

Economic Intelligence Wales

Quarterly report

October 2019

Contents

1. Introduction	4
2. The Welsh economic context	5
2.1 UK and regional economic prospects	5
2.2 The SME picture in Wales: understanding factors shaping demand for finance	7
3. Provision of SME finance and cost of finance	14
4. Development Bank of Wales activity	19
5. Conclusions	25

Max Munday, Annette Roberts, Nikos Kapitsinis

Welsh Economy Research Unit, Cardiff Business School
mundaymc@cf.ac.uk

For further information or to submit feedback and research proposals please email: EconomicIntelligence@developmentbank.wales

The ONS has advised on the production of this report but is not responsible for the views or statistics presented and has not validated the content.

Economic Intelligence Wales Limited, Unit J Yale Business Village, Ellice Way, Wrexham, Wales, LL13 7YL, 11001584.

Development Bank of Wales Plc (Banc Datblygu Cymru ccc) is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales (Banc Datblygu Cymru ccc) has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc (Banc Datblygu Cymru ccc) nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found at developmentbank.wales.

Executive Summary

The timing of this QR coincides with yet another crossroads for the UK, as the next Brexit deadline approaches at the end of October 2019. Important for the broader economic context is the recent contraction of UK GDP in the second quarter of 2019. In April 2019 UK monthly business investment also fell at its sharpest monthly rate since the financial crisis. Driven by business uncertainty, the economic environment remains challenging and fast moving.

Between 2013 and 2018, the small and medium firm size bands in Wales increased their count, employment, and turnover. However, **Welsh micro business turnover declined by 2.4% over the same period, largely due to a 20% annual decline in the year to 2018.** This compares to a 10% increase in UK micro businesses turnover during 2013-2018. **The greatest turnover increase in Wales between 2013 and 2018 was by medium-sized businesses (19%).**

Wales recorded the highest business birth rate in 2017 across the UK countries and devolved administrations, at 13.7% of active businesses, while the birth rate in the UK was 13.1%. This is a very different picture to 2016, when Wales had the second lowest business birth rate in the UK (at 12.3%).

SME Finance Monitor 2018 reveals that the **proportion of surveyed Welsh SMEs using any type of external finance increased, from 41% in 2016 to 44% in 2018. The 2018 figure was higher than the surveyed SMEs in England and Scotland (35% and 39%), but lower than in Northern Ireland (59%).**

More SMEs were planning to grow in Wales (60%) than in England (48%) and Northern Ireland (57%) in 2018. This is a largely improved picture for Wales, compared with the SME Finance Monitor 2017, which revealed that only 40% of surveyed Welsh SMEs had a desire to grow.

Equity investment in Wales

Development Bank of Wales plays an important role in providing equity. In 2018, 72% of equity deals in Wales involved a government fund, according to the *Small Business Equity Tracker*.

The BVCA Report on Investment Activity 2018 revealed that there were 74 companies in Wales that had received equity investment in 2018, increasing from 52 companies in 2017 and 50 in 2016. The rise in companies receiving investment corresponded with a sharp increase in value of funds invested to £240m in 2018, up from £57m in 2017.

The proportion of Welsh SMEs estimated to be at High risk remained relatively stable between May and August 2019 at around 6.7%. However, success rates for finance applications fell by 12%.

Development Bank of Wales

Total Development Bank investment to 2019/20 Q1 was almost £607m, up from £586m in the period to 2018/19 Q4. More than 3,350 firms have received loans to date, linked with over 12,130 jobs created, whilst safeguarding over 20,030 jobs. More than 300 companies have received equity investment, creating over 3,140 jobs and safeguarding around 2,260 jobs.

In the first quarter of the financial year 2019/20, 160 firms received investment. The value of new investments made by the Development Bank of Wales during **the first quarter of the financial year 2019/20 summed to nearly £25m,** with these linked to almost **150 jobs created** and a further almost **450 jobs safeguarded.**

In this period of heightened uncertainty, understanding how the Welsh economy and its SMEs are uniquely affected is increasingly important. Last year Economic Intelligence Wales (EIW), a collaboration between Cardiff Business School, the Office for National Statistics and the Development Bank of Wales, started its journey to create independent, robust and reliable insights that help better understand and improve the Welsh economy.

This is the first EIW quarterly report (QR) for the 2019/20 financial year. QR1 builds on and expands the baseline picture of Welsh SME activity established in the QRs of the previous financial year. Sections 2 and 3 of this report provide data and commentary on the UK and Welsh macroeconomic context within which Welsh SMEs operate, together with analysis of factors relating to the demand for, and supply and cost of SME finance.

These sections have the objectives of understanding:

- Macro-economic factors shaping the demand for SME finance in Wales.
- Trends in SME growth, start-ups, and business survival prospects in Wales.
- The supply of finance to SMEs in Wales.
- The amounts and types of lending/ investment into SMEs in Wales.

Section 4 summarises the activities of the Development Bank of Wales in the context of factors affecting the demand for, and supply of, finance to SMEs in Wales. In summary, the QR will identify:

- The use of Development Bank funds in financing Welsh SMEs, and what type of enterprises and industries are being supported.
- The geographical distribution of SME investment around Wales.

The final section draws conclusions from the overall analysis.

This report is largely based on publicly available data (generally reported in calendar years) together with a special analysis of data provided by the Development Bank of Wales (mostly reported in financial years). Due to differences in reporting periods there will be some slight temporal mismatch of data within this report.

2.1 UK and regional economic prospects

Business prospects within the UK remain closely linked with developments relating to the UK's future relationship with the European Union. Transition to this new relationship and the related ongoing

economic uncertainty will significantly impact the economic conditions that affect business growth. This will impact the demand for, and supply of, different types of finance.

The UK economy recedes with another Brexit deadline approaching.

Latest data shows that UK GDP fell by 0.2% in 2019Q2, following relatively strong growth in 2019Q1 of 0.5%, partly linked to stock building ahead of the previous Brexit deadline. This latest quarterly decline is a result of falls in both UK production and construction sector output during the quarter. Services output increased during 2019Q2, but by less than 0.1%. However prospects for services sector growth during 2019Q3 are not encouraging, with some business surveys reporting that confidence about UK service sector growth in August declined for the third consecutive month to the

lowest level for more than three years.¹ Within the UK production sector, car manufacturing plunged by 24% in the three months to April 2019 and by 44.5% in the year from April 2018.² According to the Society of Motor Manufacturers and Traders, new investment in the car industry was down more than 70%, declining by £90m in the first six months of 2019, with car production falling by 20% in the same period.³ In the meantime, manufacturing indices in the Eurozone, UK and Germany, all recorded a seven-year low in July 2019.

Weak business investment levels persist.

Business investment predictions for 2019, made by the Confederation of British Industry, refer to the steepest decline since 2009. The Bank of England's August Inflation 2019 report⁴ showed that although there is an underlying pattern of relatively strong household consumption growth, weaker business investment rates are now expected. Other analysis by the

Bank of England, based on a survey of UK firms, suggests that anticipation of Brexit has reduced investment by UK firms by around 11% in the three years following the June 2016 referendum⁵. The Pound to Euro exchange rate was at a two-year low in August 2019. The Bank of England decided to keep interest rates unchanged in August 2019 (at 0.75%).

¹ See <https://www.markiteconomics.com/Public/Home/PressRelease/bec4ba3ae8ac45008c46a8bc6b71a07d>

² Society of Motor Manufacturers and Traders (2019). Available at: <https://www.smmmt.co.uk/vehicle-data/manufacturing/>

³ Society of Motor Manufacturers & Traders (2019). UK car production falls 20% in first six months as new data reveals £330 million 'no deal' mitigation bill. Available at: <https://www.smmmt.co.uk/2019/07/uk-car-production-falls-20-in-first-six-months-as-new-data-reveals-330-million-no-deal-mitigation-bill/>

⁴ See <https://www.bankofengland.co.uk/-/media/boe/files/inflation-report/2019/august/inflation-report-august-2019.pdf?la=en&hash=6BDB165D5ABAF6B8E218A90AB6790F1377B20F18>

⁵ See <https://www.bankofengland.co.uk/working-paper/2019/the-impact-of-brexit-on-uk-firms>

Small firms in Wales remain confident.

UK small business confidence remained in negative territory for a fourth consecutive quarter, which is unprecedented in the history of the *Small Business Index*.⁶ The UK Small Business Confidence Index was -1.7 in 2018Q3, -9.9 in 2018Q4, -5 in 2019Q1 and -8.8 in 2019Q2. However, Wales has been performing much better and continues to be the outlier region in terms of the UK SME Confidence Index, as it has been throughout the last year. The Welsh Business Confidence Index value increased from 11 in 2019Q1 to 18 in 2019Q2.⁷ This is possibly related to the relatively small percentage of Welsh SME employers that export directly and acknowledge UK exit from the EU as an obstacle.

