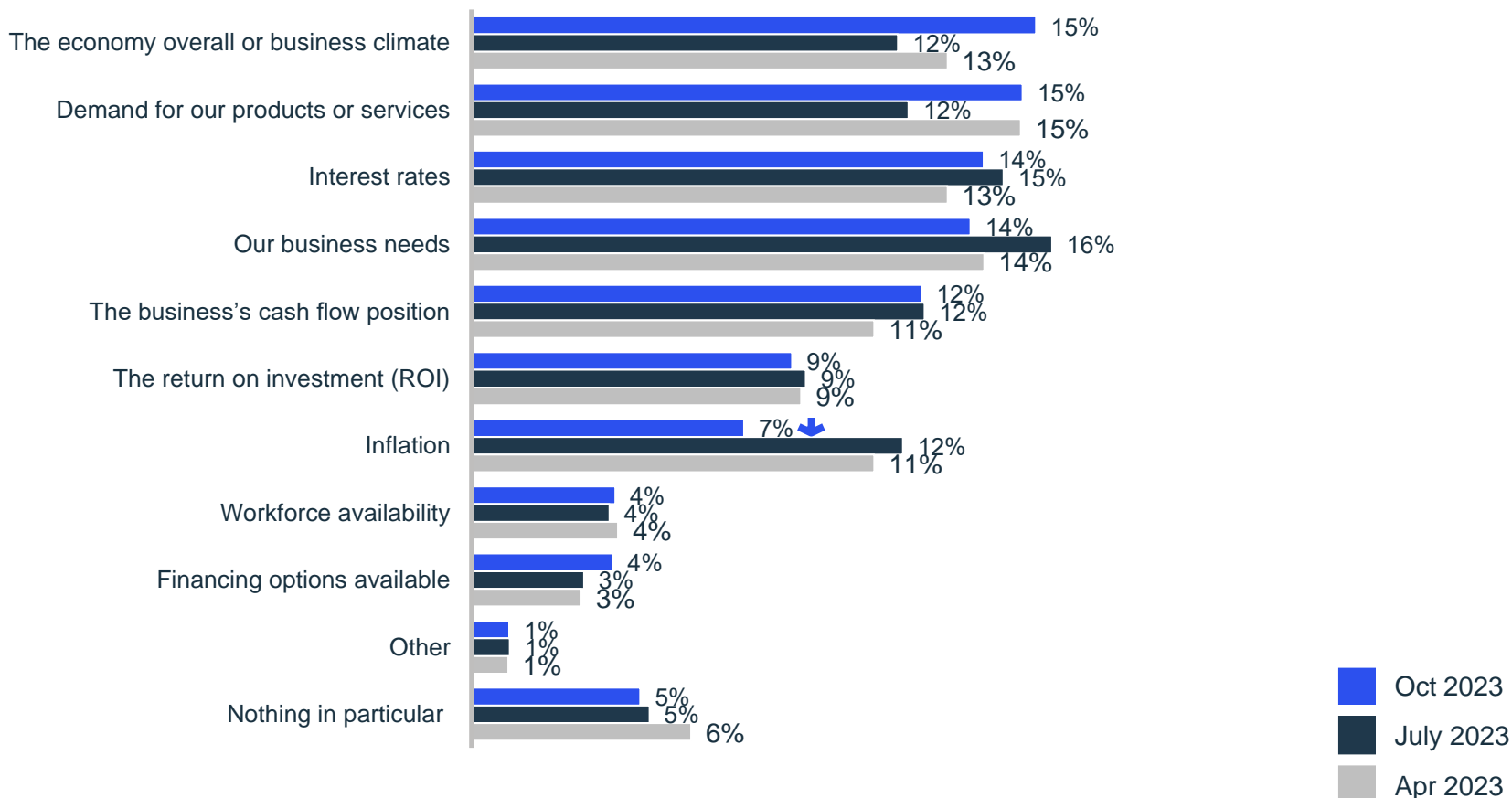


Base: Respondents planning to invest (n=897). Those who did not know or preferred not to answer were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one. * Micro-businesses are SMEs with 1 to 4 employees and <\$500K annual sales

Most SMEs' investment decisions will be driven primarily by external factors: the economy overall, demand for their offering and interest rates. Concerns regarding inflation have decreased significantly.



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=960).

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

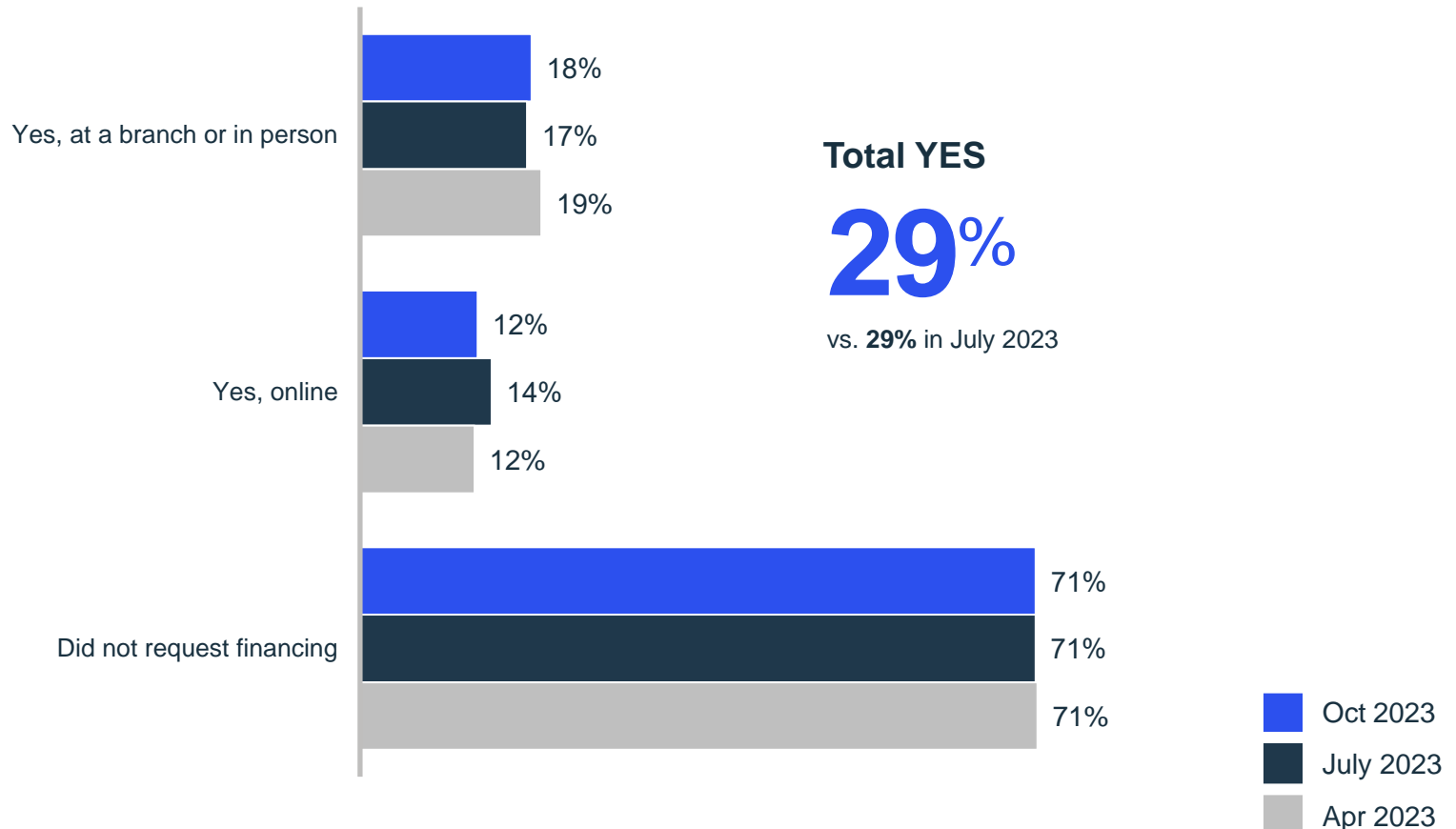


Financing supply

A stable percentage of SMEs indicated having requested financing in the last three months.



