

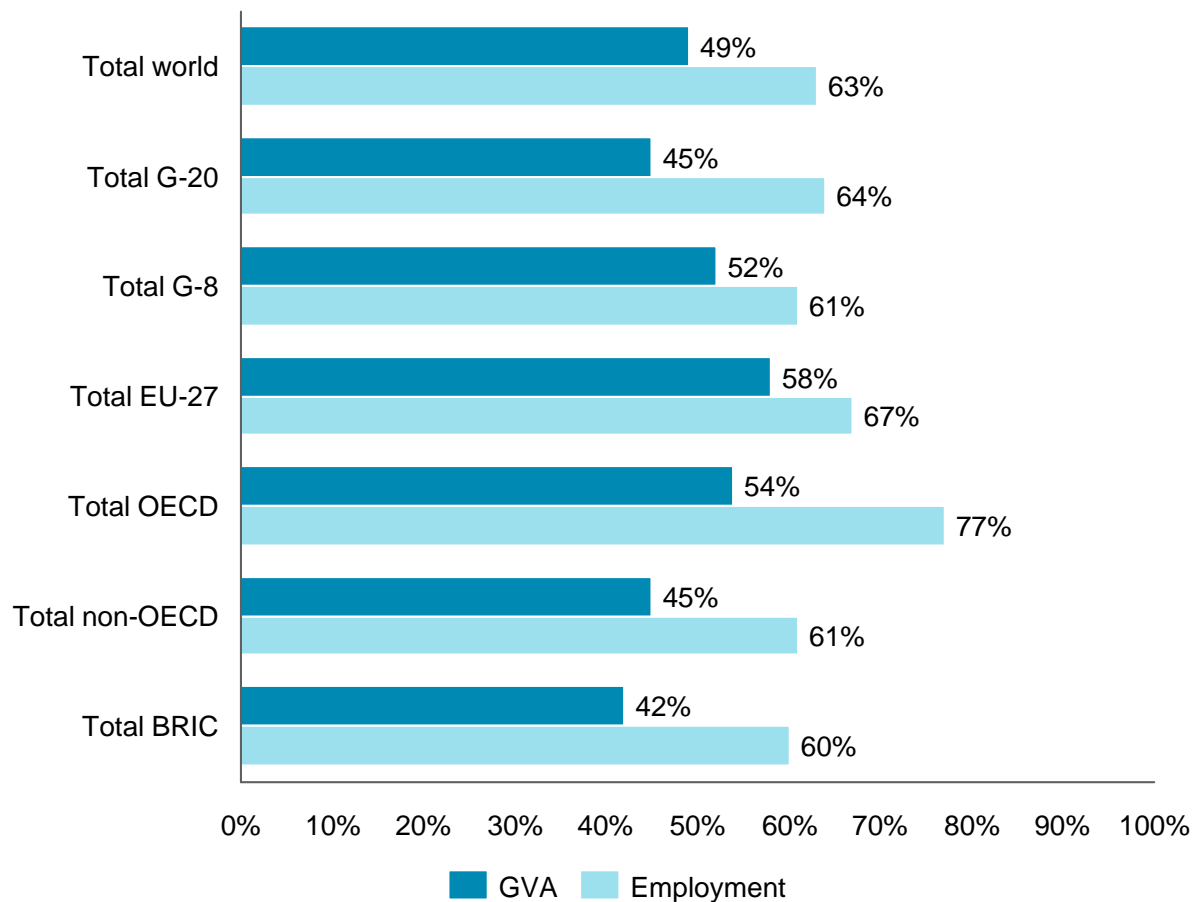
UNLOCKING SME FUNDING FOR GROWTH

1 MARCH 2016

**Dr. Daniela Peterhoff,
Head of Market Infrastructure**

SME's and growth companies contribute a significant proportion of GVA and employment globally, particularly in emerging and developing economies