The labour market in Wales remains relatively robust. The unemployment rate in Wales was 3.8% for the period May-July 2019, (falling slightly compared to the previous period (February – March 2019), which was the same as the UK average.

Brexit as an obstacle to business?

In the Longitudinal Small Business Survey 2018, Welsh SME employers were found to have the lowest regional rate of acknowledging UK exit from the EU as an obstacle (24% of all Welsh SME employers, compared to 42% in Northern Ireland, 28% in England and Scotland) possibly linked to their intra-UK sales performance.

Low shares of exporting SMEs in Wales, but a high proportion of sales to other UK nations.

The *Longitudinal Small Business Survey 2018*⁸ showed Wales had the lowest proportion of exporting SMEs among the UK devolved administrations in 2018, although it went up by three percentage points (to 13% from 10% in 2017). Northern Ireland had the highest proportion of SME exporters (27%).

However, Wales had the highest proportion of SMEs selling products and services to other UK nations (46%, compared to 44% for Scotland, 43% for England, and 33% for Northern Ireland). Some of the sales to rest of UK firms will form the production of goods that are ultimately exported.

⁶ "The Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous three months?' The share of firms reporting 'much improved' are given the following weightings: +2, slightly improved +1, approximately the same 0, slightly worse -1 and much worse -2; the Small Business Index is derived from the sum of these factors" (FSB, 2019).

⁷ FSB (2019). FSB voice of small business index, Quarter 2 2019. Available at: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-sbi-q2-2019-final.pdf?sfvrsn=0>

⁸ BEIS (2019). Longitudinal Small Business Survey: SME employers (businesses with 1-249 employees) – UK 2018. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/803645/LSBS_2018_employers.pdf

Welsh micro business turnover fell by 2.4% during 2013-2018.

Last year, EIW highlighted a significant drop in Wales' micro-businesses turnover. This QR considers this decline in the context of a longer time period while an update to 2019 is awaited. Figure 1 summarises the changes in the Welsh SME count, and corresponding employment and turnover over the five-year period to 2018. Following the 20% annual decline of micro business turnover during 2018, micro firms recorded a negative change of turnover (-2.4%), falling from £16.4bn in 2013 to £16bn in 2018.⁹ Micro firms in Mid and South West Wales experienced the largest falls in turnover during the five year period (around -14%), with turnover for micro firms also falling in North Wales (-7%). However in South East Wales, micro firm turnover increased by almost

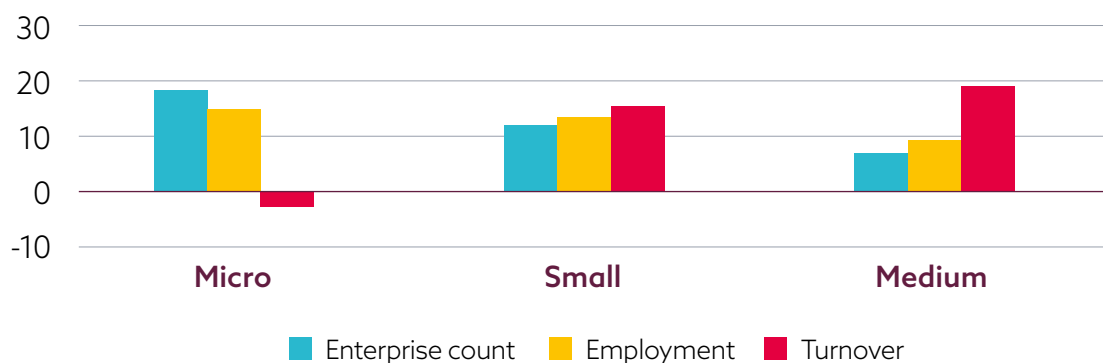
11% during the five year period. Across the UK, micro firm turnover also fell sharply during 2017-2018, however over the five year period to 2018, turnover from micro firms increased by around 10% across the UK. In Wales, Figure 1 shows that the micro SME group in Wales experienced the largest percentage increase in the number of companies (17.2%) and employment (15.2%).

UK Micro-business turnover rises

UK micro businesses turnover increased by 10%, from £467bn in 2013 to £514bn in 2018. This contrasts with the 2.4% decline in Wales over the same period.

Figure 1.

SMEs in Wales, % Change in Count, Employment and Turnover by Size Band (2013-2018)



Source: Stats Wales, Business structure in Wales by size-band and measure

The largest turnover increase was by medium-sized businesses (19%), which also experienced a growth in the number of companies (6.7%) and employment (9.1%). Small businesses also saw an increase in

their count (12.8%), employment (14.5%) and turnover (15.7%). More information on Wales' business structure is featured in an upcoming EIW report reviewing the role of medium-sized businesses in particular.

⁹ Note that turnover is in current prices with no adjustment for inflation effects.

South East Wales records the largest increases in micro and medium-sized businesses.

The changes in numbers in each size-band are not evenly distributed across Wales. Figure 2 shows that between 2013 and 2018 the largest increase is in micro enterprises in South East Wales (20.5%), and the smallest in medium-sized businesses in Mid and

South West Wales (3%). The largest increase in small businesses was in Mid and South West Wales (15.4%), with medium-sized firms increasing by 7.9% in South East Wales. In North Wales, micro companies had the highest increase from 2013 to 2018 (17.9%).

Figure 2.
SMEs in Wales, % Change by Size Band (2013-2018)



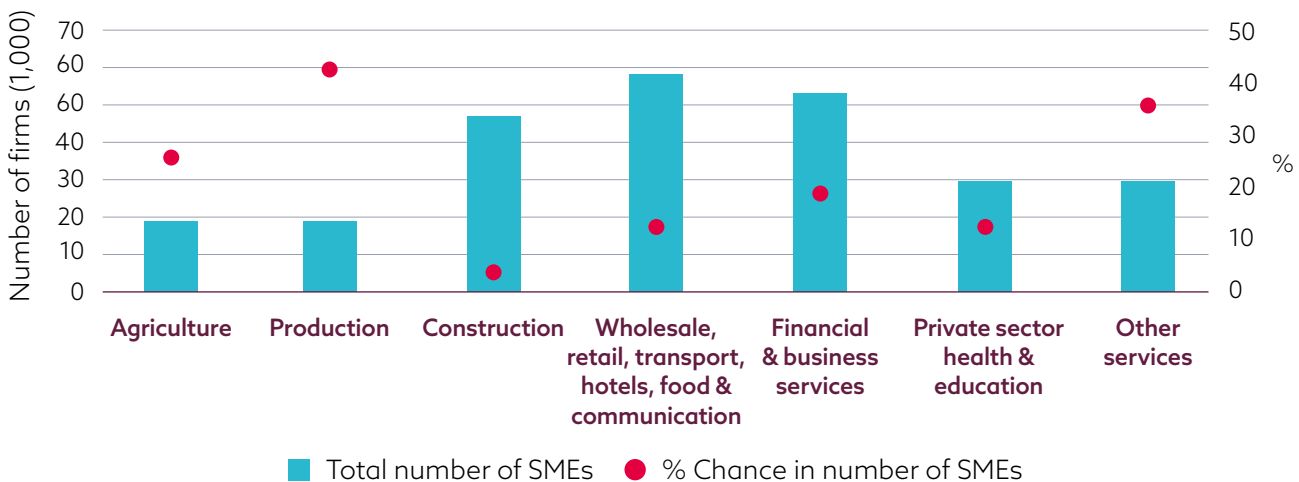
Source: Stats Wales, Enterprises by size-band, area and year

The production sector had the lowest count in SMEs in 2018, but the highest increase in SME numbers from 2013 to 2018.

Welsh SMEs are also unevenly distributed across sectors of the economy, with this influencing their propensity to export. Figure 3 shows the sectoral distribution of Welsh SMEs in 2018 together with the change in count from 2013 to 2018. The wholesale/retail trade, hotels and catering, and communication services sector had the highest SME count with almost 60,000 SMEs in Wales. These industries however experienced the second smallest change in SME count in the period

2013 to 2018 (12.3%), above construction SMEs which rose by 3.7%. Production recorded the largest increase in SME count, almost 43%, rising from around 13,000 businesses in 2013 to more than 18,000 in 2018. However, production had the lowest SME count in Wales in 2018. As this sector is more directly exposed to overseas export markets and Brexit-related risks, SME activity in these industries will be monitored over the next quarters.

Figure 3.
Number of Welsh SMEs (2018) and % Change during 2013-2018



Source: Stats Wales, Enterprises by industry (SIC2007), size-band and area

The percentage growth in the SME count in agriculture, production and other services has been higher in Wales than the UK. The greatest difference is recorded in agriculture (26% growth in Wales compared to 0.4% in the UK). This is another sector where the

Brexit impacts need to be closely monitored. By contrast, growth in other sectors has been stronger for the UK than for Wales from 2013 to 2018. This is particularly evident for the construction industry (18% growth in count in the UK compared to 3% in Wales).