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

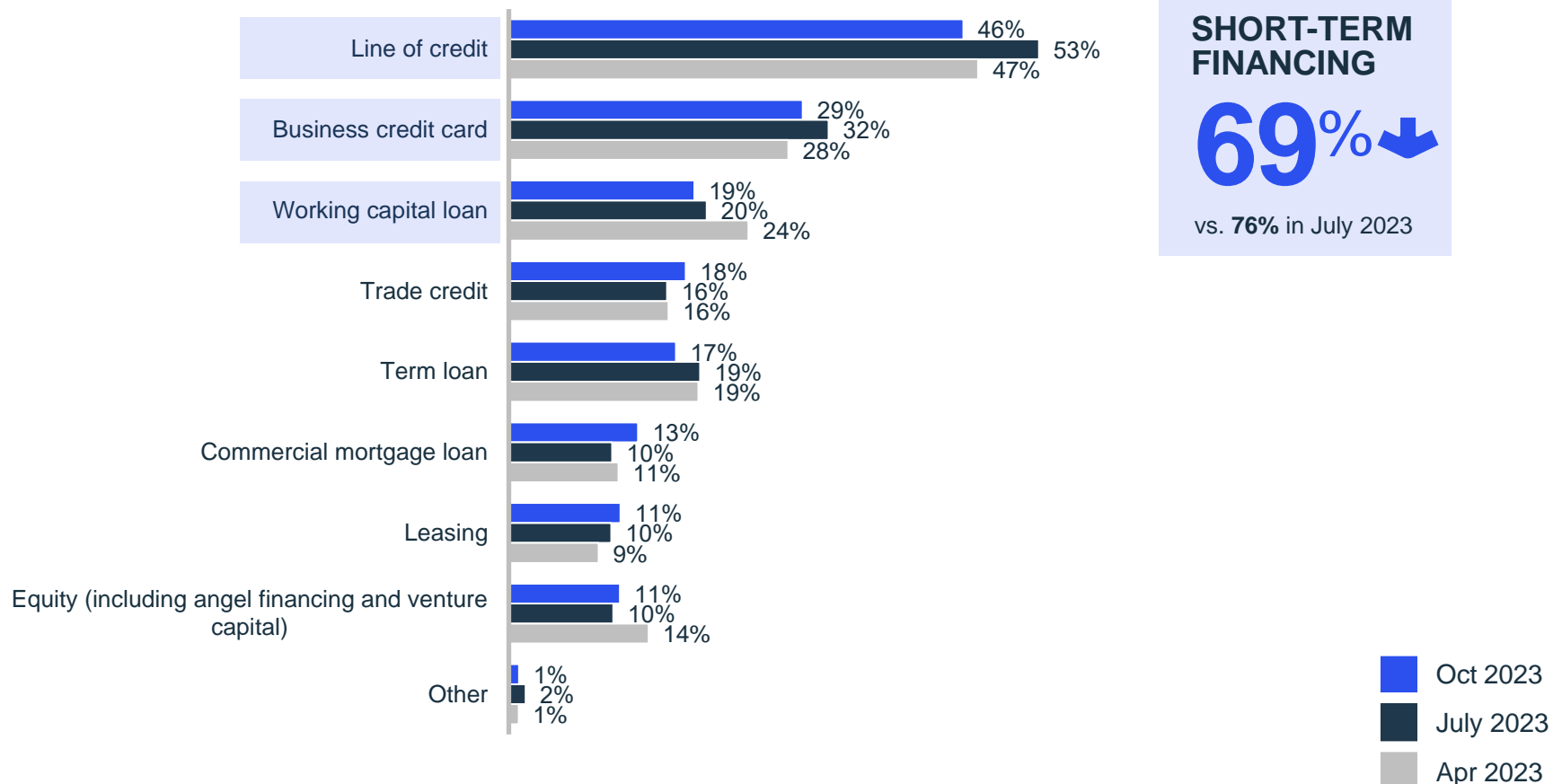


Base: All qualified respondents (n=964). Those who did not know were excluded from the calculation base. Multiple answers allowed for the "Yes" response.

Demand for short-term financing has decreased significantly since July, which may be attributed to the fact that SMEs have tapped the credit needed regarding lines of credit and business credit cards.