SME contribution to GVA and Employment



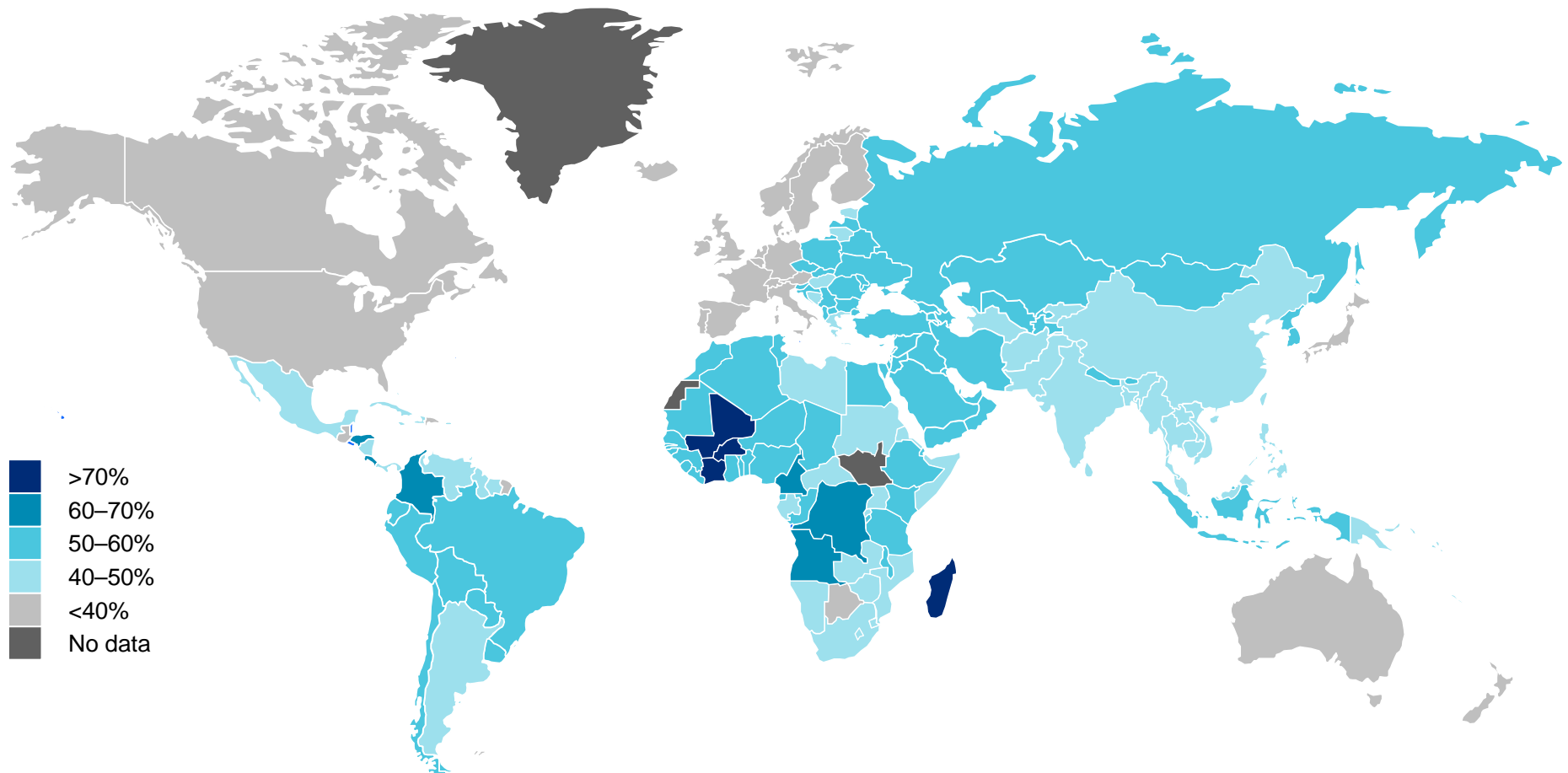
Perspectives

- SMEs account for nine out of ten businesses globally
- They provide more than 60% of overall employment and 80% of jobs in the developed world
- SMEs contribute approximately 50% of global GVA
- SMEs require financing throughout their development lifecycle

Source: ACCA, Small Business: A Global Agenda

However access to financing is a significant constraint for SMEs with the total credit gap estimated at \$3.5TN for formal and informal SMEs

Credit gap of unserved and underserved SMEs, % of SMEs



Source: ACCA, Small Business: A Global Agenda
1 IFC Enterprise Finance Gap Database 2011
2 IFC, AFME, Oliver Wyman analysis

In Europe alone there are over 20 million SMEs with the large and domestic corporates typically best suited to capital market solutions