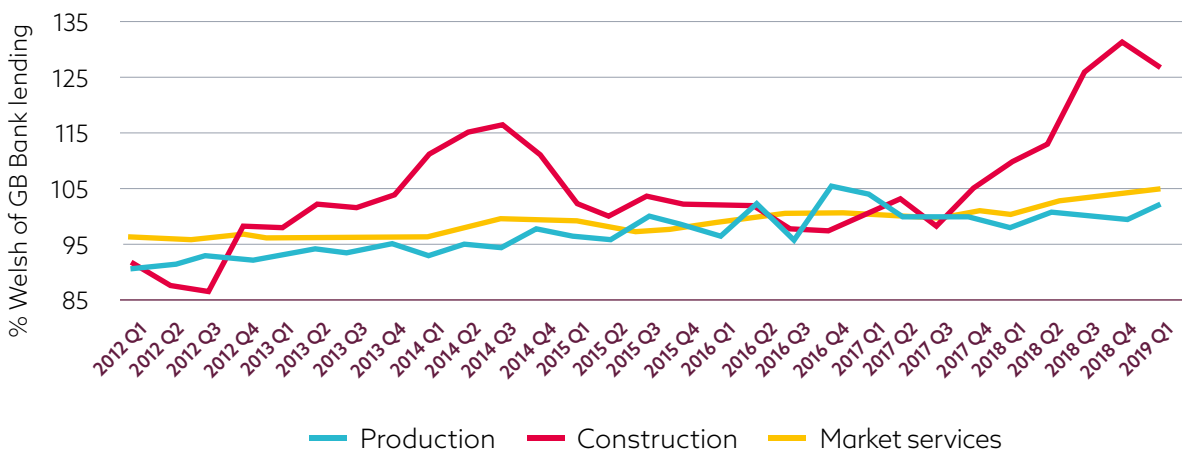
Output growth in the construction sector in Wales comes to a halt, after five quarterly increases.

The trends in SME count, employment and turnover are linked to wider changes in short term output indicators in the Welsh economy. Figure 4 reveals the Welsh output indices of production, construction and market services, and shows the quarterly movement in each of the indices from 2012Q1 to 2019Q1. The index of construction sector output declined in the first quarter of 2019, after five consecutive quarters of steady increase (from 98.9 in 2017Q3 to 131.6 in 2018Q4), although this is still well above (by 27%) its base year rate in 2016. The latest available quarterly GDP estimates for Wales (for 2018Q4) show that the construction sector was 'the main driver' of GDP in Wales in the final quarter of last year.¹⁰

However given the 2019Q2 reduction in UK construction sector output, prospects for this sector's output in Wales are more fragile for the coming quarters.

The market services index is characterised by a steady rise in Wales in recent quarters, rising from 100.6 in 2018Q1 to 104.7 in 2019Q1. Over the same period, the production index has also increased, but with more volatile quarterly changes compared with market services. While output in this sector is dominated by larger often internationally owned firms, this trend has significance for Welsh SMEs either directly, or through their supply linkages to larger production industry companies within or outside Wales.

Figure 4.
Welsh Output Indices: Trends 2012 Q1 - 2019 Q1 (2016 = 100)



Source: Stats Wales, Welsh Indices of Production and Construction (2016=100) by section and year and Index of Market Services (2016=100) by year and area

¹⁰ Note that this data is experimental. See <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpwales/octobertodecember2018>

Wales had the highest business birth rate in 2017 across the UK countries and devolved administrations.

Figure 5 examines business birth rates, and changes in the number of birth enterprises across the UK devolved administrations and the Welsh regions. Wales recorded the highest birth rate in 2017¹¹ across the UK countries and devolved administrations,¹² at 13.7% of active businesses, with the UK birth rate at 13.1%. This is a very different picture to 2016, when Wales had the second lowest business birth rate in the UK (at 12.3%). The business birth rate ranking for Wales is volatile, and can be influenced by relatively small changes in the number of birth companies. Between 2016 and 2017, the number of birth companies increased by around 2,000 to 14,120 companies.

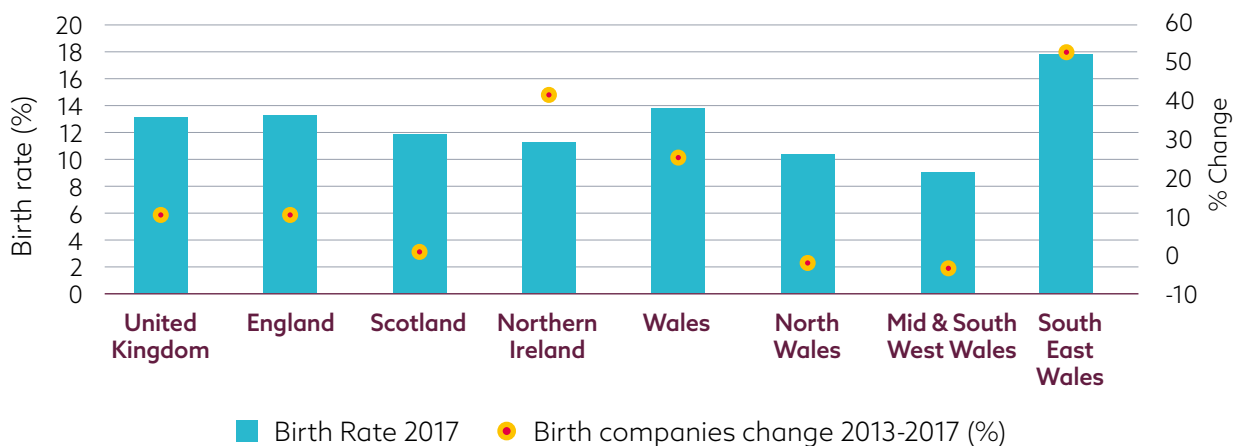
Changes in business births will be influenced by a number of factors, including movements out of employment into self-employment. The business birth rate increased in Wales during 2015 – 2017, and data will shortly be available to assess whether this trend continued into 2018.

Wales' business birth rates

Wales had the second highest change in number of birth companies in the UK 2013-2017 (24%). Northern Ireland had the highest growth (41%), while the UK change was 10%.

Figure 5.

Business Birth Rate (2017, %) and Change in Number of Birth Companies (2013-2017, %)



Source: Stats Wales, Business births by area and year

¹¹ Figures for 2017 are provisional at the time of writing.

¹² At the UK regional level, higher business birth rates in 2017 were in the North West of England (15.9%), and London (15.2%).

2.2 The SME picture in Wales: understanding factors shaping demand for finance

Within Wales, the South East Wales region recorded the highest business birth rate, much above the two other Welsh regions. In South East Wales, there was a 52% increase in the number of birth companies between 2013 and 2017, 10% less than the figure for

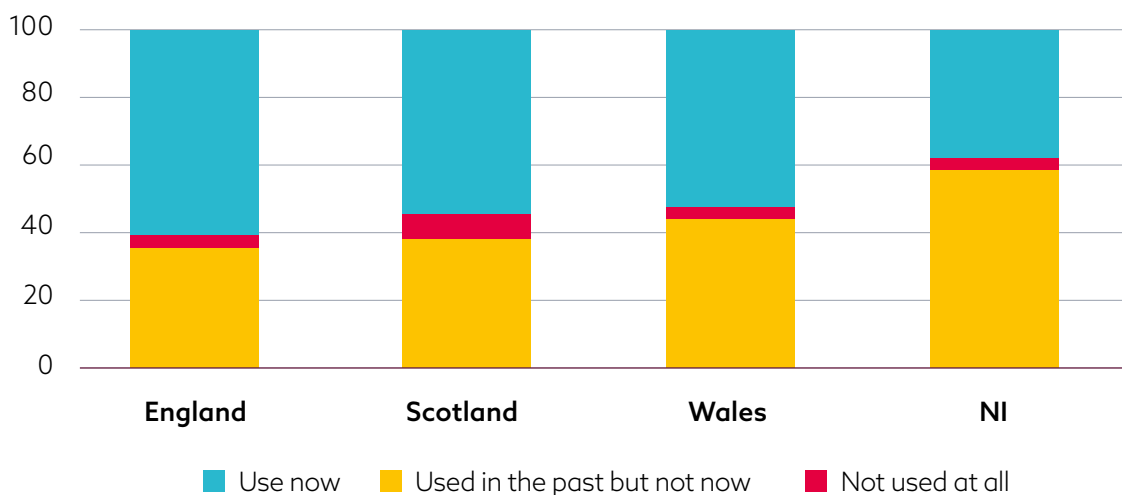
the period 2012-2016 period. Concerns about the business dynamism are raised by the negative change in business births in the other two regions. The change in business birth rate was -4.1% in Mid and South West Wales and -3.1% in North Wales during 2013-2017.

The proportion of surveyed Welsh SMEs using any type of external finance has increased.