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

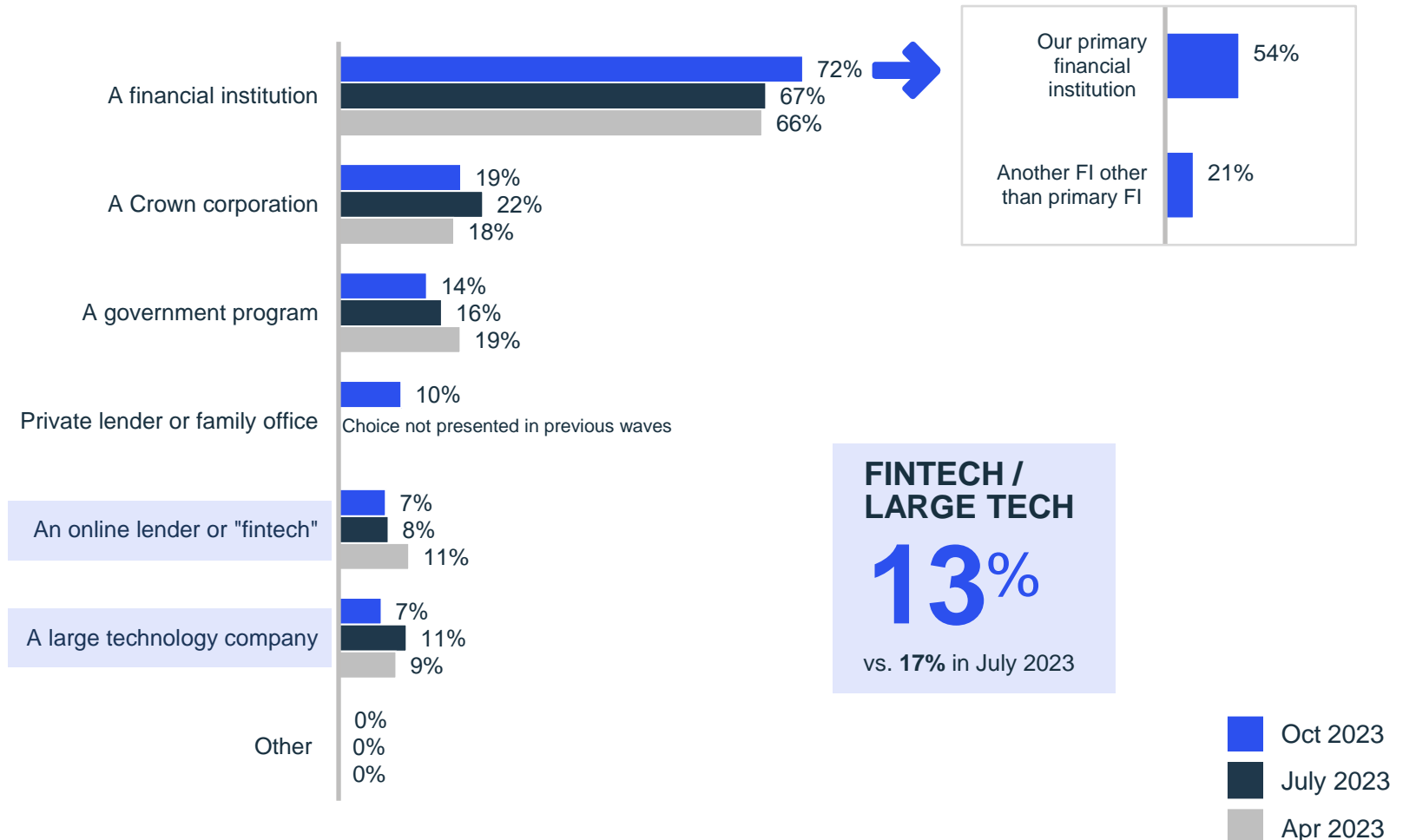


Base: Respondents who requested financing (n=341). Those who did not know were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Short-term options are highlighted in blue in the graph. Arrows indicate statistical differences between this wave and the previous one.

Just over half of SMEs approached their primary FI for financing or credit, but we see that a significant proportion also approached FIs other than their primary financial institution.



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

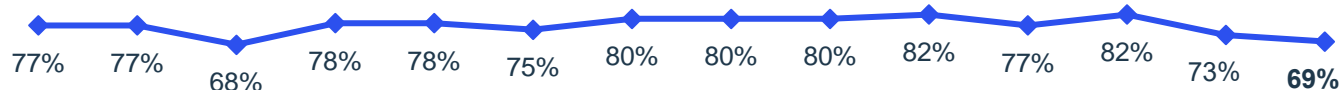
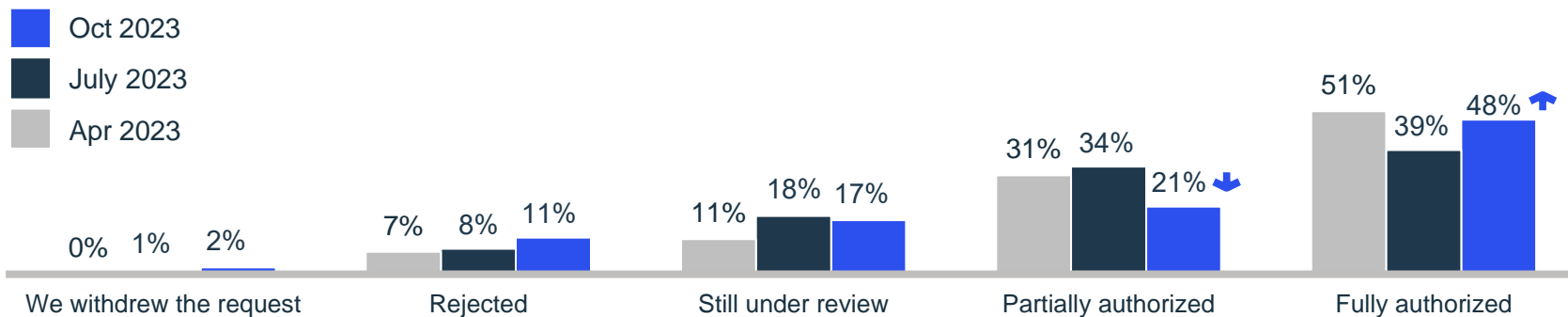


Base: Respondents who requested financing (n=345). Those who did not know were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Arrows indicate statistical differences between this wave and the previous one. The answers to this question were modified 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 continue to trend lower. A significant decrease in partly authorized combined with higher rejected rates explain this drop.



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



APPROVAL RATE

69%

Jul 2020 Oct 2020 Dec 2020 Mar 2021 Jun 2021 Oct 2021 Jan 2022 Apr 2022 Jul 2022 Oct 2022 Jan 2023 Apr 2023 Jul 2023 Oct 2023

◆ Authorized (in full or in part)

Base: Respondents who requested financing (n=341). Those who did not know were excluded from the calculation base.

3_d

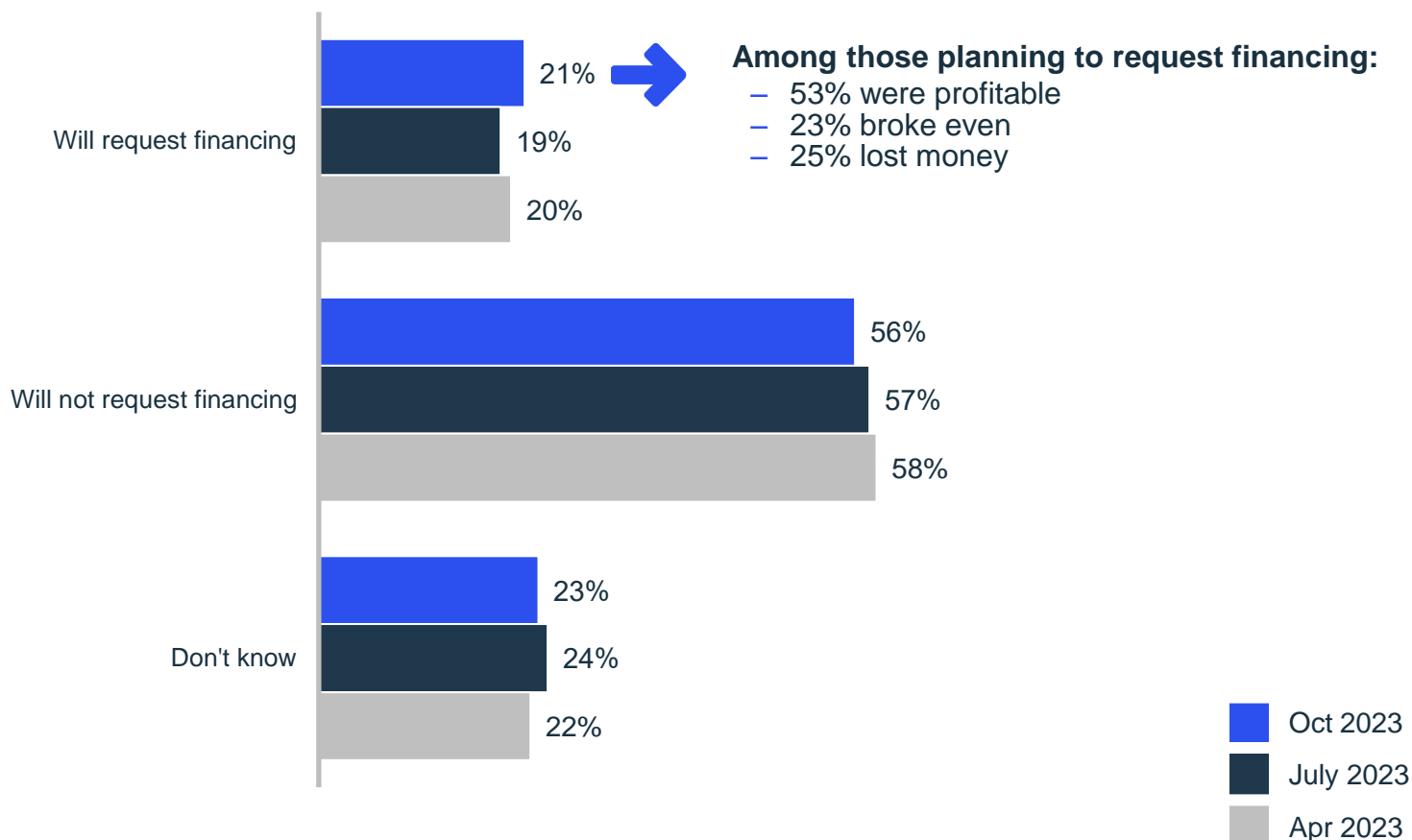


Financing demand

Demand for financing is sustained, but many SMEs are not coming from a position of strength.