European corporate landscape

	Company revenues	Indicative headcount	# of companies in Europe	Qualitative characteristics
MNCs	€500MM +	1,000+	1,500-2,000	<ul style="list-style-type: none"> • International customers and/or multinational operations • Heavy usage of debt products and capital markets • Majority (70%) listed
Large domestic corporates	€100MM - €500 MM	250-1,000	2,500-3,000	<ul style="list-style-type: none"> • Local to national operations • Significant use of capital markets and bank lending • 38% listed
Mid-cap corporates / SMEs	€10MM - €100MM	50-250	15,000-20,000	<ul style="list-style-type: none"> • Purely local operations • Heavily dependent on bank loans and / or private equity; opportunity to increase public equity issuance
Micro corporates	< €10MM	<50	~20 million	<ul style="list-style-type: none"> • 9 of 10 SMEs are micro firms, with an average of 2 employees • Purely local operations • Solely dependent on private equity and bank loans
Total number of companies:			20-21 million	

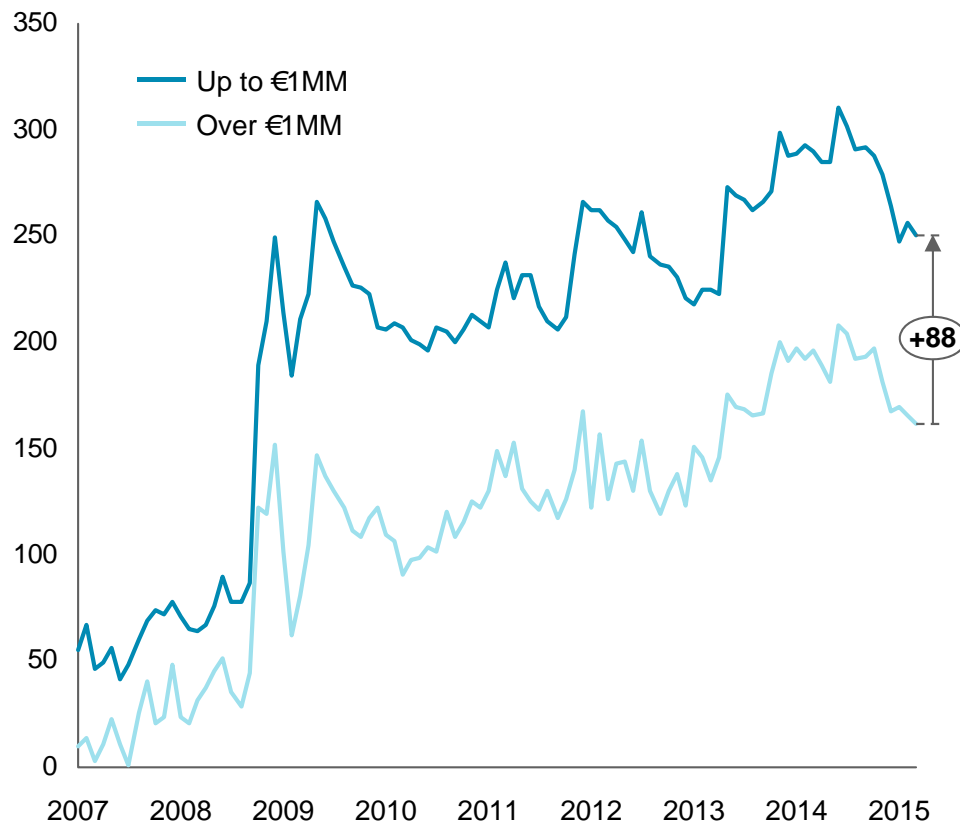
 Typical target market of an SME Exchange

Source: Eurostat, National statistics of member states, Cambridge Econometrics, Ecorys, S&P Capital IQ, Oliver Wyman analysis

© Oliver Wyman | LON-FSP03101-102

The cost of funding for SMEs in Europe has risen and economic conditions have remained poor since the financial crisis