Welsh SMEs using external finance¹³ increased from 41% in 2017 to 44% in 2018 (Figure 6). The 2018 figure was higher than surveyed SMEs in England and Scotland (35% and 39%), but lower than in Northern Ireland (58%). These figures are lower than the findings of

the Longitudinal Small Business Survey 2018. According to the latter, around 62% of SME employers in Wales used some form of finance, a rate similar to England, compared with 69% in Northern Ireland and 71% in Scotland.

Figure 6.
SMEs Use of External Finance (% , 2018 Survey Data)



Source: BVA BDRC (2019), SME Finance Monitor 2018 annual report

¹³ In relation to the definition of external finance, in the survey, 'SMEs are asked whether they are currently using any of the following forms of finance: Bank Overdraft, Bank Loan, Commercial mortgage, Grants, Loans from directors or friends and family, Equity from directors or friends and family, Equity from other third parties such as business angels or Venture Capital funds (Companies only), Leasing or hire purchase or vehicle finance, Credit cards, Export/import finance e.g. doc credits, Finance through crowd funding or peer to peer lending, Invoice finance; factoring and invoice discounting, Asset based lending, Selective or single invoice finance, Any other loan, Any other overdraft/working capital facility.' See http://www.bva-bdrc.com/wp-content/uploads/2019/06/BVABDRC_SME_Finance_Monitor_Annual_Report_2018_F.pdf p.15.

Increased numbers of Welsh SMEs planning to grow in 2018 compared to 2017.

Figure 7 shows that more SMEs were planning to grow in Wales (60%) than in England (48%) and Northern Ireland (57%) in 2018. This is an improved picture for Wales, compared with the SME Finance Monitor 2017, which revealed that only 40% of surveyed Welsh SMEs had a desire to grow. The Longitudinal Small Business Survey 2018 highlighted that 25% of surveyed SME employers in Wales were confident that they would increase employment numbers, compared with 26% in Northern Ireland, 25% in England, and 23% in Scotland.

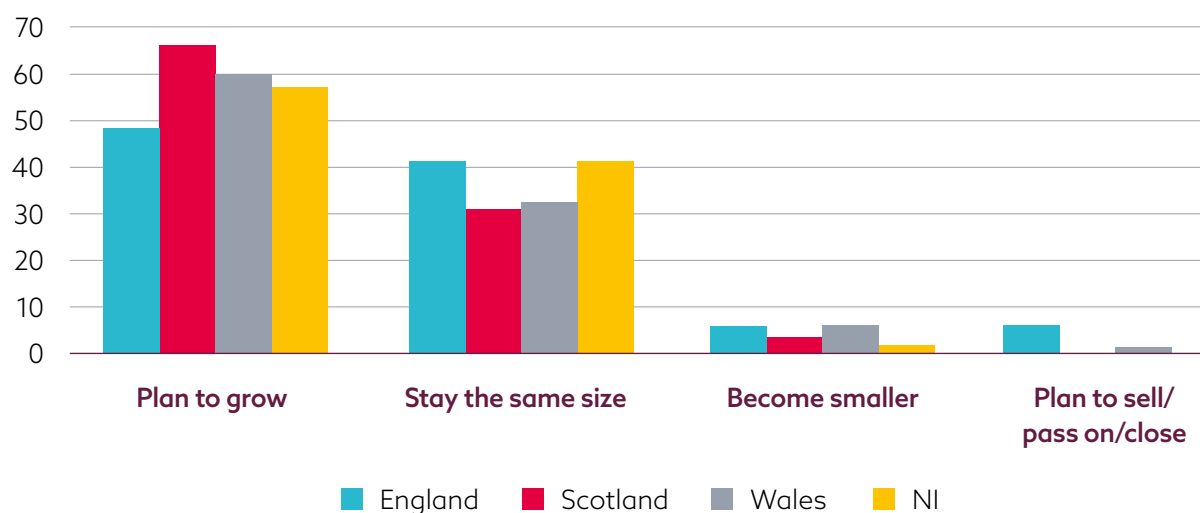
In a review of economic activity in 2018, the Longitudinal Small Business Survey 2018 showed that 20% of surveyed Welsh SMEs increased employee numbers (the lowest in the UK with small differences to the other devolved administrations). This low rate is consistent with findings from the analysis of Development Bank of Wales' investments

which shows that businesses are not increasing jobs at the rates experienced in previous years (see Figure 22). Additionally, 14% of surveyed Welsh SMEs in the Longitudinal Small Business Survey 2018, reduced employees (the highest in the UK, again with small differences). This is an important figure, considering the significant contribution of SMEs to private sector employment in Wales (estimated at 62% and higher than the UK average of 60%).

SME turnover change

The Longitudinal Small Business Survey 2018 indicated that in Wales, 36% of SME employers reported turnover growth in 2018, lower than in Northern Ireland (38%), but higher than in England and Scotland (both 34%).

Figure 7.
Growth Plans for the Next 12 Months (% , 2018 Survey Data)



Source: BVA BDRC (2019), SME Finance Monitor 2018 annual report

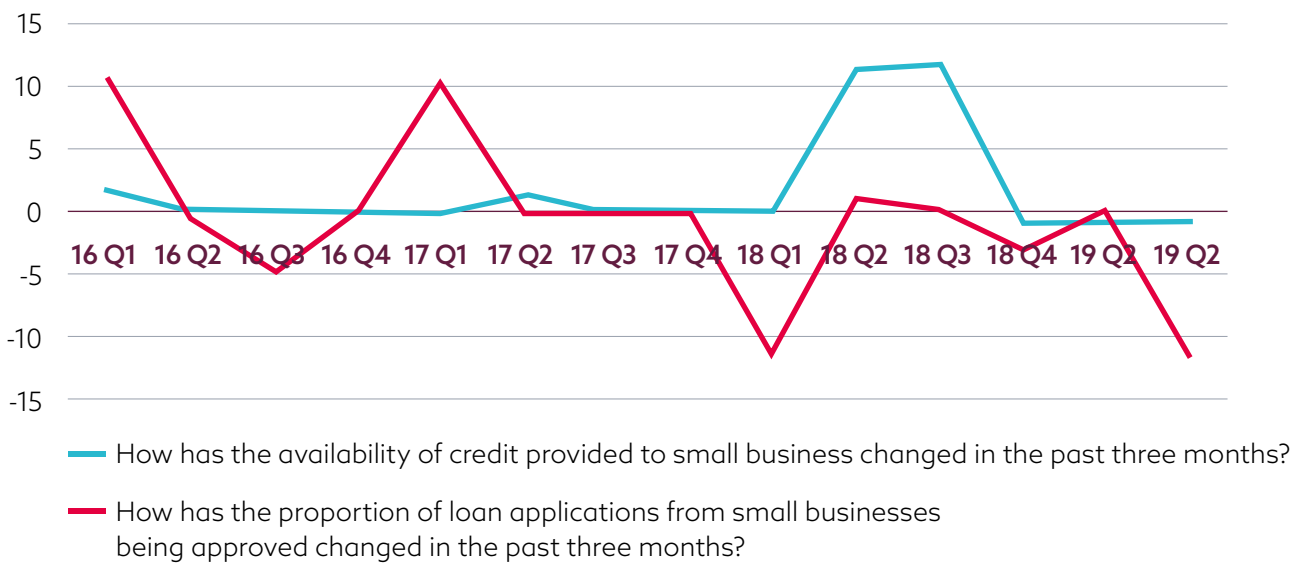
Small changes in loans provision and interest rates.

The Bank of England Credit Conditions Survey 2019Q2 showed that the supply of credit to UK SMEs has remained largely unchanged (-0.9%) from 2018Q4 to 2019Q2, following a large decline in the quarter to 2018Q4 (figure 8). Interest rates for loans to small businesses have slightly increased in the last three months to May 2019. The insignificant change in interest rates could be related to the important positive

annual change in loans provision, which increased from -0.1% in March 2019 to 0.5 in May 2019. There was no significant change in the success rate of loan applications from small businesses between 2018Q4-2019Q1. However, the success rate fell by 12% between 2019Q1-2019Q2, possibly a consequence of the wider uncertain financial environment and the worsening business conditions.

Figure 8.