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

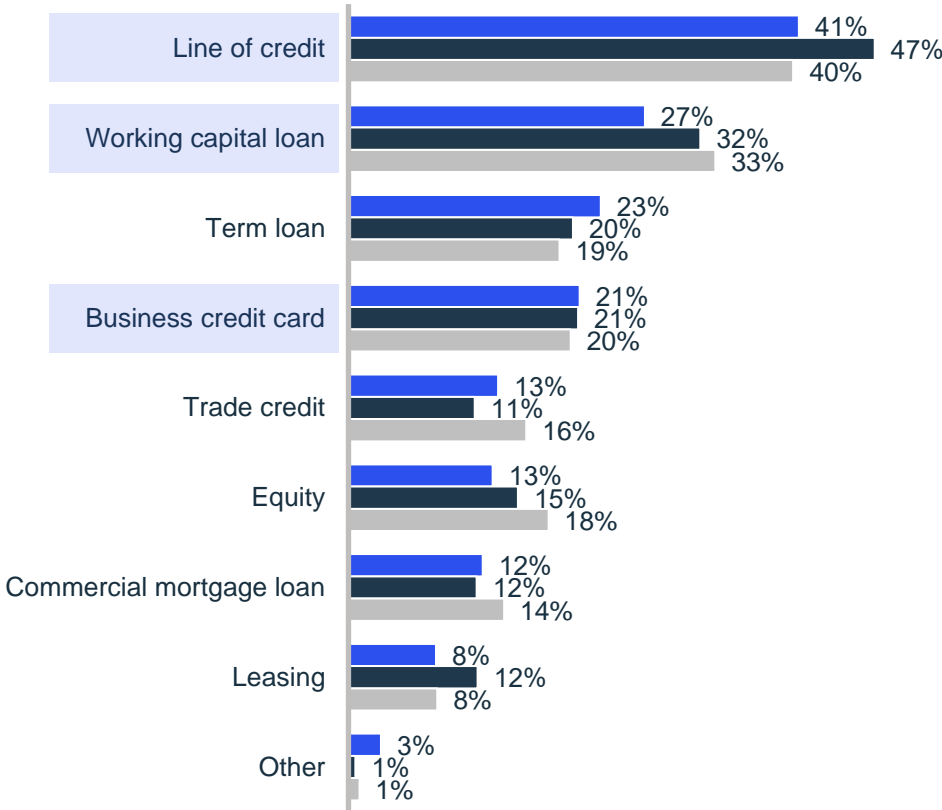


Base: All qualified respondents (n=996).
Those who preferred not to answer were excluded from the calculation base.

There is a significant decrease in demand for short-term financing.



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



SHORT-TERM FINANCING

63% ↓

vs. **73%** in July 2023

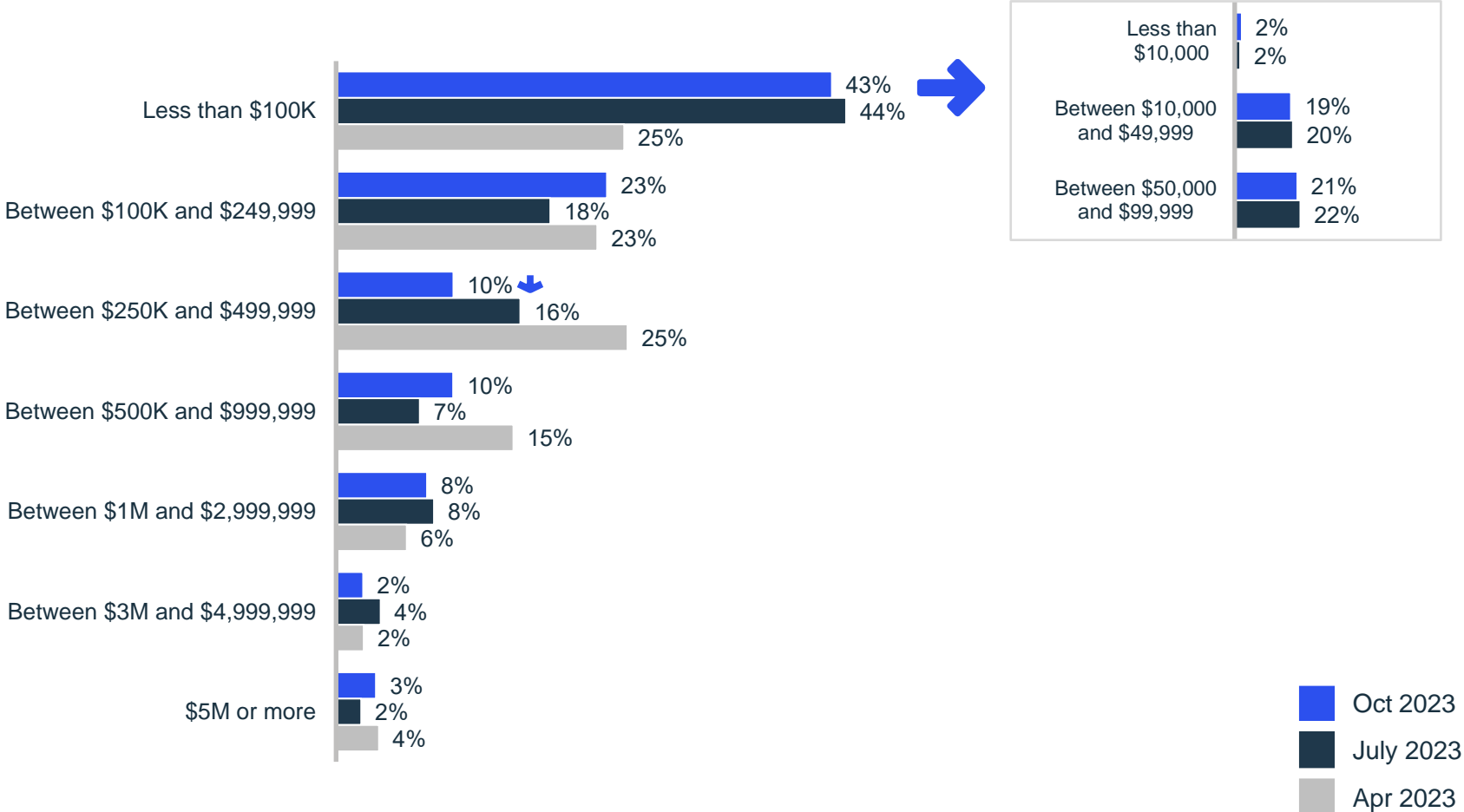


Base: Respondents who will request financing (n=244). Those who did not know are not presented in the graph. Arrows indicate statistical differences between this wave and the previous one. Multiple mentions were allowed; therefore, total exceeds 100%. In this graph, short-term options are highlighted in blue.

There continues to be high demand for loans under \$100,000.