Cost of new loans in Europe by ticket size¹
2007-2015, bps



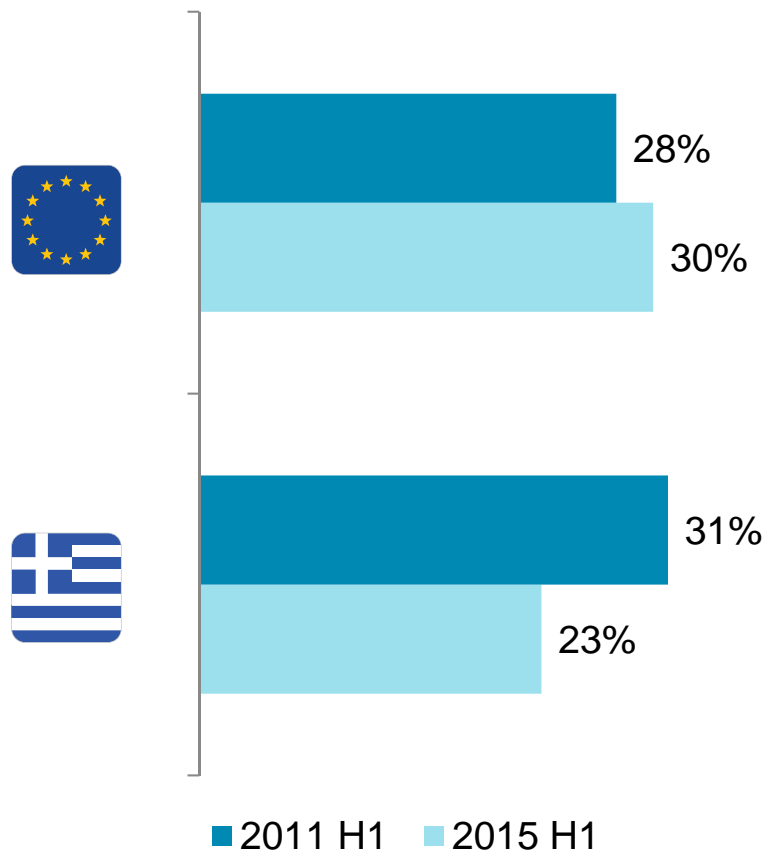
Perspectives

- The global financial crisis has left its mark on SMEs as banks and regulators have applied more cautious risk management and credit underwriting processes, most obviously, through the application of Basel III
- This has pushed the quantity of SME lending down and the price up
- A comparison of the average cost of loans in Europe shows the widening gap between lending to SMEs and to large firms (88 bps)

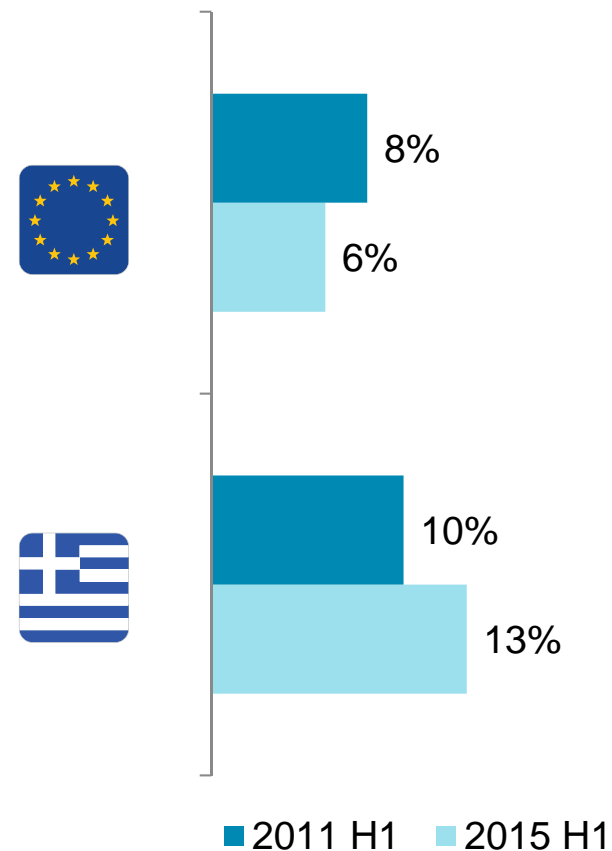
1. Averaged across tenor, spread calculated as corporate loan interest rates minus Euro area base rate;
Source: ECB, Oliver Wyman analysis

Access to credit is at its lowest level in Greece, whilst recovering in rest of Europe