Supply of credit and success rate of SMEs, % of surveyed SMEs, 2016 Q1 to 2019 Q2



Source: Bank of England, Credit Conditions Survey - 2019 Q2

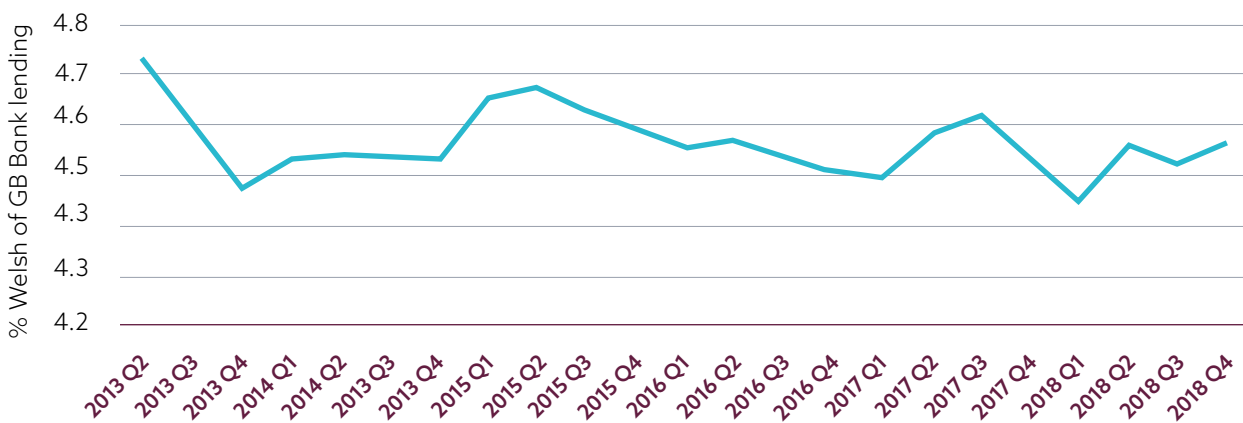
Welsh share of GB bank lending to SMEs in 2018 remains stable.

Welsh share of total GB bank lending to SMEs is slightly above the economy share i.e. varying between 4.4% and 4.8% in the period 2013Q2 to 2018Q4. Figure 9 shows some increase in the Welsh share in the

period 2017Q1-2017Q3, and then a decline to 2018Q1. In the last three quarters of 2018, Welsh share of total GB bank lending to SMEs rose to 4.55% and remained stable.

Figure 9.

Welsh Share of GB Bank Lending to SMEs (% , 2013Q2-2018Q4)



Source: SME lending within UK postcodes

No significant changes in the share of bank lending to SMEs across Wales.

It is difficult to be specific on the spatial distribution of lending to Welsh SMEs but figure 10 shows that over 50% of the lending in the four quarters to 2018Q4 was to Cardiff and Swansea postcodes, although in both cases this covers urban and rural areas. This is similar picture to 2017, although both Cardiff and Swansea shares declined slightly. It is difficult to draw firm conclusions from this data because of problems matching economic activity to postcode areas, and with some postcode areas crossing local authority boundaries.

Figure 10 includes an estimate of bank lending to SMEs with a Shrewsbury (SY) postcode, but located in Wales (for example including those in Newtown and Aberystwyth). Overall, small changes are evident when comparing 2018 to 2017, as reported in EIW 2018/19 QR1.¹⁴

Figure 10.

Bank Lending to SMEs: Postcode Areas as a Share of All Wales Lending (Average during 2018Q1-2018Q4)



Source: SME lending within UK postcodes

¹⁴ Economic Intelligence Wales (2018) Quarterly Report 1. Available at: <https://developmentbank.wales/sites/default/files/2018-06/EIW%20report%20template%20report%20and%20dashboard%20FINAL%20ENG.pdf>

There was an impressive increase in private equity and venture capital investment in Wales in 2018.

The BVCA Report on Investment Activity 2018 revealed that there were 74 companies in Wales that had received private equity and venture capital investment in 2018, increasing from 52 in 2017 and 50 in 2016. This trend is not exceptional, with London and the South East rising to 370 companies in 2018, from 319 in 2017 and the UK to 1,073 firms in 2018 from 817 in 2017.

The rise in companies receiving investment corresponded with a significant increase in value of funds invested. These Welsh enterprises have absorbed around £240m of investment in 2018, up from £57m in 2017 and £49m in 2016 (figure 11). The average investment per company therefore increased from around £1m in 2017 to more than £3m in 2018. The largest increases in investment values were in the broadly defined 'Business products and services' and 'Consumer goods and services' sectors, while the ICT sector

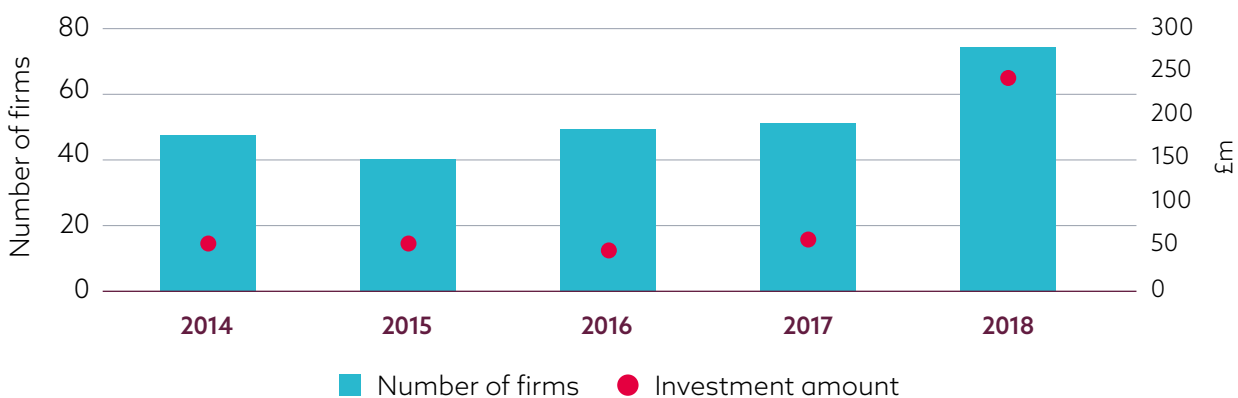
experienced the largest increase in the number of companies receiving investment. However, the share of investment in Welsh companies in total UK investment has remained stable at around 1% during the last five years, with London and the South East increasing from 48% in 2017 to 61% in 2018. This indicates a possible greater spatial concentration of private equity funds but some resilience in Wales' small share.

Development Bank of Wales' role in equity investment

Development Bank of Wales plays a significant role in providing equity funds in Wales. In 2018, 72% of equity deals in Wales involved a government fund, according to the *Small Business Equity Tracker*.

Figure 11.

Number Companies in Wales Receiving Investment from BVCA Members and Investment Amount (£m)



Source: BVCA Report on Investment Activity 2018

The BVCA data is consistent with British Business Bank figures. According to the *Small Business Equity Tracker 2019*,¹⁵ Wales' share in the UK equity deals in 2018 was 4%, up from 3% in 2017. It should be noted that Wales' share of UK equity deals for small businesses is significantly higher than its share of UK equity deals for businesses of all sizes (at 4% compared with 1%). Wales' share in the UK equity deals was similar to the Welsh share in UK SME population and UK high growth firms. Wales had the third highest figure among

the UK regions, in terms of equity deals per 10,000 SMEs, at 3.6, lower only than London (6.8) and Scotland (5), and higher than the UK average (2.8).

The rise in equity deals in Wales was accompanied by the upgrade of Cardiff in the UK local authority districts for deal activity ranking, climbing from the 13th place in 2017 to the 11th position in 2018, although the number of equity deals made in Cardiff declined slightly from 32 in 2017 to 30 in 2018.

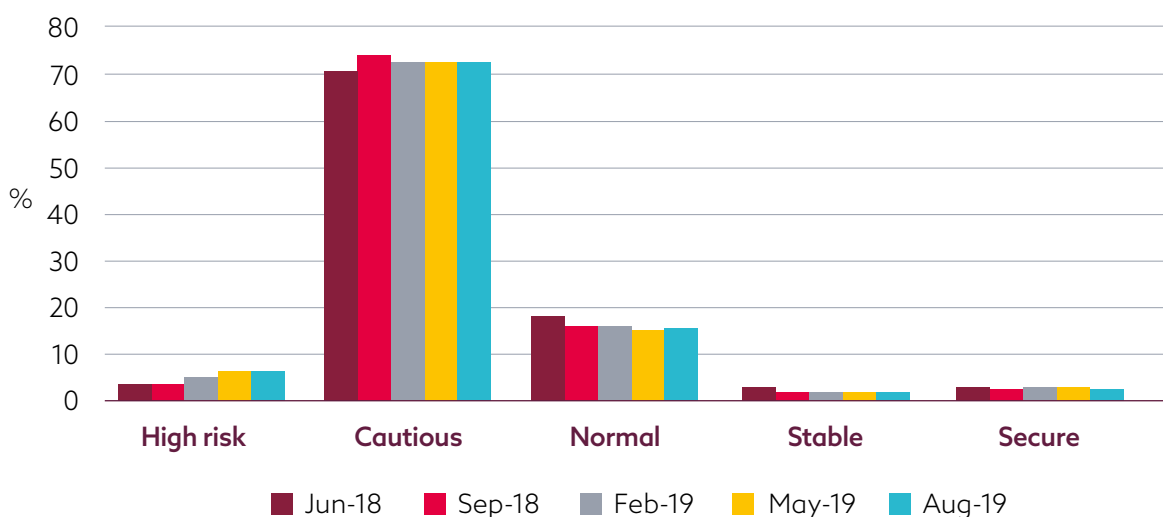
Number of Welsh businesses with a high-risk credit rating stabilises.