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

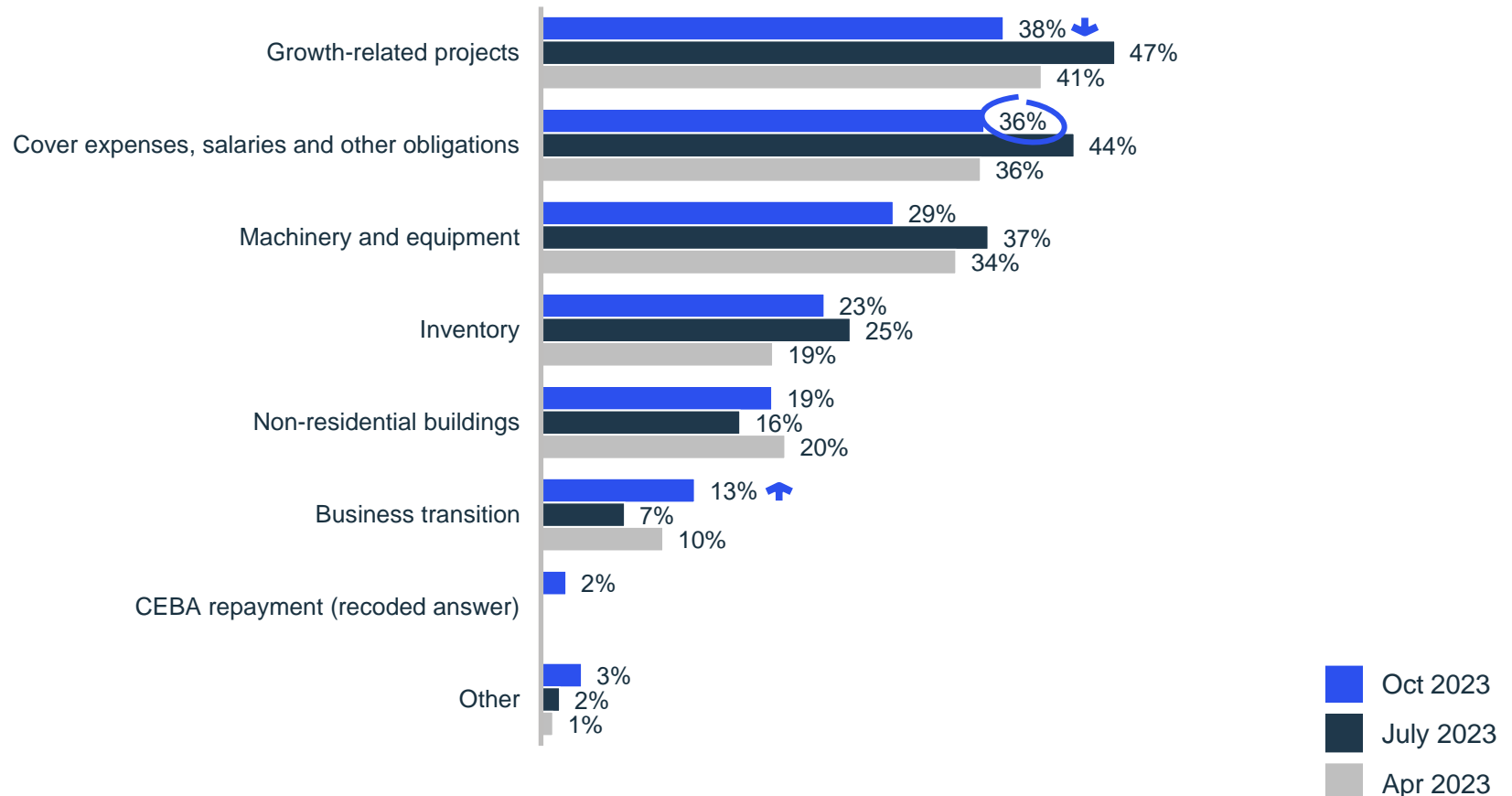


Base: Respondents who will request financing (n=239).
 This question was modified in July 2023 to capture smaller amounts under \$100,000.
 Those who did not know or preferred not to answer are not presented on this slide.
 Arrows indicate statistical differences between this wave and the previous one.

Good news: fewer SMEs plan to borrow to cover expenses. Less good news: fewer need funds for growth-related projects. Business transition is up significantly.



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

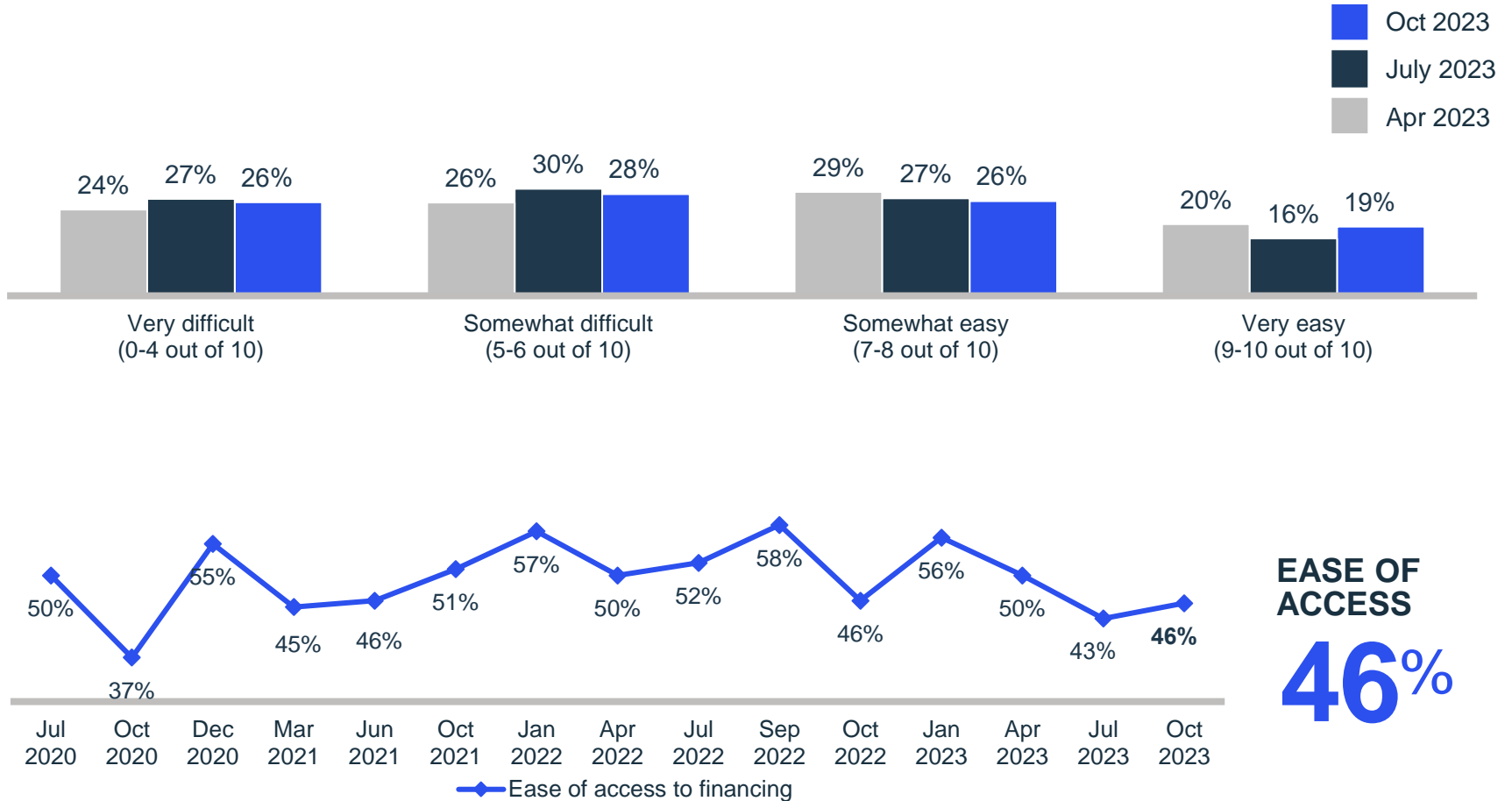


Base: Respondents who will request financing in the next 12 months (n=245). Multiple mentions were allowed; therefore, total exceeds 100%. Those who did not know or preferred not to answer are not presented on this slide. Arrows indicate statistical differences between this wave and the previous one.