Application for bank loans % of surveyed¹ SMEs



Application success % of surveyed SMEs obtaining all or most of loan

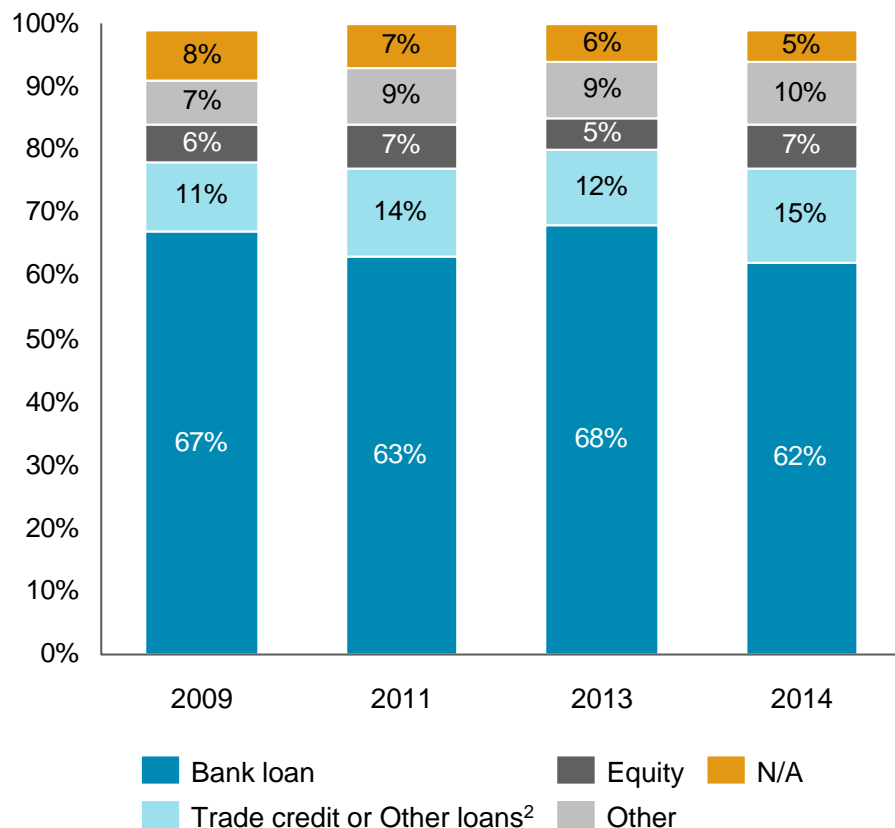


Source: ECB

1. SAFE, Survey on Access to Finance of Small- and Medium-Sized Enterprises

SMEs have been forced to alter their funding mix as the cost of finance has risen while economic conditions have remained poor