Figure 12 shows that the proportion of Welsh SMEs estimated to be at High Risk in August 2019 was 6.7%, which is similar to the previous measure taken by EIW in May 2019. There was a decline in the proportion of Secure SMEs from

3.4% in May 2019 to 2.9% in August 2019. This information is in some contrast to the preceding commentary on the increasing use of external finance by Welsh SME, Wales' share of GB bank lending and increases equity finance.

Figure 12.

Proportion of SMEs by Credit Risk in Wales (%), June 2018 - August 2019



Source: FAME, Bureau van Dijk

¹⁵ British Business Bank (2019) Small business equity tracker 2019. Available at: <https://www.british-business-bank.co.uk/wp-content/uploads/2019/06/Small-Business-Equity-Tracker-2019.pdf>

This section summarises Development Bank of Wales' investments to date, with analysis of investments by type, sector, location, and fund.

All the data in this section has been derived from a special analysis of the Development Bank of Wales' database.

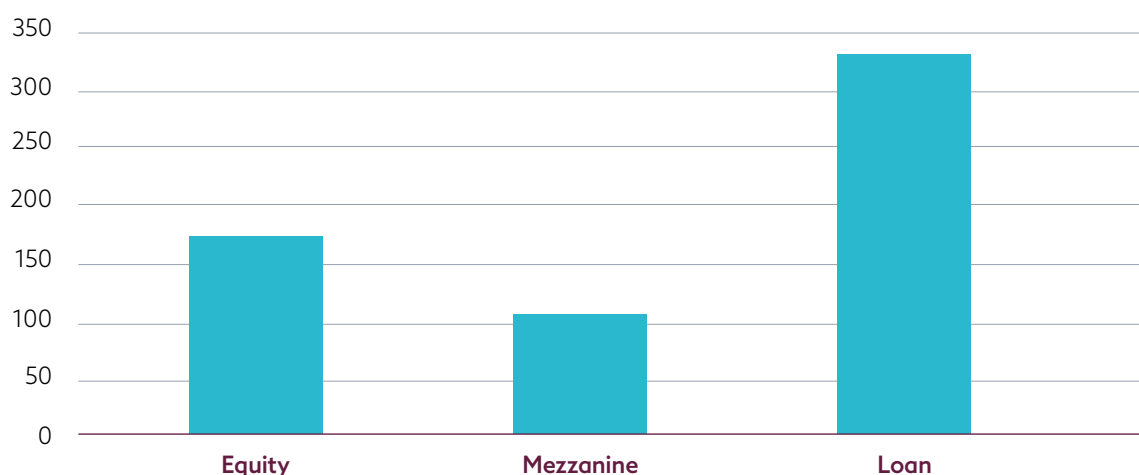
Total cumulative investment reaches £607m.

At 2019/20Q1 Development Bank of Wales' total cumulative investment reached £607m up from £586m in 2018/19Q4.

Loans accounted for 54.3% of this total (Figure 13), with equity investments representing 28.2%, and mezzanine the remaining 17.5%.

Figure 13.

Cumulative Investment to 2019/20 Q1 (£m) by Investment Type



3,350 firms in Wales have received Development Bank of Wales loans.

By the end of the 2019/20 Q1, 3,350 firms in Wales had received loans, with these loans linked to activity that has created an estimated total of around 12,130 jobs,

whilst safeguarding around 20,030 jobs (see Figure 14). Around 300 firms have received equity investment, creating over 3,140 jobs and safeguarding around 2,260 jobs.

Figure 14.

Cumulative Number of Firms Supported and Jobs to 2019/20 Q1

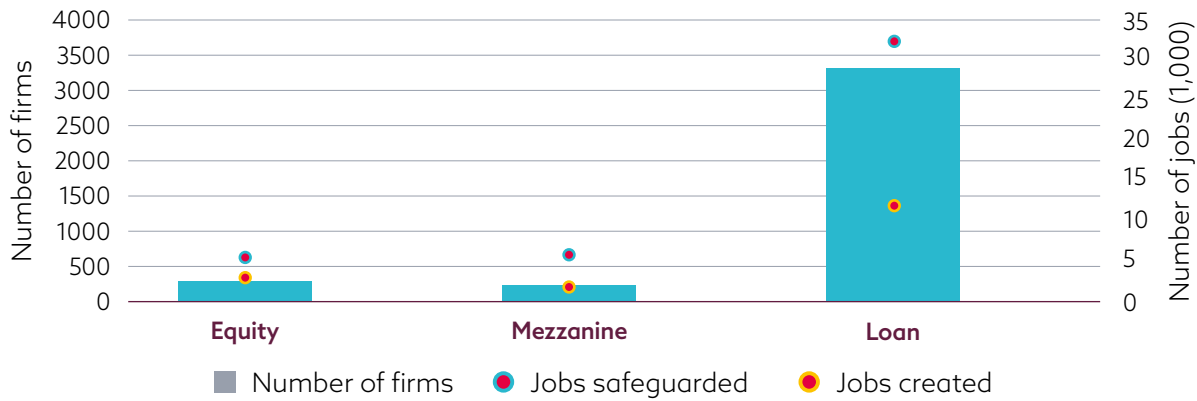
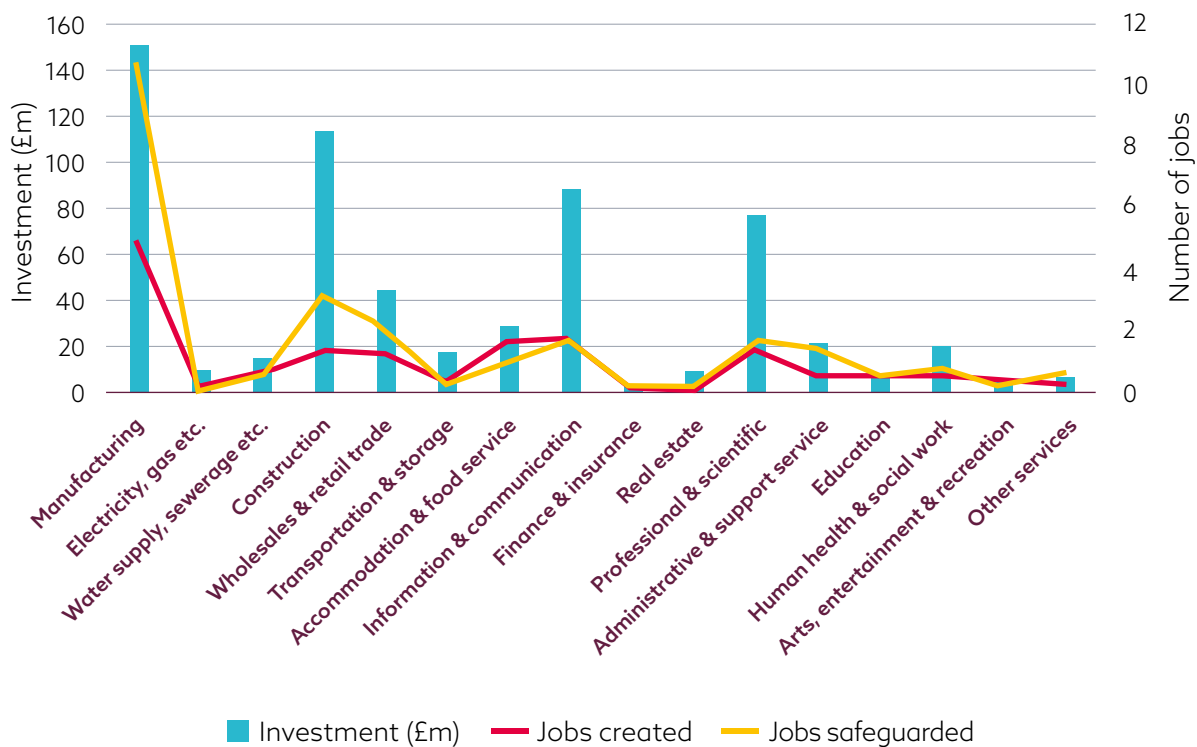


Figure 15 shows that manufacturing has been the main recipient of Development Bank of Wales' cumulative investment

(£150 million), followed by Construction (£113 million) and ICT sectors (£88 million).

Figure 15.

Cumulative Investment and Jobs by Selected Sector at 2019/20 Q1



Loans make up the majority of investments in all Welsh regions, with the South East region accounting for the largest share of all investment types.

The South East region has absorbed £336 million of investment in the period to 2019/20 Q1, equal to 54% of all investment (Figure 16).

Figure 16.