Even with approval rates decreasing, we see a slight improvement in perceived ease of access to financing.



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

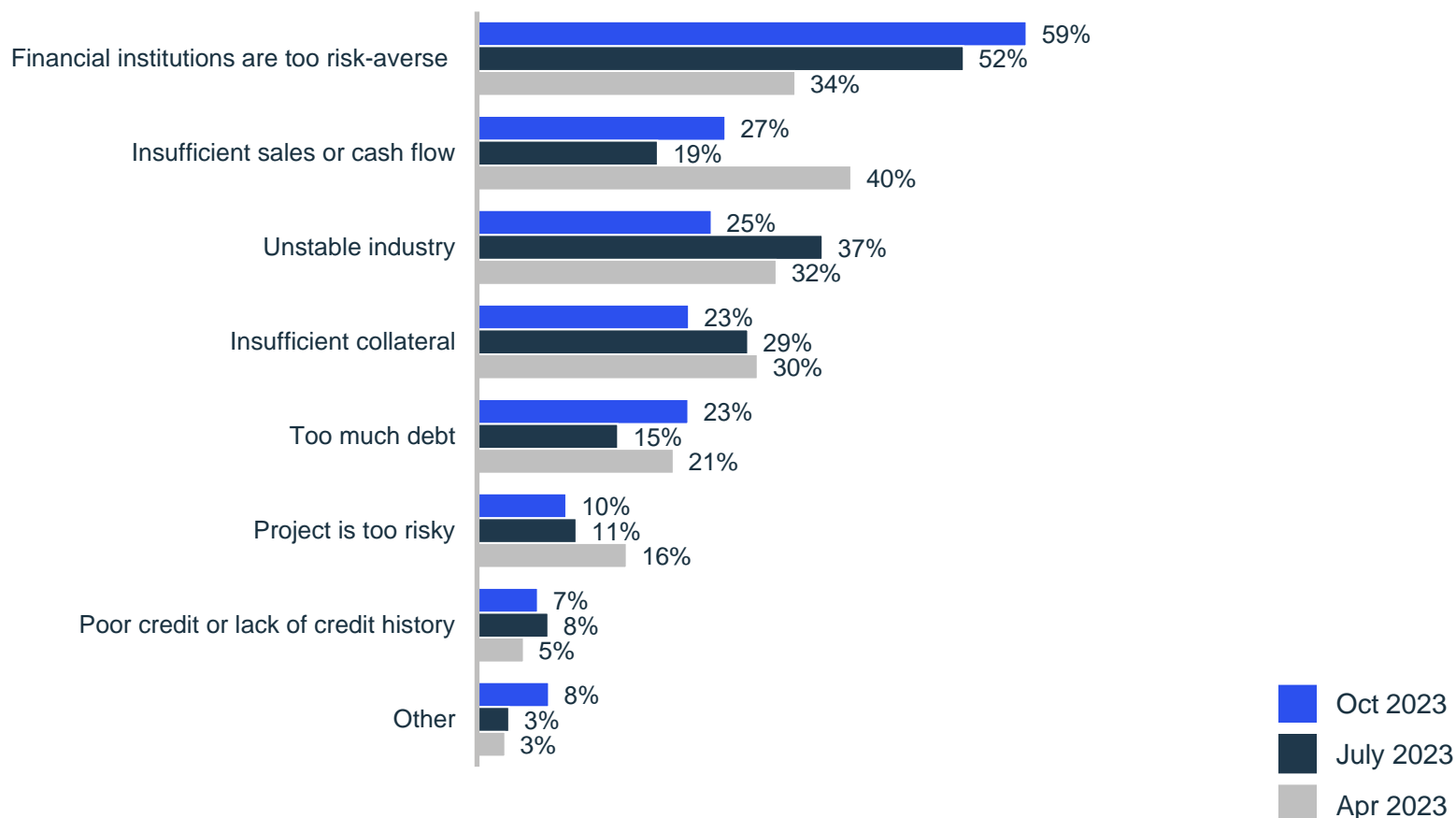


Base: Respondents who intend to request financing in the next 12 months (n=238). Those who did not know or refused to answer were removed from the calculation base. Arrows indicate statistical differences between this wave and the previous one.

FIs' reported risk aversion continues to trend upwards. Internal issues such as sales, industry sector, insufficient collateral and current debt levels complete the top answers provided.