European¹ SME growth financing source preferences 2009-2014



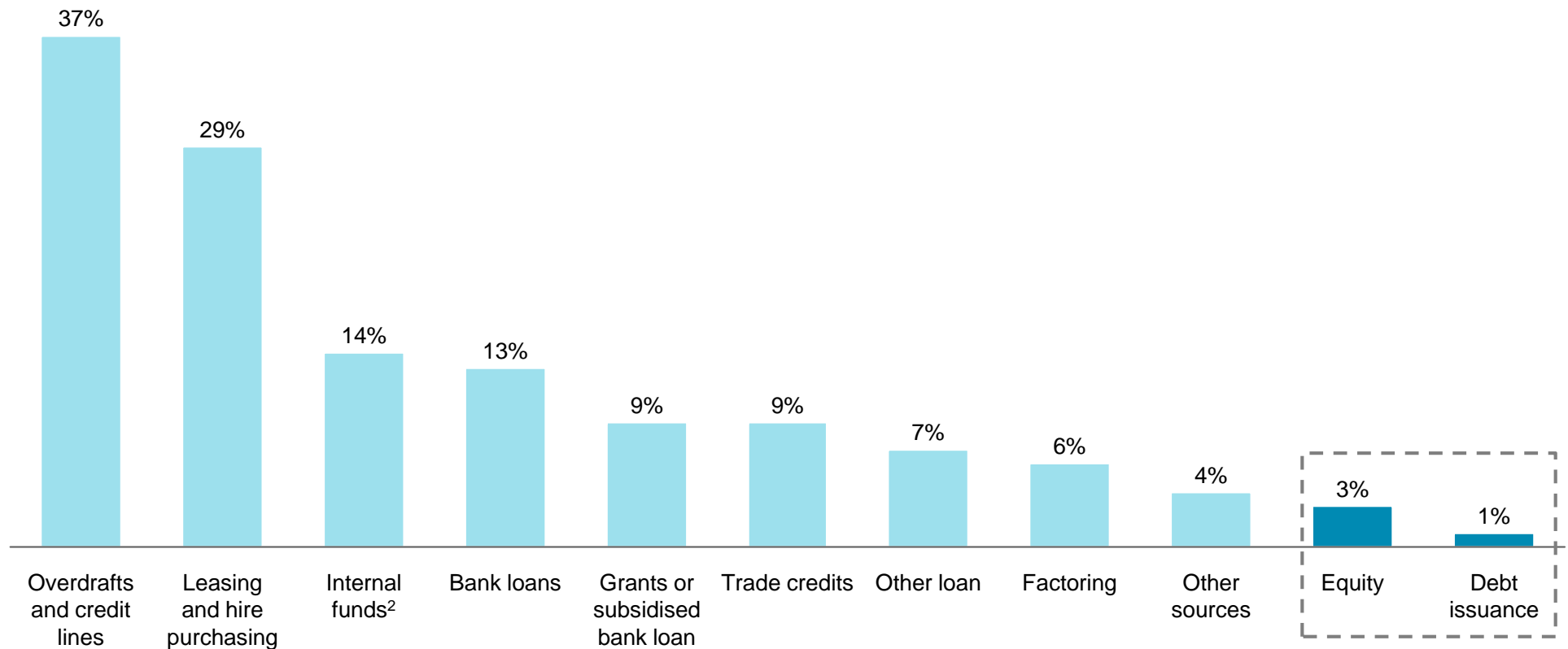
Perspectives

- SMEs predominantly use short-term funding options including overdrafts, lines of credit and bank loans
- Such sources can be valuable in the start-up stage but they do not provide the long-term financing required as companies mature or seek growth
- Of SMEs surveyed only 7% prefer equity issuance as the preferred financing mechanism

1. EU-28 SMEs; 2. Loans from related companies, shareholders or public sources;
Source: SAFE analytical report 2014

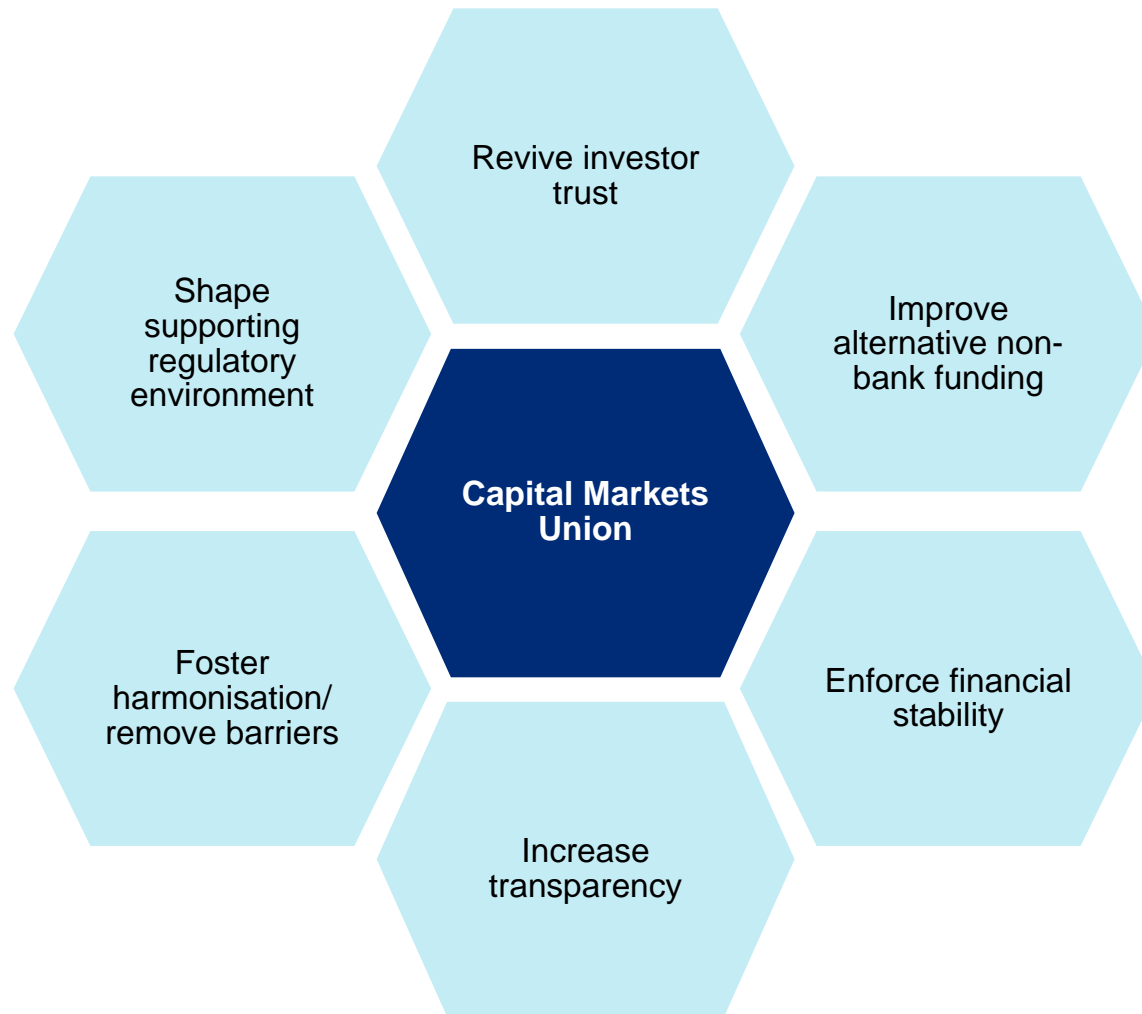
European SMEs should be made more aware of equity and debt issuance as an alternative to bank lending