Cumulative Investment to financial year 2019/20 Q1 (£m)

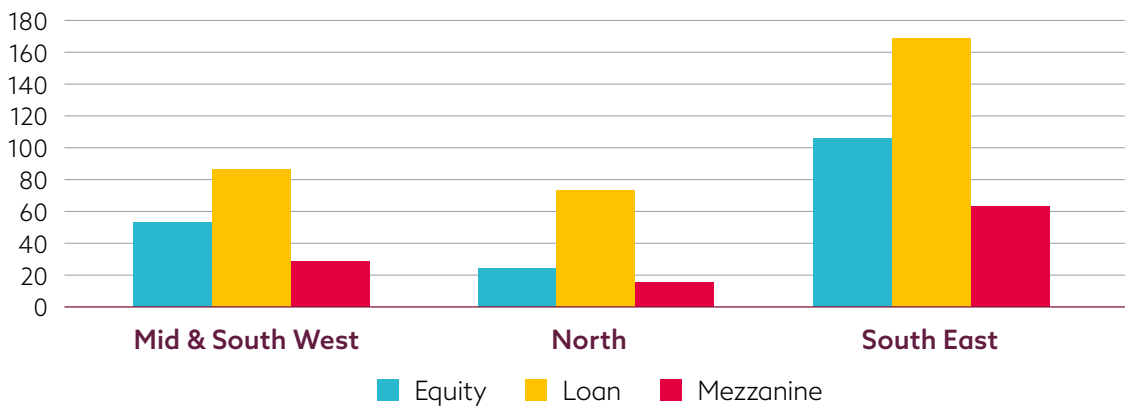
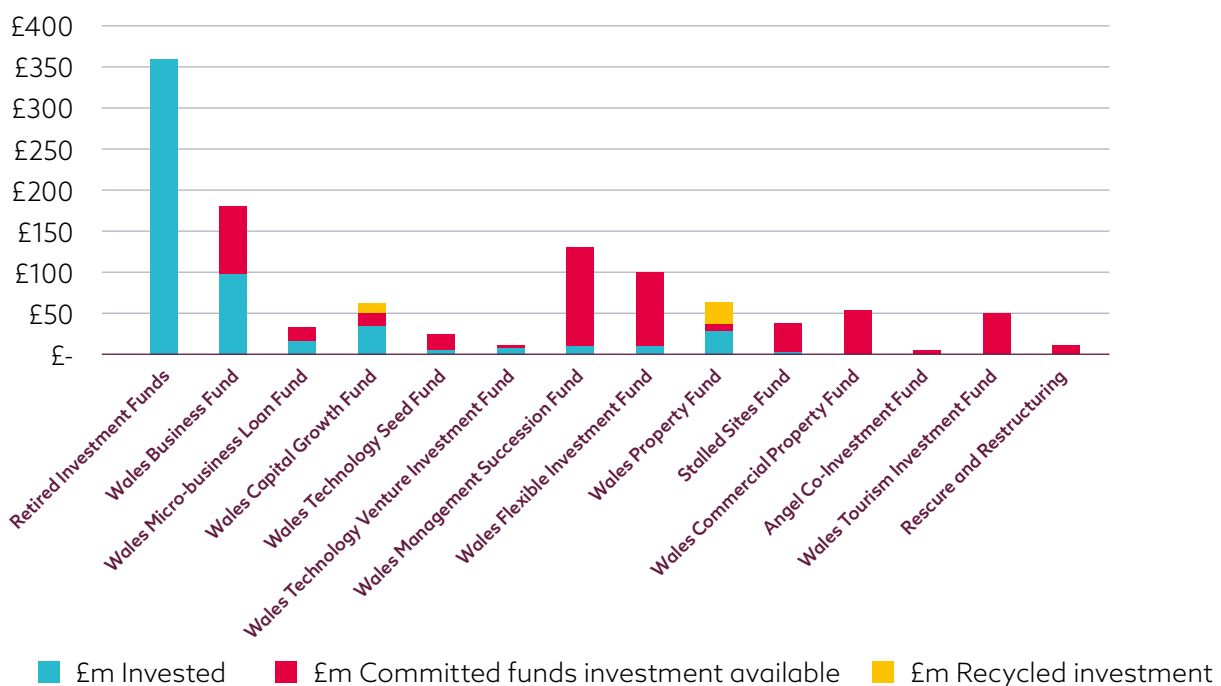


Figure 17 provides details of amounts cumulatively invested and available by fund to the first quarter of the 2019/20 financial year. The EU co-financed Wales Business Fund had invested £100m to 2019/20 Q1.

Other Funds include the Wales Capital Growth Fund, with £37m of investment, Wales Property Fund (£31m), and the Wales Micro-business Loan Fund (£17m).

Figure 17.

Development Bank of Wales Cumulative Investment to 2019/20 Q1 by Fund (£m)



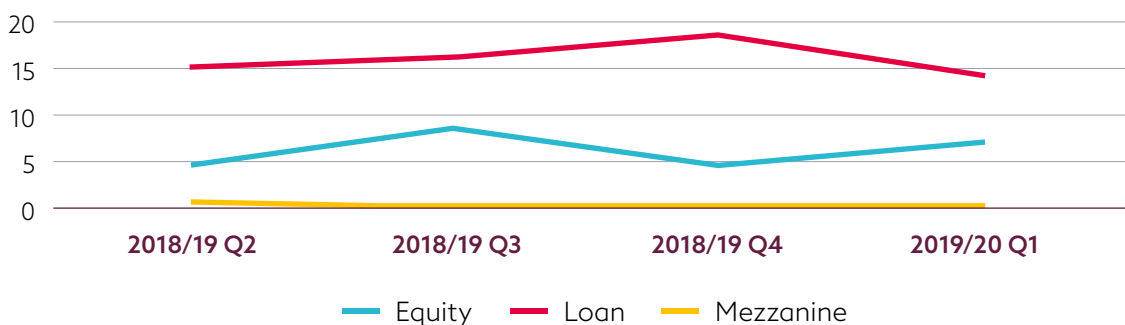
Strong growth in new equity investment, with loan investment declining.

New loan investment amounted to £64m between 2018/19 Q2 to 2019/20 Q1 (Figure 18), declining by 6% from 2018/19 Q2 to 2019/20 Q1. New equity investment has increased by 51%, with £24m investments over the same period. Mezzanine investment

declined in the period 2018/19 Q2 to 2019/20 Q1, with no new mezzanine investment in either 2018/19 Q4 or 2019/20 Q1 (this is due to a reclassification of investment types by the Development Bank of Wales).

Figure 18.

New Investment 2018/19 Q1 - 2019/20 Q1 by Investment Types (£m)



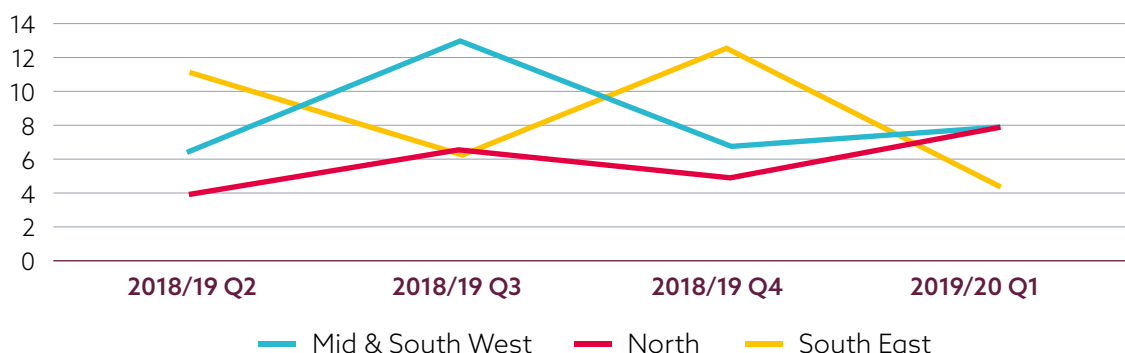
First quarter new investment in South East Wales declined.

During the first quarter of the 2019/20 financial year the value of new investment in South East Wales declined following an increase in the final quarter of 2018/19 financial year. The South East region secured the smallest

share of new investment in 2019/20 Q1. New investment in Mid & South West and North Wales was almost equal (£7.81) in 2019/20 Q1, with both increasing during the quarter.

Figure 19.

Amount of New Investment by Welsh region (£m)



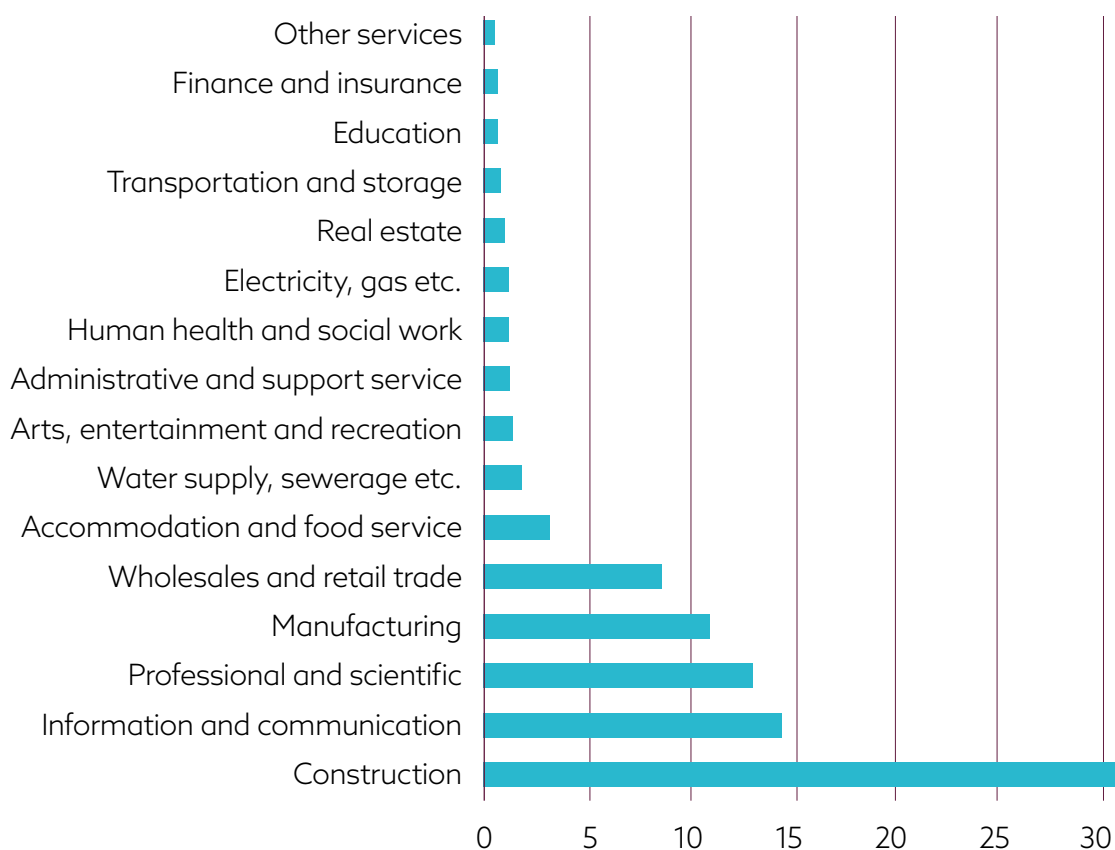
The construction sector has largest share of new investment.

From 2018/19 Q2 to 2019/20 Q1 the construction sector received £31 million. This was followed by ICT activities

(£14.43 million of new investment) and professional and scientific activities (£13 million).

Figure 20.

Total new investment, 2018/19 Q2- 2019/20 Q1 (£m)



Long term upwards trends in new investment and private sector leverage but not jobs.

An historical annual perspective of Development Bank investments, number of enterprises and jobs created and safeguarded is shown in Figures 21 and 22.

During the first quarter of 2019/20 (not shown on Figure 21) new investment equalled £21 million and private sector leverage (PSL) was £31 million.

Figure 21.
Annual New Investment and Private Sector Leverage (£m)

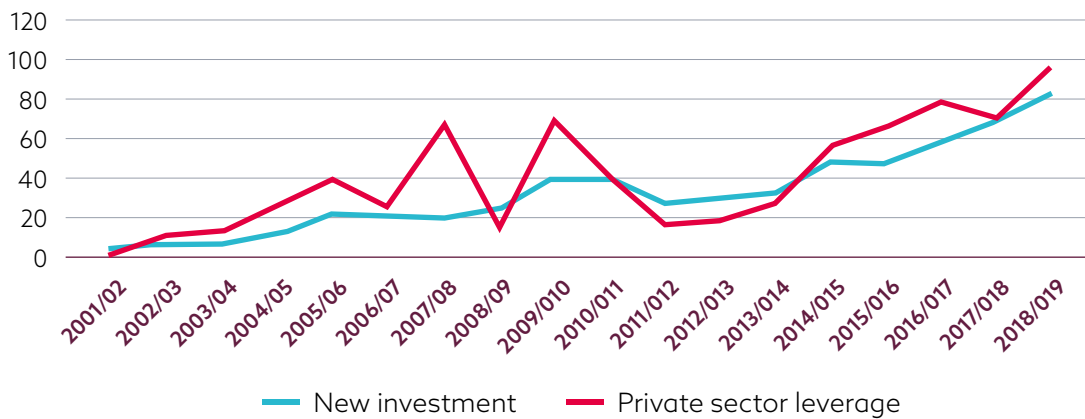
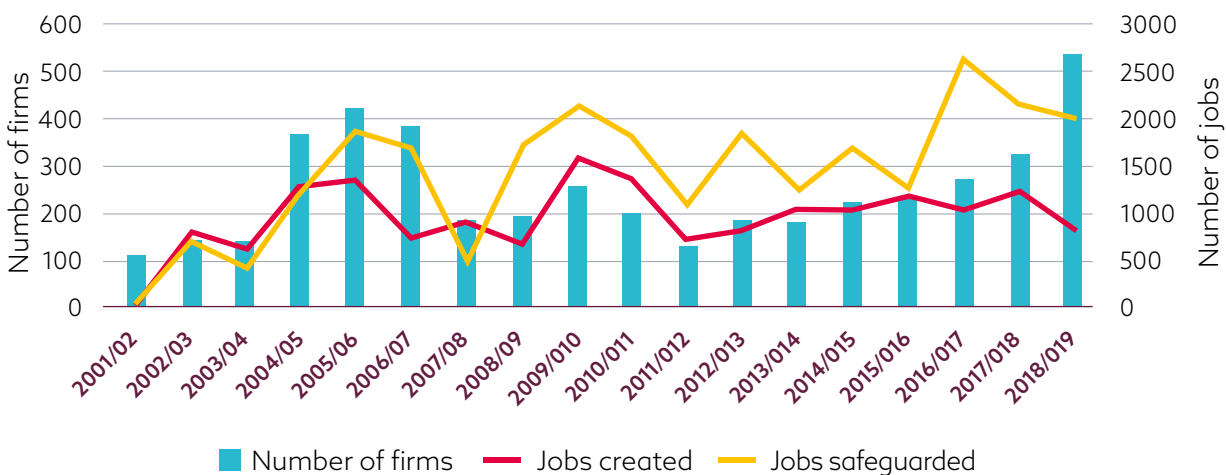


Figure 22 shows the annual number of firms receiving investment and jobs created and safeguarded from 2001/02 to 2018/19. In the last quarter (not shown on Figure 22), 162 businesses were supported by the Development Bank of Wales.

The jobs created and safeguarded in 2019/20 Q1 were 154 and 446, respectively. Cumulatively, since 2001/02, more than 4,620 companies have received investment from the Development Bank of Wales, creating almost 17,300 jobs and safeguarding 26,300.

Figure 22.
Number of Firms Receiving Investment and Jobs Created and Safeguarded



The UK and Welsh economic context remains challenging. UK GDP growth declined in the second quarter of 2019. However, Welsh SME confidence levels increased and remain much higher than the UK average, although this could quickly change. Construction industry output in Wales declined in the first quarter of 2019, after previous strong growth. Prospects for growth in this sector in the near term appear limited, particularly following the decision not to progress with the M4 relief road project.

A five year (2013-2018) analysis of business demography shows that the small and medium-sized groups of businesses increased their turnover. However, over the same period this QR shows that Welsh micro business turnover fell by 2.4%, largely due to a 20% annual decline in 2018. Economic Intelligence Wales will review Wales' business structure, particularly the role of medium-sized firms, more closely in a forthcoming publication.

The latest *SME Finance Monitor* revealed that in Wales the proportion of surveyed SMEs using external finance increased to 44% in 2018, this is a higher proportion than in England and Scotland. The same survey also found that more SMEs in Wales were planning to grow (60%) compared to England (48%).

This QR reveals a significant increase in the number of firms (and related investment values) in Wales that received private equity and venture capital investment in 2018, following increasing trends across the UK. These increases have gone against recent and persistent rises in the number of Welsh SMEs with a High risk credit rating.

As with the previous QRs, some of the data therefore presents conflicting messages. This information will be tracked over the coming months and years to better understand the impacts of national and regional factors on the demand and supply of SME finance.

The Development Bank of Wales has played an important role in supporting SME activity, with total investments of over £0.6 billion since 2001, leveraging over £0.9 billion from the private sector, and creating or safeguarding over 52,900 jobs in Wales. Note that these are long-term jobs estimates and cannot be compared to those in the figures, which only focus on short-term job creation and support. In the first quarter of 2019/20, 162 companies received Development Bank of Wales investments summing to over £21m, with these linked to 600 jobs created or safeguarded.

Dirnad Economi Cymru
Economic Intelligence Wales



bancdatblygu.cymru
developmentbank.wales



Development Bank of Wales Plc (Banc Datblygu Cymru ccc) is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales (Banc Datblygu Cymru ccc) has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc (Banc Datblygu Cymru ccc) nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found at [developmentbank.wales](https://www.developmentbank.wales).