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

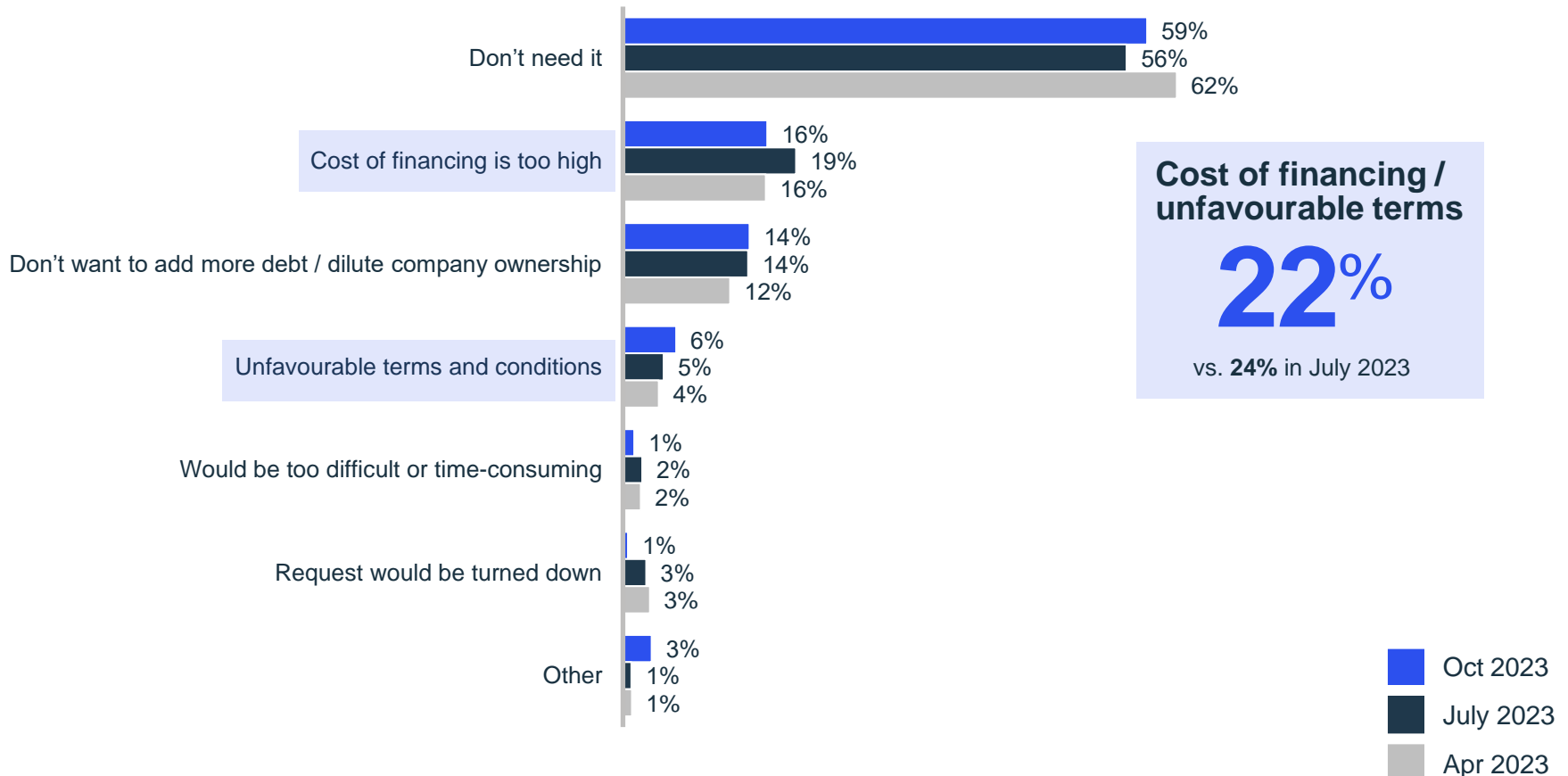


Base: Respondents who believe it will be difficult to obtain financing (n=49). Those who did not know were excluded from the calculation base. Multiple mentions were allowed; therefore, total exceeds 100%. Sample size is small, please interpret with caution. Arrows indicate statistical differences between this wave and the previous one.

Just over one in five SMEs mentioned that the cost of financing is too high or that terms and conditions are unfavourable. For the most part, a lack of need justifies their decision not to request financing.



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

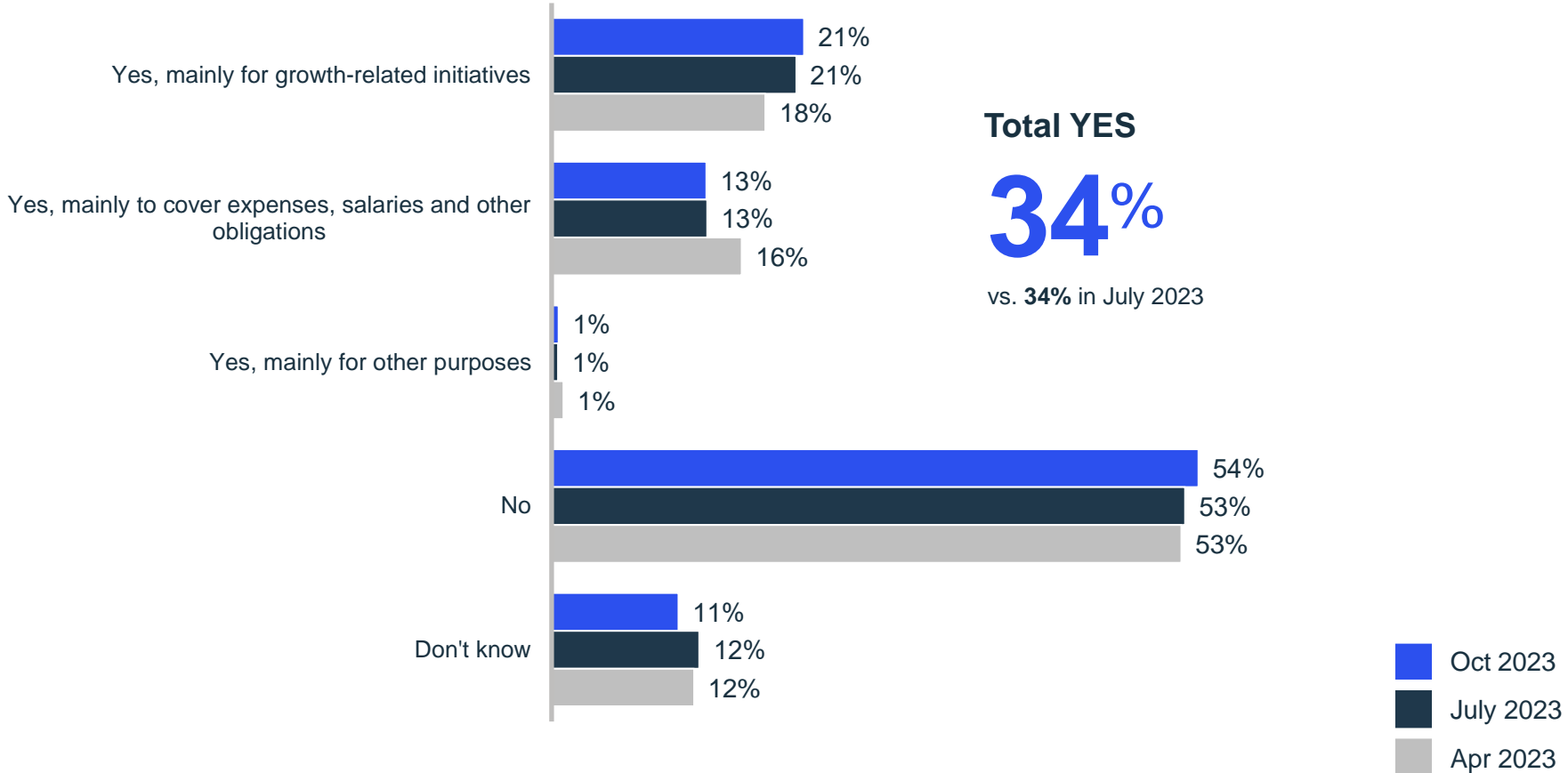


Base: Respondents who will not or who don't know if they will request financing in the next 12 months (n=697). Those who did not know or preferred not to answer were excluded from the calculation base. Arrows indicate statistical differences between this wave and the previous one. Multiple mentions were allowed; therefore, total exceeds 100%.

Financing would be helpful for a third of SMEs who don't know or don't plan on requesting financing.



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



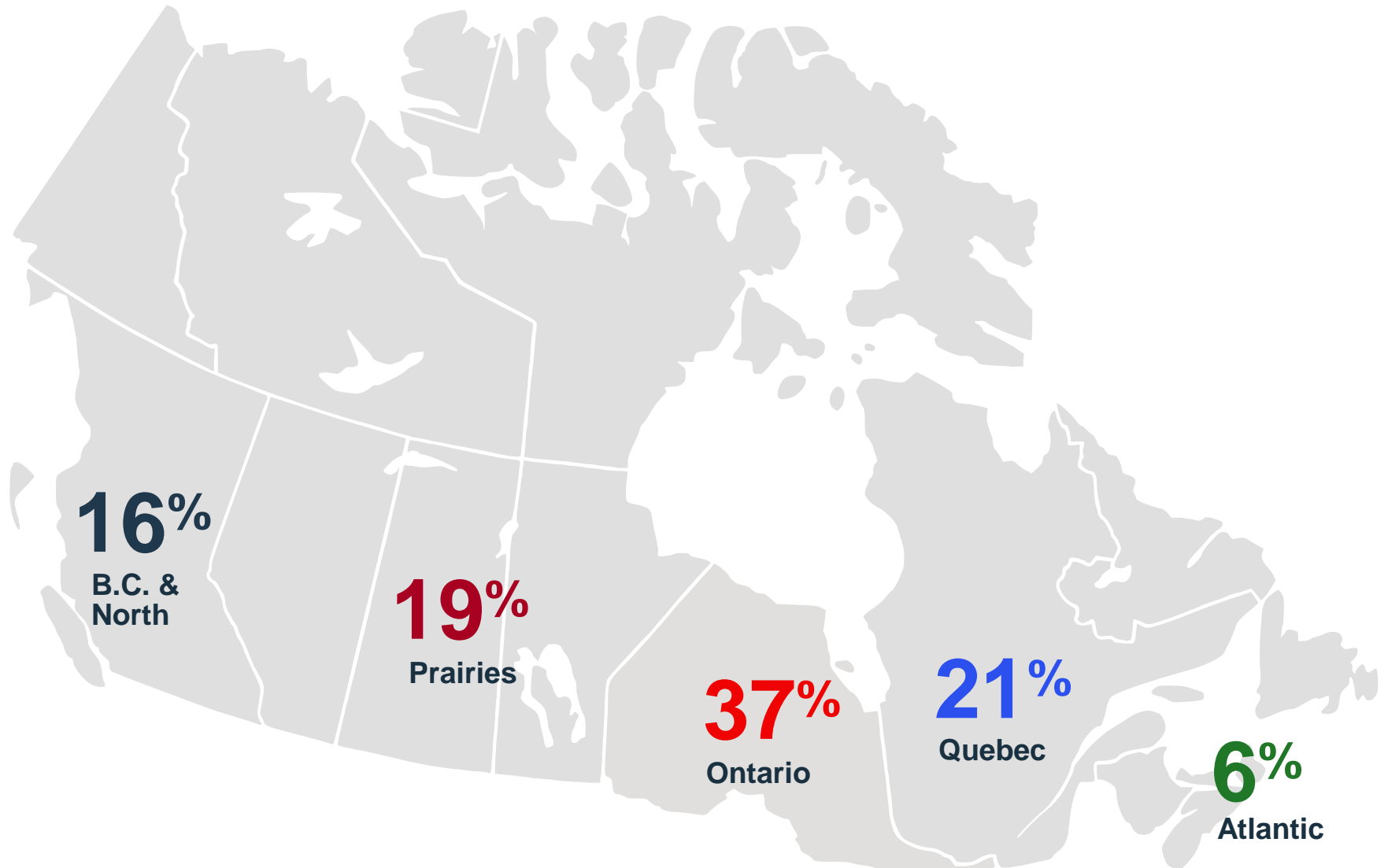
Base: Respondents who will not or don't know if they will request financing in the next 12 months (n=740). Those who did not know or preferred not to answer were excluded from the calculation base.

4



Respondent profile

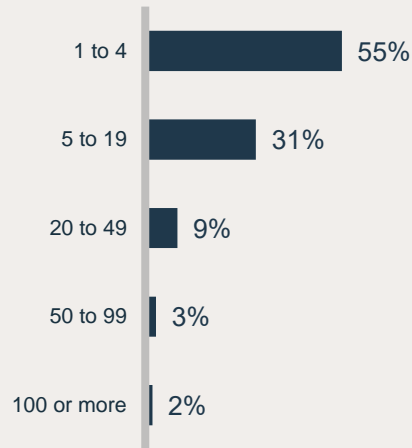
Region



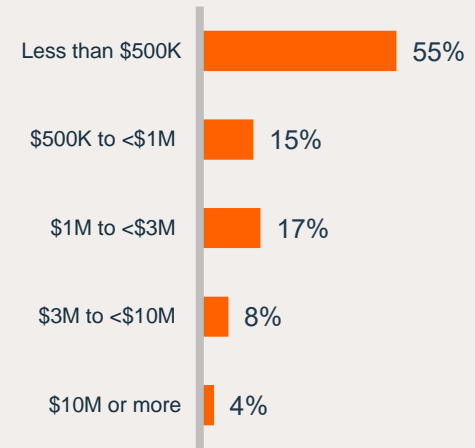
SME respondent profile



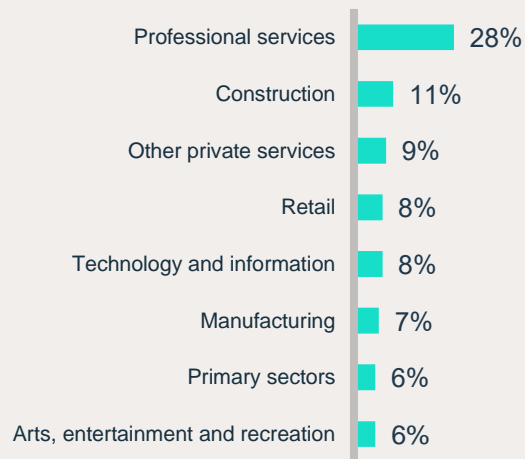
Number of employees



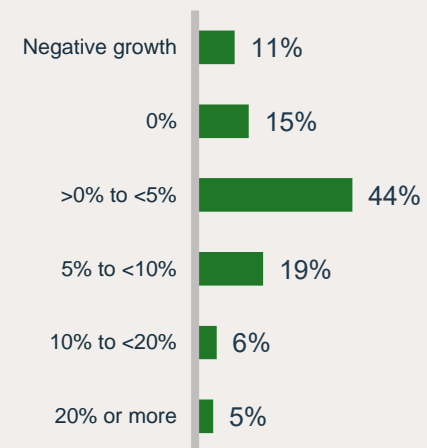
Annual sales



Sector of activity



Revenue growth

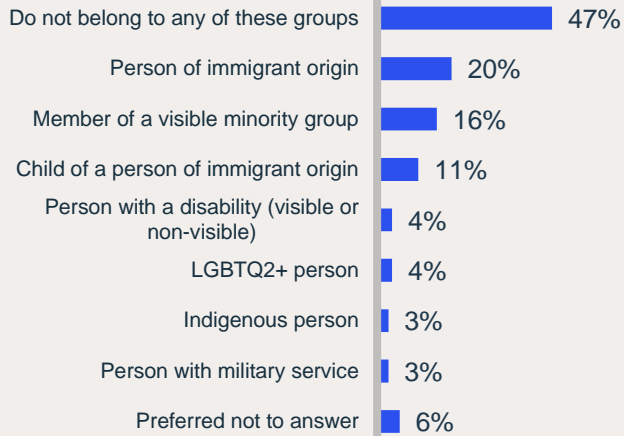


Base: Number of employees (n=1,005). For annual sales (n=924). For the sectors (n=989) only those with 6%+ respondents are presented. For revenue growth = Respondents for which company existed last year (n=914). Those who didn't know were excluded from the calculation base.

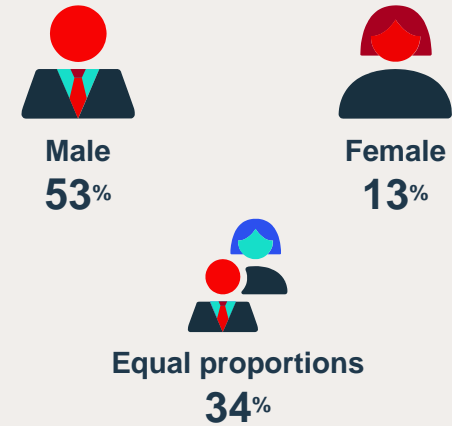
SME respondent profile



Diversity*



Gender ownership



Thank you

Research and market intelligence team