European¹ SME financing sources use between April and September 2014
2014, % of SMEs

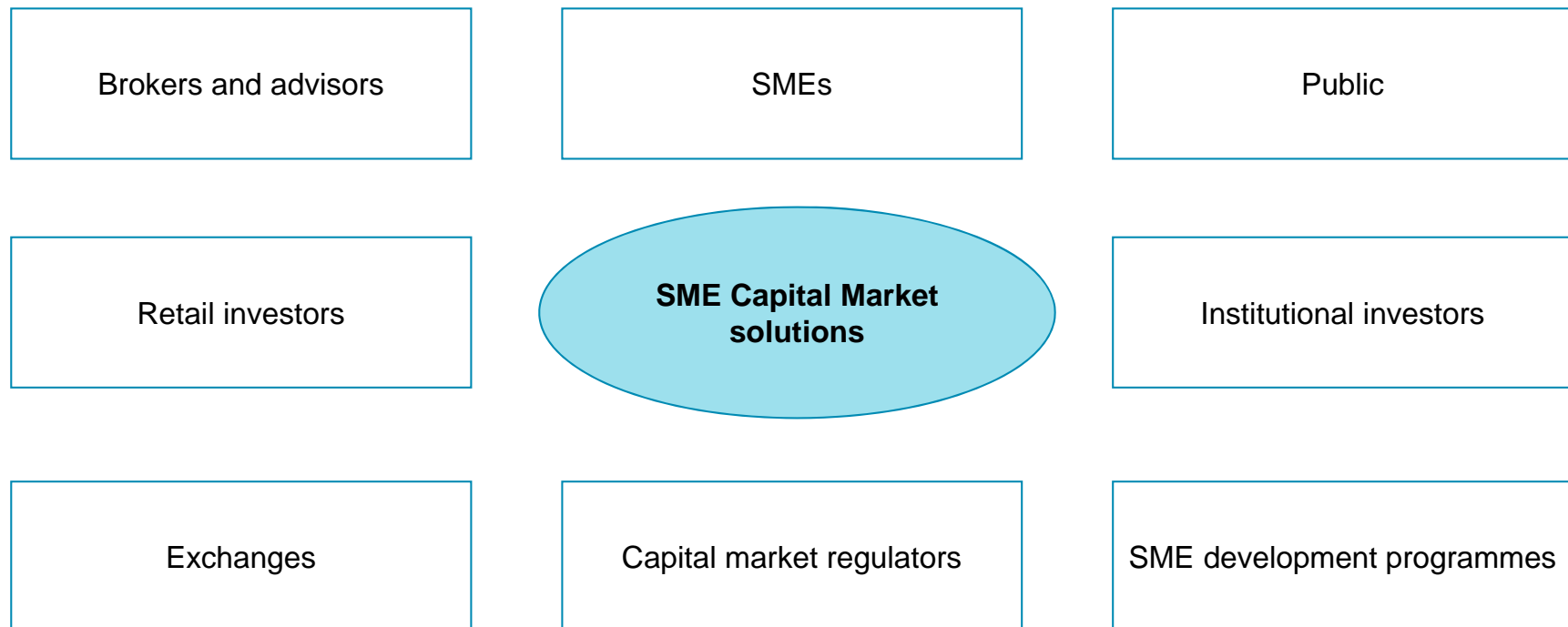


1. EU-28 SMEs; 2. Retained earnings or sales of assets
Source: SAFE analytical report 2014

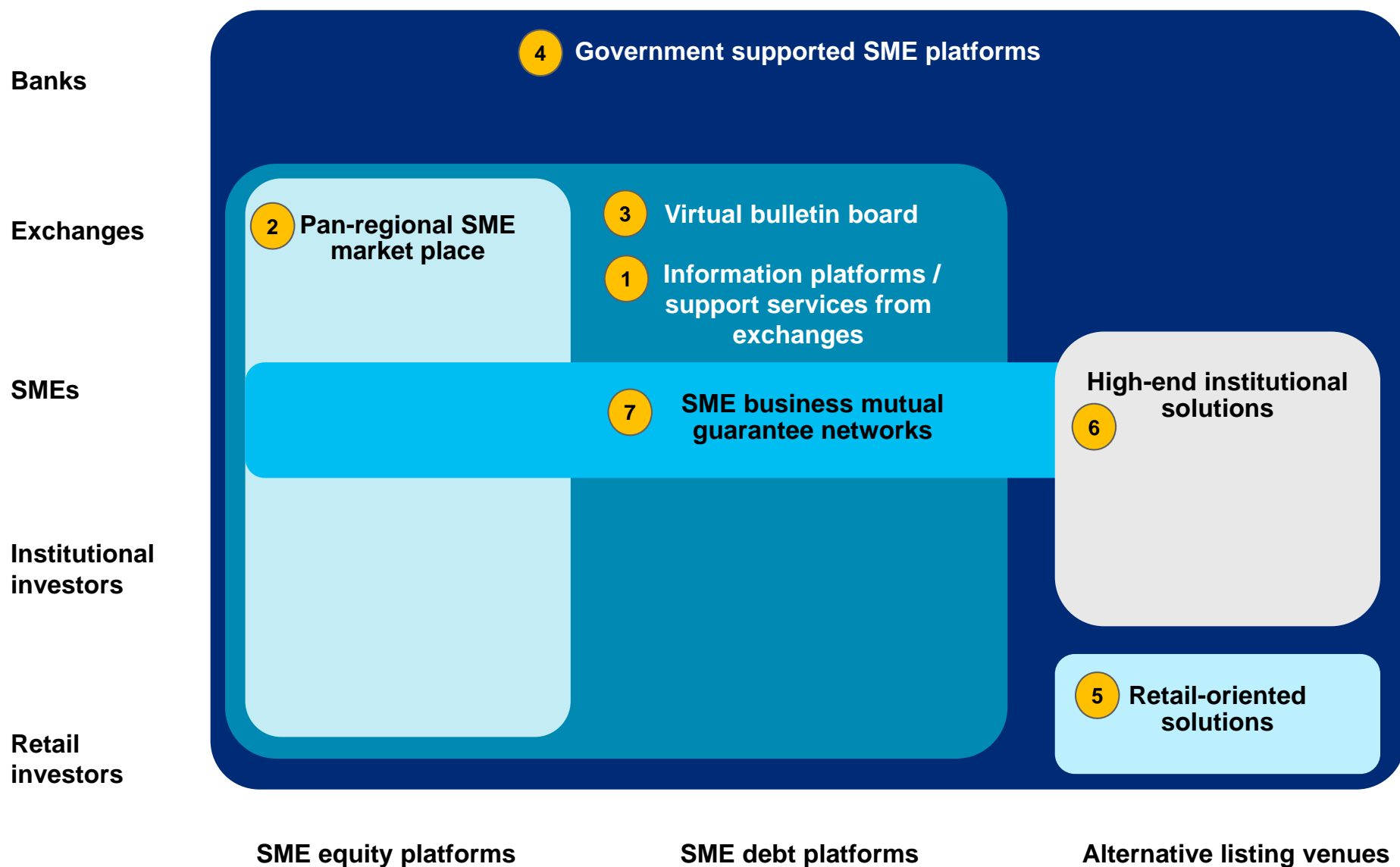
Capital market solutions exist for SMEs but are infrequently used given cost and time to raise finance; the CMU addresses this issue amongst other things



Despite the challenges faced by the current platforms, vibrant SME capital markets promise benefits for many stakeholders



We see a number of opportunities to enable greater access to financing for SMEs that requires broad support from market stakeholders



QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS

This report is for the exclusive use of the Oliver Wyman client named herein. This report is not intended for general circulation or publication, nor is it to be reproduced, quoted or distributed for any purpose without the prior written permission of Oliver Wyman. There are no third party beneficiaries with respect to this report, and Oliver Wyman does not accept any liability to any third party.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Oliver Wyman accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties.